WAVERTON

GLOBAL OUTLOOK

April 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

30 Our approach to investing responsibly

Macroeconomic background

The narrative in markets has shifted in recent weeks. Since the fourth quarter of 2023 the market has been pricing in a series of policy rate cuts this year by central banks on both sides of the Atlantic. At the end of last year, the expectation was for six rate cuts by the Federal Reserve and six by the Bank of England. Today those expectations are for just two cuts.

The combination of stronger growth in the US, and a recovery of some sort here in the UK, has been one factor. That is a financial market friendly reason.

But recently the stalling in the improvement of inflation data has been a factor in the repricing of interest rates and that is a much less market friendly rationale. Since June 2023 when US CPI was reported as rising 3.0% year-on-year, inflation has been in a range of 3.1% to 3.7%. In March it was 3.5%.

More importantly, expectations for future inflation have deteriorated in recent weeks. At the beginning of February the 5-year US Inflation Swap (priced as the expected average level of inflation over the next five years) was 2.3%. It is now 2.6%. Here in the UK the 5-year swap price has risen by 0.26% over the same time period and the euro area one by 0.15%.

None of these moves are extreme, and the market is, by definition, expecting inflation rates to decline from their current levels.

But the slower pace of that improvement is a challenge for both the market and for policy makers. Can central banks really cut interest rates when inflation is above target and not improving? Doubtful.

There is another problem with the current expectations for rate cuts. In the US the market is pricing the first cut to take place at the 18 September policy making meeting. But that meeting is under seven weeks before the Presidential election.

Since 1992, the Fed has only cut interest rates after May in an election year on one occasion, 2008, when the world was literally falling apart. One very much doubts that the Fed will make its first cut in this cycle 48 days before the election. Unless the growth outlook deteriorates significantly one would not be surprised if the expectation for the first cut is pushed out to the 7 November 2024 policy making meeting.

Geopolitical considerations are, in our view, generally only market moving for short periods of time and are very difficult to invest around. We have not changed our views, for example, even though tensions in the Middle East have risen further in recent days.

But it will be important to watch oil prices, as always, because of their significant impact on inflation expectations. Perceptions of inflation are most impacted by movements in the prices of things we buy regularly.

So, food and energy, particularly petrol prices, are arguably the most important inflation measures, even though both are taken out of the calculation of what the market and policy makers tend to think is the most important inflation measure (“core” CPI or the “core” Personal consumption expenditure deflator).

If the oil price moves higher from here that will be a further blow to the disinflation story and by extension to the “rate cuts are coming” narrative.

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 12.04.24

Equities (neutral)

Global equities returned +3.3% in March and+9.2% in Q1 (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.

It is encouraging that there was broader participation in the market rally in the first quarter. Although the so called “Magnificent 7” technology and communication service giants did well, every sector except Real Estate rose in the quarter and some of the sectors that had struggled such as energy and financials did well.

We continue to identify opportunities in all 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 +1.7% in March and -1.9% in Q1.

We still see value in government bonds. We also see them as an important diversifier after a strong rally in the equity market in recent months.

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 12.04.24

POLITICS, POLICY, BONDS & CURRENCIES

BIDEN AND TRUMP POLLING POORLY BUT BIDEN NOW FAVOURITE

The top chart shows the current probability of who wins the 5 November Presidential election based on betting done on www.predictit.org As of 12 April , the probability of Biden winning is 53%, of Trump winning is 45%.

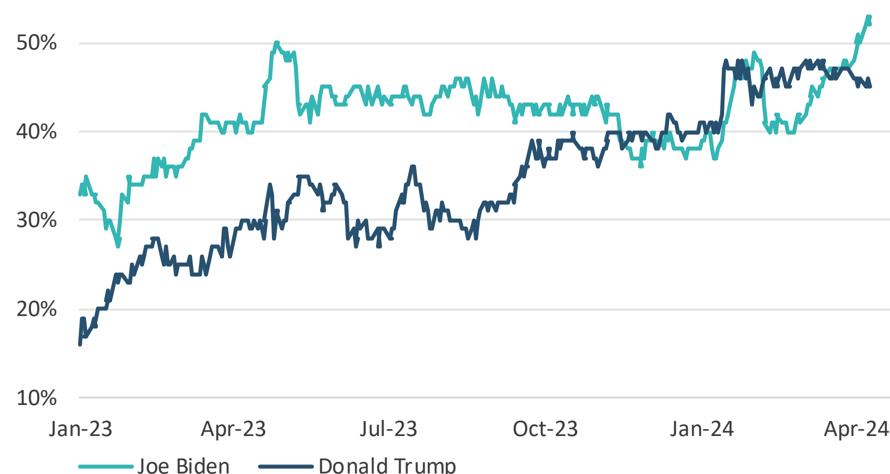
Biden has picked up markedly in the betting markets in recent weeks. This is likely to have been helped by the robust performance he gave when delivering the annual State of the Union speech on 7 March. It is also likely that President Trump's legal troubles continue to weigh on his chances. His trial in New York for falsifying business records began on 15 April. Three more trials could begin before the election.

Financial markets are relaxed about whether Trump or Biden wins in November as both are seen as reasonably market friendly. Trump cut taxes and had a light touch on regulation in his term. Biden has kept the economy going and unemployment levels are historically low. For now, the election is a sideshow rather than something playing out on the market's main stage.

The table to the right shows the net favourability rating of every Democrat and Republican candidate since 1980. Biden and Trump both have more people telling pollsters they disapprove of them than approve of them. Only in 2016 when Hillary Clinton ran against Trump had both candidates got negative favourability ratings.

It is interesting that Trump's net favourability rating is actually better than it was in 2016 and 2020. Biden's team will be concerned that his rating is so much lower than it was four years ago. However, all the numbers in the table are for October of prior election years. Let's see what Trump and Biden's ratings look like in October 2024.

