TIMONIER

Wealth Beyond Financial

From the Engine Room

Quarterly Market Review

First Quarter 2023

Quarterly Market Review

First Quarter 2023

This report features world capital market performance and a timeline of events for the past quarter. It begins with a review of notable focus points from the previous quarter, then features a global overview, then the returns of stock and bond asset classes in the US and international markets. The report concludes with a quarterly topic from the bright minds at Dimension Fund Advisors pertinent to the run-on Silicon Valley Bank, and its subsequent collapse.

Overview:

Why Oil, the Fed and Jobs Are Surprising Markets

From the Engine Room Q4 2022

Nicholas C. Baker

There is an old saying that happiness equals reality minus expectations. This is particularly relevant when it comes to financial planning and investing during times of great uncertainty. For investors, having unrealistic short-term expectations of investment returns and financial outcomes, as many often do in the late stages of bull markets and during asset bubbles, can lead to discouragement. Instead, history shows that by maintaining perspective and focusing on the long run, investors can set appropriate expectations and position themselves to achieve their unique combinations of financial goals.

The same is true when it comes to what financial markets expect. By their nature, markets are designed to anticipate future events and assign them a price today. The gap between reality and expectations can drive large market swings, just as they did for inflation and Fed rate hikes over the past year across both stocks and bonds. This reality vs. expectation divergence has only grown as the Fed nears the end of its rate hike cycle amid an uncertain economic outlook. Now, there are three key areas in which the expectations gap is impacting portfolios.

First, OPEC+, a group of oil producing countries and Russia, recently surprised the market when it announced 1.16 million barrels per day (mmpbd) of cuts to oil production starting in May. This is in addition to previously announced cuts. Higher oil prices affect the entire global economy since everything depends on the price of energy. One of the primary drivers of inflation last year was Russia's invasion of Ukraine which caused oil prices to spike above $120 per barrel, increasing gasoline prices at the pump along with other costs to consumers and businesses.

The goal of these production cuts is to prop up oil prices which have been steadily declining. However, it's important to maintain perspective around this announcement. The relevance of OPEC as a price-setting cartel has declined over the past decade. Partly because production cuts by each country are voluntary and difficult to enforce, and because the U.S. has become the top producer of oil in the world. In Europe, warmer weather and government policies discouraging excessive energy use have helped to reduce its sensitivity to energy prices as well.

Why Oil, the Fed and Jobs Are Surprising Markets Cont…

From the Engine Room Q4 2022 Nicholas C. Baker

Despite the immediate jump in oil prices, both Brent and WTI remain well below their recent peaks, currently priced around $85 and $80 per barrel, respectively. So far, there is little reason to believe that oil prices at these levels will result in another spike in gasoline prices for consumers or in higher inflation measures.

Second, last week's healthy jobs report also impacted investor expectations on the economy. The report showed that 236,000 jobs were added in March, a pace that is slower than the previous month but that still brings the 6-month average to 334,000 per month. Areas such as construction lost 9,000 jobs while leisure and hospitality continued to recover with 72,000 payrolls added. These figures were right in line with what economists had expected. However, the overall strength of the job market continues to be at odds with what many investors and economists believed would occur as the Fed raises rates. The job market is slowing, but not at the pace that would be consistent with such a significant tightening of financial conditions or with a possible recession. The only exceptions to this gradual pace are in the tech sector, which lost 33,000 jobs in January and February but gained 6,000 in March.

Finally, at only 3.5% (near historic low), the unemployment rate remains well below the Fed's projection of 4.5% at the end of this year. This is one reason that some expect the Fed to continue raising rates, or at the very least to keep them higher for longer. The Fed's own forecasts imply that it will raise rates by another 25 basis points (0.25%) and keep them steady through year end. After all, the Fed has prioritized fighting inflation which remains higher than they would like.

Reports show that the markets expectation suggest that the Fed could begin cutting rates by September and continue doing so into 2024. Thus, there is a big expectations gap between what the Fed is saying is appropriate and what the market believes could occur. This could drive market swings in the coming months just as it did throughout 2022.

It's important to keep in mind that these market-based expectations are highly volatile and have shifted on a day-to-day basis over the past month in response to the banking crisis. It's also true that sometimes the Fed shifts toward the market, and sometimes the market adjusts to meet the Fed.

Why Oil, the Fed and Jobs Are Surprising Markets Cont…

From the Engine Room Q4 2022 Nicholas C. Baker

Early last year, for instance, the market expected the Fed to change its course to fight inflation, which is exactly what the Fed did. However, markets also expected later in the year for the Fed to begin easing due to improving inflation. When this didn't occur and inflation worsened, markets fell back into bear market territory. Thus, it's important to maintain a longer-term perspective and not react to every market move.

The bottom line? There are a few key areas where market expectations have diverged from reality. Investors should stay focused on their long-term investment goals, and financial plans with an understanding that we have always lived in a world that experiences temporary declines in route of a permanent market uptrend.

If you would like to explore this information in more detail, refresh your financial plan, update your balance sheet, or engage in discussions of global economics, portfolio construction, and beyond, we welcome the opportunity to do so with you.

As always, thank you for allowing the advisors at Timonier to be a part of harmonizing your wealth journey. Please do not hesitate to contact our office should we be able to assist in any way.

