Quarterly Investment Update

January - March 2024

QUARTERLY MARKET COMMENTARY

1st Quarter 2024

SNAPSHOT

- Global equities started the year in strength, led by US and Japanese stocks.
- Fixed income languished as investors repriced the likelihood of near-term rate cuts.
- Commodities rallied, driven by oil and precious metals.

All percentages below are quarterly returns unless indicated otherwise

EQUITIES

US MARKETS

Resilient macro backdrop drives prices

10.2%
US 500

UK MARKETS

Edge higher but lag developed peers

2.5%
UK ALL SHARE

EMERGING MARKETS

Trail developed peers as China fears persist

1.9%
EM

BOND MARKETS

BONDS

Credit and high yield outstrip government issues

UK GILTS	-1.6%
US TREASURIES	-1.0%
GLOBAL CORPORATE BONDS	0.1%
GLOBAL HIGH YIELD BONDS	3.0%

*Values represent bond index returns

CURRENCIES

CURRENCIES

Sterling strengthens versus most major pairs

Pound vs Other Currencies

GBP vs USD	-0.9%
GBP vs JPY	6.4%
GBP vs EUR	1.4%
GBP vs CNY	0.7%

KEY INDICATORS

GOLD – XAU/USD	7.4%
OIL – BRENT CRUDE	13.6%
COMMODITIES	11.4%
INFLATION – UK CPI (YOY)	3.4%

WHEAT

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GLOBAL MARKETS

Resilient macroeconomic data across developed economies drove a rally in equities, while fixed income investors digested the prospect of fewer cuts and for these to occur later in the year.

US MARKETS

Lead developed peers as growth bias benefits

US equities, and more specifically those dubbed 'The Magnificent Seven', have led performance for developed market equities, as large cap, technology enabled companies performed best – notably Nvidia (+88%), Meta (+40%), and Amazon (+20%). However, Tesla (-29%) notably underperformed amid slowing growth and production issues. On the fixed income front, credit and high yield returned best, while government issues declined as investors re-rated the prospects of any near-term rate cuts as economic data remains robust. The US dollar was broadly strong through the quarter against all major pairs, serving as a slight tailwind for unhedged foreign investors.

10.2%

US 500

UK MARKETS

Edge higher but underperform developed peers

UK stocks moved higher in aggregate terms, albeit seeing most appreciation in the second half of the quarter with the first half being flat. Large caps and commodity-related stocks outperformed as global growth remains resilient – these were followed closely by mid-caps, as small-caps trailed. Inflation has now declined to 3.4% year-on-year which is slightly above the Bank of England's target. However, data indicates that UK growth is slowing, owing to the relative fragility of the UK market and fallout of global geopolitical issues, as well as supply chain disruptions. UK fixed income was therefore negative, as upward pressure remained on yields.

2.5%

UK All Share

EUROPEAN MARKETS

Hit all-time highs despite weakening data

European equity indices (notably the CAC 40) climbed to all-time highs during the quarter, despite economic growth remaining sluggish, retail sales declining, and inflation climbing month-on-month toward the end of the quarter. Large caps outperformed mid and small caps, while growth stocks narrowly outperformed value stocks. Within bonds, credit outperformed government issues (which returned negative), and European high yield bonds posted the best returns as spreads tightened. On the currency front, the euro mostly weakened against major pairs (USD, GBP, and CNY) but strengthened against the falling Japanese yen.

7.8%

Euro 600 Index ex UK

JAPAN MARKETS

All-time highs eclipse 1989 levels

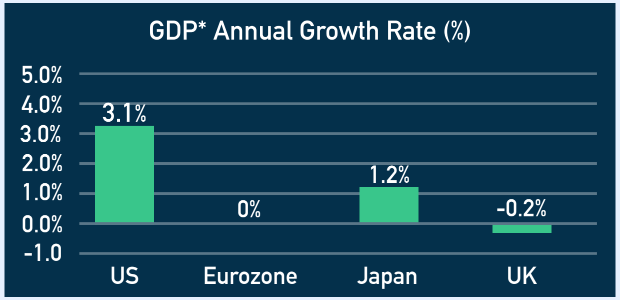
Japanese equities traded higher through the first quarter of the year, as the Nikkei 225 marginally beat the broader and more-domestically focused TOPIX index. Japan continues to benefit from a weak currency and ultra-low interest rates, which have served as a tailwind to the country's sizeable manufacturing base. Thus, stocks have outperformed developed market equities in local currency terms, but the yen has notably weakened versus major pairs in the past few quarters. The Bank of Japan has started to moderate its ultra dovish approach, and raised rates during the quarter, for the first time in nearly two decades.