Probability of Biden or Trump winning election %



Average Net Favourability Rating for Presidential Candidates

YEAR	DEMOCRAT	NET FAV.	REPUBLICAN	NET FAV.	AVG.
1980	Jimmy Carter	-3	Ronald Reagan	+18	+7
1984	Walter Mondale	-9	Ronald Reagan	+28	+9
1988	Michael Dukakis	+25	George H.W. Bush	+15	+20
1992	Bill Clinton	+9	George H.W. Bush	-9	0
1996	Bill Clinton	+18	Bob Dole	-1	+8
2000	Al Gore	+15	George W. Bush	+22	+18
2004	John Kerry	+6	George W. Bush	+5	+5
2008	Barack Obama	+20	John McCain	+9	+15
2012	Barack Obama	+5	Mitt Romney	+2	+4
2016	Hillary Clinton	-12	Donald Trump	-25	-18
2020	Joe Biden	+5	Donald Trump	-13	-4
2024	**Joe Biden**	**-15**	**Donald Trump**	**-10**	**-12**

*2024 numbers are as of April 1.
SOURCE: POLLS

Source: Bloomberg, www.predictit.org, Waverton, https://abcnews.go.com/538/americans-hated-candidates-biden-trump/story?id=108655435
Data as at 12.04.24

US CONGRESSIONAL ELECTIONS LOOK CLOSE

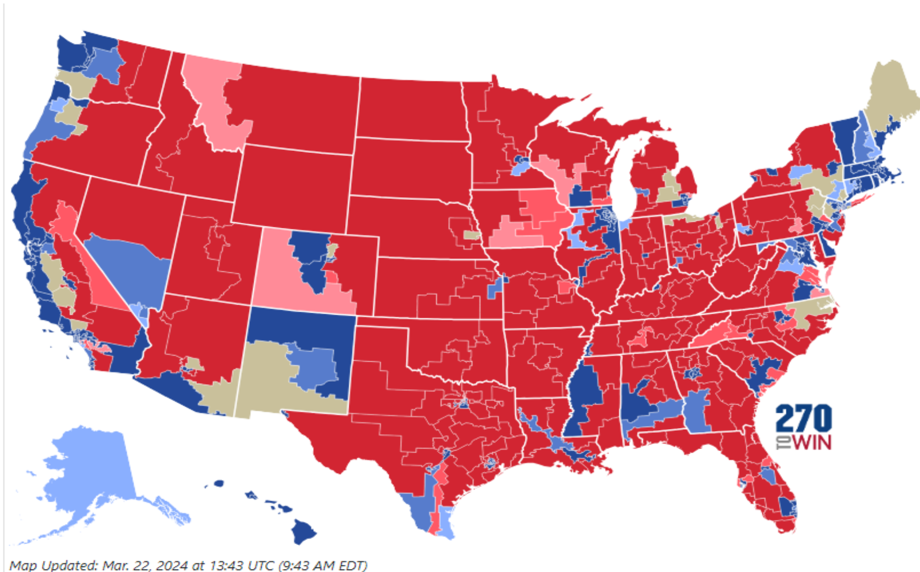
The policy impact any President has is in part determined on the outcome of the Congressional elections. All of the House of Representatives and one third of Senate seats are in play this year.

Currently the Republicans control the House 218 – 213 with four vacant seats. The current consensus is that the Republicans look like they are leading in 210 seats, the Democrats in 203. So, the majority will be determined in the other 22 seats. FWIW, I think the chances of the Democrats taking control of the House are reasonably good.

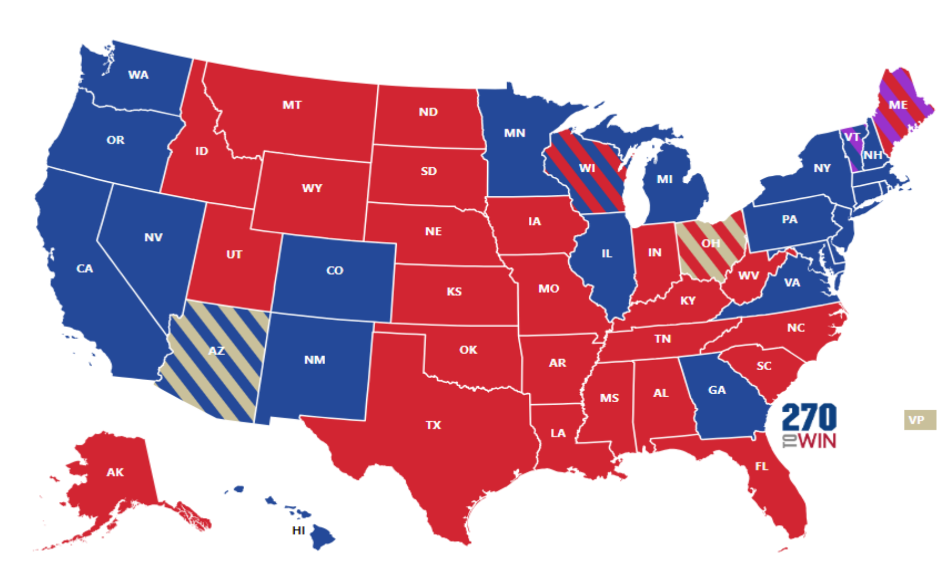
The Democrats currently control the Senate by 51 – 49. The consensus is that the Republicans are likely to take control of the Senate. The party is favoured in the majority of the 34 seats up for election. At the moment, that is seen giving the party 51 seats with the Democrats looking likely to have 47 seats. The two that are too close to call are in Arizona and Ohio. Maine, Vermont, Wisconsin are also seen as close.

The chances are high that we will continue with the divided government we have had since November 2022 even if the divide is the reverse of the current one (i.e. Republicans control Senate, Democrats control House). Markets are usually happy with a divided Congress.

US House of Representatives projection after 2024 election



US Senate projection after 2024 election



Source: https://www.270towin.com/ data as of 22.03.24

SIGNIFICANTLY FEWER RATE CUTS THAN WERE EXPECTED AT END OF 2023

The top chart shows current expectations for the US Federal Reserve policy rate over the next year and what those were at the end of 2023.

