Investment Commentary

January 2024

Market overview

Markets ended 2023 in a very positive mood with both equities and bonds performing strongly in December, adding to the excellent returns seen in November. Developed equity markets rose over 4% in sterling terms over the month with emerging market equities also delivering over 3%.

Investor sentiment has ebbed and flowed over the year, however 2023 has ultimately proved to be a positive year for equity investors with strong returns from most regions. Returns across regions and sectors have been far from uniform, however, with growth stocks, and in particular the 'magnificent seven' stocks at the top of the US index, providing a disproportionate amount of global equity returns over the year. It is therefore encouraging to see that market leadership has broadened more recently with strength across the board and including some of the 'value' sectors which have lagged significantly during 2023.

The key driver for markets over the year has undoubtedly been the outlook for inflation and interest rate policy, and expectations have moved from 'higher for longer' to the more recent view that central banks will reverse rate policy more significantly and earlier than expected. The latest 'dot plot' from the Federal Open Market Committee in the US pointed to three rate cuts in 2024, and bond markets are hopeful the first of these may now come as soon as Q1.

Coming into 2023 there were significant recession concerns across developed regions. However, economic growth expectations have improved and data continues to point to an unexpected level of economic resilience. Looking ahead over the next 2-3 years global growth forecasts are moderate but nevertheless positive in the 2.5% to 3% range, and this more positive economic outlook has provided further support to investor sentiment.

The more dovish outlook also drove another excellent month for bonds, with the Global Government Bond Index up 3.5% in sterling terms. Corporate bonds produced excess returns as spreads narrowed and the strategies further benefited from our exposure to longer-dated issues which were most sensitive to the fall in yields.

Strategy Positioning

We did not make any changes to the strategies over the month, which performed strongly again in December. We retain a positive view on equities moving into 2024 and our positioning has been rewarded in a very strong end to the year for markets. We have opportunistically added exposure to both Japan and Europe in recent months, however our core exposure remains to the more dynamic and economically robust regions of the world, specifically the US and Asia. It has also been pleasing to see strong performance from our thematic funds (infrastructure, renewable energy and artificial intelligence).

We believe that there is now less need for some of the more defensive elements held within both conventional and alternative fixed income investment allocations. These defensive holdings have been crucial over the past couple of years in a rising interest rate environment, however most have now largely fulfilled their intended job. We expect to make further reductions this year to fund increased conventional fixed interest exposure, which should benefit as the interest rate cycle turns.

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