



QUARTERLY MARKET REVIEW • RETROSPECTIVE

Fourth Quarter 2022

Stocks rebounded as inflation began to cool, but 2022 still ended as the stock market's worst calendar year since 2008.

Data as of December 31, 2022 | Retrospective review prepared October 2026
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THE QUARTER AT A GLANCE

A fourth-quarter rebound capped a difficult year

+7.1%**S&P 500**

Price return for the quarter, its first quarterly gain of 2022

-19.4%**S&P 500, FULL YEAR**

Price return for 2022, the worst calendar year since 2008

4.25%–4.50%**FED FUNDS TARGET**

After the Dec. 14 increase, the seventh of the year

7.1%**INFLATION (CPI)**

November, year over year, down from 9.1% in June

01**Stocks bounced off their lows.**

After hitting a 2022 low on October 12, the S&P; 500 rose about 7% for the quarter, led by more established, dividend-paying companies.

02**The Fed began to slow down.**

After four straight three-quarter-point increases, the Fed raised rates by a half point in December, signaling that the pace of increases was easing.

03**Inflation turned a corner.**

Overall inflation fell for five straight months, from 9.1% in June to 7.1% in November.

U.S. STOCKS

Stocks rebounded in the fourth quarter, but 2022 was a tough year

The S&P; 500 gained 7.1% in the fourth quarter, its first quarterly gain of the year. The Dow Jones Industrial Average did even better, rising 15.4%, while the technology-heavy Nasdaq slipped 1.0%.

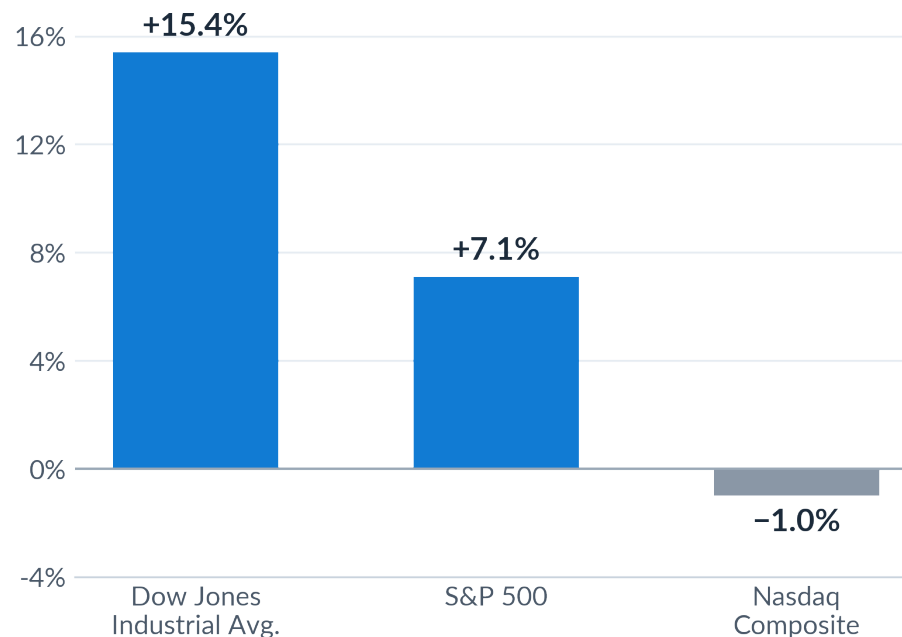
The gap reflected a shift in what investors rewarded. With interest rates higher, they favored established companies with steady profits and dividends, which make up more of the Dow, over fast-growing technology companies whose values depend more on profits expected far in the future.

For the full year, the S&P; 500 fell 19.4%, its worst year since 2008. The Nasdaq fell 33.1% and the Dow fell 8.8%.

WHY IT MATTERS

Years like 2022 show why diversification matters. Different parts of the market can behave very differently in the same environment, and no single group leads every year.

Fourth-quarter price returns, major U.S. indexes



Source: S&P Dow Jones Indices; Nasdaq. Price returns, September 30 to December 30, 2022. Indexes are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

INTEREST RATES AND THE FED

The Fed raised rates seven times in 2022

The Federal Reserve raised its benchmark rate by three-quarters of a point in November and by a half point in December, ending the year at 4.25% to 4.50%. That made seven increases in 2022, taking the rate from near zero to its highest level since 2007.

