BRIAN D. LOWDER, INC.

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Financial Market Overview

Without the sudden and unexpected positive gains during the fourth quarter 2022 by all of the stock, bond, real estate, gold, etc. indexes, the year-end numbers would have been much worse. All three major stock indexes were up 7.3% to 15.39% during the fourth quarter with the Dow Jones Industrial Average leading the way with a 15% gain.

When the fourth quarter started the three major stock indexes were down 21% to 31% over the first three quarters of 2022. By the end of the year, the Dow Jones Industrial Average had regained half its loss and was down only 8.78%, the overall or total stock market index was down 20%, and the NASDAQ was down 30%.

Large-company U.S. Value and ***International*** stocks were up over 15% and 17% during the fourth quarter. The fourth quarter rally was clearly concentrated in the most conservative or value-oriented companies. The traditional leaders, ***growth*** and ***tech*** stocks, were only up between 1% and 5% during the fourth quarter. Similarly, the performance of both small and mid-size ***growth*** stocks was worse than small and mid-size ***value*** stocks during the fourth quarter. During uncertain economic times and a declining overall stock market, value (older and well-established companies) stocks generally perform better than growth stocks. Most of the high-flying stocks of the past, such as Tesla, Netflix, Amazon, Alphabet, Meta (Facebook) and many others were clobbered in 2022 - it does not take much time to see the transition away from growth stocks with crazy valuations to safer and higher quality value stocks.

International stocks jumped over 17% during the fourth quarter, but were still down over 14% in 2022. Europe and Asia are battling the same issues as the U.S.: high inflation and interest rates, supply chain disruptions as wells as higher heating and power demand. In addition, their currencies are falling in value compared to the soaring U.S. Dollar. Emerging markets (smaller-country international stock indexes) jumped over 10% during the fourth quarter, but are still down over 20% during 2022. Investment real estate prices advanced a moderate 4.3% during the fourth quarter, but were still down over 26% during calendar year 2022.

Water utility stocks were up over 15% during the fourth quarter 2022, but finished the 2022 calendar year down 10% to 15%. Drought conditions across the U.S. – especially California, have hurt the bottom-line profits of water utilities. These drought conditions may finally be over as colder and wet winter conditions have begun to spread across the U.S.

Energy stocks were up 15% during the fourth quarter and up 60% for the entire 2022 calendar year. This stellar performance is in addition to the more than 50% gain during the 2021 calendar year.
Even the price of gold was up nearly 10% during the fourth quarter but down 1% for the 2022 calendar year. *Gold -mining stocks* were up 23% during the fourth quarter of 2022, but were still down 11% during 2022.

Fixed income or bond prices for short-term maturities were up slightly or about 1% during the fourth quarter and down nearly 4% for the 2022 calendar year. Intermediate maturity bonds were up about 1% during the fourth quarter and down 15%

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for the 2022 calendar year. Again, even guaranteed bonds are losing value as interest rates continue to rise. As interest rates rise, bond values fall.

The following chart displays sample returns of various asset categories during the fourth quarter of 2022:

Year-To-Date 2022	**4th Qtr. 2022**	**Index Return (*includes dividends reinvested*)**
- 8.78%	**+15.39%**	**Dow Jones Industrial Average (^DJI)**
- 18.17%	**+ 7.56%**	**Standard & Poor's 500 Index (^GSPC)**
- 19.32%	**+ 7.32%**	**DJ U.S. Total Stock Market (VTI)**
- 29.31%	**+ 2.08%**	**Large-company stock-Growth (IWF)**
- 7.75%	**+12.22%**	**Large-company stock-Value (IWD)**
- 27.27%	**+ 6.88%**	**Mid-Size Stocks – Growth (IWP)**
- 12.30%	**+ 9.67%**	**Mid-Size Stocks – Value (IWS)**
- 26.26%	**+ 4.08%**	**Small-company stock- Growth (IWO)**
- 14.76%	**+ 8.26%**	**Small-company stock- Value (IWN)**
- 14.39%	**+17.66%**	**International (EFA)**
- 20.56%	**+10.33%**	**Emerging Markets (EEM)**
- 26.25%	**+ 4.34%**	**Real Estate Investment Trusts (VNQ)**
		Fixed Income (includes appreciation)
- 3.77%	**+ 0.81%**	**Short-term U.S. Treasury (SHY)**
- 14.08%	**+ 1.01%**	**Intermediate U.S. Treasury (IEF)**
		Alternative Investment Category
- 0.77%	**+ 9.68%**	**Gold (GLD)**

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

FINANCIAL MARKET OUTLOOK

Expect more of the same volatility and downward price trends of 2022 into the first half of 2023. Daily and/or monthly stock price rallies are likely to repeat – just like what we experienced in June-July and October through mid-November of 2022. These short rallies could occur again as we continue into 2023, but these trading rallies will not likely hold as we are still teetering on the edge of a recession cliff and are still experiencing a void of leadership. The good news is if a worldwide recession does occur, it will likely be mild and a shorter duration compared to past recessions. The bottom line is: Economic progress will likely be painfully slow and could easily continue into late 2023.

Investors are still focused on whether the Federal Reserve will continue **raising interest rates** in 2023 to convincingly **slow the inflation rate** and restore price stability. Reducing the rate of inflation is critical and raising interest rates is the best tool to reverse this trend. The problem is, each additional interest rate increase also depresses economic growth and each time interest rates are increased, the likelihood of pushing the economy into a recession increases – a difficult and delicate balancing act. Once this delicate balancing act is over – meaning after the Federal Reserve pauses it's tightening and stops raising interest rates, the gloom hanging over the financial markets will lift, and thus set the stage for a potential sustainable stock market rally. The problem is accurately predicting WHEN the interest rate increases will end.

