



## FULLEN FINANCIAL GROUP

### Quarterly Market Summary – Q4 2022

#### Market Results as of the Fourth Quarter of 2022

##### Selected Index Results for Q4 – 2022

<u>Index<sup>(1)</sup></u>	<u>%Growth For FY 2021</u>	<u>%Growth For FY 2022</u>	<u>%Growth For Q4 2022</u>
DJIA	18.73%	-8.78%	15.39%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	-3.48%	-14.98%	0.67%
S&P 500 (large cap)	26.89%	-19.44%	7.08%
S&P 400 (mid cap)	23.21%	-14.48%	10.29%
Russell 2000 (small cap)	13.69%	-21.56%	5.80%
MSCI EAFE Index (developed international)	7.84%	-16.57%	17.19%
iShares MSCI Emerging Market Index	-5.46%	-22.42%	8.66%
iShares Dow Jones US Home Construction	48.60%	-26.91%	16.46%
MSCI US REIT Index	38.61%	-27.25%	4.15%
Amex Oil Index	48.67%	51.69%	18.84%
Barclays Global Agg ex-US Corp Bond Index	-8.73%	-19.86%	10.48%

(1) These results do not include reinvestment of dividends.

#### Q4 Quick Summary

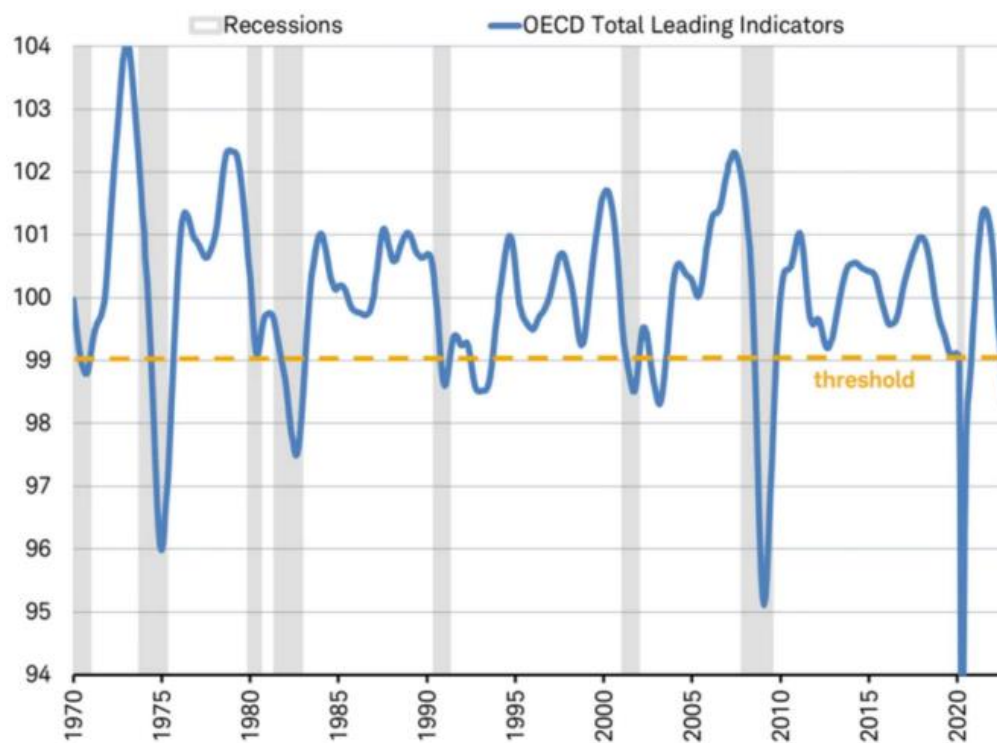
- Global leading indicators are pointing to a recession in 2023, although the timing and depth of economic downturn will vary across regions and countries. The depth of this potential recession appears to be mild so far.
- Inflation remains stubbornly high in most parts of the world. In the U.S., year-over-year inflation was at 6.5% in December, driven largely by continued wage growth. While the data shows some moderation in materials prices, demand for services remains high.
- U.S. housing affordability has taken a massive hit this year, with 30-year mortgage rates increasing from around 3% at the start of the year to 7%. Home prices have fallen back from spring peaks, but the inventory of existing homes on the market remains low.
- The U.S. Federal Reserve has maintained its commitment to bring inflation down to historical levels around 2%, by continuing to raise the benchmark borrowing rate. While this has had a cooling effect on economic growth, the Fed has signaled continued tightening well into 2023.
- Authorities in China have begun to reopen the economy, and they appear to be bringing the country's zero-Covid policy to an end. This could lead to a rebound in global growth, and also stoke inflation in both goods and commodities in 2023.



