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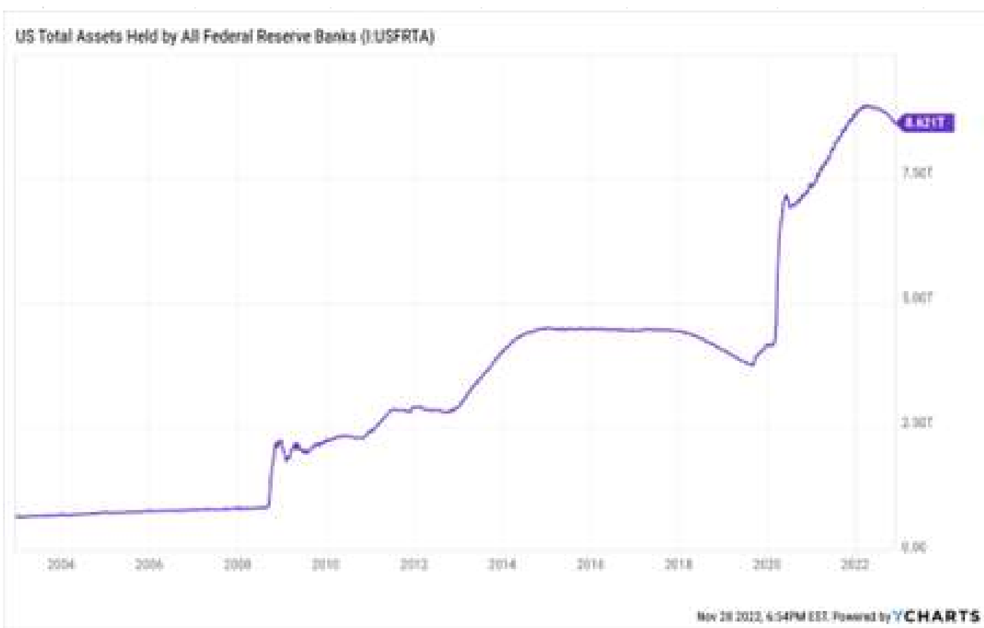
This year overall returns for bonds and stocks reached Bear market levels But don t forget Bears do hibernate and Bulls do run And both will happen again But before we look into our optimistic crystal ball for let s recap for an understanding of why how and where the Bull is already running

As inflation reached levels not seen in years the Federal Reserve went on a warpath to try and stop it in its tracks by raising the Fed Funds rate an aggressive in ust nine months Fed Chairman erome Powell stated at ackson ole in August that the Fed will keep at it until the ob is done e was taking a page from one time Fed Chair Paul Volker who succeeded in stomping out inflation in the late s with interest rates that peaked at record highs in the early s

Meanwhile we ve had years of historic easy monetary and fiscal policy as interest rates dropped to and remained ero in and the Fed balance sheet grew to Trillion But since the COVID outbreak the Fed s balance sheet has exploded to Trillion \a increase over roughly years During COVID there have been three ma or bills creating more historic stimuli \ the C IPs and Science bill pegged at Billion \ the Inflation Reduction Act at Billion and \ Student Debt forgiveness for another Billion bump This adds another Trillion dollars of stimulus to the economy

Since the Russian invasion of kraine back in February the S has supported kraine with Billion \as of Nov Congress is currently asking for an additional Billion War history will tell you that wars create shortages followed by a period of inflation So whether you are a monetarist a eynesian or ust a military history buff knowing that inflation was coming this year was a slam dunk And that was even without crediting the increase in wages known for its high correlation to inflation

So will be remembered for the biggest fight with inflation since the s But we believe will come to be known as the year the Bull bounced back \Even though its run has already begun



