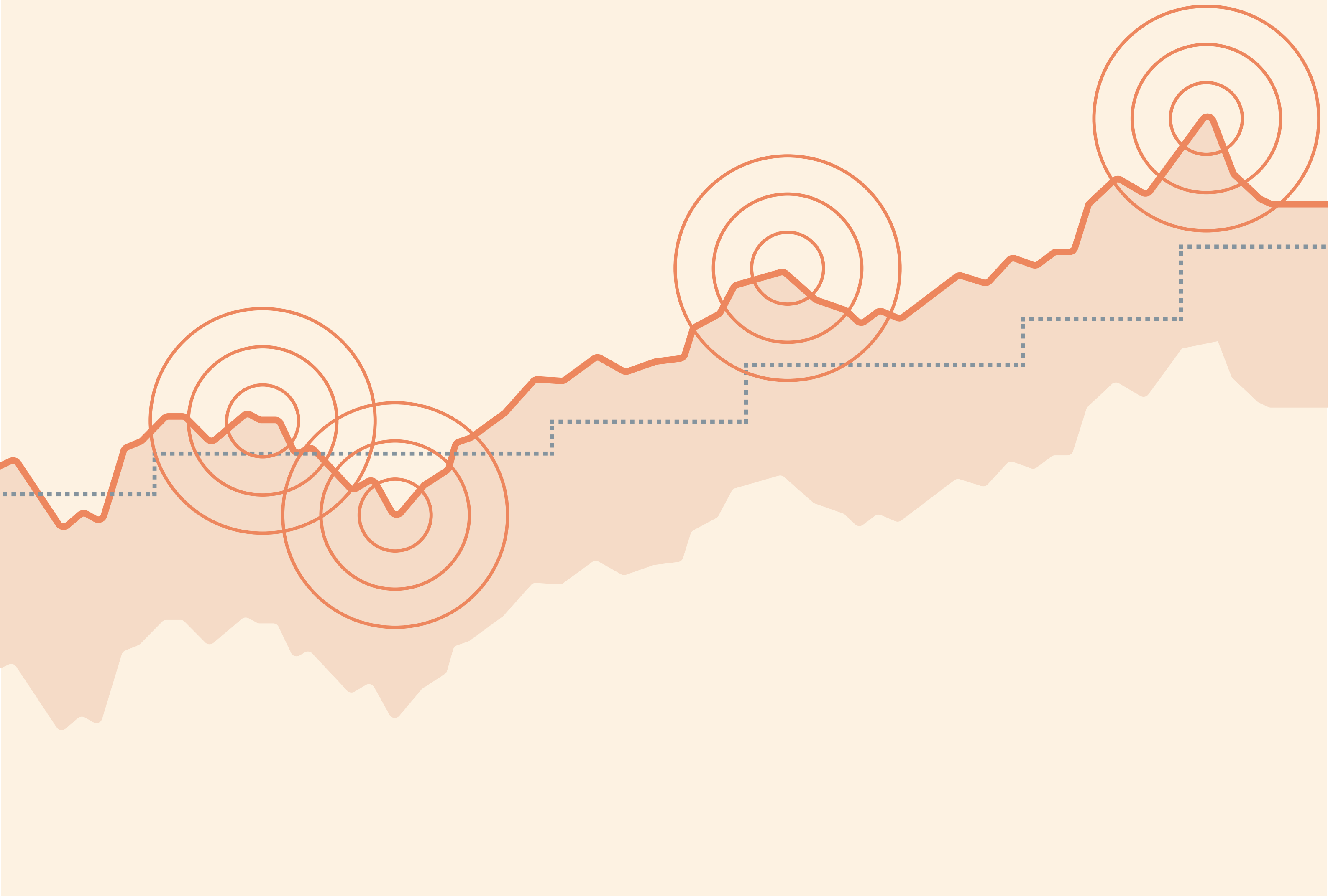
Pensionfriend

2023 Market and Portfolio Review



Foreword

Dear Pensionfriend Customer,

Here is your first annual market update from Pensionfriend, a service you might expect from a high-end money manager, but one that we are happy to provide you, as we believe in sharing core insights into the markets and our portfolios to our customers and not just an annual statement of your portfolio value.

2023 ended as a stellar year in stocks. The key for long-term investors remains to harvest long-term growth. Our portfolios did very well. However well our portfolios performed: A single good year does not prove much.

