

# Monthly Market Recap



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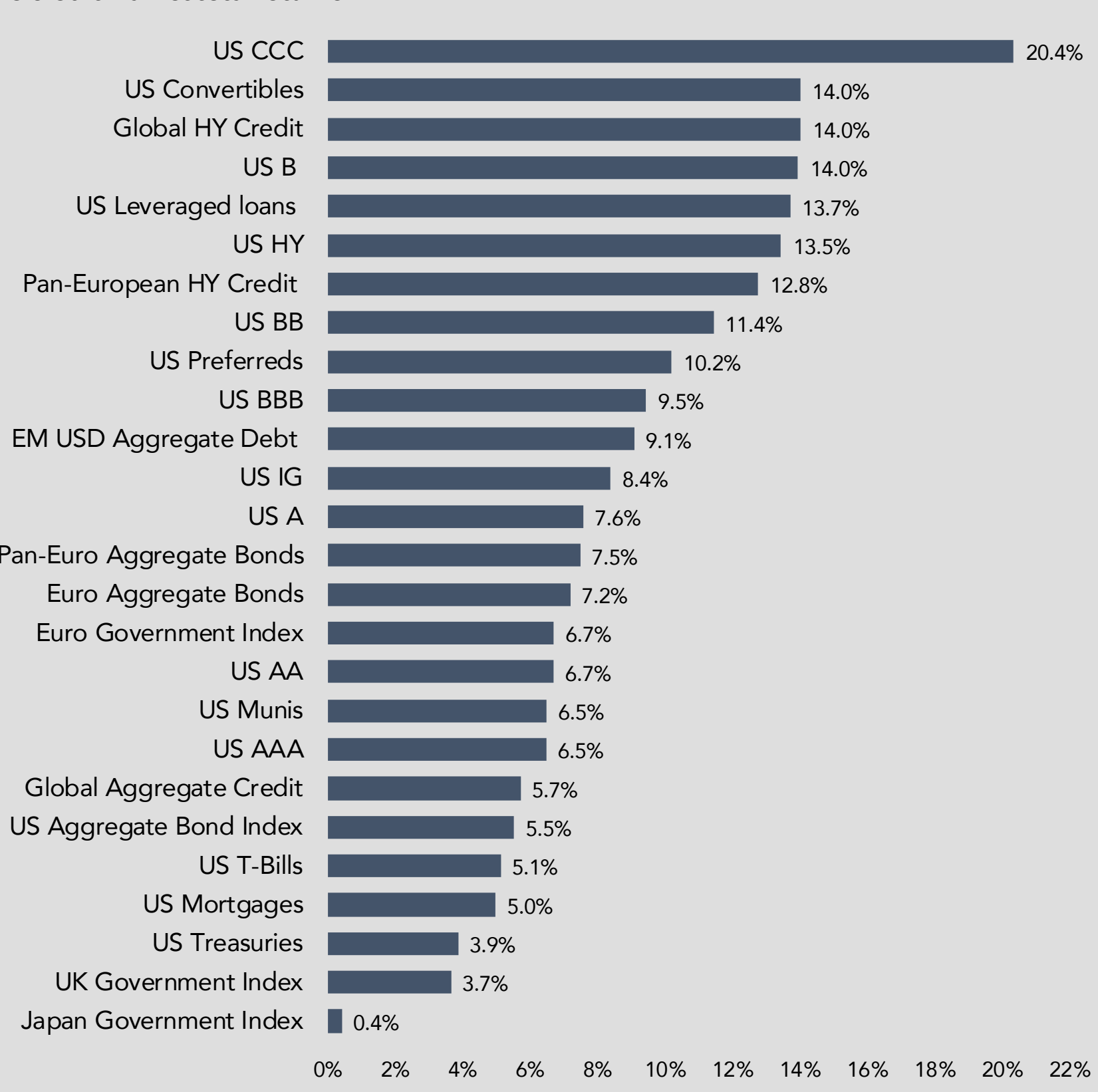
Following significant under-performance in 2022, total market returns surged across global debt and equity markets in 2023. Despite the strong performance, US equities had multiple 7-10% corrections on the year, gov't bond yields sold off sharply before the year-end rally, and corporate credit spreads tightened well below market forecasts.

