

# GLOBAL OUTLOOK

March 2024

This document should be used as a guide only. It is based on our current view of markets and is subject to change.



# 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

- 03 Summary of our views
- 05 Politics, Policy, Bonds & Currencies
- 19 Equities & credit
- 29 Our approach to investing responsibly

# SUMMARY OF OUR VIEWS

## Macroeconomic background

The narrative in markets continues to be driven by speculation on when central banks will start to cut interest rates this year; how the excitement around Artificial Intelligence (AI) is best invested in and concern that “geopolitics” could be the thing that derails the above constructive backdrop.

Our view remains that while we agree with the market consensus that inflation will continue to revert toward 2% this year on both sides of the Atlantic, the presumption that the Federal Reserve will cut interest rates four times by January 2025 could be too aggressive.

The US economy continues to show positive momentum and even though we have the longest inversion of the yield curve (10-year to 3-month) in history, and the most persistent weakness in Leading Indicators on record without a recession, there is little sign of a material slowdown on the horizon. The market may further pare back how many US rate cuts we see this year.

In the UK and euro area we are more likely to meet market expectations of three cuts here and four on the continent. Growth is very sluggish and inflation expectations in the euro area in particular are muted.

So the shift in monetary policy from the tightening that we saw in 2022 and 2023 will likely happen and that should be supportive for markets.

The possibilities that AI is creating are justifiably exciting. This is reflected by the fact that while the share price of Nvidia, for example, appears to have gone into the stratosphere, unlike in the TMT bubble in 1999 – 2000, the earnings of the company have also been explosive.

The share price performance of Nvidia looks similar to that of Cisco, a key beneficiary of the internet boom in the TMT bubble. The share price of Cisco today is 40% below its March 2000 peak. The problem throughout the TMT bubble, however, was that the darlings of that time were neither very profitable nor cash generative.

In 2000, Cisco was trading at 100 times its 2002 estimated earnings. Nvidia today trades at 32 times its 2026 estimated earnings. We don't own Nvidia in our Recommended Portfolio (with AMD our preferred chip developer pre and post the AI-hype of early 2023) but we do own other members of the Magnificent Seven, in particular Microsoft and Amazon. They trade at 26 times and 25 times 2026 earnings estimates, supported by growth expectations that continue to move higher, and highly profitable and cash generative business models.

Will any of the above be disrupted by geopolitics? Shocks such as a worsening war between Russia and Ukraine or an escalation of tensions in the Middle East could impact markets, but are unlikely to cause a major dislocation. The US election looks like a rematch of Biden versus Trump but the US stock market is unlikely to be too phased by the outcome. Trump cut taxes and was light touch on regulation in his first term. Biden has sustained economic growth with robust fiscal spending in 2021/2022.

Here in the UK, a Labour government is the most likely outcome of the General Election later this year. The bookies think Labour will get an overall majority in the House of Commons, but there is no sign that is causing any tremors in the equity, bond or currency markets. Our focus continues to be on fundamental macro and corporate (micro) factors and to not get distracted by geopolitics.

**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 08.03.24



## SUMMARY OF OUR VIEWS (continued)

### Equities (neutral)

Global equities returned +5.0% in February and are + 5.7% so far in 2024 (in sterling terms).

Our investment criteria continue to serve us well and stock selection continues to be the key driver of our outperformance. In these markets, it is particularly important to remain both disciplined in our approach and long term in our perspective.

We are comfortable with the more balanced positioning introduced into our equity exposure since mid-2020 and, as ever, the focus is on those companies where the Equity team has greater confidence in their ability to deliver future free cash flow (irrespective of sector, style factor or region), and where valuations are supportive of strong real returns over the cycle.

The market's focus on the US tech giants tends to overshadow the enormous breadth and depth of investment opportunity in the US and it remains an important source of ideas for us. It is also encouraging that there has recently been more discrimination in the performance of the "Magnificent 7" which could end up as the Magnificent 5 if Tesla continues to trend downwards and Apple continues to move sideways.

We also continue to identify opportunities in other regions, especially Japan which has long provided us with an attractive way to gain exposure to market leading industrial technologies, but with the country's renewed emphasis on corporate governance improvements and with it more efficient allocation of capital, likely to unlock considerable value across a broader range of sectors over time.

### Fixed income (neutral)

The overall gilt total return index returned -1.2% in February and is down 3.3% this year.

We still see some value in government bonds even after the strong rally from mid-October onward.

Short dated sterling credit is also attractive with yields of 5.5% 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 any period of high inflation.

**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. Data as at 08.03.24





Part I

# POLITICS, POLICY, BONDS & CURRENCIES

# US PRESIDENTIAL ELECTION NOT GUARANTEED TO BE BIDEN vs TRUMP

The US Presidential election on 5 November is widely expected to be a rematch between President Biden and past President Trump. Both are dominating the early primaries and caucuses that apportion delegates to their respective party conventions in the summer which formally appoint the candidates for November's election.

The top chart shows the current probability of who wins based on betting done on [www.predictit.org](http://www.predictit.org). As of March 8, the probability of Trump winning is 47%, of Biden winning is 44%.

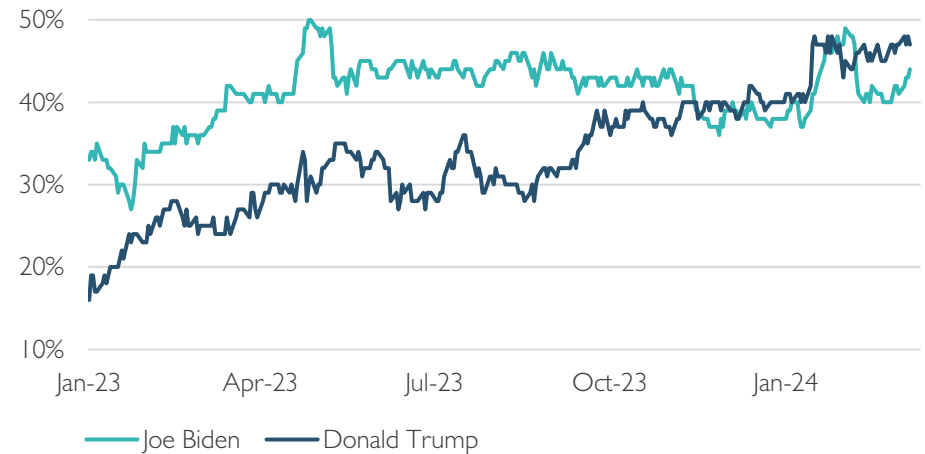
Biden gave a robust performance when delivering the annual State of the Union speech on March 7. That may mitigate some of the concerns about his age in the short term at least.

Biden has also recovered from his wobble last month when a Special Prosecutor highlighted the President's age and unreliable memory as among the reasons for not prosecuting him for mishandling classified documents. As the bottom chart shows, he is back to a probability of over 80% to win the Democratic party nomination in August.

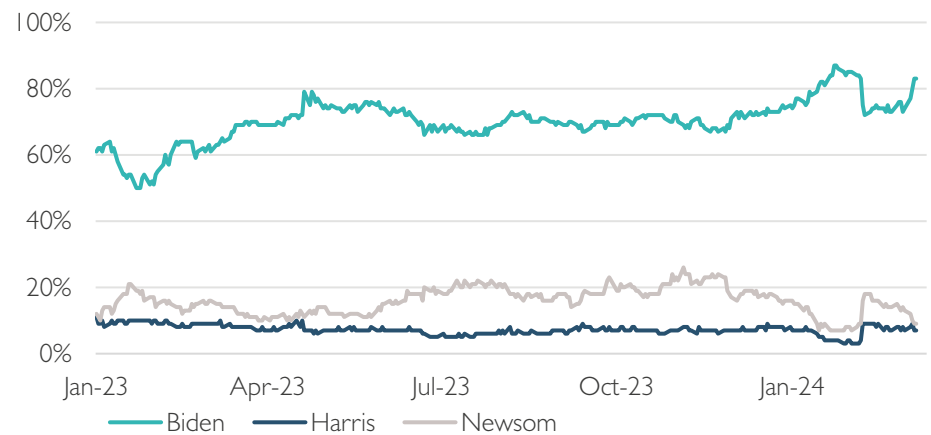
We continue to think there is no guarantee that we will have a rematch in November. Biden's age may dissipate as an issue in the short-term, but Trump will be on trial in New York on 25 March and Florida on 20 May. At some point this year he will also be on trial in Washington DC and Georgia. There is plenty of opinion poll evidence to suggest a conviction in one of those cases would reduce Trump's support among Republican voters.

