

Q2

Quarterly Market Review

Second Quarter 2023

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This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

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Quarterly Market Commentary

Second Quarter 2023 – July 18, 2023

Recent numbers are now in, with good news to share: With financial analysts describing a “gravity-defying” “monster rally” across major market indices, most disciplined investors have been richly rewarded for sticking with their appropriate investment allocations.

Even had quarterly and year-to-date numbers not been so sweet, we would have advised you to remain invested as planned anyway. The same can be said for whatever the rest of the year has in store. We know markets have delivered positive returns over time, but we never know what they’ll do from one quarter to the next.

So, let’s celebrate the current surge! While you’re at it, keep some of today’s positive energy with you, for next time you may question your resolve. Because, despite the folly of forecasting, the 24x7 newsfeeds are forever planting fresh seeds of doubt in our fertile minds.

The quarter just ended was no exception to this rule. We entered it in the aftermath of the Silicon Valley Bank collapse and the threats posed to our larger banking system. These events were soon followed by political brinksmanship over U.S. government debt. Then there were the wider, geopolitical concerns of the day, with ample news coverage stoking a bonfire of “*what if?*” anxieties at every turn. It’s human nature to feel real alarm over real financial threats as they play out. Any of them can generate very different quarter-end numbers. We were lucky they did not.

But that doesn’t mean we should abandon our long-term focus in reaction to near-term news. An evidence-based investor is wise to expect global human

enterprise to generate satisfying market returns over time, even as we fortify ourselves for those fewer times when it does not. As *Fortunes & Frictions* author Rubin Miller, CFA describes in “[How Returns Happen](#)”:

“[I]f we don’t know which days will be good and which days will be bad, and the stock market goes up over time, the recipe for success is obvious.”

Just as Miller suggests, we believe investors are best served by building decent portfolios, sticking with them through hot and cold quarters, and waiting for the returns to come in “Field of Dreams” fashion, even when they’re not imminently in sight.

Speaking of visionary thinking, there is recent, less-heralded news we would like to cover today: On June 22, Nobel laureate and Father of Modern Portfolio Theory Harry Markowitz passed away at age 95.

It’s well worth hitting pause to reflect on Professor Markowitz’s larger-than-life contributions to the science of investing. Today, we understand why a whole portfolio can generate more manageable outcomes than its parts. Why we build investment portfolios out of various sources of expected returns, rather than trying to pick the next big winners or dodge current losers. Why we turn to diversification instead of market-timing to manage investment risks.

When Markowitz published “Portfolio Selection” in the March 1952 *Journal of Finance*, none of these insights existed. The only way to invest was to pick individual stocks, with no idea how each selection might interact with others. The

only way to (supposedly) manage market risks was to try to outsmart the market. There was no ability to measure overall returns or compare them to other strategies you might have tried instead. There were no other strategies.

Imagine that. In a very real sense, this is the impact Markowitz’s body of work has had on you, your money, and your ability to manage the investment risks we still face today.

Markowitz did not single-handedly discover evidence-based investing. The quest is ongoing, and never-ending. But he was monumental in laying the groundwork for the advances we’ve achieved to date. And, although “Portfolio Selection” was published when he was just 24 years old, it wasn’t Markowitz’s final contributions to myriad fields calling for rigorous risk/reward analyses. In a 2010 *Journal of Financial Planning*, Markowitz commented on his lifelong career:

“I have friends who keep telling me that I should retire, and I can’t. I’m just having too much fun. And I want to have an income stream, because I’ve got four offices and three of them have bookcases in them. What would I do with all my books if I closed them down?”

So, here’s to you, Professor Markowitz. Wherever you are now, we hope there are lots of shelves.

