22 Charts for 2022

December 28, 2022

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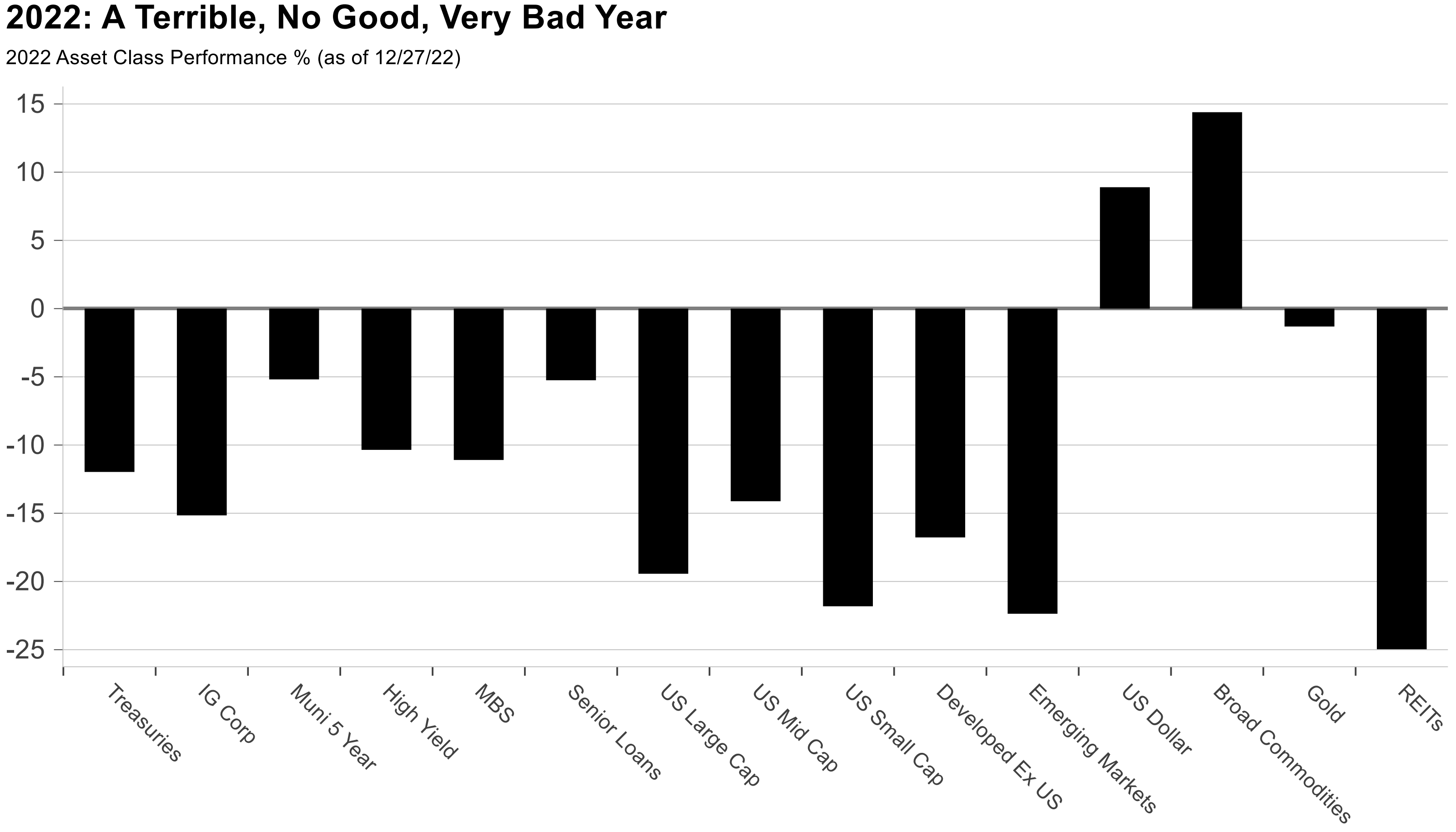
**We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time.**

T.S. Elliot, "Little Gidding", *Four Quartets*

A Terrible, No Good, Very Bad Year: 2022 Was a Tough Year for Assets



Source: NewEdge Wealth, Macrobond, Bloomberg

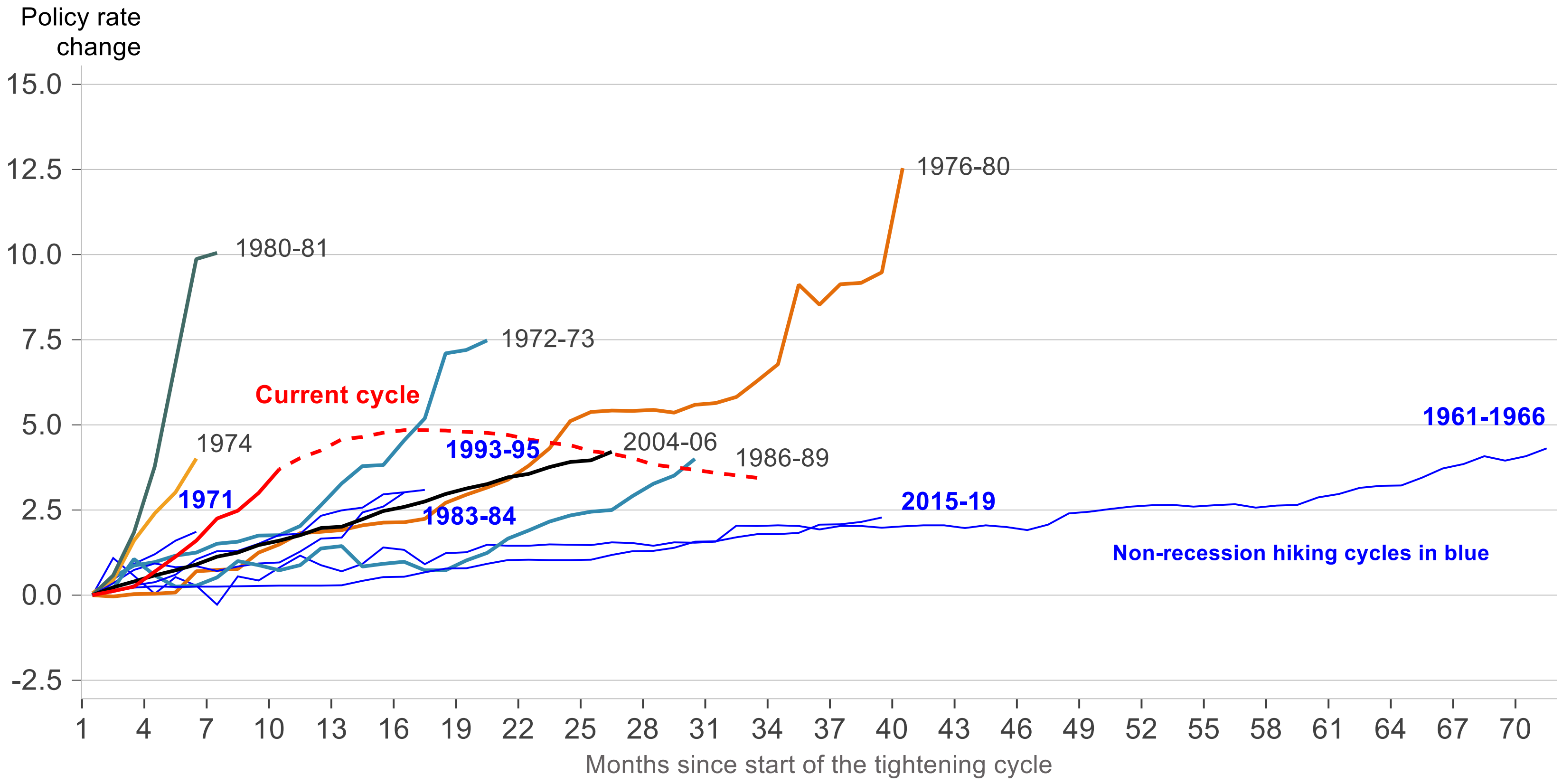
As of: 12/27/22

Almost every major asset class struggled in 2022, except for the US Dollar and broad commodities. Some asset classes, mostly in fixed income, experienced record drawdowns during the year.

Appetite for Destruction: Rapid Fed Tightening

Appetite for Destruction: Fed Funds Effective Rate During Tightening Cycles

Note: The effective fed funds rate is below the "upper bound" rate often quoted (today's effective rate is 4.3% vs. upper bound at 4.5%), dashed line illustrates Fed funds futures for the current cycle



