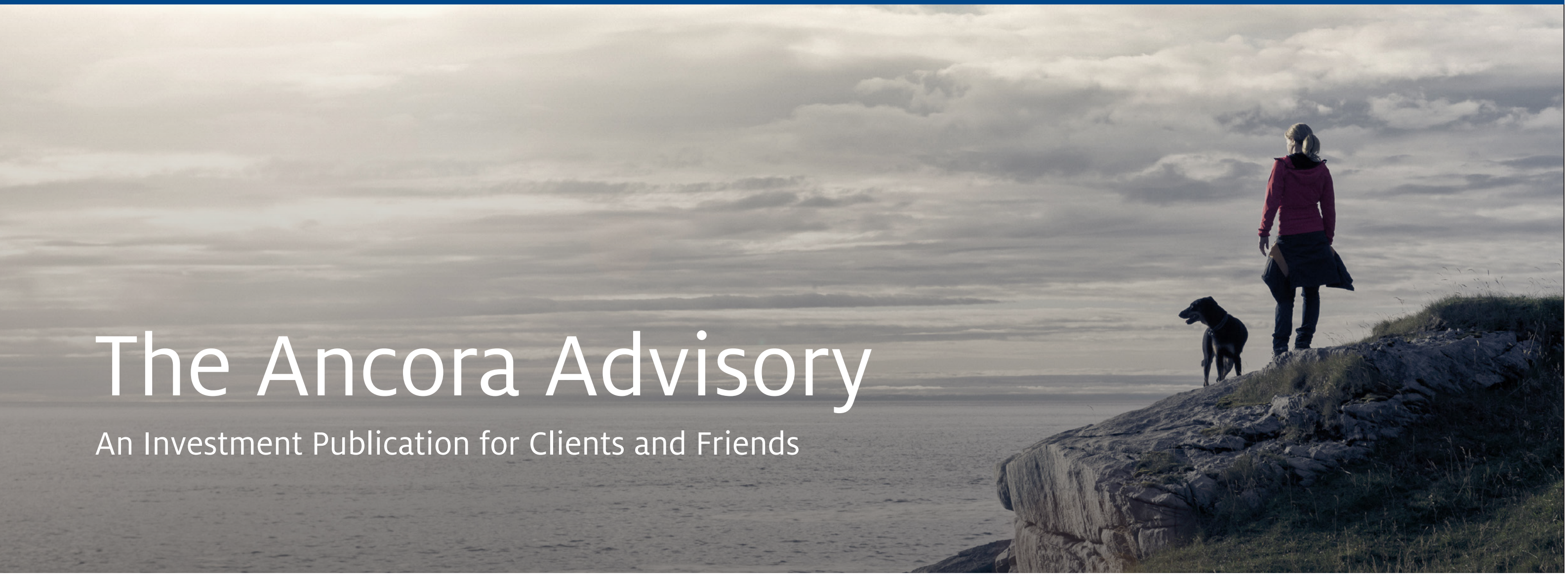

The Ancora Advisory

An Investment Publication for Clients and Friends

Ancora consists of four primary business units; Family Wealth, Asset Management, Retirement Plans and Insurance Solutions. With experienced portfolio managers, distinctive investment strategies, and robust wealth and risk management, we are driven by an entrepreneurial spirit. Ancora delivers tailored solutions so you can achieve more … on your terms.

The $64,000 Question: Hard or Soft Economic Landing

John Micklitsch, CFA, CAIA
Chief Investment Officer

Whether the economy will experience a hard landing or a soft landing seems to be the $64,000 question facing investors these days. If you had asked us at the end of the third quarter last year, we would have pointed out that the crowded "trade" appeared to be that the economy would experience a hard landing. A hard economic landing would be characterized by a sharp decline in corporate earnings and a significant uptick in unemployment, among other measures. Over the last few months, however, as markets have risen off their lows and the economy has demonstrated resiliency, the crowded trade appears to be that a soft landing might just be possible.

A soft landing would result in only small declines in corporate earnings and only a slight uptick in unemployment, with most impact to jobs coming from a reduction in job openings rather than actual jobs being lost. Advocates for a soft landing point to the fact that consumers and businesses alike have created real savings from refinancing debt over the past decade, unemployment is low, China is reopening after abandoning their zero-COVID policy and there are still significant unspent dollars from pandemic-related stimulus that will continue to find their way into the economy.

