Happy New Year to All!
We hope everyone is doing well and are having a great start to the New Year.
The year 2022 will be remembered as an important time of change for the American economy and the financial markets due to high inflation, aggressive interest rates hikes and of course, geo-political events. Interest rates have been historically low since the financial crisis in 2008-2009. Now we are seeing interest rates jumping to 15-year highs, Americans may have forgotten or are maybe too young to remember, how bad high inflation feels and the terrible effects it will have on their pocketbooks.

1. For the consumer, which is all of us, the days of “free money” are over. This not only includes the subsidies provided by both the government and Federal Reserve, but also the low interest charges from homes to cars to appliances. Credit card balances are even more dangerous than before.

2. For both big and small business, the cost of doing business has now gone up and the days of “cheap money”, are over. Financing operational expenses and future expansion plans at much higher interest rates are now the norm and will affect the growth of business activity.

3. For the financial markets, the realization of competing with aggressive interest rates hikes was disturbing and unexpected, and with the fear of slower corporate earnings growth and lower margins has all directly resulted in the market sell-off in 2022, the worst year for stocks since 2008. We will review this in more detail in our next letter, next week.

Economic & Financial Market Conditions – Good news is Bad News for the Financial Markets

The 2022 economy was robust due to the incredible number of trillions of dollars pumped into the economy beginning in early 2020 from both fiscal (government) and monetary (Federal Reserve) funding. They did this to offset the sudden and severe recession that occurred in the spring of 2020 from the pandemic. Because of the flood of money that went into the economy, the 2020 recession lasted only two months and was the shortest in history.
Some of the trillions went into job creation, personal household well-being, business loans and infrastructure funded by the government. And even more trillions from the Federal Reserve went into keeping unemployment low, keeping mortgage interest rates low and providing liquidity to the financial markets.
Both the government and Federal Reserve provided too much support for the economy. The Federal Reserve also kept interest rates too low for too long and now we are paying the price for it from high inflation resulting in higher interest rates and the capital loss of the stock and bond markets and other assets.

Jobs - Four and a half million jobs were created in 2022. **CNBC 01/06/2023**
U.S. job openings held nearly steady at historically high levels in November, adding to evidence that the labor market remained strong heading into 2023.

There were about 10.5 million available jobs in November, essentially unchanged from October and well above pre-pandemic openings levels, the Labor Department said Wednesday. The report also showed layoffs stayed low and a larger share of workers quit their jobs in November than a month earlier, a sign Americans were still confident in their employment prospects. **WSJ** 01/05/2023
All size businesses, who are already dealing with the tight margins, are now competing with each other in finding qualified employees. Anyone who wants to work can find a job.

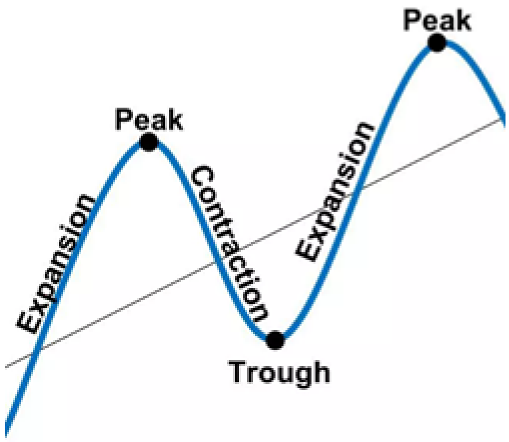
The December unemployment rate dropped to 3.5%, the lowest in 53 years and the important wage growth rate was lower than expected. U**.S. Bureau of Labor Statistics & WSJ 01/06/2023**

The 30-year mortgage rate is averaging 6.42% nationally. **Freddie Mac** - Marketwatch 12/29/2022

U.S. Gross Domestic Product (GDP) which is the indicator of economic growth is currently at a positive 3.2%, as of September 2022. **U.S. Bureau of Economic Analysis, 12/22/2022**
CPI - Inflation - Through November 2022, the national inflation rate is 7.1, down 2% from the June high of 9.1%. Inflation is currently trending downward.

Economic data and reports, are for the most part, considered somewhat outdated since the individual data reports are anywhere from one to three months old. Economic data looks backwards, not forward. Still, with the continuing good economic news of high employment and strong consumer spending, the economy has not slowed enough for the Federal Reserve to stop raising rates.
Which means the bad news is that the Federal Reserve might continue to keep interest rates higher for longer. Which is not good news for stocks, bonds, gold and real estate.

Make no mistake that the Fed will do whatever it takes to lower inflation, even if it results in further capital loss in stocks, bonds, gold and depreciation of value in real estate and homeownership.
As of now, their sole focus is slowing down the economy to eradicate high inflation. They are openly willing to take a risk in causing a hard landing with the economy. This concerns a lot of investors that just as the Fed over inflated the economy during 2020-2022, the Fed will this time over extend the duration of the rate increases and cause a hard recession sometime this year.
Recessions are a normal process of the business cycle:



Our next letter: **"Preview of 2023 - Bad news is Good News for the Financial Markets",**
will be sent out next week.

Justin and I would appreciate any feedback or questions from you.
Please free to contact us.

Thank you.
Phil and Justin