

Student of the Market

January 2023

BlackRock[®]

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**Stock and
bond returns**

**Bond market
milestones**

**Stocks lose
money**

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returns**

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Reserve
raising rates**

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flows**

**High yield
bonds**

**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
2022	-13.0	?
1994	-2.9	18.5
1931	-2.3	8.8
2013	-2.0	6.0
2021	-1.5	-13.0
1958	-1.3	-0.4
1999	-0.8	11.6
1969	-0.7	16.9
1955	-0.7	-0.4
1956	-0.4	7.8
Avg.	-2.6	6.2

7th worst ever year for U.S. Stocks

Since 1926, total return for each period

Year	Return	Next 12 months
1931	-43.3	-8.2
2008	-37.0	26.5
1937	-35.0	31.1
1974	-26.5	37.2
1930	-24.9	-43.3
2002	-22.1	28.7
2022	-18.1	?
1973	-14.7	-26.5
2001	-11.9	-22.1
1941	-11.6	20.3
Avg.	-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 SBBBI 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
Worst calendar year ever (-13.1%)	1994 (-2.9%)	1995 (+18.5%)
Worst 3-year period ever (-3.8%, period ending 10/31/22)	Period ending March 1980 (-0.7%)	April 1980 – April 1983 (+17.8%)
1st time bonds lost money over a 4-year period (-0.2%, period ending 10/31/22)	Period ending May 1953 (+0.4%)	June 1953 – June 1957 (+2.1%)
1st time bonds lost money over a 5-year period (-0.5%, period ending 10/31/22)	Period ending May 1953 (+0.7%)	June 1953 – June 1958 (+3.7%)
Worst 10-year period ever (+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

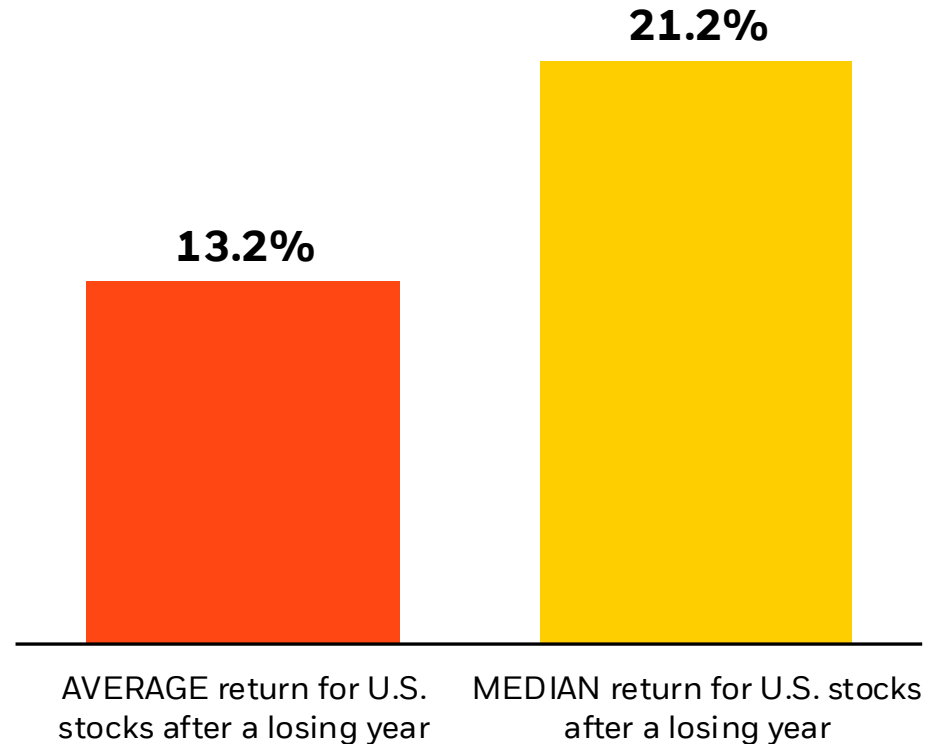
Since 1926, 26 negative calendar years out of 97

