MIRACLE MILE ADVISORS
With You Every Mile

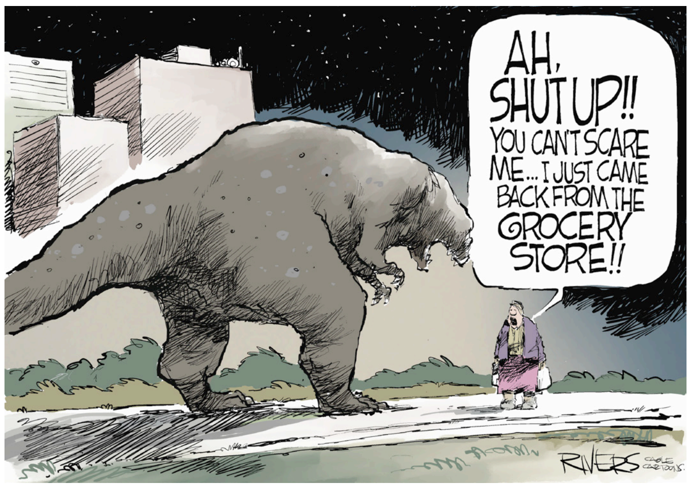
Quarterly FINANCIAL FOCUS
Fourth Quarter 2022

Enter Inflation Stage Left and Right

After remaining tame for the better part of 40 years, inflation took center stage in 2022.

Whether it was buying a car, booking a plane ticket, or just a trip to the grocery store, rising prices had a noticeable effect on our daily lives in 2022. Not only did inflation impact consumer spending power, but it also had an outsized effect on the financial markets.

To battle inflation, central banks, led by the Federal Reserve, raised interest rates at the fastest pace in history. This aggressive change in monetary policy set into motion a large-scale re-pricing across the financial system with most asset classes being negatively impacted.



High growth stocks and other risky asset classes, such as crypto currencies, suffered the most; but even safer investment choices, such as bonds, also declined by double-digits. Investing defensively by moving away from expensive stocks and bonds coupled with using a variety of alternative investments was the right playbook last year and helped add significant value across all asset classes.

While higher interest rates contributed to poor investment returns in 2022, they have also created some attractive investment opportunities for investors looking forward. For the first time since 2007, investors can purchase high quality bonds yielding over 5% which will substantially boost portfolio income. Furthermore, pockets of the equity markets are starting to reach attractive valuation levels.

While we expect that uneven economic data and geopolitical uncertainty will continue to drive volatility in the short-term, we are seeing positive signs that economic growth will rebound in the second half of 2023. Given the forward-looking nature of the markets, we think that most of the pain is behind us, however, we remain cautious as the Fed remains determined to quell inflation at the cost of economic growth.

In our quarterly financial focus, we will go into more detail on our outlook for 2023, offer timely planning tips around retirement strategies as well as give an update on our expanded service offering from our recent merger.

Market Snapshot
Data as of 12/31/22[1]

Growth	Q4 2022	2022	Last 3 Years
Global Equities	9.76%	-18.36%	4.00%
U.S. Large Cap Equities	7.56%	-18.11%	7.66%
International Developed Equities	17.40%	-14.01%	1.34%
Yield			
High Yield Bonds	4.17%	-11.19%	6.22%
Stability			
U.S. Tax-Exempt Fixed Income	4.10%	-8.53%	-0.21%
U.S. Taxable Fixed Income	1.87%	-13.01%	-2.71%
Diversification			
Commodities	6.16%	20.63%	15.25%
Gold	9.45%	-0.74%	4.75%

2022
A Year in Review

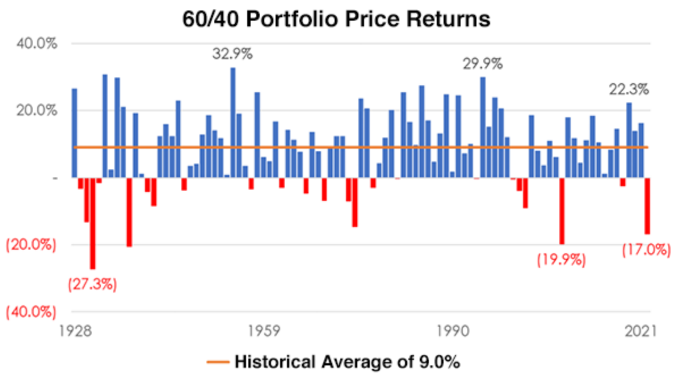
Elevated inflation rates took investors, pundits, and the Federal Reserve by surprise in 2022. In the effort to mitigate what once was called "transitory inflation," the Fed raised interest rates seven times over the course of the year and projected that more hikes are still to come. As recently as a year ago, the Fed predicted that the federal funds rate would barely exceed 2% by 2024. It now expects the rate to be more than 5% in 2023.[2]

As a result of the rapid rise in interest rates, and their very low starting point, both equity and fixed income markets fell into bear markets during 2022. While Q4 witnessed a broad market recovery due to a softening U.S. Dollar, the traditional 60/40 portfolio (60% equities / 40% fixed

Continued on page 2

2022 - A Year in Review

Continued from page 1



NYU "Historical Returns for the US"[3]

income) still endured one of its worst returns over the last twenty years.

