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Well, hello and welcome to a very special Dividend Café, special because we are kicking off 2023 with a look back at 2022 doing a sort of recap of the year that just was, and then looking to provide you a few themes and perspectives for the year ahead. We've done this every year now for as long as I can remember with a written white paper. This year's is about 27 pages long. It's posted at dividendcafe.com. We have a PDF version there you can print. It's all laid out with graphics. There's an awful lot of charts for you, so go grab that piece. But today on the video or audio, whatever you're listening to watching, I just want to walk through a lot of that content, walk through what our kind of big takeaways were from last year and what we're thinking about the year ahead. We're even going to do a little report card of last year's themes and sign some grades to the specific things I was looking at talking about a year ago, which is always a good opportunity for either a little bit of bragging or a little bit of embarrassment.

And this year it's going to have some of both, but then I'm going to go out on a limb again and make some forecast. I think this year I have 10 different ones, themes, if you will, for the year ahead 2023. I want to start off by reading the line I use to start off the white paper from Hyman Minsky. Many of you are familiar with Minsky, some of the most crucial work around behavioral realities of economic stability, but Minsky said, stability leads to instability. The more stable things become, and the longer things are stable, the more unstable they will be when the crisis hits. I think that is all at once. A very helpful theme to much of what took place in 2022, where at long last, much of the prolonged stability of excessive monetary policy that proved to not even be interrupted by this utterly bizarre moment of a global pandemic, but in reality was accentuated and exacerbated by the covid moment that our post-financial crisis medicine was, which was made to last for years and years past the great financial crisis, finally caught up with market actors in 2022, and so far did so in a way that is really quite benign.

I mean, there's no question risk takers of a certain stripe were punished last year, but at this time the consequences have been pretty light relative to what could be the case. And I'm going to walk through what that means. I would add that Minsky's line and the kind of Minsky doctrine, if you will, is what really one of the great question marks is about 2023. When I say markets have thus far gotten off easy, we know the markets that haven't gotten off easy, the most speculative, the most frothy, the shiniest of objects as I talk about all the time. We know where those losses were last year, that were not 20, 30%, let alone seven, eight, 9%, but were 60, 70, 80%. There is a huge question as to where the economy will go next year, where the market will go and where this overall stability lies.

And I want to kind of tie some of those things together by the time we're done today if that's okay with you. So, in terms of 2022 in review, if you don't mind, I'm just going to walk through some of the kind of basic summary points. I mean, we know sequentially that the year started off with some question marks about what the Fed was going to end up needing to do about inflation. And I would say it is surreal as I sit here in the early part of January 2023 to think back that in the early part of January, 2022, the Fed funds rate was at 0% and that the Fed was not yet talking about raising rates. And that the talk that was there about the Fed starting to raise rates maybe in March was believing myself included, that the high level would end up being something between one and 2%.

And yet that is really how fascinating 2022 was. I want to remind people, the Fed funds rate wasn't even at 1% in June. They had done their 25 and 50 to get up to a 75 basis points fed funds rate in the first two meetings that they hiked in the spring, but we entered June with a Fed funds rate below 1%, but then starting in June, there were four consecutive meetings at which they added 75 basis points each. And so

you ended up getting 3% there on top of the 75 they'd already done, and then they did another 50 in December, which is how we got to 4 25. So the Fed became a major story in 2022, but I think a lot of people wouldn't have expected that a Russia was going to invade Ukraine in February and that B Ukraine was still going to be standing and in fact sort of the upper hand actor in that conflict all the way through the end of the year.

So, you had this geopolitical story, Russia, Ukraine, you had the fed monetary tightening, which is connected to the excessive stability, which really to Minsky's point and the point I make all the time, they were actually breeding instability with an excessively prolonged period of overly tight, oh, excuse me, overly loose monetary policy. And then of course the inflation story that undergirded, that really covers I think a lot of what took place in 2022 and obviously the energy ramifications around inflation around the geopolitics supply demand imbalances became a big story as well. But when you break it down to where we ended the year with markets, the Dow closed the year, let's call it 8%, it was 8.8 to be precise, the NASDAQ at 33.1, the S&P at 19. And so from the high level of the NASDAQ, which I believe was the first week in November of 2021, you've now drawn down over 35% if you now take the NASDAQ level at its high spot in 2020 in, excuse me, 2000 to where we closed the year at.

