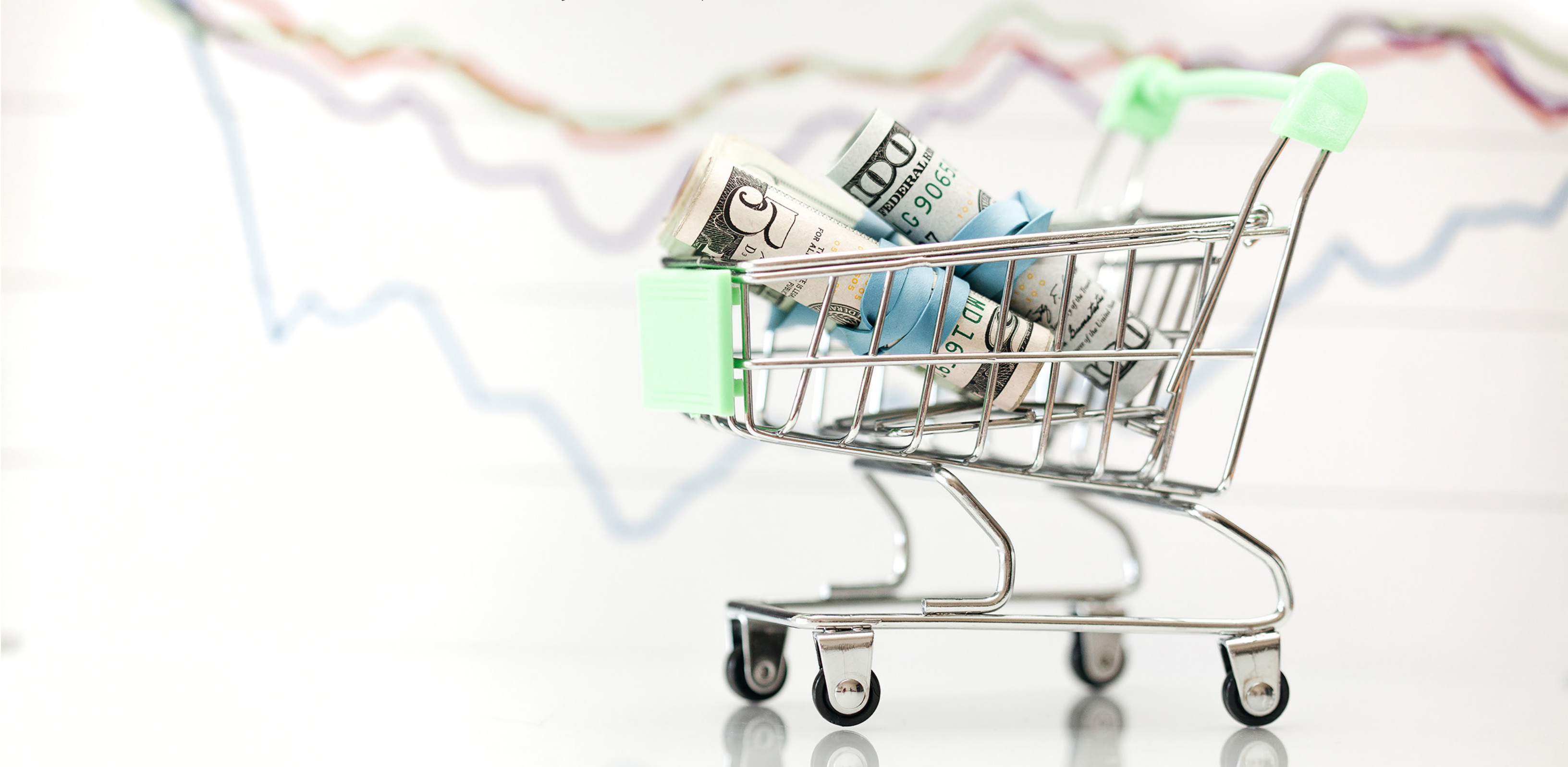
How you can position yourself **FOR SUCCESS** in 2023

