First Quarter Updates

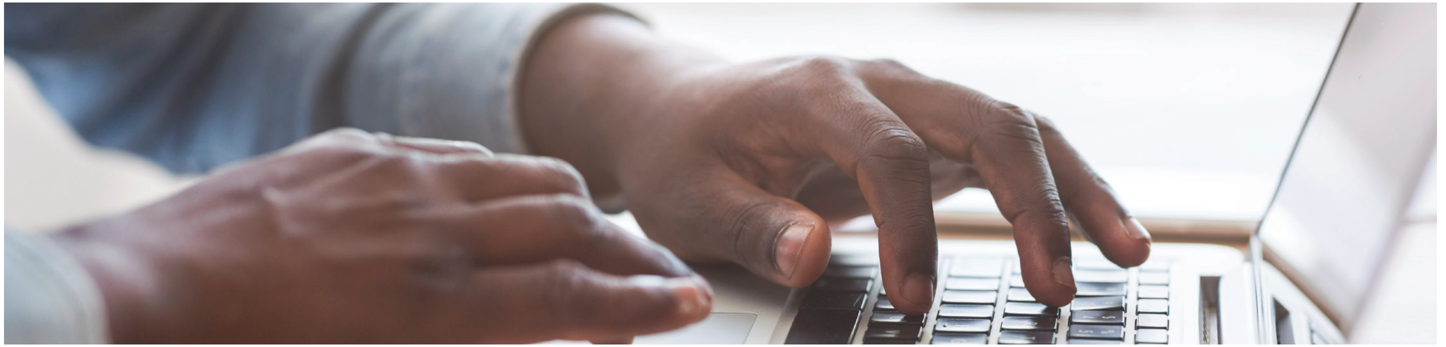
2022 was a challenging year for markets due to mounting inflationary pressures exacerbated by continuing supply shortages, the ongoing effects of the COVID-19 pandemic, the Russia-Ukraine war, and a global energy crisis. Global equity markets were down across the board, with U.S. large-cap stocks declining -18.11%, international developed markets declining -14.45%, emerging markets declining -20.09%, and the Asia-Pacific region declining -17.22%. Similarly, bond markets experienced their worst year in decades, suffering double-digit declines across most sectors as central banks embarked on a rate-hiking cycle in an attempt to quell inflation. As 2022 came to a close and we transitioned to 2023, there are early indications that inflation has begun to trend in the right direction; and economic growth has thus far proven resilient, albeit at a slowing rate, following contracting GDP readings in the first half of 2022.

Looking Ahead...

While many of the primary market drivers during 2022 remain in 2023, we believe there will be a notable shift in tone as investors increasingly focus more on the impact of economic recession. While a recession is not a foregone conclusion, we believe the odds tilt in that direction over the next 12-24 months. The decline in equity markets during 2022 was driven in large part by investors pricing in the impact of elevated inflation on forward price-to-earnings (P/E) multiples–something we routinely refer to as multiple compression. 2023 will, to some degree, reflect a second round of valuation adjustments as investors assess the impact of mounting recession odds on corporate earnings. Notably, equity markets often act as a leading indicator to economic recession, with stocks already embarking on a recovery phase by the time economic recession is confirmed by data. Within the equity space, we look for an emphasis on quality, dividend-paying stocks at relatively reasonable P/E multiples from companies with the ability to generate free cash flow.

Inflation and interest rates, of course, remain in focus. While we believe the U.S. Federal Reserve (Fed) is not finished raising rates, we believe we are close to the end of the rate-hiking cycle. This, however, should not be misconstrued as being poised to reverse course and start cutting rates any time soon. Rather, we believe the Fed will keep its short-term target rate elevated until data, which lags economic activity, confirms, with a high degree of conviction, that inflation is not only trending in the right direction, but is soundly under control–a period that can take months and likely quarters. What this means with regard to bond investors is that we are favoring shorter-dated over longer-dated maturities. One consequence of the Fed's aggressive rate hiking cycle is that we're seeing the most attractive short-term bond yields that we've seen since before the Great Financial Crisis. We have a preference for Treasury securities in the current environment. While we generally favor high quality investment grade corporate bonds, we remain wary as credit spreads are still relatively narrow and would likely widen in the event of an economic recession. We believe this is an area to watch closely and could present opportunities as the year progresses.

We believe that elevated market volatility will continue in 2023. While this can be unnerving in the short term, it's important to recognize two things that we often try to put into perspective as active managers–1) this is what markets do, and 2) volatility creates opportunity. Maintaining discipline, focusing on the criteria noted above, and being receptive and open to new information as it becomes available are key components that we adhere to in order to successfully navigate markets regardless of what may be in store for us in 2023 and beyond.



SECURE Act 2.0

In the waning days of 2022, President Biden signed the omnibus spending bill into law, a far-reaching piece of legislation including $1.7 trillion of spending. One component of this legislation is the SECURE Act 2.0, which significantly changes retirement plans.

As a refresher, Congress first passed the SECURE Act in December 2019, which took effect January 1, 2020. This bill made many changes to retirement plans, including raising the age for required minimum distributions (RMDs) from traditional IRAs from 70.5 to 72 and eliminating the “stretch IRA” by requiring non-spouse beneficiaries of IRAs to withdraw the balance of an inherited IRA within 10 years.

The SECURE Act 2.0 makes additional changes to retirement plans, and here are some highlights:

- Increasing the age that triggers RMDs from 72 to 73. Eventually, it will increase to 75 in 2033. If you have reached the age of 72 by January 1, 2023, you will continue to take your RMDs. However, if you turn 72 in 2023, you do not need to take an RMD this year.
- Beginning in 2023, individuals over 70 ½ may elect a one-time gift of up to $50,000 from their IRA directly to a Charitable Remainder Unitrust or Charitable Remainder Annuity Trust. This amount will count toward an RMD, if applicable.
- Catch-up contributions to a traditional or Roth IRA for individuals over 50 will now be indexed to inflation (currently the catch-up amount is $1000).
- Individuals under 59 ½ typically pay a 10% penalty on withdrawals from certain retirement accounts, unless they meet an exemption. Effective 2024, a new exemption will be available “for purposes of meeting unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses,” allowing withdrawals up to $1,000 penalty-free.
- Starting in 2024, a 529 plan may be rolled into a Roth IRA account if certain criteria are met.

Reach out to your Camden National Wealth Management client advisor if you have any questions about these changes and how they may impact your planning.

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Camden National Wealth Management provides investment management, goals-based financial planning, and trust and estate services to individual and institutional clients in Maine and throughout the United States. Our highly credentialed team averages 25 years in the business and includes Chartered Financial Analysts, estate planning attorneys, CTFA trust specialists, and financial planners. Together, we bring a customized investment and planning approach to meet each client’s unique financial needs.