CSJ WEALTH MANAGEMENT

Monthly ETF Field Guide

Talking Points for Client Conversations

June 2023

Academic Perspective

Is It Just Me, or Are Things Getting Worse?

By Hal Hershfield, Ph.D.

Why is it common to feel like morality is declining over time? The answer may have broader implications that extend to how we perceive other negative information such as market volatility.

Market Review

- Robust gains in June led to solid second-quarter returns for U.S. and global stocks.
- Bolstered by rallying mega-cap technology stocks, the U.S. market outpaced its peers.
- Resilient economic data and a still-hawkish Fed helped push Treasury yields higher.

Academic Perspective

Is It Just Me, or Are Things Getting Worse?

Have you ever had the feeling that people are somehow getting worse over time? Or that the moral foundations of society are fraying as the years tick by?

Brand new research published in *Nature* explores the prevalence of this perception as well as the reasons why it may come to be.

Admittedly, this topic may seem slightly tangential to the issues I usually cover here. Typically, I use this column to discuss new findings in the space of behavioral science, especially as they relate to financial decision-making. But this project, even though it doesn't fall specifically within the financial wheelhouse, feels so important and so relevant to so many areas of life, that I jumped at the opportunity to address it.

First, what do we even mean by morality? Though it may sound complex, simply put, morality is the way people treat others. When considering the concept, you can conjure up behaviors that range from the heinous to the empathetic. The issue, though, is how have those behaviors – or rather our perceptions of those behaviors – fared over the course of history?

Perceptions of Moral Decline Over Time

Survey researchers have been asking questions to get at these perceptions dating back to 1949. A representative question would be something like, "Do you think that over the last few decades our society has become less honest and ethical in its behavior, more honest and ethical or has there been no change in the extent to which people behave honestly and ethically?".

In fact, as psychologists Adam Mastroianni and Daniel Gilbert found in their new paper, there have been 177 such questions aimed to capture feelings about morality, spanning a 70-year period and asked to over two hundred and twenty thousand Americans. On 84% of the questions, the majority of respondents believed that morality had been declining. In other words, regardless of when they were asked – be it 1949 or 2019 – people felt as though morality had been on a downward trend.

In a further study, Mastroianni and Gilbert found that these effects weren't just specific to Americans: in 59 other nations, similar patterns occurred in surveys conducted between 1996 and 2007.

Hal Hershfield, Ph.D.
Consultant to Avantis Investors

Hal is a Professor of Marketing and Behavioral Decision Making in the Anderson School of Management at the University of California, Los Angeles.

His research asks, "How can we help move people from who they are now to who they'll be in the future in a way that maximizes well-being?"

Is It Just Me, or Are Things Getting Worse?

Is Morality Actually Declining?

People often hold the belief that morality has been declining, but is it? The objective answer seems to be “no.” Careful analyses of behaviors that would be considered extremely immoral – things like slavery, genocide, abuse, and the like – suggest that these immoral actions have decreased significantly in frequency over the last few centuries. Moreover, researchers have found that objective measures of cooperation have increased over a 60-year period beginning in 1956. But if morality isn’t actually declining, why do people see it as such?

The BEAM Mechanism

Biased Exposure and Memory (BEAM) is the mechanism Mastroianni and Gilbert identified that helps explain the perception of moral decline. This concept results from the interaction of two forces: biased exposure and biased memory.

Let’s look at biased exposure first. We are particularly likely to pay attention to negative information about the people around us; such information can be useful from a self-protection standpoint. The media, and perhaps in particular, social media algorithms, exacerbate this tendency by focusing on cases in which people act in negative ways.

With regard to biased memory, we know from decades of work in cognitive psychology that negative memories fade faster than positive memories. For instance, when people are asked to remember positive and negative events from their past, negative incidents are more likely to be forgotten.

Taken together, these two forces (biased exposure and biased memory) combine to create an *illusion of moral decline*. We are biased to see the present as particularly negative and the past as particularly positive. Therefore, the only reasonable conclusion we can come to is that morality must be declining.

Implications of the BEAM Mechanism

The BEAM mechanism is immediately appealing not just for the light that it sheds on moral decline, but also for the promise it holds in explaining other related phenomena. Could our perceptions of the prevalence of social issues be similarly colored by our biased attention to negative information in the present and our concurrent tendency to forget or misremember such negative issues from the past? Applied to a macroeconomic context, could BEAM help explain why we sometimes overreact to – or at least over-attend to – present-day market volatility?

