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# Market Flash Report

December 2022

## Key Takeaways

- Market performance in the final quarter of 2022 proved to be mostly positive for both stocks and bonds. The S&P 500 and the Nasdaq finished the quarter +7.6% and -0.79% respectively. High yield and Emerging Market debt were the ultimate beneficiaries of investors taking on a little more risk during the quarter.
- Value dramatically outperformed growth for the quarter (+13.6% vs. +1.5%). Energy, Industrials, and Materials sectors were all up over +15%. Consumer discretionary and Telecom stocks were the laggards down -10.2% and -1.4%.
- Non-U.S. equities, both developed and emerging, outperformed U.S. equities gaining an added boost from a weaker US dollar. Broad European equities were up over +19%, Japanese equities were up +13.2%, and Chinese equities were up +13.5% during Q4.
- The Federal Reserve raised its Fed Funds rate by 125bps during the fourth quarter, including a 50-basis point hike in December to end the year at 4.50% (upper bound) compared to the 0.25% rate at the beginning of 2022. Headline CPI rose by less than expected in November to 7.1% YoY, driven lower by weakening energy prices and core goods such as new and used cars. Market participants expect at least one more rate hike of 25-basis points in early 2023 as the Fed evaluates the decrease in inflationary pressures.
- The labor market remains surprisingly resilient despite some signs that things may be about to cool. The excess number of job openings to those unemployed is shrinking as is the rate at which employees are quitting their jobs. Job openings peaked in March at 11.9m and as of November are at 10.3m.


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## Index Performance (as of 12/31/2022)

| | Q4 2022 | One-Year | Three-Year |
|---|---|---|---|
| Equity | | | |
| U.S. Large Cap | 7.6% | -18.1% | 7.7% |
| U.S. Small Cap | 6.2% | -20.4% | 3.1% |
| Developed Non-U.S. | 17.4% | -14.0% | 1.3% |
| Emerging Market | 9.8% | -19.7% | -2.3% |
| Real Assets | | | |
| Real Estate | 7.4% | -23.4% | -4.5% |
| Commodities | 2.2% | 16.1% | 12.7% |
| Natural Resource Equities | 18.3% | 34.1% | 15.0% |
| Fixed Income | | | |
| Core Plus | | | |
| U.S. High Yield Debt | 4.2% | -11.2% | 0.0% |
| Emerging Market Debt | 8.4% | -18.4% | -5.4% |
| Core Bonds | | | |
| U.S. Aggregate Bonds | 1.9% | -13.0% | -2.7% |
| U.S. Treasuries | 0.7% | -12.5% | -2.6% |
| U.S. Municipal Bonds | 3.1% | -4.8% | -0.1% |
| | Current | Prior Month | One-Year Ago |
| Month-End Values/Yield | | | |
| CBOE Volatility Index | 21.7 | 20.6 | 17.2 |
| 10-Year Treasury Yield | 3.9% | 3.6% | 1.5% |

*Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.*

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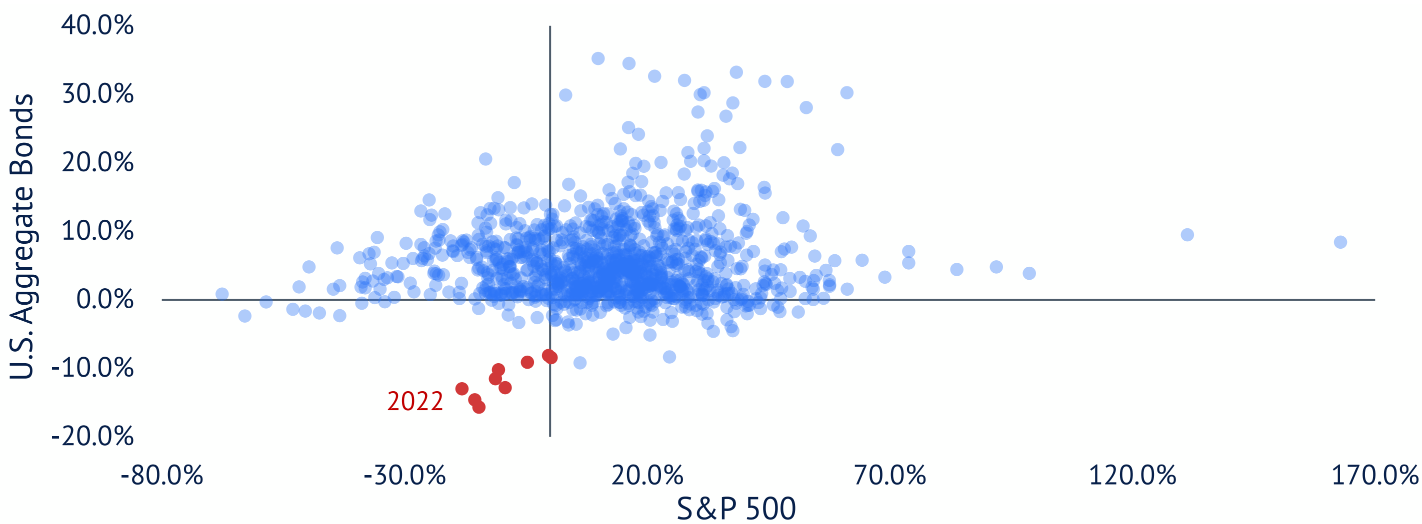
## Quarterly Commentary

- As we enter Q1 of 2023, there is a growing concern that the U.S. economy might enter a recession. Our Market Cycle Dashboards have been negative for seven consecutive months now and is at its lowest reading since April 2020.
- Consumers have been largely resilient so far during this bear market. However, higher rates will continue to weigh on home-building and business investment. With personal savings rates near Global Financial Crisis lows, spending that was supported by stimulus could dry up in 2023 and has shown some signs of cooling already.
- A strong labor market and increasing nominal wages has kept the U.S. economy relatively stable in the face of widespread inflation. Nonfarm payrolls have surprised to the upside 9 of the last 12 readings, including the last 4 (Sep-Dec). Job cut announcements are starting to spike and spread to sectors other than tech. While announcements might not lead to actual layoffs, continuing claims for unemployment have risen to its highest level in the last 11 months and are 30% above May lows.
- Corporate profit margins are facing headwinds from input costs, dropping from 13% at their peak to 11% at year-end and may continue to be challenged as wage pressures persist.
- There are encouraging signs that a persistent downtrend in inflation is underway. Headline CPI is down to 7.1% YoY from the peak of 9.1% in June. Given the low month-over-month changes in inflation we have seen in the past five months, there is a clear path to a sub-3% year-over-year inflation rate in 2023.
- The Fed Funds rate was increased 125 basis points during Q4 to an upper bound of 4.5%. We believe the Fed is close to the end of this tightening cycle which, by their own estimates, could peak around 5-5.25%. Market prices indicate that investors believe the Fed will be forced to begin cutting rates in the second half of 2023.
- 2022 was a challenging year for a balanced portfolio as equities and bonds both suffered double-digit losses. With interest rates higher than they have been in 15 years and a potential recession on the horizon, we anticipate that fixed income returns will be much better in the year ahead.

## Rolling 12-month Total Returns: S&P 500 vs. U.S. Aggregate Bonds (1926-2022)




*Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.*



*You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized.*

# Disclosures

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U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the Bloomberg Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.

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