BOWMORE
ASSET MANAGEMENT

GLOBAL MARKETS OVERVIEW

1ST QUARTER 2024

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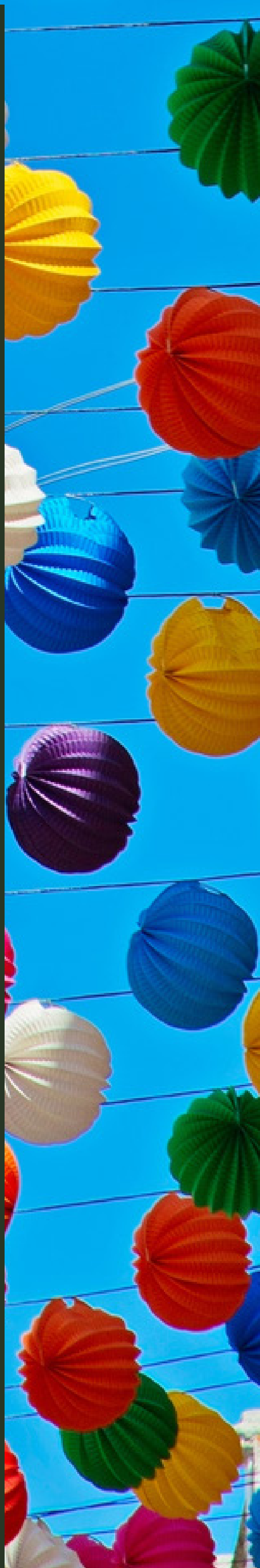
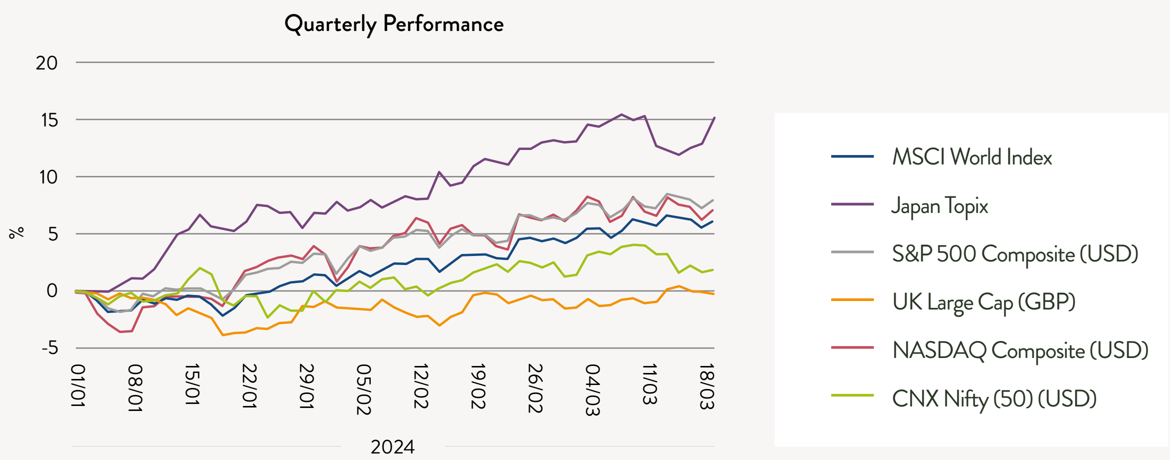


Global Markets

Our quarterly market overview provides a snapshot of recent activity within the world's financial markets. This quarter, we look at the surge in artificial intelligence (AI) stocks, the enormous gains from the Japanese stock market, the high level of takeover activity in the UK market, the rise in gold prices, and more. We also provide our outlook for different sectors and markets as we begin the second quarter of 2024.



Source: LSEG, Datastream. Date Range: 01/01/24 - 18/03/24

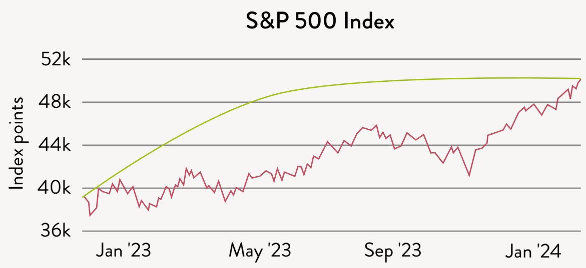
- Global equities delivered strong returns in Q1, helped by large gains from the US, European, and Japanese markets.
- Technology and Communication Services stocks continued to perform well. However, other sectors such as Healthcare, Financials, Industrials, and Energy also participated in the rally.
- Artificial intelligence (AI) was again a hot investment theme. The interest in AI led to substantial gains for semiconductor stocks such as Nvidia and Arm Holdings.
- Corporate earnings were robust. In the US, around 75% of companies beat earnings expectations.
- The US Federal Reserve, the European Central Bank, and the Bank of England all held interest rates steady in Q1. With inflation remaining well above central banks' target levels, investors pushed back their predictions for when interest rates will be cut.
- China announced stimulus to boost its economy. This led to gains for Chinese equities.
- The Bank of Japan made its first interest rate hike in 17 years. However, data showed that Japan slipped into a recession late in 2023.
- Both gold and oil rose in Q1 with gold hitting new all-time highs.

