WAVERTON

GLOBAL OUTLOOK

October 2023

INTRODUCTION

This document shows the charts that we think are particularly useful to help us determine where we are in the economic cycle and what the outlook is for markets.

Contents

SUMMARY OF OUR VIEWS

Macroeconomic background

Another month where the macro debate continued between those suggesting a soft landing and those suggesting a recession. There was evidence for both, even in one statistical release. For example, the September data on US employment showed a significantly higher than expected increase in new nonfarm jobs (336,000 versus 170,000 consensus estimate).

But the detail of the report showed that for the third month in a row the number of full-time workers declined. The increase in new jobs was all part-time workers. Traditionally that is a sign of weakness in the labour market, not strength. Lies, damn lies and statistics once more.

The most important economic data over the balance of the year is likely to be inflation. The inflationary impulse at the headline level is slowing on both sides of the Atlantic but for the market to be correct that central banks are at peak policy rates, that good news must continue.

The tragic events in Israel over the weekend of October 7-8 contributed to a 4% jump in the oil price on 9 October. It is still below where it was last month, but if the oil price were to increase further that could be a problem for central banks. We show, courtesy of charts first produced by Jeff Keen and the Fixed Income team, on page 15 the close relationship between changes in the oil price and expectations for future inflation. A higher oil price in coming weeks could disturb the slowing inflation narrative.

Without making a direct comparison, it is worth remembering that in the summer of 2008 oil hit $140 a barrel which prompted angst among central bankers and even a rate hike by the ECB. That was a mistake that will hopefully not be repeated in 2023.

We continue to see bonds as attractive. If we look at current nominal bond yields on both sides of the Atlantic and compare them to current market expectations for inflation over the next decade, there are positive real yields on offer in gilts and Treasuries.

Given our cyclical view, we continue to have more exposure to government bonds than normal in our fixed income portfolios as we have a lower allocation to credit than we have ever done (back to 2009).

We would also highlight that for the first time since 2001, the 3-month Treasury bill, a proxy for cash, is yielding around the same level as the forward earnings yield on the S&P500.

It remains the case that our suspicion is that both the earnings yield and the corporate bond yield will increase if we do finally get signs of a slowdown in the second half of 2023.

Risk warning: The above should be used as a guide only. It is based on our current view of markets and is subject to change. As at 09.10.23

SUMMARY OF OUR VIEWS (continued)

Equities (underweight)

Global equities returned 0.6% in the third quarter. They are up 8.5% so far this year (all in sterling terms).

The global market was a little weaker in September and August. This was prompted by rising real rates and uncertainty about future policy. Macro data out of the US, however, remained resilient overall and consistent with the soft-landing narrative that has become more mainstream in recent weeks.

September saw more rises in the oil price and although the first week of October saw oil fall, the awful attacks on Israel, widely credited to Iranian support, has increased the risk premium in oil markets.

Energy was the best performing sector in September, with Financials second best. That in turn meant Value and Deep Value stocks outperformed Growth. Regionally, the UK and Japan did best, consistent with their value bias.

With the rise in bond yields over the month, technology, and the traditional bond proxies (real estate, utilities and staples) lagged.

As ever, the focus is on those companies where the team has greatest confidence in the ability to deliver Free Cash Flow growth over the next few years and where valuations are not extended.

Fixed income (overweight)

The overall gilt total return index returned -0.8% in the third quarter. It has returned -4.6% this year.

We now see some value in gilts for the first time in many years. Within the Sterling Bond Fund we have exposure to both long duration gilts and long duration US Treasuries.

Short dated sterling credit is also attractive with yields of 5-6% on offer for an investment grade portfolio of bonds maturing within the next 18 months.

Alternatives (neutral)

We believe Alternatives have an important role to play in diversified portfolios.

Absolute Return strategies can give exposure to an uncorrelated stream of returns giving diversification benefits. This sector has struggled in recent years, but well-run funds have attractive volatility dampening characteristics.

Real Assets such as property (both physical and intellectual), infrastructure (including transportation), commodities (such as gold) and other investments underpinned by physical assets offer a combination of income and capital return that is attractive. Many of the assets that produce income have inflation linked cashflows.

Cash (neutral)

Even though savings rates have risen, cash still loses purchasing power quickly in the current period of high inflation.

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Part 1

RECESSION, INFLATION, POLICY RESPONSE AND GOVERNMENT BONDS

MARKET IS SUGGESTING WE ARE AT, OR CLOSE TO, PEAK POLICY RATES

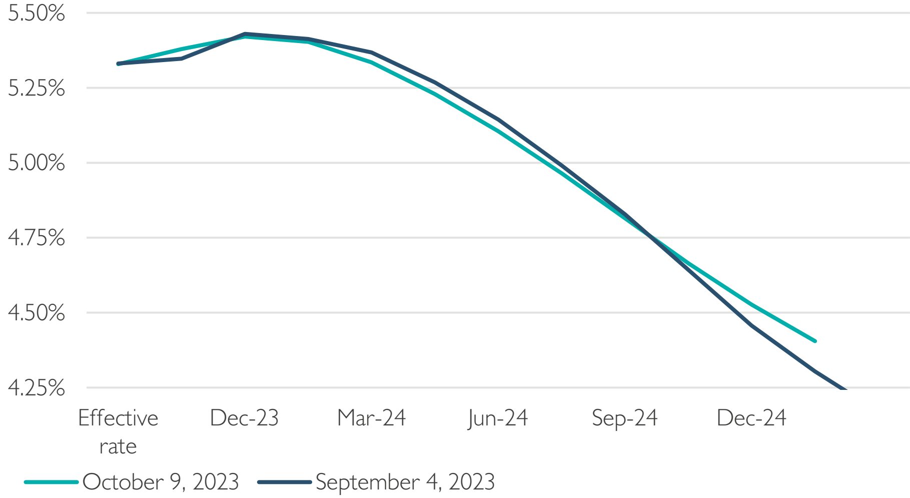
The top chart shows current expectations for the US Federal Reserve policy rate and those expectations a month ago. There has not been a meaningful change in expectations.

The market thinks the Fed is done with its rate hikes. It expects a rate cut in Q2 2024. From here, a lot will depend on the path of the monthly inflation reports. If they continue to show deceleration of inflation, then the market pricing could be correct.

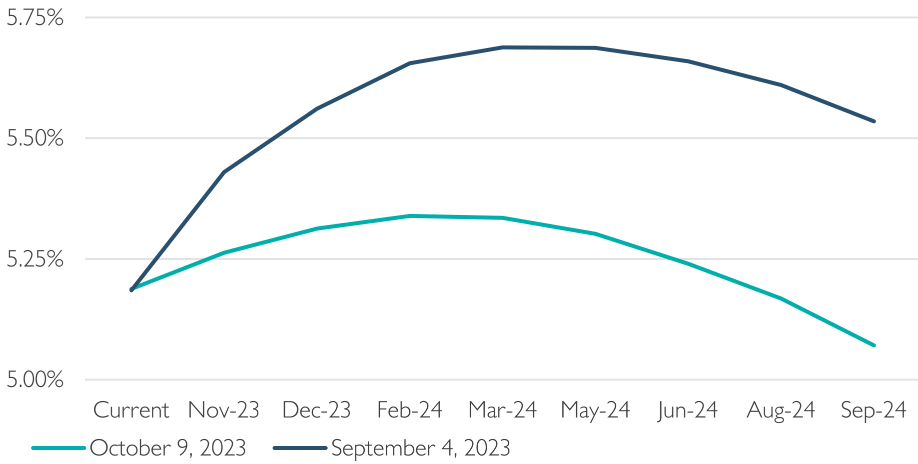
The bottom chart shows current expectations for the Bank of England's base rate and those expectations a month ago.

There has been a material change in the outlook for UK policy rates. The market thinks it is 50-50 whether there is one more hike and although there is still no expectation of a cut until at best late 2024, this chart looks a lot more reassuring for UK asset markets.

Implied US Fed Funds rate %



Implied UK Base Rate %



Source: Bloomberg, Waverton. Data as at 09.10.23

CURRENT MARKET NARRATIVE EXPECTS A "SOFT LANDING" IN THE US

The Federal Reserve and the Bank of England has each withdrawn their internal forecasts for recessions in the US and UK this year.

In the US, the market narrative has shifted in recent months to one where a so-called "soft landing" is deemed more likely than a recession. In a soft landing the central bank reduces inflationary pressures in the economy without shrinking the economy. Such an outcome is rare but has been done, arguably, in the mid-1990's.