Our portfolio allocation is optimized to generate credible high long-term returns. Our allocation methodology is based on assessments of the longest data series (including over 150 years of S&P 500 data) and underlying economic trends and finance theory.

The question is more: Did this year prove us wrong or did it prove us right? Mostly it confirmed what we expected. Our large cap (italization) global stock outperformed the MSCI world benchmark. But our small cap did not. The underlying smaller companies did very well though – you can measure this based on price-earnings ratios – but this did not translate into higher market valuations. In other words, underlying profit did as well or better than for large companies, but this did not lead to investors picking up these stocks.

My basic philosophy is: to be happy when something becomes cheap. You will be able to afford more of it and then harvest the value sometime in the future. So I am not at all worried about this, but actually welcome it. In a scenario where all stocks shoot up, it would be harder to have good gains in the coming years.

We will still keep scanning the market for good opportunities, notably in India, which we think has a lot of future scope, but has been hard to invest in. That may be changing, and we will keep you updated.

In 2024, we may see quite a bit of volatility. The US presidential elections will be very contentious with fears of coups d'état alternating hopes of more tax relief for entrepreneurs. As always, keep in mind that it is very hard if not impossible to time the market and take advantage of such insights – as this is quite common knowledge and by and large already reflected in the price.

So keep your eye on the long-term. Buying a good basket of stocks has you invested in the economy and in the long-term they grow, and in the long-term you need to have a good stock of assets to keep you financially safe and sound!

We will host a webinar on February 22nd to discuss these results, the market, and any questions.

We wish you a great 2024!

Dr. Chris Mulder

2023 Market and Portfolio Review

Pensionfriend's portfolios performed well above long-term stock market averages in 2023:

	Large Cap	Small Cap	Overall
Global Portfolio (US dollar)	25,92 %	15,63 %	20,77 %
Global Green Portfolio (US dollar)	27,50 %	15,63 %	21,57 %
Euro Green Portfolio (Euro)	20,90 %	15,67 %	18,33 %

Stock market

Stock markets overall did very well in 2023. The S&P 500 returned 25,92 % in 2023 measured in US dollars, and 23,93 % if measured in Euro. This is well above the historic 150-year 9,3 % compounded return, and our long-term market forecast of about 7 % for the S&P 500. The main reason for the stellar stock market reform is that inflation declined quicker than expected and a recession has not been necessary to induce this decline. In other words, we are experiencing a so-called soft landing.

S&P 500 (USD) - 1 year: 25,92 %

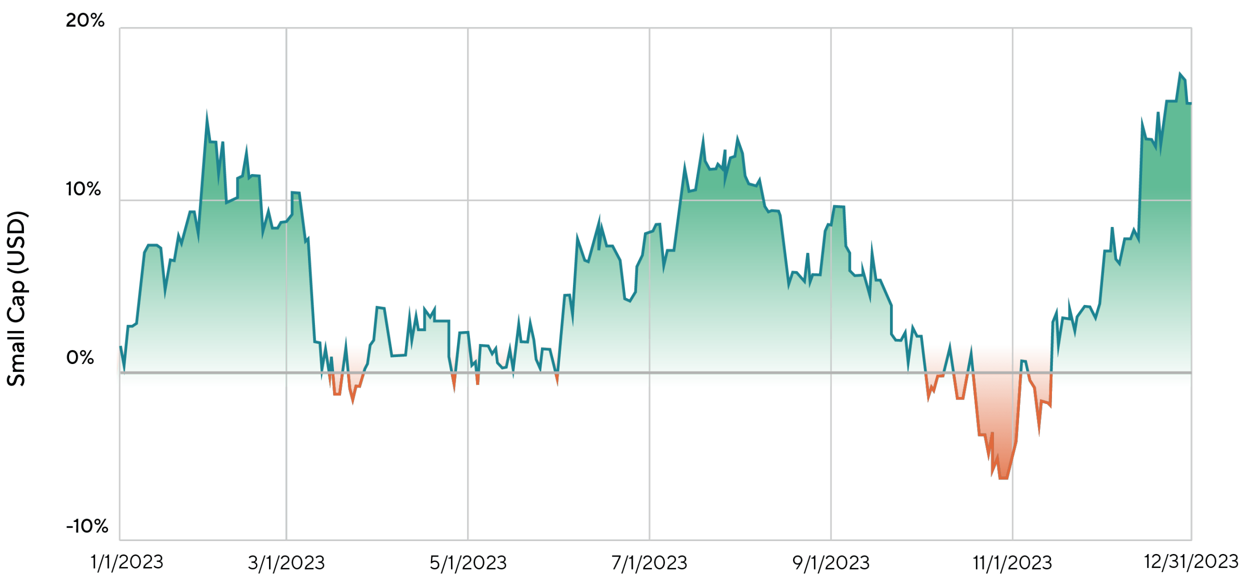
It is noteworthy that just two months ago, in early November, the outlook was rather different. The markets started to fear inflation, interest rates shot up and most of the earlier stock market increases evaporated. Since then, a series of good inflation news has resulted in a reversal of interest rate increases and a spurt in stock prices.