Source: NewEdge Wealth, Macrobond, Bloomberg Federal Reserve, CME Group

As of: 12/27/22

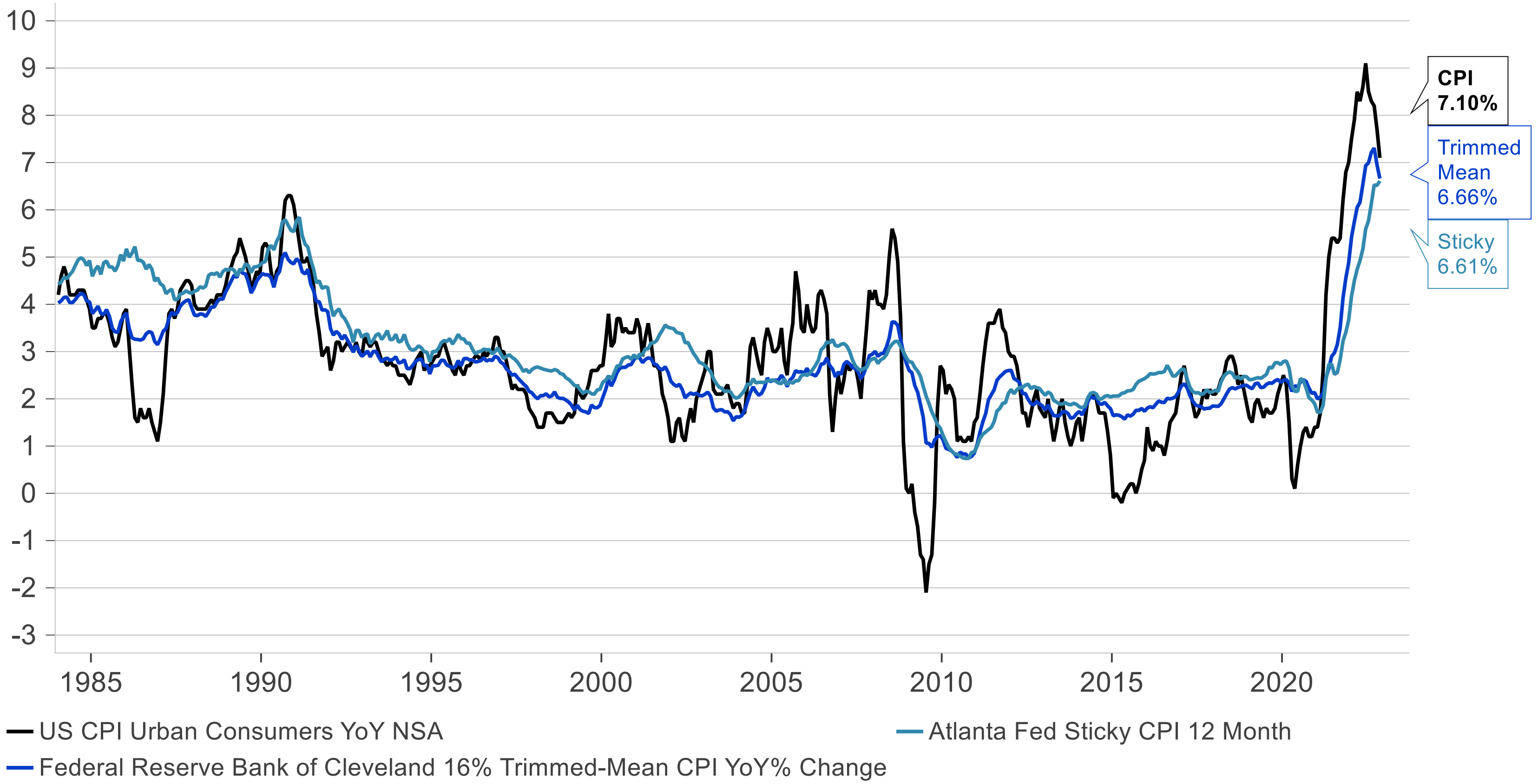
The Fed engaged in its most rapid tightening cycle since the Volker era of the early 1980s, raising rates by 450 bps in just 10 months.

Note the chart shows the Effective Fed Funds rate through November 2022. This is below the Upper Bound of the Fed Funds rate, which is often quoted.

Transitioning from Transitory: Inflation Peaked but Still Broad and Sticky

Inflation Peaked but Broad and Sticky Inflation Makes Fed's Job Difficult

Headline CPI YoY%,Trimmed-Mean CPI YoY%, and Atlanta Fed Sticky CPI YoY%

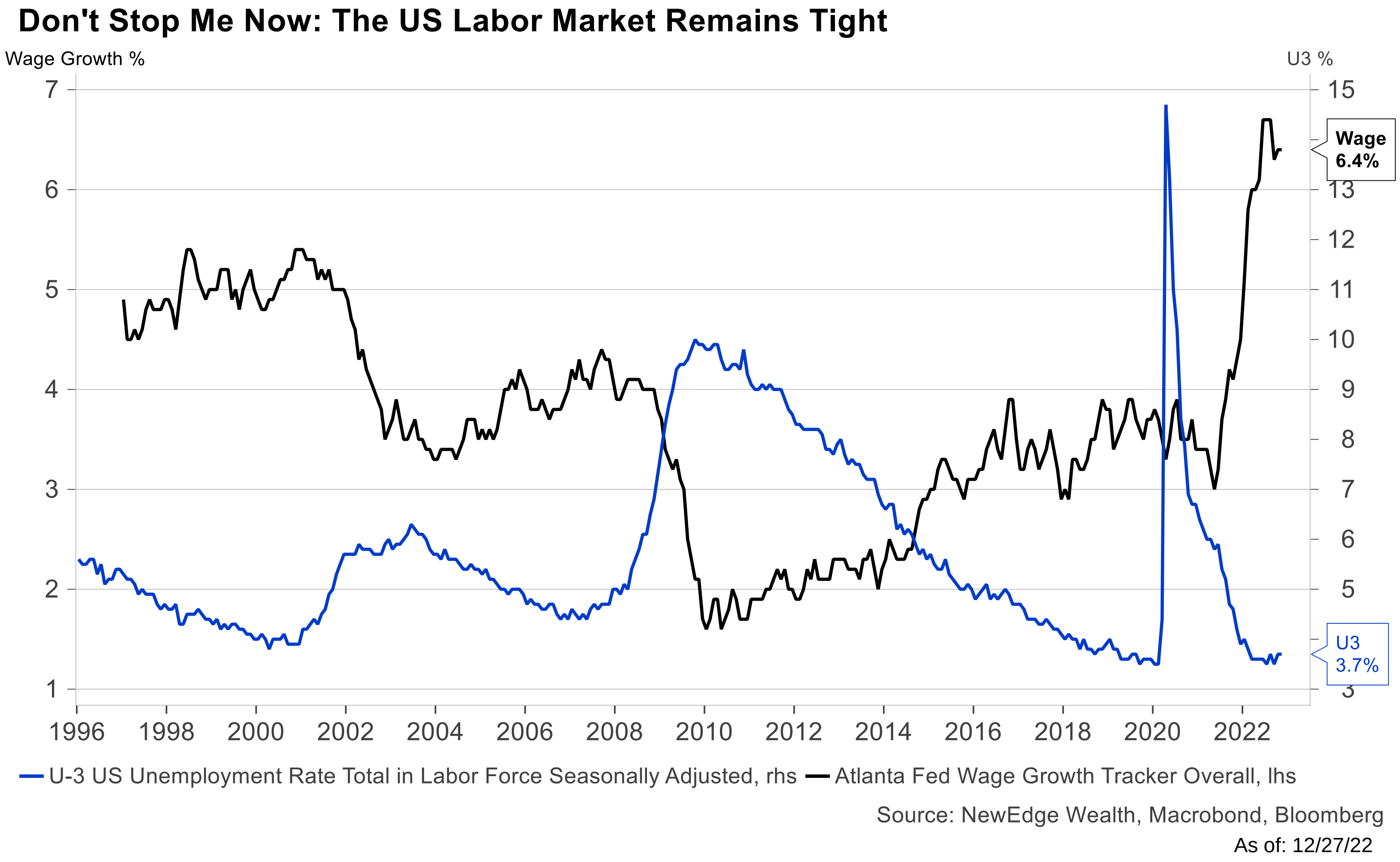


Source: NewEdge Wealth, Macrobond, Bloomberg

As of: 12/27/22

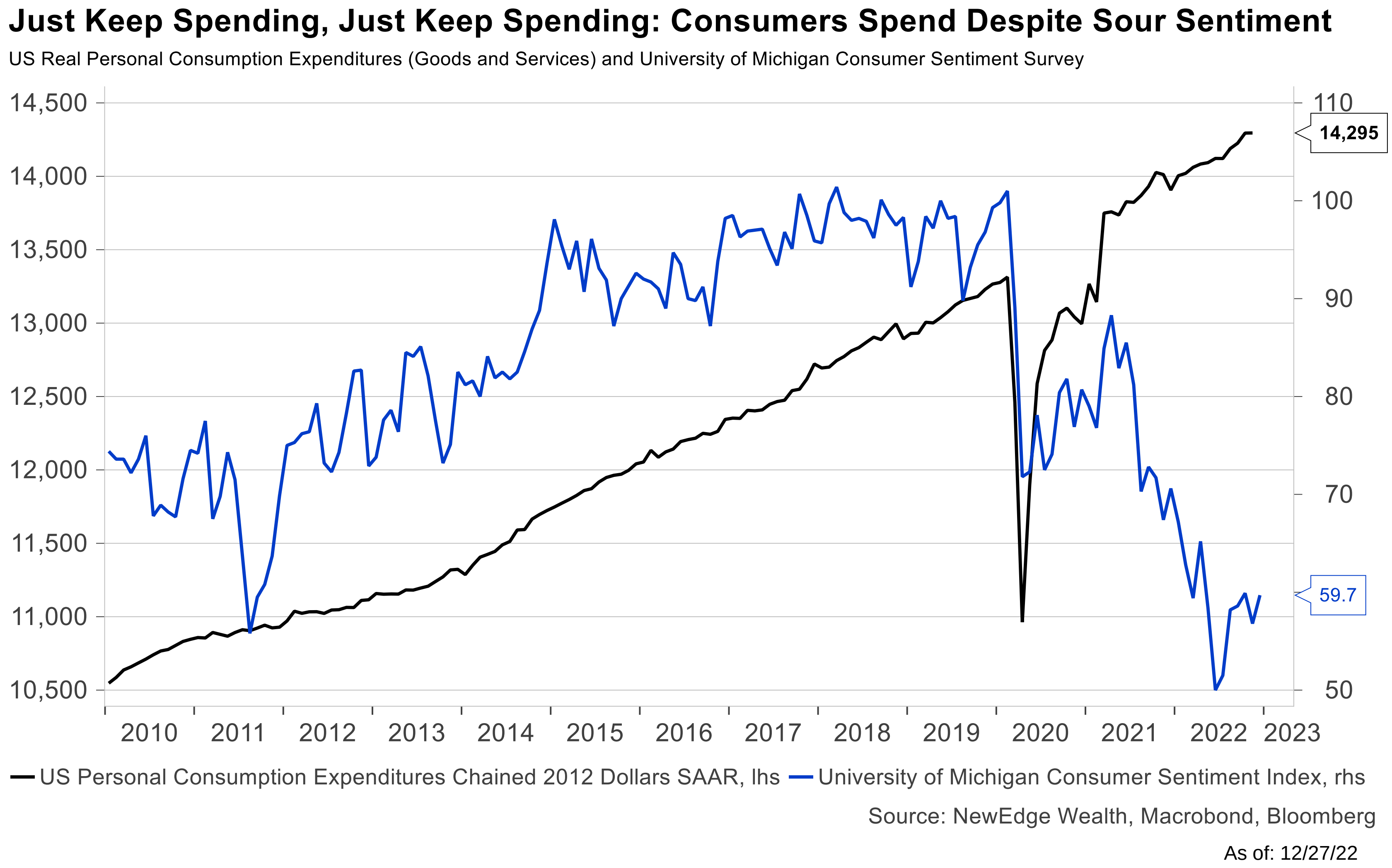
The Fed's rapid tightening cycle in 2022 was in response to inflation that proved to be far more elevated and persistent than the Fed had hoped during its "transitory" era of assertions of 2021. Inflation appears to have peaked in mid-2022, but inflation remains far above the Fed's 2% target, including in important measures of sticky inflation and inflation breadth (trimmed mean).

