

October 2023

Student of the Market

BlackRock

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Bonds

Peak inflation and performance



Historic bond price declines



Performance since the low in interest rates



Money market returns and beginning interest rates



Stocks

Stock market volatility



Historical 4th quarter returns for stocks



Quality stocks



Stock funds and capital gains distributions

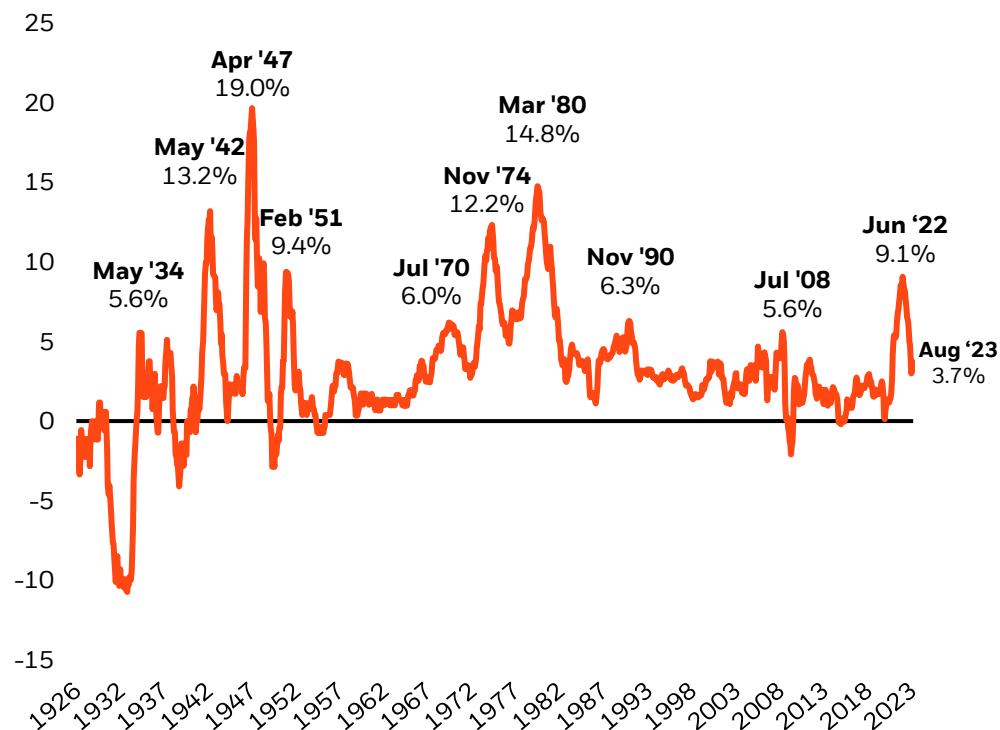


Source: Morningstar as of 9/30/23. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

Performance following peaks in inflation

“Peaks” in the inflation rate

Since 1926, 12-month change in inflation rate



Returns following “peak” inflation rates

Since 1926, returns for the next 12 months

Peak Inflation	Next 12 months	
	Stocks	Bonds
May 1934	4.8%	6.3%
May 1942	57.6%	2.0%
Mar 1947	5.3%	0.9%
February 1951	13.6%	0.3%
December 1969	4.0%	16.9%
December 1974	37.0%	7.8%
March 1980	40.1%	13.1%
November 1990	20.3%	14.4%
July 2008	-20.0%	7.9%
June 2022	20.6%	-0.9%
Avg.	18.3%	6.9%

June '22 to Sept '23
(cumulative)