Quarterly Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q1 2023	STOCKS				BONDS	
	7.18%	8.02%	3.96%	1.37%	2.96%	2.86%
Since Jan. 2001						
Average Quarterly Return	2.2%	1.5%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

Long-Term Market Summary

Index Returns as of March 31, 2023

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
1 Year	-8.58%	-2.74%	-10.70%	-20.29%	-4.78%	-3.27%
5 Years	10.45%	3.80%	-0.91%	2.41%	0.91%	0.90%
10 Years	11.73%	4.91%	2.00%	3.26%	1.36%	2.28%

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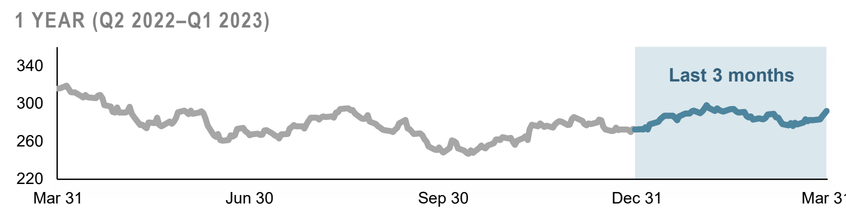
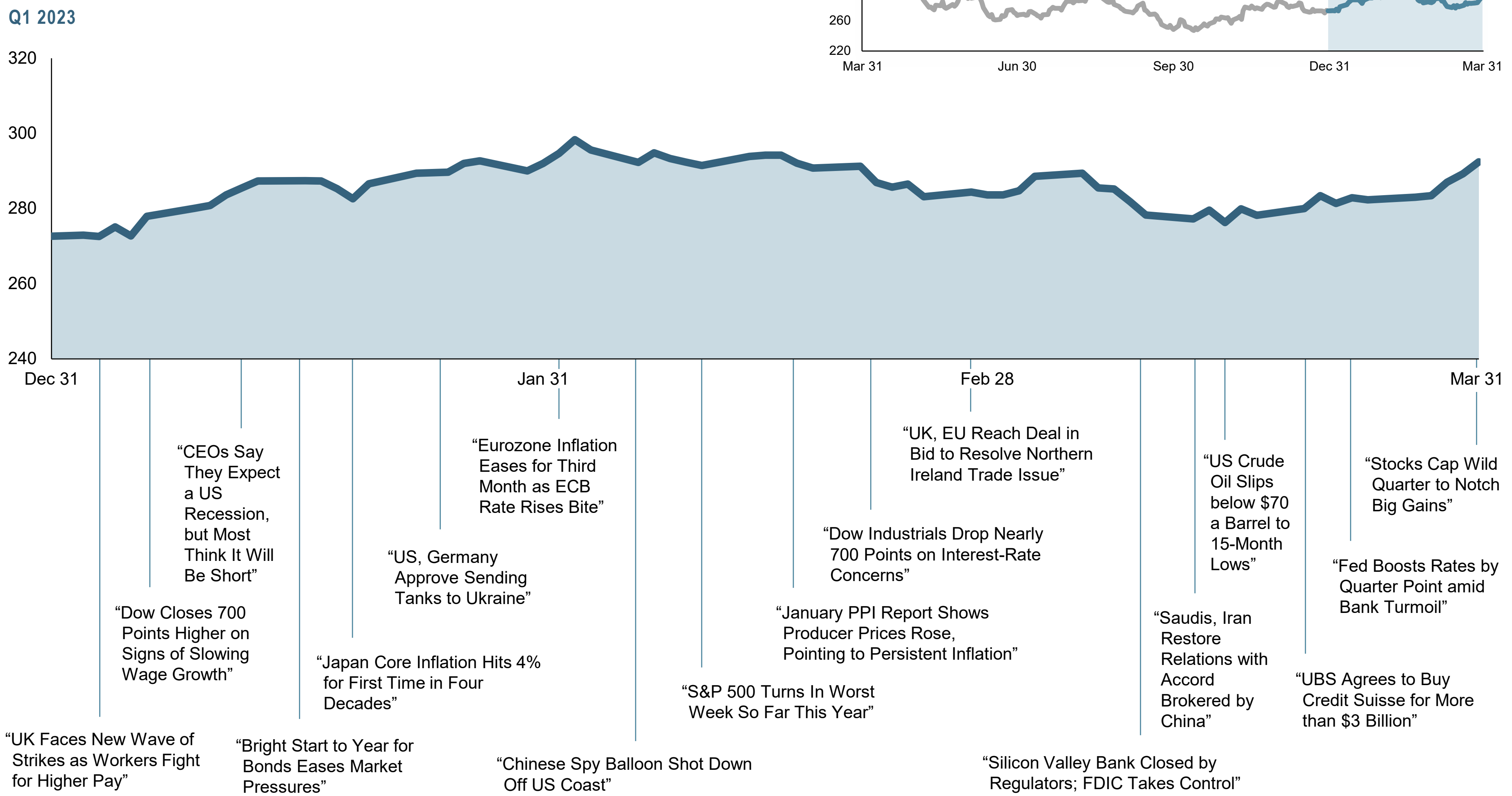
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2023



