That’s Alright – It Was Only Money (Putting 2022 in the Rearview Mirror)

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We’ve been saying for years that, when it comes to investments, charities should focus on the long-term picture. There are good years in the markets and bad years in the markets, but, with “prudent” investments, the long-term outcomes have been consistently positive. Whether it be the endowment assets of well-established organizations, or the investment portfolios of gift annuity programs and individual charitable remainder trusts, the general rule is to look at the bigger picture. But specific and dramatic swings in the investment markets – the stock market in particular – can have a chilling effect on donors with stock portfolios held over an extended period of time.

What do we say to the donors who have seen their investments lose significant value over the past 12 months or longer? And even within the organization, how do we respond to the more cautious voices among us who are spooked by double-digit declines in market values? Do we need to go through another exhaustive review of our endowment, gift annuity program, and CRT investments because of the disappointing investment results of 2022? We thought it would be helpful to take a look at the most recent investment performance measurements of mainstream investments. How bad was 2022 for typical fiduciary portfolios? What is the impact from a short-term perspective, and how does it look from a long-term perspective?

Some Specific Numbers

The investment returns for 2022 were dramatically different from the investment returns for 2021. The Standard & Poor’s (S&P) 500 dropped 19.44% in 2022, compared to an increase of 26.89% in 2021 (not including dividends). The Dow Jones (DOW) Industrial

Average dropped 8.78% in 2022, versus an increase of 18.73% in 2021 (not including dividends). But unlike some other "down" years, there wasn't any favorable offset on the fixed income side. The Bloomberg Barclays Aggregate Bond Index lost 13.01% in 2022, after a loss of 1.54% in 2021. In contrast, when the S&P 500 sustained double-digit losses in 2002 and 2008, the Aggregate Bond Index helped to offset those losses by posting positive returns.

We've tended to look at theoretical investment portfolios as consisting of stocks, bonds, and cash, but modern-day endowment and trust portfolios have certainly moved in the direction of further asset diversification. Probably the most popular alternative investment classes involve real estate investment trusts (REITs) and some sort of ownership in commodities or precious minerals. While there have been shining examples of solid investment performance for these other asset groups, they are typically not significant enough to offset major losses in equities and fixed income. We also know that a relatively small cadre of fiduciary agents have tiptoed into the waters of cryptocurrency, but that's a whole different story, and we're not even going there in this article!

Performance Numbers for the Past 25 Years

If we keep things simple – at least for now – we get these investment results for our theoretical blended portfolio for 1998 through December 31, 2022:

Investment Performance Summary 1998 - 2022			
Year	**Bloomberg Barclays Agg.**	**S&P 500**	**Portfolio consisting of 50% each**
1998	8.70%	28.58%	18.64%
1999	-0.82%	21.04%	10.11%
2000	11.63%	-9.11%	1.26%
2001	8.43%	-11.89%	-1.73%
2002	10.26%	-22.10%	-5.92%
2003	4.10%	28.68%	16.39%
2004	4.34%	10.88%	7.61%
2005	2.43%	4.91%	3.67%
2006	4.33%	15.79%	10.06%
2007	6.97%	5.49%	6.23%
2008	5.24%	-37.00%	-15.88%
2009	5.93%	26.46%	16.20%
2010	6.54%	15.06%	10.80%
2011	7.84%	2.11%	4.98%
2012	4.22%	16.00%	10.11%

Year	Bloomberg Barclays Agg.	S&P 500	Portfolio consisting of 50% each
2013	-2.02%	32.39%	15.19%
2014	5.97%	13.46%	9.72%
2015	0.55%	1.25%	0.90%
2016	2.65%	12.00%	7.33%
2017	3.54%	21.70%	12.62%
2018	0.01%	-6.24%	-3.12%
2019	8.72%	28.88%	18.80%
2020	7.51%	16.26%	11.89%
2021	-1.54%	26.89%	12.68%
2022	**-13.01%**	**-19.44%**	**-16.23%**

It's clear from the table that 2022 was indeed a VERY BAD YEAR for traditional investment portfolios invested in mainstream stocks and bonds. Both the equity and fixed income asset classes suffered double-digit declines; in fact, 2022 was the only year out of the past 25 years that both equities and fixed income investments both lost value, and it is the worst year for overall performance out of the entire 25-year period. This is why we are seeing so many reports of endowment and trust portfolios that suffered losses in total market value of anywhere from 15 to 20 percent. That is historic and certainly unsettling.

Long-Term Averages

And yet, as we've shown before, when we look at a longer-term picture, the situation looks much better. If we look at averages for the last 10, 15, 20, and 25 years, we see that long-term average investment performance is between 6% and 7% for all those time periods.

Year	Bloomberg Barclays Agg.	S&P 500	Portfolio consisting of 50% each
Average for 25 years - 1998 to 2022	4.10%	8.88%	6.49%
Average for 20 years - 2003 to 2022	3.22%	10.78%	7.00%
Average for 15 years - 2008 to 2022	2.81%	9.99%	6.40%
Average for 10 years - 2013 to 2022	1.24%	12.71%	6.98%

These numbers, it must be said, are much less impressive than the numbers we've discussed over the past few years. In the previous 3 years – 2019, 2020, and 2021 – the combined portfolio returns have been emphatically positive – ranging from 11.89% to 18.80%. It needs to be said loudly and clearly: the investment performance for 2022, for our theoretical investment portfolio consisting of the most widely quoted stock and bond indices – was the worst in the last 25 years. We tend to talk about 2008 as the worst year for investments in recent history, but depending on the measurements, 2022 was actually worse. Using our greatly over-simplified 50% equity / 50% fixed income allocation, we just survived the worst year for this investment mix in a quarter of a century.

But It's Not All Bad

Despite that, the value of an investment portfolio of 50% each of the S&P 500 and the Bloomberg Barclays Aggregate Bond Index has seen an average annual rate of growth of over 6% in the past 25 years. And as we have noted before, our examples are truly worst-case scenarios. We are assuming no strategic selection of assets, no deliberate manipulation of the proportions of equities versus fixed income – we're not even counting the dividends in the annual performance numbers for the stock side. We're basically saying, if the fiduciary agent had been blindfolded and forced to pick equal amounts of the S&P 500 Index and the Bloomberg Barclays Aggregate Bond Index, the portfolio still would have seen average year-over-year growth in excess of 6%. Surely professional asset managers would have been able to achieve real results that surpass our dumbed-down examples.

What does this mean for us now and going forward? It means our endowment and trust portfolios have suffered a major setback, and the effects in some cases will be felt for years to come. Endowment spending policies will be affected somewhat, but fortunately, in many cases, the impact will be tempered by the rolling 24- and 36-month average market value calculations. The investments for gift annuity programs may be examined more closely, and those who were already nervous about the sustainability of their programs will become even more nervous. Charitable remainder unitrusts will distribute less in 2023 than they did in 2022, based on their lower market values at the beginning of the year. And charitable remainder annuity trusts that were already wasting will suffer accelerated depletion of principal.

Don’t Look Back – Just Move On

At the individual level, some donors will be unsettled about their capacity to make charitable gifts; some will be spooked by seeing the values of their long-term investments and retirement plans drop by 15 or 20 percent. This is a big deal – it’s actually surprising that there isn’t more discussion about this right now. Donors may be interested in taking advantage of the newly expanded QCD provisions from traditional IRAs, but their enthusiasm may be dampened by their declining net worth. It will be impossible to measure the true effect of the significant loss of investment values for so many Americans, but great damage has been done. All we can do now is move forward and put 2022 in the rearview mirror. That’s alright, as they say – it was only money, after all.