15.7%

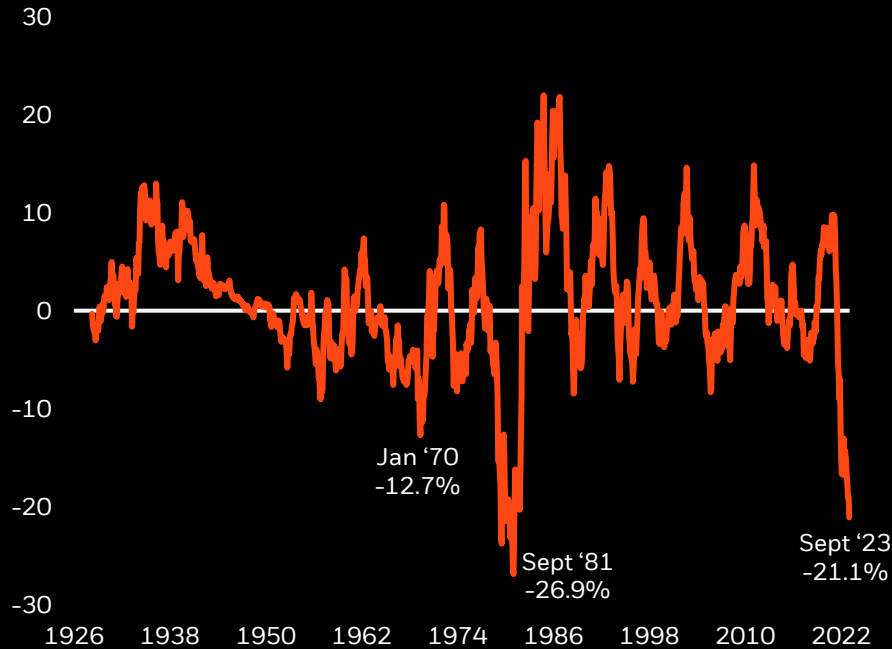
-4.1%

Source: Morningstar, Bureau of Labor Statistics as of 9/30/23. U.S. bonds represented by the IASBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 9/30/23. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 9/30/23 and the IASBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only.** You cannot invest directly in the index.

2nd largest price drawdown for bonds in history

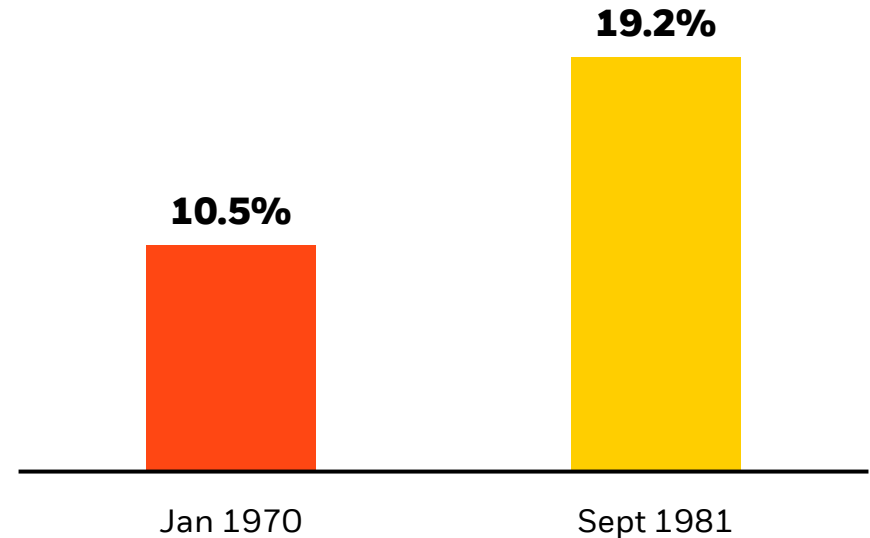
Core bond index 3-year rolling price return

Yields from 1/1/26 - 9/30/23



3-year price return following the worst periods in core bond index history

Cumulative returns, 1/1/26 - 9/30/23



Source: Morningstar as of 9/30/23. U.S. bond prices represented by the IA SBBBI US Gov IT Cap App Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond PR Index from 1/3/89 to 9/30/23. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.