Regards,

Eric Hutchens



President & Chief Investment Officer
Allodium Investment Consultants

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
Q2 2023	STOCKS				BONDS	
	8.39%	3.03%	0.90%	0.71%	-0.84%	0.73%
						
Since Jan. 2001						
Average Quarterly Return	2.3%	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]). S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. 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. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

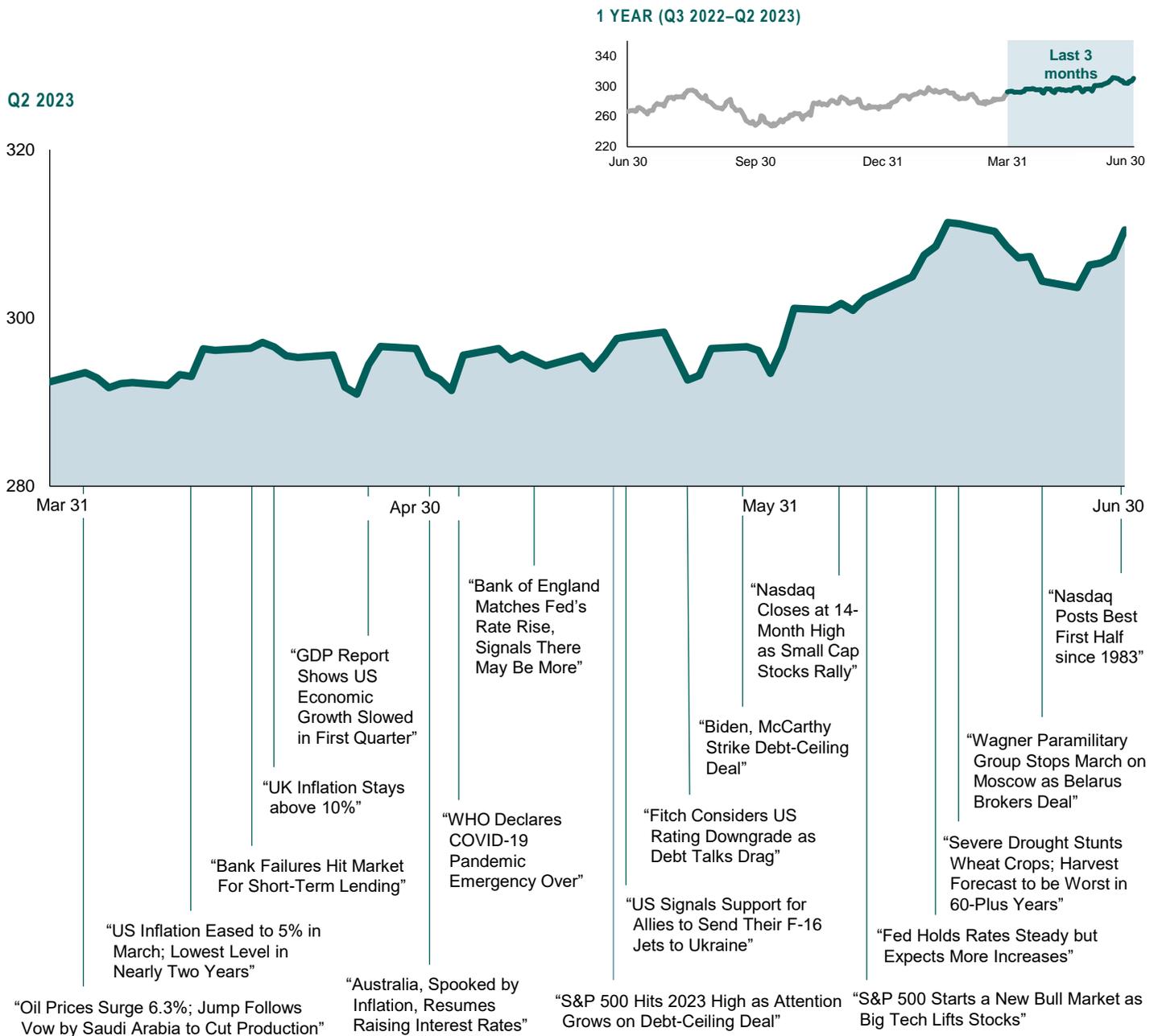
Index returns as of June 30, 2023

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS			BONDS		
	18.95%	17.41%	1.75%	-3.02%	-0.94%	1.51%
						
