



# WISCO

Investment Management

Fourth Quarter 2022

## DEAR CLIENTS & FRIENDS;

**The Wisco-managed ETF portfolios performed well in the fourth quarter.** Our lower risk portfolios (Conservative & Balanced) were up in the 5-6% range while our higher risk portfolios (Growth & Aggressive) were up in the 8-10% range. Performance was driven primarily by gains in domestic and international equity markets.

**The U.S. and International stock markets rebounded in the fourth quarter, rising 7% and 15%, respectively.** Stock markets were pummeled earlier this year due to escalating inflation, rising rates, and increasing global recession concerns. With that said, we believe the positive returns this quarter were driven by signs of moderating inflation and a foreseeable end to the tightening cycle (next Spring). The Fed has moved up its target rate to 4.25%-4.5% with expectations for another 75 basis points over the next few meetings. With the increase in rates, inflation is now expected to decline to 3.9% in 2023 from over 8% in 2022. In our view, attractive valuations and improving sentiment as inflation falls will be a catalyst for global stocks over the next 12-18 months. Generally, the most attractive returns from equities come in the early stage of an economic expansion cycle.

**Fixed Income performance was modestly positive in the fourth quarter.** Rising inflation and interest rates crushed the fixed income markets this year (generally treasury rates and bond returns move in opposite directions). The 10-year treasury increased from 1.5% at the beginning of the year to 3.9% at year-end (but remained relatively stable in the fourth quarter). The yield curve remains inverted as shorter rates remain elevated compared to longer rates. This is often a signal for slower future growth expectations, which we believe is currently priced into spreads. For the first time in years, fixed income investors are earning yields of 4-5% from safe assets like money markets and CD's. We also believe that as inflation normalizes, we could see interest rates moderate a bit, which would be beneficial to fixed income securities.

**Commodity markets were generally positive in the quarter.** Our position in a Gold ETF increased 10% in the fourth quarter while our position in a broad-based commodity ETF was up in the low single-digits. Crude oil ended the year at \$74 a barrel (flat in the fourth quarter) which was considerably lower than the \$120 per barrel peak in early March (at the onset of the war in Ukraine). Wisco uses alternative exposures (like metals, agricultural products, and energy) in our ETF portfolios as they tend to be less correlated to stocks and bonds and improve portfolio diversification.

**As a reminder, our policy is to rebalance client portfolios on at least a semi-annual basis.** To that end, we plan to complete our January rebalancing over the next few weeks. Feel free to contact us to discuss the rebalancing of your portfolio, your targeted risk level, or any other life changes that may be relevant to how your portfolio is invested.

Lastly, we know how challenging and stressful market corrections can be. We're also aware that during periods of high volatility it's natural for investors to second guess their investment choices. With that said, we would like to reinforce the importance of remaining disciplined to your long-term investment strategy. **The one thing history has proven is that financial markets return to normal with time.**

At Wisco, we believe our approach of designing well-diversified, low-cost investment portfolios is the best way to produce favorable results over time. We would like to thank you for providing us with the opportunity to work with you as your investment advisor. We appreciate your business!

Sincerely,

*The Wisco Team*



## Fourth Quarter 2022

# Wisco Investment Management

Wisco-managed portfolios are constructed using five asset classes: Domestic Equity, International Equity, Domestic Fixed Income, Alternative Investments and Prime Money Funds. Our current asset class allocations are as follows:

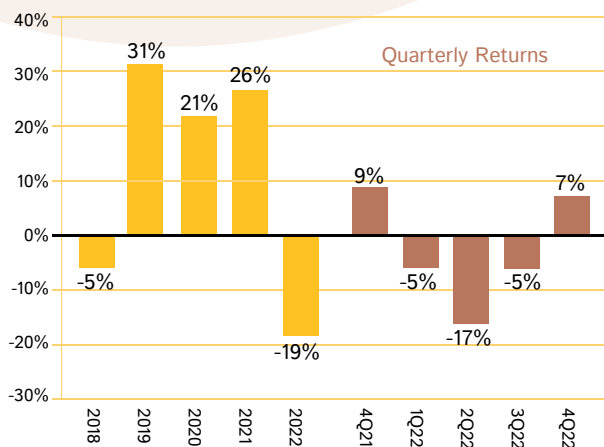
### WISCO MANAGED PORTFOLIOS

|                         | Conservative | Balanced | Balanced Growth | Growth | Aggressive |
|-------------------------|--------------|----------|-----------------|--------|------------|
| Domestic Equity         | 29%          | 38%      | 46%             | 55%    | 65%        |
| International Equity    | 9%           | 13%      | 16%             | 21%    | 26%        |
| Domestic Fixed Income   | 49%          | 38%      | 28%             | 16%    | 4%         |
| Alternative Investments | 3%           | 3%       | 3%              | 3%     | 3%         |
| Money Market            | 10%          | 8%       | 7%              | 5%     | 2%         |
| Total                   | 100%         | 100%     | 100%            | 100%   | 100%       |
| Target Volatility*      | 6%           | 8%       | 10%             | 12%    | 15%        |

