

GLOBAL OUTLOOK
May 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 has shifted a little again in the first half of May. There has been a return to a more optimistic view about inflation.

In April markets were hit by concerns about more persistence in inflation and ongoing robust growth in the US economy.

Expectations for future interest rates had already shifted from a hope that we might see as many as six rate cuts this year to seeing perhaps two or three. Then the worse than expected report for inflation in March led to a move up in the expectations for future inflation.

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%. In the middle of April, it got to 2.6%.

In May we had seen some of those concerns about future inflation abate. The better than expected report for inflation in April (released on 15 May) saw a further decline. The 5-year inflation swap is now at 2.46%.

This has allowed bond yields to fall back to where they were at the beginning of April. That in turn has allowed the stock market to regain its composure.

Although there has not been any material repricing of what the Federal Reserve will do to interest rates, any signs of further improvements in inflation and/or any sluggishness in economic growth could see the pendulum swing back toward more rate cuts again. Although we would expect those to come in 2025 rather than in 2024. This is because we are now less than six months from the US Presidential election on 5 November.

In our view, it may take a significant hiccup in markets and or in the economy to get the Fed to cut rates before the election. We say this simply because 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 want to make its first cut in this cycle before November unless the growth outlook deteriorates significantly.

As for other factors, geopolitical considerations are, in our view, generally only market moving for short periods of time and are very difficult to invest around. The market seems to be agreeing with that at the moment as despite signs of deterioration in the Middle East and in Ukraine, the market has not been impacted.

Having said that, it continues to be important to watch oil prices 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).

The improvement in inflation has included a drop in core CPI to 3.6%, its lowest level since April 2021. Things are better at the moment on that front too.

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 15.05.24

SUMMARY OF OUR VIEWS (continued)

Equities (neutral)

Global equities returned -2.5% in April but are up 6.5% this year (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 four months of the year. Although the so called "Magnificent 7" technology and communication service giants did well, every sector except Real Estate gas risen this year (as of May 10). Communication Services and Information Technology lead the way but are closely followed by Energy, Financials and Industrials.

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 -3.0% in April and -4.6% so far this year.

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.

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Part I POLITICS, POLICY, BONDS & CURRENCIES

BIDEN AND TRUMP POLLING POORLY BUT BIDEN NOW FAVOURITE

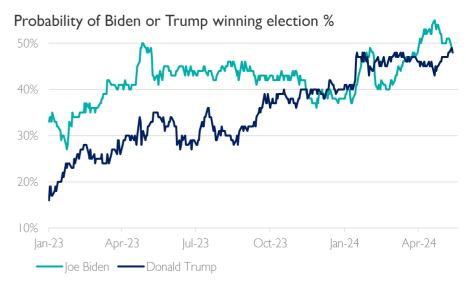
The top chart shows the current probability of who wins the 5 November Presidential election based on betting done on www.predictit.org As of 13 May, the probability of Biden winning is 49%, of Trump winning is 48%.

Biden has tailed off in the betting markets in the last three weeks. Difficult to know exactly why but the polls continue to be close and Biden's own approval rating has not improved. Meanwhile, Trump's trial in New York for falsifying business records began on 15 April. But despite some salacious headlines it does not seem to be impacting voting intentions.

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.



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, <u>www.predictit.org</u>, Waverton, <u>https://abcnews.go.com/538/americans-hated-candidates-biden-trump/story?id=108655435</u> Data as at 14.05.24

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.

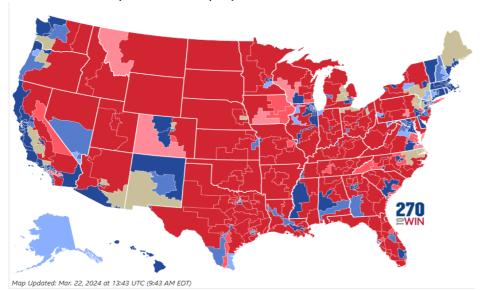
Currently the Republicans control the House 218-213 with four vacant seats. The current consensus is that the Republicans look like they are leading in 210 seats, the Democrats in 203. So, the majority will be determined in the other 22 seats. FWIW, I think the chances of the Democrats taking control 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 5 I 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



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

US Senate projection after 2024 election



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 a month ago.