Don't Stop Me Now: Labor Remains Tight



For all of the Fed's tightening in 2022 and commentary about the need for "slack" in the labor market in order to control inflation, the US labor market ends 2022 just as tight as it started. Unemployment is near 50-year lows at 3.7%, wage growth is still running hot at +6.4%, and there are still 1.7 jobs per unemployed worker. The resilient labor market is why US consumer demand remained firm in 2022, despite the pressures from inflation.

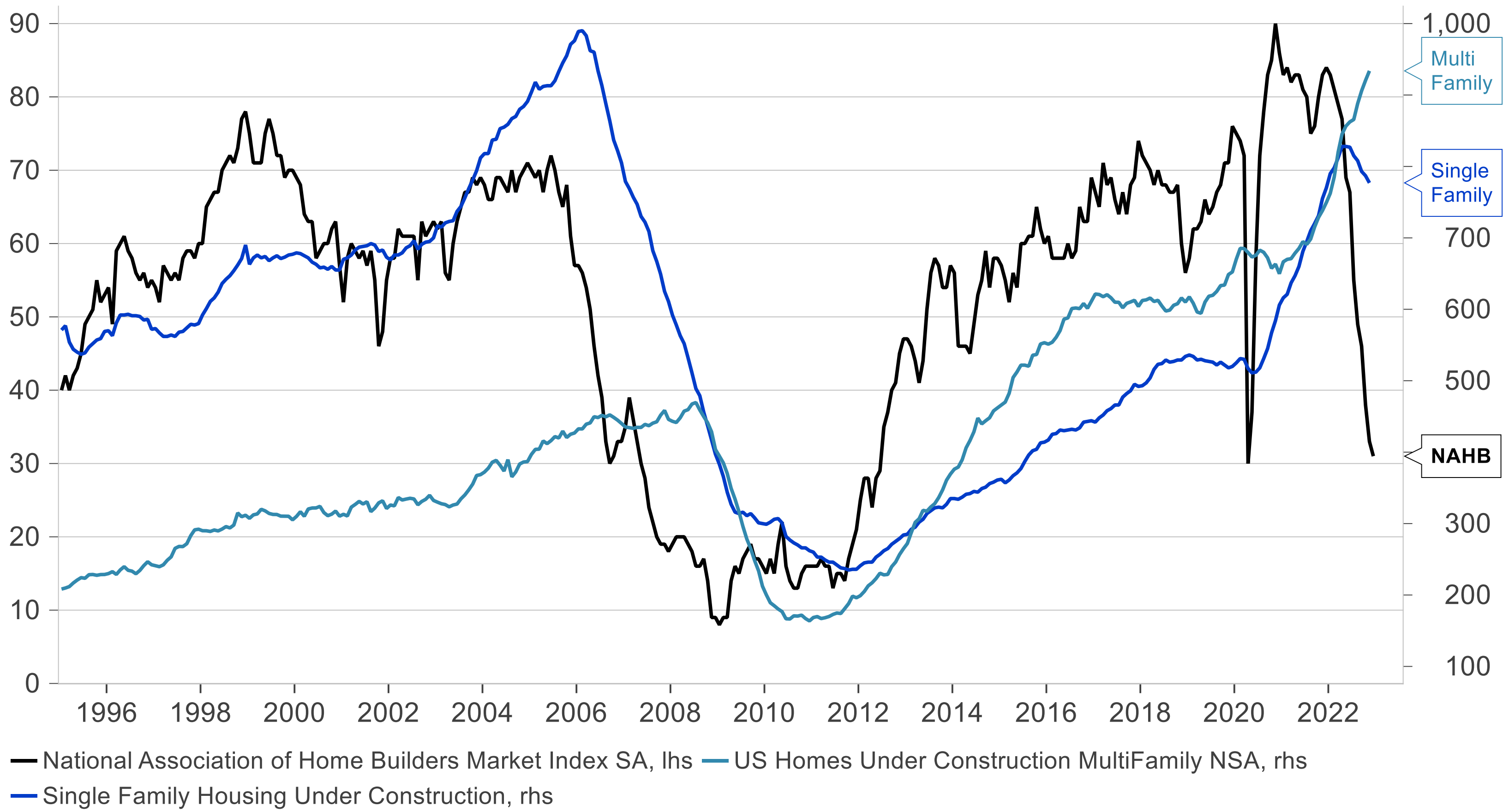
Just Keep Spending, Just Keep Spending: Resilient US Consumer



Consumer sentiment was abysmal all throughout 2022, falling to Great Financial Crisis lows. Despite *feeling* awful, consumers continued to spend in 2022, supported by the strong jobs market, wage gains, spending down of pandemic savings/wealth effect, and falling energy prices in 2H22.

If I Had a Hammer: Housing Sentiment Plunges, Construction Resilient

If I Had a Hammer: Home Builder Confidence Plunges, Construction Lags

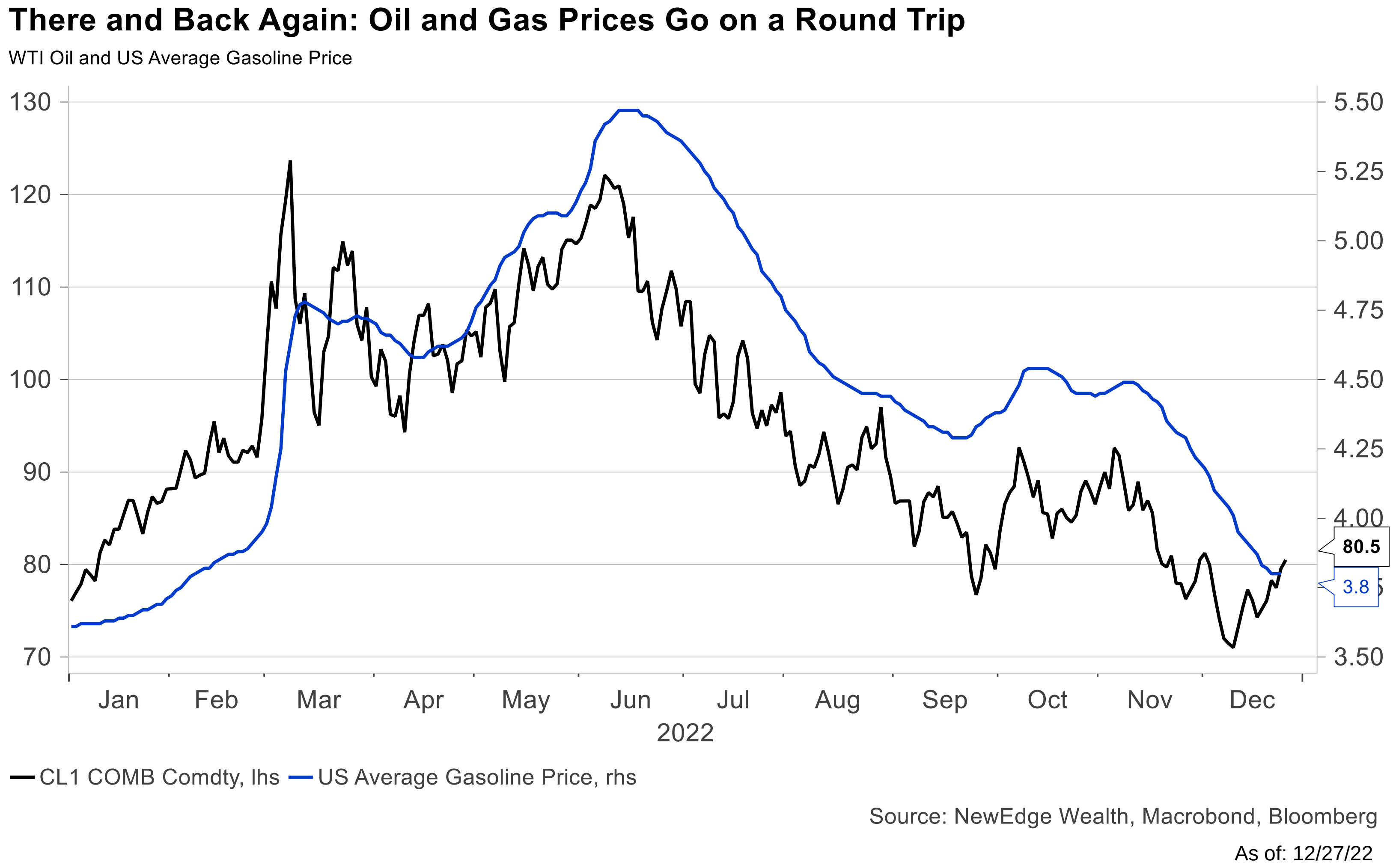


Source: NewEdge Wealth, Macrobond, Bloomberg

As of: 12/27/22

As mortgage rates soared in 2022, and housing activity slowed materially, home builders' assessment of market conditions plunged to 2020 lockdown-lows. Despite this sour sentiment, new homes and apartments under construction remained robust. This is a great example of the *time* it takes rate hikes to work their way through to the real economy, as the construction of new homes, and all of the related employment and industries, lags home builder sentiment and house price growth.

