

Quarterly Market Commentary

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Economic Resilience and Rate Cuts on the Horizon

As the first quarter of 2024 ends, major economies have demonstrated remarkable resilience, with the United States surpassing growth expectations whilst manufacturing businesses report improved sentiment. This positive outlook is further reinforced by the International Monetary Fund's upward revision of global growth forecasts and the International Energy Agency's increased oil demand projections.

Inflation, once a looming threat, has become a fading concern worldwide. The United Kingdom and Europe experienced larger-than-expected declines in inflation during the quarter, with the UK's inflation rate falling to 3.4% year-on-year in February, its lowest level since the fourth quarter of 2021. In response to these encouraging signs, the US Federal Reserve anticipates lowering policy rates three times in 2024, while the Bank of England is expected to follow suit with at least as many cuts. These rate reductions will provide much-needed relief to households grappling with rising mortgage costs and elevated energy prices.

Equity Markets Shine: US, Japan, and Europe Lead the Way

The first quarter of 2024 witnessed robust returns in global equity markets, with developed market equities advancing 10% over the period. This positive performance is beginning to broaden out within the stock market, as an increasing number of stocks hit new highs.

U.S. equity benchmarks soared to record levels, driven by the technology and communication sectors. Meanwhile, Japanese equities experienced a sharp rally as overseas investors sought to capitalize on the country's resurgent economic growth. Japanese corporations have begun raising wages, signalling growing confidence in profit growth. In contrast, UK equities continued to lag their global counterparts, as the market's cyclical stocks failed to participate in the broader equity rally. Similarly, Asian equities were notable laggards, with China's slowing growth and collapsing property market rendering regional equities unattractive to asset allocators.

Fixed Income – A Positive Return Backdrop

The current high bond yields are a boon for multi-asset portfolios, providing stable returns and diversification benefits. Notably, yields are higher than the inflation rate, enabling investors to regain lost ground through lower-risk investments. While global government bonds remained relatively stable, with the Vanguard Global Bond fund posting a marginal -0.03% return, other fixed income sectors have demonstrated promising performance.

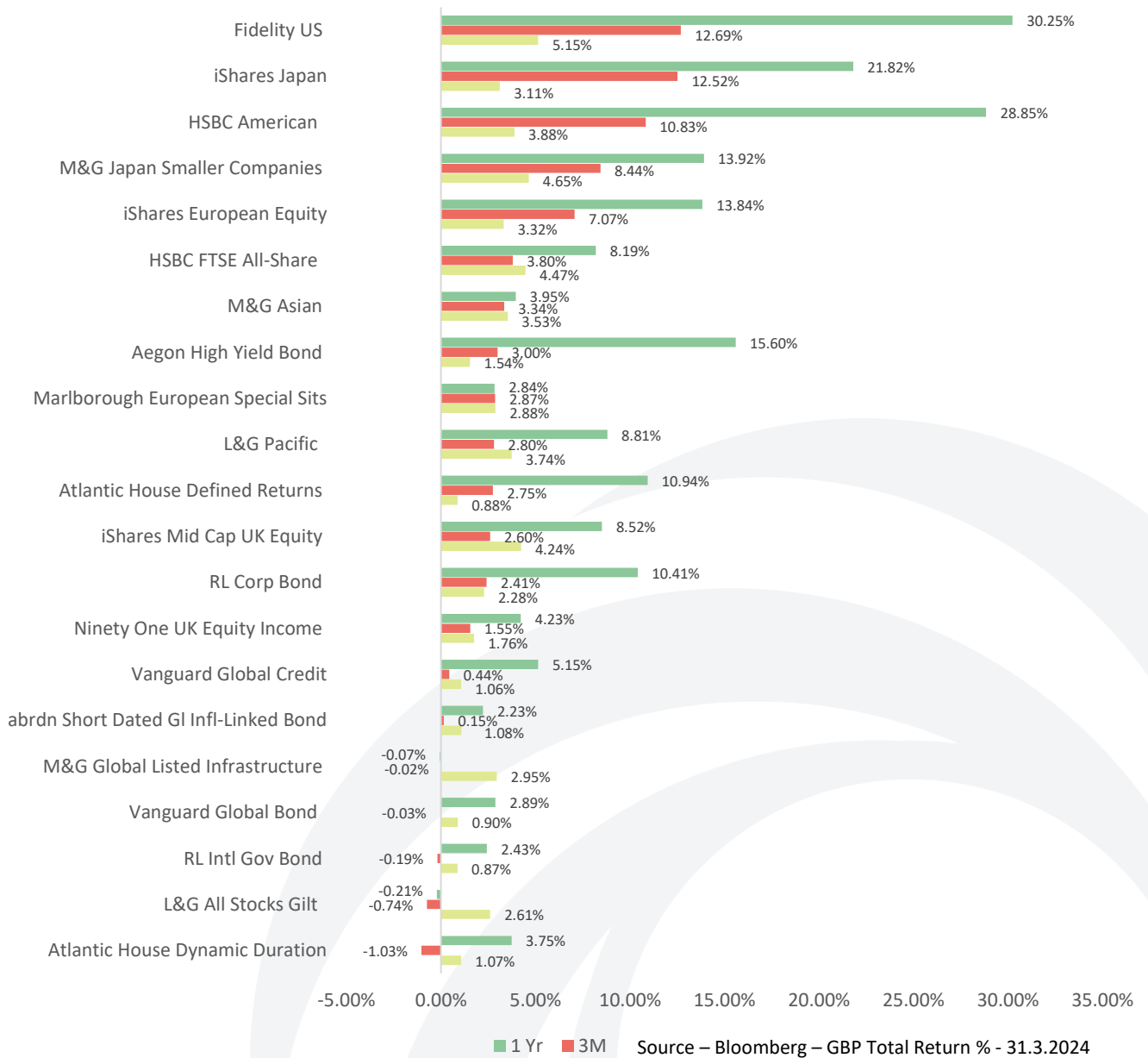
High-yield bond funds are the leading performers within the fixed income universe, with the Aegon High Yield Bond fund delivering an impressive 3% return over the 3-month period. Outperformance can be attributed to the sector's reduced sensitivity to interest rate fluctuations and the prevailing accommodative financial conditions. Corporate bond funds, exemplified by the Royal London Corporate Bond, have also exhibited strength, generating a commendable 2.41% return over the same timeframe.

Portfolio Positioning

Portfolios continued to show progress during the first quarter, with allocations to US, Japanese, and European equities contributing to their success. The Fidelity US fund has led the charge, posting a remarkable 12.69% return over the past three months. The iShares Japan fund followed closely,

generating an impressive 12.52% return. We maintain a positive outlook on the fundamental backdrop for corporate profits over the next twelve months. The broadening rally in equity markets supports the recent addition of iShares Mid Cap UK and Marlborough European Special Situations funds to portfolios. As inflation declines and central banks remain responsive, the developed world appears poised to exit the shallowest recession in 20 years.

Fund Performance



Past performance is not a guide to future performance

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