The market had adjusted its thinking on how many rate cuts we would see this year by early April and there has not been a meaningful change in the last month. The market expects the Fed is going to cut rates only two times between now and January 2025 with the first cut fully priced in for the November 2024 policy setting meeting.

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 fact that the market is now expecting the first cut in November rather than September makes a lot more sense.

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 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, that is less likely to influence the Bank than the US election which will be on the Fed's mind.



Source: Bloomberg, Waverton. Data as at 15.05.24

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 Financial Conditions Index and Fed Funds Rate 1971 - current



Source: Bloomberg, Waverton. Data as at 13.05.24

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.

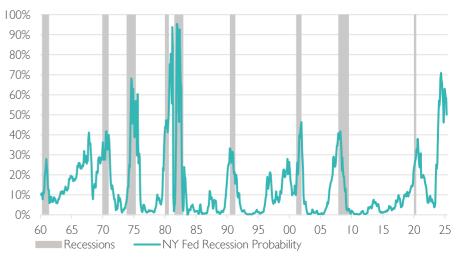
3-month Treasury bill rates have been above 10-year bond yields for over 500 days. That is the longest inversion in history. The NY Fed model therefore continues to suggest a downturn is coming up.

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 March the change in the index over the last six months is -4.3%.

New York Federal Reserve Recession Probability Indicator 1960 - current



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



Source: Bloomberg, Waverton. Data as at 30.04.24

US PROFITS AS % OF GDP REMAIN RESILIENT

This chart shows pre-tax profits of corporate America relative to GDP through Q4 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.

US profit cycles and recessions (%)



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 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.

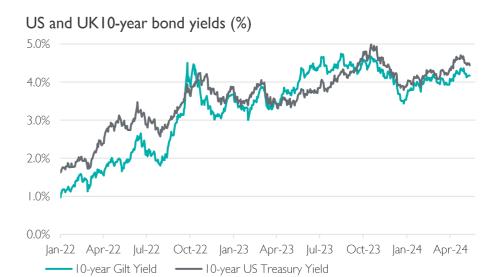
Inflation swaps are priced on RPI in the UK so we have deducted 1.2% from the swap rate to get an implied indication of expectations of CPI inflation (1.2% is about the long-term "wedge" between RPI and CPI inflation).

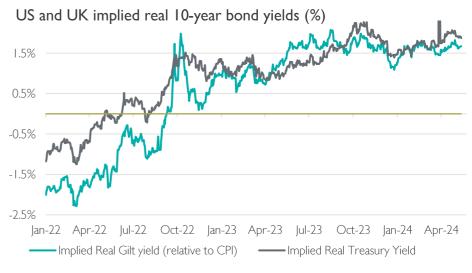
As the chart shows, both markets continue to offer, on this measure, a positive real yield.

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 2.05%.

The UK linker market is less attractive (the March 2034 linker yields +0.42%).

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





Source: Bloomberg, Waverton. Data as at 14.05.24

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 I July 2016. The average exchange rate since then is shown as the green 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 14.05.24

INFLATION RATES SLOWLY DECELERATING AROUND THE WORLD

The peak for US inflation was in June 2022 at 9.1%. It is now 3.4%. 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 4.3% and CPI is 3.2%.