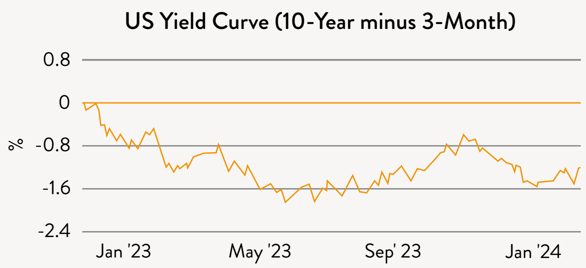
Our Stance

We retain our neutral stance on global equities. Economic growth is uneven at present, and lingering inflation in major economies raises doubts about anticipated interest rate cuts. Given these issues, we wouldn't be surprised to see the market's momentum slow going forward.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

PREVIOUS Q4 & Q1

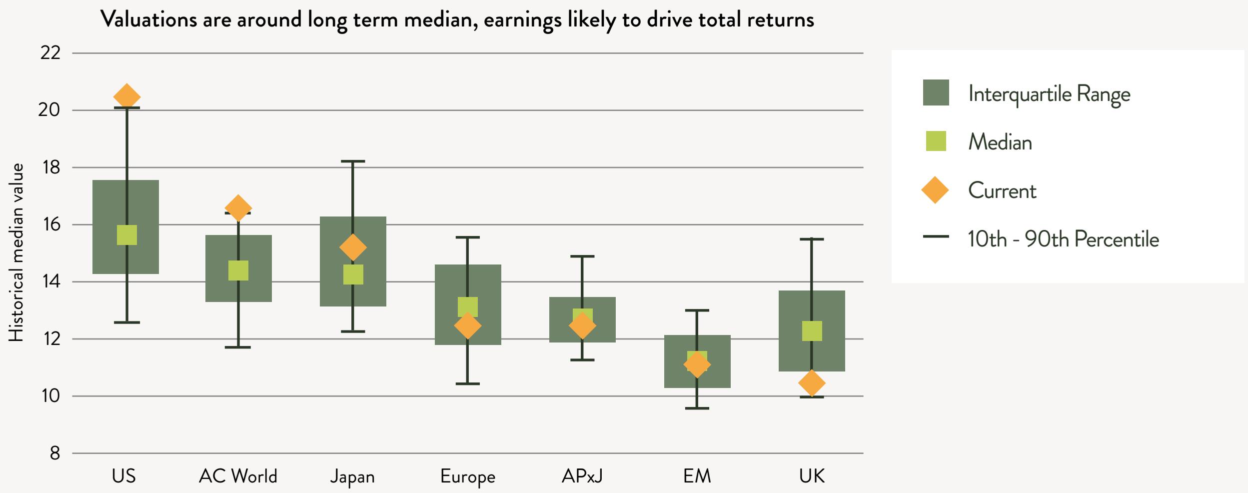




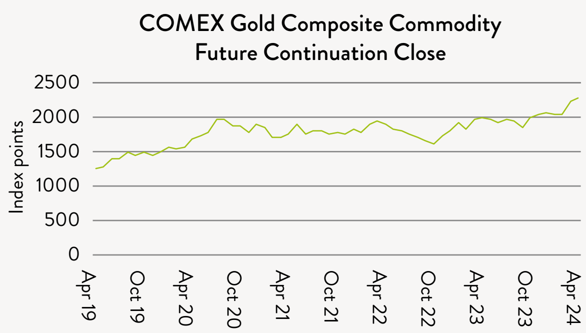
Source: Creative Planning. Date Range: Jan 23 - Jan 24

- Historically, an inverted yield curve has indicated that a recession will occur within one to three years. However, since the US yield curve inverted in 2022, the S&P 500 index has risen around 30%.
- The inversion of the yield curve means a future US recession cannot be ruled out.
- Pro US economic policy and government spending increases expected ahead of the election may support US equities, but what lies beyond the election is difficult to predict.

- US equity valuations are high relative to historic levels.
- Buying into markets when valuations are at or below their long-term average provides better downside protection.
- We expect growth in Japan to outstrip other markets and with a dividend yield of 2% and buybacks at 2.5%, we believe the region can generate double-digit returns over the next 12 months.



