January 2, 2023	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
	33,147	3,840	10,466	1,761	3.88%	16,718	$1,830	$80.51

Investment Strategy Report

After A Miserable 2022, Can Stocks and Bonds Reverse Course?

For most years, stock market forecasters usually call for a 10% stock market gain, with the only disagreements concerning the amount of gains expected. For 2023, predictions for the stock market vary widely, with forecasters expecting anywhere from down 20% and a continuation of the bear market, to plus 20% and a resumption of the stock market uptrend. The turning of the calendar's page, from one year to the next, while presenting no real fundamental changes, in reality can produce pronounced changes as in 2022, when the market direction went from all time highs at the end of 2021, to a sharp decline in the new year.

We should get some clues about the direction of stocks fairly quickly as the financial markets begin trading tomorrow (1/3). As goes the first 5 trading days of the year, so goes the first month, according to stock market maxims. And then it's, as goes the first month, so goes the year. So we will be anxiously awaiting to see how things develop early on. However, despite the varied predictions for the year, there is a decidedly negative sentiment among investors, a feeling that the doom and gloom of 2022 will carry on into 2023 - and for good reason. To begin with, the Fed has repeatedly said that they will remain vigilant in their role as inflation killers, continuing to raise interest rates to slow down the economy and cause financial pain. And they have added that once rates have reached their target levels, they intend to keep them there for an extended period of time to insure that any vestiges of inflation are choked off and the battle has been won.

In the Fed's declaration that they will have to cause pain, it is assumed that unemployment rates will have to rise and a recession is most likely unavoidable. Hence, with rising rates and a looming recession, it's easy to see why many investors are fearing the worst for their investments.

However, there is, of course, the opposing view, that the worst is behind us and that stocks and bonds can rally from here. The Wharton School's Professor Jeremy Siegel is decidedly bullish. In an interview on CNBC this past Friday (12/30), he started off by saying "I've never seen so much bearishness. 60% of economists are forecasting a recession. When everyone is on one side, I get wary and look for surprises". He also disagrees with those who are reducing profit forecasts for this year. He feels that even if there are job losses in 2023, companies will have increased productivity, which will put downward pressure on prices, and upward pressure on margins. Profits can surprise to the upside.

Professor Siegel asks why we should believe the Fed now. They got it terribly wrong in September 2021, when they forecast no interest rate hikes for 2022, and they are wrong now. "When the data comes in, they will see that house prices are falling and inflation is disappearing. If the labor market begins to loosen up, they will have to loosen up". He added that the money supply has seen an unprecedented 7 months of declines, signaling that inflation is easing. "If the Fed waits until unemployment rises before pivoting, they will have waited too long". He predicts a 15% increase in the stock market this year and says that the gains can occur in the first half of the year, as the markets are forward looking. He also is predicting that once the Fed realizes that inflation has been tamed, they will have to cut rates to 2-3% by the end of the year. Declining rates will be another factor that will power stocks higher.

Bret Eversole of StansberryResearch.com also thinks that 2023 can be a good year for stocks (True Wealth Systems, 12/21/22). He notes that 2022 was an extreme year for volatility as measured by the number of 2% plus down days for the S&P 500 for the year. There were 23 of those days last year, an extreme level. Historically, this happens less than 10% of the time, but this sets up the market for substantial gains going forward. On average, the S&P 500 gains 20% the following year and 34% over the next 2 years.

Please don't get me wrong. 2023 will undoubtedly be another volatile year, and even if the markets end the year in the positive column, there are sure to be stomach-churning losses along the way. Just letting you know that there are reasons to be optimistic. *Jeff Feldman*