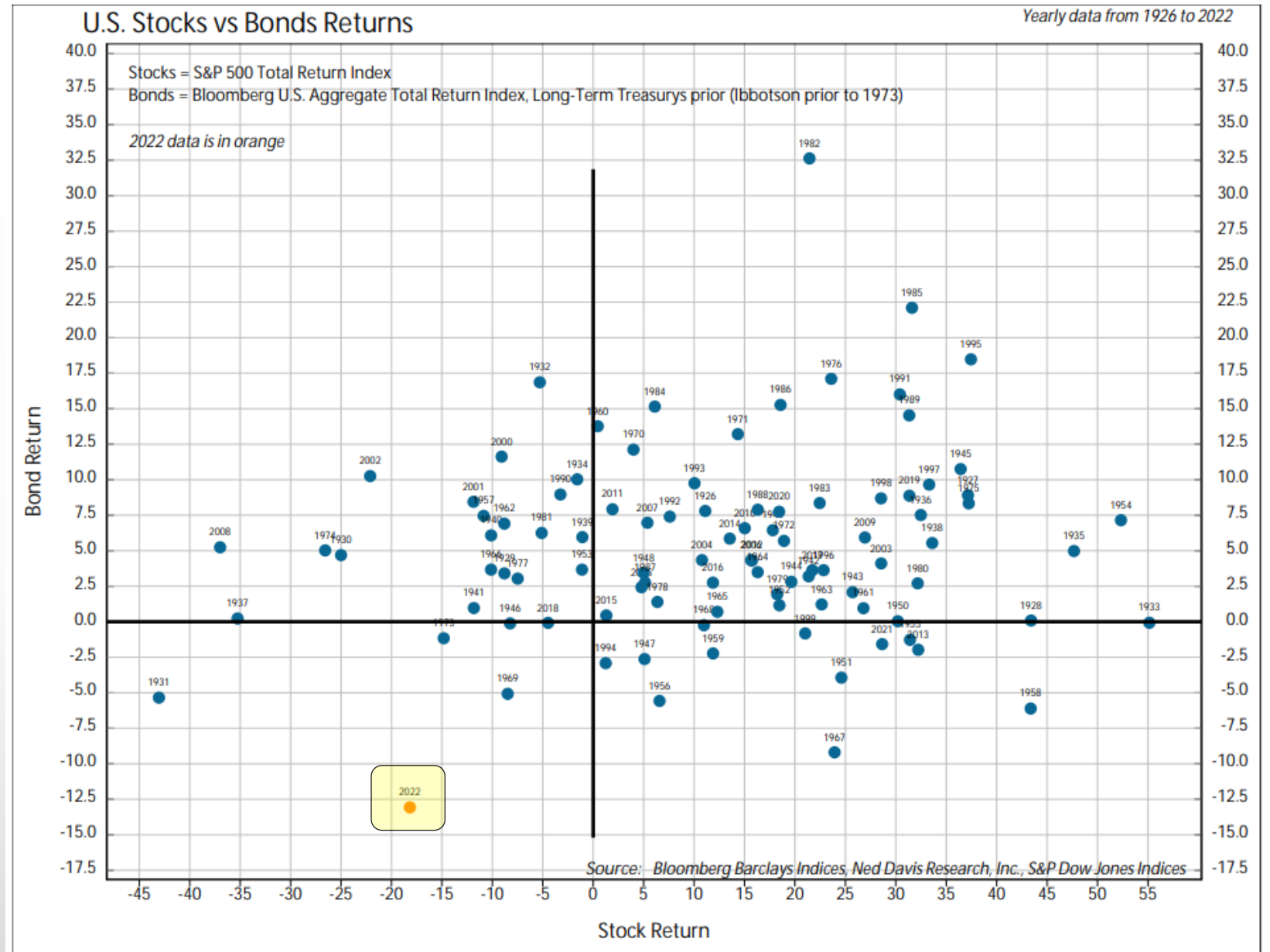


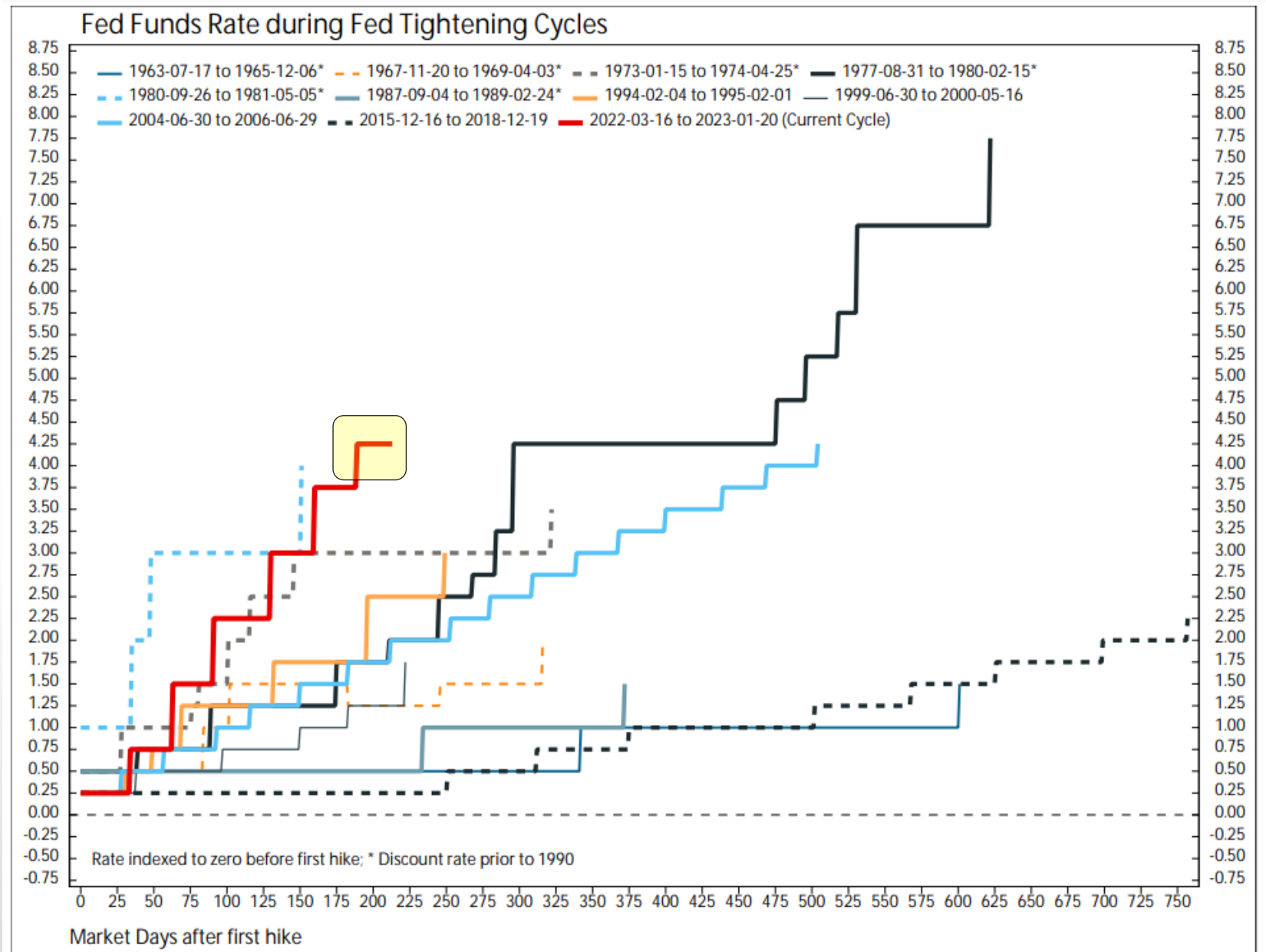


**BWM Investment Strategy  
2023 Outlook  
A Hard or Soft Landing?**

Stocks and bonds  
down 10%+ for  
first time ever



Fastest pace of  
tightening since  
the 80's



B0590E



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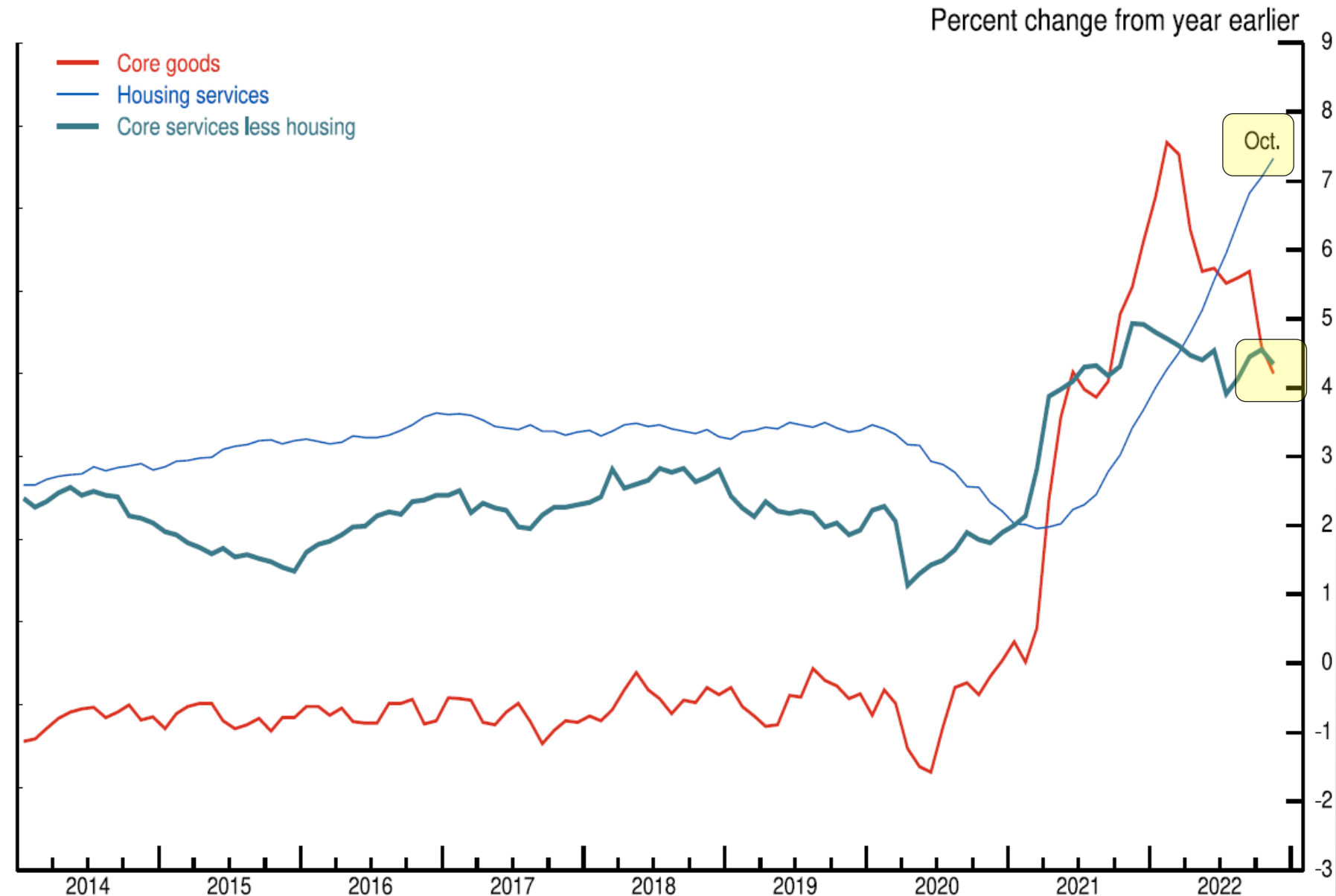
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# Components of PCE Inflation