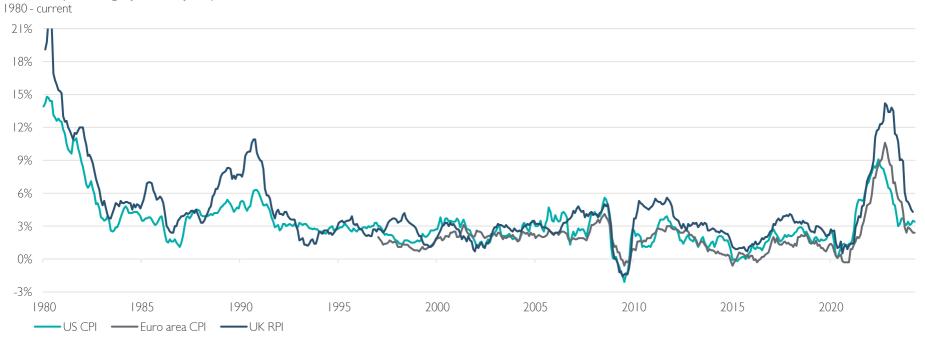
US core inflation (excluding food and energy) peaked at 6.6% in September 2022. It is now 3.6%.

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)



Source: Bloomberg, Waverton. Data as at 30.04.24

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%.

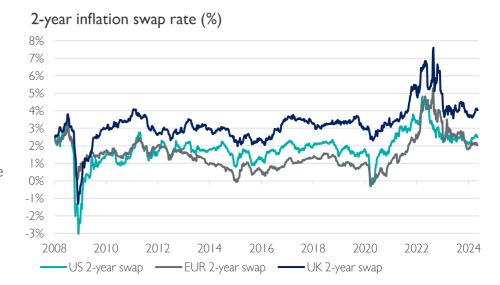
The moves in rate markets and inflation swaps are clearly interlinked. The market remains sanguine about inflation over the next two years.

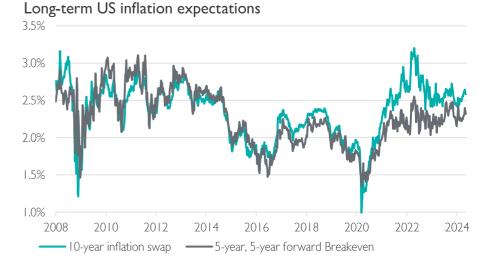
But if future inflation actually takes longer to return to target that will be an issue for investors as it will almost certainly see a reversal upward in rate expectations.

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.





Source: Bloomberg, Waverton. Data as at 10.05.24

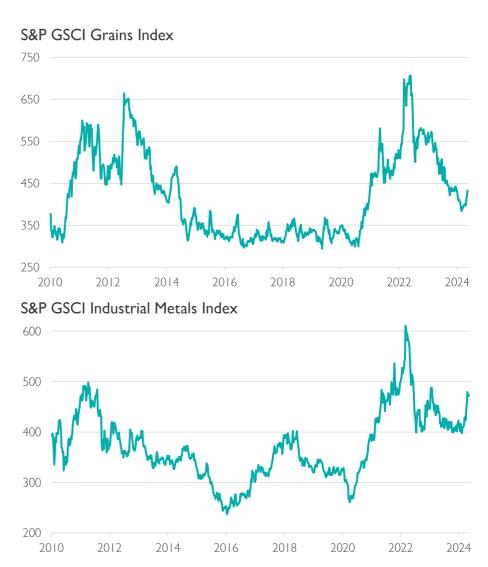
THE BROAD COMMODITY COMPLEX HAS BEEN WEAK

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 but picked up in the last few weeks. Copper has been particularly strong and iron ore and nickel have also risen.

Demand from the People's Republic of China (PRC) is an important driver of industrial metals prices but that is less likely to be driving the move in the last month. The price action in copper has partly been driven by a short squeeze on traders who were bearish of the price in New York. Let us see if the price of Copper stays this high or whether there is a pullback in coming weeks.



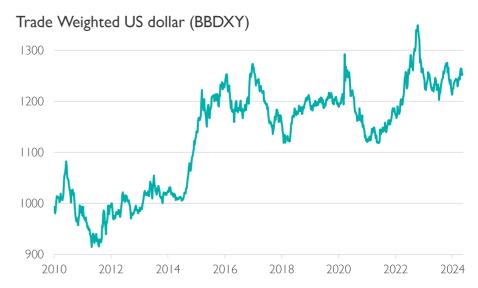
Source: Waverton, Bloomberg. Data as at 10.05.24

DOLLAR RANGEBOUND

The top chart shows a trade weighted dollar index. It has been range bound in recent weeks.