We can’t know for sure, but it certainly seems like a compelling possibility. It’s also suggestive of an important reminder: before we make a quick (and potentially biased) assessment of a solution, we would be wise to ask ourselves whether we’ve ever felt this way before.

Whether the focus is on morality or the markets, are our opinions about the way things have changed grounded in reality or based on biased perceptions? I, for one, know that I’ll forever think about the phrase “Is it just me, or…” differently than I have in the past. It’s a great reminder to try to stay aware of how these biases can materialize, and the self-checks we can use to avoid unnecessary knee-jerk reactions.

* Sydney E. Scott and Elanor F. Williams, “EXPRESS: In Goal Pursuit, I Think Flexibility Is the Best Choice for You,” *Journal of Marketing Research* (November 2022).

Market Review

As of 6/30/2023

Snapshot

Bolstered by robust gains in June, global and U.S. stocks delivered solid returns in the second quarter. U.S. bonds retreated in June and declined for the quarter but maintained year-to-date gains.

- Lingering worries about a potential recession, tighter credit conditions and the Fed's future inflation-fighting path didn't slow stocks in the second quarter. Alongside a June debt ceiling deal and a Fed pause (which followed a May rate hike), the S&P 500 Index rallied for the month and quarter.
- Outsized gains in several mega-cap technology stocks aided broad index performance. Nevertheless, all S&P 500 sectors advanced for the month, and only the energy and utilities sectors declined for the quarter.
- Non-U.S. developed markets stocks and emerging markets stocks advanced but lagged U.S. stocks in June and the second quarter. Emerging markets stocks underperformed non-U.S. developed markets stocks.
- The government revised upward first-quarter annualized U.S. economic growth to 2%. Meanwhile, the eurozone logged its second-consecutive quarterly decline and slipped into recession.
- U.S. inflation continued to slow in May. Inflation moderated in Europe and the U.K. but remained well above targets, prompting central bankers to hike rates in May and June.
- In the U.S., large-cap stocks generally outperformed small-cap stocks for the quarter but underperformed in June. Growth outpaced value among large and small caps. Outside the U.S., large-cap stocks and the value style outperformed.
- U.S. Treasury yields rose for the month and quarter, and the broad bond market declined.

Returns (%)

INDEX	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
U.S. Large-Cap Equity							
S&P 500	6.61	8.74	16.89	19.59	14.60	12.30	12.86
U.S. Small-Cap Equity							
Russell 2000	8.13	5.21	8.09	12.31	10.82	4.21	8.25
Intl. Developed Markets Equity							
MSCI World ex USA Index	4.75	3.03	11.29	17.41	9.30	4.58	5.40
Emerging Markets Equity							
MSCI Emerging Markets	3.80	0.90	4.89	1.75	2.32	0.93	2.95
Global Real Estate Equity							
S&P Global REIT	3.11	0.71	2.09	-3.02	5.34	1.35	3.80
U.S. Fixed Income							
Bloomberg U.S. Aggregate	-0.36	-0.84	2.09	-0.94	-3.96	0.77	1.52
Global Fixed Income							
Bloomberg Global Aggregate Bond	-0.01	-1.53	1.43	-1.32	-4.96	-1.08	0.20
U.S. Cash							
Bloomberg U.S. 1-3 Month Treasury Bill	0.43	1.22	2.33	3.72	1.31	1.53	0.96

Data as of 6/30/2023. Performance in USD. Periods greater than one year have been annualized. Past performance is no guarantee of future results. Source: FactSet.

As of 6/30/2023

Equity Returns | Size and Style

U.S.

	QTD (%) Value	QTD (%) Growth	YTD (%) Value	YTD (%) Growth
Large	4.07	12.81	5.12	29.02
Small	3.18	7.05	2.50	13.55

- U.S. stocks broadly rallied for the month and year-to-date period. Size and style categories delivered strong gains for both timeframes.
- Large-cap stocks lagged their small-cap peers in June but sharply outperformed year to date, gaining nearly 17%. Small caps gained 8% for the month and year-to-date period.
- Large- and small-cap growth stocks modestly outperformed their value peers in June. Year to date, growth stocks maintained a significant performance advantage.