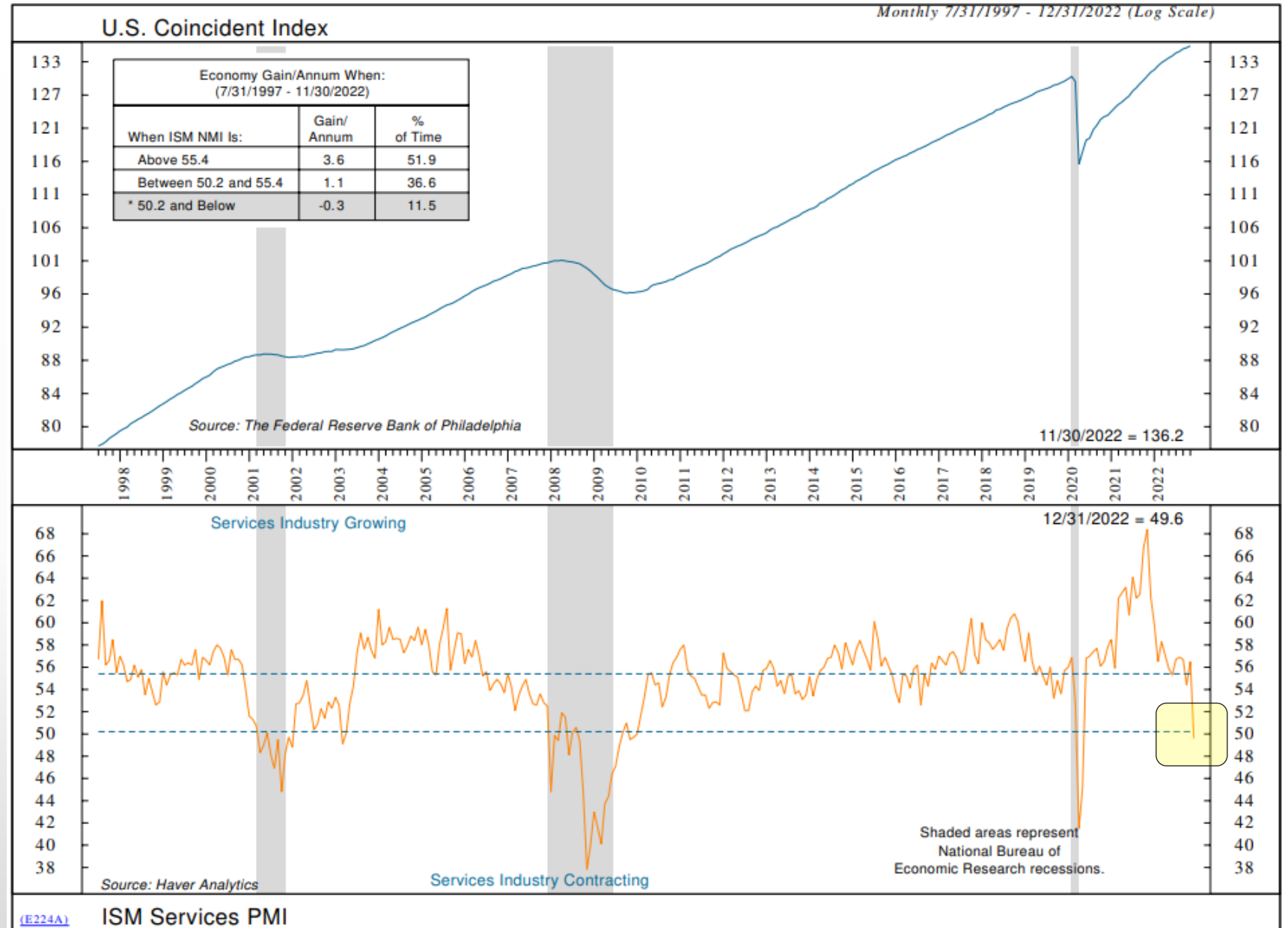
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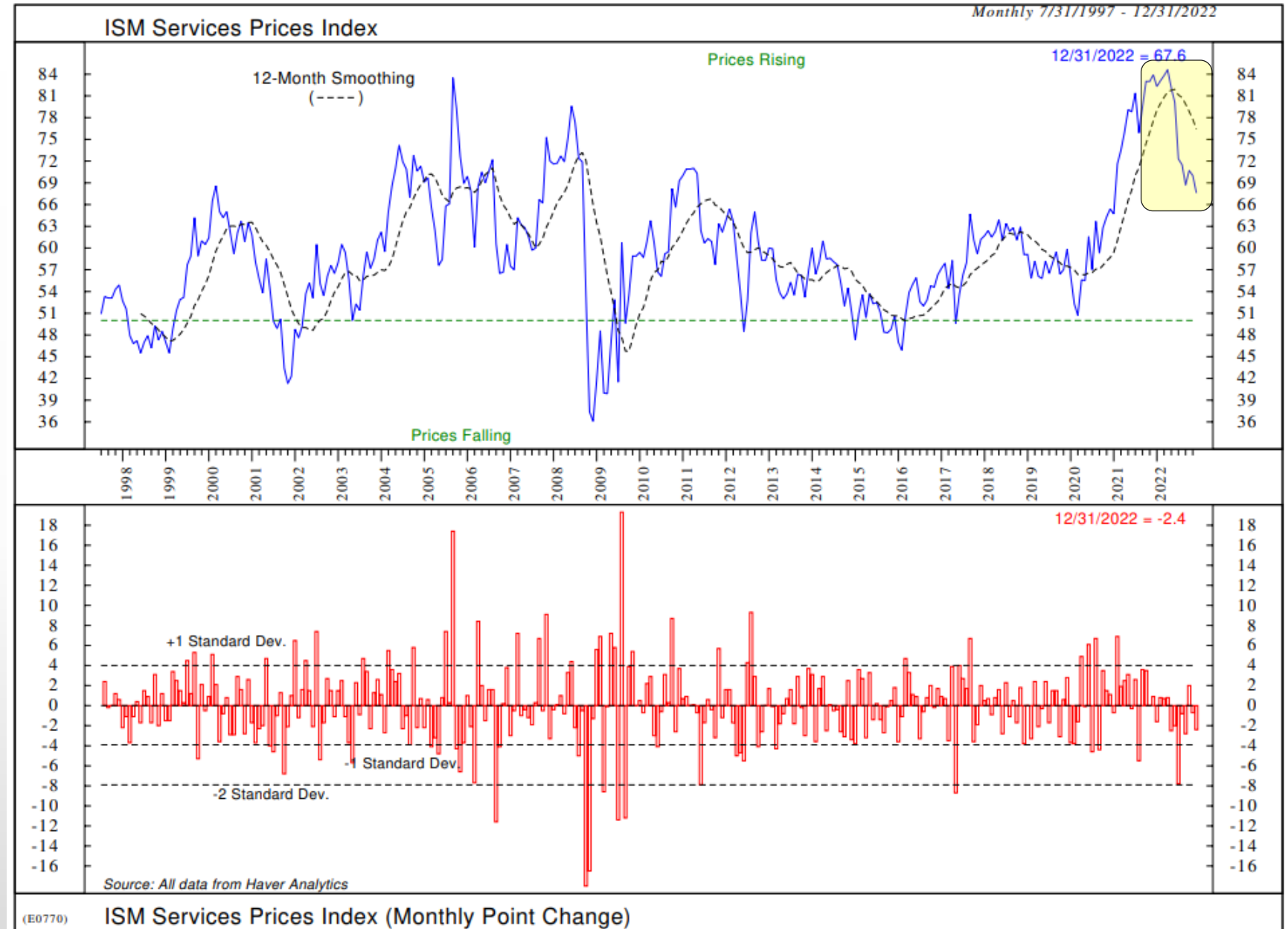
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Contraction in  
services should  
help prices

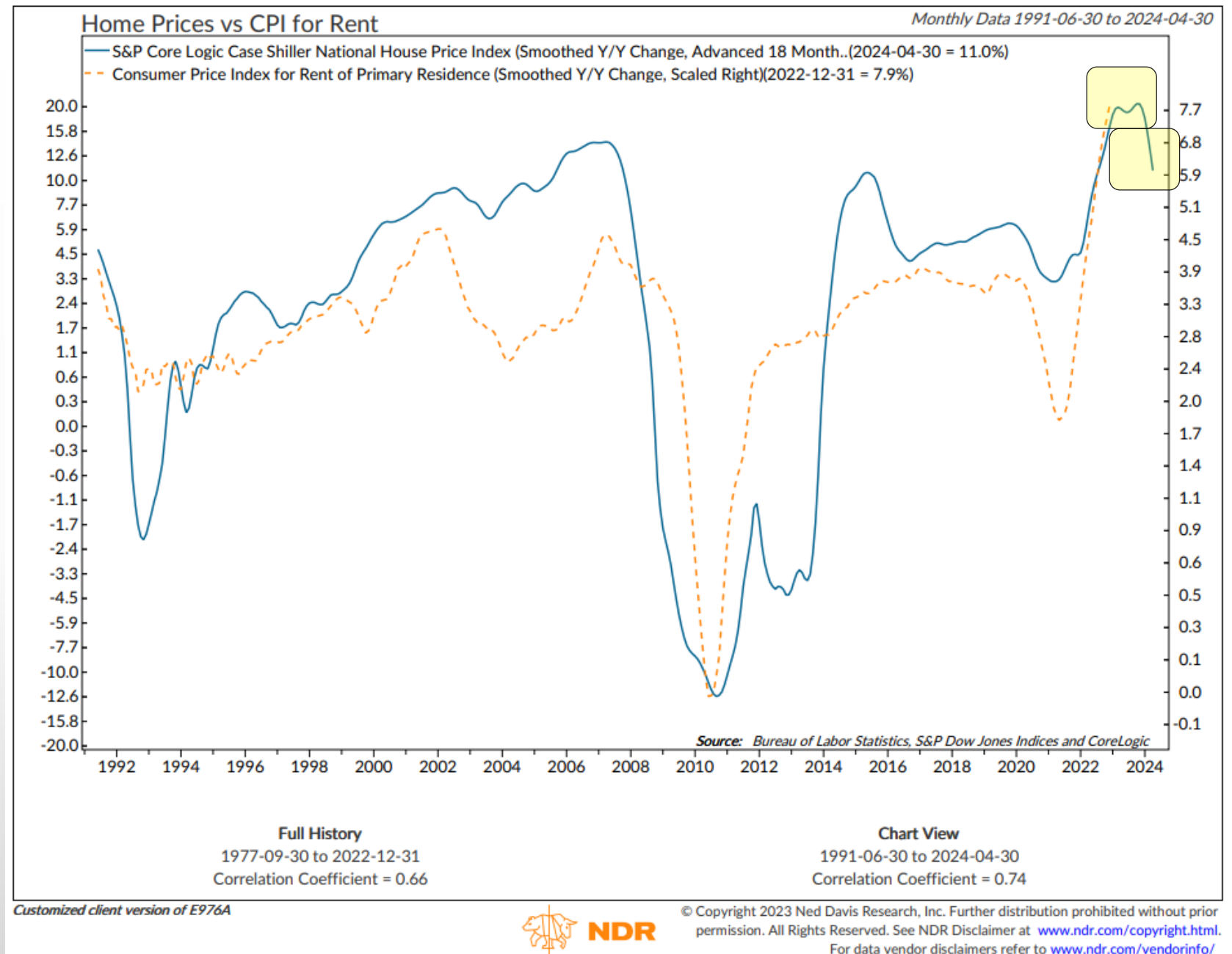


As we are seeing  
signs of it now..

