

## World markets review — Fourth quarter 2023

### Equities

**Global stocks rallied**, boosted by strong U.S. economic growth, declining inflation and signs that major central banks around the world may be done raising interest rates. Stocks moved sharply higher as officials at the U.S. Federal Reserve, the European Central Bank and other key institutions indicated that further rate hikes may not be needed amid moderate consumer price increases and low unemployment levels.

**Information technology stocks led markets higher**, rising nearly 18%, as 10 of 11 sectors in the MSCI All Country World Index gained ground. Real estate stocks also staged a strong recovery after being hammered by rising interest rates over the past year. Consumer staples stocks rose but lagged the overall market, and energy stocks declined modestly amid falling oil prices.

Equity index returns (%)	December 2023		4Q 2023		YTD 2023	
	U.S. dollar	Local currency	U.S. dollar	Local currency	U.S. dollar	Local currency
S&P 500	4.5	4.5	11.7	11.7	26.3	26.3
MSCI ACWI	4.8	4.1	11.0	9.4	22.2	21.6
MSCI ACWI ex USA	5.0	3.0	9.8	5.4	15.6	14.1
MSCI World	4.9	4.2	11.4	9.8	23.8	23.1
MSCI Emerging Markets	3.9	3.1	7.9	5.6	9.8	9.9
MSCI EAFE	5.3	2.9	10.4	5.0	18.2	16.2
MSCI Europe	5.0	3.3	11.1	5.6	19.9	14.3
MSCI Pacific	5.9	1.9	9.3	3.7	15.3	20.1

Source: RIMES

### Fixed income

**Bond markets rose across the board** as investors welcomed central bank decisions to pause their aggressive rate-hiking campaigns. As inflation moved lower, investors and economists started to anticipate rate cuts in mid-2024, further fueling a rally in nearly all segments of the bond market.

**In foreign exchange markets**, the U.S. dollar fell against the euro, the yen and most other currencies. The U.S. Dollar Index declined nearly 5% for the quarter and 3% for the year.

Fixed income index returns (%)	Dec 2023	4Q 2023	YTD 2023	Exchange rates (% change vs. USD)	Dec 2023	4Q 2023	YTD 2023
Bloomberg U.S. Aggregate	3.8	6.8	5.5	Euro	1.2	4.3	3.5
Bloomberg Global Aggregate	4.2	8.1	5.7	Japanese yen	4.9	5.8	-6.4
Bloomberg U.S. Corp IG	4.3	8.5	8.5	British pound	0.7	4.4	6.0
Bloomberg U.S. Corp HY	3.7	7.2	13.4	Canadian dollar	2.8	2.5	2.8
JPM EMBI Global Diversified	4.7	9.2	11.1	Australian dollar	2.9	5.7	0.6
JPM GBI-EM Global Diversified	3.2	8.1	12.7	Swiss franc	3.3	8.7	9.9

Source: RIMES. Returns are in USD.

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## North America

**U.S. stocks advanced** as investors cheered strong economic growth and the likely end to the Federal Reserve’s rate-hiking cycle. The real estate and information technology sectors had the strongest gains in a broad-based rally. Energy was the only sector to decline. Overall, the S&P 500 Index returned 12% during the quarter and 26% in 2023.

**The Fed held rates steady for the third consecutive meeting** as Fed Chair Jerome Powell noted that inflation had improved without a significant increase in unemployment. The central bank also signaled that it could cut rates three times in 2024. The Consumer Price Index was 3.1% in November, down from its 9.1% peak in June 2022. The unemployment rate was 3.7% in November, its lowest level since July.

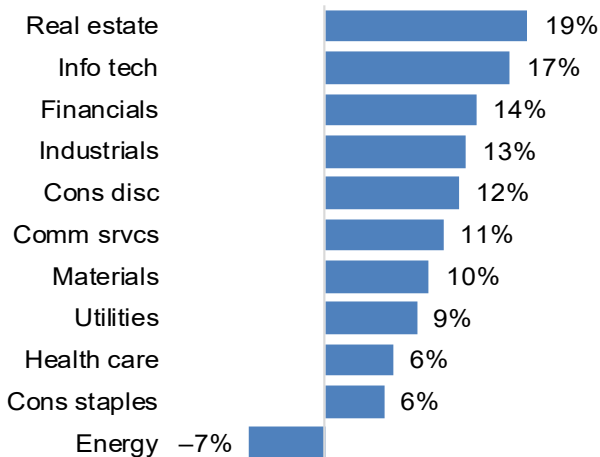
**The U.S. economy grew an annualized 4.9% in the third quarter**, as measured by gross domestic product. It was the fifth consecutive quarterly GDP gain and the fastest growth since 2021. Consumer spending – which makes up around two-thirds of the U.S. economy – rose 3.1%. The Conference Board’s Consumer Confidence Index revealed economic optimism in November was at its highest level since July.

