Weekly **Market Commentary**

THE WEEK IN REVIEW: Dec. 18 – 24

Confidence? Not so much.

As expected, last week was pretty quiet just before Christmas, with a decided negative tilt. Wednesday was a strong day; consumer confidence came in at 108.3, up from 100.2 in November and well in excess of the forecasted 101.0. The more confident consumers are about the economy and their own personal finances, the more likely they are to spend. Markets took that to mean that the holiday season will be robust – and that Q4 earnings will potentially exceed expectations.

The final reading of third-quarter gross domestic product (GDP) came in last week at 3.2%, up from the previous reading of 2.9%. This sent signals to the market that the economy is still strong and that the Federal Reserve still has plenty of room to raise rates and not drive us into a recession. This was negative news for markets – and as a result, all of Wednesday's gains were mostly erased on Thursday.

If you believe the Fed can keep going with rate hikes, I have another fairytale (or nightmare, see below) to share with you. We have yet to see the full impact of the Fed's actions in 2022,

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2950 SW McClure Rd, Suite B · Topeka, KS 66614

and as we head into the first quarter of 2023, the full weight of a 4.25% Fed Funds rate could have a crushing effect on consumers, corporate earnings and the economy.

Friday was very thin from a trading perspective and had an upward tilt as a major storm crossed the country, wreaking havoc for travelers and shoppers alike. With Christmas falling on a Sunday, the Thursday, Friday and Saturday before the holiday were crucial shopping days for both brick-and-mortar and online retailers. (Remember, the online retailers have to deliver their orders, and if planes and trucks are stopped due to weather, there won't be any packages delivered until after the holiday.)

The debt nightmare before Christmas

Congress took one last opportunity to add to our existing mountain of debt as they floated a $1.7 trillion omnibus bill loaded with all forms of pork. The bill sailed through the Senate and went on to the House, where it's expected to pass. There were so many gifts in the package that Santa would blush and worry that his sled was understocked.

We've talked before about excessive government borrowing and its impact on inflation in 2022 – and this bill will extend the inflationary pressure in 2023. Perhaps Congress was concerned that a lot of items in the bill wouldn't have a chance after a split Congress is installed in January. Therefore, a massive 4,000+-page spending bill was dropped last week with hardly any debate or time to read the entire thing.

With the Fed trying to fight inflation by raising rates, mopping up liquidity and (hopefully) stymying demand, the federal government is doing the opposite. In fact, the government is actually trying to stimulate demand to prevent a recession. You've probably heard the adage "don't fight the Fed," but that applies to market participants, and it's unclear how that might apply to the government fighting the Fed. If people still have money to spend, it will only motivate the Fed to keep raising rates until it all comes crashing down into a deep recession.

If I had to guess, the Fed is likely to eventually win out against inflation rates, but the cost will be very heavy indeed. In addition, in order for this game of chicken to continue, the new Congress would need to keep spending, which doesn't look likely at this point. The Fed would have hiked too high and too hard, only to realize in hindsight that they should have stopped earlier – but by then, it will be too late. That's the "nightmare" before Christmas I mentioned above.

Coming this week

- The week between Christmas and New Year's Day is generally one of the quietest weeks for markets. That should be the case this week, although we may see some action on Friday as we close out 2022.
- Data will be scant this week, but there will be a bond auction as well as advance retail and wholesale inventories on Tuesday. We will get pending home sales on Wednesday and the release of the Fed's balance sheet on Thursday.

Equities:	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500	-0.20%	-19.33%	-18.64%	6.05%	7.46%
NASDAQ	-1.94%	-32.90%	-32.94%	5.48%	8.57%
DJIA	0.86%	-8.63%	-7.64%	5.16%	6.05%

Interest Rates:	12/23/2022	12/16/2022
UST 10 YR Government Bond Yield	3.73%	3.49%
Germany 10 YR	2.386%	2.153%
Japan 10 YR	0.463%	0.251%
30 YR Mortgage	6.51%	6.60%
Oil	$80.65/ppb	$74.51/ppb
Regular Gas	$3.23/ppg	$3.35/ppg

All data as of December 23, 2022

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