~ Prevailing Winds ~

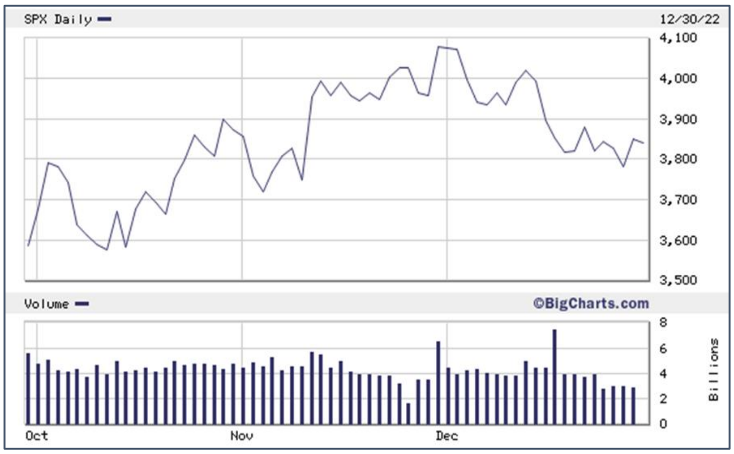
A Quarterly Market Update *December 31, 2022*

Quarterly Recap:

As we close out 2022, a common refrain is "good riddance". Indeed, the year has been marked by difficulties, loss, and frustration. Still, as we approach the third year of the "post-Covid" world, it is astounding that our financial system and economy has functioned as designed. We have transitioned from an era where risk was disregarded to being one where it is integrated into decision making. Economies and markets are more deliberative and less speculative. In the end, this is a more sustainable environment for recovery and growth.

Quarter Ending December 31, 2022

Equity Indexes	Close	% Change
DJIA	33147.25	15.4%
S&P 500	3839.50	7.1%
NASDAQ	10466.48	-1.0%
Treasuries	**Close**	**Change**
10-Year Yield	3.88%	0.05
2-Year Yield	4.41%	0.19

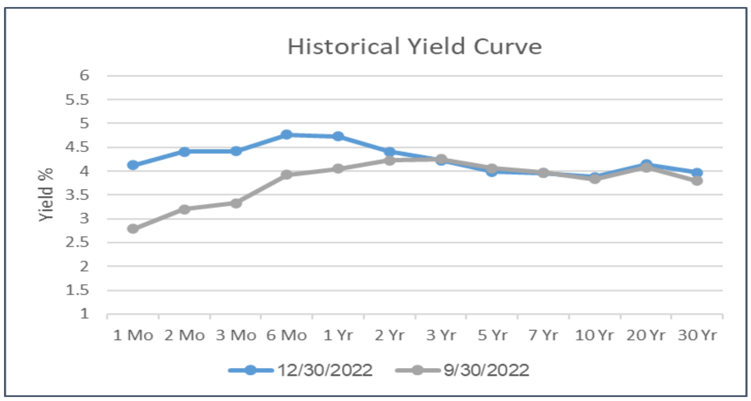


The Stock Market:

The focus during the fourth quarter has been on preparation. Specifically, preparation for an economic slowdown of unknown timing and severity. While corporate earnings have remained strong, many companies have already begun to cut costs by laying off staff and delaying capital intensive projects. CEOs have been quick to profess their gloomy outlook for the year ahead, often using emotional metaphors to describe a looming economic storm. Conditions are difficult for equity investors and will likely remain so. Still, we often remind ourselves that bear markets are transitory and wealth creation is most robust during periods when fear is elevated and expectations are low.

The Bond Market:

The Federal Reserve remains committed to stamping out inflation and will likely continue to raise rates until it is clear that they have won the battle. While there is little doubt that this will occur, the debate rages as to the amount of economic damage that will be incurred as a result. Bond investors are increasingly predicting a more significant recession with the yield curve becoming more severely inverted. Despite the ominous signal, bond investors have weathered the worst market conditions in generations and have a rate structure more apt to provide a return to investors.



Looking Ahead:

Humility will be necessary as we enter 2023. The level of uncertainty is extreme and trying to be "right" will likely not be the optimal mindset. Instead, being able to participate in periods of recovery while avoiding major missteps is a better approach. This means continuing to invest in companies with solid balance sheets and responsible business plans. It means taking advantage of rising interest rates while limiting duration and credit risk. While not a heralded in the financial press, humility and moderation will be lynchpins as we contend with an uncertain year ahead.