market matters

Market Summary

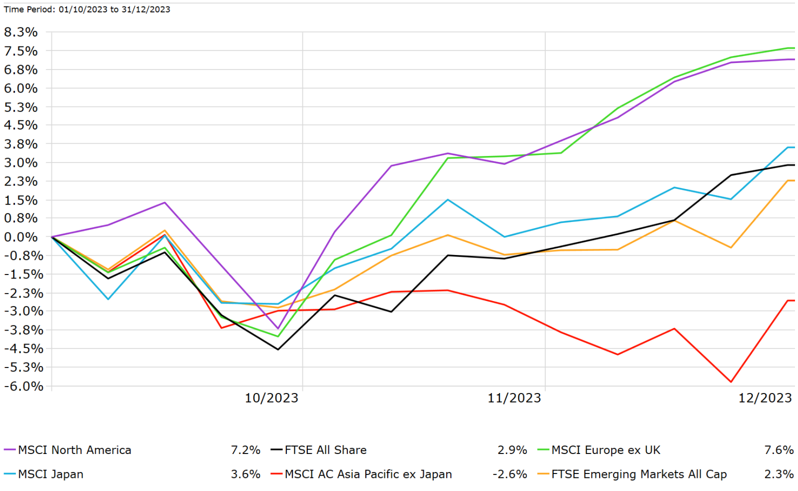
Quarter 4 of 2023 saw a lot of action in asset markets — equity markets generally posted strong returns over the 3 month period, whilst bond markets also provided positive returns, which came as a welcome respite to the poor performance they had delivered in the last 18 months.

Much of the positive performance generated over the quarter followed after the Chairman of the Federal Reserve in the US — Jerome Powell — gave the strongest indication yet that they are likely not looking to increase interest rates again if the economy behaves as it is expected to do so. This is a notable tone change to the rhetoric put forward by central bankers in the last couple of years.

With inflation cooling rapidly in the western world, interest rate expectations have also changed, and as such asset classes sensitive to potential interest rate changes have performed as expected. In this environment of 'risk-on' investment sentiment bond valuations increased and major equity indices also increased notably — although, as ever, the magnitude of these increases were diverse and depended on the constitution of the index as some sectors and investment styles performed better than others.

The region that stands out as a negative performer has been Asia ex Japanese equity, as the Chinese stock market and economy — which is the main driver for this region — continued to struggle in the final quarter of 2023. There are however signs of economic improvement, and the region bounced back towards the very end of the year.

Figure 1 - Performance Chart - Equity



Source: Morningstar Direct
Past performance is not a reliable indicator of future results.
There are no charges associated with the indices shown within this chart.

Equity Markets — see Figure 1

US equities performed exceptionally in the last quarter, posting positive returns of 7.2% … in one quarter! Remarkably this wasn't even the best performing equity index during this time, but it will certainly suffice. The Technology sector was the largest contributor to this performance producing more than 3.3% of the 7.2% generated — this is a continuation of a trend we have seen so far this year as growth style equities have outperformed.

The UK market rose 2.9% in the quarter, which means that it finished the year 8.9% up — another strong year for the FTSE All Share, albeit it still lagging some developed market counterparts such as the US. Much of the UK market's performance has come from the Industrials sector, whilst the Energy sector acted as a drag on performance in the last quarter of the year.

European equity was the best performer over the quarter after a tough Q3 in relative terms. Much of the rally was on the back of expectations for interest rates to be cut sooner than the market had originally expected in 2024 as data releases for the European economy again looked relatively poor—this has historically spurred the investment banks to cut interest rates and attempt to stimulate economic growth.

Japanese stocks continued to rise in Q4, albeit at a slower pace than at other times in the year. Emerging market equity trended upwards again although this was held back by Chinese equity performance. Concerns still lingered for China's property sector but there are signs economic stimulus is starting to find traction — something which should benefit Chinese and other emerging market assets.

