



Market Overview

Financial markets entered the year with much improved sentiment after a historic rally in the final two months of 2023 on the back of improving economic data, inflation readings coming down and valuation support following the correction to the end of October. Despite a volatile start to the year in the first week, hopes for a ‘soft landing’ in the economy and enthusiasm ahead of corporate earnings updates (notably for the technology sector) pushed US equities to record highs during the month. The US economy continues to show its resilience with a series of data points across the labour market and GDP surprising positively. A March rate cut from the Federal Reserve would, now, seem unlikely and markets closed the month on a weaker note in response to the Fed’s 31 January meeting that struck a more hawkish tone.

Beneath the surface, January was a particularly strong month for momentum stocks, although the Magnificent seven became the ‘super six’ with Tesla losing almost a quarter of its market value over the month. Within developed markets it was a strong month for Japanese equities (gaining +7.8% in local currency terms) as the inflection in nominal GDP growth continues to provide support, while UK equities stalled. Policy efforts announced by the People’s Bank of China (PBOC) was not enough to offset concerns for the economic outlook in China which continues to contribute to the downbeat sentiment towards emerging economies of Asia.

USD Performance to 31/01/2024	Jan 2024	2023
Equity Total Return		
MSCI ACWI	0.60%	22.80%
MSCI USA	1.50%	26.50%
MSCI Europe	-0.10%	19.90%
MSCI UK	-1.30%	14.10%
MSCI Japan	4.60%	20.30%
MSCI Asia Pacific ex Japan	-4.80%	7.40%
MSCI Emerging Market	-4.60%	9.80%
MSCI EAFE Index	0.60%	18.80%
Fixed Income Total Return		
Global Aggregate	-1.40%	5.70%
Global Treasury	-1.90%	4.20%
Global IG	-0.60%	9.60%
Global High Yield	-0.20%	14.00%

USD Performance to 31/01/2024	Jan 2024	2023
Currency Moves		
USD vs GBP	0.30%	-5.10%
USD vs EUR	2.00%	-3.00%
USD vs JPY	4.20%	7.60%
Commodities GBP Return		
Gold	-1.10%	13.10%
Oil	5.60%	-5.30%

Source: Bloomberg. All Indices are total return in USD.

Past performance is not a reliable indicator of current and future results.

Data as at 31 January 2024.

Portfolio Update

The Manager's equities allocation delivered positive returns in January in excess of broader global markets. This can be attributed to both stock selection and sector positioning, but with greater weighting towards the former. This was despite lagging somewhat in tech, in part due to not owning Nvidia – the single largest detractor to the performance on a relative basis for the month of January. Fortunately, this was more than offset by not owning Apple and Tesla.

Diversified exposure to Aerospace & Defense continues to be a source of outperformance. Engine manufacturers, **Safran** and **General Electric**, continue to benefit from a tightly supplied market as older aircraft remain in service for longer (from which the engine makers can continue to generate high margin aftermarket sales after many years of inflationary pricing), now likely exacerbated by the problems at Boeing after the US Federal Aviation Administration (FAA) barred the company from increasing production for the 737 MAX earlier this month following recent quality and safety concerns. In addition, geopolitical tensions in the Middle East continues to confirm that the demand outlook for defense spending is well underpinned into the future to which **BAE Systems** is well positioned.

The Manager has written previously about its preference for what it would describe as 'diversified financials' that it believes can provide superior returns to shareholders throughout the cycle compared to traditional banking. Holdings such as **Berkshire Hathaway** and alternatives asset manager **KKR & Co** fit this theme, and both contributed to outperformance over the month. Banks generally underperformed in January yet the Manager's chosen holding in **JPMorgan Chase & Co** outperformed peers after a strong set of results – consistent with its view that JPM's scale gives it unique competitive advantages that should continue to be self-reinforcing. While we have a generally dim view of staples (lack of volume growth and few portfolio catalysts after a decade of M&A and reorganisations), **Procter & Gamble** remains a standout performer in the sector and responded positively to quarterly results which showed very strong profitability improvements (as cost inflation comes down).

Other top contributors to performance over the month included **Novo Nordisk** after responding positively to quarterly results that showed improving supply for key obesity drugs, as well as **Salesforce** has continued to perform after a series of broker upgrades following last year's progress.

This was despite lagging somewhat in tech, in part due to not owning Nvidia – the single largest detractor to the performance on a relative basis for the month of January. Fortunately, this was more than offset by not owning Apple and Tesla. In addition, the Manager's tech hardware names **Texas Instruments** and **Skyworks Solutions** underperformed as earnings results showed that we are yet to see the trough in industrial and automotive end markets.

While returns were generally negative for Fixed Income over the month on the back of higher interest rates, more credit sensitive assets outperformed as investment grade and high yield spreads tightened. Within IG credit, the European high yield bond market was the outlier in posting positive returns, which was supportive to the position in the **M&G European Credit Investment Fund**. Within high-yield **BNYM US Fallen Angels** was also a source of alpha by delivering positive returns. Finally, it was a weaker month for listed real assets exposure, with holdings in the **Legal & General Global Real Estate Dividend Index Fund** and **Atlas Global Infrastructure** both delivering negative returns.

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