There and Back Again: Oil And Gas Prices Go on a Round Trip



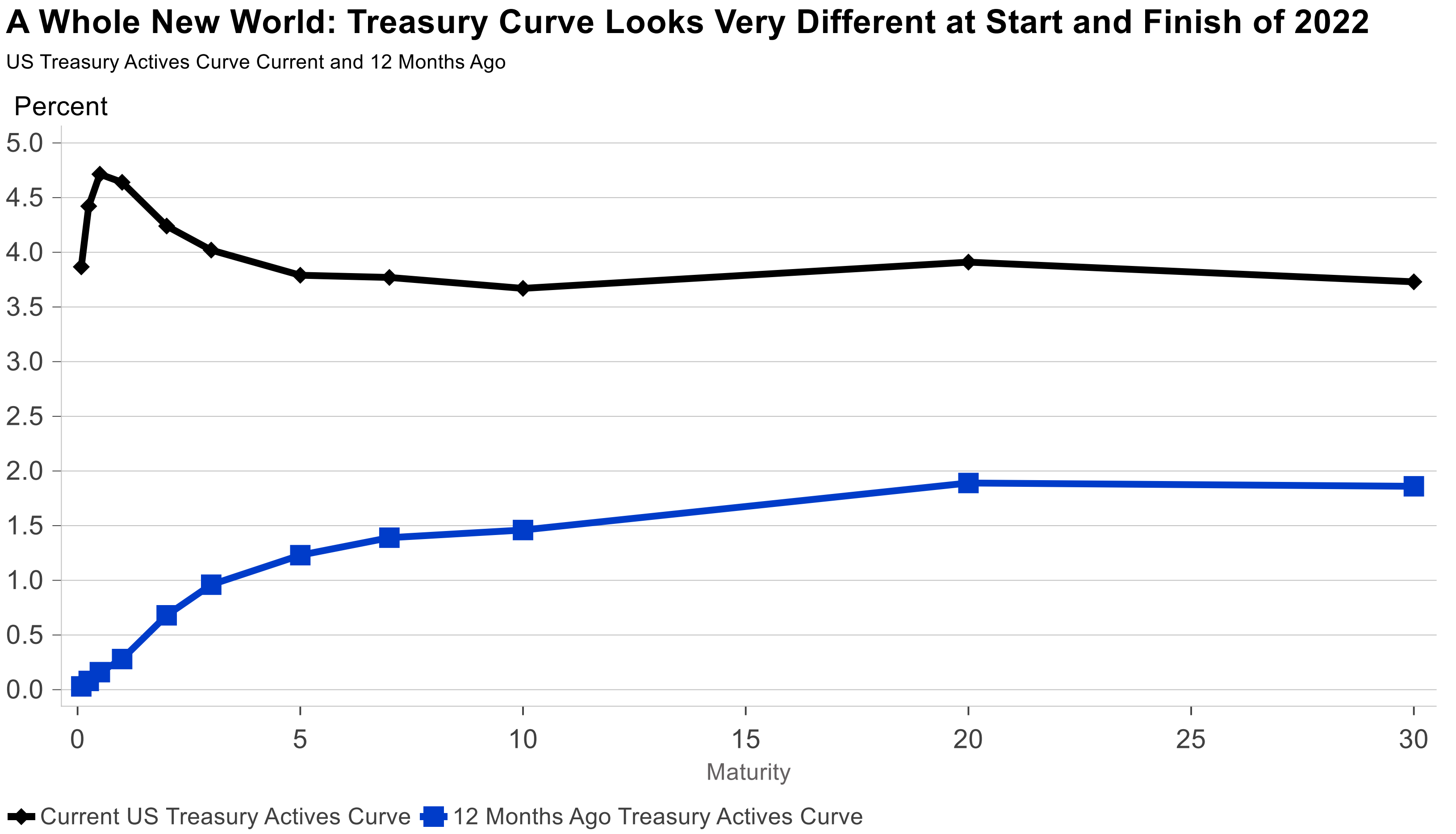
The first half of 2022 saw soaring oil and gas prices, but come summer, these prices peaked and proceeded to roundtrip the majority of the early 2022 gains. This contributed to moderating inflation and improved consumer sentiment in the second half of 2022.

Taking the Punchbowl Away: From Ultra-Loose to Ultra-Tight

Source: NewEdge Wealth, Macrobond, Bloomberg
As of: 12/27/22

In response to the Fed's rapid tightening cycle, financial conditions tightened materially. Financial conditions tightening reflects lower equity valuations, higher interest rates, wider credit spreads, and a stronger USD. 2022 started with ultra-loose, ultra-accommodative financial conditions (the Fed was still stimulating even as inflation and growth were running hot) and ended with financial conditions near prior peaks of tightness (2016, 2018, 2020). The rally in bonds and equities in 4Q22 led to a quick loosening in conditions late in the year.

