

# Student of the Market

January 2023



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**Stock and  
bond returns**

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**Diversification  
doesn't  
always feel  
good**

Source: Morningstar as of 12/31/22. **Past performance is no guarantee of future results.** Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

# Worst year for bonds and 7th worst for stocks

## Worst years for U.S. Bonds

Since 1926, total return for each period

Year	Return	Next 12 months
<b>2022</b>	-13.0	?
<b>1994</b>	-2.9	18.5
<b>1931</b>	-2.3	8.8
<b>2013</b>	-2.0	6.0
<b>2021</b>	-1.5	-13.0
<b>1958</b>	-1.3	-0.4
<b>1999</b>	-0.8	11.6
<b>1969</b>	-0.7	16.9
<b>1955</b>	-0.7	-0.4
<b>1956</b>	-0.4	7.8
<b>Avg.</b>	-2.6	6.2

## 7<sup>th</sup> worst ever year for U.S. Stocks

Since 1926, total return for each period

Year	Return	Next 12 months
<b>1931</b>	-43.3	-8.2
<b>2008</b>	-37.0	26.5
<b>1937</b>	-35.0	31.1
<b>1974</b>	-26.5	37.2
<b>1930</b>	-24.9	-43.3
<b>2002</b>	-22.1	28.7
<b>2022</b>	-18.1	?
<b>1973</b>	-14.7	-26.5
<b>2001</b>	-11.9	-22.1
<b>1941</b>	-11.6	20.3
<b>Avg.</b>	-24.5	4.9

Source: Morningstar as of 12/31/22. U.S. bonds represented by the IASBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 12/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 12/31/22 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Bonds reached new milestones in 2022 – but not good ones

2022 bond returns and historical rank  
(1/1/26 – 12/31/22)

2022 bond milestone	Previous worst period	Performance following previous worst
<b>Worst calendar year ever</b> (-13.1%)	1994 (-2.9%)	1995 (+18.5%)
<b>Worst 3-year period ever</b> (-3.8%, period ending 10/31/22)	Period ending March 1980 (-0.7%)	April 1980 – April 1983 (+17.8%)
<b>1<sup>st</sup> time bonds lost money over a 4-year period</b> (-0.2%, period ending 10/31/22)	Period ending May 1953 (+0.4%)	June 1953 – June 1957 (+2.1%)
<b>1<sup>st</sup> time bonds lost money over a 5-year period</b> (-0.5%, period ending 10/31/22)	Period ending May 1953 (+0.7%)	June 1953 – June 1958 (+3.7%)
<b>Worst 10-year period ever</b> (+0.7%, period ending 10/31/22)	Period ending May 1953 (+1.2%)	June 1953 – June 1963 (+3.2%)

Source: Morningstar as of 12/31/22. U.S. bonds represented by the IASBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 12/31/22. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

STOCKS LOSE MONEY

# Stocks lost money in 2022 for the 26th time

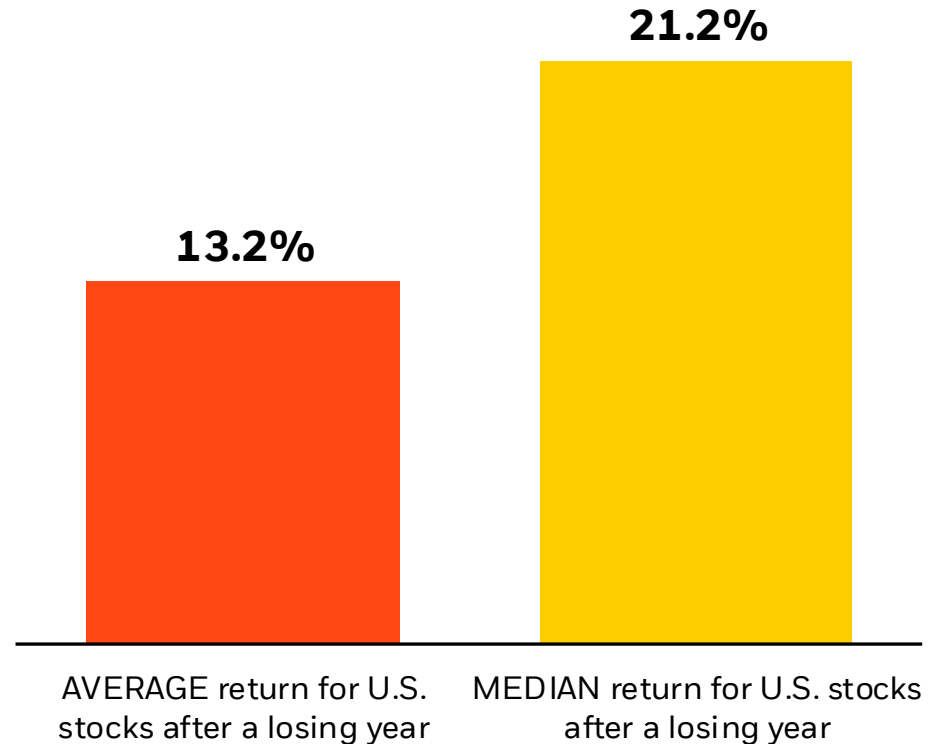
Since 1926, 26 negative calendar years out of 97