Alternatives and bond diversifiers performed well since the low in interest rates

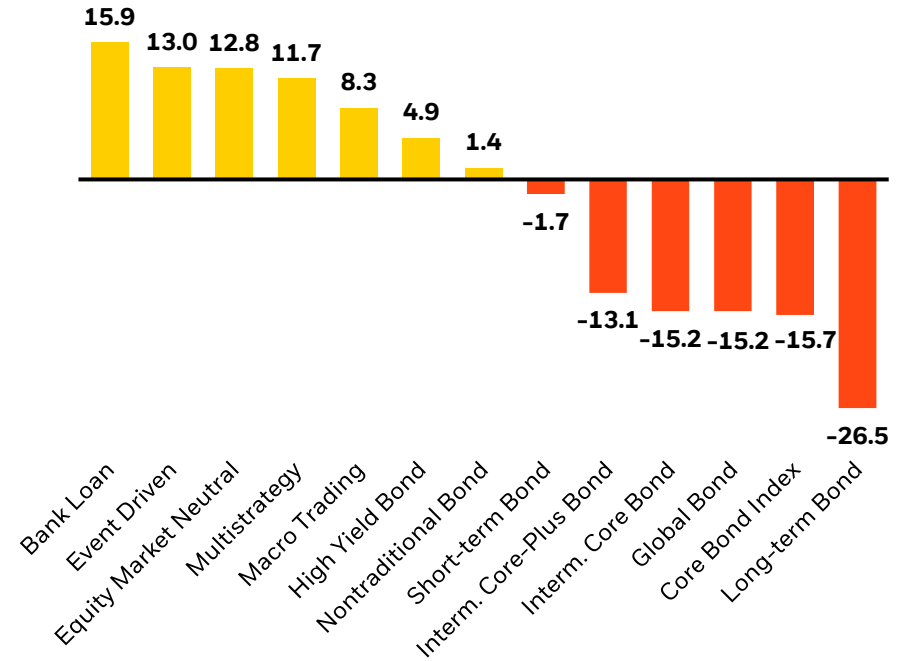
10-year U.S. Treasury Yield

8/4/20 - 9/30/23



Bond and alternative fund category performance since the low in interest rates

Cumulative returns, 8/5/20 - 9/30/23

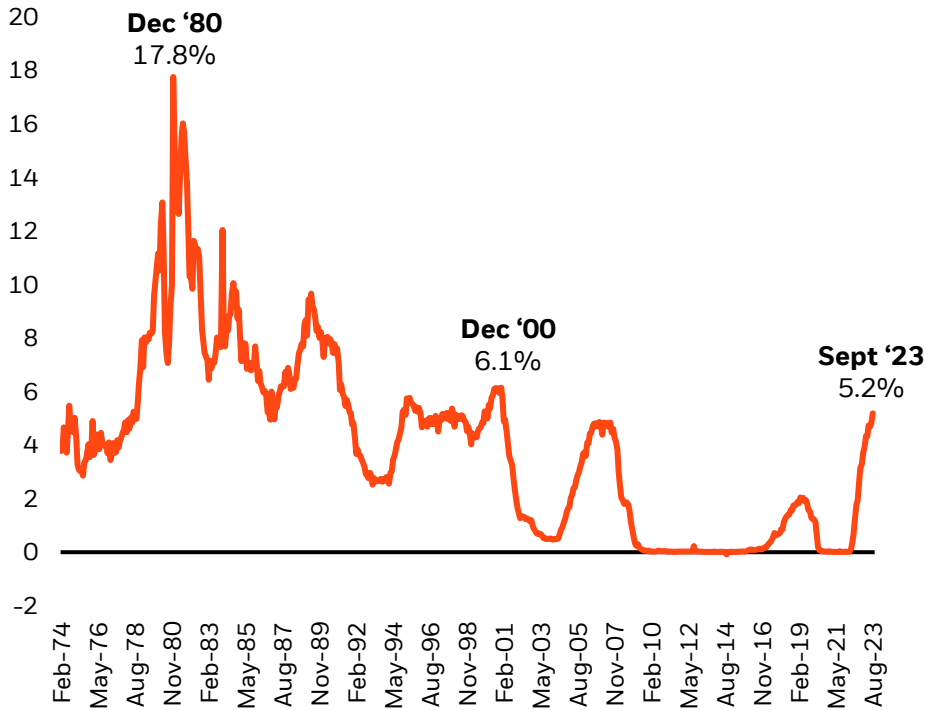


Source: Morningstar, Federal Reserve as of 9/30/23. All categories other than Core Bond Index represented by their respective Morningstar category. Core bond Index represented by the Bloomberg U.S. Agg Bond TR Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.