But for now, the probability is very high that we have a rematch in November. Financial markets are relaxed about that as both are seen as reasonably market friendly. For now, the election is a sideshow rather than something playing out on the market's main stage.

Probability of Biden or Trump winning election %



Probability of Biden, Harris or Newsom as 2024 Democratic candidate



Source: Bloomberg, [www.predictit.org](http://www.predictit.org), Waverton. [Master Calendar of Trump Court Dates: Criminal and Civil Cases \(justsecurity.org\)](#) Data as at 08.03.24

# US CONGRESSIONAL ELECTIONS LOOK CLOSE

Despite the possibility that either, or indeed both, Biden and Trump could drop out of the race, at the moment it is best to presume that one of them will be the next President.

The impact either will have on policy is in part determined on the outcome of the Congressional elections. All of the House of Representatives and one third of Senate seats are in play.

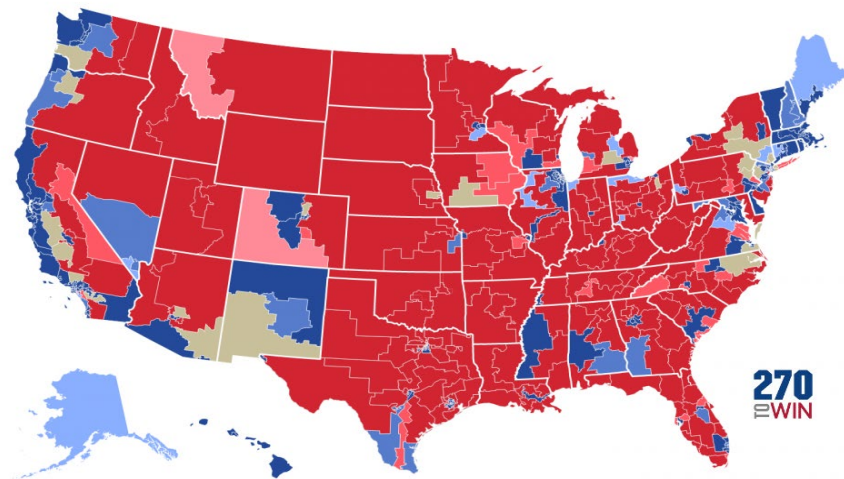
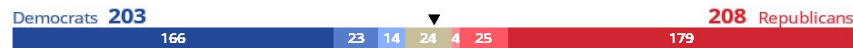
Currently the Republicans control the House 219 – 212. The Democrats control the Senate by 51 – 49. These razor thin margins could be reversed in the Congressional elections.

The Republicans could face an uphill struggle to retain the House of Representatives as the map on the left shows. A number of senior Republican members are standing down which is often a sign that they think their party could lose the majority. Many seats are too close to call but a flip is certainly possible.

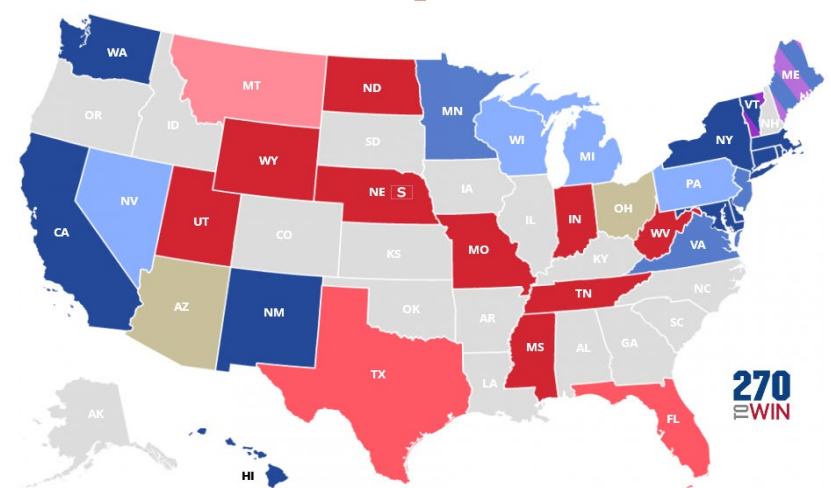
The Democrats face an uphill struggle to retain their majority in the Senate as the map to the right shows. A flip there looks likely.

So the chances are high that we will continue with the divided government we have had since November 2022. Markets are usually happy with that outcome.

## US House of Representatives projection after 2024 election



## US Senate projection after 2024 election



Source: <https://www.270towin.com/> data as of 10.01.24



## FEWER RATE CUTS EXPECTED THAN WERE EXPECTED A MONTH AGO

The top chart shows current expectations for the US Federal Reserve policy rate over the next year and what those were two months ago.

The market thinks the Fed is going to cut rates four times between now and January 2025 with the first cut fully priced in for the July 2024 policy setting meeting.

Two months ago, the market expect six cuts with the first one in March. A month ago, five cuts were expected, starting in June.

So, there has been some easing back on the rate cut narrative, but the market is still convinced it is a matter of time before rates decline.

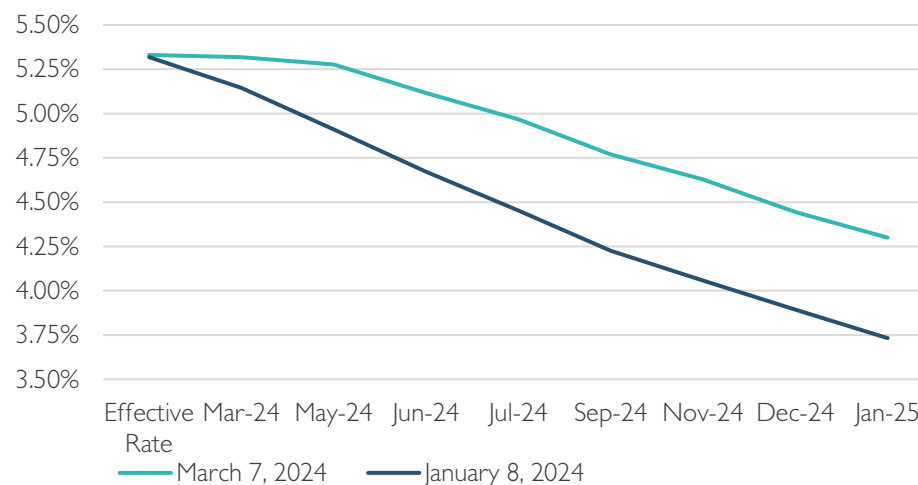
This narrative could do with some signs that the US economy was weakening a little at least. And it certainly needs inflation to at least get no worse from here.

The bottom chart shows current expectations for the Bank of England's base rate and those expectations two months ago. The Bank is now expected to cut rates "only" three times this year. But those expectations have not changed in the last month. Two months ago, five cuts were expected.

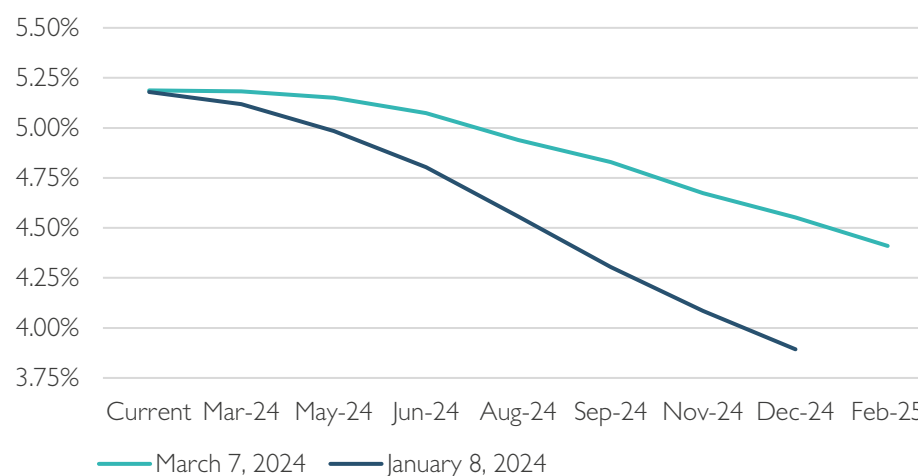
The first cut here is not expected until the August Monetary Policy Committee meeting.

