BIONDO PERSPECTIVES

FOURTH QUARTER REVIEW

Scott A. Goginsky, CFA

Happy New Year! The stock market ended a difficult 2022 on a negative note, as the Dow Jones Industrial Average, S&P 500, and Nasdaq Composite all closed lower on the last day of the year. This marked the end of the worst year for stocks since 2008, with all three major indices suffering their worst year since 2008, and ending a three-year winning streak. The Dow fared the best, down 8.8%, while the S&P 500 dropped 19.4% and the Nasdaq tumbled 33.1%. Factors such as "sticky" inflation, aggressive rate hikes from the Federal Reserve, and geopolitical concerns weighed on investor sentiment throughout the year.

2022 was a difficult year for both professional and individual investors in the economy and financial markets, as there were few safe places to invest, aside from cash, energy stocks, and certain commodities. This was due to the long-term effects of quantitative easing, a central banking strategy that led to inflation in financial assets and a preference for financiers over savers. The Federal Reserve attempted to combat inflation by raising interest rates, which resulted in a significant re-rating of stocks and a potential recession in 2023. However, there were also opportunities amidst the challenges. Supply chains improved, COVID-19 cases declined in the United States, and prices for key raw materials fell sharply from their post-war highs.

While inflation was the biggest story of 2022, there are significant signs that it may be cooling. The US Consumer Price Index (CPI) fell 0.1% in December, meeting expectations, for the biggest drop since April 2020. One of the most notable trends in 2022 was the sudden shift in prices for key inputs like gasoline, crude oil, and wheat. These commodities all saw prices surge by at least 50% in the first half of the year, only to decline by at least 36% in the second half. This trend, known as a "roundtrip," suggests that prices may continue to fall in 2023.

The December employment report showed strong but slowing job growth, with 223,000 jobs added and the unemployment rate falling to 3.469%. This is a positive sign for the labor market, but the pace of job creation is expected to slow in the coming months. Additionally, the report showed a greater-than-expected slowdown in wage gains, with average hourly wages increasing 4.6% on an annual basis, which is less than the 5% economists expected. The report sparked a stock market rally to start the new year, and encouraged investors who hope slower wage inflation means the Federal Reserve will not have to continue raising interest rates. Economists disagree, however, on whether this will lead to a soft landing for the economy, with some warning of a potential shallow recession.

This debate over tight labor markets and other "stickier" components of inflation may lead to long-term interest rates remaining elevated for longer than the market would like. **The transition from quantitative easing to quantitative tightening is expected to have a significant impact on monetary policy and business models.** Companies that can increase cash flows organically are expected to fare better in this new era. The Fed is not likely to pivot to easier monetary policy until the labor market cools, and interest rates are positive in real terms. Investors should be patient, and remember that during a previous market downturn, there were several counter-trend rallies.

As we look ahead to 2023, it is important to prepare for the possibility of a sideways, volatile market. While no one can predict the future with certainty, there are several factors that may contribute to choppiness in the coming year.

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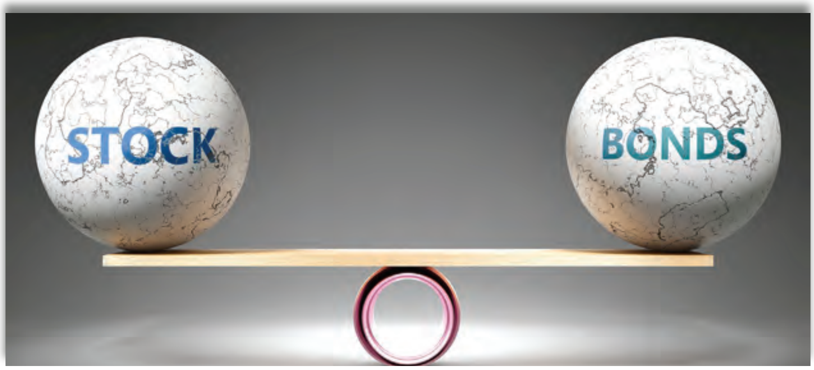


One of the major risks on the horizon is the potential for declining earnings. With estimates coming down and an increasing number of companies seeing earnings downgrades, there is a growing consensus that earnings have peaked. This could be a temporary slowdown within a broader earnings growth cycle, as has happened in the past. However, there is one key indicator that suggests this slowdown may be more significant - the yield curve.