Money market longer term returns can vary widely from the beginning interest rate

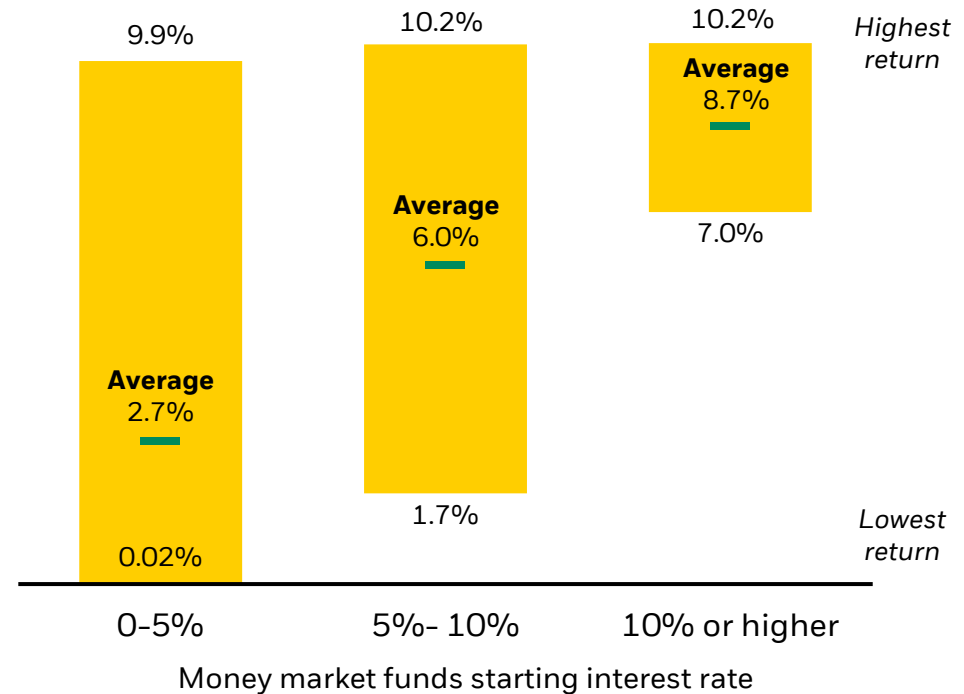
Money market interest rates highest since 2000

Starting monthly interest rates, 2/1/74 – 9/30/23



Range of 5-year returns for money market funds based on starting interest rate can vary widely

