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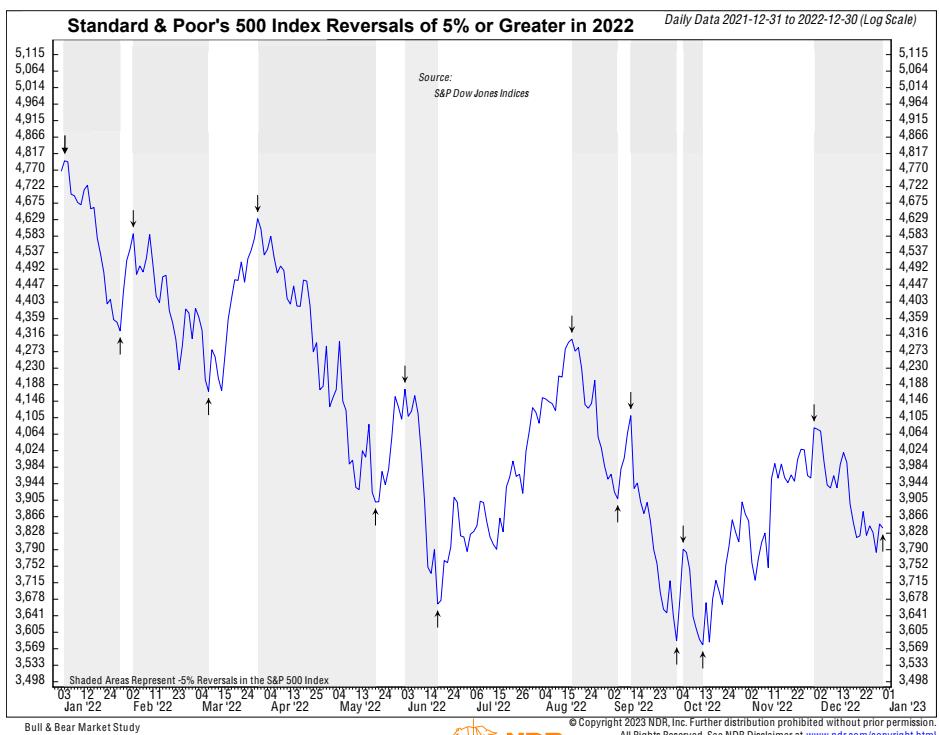
January 23, 2023

Stock & Bond Benchmark Total Returns (%)					
For Periods Ending December 30, 2022					
	QTR	1-Year	3-Years	5-Years	10-Years
Dow Jones Industrial Average	16.01	-6.86	7.32	8.38	12.30
Standard & Poor's 500	7.56	-18.11	7.66	9.42	12.56
Bloomberg Barclays U.S. Aggregate Bond	1.87	-13.02	-2.72	0.02	1.06
60% Stocks / 40% Bonds TAA Composite Index	5.39	-15.79	3.83	5.96	8.09
3-month Treasury Bills	0.94	1.91	0.76	1.24	0.76

Returns (%) include capital gains, dividends and interest, and are **annualized** for periods greater than one year.
60% Stocks / 40% Bonds TAA Composite Index is rebalanced monthly. Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Market Review: A Very Volatile Year for Stocks & Bonds!

2022 was a year of rampant volatility as the Federal Reserve became increasingly hawkish in its efforts to combat inflation. Stock prices underwent significantly large up and down swings which were traversed much faster and with higher frequency than usual. During a typical year, the stock market tends to average about three or four declines of 5% or more, and one of about 10%. By comparison, 2022 saw eight declines in the Standard & Poor's 500 Index (price only) of more than 5%, and six of those were more than 9%. The average decline before the next upswing began was just 25 days! Behind the volatility was the most aggressive interest rates hikes by the Fed in 40-years (7 hikes, totaling +425 bps), a surge in inflation, uncertainty over an uneven Covid economic reopening, the Russian/Ukrainian war, and mid-term elections.



The bulk of the damage to stocks was done by June, but as the Fed struck an increasingly hawkish tone, stocks broke to new lows in mid-October reaching their nadir down 27.5% based on their intra-day

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highs to lows (January 3rd to October 13th). The magnitude of that decline is about in-line with a mild recession, suggesting stocks may have already priced in a significant economic slowdown well ahead of time. Bonds bottomed a week later.

