

December 2022 Market Update

Stocks were down in December to add insult to a humiliating year. U.S. stocks finished 2022 down 19.5%, international stocks were down 16.1%, bonds lost 13.0%, and real estate dropped 26.2%.

While 2022 was ugly, remember that U.S. stocks were up 21.0% in 2020 (despite COVID) and 25.7% in 2021 for a 3-year annual return of 7.0%. Five- and ten-year returns are even better, up 8.7% and 12.1%, respectively. We believe 2022 finally brought a frothy stock market back down to reasonable levels.

Bonds tell a similar story. In 2022 Fed action initiated sharp increases in interest rates off historic lows. Fed Funds went from 0.13% to 4.38% and 10-year Treasuries from 1.52% to 3.88%. The result was an end to a 50-year bull market for bonds. The conclusion is similar to stocks: bonds are once again an attractive asset class although their reliability to insulate us from stock market disasters has been shaken.

The big question mark in 2023 is Fed action. Inflation continues to cool while the Fed seems overly diligent in beating a dead horse. Current 7.1% year-over-year inflation breaks down to 1.0% inflation over the past 5 months but 6.0% for the prior 7 months. The FOMC raised rates 50 bp on December 14th and they indicated smaller increases for the beginning of 2023. The decisions the Fed will make in 2023 are more data dependent and less clear when compared to 2022.

We believe the market is cheap to fairly priced and we are positioned for recovery in 2023.

Table 1: Benchmark Index ETF Performance as of December 31, 2022

Benchmark Index	1 Mo	3 Mo	YTD	5 Yr Ann
U.S. Stocks	-5.8%	7.1%	-19.5%	8.7%
International Stocks	-2.1%	14.4%	-16.1%	1.1%
U.S. Bonds	-0.9%	1.6%	-13.0%	-0.1%
U.S. Real Estate	-5.0%	4.3%	-26.2%	3.7%

Table 2: Vanguard Asset Allocation Benchmarks as of December 31, 2022

Vanguard Fund: % Stock/% Bond mix	1 Mo	3 Mo	YTD	5 Yr Ann
LifeStrategy Growth Fund: 80/20	-3.8%	8.2%	-17.1%	4.6%
LifeStrategy Moderate Growth Fund: 60/40	-3.2%	6.4%	-16.0%	3.6%
LifeStrategy Conservative Growth Fund: 40/60	-2.6%	4.6%	-15.0%	2.4%

Chart 1: Year-to-Date Market Performance as of December 31, 2022