Given that the UK economy is, at best, sluggish after being in a technical recession in the second half of 2023, it is possible that the current market projection for policy rates may end up being too pessimistic in the UK.

**Implied US Fed Funds rate %**



**Implied UK Base Rate %**



Source: Bloomberg, Waverton. Data as at 07.03.24



## 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.

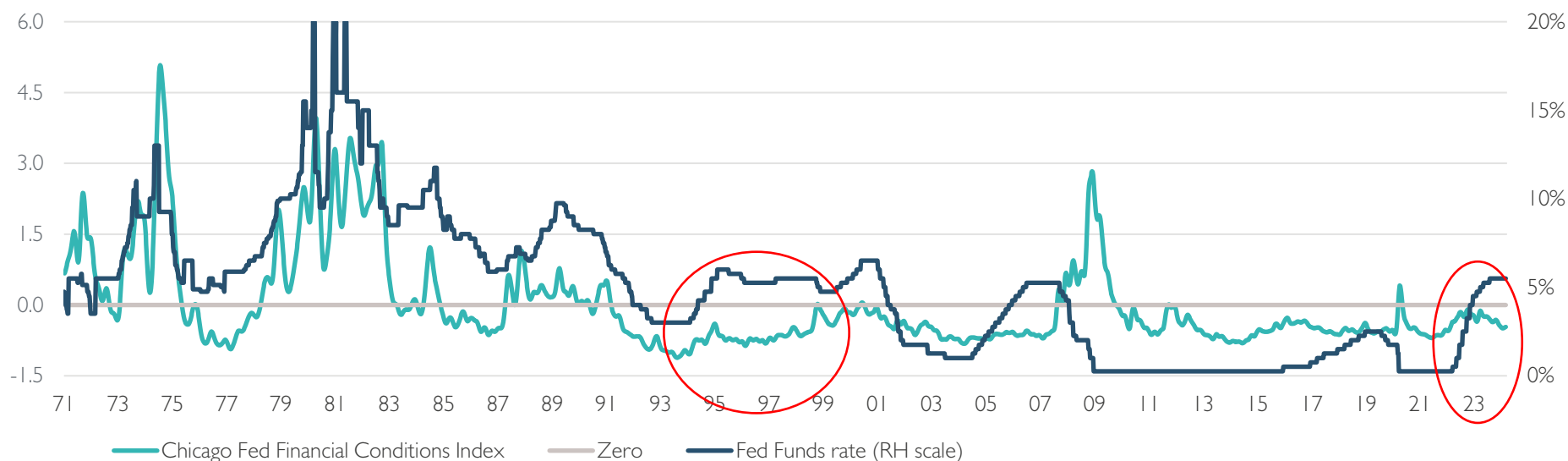
As the chart shows, generally when the Fed Funds policy rate has been

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 01.03.24



# THERE IS STILL A 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.

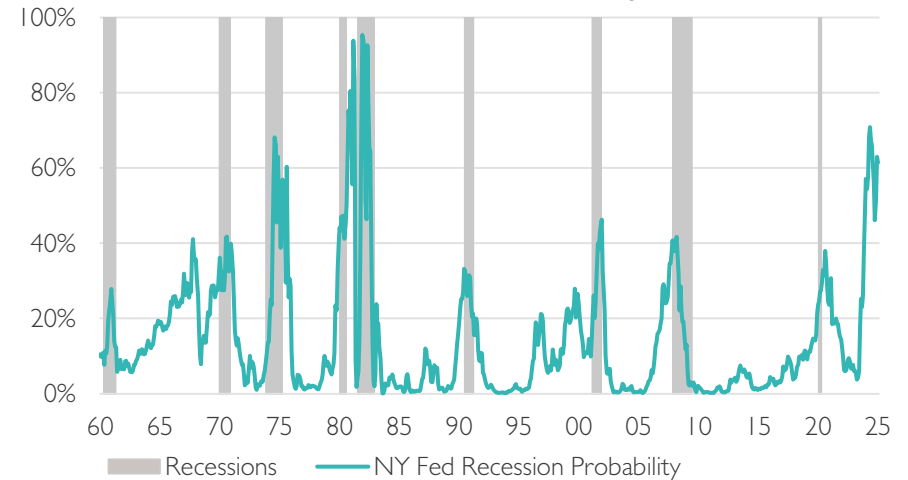
Three-month Treasury bill rates have been above 10-year bond yields for nearly 500 days. That is the longest inversion in history. The NY Fed model therefore continues to suggest a downturn is coming up.

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.

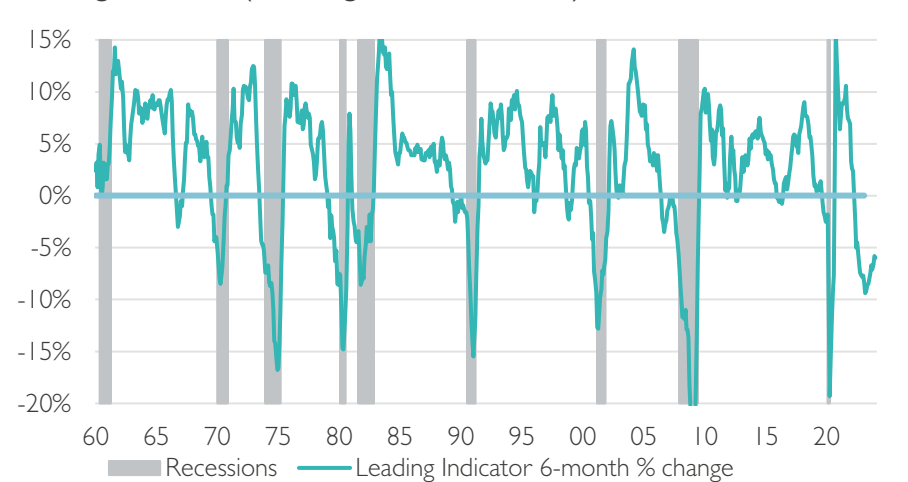
As you can see, since 1970 the US has either already been in recession, or a recession has started within three months of the change in the index being -4.0% or worse.

As at the end of January the change in the index over the last six months is -6.0%.

New York Federal Reserve Recession Probability Indicator 1960 - current



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



Source: Bloomberg, Waverton. Data as at 31.01.24



# US PROFITS AS % OF GDP ARE OFF PEAKS BUT REMAIN RESILIENT

This chart shows pre-tax profits of corporate America relative to GDP through Q3 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.

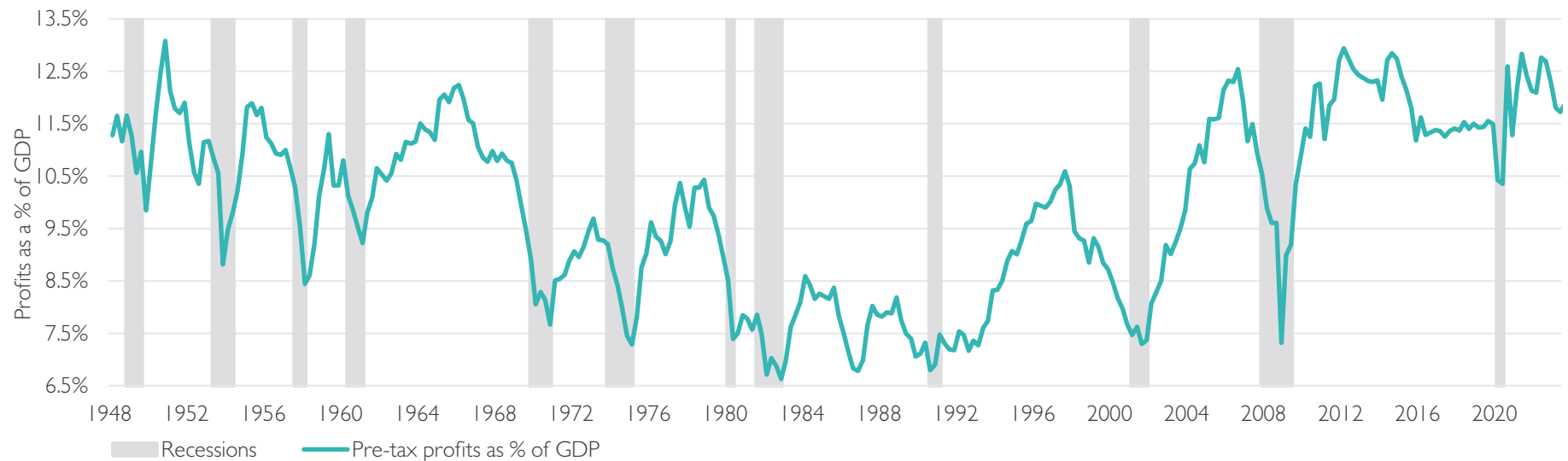
In every recession except 1982, profits were falling as a % of GDP before it.

