CAPITAL MANAGEMENT GROUP

The Hefter Report – January 2023

2022 was a difficult year for both stocks and bonds. The Nasdaq was down 33.1%, the S&P 500 was down 19.44% and the Barclays/Bloomberg global aggregate bond index was down 16.25%. Higher inflation resulted in multiple Fed interest rate hikes, sparking investor fear of slow economic growth. The major question is, how much will GDP fall and how moderate or severe will a potential recession be?

We believe that the Fed overdid monetary stimulus, leading to inflated prices in everything from equity prices to products and services. The Federal Reserve has turned 180 degrees and has engaged in a rapid tightening regime, hiking short-term interest rates by 4.25%. These hikes have resulted in lower gas and home prices; however, the labor supply remains tight, and wages have increased. The Fed seems determined to continue with tighter policies until they see greater unemployment and lower growth. We believe they will once again overdo it, this time raising rates, which would cause an economic recession in 2023. In our view, the severity of the downturn will depend on how soon the Fed pauses on hiking rates and it is extremely difficult to know when that will be.

Our view is that equity prices will not see a sustained rally until the Fed signals a pause. Once that occurs, we believe stocks and bonds can rally. As we did this past October, we see potentially excellent buying opportunities at around the 3600 level in the S&P 500. If the Fed pauses earlier, that level may not be reached, and the rally could begin sooner. Therefore, we are not selling at this time.

Coming into 2022, high growth and tech stocks had led the market for the last 5-10 years. We believe that there has been a fundamental shift to value, and we have moved meaningfully in that direction. With higher interest rates likely for the next few years, we think value stocks will do as well, or better than, growth stocks with less volatility. We also believe that we have seen the high in the dollar and that international equities, particularly international value equities, could outperform their US equivalents.

History shows that it is very rare to see US stocks down 2 years in a row. We believe that although stocks may move lower in the near term, the eventual Fed will result in an up year for equities in 2023.

We believe that we are near the end of this bear market and that the intermediate and long-term prospects for stocks are very positive.

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