

From gloom to glory: How the market's giant wheel turned in 2023

In 2023, US did not fall into a recession. The Federal Reserve hiked rates by a further 1 percentage point, sparking a phenomenal surge in the equity markets that left many financial pundits scratching their heads in disbelief. Plus, the Chinese market continued to plunge. The scorecard? Zero out of 4 to the consensus.

— DEVINA MEHRA

JANUARY 20, 2024 / 10:59 AM IST



Devina Mehra writes: The MSCI World Index, tracking 47 countries, surged over 20 percent for the year, while the S&P 500, a broad measure of US stocks, achieved a remarkable 25 percent gain in 2023, reaching a record high. So all hunky-dory? Not quite - this is not the complete picture!

At the dawn of 2023, Wall Street's prevailing sentiment foretold doom with an economic recession, a fall in US stock prices, flat-to-falling interest rates urging a cautious shift to Treasuries and a rebound in Chinese stocks.

The only part of the consensus we were on board with was a likely economic recession in the US.

As for the equity markets, after 2022 which was probably the worst year in a century (no exaggeration!), I had said clearly on every forum that there was almost no likelihood of 2023 being a down year.

It was equally clear to us that the tightening by the Fed would continue for a while because once inflation is that high, it takes years, not quarters, to come down to anywhere close to the target of 2 percent.

As it turned out, this consensus veered off course on every front.

The US did not fall into a recession. The Federal Reserve hiked rates by a further 1 percentage point. And, there was a phenomenal surge that unfolded in the equity markets, leaving many financial pundits scratching their heads in disbelief. Plus, the Chinese market continued to plunge.

The scorecard? Zero out of 4 to the consensus. 3 out of 4 to First Global.

Let's go into all that transpired in this roller coaster year across asset classes globally:

CROSS-ASSET PERFORMANCE (USD RETURNS)

Equities	2023	2022
NASDAQ 100	55.10%	-32.30%
Bloomberg Latin America Index	35.70%	-1.30%
S&P 500	26.20%	-18.20%
MSCI Eurozone	23.40%	-17.30%
MSCI ACWI	22.30%	-18.40%
MSCI Japan	20.30%	-17.70%
Core MSCI International Developed Markets	17.40%	-15.00%
EM ex-China	19.00%	-19.60%
MSCI India	17.20%	-8.90%
MSCI Emerging Markets	8.90%	-20.60%
MSCI Frontier and Select EM	7.10%	-24.40%
MSCI Asia ex-Japan	3.60%	-21.50%
MSCI China	-11.60%	-22.80%

Source: Bloomberg, First Global Research



BONDS

	2023	2022
Bloomberg Pan European High Yield	16.30%	-11.10%
Bloomberg Global High Yield	14.00%	-12.70%
VanEck EM High Yield ETF	8.30%	-13.40%
Bloomberg EM USD Aggregate	9.10%	-15.30%
Bloomberg Pan European Aggregate	7.50%	-18.90%
Bloomberg Global Aggregate	5.70%	-16.20%

Source: Bloomberg, First Global Research



REITs

	2023	2022
Vanguard US REITs ETF	11.80%	-26.20%
S&P Global REIT	11.50%	-23.60%
Vanguard Global ex-US REITs ETF	7.00%	-22.90%

Source: Bloomberg, First Global Research



COMMODITIES (TOTAL RETURN)

	2023	2022
Bloomberg Precious Metals Subindex	9.60%	0.10%
Bloomberg Livestock Subindex	-1.90%	7.40%
Bloomberg Agriculture Subindex	-4.40%	15.50%
Bloomberg Commodity Index	-7.90%	16.10%
Bloomberg Industrial Metals Subindex	-9.10%	-2.40%
Bloomberg Energy Subindex	-21.60%	36.20%

Source: Bloomberg, First Global Research



MAJOR CURRENCIES (SPOT RETURN) Vs US DOLLAR (USD)

	2023	2022
US Dollar Spot Index (DXY)	-2.10%	8.20%
JP Morgan EMFX Spot Index	-3.50%	-5.10%
Swiss Franc (CHF)	9.90%	-1.30%
British Pound (GBP)	5.40%	-10.70%
Euro (EUR)	3.10%	-5.90%
Danish Krone (DKK)	2.90%	-5.90%
Canadian Dollar (CAD)	2.40%	-6.80%
Swedish Krona (SEK)	3.50%	-13.20%
Australian Dollar (AUD)	0.00%	-6.20%
New Zealand Dollar (NZD)	-0.50%	-7.00%
Norwegian Krone (NOK)	-3.60%	-10.10%
Japanese Yen (JPY)	-7.00%	-12.20%
Mexican Peso (MXN)	14.90%	5.30%
Brazilian Real (BRL)	8.70%	5.60%
Singapore Dollar (SGD)	1.50%	0.70%
Indian Rupee (INR)	-0.60%	-10.20%
Taiwanese Dollar (TWD)	0.00%	-9.90%
South Korean Won (KRW)	-1.80%	-6.10%
Chinese Renminbi (CNH)	-2.80%	-7.90%
South African Rand (ZAR)	-7.20%	-6.50%