While most asset classes were negatively impacted by rising rates, there were some outperformers in 2022, namely commodities. Overall, portfolios were aided by a defensive tilt within equities and bonds as well as exposure to non-correlated asset classes.

Portfolio Positioning for Slower Growth

As we start 2023, risk sentiment in the markets remains defensive.

The pace of Federal Reserve hikes caught the market off guard in 2022 and there is still a lot of unknowns around how much this campaign impacted the broader economy. We expect that market volatility will remain high in the beginning of the year and thus we remain defensively positioned going into 2023. However, we do have the intent to adjust risk opportunistically as the year unfolds.

Annual S&P 500 Return

In years where earnings growth is (10%) or below

Year	Return
2020	18.0%
2015	1.0%
2008	(37.0%)
2001	(12.0%)
1991	30.0%
1985	32.0%
1982	22.0%
1975	37.0%
1970	0.0%
1958	38.0%
1951	16.0%
Average	**13.2%**

Macro-Outlook for 2023

The push by central banks to tame inflation appears to be working as recent inflation data suggest that the pace of rising prices has slowed. The International Monetary Fund ("IMF") is forecasting that the rate of global inflation will drop from 8.8% to 6.5% in 2023.[4] However, this comes at a cost to economic growth as the same organization is predicting global GDP growth to slow from 3.2% in 2022 to 2.7% in 2023 – which would be the third slowest global growth rate since 2001 (Great Financial Crisis and Covid Crisis were both lower).[4] In the U.S., growth forecasts are even lower as 60% of economists believe that the U.S. will enter a recession in 2023 according to a recent Reuters poll.[5]

While the risk of a recession in the U.S. is relatively high, the slowdown in growth is expected to be mild compared to past recessions. This is in large part due to the strength of the U.S. consumer, which makes up roughly 70% of U.S. GDP. U.S. household leverage, which measures the amount of debt that American households have relative to their disposable income, is still below pre-Covid levels and is significantly lower than where it was before the Great Financial Crisis. Furthermore, the consumer is supported by a strong job market, where there are currently 1.7 jobs for every candidate, and the unemployment rate is 3.7%, which is close to its lowest level in the last 50 years.[6]

We believe that U.S. economic growth will slow in the first half of the year, but the reduced pace of Fed hikes and even potential rate cuts in the second half of 2023 could lead to a rebound.

Key Predictions

- The Federal Reserve will stop raising rates mid-year
- The unemployment rate will tick-up and wage growth will slow but remain sticky
- U.S. GDP will be slightly positive as strong employment trends balance out softening business spending

Equities - We expect to bottom in early '23

The stock market has several headwinds - the two main ones being bear market statistics and forward earnings. The bear market that we are currently experiencing has been uncharacteristic, as market bottoms during bear markets typically come with higher peak volatility, higher interest rates, higher unemployment, higher credit spreads, and lower valuations than what is seen today. While some of the milder data points to date can be justified with the unusual economic landscape that COVID left us, we are cognizant of being too quick to dismiss them and saying that "it's different this time".

The market is beginning to bet on a rapid decline in inflation, fewer jobs, and consumer and corporate savings. While we generally agree with this theme, we do not expect the developments to be immediate and are aware that the market could likely give back some recent gains and even possibly retest the 2022 lows before making a more sustainable advance.

Part of the reason that the near-term scenario is lacking optimism is due to poor corporate earnings growth. U.S. recessions have always been accompanied by declines in corporate profits, which have yet to be fully seen in today's environment but will likely come in early 2023. Current earnings guidance for 2023 is projecting a decline of ~-10%. However, negative earnings do not always result in negative stock returns. Since 1950, there have been eleven instances where the S&P 500 saw earnings decline by -10% or more, and of those eleven instances, just two resulted in a negative return for the S&P 500 that year (see chart).[7]

While stock market bottoms are hard to time, they have historically led to a change in category leadership, which has been one of our paramount focuses. Some areas that we favor in equities are value, small-cap, and foreign stocks - which are all areas that have underperformed relative to the S&P 500 Index over the last 10 years.

