World markets review — 2023

Equities

Global stocks rallied, bouncing back from the severe losses of 2022. Stocks advanced in nearly all major developed markets, led by the U.S., Europe and Japan. Many emerging markets also posted solid gains, particularly Brazil and India, even as stocks in China fell sharply. Markets moved higher despite rising geopolitical risks, including ongoing conflicts in Ukraine and the Middle East.

All sectors rose in the MSCI All Country World Index, boosted by signs of falling inflation and indications that many of the world's central banks may be done raising interest rates. Information technology stocks enjoyed the largest gains, fueled in part by rapid advancements in artificial intelligence. Consumer staples, health care and utilities stocks lagged the overall market.

	December 2023		4Q 2023		2023	
Equity index returns (%)	**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

Bonds markets also rebounded, rallying on expectations that the U.S. Federal Reserve, the European Central Bank and others are not only done with rate hikes but planning rate cuts in 2024. Virtually all segments of the bond market generated strong returns in contrast to the unprecedented 2022 downturn.

In foreign exchange markets, a strong U.S. dollar grew stronger for part of the year but reversed course as the Fed started to contemplate rate cuts. By year-end, the dollar registered declines against the euro, the British pound, the Brazilian real and most other currencies.

Fixed income index returns (%)	Dec 2023	4Q 2023	2023
Bloomberg U.S. Aggregate	3.8	6.8	5.5
Bloomberg Global Aggregate	4.2	8.1	5.7
Bloomberg U.S. Corp IG	4.3	8.5	8.5
Bloomberg U.S. Corp HY	3.7	7.2	13.4
JPM EMBI Global Diversified	4.7	9.2	11.1
JPM GBI-EM Global Diversified	3.2	8.1	12.7

Exchange rates (% change vs. USD)	Dec 2023	4Q 2023	2023
Euro	1.2	4.3	3.5
Japanese yen	4.9	5.8	–6.4
British pound	0.7	4.4	6.0
Canadian dollar	2.8	2.5	2.8
Australian dollar	2.9	5.7	0.6
Swiss franc	3.3	8.7	9.9

Source: RIMES. Returns are in USD.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

North America

U.S. equities advanced amid strong economic growth, moderating inflation and a slowdown in the pace of Federal Reserve interest rate hikes. Despite market jitters over a major banking crisis and wars in Ukraine and the Middle East, the S&P 500 Index climbed 26%. The information technology, consumer discretionary and communication services sectors led as growth stocks significantly outpaced value. The Nasdaq Composite soared 45%.

A strong labor market and resilient consumer spending helped the U.S. economy avoid a recession, which once seemed inevitable. At the start of the year, 85% of polled economists predicted a recession would begin before the end of 2023, according to a University of Chicago study. Instead, U.S. gross domestic product continued to rise. GDP climbed an annualized 4.9% in the third quarter – the fifth consecutive quarterly gain and the fastest pace since 2021. The unemployment rate remained below 4% throughout the year, touching a low of 3.4% in April.

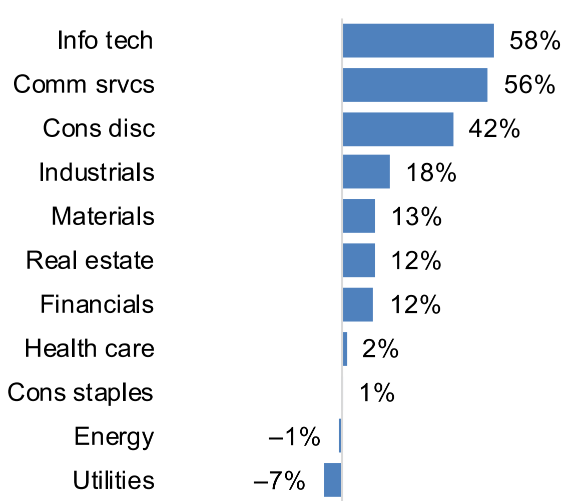
Inflation declined rapidly throughout the year. The Consumer Price Index slowed to 3.1% in November, a marked improvement from the 6.5% rate at the end of 2022 and the 9.1% peak in June 2022. Core inflation, which excludes food and energy, was 4% in November, matching its slowest pace in over two years.