A Whole New World: Major Moves in Treasuries

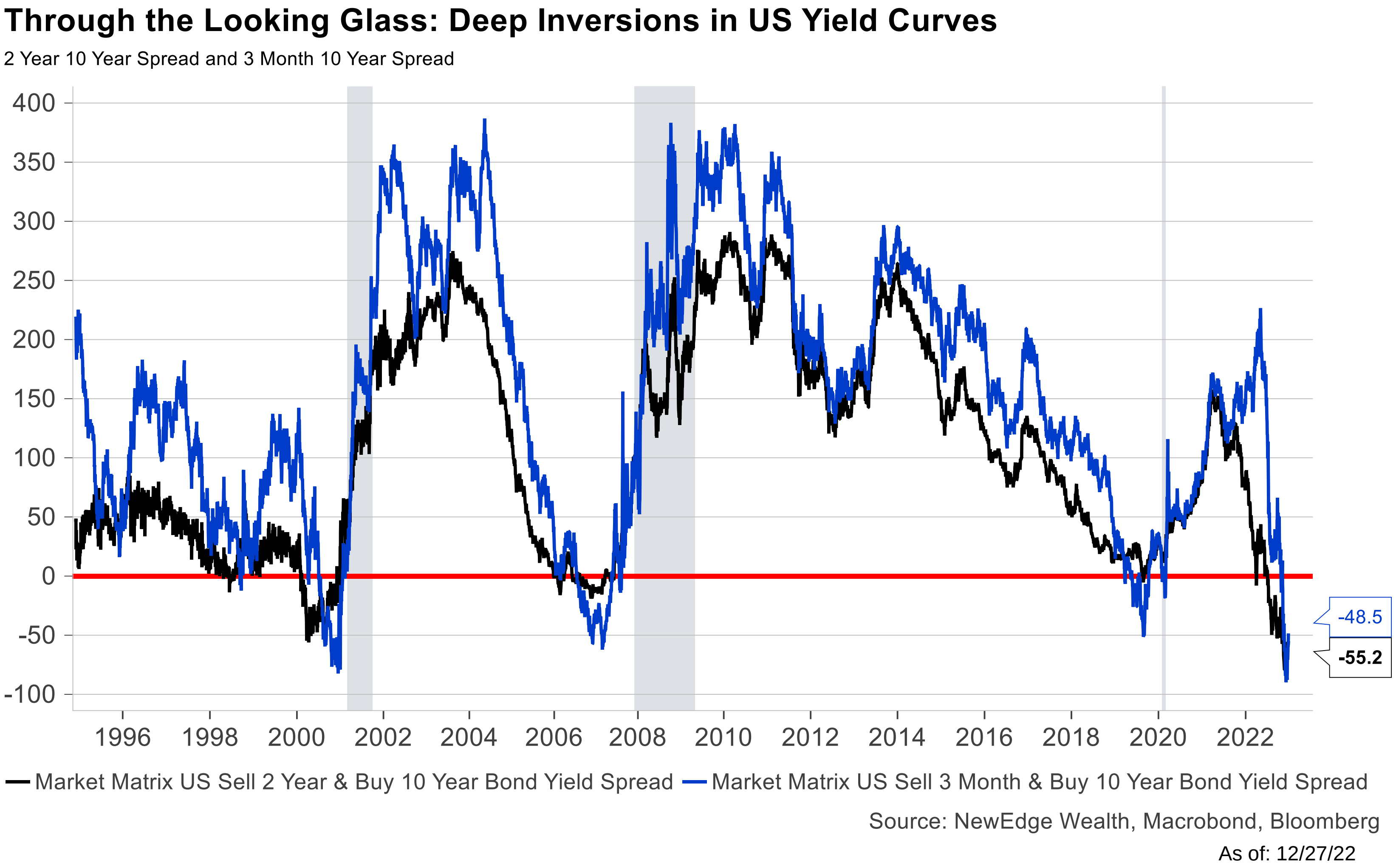


Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Department of Treasury

As of: 12/27/22

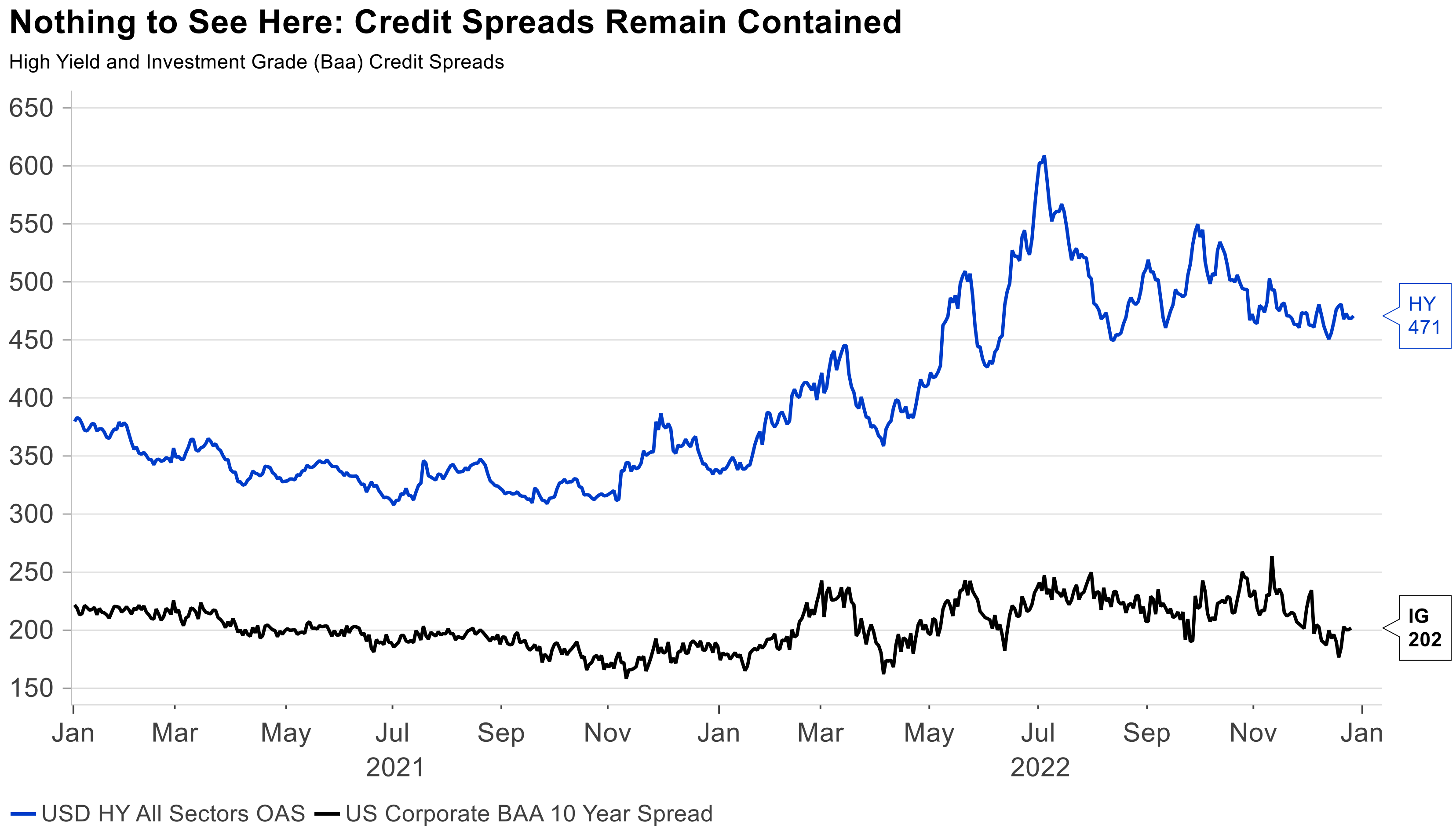
In response to the rapid and significant tightening of policy from the Fed, the US Treasury yield curve (a plot of yields of Treasury bonds of each maturity) finished 2022 very different from how it started, with all yields along the curve meaningfully higher. The biggest moves were in the front end of the curve (i.e., the 2 Year yield went from 0.7% to 4.3%), which is most sensitive to Fed policy. You can almost hear the 2-year singing, “I’m like a shooting star, I’ve come so far, I can’t go back to where I used to be”.

Through the Looking Glass: Deep Inversion in Yield Curves



Exiting 2022, the yield curve is deeply inverted (meaning short yields are higher than long yields). This inversion is often used as a recession signal because it could reflect the bond market warning that the Fed is becoming too tight for the underlying economy. We note the most reliable signal for impending recession is when the yield curve begins to re-steepen due to the bond market pricing in imminent rate cuts into shorter term yields.

Nothing to See Here: Credit Spreads Contained



Source: NewEdge Wealth, Macrobond, Bloomberg
As of: 12/27/22

Despite the inverted yield curve and widespread fears about an impending recession, credit spreads (the extra yield credit investors earn for lending to riskier borrowers) have remained contained in 2022. This is likely due to a combination of still-resilient economic data/corporate earnings, stronger corporate balance sheets (many used ultra-low interest rates in 2020 and 2021 to “term out” their debt), low supply of new bonds in 2022, and all-in yields being near decade-plus highs (meaning buy and hold investors could lock in relatively attractive yields).

System of a Downtrend: S&P 500 Downtrend and Below its 200-Day

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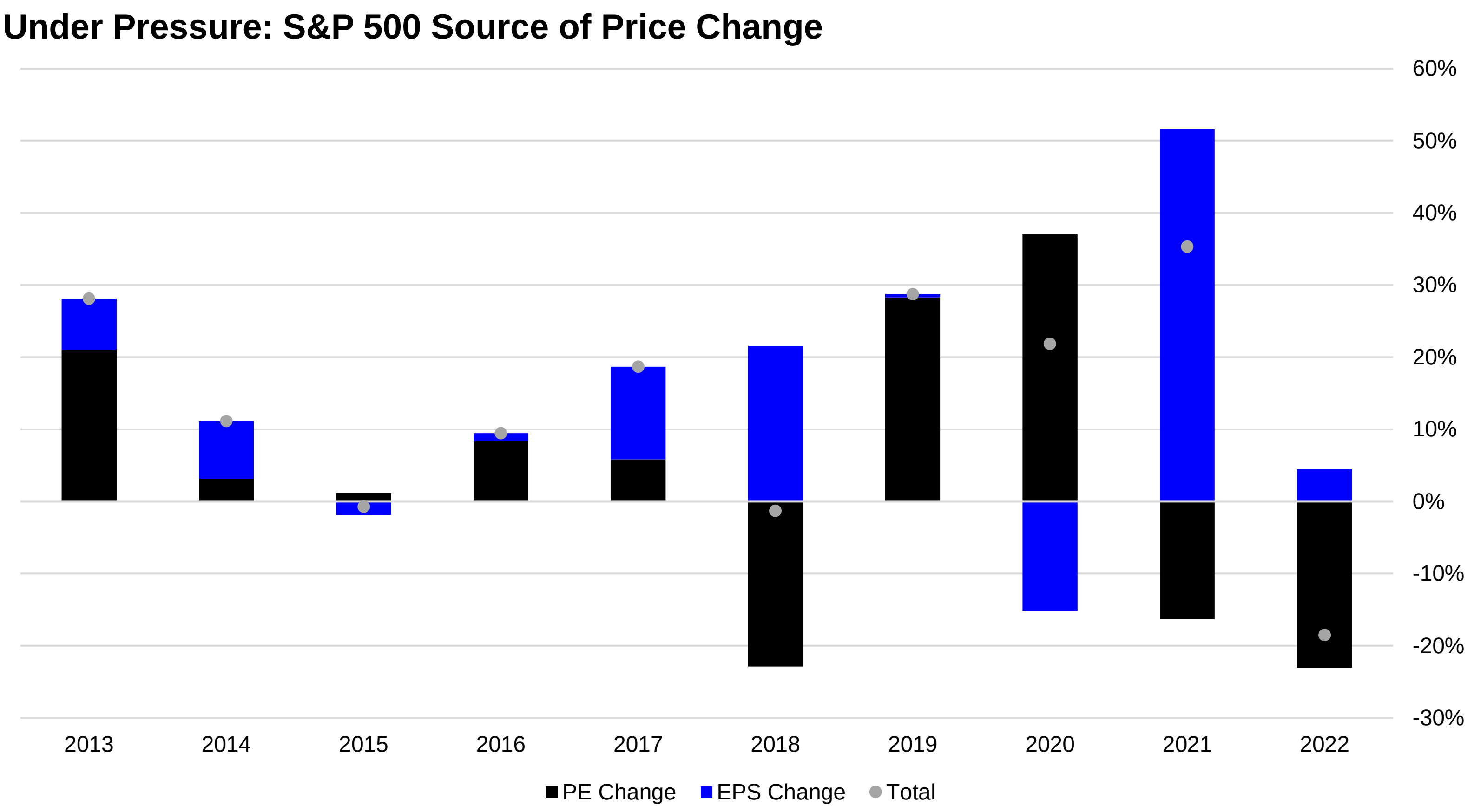
Source: Bloomberg, NewEdge Wealth

As of: 12/27/22

US equities swiftly got off to a weak start in 2022, with the S&P 500 forming a distinct downtrend of lower highs and lower lows. Many powerful rallies were experienced along the way, sparking hope by bulls that "buy the dip" would prove profitable again. These hopes were dashed, with the downtrend remaining firmly in place and no escape velocity to break above the 200-day moving average. Note the support that held ~3500 at the 200-week moving average.