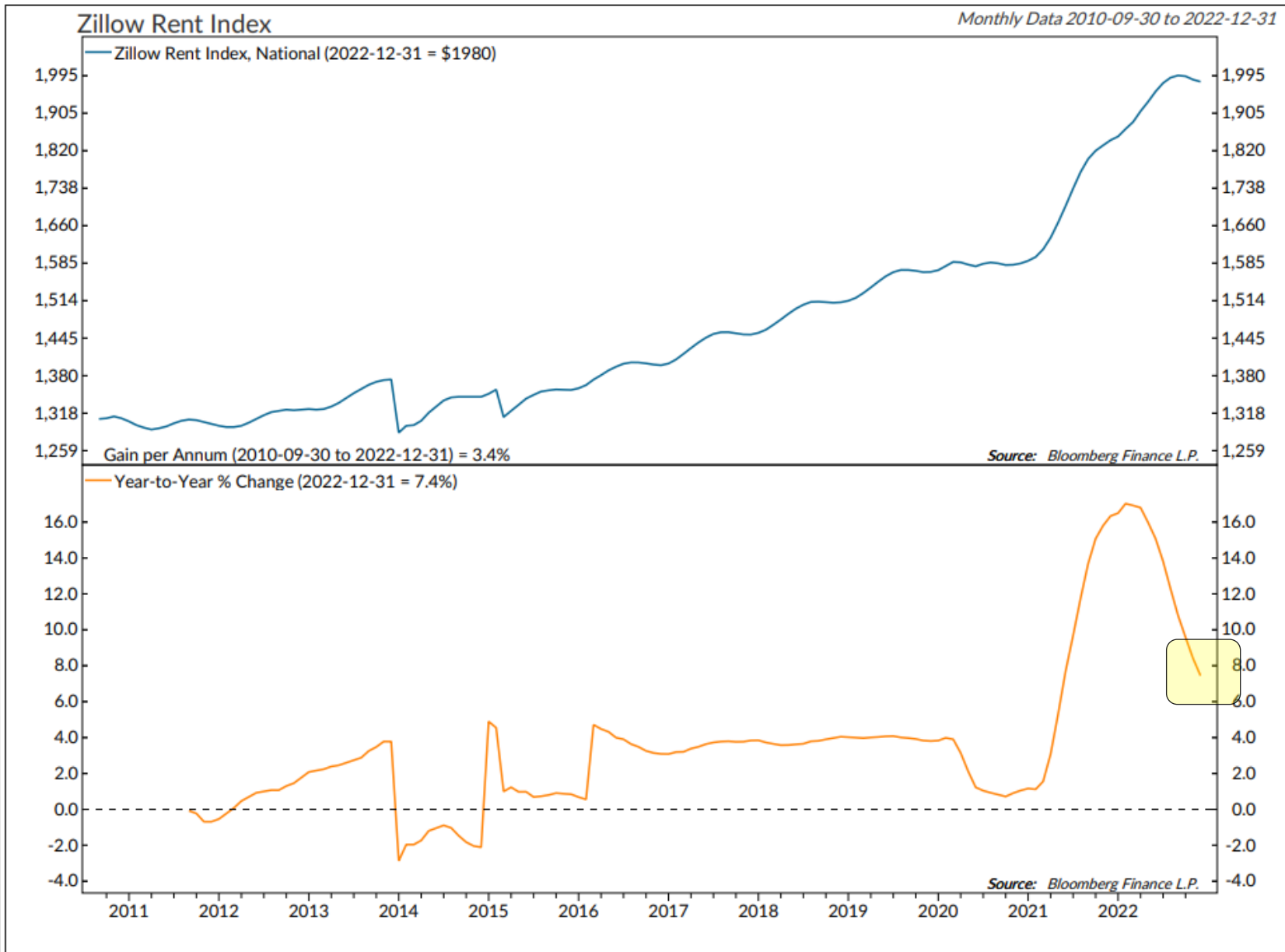


# Falling home prices leading indicator of falling rents

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Rate of rent  
increases  
dropping  
dramatically



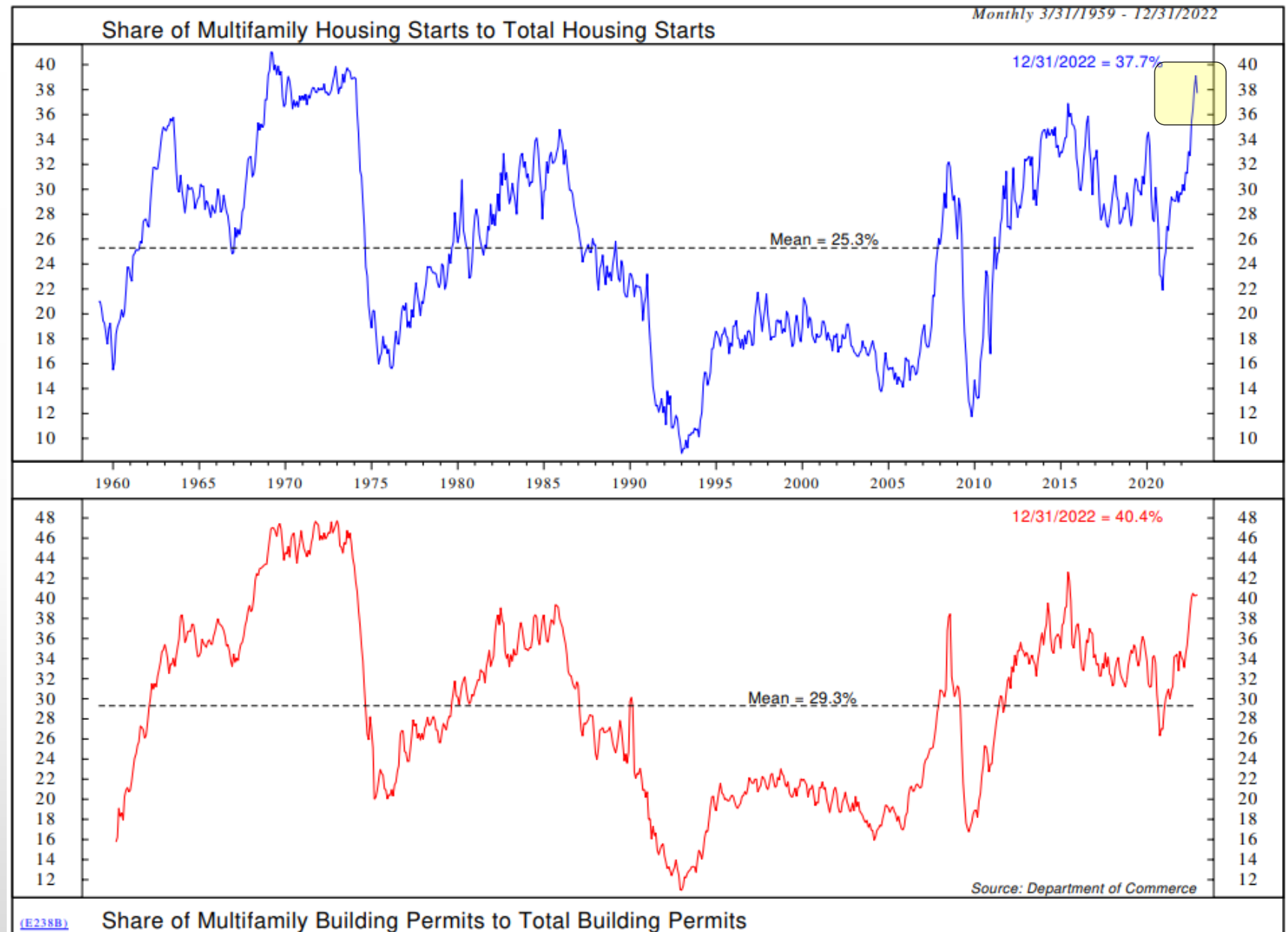
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More supply  
should help as  
well

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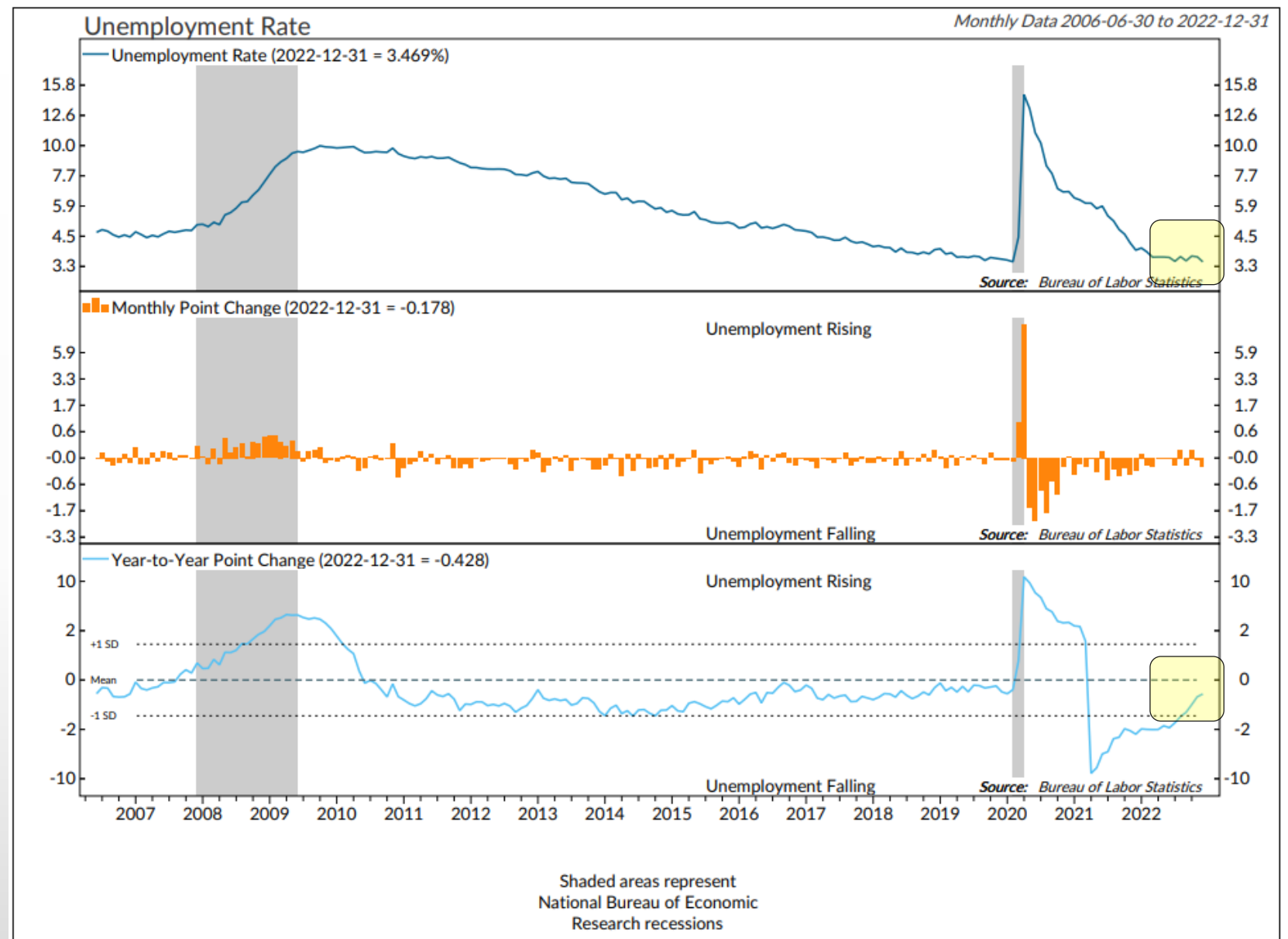


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# Should the Fed target the unemployment rate

