



QUARTERLY MARKET REVIEW • RETROSPECTIVE

Second Quarter 2023

Excitement about artificial intelligence lifted technology stocks, and the S&P; 500 entered a new bull market as inflation kept falling.

Data as of June 30, 2023 | Retrospective review prepared October 2026
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THE QUARTER AT A GLANCE

AI excitement powered a new bull market

+8.3%**S&P 500**

Price return for the quarter, bringing the first-half gain to about 16%

+31.7%**NASDAQ, FIRST HALF**

Price return for January through June, its best first half since 1983

5.00%–5.25%**FED FUNDS TARGET**

After the May increase; the Fed then paused in June

4.0%**INFLATION (CPI)**

May, year over year, its lowest level in about two years

01**AI took center stage.**

Enthusiasm about artificial intelligence sent shares of a handful of large technology companies sharply higher.

02**The Fed hit pause.**

After raising rates in May, the Fed held steady in June, its first meeting without an increase since March 2022.

03**A debt-ceiling deal.**

Congress raised the federal debt limit in early June, removing the risk of a U.S. government default.

U.S. STOCKS

Artificial intelligence enthusiasm lifted stocks to a new bull market

The S&P; 500 gained 8.3% in the second quarter and finished June more than 20% above its October 2022 low, meeting the common definition of a new bull market. The Nasdaq rose 12.8%, while the Dow Jones Industrial Average gained 3.4%.

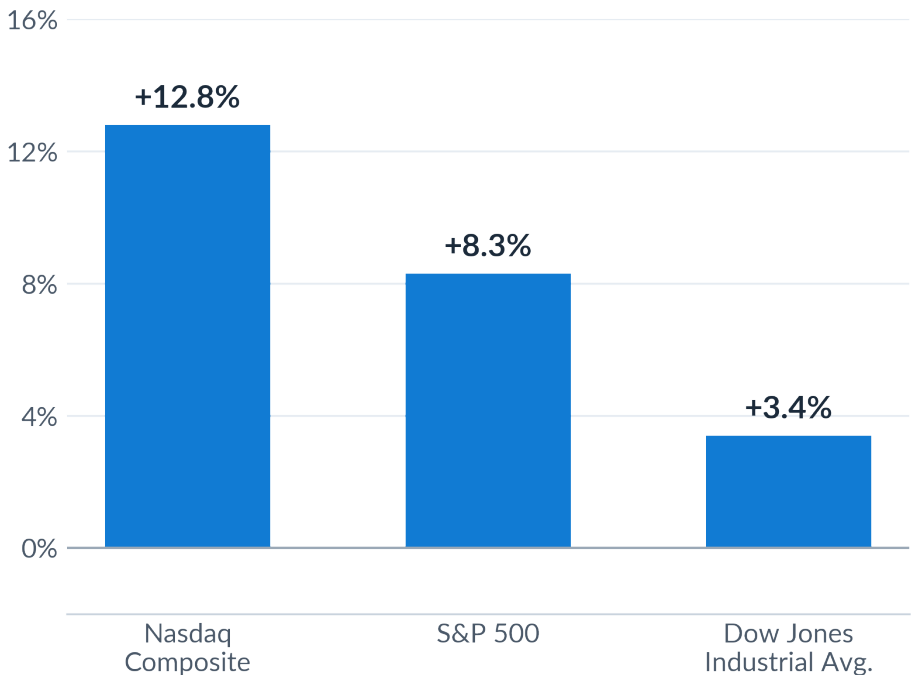
Much of the gain came from a small group of very large technology companies. Excitement about artificial intelligence, and especially demand for the computer chips that power it, drove their shares sharply higher.

For the first half of 2023, the Nasdaq rose 31.7%, its best first half since 1983. The S&P; 500 rose about 16% and the Dow about 4%.

WHY IT MATTERS

When a few large companies drive most of the gains, a diversified portfolio can lag the headline index. That trade-off reduces the risk of depending too heavily on any single theme.

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



Source: S&P Dow Jones Indices; Nasdaq. Price returns, March 31 to June 30, 2023. 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 paused after ten straight rate increases

The Federal Reserve raised its benchmark rate by a quarter point in May, to 5.00% to 5.25%, then held steady in June. It was the first meeting without an increase since the Fed began raising rates in March 2022, though officials signaled more increases could still come.

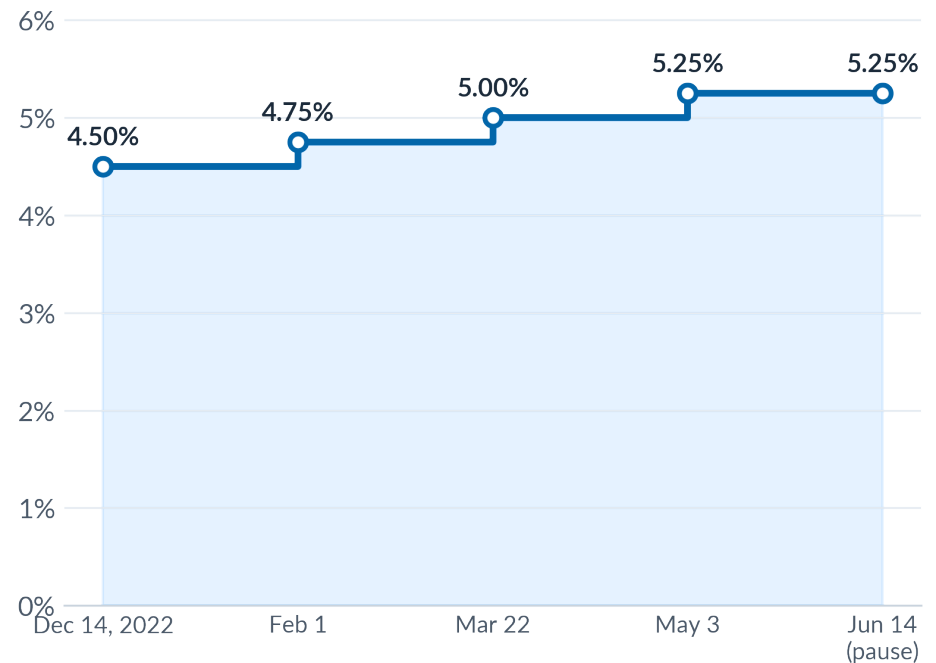
The 10-year Treasury yield rose from 3.48% at the end of March to 3.81% at the end of June, as a resilient economy led investors to expect rates to stay higher for longer.