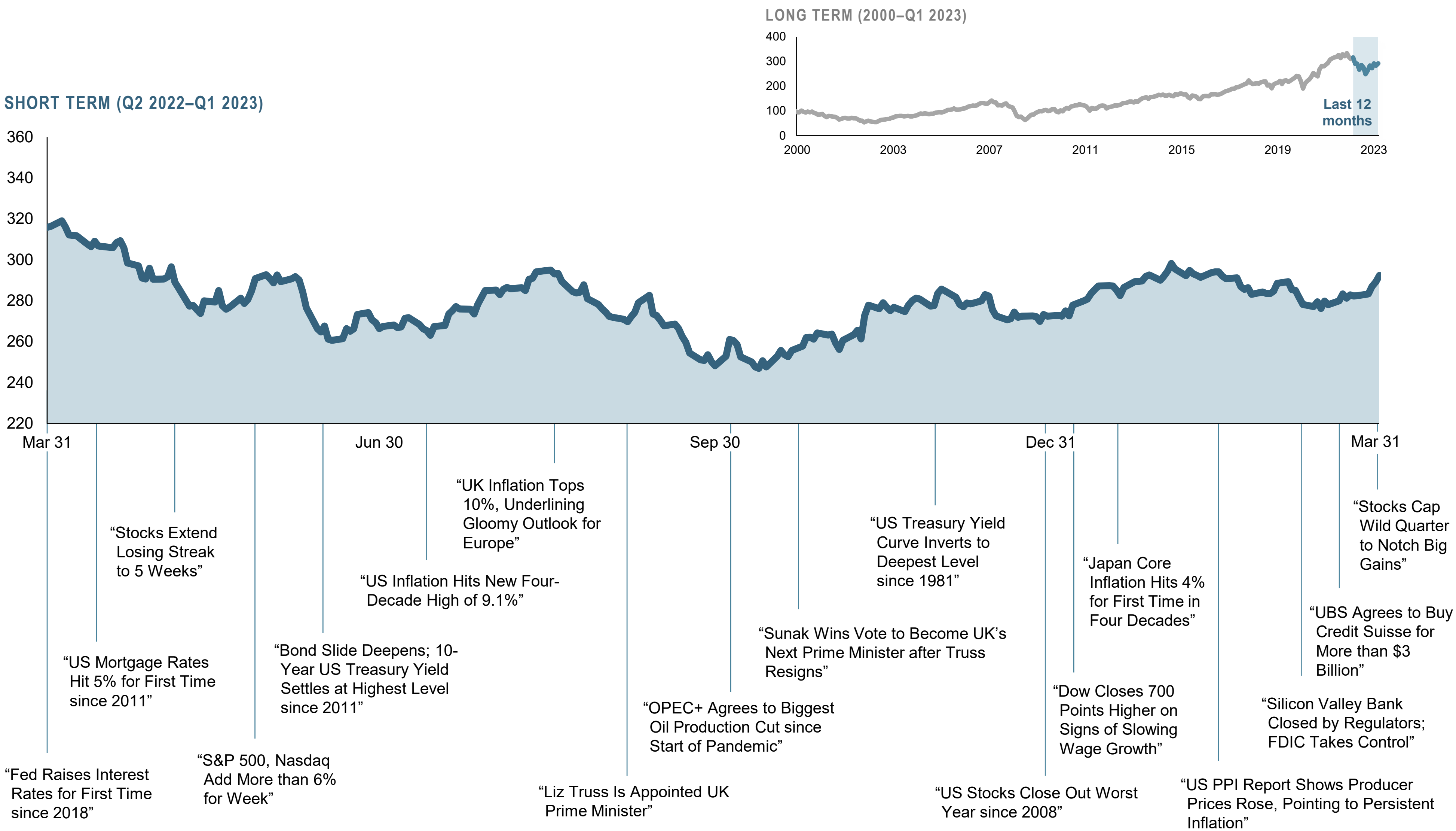


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000.
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US Stocks

First Quarter 2023 Index Returns

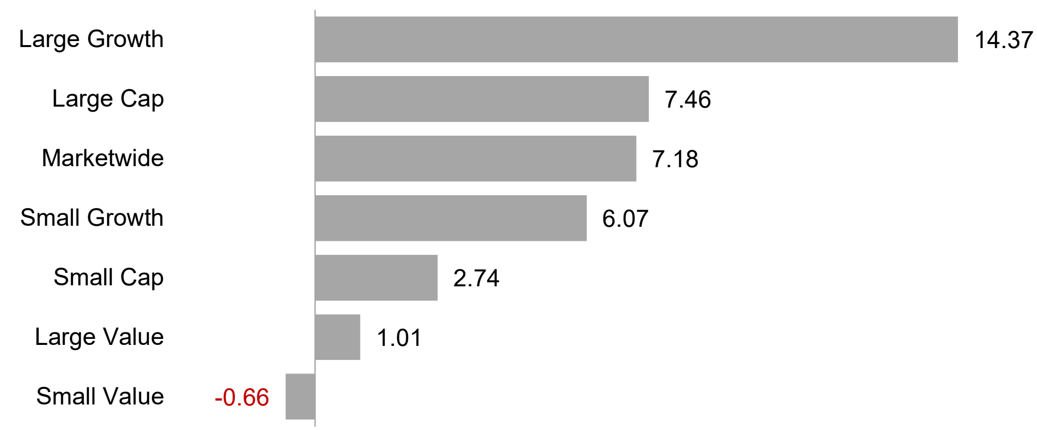
The US equity market posted positive returns for the quarter and underperformed non-US developed markets but outperformed emerging markets.

Value underperformed growth.

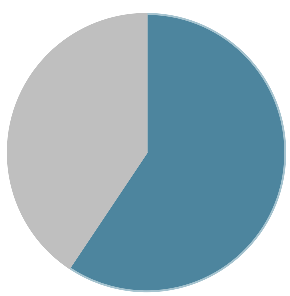
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



59%

US Market

$40.1 trillion

Period Returns (%)

			Annualized		
Asset Class	QTR	1 Year	3 Years	5 Years	10 Years
Large Growth	14.37	-10.90	18.58	13.66	14.59
Large Cap	7.46	-8.39	18.55	10.87	12.01
Marketwide	7.18	-8.58	18.48	10.45	11.73
Small Growth	6.07	-10.60	13.36	4.26	8.49
Small Cap	2.74	-11.61	17.51	4.71	8.04
Large Value	1.01	-5.91	17.93	7.50	9.13
Small Value	-0.66	-12.96	21.01	4.55	7.22