So, which outcome do we think will happen? This may sound like a punt, but as is so often the case, the most likely path regarding a hard or soft landing probably lies somewhere in the middle, with something resembling a moderate economic slowdown in the cards. Although better than a hard landing scenario, even a moderate recession may still engender pockets of market volatility.

One scenario that doesn't seem to get much discussion is the possibility of a higher persistent inflation level becoming acceptable versus the Federal Reserve's 2.0% target. It may very well be that we simply cannot get inflation back down to 2.0% without risking a hard landing. With a new Presidential election cycle set to begin, and with a desire to remain uninvolved with campaign politics, the Fed may run out of time and find itself in the position of accepting that higher day-to-day inflation is simply the best-case scenario, representing the shared cost of past spending sins.

Against this backdrop, what, if anything, can investors do to prepare for these possible outcomes? To first highlight something investors should *not* do, is try to time market exposure. The market's recent rally off the third quarter lows has provided another powerful illustration of how difficult it is to time markets and why it is so important to remain focused on the long-term. This is so that investors can participate in the good returns that frequently follow periods of bad returns, capturing the full impact equities can have on results. Instead of trying to time markets, investors should spend time with their advisers and ensure that there are clear pathways to their liquidity requirements, should the need arise, and that their asset allocation matches their ability, willingness and need to take risk. Most portfolio risk and return characteristics come from asset allocation decisions and, therefore, an allocation deserves close study and attention to ensure it is a good fit for an investor's needs.

Lastly, with asset allocation decisions, we often say that every dollar has to find a home somewhere and while shorter-dated fixed income and cash may feel good in the short-term, when used alone in a portfolio they rarely are capable of generating the returns required by investors to reach their longer-term goals. Those return goals often require equities and alternative strategies to do the heavy lifting for the portfolio, but also require patience and discipline to get through periods of uncertainty, like today's hard versus soft landing debates and others that will surely come in the future. ◊

The Effects of Annual CPI Re-Weightings

Kevin Gale
Managing Director, Head of Fixed Income

Every month the Bureau of Labor Statistics (BLS) releases its calculation of the Consumer Price Index (CPI). After its release, market participants analyze the data and investment professionals adjust their economic outlooks based on the new data. Despite the rigor that the BLS uses to determine the monthly CPI data, most market participants criticize the data and its inaccuracies in calculating inflation.

To help adjust CPI to current consumer spending habits, the BLS re-weights the CPI index every two years. Starting in 2023 however, the re-weighting will be done on an annual basis instead. Of course, this will have an impact on CPI. Some of the weighting changes in the 2023 CPI calculation are shown in the adjacent data table.

While the re-weighting of the CPI calculation on an annual basis makes sense, it poses challenges for market participants. For starters, the new weights are not known to investors ahead of time, which will make it difficult for economists to accurately forecast CPI data.

	Jan. 2023 Weight	Nov. 2021 Weight	Change
Rent for Shelter	34.04%	32.05%	+1.99%
Food at Home	8.70%	7.70%	+1.00%
Food Away from Home	4.80%	6.30%	-1.50%
Used Vehicles	2.70%	4.20%	-1.50%
New Vehicles	4.30%	3.90%	+0.40%
Gasoline	3.20%	3.90%	-0.70%
Medical Care Services	6.65%	6.97%	-0.32%

Source: Bureau of Labor Statistics

In addition, although investors have had plenty of questions regarding the accuracy of CPI data in the past, the new weightings open up their own set of questions. For example, with the new weightings for 2023, Medical Care Services (which includes health insurance) fell to a weighting of 6.65% from 6.97%. As a percentage of income, we think most would agree that we are spending a higher percentage of our income on healthcare each year. Another question is how the new CPI calculation will impact cost of living formulas in areas such as rent and social security payments.

Overall, the recalibration of CPI is expected to have implications for monetary policy and consumers. The more accurate data could lead to changes in how the Federal Reserve sets interest rates. The consumer can also benefit from more accurate CPI data as it can better reflect the changes in the cost of living, which is used to adjust Social Security benefits and federal tax brackets. On the flip side, the re-weightings can lead to large adjustments to the CPI calculation and significant inaccuracies from market participants in projections. In the short-term, expect some volatility in the CPI data, which can lead to increased volatility in the markets after new data is released. It will take some time for market participants to adjust to the ever-changing weights, but they will adjust. ◊

What Impact Will Artificial Intelligence Have On Productivity and the Economy?

