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Global Stocks Shined in 2023, Fueled by Cooling Inflation and a Weaker Dollar

2023 saw global equity markets outperform expectations, ending the year with positive returns across diverse sectors. Despite challenges, the global economy showed surprising strength especially in the second half of 2023. Both consumers and governments kept spending despite rising interest rates, while businesses benefited from improved supply chains and lower energy costs.

Overall, the outperformance of the stock market in 2023 can be attributed to a confluence of factors: a weaker US dollar (its first decline since 2020), softening central bank policies fueled by favorable inflation news, and resurgence in investor confidence thanks to a resilient US consumer and positive economic data in Europe. Notably, December saw broader market participation with tech stocks outperforming, while a dovish pivot by the Federal Reserve following November's lower-than-expected inflation reading further boosted buying sentiment. This positive trend extended to Europe, with both the Eurozone and the UK experiencing lower inflation than predicted, solidifying the overall optimistic outlook for global equities at the end of 2023.

However, not all regions are shaped equal. The US faced slower growth due to tighter monetary policy, while China struggled with weak consumption and investment. The Eurozone encountered a tough 2023, while emerging economies like Brazil, India, and Southeast Asia shined with accelerating growth. The steady climb in interest rates around the world kept investors sweating through the year, and in October Hamas-Israel' s conflict heightened up geopolitical tensions. As such, investors were keeping an eye out for potential bumps in the road, but overall, the environment was cautiously optimistic with the global economy recovering in 2023, but at a slow pace.

In what follows, we will first discuss the performances of the US market, European market, and emerging market, then we will analyze the Lebanese overall market, followed by an in depth analysis of the performance of the real estate stocks.

US Market: A robust end to 2023

The US economy defied expectations in the final quarter of 2023, expanding by 3.3% (annualized). Full-year growth came in at 2.5%, with consumption remaining firm. While economic growth remained robust in 2023, recent data has sparked optimism about the Federal Reserve's ability to achieve a soft landing. Unemployment stayed low at 3.7% at year's end, despite the Fed's aggressive interest rate hikes. However, end of year has brought anxieties, with rising jobless claims (214,000 by year-end), high-profile layoffs, and slower hiring in some industries. This mixed bag paints a picture of an economy cautiously navigating the Fed's tightening grip, with optimism that a soft landing might be possible.

Major US stocks' indices soared remarkably in 2023 adding billions of dollars unto the market. Uneasy geopolitics persisted, but markets remained composed with the best jumps were in the tech and consumer stocks driven by robust purchasing power despite persistent high inflation during the year.

In details, the NASDAQ composite recorded the best performance among the US stocks indexes in 2023. Having started the year at 10,466.5 and ended the year 43.42% higher at 15,011.4. Furthermore, the S&P 500 managed to register a positive performance by the end of the year and added 24.23% by December 2023. The S&P closed the year at 4,769.8 up from 3,839.50 at the start of January 2023. Interesting to note, nearly all the S&P 500 Index's gains in 2023 came from a small number of mega-cap companies "Magnificent Seven" [1] that capitalized on technology growth trends including artificial intelligence, cloud computing, and cutting-edge hardware and software.

