Quarterly Market Review: 2023-Q2

For ClearLogic Financial

The US equity market posted a positive 8.39% return for the quarter and outperformed both non-US developed markets and emerging markets. Value underperformed growth. Small caps underperformed large caps. REIT indices underperformed equity market indices.

The first chart is a snapshot of the market performance for the second quarter. The second chart provides market returns over one, five and ten years. The third chart shows the world markets and events over the last twelve (12) months. Your 2023 second quarter portfolio review report is posted in your Tamarac portal.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2023	STOCKS				BONDS	
	8.39%	3.03%	0.90%	0.71%	-0.84%	0.73%
Since Jan. 2001						
Average Quarterly Return	2.3%	1.5%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 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**

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Long-Term Market Summary

Index returns as of June 30, 2023

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
1 Year	18.95%	17.41%	1.75%	-3.02%	-0.94%	1.51%
5 Years	11.39%	4.58%	0.93%	1.35%	0.77%	0.95%
10 Years	12.34%	5.40%	2.95%	3.80%	1.52%	2.48%

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 © 2023 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 2023, all rights reserved. Bloomberg data provided by Bloomberg.

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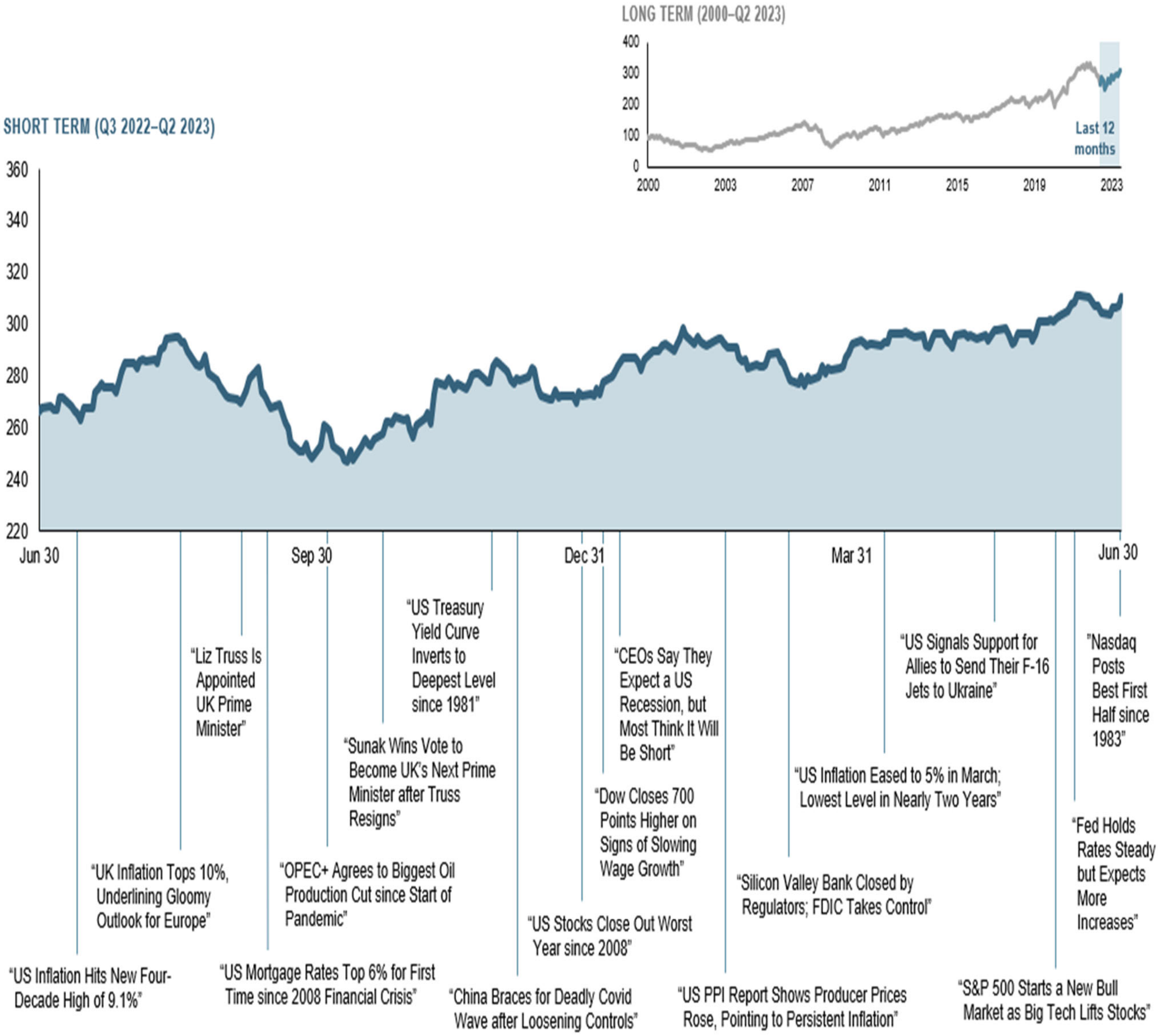
World Stock Market Performance

