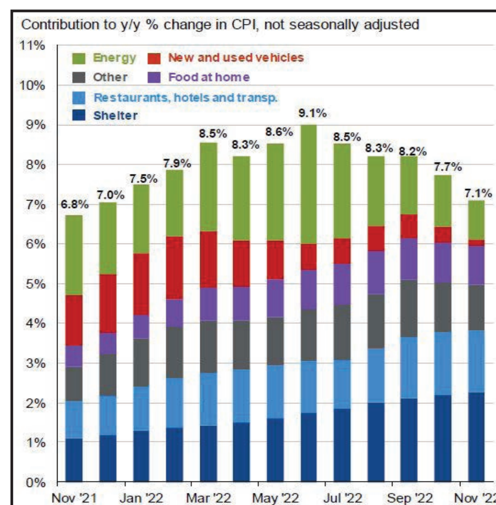
A View
FROM THE TOWER

From an investment perspective, the best thing we can likely say about 2022 is that it is finally over, as the fourth quarter continued the significant volatility experienced during the preceding nine months throughout the global equity and fixed income markets. However, at least the quarter posted a positive stock return, as exemplified by the S&P 500, in light of the strong outcomes in October and November. Bond prices rallied and interest rates declined across the yield curve despite additional Federal Reserve increases. The end result was the only positive quarter in 2022 for both stocks and bonds. However, for the full year, the S&P 500 was off 18.11%, the Dow Jones Industrial Average was down 6.86% and the Barclays Aggregate Bond Index slid 13.01%.

As we enter the new year, several economic and market dynamics remain similar to those twelve months ago, and during 2022, but some new ones are on the horizon. From the "more things change, the more things stay the same" camp, inflation continues to be a, if not the, focal point with the tight labor market considered to be the main culprit, as exemplified by the 3.5% U.S. unemployment rate in December. The Federal Reserve, which is unable to control the "supply side" of the economy, has attempted to address this by attacking the "demand side," since an equilibrium between the two is theoretically needed to corral inflation. Toward this end, to date it has gravitated to reducing job openings (which have far exceeded the number of workers looking for jobs) versus stoking unemployment itself. Can this goal be achieved, particularly without causing a recession? At this point, the likely answer unfortunately is no, as the forecast is for another .75% of rate increases in early 2023, on top of 4.50% in 2022, (not to mention ongoing balance sheet runoff) with a "higher for longer" mindset. Although the monthly rate of change in regard to inflation has slowed considerably, Chairman Powell and his fellow members are looking for substantially more evidence that it is on a sustained, downward path, even realizing that monetary policy generally acts with a lag, meaning actions to date may continue to impact the economy for years to come.

Contributors to Headline Inflation as of 12/31/2022:



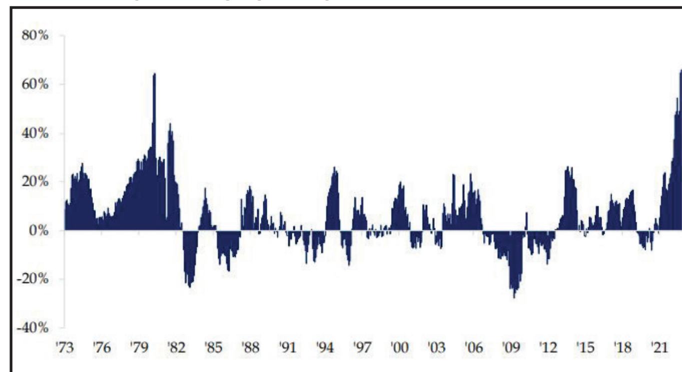
Source: Bureau of Labor Statistics, FactSet, Federal Reserve Bank of Philadelphia, University of Michigan, J.P. Morgan Asset management. Contributors mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "shelter" includes owner's equivalent rent and rent of primary residence. "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal Services. *Guide to the Markets* – U.S. Data are as of December 31,2022.

There are certainly a variety of items we have on our radar for 2023, including the circumstances in China. Choosing to take an extenuated, extremely hard line concerning Covid, the country finally initiated a re-opening during the fourth quarter as protests and growth worries led to the scrapping of most testing, home isolation and quarantine rules, including those for inbound travelers. However, China experienced a significant surge of cases during December. Additionally, talk of deglobalization, after many years to the contrary, has resulted in additional economic pressure as multiple U.S. companies look to reduce their dependence on Chinese resources and manufacturing given various facets of uncertainty there.

Also on the international horizon, Europe and the United Kingdom have been a point of concern as the ongoing Russian invasion of Ukraine has added to the region's long-term economic hurdles. One of the primary fears just a few months ago was the potential shortage of natural gas as the winter months approached. Thankfully, storage amounts of this critical commodity have been much greater than expected, alleviating at least the greatest levels of angst. Corresponding fears of recession in this region have somewhat subsided due to this progress. However, experts continue to opine that the potential severity of a Euro/UK recession exceeds that domestically.