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

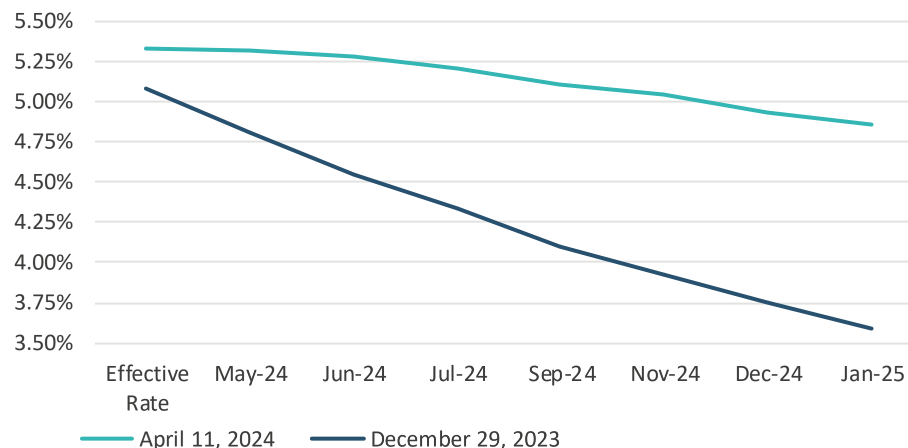
At the turn of the year, the market expected six cuts with the first one in March. So, there has been considerable easing back on the rate cut narrative, but the market is still convinced it is a matter of time before rates decline.

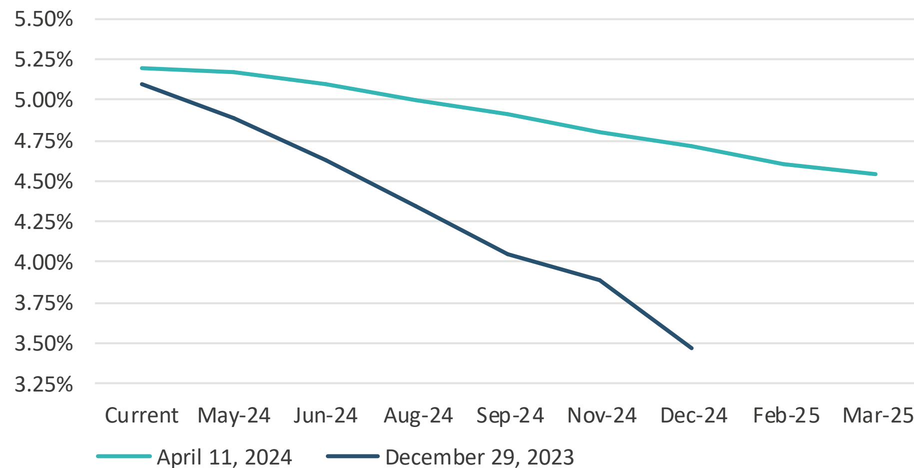
A wrinkle in the narrative though is that since 1992, only in 2008, in the midst of the financial crisis, has the Fed cut interest rates after May in a Presidential election year. The idea the Fed may cut rates in September seems to me to be far-fetched unless there is a new crisis.

The bottom chart shows current expectations for the Bank of England's base rate and those expectations at the end of last year. The Bank is now expected to cut rates "only" three times by March 2025. At the turn of the year, six cuts were expected by December 2024.

The first cut here is now expected at 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. Although there is an election here likely to be held in Q4. A summer rate cut here could also require some significant deterioration in the economic growth data.





Source: Bloomberg, Waverton. Data as at 11.04.24

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.

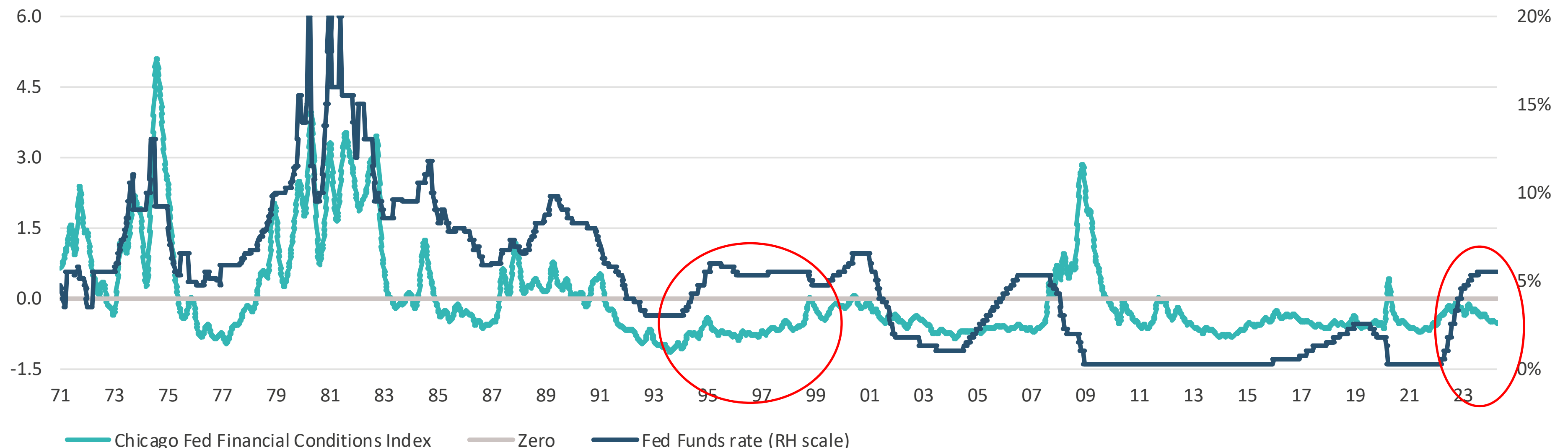
Several such indices are produced including the one charted below from the Chicago Federal Reserve. This is an index derived from over 100 types of credit spreads and financial indicators. A reading above zero suggests financial conditions are restrictive. Below zero and they are not.

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 05.04.24

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.

