December 2022 | Global Equity Markets Review

Executive Summary

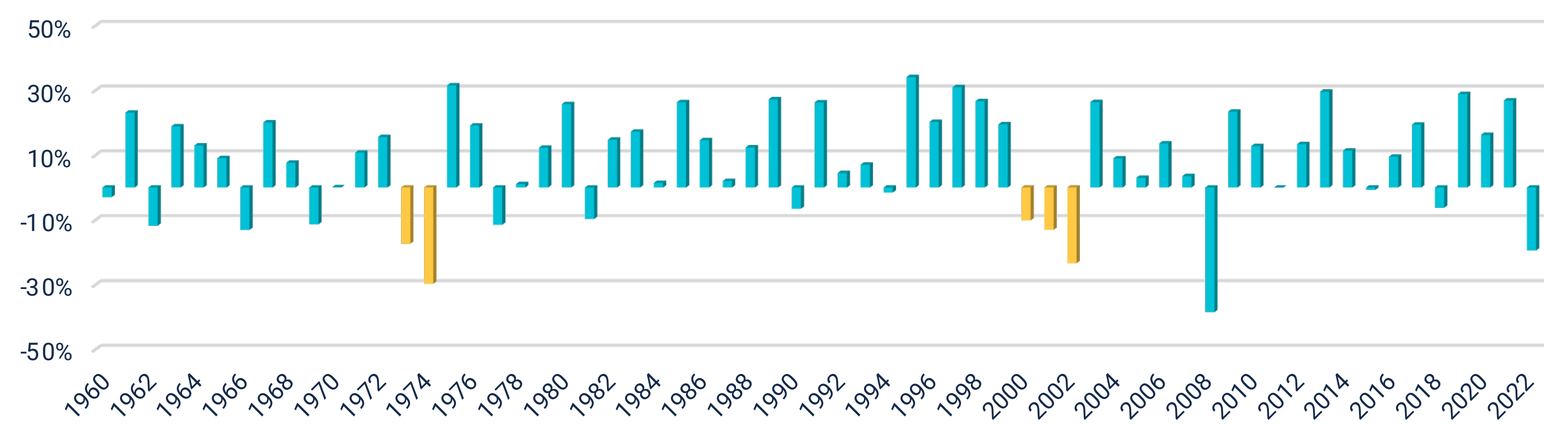
December completed the year of surprises, mostly negative, as stocks fell in what has more often than not been a positive month for equities. The S&P 500 Index total return was -5.8%, the S&P Mid Cap 400 fared slightly better at -5.5%, and the S&P Small Cap 600 performed modestly worse at -6.7%. The selling was persistent as the S&P 500 dropped on the first day of the month and closed lower on 2 out of every 3 trading days in December, never surpassing the November 30 level. Rising concerns over the likelihood of an economic recession impacted cyclical stocks more than defensive sectors in December, and value bested growth for the fourth consecutive month as investors shunned technology stocks, a heavily weighted sector in most growth-oriented portfolios.

Comparative Index Total Returns (%)	1 Mo.	3 Mo.	1 Yr.	3 Yr.
S&P 500 Index	-5.8	7.6	-18.1	7.7
S&P 500 Equal-Weight Index	-4.7	11.6	-11.4	9.0
S&P 500 Growth Index	-7.6	1.4	-29.4	7.5
S&P 500 Value Index	-3.9	13.6	-5.2	6.3
S&P Mid Cap 400 Index	-5.5	10.8	-13.1	7.2
S&P Small Cap 600 Index	-6.7	9.2	-16.1	5.8
MSCI EAFE Index	0.1	17.4	-14.0	1.3
MSCI Emerging Markets Index	-1.4	9.8	-19.7	-2.3
MSCI All Country World Index	-3.9	9.9	-18.0	4.5
MSCI ACWI ex-US Index	-0.7	14.4	-15.6	0.5
BBg Barc US Aggregate Bond Index	-0.5	1.9	-13.0	-2.7
BBg Barc US Corporate High Yield Index	-0.6	4.2	-11.2	0.0
60% MSCI ACWI/ 40% BBg Barc US Agg Bond	-2.5	6.7	-15.8	1.9

Source: FactSet for all index and market data, with all index total returns shown in US dollars in table as of December 31, 2022. Please see notes & disclosures.

Turning the calendar did not wipe the slate clean of the challenges facing investors. The big issues — COVID variants, the Ukrainian/Russian conflict, and a Federal Reserve intent on quelling surprisingly strong and persistent inflation — remain front of mind for the markets. However, what does change with the passage of time is expectations declining and prices adjusting lower in the face of a more sober reality. Equity investors anticipate changes, both positive and negative, and the lower level for stocks today suggests investors have priced in all known negatives. Meanwhile, the self-correcting mechanisms are set in motion in both economic and market cycles tilting the risk/reward balance in a more favorable position for investors. This is evident in the chart below which illustrates the year-by-year price return in the S&P 500 back to 1960. The bars in yellow highlight the only two periods over this 63-year history where stocks fell in consecutive years (2 years in 1973 and 1974) and three years (2000/2001/2002). Of course, there is no guarantee the coming year will follow suit suggested by history, but it does serve to remind investors the stock market looks forward and prices risks in advance of their arrival.

