<u>2023 Outlook: It's The Data, Stupid!</u> – December 27, 2022

Hi,

This will be the final update of the year for me and what a year it has been! I am not sure I can remember a year when so many forecasters/economists/"experts" got it wrong as they did in 2022! The culprit: Inflation. Even The Federal Reserve didn't see this coming as they thought the Fed Funds would be at .9% by the end of 2022 and instead here we are at almost 4.50%!

https://www.washingtonpost.com/business/2022/12/12/fed-projections-economy/

So, if the Fed and just about everyone else got it so wrong in 2022, that will make 2023 any different? Well, for starters, let's not try to game the market and forecast a weather pattern that can't be predicted. Instead, let's look at the data points to look at in real-time to help us make a more educated decision. In short, to take a line from James Carville, It's The Data Stupid!

As we close out 2022, the market has turned over and is in another one of it's Funks. Why so grim, Mr. Grinch? Well, we can blame 1) Bad Growth Data 2) Earnings Worries 3) Fed "dot plot" showing no signs of a pivot. But don't be so quick to drop everything. So far this year, the data has shown 1) Economy remains more resilient than anyone expected 2) The falling dollar will be a tailwind for corporate America going in to 2023 – along with cost-cutting 3) Better growth has been the story. The fact also remains that current consensus is very negative as shown by the CNN Fear/Greed Index – keep in mind, a reading under 50 signals opportunity:
https://www.cnn.com/markets/fear-and-greed

In the last week of 2022, we believe that the most important thing to watch out for is making sure inflation falls faster than economic growth. If growth falls faster than inflation than the "S" word will start to emerge: Stagflation. For the younger folks in our audience, this is when you get little to no economic growth with inflation. The good news is so far the data has shown this not to be the case but starting as soon as next week, we will know more.

<u>7 Economic Indicators to Look Out For in 2023:</u>

1. Core CPI – Consumer Price Index

    a. This targets service inflation (think the cost of hiring someone to do something like hang drywall in a house or change out a light fixture)
    b. Key Level – Under 5%
    c. Next release date: 1/12/23

2. Jobless Claims

   a. Labor market is out of balance with too many jobs and too few people to fill them – The Fed wants unemployment to tick back up to restore that balance
   b. Key level – More than 300,000
   c. Next release date 12/29/22

3. Unemployment Rate

   a. As noted, the Fed needs to restore balance to the labor market to tame inflation
   b. Current: 3.7%
   c. Key levels to watch 4-4.5%
   d. Next Release Date: 1/6/23

4. Services Sector PMI – Purchasing Managers Index

   a. The services sector is the biggest and strongest part of the U.S. economy
   b. This needs to moderate without collapsing
   c. Key level – Under 50. Hasn't been there in years
   d. Next Release Date: 1/5/23

5. Monthly Job Adds

   a. Needs to Stagnate or turn negative
   b. Key level: Drops below 100,000/month
   c. Next Release Date: 1/6/23

6. Services Sector Price Index

   a. This is the best "pure" read on the service sector
   b. Key level to watch: Under 60
   c. Next Release Date: 1/5/23

7. JOLTS – Job Openings & Labor Turnover Survey

   a. This is the number of job openings
   b. Needs to start declining
   c. Key level to watch: 8 million
   d. Next Release Date: 1/4/23

Here is a summary to have for quick reference:

Economic Indicator Cheat Sheet

Economic Indicator	Key Level To Watch	Next Release Date
Core CPI	< 5.0%	1/12/2023
Jobless Claims	> 300k	12/29/2023
Unemployment Rate	> 4.0%, > 4.5%	1/06/2023
Service Sector PMI	< 50.00	1/05/2023
Monthly Job Adds	< 100k	1/06/2023
Service Sector Price Index	< 60.00	1/05/2023
JOLTS	< 8 Million	1/04/2023

Thank you to Tom Essaye at The 7's Report for this data.

As you can see, we are going to start the New Year with a BANG of economic data that will help to quickly determine the course of 2023. We remain more defensively positioned with our portfolio's. As we have mentioned past updates, the one very bright spot of this market is higher rates have brought about higher coupons for bonds. We believe bond yields have become quite compelling, especially in the municipal market. We are constructive on the outlook for bonds and therefore believe that the death of the 60/40 portfolio is greatly exaggerated and going forward, it looks the best it has in over a decade.

Thank you to all of my clients, friends and most importantly my family for another great year in life. Life, as with the markets, can be very unpredictable and I consider myself fortunate for being blessed with a family I love and a career I was born to be in.

Our Business Focus For 2023 remains:

1. Managing Risk
2. Allocating to where we see outsized risk adjusted returns (hint: watch international)
3. Fixed Income wins comeback player of the year

Look out for new and exciting announcements in early 2023! Thank you for your time and attention to this letter and have a safe and prosperous New Year!

Regards,

Tim, Michaelyn, Mike & Jimmy

See Our Latest Thoughts on the Markets:
https://davis.stewardpartners.com/.6.htm

Timothy Davis, CFP®
Executive Managing Director – Wealth Manager
Partner
Davis Executive Wealth Management Group

Steward Partners Global Advisory
One International Place, Suite 3210
Boston, MA 02110
(Direct) 617-377-4418
(Office) 617-377-4422
(Toll Free) 888-371-0086
(Fax) 857-233-2966

t.davis@stewardpartners.com
http://www.davis.stewardpartners.com/
https://www.linkedin.com/company/timothy-davis-executive-wealth-management

***2019, 2020, 2021, 2022 Forbes Best-In-State Wealth Advisor**
https://www.forbes.com/profile/timothy-davis

All recognition award information can be found on Steward Partners' website at http://www.stewardpartners.com/recognition.34.html

https://www.forbes.com/best-in-state-wealth-advisors

Please note that the URL(s) or hyperlink(s) in this material is not to a Steward Partners Investment Solutions, LLC website. It was created, operated and maintained by a different entity. Steward Partners Investment Solutions, LLC is not implying an affiliation, sponsorship, endorsement with/of the third party or that any monitoring is being done by Steward Partners of any information contained within the linked site; nor do we guarantee its accuracy or completeness. Steward Partners is not responsible for the information contained on the third party web site or the use of or inability to use such site.

Interest on municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, local tax-exemption typically applies if securities are issued within one's city of residence. The tax exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made. **NOTE:** High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

AdTrax 5368929.1 exp 12/24