So now you're talking about a 22-year period. And by the way, I think everyone knows that 22 year period is the biggest technological growth in history to a point where I'm not exaggerating that in 22 years you had more technological advancement than you had in the 5,000 years before that in 22 years you got the internet, you got broadband, you got fiber optics, you got social media, you got e-commerce exploding, you got the cloud, you got ai, okay, personal computing into telephones and the way in which the connectivity of the world now is talking about billions of people, not thousands of people. All of this has happened in the last 22 years and the NASDAQ is up 3% per year in those 22 years. That's how severe entering an investment at a P point of bubble valuation could be that then you had the bubble explode, NASDAQ fall apart, then reload, and now is given 35% off of that and still trades at exorbitant valuations.

I think it's a fascinating dynamic of 2022 that is not really ancillary. It's a kind of key moment. There shouldn't be a big surprise in the different performances of the indexes. The S&P was not as bad as the NASDAQ, which is almost all tech sensitive, but was far, far worse than the Dow. And a lot of that is the very thing that drove the S&P higher in the prior years, which is the cap weighted nature of the S&P where the Dow is not weighted. So, the largest size companies in terms of their dollar value have the biggest impact on an index when it is cap weighted. So, they benefit going up and they are part of the destruction coming down. And you saw from some of those major 2 trillion and 1 trillion and 800 billion type companies at the top of the capitalization really fall apart last year.

So, the top performing sector in the market was energy. And not only was it the top performing sector, it was the only positive performing sector, but what a positive performance it was energy was up 59% and that comes off of the 2021 number where it was also the top performing sector last year up only a measly 48%. So, you have 48 and 59% or the two returns of the last two calendar years for the broad S&P energy sector. But then the second performing sector was utilities, which ended up the year down 1.4%. It was still up until kind of later in the year. It gave back a bit into December going down the list. By the way, consumer staples were down 3% healthcare was down three and a half percent. So the most in defensive oriented sectors were basically flat, very close to positive.

You had huge upside performance and energy. And then the middle of the pack, you have industrials down seven, financials down 12 materials down 14. Again, those are all noteworthy in the sense that they were down from either high single digit to double digit, but not down nearly as much as the broad s and p market itself. But then you get into where the most carnage was, and there are two things that we'll point out here. Real estate down 28, technology down 29, consumer discretionary down 38 communication services down 42 of these real estate consumer discretionary are highly rate sensitive, a lot of leverage, a lot of borrowing and a lot of impact in earnings that come about from the cost of capital. Technology and communication services are not directly rate sensitive operationally. They're not very levered. They don't borrow a lot of money, yet the predominant rate affects the valuation.

They're highly valuation sensitive. They require a high PE ratio and a growing PE ratio for their return. And those things were taken apart last year in the higher bond market higher yields in the bond market. Just anecdotally, because I don't want podcast listeners or video watchers to be discriminated against relative to some of the things I share in the white paper. Those sectors are the broad sectors in the market and they're the literal S&P sectors that are used that are 11 of them to capture categories of market performance. But then when you get into subcategories and sometimes there's sub subcategories, we have a million different methodologies and ways in which we're able to look at this and compartmentalize. I just wanted to point out that there were some strange combinations of performance reality, okay, you had iron and steel companies that had done very well last year and you had plastics and rubber companies that just got crushed.

Aerospace and defense rallied. You can assume some of that's related to the foreign policy distress and geopolitical issues related to Russia, Ukraine, but then other industrial companies suffered quite a bit. Consumer discretionary names are almost all down, but auto and truck were by far down the most, even within the technology side. Social media, internet got hammered, but technology equipment was actually up on the year in services. Advertising services were up, security services were up. Media services and publishing were hit hard even in financials by the way. Insurance companies did quite well. Banks and asset managers were down and then within consumer staples, something we're heavily invested in. You had an interesting divergence because you had beverages. Food processing do very well. Household products tended to struggle a bit much like those sector sub-sector results. Commodities presented a mixed bag. Now overall all aggregated together. Commodities were as an index were one of the only asset classes on the planet up last year, the US dollar being the other crude oil technically finished the year up, but within commodities you had heating oil, natural gas, corn and nickel all up huge.

You had coffee, cotton, zinc, aluminum, copper all down a lot. Basically, almost all energy commodities were up. Almost all industrial metals were down. Precious metals, your kind of golds and silvers were pretty well flat and then you had livestock and agricultural commodities that were higher but more moderately. So all these are charted out in the white paper, but it's just a mixed bag.