### Annual relative total returns, USD markets

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
S&P 500 32.4%	S&P 500 13.7%	Munis 3.6%	High Yield 17.5%	S&P 500 22.3%	Munis 1.0%	S&P 500 31.5%	S&P 500 18.4%	S&P 500 28.7%	Loans (-0.6%)	S&P 500 26.3%
High Yield 7.4%	Munis 9.8%	Mortgages 1.5%	S&P 500 12.0%	EM Sov 10.0%	Mortgages 1.0%	High Yield 14.4%	High Grade 9.8%	Loans 5.4%	Munis (-9.0%)	Loans 13.7%
Loans 5.4%	High Grade 7.5%	S&P 500 1.4%	Loans 10.4%	High Yield 7.5%	US Gov't 0.8%	EM Sov 14.3%	US Gov't 8.2%	High Yield 5.4%	High Yield (-11.2%)	High Yield 13.4%
Mortgages (-1.4%)	EM Sov 7.3%	US Gov't 0.8%	EM Sov 9.5%	High Grade 6.5%	Loans 0.6%	High Grade 14.2%	High Yield 6.2%	Munis 1.8%	Mortgages (-11.9%)	EM Sov 13.2%
High Grade (-1.5%)	Mortgages 6.1%	EM Sov 0.6%	High Grade 6.0%	Munis 5.4%	High Grade (-2.2%)	Loans 8.7%	Munis 5.3%	High Grade (-1.0%)	US Gov't (-12.9%)	High Grade 8.4%
Munis (-2.9%)	US Gov't 6.0%	Loans 0.1%	Mortgages 1.7%	Loans 4.6%	High Yield (-2.3%)	Munis 7.7%	EM Sov 4.8%	Mortgages (-1.2%)	High Grade (-15.4%)	Munis 6.5%
US Gov't (-3.3%)	High Yield 2.2%	High Grade (-0.6%)	US Gov't 1.1%	Mortgages 2.4%	S&P 500 (4.4%)	US Gov't 7.0%	Mortgages 4.1%	US Gov't (-2.4%)	S&P 500 (-18.1%)	Mortgages 5.0%
EM Sov (-5.8%)	Loans 1.8%	High Yield (-4.6%)	Munis 0.4%	US Gov't 2.4%	EM Sov (-4.6%)	Mortgages 6.5%	Loans 3.5%	EM Sov (-2.6%)	EM Sov (-18.3%)	US Gov't 3.9%

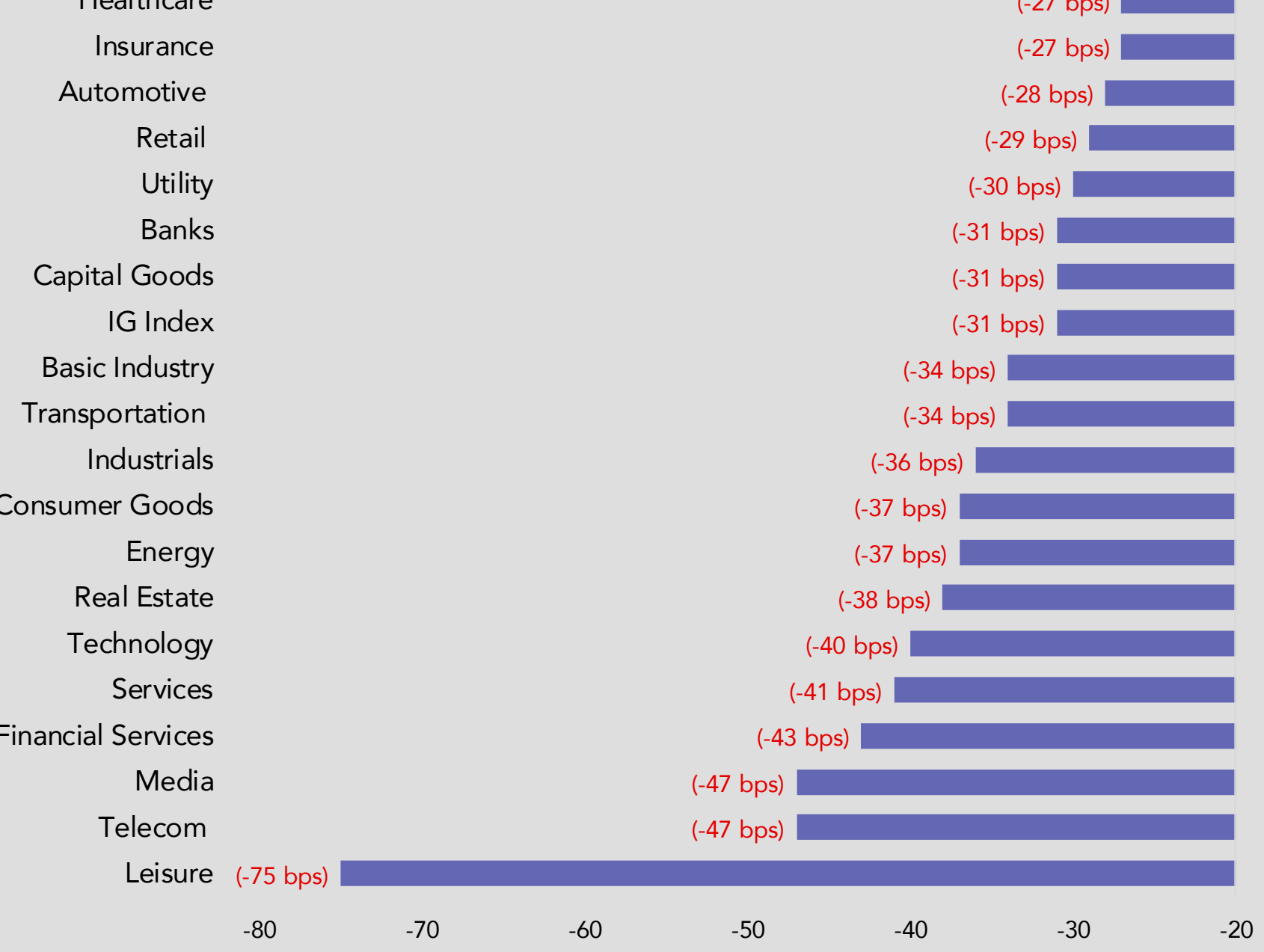
In October, US Treasury yields breached 5% for the first time in 16 years. However, as the market pivoted in November-December in anticipation of policy easing, the Bloomberg Global Aggregate Total Return Index rose nearly 10%, its best two-month performance since 1990.

