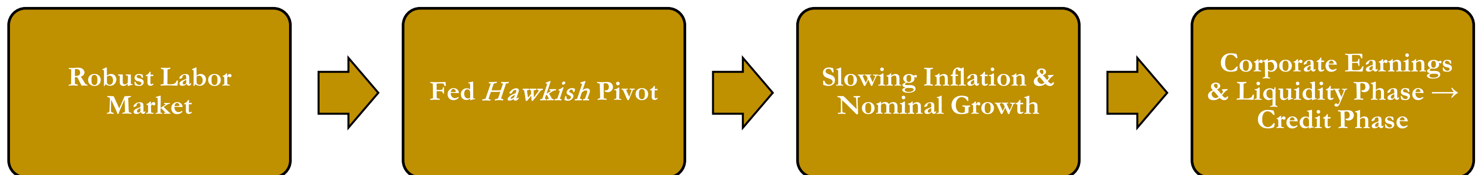
ARIES
WEALTH MANAGEMENT

January 2023

We hope everyone enjoyed their end of year festivities and had an opportunity to spend quality time with friends and family. While the fourth quarter started on a positive note, volatility has resurfaced over what is typically one of the most seasonally positive time periods in the year. We will further explore what has changed in Q4 and provide additional context on portfolio positioning in anticipation of another interesting year in markets and global economies.



Robust Labor Market

While pockets of inflation continue to surface, inflation has continued to moderate over the quarter. The December report showed the latest seasonally adjusted annual rate of inflation slowing to levels slightly greater than pre-Covid levels and making progress towards the Federal Reserve's long-term target (year-over-year inflation levels remain much higher). *However,* nominal employee compensation remains elevated across most metrics.

Fed Hawkish Pivot

The wage and compensation data are particularly relevant as employment remains one of the two primary mandates of the Federal Reserve. While the moderation in inflation caused many to believe the Fed would indicate future easing of monetary policy, Fed Chairperson Jerome Powell indicated just the opposite in his recent press conference. Powell indicated further rate hikes, a higher terminal Fed Funds rate, and a continued need for "substantially more evidence" that inflation is indeed on a sustained downward path. This led to a reversal of the more favorable liquidity conditions and institutional risk-taking the market enjoyed over the prior weeks.

Slowing Nominal Growth & Impact on Corporate Earnings and Margins

As inflation continues to moderate and the rate hikes over the prior quarters work through the economy (on a lag), slowing nominal growth will continue to impact revenues across both public and private companies. *More importantly,* due to the current labor dynamics and the sticky wage growth (combined with a reduced labor force due to Covid-related exits), profit margins are likely to come under pressure, leading to earnings reductions and the potential for continued job losses.

Liquidity Phase → Credit Phase

As mentioned in prior newsletters, the underlying theme in 2022 was one of decreasing liquidity within markets as the Federal Reserve engaged in Quantitative Tightening and institutional banks increased their deposits with the Federal Reserve, further removing money from traditional markets. This declining liquidity phase led to risk aversion and a decline in company valuations, particularly those with less stable cash flows. *If* we were to experience the reductions in margins and earnings described above, followed by eventual job cuts and a potential recession, we would likely transition to the *credit phase* in the cycle. This "credit phase" impacts companies' earnings and credit ratings and would likely be highlighted by a decline in earnings and continued volatility.

Portfolio Management

Our goal is to be as prepared as possible for all market and economic outcomes and implement these strategies across portfolios and in conjunction with each client's customized risk profile. This remains the case whether we experience continued volatility or if we can manage a soft landing, where the strong labor market and the reopening of China from strict Covid protocols offsets a tighter monetary policy from the Federal Reserve. Portfolio management needs to extend beyond the historical notion that balancing a basket of U.S. stocks and bonds provides enough buffer during volatile markets (as evidenced by the performance of a traditional "60/40" portfolio in 2022).

This thought process is akin to building a successful basketball team, with each player (or portfolio allocation) contributing positively during different aspects of the game (or market outcomes). It may not matter if a team's point guard cannot dunk the ball or if the 7-foot center is a defensive strength but does not score any points, as long as the team is working cohesively and in balance. In our portfolios, we strive to include positions and allocations that perform in different market environments so clients can reach their goals in the smoothest (or least stressful) possible path. This was particularly relevant in 2022 and will likely remain a focal point over the coming year.

2023 Tax Planning & Secure Act 2.0

As part of a broader omnibus budget bill for 2023 passed on December 23rd, Congress attached multiple provisions that comprise the SECURE Act 2.0. In aggregate, the impact of these provisions is likely to be even more impactful than the first version and will affect a broader population base. Below we briefly summarize several of these provisions (non-inclusive) but will help identify the impact on each of our clients' unique situations as we talk and meet in the new year.

Provision	Details	Impact/Opportunities
Required Minimum Distributions (RMD)	• Phased extension of RMD age to 75 over the next 10 years	• Additional years of deferred income • Added years for Roth conversions & capital gains harvesting
Transfers from 529 Plans to Roth IRA	• Allows transfer of $35,000 from a beneficiary's 529 to their Roth IRA (with several restrictions)	• Education planning • Multi-generational planning • Boost Roth savings for children
Enhancements to Roth Accounts	• Eliminates RMDs from Roth 401(k) and Roth 403(b) • Create Roth version of SEP & SIMPLE plans • Employer matching contributions to Roth accounts (post-tax)	• Increased Roth contributions and extended period of tax-free growth
Increased Retirement Contributions	• Increased catch up contribution amounts • Annual cost of living adjustments	• Increased retirement savings
Qualified Charitable Distributions	• Indexed to inflation (has remained at $100,000 for 15 years)	• Greater opportunity to reduce taxable income for those charitably inclined

We appreciate the trust you place in us, and as we continue to grow, we remain thankful for the new relationships formed through your referrals this year. We wish everyone a healthy and happy new year and look forward to talking further in the new year.

- Jason, Micah, Tim, Matt, & Victoria