I think the primary stories of the year, I'm going to offer just five real quickly, were #1 that higher interest rates and the ascending dollar were clearly the lead financial story. There's nothing that literally mathematically directly drove bond prices lower and equity valuations lower more so than higher interest rates.

Number 2, that energy prices were shocked, but they did so twice they skyrocketed higher in the beginning of the year and in the middle of the year around energy inflation, around inadequate supply around global reopening and yes, around the Putin Ukraine factor, but then they just collapsed down by the end of the year to where gas prices closed the year where they started and oil prices had given back a huge percentage of what they had gone up earlier.

Yet the energy sector, the stocks that are largely in the space of what's happening with oil and gas did not. Thirdly, this was a story of multiple contraction, not earnings contraction. I want to give you some real specific numbers here, which is why I'm looking at a PDF of the white paper now as I go through this, because I love this sort of deconstruction of what took place last year. The S&P started the year at 4,778. Okay, so it had kicked off 211 of earnings the year before. It was trading almost at 23 times backward looking trading 12 PE ratio. By taking the earnings estimates, they were still pricing in about expectation of 21 times earnings. Okay? A forward multiple of about 21 for depending on one's expectations, it could have been as low as 19 times if people had really bullish earnings expectations.

19 times middle of the range between 19 and 21. Well the year over year earnings growth in Q1, if you analyzed Q1, you got over 9% earnings growth, then you got almost 6% in Q2, you still got two and a half in Q3 they're expecting Q4 is going to end up coming in at about two, two and a half percent down. So basically, a little over 5% earnings growth. 2022 saw the S&P down 20%, but it saw earnings growth up 5% on the year you go, how's that possible? It's entirely about the multiple. The valuations came down even as the earnings went up, what I mean they went down, you closed the year at a 17.2 times PE ratio based on forward expectations. Those expectations could be wrong, but where we are now, you went from about 22 and a half times earnings to 17 plus change.

So, you gained 5% in earnings but gave up 24% of return in valuation netting out to about 19% on the S&P. That was really one of those major stories of 2022.

Number 4 was the elevated day-to-day volatility, 87% of market days, that's almost all market days, had a peak to trough or trough to peak movement of greater than 1%, more than 1% movement from a low point to a high point on 87% of days during the covid year, it was only 62% last year. That was only 38% in 2019. The year before covid only 29%, but in 2017, which I've often referred to as the lowest volatility year in market history, only 4% of days had such up and down volatility. So, you went to 87% basically right there at the 86 and 90% level that we had back at the time of the financial crisis.

So significant elevated volatility, multiple contraction was the biggest story in terms of how stock prices went. Higher interest rates were the weed financial story and of course are right at the heart of why multiples came down and then the energy price story. And then fifth is just that humiliation of cryptocurrency, which you say, why are you throwing that in there? But I think it's very important because I think it ties into that Minsky moment. I think it ties into this issue of underlying stability and in 2022 there was a lot of purging of mal investment. The Dow was down 8%. The Dow could go down in 2023, particularly if you have a severe recession. But when we talk about 2022 as one of the worst years for a 60/40 portfolio stocks and bonds, because bonds were down double digits and because of the index performance with s and p, NASDAQ, et cetera, it was just a very difficult year for risk assets.

But really if you were broadly diversified outside of shiny objects, it's very possible that you were not really that bad off at all and it was quite a good year for us in the sense of dividend growth, investing being positive on the year. But why I bring up the crypto element is that it very well could speak to the

ending of a particular cycle of shiny objects, excess speculation that by purging out some of this mal investment, it does destroy a lot of capital. If 3 Trillion went into Crypto and only 600, 700, 800 Billion remains, then that's over 2 Trillion of real capital that has been set on fire and yet it you may very well now on a forward basis have less shiny objects diverting capital from productive uses into unproductive uses and you may have a lot of people rethink the notion of, hey, if we ever get an unstable fed, if we ever get a lot of crazy monetary policy, if we ever get high inflation, people are really going to want to be out of the dollar and into something like a digital currency.

And yet you got all that narrative as your backdrop in spades and the dollar had one of its biggest years on record and Cryptocurrency utterly collapsed going into 2022, I was forecasting a number of different things that I put out as a report card. I'm going to walk through these things real briefly.