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 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.



MSCI Emerging Market Currency Index



Source: Waverton, Bloomberg, MSCI. Data as at 10.05.24

GOLD AT RECORD HIGH

As of the end of April 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.

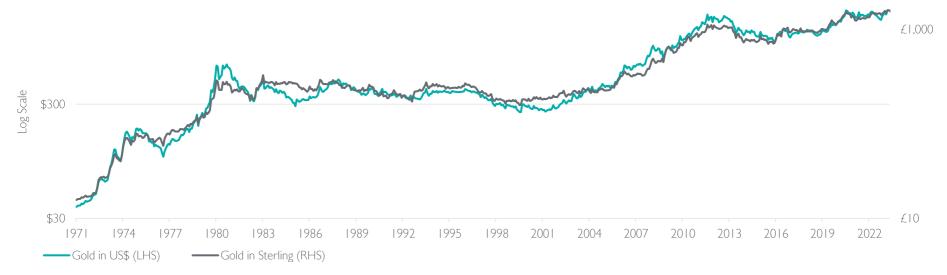
In recent months, the rally in gold appears to be based on buying by central banks around the world, including in China. There is also some evidence that Chinese retail investors have been buying gold.

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





Source: Bloomberg, Waverton. Data as at 29.03.24



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	2024	2025	2026
World	17.3		+9.6%	+12.7%	+10.3%
US	20.4	118%	+11.1%	+14.0%	+11.5%
Europe ex UK	14.4	83%	+4.3%	+10.9%	+9.2%
UK	11.8	68%	+1.7%	+8.9%	+9.2%
Japan	15.2	88%	+7.2%	+7.9%	+10.6%
Asia Pac ex Japan	13.2	76%	+20.4%	+15.7%	+12.5%
Latin America	8.8	51%	+6.6%	+9.6%	+6.9%
Emerging markets	13.2	76%	+3.5%	+10.3%	+8.8%
World ex USA	13.6	79%	+7.8%	+11.2%	+9.2%

Source: MSCI, FactSet, Waverton. Data as at 30.04.24

STOCK MARKET VALUATION IN LINE WITH RECENT RANGES

The PE ratio for the US market (solid dark green line) is 20 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 13.6 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 30.04,24

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.

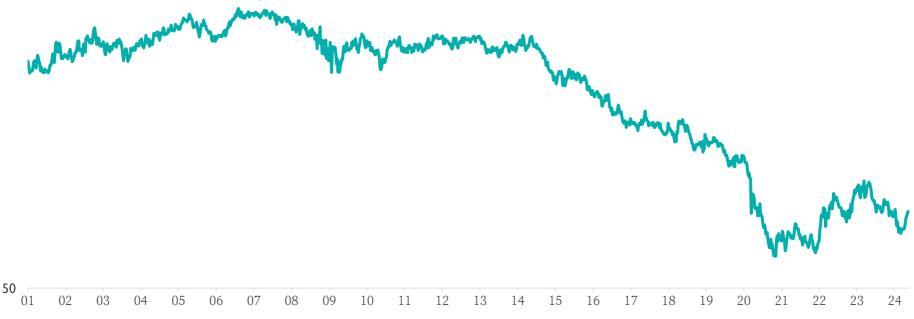
But from May 2014 to October 2020, the UK market underperformed by 49%. It had a better time in 2022 but it has resumed underperformance in the last twelve months.

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 30.05.24

STOCK MARKET IS INDEED DRIVEN BY EARNINGS OVER TIME

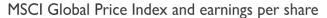
This is a simple chart but an important one. The stock market moves with earnings and has continued to do so over the last 20+ years despite the various shocks investors have had to absorb over that time. These include the 2008 crisis and Covid of course, but also the policy response to each of those 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 April 2025) expected by the current consensus forecast. One could argue that prices have fully discounted that level of expected EPS.