After the most volatile year since the great financial crisis of 2009, investors, entrepreneurs, and executives are looking to position themselves in a better position for 2023. The U.S. stock market suffered its worst rout in decades with the S&P 500 falling more than 20% and the Nasdaq composite losing over a third of its value. The economy faced headwinds that made finding financing and keeping bottom lines up more difficult. Inflation, the war in Ukraine, and the synchronized raising of rates by the world's largest central banks caused many investors to turn to more traditionally safe assets like U.S. gov bonds and many even holding a majority cash portfolio. Though economists at Bank of America expect inflation to fall below 3% by the end of the years, **the impact of the Federal Reserve and their plans about the pace of interest rate hikes will be a crucial development to follow.**

Of all those macroeconomic headwinds, the US Federal Reserve policy has had the greatest impact in 2022 and will continue to be an important factor in which way the economy is headed. The Fed, led by Jerome Powell, has raised US interest rates to 4.25%-4.50%, the highest since 2007. With some much cheap money flowing through the economy in the form Covid-19 stimulus, inflation ran rampant and forced the Fed to raise the Federal Funds rate. As of January 2023, the raising of rates in the US has slowed inflation to about 6.7% which achieves getting inflation under control. However, the December 2022 jobs reports is still showing signs of



strength with job openings increasing to 11.0 million and 6.7 percent (US Bureau of Labor Statistics), respectively making the case for the Fed to keep raising rates until the labor market starts to weaken.

At the C. Peter McColough Series on International Economics, Council on Foreign Relations, New York, Fed Governor Christopher Waller noted

"The FOMC's goal in raising interest rates is to dampen demand and economic activity to support further reductions in inflation."

Waller also noted the Fed's intention to keep their foot on the peddle getting the labor market under control by forcing business to contract and cut costs. In order for the Federal Reserve to consider loosening interest rates, the economy has to contract more, and those signs are beginning to show. As of January 18, 2023, the yield curve on the 2-year and 10-year US Treasury Bill are inverted. A yield curve inversion, when rates for the 2-year Treasury notes rise above those for 10-year notes, has preceded every recession since the 1960s.

With so much economic uncertainty ahead, executives, investors and entrepreneurs should keep in mind that the likelihood for a moderate recession is fairly high. That does not mean businesses and investors cannot position themselves for success in the coming year. In order to weather an economic downturn and find opportunities to grow and preserve capital, **investors should keep in mind these ideas when deploying capital.**

