



Glen Eagle

Faith Family Firm®

January 2023 Investment Commentary

Welcome to 2023! As we start the new year and find ourselves reflecting upon our new year's resolutions (at least through January), it is hard not to look back at the market over the past year with a sense of relief that it is over. During 2022, the stock market experienced its worst correction since the Great Financial Crisis in 2008, with the S&P 500 dropping 18.3% and the tech-heavy Nasdaq dropping 32.9%.

We find investors feel unsure about what 2023 will bring. After all, we still have high inflation, the war in Ukraine rages on, oil prices remain unstable, political gridlock continues, the real estate market is pulling back, Covid has yet to completely leave us, the economy is now slowing...and the list goes on and on. However, this type of environment in which there are innumerable reasons to be cautious can be problematic because studies show that investors will use their recent bad experience with the stock market (i.e., 2022) to influence their portfolio strategy going forward. This type of "recency bias" was shown to have negatively impacted investors' performance during the financial crisis, and we believe it will do so again over the next year.⁽¹⁾

Although it is a child-like analogy, we think investors would be better served remembering the Wizard of Oz. Just as the renowned wizard initially instilled Dorothy and her travel companions with fear with his booming voice and theatrical stunts, so too does the laundry list of issues we listed above conjure up fear in us. Yet, ultimately, here at Glen Eagle, we believe the data and history indicate that we may be facing a less powerful adversary...perhaps just an older man behind a curtain. Below we have addressed three of the largest fears investors are grappling with today:

- **FEAR #1: We Could be Entering a Recession:** Of all the fears out there today, this one is the most prominent, and understandably so. The stock market has fallen into a recession 9 of the past 12 times that the Federal Reserve has raised interest rates.⁽²⁾ It is important to remember that the stock market is "forward-looking" and does not move in unison with the economy. This is one reason why the stock market fell 20% last year when the economy remained strong and why it historically moves higher six months before a recession is even over and the unemployment rate is still rising.⁽³⁾
- **FEAR #2: This Could be Like the Late 1970s (i.e., long-term inflation):** While today we are experiencing historic inflation levels (like the 1970s/80s), we should not jump to make the different time periods comparable. By contrast, our higher-level inflation, which looks to have already peaked, began as recently as the spring of 2021, and our unemployment rate remains at a historic low of 3.6%.⁽⁴⁾ Additionally, we have an aging population today, which puts downward pressure on long-term inflation.
- **FEAR #3: What if the Market Has Several Bad Years:** We have found that American companies, which comprise the stock market, are likely to continue growing their businesses and thus their earnings and stock prices over time. This is not to say that we could not have two or three consecutive years of negative stock market returns...we feel it is not likely. In fact, we have never had a negative stock market performance over a 3-, 5-, or 10-year period following a -25% drop in the stock market (as we experienced from January to September of last year) – see table below.⁽⁵⁾

Time Period	Decline %	1-Year Later	3-Years Later	5-Years Later	10-Years Later
Dec 1961 – Jun 1962	-28.0%	31.2%	69.2%	94.8%	171.1%
Nov 1968 – May 1970	-36.1%	32.2%	44.3%	27.9%	97.5%
Jan 1973 – Oct 1974	-48.2%	1.4%	23.8%	42.0%	188.4%
Nov 1980 – Aug 1982	-27.1%	43.9%	81.2%	238.6%	403.9%
Aug 1987 – Dec 1987	-33.5%	14.7%	34.1%	96.8%	387.1%
Mar 2000 – Oct 2002	-49.1%	0.2%	1.9%	21.5%	38.3%
Oct 2007 – Mar 2009	-56.8%	-6.9%	3.7%	61.2%	209.6%
Feb 2020 – Mar 2020	-33.9%	56.4%	NA	NA	NA
Jan 2022 – Sep 2022	-25.2%	NA	NA	NA	NA
Average	-37.6%	21.6%	36.9%	83.3%	213.7%

That being said, we think we are still likely to live through another year of high volatility in the stock market, and we believe the below three areas of focus should help investors weather this storm so they can still achieve their financial goals:

- 1) **Higher Yields:** As we have discussed previously, there is now a real opportunity cost to holding excess cash in bank accounts. The average interest rate on a bank savings account is just 0.268%.⁽⁶⁾, whereas the yield on a 1-year treasury is now over 4.5%. This change in yields is also benefiting bonds, with some investment-grade corporate bonds yielding around 5%. For income-focused investors, corporate bonds and short-term treasuries are beginning to look more attractive after experiencing one of their worst years in history.
- 2) **Emerging Markets:** The United States comprises roughly 25% of the world economy. Yet, investors have focused so heavily on the American stock market that it comprises a shocking 65% of the global stock market. There are many good reasons to over-weight your portfolio towards the US, including the fact that our companies are more tech-innovative and have higher profit margins, but we believe now is a good time to add a small amount of international exposure. This is especially true for investors with a longer time horizon that can invest in growing economies such as India, which surpassed the UK this year to be the 4th largest stock market in the world and expects to have 79% of its population within the middle class by 2030.⁽⁷⁾
- 3) **Strong Dividends:** When interest rates were low, investors prioritized growth companies, specifically those in the technology sector, above all else. That changed this past year, however, as interest rates rose rapidly, and investors began to worry about a possible recession. We believe this shift in preference will lead investors to once again prioritize companies that have strong balance sheets and can grow their dividends. While dividends have not been popular over the past few years, they have nevertheless played an important role. In fact, over the past twenty years, reinvested dividends contributed 45% of the S&P 500 total return.⁽⁸⁾ We believe now is once again a good time to pay respect to the successful dividend-investment strategy.

Wishing you and your family a wonderful start to the new year. May 2023 bring good health, laughter, and strong portfolios!

The Michel Team

Susan, Rob, and Carol Ann

Disclosure: This commentary is furnished for the use of Glen Eagle Advisors, LLC, a SEC Registered Investment Advisor; Glen Eagle Wealth, LLC, a FINRA & SIPC Member Broker Dealer and their clients. It does not constitute the provision of investment advice or recommendation to any person. It is not prepared with respect to the specific objectives, financial situation, or particular needs of any specific person. Investors reading this commentary should consult with their Glen Eagle representative regarding the appropriateness of investing in any securities or adapting any investment strategies discussed in this commentary.

1) Morningstar "Is Recency Bias Swaying Your Investing Decisions?" 2) WSJ - "Investors Grow More Confident Fed Will Pull Off a Soft Landing" 3) Capital Group "2023 Investment Outlook" 4) MarketWatch - "Opinion: History Shows Powell Won't Have to Hammer the Economy the Way Volcker Did" 5) The Irrelevant Investor 6) WSJ - "Six Ways to Protect Your Money in 2023" 7) JPMorgan Guide to the Markets – December 2022 8) TRowe Price – "A single approach for multiple market realities"

4422C Route 27, Kingston, NJ 08528

Business: (609)-631-8231 Fax: (609)-631-8237

Securities offered through Glen Eagle Wealth, LLC, member of FINRA, SIPC and MSRB.

Advisory Services offered through Glen Eagle Advisors, LLC

www.gleneagleadv.com