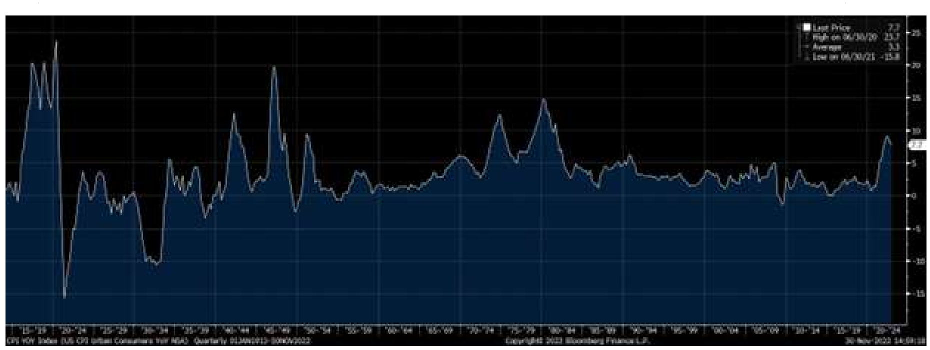
Another way to consider the secular uptrend is to look at the Wilshire Total Market Index which represents the full market capitali ation of the S market You ll see there was a significant breakout in nowing that secular bulls can last up to years we see that the current secular trend could go until at least Note that there are Bear corrections in secular uptrends

Willshire Total Market Index

You ll also see evidence in the Wilshire chart with its stair step pattern indicated by the green lines This pattern is created whenever a temporary pullback stays above the prior low and the next peak reaches above the prior high When this pattern repeats it s bullish But as the Fed continues to tighten by raising interest rates to the expected peak terminal rate in the range markets can still have periods of episodic volatility But once the Bull takes hold the extreme volatility should ebb

Source: Bloomberg, December 2, 2022

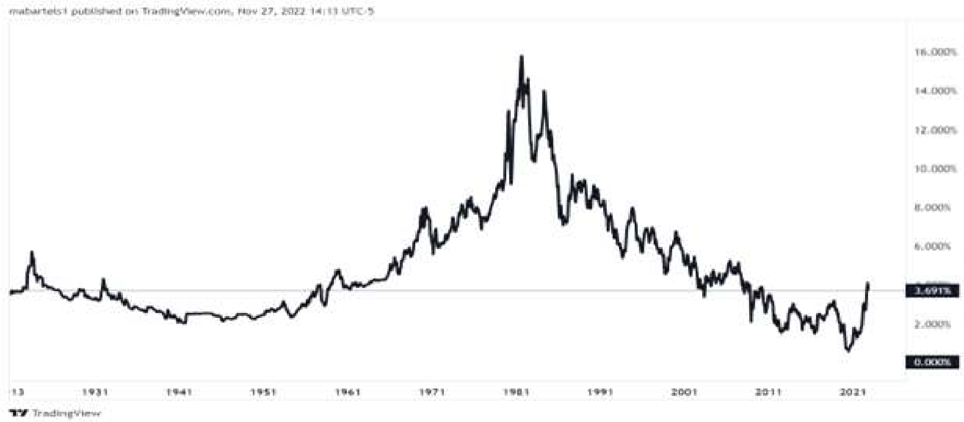
CPI Year on Year



Source: Bloomberg, November 30, 2022

Bottom line should be the clear return of the Bull

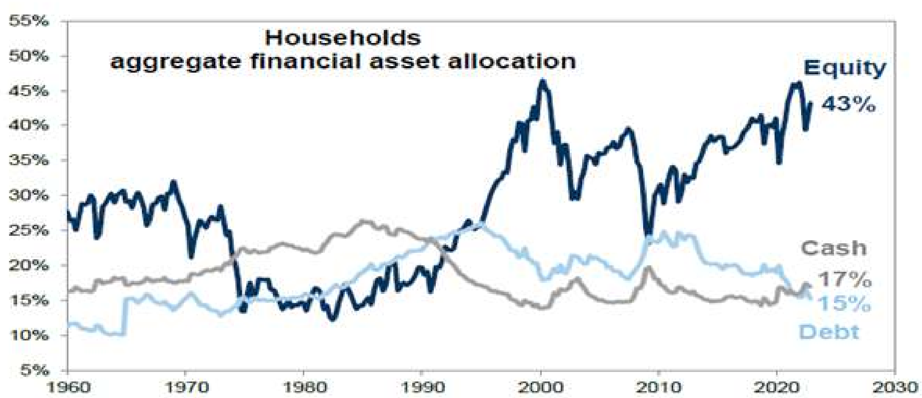
Is It a Return to the s Or Really to the s