### 2023 credit market total returns



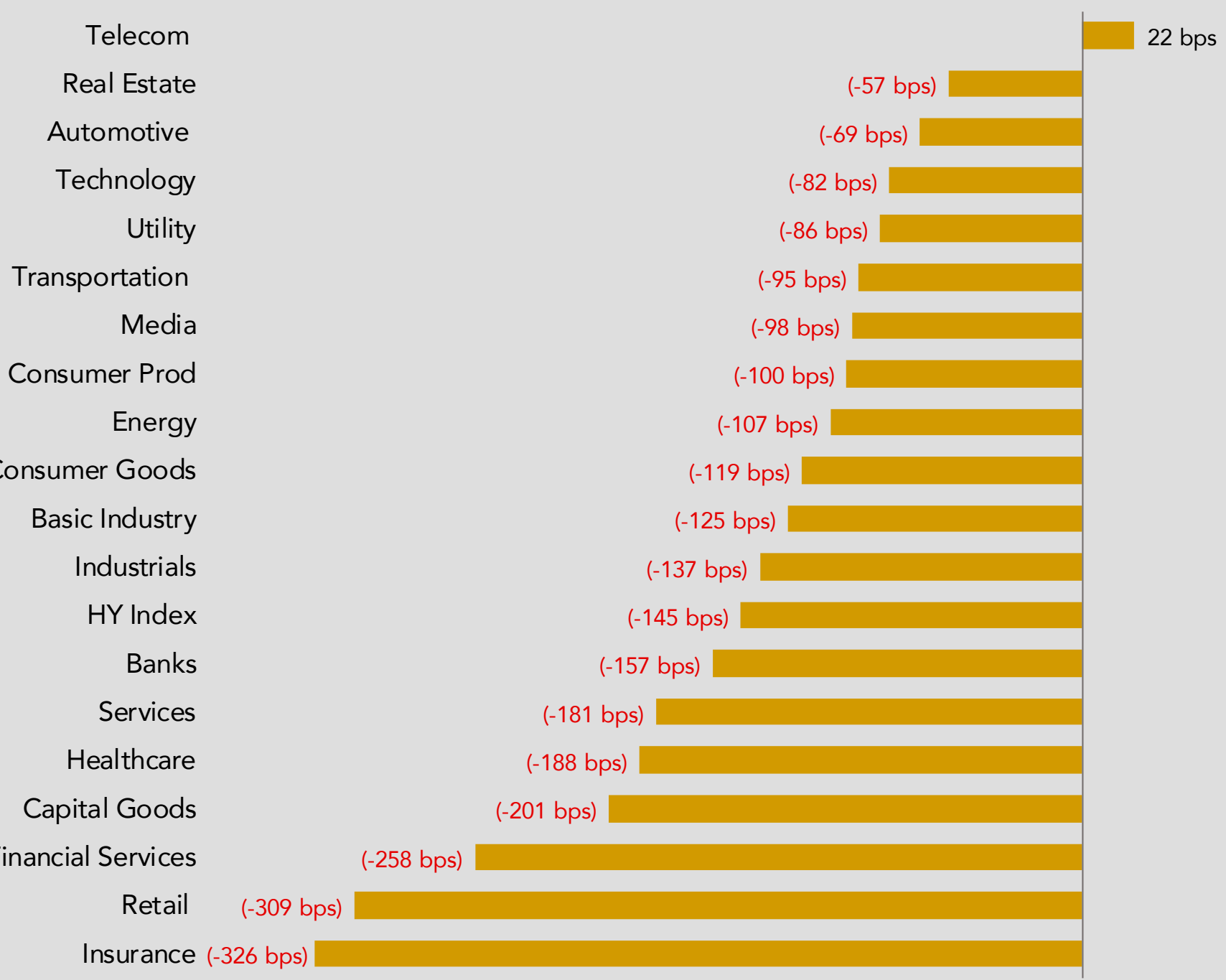
In 2023, USD IG credit spreads tightened across every industry sector and ratings category, defying expectations for a move wider at the beginning of the year. The Bloomberg investment grade OAS index ended the year at just 99 bps, well below the 150 bps long term average and historic 250 bps recession thresholds.

