WINTHROP WEALTH

JANUARY 2024 CLIENT QUESTION OF THE MONTH

OUR FAVORITE CHARTS OF 2023

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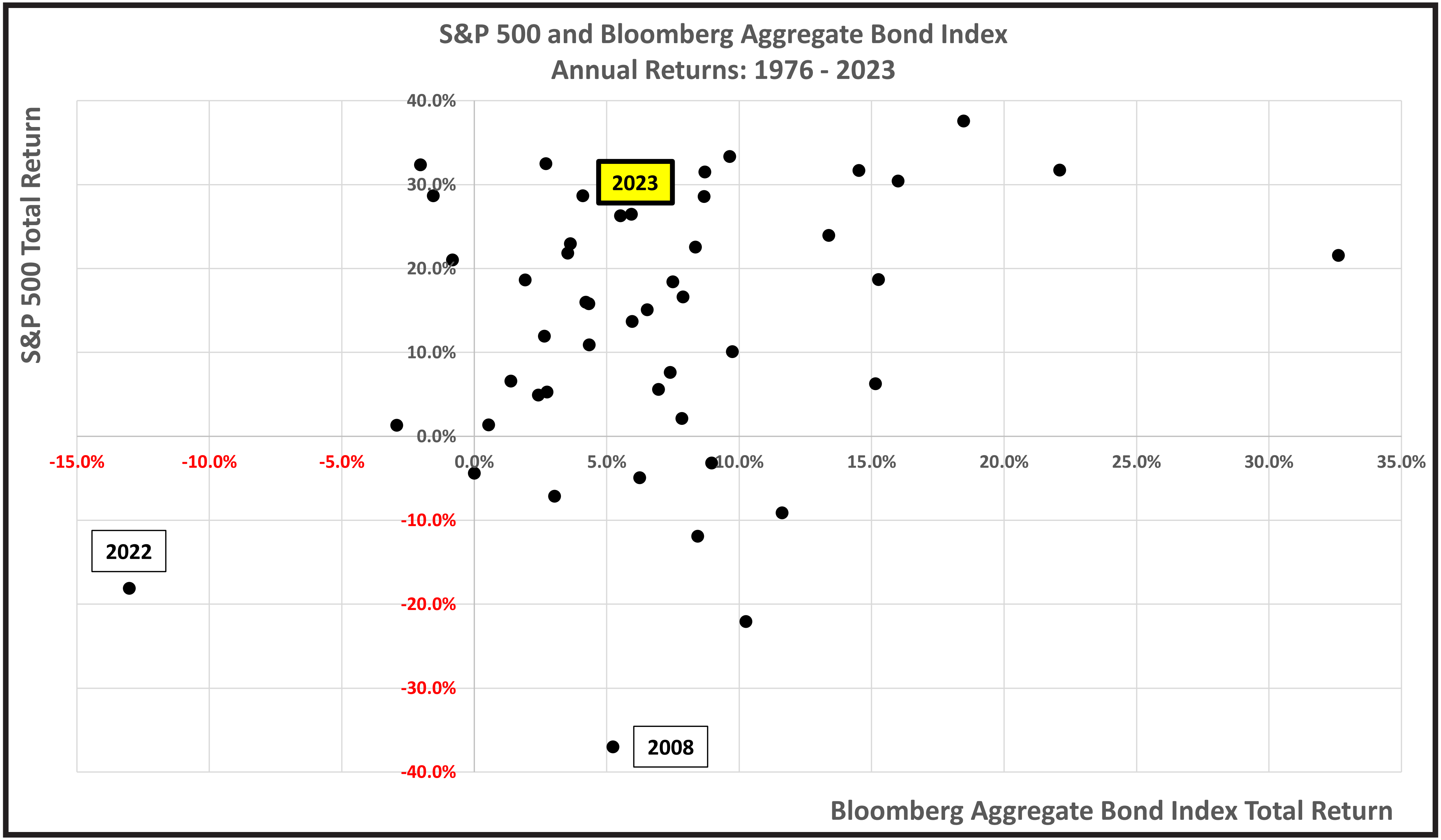
S&P 500 and Bloomberg Aggregate Bond Index Annual Returns

The following chart shows the annual returns since 1976 for the S&P 500 (y-axis) and the Bloomberg Aggregate Bond Index (x-axis).

For 2023, the S&P 500 returned +26.3% while the Bloomberg Aggregate Bond Index (Agg) increased by +5.5%.

The S&P 500 is the most widely followed index for the US stock market, while the Bloomberg Agg is the most common index for the US bond market.

