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Amplia Monthly Investment Letter

2023 – year that delivered on expectations

2023 was in many ways an opposite of its predecessor. Sincep 2022 had been "the year of the great reset" as we dubbed it in this letter back in January 2023, investors had a good basis to enter the year 2023 with both expectations and asset prices low.

2023 also delivered on the expectations. Even if the global problems such as geopolitical tensions and climate change continued to loom large over the markets, on a grass-roots level companies kept innovating, hiring, rationalising, and grinding profits. Investors poured money, as is their wont, to sectors and companies that innovate best. Consequently, the S&P 500's sub-industry *Semiconductors & Semiconductor Equipment*, rose an eye-watering 99.74%, emphasising again the differences in sector performance that have become much more prevalent in recent years.

Equity indices	2023
S&P 500	26.26
NASDAQ	44.70
Euro STOXX 50	23.22
MSCI World	24.44
FTSE 100	7.68
SMI	7.06
Bond indices	
Bloomberg Global Aggregate Bond USD	5.72
Bloomberg US Corporate USD	8.52
Bloomberg Global High Yield USD	14.04
Other asset classes	
Bloomberg Commodity Index	-12.55
Gold spot price	13.10

Total returns of select asset classes in 2023. Source: Bloomberg, Amplia.

2023 also signalled a return to normalcy because American equities beat the European ones. The broad S&P 500 recorded a total return of 26.26%, faring better than the pan-European STOXX Europe 600 with the latter's 20.48% (both in USD terms). Of the past 10 years, the S&P 500 has beaten the STOXX Europe 600 eight times and lost only twice. Since the millennial shift, the S&P 500's total return stands at 410.13%, dwarfing that of the STOXX Europe 600, 212.71%.

Similarly, 2023 also saw the come-back of those sectors that had thriven in the past decade. From January 2010 to date, the best-performing sectors of the S&P 500 have been information technology, consumer discretionary and health care. Of these, the former two excelled in 2023 as well, with IT nailing a total return of 57.84% and consumer discretionary 42.30%, respectively.

In a similar fashion, the worst-performing sectors of the S&P 500 since 2010 have been energy, real estate and utilities. These recorded poor results also in the past year, with performances of -1.42%, 12.27% and -7.08%, respectively.

Index	YTD 2023	1.1.2010 -
S&P 500 Information Tech	57.84	999.30
S&P 500 Consumer Disc	42.30	625.15
S&P 500 Health Care	2.06	467.05
S&P 500 Industrials	18.08	428.71
S&P 500 Financials	12.10	321.04
S&P 500 Consumer Staples	0.52	312.24
S&P 500 Materials	12.55	263.41
S&P 500 Comm Services	55.80	253.65
S&P 500 Utilities	-7.08	240.75
S&P 500 Real Estate	12.27	238.23
S&P 500 Energy	-1.42	131.24
S&P 500	26.26	461.08

S&P 500's sector total returns (%) since 2010. Source: Bloomberg, Amplia.

We could easily extend the analysis to cover a 30-year period as the sector data date back to the early 1990's. It is however not meaningful to do so because a considerable regime shift has happened in the past two decades. Whilst the business models of some companies, such as those operating in the consumer staples or energy industry, have remained quite unchanged, others have changed massively. For instance, 20 years ago the revenues of IT companies consisted of one-off sales of hardware or software: these days it is all about SaaS, scalability and recurring revenues. More importantly, the sector constituents are reshuffled occasionally which unfortunately obscures part of the winners' contribution. As an example, the old *telecommunications* sector was rebranded *communications services* in September 2018. In came prominent IT and consumer discretionary companies such as Alphabet, Meta, Electronic Arts and Netflix. Without the contribution from these innovative companies, the old telecom and cable companies would have faded into oblivion, or at least exhibited a much worse performance.

The lesson for us is simple. One should spend a considerable amount of time trying to find the winners: good companies from thriving sectors. One might of course do well by also investing in energy companies if the timing is right. Finding however those entry and exit moments is very difficult in light of the statistics, and accordingly market timing should be seen as a secondary pursuit compared to the company-level analysis in our view.

The silver lining also lies in the statistics, however. Had one only invested equal sums in the worst performing two sectors of the S&P 500's 11 sectors and stayed the course since January 2010, one's portfolio would still have generated a total return of 184.74%. This confirms the other age-old adage that those who have the courage to stay invested through tough times get rewarded.

Outlook for 2024

The big trend that is gathering momentum and has the potential to keep lifting asset prices is the decline in both inflation and interest rate metrics. Against that backdrop, we are optimistic about the prospects of equities and bonds. We continue to focus on quality as the primary selection criterion in terms of equities but also increase our exposure in the Asian markets. Contrary to the situation a year ago when some investors were betting on the China re-opening trade, most market participants are now very pessimistic about most Asian

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markets, both emerging and developed. This comes after a year of underperformance for the continent, with Nikkei 225 being the sole Asian main index that was able to keep pace with the main Western stock markets in 2023.

Meanwhile, long-dated bonds rewarded investors well in the final months of 2023. Also this phenomenon has the possibility to go on in the new year.

Historically, the US presidential election years have been good for investors. They have however come with strong seasonal fluctuations. We would expect volatility to pick up as we head to the second quarter, with polls and primaries playing an increasing role. Also, the geopolitical tensions that plagued the investors in the past two years have not disappeared, which contributes to the bumps on the road ahead. Thus, we remain optimistic but humble and vigilant, with the upcoming fourth quarter earnings season as the next milestone.

On 2nd January 2024

Yours sincerely

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