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At the end of each year, we receive several research pieces that opine on the year ahead and thought we would share some of the most salient as well as our thoughts.

The four-decade period of largely stable activity and inflation, is behind us. The new regime of greater macro and market volatility is playing out. A recession is foretold; central banks are on course to overtighten policy as they seek to tame inflation. This keeps us tactically underweight developed market equities. We expect to turn more positive on risk assets at some point in 2023 –but we are not there yet. And when we get there, we don't see the sustained bull markets of the past. (BlackRock 2023 Global Outlook)

This somber introduction accurately captures the challenges investors face. We have endured an extraordinarily rapid increase in rates from the Federal Reserve and, given the lagged nature of interest rate increases, have not yet felt the full impact. Corporate earnings have yet to show the effects, and this has led us to a cautious approach for 2023.

A mild or average recession may see the Fed cut interest rates back close to zero, but the re-establishment of a long-lasting zero interest rate policy and the associated resumption of large-scale asset purchases is not likely to occur. (The Bank Credit Analyst, November 28, 2022 Monthly Report titled "How Much More Pain?")

Globally, interest rates were negative or zero far beyond what policy makers considered when first implementing their accommodative policies going all the way back to the financial crisis of 2008-09. Policy makers have wanted to end the use of many of the financial tools employed when conditions warranted, but the global pandemic precipitated an even more accommodative fiscal and monetary response. US Banks are much stronger financially and market liquidity is not in danger in the way it was previously. We agree that we are unlikely to be back at 0% soon, or for a lengthy duration.

We expect views to change more frequently than in the past. Our stance heading into 2023 is broadly risk-off, with a preference for income over equities and long-term bonds. (BlackRock 2023 Global Outlook)

Volatility has increased dramatically in 2022 – both up and down. We expect this to continue as markets process the new data which is increasingly suggestive of slowing economies. We appreciate the caution from BlackRock and believe that a slowing economy may create a positive environment for long-term bonds. Yes, they are riskier than either stocks or short-term bonds, but in a slowing economy, a longer duration can be beneficial especially if the accompanying yield provides a sufficient income cushion for price volatility.

Either the onset of recession in the US, or a further decline in risky asset prices in anticipation of an eventual US recession, will likely occur at some point next year. From an investment perspective, the most obvious positive development is that government bonds, especially in the US, now offer a much higher yield than they have on average over the past decade. (The Bank Credit Analyst, November 28, 2022 Monthly Report titled "How Much More Pain?")

Bonds are poised to play a more significant role in the total return of our balanced portfolios for the first time in a decade. We are already benefiting from higher yields and anticipate low default rates. As painful as this year has been for bond investors, we often see the asset classes that are first into a bear market, are the first ones out.

2022 has been a difficult year no matter how you slice it. Blue Oak has guided client portfolios through good markets and bad. Neither last forever, and that is certainly the case right now. As we look forward with clear eyes, there are reasons to be optimistic about 2023. Thank you for your trust and confidence.

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