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ASSET MANAGEMENT

GLOBAL MARKETS OVERVIEW

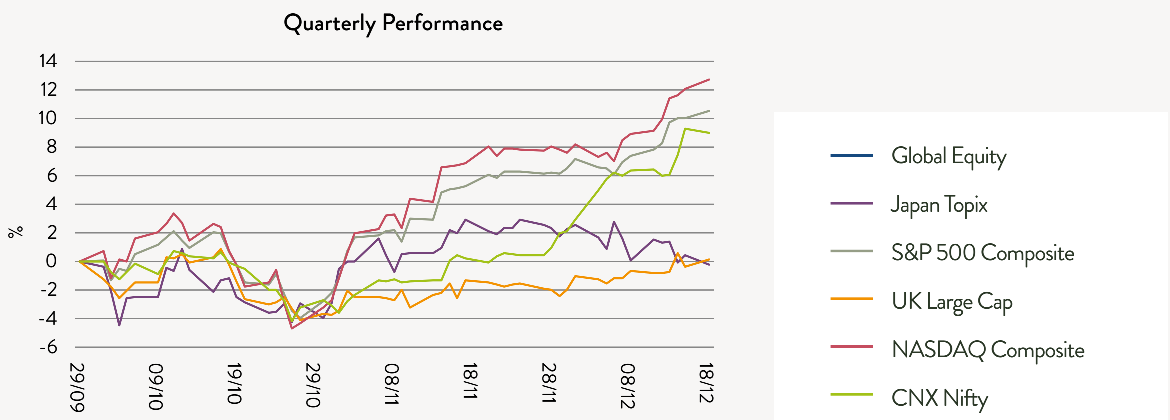
FOR RETAIL CLIENTS

4TH QUARTER 2023

CONTENTS

Global Markets

Our quarterly market overview provides a snapshot of recent activity within the world's financial markets. This quarter, we look at the big gains from technology stocks, the rise and fall in bond yields, China's economic challenges, the increase in gold prices, and more. We also provide our outlook for different sectors and markets as we begin 2024.

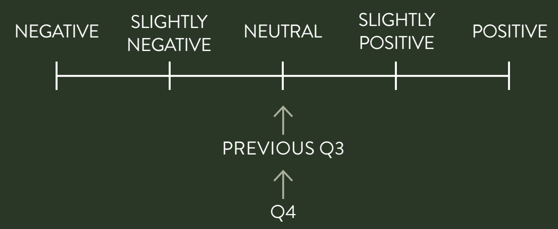


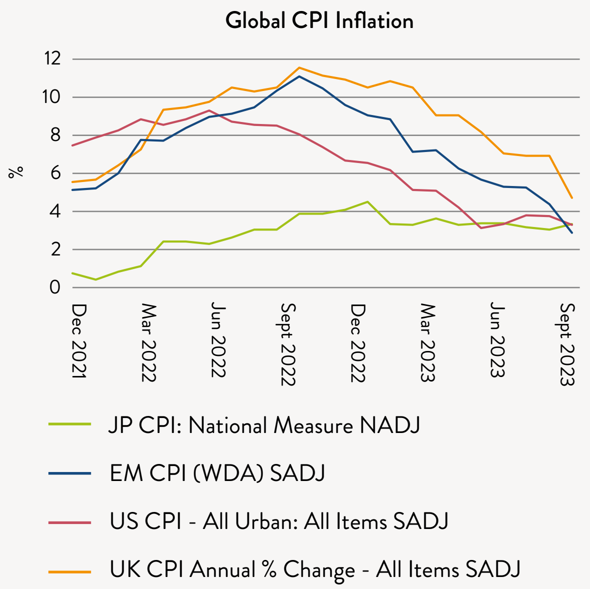
Source: LSEG, Datastream. Date Range: 29/09/23 - 18/12/23

- Global equities delivered significant gains in Q4, helped by strength in the US market.
- Mega-cap tech stocks led the rally in the US market, returning to the levels they hit in H1. However, the rally began to broaden out late in the quarter.
- European shares posted healthy returns for the quarter thanks to optimism that interest rates in the eurozone will be cut in 2024. UK equities were flat.
- China continued to experience a range of challenges including high government debt and weakness in its property market. In December, Moody's downgraded China's credit outlook to negative. The Chinese government is looking to be more pro-business.
- Economic data weakened in Q4, particularly in Europe. There is often a delay between interest rate increases and economic weakness, so there could be more weakness to come.
- Inflation continued to fall in most advanced economies. As a result, the US Federal Reserve, the European Central Bank, and the Bank of England all held interest rates steady. The Fed signalled that it may cut rates in 2024.
- Gold rose above $2,000 per ounce in Q4 on the back of economic uncertainty and geopolitical tension. Oil prices, however, declined.
- At COP28 in Dubai, governments agreed to 'transition away' from coal, oil, and gas.

Our Stance

We currently have a neutral stance on global equities. Economic data is mixed, and whilst we have most likely seen peak interest rates, we may not have seen the lagged effect of interest rate increases yet. So, a 'soft landing' may be optimistic.

