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## What 2023 Teaches Us About Expectations vs. Reality

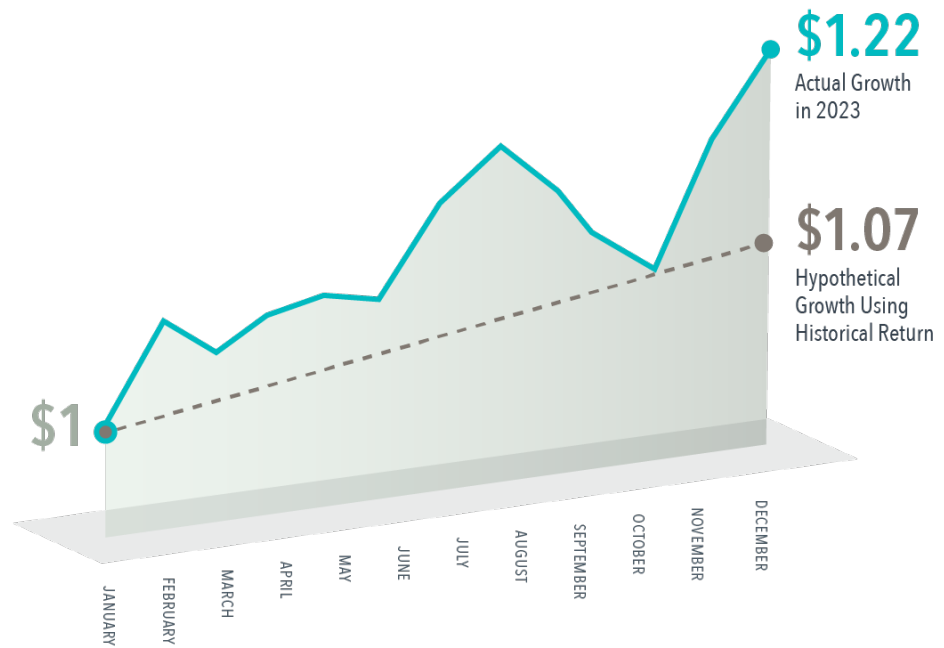
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Realized market returns are driven by the difference between investor expectations and the events that actually transpire. If reality pans out better than expected, markets may deliver strong returns along the way. On the other hand, market returns may be disappointing if developments are worse than anticipated.

The global MSCI All Country World IMI Index returned 21.6% in 2023. That's three times its annualized compound return since June 1994.<sup>1</sup> Such an outsized return suggests investors' expectations for 2023 were exceeded. Think about that for a moment: We've had major geopolitical conflicts, a US banking crisis, deteriorating fiscal health for many countries, and yet, on balance, outcomes were better than what markets expected at the start of the year.

This is something to keep in mind when reading forecasts for 2024. If predictions (good, bad, or indifferent) come to fruition, stocks should have a positive expected return.

**Exhibit 1****Growth of a Dollar**Global Stocks, January  
2023–December 2023

Past performance is not a guarantee of future results.

Growth of a dollar shown for MSCI All Country World IMI Index (net dividends).

Dollar results presented in the chart are hypothetical and assume reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment. Indices are not available for direct investment. Index has been included for comparative purposes only. MSCI data © MSCI 2024, all rights reserved.

This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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## GLOSSARY

**Expected return:** The percentage increase in value a person may anticipate from an investment based on the level of risk associated with the investment, calculated as the mean value of the probability distribution of possible returns.

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1. The annualized compound return for the MSCI All Country World IMI Index (net div., USD) from June 1994–December 2023 was 7.2%.

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