The Fed slowed its pace of rate hikes and signaled it could cut rates three times in 2024. The central bank raised its target rate by 25 basis points (bps) four times through July but took no further actions in its final three meetings of the year.

Shares of NVIDIA soared 239% as the chipmaker became one of the most notable beneficiaries of market enthusiasm over the potential of artificial intelligence. Other semiconductor companies, including Broadcom (104%), Advanced Micro Devices (128%) and Intel (95%), also rose sharply. Meta Platforms rallied 194% as investors cheered the company's cost-cutting measures and renewed focus on advertising revenue after three straight quarters of declining sales. Tesla shares gained 102%.

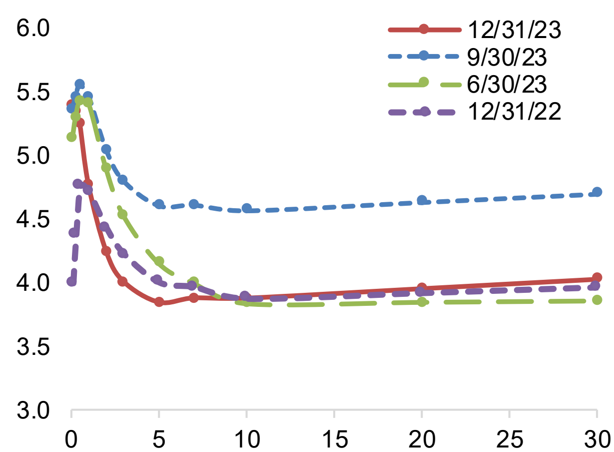
U.S. bond markets rebounded strongly. The U.S. Treasury yield curve steepened modestly as the 2-year yield fell 18 bps to end at 4.25% while the 10-year yield ended unchanged at 3.88%. All major U.S. fixed income sectors posted positive returns. The Bloomberg U.S. Aggregate Index advanced 5.53%. Corporate markets led U.S. bond returns for the year. The Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index and Bloomberg U.S. Corporate Investment Grade Index rose 13.44% and 8.52%, respectively. Both sectors benefited from narrowing spreads, which fell 146 bps for high-yield bonds and 31 bps for investment-grade corporates.

S&P 500 total returns (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 rallied as inflation declined from generationally high levels, paving the way for European Central Bank officials to begin cutting interest rates in 2024. Stock prices moved higher throughout the 20-member eurozone despite signs of weakening economic growth in most countries, including Germany and France, Europe's largest economies. Overall, the MSCI Europe Index rose 20% for U.S. dollar-based investors and 14% in local currency terms.

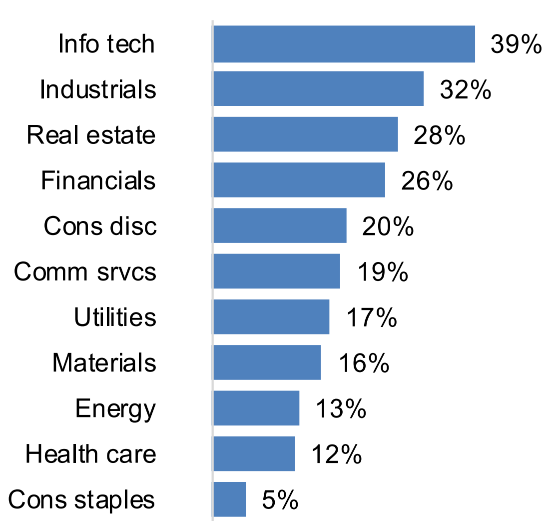
Eurozone inflation fell to 2.4% in November, leading some economists to call for ECB rate cuts as early as the second quarter of 2024. At the end of the year, the ECB's key deposit rate stood at 4%, the highest level since the eurozone was founded in 1999. Meanwhile, the eurozone economy continued to languish throughout the year, with economic growth hovering around plus or minus 0.5% much of the time.