Non-U.S. Developed Markets

	QTD (%) Value	QTD (%) Growth	YTD (%) Value	YTD (%) Growth
Large	3.73	3.32	9.48	14.45
Small	0.71	0.27	5.30	5.73

- International developed markets stocks posted solid monthly and year-to-date gains but lagged their U.S. counterparts.
- Large-cap stocks outperformed small caps for the month. They also significantly outperformed for the year-to-date period.
- Large- and small-cap value stocks outperformed growth stocks in June. Year to date, the growth style held a significant advantage among large caps and a modest edge in the small-cap universe.

Emerging Markets

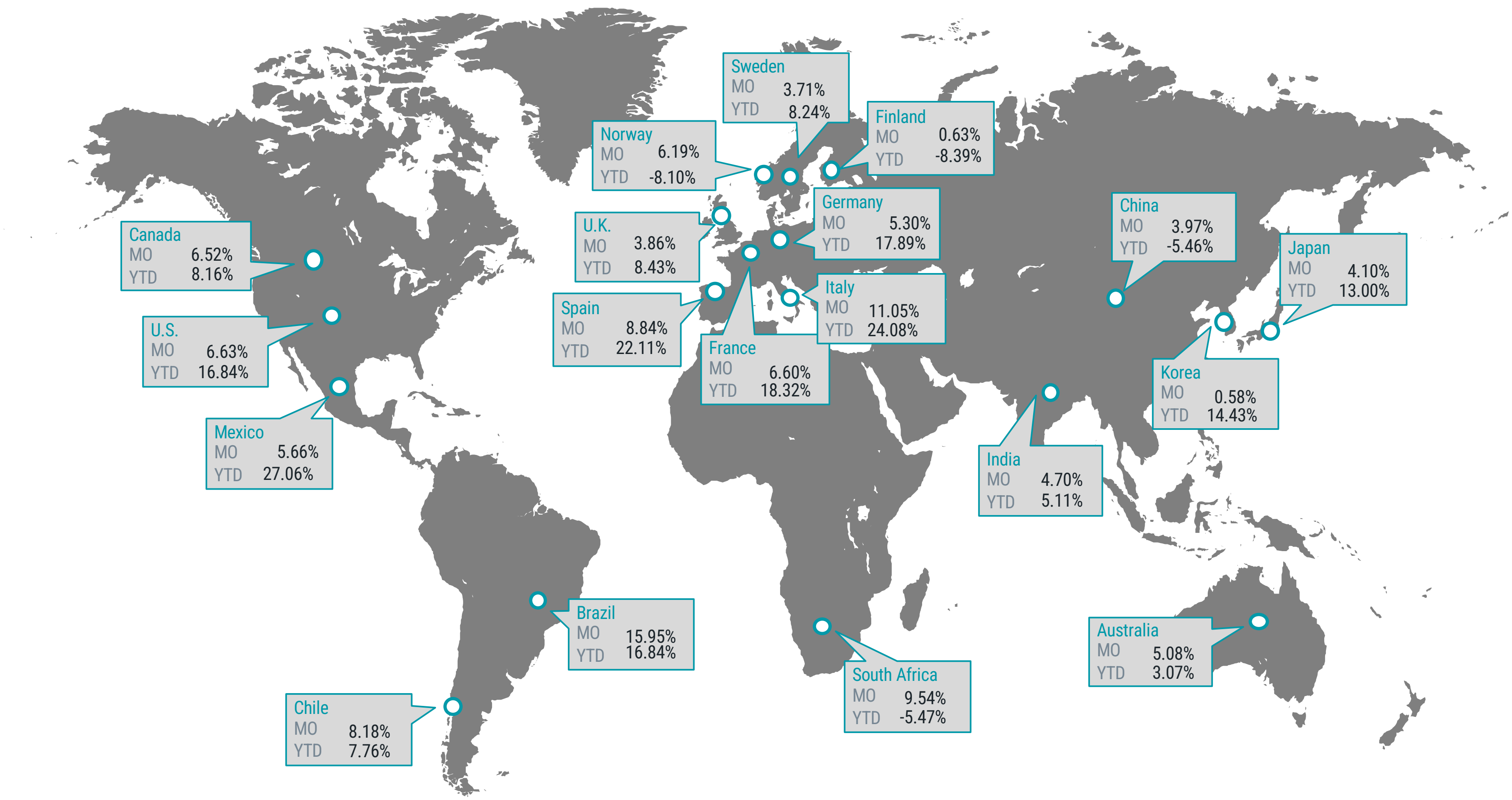
	QTD (%) Value	QTD (%) Growth	YTD (%) Value	YTD (%) Growth
Large	2.51	-1.40	6.66	2.80
Small	6.69	6.12	8.47	12.58

