DIAMOND HILL

INVESTED IN THE LONG RUN

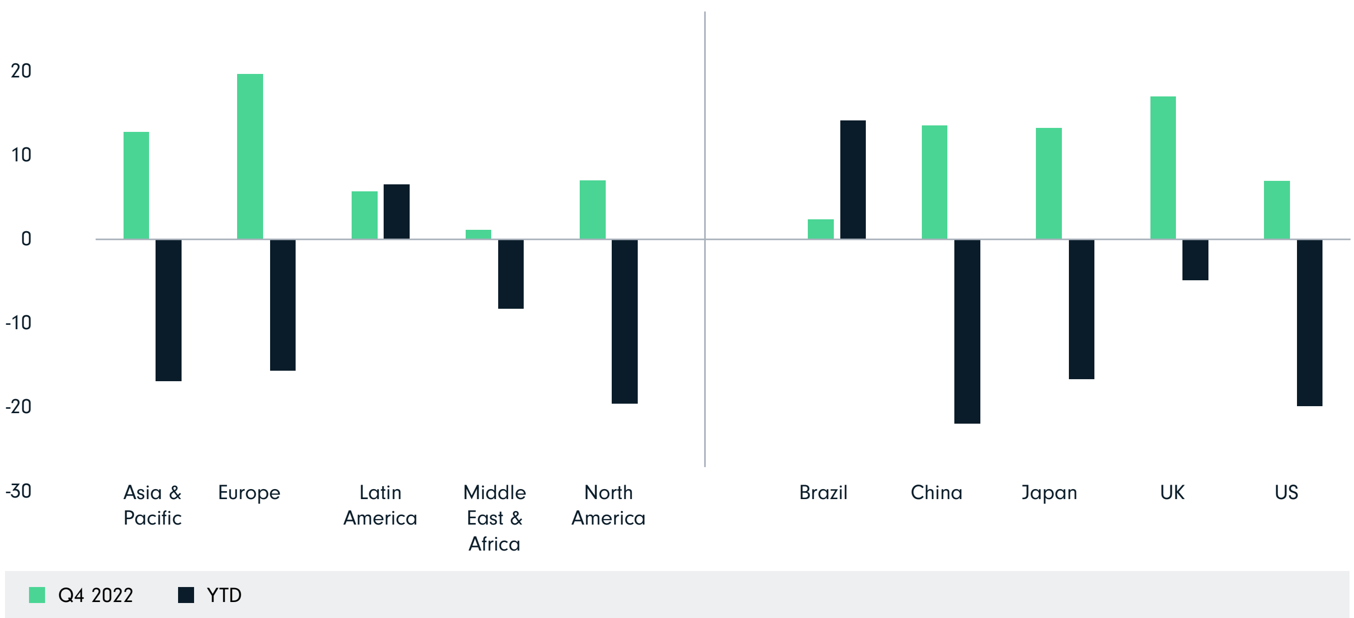
Global Stocks End the Year on a High Note

Jan 2023

Global stocks bounced more than 9% (in USD terms as measured by the MSCI ACWI Index) in the final quarter of 2022, bringing year-to-date losses to -18% to conclude stocks' worst year since the 2008 financial crisis. Given the strength in the US dollar relative to global currencies in 2022, USD-based investors experienced a greater decline as global stocks fell -15.6% in local terms. Emerging markets and developed markets both advanced just under 10% in Q4 (in USD terms); for the full year, developed markets posted -18% declines versus emerging markets, which collectively fell -20%.

In Latin America, Brazilian stocks gained a little over 2% in Q4, while stocks in Mexico rose 12%. In Asia Pacific, equities in several markets posted double-digit gains in the final quarter. In Japan, stocks rose 13%; in China, they rose 13%; and in Hong Kong and South Korea, stocks advanced 18%. In Europe, German stocks were up 24%, France posted gains of 22% and stocks in the UK were up 17%.

Exhibit 1 — Q4 and YTD Total Returns for Major Markets (USD) (%)



Source: FactSet, as of 31 December 2022.

In the US, stocks were up almost 7% for the quarter. Market action in Q4, and in much of 2022, seemed heavily predicated on investors' reading of the Fed tea leaves — with any sign there may soon be reason for easing often accompanied by a market rally. Though December's inflation reading — which, at 7.1% year over year, was the coolest it's been since December 2021 — may have offered reason for such optimism, Fed Chairman Jerome Powell has not indicated he foresees rate cuts in 2023, nor have the major global central bank heads, including the European Central Bank's Christine Lagarde. On the contrary: Rates are expected to rise, albeit at a slower pace, in 2023.

Inflation, high energy prices and supply-chain challenges continued to cloud the economic environment in Europe. During the fourth quarter, central banks in the UK, eurozone and Switzerland all increased interest rates by 50 basis points. Eurozone inflation eased in November to 10.1%, a small decrease from 10.4% in October. Consumer confidence in the eurozone, however, increased for the third month in a row, as energy prices modestly declined. The European Central Bank reiterated its commitment to increasing rates as inflation remains high and is expected to stay elevated for some time. The Bank of England stated that it believes the UK is already in a recession that could last for a while. By many measures (employment, manufacturing, corporate profit growth, etc.), several major global economies seem healthy — but central banks' determination to wrangle inflation could result in (or even require) overtightening and prompt recessions in the year ahead. Ideally, relative economic health will make any such recessions both short-lived and shallow.

From a sector perspective, all sectors in the MSCI ACWI ex USA Index posted double-digit gains in Q4, with the materials and industrials sectors leading the way, both up 17%. The financials and health care sectors followed closely behind with 16% and 15% gains, respectively. Sectors that did not advance as strongly included the consumer staples and real estate sectors, both of which advanced 10%. For the full year, energy stocks around the globe were the strongest performers, advancing over 12%, and represented the only sector to post positive returns. After energy, the financials and materials sectors held up well on a relative basis, falling -5% and -9%, respectively. All other sectors posted double-digit declines, the weakest of which were the technology, consumer discretionary and communication services sectors — all posting losses in excess of -20%.

While the market environment can best be described as uncertain, with bouts of volatility, 2022's disappointing market returns have broadened the opportunity set for long term-focused investors able to identify compelling investments. Our dedicated focus on a five-year time horizon allows us to see beyond short-term volatility — both economic and market — and help position our clients to capitalize on dislocations like those introduced by 2022.

MSCI ACWI Index measures the performance of large- and mid-cap stocks in developed and emerging markets. **MSCI ACWI ex USA Index** measures the performance of large- and mid-cap stocks in developed (excluding the US) and emerging markets. 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.