TEN GLOBAL MACRO INVESTING RULES TAUGHT BY COUNTRY STOCK MARKETS IN 2023

Each year, stock markets teach investors lessons that can help us improve our future performance. Some lessons are new, while many are repeated often or even every year. The year of 2023 was not an exception. Below are ten lessons that stock markets taught investors in 2023. I refer to these lessons as rules. Some rules are absolute or near absolute because they work all or most of the time. Other rules work only sometimes.

Nevertheless, all rules are important and may help experienced global macro portfolio managers – investors who build and run their portfolios based on their views on various countries – operate in the future. The managers need some experience to know when to use each rule. They need the same experience as captains of seafaring ships who understand that some instruments are always or almost always valuable. In contrast, others would help them survive only in extreme situations. The latter instruments are not less useful than the former. After all, it only takes one time for a ship to sink, and the probability of this happening increases during the bad weather.

Fishing and navigation rules can help captains of fishing ships find fish in stormy seas and come home alive with the catch. Analogously, these rules may help global macro portfolio managers earn attractive investment returns in risky environments and protect their portfolios from dangerous trends and events that can decimate their performance, as storms can overturn the ships of captains who pay attention only to fish and not to the sea.

Different rules would interest different portfolio managers based on their strategies' geographic or asset class focus and riskiness. Before one invests time in reading this report, a potential reader may want to know my focus areas. In the 2017 report, *"Investment Lessons from Fishing: Building Portfolios from Single-Country Equity Exchange Traded Funds (ETFs),"* explaining why we use single-country ETFs as portfolios' building blocks, I compared my firm's strategy to a flexible and sturdy catamaran, which is protected not by one but by two levels of diversification – within each country – because each ETF consists of dozens and hundreds of stocks – and among countries – with the weight of each country generally limited to 10%. [1] Both protection levels are essential for pursuing often plentiful investment returns in the stormy seas of country-stricken nations' stock markets, where the lack of attention to your surroundings may cost you dearly.

No matter what strategies investors pursue, I hope you will find all or some of the ten rules taught by various countries' stock markets in 2023 beneficial in your search for investment returns. Bon Voyage!

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[1] Vitaly Veksler, Beyond Borders Investment Strategies, "Investment Lessons from Fishing: Building Portfolios from Single-Country Equity Exchange Traded Funds (ETFs)," July 31, 2017. Below is a link to the 2017 report: *https://bbistrategies.com/our-publications--events/investment-lessons-from-fishing-building-portfolios-from-single-country-equity-exchange-traded-funds-etfs*

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1. **IN INVESTING, COUNTRY SELECTION MATTERS A LOT, AND THOSE WHO IGNORE IT OFTEN PAY A HEFTY PRICE.**
2. **EVEN IF OTHERS DO NOT DO IT, LIMITING COUNTRY WEIGHTS IN INVESTMENT PORTFOLIOS IS IMPORTANT.**
3. **A COUNTRY'S STOCK MARKET PERFORMANCE IS MAINLY DETERMINED BY DEVELOPMENTS IN THE COUNTRY OR RELATED TO IT RATHER THAN THE COUNTRY'S MEMBERSHIP IN AN INVESTMENT UNIVERSE.**
4. **A COUNTRY'S EXCLUSION FROM THE DEVELOPED, EMERGING, AND FRONTIER MARKET INVESTMENT UNIVERSES MAY DAMAGE ITS STOCK MARKET PERFORMANCE, BUT IT IS NOT AUTOMATIC.**
5. **THE ELECTION OF A BUSINESS-FRIENDLY LEADER CAN MAKE STOCK MARKET WINNERS OUT OF COUNTRIES WITH HUGE MACROECONOMIC, POLITICAL, AND OTHER PROBLEMS.**
6. **EVEN A COUNTRY IN THE GRIPS OF A RECESSION CAN HAVE A PHENOMENAL INVESTMENT PERFORMANCE.**
7. **LAST YEAR'S LOSERS SOMETIMES – NOT ALWAYS – BECOME NEXT YEAR'S WINNERS.**
8. **LAST YEAR'S WINNERS SOMETIMES – NOT ALWAYS – BECOME NEXT YEAR'S LOSERS.**
9. **THE "SELL IN MAY AND GO AWAY" RULE HAS WORKED IN THE GLOBAL CONTEXT – WITH ONE EXCEPTION – OVER LONGER PERIODS, BUT MAY NOT WORK EVERY YEAR.**
10. **INVESTING IN A COUNTRY AT WAR CAN EARN STRONG RETURNS IF THE COUNTRY IS WELL-MANAGED.**

1. **In Investing, Country Selection Matters a Lot, and Those Who Ignore It Often Pay a Hefty Price:** Spending time selecting country stock markets to invest in may bring high payoffs. The difference in total returns between the best-performing and worst-performing markets in the BBIS 50 country-index universe in 2023 was a dramatic 88.2%. [2] The total return – stock price appreciation plus dividends – of MSCI Argentina was 66.1%, while MSCI Nigeria registered a loss of 22.1% *(see Column 5 in the Performance Tables appendix at the end of the report for 2023 returns).* You do not need to look at just the best and worst-performing markets to see the difference in returns between markets that performed well and poorly during the year. You will also see an enormous difference between the top-fifth and bottom-fifth markets in the final 2023 rankings. MSCI Mexico, which ended the year in the fifth position with a total return of 41.5%, outperformed MSCI Kuwait in the 46th position with a loss of 7.5% by a massive 49.0%. Even the difference between the top-tenth and bottom-tenth markets was significant. MSCI Denmark, in the tenth position, had returns of 32.1%, while MSCI Qatar ended the year in the 41st position with a total return of 1.6%. The difference between the returns exceeded 30%. It was 30.6%.

   Below is a cautionary tale of a portfolio manager who did not think country selection was essential and paid the price. Many moons ago, when I had just started my first job in the investment management field, I met a portfolio manager at the firm where I worked. He was one of the superstar managers and also a wonderful human being. When I spoke to him, his US Small-Cap portfolio had some of the best returns in the country. Seeing this success, the firm's management gave him a mandate to manage an Emerging Markets Small-Cap Fund that the firm seeded with capital. Under the arrangement, the portfolio manager needed to manage the new portfolio for at least a year before it was offered to potential clients. Raising capital for a fund was difficult when its investment history was less than a year.

   The gentleman knew so much about investing in the US Small-Cap stocks that he could write a book about it. But when I asked him in a friendly conversation, *"How are you planning to analyze country risk in emerging markets?"* I was surprised very much with his answer. He said something along these lines, *"We are not going to focus on country analysis. We are bottom-up stock pickers and will try to find the best stocks in each country."* I grew up in an emerging market country and have seen what happened to the economy, currency, stocks, and the economy in general during crises. As a Manager of Project Finance, I also analyzed country risk for large infrastructure projects that my previous employer – a premier engineering and construction company – built worldwide. But I was a newcomer to the field of equity investment management – with literally a month or two of experience – and he was a superstar.

[2] All stock market performance calculations in this report – unless specifically mentioned – are based on the Refinitiv data and are performed by Beyond Borders Investment Strategies.

Still, I tried to tell him about the importance of country analysis. I said that besides his stock picking, maybe he should pay attention to the country selection. When he just warmly smiled in response – because he was a great person and did not want to argue about a topic he did not want to consider – I did not press my point.

To this day, I feel a sense of guilt. I should have argued my point with more vigor because a large portion of the portfolio manager's Emerging Markets portfolio was wiped out within half a year. The firm's management took the remaining funds away from the portfolio manager because the investment history that the fund generated would not have attracted clients. When – during a crisis – a stock market falls by 50% or 70% per year, it does not matter that much that you invested in the best companies in that market, whose prices declined by 'just' 45% or 60%.

Since that dramatic episode, I have always tried to tell other investors that country selection matters a lot. That's why I put this lesson first in this report. To atone for my mistake in treating a person I really liked and respected, since the episode, I have always tried to warn my friends and colleagues who asked for my opinion about the risks their portfolios faced with vigor and used the language of precedents and statistics they understood.

2. **Even if Others Do Not Do It, Limiting Country Weights in Investment Portfolios Is Important:** I often wrote that limiting the weight of the positions, especially the largest ones, in investment portfolios is essential because every country's stock market may underperform. At BBIS, no country's weight exceeds 10% of the portfolio for extended periods. [3] This limit on the country positions in the portfolios has been one of the main features separating the 'equal-weighting plus' methodology of Beyond Borders Investment Strategies (BBIS) from that of most investment firms that weight countries in their portfolios in line with broad-based international or emerging markets indices.

   Under the 'equal-weighting plus' methodology, we usually have from 15 to 25 country positions in our portfolios, with most positions' weights close to 5% of the portfolio. We may overweight several country positions that we think have solid catalysts and attractive valuations, but they usually do not exceed 10% for extended periods. We also may have some smaller investments in countries that we consider interesting and where valuations are attractive, but the investments there are subject to risk. We do not want to invest in countries because we follow an index composition of broad-based indices (i.e., MSCI

[3] Very rarely, we allowed positions in stock markets that performed well and still had catalysts to 'run' until they reached 12-13% of the total portfolio's weight.

All Country World Index, MSCI Emerging Markets Index). Instead, we enter and maintain our investments in each country with our eyes wide open to risks and opportunities. If we do not want to invest in a country because of the risks it faces or the high valuation of its stock market – even if the country is in broad-based indices – we would not do it.

The performance of MSCI China shows why it is essential to limit country weights in portfolios. China's weight in the MSCI Emerging Market Index as of the end of 2022 was huge - 32.3% - and almost identical to the country's weight at the end of 2021 – 32.4%. [4] [5] Over the last two years, China represented nearly one-third of the portfolio, with the other 23 countries responsible for the other two-thirds. Obviously, Chinese stocks had a disproportionately high impact on the MSCI Emerging Markets Index's performance, while the impact of other countries' stocks was limited by their low weights. China's weight in the MSCI Emerging Markets Index – and investment portfolios closely following it – was three times higher than the BBIS' maximum position weight.

