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**Market Review**

  Source: Zephyr Style Advisor

December was a difficult month for equities, as was the year. US equities, as measured by the S&P 500, fell 5.8%, bringing the index's return for the year to -18.1%, its worst year since 2008. International developed equities eked out a small gain of 0.1%, helped by a falling US dollar. Finally, emerging market equities also fell 1.4% despite strong gains from China on reopening potential. Contributing to December's performance were themes seen throughout 2022: continued hawkish central bank policy to combat inflation, the ongoing Russia-Ukraine conflict, and lingering fears of a recession.

Sectors within the S&P 500 all saw declines in December. Defensive sectors, such as utilities, healthcare, and consumer staples, provided the least downside, whereas more sensitive and cyclical sectors, such as consumer discretionary and technology, declined the most. Energy was the only positive sector for the year, rising a staggering 65.7%. For equity styles, there was a significant disparity between value and growth, particularly for the year, with value outperforming growth's 2022 performance by a spread in excess of 23%[[1]](#endnote-1). Growth’s struggles primarily can be attributed to the style’s greater sensitivity to rising interest rates and high starting valuations. Despite performing relatively better, value indexes were still in the negative for both the month and year.

Moving to fixed income, international bonds outperformed domestic bonds for the month as the dollar fell. The global bond index was able to post a positive return of 0.5%. Long duration and lower-quality bonds were hardest hit, owing to continued interest rate increases and uncertainty around a looming recession. Short-term treasury bonds and municipal bonds were the positive indexes for the month.

Broad commodities retreated in December, declining 2.4%. Energy was the primary detractor for the index, while most other commodity sectors were positive. The positive standouts were precious metals, with silver leading the pack. Despite a strong year, the dollar continued its quarterly decline, falling an additional 1.9% in December as investors weighed the prospect of cooling inflation and declining growth. Lastly, REITs declined 5.0% as the housing market continued to slow and fears of a slowing economy grew.

The blended 60/40 index using global equities and global bonds returned -2.1% in December. Allocations to equities, REITs and commodities hurt, while bonds and gold helped. Expanding the view to 2022, commodities were the sole positive performer, owning much of that performance to the spikes in energy prices. And despite some of the worst returns in bonds on record, global bonds helped the 60/40 relative to equities and REITs in 2022.

Source: Zephyr Style Advisor

INDEX DEFINITIONS

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| **Asset Class** | **Index** | **Definition** |
| Commodities | Bloomberg Commodity  | Measures the performance of a broadly diversified exposure to physical commodities via futures contracts.  |
| Emerging Markets Bonds | Bloomberg Emerging Markets USD Aggregate | Measures the performance of hard-currency emerging markets debt including fixed and floating-rate USD-denominated debt issued from sovereign, quasi-sovereign, and corporate emerging markets debt.  |
| Emerging Markets (EM) Equity | MSCI Emerging Markets | Measures the equity market performance of countries considered to represent emerging markets.  |
| Global 60/40 Index Blend | 60% MSCI ACWI, 40% BBG Barclays Global Aggregate | Measures the performance of a blend of global equities and global bond indexes used as a benchmark for balanced portfolios. |
| Global Equity | MSCI ACWI  | Measures large- and mid-cap equity performance of developed and emerging markets. Represents approximately 85% of the global equity investment universe.  |
| Global Bonds | Bloomberg Global Aggregate | Measures the performance of global, investment-grade debt from 24 local currency markets. This benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. |
| Gold | Bloomberg Sub Gold | Measures the performance of futures contract on gold and is quoted in USD. |
| International Bonds | Bloomberg Global Aggregate ex-USD | Measures the performance of investment-grade debt from 24 local currency markets. This multi-currency index includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. It excludes bonds issued in USD. |
| International Developed Equity | MSCI EAFE | Measures the equity performance of countries considered to represent developed markets, excluding the US and Canada. |
| Sector - Energy | S&P 500 Sector Energy | Measures the performance of companies involved in the development and production of crude oil, natural gas and provide drilling and other energy-related services. |
| US Dollar | US Dollar Index | Measures the value of the US dollar relative to the value of a 'basket' of currencies of the majority of the US's most significant trading partners. Factors the exchange rates of six major world currencies: euro, Japanese yen, Canadian dollar, British pound, Swedish krona and Swiss franc.  |
| US Bonds | Bloomberg US Aggregate | Measures the performance of USD-denominated, investment-grade, fixed-rate taxable bond market of SEC-registered securities. The index includes Treasury bonds, Government-related Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS sectors. |
| US Equity | S&P 500 | Measures the performance of 500 leading companies in the US Constituents generally have a market-cap above $5 billion and represent approximately 80% of the investable market.  |
| US REIT | FTSE NAREIT All Equity REITs  | Measures the performance of a comprehensive family of REIT indexes that spans the commercial real estate space across the US economy. The index series provides investors with exposure to all investment and property sectors. |
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1. <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/> [↑](#endnote-ref-1)