Number 1 was that equity returns will not be what they have been and I gave myself a letter grade B on this because there's no question I was right. Equity returns were not what they have been when you went from being up 25 to down 20 that's not what it was, but I don't believe the spirit of what I was forecasting was to the level of drama and so I don't want to go a full A+. I did talk about how if bond yields stayed at the 10 year, let's say below two and a half percent, that you could still make an argument, risk assets would not be worth avoiding, you just weren't going to get the same level of return you got.

All of that was totally true. It's just that because bond yields obviously went so much higher, it kind of can recontextualize all of this. So, I'm going to sign a B there. The Fed focus is overdone. That was my second call last year. I'm giving myself a D there. I think everything I was saying in spirit was accurate. I don't like the idea that the Fed is such a primary driver of economic activity, but I was clearly saying a year ago that we would not end up having the Fed be the biggest driver of capital market returns on the year. And in fact, it did end up being far more influential, much to my chagrin than I would've predicted. And so, I think a “D” was the right grade there. A couple better grades though. I said that the political reality would overwhelm, and I gave myself an A+ here.

I don't think that you can really argue that we started off the year believing a huge red wave was coming by the middle of the year. Enthusiasm for that belief had really dampened by the fall into the election time. It had come all the way back and then the election results themselves totally underwhelmed that red wave thesis. And through all of it, markets didn't care one way or the other. And I think a lot of it is exactly what I stated a year ago as far as the reasoning, which is that one way or the other, the markets knew we'd end up with divided government and so divided government with a Democrat, Democrat in the White House and a Republican controlled Senate or a Democrat in the White House with a Democrat senate, but a Republican house still divided government markets saw through that believe that all year and in fact no major legislation really got done all year and gridlock stays as the primary story.

There was a smaller building ended up getting done. It was not even a shadow of what was originally their big market moving aspirations, if you recall from 2021, that never got done.

Number 4 was a reckoning with big tech and it's hard to argue that the a plus here was deserved. The FAANG stocks were hit hard down about 55, 56% on the year, some down more than that, some down a little less, but you essentially just had a really big repricing in some of those big cap, very popular mega cool tech type companies. The notion that it would be values year, I definitely earned that a plus value

was practically flat on the year. It was down a couple points. If you look at the Russell 1000 value index where they take the thousand largest capitalization publicly traded companies and divide 'em up into value versus growth and value was down 4% while growth was down 25%.

And so that was a call that obviously had been made before and growth enjoyed a very prolonged period of outperformance and I think that reversion to the mean of the relationship between growth and values performance is just getting started. I forecasted that inflation would not be the major economic story of the year and that it would start to be going much lower and I think I was a hundred percent right on that, but a little later than what I was really forecasting. So, I'm giving myself a D+ there and I think that you'll see, I'm going to repeat this forecast into 23 and I imagine get a better grade for it next year.

Number 7 was that housing would slow down in 22 and then see prices roll over into 23. That I think was a well-deserved a plus. You saw slow down, you saw volume dry up be in Q1.

That was not the case at the beginning of the year. I think people were really seeing that just red hot housing market from late 2020 all the way through 21 exacerbated into early 22, but by spring of 22 it was clear that rising rates had started to take a toll and then the overall just unaffordability of how high prices had gone caused a big slowdown in traffic and an activity within the residential real estate market. And I'll talk later about what I'm forecasting is going to come of that in 23 and then the F I'm giving myself was that bond yields would be higher, which was true just not that much higher. They were okay. And so it's just unbelievable that the tenure bond yield started at about 1.8%. I believe it was below 2% start the year and then of course closed it had one point had gotten to about 4.2, 4.3 and close the year around 3.8, 3.9.

So, a pretty significantly higher move than where we started, and I had thought it would cap out somewhere in between those two numbers.

So, our 2023 themes, I'm going to go through these now and some of are a little gutsier than others. I'm going to start with what I think is the gutsy call, which is that inflation is headed way lower and you say, oh, come on, you said that last year and I want to be clear on what I mean by this. I don't mean it as a great thing <laugh>. Okay. Part of my belief about disinflation coming is related to the secular force that I think is more dominant, which is that in the midst of a cyclical force of upward price pressure from supply constraints of 2020 and 2021, I think you're up against downward pressure on prices as a result of constraints on economic growth and the unification factor that fiscal and monetary policy lose their punch when you get to this stage of the cycle, the law of diminishing returns.