I wrote multiple times in the BBIS Fact Sheet and other reports that the MSCI Emerging Markets Index and investment portfolios built in line with its weights faced a risk of the Chinese stock market underperforming. In 2022 and 2023, this risk turned into reality. MSCI China had two years of negative performance, with a loss of 21.8% in 2022 and another loss of 11.0% in 2023 (*see Column 1 in the Performance Tables appendix at the end of the report for 2022 returns and Column 5 for 2023 returns).* Overall, during 2022 and 2023, MSCI China lost 30.4%, almost a third of its value. This loss meant that for investment managers who built their portfolios in line with the MSCI Emerging Markets Index's country weights, it was challenging to reach good performance in 2022 and 2023 because almost a third of their portfolios' weight lost nearly a third of their value. Due to MSCI China's underperformance, China's weight in the MSCI Emerging Markets index dropped to 26.5% by the end of 2023, which is still high, in my opinion.[6]

3. **A Country's Stock Market Performance Is Mainly Determined by Developments in the Country or Related to It Rather Than the Country's Membership in an Investment Universe:** I often hear investment strategists telling their audiences to invest – or not – in Developed, Emerging, or Frontier Markets, lumping these three groups together as if countries in each group have the same catalysts or risks. They do not.

[4] MSCI, "MSCI Emerging Markets Factsheet," December 30, 2022.
[5] MSCI, "MSCI Emerging Markets Factsheet," December 31, 2021.
[6] MSCI, "MSCI Emerging Markets Factsheet," December 29, 2023.

Sometimes, I jokingly ask my friends, my colleagues, and even my kids a rhetorical question. "*What is the similarity between Chile and China?"* My joking answer is that there are two similarities. Both countries are members of the Emerging Markets universe, and the first three letters of the countries' names in English are identical. In reality, the economic drivers of these countries' economies are as different as night and day. Chile is a resource-rich economy and the world's largest producer and exporter of copper. It benefits when the price of copper goes up. China is the world's largest manufacturer. Its companies benefit when prices of commodities, including copper that goes into pretty much every type of technological piece of equipment, are low. In this case, the profits of Chinese companies will be higher if everything else stays equal.

So when I hear investment strategists say that they like or dislike prospects of Developed, Emerging, and Frontier Market countries, I ask, given a chance, "Which countries do you have in mind?" Stock markets of Developed, Emerging, and Frontier Market countries often end up at both ends of the performance tables. It was the case in 2023 when the 'Top 5' winners included the stock markets of Emerging, Frontier, and 'Standalone' (Fallen Angels) countries *(see more on the 'Standalone' markets in the next section).* Specifically, they included MSCI indices of Argentina ('Standalone' since June 2021 and Emerging Market before that), Greece, Poland, Egypt, and Mexico. [7] The latter four are Emerging Markets.

At the same time, five of the six worst performers in 2023 were stock markets of Emerging, Frontier, and soon-to-be 'Standalone' Market countries. Starting from the bottom, they included MSCI indices of Nigeria (moving to 'Standalone' from the Frontier status in February 2024), Hong Kong (Developed Market), China, Thailand, Kuwait, and Turkey. [8] The latter four are Emerging Markets. Hong Kong is a member of the Developed Markets universe. Still, it is a part of China, the world's largest Emerging Market, and is heavily impacted by the developments in its sovereign.

While global or regional trends are important, the response of each country's economy and stock market to these trends is determined primarily by country-related factors. The difference in performance is not surprising because all countries are in different political and macroeconomic situations and have mostly different catalysts and risks. Let's look at two examples. In 2022, when Russia attacked Ukraine, and the West responded with sanctions on doing business in Russia, some European stock markets' prices

[7] MSCI, "MSCI Market Classification Review," June 24, 2021. According to the MSCI Classification Review in June 2021, MSCI Argentina was reclassified from the Emerging to Standalone market status during the MSCI 2021 Market Classification Review because international investors were subject to capital controls since 2019.
[8] MSCI, "MSCI to Reclassify the MSCI Nigeria Indexes from Frontier Markets to Standalone Markets Status," October 26, 2023.

dropped significantly more than others. For example, in analyzing Rule 7, *"Last Year's Losers Sometimes – Not Always – Become Next Year's Winners,"* I focused on the performance of MSCI Poland, which ended the year of 2022 in the 'Bottom 10' group.

While a powerful trend of breakage of economic links with Russia affected most European countries, along with many on other continents, Poland was impacted by the trend more than most other countries. MSCI Poland declined by 26.8%, ending 2022 in 44th place. For comparison, MSCI Norway, an index of a country that borders Russia while Poland does not, declined by a relatively minor 5.7% and ended the 2022 edition of the BBIS stock market competition in 20th place. The reason for this discrepancy is country-specific. Poland, an energy importer, heavily depended on energy imports from Russia, while Norway, an energy exporter, did not depend on Russian energy. Poland faced a risk that its economy would slow down significantly to the point of a collapse during the winter of 2022-2023, while Norway did not face this risk.

Here is another example of the rule that countries' stock markets are moved mainly by in-country or country-related developments. Usually, when the US Dollar (USD) falls, Emerging Markets' stock markets outperform. A significant reason is that most countries' debt obligations are calculated in USD. When the USD declines, the obligations are lower in terms of their local currencies. In 2023, the Dollar trade-weighted index created and maintained by the Federal Reserve Bank of St. Louis – the Nominal US Dollar Index – declined by 2.2%, demonstrating that the USD fell versus the currencies of the US top 26 trading partners. [9] [10] [11]

But the response to this development varied. Many stock markets of Emerging Market countries had positive returns. In contrast, the return of the MSCI China, the index measuring stock market performance in the world's largest Emerging Market by any measure – be it market capitalization, weight in the Emerging Market Equity universe, or GDP as a percentage of the Emerging Market Universe GDPs combined – fell by 11.0%. While there are a few reasons for the MSCI China's price decline, one country-specific reason stands out. After the COVID-19 pandemic, many foreign corporations started moving production from China to other locations due to a lack of intellectual protection, increasing labor costs, and deficits of various goods, including essential medical supplies such as masks and ventilators. The

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[9] The Federal Bank of St. Louis, Fred Economic Data, "Nominal Broad U.S. Dollar Index (DTWEXBGS)." Downloaded on January 4, 2024.
[10] Ann Logue and Erika Rasure, The Balance, "What Is the Trade-Weighted US Dollar Index?" April 26, 2022.
[11] The Federal Bank of St. Louis, "Broad Index of the Foreign Exchange Value of the Dollar: Trade Weights as of December 18, 2023," Table 'Foreign Exchange Rates - H.10,' December 18, 2023. Below is the link to the Table: https://www.federalreserve.gov/releases/h10/weights/default.htm

pandemic exposed weaknesses in the global supply chains in multiple countries. Once again, while the depreciating USD was a positive global trend for Emerging Markets, the country-specific negative trend related to foreign corporations moving manufacturing out of China more than offset it. See also the discussion on China in Lesson 7 in this report, *"Last Year's Losers Sometimes – Not Always – Become Next Year's Winners."*

Portfolio managers must pay attention to country-specific developments, prospects, and valuations rather than rely on a country's membership in a Developed, Emerging, or Frontier Markets universes as the main driver of the country's stock market's future performance. Analyzing a stock market as part of an investment universe rather than a country is a shortcut. Shortcuts rarely beat proper country analyses in forecasting the future performance of country stock markets.

4. **A Country's Exclusion from the Developed, Emerging, and Frontier Market Investment Universes May Damage Its Stock Market Performance, But It Is Not Automatic:** While it is not an absolute rule for individual countries, moving from the Developed, Emerging, or Frontier Markets universes to the 'Standalone' status may be damaging for stock market performance because the money inflows in funds following broad-based indices, such as MSCI World Index (Developed Markets), MSCI Emerging Markets, or MSCI Frontier Markets are usually higher than to 'Standalone' markets. Investors may not want to invest in an individual country member of the broad-based indices. Still, they would be forced to have a position in this country because investment funds or ETFs benchmarked against these indices would have a position in this country. Alternatively, nobody automatically allocates their money to 'Standalone' markets, as happens with members of broad-based indices. Investors must really want to invest in the stock of a 'Standalone' market and, by extension, for the 'Standalone' country's market not to drop in value.

MSCI Nigeria became the worst-performing market in the BBIS 50 index universe because of the news about its future exclusion from the Frontier Markets universe. According to the *"MSCI to Reclassify the MSCI Nigeria Indexes from Frontier Markets to 'Standalone' Markets Status"* report published at the end of October 2023, the MSCI Nigeria Index did not qualify for staying in the MSCI Frontier Markets universe any longer. [12] Below is an excerpt from the report explaining MSCI Nigeria's future exclusion from the Frontier Markets universe. *"Since March 2020, liquidity challenges in the Nigerian foreign exchange (FX) market have consistently affected the accessibility of its equity market, leading to ongoing capital*

[12] Ibid.

repatriation concerns and a significant gap between the official and parallel exchange rates for the Nigerian Naira. This has caused international institutional investors to face recurring challenges with index replicability and inevitability of the MSCI Nigeria Indexes and other indexes they are part of." [13]

There is an important caveat related to the rule stating that the exclusion from universes may be damaging. The rule is not absolute. There are exceptions to it. Even when a country index is excluded from the Developed, Emerging, or Frontier Markets universes, it can still perform well if investors allocate money to it for other reasons. For example, according to the MSCI Classification Review in June 2021, MSCI Argentina was reclassified from the Emerging to 'Standalone' Market status during the MSCI 2021 Market Classification Review because international investors were subject to capital controls since 2019. [14] However, instead of performing poorly in 2021 and 2022, MSCI Argentina earned 14th place in 2021 with total returns of 20.9%. The index took second place with total returns of 36.2% in 2022. In 2023, against all odds, MSCI Argentina improved on its impressive 2022 performance and took first place with spectacular returns of 66.1%.

