

Fourth Quarter 2022

Jenica Ghorashi



Markets were up across the board, concluding a volatile year with a modest rally. Both the broader market (Russell 3000) and the S&P 500 finished higher despite the worst calendar year performance for equities since 2008.

Developed international markets (MSCI EAFE) were up significantly, boosted by resilient earnings and expectations of lower global inflation. Emerging Markets (MSCI EM) rose, as the dollar weakened meaningfully and investors were optimistic about the reopening of the Chinese economy. The broad fixed income market (Bloomberg US Aggregate Bond Index) was also up over the quarter but put up its worst return since the inception of the benchmark (1976) on an annual basis.

Index	4Q 2022	2022
S&P 500 Index	7.56%	-18.11%
Russell 3000 Index	7.18%	-19.21%
MSCI EAFE Index ND	17.34%	-14.45%
MSCI EM (Emerging Markets) Index ND	9.70%	-20.09%
Bloomberg US Aggregate Bond Index	1.87%	-13.01%

The unemployment rate remained at 3.5% after rising slightly during the quarter, then falling back to its former level. Inflation continued to ease as the Consumer Price Index fell to 6.5% for the 12 months ending December 31, 2022, in line with expectations, but remained elevated. Real GDP increased 3.2% annualized in the third quarter after declining 0.6% in the second quarter.

	US Equity			Non-US Equity			US Fixed Income				
	Growth	Blend	Value	ACWI ex. US	EAFE	EM	High Yield	Agg	Gov't		
Large	2.20	7.24	12.42	Large	14.27	17.59	9.21	Short	3.56	1.22	0.71
Mid	6.90	9.18	10.45	Mid	14.33	16.34	12.13	Interm	4.16	1.72	1.01
Small	4.13	6.23	8.42	Small	13.31	15.79	8.20	Long	4.49	2.47	-0.59

Three month returns ending 12/31/22. US Equity indexes are Russell 1000, 1000 Value and 1000 Growth; MidCap, MidCap Value and MidCap Growth; and 2000, 2000 Value and 2000 Growth. Non-US Equity Indexes are MSCI All Country World Index (ACWI) ex. US Large, Mid and Small Caps; MSCI EAFE Large, Mid and Small Caps, and MSCI Emerging Markets (EM) Large, Mid and Small Caps. US Fixed Income indexes are Bloomberg US High Yield 1-5 Yr, Intermediate and Long duration; Bloomberg US Agg 1-5 Yr, Interm and 10+ Yr; and Bloomberg US Govt Short, Intermediate and Long Durations.

Outlook

Volatility continued over the quarter as investors reacted to news about rising interest rates and high but decelerating inflation. Domestic stocks were higher as investors became more optimistic following indicators that inflation pressures had finally peaked. International equity also rose as inflation cooled and a weaker dollar improved global economic sentiment. Global markets were also bolstered as China commenced an economic reopening and reversed strict "Zero-Covid" policies. The US dollar sharply fell against most major currencies, reversing many of its earlier year gains and creating tailwinds for emerging markets. The ongoing war between Russia and the Ukraine continues to pose a threat to the global economy and has been a source of elevated inflation. A resolution to the conflict could stabilize food and energy supplies in the region. The Federal Reserve followed through with two more rate hikes in the fourth quarter. Many investors are betting that the Fed will slow down the pace of its tightening campaign going forward, following the more positive inflation numbers. Taken all together, a focus on long-term goals and objectives continues to be a prudent course, balancing downside risk at current valuations with the potential for upside performance.

To review historical reporting, visit milliman.com/en/periodicals/Market-Commentary