



**VERABANK**  
WEALTH MANAGEMENT

# 2023

»»» Annual Market Review

# 2023 Annual Market Review

This report features VeraBank Wealth Management market commentary, global stock and bond market performance data, and a timeline of events for 2023.

It begins with our commentary about what has taken place in financial markets and the economy over the prior year.

It contains returns data for major asset classes which we include in our clients' portfolios.

The report concludes with our current views on the market and a topic of interest.

Contact a [VeraBank Wealth Management Advisor](#) with any questions or if you know someone who might benefit from our expert advice.

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# 2023 Annual Market Review

## VeraBank Wealth Management Commentary

Falling inflation rate, a strong economy, Fed rate cuts in sight, and a drop in longer term yields contribute to a strong close to 2023 in both stock and bond markets







- The year closed with a strong rally in both global stock and bond markets. U.S. stocks gained 25.96% and U.S. bonds 5.53% in 2023, boosted by a Q4 that saw positive returns across most asset classes.
- In Q4, U.S. small-value company stocks were the best performing asset class for the 2<sup>nd</sup> quarter in a row, slightly outperforming the tech-focused U.S. large growth stocks that led the way in the first half of 2023.
- Investors continue to expect that the U.S. avoids a recession, often called a “soft landing” and look forward to the first of several rate cuts in the first half of 2024.

### Interest rates in the spotlight

- The Federal Reserve continues to hold the Federal Funds rate steady at 5.25-5.50%, since their July meeting. Short term yields remained steady over the quarter, but longer-term yields decreased significantly in Q4 2023 after a steep rise in Q3.
- In 2023, performance of bond funds was positive, fueled by a combination of higher yields and the impact of falling longer term rates during Q4.
- The Fed Funds futures market is aggressively pricing in 1.50% of rate cuts in 2024, with the first cut possible at the Fed’s meeting in March.

# 2023 Market Summary





## Index returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>2023</b>	<b>STOCKS</b>				<b>BONDS</b>	
	25.96%	17.94%	9.83%	10.23%	5.53%	8.32%
						
<b>Since Jan. 2001</b>						
Average Yearly Return	9.6%	6.6%	11.3%	9.2%	3.8%	3.8%
Best Year	33.6%	39.4%	78.5%	37.4%	10.3%	8.8%
	<b>2013</b>	<b>2003</b>	<b>2009</b>	<b>2006</b>	<b>2002</b>	<b>2014</b>
Worst Year	-37.3%	-43.6%	-53.3%	-45.7%	-13.0%	-9.8%
	<b>2008</b>	<b>2008</b>	<b>2008</b>	<b>2008</b>	<b>2022</b>	<b>2022</b>

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.

# Long-Term Market Summary

Index returns as of December 31, 2023

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	25.96%	17.94%	9.83%	10.23%	5.53%	8.32%
						
5 Years						
	15.16%	8.45%	3.68%	4.16%	1.10%	1.50%
						
10 Years						
	11.48%	4.32%	2.66%	4.72%	1.81%	2.80%
						

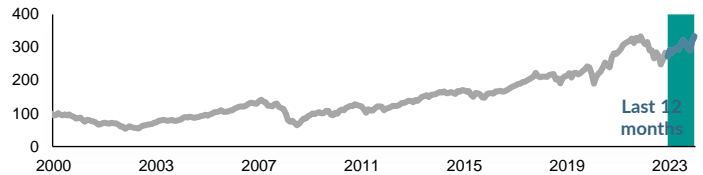
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.