In my observations, MSCI Argentina is doing well when Argentinian authorities negotiate the debt repayment or forgiveness of the country's immense debt, or there is a perception that this will happen. Argentina has been doing it since 2020. Last time, Argentina, a series defaulter, defaulted on the largest loan the International Monetary Fund (IMF) ever extended to any country in May 2020. Under the leadership of Managing Director Christine Lagarde, the Fund rashly and irresponsibly extended a credit line to Argentina in June 2018. [15] The IMF extended a credit line of $57.0 billion, of which Argentina drew $43.9 billion before defaulting in May 2020. [16] [17] One needs to question an analysis done by a lender who extended a loan, especially the largest in an institution's history, if the debtor defaulted on the loan in less than two years, as was the case with Argentina defaulting on the IMF loan in May 2020. [18] [19]

The interesting part was the default did not impact the performance of MSCI Argentina even during the year it happened, with MSCI Argentina finishing 2020 in 19th position with returns of 12.7%. MSCI Argentina performed well during the year because Argentina and the IMF negotiated debt restructuring (reduction) terms after Argentina's default.

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[13] Ibid.
[14] MSCI, "MSCI Market Classification Review," June 24, 2021
[15] The Economist, "Argentina Defaults Yet Again, but Hopes to Get off Lightly," May 23, 2020
[16] Dave Graham and Nicolás Misculin, Reuters, "IMF Boosts Argentina Program to $57 billion in Bid to Halt Peso Slide," September 26, 2018.
[17] Megan Davies, Rodrigo Campos, Reuters, "The IMF in Figures: Debtors vs Creditors," October 18, 2019.
[18] The Economist, "Argentina Defaults Yet Again, but Hopes to Get off Lightly," May 23, 2020
[19] The Economist, "The IMF Bashes the IMF over Argentina," January 8, 2022.

You can read more about the episode during which the IMF extended a record large loan to Argentina – and my assessment of it – in the part, *"Politics and Politicians Often Replace Professionalism and Professionals in Governments and Multilateral Lenders Distributing Financial Aid and Loans with Predictably Disastrous Results"* on pages 30-37 of the white paper *"Ending Devastating Crises while Earning investment Returns"* on the BBIS website. [20]

Below is the link to the white paper: https://bbistrategies.com/uploads/3/4/5/3/34534346/bbis_-_05-09-23_-_ending_devastating_crises_while_earning_investment_returns_-_v6.pdf

5. **The Election of a Business-Friendly Leader Can Make Stock Market Winners Out of Countries with Huge Macroeconomic, Political, and Other Problems:** I spend a lot of time thinking about Argentina and other riskier countries because they are 'generous' in teaching investors valuable lessons. Argentina was 'kind' to teach investors another lesson in 2023. While Argentina benefitted from other factors in 2023, such as the possibility that its debt would be renegotiated, the most important event that drove MSCI Argentina to the 2023 victory – by far – was the election of Javier Milei as Argentina's president. As of the end of October 2023, MSCI Argentina was in the eighth position with total returns of 11.4%. It was not a bad position at all.

   But the election on November 19 of Javier Milei, a libertarian economist often called by left-leaning media sources a right-winger, turbocharged the Argentinian stock market, which earned total returns of 42.4% in November 2023 *(see Column 2 in the Performance Tables appendix for the November 2023 performance).* [21] [22] MSCI Argentina earned more than six times the expected annual returns of the largest pension funds in the United States in one month! According to the National Association of State Retirement Administrators, the average annual investment return assumption in 2023 was 6.91% as of August 2023, the latest period for which the projection was available. [23] It's not too shabby of a performance by the Argentine stock market!

[20] Vitaly Veksler, Beyond Borders Investment Strategies, "Ending Devastating Crises while Earning investment Returns," Pages 30-37, May 9, 2023. Below is the link to the report: https://bbistrategies.com/our-publications--events/white-paper-ending-devastating-crises-while-earning-investment-returns

[21] Nicolas Misculin, Lucinda Elliott and Walter Bianchi, Reuters, "Argentine Libertarian Milei Pledges New Political Era After Election Win," November 19, 2023.

[22] Daniel Politi and David Biller, Associated Press, "After Electing Right-Wing Populist Milei as President, Argentina Faces Unchartered Path," November 20, 2023.

[23] National Association of State Retirement Administrators, Latest Investment Return Assumptions, Chart: Historical Change in Median and Average Investment Return Assumption, August 2023.

Javier Milei inherited one of the most closed and heavily regulated countries after the decades of the Peronist, mostly leftist rule characterized by a truism, *"The road to hell is paved with good intentions."* To understand the tremendous problems that Argentina has been facing in the second half of the 20th century and the first 24 years of the 21st century, it would be useful to look at how the Peronist rule came about and changed for the worse a previously wealthy country.

A brilliant song performed by Antonio Banderas, *"And the Money Kept Rolling In and Out,"* from one of my very favorite musicals *'Evita'* explained how Eva Perón, the wife of General Juan Perón who served as president of Argentina from 1946 to 1955 (and later – after her death – in 1973-1974), tried to help him achieve his goal of social justice through heavy government spending on the poor. Unfortunately, they did it without understanding how to prioritize spending and the amount of money spent. [24] [25] His other goal was economic independence. [26] Unfortunately, he has not achieved either of these goals; instead, he has reached the opposite of his goals. He made the population poorer and the country dependent on foreign debt for many decades after his rule. [27]

Eva Perón grew up in poverty and wanted to help poor Argentines by spending on them. [28] Unfortunately, she also demonstrated that the kindness of one's heart was insufficient to bring prosperity to a country. One needs macroeconomic knowledge and fiscal spending discipline. There is no argument that economic reformers who want to transform their countries to make poor people's incomes go up must have kind hearts. But they also need to have strong knowledge of macroeconomics and how successful reforms were implemented in their or other countries at different times. They also need financial discipline to implement kind intentions into reality by prioritizing some spending priorities over others.

Left-wing, centrist, and right-wing politicians often see the same problems that require solutions in their countries. The difference is that left-wing politicians – often with big hearts but no business experience – start spending state money on solving the problems as if resources are unlimited. Alternatively, centrists and right-wing candidates, many of whom come from business backgrounds, know that resources are not infinite and spending goals require prioritization.

[24] Wikipedia, "Evita (1996 Film). Downloaded on January 4, 2024. "Evita," is a 1996 musical-historical film based on the 1976 musical "Evita" produced by Tim Rice and Andrew Lloyd Webber.
[25] Wikipedia, "Juan Perón." Downloaded on January 4, 2024.
[26] Ibid.
[27] Eduardo Singerman, Forbes, "Perón's Legacy: Inflation in Argentina, An Institutionalized Fraud," January 30, 2015.
[28] Wikipedia, "Eva Perón." Downloaded on January 4, 2024.

President Perón and his government spent as if they had unlimited financial resources. During the first years of his first term, Mr. Perón nationalized Argentina's railroads, merchant marine, universities, public utilities, and other industries. [29] Unfortunately, governments are almost never more efficient owners than private enterprises. The nationalized industries remained or became uncompetitive, and the government had to subsidize them from its coffers for as long as some funds were in them. [30] When all the money was gone, the Perón government continued to subsidize the industries by borrowing the money from abroad. [31] Instead of social justice and economic independence, rampant government spending led to a completely different legacy of President Perón – high government indebtedness and high inflation – which to this day bedevils the country by seriously lowering the level of well-being of Argentinian people, the same people whom he tried to help and support. [32]

Below is a link to the song *"And the Money Kept Rolling In and Out"* by Antonio Banderas. The song explains some of Evita's spending goals (i.e., free college, free housing, handouts for vacations and to satisfy other desires, etc.) and problems with her approach (i.e., overspending with no priorities, no accounting for distributed cash, and corruption).

Madonna - Evita - 14. And the Money Kept Rolling In and Out (1996) (youtube.com)

Despite its problems, Peronism became the ruling model of Argentina for more than three decades since President Carlos Menem came to power in Argentina in 1989. [33] The Peronists' grip on power was interrupted only for four years when a conservative, Mauricio Macri, served as president from 2015 to 2019. [34] It was President Macri who convinced Christine Lagarde to extend the largest loan in the IMF's history to Argentina based on his pro-business vision of Argentina's economy. [35]

Like President Macri before him, President Javier Milei became a breath of fresh air in the country with a stultified economy. *"The latest Human Freedom Index places Argentina at 163rd in the world for openness to trade and 143rd for regulatory burden."* [36] As a rule of thumb, an Emerging or Frontier Market country is prone to a currency crisis if its debt is higher than 40% of the country's GDP. Argentina's government

[29] Wikipedia, "Juan Perón." Downloaded on January 4, 2024.
[30] Eduardo Singerman, Forbes, "Perón's Legacy: Inflation in Argentina, An Institutionalized Fraud," January 30, 2015.
[31] Ibid.
[32] Ibid.
[33] Wikipedia, "Carlos Menem." Downloaded on January 4, 2024.
[34] Encyclopedia Britannica, "Perónist." Downloaded on January 4, 2024.
[35] Vitaly Veksler, Beyond Borders Investment Strategies, "Ending Devastating Crises while Earning investment Returns," Pages 30-37, May 9, 2023.
[36] Matthew Lesh, Telegraph UK, "Milei is Proving Himself to be the Woke West's Worst Nightmare," January 1, 2024.

debt was 89.5% of the country's GDP as of 2023, or more than twice the danger level. [37] *Annual inflation reached an extraordinary 160% in November 2023, while the poverty rate increased to 40% in the first half of 2023."* [38] Instead of expanding, Argentina's economy shrank by 1.8% over the last decade (2013-2023). [39] Not over a year, but over an entire decade! Talk about a lost decade.

