

Monthly Market Commentary

We would like to wish you all a Happy New Year! May the New Year bless you with health, wealth, and happiness! Here is to starting 2023 on the right foot!

An atypical December brings an end to one of the most volatile years in history, with most global asset classes performing poorly over the year. Reflecting on 2022, one of the most obvious miscalculations made by investors was with respect to the FED's tightening cycle. Inflation remains a major problem for the FED, and they are inclined to get it under control even at the cost of an economic slowdown. However, market participants are once again trying to get ahead of their skis and consistently positioning for a pivot from the FED too early, which may not materialize in the near term. This could lead to a prolonged period of elevated cross asset volatility with short windows of opportunities that need to be capitalized on versus an era of passive investment. 2023 is shaping up to be a year where patient investors could be rewarded with strong long-term returns as plenty of assets start trading at discounts to their intrinsic values.

Fundamentally, the economic environment continues to deteriorate while inflation remains elevated around 7.1% as of the latest data. Inflation peaked around 9.1% in June of 2022 and has slowly come down since then. One of the biggest challenges going forward is the impact of the slowdown in inflation and growth on revenues of companies. With the unemployment rate still very low, companies face a challenging environment as margins are squeezed due to a slowdown in revenues while costs remain elevated. Consensus forecasts for both revenues and earnings remain elevated. Consequently, the next shoe to drop is a prolonged period of revenue and earnings revisions that are going to drive equities on an individual basis in 2023 versus a re-rating in broad valuation seen in 2022. Current dynamics continue to warrant defensive exposure to equities, some exposure to alternatives, exposure to treasuries, and elevated levels of cash.

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