Normally, the yield curve is upward sloping, with higher yields for longer-term bonds and lower yields for shorter-term bonds. However, in the lead-up to a recession, this relationship often flips, with short-term rates higher than long-term rates. This is known as an "inverted" yield curve, and it is often seen as a sign of a coming recession. The yield curve is currently inverted to a degree that has not been seen since the early 1980s. While it is possible to try to explain away this signal, it is worth noting that it is now inverted, regardless of how you slice or define the yield curve.

If a recession does occur, it could lead to a prolonged period of declining earnings. Historically, stock prices have bottomed out well ahead of earnings, with a recovery starting around two quarters before earnings begin to recover. However, if an earnings decline persists throughout 2023, it could mean that the bear market will also stick around through the end of 2023, and the recent low in October will not end up holding as the low point for this bear market.

Another risk that could contribute to market choppiness is the potential for the Federal Reserve to stay the course with interest rate increases. Currently, the market is expecting the Fed to raise the federal funds rate to around 5%, and then start cutting rates almost immediately, bringing them down to around 3% in 2024. Fed Chairman Powell has indicated, however, that the Fed may stay in the restrictive zone for some time, and the Fed's recent "dot plot" shows that most FOMC members expect to maintain a relatively high interest rate environment in the coming years.

Higher interest rates can make it more difficult for companies to borrow and invest, which can slow down economic growth and lead to lower earnings. Additionally, higher interest rates can make bonds more attractive to investors, leading to outflows from equities and putting downward pressure on stock prices.

While these risks may seem daunting, it is important to remember that the market has faced challenges in the past and has always found a way to recover. **First and foremost, it is important to remember that much of the bad news is already priced into the market.** While there may be more negative developments to come, it can be argued that the market has already factored in many of the worst-case scenarios.

Additionally, there are opportunities to be found, even in a choppy market. When it comes to bear markets, everything tends to go bad all at once. We have seen this in the current market, with all sectors, both large- and small-cap stocks, and both domestic and international indexes suffering similarly. This means that there are opportunities to be found across the board, and not just in one specific area.

With interest rates higher than they were a year ago, bonds may provide better support to investors' portfolios in 2023 than they did in the past year. Additionally, quality companies that can survive a recession, and even thrive by extending their competitive advantages, may be a good investment opportunity. Value stocks, which have historically performed well during rising rates or falling markets, may also be worth considering.

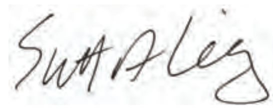
The heavy sell-off in technology stocks over the past year has created a buying opportunity for those willing to take a long-term view. The digital transformation of businesses is still in its early stages, and technology companies that are at the forefront of this trend will be well-positioned for future growth.

Small-cap stocks also present an interesting opportunity for investors. These stocks are often hit hard during economic downturns, but for patient investors, small-cap stocks can provide strong returns as the economy recovers. Currently, small caps look pretty cheap, selling at an average price to earnings ratio (P/E) of 12.5x, offering solid long-term potential.

Some of the important technical indicators that we incorporate into our investment strategies are also providing reason for optimism as we begin 2023. Specifically, money flow analysis – which measures stock price action on a volume-weighted basis – has been trending in a positive manner since June of last year. Divergences in money flow trends can help identify major turning points in markets, and have been historically reliable as a leading indicator. Thus, while price trends have yet to turn positive, there are signals below the surface that suggest a more favorable environment for investors ahead.

As always, we will continue to focus on our long-term investment strategy, and will not be swayed by short-term market fluctuations. We are confident that by staying disciplined and remaining patient, we will be able to identify and capitalize on opportunities as they arise. We strongly encourage you to take advantage of all the capabilities that our firm brings to bear, which will help you to live with increased financial confidence.

Please feel free to reach out to us to review your personal situation, so we can ensure that we have built your portfolio to accommodate your various needs, and address any concerns that you may have. We appreciate the opportunity to serve you, and appreciate the trust and confidence that you have placed in our firm.