Source: TradingView.com, November 27, 2022

Welcome Back TARA and

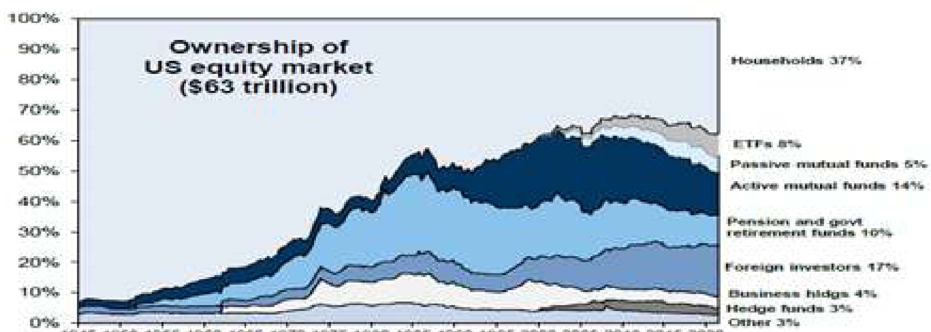
ouseholds currently have the lowest weighting in debt instruments since the s An expected peak in interest rates next year near the area should reverse this underweighting in bonds and herald the return to a asset allocation Note the highest point on the Treasury yield curve today is the Year Bill at nearing the area target for the Fed So we ll be shifting from a stock dominant TINA \There Is No Alternative sentiment back to TARA \There Are Reasonable Alternatives as bonds and cash have become attractive again A move to short duration fixed income assets is already underway ong term Treasury yields tend to peak well before the rate hiking cycle ends ook to buy long duration bonds in as bonds could post a double digit returns next year



Source: Federal Reserve Goldman Sachs Global Investment Research

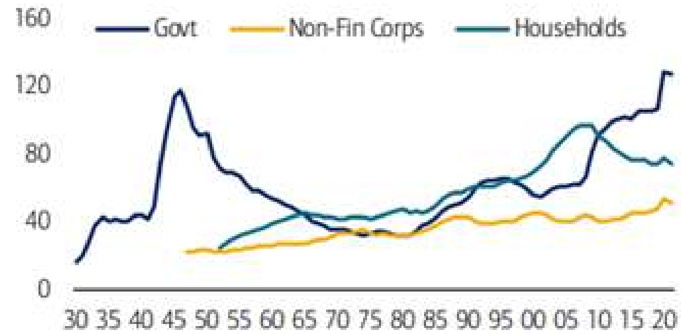
Peak of Hiking Cycle	30Y Peak	Days from last hike to 30Y peak	PMI at Peak Fed Funds rate	Core Inflation peaked before 30Y peak (Y/N)	Amount of hikes post 30Y peak
21-Aug-84	29-Jun-84	-53	56.1	Y	2.25
24-Feb-89	25-Aug-88	-183	54.7	N	1.50
01-Feb-95	07-Nov-94	-86	57.4	Y	1.75
16-May-00	20-Jan-00	-117	54.9	N	1.00
29-Jun-06	17-May-06	-43	53.7	N	1.00
19-Dec-18	06-Nov-18	-43	58.6	N	0.50


$UST10Y 10-Year US Treasury Yield (EOD)
Friday 2-Dec-2022
Open 3.510
High 3.510
Low 3.510
Prev Close 3.530
Chg -0.020
Last 3.510
?