5 Years						
	11.39%	4.58%	0.93%	1.35%	0.77%	0.95%
						
10 Years						
	12.34%	5.40%	2.95%	3.80%	1.52%	2.48%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2023

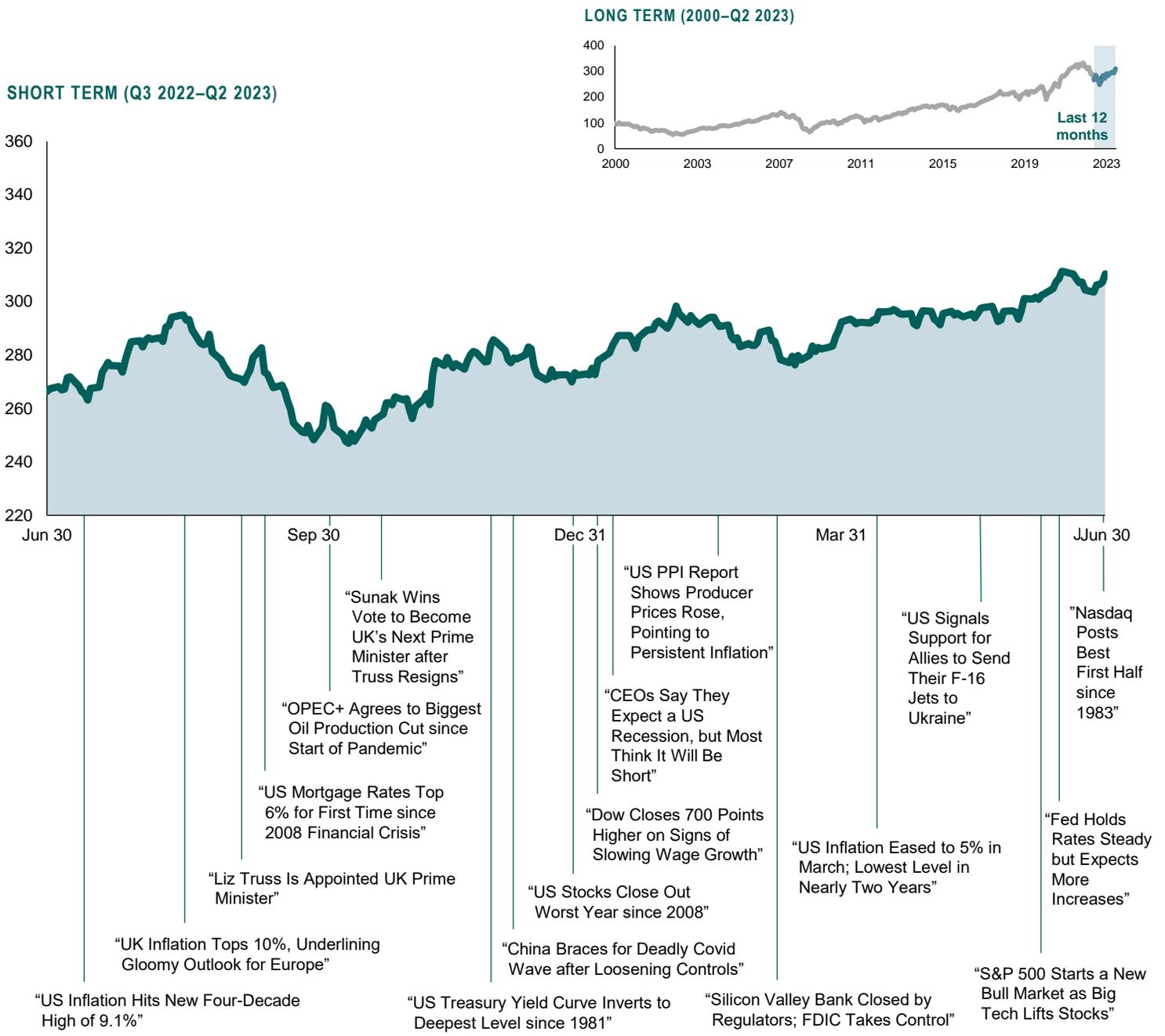


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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. 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.

