

Q4

Quarterly Market Review

Fourth Quarter 2023



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Quarterly Market Review

Fourth quarter 2023

This report features world capital market performance and a timeline of events for the past quarter. It begins with an article exploring key storylines and trends from 2023, followed by a global market overview. It then features the returns of stock and bond asset classes in the US and international markets.

Overview:

Quarterly Topic: The Stories of 2023

Market Summary

World Stock Market Performance

US Stocks

International Developed Stocks

Emerging Markets Stocks

Real Estate Investment Trusts (REITs)

Fixed Income

Global Fixed Income

Commodities

The Stories of 2023

How could we sum up the market in a year like 2023? If given only a word, resilient might do.

The year began with many reasons that investors might doubt the market. There was anxiety over high inflation, rising interest rates, and widespread “hard landing” and recession forecasts.

Later, we endured regional banking turmoil and witnessed the onset of war in the Middle East. Yet, despite it all, the market delivered big, with the S&P 500® Index returning over 26%.

For a more in-depth trip down memory lane, Figure 1 captures as much as we could fit of the good and not-so-good news from 2023, presented against the cumulative return of the S&P 500. Market highs and lows are highlighted to illustrate further what a tremendous year it was (blue and red dots for highs and lows and green for new all-time highs).

Amazingly, a dollar tracking the index beginning with the start of the year would have reached the low mark by January 5 and experienced 47 new highs by the end of 2023.



The Stories of 2023

Figure 1 | S&P 500 Index Return and Headlines in 2023



The Stories of 2023

To offer a sense of just how impressive the market return was in 2023, if you compare it against the average of all calendar year returns since the S&P 500 was inception in 1957, it's more than double (26.3% vs. 12.1%) as shown in the **left panel of Figure 2**.

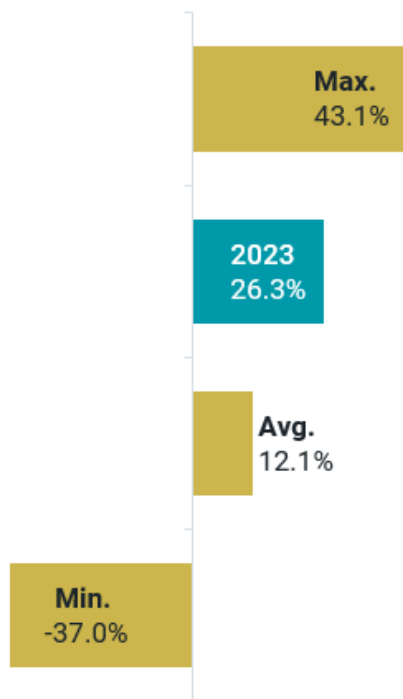
What we can't see in the 2023 total return figure is that the day-to-day experience for investors was more complex.

The **right panel of Figure 2** shows a few more statistics for the S&P 500 in 2023. Even in a big up year, there were plenty of ups and downs.

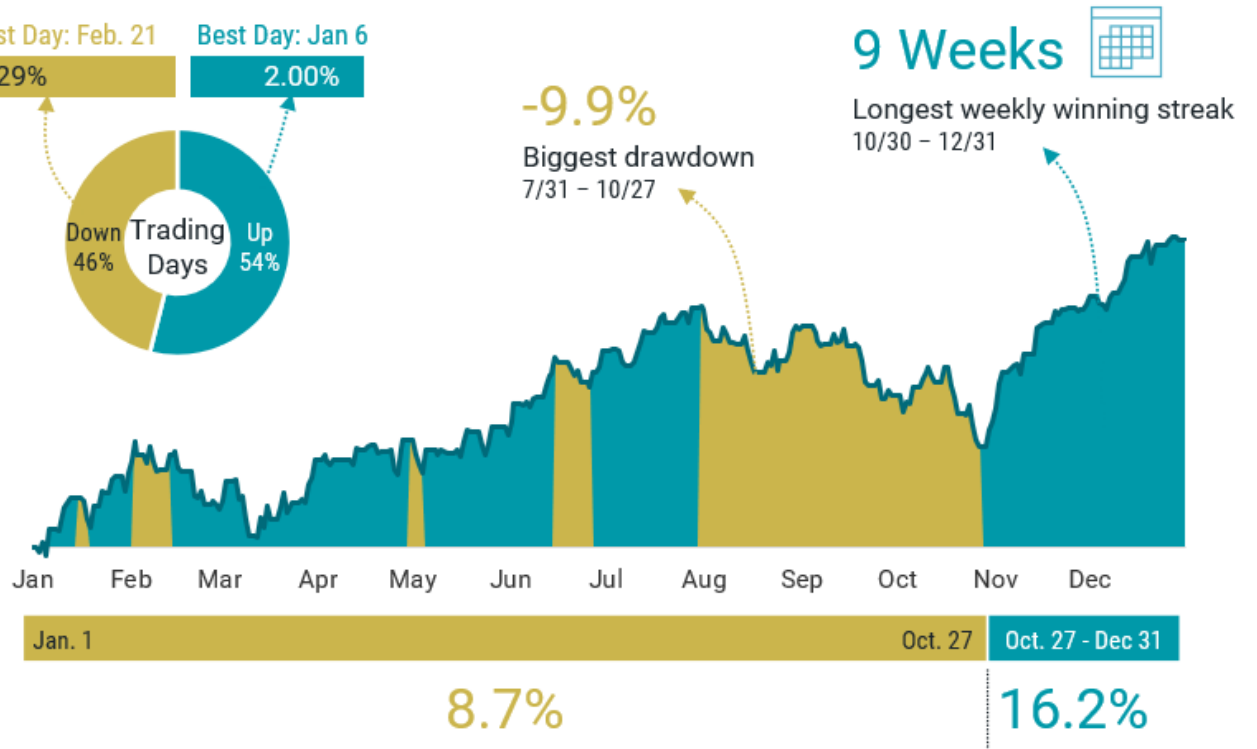
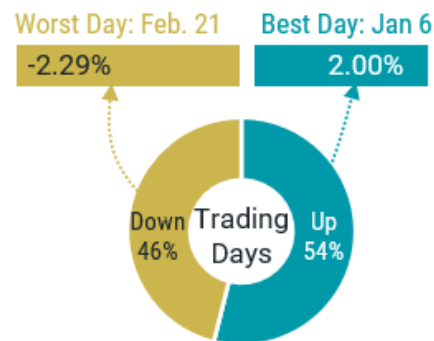
Missing out on short periods in the market, like the last nine weeks when stocks rose 16%, could have led to much lower returns (8.7% YTD as of Oct. 27 vs. 26.3% by year end) – another reminder of how trying to time the market is unlikely to leave us better off than just staying the course.

