

NEWSLETTER – JANUARY 2023

MARKET TRENDS 12.31.22

Asset Class	3 Mo	YTD
Global Stocks		
MSCI World	10.0%	-18.0%
US Stocks		
S&P 500	7.1%	-18.5%
Large Cap Value	11.7%	-8.3%
Large Cap Growth	1.9%	-29.4%
Mid Cap	10.8%	-13.1%
Small Cap	5.7%	-20.8%
International Stocks		
Developed Markets	18.1%	-14.3%
Emerging Markets	9.9%	-20.6%
Fixed Income		
Taxable Bonds	1.7%	-13.1%
Municipal Bonds	3.7%	-7.5%
Alternatives		
EM Bonds	8.3%	-18.0%
Floating Rate	1.1%	1.2%
Preferred	-1.9%	-18.4%
Gold	8.3%	-0.8%
Real Estate	3.4%	-26.1%

Source: Factset

Tim Vanech

tim@shorepointpartners.com

Luis M. Raposo, CFA

luis@shorepointpartners.com

Chris Stuart, CFA

chris@shorepointpartners.com

Rand Folta, CFA

rand@shorepointpartners.com

Kevin Raposo

kevin@shorepointpartners.com

Main 781 341 7250 | Fax 781 341 7246

220 Norwood Park South
Norwood, MA 02062

www.shorepointpartners.com

Shorepoint
Capital Partners

A TALE OF ONE CITY

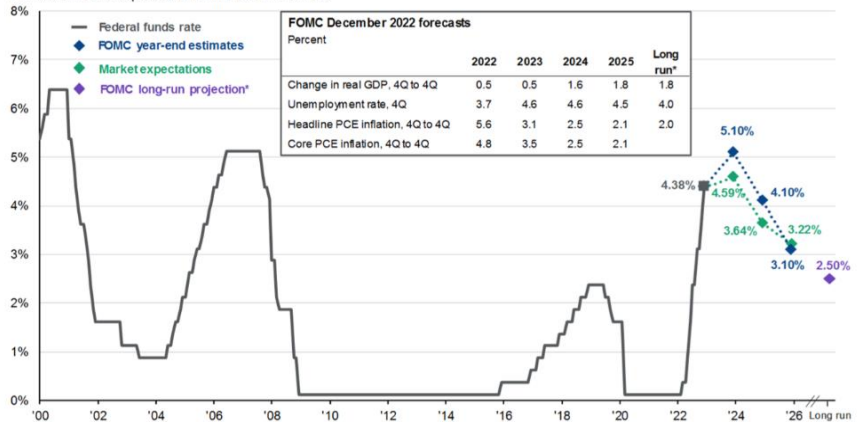
It was the worst of times. It was the worst of times. Both bonds AND stocks were down considerably in 2022. There was no “best of times” last year. The S&P 500 was down over 19% while intermediate term, quality bonds sold off over 13%, the worst performance we have seen in fixed income in generations.

DON'T FIGHT THE FED

The Fed, led by Chairman Jerome Powell, raised rates assiduously throughout the year to tame inflation. The Fed funds rate started the year at near 0% and ended at 4.25% to 4.5% after cumulative raises of 4.25%, the most since 1980.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



The old saying “don’t fight the Fed” generally indicates that stocks will struggle during a tightening cycle. That held true in 2022, with Technology and Growth stocks being particularly hard hit; the NASDAQ was down about 30% at year’s end after being down much further earlier in the fall.

FAANG+ Index Since 2020



IDENTIFYING OPPORTUNITY. NAVIGATING RISK.

The old adage not to fight the Fed also applied to bonds in 2022. By mid-year and into the fall, it was commonplace to find decent, intermediate-term bonds that were down as much as 16-20%. Luckily, there was some firming in bonds (and stocks) in what we might call a Thanksgiving Rally. Christmas came early this year. Time will tell if it was a turkey or not. There was nowhere to hide in 2022 – except cash.

The weakness in both stocks and bonds resulted in one of the worst performances for balanced portfolios or so-called 60/40 portfolios. As the following table shows, only 1931 and 1937 produced worse results. The chart also shows that it is uncommon to have two down years in a row for 60/40 portfolios.