### 2023 change in IG credit spreads, by industry



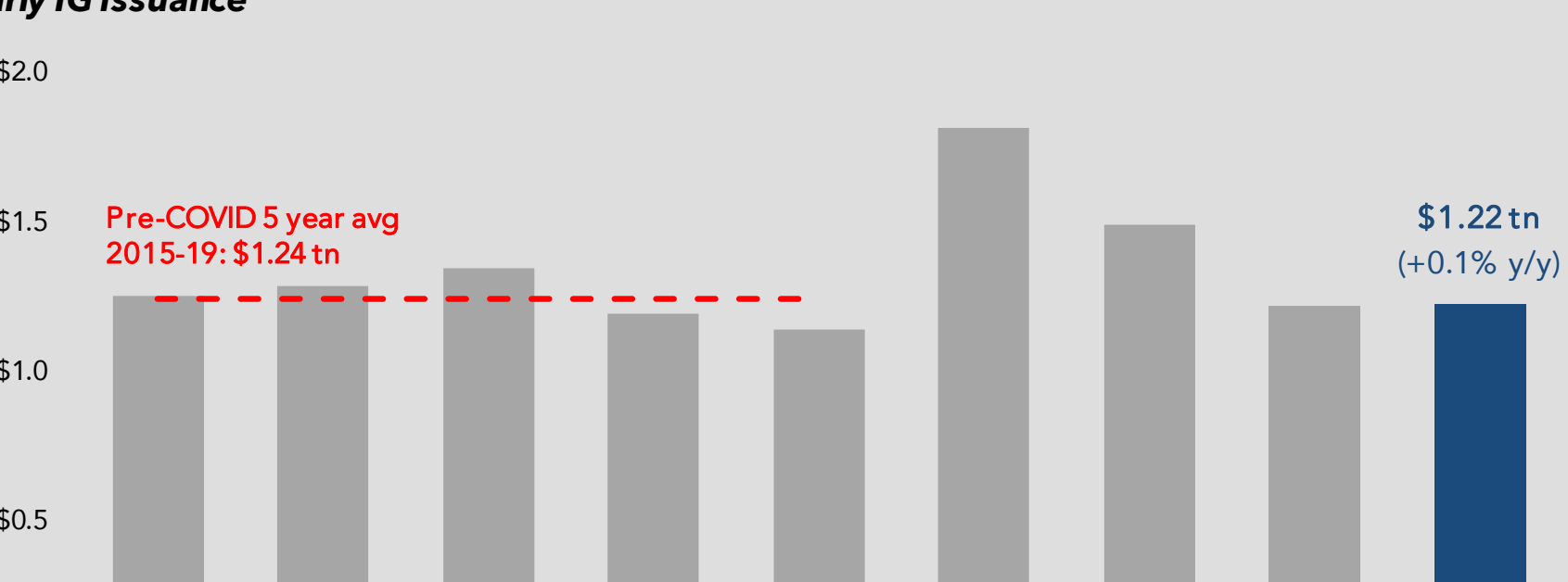
Similar to the IG market, USD HY spreads tightened considerably in 2023 across nearly every industry sub-segment, with the exception of telecommunications. Notably, spreads in the lowest rated CCC segment tightened by over 230 bps in the year.