Figure 2 | S&P 500 Index by the Numbers

Historical Calendar Year Returns 1958 - 2023



2023 Returns



Calendar year return data from 1/1/1958-12/31/2023. The S&P 500® Index inception in March 1957. Remaining data from 1/1/2023 - 12/31/2023. Source: Bloomberg and Avantis Investors. Past performance is no guarantee of future results.

The Stories of 2023

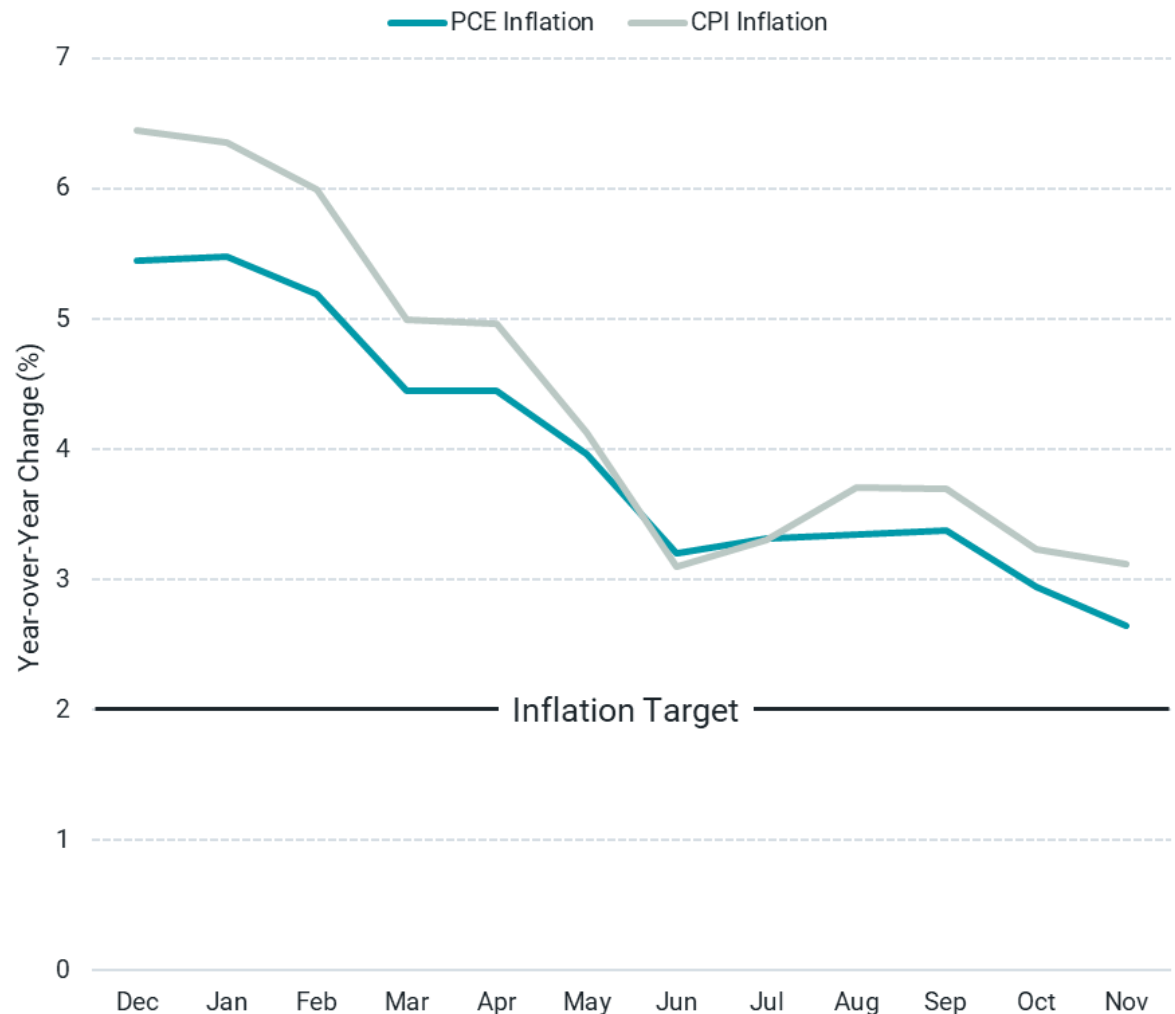
Beyond stock returns, a few other storylines stood out in 2023. Coming into last January, the rate of inflation still stood around three times the Federal Reserve's (Fed's) 2% target. Over the year, the gap between actual and target inflation narrowed considerably.