All sectors advanced, led by a 39% gain among information technology stocks. Shares of ASML moved sharply higher as the Dutch semiconductor equipment company reported strong demand for its state-of-the-art chip-making machines. The industrials sector rose more than 30% amid a boom in infrastructure-related projects around the world. Siemens shares rallied as the industrial conglomerate reported record profits of €8.5 billion for the fiscal year. In the health care sector, Novo Nordisk shares skyrocketed amid the growing popularity of its diabetes and weight-loss drugs Ozempic and Wegovy.

Consumer staples stocks lagged the overall market, notching a 5% gain for the year. Shares of British American Tobacco plummeted amid a declining sales outlook in some markets, prompting the company to write down the value of its U.S. cigarette brands by more than $31 billion. Shares of beverage maker Diageo also fell sharply on disappointing beer sales, prompting the U.K.-based company to reportedly consider selling off some of its beer brands. Elsewhere, Bayer shares declined amid mounting litigation losses involving its Roundup herbicide, sold by Bayer's U.S.-based Monsanto division.

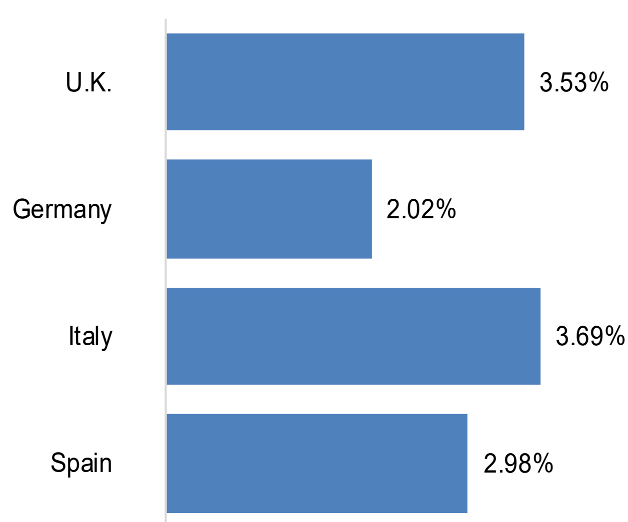
In fixed income markets, European bonds posted strong gains, bouncing back from sharp losses the prior year. Amid signs that the ECB's aggressive rate-hike campaign may be coming to an end, the yield on Germany's benchmark 10-year note fell 54 bps to 2.02%. Similar maturities in Italy declined 101 bps to 3.69%. In currency markets, the euro gained 3% against the dollar.

MSCI Europe total returns (2023)



Source: RIMES. Returns are in USD.

10-year government bond yields



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

Asia-Pacific

Japanese equities rose sharply supported by corporate reforms and a weak yen even as the post-pandemic economic recovery stalled. A push by the Tokyo Stock Exchange to improve corporate governance and boost profitability, long-term returns and valuations of its listed companies bolstered investor sentiment. Nearly all sectors advanced with health care the only decliner. Materials and information technology led gains. The Japanese yen lost 6.4% against the U.S. dollar.

