THE LAST TWO DAYS OF 2022: A RUNAWAY WINNER, A DELISTED LOSER, AND SOME QUESTIONS

If you are like me and love investing, analyzing countries, and competing, you may enjoy exploring the 2022 Performance Tables for 50 country stock market indices at the end of this report. I spend hours studying the past and trying to predict the future performance of the indices. These tables are some of the helpful tools I use in the analysis.

To make the tables more interesting initially for my kids but later for all investors at Beyond Borders Investment Strategies, I have been comparing the competition among country indices to an international cycling race with 12 stages (months) and 52 intermediate finishes (weeks). Games and competitions make even boring activities exciting, let alone global investing, such an enjoyable activity you can devote hours to it without any additional help. But for some people outside of the field, competitions make investing more enjoyable.

At this point, the cyclists are beyond the last intermediate finish and rush to the finish of the last (December) stage and the annual finish of the whole 2022 competition. As of today, there are only two trading days left. There is a clear winner of the competition. There is a definite loser. But there are still some questions about the performance of some competitors between them.

The Runaway Winner: We know the winner of the 2022 competition. The MSCI Turkey index is in the first place, with a total return of 86.3% *(see the right column in the Performance Tables section below).* Its return is a staggering 52.8% above the MSCI Argentina in second place. The MSCI Argentina index has a banner year of its own, with a total return of 33.6%. Very high inflation in Turkey – an 84.4% annual increase in the November 2022 CPI inflation – created a demand for local business shares from local investors who have been trying to earn returns that would be higher than inflation. [1] Turkey's Central Bank, at the behest of the country's president Recep Erdogan, uses an unorthodox strategy of cutting interest rates as high inflation rages. The low interest rates used as a basis for the discount rates for valuing stocks result in higher stock valuations than they would have been if Turkey increased interest rates to fight inflation as other countries did. Turkey cannot indefinitely use the policy of cutting interest rates in the face of high inflation. Turkish Lira, a victim of this unorthodox strategy, is down vs. the US

[1] Refinitiv is the source of the inflation data.

Dollar by 29.0% in 2022 and a staggering 55.6% since September 2021, when the policy was introduced. [2]

That is how I explained the MSCI Turkey index's phenomenal performance in my LinkedIn post on November 19, 2022. [3] *"For investors who build and run portfolios from single-country ETFs, such as us at Beyond Borders Investment Strategies, LLC (BBIS), it is crucial to see the context of a country's performance. Let's look at the 2022 leader: Turkey. As of November 18, 2022, the MSCI Turkey index led the field by a wide margin. Let me add two contextual facts that make this lead less surprising. First, in 2021, the MSCI Turkey index was the worst performer in the 50-country-index universe we use at BBIS. Often - but not always – the country stock markets that had the worst performance one year may soar the next as their valuations rebound. The valuation rebound can explain a large part of the Turkish ETF's 2022 lead.*

The valuation rebound of the Turkish stock index – and consequently ETFs benchmarked against it – is very strong in 2022, not only because the index was the last-place finisher the previous year. The rebound intensity of the Turkish stock market in 2022 can be attributed to the country's highly unusual macroeconomic policy. The country's inflation reached 85.5% in October, while the Central Bank cut the interest rates to 10.5% the same month. The combination of the super high inflation and relatively low interest rate is beneficial for stocks, at least for relatively short periods.

Let me explain it using the Discounted Cash Flows (DCF) model employed by investors to determine stock price values. The model can be described as a fraction with estimated future free cash flows to equity holders in the numerator and the required return on equity in the denominator. Turkish companies' free cash flows are inflated by about 85.5%. At the same time, these cash flows' values are discounted by much lower required rates of returns for companies, with the rates based on the country's interest rate (10.5%). Usually, an individual company's required rate of return is higher than the economy's interest rate due to the company's riskiness measured by its equity risk premium and its equity's volatility vs. the market.

Let's say an all-in required rate used to discount free cash flows for a Turkish company is 20%. But, once

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[2] Refinitiv is the source of both time series.

[3] Vitaly Veksler, Beyond Borders Investment Strategies, "Turkey is a Surprising Leader of the 2022 Global Stock Market Competition," November 19, 2022. Below is a link to the post: https://www.linkedin.com/posts/veksler_equity-etf-urkey-activity-7001234751504154624-KUzP?utm_source=share&utm_medium=member_desktop

again, the company's free cash flows are inflated by 85.5%. This imbalance leads to a rapid increase in valuations.

Turkey's President Erdogan has publicly announced himself as "an enemy of interest" and believes that high rates lead to high inflation rather than slow it. This belief is contrary to mainstream economic theory. However, in some countries, the president's opinion is more important than any theories and knowledge of investors and economists, or anything else for that matter. The problem with high inflation and low interest rate is that the country's currency depreciates. Turkey started cutting rates in September 2021. From the end of August 2021 until November 18, 2022, in less than 15 months, the Turkish Lira depreciated versus the US Dollar by a staggering 55.3%. It depreciated by 28.7% just in 2022.