Figure 3 paints the picture, presenting two common measures of inflation: the Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) price index. Both measures show a similar trend over the year.

The Consumer Price Index (CPI) and Personal Consumption Expenditures Price Index (PCE) are two U.S. inflation metrics that use different methodologies, and therefore produce different estimates.

The CPI measures the change in the out-of-pocket expenditures of all urban households. The PCE index measures the change in goods and services consumed by all households and nonprofit institutions serving those households.

Figure 3 | Inflation Closed in on the Fed's Target Inflation Rate in 2023



The Stories of 2023

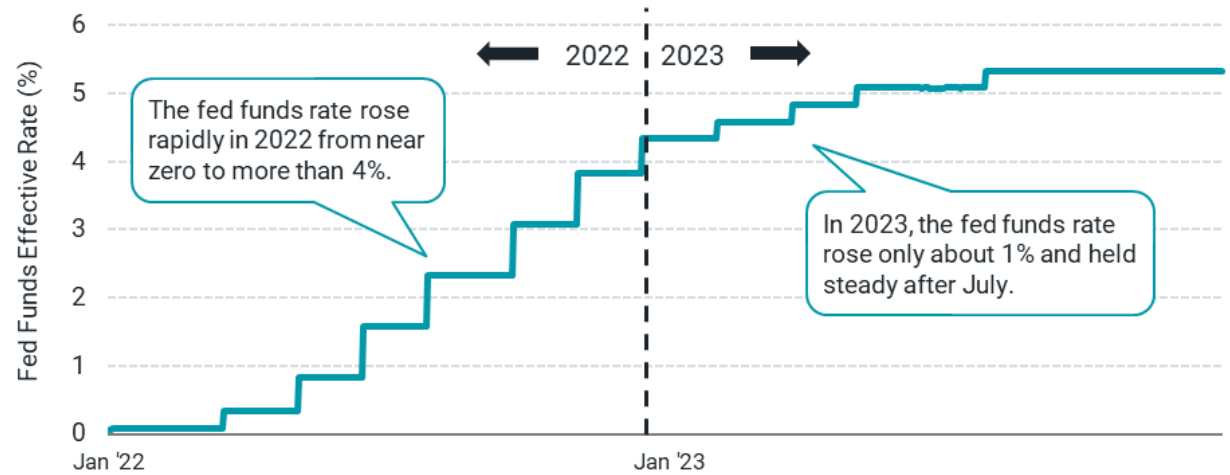
A few other recent milestones continued to inspire hope that inflation is coming under control. In November, the PCE index level fell from where it stood in October. We often hear inflation numbers reported in percentage change from the prior year.

In this case, we're talking about the underlying price level measured by the index, which suggests prices declined in November (not just the rate of change). This marked the first time the index registered a month-over-month decline since early 2020. Also notable: Core PCE, which excludes food and energy costs, increased by just 1.9% over the last six months. That's just below the Fed's target.

Of course, alongside inflation, investors paid close attention to the path of interest rates and the actions taken by the Fed in 2023. We can see in **Figure 4 Panel A** that the federal funds rate rose about 1% over the first seven months of 2023 to eclipse the 5% mark and held steady after that. Data from the start of 2022 highlights that 2023 looked quite different than 2022 when rates rose rapidly from near zero to above 4% in a single year.

Figure 4 | The Pace of Interest Rate Increases Slowed in 2023, with Rate Cuts Now Expected in 2024

Panel A



Panel B



The Stories of 2023

As we got closer to the end of the year, comments from the Fed suggested plans to shift in the other direction with likely rate cuts in 2024. Market-implied expectations for rates in 2024 shifted dramatically, particularly over the final three months of 2023.

Figure 4 Panel B shows that at the start of the fourth quarter, the market placed about a 90% chance on rates being above 5% in June 2024 (as implied by prices on fed futures contracts). By December, that expectation effectively dropped to zero. In other words, the market is now pricing in rate cuts to begin in the first half of 2024 – illustrating a remarkable shift in expectations.

A year ago, few predicted that the Fed could keep inflation in check and begin to cut rates without causing economic recession. The fact that we have yet to see a recession suggests that our earlier “resilient” descriptor can also be applied to the economy.

Taken altogether, these stories from 2023 – big returns from stocks, improving inflation, a slowing pace of rate hikes, and avoiding recession – highlight what a remarkable year it was. It was a year of so many memorable and unexpected stories and news events, but also one that offered powerful lessons for investors.


There will always be noise and distractions that can challenge you to stay invested in your financial plan. There will also be times when many predict market declines with no shortage of compelling arguments for why you should heed these warnings. Doing so in 2023 would likely have done far more harm than good.

If we stay focused on our long-term goals and the fact that our financial plan can account for the ups and downs, we will inevitably see in markets, we can be better prepared to tune out the noise in the short term (and maybe experience less stress about our portfolios along the way).

Those who held that philosophy throughout 2023 were likely rewarded. We think that approach is just as important in 2024 and the future.