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

International Developed Stocks

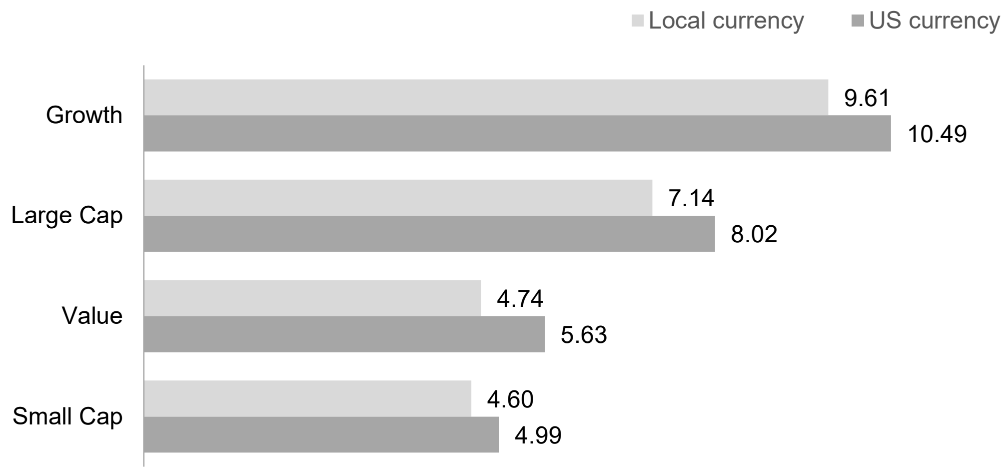
First Quarter 2023 Index Returns

Developed markets outside of the US posted positive returns for the quarter and outperformed both US and emerging markets.

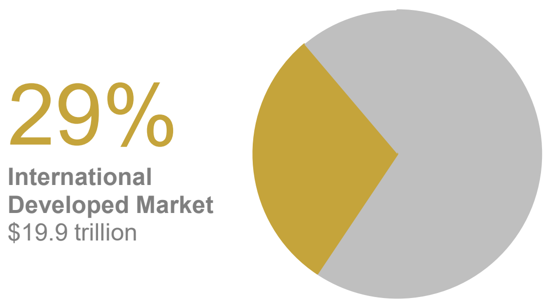
Value underperformed growth.

Small caps underperformed large caps.

Ranked Returns (%)



World Market Capitalization—International Developed



Period Returns (%)

			Annualized		
Asset Class	QTR	1 Year	3 Years	5 Years	10 Years
Growth	10.49	-4.04	11.15	4.96	5.77
Large Cap	8.02	-2.74	13.49	3.80	4.91
Value	5.63	-1.85	15.32	2.18	3.80
Small Cap	4.99	-10.13	13.43	1.54	5.54

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Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market.

Emerging Markets Stocks

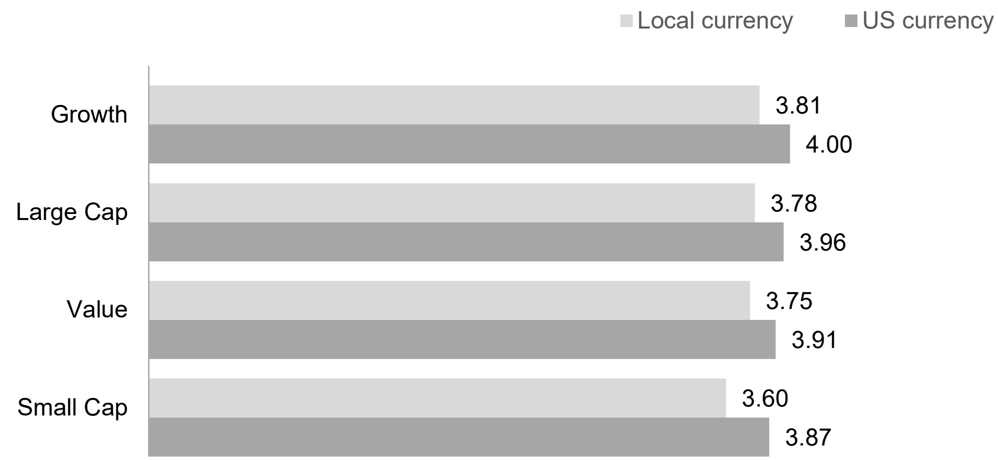
First Quarter 2023 Index Returns

Emerging markets posted positive returns for the quarter and underperformed both US and non-US developed markets.

Value underperformed growth.

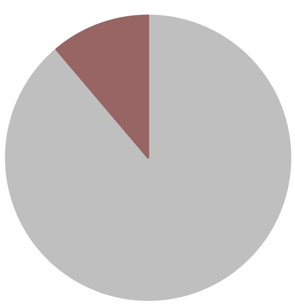
Small caps underperformed large caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets

11%
Emerging Markets
$7.6 trillion



Period Returns (%)

			Annualized		
Asset Class	QTR	1 Year	3 Years	5 Years	10 Years
Growth	4.00	-11.87	5.65	-0.79	3.18
Large Cap	3.96	-10.70	7.83	-0.91	2.00
Value	3.91	-9.44	10.04	-1.15	0.69
Small Cap	3.87	-10.99	20.68	1.80	3.18