- **Opportunities in the private markets**

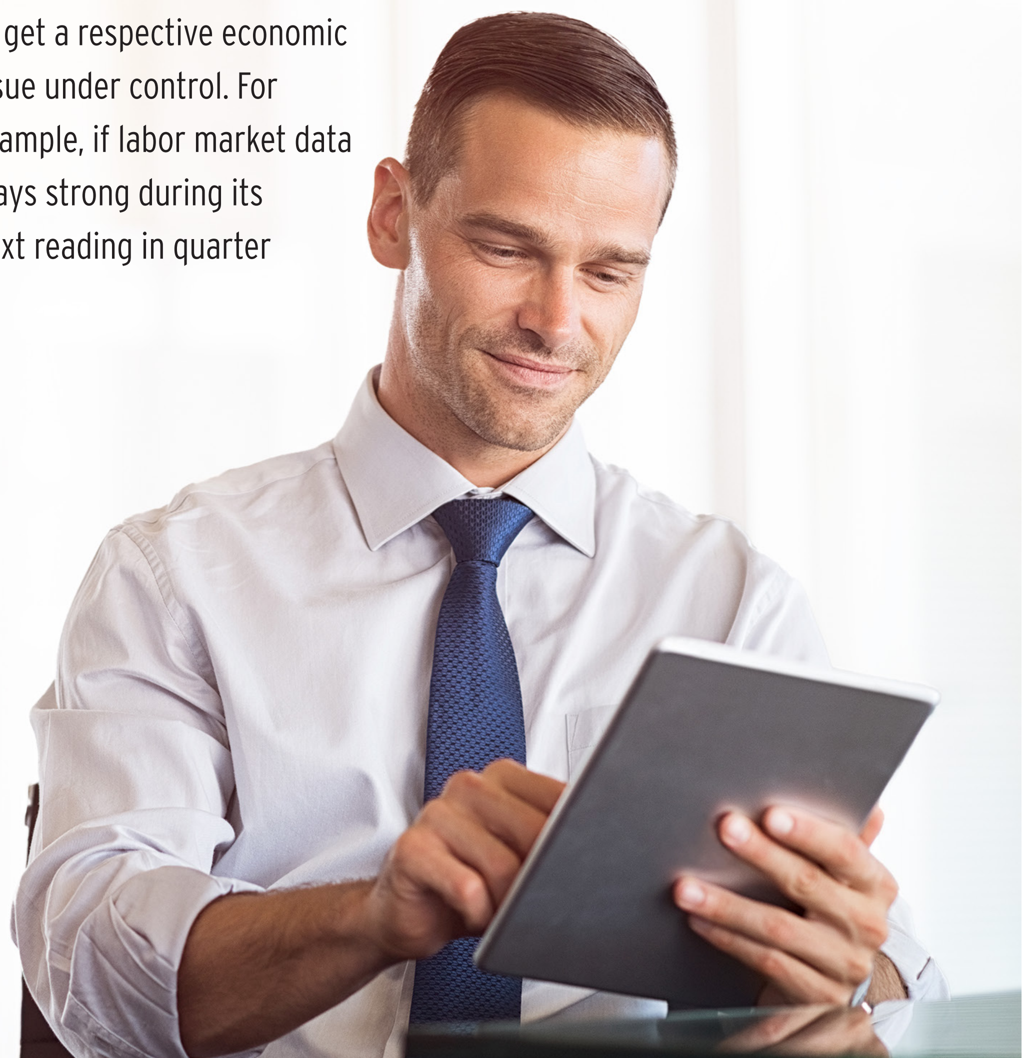
A new era of higher inflation, rates and volatility has roiled public markets, creating opportunities for upcoming vintages across private markets. Investments in high yield savings accounts, real estate, private equity, and other alternative investments can provide necessary hedging with a volatile economic backdrop. Investing capital with professionals is a prudent step in such uncertain times.

- **Diversification is key**

During economic cycles, certain industries perform better than others. When the economy is booming and interest rates are low, technology and communications sectors as well as more speculative investments do better. In times of financial hardship, industries such as healthcare, consumer staples, and utilities tend to perform better. Making sure investors and business owners have exposure to different kinds of assets that are uncorrelated are key. Diversifying in real estate, emerging markets, holding cash, or investing in non-cyclical industries can provide protection when the future is not certain.

- **Staying informed about updates with the Fed and other economic developments**

Following the market trends and economic developments can help investors and business owners make more informed decisions about their money. Listening to Jerome Powell speak after a raise in the interest rates or tracking labor market and inflation data usually provides color on which tool the Federal Reserve will use to get a respective economic issue under control. For example, if labor market data stays strong during its next reading in quarter two, the Fed will likely continue to keep rates high to allow the labor markets to cool off. Also keeping up with what's going on with large US tech companies, which are oftentimes an indicator of where the global economy is headed. In early 2023, Microsoft announced it intends to cut 10% of its workforce. Fellow tech giant Google said they plan to cut thousands of jobs. Staying on top of emerging news stories and



market trends will allow you to take control of money decisions.