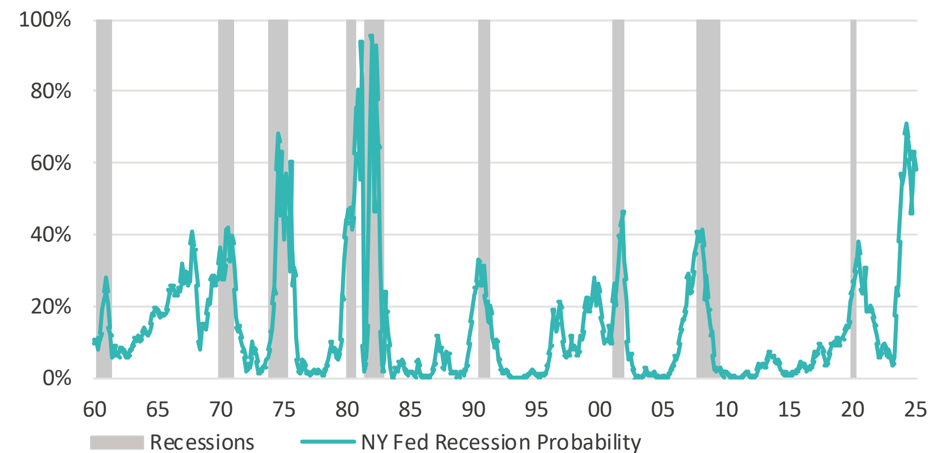
3-month Treasury bill rates have been above 10-year bond yields for nearly 500 days. That is the longest inversion in history. The NY Fed model therefore continues to suggest a downturn is coming up.

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.

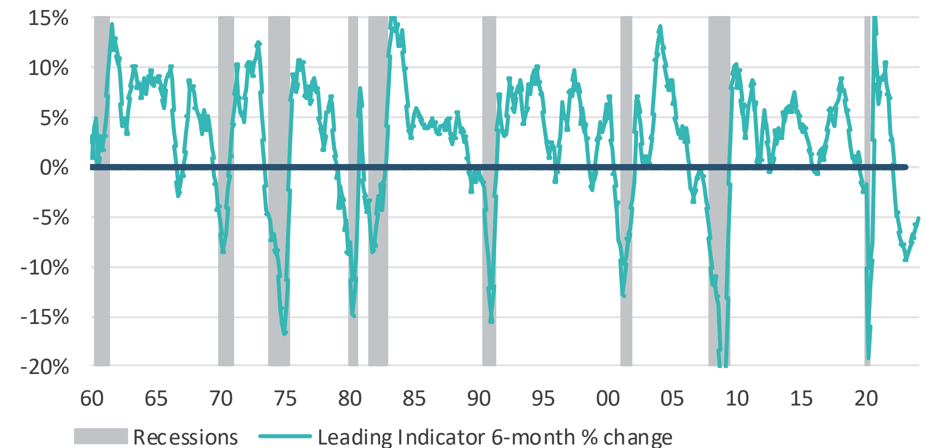
As you can see, since 1970 the US has either already been in recession, or a recession has started within three months of the change in the index being -4.0% or worse.

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 29.02.24

US PROFITS AS % OF GDP 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.

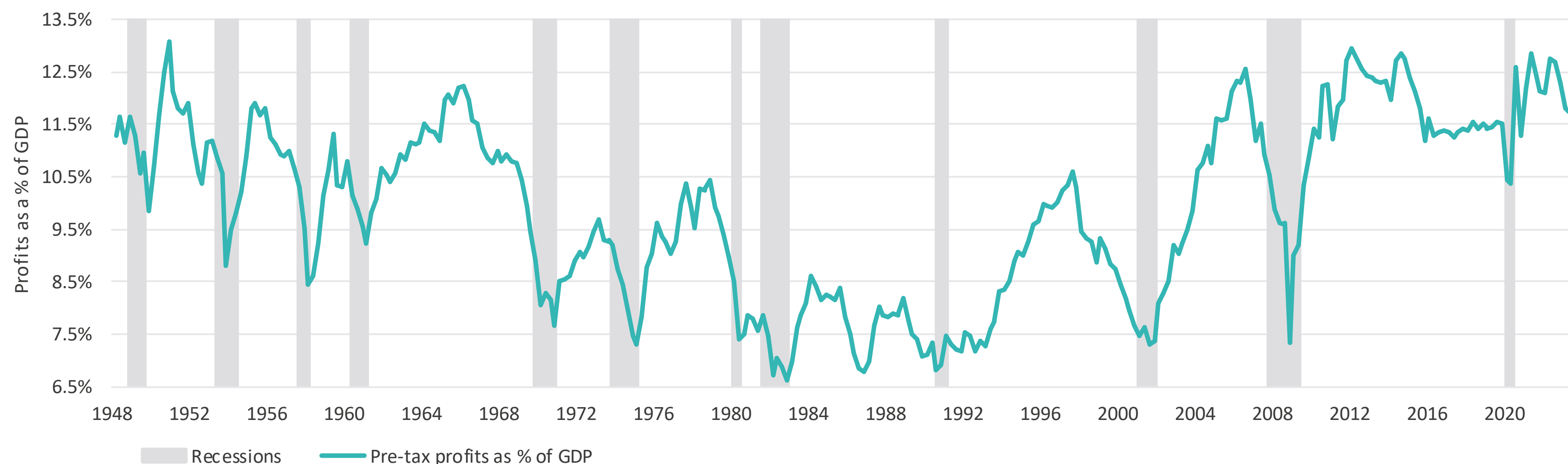
Consequently, this series is not susceptible to financial engineering via such things as share buybacks to boost earnings per share. It is a proxy for profit margins.

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 have been resilient in Q3 and Q4 2023 when they were reported as 11.9% and 12.2% of GDP respectively.

This is now another indicator suggesting a recession in the near term is unlikely.



Source: MSCI, FactSet, Waverton. Data as at 31.12.23

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).

