BOWMORE ASSET MANAGEMENT

Mid –Quarter 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.

Jonathan Webster-Smith, Chief Investment Officer

LATEST VIEWS

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.

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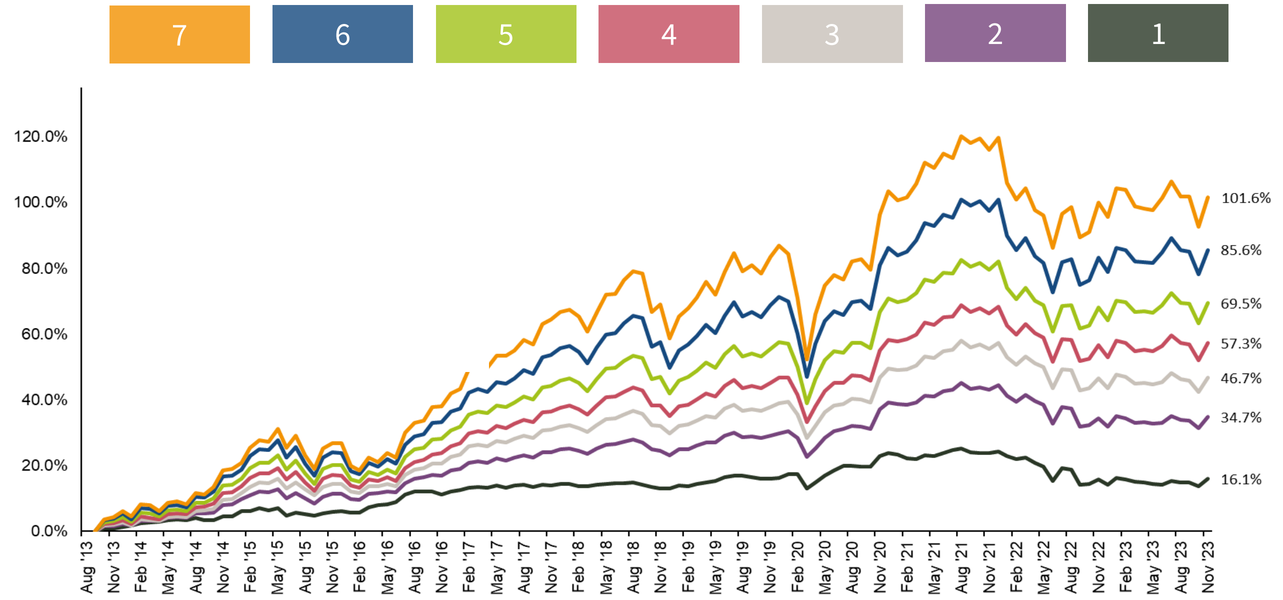
3-month fund performance

Top performers

Worst performers

TOP PERFORMING FUNDS	ASSET CLASS	PERFORMANCE		COMMENTS
First Trust Nasdaq Cybersecurity	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.
L&G Global Technology	Equity (Global)	3 month 1 year 3 year	+4.77% +35.84% +45.90%	US equity markets have rallied in the final quarter of the year due to successive pauses in rate hikes from the federal reserve combined with steady earnings coming out of the large cap US technology firms.
Artemis Corporate Bond	Fixed Income	3 month 1 year 3 year	+3.77% +2.67% -9.94%	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**
Guinness Sustainable Energy	Equity (Global)	3 month 1 year 3 year	-9.13% -17.60% +6.40%	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 positive momentum following COP28.
Matthews China Smaller Companies	Equity (Asia)	3 month 1 year 3 year	-8.97% -18.69% -34.44%	The economic environment within China has remained challenging coming out of COVID with negative news surrounding real estate sector and domestic consumption. Expectations for future growth are now at 4% per annum as opposed to the 6-7% per annum seen over the previous decade. The Chinese consumer has yet to spend the significant cash they have on deposit.
Granahan US Focused Growth	Equity (US)	3 month 1 year 3 year	-5.04% -10.76% -17.91%	The majority of the gains seen in the US equity markets have come from the large cap technology names. Smaller companies returns have been modest over the period but given the undervaluation of smaller companies we expect a continued rally in this asset class once a trigger starts to bring price and earnings upwards.

