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WHERE DO WE GO FROM HERE
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From an economic perspective, I don't think that too many of us are sorry to goodbye to 2022. The stock market finished with its worst year since the recession of 2008. The S&P 500 was down 19.95%* and the NASDAQ (tech stocks) was down 33.90%*.

The stock market is not predictive of, but reactive to the economy and world events. Inflation, rising interest rates (7 rate hikes by the Federal Reserve in 2022), help wanted signs everywhere, ongoing supply chain issues, and global uncertainties have all negatively impacted the American economy, and by extension, the global stock markets.

Inflation peaked at 8+% earlier this year. To curb inflation, the Federal Reserve (the Fed) raised interest rates by a total of 425 basis points (4.25%) in 2022. This has been somewhat successful as inflation has dropped to just over 7%. The Fed has indicated that its target rate for inflation is 2-3%, so if that is the case, expect more rate hikes for 2023.

A good analogy to understand the Fed's way of curbing inflation is to think of the economy as a fire. For a number of reasons, the economic fire is raging out of control and needs to be contained. Throwing water on the fire (raising interest rates) is what the Fed has done in 2022 to slow the economy. The danger is that the Fed will pour too much water on the fire and put the fire out (putting the economy into a recession).

However, at the same time that the Fed is pouring water on the fire, the Federal Government continues to pour gas on the fire (rampant spending), which is over stimulating the economy. When COVID began in early 2020, the National debt was $20 Trillion. Today, the National debt has increased by 50% in just 3 years up to $30 Trillion+. To put the impact of inflation into perspective, let's go back to 1965 and the introduction of Lyndon Johnson's "Great Society". It takes $9.46 in today's dollars to purchase what $1 would purchase in 1965. That is a total inflation rate of 846% over the past 57 years. Stated another way, that 1965 dollar will only buy about 10 cents of goods and services today.

The most optimistic outlook we have seen for the economy (and therefore the stock market) improving is the end of the first quarter or sometime during the second quarter. How does your portfolio best survive the market downturn? **Postpone major purchases**, **pay Cash** (limit credit card debt), **maintain proper asset allocation** (Stocks, Fixed Income, Cash, Precious Metals, my job), **be patient** (the stock market enjoyed a spectacular bull market run from the spring of 2009 thru the end of 2022 – it will happen again - the best asset class to keep pace with inflation are stocks. Stocks are on sale, this could be a good time to buy, my job).

If you have any questions, please give me a call.

John Buetow

* SPX close of 4797 on 1/3/22 and 3840 on 12/30/22. NASDAQ close of 15,833 on 1/3/22 an10,466 on 12/30/22.