MoneyMatters
Market Update

Q1
2023

Tempered Recovery

ROEHL & YI
INVESTMENT ADVISORS, LLC

Tempered Recovery

The year 2022 was a singularly difficult year for markets, the global economy, and investors. We saw negative returns in nearly all equities and fixed income categories, underscored by a significant reset in the crypto currency, technology, and growth stock sectors. Roehl & Yi has long termed this potential bubble as a 'speculative frenzy' – whereby investor appetite shifts greatly over time.

The past year marks what should be the end of the zero-interest rate experiment of the past 15 years. Thanks to inflation that ran as high as 9% in the spring, the Federal Reserve finally got off its hands to meaningfully raise interest rates, and the higher borrowing costs squashed enthusiasm for expensive investments with far-off profit hopes. It was a long time in coming and much paper wealth has been erased. Central banks around the world followed suit in what has been a global move back to basics.

Separately, the ongoing war in Ukraine, growing uncertainty around Taiwan, a still active COVID pandemic, and the usual political shenanigans add to the known risks for society and markets. Throw in recession and inflation and there is considerably more work to be done to restore balance and confidence for the future.

We have heard from many of you who are concerned about a potential recession. While some indicators, such as the labor market and well-capitalized banks, suggest economic strength, there are emerging pockets of weakness.

With budgets squeezed over the past year it is reasonable to expect faltering economic growth as consumers tighten their belts. At the same time there is a shortage of workers as early retirements and aging baby boomers have drawn down the pool of available workers. This strongly suggests businesses will need to "pay up" for good help; coupled with slowing sales, this points to a squeeze in profits. Roehl & Yi expects this double whammy of a likely recession and profit squeeze to put downward pressure on stock prices and economic activity generally, until we are on the other side of the transition to this new environment.

We are not, however, without bright spots. Inflation is coming down and eased in December 2022 for the sixth straight month. (Source: *Wall Street Journal*) Following this welcomed news, the yields on the US bond market are incredibly attractive as we discuss further in this market update.

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Market Recap
Stock Market

The S&P 500 Index ended 2022 with a loss of 18.11%, giving back most gains realized in 2021. The Russell 1000 large-cap growth index lost 29.14% while the Russell 1000 large-cap value index only fell 7.54% as value significantly outperformed growth. On the upside, during the fourth quarter of 2022, all equity indexes experienced positive returns. The US bond market shed 13.01% for the year due to the marked rise in interest rates, while the stronger US dollar caused international bonds to suffer more significant losses at 18.26%. (Source: *Morningstar*)

The table below is an overview of market performance for 2022.

2022 Market Returns

2022 Market Returns, 12 Months Ended December 31st

	4Q 2022	FULL YEAR 2022	FULL YEAR 2021	CURRENT YIELD	COMMENTS
EQUITIES					
US Large Stocks - S&P 500	7.56	-18.11	28.71	1.64	Gave back most of 2021's big gain.
US Large Value - Russell 1000 Value	12.42	-7.54	25.16	2.17	Large Value outperformed Large Growth by 21.6% in 2022.
US Large Growth - Russell 1000 Growth	2.20	-29.14	27.60	1.03	Large Growth stocks were one of the worst performing asset classes in 2022.
US Small Stocks - Russell 2000	6.23	-20.44	14.82	1.40	Back to late 2020 level.
Int'l Developed Stocks - MSCI EAFE	17.34	-14.45	11.26	3.23	Back to late 2020 level. Very strong performance in the 4th quarter.
Emerging Markets Stocks - MSCI EM	9.70	-20.09	-2.54	3.39	Now showing a small loss over past 5 years.
FIXED INCOME					
Cash - US 3-Month Treasury Bill	0.84	1.46	0.05	4.42	Cash was one of the few asset classes with a positive nominal return in 2022.
Core Bonds - Bloomberg US Aggregate	1.87	-13.01	-1.54	3.94	Sharp rise for US interest rates, ~all bonds lost value.
US 10-Year Treasury Bonds	1.05	-16.90	-4.07	3.88	The 10-year yield more than doubled from 1.5% at the start of 2022.
Bloomberg Muncipal Bonds	4.10	-8.53	1.52	3.18	Municipal bonds held up better than core bonds but suffered on an absolute basis.
Bloomberg US TIPS	2.04	-11.85	5.96	6.52	Even inflation-linked bonds suffered due to rise in rates.
Bloomberg US High Yield	4.17	-11.19	5.28	8.96	Increasing default risk will also affect these weaker credits.
Int'l Bonds - FTSE World Gov't Bond	3.82	-18.26	-6.97	3.07	Foreign bonds suffered the most in US dollar terms.
ALTERNATIVES/MISCELLANEOUS					
US Public Real Estate - DJ US Select REIT	4.76	-25.96	45.91	3.78	Non-housing real estate fell sharply.
US Private Real Estate - NCREIF Property	0.57	9.35	17.70		Private real estate significantly outperformed the public market after lagging in 2021.
Bloomberg Commodity	2.22	16.09	27.11		Strong showing for most commodities, though down from the peak.
Gold - LBMA Gold Price	8.49	0.44	-4.33		Held its value despite strong dollar and rising interest rates.
Oil - West Texas Crude	-25.84	6.08	55.80		Positive for the year despite big fall in the 2nd half.
Bitcoin - S&P Bitcoin	-14.99	-63.89	57.22		Various bankruptcies, fraud, and theft won't help crypto.
US Dollar, Change	-4.80	5.38	3.58		Strong US dollar though well off the high.
Consumer Price Index, 12 Mo Change	-	7.10	6.80		As of November, inflation peak 9% in spring.

Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg. Past performance is no guarantee of future returns. Current yields are based on forward dividend yields for equities and SEC yields for bonds.
Data as of 12/31/2022

Market Leaders Shed Massive Gains

Familiar names such as Facebook, Amazon, Tesla, and Bitcoin, who recently attracted huge investments, have been brought back down to earth with 2022 losses of 64%, 49%, 65%, and 64% respectively. Cheaper value stocks significantly outperformed growth stocks as the end of ultra-cheap financing cured a speculative fever and squashed prices of many long-shot growth stories. History suggests that these cycles tend to last for years rather than months, as is expected as the economy continues transitioning to moderation in terms of borrowing, stimulus, and speculation.

Some Prior Market Leaders Giving Back Years of Gains

STOCK	TICKER	2022 RETURN	2021 RETURN	FIRST AT TODAY'S PRICE IN...
Facebook ("Meta")	META	-64%	23%	July 2016 (6 Years)
Amazon	AMZN	-49%	2%	August 2017 (5 Years)
Apple	AAPL	-26%	34%	May 2018 (4 Years)
Tesla	TSLA	-65%	50%	August 2020 (2.5 Years)
Microsoft	MSFT	-28%	52%	August 2020 (2.5 Years)
Google	GOOG	-38%	65%	November 2020 (2 Years)
Bitcoin		-64%	44%	January 2021 (2 Years)
S&P 500 Index		-18%	29%	February 2021 (2 Years)
Nasdaq Index		-32%	22%	July 2020 (2.5 Years)

Source: Blue River LLC

The Bond Market

2022 saw the Federal Reserve engineer the steepest increase in interest rates in modern times, the chief reason why both bonds and stocks suffered such material loss. Basic bond math holds that as rates rise the price of existing bonds must fall, but so long as they do not default then principal will be paid at maturity as promised. Unlike stocks, we should consider bond's paper losses to be temporary since we'll now be paid considerably more interest as compensation. This is unambiguously good news for our future portfolio income, and an important reason why we remain more constructive on high-quality bonds at these prices as compared to middling-priced stocks, all considered.

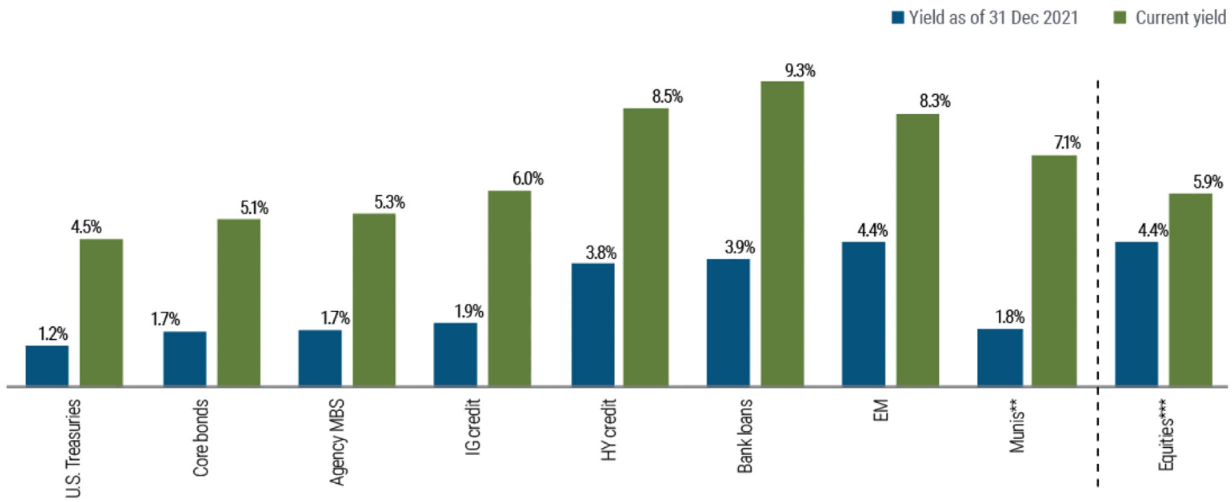
Source: Morningstar as of 12/31/22. U.S. bonds represented by the IA SBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 12/31/22. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Worst Year for Bonds

