



PENSION & WEALTH MANAGEMENT ADVISORS

IMPROVING FINANCIAL SECURITY

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Q1 2023 - Market Commentary¹

- The first quarter experienced gains across most financial markets despite an unexpected banking crisis that occurred mid-March as Silicon Valley Bank and Signature Bank failed.
- In Europe, the Swiss National Bank forced Credit Suisse to merge with UBS due to rapidly declining investor confidence.
- These events caused major turmoil in global financial markets, the biggest of which were a large drop in bond yields and a substantial decline in the stock prices of many U.S. and European banks.
- The U.S. Federal Reserve raised interest rates 0.25% in March, but the Fed may elect to pause if the U.S. banking crisis causes credit markets to tighten and leads to slowing economic growth or a recession.
- Despite a strong gain of over 7% during the first quarter, excluding the five largest stocks, the rest of the U.S. stock market had smaller gains during the first quarter.
- The tech heavy Nasdaq index was the best performing major equity benchmark in the first quarter at +20.5%.
- Small cap stocks returned +2.7% but lagged large cap stocks by nearly 5% as recession risks increased and large declines in financial and energy stocks had a greater negative impact on small caps.
- Value stocks materially underperformed as the Russell 1000 Value Index returned just +1.0% compared to +14.4% for the Russell 1000 Growth Index.
- Non-U.S. stock returns slightly lagged U.S. stocks during the first quarter but still produced a strong +6.9% return.
- A weaker U.S. dollar helped non-U.S. stock returns during the quarter.
- Developed markets stocks were the best performers globally during the first quarter with the MSCI EAFE Index returning +8.5% while emerging market stock returns as measured by the MSCI EM Index lagged with a +4.0% return.
- The U.S. banking crisis caused longer maturity bond yields to drop as investors aggressively bought Treasury bonds.
- The 10-year U.S. Treasury yield ended the first quarter at 3.48%, down from 3.88% at the start of 2023.
- After hitting 5.07% in early March, the 2-year U.S. Treasury yield plunged to 4.04% at quarter-end as investors anticipated the banking crisis would force the Fed to start cutting interest rates by mid-year.
- The broad U.S. bond market as measured by the Bloomberg Aggregate Bond Index returned +3.0%.
- In commodities, oil declined 6.2% as investors worried that rising recessions risks will lead to slowing demand.
- Gold rose 8.2% as the U.S. dollar weakened and it also benefited from the flight to safety trade.

¹ Data sourced from Barclays, Market Watch, MSCI, Russell, Standard & Poors, Wall Street Journal and Barrons.

- Crypto related assets had outsized gains as rising fears of a banking crisis and a weaker U.S. dollar drove investor demand. Bitcoin rose over 70%, reversing a large portion of its 2022 plunge.
- Balanced portfolios had a solid first quarter as both stocks and bonds contributed with positive returns.
- As measured by Morningstar, the average 60/40 balanced portfolio generated a +3.8% return.

Performance Table¹

	1Q23		2022		2021		2020		2019	
S&P 500 Index (U.S. large/mega cap stocks)	7.5%	↑↑	-18.1%	↓↓↓	28.7%	↑↑↑↑	18.4%	↑↑↑	31.5%	↑↑↑↑
Russell 2000 Index (U.S. small cap stocks)	2.7%	↑	-20.4%	↓↓↓	14.8%	↑↑↑	20.0%	↑↑↑	25.5%	↑↑↑↑
Russell 3000 Index (all U.S. stocks)	7.2%	↑↑	-19.2%	↓↓↓	25.7%	↑↑↑	20.9%	↑↑↑	31.0%	↑↑↑↑
MSCI EAFE Index (large cap developed markets int'l stocks)	8.5%	↑↑	-14.5%	↓↓↓	11.3%	↑↑↑	7.8%	↑↑	22.0%	↑↑↑
MSCI EM Index (emerging markets stocks)	4.0%	↑	-20.1%	↓↓↓	-2.5%	↓	18.3%	↑↑↑	18.4%	↑↑↑
MSCI All Countries Ex U.S. Index (all non-U.S. stocks)	6.9%	↑↑	-16.0%	↓↓↓	7.8%	↑↑	10.7%	↑↑↑	21.5%	↑↑↑
MSCI All Countries World Index (global stocks)	7.3%	↑↑	-18.4%	↓↓↓	18.5%	↑↑↑	16.3%	↑↑↑	26.6%	↑↑↑
Bloomberg Aggregate Bond Index (inv. t. grade bonds)	3.0%	↑	-13.0%	↓↓↓	-1.5%	↓	7.5%	↑↑	8.7%	↑↑
Bloomberg High Yield Index (below inv. t. grade corp. bonds)	3.6%	↑	-12.2%	↓↓↓	4.0%	↑	5.0%	↑	14.9%	↑↑↑
Bloomberg Short-Term Treasury Index (cash)	1.1%	↑	1.0%	↑	0.0%	↔	1.0%	↑	2.5%	↑
Bloomberg Municipal Bond Index	2.8%	↑	-8.6%	↓↓	1.6%	↑	5.0%	↑	7.5%	↑↑
Gold	8.6%	↑↑	0.0%	↔	-3.7%	↓	25.1%	↑↑↑↑	18.4%	↑↑↑
Oil (West Texas Intermediate Crude)	-6.2%	↓↓	6.7%	↑↑	55.8%	↑↑↑↑	-20.9%	↓↓↓	31.5%	↑↑↑↑
Bitcoin	71.6%	↑↑↑↑↑	-64.0%	↓↓↓	59.0%	↑↑↑↑	303.7%	↑↑↑↑	90.3%	↑↑↑↑
Morningstar Balanced (60% stocks / 40% stocks)	3.8%	↑	-13.6%	↓↓↓	13.9%	↑↑↑	11.7%	↑↑↑	19.2%	↑↑↑

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