Weekly Market Commentary
December 19, 2022

The Markets

Bad news is bad news, once again.

For months, investors have cheered bad economic news. When the United States economy showed signs of weakness, stock markets often reflected investor enthusiasm. The thinking was that bad economic news would persuade the Federal Reserve to slow the pace of rate hikes. Inflation would slide lower, and recession would be avoided.

Last week, there was a shift in attitude.

On Wednesday, the Federal Reserve raised the federal funds rate by half a percent, as expected. Over the course of this year, the fed funds rate has risen from near zero to 4.33 percent. That's an enormous increase designed to drop inflation by slowing economic growth – and the Fed expects growth to slow.

The dot plot is a chart that reflects the expectations of each member of the Fed's decision-making committee. It showed that Fed officials expect U.S. economic growth to slow next year. The forecasts indicated gross domestic product (GDP), which is the value of all goods and services produced in the U.S., could grow very slowly or even contract next year (it could contract -0.5 percent or grow to 1.0 percent). Fed officials also anticipated the unemployment rate could rise from a relatively low 3.7 percent to 4.6 percent.

The day after the Fed's statement, the Commerce Department reported that retail sales declined more than expected in November. That suggests economic growth may be slowing.

The stock market didn't surge on the bad economic news. It retreated. Vildana Hajric and Lu Wang of *Bloomberg* reported:

"For the first time in a long time, news that was bad for the economy was bad for the stock market as well, more proof that recession fear has replaced inflation angst as that market's biggest bugaboo… Rather than rise on speculation that weak data would curb Federal Reserve tightening, the S&P 500 dropped 2.5% on Thursday, while the Nasdaq 100 lost 3.4%. Small-cap stocks lost more than 2.5% and the VIX volatility gauge shot back above 22. The yield on 10-year Treasuries hovered around 3.45%, down from a peak of 3.63% earlier this week."

Last week, major U.S. stock indices finished lower, and the Treasury yield curve remained inverted.

Data as of 12/16/22	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-2.1%	-19.2%	-17.5%	6.5%	7.5%	10.4%
Dow Jones Global ex-U.S. Index	-1.1	-18.3	-17.1	-1.6	-1.1	1.8
10-year Treasury Note (yield only)	3.5	N/A	1.4	1.9	2.4	1.8

Gold (per ounce)	-0.2	-1.5	-0.2	6.7	7.3	0.6
Bloomberg Commodity Index	0.9	13.7	16.2	12.0	5.9	-2.2

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT DO YOU KNOW ABOUT MONEY AND FINANCES? When Annamaria Lusardi was a graduate student, she noticed something remarkable. People who earned similar amounts during their working years didn't arrive at retirement with the same amount of wealth. The reason had a lot to do with financial decision-making that resulted from low financial literacy.

A 2022 report from the Global Financial Literacy Excellence Center (GFLEC) found that, on average, American adults answered about 50 percent of financial literacy questions correctly. This quiz has a lot fewer questions than the GFLEC survey, but they may be quite challenging.

1. You have $1,000 in an account. It earns 4 percent interest each year, and you keep the interest in the account. After two years, will you have:
   a. $1,080
   b. More than $1,080
   c. Less than $1,080
   d. I don't know

2. Your account earns 4 percent interest per year and inflation is 5 percent per year. After one year, the money in the account will buy:
   a. Exactly what it buys today
   b. More than it buys today
   c. Less than it buys today
   d. I don't know

3. The monthly payments on a variable rate mortgage are not fixed. What happens to those payments when rates increase?
   a. Payments rise
   b. Payments fall
   c. Payments stay the same
   d. I don't know

4. When interest rates move higher, bond prices move:
   a. Higher
   b. Lower
   c. Stay the same
   d. I don't know

5. You owe $1,000 on your credit card. The card company charges an interest rate of 25 percent compounded annually. If you make no payments on this credit card, how many years will it take before you owe twice as much?
   a. Two years
   b. Three to four years
   c. Four to five years
   d. Six or more years.

If you have any questions about the answers, let us know.

Weekly Focus – Think About It
"I cannot teach anybody anything. I can only make them think."

—Socrates, philosopher

Answers: 1) b; 2) c; 3) a; 4) b; 5) c

Best Regards,

Victor Levy for Levy Wealth Management Group

Levy Wealth Management Group
1818 Market St | Suite 3232 | Philadelphia, PA 19103
Main: 215-875-8720 | Fax: 215-875-8756
info@levywealth.com
www.levywealth.com

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* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Stock investing involves risk including loss of principal.
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Sources:
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