

Sailing in Uncharted Waters 2023 Scenarios



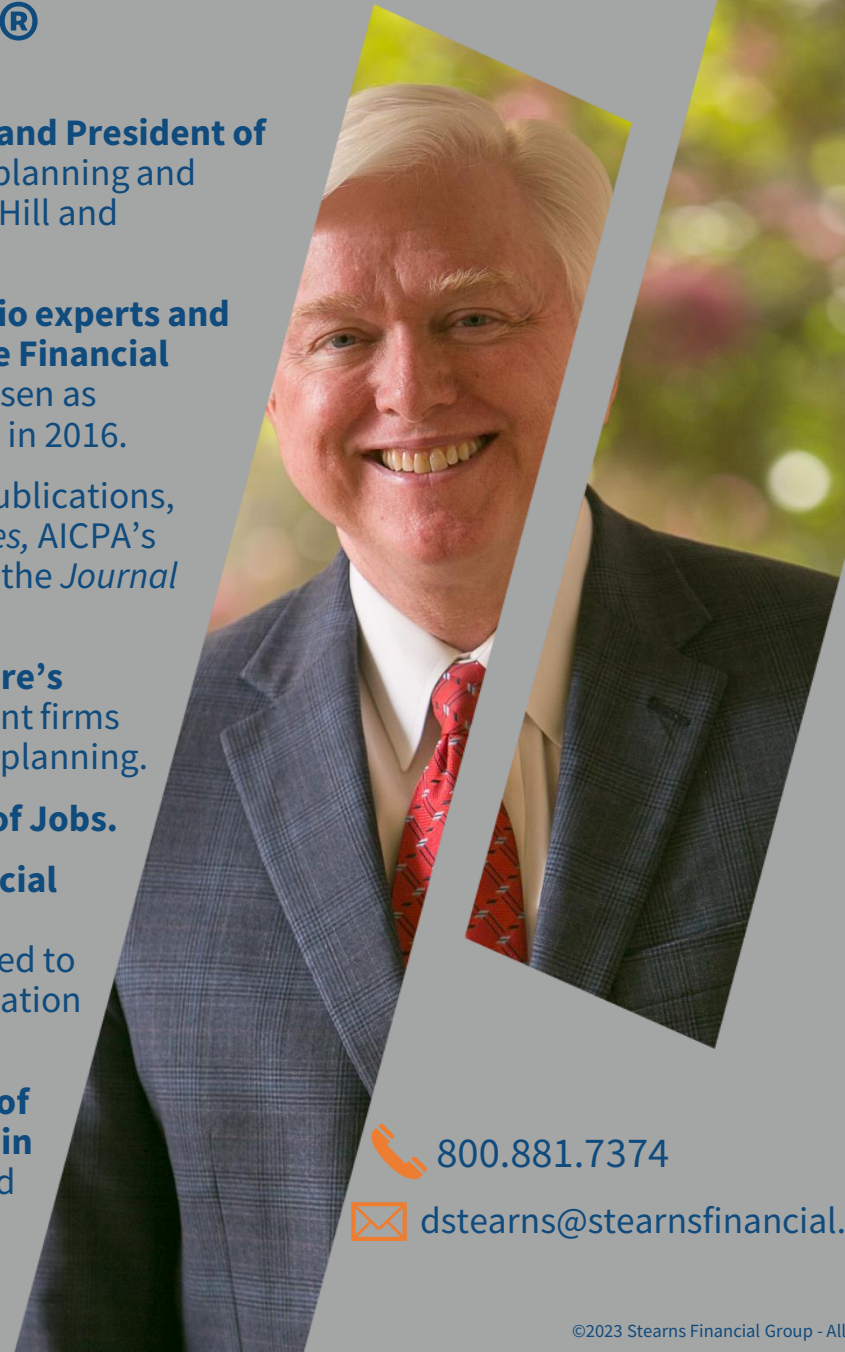
American
Association of
Individual
Investors

RESEARCH TRIANGLE CHAPTER

January 14, 2023

Dennis Stearns, CFP®

- Dennis Stearns is a **financial planning practitioner and President of Stearns Financial Group** (SFG), a fee-only financial planning and investment management firm with offices in Chapel Hill and Greensboro and clients around the U.S.
- **Dennis has been called “one of the leading scenario experts and futurists in the financial planning industry” by the Financial Planning Association.** Dennis was among those chosen as “**Most Admired CEOs**” by the *Triad Business Journal* in 2016.
- **Stearns Financial** has been featured in numerous publications, including *Forbes*, the *Wall Street Journal*, the *NY Times*, AICPA’s *The Tax Adviser*, the *Chicago Tribune*, *Kiplinger’s* and the *Journal of Financial Planning*.
- **Stearns Financial** was selected as one of **RIA Citywire’s Future 50 for 2019**, independent wealth management firms that embody future trends in investing and financial planning.
- Dennis is a **TEDx speaker on The Changing Future of Jobs.**
- Dennis participates in **national think tanks and special scenario exercises for major companies and organizations** on economics and future trends related to investments, entrepreneurship, technology, globalization and demographics.
- Dennis is a former **chess expert** and was a **member of one of the winningest Pan American Chess Teams in U.S. history.** He coaches an inner-city chess club and often plays up to 35 people at the same time to raise money for children’s charities.



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2023 Key Issues

1. U.S. recession? [needed to cool inflation?]
2. Global recession? [impact on U.S.?)
3. Corporate earnings recession? [caused by?]
4. Fed policy tapers down? [inflation cool off?]
5. Geopolitical wildcards again become an issue?

Conservative
Strategies

Moderate
Strategies

Aggressive
Strategies

2020	2021	2022	2008 - 2022	
			Ann.	Vol.
Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 8.8%	REITs 23.4%
EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	Small Cap 7.2%	Small Cap 23.2%
Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	REITs 6.6%	EM Equity 23.0%
Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 6.1%	Comdty. 20.2%
DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 5.4%	DM Equity 20.0%
Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	Fixed Income 2.7%	Large Cap 17.7%
High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	DM Equity 2.3%	High Yield 13.0%
Cash 0.5%	Cash 0.0%	EM Equity -19.7%	EM Equity 1.0%	Asset Alloc. 12.4%
Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 0.6%	Fixed Income 4.2%
REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -2.6%	Cash 0.4%

Asset Class Returns

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/08 to 12/31/21. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns. *Guide to the Markets - U.S.* Data are as of December 31, 2022.

Returns and Valuations by Style

10-year annualized				2022			
	Value	Blend	Growth		Value	Blend	Growth
Large	10.3%	12.6%	14.1%	Large	-7.5%	-18.1%	-29.1%
Mid	10.1%	11.0%	11.4%	Mid	-12.0%	-17.3%	-26.7%
Small	8.5%	9.0%	9.2%	Small	-14.5%	-20.4%	-26.4%

Since market peak (February 2020)				Since market low (March 2020)			
	Value	Blend	Growth		Value	Blend	Growth
Large	17.5%	18.8%	14.6%	Large	90.0%	79.4%	67.2%
Mid	16.5%	14.3%	4.7%	Mid	105.9%	91.4%	62.9%
Small	17.2%	7.9%	-3.0%	Small	106.1%	81.8%	57.6%

Current P/E vs. 20-year avg. P/E			
	Value	Blend	Growth
Large	13.9 / 13.7	16.7 / 15.5	21.1 / 18.6
Mid	13.4 / 14.4	15.3 / 16.3	21.0 / 20.3
Small	15.3 / 16.8	19.1 / 21.3	25.3 / 35.6

Current P/E as % of 20-year avg. PE			
	Value	Blend	Growth
Large	102.0%	107.6%	113.7%
Mid	92.6%	93.8%	103.3%
Small	90.7%	89.4%	71.2%

Source: FactSet, Refinitiv Datastream, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period from February 19, 2020 to December 31, 2022. Since Market Low represents period from March 23, 2020 to December 31, 2022. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices except for the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM) and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management.

Guide to the Markets - U.S. Data are as of December 31, 2022.

Returns and Valuations by Sector

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index	
S&P weight	5.2%	2.7%	11.7%	8.7%	9.8%	25.7%	7.3%	2.7%	15.8%	7.2%	3.2%	100.0%	Weight
Russell Growth weight	1.7%	1.5%	3.3%	8.1%	14.2%	43.2%	6.8%	1.6%	13.5%	6.1%	0.1%	100.0%	
Russell Value weight	8.4%	4.3%	20.1%	10.5%	6.0%	8.3%	7.3%	4.5%	17.4%	7.4%	5.8%	100.0%	
Russell 2000 weight	6.8%	4.3%	17.2%	15.6%	10.4%	12.7%	2.6%	6.4%	16.9%	3.6%	3.5%	100.0%	
4Q22	22.8	15.0	13.6	19.2	-10.2	4.7	-1.4	3.8	12.8	12.7	8.6	7.6	Return (%)
2022	65.7	-12.3	-10.5	-5.5	-37.0	-28.2	-39.9	-26.1	-2.0	-0.6	1.6	-18.1	
Since market peak (February 2020)	86.6	36.9	17.4	23.1	-1.8	24.0	-15.2	-0.9	37.4	27.3	10.6	18.8	
Since market low (March 2020)	323.4	114.1	105.7	111.2	43.8	80.1	18.8	59.1	90.6	67.6	71.8	79.4	
Beta to S&P 500	1.3	1.1	1.1	1.1	1.2	1.1	1.0*	0.8	0.8	0.6	0.5	1.0	β
Correl. to Treas. yields	0.1	-0.4	-0.3	-0.4	-0.5	-0.7	-0.6	-0.5	-0.4	-0.3	-0.4	-0.5	ρ
Foreign % of sales	37.8	55.2	21.3	32.3	34.4	57.6	42.8	15.5	36.1	43.1	2.0	39.6	%
NTM earnings growth	-13.2%	-11.2%	14.1%	14.5%	30.4%	3.9%	7.8%	2.5%	-3.6%	3.5%	7.4%	4.6%	EPS
20-yr avg.	101.0%	16.4%	20.9%	14.0%	16.7%	13.6%	10.2%*	6.7%	8.4%	7.7%	4.2%	11.2%	
Forward P/E ratio	9.7x	15.8x	12.1x	18.1x	20.8x	20.2x	14.1x	16.6x	17.5x	21.0x	19.0x	16.7x	P/E
20-yr avg.	13.8x	14.7x	12.4x	16.2x	19.2x	18.0x	19.0x*	16.7x	15.1x	17.3x	15.4x	15.5x	
Buyback yield	2.8%	3.2%	3.1%	2.5%	2.5%	2.7%	5.0%	-1.7%	1.7%	1.4%	-1.1%	2.5%	Bbk
20-yr avg.	1.6%	0.9%	0.3%	2.2%	2.4%	2.9%	1.5%	-1.3%	1.9%	1.8%	-1.0%	1.7%	
Dividend yield	3.2%	2.1%	2.3%	1.8%	1.1%	1.2%	1.2%	3.7%	1.7%	2.7%	3.1%	1.8%	Div
20-yr avg.	2.8%	2.4%	2.3%	2.2%	1.4%	1.1%	0.0%	3.9%	1.9%	2.8%	3.9%	2.1%	

Source: FactSet, Refinitiv Datastream, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, not annualized, including dividends for the stated period. Since market peak represents period from February 19, 2020 to December 31, 2022. Since market low represents period from March 23, 2020 to December 31, 2022. Correlation to Treasury yields are trailing 2-year monthly correlations between S&P 500 sector price returns and 10-year Treasury yield movements. Next 12 months (NTM) earnings growth is the percent change in next 12-months earnings estimates compared to last 12-months earnings provided by brokers. Forward P/E ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management. Buyback yield is net of share issuance and is calculated as last 12-months net buybacks divided by market cap. Dividend yield is calculated as its sub-indices.

