QUARTERLY ECONOMIC COMMENTARY | Q4 | 2022

The past year was a tough one for investors. Stocks tumbled and bonds were hit by their worst selloff ever. The S&P 500 index fell 18.1% for the year, the 3rd worst year for the S&P going back to 1980. The average bond investor did not fare much better, as the US Aggregate Bond Index lost 13.1%. Going back to 1976, this is the worst return for this bond index, with the next closest being a -3% loss in 1994.

How did things go so badly? In short, investors and policy makers were burned by bets that 2021's inflation surge would prove to be transitory. Instead, price pressures were exacerbated by Russia's invasion of Ukraine, which sent oil and gas prices soaring in February and March. In a bid to bring down inflation, the Federal Reserve executed its most aggressive interest-rate increases since the 1980s. In turn, rising yields dragged down stock prices to reflect the improved returns investors could now get essentially risk-free by holding government bonds to maturity. That was particularly true for growth stocks – many of them in the tech sector – which are valued primarily for large profits that are expected to arrive further in the future.

We highlight three key events that we think will drive markets in the next quarter and into 2023. First, the Federal Reserve remains in the economic driver's seat. For stock investors, a major concern is a strong labor market that may force the Fed to keep raising interest rates. Just after the end of the year, we got the December jobs numbers. According to the Labor Department, employers added 223,000 jobs in December, the smallest gain in two years. This may be a sign that the labor market is cooling, and the Fed can gradually take its foot off the accelerator.

Second, is whether a recession is inevitable in 2023, and, if so, what will it look like? The key for markets will be not so much if we get a recession this year, but what type of recession? Will it be short and shallow or deep and broad? While it's impossible to confidently predict a recession, one indicator is the current inverted yield curve that portends slower economic growth in the future.

Third, is the relatively high valuations of U.S. large cap stocks. Not surprisingly, large caps fell much more than small cap stocks and international stocks last year, and now are trading near their 25-year averages. Small caps and international stocks continue to exhibit attractive valuations and could outperform this year. Conversely, we think tech stocks will continue to struggle amid higher interest rates.

We are very pleased that we were able to survive 2022 in much better shape than most and to provide meaningful value for our clients.

Miller Wealth Advisors
Planning for life. Preparing for a lifetime.

Sources:
1. Wall Street Journal, Stocks Log Worst Year Since 2008, 12.31.22
2. Bureau of Labor Statistics, December Jobs Report, 1.6.23
3. Valmark –TOPS Quarterly Update Q4 2022, 01.13.23