Source: Goldman Sachs Global Investment Research. Date: Dec 23



Source: LSEG, Datastream Date Range: 01/04/19 - 01/04/24

- Gold finished the quarter at record highs.
- Gold is seeing high demand right now due to several factors including geopolitical conflict, inflationary pressures, an increase in popularity in China, and hopes for interest rate cuts.
- Central banks continue to buy gold in an effort to diversify their reserves.

UK Equities

While UK equities delivered a near-4% gain in Q1, they underperformed most other major markets. This underperformance stemmed from two main factors – the UK market's lack of exposure to technology companies and weakness from some well-established, blue-chip businesses.

Within the UK market, Rolls-Royce – a high-flyer in 2023 – was the standout performer, producing a gain of around 40% for the period thanks to healthy conditions in the civil aviation market and a continued focus on cost cutting. We also saw strength from several UK banks, with Barclays – which announced a major restructuring plan during the quarter – and NatWest – which posted its largest annual profit since 2007[1] – both producing double-digit returns.

Marks and Spencer Group Plc

Source: LSEG, Datastream. Date Range: 18/01/21 - 18/01/24

It's worth noting that takeover activity – a dominant trend within the UK market in 2023 – continued in Q1. During the quarter, logistics business Wincanton agreed to be purchased by US logistics firm GXO in a £762 million deal, while telecommunications specialist Spirent Communications accepted a £1 billion bid from Arizona-based telecoms company Viavi Solutions. This kind of M&A activity suggests that there is value to be found in the UK market, particularly in the mid- and small-cap areas, which have been under pressure in a higher-rate environment. However, the activity – combined with the trend of companies listing in the US instead of the UK – is leading to a shrinking stock market.

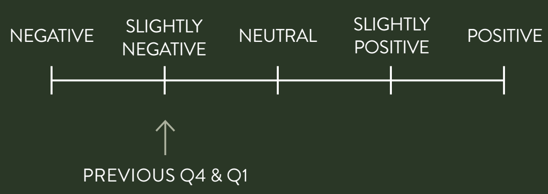
Rolls-Royce Holdings PLC

Source: LSEG, Datastream Date Range: 01/04/19 - 01/04/24

At the other end of the spectrum, Rio Tinto underperformed as iron ore prices slumped, while Glencore shares fell after the company slashed its dividend payout in an effort to lower its debt. Shares in Marks and Spencer – which soared in 2023 – also lost ground due to a cautious outlook from the company.

Our Stance

Our outlook for UK equities remains slightly negative. Relative to other developed economies, the UK has a less robust economic outlook, with higher inflation and weaker growth forecast. Meanwhile, the value bias of the large-cap index could lead to underperformance when interest rates start to come down.



In terms of the economy, data showed that the UK entered a technical recession (a recession is defined by two successive quarters of negative GDP growth) in the second half of 2023. This occurred as elevated post-pandemic consumer spending came to an end and higher interest rates weighed on activity. However, a surge in high street and online spending helped the UK economy return to growth in January, meaning that this recession is most likely already over. Looking ahead, the Office for Budget Responsibility expects the UK economy to grow by 0.8% this year and 1.9% next year[2].

While inflation fell to 3.4% in February[3] – its lowest level since 2021 – the Bank of England held interest rates steady at 5.25% throughout the quarter. The central bank expects inflation to fall slightly below 2% by the summer. However, it warned that conflict in the Middle East and disruption to one of the world's busiest shipping lanes in the Red Sea pose 'material risks' to prices surging again.

In March, Chancellor Jeremy Hunt released the new budget. One highlight was a two percentage point reduction in National Insurance for both employees and the self-employed. Hunt also announced a new £5,000 British ISA to encourage investment in the UK stock market. This product has divided opinion, however. Research shows that only around 800,000 people across the UK are able to take advantage of the £20,000 annual allowance every year[4], meaning that any extra capital channelled into these ISAs is unlikely to have a significant impact on the market.

[1] BBC

[2] Standard

[3] The Guardian

[4] The Guardian

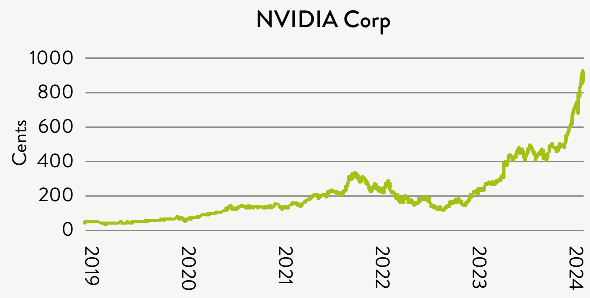
US Equities

US equities performed very well in the first quarter, with the S&P 500 index delivering a total return of over 10%. Strong economic conditions, solid corporate earnings, and interest in artificial intelligence (AI) were the key drivers of the gains. While the Technology and Communication Services sectors continued to deliver for investors, other sectors such as Industrials, Financials, Energy, and Healthcare performed well too. Sectors that are more sensitive to higher interest rates, such as Real Estate and Utilities, underperformed as investors adjusted their expectations for near-term rate cuts.