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	?
Average	-13.2	13.2

● *Periods of consecutive annual losses*

Performance for U.S. stocks and bonds

1/1/26 - 12/31/22

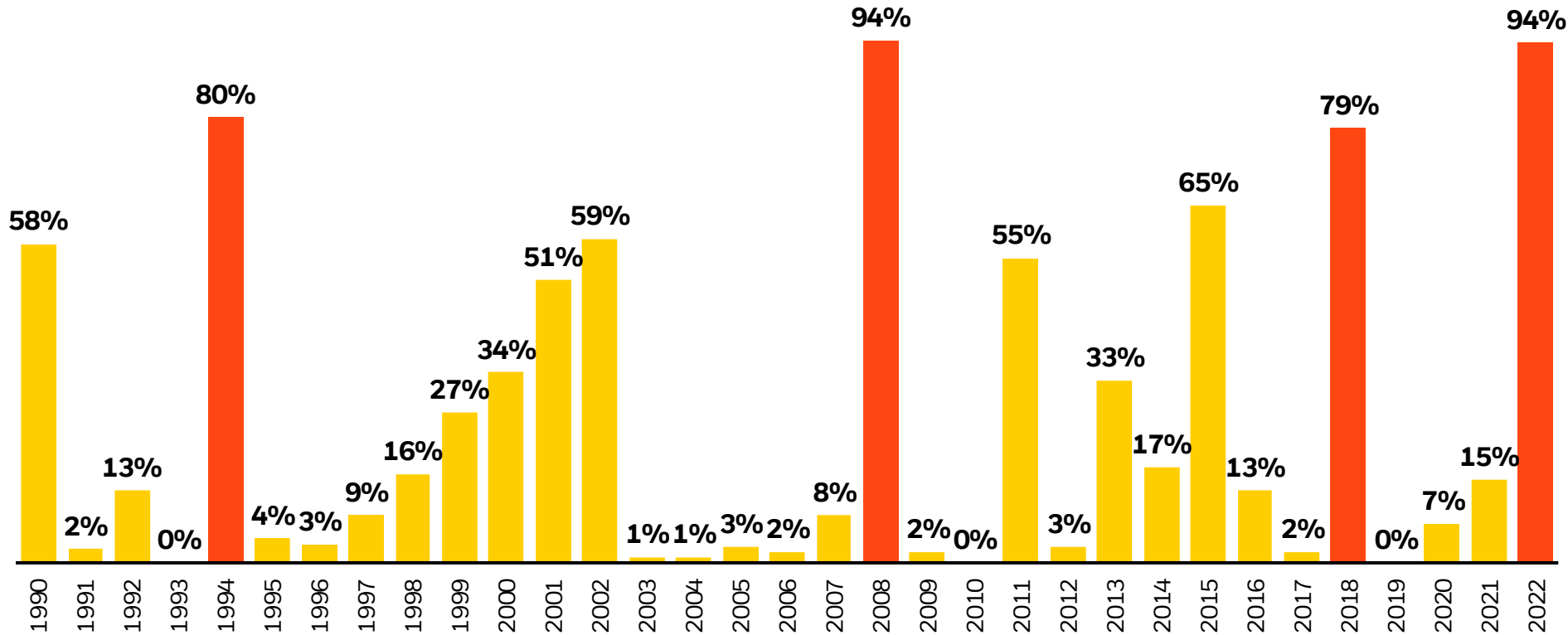


Source: Morningstar as of 12/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 12/31/22 and the IA SBBIU.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past 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