60/40 Portfolio: S&P 500/US 10-Year Treasury (Total Returns, 1928 - 2022)									
Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	26.6%	1947	3.5%	1966	-4.8%	1985	29.0%	2004	8.3%
1929	-3.3%	1948	4.2%	1967	13.6%	1986	20.8%	2005	4.1%
1930	-13.3%	1949	12.8%	1968	7.8%	1987	1.5%	2006	10.3%
1931	-27.3%	1950	18.7%	1969	-7.0%	1988	13.3%	2007	7.4%
1932	-1.7%	1951	14.1%	1970	8.8%	1989	26.1%	2008	-14.2%
1933	30.7%	1952	11.8%	1971	12.4%	1990	0.6%	2009	11.4%
1934	2.5%	1953	0.9%	1972	12.4%	1991	24.3%	2010	12.4%
1935	29.8%	1954	32.9%	1973	-7.1%	1992	8.3%	2011	7.7%
1936	21.2%	1955	19.0%	1974	-14.7%	1993	11.7%	2012	10.8%
1937	-20.7%	1956	3.6%	1975	23.6%	1994	-2.4%	2013	15.8%
1938	19.3%	1957	-3.6%	1976	20.7%	1995	31.9%	2014	12.5%
1939	1.1%	1958	25.4%	1977	-3.7%	1996	14.3%	2015	1.3%
1940	-4.2%	1959	6.2%	1978	3.6%	1997	24.0%	2016	7.5%
1941	-8.5%	1960	4.9%	1979	11.4%	1998	23.1%	2017	14.2%
1942	12.4%	1961	16.8%	1980	17.8%	1999	9.3%	2018	-2.6%
1943	16.0%	1962	-3.0%	1981	0.5%	2000	1.2%	2019	22.7%
1944	12.4%	1963	14.2%	1982	25.4%	2001	-4.9%	2020	15.6%
1945	23.0%	1964	11.3%	1983	14.7%	2002	-7.2%	2021	15.5%
1946	-3.8%	1965	7.7%	1984	9.2%	2003	17.4%	2022	-17.5%

@CharlieBilello As of 12/31/22

IS THE FED TIGHTENING WORKING?

There are some signs of inflation rolling over. Oil and gas prices have dropped significantly, which helps the consumer's day-to-day cash flow. With higher interest rates, we have also seen housing prices and housing starts drop significantly; this trend should dampen inflation. Lastly, we are still not seeing a significant softening in the job market, except in Technology, which took the brunt of the market beatings of 2022.

IDENTIFYING OPPORTUNITY. NAVIGATING RISK.

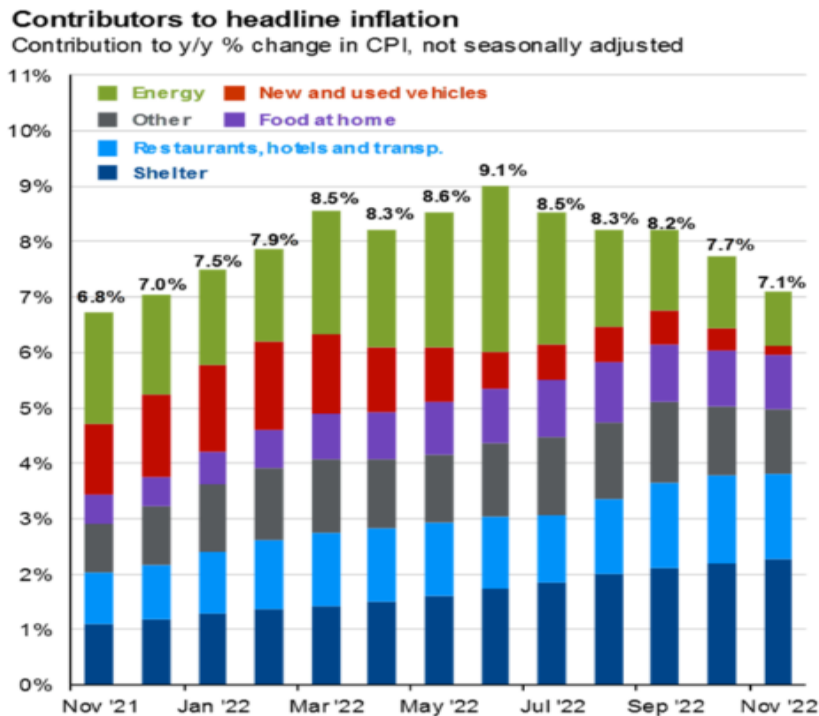


Figure 3- Source JPM Guide To The Markets

WHAT ARE THE COSTS OF FED ACTIONS?