As a result of investor enthusiasm for AI, semiconductor stocks were the star performers in Q1. Nvidia continued its blistering rally, rising 83%, while the likes of Advanced Micro Devices, Broadcom, Lam Research, Applied Materials, and Arm Holdings also produced sizeable gains. It's worth pointing out that, thanks to high demand for its AI chips, Nvidia's revenue for the quarter ended 31 January 2024 was up 265% year on year. This astonishing level of growth pushed its share price up significantly, adding $276 billion to the company's market cap in a single day – the largest daily increase in market cap from any stock in history[5]. The company ended the quarter with a market cap of $2.4 trillion, making it the third-largest stock in the S&P 500. Other well-known stocks that benefitted from the AI theme were Meta Platforms, which has its own in-house large language model (LLM) and has plans to integrate generative AI into its offerings, and Alphabet, which is reportedly in talks with Apple to bring its generative AI product (Gemini) to iPhones. Interestingly, Meta – which has experienced a dramatic turnaround over the last 12 months – announced its first dividend during the quarter.

AI wasn't the only theme to produce explosive returns in Q1, however. Another was GLP-1 weight-loss drugs. Thanks to interest in its Zepbound drug – which can help users lose over 20% of their body weight – shares in Eli Lilly rose around 30% for the quarter. Looking ahead, analysts expect weight-loss drugs to have a huge impact on society, reducing healthcare costs and increasing productivity. By 2030, the GLP-1 market is forecast to be worth over $100 billion[6].

As for the 'Magnificent 7' group of stocks, which accounted for the bulk of the gains from the US market in 2023, this trade broke down during the quarter. While Microsoft, Nvidia, Amazon, Meta, and Alphabet all produced positive returns, Tesla tanked as spending on electric vehicles (EVs) slowed. Apple, which is facing a slowdown in China iPhone sales at present, also lost ground.



Source: LSEG, Datastream. Date Range: 18/03/19 - 18/03/24

Zooming in on corporate earnings, results were generally solid, with roughly three quarters of companies in the S&P 500 producing better-than-expected figures[7]. That said, the lion's share of Q4 growth was powered by the mega-cap technology stocks that led markets higher in 2023[8]. Looking ahead, the estimated year-over-year earnings growth rate for the S&P 500 for Q2 is 3.3%[9]. If this is the actual growth rate, it will mark the third consecutive quarter of year-over-year earnings growth for the index.

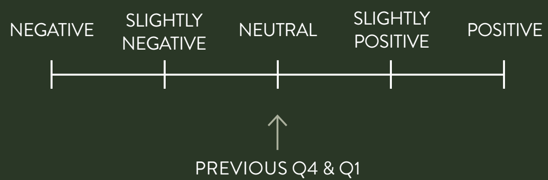
On the economic front, US CPI inflation came in at 3.1% in January and 3.2% in February. While this latter figure was significantly lower than the number a year earlier (7.4%), it was above the consensus forecast of 2.9% and led to market participants recalibrating their expectations for interest rate cuts. Going into the year, investors had been expecting up to six rate cuts in 2024 with the first taking place in March. However, the consensus is now for three cuts with the first expected in June. This shift in expectations hurt sectors that are sensitive to interest rates and put pressure on the shares of smaller companies

At its meeting in March, the Federal Reserve said that it expects the US economy to grow by 2.1% in 2024[10]. This was a substantial increase from its forecast of 1.4% in December. The Fed still foresees a so-called 'soft landing'. However, Fed Chair Jerome Powell said that recent data has kept officials on a cautious footing in relation to interest rates.

In the political arena, former President Donald Trump won the Republican nomination for the third straight election. This sets up a rematch with President Joe Biden later this year. An election is generally good for the US market, regardless of which party wins.

Our Stance

We are neutral on US equities at the start of Q2. After a strong performance over the last six months, valuations now look quite stretched, even by US market standards. And while economic growth has been healthy so far this year, there are some concerns as to whether it is sustainable.