US Stocks

Second quarter 2023 index returns

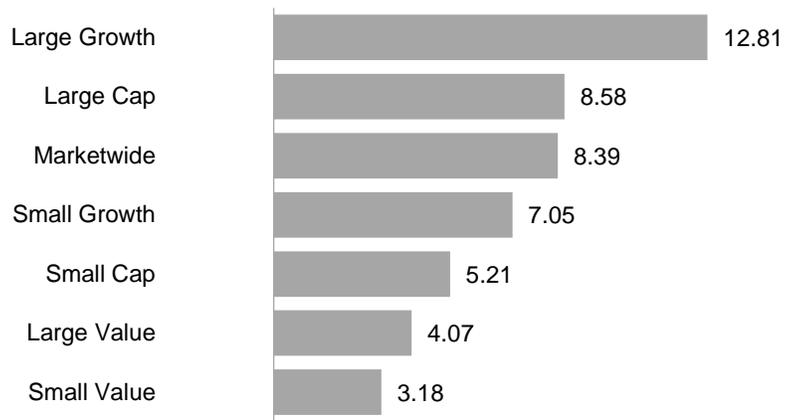
The US equity market posted positive returns for the quarter and outperformed both non-US developed and emerging markets.

Value underperformed growth.

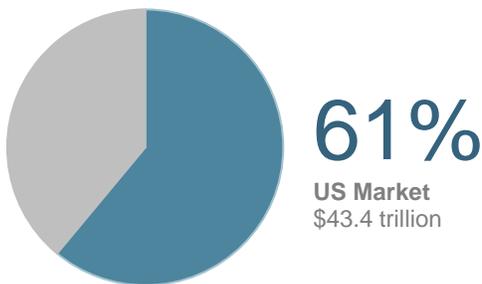
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Large Growth	12.81	29.02	27.11	13.73	15.14	15.74
Large Cap	8.58	16.68	19.36	14.09	11.92	12.64
Marketwide	8.39	16.17	18.95	13.89	11.39	12.34
Small Growth	7.05	13.55	18.53	6.10	4.22	8.83
Small Cap	5.21	8.09	12.31	10.82	4.21	8.26
Large Value	4.07	5.12	11.54	14.30	8.11	9.22
Small Value	3.18	2.50	6.01	15.43	3.54	7.29

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International Developed Stocks

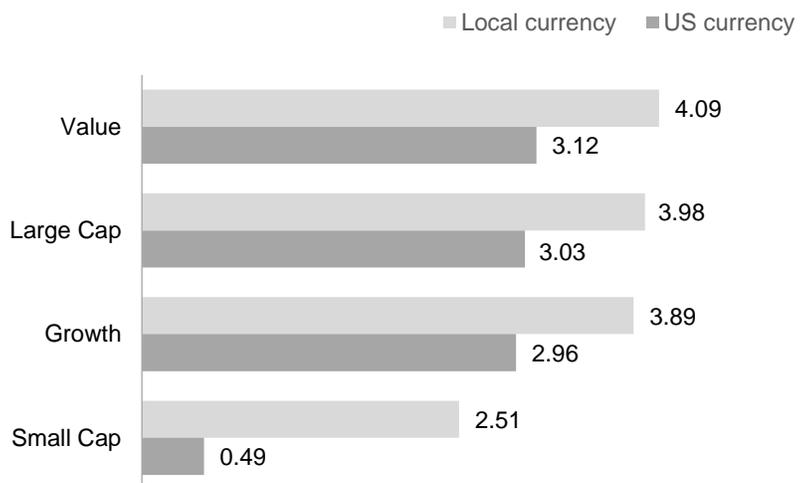
Second quarter 2023 index returns

Developed markets outside of the US posted positive returns for the quarter and underperformed the US market, but outperformed emerging markets.