Source: MSCI, FactSet, Waverton. Data as at 30.04.24

US INVESTOR SENTIMENT LESS 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).

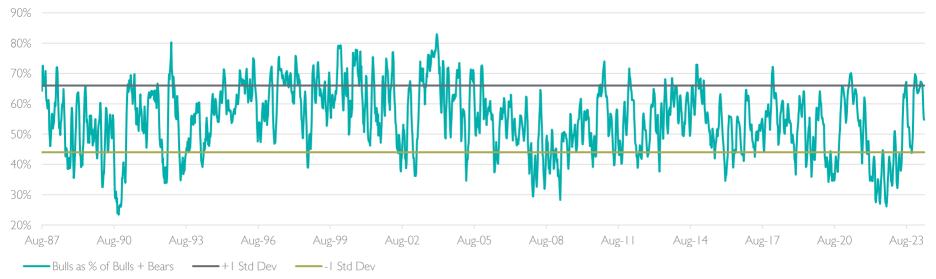
If you buy the market when the green line is below the yellow line your

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 a little lower in recent weeks and is in the middle of its long-term range.

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



Source: AAII, Bloomberg, Waverton. Data as at 09.05.24

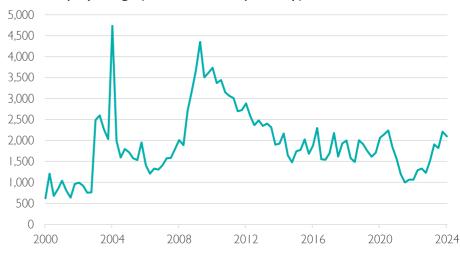
CORPORATE BALANCE SHEETS YET TO SHOW REAL STRESS

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 but came down a little in Q1 2024. But it is at the top end of the range it has been in since 2013.

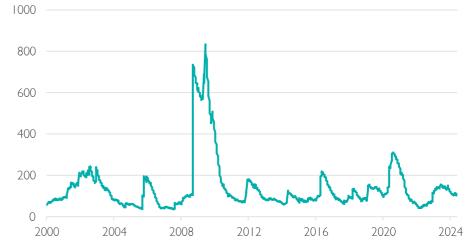
The Bloomberg Index in the bottom chart is of economy wide US bankruptcies and takes into account the size of the bankruptcy as well as the number of them. Hence there were more big bankruptcies in 2009-10 than in 2003-04. That index is at historically very low levels although it has picked up from its 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 10.05.24

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 10.05.24

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 April, the numbers were 6.0% versus 5.3%.

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 30.04.24

NO SIGN OF TENSION IN GREATER CHINA IN CURRENCY MARKET

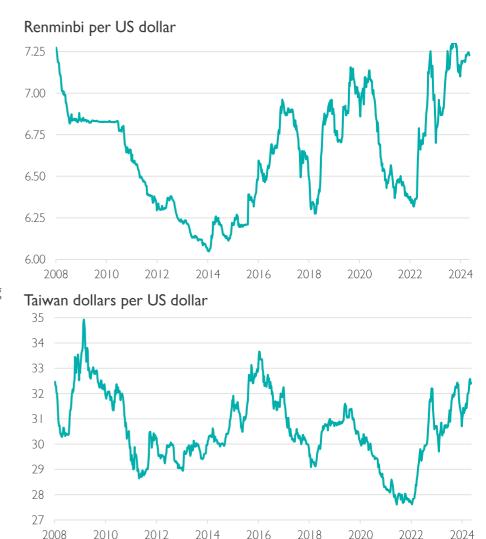
The Rmb weakened for most of 2023 before rallying in the last two months of the year. But the currency is still at the low end of its range since 2008.

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.



Source: Bloomberg, Waverton. Data as at 10.05.24

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:













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