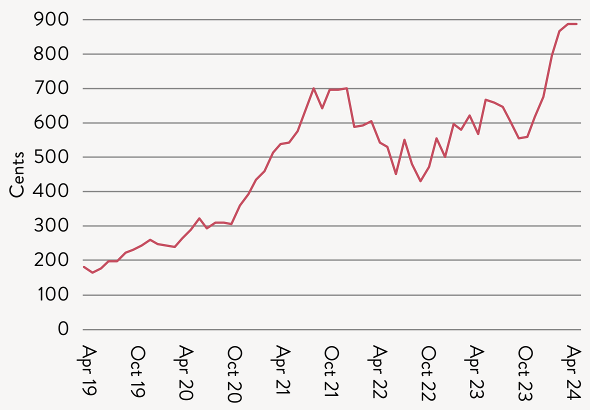
[5] IG
[6] JP Morgan
[7] Etfdb
[8] Blackrock
[9] Factset
[10] Reuters

European Equities

European markets saw positive momentum in Q1, delivering a return of just under 10%. During the period, the German, French, and Dutch markets all hit new all-time highs.

Like the US market, Europe benefitted from excitement around artificial intelligence and GLP-1 weight-loss drugs in Q1. One beneficiary of the AI theme was semiconductor manufacturing equipment maker ASML. Over the quarter, its share price rose more than 30% on the back of hopes that the growth of AI will increase demand for its products. Meanwhile, on the GLP-1 front, shares in Danish company Novo Nordisk shot up after early trial data for its experimental obesity drug Amycretin showed a higher weight loss compared with its popular Wegovy treatment. Investors were also impressed with the company's full-year 2023 results, which saw sales climb 31% year on year thanks to strong demand for its products.

ASML Holding NV



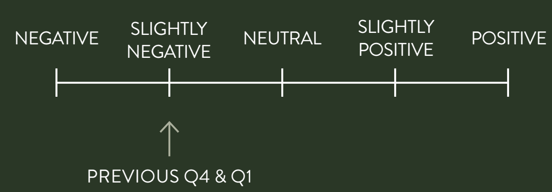
Source: LSEG, Datastream. Date Range: 01/04/19 - 01/04/24

Away from these areas of the market, there was a rebound in the luxury goods sector with shares in LVMH, the world's largest luxury brands group, producing solid gains. It posted a 10% increase in fourth-quarter sales, reassuring investors who had grown nervous about the industry's prospects following a disappointing update in October.

Turning to the economy, the HCOB Flash Eurozone Composite PMI increased to 49.9 in March up from February's print of 49.2[11]. This was slightly higher than the consensus forecast and very close to the line that marks expansion from contraction. However, it should be noted that business conditions in Europe vary markedly by country at present with different countries at different stages of the business cycle. This creates challenges for the European Central Bank (ECB) and its monetary policy, as one size does not fit all.

Our Stance

We retain our slightly negative outlook for European equities due to concerns over economic conditions in some countries within the EU. However, the European market is beginning to look attractive relative to the US market due to its lower valuation and higher level of diversification.

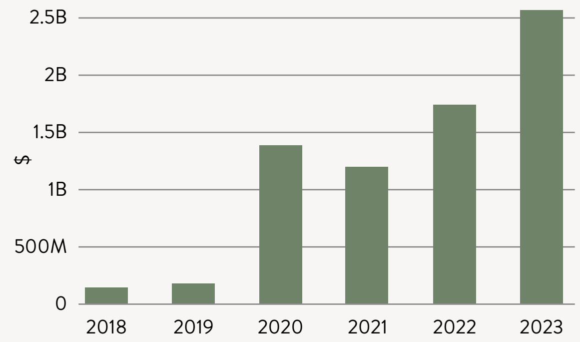


[11] Morning Star

As for inflation, it hit 2.6% in February, down from 2.8% in January[12]. A year earlier, the rate was 9.9%. Given this drop in inflation, markets are pencilling in three to four interest rate cuts by December, which would lower the rate the European Central Bank (ECB) pays on bank deposits to 3.25% or 3.0%. However, the ECB has said that to cut rates, it would need to see slowing wage growth, a continued fall in inflation, and new internal projections confirming that price growth is returning to its 2% target. And board member Isabel Schnabel has even raised the prospect of a new era of structurally higher rates, stating that the exceptional investment needs arising from structural challenges related to the climate transition, the digital transformation, and geopolitical shifts may have a persistent positive impact on the natural rate of interest.

Amid the higher-rate environment, European start-ups are increasingly turning to complex debt deals for their financing needs. In 2023, the volume of convertible debt issued by European venture capital-backed firms hit a record $2.5 billion, up from $1.7 billion in 2022[13].

Convertibles Hit Record Highs in 2023



Source: Dealroom. Date Range: 2018 - 2023

[12] Europa

[13] Reuters

Japanese Equities

Japan was the best performing major market in Q1. Building on a stellar 2023, the Japanese large-cap index continued its ascent, producing double-digit gains for investors.