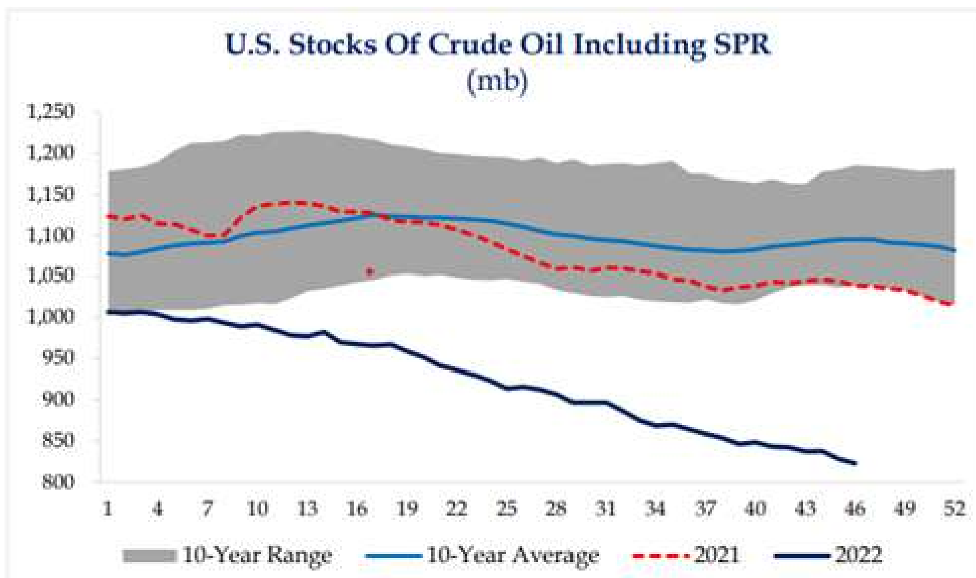

Ownership of
US equity market
($63 trillion)
Households 37%
ETFs 8%
Passive mutual funds 5%
Active mutual funds 14%
Pension and govt retirement funds 10%
Foreign investors 17%
Business hldgs 4%
Hedge funds 3%
Other 3%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1945 1950 1955 1960 1965 1970 1975 1980 1985 1990 1995 2000 2005 2010 2015 2020

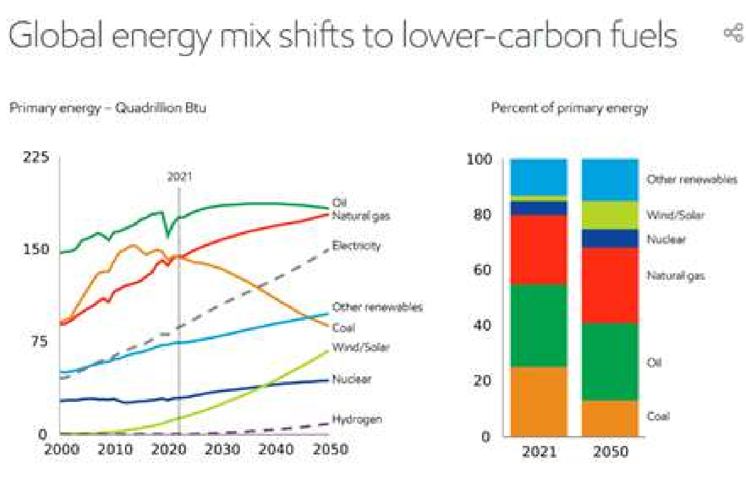

US Financial obligations ratio (Total, SA % of disposable income), 1980-2Q22
19
18
17
16
15
14
13
12
80 82 84 86 88 90 92 94 96 98 00 02 04 06 08 10 12 14 16 18 20 22

US public debt to GDP, US non-financial corporate debt/GDP, and US household debt/GDP, fiscal years 1930-present



S&P 500 ex-Financials Net Debt/EBITDA (1987-2Q22)





Examining future demand for the various energy components we see the biggest decline is seen in coal and the largest increase is in electricity followed by wind solar Natural gas demand is up sharply and importantly the demand for oil remains the highest of the primary energy sources with a year forecast of only a modest decline The demand forecast is bullish for the energy sector overall

The global population is expected to grow an additional billion from billion in to over billion in Increased energy demand will come from emerging markets and developing economies

The world energy supply is forecast to increase by

The world would need twice as much energy as it produces today if it weren t for continuous improvements in energy efficiency

Natural gas demand will increase by Many nations are looking to natural gas for affordable and reliable electrical power generation that produces lower emissions than coal

Total oil demand will increase While the use of oil for transportation will peak growth in petrochemicals means more oil will be needed in the future

There will be growth in global electricity generation Currently million people worldwide still live without access to electricity

