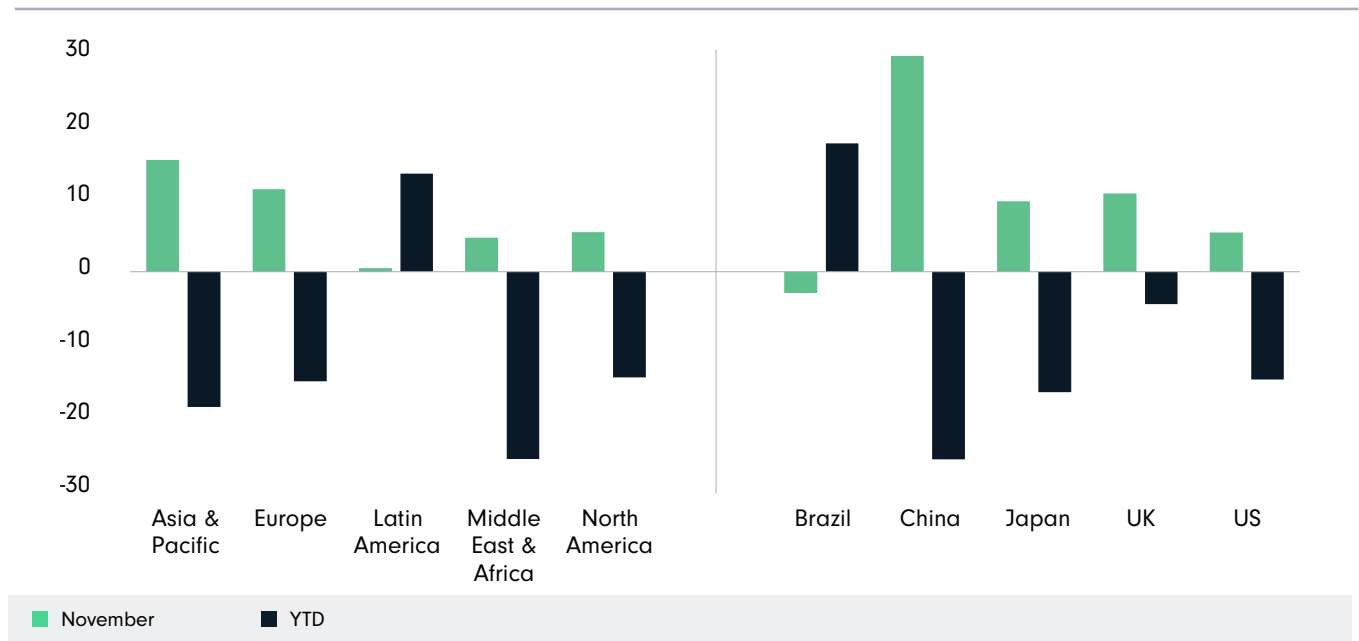


Global Stock Markets Erase Some Losses

Dec 2022

Global stocks (as measured by the MSCI ACWI Index) collectively advanced more than 7% in November, tacking onto October's gains and helping ease some of the losses investors have experienced year to date. In Europe, stocks advanced over 11%, with equity markets in Germany, France and the United Kingdom up approximately 14%, 11% and 10%, respectively. US stocks were also moved higher, closing the month 5% higher. In Latin America, stocks in Mexico gained 6% while Brazilian stocks declined -2%. Major markets in Asia Pacific were standouts this month with Chinese stocks leading the way, up nearly 30%. Stocks in Hong Kong and Taiwan posted gains in excess of 20%, and Japanese equities were up 9%.

