WEALTH MANAGEMENT
CHIEF INVESTMENT OFFICE

Special update and analysis of current events impacting financial markets

Hindsight 2023: A transitional year where managed portfolios delivered value for our clients

Key Takeaways

- 2023 was a transitional year for the economy and financial markets punctuated by uncertainty and resilience of the American consumer, which helped push both the equity and bond markets higher by the end of 4Q.
- TIAA Wealth Management Chief Investment Office (CIO) provided ongoing value to managed account clients in 2023 by executing on a disciplined investment process, customized to an investor's financial goals and risk tolerance.
- In 2024, we expect economic and market volatility to create unique risks and opportunities for investors.

2023 was a year of surprises for investors. Coming into the year, there was widespread fear of a significant slowdown for the U.S. economy, paired with downbeat prospects for risk assets such as equities. Instead, the U.S. economy accelerated for much of the year despite the Federal Reserve (Fed) hiking its policy rates to 5.25–5.50% in the most aggressive tightening campaign since the 1970s.

The American consumer remained resilient throughout the year. With the consumer accounting for 70% of the U.S. economy, the post COVID-era spending bonanza that propelled U.S. GDP growth despite headwinds from the Fed has driven 18 months of solid earnings growth for companies: U.S. equities (as measured by the S&P 500) were up 26.3% in 2023.

Investors shook off stresses in the regional banking sector, higher interest rates and geopolitical events such as the war in the Middle East, focusing instead on better-than-feared corporate earnings and the excitement around the future of AI. Information technology stocks traded significantly higher in 2023 as investors gravitated to growth names. While the S&P 500 had more than 130 members up more than 50%, the lion's share of 2023's outperformance was driven by the seven mega-cap technology companies that comprise 30% of the index.

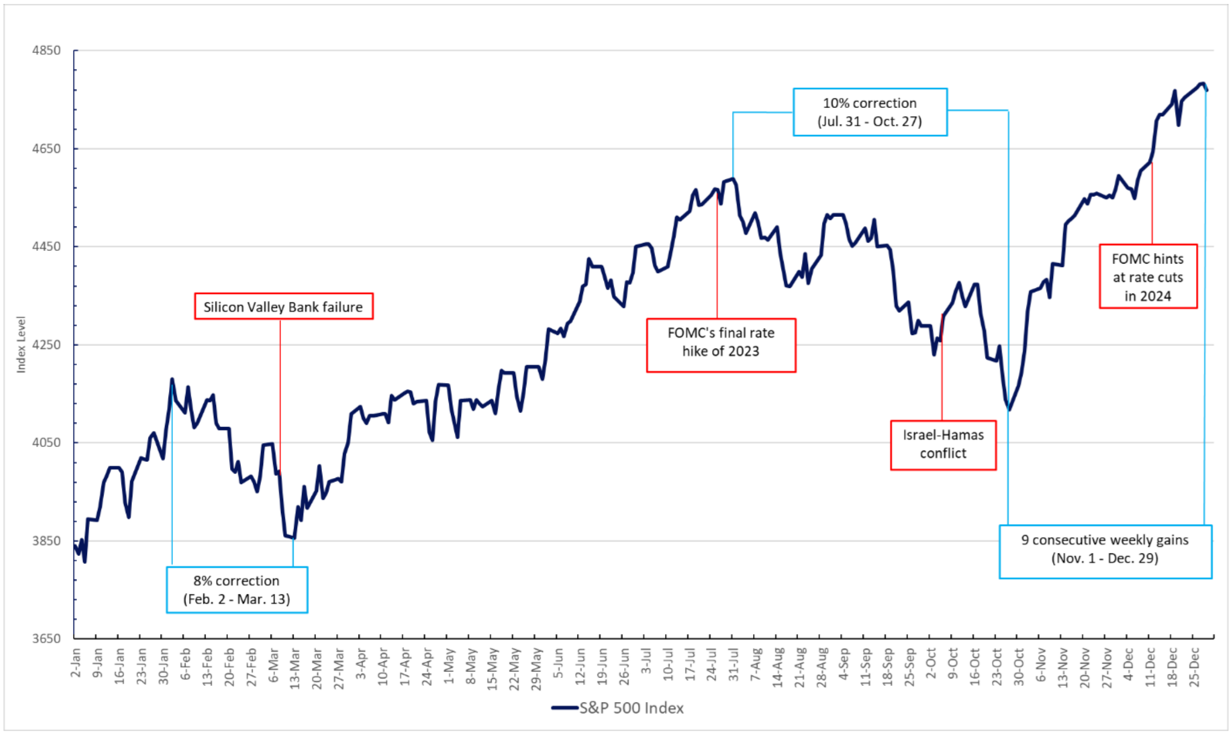
Coming off a challenging year in 2021 and record negative performance in 2022, bond investors also made some meaningful headway in 2023. Despite a confluence of challenging factors including high inflation, aggressive monetary policy tightening, surging Federal budget deficits, and a resilient U.S. economy, the Bloomberg Aggregate bond index was up +5.5% by the end of the year. Long-term investors may benefit from an attractive entry point into the bond market, as higher yields should enhance their traditional role as a diversifier against stock market volatility once again.