For the year, the S&P 500 Total Return Stock Index declined 18.11% (its worst year since 2008), and the Bloomberg Barclays U.S. Aggregate Bond Total Return declined 13.01%. **It was also the first year on record that both stocks and bonds declined more than 10%.**

Standard & Poor's 500 Index Reversals of 5% or Greater in 2022			
High Date	Low Date	% Change	#Days
1/3/22	1/27/22	-9.80	24
2/2/22	3/8/22	-9.12	34
3/29/22	5/19/22	-15.78	51
6/2/22	6/16/22	-12.21	14
8/16/22	9/6/22	-9.22	21
9/12/22	9/30/22	-12.77	18
10/4/22	10/12/22	-5.64	8
11/30/22	12/30/22	-5.90	30
Average		-10.06	25

In the final quarter of the year, both stocks and bonds found their footing. Stocks rebounded 7.56%, although the bond rally was more muted (+1.87%) given its higher sensitivity to inflation. As of this writing the S&P 500 is now up 11.06% from its October lows, but also remains down 17.18% from its January 3rd, 2022 peak.

There were few places to hide 2022. Among broad equity sectors, Energy far outshined them all (XLE +64.17%), but the only sector in the green after that was Utilities (XLU +1.42%). All other equity sectors produced negative returns during the year. Among equity styles, Value performed well on a relative basis (SPYV -5.29%), while Growth (SPYG -29.42%) was decimated as large-cap Tech-related stocks (the darlings of the Covid era) were “de-FANGed”. Among bonds, shortening maturities and adding inflation protection helped. For much of the year, RCA’s core equity portfolio overweighted market defensive sectors, Energy, and tilted towards Value exposure. Within balanced accounts, the fixed income portfolio held a significant weighting to inflation protected securities, and short-maturity (cash-like) Exchange Traded Funds.

More recently, RCA Multi-Cap Core Equity portfolios have added international equity, as well as higher quality smaller/mid-cap exposures via Exchange Traded Funds. Fixed income portfolios in balanced accounts currently have an interest rate sensitivity similar to their bond benchmark, but with increased inflation protection.

Outlook: Pros & Cons... Neutral for Now, Long-Term More Favorable

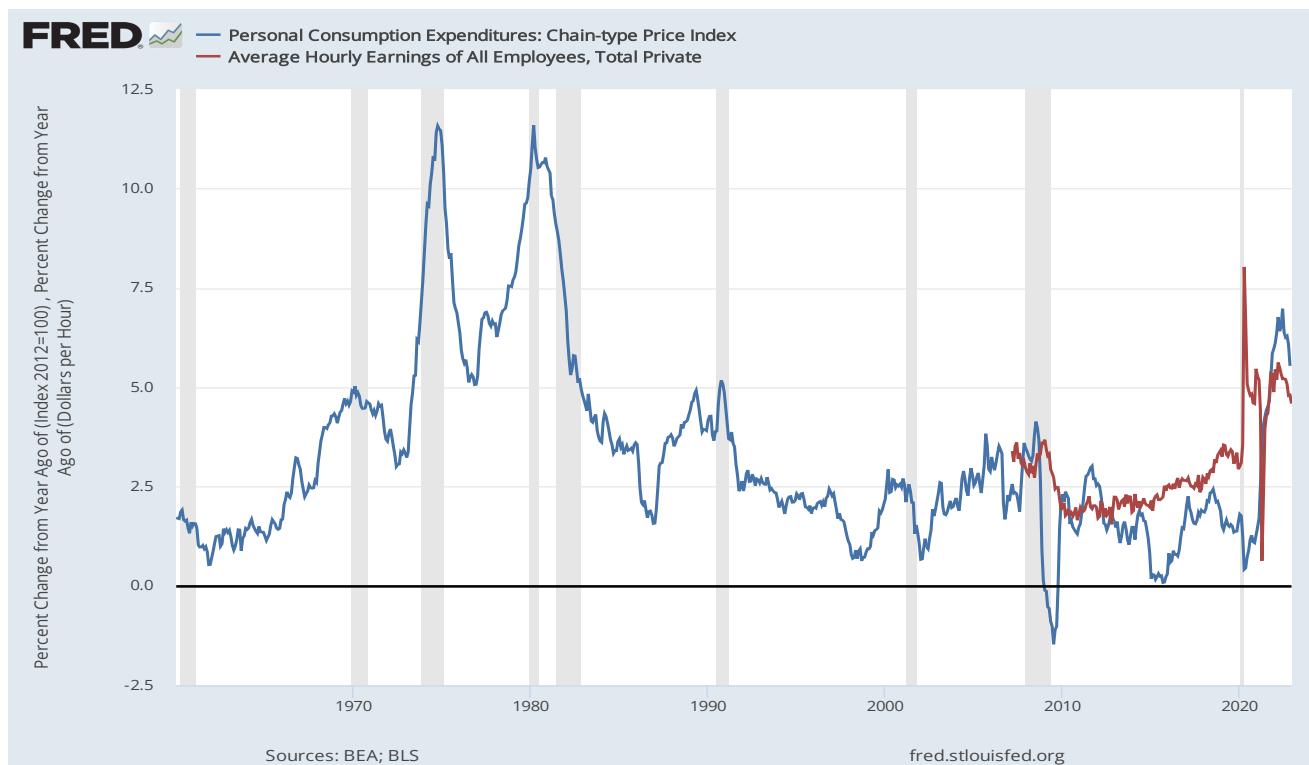
We see pros and cons for the year ahead, with several “known unknowns” yet to be resolved. We are neutral near benchmark allocations for now, although also encouraged by the recent news on the inflation front. Long-term, we maintain a favorable view for stocks.