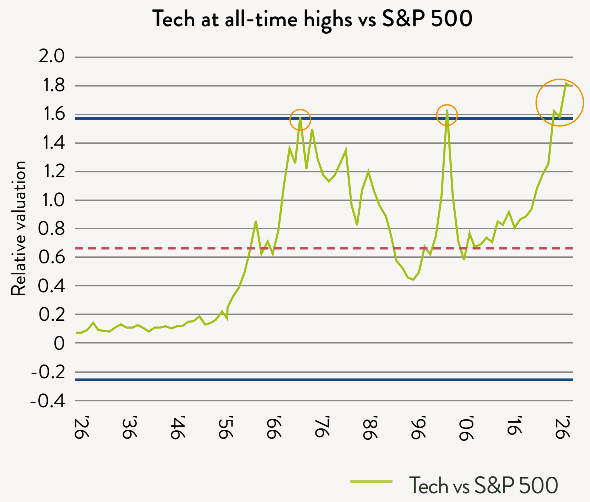




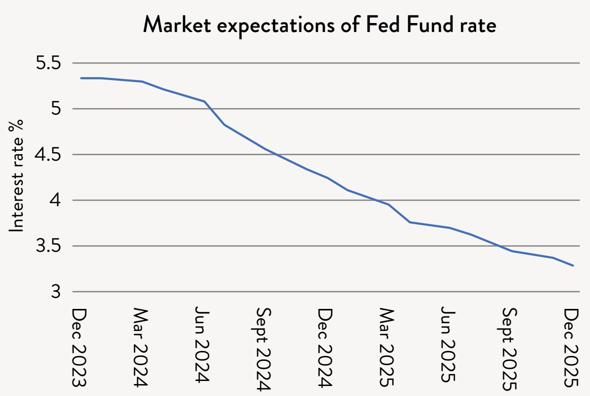
Source: LSEG, Datastream. Date Range: 01/12/21 - 01/10/23

- Inflation continues to trend down globally.
- Lower energy prices have helped to reduce inflation as have lower producer prices.
- In the UK, wage growth is slowing, which should help to ease inflationary pressures.

- US tech stocks rallied again in Q4 on the back of interest in AI.
- After its latest move up, the tech sector now trades at a historically high valuation relative to the broader market.
- At the end of 2023, the average P/E ratio across the 'Magnificent 7' was around 34 on a forward-looking basis. Stripping these stocks out of the S&P 500, the index's P/E ratio falls significantly.



Source: BofA Global Investment Strategy, Bloomberg. Date Range: 1926 - 2023



Source: Fed Funds Futures, Date Range: 12/23 - 12/25

- The US Federal Reserve has indicated that it is willing to cut interest rates in 2024. Futures markets show that traders expect the Fed to start lowering rates in March.
- The market consensus is for six interest rate cuts from the Fed in 2024. However, this could be optimistic.
- Lower interest rates in the US could put pressure on the US dollar. A lower dollar should support emerging markets assets.

UK Equities

Q4 was a choppy quarter for UK equities. In October, share prices fell as bond yields rose and investors went into risk-off mode as a result of the conflict in the Middle East and fears over another energy crisis. However, stocks recovered in November and December to end the quarter up slightly.

While the performance from UK large caps, as a whole, was underwhelming, there were some notable gains from specific areas of the market in Q4. Housebuilders was one area that shined. Here, stocks performed well on the back of optimism that interest rates may have peaked. Companies that have a digital focus also outperformed. For example, Relx, London Stock Exchange Group, and Sage – which are all well placed in today's digital age – all produced double-digit gains for the quarter.

Additionally, companies that have exposure to the travel industry generally did well thanks to a shift from spending on goods to spending on experiences and an improving outlook for consumers. For example, easyJet shares took off after the company said that it was seeing booking strength for summer 2024. It told investors that, thanks to a return to profit, it would resume paying dividends in 2024. Meanwhile, aircraft engine maker Rolls-Royce – whose revenues are linked to flying hours – continued its dizzying rally. It vowed to deliver substantial profits in the medium term and upped its margin guidance.

Rolls-Royce Holdings PLC

Source: Google. Date Range: 18/12/18 - 18/12/23

Our Stance

The UK market underperformed its peers in 2023, with valuations remaining depressed relative to other markets. Our outlook for the UK remains slightly negative, with appetite for UK equity exposure reduced and the mid-term growth outlook revised lower. Sector-specific opportunities are presenting themselves, however.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

PREVIOUS Q3 ↑ SLIGHTLY NEGATIVE

Q4 ↑ SLIGHTLY NEGATIVE

At the other end of the performance spectrum, banks were generally quite weak, with Standard Chartered, Barclays, and NatWest all producing negative returns, the latter experiencing a sharp fall in October after a cut to guidance. UK banks look quite attractive from a valuation perspective after their recent pullback – capital ratios are solid, and yields are high. Consumer Staples also underperformed, with Diageo taking a hit as a result of weakness in the emerging markets and British American Tobacco falling after the company made some large write-downs across its business.

On the economic front, data from the Office for National Statistics (ONS) showed that the UK economy contracted by 0.1% in the third quarter[1]. And Q2 GDP was revised down to no growth versus earlier estimates of 0.2% growth. This lack of growth can be attributed to high interest rates, which are really starting to hurt both households and businesses.