Average 5-year returns, 2/1/74 – 9/30/23

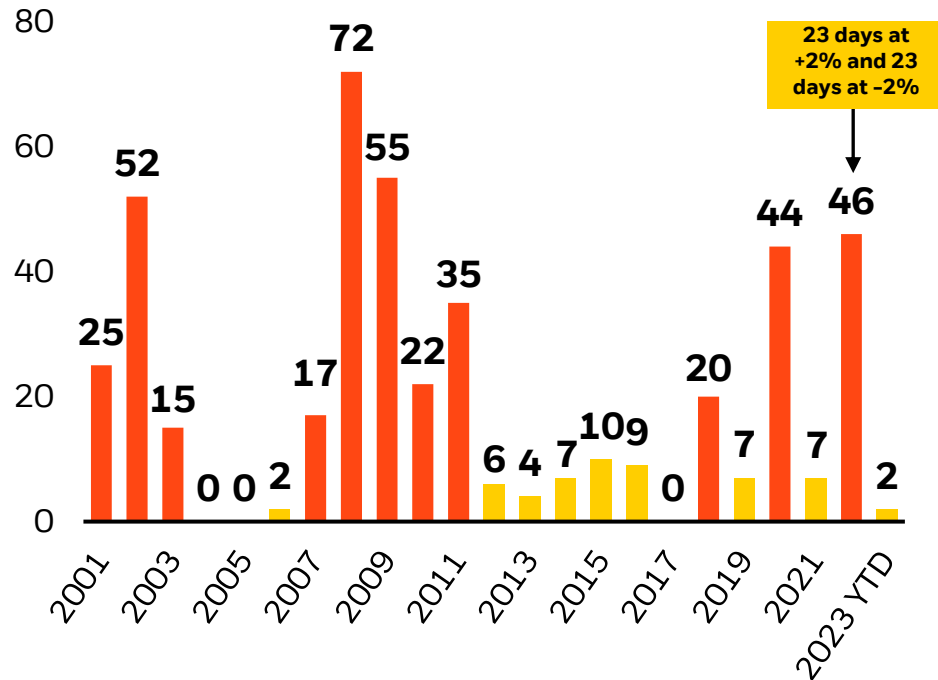


Source: Morningstar, Federal Reserve as of 9/30/23. Money market funds are represented by the Morningstar Taxable Money Market Fund Category. Past performance does not guarantee or indicate future results.

Stock volatility has eased this year

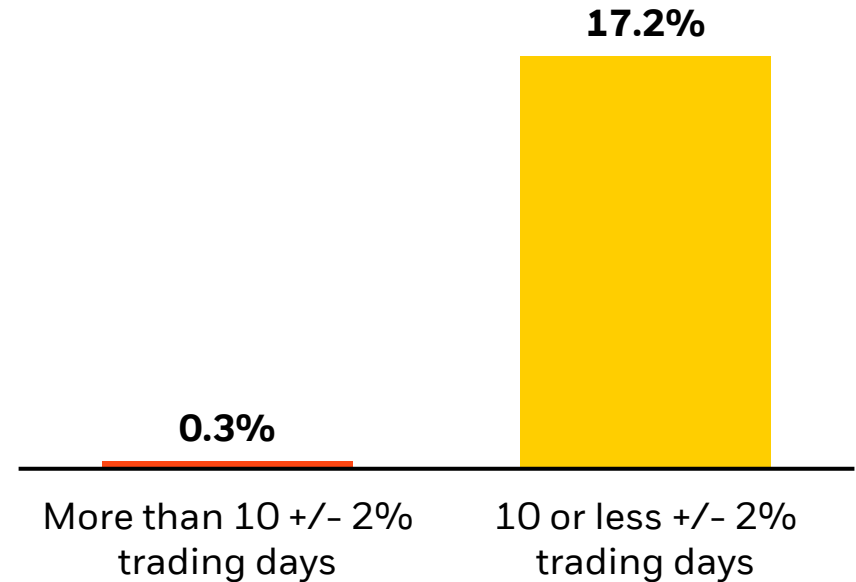
Number of single day stock market returns of +/-2% or more

S&P 500, past 20+ years by calendar year (1/1/01 - 9/30/23)



Average stock market return based on the number of +/- 2% trading days

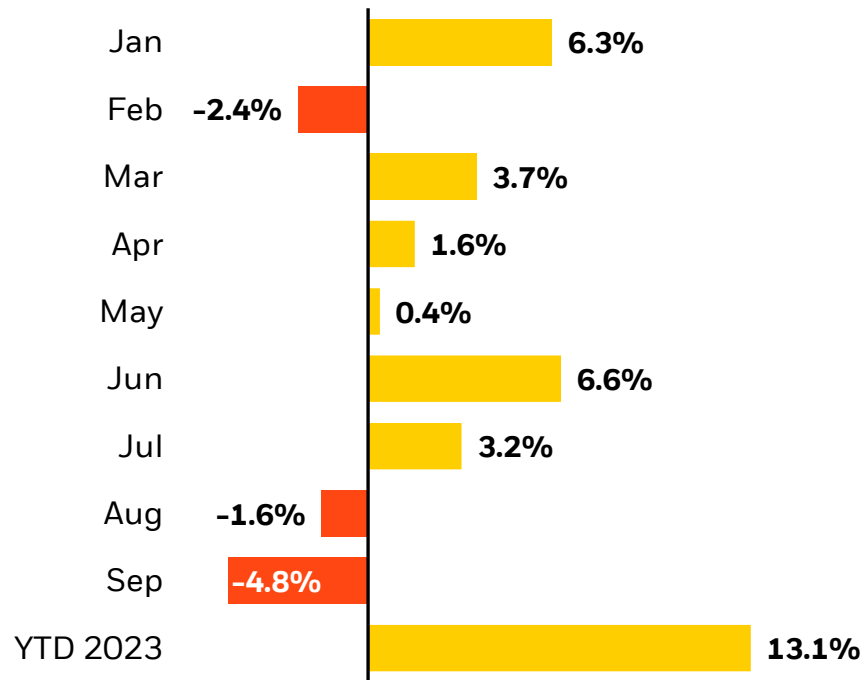
Since 2001, returns are based on calendar years



