

# **Student of the Market**

May 2023

**BlackRock**<sup>®</sup>

# Student of the Market

May 2023

## Market overview

**Rally since Oct '22**

**U.S. debt ceiling**

**Seasonal returns**

## Stocks

**Stocks following a Fed pause**

**Money market assets and  
stock performance**

**Largest stocks driving  
performance**

## Bonds

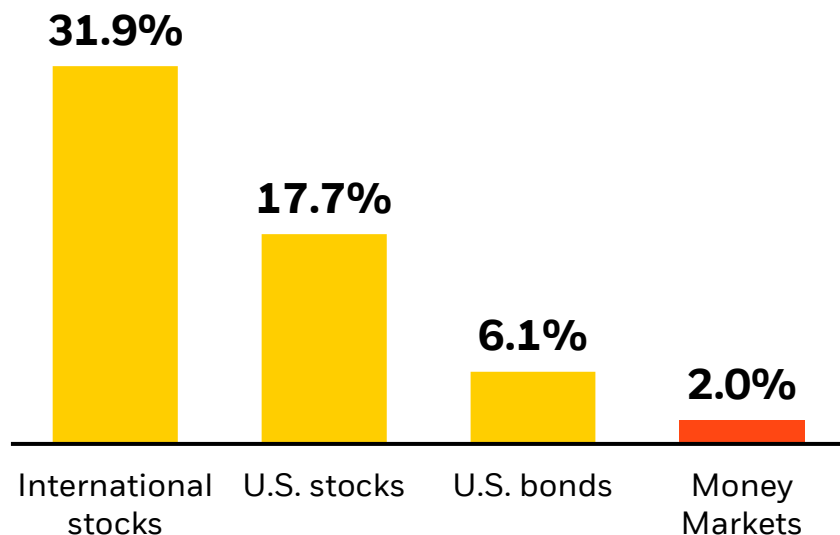
**Bonds following a Fed pause**

**Reinvestment risk**

# Rally since the lows of last October

## Performance since the low in U.S. stocks last year

(10/13/22 – 4/30/23)



## Other asset classes since the low in U.S. stocks

Returns for each time period before and after 10/12/22

	1/1/22 to 10/12/22	10/13/22 to 4/30/23
International stocks	-27.7	31.9
Quality stocks	-27.7	21.7
Large growth	-31.3	19.1
U.S. stocks	-24.0	17.7
Large value	-17.2	14.4
Emerging market stocks	-28.0	14.1
High yield bonds	-14.4	8.5
U.S. bonds	-15.1	6.1
Small cap stocks	-24.0	5.7
Short-term bonds	-6.5	3.6
Money markets	0.6	2.0

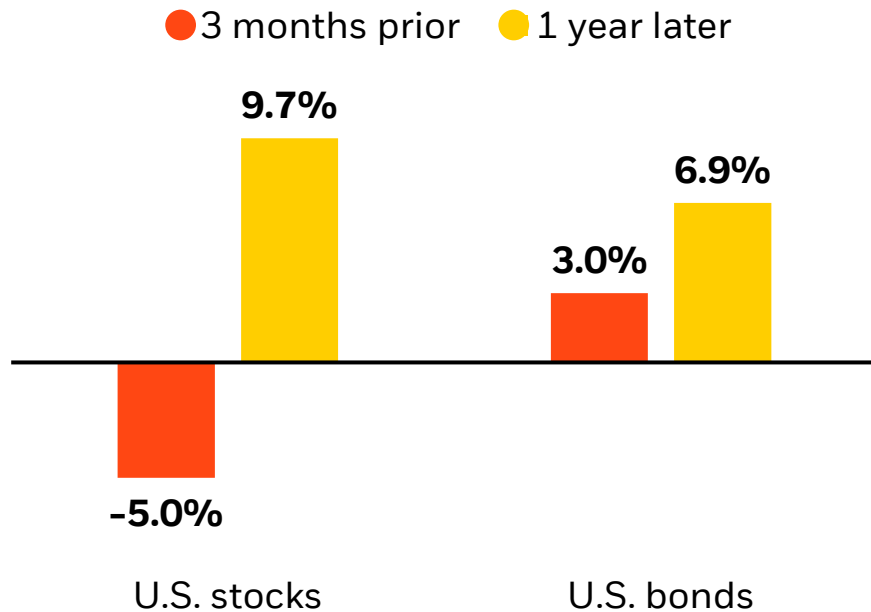
Morningstar as of 4/30/23. U.S. stocks are represented by the S&P 500 TR Index, U.S. bonds represented by the Bloomberg U.S. Agg Bond TR Index, International stocks by the MSCI EAFE NR Index, Emerging market stocks by the MSCI EM NR Index, Quality stocks by the MSCI Sector Neutral Quality Index, Large growth by the Russell 1000 Growth Index, Large value by the Russell 1000 Value Index, and Small cap stocks by the Russell 2000 Index. All other asset class returns are represented by the average returns of their respective Morningstar categories over each stated 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.

