PATIENCE & MONEY

THE 282 GROUP OF WELLS FARGO ADVISORS

"WHOEVER WISHES TO WIN IN THIS GAME MUST HAVE BOTH PATIENCE AND MONEY" – JOSEF DE LA VEGA, DUTCH TRADER, 1688

WINTER ISSUE • 1st QUARTER 2023

282 GROUP: FACES • EQUITY UPDATE: REASONS FOR STOCKS in '23 • FIXED INCOME UPDATE: SCORECARD/PLAYBOOK • EVERYDAY ECONOMY: USED CAR PRICES TUMBLE

NEW AND FAMILIAR FACES HEADING INTO 2023

The 282 Group

When we hear something is the 'Best Of' its industry, whether we are talking about hotels, sports teams, restaurants, at the core of the 'Best Of' anything - what is truly distinct between *The Great* and *The Good* - is the level of care The Best provides. Every day the 282 Group strives to be considered one of the best of wealth management and financial services. In recent months Staci Mills, CERTIFIED FINANCIAL PLANNER™ Professional has joined the 282 Group. She will bring a level of care and expertise to your financial planning needs that you have come to know and expect from us. We are proud to introduce her and cannot wait for you to meet her. Happy New Year!

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Senior Vice President,
Investment Officer
PIM Portfolio Manager
Lead Equity Strategist
Industry Experience: 24

Sam Pennell, Jr.
First Vice President, Investment Officer
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Staci R. Mills
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282 Group Administrative Lead
Industry Experience: 30

Investment and Insurance Products:		
Not FDIC Insured	No Bank Guarantee	May Lose Value

5 REASONS TO BUY STOCKS IN 2023

Equities
Ryan Culpepper
Senior Vice President, Investment Officer | PIM Portfolio Manager

Goodbye and good riddance to 2022! This past year has been an exceptionally tough year for almost every investment market. In fact, 2022 ranks among the worst investment environments in Wall Street history. And it's easy to see why – high inflation, a mega hawkish Fed, soaring commodity and gas prices, the Russian-Ukraine war, strained global supply chains, and the threat of an incoming recession. Talk about worrisome! The fact is, you don't have to go far to find negative news on this economy or this stock market.

But with 2022 in the rearview, we are welcoming the New Year with open arms and a renewed sense of bullishness. If you turn on the television today, you don't have to listen long to hear several concerns for 2023. With that fact in plain sight, we thought we would give you our Bullish case for 2023. Please know, these are not flippant predictions. These are realistic scenarios for 2023 based on current economic indicators and market signals we monitor. All of which, would get us excited about owning stocks.

1) Inflation could fall much faster than everyone thinks. The Federal Reserve's aggressive rate hikes are working. Incoming data from various fronts all point to slowing inflation, most recently seen as in manufacturing and commodity prices. Home prices can continue to moderate. Rents are plateauing and starting to recede in some cities, even in the South. Indeed, disinflationary pressures our building across the board. That could continue rapidly throughout the year. And historically, speaking, when inflation falls, stocks can rally.

2) The Fed could pause rate hikes, much sooner than expected. Inflation is starting to fall. The economy is starting to slow, and soon, employment could rise. All that sets the stage for a pause in rate hikes for 2023. Our bullish case could have the Fed stopping hikes all together in February. Much sooner than what futures markets are currently pricing in. A pause is typically bullish for stocks. We think if the Fed pauses sooner than what is priced in this could kick start a **12-month** bullish break out on the S&P 500.

3) The economy could avert a deep recession. For a majority of the past 15 years, folks saved at an above average rate. And today, the consumer is still spending robustly. Employment levels remain uncharacteristically strong. This could mean that companies will continue to see earnings grow, and will largely maintain their work forces, which should keep the labor market steady. So, barring some unforeseen black swan event, we could be able to avert a deep recession in 2023, especially if the Fed pauses in February. Could we see a shallow recession? Sure. But that's pretty much already fully priced into stocks. A shallow recession would be great for our stock prices.