*Communication Services (formerly Telecom) averages and beta are based on 5-years of backtested data by JPMAM. Past performance is not indicative of future returns.

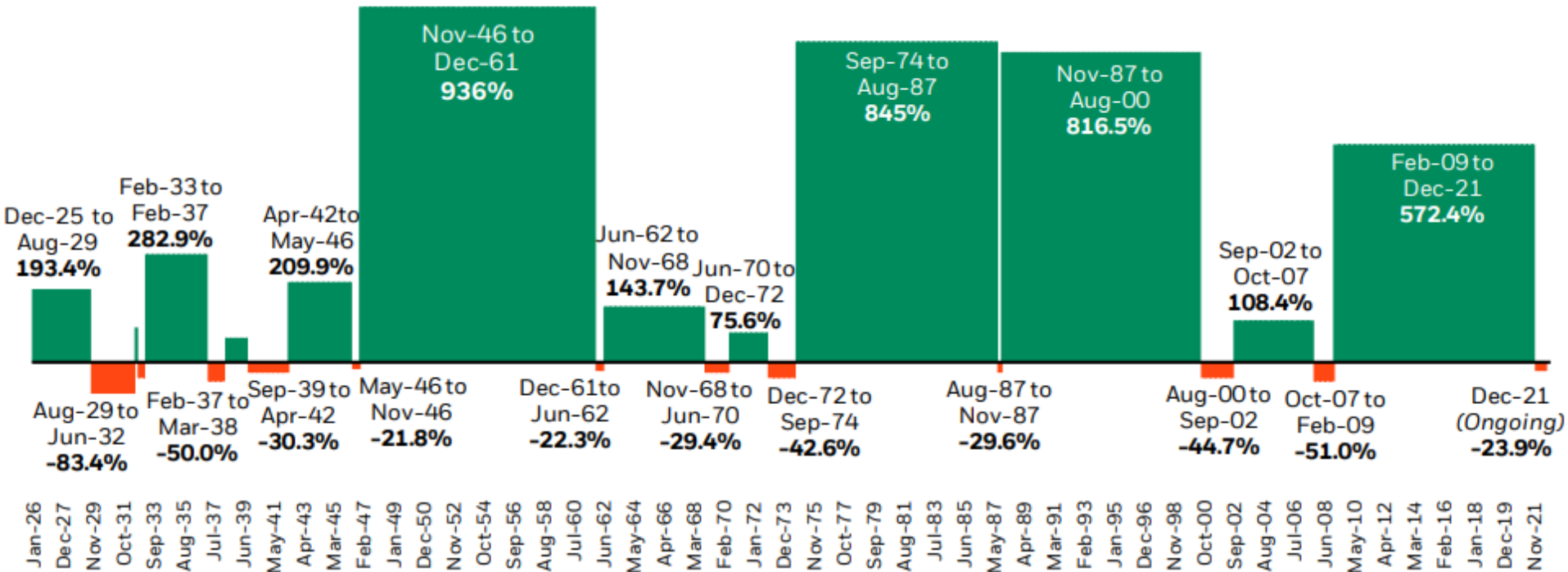
Guide to the Markets - U.S. Data are as of December 31, 2022.

Historical Bull and Bear Markets

Bear markets tend to be brief and painful

Bull and Bear Market Returns and Time Periods

Total returns from peak to trough since 1926, based on monthly returns

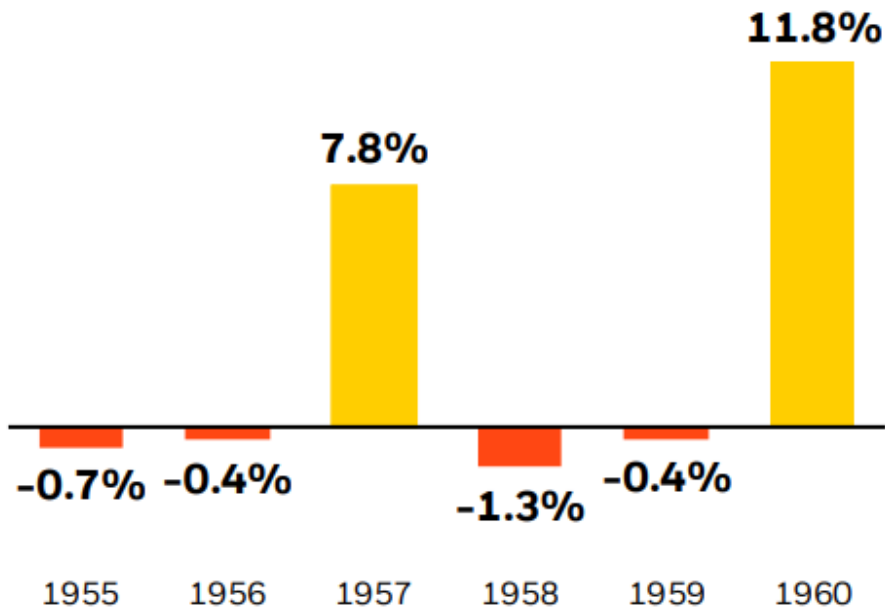


Source: Morningstar as of 11/30/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 11/30/22 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/50 to 3/4/57. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.

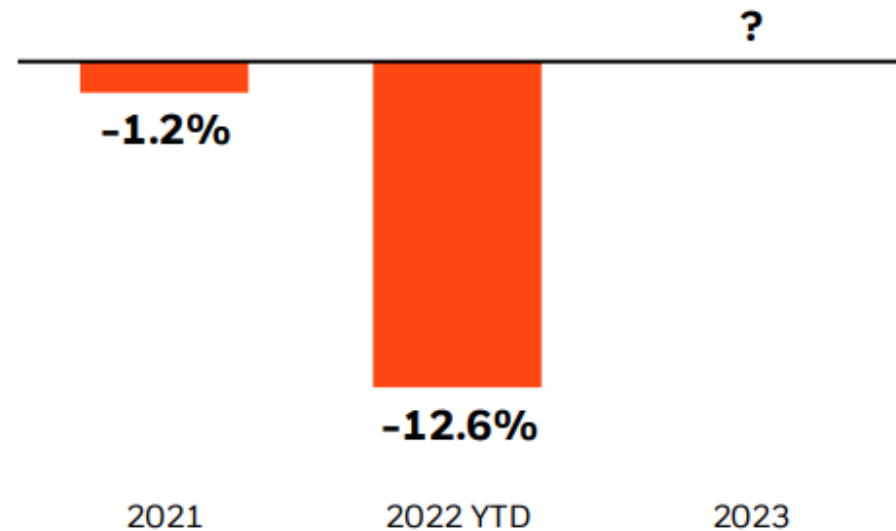
Bonds Have Not Lost Money Three Years In A Row

Bonds have only lost money 2 years in a row twice since 1926

Annual returns



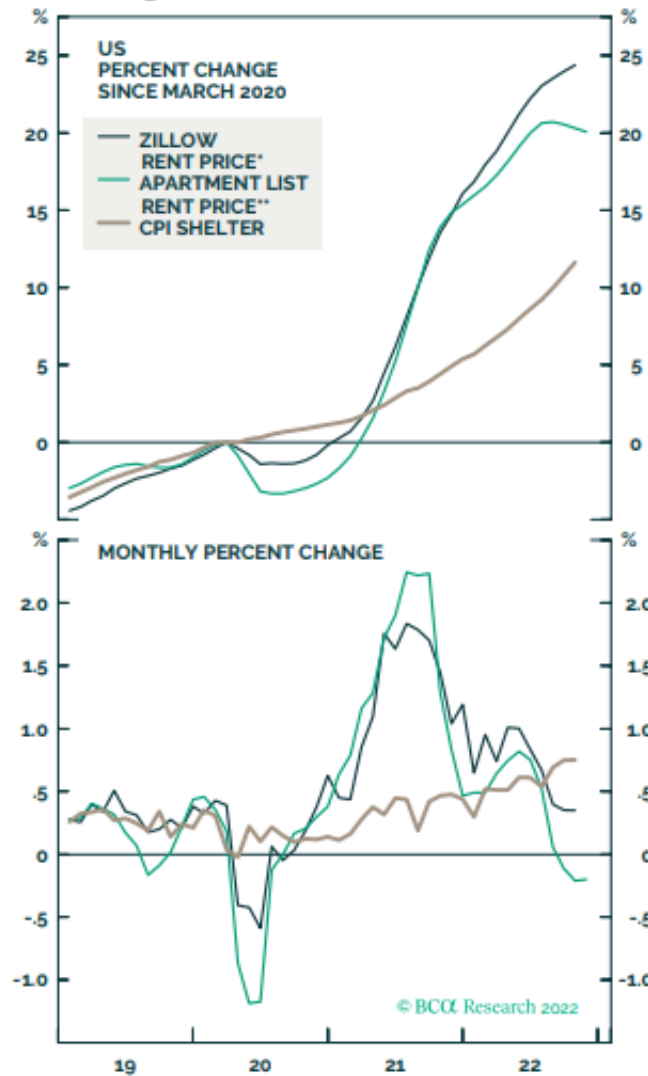
Recent bond index performance



Source: Morningstar as of 11/30/22. U.S. bonds are represented by the IA SBBI US Gov IT Index from 1/1/50 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 11/30/22. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.

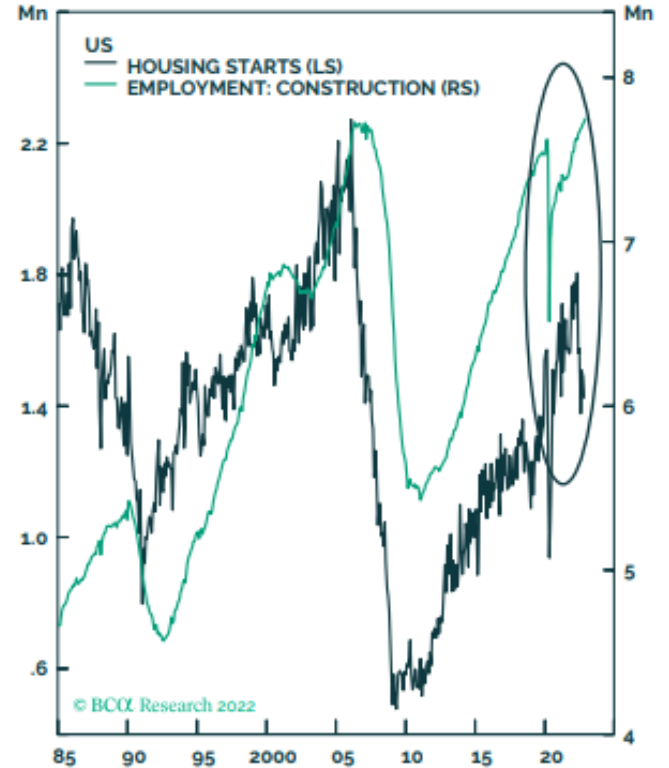
Housing Update

Rents On New Leases Are No Longer Rising Quickly, But Remain Quite High Relative To Existing Leases



* SOURCE: ZILLOW.
 ** SOURCE: APARTMENT LIST.
 NOTE: SERIES SHOWN SEASONALLY ADJUSTED.