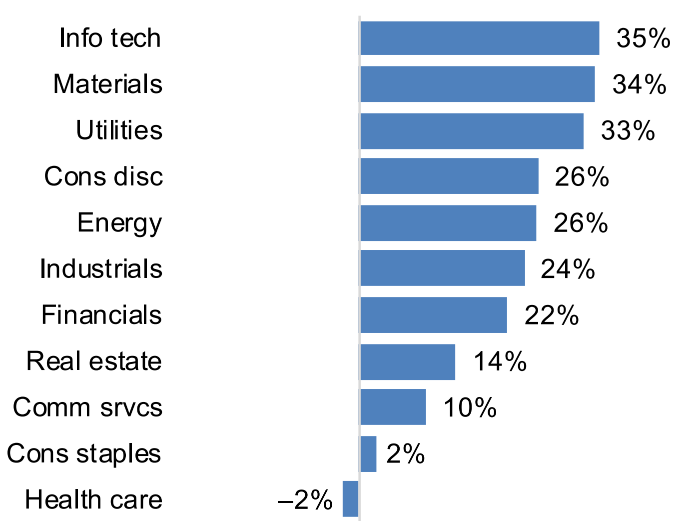
Japan's economic recovery remained fragile. Its economy exited a technical recession in the first quarter, boosted by private and business spending as pandemic-related restrictions were lifted. Economic growth, however, remained constrained by persistent inflation and weak domestic consumption. GDP shrank at the fastest pace since 2020 in the third quarter. To help households contend with rising prices and to revitalize spending, Prime Minister Fumio Kishida announced a $113 billion stimulus package in November. The package includes tax cuts and subsidies on gas and utilities.

The Bank of Japan (BOJ) maintained its loose monetary policy. The bank kept its negative interest rates unchanged, dashing market expectations of a policy reversal after it loosened yield controls on government debt. It relaxed yield caps on 10-year government bonds in October, allowing them to potentially rise above 1%. Inflation inched closer to the bank's 2% target. Core inflation, which excludes fresh food, fell to 2.5% in November from 4% in December of 2022. Shares of cosmetics company Shiseido fell after it slashed its earnings forecast due to weak demand from China. Toyota shares rose despite vehicle safety recalls in December. Toyota's profits for the quarter ended in September doubled from a year ago due to strong demand for hybrid vehicles.

Australian shares advanced. Nearly all sectors rose, with only utilities declining. The consumer discretionary and information technology sectors led returns. Helped by a rise in exports, GDP slightly beat estimates in the second quarter, growing 0.4% compared to the first quarter. Growth slowed in the third quarter, however, as rising interest rates weighed on spending. The Reserve Bank of Australia (RBA) continued its effort to control persistent inflation by hiking its key rate to a 12-year high of 4.35% in November. It left the rate unchanged in December.

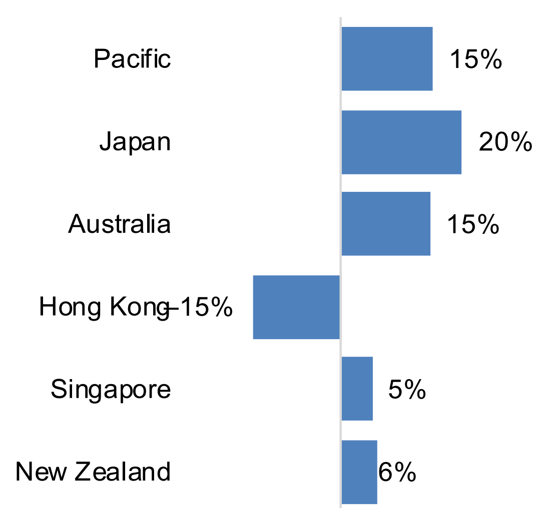
Hong Kong stocks dropped as a slowing Chinese economy weighed on the city's economy. Nearly all sectors declined, except for utilities and communication services. The city emerged from a recession in the first quarter and grew by 4.1% in the third quarter from a year earlier. However, city government officials slashed 2023 GDP growth forecasts in November to 3.2% year over year, citing weak exports and muted private consumption.

MSCI Japan total returns (2023)



Source: RIMES. Returns are in USD.

MSCI Pacific total returns (2023)



Source: RIMES. Returns are in USD.

