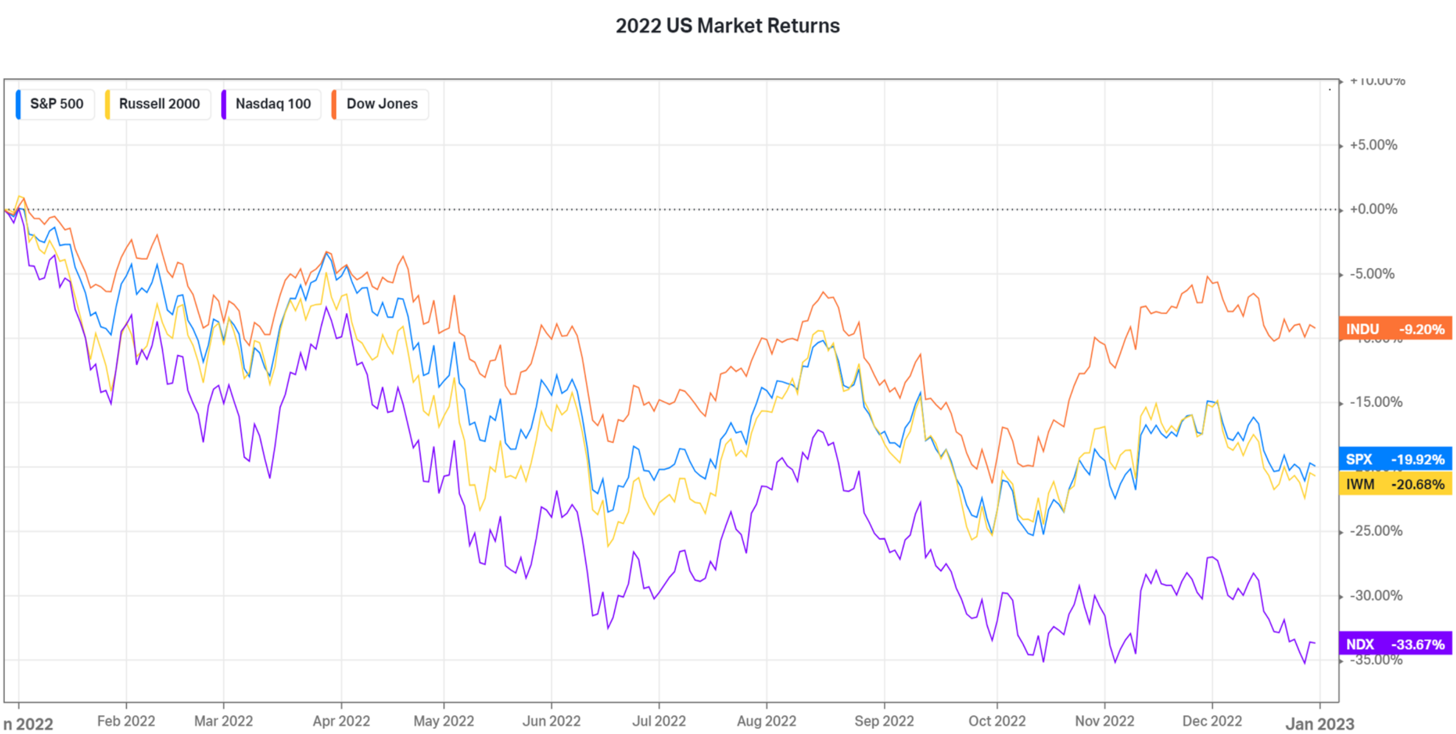
QUARTERLY Newsletter

Q4 2022

MARKET COMMENTARY

	DECEMBER 31, 2021 VALUATION	DECEMBER 31, 2022 VALUATION
S&P 500 Index	4,766	3,839
Dow Jones Industrial Average	36,338	33,147
NASDAQ	15,644	10,466
10 Year Treasury (Yield)	1.52%	3.8%