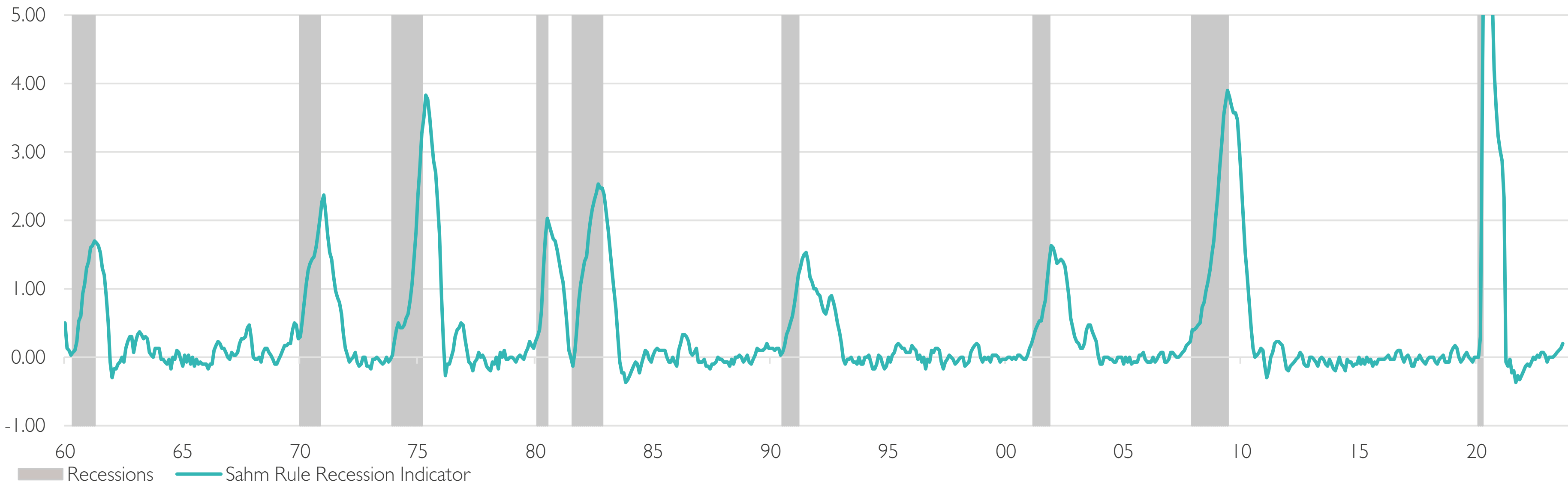
Perhaps the most important indicator that is giving the market increased confidence in this happening again is that the monetary tightening seen so far has not materially weakened the labour market.

This chart is of the Sahm Rule which was created in 2019 by Claudia Sahm, an economist at the Federal Reserve. Her insight was that there has always been a recession when the three-month moving average of the unemployment rate rises by 0.5 percentage point relative to the low point during the previous 12 months.

The unemployment rate was 3.8% in August and September. The low was 3.4% in January. If it gets to 3.9% and stays there, or higher, until the end of the year, the Sahm Rule will move higher.

But for now, the resilience of the labour market means the chances of a soft landing are good. We are sceptical, but recognise it is a possibility.

Sahm Rule Recession Indicator and Recessions 1960 - current



Source: Bloomberg, Waverton. Data as at 30.09.23

A "SOFT LANDING" IN THE US OCCURRED IN THE MID 1990's

One of the debates going on in markets at the moment is whether the rise in interest rates since early last year has had a genuinely restrictive impact on the economy. One way of looking at this is to gauge whether overall financial conditions are restrictive.

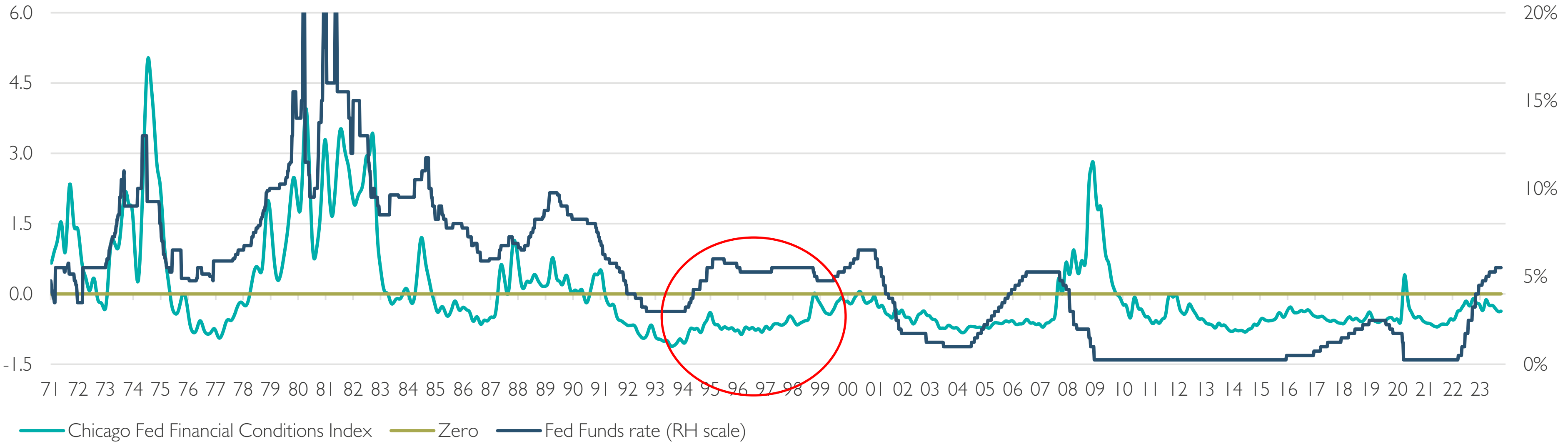
Several such indices are produced including the one charted below from the Chicago Federal Reserve. This is an index derived from over 100 types of credit spreads and financial indicators. A reading above zero suggests financial conditions are restrictive. Below zero and they are not.

As the chart shows, generally when the Fed Funds policy rate has been rising, financial conditions have also tightened. But in recent years, financial conditions have generally been loose apart from a brief period when Covid struck.

The other time when interest rates were rising but financial conditions remained easy was in the mid-1990's which was arguably the one time when the Fed did engineer a soft landing (see red circle).

The debate about recession or soft landing would be more clearly likely to produce a recession if financial conditions tighten. That will happen if credit spreads widen, for example, and/or if bank lending slowed.

Chicago Fed Financials Conditions Index and Fed Funds Rate 1971 - current



Source: Bloomberg, Waverton. Data as at 06.10.23

THERE IS STILL A SIGNIFICANT RISK OF A RECESSION IN THE US

Although the Federal Reserve and the Bank of England has each withdrawn their internal forecasts for a recession in the US and UK respectively, many historically reliable indicators of the economic cycle continue to suggest one is likely.

The top chart is an indicator of recession probability in the next 12 months from the New York Federal Reserve with a history going back to 1960. The probability is based on the spread between 10-year and 3-month Treasury rates. The grey bars on the chart are recessions.

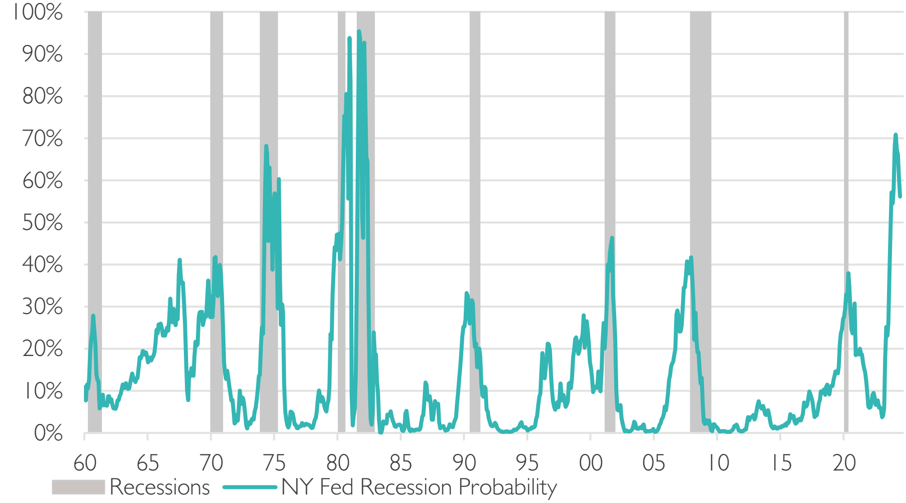
3-month Treasury bill rates have been generally above 10-year bond yields since 26 October 2022. Not surprisingly the probability of a recession has therefore been high and is 56% at the end of September.

The bottom chart is the 6-month % change in the Index of Leading Indicators which is made up of 10 series including share prices, the yield curve and a range of indicators covering housing, new orders and leading indicators of the labour market such as jobless claims.