Negative calendar years for U.S. stocks	Return	Stock performance the next year
1929	-8.4	-24.9
1930	-24.9	-43.3
1931	-43.3	-8.2
1932	-8.2	54.0
1934	-1.4	47.7
1937	-35.0	31.1
1939	-0.4	-9.8
1940	-9.8	-11.6
1941	-11.6	20.3
1946	-8.1	5.7
1953	-1.0	52.6
1957	-10.8	43.4
1962	-8.7	22.8
1966	-10.1	24.0
1969	-8.5	3.9
1973	-14.7	-26.5
1974	-26.5	37.2
1977	-7.2	6.6
1981	-4.9	21.6
1990	-3.1	30.5
2000	-9.1	-11.9
2001	-11.9	-22.1
2002	-22.1	28.7
2008	-37.0	26.5
2018	-4.4	31.5
2022	-18.1	?
<b>Average</b>	-13.2	13.2

● Periods of consecutive annual losses

## Performance for U.S. stocks and bonds

1/1/26 - 12/31/22

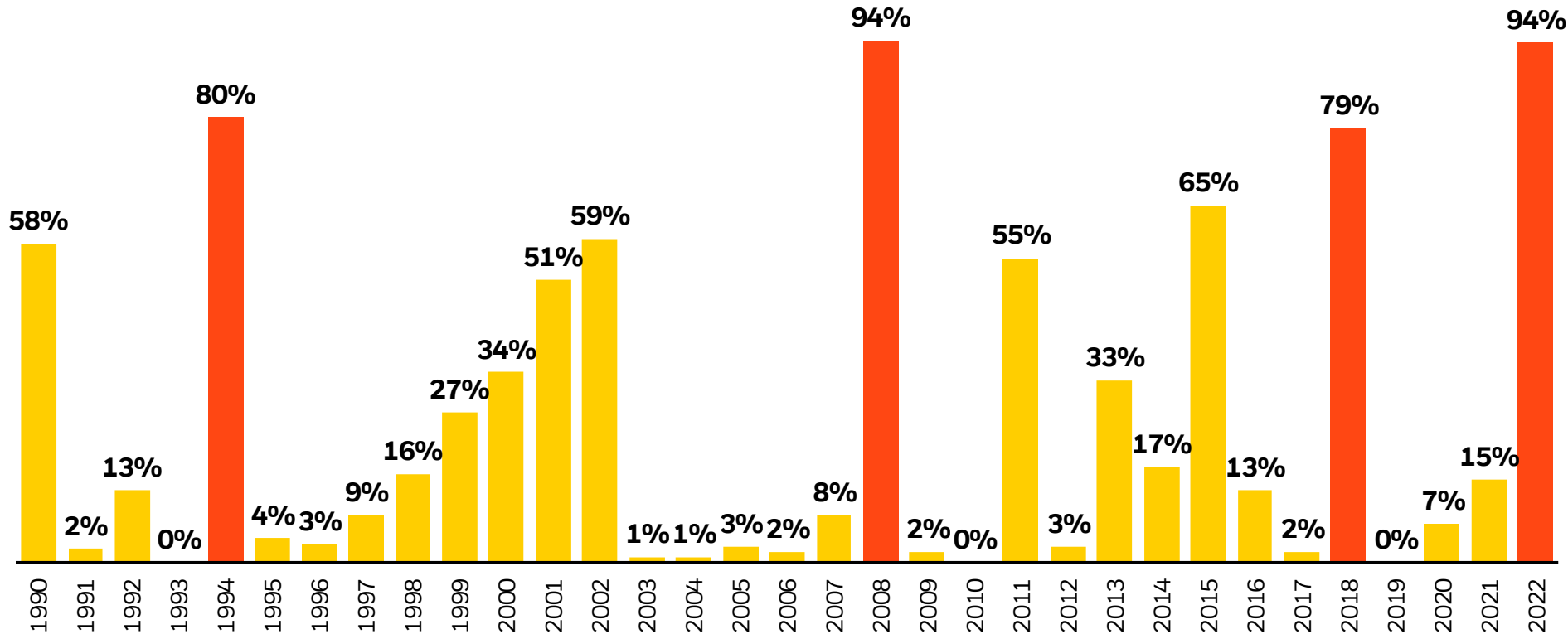


Source: Morningstar as of 12/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 12/31/22 and the IA SBBIU.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Most asset classes lost money in 2022