Quarterly Market Summary









Index returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q4 2023	STOCKS				BONDS	
	12.07%	10.51%	7.86%	15.47%	6.82%	5.36%
						
Since Jan. 2001						
Average Quarterly Return	2.3%	1.6%	2.5%	2.3%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	6.8%	5.4%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2023 Q4	2023 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2022 Q1	2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

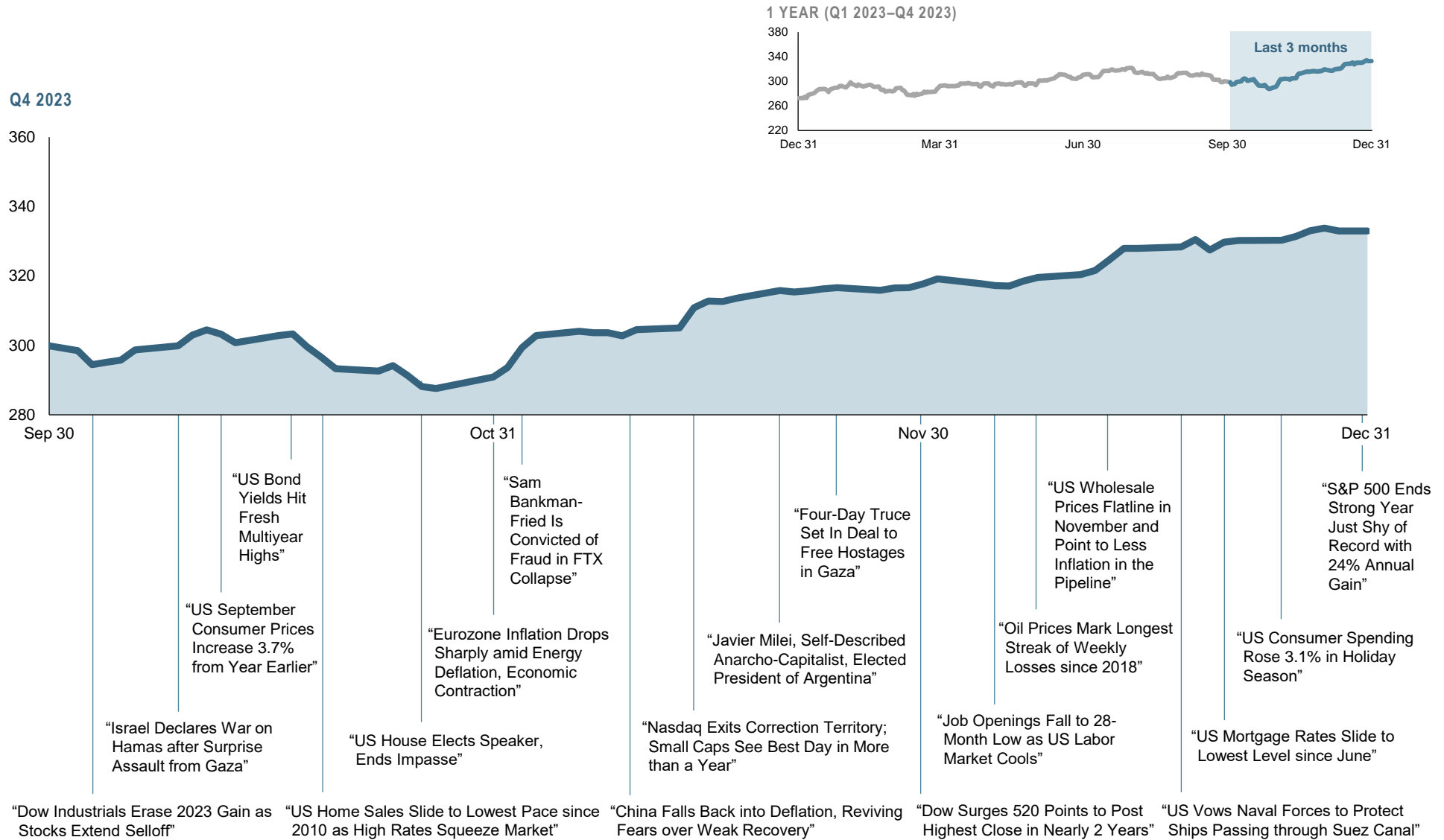
Index returns as of December 31, 2023

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	25.96%	17.94%	9.83%	10.23%	5.53%	8.32%
						