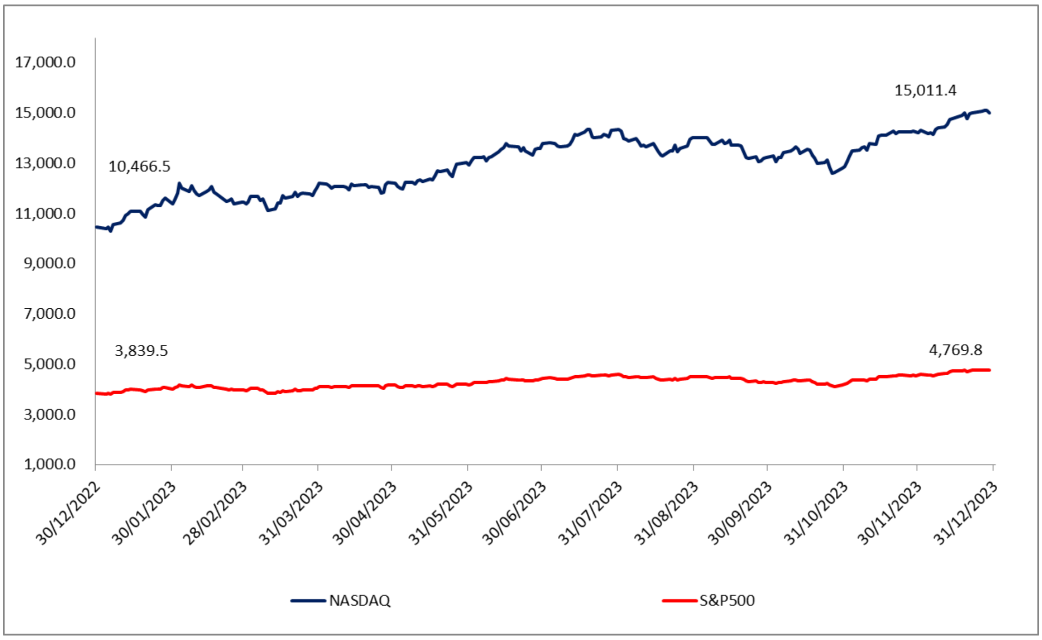
Looking ahead, investors might be setting themselves up for disappointment as the stock market soared at the end of 2023, fueled by hopes of imminent rate cuts from the Federal Reserve. With high expectations already baked in, any stumbles

[1] The Magnificent Seven stocks: Amazon.com (AMZN), Apple (AAPL), Google parent Alphabet (GOOGL), Meta Platforms (META), Microsoft (MSFT), Nvidia (NVDA) and Tesla (TSLA).

could lead to significant corrections. Instead of expecting another stellar year, a more measured outlook is advisable for 2024.

Several factors raise concerns, including overvalued stocks, potentially fragile corporate earnings, overly optimistic assumptions about interest rates, and the impending normalization of financial conditions. Despite the Fed's aggressive rate hikes in 2022 and 2023, ample liquidity has persisted due to excess consumer savings, government stimulus, and pre-existing low borrowing rates. However, this is about to change. The Fed's emergency lending programs are winding down, and its "reverse repo" facility, which has helped keep cash flowing freely, is seeing its reserves dwindle. This shift towards tighter financial conditions could pose a challenge for markets that have become used to easy money.

NASDAQ and S&P 500 performances 2023:



Source: Bloomberg platform, BLOMINVEST

European Market in 2023: Inflation Surprises, Rates Held, and a Cautious Future

When it comes to European stock market performance in 2023, two major forces were still driving the markets: persistent inflation and heightened interest rates. End of 2023 brought an unexpected turn to the Eurozone's inflation story. The European Central Bank (ECB), aiming for a 2% target, responded by holding interest rates at 4.00%, maintaining their tightening stance established through hikes in 2022-2023.

The decision reflects a cautious approach. Potential risks like the Israel-Gaza conflict and its impact on oil prices add complexity to the ECB's balancing act between inflation and growth. Analysts now predict a delayed rate cut, potentially pushed to June 2024 instead of the earlier September expectation. Deep-rooted inflation presents a unique challenge for the ECB compared to the Federal Reserve. Wage growth, and potential oil price increases threaten to keep inflation elevated, even with cyclical trends suggesting a decline. Additionally, China's economic recovery could further boost growth in Europe, adding to inflationary pressures.

Navigating this complex landscape, the stock market responds dynamically to global and regional factors. Looking ahead, Europe grapples with persistent inflation and high interest rates, while anticipating a modest 1.2% GDP expansion in 2024, fueled by increased consumer spending, rising wages, and foreign expansion.