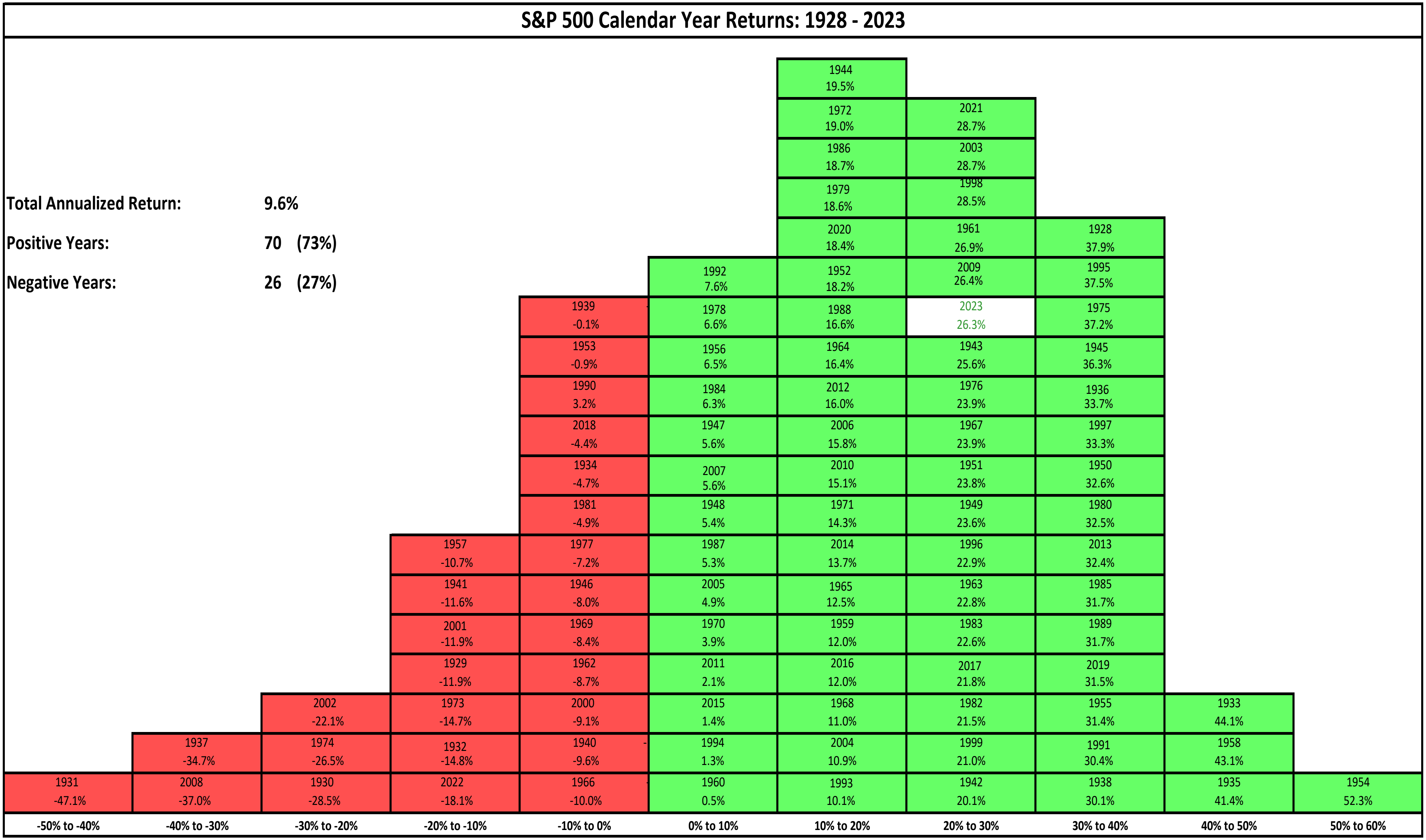


Source: Bloomberg. Past performance does not guarantee future results and it is not possible to invest directly into an index.

S&P 500 Annual Returns

Since 1928, the stock market produced positive results in 70 calendar years vs. 26 years with negative returns.

The market moved higher in 73% of years with an average return of +21.0% and declined in 27% of years with an average drop of -14.2%.



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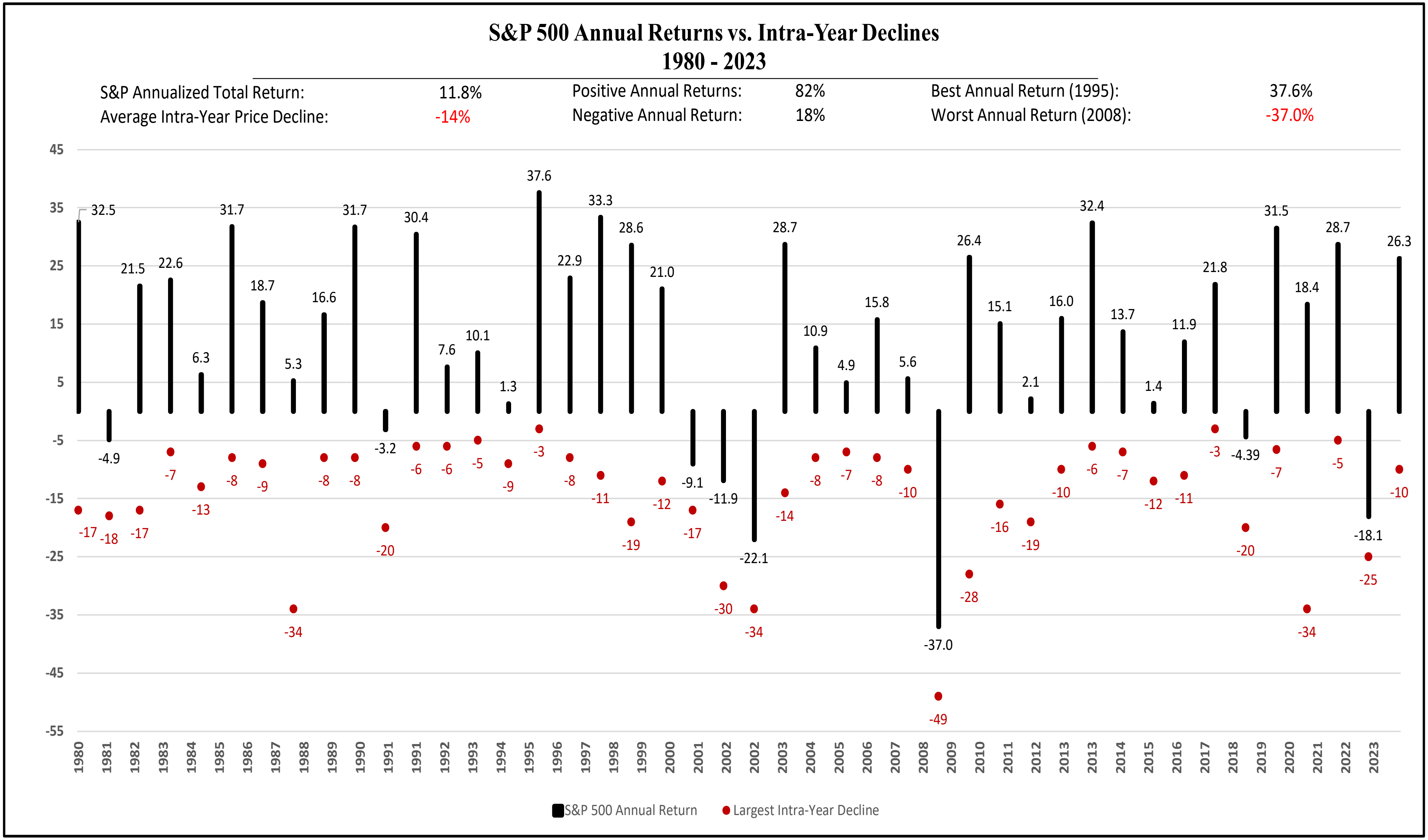
Equity Market Declines Are Common

The following chart displays the S&P 500's annual return vs. the largest intra-year decline from 1980 through 2023.