- The broad emerging markets stock index advanced in June to extend its year-to-date gain.
- Small-cap stocks outperformed large caps in June. Year to date, small caps maintained a significant edge over their large-cap peers.
- In June, value stocks outperformed growth stocks among large caps and underperformed among small caps. That trend remained in place for the year-to-date period.

Data as of 6/30/2023. Performance in USD. Past performance is no guarantee of future results. Source: FactSet.
U.S. Equity, International Developed Markets and Emerging Markets Equity style boxes are represented by Russell, MSCI World ex USA and MSCI Emerging Markets indices, respectively.

As of 6/30/2023

Equity Returns | Country



Data as of 6/30/2023. Performance in USD. Past performance is no guarantee of future results. Source: FactSet. Countries are represented by MSCI country indices.

As of 6/30/2023

Fixed-Income Returns

With a debt ceiling resolution, waning banking industry concerns and resilient economic data, Treasury yields rose. The broad bond benchmark declined for June and the second quarter.

- The Bloomberg U.S. Aggregate Bond Index returned -0.36% in June and -0.84% for the second quarter. The two-year Treasury yield jumped 87 bps to 4.90% at quarter-end, while the 10-year yield climbed 37 bps to 3.84%.
- Credit spreads tightened, and corporate bonds outperformed Treasuries and MBS. Meanwhile, high-yield corporates posted monthly and quarterly gains and outperformed investment-grade corporates.
- As widely expected, the Fed raised rates in early May and paused in June. However, Fed policymakers indicated the pause was only temporary, and they may hike a couple more times during upcoming FOMC meetings to ensure continued progress toward their inflation target.
- Amid falling energy prices, annual headline CPI continued to moderate, increasing 4% in May, the lowest level since March 2021. Core inflation also slowed to a 5.3% annualized gain. The shelter component increased 8% year over year, which accounted for more than 60% of the increase in May's core CPI.
- Municipal bonds (munis) delivered a gain in June, but they declined slightly for the quarter. Munis outperformed Treasuries for both periods.
- Ten-year inflation breakeven rates declined for the quarter, and TIPS declined and underperformed nominal Treasuries.

Returns (%)

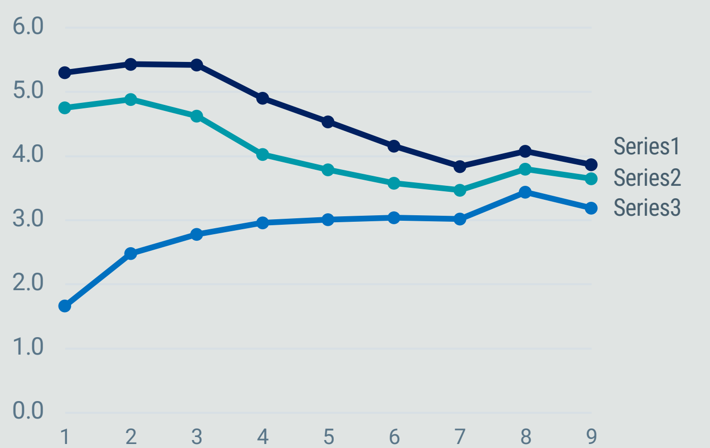
INDEX	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
Global Fixed Income							
Bloomberg Global Aggregate Bond	-0.01	-1.53	1.43	-1.32	-4.96	-1.08	0.20
U.S. Fixed Income							
Bloomberg U.S. Aggregate	-0.36	-0.84	2.09	-0.94	-3.96	0.77	1.52
U.S. High-Yield Corporate							
Bloomberg U.S. Corporate High Yield Bond	1.67	1.75	5.38	9.06	3.13	3.35	4.43
U.S. Investment Grade							
Bloomberg U.S. Corporate Bond	0.41	-0.29	3.21	1.55	-3.44	1.76	2.63
Municipals							
Bloomberg Municipal Bond	1.00	-0.10	2.67	3.19	-0.58	1.84	2.68
U.S. TIPS							
Bloomberg U.S. TIPS	-0.34	-1.42	1.87	-1.40	-0.12	2.49	2.08
U.S. Treasuries							
Bloomberg U.S. Treasury Bond	-0.75	-1.38	1.59	-2.13	-4.80	0.44	0.96
U.S. Cash							
Bloomberg U.S. 1-3 Month Treasury Bill	0.43	1.22	2.33	3.72	1.31	1.53	0.96

