



# JANUARY 2023 2022 OUTLOOK Q4

## WHAT A DIFFERENCE A YEAR MAKES: BONDS

By Kirk Ludwig, CFIP, AIF®

The past year presented the financial markets with high volatility and change. Many of the imbalances caused by the pandemic continued to disrupt segments of the global economy and markets. From inflation soaring to a multi-decade high of 9% in June 2022, to lumber prices plummeting by nearly 65%, to global stocks trading in bear market territory for much of the year, volatility was widespread throughout financial markets.[1][2][3]

Given the complexity of the economic landscape, and the higher uncertainty that came with it, the volatility was not unusual from a historical perspective. However, one market that DID surprise many investors was the U.S. bond market. As one of the largest and most heavily traded financial markets in the world, the U.S. bond market was caught off guard as the Federal Reserve ramped up its campaign to battle inflation by aggressively raising short-term interest rates.[4]

The following chart puts perspective on the changes in Treasury rates across the yield curve. The one-year U.S. Treasury note started the year yielding 0.39% and ended with a yield of 4.73%. As illustrated, it wasn't just short-term rates that were impacted - rates for all other maturities across the yield curve rose as well.

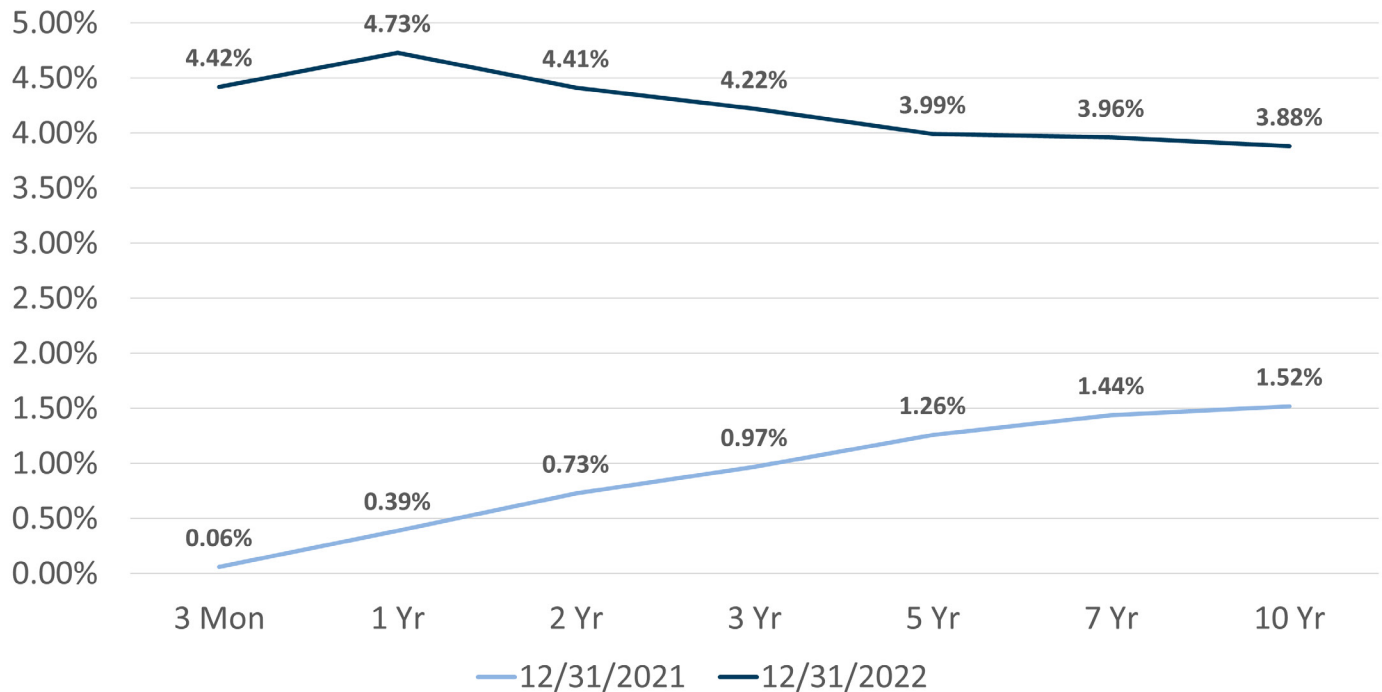
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## U.S. Treasury Yield Curve Shift Across Maturities

12/31/2021 - 12/31/2022



Source: "Daily Treasury Par Yield Curve Rates". U.S. Department of the Treasury, [treasury.gov](https://www.treasury.gov).

