

**Market Review**

**2022 was a brutal year for investors, with few places to hide.** The war in Ukraine and central banks' fight against inflation led stocks and bonds sharply lower for the year. The fourth quarter bought some relief, but not enough to change the outcome for the year.

Source: FactSet

**Equities around the globe struggled in 2022.** Within equities, developed international markets in Europe, Japan, etc. (MSCI EAFE) outperformed the US equity markets in the fourth quarter and the year with a return of 17.4% and -14%, respectively. The outperformance came as the region had a larger exposure to commodity producers and defensive stocks, as well as lower exposure to technology companies. US equities (S&P 500) had their worst year since 2008 and fell 18.1%. Finally, emerging markets (MSCI EM) were the worst performer, with a return of -19.7% for the year led by China, which struggled as Covid lockdowns hurt its economy.

**Surging oil prices in the first half drove massive gains in the energy sector.** The energy sector gained 65.7% for the year, even though oil prices retreated significantly in the second half. In addition, defensive sectors such as utilities, consumer staples, and health care held up better amid the market carnage as investors sought safety. On the other hand, technology-related sectors were the worst performers, thanks to rising interest rates and recession fears.

**Value stocks crushed growth stocks.** Growth stocks, often synonymous with next-generation technology companies listed in the Nasdaq index, fell 32.5% as investors demanded certainty in near-term profits amid fear of rising interest rates taking a bite out of uncertain future earnings. On the other hand, value stocks, often considered undervalued, steady, and sometimes even boring dividend payers such as those listed in the Dow index, fared much better and only fell 6.9%.

**Bonds had their worst year ever!** The Federal Reserve raised the federal funds rate at the fastest pace in history with seven interest rate hikes, bringing the effective rate to a range of 4.25%-4.50% from zero in January. The speed of the interest rate hikes led bond yields significantly higher, driving bond prices to historic lows in 2022. The 2-year Treasury yield rose to 4.3%, up from 0.8% in January, while the ten-year yield rose to 3.8% from 1.5% at the start of the year. US bonds (Bloomberg US Aggregate) fell 13.1%, the worst year since the index's inception in 1976. Long-term bonds (Bloomberg US Treasury Long) with greater sensitivity to interest rates experienced the worst of the damage at -29.3%, while shorter-term bonds (Bloomberg US Treasury Short) offered the only bright spot for bond investors with a gain of 1.0%. Even Treasury Inflation-Protected Securities (TIPS), designed to protect investors in times of high inflation, did not offer refuge against rising interest rates, ending the year with double-digit losses. Finally, high-yield bonds also finished the year down 11.2%, primarily due to a flight to higher quality amid uncertainty.

**Commodities gained as oil and natural gas hit highs, while gold was a disappointment.** The war in Ukraine amplified inflation concerns sending food and energy prices higher for the year. Broad commodities (Bloomberg Commodity Index) gained 16.1% in 2022.Gold prices fell 0.7% as it struggled to compete with rising bond yields and a stronger dollar and failed to meet expectations as an inflation hedge**.** Higher interest rates in the US relative to global developed markets led the dollar to rally 9.5% for the year. Finally, US REITs lost 24.9% in 2022 over concerns of rising costs due to higher interest rates.

**The classic "60/40" portfolio has only suffered losses larger than 2022's decline once in the last 45 years.** With bonds suffering their worst year on record, the classic "60/40 diversified portfolio" comprised of 60% US stocks (S&P 500) and 40% US bonds (Bloomberg US Aggregate) suffered its second-worst year on record. It fell 16.1% going back to the inception of the Bloomberg Aggregate index in 1976. The 60/40's losses in 2022 were only topped by 2008's decline of 20.1%, which were driven entirely by losses in the S&P 500 alone.

INDEX DEFINITIONS

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| **Asset Class** | **Index** | **Definition** |
| China | MSCI China | Measures the performance of large and mid-cap shares in China, including: China H shares, B shares, Red chips, P chips, and foreign listings (e.g., ADRs). Index covers about 85% of the China equity universe. |
| Commodities | Bloomberg Commodity  | Measures the performance of a broadly diversified exposure to physical commodities via futures contracts.  |
| Dow | Dow Jones Industrial Average | The Dow Jones Industrial Average® (The Dow®) is a price-weighted measure of 30 USS blue-chip companies. |
| 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 Bloomberg 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 contracts 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. |
| Nasdaq | Nasdaq Composite | The Nasdaq Composite Index measures all Nasdaq domestic and international-based common-type stocks listed on The Nasdaq Stock Market. |
| Sector - Consumer Staples | S&P 500 Sector Consumer Staples | Measures the performance of companies involved in the development and production of consumer products, including food and drug retailing, beverages, food products, tobacco, household products, and personal products. |
| Sector - Energy | S&P 500 Sector Energy | Measures the performance of companies involved in the development and production of crude oil, natural gas and provides drilling and other energy-related services. |
| Sector - Materials  | S&P 500 Sector Materials | Measures the performance of companies involved in industries such as: chemicals, construction materials, containers and packaging, metals and mining, and paper and forest products. |
| Sector - Technology | S&P 500 Sector Technology | Measures the performance of companies involved in technology hardware, storage and peripherals, software, communications equipment, semiconductors and semiconductor equipment, internet software and services, IT services, electronic equipment, instruments, and components. |
| TIPS | Treasury Inflation-Protected Securities | Treasury Inflation-Protected Security (TIPS) is a Treasury bond that is indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. |
| 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 Equities | 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 Long Treasuries | Bloomberg US Treasury Long | Measures the performance of long-term US Treasury bonds, including all publicly issued securities that have a remaining maturity of ten or more years, are: non-convertible, denominated in US dollars, rated investment-grade, fixed-rate, and have $250 or more of outstanding face value. |
| US Short Treasuries | Bloomberg US Treasury Short | Measures the performance of short-term US Treasury bonds, including all publicly issued securities that have a remaining maturity of between one and three years, are: non-convertible, denominated in US dollars, rated investment-grade, fixed-rate, and have $250 or more of outstanding face value.  |
| 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. |
| US Growth | S&P 500 Growth | Measures the performance of large-cap growth stocks in the US, which are identified by sales growth, price-to-earnings, and momentum. Constituents generally have a market cap above $5 billion.  |
| US Value | S&P 500 Value | Measures the performance of value stocks in the US, which are identified by sales growth, price-to-earnings, and momentum. Constituents generally have a market cap above $5 billion.  |
| US High Yield | Bloomberg US Corporate High Yield | Measures the performance of USD-denominated, non-investment-grade, fixed-rate taxable corporate bonds. "High-yield" securities have the middle rating from Moody's, Fitch, or S&P of Ba1/BB+/BB+ or below. Index excludes emerging market debt. |
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AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

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