YEAR	RETURN	NEXT 12 MONTHS
2022	-13.0%	?
1994	-2.9%	18.5%
1931	-2.3%	8.8%
2013	-2.0%	6.0%
2021	-1.5%	-13.0%
1958	-1.3%	-0.4%
1999	-0.8%	11.6%
1969	-0.7%	16.9%
1955	-0.7%	-0.4%
1956	-0.4%	7.8%
Avg.	-2.6%	6.2%

It is no doubt encouraging that investors who have typically sought the safety in bonds can feel some relief. Bonds, across the board, are now earning higher yields so investors may be able to anticipate better absolute performance and expect fixed income to look relatively more attractive versus equities, barring any severe market disruptions.

Increase in Fixed Income Yields



Source: PIMCO, Bloomberg as of 24 October 2022. Index proxies for asset classes displayed are as follows: U.S. Treasuries: Bloomberg U.S. Treasury Index, Core bonds: Bloomberg U.S. Aggregate Index, Agency MBS (mortgage-backed securities): Bloomberg MBS Fixed Rate Index, IG (investment grade) credit: Bloomberg Global Aggregate Credit Index (USD Hedged), HY (high yield) credit: ICE BofAML U.S. HY BB-B Rated Index, Bank loans: JP Morgan Liquid Loan Index, EM (emerging markets): J.P. Morgan EMBI Global, Munis: Bloomberg Municipal Bond Index, Equities: S&P 500 Index.

*Yield to worst, which is the yield resulting from the most adverse set of circumstances from the investor's point of view, or the lowest of all possible yields.

**Municipal yields are the tax equivalent yields, or the yield to worst adjusted by the highest marginal tax rate (40.8%). Tax equivalent yield is intended for U.S. domiciled investors and is the return that a taxable bond would need to equal the yield on a comparable federal tax-exempt municipal bond. The yield to worst for municipals is 1.1% as of 31 December 2021 and 4.2% as of 24 October 2022.

***Yield for equities is forward earnings yield for the S&P 500 Index.

The Economy

Inflation

Inflation has moderated to 6.5% in December, down from 7.1% in November 2022 (Source: *Wall Street Journal*), though a 7% annual rate remains much higher than the Federal Reserve's stated goal of 2%. Whether that is achievable in the short term will prove a challenge. Roehl & Yi expects inflation to continue to fall but anticipates a stickiness that may hover around 4-6%. If so, the economy will need to re-accustom itself to higher mortgage rates and steadily higher prices generally, which will take time. (Source: *Blue River*)

The chart below plots both the headline and core Consumer Price Index (CPI) over the past 11 months starting in January 2022, across sectors. Though we are not completely out of the woods, inflation has been moderating in the last few months. Core goods, energy, and food inflation have decreased significantly from earlier in the year as highlighted in green below. However, core services inflation remains above trend due to a tight labor market and is a concern for the Federal Reserve going forward. (Source: *BLS, FactSet, J.P. Morgan Asset Management*)

