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Your Copperwynd Financial Newsletter: January 2023

# Market Commentary

## A Classic Game of Chicken

By Jake Eggett

Perhaps you've heard this one…

A battleship was on exercise at sea in bad weather. The captain was on the bridge. It was foggy. Just after dark the lookout spotted a light on the starboard side. The captain asked if it was steady or moving. The lookout replied the light was steady meaning they were on direct collision course with that ship! The captain ordered the lookout signal to the other ship:
"Change course 20 degrees. We are on collision course."
The signal came back "Advisable for you to change course."
The captain signaled "I am a captain. Change course 20 degrees."
"I am a seaman second class. You had better change course 20 degrees" came the reply.
The captain was furious. He sent back "I am a battleship. Change course!"
Back came the signal, "I am a lighthouse. Your call."

We have a classic game of "chicken" occurring right now in the financial markets. This clash between investors' hopes and what the Fed has been saying is one of the biggest question marks for 2023. The Fed has reiterated that it will continue to hike interest rates to around 5.1% and no cuts this year, while the stock and bond market seem to be betting that the Fed will start to cut rates by the end of 2023. Historically, once inflation goes above 5%, it has never


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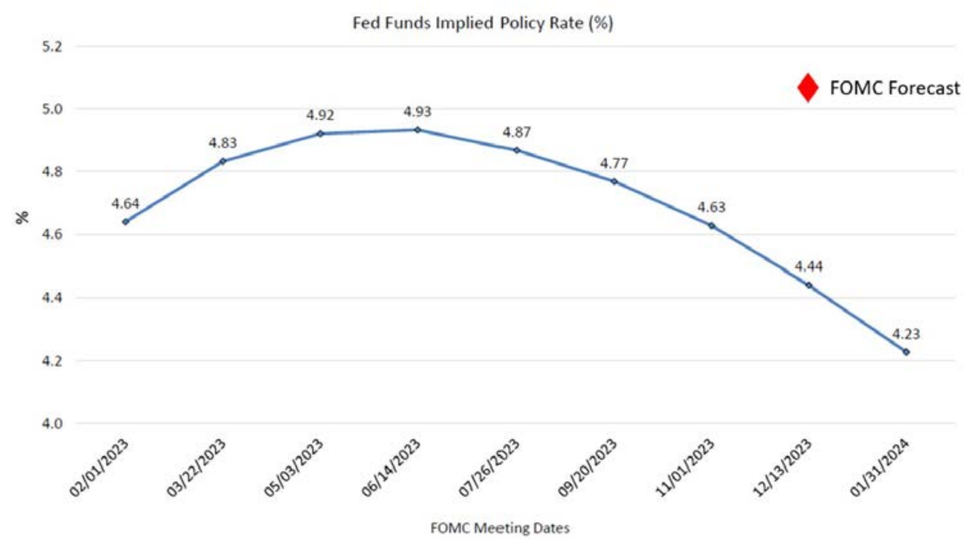
come back down without the Fed Funds Rate exceeding the inflation rate (CPI). Inflation, at this level, tends to be persistent and is difficult to bring down quickly. With the latest CPI coming in at 6.5% for December 2022, we may be in store for several more hikes in the quarters to come. How this will turn out will likely depend on how fast inflation falls and how well the economy is able to hold up over the coming year.




***Source:** Bloomberg, DoubleLine, as of 2/2/2023*

While we agree with the consensus that the Fed is near the end of its hiking cycle, we think the market is underestimating the Fed's willingness to hold rates higher for longer. A mild recession remains our base case but given that inflation is moderating, and labor growth remains strong, a soft landing remains feasible.

**Market Performance**

Since the beginning of the year, most markets have been in a strong uptrend which has allowed market participants to recoup some of the losses from last year. As anticipated, last week the Fed hiked rates by .25% to a range of 4.50% - 4.75% and the markets have seized the opportunity to move higher in the hope that the Fed is near the end of their hiking. January was a very good month for equity markets with International outperforming the S&P 500 mainly due to weakness in the dollar. Growth companies, such as those found in the Nasdaq, were the big winners in January and part of that is likely attributed to what we mentioned at the first of the year could happen… buying pressure from individuals that had sold their positions at a loss at the end of last year for tax purposes and now are buying those same securities to reestablish their position.

Fixed Income also rallied due to long-term rates declining and both the Aggregate Bond Index and Junk Bonds posted very solid numbers for the first month of the year. Due to the higher yields, we believe that bonds may have the best risk/reward opportunity this year if rates can stay flat or decline, which they were able to do in January.

