

Hamilton-Bates Market Update

January 6, 2022

P.O. BOX 98 Mertztown, PA 19539 877.768.4247 www.hbir.com

2022—What We Learned

2023—What We Expect

2022 was a tough year! Stocks had their worst year since 2008 and bonds had their worst year ever. With the Fed aggressively raising interest rates there were few places to hide as financial assets suffered through a revaluation. Adding insult to injury, crypto-currency assets suffered as some key platforms proved to be nothing but ponzi-schemes.

So what did we learn from 2022?

Well we learned that interest rates don't stay low forever. Eventually zero rate policy had to end and it did. The problem is that holding rates so low for so long let plenty of inflation kindling build up—creating a bonfire of inflation during the covid shut-down. We also learned that all ponzi-schemes are eventually uncovered, as we found out with crypto-currencies in the last half of the year. There is some long-term technical benefit to crypto, but only with the top two—Ethereum and Bitcoin.

So what do we expect from 2023?

Its rare for the financial markets to have two 'down' years in a row, so chances are good we won't have a repeat of 2022. However, in the rare case we did have back to back down years, it created major market lows from which new bull markets were created.

Inflation looks to be coming down from its 2022 peaks, which should help the Fed step back from its aggressive rate hike policy, which in turn takes a lot of pressure off of stocks and bonds. As long as the economy holds up and avoids recession, the stage is set for financial markets to rebound in 2023. We expect the year to start off well with a strong January, then we'll see how things unfold.

The Fed, the Economy, and Interest Rates

Economic data is showing clear signs of a slowdown, with ISM data on the verge of a contraction, and prices paid data showing a relaxation of inflation pressures. Even more importantly, wage pressures eased according to the latest Labor Market Report. This allows the Fed to step back from its uber-hawkish tone of 2022. The good news is that still strength in the labor market, with little of the broad layoffs one

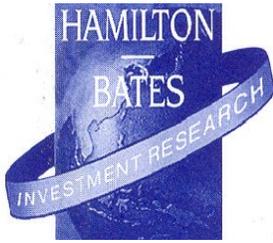
would expect of a pervasive economic slowdown. Companies are loathe to lose employees and we would expect job cuts would occur at the very end of any economic slowdown as companies recall just how hard it is to get positions filled when conditions turn around. We anticipate fewer job losses during any recession this time around.

Stock Market Outlook and Investment Strategy

Slowing economic data meet a less hawkish Fed along with a strong labor market. This mix sets the stage for stocks to rally early on in 2023. The key will be whether these gains can hold, unlike the two prior rallies in which failed. Whether the stock market hold any gains made in January will likely determine the outlook for the first part of the year.

Bonds had their worst year ever, with many bond categories down 10-20%. 2023 is likely to be much better for bonds, especially as investors turn to yield with economic concerns rising. Paradoxically this strength in bonds actually helps stocks as it removes rising rates and the pressure that puts on valuations. After avoiding bonds for much of 2022 we are likely to see increased positions in 2023.

The stock market never really hit a low enough level that signaled a major bargain was at hand, but plenty of damage was done that sets up many areas of the financial markets for gains in 2023. We continue to like high quality dividend payors, which were among the best performers of 2022. On the other hand, money losing companies with high P/E's were among the worst performers. An index of money losing tech stocks was down over 50% in 2022, compared to a rather mild 8% loss in the DJIA. **We remain flexible, expecting strength in January to boost position values, we'll look to add to dividend paying stocks, along with bonds in the early part of the year.**



Hamilton-Bates

Market Update

P.O. BOX 98 Mertztown, PA 877.768.4247 www.hbir.com

Market Charts S&P 500 Testing Key Level



S&P 500

The S&P 500 remains in a down trend as exhibited by the dashed arrow in the above chart moving down and to the right. Each time the stock market has tested this trend it has failed. The good news is that there is a good deal of support at a rising long-term average (red line). This level has in the past provided strong support as it did in October. As long as we hold above the area of those lows, and even better—if we can see the S&P break above the down-trend line—it will likely signal an end to the weakness of 2022. We lean bullish in early 2023.

Disclosures:

This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report.