Artificial intelligence (AI) has the potential to greatly impact productivity and drive economic growth. By automating routine tasks and freeing up workers to focus on more complex and creative tasks, AI can improve overall efficiency and increase output. This can lead to higher profits for businesses, lower prices for consumers, and a more robust economy overall.

One of the primary ways AI will impact productivity is through process automation. AI algorithms can be trained to perform repetitive, time-consuming tasks, such as data entry and analysis, at a much faster pace and with higher accuracy than humans. This can free up workers to focus on higher value tasks, such as strategy development and problem solving, that cannot be easily automated. Additionally, AI algorithms can be programmed to learn from experience, constantly improving their performance over time. This means that businesses that adopt AI can expect to see increasing returns on investment as the technology becomes more sophisticated.

Another way AI will impact productivity is through the optimization of business processes. AI algorithms can be used to analyze vast amounts of data and identify areas of inefficiency in supply chain management, inventory control, and other key business processes. This information can then be used to streamline processes and eliminate waste, resulting in significant increases in productivity and cost savings. AI can also be used to automate decision-making, allowing businesses to make data-driven decisions in real-time, which can lead to more effective resource allocation and faster response times.

AI is also expected to have a major impact on the labor market. Some workers will be displaced by automation, but others will be trained for new jobs that require more advanced skills, such as data analysis and AI development. This will lead to a more highly skilled workforce and a more productive economy. Additionally, AI has the potential to create new industries and businesses that did not previously exist, leading to further job creation and economic growth.

In conclusion, AI has the potential to greatly impact productivity and drive economic growth in a variety of ways. From automating routine tasks to optimizing business processes and creating new industries, the applications of AI are numerous and far-reaching. As the technology continues to evolve, it is likely that we will see even more benefits to productivity and economic growth in the years to come.
Source: ChatGPT, February 10, 2023

Like a plot twist in a good movie, the plot twist here is that the above article was entirely written by ChatGPT in response to the same question posed in the article's title. If you're curious, it took less than two minutes for the system to generate the response to our query. The key takeaway from this experiment, in our view, is not so much the contents of the article, but that despite all the gloom and doom and short-termism thrown daily at investors, innovation is alive and well and will continue to drive the economy, industries and businesses forward in ways that we can't even imagine yet. While we know that the outputs of such tools should still be taken with a grain of salt, artificial intelligence is a good example of another puff of wind on the global economic flywheel that will continue the world's legacy of growth, innovation and improved living standards. ◊

A Planning Tool to Reduce Your Financial Stress
Vanessa Mavec King, CFP®
Senior Vice President, Financial Planning

Clients of Ancora have access to our client portal, which is a very powerful personal organization tool called eMoney. You may have heard us talk about it before, but we want to further highlight some of the reasons we feel it's a resource worth utilizing.

At its core, eMoney is an account aggregation tool that allows you to see all your Ancora-managed accounts in one place, as well as link to any outside assets not managed by Ancora (this includes other brokerage accounts, retirement accounts, bank accounts, 529 plans, mortgages, credit cards, etc.). eMoney is strictly a visual aggregator; no money can be moved or managed within it, but the software allows you to see a totally up-to-date net worth across your entire financial life, which is powerful. Populating eMoney with this additional data is certainly helpful to you, but it is also very useful for us as your advisor. We can advise and plan alongside you most effectively when we can see your entire household's financial picture, identifying any blind spots or asset allocation adjustments that may be needed because of the additional data.

Once you have populated your account with data, there are many other capabilities. Some of these include:

- **The Vault**: Online document storage is very easy to access within this secure portal. We have clients utilize it for insurance documents, tax returns, estate planning documents and important family directives. The Vault can become the hub of all your financial records, a true north for record keeping if you will, rather than or in addition to a desk drawer. We also share your Ancora performance reports directly in the Vault for your reference, which makes for more timely communications.

