GLOBAL OUTLOOK

November 2024

INTRODUCTION

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

Contents

SUMMARY OF OUR VIEWS

Macroeconomic background

The extent of the victory by former President Trump was not expected but financial markets have been discounting a Trump victory since the end of September.

Some of the rise in US 10-year bond yields last month (from 3.79% to 4.28%) was a reflection of that trend. Trump's policies, including tariffs on imports and the likelihood of lax fiscal policy, are seen as potentially inflationary.

The dominant narrative in markets for most of this year has been the expectation of waning inflationary pressures that will allow central banks on both sides of the Atlantic to continue cutting interest rates, as each has begun to do. The Trump victory may call that into question.

We have already seen expectations for the extent of future rate cuts being pared back in both the US and UK, with the UK budget on October 30th limiting the Bank of England's ability to reduce rates as quickly or as much as previously anticipated.

The good news though is that, for now at least, there is not a change to the direction of travel for policy interest rates. The expected trough for the Fed Funds rate may have moved up to 3.75% from 3.25%, but that is still well below the current 5.0%.

The key for determining whether the market begins to doubt that rates can go materially lower will be whether expectations for inflation change significantly. Inflation breakevens and inflation swap rates have moved higher in recent weeks but are not yet at levels that would imply concern that central banks will be unable to continue to ease policy. Watching these inflation markets will be critical in coming weeks.

The fact that the Republicans appear to have won both houses of Congress means that Trump has more freedom to act. That makes renewal of the 2017 tax cuts for individuals and small businesses more likely when the decision has to be made at the end of 2025.

It also implies that Trump will be able to make other changes. Winners from a Trump Presidency include big technology companies who no longer face the threat of greater regulation (e.g. on perceived dominant market positions in areas such as internet search).

Light touch regulation was a theme of the first Trump term and that will likely be a positive for investment banks. Expect to see more mergers and acquisitions in corporate USA. Trump is known to advocate energy self-sufficiency, so oil service companies should benefit from the likely increase in domestic drilling activity.

Conversely, markets have already been discounting that losers could include renewable energy providers and those companies still heavily reliant on China for parts/products e.g. apparel retailers

Tariffs will be imposed on Chinese-made goods but the implications of that are more subtle than they may appear. Tariffs will also increase tension with Europe, Australia, Canada, Japan and Korea. That may make the overall pressure on China from the international community less than it otherwise would have been. Trump's energy policies also leave China free to continue its efforts to dominate the EV sector.

In the end, if markets expect supportive monetary policy and light regulation, the backdrop for financial markets could remain constructive.

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 06.11.24

SUMMARY OF OUR VIEWS (continued)

Equities (overweight)

The MSCI All Country World Index rose 2.0% in October and is up 15.0% this year.

The move upward in bond yields over the month reflects not just the scaling back of Fed rate cut expectations since the surprise 50bps cut at the last FOMC meeting in mid-September, but also concerns around larger fiscal deficits and higher (tariff-induced) inflation with polling data trending in Trump's favour in recent weeks. The Trump election confirms that concern was legitimate.

The dollar index rallied (+4%) with the rise in yields, flattering global equity market returns for sterling-denominated investors. In local currency terms, equity returns were lacklustre, with Japan the only region to close in positive territory.

Aggregate EPS estimates had already come down ahead of this earnings season, a reflection of lower expectations in the Energy, Materials and Industrials sectors (on weaker commodity prices and slow manufacturing recovery). Market reactions have been more volatile (albeit on relatively thin trading volumes given election uncertainty) and revision ratios have fallen, but with 70% of the S&P500 having reported, Q3 revenue and earnings growth is running at +5% and +9% respectively vs. the +4% earnings growth consensus, and full year expectations remain intact.

Against this backdrop, there was a more cyclical bias to equity markets, with financials the strongest performing sector on the rise on yields and bond proxies (real estate, utilities) among the major laggards.

Fixed income (underweight)

The overall gilt total return index returned -2.5% in October and is down 2.8% so far this year.

We still see value in government bonds. We also see them as an important diversifier.

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.

Part I

POLITICS, POLICY, BONDS & CURRENCIES

RATE CUTS EXPECTED IN THE US AND UK

The top chart shows current expectations for the US Federal Reserve policy rate over the next two and a half years and how those expectations have shifted since early October.

Market expectations for monetary policy do tend to be volatile and have been in recent months.

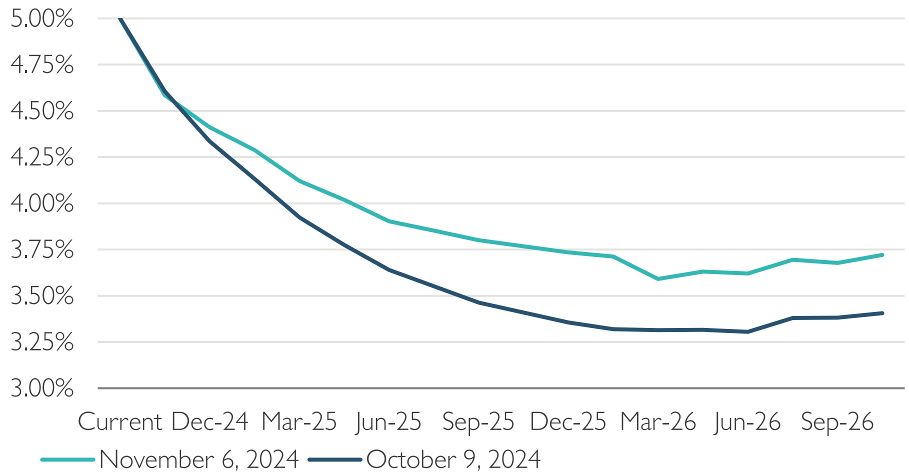
The market still expects the Fed to cut rates further in coming months but not by as much. There is a similar picture in the UK (bottom chart).

The US election has influenced the expectations for Fed policy as there is more concern about the likelihood of higher budget deficits given the apparent Republican sweep of all three branches of government. This makes the renewal of the tax cuts that expire at the end of 2025 more likely.

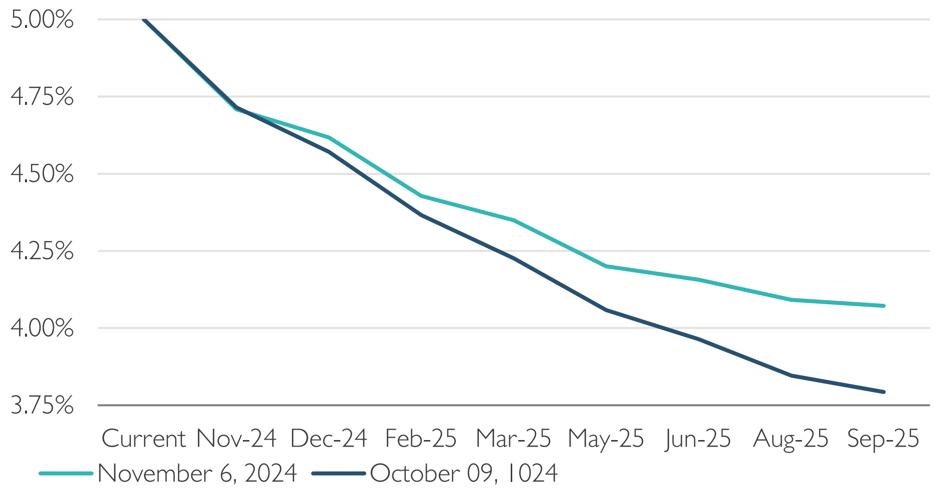
The possibility that the new Trump administration could be a risk to the dominant market narrative in recent months on inflation which until now the market has been confident would remain under control. That risk comes from a combination of loose fiscal policy and the imposition of potentially significant tariffs on a wide range of imports which, by definition, will raise prices.