### 2023 change in HY credit spreads, by industry



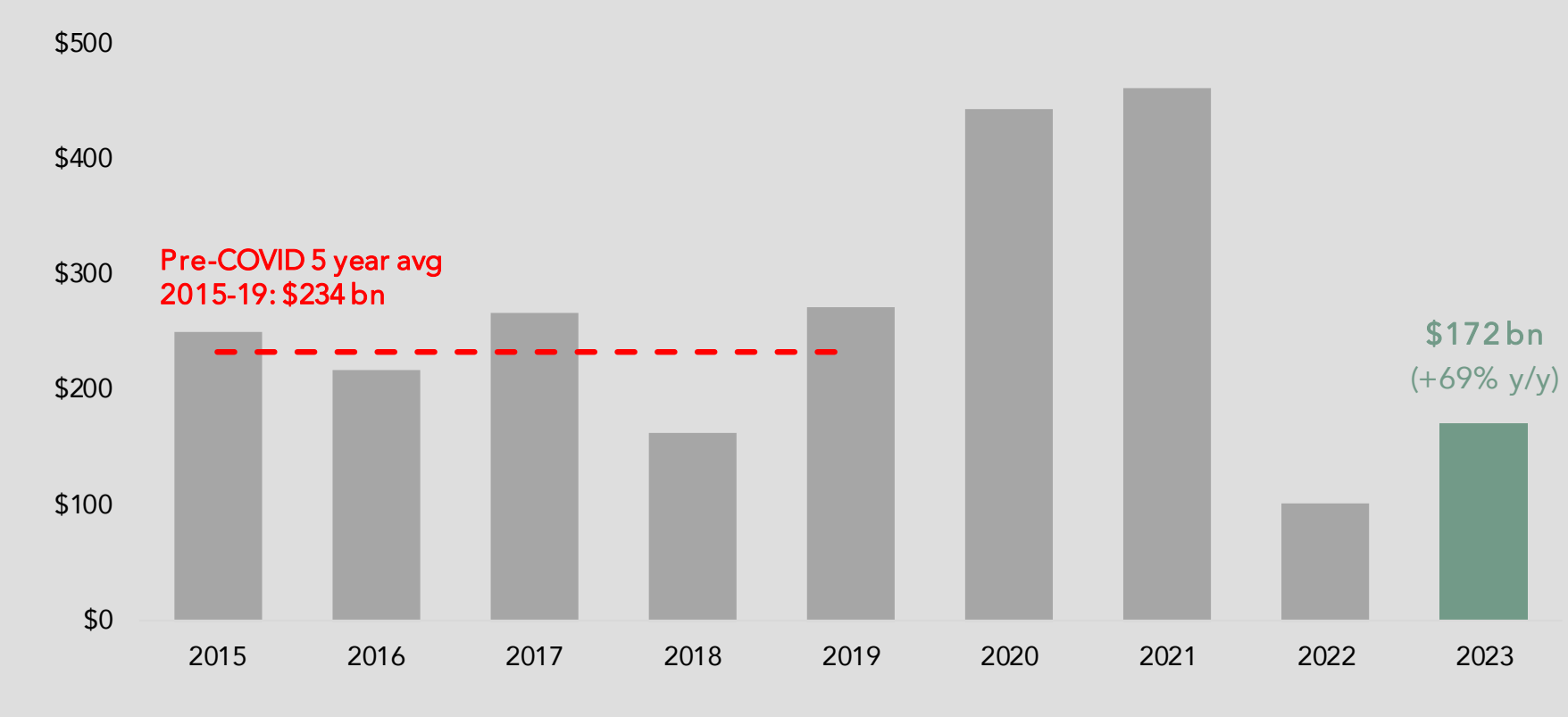
Despite notable headwinds (rate volatility, bank sector stress, geopolitical risk, decade-low M&A volumes), 2023 marked the sixth largest USD investment grade issuance year on record. 2023 volumes were marginally higher than 2022, and in-line with the five year pre-COVID average of \$1.24 tn. In 2024, MUFG expects a 10% uptick in IG issuance volumes driven by a rebound in M&A volumes and opportunistic pre-funding of large 2025 and 2026 maturities.

### Yearly IG issuance



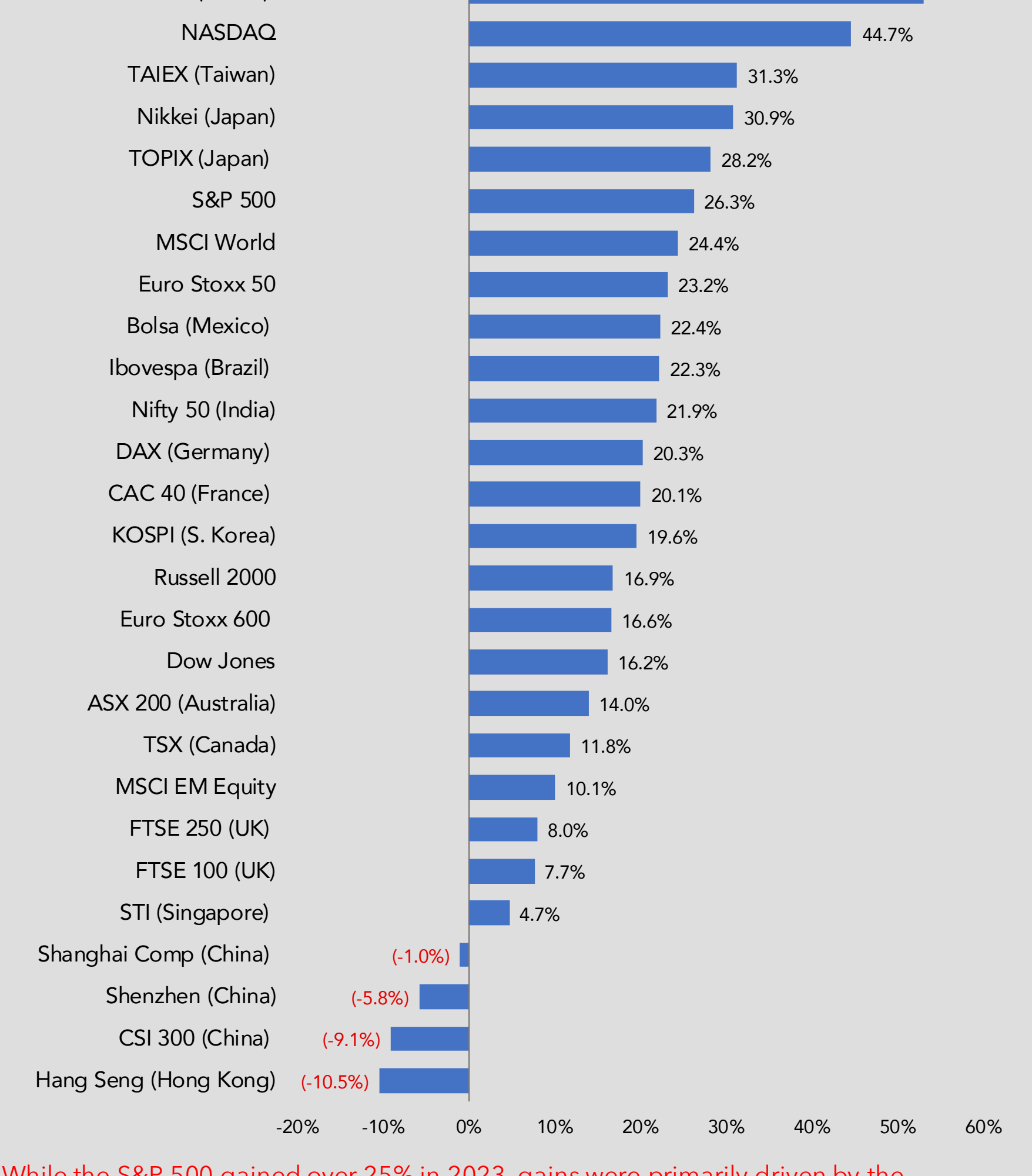
After a dismal \$102 bn in issuance in 2022, USD High Yield issuance surged nearly 70% in 2023, with total new issue volumes of \$172 bn still below the five year pre-COVID average of \$234 bn. The new issue market found strong momentum heading into year-end as rates rallied sharply and yield-seeking fund flows began to reposition in anticipation of Fed easing.