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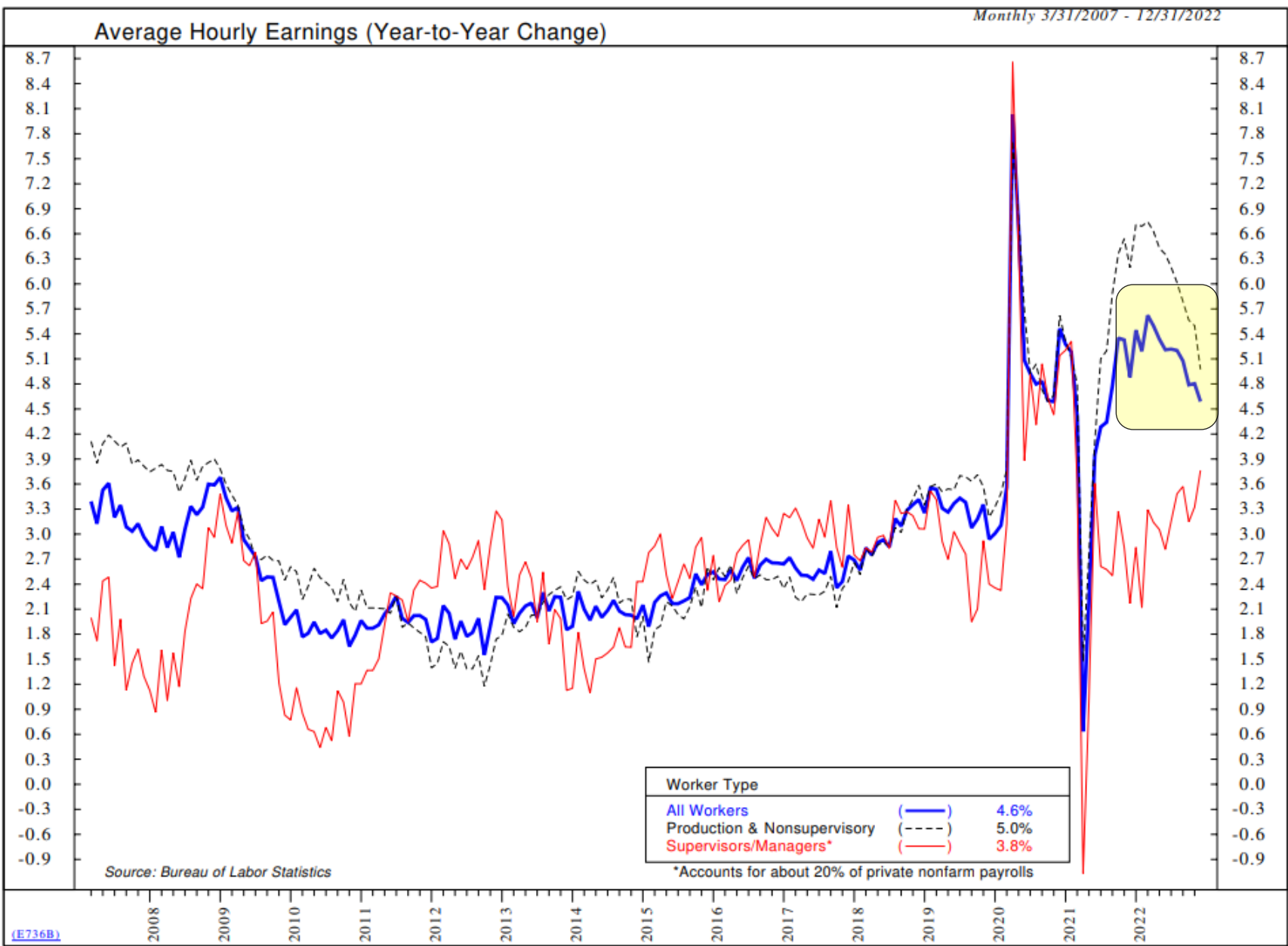
Customized client version of E102B



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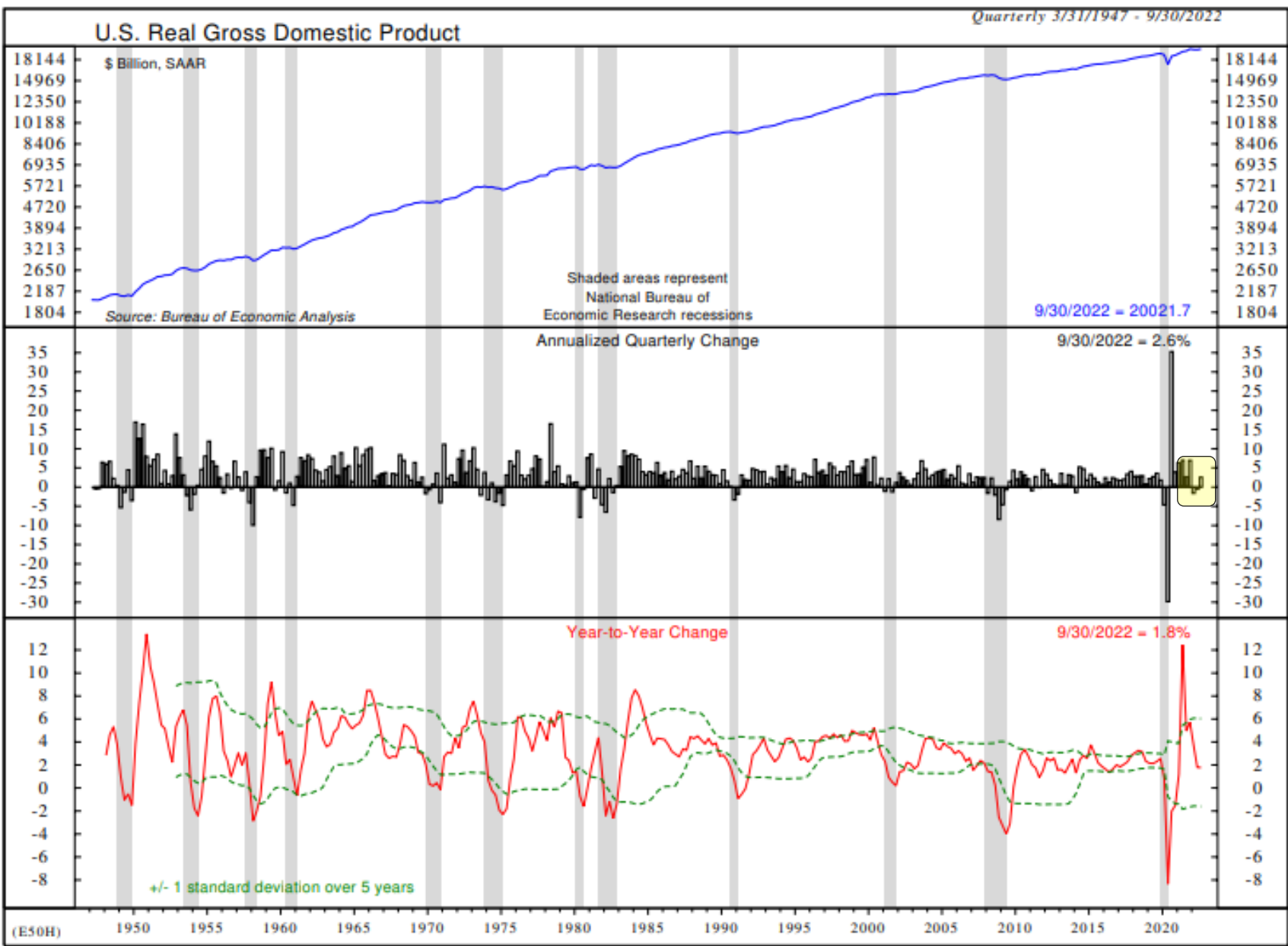
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Or average  
hourly earnings?



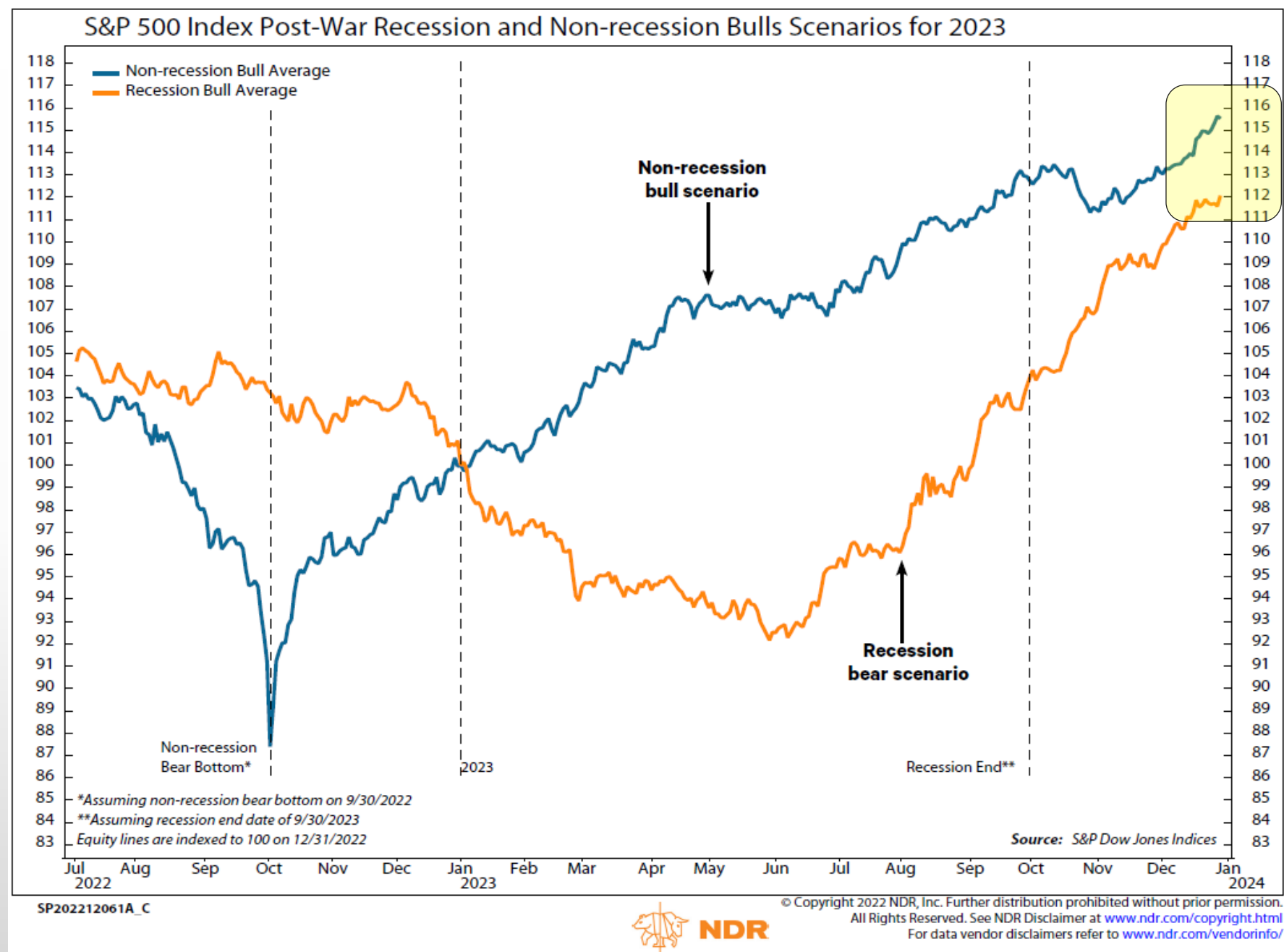
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NBER fails to call  
recession despite  
2 quarters  
negative GDP  
growth



2023 Recession  
likely creates  
another buying  
opportunity but  
could end in  
same place..

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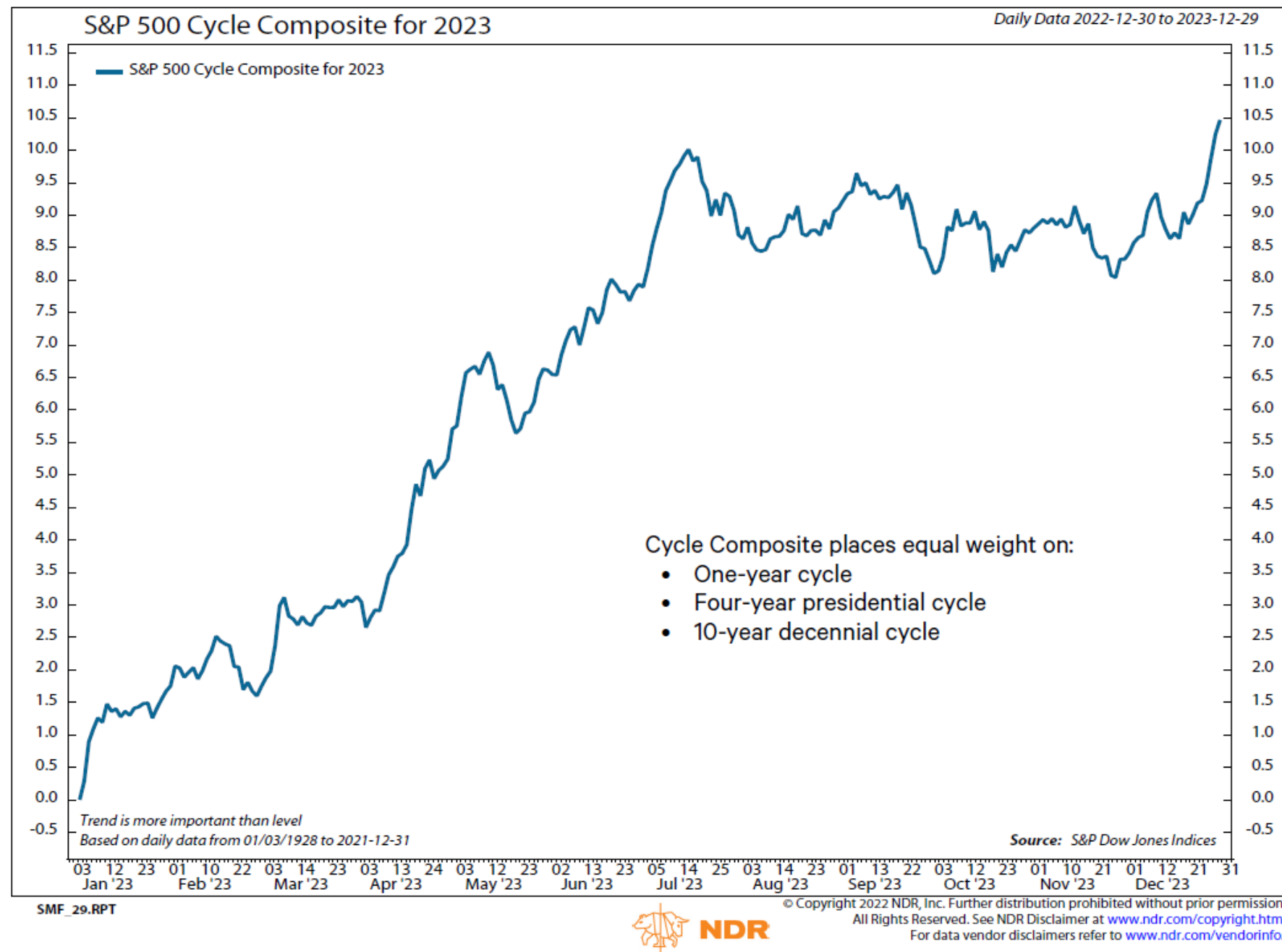