Over this period, the S&P 500 has generated a total annualized return of +11.8%. Annual returns ranged from -37.0% to +37.6%.

There were plenty of market drops along the way as the average intra-year price decline was -14%.



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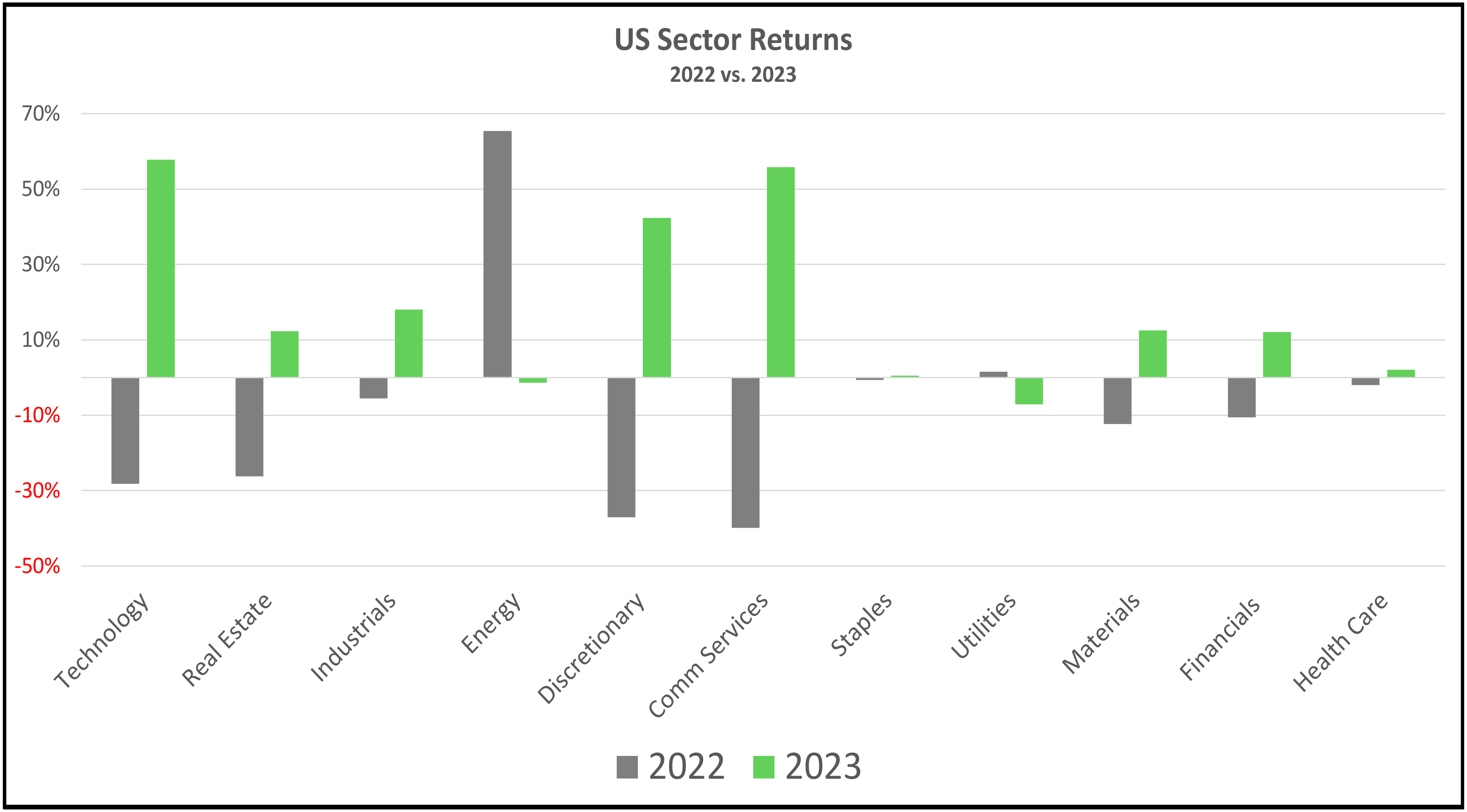
S&P 500 Sector Returns: 2022 vs. 2023

This year saw a substantial reversal at the sector level with last year's laggards becoming the leaders and vice versa.

The market often undergoes these violent rotations that can make an under-diversified investor feel like a genius one day and a fool the next.

Rather than make risky concentrated bets, we prefer to construct diversified portfolios across regions, countries, market caps, factors, styles, sectors, and industries and tilt toward the areas we feel provide the most potential benefit.



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S&P 500 Bear Markets

A bear market is defined as a decline of -20% on a closing basis without a subsequent +20% increase.

Since 1929, the S&P 500 has experienced 13 bear markets (about once every 7 years). During these periods, the S&P 500 took about 17 months to reach the bottom with a median price decline of -34%.

Historically, bear markets have created strong buying opportunities as the S&P was significantly higher 1-, 3-, and 5- years after the trough.

