JENSEN™
PRIVATE CLIENT

Fourth Quarter
2022

Quarter In Review

Jensen Private Client

Firm Update

Welcome 2023!

The New Year brings important changes to investors. On December 29, 2022, an update to the SECURE ACT of 2019 became law. Worthy of note:

- Beginning January 1, 2023, the age at which Required Minimum Distributions (RMDs) begin is 73. If you are already taking RMDs you are required to continue as before.
- The RMD age will change to 75 in 2033.
- The penalty for failing to withdraw a RMD was formerly 50% of the RMD value. This will be reduced to 25%. If the missed RMD is withdrawn in a "timely manner" the penalty will be further reduced to 10%.
- Catch-up contribution limits for several retirement plans have been increased.
- Certain qualifying distributions from 529 plans will be allowed to be rolled over to Roth IRAs and other retirement plans after December 31, 2023.
- Please find more details about the SECURE ACT 2.0 here.

Pershing acts as the custodian for most of our private clients and it is in the process of calculating RMDs for 2023. We expect that RMD information will be available during the third week of January.

Pershing will also begin mailing tax forms 1099 to clients in mid-February.

Tax Day is Tuesday, April 18, 2023.

We would like to extend our sincere appreciation to all clients for your continued confidence as we work together towards a prosperous New Year! Please feel free to contact us with any questions you may have.

Fourth Quarter 2022 in Review

The fourth quarter capped a volatile year as investors continued to digest the same unsavory ingredients: rising interest rates, continued high inflation with supply chain issues, and no end in sight to geopolitical turmoil. Combined, the likelihood of a recession, or at the very least an economic slowdown, weighed significantly on equity valuations with worries persisting that the Federal Reserve will remain hawkish until clearer signs of cooling inflation start to become visible. This volatility extended beyond equity markets as rapidly rising interest rates significantly impacted bond prices. While the Fed Fund rate increases are likely to slow or cease in 2023, directionally the current "anti-inflationary" position adopted by the Fed is likely to remain for the near-term, and consequently, will continue to favor shorter term bond maturities.

Looking Ahead

As we reflect on the market pullback in 2022 and look forward to 2023, we maintain a more cautious outlook for market returns

in the coming year. We recognize that several factors make any forecast challenging. They include but are not limited to higher inflation, the likelihood that interest rates will stay high for the foreseeable future and ongoing cost pressures arising from the labor markets and supply chain issues.

Likewise, there are increasing concerns about a recession in the coming year and the bond market is signaling that it expects one in 2023. In particular, the treasury yield curve – the yield difference between 10-year and 2-year treasury bonds – has been inverted since early July 2022. Yield curve inversions occur when the yields on short-term bonds are higher than those on long-term bonds. Such occurrences are relatively rare and have accurately predicted the ten most recent economic recessions. Indeed, recent debate seems to be more about the depth and length of recession rather than whether one will occur.

Consequently, the path forward may continue to be uneven and uncertain. However, we believe uncertainty can provide opportunities for resilient businesses to garner favor from investors looking for lower volatility in the face of the issues discussed here. We continue to have confidence in the businesses owned in our clients' portfolios because of our deep research regarding characteristics of strength, including resilient business models, durable competitive advantages, pricing power, steady operating margins and free cash flow generation that is consistently reinvested into future growth opportunities.

While the economic uncertainty and the pullback in equity market prices in 2022 has tested the resolve of some investors, we remain convinced that the strategy and process guiding our philosophy is sound. Our goal remains to be owners of a portfolio of companies positioned to grow and accrue business value. We seek to participate in this value creation as investors via the long-term ownership of fairly priced, high-quality stocks. We believe the attributes noted above allow quality companies to generate business returns consistently above their cost of capital, ultimately resulting in shareholder value creation that is reflected in these companies' share prices.

Finally, we remain steadfast in our belief that paying attention to company fundamentals can help investors manage risk. This should offer a measure of capital protection in more volatile or generally lower market return environments and provide the opportunity for long-term capital appreciation.

Connect With Us

Thank you for your continued confidence in Jensen. We are tremendously grateful for your ongoing support, and as always, please do not hesitate to contact us with any questions you may have. We wish you and your family a very happy 2023!

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