Vestor Capital
INVESTMENT & WEALTH MANAGEMENT

Economic and Investment Outlook — January 12, 2023

Equity Market Update

After bottoming in October, equity indexes have since rebounded as investors become more comfortable that we are close to the end of the interest rate hiking cycle. Even with the strong fourth quarter, most market indexes were down over 15% in 2022. Technology stocks were notably weak, causing the NASDAQ composite index to fall over 30%. The best-performing major index was the Dow Jones Industrial Average which only fell 6% as "old economy" stocks weathered the storm much better.

Markets are off to a solid start in 2023, as inflation slows making investors more comfortable that the economy may be able to achieve a "soft landing". While markets are certainly not out of the woods, we are heartened that markets have stabilized. If interest rate hikes end in the first half of 2023, and inflation continues to slow we believe that markets likely bottomed in October 2022. This is not to say that markets are off to the races from here as we await corporate earnings reports which will likely be mixed.

After a strong run over the last decade markets were due for a rest in 2022. What will determine the direction of the market over the next few years is the direction of corporate earnings. There is a wide divergence in views over whether 2023 earnings will grow or contract. We believe that if earnings can post even modest growth in 2023, with prospects for acceleration in 2024, equities will perform well in 2023.

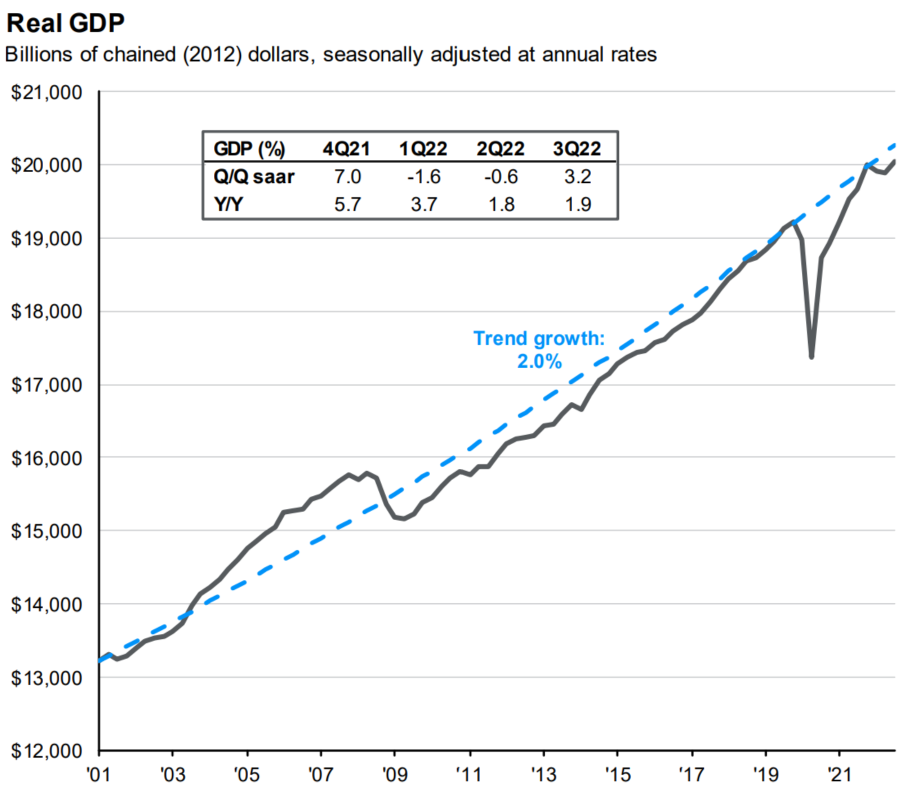
Total Return Performance for the Major U.S. and International Stock Market Indexes

Equity Index	***YTD December 31, 2022***
United States	
Dow Jones Industrial Avg.: 30 Stock Composite	**-6.86 %**
S&P 500 Composite: U.S. Large Cap	**-18.13 %**
NASDAQ Composite: Technology Heavy	**-32.51 %**
S&P 600 Small Cap: U.S. Small Cap	**-16.15 %**
International	
MSCI EAFE Large Cap: Europe, Asia & Far East Large Cap	**-13.92 %**
MSCI EAFE Small Cap: Europe, Asia & Far East Small Cap	**-21.01 %**
MSCI EM Emerging Market: Emerging Market Countries	**-19.94 %**

Source: Bloomberg, L.P.

