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Strong economic headwinds continued to be a formidable adversary for global economies and investors in 2022. Conditions of high inflation, rising interest rates, a surging dollar, rising oil prices, supply chain shortages, the ongoing pandemic, the Russia-Ukraine war, a cryptocurrency collapse, and China's zero-covid lockdown policies were headlines that contributed to declining growth and a potential recessionary environment. While participants tried to expect the unexpected and prepare accordingly, it was a chore not to get overwhelmed with the constant stream of negative news. Fortunately, global economies survived 2022 (albeit a little beat up) and have optimistically turned the page toward better times in 2023.

After three consecutive quarters of poor performance in the financial markets, a 2022 market rally looked doubtful. The Federal Reserve's aggressive rate hikes and the continuation of high inflation helped to move markets in a downward trajectory. At the start of the 4th quarter, the Dow Jones Industrial Average (DJIA) and the S&P 500 Index had fallen into bear market territory (down 20%), and strong currents of market volatility (prevalent throughout most of 2022) provided a choppy ride for investors. Conditions didn't improve much in the first few weeks of the quarter for the S&P 500 Index, and a new 2022 market low was reached in mid-October at 3,577.03 points. The volatility theme also extended for the index as 13 days of a 1% or more decline and 16 days of a 1% or more increase were recorded during the three month period. Luckily, a course correction (lower inflation and lower prices) brought relief from the stormy weather, and investors enjoyed a market resurgence that lasted into November. The domestic stock rally recorded a combined positive return during the quarter's first two months of over 13.0% in the S&P 500 Index and a 20.0% increase for the DJIA. The rising tide also benefited international stocks as developed markets improved over 15.0% and emerging markets were up over 11.0% during the same period. Positive momentum was short-lived for investors when December registered a pullback in most areas.

Officially, the S&P 500 Index posted a solid 4th quarter total return of +7.56% and the DJIA scored a double-digit total return of 16.01%. As we mentioned, domestic stocks were not the only benefactors of a changing wind. International stocks boosted their 4th quarter performance with a 17.34% total return in developed markets and a 9.70% return in emerging markets. Furthermore, cash, bonds, domestic small company stocks, and real estate all posted gains during the quarter, and oil and gas (energy) sectors continued their strong performance.

Despite a meaningful finish over the last three months, the damage done was too much to overcome and the major indices concluded the year in negative territory.

See the table below for the 2022 year-to-date index returns for bonds and stocks.

Bond and Stock Index Total Return January 2022 - December 2022		
Sector	**Index**	**Return**
Short-Term U.S. Bond	Bloomberg 1-3 Year Treasury	-3.82%
Intermediate-Term U.S. Bond	Bloomberg Interm Treasury	-7.77%
Long-Term U.S. Bond	Bloomberg Long-Term Treasury	-29.26%
Inflation Protected Bond	Bloomberg Treasury TIPS	-11.85%
Domestic Large Company	Dow Jones Industrial	-6.86%
Domestic Large Company	S&P 500	-18.11%
Domestic Small Company	Russell 2000	-20.44%
Domestic Large/ Information Tech.	NASDAQ	-32.54%
Developed International	MSCI EAFE	-14.45%
Emerging Markets	MSCI EM	-20.09%
Real Estate/REITs	DJ U.S. Select Real Estate	-25.96%
Source: Morningstar		

News on the economic front was a mixture of good and not so good during the recent quarter. Gross Domestic Product (GDP) showed signs of improvement with a 3rd quarter 2022 increase of 3.2% after two consecutive quarters of negative growth. Exports, consumer spending, nonresidential fixed investment, and government spending were factors that attributed to the reversal in growth. Other economic news showed that inflation numbers were lower, but still elevated; the Federal Reserve raised the federal funds rate twice during the quarter (0.75% and 0.50%); job gains were strong, and unemployment remained low; manufacturing contracted for the first time in 30 months and hit a level not seen since May of 2020; housing activity was negatively affected by the rise in mortgage rates; consumer sentiment was near record low levels; and oil and gas prices decreased.

