2022 Year in review

Brown Lisy Wealth Management Group

January 3, 2023

John W. Lisy, CFA
Senior Portfolio Manager
312-525-4635
john.lisy@ubs.com

UBS Financial Services Inc.
One North Wacker Drive
Chicago, IL 60606
312-525-4187
877-225-7945 fax

advisors.ubs.com/
brownlisygroup

Happy New Year!

The US stock market ended 2022 with a decline of -19.44%.[1] Except for one small uptick in early January, it traded down for the entire year. In hindsight, it would have been great to have sold everything and sat the year out, but one of our core beliefs is that no one can effectively time the stock market.

On December 31, 2019, the stock market (S&P 500) closed at just about a record high, 3230.78. [2] If we had been blessed with perfect foresight, we would have told you in our 2019 year-end letter that the following three years would see the worst global pandemic since 1918 and a worldwide economic lockdown, a huge increase in inflation, the most aggressive Fed tightening cycle in over 50 years, the biggest land war in Europe since WWII, an unemployment rate unseen since the Great Depression, the biggest ever collapse in US GDP, and end in a yearlong and ongoing bear market. Many investors would, quite understandably, have been tempted to sell everything. Had you done so, you would have missed out on a return of 25% through the end of 2022.[3]

Our strategy has not changed.

The strategy is to buy high quality stocks and hold them for a long time. That hasn’t changed. Of course, the nature of stock market investing is that stocks, and markets, are volatile. The strategy assumes that there will be ups and downs, and that over certain periods the markets, and your account value, will both rise and fall. Some of our stocks that were the biggest winners in 2021 were the biggest losers in 2022. Investing is a journey, and a year is a relatively small portion of that journey. Although this may be hard to remember every time the market gyrates (and financial journalism shrieks) **you and I are not investing in the macroeconomy.** Our portfolios largely consist of the ownership of enduringly successful **companies**—businesses that are even now refining their strategies opportunistically to meet the needs and wants of an eight billion person world. We like what we own.

We’ve been here before.

What happened in 2022? Inflation, and the Fed’s efforts to rein it in with aggressive interest rate hikes, was one of the biggest stories. Ironically, the price of many important goods actually declined over the year. Gasoline rose to over

$5 gallon in June but for the full year showed a decline versus 2021.[4] Durable goods and many commodity prices fell sharply from their highs in the first quarter.[5] Europeans worried about the price of natural gas as Russia moved to restrict supplies, but prices fell sharply from a summer spike to end the full year basically unchanged.[6]

What will happen in 2023 and forward? Forecasters are quite bearish, and sentiment is at or near record levels of pessimism. In October, Bloomberg's Economics model put the odds of a 2023 recession at 100%.[7] One hundred percent, or the same as the chance that the sun will rise tomorrow morning. The strategists' targets for the market at year-end 2023 are on average the most bearish since 1999.[8] A survey of individual investors shows bearish sentiment at an unusually high level.[9]

While we don't know what the future will bring, we're optimistic about the long term prospects for the markets and for the economy. It would not be surprising to see continued market stress in 2023, but we think that we've passed the halfway point. We note that despite all the gloom in 2022, 373 of the companies in the S&P 500 raised their dividends.[10] We're excited to follow the latest developments in Artificial Intelligence (have you tried Chat GPT?) and a breakthrough in nuclear fusion.[11]

We'll close with a comment from my former Merrill Lynch colleague David Rosenberg. David, a widely followed economist at his own firm Rosenberg Research, is certainly one of the most prominent market bears. Despite his dour near term outlook, he recently commented on a podcast:[12]

"I don't think that anyone's ever made much money betting against the US. The US economy is really an engine built on capital formation, ingenuity, and innovation. And so, I know this is gonna sound like all of a sudden Dave Rosenberg's become a permabull, but if you told me over the next 10 years I had to pick a country to invest in, it would be the US because of the political and economic stability."

As we always say—but can never say enough—thank you for being our clients. It is a genuine privilege to serve you. Best wishes for a healthy and successful new year!