In my opinion, the strategy of cutting rates in the face of increasing inflation is not economically sustainable and may potentially end after the presidential elections in June 2023…"

The Delisted Loser: The MSCI Russia index will finish 2022 in 50th place with a total loss of 100%. The MSCI Russia index was removed from the MSCI, FTSE, and other index providers' investable universes due to the economic sanctions against Russia imposed because of Russia's aggression against Ukraine. [4] As a result, most Russian ETFs benchmarked against the MSCI and FTSE indices were delisted.

Some Remaining Questions: A person can ask an infinite number of questions by looking at the Performance Tables at the end of the report. Below are just five of them. These questions are not of a strategic nature – addressing long-term performance trends - but more of a tactical one. They focus on the stock market performance during the last two trading days of the year.

1. Will indices of only nine countries have positive returns at the end of 2022? Or will stock indices of some of the 15 country indices with single-digit returns – from MSCI Greece in the 10th place with a return of -0.6% to MSCI India in the 24th place with returns of -7.6% – manage to achieve positive returns?

[4] MSCI, "MSCI to Reclassify the MSCI Russia Indexes from Emerging Markets to Standalone Markets Status," March 2, 2022.

2. Will the MSCI Portugal index, which is currently in the 9th place with total returns of 1.1%, be the best-performing developed market country's index in 2022? Or will the MSCI indices of the UK, Australia, Denmark, or Norway surpass it at the finish line?

3. At this time, MSCI China's performance in 2022 is almost identical to the index's performance in 2021: -21.5% in 2022 vs. -21.6% in 2021. Will the index perform so well in the last two days of the year that its performance would be at least 5% better in 2022 compared to the 2021 performance? Will it decline by more than 5%? Or will it stay roughly at the same level as in 2021?

4. At this time, among the remaining 49 competitors, the 2022 Bottom Ten Performers include five developed countries (Austria, Ireland, Israel, Sweden, and the Netherlands) and five emerging/frontier markets (South Korea, Poland, Taiwan, Pakistan, and Vietnam) in this order. The five developed markets lead the five emerging/frontier markets. Will indices of some of the emerging/frontier markets manage to surpass their developed counterparts? For example, MSCI Netherlands (#44) and MSCI South Korea (#45) have an identical return with one decimal: -27.6%. Even with two decimals, the indices returns are almost identical: MSCI Netherlands: -27.63% and MSCI South Korea: -27.64%.

5. There is a big difference of 4.0% in the performance of the worst-performing index with single-digit negative returns (MSCI India in the 24th place with total returns of -7.6%) and the best-performing index with double-digit negative returns (MSCI Singapore in the 25th place with total returns of -11.5%)? Will some indices with double-digit negative returns perform well at the very end of the annual competition and end the year with negative but single-digit returns?

Please let me know if you have any questions about BBIS or the firm's investment strategies. Please also do not hesitate to contact me if you would like to receive our reports or invest with BBIS. Thank you.

Have a Happy New Year!

Best regards,
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THE 2022 PERFORMANCE TABLES