Scott A. Goginsky, CFA
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Sources: Index returns, CPI, Employment report – CNBC; 2023 outlook – Fidelity; Commodity prices – FSI Insight; Bear markets – WSJ; P/E ratio - Bloomberg

Protect Yourself From Identity Theft

Karl A. Wagner, III
Partner, Senior Wealth Advisor

Biondo Investment Advisors recently hosted an educational event focusing on simple and effective ways our clients can protect themselves from cybercriminals. The keynote speaker, Gary Rossi, is a 14-year veteran of the FBI and now heads up the Security Services group at Fidelity Investments. Gary stated, “What most people have regarding identity theft is a strategy of hope. They hope that it never happens to them.”

The following are some simple, yet effective ways to protect you and your family from the predators that are out there, on a daily basis, attempting to take your identity and, more importantly, your hard-earned assets.

1. Two-factor authentication. This is the process in which a text or call is sent after the initial log-in to verify you are who you say you are. Two-factor authentication adds an additional layer of security, and makes it much more difficult for the bad guys to gain access to your accounts. Unauthorized users will be unable to meet the second authentication requirement, and will generally move on to another account that does not have this in place. Set up two-factor authentication on all of your financial, banking, cell phone and email accounts.

2. Use strong, unique passwords for the accounts listed above and do not use these same passwords across other accounts. Also, consider using a password manager; learn more at: www.cnet.com/how-to/best-password-manager/.

3. Use anti-virus software and a firewall to protect your home and portable devices from malware and unauthorized access. These tools can help prevent malicious software from infiltrating your computer and causing harm.

4. Consider freezing your credit on the three major agencies: Equifax, Transunion and Experian. A credit freeze means you — or others — won’t be able to open a new credit account while the freeze is in place. You can temporarily lift the credit freeze if you need to apply for new credit.

5. Finally, secure access to your social media accounts and utilize all privacy settings available within those platforms. Most of them do offer two-factor authentication.

These strategies are ones that we recommend the entire family complete, to create consistency of practice and implementation. Unfortunately, cybercriminals may already possess your personal information, but taking these measures will greatly reduce your risk of being a victim of identity theft.

We have additional resources available here at Biondo Investment Advisors regarding this topic. Please reach out to your Wealth Advisor if you are interested in learning more. As always, we strive to be the resource for your entire financial well-being and we thank you for your continued trust and confidence in us.

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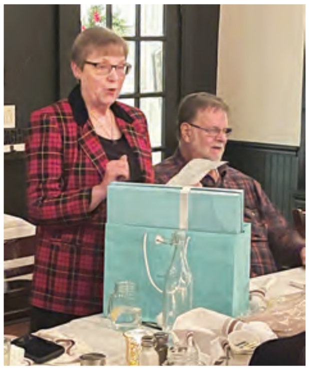

Nancy Retires...

After 17 years of loyalty, dedication and commitment to Biondo Investment Advisors LLC, Nancy Conklin ended 2022 with her retirement!

She has been an integral member of our Team and we are all grateful for the comradery, and friendships built throughout those years. How fortunate are we all to have had a colleague that it makes it so bittersweet to say, “so long,” to!

Thank you, Nancy for the service, smiles, laughs and everlasting memories.

We know you all join us in wishing Nancy a very healthy, happy and enjoyable retirement as she starts this new chapter in life with her family.

A Warm Welcome to Our New Team Member Dina!

We would like to formally introduce Dina Van Auken, for those of you who have not yet had the pleasure of speaking with or meeting her.

Dina joined Biondo Investment Advisors in October 2022 as Administrative Associate. She enjoys being part of a firm that is focused on nurturing client goals and relationships, as well as having the opportunity to promote an encouraging work environment.

Dina is responsible for welcoming clients and guests, answering and directing calls, maintaining schedules and calendars, and many other administrative office duties.

Dina’s extensive experience in varied administrative positions over the years has honed her organizational and communication skills that translate well in her current role.

In her spare time, as a native of the Milford area, Dina enjoys having as much time as possible outdoors, gardening, hiking, and kayaking. She also delights in spending time with family, especially her two adult children, when they are visiting at home.

Congratulations Sharon!

Please join us in congratulating Sharon Smith on her promotion to Director of Administration and Finance.

Sharon joined the firm in August 2020 as an Administrative Associate. She successfully handled many administrative office duties and helped to maintain organization within the firm, while demonstrating great professionalism and initiative.

We thank Sharon for her dedication and commitment to our firm, and proudly acknowledge this professional achievement.

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