How TIAA Wealth Management contributed to client success in 2023

The last few years have been a real roller coaster ride for investors. But as 2023 fades and we begin to find our collective footing once again, a clear lesson has emerged: Regardless of the length or severity of the disruption, solid, long-term financial planning, and disciplined investment management are critical in helping investors remain on track toward their long-term financial objectives.

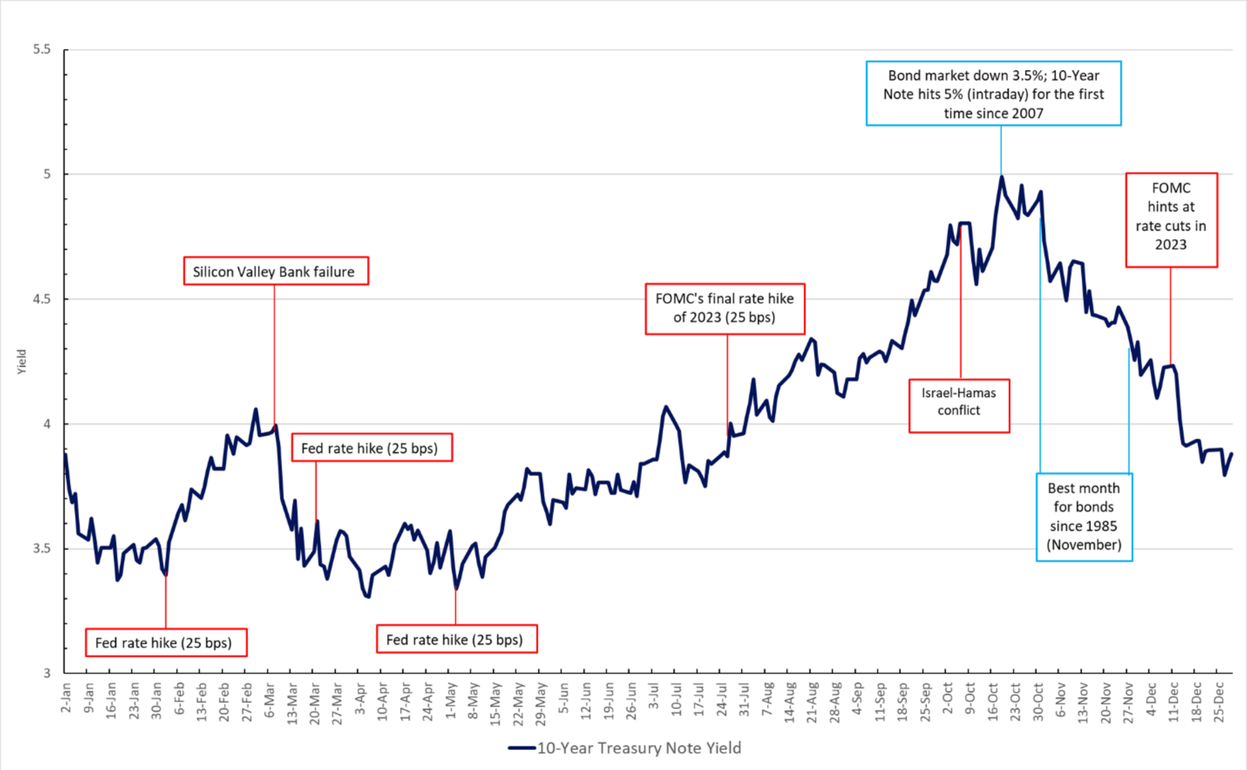
Staying invested and avoiding the temptation to time the market is crucial: Even experienced investors can find themselves making emotionally driven decisions during unusually turbulent periods, which can result in trying to time the market's ups and downs. While past performance is no guarantee of future results, staying invested despite emotional responses to market movement has generally led to positive outcomes for long-term investors. This dynamic is illustrated over the course of just a single calendar year. Despite major economic and geopolitical disruptions that occurred in 2023, performance of the S&P 500 benefitted those who stayed invested in their long-term financial plans (Figure 1). Similarly, the bond market dealt with different sets of disruptions but also managed to finish the year in positive territory — benefiting disciplined, long-term investors.