Market expectations for inflation are likely to be the critical thing to watch in coming weeks and months. If they do move up materially that will have a detrimental impact on markets as it will imply that the benign picture of central banks easing monetary policy in coming months may need to be questioned. That could be bad for bonds and equities.

Implied US Fed Funds rate %



Implied UK Base Rate %



Source: Bloomberg, Waverton. As at 06.11.24

A TRUMP WIN HAD BEEN DISCOUNTED TO SOME EXTENT

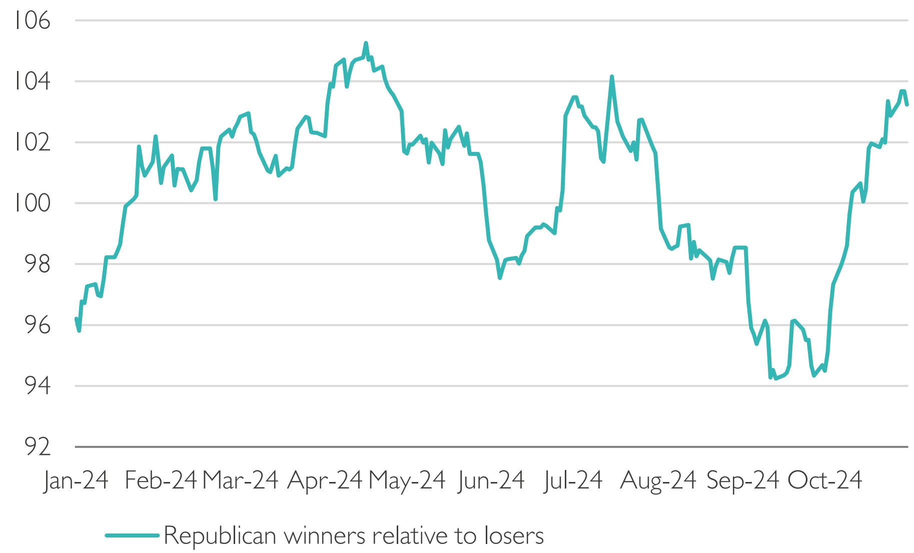
The market has to some extent discounted a Trump victory. Stocks that are deemed to be winners from a Republican victory outperformed those seen to be losers in the final month of the campaign. From the end of September to the end of October that was a clear theme in the equity market as the chart on the left shows. There was some profit taking in the final days of the campaign so we end the chart on October 31.

It was also notable that Bitcoin also performed well in the last weeks of the campaign which seems to bear some optical relationship to the probability of Trump winning in betting markets.

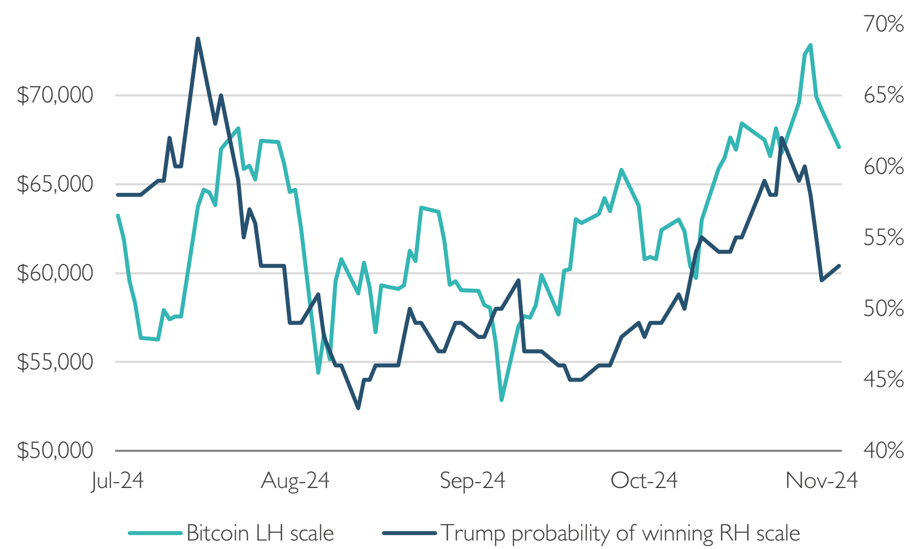
The chart on the right shows the price of Bitcoin in green and the probability of Trump winning on www.predictit.org , one such betting market.

Crypto is deemed to be a winner under Trump as he has made several positive comments about it including vowing to keep government holdings of crypto that has been acquired from seizing assets from financial criminals. He has also said he wants to create a crypto Presidential advisory council.

Winners from a Republican win relative to losers



Bitcoin and Trump probability of winning election



Source: Bloomberg, Goldman Sachs, PredictIt.org, Waverton. As at 04.11.24.

FISCAL POLICY WILL BE DOMINANT ISSUE IN 2025

This chart shows the US budget deficit as a % of US GDP. It is currently 6.3% of GDP. So far, the bond market has been relaxed about the likelihood of more supply of government bonds in the months and years ahead. But that could change in 2025 for two reasons.

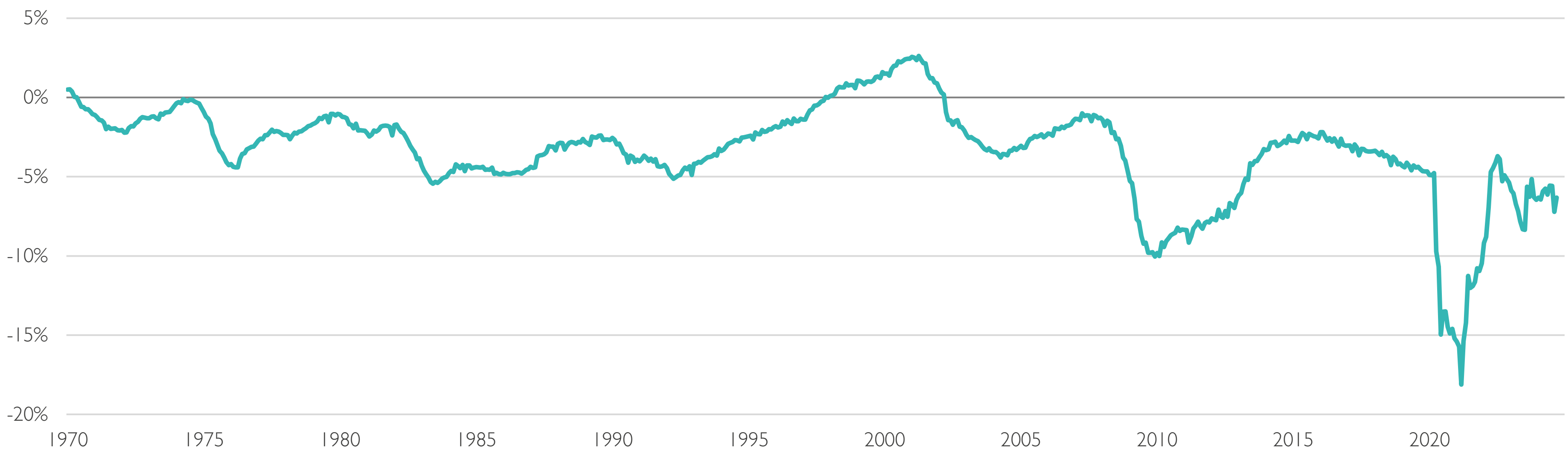
Firstly, the Federal government debt limit will be reinstated on 2 January 2025 at the level that includes all borrowing since the June 2023 suspension of the debt limit by Congress. So, it is a legal requirement that at some point next year Congress will have to raise the debt limit to permit more borrowing. The US Treasury can rely on its cash holdings for a little while before the limit needs to be raised but it is likely that the new Congress will have to deal with this issue in the first weeks of 2025. If no one party controls both houses of Congress and the Presidency that could be a challenge.

