PPM
WEALTH

INVESTMENT UPDATE & OUTLOOK

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PPM Investment Update & Outlook

In 2022, most asset classes declined, including those that historically provided some risk protection. Economic growth weakened as the impact of reopening dissipated and monetary tightening measures were aggressively implemented, leading to a marked shift towards a risk-off sentiment as the world emerged from the pandemic. The energy shock, Chinese Covid-19 restrictions, global monetary policy changes, and the Russian conflict further shifted this trend. As a result of this, in response to rising inflation, central banks led by the Federal Reserve and the Bank of England quickly raised interest rates with the narrative leaving a hawkish tone. This was a surprise to global markets as it indicated the era of cheap money and low rates was ending. This led to pressure on the balance sheets of many firms as financing costs increased and weaker companies struggled to stay afloat as the cost of capital increased and reduced potential future profitability.

Asset Class Performance MTD, QTD, and YTD - Total Return (%)

US Related

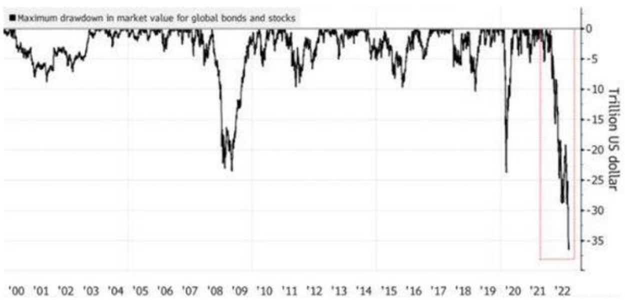
ETF	Description	MTD	QTD	YTD
SPY	S&P 500	-5.84	7.47	-18.25
DIA	Dow 30	-4.13	15.81	-7.07
QQQ	Nasdaq 100	-9.25	-0.39	-32.76
IJH	S&P Midcap 400	-5.37	10.91	-13.01
IJR	S&P Smallcap 600	-6.53	9.17	-16.06
IWB	Russell 1000	-5.86	7.01	-19.29
IWM	Russell 2000	-6.38	6.36	-20.37
IWV	Russell 3000	-5.90	6.99	-19.35
IVW	S&P 500 Growth	-7.74	1.23	-29.60
IJK	Midcap 400 Growth	-5.95	8.83	-18.91
IJT	Smallcap 600 Growth	-6.86	6.87	-21.15
IVE	S&P 500 Value	-3.93	13.47	-5.44
IJJ	Midcap 400 Value	-4.98	12.69	-7.02
IJS	Smallcap 600 Value	-6.33	11.23	-11.18
DVY	DJ Dividend	-2.95	13.59	1.97
RSP	S&P 500 Equalweight	-4.69	11.43	-11.62
FXB	British Pound	0.17	8.44	-10.53
FXE	Euro	2.89	9.24	-6.58
FXY	Yen	5.39	10.18	-12.64
XLY	Cons Disc	-11.55	-9.24	-36.39
XLP	Cons Stap	-2.75	12.51	-0.85
XLE	Energy	-2.96	22.82	64.32
XLF	Financials	-5.16	13.42	-10.55
XLV	Health Care	-1.90	12.61	-2.11
XLI	Industrials	-2.96	19.16	-5.55
XLB	Materials	-5.46	15.03	-12.27
XLRE	Real Estate	-4.70	3.84	-26.17
XLK	Technology	-8.44	4.81	-27.91
XLC	Comm Services	-6.81	0.23	-37.77
XLU	Utilities	-0.38	8.62	1.53

Past performance is no guarantee of future results.