It's not uncommon for the Federal Reserve to raise or lower interest rates to control economic growth and inflation. However, in this case, the surprise was the speed and magnitude of the rate hikes. With the starting point of short-term interest rates near 0%, bonds didn't stand much of a chance to generate enough income to offset the change in prices associated with the rapid increase in yields. As a result, the general U.S. bond market suffered one of its worst years in recorded history.[5]

There is a silver lining to higher yields! Over the past decade, conservative investors holding short-term bonds, CDs, money market vehicles, or cash in checking & savings accounts have suffered historically low returns.[6] Now, the spike in interest rates is providing yields on conservative ultra-short-term investments such as one-month Treasury bills at 4% or better. Those willing to extend Treasury maturities to a year can expect to

see yields north of 4.5%.

As the Federal Reserve continues its mission of driving inflationary pressures lower, while attempting to avoid a recession, the Fed may continue to raise interest rates further in the near future. We believe further interest rate increases are less concerning compared to a year ago because the risk and return tradeoffs are more favorable for bond investors today.

At SJS, we are consistently monitoring all segments of the markets and assessing the risk and return characteristics of each asset class. For 2022, the bond asset class started the year with extremely low yields and less desirable return expectations. Going into 2023, the higher yields provide bond investors with a brighter outlook!

## PLANNING (FINANCIALLY) FOR THE NEW YEAR

By Jennifer Smiljanich, CFP® & Austin Grizzell, CFP®

The ending of one year and the transition to a new year offers an opportunity for reflection on past events, and a look forward to a new beginning. To that end, we have some suggestions for concrete actions to start your new year on the right foot, financially.

### Review Retirement Contributions

In 2023, the IRS is boosting retirement contribution limits to new highs - who knew there was a silver lining to inflation? The new amounts allow those of us with earned income to save more for retirement. Please review your 2022 contributions vs. the new 2023 limits for

retirement plans and IRAs if you are inclined to maximize those contributions.

### Consider Gifting Goals

Like retirement plan contribution limits, the IRS also increased the amount you may gift to an individual recipient to \$17,000 in 2023, without affecting lifetime gift tax exemptions.

### Keep SJS Apprised Of Trusted Advisor Changes

We want to keep up with changes affecting your family, including changes to your attorneys, accountants, or bankers. Please let us know if you have made changes to the professionals you work with. Tax season is fast approaching, and we want to ensure

### 2023 Selected Retirement Plan Contribution Limits

<b>Elective Deferrals – 401(k), 403(b), &amp; 457 Plans</b>	<ul style="list-style-type: none"> <li>• Participant Contribution Limit: \$22,500</li> <li>• Catch-Up Contribution Limit (If Age+ 50): \$7,500</li> <li>• 403(b) Additional Catch-Up Contribution Limit With Greater Than 15 Years Of Service: \$3,000</li> </ul>
<b>Defined Benefit Plan</b>	<ul style="list-style-type: none"> <li>• Maximum Annual Benefit: \$265,000</li> </ul>
<b>SIMPLE IRA</b>	<ul style="list-style-type: none"> <li>• Contribution Limit: \$15,500</li> <li>• Catch-Up Contribution Limit (If Age 50+): \$3,500</li> </ul>
<b>SEP IRA</b>	<ul style="list-style-type: none"> <li>• Contribution Limit Is Minimum Of 25% Of Compensation (Adjusted Net Earnings If Self-Employed), Or \$66,000</li> <li>• Minimum Compensation Necessary: \$750</li> </ul>
<b>Traditional IRA &amp; Roth IRA Contributions</b>	<ul style="list-style-type: none"> <li>• Total Contribution Limit: \$6,500</li> <li>• Catch-Up Contribution Limit (If Age 50+): \$1,000</li> </ul>

Source: "Retirement Topics - Contributions". IRS, [irs.gov](https://www.irs.gov).

we are sharing tax documents with your current accountant and contacting the correct attorney on any strategy updates. Likewise, if you have changed banking relationships, we would like to be sure we have instructions on file to send funds to you in a timely manner when you need them.