Fixed Income – *Opportunities in Quality Income and Credit*

2022 was one of the worst years on record for bond investors, thanks to the very low starting point of interest rates and the rapid increase in short-term rates by the Fed. The silver lining is that the bond market has reset to now offer significantly better investment characteristics as part of the new, higher rate investment regime. As the economy heals, we expect the inverted yield curve to normalize, and we currently see opportunities in:

- **Short-term Treasury bonds**. Yields on short-term Treasury bonds have been pushed above 4% by the Fed's aggressive rate hikes, offering a compelling return for AAA rated assets.
- **Medium-term corporate and municipal bonds**. Unlike the previous decade, it is now a lender's market where risk is properly compensated. Investment grade corporate debt is providing reasonable yields of ~5%, and lower quality, high yield bonds are yielding ~8%.[8] The fundamentals of most issuers in the fixed rate market remain sound and most investment grade companies have strong balance sheets to help them weather an economic downturn.

Diversifier Investments – *Risk Mitigators & Opportunities Across Asset Classes*

In the past, investors with longer time horizons have used greater stock market allocations for potentially higher returns and have complemented their portfolios with bonds to reduce the stock market risk. The backbone that makes this stock/bond portfolio successful is the notion that stocks and bonds often act in opposing ways, otherwise known as negative correlation. However, negative stock and bond correlation has been the exception over time, not the rule. While low inflation environments, like what we had until recently, are synonymous with negative stock and bond correlations, elevated inflation environments coincide with positive stock and bond correlations. As we remain of the view that inflation will remain sticky and interest rates elevated in the years ahead, we believe the use of other assets in portfolios is needed to achieve desired risk outcomes no longer available with stock/bond positive correlation. This is our basis for adding several asset classes with specific roles in portfolios, namely:

- **Private Credit**. Credit risk has not changed meaningfully in this market despite yields having increased. In other words, investors are being provided with favorable investment terms.
- **Commodities**. One of the best performing asset classes of 2022, commodities, should continue to be useful in this market environment due to longer-term supply constraints affecting many basic markets.
- **Gold and Precious Metals**. A subset of the broader commodity complex, this asset class is now poised for better performance thanks to a peak in the U.S. dollar and the potential for a decline in real interest rates, a combination that has historically been productive for gold.

Market Summary

2022 witnessed a rare cycle of economic and market events that saw stocks and bonds fall into bear markets at the same time as inflation took hold, which ushered in a new investment landscape.

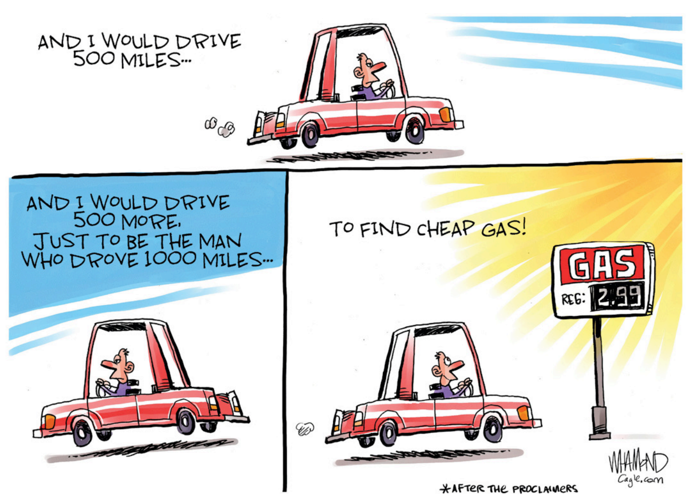
As we enter the new year, recession rather than inflation will be the focus. Indications are for flat economic growth, and the weakening economy should bring inflation and wage growth down to allow interest rate hikes to cease by mid-year. We expect the coming economic slowdown to be mild and opportunities to exist in select areas of the stock, bond, and alternatives markets as the recovery from 2022 starts to take place.

While we expect improvement in 2023, the new macro landscape will not take form over a one-year time period. We believe inflation and interest rates will remain elevated relative to pre-pandemic levels in the years ahead. A higher real interest rate regime means we need to embrace other assets for both returns and portfolio risk management.

Planning for the Year Ahead

Investing is always an uncertain exercise in the short-term.

These days, there is more unpredictability than in any period in recent memory. The good news is that sound financial planning enables clients to maintain a longer-term focus and take advantage of temporary market weakness that help achieve lasting financial security. While defense might be prudent in portfolios, we've been helping clients go on offense in 2022, leveraging lower portfolio values and favorable tax rules to maximize opportunities on the financial planning side of the equation. From inflation to recession, 2023 portends to be another year of ambiguity. However, despite the noise in the financial markets, there are many planning opportunities to consider. While we may not be able to predict the future, we can prepare for it.