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| Equities | January | YTD 2023 |
|---|---|---|
| S&P 500 | 6.29% | 7.82% |
| Mid Cap | 9.26% | 11.54% |
| Small Cap | 9.82% | 12.98% |
| Nasdaq | 10.64% | 14.98% |
| International Developed | 9.00% | 8.81% |
| Emerging Markets | 8.34% | 6.95% |

| Fixed Income | January | YTD 2023 |
|---|---|---|
| Bloomberg Aggregate Bond Index | 2.91% | 3.17% |
| High Yield Corporates | 4.03% | 4.61% |

***Source:** YCharts, 12/31/2022-1/31/2023, Total Return Data using SPY, IJH, IWM, QQQ, EFA, VWO, AGG, and JNK. YTD returns as of 2/2/2023.*

**The Bottom Line**

At Copperwynd, given the market trends, we are fully invested in most portfolios. If the Fed is about done raising rates AND inflation will soon return to 2% AND the economy slows without a recession—well, that is truly a goldilocks situation, but there is a lot that can go wrong. What we see now is a shift in focus from inflation on goods and services to the labor market. With over 500,000 jobs created last month and an unemployment rate now at 3.4% - the lowest since 1969! – a tight labor market generally means higher wages to attract workers. To get inflation under control, a recession is probably necessary, so the Fed may have to choose between accepting above target inflation or risk raising rates too much and triggering a deep recession. As a result, the market seems to be expecting that the Fed can finely tune the economy so that neither is necessary. That is a tall order, and the Fed does not have a strong track record for that degree of precision.

Although we are fully invested in our equity models, we have continued to remain defensively positioned given our view of the economy. We maintain our overweight in large cap domestic stocks and have a small allocation to International stocks and alternatives to aid in diversification.

In our Total Return Bond strategy, we continue to be fully invested and we have overweighted our allocation to bank loans with a decent amount of exposure to high yield. Most of these positions are yielding between 6-7% and if rates continue to stay stable, we'll be content in just picking up the dividends each month. As always, if that trend breaks down, we'll go back into treasuries or money markets for risk management purposes. Market conditions are positive at this time, but we remain concerned that the bear market of 2022 may resurface sometime in 2023. This is not the time to throw caution to the wind.

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## Upcoming Events

**Q1 Economic and Market Update**

For additional insight into our thoughts on the market and the economy, please join Copperwynd for our upcoming Q1 Economic and Market Update on Wednesday, February 15th at 12:00 PM Mountain Time.

Register in advance for this webinar: CLICK HERE

**Client Appreciation Spring Training Games**

Please join us for one of the following games:

- Saturday, March 4th at 1:10PM – Arizona Diamondback vs San Diego Padres, Salt River Fields, Scottsdale
- Friday, March 17th at 1:05PM – Chicago Cubs vs Los Angeles Dodgers, Sloan Fields, Mesa AZ

If you would like to join us, please email kcostlow@copperwyndfinancial.com or give us a call at the office 480-348-2100 to reserve tickets. In an effort to let as many clients attend as possible, please limit your initial request to two per family. Once you have reserved your tickets, more information will follow.

Hope to see you there!


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# Financial Planning Tip

By: Myra Alport

It's tax time! As eventful as 2022 was, from the war in Ukraine to Lionel Messi winning his first World Cup, we can't forget to pay Uncle Sam! Below is some helpful information that you can use to assist you in 2023.

**2023 Tax Filing Deadlines:**

| | |
|---|---|
| Personal Tax Return | April 18, 2023 |
| Personal Tax Return Extension | October 16, 2023 |
| Estimated Tax Payments | April 18, 2023, June 15, 2023, |
| More Information | September 15, 2023, January 16, 2024 |

**Is it a Credit or a Deduction?**

If you are confused by the difference between the two, you are not alone. A tax deduction reduces your taxable income which, in turn, lowers the amount of taxes you may pay according to your tax bracket. So, if you are in the 20% tax bracket, a $100 deduction saves you $20. Contributions to an IRA or HSA may be tax deductible and help to lower your taxable income for 2022. Contributions must be completed by April 18th or by the time you file your taxes. Reach out to us to see if there is anything else you can do to help lower your 2022 taxable income.

In contrast, a tax credit reduces your tax owed dollar for dollar; however, in Arizona it also allows you to direct where your tax dollars go. Every state has their own list of credits available, and we have links to those offered in Arizona and Utah below.

At Copperwynd, we want to ensure you know who you are donating to and whether the donation is tax refundable or not. It's a good practice to always log on to CharityNavigator.org prior to donating to evaluate a charity if you are not familiar with them.

As always, if you need assistance, we are here to provide you with as many answers as we can. While we do not prepare tax returns, we are well versed in the information you need to complete your returns and, if more help is needed, we have a number of outstanding tax professionals we can refer you to!

- Arizona Tax Credit Summary
- Utah Tax Credit Summary

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# Protect Yourself from Social Security Scams

By: Corrina Olson

### What is a Social Security-Related Scam?

They are when a scammer impersonates the Social Security Administration (SSA) or another government agency to obtain your personal information or money. Scammers might call, email, text, write, or message you on social media claiming to be from the SSA or the Office of the Inspector General.

### Four Basic Signs of a Scam

1. Scammers pretend to be from an agency or organization you know to gain your trust.
2. Scammers say there is a problem or a prize.
3. Scammers pressure you to act immediately.
4. Scammers tell you to pay in a specific way.

