

# 2022 YEAR END REVIEW

## JANUARY 2023

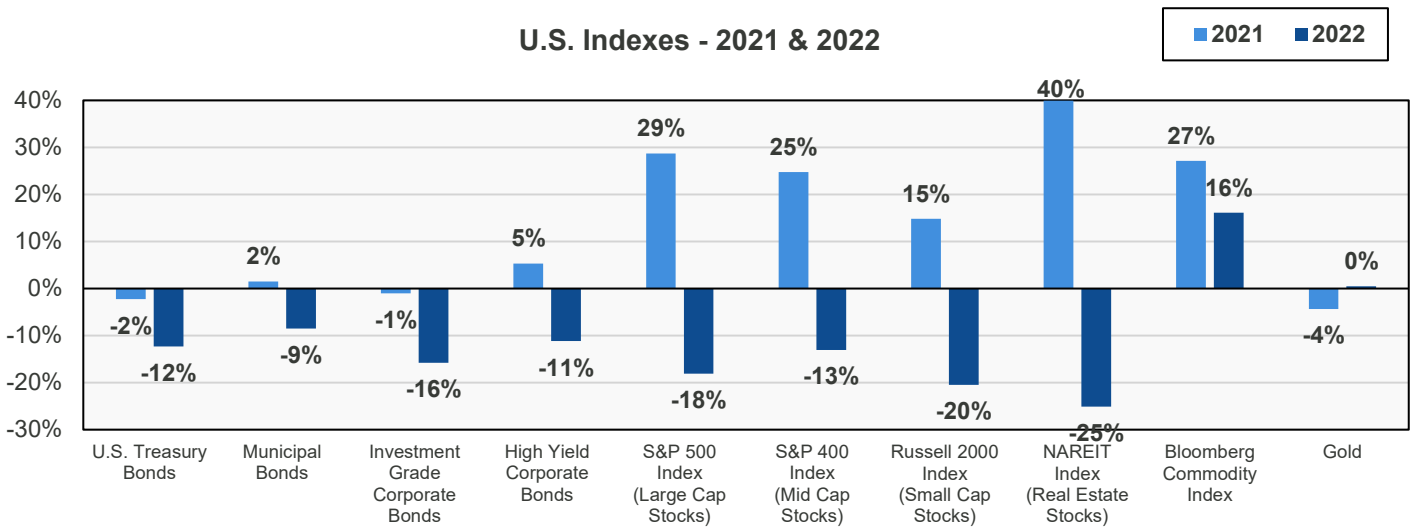


### US MARKETS

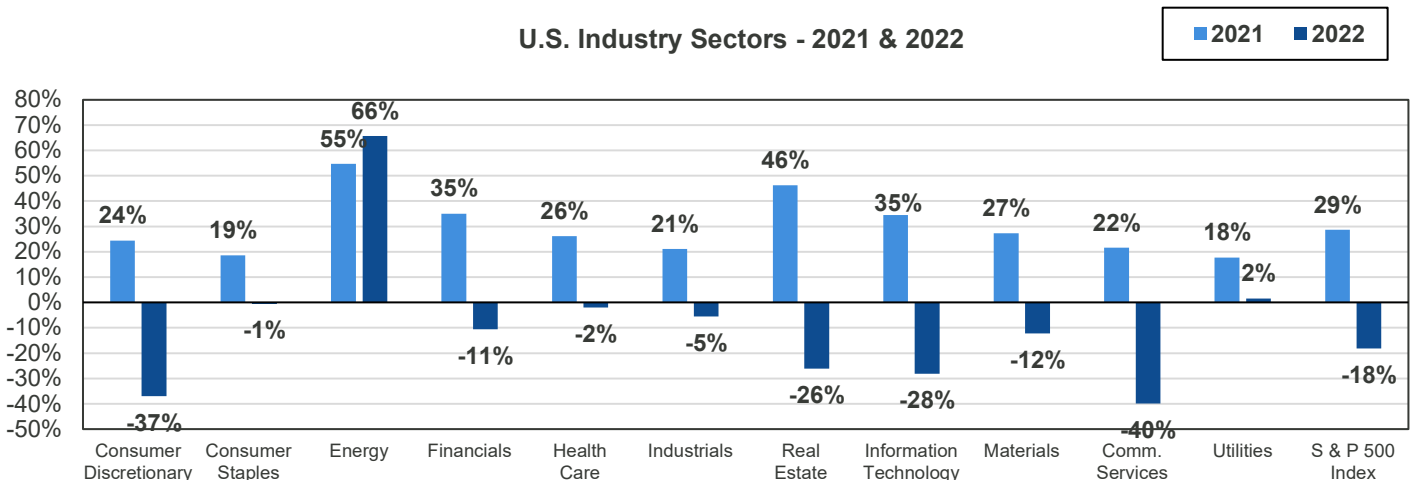
The economic themes of 2022 were inflation, interest rates and their effects on economic growth. Stocks ended their three-year run of double-digit growth, while bonds had their worst year in over 40 years.

The following is a look at the past two years in the U.S. markets:

U.S. Indexes - 2021 & 2022



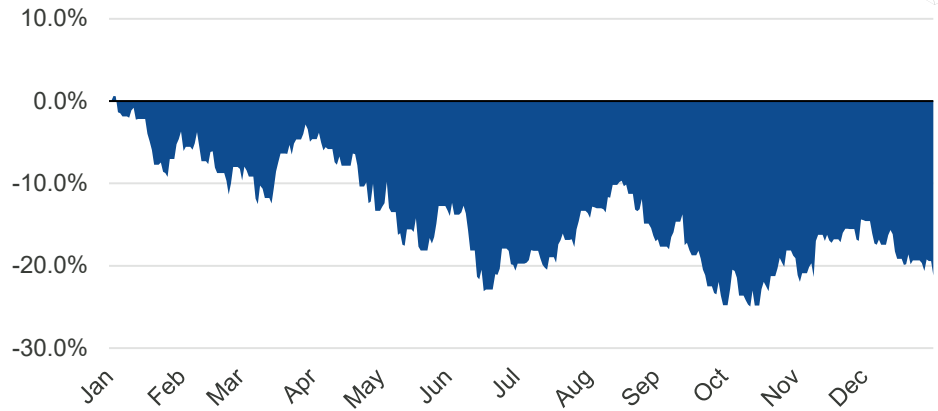
U.S. Industry Sectors - 2021 & 2022





S&P 500 Price % Return 2022

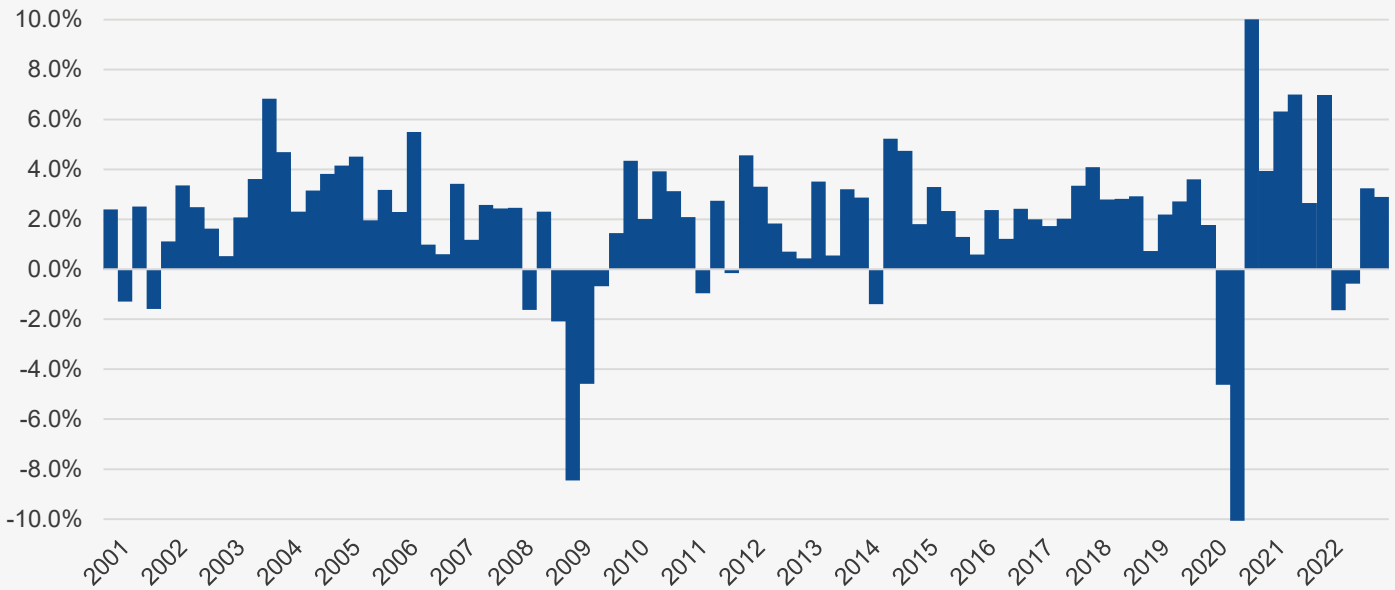
The S&P 500 price only index (excluding dividends) was negative the entire year, reaching its low of -24.8% before ending the year down 19.4%.



GDP

The U.S. economy continued its slow growth. The economy, as measured by the Gross Domestic Product (GDP), contracted during the first two quarters of 2022. While two consecutive quarters of negative growth are a component of a recession, a recession was not officially called during the year. The economy did rebound, growing at a 3% (quarter over quarter) pace for the second half of the year. Economists are mixed in their projections for 2023 but most are in the camp of continued low-growth. The biggest question marks are whether we will experience the recession many have predicted, and if so, how severe will it be.

Quarterly Real GDP Growth: 2000-2022



A **RECESSION** was not officially called during the year.

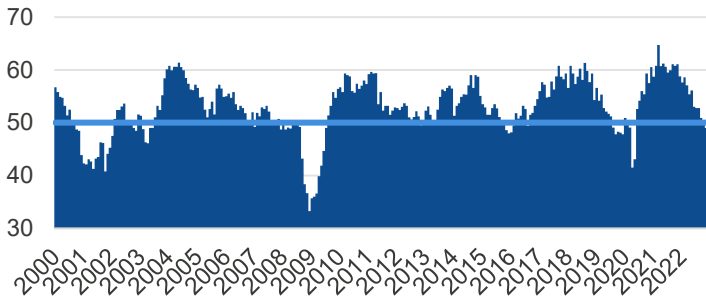
Despite two consecutive quarters of **NEGATIVE GROWTH**.

## MANUFACTURING

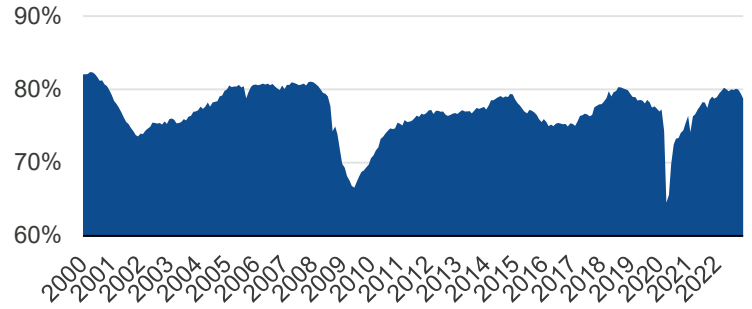
We continue to keep an eye on the PMI reading (Purchasing Managers Index) which dropped below 50 in November, after starting the year at 59. When the index is above 50 it signals an expansion in the manufacturing sector, while a reading below 50 indicates a contraction.

The capacity utilization rate stayed above 78 for the entire year. This signals that factories have not yet experienced the upcoming slow down projected by the slowing PMI.