The Reuters Commodity Research Bureau Index rose the fastest in history in Economies cannot handle such a rapid rise in pricing without causing inflation Right now prices are falling but history has shown that one more rally typically occurs before there s a peak in prices Fundamentally shortages still exist for many commodities This is good for the commodity sensitive sectors

Performance During Periods of a Falling Dollar (Annualized)								
Index	9/30/1989 2/28/1991	1/31/1994 4/30/1995	2/28/2002 1/31/2004	11/30/2005 3/31/2008	3/31/2009 7/31/2011	10/31/2016 2/28/2018	4/30/2020 1/31/2021	Average (Sorted)
Crude Oil WTI	-3.40%	26.50%	24.40%	27.80%	32.50%	22.80%	219.50%	50.00%
Copper	-8.00%	35.70%	27.40%	34.30%	46.30%	30.10%	89.20%	36.40%
S&P GSCI Commodity Index	-0.70%	2.80%	22.40%	22.60%	32.10%	16.50%	91.40%	26.70%
S&P 500 Information Technology	8.50%	32.10%	4.80%	1.60%	27.80%	36.50%	47.80%	22.70%
MSCI Emerging Markets	10.60%	-14.70%	21.10%	27.00%	38.20%	26.10%	47.80%	22.30%
S&P 500 Materials	-2.00%	5.90%	8.00%	17.10%	30.40%	22.30%	64.40%	20.90%
S&P 500 Industrials	4.40%	6.00%	0.70%	9.00%	33.00%	24.50%	60.20%	19.70%
Russell 2000	-7.20%	0.20%	13.30%	1.90%	32.90%	21.20%	67.80%	18.60%
S&P 500 Financials	-10.00%	5.50%	9.50%	-7.40%	26.30%	35.30%	63.70%	17.50%
S&P 500 Energy	15.00%	10.40%	5.30%	21.30%	26.70%	0.90%	39.60%	17.00%
S&P 500	7.30%	8.50%	2.90%	4.50%	25.50%	22.60%	42.70%	16.30%
S&P 500 Health Care	27.50%	22.70%	-1.80%	2.30%	17.80%	20.20%	23.80%	16.10%
Russell 1000	2.50%	5.20%	3.70%	4.40%	26.50%	22.40%	45.50%	15.80%
MSCI EAFE	-7.60%	2.90%	12.40%	13.90%	26.40%	20.30%	41.20%	15.60%
S&P 500 Consumer Staples	24.20%	17.40%	0.90%	11.00%	20.90%	3.70%	22.80%	14.40%
S&P 500 Consumer Discretionary	-2.50%	-4.20%	1.80%	-1.70%	37.30%	25.90%	41.40%	14.00%
Gold	-0.60%	1.00%	17.20%	30.10%	27.50%	2.60%	11.40%	12.80%
S&P 500 Communications Services	-4.30%	-0.20%	-8.00%	10.90%	15.80%	2.50%	47.50%	9.20%
S&P 500 Utilities	7.30%	-2.30%	-1.10%	12.50%	16.60%	2.80%	16.40%	7.40%

A rebound in Commodities would benefit the Materials sector which appears to be bottoming relative to the S P

igh P E Growth stocks were the beneficiary of all the monetary and fiscal stimulus packages since COVID began Valuations got stretched and higher interest rates popped their bubble Also sharp advertising spending cuts are negatively impacting a number of technology related companies that rely on ads for revenue Growth is likely to underperform during But when a bottom is in place and the Bull takes hold Growth and ow uality assets will rise the most at first as they are the most washout But we don t expect them to return to their leadership status Sectors sensitive to Growth include Technology Consumer Discretionary and Communication Services

S&P 500 GICS Sectors for 12/1/2022	2023 Forward Price-Earnings Ratio
Energy	9.9x
Financials	12.8x
Communication Services	14.2x
Materials	16.9x
Healthcare	17.7x
Industrials	18.5x
Utilities	19.0x
Technology	20.7x
Consumer Staples	21.1x
Consumer Discretionary	21.7x
Real Estate	35.5x

The cheapest sectors are in Value and the most expensive sectors are in Growth With interest rates still rising the risk is Growth stocks go down and the sectors most impacted are Technology and Consumer Discretionary Real Estate is the most at risk sector with rates up permits down mortgages demand down and challenges in the Private E uity market in real estate It is also the most expensive sector in the market