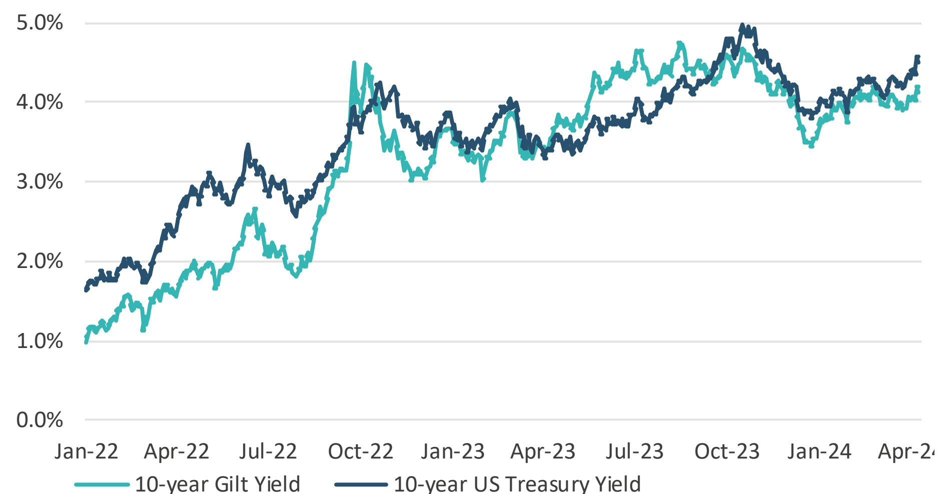
As the chart shows, both markets continue to offer, on this measure, a positive real yield.

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 2034 TIPS yields 2.1%.

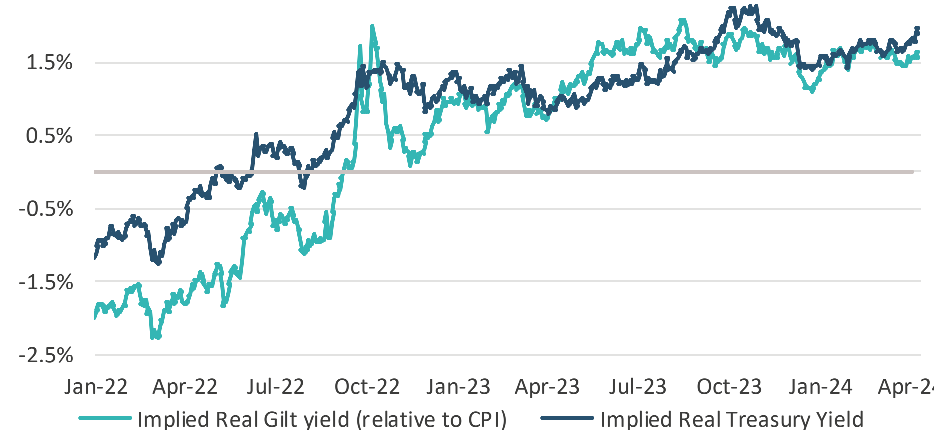
The UK linker market is less attractive (the March 2034 linker yields +0.5%).

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

US and UK10-year bond yields (%)



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



Source: Bloomberg, Waverton. Data as at 12.04.24

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.

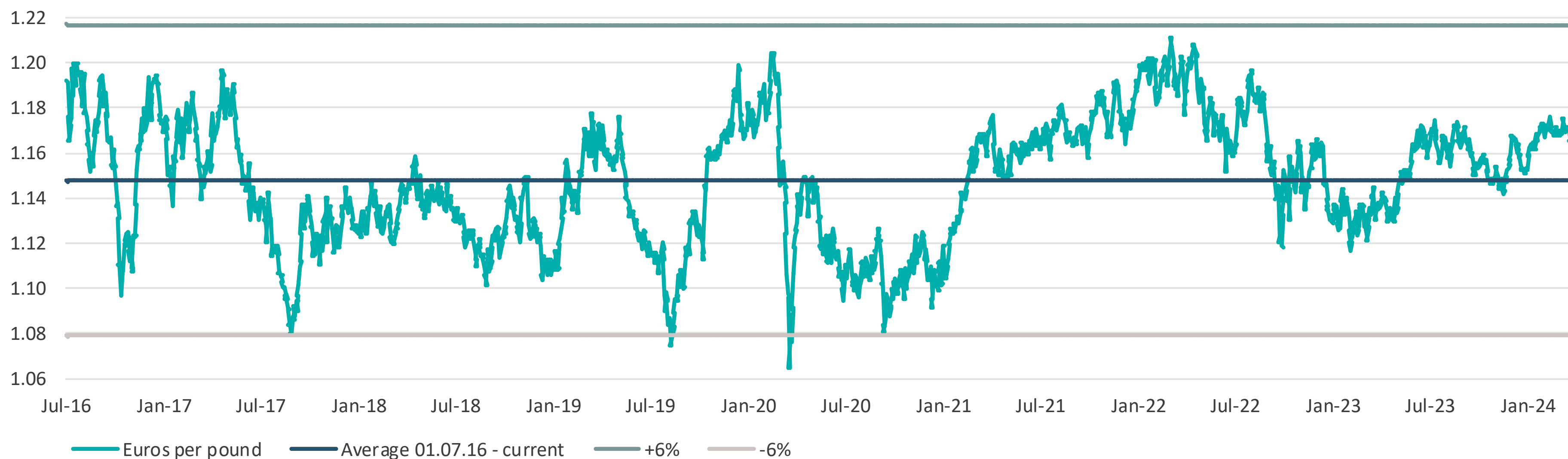
The chart shows the number of euros per pound since 1 July 2016. The average exchange rate since then is shown as the grey line and we show a range 6% either side of that average.

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 05.04.24

INFLATION RATES SLOWLY DECELERATING AROUND THE WORLD

The peak for US inflation was in June 2022 at 9.1%. It is now 3.5%. The euro area peaked in October 2022 at 10.6% (now 2.4%) and the UK also peaked in October 2022 when RPI was 14.2%, and CPI 11.1%. RPI is now 4.5% and CPI is 3.4%.

US core inflation (excluding food and energy) peaked at 6.6% in September 2022. It is now 3.8%.

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 even though the recent data in the US in particular has not been as good as the market had hoped for.

Inflation (% change year-on-year)
1980 - current

21%
18%
15%
12%
9%
6%
3%
0%
-3%

1980 1985 1990 1995 2000 2005 2010 2015 2020

US CPI Euro area CPI UK RPI

Source: Bloomberg, Waverton. Data as at 31.03.24

EXPECTATIONS FOR FUTURE INFLATION LESS SANGUINE THAN THEY WERE

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.