The good news is that inflation in the UK continued to trend down, coming in at 3.9% for November versus 10.1% in January. Falling wage growth is helping here. In the three months to October, growth in total average earnings dropped from 8% to 7.2%[2]. The ONS noted that the marked decline in earnings growth coincided with jobs becoming harder to find. The drop in inflation has taken the pressure off the Bank of England (BoE), which held its base rate steady at 5.25% at its November meeting.

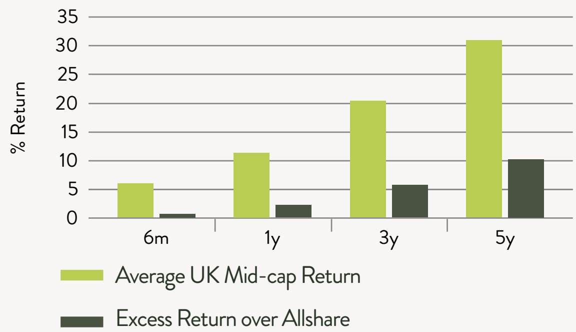
Looking ahead, many economists expect the BoE to cut interest rates in 2024. But they are divided on when the central bank will do so. Some believe we will see cuts in the first half of the year. Others believe H2 is a more likely scenario[3].

If interest rates are lowered, it could benefit the mid- and small-cap areas of the UK stock market. Both have underperformed significantly over the last two years as interest rates have climbed and now trade at low valuations.

Research shows that the UK's mid-cap index has historically delivered relative outperformance compared to the broader UK market following a peak in interest rates[4].

Meanwhile, history shows that when UK small caps have previously reached current valuation levels, returns over the subsequent five years have been very strong. We recently added a small-cap AIM-focused fund to capitalise on a potential rate-driven rebound.

Historic UK Mid-cap cumulative returns in the periods immediately following a peak in interest rates



Source: Martin Currie [4]

[1] Reuters

[2] The Guardian

[3] Morningstar

[4] Martin Currie

US Equities

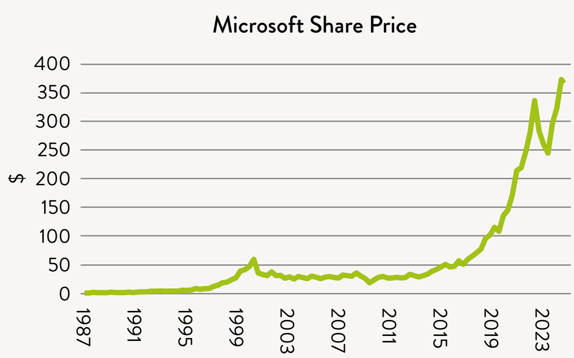
US equities outperformed in Q4, delivering strong returns for investors. The quarter got off to a rocky start, with share prices falling in October as bond yields moved higher and conflict in the Middle East impacted sentiment towards risk assets. However, US indexes then staged a stunning turnaround in November – posting their best monthly performance for the year – on the back of optimism that the US Federal Reserve is finished increasing interest rates. The rally continued in December as the Fed indicated that it may cut rates in 2024 and investor sentiment improved further.

As was the case for much of 2023, the Technology sector was a key driver of returns, with most of the 'Magnificent 7' (Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Nvidia, and Tesla) posting healthy gains for the quarter. These companies all have strong long-term growth prospects in today's digital world. They are also benefitting from interest in artificial intelligence (AI), which some analysts believe could add trillions to the global economy by 2030. It's worth noting that in December, Google released 'Gemini' – its rival to ChatGPT 4 – in an effort to compete with Microsoft, which has been rolling out its ChatGPT-based 'Copilot' AI features across its suite of products.

While AI was a dominant theme in Q4, it wasn't the only area of technology that did well. Another area that delivered strong returns was cybersecurity. We own the First Trust cybersecurity fund for exposure here. We like the long-term growth story as well as the fact that valuations within the space are attractive. Outside of Technology, the Real Estate and Financials sectors also performed well, boosted by expectations of lower interest rates.

US corporate earnings throughout the quarter were generally solid. Around 80% of large-cap companies reported a positive earnings per share (EPS) surprise while roughly 60% of companies reported a positive revenue surprise[5]. This discrepancy between earnings and revenues makes sense in an environment of falling inflation, given that price hikes due to higher input costs are often not reversed when costs fall. Overall, EPS expanded by 4.3%, beating the -0.4% consensus forecast heading into the reporting period[6]. Companies were generally more optimistic about the macroeconomic backdrop with FactSet analysis identifying a continued downtrend in the number of businesses citing inflation and a recession on their earnings calls.

Zooming in on earnings, Big Tech results revealed some interesting insights. One takeaway was that Microsoft is winning the cloud war at present. It saw year-on-year growth of 29% from Azure, versus 22% for Google Cloud and 12% for Amazon AWS. Another takeaway was that digital advertising is picking up, as Alphabet, Amazon, and Meta all saw strong growth on this front (although Meta warned of potential advertising softness as a result of the conflict in the Middle East). Nvidia showed that demand for AI chips remains very strong, posting year-on-year revenue growth of over 200% for the quarter, which is unheard of for a $1 trillion+ market cap company. On the downside, Tesla – which has made a net negative contribution to the S&P 500 since it joined the index in 2020 – said that, due to higher interest rates, the market for electric vehicles (EVs) is a little challenging right now.



