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Dynamic Market Update: The Market's 2023 New Year Resolutions

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What's the market hoping for in 2023?

The market had a lot of problems in 2022 and is looking for some resolutions to come in 2023.

As per the performance table below, "Stock Market, Bond Market and 60/40 Portfolio," there were few places for investors to hide in 2022. Perhaps the following resolutions could help us reverse this trend in the new year:

1. **Moderated Interest Rates:** While rates may remain elevated, the hope is that the frequency and size of hikes will come down and we'll establish a level in which everyone is comfortable.
2. **Lower Inflation:** It's a relative game. Inflation may persist but directionally, should continue to move lower as the heightened interest rates slow things down.
3. **Improved Supply Chains:** Consumer demand is still strong, and production lines continue to improve and expand to supply those goods and services.
4. **Decreased Pandemic Cases:** COVID is still an issue across the globe, but just like in the U.S., it will continue to get better with time.
5. **Resolved Geopolitical Conflict:** At this point, just about any favorable sentiment from the Russia/Ukraine conflict with be beneficial for global markets and economies.

BONUS: No Recession. The job market remains strong, the housing market has settled down, the Fed is cautious in its approach with interest rates and consumers are still spending money. These signs point to a potential of a "soft-landing" in which the Fed puts out the fire of high inflation without creating a drought for the economy.

Forget 2022 and look to the future

2022 was truly a remarkable year. Remarkably terrible for the markets, that is. We know it's rare for stocks and bonds to fall together, but to fall by the magnitude that we experienced in 2022 has never been seen before.

Given the cyclicality in the markets, it's unlikely that we'll see this performance continue for too long, and we may see bright skies ahead. If nothing else, the power of diversification, and the relationship between stocks and bonds, should start to revert back to normal.

But to see how truly unique 2022 was, let's take a look at annual returns for stocks and bonds, dating back to 1928. Here are some fun stats from the data:

1. **Stocks and bonds were both down in only five calendar years. (1931, 1941, 1969, 2018, 2022)**

2. **Stocks and bonds were both down more than 10% in only one year! (2022)**

3. **Stocks had their fifth largest loss in history. (1931, 2008, 1937, 1774, 2002)**

4. **Bonds had their worst year in history. (2022, 16.5%)**

5. **The 60/40 had its third worst year in history, and the other two were in the '30s. (1931, 1937, 2022)**

Again, these numbers from 2022 are truly unprecedented and we're looking forward to more normalcy in the future.

Stock Market, Bond Market and 60/40 Portfolio
Annual Returns 1928-2022

S&P 500, US 10-Year Treasury, and 60/40 Portfolio (Total Returns, 1928 - 2022)

Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40
1928	43.8%	0.8%	26.6%	1947	5.2%	0.9%	3.5%	1966	-10.0%	2.9%	-4.8%	1985	31.2%	25.7%	29.0%	2004	10.9%	4.5%	8.3%
1929	-8.3%	4.2%	-3.3%	1948	5.7%	2.0%	4.2%	1967	23.8%	-1.6%	13.6%	1986	18.5%	24.3%	20.8%	2005	4.9%	2.9%	4.1%
1930	-25.1%	4.5%	-13.3%	1949	18.3%	4.7%	12.8%	1968	10.8%	3.3%	7.8%	1987	5.8%	-5.0%	1.5%	2006	15.8%	2.0%	10.3%
1931	-43.8%	-2.6%	-27.3%	1950	30.8%	0.4%	18.7%	1969	-8.2%	-5.0%	-7.0%	1988	16.6%	8.2%	13.3%	2007	5.5%	10.2%	7.4%
1932	-8.6%	8.8%	-1.7%	1951	23.7%	-0.3%	14.1%	1970	3.6%	16.8%	8.8%	1989	31.7%	17.7%	26.1%	2008	-37.0%	20.1%	-14.2%
1933	50.0%	1.9%	30.7%	1952	18.2%	2.3%	11.8%	1971	14.2%	9.8%	12.4%	1990	-3.1%	6.2%	0.6%	2009	26.5%	-11.1%	11.4%
1934	-1.2%	8.0%	2.5%	1953	-1.2%	4.1%	0.9%	1972	18.8%	2.8%	12.4%	1991	30.5%	15.0%	24.3%	2010	15.1%	8.5%	12.4%
1935	46.7%	4.5%	29.8%	1954	52.6%	3.3%	32.9%	1973	-14.3%	3.7%	-7.1%	1992	7.6%	9.4%	8.3%	2011	2.1%	16.0%	7.7%
1936	31.9%	5.0%	21.2%	1955	32.6%	-1.3%	19.0%	1974	-25.9%	2.0%	-14.7%	1993	10.1%	14.2%	11.7%	2012	16.0%	3.0%	10.8%
1937	-35.3%	1.4%	-20.7%	1956	7.4%	-2.3%	3.6%	1975	37.0%	3.6%	23.6%	1994	1.3%	-8.0%	-2.4%	2013	32.4%	-9.1%	15.8%
1938	29.3%	4.2%	19.3%	1957	-10.5%	6.8%	-3.6%	1976	23.8%	16.0%	20.7%	1995	37.6%	23.5%	31.9%	2014	13.7%	10.7%	12.5%
1939	-1.1%	4.4%	1.1%	1958	43.7%	-2.1%	25.4%	1977	-7.0%	1.3%	-3.7%	1996	23.0%	1.4%	14.3%	2015	1.4%	1.3%	1.3%
1940	-10.7%	5.4%	-4.2%	1959	12.1%	-2.6%	6.2%	1978	6.5%	-0.8%	3.6%	1997	33.4%	9.9%	24.0%	2016	12.0%	0.7%	7.5%
1941	-12.8%	-2.0%	-8.5%	1960	0.3%	11.6%	4.9%	1979	18.5%	0.7%	11.4%	1998	28.6%	14.9%	23.1%	2017	21.8%	2.8%	14.2%
1942	19.2%	2.3%	12.4%	1961	26.6%	2.1%	16.8%	1980	31.7%	-3.0%	17.8%	1999	21.0%	-8.3%	9.3%	2018	-4.4%	0.0%	-2.6%
1943	25.1%	2.5%	16.0%	1962	-8.8%	5.7%	-3.0%	1981	-4.7%	8.2%	0.5%	2000	-9.1%	16.7%	1.2%	2019	31.5%	9.6%	22.7%
1944	19.0%	2.6%	12.4%	1963	22.6%	1.7%	14.2%	1982	20.4%	32.8%	25.4%	2001	-11.9%	5.6%	-4.9%	2020	18.4%	11.3%	15.6%
1945	35.8%	3.8%	23.0%	1964	16.4%	3.7%	11.3%	1983	22.3%	3.2%	14.7%	2002	-22.1%	15.1%	-7.2%	2021	28.7%	-4.4%	15.5%
1946	-8.4%	3.1%	-3.8%	1965	12.4%	0.7%	7.7%	1984	6.1%	13.7%	9.2%	2003	28.7%	0.4%	17.4%	2022	-18.1%	-16.5%	-17.5%

@CharlieBilello *As of 12/31/22

Source: Charlie Bilello, as of 12/31/22. Past performance is no guarantee of future results.

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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