Secondly, the 2017 tax cuts for individuals and small businesses roll off at the end of 2025. If new legislation is not passed to renew them, then taxes will rise by over $4 trillion.

A Trump administration with Republicans in control of both houses will definitely renew them. It could be a battle to do so if that is not the situation.

Renewed tax cuts would be a positive for demand in the economy in the short term but will boost the deficit further in the medium term. Could the bond vigilantes come out of hibernation at that point?

US budget deficit as % of GDP 1970 - current



Source: Bloomberg, Waverton. As at 30.09.24

US PROFITS AS % OF GDP REMAIN RESILIENT

This chart shows pre-tax profits of corporate America relative to GDP through Q2 2024, 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.

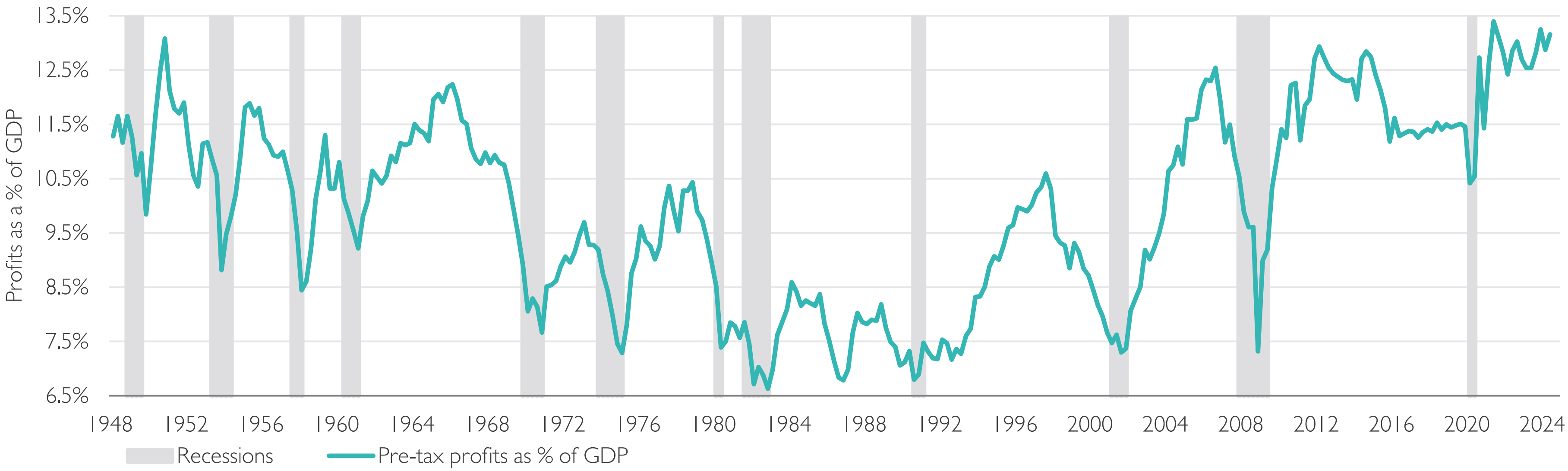
Consequently, this series is not susceptible to financial engineering via such things as share buybacks to boost earnings per share. It is a proxy for profit margins. In every recession except 1982, profits were falling as a % of GDP before it.

But on this measure profits have been resilient in recent quarters. Profits are below the cyclical peak as % of GDP which was 13.4% in Q2 2021.

The profit data has just been given a boost by the annual update of the National Income Accounts. Profits were increased by $550bn combined in the last three years which equates to an average of over 5% per annum.

The effect of this is to eliminate the drop in profits as % of GDP in 2023 that had added to the indicators suggesting an economic slowdown was likely. Now, this another indicator suggesting a recession in the near term is unlikely, and indeed confirms that the health of the corporate sector is genuinely robust.

US profit cycles and recessions (%)



Source: MSCI, FactSet, Waverton. As at 30.06.24

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. Bond yields have risen since the Fed cut rates in mid-September, aided by some stronger than expected economic data.

There has also been some discounting of a Trump victory going on, as there has been in the equity market. A Trump victory is deemed potentially a risk to the benign inflationary picture that has been the dominant market narrative in recent months.

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, and a higher yield that we have seen since late 2023.

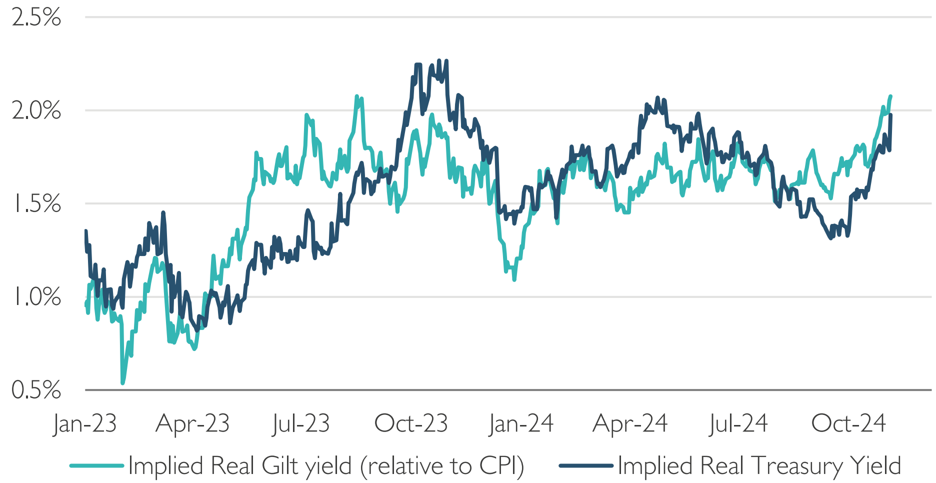
The inflation linked bond market is saying something similar in the US where the Treasury Inflation Protected Securities market is giving a positive real yield. The January 2034 TIPS yields 2.06%.

The UK linker market is optically less attractive (the March 2034 linker yields 0.94%) but as this is based on RPI, the total return (thanks to RPI being higher than CPI) is similar between UK and US linker markets.

We still think there is 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. As at 06.11.24

STERLING RANGEBOUND AGAINST THE EURO

Although there was a lot of comment about sterling weakening after the UK budget on October 30, as the chart below shows, sterling is still trading toward the top end of its range against the euro since 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.

