DIAMOND HILL

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# Global Stocks Rise Despite a Choppy Q1

Apr 2023

In a choppy Q1 2023, global stocks rose over 7% (as measured by the MSCI ACWI Index), ultimately continuing late-2022's positive trajectory. US dollar-based returns were marginally higher than local returns as the USD weakened slightly during the quarter relative to major global currencies. Developed markets outpaced emerging markets in Q1 by a healthy margin, advancing 7% versus 4%, respectively.

European stocks led the way this quarter, up over 10%, due to strength in France (stocks up 14%), Germany (up 14%) and the UK (up 6%). Inflation pressures in the region generally eased, contributing to the positive sentiment. In the Asia Pacific region, stock gains in Japan (up 6%), Taiwan (up 14%) and China (up 4%) helped offset weakness in India where equity markets fell roughly -6%. In Latin America, Brazilian stocks fell -3%, while stocks in Mexico rallied strongly, up 20%, on improving economic data. US stocks advanced over 7%, while Canadian equities gained 4%.

From a sector perspective, global technology stocks in the MSCI ACWI ex USA Index led the quarter (up 17%), followed by consumer discretionary (up 11%), communication services (11%) and industrials (up 10%). Reversing more of 2022's generally prevailing patterns, energy stocks were the second worst performing sector in Q1, falling -0.2%, as a more temperate-than-expected European winter eased concerns about the impact of Russia's ongoing war in Ukraine.

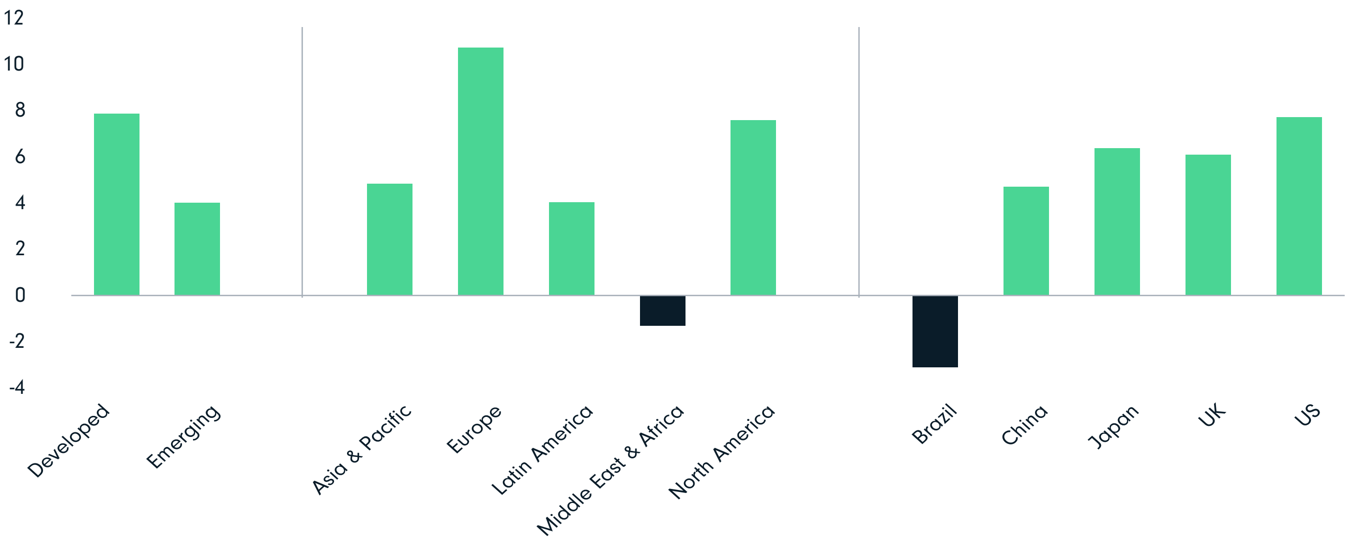
The dominant headlines in Q1 were initially consistent with those which prevailed in much of 2022: inflation's stickiness and the major global central banks' anticipated reactions. And as was also true throughout much of last year, the picture remains cloudy as ever. In the US, inflation remains stubbornly high, yet even as the Federal Reserve has raised rates (including another 25 basis points as Q1 concluded), the economy has seemingly remained relatively robust — particularly considering employment numbers, which are the second half of the Federal Reserve's dual mandate. Investors seemed to continue their attempts to parse every major piece of economic data for signs the rate-hike cycle would end soon.

However, banks took over headlines in early March, as US-based banks Silicon Valley Bank (SIVB), First Republic (FRC), Signature Bank and a few other primarily regional banks faced solvency concerns. Globally, Credit Suisse was also impacted, with UBS stepping in to purchase the troubled European bank. Broadly speaking, we believe Q1's issues were largely specific to a handful of troubled banks and, at this point, don't foresee major cause for contagion concerns. That said, we are ever vigilant when it comes to our stock selection process and will continue rigorously assessing the bottom-up fundamentals of any company in which we are invested or may be considering. Regardless of the contagion potential, the news certainly impacted markets in March — ultimately dragging the whole financials sector down and muting Q1's overall gain.

For the time being, major global central banks do seem inclined to continue raising rates — in addition to the US Federal Reserve, the Bank of England and European Central Bank (ECB) raised rates in March. ECB President Christine Lagarde indicated the future path of rates must be highly data dependent — while simultaneously noting that central banks' ongoing fight with inflation and supporting the banking system are not mutually exclusive.

Given the ongoing macroeconomic and monetary policy opacity, it's not particularly surprising markets seem somewhat befuddled as 2023 has opened. We anticipate there will be some ongoing fallout from the recent banking situation — including impacts on earnings, which will read out over the next couple of quarters. However, we also maintain our belief in the value of employing a five-year outlook — a sufficient time horizon to allow our fundamental, bottom-up approach to identifying high-quality companies trading at attractive valuations to help us identify investment candidates capable of delivering attractive long-term returns.

**Exhibit 1 — Q1 2023 Total Returns for Major Markets (USD) (%)**




Source: FactSet, as of 31 March 2023.

**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.

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