

Monthly Market Commentary

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Global growth losing steam, but recession may skirt US

Economic growth has slowed across the world with the UK and much of Europe experiencing recessionary conditions. US growth has surprised positively, bolstered by consumers spending excess savings. The strength of labour markets has been a key difference versus prior cycles as unemployment rates have remained at pre-pandemic lows. This contributes to economic resilience and improves the likelihood of a shallow recession in the developed world. Inflation on both sides of the Atlantic continues to fall, with major further drops anticipated in UK inflation in the coming months. This backdrop has enabled central banks to consider rate cuts in the second half of 2024. The Federal Reserve and Bank of England both kept their respective benchmark interest rates unchanged at policy meetings. Both central banks removed language about the need for further tightening, signalling a turning point while noting restrictive policy still needs to be maintained for some time. Like most market participants, we anticipate rate cuts to start mid-year. China remains a notable negative for global growth in 2024. The bankruptcy of Evergrande last week is testimony to the ongoing unwind of China's growth miracle. China's central bank announced some measures to allow more lending into the troubled property sector, but investors anticipate a limited impact.

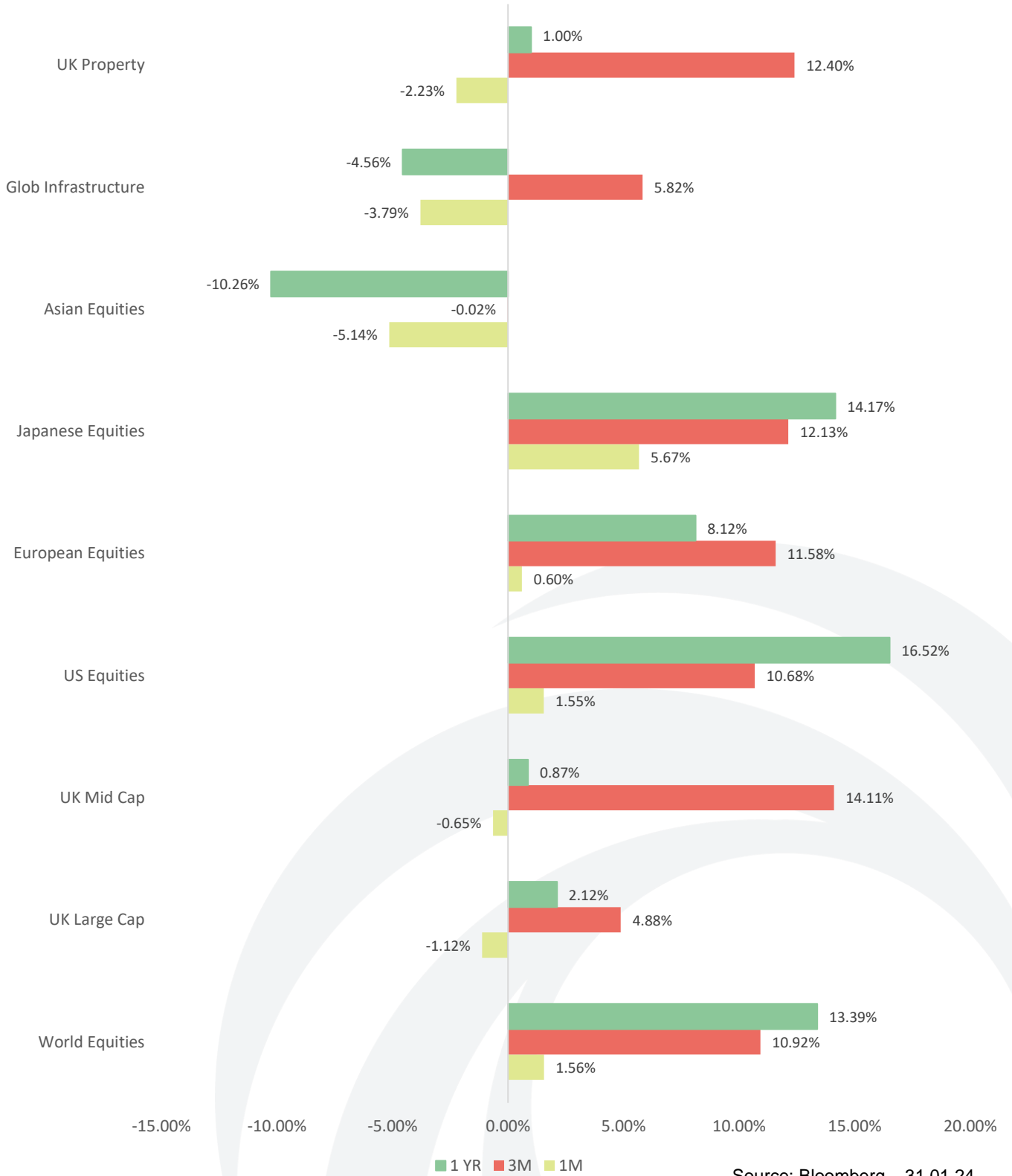
Markets pause as risks circle post-2023 rally

The sharp rally in bond and equity markets in the final months of last year took a breather as we entered 2024. Lacklustre economic data from Europe, rising geo-political risks and the lack of a decisive response from Chinese authorities thwarted the positive sentiment heading into fourth-quarter earnings. A quarter of US companies have reported earnings, with financials and technology producing the strongest growth and energy and materials the weakest. Earnings are tracking down 1.4% but analysts expect profit growth to resume in 2024. In recent days, developed market equities are within touching distance of all-time highs with US, Japanese and European equities leading the charge. Asian equities remain under pressure as China's property sector continues to impact sentiment. The UK market has failed to make headway after a disappointing 2023.

