

# News from the Investment Committee

Q1 2024



## News from the Investment Committee – Jan 2024

**The Investment Committee (IC) met on Tuesday 23 January, coincidentally called 'Super Tuesday' in the US state of New Hampshire, where the race for the White House began with primary elections for the Republican party nomination. In fact, elections are expected to cover around 60% of world GDP over the course of 2024, so plenty for investors to ponder should there be promises of unfunded tax cuts, more protectionism or increased fiscal profligacy, but no doubt the 're-match' in the US will be the centre of global attention.**

As the impact of higher energy and food prices has subsided, and supply chains for globally traded goods have normalised, headline rates of inflation have fallen significantly over the course of 2023 but remain much higher than Central Bank targets. The IC reflected on the still high embedded inflation expectations and the current market fixation about what the US Fed plans to do next with interest rates (following its pause announcement in November). Premature expectations of early and deeper cuts have propelled the S&P 500 to record highs, whilst earnings growth, retail sales and industrial production levels have remained flat at best. The global economy looks set to slow in 2024, as fiscal policy starts to drag on growth and higher interest rates weigh on household and business activity, with excess savings built up during the pandemic largely spent. By stripping away the impact of the massive fiscal stimulus measures, the likelihood was that the US economy has been in intermittent periods of recession during 2023.

The US and Global government bond yield curves remain inverted and interest rate normalization is required as high non-transitory inflation expectations persist. With slow growth, lower tax revenue, eye-wateringly high government debt & fiscal deficits and Central Banks unwinding their balance sheets with QT, there will be a rising supply of bond issuance at a time of declining investor sentiment/demand. Hence the curve is expected to steepen at the longer end, resulting in negative real bond returns into the foreseeable future. The risk of greater economic volatility and a potential global government debt crisis persists despite recent market optimism.

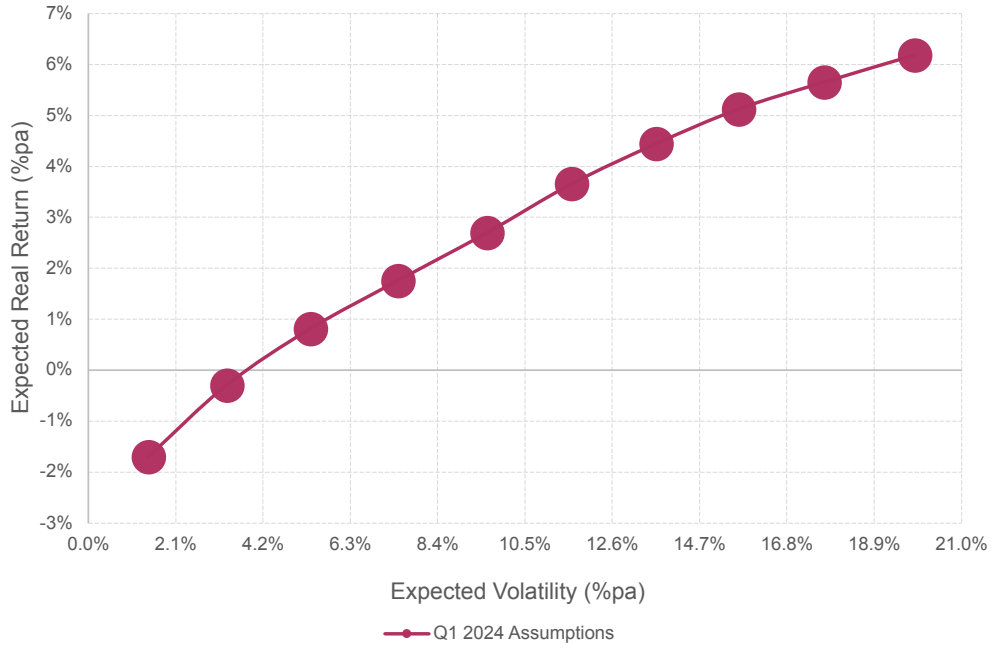
The IC also discussed the potential of AI (particularly generative AI tech) on productivity and employment, with echoes of a potential "dot.AI" bubble, given the 25% concentration of the US stock market in the "Magnificent 7" tech stocks. As AI will help drive robotics and accelerate onshoring, the implications of a diminishing competitive advantage for China and emerging markets were also noted.

