Quarterly Investment Update

October - December 2023

QUARTERLY MARKET COMMENTARY

4th Quarter 2023

SNAPSHOT

- Global equities and fixed income rallied higher to finish 2023.
- Falling inflation and more dovish central bank rhetoric helped fuel the markets.
- Heightened asset class correlation continues to hamper diversification.

All percentages below are quarterly returns unless indicated otherwise

EQUITIES

US MARKETS
Rally on rate expectations

11.2%
US 500

UK MARKETS
Move forward as inflation abates

2.5%
UK ALL SHARE

EMERGING MARKETS
Higher on dollar weakness

7.5%
EM

BOND MARKETS

BONDS
Credit and longer dated issues strong

UK GILTS	8.1%
US TREASURIES	5.7%
GLOBAL CORPORATE BONDS	4.3%
GLOBAL HIGH YIELD BONDS	4.0%

*Values represent bond index returns

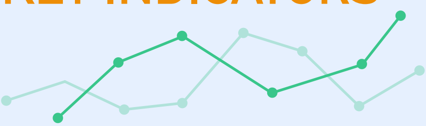
CURRENCIES

CURRENCIES
Sterling strengthens

Pound vs Other Currencies

GBP vs USD	4.4%
GBP vs JPY	-1.5%
GBP vs EUR	0.0%
GBP vs CNY	1.8%

KEY INDICATORS



GOLD – XAU/USD	11.4%
OIL – BRENT CRUDE	-19.2%
COMMODITIES	-14.5%
INFLATION – UK CPI (YOY)	3.9%

DISCLAIMER – The value of investments and the income from them can go down as well as up and past performance is not a guide to future performance. Returns are in local currency unless indicated otherwise. Source: Bloomberg.

GLOBAL MARKETS

Better inflation prints across developed economies led to a sustained rally in the last two months of 2023. Overall strong performance for equities and bonds, but high asset correlation persists.

US MARKETS

Led developed peers as growth bias benefits

The US equity and bond markets saw a broad rally to close the year, led by better inflation data and softer rhetoric from the Federal Reserve. The top performing US equity sectors were real estate (+17.6%), technology (+16.9%) and financials (+13.4%). Longer duration equities benefited (on relative value) as bond yields retreated further out on the curve. On the fixed income front, credit and longer duration issues outperformed as yields fell and credit spreads tightened. The US dollar weakened broadly against all major pairs, serving as a slight headwind for unhedged foreign investors.

11.2%

US 500

UK MARKETS

Rallied but UK equities underperformed developed peers

UK stocks and bonds rallied on the back of softening inflation and expectations that the Bank of England will move up rate cuts to the middle of 2024. The UK is showing signs of a slowdown, with quarterly GDP now in negative territory, as is the latest manufacturing PMI figure. Within the FTSE 350, the best performing sectors were real estate, technology, and financials. Energy and healthcare lagged. Similar to broader global trends within the fixed income space, duration and credit exposure benefited. Sterling performance was mixed, gaining versus the dollar and Chinese yuan, flat against the euro, and losing ground against the Japanese yen.

2.5%

UK All Share

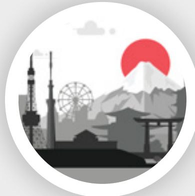
EUROPEAN MARKETS

Technology leads market as monetary policy outlook brightens

European equities rallied as inflation lowered and the European Central Bank began to soften the hawkish rhetoric they have been exhibiting in recent quarters. Growth stocks outperformed value equities as the market reversed course from its negative performance in the third quarter. More domestically focused mid-caps stocks outperformed their large and small cap counterparts. Within bonds, credit and longer duration issues performed best, as spreads tightened and yields declined, most notably in southern European nations (Greece, Italy, and Spain). On the currency front, performance for the euro was mostly positive, only losing ground to a strong yen.

7.8%

Euro 600 Index ex UK



JAPAN MARKETS

Both equities and bonds trailed developed market peers

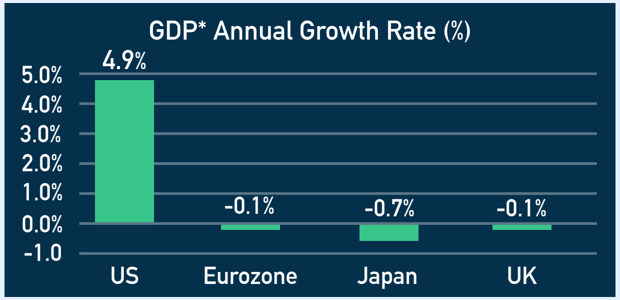
Japanese assets traded higher through the final quarter but notably underperformed their developed market counterparts. The index holds a higher weight to industrials, which underperformed. The strength of the yen also served as a headwind to equity market performance, as the domestic currency gained against all major pairs. Unlike its peers, Japan has not gained from the tailwinds associated with more dovish central bank rhetoric, as yield curve control remains in place in Japan, and the country saw inflation tick higher in the fourth quarter. Interest rates will likely remain under tight control until the Bank of Japan sees evidence of stronger real wage growth.