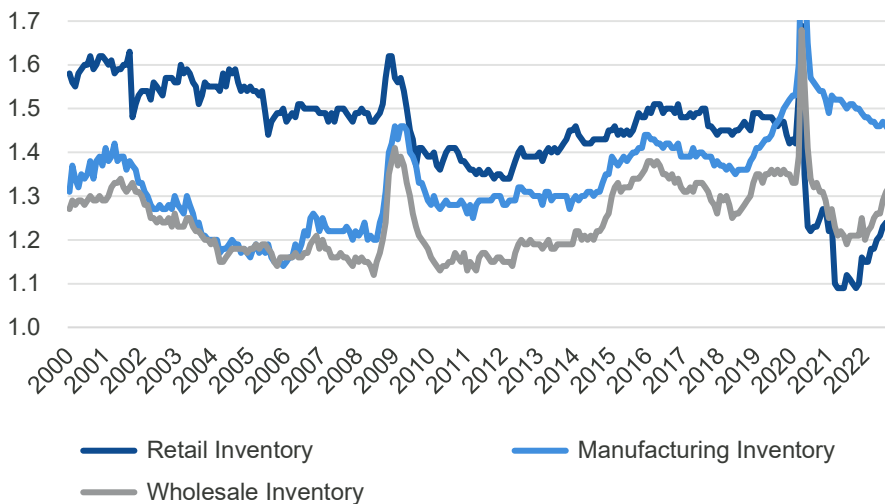
**Purchasing Manager's Index (PMI): 2000-2022**



**Capacity Utilization: 2000-2022**



**Trade Inventories to Sales Ratios: 2000-2022**



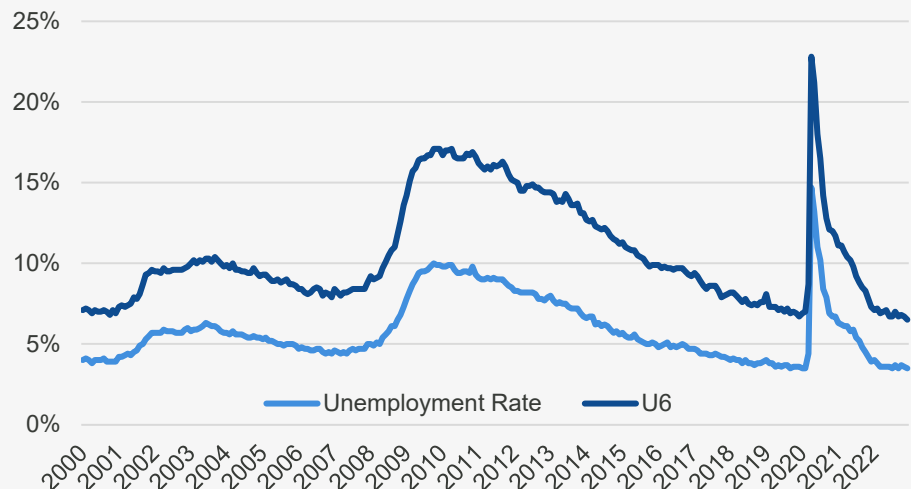
Inventories grew during the year, meaning companies have more product on hand relative to their sales and thus could order/purchase/produce less in the next year, which would be a headwind for the economy.

## EMPLOYMENT

Employment continued to be the bright spot of 2022. The U.S. economy added 4.5 million jobs during the year. While overall good news, the rate is slowing as 2.6 million jobs were added in the first half of the year and 1.9 million were added in the second half.

The official unemployment rate remained under 4% during the year. The U6 rate, which is the broadest measure of those unemployed, dropped from 7.1% to 6.5% at year end.

**Unemployment Rate & U6 Unemployment: 2000-2022**

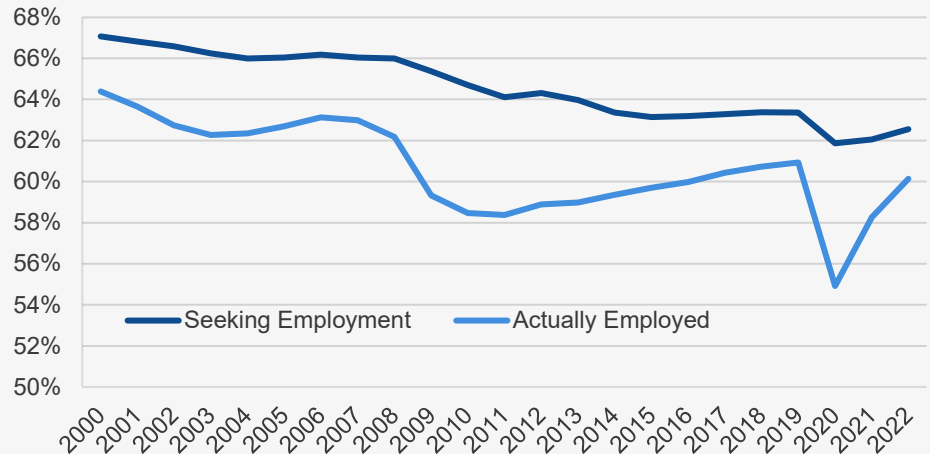


## EMPLOYMENT

One way to analyze the employment situation is to look at the raw data. There are 264 million people in the U.S. of working age. Of those, 165 million are “wanting to work”. Of those 165 million persons wanting to work, 159 million are currently employed, leaving 6 million unemployed. Another way to look at the data is that there are 99 million people of working age who do not “want to work” – down 1 million from last year - (age, in school, stay at home parent, etc.) plus another 6 million people who want to work but are not employed.

We can also look at the data to view the percentage of individuals wanting to work with the percentage actually employed. Currently, 62.5% of the U.S. eligible population wants to work and 60.1% are working. With over 10 million job openings and only 6 million unemployed, hiring continues to be a problem for employers.