4). The case for a 20%+ return from the S&P 500. Disinflation usually causes price to earnings multiples (P/E) to expand. With how quickly inflation is beginning to come down we could be talking about disinflation on the back of 2023. Based on the backdrop of a disinflationary backdrop in 2023, we could see what is historically consistent with 25% to 30% PE multiple of expansion on the S&P 500. At the same time, if earnings were to be flat or at worst down 5%. That means P/E expansion. If PE multiples rise at least 25% and earnings come down at worst 5%, then the market could rally 20% or more in 2023.

5) We could see the housing market stage a huge rebound. By all accounts, the housing market was hit hard in 2022. But looking beyond the initial price declines of 2022 we see that supply remains limited, and there's a lot of pent-up demand on the sidelines. If we see mortgage rates steady or move lower, following a Fed pause, we could see demand flooding back into the housing markets. The first millennials will be turning 43 this year, a demographic larger than the baby boomers. As they continue to move from the city to the suburbs, we could see continued strong demand in the housing market, which could fuel economic growth.

It's not out of the question to think 2023 could lead to a bullish stock market. With investor sentiment at lows not seen since the 2008 financial crisis, we feel the surprise could be to the upside for stocks from here.

Happy New Year and Stay Bullish!

Stocks offer long-term growth potential but may fluctuate more and provide less current income than other investments.
Index returns are not fund returns. An index is unmanaged and not available for direct investment.
The S&P 500 [Standard & Poor's 500] is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.

A FED SCORECARD AND A BOND PLAYBOOK

Fixed Income

Sam Pennell, Jr.
First Vice President, Investment Officer | PIM Portfolio Manager

We thought bonds were supposed to be boring. Last year was anything but. US Treasuries were routed to end 2022 as the worst year on record, leaving yields at their highest point since 2010. Before we look ahead to the opportunities presented to us in 2023, let's look back to see how and why we got here…muddling through the worst 24 months in recorded bond history. To end the year the ever-important 10-year Treasury note yielded 3.87% - a 16% price drop. It's more unpredictable sibling, the 2-year note finished yielding 4.43%.

A Scorecard: The biggest factor in last year's market results was Fed policy. Going-forward, Fed policy will continue to have an outsized influence on your stock and bond allocations. Here at the 282 Group, we oft recite the adage, "don't fight the Fed". We may not want to fight the Fed, but we sure do not mind critiquing it, either. As a market participant it is only fair to grade the Fed's policies and execution as it plainly influences each person reading this – from mortgage rates, savings rates, and stock performance. We will grade the Fed by their own stated objectives. The Fed has dual mandate as the world's largest economy's central bank: first, price stability and second, employment. CPI dominated headlines this year as inflation soared to a 40-year high in June, coming in at 9.1% year-over-year. The impacts were felt in consumer behavior, demand, and heard on quarterly corporate earnings calls. At the 282 Group we believe inflation is at historic levels from monetary policy decisions through the Covid-era; not demand issues. The Fed caused rampant inflation through increasing money supply a cumulative 40% higher and by completing their profligate bond buying programs inflating their balance sheet by 27% from the pre-Covid era. In our view we did not have a cost of money problem (interest rates), we had a supply of money problem (too much money printed).

282 Group's Fed Score: C: The Fed earned a C on raising rates and tightening monetary policy because 1. It needed to be done. Keeping interest rates at or near 0% is not healthy and has led to undue speculation across asset classes. 2. The grade is low because of execution. They waited too long to begin raising rates and now they are raising

at a historically too high and fast a pace. Raising rates has a lagged effect. If prudent, they would stop and assess the damage before continuing the rate hike regime. 3. Part of this discussion is also reducing the Fed's balance sheet which we commend and want to see more. We'll cover more why this is an eventual good thing in our playbook for 2023. 4. To be fair, the Fed is not the only factor in high inflation. Supply chains and production matters. Not to mention Congress' spending does, too. Time will tell how the $1.7 Trillion funding package signed at the end of 2022 will impact inflation going-forward.