Source: Source: Google. Date Range: 13/03/86 - 12/12/23

[5] FactSet
[6] Capital

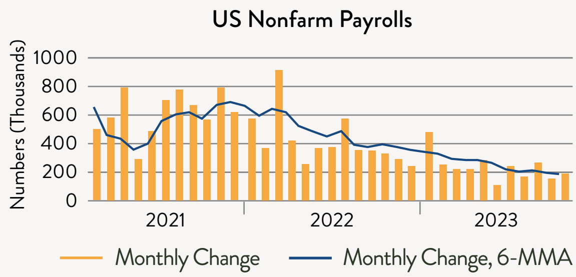
Looking beyond the Technology sector, there were some notable developments in the Energy sector during Q4, with a number of companies engaging in M&A activity. In October, Exxon made the $59.5 billion acquisition of Pioneer Natural Resources Co – in the largest US energy deal in decades – while Chevron bought Hess Corp in a $53 billion deal. Meanwhile, in December, Warren Buffett-owned Occidental Petroleum purchased Texas shale driller CrownRock in a $12 billion deal. This kind of activity suggests that there is a preference for buying new assets over drilling right now.

In the US, inflation continued to fall, with CPI inflation coming in at 3.1% for November, down from 3.2% in October[7]. As a result, the Fed left interest rates unchanged at its December meeting – for the third consecutive meeting – in a range of 5.25% to 5.50%. Late in the quarter, the Fed indicated that rate cuts are a possibility for 2024. This pushed share prices higher.

In Q4, economic data showed that the US economy – which was very strong in 2023 – is starting to cool. For example, the S&P Global US Manufacturing PMI came in at 49.4 in November – the lowest in three months – pointing to a deterioration in the manufacturing sector. Meanwhile, continuing claims, which are a proxy for the number of people receiving unemployment benefits, rose to 1.93 million[8] in mid-November, the highest level in over two years. This indicates that out-of-work Americans are finding it more difficult to secure new employment.

There was a lot of focus on the US consumer in 2023 as consumer spending is roughly 70% of the US economy. Encouragingly, US shoppers spent a record $10 billion on Black Friday and then another $12 billion on Cyber Monday[9]. These figures indicate that the consumer is still in decent shape. That said, the data showed a clear shift to spending on credit cards and 'buy now, pay later', which suggests that savings built up over the pandemic are now running low. M2 money supply (a measure of money supply that includes cash and short-term bank deposits) is now negative for the first time in decades.

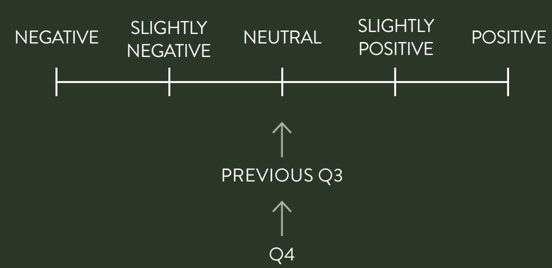
Over the course of the year, the pound strengthened against the dollar. With the US likely to be first to cut rates we expect this trend to continue. Bowmore has hedged around half of its exposure here.



Source: LSEG Datastream / Fathom Consulting.
Date Range: 15/01/21 - 15/11/23

Our Stance

As with global markets, we remain neutral on the outlook for US equities. With the Magnificent 7 priced for perfection, an economic contraction still a risk, and a US election coming up, we think investors need to be a little cautious. It's worth noting that while the US market as a whole looks expensive, when the mega-cap tech stocks are stripped out valuations are actually quite reasonable. We have therefore rotated away from a market-cap weighted S&P 500 index – which heavily weights towards Big Tech – to an equally-weighted S&P 500 index, which equally weights towards all members of the S&P 500 and has more exposure to defensive and value stocks. A pivot from the US Federal Reserve would most likely be supportive for US equities.



[7]CNBC

[8]BNN Bloomberg

[9]CNBC

European Equities

European equities performed well in Q4, with optimism in relation to potential rate cuts from the European Central Bank (ECB) outweighing concerns over the strength of the European economy. During the quarter, German stocks hit new all-time highs as did French stocks. Italian shares also rose, however, they continued to trade at a large discount to global equities due to concerns over the country's debt levels (Italy's debt is over 100% of GDP). At one stage during the quarter, Italian shares were trading at their largest discount to global equities in 35 years[10].