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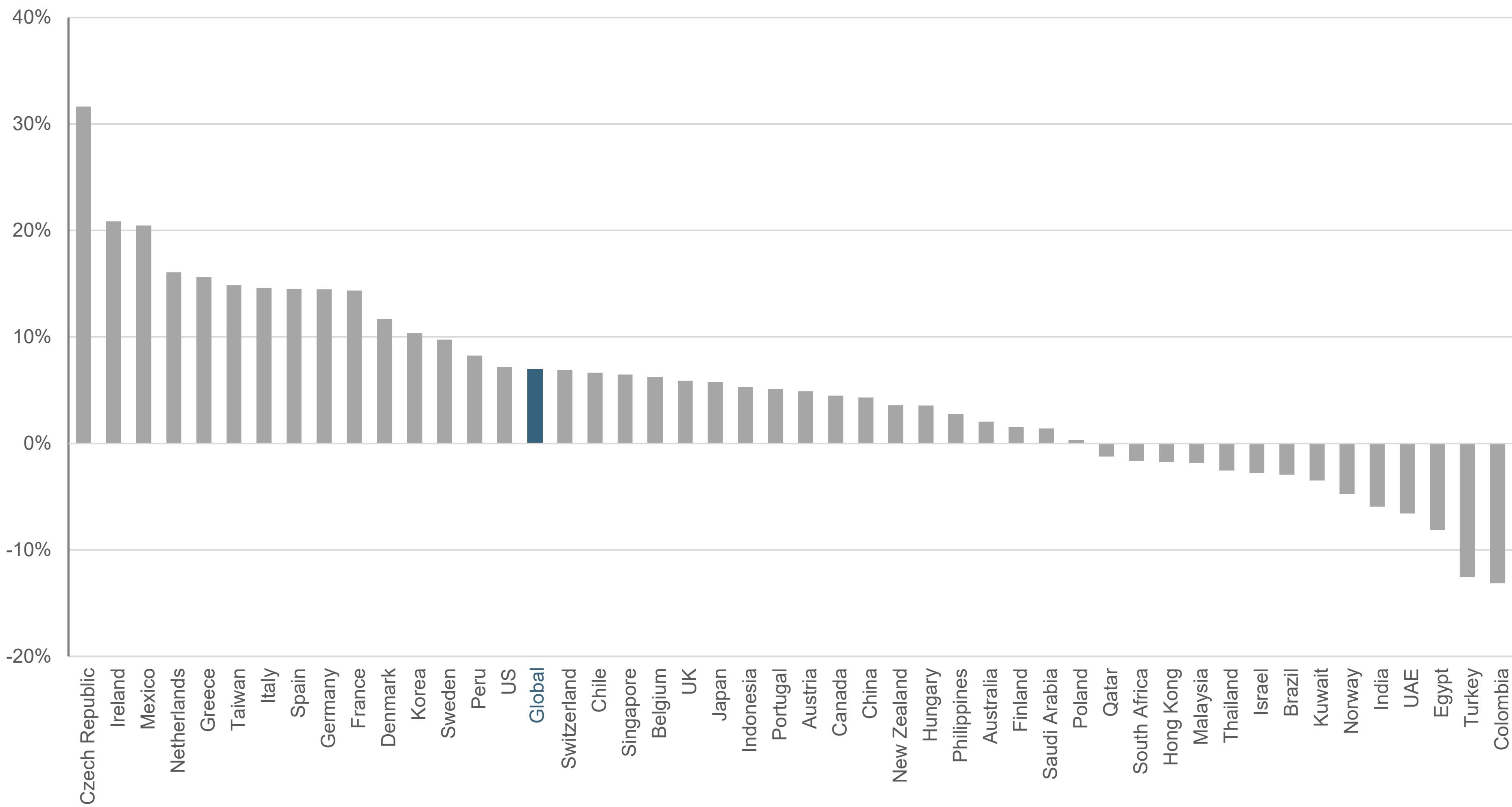
Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

Country Returns

First Quarter 2023 Index Returns



Past performance is no guarantee of future results.

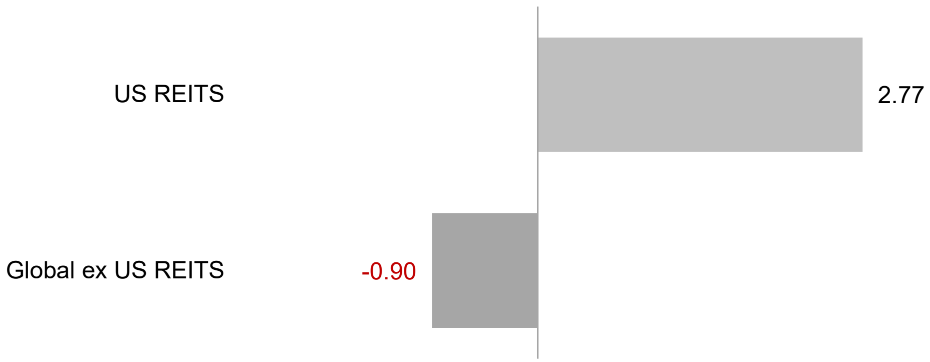
Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved.

Real Estate Investment Trusts (REITs)

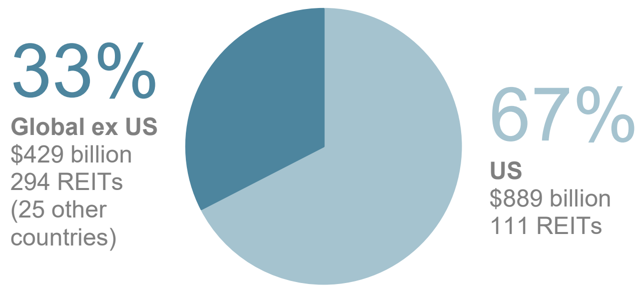
First Quarter 2023 Index Returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

			Annualized		
Asset Class	QTR	1 Year	3 Years	5 Years	10 Years
US REITS	2.77	-20.98	11.32	4.66	5.31
Global ex US REITS	-0.90	-20.93	4.83	-2.06	0.79

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global.