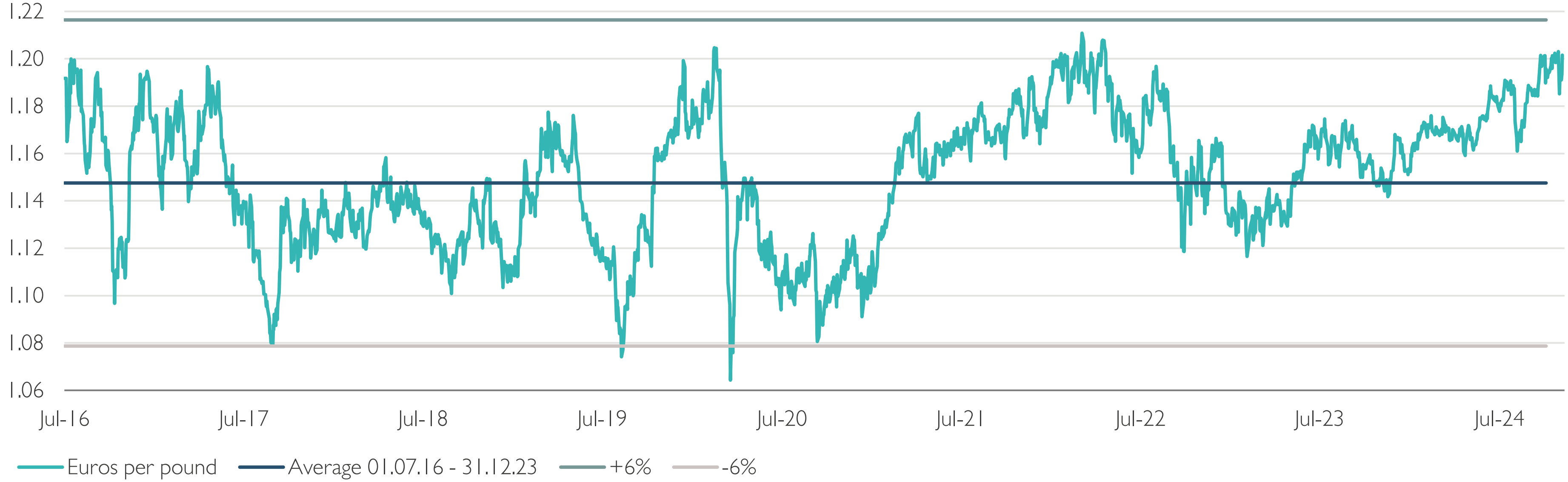
The chart shows the number of euros per pound since 1 July 2016. The average exchange rate since then is shown as the dark blue line and we show a range 6% either side of that average.

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 2,100 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. If anything, the market is more worried about the euro area after the inconclusive French election.

Euros per pound (01.07.2016 – current)



Source: Bloomberg, Waverton. As at 06.11.24

INFLATION RATES SLOWLY DECELERATING AROUND THE WORLD

The peak for US inflation was in June 2022 at 9.1%. It is now 2.4%. The euro area peaked in October 2022 at 10.6% (now 2.0%) and the UK also peaked in October 2022 when RPI was 14.2%, and CPI 11.1%. RPI is now 2.7% and CPI is 1.7%.

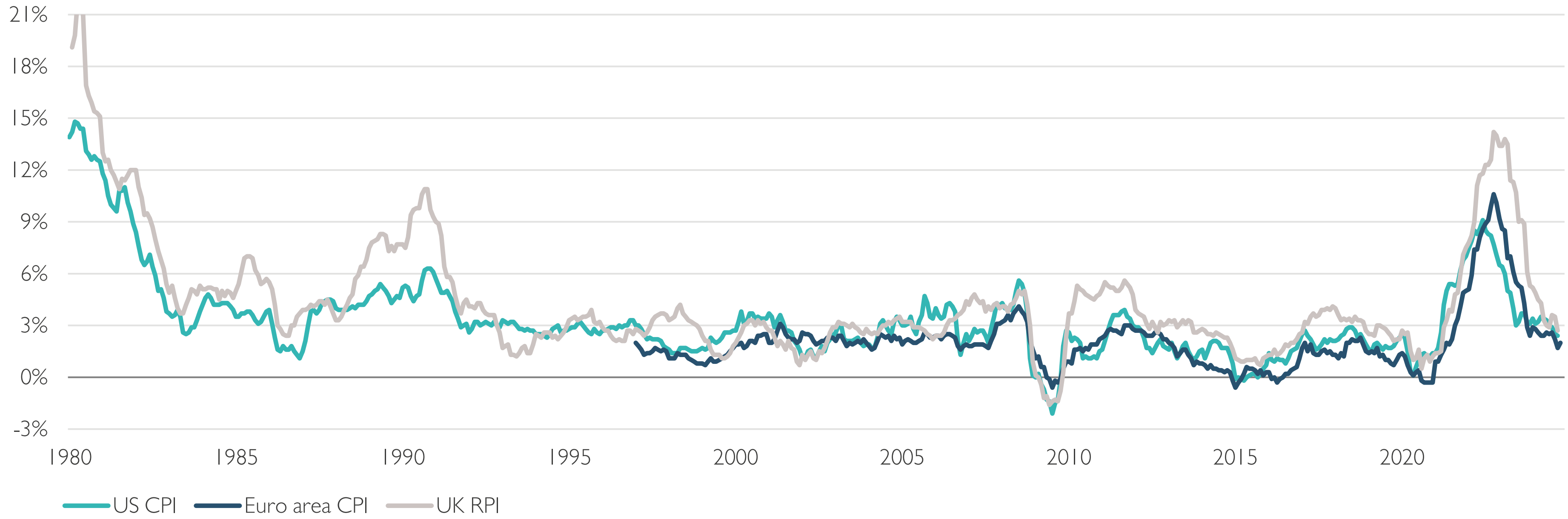
US core inflation (excluding food and energy) peaked at 6.6% in September 2022. It is now 3.3%.

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.

Inflation (% change year-on-year)

1980 - current



Source: Bloomberg, Waverton. As at 30.09.24

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.

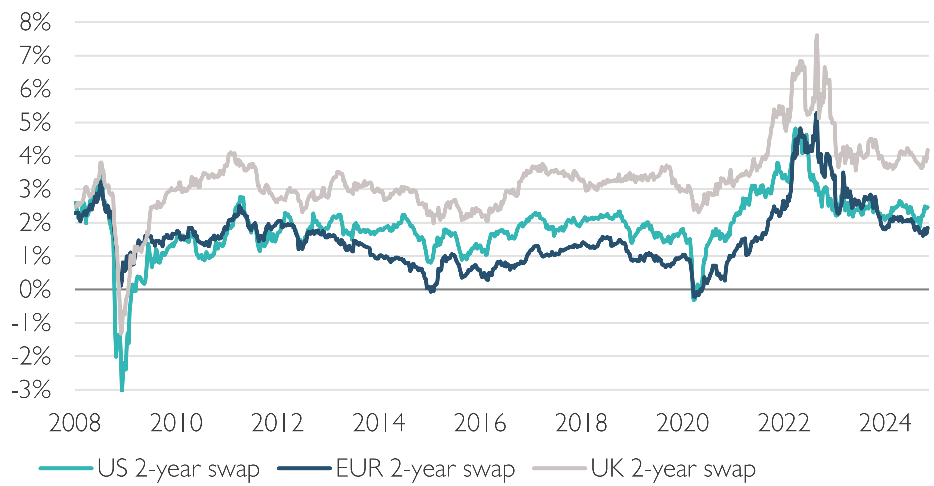
The bottom chart shows longer-term inflation indicators. Here the picture remains encouraging.