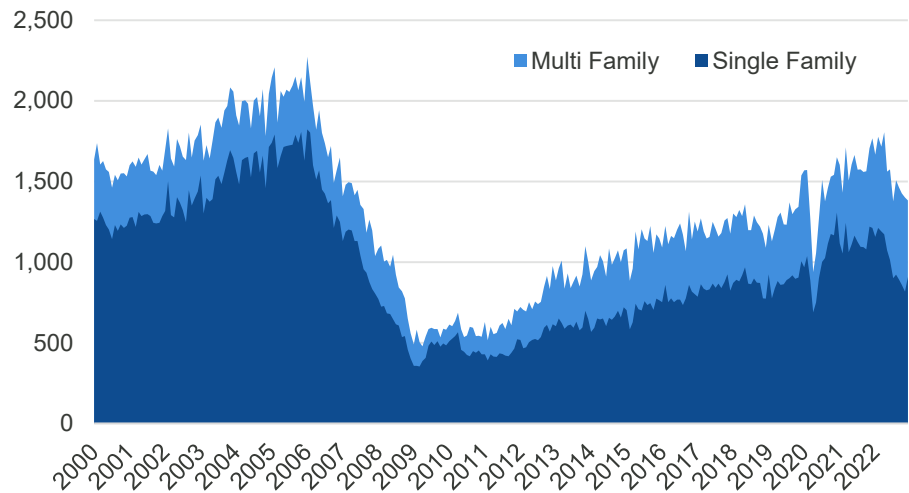
**% of Population age 16 and over Seeking Employment vs Actually Employed: 2000-2022**



## HOUSING

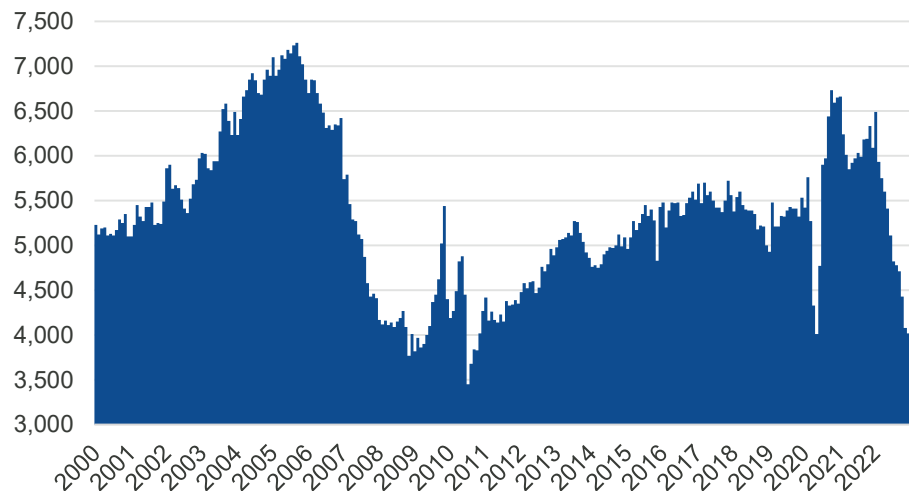
Monthly new home starts began to slow in the second half of the year, dropping over 20% from earlier in the year.

**New Private Housing Starts (thousands): 2000-2022**



Monthly sales of existing homes followed the same pattern, averaging 5.1 million per year down from a pace of 6.1 million at the beginning of the year. This was the weakest year for sales activity since 2014.

**Existing Home Sales (thousands): 2000-2022**



## HOUSING

### 30 Year Fixed Rate Mortgage: 2000-2023



The interest rate on a 30-year fixed rate mortgage doubled during the year. Rates started the year at 3.11% and finished the year at 6.42%. That results in a higher payment of \$275 per month for every \$100,000 borrowed!

**30-year fixed mortgage rates reached their highest level since 2001.**

### Case-Shiller Home Price Index Year over Year Change: 2000-2022

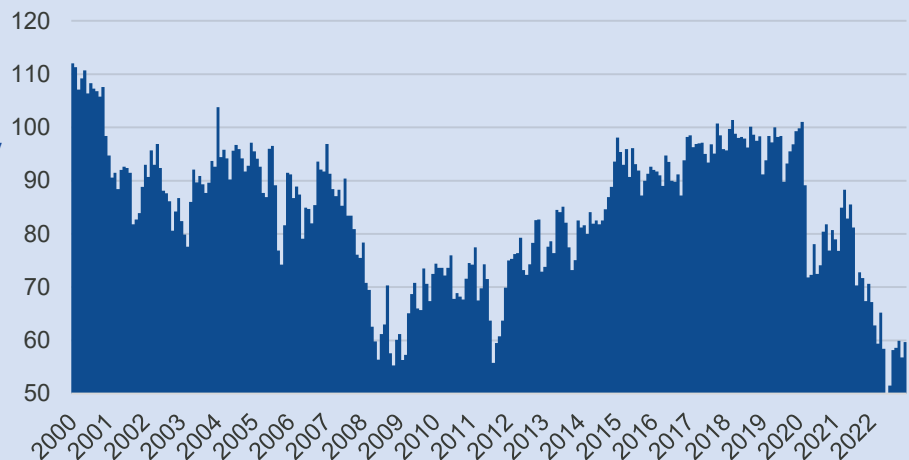
Given the rise in interest rates, the increase in the value of home prices began to slow. In 2022, the average home price increased 7% after an increase of 17% in 2021. The following chart tracks the year over year percentage change in home prices.



## CONSUMER SENTIMENT

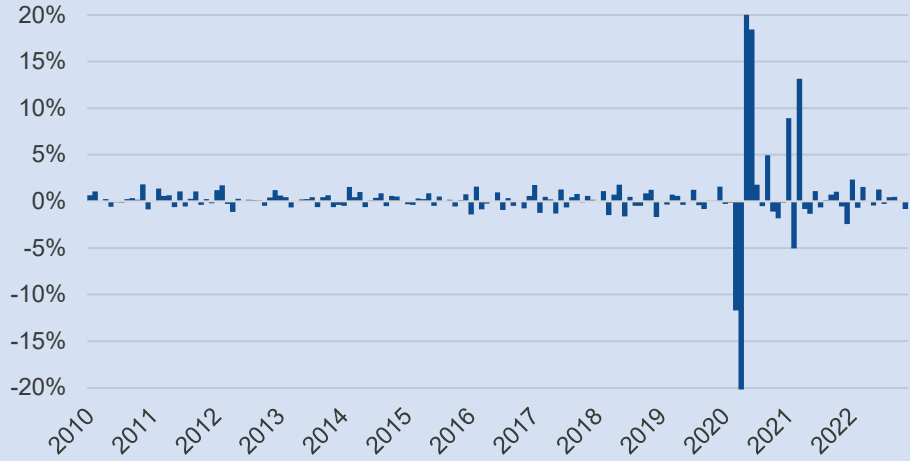
### University of Michigan Index of Consumer Sentiment: 2000-2022

As one might expect, consumer sentiment, as measured by the University of Michigan monthly survey, remained low, ending the year at 60 (started the year at 71). Concerns over inflation and whether a recession is coming continue to weigh on consumers' minds.