There were no changes made to this quarter's capital market assumptions, which follows a consistent process of long-term analysis. In preparation for the annual strategic allocation review later in the year, the IC also reviewed ongoing analysis of additional asset classes/ risk factors to be potentially included in the model. It continues to ensure that the markets and instruments being used by our asset management clients are accurately represented in Dynamic Planner.

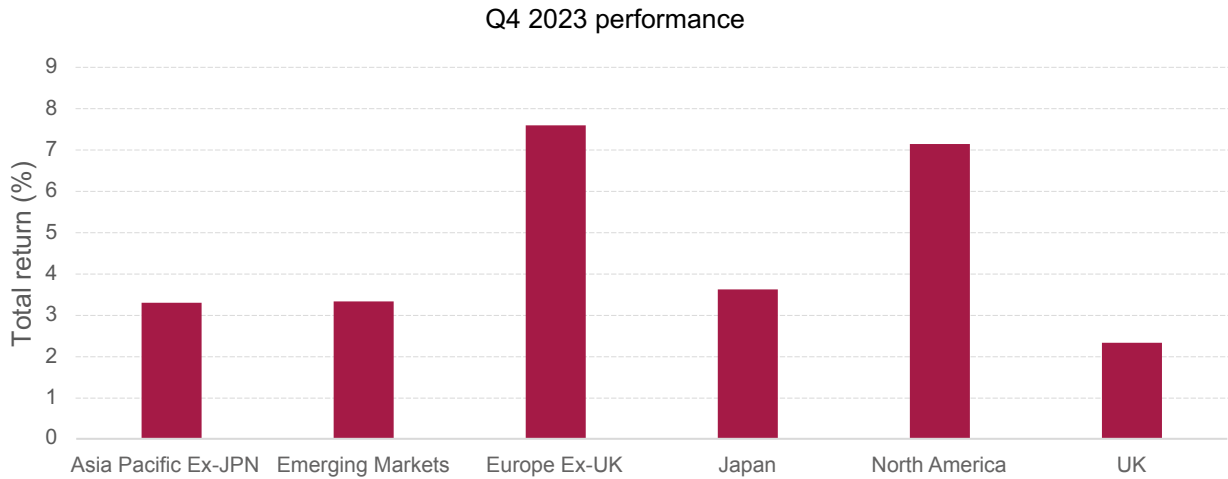


## Dynamic Planner Efficient Frontier

There were no changes made to the capital market assumptions this quarter and hence the efficient frontier positioning of the benchmarks remains unaltered.

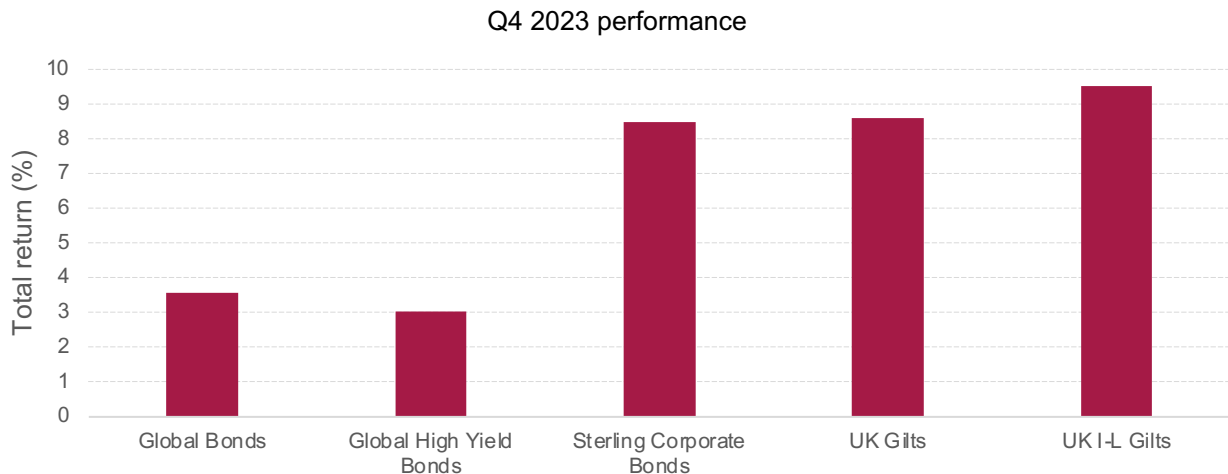


### Q4 2023 (previous quarter) Market Overview – Equities



The last quarter saw strong gains for equity markets buoyed by expectations that the sharp rate hiking cycle had come to an end with interest rate cuts on the horizon for 2024 as inflationary pressures show continuing signs of moderating. The S&P 500 index ended the year just short of its record high set in early 2022, reflecting the growing signs of a 'soft landing' for the US economy. Developed markets outperformed emerging markets amid ongoing concerns over China's weaker than expected economic performance.