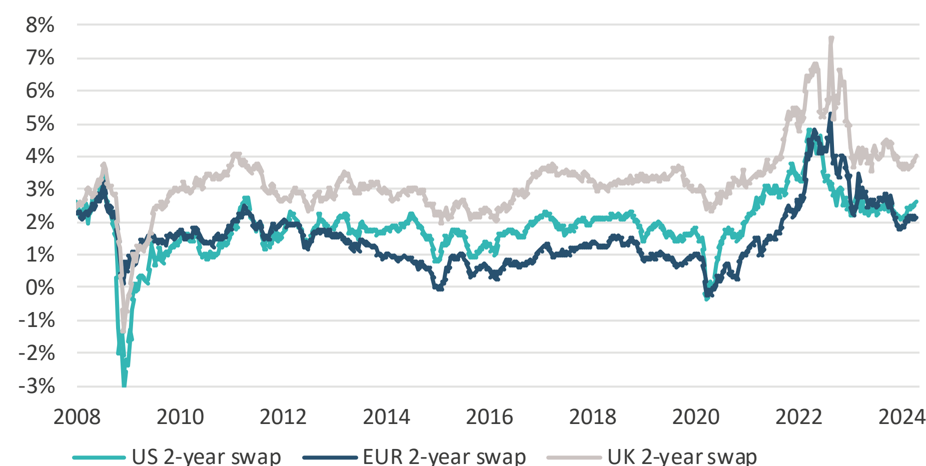
But if future inflation actually takes longer to return to target that will be an issue for investors as it will almost certainly see a reversal upward in rate expectations.

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

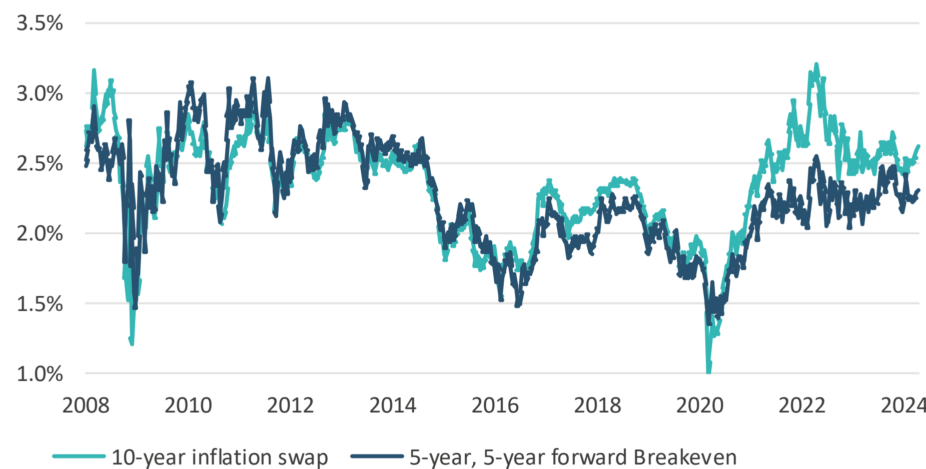
The green line is the 10-year US inflation swap and the black line is the inflation rate calculated from the spread between five year nominal and inflation linked bonds five years forward.

Both have ticked up slightly in recent weeks. But the general picture from both these charts is that the market remains pretty sanguine about future inflation.

2-year inflation swap rate (%)



Long-term US inflation expectations



Source: Bloomberg, Waverton. Data as at 12.04.24

THE BROAD COMMODITY COMPLEX IS WEAK

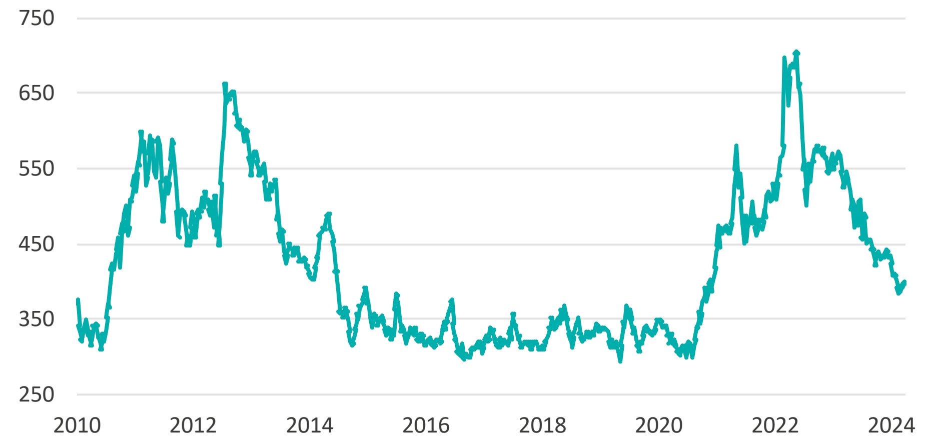
The broad commodity complex is in the doldrums.

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.

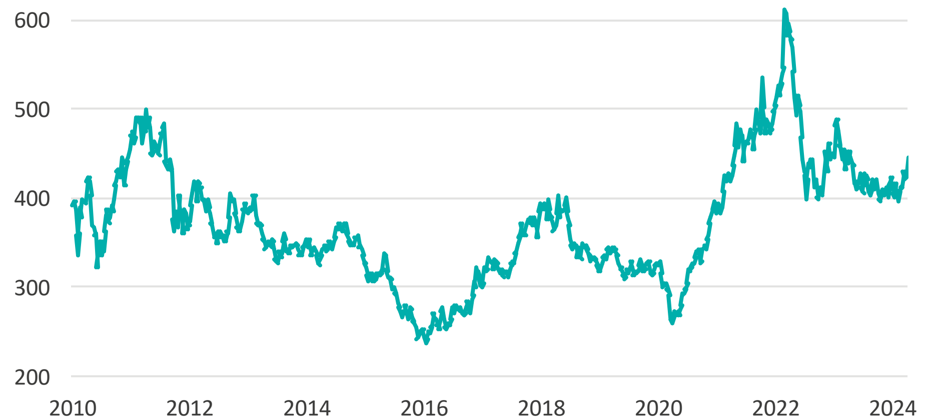
The Industrial Metals index (bottom chart) has also been weak in recent months. Demand from the People's Republic of China (PRC) is an important driver of industrial metals prices.

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 05.04.24

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 05.04.24

GOLD AT RECORD HIGH

As of 7 March 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.

