BROOKS MACDONALD

Will inflation keep falling?

Brooks Macdonald Quarterly Market Overview Q1 2024

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Chief Commercial Officer

Falling inflation, stubborn interest rates

The Bank of England's unchanged interest rates.

Regular readers of our Quarterly Market Overview will know that we are accustomed to reading about market fluctuations and economic shifts across the globe. Yet, closer to home, the Bank of England's decision to maintain its key interest rate has dominated the headlines.

"By staying focused on long-term investment objectives, investors can weather short-term market fluctuations and capitalise on the growth potential of their investments.

With UK inflation steadily approaching the Bank of England's coveted 2% target, the question on many homeowners' and investors' minds is why the bank has not yet initiated a reduction in its key interest rate. As inflation inches closer to this benchmark, the expectation would naturally be for the Bank of England to respond with a monetary policy adjustment, particularly through a decrease in interest rates. However, the hesitancy to act begs deeper examination and consideration and we discuss this on page 5 in our UK summary.

Of course, market volatility will always be present, but history demonstrates that it is typically short-lived, with markets rebounding from downturns over the long term. By staying focused on long-term investment objectives, investors can weather short-term market fluctuations and capitalise on the growth potential of their investments.

As we note in our Outlook on page 10, we recognise the importance of carefully selecting a diversified portfolio of assets with growth potential so that our investors can potentially achieve their financial goals and build wealth over time, despite fluctuations in interest rates and market conditions.

The one constant in all of this is the importance of high-quality investment management and, here at BM, we are fortunate to have a talented investment office and team whose expertise and dedication contribute to our success in navigating complex financial markets and safeguarding clients' assets.

This is how we can confidently deliver on our purpose of 'realising ambitions and securing futures' for all our stakeholders.

I hope you enjoy reading this quarter's report and would like to thank you once again for investing with us. None of our success would be possible without your support and trust.

Kind regards,

Robin Eggar
Chief Commercial Officer

Introduction

Markets coalesce around a Goldilocks economic outlook

Q1 sees the economic, inflation, and interest rate picture remaining constructive.

The constructive market mindset that characterised the end of 2023 continued in Q1 2024. Global economic growth has been supported by a strong US picture, while corporate earnings have generally continued to prove more resilient than expected – collectively, these have succeeded in pushing back on fears of a meaningful recession. Consumer spending is still being supported by residual pandemic savings alongside tight job markets and above-historic average wage rates. As a result, a so-called 'soft-landing', where interest rates curtail inflation without unduly impacting economic growth, has become the consensus narrative. Supporting the better market sentiment, central banks in Q1 swung behind the rate cut outlook - Bank of England Governor Bailey confirmed that interest rate cuts are "in play" at future meetings, European Central Bank President Lagarde laid the groundwork for bringing rates down, possibly as soon as June, and the US Federal Reserve (Fed)'s 'dot plot' of member forecasts pointed towards a median of three quarter-percentage-point rate cuts by the end of 2024.

Given this, it is arguably not surprising that Q1 should have seen a number of equity markets hit (local currency) all-time highs, led by the US, but also including Japan and Europe. Price-to-Earnings Per Share (PE) equity valuations have seen the aggregate global picture move above the longer-term (30-year) average, as investors appeared to be confident of both margins and earnings growth looking forward. Meanwhile, the enthusiasm around Artificial Intelligence (AI) continued to play its part during the quarter, and as adoption of the technology spreads to companies throughout the wider economy, those bullish on its prospects point to the potential to structurally lift productivity, enabling companies to do more with less.