The COVID Growth bubble has popped Growth is likely to continue to deflate as its P E multiple remains high at x and interest rates are still expected to rise an additional igh rates and high P E don t work well in a rising rate environment On the flip side Value is trading at a forward P E multiple of x

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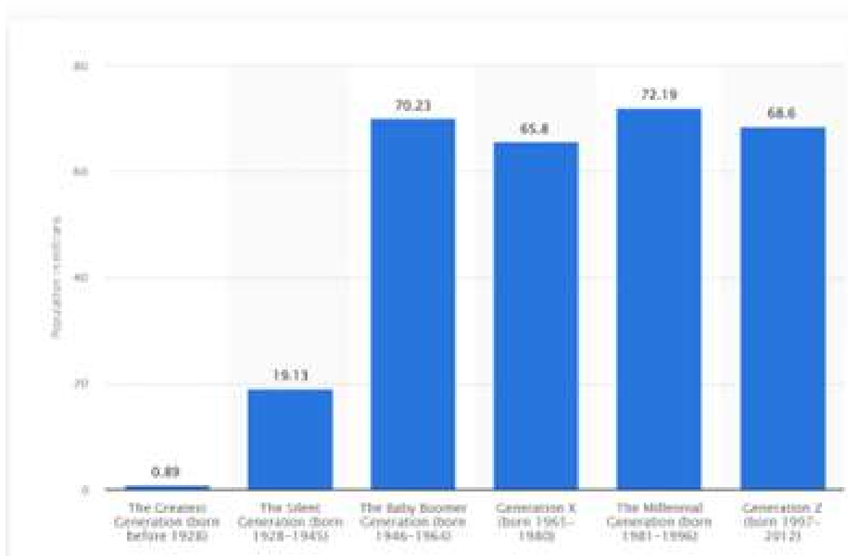
The Dow ones Industrial Average \D IA used to be the market index uoted all the time but over time the S P became the favored proxy The D IA is a concentrated index of stocks that are hand picked by a committee As the Index is light on Growth stocks it s proving to be one of best performing broader market indexes You ll see in the accompanying chart how relative to the S P the Dow is outperforming Expect this to continue Note Mega Cap and arge Cap can do well in a portfolio it s not arge versus Small It s about owning uality companies with good valuations good cash flows and earnings

It s about owning uality companies with good valuations good cash flows and earnings



Despite the rise in interest rates dividend paying stocks have held up well and are outperforming the S P Corporations have the balance sheets to support dividends Expect dividends to remain a favorite of investors

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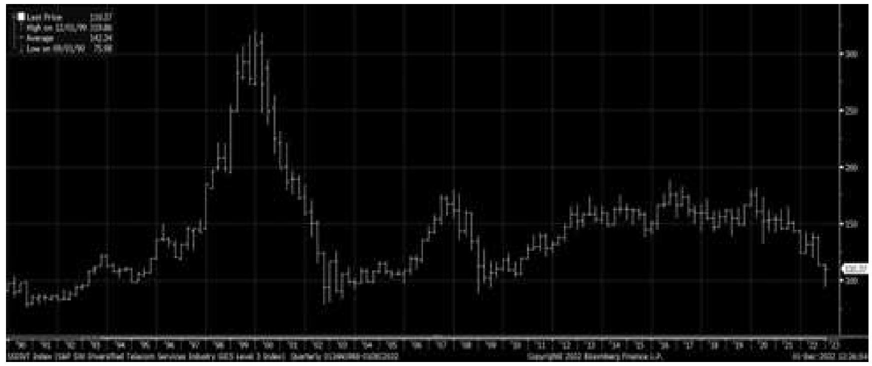