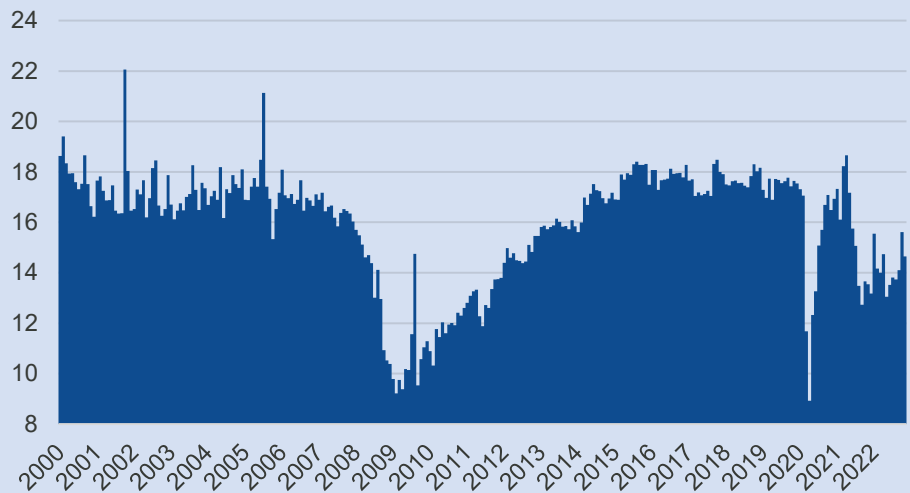
## CONSUMERS SALES

Month over Month Change in Sales: 2010-2022  
General Merchandise, Apparel, Furniture, & Other



Retail sales were weak during the year with virtually no growth over the second half of the year.

Total Vehicle Sales (millions): 2000-2022

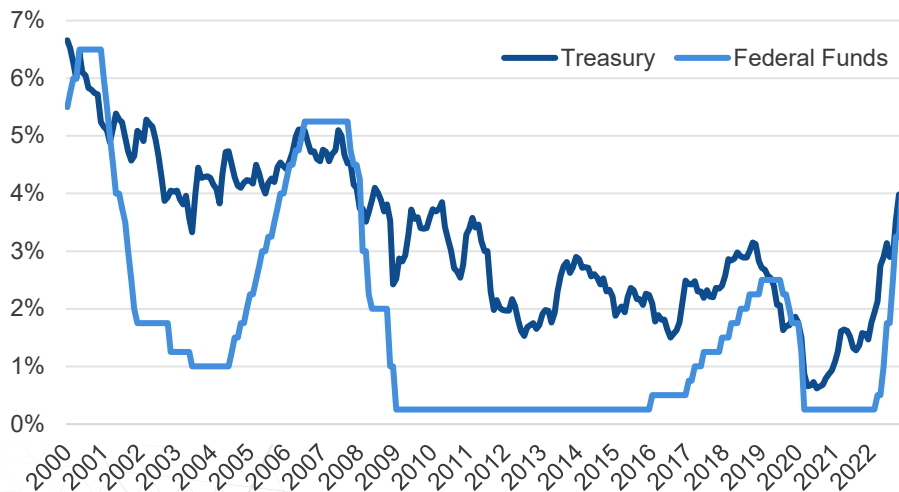


Sales of new vehicles remained soft during the year. New vehicles sold at an annualized pace of 14.3 million vehicles during the year, which is down from 17 million pre-pandemic.

## INTEREST RATES

The Federal Reserve raised the Fed Funds rate seven times in 2022 increasing it from 0.25% to 4.50%. Longer term rates (10-year Treasury rates) are determined by market forces and rose from 1.47% to 3.62% at the end of the year. The Fed has indicated they plan to continue raising rates during 2023 in response to inflation concerns.

10 Year Treasury Rate and Federal Funds Rate: 2000-2022

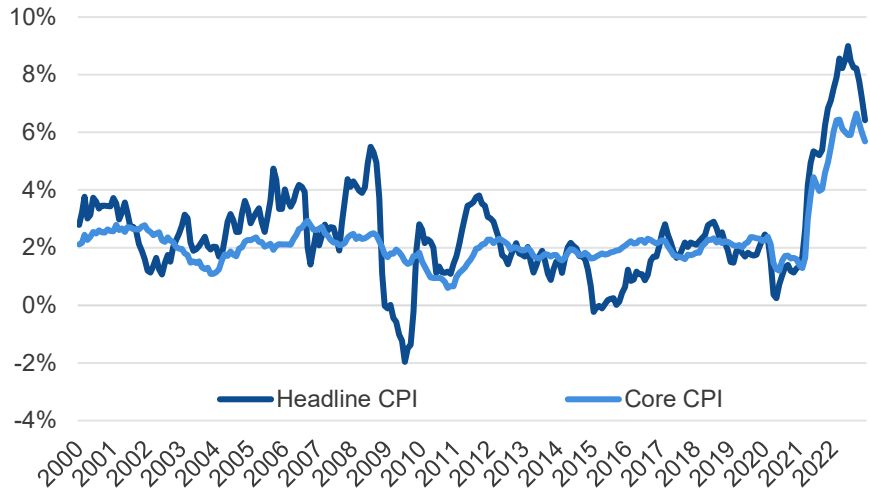


The Federal Reserve  
raised rates  
**SEVEN TIMES**  
in 2022.