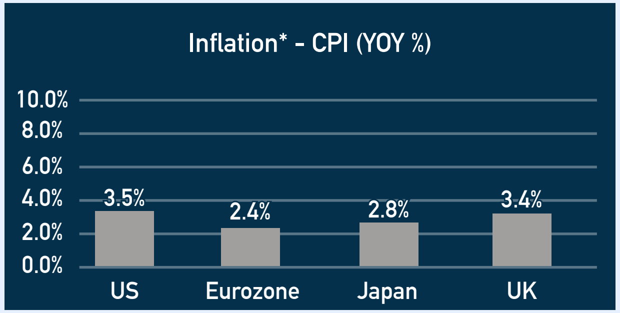
17.0%

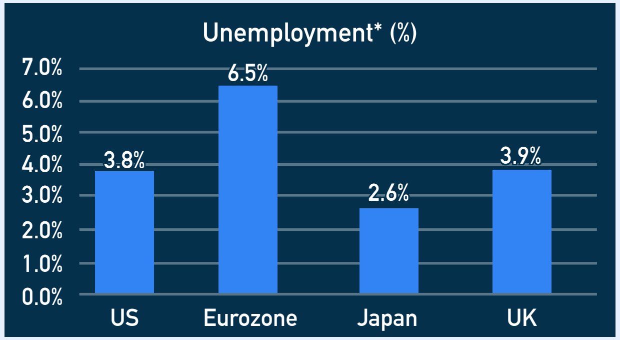
Japan Index

THE WORLD AT A GLANCE

	1st QTR 2024	2023	2022	2021	2020	2019
UK Cash	1.3	4.7	1.4	0.1	0.2	0.7
US Dollar	3.1	-2.1	8.2	6.4	-6.7	0.2
UK Gilts	-1.6	3.7	-23.8	-5.2	8.3	6.9
US Treasuries	-1.0	4.1	-12.5	-2.3	8.0	6.9
Global Corporate Bonds	0.1	4.0	-6.8	-1.9	7.1	7.3
Global High Yield Bonds	3.0	8.2	-2.3	2.0	3.8	8.3
US 500	10.2	24.2	-19.4	26.9	16.3	28.9
UK ALL SHARES INDEX	2.5	3.9	-3.2	14.6	-12.5	14.2
EURO 600 INDEX EX UK	7.8	14.8	-14.9	22.4	1.0	24.3
JAPAN INDEX	17.0	25.1	-5.1	10.4	4.8	15.2
Asia Ex Japan	4.4	6.4	-15.4	-3.1	22.4	17.9
Emerging Markets	1.9	7.0	-22.4	-4.6	15.8	15.4
Commodities	11.4	-9.7	41.9	41.7	-26.1	13.1
Gold	7.4	12.8	-0.7	-4.3	21.0	18.0
Hedge Funds	2.6	2.7	-4.4	3.0	5.9	8.1