Exhibit 1 – November and YTD Total Returns for Major Markets (USD) (%)

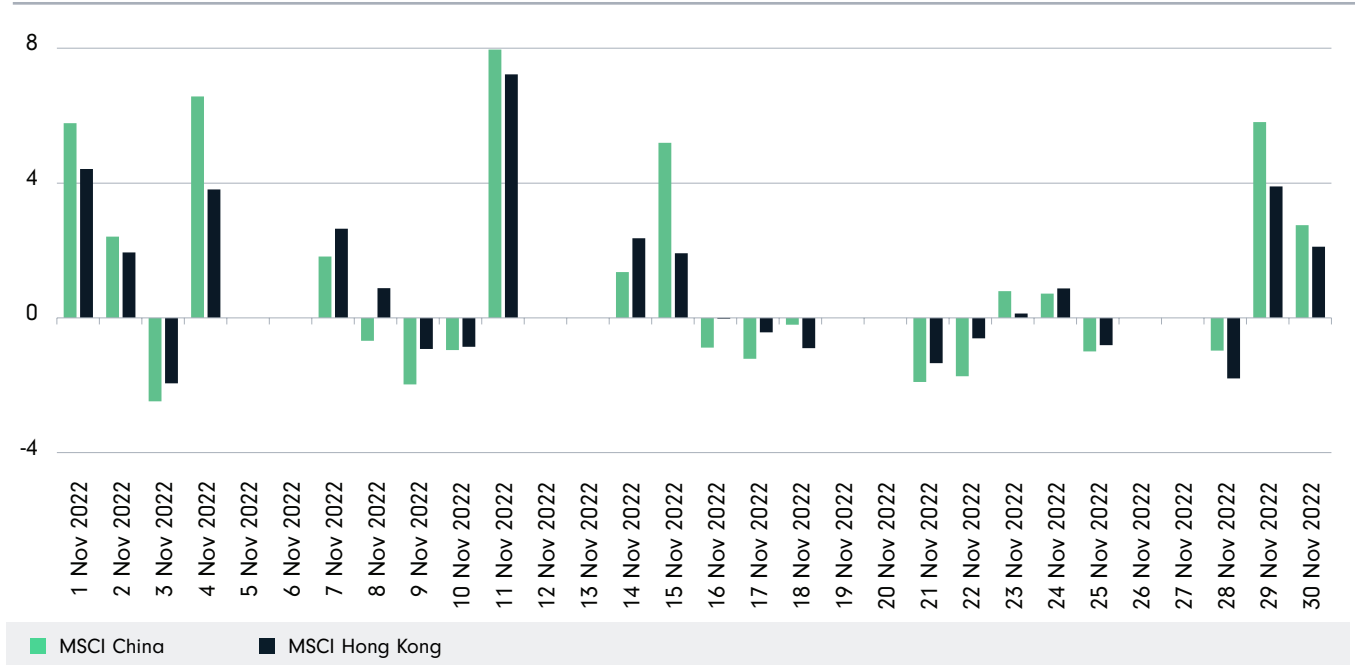


Source: FactSet, as of 30 November 2022.

China

Stocks in China reversed course and rebounded strongly in November as Chinese leaders considered steps to slowly reopen the economy – following a period of strict zero-COVID policies that included lockdowns, quarantines and mass testing. While November gains for equities in Hong Kong and China were robust, it was a bumpy ride (Exhibit 2). Chinese citizens took to the streets in major cities to protest the country’s zero-COVID policies. In the communist country, such demonstrations are rare, making political risk feel uncertain, contributing to market volatility. Additionally, China’s exports declined in October for the first time since the pandemic began. As the risk of recession increases overseas, it will have a meaningful effect on global demand and the consumption of consumer goods.

Exhibit 2 – Daily Stock Movements (Total Return %)



Source: FactSet.