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# 2023 Cycle composite positive

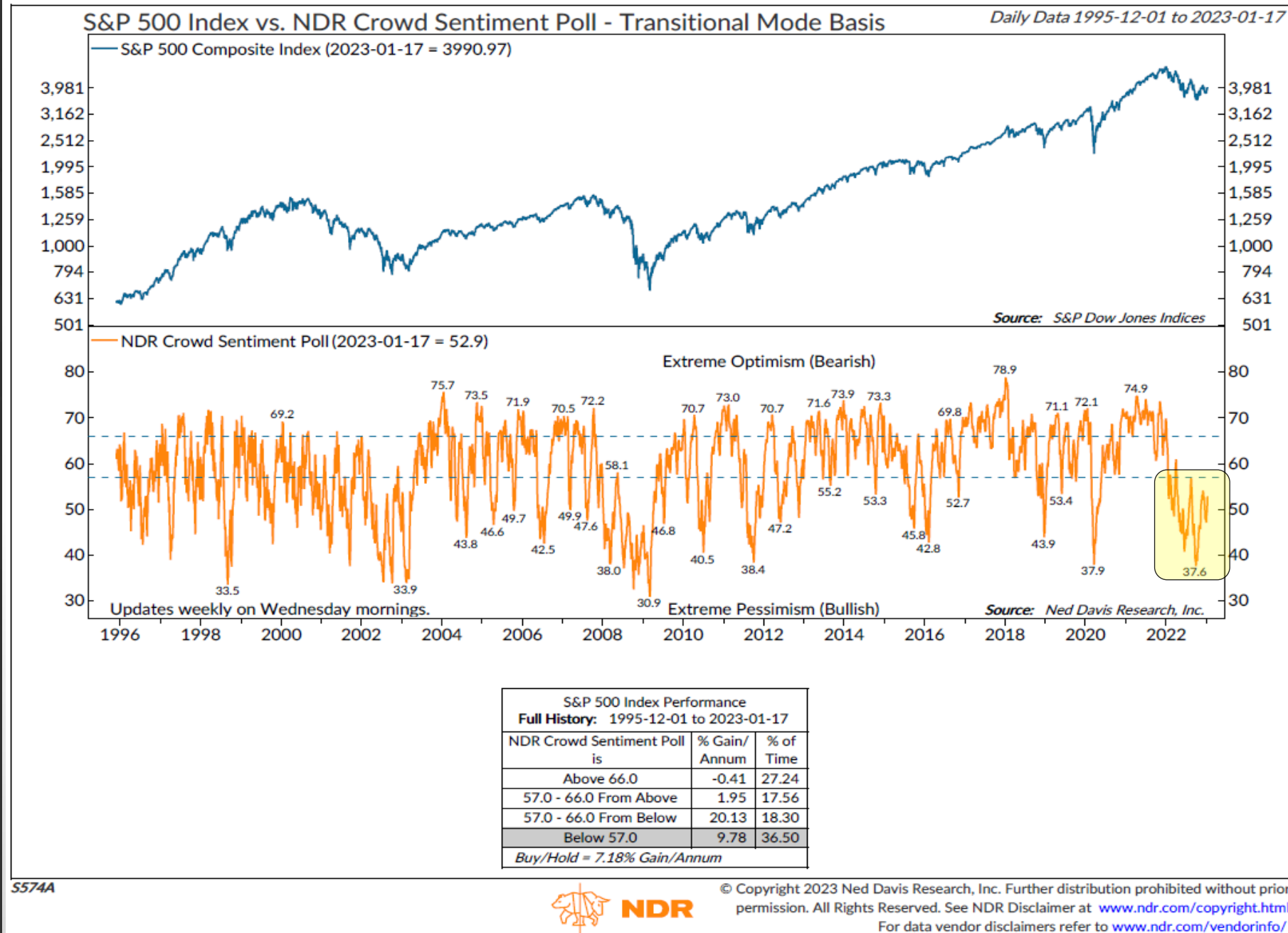
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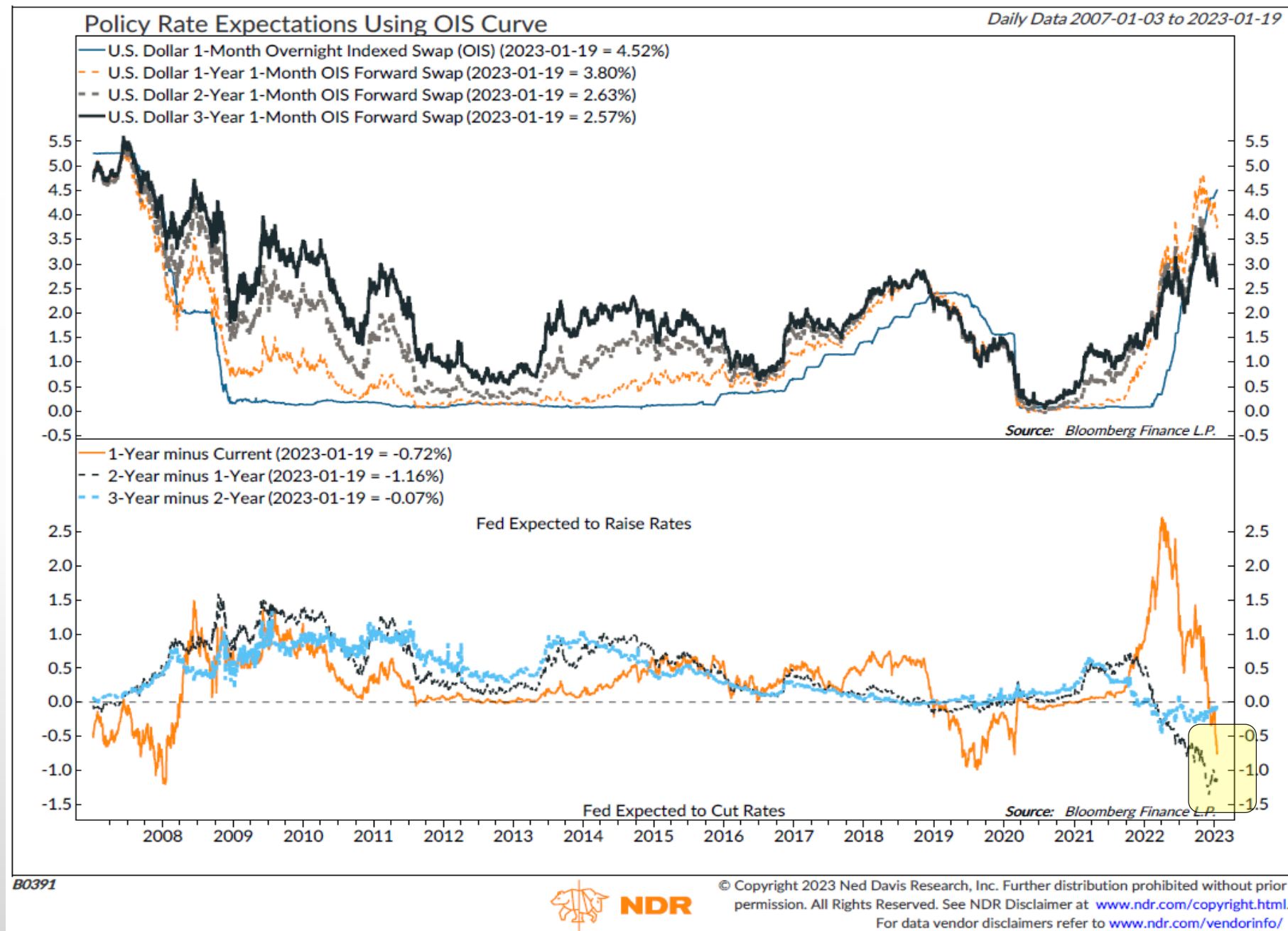
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Intermediate  
sentiment still in  
Pessimism zone

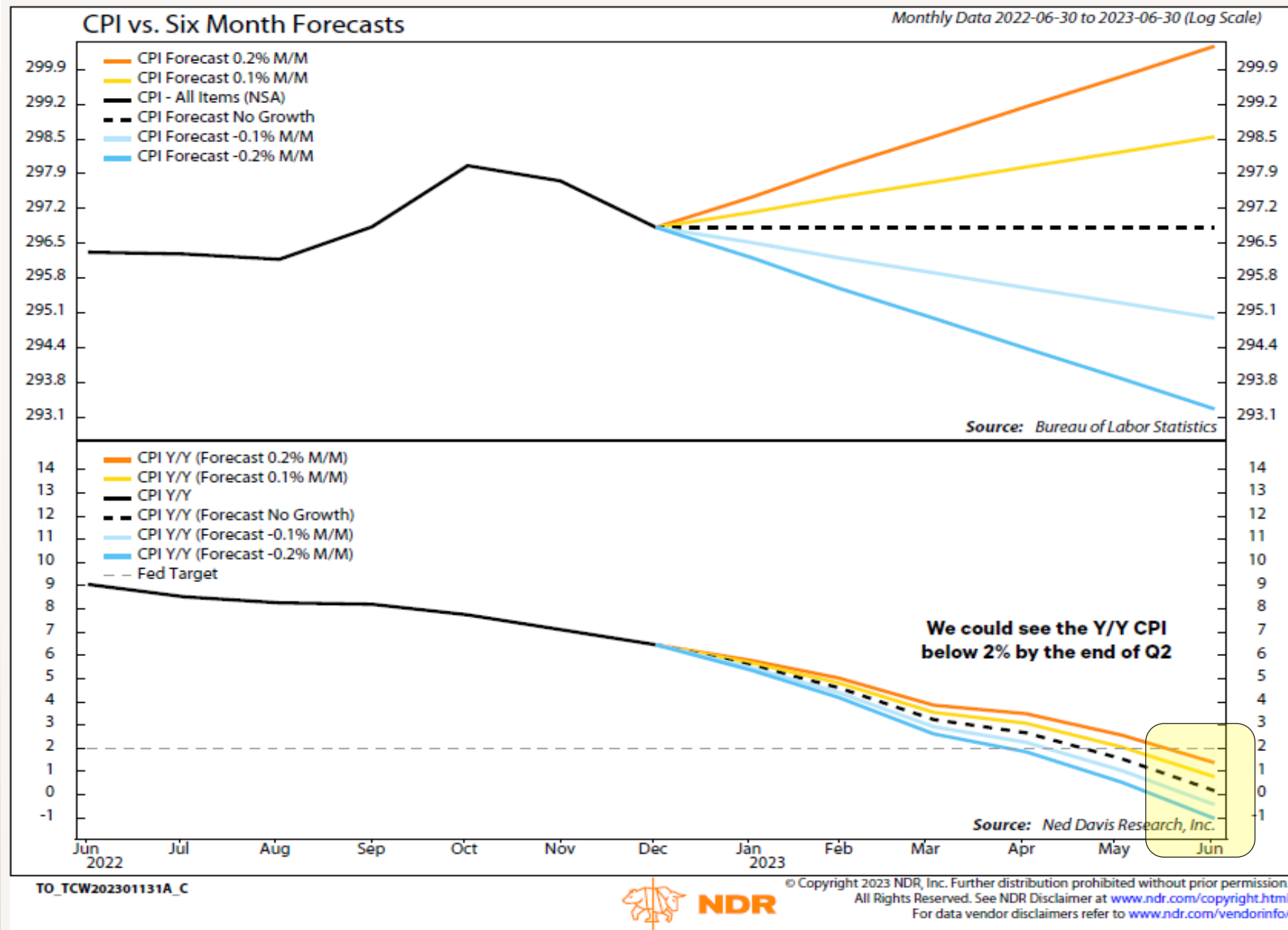


# Who is right? The Fed or the market?



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# The path to 2%



Is the bottom in?