## Global Economy Continues to Weaken

As 2023 unfolds, a weakening global economy will become more apparent. This weakening is already helping to cool goods inflation as the shortages and supply chain snarls that kick-started the year-long burst in inflation are beginning to fade. Global PMI readings show that backlogs of work have contracted for four months in a row, while pressures on manufacturers' supplier delivery times have eased to a two-year low. Both are more in line with pre-pandemic norms.

One important signal of an already-underway recession in parts of the world is the leading indicator for the world economy produced by the Organization for Economic Cooperation and Development (OECD). In this index, a drop below 99 has tended to happen right around the start of a global recession since the mid-1970s.



Source: Charles Schwab; Organization for Economic Growth and Development; Bloomberg data as of 12/2/2022

The depth of this potential recession appears to be mild, so far. Some parts of the global economy and some countries are growing, offsetting others that are contracting. For example, while strength remains in services (particularly travel and entertainment), the demand for manufactured goods has been weakening.

In the U.S., consumers and businesses are showing more resilience. Robust job growth is helping to maintain spending patterns and some degree of consumer confidence, alongside upward pressure on wage growth. Unlike other business cycles, households also have the benefit of dipping into pandemic-related excess savings. Such resilience is unlikely to continue in 2023, however, as the Fed's rapid tightening cycle takes greater effect and as less affluent households deplete pandemic-related savings.



## Inflation Maintains Its Grip

There is little doubt that U.S. households are being squeezed by the highest inflation in 40 years and a correspondingly sharp increase in interest rates. Even so, discretionary spending in the U.S. has not collapsed. Higher frequency data still indicate that consumers are willing to open their wallets for travel, eating out at restaurants, live entertainment, and personal care services. However, this is coming at the expense of more recreation-related goods purchases, which had soared during the pandemic.

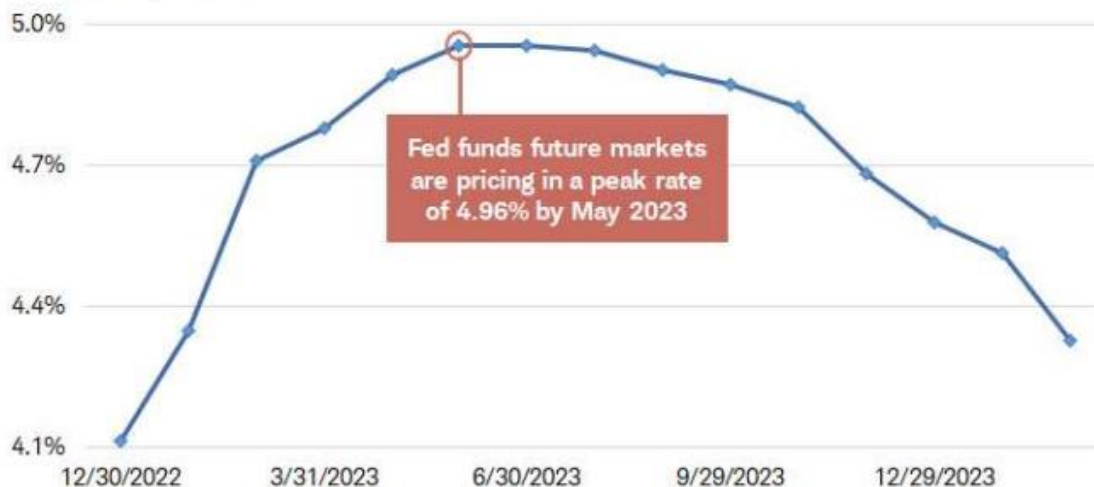
Spending is outpacing income growth: causing the savings rate to steadily decline among U.S. households. This is a good news, bad news story. The good news is that a cushion remains to absorb higher prices and any remaining pent-up demand. The bad news is that it is not sustainable. It is more likely that precautionary behavior will kick-in well before households ever exhaust their savings, leading to a more moderate pace of consumer spending, or a further acceleration of consumer debt levels.

Wage growth continues to be stubborn for a Fed keen on holding down inflation expectations. Average hourly earnings grew 5.1% from a year earlier in November, and the annualized gain over the prior three months was the fastest since January. The Atlanta Federal Reserve's wage growth tracker corroborated the trend, showing headline growth of 6.4% in November, with both job switchers and stayers seeing gains. Labor demand has started to ease from last year's highs, but employment growth continues to outpace population growth in the U.S.