Profits are below the cyclical peak as % of GDP which was 12.8% in Q2 2021.

But on this measure profits were resilient in Q2 and Q3 2023 when they were reported as 11.7% and 11.9% of GDP respectively.

Should that resilience continue in Q4 and into 2024 it will be another indicator suggesting a soft landing is possible.

US profit cycles and recessions (%)



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



# 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 two years.

Yields were rising consistently until peaking in October 2023. The rally from then until just after Christmas was the dominant factor in the good returns for both bonds and equities in Q4.

Yields have backed up since the turn of the year but are still well below where they were in October.

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).

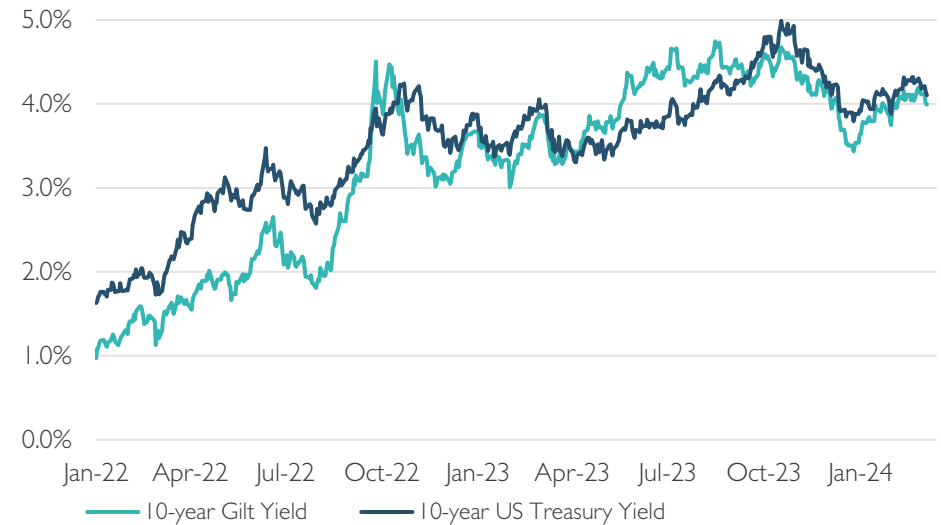
As the chart shows, both markets continue to offer, on this measure, a positive real yield.

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 1.8%.

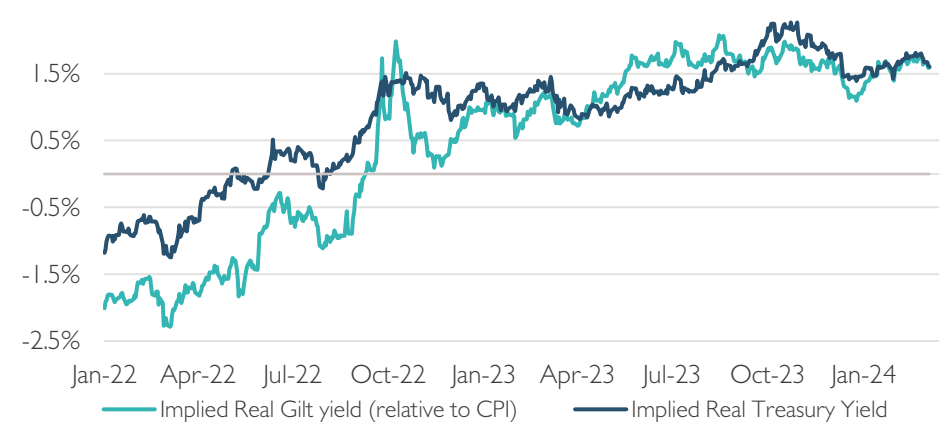
The UK linker market is less attractive (the November 2032 linker yields +0.4%).

We still think there is some value in government bonds given the positive real yields on offer.

### US and UK 10-year bond yields (%)



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



Source: Bloomberg, Waverton. Data as at 06.03.24



## STERLING RANGEBOUND AGAINST THE EURO

Sterling has strengthened a little against the euro in recent weeks as the expectations for the extent the Bank of England will cut interest rates this year has reduced. The current rate is above the average rate of 1.15 euros per pound 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.

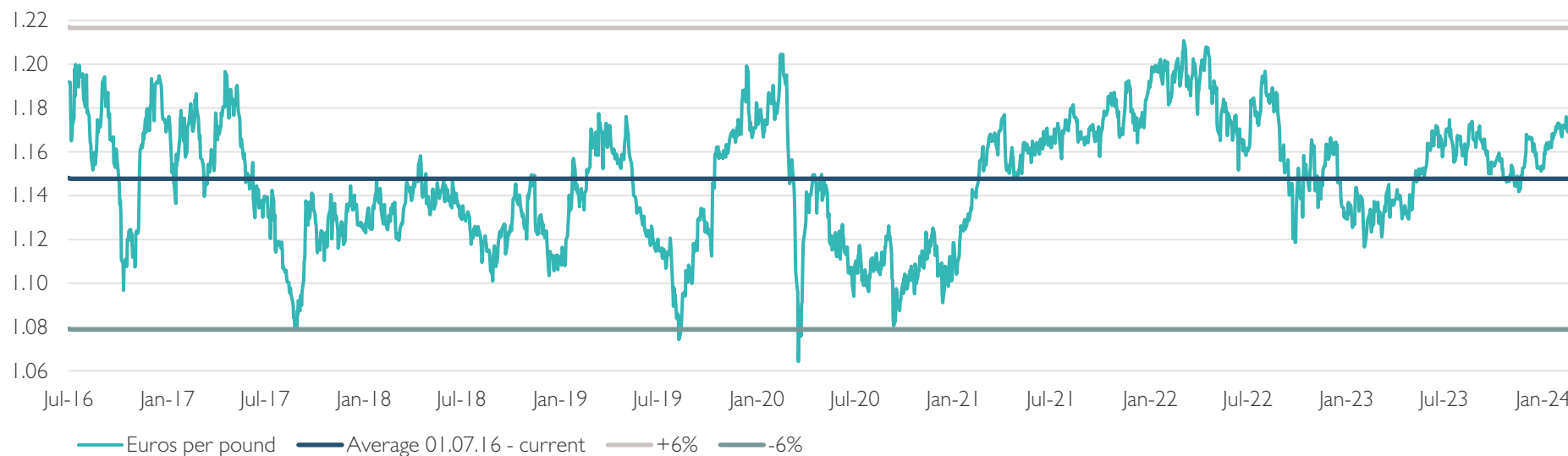
The chart shows the number of euros per pound since 1 July 2016. The average exchange rate since then is shown as the grey line and we show a range 6% either side of that average.

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 (over 2,000 trading days), sterling has only been out of a 6% trading range for five days.

For now, there is little sign of an elevated UK sovereign risk premium on this measure at least.

Euros per pound (01.07.2016 – current)



Source: Bloomberg, Waverton. Data as at 06.03.24



# INFLATION RATES SLOWLY DECELERATING AROUND THE WORLD

The peak for US inflation was in June 2022 at 9.1%. It is now 3.1%. The euro area looks like it peaked in October 2022 at 10.6% (now 2.6%) and the UK may have peaked in October 2022 when RPI was 14.2%, and CPI 11.1%. The UK struggled to reduce inflation as quickly as it appears to be reducing in the US, but RPI is now 4.9% and CPI is 4.0%.