In early June, Congress passed a deal to raise the federal debt limit, ending weeks of worry about a possible U.S. default.

WHY IT MATTERS

A pause is not the same as a cut. Even as rate increases slowed, savings accounts, CDs, and short-term bonds continued to offer some of the highest yields in years.

Federal funds target rate (upper bound)



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

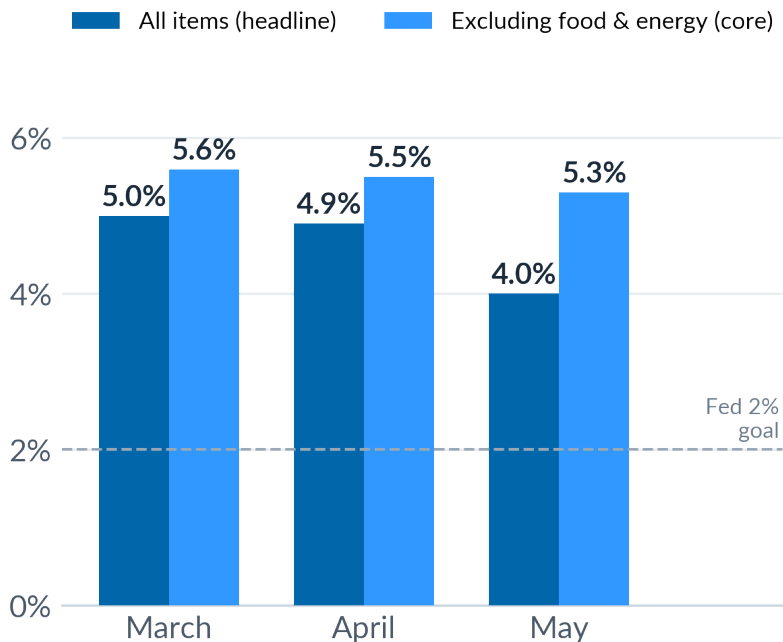
INFLATION AND OIL

Inflation fell to its lowest level in two years

Overall inflation dropped to 4.0% in May, down from 5.0% in March and less than half its 2022 peak. Core inflation, which leaves out food and energy, came down more slowly, to 5.3%.

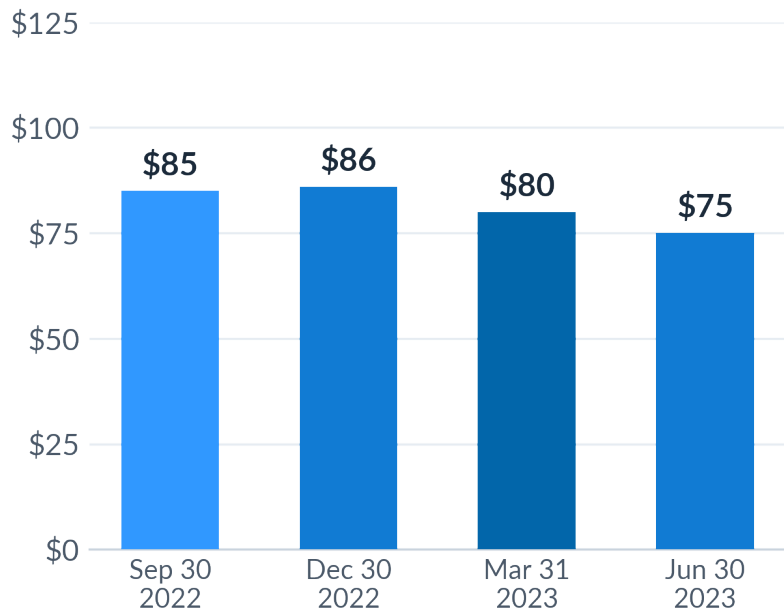
Lower energy prices did much of the work. Brent crude ended June near \$75 a barrel, down from about \$80 at the end of March and roughly \$109 a year earlier.

Consumer price inflation, year over year



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

Brent crude oil futures, dollars per barrel



Source: ICE Futures Europe, Brent front-month settlement prices at each quarter-end.

LOOKING BACK

What came next

A late-summer pullback

Stocks fell in the third quarter as interest rates climbed, then rallied strongly at year-end.

AI stayed in focus

Artificial intelligence remained a major market theme through 2024.

One last increase

The Fed raised rates once more in July 2023, to 5.25%–5.50%, and held there until it began cutting in September 2024.

A strong year overall

The S&P; 500 finished 2023 up about 24% and the Nasdaq up about 43%.

KEEPING PERSPECTIVE

In early 2023, many forecasters expected a recession and falling stocks. Instead, markets rose. Forecasts are useful, but a plan built to handle many possible outcomes is more dependable than any single prediction. 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; ICE Futures Europe; U.S. Bureau of Labor Statistics. Data as of June 30, 2023, unless otherwise noted. The "Looking back" page reflects data through December 2024.

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