Because of the relatively strong job market, China's zero Covid policy, and the ongoing delays within global supply chains, all of which are inflationary, it is likely that the Fed will continue raising rates for some time. Thus, we expect a contraction in economic activity and corporate earnings, if not a full-blown recession. However, the Fed will have to slow or stop raising rates altogether at some point, and that would give the market one less worry to climb past. If we could get a stop to the brutal war in Ukraine, it would stabilize Europe and potentially ease energy prices further. If the U.S. could bring in more qualified, legal immigrants, it would help with the shorthanded employment situation and stabilize wages; politicians have failed us miserably here.

We don't know how deep the potential economic contraction will be. And we don't know how much of the decrease in earnings expectations have been priced into stocks already, which makes this a time to remain cautious with high cash levels. However, we remain focused and engaged, looking to buy mispriced stocks when the volatility becomes absurd, making the reward more enticing than the risk and fear of loss.

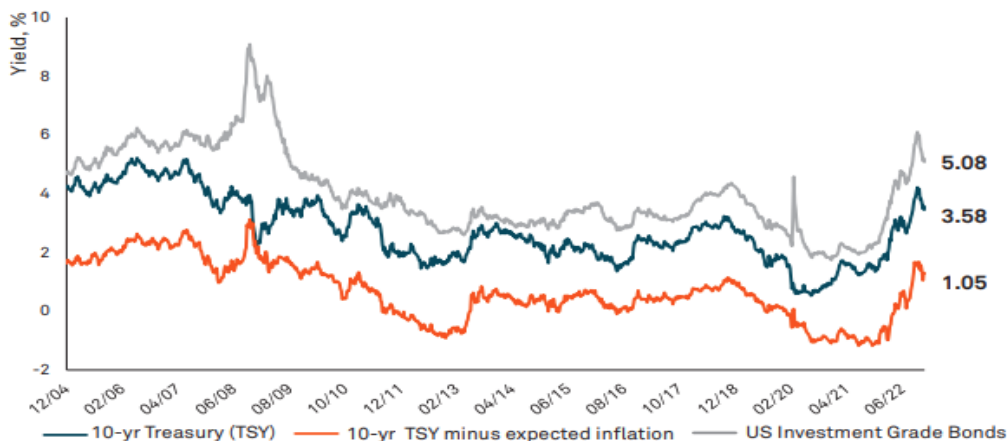
WHY CASH?

With the slightly inverted yield curve, short- and intermediate-term bonds look relatively attractive. However, cash has suddenly become even more alluring in the short term as well. For the first time in decades, money market funds yield 3.5-3.75% without the volatility associated with traded securities like stocks and even bonds. It's an excellent alternative to fixed income, and we have increased client holdings to cash over the last two years.

SOME GOOD NEWS FOR THE 60/40 INVESTOR

Shorepoint's overall allocation as a firm hovers around 60-70% in stocks. For years it has been challenging to find yield for the bond side of clients' portfolios until recently. In the past decade, we've pursued lower quality and longer-term fixed income to earn clients a return on the "30/40" side of the portfolio. That changed in 2022.

Exhibit 5: Bond Yields at Their Highest Levels In A Decade



Source: Bloomberg. Note: BBG Corp. Index used for investment grade bonds. As of December 14, 2022.