Construction Employment Remains Strong Despite Lower Housing Starts



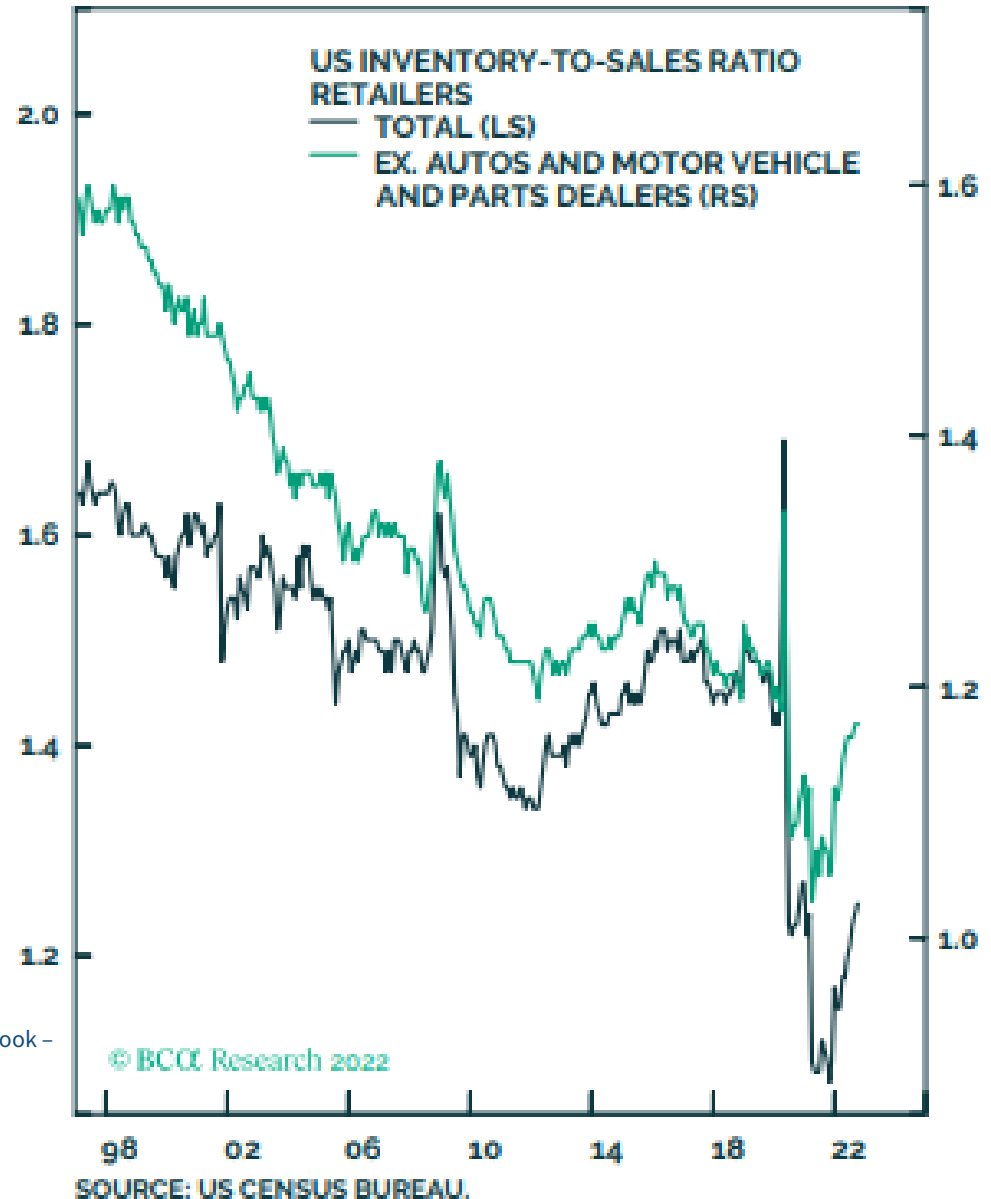
Source: BCA Research: Global Investment Strategy Outlook – 2023 Key Views: Edging Towards The Kink, 12/08/22

Inventory Levels

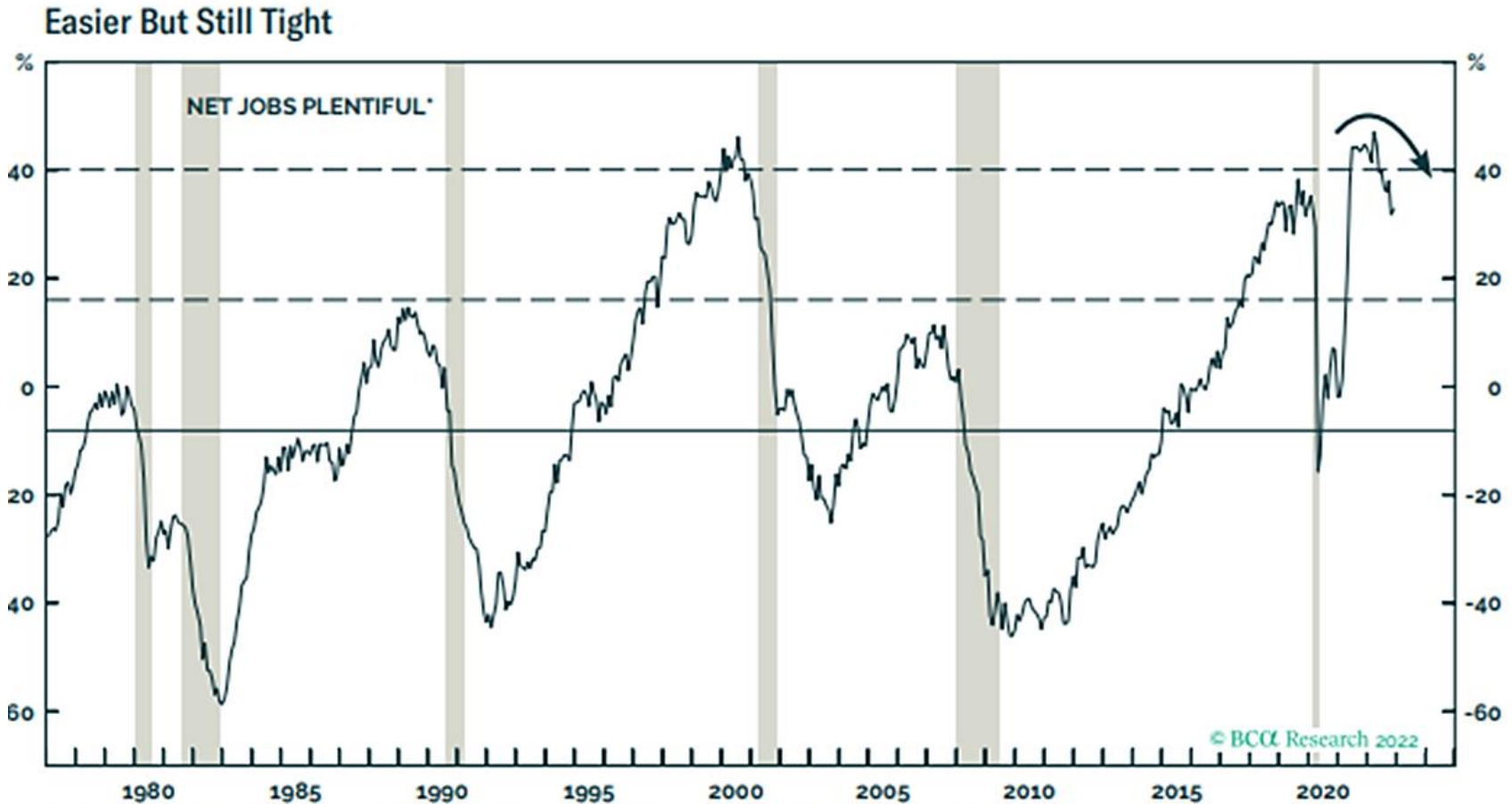
BCA Research: “The New York Fed’s Global Supply Chain Pressure Index is approaching pre-pandemic levels. This is reflected in falling supplier delivery times, lower shipping costs, and decreased memory chip prices. Inventory levels are also returning to normal.”

Source: BCA Research: Global Investment Strategy Outlook – 2023 Key Views: Edging Towards The Kink, 12/08/22

Inventory Levels Are Returning To Normal



Payrolls Still Expanding



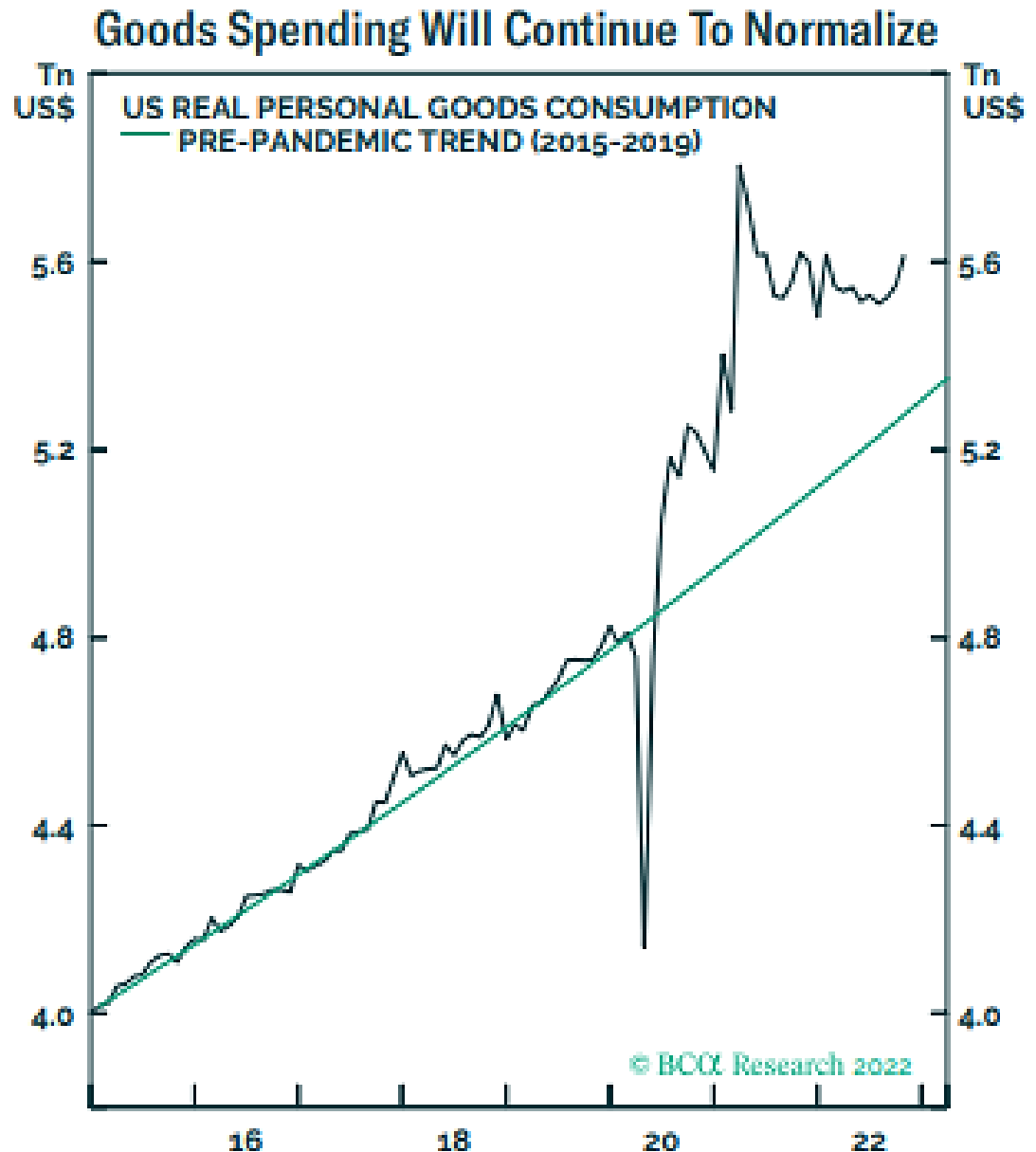
*NET JOBS PLENTIFUL IS THE DIFFERENCE BETWEEN JOBS ARE PLENTIFUL AND JOBS ARE HARD TO FIND.
NOTE: SOLID LINE DENOTES SERIES MEAN; DASHED LINES DENOTE 1 AND 2 STANDARD DEVIATIONS ABOVE THE MEAN.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

Source: BCA Research: US Investment Strategy Report - *Is Our Consumption Thesis Still Valid?*, 12/05/22

BCA Research: “Stop us if you’ve heard this one before: the net jobs plentiful measure is no longer two standard deviations above the mean, but it’s still near its previous all-time highs.”