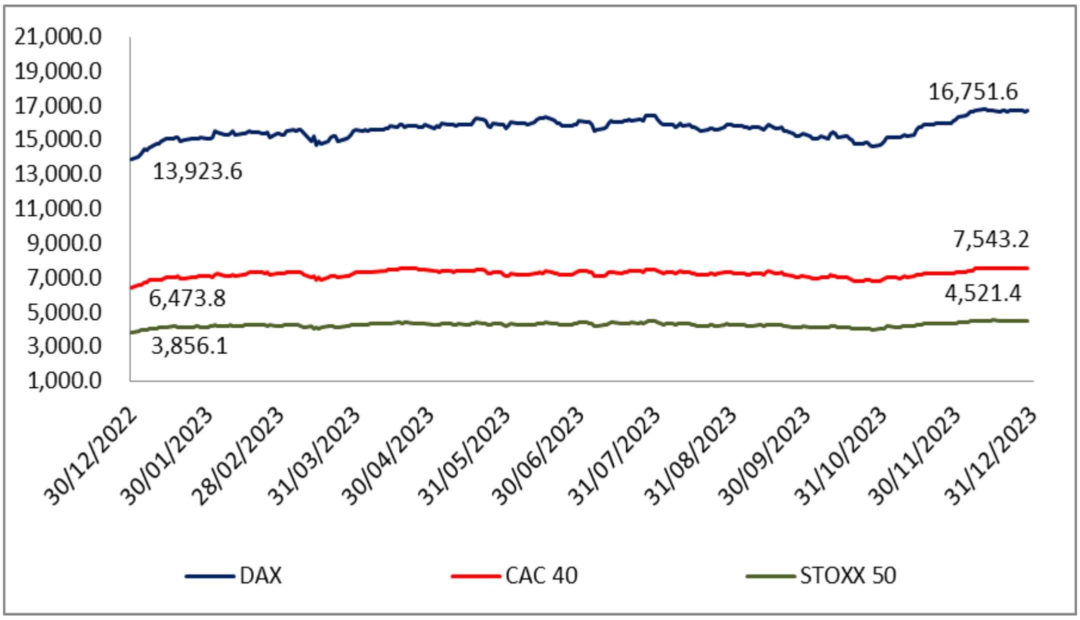
With that said German stock market soared the most during 2023 and recorded a jump of 20.31% from 13,923.6 by the start of the year to 16,751.6 points by the end of 2023. In fact, The German economy is poised for a modest rebound, with growth expected to reach 0.6%2 in 2024 and 1.2% in 2025 after a slight contraction in 2023. While decreasing inflation and rising wages will boost consumer spending, high interest rates will likely dampen investment in housing and exports of capital goods. However, non-residential investments are projected to gradually rise thanks to healthy corporate savings, supply chain relocations, digitalization efforts, and renewable energy expansion. This trend will be further fueled by increased public investment and green incentives.

Export growth is also expected to pick up as global demand strengthens. The shrinking fiscal deficit will contribute to controlling inflation. To accelerate the energy transition and digitalization, Germany needs to improve infrastructure planning, approval processes, and implementation capacity, especially at the local level. Addressing skilled labor shortages through measures like encouraging women, older workers, and low-income earners to participate in the workforce, enhancing training programs, and facilitating the recognition of migrant and refugee qualifications is also crucial. Investing in high-quality basic education and expanding access to early-childhood education will ultimately boost long-term growth and reduce inequality.

2 As per OECD.org, Organization for Economic Co-operation and Development (OECD)

In the same token, France' s economic activity ended 2023 on a stagnant note[3], mirroring the previous quarter. Rising financing costs choked off investment across most countries, creating a stark contrast to the robust growth fueled by government aid and strong consumer spending in the United States. France's business outlook remains hesitant, reflecting the impact of inflation and tighter monetary policy. While the overall climate stabilized near its long-term average, specific sectors paint a mixed picture: optimism reigns in transport equipment, while construction and agrifood face a bleaker outlook. Early 2024 offer a glimmer of hope with disinflation taking hold and gradually boosting household purchasing power. Consumption is poised to become the main driver of economic activity in the first half of the year, but overall growth is expected to remain moderate due to sluggish expenditure from both businesses and households. Saying this, the French stock market index CAC 40 closed the year at 7,543.2 points, 16.52% higher from 6,473.8 points by the end of 2022.