Source: Bloomberg, First Global Research



The one thing that is clear from this is that the dominant reds in 2022 were replaced by greens in 2023. Asset markets rebounded, rather resoundingly so, after a disastrous year.

In a mirror image of 2022, the only major index that declined had to do with oil and gas.

Equity markets, bonds, REITs, and Precious metals within commodities finished the year on a high note, exhibiting gains of approximately 6-55 percent, a stark contrast to 2022's widespread declines of 15-30 percent.

EQUITIES PERFORMANCE

2023 Rank	2022 Rank	Indices	Country	\$2023	\$2022
22	12	TADAWUL ALL SHARE INDEX	Saudi Arabia	18.10%	-5.10%
23	23	SWISS MARKET INDEX	Switzerland	17.60%	-15.00%
24	39	KOSPI INDEX	South Korea	17.30%	-27.60%
25	17	S&P/TSX COMPOSITE INDEX	Canada	14.60%	-11.90%
26	13	S&P/ASX 200 INDEX	Australia	14.30%	-5.80%
27	15	FTSE 100 INDEX	United Kingdom	13.60%	-6.50%
28	2	S&P/CLX IPSA (CLP) TR	Chile	13.40%	22.90%
29	8	JAKARTA COMPOSITE INDEX	Indonesia	11.30%	-1.60%
30	41	HO CHI MINH STOCK INDEX	Vietnam	11.10%	-34.10%
31	25	BEL 20 INDEX	Belgium	6.90%	-16.70%
32	4	Straits Times Index STI	Singapore	6.30%	9.10%
33	30	S&P/NZX 50 Index Gross	New Zealand	2.40%	-18.40%
34	9	FTSE/JSE AFRICA ALL SHR	South Africa	2.00%	-2.80%
35	20	PSEi - PHILIPPINE SE IDX	Philippines	1.50%	-13.70%
36	22	OMX HELSINKI 25 INDEX	Finland	0.90%	-14.80%
37	34	TA-35 Index	Israel	0.10%	-19.70%
38	14	FTSE Bursa Malaysia KLCI	Malaysia	-2.80%	-6.20%
39	33	SHANGHAI SE COMPOSITE	China	-3.90%	-19.70%
40	19	HANG SENG INDEX	Hong Kong	-10.60%	-12.60%
41	6	STOCK EXCH OF THAI INDEX	Thailand	-11.50%	-0.40%
42	1	BIST 100 INDEX	Turkey	-11.60%	117.40%

Source: Bloomberg, First Global Research



As often happens, the worst-performing markets of 2022, such as Nasdaq, Sri Lanka, and Taiwan, turned out to be the best performers in 2023 (See the rank columns in the table above).

Major global equity benchmarks saw strong double-digit returns in 2023, driven by factors like easing global inflation, a weakening dollar, falling crude prices, and heightened expectations of rate cuts by central banks.

China, experiencing unexpected deflation and a deteriorating property crisis, stood as the sole exception among major markets, declining by 12 percent in addition to the 23 percent drop witnessed in 2022. It is now down 55 percent from its peak in February 2021!

The MSCI World Index, tracking 47 countries, surged over 20 percent for the year, while the S&P 500, a broad measure of US stocks, achieved a remarkable 25 percent gain in 2023, reaching a record high.

So all hunky-dory? Not quite - this is not the complete picture!

While headline indexes did well, the same was not the case once you drill down to the stocks.

In 2023, the market movement was notably concentrated, especially in the US, with nearly three-fourths of S&P 500 stocks underperforming the index, and approximately one-third declining in 2023. The skew was even more in the first 10 months of the year when 90 percent of the S&P 500 move was due to just 7 tech stocks.

Unsurprisingly, the same “Magnificent Seven” – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla - led the 55 percent move in the tech-focused Nasdaq Composite.

