



Economic Situation and Strategy

10 November 2023

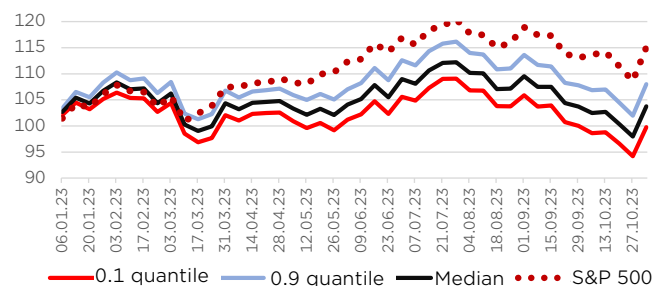
2023: A real horror year for stock pickers

Anyone who looks at the performance of equity funds (especially with a focus on US stocks) will notice, especially with a view to the current year, that hardly any fund was able to beat the benchmark. The result is so striking that you have to ask yourself serious questions: Have the portfolio managers forgotten their craft? Is the market following completely irrational tendencies that can no longer be classified and anticipated using fundamental analyses? Is it a good idea to only invest passively along benchmark structures?

Whenever you are faced with such questions and a capital market theory puzzle, you are well advised to examine the matter soberly and get to the bottom of the phenomenon analytically. We did this by first exploring the “opportunity space” for active US stock pickers in a simulation. We proceeded as follows: We programmed a random generator, which in a first step selected 75 stocks from the 500 stocks in the S&P 500, whose weight was in turn also determined by a random generator. We then recorded the resulting performance and repeated this “experiment” 1000 times. This approach makes it possible to simulate a large spectrum of hypothetical decisions by portfolio managers in order to gain an understanding of the outperformance potential of active decisions in asset management in a specific time window. For 2023, the results of this simulation are more than devastating. For example, if you assume that as a portfolio manager you manage a diversified portfolio of 75 stocks, it was almost impossible to beat the benchmark after costs and taxes in the current year. The red line in the graphic below shows the performance of a simulated portfolio that was at the

lower edge of the possible spectrum; here only ten percent of the simulated portfolios were even worse. The bluish line is at the top of the possible spectrum; here only ten percent of the simulated portfolios were even better. The performance of the benchmark is described by the dotted line and lies at the top of all simulated portfolios. We have carried out this type of calculation in previous years and cannot remember ever observing such an extreme situation.

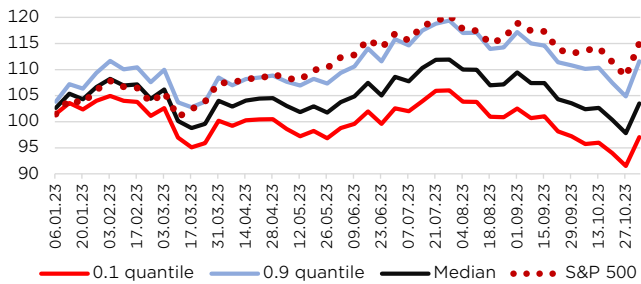
S&P 500 and simulated portfolios with the S&P 500 as the investment universe: portfolios with 75 stocks each



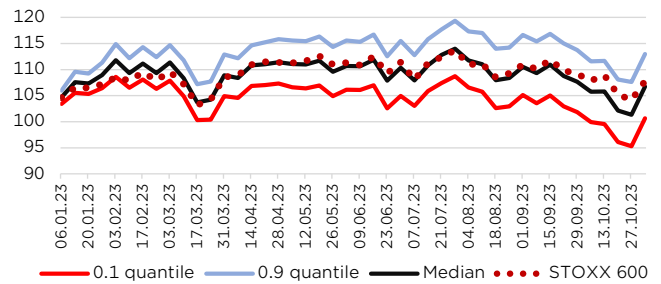
The reason for this is related to the fact that only a few very large stocks achieved extremely good performance, while many very small stocks showed disappointing performance in 2023. Given this situation, if you try to actively manage a broadly diversified portfolio, you can actually only lose compared to the benchmark. But what does the picture look like if you consciously deviate from the claim of being particularly diversified and instead aim to manage concentrated high-conviction portfolios with just 25 stocks? Here, too, we challenged the computer a little and, analogous to the previous procedure, now generated portfolios with 25 stocks.