S&P 500 Index Price Return by Year Since 1960



Source: Macrotrends. Calendar year price return for S&P 500 Index, for the period 1960 to 2022.

Global equity bourses reacted less negatively to similar forces impacting the U.S. The S&P Global BMI ex-U.S. total return in December was -0.61% with both developed and emerging market returns easily besting the U.S. return at -0.46% and -1.07%, respectively. The U.S. Dollar Index declined -2.3% in December aiding U.S. investors' overseas holdings. Sentiment has turned decidedly against the dollar over the past three months as investors have concluded the Federal Reserve is closer to a pause in rate hikes than other major central banks. A smaller short term rate differential between U.S. and international yields will be a headwind after one of the strongest 18-month runs in the dollar (March 2021 to September 2022) in four decades.

Investor enthusiasm will be tempered beginning in 2023 as the economy is demonstrating deteriorating momentum. How clearly the market sees past the valley of a declining business cycle will be hotly debated in the weeks ahead. It will not likely be a smooth trade-off between slowing inflationary pressures (good for stocks) and declining economic activity (bad for stocks) as evidenced by the volatility in stock prices this past year. Nevertheless, experienced investors have endured and ultimately profited from prior cycles in stocks and the economy — this one should be no different. Behavioral mistakes may likely occur when short term decisions become unmoored from long term objectives. As always, we are committed to safely guiding you through the uncertain ground toward the smoother path capital markets have rewarded patient investors time and again.

Notes & Disclosures

Index Returns – all shown in US dollars
All returns shown trailing 12/31/2022 for the period indicated. "YTD" refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The S&P 500 index is comprised of large capitalized companies across many sectors and is generally regarded as representative of US stock market and is provided in this presentation in that regard only.
- The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The S&P 500 equal-weight index (S&P 500 EWI) series imposes equal weights on the index constituents included in the S&P 500 that are classified in the respective GICS® sector.
- The S&P 500 Growth Index is comprised of equities from the S&P 500 that exhibit strong growth characteristics and is weighted by market-capitalization.
- The S&P 500 Value Index is a market-capitalization weighted index comprising of equities from the S&P 500 that exhibit strong value characteristics such as book value to price ratio, cash flow to price ratio, sales to price ratio, and dividend yield.
- The Russell 3000 Index tracks the performance of 3000 U.S. corporations, determined by market-capitalization, and represents 98% of the investable equity market in the United States.
- The Russell Mid Cap Index measures the mid-cap segment performance of the U.S. equity market and is comprised of approximately 800 of the smallest securities based on current index membership and their market capitalization.
- The Russell 2000 Index is a market-capitalization weighted index that measures the performance of 2000 small-cap and mid-cap securities. The index was formulated to give investors an unbiased collection of the smallest tradable equities still meeting exchange listing requirements.
- The MSCI All Country World Index provides a measure of performance for the equity market throughout the world and is a free float-adjusted market capitalization weighted index.
- The MSCI EAFE Index is a market-capitalization weighted index and tracks the performance of small to large-cap equities in developed markets of Europe, Australasia, and the Far East.
- The MSCI Emerging Markets Index is a float-adjusted market-capitalization index that measures equity market performance in global emerging markets and cannot be purchased directly by investors.
- The S&P Global BMI sector indices are into sectors as defined by the widely used Global Industry Classification Standards (GICS) classifications. Each sector index comprises those companies included in the S&P Global BMI that are classified as members of respective GICS® sector. The S&P Global BMI Indices were introduced to provide a comprehensive benchmarking system for global equity investors. The S&P Global BMI is comprised of the S&P Emerging BMI and the S&P Developed BMI. It covers approximately 10,000 companies in 46 countries. To be considered for inclusion in the index, all listed stocks within the constituent country must have a float market capitalization of at least $100 million. For a country to be admitted, it must be politically stable and have legal property rights and procedures, among other criteria.
- The Barclay's US Aggregate Index, a broad-based unmanaged bond index that is generally considered to be representative of the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance to certain asset classes. Index performance used throughout is intended to illustrate historical market trends and performance. Indexes are managed and do not incur investment management fees. An investor is unable to invest in an index. Their performance does not reflect the expenses associated with the management of an actual portfolio. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk including loss of principal. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market. Past performance is no guarantee of future results.

Key Indicators
Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to equity markets.

- The US 10-Year Treasury Yield (%)/bps, is the return on investment for the U.S. government's 10-year debt obligation and serves as a signal for investor confidence.
- SPDR Gold Trust Price ($), is an investment fund that reflects the performance on the price of a gold bullion, less the Trust's expenses.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange's oil futures contract.
- CBOE Volatility Index (Level)/% Change, which uses price options on the S&P 500 to estimate the market's expectation of 30-day volatility.

General Disclosure
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