1911 TRUST

It was a challenging year for all financial markets in 2022. US equities had their biggest yearly losses since 2008. Bonds were hit by their worst selloff in history. Companies that hoped to go public postponed their plans indefinitely. Sticky inflation and aggressive rate hikes from the Federal Reserve added significant pressure to growth stocks. The invasion of Ukraine, the Covid lockdowns and the subsequent abrupt policy reversal in China, as well as volatile economic data weighed on investor sentiment, which spread the turbulences across the globe.

The S&P 500 incurred a loss of 18.1% for the year, while the Dow Jones Industrial Average lost 6.9%, and the tech-heavy Nasdaq Composite tumbled 32.5%. Bonds had an even more bruising year. The yield on the 10-year US Treasury note, which affects key lending rates include mortgage interests, consumer credits and student debts, climbed to 3.833% from 1.496% at the end of 2021. Bitcoin slumped over 60% in 2022 after reaching record highs in 2021.

Inflationary pressures were exacerbated by Russia's invasion of Ukraine, which sent energy prices soaring in early March. Even though oil and natural gas prices have moderated since, they remain stubbornly high. Propelled by the persistent surge in inflation, the Federal Reserve executed its most aggressive interest rate increases since 1980. Global central banks have also started pivoting towards a more hawkish stance. Such decidedly more hawkish monetary policy actions have resulted in a liquidity crunch, along with sharply rising interest rates.

The Chinese central authorities abruptly ended its zero Covid policies in December 2022 in the face of protests. Such rapid policy changes have left the Chinese citizens bewildered and resulted in a surge in Covid cases, hospitalization and rising fatality among elderly patients. Near term, there are plenty of challenges facing the Chinese economy. The political uncertainty also eroded some investor confidence. However, a reopening in the world's second-largest economy could signal a rebound in some services sectors, creating investment opportunities for long-term investors.

The US mortgage rates were sharply higher in 2022. The average rate on the 30-year fixed mortgage rose to 6.42%, more than doubled from the 3.11% at the same time last year. The surge in mortgage rates was a consequence of the Federal Reserve's aggressive moves to calm inflation. Higher mortgage rates added hundreds of dollars to monthly mortgage payments, putting homeownership further out of reach for many US households. As a result, sales of previously owned homes are down by over a third from a year ago. Home builders face a similar slump as high mortgage rates and inflation hampered demand for new homes.

The US retail sales during the 2022 holiday season were better than some economists expected. Sales from November 1st to December 24th rose 7.6%, according to MasterCard SpendingPulse, which measures in-store and online retail sales. Retailers enter 2023 reckoning with the fact that store traffic already decelerated off the peak weeks

Fourth Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	12/31/2022	9/30/2022	% chg	12/31/2021	% chg
DJIA	33,147.25	28,725.51	16.0%	36,338.30	-6.9%
S&P 500	3,839.50	3,585.62	7.6%	4,766.18	-18.1%
NASDAQ Composite	10,466.48	10,575.62	-0.8%	15,644.97	-32.5%
Russell 2000	4,377.14	4,137.24	6.2%	5,580.17	-20.4%

	Date	1 Quarter Ago		1 Year Ago	
	12/31/2022	9/30/2022	% chg	12/30/2021	% chg
Japan Nikkei 225	26,094.50	25,937.21	10.4%	28,791.71	-20.9%
MSCI EM (Emerging Markets)	956.38	875.79	9.8%	1,232.01	-19.7%
MSCI EAFE	1,943.93	1,661.48	17.4%	2,336.07	-14.0%
MSCI AC World	605.38	553.37	9.9%	754.83	-18.0%
FTSE 100	7,657.48	7,045.57	17.1%	7,313.56	-7.0%
SSE Composite Index	3,089.26	3,024.39	4.2%	3,639.78	-22.2%

US Equity Sector

	Q4	1-yr ret.
Consumer Discretionary	-10.2%	-34.7%
Consumer Staples	12.7%	-0.4%
Energy	22.8%	45.8%
Financials	13.6%	-15.3%
Health Care	12.8%	2.9%
Industrials	19.2%	-6.1%
Information Tech	4.7%	-24.0%
Materials	15.0%	-11.2%
Telecom	-1.4%	-38.3%
Utilities	8.6%	4.0%

US Equity Style

	Q4	1-yr ret.
Russell 1000 Value	12.4%	-8.6%
Russell 1000 Growth	2.2%	-24.7%
Russell 2000 Value	8.4%	-14.4%
Russell 2000 Growth	4.1%	-20.4%

Economic Sentiment

	12/31/2022	1 Yr. Ago
Unemployment Rate	3.50	6.70
Average Single-Family Home	401,600	345,400

1911 TRUST

of the holiday season. There are signs that the US consumers are under pressure: credit card balances have increased. Savings have fallen. Sales of big-ticket items have weakened.

