Financialfreedom™
WEALTH MANAGEMENT GROUP, LLC

QUARTERLY UPDATE
WINTER 2023

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We welcome 2023 with the hope that this year will bring balance in all areas of your life.

Many have experienced life challenges, newfound opportunities, and highs and lows during the last couple of years. Whether you are looking to experience more adventures or reign in your activities, creating a balance in your life will help make it happen. With resilience, perspective, and the support of close connections, each of us can regain our sense of equilibrium.

With all things balanced, we wish you the best in health, wealth, and joy in 2023!

YOUR ADVISING TEAM

Our entire advising team is readily available to assist you.

Standing, left to right: **Sammie Guajardo, DJ Wright, Matt Beck, Edgar Villegas**
Seated: **Jason Harris, Julia Carlson**

WELCOME CARTER JOHN WRIGHT

Investment Manager and Wealth Advisor DJ Wright, and his wife, Cecilia Wright, welcomed Carter John Wright into the world last fall.

MARKET UPDATE

2022 was the most difficult year for investors from a return and volatility standpoint since the Global Financial Crisis. Historically high inflation combined with aggressive rate hikes by The Federal Reserve (Fed), plus growing concerns about recession put pressure on both stock and bond markets. Large US Companies (S&P 500) posted their worst performance since 2008. Major benchmarks indexes for both stocks and bonds declined together for the first time since the 1960s, punctuating just how disappointing the year was for investors. If 2022 was about recognizing imbalances built into the economy and starting to address them, we believe 2023 will be about setting ourselves up for what comes next as the economy and markets find their way back to steadier ground, even if the market adjustment period continues.

The Fed spent 2022 aggressively fighting inflation by raising interest rates. In 2023, we expect the Fed to find that point where it can stop raising rates as inflation starts to come under control. The Fed's efforts to control inflation throughout 2022 pulled interest rates up from extremely low levels. While that has been painful for bond investors, savers can now get an attractive yield for the first time since 2007. For the stock market, we expect 2023 will likely be more focused on the opportunities that may emerge from a market sell-off.

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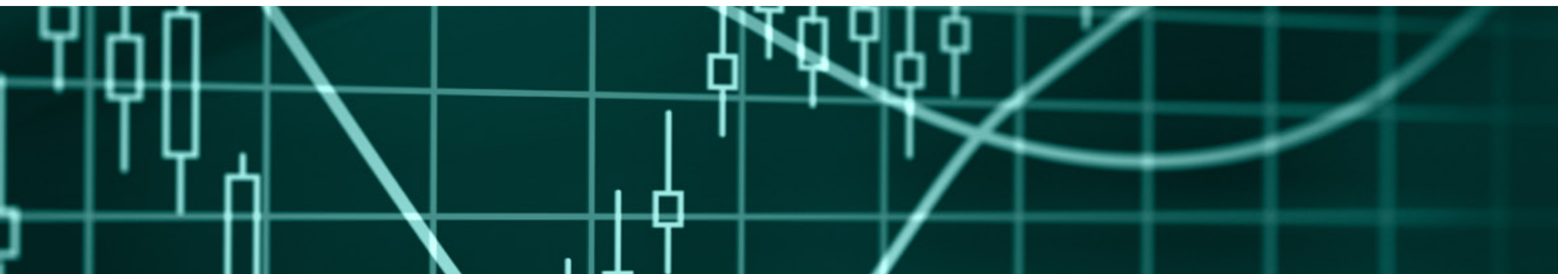

Economy

The global economy will likely slow from above 3% to somewhere in the mid-2% range in 2023. An important aspect for investors is that the U.S. appears to have fewer obstacles to growth compared with Europe and other developed economies. The divergence between domestic and international economies is most obvious in the category of inflation. For example, in late 2022, Germany was experiencing accelerating rates of inflation, while the U.S. appeared to be moving past the peak of inflation. The longer inflation is uncontained, the riskier it is towards growth. If the U.S. falls into a recession, it is more likely to occur during the first half of 2023 and would probably not be as deep as the 2008 recession, which was initiated by a fundamentally flawed financial market.