Under Pressure: Valuations the Source of 2022 Weakness

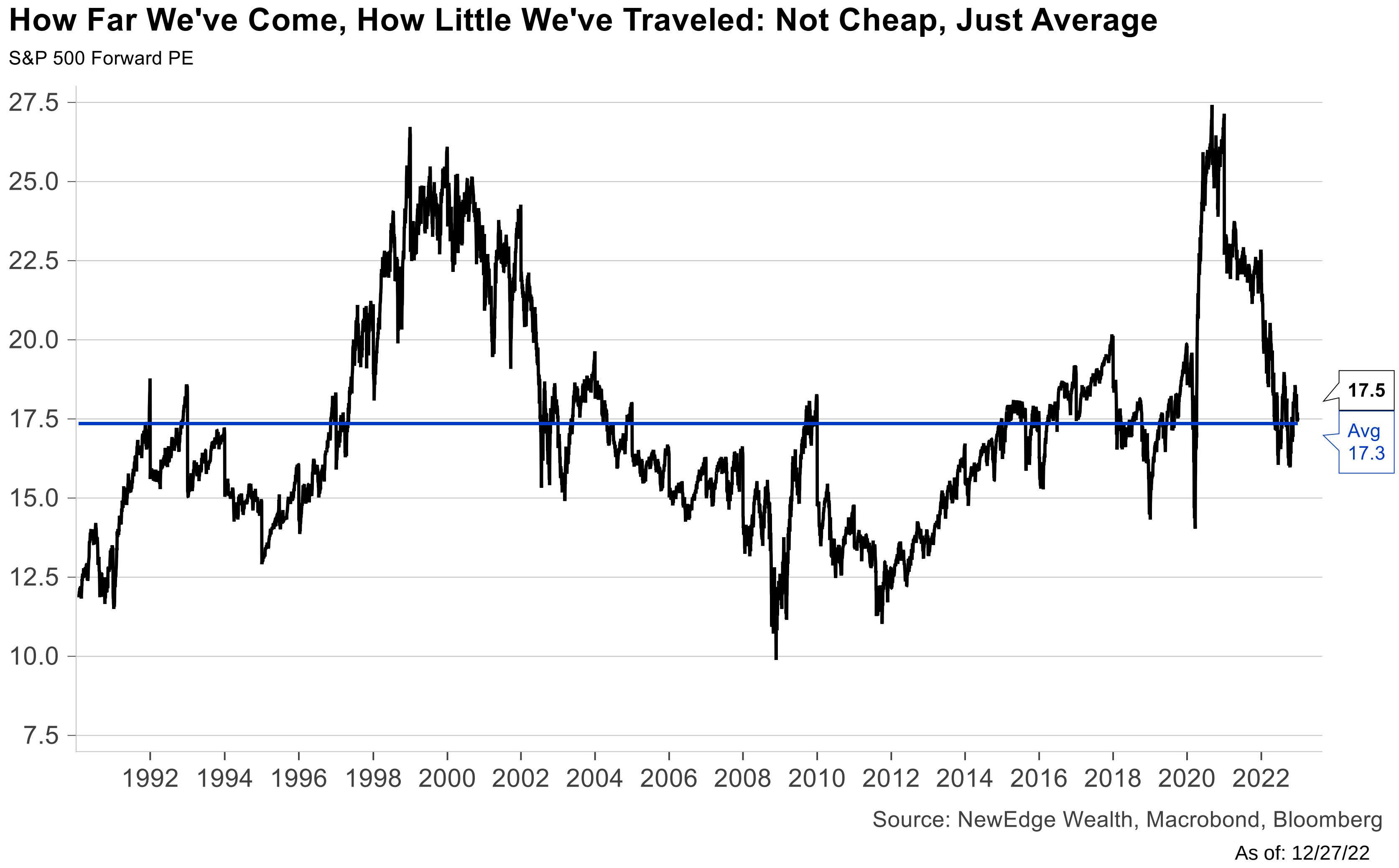


Source: Bloomberg, NewEdge Wealth

As of: 12/27/22

The source of the S&P 500's downside in 2022 was entirely due to a decline in the index's PE multiple (valuation multiple compression), as earnings grew slightly in 2022. The fall in valuation was due to the removal of pandemic-era, aggressive stimulus, which had suppressed interest rates and unsustainably boosted valuations to bubble territory in 2020 and 2021. The unwind in valuations began in 2021 but was offset by powerful earnings growth that year. With only slight earnings growth in 2022, indices struggled as valuations fell back to reality.

How Far We've Come, How Little We've Traveled: Valuations Just Average



For as much turmoil as investors experienced in 2022, we've made surprisingly little progress toward the S&P becoming "cheap". Current valuations, though down from the 2020/2021 bubble highs, are now just in line with the average (based on consensus earnings estimates, which could be optimistic for 2022).

If You Ain't First, You're Last: Return and Earnings Dispersion in 2022

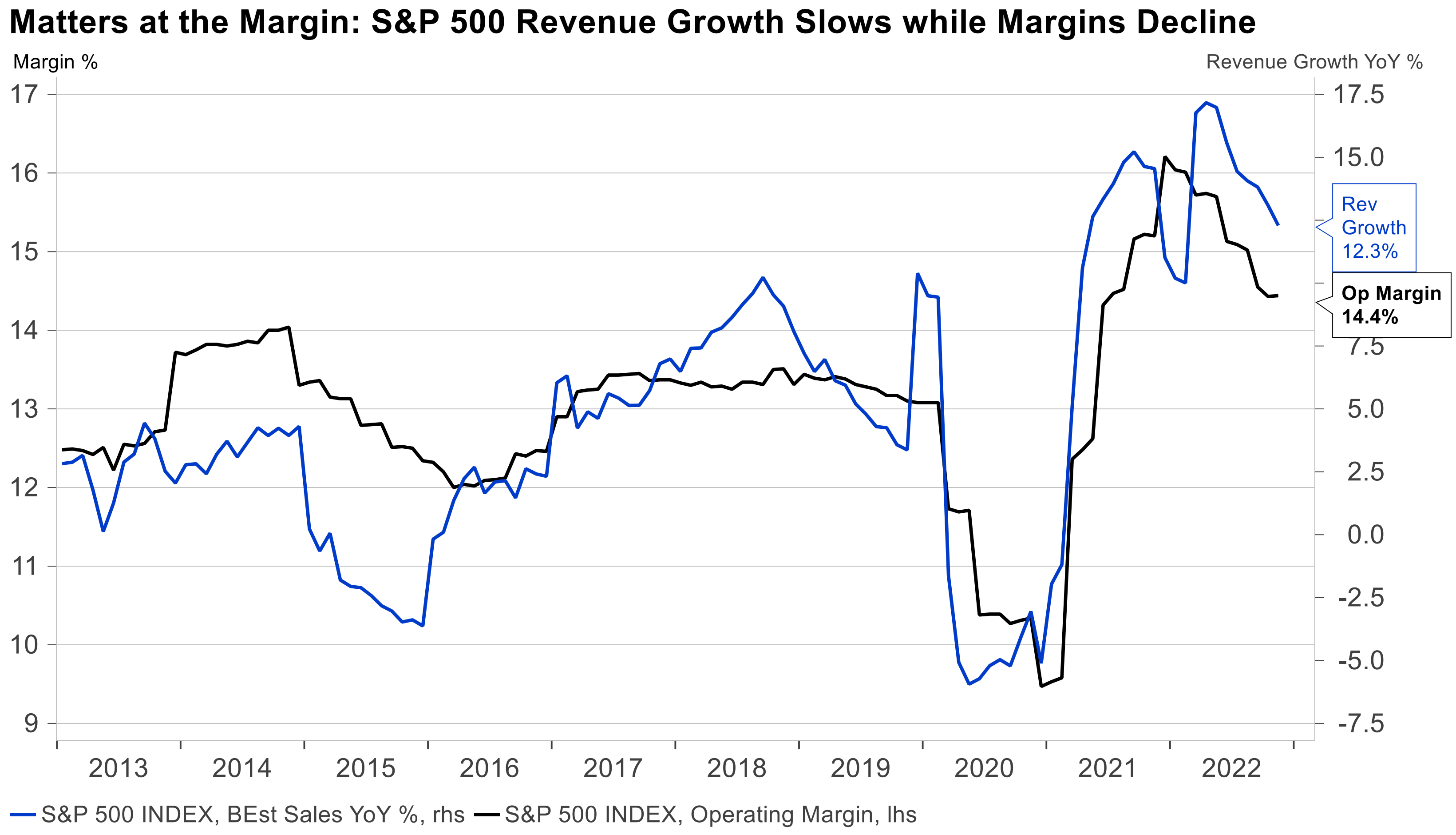
	2022 EPS Growth	2023 EPS Growth	Forward PE	2022 Price Change
Sector				
Communication Services	-13%	9%	14.0x	-41%
Consumer Discretionary	9%	21%	23.7x	-38%
Consumer Staples	5%	0%	22.0x	-2%
Energy	173%	-14%	8.4x	60%
Financial	-17%	13%	14.2x	-13%
Real Estate	15%	2%	29.7x	-28%
Health Care	4%	-4%	16.7x	-4%
Industrials	23%	13%	20.7x	-7%
Information Technology	10%	-2%	21.0x	-29%
Materials	3%	-12%	14.1x	-13%
Utilities	3%	7%	20.3x	0%
Index				
Growth	-5%	5%	22.9x	-30%
Value	11%	-2%	14.5x	-10%
S&P 500	**8%**	**4%**	**17.4x**	**-20%**

Source: Bloomberg, NewEdge Wealth

As of: 12/27/22

Energy was the one and only sector that delivered a positive price return in 2022, +60% for the year. The dispersion in returns was incredible, with the spread between the best (Energy) and worst (Communication Services) an eye-popping 100%! Energy was boosted by huge earnings growth in 2022 (+175%), while Financials saw the weakest earnings performance in 2022 (-17%).

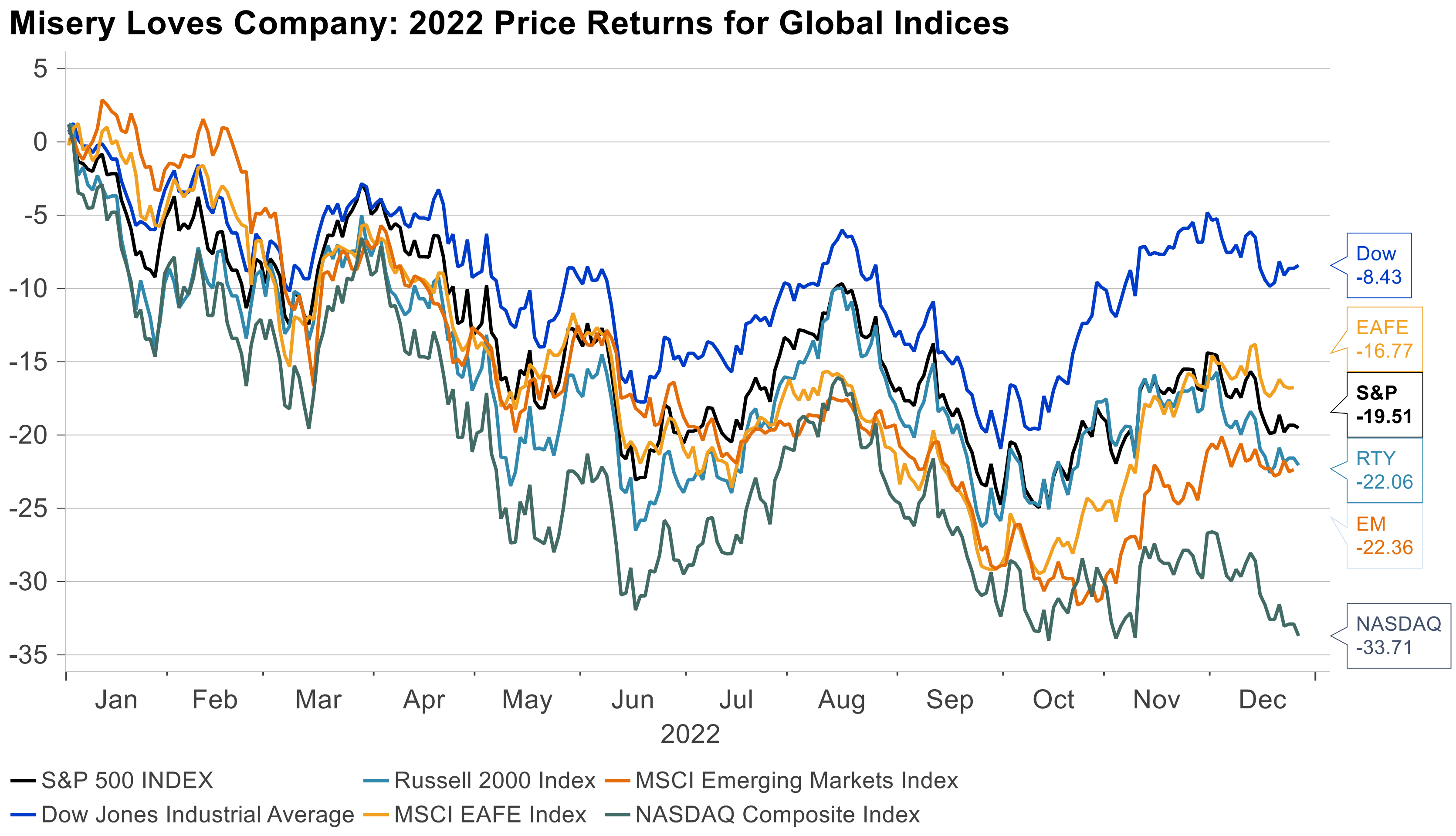
Matters at the Margin: S&P 500 Revenue Growth Slows, Margins Fall



