MORENO DYE
CERVANTES
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

3020 Old Ranch Pkwy., Suite 190
Seal Beach, CA 90740
Office 562-493-3511
Toll Free 844-219-0260
www.morenodyecervanteswmg.wfadv.com

4th Quarter 2022 Moreno Dye Cervantes Wealth Management Group of Wells Fargo Advisors Quarterly Newsletter

Although the financial markets ended up having a positive 4th quarter, it sure feels good to say goodbye to 2022! Last year proved to be the most challenging year for stock market investors since 2008 and even more frustrating for bond market investors with the Bloomberg Aggregate US Bond Index's worst year since 1977. The returns below depict how disappointing last year performed:

	2022 4th Quarter	Year-to-Date
Dow Jones Industrial Average	7.87%	-6.86%
Russell 1000 Growth Index	11.64%	-29.14%
Russell 1000 Value Index	7.77%	-7.54%
NASDAQ Composite Index	8.45%	-32.54%
S&P Mid Cap 400 Index	8.00%	-13.06%
S&P Small Cap 600 Index	11.03%	-18.11%
MSCI EAFE – International Index	2.69%	-14.45%
Bloomberg Barclays US AGG Bond	0.01%	-13.01%

*Wells Fargo Advisors Monthly Major Index Returns

Before we look forward to 2023, we want to take a moment to reflect upon the difficult investment circumstances that we endured in 2022. In the 1st quarter of last year, Russia invaded Ukraine which caused an inflationary spike in commodities, not to mention creating a catastrophic humanitarian crisis. Additionally, the global economy was still suffering from supply chain distributions as a result of Covid and China's Zero Covid policy. The most impactful challenge to the financial markets in 2022 was the Federal Reserve's monetary policy. Inflation hit a 40-year high of 9.1% and the FED had to get aggressive. Therefore, they raised rates from 0.10% in March of last year to 4.25-4.50% by the end of 2022. To put this in perspective, 2022 had the steepest increase in interest rates in a single year since 1973. These events combined with high asset valuations going into 2022 led to a difficult year.

To start the New Year, we expect to see continued financial market volatility as we still are in an environment where the FED is raising rates, reducing their balance sheet and talking very tough on fighting inflation. We do believe there is a strong likelihood that they pause raising interest rates in the first half of 2023 as downward economic trends have developed and inflation has peaked. There are definitely concerns about a recession in 2023, but it is very likely to be mild due to the fact that the unemployment rate in the U.S. is still very low at 3.7% and both household and corporate balance sheets are strong.

For the stock market in particular, we anticipate that the first half of 2023 could remain challenging. Corporate earnings have been muted by consumer demand reduction and wage increases, which is why we also anticipate larger layoff announcements as companies work to trim expenses. As we suggested at the beginning of last year, stock market price-to-earnings multiples were historically too high, especially in technology.

Investment and Insurance Products are:

Not Insured by the FDIC or Any Federal Government Agency	Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate	Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested

Investment products and services are offered through Wells Fargo Advisors, a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.

Today those earnings multiples are definitely lower, but not at a level that we would say is historically cheap. We anticipate that price-to-earnings ratios on a forward looking basis will become more attractive as the year goes on, which could be much more constructive for stocks as we look into 2024.

Bonds, on the other hand, might be one of the better positioned risk adjusted investments to start 2023. After experiencing their most difficult year in over 40 years, bond yields are much more attractive for investors seeking income and stability. Keeping in mind that the yield curve is inverted, meaning that short-term yields are higher than long-term yields, bond market investors are anticipating that the FED is close to stopping their interest rates increases and will need to start lowering interest rates again as early as 2024. It is good to note that historically when the yield curve inverts it has been a good time to invest in bonds, which is why we anticipate that bonds will have at a minimum more stability in 2023.

As we progress through the year, our expectation is that economic conditions will start to improve in the second half of the year due to continued evidence that inflation is cooling. This should allow the FED to begin to relax both their message and interest rate policy. That said, we are still cautious as we still need to work through more economic data in order to convince the FED that they have done enough to get inflation towards their 2% target. The path to the FED's target will include some economic pain, but the combination of slowing global demand, increased inventory levels and a significant slowdown in housing will continue to apply downward pressure on inflation in the months to come.

At a minimum, 2022 provided another test for our long-term investment principles. Every year has its own unique challenges, but experiencing a year in which bonds in many cases were down as much as stocks is rare. In many ways, last year was a reset for asset prices of all types: stocks, bonds, real estate, crypto assets, etc. Yet, each time our investment disciplines are challenged, we are reminded that the benefits of portfolio diversification are substantial over time. The New Year will no doubt have its own unique challenges as we face subpar economic growth and the risk of recession. What we do know is that maintaining a well-diversified portfolio will provide you the best opportunity to be successful in the long run.

We are happy to welcome the New Year and look forward to speaking with all of you. We cannot thank you enough for the trust and support that you have shown our team throughout the years. Your willingness to refer and entrust your friends and family into our care is very humbling. Our goal is always to maintain your trust and confidence. If you have any questions, concerns or interest in meeting via Zoom or in-person, please do not hesitate to let us know. We hope that you had a wonderful holiday season and wish you a happy, healthy and prosperous 2023.

Sincerely,

Jose A. Moreno, CFP®
Managing Director – Investments

Michael B. Dye, CRPC®
Managing Director – Investments

Oliver A. Cervantes, CFP®, CRPC®, RICP®
Managing Director – Investments

Dividends are subject to change or elimination and are not guaranteed.
Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than original cost upon redemption or maturity.
Wells Fargo Advisors did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisors or its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Past performance is no guarantee of future results. Additional information is available upon request.
The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.
The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor's 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.

The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.
The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.
The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between $1-4 billion.
The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.
The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.
Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.