JOHNSON INVESTMENT COUNSEL

Quarterly Insight

LETTER FROM THE CEO

After several years of pandemic impact on our daily lives, we've all been longing for a return to normalcy. 2022 was anything but normal—with a bear market in stocks, the worst bond market since the 18th century, inflation levels not seen since the early 80s, the most aggressive Fed in decades, and a War in Ukraine. Through it all, your Johnson team remained dedicated to providing the highest level of service possible. Our long-term approach to investing is crucial to navigating such challenging years and remains a key element of our approach. Every day we focus on structuring portfolios to meet client objectives through any market environment.

The tough year for the markets did not get in the way of delivering exceptional service. This is especially important during life's critical transition points. Our team worked hard throughout the year to help clients in numerous ways: planning for retirement, passing wealth to the next generation, supporting charitable causes, welcoming a new child or grandchild, saving and paying for college, getting married, managing the death of a family member, selling a business, and so much more. It is during these critical life moments that the true reward for our work becomes apparent, providing peace of mind when you need it most.

Our priorities for 2023 will enhance our ability to provide financial peace of mind. Investing in our service offering, our culture, and our infrastructure to help more people is at the heart of every one of our strategic plans. We continue to invest in technology and infrastructure to complement our service and investment approach. We have continued to hire across the firm to add depth of expertise and ensure high levels of service. We have hired in our Wealth Management, Family Office, Asset Management, Research, Johnson Trust Company, and Operations divisions to ensure we are meeting your needs.

We have moved or renovated several of our office locations, which is another reflection of our continued growth. In Cincinnati, our Kenwood office has moved to the fourth floor of the same building. Our Cleveland-Akron office has moved from Brecksville to the Crown Centre Building in Independence, and our Detroit office has moved to the Cambridge Center West Building in Livonia. Each location has modernized workstations, enhanced meeting spaces, upgraded technology and allows room for future growth. Our West Fork Road location in Cincinnati has a few more months of remodeling but will remain open for client meetings during construction and will remain our headquarters after the renovation.

We are honored to serve you and that sentiment is shared by every employee here. I write a weekly email to employees with updates on the firm and various initiatives. Employees regularly tell me that their favorite part of these emails is what we call

2022: FOURTH QUARTER

FEATURING

TOTAL RETURNS

	4Q 2022	2022
S&P 500	7.55%	-18.1%
Dow Jones Industrial Average	16.0%	-6.9%
NASDAQ	0.8%	-32.5%
Russell 2000	6.2%	-20.5%
MSCI EAFE (International)	17.4%	-13.9%
Barclays Aggregate Bond Index	1.87%	-13.0%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

"Mission Moments" where I share stories of how we've helped a particular individual or family. It inspires the team to know the difference they are making in people's lives.

Thank you for your loyalty and confidence. It is a privilege to serve you and your families.

Jason Jackman, CFA, Chief Executive Officer

MARKET UPDATE

INFLATION ROILS MARKETS

The onset of inflation sent a painful shudder through the stock and bond markets in 2022. For the first time in decades, inflation fears became a reality in the U.S. and around the world. It's never pleasant, but on the heels of decades of low inflation and low interest rates, this year's economic shift was an especially tough pill to swallow.

After years of little to no inflation, the whiplash from several concurring forces led to rising prices in 2021. At first, there was broad consensus that much of this inflation would prove temporary as supply chain dynamics and Covid irregularities unwound. Instead, prices kept rising. The Consumer Price Index rose from essentially zero in mid-2020 to as high as 9% by 2022.

The Federal Reserve jumped into action by aggressively raising interest rates to tame rising prices. The ultimate result was falling bond prices, rising mortgage rates, stock-market volatility with significant losses in some pockets, and great uncertainty about what lies ahead. In the end, 2022 was the worst year for the S&P 500 since 2008, and the first with double-digit losses since then.

The losses were broad with the exception of energy, which was boosted by the energy crisis created in part by the war in Ukraine and resulting sanctions. After years in the limelight, the larger growth-oriented stocks in the tech, consumer discretion, and communication services sectors were the big losers. The NASDAQ was the worst performer of the U.S. large cap indices, and the Dow Jones Industrial Average was the best.

The largest stocks in the market underperformed smaller peers in a reversal of a key theme of the prior decade's bull market. An equal-weighted basket of the S&P 500 Index outperformed the market-cap weighted index by the largest margin since 2010. Higher quality stocks were especially rewarded relative to lower-quality peers.

International stocks also struggled. However, late in the year, foreign central banks began to ease off tightening policy, which allowed international indexes to recover some of their earlier losses. The MSCI Euro Index had its best quarter ever in the fourth quarter, gaining nearly 26%.

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BOND MARKET TURBULENCE

The stock market receives most of the attention, but the big story in the financial markets in 2022 was the historically bad year for bonds. There simply is no modern comparison in terms of the speed and depth of losses in the bond market. The rapid interest rate increases from such a low starting point left little cushion for bond investors. Yields across maturities rocketed higher as the Fed raised its benchmark rate from zero to 4.50% by year-end.

Rates rose faster on shorter-maturity bonds than longer maturities, which resulted in an inverted yield curve. This is often taken as a sure sign of a coming recession. Either way, it has made yields on short-term bonds and other savings vehicles much more attractive. Rising rates have a silver lining: bond investors can reinvest interest income and maturing bonds into higher-yielding bonds. It's also important to note that if bonds are held to maturity, the price drops resulting from rising rates eventually disappear as the bond price returns to par. The paper losses bond investors have suffered this year ultimately will result in higher potential total returns going forward.

