

# Six New Year's resolutions for investors



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## What drove stocks in 2022?

The Federal Reserve and other central banks tightened far more than expected because inflation was far worse than expected.

## Looking ahead

I believe that, when all is said and done, 2023 will be a better year for investors than 2022.

## 2023 resolutions

I offer six New Year's resolutions for investors to consider as we contemplate the year ahead.

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To borrow a phrase from the late Queen Elizabeth, 2022 was truly an “annus horribilis” for both stocks and bonds. To put it simply, the Federal Reserve and other central banks tightened far more than expected because inflation was far worse than expected. In this week's blog, I offer a brief post-mortem on 2022 and a few New Year's resolutions for investors in 2023.

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#### What drove stocks in 2022?

As you may recall, Federal Open Market Committee (FOMC) members didn't expect to tighten nearly as much as they did in the past year. In December 2021, the FOMC's “dot plot” showed a median expected fed funds rate of 90 basis points by the end of 2022.<sup>1</sup> In reality, the fed funds rate finished 2022 at 4.33%.<sup>2</sup> It was this very surprising and aggressive monetary policy tightening of 2022 that negatively impacted the pricing of both stocks and bonds in many major markets.

In addition, Chinese risk assets came under pressure from the double whammy of a major COVID wave in the spring of last year, which resulted in lockdowns and disruptions, as well as a resurgence of issues in the property sector.

And the past month turned out to be a December to remember, but that meant different things in different markets. US stocks posted significant losses, experiencing substantial price erosion, helped by a hawkish FOMC press conference on Dec. 14.<sup>3</sup> However, Chinese stocks posted significant gains during the month, as policymakers rolled back COVID-19 regulations, paving the way for a robust re-opening of the Chinese economy.<sup>4</sup>

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#### 2023 resolutions

I think now is an appropriate time to share some proposals for New Year's resolutions for investors:

##### 1. Don't get spooked by tough times.

Arguably the biggest mistake made by investors during the Global Financial Crisis was to exit equities near the bottom, thereby locking in losses and missing out on participating in the strong stock market rebound that followed. We're likely to have geopolitical, economic and market events that will strike fear in the hearts of investors in 2023. Remind yourselves that over time, no matter what the event, from the Great Depression to the Cuban Missile Crisis to the Gulf War, the stock market has had a way of shaking it off (of course some events took longer than others to shake off) and continuing to climb higher.

##### 2. Expect the unexpected from the markets.

In looking at asset class and sector performance by calendar year over time, it's clear that markets can shift quickly; today's leaders can be tomorrow's laggards, and vice versa. Ensure your portfolio is well-diversified — consider a range of assets across and within the

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three major asset classes. In particular, ensure adequate exposure to areas that appear poised to perform better on a relative basis — in my view, this includes emerging markets.

**3. Don't wait for "perfect" entry points into the stock market.**

I keep getting asked if the stock market has bottomed yet; investors are clearly looking for that perfect time to jump in. The reality is that we won't know the perfect entry point until it's in the rearview mirror. I believe we are likely to see significant volatility early in the year as we wait for greater clarity on when the Fed will hit the pause button. I also expect earnings to be downwardly revised in coming months, which should also spark volatility. Whether a retail or institutional investor, dollar cost averaging can be a prudent option, especially in this kind of market environment.

**4. Look for income potential in bonds and beyond.**

I expect modest gains — and significant volatility — for major asset classes in 2023. However, the positive byproduct of aggressive Fed tightening is that income is far more abundant than it was when we began 2022. Investors may benefit from ensuring adequate exposure to fixed income sub-asset classes such as investment grade credit, municipal bonds and higher quality high yield bonds that have relatively robust yields. And don't forget the income potential of dividend-paying stocks and real estate investment trusts (REITs). In an environment of low or non-existent capital appreciation, income can make a significant difference in total return, and I believe the benefits of diversification also apply when it comes to sources of income.

**5. Create an investment plan and stick with it.**

I saw firsthand the value of an investment policy statement when I sat on the board of a small private endowment 20 years ago. The investment policy statement created structure and discipline. Key portfolio decisions such as asset allocation bands and the annual "draw" were decided upon in an emotionless vacuum. When the Global Financial Crisis occurred and some committee members got spooked, the investment policy statement guided the portfolio — think of it as creating "guardrails" — as markets moved and emotions ran wild.

**6. Apply Stoic principles to investing.**

My older son, a junior in college, has for some time been espousing the virtues of Stoicism, an ancient philosophy, for application by college students seeking a way to juggle their lives. It got me thinking ... Stoicism also has practical applications for investing today. Stoics believed it was important to put life into two broad categories: that which you can completely control and that which you cannot control (either completely or partially). Stoics believed it was important to focus on the things you could completely control. In investing, that includes creating an investment plan, adhering to that plan, and ensuring adequate contributions — long-term portfolio performance and the achievement of investing goals will be a byproduct of these controllable actions combined with the uncontrollable path of markets.

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**Looking ahead**

As we look ahead to 2023, I expect the investing environment to improve as the year progresses, and I believe that, when all is said and done, 2023 will be a better year for investors than 2022. (Of course, that's not saying too much, given how abysmal 2022 was.) But I do believe the resolutions I shared above can be helpful no matter what kind of year we get. And so I will finish this blog by

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simply wishing you all the best in the year ahead. My New Year's resolution is to continue trying to make this weekly blog live up to its title — Weekly Market Compass — as we navigate the year's economic and market developments together.

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#### Notes

<sup>1</sup>Source: Federal Reserve as of Dec. 15, 2021

<sup>2</sup>Source: Federal Reserve Bank of New York as of Dec. 30, 2022

<sup>3</sup>Source: S&P Dow Jones. The S&P 500 Index price return was -19.44% for 2022 and -5.9% for December.

<sup>4</sup>Source: MSCI. The MSCI China Index price return was 5.16% for December.

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#### Important information

Past performance is not a guarantee of future results.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

All investing involves risk, including the risk of loss.

Diversification does not guarantee a profit or eliminate the risk of loss.

An investment cannot be made into an index.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.

Securities that pay high dividends as a group can fall out of favor with the market, causing such companies to underperform companies that do not pay high dividends. Also changes in the dividend policies of the companies and the capital resources available for such companies' dividend payments may affect the Fund.

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/or interest.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Dollar-cost averaging is an investment technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. The investor purchases more shares when prices are low and fewer shares when prices are high.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

The MSCI China Index captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

The Federal Open Market Committee (FOMC) is a 12-member committee of the Federal Reserve Board that meets regularly to set monetary policy, including the interest rates that are charged to banks.

The federal funds rate is the rate at which banks lend balances to each other overnight.

The Federal Reserve's "dot plot" is a chart that the central bank uses to illustrate its outlook for the path of interest rates.

A basis point is one hundredth of a percentage point.

Tightening is a monetary policy used by central banks to normalize balance sheets.

The opinions referenced above are those of the author as of Jan. 3, 2023. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.