Commodities

First Quarter 2023 Index Returns

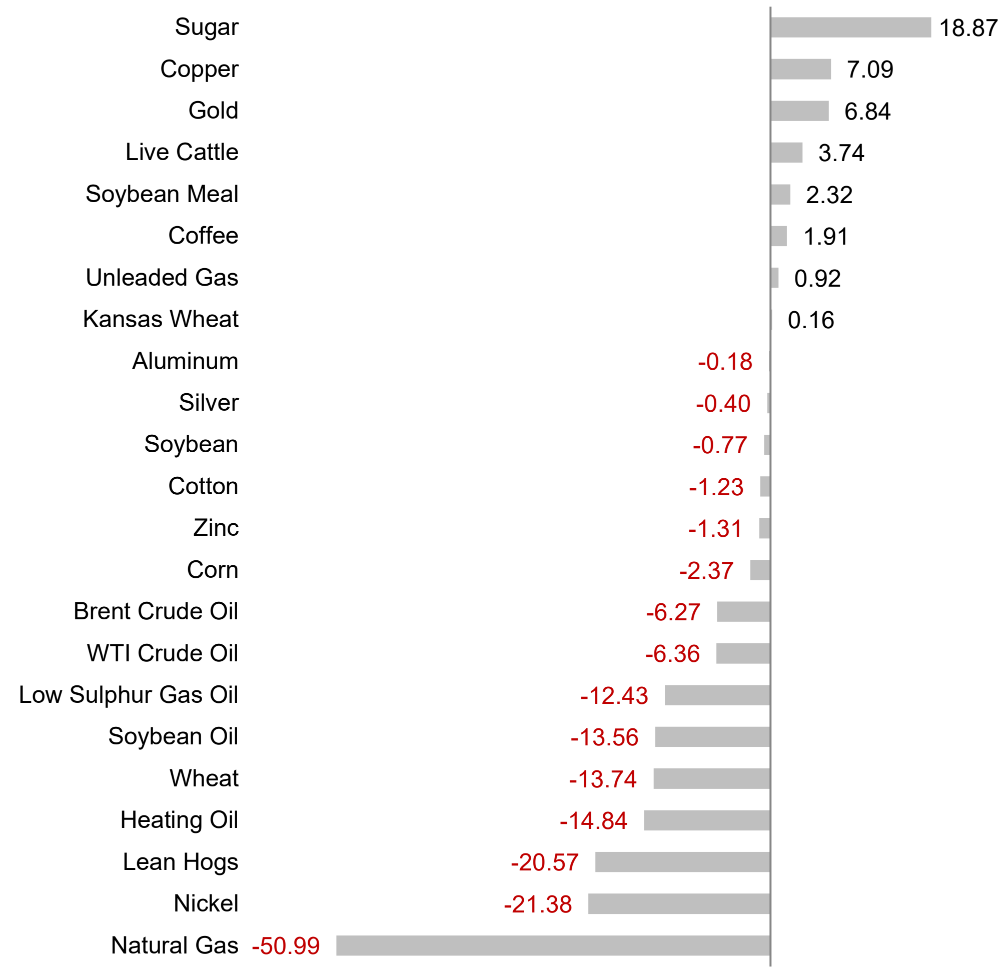
The Bloomberg Commodity Total Return Index returned -5.36% for the first quarter of 2023.

Natural Gas and Nickel were the worst performers, returning -50.99% and -21.38% during the quarter, respectively. Sugar and Copper were the best performers, returning +18.87% and +7.09% during the quarter, respectively.

Period Returns (%)

			Annualized		
Asset Class	QTR	1 Year	3 Years	5 Years	10 Years
Commodities	-5.36	-12.49	20.82	5.36	-1.72

Ranked Returns (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Fixed Income

First Quarter 2023 Index Returns

Within the US Treasury market during the first quarter of 2023, interest rates generally increased in the ultrashort-term segment and decreased in the short- to long-term segment.

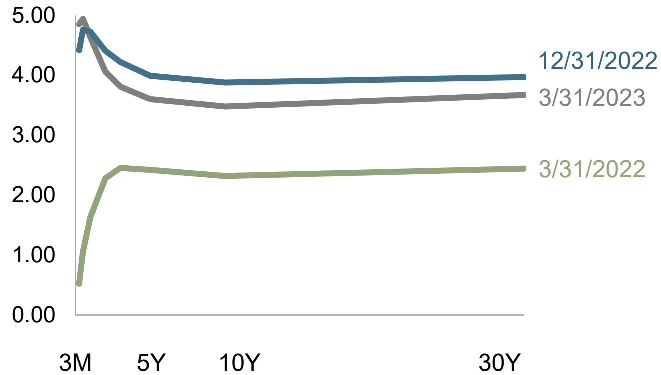
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 62 basis points (bps) to 4.74%, while the 1-Year US Treasury Bill yield decreased 9 bps to 4.64%. The yield on the 2-Year US Treasury Note decreased 35 bps to 4.06%.

The yield on the 5-Year US Treasury Note decreased 39 bps to 3.60%. The yield on the 10-Year US Treasury Note decreased 40 bps to 3.48%. The yield on the 30-Year US Treasury Bond decreased 30 bps to 3.67%.