Value outperformed growth.

Small caps underperformed large caps.

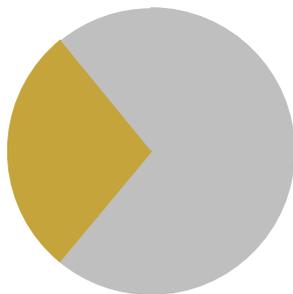
Ranked Returns (%)



World Market Capitalization— International Developed

28%

International
Developed Market
\$20.0 trillion



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Value	3.12	8.92	15.49	12.07	3.24	4.25
Large Cap	3.03	11.29	17.41	9.30	4.58	5.40
Growth	2.96	13.76	19.4	6.24	5.46	6.28
Small Cap	0.49	5.50	10.05	6.42	1.83	5.97

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Emerging Markets Stocks

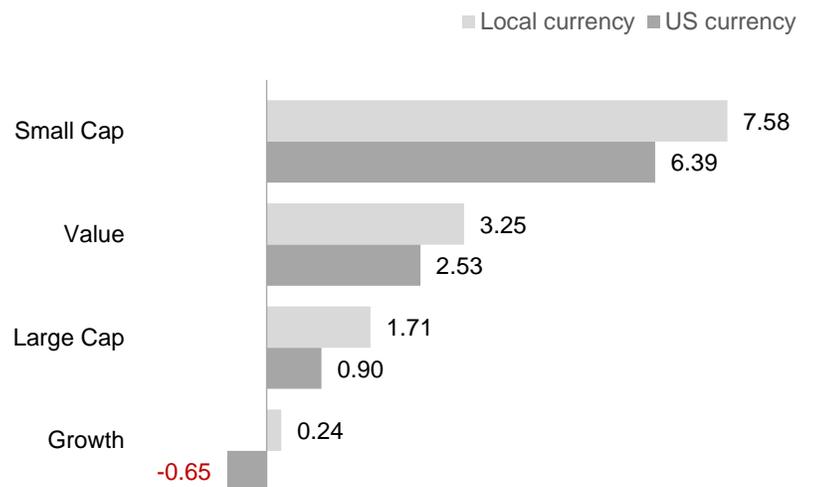
Second quarter 2023 index returns

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

Value outperformed growth.

Small caps outperformed large caps.

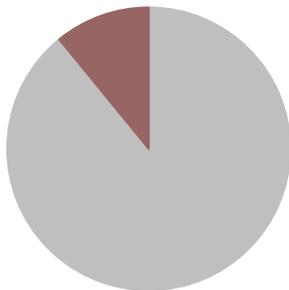
Ranked Returns (%)