> **“Consumer spending is still being supported by residual pandemic savings alongside tight job markets and above-historic average wage rates.**

During the quarter we moved some of our equity allocation away from Asia Pacific ex-Japan equities towards US Small and Mid-Capitalised (SMID) equities. Within our Asia Pacific ex-Japan reduction, we were focused on reducing our China exposure, largely closing out our previously long-held relative overweight position to the region. While Chinese equities appear relatively attractively valued on a twelve-month forward Price-to-Earnings Per Share (PE) basis, we see this increasingly as a potential 'value-trap' rather than a 'value-opportunity'. Looking back, we have always been very aware of the structural challenges facing Chinese equities, but believed that policymakers, having emerged from pandemic lockdown at the beginning of 2023, would prioritise a cyclical stimulus to dominate in the near-term. Chinese equity market performance in 2023 showed this not to be the case as modest stimulus efforts underwhelmed. As we look forward to the year ahead, increasingly it appears that China's policy makers are focused on only slowly and pragmatically defusing the structural challenges, primarily the property market which is still navigating years of overbuilding and indebtedness – however this will take time, and the investment outlook in China could well get worse before it looks better. Adding to the uncertainty, US political elections later this year are likely to mean geopolitical tensions will not be far from investors' minds.

Our actions to reduce our China equity exposure are the outcome of a frequent 'kicking of the tyres' where we seek to establish where we believe we can best use our asset allocation risk-budget (defined as where we take positions materially distinct from our industry benchmarks). Over the past year, US SMID has underperformed large-capitalised companies, and currently sits at a PE relative discount, whereas historically it has enjoyed a premium versus large capitalised indices. The US economic outlook continues to improve, borne out by the US GDP forecast upgrades from the Fed in March. Coupled with the most recent Fed Senior Loan Officer Opinion Survey suggesting a relative improvement in credit conditions, should this inflexion point in the banks' credit lending outlook hold, we would expect a broadening-out of equity performance, which has so far been dominated by a small group of mega-cap technology firms.

Stepping back to consider the bigger picture, as we weigh up this nuanced investment outlook, the challenge for asset allocation is how to take a calculated position so that we keep exposure towards more than one economic scenario materialising. The following pages outline how we are well-positioned, staying invested and keeping balance, as we seek to help you target your own investment goals.

Bank of England holds firm on interest rates as inflation falls

With inflation seemingly on a downward trajectory, the Bank of England (BoE) might be running out of excuses not to lower interest rates.

UK equities rose over the period, helped by the strength of global equities and a strong US economy. The speed at which inflation fell wasn't rapid enough to allay investors' concerns that interest rates would need to stay higher for longer to tackle it. News that the economy had slipped into a technical recession in the second calendar half of 2023 (defined as two successive calendar quarters of negative growth) didn't help matters. However, market sentiment was lifted by relatively favourable corporate results.

The grip of inflation appeared to loosen over the period. Having unexpectedly edged up from 3.9% in November to 4.0% in December, when it had been forecast to fall, it stayed at 4.0% in January (which was better than had been expected) and then saw a larger-than-forecast reduction to 3.4% in February. This took the level to its lowest point since September 2021, with much of the fall coming from a slowdown in food and non-alcoholic drink price rises.

Despite the decline in inflation, the BoE left interest rates unchanged at 5.25% throughout the period. Although the central bank hinted that it could start making cuts during 2024, its Monetary Policy Committee indicated that it would remain wary until inflation was back under control and nearer its 2% target. However, following February's dip in inflation, BoE Governor Andrew Bailey described future interest rate cuts as being "in play" for central bank meetings going forward. He said: "We have an increasingly positive story to tell on that. The global shocks are unwinding and we are not seeing a lot of sticky persistence [in inflation] coming through at the moment. That is the judgment we have to keep coming back to."

Economic boosts provided by the government appeared to have a fairly positive impact. The 2% cut in National Insurance revealed by Chancellor Jeremy Hunt in his Spring Budget had been widely expected and his speech revealed few, if any, other surprises ahead of the general election expected later this year. Stock market reaction to the budget was relatively muted. The response from the Office for Budget Responsibility (OBR) to Hunt's budget was to upwardly revise its forecast for economic growth in 2024 to 0.8% from its prediction of 0.7% made in November 2023. The OBR also offered a degree of optimism about 2025, revising its growth forecast from 1.4% to 1.9%.

> **Optimism about personal finances held steady in February, which was a positive sign.**

Economic recovery faltered, with Gross Domestic Product (GDP) in the last three months of 2023 falling by 0.3% in real terms (constant prices), after contracting 0.1% in the third quarter, putting the reality of recession front of mind for policymakers. Other economic news was mixed. Consumers were cautious: having risen from -22 in December to -19 in January, the GfK Consumer Confidence Index slumped back to -21 in February. However, the index did show that optimism about personal finances held steady in February, which was a positive sign.