## INFLATION

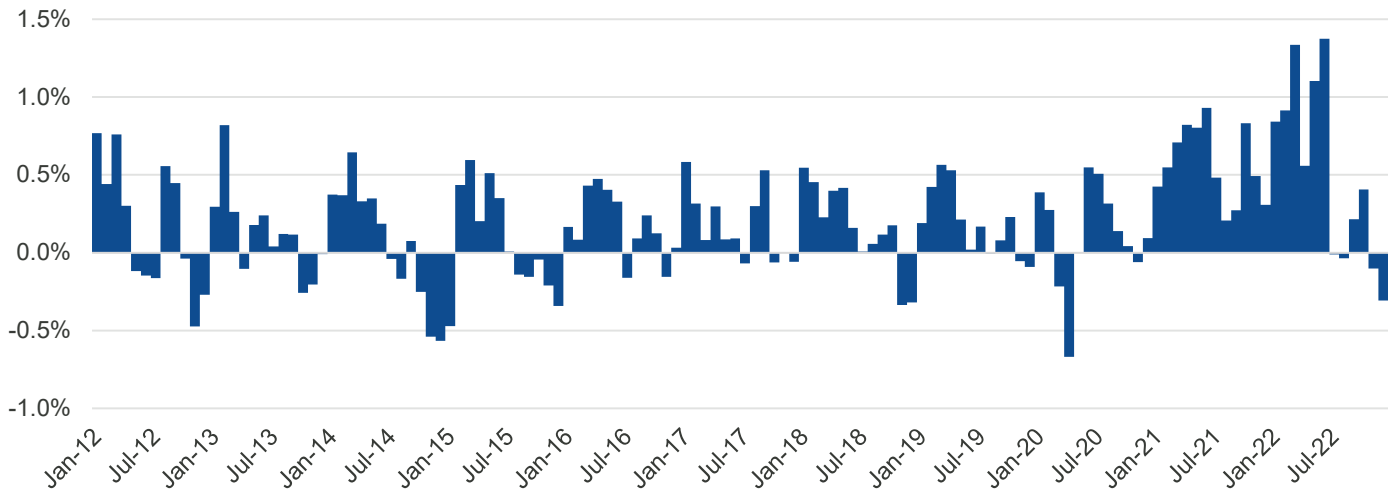
The major economic story of 2022 was inflation. Both headline inflation (which includes food and energy) and core inflation (which excludes food and energy) remain substantially above desired ranges, based on year over year rates. Headline inflation started the year at 7.5% rose to a high of 9.0% and ended the year at 6.4%. These are the highest inflation rates in over 40 years.

Year over Year Change in CPI: 2000-2022



The inflation data above is computed on a year over year basis (ie. December, 2022 to December, 2021) Another way to look at inflation is on a month over month basis which computes how much inflation is continuing to rise (rather than comparing to one year ago). On this measure, inflation for July to December was less than 1% and may indicate the worst of the inflation is behind us.

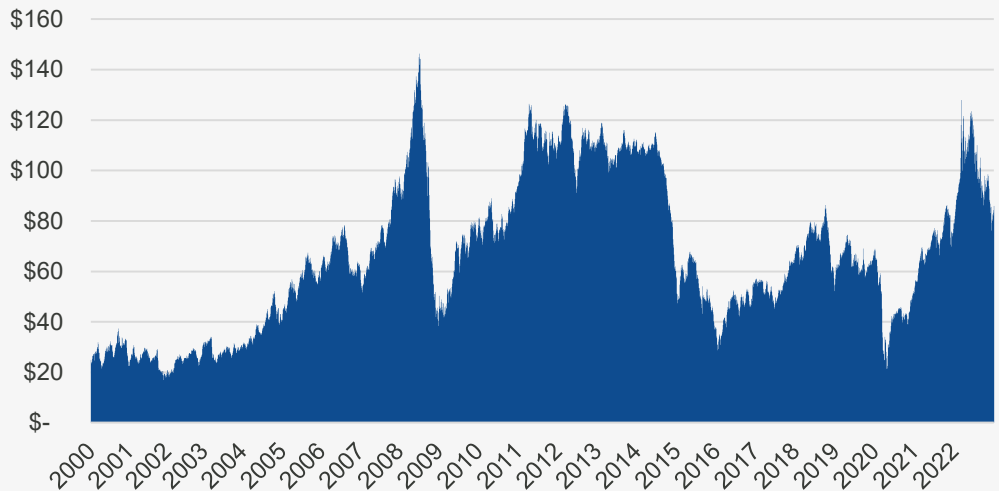
Monthly CPI: 2012-2022



## OIL

The price of a barrel of oil started the year at \$78, rose to a high of \$128, and ended the year at \$86. The current price is a headwind to consumer confidence.

Brent Crude Price: 2000-2022





## US DOLLAR

Trade Weighted U.S. Dollar Index: 2006-2022

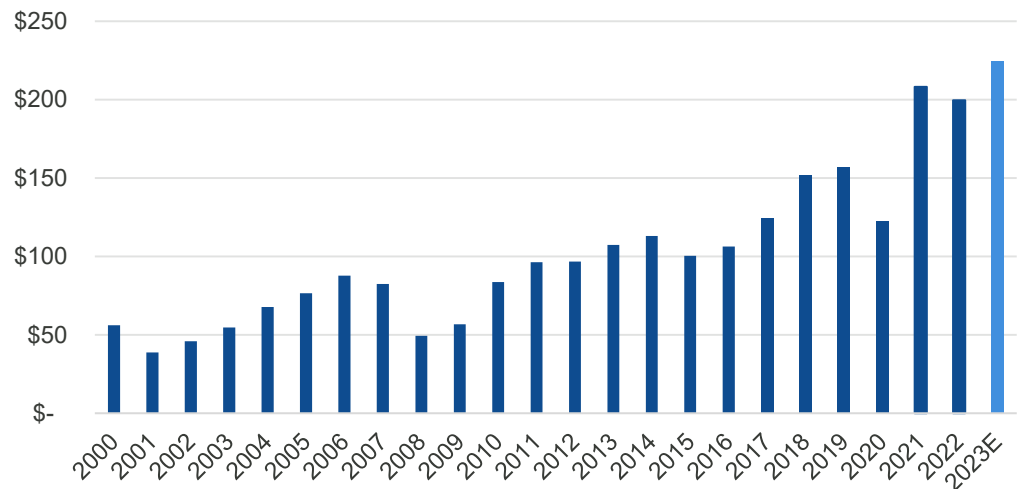
The U.S. dollar strengthened against other world currencies during the first three quarters of the year, which makes imports less costly to U.S. consumers but makes our exports more expensive to overseas buyers. As other countries began raising their interest rates, the dollar gave back some of that strength, ending the year up 5.4%.