5 Years						
	15.16%	8.45%	3.68%	4.16%	1.10%	1.50%
						
10 Years						
	11.48%	4.32%	2.66%	4.72%	1.81%	2.80%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2023



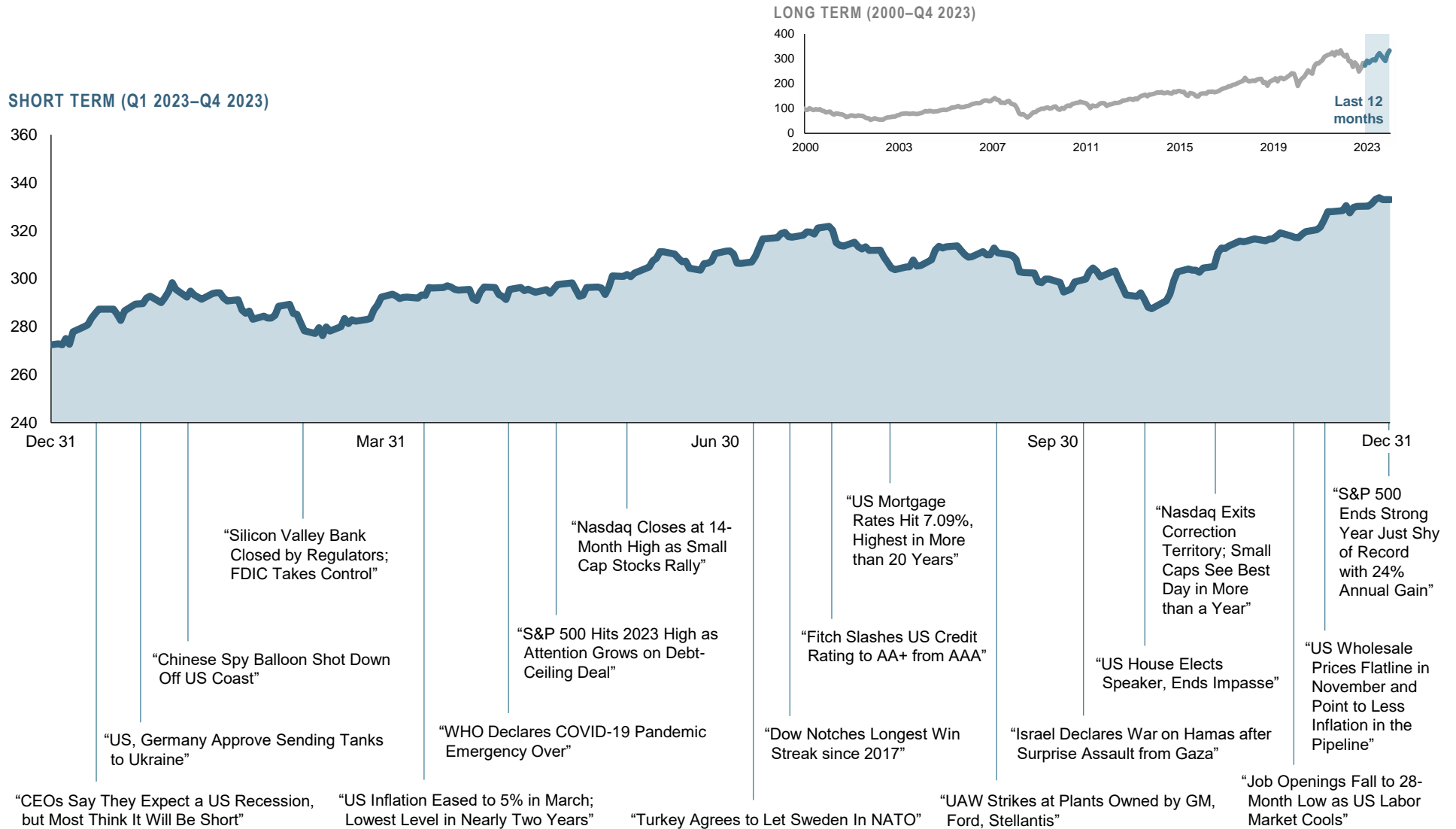
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.

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US Stocks

Fourth quarter 2023 index returns

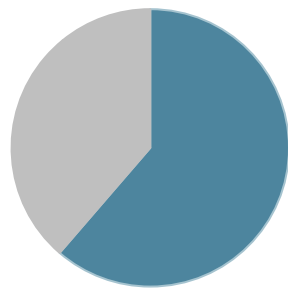
The US equity market posted positive returns for the quarter and outperformed both non-US developed and emerging markets.

Value underperformed growth within large caps and outperformed within small caps.

Small caps outperformed large caps.

REIT indices outperformed equity market indices.

World Market Capitalization—US



61%

US Market
\$46.4 trillion

Ranked Returns (%)



Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Small Value	15.26	14.65	7.94	10.00	6.76
Large Growth	14.16	42.68	8.86	19.50	14.86
Small Cap	14.03	16.93	2.22	9.97	7.16
Small Growth	12.75	18.66	-3.50	9.22	7.16
Marketwide	12.07	25.96	8.54	15.16	11.48
Large Cap	11.96	26.53	8.97	15.52	11.80
Large Value	9.50	11.46	8.86	10.91	8.40

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International Developed Stocks

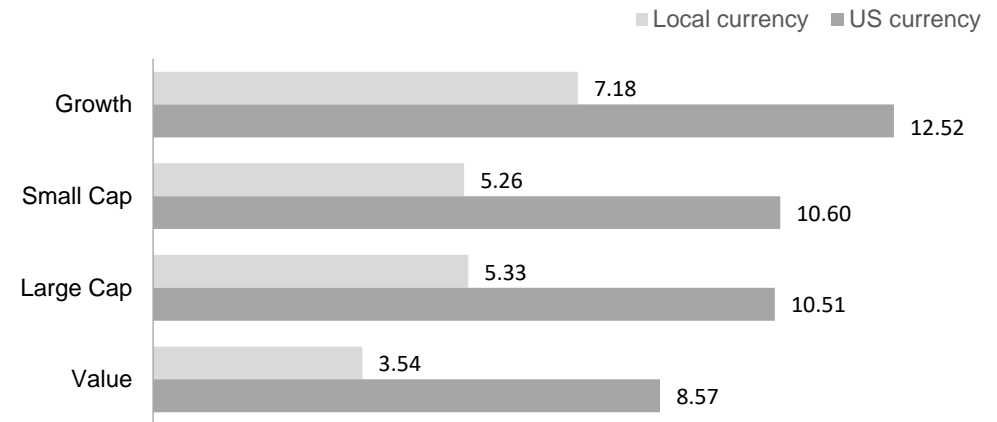
Fourth quarter 2023 index returns

Developed markets outside of the US posted positive returns for the quarter and underperformed the US market, but outperformed emerging markets.

Value underperformed growth.

Small caps outperformed large caps.