Economy

The U.S. economy has been showing mixed signals of late. The U.S. consumer has been very resilient and employment levels remain strong. Job growth continues to surprise to the upside and the employment rate is very low at 3.5%. However, there are some storm clouds from two very important business surveys. The ISM manufacturing survey reported contraction in December and has slowed for four straight months and the ISM services survey contracted in December, after showing strong expansion for the previous year. As the chart below highlights, over time the U.S. economy exhibits about 2% growth, interrupted by recessions periodically.



Source: JPMorgan Guide to the Markets 12/31/2022

Inflation

The December 2022 consumer price index showed inflation of 6.5%, which while still high, is the sixth straight month of slowing and the lowest reading in over a year. Most economists believe that inflation has peaked, and the key debate is at what level inflation settles into. Monetary officials continue to state that they will not be satisfied until inflation recedes to 2%. Short of a recession, many economists are skeptical that we will be able to return to the low inflation we have enjoyed for much of the last 20 years. As the U.S. on-shores more production and tilts away from China, this will put pressure on inflation as we have imported deflation from China for many years.

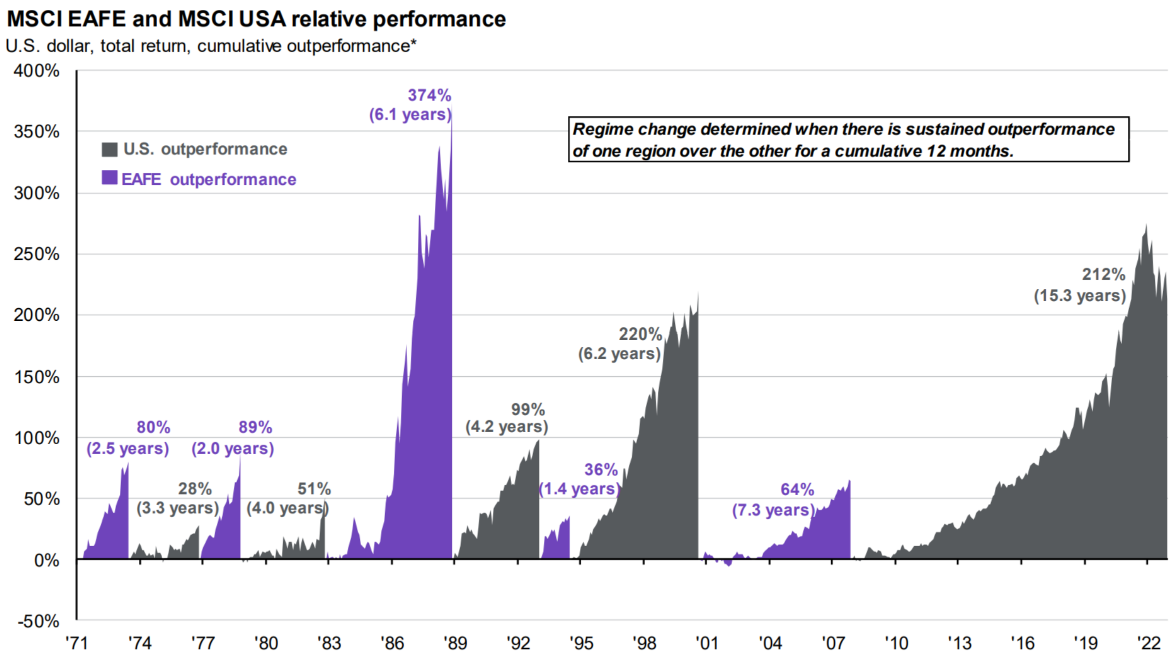
U.S. Equity Market Outlook

We believe that the 2022 market correction was a healthy reset after many years of strong returns. Higher interest expenses along with rising labor and materials costs will pressure earnings in 2023. Expectations are for S&P 500 earnings in 2023 to be +/- 5% vs. 2022, which would indicate that markets will not have strong earnings as a catalyst. Investors will be closely watching for clues as to when earnings will begin to reaccelerate. If we can exit 2023 on a high note with regards to corporate earnings, we believe that equites will perform well this year.

The key risk to the equity market is if inflation does not continue to recede. Monetary officials have made it clear that they will not hesitate to continue to raise interest rates if inflation does not slow. Higher than expected interest rates would almost certainly negatively impact the market. This is the big wild card for 2023. Investors will be closely watching monthly inflation reports in 2023 due to this risk to the market. We do not believe this risk is very high as we have seen a steady decline in inflation for six months.