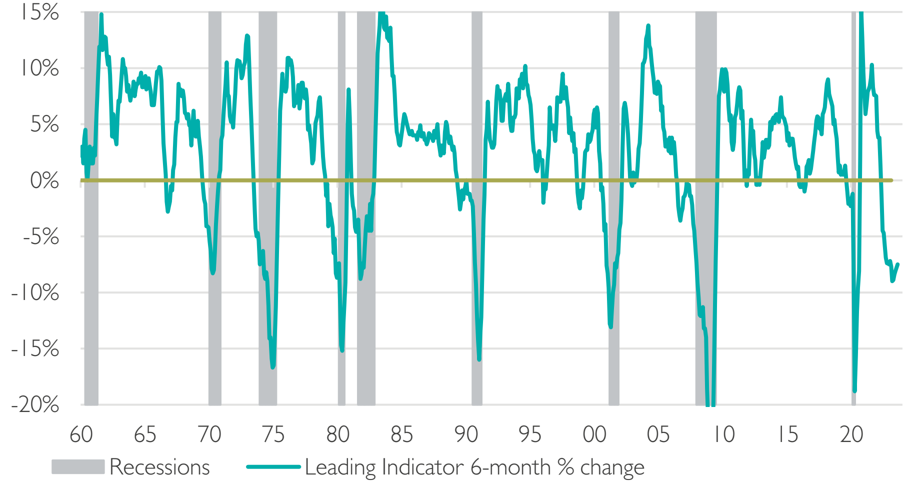
As you can see, since 1970 the US has either already been in recession, or a recession has started within three months of the change in the index being -4.0% or worse.

As at the end of August the change in the index over the last six months is -7.5%.

New York Federal Reserve Recession Probability Indicator 1960 - current



Leading indicator (% change over 6-months) & Recessions 1960 - current



Source: Bloomberg, Waverton. Data as at 30.09.23

US PROFITS AS % OF GDP ARE IN DOWNTREND, BUT STILL ELEVATED

This chart shows pre-tax profits of corporate America relative to GDP through Q2 2023, the most recent data available. This profit series shows aggregate profits across the whole economy and shows them in US dollars, not as earnings per share.

Consequently, this series is not susceptible to financial engineering via such things as share buybacks to boost earnings per share. It is a proxy for profit margins

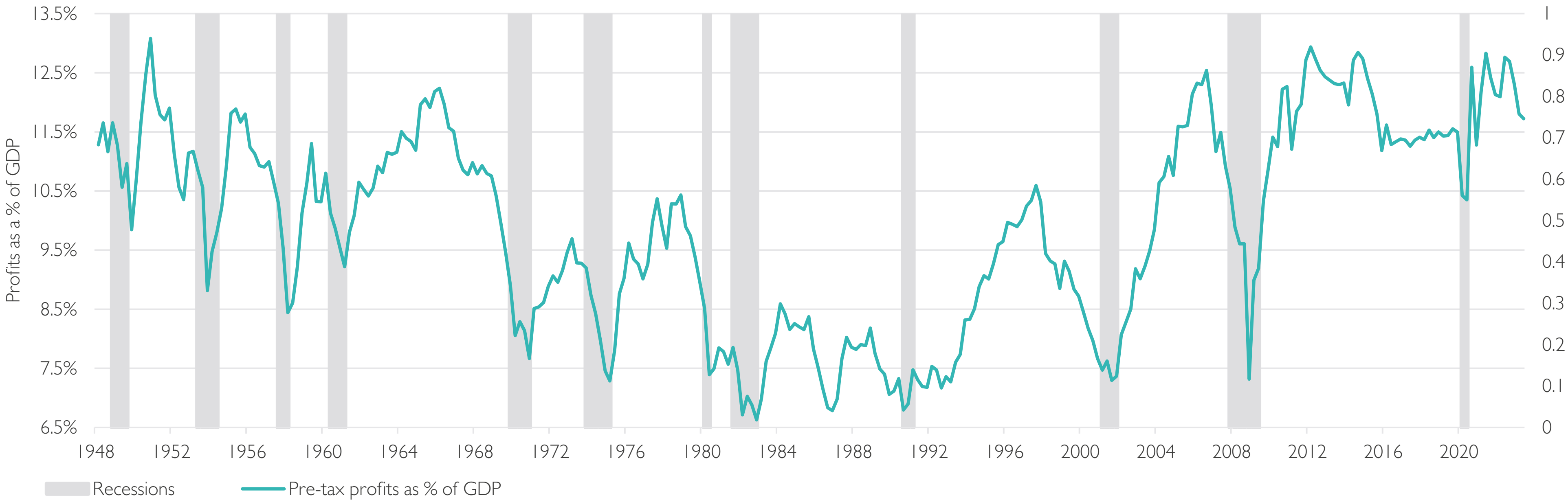
Last month there were benchmark revisions to National Income accounts which have changed the numbers in the chart below although not the message.

Profits have been revised up, so the cyclical peak as % of GDP is higher than previously reported. That peak was 12.8% in Q2 2021 which was previously reported as 12.1%.

In every recession except 1982, profits were falling as a % of GDP before it. Q2 2023 profits were 11.7% of GDP, down from 11.8% in Q1 2023.

National Income account profits are down 2.7% from a year ago while nominal GDP is up 5.9%.

US profit cycles and recessions (%)



Source: MSCI, FactSet, Waverton. Data as at 30.06.23

GOVERNMENT BONDS REMAIN INTERESTING AT THESE LEVELS

The top chart shows how the yield on 10-year gilts and 10-year US Treasuries has evolved over the last year.

US yields oved above UK yields in September, partly because the market has switched to being slightly more concerned about the possibility of higher policy rates for longer in the US than it had been in recent months, while expectations for UK policy rates have fallen back materially.

The bottom chart shows those same yields after deducting the current 10-year inflation swap rate in each market. The swap rate is one indication of market expectations for inflation over the life of the bond.

Inflation swaps are priced on RPI in the UK so we have deducted 1.2% from the swap rate to get an implied indication of expectations of CPI inflation (1.2% is about the long-term "wedge" between RPI and CPI inflation).

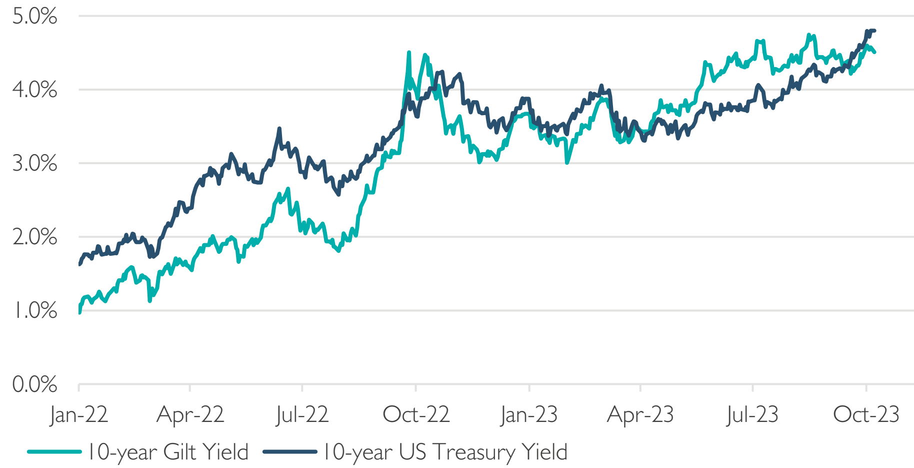
As the chart shows, both markets continue to offer, on this measure, a positive real yield.

The inflation linked bond market is saying something similar in the US where the Treasury Inflation Protected Securities market is giving a positive real yield. The January 2033 TIPS yields 2.5%.

The UK linker market is less attractive (the November 2032 linker yields +0.7%).

Given the challenging economic outlook and the positive real yields on offer, we think there is still value in the government bond market today. Recent days are a reminder that government bonds remain an important component in a diversified portfolio.

US and UK10-year bond yields (%)



US and UK implied real 10-year bond yields (%)

Source: Bloomberg, Waverton. Data as at 06.10.23

STERLING STRONG AGAINST THE EURO

Sterling has weakened a little against the euro in recent weeks as the expectations for the extent the Bank of England will have to raise interest rates has moved lower. But the current rate is above the average rate since the Brexit referendum in June 2016.

We continue to think that the exchange rate versus the euro is a better measure of the market view of UK specific risks is the sterling/dollar rate.