S&P 500 Bear Markets
1929 - 2023

Market Event	Economic Recession	S&P 500 Peak	S&P 500 Trough	Peak to Trough (Months)	Peak to Trough Price Decline	1-Year Total Return Post Trough	3-Year Total Return Post Trough	5-Year Total Return Post Trough
Great Depression	Yes	September 1929	June 1932	33	-86.2%	121.4%	117.7%	287.9%
1937 Fed Tightening	Yes	March 1937	March 1938	13	-54.5%	34.8%	36.3%	82.8%
Post World War II Crash	Yes	May 1946	June 1949	37	-29.6%	59.9%	132.8%	206.8%
Eisenhower Recession	Yes	July 1957	October 1957	3	-20.7%	36.2%	52.0%	68.9%
Flash Crash of 1962 / Cold War	No	December 1961	June 1962	7	-28.0%	37.5%	75.0%	107.0%
Tech Crash of 1970	Yes	November 1968	May 1970	18	-35.4%	48.9%	71.3%	56.1%
Stagflation	Yes	January 1973	October 1974	21	-48.2%	44.4%	76.4%	122.9%
Volcker Tightening	Yes	November 1980	August 1982	21	-27.1%	66.1%	111.0%	300.3%
Crash of 1987	No	August 1987	December 1987	3	-33.5%	26.0%	61.1%	127.5%
Tech Bubble	Yes	March 2000	October 2002	31	-49.1%	36.1%	62.4%	118.8%
Global Financial Crisis	Yes	October 2007	March 2009	17	-56.8%	72.3%	115.0%	208.7%
Global Pandemic	Yes	February 2020	March 2020	1	-33.9%	77.8%	85.1%	
Inflation / Fed Tightening	No	January 2022	October 2022	9	-25.4%	23.6%		
Average (13)				17	-40.6%	52.7%	82.8%	153.4%
Median (13)				17	-33.9%	44.4%	75.0%	122.9%
Average (12. Ex. Great Depression)				15	-36.9%	47.0%	79.3%	140.0%
Median (12. Ex Great Depression)				15	-33.7%	41.0%	73.1%	120.9%
Average (3. No Recession)				6	-29.0%	29.0%	68.1%	117.3%

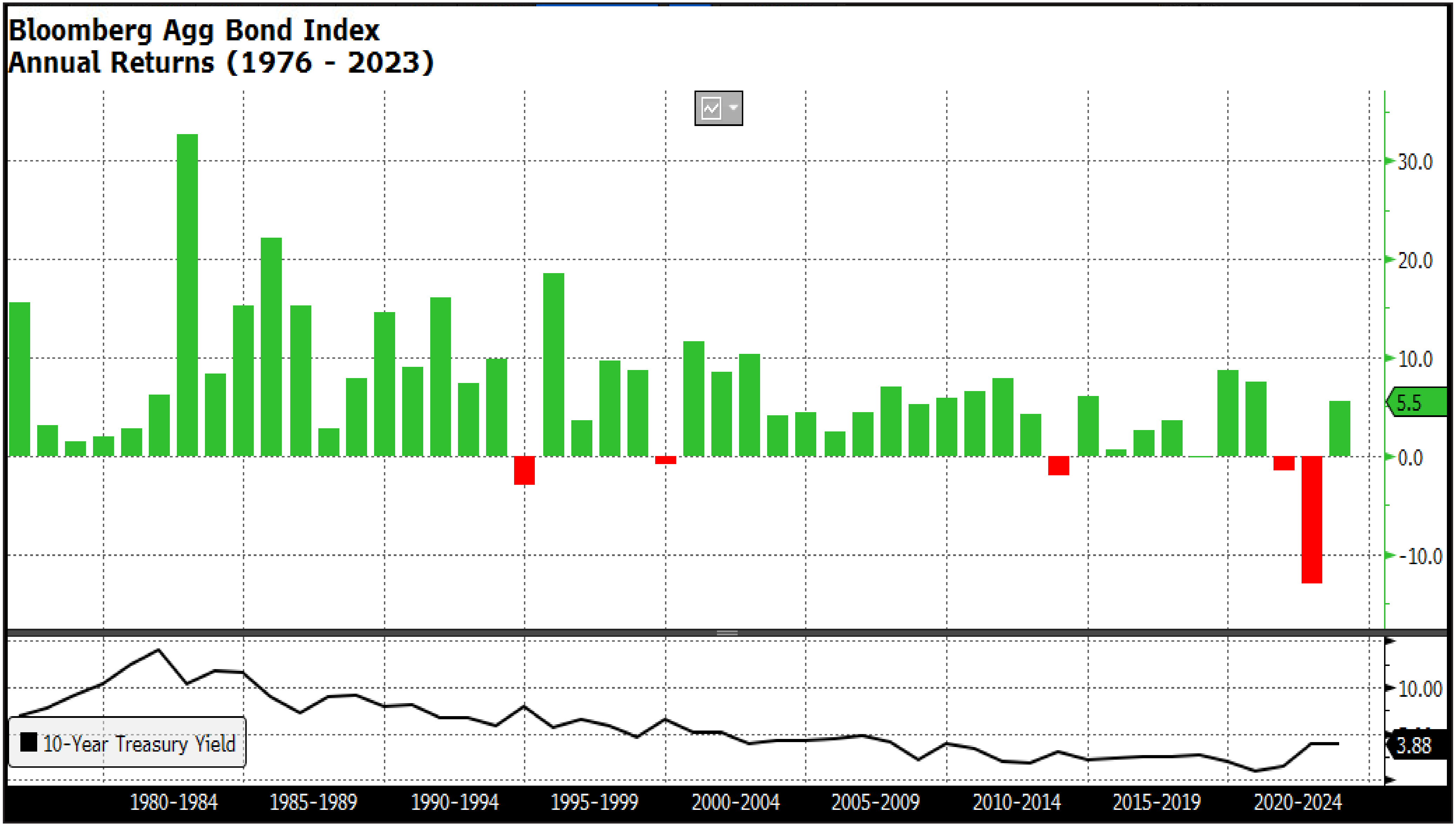
Source: Bloomberg. Past performance does not guarantee future results and it is not possible to invest directly into an index.

US Bond Market Annual Returns

The Bloomberg US Aggregate Bond index (Agg) acts as a proxy for the intermediate-term investment-grade bond market. Since the inception of the index in 1976, the bond market has produced a total annualized return of +6.6%.

The bond market increased in 90% of years with an average return of +8.1% and declined in 10% of years with an average drop of -4.1%.

The 10-Year Treasury yield is shown at the bottom of the chart. Bond prices move inversely to interest rates and credit spreads.



