Ridgetop Wealth Management
2023 Market Outlook

What We Know

- Last year was the fourth worst year for the S&P 500 in fifty years.[1]
- Last year was by far the worst year for the aggerate bond market in twenty years.
- Going into 2022 the Federal Reserve had kept interest rates near zero for 14 years and then proceeded to raise them at the fastest pace in 40 years.[2]
- Market sentiment is currently going through one of its longest, extreme periods of pessimism going back twenty years.[3] Anecdotally, nineteen out of twenty media reports on the economy and markets are negative.
- The Conference Board Leading Economic Index fell again this February, making its eleventh consecutive monthly decline.[4]
- Banking industry issues have dominated the headlines, all the while overall corporate earnings growth is on track to reach its lowest level in over two years.[5]

Why Rehash What We Know?

Answer: A lot of *stuff* has already hit the fan. A lot!
Many of you have heard Warren Buffet's infamous mantra, "Be greedy when others are fearful, and fearful when others are greedy." Well, the masses are obviously currently fearful. While we remain unwilling to state that it's now time to back up the truck and buy every risk asset in sight, it is important to know where we are and where we have been. After all, historically, corporate earnings at these low of levels are a good thing. By the time negative earnings numbers are reported, investors have often priced them in, leaving the market positioned to rally as earnings weakness reached an extreme.[6] In short, *earnings pessimism is a reason for optimism.* The Fed is much closer to halting rate hikes than accelerating them; and after exiting long periods of extreme pessimism, stocks have gone into bull runs.

So Far This Year

January unfolded with a strong rally on Wall Street including some significant technical indicators that have historically only occurred at the start of a new bull market. We saw a strong Breadth Thrust fire, where 10-day total of advancing stocks on the NYSE exceeded declining stocks by a ratio of more than 2.0.[7] The last time this technical signal emerged was at the start of a massive market rally coming out of the depths of Covid.

And then…February and March. Very quickly negative technical market action began to unfold. We had the breadth thrust in January, but we didn't see our other technical indicators follow through that would of given us confirmation of a sustained bull.

[1] Bloomberg, BNY Mellon
[2] Ned Davis Research
[3] Ned Davis Research
[4] The Conference Board
[5] Ned Davis Research
[6] Ned Davis Research
[7] InvesTech Research

Here Is The Issue…and the Opportunity

We think it is likely the stock market got too far ahead of the economy. It is widely accepted knowledge that the market leads the economy. The median period of time between the start of a bear market and the start of a recession is 6.2 months.[8] Here we are fifteen months after the start of a bear market and still no recession has been declared.

Either we are:

a. Not going to get a recession, and this market is likely to resume a massive ascent.
b. The recession is not coming until late 2023 or early 2024 and we will get a significant rally over the coming months as the market realizes it was too far ahead anticipating main street.
c. We are already in a recession and that is what the market has been digesting over the last sixty days.

The big question is are we going to get a meaningful recession or not? A history of bear markets going back to 1900 shows that the drawdown in length (of time) and loss (in dollars) for 2022 was textbook when compared to other bears without a recession.[9] Unfortunately, if we do see a meaningful recession, we have another roughly 10% off the market October low to go, and another six month misery to slog through.

For the majority of last year we were concerned about the market's issues. We were cautious and on high alert. For years leading up to 2022, our indicators told us to give the bull the benefit of doubt. So far this year, the market has not been able to make heads or tails about where this economy is headed. Frustrating, to say the least.

In Conclusion

A lot of damage has already been done. While there is still ample risk afoot, the market is less vulnerable than it was fifteen months ago when all the media was reporting blue skies, optimistic story lines, and a market that was not going anywhere but up.

It would be the path of least resistance to let our emotions drive our investment decisions in this environment, but history shows this would be folly. We are continuously examining the technical, macroeconomic, and monetary data to make decisions on how to allocate capital. In the coming weeks/months this data will become directional. For now, we remain patient and vigilant. Please call anytime if you would like to discuss more in depth.

Sincerely,

Brian Pollak, CRPC
Private Wealth Advisor

Loran Ansberry, AWMA
Private Wealth Advisor

[8] Ned Davis Research
[9] Ned Davis Research

Disclosures:

The views and opinions expressed herein are those of the author and may not necessarily reflect the views of UBS Financial Services Inc. or its affiliates; they are subject to change at any time.

About the PMP Program: PMP is a wrap fee advisory program in which our Financial Advisors manage client accounts on a discretionary basis. PMP is designed for clients who (i) want to delegate portfolio management discretion to their Financial Advisor; (ii) are looking to implement a medium to long-term investment plan; and (iii) prefer the consistency of fee-based pricing.