MARKET SNAPSHOT

For CY23	S&P 500 Index	Nasdaq 100 Index
% Return	26%	55%
Top 10 Stocks Contribution	67%	76%
Outperforming Stocks	26%	29%
Underperforming Stocks	74%	71%
Negative Stocks	33%	24%



On the global front as well, the technology sector contributed 10 percentage points to the global equity index, ACWI's 22 percent return.

Semiconductor shares soared 80 percent in their most successful year in over a decade. This notable performance was led by companies like Nvidia Corp., which soared to a trillion-dollar-plus market cap with rising sales due to the demand for chips essential for AI computations.

Apart from the US, all major regional equities such as those of the Eurozone, ex-US developed markets, Emerging Markets (EM) ex-China, Japan and India logged also gains of 17 percent to 23 percent in a banner year. The Bloomberg Latin America Index zoomed 35 percent on the year after falling the least in 2022 i.e. just 1.3 percent. Frontier markets lagged with just a 7 percent gain.

Fixed Income & Currencies

Meanwhile, fixed-income markets started their carnival in October of 2023 after getting whipsawed throughout the first three quarters by multiple events such as the bank bailouts in the US, recession in Germany, a surge in US treasury issuance and some geopolitical upheavals.

In 2023, the Bloomberg Global Aggregate Total Return Index (for bonds) rebounded by 5.7 percent, achieving its best two-month run since 1990 with a nearly 10 percent rise in November and December.

Traders are anticipating approximately 150 basis points (bps) or 1.5 percentage points of rate cuts in the US and UK, along with around 170 bps in the Eurozone. Investor confidence is growing, believing that central banks have successfully tackled inflation through aggressive rate-hiking cycles. Even though some rate-cut expectations have been tempered in January, we still think the cuts being priced in by the market are too aggressive.

The decline in bond yields contributed to a weaker US dollar, leading global currencies to reach multi-month highs. The euro (+3 percent) and pound (+5 percent) are at their strongest levels in at least four months, while the Swiss franc (+10 percent) is at its highest since 2015. Expectations of the Bank of Japan raising interest rates for the first time since 2007 boosted the Japanese currency.

Furthermore, 10-year US Treasury yields, a global benchmark, traded in a wide range of 3.3 percent to 5 percent in 2023. They dropped over 110 bps since October to settle unchanged on the year.

High-yield bonds jumped 14 percent as a tightening in spreads contributed to credit outperforming government debt. Emerging market bonds also shone with a 9 percent total return as central banks across Chile, Peru, Brazil, Hungary, Czech Republic, and Poland slashed interest rates by 25 to 300 bps.

Commodities

The turnaround in bonds and a faster-than-expected decline in inflation was also helped by falling commodity prices.

In another turn of the Giant Wheel, the Bloomberg Commodity Index slumped 7 percent, after surging almost 70 percent over the prior two years.

Brent oil fell below \$75 a barrel despite multiple voluntary production cuts by the OPEC+. Supply growth outside of the group dominated this year. US & European natural gas prices plunged 40 percent to 60 percent owing to persistently low demand and healthy gas reserves.

London Metal Exchange's indicator for six metals dropped 5.6 percent, marking a second consecutive annual decline. Nickel, crucial for stainless steel and EV batteries, saw a 45 percent drop, the largest since 2008, in contrast to copper's 2.2 percent gain and iron ore's 20 percent rise in Singapore.

In agriculture, corn futures fell by 31 percent, and US wheat contracts dropped by 21 percent, marking their most significant yearly declines since 2013. This was driven by abundant crops in key suppliers like Brazil, the US, and Russia.

On the flip side, soft commodity prices, including cocoa, sugar, coffee, and orange juice, rose 3 percent to 70 percent due to poor production levels, partially offsetting the benefits of cheaper grains for food costs.

Cryptocurrencies

After a lackluster performance in 2022, cryptocurrency-related equities made a strong comeback in 2023. The Valkyrie Bitcoin Miners ETF (ticker WGMI) surged over 370 percent, potentially making it the best-performing ETF in a single year, excluding leverage. Bitcoin experienced gains exceeding 150 percent, while Ethereum's price rose nearly 100 percent. Despite these increases, both cryptocurrencies still trade at about 35 percent to 50 percent below their all-time highs set in November 2021.

(Devina Mehra is the Founder, Chairperson and Managing Director of First Global, an Indian and global quant Asset Manager. She tweets at @devinamehra. The website is www.firstglobalsec.com)

(Harsh Shivlani also contributed to this article.)



DEVINA MEHRA is the Chairperson and Managing Director of First Global, a leading quantitative global asset management firm managing both PMS schemes in India as well as global funds. She tweets @devinamehra and the website is firstglobalsec.com