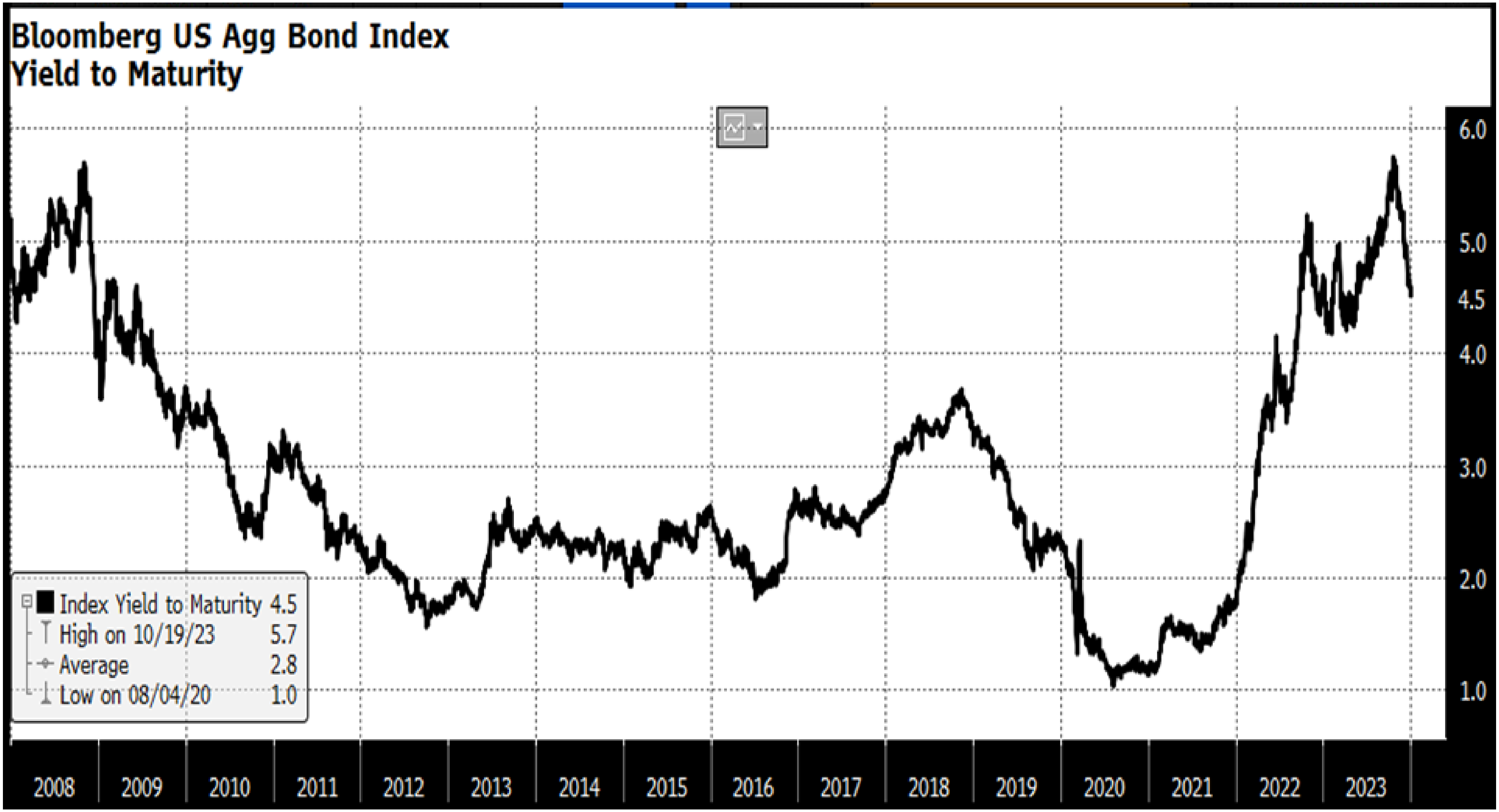
Source: Bloomberg. Past performance does not guarantee future results and it is not possible to invest directly into an index.

US Bond Market: Yield to Maturity

The following chart shows the yield to maturity for the Bloomberg US Aggregate Bond index (Agg). Yield to maturity is defined as the estimated annualized rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all their interest and principal payments (i.e., no defaults).

Intermediate-term bonds are still an attractive investment opportunity in our opinion as the yield to maturity on the US Agg Bond index ended the year at 4.5%.

In our view, patient investors should be optimistic about intermediate-term fixed income returns over the next several years. *The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.*