Source: Morningstar as of 9/30/23. Stock market represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

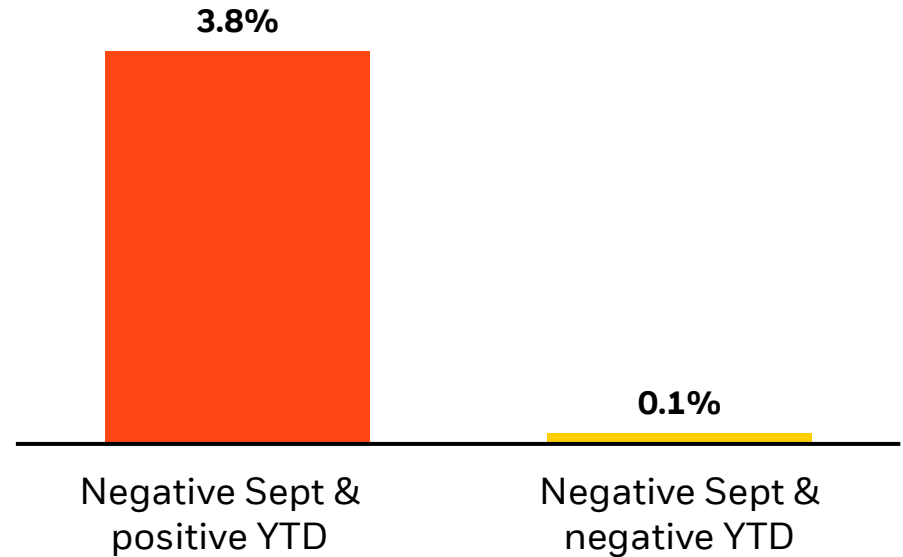
Historically, Q4 stock returns bounce back when September is negative

2023 stock market return by month



Q4 returns following a negative September

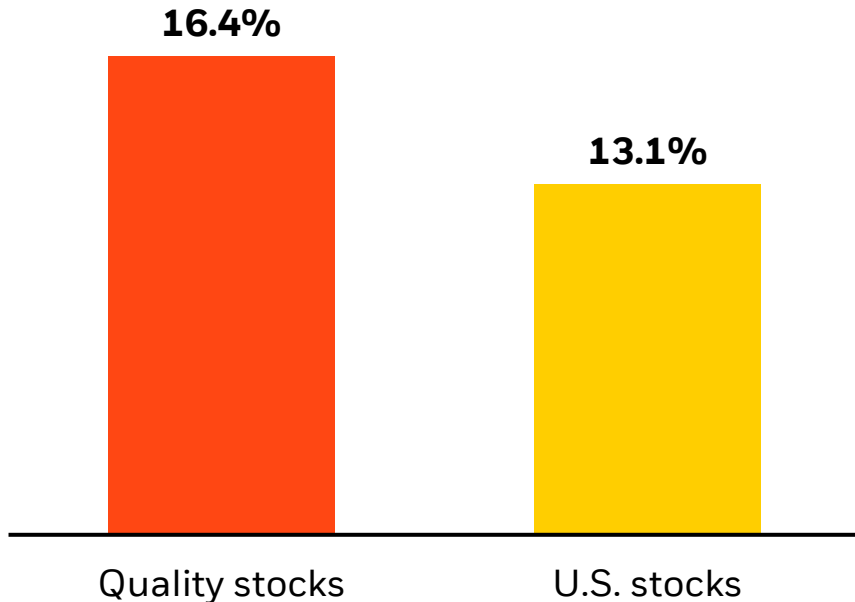
Average returns since 1926



Source: Morningstar as of 9/30/23. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 9/30/23 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.