Source: NewEdge Wealth, Macrobond, Bloomberg
As of: 12/27/22

2022 saw S&P 500 revenues climb to a new all-time high with robust low-teens growth, but margins fell over the course of the year (margins were the source of downside earnings revisions in 2022). If revenue growth continues to slow in 2023 (tough comparisons, less pricing power/inflation, slowing GDP), the risk is that margins decline further, which could result in S&P 500 YoY EPS declines.

Misery Loves Company: All Major Averages Down in 2022



Source: NewEdge Wealth, Macrobond, Bloomberg
As of: 12/27/22

All major global stock indices fell in 2022, with the worst decline experienced by the NASDAQ Composite (which had the highest valuation going into 2022). The Dow Jones Industrial average outperformed thanks to its higher weighting to relative winners like Health Care, Industrials, and Financials (Value) and lower weighting to Technology (Growth). Non-US indices, both Developed and Emerging, staged a powerful rebound in 4Q22 given the sharp weakening in the US Dollar and hopes for China reopening.

Fumble at the One Yard Line: Late 2022 Weakness for the USD

As of: 12/27/22

The US Dollar (USD, DXY Index) staged a powerful rally throughout 2022 until November when the currency experienced a rapid and pronounced sell off (boosting shares of non-US stocks). The USD has found support at its 50-week moving average (shown here as the 250-day moving average), with the path of the USD being hugely important for equity market leadership in 2022.

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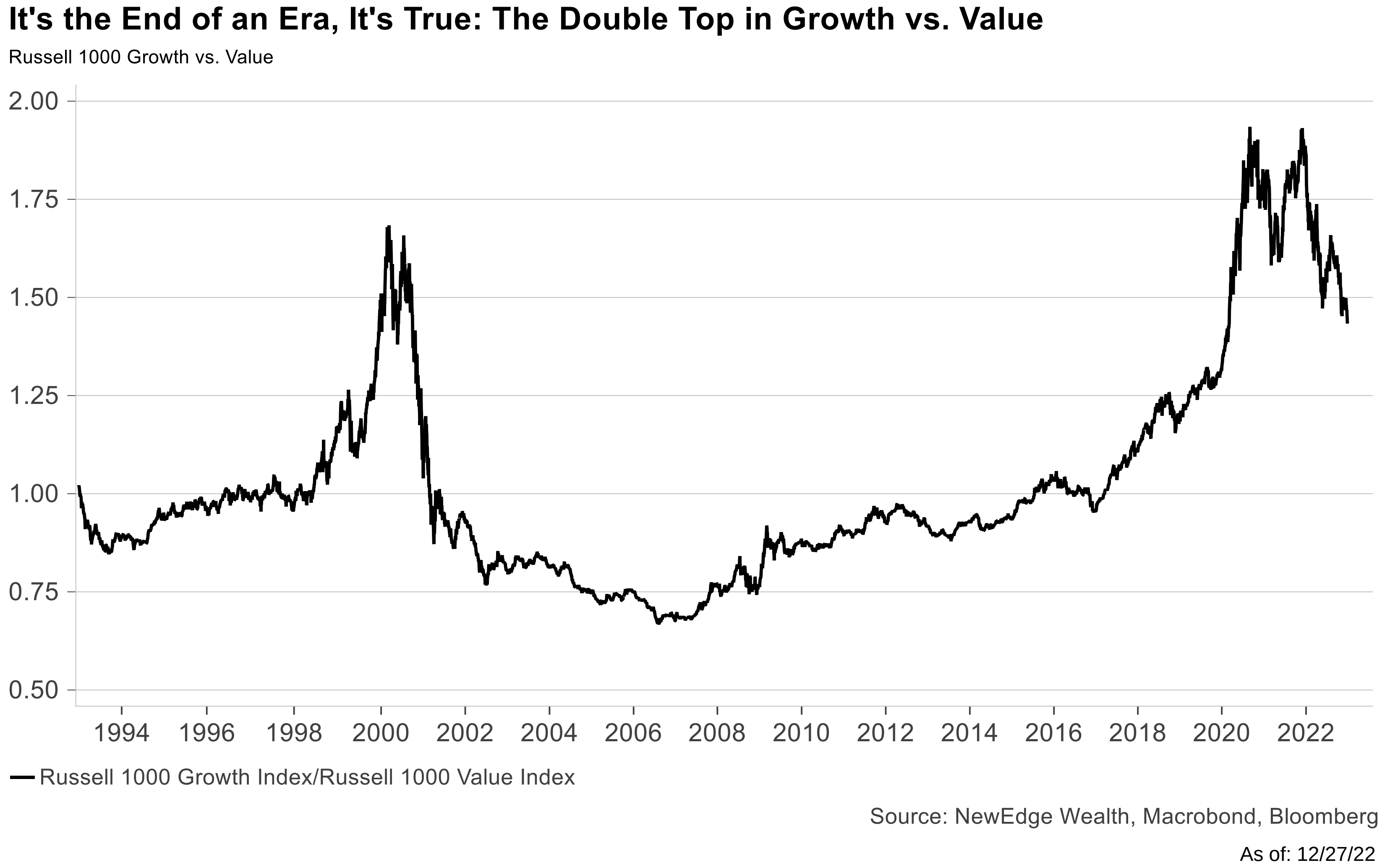
It's the End of an Era, It's True: The Double Top in Growth vs. Value

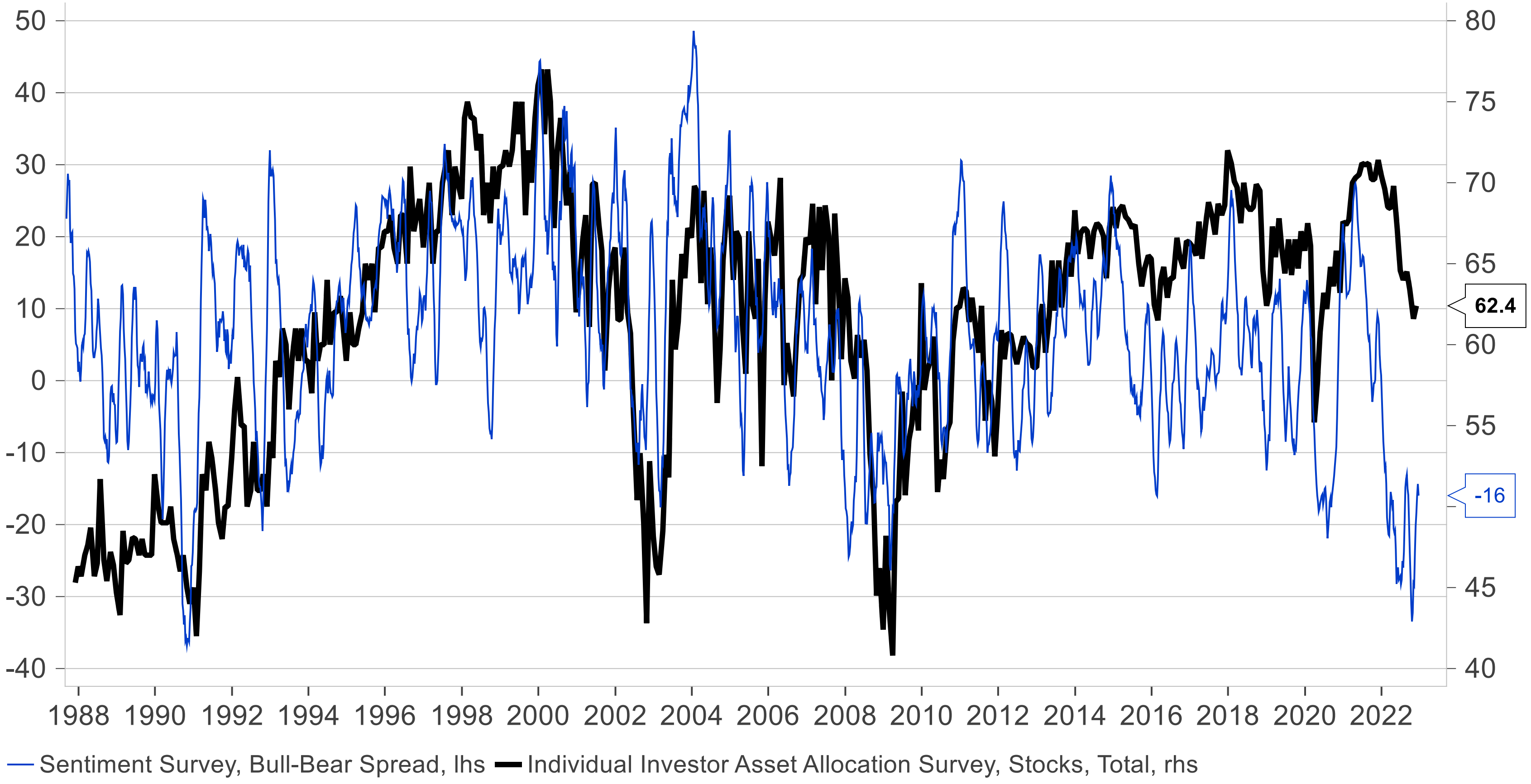


Similar to the underperformance of the NASDAQ Composite vs. the Dow Jones Industrial Average, Growth significantly underperformed value in 2022 as the COVID growth bubble popped. This underperformance (and the double top that preceded it) is reminiscent of the early 2000's unwind of the tech bubble. One key ingredient of the 2000's Value rally was a weak USD that boosted cyclical and commodity-oriented sectors (along with non-US stocks).