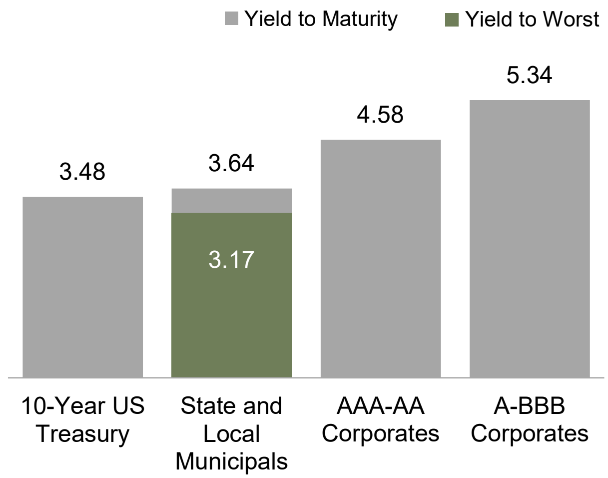
In terms of total returns, short-term US treasury bonds returned +1.87% while intermediate-term US treasury bonds returned +2.27%. Short-term corporate bonds returned +1.68% and intermediate-term corporate bonds returned +2.50%.[1]

The total returns for short- and intermediate-term municipal bonds were +1.37% and +2.35%, respectively. Within the municipal fixed income market, general obligation bonds returned +2.59% while revenue bonds returned +2.96%.[2]

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

Asset Class	QTR	1 Year	Annualized 3 Years	5 Years	10 Years
Bloomberg U.S. Government Bond Index Long	6.16	-15.94	-11.25	-0.36	1.44
Bloomberg U.S. High Yield Corporate Bond Index	3.57	-3.34	5.91	3.21	4.10
Bloomberg U.S. TIPS Index	3.34	-6.06	1.75	2.94	1.49
Bloomberg U.S. Aggregate Bond Index	2.96	-4.78	-2.77	0.91	1.36
Bloomberg Municipal Bond Index	2.78	0.26	0.35	2.03	2.38
FTSE World Government Bond Index 1-5 Years	2.08	-3.38	-1.99	-1.06	-0.71
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.81	-0.40	-0.89	1.06	1.14
ICE BofA 1-Year US Treasury Note Index	1.25	1.02	0.08	1.29	0.85
ICE BofA US 3-Month Treasury Bill Index	1.07	2.50	0.89	1.41	0.87

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg.

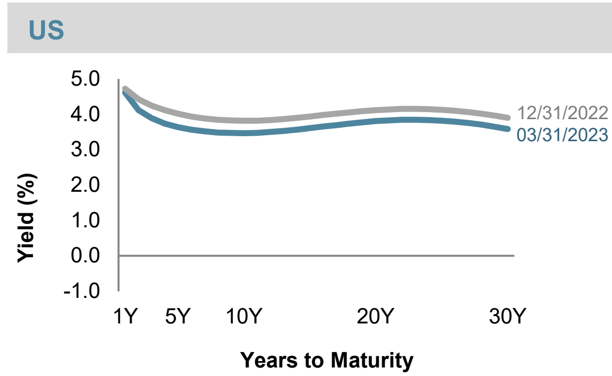
Global Fixed Income

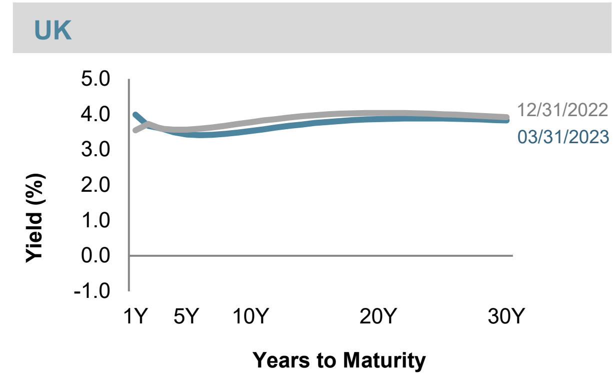
First Quarter 2023 Yield Curves

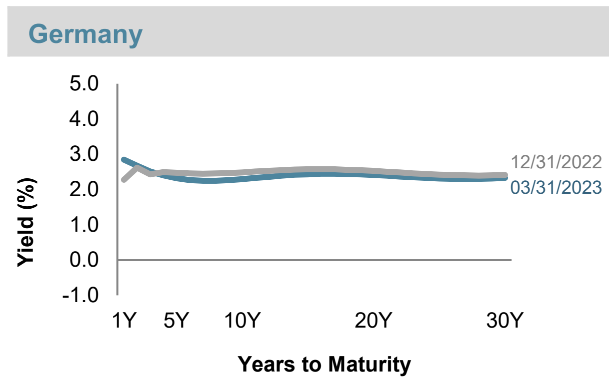
Except for ultrashort-term government bonds in the German and UK markets, interest rates generally decreased within global developed markets for the quarter.

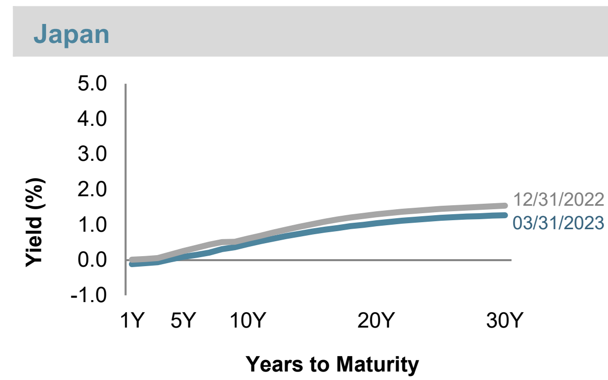
Realized term premiums were positive in global developed markets.