A number of factors are propelling Japanese equities higher at present including the country's shift from deflation to moderate inflation, its weak currency, strong corporate profits, and corporate governance reforms enacted by the Tokyo Stock Exchange that have made Japanese stocks more attractive to international investors. AI has also had a positive impact – Japan's legendary expertise in electronics manufacturing bodes well for a future being shaped by technological advancements.

However, it should be noted that while the Japanese stock market has been a star performer lately, the country's economy has not been in great shape. Indeed, data in Q1 showed that Japan accompanied the UK into a technical recession in the final quarter of 2023 with the economy slipping back 0.4% after contracting by 3.3% the quarter before. Looking ahead, the International Monetary Fund (IMF) expects Japan to register growth of just 0.9% in 2024 and 0.8% in 2025. That is significantly below the growth of 3.1% and 3.2% it expects from the global economy.

Despite the weak economy, the Bank of Japan (BoJ) lifted its short-term policy rate from -0.1% to between zero and 0.1% during the quarter – its first interest rate hike in 17 years. This move came after Japan's largest union group agreed to the biggest wage hike in more than three decades (+5.3%). The shift makes the BoJ the last central bank to move away from negative rates, bringing an end to an era in which policymakers sought to prop up economic growth by pushing banks to lend more. Headline inflation in Japan came in at 2.8% for February, climbing from the 2.2% level seen in January.

As a result of the BoJ's decision to lift rates, there was a sharp selloff in the Japanese yen, which fell to its lowest level against the euro since 2008 and hit a four-month low against the US dollar. A drop in the yen is good for Japanese exporters such as Toyota and Nintendo as their goods become cheaper for consumers around the world. However, when the yen weakens, UK investors see the value of their Japanese investments decline when converted back to pounds.

Our Stance

We currently have a positive view on Japanese equities. Price increases across the services sector indicate that the country's long period of deflation may be over and robust corporate earnings, along with recent corporate governance reforms, are driving risk-on sentiment. We believe there is further scope for gains as valuations are re-rated.

NEGATIVE | SLIGHTLY NEGATIVE | NEUTRAL | SLIGHTLY POSITIVE | POSITIVE

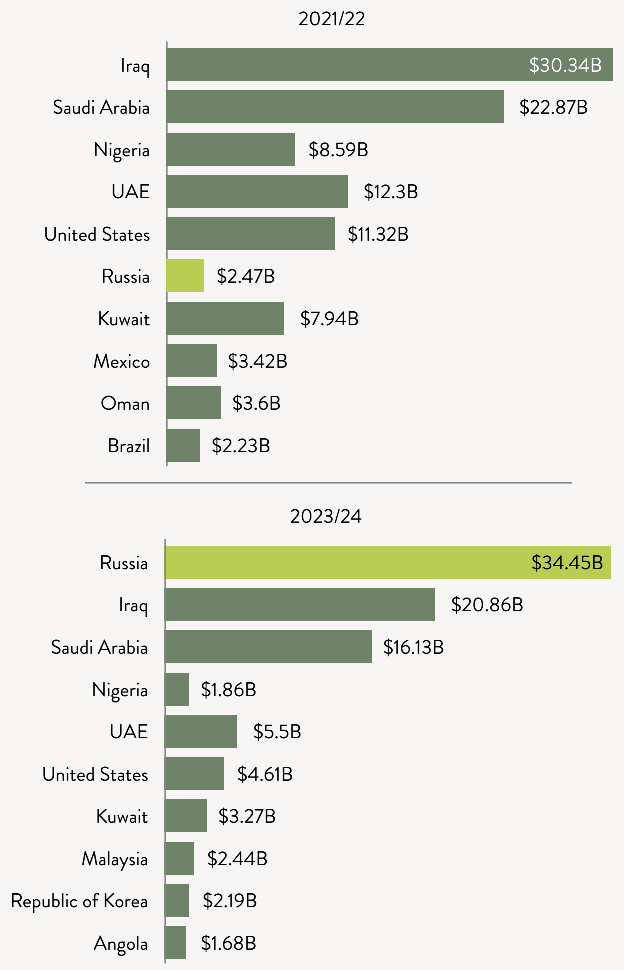
PREVIOUS Q4 & Q1

Asia and Emerging Markets

In the emerging markets, Chinese equities rallied thanks to economic stimulus from the Chinese government. In January, the People's Bank of China (PBOC) announced that banks will be able to hold smaller cash reserves going forward. This move is likely to free up around 1 trillion yuan in liquidity[14]. Then, in February, the PBOC cut 5-year mortgage rates by 0.25% to support its struggling property market. This represented the first cut since June and the largest on record.