## STOCKS

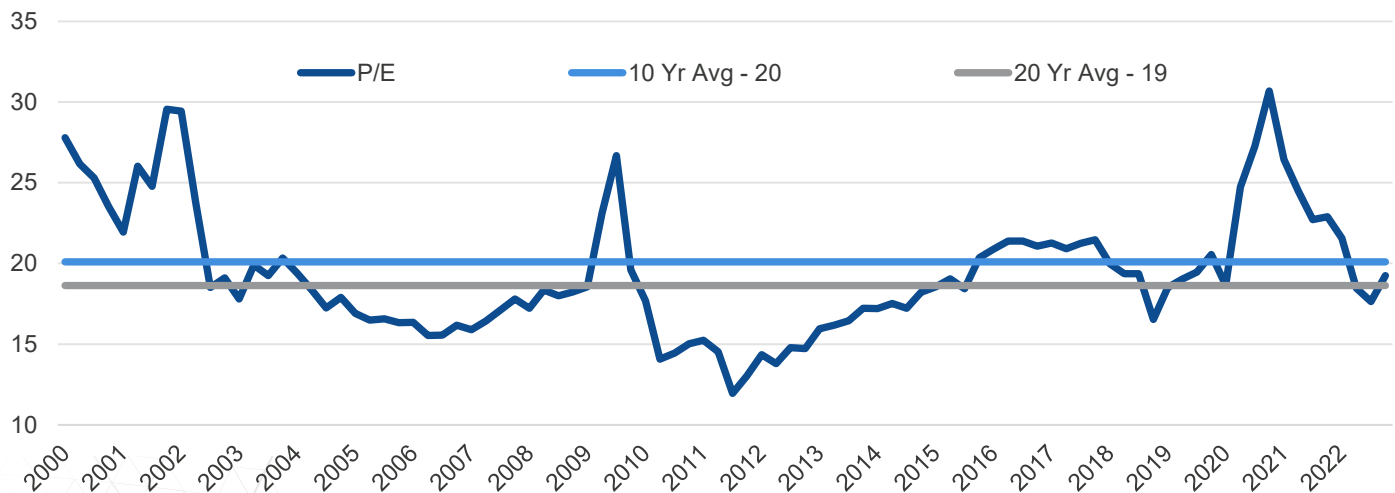
12 Month Operating Earnings: 2000-2023E

Corporate profits are a large driver of the stock market. The S&P 500 earnings decreased 4% from 2021 earnings. Current projections call for 2023 earnings to increase 13% over 2022. Some believe this may be overly optimistic.



The above fall in corporate profits caused the S&P 500 Price to Earnings (PE) ratio to drop from 22 to 19 during the year. That puts current valuations back in line with both the long-term 10-year and 20-year averages.

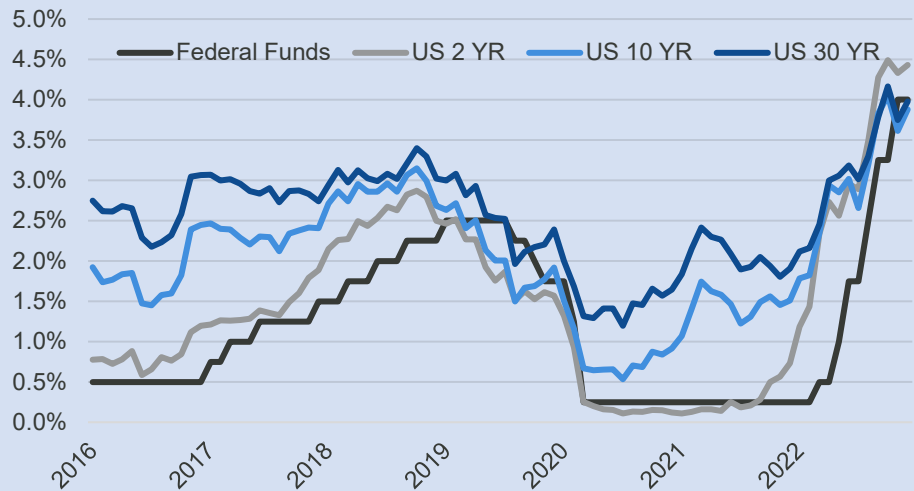
S&P 500 P/E Ratio to Historical Averages: 2000-2022



