United Methodist Foundation
of the Northern Illinois Conference, Inc.

155 North Wacker Drive
Suite 4250
Chicago, IL 60606

312.803.4801 OFFICE
cwalters@umfnic.org
UMFNIC.org | UMFGift.org

January 21, 2023

Dear Partners in Ministry,

Enclosed is the 2022 4th quarter statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

As of 12/31/2022	4th Qtr 2022	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**9.85%**	**-15.92%**	**-15.92%**	**5.07%**	**6.59%**	**7.36%**
Agg. Climate	8.45%	-18.92%	-18.92%	n/a	n/a	n/a
benchmark*	9.28%	-15.86%	-15.86%	4.41%	5.89%	7.69%
Moderate Fund	**6.98%**	**-13.44%**	**-13.44%**	**3.31%**	**4.91%**	**5.52%**
Mod. Climate	6.18%	-14.89%	-14.89%	1.59%	n/a	n/a
benchmark*	6.78%	-13.28%	-13.28%	2.99%	4.61%	5.98%
Conservative Fund	**4.46%**	**-10.62%**	**-10.62%**	**1.22%**	**2.85%**	**3.38%**
Con. Climate	3.75%	-11.33%	-11.33%	n/a	n/a	n/a
benchmark*	4.39%	-10.70%	-10.70%	1.11%	2.92%	4.05%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://umfnic.org/investment-performance-reports/

Market Commentary from Envestnet | PMC

Brandon Thomas, Co-Founder and Chief Investment Officer, Envestnet, concluded their "Economic and Market Overview: Fourth Quarter 2022" report with the following observations and commentary:

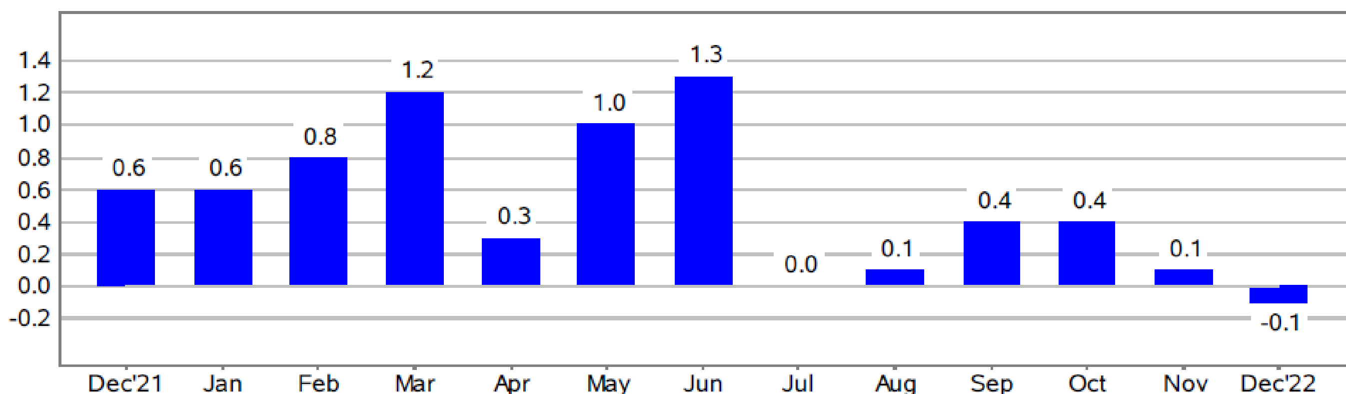
> "While the latest quarter's positive economic growth was a welcome occurrence following two quarters of negative growth, the global economy remains on shaky ground. Stubborn and persistently high inflation remains near 40-year highs, and the aggressive central bank efforts to provide a release valve is moving the economy toward a recession. In the US, the FOMC is not only hawkishly raising the fed funds rate, but is also in the process of unwinding its balance sheet by letting the Treasury and mortgage-backed securities purchased during the long period of quantitative easing mature. The FOMC has stated that it will remain vigilant in fighting inflation, and has indicated that it needs to see more sustained evidence that inflation has abated before considering a rate reduction. Consequently, FOMC policymakers believe the fed funds rate will end 2023 at 5.1%, roughly 50 basis points higher than the current level. However, not all economists are of the opinion that a recession is inevitable. They cite several potential mitigators, such as employers not wanting to lay off staff due to the difficulty of hiring, training and retaining workers in the inevitable economic rebound, and the fact that inflation should naturally come down as year-over-year comparisons in areas such as oil price changes become favorable in 2023. From the perspective of equity prices, the market will be assessing the prospects for inflation and the economy, and how corporate earnings will be impacted. One of the indicators leaning in favor of stocks rebounding from the negative returns of 2022 is that