Percent of mutual fund categories that lost money in a given calendar year

105 out of 112 asset classes lost money

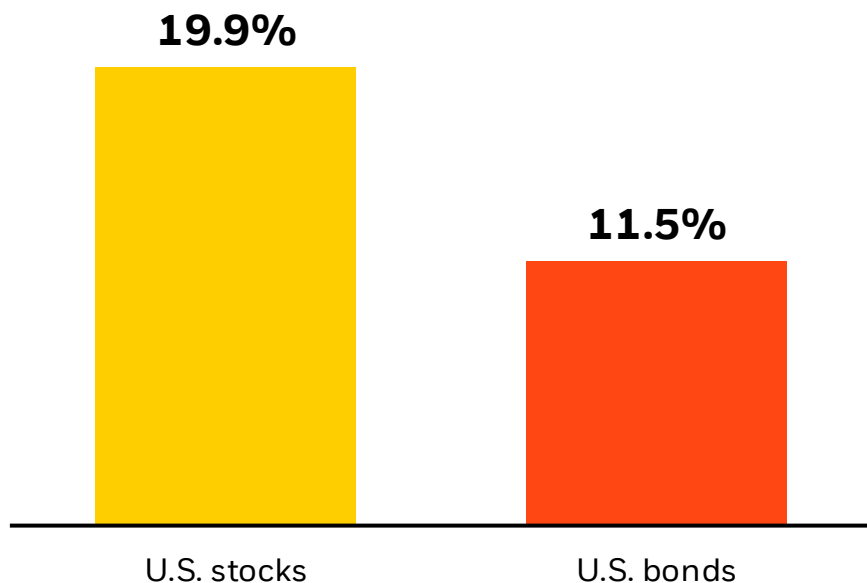


Morningstar as of 12/31/22. All asset classes represented by Morningstar open-end mutual funds categories. Morningstar categories that have a positive return YTD 2022; Equity Energy, Energy Limited Partnerships, Commodities Broad Basket, Systematic Trend, Commodities Focused, Latin America Stock, and Equity Market Neutral. **Past performance does not guarantee or indicate future results.**

# Returns following the last interest rate hike

The Federal Reserve raising rates for the last time in a cycle and U.S. stock and bond performance

**Average U.S. stock and bond performance 12 months following the last Fed hike**  
(2/4/94 – 12/31/22)



**Specific periods of higher interest rates**  
(2/4/94 – 12/31/22)

Last Federal Reserve rate increase	U.S. Stocks	U.S. Bonds
	Next 12 months	Next 12 months
2/1/95	38.7%	17.0%
3/25/97	35.0%	11.5%
5/16/00	-13.0%	13.8%
6/29/06	22.8%	6.4%
12/20/18	16.1%	8.8%
<i>Average</i>	19.9%	11.5%

Source: Morningstar as of 12/31/21. U.S. stocks are represented by the S&P 500 index. U.S. bonds are represented by the Bloomberg US Agg Bond TR Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