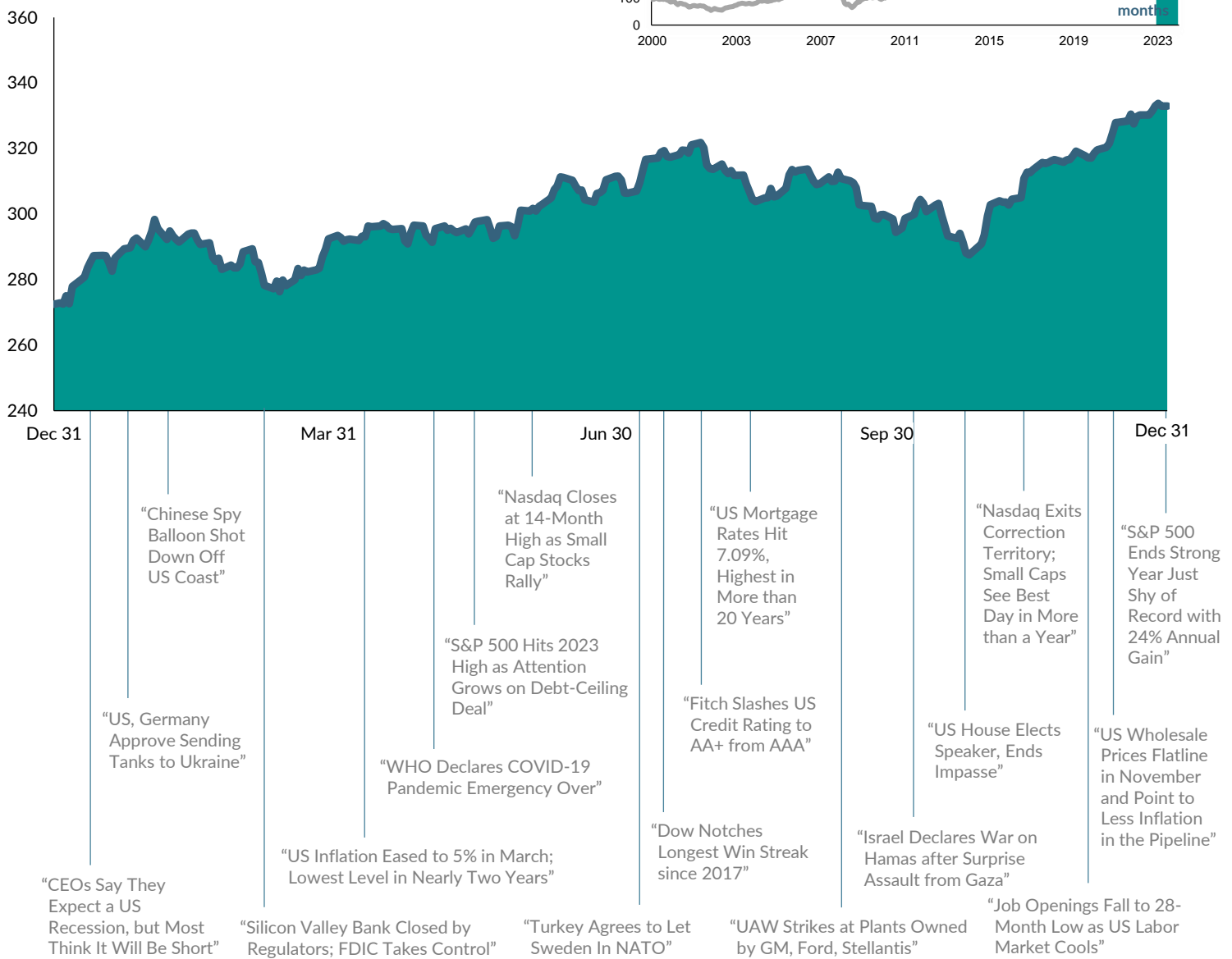
# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

LONG TERM (2000-Q4 2023)



SHORT TERM (Q1 2023-Q4 2023)



**These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.**

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

# US Stocks

## Fourth quarter 2023 index returns

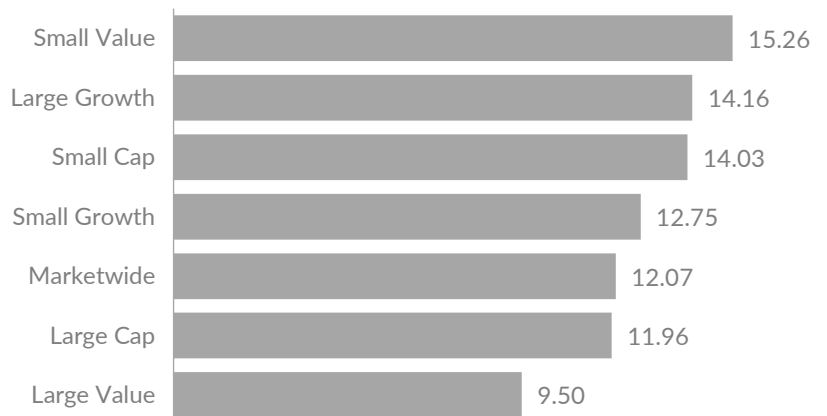
The US equity market posted positive returns for the quarter and outperformed both non-US developed and emerging markets.

Value underperformed growth within large caps and outperformed within small caps.

