Monthly Market Review

Multi-Asset Class | January 2023

pfm asset management

U.S. Equity

► Domestic equity markets, as represented by the S&P 500 Index (S&P), returned -5.77% in December.

► Within the S&P, all 11 sectors posted negative returns. The Utilities sector was the best performer of the month, returning -0.53%. Healthcare was second best, posting a return of -1.91%. Consumer Discretionary was the worst-performing sector, posting a return of -11.26%.

► Negative returns were seen across all market capitalizations, with small-caps (Russell 2000) returning -6.49%, while mid-caps (Russell Mid Cap Index) returned -5.41% and large-caps (Russell 1000 Index) returned -5.82%. Value stocks outperformed growth across large capitalizations, while growth outperformed in small-caps.

Non-U.S. Equity

► Non-U.S. equity markets, represented by the MSCI ACWI ex-U.S., returned -0.75%. Developed markets, represented by the MSCI EAFE Index, saw gains of 0.08%, while emerging markets, represented by the MSCI Emerging Markets Index saw losses, returning -1.41% in December.

► Within the ACWI ex-U.S. Index, five of the 11 sectors posted positive returns. Telecom was the best-performing sector internationally, with a return of 2.98%, while the second-best performer was Healthcare returning 0.48%. Information Technology was the worst performer, posting a return of -5.79%.

► Regionally, non-U.S. equity markets saw mixed returns, with Pacific ex-Japan performing the best, returning 0.43%, while emerging market (EM) Latin America performed the worst, returning only -4.04%.

Fixed Income

► Treasury yields rose across the curve in December. The 10-year saw a 27 basis point (bps) increase in rates and the 30-year saw an increase of 23 bps. The 2- and 5-year rates increased by 12 and 27 bps, respectively, leading to the Broad Treasury Index returning -0.52% for the month.

► The Bloomberg U.S. Aggregate Index (Aggregate) gained -0.45% in December. Investment-grade (IG) credit as a whole returned -0.43%, AAA-rated bonds returned -0.39%, AA-rated bonds returned -0.66%, A-rated bonds returned -0.40%, and BBB-rated bonds returned -0.42%. High-yield corporates saw a loss of -0.62% during the month.

Alternatives and Other Asset Classes

► Real estate investment trusts (REITs), represented by the FTSE NAREIT Index, returned -5.14%. Performance was negative for all of the nine real estate sectors. Diversified did the best, returning -2.08%. The worst-performing sector of the month was Lodging and Resorts, returning -11.73%.

► The active contract for West Texas Intermediate (WTI) crude fell to $80.26/barrel in December, down from $80.55/barrel at the end of November.

Items to Watch

► It was another relatively strong jobs report for December. Payroll employment rose by 223,000 jobs last month, representing a notable moderation from the 366,000 average in the third quarter, but still pushing the unemployment rate back to a pre-pandemic low of 3.5%. The participation rate edged higher in December to 62.3% and the labor force expanded by 439,000. This improvement prompts some hopes that rising participation may relieve the labor supply issue and balance out the "excess" demand for labor from businesses that remain elevated and continue to pressure wages, leading to wage-based inflation.

► This determinedly strong job growth can be seen in the personal income figures, which continued on an upward trajectory in November. Nominal personal income was seen to have expanded 0.4% month-over-month, beating expectations slightly and following the biggest increase (0.7%) of the year in October. Real disposable income was also up 0.3% in December, the second straight month of gains, following six consecutive months of falling disposable income that came about as the increases in wages were failing to keep up with overall inflation.

► The continued strength of the labor market and its associated effects on inflation has remained a concern for the Federal Reserve, which raised the fed funds rate by 50 bps in December, pushing borrowing costs to the highest level since 2007. It was the seventh consecutive rate hike, following four straight increases of 75 bps. The Federal Open Market Committee's latest dot plot has the officials' targeted range for the fed funds rate now standing at 5.00-5.25% at the end of 2023.

► The European Central Bank (ECB) has a similar, if not more aggressive, message for 2023, with ECB president Christine Lagarde saying, "We're not slowing down. We're in for the long game" in regard to interest rates.

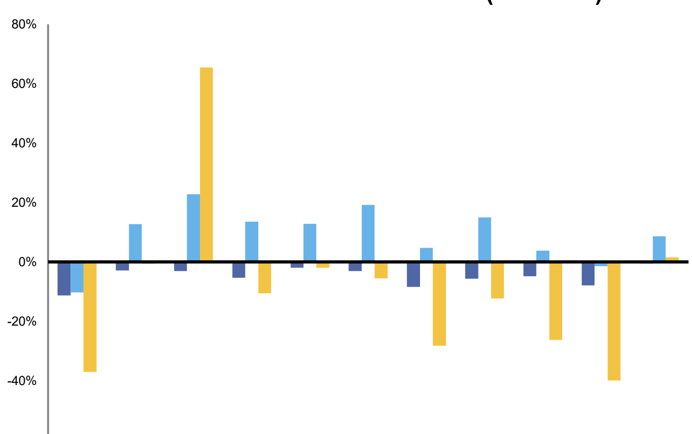
Total Return of Major Indices

Domestic Equity	MTD	QTD	YTD	1 YR
S&P 500	-5.77%	7.55%	-18.13%	-18.13%
Russell 3000	-5.86%	7.17%	-19.22%	-19.22%
Russell 2000	-6.49%	6.20%	-20.46%	-20.46%
Russell 1000	-5.82%	7.23%	-19.14%	-19.14%
International Equity	**MTD**	**QTD**	**YTD**	**1 YR**
MSCI ACWI ex-U.S.	-0.75%	14.29%	-16.00%	-16.00%
MSCI EAFE	0.08%	17.34%	-14.45%	-14.45%
MSCI Emerging Markets	-1.41%	9.70%	-20.09%	-20.09%
Fixed Income	**MTD**	**QTD**	**YTD**	**1 YR**
Bloomberg U.S. Agg	-0.45%	1.87%	-13.01%	-13.01%
Bloomberg Global Agg	0.54%	4.55%	-16.25%	-16.25%
Bloomberg U.S. HY	-0.62%	4.17%	-11.19%	-11.19%
Alternatives	**MTD**	**QTD**	**YTD**	**1 YR**
FTSE NAREIT Equity	-5.14%	5.24%	-24.37%	-24.37%
Bloomberg Commodity	-2.80%	1.18%	13.75%	13.75%