DAX, CAC 40, and STOXX 50 performances 2023:



Source: Bloomberg, Blominvest bank

Emerging Market

Regardless of the initial pessimism in 2023 due to economic slowdown fears, war, and inflation, several factors fueled surprising market growth especially among the

3 According to INSEE.fr: on average in 2023, France GDP increased by 0.9% (after +2.5% in 2022 and +0.6% in 2021). This annual growth was mostly the result of a sharp rise in the second quarter of 2023, while activity remained stable over the rest of the year. At the end of the fourth quarter of 2023, the growth overhang for 2024 stood at +0.1%.

emerging markets. China's reopening, expansive fiscal policies, and resilient US consumers stabilized the global economy.

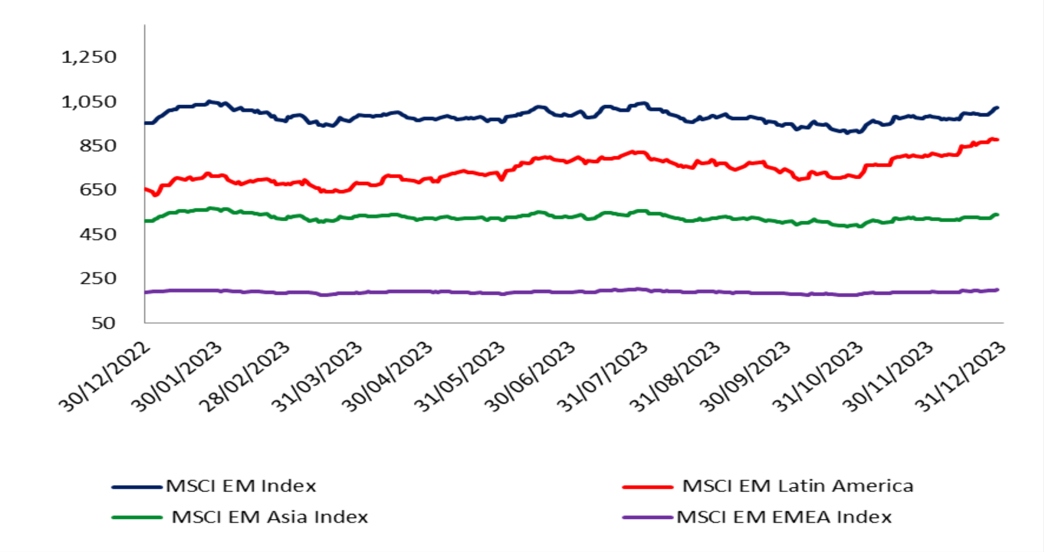
Investors brushed aside concerns over US debt and aggressive interest rate hikes, focusing instead on falling inflation and the prospect of easing cycles later in the year. This "soft landing" scenario led to a rally in global equities with Emerging markets (EM) seeing some gains by the end of the year but lagged behind, with regions like EM Asia and EM EMEA struggling. The key catalyst for this growth was the drop in the US 10-year Treasury yield, signaling an easing of interest rate hikes. Overall, 2023 became a year of resilience and unexpected positive turns in global markets, highlighting the complex interplay of various economic and political factors.

While for developed market equities, many regional indices had recovered most of the ground lost in 2022. However, in emerging markets, the story was different. Despite ending up nearly 7.04% in 2023, much of 2022’ s losses are yet to be recovered. EM Asia and EM EMEA remained subdued, while Latin America performed better.

Asian markets, outside of China, were comparatively strong as a technology overweight and outsourcing shift helped to benefit South Korea, India, and Taiwan. Japan traded off in local terms offset by an appreciation in the yen on the expectation that the Bank of Japan would continue to tighten its monetary policy to deal with emerging inflation. China again weighed on emerging markets performance as the market posted a monthly loss of 2.4%. Structural issues including debt and real estate restructuring, youth unemployment, and trade sanctions continue to impact investor sentiment.

In more details, the MSCI EM index increased 7.04% annually and ended the year at 1,024 points up from 956 by the start of the year. However, despite it recorded a downturn in the second and third quarter by respectively 0.08% and 3.71%, it revealed signs of recovery later in the fourth quarter, and increased nearly 7.45% compared to the third quarter.