### Be Skeptical and Look for Red Flags

Social Security Administration will never:

- Threaten you with arrest or legal action because you don't agree to pay money immediately.
- Suspend your Social Security number.
- Claim to need personal information or payment to activate a cost-of-living adjustment (COLA) or other benefit increase.
- Pressure you to take immediate action, including sharing personal information.
- Ask you to pay with gift cards, prepaid debit cards, wire transfers, cryptocurrency, or by mailing cash.
- Threaten to seize your bank account.
- Offer to move your money to a "protected" bank account.
- Demand secrecy.

Scammers have also been known to:

- Use legitimate names of Office of Inspector General or Social Security Administration employees.
- "Spoof" official government phone numbers, or even numbers for local police departments.
- Send official-looking documents by U.S. mail or attachments through email, text, or social media message.

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**How to Avoid a Scam**

Protect yourself, friends, and family — If you receive a suspicious call, text, email, social media message, or letter from someone claiming to be from Social Security:

1. Remain calm. If you receive a communication that causes a strong emotional response, take a deep breath. Talk to someone you trust.
2. Hang up or ignore the message. And make sure not to click on links or attachments.
3. Protect your money. Scammers will ask you to pay with forms of payment that are hard to trace, like gift cards, prepaid debit card, cryptocurrency, wire transfer, money transfer, or by mailing cash.
4. Protect your personal information. Be cautious of any contact claiming to be from a government agency or law enforcement telling you about a problem you don't recognize. Don't give out any personal information if you are unsure.
5. Spread the word to protect your community from scammers if you do receive any suspicious calls or messages.
6. Report the scam to the Office of the Inspector General at oig.ssa.gov/report.

**Ask for Help**

Remember, scammers can be very convincing, and they are good at what they do. If you aren't sure if a call or a message is from a legitimate source, pause and do your due diligence to confirm the legitimacy. If you still aren't sure, you can always reach out to your financial advisor. We are happy to help review any suspicious calls or messages!

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# 401(k) Allocation

By: Lynda Elley

There are trades.

We are back to fully invested. With inflation falling to 6.5%, the Federal Reserve felt comfortable decelerating the pace of interest rate increases with their first meeting of 2023. The short-term lending rate now stands at 4.5-4.75% with the latest increase of .25%. Remember that this is the rate that affects our money market and CD rates and indirectly will impact the mortgage rates. The pace of interest rate increases in 2022 was unprecedented and resulted in the volatility we saw last year. With the latest and smaller increase, the Federal Reserve does seem to signal a change in the interest rate policy, and this has lifted all markets.

What we see now is a shift in the focus from inflation on goods and services to the jobs numbers. With over 500,000 jobs created last month and an unemployment rate now at 3.4% - the lowest since 1969! – a tight labor market generally means higher wages to attract workers. As a result, will the Federal Reserve still feel compelled to keep raising rates beyond what the market expects? That could damage this fragile recovery in stocks.

Either way, we will keep our eye on the trends and revise your allocation for your 401K accordingly! This month you will see an increase in the return to "normal" bond investments rather than cash, and the addition of international and some small company stocks.
As always, if you need assistance with your 401K rebalance, do not hesitate to contact us and we will be happy to help you. Remember to re-set both your current investments and future contributions!

| ***Feb 2023*** | | **Agg. Growth** *100% Equity* | **Growth** | **Moderate** | **Balanced** | **Conservative** |
|---|---|---|---|---|---|---|
| **Bonds / Cash** | | **10%** | **20%** | **40%** | **50%** | **70%** |
| | *Stable Asset - OR - Short Term Bond* | *0%* | *0%* | *0%* | *0%* | *40%* |
| | *Total Return* | *0%* | *10%* | *20%* | *25%* | *20%* |
| | *High Yield Bonds*** | *10%* | *10%* | *20%* | *25%* | *10%* |
| | *Inflation Protected Bonds* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **Large Cap:** | | **55%** | **55%** | **40%** | **30%** | **20%** |
| | *Large Cap Growth* | *30%* | *25%* | *20%* | *15%* | *10%* |
| | *Large Cap Value* | *25%* | *30%* | *20%* | *15%* | *10%* |
| **Mid Cap:** | | **15%** | **10%** | **10%** | **10%** | **5%** |
| | *Mid Cap Growth* | *5%* | *5%* | *5%* | *5%* | *0%* |
| | *Mid Cap Value* | *10%* | *5%* | *5%* | *5%* | *5%* |
| **Small Cap:** | | **10%** | **5%** | **5%** | **5%** | **0%** |
| | *Small Cap Growth* | *5%* | *0%* | *0%* | *0%* | *0%* |
| | *Small Cap Value* | *5%* | *5%* | *5%* | *5%* | *0%* |
| **International:** | | **10%** | **10%** | **5%** | **5%** | **5%** |
| | *Developed International* | *5%* | *5%* | *5%* | *5%* | *5%* |
| | *Emerging Markets* | *5%* | *5%* | *0%* | *0%* | *0%* |
| | | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

** If High Yield Bonds are not an option in your 401k, you can allocate that portion to either your Total Return or Short Term bond fund