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2022 Year-end Review – Part 2

It was a tough and challenging year for investors in 2022 as the traditional 60/40 portfolio mix of stocks and bonds provided little defense against rising interest rates. Most suffered substantial losses. The MSCI All-country world index (ACWI) and benchmark US S&P 500 index suffered their worst year since the Global Financial Crisis of 2008. Global bond prices dropped as yields increased, fueled by persistently high inflation, hawkish monetary policy, and rising geopolitical instability. The 2-year US T-bill yield saw a significant increase, going from 0.736% to 4.428% over the same period. The 10-year US government bond yield also rose from 1.514% at the end of 2021 to 3.88% at the end of 2022.

US treasury yields	yield at end-2021	yield at end-2022
6 months US treasury bill	0.190%	4.600%
12 months US treasury bill	0.389%	4.722%
2 yr US treasury bond	0.736%	4.428%
5 yr US treasury bond	1.265%	4.000%
10 yr US treasury bond	1.514%	3.880%

Source: Bloomberg, Wealth Securities Research

Worst year for US Bonds

After a multi-decade run, global bonds suffered unprecedented losses in 2022. The Bloomberg Global Aggregate bond market index lost 13%, far and away the worst loss ever for this benchmark index. The next largest decline was 2.9% in 1994. US aggregate bonds fell 18.9%, making it the worst year on record for US bonds.

The rising interest rates impacted both stock and bond markets, leading to a 15.3% drop in the diversified 60/40 portfolio, the largest annual decline since 2008, when it fell 22.6%. At one point, the 60-40 portfolio was down as much as 34.4%, the worst performance in a century.

Bonds	Year-to-date
Bloomberg Global Aggregate	-13.0%
Pan-Euro Aggregate	-15.3%
EM USD Aggregate	-16.2%
US Aggregate	-18.9%

Source: Bloomberg, Wealth Securities Research

Topsy-turvy commodities

2022 was a topsy-turvy year for commodities. While it went up significantly in the first qaurter partly due to the Russia-Ukraine war, commodities declined substantially the rest of the year. Initially, the conflict exacerbated supply chain disruptions and caused energy and food prices to spike. As a result, wheat prices shot up 74% to a year-high of $1340/bu in March, while Brent crude oil skyrocketed 79% to a peak of $139.15/bbl likewise in March. Commodities like copper, nickel, aluminum, corn, palm oil and soybean oil peaked between March and April 2022.

Since then, the exact opposite happened as commodity prices crashed, returning to pre-war levels due partly to the resumption of grain exports from Ukraine. The potential for a global economic slowdown also weighed on market prices as the year ended. Industrial metals, including copper, aluminum, zinc, and tin, were heavily impacted by the economic outlook and saw 20% to 40% declines by year-end.

While energy commodities still posted gains for the year, crude oil and gasoline prices are down 40%, while natural gas is down more than 50% from peak levels. Likewise, agricultural commodities experienced double-digit declines from their highs, led by palm oil, wheat, and soybean oil which fell 52%, 41%, and 30%, respectively. Only rough rice remains in an uptrend, ending 2022 with a 25.7% gain.

Commodities

Industrial Metals	Year-to-Date	Decline from High
Nickel	43.2%	-44.2%
Zinc	-13.7%	-33.8%
Copper	-14.6%	-23.9%
Aluminum	-15.2%	-41.9%
Tin	-37.0%	-49.2%

Energy	Year-to-Date	Decline from High
Natural Gas	20.1%	-54.1%
Crude Brent Oil	10.5%	-38.3%
RBOB Gasoline	10.4%	-43.1%
Crude WTI Oil	6.7%	-38.5%

Agriculture	Year-to-Date	Decline from High
Rough Rice	25.7%	-0.1%
Soybean	14.7%	-14.6%
Corn	14.4%	-18.0%
Soybean Oil	13.8%	-29.9%
Wheat	2.8%	-40.9%
Palm Oil	-19.2%	-52.4%

Source: Bloomberg, Wealth Securities Research

2023: A year of recovery

Last November's US Consumer Price Index (CPI) report showed the decrease in inflation that the financial markets had been anticipating, leading many investors to expect the US Fed to pause its aggressive monetary policy in the first quarter of 2023. This sentiment was reinforced by Friday's December jobs report, which provided further evidence that inflation, particularly wage inflation, is cooling and moving toward the Fed's target. This data boosted stocks substantially higher last Friday, with the Dow rising 700 points. While markets may continue to be volatile in 2023 due to increasing recession risks, the declining inflation, less aggressive Fed, and weaker US dollar suggest a recovery in all major asset classes, including bonds and stocks in emerging markets such as the Philippines.

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