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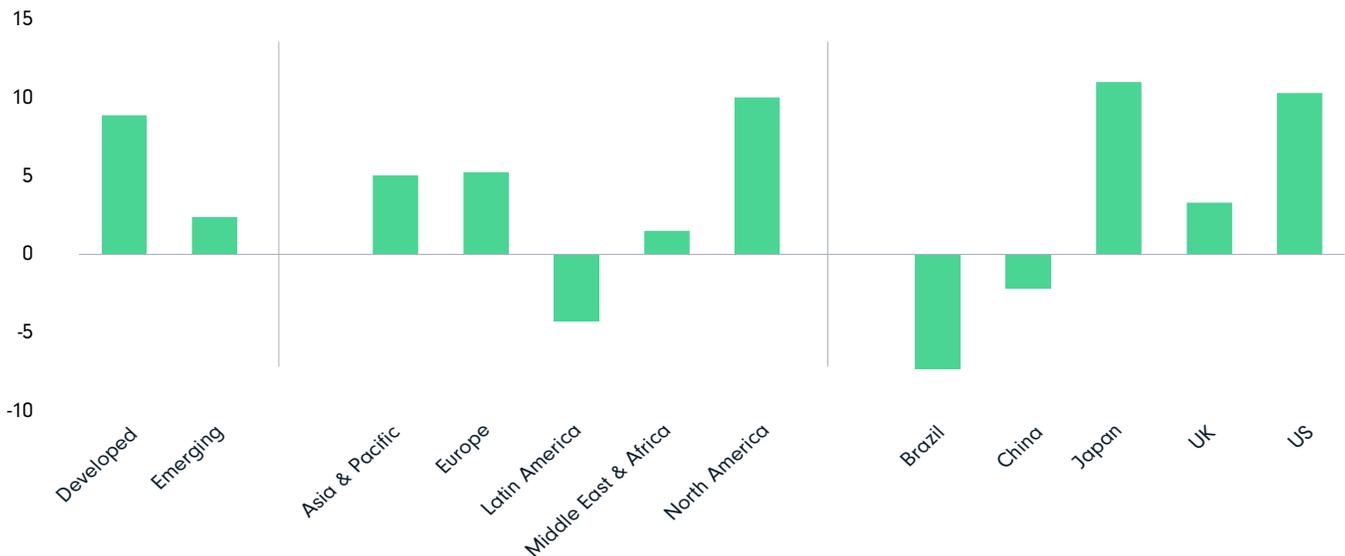
The Global Economy in Review: Q1 2024's Winners, Losers and Surprises

Mar 2024

Markets were mostly positive in Q1 2024, with the ongoing notable exceptions of Brazil and China, the latter of which remains in the red amid ongoing macroeconomic challenges. Global stocks rose roughly +8% in Q1 (as measured by the MSCI ACWI Index). US dollar-based returns were generally lower than local returns as the USD strengthened during the quarter relative to major global currencies. Developed markets outpaced emerging markets in Q1, rising just shy of +9% versus +2%, respectively.

Europe (+5%) and the Asia and Pacific regions (+5%) rose more moderately. In Europe, Denmark (+15%), the Netherlands (+15%) and Italy (+14%) had particularly solid first quarters, while major economies like Germany (+7%), France (+6%) and the UK (+3%) notched more modest gains. In the Asia and Pacific region, Taiwan led the way, rising +12%, while Japan was up +11%. As noted, China was in the red, down more than -2%, while Hong Kong fell nearly -12%. Returns were widely dispersed across the Latin America region (-4%), with Brazil down -7% and Mexico up a modest +0.5%. The Middle East, part of which remains an active war zone as Israel and Hamas continue fighting, was still up moderately, +2%, with Israel up (+12%), as well as Kuwait (+8%) and Saudi Arabia (+5%).

Exhibit 1 – Q1 2024 Total Returns for Major Markets (USD) (%)



Source: FactSet, as of 31 March 2024.

As has been the case in recent quarters, market-related headlines in Q1 seemed to focus narrowly on global monetary policy and its future direction – though the degree to which monetary policy is the dominant influencer of markets' direction may finally be diminishing. Investors may be increasingly convinced central bank heads have achieved the proverbial soft landing, with economic data remaining relatively robust even as inflation data moderate more slowly. Only time will tell.

Of note on the monetary policy front was the long-awaited conclusion of Japan's ultra-loose monetary policy. After decades of deflation, Japan's economy is showing signs of mild inflation in the form of higher wages – which presumably lent the Bank of Japan (BOJ) confidence in its decision to end its ultra-loose policy regime. Accordingly, the BOJ made several noteworthy shifts, including raising its benchmark interest rate from -0.1% to +0.1%, ending its yield curve control policy (whereby it capped the 10-year Japanese government bond yield) and ending government purchases of exchange-traded funds and Japanese real estate investment trusts. However, it will continue purchasing roughly \$40 billion monthly of Japanese government bonds – so there certainly is still room for monetary policy to tighten in the period ahead, should the inflationary and economic environment remain on their current paths.

Another closely watched country is China. Its economy has been sluggish over the last year or so as the government struggles to lift it out of the malaise that started amid the pandemic and accompanying lockdowns. The backdrop has been challenging: the real estate sector remains in crisis, foreign direct investment has plummeted and the country faces the prospect of trade wars with the US and Europe. Though government leadership is targeting 5% GDP growth in 2024, it remains to be seen whether they will be able to effect sufficient economic activity to hit their goal.

The calendar year began with a similar narrow focus on monetary policy, which has prevailed over the past several quarters. Now, one quarter into 2024, it seems as though investors may finally be shifting their focus. Whether this proves beneficial for markets – or certain sectors of markets – will play out over the course of the year and beyond. We will maintain our rigorous adherence to our bottom-up, fundamental research process that aims to identify compelling investing opportunities trading at reasonable discounts.

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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