SIMPLICITY WEALTH

Weekly Commentary | January 3, 2023

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Style Box Returns[1]

1-Week as of 12/30/2022

	Value	Blend	Growth
Large	0.17	-0.07	-0.33
Mid	-0.09	-0.05	0.02
Small	0.04	0.08	0.12

YTD as of 12/30/2022

	Value	Blend	Growth
Large	-7.54	-19.13	-29.14
Mid	-12.03	-17.32	-26.72
Small	-14.48	-20.44	-26.36

Week In Review

In a holiday-shortened week, the market seemed to find little solace that the worst yearly market performance since 2008 was coming to a close. Perhaps tax-loss harvesting was partially to blame, but lackluster price action appeared to demonstrate a lack of conviction that the economic challenges of 2022 will fade away after the ball drops in Times Square. Like much of this year, the S&P 500 index finished lower, down -0.1%.

This Week

The markets will be focused on the release of the nonfarm payrolls report for the month of December. A stronger than expected update that points to continued wage inflation could spell increased market volatility.

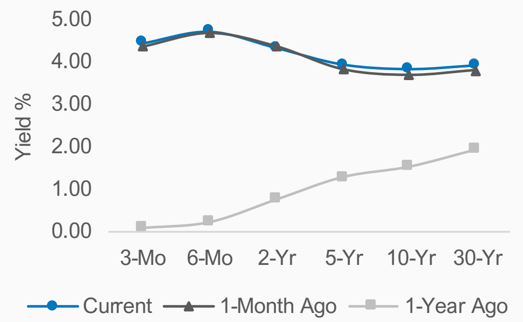
Portfolio Themes

The year is 1992 and I'm fortunate to be an MBA candidate at the University of Chicago Booth School of Business (simply the Graduate School of Business or "GSB" for us old-timers). It's a Saturday morning. Professor Ken French is expounding on the collaborative research he and his colleague, future Nobel laureate Eugene Fama, are pursuing regarding the expected rate of return on a capital asset or investment. Until that time, the Capital Asset Pricing Model ("CAPM") stood for decades as the gold standard for understanding the theoretical cost of equity capital and rate of return a publicly traded firm should pay to an equity investor. CAPM merely relied on the risk-free rate, beta, and the market risk premium. The Fama-French Three-Factor Model included size and value risk factors and was not only a much better framework for explaining the return on a diversified stock portfolio, but forever altered future portfolio management by ushering in factor investing. This strategy relies on using "style" factors (for example, high dividends) and "economic" factors (such as inflation) to inform decision making on portfolio tilts throughout the business cycle. Today, with inflation and a likely recession on the horizon, a defensive investing posture focused on high dividend stocks for income generation appears to still have merit.

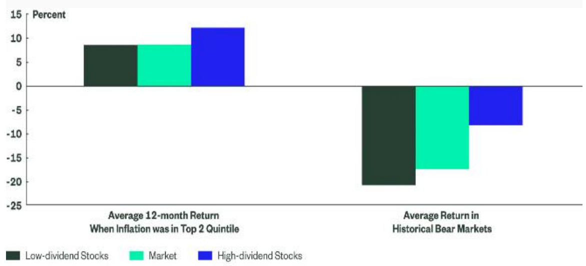
Index Statistics[2]

11/30/2022	P/E TTM	Yield	YTD Ret.
S&P 500 Growth	23.54	1.17	-23.58
S&P 500	20.15	1.81	-13.10
S&P 500 Value	17.77	2.38	-1.36
MSCI ACWI	16.18	2.60	-15.02
MSCI ACWI ex-US	12.34	3.92	-15.37

Yield Curve



Portfolio Themes: High Dividend Stock Performance During High Inflation and Bear Markets



Source: Kenneth French Data Library, as of 10/31/2022. Low and high dividend stocks are represented by the bottom and top quintile groups based on dividend yield, based on SPDR Research calculations. Inflation is for periods from January 1948 – October 2022. Bear market periods are from January 1962 – December 2021. Past performance is not a reliable indicator of future performance.

Data: Unless otherwise noted, data for charts, graphs, and tables is sourced from Morningstar Direct. Portfolio Themes chart sourced from State Street Global Advisors.
[1]Style box returns use various Russell indices tied to specific areas of the market cap (vertical) and style (horizontal) spectrums.
[2]Index Statistics: P/E TTM – Calculated by dividing an investment's price by the trailing 12-month earnings per share value. Yield – Expected dividend-per-share divided by current share price. Table statistics are updated monthly. MSCI indices represent broad global and international equity markets.