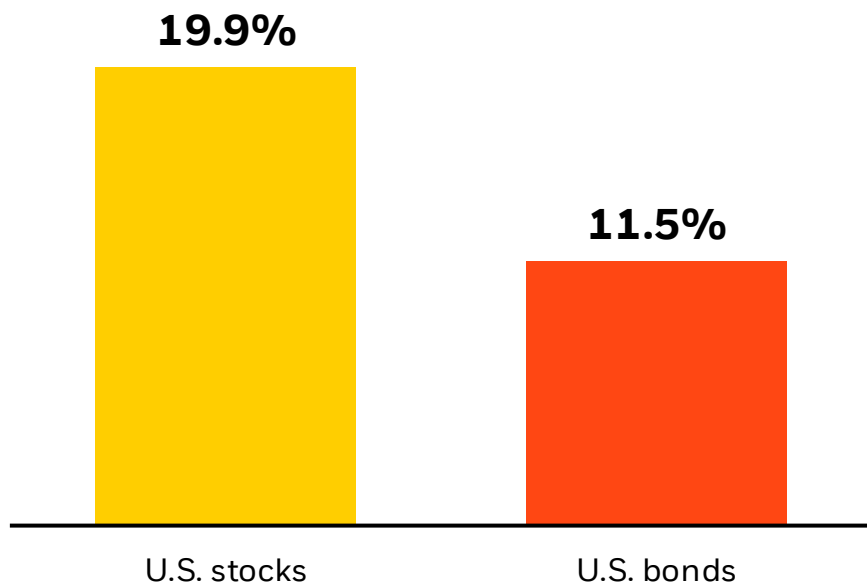


Morningstar as of 12/31/22. All asset classes represented by Morningstar open-end mutual funds categories. Morningstar categories that have a positive return YTD 2022; Equity Energy, Energy Limited Partnerships, Commodities Broad Basket, Systematic Trend, Commodities Focused, Latin America Stock, and 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.

