CORBETT ROAD
WEALTH MANAGEMENT

MACRO MUSINGS

January 13, 2023

2022 Year in Review: A Year to Forget

Rush Zarrabian, CFA®
Corbett Road
Managing Partner, Portfolio Manager

SUMMARY

- The **macro**cast™ score suggests the probability of a recessionary bear market remains elevated, and the defensive position of **micro**cast™ reflects the volatile market conditions. The combination of both risk models indicates we remain in a challenging market environment, which we expect to persist in 2023.
- Markets faced several headwinds in 2022, including high inflation, historic tightening by central banks, and the Ukrainian war. Inflation was a driving factor in the markets throughout the year, with the headline consumer price index reaching a 40-year high of 9.1% in June.[1]
- Inflation prompted the Federal Reserve and its global central bank peers to aggressively raise interest rates, which led to lower stock and bond prices.
- With central banks rapidly tightening monetary policy, there was nowhere to hide. The total return of the S&P 500 in 2022 was -18.1%, its worst annual return since 2008, and the Bloomberg U.S. Aggregate Bond Index produced its worst total return since 1976. Cash was the only major asset class that had a positive return in 2022.

1) Year-over-year percentage change in the Headline Consumer Price Index as reported by the Bureau of Labor Statistics.
https://data.bls.gov/timeseries/CUSR0000SA0&output_view=pct_1mth

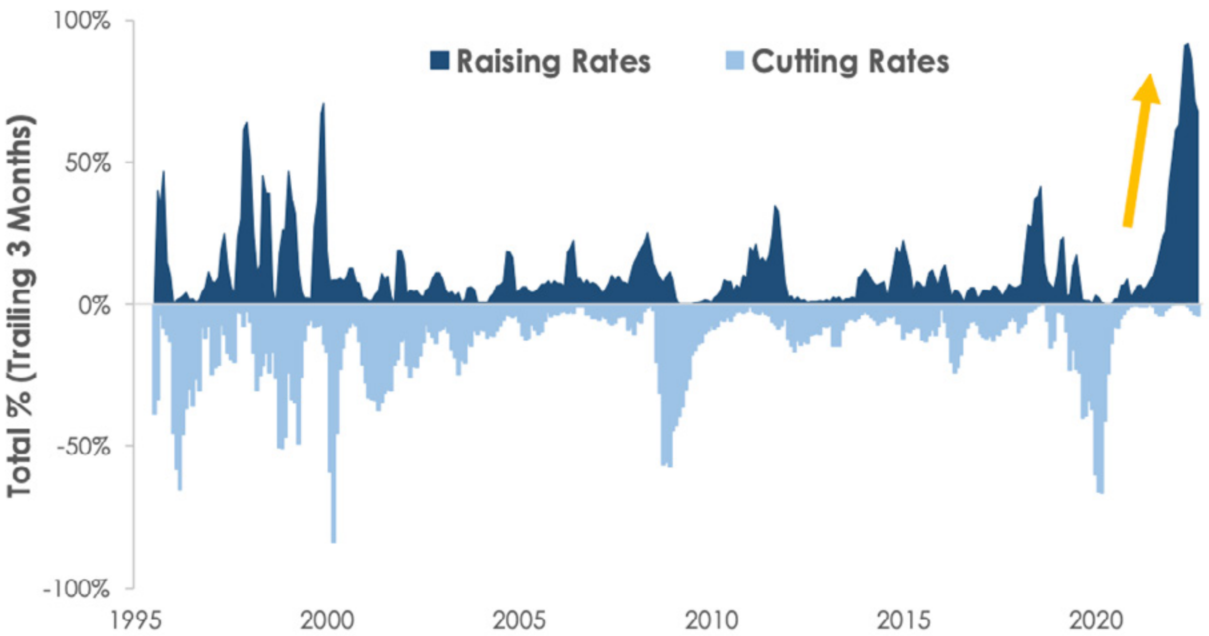
HISTORIC INFLATION LED TO
HISTORIC MONETARY TIGHTENING

The key theme of 2022 was the sharp reversal of accommodative monetary policy during the Covid-19 pandemic to aggressive tightening as central banks around the world hiked interest rates to rein in inflation.

