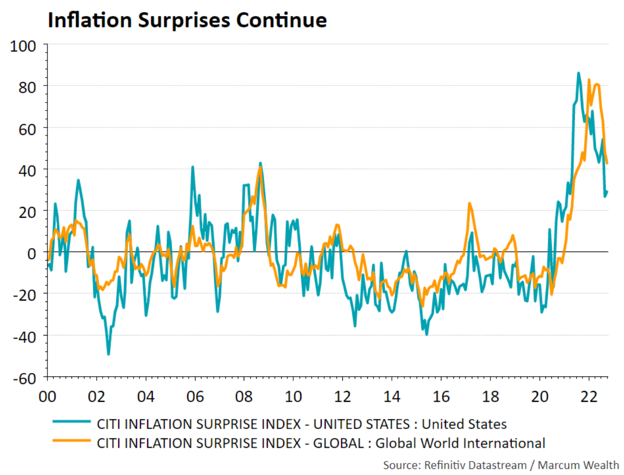
MARCUM WEALTH

Strategy Newsletter – 4th Quarter 2022

- Inflation is slowing at the margin but still above target levels.
- The drawdown in equity prices often brings opportunities.
- Central banks around the world raise interest rates at a record pace.
- Home prices may have finally peaked.

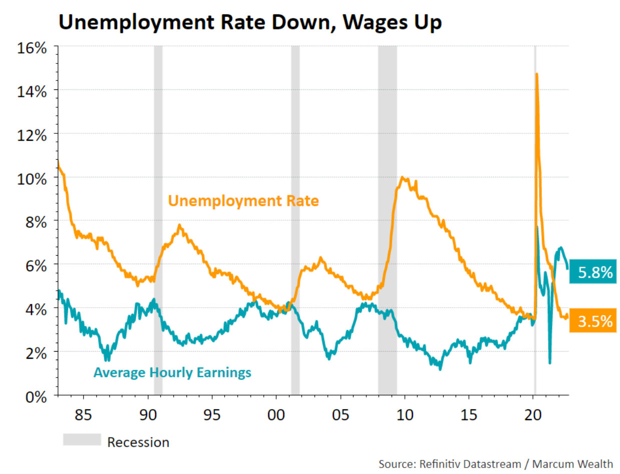
Economy

Inflation is the biggest challenge for the economy today. The metrics below suggest inflation prints are surprising by a smaller margin compared to a year ago.

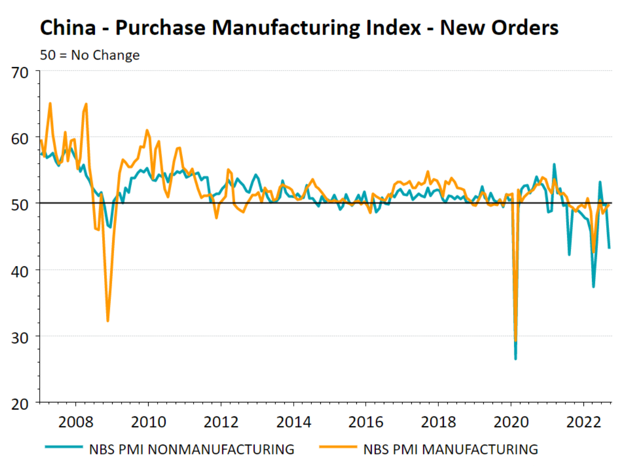


There is evidence of inflation slowing in used car prices and shipping rates, though still hot in housing. The lag in how housing flows into the official Consumer Price Index data is now well known. Most see the peak in housing prices and rents in the rear view mirror. This will likely take six months to show in the official reports.

The Federal Reserve continues to raise interest rates to bring down the level of inflation The major question, is how will the level of wages evolve over the next 12 months?. The labor market remains tight with the official unemployment rate at 3.5% down from 14.7% in April 2202. Average hourly earnings fell from a 6.8% annual growth rate earlier in the year to 5.8%. Job growth has cooled with the latest report showing 252,000 new jobs.



The "zero-COVID" policy in China continues with lockdowns. The manufacturing and services data show contraction in the chart below. This means below trend growth in the near term.

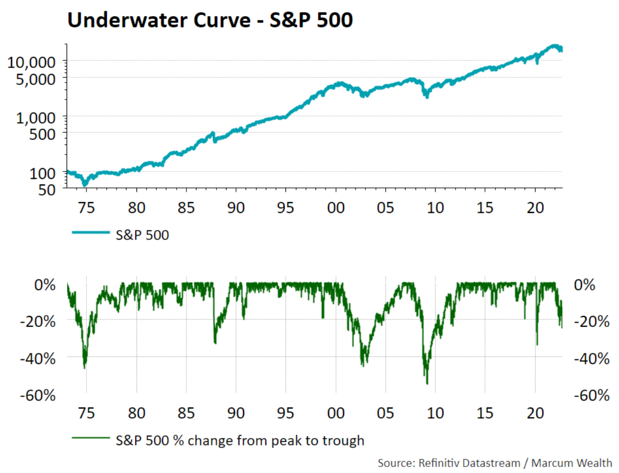


Equity

A summer rally in global equities began in June but flamed out in August. Growth edged value slightly while mid-caps in the U.S. fell the least.