Consumer Goods Spending

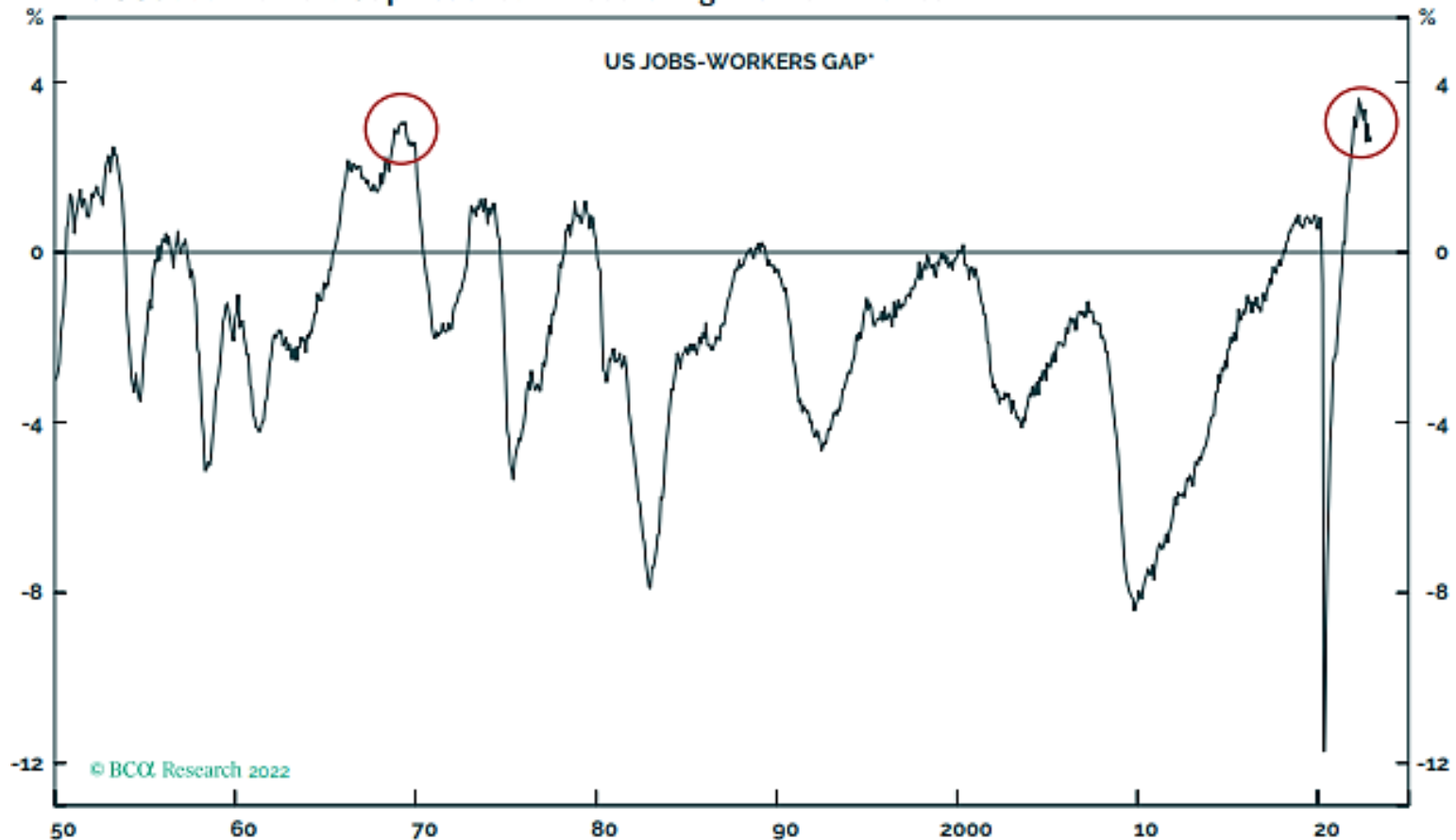
BCA Research: “A leveling-off in goods spending is helping to relieve supply-chain bottlenecks. In real terms, spending on goods has declined by 3.3% from its peak in March 2021. Goods spending is still 6.4% above its pre-pandemic trend line, but this is down from a peak of 16.4% in March 2021. Goods prices fell in October, and we expect them to keep falling well into next year.”



Source: BCA Research: Global Investment Strategy Outlook – 2023 Key Views: Edging Towards The Kink, 12/08/22

U.S. Jobs to Workers

The US Jobs-Workers Gap Reached A Record High Earlier This Year

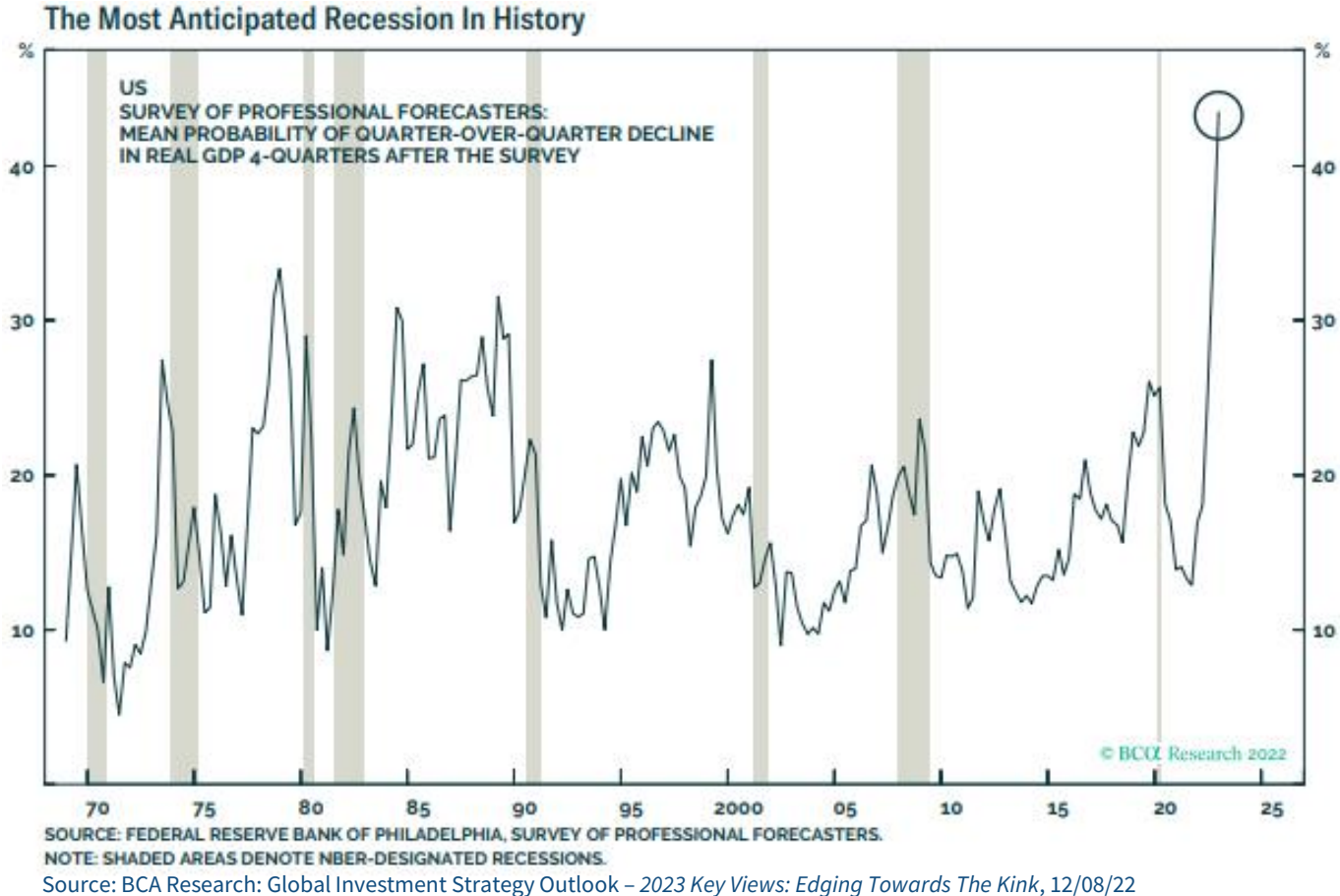


* JOBS-WORKERS GAP IS THE DIFFERENCE BETWEEN LABOR DEMAND (SUM OF JOB OPENINGS AND CIVILIAN EMPLOYMENT) AND LABOR SUPPLY (CIVILIAN LABOR FORCE) AS A PERCENT OF THE LABOR SUPPLY. HISTORICAL JOB OPENINGS DATA IS EXTENDED USING THE CONFERENCE BOARD'S HELP WANTED INDEX AND NOVEMBER JOB OPENINGS DATA IS ESTIMATED USING INDEED JOB POSTINGS DATA.

Source: BCA Research: Global Investment Strategy Outlook – 2023 Key Views: Edging Towards The Kink, 12/08/22

BCA Research: “At its peak in March 2022, labor demand exceeded labor supply by 3.6 percentage points – the largest “jobs-workers gap” in history.”