**Yearly HY issuance**



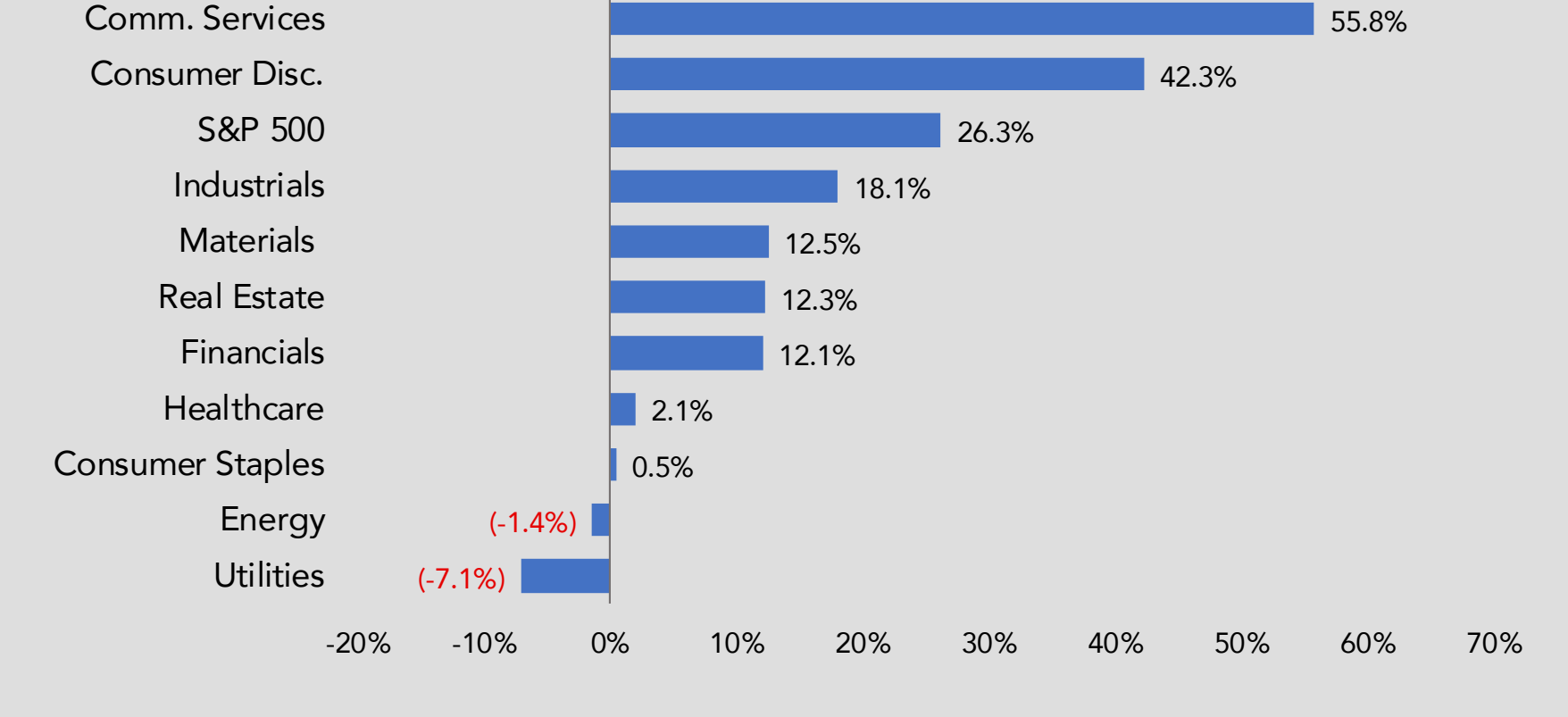
With the notable exception of Chinese equities, global equities surged in 2023, defying expectations at the start of the year. The MSCI World Index, which tracks stocks in 47 countries, rose more than 20% in the year demonstrating the broad based strength of the global rally. Russia's MOEX led most global stock exchanges, rising 50% in the year and fully recovering losses since the start of the invasion of Ukraine. In the US, S&P 500 surged \$8 trillion on the year, with a 26.3% total return that was more than double its annual four-decade average going back to the mid-1980s. The tech focused Nasdaq had its best year since the dotcom bubble.

