DIAMOND HILL

INVESTED IN THE LONG RUN

End-of-Year Triumph: Global Markets Overcome 2023's Turbulence with Positive Finish

Dec 2023

Markets were mostly positive in Q4 2023, concluding the year in the black across most major indices, with the notable exception of China, which was down for the quarter and the year. Global stocks rose roughly +11% in Q4 (as measured by the MSCI ACWI Index), bringing 2023 calendar-year returns to over +22%. US dollar-based returns were slightly higher than local returns as the USD weakened somewhat during the quarter relative to major global currencies. Developed markets outpaced emerging markets in Q4, rising more than +11% versus just shy of +8%, respectively, and bringing 2023 calendar-year totals to +23% versus +10%, respectively.

From a sector perspective, technology stocks were up most in Q4 (+20%), though every sector turned in a positive quarter. Utilities (+14%), materials (+13%), industrials (+13%), real estate (+11%) and financials (+10%) all delivered double-digit returns, while energy (+2%), communication services (+5%) and health care (+5%) brought up the rear. For the calendar year, industrials were up the most, rising +23%, with financials (+16%) and energy (+15%) just behind. Consumer staples was the year's slowest gainer, rising shy of +5%. Meanwhile, despite a nicely positive Q4 predicated on investors' seemingly broad conclusion global rate hikes are in the rearview mirror, real estate also only rose modestly in 2023, +5%.

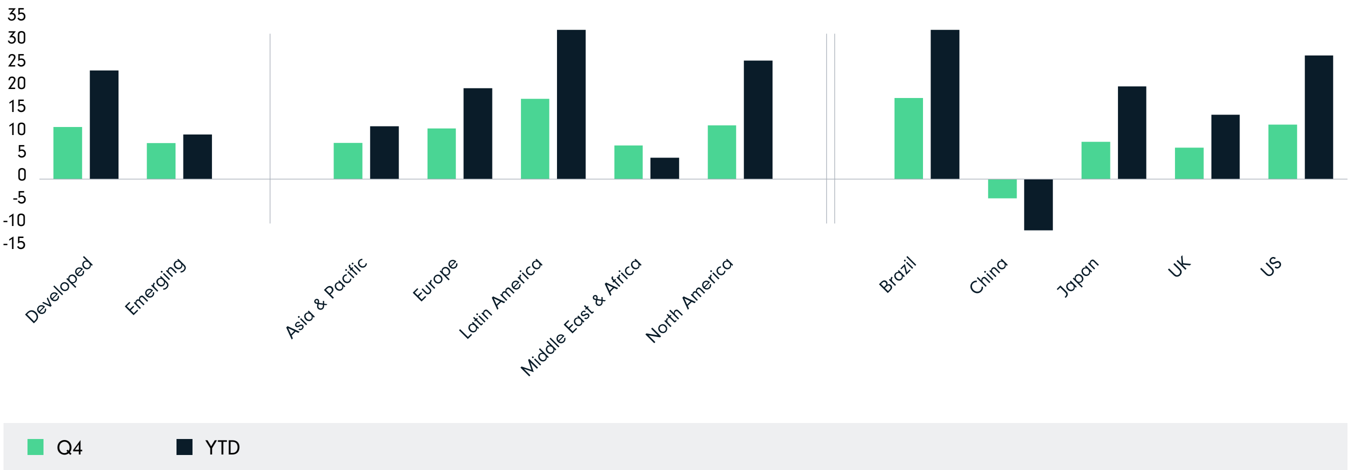
Latin American markets led the way from a regional perspective, rising nearly +18% on the back of widespread strength, including Peru (+28%), Mexico (+19%), Brazil (+18%) and Colombia (+16%). North American markets (+12%) and Europe (+11%) were up more modestly, with Poland (+38%), Sweden (+21%), the Netherlands (+20%), Hungary (+17%) and Portugal (+15%) delivering particularly strong returns. Major economies like the US (+12%), Germany (+13%), France (+10%) and the UK (+7%) rose more modestly but were nicely positive nonetheless. Asian markets were more mixed, delivering an overall +8% return for the quarter but with returns running the gamut from China in the red (-4%), to Korea (+15%), Taiwan (+17%), Australia (+15%) and New Zealand (+15%) all up solidly. The Middle East, part of which remains mired in war as Israel and Hamas continue fighting, was up the least, rising +7% in Q4 and led by Egypt (+23%), South Africa (+13%) and Saudi Arabia (+9%).

These positive returns came against a macroeconomic backdrop, the major headline of which was global monetary policy — particularly in the developed world, where US Federal Reserve chief Jerome Powell indicated rate hikes were likely at an end and 2024 may even bring some cuts. However, this announcement seemed to lead the US down a slightly different path from the other major economies, with European Central Bank president Christine Lagarde and UK Bank of England governor Andrew Bailey striking more muted notes, indicating the ECB and BOE would remain vigilant, even as they held rates amid moderating inflation.

Further complicating matters is a still-mixed macroeconomic backdrop in many countries — across many European economies and the US, inflation, while having moderated from a year ago, remains elevated; GDP growth has been generally tepid, even if positive; manufacturing activity has moderated or declined; retail sales are sluggish in many places. Meanwhile, China's economy remains pressured — its government is struggling to sufficiently spur activity to lift it from the doldrums, which helped drag its market down nearly another -4% in Q4 and -11% for the year. And Japan faces ongoing questions regarding how (perhaps whether) it will wind down its years'-long ultra-loose monetary policy and how (and, likewise, perhaps whether) it will affect meaningful corporate governance change.

Most of 2023's major macro-related questions remain unanswered — and all persist against a fraught geopolitical backdrop that currently includes two major hot conflicts and growing tensions in other areas, including between China and Taiwan. However, the investing environment is never certain — on the contrary, uncertainty often contributes to investors' ability to identify and capitalize on compelling investing opportunities. As we start another year, we believe this environment is a positive one for savvy non-US investors who are willing and able to do the research necessary to identify high-quality companies trading at attractive valuation discounts.

Exhibit 1 — 4Q23 Total Returns for Major Markets (USD) (%)



Source: FactSet, as of 31 Dec 2023.

MSCI ACWI Index measures the performance of large- and mid-cap stocks in developed and emerging markets. The index is unmanaged, market capitalization weighted, includes net reinvested dividends, does not reflect fees or expenses (which would lower the return) and is not available for direct investment. Index data source: MSCI, Inc. See diamond-hill.com/disclosures for a full copy of the disclaimer.

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