## The Fed Caught In The Middle

The Federal Reserve is confronting mixed data showing price gains may be slowing, but average hourly earnings still climbing. The market, meanwhile, appears to have a more optimistic view of the Fed's powers. Despite the central bank's consistent messaging that it plans to "hike and hold" throughout 2023, the futures market is pricing in rate cuts later this year.

*Fed Funds Implied Rate*



Source: Bloomberg



The diverging views about policy suggest that investors have more faith in the Fed's ability to rein in inflation than the Fed itself. An inverted yield curve and low readings for implied inflation in the Treasury Inflation Protected Securities (TIPS) market suggest that investors anticipate slowing growth and easing price pressures in the first half of 2023. It is somewhat ironic that the Fed appears to be less confident than the market in its ability to deliver lower inflation for longer. Having failed to anticipate inflation's persistence coming out of the pandemic, officials are wary about declaring victory too soon. They point to current tightness in the labor market and rising wages as reasons to keep rates higher for longer.

While a pivot to rate cuts does not seem likely in the near term, central banks globally seem to be signaling a step down in the size of rate hikes, and in some cases even a pause. The Fed has slowed the pace of rate hikes from 75 basis points in November to 50 basis points in December, with the Central Bank of Canada following suit. Central banks in Australia, Norway, Brazil and Poland have either slowed the pace of increases or left rates unchanged in recent meetings.

### **U.S. Housing Market Takes a Turn**

The U.S. has seen 30-year fixed mortgage rates rise substantially over the past several months. As a result, the mortgage payment on a new purchase of a median-priced single-family home is up approximately 60% from a year ago and has doubled since the start of the pandemic. It is no surprise that the housing affordability index has fallen below its Global Financial Crisis trough – to the lowest level since the early 1980s.

This weight on demand is evident with existing home sales down 28% from the start of the year. Prices have followed suit, falling back from the spring peak. The median seasonally adjusted U.S. home price is down 3.5% since May. U.S. home prices likely have further to fall, but the magnitude is likely to be far less than experienced during the housing crash of the Global Financial Crisis. Despite a much more dramatic increase in borrowing rates, lower consumer leverage and better underwriting standards should limit the downward pressure on prices.

Another distinction between the early-2000s and now is that existing home inventories, which make up the bulk of the market, remain near record lows. This contrasts with the new home market, where inventories have risen sharply in recent months and currently sit at the highest levels since the Global Financial Crisis. The recent divergence is atypical and suggests inventories of existing homes will soon start to turn higher. However, elevated interest rates may put a lower ceiling on listings, helping to keep prices somewhat elevated.

### **China Reopens**

As a possible counterweight to slowing price growth, China's reopening as it winds down zero-Covid protocols could increase inflation and put additional pressure on central banks to raise interest rates. China to date had more success containing Covid compared with the U.S. and other countries, according to the WHO, mainly attributable to China's commitment to its "zero-Covid" policy. However, with an aging and largely unvaccinated population, that appears to be changing rapidly. Measuring the drag on China's economy is difficult, but amid multiple waves of Covid outbreaks and restrictions this year, consumer



spending declined 0.5% from a year ago, compared with pre-pandemic growth of 7% in 2019, and a ten-year average growth rate of 12%. The consensus of economists tracked by Bloomberg forecast China's GDP growth to be 3.1% this year compared with 8.1% last year.

China's reopening may very well be like most other countries' reopening experiences, with economic growth accelerating and inflation picking up. Any reopening is likely to be gradual but could still lead to a surge in pent-up spending in the world's second largest economy. Such an increase in demand from 1.4 billion consumers could bring a rebound in inflation for both goods and commodities, and it may come at just the point that central banks are pausing their rate hikes. As China continues to reopen, investors seem to be welcoming the likely boost to global economic growth but may begin to worry over the potential need to extend rate hikes.

## **Conclusions**

Economic uncertainty may have declined from previous quarters, but we believe it will remain high for the remainder of this year. Having a well-balanced, diversified portfolio, with a risk profile consistent with your goals, and being prepared with a plan in the event of an unexpected outcome are keys to successful investing.

Projecting stock market direction is always rife with problems, doing so in such an environment can quickly make even the most thoughtful projections irrelevant. In a rapidly growing economy with rising inflation, assets with exposure to high nominal growth rates, including value stocks and commodities, may hold up well, whereas bonds could struggle. Should tightening Fed policy, higher inflation or a change in consumer sentiment start to weigh heavily on the economy, however, bonds will be seen as a safe-haven alternative to equities. This highlights the benefits of a well-diversified portfolio and a consistent investment strategy to navigate through the volatility.

Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming continued success in combatting the virus and returning the economy to more "normal" levels of activity, the long-term impact on economic growth and equity values should not be significant. However, as we have stated previously, the ongoing and unprecedented level of government stimulus, both fiscal and monetary, continues to raise concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but



far too complex to explain in sound bites and not conducive to selling products). Additionally, don't try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

If your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

## **Risks**

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, vaccine missteps, other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

**Your financial plan is the most important financial document that you possess! Keep it updated and use it.**

Please note that you are entitled to receive Fullen Financials' Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at [www.fullenfinancial.com](http://www.fullenfinancial.com) and click on "Resources" in the top menu bar, and then on "Client Forms."

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## Appendix: Economic Indicators and Outlook

### Economic Indicators: G7 & Europe

	2021	2022F	2023F	2024F
<b>Real GDP (annual per cent change)</b>				
<b>G7 (30.1%)*</b>	5.2	2.2	0.4	0.9
U.S.	5.9	1.9	0.9	0.9
Japan	1.7	1.4	1.2	1.2
Euro Area	5.3	3.2	-0.2	0.9
Germany	2.6	1.7	-0.8	0.9
France	6.8	2.5	0.1	0.9
Italy	6.7	3.7	-0.1	0.7
United Kingdom	7.5	4.5	-0.9	0.8
Canada	5.0	3.5	0.7	0.4
<b>Consumer Price Index (annual per cent change)</b>				
<b>G7</b>	3.2	7.3	4.9	2.1
U.S.	4.7	8.1	4.7	2.3
Japan	-0.2	2.4	2.4	1.3
Euro Area	2.6	8.5	7.0	2.3
Germany	3.2	8.9	6.9	2.5
France	2.1	6.0	5.5	2.1
Italy	1.9	8.7	5.9	2.3
United Kingdom	2.6	9.1	8.0	2.7
Canada	3.4	6.8	3.8	2.1
<b>Unemployment Rate (per cent annual averages)</b>				
U.S.	5.4	3.7	4.3	5.0
Japan	2.8	2.6	2.5	2.4
Euro Area	7.7	6.7	7.2	8.0
Germany	5.7	5.3	6.4	6.8
France	7.9	7.3	7.9	8.5
Italy	9.5	8.1	8.9	9.5
United Kingdom	4.5	3.7	4.6	5.1
Canada	7.4	5.3	5.9	6.5

\*Share of 2019 world gross domestic product (GDP) at PPP  
 Forecast as at December 2022.  
 Source: National statistics agencies, TD Economics.

### Global Economic Outlook

[Annual Per Cent Change Unless Otherwise Indicated]

	2019 Share*	Forecast		
Real GDP	(%)	2022	2023	2024
<b>World</b>	100.0	3.3	2.3	2.9
<b>North America</b>	19.2	2.1	0.9	1.0
United States	15.8	1.9	0.9	0.9
Canada	1.4	3.5	0.7	0.4
Mexico	1.9	2.7	1.3	1.6
<b>European Union (EU-28)</b>	15.4	3.4	-0.2	1.1
Euro Area (EU-19)	12.5	3.2	-0.2	0.9
Germany	3.5	1.7	-0.8	0.9
France	2.4	2.5	0.1	0.9
Italy	2.0	3.7	-0.1	0.7
United Kingdom	2.4	4.5	-0.9	0.8
EU accession members	2.9	4.5	-0.5	1.8
<b>Asia</b>	43.2	3.7	4.1	4.5
Japan	4.1	1.4	1.2	1.2
Asian NIC's	3.5	2.3	2.5	2.8
Hong Kong	0.3	-3.0	3.1	2.8
Korea	1.7	2.7	2.5	3.0
Singapore	0.4	3.8	2.7	2.7
Taiwan	0.9	3.0	2.4	2.8
Russia	3.1	-3.6	-3.7	1.5
Australia & New Zealand	1.2	3.9	2.2	2.2
<b>Emerging Asia</b>	31.4	4.9	5.5	5.5
ASEAN-5	5.7	5.9	5.3	5.4
China	17.3	2.9	5.0	4.9
India**	7.1	9.0	6.9	6.8
<b>Central/South America</b>	5.6	3.9	1.3	2.3
Brazil	2.4	2.6	0.8	2.0
<b>Other Emerging Markets</b>	13.0	2.9	2.7	3.1
<b>Other Advanced</b>	1.1	3.6	2.2	2.2

\*Share of world GDP on a purchasing-power-parity (PPP) basis.  
 Forecast as at December 2022. \*\*Forecast for India refers to fiscal year.  
 Source: IMF, TD Economics.

**Important Disclosures:** This material is for informational purposes only. It is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a recommendation to buy a security. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction or investment strategy.

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Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.