\*Target Volatility is our estimate for the annual standard deviation of portfolio returns.  
Source: Wisco Investment Management LLC

## Fourth Quarter 2022 Market Review

### DOMESTIC EQUITY



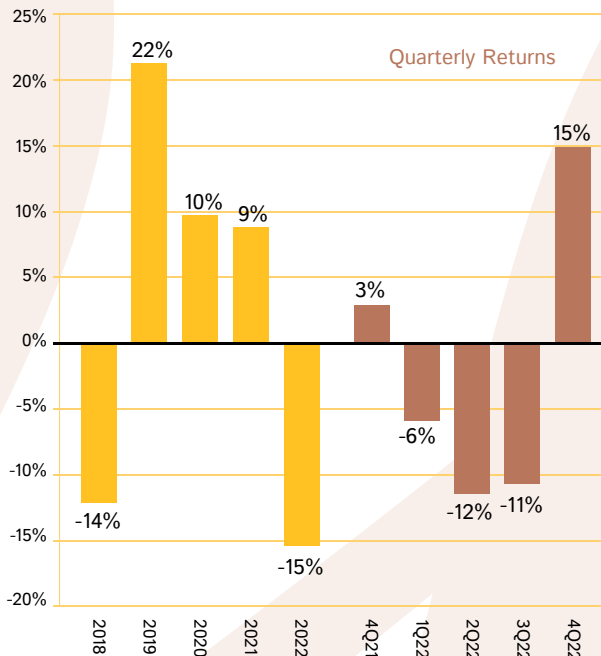
Source: Dow Jones U.S. Broad Stock Market Index and Wisco.

The stock market increased 7% in the fourth quarter, for the year the market declined 19%. The S&P 500 ended the year at 3840, 20% below its Jan. 4, 2022 all-time high of 4819. Small-cap stocks increased 8% in the quarter but declined 20% for the year. Large-cap, high dividend stocks performed best increasing 15% in the quarter and declined just 3% for the year. The United States 3Q22 GDP increased 3.2%, returning to growth after two consecutive quarters of negative results. S&P 500's

earnings increased 3% in 3Q22, with strength in Energy (+137%), Real Estate (+19%) and Industrials (+16) partially offset by weakness in Communication Services (-23%) and Financials (-19%). Wall Street analysts are projecting S&P 500 earnings growth of 6% in 2022 and another 5% in 2023. To achieve earnings growth in 2023, these projections suggest we will have a 'soft landing' in 2023 and that the Federal Reserve's efforts to reduce inflation by increasing interest rates won't result in a deep recession. While a recession in 2023 is possible and an inverted yield curve may even suggest it is likely, there are reasons to be optimistic about 2023. First, the Fed will likely stop increasing rates at some point in 2023. Plus, government spending on infrastructure will likely ramp up in 2023. Finally, supply chain issues should continue to abate as China moves past covid restrictions.

The Fed's efforts to reduce inflation resulted in 2022 being a painful year for investors. Going forward, domestic stocks look more attractive on a valuation basis than they have in the last few years. The S&P 500 is trading at 17x forward estimates, compared to 21x at this time last year. Given this improved valuation, we are increasing domestic equity exposure in all our client portfolios. We prefer large cap dividend payers to small growth companies.