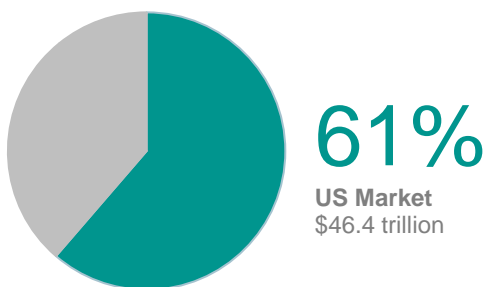
Small caps outperformed large caps.

REIT indices outperformed equity market indices.

### Ranked Returns (%)



### World Market Capitalization—US



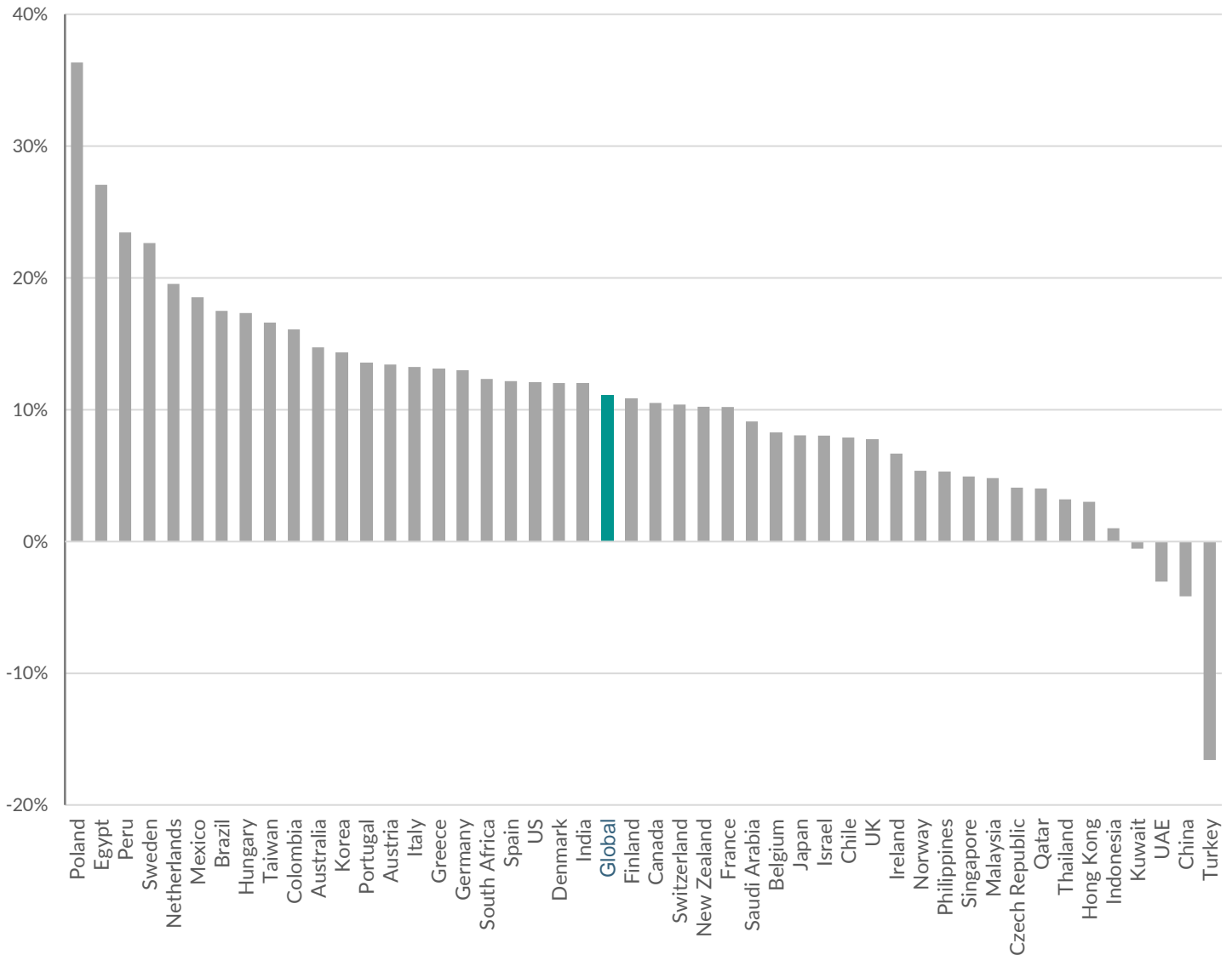
### Period Returns (%)

Asset Class	QTR	1 Year	Annualized		
			3 Years	5 Years	10 Years
Small Value	15.26	14.65	7.94	10.00	6.76
Large Growth	14.16	42.68	8.86	19.50	14.86
Small Cap	14.03	16.93	2.22	9.97	7.16
Small Growth	12.75	18.66	-3.50	9.22	7.16
Marketwide	12.07	25.96	8.54	15.16	11.48
Large Cap	11.96	26.53	8.97	15.52	11.80
Large Value	9.50	11.46	8.86	10.91	8.40

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. MSCI data © MSCI 2024, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

# Country Returns

Fourth quarter 2023 index returns



**Past performance is no guarantee of future results.**

Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. MSCI data © MSCI 2024, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes.