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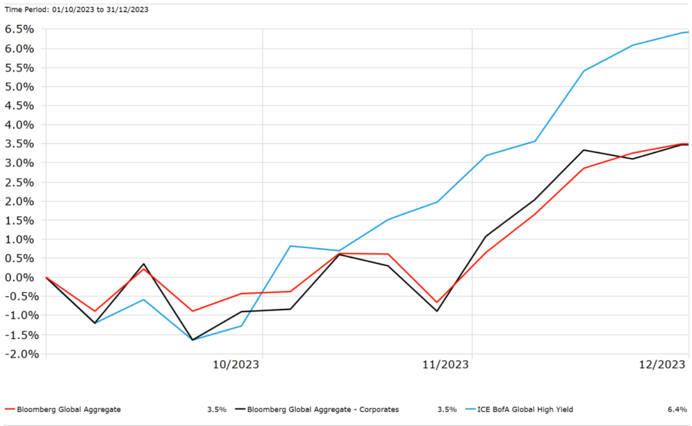
Fixed Income

Figure 2, on the right hand side shows the performance of 3 different bond market indices — Global Aggregated (a version of a total market index for bonds), Global Corporate bonds, and Global High Yield bonds.

In the last quarter, bonds have benefitted considerably from the greater levels of discussion surrounding the peak of interest rates. As interest rates are expected to decrease, bonds have typically performed well and this is precisely what we have seen. The more 'risky' types of bonds have performed extremely well, but even the very highly rated, high credit quality corporate bonds have posted excellent performance. A welcome relief after the last 2 years!

Figure 2 - Performance Chart - Fixed Income



Source: Morningstar Direct
Past performance is not a reliable indicator of future results.
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Economic Update

Jerome Powell the Chair of the US Federal Reserve hinted that the rate hiking cycle may be over—Powell noted "we are likely at or near the peak rate for this cycle", which is a big change from the pledges of additional policy tightening in the US that we have seen in the last couple of years. This change in stance was propelled by the substantial decline in inflation—latest data at time of writing showed US CPI at 3.1%.

The UK economy posted negative growth in October but it had been relatively resilient up until that point compared to European counterparts. The Bank of England continued to hold Interest rates at 5.25% as inflation continued to tumble with the UK CPI most recently coming in at 3.9%. Similarly to the US, much more talk has been around the ideas of 'peak' rate hiking cycle.

Europe remains a weak link with growth in the eurozone remaining weak. Positively, inflation figures in the EU fell again, leading to the EU CPI figure of 2.4%, The economic conditions and lower levels of inflation have led to more investors considering the possibilities of EU Central Bank rate cutes in the first quarter of 2024.

In the rest of the world, Japan continued to stand out with their negative interest rates, however this is now looking likely to change in the first half of 2024. China stimulus looks to be gaining traction: Policy support since the July Politburo meeting is becoming more evident, aimed at helping both flagging sectors — such as property —, and new economy sectors — such as electric vehicles.

Portfolio Performance

The table below shows the performance of Gemini Asset Management's (GAM) discretionary risk-rated portfolios over the course of the last 5 years. The table compares the performance of GAM's Discretionary Models against the FTSE All Share and the most relevant Investment Association (IA) Mixed Investment sector. The weight of equity in each IA Mixed Investment sector is the main deciding factor when choosing which is the most suitable comparator to each GAM portfolios but the constitution of the GAM portfolios and the relevant IA sectors could still be very different from one another. Whilst a direct comparison of GAM's portfolios with an equity index such as the FTSE All Share, or the relevant IA Mixed Investment Sector are not like-for-like, it gives an indication of volatility and performance differences on a risk-adjusted basis and can demonstrate the importance of spreading risk through diversification.

	Cumulative Performance (%) to 31/12/2023											
	30/09/2023 31/12/2023		Year to Date		31/12/2022 31/12/2023		31/12/2020 31/12/2023		31/12/2018 31/12/2023		16/03/2017 31/12/2023	
Name	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector
GAM 3	6.22	5.67	7.57	6.05	7.57	6.05	2.44	-2.34	15.97	10.49	17.90	9.68
GAM 4	6.28	5.68	7.80	6.85	7.80	6.85	3.23	2.61	22.11	19.02	22.63	17.42
GAM 5	6.06	5.77	8.59	8.11	8.59	8.11	4.83	8.00	30.27	32.10	30.66	30.75
GAM 6	5.71	5.77	8.23	8.11	8.23	8.11	4.14	8.00	34.83	32.10	34.87	30.75
GAM 7	5.57	5.77	8.05	8.11	8.05	8.11	2.12	8.00	38.16	32.10	38.05	30.75
FTSE All Share	2.90		8.11		8.11		30.48		37.60		33.53	

Source: Morningstar Direct data 16/03//2017 – 31/12/2023. Past performance is not a reliable indicator of future results. Figures given do not include initial, advice, discretionary management or platform fees, but do include fund charges/OCFs.