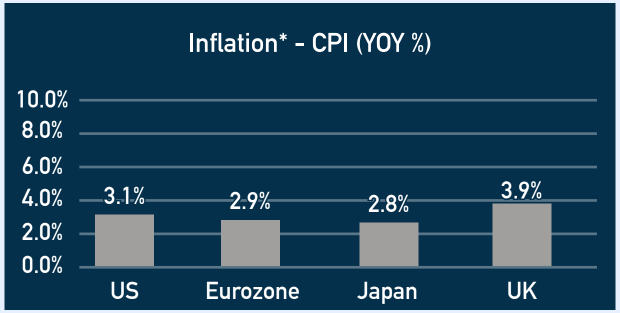
1.9%

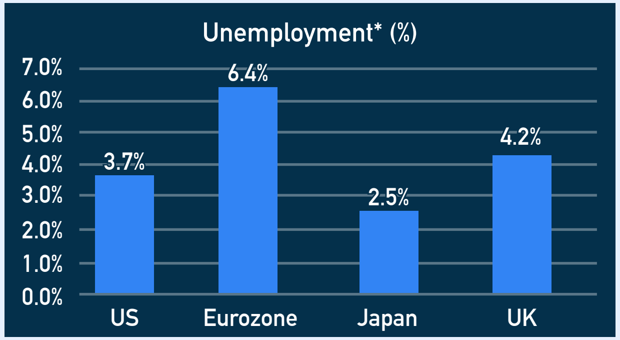
Japan Index

THE WORLD AT A GLANCE

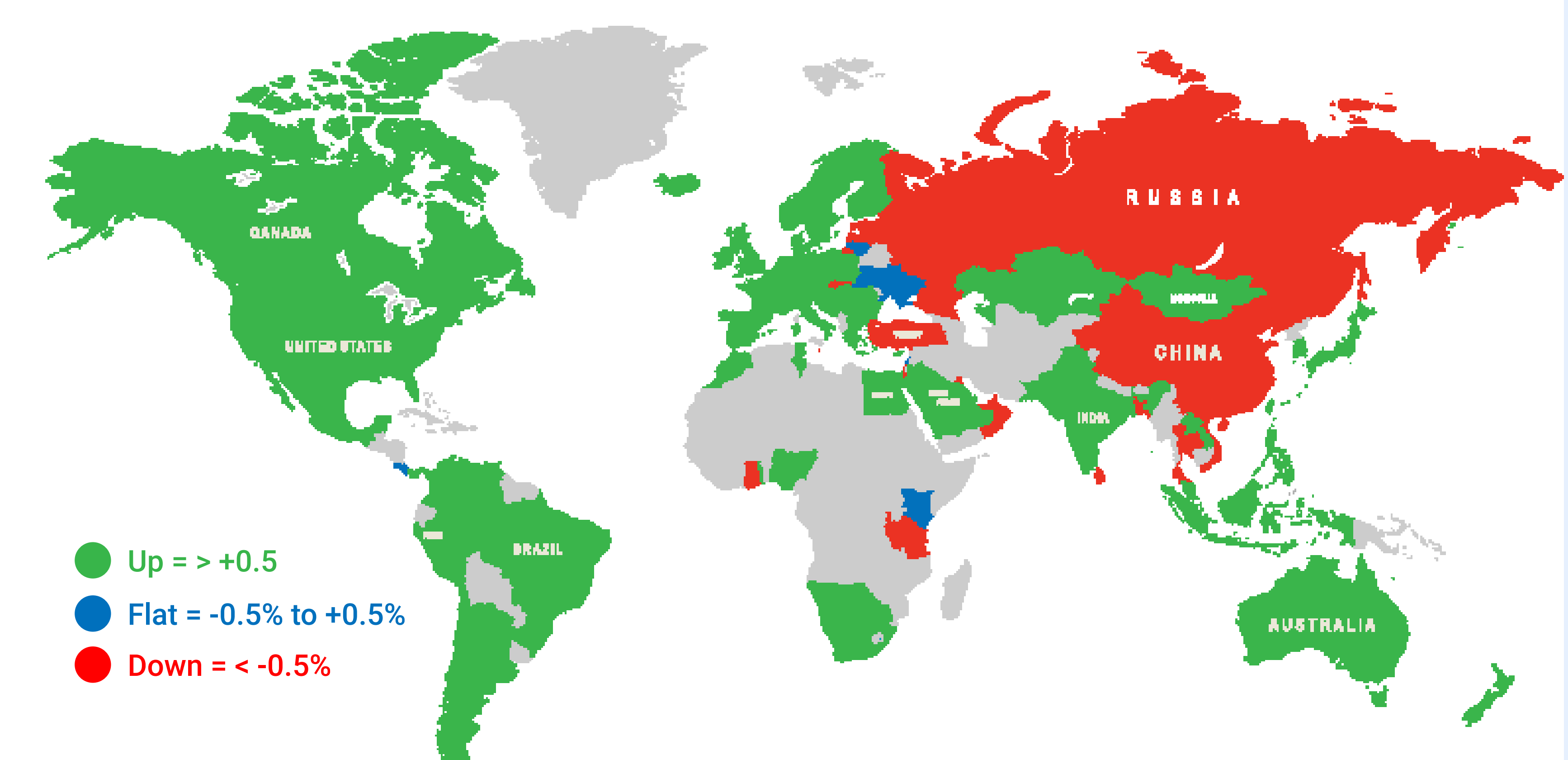
	4th QTR 2023	Year to Date	2022	2021	2020	2019
UK Cash	1.3	4.7	1.4	0.0	0.2	0.7
US Dollar	-4.6	-2.1	8.2	6.4	-6.7	0.2
UK Gilts	8.1	3.7	-23.8	-5.2	8.3	6.9
US Treasuries	5.7	4.1	-12.5	-2.3	8.0	6.9
Global Corporate Bonds	4.3	4.0	-6.8	-1.9	7.1	7.3
Global High Yield Bonds	4.0	8.2	-2.3	2.0	3.8	8.3
US 500	11.2	24.2	-19.4	26.9	16.3	28.9
UK ALL SHARES INDEX	2.5	3.9	-3.2	14.5	-12.5	14.2
EURO 600 INDEX EX UK	7.8	14.8	-14.9	22.4	1.0	24.2
JAPAN INDEX	1.9	25.1	-5.1	10.4	4.8	15.2
Asia Ex Japan	4.2	6.4	-15.4	-3.1	22.4	17.9
Emerging Markets	7.5	7.0	-22.4	-4.6	15.8	15.4
Commodities	-14.5	-9.7	41.9	41.6	-26.1	13.1
Gold	11.4	12.8	-0.7	-4.3	20.9	18.0
Hedge Funds	1.5	2.7	-4.4	3.7	6.8	8.6