Encouragingly, data showed that tourism spending in China during the Lunar New Year break rose above pre-Covid levels. According to government figures, domestic tourism spending hit 632.7 billion yuan (approx. £70 billion) over the period, about 47% higher than the year before. At China's annual parliamentary meetings in Beijing in March, leaders acknowledged the economic challenges the country is facing at present. However, they also attempted to boost the morale of the Chinese public by outlining how a focus on technology and AI could help the country rebound from here.

Russia is now the biggest crude exporter to India



Source: India Ministry of Commerce and Industry, Breakingviews.
Date: 15/03/24

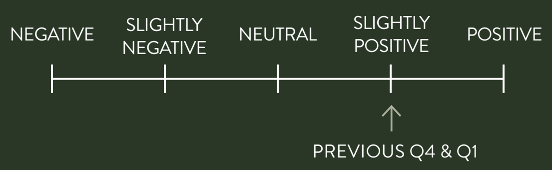
It's worth noting that, as a result of recent tension between the US and China, Mexico's manufacturing sector has boomed. This has propelled the country into the position of top exporter to the US. Last year, the US bought $475 billion worth of Mexican goods, compared with $427 billion worth of goods from China. This shift in dynamics is also related to the 'nearshoring' trend – where companies are moving manufacturing closer to the US for a more reliable supply chain.

As for Indian equities – which soared in 2023 – they paused for breath in Q1. One reason for the pause was upcoming general elections. Looking at recent polls, Prime Minister Narendra Modi is widely expected to extend his decade in power. A decisive win for Modi would ensure policy continuity and likely boost investor confidence in the Indian stock market.

Elsewhere in the emerging markets, Russian equities continued their rebound. It should be noted, however, that Russia is facing some severe economic challenges right now due to its war with Ukraine, with inflation running at nearly 8%. Data showed that in 2023, Russia was the top oil exporter to India, accounting for around a third of Indian oil imports.

Our Stance

We remain bullish on emerging market equities. However, we still have some concerns over China, and would like to see more stimulus from the government as the property sector is still in decline.



[14] Reuters

Government Bonds

Yields on government bonds rose – meaning prices fell – in Q1 as investors recalibrated their expectations for interest rate cuts in 2024.

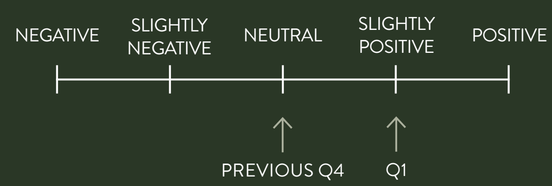
In the US, the yield on 10-year Treasuries climbed from 3.9% to 4.2% as the consensus forecast for the number of rate cuts this year fell from six to three. If bond yields were to keep rising from here, they could start to put pressure on equity valuations and disrupt the stock market rally.

Meanwhile, in the UK, the yield on 10-year gilts rose from 3.5% to 3.9%. While this yield is attractive relative to levels seen in the last decade, some investors believe that gilts are not compensating investors sufficiently for the risks associated with persistent inflation.

As for European government bonds, there was some disparity between countries, with Italian government bonds posting positive returns and German government bonds producing negative returns. The yield on 10-year German bunds ended the quarter near 2.3% while the yield on 10-year Italian government bonds ended the period near 3.7%.

Our Stance

We currently have a positive view on government bonds. We favour emerging market government bonds due to their attractive real yields.



Investment Grade and High Yield

Investment-grade bonds had a bumpy start to the year due to changing interest rate expectations. High-yield bonds fared better amid the 'risk-on' market, outperforming both investment-grade bonds and government bonds. Within the high-yield space, US and European securities continued to outperform.

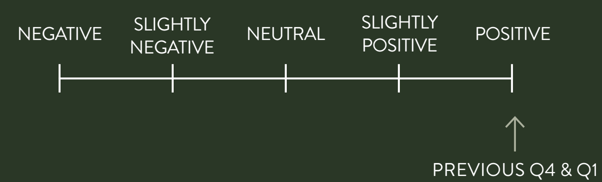
The landscape could change as we move through 2024, however. Interest rate cuts would most likely have a greater benefit for investment-grade bonds due to their higher interest rate sensitivity. Meanwhile, if default rates rise, high-yield bonds are likely to be more affected. A recent report from Moody's showed that in 2023 the annual corporate default total hit its highest level since the onset of the coronavirus pandemic[15].

[15] Investment Executive

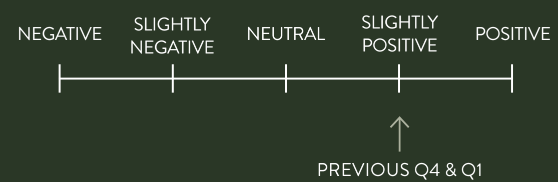
Our Stance

We believe investment-grade bonds are offering attractive yields relative to equity risk. And there is additional upside potential in terms of total returns should interest rate cuts occur in 2024. At the same time, there are opportunities in the high-yield space. However, investors need to be selective due to the risk of default. We favour larger issuers over smaller ones.