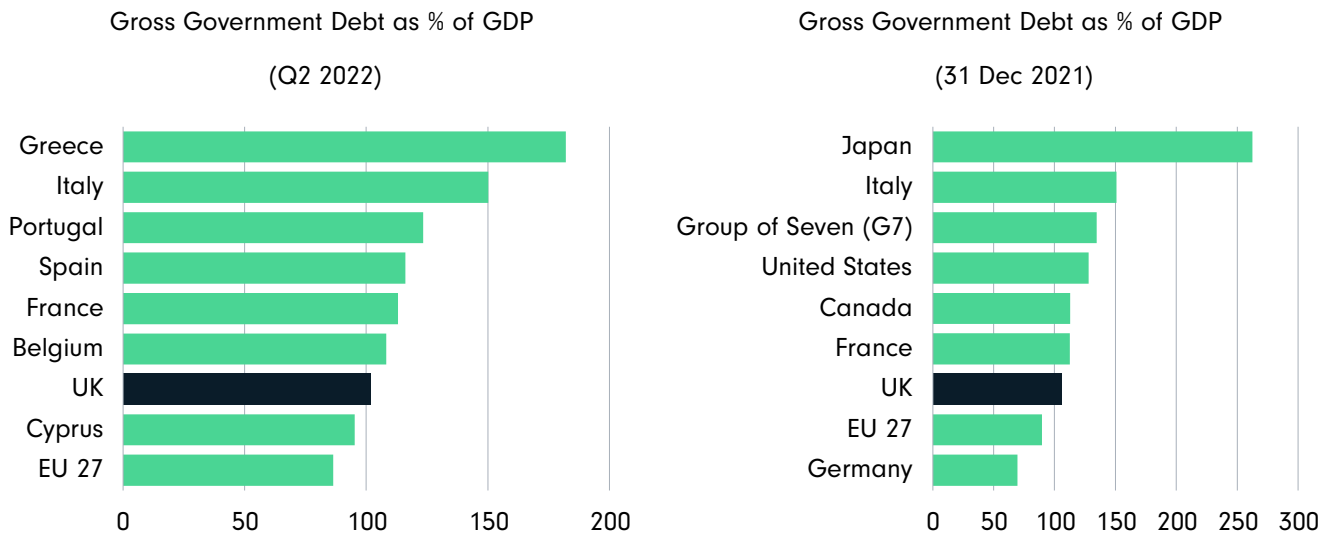
Eurozone

In November, inflation declined to 10% in the eurozone for the first time since mid-2021 (down from 10.6% in October). Easing energy prices were partly responsible for the drop. Inflation has been on the rise since Russia invaded Ukraine in late February, driving the European Central Bank (ECB) to increase its key interest rate more rapidly than historical norms. The latest inflation number reinforced expectations that the ECB will raise its key interest rate in December, the fourth straight time it has done so.

United Kingdom

In November, the UK government announced tax increases and spending cuts, which is a marked shift from former Prime Minister Liz Truss’s efforts to ramp up growth via unfunded tax cuts. Rishi Sunak, the UK’s current prime minister who took over after Truss resigned, is setting in motion a plan that aims to significantly cut government debt. The UK’s gross debt as a percentage of GDP is among the highest in the European Union—but nearly 30% lower than the G7 average (Exhibit 3). The UK isn’t alone in its focus on decreasing government debt, as several Western economies ramped up spending and fiscal stimulus during the pandemic and are now looking to unwind some of that.

Exhibit 3 – Gross Government Debt as a Percent of GDP



Sources: Comparison with EU member states, Office for National Statistics – UK government debt and deficit, Eurostat (latest available). Comparison with G7 member states, Office for National Statistics, International Monetary Fund – World Economic Outlook October 2022 (latest available).

United States

Inflation in the US fell modestly in October to 7.7%, a decline from 8.2% in September. While inflation has notched down from its historical high of 9.1% in June, it remains elevated as pricing pressure has broadened to services in addition to goods. With slightly improving inflation numbers, expectations for a 50-basis point hike at the Federal Reserve’s December meeting have set in.

The labor market remains tight as US unemployment insurance filings fell in November – the US Labor Department reported initial jobless claims decreased by 4,000 to a seasonally adjusted 222,000. Big tech companies, including Amazon and Meta, both expect to cut personnel costs as a slowing global economy begins to hamper growth.

Exhibit 4 – CPI, 12-Month Percentage Change, All Items (%)



Source: US Bureau of Labor Statistics. Not seasonally adjusted.

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

As of 30 November 2022, Diamond Hill owned equity shares of Amazon.com Inc and Meta Platforms Inc.

The views expressed are those of Diamond Hill as of December 2022 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal. Past performance is not a guarantee of future results.