MSCI EM indices performances 2023:



Source: MSCI.com, Bloomberg

LEBANESE MARKET
BSI Performance

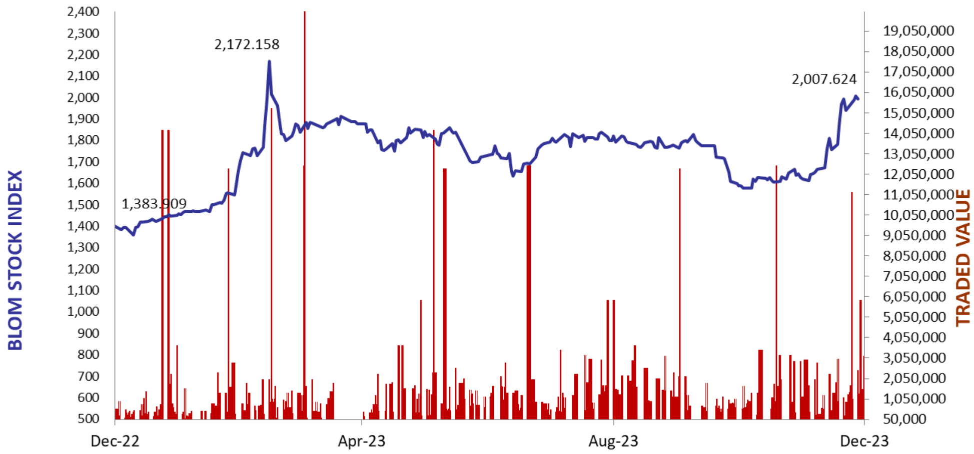
Lebanon's crisis, now exceeding four years, is further exacerbated by a political vacuum since October 2022 as the deeply divided parliament stalls on electing a president. This lack of leadership compounds the already dire economic and social situation: a massive GDP contraction, hyperinflation, currency devaluation, and rising poverty.

By the end of 2023, the financial crisis has not been resolved yet and no recovery plan was put in place. Despite that, the bourse in Beirut kept its uptrend of 2022 and BLOM Stock Index (BSI) registered another significant yearly increase backed by outstanding performance of Solidere Stocks.

In details, the BSI (Beirut Stock Index) fluctuated during the course of the year, with a minimum of 1,360.683 points and a high of 2,172.158 points on March 16, 2023 driven by significant rebound in Solidere prices surpassing the $100/share standing at $109.70/share of Solidere A and $106.50/share of Solidere B. Overall, the BSI increased yearly by 41.48% in 2023 compared to an increase of 40.86% the past year and ended the year at 1,995.233 points on 28/12/2023 up from 1,410.283 points on 29/12/2022. In term of volume traded, BSE recorded 23,735 by end of December 2023 compared to 21,442,027 by last year while market capitalization added 41% from $14.45B at 29/12/2022 to end up the year of 2023 at $20.449B.

Overall, despite negative investor sentiment and ongoing economic struggles, the Beirut Stock Exchange had a positive year due to a remarkable uptick in Solidere stock prices. This suggests optimism for the exchange's future, even though broader economic concerns remain.

BSI Index performance in 2023



Source: BLOMINVEST Bank, BLOOMBERG

Real Estate Sector in Lebanon

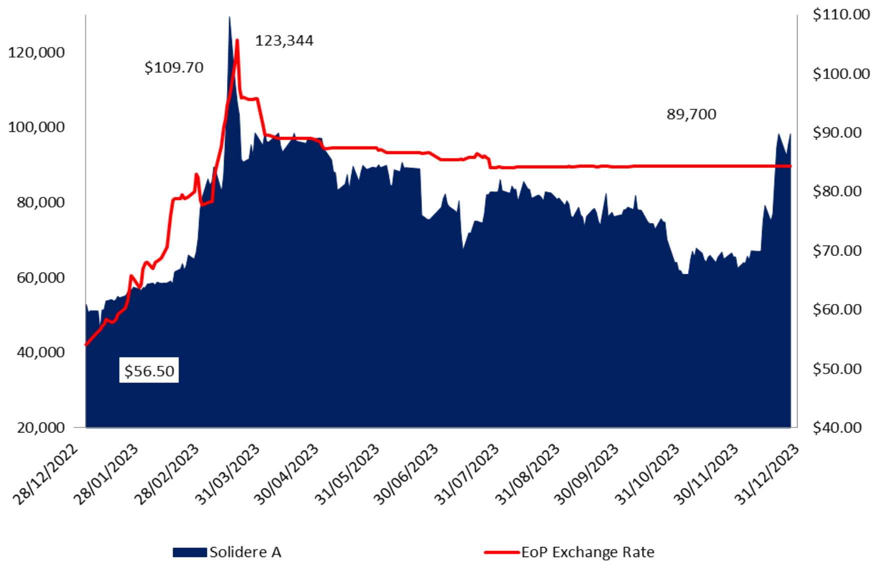
Real estate-backed equities are considered a solid and reliable investment option on the Beirut Stock Exchange, offering greater stability compared to other listed stocks. In fact, Solidere has fundamentally succeeded to improve its financial performance, as the revenue has been increasing for two consecutive years, 2019 and 2020 while a loss of $21.5M was recorded for the year of 2021. Nevertheless, for the year of 2022, Solidere revealed a decrease in losses amounting to $11.1M. The continued losses are credited to the ongoing decline in real estate sales due to the persisting deterioration of general economic conditions, especially in Lebanon and the region. Additionally, fluctuating exchange rates have had an impact on the financial results calculation.