# U.S. debt ceiling concerns

Since 1960, Congress has adjusted the debt ceiling 78 times - 49 times under Republican presidents and 29 times under Democratic presidents. Most recent notable standoffs were in 2011 and 2013.

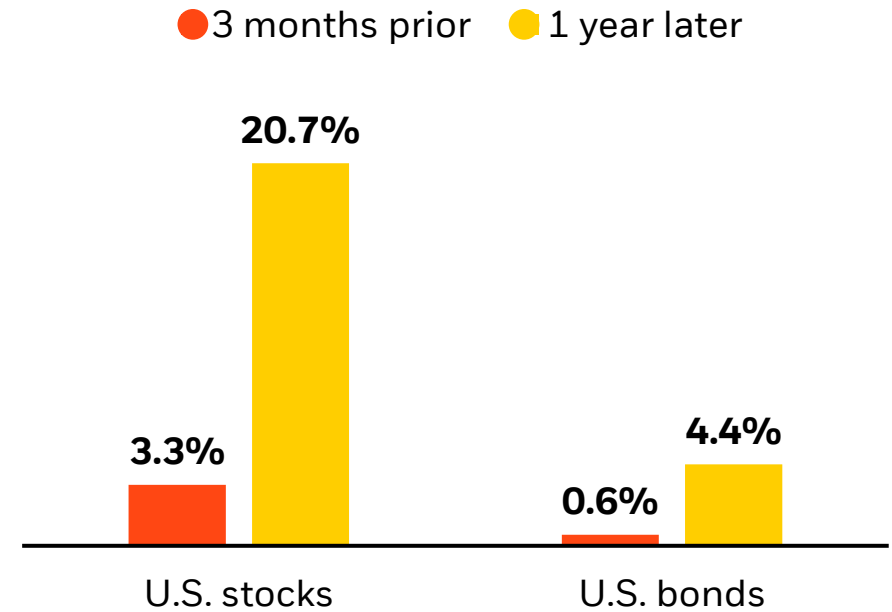
## 2011 debt ceiling standoff

In 2011, S&P downgraded the U.S. credit rating one notch citing the growing debt and the prolonged debate



## 2013 debt ceiling standoff

In 2013, the government was shut down for 16 days



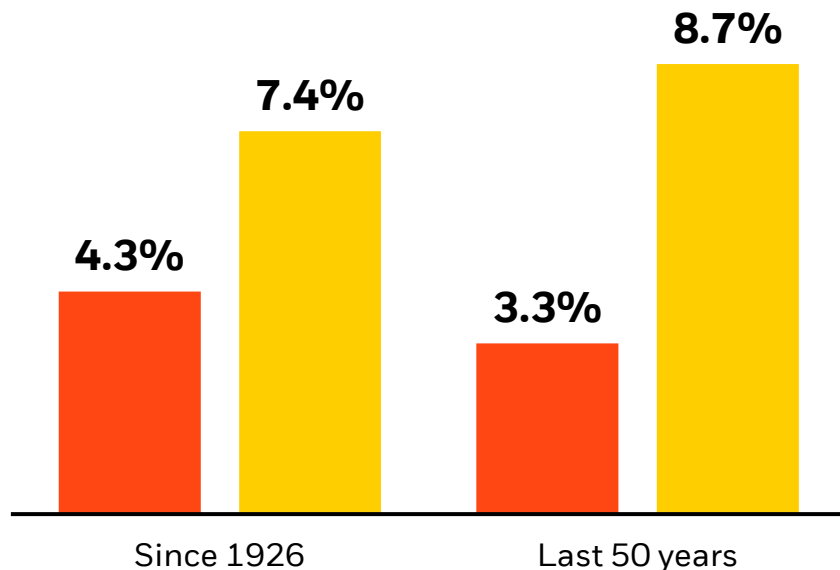
Source: Morningstar as of 4/30/23. U.S. stocks are represented by the S&P 500 TR Index and U.S. bonds are represented by the Bloomberg U.S. Agg Bond TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Sell in May and go away?