## INTERNATIONAL EQUITY

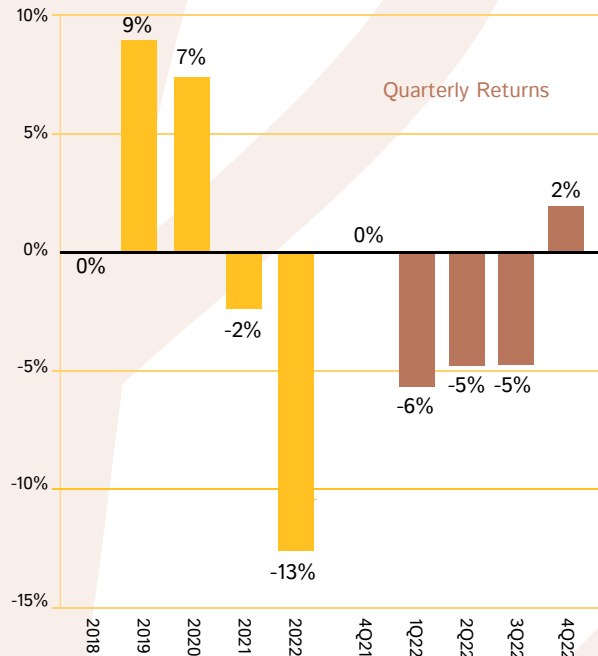


Source: MSCI ACWI ex USA and Wisco

International markets increased in the quarter, but decreased for the year, with the MSCI All World Index (+15% in 4Q22, -15% in 2022), FTSE Developed Large Cap Index (+17%, -15%), FTSE Small Cap Index (+15%, -22%), and FTSE Emerging Market Index (+8, -18%) all following this trend. In Europe, most markets were up the quarter with Poland (+40%, -24%) and Hungary (+33%, -25%) posting some of the best quarterly yet worst annual returns on the continent. For the year, most European markets were down, however, Greece was slightly positive. Asian markets also followed the trend of strong quarterly and weak annual results, as seen in Hong Kong (+16%, -13%), South Korea (+17%, -29%), and Japan (+11%, -19%). In emerging markets, Brazil (+2%, +10%) was a highlight, while Shanghai (+4%, -22%), Taiwan (+10, -32%) and Mexico (+12%, -4%) followed a similar pattern to the rest of the world.

International stocks outperformed domestic stocks this year for the first time since 2017, as growth stocks (i.e. U.S. stocks) fell more than value stocks (i.e. international stocks). Wisco increased international exposure in July based on its compelling valuation relative to U.S. and we continue to hold foreign equities in all our client portfolios.

## DOMESTIC FIXED INCOME



Source: Barclays Capital U.S. Aggregate Bond Index and Wisco.

The Barclays U.S. Aggregate Bond Index increased in the quarter but decreased for the year (+2% in 4Q22, -13% in 2022), Intermediate Treasuries (+1%, -11%), Short-term Investment Grade (+2%, -6%), Long-term Investment Grade (+5%, -26%) and High Yield (+5%, -11%) followed a similar pattern. The 10-year treasury yield started 4Q at 3.80%, increasing to 4.33% on October 20th only to close the quarter at 3.88%. Annual inflation (CPI) in November came in at 7.1%, down from June's 9.1% peak. The Fed continued to increase interest rates. The target range is now 4.25-4.50%, its highest level in 15 years. The Fed has reduced its balance sheet \$400B from its April peak and now holds \$8.6T of securities. The money supply (M2) now stands at \$21.4T flat YoY and down slightly from its March peak.

The quarter put a positive spin on what was a historically bad year. Furthermore, the Fed is projecting another 75-basis point increase in rates in 2023. That said, it is possible most of the pain from fighting inflation is behind us. In addition, yields on some Fixed Income investments are the best we have seen in over a decade. Therefore, we are increasing our client's Fixed Income exposure and prefer short duration bonds to long duration bonds.

## ALTERNATIVE INVESTMENTS

The Dow Jones-UBS Commodity Index increased 2% in 4Q22 and 17% in 2022. In agriculture, grain prices were mixed. Wheat prices declined 14%<sup>1</sup>, corn prices were flat<sup>1</sup> and soybean prices increased 11%<sup>1</sup> in 4Q22. For the year, all three grains have increased in price with wheat, corn, and soybeans up 3%, 14% and 14%, respectively. Wheat prices fell in the quarter as Ukraine ramped up shipments, while soybeans and corn prices were impacted by drought conditions in Argentina.

Precious metal prices were up in the quarter. Silver increased 26%<sup>3</sup> and gold prices increased 10%<sup>2</sup> in 4Q22. For the year, silver increased 3%, while gold was down 1%. A weaker dollar in the quarter likely helped both metals, while a stronger economy likely boosted silver prices.

The Cushing, Oklahoma spot price for WTI crude oil was flat in the quarter and is up 6% for the year. While supply shocks from the

Ukraine War drove prices higher early in the year, softening demand especially in China later in the year offset most of these gains.

Wisco is going to sell out of all our client's commodity exposure this month, except for an allocation to a gold ETF. While higher inflation helped most commodities in 2022, we feel lower inflation and less growth will be a headwind in 2023. Gold is not as economically sensitive as other commodities and helps diversify portfolios.

## PRIME MONEY FUND

The prime money fund currently yields 4.4% and this yield will likely go higher as the Fed continues to raise rates. We hold a prime money fund in all our client accounts, with more exposure in conservative accounts.

1. Return calculation based on the near future contract as quoted in the Wall Street Journal.
2. Return calculation uses Aberdeen Physical Gold Shares (SGOL) as a proxy for gold.
3. Return calculation uses Aberdeen Physical Silver Trust ETF (SIVR) as a proxy for silver.
4. Return calculation uses Cushing, OK WTI spot price FOB as a proxy for oil.

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*Wall Street to Wisconsin*