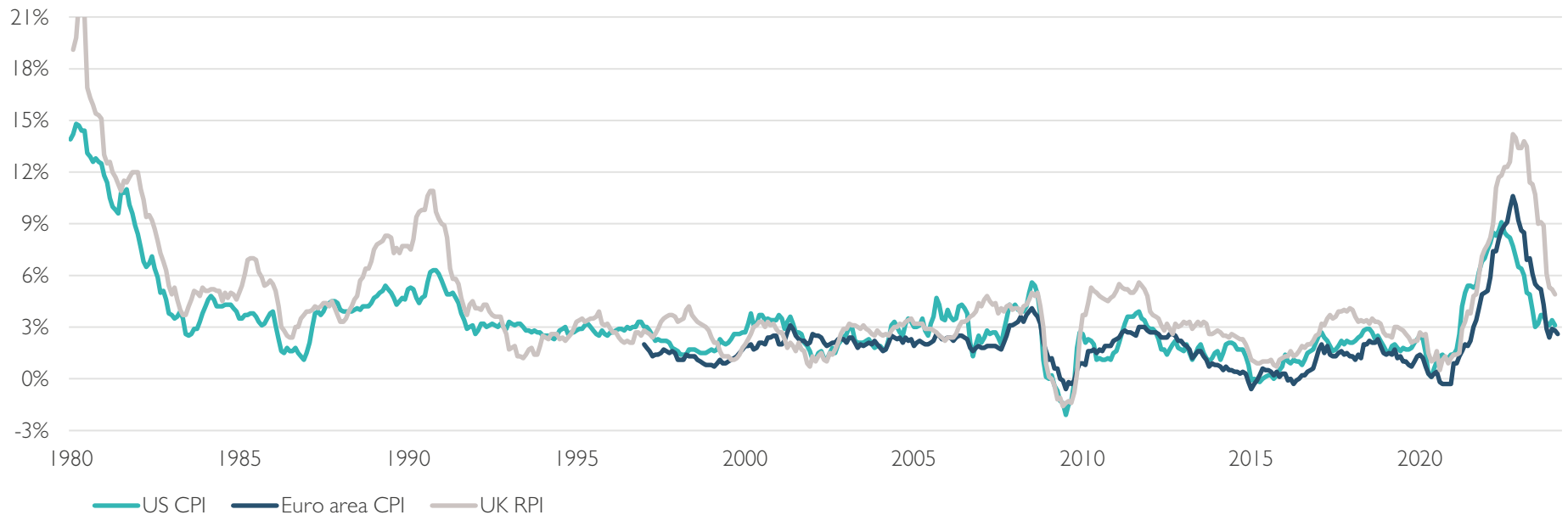
US core inflation (excluding food and energy) hopefully peaked at 6.6% in September 2022. It is now 3.9%.

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.

However, as the next charts show, the market is still somewhat sanguine about future inflation. It remains critically important that market view is correct.

## Inflation (% change year-on-year)

1980 - current



Source: Bloomberg, Waverton. Data as at 29.02.24



## 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, even after the disappointing US data for January.

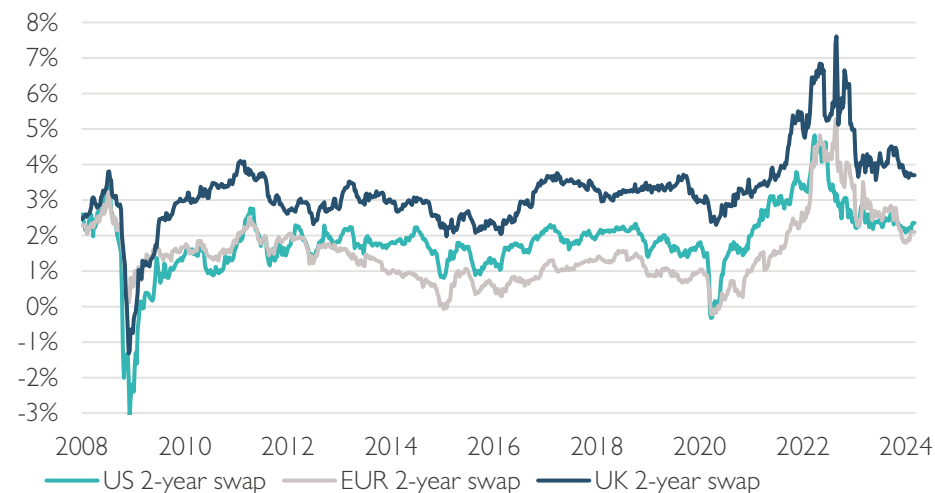
But if future inflation actually takes longer to return to target that will be an issue for investors as it will almost certainly see a reversal upward in rate expectations.

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.

Both have moved down in recent weeks indicating the market remains sanguine about future inflation.

### 2-year inflation swap rate (%)



### Long-term US inflation expectations



Source: Bloomberg, Waverton. Data as at 01.03.24



# THE BROAD COMMODITY COMPLEX IS WEAK

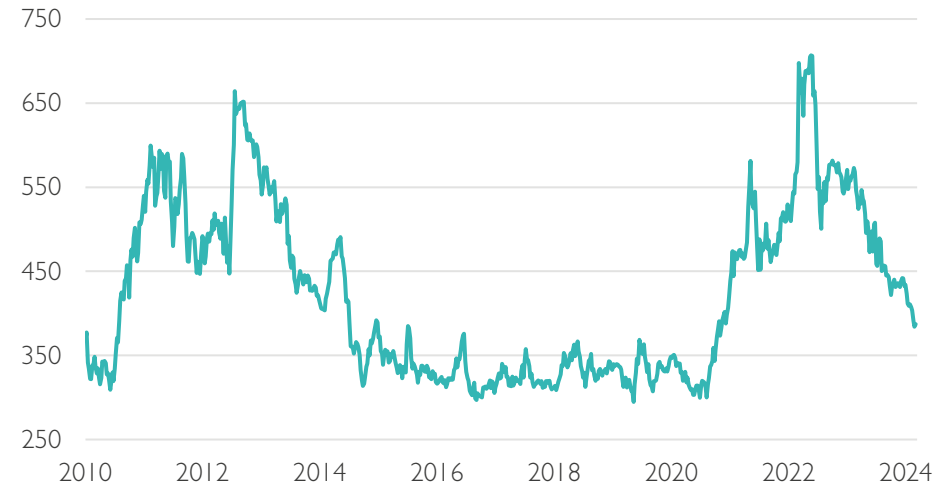
The broad commodity complex is in the doldrums.

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

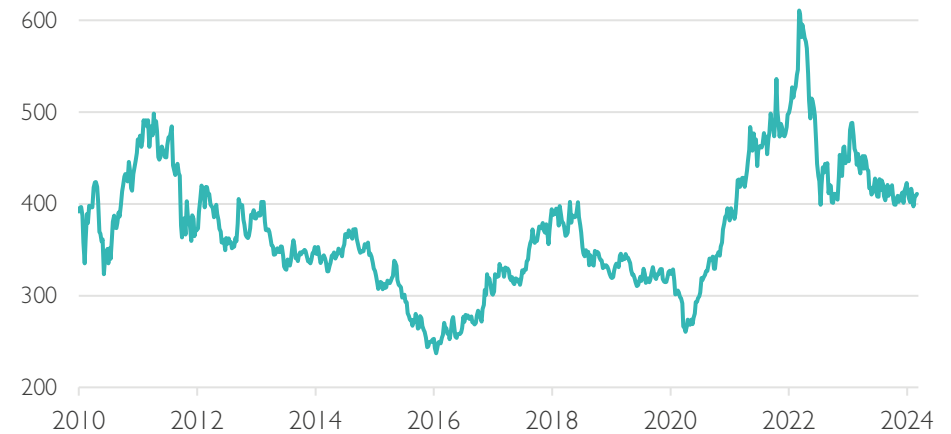
The Industrial Metals index (bottom chart) has also been weak in recent months. Demand from the People's Republic of China (PRC) is an important driver of industrial metals prices.