I want to wish everyone a Happy New Year. It is my hope that financial markets will perform better than the last 12 months for both stock and bond investments. 2022 will go down as one of the worst years for risk-based assets, as both stock and bond markets experienced extreme volatility and drawdowns as the chart on the next page shows. The Dow Jones Industrial average was the best performing of the major US indices with a price return down over nine percent. The S&P 500 was lower by over nineteen percent and NASDAQ dropped over thirty percent. Only one of the major S&P 500 sectors was higher for the year and that was the Energy sector. Unfortunately, this sector represents less than three percent of the overall index. Technology, Financial, Industrial and Communication sectors were all lower and a strain on stock market returns. Value investments performed better than growth style investments; a change in trend from the past ten years and something that we will be keeping a close eye on to see if this is a structural change in leadership or a one-year event. International markets did not provide any relief as both developed and emerging markets were lower by double digit returns as well.

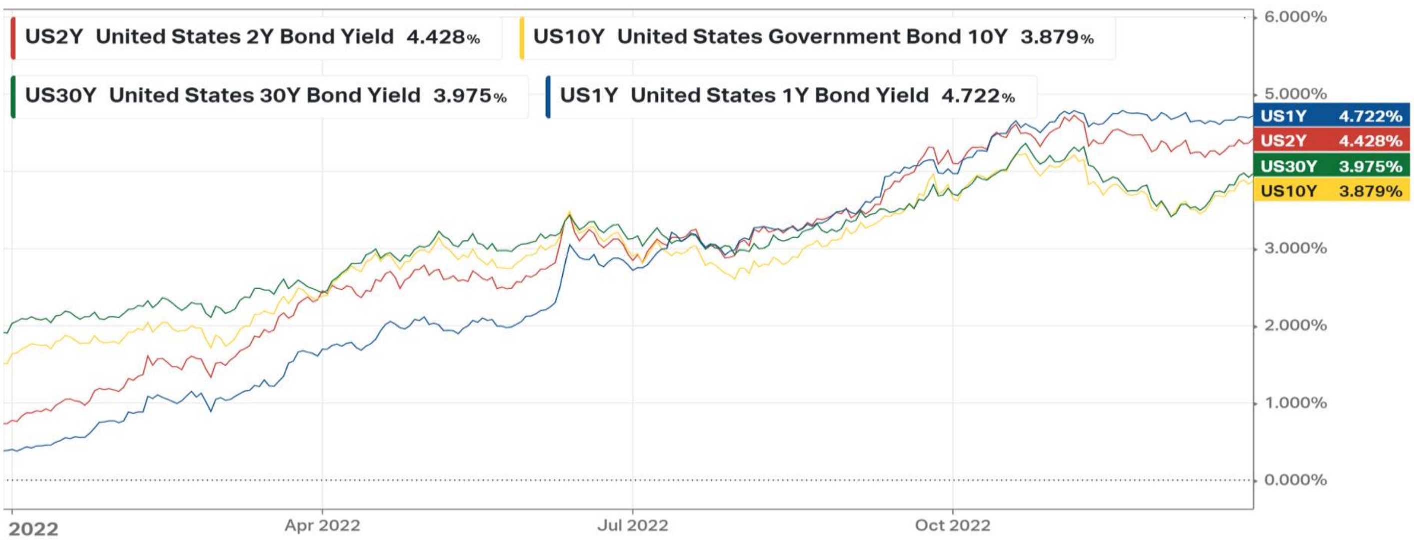


Data Source: Koyfin
Analysis: Generation Capital Management

2022 was a difficult year for fixed income investments as well. The Bloomberg Aggregate Bond Index, a compilation of US Treasuries, investment grade corporate bonds, mortgage and asset backed securities experienced its worst year ever. In the 40 years of aggregate bond returns there were only 4 years with negative returns with the lowest being -2.9% in 1994. The total return of -13% in 2022 was by far the biggest loss ever for this index, over 4 times larger than the return in 1994.

