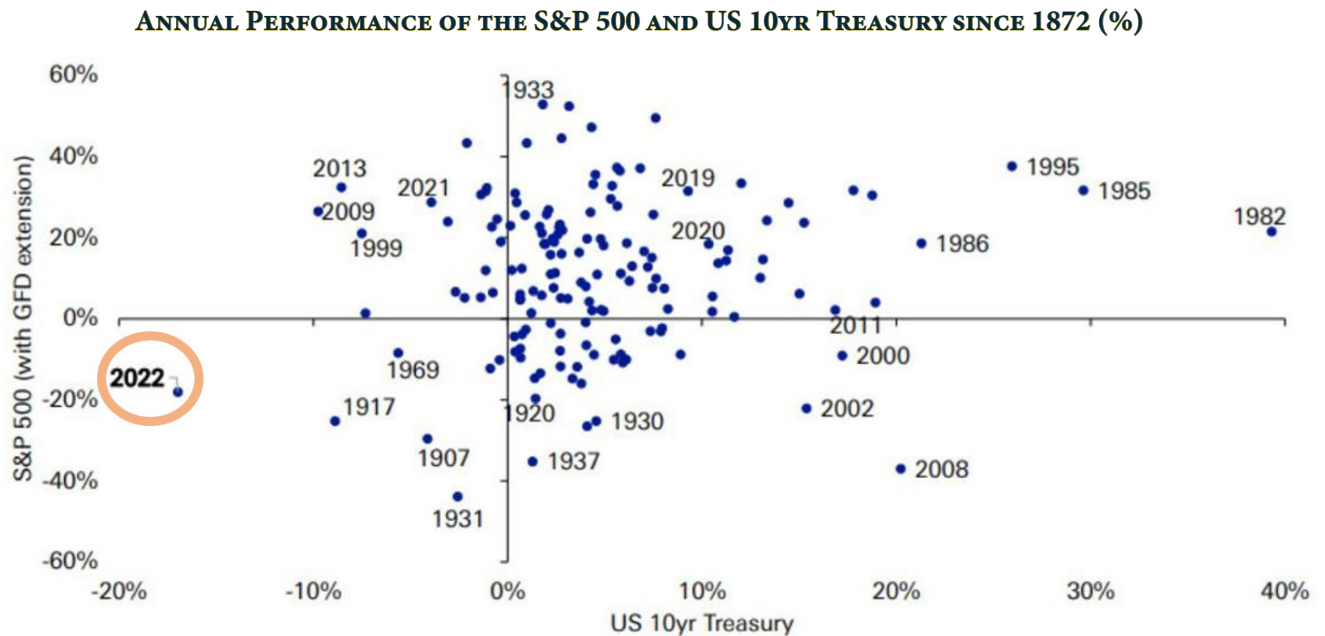


## WEEK IN REVIEW

FRIDAY, JANUARY 6, 2023

### AFTER A HISTORICALLY WEAK 2022 FOR FINANCIAL MARKETS – WHAT MIGHT BE IN STORE FOR 2023?

The combined performance of equities and bonds in 2022 is now in the history books and an abnormality from 150 years of performance data. Illustrated in the chart below, the dot for 2022 is way over to the left, a result of both stocks and bonds plummeting in value.



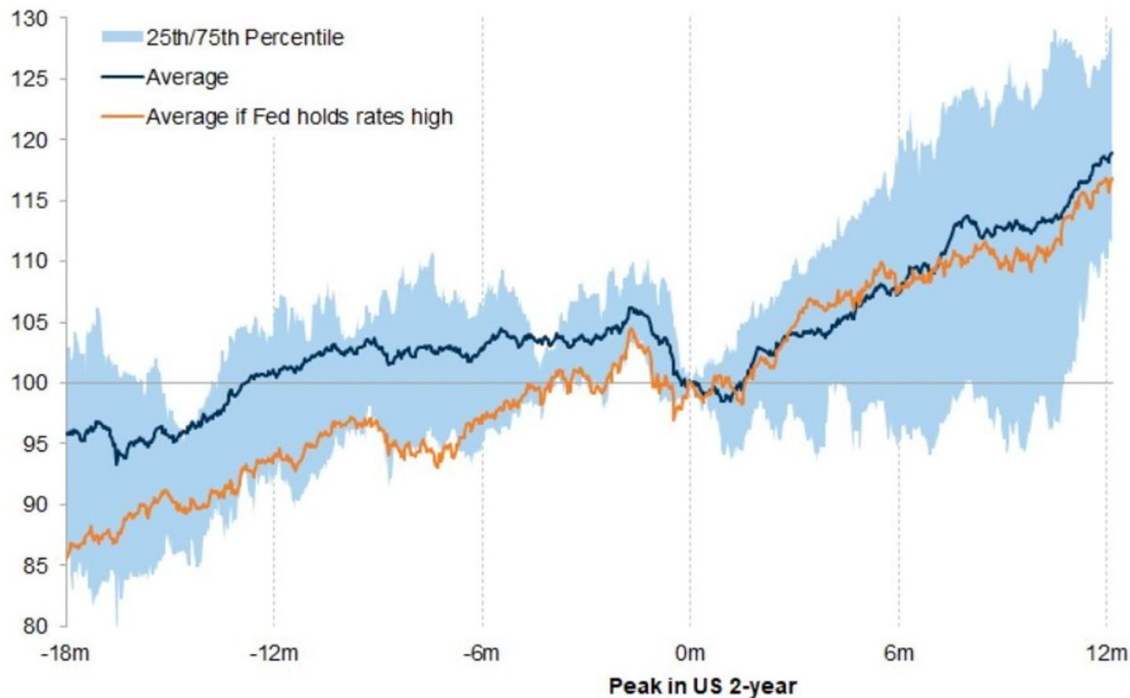
Source: Deutsche Bank

While equities were not down as much compared to other equity bear markets such as the financial crisis in 2008, the dot.com bubble burst of 2002 and the great depression in 1930 and 1931, the combined negative performance of equities and bonds produced an historically weak outcome for balanced portfolios (mix of equities and fixed income).

The driver of 2022 performance was the aggressive tightening by the Federal Reserve resulting in a rapid rise in interest rates and valuation compression. The key concern entering 2023 is that the economy will enter a recession with an accompanying reduction in corporate earnings which could lead to lower equity markets and heightened credit concerns for fixed income in the near term.

However, markets could still stage a recovery in 2023 once a peak in short term interest rates has been put in place. Data since 1955 supports equity markets are likely to recover close to the peak in interest rates and inflation, despite often being weak into the final rate rises.

**S&P 500 PERFORMANCE AROUND PEAK IN US 2YR TREASURY YIELDS, SINCE 1955**



Source: Goldman Sachs Global Investment Research

Data since 1955 supports our thesis that equity markets are likely to recover close to the peak in interest rates and inflation, despite often being weak into the final rate rises. With peak inflation likely behind us and the Federal Reserve likely to temper the rate of increases to the Federal Funds rate in the coming months, the promise of peak rates occurring in the first half of 2023 are high. However, financial markets have historically sold off going into peak rates, which have yet to be put in place. While the seeds have been set for a darkest before the dawn scenario for 2023, corporate earnings, inflation and Federal Reserve actions all remain in play as we enter into the New Year.

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