BUSKA Wealth Management, LLC

Reflecting on 2022 and Looking Ahead to 2023

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In 2022, the S&P 500 Index, representing the largest U.S. companies declined 18%, the worst annual return since the Financial Crisis in 2008. Bonds, as measured by the Bloomberg U.S. Aggregate Bond Index, also fell during the year, losing 13% in 2022—the worst annual decline for bonds since 1976.

The decline in equity prices was also widespread as nine of the 11 S&P 500 sectors experienced negative returns in 2022. The Communication Services sector fared the worst, losing nearly 40%. The top performing sector was Energy, which had its best year on record, climbing nearly 66% as a combination of tight supplies and rising demand boosted the bottom line of many energy-related companies.

Macroeconomic events took a toll on the markets in 2022. During the year, investors were confronted with inflation levels not seen in 40 years, rapidly increasing interest rates, geopolitical tensions, mid-term elections, and the continued recovery from the COVID-19 pandemic.

Notably, after more than a decade in an ultra-low interest rate environment, the Federal Reserve increased rates seven times in 2022 to combat persistent inflation, raising the federal funds rate between 25 and 75 basis points each time. By the end of the year, the fed funds rate reached its highest level in 15 years.[1]

Higher interest rates may be having the desired effect of lowering inflation. As the year ended, inflation levels appear to be moderating. Over the 12 months ended June 2022, the Consumer Price Index peaked at 9.1% and began a downward trajectory to 7.1% by the end of November 2022.[2]

After a volatile year, it's important to put the 2022 market performance in context compared to broader history. Since 1939, the S&P 500 Index has declined 25% or more only 12 times from peak to trough. Over a 1-year period following a 25% drawdown, the market declined only once losing 7%, during the 2008 Financial Crisis. On average, the market gained over 21% in the year following a 25% drawdown.

Over the past 50 years through 2022, annual returns for the S&P 500 have been positive approximately 80% of the time. Over a 40-year period, as of the end of 2022, the average annual returns of the S&P 500 and the Bloomberg U.S. Aggregate Bond Index were over 11% and nearly 7%, respectively. While short-term returns can fluctuate, stock and bond returns have been significant for long-term investors.

For long-term investors, look to 2023 as an opportunity to put some money to work at attractive prices. Talk to your Advisor to help determine the best course of action to take while the market is trading at a lower level.

As we begin 2023, we would like to wish you a happy, healthy and prosperous New Year and we look forward to working with you.

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1) Federal Reserve Bank of St. Louis, 2) U.S. Bureau of Labor Statistics