# Fixed Income

## Fourth quarter 2023 index returns

Interest rates generally decreased in the US Treasury market for the quarter.

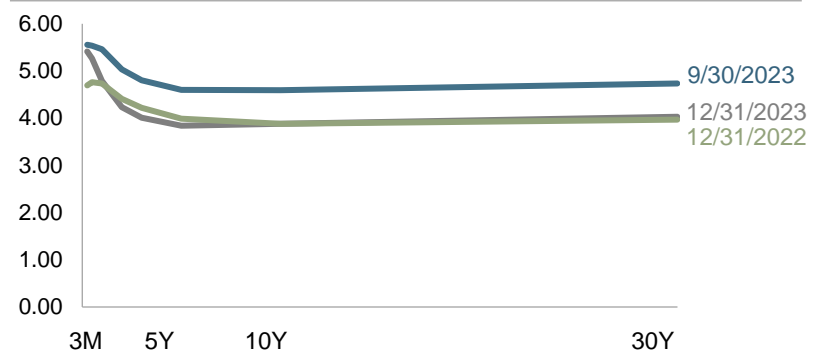
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 5 basis points (bps) to 5.60%, while the 1-Year US Treasury Bill yield decreased 67 bps to 4.79%. The yield on the 2-Year US Treasury Note decreased 80 bps to 4.23%.

The yield on the 5-Year US Treasury Note decreased 76 bps to 3.84%. The yield on the 10-Year US Treasury Note decreased 71 bps to 3.88%. The yield on the 30-Year US Treasury Bond decreased 70 bps to 4.03%.

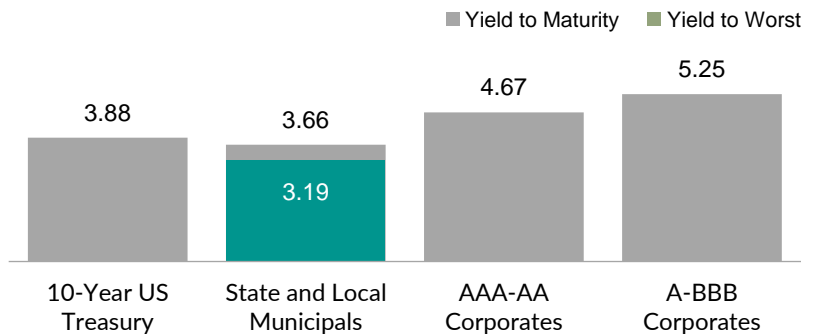
In terms of total returns, short-term US treasury bonds returned +3.21% while intermediate-term US treasury bonds returned +3.99%. Short-term corporate bonds returned +4.12% and intermediate-term corporate bonds returned +5.86%.<sup>1</sup>

The total returns for short- and intermediate-term municipal bonds were +3.53% and +6.53%, respectively. Within the municipal fixed income market, general obligation bonds returned +7.79% while revenue bonds returned +8.15%.<sup>2</sup>

### US Treasury Yield Curve (%)



### Bond Yields Across Issuers (%)



### Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Bloomberg U.S. Government Bond Index Long	12.69	3.11	3.11	-11.35	-1.23	2.27
Bloomberg Municipal Bond Index	7.89	6.40	6.40	-0.40	2.25	3.03
Bloomberg U.S. High Yield Corporate Bond Index	7.16	13.44	13.44	1.98	5.37	4.60
Bloomberg U.S. Aggregate Bond Index	6.82	5.53	5.53	-3.31	1.10	1.81
FTSE World Government Bond Index 1-5 Years	4.95	4.79	4.79	-2.95	-0.07	-0.44
Bloomberg U.S. TIPS Index	4.71	3.90	3.90	-1.00	3.15	2.42
FTSE World Government Bond Index 1-5 Years (hedged to USD)	3.09	5.26	5.26	-0.09	1.34	1.44
ICE BofA 1-Year US Treasury Note Index	1.79	4.74	4.74	1.18	1.66	1.18
ICE BofA US 3-Month Treasury Bill Index	1.37	5.01	5.01	2.15	1.88	1.25

1. Bloomberg US Treasury and US Corporate Bond Indices.

2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2024 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2024 ICE Data Indices, LLC. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.