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According to a year-end CNBC poll of their investor viewers, most (40%) expect stock prices to rise 6% to 10% this year, 27% expect returns in the 1% to 5% range, while 24% expect returns of 11% or more. Only 9% expect a negative return in 2023. [Historical Factoid: In the post-WWII period, the S&P 500 Total Return has been down in 17 years, and up in 61 (i.e. up 78% of the time). It's only had sequential down year runs a couple of times... i.e. 1973-1974, and 2000-2002.]

From a macro-economic viewpoint, a popular outlook for 2023 calls for the Federal Reserve to continue hiking the Fed Funds rate to between 4.91% (what the market currently expects) and 5.25% (what the Fed currently expects). A mild recession appears likely (although not a foregone conclusion), before the economy improves in late 2023. As a result, stock prices may face more risks in the first half, before rebounding in the second part of the year in anticipation of economic recovery.

Much however, is dependent on what the Fed does... How far, and for long they will stay on their path of keeping monetary policy tight? Will they pivot and cut interest rates before year end? Recently, the news on the inflation front has been encouraging.... Long-term inflation expectations remain well-anchored, shelter inflation should moderate markedly later in 2023 (private industry rent indexes show rents and home prices already declining on a monthly basis), wage growth (a key focus of the Fed) has also started to decline.



However, the Fed has remained monolithically hawkish and sees no rate cuts in 2023. Tough love, "Higher for longer" interest rates until significant progress on the inflation front is seen is their current mantra. Such talk has a purpose as it helps to anchor long-term inflation expectations at low levels. Once the inflation mission has been accomplished, greater focus will return to supporting

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economic growth. **Regardless, when the Fed is hawkish and is draining liquidity, stock market surprises (i.e. the “unknown unknowns”) will tend to occur on the downside, as 2022 demonstrated.**

Aside from the Fed, earnings estimates appear to be the largest risks for stock prices. Analysts' consensus estimates are currently calling for 2023 S&P 500 earnings of \$225.35, up 12.8%. In a typical year, analysts will reduce their estimates by about 8%, but recessions can easily slash earnings 20% to 25%. In all, the current earnings estimates translate to a forward Price-to-Earnings (P/E) valuation of 17.6x. That's moderately on the expensive side, and very expensive if a recession takes earnings down significantly. This is a risk that we will monitor, but it should also be kept in mind that P/E multiples commonly soar when stock prices surge in anticipation of the end of the recession (while earnings lag until the economy rebounds). Typically, stock prices will start to rise in anticipation of a recession's end by several months.

There also many other “known unknowns” to navigate in 2023. If inflation is coming down and free market interest rates peak soon, will rate-sensitive Growth stocks rebound? Will the debate over the Federal debt ceiling cause stocks to derail? What are the possible outcomes and ramifications of the Russian/Ukrainian war from here? Will China's reopening be a net positive or negative? Despite the economic and inflation factors in play, much of the path ahead appears dependent on the minds of the Fed, Congressional negotiations, Putin, and Xi. So, until the path shows better visibility, we think the best approach is to simply to stay flexible for now. **Neutral and close to benchmark allocations for retirement accounts are a good place to be for the moment.** But as we've noted in the past, however, stocks with their ability to adapt to changing economic conditions, enter new markets, adjust their product pricing, costs and capital structures, are still the long-term asset class of choice. The table below provides the evidence. **The longer you hold stocks, the greater the chances of ending up with a profitable portfolio.**

S&P 500 Total Return Historical Probabilities of a Profit	
December 1925 to September 2022	
Percentage up all 1-Year Periods	74%
Percentage up all 5-Year Periods	87%
Percentage up all 10-Year Periods	97%
Percentage up all 20-Year Periods	100%
Percentage up all 30-Year Periods	100%

Concept Courtesy: Ned Davis Research, Inc.