The following chart illustrates how historic the interest rate increases were in terms of speed and magnitude.

The chart tracks the cumulative percentage of interest rate increases and decreases by global central banks during rolling three-month periods since 1995. For example, the 68% at the end of November 2022 indicates that central banks around the globe raised interest rates by a total of 68% from September to November. In contrast, the total amount of interest rate cuts during that same period was only 4%. As the data shows, 2022 was the quickest, largest, and most imbalanced global tightening cycle since the late 1990s (Chart from Market Desk):

FIGURE 2 – Global Central Bank Activity (Interest Rate Cuts vs Hikes)



Source: MarketDesk, Various Central Banks. Data through November 30, 2022.

The chart(s)/graph(s) shown is(are) for informational purposes only and should not be considered as an offer to buy, solicitation to sell, or recommendation to engage in any transaction or strategy. Past performance may not be indicative of future results. While the sources of information, including any forward-looking statements and estimates, included in this (these) chart(s)/graph(s) was deemed reliable, Corbett Road Wealth Management, Spire Wealth Management LLC, Spire Securities LLC and its affiliates do not guarantee its accuracy.

Please see important disclosures at the end of this article

THE IMPACT FROM LAST YEAR'S TIGHTENING **SHOULD MANIFEST IN 2023**

The new year brings the next phase of the tightening cycle where the lagged effects of restrictive monetary policy will be felt. The focus will likely shift from the number of remaining rate hikes to the impact of last year's tightening and how much that will slow the economy, given that inflation looks to be on the decline. In some areas, such as the housing market, tighter monetary policy has already had an impact. Home sales are slowing, and builder confidence declined every month in 2022 and currently sits at a 10-year low.[2] Meanwhile, consumers are continuing to spend, and employers are still creating jobs. There is still a wide range of potential outcomes. The unique nature of the pandemic and the rapid changes in fiscal and monetary policy make for a murky path forward.

Our base case remains a recession is likely. We will continue to monitor conditions using **macro**cast™ and **micro**cast™ and adjust our view as necessary.

2) Source: National Association of Home Builders (NAHB) Index

ASSET CLASS **REVIEW**

The following table highlights major asset class returns over the past 15 years (from Novel

Asset Class Returns[3]

