



PHILEQUITY CORNER

By Wilson Sy

Magnificent Rally

In a momentous turn, 2023 unfolded as a historic year for stocks. Despite all the bad news – conflicts in Ukraine and Gaza, March’s US banking woes, elevated inflation, and interest rates climbing to levels not seen since 2008 – the US stock market defied expectations, soaring to unprecedented heights. The rise of artificial intelligence (AI) and the Federal Reserve’s dovish pivot towards a more accommodative stance fuelled this magnificent rally that defined the year.

Magnificent 7 leads the way

Initially, it was just the Magnificent 7 that led the market recovery, driving most of the S&P 500’s gains for the first three quarters of the year. However, the rally broadened to include small and mid-cap stocks as equities worldwide exploded higher following the Fed’s pivot in November.

The “Magnificent 7” - tech heavyweights Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla – were pioneers and beneficiaries of the game-changing AI wave. NVIDIA emerged as the standout performer, boasting a remarkable 239% increase in 2023 and an impressive 358% surge from its 2022 low. On average, the collective performance of Magnificent 7 has outpaced the benchmark S&P 500 by 87 percentage points in 2023.

Magnificent 7	2023%	from lows (%)
Nvidia	238.9%	358.0%
Meta	194.1%	301.8%
Tesla	101.7%	144.1%
Amazon	80.9%	86.6%
Alphabet	58.3%	67.6%
Microsoft	56.8%	76.2%
Apple	48.2%	55.1%
Magnificent 7 (avg)	111.3%	155.6%

Source: Bloomberg

Nasdaq 100 reach historic heights

The Nasdaq 100 led the charge with an impressive 54.5% surge in 2023, its best year since the peak of the dot-com bubble in 1999. While AI-related stocks initially led the rally, stocks worldwide exploded higher following the Fed’s pivot in November. All the US major indices, including European, Latin American, and many Asian stock indices, finished the year with double-digit percentage gains.

MAJOR STOCK MARKETS	Local 2023 (%)	USD 2023 (%)
US (Nasdaq 100)	53.8%	53.8%
US (Nasdaq Composite)	43.4%	43.4%
Italy	28.0%	32.0%
Spain	22.8%	26.6%
US (S&P 500)	24.2%	24.2%
Germany	20.3%	24.1%
France	16.5%	20.1%
Japan	28.2%	19.2%
US (Dow Jones index)	13.7%	13.7%
LATIN AMERICA		
Mexico	18.4%	36.0%
Brazil	22.3%	33.2%

Source: Bloomberg

ASIA	Local 2023 (%)	USD 2023 (%)
Taiwan	26.8%	27.5%
Japan	28.2%	19.2%
India	18.7%	18.1%
South Korea	18.7%	15.9%
Vietnam	12.2%	9.3%
Indonesia	6.2%	7.4%
Singapore	-0.3%	1.1%
Philippines	-1.8%	-1.1%
Malaysia	-2.7%	-6.7%
Hong Kong	-13.8%	-13.9%
China (CSI 300)	-11.4%	-13.9%
Thailand	-15.2%	-14.3%

“Buy and hold” magnificent companies

At the start of the year, most experts and strategists from major banks were bearish on the US. Their top recommendations were to sell US stocks, buy Treasuries, and buy Chinese assets. Unexpectedly, the timetested “buy and hold” strategy stole the spotlight in 2023. Simply holding on to the safest and best tech stocks, like those comprising the Magnificent 7, would have yielded exceptional returns. This reminds us of the profound wisdom of Charlie Munger, emphasizing the value of “buying great companies at reasonable valuations and holding on to them for extended periods of time.” (see Investment Titan, Dec. 4, 2023)

Japanese stocks surge to 33-year high

Japan’s stock market hit a 33-year high, with the Nikkei climbing 28.2% for the year - the highest return in Asia in local currency terms. It was no big surprise as Warren Buffett, the Oracle of Omaha himself, started buying into Japan’s five prominent trading firms, namely Itochu Corp., Marubeni Corp., Mitsubishi Corp., Mitsui, and Sumitomo Corp. Buffett said these companies are comparable to Berkshire, citing their diversified portfolios, long-term investment strategies, and a focus on value and cash flow.

China – The year’s major disappointment

The year’s biggest disappointment is China. Forecasts by many analysts anticipated double-digit percentage gains on the back of China’s anticipated reopening. However, the eagerly awaited economic resurgence fell short of expectations. Moreover, China’s lingering property crisis has spread, affecting household wealth, employment, and domestic consumption.

Asia – Divergent moves beyond China’s struggles

The lackluster performance of China and Hong Kong markets dragged down the iShares MSCI Emerging Markets ETF (EEM), which concluded the year with a modest 6.1% uptick. However, Taiwan, India, and South Korea, now accounting for 42% weighting in EEM, picked up the slack from Chinese stocks. Taiwan emerged as the top-performing Asian market in USD terms, surging by an impressive 27.5% this year.

Across the broader Asian landscape in 2023, the performance was mixed as ASEAN markets underperformed. The Philippine stock market remained relatively stagnant, registering a marginal decline of 1.1% in USD terms.

Latin America surges

Latin America took the spotlight in 2023 as a standout region. The iShares Latin America ETF (ILF) notably outperformed with a 27.0% return for the year. Mexico capitalized on the trend of supply chain nearshoring, propelling its stock index to an impressive surge of 36.4% in USD terms. Similarly, Brazil's stock market recorded a substantial 33.2% gain in USD terms, solidifying the region's robust performance.

Broadening rally feeds 2024 optimism

The expansion of the stock rally beyond the Magnificent 7 and AI stocks sparks investor optimism for its extension into 2024. The broader Russell 2000 index bottomed out in October and has surged 24%. Concurrently, this rally has extended to Europe, Latin America, and numerous Asian countries.

As the recovery gains momentum, there's a glimmer of hope for the PSE Index to break out of its trading range. Optimism hinges on the continued decline in inflation and interest rates, alongside the anticipation of an economic soft landing this year. If these factors align, 2024 may trigger the resurgence of the Philippine stock market, riding on the wave of this broadening market rally that eventually lifts all boats.

We wish our readers and investors a Healthy and a Prosperous New Year!