Retail sales bore much of the brunt of consumer reticence to spend when faced with higher living costs. The British Retail Consortium (BRC) reported a lack of post-Christmas spending, with retail sales only rising 1.4% in January (compared with the same month in 2023) after increasing 1.9% in December. BRC retail sales were only up by a lower-than-expected 1.0% in February (compared with February 2023).

Elsewhere, monthly industrial production output levels faltered - after rising in November (0.5%) and December (0.6%), they dropped back, falling -0.2% in January, with manufacturing showing no growth over the month.

In terms of currency activity, sterling weakened marginally against the US dollar over the period.

Our view

We have a positive outlook for UK equities. This might appear to run counter to the present challenge of still relatively muted UK economic growth, though the inflation picture is indeed improving. However, the domestic picture is not the only driver for the UK equity market investment case. The UK economy and equity market are not the same. UK equities in aggregate have a large international skew, with around three quarters of their revenues at an equity index level derived from outside the UK. As such, the UK stock market is particularly sensitive to global trends which on balance continue to point to a constructive picture of economic growth alongside generally still-easing inflation rates. The continued relative valuation attraction of UK equities, supported by attractive dividend yields and share buybacks, makes up an important component of our barbell strategy (describing balance between different equity investment styles). The UK value exposures that we seek, including resources and financials exposure at an index level provide an important foil to our growth exposures in other asset classes and regions globally.

United States

US Federal Reserve risks being in a bind as economy strengthens

Equity market rose sharply on strong corporate results while the US Federal Reserve (Fed) left interest rates unchanged as it tried to ensure inflation continued falling.

US equities gained over the period. Financial results reported by some 'mega-cap' technology companies in particular helped drive up stock market indices. A robust US economy reduced fears of recession; however, the flipside was that investors had to reassess their expectations of the timing and scale of interest rate cuts by the Fed during 2024.

Inflation proved stubborn, with a higher-than-forecast rise in annual consumer prices to 3.4% in December. A fall to 3.1% in January was followed by an unexpected increase to 3.2% in February, with energy prices not falling by as much as hoped.

Uncertainty over inflation risked putting the Fed in something of a bind regarding its desired path for interest rates during 2024. In the end, it left the Fed funds rate unchanged at a target range of 5.25%-5.5% throughout the quarter. Consequently, investors had to recalibrate their expected timeline for rate cuts. In March, Fed Chair Jerome Powell observed: "Inflation is still too high, ongoing progress in bringing it down is not assured, and the path forward is uncertain. We are fully committed to returning inflation to our 2% goal. Restoring price stability is essential to achieve a sustainably strong labour market that benefits all."

A strong economy also made the Fed hesitant about when to cut interest rates to prevent inflation from reaccelerating.

> **" A larger-than-expected increase in nonfarm payroll jobs in February signalled strength in the economy.**

Real GDP grew by a higher-than-forecast annualised 3.2% in the last three months of 2023, down from 4.9% growth in the previous quarter.

In other economic news, industrial production rose slightly in February after declining in January, led by an increase in manufacturing activity. A lower-than-forecast rise in monthly retail sales in February followed a fall in January and indicated that consumers remained wary about the high cost of living. On the jobs front, a larger-than-expected increase in nonfarm payroll jobs in February signalled strength in the economy.

The US dollar gained against a basket of currencies over the period, partly as the prospect of an imminent rate cut faded.

Our view

We have a positive outlook for US equities, raised from neutral in Q1. Corporate results in aggregate continued to reflect a still-resilient US consumer, with mentions of 'recession' in US company management post-result call transcripts falling now for six calendar quarters in a row, to well-below 10-year averages. Analysts' earnings growth expectations for calendar year 2024 are much more encouraging compared to the outturn in 2023. Driving our upgrade to a positive outlook in particular, banks' credit lending outlooks have eased somewhat according to the latest Fed Senior Loan Officer Opinion Survey early in the quarter; this could herald a much more helpful operating environment for Smaller and MID-sized companies (SMID). As such, we increased our exposure to this US SMID equity segment during Q1 - here we are seeking to take advantage of a relative valuation derating versus larger capitalised companies post pandemic, skewed by a handful of mega-capitalised technology companies that dominate US equity indices. In addition, we would expect our SMID exposure to capture domestic sensitivity to a resilient US economic picture. The US has an important role in providing growth investment-style exposure within the context of our current equity barbell balanced approach to asset allocation. Our US equity weights also support our longer-term investment themes of technology, healthcare, and decarbonisation which the US has exposure to at an aggregate equity index level.

