Legacy Market Review for 2023*

It's certainly never dull in investment markets. One thing We've come to learn is to always expect the unexpected!

Coming off one of the worst years in the history of public capital markets, 2023 was thought by many to be a year of cautious recovery with the US markets underperforming all others. The Fed's relentless rate hikes along with an earnings recession would result in the desired economic slowdown and dampen inflation closer to its targeted 2% level. Whilst China would finally take down the lingering restrictions and resume its vital role in global economic recovery.

The Fed's rate hiking cycle peaked in July and the earnings receded for three straight quarters. However, markets failed to anticipate the resilience of the US consumer, the excitement over artificial intelligence after ChatGPT's launch in late 2022 and the depth of the doldrums that China's real estate sector was in.

Lower-than-expected global demand has kept prices of oil and other commodities within a reasonable range and inflation has steadily dropped throughout 2023, prompting central banks to pause and evaluate the lagged effects of this monetary cycle to come through.

Meanwhile, the so-called Magnificent Seven—Alphabet, Amazon, Apple, Meta Platforms, Microsoft and Tesla—ran rampant on the strength of their strong businesses, fortress balance sheets and the AI narrative. These seven stocks accounted for most of the S&P 500's +20% advance and they comprise 50% of the Nasdaq 100's market value. The gaudy index numbers disguise the narrow breadth of the rally; by contrast the S&P 493 was flat.

Global bonds as represented by the Bloomberg Global Aggregate Bond Index went nowhere in the face of rising interest rates (following a -16% drop in 2022). Major market yield curves remain inverted and default rates have started climbing. Nevertheless, bonds are again providing positive real yields as the developed markets climbed out of zero- and negative-interest-rate regimes and volatilities in both stock and bond markets have (surely temporarily) quieted down towards year-end.

Let's see what 2024 has in store for us. We're expecting to see more volatility in the coming quarters as the uncertainty continues, with an economic slowdown, risk of recession in the US during 2024. Once inflation is firmly under control, we expect the Fed to start lower interest rates, which will be another challenge for investment markets to navigate.

Enjoy the calm whilst it lasts and always expect the unexpected!

Global equities performed strongly in 2023 to mid-December, largely driven by the very strong performance of tech stocks. The US-led equity markets were primarily driven by the performance of the NASDAQ stocks, which were up close to 40% for the year. The old economy Dow Jones Index was up a more modest 12.4%, underperforming Europe ex U.K. and Japan.

The equity markets primarily relied on a re-rating for their strong performance. In the US, earnings forecasts fell over the year, long-term interest rates rose modestly, and short-term interest rates started the year at 4.25%, rising to 5.25%. Only Japanese and Indian equities could point to structural factors providing an impetus to their returns. In Japan's case, new stock exchange regulations encouraged companies to restructure. In India, the country saw accelerated growth and limited pressure from inflation or interest rates.

India's strong performance couldn't stop emerging markets from having a poor year hit by the poor performance of Chinese equities. China's equity market looks likely to end the year down as concerns with the lack of strong response from the government to the struggles of the property sector and little in the way of the scale of increase in government spending that the market would like to see.

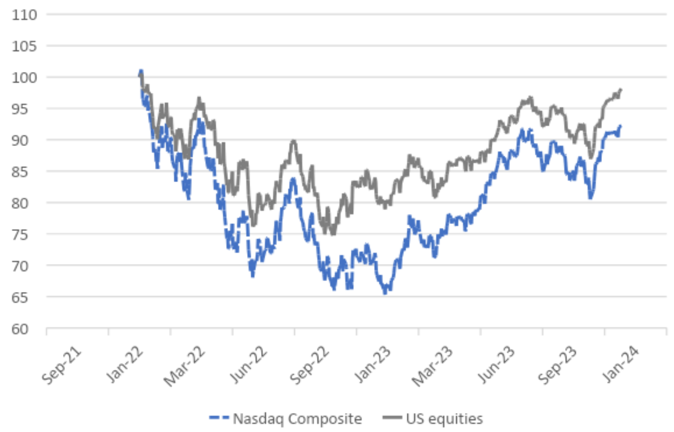
Table 1: Equity Market Total returns (USD)

US Equities	22.4%
NASDAQ	39.4%
Europe ex UK	17.2%
Japan equities	15.4%
UK equities	4.9%
Switzerland	3.7%
Asia ex Japan	0.7%
Russell 2000	7.4%
FTSE Small	-2.5%
India	16.4%
China	-3.2%
Brazil	23.1%
Singapore	-5.0%
Emerging markets	**1.8%**
Developed Market	**19.3%**

*to December 12th 2023

On reflection some of the gains in equity markets were due to sharp rebound from the sell off in 2022. When looked at over two years the US equity market is barely back to where it was at the start of 2022. The NADAQ index is down 7.7% on the level at the end of 2022.

Chart 1: Equity markets sidewards over two years



IT led the global sector gains with a near 30% return. By contrast consumer staples and energy gave a negative return. The energy sector at one point was a leading outperformer, but the marked weakness in the oil price later in the year led to a significant loss of performance.

Table 2: Equity sector performance

Energy	-0.3%
IT	48.9%
Consumer staples	-0.4%
Healthcare	0.2%
Banks	9.1%

Conventional government bond markets largely moved sidewards through the year largely clipping their coupons. The US 10-year bond yield rose modestly up 50 basis points year to date. With very limited signs of a marked slowdown in global growth higher risk bonds managed to give good excess returns over government bonds. US high yield gave some equity-like return. Emerging market debt provided solid returns in part because of the general prudence of emerging market countries in managing their government finances.

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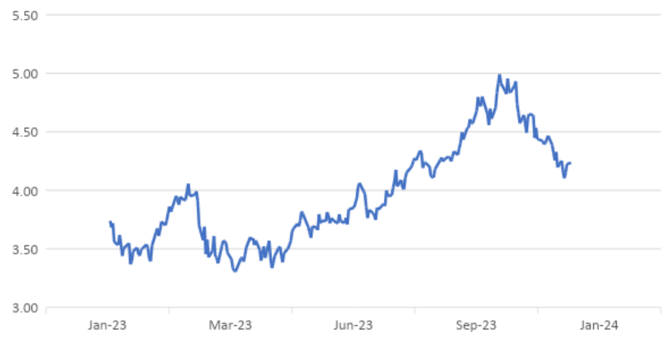
Table 3: Bond sector performance

Global Aggregate	1.9%
Global Aggregate (Hgd)	4.7%
Investment grade bonds	5.3%
Emerging market debt	5.8%
US High Yield	10.1%

Chart 2: US 10-year bond yield



Source: Bloomberg

The dollar went through something of a roller coaster year being the ascendancy for much of the year before weakening markedly in the fourth quarter. Dollar gains were significant versus the Yen where the Bank of Japan's determination to keep interest rates negative for much of the year weighed on the Yen.

Gold provided good gains based on the weakness of the dollar late in the year.

Precious metals and currencies

Gold	8.7%
Silver	-4.7%
$ trade weighted	0.6%
GBP trade weighted	3.9%
Yen/$	11.5%

End of Report

Sources: Legacy Wealth Advisors, Global CIO, Bloomberg

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