That's a theme I've written about, spoken about as much as anything in the macroeconomic dimension over the last 2, 3, 4 years. It's a theme of mine going back over 10 years. That will be a theme I'll continue to study and explore and write about for 10, 20, 30 more years. And yet in the more short term 2023 context, I am not so much making bets on where the long-term direction of treasury yields is. I'm referring to the fact that there is already goods prices disinflation playing out before our very eyes for about five, six months in a row. And that when you look to core inflation, which strips out the volatility of food and energy and the geopolitics in particular of energy, that the services inflation has largely been driven by upward pressure on housing prices. That is not real life, that is a result of the way that they measure owner's equivalent rent.

About 30% out of the 40% metric if you will, 75% of a third of this is looking at rents that basically could have been signed a year ago. And we know that there was very high rent prices and housing prices a year ago and that they started coming down let's call it April, may and really coming down September, October, November and therefore I expect to see that get caught up into the data as that lag effect wears off and I think that puts downward pressure on inflation to go with the downward pressure we've already seen in goods inflation and that if anything, one of the biggest contributors to disinflation that you're going to see in the headline number this month has been lower energy prices. That may be the one area where you continue to have stubbornly high inflation, which is most certainly not monetary.

That would be on the energy side if you do get an upward push in energy prices, which we'll talk about later.

So, Number One is that we think the inflation level is going much lower in 23, but then accompanying that call is that we believe the Fed funds rate will be lower at the end of the year and this is gutsier because it hasn't even got to its peak level yet. If you believe the Fed, if you believe the Fed fund's futures market, you're sitting at a four and a quarter rate and they're going to get it up to 5%. You have even as I'm talking today, Neel Kashkari, one of the Fed governors said he thought 5.4% would be the term of a rate. Now he's just one member of the FOMC and maybe he doesn't represent the majority, but we may have another a hundred basis points to go.

I don't think it's going to be that many, but I'm predicting it ends up being lower by the end of the year because so much of what we're talking about is priced to the short end of the curve, which the Fed has much more control over the fed funds rate. You look at the very short-term expectations in three month, six month, nine month, even up to two year treasury bills and that's more or less where the bulk of the term structure of the United States federal government debt is. And I believe that there will come a time later in the year where they can claim victory over inflation because of my point Number 1 on disinflation. They may or may not have already broken something, in which case they're going to have to go fix it and if they haven't broken something, they'll see an exit whereby they can say, wow, we really did stick this landing.

We tightened, we beat inflation and we didn't break anything. There's a lot of incentives for them to quit while they're ahead. Now they very may very well break something before or they may have already broken something, we don't see it yet. That's a separate issue, but by the end of the year, I believe you'll see them begin to be cutting the fed funds rate. What I don't expect is that we go back near the zero bound anytime immediately. If you accept a kind of three prong way of viewing these things, that there's the zero to 2% range where they're near the zero bound. That's where we basically were since the financial crisis all the way up until this year. And then there's the kind of two to 4% range and then a four to 6% range of a higher fed funds rate, and that's where they just recently got us in due.

I would argue that this year we get from the four to six, back to the two to four and that we don't go back to the zero to two this year, that planification theme that is longer term and more secular. That's why I believe eventually we end up back in the zero to two range. And I don't like it one bit and I don't say it as a good thing, but I think ultimately the sort of hair of the dog monetary policy will end up coming back to the fray. But for 2023, our forecast is for a lower fed funds rate by the end of the year it probably in that middle tier band.

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Okay, Number 3 - S&P earnings will tell you the truth about the recession. This isn't a very bold call because I'm not telling you which way it's going to tell you.

What I'm saying is that you're not going to have a recession where profits don't come down and you're not going to have a recession where unemployment doesn't go up. And if we end up saying, oh wow, unemployment never went higher and profits never came lower, but we had a recession, we will with that final point of said something that cannot be plausibly called a recession when profits don't go down, wages don't go down, jobs don't go down. It's not a recession. This is a totology and my view is that either you're going to have a recession and profit expectations in the S&P are too high right now or you are not going to have a recession. And one of the ways you'll know it is because earnings continue to outperform expectations. There is a scenario by which that could happen, but one way or the other, we're going to look at corporate profits to understand the truth about the recession versus some of the more politically inclined conversation.