In addition, this past year was also the lowest return ever for the 10-year Treasury and the worst year in history for US Treasury bonds. The 10-year US Treasury bond declined by over 15% for the 12 months of 2022. The cause for this was due to an increase in 10-year rates from the beginning of the year's level of 1.52% to the ending level of 3.88%. This is only the second year that this bond had double digit negative returns with the other being in 2009 during the Great Financial Crisis. While the yields across all bonds moved higher throughout 2022, the biggest changes were at the short end of the curve with one-year and two-year bond rates moving the most, as the chart on the next page shows.

2022 US Bond Yields



Data Source: Koyfin
Analysis: Generation Capital Management

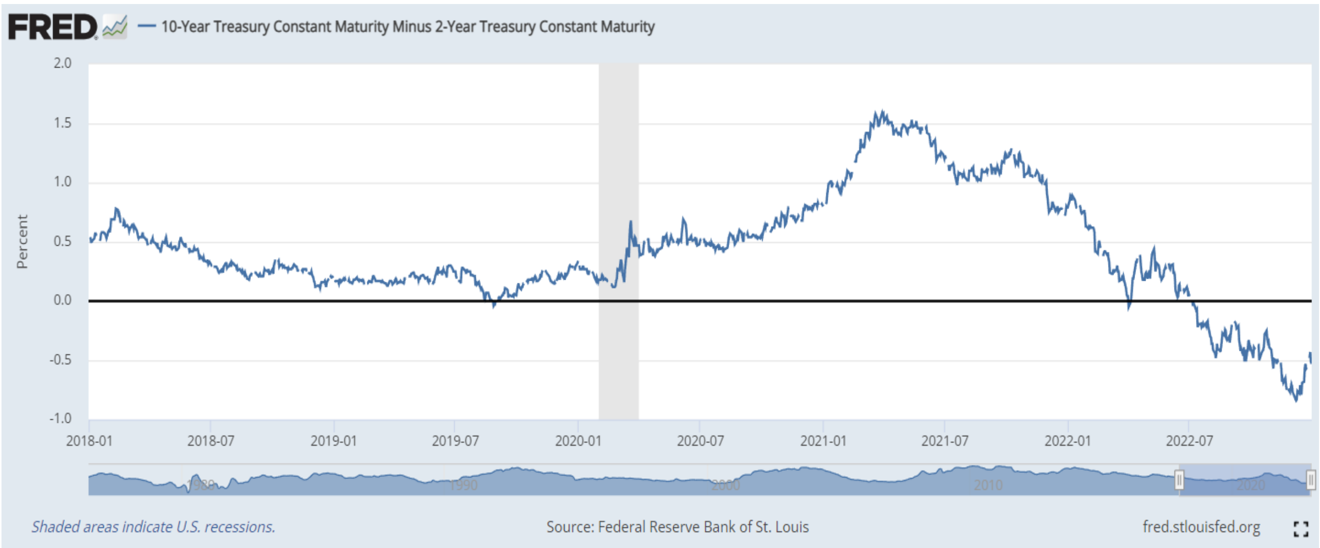
Most investors have a blend of stocks and bonds with those that have a higher risk tolerance investing in a higher allocation to equities and lower exposure to fixed income securities. As one's risk profile becomes more conservative, the allocation to stocks goes lower and bonds higher. Traditionally this will provide a lower amount of volatility with greater confidence or certainty in ranges of performance. The spread between the top performance and worst case performance will narrow the lower your weighting to stocks is. 2022 failed to provide the benefits of a lower risk profile as the performance figures below show:

Portfolio Allocation	Return
80% stock/20% bond	**-17.8%**
60% stock/40% bond	**-16.6%**
40% stock/60% bond	**-15.4%**
20% stock/80% bond	**-14.2%**

In previous times, when stocks entered bear markets, bonds provided a safe haven to help lessen the blow from stock market volatility. This clearly did not happen this year and is one of the main reasons that 2022 represents one of the most difficult investment environments in the past fifty years. While diversification did not provide the usual benefits, we believe that the high correlations between stock and bond market moves was an anomaly and not a new trend that is starting.