John, Grant, and Kristan

1 Bloomberg, UBS.

2 Bloomberg, UBS. The actual record high was two days earlier and ten points higher.

3 Bloomberg, UBS.

4 US Energy Information Administration, December 27, 2022.

5 Bloomberg, Financial Times FT.com Market Data January 3, 2023.

[6] Wolf Street Research, December 28, 2022.
[7] Bloomberg News, October 17, 2022.
[8] New York Times, "The Bull and Bear Case for 2023" December 27, 2022.
[9] American Association of Individual Investors, December 29, 2022.
[10] Wall Street Journal, "Companies Spend Record Amounts on Dividends" December 30, 2022.
[11] New York Times, "Scientists Achieve Nuclear Fusion Breakthrough" December 13, 2022.
[12] "On The Margin" podcast, December 14, 2022.

The views expressed herein are those of the author and may not necessarily reflect the views of UBS Financial Services Inc. or its affiliates.

About the PMP Program: PMP is a wrap fee advisory program in which our Financial Advisors manage client accounts on a discretionary basis. PMP is designed for clients who (i) want to delegate portfolio management discretion to their Financial Advisor; (ii) are looking to implement a medium to long-term investment plan; and (iii) prefer the consistency of fee-based pricing.

PMP is not appropriate for clients who: (i) want to maintain trading control over their account; (ii) seek a short-term investment; (iii) want to maintain consistently high levels of cash, money market funds, or invest primarily in no-load mutual funds; (iv) want to maintain highly concentrated positions that will not be sold regardless of market conditions; or (v) who anticipate significant withdrawals from the account.

Trade Allocation Practices and Conflicts of Interest: Financial Advisors who participate in the PMP Program may also provide services to you and to other clients outside of the Program in their capacity as broker-dealer representatives and as such, may dedicate time to activities other than discretionary portfolio management. Financial Advisors who participate in the PMP Program have an incentive to recommend their services in PMP over those of third party SMA Managers in other Advisory Programs or over traditional commission based brokerage services.

Financial Advisors do not aggregate orders across the different strategies they manage. In an effort to reduce market impact and to obtain best execution, your Financial Advisor may purchase or sell securities in bulk (or orders may be "batched") on the same day for some or all PMP accounts in the same strategy managed by the same Financial Advisor. In such cases, all orders in a batch will receive "average pricing" and the price of securities shown on client confirmations will be the average execution price on either all of the purchases or all of the sales (as applicable) aggregated for this purpose. In addition, when executing orders, we may batch orders for your Account with orders entered for other PMP accounts in the same strategy, including those of the Financial Advisor assigned to your Account and related PMP accounts under your Financial Advisor's control. Financial Advisors are permitted to trade in the same securities they purchase for client accounts as long as they trade their personal and related accounts in the same batch as client accounts.

Financial Advisors have broad discretion to trade their PMP Advisory Accounts and there can be no assurance that a Financial Advisor can purchase or sell the same securities for all such Accounts at the same time, or that the Financial Advisor will aggregate your orders with those of other clients and charge an average price per share or unit and, when applicable, a pro-rata share of any fees. As a result, you may receive different prices and executions for the same securities as compared to other clients investing in the same PMP strategy. In addition, although we monitor performance dispersion and other characteristics of Accounts participating in PMP, investment opportunities will not necessarily be allocated among participating Accounts proportional to their overall amount invested.

Below are some of the general risk considerations associated with the investments included in the PMP investment strategies described in this Brochure. The descriptions are not meant to be a complete list of all investment risks. For more complete information regarding fees, expenses, risks and restrictions associated with these investments please review the offering documents and marketing materials. Investors should consult their tax advisor about their specific tax situation before investing in any securities. In addition, clients should familiarize themselves with the particular market risks and the other risks associated with the specific investment.

All of the recommendations made/positions held within the preceding 12-month period are available upon request. Not all recommendations should be assumed to be profitable and future recommendations/holdings may not be profitable.

The past performance of an index is not a guarantee of future results. Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices.

As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review the client relationship summary provided at **ubs.com/relationshipsummary**, or ask your UBS Financial Advisor for a copy.
In providing financial planning services, we may act as a broker-dealer or investment adviser, depending on whether we charge a fee for the service. Financial plans provided free of charge are a service incidental to our brokerage relationship and the service terminates upon delivery of the plan. We provide financial planning services as an investment adviser for a separate fee pursuant to a written agreement, which details the terms, conditions, fee and scope of the engagement.

For designation disclosures, visit ubs.com/us/en/designation-disclosures. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please contact your Financial Advisors. UBS Wealth Management Research is provided by UBS Financial Services Inc. and UBS Group AG. For more information, please visit our website at ubs.com/workingwithus.

"UBS Financial Services Inc. is not affiliated with the entities not their employees mentioned".