What worked in 2023 and what could work in 2024?

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After a very difficult year for equity investors in 2022, market participants started the year with cautious optimism, expecting small gains for equity markets. While the ride was not always smooth, investors who remained invested where richly rewarded as equity bounced back very strongly. Helped by easing inflation, a resilient economy and the prospect of lower interest rates, global equity markets posted a 23.79% gain[1] in 2023. Many equity indices are now even higher than where they closed on 31 December 2021.

Having said that, those gains have not been shared equally between companies, countries or sectors. Much has been written on the dominance of the Magnificent Seven during the equity recovery in H1 2023, but let's dig into the success stories of 2023 and see what we can learn for the year ahead.

1.The stars may be aligning for blockchain technology and cryptocurrencies

After a difficult 2022, when Bitcoin shed more that 65%[2] of its value, 2023 marked the resurgence of cryptocurrencies. Bitcoin gained 157%[3] over the full year jumping from $16,539 at the end of 2022 to $42,508 a year later. After the short-lived banking crisis in the US – that led to the bankruptcy of two "crypto" banks – sentiment turned slowly positive for the asset class on the back of a more supportive macro environment and increasing support from institutional actors such as BlackRock. This strong performance for Bitcoin also translated into positive performance for other coins such as Ethereum which gained 90.3%[3] but also Blockchain equities with the WisdomTree Blockchain UCITS ETF gaining 120%[3] over the year.

Looking forward to 2024, Bitcoin is still benefiting from multiple bullish catalysts:

- The potential approval of physical Bitcoin ETFs in the US would expand the investor base as well as increase institutional adoption of the asset class.
- The next Bitcoin Halving, an event that happens periodically and reduces the supply of new coins, is due in H1. Historically this event has led to price increases.
- The improvement of the macro environment with potential rate cuts incoming during the year.

ETPs to watch:

WBLK - WisdomTree Blockchain UCITS ETF

WBTC - WisdomTree Physical Bitcoin

WETH - WisdomTree Physical Ethereum

2.Entering the age of Artificial Intelligence (AI) – how AI is fuelling other themes

Following the launch of Chat GPT, a lot has been said about generative AI and the potential benefits of the technology diffusing through the economy. The world's reawakening to the potential of AI created massive success stories with NVIDIA gaining 238.9%[3] during the year for example. This, of course, translated into great performance for AI focused strategies such as the WisdomTree Artificial Intelligence UCITS ETF (WTAI), which gained 55.2%[3] in 2023. Having said that for most of the year, mega caps benefitted the most from this resurgence, with the NASDAQ gaining a full 54.7%[3] over the year.

However, in Q4 this trend started to reverse with the AI rally broadening outside large caps and with smaller, more pure play AI companies starting to gain ground. This is obvious from the Q4 performance of WTAI, which gained 17.9% compared to 14.5%[4] for NASDAQ 100.

The AI trend also started to impact adjacent themes. It is transforming the future of software. Generative AI's rise is poised to occur through the Cloud, so protecting those Large Language Models (LLM) and related software will require more and more cybersecurity solutions. These impacts are already showing in the performance of those themes with WisdomTree Cybersecurity UCITS ETF gaining 66.4%[3] in 2023 and WisdomTree Cloud Computing UCITS ETF gaining 39.5%[3].

In the grand scheme of historical tech adoption, a single year is nothing. Following ChatGPT's splash in 2022, there is still a lot of growth left in the AI theme. Looking forward to 2024, a more comprehensive exposure to the breadth of AI activities, that includes pure players, enjoys diversification across all aspects of AI and focuses on the mega caps of tomorrow instead of those of today.

ETFs to watch:

WTAI - WisdomTree Artificial Intelligence UCITS ETF

WCBR - WisdomTree Cybersecurity UCITS ETF

WCLD - WisdomTree Cloud Computing UCITS ETF

3.A transformational year for Japan equities?

