BOWMORE ASSET MANAGEMENT

Mid –Quarter ESG Review for Retail Clients

Published December 2023

MAIN MARKET MOVERS

GROWTH SLOWDOWN | DISINFLATION | CENTRAL BANKS PAUSE | CHINESE DEBT

As we look ahead into 2024, we expect growth to slow down and inflation to be ‘bumpy’ but ultimately on a falling trajectory throughout the year. The US is proving to be resilient due to a stronger labour market but facing negative money supply and below trend consumer activity. China, we believe will start to see growth stabilising as they start to tackle, again, the debt issue that dominates their property and local government sectors. The Eurozone and UK may well be the weaker economies in the early stages of 2024 which might push central banks to start cutting rates.

There is, however, uncertainty as to the extent of any slowdown in growth for early 2024 and so we do expect further volatility in the first half of 2024, until policy support kicks in and provides sufficient momentum behind people’s risk appetite.

LATEST VIEWS

Jonathan Webster-Smith, Chief Investment Officer

US Equity

The “Magnificent Seven” US technology stocks remains to be the driving force behind US equity market returns. Growth investing has continued to outperform value over the period, but prices are now beginning to look stretched especially in the large cap technology stocks.

Fixed Income

US Government bonds, German Bunds and UK Gilts have recovered significantly from their October lows. Fixed income markets are benefiting from a change in investor sentiment as expectations have moved away from the fear of further interest rate rises to hopes that 2024 will see interest rate cuts.

Inflation

Core inflation has dropped markedly in the US, and it should continue towards its 2% target in 2024. Falls in energy prices have contributed significantly to these declines. We have seen more gradual declines in inflation numbers for both Europe and the UK where central banks are more cautious and believe inflation will be significantly stickier than in the US due to the war in Ukraine and Brexit pressures, respectively.

Bowmore Asset Management Limited
Birchin Court, Birchin Lane, London EC3V 9DU
Tel: +44 (0)20 3617 9206 | www.bowmorewealth.com
Authorised and Regulated by the Financial Conduct Authority
Registered in England 09051799 | VAT number 202663930