Global

ETF	Description	MTD	QTD	YTD
EWA	Australia	-4.14	15.75	-5.58
EWZ	Brazil	-4.51	1.45	12.19
EWC	Canada	-5.51	8.10	-12.83
ASHR	China	0.17	4.71	-27.43
EWQ	France	-1.27	24.44	-11.69
EWG	Germany	-2.09	25.93	-21.82
EWH	Hong Kong	6.78	17.14	-6.47
PIN	India	-5.96	3.03	-9.33
EWI	Italy	-1.36	27.64	-13.80
EWJ	Japan	-1.93	12.02	-17.48
EWW	Mexico	-6.24	14.28	1.40
EWP	Spain	0.53	24.32	-4.80
EIS	Israel	-8.32	-1.88	-27.14
EWU	UK	-1.08	19.00	-4.16
EFA	EAFE	-1.45	18.10	-14.03
EEM	Emerging Mkts	-2.53	10.43	-20.46
IOO	Global 100	-5.06	8.34	-16.38
BKF	BRIC	-0.66	8.51	-21.92
CWI	All World ex US	-1.88	15.29	-15.23
DBC	Commodities	-2.67	3.76	19.39
DBA	Agric. Commod.	0.97	1.12	2.50
USO	Oil	-0.11	7.46	29.05
UNG	Nat. Gas	-33.55	-39.69	12.89
GLD	Gold	2.97	9.71	-0.74
SLV	Silver	7.78	25.83	2.37
SHY	1-3 Yr Treasuries	0.15	0.72	-3.85
IEF	7-10 Yr Treasuries	-1.42	0.65	-15.10
TLT	20+ Yr Treasuries	-2.53	-1.80	-31.18
AGG	Aggregate Bond	-0.82	1.64	-12.98
BND	Total Bond Market	-0.78	1.66	-13.09
TIP	T.I.P.S.	-1.28	1.96	-12.21

Global bonds and stocks see biggest ever loss in market value (Source: Bloomberg, SYZ Group)



Global markets reversed post-pandemic gains and double-digit losses ensued as selling pressure increased, with the S&P 500 experiencing a 20% drop, marking the worst year since the 2008 Global Financial Crisis (GFC). Other major markets like the DAX dropped 12.4% (largest drop since 2018) and EM also suffered the worst loss since 2008.

The MSCI All-Country World Index lost about a fifth of its value during 2022, in what Bloomberg calls an "$18tn rout", which is the worst performance in 14 years, since the GFC wiped 40% off stock values in 2008. History has shown that two consecutive years of losses are unusual for the market as the S&P has only fallen for two straight years on four occasions since 1928. Given how far the equity market has dropped and valuations have rebased to realistic levels, we take the view that most of the bad news has been priced in and things will improve in 2023.

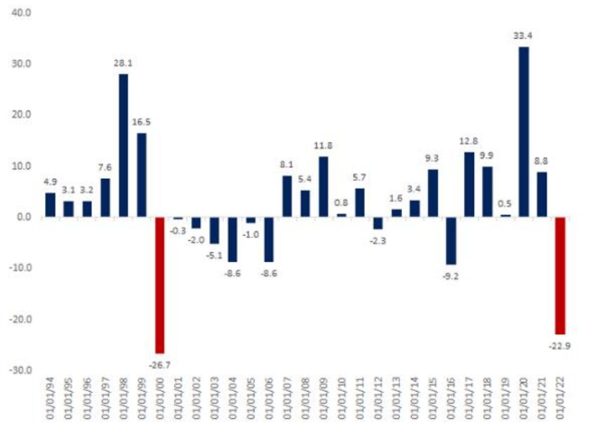
As previously mentioned, despite a partial recovery in December, 2022 was one of the most challenging years in history for investors as equity and fixed income markets experienced deep losses, with joint losses reaching 20% at the low point. This has led to a shift in asset allocations and risk attitudes among investors. Even traditional 60/40 portfolios, which are designed to provide portfolio protection, suffered significant double-digit losses. The fixed income exposure, which is traditionally considered a market hedge, failed to provide protection throughout the year as bond yields spiked in the UK and US due to persistent high inflation and interest rate hikes, including the mini budget which had a negative impact.

Despite this, the current environment is independently supportive of a meaningful move higher this year:

- One such driver is the expected peak in interest rate hikes, particularly in the US where a rate hike in Q1 is already being priced in with the expectation of cuts later in the year.
- Another driver is the potential for a tech sector recovery, as the Nasdaq fell over 35% in 2022 with some mega-cap names such as Tesla, Netflix, and Amazon experiencing declines of 50% or more.
- Additionally, a re-evaluation of corporate profit estimates and a potential earnings recession may also contribute to market movement. Q4 numbers are set to be released in January, and while a significant slowdown is expected, forward-looking estimates will be crucial in determining market direction.
- Factors such as a rebound in the MSCI China index, which fell 26% in 2022, and the potential ending of the Russian conflict may also play a role in shaping the market in the coming year.