Portfolios consolidate after buoyant 2023

Portfolios were up marginally in January after a very strong finish to last year. One-year returns have improved in recent months, and we anticipate continued progress in 2024 when interest rates are lowered in response to falling inflation. We expect bond markets to rally as central banks begin cutting rates. Government bond and investment-grade corporate bond exposures provide a ballast to portfolios from which to recover. The inclusion of higher-yield bonds to portfolios in 2023 helped returns. These allocations are managed by active managers best able to steer clear of bond defaults. Equity allocations within portfolios have favoured larger companies. This has allowed portfolios to benefit from the outperformance of larger company stocks. Our allocation to US and Japanese equities has helped portfolios in January and throughout 2023. We are mindful of the risk to cyclical companies as economic growth slows but appreciate the depressed valuations on offer in some areas such as smaller companies. We will look to take advantage of these opportunities in a risk-controlled way throughout 2024.

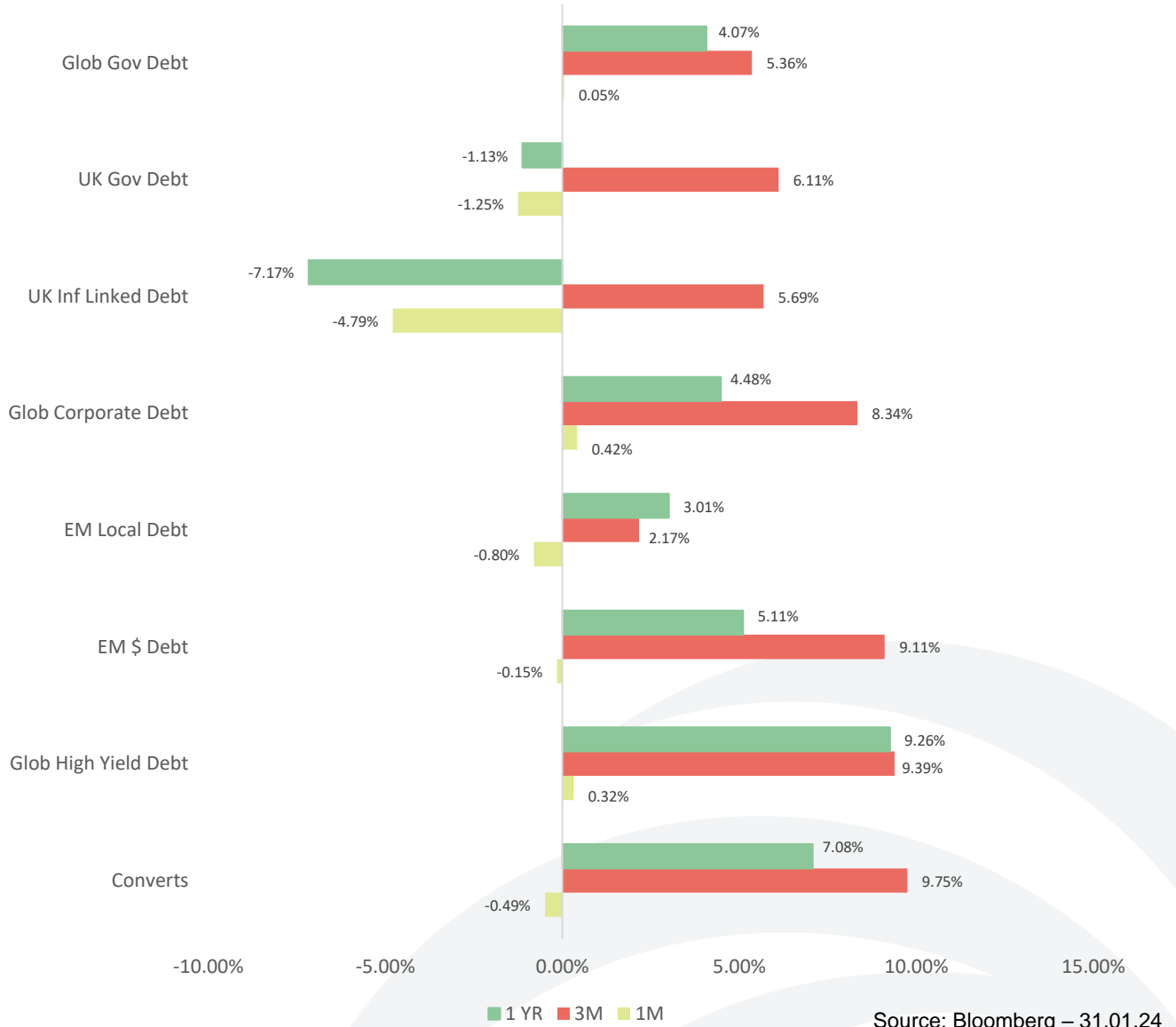
Equities and Property Total Return



Source: Bloomberg – 31.01.24

Past performance is not a guide to future performance

Fixed Income Total Return



Past performance is not a guide to future performance

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