I expect that we'll see happening. Okay, I will point this out. By the way, corporate profits go down this year. It doesn't mean the market goes down. All this data's in the white paper for you, but nine out of 11 times that we have recently seen negative earnings growth, so year over year profits were down from the year before. Out of the last 11 times it's happened, which I believe goes back to World War ii. Nine of those times the market was up on the year not often was because it was pricing it in ahead of time the year before. Well, we just had that happen. The market could have been pricing in some earnings contraction in 2022. Markets were obviously down a lot in 22, maybe 23 earnings comes down, but the market ends up going higher. That's something you have to constantly remember is that the market is a discounting mechanism.

It's always pricing in out to the future, not reacting to the latest news. So that needs to be said.

Number 4 is a repeat of last year's accurate prediction about value outperforming growth. Again, I have a lot in the white paper on this section and some charts and some historical data, but it's really important. I'm going to read a quote quickly from Dan Loeb is a very well-known multi-billionaire hedge fund manager and I never, ever, ever quote hedge fund managers as appeals to authority. One of the reasons is that for anything I could ever say, there's a hedge fund manager who's a rich and smart guy who says a, and there's another hedge fund manager who's a rich and smart guy who says not a, and so the appeal to authority is just offset by each other, but I think that the articulation here and the essence of what he's saying substantively is what I'm quoting not the appeal to his own celebrity or authority.

Mr. Loeb says, I tend to be more of a bottom-up analyst, but 2023 should prove to be a year of a battle of two narratives, rates and inflation on one hand versus GDP growth margins and ultimately earnings on the other markets will be further determined by the participant's outlook from current company performance versus 24 and beyond. I don't think camping out in the last decades darlings with rosaries in hand hoping for a comeback will be the winning strategy. We have already seen the revenge of the value nerds. I think more is to come. This is what I am not convinced is has washed out yet is people that are believing the big growth that were such strong performers from 2013 to 2021 that they will automatically be the big darling performers. Again, that kind of nostalgia of recent history baked in expectations hasn't gone away yet.

And generally, it does and it should because it's often not accurate fundamentally. So in if we have a further leg to go with the big cap companies, with some of the mega tech companies, we certainly have

a bigger leg to go growth and ultimately I make the argument that you just don't have reversion to the mean that is completed itself yet. Reversion of the mean and what a proper growth multiple is upward reversion of the mean and how value should be valued and most importantly, a reversion of the mean and the ratio between the two things, between how growth and value are meant to be priced relative to one another. You're still highly distorted on that front and I think that's going to be headed in the direction of values favor in 2020.

Number 5, do not underestimate the China reopening. This is a story I don't think is getting a lot of press.

I don't really know why. I do think China abandoning its utterly absurd zero Covid policies is a big deal and I think it's fair that one may say, okay, well I'm not really invested in Chinese companies and they're largely going to be the beneficiaries. And that may be true, it may not end up mattering to a lot of US stock investors about China reopening, but if one of the headwinds to markets is fears of a global recession and China's reopening does create an awful big resurgence in global trade. If you get anywhere near the kind of pent up demand consumer activity, by the way, need for oil, for output, for what have you that we saw in the US when after our reopening and when you saw in Europe after its reopening, I think it's possible we're dramatically under thinking some of those things and so there not only could be a profound economic point there, but there could be a big impact into energy.

But I want to be fair, the counterpoint is if China needs another million and a half barrels a day of oil after reopening, is it possible that the energy sources could come without it because they are such a big user or willing to use coal? Those things are very impossible to fully price and quantify, but the point I want to make is in the energy side, in global macroeconomic expectations and then ultimately longer term health than just 2023, once you get China fully open and then you still see different US companies recalibrating or potentially regionalizing their supply chain activity, then I think you get a better take on some of these de-globalization and regionalization stories that I do believe in. I do agree with, I think that there is a period right now beginning normalizing a lot of supply chain activities back on shore or even just continental on shore, Mexico, Canada something more regional, the US and a lesser reliance on China.

And yet you can't really start that process till China's reopened because until then it's all totally non falsifiable around the sense that people could just simply say, well, China's not reopened yet. We don't really know. I think giving the world some economic optics to what to expect around this regionalization theme is going to end up being a very big deal into years to come. Okay, the dollar was up huge last year.

This is point Number 6, and if indeed the dollar is not up big this year, in fact retreats as I expected to, I think emerging markets are due for a very big moment. There's a lot of valuation arguments, macroeconomic arguments, commodity arguments, but ultimately the currency has been in the way. And if you don't get currency headwind, I think emerging markets are going to be a powerful growth story in 2023.

Number 7, housing is going lower and I feel fine.