World Market Capitalization— Emerging Markets

11%

Emerging
Markets
\$7.8 trillion



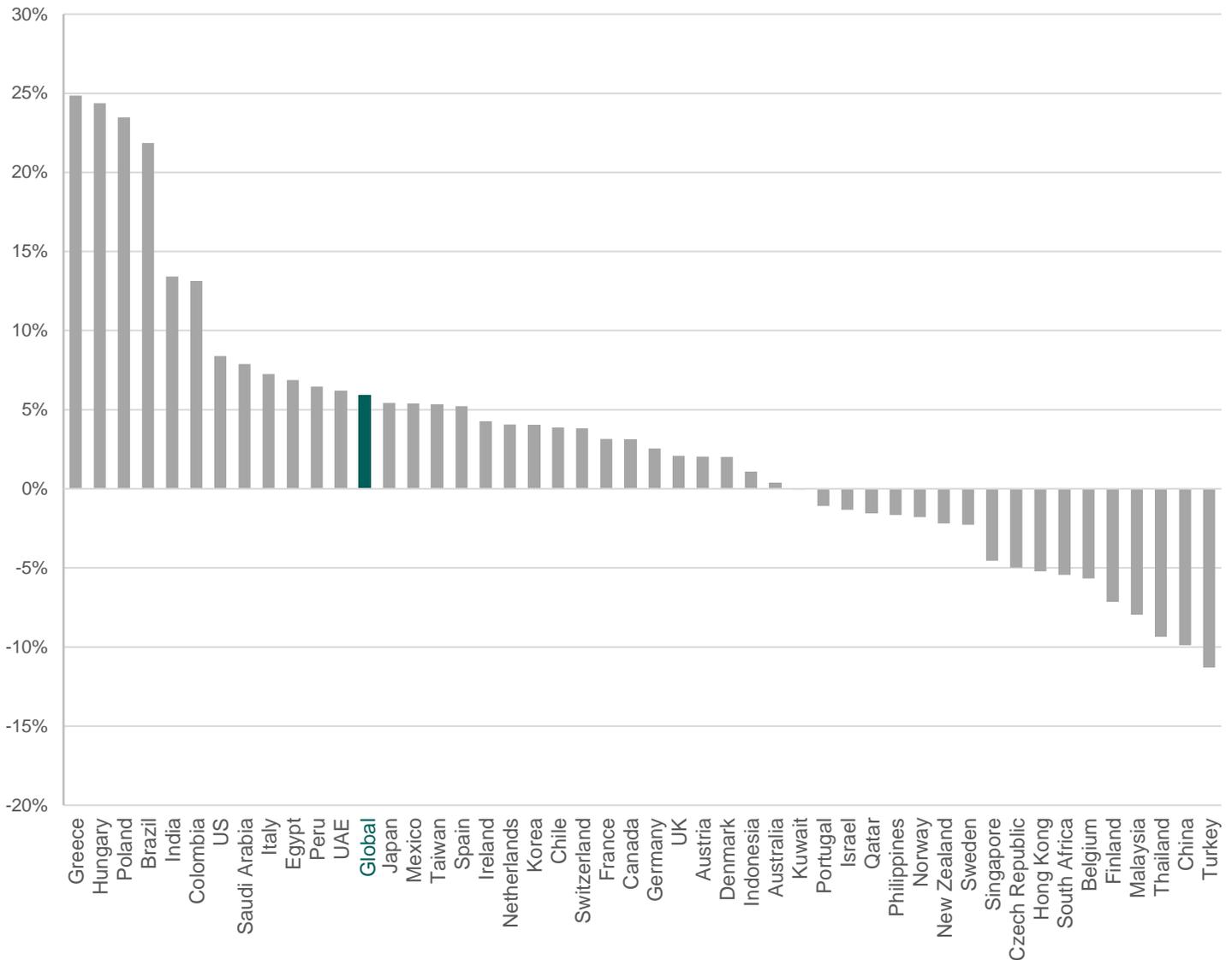
Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Small Cap	6.39	10.50	13.28	13.72	4.93	4.63
Value	2.53	6.53	4.13	6.27	1.22	1.99
Large Cap	0.90	4.89	1.75	2.32	0.93	2.95
Growth	-0.65	3.32	-0.45	-1.36	0.53	3.79

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Country Returns

Second 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. MSCI data © MSCI 2023, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes.

Real Estate Investment Trusts (REITs)

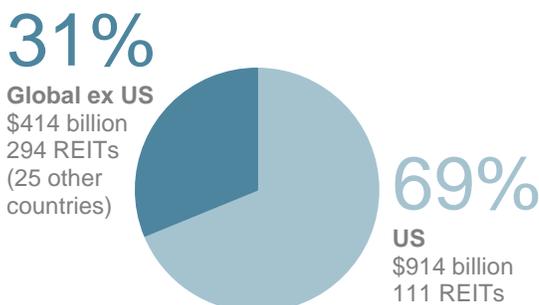
Second quarter 2023 index returns

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

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
US REITS	2.92	5.77	-0.69	9.17	3.28	5.75
Global ex US REITS	-2.98	-3.85	-7.02	0.31	-2.61	1.36

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. All rights reserved.

