"It's not whether you get knocked down, it's whether you get up."— Vince Lombardi

Last year proved challenging for the market as the Federal Reserve raised interest rates aggressively to counteract high inflation. Higher interest rates and the prospect of slower growth put pressure on individual company valuations and the market as a whole. Stocks got "knocked down" into June but staged a rally, only to be knocked back down again into October. In our last letter we said, "As market participants see progress on the inflation front, stocks should act better going forward into 2023." We did indeed see progress and the Dow Jones and S&P 500 indexes ended the year well off those October lows.

Investors appear to be looking for two very different outcomes for 2023. The first scenario is that we are heading for an economic recession caused by aggressive Fed tightening to slow the economy. Corporate earnings could decline significantly and so might the valuation the market places on those earnings. A 20% decline in the indexes from here could be the outcome under this scenario.

The other group of investors believe these headwinds have largely been discounted by last year's market declines. The S&P 500 was off over 25% at its worst and the Nasdaq roughly 35%. Many individual stocks declined more. The "soft landing" investor group seems to be comfortable with today's valuations as they perceive an economy that holds up. They point to continued healthy employment, a resilient consumer and a reopening of China's economy as supportive of this view.

The Federal funds futures are pricing in that the Fed will pause their rate hikes over the next several months and that these last couple rate increases will be relatively small. The investment environment has improved since October as the economy has held up better than anticipated and inflation has trended lower. There is less need for the Fed to keep hiking rates.

Importantly, stock leadership has changed. Where high growth names selling at high valuations led the market performance for many years, companies with more of a value orientation, great balance sheets and the ability to pass on inflation, are showing strength.

Market indicators are pointing to the end of Fed rate hikes soon. The Fed, however, is continuing to express the need to see interest rates higher and to stay higher for longer. This difference between the more

11766 Wilshire Boulevard, Suite 845
Los Angeles, California 90025
310.893.6060
www.LSAdvisors.com

L&S ADVISORS

hawkish rhetoric of the Fed and the more dovish expectations of the market could lead to volatility going forward. Our expectation is that pullbacks and consolidations in stocks will occur within an overall positive environment for equities.

Ralph Scott
Chief Investment Officer

Craig Weston
Senior Managing Director

Matthew Nussbaum
Portfolio Manager & Senior Research Analyst

DISCLOSURES:

L&S Advisors, Inc. ("L&S") is a privately owned corporation headquartered in Los Angeles, CA. L&S was originally founded in 1979 and dissolved in 1996. The two founders, Sy Lippman and Ralph R. Scott, continued managing portfolios together and reformed the corporation in May 2006. The firm registered as an investment adviser with the U.S. Securities and Exchange commission in June 2006. L&S performance results prior to the reformation of the firm were achieved by the portfolio managers at a prior entity and have been linked to the performance history of L&S. The firm is defined as all accounts exclusively managed by L&S from 10/31/2005, as well as accounts managed in conjunction with other, external advisors via the Wells Fargo DMA investment program for the periods 05/02/2014, through the present time.

L&S claims compliance with the Global Investment Performance Standards (GIPS®). L&S has been independently verified by Ashland Partners & Company LLP for the periods October 31, 2005 through December 31, 2015, and ACA Performance Services for the periods from January 1, 2016 to December 31, 2021. Upon request to Sy Lippman at slippman@lsadvisors.com. L&S can provide the L&S Advisors GIPS Report which provides a GIPS compliant presentation as well as a list of all composite descriptions. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

L&S is a registered investment adviser with the U.S. Securities and Exchange Commission ("SEC") and is notice filed in various states. Any reference to or use of the terms "registered investment adviser" or "registered," does not imply that L&S or any person associated with L&S has achieved a certain level of skill or training. L&S may only transact business or render personalized investment advice in those states and international jurisdictions where we are registered, notice filed, or where we qualify for an exemption or exclusion from registration requirements. Information in this newsletter is provided for informational purposes only and should not be construed as a solicitation to effect, or attempt to effect, either transactions in securities or the rendering of personalized investment advice. Any communications with prospective clients residing in states or international jurisdictions where L&S and its advisory affiliates are not registered or licensed shall be limited so as not to trigger registration or licensing requirements. Opinions expressed herein are subject to change without notice. L&S has exercised reasonable professional care in preparing this information, which has been obtained from sources we believe to be reliable; however, L&S has not independently verified, or attested to, the accuracy or authenticity of the information. L&S shall not be liable to customers or anyone else for the inaccuracy or non-authenticity of the information or for any errors of omission in content regardless of the cause of such inaccuracy, non-authenticity, error, or omission, except to the extent arising from the sole gross negligence of L&S. In no event shall L&S be liable for consequential damages.
L&S' current disclosure statement as set forth in ADV 2 of Form ADV as well as our Privacy Notice is available for your review upon request.