BennCo ADVISORS™
Bennett & Co. Advisors, Inc.
Registered Investment Advisors

LOOKING AHEAD to 2023

2022-Not an Ordinary Year!

- Inflation emerged as a concern after a generation
- Recession was a persistent headline – *are we there yet mom*?
- War in Ukraine and global saber rattling
- OH, and what do you know - - Volatile Markets!

For many of our colleagues inflation is something in the history books. It's been a generation since we had serious inflation. The last time inflation was above 9% (the June 2022 peak) was the early 1980s. That's over 40 years ago! You would need to be in your mid-50s to have any recollection of that.

To battle inflation the Fed has finally acted by raising interest rates which has created the risk of a recession.

War in Ukraine has the attention of the world. Our hearts go out to those innocents caught in the conflict. They have earned our respect and admiration. This has exposed the world to the reality that in addition to Russia, there are other powerful forces driven by a lust for power and domination. We hope that our businesses and industries recognize that we cannot rationalize evil.

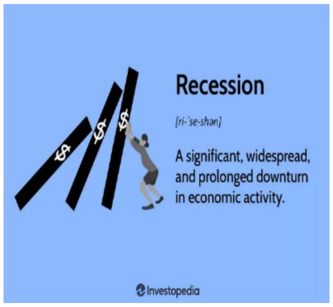
How about those markets? For capital market investors there was no safe haven. The S&P 500 index was down 19.44%, it's worst year since 2008 (-34.49%)*. The bond market was no place to be either (We have been negative on bonds for years) as interest rates spiked driving bond prices down. The Morningstar US Core Bond Index lost 12.9% last year. So much for a 60/40 investment allocation to mitigate risk.

In an ever changing and volatile landscape we continue to look forward when it comes to our client's investments. No doubt 2022 was disruptive. Disruption creates opportunities. We have identified several emerging, investable themes, some with strong tailwinds and some compelling cyclical recovery opportunities.

INFLATION / RECESSION

Inflation is simplistically defined as "too many dollars chasing too few goods." That's what's happening today. People saved a couple of trillion dollars during the pandemic and they are spending it. Meanwhile, those "supply chains" have had a hard time catching up. Producers are also reevaluating their Asian production assets. Low mortgage rates brought on runaway home prices, and hotels and airlines are facing strong demand and labor shortages. Food supplies are temporarily constrained by a midwestern drought, avian flu (have you seen the price of eggs!!) and reduced Ukrainian production. Our view is that much of the inflation (except energy) is part of the process of getting back to normal. You can't shut down the world's economy for almost a year and then get to normal overnight. Data shows inflation peaked in the June just over 9%, and experts are expecting December to fall below 6%. Forecasts are in the 4% range for 2023.

Recession cannot be as simplistically defined as inflation. How many times last year did you hear that "we're in a recession?" The media has been relentlessly pushing the recession scenario. It was forecast for 2022. Now same forecast for 2023.



This *coming* recession is the most anticipated economic event ever. Remember when you were a kid on a road trip? "Are we there yet, Mom?" "No, not yet, be patient." Interest rates are rising, which is intended to quell demand, slow the economy and bring prices down. Recession is highly correlated to rising interest rates, but will it happen? Interest rates have slowed the runaway home prices, supply chains are being restored, much of the stimulus cash has been spent, and credit card debt limits are going start coming into play. We share the view of several experts that we may just "bump along" with slow growth this year.

GETTING BACK TO NORMAL

Work at home has become more normal, but the office is not obsolete. Businesses are bringing workers back. The office has changed though, with innovative improvements to the office workplace. People are traveling! Tourists are out there, and corporate meetings and business travel are recovering rapidly. We are seeing some timely and attractive contrarian investment opportunities in out of favor office, hotel, and travel and leisure businesses.

INVESTMENT THEMES

Equity Markets: It's extremely rare that we have two consecutive down years. We are seeing a revaluation of some of the high flying stocks of the past decade. We also corrected some of the extreme stock valuations from 2021. Notably, the S&P500 PE ratio is at historically average levels. We favor dividend paying stocks with strong balance sheets. Small Cap stocks, after being the worst performing equity sector in 2022 are attractive and historically have been among the best sectors the following year. We should also note that foreign stocks outperformed US stocks last year.

Bonds?

Gulp! Yes, we are getting bullish on bonds. We have held the view for years that with interest rates near zero, bonds were a risky investment: low yields and big price risk as rates rise. Interest rates may peak this year as the Fed eases. If so, bonds could be investable again. Earn some interest and maybe get some gains. Guaranteed fixed annuity rates are also getting attractive with rates north of 5% for 5 years.

FINAL THOUGHTS

We regularly review hundreds of economic and market data points. We have found that the data doesn't support the sometimes-extreme headlines. We have a polarized and agenda driven media. Fringe minority voices get the headlines while the vast majority in the middle are seeking truthful and accurate information to make decisions. We hope we can help with that.

As we look ahead to 2023, we ask that you look past the negativity and ask yourself, "What could go right? What could happen if it did?"

We look forward to the opportunity to visit with you and discuss these opportunities and how they might fit into your individual portfolio.

Happy New Year!!
Brian, Taylor, and Marie

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