# Market Perspectives

## VeraBank Wealth Management Commentary

### Looking forward to 2024

- The Fed's preferred measure of inflation, Core Personal Consumption Expenditures (PCE), has fallen to 3.2% and the Fed currently projects it falling to 2.4% in 2024 and reaching its long-run target level of 2% in 2026.
- The labor market and consumers both remain strong, fueling a healthy U.S. economy, which continues to track toward the “soft-landing” that many didn't believe possible.

### Expect rate cuts, but when?

- The market is aggressively pricing in 1.50% of rate cuts in 2024, with the first cut possible at the Fed's meeting in March.
- That said, the Fed – per its 12/13/23 Summary of Economic Projections is only estimating 0.75% in cuts in 2024, while continuing to hold steady on accomplishing their mission to bring inflation back to their 2% target.

### What's next in markets?

- Risks remain in the economy, markets, and geopolitics, but there are many positive factors that should make investors optimistic for continued positive returns in both stock and bond markets over the long term.
- Inflation is moderating and is expected to continue its path to 2%, giving the Fed room to cut rates, which could provide a tailwind to both stocks and bonds
- Diversification should play an important role in portfolios. U.S. large cap growth stocks carried the market for much of 2023, but we would expect the other segments of the market to take lead, as we've already seen in Q4 2023. Bonds will also likely have strong contributions to performance with high yields and the potential for additional return with decreasing rates.

Contact a [VeraBank Wealth Management advisor](#) with any questions or if you know someone who might benefit from our expert advice.



# Financial Checklist for the New Year

## How VeraBank Wealth Management Can Help in 2024

At VeraBank Wealth Management, our service to clients goes well beyond just managing investments or trust administration. Our Wealth Advisors and Trust Officers have deep relationships with our clients and have holistic conversations about every aspect of your financial life. This provides our clients the peace of mind to know they have a team of experts working for their family.

With the calendar turning to a new year, now is a good time to make sure you're on top of important financial matters. A few important items to consider:

### How risky is your investment portfolio? Are you taking too much/too little risk for your financial situation?

The first step of determining if your investments are taking the appropriate amount of risk is to have a conversation:

- What are your investment goals and personal/family goals both now and in the future?
- What does risk mean to you? (Ex: risk of not having enough money in retirement, being able to put kids through college, buying a vacation home, not maximizing portfolio growth potential, etc.)
- How are your investments aligned with your short and long-term goals?
- Taking more investment risk than appropriate can of course create issues, but not taking enough risk can hold investors back from achieving goals they should've otherwise been able to achieve with more growth in their portfolio.

### 401k, IRA, and HSA contributions

How are investments in these tax deferred/tax-free accounts working in sync with your other investment accounts? Are you maximizing growth potential, managing risks, and investing tax-efficiently?

The maximum 401(k) contribution amount is \$23,000 and the IRA contribution limit in 2024 is \$7,000. Additional catch-up contributions for individuals aged 50 and over are \$7,500 for 401(k) and \$1,000 for IRA. It generally makes sense for individuals to maximize tax-deferred contributions, but individual circumstances certainly vary.

Many individuals have access to an HSA (Health Savings Account) as part of their health plan. Often overlooked, HSA's have a triple-tax advantage (tax-deductible contributions, earnings grow tax-free, and tax-free withdrawals for qualified medical expenses.) HSA balances can generally be invested in funds to achieve growth. Please let us know if you have any questions on how to maximize this benefit.

### Estate Planning

Do you have a will? Is it up to date? Have you established a trust? Why might you need a trust?

Estate planning is important for people of all ages and financial circumstances. Proper estate planning not only helps minimize potential conflict and legal challenges among heirs, but also allows for the efficient distribution of assets according to one's wishes.

By creating a comprehensive plan that might include wills, trusts, and other relevant documents, individuals can safeguard their legacy, protect loved ones, and mitigate tax implications, allowing for peace of mind during their lifetime and leaving a lasting impact on their family's financial well-being.

Our team of experts is here to have conversations with you on these topics and many others. Please reach out if you or someone you know might benefit from our services.

Explore VeraBank [Investment Services](#) or [schedule an appointment](#) with an advisor to learn more.

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