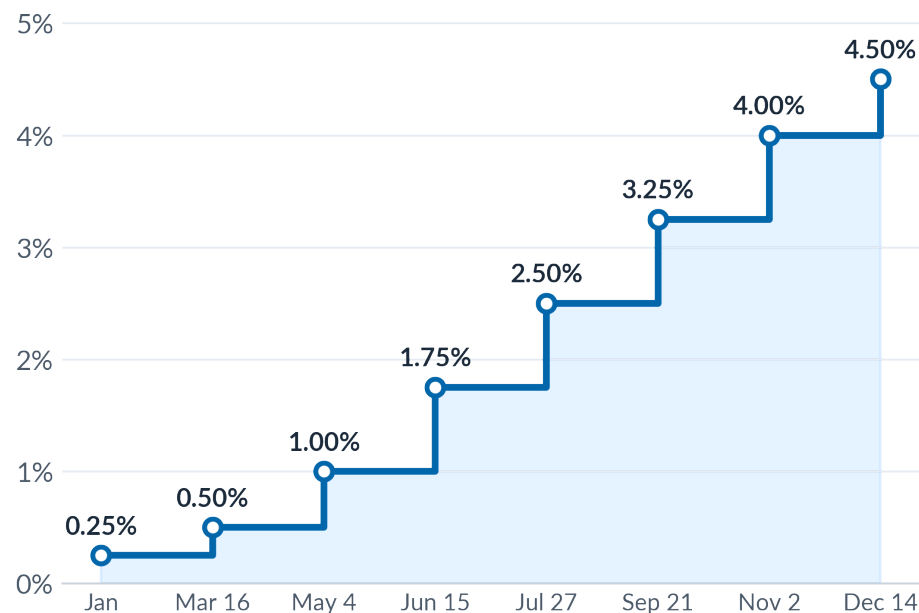
The 10-year Treasury yield rose above 4% in October before easing back, ending the year at 3.88%, compared with 1.51% at the start of the year. Rising rates made 2022 one of the worst years on record for bonds.

By year-end, short-term Treasury yields were higher than long-term yields. Investors watch this pattern, called an inverted yield curve, as a possible recession warning.

WHY IT MATTERS

The rapid rise in rates was painful for bond prices in 2022, but it reset yields to their highest levels in more than a decade, giving bond investors more income going forward.

Federal funds target rate (upper bound), 2022



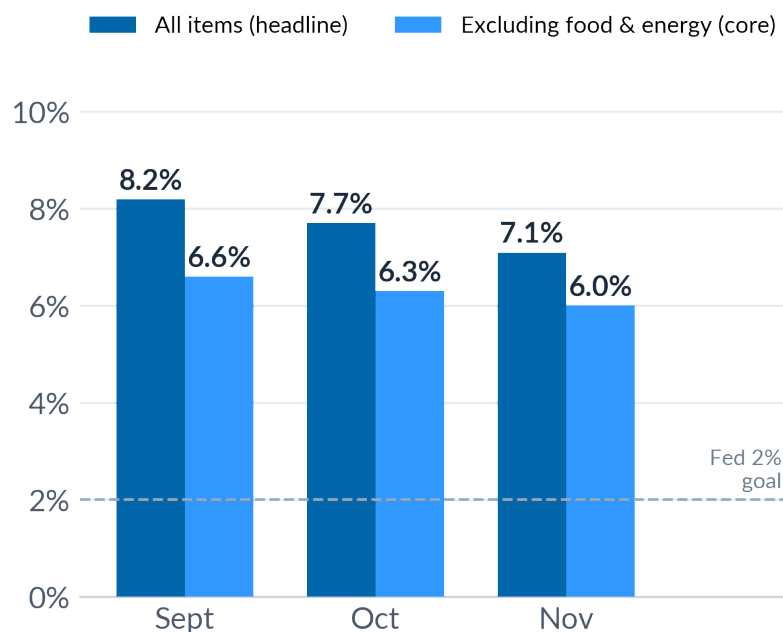
Source: Board of Governors of the Federal Reserve System, FOMC statements. Upper bound of the target range after each change.