Investment Grade



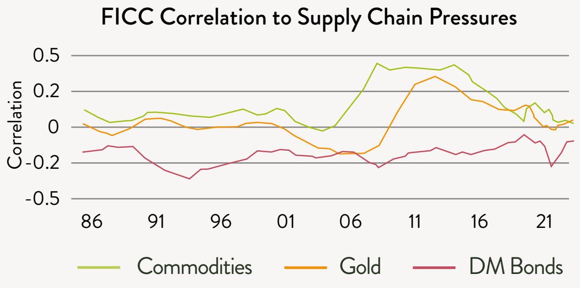
High Yield



Commodities

In the commodities space, oil prices strengthened during the quarter, with the price of Brent crude rising more than 10% to $87 per barrel. Declines in US inventories, extended production cuts by Saudi Arabia and Russia, and damages to Russian plants by Ukrainian drones were some of the main drivers of the price rise. In March, the International Energy Agency (IEA) forecast that global oil demand will rise by 1.3 million barrels per day in 2024, stating that longer shipping routes due to the disruption in the Red Sea are likely to boost fuel demand. However, the IEA also warned that the global economic slowdown, and surging electric vehicle sales, could act as a headwind to oil use going forward[16].

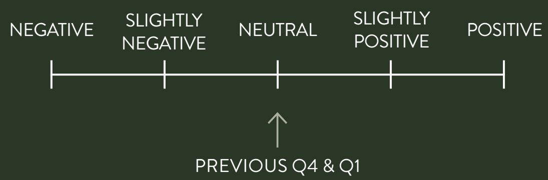
As for gold, it climbed in Q1 – hitting a new all-time high late in March – on the back of conflict in the Middle East and other geopolitical risks, an increase in popularity in China as a result of the property sector weakness in the country, and hopes for global interest rate cuts later this year. As interest rates fall, gold becomes more attractive relative to fixed-income assets such as bonds, which see their yields decline. One other factor that is potentially driving gold right now is the fact that 2024 sees a huge number of countries going to the polls, including the US in November. This adds a degree of uncertainty in relation to fiscal policy. The World Gold Council noted that central banks, which have bought historic levels of gold over the past two years, have continued to be strong buyers in 2024.



Source: Numera Analytica

Our Stance

We are neutral on commodities at present. While commodities can add diversification to investor portfolios, the volatility of the asset class means timing is key to allocating effectively to the space. We believe the outlook for uranium is positive due to the green transition and its focus on nuclear power as a clean energy source.



16 IEA

Property

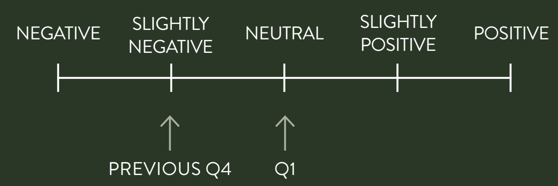
Conditions remained challenging in the UK commercial property market in Q1, with investor demand being weighed down by tighter lending conditions and an uncertain outlook for property values. Ongoing structural challenges facing parts of the office and retail sectors also hampered market sentiment. However, with interest rate cuts most likely not far off, and property businesses reducing debt where possible, there are reasons to be cautiously optimistic on the asset class. In the latest RICS UK Commercial Property Monitor, for Q4 2023, a third of participants said that they believe the market has now bottomed out[17].

It's worth pointing out that there are pockets of the commercial property market that are performing well at present. One such area is data centres. This sub-sector of the market – which sits at the intersection of real estate, infrastructure, and technological advancements such as AI – is growing at a rapid pace right now. In January, tech giant Google announced that it would be investing $1 billion in a new UK data centre in Waltham Cross, Hertfordshire[18].

As for UK residential property, Bank of England data showed net mortgage approvals for house purchases rose to 60,400 in February from 56,100 in January. This suggests that the housing market, which has had a tough time since interest rates were increased, may be beginning to recover.

Our Stance

We currently have a neutral view on property. We are encouraged by the fact that transactions are being completed at or around net asset values (NAVs). However, there is still some uncertainty due to the interest-rate environment.



[17] RICS

[18] Google

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The value of an investment with Bowmore Asset Management will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested. Past performance is not a guide to future performance. You should also bear in mind that the levels and bases of taxation and reliefs from taxation can change at any time, and are generally dependent on individual circumstances.

Bowmore Asset Management is authorised and regulated by the Financial Conduct Authority no 626431.

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