US 10 year bond yield - 1 year: 3,87 %

Small cap underperformance and ESG outperformance

Small-cap stocks are expected to outperform the large-cap stocks by a significant margin in the long term. But that did not happen this year. This is not related to poor underlying growth or profit performance. Valuation seems to be lagging this year if measured by price-earning ratios. Based on this metric small-cap stocks are now at the lowest relative valuation in 20 years. This might bode well for the future if these stocks catch up, and "mean-revert" as usual.

Small Cap (USD) - 1 year: 15,63 %



The ESG version of the S&P 500 did continue its modest outperformance trend, clocking in a 2 % higher return than the S&P itself.

Comparison

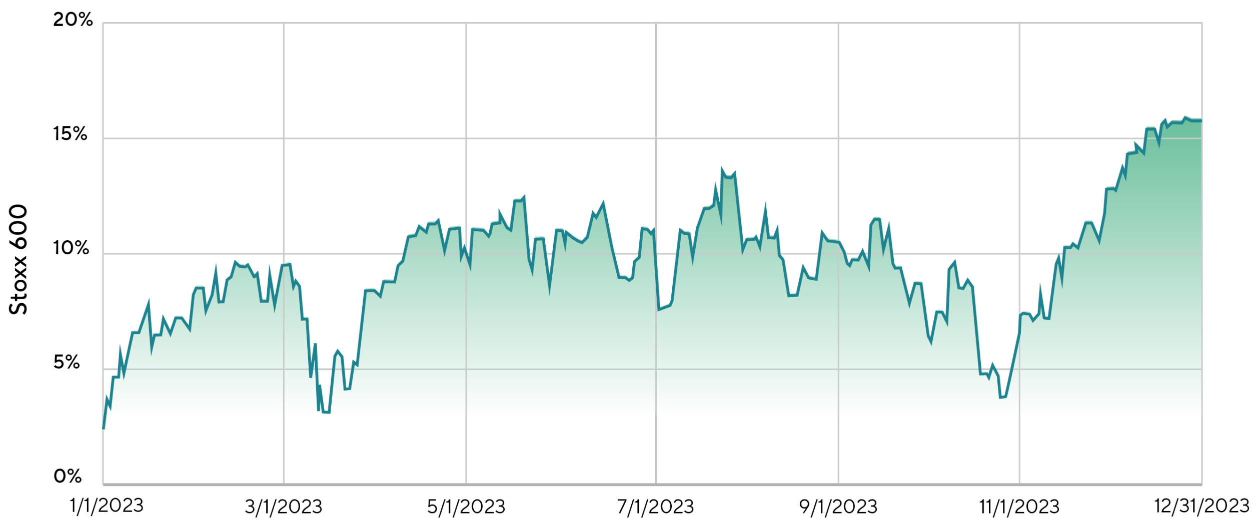
The S&P 500 continued to outperform the MSCI world. In 2023 by about 2 %.

MSCI World - 1 year: 21,77 %

The S&P 500 also continued to outperform large-cap European stocks, like the German DAX index or the Stoxx 50.

The S&P 500 outperformed by a wide margin Pensionfriend's preferred large-cap European index. Our preferred index (Stoxx 600) is much more diversified and also includes many mid-size corporations. For the same reasons as we discussed regarding the small-cap, we see scope for this index to do some catching up.

Stoxx 600 - 1 year: 15,79 %



Bond portfolio return

For those that have bonds in their portfolio to reduce the risk of a drawdown, it is noteworthy that bonds had a good year. The return on bonds was at 3,51 % well above interest rates available at normal banks certainly for a liquid investment.

