



# PENSION & WEALTH MANAGEMENT ADVISORS

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## Q2 2023 - Market Commentary<sup>1</sup>

- At its June meeting, the U.S. Federal Reserve paused on interest rate hikes, the first time since 2022.
- Chairman Powell indicated the fight against inflation was far from being over and market expectations of another 0.25% interest rate hike in July are above 80%.
- Inflation remains problematic globally and several other global central banks continued to raise interest rates including the Bank of Canada, the Reserve Bank of Australia, the Bank of England, and the European Central Bank.
- U.S. stocks dominated global financial market returns during the second quarter as the U.S. economy showed resilience, particularly on the jobs front, while China and European economies weakened.
- Investor excitement over artificial intelligence skyrocketed and mega cap tech stocks benefited disproportionately.
- The 10 biggest stocks in the U.S. stock market represented 82% of the S&P 500 Index return during the first half of 2023.
- The narrowness of market returns is reflected in the return spread between the market capitalization weighted S&P 500 Index at +16.9% compared to the equal weighted S&P 500 Index at only +7.0%.
- The dominance of mega cap U.S. tech stocks is also reflected in the performance of the Russell 1000 Growth Index, which returned +12.8% for the second quarter and +29.0% through the first six months of 2023.
- The Russell 1000 Value Index returned +5.1% and the Russell 2000 Index of small cap stocks returned +8.1%.
- Non-U.S. stock returns had positive but modest returns compared to U.S. stocks during the second quarter due to less technology weight and the underperformance of emerging markets led by China with a -10% return.
- The MSCI ACWI Ex U.S. Index returned +2.4% while the MSCI Emerging Markets Index returned only +0.9% for Q2.
- The U.S. bond market saw whipsaw price action throughout the second quarter as persistent inflation data created uncertainty for bond investors and several Fed officials commented on a higher for longer interest rate policy outlook.
- The 10-year U.S. Treasury yield ended the quarter at 3.84%, up from 3.48% at 3/31/23.
- The Bloomberg Aggregate Bond Index returned -0.8% for the second quarter while shorter maturity bonds and credits generated slightly positive returns.
- Concerns over slowing global economic growth and a sharp slowdown in China led to lower oil prices while the U.S. dollar rally and strong U.S. equity market caused a modest pullback in gold prices.
- Bitcoin strength continued in the second quarter and returned +83% year to date.
- Strong stock performance offset negative bond returns and allowed balanced portfolios to generate positive returns.
- As measured by Morningstar, the average 60/40 global balanced portfolio generated a +3.4% return for the second quarter and a solid +7.5% for the first half of 2023.

## Performance Table<sup>1</sup>

	<u>2Q23</u>		<u>YTD</u>		<u>2022</u>		<u>2021</u>		<u>2020</u>	
S&P 500 Index (U.S. large/mega cap stocks)	8.7%	↑↑	16.9%	↑↑↑	-18.1%	↓↓↓	28.7%	↑↑↑↑	18.4%	↑↑↑
Russell 2000 Index (U.S. small cap stocks)	5.2%	↑↑	8.1%	↑↑↑	-20.4%	↓↓↓	14.8%	↑↑↑↑	20.0%	↑↑↑
Russell 3000 Index (all U.S. stocks)	8.4%	↑↑	16.2%	↑↑↑	-19.2%	↓↓↓	25.7%	↑↑↑↑	20.9%	↑↑↑
MSCI EAFE Index (large cap developed markets int'l stocks)	3.0%	↑	11.7%	↑↑↑	-14.5%	↓↓↓	11.3%	↑↑↑	7.8%	↑↑
MSCI EM Index (emerging markets stocks)	0.9%	↑	4.9%	↑	-20.1%	↓↓↓	-2.5%	↓	18.3%	↑↑↑
MSCI All Countries Ex U.S. Index (all non-U.S. stocks)	2.4%	↑	9.5%	↑↑	-16.0%	↓↓↓	7.8%	↑↑	10.7%	↑↑↑
MSCI All Countries World Index (global stocks)	6.2%	↑↑	13.9%	↑↑↑	-18.4%	↓↓↓	18.5%	↑↑↑	16.3%	↑↑↑
Bloomberg Aggregate Bond Index (invnt. grade bonds)	-0.8%	↓	2.1%	↑	-13.0%	↓↓↓	-1.5%	↓	7.5%	↑↑
Bloomberg High Yield Index (below invnt. grade corp. bonds)	0.8%	↑	5.0%	↑	-12.2%	↓↓↓	4.0%	↑	5.0%	↑
Bloomberg Short-Term Treasury Index (cash)	1.1%	↑	2.3%	↑	1.0%	↑	0.0%	↔	1.0%	↑
Bloomberg Municipal Bond Index	0.9%	↑	2.8%	↑	-8.6%	↓	1.6%	↑	5.0%	↑
Gold	-3.0%	↓	5.3%	↑↑	0.0%	↔	-3.7%	↓	25.1%	↑↑↑↑
Oil (West Texas Intermediate Crude)	-6.8%	↓↓	-12.5%	↓↓↓	6.7%	↑	55.8%	↑↑↑↑	-20.9%	↓↓↓
Bitcoin	6.8%	↑↑	83.3%	↑↑↑↑↑	-64.0%	↓↓↓	59.0%	↑↑↑↑	303.7%	↑↑↑↑
Morningstar Global Balanced (60% stocks / 40% stocks)	3.4%	↑	7.5%	↑↑	-13.6%	↓↓↓	13.9%	↑↑↑	11.7%	↑↑↑

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