The green line is the 10-year US inflation swap and the dark blue line is the inflation rate calculated from the spread between five year nominal and inflation linked bonds five years forward. Both have been rangebound in recent months.

The general picture from both these charts is that the market remains pretty sanguine about future inflation.

One of the critical things to watch in coming weeks will be to see if anything shifts upward market expectations for future inflation. The risk of a Trump Presidency would be that the imposition of tariffs on a wide range of goods will raise headline inflation levels. And the likelihood of an increased budget deficit could also be seen as inflationary.

2-year inflation swap rate (%)



Long-term US inflation expectations

Source: Bloomberg, Waverton. As at 01.11.24

THE BROAD COMMODITY COMPLEX HAS BEEN WEAK

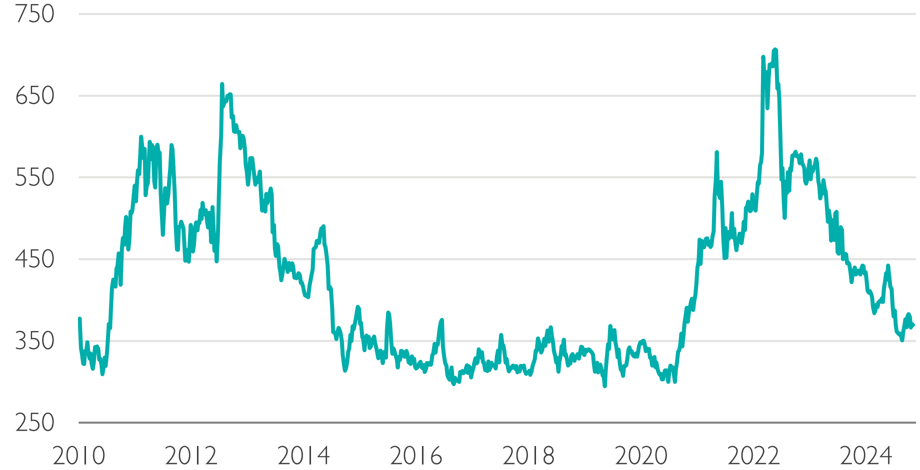
The broad commodity complex is in the doldrums.

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) had picked up a little in recent weeks. Iron ore, copper and nickel are above their lows in February 2024.

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. It is possible that should the efforts to stimulate economic activity in the PRC bear fruit that the commodity complex will be a beneficiary of that shift.

S&P GSCI Grains Index



S&P GSCI Industrial Metals Index

Source: Waverton, Bloomberg. As at 01.11.24

DOLLAR RANGEBOUND

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

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. The recent rally in the renminbi is reflected in the rise more broadly of EM currencies as the Fed begins what is perceived to be a rate cutting cycle in coming months.

Trade Weighted US dollar (BBDXY)

MSCI Emerging Market Currency Index

Source: Waverton, Bloomberg, MSCI. As at 01.11.24

GOLD AT RECORD HIGH

As of the end of October 2024, gold is at an all-time high in US dollars and is also at an all-time high in sterling terms.

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.

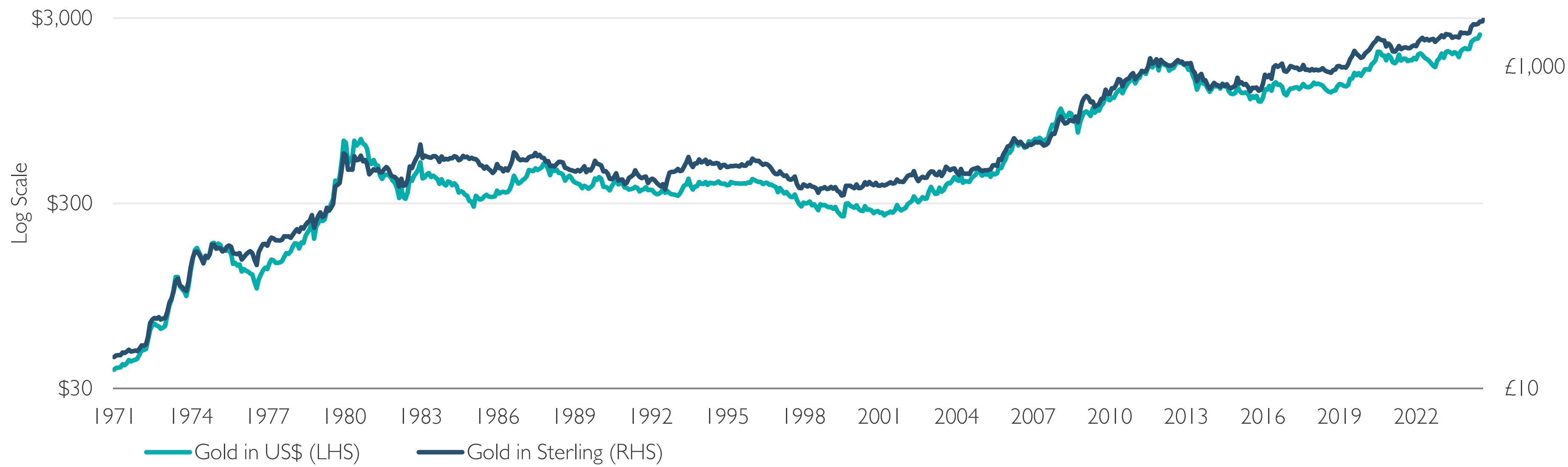
Gold benefitted from the exceptional monetary policy in evidence from 2008 to arguably 2021. With zero or even negative nominal interest rates the opportunity cost of owning gold had never been lower.

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.

It is also possible that gold has benefitted as a hedge against any reappearance of inflation.

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. As at 31.10.24

Part 2

EQUITIES & CREDIT

2024 EARNINGS GROWTH ESTIMATE +9% GLOBALLY AND 9% FOR THE US

The consensus for the Global Index is for EPS to rise 9% in 2024. For the US the expectation is also for an 9% increase. For 2025 the consensus numbers remain very robust at +13% and +15% respectively.

Both 2024 forecasts have been stable in recent months. The numbers are down a bit over the last month but some of that will be to do with the dollar being firmer in the last month (these numbers are shown from the perspective of a dollar based investor).

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	17.8		+8.5%	+12.6%	+11.7%
US	21.6	122%	+9.4%	+14.9%	+13.1%
Europe ex UK	13.9	78%	+1.8%	+9.1%	+10.7%
UK	11.4	64%	+2.7%	+6.5%	+9.5%
Japan	14.3	81%	+10.3%	+8.2%	+9.3%
Asia Pac ex Japan	12.9	73%	+24.9%	+13.3%	+12.3%
Latin America	8.7	49%	(16.6%)	+16.2%	+8.6%
Emerging markets	12.7	71%	(0.7%)	+8.9%	+10.7%
World ex USA	13.3	75%	+7.3%	+10.1%	+10.5%

