December 2022

Summary

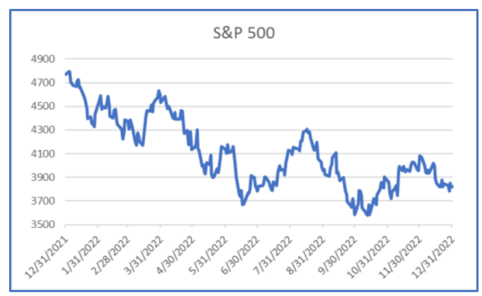
Markets closed out a difficult year by finishing lower in December. After a late year rally, stocks slid, with the S&P losing 5.8 percent for the month. The Federal Reserve raised rates by 50 basis points mid-month, a slight reprieve from the series of 75 basis point moves earlier in the year and bond markets finished December slightly negative.

Broad economic data was encouraging, with third quarter U.S. GDP growth revised upward to 3.2%, November's unemployment showed a consistently tight labor market, and CPI coming in at 7.1%, its lowest level since the end of 2021. However, for investors who have grown accustomed to reading tea leaves to educe the Fed's next move, healthy economic readings translated into prognostications of more rate hikes in the new year.

While U.S. headline inflation data was lower than expected for the month, global central banks continued their hawkish policy moves. And with China's re-opening off of lifted COVID restrictions, there is added uncertainty surrounding global inflation entering 2023.

Equities

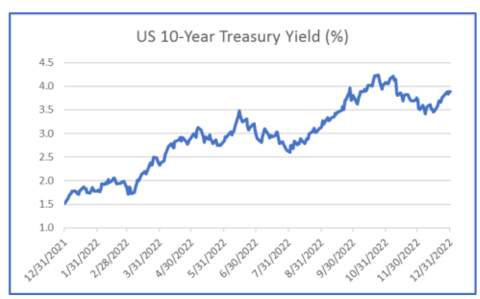
Equities were broadly lower as investors trimmed riskier assets into the year end. The S&P 500 ended the month 5.8% lower from November's close, and small caps sold off even further, dragging 2022's total return below -20%. After climbing higher most of the year, the dollar reversed in December providing a significant boost to non-USD assets. With December's drawdown, U.S. stocks posted their worst calendar year performance since the global financial crisis (GFC).



Fixed Income

Bonds realized modest losses in December, as interest rates increased and credit spreads widened off November levels. The Federal Reserve Bank raised its policy rate by half a percent to 4.5 percent, in line with market expectations. Inflation fell to its lowest level of the year, but commentary from the Fed was clear, that tightening is not over. With concern from investors abounding that rate hikes will likely end in a recession, macroeconomic data suggests there is plenty of breathing room for the Fed to continue further down the current path. The 10-year Treasury yield edged higher into month-end finishing at 3.88%, after entering the year at 1.5%.

Core bonds, as represented by the Bloomberg Aggregate Bond Index, closed out is worst year since the index was formed over five decades ago, losing nearly 13% for 2022.