Economic Situation and Strategy

S&P 500 and simulated portfolios with the S&P 500 as the investment universe: portfolios with 25 stocks each



STOXX 600 and simulated portfolios with STOXX 600 as the investment universe: portfolios with 25 stocks each

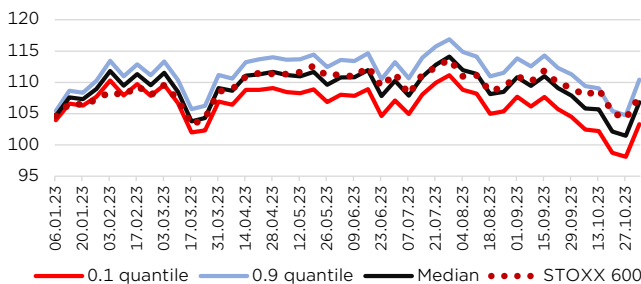


The result does not differ substantially from the first simulation run; As expected, the benchmark moves a little closer to the 90 percent quantile of the distribution of simulated portfolios, but the message remains fundamentally the same: outperformance of the benchmark after costs and taxes was almost (although not completely) impossible. We also carried out these calculations for the broad European stock market and came to similar - albeit less extreme - results.

So what are the conclusions to be drawn from such a situation?

Some investors come to the conclusion that active asset management should fundamentally be questioned, since passive investment structures that are based on market capitalization-weighted index structures are obviously systematically superior. We would not necessarily share this conclusion. Experience shows that, especially after extreme situations on the capital markets, so-called mean reversion processes usually set in, which lead to a reversal of previous trends and exaggerations. This would mean that a phase may be approaching in which active selection approaches could have extreme outperformance potential. In addition, supporters of passive investment strategies suggest that investments in passive vehicles - such as ETFs - lead to performance that approximately corresponds to the benchmark performance. This is also not a fair view of the situation, since profits are never realized in benchmarks and therefore represent tax-free constructs that fundamentally cannot be reflected in reality. It should also not be forgotten that benchmarks are equipped with no risk management whatsoever. A situation that is particularly painfully visible in the USA, because the structure of the major US stock indices is miles away from satisfactory diversification. So the fact remains: active management retains its justification, and perhaps proof of this will be presented as early as next year.

STOXX 600 and simulated portfolios with STOXX 600 as the investment universe: portfolios with 75 stocks each



In Europe, too, it was not easy to beat the benchmark through active management. However, since the very large companies in the STOXX 600 have not outperformed the smaller companies as systematically as in the USA, the extent of the problem is less pronounced in Europe. But that doesn't change the fact that mixed and actively managed stock portfolios made up of US stocks and European stocks have had no realistic chance of outperformance in 2023 so far (and probably until the end of the year).