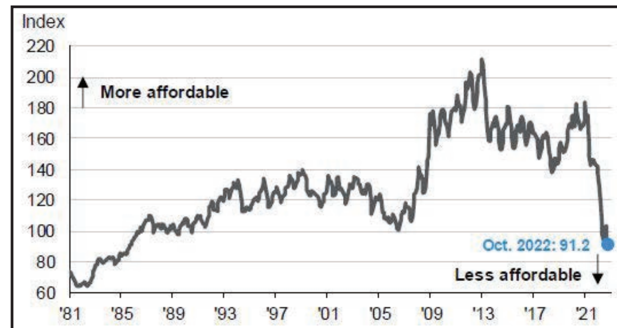
On the U.S. front, the material increase in interest rates, including those associated with mortgages, has led to somewhat of a kink in housing demand despite an ongoing under supply. As one would imagine, housing is a key component of the domestic economy with a ripple effect that is relatively broad and potentially deep. As any homeowner knows, there is a myriad of needs and purchases associated with this key asset, and a slowdown in this area has the potential to produce headwinds for a wide variety of industries and related companies; something to definitely to keep abreast of.

Y/Y Percentage Change in Estimated Monthly Mortgage Payments as of 12/31/2022:



Source: Strategas

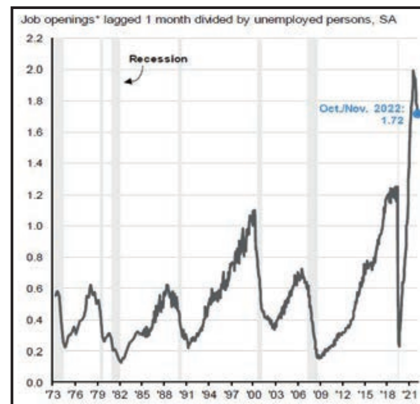
Housing Affordability Index as of 12/31/2022:



Source: J.P. Morgan Asset Management. U.S. National Associate of Realtors. Based on National Associate of Realtors Methodology, an index value above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-price home. The calculation assumes a down payment of 20% of the home price and it assumes a qualifying ratio of 25%. *Guide to the Markets* – U.S. Data are as of December 31,2022.

Lastly, we have consistently mentioned yield curve inversions (defined as a scenario where shorter-term U.S. Treasury securities yield more than their longer-term counterparts) as this circumstance is often a precursor to an economic slowdown. This dynamic has been part of the U.S. landscape for multiple months now, leading many to believe that a recession is indeed on its way. However, a debate has been whether a potential recession would/will be mild or severe. No one knows with any real certainty, but the Federal Reserve, which has been dealing with the low unemployment rate mentioned earlier, and had been projecting a 4.4% unemployment rate in 2023/2024, has modified its crystal ball to the 5.0% neighborhood.

Ratio of Job Openings to Job Seekers as of 12/31/2022:



Source: U.S. Department of Labor, J.P. Morgan Asset Management. *JOLTS job openings from February 1974 to November 2000 are J.P. Morgan Asset Management estimates. *Guide to the Markets* – U.S. Data are as of December 31, 2022.

What does this mean for financial assets? Like many things in life, the financial world is a matrix of factors versus being linear, straightforward and relatively simplistic. As a matter of fact, there is an old adage that "stocks climb a wall of worry". A major concern for stocks currently is the risk that the Federal Reserve will make a policy mistake, previously mentioned, as it focuses on employment, typically a lagging indicator, versus the seemingly improving inflation dynamics. Such a mistake, resulting in a recession, likely would lead to lowering of corporate earnings estimates, the possible "next shoe to drop." The first was contraction of price/earning multiples in light of the inflation and interest rate circumstances we have all been quite aware of. And lastly, whispers of possible disinflation have interestingly begun to pop up.

In addition to the financial world, it was a very intriguing 2022 for a variety of other areas of our lives, including the political front, yet once again. As expected, for the eighth time in the last nine elections, the party in power lost control of the House of Representatives, although by the slimmest of margins, confounding most prognosticators. The Senate was considered a "toss-up" by most experts heading into November and it ended up being so. Despite the concern and dissatisfaction with the state of our government seemingly voiced by many Americans, 97% of House members, every Senator running and 96% of the Governors seeking to remain in their respective state mansions were reelected. America in essence remains a 50/50 country where governing will continue to be difficult as the run up to the 2024 Presidential election will commence before we know it. Hope springs eternal for a landscape of competency, cooperation, civility and empathy.

Given the continued difficult market environment this past year, we remind you yet once again that we believe the race is usually won by the investor focused on the long-term versus those chasing the illusion of "timing," as missing just a handful of market "best days" could result in a materially lower long-term, realized return. Despite the understandable discomfort during times of uncertainty, discipline and patience have historically been rewarded. The key has been "time in the market" vs. the timing of it. And, we continue to note that the S&P 500 has not declined in the twelve months following a mid-term election since 1946. Let us cross our fingers this streak continues.

All of us at Country Club Trust Company, along with the entire Country Club Bank organization, hope that you and your families are well, and had an enjoyable holiday season. Please be assured that we continue to work diligently on your behalf, providing the level of service you have come to expect and deserve. As always, we are ready and more than willing to be of assistance in any way we can. Should you have any questions, we are always here for you.

Thank you!

Take care!

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