# BONDS

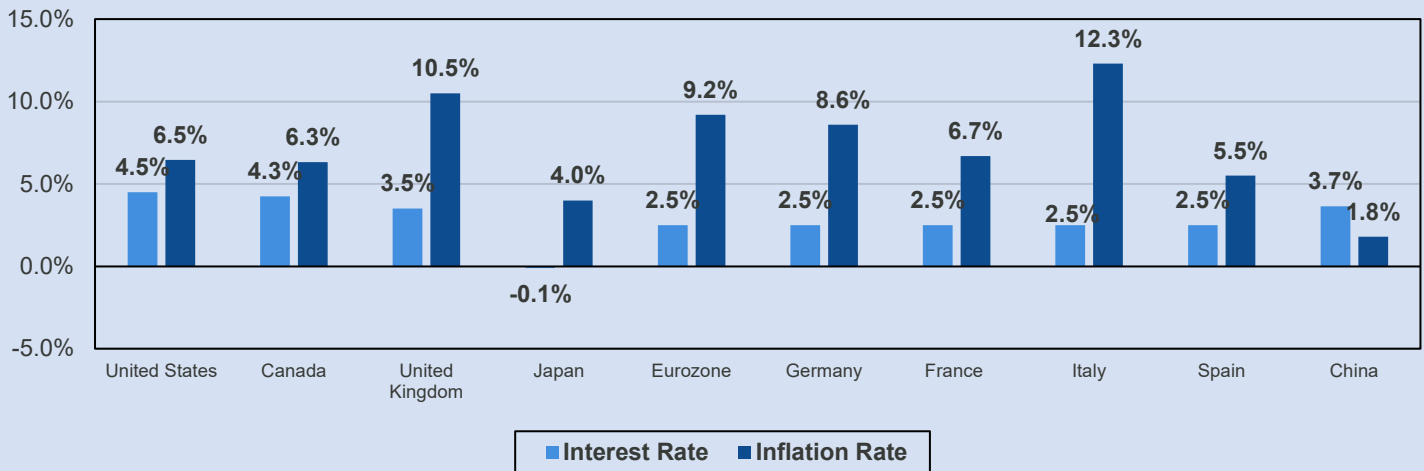
The bond market is a totally different market. Interest rates have risen across the board. The yield curve has inverted, meaning short term rates are higher than long term rates. This has never been a good sign for the economy, and has often foreshadowed a recession.

Interest Rate Comparison: 2016-2022



As we look around the globe, we see that the U.S. is ahead of the world in raising rates to battle inflation. This could mean that the U.S. has the worst behind us, while other countries have more pain ahead. The following table shows the inflation rate vs. the Fed Funds rate (or equivalent) of other countries in comparison to the U.S.

Interest Rates vs Inflation Rates



## RECAP

There was no place to hide in 2022, as almost all investment categories went down. We continued to monitor opportunities as they presented themselves, looking to take advantage of rising interest rates for cash and shorter term holdings. We found ways to take tax losses without changing long term stock market exposure. We believe in our investment strategies for the long term and stayed on course in spite of the worrisome headline news. The year brought wealth transfer opportunities for our clients which we capitalized on as the situation warranted.

At JVL Wealth Strategies our mission is to create a financial strategy that helps our clients withstand the ups and downs of the markets. Our role is to prepare our clients for all economic and market conditions. Our planning and strategies can withstand market uncertainties. While we cannot control the news or the events and actions that affect the markets around the world, we can control the strategies and the planning to prepare our clients for the uncertainties the world has to offer.

We deeply value the trust our clients place in us. If you know of someone who could benefit from our experience, please let us know. You can learn more about us at [www.jvlwealth.com](http://www.jvlwealth.com). Feel free to pass the link along.

## REFERENCES

- [1] Information obtained from Morningstar Direct: Various U.S. Indexes Total Return
- [2] Information obtained from Morningstar Direct: Various U.S. Sectors Total Return
- [3] Information obtained from Morningstar Direct: Various Foreign Indexes Total Return
- [4] Information obtained from Morningstar Direct: S&P 500 Price Return
- [5] Information obtained from Morningstar Direct: S&P 500 Total Return
- [6] Information obtained from Morningstar Direct: "FRED, Real Gross Domestic Product, Seasonally Adjusted Annual Rate , U.S. Bureau of Economic Analysis, Billions of Chained 2009 Dollars"
- [7] Information obtained from Investing.com website: [https://www.quandl.com/data/ISM/MAN\\_PMI-PMI-Composite-Index](https://www.quandl.com/data/ISM/MAN_PMI-PMI-Composite-Index)
- [8] Information obtained from Morningstar Direct: "FRED, Capacity Utilization: Total Industry, Seasonally Adjusted , Board of Governors of the Federal Reserve System (US), Percent of Capacity"
- [9] Information obtained from United States Census Bureau website: <https://www.census.gov>
- [10] Information obtained from Morningstar Direct: "FRED, All Employees: Total Nonfarm Payrolls, Seasonally Adjusted , U.S. Bureau of Labor Statistics, Thousands of Persons"
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- [13] Information obtained from Morningstar Direct: "FRED, Existing Home Sales, Seasonally Adjusted Annual Rate , National Association of Realtors, Number of Units"
- [14] Information obtained from Federal Reserve Bank of St. Louis: 30-Year Fixed Rate Mortgage Average in the United States, Percent, Weekly, Not Seasonally Adjusted
- [15] Information obtained from S&P Dow Jones Indices website: <http://us.spindices.com/index-family/real-estate/sp-corelogic-case-shiller>
- [16] Information obtained from University of Michigan Survey of Consumers web site: <http://www.sca.isr.umich.edu>
- [17] Information obtained from United States Census Bureau website: <https://www.census.gov>
- [18] Information obtained from Morningstar Direct: "FRED, Total Vehicle Sales, Seasonally Adjusted Annual Rate , U.S. Bureau of Economic Analysis, Millions of Units"
- [19] Information obtained from Morningstar Direct: "FRED, Federal Funds Effective Rate, Not Seasonally Adjusted , , Percent" & "FRED, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Not Seasonally Adjusted , , Percent"
- [20] Information obtained from Morningstar Direct: "FRED, Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average, Seasonally Adjusted , , Index 1982-1984=100" & "FRED, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, Seasonally Adjusted , , Index 1982-1984=100"
- [21] Information obtained from the U.S. Bureau of Labor Statistics website: <https://www.bls.gov>
- [22] Information obtained from Morningstar Direct: Brent Crude Price
- [23] Information obtained from Morningstar Direct: "FRED, Trade Weighted U.S. Dollar Index: Broad, Goods and Services, Index Jan 2006=100, Daily, Not Seasonally Adjusted"
- [24] Information obtained from S&P Dow Jones Indices website: <http://us.spindices.com/indices/equity/sp-500>
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- [26] Information obtained from Investing.com website: <https://www.investing.com/rates-bonds/>
- [27] Information obtained from YCharts.com website:



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