OUR SEVEN RISK PROFILES



PERFORMANCE

	1 year	3 year	5 year	Since Inception
Bowmore Core 2	0.25%	-1.77%	8.27%	33.42%
Bowmore Core 3	0.09%	-0.09%	11.13%	46.72%
IA Mixed Investment 0-35%	1.40%	-4.39%	5.57%	27.33%
Bowmore Core 4	0.40%	1.39%	13.67%	57.25%
IA Mixed Investment 20-60%	1.94%	0.74%	11.73%	40.74%
Bowmore Core 5	0.86%	1.68%	15.35%	69.46%
IA Mixed Investment 50-50%	2.11%	3.41%	16.68%	52.85%
Bowmore Core 6	1.36%	2.57%	17.91%	85.65%
IA Mixed Investment 40-85%	2.26%	6.12%	21.76%	65.79%
Bowmore Core 7	0.81%	2.71%	19.30%	101.64%
IA Flexible Investment	2.03%	7.17%	23.73%	69.46%

Bowmore portfolios | Corresponding benchmark

HOW DID OUR PORTFOLIOS PERFORM?

The final quarter of the year has seen better than expected inflation data across developed markets so far. Central Banks have paused interest rates for two successive meetings leading financial markets to speculate whether we are at the end of the rate hiking cycle.

Positive contributors within portfolios include Japanese and US equities, specifically the large cap technology funds. Fixed income markets have recovered from lows seen in October and look to be on course to posting positive returns for the year.

Commodity funds have been detractors as energy and natural gas prices decline. Chinese equities have also struggled over the period as the property market continues to drag on growth.

We have made active changes to our portfolio composition over the period, reinvesting profits from a World index into an equally weighted S&P500 as well as pivoting our US banks' exposure.

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.

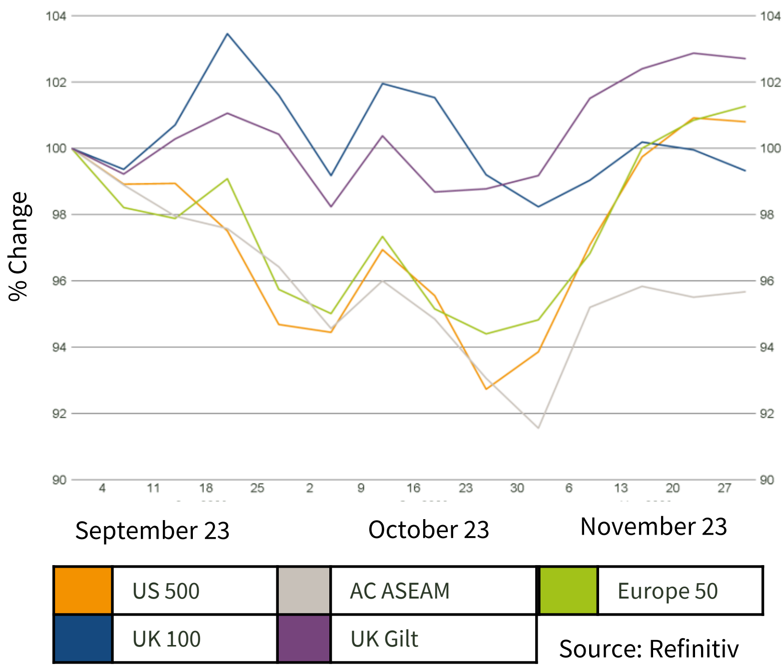
The strong recovery expected from China's reopening has failed to materialise as the housing market continues to add a drag on its growth prospects. The People's Bank of China have stepped in to inject additional liquidity into the banking system. Looking ahead GDP growth expectations are in the 3-4%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

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.

Index Performances



Source: Refinitiv

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