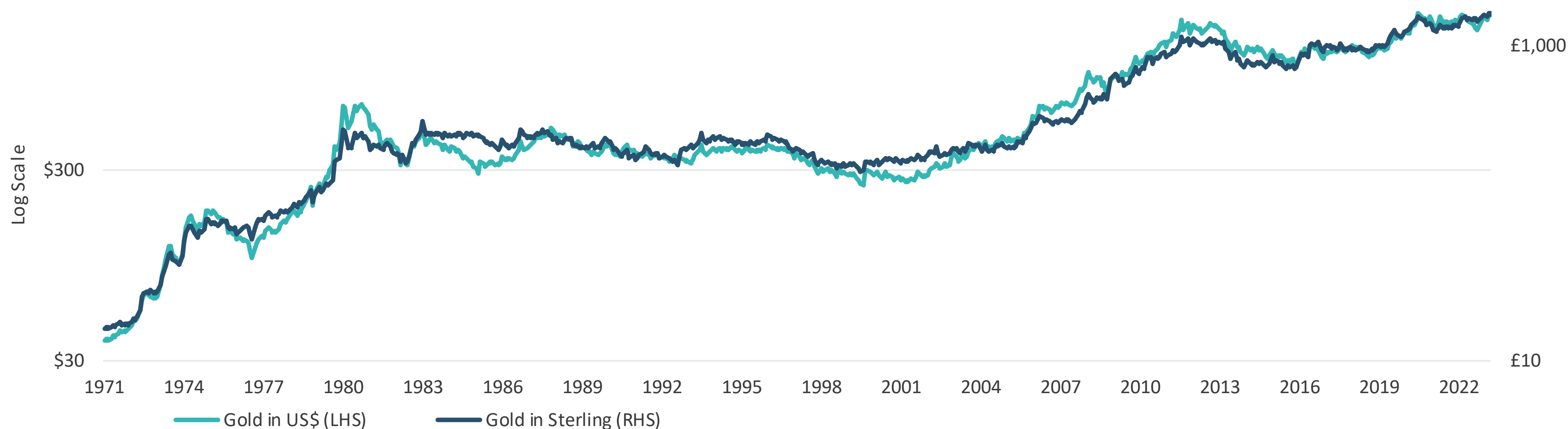
Gold benefitted from the exceptional monetary policy in evidence from 2008 to arguably 2021. With zero or even negative nominal interest rates the opportunity cost of owning gold had never been lower.

In recent months, the rally in gold appears to be based on buying by central banks around the world, including in China. There is also some evidence that Chinese retail investors have been buying gold.

Given the recent US inflation data has been disappointingly elevated, it is also possible that gold has benefitted as a hedge against that.

It could also be benefitting as a hedge against fears about broader currency debasement in a world of elevated government budget deficits.

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



Source: Bloomberg, Waverton. Data as at 29.03.24

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.

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 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

			GROWTH RATE		
REGION	PE NTM	RELATIVE	2023	2024	2025
World	17.6		(1.9%)	+9.6%	+12.5%
US	21.0	119%	+0.9%	+10.9%	+13.7%
Europe ex UK	14.6	83%	+4.9%	+4.5%	+11.0%
UK	11.5	66%	(10.1%)	+0.9%	+8.7%
Japan	15.5	88%	(1.3%)	+9.1%	+8.1%
Asia Pac ex Japan	13.1	74%	(11.5%)	+20.1%	+15.9%
Latin America	8.8	50%	(21.3%)	+8.4%	+8.2%
Emerging markets	13.3	76%	+3.6%	+4.2%	+10.2%
World ex USA	13.7	78%	(5.2%)	+8.1%	+11.2%

Source: MSCI, FactSet, Waverton. Data as at 29.03.24

STOCK MARKET VALUATION IN LINE WITH RECENT RANGES

The PE ratio for the US market (solid dark green line) is 21 times.

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

The World outside the US now trades at 13.8 times earnings, a little above its 20-year average of 13.1.

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

24
22
20
18
16
14
12
10
8

00 02 04 06 08 10 12 14 16 18 20 22 24

US PE NTM — US PE Average — World ex US PE NTM — World ex US PE Average

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.

Source: MSCI, FactSet, Waverton. Data as at 29.03.24

FIRST QUARTER 2024 DID SEE MORE SECTORS PERFORM WELL

One of the encouraging things about the strong equity market in the first quarter was that the leadership in the market was much more broadly based than it had been a year ago.

A year ago (darker bars in the chart below) the market was led by Information Technology, Communication Services and Consumer Discretionary companies.

Five sectors declined in price in Q1 2023, the worst being energy.

This year, all sectors apart from Real Estate rose in Q1.

Information Technology and Communication Services were the best performers but Energy, Financials, Industrials and Health Care all did better than Consumer Discretionary.

That broader based move is a welcome break from the obsession with the so called "Magnificent 7" that had dominated the market narrative in recent quarters.

MSCI All Country World Sector performance in Q1 2024 and Q1 2023

Energy
Financials
Health Care
Utilities
Real Estate
Consumer Staples
Materials
Industrials
MSCI ACWI
Consumer Discretionary
Communication Services
Information Technology

-10 -5 0 5 10 15 20

Q1 2023 Q1 2024

Source: MSCI, Bloomberg, Waverton. Data as at 29.03.24

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

50

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Source: MSCI, Bloomberg, Waverton. Data as at 05.04.24

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 March 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 29.03.24

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.