INFLATION AND OIL

Inflation began to cool as energy prices came down

Inflation remained high but moved in the right direction. Overall consumer prices rose 7.1% in the year through November, down from 9.1% in June. Core inflation, which leaves out food and energy, peaked at 6.6% in September and eased to 6.0% by November.

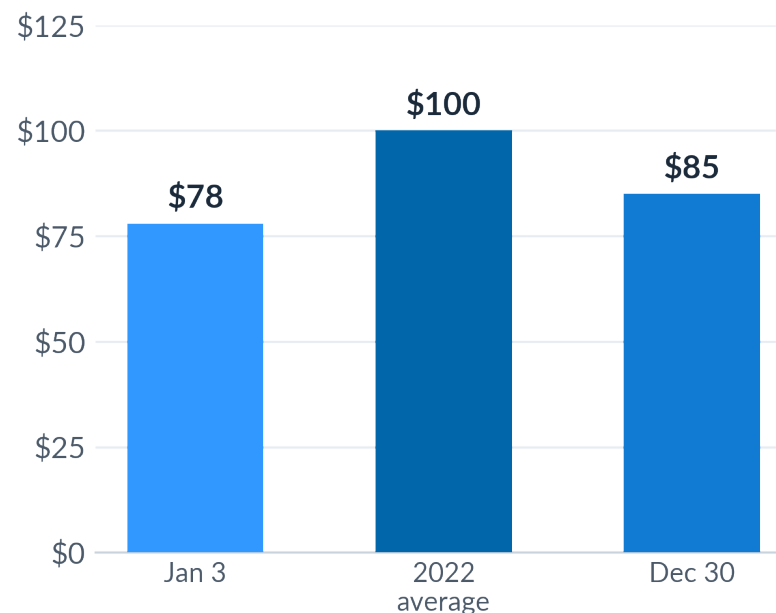
Consumer price inflation, year over year, 2022



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

Energy prices helped. Brent crude averaged about \$100 a barrel in 2022, surging in the first half after Russia's invasion of Ukraine and generally declining from June onward as recession worries reduced demand. It ended the year near \$85, after touching its 2022 low of about \$75 in early December.

Brent crude oil spot price, dollars per barrel, 2022



Source: U.S. Energy Information Administration. Daily Brent spot prices; center bar is the 2022 average.

LOOKING BACK

What came next

A strong 2023 for stocks

The S&P; 500 gained about 24% in 2023, recovering much of 2022's decline.

Inflation kept cooling

Overall inflation fell to 3.4% by December 2023, though it remained above the Fed's 2% goal.

Rates peaked in mid-2023

The Fed raised rates four more times in 2023, reaching 5.25%–5.50% in July, then held steady.

The economy kept growing

Despite widespread recession forecasts and an inverted yield curve, the U.S. economy kept growing through 2023.

KEEPING PERSPECTIVE

2022 was a rare year in which stocks and bonds fell together. Investors who stayed with a diversified plan were positioned to take part when markets recovered, while those who moved to the sidelines faced the hard question of when to return. Past performance is not a guarantee of future results.

IMPORTANT INFORMATION

Definitions, sources, and disclosures

Definitions. The S&P 500 tracks 500 large U.S. companies. The Nasdaq Composite includes more than 3,000 stocks listed on the Nasdaq exchange and is weighted toward technology. The Dow Jones Industrial Average tracks 30 large U.S. companies. The 10-year Treasury yield is the annual return on a 10-year U.S. government bond held to maturity. The Consumer Price Index (CPI) measures changes in prices paid by urban consumers; core CPI excludes food and energy. Brent crude is the main global benchmark for oil prices. The federal funds rate is the Federal Reserve's benchmark short-term interest rate.

Sources. S&P Dow Jones Indices; Nasdaq; Board of Governors of the Federal Reserve System (FOMC statements; H.15 Selected Interest Rates); U.S. Department of the Treasury; U.S. Energy Information Administration; U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis. Data as of December 31, 2022, unless otherwise noted. The "Looking back" page reflects data through December 2023.

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