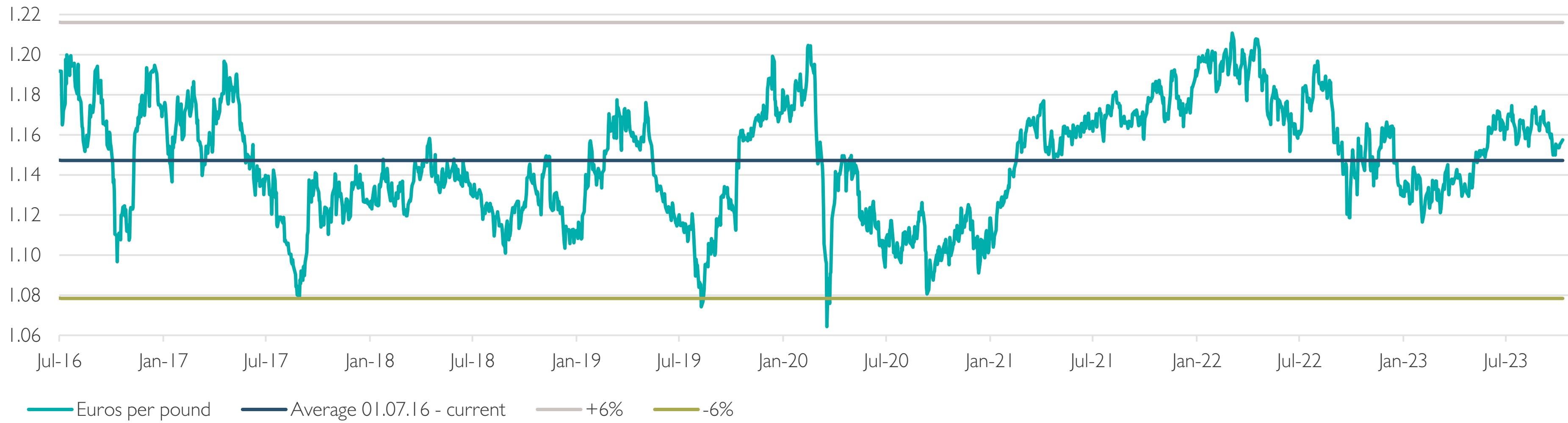
The chart shows the number of euros per pound since 1 July 2016. The average exchange rate since then is shown as the grey line and we show a range 6% either side of that average.

We use 6% as that was the range sterling was allowed to trade against its DM2.90 central rate when it was in the Exchange Rate Mechanism (ERM). Famously sterling was forced out of the ERM in September 1992 when it was unable to hold within that range.

We note that over the period shown (1,900 trading days), sterling has only been out of a 6% trading range for five days.

For now, it is slightly above average.

Euros per pound (01.07.2016 – current)



Source: Bloomberg, Waverton. Data as at 09.10.23

INFLATION REMAINS PERSISTENT AROUND THE WORLD

This chart shows reported inflation in the US and UK since 1980 and the euro area since data started in 1997. We are at levels not seen for 40 years although there is evidence that the rate of inflation is now slowing.

The peak for US inflation was in June 2022 at 9.1%. It is now 3.7%. The euro area looks like it peaked in October 2022 at 10.6% (now 4.3%) and the UK may have peaked in October 2022 when RPI was 14.2%, and CPI 11.1%. The UK is struggling to reduce inflation as quickly as it appears to be reducing in the US. But RPI is now 9.1% and CPI is 6.7%.

US core inflation (excluding food and energy) hopefully peaked at 6.6% in September. 2022 It was 4.3% in August.

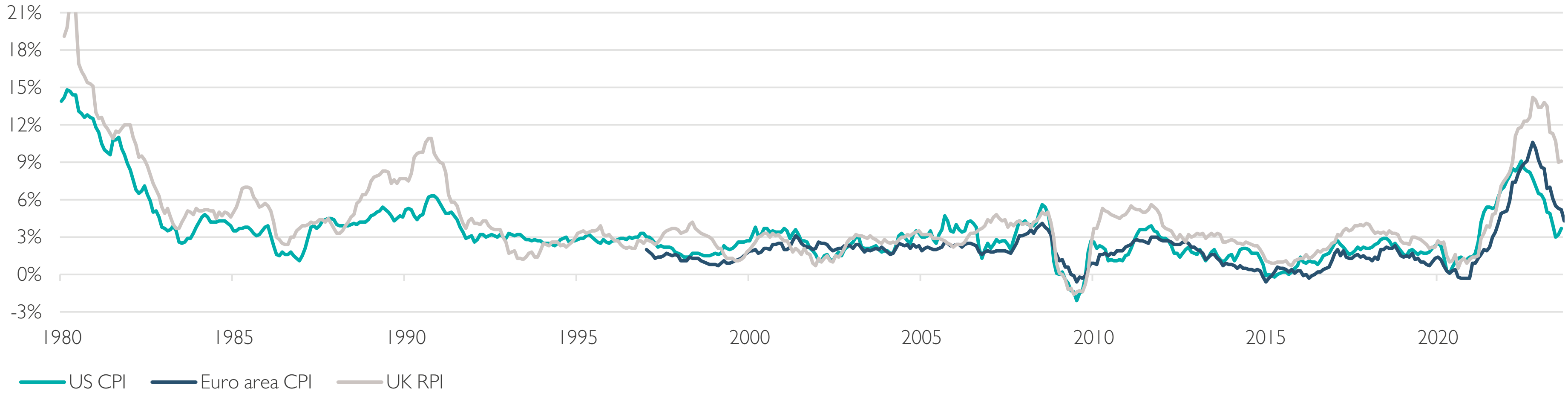
Despite the recent improvements, there remain concerns about the inflationary impulse across the developed world. The detail of recent inflation reports shows a slower reduction in price increases and Service inflation in the US in particular is a concern.

If inflation goes back to surprising to the upside there is a lot more to go in terms of rate hikes given how extraordinarily low they remain compared to headline inflation (and to history).

However, as the next charts show, the market is still somewhat sanguine about future inflation, which is understandable if there is a recession in the major economies this year. Although it is unusual for the stock market to be rallying strongly into a recession.

Inflation (% change year-on-year)

1980 - current



Source: Bloomberg, Waverton. Data as at 31.08.23

EXPECTATIONS FOR FUTURE INFLATION REMAIN SANGUINE

The top chart shows the 2-year inflation swap rate which is one reflection of the market's view on future inflation. One can buy or sell the swap. If you think inflation will average more than the current price, you buy the swap and vice versa. The payoffs are roughly linear. If you buy at 2% and the outcome is 2.2%, you make about 10%.

The moves in rate markets and inflation swaps are clearly interlinked. The market remains sanguine about inflation over the next two years as the expectation that rates will stay higher for longer is expected to ease the inflationary impulse.

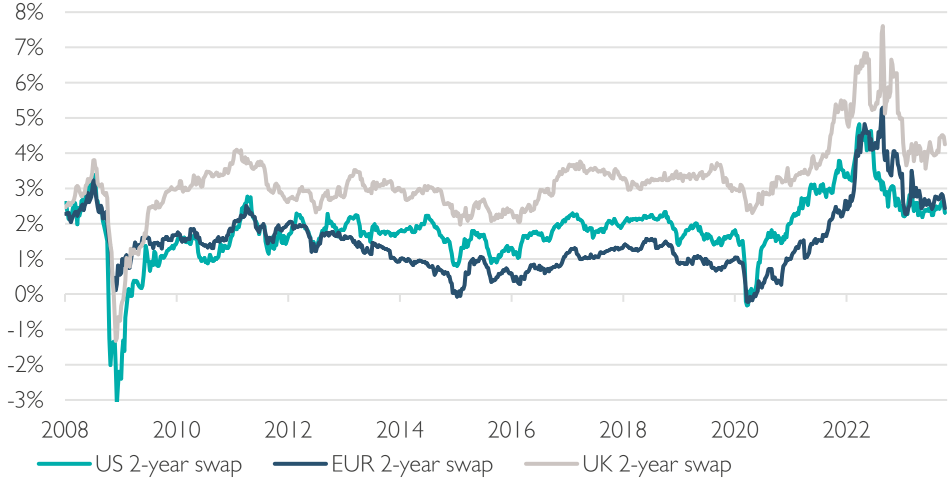
But if future inflation actually takes longer to return to target that will be an issue for investors as it will almost certainly see a reversal upward in rate expectations.

The bottom chart shows longer-term inflation indicators. Here the picture remains encouraging.

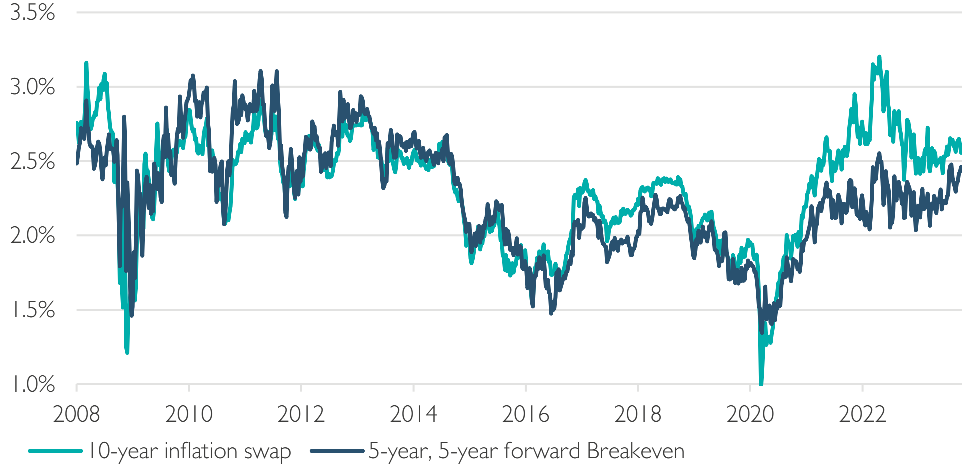
The green line is the 10-year US inflation swap and the black line is the inflation rate calculated from the spread between five year nominal and inflation linked bonds five years forward.