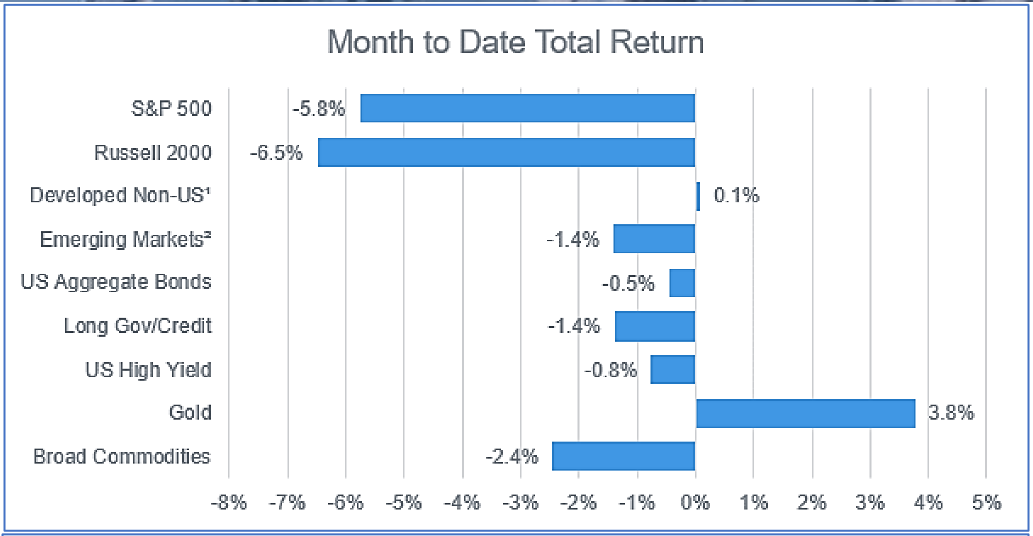
Looking Ahead

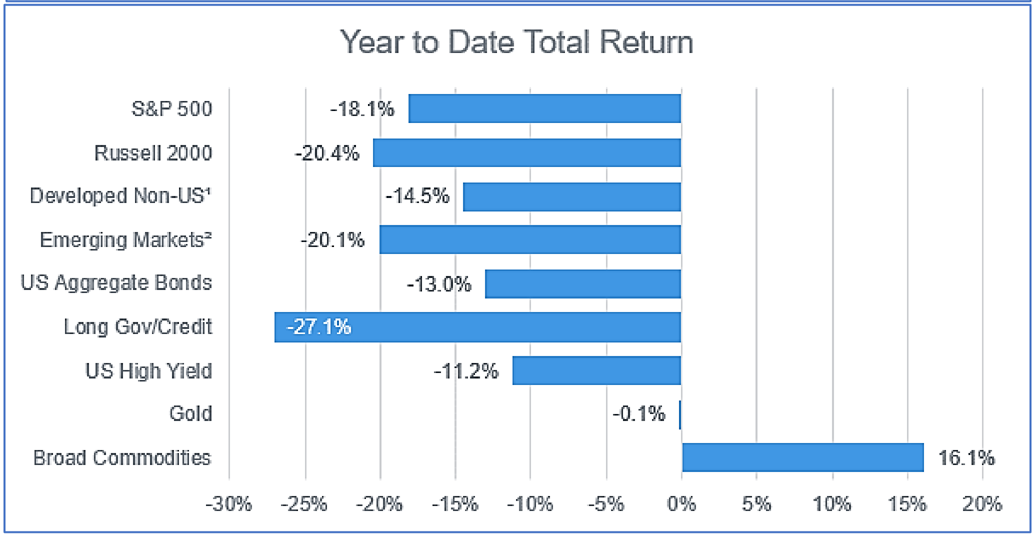
By the end of 2022, stocks had returned 16% annualized since the GFC. With stocks and bonds both down significantly in 2022, the year's loses may be hard to swallow. Bonds, a traditional source of equity risk diversification, did not deliver, as typically expected.

The fact is the only certainty in investing is that markets will behave unpredictably, and flexible thinking and timely action will always be needed to find long-term success. At Highland, 2023 marks our 30th year serving clients with insight, understanding, and advice to navigate risks and uncover opportunities to help achieve their investment goals. We appreciate the opportunity we have before us to continue putting our clients first in this challenging market environment. Thank you for reading and have a happy, healthy and prosperous 2023!

Market Trends

As of December 31, 2022





	1M	3M	YTD	3Y	5Y	10Y
S&P 500	-5.8%	7.6%	-18.1%	7.7%	9.4%	12.6%
Russell 2000	-6.5%	6.2%	-20.4%	3.1%	4.1%	9.0%
Developed Non-US[1]	0.1%	17.3%	-14.5%	0.9%	1.5%	4.7%
Emerging Markets[2]	-1.4%	9.7%	-20.1%	-2.7%	-1.4%	1.4%
US Aggregate Bonds	-0.5%	1.9%	-13.0%	-2.7%	0.0%	1.1%
Long Gov/Credit	-1.4%	2.6%	-27.1%	-6.2%	-1.2%	1.6%
US High Yield	-0.8%	4.0%	-11.2%	-0.2%	2.1%	3.9%
Gold	3.8%	9.2%	-0.1%	6.2%	6.9%	0.9%
Broad Commodities	-2.4%	2.2%	16.1%	12.7%	6.4%	-1.3%

1 - MSCI EAFE
2 - MSCI – EM
Source: Bloomberg

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