The second part of the Fed's calculus is employment. Despite aggressive rate hikes in 2022, jobs data proved robust for the year with jobless claims at historic lows, while nonfarm payrolls kept soaring. Unemployment hit 3.5% in July and again in September, matching a 50-year low. The Fed wants to see unemployment rise to trigger a recession and their argument is it will quell demand. The Fed stated they needed substantial loosening in the labor market to be assured policy measures were working. Again, this would connote the demand side caused our out-of-control inflation. We simply disagree.

282 Group's Fed Score: D: for dumb. Really dumb. Our estimates are the policy is not working because their measures of employment are outdated. More people are leaving the workforce for a myriad of reasons (retirement, family decisions, generous entitlement programs, gig economy jobs, etc.) none of which not show up well on government or private jobs reports. 7 million prime working-age American men between 25-54 are not only unemployed but are not looking for work. How does the Fed model such a low labor participation into its calculus and decision making? There are 11 million openings currently and only 5 million unemployed. Creating an economy where it is not encouraged to expand your workforce, innovate, or create opportunity has lasting effects beyond Fed strategy. A policy stance like this is akin to the old joke, "the beatings will continue until morale improves". Again, if prudent, the Fed would stop and assess the impact of their 2022 policies before moving forward with more hikes in 2023. Morale is not improving, Chair Powell. The beatings should stop.

A Playbook: In our view Fed Chair Jerome Powell is still the most powerful person in Washington. He indicated more rate hikes are to come in 2023 in his December 14, 2022, press conference. Take heed. His influence should not be confused as infallibility. Think back to 2021 when this same Fed told you inflation was transitory. That was wrong. Think back to last year when they said rate hikes would solve inflation. That was wrong, too. Our advice is to pay close attention to the Fed as their messaging may change again, without much notice. We've done our share of reading at year-end with the Street's outlooks and predictions. One thing of concern is how most analysts are in unison that the first half of 2023 will be a mild recession, and the second half will be bullish as rates come down. Usually when everyone on the Street says close to the same thing, it does not happen that way. Be alert. Stay nimble. This may mean keeping higher-than-you-normally-keep cash levels in your fixed income allocation.

2023's Opportunity: this is Yield's Year: Opportunities to consider in an environment as opaque as 2023 is to keep your positions' quality high and consider increasing duration. We like investment grade corporate bond ladders. Last year's tactical trade of buying ultra-short US Treasuries is still available but does not look like the best fixed income idea to us. You can still get comparable yields in 1-year Treasuries and corporates, but we would favor a laddered approach buying Corporates with 7-year maturities, and in certain cases, municipals with maturities (and call dates) of 15 years or less. Institutional Preferreds currently provide a total return play with the potential for a nice jolt of yield to any bond portfolio.

We must take Chair Powell at his word for now that more rate hikes are coming. But a Fed induced recession then naturally leads to a Fed induced rally. This can be **Yield's Year**. If we increase duration and hold high quality, this can become a nice total return over time. Either way, we are comfortable clipping the larger than expected coupons for the time being.

2023's Caution: Caveat emptor and proceed with caution in High Yield and less liquid debt. With interest rates at 0% for nearly 15 years companies have been able to "stay alive" when they are not viable businesses. The industry has dubbed these companies Zombies. Be leery of Zombies with suspiciously attractive yields. There's many out there, especially in the consumer discretion and retail space. Just think of the dying box stores you see in many shopping centers across America. Keep driving past those stores and their bonds.

Over time it is a good thing the Fed is shrinking its balance sheet. This does create a bigger burden for institutions and individual investors to pick up the excess supply; deciding what is worth the investment. Not everything is worth buying. The market will decide, not Fed policy, who are the true winners and losers in this type of environment. Therefore, we will remain in Investment Grade bonds, almost exclusively. If this plays out, Zombies will become less and less attractive to own until their ultimate demise. We recommend not holding the bag when that day comes.