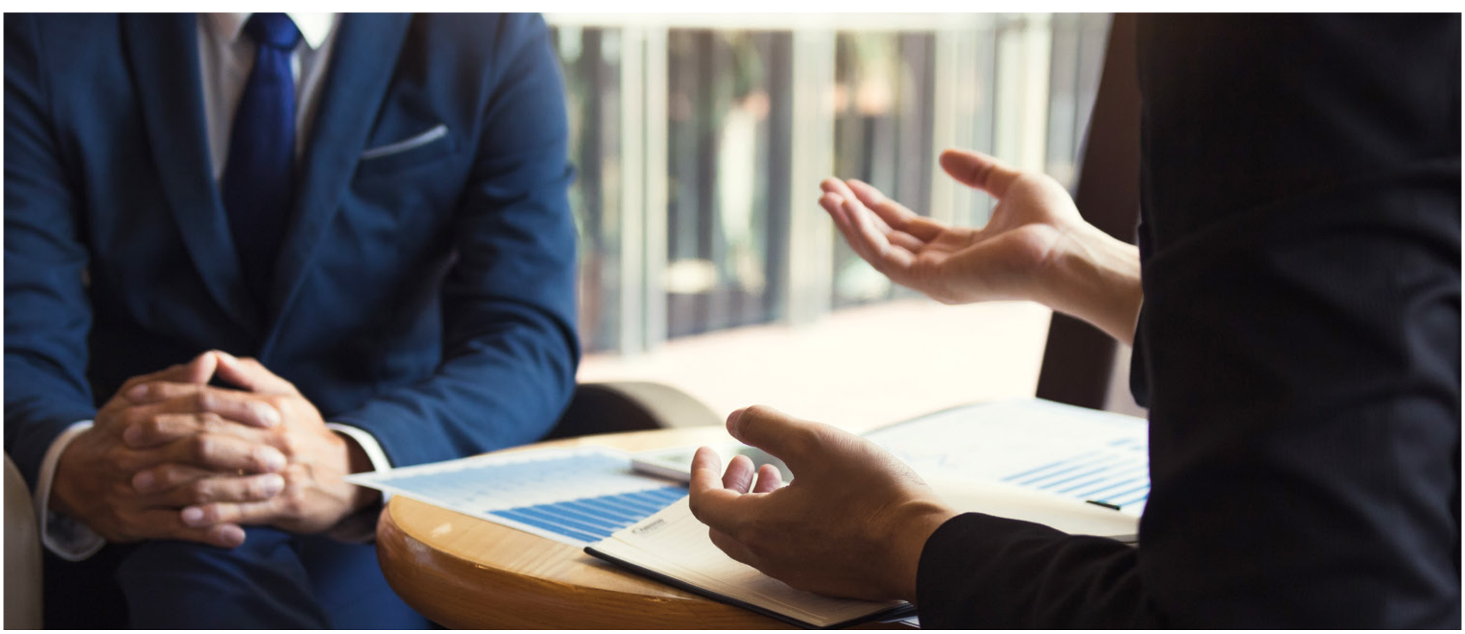
• Play defense. Worry about playing offense later

The two main inputs in valuing a company are #1 earnings and #2 inflation. Right now, inflation has taken center stage as an economic indicator. But, as a potential recession in the US begins to intensify, corporate earnings are likely to suffer. With that in mind, less profits mean lower valuations for companies. Fixed income and equity markets have been slow so far in anticipating the potential falloff in corporate profits. Capital investment will also be difficult considering borrowing rates are so high. With that in mind, companies may want to hold off on large capital investment projects and take on new, fixed-rate debt obligations.

• Consulting with professionals for a custom plan

Everyone has different investment theories, risk tolerance, and economic outlook. Consulting with experts to create a detailed and custom financial plan can be the difference between a profit and a loss. Tailoring a plan that fits your individual criteria will set you up for the most success. Allowing advisors to create personalized portfolios and advice backed by experience leads to smart investment decisions.

As 2023 begins, it is important that business owners and investors follow what the Federal Reserve, institutional investors, and large companies do. **Following trends in these respective categories can help anyone navigate the economic environment and find opportunity.**



Better yet, at **Davos Financial Group** you get a team of trusted financial professionals who provide custom plans tailored to your needs. Contact us to get the best financial outlook and market potential for you or your business.

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