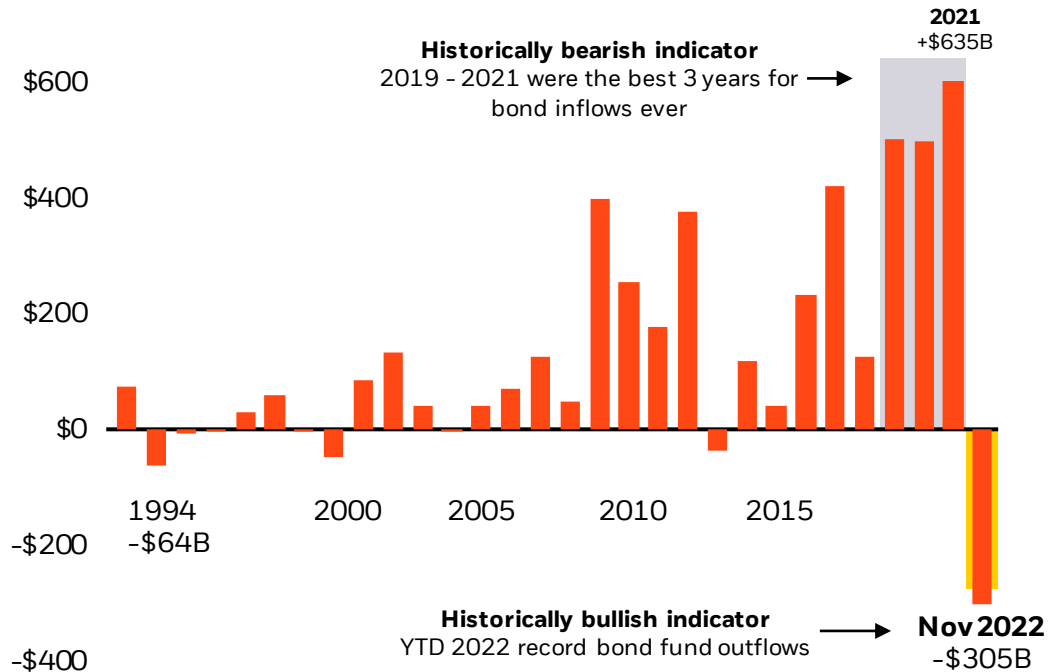
## BOND FUND FLOWS

# Don't follow the flows

Bond fund flows and performance have historically been inversely correlated

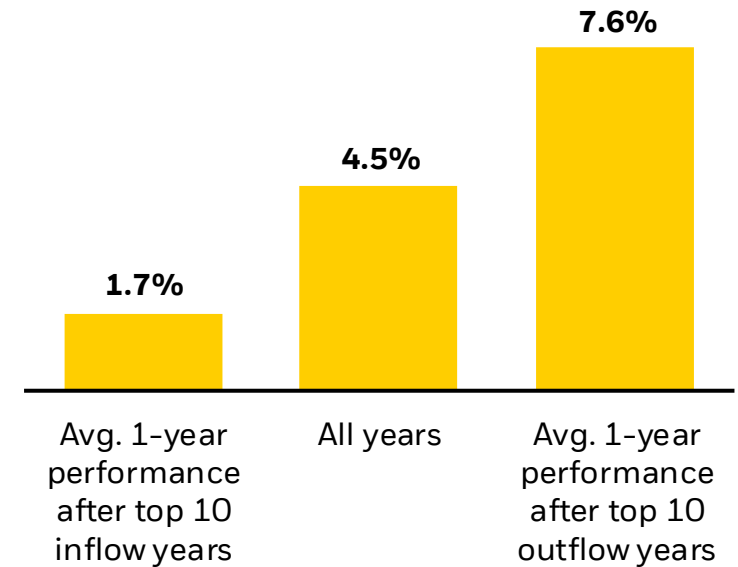
### Annual bond fund flows

Combined bond mutual fund and bond ETF flows (\$B)



### Bond performance following extremes in bond fund inflows/outflows

Bond mutual funds & ETF 12-month performance, 1/1/93 – 11/30/22



Source: Morningstar as of 12/31/22. Bonds represented by the U.S. bonds by the Bloomberg US Agg Bond TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.