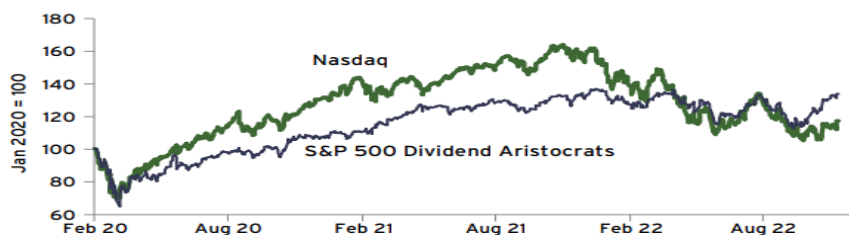
Figure 4- Source BNY Mellon Wealth

Clients saw more trading than ever before from our firm in 2022. We took tax losses in lower-quality, long-term, and higher-yielding bonds, which clients can use against future gains. We deployed the proceeds into higher quality and shorter duration securities. We were able to upgrade the quality and hopefully lower future volatility while also preserving solid fixed-income yields.

A MIRROR IN STOCKS

Similarly, on the equity side of portfolios, we were able to take some losses and upgrade quality further. As you know, Shorepoint favors quality larger-cap equities, and many clients rely on growing dividends to meet their needs. Because bonds disappointed in such a historical way in 2022, it wasn't asset allocation that helped our clients as much. Instead, our emphasis on dividend payers helped clients experience reduced volatility and better relative returns than growth investors. Amazingly, the NASDAQ was down over 30%, while the old Dow Jones was down only 9% for the year!

FIGURE 1: QUALITY DIVIDENDS HAVE OUTPERFORMED GROWTH STOCKS

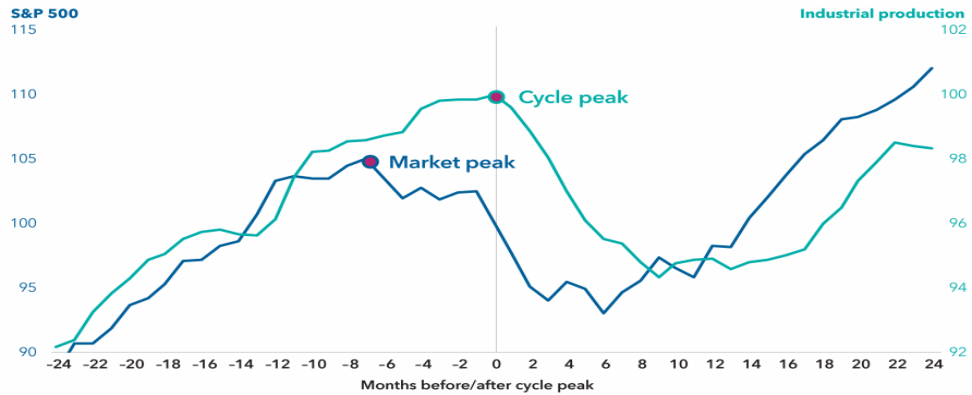


Source: Bloomberg, as of 23 Nov 2022. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary. All forecasts are expressions of opinion, are subject to change without notice, and are not intended to be a guarantee of future events. Chart shows the performance of the S&P Dividend Aristocrats vs Nasdaq since pre-pandemic peak.

LOOKING AHEAD TO THE NEW YEAR

The walls of worry are endless, and the odds of the U.S. entering a recession are a foregone conclusion, especially if you ask any economist at any major investment firm. But the market is forward-looking and often a good predictor of what may come. Thus, it is plausible that 2022's negative returns were the market telling us that we are in or entering a recession. As contrarian Humphrey B. Neill says, when everyone thinks alike, they are often wrong. It's better to think creatively and differently about possible outcomes and timing.

Stocks have typically been a leading indicator of the economy



Sources: Capital Group, U.S. Federal Reserve Board, Haver Analytics, National Bureau of Economic Research, Standard & Poor's. Data reflects the average of all completed cycles from 1950 to 2019, indexed to 100 at each cycle peak.

© 2020 Capital Group. All rights reserved.

Figure 5- Source Capital Group

The good news is that even if 2023 ends up fulfilling everyone's painful economic predictions, the equity market discounts future events and has corrected substantially in line with the historic average pullback experienced in past recessions. The average yearly returns for the equity market following the formal end of an actual recession have been +15.5%. We aren't here to predict the start or end of any recession, but we believe that our portfolios of high-quality stocks and bonds are built to look through the noise and come out the other side with higher returns whenever that is.

