This past year has been one to forget—a bear market for stocks, the worst year ever for bonds, and raging inflation and rising interest rates to top it off. Will 2023 be better? While no one can predict the future, I think it's likely that things will improve at least a little bit. Here are my five predictions for 2023.

1. Interest rates will level out. The Fed moved its benchmark fed funds rate, which impacts rates on mortgages, business loans and more, from next to nothing to more than 4%. And it did so in a hurry, squeezing two years' worth of rate increases into one year. The reason for the Fed's urgency was four-decade-high inflation, as the Consumer Price Index peaked at an annualized 9.1% in June. There are signs that the Fed's strong medicine is working-- by November, inflation was running at 7.1%. After several consecutive rate hikes of .75%, the central bank's final rate increase of 2022 was half a percentage point. It's likely the hikes aren't over, though. The Fed may raise them as much as another percentage point total in the first half of the year. Then I believe it will stop—or, if higher interest rates slow the economy too much, could even begin lowering rates.

2. Inflation will keep falling. The rate of price increases could dip beneath 4% in 2023. That's still far above the Fed's stated target of 2%, but the process of taming inflation has always been as slow as turning an oil tanker out at sea. I don't have any doubt that the central bank will achieve its inflation goal eventually; its rate increases have been too aggressive for that not to happen. Another factor that will help push inflation down: supply chains that are steadily recovering from their Covid-era slowdowns. Recovering supply chains are one reason lumber prices, for example, have fallen far from their record highs of 2020 and 2021.

3. Home prices will drop. Low-interest mortgage loans and strained supply sent the price of homes nationwide up an astonishing 41% between the second quarter of 2020 and the third quarter of 2022. Higher interest rates figure to weigh on demand, helping to lower prices. If large-scale layoffs, like those we've seenAmazon, Meta and Twitter, continue into 2023, that could help drive demand down too. But the price decreases might not be steep enough to bring significant relief to homebuyers. Housing construction has lagged demand for a decade, and millennials are in their prime homebuying years.

4. Investors will flock to bonds. Demand for fixed income should increase in 2023 as investors realize that rising interest rates have resulted in the most attractive bond yields in years. Bonds have yielded next to nothing in recent years, leading investors to rely more and more on stocks in their portfolios. The Fed's war on inflation has changed things though. The benchmark

10-year Treasury bond's yield shot from just 1.5% at the end of 2021 to 3.75% at the end of 2022. Investors will also be lured back to bonds by the potential for price appreciation. Sooner or later, the Fed will begin to lower interest rates, and when that happens, lower yielding bonds will come into circulation. That will make higher-yield bonds more attractive by comparison and prompt their prices to rise on the secondary market.

5. A bull market will begin. I think the stock market will turn into a bull market sometime in 2023. The S&P 500 stock index partially recovered from its low point, when it was down 25% in anticipation of a recession, and spent November and December trading in a range between about 3,070 and 4,000. Once the market feels comfortable that inflation and interest rates are heading in the right direction, buying will increase and the S&P will rise in a sustainable way. Stocks might not finish the year in positive territory, but I believe they'll end the year with good momentum heading into 2024. One reason I'm optimistic about stocks is that they've already priced in a recession. If one occurs, it won't catch the market by surprise. If a recession doesn't occur, the lower prices should lend momentum to the eventual market

Past performance is no guarantee of future results, markets can go up and down and not all investments are right for you and your individual circumstances. Please schedule an individual meeting to discuss your risk tolerances, time horizon, and what strategy might work best for you going forward.