President Milei proposed a package of over 350 economic reforms to open the economy and remove regulatory barriers, thus making Argentina an attractive investment destination again. [40] Some of the proposed reforms included: [41]

- Privatization of inefficient state assets that the government would not have to subsidize
- Elimination of rent controls and restrictive retail regulations
- Liberalization of labor laws
- Lifting of export prohibitions
- Allowing contracts in foreign currencies
- Cutting spending to lower the government budget deficit to bring it under control
- Liberalization of the airline industry through the *'Open Skies'* policy
- Elimination of capital and currency controls
- Allowing the Argentinian Peso to devalue

Not surprisingly, investors from all over the world allocated their funds to the stock market of a country that was about to start such dramatic reforms that could revitalize the Argentinian economy.

6. **Even a Country in the Grips of a Recession Can Have a Phenomenal Investment Performance:** No country indices' performance exemplifies this rule better than MSCI Peru's in December 2023, when the index earned 24.5% in one month. It was more than 3.5 times higher than 6.91%, or the annual performance expectation of the largest US pension funds *(see Column 4 in the Performance Tables appendix for December 2023 returns).* Peru was in the grips of a recession in 2023 due to the *"adverse impact of the weather phenomenon known as El Nino, lower private investment and lingering effects from the earlier social conflicts."* [42] Just over the last two years, these social conflicts included two rounds of

[37] The International Monetary Fund, "World Economic Outlook," October 5, 2023.
[38] Matthew Lesh, Telegraph UK, "Milei is Proving Himself to be the Woke West's Worst Nightmare," January 1, 2024.
[39] Ibid.
[40] Ibid.
[41] Ibid.
[42] Marco Aquino, Reuters, "Peru Cuts Interest Rate Again as Prices Ease But Recession Lingers," November 9, 2023.

social instability - demonstrations, protests, and deadly riots because of the price increases due to the war between Russia and Ukraine that started in February 2022 and similar social outbursts in late 2022 and early 2023 due to the impeachment and removal from power of President Pedro Castillo in December 2022. [43]

As I wrote in the report titled *"To Protect Investment Portfolios from Inflation, We Need to Know Its Roots"* in April 2022, commodity price increases due to the Russo-Ukrainian war led to the initial round of instability in Peru. I wrote then, *"Wheat bread is a staple in many countries around the world. Its deficit or significant increase in prices may cause riots, such as those taking place in Peru. These protests and riots were caused by high prices of food, fuel, and fertilizers, all of which were impacted by the war thousands of miles away."* [44] Below is a link to the full report:

https://bbistrategies.com/uploads/3/4/5/3/34534346/bbis_-_04-07-22_-_to_protect_investment_portfolios_from_inflation_we_need_to_know_its_roots_-_final.pdf

The article from the Time Magazine*, "Why Are There Protests in Peru? What to Know About the Deadly Demonstrations,"* explained that protests after the impeachment of President Pedro Castillo left almost 60 people dead and hundreds injured. [45]

While every stock market in the BBIS 50-stock-market universe rallied in November 2023, MSCI Peru had a performance of just 3.2%, putting it in the modest 44th place. By November 2023, the stock market valuations were very low. For example, the Market Capitalization-to-GDP indicator – also known as the Buffett Ratio – was 29.0%, a dramatic 20.9% below 36.7%, the long-term average value over the last eight years. [46] The November valuation was even lower than the 'long-term ratio minus one standard deviation' of 31.4% by 6.1%. When a stock market trades at the 'long-term ratio minus one standard deviation' level, it means that 84% of the time, stock markets trade at higher valuations. When stock markets drop to these levels, most investors consider them very cheap.

[43] Simmone Shah, Time, "Why Are There Protests in Peru? What to Know About the Deadly Demonstrations," January 31, 2023.
[44] Vitaly Veksler, Beyond Borders Investment Strategies, "To Protect Investment Portfolios from Inflation, We Need to Know Its Roots," Page 43, April 7, 2022.
[45] Simmone Shah, Time, "Why Are There Protests in Peru? What to Know About the Deadly Demonstrations," January 31, 2023.
[46] Source: Refinitiv. Used 'Peru – DS Market Index' because the market capitalization of the MSCI Peru Index in local currency was not available via Refinitiv.

Often, you do not need much of a positive catalyst to start a rally in a market trading at very low valuations. In Peru, there were two catalysts for the stock rally. The first was powerful but not sufficient. On November 9, Alex Contreras, Minister of Economy, announced that Peru was preparing to launch a package of economic stimulus measures in 2024. Mr. Contreras was upbeat about the recovery plan, which he said would lead to a surge in funding for public and private projects of up to $8.0 billion in 2024 from $2.3 billion in 2023. [47] Notably, he also set an inflation goal. *"We are betting on a major recovery" in the fourth quarter, Contreras told a press conference, adding he expects Peru's annualized inflation to fall to around 3.8% to 3.9% in November."* [48] In Latin America, inflation has been an ongoing problem for many countries for many decades. For example, inflation reached 160% in Argentina in November 2023 – as mentioned in the previous section. As a result, economic decision-makers all over the continent have been paying particular attention to this economic malady even during recessions, when inflation is supposed to be lower.

While the anticipation of investments was good and exciting, it was not sufficient for a stock market rally in a country where the future has always been bright but the present not so much. Investors value stability. They needed to see Peru demonstrate that it can achieve stability – not a promise, anticipation, or expectation – before investing in the country's assets. Investors required a more concrete victory, not another dream on the horizon, because many similar beautiful dreams disappeared as rainbows in the sky. As a proverb says, "*It is better to have a sparrow in hand than a crane in the sky."* It was essential for the country to demonstrate that it achieved stability after a series of disasters that shattered normalcy and stability in recent years. Below are several examples of disasters that led to instability. During the COVID-19 pandemic, Peru had the highest death rate per capita in the world. [49] As I mentioned above, the country was shaken by two rounds of intense political and social instability in just two years, 2022 and 2023: demonstrations, protests, and deadly riots related to the increase in commodity prices due to the Russo-Ukrainian war and the impeachment of President Pedro Castillo. Overall, the country had six presidents in less than six years, from March 2018 to the end of 2023. [50]

A concrete victory that started the December 2023 Peruvian stock market rally came from the country's economy, which achieved and even surpassed its government's inflation expectation. As mentioned above, inflation is one of the most destabilizing economic phenomena, and conquering it brings a measure of stability. Peru's annual inflation rate in November slowed not to 3.8% or 3.9% as the Minister

[47] Marco Aquino, Reuters, "Recession-Hit Peru Aims to Boost Investment with Stimulus Package," November 9, 2023.
[48] Ibid.
[49] Jason Beaubien, National Public Radio (NPR), "Peru Has the World's Highest COVID Death Rate. Here's Why," November 27, 2021.
[50] Wikipedia, "List of Presidents of Peru." Downloaded on January 4, 2024.

of Economy hoped but to 3.64%, putting it closer to the Central Reserve Bank of Peru's target range of 1% to 3%. [51] [52] The Central Reserve Bank of Peru is Peru's central bank. When the November inflation goal was achieved, Peru's central bank cut the interest rate for the fourth time in 2023 by 25 basis points to 6.75%. [53] [54] On December 13, one day before the Central Reserve Bank of Peru announced the interest rate cut on December 14, investors put the proverbial pedal to the metal. The stock market rally started not on the day of the announcement but shortly before it because, historically, some investors bought stocks in anticipation of a favorable announcement by a country's central bank. It is also not unusual for a decision by a central bank of an Emerging or Frontier Market country to leak out a day or two before the announcement. In any case, they enthusiastically started buying Peruvian equities on December 13, a day before the December 14 announcement and continued doing so through the end of December. Not surprisingly, the Peruvian market rallied, and the total returns of MSCI Peru reached 24.5% in December 2023.

7. **Last Year's Losers Sometimes – Not Always – Become Next Year's Winners:** MSCI Peru's performance in December 2023 shows us that the stock market with low investment valuations can rally the next month if some catalysts appear. The same is true for stocks on an annual basis. One stock market from the 2022 'Bottom 10' group took a spot on the 'Top 10' list in 2023: MSCI Poland. In 2022, MSCI Poland ended the year with a disappointing loss of 26.8%. In 2023, MSCI Poland ended the year in third place with exhilarating total returns of 49.5%. Polish stock markets were depressed in 2022, as were those of other European markets, due to the beginning of the Russo-Ukrainian war and all the profit losses it caused. MSCI Sweden, MSCI Netherlands, MSCI Ireland, and MSCI Austria joined MSCI Poland in the 2022 'Bottom 10' group. All group members had total returns of negative 25% and below *(see Column 1 in the Performance Tables appendix for November 2022 returns).*

   In 2022, the European stock markets reflected the harsh reality of what the war was doing to countries and the risks of what it could do. Many trade links between Russia and the rest of Europe were in danger. In this report, I am focusing only on economic changes and not on the human life losses and suffering that the war, unfortunately, caused in abundance. The biggest economic problem with the war many European countries faced was that they heavily depended on Russian energy. There was a risk that these countries could be in trouble if the energy flows had stopped due to sanctions or other reasons. Even those countries that did not buy much energy from Russia faced the prospect of paying more for energy on global markets at higher prices in the potential absence of Russian energy.

[51] Ibid.
[52] Kylie Madry, Reuters, "Peru Again Cuts Interest Rate as Inflation Eases," December 14, 2024.
[53] Ibid.
[54] Trading Economics, "Peru Interest Rate Chart." Downloaded on January 4, 2024.