Now that inflation has pushed the Consumer Price Index up by 7%-8% in 2022, employees will need a similar wage increase just to stay even. Employers must increase wages now that the 2022 year is over and with a **strong 4% unemployment rate**, employers cannot afford not to provide wage increases – otherwise they will lose employees. **Labor costs are going to increase** in 2023 (and adds more inflation pressure).

Consumer spending is decelerating and accounts for about 70% of the U.S economy. Less consumer spending puts a squeeze on corporate profits. Corporations' ability to pass through price increases (due to supply chain problems in the past) will not be as easy to pass along to consumers in the future as more families are scaling back and having to prioritize their purchase choices.

Gross Domestic Product (GDP) continues to decline. The Fed's projection of real GDP growth in 2023 is an anemic 0.5%. GDP has been steadily falling over the past two years and the estimate for the fourth quarter 2022 is about 0.3%. It is very likely that 2023 GDP will be flat to 2% or about one-third of 2022 GDP.

Home Mortgage rates have more than doubled since the end of 2021. At the end of 2021, home mortgage rates were below 3% on conventional loans. Today, the average conventional loan rate is 6.5% or more than double last year's rate in just twelve months and the highest rate since 2007. **Higher home mortgage expense** does imply home prices will continue falling in 2023. Low interest rates were directly responsible for the 2-year wild run-up in personal residence values from mid-2020 through the end of 2021 and rising mortgage rates will have the reverse effect.

Personal residence sales have dropped 11 months in a row and the number of November sales were down 35% from November 2021. Now, the pendulum will begin to move in the other direction. The downward

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price adjustment of home values will likely continue into 2023.

In summary, the economic and financial market outlook is still under pressure and will likely decline further before sustainable advancement starts. Counting on the Federal Reserve to reverse course and stop raising interest rates *and even begin to lower rates* is much further away than most people currently believe. In addition, there are many online opinions, authors of articles, news stories, economic forecasts who are driven by deadlines instead of accuracy. These authors are much better at publicity rather than accurate economic forecasting.

Our analogy for our near-term expectations on how our financial markets will perform remains the same. The analogy made in our previous newsletter is like taking an elevator down from a 20-story building. Once inside the elevator and selecting the ground floor, the elevator starts moving down quickly. As you near the bottom – say the fourth floor, the elevator starts to slow its decent until it finally reaches the bottom floor and stops. We have passed the mid-point (tenth floor) in 2022, we have approached the fourth floor by the end of 2022, but there is still additional decline ahead before we reach the ground floor.

INVESTMENT OUTLOOK AND RECOMMENDATIONS

Given the current domestic and global economic environment and the likelihood of more downward adjustment in company valuations to come, there is still plenty of time to make strategic decisions and specific investment selections. But we are getting closer to fair stock valuations and now is the time to gradually and carefully re-allocate cash into selective stock holdings. This recommendation requires patience and accepting the fact that no one will be able to correctly identify the exact date that stocks will begin a sustainable upward advance. We have already weathered the worst part of the storm and therefore the focus should be on the future (2023-24) and not the disappointing past (2022).

Over the next 12 months, large cash-generating and profitable companies will likely be the best sectors to start with. **Value stocks** and businesses that generate the most cash with higher shareholder returns will likely be the top performing sector. Reliable, consistent, and dividend-paying stocks are likely to be the best stock category to begin building positions.

The Dow Jones Industrial Average (the 30 largest and mature companies) was down only 8.5% in 2022 while the overall stock market was down 20% and NASDAQ (dominated by technology and smaller growth stocks) was down 33%. Tech stocks and smaller companies with faster growth prospects will shine again one day, but the current environment still favors larger companies with consistent cash flow.

We are now focused on preparing a mix of BUY recommendations – primarily value-oriented and income-paying stocks. Sometime in 2023, tech stocks, small-company stocks, international and emerging markets and other selections will be added.

SECURE ACT CHANGES

NEW REQUIRED MINIMUM DISTRIBUTION RULES: Starting Age has been EXTENDED to AGE 73 Beginning in 2023.

In 2019, the original SECURE ACT extended the age at which you must start taking RMDs (required minimum distributions) from 401(k) accounts, traditional IRAs and similar retirement savings accounts (excludes Roth IRAs) from age **70 ½** to the year an individual turns age **72**. **Now, with last minute passage of the SECURE 2.0 ACT in 2022,** the age requirement to begin required distributions has been changed AGAIN. There is a two-step process under the new SECURE 2.0 ACT for increasing the age when RMDs must be taken.

Step 1: Beginning in **2023**, the required age to begin or start taking RMDs **jumps from age 72 to age 73**.
Step 2: Beginning in **2033**, the required age to begin RMDs is **age 75**.

Second, the brutal 50% penalty tax for NOT taking a required minimum distribution has been reduced to 25% in all cases AND the penalty drops down to 10% if you take the necessary (and missed) RMD by the end of the second year following the year it was due.

Contribution Limits have increased for both IRA and other employer-sponsored retirement plans (such as 401k, 403b and most 457 plans).

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Beginning in 2023, the annual contribution limit to a *Traditional or Roth IRA* has been increased from $6,000 per year to $6,500. Also, for anyone age 50 or older, the "catch-up" contribution amount is an additional $1,000 or a total of $7,500.

Beginning in 2023, the annual contribution limit to *employer-provided retirement plans* has increased from $20,500 (for 2022) to $22,500 in 2023. The "catch-up" or additional contribution amount for individuals age 50 or older, has increased from $6,500 in 2022 to $7,500 in 2023.

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