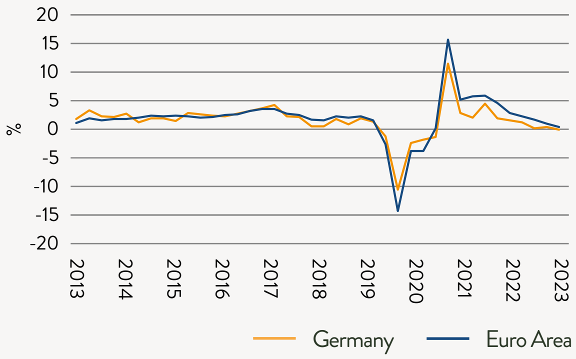
At sector level, tech stocks climbed, with both Dutch semiconductor manufacturing equipment maker ASML and German software company SAP delivering strong gains. Industrials such as Airbus and Schneider Electric also outperformed. On the downside, Energy stocks like TotalEnergies and Eni SpA underperformed. Luxury goods stocks such as LVMH and Hermes experienced weakness early in the quarter but rebounded in the second half.

Early in the quarter, the conflict in the Middle East resulted in volatility across European markets. Conflict creates uncertainty, and investors were concerned that an escalation could cause damage to the European economy at a time when it is already in a fragile position. They were also concerned that the conflict could lead to higher oil prices and another spike in inflation. Thankfully, there was minimal escalation, and markets regained their composure.

On the inflation front, annual inflation in the eurozone fell to 2.4% in November from 2.9% in October with core inflation dropping to 3.6% from 4.2%. This gave investors more hope that the ECB will cut interest rates in 2024. However, ECB officials have stressed that it is too early to declare victory over price rises in the eurozone due to the threat of exogenous shocks. Currently, the market expects 150 basis points of cuts in 2024[11].

As for economic data, it pointed to a slowdown. In October, HCOB's flash eurozone Composite Purchasing Managers' Index (PMI) – a good guide to overall economic health – came in at 46.5[12]. Outside of the Covid-19 pandemic months, this was the lowest reading since March 2013. In November, the composite PMI came in at 47.6 – its sixth straight sub-50 reading[13]. European labour markets were strong for most of 2023. However, they are now beginning to soften[14], with unemployment on the rise. A continuation of this trend could present challenges for the European economy in 2024.

European GDP Growth



Source: LSEG, Datastream. Date Range: Q4 2013 - Q4 2023

Our Stance

We retain our slightly negative outlook for Europe. Geopolitical tension remains high, and the landscape for energy supply is uncertain as colder weather approaches. Looking ahead, optimism over rate cuts could provide some momentum for European shares, however, Italian debt risks may overshadow this in the short term.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

↑ PREVIOUS Q3

↑ Q4

[10] Reuters

[11] Societe Generale Private Banking

[12] Reuters

[13] ShareCast

[14] FT

Japanese Equities

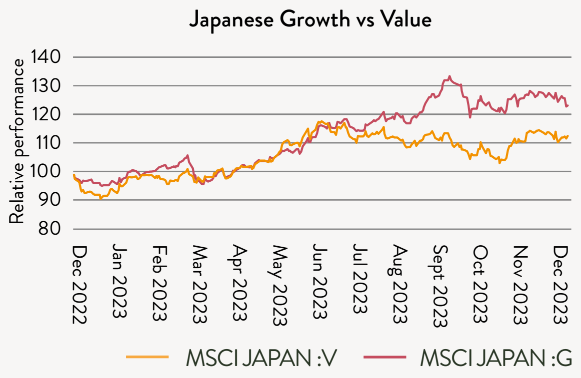
Japanese equities were weak early in Q4 but recovered to post solid gains. Large-cap stocks performed well, backed by foreign investors channelling capital towards the Japanese market. Small-cap stocks lagged, however, as weakness in the domestic economy weighed on domestically-oriented smaller businesses.

Japanese stocks had an excellent year in 2023, outperforming most other markets – including the US – in local currency terms (yen depreciation lowered returns for UK investors). One factor behind this equity market strength was a rise in inflation. After three decades of low/negative inflation in Japan, a return of mild inflation was very welcome. In late October, the Bank of Japan (BoJ) raised its CPI forecasts for the next three fiscal years.

Another key factor was share buybacks. Japanese firms have exceptionally strong cash positions and tend to carry minimal debt. With the government pushing firms trading below book value to come up with capital improvement plans, buybacks – which are popular in western markets because they are taxed at lower rates than dividends – have caught on with companies buying back substantial amounts of their own stock.

Throughout the fourth quarter, the Japanese yen was in focus. During November, it fell close to a 33-year low against the US dollar on the back of interest-rate differentials. This came after the BoJ decided to further adjust its yield curve control policy in late October, letting the 10-year JGB yield rise above 1.0% by declaring that level to be a reference rather than a limit.

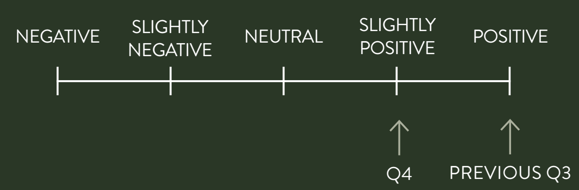
Economic data in Japan was a little underwhelming in Q4, with data showing that the economy shrank by 2.9% year on year in the third quarter. However, companies remain optimistic about the future. Indeed, the BoJ's 'tankan' survey – a quarterly survey on business sentiment that is considered a leading indicator of future trends – showed large Japanese manufacturers have grown more optimistic in the past several months, even while other data has shown the economy is slowing down[15].