Recession Watch

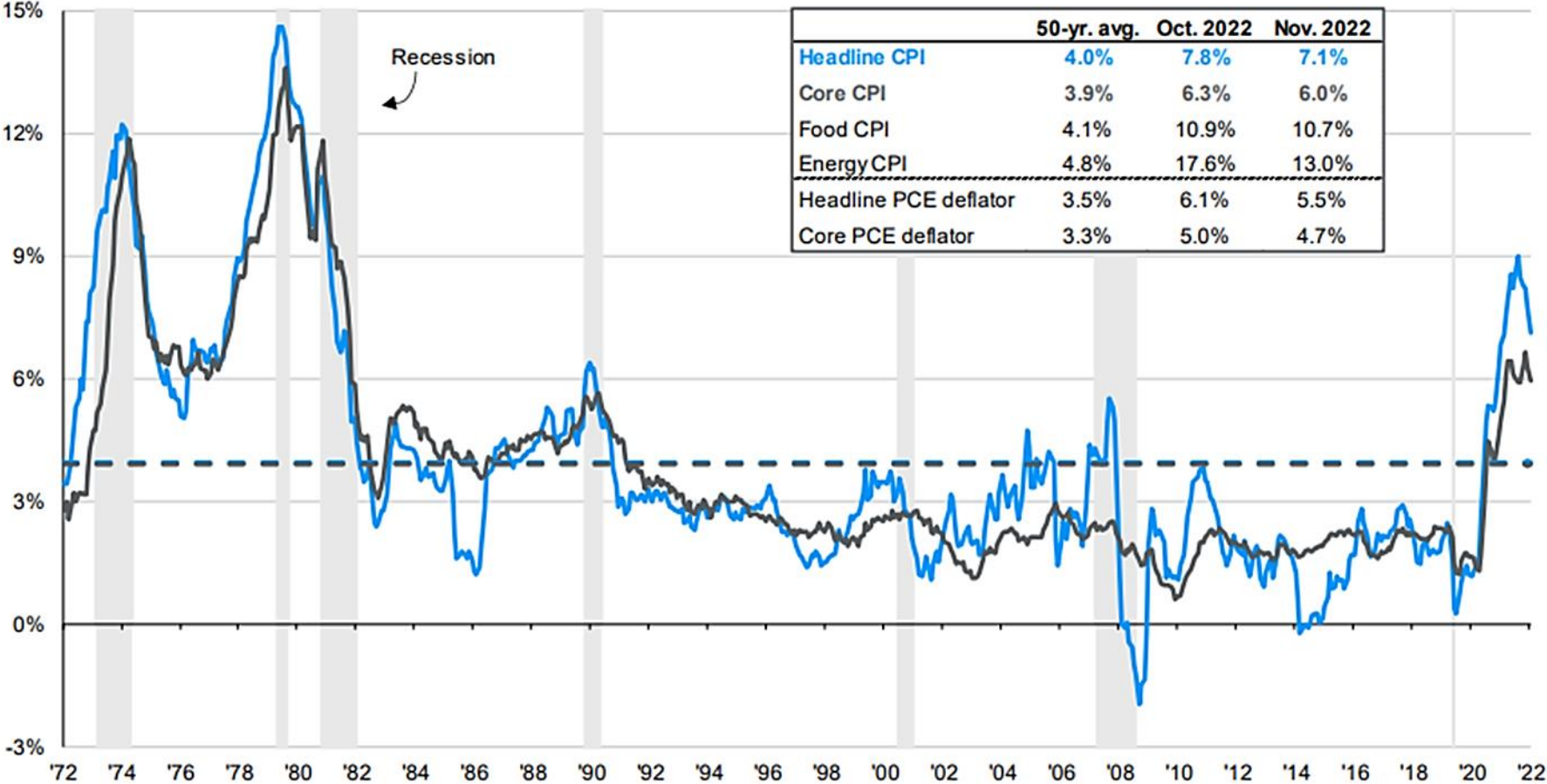


BCA Research: “Most clients we speak with are highly skeptical that the rebound in stocks from their October lows can be sustained. The consensus view seems to be that stocks will fall over the next six months as a US recession becomes a fait accompli (See Chart). In the minds of most investors, this will set up a good buying opportunity at some point in 2023.”

Inflation

CPI and core CPI

% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P.Morgan Asset Management.

CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

Guide to the Markets – U.S. Data are as of December 31, 2022

Inflation Heatmap

Consumer Price Index, components m/m % change, seasonally adjusted

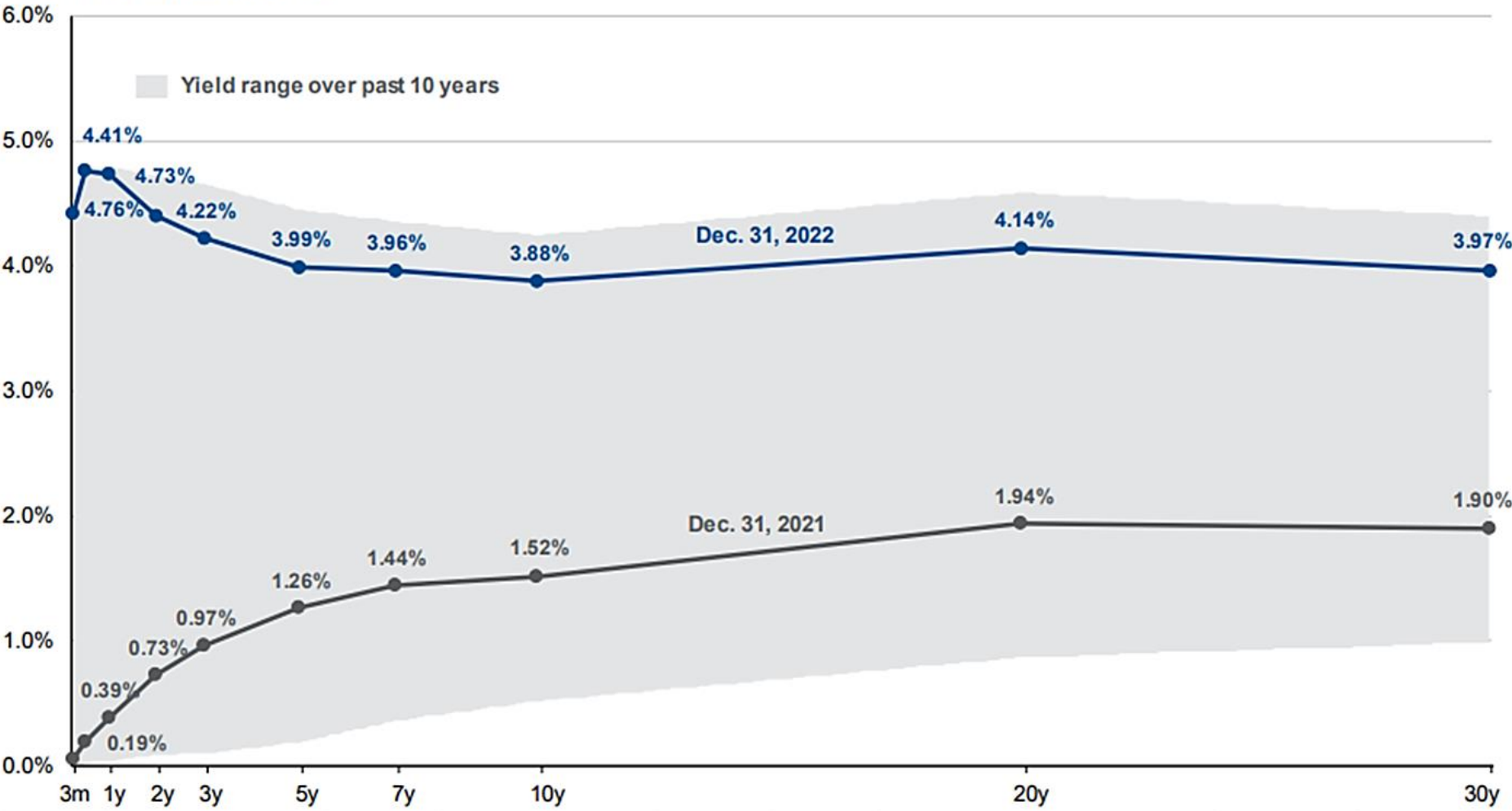
	Weight	2021												2022											
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Headline CPI, y/y	100.0	1.3%	1.4%	1.7%	2.7%	4.2%	4.9%	5.3%	5.3%	5.2%	5.4%	6.2%	6.8%	7.1%	7.5%	7.9%	8.6%	8.2%	8.5%	9.0%	8.5%	8.2%	8.2%	7.8%	7.1%
Core CPI, y/y	78.3	1.6%	1.4%	1.3%	1.7%	3.0%	3.8%	4.4%	4.2%	4.0%	4.0%	4.6%	5.0%	5.5%	6.0%	6.4%	6.4%	6.1%	6.0%	5.9%	5.9%	6.3%	6.7%	6.3%	6.0%
Headline CPI, m/m	100.0	0.3%	0.2%	0.4%	0.6%	0.6%	0.7%	0.9%	0.5%	0.3%	0.4%	0.9%	0.7%	0.6%	0.6%	0.8%	1.2%	0.3%	1.0%	1.3%	0.0%	0.1%	0.4%	0.4%	0.1%
Core CPI, m/m	78.3	0.1%	0.0%	0.2%	0.3%	0.9%	0.7%	0.8%	0.3%	0.2%	0.3%	0.6%	0.5%	0.6%	0.6%	0.5%	0.3%	0.6%	0.6%	0.7%	0.3%	0.6%	0.6%	0.3%	0.2%
Energy	8.0	3.7%	2.8%	4.6%	5.6%	-1.2%	0.7%	2.1%	1.6%	1.9%	1.2%	3.7%	2.4%	0.9%	0.9%	3.5%	11.0%	-2.7%	3.9%	7.5%	-4.6%	-5.0%	-2.1%	1.8%	-1.6%
Gasoline	4.0	7.0%	5.8%	8.2%	10.3%	-3.3%	0.6%	3.3%	2.5%	2.5%	1.1%	4.6%	4.5%	1.3%	-0.8%	6.6%	18.3%	-6.1%	4.1%	11.2%	-7.7%	-10.6%	-4.9%	4.0%	-2.0%
Electricity	2.7	0.6%	0.0%	0.5%	0.2%	0.7%	0.5%	0.2%	0.2%	1.0%	0.6%	1.4%	0.2%	0.5%	4.2%	-1.1%	2.2%	0.7%	1.3%	1.7%	1.6%	1.5%	0.4%	0.1%	-0.2%
Utility Gas	1.0	0.5%	-0.4%	1.7%	2.4%	2.2%	1.8%	1.8%	2.2%	1.6%	2.9%	5.9%	0.3%	-0.3%	-0.5%	1.5%	0.6%	3.1%	8.0%	8.2%	-3.6%	3.5%	2.9%	-4.6%	-3.5%
Food	13.7	0.3%	0.2%	0.1%	0.2%	0.4%	0.5%	0.7%	0.7%	0.4%	0.9%	0.9%	0.8%	0.5%	0.9%	1.0%	1.0%	0.9%	1.2%	1.0%	1.1%	0.8%	0.8%	0.6%	0.5%
Food at home	8.5	0.3%	0.1%	0.2%	0.2%	0.4%	0.4%	0.7%	0.6%	0.4%	1.2%	0.9%	0.9%	0.4%	1.0%	1.4%	1.5%	1.0%	1.4%	1.0%	1.3%	0.7%	0.7%	0.4%	0.5%
Food away from home	5.2	0.4%	0.3%	0.1%	0.1%	0.3%	0.6%	0.7%	0.8%	0.4%	0.5%	0.8%	0.6%	0.6%	0.7%	0.4%	0.3%	0.6%	0.7%	0.9%	0.7%	0.9%	0.9%	0.9%	0.5%
Core goods	21.2	0.0%	0.1%	-0.1%	0.2%	2.0%	1.8%	2.1%	0.4%	0.4%	0.3%	1.1%	0.9%	1.2%	1.0%	0.4%	-0.4%	0.2%	0.7%	0.8%	0.2%	0.5%	0.0%	-0.4%	-0.5%
Apparel	2.5	0.5%	1.4%	-0.5%	0.4%	0.6%	1.1%	0.5%	0.1%	0.3%	-0.7%	0.6%	0.7%	1.1%	1.1%	0.7%	0.6%	-0.8%	0.7%	0.8%	-0.1%	0.2%	-0.3%	-0.7%	0.2%
New vehicles	4.1	0.6%	-0.4%	0.1%	0.0%	0.5%	1.5%	1.7%	1.5%	1.2%	1.3%	1.3%	1.2%	1.2%	0.0%	0.3%	0.2%	1.1%	1.0%	0.7%	0.6%	0.8%	0.7%	0.4%	0.0%
Used cars	3.8	-1.1%	-0.9%	-0.7%	0.3%	9.8%	7.7%	10.1%	0.0%	-1.2%	-0.5%	2.5%	2.4%	3.3%	1.5%	-0.2%	-3.8%	-0.4%	1.8%	1.6%	-0.4%	-0.1%	-1.1%	-2.4%	-2.9%
Medical care commod	1.5	-0.2%	-0.1%	-0.7%	0.1%	0.6%	0.0%	-0.4%	0.2%	-0.2%	0.3%	0.6%	0.1%	0.0%	0.9%	0.3%	0.2%	0.1%	0.3%	0.4%	0.6%	0.2%	-0.1%	0.0%	0.2%
Core services	57.1	0.1%	0.1%	0.2%	0.3%	0.5%	0.4%	0.4%	0.3%	0.1%	0.2%	0.4%	0.4%	0.3%	0.4%	0.5%	0.6%	0.7%	0.6%	0.7%	0.4%	0.6%	0.8%	0.5%	0.4%
Shelter	32.6	0.1%	0.1%	0.2%	0.3%	0.4%	0.3%	0.4%	0.4%	0.2%	0.4%	0.5%	0.5%	0.4%	0.3%	0.5%	0.5%	0.5%	0.6%	0.6%	0.5%	0.7%	0.7%	0.8%	0.6%
Rent of primary res.	7.4	0.1%	0.1%	0.2%	0.2%	0.2%	0.3%	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.4%	0.6%	0.6%	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%
OER	24.0	0.2%	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.7%	0.6%	0.7%	0.8%	0.6%	0.7%
Medical care services	6.9	-0.1%	0.5%	0.4%	0.1%	0.0%	-0.1%	0.0%	0.2%	0.2%	0.2%	0.4%	0.3%	0.3%	0.6%	0.1%	0.6%	0.5%	0.4%	0.7%	0.4%	0.8%	1.0%	-0.6%	-0.7%
Transportation services	5.9	-0.2%	-0.3%	0.4%	1.0%	2.2%	1.7%	1.1%	-0.9%	-1.2%	-1.0%	0.2%	0.7%	0.0%	1.0%	1.4%	2.0%	3.1%	1.3%	2.1%	-0.5%	0.5%	1.9%	0.8%	-0.1%