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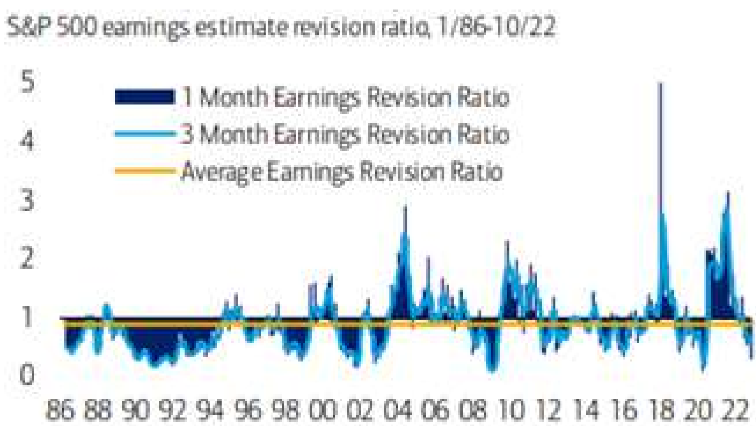
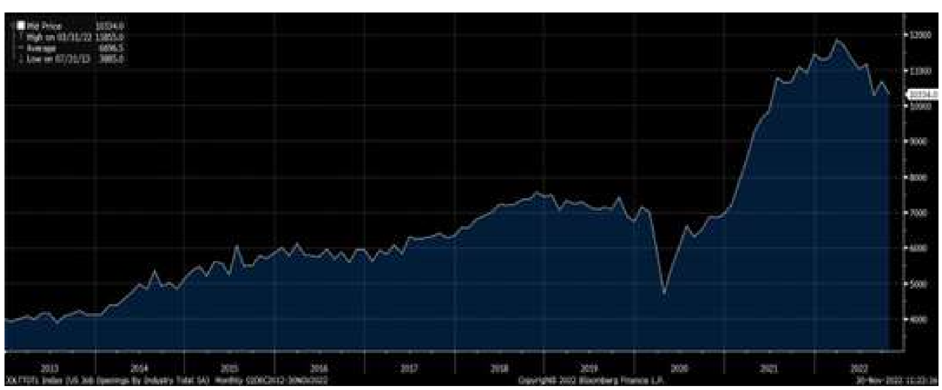
The international markets have underperformed the S market for years These markets are much cheaper than the S with MSCI Europe trading at x forward earnings and MSCI Emerging Markets trading at x forward earnings We will be watching for an opportunity in to shift some assets to non S markets A catalyst that may have started the rally is China opening again Another indication would be a peak in interest rates followed by a peak in the S Dollar and . because Emerging Markets are commodity sensitive . a rally in Commodities would complete the perfect storm and spark a sustainable rally in Emerging Markets

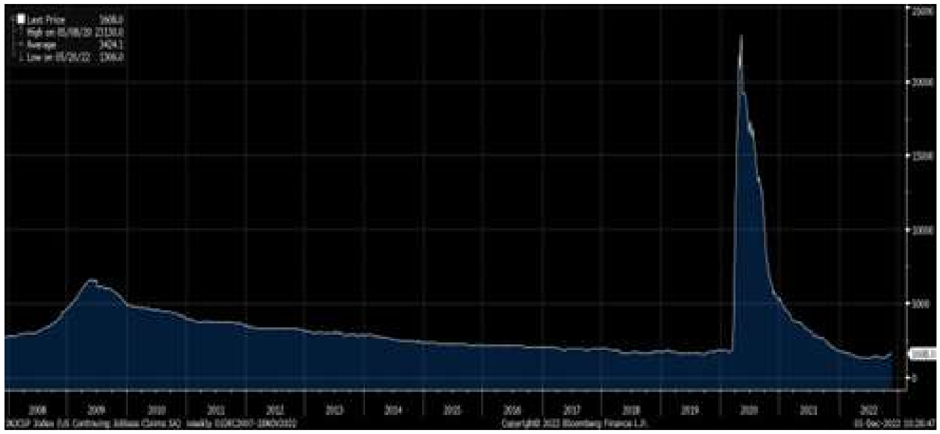
This would be the best buying opportunity in over a decade

Source: Bloomberg, December 1, 2022





Fewer obs and higher unemployment should lead to lower wages and in turn lower wages should lead to lower inflation But right now there remains an excess supply of ob openings The Fed is looking for this imbalance to correct


Last Price
Average
25000
20000
15000
10000
5000
0
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022

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