The IRA 'Problem'

Many individuals have a significant portion of their wealth in retirement accounts such as IRAs and 401Ks. While a large retirement account sounds healthy on paper, it may not actually be the most fiscally responsible. As an IRA balance grows, so does the retirement debt that will be owed in the form of taxes to Uncle Sam.

The good news is that with proper planning, clients can keep the benefits of tax deferral by transitioning a portion of IRA funds to a permanent life insurance policy (with a long-term care rider) or to a Roth IRA (via a Roth conversion).

These strategies are beneficial for two reasons:

1. **Smoothing out retirement plan distributions**. One way of tackling the tax issue is to 'smooth out' retirement distributions. This involves the relatively counter-intuitive step of taking taxable distributions from tax-deferred retirement plans earlier in retirement, often long before distributions are required. By taking distributions earlier in retirement, usually to 'fill up' the remainder of their tax bracket during the early years, the pool of assets used to figure Required Minimum Distributions ("RMDs") ends up being smaller, and RMDs are less likely to push income into a higher tax bracket once they do come due.

2. **Tax-efficient estate planning**. Paying taxes now also may make sense for estate planning purposes. The IRS will collect taxes from distributions, either before or after death. Paying taxes now on a lower balance at a potentially lower tax rate frees up funds to help create an improved long-term financial plan. For example, a permanent life insurance policy with a long-term care rider will create another asset pool to tap for the cost of care or (unlike traditional IRAs) pass to heirs tax-free.

Please reach out to your Miracle Mile advisor to discuss how long-term planning can have a positive impact on you and your family.

Planning Strategies in a High-Interest Rate Environment

The rapid ascent of interest rates over the last 12 months has led to high volatility and a decline in most asset prices across the board, thus creating an attractive opportunity to potentially move assets outside of your estate or into more tax-efficient vehicles at discounted valuations.

The estate-tax exclusion was raised to $12.92 million per individual in 2023.[9]

The volatility, direction, and level of interest rates all factor in the type of planning strategies that might be used to creatively shift assets outside one's estate; careful planning with your trusted advisor is highly recommended.

Another Year in the Books

In 2022, we continued to re-invest in our firm's award-winning capabilities and most importantly, our incredible team of advisors and support staff. Our service-oriented mindset has continued to attract top-industry talent, and this year we were fortunate to partner with a like-minded firm in Karp Capital Management. The addition of the Karp team has expanded the depth and breadth of our expertise, specifically on our investment team, and will allow us to continue to improve the quality of the advice that we provide.

Overall, our hard work has not gone unnoticed. Miracle Mile Advisors continues to be recognized by our industry peers as one of the leading RIAs in the country. We were named one of *Barron's Top RIAs*, *InvestmentNews' Best Places to Work*, and had advisors listed on the *Forbes Top Women Wealth Advisors*, *Forbes Top Next-Gen Wealth Advisors*, and *Barron's Top 100*.

A Word of Gratitude

Lastly, we wanted to say thank you. We take our role as financial advisors extremely seriously and work incredibly hard to provide high-quality advice and award-winning service. Many of you have not only entrusted us with your own financial lives but also referred your friends and family. Your actions speak louder than any awards or accolades and we sincerely appreciate each and every one of you.

SOURCES: **1** The following benchmarks are used for each category: Global Equities = MSCI ACWI Net Total Return. U.S. Large Cap = S&P 500 Composite Index. International Developed Equities = MSCI Developed EAFE Index. High Yield = Bloomberg Barclays High Yield Bond Index. U.S. Tax-Exempt Fixed Income = Bloomberg Barclays Municipal Bond Index. U.S. Taxable Fixed Income = Bloomberg Barclays Aggregate Bond Index. Commodities = Dow Jones Commodity Index. Gold = S&P GSCI Gold Total Return. The last 3 years' data is annualized. **2** https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20220921.htm **3** https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html 60% equities are represented by S&P 500 including dividends. 40% fixed income used US T-Bond until 1975, and then US Aggregate Bond Index starting 1976. **4** https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022 **5** https://www.reuters.com/markets/us/us-heading-into-shallow-recession-no-respite-rate-hikes-yet-2022-12-09/ **6** https://fred.stlouisfed.org/series/UNRATE/ **7** Data sourced from Strategas **8** Yields are reflective of ycharts "Corporate Yields by Rating" as of 12/28/22 **9** https://www.irs.gov/businesses/small-businesses-self-employed/estate-tax