WORLD EQUITY MARKETS



Source: Bloomberg – National benchmark indices in local currency

11.2% USA

7.8% EUROPE

1.9% JAPAN

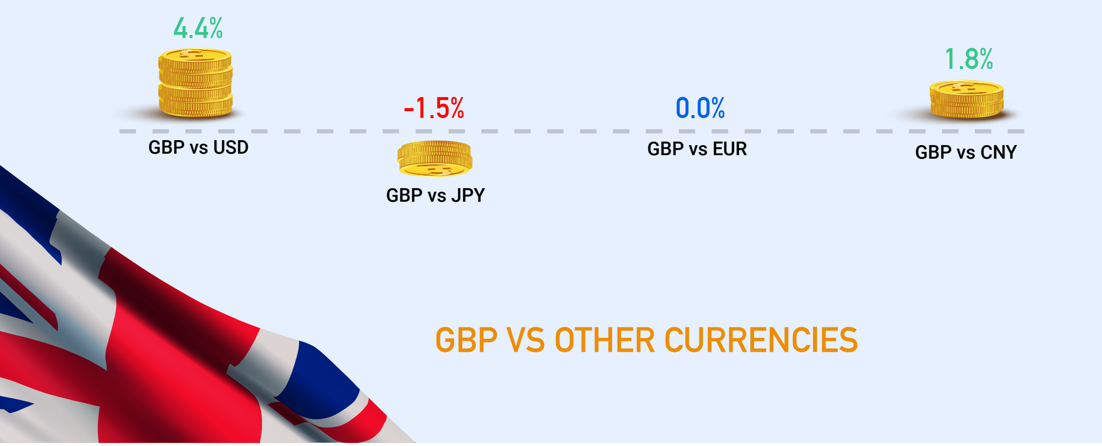
2.5% UK

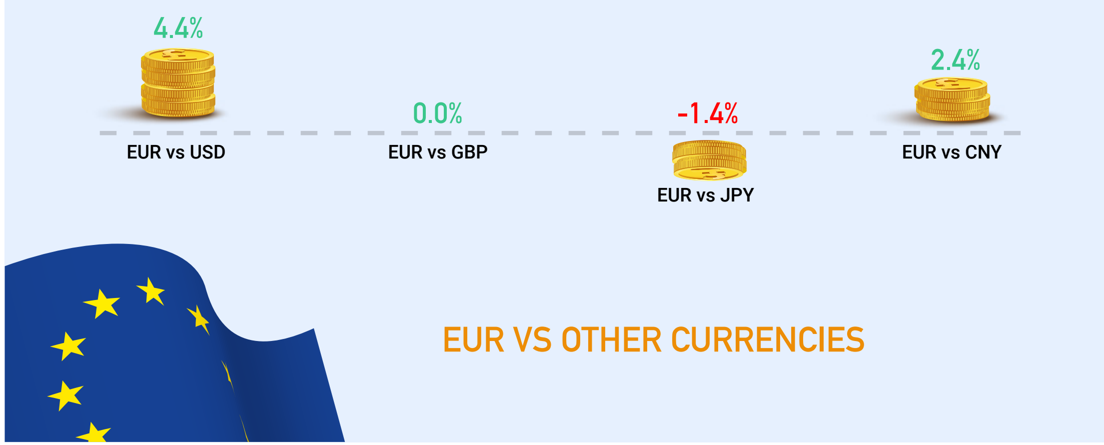
7.5% EMERGING MARKETS

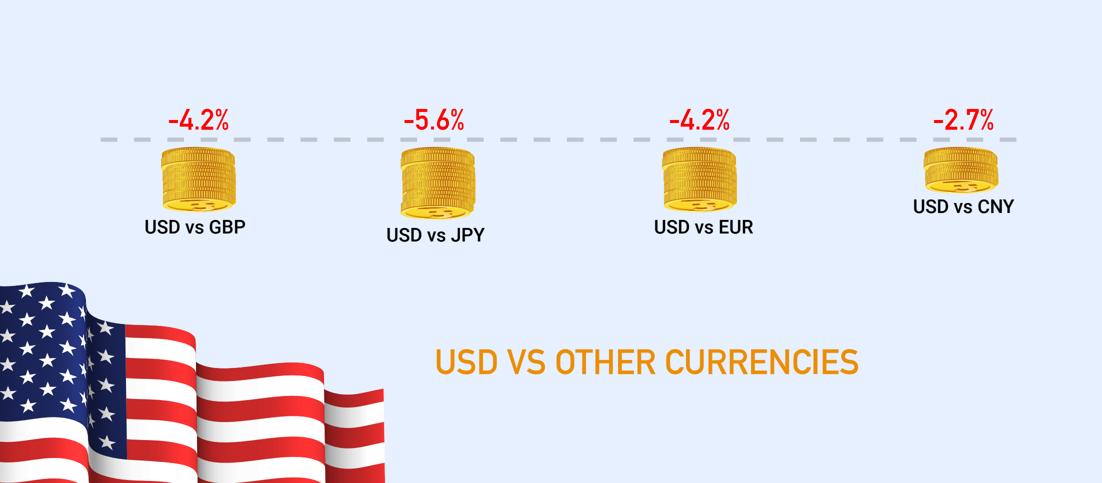
Key Points

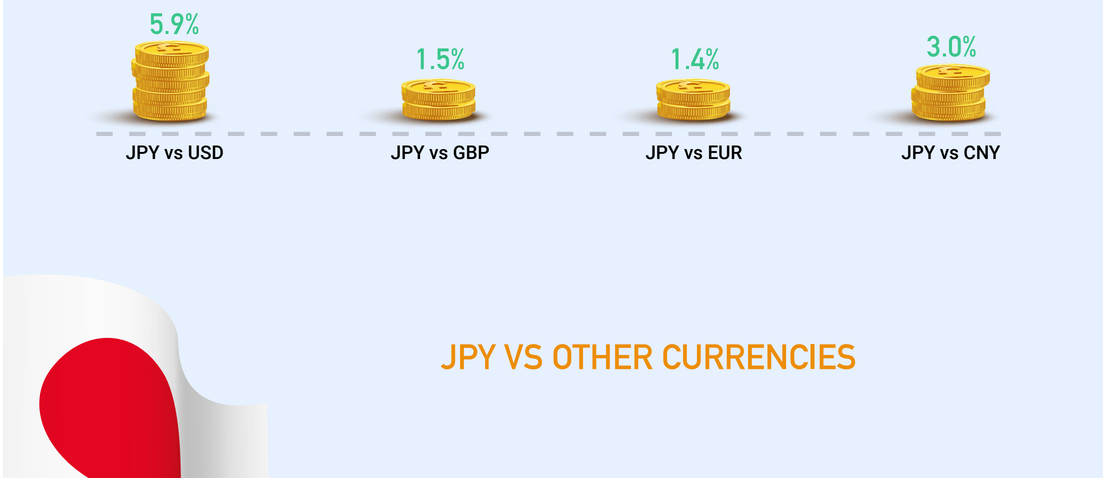
- Global equities posted strong returns to close out 2023, as inflation moderated and central banks softened their combative tunes. With this backdrop, developed market equities outperformed their emerging market counterparts (+11.4% vs +7.5% in USD terms).
- From a stylistic standpoint, growth equities outperformed stocks which are traditionally defined as value in aggregate terms. The best performing sectors were real estate (+18.1%), technology (+17.5%) and industrials (+13.5%) – all shown in USD.
- Across major regions (in local currency terms), the US outperformed peers, notably the UK and Japan, while emerging markets fared better than in previous quarters, led by India (+9.7%) and Taiwan (+9.6%), as heavily weighted China lagged once again (-4.4%).
- From a market cap perspective, small and mid-cap stocks fared better through this quarter than last, and despite weaker relative performance through October, finished ahead of their larger cap counterparts.

