LOWES
INVESTMENT MANAGEMENT

Mixed Investment 40-85% Shares

Quarterly Report to 31 December 2023

Objective

To provide a combination of both income and capital growth over the medium to long term.

Strategy

The portfolio invests in a diversified range of funds across multiple asset classes, such as equities, fixed interest and direct commercial property. Investing in line with the parameters of the Investment Association Mixed Investment 40% - 85% Shares sector, this portfolio will always have at least 40% of its assets invested in equity funds but never more than 85%. Usually having the majority of its assets invested in equities, this portfolio should provide capital growth as well as allowing a certain level of income to be taken. Whilst exhibiting more volatility than the portfolios with a lower equity exposure, this portfolio would still hopefully provide some protection compared to a pure equity portfolio in a falling market.

Market Commentary

After a difficult month of October most asset classes ended the quarter in positive territory. Stubborn inflation data, coupled with the potential that interest rates could remain higher for longer, initially caused concern that the global economy could potentially see a harder landing than some commentators were expecting. This had a negative impact on both equity and fixed income markets, with both asset classes remaining positively correlated.

During November, however, we started to see some sign of hope that inflationary pressures maybe starting to ease, particularly in the US, which gave asset markets reason for cheer. This was confirmed somewhat in December, when we saw a change in rhetoric from the US Federal Reserve regarding the outlook for interest rates in 2024. The latest dot plot, which plots the interest rate expectations for policy setting committee members, showed that the median expectation for 2024 was for three interest rate cuts. This caused not only fixed income prices but also equity price to rally. Whilst the Bank of England and European Central Bank were more stubborn in their policy stance, insisting that they needed further evidence that higher inflation had been beaten, the market gave their view little credence, and priced in rate cuts anyway.

UK fixed income markets therefore posted a strong return for the quarter. Returns were particularly strong within investment grade and UK government bonds (gilts), given their higher interest rate sensitivity. The longer the duration, the stronger the return. Despite their lack of interest rate sensitivity, high yield/non-investment grade bonds also performed positively. Their return is more sensitive to changes in the credit outlook and, for now, this appears to be relatively stable, with little change in current or forecast default expectations.

In local currency terms it was US equities which led the way. The Nasdaq posted a strong return for the quarter, with the 'magnificent 7' companies of Apple, Amazon, Alphabet, NVIDIA, Meta, Microsoft and Tesla, continuing to deliver. Their dominance, however, was not as strong, with smaller companies head of the pack, the Russell 2000 index outperforming the Nasdaq and S&P 500. The latter performed strongly on the back of the interest rate cut expectations, which increased hope that the US economy may be able to avoid a hard landing. It was a similar picture in the UK, where the mid-sized outperformed large sized companies.

There were also positive returns for European and Japanese equities. Woes continued to be seen further east, however, with the Hang Seng posting a negative return. The market failed to be buoyed by the rally seen in western markets. This was despite economic growth for the third quarter being above expectations, and year on year almost in line with the official annual target of 5%, coupled with a benign inflation outlook. Concerns remained that the property sector issues were still to take full effect.

LOWES
INVESTMENT MANAGEMENT

Performance

During the quarter the portfolio performed in line with the IA Mixed Investment 40-85% Shares sector average, posting returns of 5.56% and 5.76% respectively.

Strongest performing funds during the period were those of long duration and those investing in asset classes or investment styles which benefit from falling bond yields. Top of the pile was FSSA Japan Focus. Its focus on quality growth had been under pressure given higher bond yields, which had put pressure on stock valuations. The change in rhetoric from the US Federal Reserve, however, drove this investment style back into fashion, the fund posting a double digit return for the period. The fall in bond yields also helped drive the performance of the Liontrust Sustainable Future Managed Fund, in particular its long maturity government bond holdings. Other strong performers included Schroder Sterling Corporate Bond and Gravis UK Infrastructure Income.

Amati Strategic Metals was a weaker performer during the period. Despite lower bond yields and higher metals pricing miners struggled to attract investor interest. The exception to the rule was perhaps uranium miners, where the price of the underlying commodity rose substantially. Despite the fall in bond yields commercial property funds also failed to catch momentum. There remained some concern regarding the refinancing of property at current levels of interest rates. However, we remain confident in our underlying managers.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

There were no changes made to the portfolio during the quarter. The portfolio will therefore be rebalanced in January. We continue to monitor and evaluate the asset allocation and fund selection within the portfolio, reviewing in context with current and forecast market expectations, along with the economic outlook. An appropriate level of diversification is also necessary.

Investors appear more convinced than they were previously that inflation is indeed on track to move back closer to the desired objective. There remain some elements to inflation, however, which are proving to still be 'sticky' and therefore we believe that it is too early to make the call that it has indeed being defeated. Whilst the forecast is for rate cuts to be delivered in 2024, we are still potentially yet to see the full impact of the hikes we have already seen on economic growth. We, therefore, believe it is too early to hold the review that some sort of recession/economic slowdown has been fully averted or indeed that higher inflation has been contained.

Equity exposure within the portfolio remains around half that permitted under the IA sector rules. We continue to believe that this is prudent given the uncertainty regarding economic growth and the potential that disinflation could have a negative impact on corporate earnings. Within the fixed income allocation our preference remains for fund managers who have flexibility within their mandate, both at an asset allocation and duration management level. Markets have already priced in a strong level of interest rates cuts for this year.

Disclaimer

The portfolio is managed on a discretionary basis therefore the investment manager may make changes to the investments held without notice. Investors are agreeing to the investment model as recommended by an Adviser and may not be investing into the specific assets included in this report.

Past performance is not a guide to future performance. The value of investments and any income from them can fall as well as rise and are not guaranteed, so you may get back less than you invested. If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset.

Consideration should be given to whether it is felt that the outcome of any risk assessment is accurate and advice should be sought for factors such as investment objectives, the investment term, attitude to risk, capacity for investment loss and the level of inflation.

This illustrative document is intended for investors where advice has been given by Advisers. Models are prepared in accordance with the stated objective and not client circumstances. Information from given sources is taken to be reliable and accurate, which Lowes Investment Management Ltd cannot warrant for accuracy or completeness.

Lowes Investment Management is authorised and regulated by the Financial Conduct Authority (192938).