



## *Letter from Dan*

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The markets have started the year on an upswing- it is nice to have values go up after last year. In fact, the S&P 500 had its best January in four years! So, what are the prospects for 2023?

This week the Fed raised interest rates by 0.25%, a move that was expected. More importantly were the comments by the Fed saying that they are not necessarily done raising rates and would be persistent in keeping rates at these levels to beat inflation. We expect the Fed to raise rates one more time in March and then see what happens going forward. No prediction from us on when short term rates may decrease. CD rates are still slightly higher for the short term compared to the longer term (6 months versus 2 year). Harder to tell what this means for the stock market, as there are many other issues to consider.

Will the Fed rate hikes cause the economy to go into recession? If so, how deep? Experts have been slightly more optimistic, as layoffs in the tech sector are being filled by jobs openings elsewhere and growth in GDP still exists. There just are not signs of a deep recession at this point. Supply chains have almost caught up, oil prices are stable and the consumer is still doing ok, but not that great. The value of the dollar has fallen slightly compared to foreign currencies, helping trade.

What issues remain for the stock market?

- War in Ukraine: Spring will come and change will be noticed in the battlefield. Putin has pounded the citizens of Ukraine, hoping they will get tired and want to negotiate. US and German made tanks and additional weapons from NATO will make a dramatic shift in the actual fighting. Up to this point, the tanks used by both sides are updates from the WWII era. Remember the result when US Abram tanks fought so successfully in Iraq? The same could happen in Ukraine, as the speed and firepower are much advanced over Russian weaponry. Will Putin face pressure at home to withdraw to reduce sanctions on their economy? Or will this just serve to escalate the conflict? What additional impact will the EU oil embargo beginning next week put on the Russian economy?
- The US is hopeful that the support of the West for Ukraine will cause China to think hard before beginning a conflict in Taiwan. If we look weak to the Chinese, there will not be much to stop them to fulfill their goal of conquest of an island that they think is part of their republic.
- Inflation is not yet whipped. Sure, we are trending down to 5%, but what happens if coming wage hikes and consumer spending over the summer turns that trend around? It has happened in the past and could repeat here.
- Finally, the debt ceiling. It is not that Washington does not agree that they need to raise the ceiling, it is what concessions that they want to get from the other party to pass the bill. Of course, they won't actually not pass a bill, right? (Russia was not going to invade either.) Drama is coming and will probably ripple the markets. If a bill is passed, calm will follow. If not, it can get ugly. Just the scenario that politicians use on each other to create deadlines to get their work completed.

Some of these issues are not new and will not go away soon, continuing to hinder success. We are not quite out of the mess yet, but we think conditions are slowly improving. We see bonds doing better in 2023 and predict that the stock market will go up by the end of the year, with some volatility still coming before smooth sailing.

Stay warm, and safe travels for those returning home in the spring. 2023 will be better!

Dan



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