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 2023, 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.**

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Dimensional

PERSPECTIVES

Midyear Review: Staying Focused as Markets Shift

Jun 29, 2023

KEY TAKEAWAYS

- Stocks rebounded from their worst year since 2008, returning to a bull market in the US.
- Inflation fell to half of last year's peak, and the Fed paused after a year of rate increases.
- Artificial intelligence captured investors' attention, but nothing suggests AI can beat the market.

The first half of the year has given investors plenty to process—from banking turmoil to a morphing yield curve to the debt ceiling debate. Those with diversified portfolios of equities and fixed income were in a good position to benefit from both assets' advances at the year's midway point, a welcome turn from last year's broad declines.

US stocks began 2023 with gains.[1] Inflation showed signs of cooling, and the Federal Reserve paused in June after a series of rate increases. Regional banks and their holdings came under increased scrutiny in early March, and several lenders were sold to larger banks as some depositors fled. Around this time, US stocks began a decline, only to resume their ascent weeks later. That rally was led by technology stocks,[2] whose surge coincided with increased attention on artificial intelligence and its potential.[3] Value stocks and small caps started the year with gains, but growth stocks and large caps overtook them in the second quarter through mid-June.[4] The bond market rebounded after one of its worst years in decades.[5]

Inflation continued to retreat from last year's four-decade high, with the 12-month rise in US consumer prices falling to 4% in May.6 The reading a year earlier was more than double that. Fed officials paused on raising the benchmark federal funds rate in June after more than a year of increases, but signaled they were leaning toward resuming rate increases if inflation doesn't cool further. The rapid rise in interest rates left some regional banks, such as Silicon Valley Bank, in precarious financial positions, resulting in three of the four largest bank failures on record (after Washington Mutual in 2008).7 Silicon Valley Bank ended up being sold to First Citizens Bank, and other lenders similarly found themselves with new owners.

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A DEBT DIVERSION?

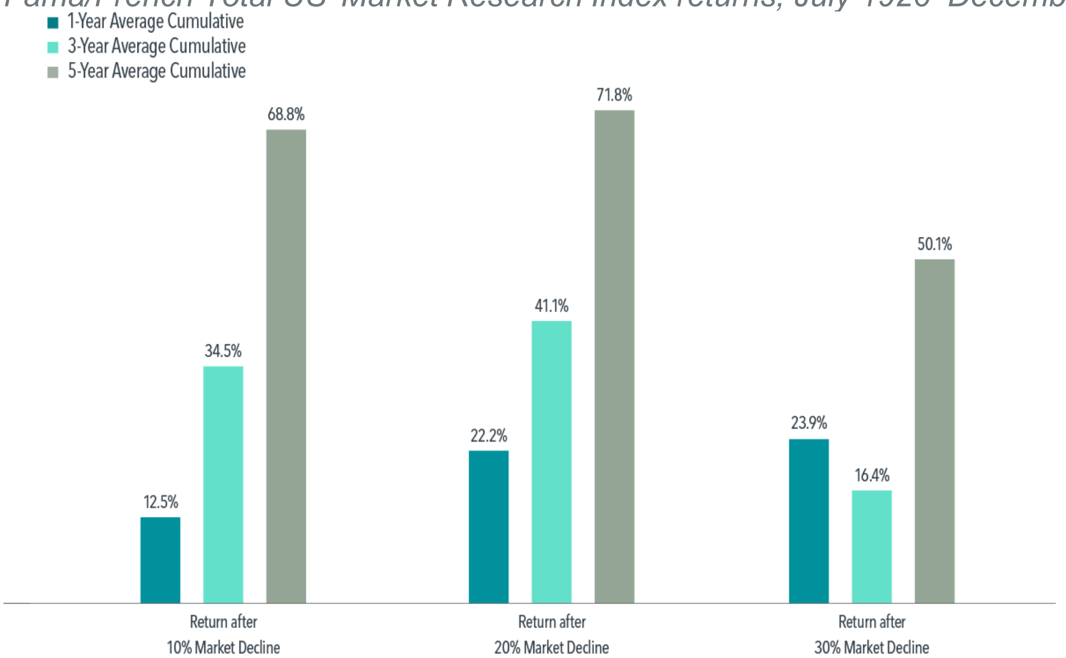
In Washington, politicians debated the US debt ceiling. After much back-and-forth, the president and Congress agreed on a deal to raise the debt limit in June, avoiding the impending possibility of a US default. Amid the discussions, stock and bond markets seemed to take the news in stride. While debt ceiling machinations can dominate headlines, the implications for investors are uncertain. The current deal imposes restraints on government spending for two years.