Developed Europe (excluding UK)

European Central Bank maintains conviction in its monetary policy while it eyes falling inflation

The European Central Bank (ECB) was in no mood to offer investors and consumers any hint of a climbdown on its strategy of leaving interest rates high until inflation is fully tamed.

European markets moved higher during the period on some positive corporate results and growing expectations that interest rate cuts were on the horizon during 2024. Recovering investor sentiment and a strong US stock market also boosted European equities.

> **The key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal.**

Eurozone annual inflation picked up to 2.9% in December – slightly higher than forecast – from 2.4% in the prior month, before easing to 2.8% in January and 2.6% in February. However, it remained above the ECB's 2% target.

At the World Economic Forum in January, ECB President Christine Lagarde talked about possible interest cuts in the summer. The ECB kept the eurozone deposit rate unchanged at 4.0% throughout the period. In March, its Governing Council noted that it was "determined to ensure that inflation returns to its 2% medium-term target in a timely manner". Based on its current assessment, the Governing Council said it considered that "the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal".

The eurozone economy registered no growth over the fourth quarter as it narrowly avoided a technical recession, following a 0.1% contraction in the third quarter. Consumers remained wary about spending when faced with a high cost of living. This was borne out by sluggish growth in monthly retail sales in January after they shrank in December. The uncertain mood was also evident in readings from the European Commission's Economic Sentiment Indicator. After rising in December from November, it fell marginally in January. Although manufacturers and service providers were a little more confident, sentiment declined in the construction sector and among consumers.

The euro fell against both sterling and the US dollar over the period.

Our view

NEUTRAL

We have a neutral outlook for Developed Europe (excluding UK) equities. European natural gas prices, having fallen sharply from the highs of 2022, are feeding into an improving inflation backdrop, providing some relative relief for both businesses and households. Additionally, the hope is that a still-constructive global economic picture can help feed a European export-led economic growth narrative. Supporting value-investment-style exposures, the region's banks are expected to see an improved profit outlook medium term given a backdrop of positive nominal interest rates versus the previous decade of arguably lost-earnings under the European Central Bank's prior negative interest rate regime. While structural tensions between euro area monetary union versus fiscal and political sovereignty remain, these concerns are now balanced by the relatively more constructive medium-term outlook and valuations that we see.

Asia Pacific (excluding Japan)

China's patchy economic recovery holds back Asia-Pacific recovery

While Chinese stocks faced a myriad of challenges, South Korea, Taiwan and Australia focused on bringing down inflation.

Asia-Pacific equities (excluding Japan) were troubled by continued concerns over China's uneven recovery but rose in aggregate as the quarter progressed, following global stocks higher and as China's market rebounded later in the quarter.

> **The People's Bank of China cut its five-year loan prime rate – a key benchmark for mortgages – by 25 basis points to 3.95% to encourage economic growth.**

Chinese stocks initially slumped as deflationary pressures persisted. The government's stimulus measures appeared to have limited effect and fourth-quarter 2023 GDP growth missed expectations. Although Chinese shares rallied as the authorities unveiled some targeted stimulus measures to try to help the beleaguered property sector, broader concerns remained around the risks of deepening deflation in the economy. In February, the People's Bank of China cut its five-year loan prime rate – a key benchmark for mortgages – by 25 basis points to 3.95% to encourage economic growth. The country's industrial production annual growth rate improved in January and February compared with December, while exports rose sharply.

South Korean shares rose over the period, though the weakness of the South Korean won curbed the gain in US dollar terms. The consumer price index rose by more than expected from 2.8% in January to 3.1% in February on high food and energy prices. The economy held steady, with quarterly GDP growth of 0.6% in the fourth quarter of 2023, the same as in the previous two quarters.