Holding Out for a Hero: Equity Allocations Still Elevated

Holding Out for a Hero: Equity Allocations Still Elevated vs. Prior Bears

AAII Bull Bear Spread (8 Week MA) and AAII Equtiy Allocations



Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

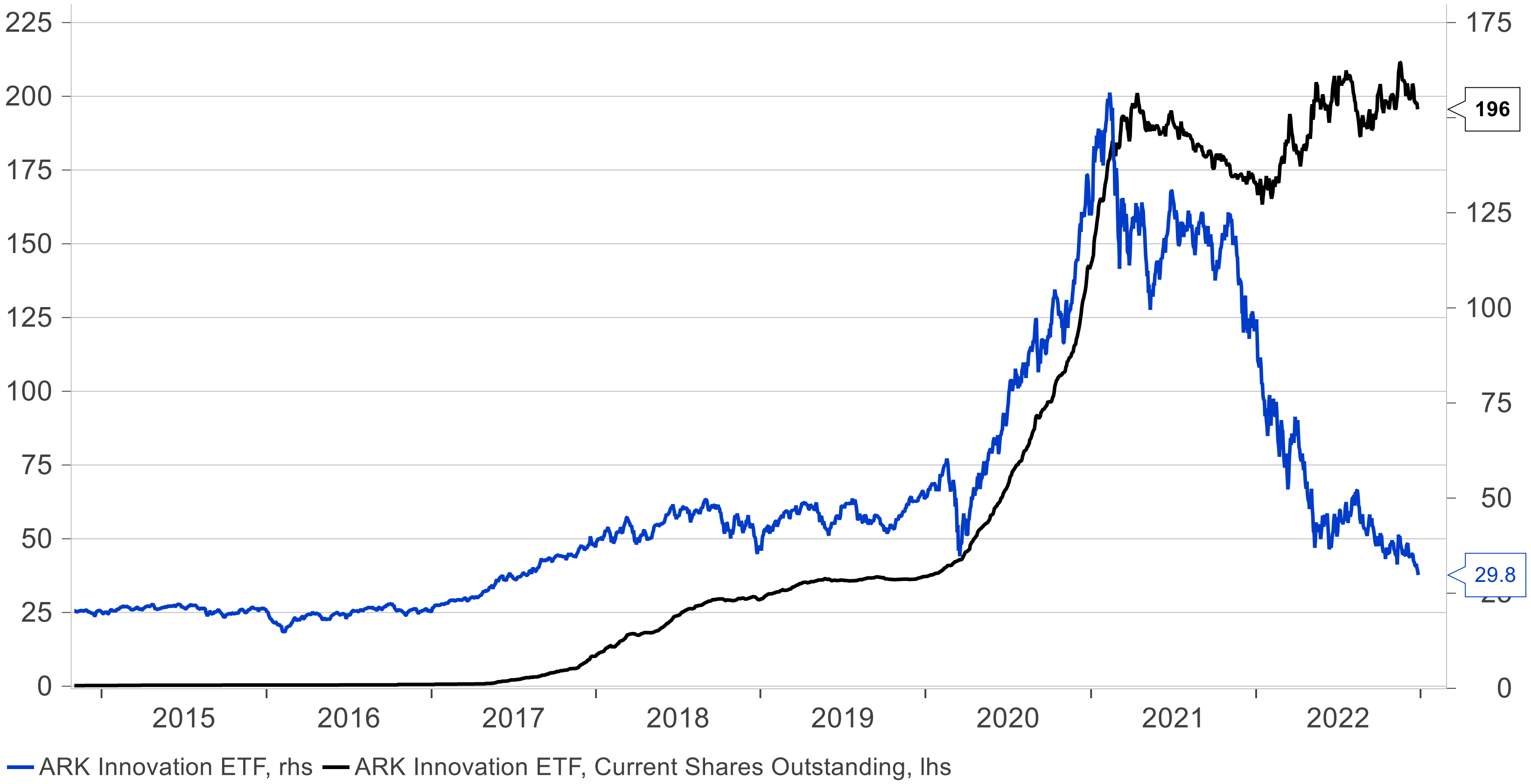
As of: 12/27/22

Despite terrible investor sentiment all year, individual equity investors were slow to reduce their holdings in equities. Overall allocations to equities are off of their highs (down from 70% to 62% today) but remain well above prior major bear market lows (45-50% in 2001 and 2009).

Holding Out for a Hero: Equity Allocations Still Elevated

Don't Tell Momma: Speculative Optimism Surprisingly Resilient

ARKK ETF Shares Outstanding (a proxy for flows into the ETF) and ARKK ETF Price

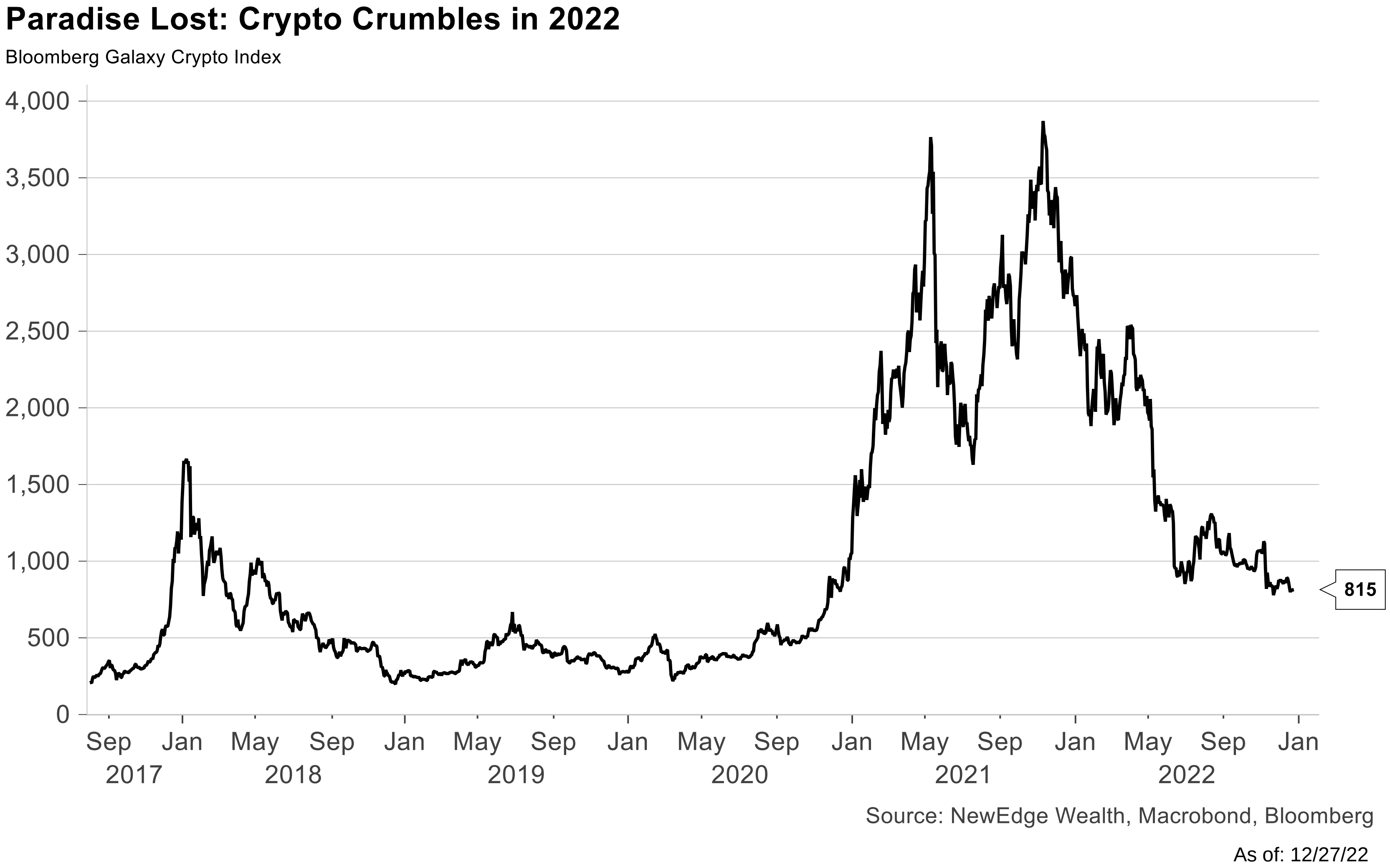


Source: NewEdge Wealth, Macrobond, Bloomberg

As of: 12/27/22

ARKK Innovation is one of the best proxies and poster children for 2020 and 2021's valuation and speculative excesses. Despite the weak performance by growth, and even weaker performance by the most speculative growth parts of the market (ARKK -85% from the 2021 peak), there are now more shares outstanding in this ETF (a proxy for flows into the fund) than at the peak of the ETF price in 2021. There are other signs that speculative optimism has not been fully squashed by 2022's rout, such as DogeCoin's market cap still hovering near $10B.

Paradise Lost: Crypto Crumbles in 2022



Another expression of 2020 and 2021's speculative liquidity bubble, and 2022s subsequent unwind, is crypto. As liquidity left markets and crypto prices fell, there were many high-profile crypto participants who were caught swimming without their proverbial shorts (overleverage, potential frauds, etc.). The past three years in crypto were a harsh reminder that there is great danger in ascribing narrative to price action.

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When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. You cannot invest directly in an index. Index returns shown are total returns which includes interest, capital gains, dividends, and distributions realized over a given period of time. An individual who purchases an investment product which attempts to mimic the performance of a benchmark or index will incur expenses such as management fees and transaction costs which reduce returns.

TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

Any questions?

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