**Some of the strongest gains were notched by semiconductor companies**, including Broadcom (35%), Advanced Micro Devices (43%), Intel (42%) and Qualcomm (31%). Nvidia shares climbed 14%, bringing its full-year return to 239%. Other tech leaders also had strong returns, notably Amazon (20%), Microsoft (19%) and Meta Platforms (18%). Netflix shares rallied as the streaming media company announced its best quarter of subscriber growth since 2020. In the industrials sector, Boeing shares soared 36%.

**Energy stocks sank as West Texas Intermediate crude oil prices retreated 21%**. Exxon Mobil declined 14% and Chevron shares shed 11%. Several health care companies also traded lower. Pfizer shares fell to a 10-year low, after the pharmaceutical company cut estimates for its COVID-19 revenue by more than 40%.

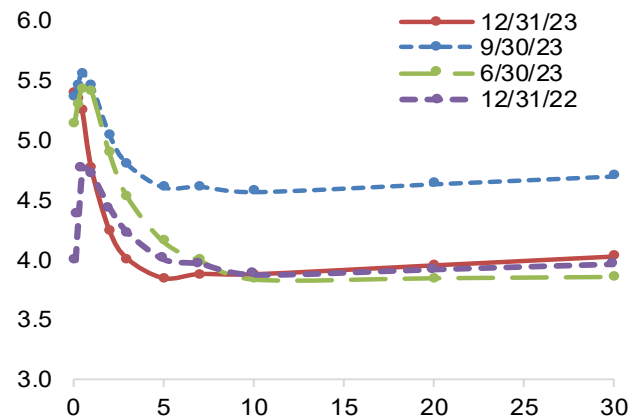
**The U.S. bond market rebounded** in the fourth quarter, boosted by the shift in narrative from the Federal Reserve and further reductions in inflation. Against this backdrop, U.S. Treasury yields fell and the yield curve steepened. The 10-year Treasury ended the year at 3.88%, down by 69 basis points (bps) over the fourth quarter. All major U.S. fixed income sectors posted strong returns. The Bloomberg U.S. Aggregate Index returned 6.82%, with investment-grade corporate bonds and mortgage-backed securities particular areas of strength. The Bloomberg U.S. Corporate Investment Grade Index rose 8.50% as spreads narrowed by 22 bps. Elsewhere, high-yield corporate bonds also had a strong quarter: the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index advanced 7.15% and spreads narrowed by 71 bps.

### S&P 500 total returns (4Q 2023)



Source: RIMES

### U.S. Treasury yield curve



Source: Bloomberg. The x-axis represents Treasury maturities (years). The y-axis represents the U.S. Treasury yield (%).

## Europe

**European stocks rose sharply** amid signs of cooling inflation and indications that the European Central Bank, following the Fed's lead, may be finished with its 14-month-long monetary tightening campaign. Overall, the MSCI Europe Index gained 11% for the quarter and 20% for the year in U.S. dollar terms.

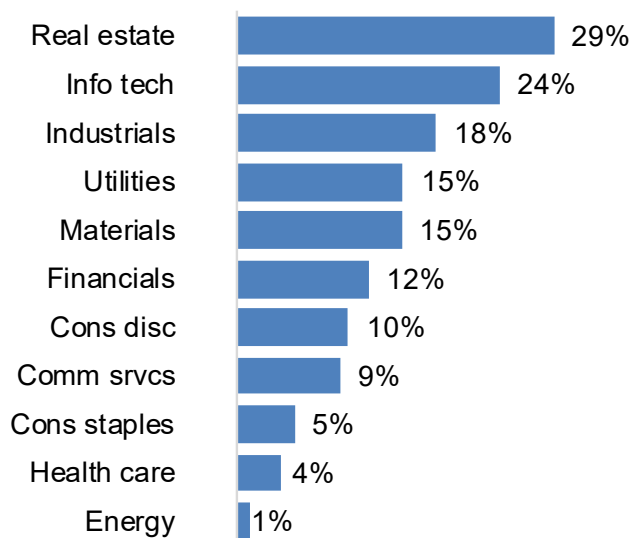
**Eurozone inflation fell to 2.4%**, based on the latest November reading, down from a peak above 10% in the fall of 2022. The rapid decline in consumer prices, along with signs of weakening economic data, prompted some economists to predict the ECB will start cutting rates in the second quarter. Since July of 2022, the central bank has raised its key deposit rate 10 times, to 4%, the highest level in the history of the 20-member eurozone.