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 01.03.24





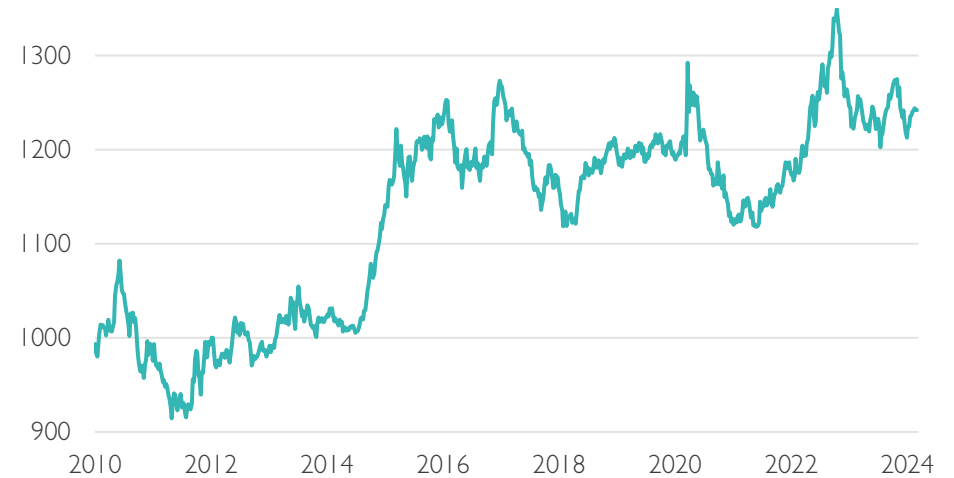
# DOLLAR A LITTLE WEAKER

The top chart shows a trade weighted dollar index. It has moved down in recent weeks, consistent with the narrative that US interest rates have peaked and consequently the gap between US and overseas rates this year may be less supportive for the dollar than had been the case from mid 2021 to October 2022 in particular.

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.

In the first weeks of 2024 the US dollar has appreciated against EM currencies again. Likely helped by the narrative that US rate differentials with the rest of the world will not shrink as much as had been expected toward the end of 2023.

Trade Weighted US dollar (BBDXY)



MSCI Emerging Market Currency Index



Source: Waverton, Bloomberg, MSCI. Data as at 01.03.24



# GOLD AT RECORD HIGH

As of March 7, 2024, gold is at an all-time high in both dollar and sterling terms.

It has surpassed the previous dollar high in December 2023 and the sterling high in October 2023.

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.

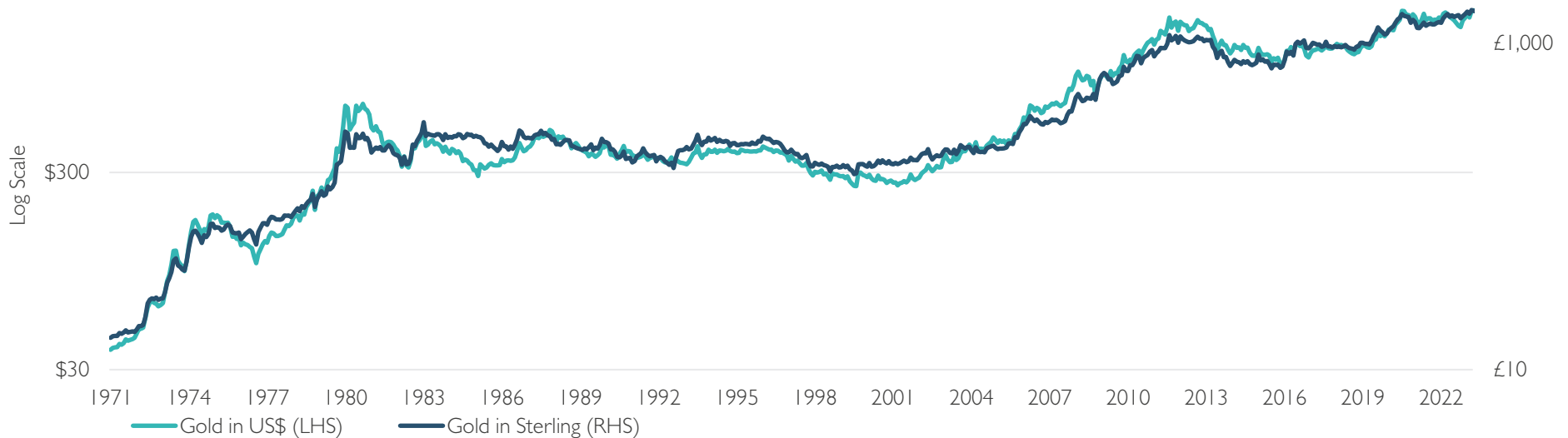
Although it is interest rates that seem to be driving the gold price at present, we are aware that the market is sanguine about the inflation outlook today.

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 07.03.24





Part 2  
EQUITIES & CREDIT

## 2024 EARNINGS GROWTH ESTIMATE +10% GLOBALLY AND 11% FOR THE US

The consensus for the Global Index is for EPS to rise 10% in 2024. For the US the expectation is for an 11% increase.

The Global number is effectively unchanged from a month ago. The earnings reports for the fourth quarter have been reasonably good.

With 97% of the S&P500 reporting, earnings are up 4.0% on a year ago. According to FactSet, the sectors with the best results are Communication Services, Consumer Discretionary, and Information Technology.

The four sectors reporting year-over-year declines in earnings are Energy, Materials, Health Care, and Financials.

In terms of revenues the index so far is reporting revenue growth of 4.2%. The only sectors where revenues are down on the year are Energy, Utilities and Materials.

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

REGION	PE NTM	RELATIVE	GROWTH RATE		
			2023	2024	2025
World	17.5		(1.8%)	+9.7%	+12.6%
US	21.0	120%	+1.0%	+10.7%	+13.7%
Europe ex UK	14.4	82%	+5.6%	+4.7%	+10.8%
UK	11.3	64%	(10.1%)	+1.2%	+8.5%
Japan	15.8	91%	(1.4%)	+9.4%	+7.9%
Asia Pac ex Japan	12.8	73%	(11.4%)	+21.7%	+16.6%
Latin America	8.8	50%	(21.1%)	+9.6%	+11.1%
Emerging markets	12.9	74%	+4.4%	+3.7%	+9.9%
World ex USA	13.5	77%	(5.0%)	+8.6%	+11.3%

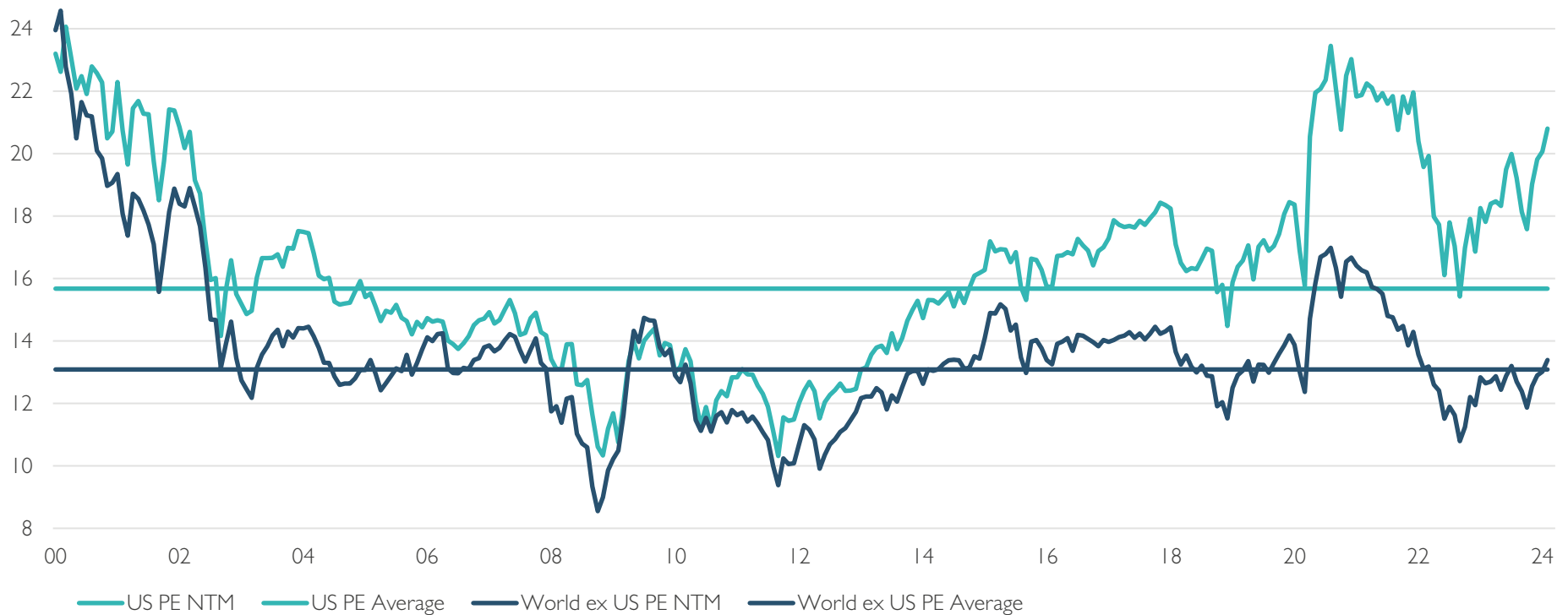
Source: MSCI, FactSet, Waverton. Data as at 01.03.24

# STOCK MARKET VALUATION IN LINE WITH RECENT RANGES

The PE ratio for the US market (solid green line) is 21 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 13.5 times earnings, a little above 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 29.02.24



# UK MARKET HAS BEEN A DISAPPOINTING ONE FOR MANY YEARS

The UK stock market has significantly underperformed the world index in recent years.