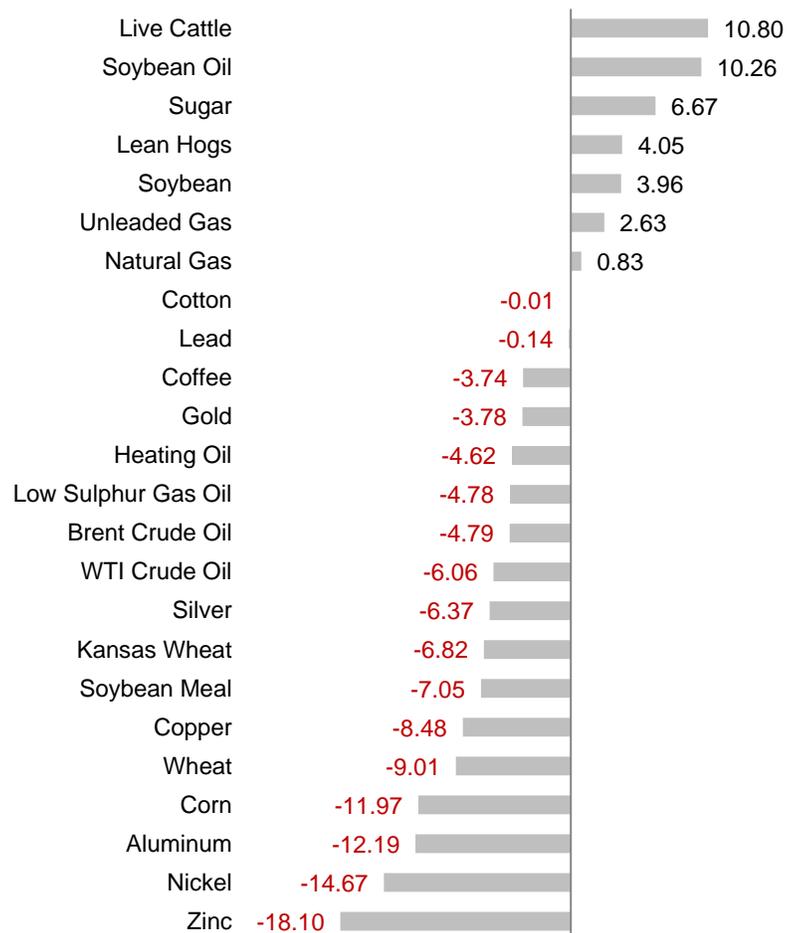
Commodities

Second quarter 2023 index returns

The Bloomberg Commodity Total Return Index returned -2.56% for the second quarter of 2023.

Zinc and Nickel were the worst performers, returning -18.10% and -14.67% during the quarter, respectively. Live Cattle and Soybean Oil were the best performers, returning +10.80% and +10.26% during the quarter, respectively.

Ranked Returns (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Commodities	-2.56	-7.79	-9.61	17.82	4.73	-0.99

Fixed Income

Second quarter 2023 index returns

Interest rates increased across all bond maturities in the US Treasury market for the quarter.