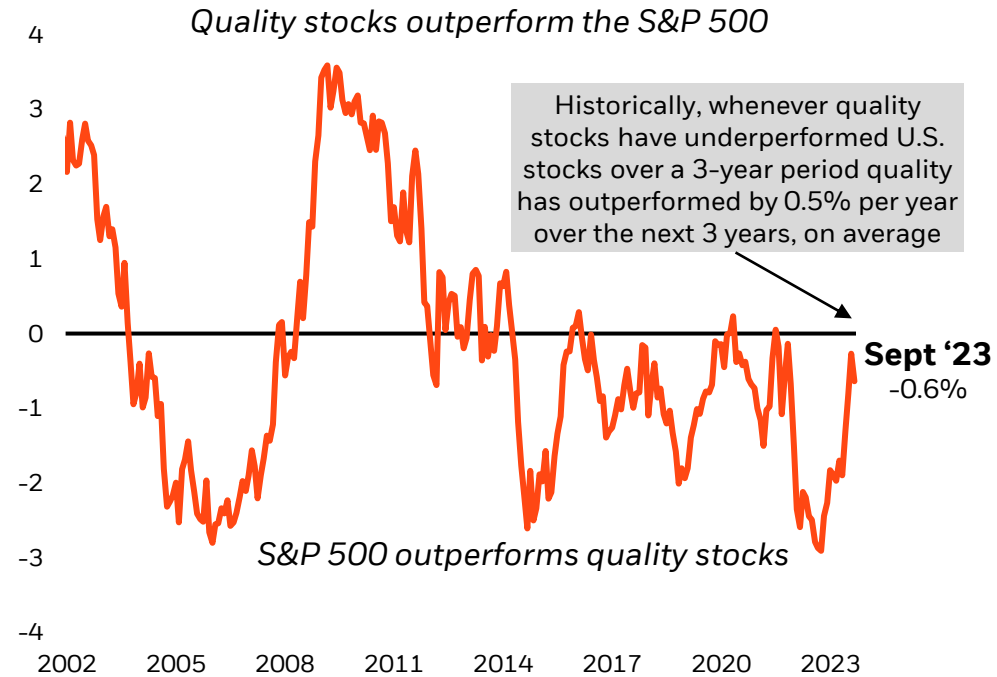
Quality stocks have and could potentially continue to outperform U.S. stocks