Looking at equity style, we saw another rotation from growth into value, given how rates have made long-duration investments expensive to hold. Interestingly, this was almost a reversal of the post-pandemic trade when large-cap tech and internet names were being bought aggressively.

S&P Growth vs S&P Value – Annual Index Performance (%)
(Source: Edward Jones, SYZ Group)



Value stocks have historically outperformed growth stocks during periods of elevated interest rates, and 2022 was no exception: the Vanguard Growth ETF (VTG) declined 33.9% in 2022, while the Vanguard Value ETF (VUG) dropped just 4.3%. Also, a tailwind for sectors outside of tech was the big rally in the US dollar which we now view will be reversed as rates and inflation are close to peaking.

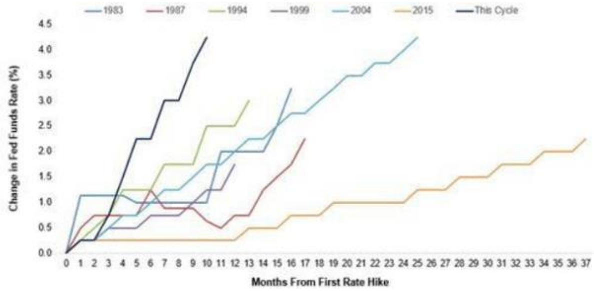
The commodity market, particularly the energy sector, experienced robust performance in 2022 due to a rally in crude oil prices caused by the Russian conflict impacting global energy supplies and the reopening of the Chinese economy. On the other hand, gold, a traditional market hedge, failed to deliver substantial returns as the dollar rally weakened demand.

As the market conditions have evolved, key considerations for 2023 include central bank policy, economic growth, interest rate trajectory, global inflation, and the potential for geopolitical isolation between the East and West, as well as rethinking of global supply chains. These factors, when considered, will have a direct impact on credit quality, earnings, and valuations, as well as investor sentiment and positioning. The shift in global economic policy could be here for many years to come and countries become less reliant on global trade and more on managing this on a domestic level.

Despite growth slowing in 2022, expectations are for a recovery to occur, but on a slower trajectory. There is ongoing debate about the risk of regional recession, however, the rebound witnessed in Q4, and moderating inflation suggest that this can be avoided. Inflation remains a closely watched indicator for asset allocation, as global equity markets are heavily influenced by expectations and the path of real rates, and it should be noted that this is one of the main drivers for the market, not only for the short-term but also over the long run.

In 2022, the Fed implemented rapid interest rate increases to curb inflation resulting from the post-pandemic recovery, which led to a surge in the US dollar and a subsequent spike in global asset prices.

One of the most aggressive Fed tightening cycles ever
(Source: ZeroHedge, LPL Research, Bloomberg, SYZ Group)



As central banks stand ready to act, we anticipate a better outlook in Q1 2023, as most major risks are now priced into markets and a sense of normality is slowly returning. However, it is important to note that due to the increased cost of funding, reliance on central banks as lenders of last resort is no longer a viable option.

A shift in politics and globalisation has drastically changed the investing environment and has presented opportunities for investors to capitalise on significant pricing anomalies in companies and themes that have been undervalued for the wrong reasons. While we do not advocate for market timing, the recovery is expected to be swift and will offer the best investing environment in years, as companies have been revalued to realistic prices, balance sheets are strong, dividends and cash flows have the capacity to provide portfolio protection, and as interest rates peak, there will be a shift back to non-cyclical growth themes.

The key issue for the market in 2023 will be inflation expectations, as the rise in inflation and interest rates had such a significant impact on asset prices in 2022. We anticipate that inflation will moderate and view current inflation rates as a purely monetary phenomenon, although with tight labour markets and upward pressure on wages, it could prove to be slightly more persistent than expected.

Overall, although there may be some continuing uncertainties, we believe that the market has incorporated most of these potential risks into its valuations. At PPM Wealth, we continue relying on our research capabilities to select best-in-class strategies and tactically adjust our portfolios' asset allocation as the environment evolves.

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