LOWES

INVESTMENT MANAGEMENT

Global Select

Quarterly Report to 31 December 2023

Objective

To provide capital growth over the medium to long term through a diversified portfolio of funds investing in global equities.

Strategy

Investing only in equities, the portfolio is designed to maintain a global exposure and focusses on funds whose remit is to invest in areas of the world's equity markets which, although possibly more volatile, we believe offer the prospect of higher long term capital growth. In line with the desire to maintain a balance of investments around the globe, UK equities will usually represent at

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 prices to rally. Whilst the Bank of England and European Central Bank were more stubborn in their policy stance, insisting that they 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.

Performance

During the quarter the portfolio underperformed the IA Global equity sector average, posting returns of 4.64% and 6.84% respectively.

The top performing fund during the period was the FSSA Japan Focus fund. 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. There was also a strong performance from Artemis US Smaller Companies. The latest forecast of three interest rate cuts spread confidence that a marked slowdown in the US economy could be avoided. Economically sensitive stocks, therefore, such as mid and small sized companies, rallied strongly on the news. Lower bond yields also favoured those equity funds whose investment style is more yield sensitive, such as those funds investing with a growth style bias. BlackRock Global Unconstrained Equity, which was added in the previous quarter, was therefore a strong performer also.

The strong performance from the US 'magnificent 7', coupled with the high weighting of the US within the global index, meant that funds investing in other geographical regions struggled to keep up. This included funds investing in Asia Pacific, emerging markets and the UK. These funds were, therefore, a laggard to portfolio performance over the period.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

With changes having been made in the previous quarter, there were none made during the period. 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.

When looking at equity market regions we also take into close consideration valuation metrics. Following the rally seen in the 'magnificent 7' during the period the US stands at a high valuation compared to other regions. Many countries and regions trade at a valuation below their longer term average, whereas the US the valuation is above. Regions such as Europe ex UK and the UK currently trade at a discount to the US not seen for a considerable length of time.

We are aware that the high valuation of the US market is being driven by these seven stocks, particularly given their high weighting within the index. Despite the rally over the quarter mid and small cap stocks in the US still trade at a material discount to their large cap counterparts. The S&P 500 excluding the 'magnificent 7' trades at a lower valuation and therefore exposure to the US is still warranted. We would also add that not every stock within the top 7 are necessarily overvalued relative to their earnings growth outlook.

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).