1 – Oversold

2 – Rally

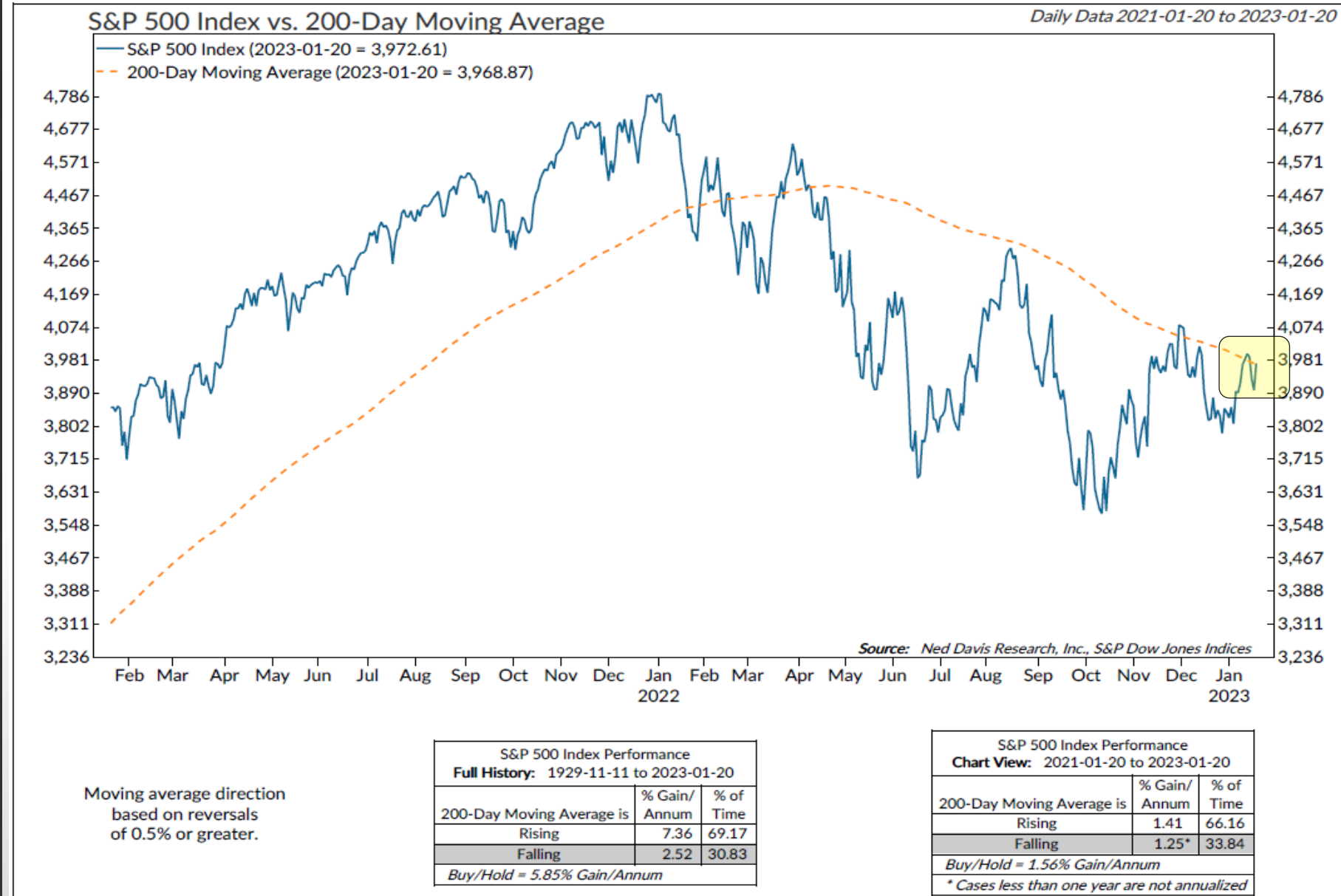
3 – Retest

4 – Breadth

Thrust

**\*\*200 day next?**

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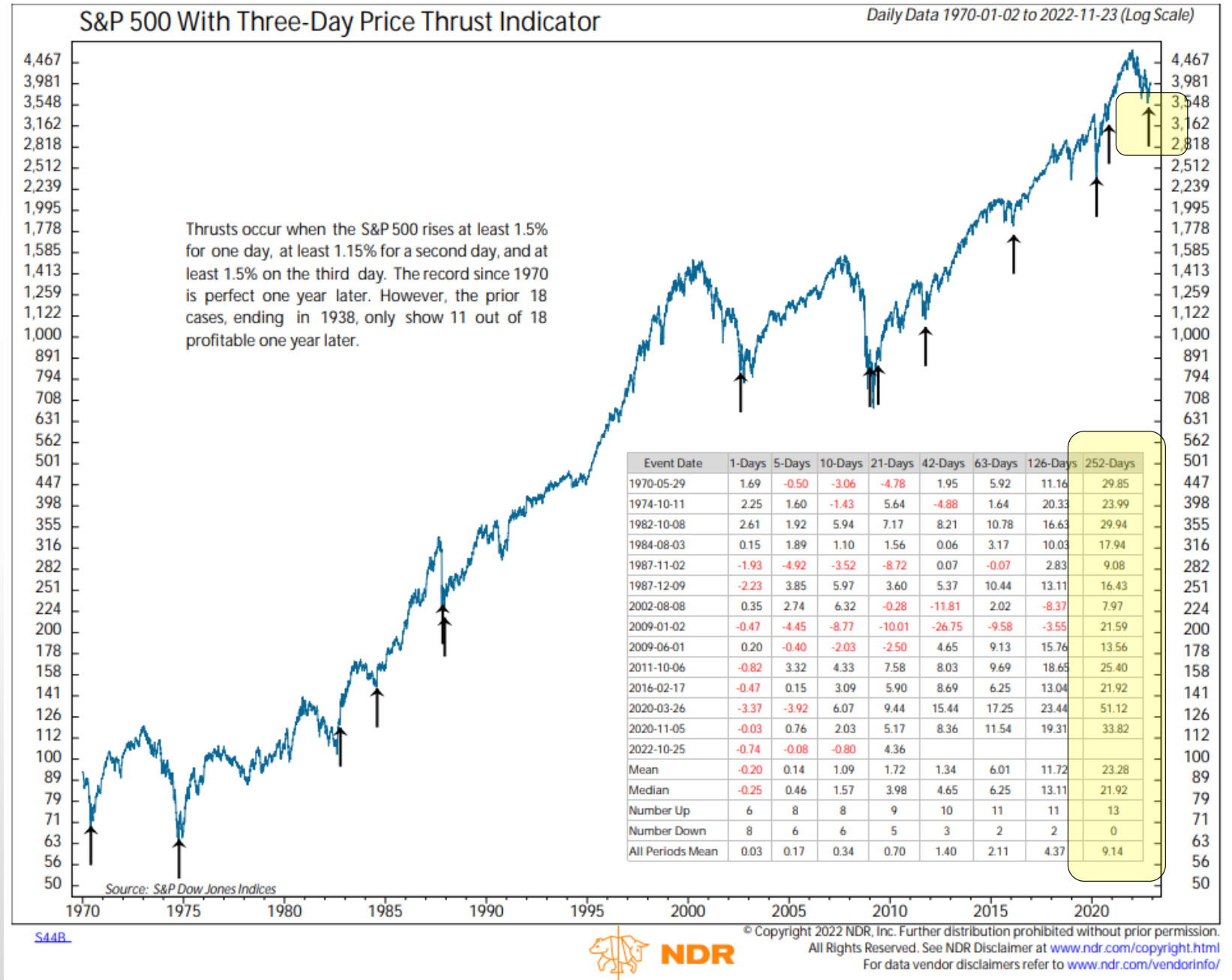
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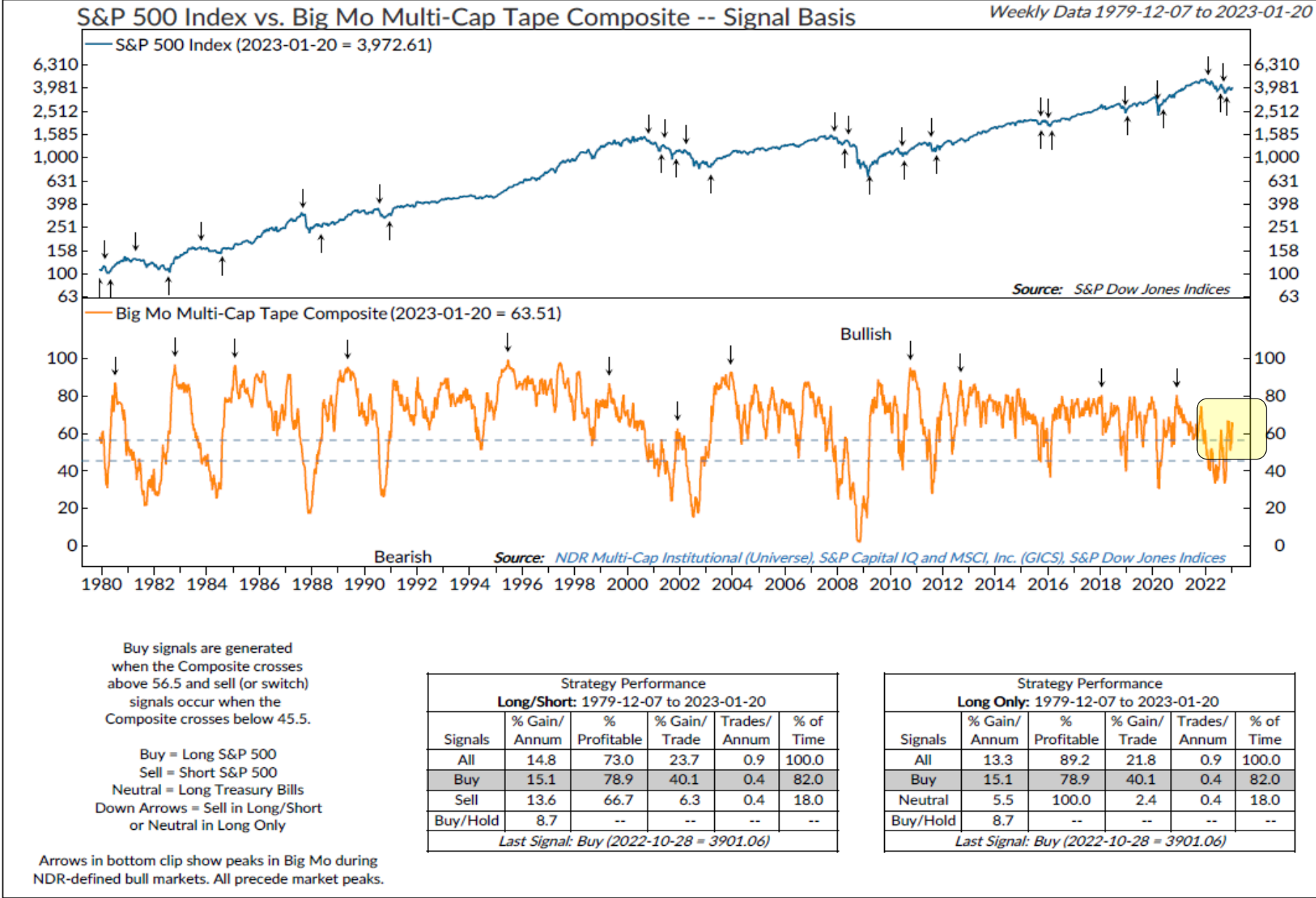
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# Key Breadth thrusts off Oct low

