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Investment Planning Services

Chart of the Week – January 30

State Farm Investment Management (SFIM)

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Chart of the Week

Financial Markets Look to Rebound after Challenging 2022

Worst year for U.S. Bonds		
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%
Average	**-2.6%**	**6.2%**

7th worst year for U.S. Stocks		
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%
Average	**-24.5%**	**4.9%**

- Looking back, 2022 was a historically challenging year for both equity and bond asset classes due to evolving COVID variants, escalating geopolitical tensions, an invasion of Ukraine that disrupted global energy markets, and the Federal Reserve taking aggressive actions to tame high prices. To accomplish this, the central bank launched hawkish policies to battle record levels of inflation not seen in over 40 years. The Fed's first rate hike (of 0.25%) that occurred in March was followed by six (6) more throughout the year, including four (4) consecutive 0.75% increases between June and November. As a result, U.S. bonds experienced their worst annual return on record going back to 1926 while U.S. stocks logged their 7th worst year ever.

- Turning to 2023, early signs of optimism are beginning to emerge. Year-to-date, the S&P 500 Index has returned 6.11% while the U.S. Aggregate Bond Index is up 2.99%. Historically speaking, both equity and bond markets tend to provide attractive returns after difficult years, as illustrated above. Evidence of moderating inflation and comments from Fed officials indicating that they will likely further slow the pace of their interest-rate increases has helped to calm the markets. Even as investors have ratcheted down their interest-rate forecasts, market-based measures of inflation expectations have remained stable. Those gauges currently suggest it will take mere months for consumer-price increases to slow to an annual pace around the Fed's 2% target, down from the current rate of 6.5%. Nevertheless, central bank policymakers have hardly declared victory over inflation as they continue to worry about continued tightness in the labor market.

- While the Fed is taking ambitious steps to control high prices, it will be important to monitor inflationary developments to determine how this may influence future monetary policy decisions. With the central bank continuing to maintain its aggressive stance towards combatting inflation, the current environment of higher borrowing costs is expected to remain for now. As consumers navigate this new era, a well-diversified portfolio can help ensure investors remain on track to meet their long-term goals.

U.S. bonds represented by the IA SBBI 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 IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57 and the S&P 500 Index from 3/4/57 to 12/31/22.

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