It is worth noting that both have moved up a little in recent weeks. This may reflect some concern that the market is thinking the Federal Reserve is finished raising its policy rate but there is a risk that inflation remains more persistent, particularly if energy prices retain some of the strength they have shown recently. This needs to be watched.

2-year inflation swap rate (%)



Long-term US inflation expectations



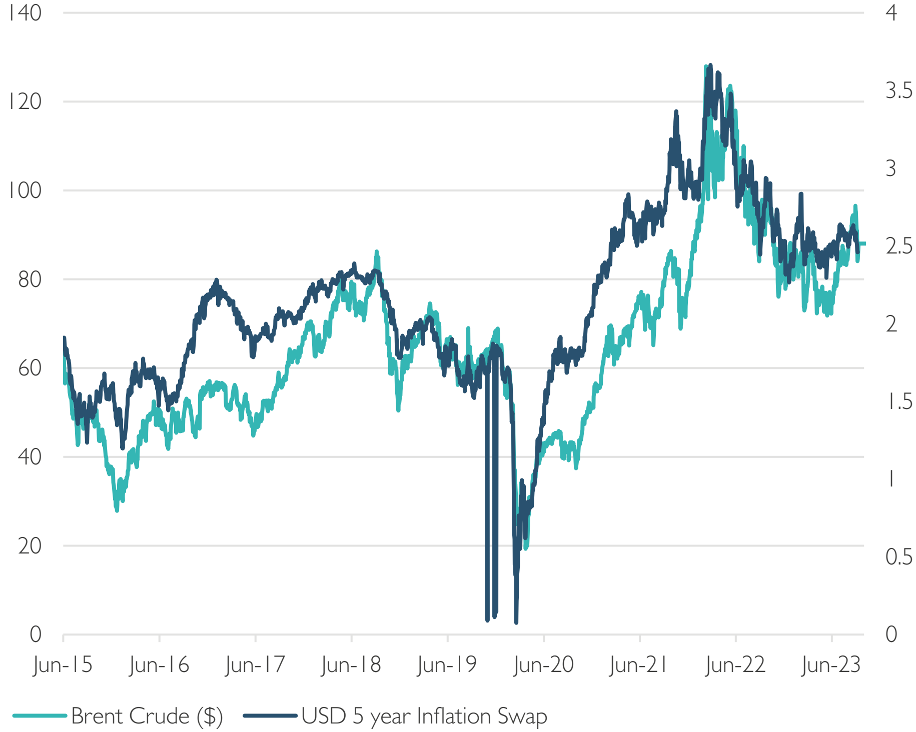
Source: Bloomberg, Waverton. Data as at 06.10.23

ENERGY PRICE RISES COULD THREATEN THE SANGUINE NARRATIVE

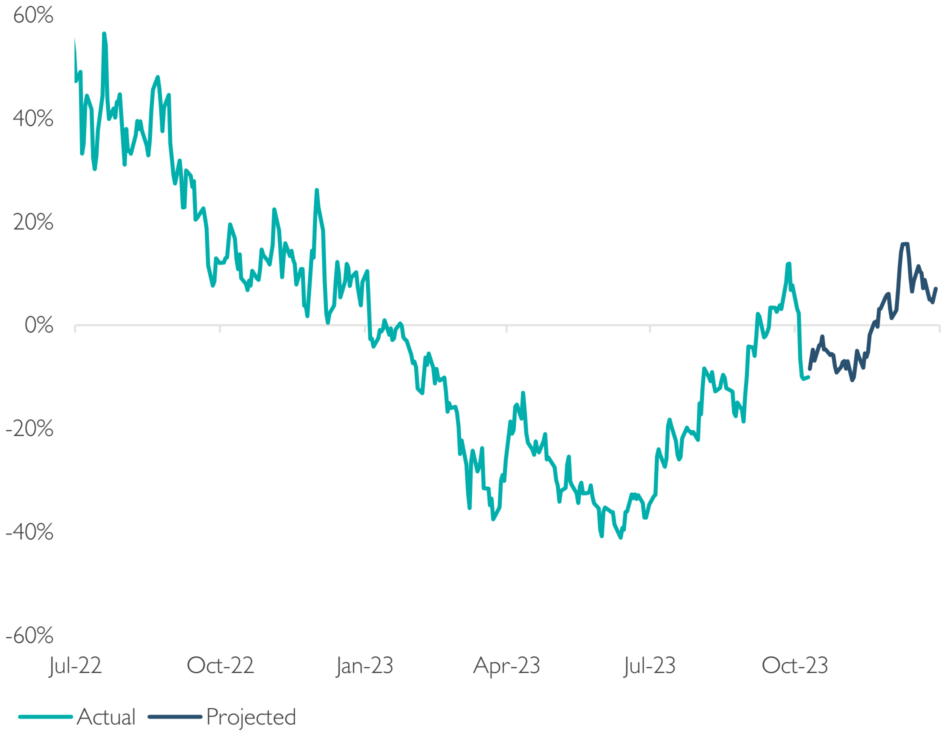
The terrible events in Israel over the weekend October 7 and 8 could feed through to financial markets in several ways but perhaps the most significant in the short term will be the impact it has on the oil price. The initial reaction has been an increase of 4.5% on October 9.

There is a strong relationship between the oil price and inflation projections for the next five years. We saw much improved headline inflation data over the summer after over a year of weaker energy prices. However, from now on, the year-on-year comparisons get tougher. The oil price has been recovering and the annual change will be back to zero by the end of October, assuming the oil price stays at current levels. It remains to be seen what impact this will have on inflation and to what extent Central Bankers will feel able to relax monetary policy against that backdrop.

Inflation Expectations and the Oil Price



Annual % change in Oil Price (USD)



Source: Bloomberg, Waverton. Data as at 09.10.23

THE BROAD COMMODITY COMPLEX IS WEAK

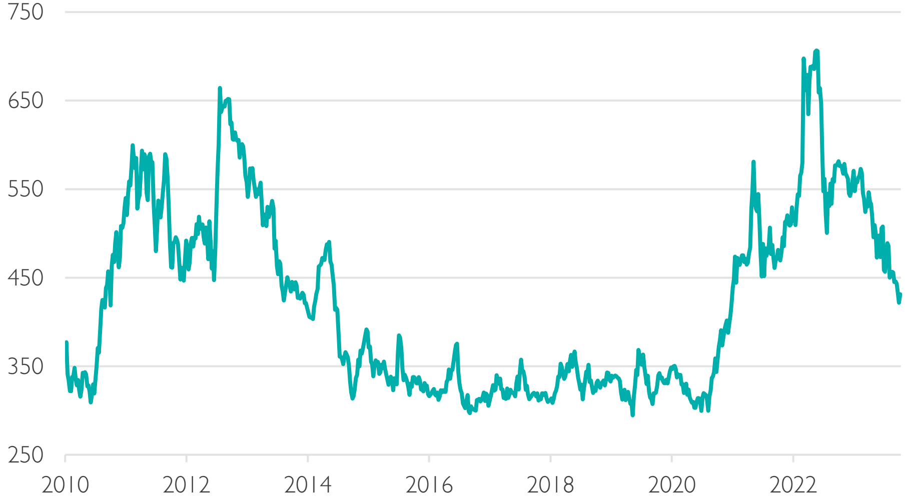
Energy prices have been firmer in recent weeks but the broader commodity complex is in the doldrums.

Grain prices have been falling this year. Fears of supply disruption from Ukraine, the bread basket of Europe, and Russia, have not materialised sufficiently to support prices.

The Industrial Metals index (bottom chart) has also been weak in recent months. Demand from the People's Republic of China is an important driver of industrial metals prices.

So far, the bottom chart on this page is one of several suggesting that the PRC economy remains in the doldrums.