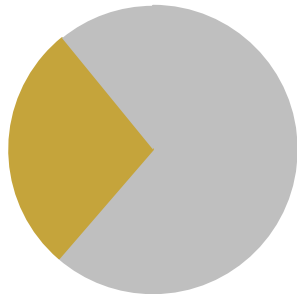
Ranked Returns (%)



World Market Capitalization—International Developed

28%

International
Developed Market
\$21.0 trillion



Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Growth	12.52	17.45	0.44	8.94	5.08
Small Cap	10.60	12.62	-0.20	7.05	4.63
Large Cap	10.51	17.94	4.42	8.45	4.32
Value	8.57	18.48	8.19	7.48	3.29

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Emerging Markets Stocks

Fourth quarter 2023 index returns

Emerging markets posted positive returns for the quarter and underperformed both US and non-US developed markets.

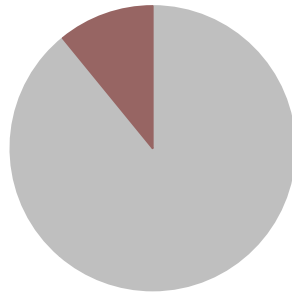
Value outperformed growth.

Small caps outperformed large caps.

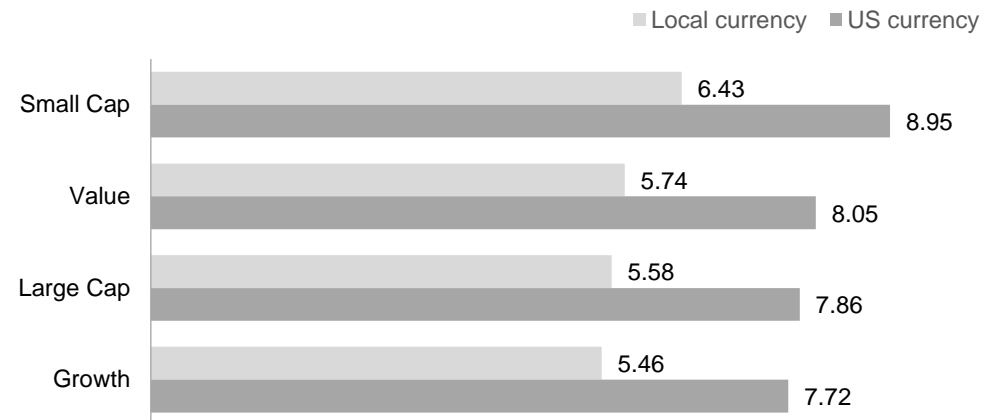
World Market Capitalization—Emerging Markets

11%

Emerging Markets
\$8.2 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Small Cap	8.95	23.92	6.45	9.92	5.34
Value	8.05	14.21	-0.01	3.37	1.94
Large Cap	7.86	9.83	-5.08	3.68	2.66
Growth	7.72	5.83	-9.67	3.90	3.28

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Real Estate Investment Trusts (REITs)

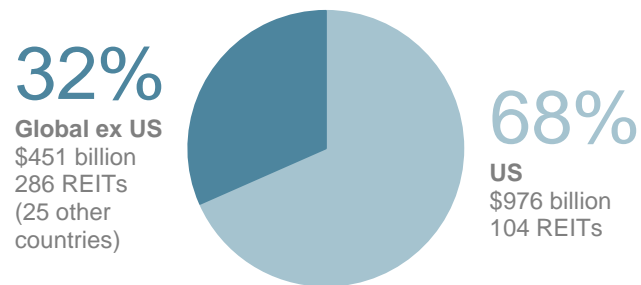
Fourth quarter 2023 index returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
US REITS	16.35	13.96	7.18	6.12	7.00
Global ex US REITS	14.98	5.59	-2.69	0.48	1.92

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Fixed Income

Fourth quarter 2023 index returns

Interest rates generally decreased in the US Treasury market for the quarter.

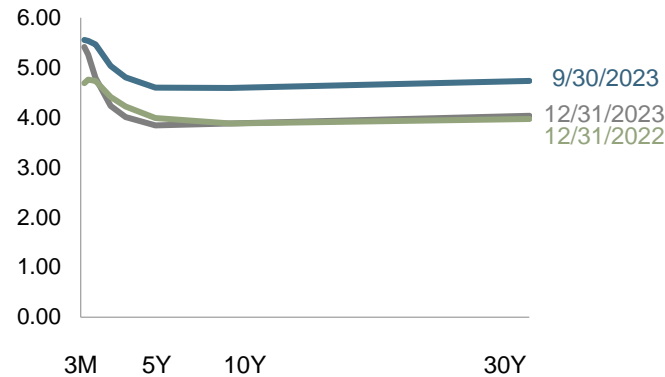
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 5 basis points (bps) to 5.60%, while the 1-Year US Treasury Bill yield decreased 67 bps to 4.79%. The yield on the 2-Year US Treasury Note decreased 80 bps to 4.23%.

The yield on the 5-Year US Treasury Note decreased 76 bps to 3.84%. The yield on the 10-Year US Treasury Note decreased 71 bps to 3.88%. The yield on the 30-Year US Treasury Bond decreased 70 bps to 4.03%.