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Financial Planning: New Retirement Legislation Highlights (SECURE ACT 2.0)

The SECURE 2.0 Act was signed into law on December 29, 2022 as part of a year-end spending bill. This legislation expands on the SECURE Act of 2019, which aims to improve retirement laws. There are nearly a hundred changes in this latest legislation! Below are some highlights (by no mean exhaustive) which we believe could impact RCA clients and their families:

- **RMD's pushed back! The age to start taking Required Minimum Distributions (RMDs) from tax deferred retirement accounts increases to age 73 in 2023 and to 75 in 2033.**
 - But if you turned 72 in 2022 or earlier, you will need to continue taking RMDs as scheduled.
 - While the SECURE 2.0 pushes the age at which RMDs must start to 75 starting in 2033, it may still be advantageous to take RMDs earlier depending on how your required minimum withdrawals impact your tax rate throughout retirement.
 - The penalty for failing to take an RMD will decrease to 25% of the RMD amount, from 50% currently, and 10% if corrected in a timely manner for IRAs.
 - Unlike Roth IRAs, RMDs from employer-sponsored Roth plans (e.g. 401k, 403b, 457 Roth accounts) are still required until tax year 2024.
- **Higher catch-up contributions.** Effective January 1, 2025, individuals ages 60 through 63 will be able to make catch-up contributions up to \$10,000 (indexed to inflation) annually to a workplace plan. (The catch-up amount for people age 50 and older in 2023 is currently \$7,500.)
 - If you earn more than \$145,000 in the prior calendar year, all catch-up contributions at age 50 or older will need to be made to a Roth account in after-tax dollars.
 - IRAs currently have a \$1,000 catch-up contribution limit for people age 50 and over. Starting in 2024, that limit will be indexed to inflation.
- **Qualified charitable distributions (QCDs).** Individuals age 70 1/2 and older may elect as part of their QCD limit a one-time gift up to \$50,000 (adjusted annually for inflation), to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This is an expansion of the type of charity, or charities, that can receive a QCD. This amount counts toward the annual RMD, if applicable. Note, for gifts to count, they must come directly from your IRA by the end of the calendar year. QCDs cannot be made to all charities.
- **Qualified disaster recovery distributions (hurricanes, flood, etc.).** Maximum lifetime distribution limited to \$22,000 (reduced from \$100,000) and may be spread as income over 3 years. Applies to both IRAs and employer plans. Primary residence must be located in a Federal Disaster area, and distributions must occur within 180 days of disaster.
- **Annuities (QLACs).** Qualified longevity annuity contracts (QLACs) are deferred income annuities purchased with retirement funds typically held in an IRA or 401(k) that begin payments on or before age 85, effectively deferring your RMD until this age. The dollar limitation for premiums has been increased to \$200,000 from \$145,000. The law also eliminates a previous requirement that limited premiums to 25% of an individual's retirement account balance.
- **529 Plans.** Effective in 2024. After 15 years, 529 plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of \$35,000. Rollovers cannot exceed the aggregate before the 5-year period ending on the date of the distribution. The rollover is treated as a contribution towards the annual Roth IRA contribution limit.

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- **Student loan debt.** Starting in 2024, employers will be able to "match" employee student loan payments with matching payments to a retirement account.
- **Employer matching for Roth accounts.** Employers will be able to provide employees the option of receiving vested matching contributions to employer-sponsored Roth accounts.
- **Automatic enrollment.** The legislation requires businesses adopting new 401(k) and 403(b) plans to automatically enroll eligible employees, starting at a contribution rate of at least 3%, but not more than 10% starting in 2025. Employees also have the option to opt out.

As always, please feel free to contact us whenever you have investment and retirement planning needs. We are always glad to hear from you and our retirement planning services are free of charge to our clients with assets under our management. Thank you for your continuing support!

All the best,

Geoff & Lance

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