



2022 In Review by Robert Sokolowski

As we turn the calendar to 2023 I feel humbled once again by the markets. Had I known in advance that 2022 would see a 40-year high in inflation, one of the fastest paces of interest rate hikes ever, persistent supply chain issues and labor shortages, and the largest ground war in Europe since World War II, I would have predicted far worse outcomes in the stock and bond markets than we got. But the fact remains that we saw the relatively rare occurrence of both stocks and bonds posting negative returns for the year. So, what are we seeing now and where do we go from here?

For the time being, the downtrend in stocks is very clearly still intact. We have been monitoring this channel in which the S&P 500 traded throughout 2022:



Apart from one breakdown below the channel in June, the upper and lower bounds of the channel served as support or resistance eight times (circled in red). We have been watching for a breakout above the upper bound of this channel as a signal that the bear market in stocks may be over. The fact that we have not seen this yet is an indicator that we should continue to stay defensive for now.

On the bond side of portfolios, the 40-year bull market in bonds clearly ended this year- and it went out with a bang. Bank of America did some digging and determined that 2022 was the worst return for treasury bonds since 1788!

While 2022 was painful for fixed income, there are silver linings. Entering 2022 and anticipating an increase in yields at some point, our custom portfolios held bonds of significantly shorter duration than the broader market- thus limiting volatility. We began to add to bond positions from about August through the end of the year, which allowed us to increase the yield on that side of portfolios and lock in these higher rates.



INSIDE THIS ISSUE

2022 In Review.....	1-3
RMD Age & 529 to Roth IRA.....	4

SPECIAL POINTS OF INTEREST

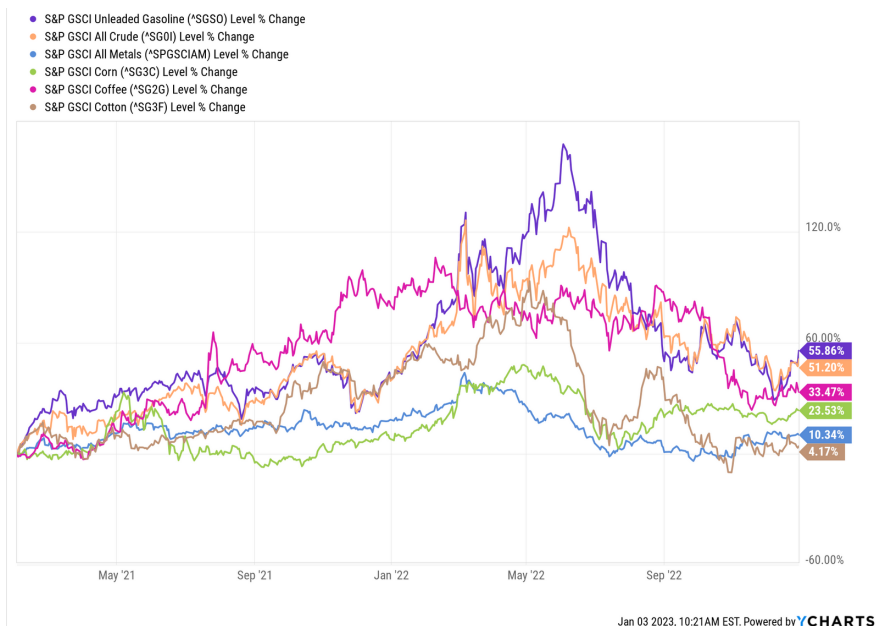
- We moved! Our new address is 5 Red Cedar St., Suite 201, Bluffton, SC.
- We will be closed in observance of MLK Day on Monday January 16th, 2023.
- If you would like to schedule portfolio review, contact us!

Furthermore, we were able to get progressively higher yields as we reinvested the proceeds from maturing bonds throughout the year. Finally, in taxable accounts, we sold most of the bond funds we held that had decreased in price (bond prices move inversely to yields) to realize the tax loss and, in most cases, used the proceeds to buy individual bonds at attractive yields.

For most portfolios that hold bonds, we also held three bond funds for direct exposure to the high yield, senior loan, and Treasury Inflation Protected Securities (TIPS) markets. While the returns were negative this year due to rising interest rates, all three of these funds outperformed the US Aggregate bond index in 2022. In fact, the senior loan fund outperformed by nearly 7.75%.

Fed Policy

As we noted, the rate hikes by the Fed in 2022 were some of the most aggressive in history and they appear to be having the intended effect. Headline year-over-year consumer prices have now fallen each month since June. The consumer price index now shows a 7.1% increase over the last 12 months (down from 9.1% in June). While this is far too high, it's important to remember that CPI measures price changes in the rearview- it is not a forecast of price changes to come.



As the chart to the left shows, many of the commodities that are inputs for the things we buy every day have retreated significantly in price since the spring and early summer. This augurs well for inflation going forward.

Housing costs and car prices, which had been two of the major drivers of inflation have started to ease too. The major concern amongst economists at the current juncture is wage and services inflation. In the context of our current labor shortage, this makes sense- both are very directly tied to the supply and demand for labor.

The major unknown now is how the reopening in China will affect inflation going forward. There are three common lines of thought here that all seem plausible:

- 1) The reopening will bring additional supply online which will apply downward pressure to inflation.
- 2) The reopening will bring additional demand online, applying upward pressure to inflation.
- 3) The reopening will bring both additional demand and additional supply online which will have a negligible effect on inflation.