**Stocks like Nov. 1 to Apr. 30 (“turkey to tax”) better, but still average over +3.3% from May 1 to Oct. 31**

Since 1926, Average for all 6-month periods

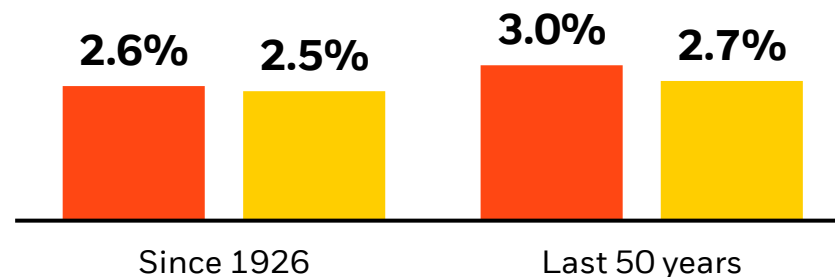
- May 1 to Oct. 31 (“Mommies to Mummies”)
- Nov. 1 to Apr. 30 (“Turkey to Tax”)



**Bonds slightly better in May 1 to Oct. 31 (“mommies to mummies”)**

Since 1926, Average for all 6-month periods

- May 1 to Oct. 31 (“Mommies to Mummies”)
- Nov. 1. to Apr. 30 (“Turkey to Tax”)



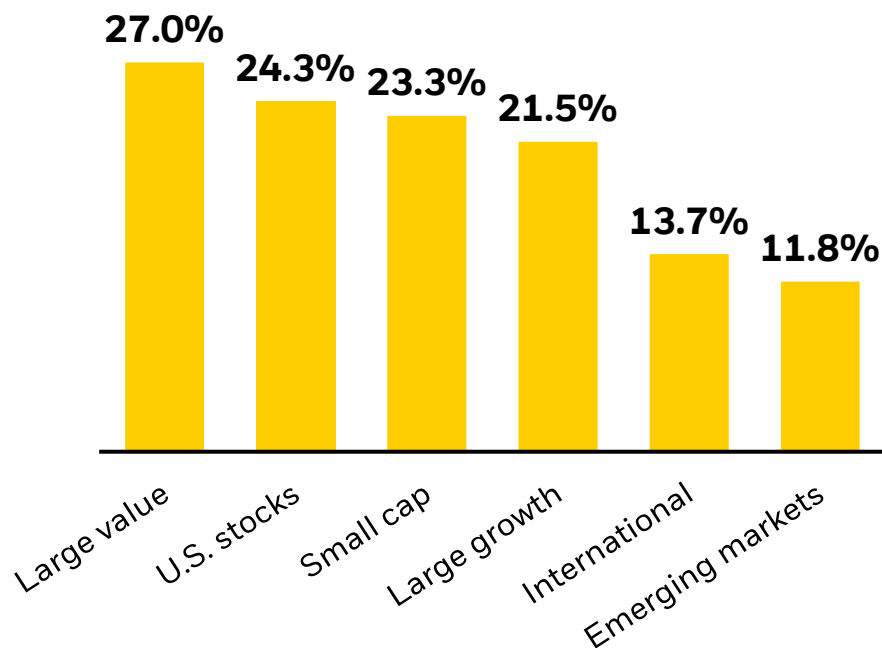
Morningstar as of 4/30/23. U.S. stocks are represented by the S&P 500 TR Index from 3/4/57 to 4/30/23 and the IA SBBI U.S. Lrg Stock TR USD Index from 1/1/26 to 3/4/57. U.S. bonds are represented by the IA SBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 4/30/23. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only.** You cannot invest directly in the index.