Taiwan's market outperformed the regional index, with gains in the country's key technology sector providing a useful boost. The economy grew by 4.93% year on year in the fourth quarter of 2023, bettering the 2.15% increase in the previous quarter and delivering the strongest expansion since the fourth quarter of 2021. In political news, the governing Democratic Progressive Party won mid-January's election, securing the presidency for a third time. Annual inflation remained a challenge for the government, with the rate rising more than forecast from 1.79% in January to 3.08% in February, the highest point since July 2022.

In Australia, the Australian dollar retreated against the US currency. The Reserve Bank of Australia held its cash rate at 4.35% in March, which had been expected, as economic growth slowed slightly, and annual inflation climbed. Real GDP grew less than forecast by 0.2% on a quarterly basis in the last quarter of 2023 on lower household spending.

Our view

NEUTRAL

We have a neutral outlook for Asia Pacific (excluding Japan) equities, downgraded from a positive outlook during Q1. This downgrade reflects the steps we took during the quarter to largely close out our relative-to-benchmark overweight to China, and in doing so, reducing our broader overweight to the wider Asia Pacific ex-Japan region. As we look forward, increasingly it appears that China's policy makers are focused on slowly and pragmatically defusing the structural challenges, primarily the property market which is still navigating years of overbuilding and indebtedness – however this will take time, and the investment outlook in China could well turn worse before it looks better. Adding to the uncertainty, US political elections later this year are likely to mean geopolitical tensions will not be far from investors' minds. As regards our continued exposures to China, we remain vigilant towards the investment climate in the region and will be quick to adjust allocations if judged appropriate to do so.

JAPAN

Interest rates finally rise although Japanese growth remains sluggish

After eight years of negative interest rates, the Bank of Japan (BoJ) relented and hiked the cost of borrowing as inflation remained above the central bank's target.

Japanese shares strengthened over the period on continued optimism about corporate governance reforms and some positive earnings results. Despite the interest rate rise in March, a weakening Japanese yen versus the US dollar exchange rate during the period provided a relative boost for exporters.

The annual core inflation rate, which excludes fresh food prices (but includes fuel costs), fell from 2.5% in November to 2.3% in December and 2.0% in January, before climbing to 2.8% in February. The February rise was mainly due to base effects, given energy subsidies introduced by the Japanese government last year in February 2023. This kept the inflation rate above the BoJ's 2.0% target. As expected, in March the BoJ responded to higher inflation by increasing its main short-term interest rate from -0.1% to 0-0.1%, ending eight years of negative interest rates.

An earthquake on the country's west coast at the start of January initially prompted investors to scale back their expectations for monetary policy normalisation. However, the highest wage settlements across the economy in years in March encouraged the belief that a change in monetary policy was likely. The economy flirted with, but narrowly avoided, a recession as GDP grew by only 0.1% over the quarter in the fourth quarter of 2023, following an 0.8% decline in the third quarter.

Our view

We have a neutral outlook for Japan equities. Market performance has been supported by hopes that, after years of false dawns around stock market reforms in particular, we might have finally reached a tipping-point. As well as past initiatives by the Tokyo Stock Exchange to promote balance sheet efficiency, a welcome reemergence of inflation after years of stagnation has buoyed the outlook for the country's financial sector. Japanese banks can now expect a margin benefit from the recent re-pricing higher of longer-dated bond yields following the first hike in Japanese interest rates in seventeen years. Balancing hopes for better corporate governance and capital allocation, Japan nonetheless still has well-documented structural headwinds, including high public debt levels and a declining and aging population. These provide an unwelcome risk backdrop for the Bank of Japan as it starts the long path of unwinding decades of unconventional monetary policy.

EMERGING MARKETS

China's wobbles worry other emerging markets

Emerging market equities faced mixed fortunes given US dollar strength and continued concerns over China.

Emerging markets produced a mixed performance over the period with a strengthening US dollar and worries about China's economic recovery weighing on investor sentiment more broadly.

