WEST SHORE BANK

WEEKLY RECAP - January 9, 2023

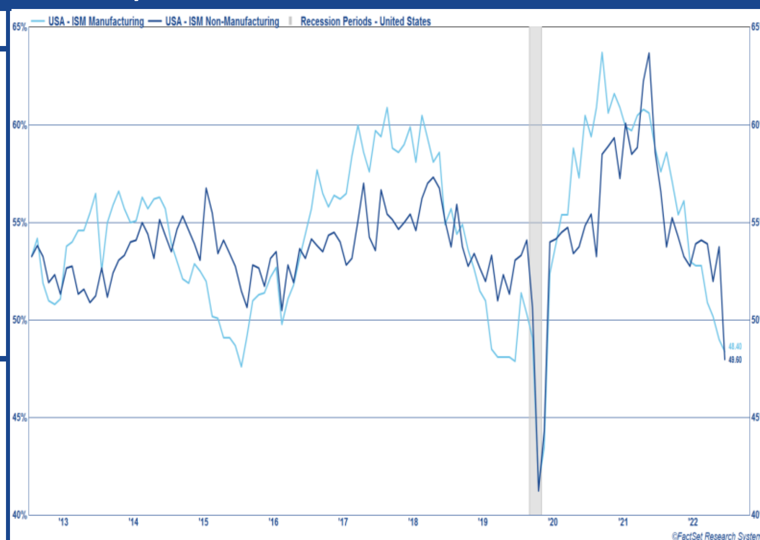
Economic & Market Commentary

What do you think the market is going to do this year? This is a question often asked. In general, what drives stock markets over the long term are earnings growth and inflation rates. Last year, we all had a taste, albeit a really bad one, of how high inflation negatively affects markets. It has been roughly 40 years since we have seen inflation this high. High inflation drives interest rates higher, reduces disposable income of consumers, and puts pressure on profit margins due to rising labor and input costs. Historically, periods of inflation greater than 4% annually have seen the poorest stock market performance the following 12-month period. Conversely, periods of low inflation, that is inflation in the range of 1%-3%, historically have been good for stock markets as costs are under control, interest rates are typically lower, profits are growing, and consumer household wealth is strong. There have been many extended periods where stock markets and the economy have flourished under a low inflation and solid earnings growth environment. Earnings growth and stock market performance are highly correlated, although there are often periods when one leads and the other lags. Here are a couple of recent examples. Coming out of the Great Recession earnings growth flourished yet market performance was muted for years as there was a severe lack of conviction in sustained economic growth. Coming out of the COVID lockdowns, the stock market rocketed higher and valuations reached levels only seen a few times in history in anticipation of expected solid economic and earnings growth. Due to higher rates, rising costs, and a slowing economy, earnings growth estimates are declining for 2023. Right now, investors are looking for signs of expanding economic weakness and slowing inflation as this should lead to the Fed to stop raising rates. They saw both last week and markets rallied on the news. While monthly job gains came in higher than expected, average hourly wage growth slowed in December to a 4.6% annual pace from November's pace of 5.1%. This is an important development and one the Fed is closely watching. Also, ISM surveys for manufacturing and service activity declined to contractionary levels posting their lowest readings since the start of COVID.

Index Total Returns - January 6, 2023

	1-Wk	YTD	1-Yr
MSCI-Emerging	3.39	3.39	-16.38
MSCI-Developed	2.68	2.68	-11.68
S&P 400	2.48	2.48	-10.06
Russell 2000	1.81	1.81	-17.57
Dow Jones	1.50	1.50	-5.23
S&P 500	1.47	1.47	-15.68
NASDAQ	1.01	1.01	-29.32
Barclay's U.S. Bond Index			
High Yield	2.23	2.23	-8.56
Aggregate	1.85	1.85	-10.27
Municipal	1.15	1.15	-7.05
Int. Gov. Credit	1.02	1.02	-6.54
5-year Muni	0.74	0.74	-4.19

ISM Survey



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	4.75	4.73	0.43
U.S. 2-Yr	4.27	4.42	0.89
U.S. 3-Yr	3.98	4.24	1.14
U.S. 5-Yr	3.71	4.00	1.48
U.S. 10-Yr	3.56	3.88	1.73
U.S. 30-Yr	3.69	3.97	2.09

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	3.01	3.20	1.05
U.S. AA	3.17	3.35	1.12
U.S. A	3.76	3.94	1.36
U.S. Baa	4.42	4.59	1.66
U.S. Municipal	3.36	3.55	1.21
Michigan	3.50	3.68	1.29

S&P 500 Sector Total Returns - January 6, 2023

Sector	1-Wk	YTD	1-Yr
Communication Services	3.75	3.75	-36.13
Materials	3.45	3.45	-7.95
Financials	3.42	3.42	-11.24
Industrials	2.72	2.72	-3.56
Real Estate	2.50	2.50	-20.78
Consumer Discretionary	2.25	2.25	-34.99
Consumer Staples	1.77	1.77	0.90
Utilities	0.70	0.70	4.74
Info Tech	0.24	0.24	-25.25
Energy	0.00	0.00	52.00
Health Care	-0.17	-0.17	2.16

Index Characteristics	P/E NTM	P/E NTM 10yr-Avg.	Dividend Yield
S&P 500 - Large Cap	17.01	17.38	1.63
S&P 400 - Mid Cap	13.16	15.57	1.53
S&P 600 - Small Cap	12.61	16.37	1.54

Sources: FactSet, Federal Reserve, Bureau of Labor Statistics