# Potential Fed interest rate hike pause and historical stock performance

The Federal Reserve raising rates for the last time in a cycle and U.S. stock performance

## Average 12 months following the last Fed hike

(2/4/94 – 4/30/23)



## Specific periods of following last Fed hike

(2/4/94 – 4/30/23)

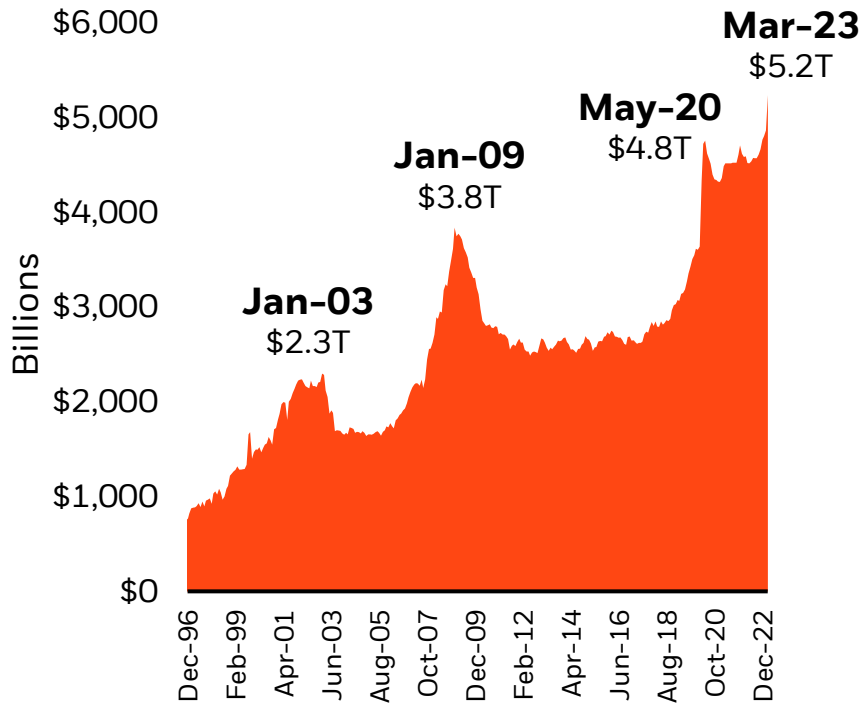
Last Federal Reserve rate increase	Large value	U.S. stocks	Small cap	Large growth	Int'l stocks	Emerging markets
2/1/95	38.7	30.0	38.8	16.1	27.2	27.2
3/25/97	42.2	38.0	42.7	15.5	-21.6	-21.6
5/16/00	-13.0	-0.3	-31.4	-16.0	-21.0	-21.0
6/29/06	23.1	23.4	21.7	32.8	54.6	54.6
12/20/18	30.5	25.4	35.6	19.8	19.8	19.8
<b>Average</b>	<b>27.0</b>	<b>24.3</b>	<b>23.3</b>	<b>21.5</b>	<b>11.5</b>	<b>11.8</b>

Source: Morningstar as of 4/30/23. U.S. stocks are represented by the S&P 500 index, Large value by the Russell 1000 value Index, Large growth by the Russell 1000 growth Index, Small cap by the Russell 2000 Index, International by the MSCI EAFE NR Index, and Emerging markets by the MSCI EM NR Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Money market assets reach a historic peak