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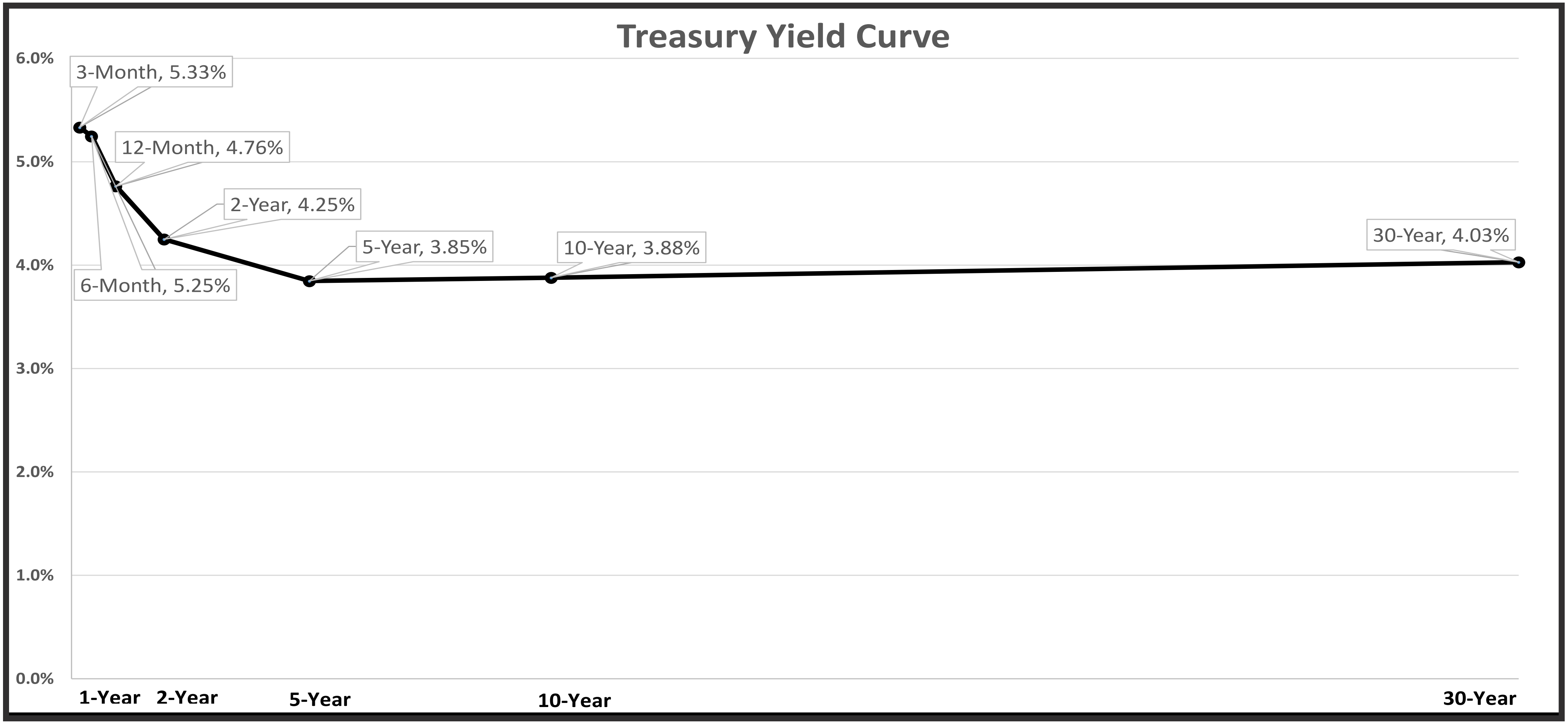
Treasury Yield Curve

The following chart displays the current Treasury yield curve. Treasury yields with maturities greater than 12-Months increased for most of the year before peaking in October at multi-year highs. Over the last few months of the year, yields declined as continued evidence of disinflation led the Fed to abandon their “higher-for-longer” outlook and openly discuss cutting interest rates in 2024. The 2-Year (4.25%) and the 10-Year (3.88%) closed out the year significantly lower than their recent tops.

Short-term Treasury yields, including, the 3-Month (5.3%), 6-Month (5.2%), and 12-Month (4.8%) are still at their highest levels since the early 2000s. Once the Fed starts cutting the federal funds rate, short-term Treasury yields should also decline. We don’t expect +5% short-term yields to be around forever, but we are opportunistically enjoying them while they last.

The Treasury yield curve is currently inverted with both the 3-Month (5.3%) and 2-Year (4.25%) higher than the 10-Year (3.88%) yield. In general, the Fed controls shorter term Treasury yields by setting the target federal funds rate while the market controls long term rates as investor demand will vary based on future expectations of inflation and economic growth. An inverted yield curve is a sign of a pessimistic economic outlook and typically signals that investors expect the Fed to cut rates soon. If the Fed does cut rates as investors expect, the 3-Month and 2-Year yields will fall below the 10-Year and the yield curve will be upward sloping again.



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The Benefit of Diversification

Diversification and time are an investor's two best friends. Diversified portfolios can lead to more consistent and less volatile results than a single asset class. We know that markets can be extremely volatile in the short-term, but difficult periods have historically not lasted forever. *Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.*

To highlight the benefits of diversification, we examined the total return performance of nine separate asset classes and a diversified asset allocation from 2009 to 2023 (see below for the asset class index key and weights of the diversified allocation). Notice that from year-to-year many asset classes rotate from top to bottom performers. We will also highlight that the asset allocation has stayed consistently in the middle.