Poland faced several country-specific risks. Poland was the seventh most dependent economy on Russian energy, importing 35% of its total energy used in 2020 from Russia. [55] Also, maybe due to many previous wars with its large neighbor and being at the forefront of the current Russo-Ukrainian war due to its long border with Ukraine, Poland has been one of the most vocal critics of Russian aggression. There was a risk that the Russians would just cut the energy flows to Poland, even though it could hurt Russia financially. This risk became a reality in 2023 *(see below for details).* Finally, there was a low but non-zero risk that the Russians could expand the war and invade Poland. Of course, this risk was mitigated by Poland being a NATO member.

From an investment standpoint, these risks made investors cautious about investing in Polish assets and its stock market in 2022. For example, the ‘Market-Capitalization-to-GDP’ ratio of the Polish index was below the long-term (8-year) average for all of 2022 and even lower than the ‘long-term average minus one standard deviation’ level from June 2022 to December 2022. [56] Once again, the latter valuation level showed that the Polish stock market was trading at very low valuations. The Buffett Ratio bottomed on September 30, 2022, at 33.4%, or an astonishing 38.4% below the long-term average value of 54.5%. That day, the Buffett Ratio was also 22.2% below the ‘long-term average minus one standard deviation’ value of 42.9%. A low valuation indeed!

While valuations were very low, Poland still needed a catalyst to turn these low valuations into fuel for the stock market outperformance. Without a catalyst, low equity valuations can stay low for years. Analogously, a car driver with a fuel tank filled to the brim would be unable to start the most powerful vehicle and drive it if its ignition does not work. The catalyst for the Polish stock market came in the form of a diplomatic, business, and engineering feat: Poland managed to wean itself off its multi-decade dependence on Russian energy imports in one year. By June 2022, Poland replaced Russian coal imports with imports from Colombia, Indonesia, and South Africa. [57] By the end of 2022, Poland replaced its natural gas imports from Russia with Liquefied Natural Gas (LNG) imports that it could receive from LNG carrier ships via Polish LNG terminals and natural gas imports via the *‘Baltic Pipe’* pipeline. [58] [59] This gas pipeline transports Norwegian natural gas to Denmark, Germany, and Poland. [60] In the first quarter of 2023, Poland replaced Russian oil imports with oil imports primarily from Saudi Arabia after Russia stopped exporting oil to Poland via the ironically named the *‘Friendship’* pipeline in February 2023. [61] As

[55] Magdalena Maj, Friedrich Ebert Stiftung, “Country Report Poland: Energy Without Russia,” Page 2, July 18, 2023.
[56] Source: Refinitiv. Used the ‘Warsaw General Index’ provided by the Warsaw Stock Exchange because the Refinitiv does not provide market capitalization of the MSCI Poland in local currency.
[57] Magdalena Maj, Friedrich Ebert Stiftung, “Country Report Poland: Energy Without Russia,” Page 2, July 18, 2023.
[58] Ibid.
[59] Wikipedia, “Baltic Pipe.” Downloaded on January 4, 2024.
[60] Ibid.
[61] Magdalena Maj, Friedrich Ebert Stiftung, “Country Report Poland: Energy Without Russia,” Page 2, July 18, 2023.

a reminder, the Russo-Ukrainian war started on February 24, 2022. By February 2023, Poland did not export any energy from Russia.

As a result of Poland's successful transition from Russian energy sources to local energy sources and imports from other countries, the Polish stock market attracted international capital, leading to MSCI Poland achieving total returns of 49.5% in 2023. As Peru, Poland managed to squash the risk and replace it with stability.

Another factor that contributed to the increase in Polish companies' profits was that after the COVID-19 pandemic, many companies started rebalancing their supply chains by moving production from China to countries with lower labor costs in their regions. Poland has benefited from this trend as the European corporations have been moving production there *(see also discussion on China and Mexico directly below).*

A word of caution… Not every stock market in the 'Bottom 10' group one year moves to the 'Top 10' one the following year. As a matter of fact, MSCI Poland became the only index that moved from the 'Bottom 10' group in 2022 to the 'Top 10' one in 2023. The only other stock market that came close to joining MSCI Poland in the feat was MSCI Taiwan. But it missed out on joining the coveted 'Top 10' list by one place, coming to the 2023 finish line in the 11th place with a return of 31.3%. The most common explanation for the fact that not all 'Bottom 10' markets move next year to the 'Top 10' list is that some crises last longer than one year. Also, there must be some catalysts for their resolution.

Without catalysts, low market valuations can stay low for several years. For example, MSCI China had negative returns of 21.8%, which put the index in the 39th place in 2022. In 2023, MSCI China fared even worse in relative terms. The index ended the year among the only eight indices with negative returns, losing 11.0% in 2023 and finishing in 48th place. The negative performance in 2022 and 2023 can be explained by China's heavy-handed Zero COVID policies and the rebalancing of supply chains under which many European and US corporations have been moving their production facilities out of China to other destinations such as other Asian countries, countries with low labor costs in their regions, or the corporations' home countries. As I mentioned while analyzing Rule 3*, "A Country's Stock Market Performance Is Mainly Determined by Developments in the Country or Related to It Rather Than the Country's Membership in an Investment Universe,"* of this report, the corporations started doing this due to the lack of intellectual property protection, increasing labor costs, and deficit of various goods – including all-important medical equipment – during the COVID-19 pandemic. In the Western hemisphere, Mexico has been a significant beneficiary of the rebalancing of the supply chains. Due to the rebalancing, MSCI Mexico ended 2022 in 11th place with a slight loss of 1.6% in 2022 and finished 2023 in the 5th position with a swashbuckling gain of 41.5% in 2023.

Please read about the rebalancing of global supply chains on pages 12-13 of the BBIS report *"To Protect Investment Portfolios from Inflation, We Need to Know Its Roots."* [62] Below is a link to the report:

https://bbistrategies.com/uploads/3/4/5/3/34534346/bbis_-_04-07-22_-_to_protect_investment_portfolios_from_inflation_we_need_to_know_its_roots_-_final.pdf

Also, if you are interested in global supply chain rebalancing, I recommend reading an excellent article, *"Global Supply Chains in the Post-Pandemic World,"* by Willy C. Shih, a Harvard Business School Professor. [63]

Below is a real-life cautionary tale related to the fact that not every single stock market that finished in the 'Bottom 10' group one year would move to the 'Top 10' list next year. Several years ago, at an investment conference, I heard a presentation by the CEO of a firm that automatically invested 35% in the worst-performing stock market of the previous year and 16.25% in the remaining four countries in the 'Bottom 5' group. By the time I learned about the firm, I had done my research and knew that the 'Bottom 5' stock markets would not always become the 'Top 5' markets next year. After the presentation, I tried to find the CEO and warn him about the danger, but I could not find him. I am not sure he would have listened to a competitor's warning even if I managed to talk to him. Later, I learned that the firm went under in 2019, a great year for stocks. The firm was destroyed by 'ugly' comparative returns when it allocated 35% of its portfolio to MSCI Argentina, the last-place finisher in 2018 with a loss of 50.7%. Tragically for the firm, the MSCI Argentina finished 2019 in the last place again with a loss of 20.7%.

8. **Last Year's Winners Sometimes – Not Always – Become Next Year's Losers:** As trees do not grow to the sky, neither do investment valuations. After a stock market has a great run, its valuations become high. Any problem – no matter how small – may lead to a valuation contraction and price decline.

No country index can serve a better example of this rule than MSCI Turkey, the 2022 runaway winner with total returns of a legendary 91.2%. The gap with MSCI Argentina in the second place, which had returns of 'just' 36.2%, was 55.0%. MSCI Turkey was one of just ten stock indices with positive returns in 2022. Things changed for Turkey in 2023, when it took 45th place with a negative performance of 5.3%, becoming one of just eight countries with a negative performance.

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62 62 Vitaly Veksler, Beyond Borders Investment Strategies, "To Protect Investment Portfolios from Inflation, We Need to Know Its Roots," Pages 12-13, April 7, 2022.

63 Willy C. Shih, Harvard Business Review, "Global Supply Chains in the Post-Pandemic World," September – October 2020.

Several factors drove the 2022 performance of MSCI Turkey. While most European countries suffered from the Russo-Ukrainian war, President Recep Tayyip Erdogan, a wily diplomat, found a way for Turkey and its businesses to benefit from it. Under his command, Turkey did not join Western sanctions against Russia. Instead, he said that Turkey would be neutral. [64] Mr. Erdogan and Turkey's neutrality allowed Turkish companies to fill the void left by Western companies that had to leave Russia. [65] At the same time, Turkey continued its military cooperation with Ukraine. Turkish-made Bayraktar TB2 military drones supplied to Ukraine helped the country keep the Russian advance at bay. [66]

President Erdogan's neutrality allowed him to become a facilitator and moderator for negotiations between Russia and Ukraine about potentially ending the war and on the critical 'grain' deal, which allowed Ukraine to export its grain, sunflower oil, and fertilizers without Russian military interference through the Black Sea. [67] [68] Under the agreement, Russia also received the right to export food, fertilizers, and raw materials for the fertilizers. [69] It is hard to overestimate the importance of the deal for commodity markets. The following fact highlights it. Russia's announcement about suspending participation in the deal in October 2022 caused a spike in global wheat prices and raised new concerns over international food shortages. [70]

In November 2022, the Turkish President convinced Russian President Vladimir Putin not to leave the United Nations-brokered deal to ship Ukrainian grain through the Black Sea safely. [71] Apart from other countries, Turkey also benefitted from the deal by securing grain imports from its two largest grain suppliers. In 2021, Turkey imported $1.79 billion of wheat from Russia and $386 billion from Ukraine, making the warring countries the largest and second-largest wheat importers to Turkey. [72] Turkey also continued importing Russian oil and other energy products in 2022 and 2023. In 2023, Turkey and its business saved $2 billion on energy bills and record high shipments of crude and refined products from Russia. [73]

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[64] Fatma Tanis, National Public Radio (NPR), "Turkey Is Friendly with Both Russia and Ukraine. Now It Wants Them to Talk Peace," November 16, 2022.
[65] Ibid.
[66] Ibid.
[67] Ibid.
[68] United Nations Secretary General, "Note to Correspondents on Today's Agreements," July 22, 2022.
[69] Ibid.
[70] Charles Mayness, National Public Radio (NPR), "Russia is Suspending a Ukraine Grain Export Deal That Has Helped Keep Food Prices Down," October 29, 2023.
[71] Fatma Tanis, National Public Radio (NPR), "Russia Rejoins U.N. Deal to Ship Grain from Ukraine, Easing Food Insecurity Concerns," November 2, 2022.
[72] The Observatory of Economic Complexity, "Wheat in Turkey," 2021. Downloaded on January 4, 2024.
[73] WION, "Turkey Saves Billions on Russian Oil Amid Sanctions, Boosting Imports," December 19, 2023.

