

# FED SPARKED 'EVERYTHING RALLY'

## Equities finished the year close to all-time highs

**Markets** capped a strong year with positive returns during December. The MSCI World rose 3.62% in the month, leaving the return for 2023 overall at 19.60%

Fittingly, for a market that spent the entire year focused on central bank interest rate policy, the catalyst for the market rally in December was the final Federal Reserve (Fed) meeting of the year. Fed chair, Jerome Powell, reflecting over improving inflation figures and signs of a weakening U.S. economy, called the peak for U.S. interest rates and opened the door to rate declines in 2024.

Equity markets in both the U.S. and in Europe responded positively to Powell's comments. The MSCI USA index return of 3.39% in the month, was more than matched by the MSCI Europe return of 3.71%. European equities were strong despite ECB chair Christine Lagarde's casting doubt on whether European rates would begin to decline soon. Despite lagging Europe in December, U.S. markets were the clear winner for the year, with the MSCI USA rising 22.21% in 2023 compared to 15.83% for the MSCI Europe. Much of the outperformance of the U.S. versus Europe is traced back to the AI fueled 'Magnificent 7' rally centered around the second quarter, as seven tech equities, all from the U.S., raced ahead of all other equities and accounted for a significant portion of market performance.

Bonds had their own rally during the month, with long dated U.S. Treasuries seeing yield declines of 40–50 basis points, and long dated German Bund yields falling by 30–40 basis points. Commodities were the only damp squib during the month as fears over the global economy negatively impacted oil prices.

## Value and Small-Cap's show strength

**The Portfolio** returned 4.66% in the month, ahead of the MSCI World return of 3.62%. The outperformance of the portfolio was largely due to the fund style, with the value style outperforming growth but with the small-cap tilt of the portfolio also aiding returns. The portfolio also outperformed the 4.09% return of the MSCI World Value index, with the fund's purer value style and the small-cap tilt also contributing positively to the outperformance. For the full year the portfolio returns of 10.86% underperformed MSCI World's return of 19.60%, which was driven by a handful of very high-returning mega-cap tech names. However, the portfolio outperformed the MSCI World Value return of 7.74% for the year, due to both the fund style as well as industry and market allocations.

Real Estate was the strongest performing sector in the month, reflecting the highly rate sensitive nature of underlying assets in that sector. However, economically sensitive sectors such as Industrials and Materials also had a strong performance in the month. Energy was the only sector that declined during December, reflecting the declines in oil. For the full year, it was the 'Magnificent 7' driven sectors of Information Technology, Communication Services and Consumer Discretionary that were by far the best performing.

The fund experienced some strong individual stock performance in the month. U.S. aluminum smelter, Alcoa, was a strong performer as the company reached an agreement with the Australian government on production at its assets there. Japanese chemical company Shin-Etsu chemical performed well as lower U.S. interest rates were expected to drive demand for the company's products used in housebuilding. Italian electrical infrastructure company Prysmian was also a strong performer after announcing new leadership.

See performance and fund data

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## Strategy

Global Value invests in global equities from developed markets, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and regions.

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