YTD 2023 performance



3-year rolling quality stocks versus the S&P 500

Quality stocks minus U.S. stocks, as of 9/30/23

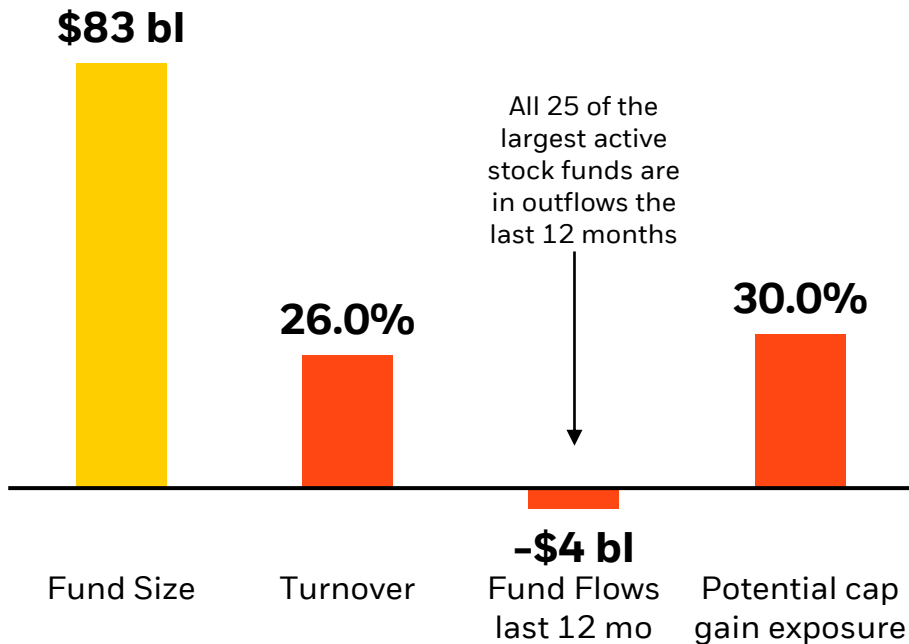


Source: Morningstar as of 9/30/23. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 9/30/23 and the IA SBB1 U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Quality stocks are represented by the MSCI USA Sector Neutral Quality NR Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.

Largest equity mutual funds have potential capital gain distribution challenges

Average of the top 25 largest stock mutual funds

Top 25 largest active mutual funds



Why gains + turnover + outflows set up capital gains distributions

1 Unrealized gains in funds

Large stock market gains create large amounts of unrealized gains embedded in mutual funds.

2 Selling stocks to meet redemption requests

A mutual fund in outflows must sell stocks to meet redemption requests, often triggering capital gains distributions.

3 Remaining shareholders bear the burden

A mutual fund shrinking due to redemptions also amplifies the tax consequence for remaining shareholders.

Source: BlackRock, Morningstar, as of 9/30/23. Funds represented are 25 largest by AUM, regardless of Morningstar Category. Past performance does not guarantee or indicate future results.

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Returns as of 9/30/23	1 Year Return	5 Year Avg. Annual Return	10 Year Avg. Annual Return
S&P 500 TR USD	13.07	21.62	1.39
Bloomberg US Agg Bond TR USD	-1.21	0.64	-7.29
IA SBBI US IT Govt Cap App	-2.76	-2.26	-8.21
IA SBBI US IT Govt TR USD	-1.26	0.26	-5.99
IA SBBI US Large Stock Cap App Ext	11.68	19.59	-0.23
IA SBBI US Large Stock TR USD Ext	13.07	21.62	1.39
S&P 500 PR USD	11.68	19.59	-0.23
MSCI USA Sector Neutral Quality NR USD	28.15	9.17	11.09
US BLS CPI All Urban NSA 1982-1984	2.80	2.97	5.97
US Fund Bank Loan	8.90	11.66	3.21
US Fund Equity Market Neutral	3.60	7.45	7.11
US Fund Event Driven	2.65	4.78	0.56
US Fund High Yield Bond	5.36	9.48	-2.37
US Fund Intermediate Core Bond	-0.83	0.79	-7.26
US Fund Intermediate Core-Plus Bond	-0.51	1.28	-7.34
US Fund Long-Term Bond	-2.64	0.79	-13.79
US Fund Macro Trading	2.01	2.80	1.68
US Fund Market Neutral	2.68	7.63	2.48
US Fund Money Market - Taxable	2.15	3.40	1.74
US Fund Multistrategy	3.23	5.99	1.17
US Fund Nontraditional Bond	2.55	4.56	-2.21
US Fund Short-Term Bond	2.33	3.60	-1.68
Bloomberg US Agg Bond PR USD	-3.67	-2.67	-9.95

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown. ©2023 Morningstar. All Rights Reserved. The information, data, analyses and opinions contained herein (1) include the confidential and proprietary information of Morningstar, (2) may include, or be derived from, account information provided by a financial advisor which cannot be verified by Morningstar, (3) may not be copied or redistributed, (4) do not constitute investment advice offered by Morningstar, (5) are provided solely for informational purposes and therefore are not an offer to buy or sell a security, and (6) are not warranted to be correct, complete or accurate. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, this information, data, analyses or opinions or their use. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of 9/30/23 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

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