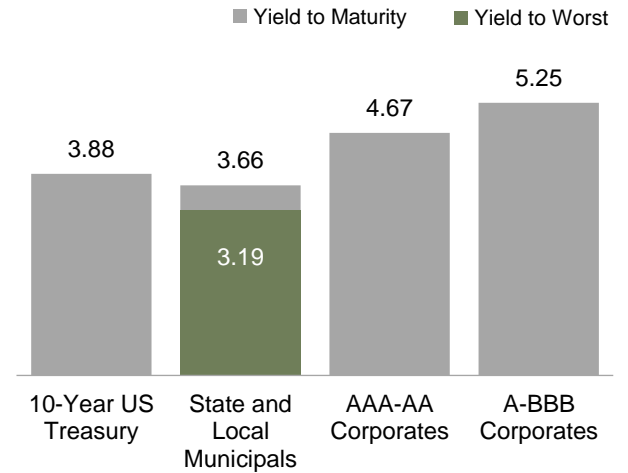
In terms of total returns, short-term US treasury bonds returned +3.21% while intermediate-term US treasury bonds returned +3.99%. Short-term corporate bonds returned +4.12% and intermediate-term corporate bonds returned +5.86%.¹

The total returns for short- and intermediate-term municipal bonds were +3.53% and +6.53%, respectively. Within the municipal fixed income market, general obligation bonds returned +7.79% while revenue bonds returned +8.15%.²

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Bloomberg U.S. Government Bond Index Long	12.69	3.11	-11.35	-1.23	2.27
Bloomberg Municipal Bond Index	7.89	6.40	-0.40	2.25	3.03
Bloomberg U.S. High Yield Corporate Bond Index	7.16	13.44	1.98	5.37	4.60
Bloomberg U.S. Aggregate Bond Index	6.82	5.53	-3.31	1.10	1.81
FTSE World Government Bond Index 1-5 Years	4.95	4.79	-2.95	-0.07	-0.44
Bloomberg U.S. TIPS Index	4.71	3.90	-1.00	3.15	2.42
FTSE World Government Bond Index 1-5 Years (hedged to USD)	3.09	5.26	-0.09	1.34	1.44
ICE BofA 1-Year US Treasury Note Index	1.79	4.74	1.18	1.66	1.18
ICE BofA US 3-Month Treasury Bill Index	1.37	5.01	2.15	1.88	1.25

1. Bloomberg US Treasury and US Corporate Bond Indices.

2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2024 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2024 ICE Data Indices, LLC. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.

Global Fixed Income

Fourth quarter 2023 yield curves

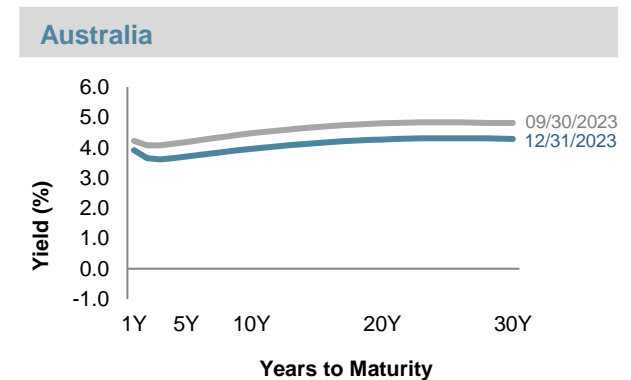
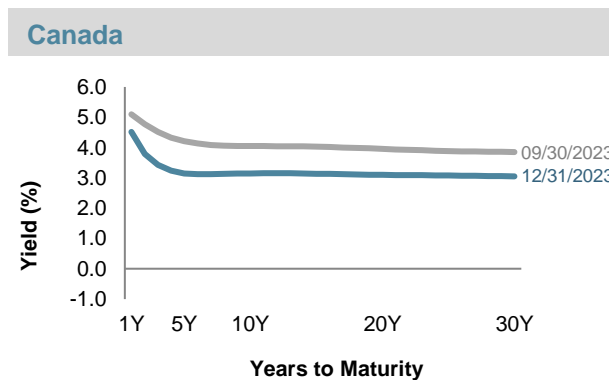
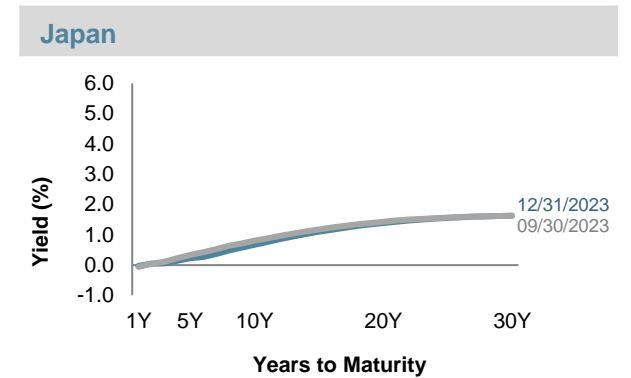
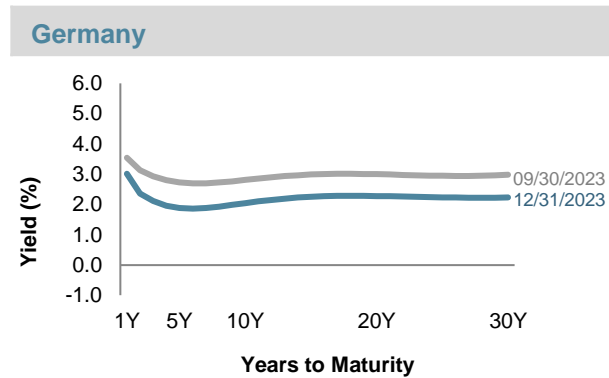
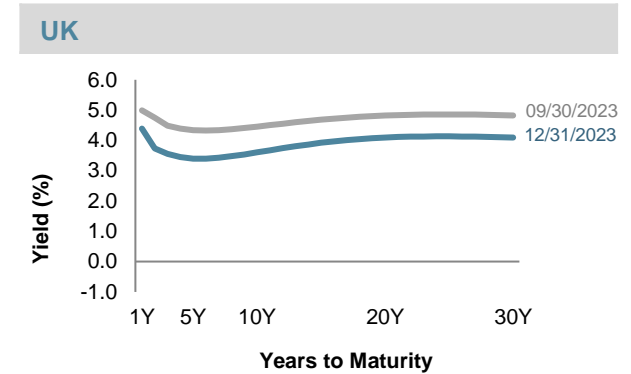
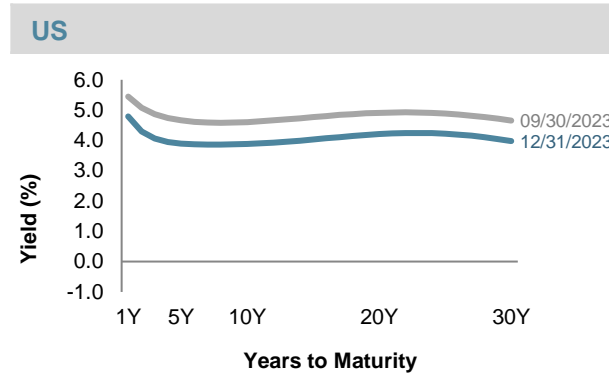
Interest rates generally decreased across global developed markets for the quarter.