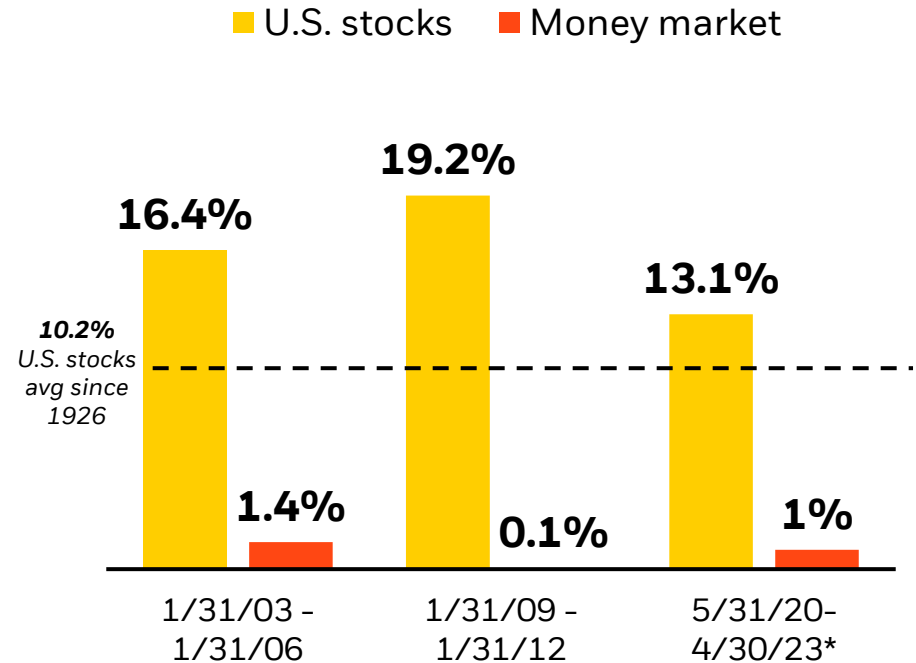
**Money market fund assets**

2/1/96 – 3/31/23



**3-year performance following a peak in money market fund assets**

Average annual performance

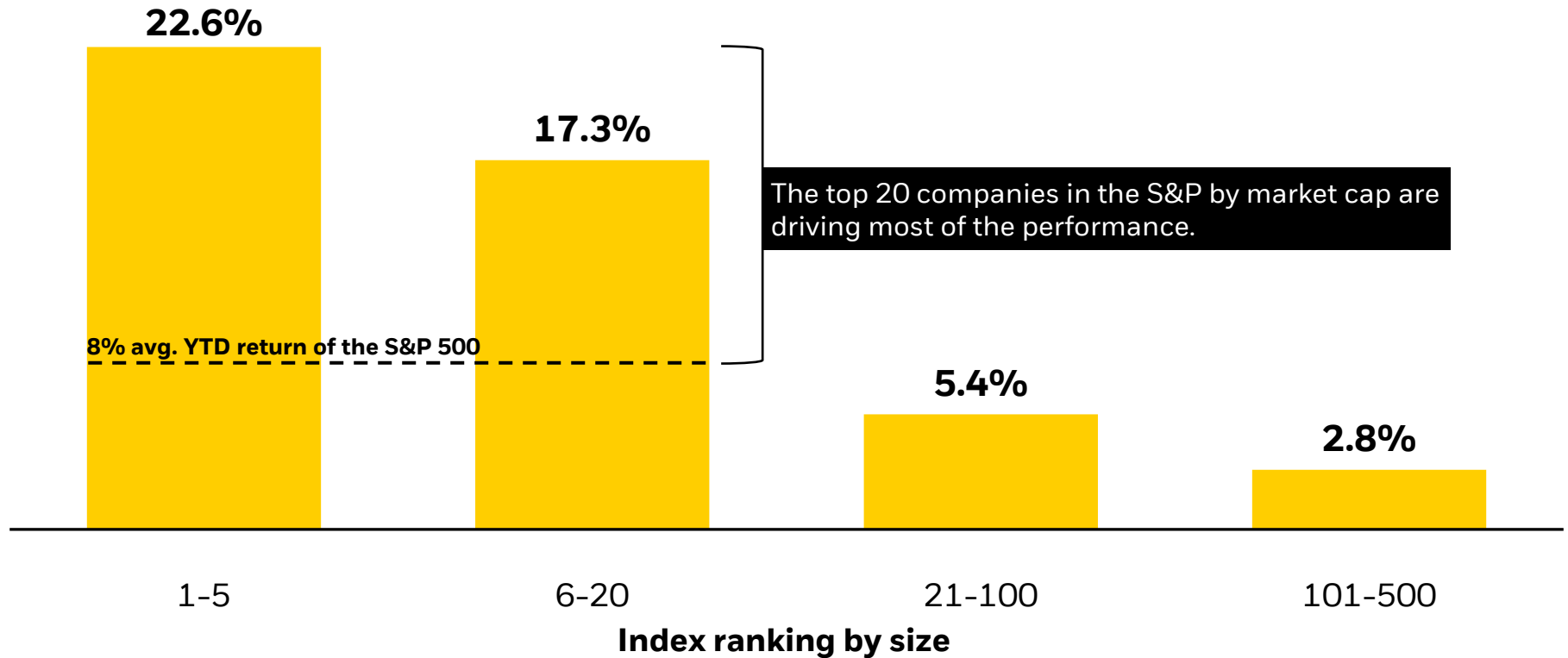


Source: Morningstar as of 4/30/23. U.S. stocks represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index. \*Not a 3 year period but a 2 year and 11 month time period.