The Federal Reserve confirmed the economic data in the recent Beige Book and the December 2022 Federal Open Market Committee (FOMC) meeting minutes. While the Committee observed a modest pace of growth, an important signal in the data showed consumer price inflation was starting to ease. Despite the lower readings, the FOMC declared the current level of inflation was "unacceptably high". The Committee made significant progress during 2022 to battle higher inflation by establishing a restrictive stance on monetary policy. Over a 10-month period and 7 rate hikes, the target range for the federal funds rate was increased by a total of 4.0%. This marks one of the steepest rate hike cycles in modern history. Future guidance on rates showed the Fed anticipates ongoing and necessary increases to achieve a sustained downward path toward their 2.0% inflation objective. They also communicated that any slowing in the pace of rate increases should not be an indication of weakness in resolve, and they would require substantial evidence of progress to be confident of a sustained downward path. FOMC members again agreed to monitor the implications of incoming information and the lags of policy actions when assessing the appropriate stance of future monetary policy. In short, the worst of the rate hikes should be behind us, but the Fed is not done yet. Expectations have rates topping out close to 5.0% with a series of smaller rate increases in 2023 before a pause.

Going forward, we anticipate calmer waters ahead as inflation falls and the Fed nears the end of their tightening schedule. We also believe some of the economic weakness seen in 2022 is already priced into the markets and the stage has been set for a slow growth environment this year.

With that in mind, we are remaining cautious in our domestic outlook, and we feel there are some significant headwinds that could impact the 2023 outcome. First on our list is the financial health of consumers. Despite tough conditions the past couple of years, consumers have stayed resilient, but times are changing. Fiscal stimulus has dried-up; prospects for further aid is unlikely; personal savings rates are at extremely low levels; and evidence of growing credit card balances to support spending habits are becoming more widespread. Consumer spending is the backbone of economic stability, and higher prices are slowly chipping away at that armor. If inflation becomes entrenched long-term, consumption weakness will eventually follow. Another concern for the new year is higher mortgage rates and home affordability. The housing market plays an important role in the success of the economy, and a prolonged situation of restrained activity will be a challenge that will need to be resolved for growth to resume. Other hurdles for economic growth include a continuation of strong dollar conditions, instability overseas, lower earnings expectations, a probable change in labor market momentum, and an inventory shift from build-up to slow down due to dwindling consumer demand and an end to pandemic-era shortages. Based on our concerns for the upcoming year, we believe recession fears are most likely warranted given the state of the economy. The good news is that we do not expect anything more than a mild and relatively short contraction.

Our international outlook continues to be clouded as broad-based weakness in the global economy will be a major 2023 obstacle. The Eurozone and UK economies are suffering from higher energy prices and energy shortages that are a direct result of the Ukraine war, and Central banks are also raising rates to combat higher inflation despite recessionary risks. Growth for China has been slow, but the zero-covid policy easing will certainly help to reverse this trend in the upcoming year and beyond. We expect international developed markets to follow the low growth path the U.S. is on, but China's emergence could provide a nice boost to other emerging market economies. In the aftermath of a global valuation reset, international equities could be a more attractive option for investors in the upcoming year.

We are proceeding with a watchful eye on threats as they develop, and we are hopeful the global economy and financial markets will remain resilient despite the turbulence and uncertainty.

There was some good news out of Washington D.C. during the final days of 2022. A spending package was passed by Congress that included some improvements for retirees and retirement savers called SECURE Act 2.0. There are three areas of the new law we want to highlight.

- The age for required minimum distributions (RMD) will change from 72 to 73 effective January 1, 2023, and in 2033 the RMD age will increase to 75. Note: the delay in retirement distributions does not apply to those that have already started distributions.
- Workers aged 60 through 63 will be able to make larger catch-up contributions to certain retirement plans beginning in 2025.
- The Qualified Charitable Deduction (QCD) annual limit of $100,000 will be indexed for inflation starting in 2024.

Other notable provisions include: a new "Starter 401(k)" plan for small business, Saver's Credit enhancement, employer match for student loan payment, creation of a "rainy-day" fund in retirement plans, $22,000 IRA withdrawal for Federally declared disasters, future ability to roll unused 529 assets to a Roth IRA, retirement plan eligibility improvements for part-time workers, and the creation of a "retirement savings lost and found" national database. We think these are significant improvements that could potentially help savers and retirees.