S&P GSCI Grains Index



S&P GSCI Industrial Metals Index

Source: Waverton, Bloomberg. Data as at 06.10.23

DOLLAR A LITTLE WEAKER

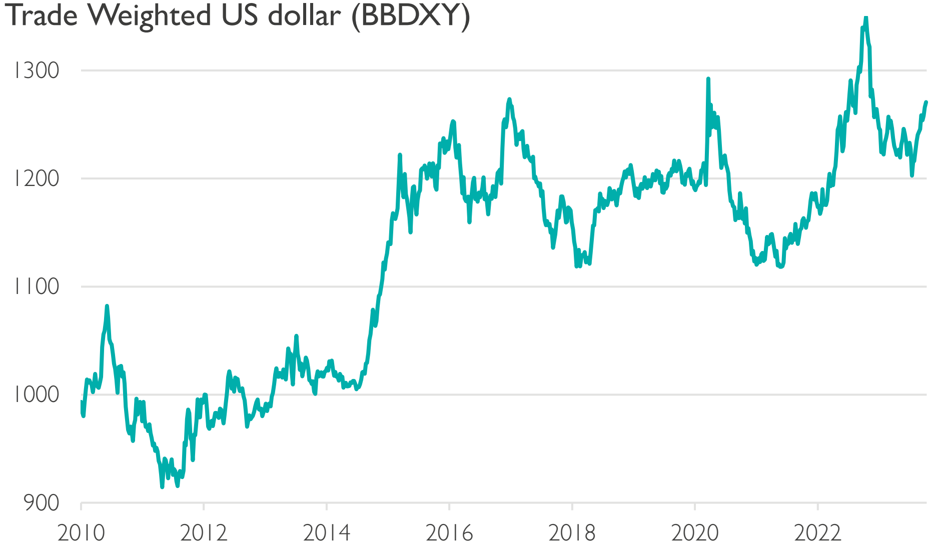
The top chart shows a trade weighted dollar index. It has been range bound this year, although has firmed recently partly due to changes in expectations for relative interest rates (higher for longer in the US, not going as high as previously thought in the UK for example).

The bottom chart shows that an index of emerging market currencies. This index is weighted by the weighting of each country in the MSCI Emerging Market equity index, so China is the biggest component.

It has not moved much in recent weeks having rallied early in the year on the expectation of Chinese economic recovery.

For now, there are no clear signals emanating from the currency markets.

Trade Weighted US dollar (BBDXY)



MSCI Emerging Market Currency Index

Source: Waverton, Bloomberg, MSCI. Data as at 01.09.23

GOLD CLOSE TO RECORD HIGH

On the month-end basis shown below, gold is close to its all-time high in dollar terms hit at the end of April. It is $141 below the level hit then.

In sterling terms it is £80 below its all-time high set at the end of March.

With all the uncertainty highlighted on previous pages of this presentation, we are of the view that gold has a role to play in diversified portfolios.

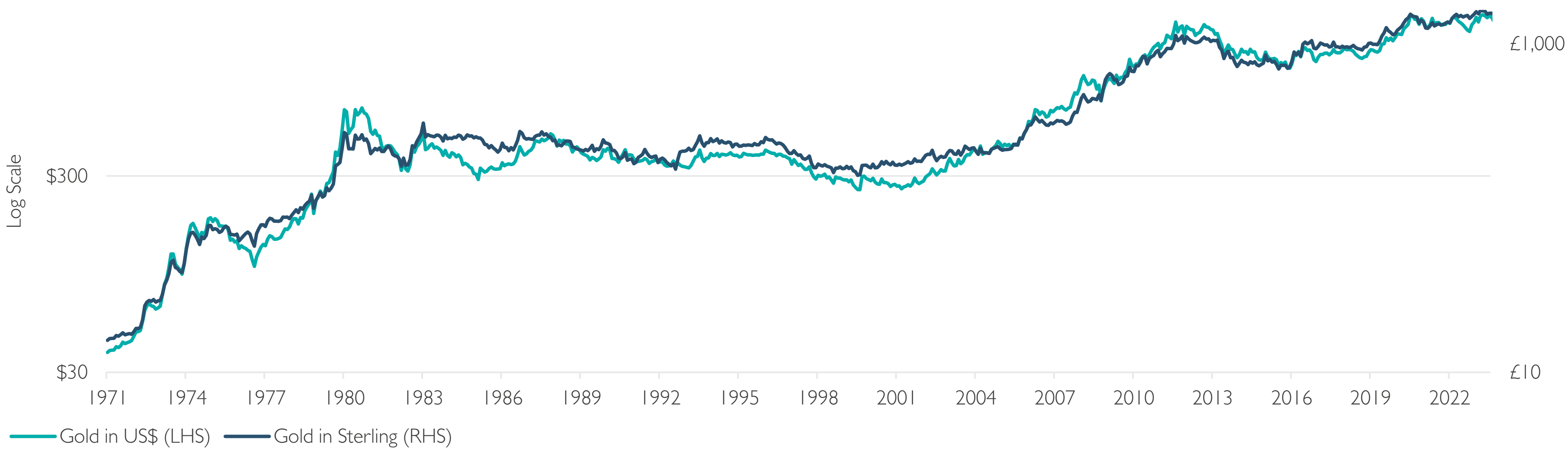
Gold benefitted from the exceptional monetary policy in evidence from 2008 to arguably 2021. With zero or even negative nominal interest rates the opportunity cost of owning gold had never been lower.

Although it is interest rates that seem to be driving the gold price at present, we are aware that the market is sanguine about the inflation outlook today.

We think gold offers a good hedge against that complacency.

So, at the moment, gold could be a winner from both declining interest rates and higher inflation which are likely the two alternate scenarios going forward from here.

Gold price per troy ounce in US dollars and in sterling
1971 - current



Source: Bloomberg, Waverton. Data as at 29.09.23

Part 2

EQUITIES AND CREDIT

2023 EARNINGS GROWTH ESTIMATE -0.9% GLOBALLY AND 1.7% FOR THE US

As we enter Q3 earnings season this is the picture derived from the consensus expectations for earnings around the world.

The consensus for the Global Index is for EPS to decline 1.5%, slightly worse than -0.9% expected a month ago.

For the US market the consensus is +1.3%, up from +1.2% a month ago.

The 2024 estimates have been pushed up by the amount 2023 has been reduced so the net effect is that EPS estimates over the next 18 months are effectively unchanged.

It remains the case that there are valuation excesses in some of the leading companies in the US but valuations in the rest of the US market, and in the rest of the world, are not stretched.

Earnings per share calendar year growth rate

			GROWTH RATE			
REGION	PE NTM	RELATIVE	2022	2023	2024	2025
World	15.4		+1.7%	(1.5%)	+11.1%	+10.7%
US	18.1	117%	+3.7%	+1.3%	+12.0%	+12.0%
Europe ex UK	12.6	82%	+1.7%	+5.3%	+7.0%	+9.1%
UK	10.4	67%	+19.6%	(8.1%)	+4.3%	+5.8%
Japan	14.4	93%	(6.4%)	+0.2%	+7.4%	+7.8%
Asia Pac ex Japan	12.6	81%	(11.7%)	(8.6%)	+22.2%	+16.1%
Latin America	8.5	55%	+16.6%	(19.9%)	+3.8%	+7.2%
Emerging markets	11.4	74%	+13.1%	+2.6%	+6.6%	+8.5%
World ex USA	12.4	80%	(0.6%)	(4.5%)	+10.1%	+9.5%

Source: MSCI, FactSet, Waverton. Data as at 29.09.23

STOCK MARKET VALUATION NOT STRETCHED

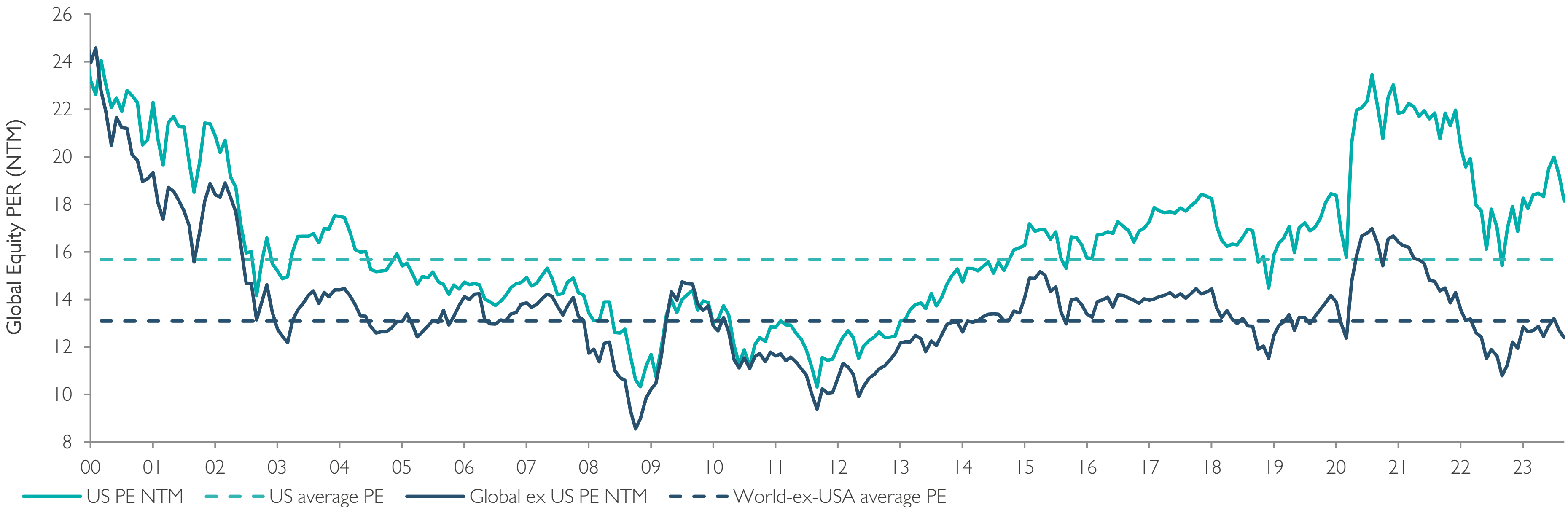
The PE ratio for the US market (solid green line) is 18.1 times.