As for Solidere stock in particular, it was a back and forth year for the company. The price of the stock fluctuated during the course of the year but ended the year relatively higher than the previous one. In details, Solidere A registered an increase of 46.31% from 60.90$ at the end of 2022 to 89.10$ by end of December 2023, with a peak of 109.70$ at 16 March 2023. Hence, on the whole, despite Lebanon's economic crisis, the real estate sector appears counter intuitively resilient. While the situation may worsen in the short term, this could ironically fuel further growth in the sector as investors seek safe havens and the value of local currency weakens.

In addition to the upright financial performance and surprising standing for Solidere in the middle of the turmoil, the devaluation of the Lebanese exchange rate was certainly driving the price up for the years of 2020 and 2021 along with 2022. Saying that, it is obviously apparent in the below chart the positive correlation between the daily exchange rate and Solidere A prices, albeit not perfectly during the year of 2023 compared to the previous years. The correlation coefficient is 77% which indicates a relatively strong linear relationship between the BSI index and the Lebanese exchange rate. This means that the two variables tend to move in the same direction, though with limitations. However, it is important to note that other factors could be influencing both variables simultaneously such as cautious investors' sentiment as well as the uncertainty regarding the whole economic situation especially at the end of the year with the eruption of the war between Hamas and Israel.

Despite facing some headwinds due to falling real estate prices, Solidere's stock remained resilient in the Lebanese market throughout the year, benefiting from a stabilizing exchange rate and continued investor interest in real estate assets during times of economic uncertainty. This suggests that Solidere may continue to perform well on the exchange as long as the current crisis persists, highlighting the appeal of real assets in such challenging environments.

Solidere A prices (right axis) and Daily EoP Exchange rate (left axis):



Source: Lira Rate, Beirut Stock Exchange, BLOMINVEST

Banking and Industrial Stocks

The Lebanese banking sector remains centrally implicated in the ongoing economic crisis. Banks' stocks are still a fragile alternative for most of the investors. The largest gainer in terms of value was Bank Audi; in details, the share price increased by more than 50% compared to last year and reached $2.35/share up from $1.54/share, with a total volume for this period reaching 300,374 by the end of December 2023. Similarly, BLOM Bank stock price added 31.58% compared to last year and stood at $3.5/share up from $2.66/share by end of 2022, with total volume traded totaling 670,233. Likewise, BLOM GDR increased 9.09% to end up 2023 at $3/share with total volume traded amounting 612,266. Elsewhere, Byblos and Audi GDR declined respectively by 6.67% and 20.14% to stand at $0.70/share and $1.11/share by end of December 2023 while BEMO bank share recorded a 4.17% increase to reach $1.25/share at the end of 2023.

As for the Industrial Sector, the value of Ciment Blanc and HOLCIM shares surged respectively by of 91.30% and 91.94% on an annual basis, up from $11.5 and $31 to $22 and $59.5 by end of December 2023 despite a relative low volume for this period reaching 35,520 for Ciment Blanc and 17,743 for HOLCIM. So, the results came largely as expected with banking down and real estate and industry up.

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