FOURTH STREET
PERFORMANCE PARTNERS
Independent Investment Consultants

December 2022: Market Review

Equity markets were mostly negative in December as domestic and emerging market equities posted declines while developed international markets were relatively unchanged. The Federal Reserve voted unanimously to increase the fed funds rate by 50 basis points, bringing the year-end range to 4.25%-4.50%. The ISM purchasing managers index fell into contraction territory for the first time since the coronavirus pandemic as demand continued to soften. The labor market was one of the few economic highlights in December as employers in the U.S. added another 263,000 jobs and the unemployment rate was unchanged at 3.7%. The Dow Jones Industrial Average declined -4.1% in December, ending the year down -6.9% while the S&P 500 Index fell -5.8% for the month and posted a loss of -18.1% for the year. The tech-heavy NASDAQ Composite Index tumbled -8.7% this month and plummeted -32.5% in 2022.

In domestic equity markets, value stocks outpaced growth across large and mid-capitalization sizes this month, while small cap growth stocks outperformed their value counterparts in December. For the calendar year, value companies beat growth across all capitalization sizes. The Russell 1000 Value Index declined -4.0% for the month and -7.5% for the year while the Russell 1000 Growth Index fell -7.7% during the month and -29.1% in the year. The Russell Midcap Value Index fell -5.1% in December and -12.0% in 2022 versus a monthly decline of -6.0% for the Russell Midcap Growth Index and a -26.7% decline this year. The Russell 2000 Value Index dropped -6.6% this month and -14.5% this calendar year whereas the Russell 2000 Growth Index fell by -6.4% during the month and -26.4% during the year.

Developed international equities outpaced U.S. equities for the second consecutive month due to the sustained weakness of the U.S. dollar. The MSCI EAFE Index rose +0.1% during the month but was down -14.5% for the year while the MSCI ACWI ex-US Index (which includes emerging markets) declined -0.8% in December and -16.0% this year. The MSCI Emerging Markets Index posted a decline of -1.4% this month despite the positive returns in Chinese equity markets (+5.2%) as their government began to wind down the zero-Covid policies that have hampered economic growth for most of the year. Emerging market equities were down -20.1% in 2022, trailing developed markets due to weakness in Taiwan (-32.2%), South Korea (-30.8%), and China (-23.6%).

U.S. fixed income markets posted declines in December as the Federal Reserve hiked short term interest rates earlier in the month. The Bloomberg U.S. Aggregate Bond Index fell -0.5% during the month and -13.0% during the year while the Bloomberg U.S. Treasury 20+ Year Index declined -2.0% this month and -31.1% for the year. The Bloomberg U.S. Corporate High Yield Bond Index posted losses of -0.6% and -11.2% for the month and the calendar year, respectively. Yield curve inversions moderated in December after reaching record low depths in the previous month. The negative spread between the 2-year and 10-year U.S. Treasury notes decreased to -0.53% while the spread between the 3-month and the 10-Year U.S. Treasury notes declined to -0.54%.

Investors suffered a challenging year in 2022 as both U.S. equity and fixed income markets posted declines, a rare event only seen a handful of times in the past 100 years. The war in Ukraine, record inflation readings, and the rapid monetary response from the Federal Reserve weighed heavily on financial asset valuations throughout the year. Additionally, several leading economic indicators are starting to show weakness, increasing the likelihood of a potential economic recession in 2023. Yet, there remains a chance that the Federal Reserve can maneuver a soft landing for the U.S. economy given the resiliency of the labor market as unemployment remains near record lows. Headline inflation continues to show signs of improvement, declining to +7.1% year-over-year in November, which was well below expectations. However, there is a great deal of uncertainty surrounding the war in Ukraine, the energy crisis in Europe, and the full impact of restrictive monetary policy. Volatility will likely remain elevated as investors parse new data related to jobs, inflation, and corporate earnings.

See footnotes on the following page.

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