**2023 regionalequity market performance**



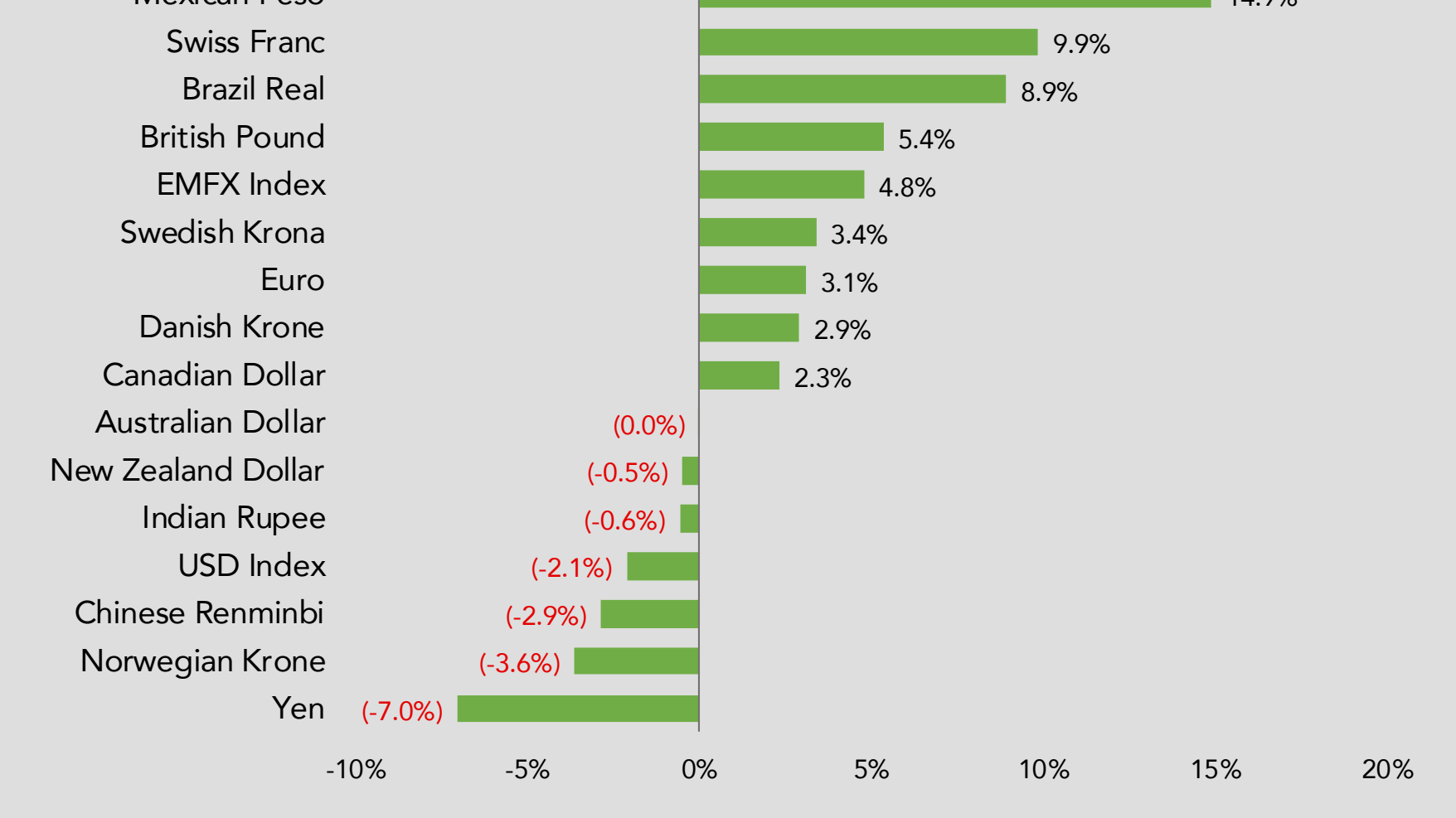
While the S&P 500 gained over 25% in 2023, gains were primarily driven by the "Magnificent Seven" tech stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), which increased 74% on the year. Notably, approximately 70% of S&P 500 stocks underperformed the index and about one third actually declined in the year.