On the one hand, this high return reflects continued high yields in 2023, and on the other hand, a small price gain as interest rates in Europe ended the year lower.

At the moment the bond investment is expected to yield about 3 %.

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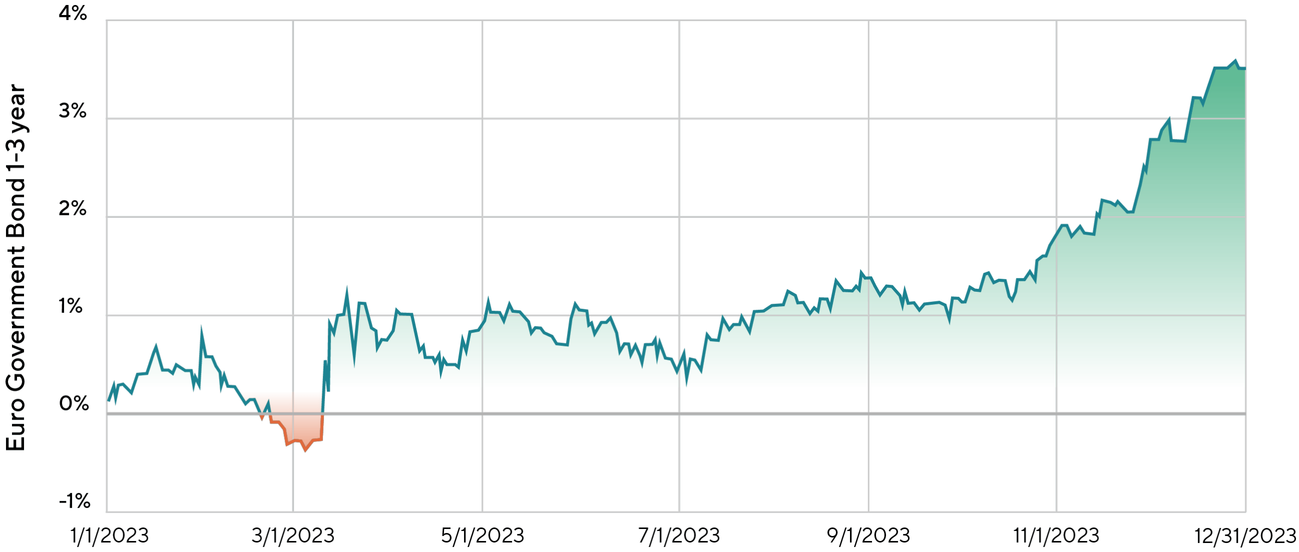
Euro Government Bond 1-3year - 1 year: 3,51 %



US dollar movement

Those of you with a global portfolio will have seen the Euro value of your portfolio offset by some dollar depreciation. The US dollar depreciated this year slightly vis a vis the Euro. We consider the main reason that the impact of the Russian invasion of Ukraine on natural gas prices has dissipated. Natural gas prices are now just about 40 % above the pre-war trend, compared to a peak of 1.600 % in 2022 – and 5 times the price of oil! As Europe is a major importer of natural gas and its prices are much higher than American gas prices they have an enormous impact on the relative value of the US economy versus the European economies.

Additionally, it is noteworthy that European interest rates fell by almost half a percent compared to US rates, which created quite some upward pressure on the US dollar. Despite that the US dollar depreciated, suggesting that other effects such as the natural gas prices dominated. In the short term, we may see some further appreciation of the Euro, but we maintain our long-term view of modest dollar appreciation.

USD/EUR - 1 year: 3,82 %

Outlook

A credible short-term outlook is, similar to market timing, nearly impossible. While we are a little bit more optimistic regarding the performance of small-cap stocks, we see no reason to alter our long-term market outlook or composition for our portfolios.

We do advise that the upcoming presidential elections in the USA may introduce additional noise into the market this year. However, we feel that the markets are well aware of this, and have priced it in.

Notes

» This annual Market and Portfolio review does not constitute investment advice. Although best effort is made to ensure that the information is accurate, occasional errors and misprints may occur. No warranty or representation is made by Pensionfriend and Hypofriend GmbH as to its correctness, completeness, timeliness or accuracy.

» Please note that your portfolio result will not match the aggregate results, as it depends on when exactly you started and how much you contributed during subsequent periods. Also, individual portfolios can differ, for example, due to an allocation to bonds, or the percentage of ESG investment you requested.