CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2022 --- 4th Quarter

THE ONLY POSITIVE QUARTER

After stock prices moved downward in a volatile fashion for the first nine months of 2022, **THE 4TH QUARTER** ended as the only positive quarter of the year. October and November each had forward motion, and December pulled back just a bit. The broad investment returns for the quarter as measured by standard indexes were: S&P 500 Index +7.56%, and Bloomberg U.S. Aggregate Bond Index +1.87%. For the entire year the returns were: S&P 500 Index -18.11%, and the Bloomberg U.S. Aggregate Bond Index -13.01%.

It was very rare that in 2022 nothing worked the way it should with regard to the relationship between stocks and bonds. Both were negative. Normally, when stocks have a period of negative returns, bonds provide ballast or stability. The last time conditions were right for this to happen to annual returns was in 1969. This phenomenon contributed to negative personal rates of return.

Fear of **RECESSION AND INFLATION** affected investor behavior last year and are still a topic of attention and discussion.

- When we experience a recession, economic activity slows, unemployment rises and consumer spending drops. Recessions are normal. They set the stage for the next period of growth. You can't have a sustained period of growth (like we have had over the last decade) without an occasional downturn to balance things out. The economy is already slowing, and overall thinking is that a potential recession could be fairly mild and not very long. The interesting thing about this particular slowdown is that the Federal Reserve, by aggressively raising interest rates in an effort to combat inflation, is helping to make it happen.

- That takes us to the topic of inflation. The growth surge coming out of COVID lockdowns was focused on the "goods" side of the economy, and consumers had cash courtesy of massive fiscal stimulus. Add sudden demand to a lack of supply and the result was an inflation problem, that we are still dealing with. Since then, the goods side of the economy and inflation statistics have cooled down and been replaced by the pent-up demand for "services" (such as travel and eating away from home) which has heated up that side of inflation.

WHAT IS THE OUTLOOK?
Expect market volatility to continue a bit this year as we make our way through this economic cycle. Keep in mind that markets have historically been positive more often than not. In fact, stocks have turned in a positive return 65 out of the last 85 calendar years, which means they've been on the rise 76% of the time.

Progress has been made and there is optimism for 2023. There is evidence that inflation has peaked in the U.S. and is likely to continue to decline throughout the year. The bulk of the interest rate increases is over. Bonds appear poised to rebound and should once again offer diversification from stocks.

Stock markets usually start to recover before a recession ends. If history is a guide, we can watch for them to rebound about six months before the economy does.

Feel free to call Nan or Ann at 414-431-6491 with your questions or concerns.

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