

# Making Sense

## WHAT'S NEXT?

We'll be back in 2023 with regular market and economic updates to help you make your financial decisions. Have a wonderful holiday season!

## Rate hikes, volatility, record-high inflation... What a year

As we finish out 2022, we wanted to share our views on the potential future path of markets and the economy. Be sure to [watch this presentation](#) for our full analysis. Below are a few key points to consider for the year to come.







### Five in Focus for 2023

- The path of inflation.** As has been the case for all of 2022, inflation will likely remain the focal point for quarters to come. With November's Consumer Price Index continuing a five-month inflationary downtrend, the direction is encouraging for both markets and monetary policy. We will keep a close eye on consumer and producer price data, specifically owner's equivalent rent. Investors will likely continue to feel the impact and ripple effects of inflation throughout 2023 and beyond.
- The Fed's & market participants' reaction.** The Federal Reserve will remain diligent in its fight against inflation until it is in a persistent downtrend. In prior tightening cycles, the Fed has not stopped hiking the federal funds rate until the overnight rate exceeded the year-over-year inflation rate. In this cycle, that inflection point may arrive in the first half of 2023.
- Continued resiliency of the labor market.** While the economy endured record-high inflation throughout the past year, the labor market remained a bright spot. The last six months saw an average monthly addition of ~323,000 jobs to the labor market, despite the Federal Reserve's multiple rate hikes. November's data showed unemployment remains resilient at 3.7%.
- Corporate health.** While earnings revisions are clearly in a downtrend, corporate health is entering this economic slowdown from a place of relative strength. For example, both S&P 500 debt-to-equity and interest coverage ratios are healthier today than in past cycles.
- The unknown.** Investors tend to be anchored by the present, and it is human nature to be surprised by unforeseen events. There's always a wall of worry—geopolitical unrest, inflation, market volatility—underscoring the need for a long-term financial plan and a diversified forward-looking portfolio.

**Bottom line:** We believe markets will face challenges in the year ahead. Finding the balance between stocks and bonds will matter in 2023 and beyond. Further, we believe diversification within a balanced portfolio will matter in 2023 and beyond.

Figure 1<sup>i</sup>

### Next Twelve-Month S&P 500 Price Target

	NTM Price Level	NTM EPS in One Year	NTM P/E in One Year
Bear	3,100		
Base	4,100		
Bull	4,500		

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<sup>1</sup> Bloomberg