Indian stocks continued to perform positively over the period, with annual inflation largely unchanged in February from January and GDP growing strongly on a year-on-year basis in the last quarter of 2023.

Turkish equities rose as they benefited from gains in technology shares and interest from domestic and foreign equity investors. The economic backdrop was less positive, though, with the country's central bank unexpectedly increasing interest rates in March following an above-forecast rise in inflation in February.

Brazilian stocks struggled, losing ground during the period. Annual inflation eased slightly in January and February, with GDP annual growth rates dropping in the third and fourth quarters of 2023 compared to the first half of that year. The central bank lowered interest rates at both its meetings during the first calendar quarter of the year, in January and March, in an effort to support the sluggish economy.

In South Africa, where equities were down over the period, the government announced in February that it would hold an end-of-May general election. Annual inflation rose more than forecast, taking it further away from the central bank's target. In better news, the economy narrowly avoided a recession in the final three months of 2023.

Our view

We have a negative outlook for Emerging Market equities, downgraded from a neutral outlook. This change reflects our recent downshift in view on China (which is around a one quarter-weight of the MSCI Emerging Markets index), as well as selective cuts we made to emerging market equity allocations at the start of the year. US dollar strength has continued to be a theme during the quarter which serves as a reminder of the challenges for dollar-denominated debt and investment flows into the Emerging Markets region more broadly. Given the still-uncertain global economic outlook, any headwind for commodity prices might also weigh against those emerging markets which are more resource-export-led. It is notable that China, a consumer of a significant share of global commodity export markets, has so far appeared reticent to lean heavily on the past-model of aggressive infrastructure spend to boost its economy, especially as policy makers seek to manage the structural problems in its property market. This might challenge the traditional emerging market 'playbook' where emerging market export growth feeds off a Chinese-led global commodity reflation narrative. Coupled with a so-called 'near-shoring' of global supply chains post pandemic, this has undoubtedly complicated what might otherwise be a more-normal economic growth profile that emerging economies might hope for.

Outlook

How much can we trust a Goldilocks outlook?

Not just the economic picture, just as important is how markets are positioned.

Q1 has seen increasing confidence in an economic 'soft-landing', where interest rates curtail inflation without unduly impacting economic growth. Against this still-constructive picture, external surveys that we subscribe to suggest broader investor positioning remains relatively defensive at least as compared to historic (past 20-years) terms. At a global level, these surveys suggest above historic average allocations to bonds and below historic average allocations to equities. As such, should the global constructive economic, corporate, and consumer picture hold, it would not be unexpected to see this aggregate positioning become less defensive, which could well prove supportive to risk-assets. The crucial point here is that for a continued march upwards in equity performance, this doesn't necessarily need the economic picture to vastly improve – just that the arguably much-anticipated recession which investors have been gradually pushing out on the time-horizon and down in probability assumptions, continues to remain absent.

We are mindful that tail-risks remain, however. Yes, inflation is continuing to moderate, but the inflation path towards central banks' targets, both in terms of the speed of the fall in inflation rates as well as the final 'landing zone' for inflation remain uncertain. As a case in point, oil prices in March recorded their third successive monthly rise in a row, feeding off the back of a mix of oil producer supply curbs led by Saudi Arabia, as well as ongoing geopolitical risk in the Middle East and Russia-Ukraine, alongside a more constructive global energy demand growth picture more broadly. Some of the monthly consumer inflation data that landed during the quarter was mixed after a sizeable slowing in the second half of last year. While the gap between central bank expectations and those of the markets narrowed during the quarter, one of the biggest risks for risk-asset pricing is that central banks are forced to revise and moderate their signalling for interest rate cuts later this year, whether in terms of timing of the first cut but also the pace of successive cuts thereafter.

We continue to advocate a global barbell equity balance between value and growth investment styles, implemented at the start of 2021 – the increased amplitude and frequency of inflexion between these investment styles over the past three years, compared to the prior decade in our view validates our approach – there will be a time to challenge our equity investment style barbell balance, but that time is not now in our view. That said, we continue to take conviction views within our global equity allocations, giving regional country and thematic granular guidance.