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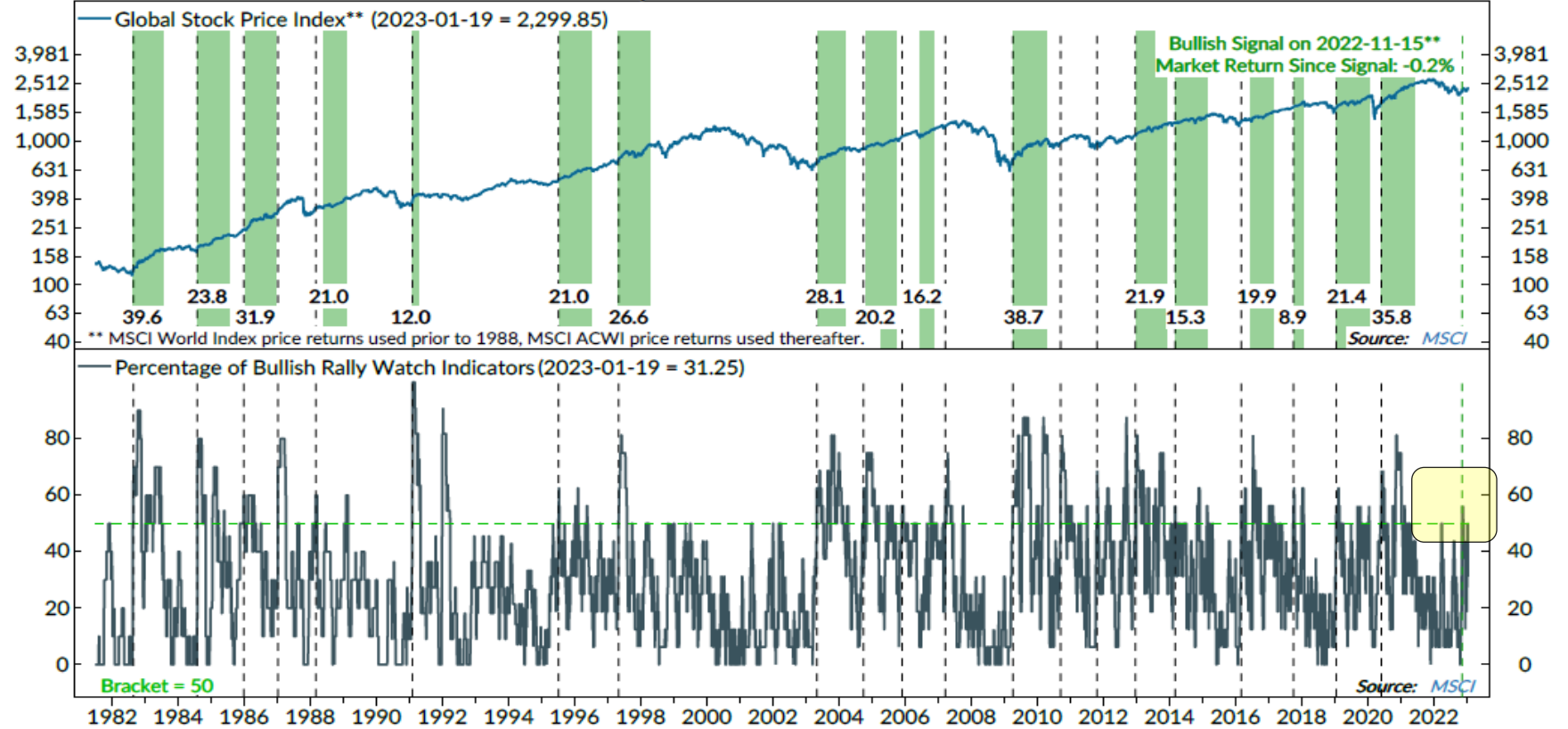
# Momentum indicators on buy signal



# Rally Watch on buy signal

## Maximum Rallies in Global Stocks vs. Rally Watch Indicators

Daily Data 1981-07-02 to 2023-01-19



**\*\* Bullish Signal Expires on 2023-11-15 or  
After a 5% Correction from the Signal Date,  
Whichever Occurs First.**

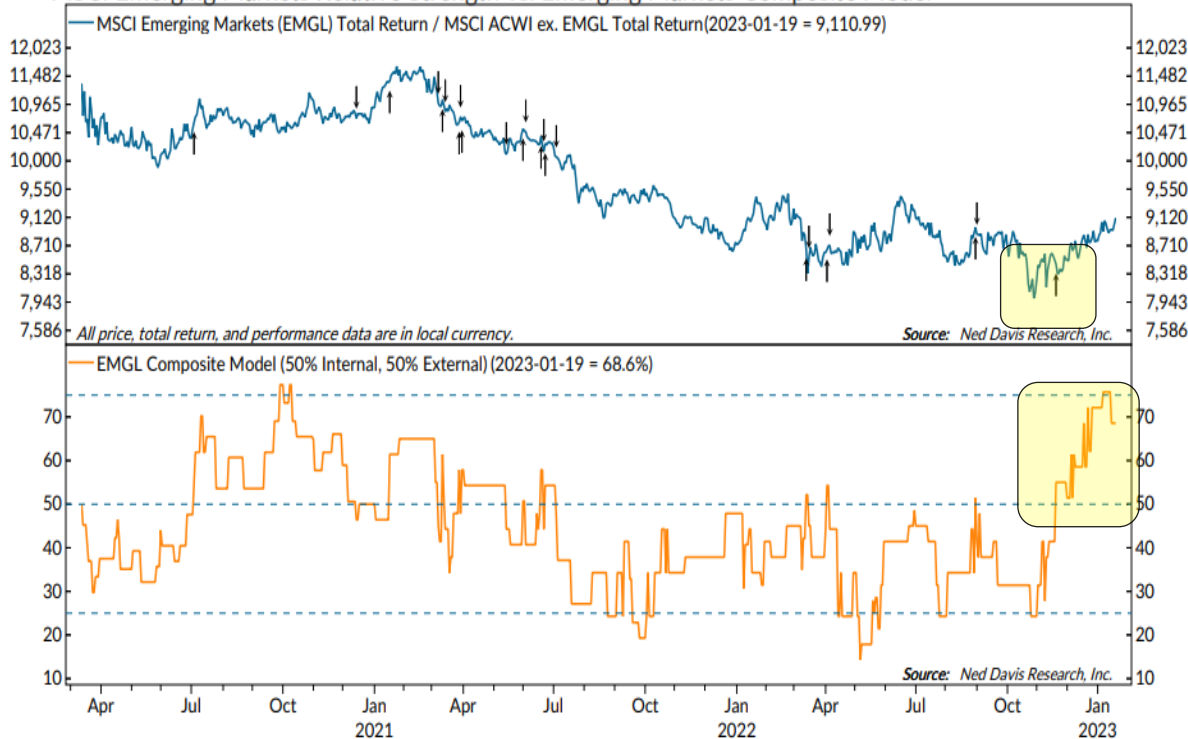
Bullish signals (vertical dashed lines) = % Bullish  
Indicators first crosses above 50.  
Repeat signals screened for 12 months.  
After screening period the % bullish must reverse above  
the bracket from below to trigger a new signal.  
Shaded periods = max rallies > 3% during the 12 months following signals  
(signal dates followed by corrections of 5% or more excluded)

Total Cases	Valid Cases (>3% Rally)	Signal Accuracy (%)	Median Rally	Median Rally Length (Calendar Days)	Median Length to Rally (Calendar Days)
21	17	81.0	21.4	335	8

# Increased Emerging market exposure

MSCI Emerging Markets Relative Strength vs. Emerging Markets Composite Model

Daily Data 2020-03-12 to 2023-01-19

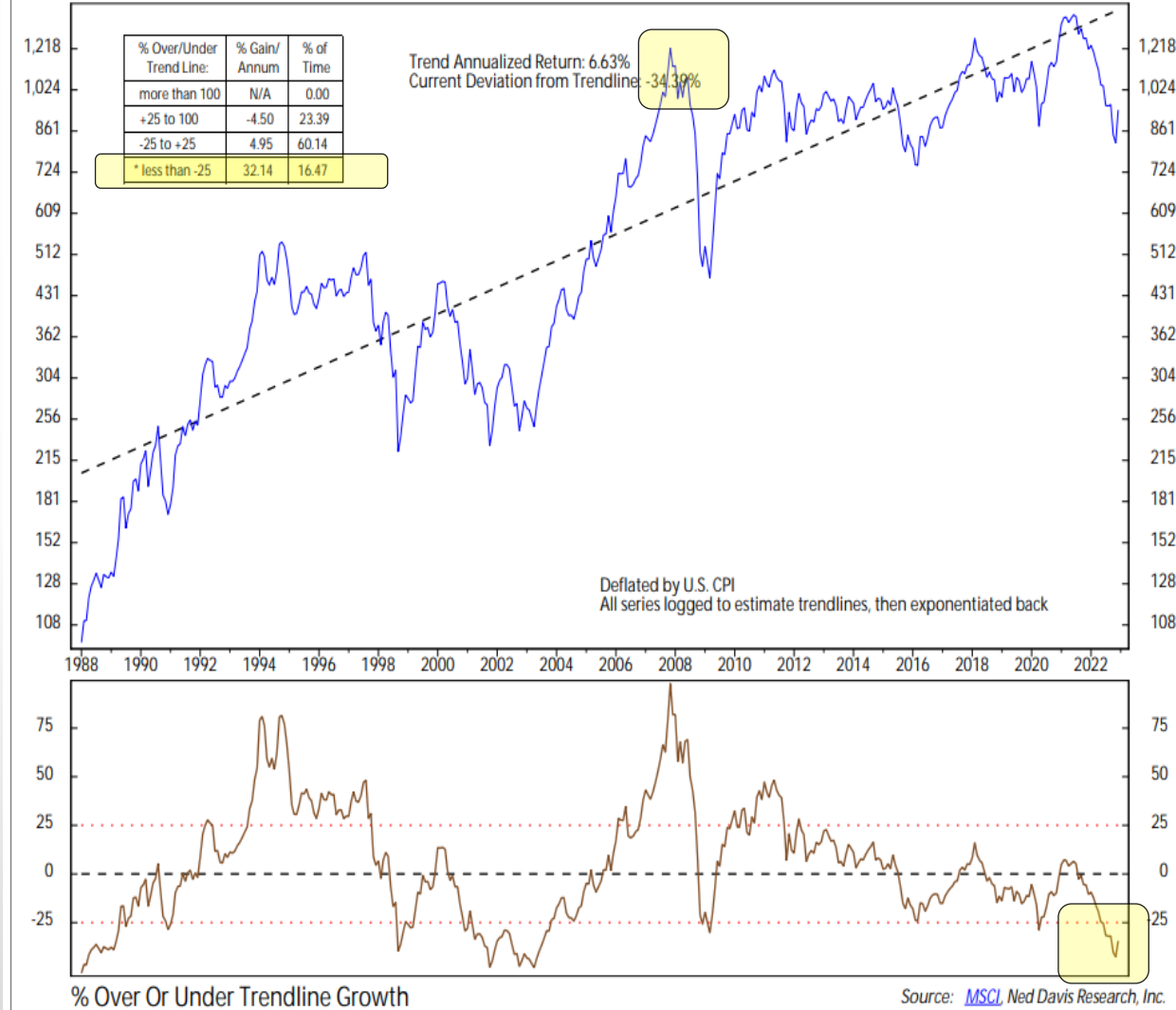


EMGL / ACWI ex. EMGL Performance		
Full History: 1995-01-02 to 2023-01-19		
EMGL Composite Model is	% Gain/Annum	% of Time
Above 75	30.25	6.27
Between 50 and 75	8.42	42.27
Between 25 and 50	-9.22	45.69
25 and Below	-8.16	5.78
Buy/Hold = 0.17% Gain/Annum		

EMGL / ACWI ex. EMGL Performance		
Chart View: 2020-03-12 to 2023-01-19		
EMGL Composite Model is	% Gain/Annum	% of Time
Above 75	0.90*	1.63
Between 50 and 75	-9.14*	31.48
Between 25 and 50	-9.25	59.50
25 and Below	8.89*	7.39
Buy/Hold = -7.38% Gain/Annum		
* Cases less than one year are not annualized		

MSCI Emerging Markets Real Total Returns (in USD)

Monthly Data 1987-12-31 to 2022-11-30 (Log Scale)



BWM01

Source: MSCI, Ned Davis Research, Inc.