U.S. Equity	3Q 2022
Large Cap Stock	
S&P 500	-4.9%
Small & Mid Cap Stock	
S&P 400 Mid Cap	-2.6%
S&P 600 Small Cap	-5.3%
All Cap Style Indices	
S&P 1500 Value	-5.7%
S&P 1500 Growth	-3.7%
International Equity	**3Q 2022**
MSCI EAFE	-9.3%
MSCI EAFE Value	-10.1%
MSCI EAFE Growth	-8.4%
MSCI Emerging Markets (EM)	-11.4%
MSCI EM Value	-10.7%
MSCI EM Growth	-12.1%

Since 1940, four pullbacks of greater than 20% occurred outside of recessions in the U.S. The average fall in these episodes was 30%. In the last 11 recessions, the equity market fell 31% on average.



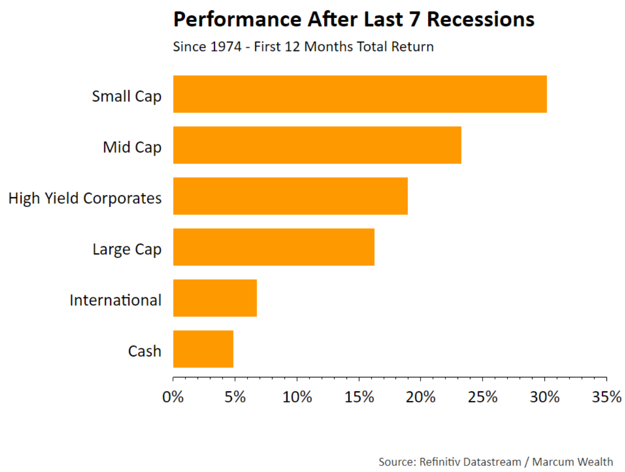
During this year, the peak to trough fall resulted in a drop of 25%. Did stocks price in a recession? Looking at the average statistics, it priced in nearly an average recession. Though each of the prior episodes was unique in their own ways, as this selloff certainly will be.

Ultimately, large decline in asset prices turned out to be opportunities to acquire equities at favorable prices. The duration of this selloff going on ten months meets the average.

We now enter a more seasonably favorable period for stocks with the mid-term election cycle upon us. Since 1930, stocks have a positive skew in the nine month period from the fourth quarter of midterm election years through the first half of Year three of the Presidential cycle. The only negative periods were in 1932 and 1938.

SINCE 1930	1Q-3Q Midterm Year return	4Q Midterm Year return	1H Year 3 Return	4Q Midterm through 1H Year 3 return
Average	-1%	5%	10%	17%
Median	2%	7%	10%	18%
% of time up	52%	83%	87%	91%
Maximum	30%	21%	39%	50%
Minimum	-35%	-17%	-17%	-20%

If the economy does enter a recession, small-cap and mid-cap stocks historically outperformed following the recession.



Currently, small caps trade at a significant discount to large cap stocks.

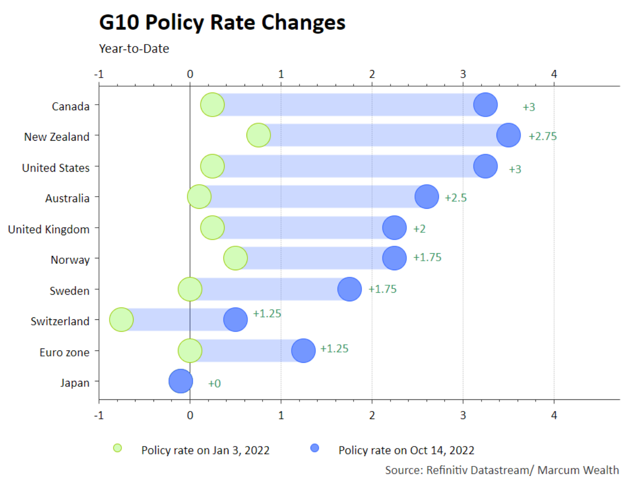
Portfolios continue to own quality stocks across allocations with a small overweight to the strategic targets.

