

## PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager, November 2022

This is a summary of our views on the economy and markets based on data through October 2022.

### Economy

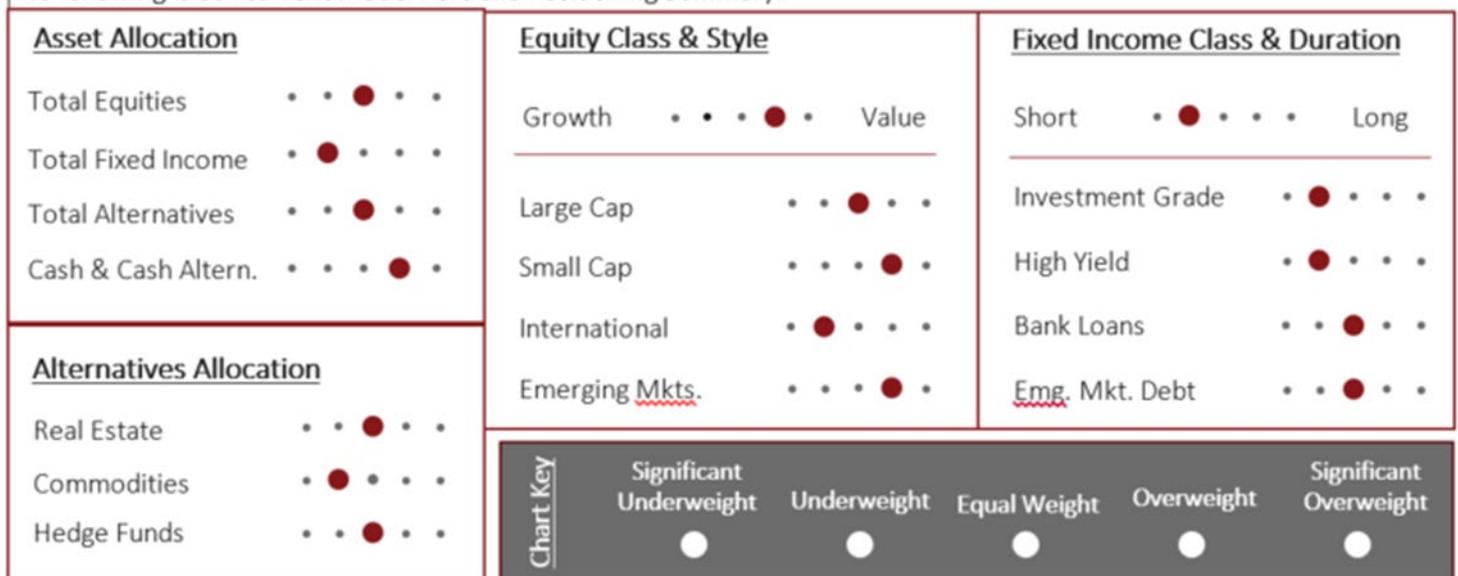
- U.S. GDP Growth – We saw GDP pick up a little steam in the 3<sup>rd</sup> quarter 2022 versus two negative growth quarters to start the year. The great corporate earnings growth rebound of 2021 is now in the past. Earnings expectations for 2023 will be volatile.
- Inflation – Headline inflation (including energy) increased to 8.2% in September and was exacerbated by spikes in shelter. Core inflation was 6.6% in September. The market expects more interest rate increases this year.
- Employment/Wages – Unemployment has improved, albeit with fits and starts. Tightness in the labor market is leading to higher wage growth; however, the wage growth rate is below the rate of inflation.
- Interest rates – Following 75 basis point increases at their June, July and September meetings, we expect the Federal Reserve to continue with 50 to 75 basis point increases in interest rates at their next few meetings. The futures market is pricing in a probability of a fed funds rate of over 4% by year-end.

### Markets

- Fixed Income – The short end of the yield curve is pricing in interest rate increases. The longer end of the yield curve is pricing in interest rate cuts. The Treasury yield curve is inverted between the two-year and the ten-year Treasury. We expect to see an inverted yield curve continue through at least the remainder of 2022.
- Equities – We expect GDP growth to remain slow and/or contract for calendar 2023. We believe that equity markets will continue to experience volatility as inflation and interest rate increases provide headwinds to valuations.
- Alternatives – Private real estate’s, retail, office, and apartment sectors have not kept pace with torrid industrial sector, but are posting positive results in aggregate in 2022. Hedge funds provide diversification benefits to equity/fixed income markets. Commodities have delivered strong results recently but face supply/demand imbalances and volatility.

### TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



<sup>1</sup> Provided by our affiliate, Discretionary Management Services (DMS), LLC