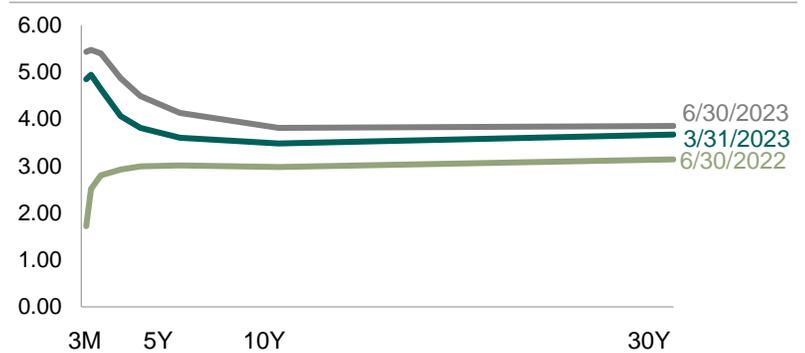
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 50 basis points (bps) to 5.24%, while the 1-Year US Treasury Bill yield increased 76 bps to 5.40%. The yield on the 2-Year US Treasury Note increased 81 bps to 4.87%.

The yield on the 5-Year US Treasury Note increased 53 bps to 4.13%. The yield on the 10-Year US Treasury Note increased 33 bps to 3.81%. The yield on the 30-Year US Treasury Bond increased 18 bps to 3.85%.

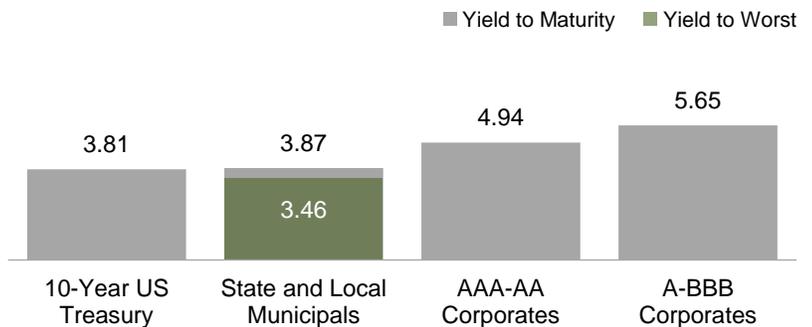
In terms of total returns, short-term US treasury bonds returned -0.90% while intermediate-term US treasury bonds returned -1.15%. Short-term corporate bonds returned +0.07% and intermediate-term corporate bonds returned -0.16%.¹

The total returns for short- and intermediate-term municipal bonds were -0.37% and -0.72%, respectively. Within the municipal fixed income market, general obligation bonds returned -0.41% while revenue bonds returned +0.04%.²

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Bloomberg U.S. High Yield Corporate Bond Index	1.75	5.38	9.06	3.13	3.36	4.43
ICE BofA US 3-Month Treasury Bill Index	1.17	2.25	3.59	1.27	1.55	0.98
ICE BofA 1-Year US Treasury Note Index	0.42	1.67	1.93	0.23	1.30	0.89
Bloomberg Municipal Bond Index	-0.10	2.67	3.19	-0.58	1.84	2.68
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-0.27	1.53	0.28	-1.15	0.95	1.14
Bloomberg U.S. Aggregate Bond Index	-0.84	2.09	-0.94	-3.96	0.77	1.52
FTSE World Government Bond Index 1-5 Years	-1.19	0.87	-0.27	-2.84	-0.77	-0.67
Bloomberg U.S. TIPS Index	-1.42	1.87	-1.40	-0.12	2.49	2.08
Bloomberg U.S. Government Bond Index Long	-2.29	3.73	-6.79	-12.02	-0.88	1.81

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. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2023 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2023 ICE Data Indices, LLC. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.

Global Fixed Income

Second quarter 2023 yield curves

With the exception of Japan, interest rates generally increased across global developed markets for the quarter.

Realized term premiums were broadly negative across global developed markets.

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

Changes in Yields (bps) since 03/31/2023

	1Y	5Y	10Y	20Y	30Y
US	79.6	53.1	32.5	23.9	18.1
UK	138.7	127.0	90.6	64.2	56.6
Germany	54.3	22.2	9.4	4.0	3.8
Japan	-1.0	-3.0	-1.8	-3.3	-1.3
Canada	72.1	63.3	36.3	8.9	6.1
Australia	118.9	92.6	72.3	57.1	54.9