- **Spending/Budgeting**: Once a spending-related account, such as a credit card, is linked, the transactions will display in the Spending tab within eMoney. These are totally private unless you choose to share them with us. Many clients do choose to share that activity if they would like our help tracking and/or building a budget. You can also categorize transactions, create custom labels and build a budget that tracks alongside your spending activity per month. Oftentimes, by looking at cash flows like this, we can identify helpful strategies to maximize savings.

- **Goal Planning/Cash Flow Reporting**: eMoney has robust reporting that your Ancora planner can assist you with. Whether it be planning for college or saving for a home, we can create reports showing your savings plan over time and illustrate how to get you where you want to go. eMoney is a nice complement to our MoneyGuide Pro system to develop and manage an individualized financial plan based on your goals.

- **Connectivity to MoneyGuide Pro**: If you have gone through the full financial planning process with us, you have a lifetime plan in MoneyGuide Pro. You can click into your MoneyGuide plan from eMoney and review it at your own pace at any time with eMoney acting as the conduit. If you have not gone through the MoneyGuide Pro planning process and would like to, please reach out to your Ancora advisor.

To see a walkthrough of a sample eMoney account, watch our recent webinar here. We encourage any of our clients who have not registered for an eMoney account to reach out to your advisor and we will assist in getting access set up for you. We feel this is a very helpful and worthwhile tool and there is no charge for using it. The more active you are in providing us the most up-to-date information, the better service we can provide to you and the more peace of mind you can build for your family. ◊

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to read past newsletters and find other news and insights from the investment professionals at Ancora.

Market Data Center

As of 1/31/2023

Stocks	1 month	3 months	6 months	YTD	1 year	3 years
S&P 500	6.3%	5.7%	-0.5%	6.3%	-8.2%	31.9%
Dow Jones	3.0%	4.6%	4.7%	3.0%	-1.1%	27.0%
Russell 2000	9.8%	4.9%	3.2%	9.8%	-3.6%	23.5%
Russell 1000 Growth	8.3%	4.5%	-4.9%	8.3%	-16.1%	31.8%
Russell 1000 Value	5.1%	7.1%	4.4%	5.1%	-0.8%	26.0%
MSCI EAFE	9.0%	21.1%	9.3%	9.0%	-3.3%	14.8%
MSCI EM	9.1%	22.7%	5.0%	9.1%	-13.4%	4.6%
NASDAQ 100	10.6%	6.2%	-6.2%	10.6%	-18.3%	37.0%

Dividend Yield	NTM P/E	P/B
1.56%	17.7x	3.9x
1.86%	17.4x	4.4x
1.35%	21.2x	2.0x
0.84%	23.1x	9.2x
2.04%	15.0x	2.4x
2.47%	13.1x	1.7x
2.29%	12.6x	1.7x
0.72%	23.0x	6.0x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	4.30%	3.3%	6.3%	3.3%	-8.3%	-6.6%
U.S. Corporates	5.07%	5.2%	10.4%	5.2%	-10.5%	-7.6%
Municipal Bonds	3.65%	2.5%	7.1%	2.5%	-2.8%	-0.8%
High Yield Bonds	8.22%	3.7%	5.3%	3.7%	-5.3%	0.5%

Key Rates	1/31/2023	12/31/2022	10/31/2022	7/31/2022	1/31/2022	1/31/2020
2 yr Treasury	4.21%	4.42%	4.49%	2.90%	1.16%	1.32%
10 yr Treasury	3.53%	3.88%	4.07%	2.64%	1.78%	1.52%
30 yr Treasury	3.66%	3.97%	4.20%	2.98%	2.10%	2.01%
30 yr Mortgage	6.17%	6.66%	7.22%	5.28%	3.78%	3.63%
Prime Rate	7.50%	7.50%	6.25%	5.50%	3.25%	4.75%

Commodities	Level	1 month	YTD
Oil (WTI)	78.87	-1.7%	-1.7%
Gasoline	2.77	7.5%	7.5%
Natural Gas	2.68	-34.6%	-34.6%
Propane	0.90	29.5%	29.5%
Ethanol	2.09	-5.2%	-5.2%
Gold	1,945	6.5%	6.5%
Silver	23.84	-0.8%	-0.8%
Copper	4.23	11.1%	11.1%
Steel	788	5.9%	5.9%
Corn	6.80	0.2%	0.2%
Soybeans	15.08	0.8%	0.8%

Data Reflects Most Recently Available As of 1/31/2023