THINK STRATEGICALLY: 2023 becomes a turning point, in life & investments

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2023 becomes a turning point in life and investments

If there were a time to get greedy and opportunistic with investments while seeking value and focusing on the mid to long-term, that would be now.

As 2023 arrived with 365 days of opportunities, let's define all you must know.

- To say that 2022 was full of roadblocks would be sugarcoating it. 2022 became the worst capital markets year since the Great Financial Crisis of 2008.
- Most investment portfolios faced out-of-control inflation and the most aggressive Federal Reserve Bank Interest rate increases since the 1980s, affecting sentiment and weighing on stock and bond prices.
- For those investors with well-defined financial goals or companies with balanced investment policies, it provided a real-life lesson on the benefits of staying focused on the financial goals or investment policies while creating increased opportunities for investors heading into 2023 and beyond.
- Also, the Higher interest rates have made the bond markets an attractive investment opportunity.

It will serve you to examine whether international stocks can enhance your diversification strategies. Diversifying across asset classes will allow you to manage risk while providing opportunities to position your investment portfolio during the year.

Nevertheless, even with these issues, we believe investors should take full advantage of performing an active asset rotation and making opportunistic buying as the market is full of great values, particularly the S&P 500 stocks that fell -19.44% and the Nasdaq Composite that fell -33.10%.

Do we need to predict the past?

For 2022 these are the results for the key indices:

- Dow Jones lost 3,191.05 points or 9.63% of its value.
- S&P 500 lost 926.68 points or 24.14% of its value.
- Nasdaq Composite lost 5,178.46 points or 49.48% of its value.
- Birling's Puerto Rico Stock Index lost 358.37 points or 14.22% of its value.

The year 2022 became the worst year since 2008, also known as The Great Financial Crisis.

Some of the market pain has carried on into 2023 as investors continue to feel somewhat pessimistic until four issues are solved.

1. High Inflation Pressures.
2. The Federal Reserve Bank pivots its aggressive interest rate campaign.
3. The U.S. economy avoids a recession.
4. The Russian-Ukraine War ends

While Stocks and bonds recaptured some losses in the fourth quarter of 2022, market volatility reappeared as multiple central banks drove up rates.

The broader results include the following:

- U.S. investment-grade bonds lost an unprecedented 13%.
- U.S. large-cap stocks lost close to 18%.
- International large-cap stocks lost 14.5%.

As hard as 2022 was, 2023 brings outsize opportunities for portfolios.

How to realize those opportunities in 2023

While as we have pointed out, high inflation and the aggressive interest rate campaign will continue to dominate the market's agenda.

In our view, before the second quarter of 2023 ends, we shall see less than 4% inflation; thus, we are much closer to the end of the rate cycle.

Volatility will likely continue in the short term, with a 38% recession probability. However, diversifying your investments can help level your portfolio's path with e key opportunistic investments.

Some investors have moved toward shorter-duration certificates of deposit (C.D.s) or U.S. Treasuries with a preference for the six months, which closed at 4.79% to the One-year note at 4.71%. These are two examples of placing your cash to work for you with little risk.

Also, with valuations much lower for International stocks than its peers in the U.S. stocks, we believe there are good values to be realized.

As inflation heads lower and the Fed finally pivots its rates campaign, the dollar will weaken somewhat, providing a much-needed lift for International stocks.

Remember that your financial goals must drive your investment strategy, with diversification across asset classes as your ally.

What about those Key opportunistic investment opportunities?

The critical opportunistic investment opportunities represent vital investment advice based on current market conditions with an outlook over one to two years. Incorporating this guidance into a well-diversified portfolio may enhance your potential for greater returns without taking on unintentional risk.

These are the cornerstones of our opportunistic portfolios:

1. **Equity diversification and Preferred Allocation**
    - U.S. large-cap stocks with 45%
    - international large-cap stocks 26%,
    - U.S. mid-cap stocks 15%,
    - U.S. small-cap stocks 7%,
    - Emerging-market stocks 4%,
      International small and mid-cap stocks 3%.
2. **Fixed-income diversification and Preferred Allocation:**
    - U.S. investment-grade bonds 76%,
    - U.S. high-yield bonds 11%,
    - International bonds 6%,
    - international high-yield bonds 4%,
    - Cash 3%.

Incorporating this allocation model into a well-diversified portfolio in the current market scenario may enhance your potential for greater returns without taking on unintentional risk.

The Final Word: A soft recession may surprise the U.S. economy during the first semester of 2023

The latest GDPNow estimate for the fourth quarter of the U.S. economy is currently a robust 3.80% GDP. While it does not show that a recession is there yet, if we examine other underlying data, there are some indications of both weakness and strength.

- Heather Boushey of the White House council of economic advisers believes the U.S. economy can achieve a "soft landing" due to President Biden's critical large-scale government investments.
- The housing market has seen an impactful effect of aggressive rate hikes.
- If a recession develops, we predict it will be less severe than in other periods, particularly 2008.
- The labor markets are better positioned than in other interest rate rising periods. The average unemployment rate before each recession was 5.2%. The labor market is strong, with unemployment at 3.50%, a fifty-year low.
- A robust economic expansion is expected to take shape in the second half of 2023.

In conclusion, Markets should expect quite a ride up; in recessions between 1970 and 2020, a new bull market began on average five months before the recession ended, with an average return of 49% in the first 12 months.

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