

Non-US Markets Review: Fourth Quarter 2024

Dec 2024

The fourth quarter of 2024 brought significant challenges to non-US equity markets, with the MSCI ACWI ex-USA Index declining by more than 7% amidst escalating economic and political uncertainties. Although the resolution of the US election reduced some ambiguity, it simultaneously introduced fresh concerns surrounding potential trade policies under the incoming administration. These developments, alongside regional pressures, weighed on global markets.

European Markets Under Stress

European markets faced a wealth of challenges during the quarter, resulting in heightened economic and political instability. Surging energy costs, coupled with declining industrial output, placed strain on the region's economies. The German automotive sector was a persistent weak spot, with local manufacturers continuing to lose ground to Chinese electric vehicle (EV) competitors. Political instability further compounded these problems, as evidenced by France's no-confidence vote, which ousted its government and sparked fears about impending fiscal tightening and tax hikes. Trade policy uncertainties added another layer of concern, particularly as the incoming US administration signaled possible new tariffs, leaving European markets exposed.

Divergent Trajectories in Asia Pacific

The Asia Pacific region displayed mixed results in Q4, with notable divergences among countries. The broader region, excluding Japan, posted an 8% decline, driven primarily by China's economic struggles. Despite Beijing's attempts to boost growth through fiscal and monetary measures, persistent deflationary pressures and subdued consumer demand weighed heavily on market performance. South Korea faced even greater turbulence, marked by political upheaval after parliament impeached President Yoon Suk Yeol in December following his failed attempt to impose martial law.

Japan, however, stood out as a relative outperformer compared to its regional peers. Although Japanese equities declined a little over 3%, a weaker yen provided a lift to exporters. Ongoing corporate governance improvements, paired with steady monetary policy from the Bank of Japan (BoJ), offered stability. That said, the BoJ's decision to pause interest rate adjustments in response to uncertainties surrounding potential US trade policies contributed to further currency depreciation, ironically undermining its efforts to strengthen the yen.

Emerging Markets Feel the Weight of Multiple Crises

Emerging markets were not spared from the global downturn, with stocks falling roughly 8% over the quarter. A strengthening US dollar and plunging commodity prices placed considerable pressure on resource-dependent economies, particularly in Latin America. Brazil faced dual challenges, including a declining real and growing fiscal concerns for President Luiz Inácio Lula da Silva's administration.

Geopolitical instability further exacerbated market volatility. Syria experienced a regime change, with President Bashar al-Assad fleeing to Russia after rebels toppled his government. This event added to an already complex landscape that includes ongoing conflicts in Ukraine and the Middle East. These persistent tensions underscored the present risks in several emerging markets.

The Ripple Effect of US Trade Policy Uncertainty

While the swift conclusion of the US presidential election did help ease some market nerves, trade policy uncertainty under President Trump quickly became a central theme, with speculation about new tariffs on major trade partners causing disruption globally. This ambiguity impacted currency markets, as the US dollar strengthened against an array of currencies, including Brazil's real and others in emerging markets.

Central banks around the world responded with varying strategies. While the US Federal Reserve cut interest rates by 25 basis points in both November and December, the Bank of England and Bank of Japan opted to hold rates steady in December, citing fears about the impact of future US policies. Canada experienced its own political shakeup when Prime Minister Justin Trudeau announced his resignation in early January 2025, succumbing to increasing pressure to address the potential tariffs. His departure only added to the uncertainty in key US trade partnerships.

Looking Ahead to 2025

In many ways, 2024's primary concerns and sources of uncertainty remain intact as we enter 2025: Inflation remains an open question, particularly as many anticipate looser fiscal policy under the US's new administration; meanwhile, central banks seem largely committed to continuing their current policy paths and geopolitics seems unlikely to fade from headlines in the near term.

If anything looks relatively sure at this point (to the extent anything in global markets is ever sure), it's that investors have increased confidence in US economic resilience (rightly or wrongly remains to be seen), while increasingly questioning the economic footing of many other global economies — particularly in Europe and among trade partners with whom Trump seems likeliest to spar.

However, rather than attempting to predict how these dynamics might play out, investors may be better served by maintaining a disciplined focus on identifying high-quality companies trading below their intrinsic value — an approach that has historically rewarded patient investors over long-term time horizons.

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