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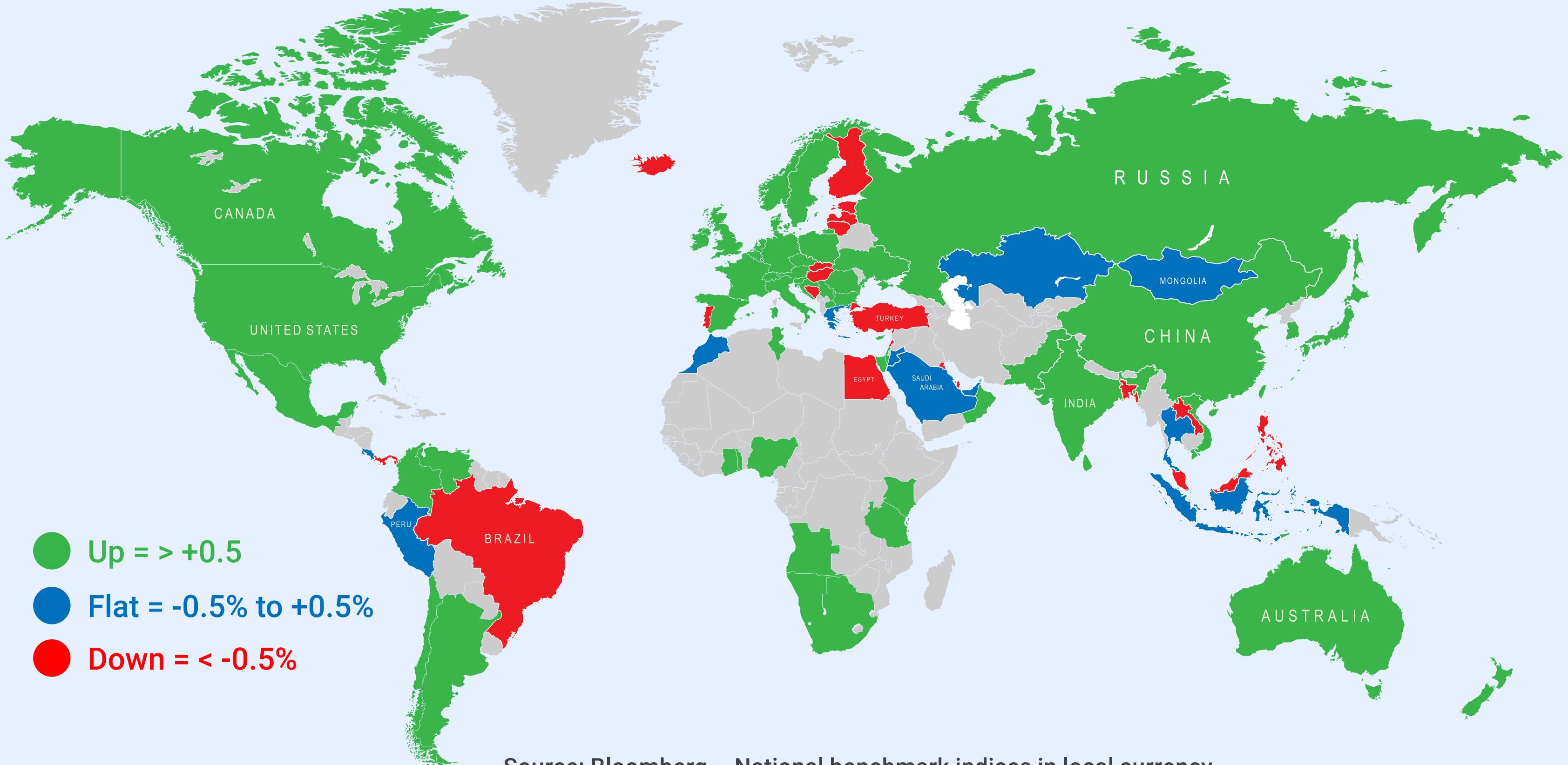
WORLD EQUITY MARKETS