The sectors used as comparators with the portfolios are the respective IA Mixed Investment sectors. Gemini's GAM 3 is compared to the IA Mixed Investment 0-35% Shares sector; GAM 4 is compared to the IA Mixed Investment 20-60% Shares sector; and GAM 5, GAM 6, and GAM 7 are compared with the IA Mixed Investment 40-85% Shares sector.

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

Asset Allocation and Fund Review

The Gemini Asset Management investment team reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were changes made to the GAM discretionary models during Q4 2023, detailed in the insert provided.

Asset Allocation and fund changes – Quarter 4, 2023

The Gemini Asset Management (GAM) investment committee reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were changes made to the GAM discretionary MPS (managed portfolio service) models during Q4 2023, with the main themes for the asset allocation changes covered below.

The table directly below shows the asset allocation for the Gemini Asset Management Active MPS – the weight for each sub-asset class is noted, and the colour of the text signifies whether or not a weighting has been increased, decreased or remained the same during Quarter 4 2023. An increase in weight is shown by green text, a decrease in weight is shown by red text, and an unchanged weight is shown by amber text.

	Risk Level									
Asset Class	**GDP1**	**GDP2**	**GDP3**	**GDP4**	**GDP5**	**GDP6**	**GDP7**	**GDP8**	**GDP9**	**GDP10**
Cash/Money Market	100.00%	49.00%	18.00%	9.00%	6.00%	3.00%	0.00%	0.00%	0.00%	0.00%
Fixed Interest	0.00%	40.00%	56.00%	46.00%	29.00%	19.00%	9.00%	7.00%	0.00%	0.00%
Property & Infrastructure	0.00%	2.00%	5.00%	5.00%	5.00%	5.00%	5.00%	3.00%	0.00%	0.00%
UK Equity	0.00%	2.00%	6.00%	8.00%	16.00%	17.00%	26.00%	10.00%	8.00%	0.00%
North America	0.00%	3.00%	8.00%	14.00%	19.00%	19.00%	23.00%	15.00%	11.00%	8.00%
Europe	0.00%	1.00%	1.50%	4.00%	5.00%	5.00%	5.00%	6.00%	5.00%	0.00%
Japan	0.00%	1.00%	3.50%	6.00%	7.00%	7.00%	7.00%	10.00%	8.00%	2.00%
Far East ex Japan	0.00%	0.00%	0.00%	4.00%	4.00%	10.00%	11.00%	22.00%	24.00%	26.00%
Emerging Markets	0.00%	0.00%	0.00%	1.00%	5.00%	11.00%	12.00%	25.00%	42.00%	61.00%
Global Specialist	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Global Equity	0.00%	2.00%	2.00%	3.00%	3.00%	3.00%	1.00%	1.00%	1.00%	2.00%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Commentary

- Decreased exposures to cash
  - ◊ With more talk of peak interest rates, cash returns looked set to dwindle as investment returns from other asset classes — such as fixed income — looked set to increase. Given this GAM reduced the cash position.
- Increased exposures to fixed income. Also, the fixed income portion of the portfolios was further tilted toward high-quality bond holdings:
  - ◊ Desire to take advantage of the potential change in interest rate environment—with rates expected to decrease, fixed income securities should benefit.
  - ◊ No new inclusions but increased weights to high quality government and supranational debt. This is preferred as they presently pay a relatively high yield compared to recent history, and they have typically provided better levels of diversification to equities when compared to their High Yield (low credit quality) counterparts,
- Reduction of Property & Real Assets to move to a neutral weight
  - ◊ Due to the substantial change in the expected interest rate environment, GAM felt there were better opportunities for portfolio return diversification and yield generation in the fixed income asset class.
  - ◊ Fixed income does not contain equity risk, whereas the Property and Real Asset portions of the portfolios typically do contain an element of equity risk — given some potential uncertainty surrounding the potential of global recessions GAM preferred to generate yield and return diversification from fixed income.
- Reduced UK equity weight:
  - ◊ Reduction to a relatively high exposure to UK assets within the portfolio, in favour of other opportunities in other regions around the globe.
- Increased US equity weight:
  - ◊ We still believe that the US equities may provide a greater level of resilience to the portfolio when compared with other major equity regions due to the high quality of some of the leading companies in the region.
  - ◊ US equity also has a bias towards the growth investment style, and changes in the interest rate environment could see these types of companies benefit.
- Increased Japanese equity weight:
  - ◊ Japanese equity markets remain relatively cheap on multiple equity valuation measures, and given the favourable interest rate environment, we chose to increase weight to this region.

Disclaimer

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