PMP is not appropriate for clients who: (i) want to maintain trading control over their account; (ii) seek a short-term investment; (iii) want to maintain consistently high levels of cash, money market funds, or invest primarily in no-load mutual funds; (iv) want to maintain highly concentrated positions that will not be sold regardless of market conditions; or (v) who anticipate significant withdrawals from the account.

Trade Allocation Practices and Conflicts of Interest: Financial Advisors who participate in the PMP Program may also provide services to you and to other clients outside of the Program in their capacity as broker-dealer representatives and as such, may dedicate time to activities other than discretionary portfolio management. Financial Advisors who participate in the PMP Program have an incentive to recommend their services in PMP over those of third party SMA Managers in other Advisory Programs or over traditional commission based brokerage services.

Financial Advisors do not aggregate orders across the different strategies they manage. In an effort to reduce market impact and to obtain best execution, your Financial Advisor may purchase or sell securities in bulk (or orders may be "batched") on the same day for some or all PMP accounts in the same strategy managed by the same Financial Advisor. In such cases, all orders in a batch will receive "average pricing" and the price of securities shown on client confirmations will be the average execution price on either all of the purchases or all of the sales (as applicable) aggregated for this purpose. In addition, when executing orders, we may batch orders for your Account with orders entered for other PMP accounts in the same strategy, including those of the Financial Advisor assigned to your Account and related PMP accounts under your Financial Advisor's control. Financial Advisors are permitted to trade in the same securities they purchase for client accounts as long as they trade their personal and related accounts in the same batch as client accounts.

Financial Advisors have broad discretion to trade their PMP Advisory Accounts and there can be no assurance that a Financial Advisor can purchase or sell the same securities for all such Accounts at the same time, or that the Financial Advisor will aggregate your orders with those of other clients and charge an average price per share or unit and, when applicable, a pro-rata share of any fees. As a result, you may receive different prices and executions for the same securities as compared to other clients investing in the same PMP strategy. In addition, although we monitor performance dispersion and other characteristics of Accounts participating in PMP, investment opportunities will not necessarily be allocated among participating Accounts proportional to their overall amount invested.

Below are some of the general risk considerations associated with the investments included in the PMP investment strategies described in this Brochure. The descriptions are not meant to be a complete list of all investment risks. For more complete information regarding fees, expenses, risks and restrictions associated with these investments please review the offering documents and marketing materials. Investors should consult their tax advisor about their specific tax situation before investing in any securities. In addition, clients should familiarize themselves with the particular market risks and the other risks associated with the specific investment.

Two sources of research are available to UBS Financial Services Inc. clients. One source is written by UBS CIO Americas, Wealth Management. UBS CIO Americas, Wealth Management is part of UBS Global Wealth Management & Business Banking (the UBS business group that includes, among others, UBS Financial Services Inc. and UBS International Inc.), whose primary business focus is individual investors (“Private Clients”). The other source is written by UBS Investment Research. UBS Investment Research is part of UBS Investment Bank, whose primary business focus is institutional investors. The Private Client report style, length and content is designed to be more easily used by Private Clients. Because both sources of information are independent of one another and reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may exist a difference of opinions between the two sources. Neither the Institutional report nor the Private Client report is necessarily more reliable than the other. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions please consult your Financial Advisor. UBS CIO Americas, Wealth Management is provided by UBS Financial Services Inc and UBS AG. UBS Financial Services Inc. is a subsidiary of UBS AG.

If you would like more details about any of the information provided, or you would like personalized recommendations or advice, please contact your Financial Advisor. We are here to help.

Neither UBS Financial Services Inc. nor any of its employees provide legal or tax advice. You should consult with your personal legal or tax advisor regarding your personal circumstances.

All of the recommendations made/positions held within the proceeding 12-month period are available upon request. Not all recommendations/holdings should be assumed to be profitable and future recommendations/holdings may not be profitable. Past performance is no guarantee of future results. Above is an overview of select portfolio holdings in the above-stated strategy of the PMP Portfolio Manager as of the date of this report. The portfolio is actively managed and holdings may be replaced at any point in time. The actual allocation within the individual portfolios may be different due to portfolio changes, market conditions or the imposition of investment restrictions.

The past performance of an index is not a guarantee of future results. Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices. Diversification does not guarantee a profit or protect against a loss in a declining financial market.

Except as specifically noted, the views expressed herein are those of the author and may not necessarily reflect the views of UBS Financial Services Inc. or its affiliates.

The information and data presented is believed to be reliable; however, their accuracy and completeness is not guaranteed by UBS Financial Services Inc. UBS does not assume any duty to update this information going forward.

Equities represent ownership interest in a corporation. Historically, equities are more risky than fixed income or cash investments as they experience greater volatility risk, which is the risk that the value of your investment may fluctuate over time. The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. These general risk considerations associated with equity investments are not meant to be a complete list of all investment risks. It is important that you discuss your specific investment situation with your Financial Advisor before making any investment decision.