3-month fund performance

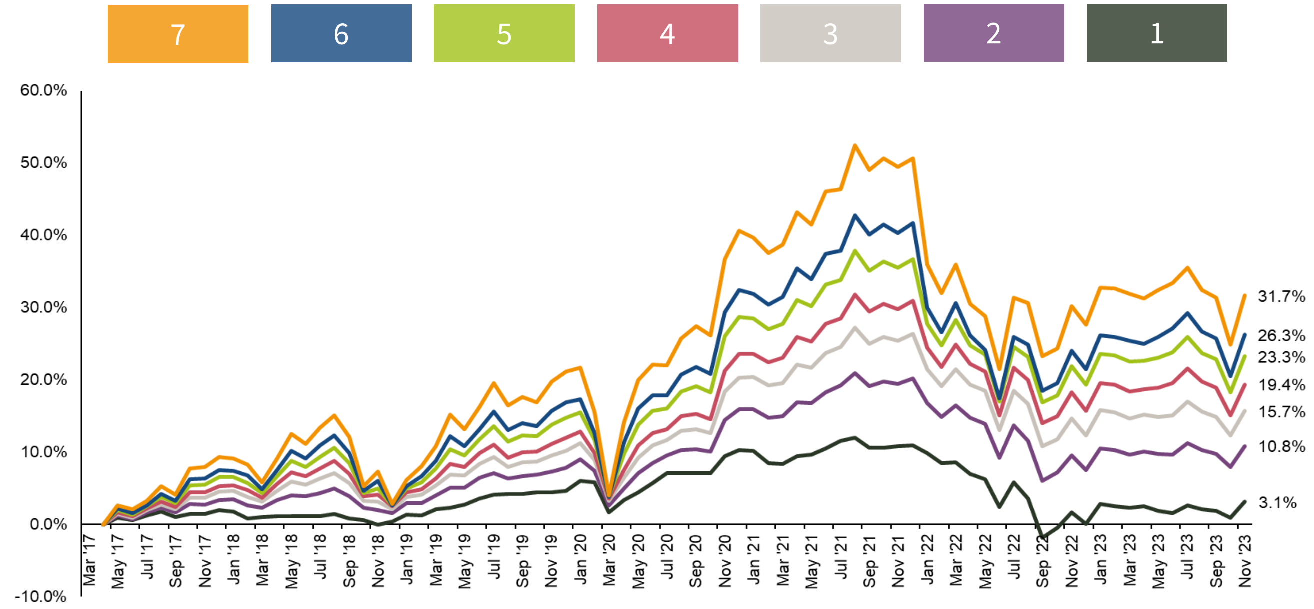
Top performers

Worst performers

TOP PERFORMING FUNDS	ASSET CLASS	PERFORMANCE		COMMENTS
First Trust Cyber Security	Equity (Global)	3 month 1 year 3 year	+6.64% +20.38% +31.64%	Cybersecurity firms continue to be in high demand and have performed well given the increased risk of cyber-attacks coming from China and Russia. We expect corporate spending to exceed the 25% expected growth rate of spending in this area.
Liontrust Sustainable Monthly Income Bond	Fixed Income	3 month 1 year 3 year	+3.93% +2.32% -11.03%	Investment Grade credit spreads have come in as demand for the sector improves. Lower rates in 2024 should provide a favourable environment for Investment Grade credit.
Artemis Corporate Bond	Fixed Income	3 month 1 year 3 year	+3.78% +2.67% -9.95%	Corporate bonds have been performing well as the aggressive monetary tightening of previous years appears to be easing. The recent pauses in interest rate hikes from central banks suggest we are at or near peak rates and could see a pivot to lower rates in 2024.

WORST PERFORMING FUNDS	ASSET CLASS	PERFORMANCE		COMMENTS
Impax Asian Environmental Markets	Equity (Asia)	3 month 1 year 3 year	-5.58% -10.69% N/A	Chinese equities have struggled over the period as both local government and property debt weigh on growth. The Chinese government are taking steps to deal with these issues, and we should see growth begin to stabilise going forwards.
FP WHEB Sustainability	Equity (US)	3 month 1 year 3 year	-5.92% -8.14% -6.99%	The funds structural exposure to Mid-Cap companies combined with moderating valuations in the energy transition sector have led to poor performance over the period.
Guinness Sustainable Energy	Equity (Global)	3 month 1 year 3 year	-9.13% -17.61% +6.41%	Valuations in the renewable energy sector have moderated over the past 12 months. Despite this, earnings have remained resilient, and the energy transition sector is likely to see a fast tracking following COP28.

OUR SEVEN RISK PROFILES



PERFORMANCE

	1 year	3 year	5 year	Since Inception
Bowmore ESG 2	1.2%	-3.15%	8.67%	11.07%
Bowmore ESG 3	0.9%	-2.27%	12.15%	15.86%
IA Mixed Investment 0-35%	3.26%	-4.39%	5.57%	5.92%
Bowmore ESG 4	0.9%	-1.59%	14.72%	19.46%
IA Mixed Investment 20-60%	1.94%	0.74%	11.73%	13.27%
Bowmore ESG 5	1.1%	-2.19%	17.39%	23.40%
IA Mixed Investment 50-50%	2.11%	3.41%	16.68%	19.61%
Bowmore ESG 6	1.8%	-2.41%	19.14%	26.33%
IA Mixed Investment 40-85%	2.26%	6.12%	21.76%	26.20%
Bowmore ESG 7	1.1%	-3.65%	22.69%	31.84%
IA Flexible Investment	2.03%	7.17%	23.73%	28.50%

Bowmore portfolios | Corresponding benchmark

HOW DID OUR PORTFOLIOS PERFORM?

Portfolios have performed well over the quarter supported by positive inflation data coming out of developed markets and a softer interest rate outlook from Central Banks.

Positive contributors over the period include Global Equites and Fixed Income which should benefit from a lower interest rate environment in 2024.

Detractors include our sustainable energy funds which have suffered from a moderation of valuations over the period. The conclusion of COP 28 should renew attention on the importance of the sector.