Source: LSEG, Datastream. Date Range: 15/12/22 - 15/12/23

Our Stance

We currently hold a positive view on Japanese equities as with looser monetary policy than other developed economies and less aggressive inflation, momentum has built in this region. That said, we are less bullish than we were last quarter as we believe the yen may strengthen. We reduced our allocation to growth assets in Japan, favouring value/broader core indexes with a view that central bank policy will not stay as accommodative forever. We are looking at Japanese small caps and what might trigger a rebound.



[15] Yahoo

Asia and Emerging Markets

Emerging market equities were mixed in Q4. Chinese stocks fell as China's economy continued to weaken. China is facing a range of challenges right now including a property crisis, high youth unemployment, and subdued consumer confidence. One issue is that Chinese consumers are taking a cautious approach to spending at the moment. This was illustrated by this year's Singles' Day (the largest shopping event in the world) sales figures, which showed anaemic growth in transactions despite steep discounts by retailers. This lack of spending is resulting in deflation, with CPI dropping 0.5% in November on an annual basis – the largest fall since the depths of the pandemic three years ago[16].

Another issue is off-balance sheet debt. In recent years, cities and provinces in China have accumulated a huge amount of hidden debt. Indeed, the International Monetary Fund (IMF) and Wall Street banks estimate that the total outstanding off-balance sheet government debt is around $7 trillion to $11 trillion[17]. In December, Moody's downgraded China's credit outlook to negative, citing weak economic growth and problems in the country's property sector.

It's worth pointing out that some economists believe that China could be facing a prolonged period of lower growth, with 4-5% annual growth the new normal. This could have global ramifications after decades of rapid expansion and globalisation.

Source: LSEG Datastream / Fathom Consulting. Date Range: 08/21 - 09/23

[16] Reuters
[17] WSJ

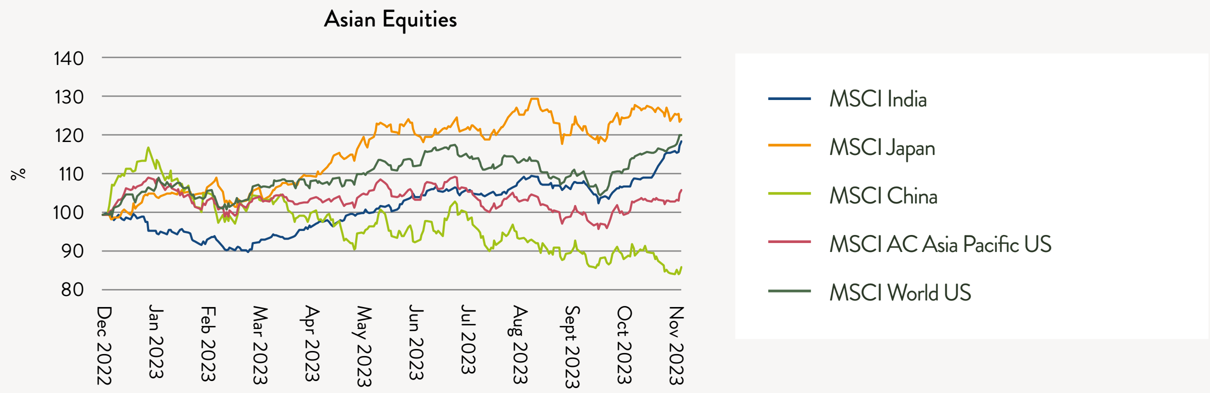
Our Stance

We believe the emerging markets provide an attractive opportunity for investors. If the US dollar weakens, emerging markets should benefit. With many emerging or developing economies sitting later in their interest rate cycle, these regions are not battling with the same challenges developed nations are facing.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

↑
PREVIOUS Q3
↑
Q4

Looking beyond China, Indian stocks continued their upward trend in Q4. The Indian economy is performing well at the moment and has been the world's fastest-growing major economy over the last two years[18]. For both 2023 and 2024, the IMF expects India to see GDP growth of 6% – around twice that of the world economy as a whole, and four times the growth of advanced economies. Some analysts believe that India today resembles China between the late 1990s and early 2000s, which indicates that there could be plenty of growth to come. In mid-December, it came to light that Foxconn – which manufactures around 70% of the world's iPhones – won approval to invest at least $1 billion more in a plant it is building in India to make iPhones[19]. In the future, Apple plans to make a quarter of its iPhones in the country.



Source: LSEG, Datastream. Date Range: 30/12/22 - 15/12/23

[18] Reuters

[19] Bloomberg

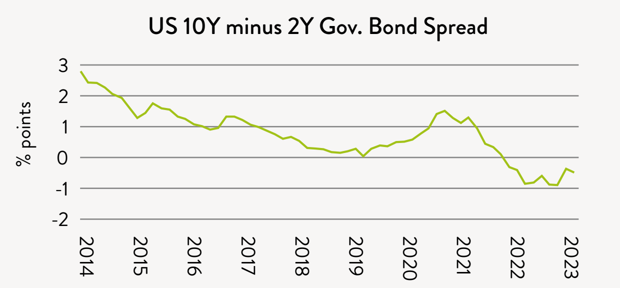
Government Bonds

The fourth quarter of 2023 was a turbulent period for government bonds.

