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Dear Valued Investor,

We wish you a happy New Year and hope you were able to close out 2022 with friends and family.

The beginning of a calendar year is often the time when the previous year's reflections transition to a new year's hopes. Given the market's continued instability during 2022 and a resulting tough period for stock and bond prices, everyone is hoping for a fresh start. And history gives us cause for optimism following a difficult year. While each new year brings its own unique circumstances–and having a well-balanced plan helps–more often than not, bad market years are followed by good ones. This is especially the case following a mid-term election year.

Since 1950, there have been 18 mid-term election years, and in each instance, the S&P 500 Index has been higher in the subsequent year. Not only have stocks been positive in those cases, but the Index has been higher by 14.7% on average. Stocks also typically perform well when two parties share power in Washington, D.C., and November's election ushered in a Republican majority in the House, balancing the power once again.

If we look at all calendar years following negative S&P 500 Index outcomes, the S&P 500 Index had back-to-back negative years in only four instances since 1930. Those occasions occurred during the Great Depression, World War II, the 1970s, and the dot.com bubble years (early 2000s)—periods perhaps more economically dismal than what we face today. So while we can't rely on history repeating itself, it does give us a reason for optimism.

We remain mindful that the coming year will not be without fundamental challenges. While falling, inflation remains high, and a mild U.S. recession is expected in 2023. Corporate profit growth is expected to be flat, and consumer spending growth should also slow. Meanwhile, deteriorating U.S. relations with China and the ongoing Russia-Ukraine conflict add risks for the economy and markets. But these challenges are offset by still-strong consumer and corporate balance sheets and the likelihood that the Federal Reserve will stop hiking interest rates in the first half of 2023, which may help give stock prices a boost.

The volatile market in 2022 has lowered stock valuations relative to their earnings, suggesting many of the above concerns may have already been priced in. This leads us to believe that 2023 is unlikely to be a repeat of the year just passed. While it is always a good idea to have a plan for stormy weather, history tells us that the winds may be a bit more in our favor this year.

Please contact your financial advisor with questions.

Sincerely,

Marc A. Zabicki

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Chief Investment Officer
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All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

For a list of descriptions of the indexes and economic terms referenced, please visit our website at lplresearch.com/definitions.