Dr. Christian Jasperneite

Market data

| Stock markets | As of | Change versus | | | | |
|--------------------------------|---------------------|-----------------------|------------------------|-------------------------|-----------------------|-------------------|
| | 10.11.2023 09:32 | 03.11.2023 -1 week | 09.10.2023 -1 month | 09.08.2023 -3 months | 09.11.2022 -1 year | 30.12.2022 YTD |
| Dow Jones | 33892 | -0,5% | 0,9% | -3,5% | 4,2% | 2,2% |
| S&P 500 | 4373 | 0,3% | 0,8% | -2,1% | 16,6% | 13,9% |
| Nasdaq | 13521 | 0,3% | 0,3% | -1,3% | 30,6% | 29,2% |
| DAX | 15289 | 0,7% | 1,1% | -3,6% | 11,9% | 9,8% |
| MDAX | 25453 | 1,3% | 0,9% | -9,2% | 4,8% | 1,3% |
| TecDAX | 2985 | 1,0% | 0,4% | -4,9% | 1,5% | 2,2% |
| EuroStoxx50 | 4209 | 0,8% | 2,3% | -2,5% | 12,9% | 10,9% |
| Stoxx 50 | 3890 | 0,4% | 0,2% | -2,4% | 8,1% | 6,5% |
| SMI (Swiss Market Index) | 10623 | 0,4% | -1,8% | -4,1% | -2,6% | -1,0% |
| Nikkei 225 | 32568 | 1,9% | 5,1% | 1,1% | 17,5% | 24,8% |
| Brasilien BOVESPA | 119034 | 0,7% | 3,4% | 0,5% | 4,8% | 8,5% |
| Russland RTS | 1108 | 1,3% | 10,0% | 10,3% | -0,5% | 14,2% |
| Indien BSE 30 | 64863 | 0,8% | -1,0% | -1,7% | 6,3% | 6,6% |
| China CSI 300 | 3586 | 0,1% | -2,7% | -9,6% | -3,4% | -7,4% |
| MSCI Welt | 2879 | -0,2% | 0,7% | -3,3% | 14,7% | 10,6% |
| MSCI Emerging Markets | 956 | 0,8% | 2,2% | -5,2% | 6,2% | 0,0% |
| Bond markets | | | | | | |
| Bund-Future | 130,44 | -10 | 119 | -243 | -776 | -249 |
| Bobl-Future | 116,39 | -41 | 1 | 37 | -290 | 64 |
| Schatz-Future | 105,06 | -16 | -22 | -11 | -163 | -36 |
| 3 Monats Euribor | 3,97 | 7 | 7 | 32 | 217 | 208 |
| 3M Euribor Future, Dec 2023 | 3,97 | 2 | -1 | 9 | 90 | 37 |
| 3 Monats \$ Libor | 5,63 | -1 | -4 | 0 | 100 | 86 |
| Fed Funds Future, Dec 2023 | 5,35 | 0 | -4 | -5 | 56 | 70 |
| 10 year US Treasuries | 4,60 | 3 | -3 | 60 | 45 | 77 |
| 10 year Bunds | 2,69 | 10 | -4 | 23 | 52 | 13 |
| 10 year JGB | 0,85 | -6 | 7 | 28 | 60 | 44 |
| 10 year Swiss Government | 1,13 | 1 | 1 | 15 | 5 | -48 |
| US Treas 10Y Performance | 561,97 | -0,6% | 0,3% | -4,1% | -0,3% | -3,1% |
| Bund 10Y Performance | 536,32 | -0,1% | 1,2% | -0,6% | -1,0% | 2,1% |
| REX Performance Index | 437,03 | 0,4% | 1,4% | 0,5% | 0,5% | 1,0% |
| IBOXX AA, € | 3,82 | 1 | -15 | 18 | 37 | 22 |
| IBOXX BBB, € | 4,63 | 0 | -20 | 18 | -16 | -7 |
| ML US High Yield | 9,01 | 11 | -34 | 51 | -41 | 4 |
| Convertible Bonds, Exane 25 | 6620 | 0,0% | 0,0% | 0,0% | 1,5% | 0,0% |
| Commodities | | | | | | |
| MG Base Metal Index | 377,14 | 0,1% | 0,2% | -2,4% | -3,4% | -9,8% |
| Crude oil Brent | 80,41 | -6,0% | -8,9% | -8,2% | -13,3% | -5,3% |
| Gold | 1955,50 | -2,0% | 5,6% | 2,0% | 13,9% | 7,7% |
| Silver | 22,88 | -1,2% | 5,0% | 0,9% | 7,3% | -3,7% |
| Aluminium | 2230,20 | -0,2% | 1,0% | 4,0% | -3,2% | -5,1% |
| Copper | 8068,11 | -0,3% | 0,4% | -3,5% | -0,6% | -3,5% |
| Iron ore | 127,38 | 1,0% | 7,8% | 21,7% | 45,6% | 14,5% |
| Freight rates Baltic Dry Index | 1598 | 9,3% | -19,7% | 39,7% | 14,7% | 5,5% |
| Currencies | | | | | | |
| EUR/ USD | 1,0676 | -0,2% | 1,4% | -2,7% | 6,3% | 0,1% |
| EUR/ GBP | 0,8726 | 0,6% | 1,0% | 1,2% | -1,0% | -1,7% |
| EUR/ JPY | 161,57 | 1,1% | 2,9% | 2,7% | 10,0% | 14,9% |
| EUR/ CHF | 0,9635 | 0,1% | 0,6% | 0,1% | -2,5% | -2,2% |
| USD/ CNY | 7,2916 | -0,2% | 0,0% | 1,1% | 0,6% | 5,6% |
| USD/ JPY | 151,35 | 1,3% | 1,9% | 5,3% | 3,3% | 15,4% |
| USD/ GBP | 0,82 | 1,2% | -0,2% | 4,1% | -7,0% | -1,7% |

Source: Refinitiv Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com

This article does not constitute an offer or an invitation to submit an offer but is solely intended to provide guidance and present possible business activities. This information does not purport to be complete and is therefore not binding. The information provided should not be considered a recommendation to purchase financial instruments individually but serves only as a proposal for a possible asset allocation. The opinions expressed herein are subject to change without notice. Where statements were made with respect to prices, interest rates or other indications, these solely refer to the time when the information was prepared and do not imply any forecasts about future development, particularly regarding future gains or losses. In addition, this information does not constitute advice or a recommendation. Before completing any deal described in this information, a product-specific consultation tailored to the customer's individual needs is required. This information is confidential and exclusively intended for the addressee described herein. Any use by parties other than the addressee is not permissible without our approval. This particularly applies to reproductions, translations, microfilms, saving and processing in electronic media as well as publishing the entire contents or parts thereof.

This article is freely available on our website.