Inflation

As we enter 2023, the U.S. has a slightly different trajectory for inflation, particularly services inflation. In recent months, services prices have been stubbornly accelerating as rent prices and health services have risen. This is in contrast to durable goods prices that have clearly decelerated, and in some cases outright declined. We could potentially be entering a new season as rents across the country are showing signs of decreasing. During this transition period for services prices, the coming year could be the time when inflation is convincingly decelerating closer to the Fed's long-run target of 2%.

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Stocks

If stock values are going to go higher in 2023, a prompt end to the Fed's rate-hiking campaign will likely be a key component. The timing of the final rate hike in this cycle is uncertain and won't be clear for a while. However, our view is that the Fed will pause rate hikes sometime during the first quarter of 2023, amid an improving inflation outlook and loosening job market. Should that occur, stocks will likely move higher, consistent with history. Stocks have tended to show solid gains after rate hiking cycles end, producing an average gain of 10% one year later.

Bonds

The path of interest rates will be largely influenced by the Fed's behavior, which will be guided by economic growth and inflation data. Equally important is the level of non-U.S. developed government bond yields, as foreign investors play an important role by purchasing U.S. Treasuries. Given our view that the U.S. economy could eke out slightly positive economic growth next year, we think 10-year Treasury yields could end the year around 3.5%.

Policy

The 2022 midterm election was closer than many expected, but in the end, voters chose to rebalance the power dynamic in Washington. As expected, Republicans gained enough seats to win a narrow majority in the House, while Democrats held on to their slim majority in the Senate. Despite Republicans' narrow House majority, their victory in the House significantly shifts the balance of power, since only legislation with broad bipartisan support will get passed now that the new Congress has been sworn in.

As we move forward in 2023, even with continued market volatility, everything we have set up for our clients is meant to lead them into the future, and not to run from it. A long-term-focused and diversified financial plan can help to manage risk in virtually any market, so let's enter the new year with hopeful expectations of good things ahead.

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SECURE ACT 2.0 PASSED IN FINAL DAYS OF 2022

Congress spent the final days of 2022 on new reforms for the SECURE Act. The bill includes a number of provisions that will expand access to workplace plans and incentivize individuals to save more for retirement. You may hear the changes called SECURE Act 2.0, which is a follow-up to the Setting Every Community Up for Retirement Enhancement (SECURE) Act enacted into law in late 2019.[1]

One key change to be aware of deals with required minimum distributions (RMDs). On January 1, 2023, the age at which owners of retirement accounts must begin taking their RMDs increases to 73 years of age. If you turn 72 this year, you have an extra year before you are required to take distributions from your traditional and pre-tax accounts. This is a benefit because you are not required to take any money out of those accounts, especially if you do not currently need the income. You get to keep your money invested and not generate additional taxable income. It's a win-win!

Another benefit is that starting in 2033, RMDs won't need to begin until you are age 75. If you are already taking RMDs, this won't affect you, but it will benefit those retiring in the next decade.

Additionally, SECURE 2.0 reduces the penalty tax for failing to take your RMD from 50% to 25%. If the failure is corrected in a timely manner, the penalty tax is further reduced from 25% to 10%. These changes are effective for 2023.

SECURE 2.0 was part of the recently passed $1.7 trillion federal spending bill. There are several changes taking place over the next few years and we will share more details in the months ahead.

1. PlanAdvisor.com, December 23, 2022

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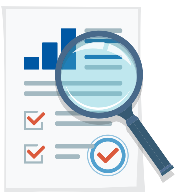

Complimentary Consultation!

If you are not a client with us yet, we would like to offer you a one-hour, complimentary, private consultation with one of our Wealth Advisors. To schedule, please call us at 458.777.4458 and someone from our team will be happy to assist you!

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

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