Fixed Income

Bonds continued

Fixed Income	3Q 2022
Bloomberg U.S. Aggregate Bond	-5.0%
Bloomberg Corporate Inv. Grade	-5.2%
Bloomberg High Yield Bond	-0.8%
Bloomberg Global ex. U.S. Treas.	-11.7%
Bloomberg Municipal Bond	-3.8%
Bloomberg TIPS	-7.3%

The good news is that the unemployment rate for most developed nations is near the lows of the past decade. The bad news is that central banks around the world are dealing with high inflation. The remedy is raising interest rates, even if this increases jobless rates. This is one of the fastest rate hiking cycles in history.



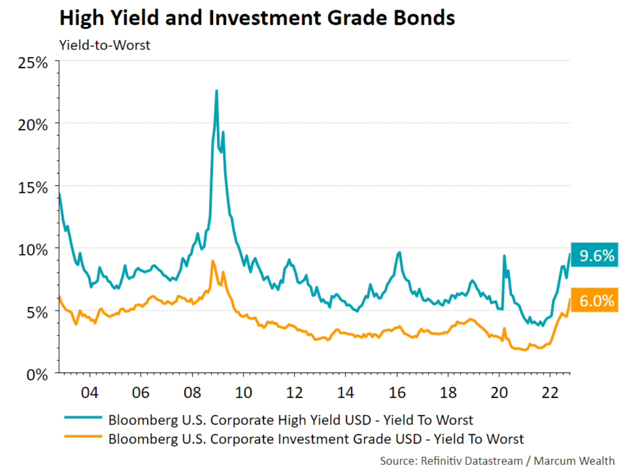
With interest rates up at a faster pace than ever, the turn down in bond prices was also historically bad. The good news is that bond prices recovered in seven of the eight prior worst instances (that do not include the past year). The total return on average over the next 12 months averaged 9.3%.

It may seem impossible for bonds to stage such a comeback after such historic losses and high inflation. The contrarian argument is that over time, asset prices revert to the mean. In addition, most indications from the Federal Reserve is that the interest rate hike cycle is in towards the latter stages.

Worst ever start to a year for U.S. bonds

Year	First 9 months	Next 12 Months
2022	-14.6	?
1981	-3.9	35.2
1994	-3.2	14.1
1987	-2.9	13.3
1958	-2.0	-0.3
2013	-1.9	4.0
2018	-1.6	10.3
1969	-1.6	11.1
2021	-1.6	-14.6
1959	-1.0	11.0
Avg.	-3.4	9.3

Yield on corporate bonds are at the highest level since 2009. Investment grade bonds come in at 6% while high yield is just shy of 10%. Fundamentals remain strong today. There are concerns about the corporate outlook and a drop in earnings with the possibility of recession on the horizon.



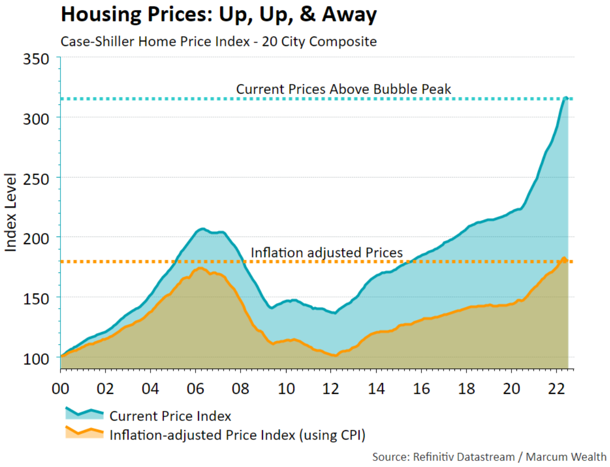
The Marcum Wealth Asset Allocation Frameworks maintains an underweight exposure to fixed income. Municipals, corporate bonds, and securitized debt all offer strong yields. Outflows from bond fund across the spectrum created many opportunities for those with a long-term perspective.

Real Estate

REITs underperformed the broader market this quarter as rising interest rates hurt prices.

Real Estate	3Q 2022
Wilshire U.S. REIT	-10.2%
Wilshire Int'l REIT	-14.7%

The Case-Shiller Home Price Index registered its first price decline in a decade. Many housing analysts worry that we could see flat to negative prices over the coming years. The affordability ratios with average mortgage rates at 7% will challenge demand.



The Marcum Wealth Asset Allocation Frameworks continues to maintain equal weight exposure to REITs.

Summary

Challenges remain around the world with war, energy shortages, inflation, and a slowdown in economic activity. Markets often turn when news goes from bad to less bad, instead of outright positive. Cash levels for institutional fund managers are the highest since 2021 according to Bank of America. If investors feel comfortable after mid-terms, as they have historically, we could see a turn in the narrative.

Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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