Within fixed income, to manage interest rate sensitivity we have maintained a short-duration fixed income positioning, with a preference for shorter dated weighted-average maturities. This stance was borne out during Q1 as bond yield curves steepened in the UK, with shorter-dated bond yields falling more than those of longer-dated maturities. Recognising the maturity of the recent interest rate hiking cycle, we lifted our sovereign exposures midway through last year such that we now have an equal balance between sovereigns compared to corporate credit. Within credit, we prefer investment grade over high yield however, wary that the yield premium for the latter is not in our view providing sufficient reward for the additional risk inherent. In summary, we are keen for our fixed-income exposures to provide a counterbalance to the equity risk that we have elsewhere in our asset allocation mix.

Finally, within alternatives, we have recognised for some time now that this asset class faces broad challenges given income is back in fixed income. As a reminder, last year, in order to fund our increased fixed income allocations we lowered weightings to alternatives such as commercial property and alternative income. Balancing this, we continue to have exposures to structured return products which provide diversification to our expected returns across more vanilla equity and bond asset classes.

To repeat our opening introductory message, as we weigh up the investment outlook, despite the current confidence in markets broadly, the challenge for asset allocation is how to take a calculated position so that we keep exposure towards more than one economic scenario materialising. The outlook is improving but there is not yet sufficient visibility in our view currently to decidedly shift our investment weight behind a single expected sustained outcome. Instead, staying invested but keeping balance continues to be our goal.

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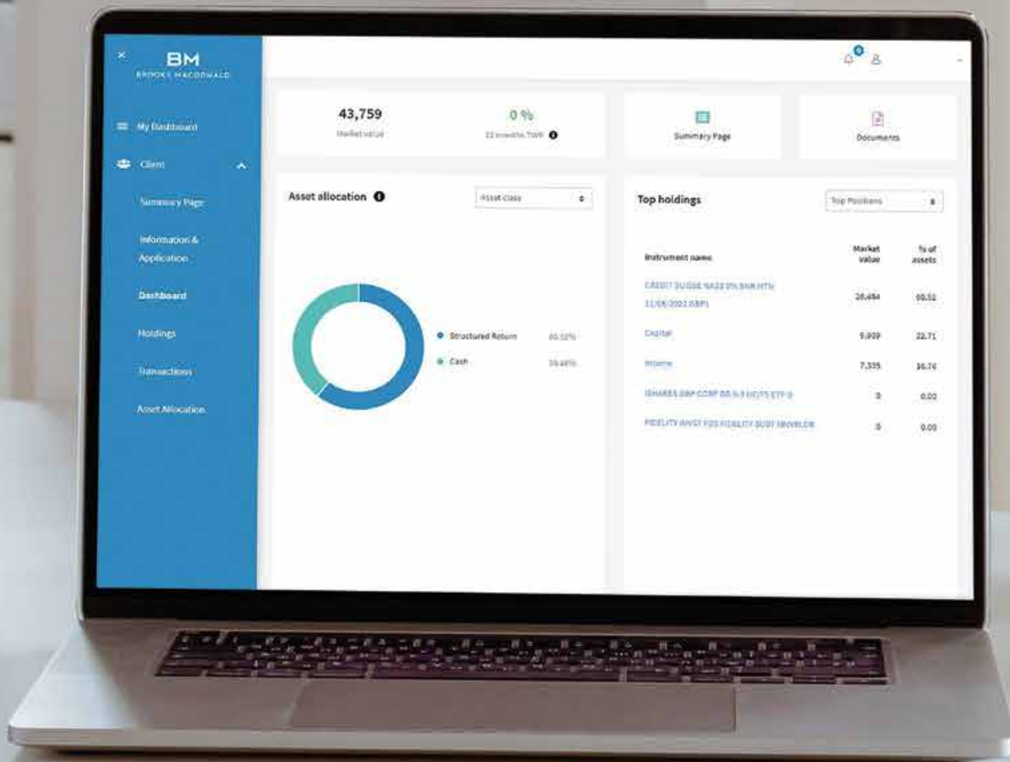

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The views in this Quarterly Market Overview report are correct as at 22 March 2024. All information is current at the time of issue and, to the best of our knowledge, accurate.

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