It is again above its 20-year average of 15.7 times (the green dotted line).

The World outside the US now trades at 12.4 times earnings, a slight discount to its 20-year average of 13.1.

There is uncertainty about the EPS these valuations are predicated on but particularly outside the US there is a reasonable amount of that uncertainty priced in.

MSCI US and MSCI Global ex US price–earnings ratio based on next 12 months earnings



Source: MSCI, FactSet, Waverton. Data as at 29.09.23

STOCK MARKET IS INDEED DRIVEN BY EARNINGS OVER TIME

This is a simple chart but an important one. The stock market moves with earnings and has continued to do so over the last 20+ years despite the various shocks investors have had to absorb over that time. These include the 2008 crisis and Covid of course, but also the policy response to each of those events.

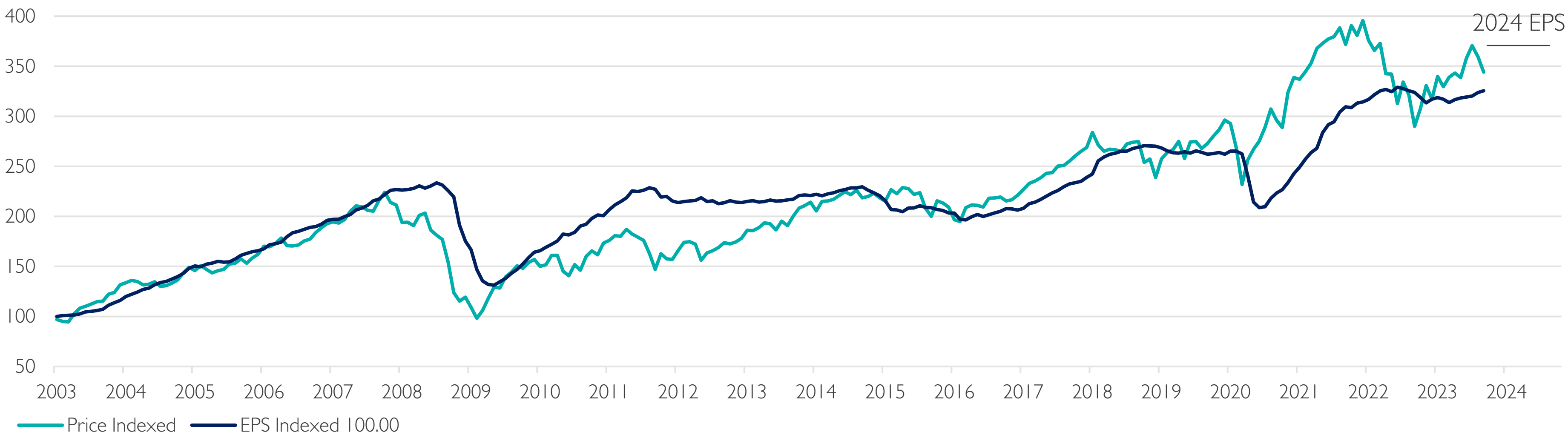
As the chart shows, the market reacted to the robust fiscal and monetary stimulus packages of 2020 by rising very strongly into 2021. Earnings recovered too but not as quickly. The market pullback last year brought prices back to the point where they were below the earnings line.

The rally this year has pushed the price line above the earnings line.

The chart includes a horizontal line for the level of EPS in 2024 expected by the current consensus forecast. If those earnings do materialise then the market will be well supported being the implication.

MSCI Global Price Index and earnings per share

December 2002 = 100



Source: MSCI, FactSet, Waverton. Data as at 30.09.23

US INVESTOR SENTIMENT LESS BULLISH

One of the things that was supportive for the stock market in the early months of 2023 was that investor sentiment by various measures was muted. That changed over the summer as the sentiment measure charted here shows.

This is the weekly survey of its members done by the American Association of Individual Investors. The chart shows the % of respondents who are bullish among those that express a view (so it is Bulls as a % of Bulls plus Bears).

This could not be a simpler sentiment measure, but it is worth knowing about.

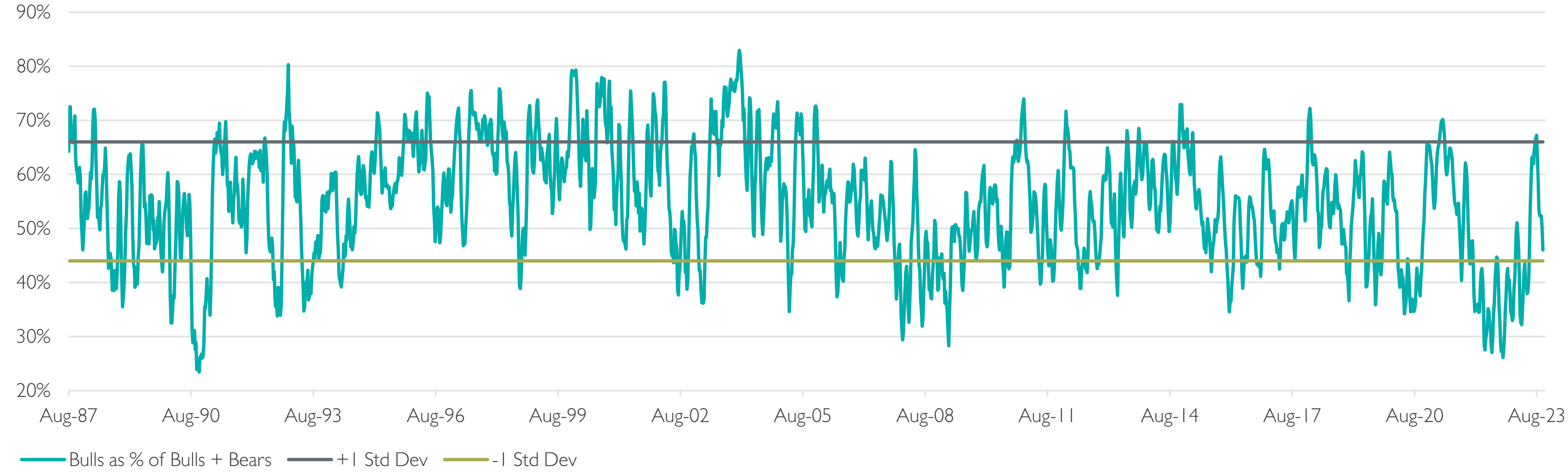
The two horizontal lines are showing one standard deviation above (black line) the average level and one standard deviation below (orange line).

If you buy the market when the green line is below the orange line your average return in the next year is +15%.

If you buy the market when the green line is above the black line your average 12-month return is +6%.

Having moved slightly above the top end of that range in early August, it has fallen with the market in recent weeks.

American Association of Individual Investors survey, Bulls as % of Bulls plus Bears



Source: AAII, Bloomberg, Waverton. Data as at 05.10.23

CORPORATE BALANCE SHEETS YET TO SHOW REAL STRESS

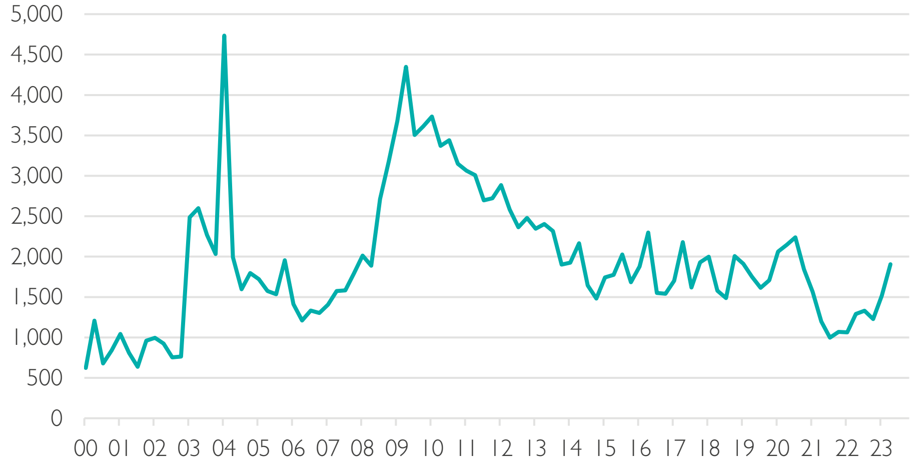
The top chart is a quarterly series showing the number of US corporate bankruptcies (officially called "Chapter 11" filings). It hit its lowest level for 18 years in Q3 2021. It has slowly moved up since then but remains at historically low levels in Q2 2023.