International Equity Market Outlook

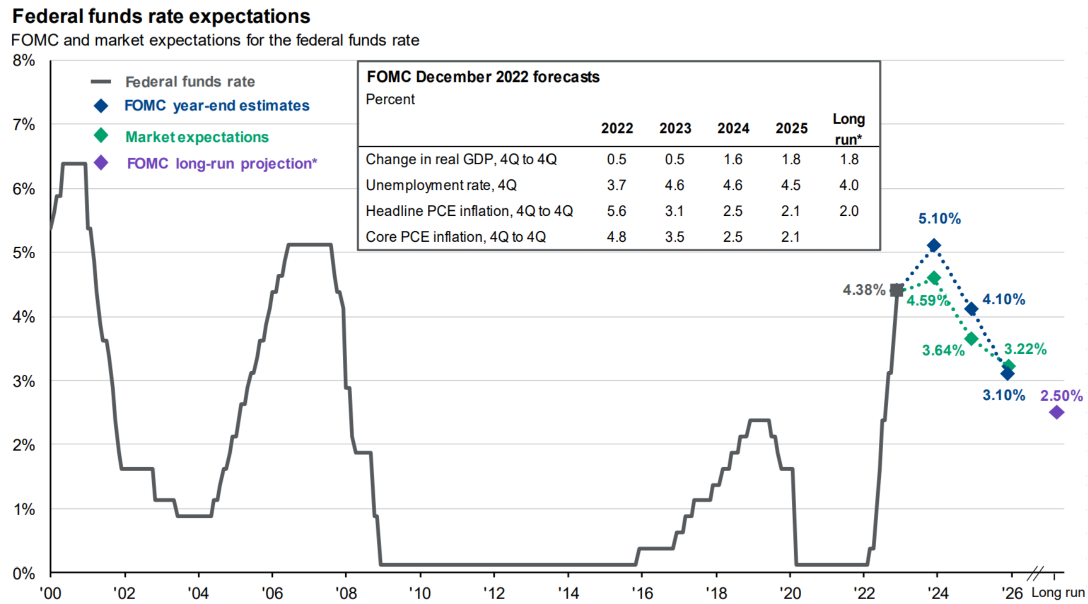
International equities have lagged their U.S. counterparts for an extended period of time as highlighted below. This is beginning to turn as international stocks modestly outperformed U.S. equities in 2022. We have overweighted our global portfolios to the U.S. for much of the last 10 years and have benefitted from the U.S. outperformance. In early 2022 we trimmed back our U.S. weight and added to international. We plan to continue to lean more into international equities in 2023. Large U.S. stocks such as Apple, Microsoft and Alphabet take up a disproportionately large amount of U.S. indexes whereas most large international indexes are more balanced. We believe that these large U.S. companies are becoming victims of their own success and will have a difficult time maintaining their historical growth rates due to their large revenue bases.



Source: JPMorgan Guide to the Markets 12/31/2022

Fixed Income

The graph below highlights that market expectations are that interest rates are nearing their peak and will begin a gradual descent. This will be welcome news for fixed income investors who endured a painful increase in interest rates in 2022, which caused a steep decline in bond prices.



FOMC December 2022 forecasts
Percent

	2022	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.5	0.5	1.6	1.8	1.8
Unemployment rate, 4Q	3.7	4.6	4.6	4.5	4.0
Headline PCE inflation, 4Q to 4Q	5.6	3.1	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	4.8	3.5	2.5	2.1	

Source: JPMorgan Guide to the Markets 12/31/2022

Summary

While 2022 was a difficult year for most asset classes, 2023 is starting off on a better note. In 2022, equity markets priced in rising interest rates and an economic slowdown. Now that we are likely near the end of interest rate hikes the focus will be on how well consumers and corporations navigate this new environment. We expect that the "doom and gloom" forecasts for 2023 will be off the mark. While there is a lot of uncertainty, we believe that corporate earnings n 2023 will be resilient, setting up for a return to more robust growth in 2024. Likewise, employment levels may weaken somewhat, but the overall health of the consumer will surprise to the upside. Putting it all together, we believe the glass is certainly at least half full, and remain constructive on both equities and fixed income.

A key attribute of successful long-term investing is to not get too elated when markets are advancing, and not too despondent when markets recede. Remember that you are investing in the long-term growth of the U.S. and world economies. Growth does not go up in a straight line and is interrupted along the way for a host of reasons. Sticking to your long-term plan and ignoring the vicissitudes along the way is the best approach.