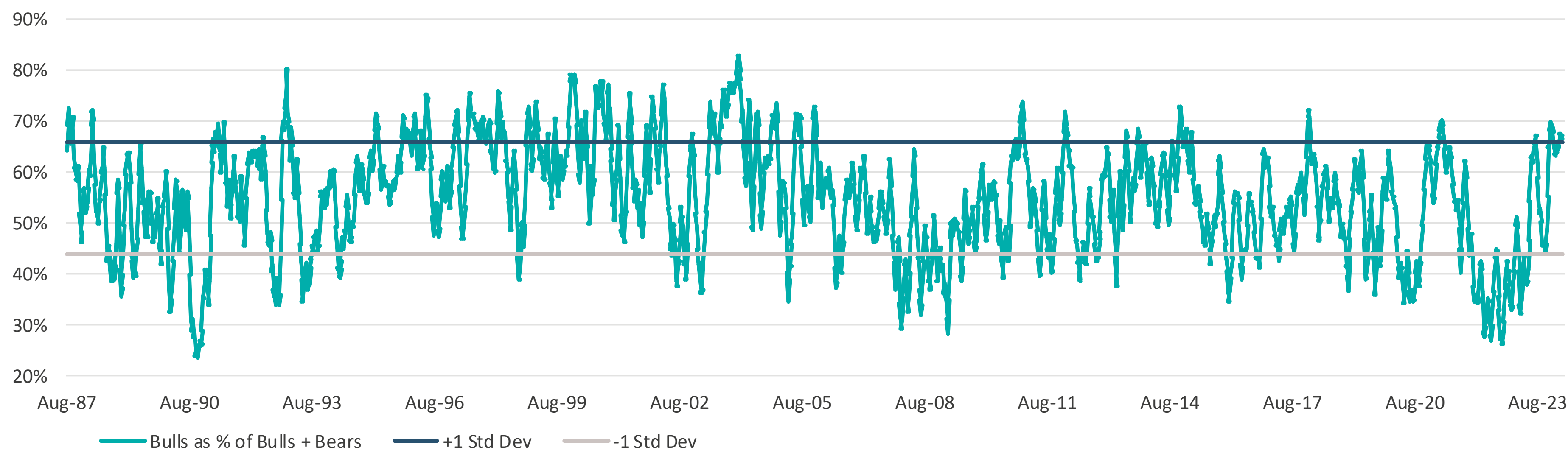
The two horizontal lines are showing one standard deviation above (grey line) the average level and one standard deviation below (pink line).

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: AAII, Bloomberg, Waverton. Data as at 04.04.24

CORPORATE BALANCE SHEETS YET TO SHOW REAL STRESS

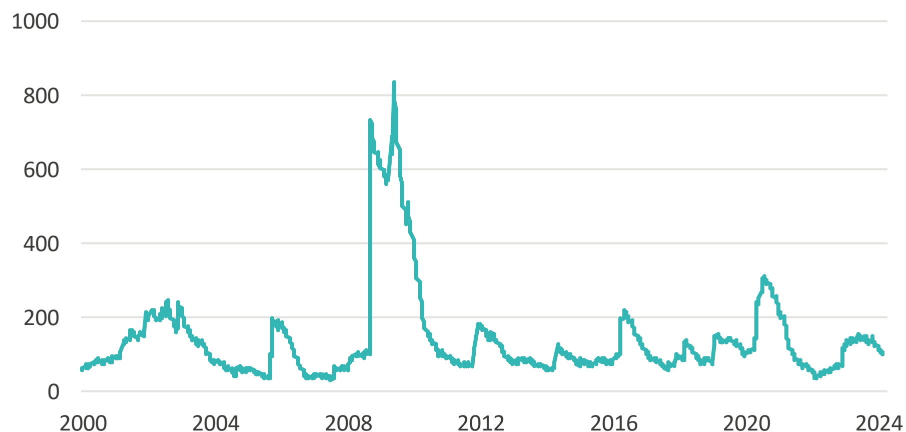
The top chart is a quarterly series showing the number of US corporate bankruptcies (officially called "Chapter 11" filings). It hit its lowest level for 18 years in Q3 2021. It has moved up since then and moved further up in Q4 2023. It is now at the top end of the range it has been in since 2013.

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 29.03.24

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 05.04.24

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 March, 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.

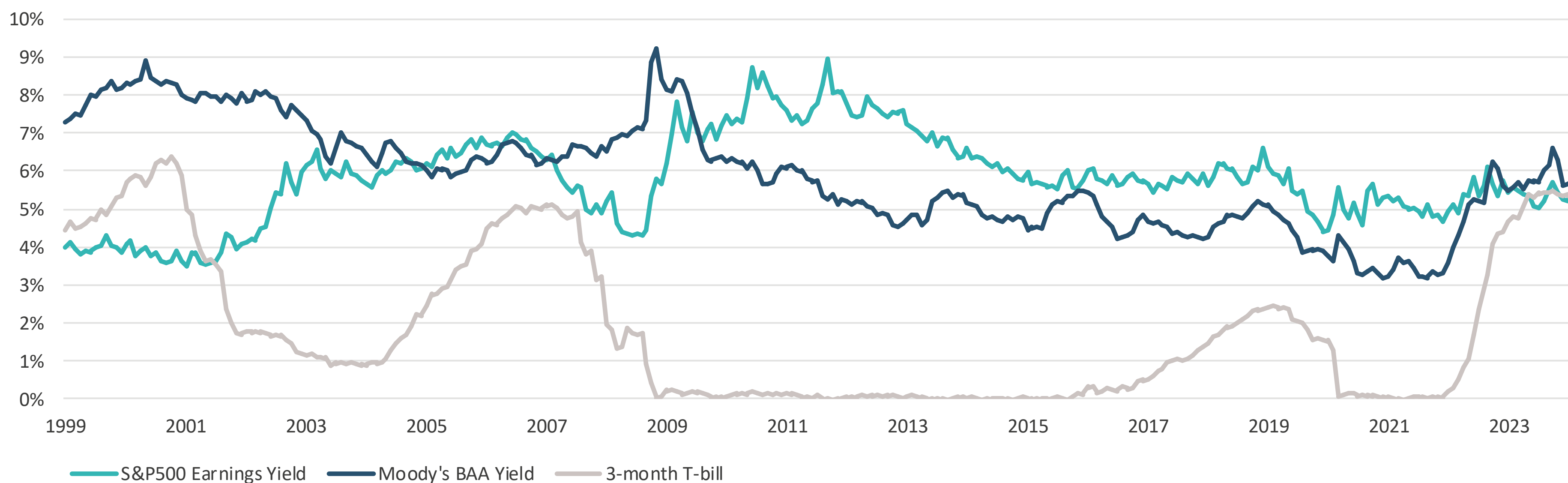
Normally it would be perceived that equities had some valuation challenge from corporate bonds when this is the case but in 2023 both gave good returns.

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 29.03.24

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 05.04.24

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

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

Registered in England No 2042285