January 2023

 Here are selected year to date return numbers through the end of December.

 **Stock Indexes**

 **(As of 12/31/22)\***

Dow Jones Industrials -8.78%

S&P 500 Index -19.44%

NASDAQ Composite -33.10%

MSCI ACWI All Cap (Net Div) -18.44%

 (**As of 12/31/22)\***

Russell 1000 Growth Index -29.14%

Russell 1000 Value Index -7.54%

 **(As of 12/31/22)\***

Russell 2000 Index -20.40%

Russell 2000 Growth Index -26.36%

Russell 2000 Value Index -14.48%

**Bond Index (As of 12/31/22)\***

 Bloomberg U.S. Aggregate Bond Index -13.01%

 **(Source: The Wall Street Journal & Russell Investments websites)**

 \*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot

 invest directly in any index, and index performance does not include transaction costs or other fees,

 which will affect actual investment performance. Individual investor’s results will vary. Past

 performance does not guarantee future results.

**FINANCIAL AND INVESTMENT PLANNING**

As you are no doubt aware, and you can also observe on the previous page, 2022 was a rotten, no good, very bad year for investors. And while there may be little value in dwelling on the past, I believe there are several interesting items that are worth noting.

 We talk about the stock market as if it were a monolith – one thing. We say, “the market,” of course this is like saying “the real estate market,” as if it is also one thing. And markets have many components. Is real estate multi-family, office, industrial or hotels?

 The same goes for the stock market. One way to think about the U.S. stock market is to categorize companies by two common metrics value/growth and small and large cap or capitalization. Rather than get into the definitions of these, let’s just observe their 2022 returns.

  **2022**

|  |  |  |
| --- | --- | --- |
|  | **Value** | **Growth** |
| **Large** | -7.5% | -29.1% |
| **Small** | -14.5% | -26.4% |

 **Source: FactSet, Refinitiv Datastream, Russell Investment Group,**

 **Standard & Poor’s, J.P. Morgan Asset Management**

 Growth stocks in such areas as information technology and biotechnology fared much worse than energy stocks.

 And after a year like 2022, there is always a debate about whether U.S. equities are cheap, fairly valued, or expensive.

 Here are several valuation measures.

**S&P 500 Index**

|  |  |  |  |
| --- | --- | --- | --- |
| **Valuation measure** | **Description** | **Latest** | **25-year avg\*** |
| Price Earnings Ratio | Forward P/E | 16.65x | 16.82x |
| Div. Yield | Dividend yield | 1.81% | 1.99% |
| P/B | Price to book | 3.42x | 3.10x |
| P/CF | Price to cash flow | 12.42x | 11.19x |

**Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor’s, Thomson Reuters, J.P. Morgan Asset Management.**

**Price-to-earnings is price dividend by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1997 and by FactSet since January 2022.**

 And while U.S. stocks had a tough year, perhaps the bigger news was what occurred in the bond market. The change in Federal Reserve interest rate policy as a result of rising inflation caused bonds to fall in price.

 Here is how various maturities and types of bonds fared in 2022.

**FIXED INCOME MARKET DYNAMICS**

|  |  |
| --- | --- |
| **U.S. Treasuries** | **2022 Return** |
| 2-Year |  -4.11% |
| 5-Year |  -9.74% |
| TIPS | -11.85% |
| 10-Year | -16.33% |
| 30-Year | -33.29% |
|  |  |
| **U.S. Aggregate** | -13.01% |
|  |  |
| **Municipals** | -8.53% |

 **Source: Bloomberg, FactSet, Standard & Poor’s, U.S. Treasury, J.P. Morgan Asset Management.**

 And not surprisingly, foreign stock markets also posted negative returns. And because the U.S. dollar rose throughout 2022 until it peaked in late September, dollar based investors did worse than those invested in their local currencies.

**GLOBAL EQUITY MARKETS**

|  |  |  |
| --- | --- | --- |
|  | **Local** | **US$** |
| **Selected Countries** |  |  |
| United Kingdom |  7.2% |  -4.8% |
| France |  -6.9% | -12.7% |
| Germany | -16.5% | -21.6% |
| Japan |  -4.1% | -16.3% |
| China | -20.6% | -21.8% |
| India |  3.0% |  -7.5% |
| Brazil |  8.6% |  14.6% |
| Korea | -24.4% | -28.9% |

 **Source: FactSet, Federal Reserve, MSCI, Standard & Poor’s, J.P. Morgan Asset Management**

And you may note that despite a strong dollar, foreign developed country equities slightly outperformed the S&P 500.

|  |  |
| --- | --- |
|  | **2022** |
| S&P 500 | -18.10% |
| EAFE – Europe, Australasia, and the Far East21 developed market countries | -14.00% |
| **Source:MSCI**  |  |

I believe this is interesting because U.S. equities have outperformed foreign stocks for over 15 years.

 Could this be a blip, or could we now see a period when international stocks outperform their domestic counterparts?

 Stay tuned.

I mentioned Federal Reserve policy. The Fed is raising interest rates to reduce U.S. inflation. That means they want to dampen consumer spending. Why focus on us, the consumer?

 When you look at the components of U.S. Gross Domestic Product, it is obvious why we, the consumers, are the Fed’s target.

**Components of GDP**

3Q22 nominal GDP, USD trillions

|  |  |
| --- | --- |
| Housing |  4.3% |
| Investment ex-housing | 13.5% |
| Government spending | 17.5% |
| Consumption | 68.2% |
| Net exports | -3.5% |

 **Source: BEA, FactSet, J.P. Morgan Asset Management**

 And finally, I think it is useful to put our current interest rate environment in a longer term perspective. While mortgage rates, car loans and credit card rates are rising, here is where we have been over several decades.

 The benchmark 10 year Treasury note yield peaked at 15.84% on September 30, 1981. On December 31st of last year, it traded to yield 3.88%.

 And here are Treasury yields before inflation or nominal and after inflation, or real yields.

|  |  |  |
| --- | --- | --- |
|  | **Average****(1958 – 2022)** | **December 31, 2022** |
| Nominal yields | 5.78% | 3.88% |
| Real yields | 2.12% | -2.09% |
| Inflation | 3.66% | 5.96% |

 **Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management**

 Thank you for taking the time to read the newsletter and for listening in to Money Talk.

Warm regards,



Carl W. Stuart

Financial Advisor

* **Past performance is not indicative of future results.**
* The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
* The S&P 500 is an unmanaged index of 500 widely held stocks that’s generally considered representative

of the U.S. stock market.

* The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
* The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
* The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
* The Russell 2000 Index is an unmanaged index of small cap securities which generally involve greater risks.
* The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equities.
* The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equities.
* The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
* All investing involves some degree of risk, investors may incur a profit or loss regardless of the strategy or strategies employed.

Investments mentioned may not be suitable for all investors.