Source: MSCI, FactSet, Waverton. Data as at 01.11.24

STOCK MARKET VALUATION IN LINE WITH RECENT RANGES

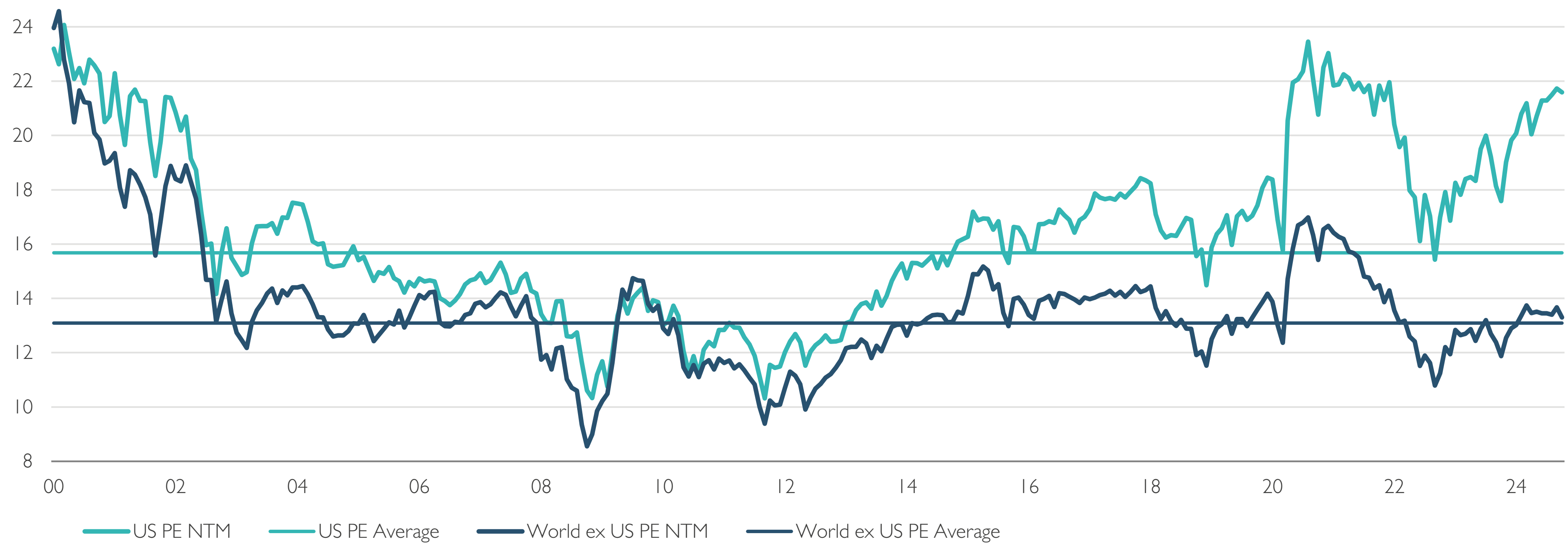
The PE ratio for the US market (solid teal line) is 21.6 times.

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

The World outside the US now trades at 13.3 times earnings, a little above its 20-year average of 13.1.

There is always 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. As at 31.10.24

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.

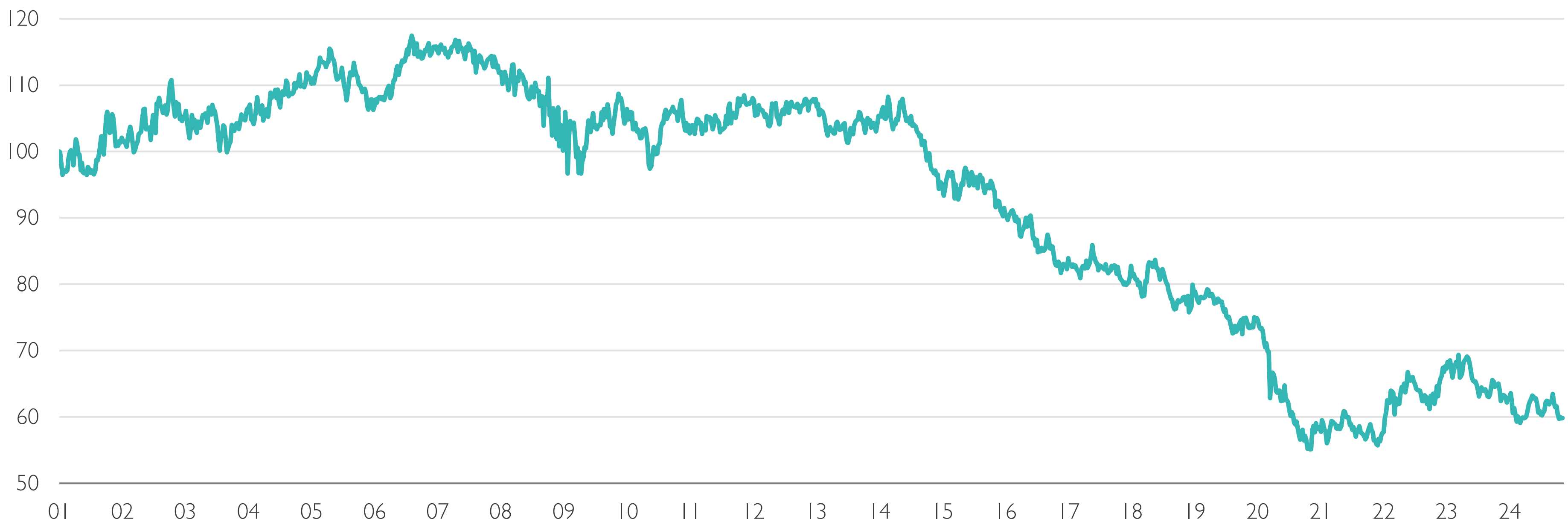
But from May 2014 to October 2020, the UK market underperformed by 49%. It had a better time in 2022 but it has resumed underperformance in the last twelve months.

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.

It will be interesting to see if the recent rotation out of technology related sectors produces a better performance from the UK.

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



Source: MSCI, Bloomberg, Waverton. As at 01.11.24

JAPANESE MARKET HAS SEVERAL TAILWINDS

The Japanese stock market has been aided by a number of tailwinds in recent years. The market first hit new all-time highs in March when it finally (as measured by the Nikkei 225 Index) closed above its 29 December 1989 previous high.

Macro factors have played a role. The Bank of Japan has bucked the trend of other developed world central banks by, coincidentally also in March, only ending negative policy rates recently. The policy rate is at +0.25%. The apparent ending of deflation enabled this to happen although policy rates obviously remain very negative in real terms.

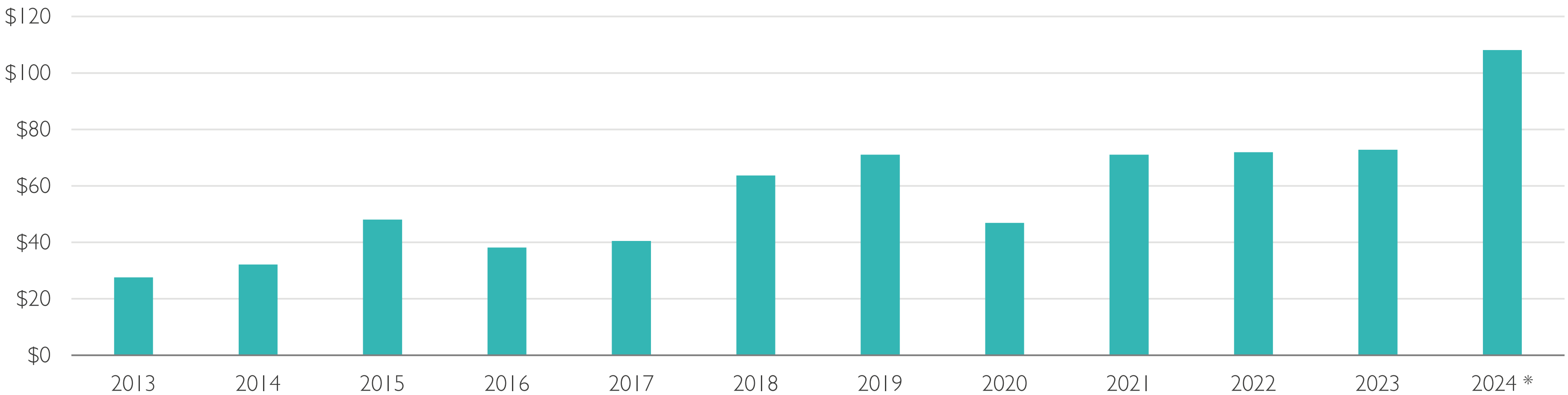
But there have also been significant changes to corporate governance including a sharp increase in the number of independent directors on Boards. Shareholders have benefitted directly from a pick up in the number of buybacks done by Japanese corporates.