As always, we welcome an opportunity to answer your questions, align your holdings to your goals, and provide guidance. It is a great joy and privilege to serve. Thank you for the continued trust you place in our group. Here's to a healthy, prosperous, and happy 2023. See you in the Spring.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can cause a bond's price to fall. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Bond laddering does not assure a profit or protect against loss in a declining market.

There are special risks associated with investing in preferred securities. Preferred securities generally offer no voting rights with respect to the issuer. Preferred securities are generally subordinated to bonds or other debt instruments in an issuer's capital structure, subjecting them to a greater risk of non-payment than more senior securities. In addition, the issue may be callable which may negatively impact the return of the security. Preferred dividends are not guaranteed and are subject to deferral or elimination.

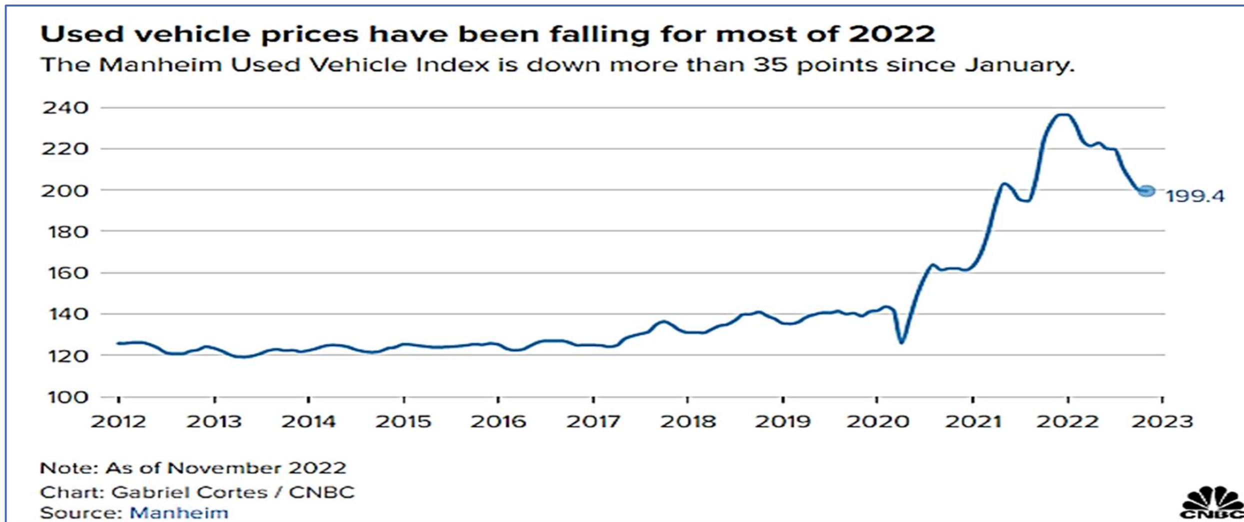
Duration is an estimate of how a portfolio or bond will react to changes in interest rates, representing the approximate change in price for a 1% change in yield.

USED CAR PRICES TUMBLE

Everyday Economy

The 282 Group

As inflation and shortages of key components pushed the average price of a new car to all-time highs (if you could even get one), it is logical that prices on used cars would follow suit – and they did. However, the bloom is off that rose and wholesale prices of used vehicles reached their lowest level in more than a year last month as interest rate hikes raised borrowing costs and fears of an imminent recession continue to spread. Cox Automotive reported that its Manheim Used Vehicle Value Index, which tracks prices of used vehicles sold at its U.S. wholesale auctions, has declined 15.6% from record levels in January through November. Retail prices have not fallen as sharply as wholesale prices but are expected to follow suit. (Chart from CNBC.com).[1]



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