Source: Bloomberg – National benchmark indices in local currency

10.2% USA

7.8% EUROPE

17.0% JAPAN

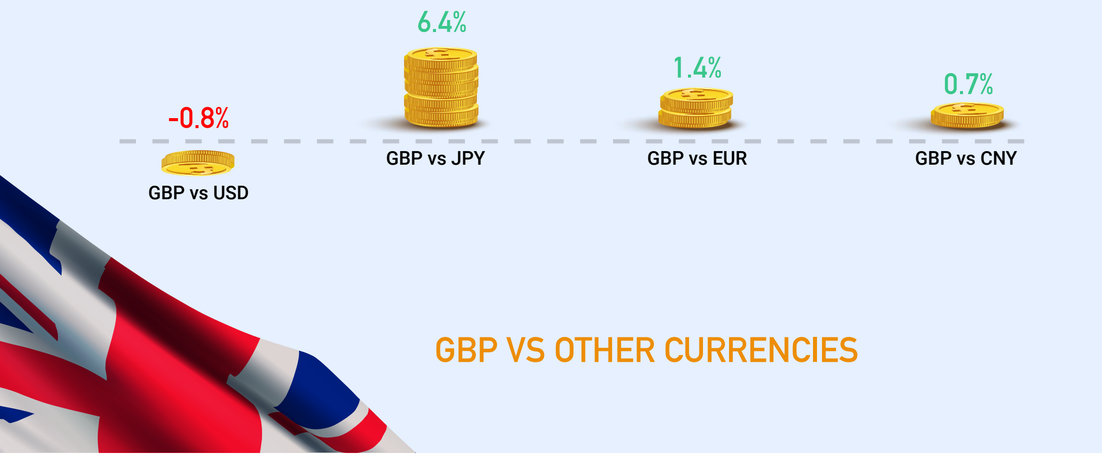
2.5% UK

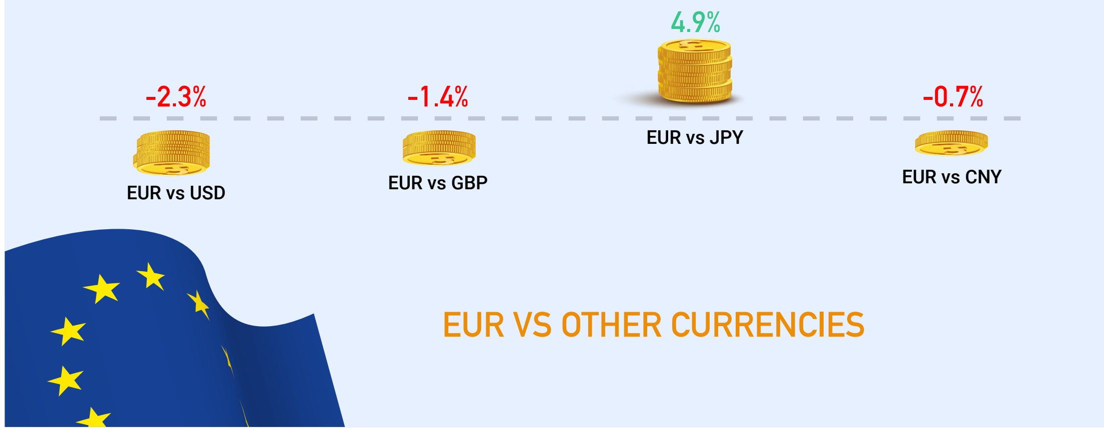
1.9% EMERGING MARKETS

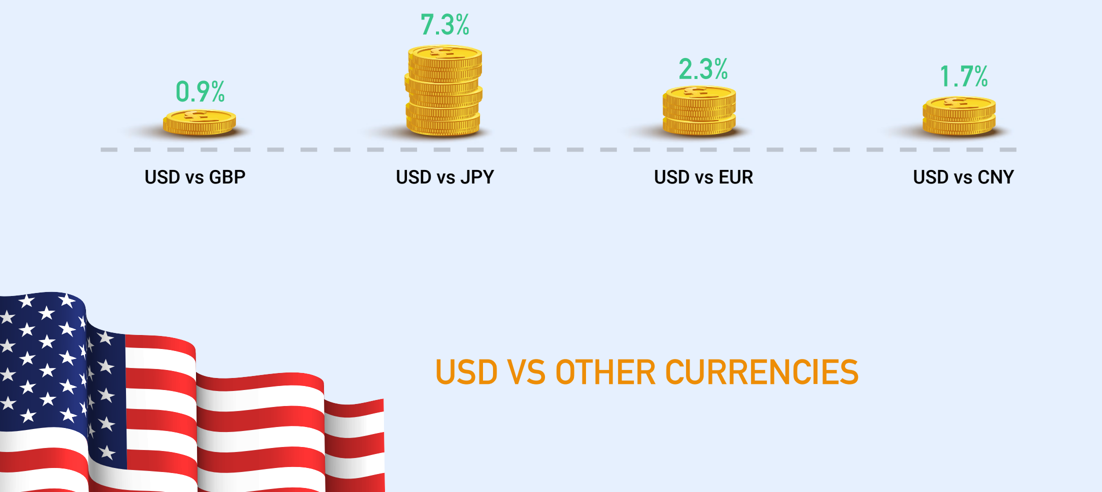
Key Points

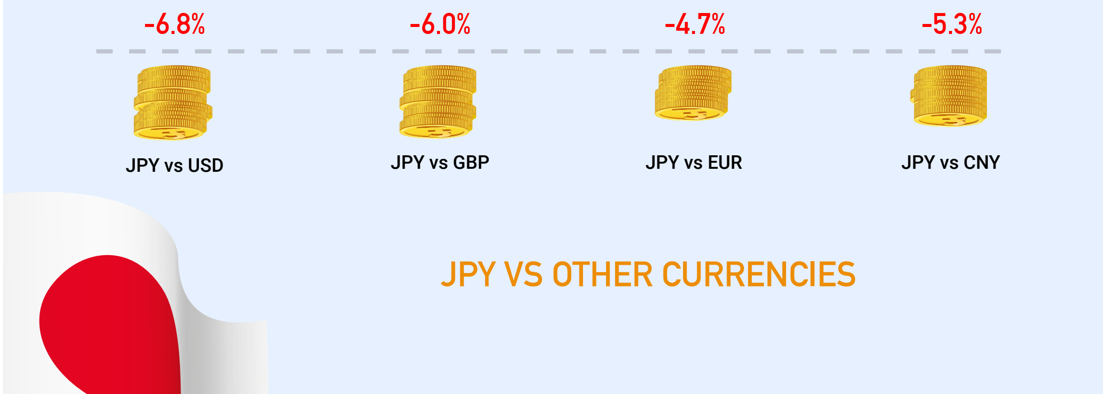
- Global equities posted strong returns to start the year, with developed market stocks outperforming their emerging market equivalents (+8.9% vs +1.9% in USD terms).
- From a factor standpoint, all were positive, but ‘momentum’ was the best performing global equity factor for the quarter, as is the case using a trailing 12-month look-back. This was followed by ‘quality’, with the poorest performing factor being ‘small cap’.
- Across regions in local currency terms, Japan (+17%) was the best performing region, albeit with a weakening yen. While the US (+10%), Europe (+8%) and UK (+3%) followed after this. The poorest performers were Portugal (-12%), Brazil (-5%) and South Africa (-3%).
- In terms of market dynamics, large cap stocks outperformed mid and small caps, while ‘growth’ as typically defined, outperformed ‘value’.
- From a sector perspective, the best performing areas were information technology (+12%) and communication services (+13%), while the poorest was real estate (-1%) as yields remain stubbornly high owing to inflation concerns.