This chart shows that buybacks are heading for a record level this year, 50% above the level of last year.

On top of that, foreign investors have been more bullish and have also been buying the market. We continue to like a number of Japanese companies and are overweight in aggregate in our global equity portfolios.

These secular tailwinds make us confident that select Japanese equities have an important role to play in equity portfolios.

Japanese corporate share buybacks 2013 – current in US$ billion



Source: MSCI, Bloomberg, Waverton. As at 15.05.24

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.

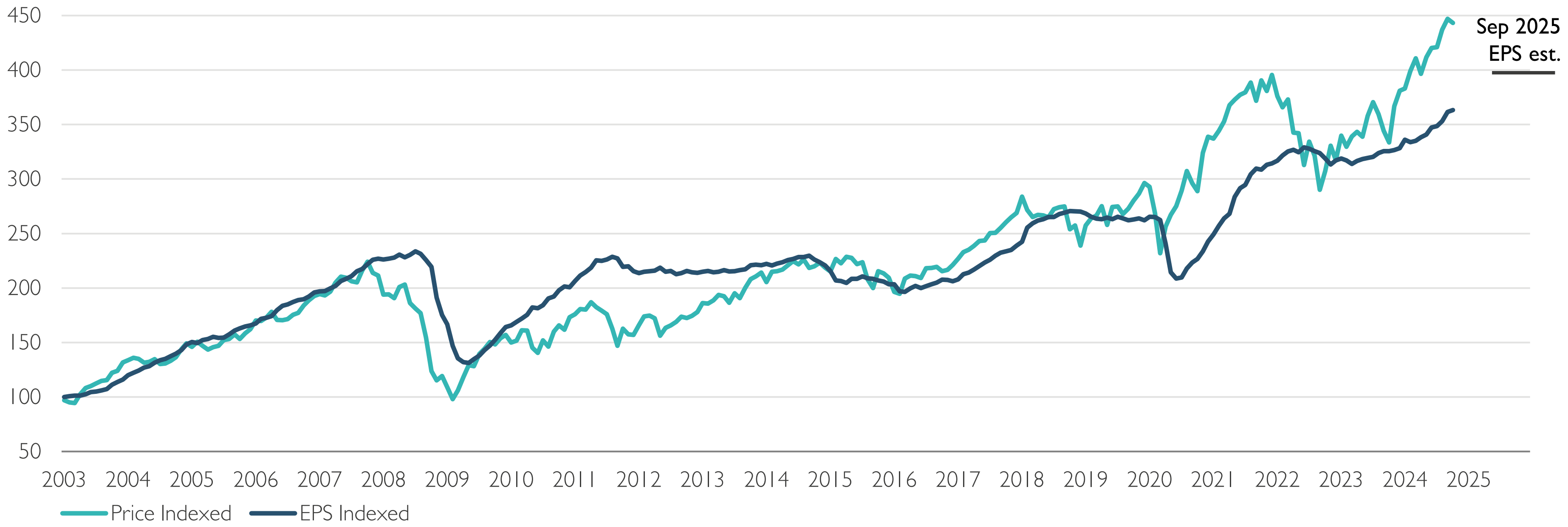
As the chart shows, the market reacted to the robust fiscal and monetary stimulus packages of 2020 by rising very strongly into 2021. Earnings recovered too but not as quickly. The market pullback in 2022 brought prices back to the point where they were below the earnings line.

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

The chart includes a horizontal line for the level of EPS in twelve months' time (October 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. As at 25.10.24

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.

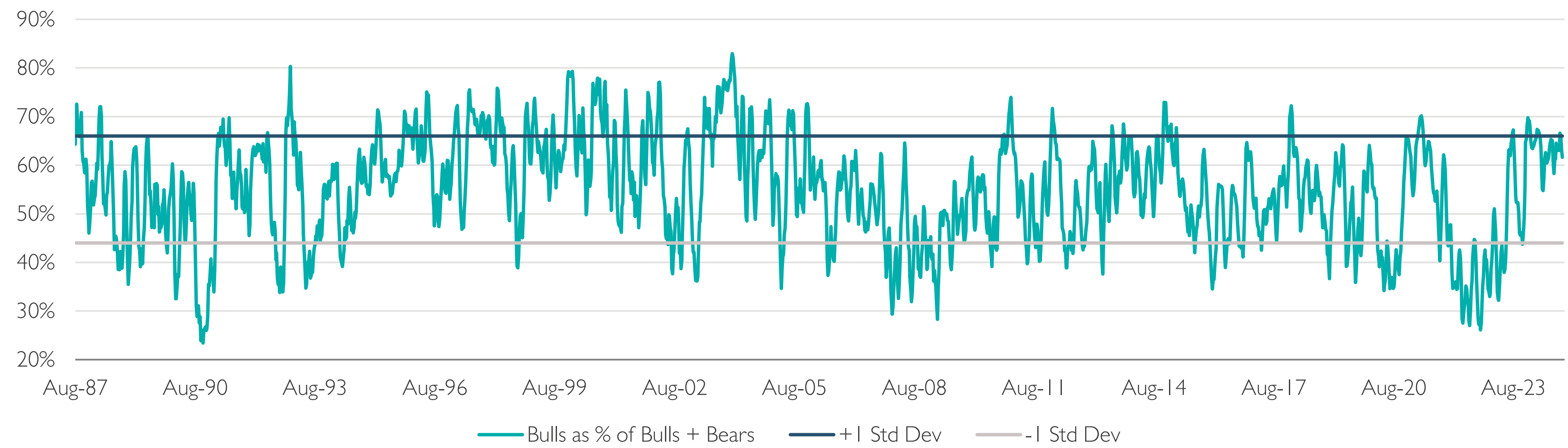
The two horizontal lines are showing one standard deviation above (dark blue line) the average level and one standard deviation below (grey line).

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

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

This sentiment measure has followed the market by staying at the top end of the bullish range in recent weeks. Don't think one could describe as investor sentiment as euphoric, but there may be a little complacency around.