While President Erdogan has been a maverick in the international arena, he also became a maverick at home, or more like a schemer. In 2021, he decided to try to win the presidential elections in May 2023 by stimulating Turkey's economic growth before the elections at the expense of a high inflation problem, which he simply pushed under the rug. In July 2021, Turkey's inflation was 19.0%. The Turkish interest rate was also 19.0%. Then, when inflation started increasing, Mr. Erdogan proclaimed himself an *"enemy"* of high interest rates instead of allowing the Central Bank of the Republic of Turkey to fight inflation by raising interest rates. [74] [75] Fighting inflation by increasing interest rates is not a new or groundbreaking methodology. It is a standard procedure used by most competent central banks worldwide.

The reason that I said that the goal of Mr. Erdogan's unorthodox economic approach and meddling in the Turkish central bank's affairs was winning the presidential elections was that shortly after winning the election on May 28, 2023, President Erdogan made a U-turn and returned to the use of the economic rules used anywhere around the world. [76] Less than a month into his new term as president, Mr. Erdogan allowed the Turkish central bank, headed by a newly appointed governor, to almost double the interest rate from 8.5% to 15% in June 2023. [77]

While President Erdogan achieved his goal of getting reelected by pushing the high inflation problem under the rug, he also worsened many Turks' lives by allowing inflation to spread as fire and the Turkish Lira, the country's currency, to depreciate dramatically. During less than two years of the unorthodox economic policies, or precisely 22 months from July 2021 to May 2023, the Central Bank of the Republic of Turkey cut Turkey's One-Week Repo Lending Rate from 19% to 8.5%, or by 55.3%. As a result, inflation measured by the Consumer Price Index (CPI) increased by a gut-wrenching 133.4%, destroying the purchasing power of many people's salaries and pensions. For comparison, during the same 22 months from July 2021 to May 2023, the US CPI inflation increased by 11.6%. This inflation level was high for the US but paled in comparison with the one in Turkey. During the same time frame, the Turkish Lira depreciated against the US Dollar by 59.3%, making imported goods much more expensive for the Turkish public.

[74] Reuters, "Erdogan Says He Will Keep Battling Interest Rates, Hitting Lira," November 17, 2021.
[75] Reuters, "Erdogan Sees Swift Steps from New Finance Minister But Says His Own Monetary Views Unchanged," June 14, 2023.
[76] Wikipedia, "2023 Turkish Presidential Election." Downloaded on January 4, 2024.
[77] Natasha Turak, CNBC, "Turkey's Central Bank Hikes Interest Rate to 15% in Dramatic U-turn to Fight Inflation," June 22, 2023.

As a medicine needed against any severe disease may not taste nice, increasing interest rates in the fight against high inflation is not pleasant. While necessary, the measure usually slows economic growth by increasing borrowing costs, leads to lower corporate profits, decreases the number of jobs in the economy, and reduces stock prices. But as with any medicine, it is more effective if a person takes it earlier during the disease. I firmly believe that inflation would have been much lower if President Erdogan allowed the Central Bank of the Republic of Turkey to increase interest rates instead of cutting them in July 2021. As any severe disease left untreated causes damage to the human body, high inflation has been hurting both the Turkish economy – especially importers of foreign goods and services – and the country's citizens. Also, it is tough to defeat the disease after it takes root. Even after increasing interest rates by an unbelievable 400% in just seven months, from 8.5% in May 2023 to 42.5% in December 2023, the Central Bank of the Republic of Turkey has not been able to lower persistently high inflation. Annual inflation increased from 39.6% in May 2023 to 64.8% in December 2023. [78] Not surprisingly, MSCI Turkey did not do well in 2023.

9. **The "Sell in May and Go Away" Rule Has Worked in the Global Context – With One Exception – Over Longer Periods, but May Not Work Every Year:** In 2023, November became the best month, with all 50 indices having positive performance. While seeing such a great performance was a pleasant surprise, it was not a surprise that November became a strong month for stocks. As investors prepare for the Santa Claus rally that often takes place in December and January, they allocate money to the markets starting in October, after historically weaker August and September. These allocations typically lead to a good November performance. I discussed monthly seasonality in detail in a report titled *"A Truly Global Stock Market Rally in November 2023".* [79] Below is the link to the report:

   https://bbistrategies.com/our-publications--events/a-truly-global-stock-market-rally-in-november-2023

   Overall, in terms of monthly seasonality, the rule "Sell in May and Go Away" seemed to work not only for the US stocks but for all 50 stock market indices in the BBIS universe over the last ten years, from 2014 to 2023. According to the rule, investors can sell their equities on May 1, put the money into cash, and reinvest it back into stocks right after Halloween on October 30. The aggregates of the average stock market returns during six months that the rule recommends not to be invested in stock markets – from May 1 to October 30 – were negative 1.4% *(see Chart 1 for the monthly returns of 50 country indices in*

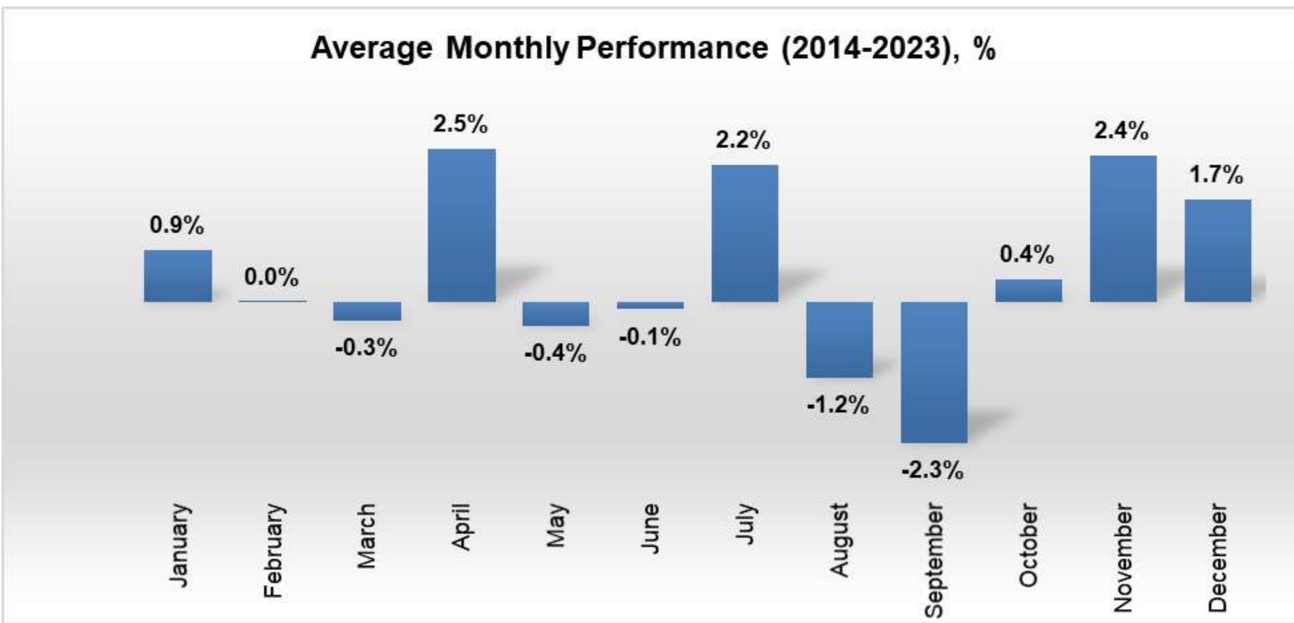
[78] Trading Economics, "Turkish Interest Rates, January 3, 2024.
[79] Vitaly Veksler, Beyond Borders Investment Strategies, "A Truly Global Stock Market Rally in November 2023," December 4, 2023.

the BBIS universe over the last ten years). [80] [81] For comparison, the aggregates of the average returns for the period the rule implicitly recommends investors to keep their funds invested in stock markets – from November 1 to April 30 – were 7.3%. A large difference!

The rule also worked for a longer period. During the first 24 years of the 21st century – from 2000 to 2023, the aggregates of the average returns from May 1 to October 30 were 4.9%. These returns were overshadowed by the aggregates for the average returns from November 1 to April 30 – 13.5% (*see Chart 2 for the monthly returns of 50 country indices in the BBIS universe during the first 24 years of the 21st century)*.

There is one exception to the rule. If investors had followed this rule, they would have avoided investing during July, with its average return of 2.2% during the last ten years and 2.4% during the 21st century. During both periods, the month of July returns were the third highest.

Chart 1. Average Monthly Performance of Country Indices in the BBIS Universe, 2014-2023, %.