Building a solid investment strategy is important for the success of any investor, and an integral part of that strategy includes the use of a properly diversified investment portfolio. The basics of diversification are simple for investors. Create a portfolio with multiple investments to reduce overall risk. As simple as that concept sounds, the process is often more complicated because true diversification needs investments that do not historically move in the same direction each year (cash, bonds, stocks).

The table below illustrates the annual volatility between asset classes. It also shows how a diversified portfolio that uses a combination of these same asset classes can mitigate investment volatility.

Two points are important for investors to consider about annual returns in any given year.

1. A diversified portfolio is unlikely to ever lead the group in performance.
2. A diversified portfolio is unlikely to ever be the worst performer.

Simply put, a diversified asset allocation strategy is a great method to manage portfolio risk while endeavoring to maximize portfolio returns.

Asset Class Annual Returns [1]
2000 through 2022

Date	Three-Month U.S. T-Bill Index	U.S. Intermediate Treasury Bond Index	S&P 500 Index	Russell 2000 Index	MSCI EAFE Index (net div.)	Dow Jones US Select REIT Index	Diversified Portfolio
2022	1.46%	-7.77%	-18.11%	-20.44%	-14.45%	-25.96%	-13.60%
2021	0.05%	-1.72%	28.71%	14.82%	11.26%	45.91%	14.63%
2020	0.67%	5.77%	18.40%	19.96%	7.82%	-11.20%	10.84%
2019	2.28%	5.22%	31.49%	25.52%	22.01%	23.10%	18.06%
2018	1.87%	1.41%	-4.38%	-11.01%	-13.79%	-4.22%	-3.26%
2017	0.86%	1.14%	21.83%	14.65%	25.03%	3.76%	11.00%
2016	0.33%	1.06%	11.96%	21.31%	1.00%	6.68%	6.79%
2015	0.05%	1.18%	1.38%	-4.41%	-0.81%	4.48%	0.95%
2014	0.04%	2.57%	13.69%	4.89%	-4.90%	32.00%	7.89%
2013	0.07%	-1.34%	32.39%	38.82%	22.78%	1.22%	14.81%
2012	0.11%	1.71%	16.00%	16.35%	17.32%	17.12%	10.45%
2011	0.10%	6.57%	2.11%	-4.18%	-12.14%	9.37%	2.53%
2010	0.13%	5.29%	15.06%	26.86%	7.75%	28.07%	12.74%
2009	0.21%	-1.41%	26.46%	27.17%	31.78%	28.46%	17.42%
2008	2.06%	11.35%	-37.00%	-33.79%	-43.38%	-39.20%	-20.52%
2007	5.00%	8.83%	5.49%	-1.56%	11.17%	-17.56%	3.95%
2006	4.85%	3.51%	15.80%	18.37%	26.34%	35.97%	14.17%
2005	3.07%	1.56%	4.91%	4.55%	13.54%	13.82%	5.52%
2004	1.33%	2.02%	10.88%	18.32%	20.25%	33.16%	11.09%
2003	1.16%	2.10%	28.69%	47.25%	38.59%	36.18%	21.05%
2002	1.80%	9.29%	-22.10%	-20.48%	-15.94%	3.58%	-6.99%
2001	4.44%	8.16%	-11.89%	2.49%	-21.44%	12.35%	-0.93%
2000	6.19%	10.25%	-9.10%	-3.03%	-14.17%	31.04%	1.89%

[1] Data provided by Dimensional Fund Advisors. Diversified portfolio composition: Cash 10%, U.S. Bonds 30%, U.S. Large Co. Stocks 30%, U.S. Small Co. Stocks 10%, International Stocks 10%, and Real Estate Securities 10%. Rebalanced quarterly.

Portfolio diversification plays a significant role in any investment strategy, and it is an ongoing process that requires regular attention and maintenance for a successful outcome.

These steps are critical for investors.

1. Monitor – Investments should be evaluated for changes in strategy, performance, and risk. Some investments are not designed to be an all-weather performer.
2. Rebalance – The asset allocation of an investment portfolio should be reviewed and adjusted as needed to match the appropriate risk level. Deposits, withdrawals, and account growth can cause a portfolio's asset allocation to become unbalanced.
3. Revisit – Review the plan to make sure it is still appropriate based on goals and objectives. If the plan no longer makes sense, a new strategy should be adapted.