# Largest stocks are driving index returns in 2023

## Not all stocks within the S&P 500 are the same

Average 2023 YTD performance of individual companies in the S&P 500 Index, grouped rank according to market cap size (1/1/23 - 4/30/23)



Source: Morningstar as of 4/30/23. Stocks represented by the individual stocks of the S&P 500 Index, non-voting dual-class shares excluded. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

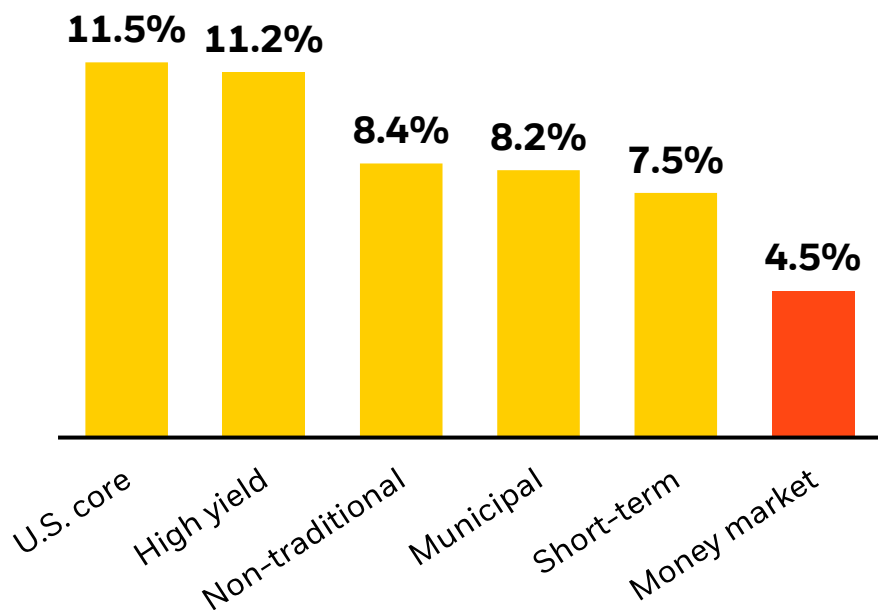


# Potential Fed interest rate hike pause and historical bond performance

The Federal Reserve raising rates for the last time in a cycle and bond performance.

## Average 12 months following the last Fed hike

(2/4/94 – 4/30/23)



## Specific periods of following last Fed hike

(2/4/94 – 4/30/23)

Last Federal Reserve rate increase	U.S. core	High yield	Non-traditional	Municipal	Short-term	Money market
2/1/95	16.9	18.9	NA	11.5	10.7	5.4
3/25/97	11.5	16.0	17.6	8.1	7.5	5.1
5/16/00	13.8	-1.6	1.9	10.6	9.8	5.7
6/29/06	6.4	11.4	8.0	3.7	5.1	4.7
12/20/18	8.8	11.2	6.2	7.0	4.6	1.8
<b>Average</b>	<b>11.5</b>	<b>11.2</b>	<b>8.4</b>	<b>8.2</b>	<b>7.5</b>	<b>4.5</b>