Data as of 6/30/2023. Performance in USD. Periods greater than one year have been annualized. Past performance is no guarantee of future results. Source: FactSet.

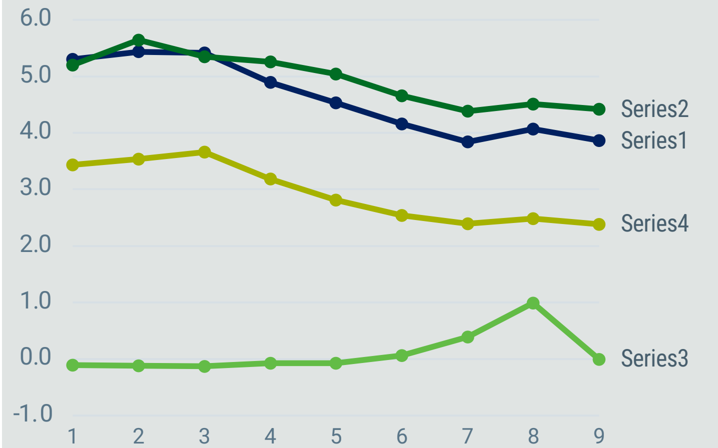
As of 6/30/2023

Global Yield Curves

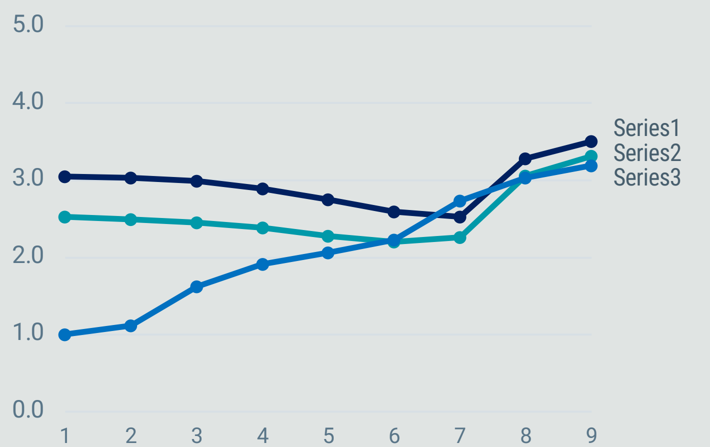
U.S. Treasury Yield Curve Over Time



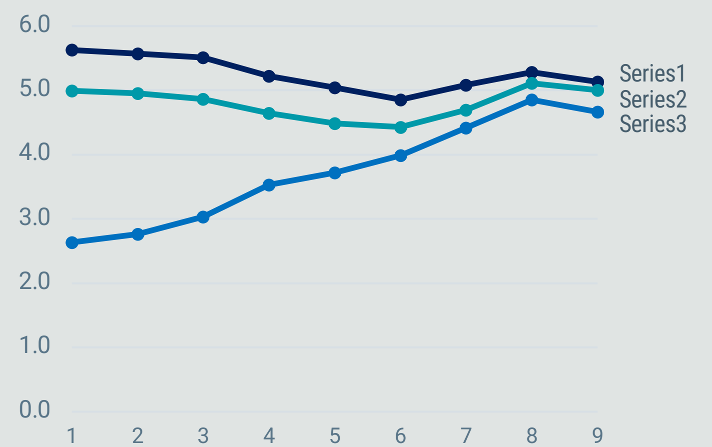
Country/Region Yield Curves as of Latest Month



AAA U.S. Municipal Yield Curve Over Time



A-Rated U.S. Corporate Credit Yield Curve Over Time



Data as at 6/30/2023 Source: Bloomberg.

Yield is a rate of return for bonds and other fixed-income securities. The yield curve is a line graph showing the yields of fixed-income securities over a range of different maturities (typically three months to 30 years), at a single point in time.