since 1926 the third year of a presidential term (which is what 2023 will be) has resulted in negative returns only twice, one of which was in the midst of the Great Depression and the other a return of less than -1% in 1939. The third year of a presidential term has the highest median annual return by a significant margin: 22% vs. 11% for the next highest return-year in the term. Of course, stock prices are driven by fundamentals, and expectations thereof, so conditions on the ground will dictate how stocks perform in 2023, but it is possible that stock prices have already discounted a potential recession in 2023."[1]

"persistently high inflation remains near 40-year highs"

On January 12 the Bureau of Labor Statistics announced December 2022 year-over-year inflation: "Over the last 12 months, the all items index increased **6.5 percent** before seasonal adjustment." This is the "headline" inflation percentage commonly reported by the media, routinely compared to the recent year-over-year inflation in the previous month(s). The November 2022 headline percentage was **7.1%**. October: **7.7%**. September: **8.2%**. What often gets lost in the headline number is the pace of price increases (decreases):

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Dec. 2021 - Dec. 2022
Percent change



Source: https://www.bls.gov/news.release/pdf/cpi.pdf

The graph above presents a dramatic decline in the rate of price change. Hypothetically, if the first six months of 2023 follow the same pattern of month-to-month increases of the last six months of 2022, then the "headline" number would be 1.8%, essentially at the Fed's 2% target rate. Time will tell, but the recent decline in the pace of price increases is encouraging, while the headline percentage is still attention-grabbing.

"the fed funds rate will end 2023 at 5.1%"

Mr. Thomas mentioned in his commentary: "The FOMC [Federal Open Market Committee] raised its federal funds rate target range twice during the quarter in 75 and 50 basis point increments, to 4.25%-4.50% … The FOMC's 'dot plot,' a forecast of future rate changes, indicates the committee now expects the fed funds rate to be at 5.1% at the end of 2023." The FOMC is then looking for two, maybe three, more 25 basis point increases in 2023.

The January 17 *Planet Money Indicator* podcast interviewed President & CEO Mary Daly of the San Francisco Federal Reserve. She concluded the interview by saying, "So we're going to be conscious that we need to slow the pace of increases, look around, watch the data, see how things are coming out, and

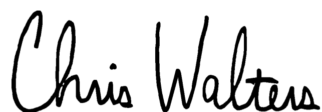
then make decisions meeting by meeting by meeting."[2] For safe "Fed speak," that sounds like they are encouraged by recent data and that inflation is getting under control. Time will tell …

"possible that stock prices have already discounted a potential recession in 2023"

As I have mentioned in previous letters, the stock market typically reacts more quickly in anticipation of economic downturns versus anticipation of economic growth and increased corporate earnings after a downturn. As of Friday, January 20, the S&P 500 traded at a price-to-earnings ratio of 20.66, a 15.6% discount to the modern historical average since 1990 of 24.47.[3] Morningstar currently places the universe of stocks they evaluate at a 12% discount to fair market value.[4]

After a considerable decline in stock prices, it is natural for investors to be fearful and uncertain about the future, but it is a time like this when much of a potential near-term economic slump may already be priced in. And it is such a time as this that can be an even greater time to invest for the long haul.

Respectfully,



Rev. Chris Walters, President & CEO ● 312.803.4801 ● cwalters@umfnic.org

---

[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf

[2] https://www.npr.org/transcripts/1149682713

[3] https://www.multpl.com/s-p-500-pe-ratio

[4] https://www.morningstar.com/market-fair-value

"The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this quarterly review is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third party sources is believed to be reliable but not guaranteed. Envestnet | PMC, SouthCol Advisors, the Foundation, and other advisors represented above make no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing, and are subject to change at any time without notice."