**Real estate stocks led markets higher**, rocketing nearly 29% as the previously hard-hit sector adjusted to falling rate expectations. Other rate-sensitive sectors also rose sharply — with information technology stocks up 24% and utilities up more than 15%. Shares of ASML rallied after the Dutch company said it expected to end the year with 30% net sales growth, driven by increased demand for its state-of-the-art chip-making equipment. In the industrials sector, Siemens shares rose as the industrial conglomerate reported record-high profits of €8.5 billion for the fiscal year.

**Health care, consumer staples and energy stocks lagged**, generating single-digit returns in each sector. Shares of German drug giant Bayer fell more than 20% amid mounting litigation losses involving its Roundup herbicide, sold by Bayer's U.S.-based Monsanto division. Shares of U.K.-based BP and Spain's Repsol declined on falling oil prices. The price of Brent crude, the global benchmark for oil prices, slipped about 18% during the quarter.

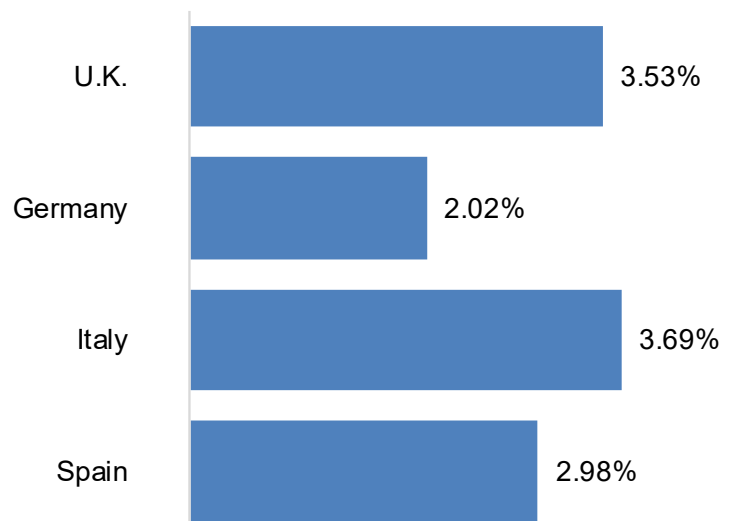
**In fixed income markets**, European bonds rallied on signs that the ECB's aggressive rate-hike campaign may be coming to an end. With inflation nearing the ECB's desired target, the yield on Germany's benchmark 10-year note fell 82 bps to 2.02%. Similar maturities in Italy declined 109 bps to 3.69%. In currency markets, the euro rose 4% against the dollar.

### MSCI Europe total returns (4Q 2023)



Source: RIMES. Returns are in USD.

### 10-year government bond yields



Source: Bloomberg. As of 12/29/23.

## Asia-Pacific

**Japanese equities rose.** Corporate governance reform and a relatively weak Japanese yen against the U.S. dollar drove investors' bullish sentiment on Japanese stocks. Nearly all sectors gained, with information technology and materials advancing the most. Although still down for the year to date, the yen rose 5.8% against the U.S. dollar in the fourth quarter.