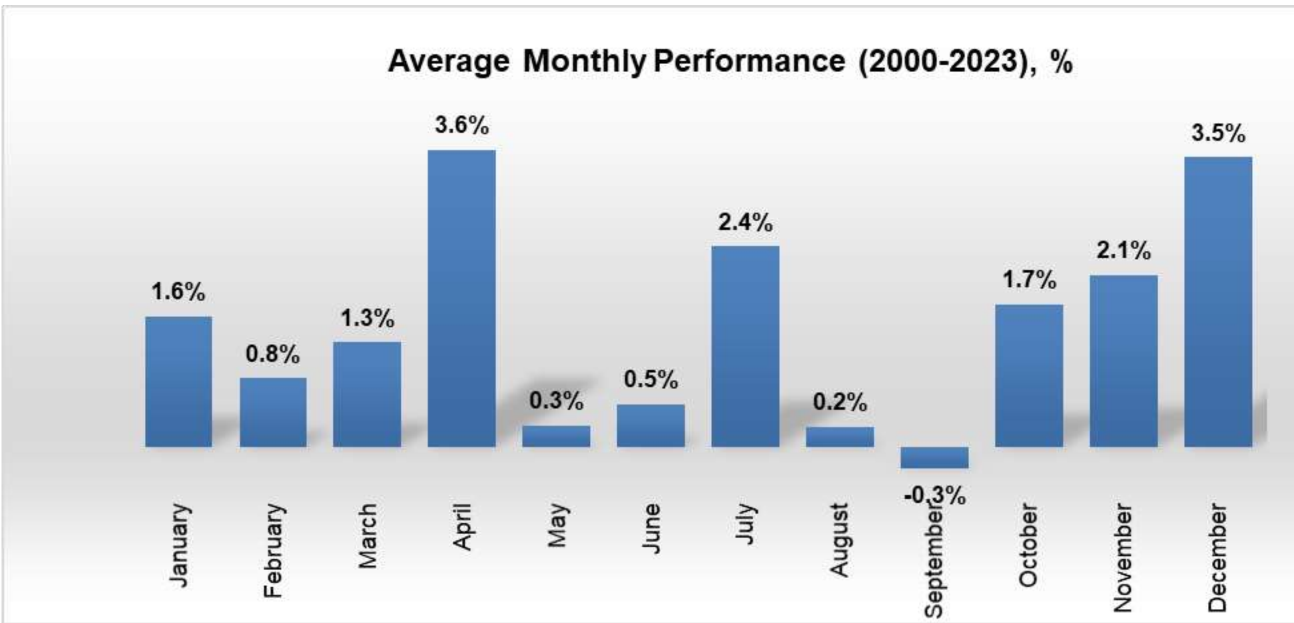
Sources: Refinitiv, Beyond Borders Investment Strategies.

80 The monthly average returns for each month were calculated as arithmetic averages of all ten monthly returns over ten years.

81 The aggregates for six-month averages over the last ten years are calculated as (1+Average May Return)*(1+Average June Return)*(1+Average July Return)*(1+Average August Return)*(1+Average September Return)*(1+Average October Return)-1. The same calculation was performed to calculate the aggregates of the six month averages for November to April period.

An important caveat… As with stock markets of Emerging Markets, some of which can end a year at both ends of the performance table and, therefore, should be selected carefully for inclusion into an investment portfolio, the rule on the monthly stock market performance variations should not be used blindly. During some months, stock markets' performance can be very different from the averages for these months due to events that happen during those specific months, such as epidemics, wars, global or regional recessions, etc. For example, while March had an average performance of 1.3% during this 21st century, in March 2020, the BBIS stock indices – on average – dropped by 17.3% due to the onset of the COVID-19 pandemic (*see Chart 2).* The March 2020 performance was so bad that it contributed to the average March performance of 1.3% during the 21st century, decreasing to a negative performance of 0.3% during the last ten years.

Chart 2. Average Monthly Performance of Country Indices in the BBIS Universe, 2000-2023, %.



Sources: Refinitiv, Beyond Borders Investment Strategies.

10. **Investing in a Country at War Can Earn Strong Returns if the Country is Well-Managed:** It is counterintuitive, but investors can make money by investing in countries at war. Often, funds flow out of rather than in countries at war. After Russia was delisted for its attack on Ukraine, Israel remains the only country in the BBIS universe that had been in a state of war in 2023. After the barbaric attack of Hamas terrorists against Israel on October 7 and before Israel's military response to the aggression, the MSCI

Israel Index declined significantly. [82] The index fell by 14.6% and reached its nadir on October 27, 2023, before recovering slightly by the end of the day on October 30. The total decline of the index during October was 12.6%, putting Israel in the 48th place for the month. After this dramatic decline, MSCI Israel dropped to 42nd place in the year-to-date ranking as of the end of October with total returns of negative 10.7%. At the end of September, before the Hamas attack, MSCI Israel was in 31st place with a return of 2.1% on a year-to-date basis.

However, MSCI Israel performed admirably in November and December of 2023. In November, the first full month after the October 7 attack, its total returns were 16.3%, the fourth-highest of all 50 indices *(see Column 2 in the Performance Tables appendix).* It is not a small feat for a country still fighting a war. An investor who took a two-month nap and did not realize that Israel was at war would not have understood it from looking at the Performance Tables. The country's year-to-date returns as of the end of November were 3.8%, putting MSCI Israel in the 30th position, or one ahead of the one the index occupied at the end of September *(see Column 3 in the Performance Tables appendix)*. MSCI Israel had another good month in December, finishing in 8th position with total returns of 7.6% *(see Column 4 in the Performance Tables)*.

MSCI Israel ended 2023 in the 28th position with a total return of 11.7% *(see Column 5 in the Performance Tables appendix for the 2023 performance)*. The index outperformed the average expected returns of the largest US state pension plans despite Israel being at war. As mentioned, according to the National Association of State Retirement Administrators, the average investment return assumption in 2023 was 6.91% as of August 2023, the latest period for which the projection was available. [83]

If an investor invested in MSCI Israel on October 9, the investor would have realized returns of 10.0% by the end of 2023. But if the investor were lucky and managed to invest when the market bottomed on October 27, the investor would have realized a stunning return of 28.7% in just over two months.

Several factors explained the resiliency of the Israeli stock market. After the dramatic price decline of MSCI Israel after the Hamas attack, investors recognized that Israeli stocks were trading at low valuations and that they could not buy them very often at these valuation levels *(see the valuation discussion below*

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[82] Discussion in this part is based on the following report: Vitaly Veksler, Beyond Borders Investment Strategies, "A Truly Global Stock Market Rally in November 2023," Pages 8-10, December 4, 2023. Below is a link to the report:

https://bbistrategies.com/our-publications--events/a-truly-global-stock-market-rally-in-november-2023

[83] National Association of State Retirement Administrators, Latest Investment Return Assumptions, Chart: Historical Change in Median and Average Investment Return Assumption, August 2023.

in this section). Some of the world's best investors recognized Israel's attractiveness as an investment destination. For example, Warren Buffett said, *"Israel is the leading, largest and most promising investment hub outside of the United States.*" [84] Warren Buffett has not named a large country with hundreds or at least dozens of millions of citizens the *"world's second most promising investment hub"* after the United States, the superpower with a population of 331.9 million. [85] Instead, he named the country with a total population of less than 9.4 million people, which lives under the constant threat of a military attack by some of its neighbors. [86]

Please read below a short excerpt from my report *"Helping the Israeli Economy Recover by Investing in Single-Country Equity ETFs,"* published on October 31, 2023, in which I discussed the decline of the valuation levels and what their expansion would mean for investment returns. [87] By chance, I wrote the report using the data as of October 27 – three weeks after the October 7 attack – when the MSCI Israel Index's price reached its lowest point. *To read the full report, please use the link below.*

https://bbistrategies.com/our-publications--events/helping-the-israeli-economy-recover-by-investing-in-single-country-equity-etfs

"On October 27, 2023, the Price-to-Earnings (Next 12 Months) ratio for the MSCI Israel Index dropped even further – to 8.3, or 25.2% below the 5-year average. On October 27, 2023, the Price-to-Sales (Next 12 Months) ratio dropped to 1.9, or 17.6% below the 5-year average. [88]

Investors would realize attractive returns if the current valuations were to expand to the 5-year average valuation levels. If the P/E ratio grew from 8.3 (October 27) to 11.1 (5-year average), the total returns would be 33.8%. If the P/S ratio were to expand from 1.9 to 2.3, the total returns would be 21.4%. The average of the total returns earned due to P/E and P/S ratio expansions would be 27.6%." [89] [90]

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[84] ETF Managers Group, BlueStar Israel Technology ETF, Fact Sheet, June 30, 2023.
[85] Google Search, "US Population (2021)." Downloaded on October 30, 2023.
[86] Google Search, "Israel Population (2021." Downloaded on October 30, 2023.
[87] Vitaly Veksler, Beyond Borders Investment Strategies, "Helping the Israeli Economy Recover by Investing in Single-Country Equity ETFs," October 31, 2023.
[88] Ibid. Pages 21-22.
[89] Ibid. Pages 21-22.
[90] I usually use the eight-year average 'Market-Cap-to-GDP' as the primary ratio for assessing stock markets valuations. However, in the case of the war in Israel, I used the 'Price-to-Earnings' and 'Price-to-Book' ratios because GDP levels may not be updated by economists promptly or precisely. Also, since most wars that Israel fought recently were, thankfully, not that long, I used divergences from the average values for shorter historical periods – five years – to determine whether the MSCI Israel Index was undervalued.

While I predicted that the MSCI Israel's price would increase by 27.6% when the valuation levels return to the long-term averages, the index's price increased by a very close percentage of 28.7% by the end of 2023.