### Fixed interest

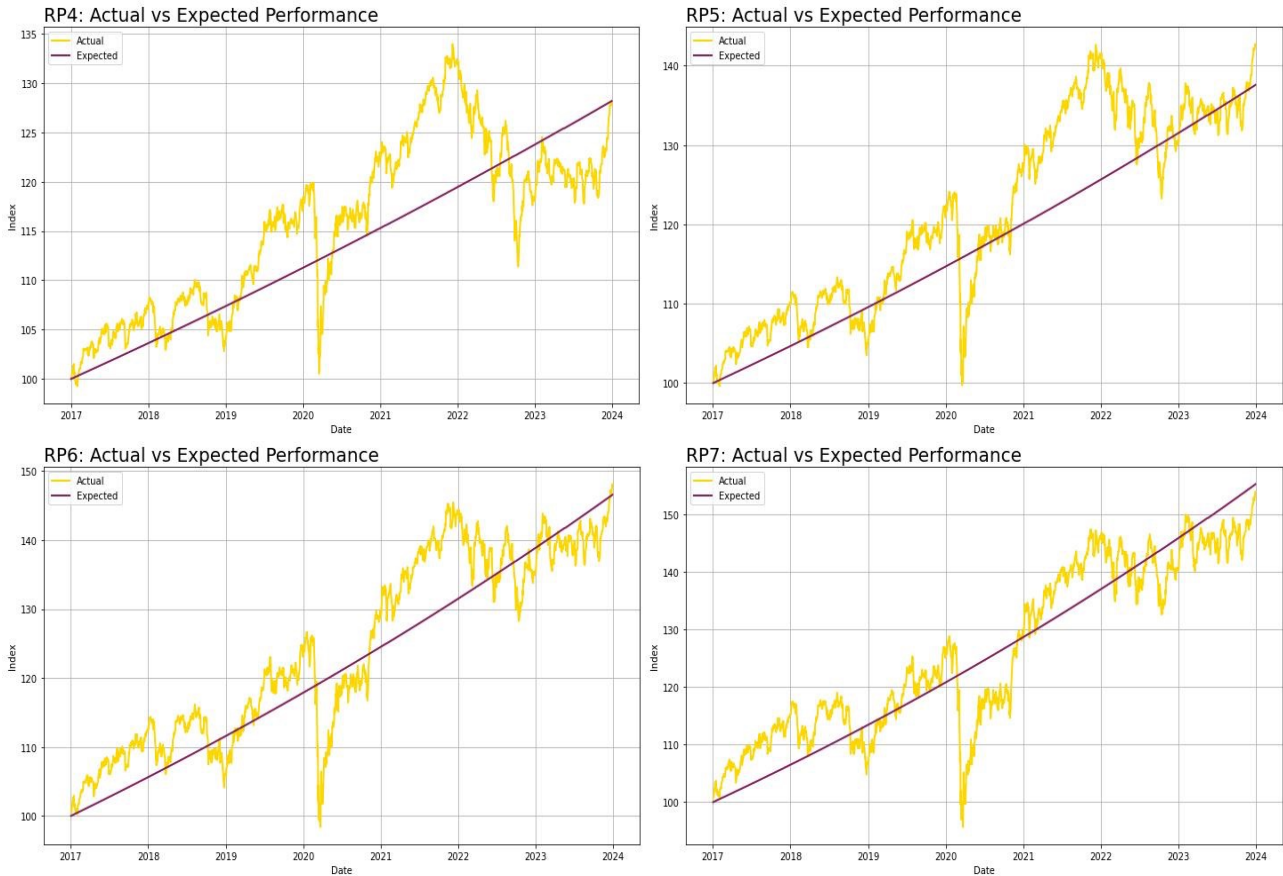


Global bond markets posted very strong gains over the quarter, driven by a perceived shift in monetary policy direction, from a 'higher-for-longer' stance to prospective interest rate cuts coming sooner rather than later this year. Despite the stagnant growth outlook, corporate bonds also participated in the impressive rally on hopes that a deep recession could be avoided as interest rates are eased down.