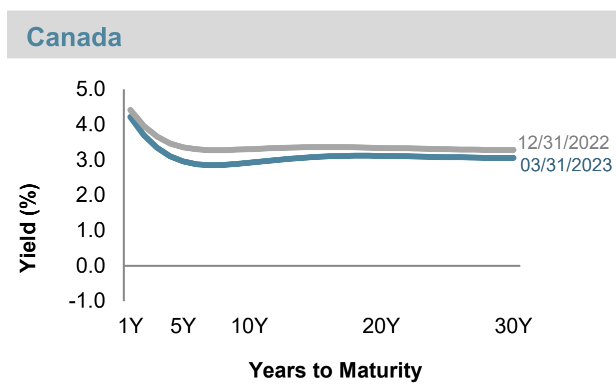
In Japan, ultrashort-term nominal interest rates were negative. In Germany, the UK, Canada, and Australia the short-term segment of the yield curve was inverted.

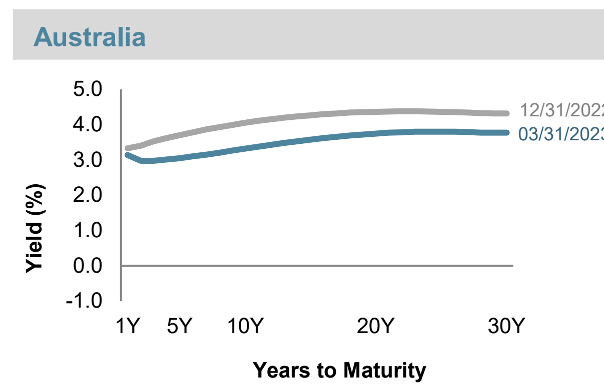












Changes in Yields (bps) since 12/31/2022

	1Y	5Y	10Y	20Y	30Y
US	-11.4	-37.9	-34.8	-31.3	-32.2
UK	44.6	-13.5	-24.6	-17.0	-8.8
Germany	56.9	-15.6	-19.5	-11.5	-8.0
Japan	-13.0	-15.9	-15.5	-25.7	-27.0
Canada	-20.3	-39.9	-38.8	-22.7	-22.5
Australia	-19.4	-65.3	-73.3	-61.7	-54.6

One basis point (bps) equals 0.01%. Source: ICE BofA government yield. ICE BofA index data © 2023 ICE Data Indices, LLC.

When Headlines Worry You, Bank on Investment Principles

First Quarter 2023 Dimensional Fund Advisors

On Friday, March 10, regulators took control of Silicon Valley Bank as a run on the bank unfolded. Two days later, regulators took control of a second lender, Signature Bank. With increasing anxiety, many investors are eyeing their portfolios for exposure to these and other regional banks.

Rather than rummaging through your portfolio looking for trouble when headlines make you anxious, turn instead to your investment plan. Hopefully, your plan is designed with your long-term goals in mind and is based on principles that you can stick with, given your personal risk tolerances. While every investor's plan is a bit different, ignoring headlines and focusing on the following time-tested principles may help you avoid making shortsighted missteps.

1. Uncertainty Is Unavoidable

Remember that uncertainty is nothing new and investing comes with risks. Consider the events of the last three years alone: a global pandemic, the Russian invasion of Ukraine, spiking inflation, and ongoing recession fears. In other words, it may have seemed as if there were plenty of reasons to panic. Despite these concerns, for the three years ending February 28, 2023, the Russell 3000 Index (a broad market-capitalization-weighted index of public US companies) returned an annualized 11.79%, slightly outpacing its average annualized returns of 11.65% since inception in January 1979. The past three years certainly make a case for weathering short-term ups and downs and sticking with your plan.

2. Market Timing Is Futile

Inevitably, when events turn bleak and headlines warn of worse to come, some investors' thoughts turn to market timing. The idea of using short-term strategies to avoid near-term pain without missing out on long-term gains is seductive, but research repeatedly demonstrates that timing strategies are not effective. The impact of miscalculating your timing strategy can far outweigh the perceived benefits.

3. "Diversification Is Your Buddy"

Nobel laureate Merton Miller famously used to say, "Diversification is your buddy." Thanks to financial innovations over the last century in the form of mutual funds, and later ETFs, most investors can access broadly diversified investment strategies at very low costs. While not all risks—including a systemic risk such as an economic recession—can be diversified away (see Principle 1 above), diversification is still an incredibly effective tool for reducing many risks investors face.

When Headlines Worry You, Bank on Investment Principles

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In particular, diversification can reduce the potential pain caused by the poor performance of a single company, industry, or country.[1] As of February 28, Silicon Valley Bank (SIVB) represented just 0.04% of the Russell 3000, while regional banks represented approximately 1.70%.[2] For investors with globally diversified portfolios, exposure to SIVB and other US-based regional banks likely was significantly smaller. If buddying up with diversification is part of your investment plan, headline moments can help drive home the long-term benefits of your approach.

When the unexpected happens, many investors feel like they should be doing something with their portfolios. Often, headlines and pundits stoke these sentiments with predictions of more doom and gloom. For the long-term investor, however, planning for what can happen is far more powerful than trying to predict what will happen.

1. Consider that a study of single stock performance in the US from 1927 to 2020 illustrated that the survival of any given stock is far from guaranteed. The study found that on average for 20-year rolling periods, about 18% of US stocks went through a "bad" delisting. The authors note that delisting events can be "good" or "bad" depending on the experience for investors. For example, a stock delisting due to a merger would be a good delist, as the shareholders of that stock would be compensated during the acquisition. On the other hand, a firm that delists due to its deteriorating financial condition would be a bad delist since it is an adverse outcome for investors. Given these results, there is a good case to avoid concentrated exposure to a single company. Source: "Singled Out: Historical Performance of Individual Stocks" (Dimensional Fund Advisors, 2022).
2. Regional banks weight reflects the weight of the "Regional Banks" GICS Sub-Industry. GICS was developed by and is the exclusive property of MSCI and S&P Dow Jones Indices LLC, a division of S&P Global.