The S&P 500[8] was up 15.8% through June 16, bouncing back from a two-year low in October and shifting from bear-market to bull-market mode upon reaching a 20% gain from the prior trough. Historically, US equity returns following sharp downturns have, on average, been positive. A broad market index tracking data from 1926–2022 in the US[9] shows that stocks tended to continue to deliver positive returns even after the initial recovery from a bear market, or a decline of 20% (See **Exhibit 1**.)

Exhibit 1

After the Fall

Fama/French Total US Market Research Index returns, July 1926–December 2022



In USD. Total returns are calculated for the 1-, 3-, and 5-year periods beginning the day after a downturn of 10%, 20%, or 30% from a new all-time high for the market. The bar chart shows the average total returns for the 1-, 3-, and 5-year periods following the 10%, 20% and 30% thresholds. For the 10% threshold, there are 29, 28, and 27 observations for the 1-,3-, and 5-year periods, respectively. For the 20% threshold, there are 15, 14, and 13 observations for the 1-, 3-, and 5-year periods, respectively. For the 30% threshold, there are 7, 6, and 6 observations for 1-, 3-, and 5-year periods, respectively.

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All investing involves risk, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.

THE POWER OF MARKETS' AGGREGATED INTELLIGENCE

Investor enthusiasm for artificial intelligence has been cited among the key drivers for tech stocks' recent gains.[10] But what does it mean for investing? Despite the promise of AI, we believe that there's no reason to think it offers investors predictive capabilities.

Markets also aggregate information, but they are forward-looking, reflecting investors' best estimate of an asset's value in relation to future expected returns. That makes the market the world's largest information-processing machine. Its "aggregated intelligence" adjusts as new information comes in, setting prices that buyers and sellers agree are fair for millions of stocks and bonds every day. AI has been around for a while and can be expected to continue to improve. But we've yet to see research that says anyone can outsmart the market—not even artificial intelligence.

With six months to go, some questions appear likely to capture investors' attention for the second half of 2023. What's ahead for the economy in the US and elsewhere? Will the new bull market charge ahead or take a breath? How long will investor enthusiasm last for all things AI? What investors do know is that markets will continue to quickly process information as it becomes available. A long-term plan, one focused on individual goals and built on confidence in market prices, can put investors in the best place for a good experience, whatever may be in store.

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1. Based on S&P 500 index. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment.
2. Based on the S&P 500 Information Technology Index, which rose 41.6% vs. 15.8% for the S&P 500 Index.
3. Ari Levy, "The Tech Trade Is Back, Driven by A.I. Craze and Prospect of a Less Aggressive Fed," CNBC, May 26, 2023.
4. Based on returns of MSCI All Country World Value Index, MSCI All Country World Growth Index, MSCI All Country World Small Cap Index, and MSCI All Country World Index (large caps). MSCI data © MSCI 2023, all rights reserved.
5. As measured by benchmark US Treasuries, which posted one of their worst annual returns in decades in 2022: The Bloomberg US Treasury 10-Year Bond Index lost 16.3%. Data provided by Bloomberg.
6. Inflation data as defined by the Consumer Price Index (CPI) from the US Bureau of Labor Statistics.
7. Matthew Goldberg, "The 7 Largest Bank Failures in US History," Bankrate, May 1, 2023.
8. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global.
9. Fama/French Total US Market Research Index returns, July 1, 1926–December 31, 2022.
10. Levy, "The Tech Trade is Back," CNBC, May 26, 2023.

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French's data library:

https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

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