CURRENCIES







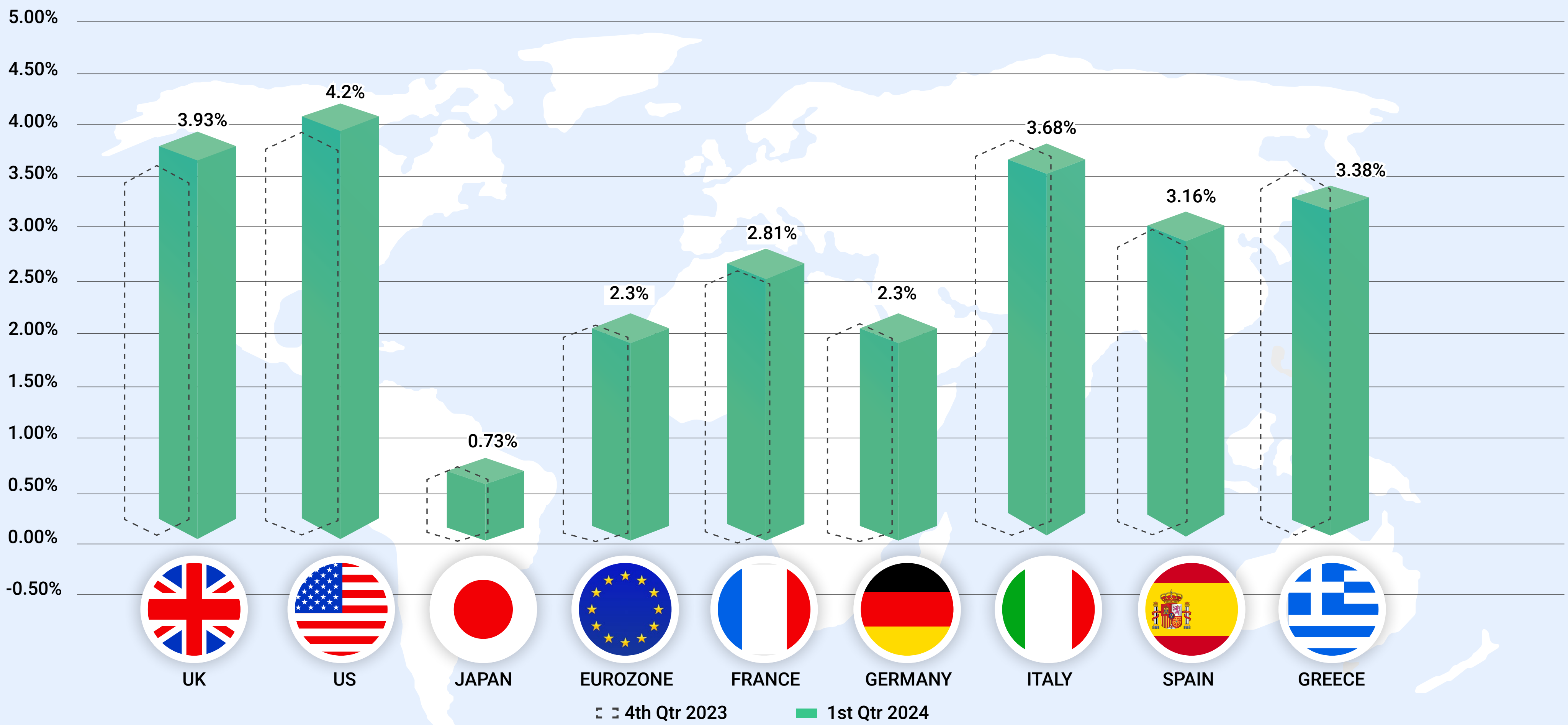


Key Points

- The US dollar was the best performing major currency, gaining ground against the pound, euro, and Chinese yuan. The dollar/sterling cross ended the period at $1.26, which is up from $1.21 in October of last year.
- Sterling strengthened against most currency pairs ex-USD, owing to a resilient equity market and interest rates remaining elevated.
- The Japanese yen was the chief laggard from a currency perspective, losing ground to most pairs, notably the dollar. The yen continues to weaken despite the Bank of Japan hiking rates for the first time since 2007.
- Emerging market currencies largely depreciated through the quarter, serving as a headwind to risk asset performance - more broadly, USD versus the Chinese yuan (+1.7%), Russian ruble (+3.7%), Brazilian real (+3.3%), and Indian rupee (+0.1%).

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

- The primary focus for bond markets in recent months has been the trajectory of interest rates, following the most aggressive rate hiking cycle in 40-years.
- As disinflationary progress has been slow relative to expectation, investors have had to price in rate cuts occurring to a less significant extent and further out in the calendar. This has served as a headwind to fixed income.
- Through this backdrop, yields pushed higher across developed market economies with the exception of Italy, where the 10-year yield was broadly flat (-2 bps).
- The largest moves on 10-year yields were seen in the UK (+39 bps to +3.93%), US (+32 bps to 4.20%) and Greece (+32 bps to +3.38%).
- Across global corporate bonds, those carrying more credit risk performed best as spreads tightened - High Yield (+3.0%) and Investment Grade (+0.1%).

GLOSSARY OF TERMS

BoE	Bank of England – central bank of the United Kingdom
BoJ	Bank of Japan – central bank of Japan
BPS	Basis point or BPS are a unit of measurement that represent 1/100th of a percentage point. Basis points are commonly used in finance to describe changes in interest rates, bond yields, and other financial indicators. For instance, if an interest rate increases from 3% to 3.25%, it has increased by 25 basis points.
Correlation	The degree to which the returns of financial assets or instruments move in relation to each other
CNY	Chinese renminbi (yuan) – currency of the People's Republic of China
CPI	Consumer Price Index – a measure of inflation in which a basket of goods and services is calculated over different time periods
Dovish	The approach in which central banks are likely to keep monetary policy "loose" or accommodative
ECB	European Central Bank – the central bank of the European Union countries which have adopted the euro
EUR	Euro, the official currency of the European Union for the 20 of 27 member states that have adopted this currency.
The 'Fed'	or the US Federal Reserve System – the central banking system of the United States of America, which includes the Federal Reserve Board and the twelve regional Federal Reserve Banks.
GBP	British Pound – sometimes referred to as 'sterling'
GDP	Gross Domestic Product – a monetary measure of the market value of all goods and services produced in a specific time period by a country or countries
Growth Stocks	Stocks which display specific characteristics – high price-to-earnings (P/E), high price-to-book (P/B), low to no dividend yield – which typically demonstrate revenue growth and tend to reinvest earnings rather than distribute them as dividends.
Hawkish	The approach in which central banks are likely to keep monetary policy "tight" or restrictive
JPY	Japanese Yen – currency of Japan
Macro	or Macroeconomics – a branch of economics that deals with the performance, structure, behavior, and decision-making of an economy as a whole
PMI	Purchasing Managers' Index – an economic indicator used to measure the activity of the manufacturing/service sectors of the economy
USD	US Dollar – currency of the United States of America
Value Stocks	Stocks which may trade at lower prices relative to their intrinsic value, as defined by traditional fundamental analysis, and typically include evaluation metrics such as lower price-to-earnings (P/E) and price-to-book (P/B) ratios, and higher dividend yields, compared to Growth stocks.
Yield Curve	a graph (line) which depicts how the yields on debt instruments – such as bonds – vary as a function of their years remaining to maturity
YoY	Year over year

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