Source: BLS, FactSet, J.P.Morgan Asset Management. Heatmap shading is relative to the two-year period shown. Component weights may not add to 100. OER refers to owner's equivalent rent.

Guide to the Markets – U.S. Data are as of December 31, 2022.

Yield Curve

U.S. Treasury yield curve

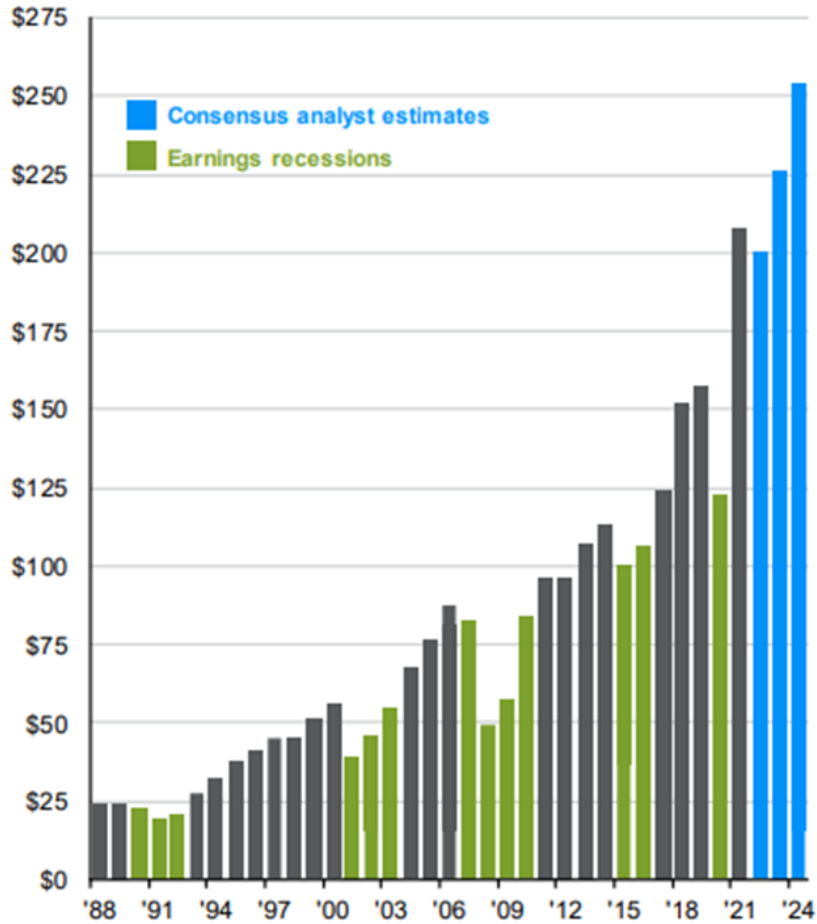


Source: FactSet, Federal Reserve, J.P.Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of December 31, 2022.

Corporate Earnings and Analyst Expectations

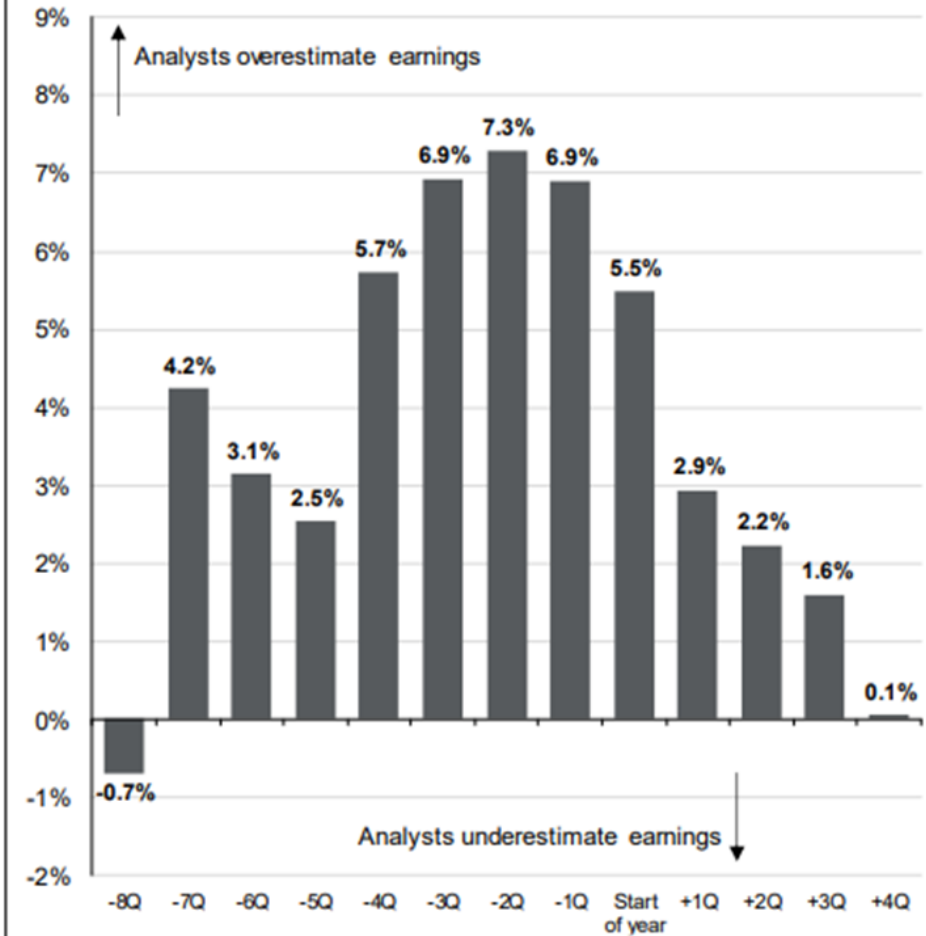
S&P 500 earnings per share

Index annual operating earnings



Average analyst over/underestimate of annual earnings

S&P 500, pro-forma EPS, 1996 - 2021

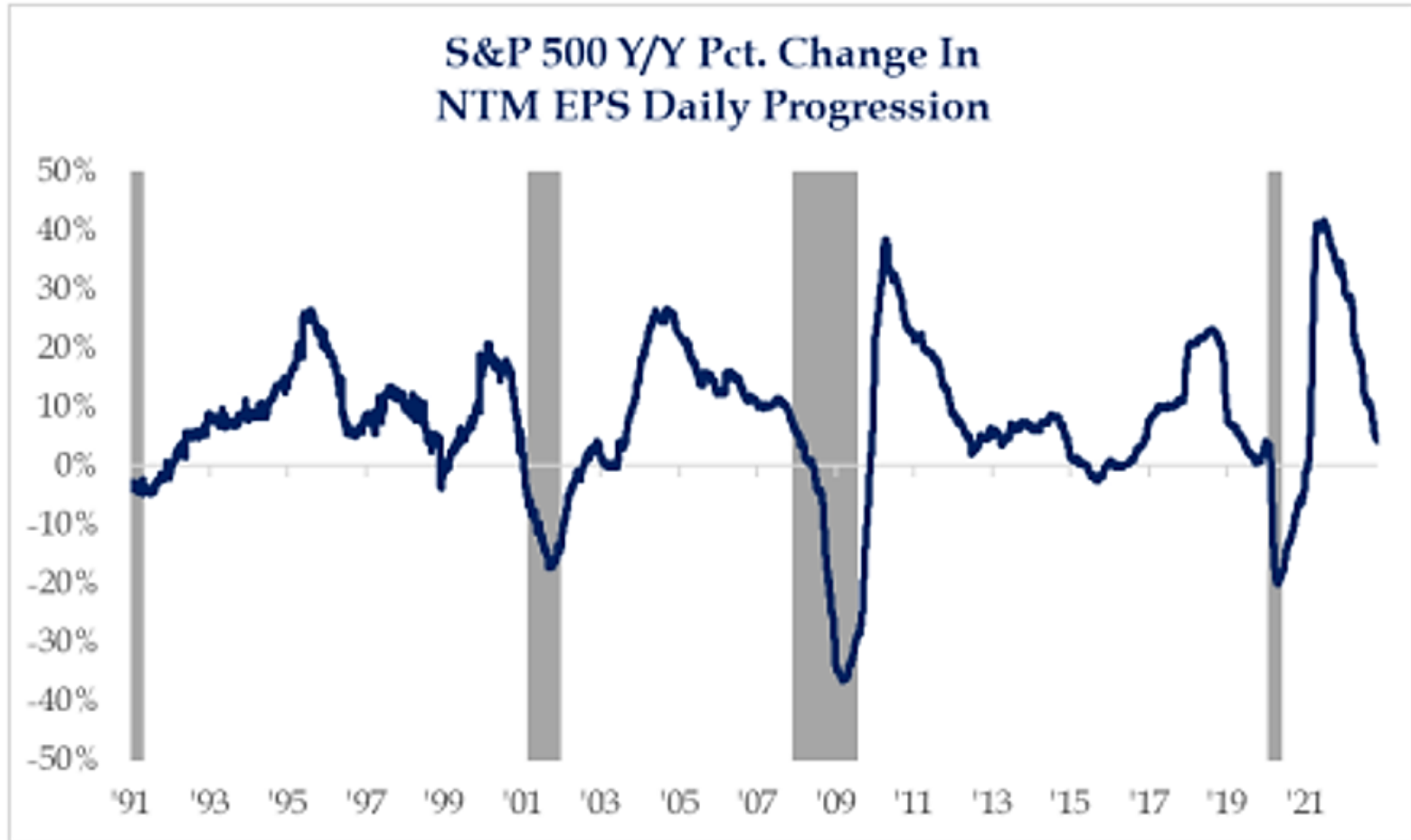


Source: Compustat, FactSet, Standard & Poor's, J.P.Morgan Asset Management.

Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from Standard & Poor's and FactSet Market Aggregates. *Earnings and multiple growth are both year-to-date percent changes of next 12-month estimates. Past performance is not indicative of future returns.

Guide to the Markets - U.S. Data are as of December 31, 2022.

2023 Corporate Earnings Recession?



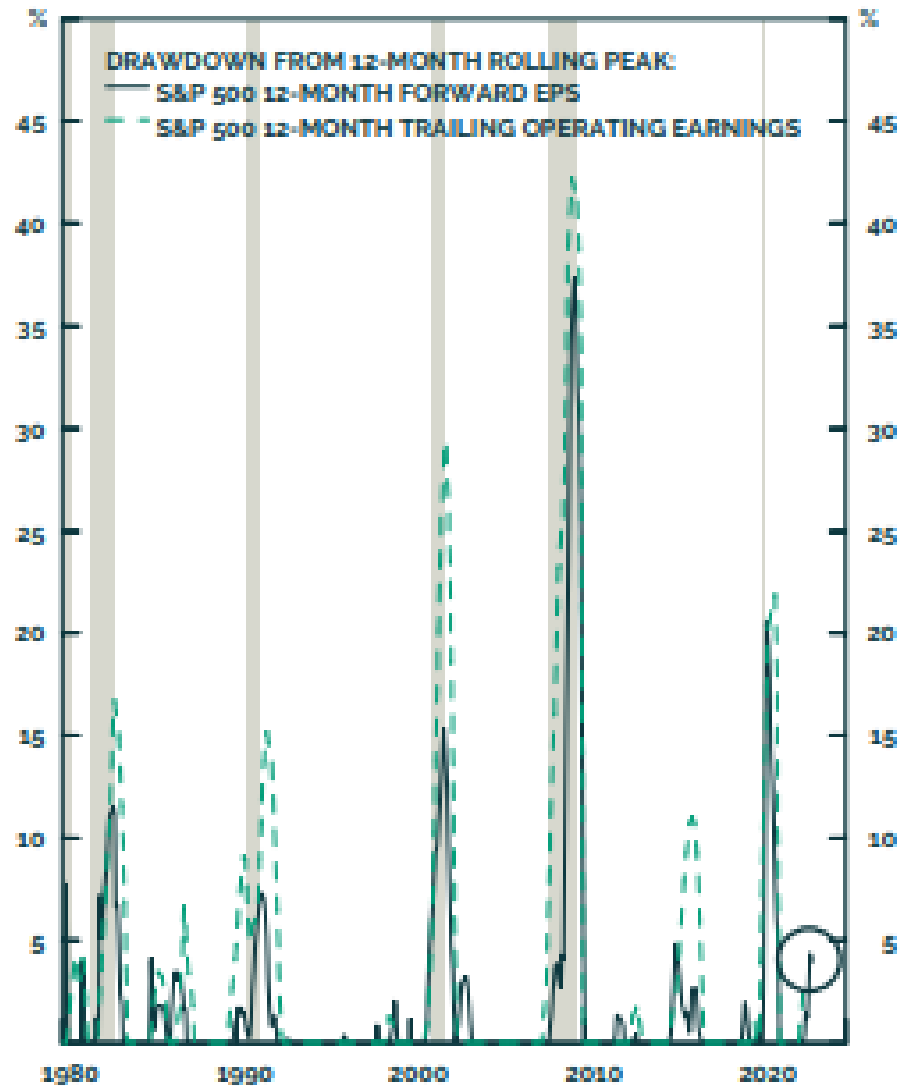
Source: Strategas, Daily Macro Brief – 12/12/22

Strategas: “While there are two instances over the last 30-years where it turns negative and the economy did not experience a recession, in each of the last four recessions negative NTM EPS growth was experienced.”

Have Stocks Priced In A Mild Recession?

BCA Research: “We doubt that this is the case in the US. First, while it is true that US 12-month forward earnings have declined this year, the decline that has occurred falls short of what typically occurs during a recession (See Chart). In addition, unlike what happened in the first half of the year, US equity multiples have not compressed in response to the surge in real 10-year government bond yields that has occurred since the summer.”

US Earnings Have Not Adjusted Enough To Be Consistent With A Recession



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Source: BCA Research: The Bank Credit Analyst – OUTLOOK 2023:
How Much More Pain?, December 2022

S&P 500 Index at Inflection Points

S&P 500 Price Index

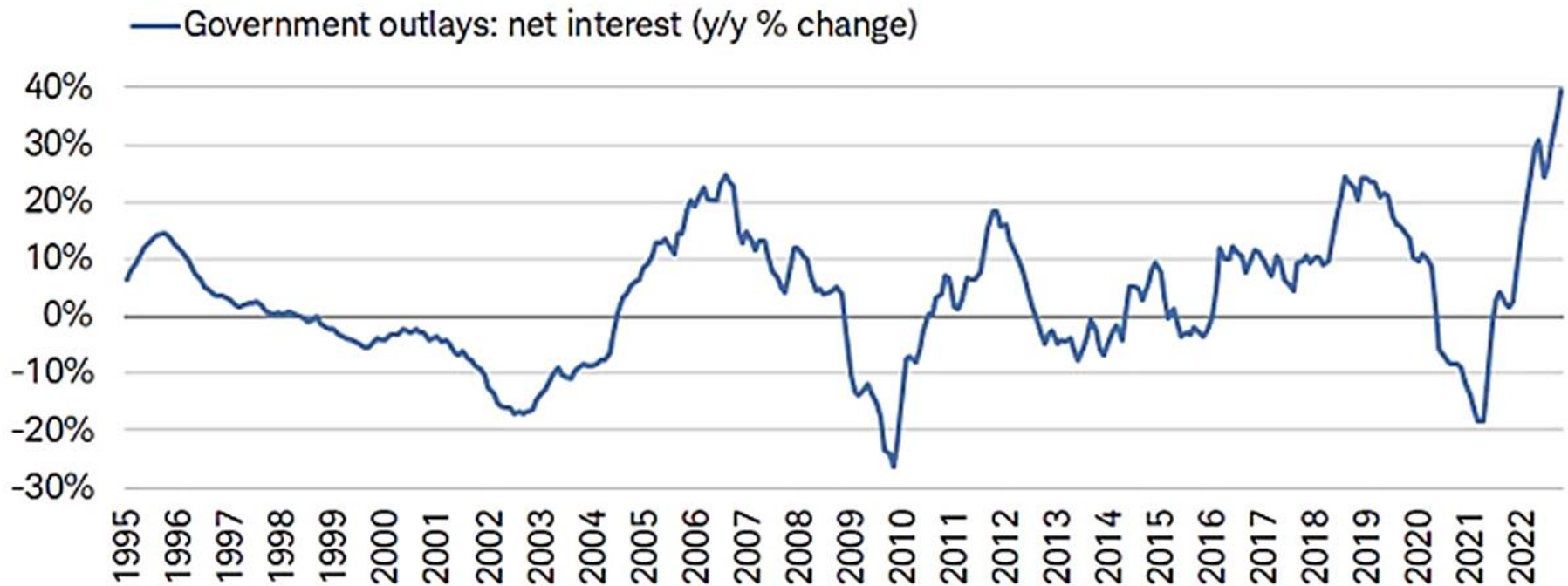


Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P.Morgan Asset Management.

Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. *Guide to the Markets – U.S.* Data are as of December 31, 2022.

Government Debt “Crowding Out” Issues Move Closer to a Real issue

Government's debt burden



Source: Charles Schwab, Bloomberg, as of 10/31/2022.

Starting Point Matters

Starting valuations and returns across time

S&P 500 Index trailing 12-month PE ratio	Average return		
	One year	Three years	Five years
Above 25x	5%	-2%	31%
15x to 25x	11%	37%	65%
Below 15x	17%	50%	93%

Source: BlackRock Fundamental Equities, with data from Bloomberg, 1957 to November 2022. Past performance is not indicative of current or future results. It is not possible to invest directly in an index.

Inflation's Impact on Valuation

Inflation vs. valuation				
CPI (y/y % change)	S&P 500 forward P/E			% of time
	Average	Lowest	Highest	
-2 to 0%	16.4	13.5	17.8	1%
0 to 2%	17.8	11.9	27.2	27%
2 to 4%	16.9	10.0	26.4	39%
4 to 6%	15.1	9.0	24.4	16%
6 to 8%	11.8	7.2	22.7	7%
8 to 10%	11.4	6.6	20.1	3%
10 to 12%	8.8	6.7	11.0	3%
Above 12%	8.0	6.8	9.4	2%

Source: Charles Schwab, Bloomberg, Standard & Poor's. 1958-10/31/2022. Numbers may not add up to 100% due to rounding.

Asset Class Return Projections

10-Year Asset Return Projections

	COMPOUND % RETURNS P.A.		
	THE PAST 2002-2022	THE FUTURE 2023-2033	PORTFOLIO WEIGHT
US EQUITIES	9.2	5.7	30
OTHER DEVELOPED EQUITIES	5.5	5.7	15
EM EQUITIES	9.5	6.3	5
10-YEAR TREASURIES	4.7	3.5	20
CORPORATE BONDS*	5.1	4.6	10
ALTERNATIVES**	8.6	7.6	20
TOTAL PORTFOLIO***	7.2	5.6	
US INFLATION	2.0	3.0	
TOTAL PORTFOLIO REAL RETURN	5.2	2.6	

* BASED ON MARKET CAP WEIGHTED AVERAGE OF INVESTMENT GRADE & HIGH YIELD RETURNS.