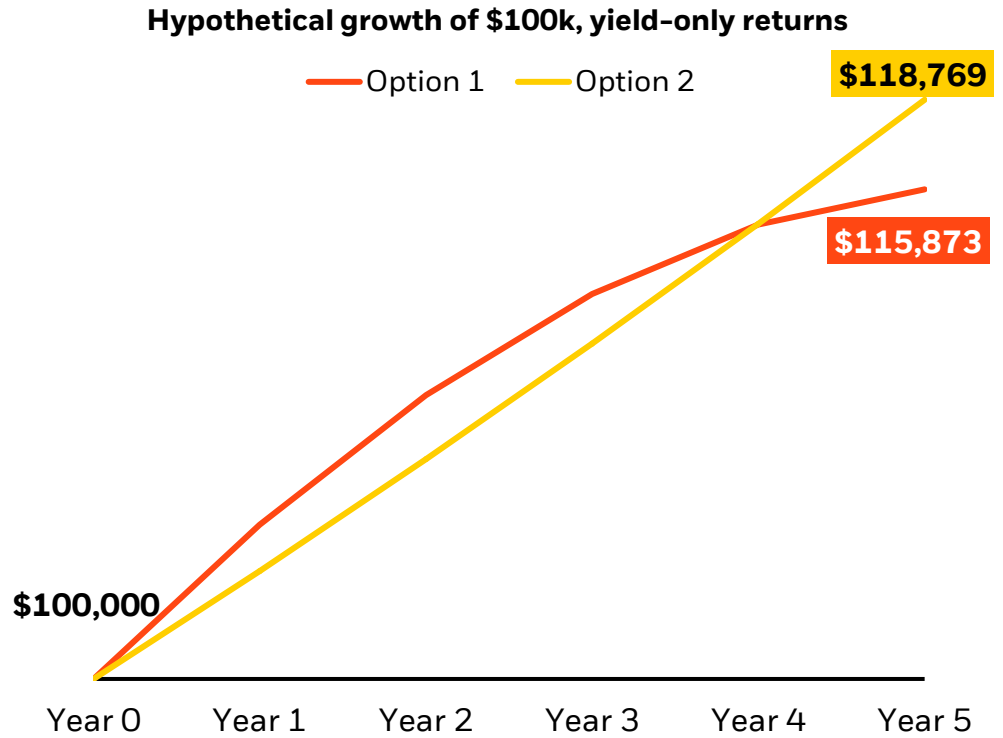
Source: Morningstar as of 4/30/23. Asset class returns represented by respective Morningstar category. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Today's challenge: reinvestment risk

## The risk of waiting to reinvest in core bonds

Hypothetical scenarios investing in individual bonds in a falling interest rate environment where yields fall 1% each year, and holding each bond to maturity

	Option 1: Buy a 1-year, 5% bond now and reinvest each year	Option 2: Buy a 5-year, 3.5% bond now
Year 1 interest rate	5%	3.5%
Year 2 interest rate	4%	3.5%
Year 3 interest rate	3%	3.5%
Year 4 interest rate	2%	3.5%
Year 5 interest rate	1%	3.5%



Source: BlackRock as of 4/30/23. Hypothetical example for illustrative purposes only.

# Student of the Market: May 2023

Returns as of 4/30/23	1 Year Return	5 Year Avg. Annual Return	10 Year Avg. Annual Return
S&P 500 TR USD	-7.73	11.19	12.24
Bloomberg US Agg Bond TR USD	-4.78	0.91	1.36
IA SBBI US IT Govt TR USD	-2.43	1.10	1.03
IA SBBI US Large Stock TR USD Ext	-7.73	11.19	12.24
IA SBBI US LT Govt TR USD	-14.28	-0.23	1.44
US Fund High Yield Bond	-3.56	2.51	3.22
MSCI EAFE NR USD	8.42	3.63	4.76
Russell 1000 Growth TR USD	2.34	13.80	14.46
MSCI EM NR USD	-6.51	-1.05	1.80
Russell 1000 Value TR USD	1.21	7.75	9.13
Russell 2000 TR USD	-3.65	4.15	7.88
MSCI USA Sector Neutral Quality NR USD	3.43	10.49	11.19
US Fund Inflation-Protected Bond	-5.08	2.60	1.17
US Fund Intermediate Core Bond	-5.08	0.75	1.19
US Fund Intermediate Core-Plus Bond	-5.37	0.93	1.47
US Fund Money Market - Taxable	1.96	1.07	0.61
US Fund Multisector Bond	-3.59	1.48	2.33
US Fund Muni National Interim	-0.29	1.62	1.79
US Fund Short-Term Bond	-0.67	1.31	1.18
US Fund Ultrashort Bond	1.89	1.40	1.03

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