TOTAL RETURNS = PRICE APPRECIATION + DIVIDEND YIELD

	Year to Date 12/31/2021			Month to Date 12/28/2022			Week 12/28/2022			Year to Date 12/28/2022	
1	UAE	50.2%	1	Argentina	10.4%	1	Argentina	6.3%	1	Turkey	86.3%
2	Austria	42.3%	2	Hong Kong	8.9%	2	Pakistan	3.2%	2	Argentina	33.6%
3	Saudi Arabia	37.9%	3	Colombia	6.4%	3	China	2.9%	3	Chile	19.9%
4	USA (S&P 500)	28.7%	4	Denmark	5.9%	4	Hong Kong	2.7%	4	Brazil	15.4%
5	Netherlands	27.9%	5	China	5.5%	5	New Zealand	2.7%	5	Peru	9.4%
6	USA (MSCI)	27.0%	6	Turkey	5.3%	6	Thailand	2.4%	6	Thailand	3.6%
7	Canada	26.9%	7	Poland	5.3%	7	Saudi Arabia	2.3%	7	Indonesia	3.1%
8	Taiwan	26.8%	8	Egypt	4.2%	8	Malaysia	1.7%	8	Mexico	1.2%
9	India	26.7%	9	Portugal	4.0%	9	Brazil	1.3%	9	Portugal	1.1%
10	Vietnam	24.8%	10	Greece	3.7%	10	Austria	0.7%	10	Greece	-0.6%
11	Sweden	23.5%	11	Belgium	3.3%	11	Denmark	0.6%	11	South Africa	-2.1%
12	Norway	23.4%	12	New Zealand	3.3%	12	South Korea	0.5%	12	Nigeria	-3.6%
13	Mexico	22.9%	13	Spain	2.2%	13	South Africa	0.5%	13	Hong Kong	-4.0%
14	Argentina	20.9%	14	Thailand	2.2%	14	Australia	0.4%	14	United Kingdom	-4.2%
15	France	20.6%	15	Nigeria	1.8%	15	Colombia	0.4%	15	UAE	-4.7%
16	Switzerland	20.3%	16	Ireland	1.3%	16	Nigeria	0.3%	16	Australia	-4.8%
17	Russia	20.0%	17	Finland	0.7%	17	Greece	0.0%	17	Saudi Arabia	-4.9%
18	Denmark	19.5%	18	Austria	0.4%	18	Mexico	-0.1%	18	Denmark	-5.3%
19	United Kingdom	18.5%	19	Malaysia	0.3%	19	Singapore	-0.1%	19	Norway	-5.8%
20	Italy	16.1%	20	United Kingdom	0.3%	20	Norway	-0.4%	20	Qatar	-5.9%
21	Israel	15.6%	21	France	0.0%	21	Portugal	-0.4%	21	Colombia	-6.0%
22	Qatar	15.2%	22	Sweden	-0.2%	22	United Kingdom	-0.5%	22	Spain	-7.0%
23	Finland	10.1%	23	Italy	-0.2%	23	Switzerland	-0.5%	23	Malaysia	-7.1%
24	Australia	9.6%	24	Switzerland	-0.3%	24	Spain	-0.5%	24	India	-7.6%
25	Poland	8.9%	25	Germany	-0.5%	25	Ireland	-0.7%	25	Singapore	-11.5%
26	Ireland	8.8%	26	Japan	-0.5%	26	Vietnam	-0.7%	26	Belgium	-11.7%
27	Greece	8.2%	27	Singapore	-1.5%	27	UAE	-0.7%	27	New Zealand	-12.4%
28	Egypt	7.6%	28	Norway	-1.6%	28	India	-0.7%	28	France	-12.6%
29	Germany	5.9%	29	Australia	-1.6%	29	Taiwan	-0.8%	29	Canada	-12.9%
30	Singapore	5.7%	30	Brazil	-2.2%	30	Finland	-0.8%	30	Italy	-13.6%
31	Nigeria	4.3%	31	Netherlands	-2.7%	31	France	-0.9%	31	Finland	-13.7%
32	South Africa	4.3%	32	South Africa	-3.0%	32	Sweden	-0.9%	32	Philippines	-14.4%
33	Belgium	2.8%	33	Philippines	-3.0%	33	Peru	-1.0%	33	Japan	-17.0%
34	Indonesia	2.6%	34	South Korea	-3.1%	34	Italy	-1.0%	34	Switzerland	-17.3%
35	Japan	2.0%	35	Saudi Arabia	-3.3%	35	Belgium	-1.1%	35	USA (S&P 500)	-19.3%
36	Spain	1.7%	36	Vietnam	-3.9%	36	Japan	-1.1%	36	USA (MSCI)	-20.7%
37	Portugal	1.1%	37	Mexico	-4.0%	37	Canada	-1.1%	37	China	-21.5%
38	Thailand	-1.1%	38	Chile	-4.0%	38	Germany	-1.2%	38	Germany	-22.1%
39	Philippines	-3.4%	39	Pakistan	-4.2%	39	Philippines	-1.4%	39	Egypt	-23.0%
40	Hong Kong	-3.9%	40	UAE	-4.6%	40	Qatar	-1.4%	40	Austria	-25.5%
41	Malaysia	-6.2%	41	Taiwan	-5.0%	41	Chile	-1.5%	41	Ireland	-25.6%
42	South Korea	-7.9%	42	Indonesia	-5.5%	42	Egypt	-1.5%	42	Israel	-27.2%
43	Colombia	-13.7%	43	India	-5.6%	43	Turkey	-1.7%	43	Sweden	-27.5%
44	Chile	-15.1%	44	Canada	-5.6%	44	Indonesia	-1.7%	44	Netherlands	-27.6%
45	New Zealand	-16.8%	45	Israel	-6.4%	45	Poland	-2.0%	45	South Korea	-27.6%
46	Brazil	-17.2%	46	USA (S&P 500)	-7.2%	46	USA (S&P 500)	-2.4%	46	Poland	-28.2%
47	Peru	-19.9%	47	USA (MSCI)	-7.3%	47	USA (MSCI)	-2.5%	47	Taiwan	-28.8%
48	China	-21.6%	48	Peru	-8.3%	48	Israel	-2.9%	48	Pakistan	-38.9%
49	Pakistan	-24.0%	49	Qatar	-9.9%	49	Netherlands	-3.6%	49	Vietnam	-43.4%
50	Turkey	-27.8%	50	Russia	0.0%	50	Russia	0.0%	50	Russia	-100.0%

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 total returns of US Dollar-denominated indices.

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