In the US, yields on Treasuries spiked in October on the back of higher-for-longer interest-rate expectations. At one stage during the month, yields on 2-year, 10-year, and 30-year US Treasury yields were all near 5%, with 10-year real yields – a measure of yield after inflation is stripped out – near 2.5%, the highest level in 15 years[20]. US Treasury yields fell back in the second half of Q4, however, with the 10-year Treasury yield ending the quarter near 3.9%. This drop was the result of messaging from the Fed, which indicated that it has finished hiking rates. During the quarter, Moody's lowered its outlook on US debt to 'negative'.

In the UK, 10-year gilt yields rose to near 4.7% in October. However, like US Treasury yields, they pulled back in the second half of Q4, ending the quarter near 3.5%. It's worth highlighting the fact that yields in the long end of the UK government bond market fell sharply in November and December. This led to substantial price gains for a 2049 gilt we purchased in the first half of November as a 1% change in yield typically moves the price of gilts by around 10%.

In our Q3 report, we noted that, as well as increasing interest rates, the Bank of England has been selling the government bonds it bought during the quantitative easing (QE) era. It continued with this quantitative tightening (QT) in Q4 and in December, it said that it plans to unburden itself of £100 billion pounds of gilts between October 2023 and September 2024 through a combination of active sales and maturities, while eliminating central bank reserves by the same amount[21].



Source: LSEG Datastream. Date range: 01/01/14 to 14/12/23

Our Stance

We currently hold a neutral view on government bonds, reflecting a more positive landscape for fixed interest assets in general now that yields are higher. In a challenging market, the risk-free yields on offer are attractive. As interest rates fall, we expect to see further price rises from this asset class. Accordingly, we have bought low-coupon gilts across the yield curve, including some that are more sensitive to interest rate falls.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

PREVIOUS Q3

Q4

[20] Reuters

[21] Nasdaq

Investment Grade and High Yield

Investment grade fixed income offered attractive yields in Q4 relative to equity risk. And looking ahead, there is additional upside potential in terms of total returns should interest rate cuts occur in 2024. We added to the asset class last autumn when the spread over government debt had widened considerably, making the risk premium more attractive. Since then, spreads have tightened significantly. Indeed, in mid-December, spreads on global corporate bonds tightened to their lowest since early February 2022, after quarterly projections showed Fed officials expect to lower rates by 75 basis points next year[22]. We prefer UK and European investment grade securities over US securities as we believe that they offer more value.

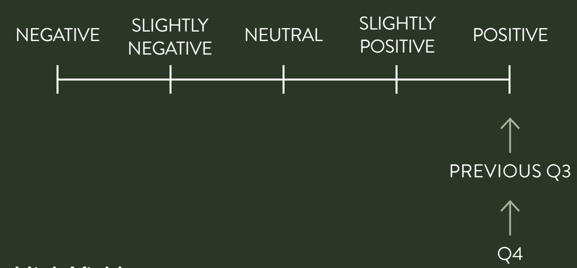
As for high yield, there were some sizeable yields on offer in this area of the fixed income markets in Q4. However, investors need to be selective due to the risk of default. In many cases, we feel that investors are not being paid for the high level of risk. We favour larger issuers over smaller issuers as default levels are usually significantly higher for smaller companies. Within the high yield market, active managers can target quality and reduce the risk of defaults.

Our Stance

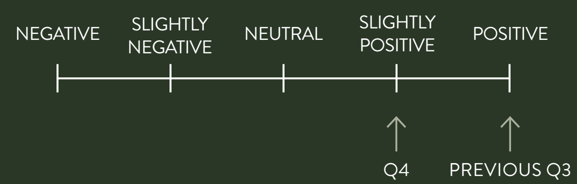
We are positive on the investment grade market as debt issuance is lower and debt is being repaid. At this level, companies are not expected to have refinancing issues. Spreads have come in, especially in the US, but our UK investment grade fixed income fund still offers a decent risk/reward proposition.

We are less positive on high yield, especially at the longer duration part of the market as the small amount of additional yield doesn't offset the greater risks. We still like short duration high yield as there is less short-term refinancing risk.

Investment Grade



High Yield



[22] Yahoo

Commodities

There was plenty of action in the commodities space in Q4.

Early in the quarter, oil prices experienced a sharp decline due to concerns over falling demand. They then shot up on the back of the conflict in the Middle East – with Brent crude oil prices rising above $90 per barrel – due to worries that an escalation of the conflict could see the Strait of Hormuz (a key transit route from the Middle East to the global markets) choked off. However, in November, they fell again amid concerns over OPEC+ oversupply, weak demand from China (the largest global oil importer) and an economic slowdown, with Brent crude oil finishing the quarter near $77.

As for gold, it had a strong quarter, rising above $2,000 per ounce in November and hitting all-time highs in December. In 2023, gold benefitted from increased geopolitical tension and large purchases from central banks. Cumulatively, purchases by central banks reached 800 tonnes[23] over the first three quarters of the year – a record amount for a nine-month period – as geopolitical concerns increased the appeal of safe-haven assets. China was the largest buyer, snapping up 78 tonnes of the precious metal in the first three quarters of the year.