Emerging markets

Emerging markets stocks rose despite China's slowing economy. Interest rate cuts in several developing countries as well as expected cuts in the U.S. helped returns, along with economic growth and U.S. dollar weakness. Overall, the MSCI Emerging Markets Index gained 10%.

Chinese stocks declined for the third consecutive year. After coming out of the gate strong in the first quarter, gains for equities fizzled after an expected strong economic recovery failed to materialize following China's exit from COVID-19 lockdowns. Persistent weakness in the country's property market, waning consumer confidence and the government's piecemeal approach to fiscal stimulus all weighed on economic growth.

Consumer discretionary stocks in China tumbled. Internet services platform Meituan sank 53% and e-commerce operator JD.com plummeted 48%. Alibaba, China's largest e-commerce company, fell 11%. On the upside, discount e-commerce retailer PDD, parent of Pinduoduo, surged 79%.

Latin American equities gained the most on a regional basis, bolstered by rate cuts, easing inflation and currency gains. Mexican equities notched their largest annual return since 2009, surging 41% as the country overtook China as the U.S.'s largest trading partner. Brazilian stocks soared 33%, their biggest gain since 2016. The central bank cut its key interest rate by 50 bps four straight times and signaled similar cuts in 2024.

Indian stocks climbed as multinationals set up new factories for mobile phones, home appliances and semiconductors. India's economy grew by more than 7% annualized in the April to June and July to September quarters, supported by massive infrastructure spending. Larsen & Toubro, an engineering and construction firm, soared 70%, hitting an all-time high.

Leading semiconductor companies boosted benchmark returns on signs that inventory was normalizing and on rising demand for processors in artificial intelligence applications. Taiwan Semiconductor Manufacturing, the world's largest chip manufacturer, gained 35%. South Korean memory chipmakers Samsung Electronics and SK Hynix surged 42% and 87%, respectively.

The U.S. dollar depreciated against many developing world currencies, including the Mexican peso, the Polish zloty and the Brazilian real. Central banks in Brazil, Poland and Chile cut interest rates while others such as Mexico and Taiwan left rates unchanged.

Emerging markets debt made strong gains on the back of falling U.S. interest rate expectations and dollar weakness. Both dollar-denominated government bonds and local currency bonds (returns in U.S. dollar terms) rallied, led by Brazil, South Africa and Poland. ■

2023 total returns (%)

Equity indexes (USD)	
MSCI Emerging Markets	9.8
MSCI Brazil	32.7
MSCI China	–11.2
MSCI India	20.8
MSCI Mexico	40.9
MSCI South Africa	1.5
MSCI Korea	23.2
MSCI Saudi Arabia	10.7
MSCI Taiwan	30.4
MSCI Thailand	–10.5

Fixed income / currency	USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
JPM EMBI Global Div	11.1	---	---	---
JPM GBI-EM Global Div	---	12.7	10.0	---
Brazil	10.7	27.8	17.6	8.7
China	6.5	2.2	4.2	–2.0
Indonesia	9.6	10.1	8.9	1.1
Malaysia	7.2	1.4	5.8	–4.1
Mexico	11.6	26.3	9.7	15.1
Poland	6.4	26.0	12.9	11.5
South Africa	12.9	2.0	9.6	–7.0
Turkey	16.4	–53.5	–26.7	–36.6

Source: RIMES

Certain market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

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.

Bloomberg indexes are unmanaged, and 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. **Bloomberg U.S. Aggregate Index** represents the U.S. investment-grade fixed-rate bond market. **Bloomberg Global Aggregate Index** represents the global investment-grade fixed income markets. **Bloomberg U.S. Corporate Investment Grade Index** represents the universe of investment grade, publically issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. The **Bloomberg U.S. Corporate High Yield Bond Index** measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market.

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.

Nasdaq Composite Index is a broad-based market-capitalization-weighted index that measures all domestic and international-based common-type stocks listed on The Nasdaq Stock Market.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This 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.

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.

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