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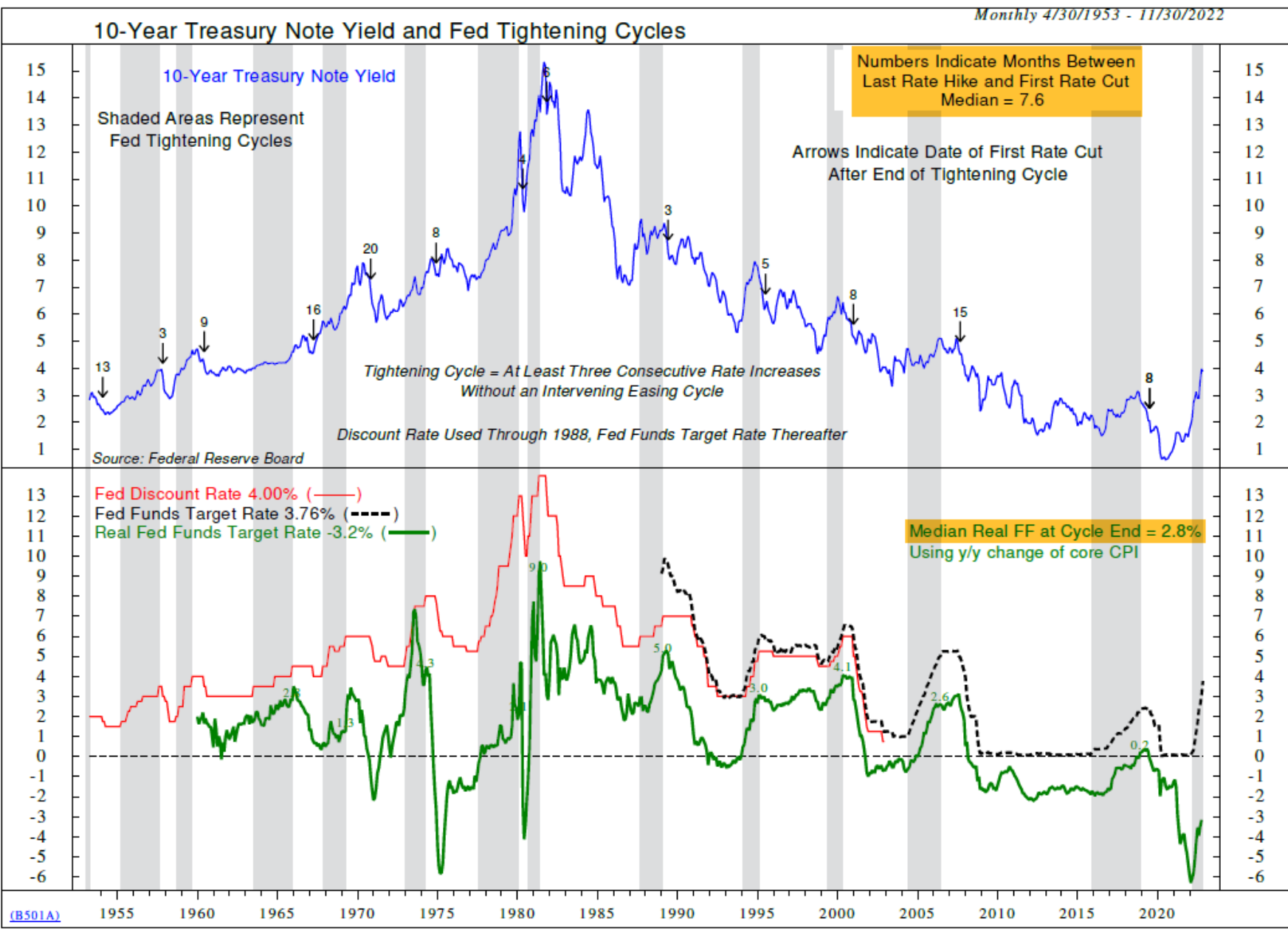


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Bond yields likely  
to drop before  
Fed cuts rates



# BWM Tactical Positioning

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	OVERWEIGHT	MARKETWEIGHT	UNDERWEIGHT
Stocks	○		
Bonds			○
Cash	○		
U.S.		○	
Large Cap		○	
Mid/Small Cap		○	
International		○	
Credit		○	
Duration			○

**No strategy assures success or protects against loss.**

# Bottom Line

---

- 2022 was a horrible year for a diversified stock/bond portfolio due to the most aggressive tightening cycle by the Fed in over 40 years
- While we can't predict the future, areas of the PCE price index appear to be coming down
- Likelihood of a sub 2% CPI report is high in 2023.
- Our 4-step bottoming process suggests that a bottom could be in if a hard landing is avoided. If not, the endgame in returns is likely very similar 12 mos out.
- BWM increased Emerging mkt exposure within our Int'l allocations
- BWM is currently overweight equities watching The Fed's next move and objective indicators. The Feb 1 announcement will be big!



Please see important disclosures, chart explanations, summary and commentary at the end of this report.

# Executive Summary



Please see important disclosures, chart explanations, summary and commentary at the end of this report.

- Slide 2 – this scatter plot shows the yearly returns of U.S. stocks versus bonds. Stock returns are calculated using S&P 500 Total Return Index. Bond data are Barclays U.S. Aggregate Total Return Index since 1976 and Barclays U.S. Long-Term Treasury Bond Total Return Index before that.
- Slide 3 – this chart plots the fed funds target rate during periods when the Fed has been raising the policy rate.
- Slide 4 – this chart plots the percentage change year-over-year for the core goods, housing services, and core services excluding housing components of PCE inflation.
- Slide 5 – the bottom clip of this chart plots the Institute of Supply Management Non-Manufacturing Index (NMI), a survey-based measurement of the growth of service-related areas of the economy. The top clip plots the U.S. Coincident Index, designed to track the current state of the U.S. economy. Historically, low NMI readings have correlated to poor economic output.
- Slide 6 – this chart plots the Institute of Supply Management Services Prices Index in the top clip, which indicates prices for service-related areas of the economy. The bottom clip shows the monthly change in the index.
- Slide 7 – this chart plots the S&P Core Logic Case Shiller National House Price Index (a measure of home prices) in blue and the Consumer Price Index for Rent of Primary Residence (a measure of rent costs) in orange. The House Price Index is advanced 18 months as it has historically been a leading indicator of rent.
- Slide 8 – this chart plots Zillow's Rent Index in the top clip and the year-to-year change of the index in the bottom clip. The index uses Zillow's property data to capture typical market rent. The chart shows that rent growth has slowed dramatically.
- Slide 9 - shows multifamily housing starts (top clip) and building permits (bottom clip) as a percentage of total starts and permits. The number of housing starts is a widely followed indicator representing one of the major swing factors in our economy.
- Slide 10 – The top clip of this chart shows the unemployment rate based on the Household Employment Survey that is administered monthly by the Bureau of Labor Statistics. The middle clip shows the monthly change, and the bottom clip shows year-over-year change in the unemployment rate.
- Slide 11 – This chart plots the year-to-year change in average hourly earnings of wage and salary employees, released by the Bureau of Labor Statistics. Wage and salary earnings are the largest share of personal income and the largest share of corporate input costs. Falling labor costs could indicate falling inflationary pressure.
- Slide 12 – This chart shows the Real Gross Domestic Product of the United States. The Top clip plots the yearly GDP for the US in billions of dollars. The middle clip plots the annualized quarterly change and the bottom clip plots the year-to-year change.
- Slide 13 – This chart plots non-recession bull (blue line) and recession bear (orange line) scenarios based on average performance of the S&P 500 in each environment. The recession bear line shows performance nine months before the end of the bear market and three months after. The non-recession bull line aligns the bottom with an assumed recession end date of 9/30/2023. The chart suggests that a recession would result in new lows and that if the economy avoids recession, the bottom has already passed.
- Slide 14 – this chart plots the S&P 500 cycle composite for 2023, a representation of historical market movements based on seasonal trends. These cycle charts are based on the idea that seasonality (tendency for stock prices to behave differently during different times within a calendar year) and multi-year cycles have patterns that tend to repeat over time in the stock market. Knowing the historical tendencies of the market can often provide useful perspective on potential turning points and trends.

# Executive Summary



- Slide 15 – This chart provides perspective on a composite sentiment indicator designed to highlight short- to intermediate-term swings in investor psychology. The composite is based on seven individual sentiment indicator and the reading shows what percentage of all the investors represented by the data can be classified as bullish on the stock market at any given time. Sentiment is currently in the extreme pessimism zone (most investors are bearish), indicating stock prices may be near a bottom.
- Slide 16 – This chart uses overnight interest rate swaps to gauge the market's expectation of Federal Reserve policy rates. The top clip plots the 1-month OIS with the 1, 2, and 3 year forward swap rates. The bottom clip plots the difference between OIS 1-year and current swaps, 2-year and 1-year swaps, and 3-year and 2-year swaps, with positive values indicating expectations the Fed will raise rates and negative values indicating expectations the Fed will cut rates.
- Slide 17 – this chart shows various month-over-month CPI forecasts (top clip) and the resulting year-over year change (bottom clip.)
- Slide 18 – This chart plots the S&P 500 price in blue and it's 200-day moving average of the price in orange. The current price relative to and around the 200-day moving average could provide insight to the direction of the index.
- Slide 19 – This chart identifies when a three-day thrust occurs. As stated on the chart, a thrust occurs when the S&P 500 Index rises at least 1.5% each day for three straight days. Historically, each thrust has led to the market being positive one year later. A thrust indicates an unusual demand for stocks, which has been a very good indicator that the market will be profitable up to a year later.
- Slide 20 – The top clip plots the S&P 500 index and the bottom clip plots the NDR Big Mo Multi-Cap Tape Composite Model, an aggregate of over 100 component indicators that generates a reading between 0% and 100%, reflecting the percentage of the component indicators which are currently giving bullish signals for the S&P 500 Index. The indicator is currently bullish.
- Slide 21 – This chart shows the largest rallies in global stocks following bullish Rally Watch indicator readings of 55% or higher. The top clip plots a blended benchmark of global stocks (MSCI World Index price returns prior to 1988 and MSCI ACWI price returns thereafter), while the bottom clip plots the aggregate percentage of bullish indicators from the Rally Watch Report.
- Slide 22 (left) – The bottom clip of this chart plots the Emerging Markets Composite model within the NDR Global Regional Equity Model. The Emerging Markets Composite model is based on an equal-weighting of Emerging Markets internal and external indicators and is designed to indicate whether Emerging Markets is likely to outperform ACWI ex. Emerging Markets, or vice versa. The top-clip plots the ratio of MSCI Emerging Markets to ACWI ex. Emerging Markets, with a rising line indicating Emerging Markets outperforming the rest of the world and a falling line indicating the rest of the world outperforming.
- Slide 22 (right) – This chart plots the real returns of the MSCI Emerging Markets index and its historical trendline in the top clip. The bottom clip shows the percentage above or below the trendline.
- Slide 23 – This chart plots the 10-year treasury note yield in the top clip and the Fed policy rate in the bottom clip. The shaded areas represent period when Fed policy was tightening.
- Slide 24 – we are currently overweight stocks, underweight bonds, and overweight cash. Within the equity allocation, we are marketweight US, large cap, mid/small cap, and international. Within fixed income, we are marketweight credit and have a focus on owning bonds with shorter duration.

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