Realized term premiums were generally positive across global developed markets, as longer-term bonds generally outperformed shorter-term bonds.

In Japan, ultrashort-term nominal interest rates were negative. In the UK, Germany, Canada, and Australia, the short-term segment of the yield curve was inverted.

Changes in Yields (bps) since 09/30/2023

	1Y	5Y	10Y	20Y	30Y
US	-65.2	-76.9	-72.2	-70.3	-67.8
UK	-59.7	-93.9	-84.8	-72.8	-73.1
Germany	-52.7	-84.6	-76.3	-72.1	-74.9
Japan	3.9	-10.3	-13.3	-4.1	0.8
Canada	-58.0	-106.2	-90.0	-85.7	-80.5
Australia	-30.6	-48.0	-51.1	-53.2	-52.9



Commodities

Fourth quarter 2023 index returns

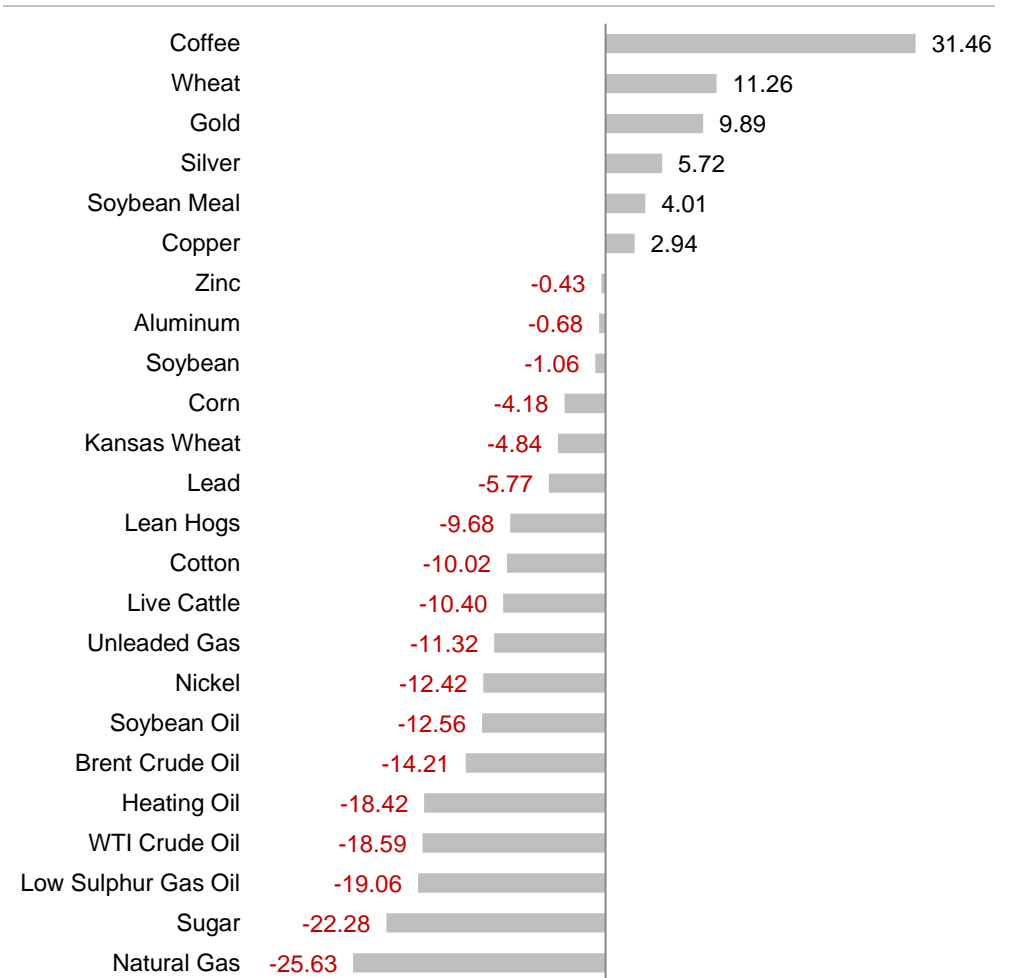
The Bloomberg Commodity Total Return Index returned -4.63% for the fourth quarter of 2023.

Natural Gas and Sugar were the worst performers, returning -25.63% and -22.28% during the quarter, respectively. Coffee and Wheat were the best performers, returning +31.46% and +11.26% during the quarter, respectively.

Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Commodities	-4.63	-7.91	10.76	7.23	-1.11

Ranked Returns (%)



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