We have made active changes to our portfolio composition over the period, adding a long-dated Gilt benefiting from a risk-free rate of return in a challenging environment. We have also introduced a new thematic allocation, the Regnan Sustainable Water & Waste fund, which we purchased mid-November after a period of underperformance for the sector. We think it is a growing trend moving forward.

Source: Bowmore Asset Management, Morningstar Direct as at 30/11/2023, Net of fees

MARKET REVIEW

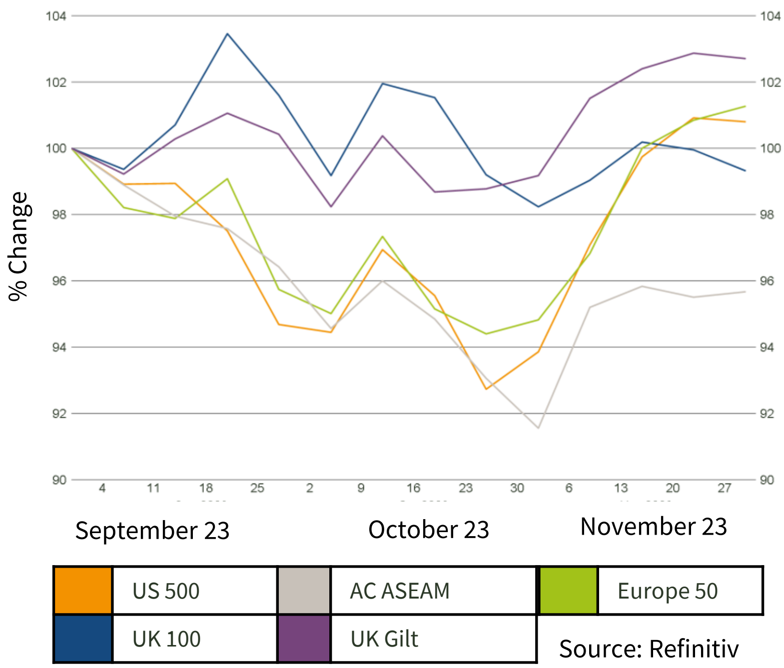
Markets are likely to close the year on a positive note as core inflationary data across the UK, US and Europe have cooled faster than expected. This combined with successive pauses from Central Banks suggest we have now reached the peak of the rate hiking cycle. Whether this means we are likely set for a ‘soft landing’ , ‘higher for longer’ or potential rate cuts in 2024 will be dictated by future macroeconomic data.

In the US, we have seen the ‘Magnificent Seven’ technology stocks providing the majority of the momentum to the S&P 500’s recovery over the quarter. They now make up 30% of the indexes market capitalisation.

In Europe both manufacturing and industrial production remain depressed but there has been an uptick in financials which have benefited from stronger interest margins.

The strong recovery expected from China’s reopening has failed to materialise as the housing market continues to add a drag on its growth prospects. The People’s Bank of China have stepped in to inject additional liquidity into the banking system. Looking ahead GDP growth expectations are in the 3-4% range as opposed to the 6-7% range we have become accustomed to.

Index Performances



Source: Refinitiv

Japan has shrugged off its disappointing Q3 GDP figures and continues to be the best performing stock market so far in 2023, up over 28% year to date. The weakening of the Yen has helped to attract international investors, as exports from the region are more competitive.

Within the fixed income sector both government and corporate bond prices have recovered as positive sentiment towards the sector has bought the risk premium down. Expectations of rate cuts in 2024 will be favourable for the sector.

We expect market volatility to continue for the first half of the 2024, but lower interest rates will support business and consumers, which should lead to positive market performance, further boosted by an expected weakening of the US Dollar.

FOR FURTHER INFORMATION

Jonathan Webster-Smith
Chief Investment Officer
T: 0203 988 0413
E: Jws@bowmoream.com

Stephanie White
Trainee Investment Manager
T: 020 3988 0418
E: Stephanie@bowmoream.com

Henry Gronning
Investment Director
T: 0203 617 9206
E: Henry@bowmoream.com