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
HG Bnd 5.2%	EM 79.0%	REIT 28.0%	REIT 8.3%	REIT 19.7%	Sm Cap 38.8%	REIT 28.0%	REIT 2.8%	Sm Cap 21.3%	EM 37.8%	Cash 1.8%	Lg Cap 31.5%	Sm Cap 20.0%	REIT 41.3%	Cash 1.6%	Lg Cap 254.6%
Cash 1.7%	HY Bnd 57.5%	Sm Cap 26.9%	HG Bnd 7.8%	EM 18.6%	Lg Cap 32.4%	Lg Cap 13.7%	Lg Cap 1.4%	HY Bnd 17.5%	Int'l 25.6%	HG Bnd 0.0%	REIT 28.7%	EM 18.7%	Lg Cap 28.7%	HY Bnd -11.2%	Sm Cap 182.2%
AA -22.4%	Int'l Stk 32.5%	EM 19.2%	HY Bnd 4.4%	Int'l Stk 17.9%	Int'l Stk 23.3%	AA 6.9%	HG Bnd 0.6%	Lg Cap 12.0%	Lg Cap 21.8%	HY Bnd -2.3%	Sm Cap 25.5%	Lg Cap 18.4%	Sm Cap 14.8%	HG Bnd -13.0%	REIT 162.5%
HY Bnd -26.4%	REIT 28.0%	HY Bnd 15.2%	Lg Cap 2.1%	Sm Cap 16.4%	AA 11.5%	HG Bnd 6.0%	Cash 0.0%	EM 11.6%	Sm Cap 14.7%	REIT -4.0%	Int'l Stk 22.7%	AA 9.8%	Int'l Stk 11.8%	Int'l Stk -14.0%	HY Bnd 137.3%
Sm Cap -33.8%	Sm Cap 27.2%	Lg Cap 15.1%	AA 0.3%	Lg Cap 16.0%	HY Bnd 7.4%	Sm Cap 4.9%	Int'l Stk -0.4%	REIT 8.6%	AA 14.6%	Lg Cap -4.4%	AA 18.9%	Int'l Stk 8.3%	AA 10.9%	AA -16.5%	AA 104.0%
Lg Cap -37.0%	Lg Cap 26.5%	AA 13.5%	Cash 0.1%	HY Bnd 15.6%	REIT 2.9%	HY Bnd 2.5%	AA -1.3%	AA 7.2%	REIT 8.7%	AA -5.6%	EM 18.9%	HY Bnd 7.5%	HY Bnd 5.4%	Lg Cap -18.1%	HG Bnd 48.3%
REIT -37.7%	AA 24.6%	Int'l Stk 8.2%	Sm Cap -4.2%	AA 12.2%	Cash 0.1%	Cash 0.0%	Sm Cap -4.4%	HG Bnd 2.7%	HY Bnd 7.5%	Sm Cap -11.0%	HY Bnd 14.4%	HG Bnd 6.1%	Cash 0.0%	EM -19.7%	Int'l Stk 40.5%
Int'l Stk -43.1%	HG Bnd 5.9%	HG Bnd 6.5%	Int'l Stk -11.7%	HG Bnd 4.2%	HG Bnd -2.0%	EM -1.8%	HY Bnd -4.6%	Int'l Stk 1.5%	HG Bnd 3.5%	Int'l Stk -13.4%	HG Bnd 8.7%	Cash 0.6%	HG Bnd -1.5%	Sm Cap -20.4%	EM 16.0%
EM -53.2%	Cash 0.1%	Cash 0.1%	EM -18.2%	Cash 0.1%	EM -2.3%	Int'l Stk -4.5%	EM -14.6%	Cash 0.3%	Cash 0.8%	EM -14.3%	Cash 2.2%	REIT -5.1%	EM -2.2%	REIT -24.4%	Cash 9.8%

Abbr.	Asset Class – Index	Annual	Best	Worst
Lg Cap	Large Cap Stocks – S&P 500 Index	8.81%	32.4%	-37.0%
Sm Cap	Small Cap Stocks – Russell 2000 Index	7.16%	38.8%	-33.8%
Int'l Stk	International Developed Stocks – MSCI EAFE Index	2.29%	32.5%	-43.1%
EM	EM Stocks – MSCI Emerging Markets Index	0.99%	79.0%	-53.2%

Abbr.	Asset Class – Index	Annual	Best	Worst
REIT	REITs – FTSE NAREIT All Equity Index	6.70%	41.3%	-37.7%
HG Bnd	High Grade Bonds – Bloomberg Barclays U.S. Agg Index	2.57%	8.7%	-13.01%
HY Bnd	High Yield Bonds – ICE BofA US High Yield Index	6.02%	57.5%	-26.4%
Cash	Cash – S&P U.S. Treasury Bill 0-3 Mth Index	0.62%	1.66%	0.0%
AA*	Asset Allocation Portfolio*	4.87%	24.6%	-22.4%

Please see important disclosures at the end of this article

3) Past performance does not guarantee future returns. The historical performance shows changes in market trends across several asset classes over the past fifteen years. Returns represent total annual returns (reinvestment of all distributions) and does not include fees and expenses. The investments you choose should reflect your financial goals and risk tolerance. For assistance, talk to a financial professional. All data are as of 12/31/22.
3) Total column represents the cumulative return from 2008-2022 while the Annual column in the table represents the annualized return of each index from 2008-2022.
**Asset Allocation (AA) Portfolio is 15% large cap stocks, 15% international stocks. 10% small cap stocks, 10% emerging market stocks, 10% REITs, 40% high-grade bonds, and annual rebalancing.*

Some additional insights:

1. ***Everything but cash was negative.*** As we stated earlier, there was no place to hide in 2022. Bonds suffered almost as much as stocks.
2. ***International stocks outperformed the US.*** International Developed stocks beat the S&P 500 for the first time since 2017. Over the past decade, US stocks easily outperformed international stocks, but we may now be at the beginning of a period when this outperformance reverses.
3. ***Real Estate Investment Trusts (REITs) went from first to worst.*** REITs continued to ping-pong from one of the top performing asset classes to one of the worst. The asset class rebounded in 2021 after the pandemic, only to drop almost 25% in 2022.
4. ***Novel's Asset Allocation* beat the S&P 500 for the first time in 15 years.*** Novel Investor outlines a basic asset allocation portfolio, which they include in the above table as indicated by the gray box with the "AA" heading. From 2000-2008, Novel Investor reported that their AA model consistently beat the S&P 500 despite the portfolio's large allocation to bonds. Subsequently, it went on to underperform the market for 15 consecutive years beginning in 2009. The streak reflects both the strength of US Large Cap stocks vs. Small Cap stocks, as well as the relative weakness in emerging markets and Europe during that time. The AA portfolio finally broke that streak in 2022. Time will tell if a new streak emerges.

In summary, equity and bond markets both suffered in 2022 due to aggressive monetary policy aimed at reducing inflation. As last year's tightening works its way through the economy, we expect economic growth to slow in 2023, likely resulting in a recession. As conditions continue to evolve, we will take into account the messages from our risk models and adjust our strategy positioning as necessary.

We at Corbett Road want to wish you and your family happiness and health in the New Year. Thank you for your continued trust in us.

CORBETT ROAD
WEALTH MANAGEMENT

IMPORTANT DISCLOSURES

The chart(s)/graph(s) shown is(are) for informational purposes only and should not be considered as an offer to buy, solicitation to sell, or recommendation to engage in any transaction or strategy. Past performance may not be indicative of future results. While the sources of information, including any forward-looking statements and estimates, included in this (these) chart(s)/graph(s) was deemed reliable, Corbett Road Wealth Management, Spire Wealth Management LLC, Spire Securities LLC and its affiliates do not guarantee its accuracy.

The views and opinions expressed in this article are those of the authors as of the date of this publication, are subject to change without notice, and do not necessarily reflect the opinions of Spire Wealth Management LLC, Spire Securities LLC or its affiliates.

All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. ***macro**cast™ and **micro**cast™ are proprietary indexes used by Corbett Road Wealth Management to help assist in the investment decision-making process. Neither the information provided by **macro**cast™ or **micro**cast™ nor any opinion expressed herein considers any investor's individual circumstances nor should it be treated as personalized advice. Individual investors should consult with a financial professional before engaging in any transaction or strategy. The phrase "the market" refers to the S&P 500 Total Return Index unless otherwise stated. The phrase "risk assets" refers to equities, REITs, high yield bonds, and other high volatility securities.*

Use of Indicators
Corbett Road's quantitative models utilize a variety of factors to analyze trends in economic conditions and the stock market to determine asset and sector allocations that help us gauge market movements in the short- and intermediate term. There is no guarantee that these models or any of the factors used by these models will result in favorable performance returns.

Spire Wealth Management, LLC is a Federally Registered Investment Advisory Firm. Securities offered through an affiliated company, Spire Securities, LLC, a Registered Broker/Dealer and member FINRA/SIPC. Registration does not imply any level of skill or training.

CORBETT ROAD
WEALTH MANAGEMENT

Washington, D.C.
7901 Jones Branch Dr
Suite 800
McLean, VA 22102
Local: 703.748.5836

Boston, MA
101 Arch St
8th Floor
Boston, MA 02110
Local: 617.600.7930

Los Angeles, CA
10100 Santa Monica Blvd
Suite 300
Los Angeles, CA 90067
Local: 310.591.5674

Fort Lauderdale, FL
2598 E. Sunrise Blvd
Suite 2104
Ft. Lauderdale, FL 33304
Local: 954.507.6028

Knoxville, TN
800 S. Gay St
Suite 700
Knoxville, TN 37929
Local: 865.444.4520

Phoenix, AZ
2375 E. Camelback Rd
Suite 600
Phoenix, AZ 85016
Local: 602.807.1145

St. Louis, MO
7777 Bonhomme Ave
Suite 1800
Clayton, MO 63105
Local: 314.463.0132

Toll Free: 844.688.4955
info@corbettroad.com
www.corbettroad.com
linkedin.com/company/corbettroad