Asset Class Returns

															2009 - 2023		
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Annualized Return	Annualized Volatility	Sharpe Ratio
Emerging Markets 78.5%	Small Cap 26.8%	Fixed Income 7.8%	Emerging Markets 18.2%	Small Cap 38.8%	Large Cap 13.7%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Cash 1.8%	Large Cap 31.5%	Small Cap 19.9%	Large Cap 28.7%	Commodities 16.1%	Large Cap 26.3%	Large Cap 13.9%	Small Cap 20.5%	High Yield 1.00
High Yield 58.2%	Mid Cap 26.6%	High Yield 5.0%	Mid Cap 17.8%	Mid Cap 33.5%	Mid Cap 9.7%	Fixed Income 0.5%	Mid Cap 20.7%	Developed International 25.0%	Fixed Income 0%	Mid Cap 26.2%	Large Cap 18.4%	Commodities 27.1%	Cash 1.5%	Developed International 18.2%	Mid Cap 13.3%	Emerging Markets 19.2%	Large Cap 0.85
Mid Cap 37.3%	Emerging Markets 18.9%	Large Cap 2.1%	Developed International 17.3%	Large Cap 32.4%	**Asset Allocation 7.1%**	Cash 0%	High Yield 17.1%	Large Cap 21.8%	High Yield -2.1%	Small Cap 25.5%	Emerging Markets 18.3%	Mid Cap 24.7%	High Yield -11.2%	Small Cap 16.9%	Small Cap 11.3%	Mid Cap 18.3%	**Asset Allocation 0.78**
Developed International 31.8%	Commodities 16.8%	**Asset Allocation 1.3%**	Small Cap 16.4%	Developed International 22.8%	Fixed Income 6.0%	**Asset Allocation -0.8%**	Large Cap 11.9%	Mid Cap 16.2%	Large Cap -4.4%	Developed International 22.0%	Mid Cap 13.6%	Small Cap 14.8%	Fixed Income -13.0%	Mid Cap 16.4%	High Yield 9.2%	Developed International 16.8%	Mid Cap 0.68
Small Cap 27.1%	High Yield 15.1%	Cash 0.1%	Large Cap 16.0%	**Asset Allocation 17.4%**	Small Cap 4.9%	Developed International -0.8%	Commodities 11.8%	**Asset Allocation 14.8%**	**Asset Allocation -4.6%**	**Asset Allocation 20.7%**	**Asset Allocation 12.5%**	**Asset Allocation 14.3%**	Mid Cap -13.1%	**Asset Allocation 16.1%**	**Asset Allocation 8.9%**	Large Cap 15.4%	Small Cap 0.51
Large Cap 26.4%	Large Cap 15.1%	Mid Cap -1.7%	High Yield 15.8%	High Yield 7.4%	High Yield 2.5%	Mid Cap -2.2%	Emerging Markets 11.2%	Small Cap 14.6%	Small Cap -11.0%	Emerging Markets 18.4%	Developed International 7.8%	Developed International 11.3%	Developed International -14.5%	High Yield 13.4%	Developed International 6.9%	Commodities 14.9%	Fixed Income 0.43
Asset Allocation 23.4%	**Asset Allocation 12.5%**	Small Cap -4.2%	**Asset Allocation 11.9%**	Cash 0%	Cash 0%	Small Cap -4.4%	**Asset Allocation 8.8%**	High Yield 7.5%	Mid Cap -11.1%	High Yield 14.3%	Fixed Income 7.5%	High Yield 5.3%	**Asset Allocation -14.6%**	Emerging Markets 9.8%	Emerging Markets 6.6%	**Asset Allocation 10.3%**	Developed International 0.36
Commodities 18.9%	Developed International 7.8%	Developed International -12.1%	Fixed Income 4.2%	Fixed Income -2.0%	Emerging Markets -2.2%	High Yield -4.5%	Fixed Income 2.6%	Fixed Income 3.5%	Commodities -11.2%	Fixed Income 8.7%	High Yield 7.1%	Cash 0.0%	Large Cap -18.1%	Fixed Income 5.5%	Fixed Income 2.7%	High Yield 8.4%	Emerging Markets 0.30
Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash 0.1%	Emerging Markets -2.6%	Developed International -4.9%	Emerging Markets -14.9%	Developed International 1.0%	Commodities 1.7%	Developed International -13.8%	Commodities 7.7%	Cash 0.5%	Fixed Income -1.5%	Emerging Markets -20.1%	Cash 5.1%	Cash 0.8%	Fixed Income 4.2%	Cash 0
Cash 0.1%	Cash 0.1%	Emerging Markets -18.4%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.6%	Cash 2.2%	Commodities -3.1%	Emerging Markets -2.5%	Small Cap -20.5%	Commodities -7.9%	Commodities -0.2%	Cash 0.4%	Commodities -0.07

Asset Class Key

Large Cap:	S&P 500	Developed International:	MSCI EAFE	Fixed Income:	Bloomberg Barclays US Agg
Mid Cap:	S&P 400	Emerging Markets:	MSCI Emerging Markets	Treasury Bills:	Bloomberg Barclays 1-3M Treasury Bills
Small Cap:	Russell 2000	High Yield	Bloomberg Barclays US Corporate High Yield	Commodities:	Bloomberg Commodity Total Return Index

Asset Allocation Weights

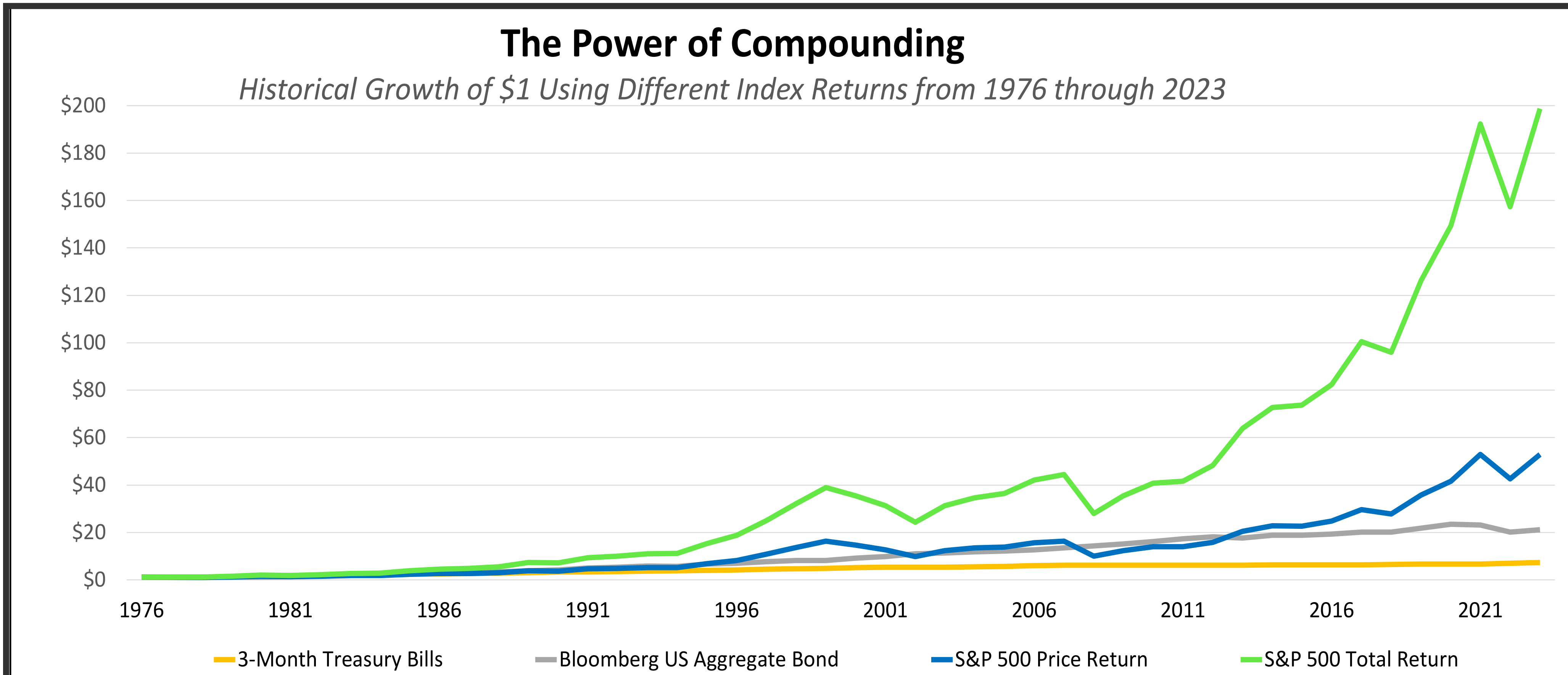
Large Cap:	40%	Developed International:	9%	Fixed Income:	30%
Mid Cap:	4%	Emerging Markets:	3%	Treasury Bills:	3%
Small Cap:	4%	High Yield	5%	Commodities:	2%

Source: Bloomberg. Past performance does not guarantee future results and it is not possible to invest directly into an index.