In part, the increase in stock market valuation was caused by the competent response of the Israeli central bank to the October attack. The Israeli central bank – the Bank of Israel – did an excellent job limiting the decline of the country's currency, the Israeli Shekel. The relatively minor initial depreciation of the currency of a country that has been at war can be explained by the prompt and decisive financial response of the Bank of Israel to the heinous Hamas attack. After the attack on the morning of Saturday, October 7, the Bank of Israel said on Monday, October 9, that it would sell up to $30 billion of foreign currency in the Bank's first-ever sale of foreign exchange and provide additional liquidity of up to $15 billion through swap mechanisms in the market to maintain the Shekel's stability." [91]

The maximum depreciation of the Israeli Shekel versus the US Dollar reached only 5.4% on October 26, 2023. While one US Dollar (USD) was worth 3.86 Shekels on October 6, 2023 – the day before the terrorist invasion in Israel – it was worth 4.08 Shekels on October 26, 2023. The Shekel's depreciation reached 4.6% at the end of October (4.05 Shekels per USD). Despite Israel being at war, the Shekel appreciated against the USD by a dramatic 8.6% in November. On November 30, one US Dollar was worth just 3.72 Shekels. It meant that the Shekel actually appreciated against the USD since the October 7 attack by 3.6%. The Shekel further appreciated against the USD during December 2023. On December 31, one US Dollar was worth 3.60 Shekels, an appreciation of 7.2% compared to the October 6, 2023 level.

I hope you will find all or some rules I derived from the 2023 country stock market performance valuable in your investment activities. Please let me know if you have any questions about BBIS, the firm's investment strategies, or if you would like to invest with the firm. Thank you.

Best regards,
Vitaly

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[91] Steven Scheer and Ari Rabinovitch, Reuters, "Bank of Israel to Sell $30 Billion of Forex to Stabilize Shekel Amid Gaza War," October 9, 2023.

PERFORMANCE TABLES

TOTAL RETURNS = PRICE APPRECIATION + DIVIDEND YIELD

1 — Year to Date 12/30/2022

1	Turkey	91.2%
2	Argentina	36.2%
3	Chile	22.6%
4	Brazil	14.6%
5	Kuwait	10.1%
6	Peru	9.4%
7	Thailand	5.2%
8	Indonesia	4.2%
9	Portugal	1.1%
10	Greece	0.4%
11	Mexico	-1.6%
12	Nigeria	-2.3%
13	South Africa	-3.0%
14	Denmark	-4.3%
15	Hong Kong	-4.7%
16	United Kingdom	-4.8%
17	Saudi Arabia	-5.0%
18	Colombia	-5.0%
19	Australia	-5.1%
20	Norway	-5.7%
21	Malaysia	-5.8%
22	UAE	-6.2%
23	Spain	-6.8%
24	Qatar	-6.9%
25	India	-7.5%
26	Singapore	-11.0%
27	Belgium	-11.6%
28	Canada	-12.2%
29	France	-12.7%
30	New Zealand	-13.3%
31	Italy	-13.4%
32	Philippines	-13.5%
33	Finland	-14.0%
34	Japan	-16.3%
35	Switzerland	-17.6%
36	USA (S&P 500)	-18.1%
37	USA (MSCI)	-19.5%
38	Germany	-21.6%
39	China	-21.8%
40	Egypt	-22.5%
41	Austria	-25.6%
42	Ireland	-25.9%
43	Israel	-26.2%
44	Poland	-26.8%
45	Netherlands	-27.5%
46	Sweden	-27.6%
47	South Korea	-28.9%
48	Taiwan	-29.1%
49	Pakistan	-36.3%
50	Vietnam	-43.9%
51	Russia	-100.0%
	Average	-8.3%

2 — November 11/30/2023

1	Argentina	42.4%
2	Egypt	22.5%
3	Nigeria	17.8%
4	Israel	16.3%
5	South Korea	16.2%
6	Mexico	15.6%
7	Sweden	15.1%
8	Pakistan	15.1%
9	Spain	15.0%
10	New Zealand	14.8%
11	Brazil	14.3%
12	Netherlands	13.4%
13	Germany	13.3%
14	Taiwan	13.2%
15	Vietnam	12.2%
16	Greece	11.2%
17	Italy	11.0%
18	Chile	10.8%
19	Canada	10.5%
20	Australia	9.9%
21	Poland	9.6%
22	France	9.6%
23	USA (MSCI)	9.4%
24	Portugal	9.3%
25	Switzerland	9.2%
26	USA (S&P 500)	9.1%
27	Austria	9.0%
28	Finland	8.6%
29	Japan	8.6%
30	Philippines	8.2%
31	Colombia	8.1%
32	Turkey	7.8%
33	Denmark	7.8%
34	South Africa	7.7%
35	Belgium	7.3%
36	India	6.7%
37	Indonesia	6.7%
38	United Kingdom	6.7%
39	Ireland	6.5%
40	UAE	6.3%
41	Qatar	5.8%
42	Saudi Arabia	4.8%
43	Norway	4.4%
44	Peru	3.2%
45	Malaysia	3.0%
46	China	2.5%
47	Singapore	2.2%
48	Kuwait	1.9%
49	Thailand	1.3%
50	Hong Kong	0.3%
	Average	10.1%

3 — Year to Date 11/30/2023

1	Argentina	58.7%
2	Greece	48.5%
3	Egypt	48.2%
4	Poland	38.0%
5	Italy	34.6%
6	Spain	30.3%
7	Mexico	29.3%
8	Denmark	27.3%
9	Taiwan	24.4%
10	Brazil	24.3%
11	USA (MSCI)	21.4%
12	USA (S&P 500)	20.8%
13	Germany	18.7%
14	Netherlands	17.9%
15	Austria	17.8%
16	Ireland	17.2%
17	France	16.8%
18	South Korea	15.8%
19	Japan	15.7%
20	India	12.2%
21	Sweden	11.6%
22	Switzerland	10.6%
23	Peru	9.8%
24	United Kingdom	9.2%
25	Canada	9.0%
26	Pakistan	5.3%
27	Indonesia	4.0%
28	Australia	3.9%
29	Belgium	3.8%
30	Israel	3.8%
31	Portugal	3.7%
32	Saudi Arabia	3.6%
33	Norway	3.4%
34	Vietnam	2.2%
35	Turkey	1.1%
36	Colombia	0.6%
37	New Zealand	0.5%
38	Chile	0.3%
39	Philippines	-0.1%
40	UAE	-0.3%
41	Singapore	-1.7%
42	Qatar	-3.5%
43	South Africa	-3.9%
44	Malaysia	-5.0%
45	Finland	-8.0%
46	China	-8.8%
47	Kuwait	-9.9%
48	Nigeria	-14.9%
49	Thailand	-15.3%
50	Hong Kong	-19.0%
	Average	10.7%

4 — December 12/29/2023

1	Peru	24.5%
2	Colombia	14.3%
3	Sweden	12.1%
4	Australia	10.6%
5	Mexico	9.5%
6	Poland	8.3%
7	India	8.1%
8	Israel	7.6%
9	Brazil	7.3%
10	Singapore	7.2%
11	Netherlands	7.0%
12	Saudi Arabia	7.0%
13	Canada	6.8%
14	South Korea	6.7%
15	Ireland	6.5%
16	South Africa	6.5%
17	New Zealand	6.1%
18	Chile	6.0%
19	Thailand	5.9%
20	Switzerland	5.7%
21	Taiwan	5.5%
22	Hong Kong	5.3%
23	Qatar	5.2%
24	USA (MSCI)	4.7%
25	France	4.7%
26	Argentina	4.6%
27	USA (S&P 500)	4.5%
28	Portugal	4.5%
29	United Kingdom	4.5%
30	Norway	4.5%
31	Philippines	4.4%
32	Germany	4.4%
33	Japan	4.4%
34	Finland	4.2%
35	Indonesia	4.2%
36	Denmark	3.8%
37	Vietnam	3.6%
38	Pakistan	3.6%
39	Italy	3.1%
40	Belgium	2.8%
41	Kuwait	2.7%
42	Spain	1.9%
43	Malaysia	1.6%
44	Austria	1.4%
45	UAE	0.9%
46	Greece	0.8%
47	China	-2.4%
48	Egypt	-4.3%
49	Turkey	-6.3%
50	Nigeria	-8.4%
	Average	5.0%

5 — Year to Date 12/29/2023

1	Argentina	66.1%
2	Greece	49.7%
3	Poland	49.5%
4	Egypt	41.8%
5	Mexico	41.5%
6	Italy	38.8%
7	Peru	36.6%
8	Brazil	33.4%
9	Spain	32.8%
10	Denmark	32.1%
11	Taiwan	31.3%
12	USA (MSCI)	27.1%
13	USA (S&P 500)	26.3%
14	Netherlands	26.2%
15	Sweden	25.2%
16	Ireland	24.8%
17	Germany	24.0%
18	South Korea	23.6%
19	France	22.3%
20	India	21.3%
21	Japan	20.8%
22	Austria	19.5%
23	Switzerland	16.9%
24	Canada	16.4%
25	Colombia	15.0%
26	Australia	14.9%
27	United Kingdom	14.1%
28	Israel	11.7%
29	Saudi Arabia	10.9%
30	Pakistan	9.1%
31	Portugal	8.4%
32	Indonesia	8.4%
33	Norway	8.0%
34	Belgium	6.7%
35	New Zealand	6.6%
36	Chile	6.3%
37	Vietnam	5.9%
38	Singapore	5.3%
39	Philippines	4.3%
40	South Africa	2.3%
41	Qatar	1.6%
42	UAE	0.6%
43	Malaysia	-3.5%
44	Finland	-4.1%
45	Turkey	-5.3%
46	Kuwait	-7.5%
47	Thailand	-10.3%
48	China	-11.0%
49	Hong Kong	-14.8%
50	Nigeria	-22.1%
	Average	16.2%

Disclosures: Sources: Refinitiv, Beyond Borders Investment Strategies (BBIS). Used MSCI country index performance for 48 countries - all but the US. The US performance is represented by MSCI USA and S&P 500 indices. All performance series measure the total returns of US Dollar-denominated indices.

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