CURRENCIES







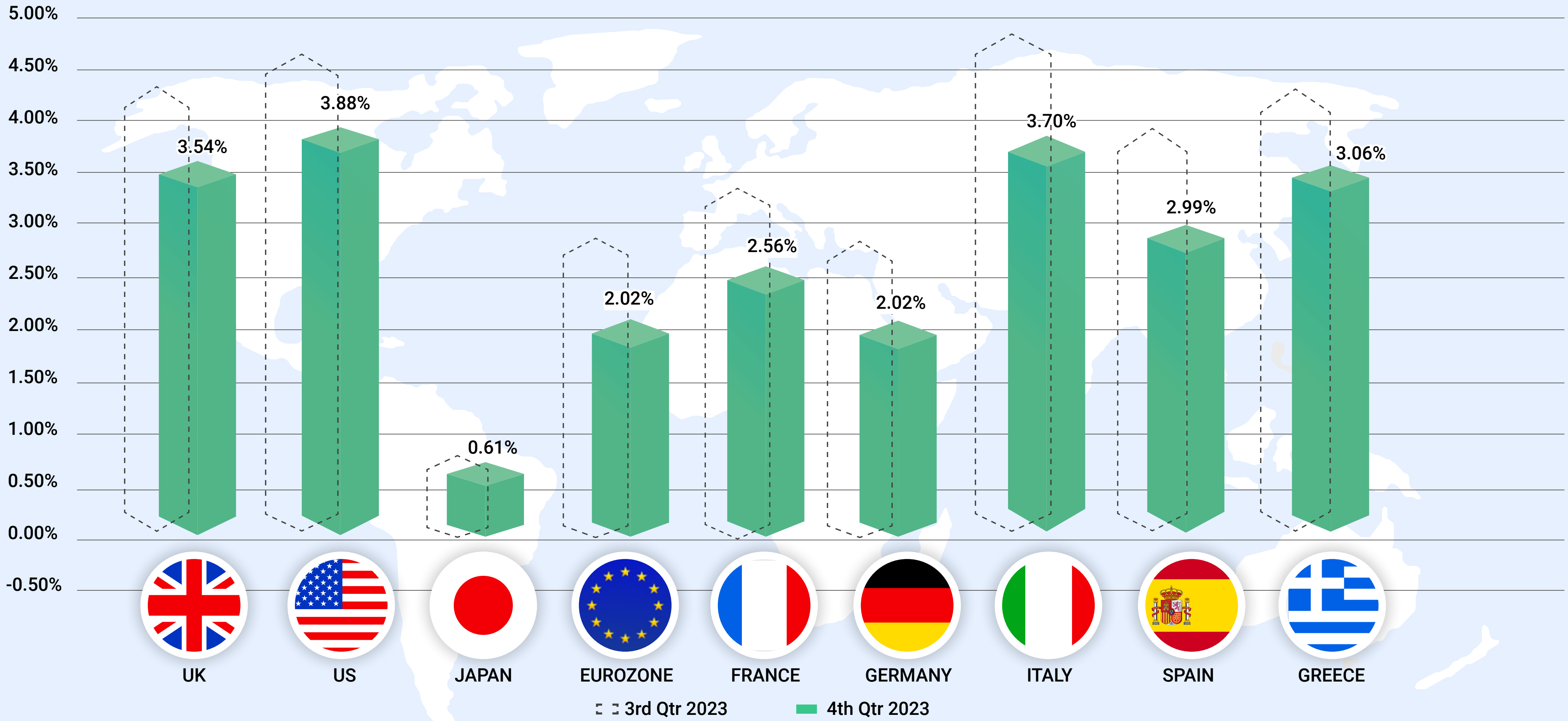


Key Points

- Sterling strengthened against most major pairs through the fourth quarter, notably ahead against the US dollar and Chinese yuan ,but was broadly flat against the euro.
- The Japanese yen was the chief outperformer from a currency perspective, as yields remained relatively firm against most nations where they declined. JPY gained against the dollar (moving from ¥149.4 to ¥141), euro and sterling.
- The dollar was the largest decliner for the quarter, as the greenback traded lower versus all major pairs, including the Chinese yuan.
- Commodity-linked currencies saw more mixed performance in Q4. The Aussie and Kiwi dollar rallied through December to finish ahead of sterling, while the Canadian dollar declined in tandem with falling oil prices and finished behind the pound.

GENERIC 10-YEAR YIELDS*

*A Generic bond is a theoretical bond that always has the specified tenor, unlike a Benchmark bond, which is a physical bond, with a decreasing tenor.



Key Points

- With year-on-year inflation beginning to subside, yields declined in developed economies through the quarter. As a result, longer duration (higher interest sensitive) issues fared best.
- The largest moves on 10-year yields were seen in Greece (-130 basis points), Italy (-108 basis points) and Spain (94 basis points) – with the UK not far behind (-90 basis points).
- Tightening spreads also benefited fixed income holdings, with global investment grade (+4.3%) and high yield (+4.0%) corporates outperforming government debt.
- The best performing area of the fixed income market was within emerging market debt (+9.3%), which benefited from declining yields, risk-on sentiment, and a falling US dollar.

GLOSSARY

ASSET CLASS CORRELATION – normally equities and bonds would expect to be negatively or inversely correlated which means they would be expected to move in opposite directions in reaction to market data. When we see asset class correlation or positive correlation, we have the unusual circumstance of asset classes moving in unison in the same direction which makes diversification harder to achieve.