FOCUS SHIFTING FROM INFLATION TO ECONOMIC CONCERNS

The Fed's aggressive moves to combat inflation have led to some slowing in price gains, but it has made clear there is further tightening to come. In his last press conference, Fed Chair Jerome Powell said "by now, we expected to make faster progress on inflation than we have."

Falling commodity prices, a slowing housing market, and a slowdown in manufacturing have eased some of the price pressures in the economy. Despite this, the Fed expects at least two more rate hikes in 2023. Wage gains remain strong, a key component to the overall inflation picture. As the potential end of the tightening cycle approaches, there is concern that the Fed might wait too long to reverse course, or take rates too high. Historically this has typically been the case. The Fed, through its tightening, has consistently shown a propensity for sending the economy into a slowdown and even recession. In addition to other external shocks like commodity crises, terrorist attacks, etc. this is the most common cause of recession.

The market projects the peak Fed Funds rate to be roughly 5.75% in May 2023. The Fed is insisting it will keep rates higher through the end of 2023, but the market is pricing in rate cuts later in the year. The market believes the Fed's strong stance against inflation will kick in, so much so that it will cause enough of a slowdown to lead to a pivot to financial easing.

DOWNSIDE RISK TO EARNINGS

Stock analysts have been aggressively slashing their earnings forecast as falling consumer confidence and higher interest rates have taken their toll. Analysts are projecting further decreases in corporate profits in 2023. The numbers are even worse when the energy sector is removed, which has propped up the overall index number with massive profit gains on the back of rising energy prices. Cost cutting and supply chain improvements have softened some of the blow, but earnings may not be supportive of stock market gains in 2023.

LOOKING AHEAD

History shows that the stock market goes up more than it goes down. Back-to-back years of losses for stocks are rare, but it is certainly possible. Since 1928 the stock market has posted a negative return 25 times. On average the following year's return was 12.6%, and was positive 17 out of 25 times. This is a good reminder that stocks often sprint lower before resuming their marathon climb higher in relatively short order.

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Much will depend on the Fed's course of action and the economic fallout in the coming months. The Fed has been vocal that its focus is on taming inflation regardless of stock market reactions. If inflation remains stubbornly high and markets continue to fall, we will have an opportunity to learn how willing the Fed is to stick to its word.

On the positive side, bulls point to slowing inflation, the Fed nearing the end of its hiking cycle, a strong labor market that could soften any economic blows, and hopes for decent earnings. Bears are worried that stubborn inflation will force the Fed to remain restrictive, that earnings will come in worse than expected, and that central banks around the world will take things too far and break the economy.

With all the focus on inflation and the Fed, we should also be reminded that what we don't know is coming, good or bad, may end up determining the course of the market more than anything we do know about.

Disclaimer: Any expectations presented should not be taken as a guarantee or other assurance as to future results. Our opinions are reflections of our best judgment at the time this presentation was created, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise. The material contained herein is based upon proprietary information and is provided purely for reference and as such is confidential and intended solely for those to whom it was provided by Johnson Investment Counsel.

2022 VIRTUAL WEALTH MANAGEMENT FORUM

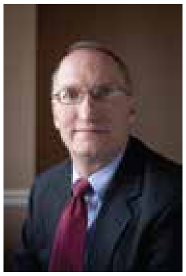
Join us for our annual Wealth Management Forum on Wednesday, February 8, presented via Zoom. CEO Jason Jackman will provide highlights from 2022 and introduce JIC team members who will share insights on the market and economy as well as other key wealth management and estate planning topics.

Following our Wealth Management Forum presentation, stay tuned for a special video premiere—"A Look Back: The Story of Johnson Investment Counsel." In this 10-minute video, founder Tim Johnson shares the story of JIC's beginnings. You will hear from JIC's first employees, and Tim's wife Janet—you won't want to miss it! "Virtual doors" open at 3:45, presentation begins at 4 pm.

USE YOUR SMARTPHONE CAMERA TO SCAN THE QR CODE TO REGISTER NOW or visit JOHNSONINV.COM!

2022 RETIREMENT

Johnson Investment Counsel congratulates Jeff Cornell on his retirement. Jeff joined the Johnson team in 2001. Since then, he has served clients and their families as a Senior Portfolio Manager. In addition, he was involved with our research process and helped develop investment strategies over the years. "Jeff truly cared about his clients and developed deep relationships with them. We'll miss having him here but wish him and his family the best in retirement," says Bret Parrish, President of our Private Client Group.


Cornell

Jeff and his wife Monica look forward to more time with family and friends, volunteering, and traveling.

NEW DESIGNATION

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Portfolio Manager Assistant Brandon Plumb CFA, CFP®, on earning his Chartered Financial Analyst designation.


Plumb

NEW ADDITIONS TO THE TEAM

- **Diane Buchanan**
  Receptionist
- **Celeste Pugh**
  Corporate Operations Associate


Buchanan


Pugh

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

JOHNSON
INVESTMENT COUNSEL

ABOUT US

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing $16 billion in assets for clients in 49 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

LOCATIONS

CINCINNATI-KENWOOD
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COLUMBUS
DAYTON
METRO DETROIT

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