The Bloomberg Index in the bottom chart is of economy wide US bankruptcies and takes into account the size of the bankruptcy as well as the number of them. Hence there were more big bankruptcies in 2009-10 than in 2003-04. That index is at historically very low levels although it has picked up from its lows in April 2022.

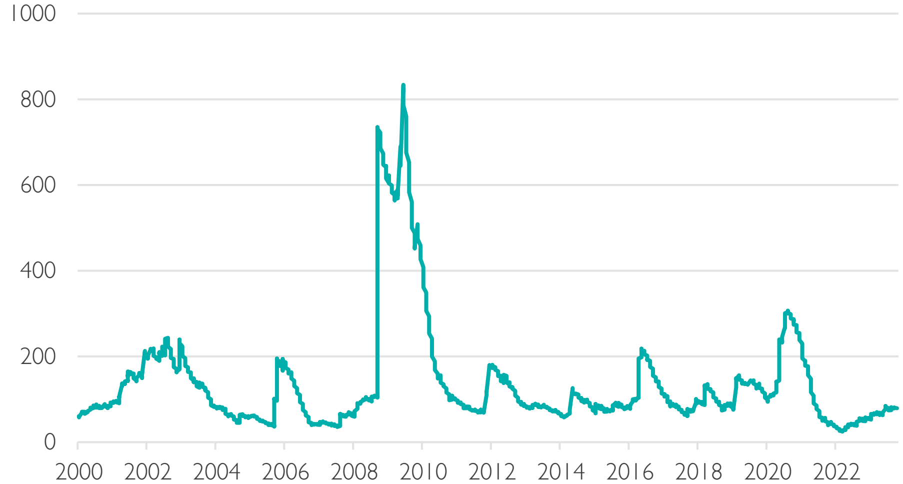
The challenge in coming months will be whether the combination of tighter monetary policy and the inflationary pressures makes it harder for corporates. We have seen an increase in corporate bond yields in recent weeks, but defaults remain rare.

That may well change from here although corporates are entering the more challenging environment with strong balance sheets.

US bankruptcy filings (2000 to 2023, quarterly)



Bloomberg US Corporate Bankruptcy Index (2000 – 2023, weekly)



Source: Bloomberg, Waverton. Data as at 06.10.23

CORPORATE BOND YIELDS, S&P500 EARNINGS YIELD & T-BILLS YIELD THE SAME

The Moody's Baa yield (a benchmark for the investment grade market) has been above the earnings yield of the S&P500 Index for ten of the last twelve month ends. At the end of September, the numbers were 6.2% versus 5.9%.

The last two periods when this was the case were the run up to the Dotcom peak in 2000 and its unwind. Then this happened again during the Global Financial Crisis of 2007-09.

One does not need to draw apocalyptic conclusions from this, but it does likely reflect that the increase in government bond yields, combined with the traditional spread for corporates, is reflecting a more cautious outlook for the economic cycle than the equity market is at present.

The orange line is the 3-month Treasury bill rate which is currently 5.5%, back to being slightly below the S&P500 earnings yield but still the most competitive cash has been to equities since 2001.

We suspect both the earnings yield and the Baa yield will move upward in the remainder of 2023.

This chart also suggests it is rational for investors to be more favourably disposed toward cash today than has been the case since pre the GFC.

Moody's current Baa Corporate yield, S&P500 forward earnings yield, 3-month Treasury bill yield (%)

Source: Moody's, Bloomberg Waverton. Data as at 30.09.23

CORPORATE CREDIT MARKETS NOT STRESSED

Credit spreads have tightened as the risk-on rally continued in recent weeks.

We remain a little sceptical that credit (and equity) will be able to shrug off more obvious signs of a significant demand slowdown/recession in the months ahead.

Spreads will widen if there is a risk of higher inflation and tighter monetary policy for longer than currently expected.

Hence our overweight to government bonds in fixed income funds.

US corporate bond spreads (%)

Source: Markit, Bloomberg Waverton. Data as at 06.10.23

PRC CURRENCY WEAKENS FURTHER

The renminbi has weakened against the dollar. The move away from the "zero Covid" approach in China was hoped to be a significant benefit to the global economy.

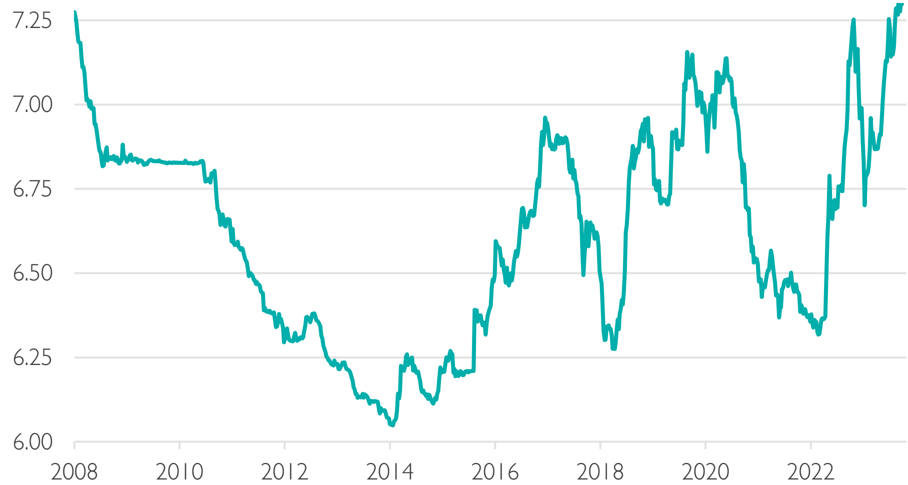
But there are few signs that is happening. PRC imports, for example, declined 2% in August from a year ago and exports declined 3%. The PRC has no inflation (CPI 0.1%, PPI -3.0% in August) which is also inconsistent with robust demand.

The weakening of the Rmb since January needs to be watched. It is at its lowest level against the US dollar since 2007.

The Taiwan dollar is stable, despite the scaremongering headlines about Taiwan that appear regularly.

We continue to remain sceptical about the PRC conducting a military operation against Taiwan. But the sabre rattling around the issue will continue. Watch the Taiwan dollar to see if the market is taking it more seriously than it apparently does, quite reasonably, at the moment.

Renminbi per US dollar



Taiwan dollars per US dollar

Source: Bloomberg, Waverton. Data as at 06.10.23

Part 3

OUR APPROACH TO INVESTING RESPONSIBLY

RESPONSIBLE STEWARDSHIP OF CLIENTS CAPITAL

We aim to identify responsible allocators of capital ensuring business resilience and long term financial sustainability

How we incorporate ESG

- Integrated approach to the assessment of ESG factors
- Detailed fundamental analysis avoids greenwashing
- Mitigates poor data quality and inconsistent third-party ESG ratings
- Focus on engagement over an exclusion/divestment strategy
- Identify those successfully adapting to ESG opportunities/risks
- Acknowledge when ESG risks are integral to transition solutions
- Pragmatic approach focussed on high or improving ESG standards

The advantages of our investment approach

- Global: largest universe of investment opportunities
- Direct: greater transparency around ownership
- Active: flexibility to avoid areas at risk of capital loss
- Concentrated: in-depth identification / monitoring of risks
- Experienced team: library of knowledge is an advantage
- Engaged: long-term relationships create a two-way dialogue
- Strong ESG outcomes: natural result of our approach

Signatory of:

PRI Principles for Responsible Investment · UK STEWARDSHIP CODE · MSCI · GLASS LEWIS · Climate Action 100+ · CDP

OVERVIEW OF RESPONSIBLE INVESTMENT AT WAVERTON

Signatory of:

Waverton research process

- Integration of ESG factors into fundamental analysis and decision-making
- Incorporated into research process across all asset classes
- Specialist thematic, sustainable and impact fund research

Engagement and voting

- Direct engagement with company management
- Collaborative engagement activities
- Proxy voting by Glass Lewis

Ethical restrictions

Client-specific ethical exclusions can be applied at the portfolio or fund level

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