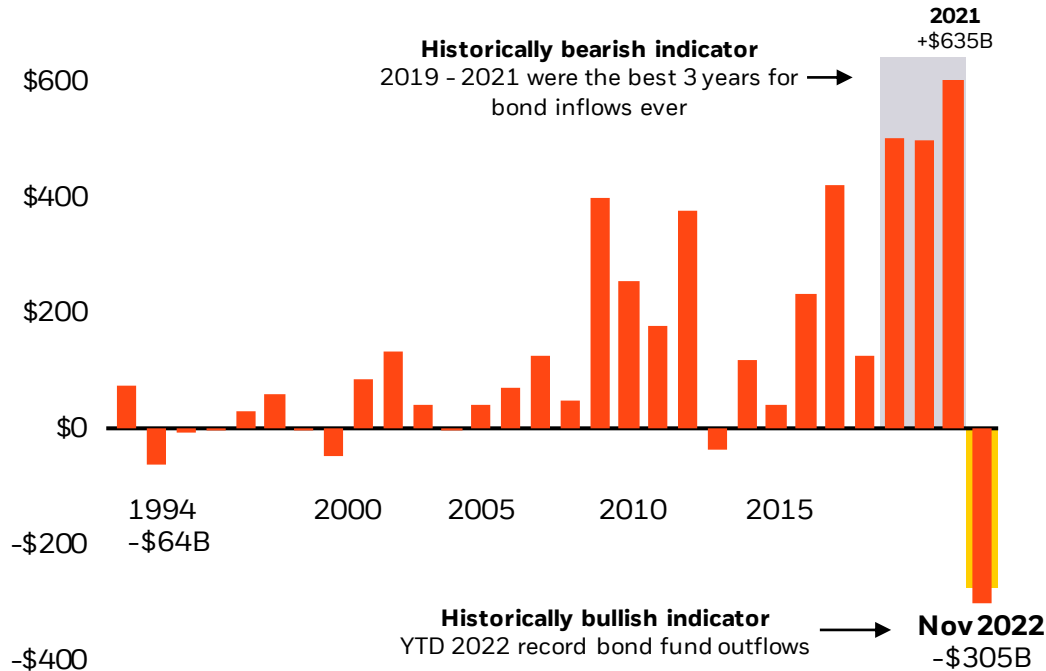
BOND FUND FLOWS

Don't follow the flows

Bond fund flows and performance have historically been inversely correlated

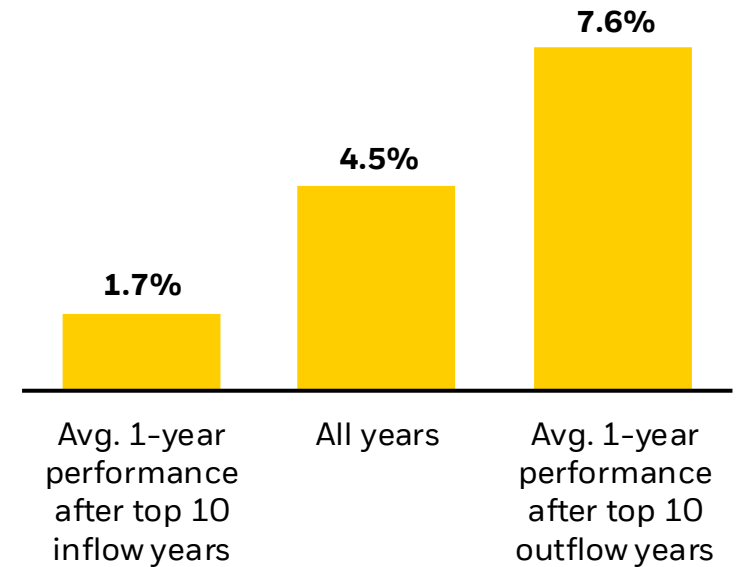
Annual bond fund flows

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

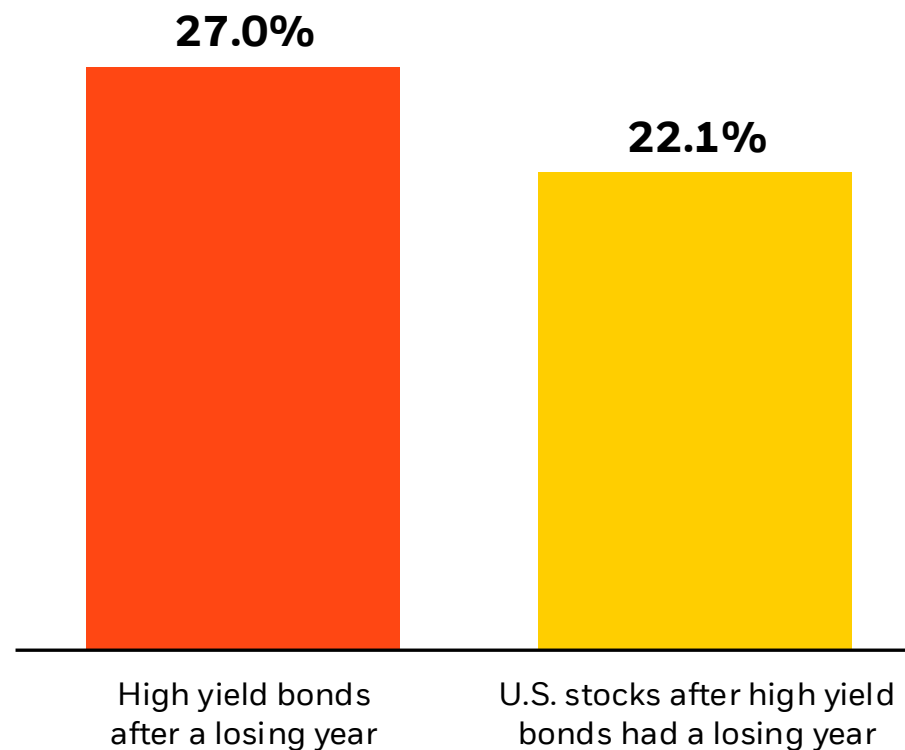
Worst years for high yield bonds

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
Avg.	-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%	 "I lost money"
2003–2007	82.9%	87.1%	 "Diversification worked"
2008	-37.0%	-26.6%	 "I lost money"
2009–2019	351.0%	219.7%	 "I didn't make as much"
Q1 2020†	-30.4%	-23.1%	 "I lost money"
Q2 2020–2021‡	119.0%	66.6%	 "I didn't make as much"
2022	-18.1%	-15.5%	 "I lost money"
Total Return	288.6%	301.6%	 "Diversification can work even when it feels like its losing"
Gr \$100K	\$388,610	\$401,550	

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.

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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

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