

## PERSPECTIVES AND POSITIONS

By James Dykstal, CFA, Portfolio Manager, January 2023

This is a summary of our views on the economy and markets based on data through December 2022.

### Economy

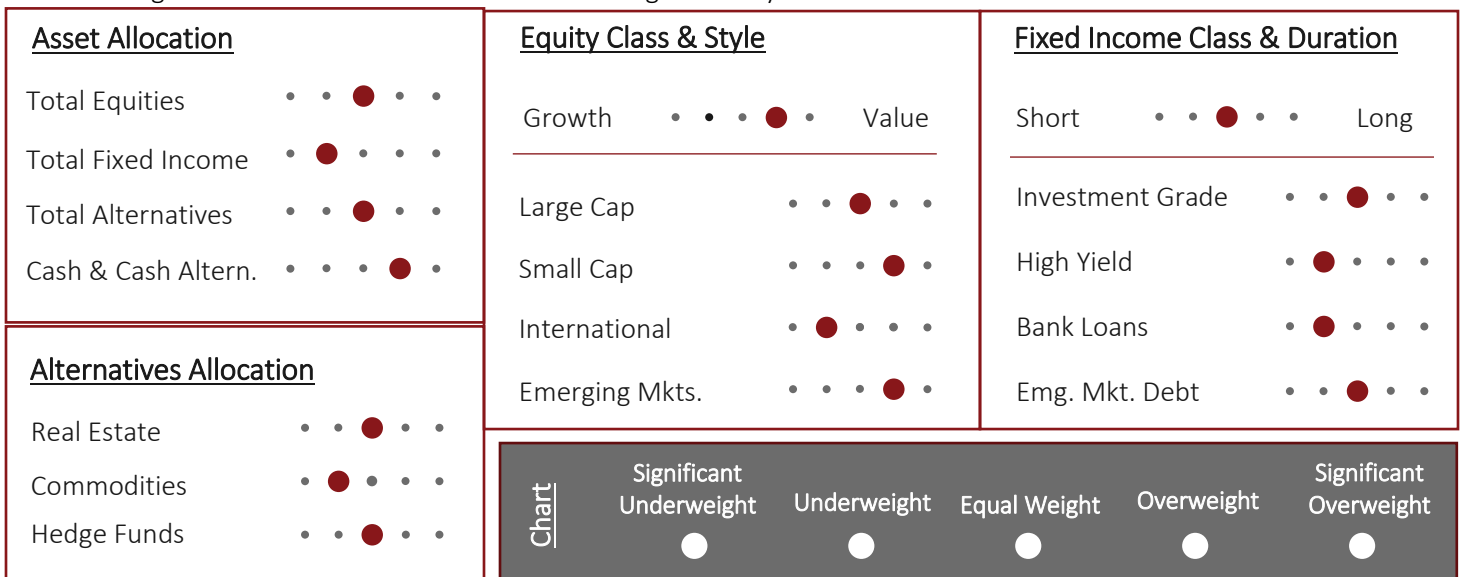
- U.S. GDP Growth – We expect to see slow economic growth for the 2023. There is a risk of recession priced into the market for 2023. The inverted yield curve gives us a signal of slowing growth.
- Inflation – Inflation increased markedly in 2021 and reached a high of 9.1% in 2022. Now it has trended downward and is at 6.5% year-over year for December. We believe that inflation will moderate during the first half of 2023 but remain about 1% higher than it had been prior to the pandemic.
- Employment/Wages – Unemployment has improved albeit with fits and starts. Tightness in the labor market is leading to higher wage growth; however, the wage growth rate is below the rate of inflation.
- Interest rates – We believe the Federal Reserve will continue to increase interest rates in 2023, but at a slower pace. The last Fed increase was 50 basis points after four hikes of 75 basis points. The market expects to see a 5.00% terminal fed funds rate by the middle of 2023.

### Markets

- Fixed Income – Yields in the shorter end of the maturity curve increased in the quarter. Credit spreads both widened and tightened to Treasuries in the quarter. This suggests that an economic slowdown is expected, but not necessarily a recession in the near term.
- Equities – We expect GDP growth to remain slow and/or contract for calendar 2023. We believe that equity markets will continue to experience volatility as inflation and interest rate increases provide headwinds to valuations.
- Alternatives – Private real estate, retail, office, and apartment sectors have not kept pace with torrid industrial sector, but in aggregate are posting positive results in 2022. Hedge funds provide diversification benefits to equity/fixed income markets. Commodities have delivered strong results recently but face supply/demand imbalances and volatility.

## TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



<sup>1</sup> Provided by our affiliate, Discretionary Management Services (DMS), LLC