Figure 1: S&P 500 Index, major economic/geopolitical events, and equities market highlights in 2023



Source: Bloomberg (data through December 29, 2023)

Figure 2: 10-year Treasury note yield, major economic/geopolitical events, and bond market highlights in 2023



Source: Bloomberg (data through December 29, 2023)

Annual asset allocation change: The Wealth CIO utilizes Morningstar capital market assumptions (CMAs) and proprietary asset allocation models to develop its annual Strategic Policy Allocations and Fundamental Asset Allocation Overlay. This provides the framework for our *best* thinking and the annual asset allocation changes we manage on behalf of clients.

Fund monitoring and manager changes: The Wealth CIO performs economic and market research, equity and fixed income research, and manager research to formulate portfolio construction guidelines on a continuing basis. The Wealth CIO then combines its portfolio construction expertise, trading, and performance monitoring to optimize investment management for each individual client.

Opportunities for harvesting losses: Market volatility primarily in the fixed income markets also provided important opportunities for tax-loss harvesting and portfolio rebalancing in 2023. Tax-loss harvesting is the process of selling individual securities in your portfolio that are trading below your purchase price to lock-in the tax loss in order to offset a tax liability created by realized capital gains. In 2023, the Wealth CIO harvested losses on behalf of managed account clients where it made sense for their long-term goals and tax status.

Portfolio rebalancing creates alignment with risk tolerance: 2023 also created opportunities to rebalance portfolios to their target asset allocation and risk levels. This is important because market swings can throw portfolio allocations out of balance, and the Wealth CIO strategically manages the realignment process to keep investors on track with their unique goals and risk tolerance.

A heightened focus on client communication and engagement: Transparent communications and investment perspectives are fundamental in helping investors stay invested in their long-term financial plans – particularly during turbulent times. Over the course of the 2023, we launched several new publications and touchpoints for clients, including a monthly market perspective, a quarterly chartbook, and a 2024 outlook for the economy and financial markets.

In 2024, increased global fragmentation is likely to add to ongoing economic uncertainty and market volatility. Geopolitical and market developments are sure to take unexpected turns as well, leading to confusing signals for key macro variables such as inflation, interest rates, currencies, growth, and policy.

For long-term investors, it is prudent to stay invested in strategic, long-term asset allocations and maintain a balance of different asset classes that can help mitigate swings driven by ongoing uncertainty. To learn more about how market uncertainty might impact your portfolio and financial plan, talk to your TIAA Wealth Management advisor today.

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