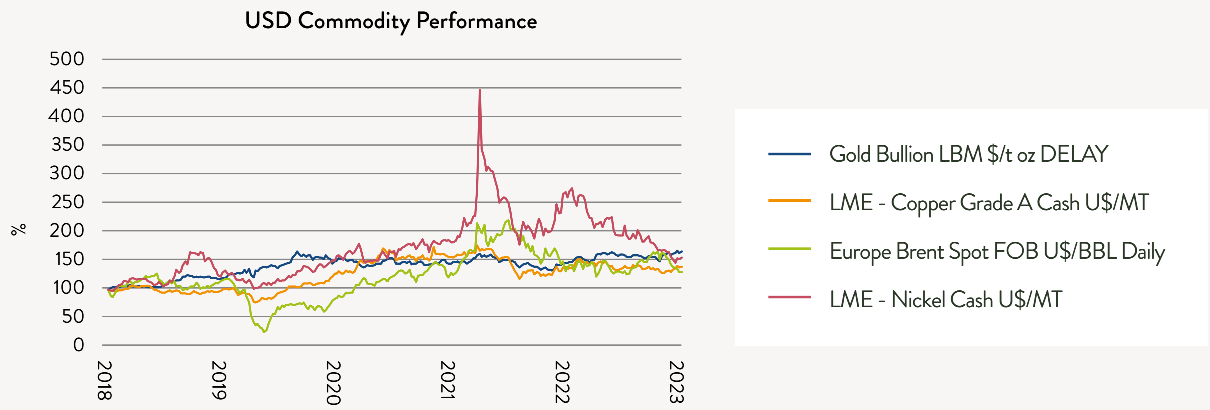
Our Stance

We remain neutral on the commodities sector. High volatility means timing is key to allocating effectively to this space, and although commodities outperformed in 2022 as most asset classes fell, 2023 has seen demand fall, along with prices, notwithstanding improved support last quarter.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

PREVIOUS Q3

Q4



Source: LSEG, Datastream. Date Range: 14/12/18 - 15/12/23

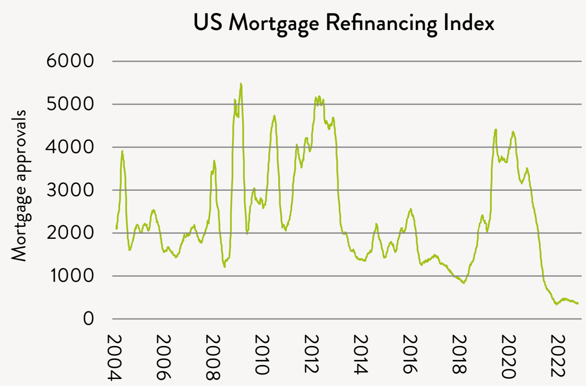
[23] ING

Property

Commercial property continued to struggle both domestically and internationally in Q4 with some large net asset value (NAV) discounts appearing on real estate investment trusts (REITs). However, some areas of the market fared better than others. For example, industrial and warehousing property generally performed better than office and retail.

Looking ahead, the office sector faces challenges due to the shift to hybrid working arrangements. This is having a disruptive impact on the industry. For example, in 2023, HSBC announced that it is set to move its global headquarters from its 45-storey Canary Wharf tower when its current lease expires in 2027[24]. HSBC wants to downsize its office space, as it is now committed to flexible working. During the quarter, office-sharing company WeWork filed for bankruptcy. It had racked up debts of around £15 billion and had an unsustainable business model.

In the US, the housing market remained stalled in Q4. While interest rates were low, many Americans locked in 30-year fixed interest rate mortgages. Now that rates are higher, existing owners don't want to move and give up their low interest rates. With few homes on the market – and fewer still at prices that buyers can actually afford – sales of existing homes have fallen to their lowest level in over a decade[25].



Source: LSEG, Datastream. Date Range: 01/01/04 - 07/12/23

Our Stance

Property assets have come under pressure in recent quarters due to the rise in interest rates. Though these investments provide a regular income stream, with the possibility for capital appreciation when economic conditions improve, we hold a negative view on the sector at present. The funds we do own in this space have long-term debt in place so should be insulated from short-term interest rate increases.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

PREVIOUS Q3 ↑ (SLIGHTLY NEGATIVE)

Q4 ↑ (SLIGHTLY NEGATIVE)

[24] BBC

[25] The New York Times

Structured Products

2023 was a good year for structured products with autocallable structures providing 7-9% gross redemption yields. These products pay a high coupon if the underlying asset – typically an equity index or single stock – passes an upside barrier, at which point they automatically mature and the investor's principal is returned. Structured products can be useful from a diversification perspective as they can protect against market falls in the medium term. We have a 10% weighting to the asset class within our middle risk portfolios at present.

Our Stance

Structured products continue to offer a known pay off profile that is very attractive considering the downside protection that they offer. They offer upside even for small falls in the market so we continue to be overweight to this asset class.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

PREVIOUS Q3

Q4

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