clearstead

MARKET MINUTE

DECEMBER REVIEW 2022

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

After global equity markets rallied in October and November, December saw broad-based declines in risk-assets. US equity markets declined the most among major equity markets, but Europe, Japan, and most emerging markets also saw equity market weakness. In part, global markets were buffeted by the continuing increase in global interest rates, with almost every major central bank raising rates in December, led by the US Federal Reserve's mid-December 50 basis point rate hike. While most of the actions by central banks in December were anticipated by markets, they remain uncertain as to the path of interest rates in 2023. Most central banks—including the US Fed—have continued to signal that additional rate hikes are coming in 2023, but markets remain skeptical that central banks will continue to hike rates in the face of slowing global growth.

U.S. EQUITY MARKETS As of December 31, 2022

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-4.1%	16.0%	-6.9%	-6.9%
S&P 500	-5.8%	7.5%	-18.1%	-18.1%
Russell 2000	-6.5%	6.2%	-20.5%	-20.5%
Russell 1000 Growth	-7.7%	2.2%	-29.1%	-29.1%
Russell 1000 Value	-4.0%	12.4%	-7.6%	-7.6%

US equities capped off 2022 by declining gradually throughout December. The S&P 500 declined -5.8% during the month and ended the year down -18.1%.[1] US Small Caps (Russell 2000 Index) declined by -6.5% during the month and ended the year down -20.5%.[1] During December, value oriented large-cap stocks fared better than their growth peers with the Russell 1000 Value Index -4.1% compared to the Russell 1000 Growth Index -7.7%.[1] There was little difference between growth versus value stocks at the small cap level. In terms of S&P 500 sectors, Utilities, Energy, and Consumer Staples fared the best in December as well for the full year. The S&P 500 Energy sector gained over +65% in 2022, whereas Utilities gained +1.6% and Consumer Staples ended 2022 down only -0.6%.[1]

INTERNATIONAL EQUITY As of December 31, 2022

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-0.7%	14.3%	-16.0%	-16.0%
MSCI EAFE	0.1%	17.3%	-14.5%	-14.5%
MSCI Emerging Markets	-1.4%	9.7%	-20.1%	-20.1%
MSCI EAFE Small Cap	1.1%	15.8%	-21.4%	-21.4%

International equities performed better than US equities in December, but in large part due to positive impact of the weakening US dollar on non-US equity returns. For instance, the MSCI EAFE ended December +0.1% in US dollar terms, but in local currency terms it lost -3.0%.[1] Similarly, emerging markets lost -1.4% in dollar terms, but -2.0% in local currency.[1] European equities were aided by a relatively mild winter so far, that has lessened the region's energy crunch and likely assures that Europe's current gas supplies stretch until Spring.

Emerging markets (MSCI Emerging Market Index) ended the month +5.2% and were buoyed in part by China whose markets traded higher as it moved to further limit its Covid restrictions and lay the groundwork for moving past its previous zero-Covid policies.[1] As a result of the relaxation of Covid restrictions, China is experiencing a widespread surge in Covid cases, which is challenging the capacity of its healthcare sector and is likely to weigh on economic activity during the first few months of 2023.

FIXED INCOME As of December 31, 2022

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.5%	1.9%	-13.0%	-13.0%
BarCap Global Aggregate	0.5%	4.5%	-16.2%	-16.2%
BarCap US High Yield	-0.6%	4.2%	-11.2%	-11.2%
JPM Emerging Market Bond	0.4%	7.4%	-16.5%	-16.5%
BarCap Muni	0.3%	4.1%	-8.5%	-8.5%

As the Fed continued to tighten US monetary policy, interest rates largely increased during the month. The US 10-year Treasury yield rose from 3.61% at the end of November to 3.88% at the close of the year.[1] The risk off environment saw spreads widen for US high yield bonds by 21 basis points, but spreads modestly tightened for investment grade bonds.[1] Emerging market debt spreads tightened by 18 basis points as investors sought higher yields amidst a weakening U.S. dollar.[1]

In terms of the full year, the rise in yield for the US 10-year Treasury—from 1.51% at the beginning of January to 3.88% to close out December—led to the first ever back-to-back down years in the Bloomberg Aggregate Bond US Bond index.[1] There was no place to hide for fixed income investors in 2022. The US Bloomberg Aggregate Bond Index fell -13% for the year, whereas Bloomberg US High Yield Bond Index declined -11.2% and JPM Emerging Market Bond Index fell by -16.5%.[1]

CONCLUSION & OUTLOOK

Despite the challenges investors faced in 2022, the economy remained quite resilient throughout the year and continues to be supported by a strong labor market. For 2023, headlines related to the economy, with the likely exception of inflation, are expected to get a little worse before getting better—yet financial markets tend to be leading indicators of future expected economic activity (and corporate earnings), so we are mindful that markets have already discounted some level of weakness in economic activity for 2023. Therefore, we believe the first half of 2023, at least, is likely to be characterized by several traditional late cycle themes for the US economy—such as moderating GDP growth, further monetary policy tightening, and slowing (but still elevated) inflation. The biggest wildcard for the US economy is how strong the labor market will remain and if average hourly wages continue to increase robustly on a year-over-year basis. Given this backdrop, Clearstead's outlook in terms of key investing themes for 2023 can be found in the forthcoming January ClearPoint.

SOURCES

1 Bloomberg, LP 12/31/2022