Economic Indicators

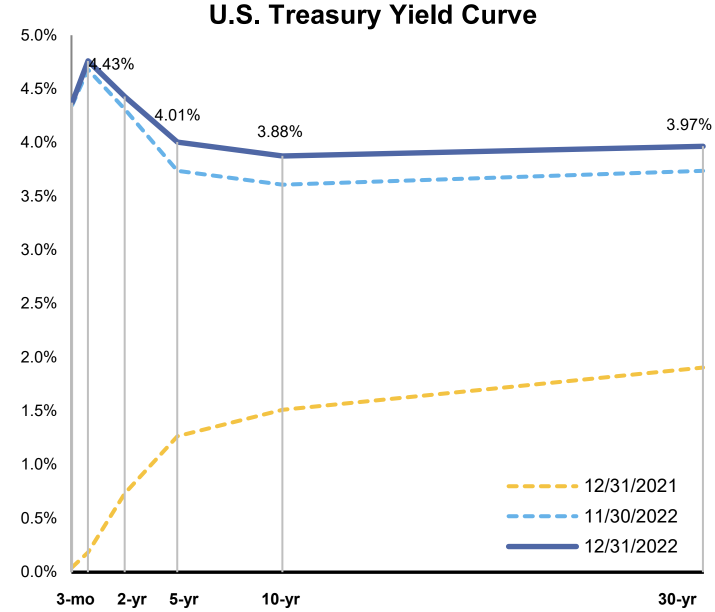
Domestic	Current	Previous Month
Unemployment Rate (%)	3.5%	3.6%
Initial Jobless Claims (4 week average)	213.8 K	220.5 K
CB Leading Economic Indicators	-1.0	-0.9
Capacity Utilization	79.7%	79.9%
GDP (annual growth rate)	3.2%	-0.6%
University of Michigan Consumer Confidence	59.7	56.8
New Home Starts	640 K	605 K
Existing Home Sales	4.1 MM	4.4 MM
Retail Sales (YoY)	7.7%	8.9%
U.S. Durable Goods (MoM)	-2.1%	0.7%
Consumer Price Index (YoY)	7.1%	7.7%
Producer Price Index (MoM)	0.2%	1.1%
Developed International*	**9/30/2022**	**6/30/2022**
Market GDP (annual rate)	2.4%	3.2%
Market Unemployment	4.2%	4.3%

Stock Market Sector Performance (S&P 500)

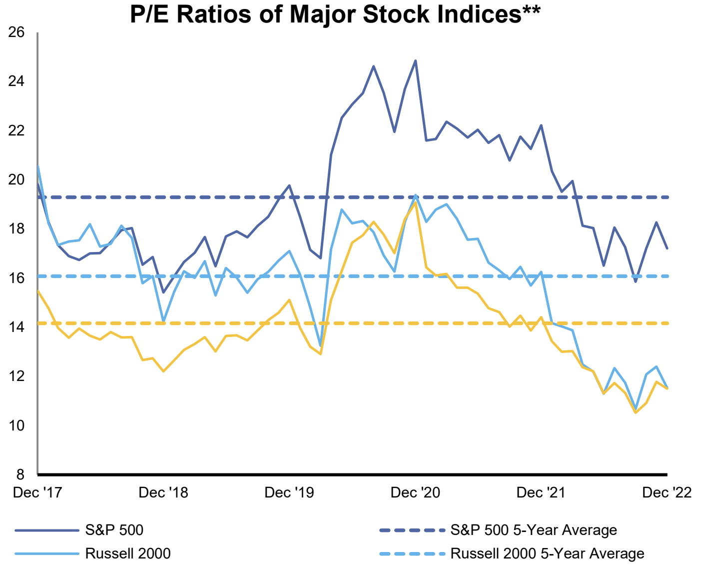


	Cons. Disc.	Cons. Staples	Energy	Financial	H'lthcare	Industrial	Info. Tech	Materials	Real Estate	Telecom	Utilities
MTD	-11.26%	-2.82%	-2.99%	-5.27%	-1.91%	-3.00%	-8.37%	-5.56%	-4.83%	-7.84%	-0.53%
QTD	-10.18%	12.72%	22.74%	13.56%	12.80%	19.18%	4.74%	15.05%	3.82%	-1.38%	8.64%
YTD	-37.03%	-0.62%	65.43%	-10.57%	-1.95%	-5.51%	-28.19%	-12.28%	-26.21%	-39.89%	1.56%

U.S. Treasury Yield Curve



P/E Ratios of Major Stock Indices**



Source: Bloomberg. Data as of December 31, 2022, unless otherwise noted.
**Developed market data is calculated with respect to the weightings in the MSCI World ex-U.S. Index. Most current data is as of September 30, 2022 due to release dates of numerous countries.*
***P/E ratios are calculated based on one-year-forward estimates and adjusted to include only positive earning results for consistency.*