Levy | WEALTH MANAGEMENT GROUP

February 1, 2023

Dear Friends and Clients,

Whether you’re one to set ambitious New Year’s resolutions or simply use the beginning of the year to reset on a few habits, there’s almost always some value in reflecting on the past year before looking ahead. The same is true for the markets. When we look back on 2022, it’s easy to identify the challenges—but if we look closer, we can also uncover some opportunities.

First, we need to remember what we learned in 2022. The Federal Reserve (Fed) showed us they can and will take swift action to squelch inflation, as demonstrated by the sharp interest rate increases we saw last year. We also saw that severe inflation coupled with the Fed’s interest rate hikes had a larger-than-expected impact on the stock market. We also can’t forget the impact on bonds, with increased Treasury yields and ultimately, the worst year on record for core bonds (as measured by the Bloomberg Aggregate Bond Index).

So what does all of this mean for 2023—and where are these opportunities? In the bond market, it looks like we’ve uncovered some value, especially for those income-oriented investors. This is a welcome change after nearly 20 years of difficulty in finding stable income-producing investments as market interest rates continued to fall. With higher yields now available in some durable areas of the bond market, we believe investors may be able to enhance their income-generating portfolios, while potentially taking on less risk than in years past.

Turning to stocks, the early weeks of 2023 are looking more promising. Inflation is still high, but falling, the Fed is expected to end rate hikes by the spring, and there are renewed hopes for a softer landing for the U.S. economy; our expectation is that the economy will either narrowly avoid a recession or enter a mild, short-lived recession in early-to-mid 2023. These factors have allowed investors to begin charting a more positive path forward, which we believe will continue despite some potential choppiness in the market. We continue to favor U.S. equities over international markets, despite some pressure we may see on domestic profit margins this year. The international markets have also begun to show some signs of life as inflation looks to be peaking in the U.K. and Europe as well. Emerging markets have even bounced back slightly, although uncertainty over China’s economy remains a wildcard.

Overall, we see reason for renewed optimism when it comes to the markets in 2023. Should the Fed pause rate hikes in the near term as expected, we may see a nice stock market rebound supported by falling inflation, reasonable valuations, and stable interest rates. Further equity market volatility remains a risk, but we believe we’ll see more positive outcomes from the stock and bond markets this year.

Please contact me if you have any questions.

Best regards,

Victor

Victor S. Levy, J.D., LL.M., CLU, CFP®
1818 Market St | Suite 3232 | Philadelphia, PA 19103
Main: 215-875-8720 | Fax: 267-875-8756
vlevy@levywealth.com
www.levywealth.com

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All data is provided as of January 31, 2023.

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All index data from FactSet.

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