Between 2001 and 2014 there was not a lot of difference between the two.

But from May 2014 to October 2020, the UK market underperformed by 49%. It had a better time in 2022 but it has resumed underperformance in the last twelve months.

One of the issues for the UK is that it has few technology or communication service companies that have been the market leaders in recent years. They are a combined 4% of the UK market.

Another issue is that recently the weakest sectors in terms of earnings growth have been energy, healthcare, materials and financials. They are a combined 52% of the UK market.

The introduction of a UK focused ISA will not do much about those problems.

MSCI UK relative performance to MSCI All-Country World, both in sterling



Source: MSCI, Bloomberg, Waverton. Data as at 01.03.24



# 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 in 2022 brought

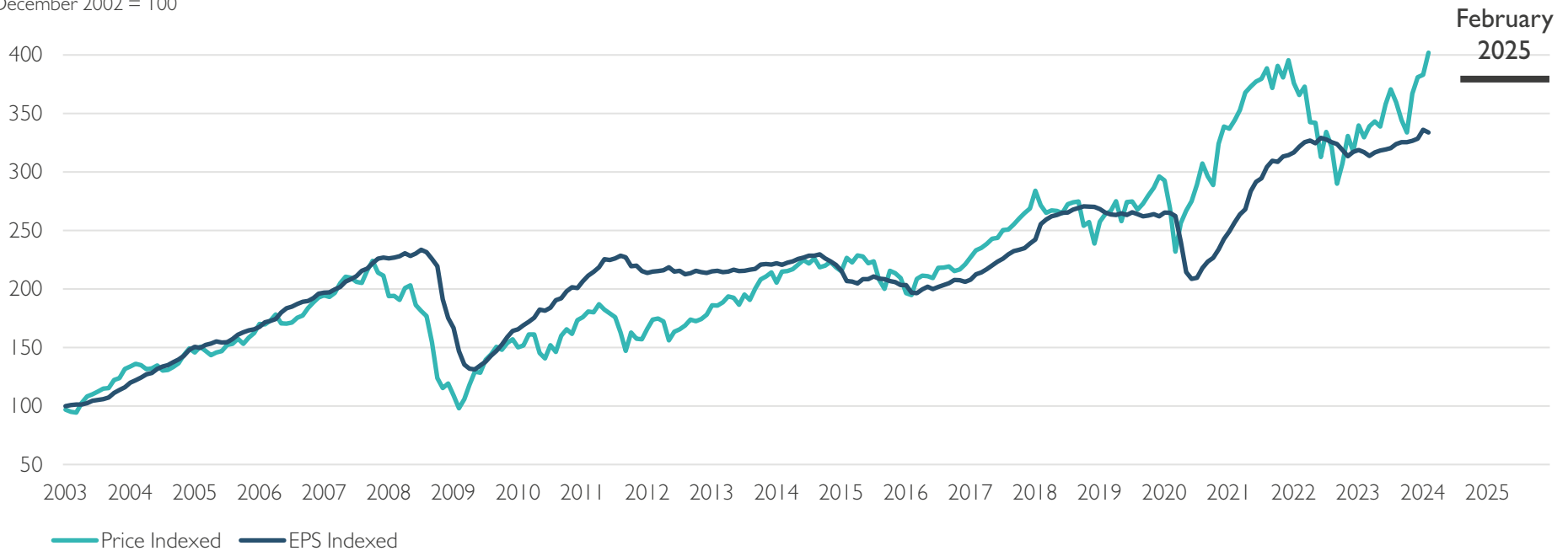
prices back to the point where they were below the earnings line.

The rally in recent weeks has pushed the price line above the earnings line.

The chart includes a horizontal line for the level of EPS in twelve months' time (end of February 2025) expected by the current consensus forecast. One could argue that prices have fully discounted that level of expected EPS.

## MSCI Global Price Index and earnings per share

December 2002 = 100



Source: MSCI, FactSet, Waverton. Data as at 04.03.24



# US INVESTOR SENTIMENT MORE BULLISH

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 (blue line) the average level and one standard deviation below (grey line).

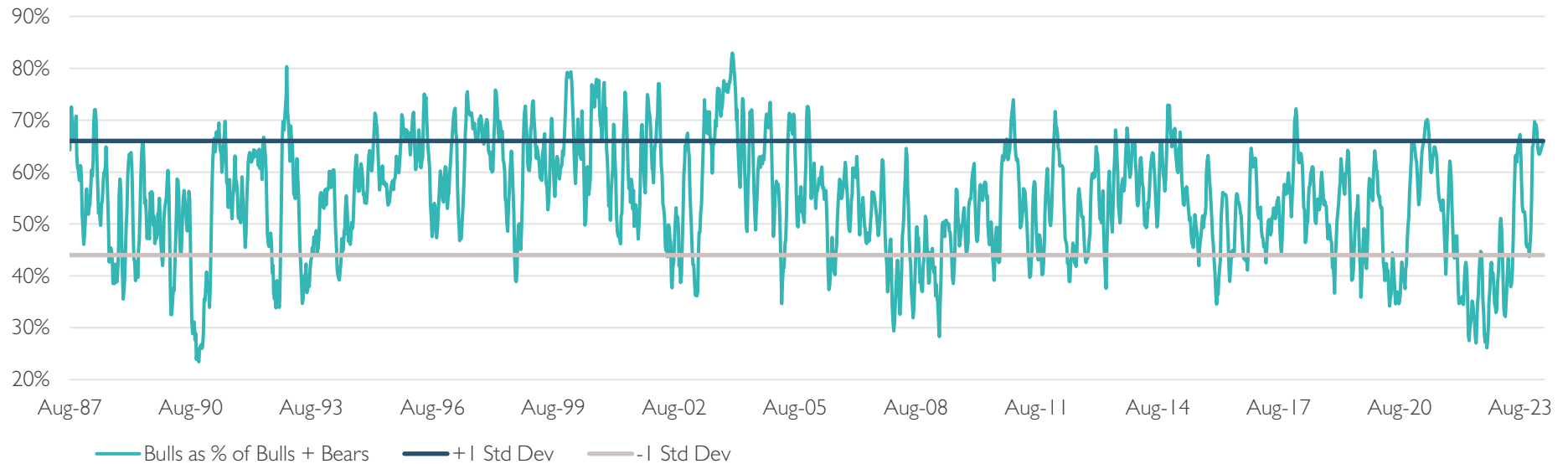
If you buy the market when the green line is below the orange line your

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%.

This sentiment measure has followed the market higher in recent weeks and is now at a level consistent with market sentiment being a bit frothy in the short term.

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



Source: AAI, Bloomberg, Waverton. Data as at 07.03.24





# 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 moved up since then and moved further up in Q4 2023. It is now at the top end of the range it has been in since 2013.

