Investment Advisors, Inc.
Integrity • Independence • Insight

4th Quarter, 2022

Markets At A Glance

Period	S&P 500	DJIA	MSCI EAFE	MSCI Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
4th Quarter	7.6%	16.0%	17.3%	9.7%	1.5%	3.6%	0.3%
12 Months	-18.1%	-6.9%	-14.5%	-19.7%	-8.2%	-6.0%	6.8%

Stock and bond markets produced positive returns for the fourth quarter, but 2022 will still go down as one of the most challenging years ever for balanced portfolios. The S&P 500 index of U.S. large capitalization stocks was down 18% for the year. The yield on the 10-year U.S. Treasury note climbed to 3.83% from 1.50%, while the increase in short-term interest rates was even more extreme. It was one of the worst years on record for changes in bond values, which decline as interest rates rise. Since we generally hold bonds to maturity, price fluctuations for individual bonds are temporary and the bonds will mature at par.

The primary driver was the spike in inflation, which was much higher and has lasted much longer than expected a year ago. In response, the Federal Reserve and other central banks tightened aggressively, triggering sharp selloffs in both fixed income and equity markets. The Fed raised short-term interest rates to help slow demand for goods and services enough to put downward pressure on prices. The massive spending bill passed at the end of the year only makes the Fed's job harder and increases the likelihood that rates stay higher for longer.

As we move through 2023, economic growth will continue to slow and inflation should continue to fall. Once it stops raising rates, the Fed expects to hold rates steady for some time to ensure that the expected decline in inflation continues. Unless the economy deteriorates much more than expected, there could be a significant time gap between the last interest rate increase and the first interest rate cut. During this period the Fed is likely to continue tightening financial conditions by reducing the size of its balance sheet.

We believe the last twelve months have only strengthened the case for being a long-term investor and avoiding market timing. Quality and diversification are more important than ever. At this point, markets appear to have priced in a significant global economic slowdown and investors are focused on the outlook for corporate earnings in 2023. Markets are forward looking and generally rebound before the economy bottoms. That could happen in the next several quarters once investors are convinced that the Fed interest rate hikes are ending.