The Federal Reserve raised federal funds rates seven times in 2022 with the effective rate ending 2022 to a range of 4.25 to 4.5%. They were steadfast in their determination to bring rates higher to bring inflation rates lower. They have succeeded to some extent so far as inflation has been lowered from a June 2022 12-month rate of 9.1% to a November annual rate of 7.1%. However, there is growing concern that the aggressive actions of the Fed is going to cause the economy to go into a recession in 2023. We are already hearing from companies like Amazon, Meta, Goldman Sachs and Salesforce who are reporting slowdowns in overall sales during their earnings calls, while announcing hiring freezes and layoffs.

The US Treasury yield curve which maps out current rates for government bonds across maturities from 3 months out to 30 years is inverted with shorter maturities higher than longer dated bonds. This condition happens very infrequently and in almost all circumstances leads to economic slowdowns and in many cases recessions. We have provided a graph of the spread between the 2-year US Treasury and the 10-year US Treasury. Under normal economic environments this graph is usually positive (above the horizontal line), but for the greater part of 2022 this has been negative. In fact, since the summer of 2021, the spread between the two bonds has been downward sloping identifying growing concerns by bond market participants that inflation was going to be a problem that the Fed and markets had ignored that year.



Source: St Louis Federal Reserve
Analysis: Generation Capital Management

2023 Expectations

We believe market volatility will continue for the early part of 2023 as participants react to every economic data point that is released in hopes of frontrunning Federal Reserve monetary policy. This should cause stock and bond markets to vacillate with still a downward sloping bias.

We also believe inflation will continue to move lower, however remain above the coveted 2% level that the Federal Reserve is fixated on. The yield curve should remain inverted for many months as the economy slows in the first two quarters of the year. Fixed Income investments, especially in the shorter end maturities, should provide a compelling return for people searching for income. Higher rates will also continue to pressure growth orientated equities as earnings multiples remain strained. Value stocks should continue to provide opportunities as investors look toward higher dividend yielding investments.

Emerging and developed international markets should rebound as the dollar weakens against most other currencies. Precious metals will be an attractive option as uncertainties remain and volatility heightened. The latter part of 2023 should see better options for risk as earnings growth accelerates and risk is rewarded.

GCM NEWS

Financial Planning

The core of financial planning is education, and 2022 was an exciting year filled with GCM providing vital and fundamental knowledge to both new and familiar faces. As always, we offer full financial planning at no additional cost to our existing clients. This year, however, we launched our standalone financial planning service (genPOWERMENT) for those who don't have assets to invest with us but still need high-value advice to improve their lives. John Howe-Wemett, CFP®, M.S. leads our financial planning division and is the visionary behind our planning services. We also offered several memberships to genPOWERMENT at no cost, together with partnering with local groups to offer complimentary seminars, all in an effort to live our mission of improving financial literacy.

Your investment portfolio isn't the only place that you face risks. A financial plan from the team here at Generation Capital Management can help you to identify and protect against threats to your financial security in addition to optimizing your decisions. Reach out and let us know if you'd like to put together a financial plan and we'll talk about starting the process. We can't wait to help you better understand your total financial picture.

Trusted Contact

In November we sent you an email communication discussing the benefit of adding a Trusted Contact to your account(s) with us. Just a reminder to those of you who haven't yet made such a designation, that adding a Trusted Contact provides GCM with a resource to contact on your behalf, if necessary.

A Trusted Contact is someone we can contact when there is a concern either about you and/or your account if we have been unable to get in touch with you. It is a person whom you are permitting GCM to contact and disclose information to about your account to address possible financial exploitation, confirm your current contact information, health status, or the identity of any legal guardian, executor, trustee, or holder of a Power of Attorney.

Please reach out to us if you have any questions on this, or if you'd like us to send you the form to complete to add a Trusted Contact to your account(s). We'd be happy to do so!

We appreciate the continued confidence and trust from our valued clients and friends. As always, please contact us if there have been any changes to your financial situation, investment objectives or if you wish to discuss any issues that might have an impact on your portfolio allocation.

Thank you,

Scott Nasca, CFA

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the team at Generation Capital Management