

THE MARKET MEMO

DEAR BEAVERS WEALTH MANAGEMENT FAMILY & FRIENDS

December did not bring the good tidings investors wished for, as most major asset classes struggled at the end of an especially volatile year for the capital markets.

The S&P 500 Index declined 9.4%, among its worst December returns since the early 1930s, and was down 19.4% for the year. The bond market offered little reprieve, experiencing its worst year since 1975.

It was a rare synchronized drop for equities and bonds, which are typically noncorrelated.

Notable factors:

- Inflation is slowing but remains elevated despite the U.S. Federal Reserve (the Fed) hiking interest rates seven times for a total of 4.25% in 2022.
- Congress removed a degree of uncertainty around U.S. fiscal policy with the passing of key funding bills, though several policy priorities were not addressed.
- Ukrainian President Volodymyr Zelensky's visit to Washington, D.C., underscored that U.S. support for Ukraine's defense will continue for the foreseeable future.
- Europe is avoiding the worst-case scenario for winter natural gas shortages.
- China's National Health Commission issued updated guidelines, significantly easing the country's strict pandemic measures.
- The United Kingdom, thought to have entered a recession, is experiencing labor unrest as a result of soaring inflation.

The bottom line

Additional interest rate increases likely will occur early in 2023. While inflation is expected to moderate over the coming year, it will take time for the Fed's actions to take full effect. Once they do, indicators point toward a mild recession in the latter half of the year. While much of this discomfort has already been priced into the markets, headwinds could persist.

By the end of 2023, the outlook for economic growth is expected to improve.

We will continue to work in your best interests as we pursue your investment goals. Thank you for your continued trust. If you have any questions about your account, the market or this update, please reach out at your earliest convenience.

Sincerely,

CHRISTOPHER BEAVERS, CRPC®, CPFA

Managing Director
Branch Manager
Senior Vice President, Wealth Management

6060 Bryant Irvin Rd
Fort Worth, TX 76132



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