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



Source: AAII, Bloomberg, Waverton. As at 31.10.24

CORPORATE BALANCE SHEETS YET TO SHOW REAL STRESS

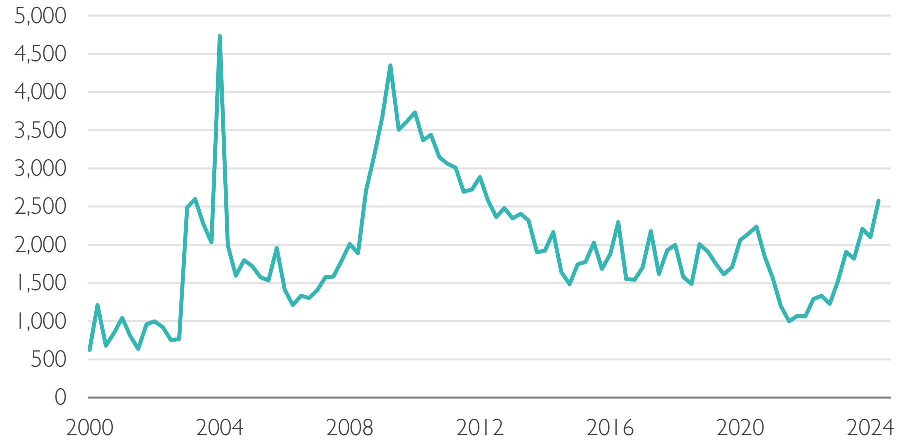
The top chart is a quarterly series showing the number of US corporate bankruptcies (officially called "Chapter 11" filings). It hit its lowest level for 18 years in Q3 2021.

It has moved up since then and moved further up in Q2 2024.

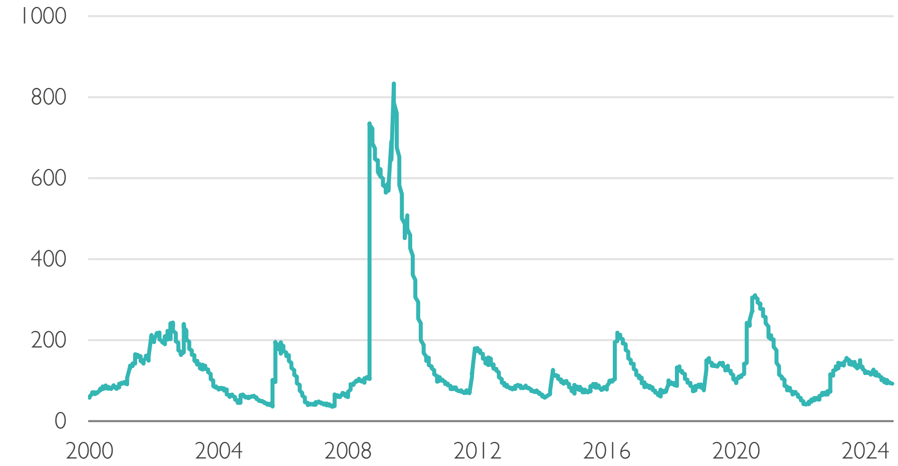
The Bloomberg Index in the bottom chart is of economy wide US bankruptcies and takes into account the size of the bankruptcy as well as the number of them. Hence there were more big bankruptcies in 2009-10 than in 2003-04. That index is at historically very low levels.

It remains the case that corporate balance sheets are holding up well in the face of higher interest rates. We have seen a decrease in corporate bond yields in recent weeks and spreads remain narrow.

US bankruptcy filings (2000 to current, quarterly)



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



Source: Bloomberg, Waverton. As at 01.11.24

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 remain 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. As at 01.11.24

CORPORATE BONDS, S&P500 EARNINGS YIELD & T-BILLS HAVE SIMILAR YIELDS

The Moody's Baa yield (a benchmark for the investment grade market) has been above the earnings yield of the S&P500 Index at end of each month since January 2023. At the end of October 2024, the numbers were 5.6% versus 4.7%.

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.

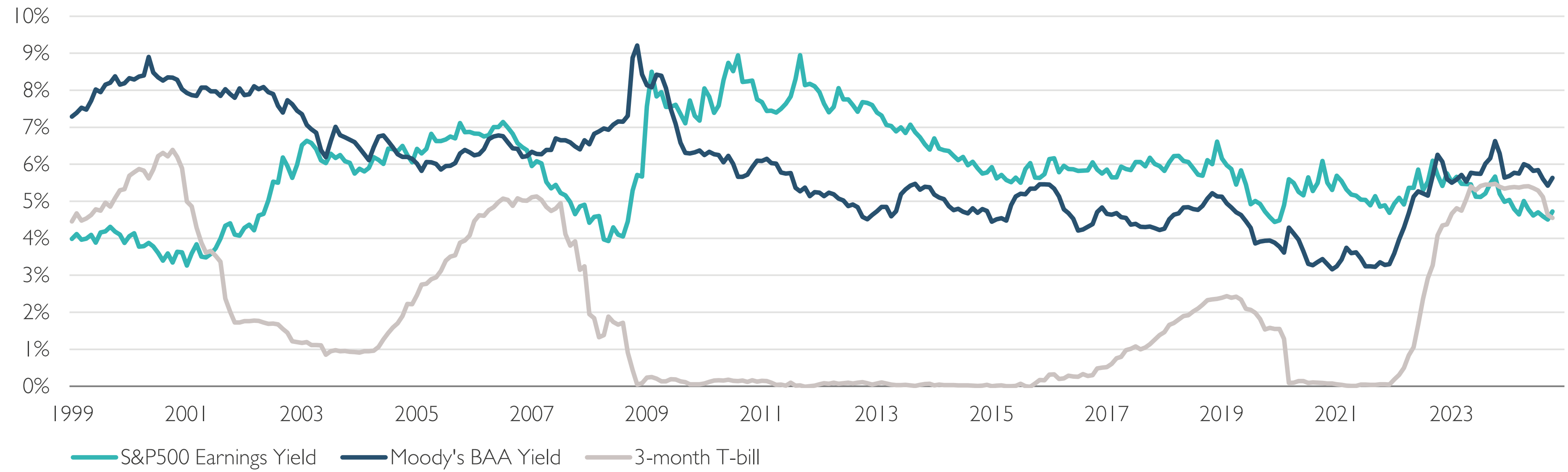
Normally it would be perceived that equities had some valuation challenge from corporate bonds when this is the case but in 2023 both gave good returns.

That the earnings yield and the Baa yield have both moved down over the summer reflects the strength of both markets.

The grey line is the 3-month Treasury bill rate which is currently 4.5%, 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. As at 30.09.24

NO SIGN OF TENSION IN GREATER CHINA IN CURRENCY MARKET

The Rmb has been stronger since August. Some of that is reaction to the US Federal Reserve cutting policy rates and some of it will be the expectation, to some extent delivered, that the PRC would attempt to boost its economic growth rate with a combination of monetary and other policy.

As my colleague Benjamin Hall points out, there has been a clear change in tone from the government, where previously there had been a lack-of-urgency.

The policy announcements reflected a broad and coordinated policy response, with definitive language such as "we will halt the decline in real estate prices". This messaging is particularly important in a centrally planned economy. The stock market rose by a third from the middle of September to October 7 which has attracted a lot of attention. But for our purposes, the fact that the renminbi has also strengthen against the US dollar is encouraging for a narrative that suggests the PRC may be in better shape in the months ahead. Of course, should Trump win, then the question of the impact of US tariffs will be a potential short-term setback to that narrative.

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.

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

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

Source: Bloomberg, Waverton. As at 01.11.24

Part 3

OUR APPROACH TO INVESTING RESPONSIBLY

OVERVIEW OF RESPONSIBLE INVESTMENT AT WAVERTON

Signatory of:

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

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:

PRI Principles for Responsible Investment | UK Stewardship Code | MSCI | Glass Lewis | Climate Action 100+ | CDP

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

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

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