Inflation Trends

	Weight	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
		2022										
Headline CPI, y/y	100.0	7.5%	7.9%	8.6%	8.2%	8.5%	9.0%	8.5%	8.2%	8.2%	7.8%	7.1%
Core CPI, y/y	78.3	6.0%	6.4%	6.4%	6.1%	6.0%	5.9%	5.9%	6.3%	6.7%	6.3%	6.0%
Headline CPI, m/m	100.0	0.6%	0.8%	1.2%	0.3%	1.0%	1.3%	0.0%	0.1%	0.4%	0.4%	0.1%
Core CPI, m/m	78.3	0.6%	0.5%	0.3%	0.6%	0.6%	0.7%	0.3%	0.6%	0.6%	0.3%	0.2%
Energy	8.0	0.9%	3.5%	11.0%	-2.7%	3.9%	7.5%	-4.6%	-5.0%	-2.1%	1.8%	-1.6%
Gasoline	4.0	-0.8%	6.6%	18.3%	-6.1%	4.1%	11.2%	-7.7%	-10.6%	-4.9%	4.0%	-2.0%
Electricity	2.7	4.2%	-1.1%	2.2%	0.7%	1.3%	1.7%	1.6%	1.5%	0.4%	0.1%	-0.2%
Utility Gas	1.0	-0.5%	1.5%	0.6%	3.1%	8.0%	8.2%	-3.6%	3.5%	2.9%	-4.6%	-3.5%
Food	13.7	0.9%	1.0%	1.0%	0.9%	1.2%	1.0%	1.1%	0.8%	0.8%	0.6%	0.5%
Food at home	8.5	1.0%	1.4%	1.5%	1.0%	1.4%	1.0%	1.3%	0.7%	0.7%	0.4%	0.5%
Food away from home	5.2	0.7%	0.4%	0.3%	0.6%	0.7%	0.9%	0.7%	0.9%	0.9%	0.9%	0.5%
Core goods	21.2	1.0%	0.4%	-0.4%	0.2%	0.7%	0.8%	0.2%	0.5%	0.0%	-0.4%	-0.5%
Apparel	2.5	1.1%	0.7%	0.6%	-0.8%	0.7%	0.8%	-0.1%	0.2%	-0.3%	-0.7%	0.2%
New vehicles	4.1	0.0%	0.3%	0.2%	1.1%	1.0%	0.7%	0.6%	0.8%	0.7%	0.4%	0.0%
Used cars	3.8	1.5%	-0.2%	-3.8%	-0.4%	1.8%	1.6%	-0.4%	-0.1%	-1.1%	-2.4%	-2.9%
Medical care commod	1.5	0.9%	0.3%	0.2%	0.1%	0.3%	0.4%	0.6%	0.2%	-0.1%	0.0%	0.2%
Core services	57.1	0.4%	0.5%	0.6%	0.7%	0.6%	0.7%	0.4%	0.6%	0.8%	0.5%	0.4%
Shelter	32.6	0.3%	0.5%	0.5%	0.5%	0.6%	0.6%	0.5%	0.7%	0.7%	0.8%	0.6%
Rent of primary res.	7.4	0.5%	0.6%	0.4%	0.6%	0.6%	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%
OER	24.0	0.4%	0.4%	0.4%	0.5%	0.6%	0.7%	0.6%	0.7%	0.8%	0.6%	0.7%
Medical care services	6.9	0.6%	0.1%	0.6%	0.5%	0.4%	0.7%	0.4%	0.8%	1.0%	-0.6%	-0.7%
Transportation services	5.9	1.0%	1.4%	2.0%	3.1%	1.3%	2.1%	-0.5%	0.5%	1.9%	0.8%	-0.1%

Source: BLS, FactSet, J.P. Morgan Asset Management. Heatmap shading is relative to the 11- month period shown. Component weights may not add to 100. OER refers to owner's equivalent rent. Guide to the Markets – U.S. Data are as of December 31, 2022.

The Secure Act 2.0

After months of deliberation, Congress passed the Securing a Strong Retirement Act of 2022 (SECURE ACT 2.0) on December 29, 2022.

All stakeholders including retirement plan trustees, retirement plan participants, retirees, and financial professionals now have certainty on what the bill contains and can begin planning for and implementing required changes.

Roehl & Yi has outlined several key provisions and how they may impact retirement plan sponsors and their participants. These provisions are organized by the calendar year they are scheduled to go into effect.

Click here to download our brochure

Roehl & Yi's Final Thoughts

Every storm eventually passes, and as difficult as last year's results have been for multi-asset class investors, we believe the seeds are being sowed for stronger years ahead.

Consider these suggestions:

- Be mindful of a potential recession and refrain from taking unnecessary risks or making emotional decisions.
- Cash is more attractive with the Federal Reserve raising rates.
- Consider Dollar Cost Averaging. Lower valuations can lead to higher future returns. A potential new bull market in stocks could be on the other side of a recession.

The R&Y Promise

Roehl & Yi has made a commitment to delivering more value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi, and we ask that your first phone call be to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health.

ROEHL & YI
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For A Personal Wealth of Reasons

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