The Power of Compounding

Compound growth refers to the return on an initial amount of money (principal), as well as on any accumulated earnings (interest, dividends, and/or price appreciation). The power of compounding, which becomes more noticeable over time, is the ability to add accumulated earnings onto the initial principal each period. Although compounding offers the potential for substantial growth over long periods, it requires consistency and discipline. All investing involves risk, and no strategy guarantees success.

To better illustrate this concept, the graph below showcases the historical growth of $1 invested in various indices from 1976 to 2023 (approximately 48 years). Although these indices have different risk-return profiles, all have shown the historical ability to compound returns over long periods. *All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.*



Index	Annualized Return	Growth of $1
3-Month Treasury Bills	4.23%	$7
Bloomberg US Aggregate Bond	6.57%	$21
S&P 500 Price Return	8.62%	$53
S&P 500 Total Return	11.66%	$199

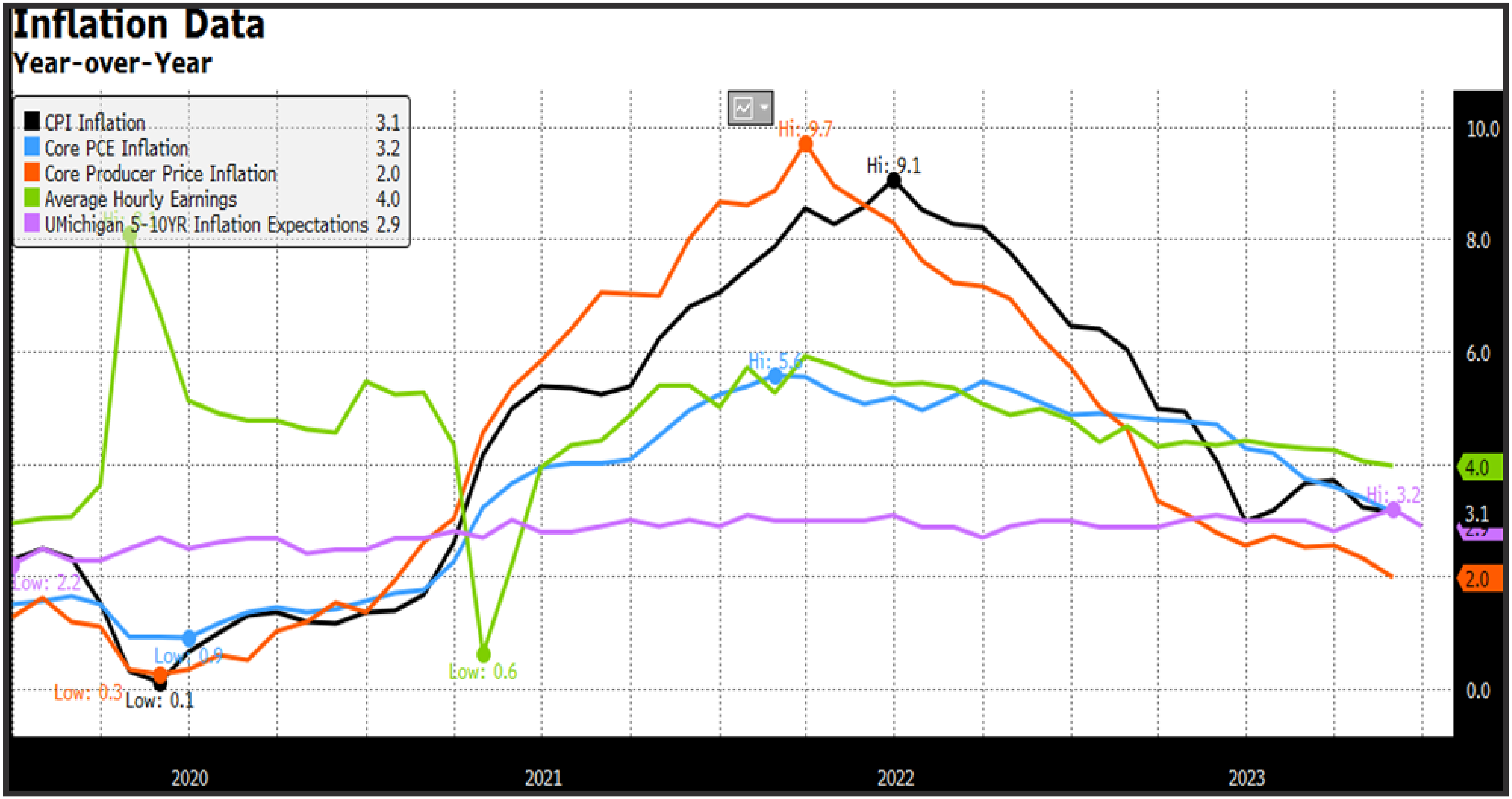
Source: Bloomberg. Past performance does not guarantee future results and it is not possible to invest directly into an index.

Inflation

The increase in inflation since early-2021 was driven by supply chain bottlenecks, surging energy prices, strong consumer demand caused by a solid labor market, and massive amounts of stimulus.

Most inflation readings have decelerated from peak levels with several indicators returning to normalized ranges. Given that, the Fed is likely getting ready to declare victory over inflation by lowering interest rates at some point in 2024.

Here are several key inflation indicators and a chart tracking the data since the start of 2020:



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Disclosures:

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The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment grade, and have $300 million or more of outstanding face value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.
Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

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