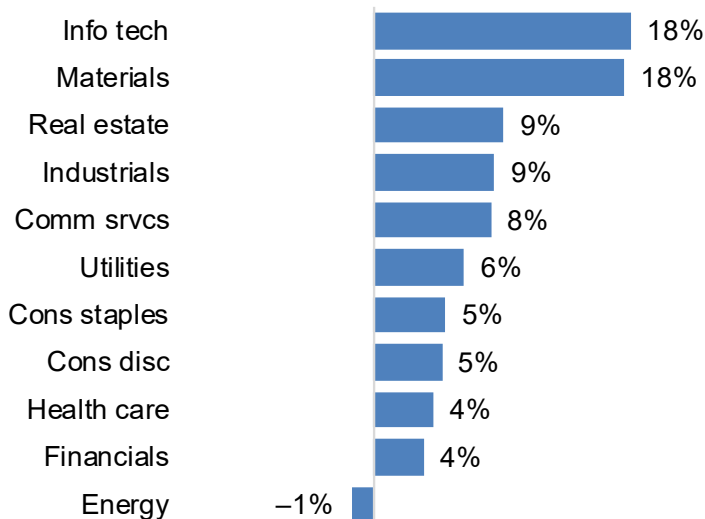
**Japan's economy shrank at the fastest pace since 2020.** Third-quarter GDP contracted an annualized 2.9% compared to the previous quarter as global economies slowed and lingering inflation weighed on domestic consumption. The government unveiled a \$113 billion stimulus package to cushion the impact of rising prices. It includes income and residential tax cuts along with subsidies on gasoline and utility bills. Core inflation, which excludes fresh food, fell to 2.5% in November, from 2.8% in September, but remained above the Bank of Japan's (BOJ) 2% target. Despite market speculation that it might reverse course on its ultra-loose monetary policy, the BOJ kept its key interest rate steady. However, it relaxed yield caps on 10-year Japanese government bonds, allowing them to potentially rise above 1%.

**Private sector activity remained subdued.** The headline au Jibun Bank Flash Japan Manufacturing Purchasing Managers' Index (PMI), an indicator of manufacturing performance, fell to 47.7 in December from 48.3 in November. The decline was driven by a slump in new work and a reduction in factory output. Elsewhere, shares of semiconductor equipment manufacturer Tokyo Electron rose. The company raised its full-year earnings and revenue targets, citing greater demand for chipmaking equipment from China. Conversely, cosmetics company Shiseido declined after it slashed its earnings forecast amid weak demand from China for its products. Honda shares also fell. The company's American unit recalled 4.5 million vehicles globally due to a potential safety hazard.

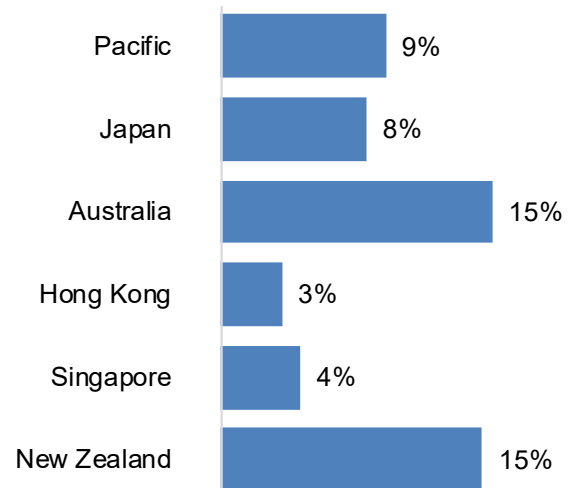
**Australian stocks saw double-digit returns.** Rising iron ore prices boosted miners like BHP, Fortescue and Rio Tinto. The Reserve Bank of Australia (RBA) continued its effort to control inflation by hiking its key rate to a 12-year high of 4.35% in November. GDP growth slowed in the third quarter as rising interest rates dampened spending. In other news, the country's two largest oil and gas producers – Woodside Energy and Santos – said they were in preliminary talks about a potential merger. Woodside stock declined while Santos edged higher.

**Hong Kong stocks advanced.** The city's post-pandemic economic recovery remained muted as its close ties to a slowing Chinese economy marred its own economic prospects. City government officials slashed 2023 GDP growth forecasts to 3.2% year-over-year, citing weak exports and muted private consumption. Hong Kong's economy grew by 4.1% in the third quarter from a year earlier.

### MSCI Japan total returns (4Q 2023)



### MSCI Pacific total returns (4Q 2023)



Source: RIMES. Returns are in USD.

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periods.

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## Emerging markets

**Emerging markets stocks posted their biggest quarterly gain of the year**, overcoming weakness in Chinese equities. Growing optimism for rate cuts in the U.S., easing inflation and continued economic growth in large developing countries fueled returns. Almost all foreign currencies rose against the dollar. Overall, the MSCI Emerging Markets Index advanced 8%.

**Latin American equities rallied.** Brazil and Mexico both notched double-digit returns. Brazil's central bank cut its key interest rate a fourth consecutive time by 50 bps and signaled similar cuts could be in the offing in 2024 as inflation has eased. In a separate move that could help the country's economy in the long term, Brazilian lawmakers inked a bill to overhaul and simplify the country's tax code. Meanwhile, Mexico's economy grew for an eighth consecutive quarter in the July to September period, helped by increased exports to the U.S.