You have to understand the math of it. There's charts in the white paper to show you how much housing went up in 20 20, 20 21 and how a 10% correction just brings you down to late 21 numbers and a 20% correction just brings you back to early 2021 numbers. You would need more than a 20% correction just

to get back to pre-Covid numbers. Maybe that's not going to happen. I would say that that's probably close to the worst case scenario. And so imagine that whatever you think your house is worth now it goes down 20% and it's just back to where it was 2019. That doesn't seem like that big of a deal. It certainly makes housing a lot more affordable and yet there's others that are more like bearish, meaning they consider housing prices coming down a negative. I don't, they're bearish on housing prices.

They talk about 2008 as a framework as a reference point, and I think it's silly. I have a chart in the white paper referring to the credit quality of those that have bought homes looking at the debt versus equity ratios of where we are. And at the end of the day, we had a financial crisis around a housing bubble that had largely to do with a lot of people had no business buying any price of any home at any price, and now we mostly have pretty darn good buyers that have a lot of protective equity in the home that they have not been able to extract out of. People were able to in 2002 to 2006, house prices went up a lot and they went up too much and equity was available but it was extracted, which immediately made it what debt not equity, right?

Right now, the debt-to-equity ratio is so different that protective equity avoids a systemic collapse that feeds on itself. I'm a housing bear because I think housing was too darn expensive and it has to come down in price. That's it, and that's what I think you'll see in 2023.

Point Number 8 - China, Russia geopolitics, we will have weaker global stability at the end of 2023 than we have now. I quote my friend Renee Anna. Now the increasing trajectory of say no Russian bilateral relations comes to the expense of the collective west, particularly on the economic decoupling front. The Russia China relationship adds to my macro thesis about instabilities in the world, monetary, fiscal and geopolitical requiring more stability within a portfolio, higher quality, more cashflow generation, lower duration, et cetera.

Point Numbrer 9 - consensus skepticism on private markets is wrong. I do not believe that a lot of the bearishness people have on private markets will come to fruition.

I do believe there will be pockets and there will be stories, there will be bad underwriting, but that ultimately there will prove to be a huge dispersion between the good underwriters, high quality managers, and the poor ones. That's a different story than believing that all illiquidity is headed for trouble.

And then point Number 10 - I don't believe that the energy story is dead. I believe you may very well not be the top performing sector. We already mentioned it was up 59% last year, 48% of the year before, but still largely unowned. It's severely under owned. It's a very low weighting in the index. There's no sense here in which there's been a kind of euphoric bubble forming around energy. If you have a global recession, you're definitely going to see a lot of demand erosion. That's the most bearish thesis, but you also have a lot of upside potential to underlying commodity prices and you certainly have an upside potential around the world realizing we're in need of greater production, liquified natural gas, crude oil, et cetera, and so we continue to want to be invested in the energy story.

Those are our 10 themes for 2023. I wish I could tell you what I thought the market was going to do this year. I wish that I believed that the market having a really bad year one year meant something about the next year. History is filled with stories. I give you the exact data, the exact years, the exact performance numbers. History is filled with years where one really bad year, the next year everything was worse and history's filled with years where one really bad year the next year everything was up huge. History does

not tell us what to expect about the year after a bad year. There is election cycle issues. There's a lot of people that believe generally the third year of an election cycle is almost never negative. It really, I think has been up 82% of the time for the last a hundred years and so perhaps people find some historical precedent in that.

I would just simply say that the biggest fundamental question will be out of the effects of monetary tightening the Fed has done, do you end up getting recessionary impact that is not yet priced in a market? That's going to be the big question and the uncertainty around what the Fed's going to do and not do, what the economy's going to do and not do what the market's already priced in or not priced in or out, whether the economy's going to do or not do. Those are the reasons we want to favor high quality, more value, more cash flow generation, and that's our outlook for 2023. A lot of it is similar to 2022 because the other than flipping the calendar, much of the story hasn't changed, so our outlook hasn't changed. Those are our kind of big themes for 2023, the report card for 22. Reach out with any questions. I really do hope you've gotten a lot out of this. I hope you'll share our white paper deep and wide. We appreciate you forwarding it to anybody you want. Share this video, share this podcast. I think most of the kind of year in review research you're going to get from Wall Street is very vanilla, very safe, and quite frankly, usually very unhelpful. I'm hopeful that this has been helpful. Thank you for listening to and watching the Dividend Cafe.

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