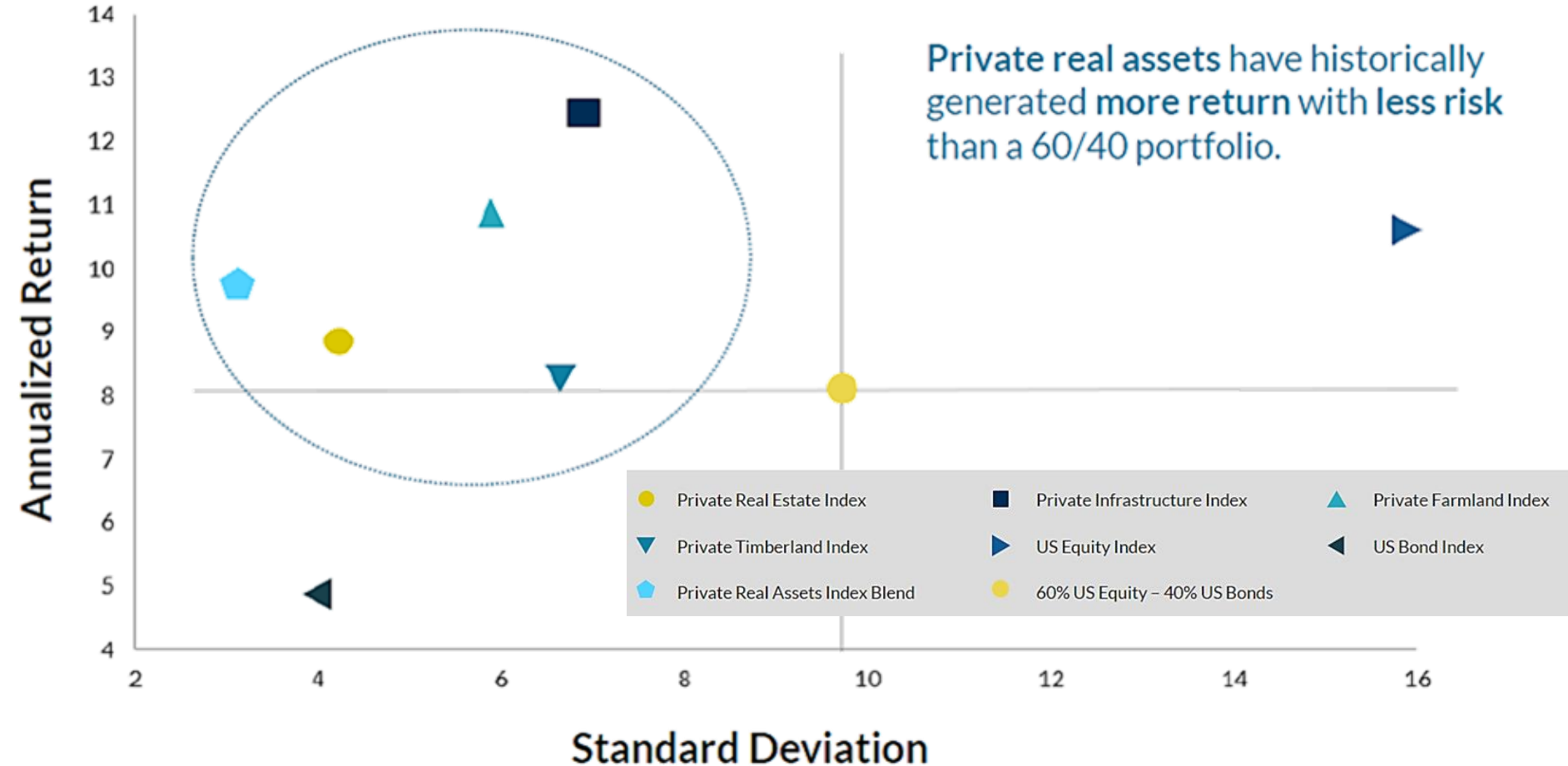
** BASED EQUALLY-WEIGHTED AVERAGE OF PE, VC, HEDGE FUNDS, DIRECT REAL ESTATE, US REITS, COMMODITIES, FARMLAND AND TIMBERLAND.

*** BASED ON WEIGHTS IN FINAL COLUMN.

NOTE: RETURNS IN LOCAL CURRENCY TERMS EXCEPT FOR GLOBAL INDEXES (US\$).

Source: BCA Research: The Bank Credit Analyst – OUTLOOK 2023: How Much More Pain?, December 2022

30-Year Training Risk-Reward Chart (6/30/1992 - 6/30/2022)



Source: Versus Capital Research, Morningstar Direct, NCREIF, JP Morgan, MSCI. Note: Pricing methodologies for private real assets indices and public market indices differ. Private real assets use a quarterly appraisal-based methodology while public indices use public market auction-based methodologies. The quarterly appraisal-based methodology of private real assets may result in a lack of price transparency as compared to public market indices. Private real assets investments may also have higher costs and less liquidity than the other investments represented. Past performance is no guarantee of future returns. See disclosure pages at end for index descriptions.

Strategas Asset Allocation

Strategas Recommended Asset Allocation (Dec'22)							
Equities			Bonds		Cash & Equivalents		Alternatives
Strategas	58%		34%		6%		2%
B'mark	MSCI ACWI 60%		Barclays Agg 38%		Cash 2%		N/A 0%
		M/M CHG		M/M CHG		M/M CHG	M/M CHG
	Domestic	36%	Core Credit	33%	Cash	4%	
	International	22%	Extended Credit*	1%	Gold	2%	Commodities 2%
		58%		34%		6%	2%
Overweight	US LC Value	14%			Cash	4%	Commodities 2%
	US MC Value	4%			Gold	2%	
	US SC Core	3%					
Neutral	EM AC Core	6%	ABS/CMBS	1%			
	US MC Growth	1%	US Dollar EMD*	1%			
			IG Corporates	11% -68bps			
Underweight	Dev AC Core	16%	U.S. Treasuries	13% +68bps			
	US LC Growth	8%	US MBS	9%			
	US LC Core	5%					
		58%		34%		6%	2%

^May not add due to rounding at the bottom of the table.

Source: Strategas – December Asset Allocation Update, 12.19.22

Potential Scenario Impact on Multiple Investing Areas

Bonds

(short-term versus intermediate, high-quality versus moderate quality)

Multi-Sector Funds

U.S. High-Quality Stocks *(growth versus value)*

U.S. Small Companies

Aggressive Growth Stocks *(robotics, AI, genomics, tech-enabled)*

International High-Quality Stocks

Potential Scenario Impact on Multiple Investing Areas

International Small and Emerging Market Stocks

Public REITS

Private Real Estate – low leverage

Private Real Estate – high leverage

Infrastructure / Agriculture / Timber

Gold

Potential Scenario Impact on Multiple Investing Areas

Commodities

Private Credit

Private Equity

Multi-Sector Private Equity

Venture Capital

SFG's Current Diversification Plan

- High-Quality Assets
- Consider Spot Hedging
- Growing Net Free Cash Flow over Three to Five Years
- Inflation Protection
- Overweight Low-Correlated Alternatives

Index Definitions

All Indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses. The volatility of the indexes could be materially different from that of a client's portfolio.

Equities:

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **Russell 2000 Index**[®] measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

Fixed income:

The **Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible.

The **Bloomberg Barclays U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). The index has an average maturity generally in the intermediate-term range (5-7 years). Provided the necessary inclusion rules are met, US Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986 with history backfilled to January 1, 1976.

The **Bloomberg Barclays Global High Yield Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the U.S. High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets subcomponents are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

Other asset classes:

The **Bloomberg Commodity Index** and related sub-indices are composed of futures contracts on physical commodities and represents 22 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

Index Definitions

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Versus Capital Research Slide Indices:

Private Real Assets Index Blend: represented by a 50% allocation to private real estate, and a 16.66% allocation each to private infrastructure, private timberland, and private farmland.

Private Real Estate: NCREIF Property Index (NPI) measures the appraised values of over 7,000 core commercial operating properties (apartment, hotel, industrial, office and retail) acquired on behalf of tax-exempt institutions and held in a fiduciary environment. Each property's return is weighted by its market value.

Private Infrastructure: JP Morgan OECD Core/Core+ Infrastructure: This modelled time series is representative of stable (core/core-plus) mature long-life infrastructure assets in OECD countries. The index was constructed from cash-flows of approximately 50 mature infrastructure assets in the U.S. and EU-15 countries selected from a broader pool of over 200 assets by omitting assets with significant construction, traffic, licensing risk and capex needs. JP Morgan then applied capital expenditure, maintenance and leverage assumptions using sector averages calculated on a rolling two-year basis at each quarter. Changes in discount rate were approximated using available data from the National Council of Real Estate Investment Fiduciaries (NCREIF) to arrive at estimated total returns. The following infrastructure asset types are represented in the dataset: Electricity Distribution, Natural Gas Distribution, Water and Waste Water Distribution, Ports, Airports and Toll Roads. MSCI Global Quarterly Infrastructure Asset Index measures the equity performance of infrastructure assets globally. Nine infrastructure asset owners contribute asset valuations for 123 individual infrastructure assets with a gross asset value of \$61 Billion. Returns are time weighted and currency movements are excluded from return metrics.

Private Farmland: The NCREIF Farmland Index is a quarterly time series composite return measure of investment performance of a large pool of individual farmland properties acquired in the private market for investment purposes only. All properties in the Farmland Index have been acquired, at least in part, on behalf of tax-exempt institutional investors -the great majority being pension funds. As such, all properties are held in a fiduciary environment.

Private Timberland: The NCREIF Timberland Index is a quarterly time series composite return measure of investment performance of a large pool of individual timber properties acquired in the private market for investment purposes only. All properties in the Timberland Index have been acquired, at least in part, on behalf of tax-exempt institutional investors -the great majority being pension funds. As such, all properties are held in a fiduciary environment.

S&P Real Assets Index: is designed to measure global property, infrastructure, commodities, and inflation-linked bonds using liquid and investable component indices that track public equities, fixed income and futures.

Index Definitions

All Indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses. The volatility of the indexes could be materially different from that of a client's portfolio.

Versus Capital Research Slide Indices (cont'd):

Real Estate Index is a custom blended index broadly covering the global real estate equity and debt securities markets. From 7/9/12 – 10/5/15 the blended index was composed of 80% Dow Jones Global Select Real Estate Securities Index and 20% BBgBarc IG REITs TR USD. From 10/6/15 – Forward the blended index is composed of 80% Dow Jones Global Select Real Estate Securities Index and 20% Dow Jones Global Select Real Estate Securities Corporate Bond Index.

Real Assets Index is a custom blended index broadly covering the global real assets equity, debt and commodity markets. The blended index is composed of: 26.67% Dow Jones Brookfield Global Infrastructure Composite Index, 10.00% S&P Global LargeMidCap Commodity and Resources Index, 3.33% S&P Global Timber & Forestry Index, 13.33% Dow Jones Commodity Index, 20.00% Dow Jones Brookfield Global Infrastructure Broad Market Corporate Bond Index, 20.00% S&P Global LargeMidCap Commodity and Resources Corporate Bond Index, 6.67% S&P Global Developed Sovereign Inflation-Linked Bond (USD Index).

US Equity – S&P 500 Index measures the performance of 500 widely held stocks in US equity market. Standard and Poor's chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid 1989, this composition has been more flexible and the number of issues in each sector has varied. It is market capitalization-weighted.

US Bonds – BBgBarc US Agg Bond Index is an unmanaged index representing more than 5,000 taxable government, investment-grade corporate and mortgage-backed securities, and is generally considered a barometer of the US bond market.

MSCI ACWI Index is a commonly followed equity index that captures large and mid cap representation across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries. With 2,844 constituents, the index covers approximately 85% of the global investable equity opportunity set.

US Fund Multistrategy Category (Morningstar) - these funds offer investors exposure to several different alternative investment tactics. Funds in this category have a majority of their assets exposed to alternative strategies. An investor's exposure to different tactics may change slightly over time in response to market movements. Funds in this category include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes. The gross short exposure is greater than 20%.



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