**Indian stocks surged** on strong economic growth and government investment in the country's infrastructure. India's economy grew 7.6% year on year, in part helped by a growing manufacturing base as multinationals set up new factories.

**Semiconductor firms helped lead the MSCI Emerging Markets Index higher** amid signs that inventory levels for chips are improving. TSMC gained 20%, while Samsung Electronics rose 21%. The world's leading chip manufacturers also signaled healthy demand for processors used in artificial intelligence applications. MediaTek in Taiwan and SK Hynix in South Korea also rose.

**Financial stocks posted robust returns**, with the sector advancing 8%. Gains came from banks across several countries, including Al Rajhi Banking in Saudi Arabia, Itaú Unibanco in Brazil and Grupo Financiero Banorte in Mexico.

**Meanwhile, Chinese equities fell for a third consecutive quarter.** Growth in China's economy remained sluggish amid a weak housing market and fragile consumer confidence. Citing risks to economic growth, rating agency Moody's cut its credit outlook on China to negative from stable while maintaining its long-term rating of A1 on the country's sovereign debt. Consumer discretionary stocks slid, including e-commerce giant Alibaba and food delivery firm Meituan. Discount e-commerce operator PDD bucked the trend, surging 49%.

**Emerging markets debt made strong gains** on the back of falling U.S. interest rate expectations and U.S. dollar weakness. Both dollar-denominated government bonds and local currency bonds (returns in U.S. dollar terms) rallied sharply, with Mexico, Poland and South Africa posting some of the biggest returns. ■

### 4Q 2023 total returns (%)

Equity indexes (USD)		Fixed income / currency	USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
MSCI Emerging Markets	7.9	JPM EMBI Global Div	9.2	---	---	---
MSCI Brazil	17.8	JPM GBI-EM Global Div	---	8.1	4.8	---
MSCI China	-4.2	Brazil	6.7	8.4	5.2	3.0
MSCI India	11.9	China	4.8	4.3	1.3	3.0
MSCI Mexico	18.6	Indonesia	10.0	3.6	3.2	0.4
MSCI South Africa	12.6	Malaysia	8.9	4.3	2.1	2.2
MSCI Korea	15.3	Mexico	10.9	9.7	6.9	2.6
MSCI Saudi Arabia	8.8	Poland	9.1	13.9	2.6	11.0
MSCI Taiwan	17.4	South Africa	12.3	11.5	8.2	3.0
MSCI Thailand	3.9	Turkey	9.2	-4.0	3.4	-7.2

Source: RIMES

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Unless otherwise noted, all returns are in U.S. dollars and assume the reinvestment of dividends. Country stock returns are based on MSCI indexes.

Bond ratings, which typically range from AAA/Aaa (highest) to D (lowest), are assigned by credit rating agencies such as Standard & Poor's, Moody's and/or Fitch, as an indication of an issuer's creditworthiness.

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S&P Global purchasing manager indexes (PMIs) track business trends across both manufacturing and service sectors for various countries. The indexes are based on data collected from companies and follow variables such as sales, new orders, employment, inventories and prices. The **au Jibun Bank Flash Japan Manufacturing Purchasing Managers' Index**, also compiled by S&P Global, provides similar information about Japanese manufacturers.

**J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified** and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds. **J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified** and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. **MSCI All Country World Index (ACWI)** is designed to measure results of more than 40 developed and emerging equity markets. **MSCI All Country World (ACWI) ex USA Index** is designed to measure equity market results in the global developed and emerging markets, excluding the United States. **MSCI EAFE® (Europe, Australasia, Far East) Index** is designed to measure developed equity market results, excluding the United States and Canada. **MSCI Emerging Markets Index** is a free-float-adjusted market-capitalization-weighted index designed to measure equity market results in more than 20 global emerging markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Index. **MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe. **MSCI Pacific Index** is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore. **MSCI World Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

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The **Consumer Price Index (CPI)**, reported by the U.S. Bureau of Labor Statistics, measures the change in prices paid by consumers for goods and services.

The **Conference Board Consumer Confidence Index®** is based on a survey of consumer attitudes, buying intentions, vacation plans, and expectations for inflation, stock prices, and interest rates.

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