# 2nd worst year ever for high yield bonds

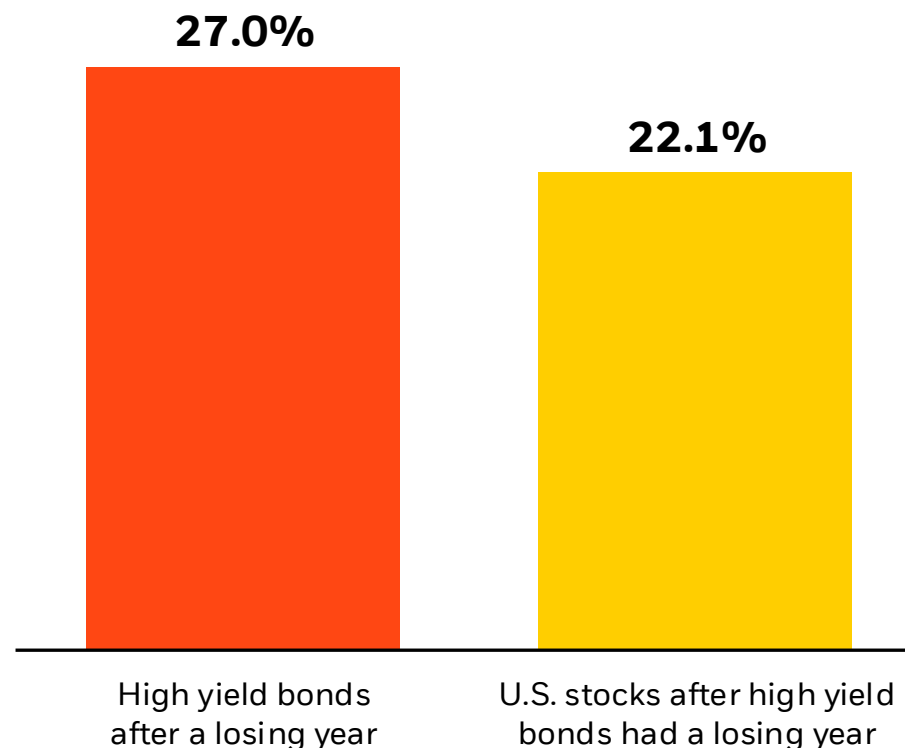
## Worst years for high yield bonds

Since 1984, total return for each period

Year	Return	Next 12 months
2008	-26.2	58.2
2022	-11.2	?
1990	-9.6	46.2
2000	-5.9	5.3
2015	-4.5	17.1
2018	-2.1	14.3
2002	-1.4	29.0
1994	-1.0	19.2
<b>Avg.</b>	-7.7	27.0

## Performance after high yield bonds lose money

Since 1984, average annual total return



Source: Morningstar as of 12/31/22. U.S. high yield bonds represented by the Bloomberg High Yield Corporate Bond Index and U.S. stocks are represented by the S&P 500 Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

DIVERSIFICATION DOESN'T ALWAYS FEEL GOOD

# A diversified portfolio can work even though it never feels good

Last 20+ years

25% U.S. large stocks, 19% U.S. mid cap stocks, 7% international stocks, 5% U.S. small cap stocks, 4% emerging market stocks, 25% U.S. bonds, 15% high yield bonds

Years	S&P 500	Diversified Portfolio
2000–2002*	-40.1%	-15.7%
2003–2007	82.9%	87.1%
2008	-37.0%	-26.6%
2009–2019	351.0%	219.7%
Q1 2020†	-30.4%	-23.1%
Q2 2020–2021‡	119.0%	66.6%
2022	-18.1%	-15.5%
<b>Total Return</b>	<b>288.6%</b>	<b>301.6%</b>
<b>Gr \$100K</b>	<b>\$388,610</b>	<b>\$401,550</b>

▶		<b>“I lost money”</b>
▶		<b>“Diversification worked”</b>
▶		<b>“I lost money”</b>
▶		<b>“I didn’t make as much”</b>
▶		<b>“I lost money”</b>
▶		<b>“I didn’t make as much”</b>
▶		<b>“I lost money”</b>
▶		<b>“Diversification can work even when it feels like its losing”</b>

Source: Morningstar as of 12/31/22. \*Performance is from 9/1/00 to 12/31/02. †Performance is from 1/1/20 to 3/23/20. ‡Performance is from 3/24/20 to 12/31/21. Diversified Portfolio is represented by 25% S&P 500 Index, 19% Russell Mid Cap Index, 7% MSCI EAFE Index, 5% Russell 2000 Index, 4% FTSE Emerging Stock Index, 25% Bloomberg US Aggregate Bond Index, 15% Bloomberg US Corporate High Yield Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Student of the Market: January 2023

Returns as of 12/31/22	1 Year Return	5 Year Avg. Annual Return	10 Year Avg. Annual Return
S&P 500 TR USD	-18.11	9.42	12.56
Bloomberg US Agg Bond TR USD	-13.01	0.02	1.06
Bloomberg US Corporate High Yield TR USD	-11.19	2.31	4.03
IA SBBI US IT Govt TR USD	-9.36	0.28	0.76
IA SBBI US Large Stock TR USD Ext	-18.11	9.42	12.56
US Fund Commodities Broad Basket	14.83	6.53	-0.93
US Fund Commodities Focused	6.47	5.34	-2.63
US Fund Energy Limited Partnership	22.83	3.52	1.73
US Fund Equity Energy	44.90	1.84	-0.67
US Fund Equity Market Neutral	5.86	1.84	1.68
US Fund Latin America Stock	3.06	-1.56	-2.74
US Fund Systematic Trend	16.86	4.92	4.21

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of 12/31/22 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

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