With China having such a large economy and population, the effects of the reopening could be significant. Our best guess on what will happen would be a twist on scenario three: additional supply and additional demand will mostly offset each other, except in the oil market. China is a huge consumer of oil and they import nearly three quarters of the oil they consume. This has the potential to create another supply squeeze in the oil market if producers are unable to increase production quickly enough.

Looking Forward

For the time being, we are planning on remaining in a defensive position. This includes having extra cash in portfolios, being overweight on bonds (with a focus on shorter durations), and being overweight on defensive stocks like healthcare and utilities. We also continue to believe there is an opportunity in energy stocks and we added positions in companies like Chevron and Phillips 66, where appropriate, throughout the year. Though it meant missing out on some of the upside during big rallies, our strategy worked to limit the downside in 2022 and we plan to stick with it until conditions change. When the situation improves we can then use the extra cash we have and the proceeds from maturing bonds to buy stocks at attractive prices.

I want to end on a positive note by offering some historical perspective. While history is no guarantee of future results, it does show that we have several factors working in our favor:

- Back-to-back calendar years of negative stock market returns are relatively rare. From 1928 to 2022, this has only occurred four times with two being the Great Depression and the onset of World War II.
- Back-to-back calendar years of negative bond returns (measured by 10-year Treasury returns) are even more uncommon. This has only happened three times since 1928 with one of the instances being 2021 and 2022. Since 1928 the bond market has never delivered three consecutive years of negative returns.
- Negative stock and bond returns in the same calendar year are rare as well. This has only occurred five times since 1928, with one of the instances being 2022.
- Since 1928 there have never been two consecutive calendar years where both stocks and bonds were negative in both years.
- Investors are forward looking and it is evident in the data. Research from JP Morgan shows (excluding one outlier), that stocks tend to hit their bottom an average of three months after the beginning of a recession but 10 months before the end of a recession. This means the stock market can start to perform well even if the economy appears to be getting worse.

The tide will turn eventually in the markets and we will be monitoring your portfolios, the markets and the economy every step of the way.

Market Index	Q4 Total Return	YTD Total Return	1 Year Total Return
S&P 500	7.7%	-18.1%	-18.1%
DJIA	15.8%	-7.4%	-7.4%
Nasdaq Comp	-0.8%	-32.5%	-32.5%
MSCI EAFE	17.4%	-14%	-14%
Russell 2000	6.2%	-20.4%	-20.4%
US Aggregate Bond	1.9%	-13%	-13%



5 Red Cedar St., Suite 201

Bluffton, SC 29910

Phone: (843) 271-6088

www.metiswealthllc.com



Jenn Sokolowski, CFP®
Owner & Financial Planner
jenn@metiswealthllc.com

Robert Sokolowski, CFP®
Owner & Investment Manager
rob@metiswealthllc.com

An omnibus spending bill, known as the “Consolidated Appropriations Act of 2023” was passed on December 23rd. It includes a basket of changes that impact retirement savings. I am still digging into the details of this bill, but wanted to share two changes I found interesting and impactful for clients. We will continue to write about other changes throughout Q1 or as more details become available about certain parts of the bill.

Required Minimum Distributions Pushed Back

The starting age for Required Minimum Distributions (RMDs) is being adjusted again. If it seems like we just did this, it's because we did in 2020 thanks to the original SECURE Act passed in 2019. Currently RMDs begin at age 72 but starting in 2023 that is going up to 73. If you have already begun taking RMDs, there is no change for you.

For anyone turning 72 in 2023, you get to delay your RMDs for another year. In fact, no one will start taking RMDs this year. The increased age for RMDs is a positive for some retirees. It will allow tax deferred savings the potential to grow tax free for another year. It can also help keep your income lower, which influences things like Medicare premiums.

These changes do not affect the age when Qualified Charitable Distributions (QCDs) can begin, which is 70.5.

529 to Roth IRA Transfers – WHOA!

This is an exciting new planning opportunity for anyone with college bound kids or recent grads. There are limitations, but in 2024 it will be possible to transfer money from a 529 account to a Roth IRA. This helps alleviate the worry of over funding 529 accounts and having to pay the penalty for non-educational withdrawals.

A few key points:

- The 529 plan must be maintained for at least 15 years- another reason to start them early for kids!
- The Roth must be in the name of the beneficiary of the 529. Beneficiaries can be changed, but it is unclear right now if that will reset the 15-year clock.
- Contributions made in the last 5 years to the 529 are not eligible.
- You can only perform 529 to Roth rollovers up to the current annual limit (we do not know what that is for 2024 yet, but in 2023 it is \$6,500). This includes any contributions made to a Traditional or Roth IRA for the year.
- The maximum amount that can be converted from a 529 to a Roth IRA during an individual's lifetime is \$35,000.

One thing that is not yet clear is if changing the beneficiary on the 529 will trigger a new 15-year waiting period for the 529 before Roth transfers can begin for the new beneficiary. There should be more clarity provided over the next year since this can't be done until 2024.

We do know that transfers from 529 plans to Roth IRAs will not be subject to the income limitations for regular Roth IRA contributions. This means high earning grads can still use this strategy. Another potential option (depending on the finalized rules around beneficiary changes) would be for parents to change the beneficiary to themselves and convert the 529 assets into Roth IRA assets in their own name. We will have to stay tuned for updates before we would formally recommend this, but it is interesting to think about some potential planning opportunities!

If you have any questions on these changes or anything you have seen or heard, please contact us. We are happy to discuss anytime.

Important Disclosure: Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance levels, or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of or as a substitute for, personalized investment advice from Metis Wealth Management & Planning. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.