WisdomTree Japan Equity UCITS ETF gained 25.35%3 in 2023. While a strong result in absolute, it is also very strong compared to the market since the 21.3%3 Nikkei 225 net returned 21.3% and the Topix net returned 18.9%3. Over the year, Japanese equities have benefited from:

- A very accommodative monetary policies that strengthened foreign investments and continued the TINA trade (there is no alternative to equities)
- A weak Yen that helped exports

- Diversification of supply chains away from China in Asia

Looking forward to 2024, several bullish catalysts remain in place for Japanese equities. Corporate governance reforms, strong-armed by the Tokyo Stock Exchange, are ramping up this year, increasing payout ratios for investors. Stocks remain the only alternative with 10-year government bonds under 1%. Furthermore, equity valuations remain low with price earnings multiples in the low teens. Finally, the tripling of the annual contribution that an individual will be able to make into retirement saving accounts.

With the Yen potentially strengthening in 2024, a currency hedged approach to Japanese equities with a focus on exporters could gain from the extension of this year's trend.

ETFs to watch:

DXJF - WisdomTree Japan Equity UCITS ETF - EUR Hedged

DXJP - WisdomTree Japan Equity UCITS ETF - GBP Hedged

DXJD - WisdomTree Japan Equity UCITS ETF - CHF Hedged

4.Quality filtered, Value and High Dividend outperformed in Emerging Markets in 2023

With an unprecedented rate hike in the US and unmet expectations around the recovery of China, Emerging Markets equities did not perform as well as developed equities, retuning only 9.8%3 over 2023. This does not mean that there were no opportunities for investments in Emerging Markets. WisdomTree Emerging Markets Equity Income UCITS ETF returned 22.75%[3] over the same period, outperforming the benchmark by almost 13%. By focusing on high dividend paying stocks with some quality filter, the ETF managed to stay invested in the more interesting part of the market sector and geographically wise.

Looking forward to 2024, growth is expected to remain softer. Having said that markets may have reached peak pessimism on China, and it is important to note that many countries have continued to deliver with India, Taiwan and Indonesia high on that list. This means that there are still pockets of opportunities in Emerging Markets that could be tapped with the right strategy.

ETF to watch:

DEM - WisdomTree Emerging Markets Equity Income UCITS ETF

5.A resilient Gold in 2023, despite Macro headwinds

Despite the lack of institutional investor interest in the metal, gold had a fantastic year, reaching a new high of $2078/oz on the London Bullion Market Association (LBMA) afternoon fixing on 28 December 2023 and, in terms of intra-day prices, reached an even higher $2135/oz on 4 December 2023. WisdomTree Core Physical Goldclosed the year up 13.9% (LBMA afternoon fixing, 29 December 2022 – 29 December 2023)[5]. Gold significantly outperformed US Government Bonds (up 4.0% over the same period based on the Bloomberg US Treasury Index). In contrast to 2022, bond and US Dollar headwinds eased, allowing the metal to gain. Speculative positioning in the gold futures went through a wide range, topping at 226k

contracts net long in May and falling to just 60k contracts net long in October. However, positioning ended the year close to its intra-year high at 217k contracts, indicating that investor sentiment toward the metal is improving markedly alongside the price rally. Meanwhile central bank demand for the metal in looked like it was on track to match the 2022 all-time highs (latest data from World Gold Council shows that central banks bought 799.6 tonnes in the first three quarters of 2023 compared to 699.8 tonnes in the first three quarters of 2022).

As we look to 2024, further compression in bond yields and a softening US Dollar will likely override the slowing support from inflation, potentially driving gold to new highs.

ETFs to watch:

WGLD – WisdomTree Core Physical Gold

GBSP - WisdomTree Physical Gold - GBP Daily Hedged

GBSE - WisdomTree Physical Gold - EUR Daily Hedged

[1] Bloomberg. Based on returns for the MSCI World net TR Index in USD.

[2] Bloomberg, WisdomTree. From 31 December 2021 to 31 December 2022. Historical performance is not an indication of future performance and any investments may go down in value.

[3] Bloomberg, WisdomTree. From 31 December 2022 to 31 December 2023. Historical performance is not an indication of future performance and any investments may go down in value.

[4] Bloomberg, WisdomTree. From 30 September 2022 to 31 December 2023. Historical performance is not an indication of future performance and any investments may go down in value.

[5] Bloomberg, WisdomTree. From 29 December 2022 – 29 December 2023. Historical performance is not an indication of future performance and any investments may go down in value.

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