**2023 S&P 500 industry sector performance**



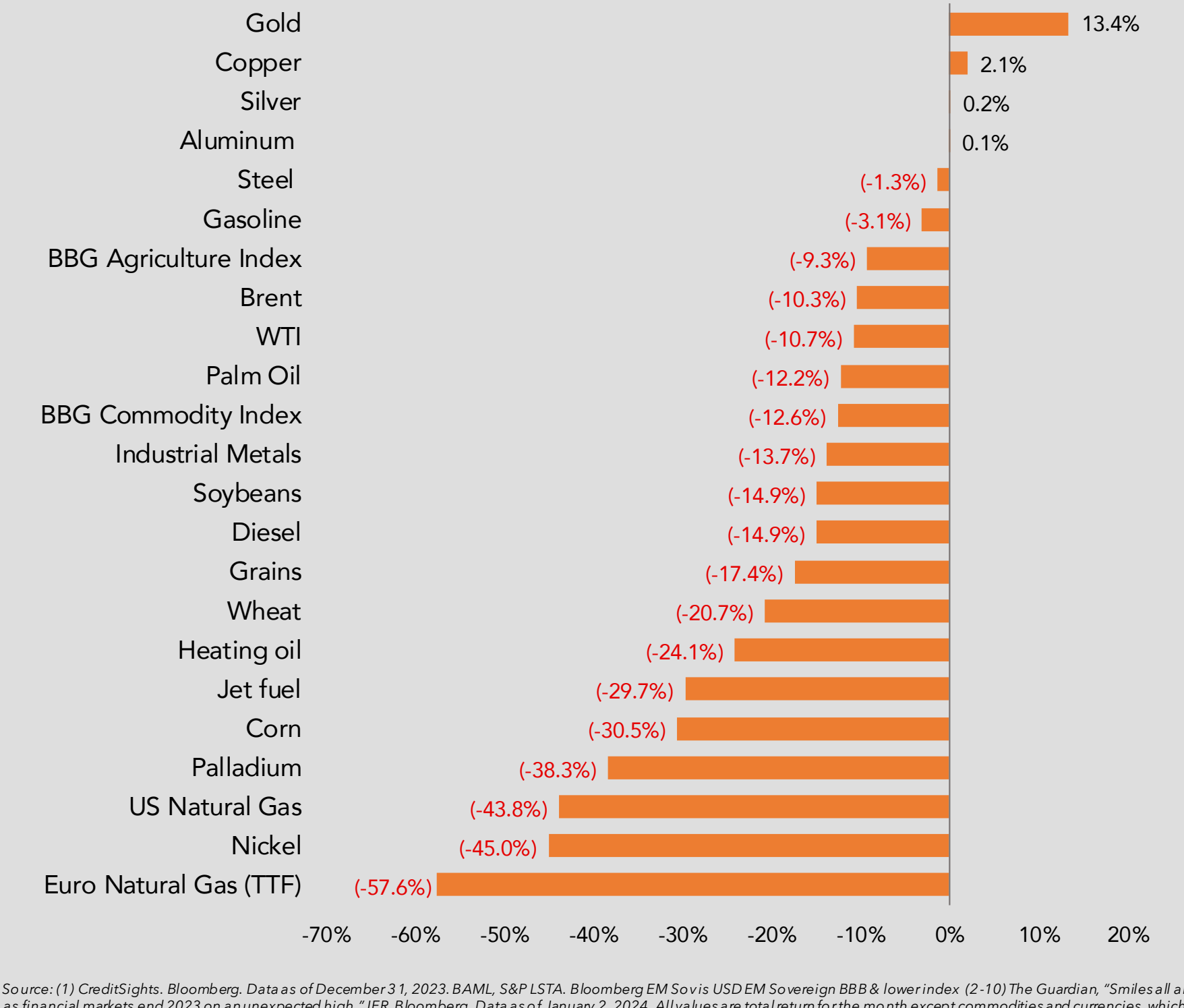
The Yen was the weakest performing G10 currency in 2023, as the BOJ finished the year as the only major global central bank to maintain a negative interest rate policy. The USD index declined on the year, following a sharp sell-off in November-December as UST yields rallied lower.

**2023 currencies performance vs. USD**






Commodities broadly underperformed in 2023, in many cases giving up outsized gains in 2022. Despite higher geopolitical tensions and OPEC+ production cuts, oil prices had a 10% correction on the year on demand concerns and increased US production. European natural gas prices declined more than 50% on the year, reaching lows not seen since mid-2021. Agricultural commodities gave up most of their 2022 gains as supply bottlenecks eased and production increased. Gold, on the other hand, had its best performance in three years as inflation eased, volatility remained elevated and geopolitical tensions escalated.

**2023 commodities performance**



Source: (1) CreditSights, Bloomberg, Data as of December 31, 2023. BAML, S&P LSTA, Bloomberg EM Sovis USDEM Sovereign BBB & lower index (2-10) The Guardian, "Smiles all around as financial markets end 2023 on an unexpected high." IFR, Bloomberg. Data as of January 2, 2024. All values are total return for the month except commodities and currencies, which are price change. Commodities Index and Agriculture Index are total return. MUFJ, "FX Daily Snapshot: USD rebounds - the beginning of a larger retracement?" CFR. Zero-issuance days are CFR "goose egg" days which are defined as zero issuance days up until the December FOMC decision day. A zero Fed Day only counts as a goose if issuance takes place after that day.

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**"Macro stability isn't everything, but without it, you have nothing."**