DOVISH – refers to a monetary policy stance that is characterized by a cautious and accommodative approach towards interest rates and economic stimulus. A dovish policy is typically implemented by central banks to stimulate economic growth and reduce unemployment. It involves keeping interest rates low and providing ample liquidity to the financial system. The term "dovish" is derived from the behaviour of a dove, which is seen as gentle and peaceful. In contrast, a hawkish policy stance is characterised by a more aggressive approach towards interest rates and inflation.

GDP (Gross Domestic Product) – a measure of the total value of all goods and services produced within a country's borders during a specific period. Used to compare the economic performance of different countries.

HAWKISH – monetary policy stance that prioritises controlling inflation over stimulating economic growth.

PMI stands for Purchasing Managers' Index – an economic indicator that measures the activity level of purchasing managers in the manufacturing and services sectors. The PMI is calculated based on a survey of purchasing managers who report on various aspects of their business, such as new orders, production levels, employment, and supplier deliveries. The PMI is a leading indicator of economic activity and is closely watched by investors, policymakers, and analysts. A PMI reading above 50 indicates expansion in the sector, while a reading below 50 indicates contraction.

Tenor Bond – a type of bond that has a longer maturity period, typically between 10 and 30 years. The term "tenor" refers to the length of time until the bond reaches maturity and the principal amount is repaid to the bondholder.

DISCLAIMER

Sources: Collidr, Bloomberg. Indices: Barclays, FTSE, Bloomberg, STOXX, Japan Exchange Group, MSCI, S&P, New York Mercantile Exchange, Chicago Mercantile Exchange, Bureau of Labour Statistics, US and Office for National Statistics, UK notice.