

# MONTHLY ECONOMIC UPDATE

December 2022

## MONTHLY QUOTE

*“A true investor welcomes volatility...a widely fluctuating market means that irrationally low prices will periodically be attached to solid businesses.”*

- Warren Buffett

## MONTHLY TIP

*Remember that a major life event may mean a change in your retirement, tax, or estate planning approach.*

## THE MONTH IN BRIEF

### ***U.S. Markets***

Stocks surged higher in November on rising optimism that the Fed would slow down future interest rate hikes.

The Dow Jones Industrial Average gained 5.67 percent, while the Standard & Poor’s 500 Index picked up 5.38 percent. The tech-heavy Nasdaq Composite rose 4.37 percent.<sup>1</sup>

### ***A Determined Fed***

As expected, the Federal Open Market Committee (FOMC) ended its November 1–2 meeting announcing its fourth consecutive 0.75 percentage point hike in federal funds. In the accompanying statement, the FOMC suggested a potential easing in subsequent rate hikes.

Stocks rallied on the news but did an abrupt reversal when Fed Chair Jerome Powell struck a much more hawkish tone in his post-meeting press conference. Losses accelerated into the following day, cementing a poor start to the new month.<sup>2</sup>

### ***Inflation Report***

The markets turned around the following week, however, when a lower-than-expected inflation report triggered the biggest one-day stock market gain in more than two years. The report revived hopes of a slowdown in the pace and size of future rate hikes. The tech-heavy Nasdaq gained 7.4 percent for the day.<sup>3</sup>

As the month progressed, public comments by Fed officials appeared to pour cold water on investors’ hopes. Despite these hawkish comments, stocks rallied during the holiday week and picked up momentum following the release of the FOMC meeting minutes the day before Thanksgiving.

### ***Powell Confirms***

The meeting minutes suggested that an imminent easing in rate hikes may be in the offing. The minutes revealed that most Fed officials felt a slowdown in the pace of rate hike increases was appropriate. Fed officials pointed to the growing risk that the Fed may increase rates beyond what was required to reduce inflation.

Stocks surged higher to close out the month after comments by Powell that the Fed was prepared to ease up on coming rate hikes.

### ***Sector Scorecard***

All 11 industry sectors were positive for the month, with gains in Communications Services (+6.85 percent), Consumer Staples (+6.12 percent), Energy (+1.28 percent), Financials (+6.86 percent), Health Care (+4.72 percent), Industrials (+7.81 percent), Materials (+11.70 percent), Real Estate (+6.83 percent), and Utilities (+6.96 percent). Elsewhere, Consumer Discretionary rose 1.49 percent and Technology added 6.33 percent.<sup>4</sup>

### ***What Investors May Be Talking About in December***

In the month ahead, the financial markets will again focus on the Fed as it concludes its two-day meeting on December 14. November's 0.75% increase in the federal funds rate marked the fourth consecutive 75 basis points hike since June.

Inflation appears to be trending lower, and the job market is showing signs of cooling, which may help influence the Fed's decision. The Fed has prepared the financial markets for its next move, so it's unlikely to change course.<sup>5</sup>

## **New Retirement Contribution Limits for 2023**

*Near-record levels.*

The Internal Revenue Service has released new limits for the coming year. After months of high inflation and financial uncertainty, some of these cost-of-living-based adjustments have reached near-record levels.

**Individual Retirement Accounts (IRAs).** IRA contribution limits are up \$500 in 2023 to \$6,500. Catch-up contributions for those over age 50 remain at \$1,000, bringing the total limit to \$7,500.

**Roth IRAs.** The income phase-out range for Roth IRA contributions increases to \$138,000-\$153,000 for single filers and heads of household, a \$9,000 increase. For married couples filing jointly, phase-out will be \$218,000 to \$228,000, a \$14,000 increase. Married individuals filing separately see their phase-out range remain at \$0-10,000.

**Workplace Retirement Accounts.** Those with 401(k), 403(b), 457 plans, and similar accounts will see a \$2,000 increase for 2023, the limit rising to \$22,500. Those aged 50 and older will now have the ability to contribute an extra \$7,500, bringing their total limit to \$30,000.

**SIMPLE Accounts.** A \$1,500 increase in limits for 2023 gives individuals contributing to this incentive match plan a \$15,500 stop light. **Other Changes.** In addition to changes in contributions limits, the IRS also announced several other changes for 2023, including an increase to the annual exclusion for gifts to \$17,000 per person and an increase to the estate tax exclusion threshold.

Keep in mind that this update is for informational purposes only, so consult with your tax professional before making any changes in anticipation of the new 2023 levels. You can also contact your trusted financial professional, and they can provide you with information about the pending changes.

### ***The Fed***

The Federal Reserve announced a 0.75 percent rate hike in federal funds at the conclusion of its two-day November meeting of the Federal Open Market Committee (FOMC). In the statement accompanying the announcement, the FOMC said that future rate increases would take into account the cumulative monetary tightening to date and the lag in the impacts resulting from such tightening.

In his post-meeting press conference, Fed Chair Powell added that it was too soon to consider any slowdown in the pace of rate hikes and that the terminal rate may be higher than originally expected.<sup>6</sup>

In the November meeting minutes released just before Thanksgiving, Fed officials indicated that they were likely to slow the pace of rate hikes soon, suggesting that such slowing may begin with December's meeting.<sup>7</sup>

**MARKET INDEX****Y-T-D CHANGE****November 2022**

DJIA	-4.81%	5.67%
NASDAQ	-26.70%	4.37%
S&P 500	-14.39%	5.38%

**BOND YIELD****Y-T-D****November 2022**

10 YR TREASURY	2.14%	3.65%
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Sources: Yahoo Finance, November 30, 2022.

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