## Update Your Estate Plan

Over time, family dynamics change. It is a good practice to regularly review your beneficiary designations. They should match your current wishes and align with your estate planning documents. Reviewing your estate planning documents periodically is also recommended, at least every five years or when there is a major change in your life situation.

## Take Inventory

As we move through different phases of our financial lifecycle, we often accumulate assets and move on to the next thing. Is there a reason to keep a retirement plan in place from a former employer? Am I really monitoring my "play stock" portfolio? Can I simplify my portfolio? Your SJS advisor can help you evaluate whether these investments align with how you view risk and investing today, and whether they are supporting your goals!

## Keep Your Wealth Protected

We focus many of our interactions around market outlooks, how your portfolio is doing, and how it supports what matters to you. Wealth accumulation is only part of the equation, the other piece is wealth protection. We strive to help keep your personal data safe, including avoiding sending personal information via email and reaching out to you to confirm that requests we receive from you are legitimate. Taking additional steps like changing passwords periodically and adding two-factor authentication can help to keep your information safe.

As always, we are here to help you put your best foot forward. We are glad to meet with you to help keep you on track!



## THANK YOU BEV LANGLEY!

After serving as SJS' Chief Compliance Officer for over 16 years, Bev Langley retired from SJS at the end of 2022. Bev has led SJS in developing a strong compliance program that enables us to meet regulatory standards in our everyday business practices.

Effective January 1st, 2023, Kevin Kelly, President, has assumed the Chief Compliance Officer role, with assistance from other SJS Team members.

We appreciate all that Bev has done for SJS! A comprehensive and rigorous compliance program is one more way that SJS strives to deliver on its commitment to you: "You come first. All the time. Every time."

We wish Bev a fun and relaxing retirement filled with lots of dogs and cruises!

## LOOKING FORWARD TO Q1 2023

As we enter the first quarter of 2023, we want to highlight a few dates and events to keep in mind:

- **January 16:** Markets closed and SJS offices closed in observance of Martin Luther King, Jr. Day.
- **January 31 - February 1:** Federal Open Market Committee (FOMC) meeting.
- **February 20:** Markets closed and SJS offices closed in observance of Presidents' Day.
- **March 21 - 22:** FOMC meeting.
- **Throughout:** Wishing you a wonderful Winter and a superb start to Spring!

## ABOUT SJS INVESTMENT SERVICES

SJS Investment Services has been serving as investment advisor and co-fiduciary for families, individuals, business owners, foundations, public entities, retirement plans, and corporations since 1995 through our proprietary process called MarketPlus Investing.

With more than \$2.0 billion\* in assets under management, we bring you major money center investment experience and a team of people whose small-town values put you first, all the time, every time.

\*As of 12/31/2022

You come first.  
All the time. Every time.™

[1] "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average". Federal Reserve Bank of St. Louis, fred.stlouisfed.org.

[2] "Lumber (LBS)". Nasdaq, nasdaq.com.

[3] "SJS Weekly Market Update". SJS Investment Services, 2022, sjsinvest.com.

[4] "Money, Banking, & Finance". Federal Reserve Bank of St. Louis, fred.stlouisfed.org.

[5] The general U.S. bond market is represented by the Bloomberg U.S. Aggregate Bond Index, which measures the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Data source: Morningstar, 1976-2022.

[6] "Interest Rates". Federal Reserve Bank of St. Louis, fred.stlouisfed.org.

There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results. Diversification neither assures a profit nor guarantees against a loss in a declining market.

Statements contained in this report that are not statements of historical fact are intended to be and are forward looking statements. All forward looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties which could cause actual events or results to differ materially from those projected.

Indices are not available for direct investment. Index performance does not reflect the expenses associated with management of an actual portfolio. Index performance is measured in US dollars. The index performance figures assume the reinvestment of all income, including dividends and capital gains.

Advisory services are provided by SJS Investment Services, a registered investment advisor (RIA) with the SEC. Registration does not imply a certain level of skill or training. SJS Investment Services does not provide legal or tax advice. Please consult your legal or tax professionals for specific advice.