Despite the pressures across major global asset classes, there have been pockets of market strength. Some astute investors have been richly rewarded. Commodities have staged a significant rally, along with equities of commodity producers. US crude oil prices topped $130 a barrel in March 2022, reaching a 13-year high, at the onset of Russian's invasion of Ukraine. Although oil prices have moderated considerably since, they still posted solid gains for 2022.

The traditionally defensive sectors have also offered much-needed protection during the market turmoil. The Consumer Staples sector, which consists of companies manufacture and sell household essentials such as groceries and cleaning supplies, have been more resilient than for producers of more discretionary items like consumer electronics or automobiles. Another area of strength is health care, large cap biopharmaceutical companies in particular. Health Care declined by a modest 2.3% in 2022, which significantly outperformed S&P 500. The relative strength of defensive stocks underscores how 2022's bruising financial conditions have changed investors' risk appetite.

Companies in the S&P 500 allocated a record $561 billion toward dividends in 2022, up from $511 billion in 2021. Of the S&P 500, 373 companies raised dividends in 2022, vs. 353 in 2021. The trend is expected to continue in 2023, despite looming economic downturn. While businesses are increasingly cautious about the US economy as interest rates are rising and inflation remains elevated, many companies still have sufficient cash flow to fund business expenses, capital investments, and dividend payouts. The afore-mentioned defensive stocks in particular are sought out for their steady cashflow and healthy dividends. With heightened volatility expected again in 2023, we remain constructive on companies that can provide steadier streams of cash flows.

The US dollar increased 8% in 2022, which marks its biggest annual rise since 2014. The US Index peaked in late September at the highest level since 2001. The effects of the US dollar's rise have been global, pushing

Bond Markets

	12/31/2022	1 Qtr Ago	1 Yr. Ago
Treasury Bill, 90 Day	4.41	0.04	0.05
Treasury Note, 2 Year	4.42	0.29	0.73
Treasury Note, 5 Year	4.00	0.99	1.26
Treasury Bond, 10 Year	3.88	1.53	1.51
Treasury Bond, 30 Year	3.97	2.09	1.90

Commodities

	12/31/22	1 Qtr Ago	1 Yr. Ago
Gold	1,826.20	1,757.00	1,828.60
Crude Oil	80.26	75.03	75.21
UD Dollar Index	103.27	94.24	95.59
Bloomberg Commodity Index	112.81	100.76	99.17

Exchange Rates (Rate per US dollar)

	12/31/22	1 Qtr Ago	1 Year Ago
Euro	0.937	0.863	0.879
British Pound	0.831	0.742	0.738
Swiss Franc	6.952	6.462	6.373
Chinese Yuan	82.730	74.228	74.336
Indian Rupee	131.945	111.575	115.155
Japanese Yen	1.355	1.267	1.263

Interest Rates

	12/31/2022	1 Qtr Ago	1 Yr. Ago
PRIME RATE	7.50	3.25	3.25
FEDERAL FUNDS RATE	4.34	0.09	0.09
LIBOR RATE 30 DAY	4.42	0.29	0.73
LIBOR RATE 3 MONTHS	3.88	1.53	1.51
30YR FIXED MORTGAGE	6.42	3.01	3.11

foreign currencies down to historically low levels. The euro broke through parity with the US dollar in July 2022, and the British pound in September touched its lowest point in over two centuries of trading against the dollar, while the Japanese yen fell to its weakest point since 1990. Despite the strong rally of the dollar through Q3 2022, it has given back nearly half of its gains since its September 2022 peak. Increasingly, investors view the US dollar as overvalued and is poised for declines.

The Federal Reserve played a major role in moving markets in 2022. Looking ahead, we think while the Fed policies will continue to dominate the markets, company fundamentals and shareholder returns will play an increasingly important role in the performances of your portfolios. We continue to prefer high quality companies with strong balance sheets, good pricing power and can defend their profit margins.

Broadly, despite 2022's market havoc, we are cautiously more optimistic going into 2023. While the US monetary policy remains a major source of risk in asset returns, there have been increasing evidence that inflation is easing. In addition, certain segments of the markets such of high-growth information technology and communication services have already experienced significant multiple compression, thus reducing the magnitude of further sell-off. Here at the 1911 Trust Company, our investment professionals remain focused on how to rebalance your investment portfolios by revisiting your target asset allocation and use tax-loss harvesting to reduce your tax liability, or to take advantage of a stock market downturn to buy stocks with food fundamentals and attractive valuation.

Kevin Kavanaugh
Chief Investment Officer

Lei Qin, CFA, CFP®, FRM, CAIA
Director of Equity Research and Portfolio Management