INVESTMENT UPDATE

Fourth Quarter 2022

MITTELMAN WEALTH MANAGEMENT

A MULTI-FAMILY OFFICE

Planning

Investing

Advising

MARKET REVIEW

2022 was a uniquely challenging year with both Equity and Fixed Income markets generating negative returns. However, momentum turned positive in the year's final quarter amid moderating U.S. inflation, favorable conditions in Europe, and China's abrupt easing of its Covid restrictions.

Most major equity markets jumped meaningfully higher during the fourth quarter, led by double-digit Non-US Equity returns. Foreign markets rallied amid low expectations, a falling US Dollar, and attractive absolute and relative valuations. Europe was further buoyed by milder-than-feared winter weather, while the unexpected reopening of China's economy spurred sentiment higher given the improved prospects for local demand and global trade.

Although lagging overseas markets, US Equities still generated healthy returns as investor pessimism yielded to cautious optimism. Large Cap and Value stocks bested higher-beta alternatives. Decelerating inflation readings offered hope that the Fed's aggressive rate-raising campaign may be nearing an end, although uncertainty persisted about the underlying strength of the economy.

Bond returns were generally positive given elevated yield levels following steep prior increases. During the period, the Fed continued to raise short-term rates, emboldened by a strong labor market and a reluctance to prematurely declare victory on inflation. However, long-term rates failed to move higher in lockstep given growing concerns that sustained, substantial rate hikes and related Fed rhetoric would tip the economy into recession. This combination resulted in further yield-curve inversion, an ominous leading indicator.

> *2022 earned the dubious distinction as the only year in more than half a century where annual returns were negative for both Equities and Fixed Income.*

Commodity performance was mixed during the quarter, remaining volatile amid a pullback in the Dollar and continued disruption risk stemming from the Russia-Ukraine War. Oil prices were flat as production caught up with demand. Gold and other precious metals broke out to the

MWMFamilyOffice.com
(617) 378-1382
joel@mwmfamilyoffice.com

upside, a function of their flight-to-safety attributes as well as growing investor disenchantment with cryptocurrency.

OUTLOOK

Heading into 2023, economic signposts are decidedly mixed. The key question is not whether a recession is likely, but rather how bad might it be. Pessimists cite deteriorating sales, housing weakness, the debt ceiling, consumer savings deterioration, and hawkish Fed signaling. Optimists highlight strong balance sheets, decelerating inflation, labor market strength, supply chain stabilization, and China's reopening. Notably, one area where there is growing consensus is that the era of free money is over, and with it a return to normalcy – hopefully for both economies and markets.

FED Hiking Cycles

Period	Starting Rate	Cumulative Increase	Months
1983-1984	8.5%	+3.0%	18
1986-1989	5.9%	+3.9%	29
1994-1995	3.0%	+3.0%	13
1999-2000	4.8%	+1.8%	12
2004-2006	1.0%	+4.3%	25
2015-2018	0.3%	+2.3%	37
2022-??	0.3%	+4.3%	10

Source: Russell Investments

Barring an end to Russia's war, it's hard to envision a scenario that fuels meaningful upside global growth. Moreover, the Fed's focus on employment for policy support sets up a catch-22 scenario: If the job market remains robust, the Fed will keep tightening which by design will stymie investment and growth. If the job market softens and the Fed in turn pauses or even cuts rates, the underlying labor weakness will be a drag on the economy.

Importantly, uncertainty related to the Fed's conundrum and the debt-ceiling should only weigh on markets for a few quarters. Moreover, even if a recession does occur in 2023, it is unlikely to be particularly lengthy or intense given the absence of excesses or "bubbles." As such, mid-year could present compelling risk-on opportunities for long-term investors, with a variety of supportive indicators (e.g., the 2022 sell-off, attractive valuations, consumer sentiment, reset earnings, third-year of a presidential cycle).

Against such a backdrop, it may be prudent to begin closing underweight equity positions concurrent with ensuring adequate levels of cash. Non-US investment may be most deserving of overall equity increases given the asset class is under-owned and attractively valued. Within US Equities, a barbell approach warrants consideration with Small Cap for beta alongside Large Cap Value for defense and yield. In Fixed Income, investors can finally construct portfolios with interest yields that are superior to dividend yields. Given economic uncertainty and underwhelming credit spreads, tilting toward short-duration government paper (*e.g.*, Treasuries and Munis) should offer sufficient near-term returns, capital preservation, and even some peace of mind.

Q4 Market Performance

US Large Cap	7.5%
US Small Cap	6.2%
Non-US Developed	17.4%
Emerging Markets	9.6%
Treasuries	0.7%
Investment Grade	3.5%
High-Yield	4.2%
Oil	1.0%
Gold	9.8%