On The Mark

December 2023

Three Surprises in 2023

Key Takeaways

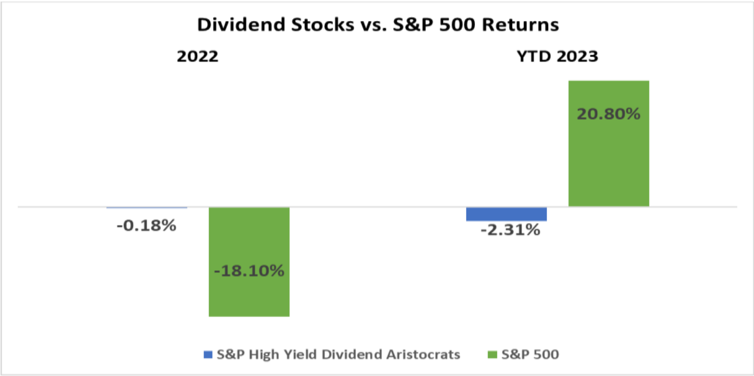
- After sharp declines in stocks and bonds in 2022, the market recovery in 2023 is a perfect reminder that markets are never obvious let alone predictable.
- For many investors, despite a remarkable year in S&P 500, your personal performance may be lagging behind.
- Bonds also recover some losses and now provide improved risk-return ahead.

2023 stands in sharp contrast to 2022. In 2022, stocks and bonds declined by double digits. Investor sentiment suggested more of the same for 2023. In contrast, the US economy continued to grow, supported by a resilient consumer. Consumers' spending spree included shopping, travel as well as shelling out big dollars for events like the Taylor Swift Eras Tour. As the economy surprised for the better, so did the markets.

2023 is a perfect example that markets are never obvious, let alone predictable. In this edition, we take three market trends that reversed sharply from 2022 and some lessons from Taylor Swift as we reflect on her success.

A Sharp Reversal

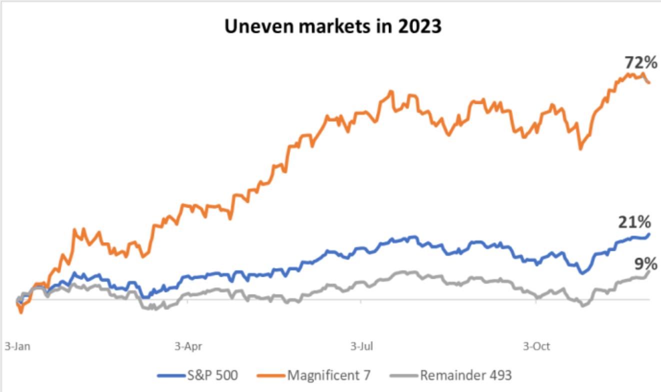
Amid the 2022 bear market, investors piled into dividend-paying stocks, which are primarily viewed as safer, providing steady income from stable companies. Dividend stocks outperformed the broader market in 2022 by falling less than the S&P 500. However, this trend reversed sharply in 2023. So far in 2023, investors have instead piled into technology stocks amid the artificial intelligence frenzy, sending the S&P 500 Index up nearly 21% through November 23 while high-quality dividend stocks remain in negative territory.



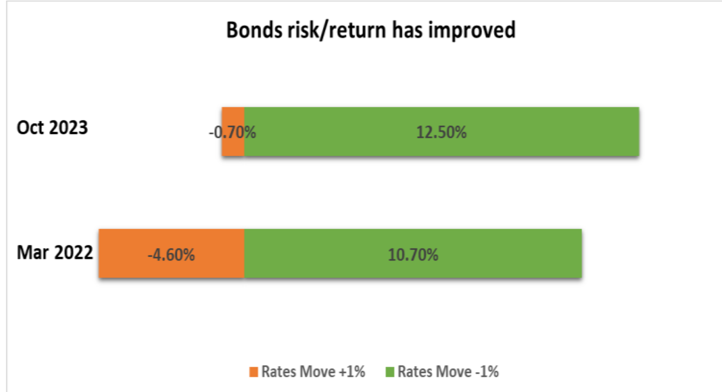
Source: Factset. YTD data as of November 30, 2023.

Uneven Markets

For many investors, despite a remarkable year in the S&P 500, your personal performance may be lagging behind. The reason lies in the dominance of the so-called "Magnificent 7"—Apple, Nvidia, Microsoft, Amazon, Tesla, Alphabet, and Meta. Astonishingly, these seven giants, which make up nearly 30% of the S&P 500 Index, have generated a cumulative return of 72%, while the remaining 493 stocks have generated 9%, less than half the S&P 500 returns. This trend is a sharp reversal from 2022, when the Magnificent 7 suffered losses.



Source: AssetMark, Bloomberg. YTD data as of December 1, 2023



Source: AssetMark, Bloomberg. Index: Bloomberg US Aggregate Index.

Better Risk and Return for Bonds

After falling 13% in 2022, US bonds gained 1.6% through November 23 despite increased volatility and wild swings in interest rates. Ten-year Treasury yields started the year at 3.5% and fell to a low of 3.25% in the wake of the April banking crisis. Subsequently, the ten-year Treasury yield rose to 5.02% in October on surprisingly strong economic growth before retreating to 4.27% in November.

Looking ahead, with interest rates between 4% to 5%, the income generated from coupon provides a much better cushion from potential future losses due to rising interest rates. The next chart shows the risk and reward from a 1% interest rate move up or down in October 23 vs. March 22 before the Federal Reserve began hiking interest rates. In October 23, a 1% increase in interest rates would lead to a loss of 0.7%, unlike a loss of 4.6% back in March 22. Similarly, the return potentially has also improved should interest rates fall in the event of a recession. With the worst of inflation behind us, interest rates have likely peaked, improving the risk-return for bond investors.

Get Ready for 2024

Taylor Swift's fans, who were strong enough to weather the terrible markets of 2022, would have fared well had they followed her advice when she sang 'All You Had to Do Was Stay' – invested, that is. For investors, it's important to remember that the markets are dynamic, and trends can change sharply. It's critical to stay true to your own investment strategy relative to your goals, even if it means going against the crowd. Regardless of whether your specific investments were the winners in 2023, Taylor Swift, with her remarkable Eras Tour, reminds us it's time to 'Shake It Off' and look ahead.

In this final edition, we wish all our readers a happy and healthy holiday.

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