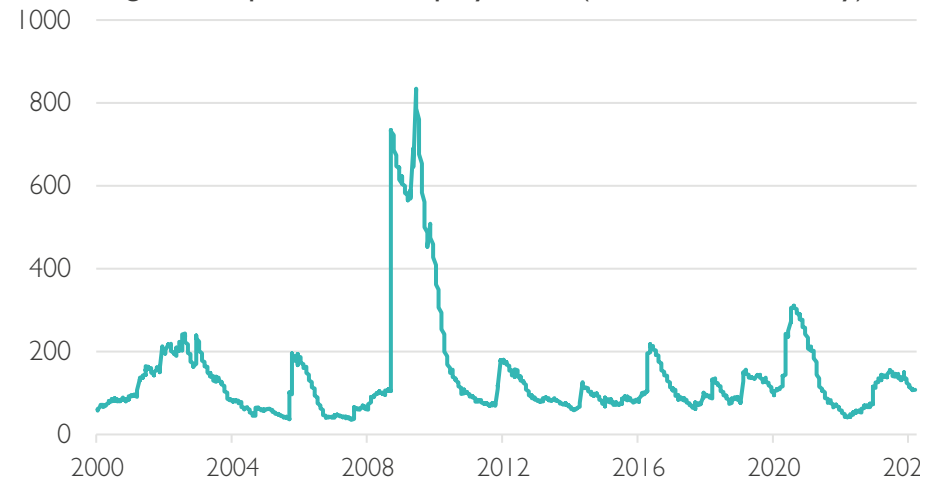
The Bloomberg Index in the bottom chart is of economy wide US bankruptcies and takes into account the size of the bankruptcy as well as the number of them. Hence there were more big bankruptcies in 2009-10 than in 2003-04. That index is at historically very low levels although it has picked up from its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

It remains the case that corporate balance sheets are holding up well in the face of higher interest rates. We have seen an increase in corporate bond yields in recent weeks, but spreads remain low.

US bankruptcy filings (2000 to 2023, quarterly)



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



Source: Bloomberg, Waverton. Data as at 01.03.24



# CORPORATE CREDIT MARKETS NOT STRESSED

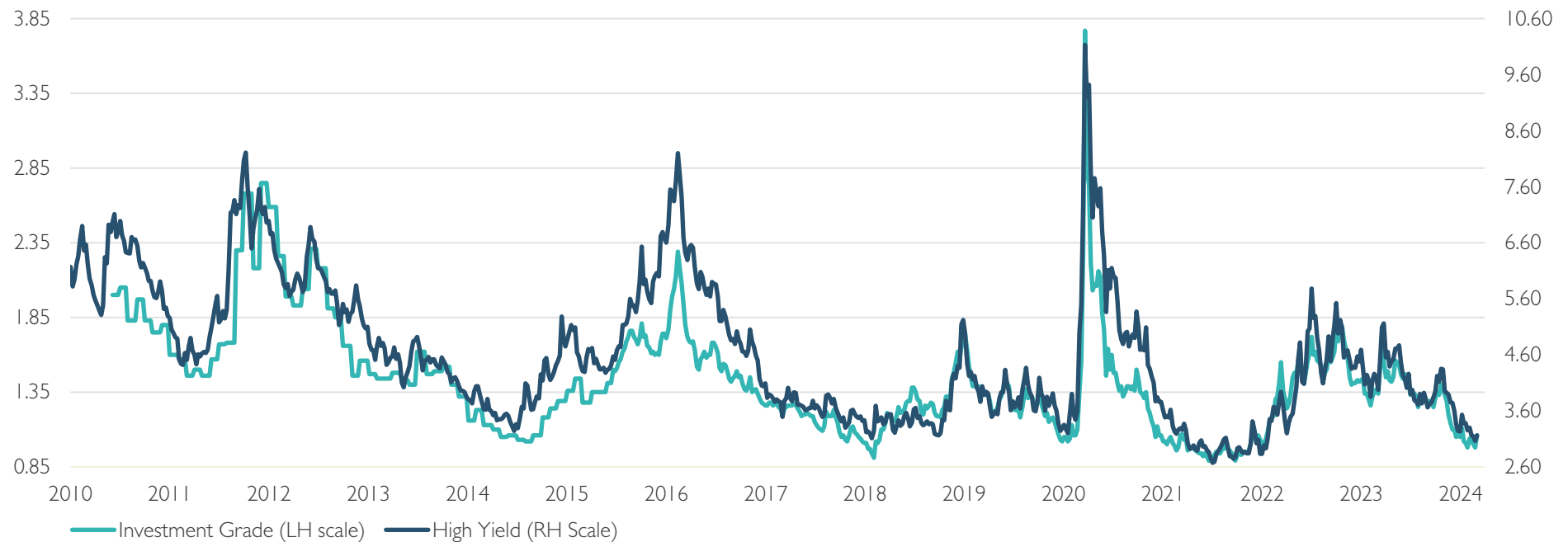
Credit spreads have tightened as the risk-on rally continued in recent weeks.

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

We are of the view that credit spreads reflect some investor complacency.

Hence our lowest allocation to credit in our bond funds since their inception.

US corporate bond spreads (%)



Source: Markit, Bloomberg Waverton. Data as at 01.03.24



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

The Moody's Baa yield (a benchmark for the investment grade market) was above the earnings yield of the S&P500 Index at end of each month in 2023. At the end of January, the numbers were 5.8% versus 5.1%.

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.

Normally it would be perceived that equities had some valuation challenge from corporate bonds when this is the case but in 2023 both gave good returns.

We suspect both the earnings yield and the Baa yield will move upward in early 2024.

The grey line is the 3-month Treasury bill rate which is currently 5.4%, back to being slightly above the S&P500 earnings yield. Cash is the most competitive it has been to equities since 2001.

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 29.02.24



# NO SIGN OF TENSION IN GREATER CHINA IN CURRENCY MARKET

The Rmb weakened for most of 2023 before rallying in the last two months of the year. But the currency is still at the low end of its range since 2008.

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.

The Presidential election in Taiwan on 13 January has passed without material incident despite being won by Lai Ching-te. He and his party are in favour of Taiwan's independence but he has presented himself as a continuity candidate who does not wish to disturb relations with Beijing.

We will continue to watch the Taiwan dollar to see if the market is taking any threat from Beijing 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 01.03.24





Part 3

# OUR APPROACH TO INVESTING RESPONSIBLY

# 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

# 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:



## RISK WARNINGS

The information provided in this report is for information purposes only and Waverton Investment Management Limited does not accept liability for any loss or damage which may arise directly or indirectly out of use or reliance by the client, or anyone else, on the information contained in this report.

This document should be used as a guide only it is based on our current views of markets and is subject to change.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon.

Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise, you may not get back your initial investment, capital security is not guaranteed.

Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

The returns for structured products may fluctuate according to different market conditions; you may get back less than you originally invested.

The information contained within this document relating to 'yield' is for indicative purposes only. You should note that yields on investments may fall or rise dependent on the performance of the underlying investment and more specifically the performance of the financial markets. As such, no warranty can be given that the expressed yields will consistently attain such levels over any given period.

Funds or vehicles which invest in derivative products such as futures, options, and contracts for differences can be utilised for the management of investment risk. However, some of these products may be unsuitable for investors. Different instruments involve different levels of exposure to risk.



## IMPORTANT INFORMATION

Where Waverton's advice is given it is restricted to discretionary investment management services. We do not provide advice on the use of tax or financial planning products (even if the service which we are managing is held within such a product) or non discretionary investment.

This material is for your private information and should not be distributed further.

We encourage you to consult a tax or financial adviser.

All materials have been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

Should you require anything further in respect of the information included in this presentation please address all enquiries to:

William Dinning  
Waverton Investment Management Limited  
16 Babmaes Street  
London  
SW1Y 6AH

The personal identifiable information you provide will be held and processed by Waverton Investment Management Limited ("Waverton") strictly in accordance with the UK General Data Protection Regulation (UK GDPR) (the "GDPR") and other applicable laws.

Such data will be used by Waverton to administer our relationship with you and to perform any administrative, dealing, custodial and ancillary services required to enable Waverton to perform its services under this Agreement. Data may also be used by Waverton to update your records and to advise you of other products and services, unless you have indicated otherwise.

We will not, without your consent, supply personal identifiable information about you to any third party except where (1) such a transfer is a necessary part of the activities that we undertake, or (2) we are required to do so by the operation of the law. As an individual, you have a right under the GDPR to obtain information from us, including a description of the data that we hold on you. For further information on your rights under the GDPR, please refer to the GDPR Privacy Policy under the Legal and Regulatory section on the Waverton website. Should you have any queries concerning this right, please contact Waverton on 0207 484 7452 or by emailing [compliance@waverton.co.uk](mailto:compliance@waverton.co.uk)

Waverton Investment Management Limited is authorised and regulated in the UK by the Financial Conduct Authority.

Registered in England No 2042285