As I have often stated, our investment philosophy remains based on the fundamentals. ***We believe it is time---not timing---that matters most.*** Progressing toward long-term financial goals is more important than short-term performance, so stay focused and be calm when the markets are not.

Please consider making a New Year's resolution to revisit and update your financial plan. The start of a new year is also a good time to review your estate planning documents for any personal circumstance changes.

Common events that could necessitate estate plan alterations:

- Birth or adoption of a child or grandchild
- Death of a spouse or family member
- Marriage, divorce, or re-marriage
- Illness or disability
- Child or grandchild reaching the age of majority
- Education funding
- Death of a guardian, executor, trustee
- Retirement
- Sale of a home or business interest
- Large gift or inheritance
- Revisions in federal or state income tax or estate tax laws

As our firm enters its 40th year of providing advisory services, we want to wish you and your family a happy, healthy, and prosperous New Year. If you would like to schedule an appointment, wish to receive William Howard & Co.'s SEC Registration Form ADV Part 2A and Part 2B Narrative Brochure, or if you have any questions, please contact our office.

We also want to say a special thank you for the opportunity to work with you and for being a valued client. Your confidence and trust are always appreciated.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

Bill

William B. Howard, Jr., ChFC®, CFP®

WBH/bdb

Enclosures: Index Performance and U.S. Economic Data

2022 Total Return Index Performance			
Asset Class	**Index**	**4th Qtr.**	**YTD**
Cash	BofA/ML Three-Month U.S. Treasury	0.84%	1.46%
U.S. Bonds	Barclays Intermediate-Term Treasury	1.02%	-7.77%
U.S. Large Co. Stocks	S&P 500	7.56%	-18.11%
U.S. Small Co. Stocks	Russell 2000	6.23%	-20.44%
International Stocks	MSCI EAFE (net div.)	17.34%	-14.45%
Real Estate	DJ Select Real Estate Securities Total Return	4.76%	-25.96%
Source: Morningstar			

U.S. Economic Data	
GDP	3.2% increase (annual rate) – 3rd Quarter 2022
Inflation	5.7% CPI (less food and energy) and 6.5% CPI (all items) over last 12-months ending December (Energy index up 7.3%; Food index up 10.4%).
Interest rates	Federal Funds Rate range = 4.25 – 4.50%. 2022 increase of 4.00% in 10 months (March through December).
Jobs	December 2022 data - Unemployment at 3.5%; non-farm payroll employment rose by 223,000 jobs; Labor force participation rate 62.3%; Moderate pace in demand for workers continued, and (on average) wages increased.
Manufacturing	Manufacturing contracted after 30 straight months of expansion; December ISM Manufacturing Index registered at 48.4% (lowest since May 2020); demand eased; output slowed; hiring activity was closely managed; production and new orders remained in contraction territory; supplier delivery improved; inventories expanded; price growth declined.
Business Spending	Private non-residential investment improved further; New durable goods orders decreased 2.1% in December.
Corporate Profits	3rd Quarter 2022 - U.S. corporate profits decreased less than 0.1%. S&P 500 operating earnings per share = $50.35
Housing	November 2022 year-over year data - New home sales down 15.3%; Existing home sales fell 35.4%; Median sales price of existing homes registered $370,700, up 3.5% over last year; Housing starts declined 16.4%; Building permits fell 22.4%; Housing inventory trended downward; Unsold inventory = 3.3 month supply; MBA fixed 30-yr mortgage rates = 6.34% ending 12/21/22.
Consumer Spending	Disposable income remained weak; Consumer Confidence Index improved following back-to-back monthly declines; Retail and food services sales increased; Total vehicle sales declined ; Personal durable spending trended lower while nondurable spending remained flat; Personal savings rate remained at a low level.
Energy	Oil price (West Texas Intermediate) = $80.16/bbl – 12/30/2022 (2022 increase of 6.41%); Gas price (U.S. average regular unleaded) = $3.091/gal – 12/26/2022 (2022 decrease of 5.62%)