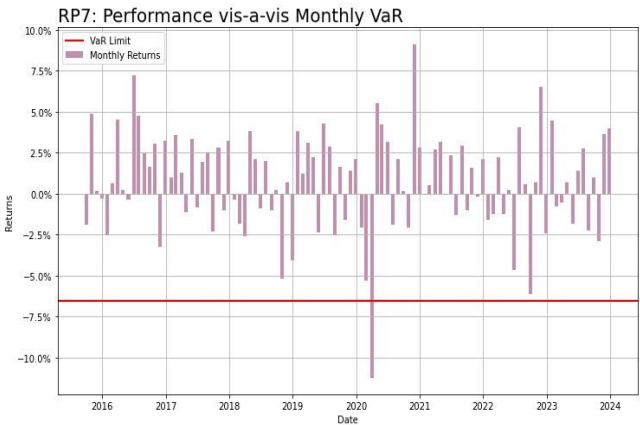
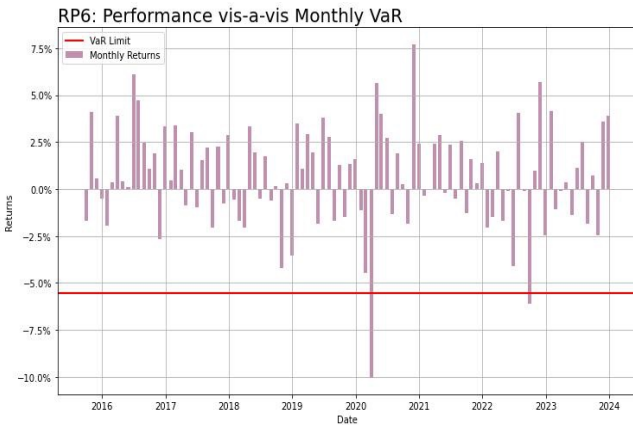
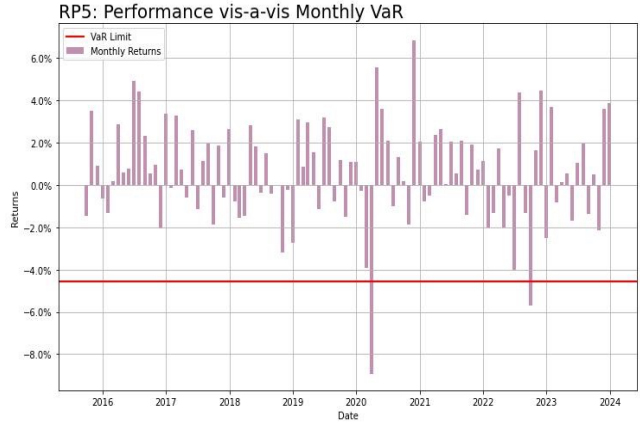
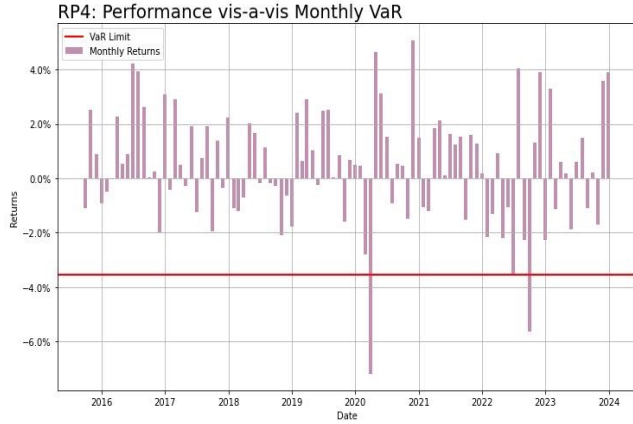
## Review of the benchmark performance

### – Benchmark realised returns



The IC reviewed the benchmark 4 - 7 range and noted that performance was generally trending in line with long-term linear forecasts (as set in Q4 2017) for the mid-risk range, benefitting from last year's market bounce in November/December.

## Monthly Value-at-Risk analysis



Monthly returns have normalised post COVID and the September 2022 mini-budget bond market tantrums, as demonstrated via the rolling monthly returns calculated each month vs. their expected 95% VaR limit (the horizontal red lines).

**Dynamic Planner Investment Committee,  
Jan 2024**





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