



CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



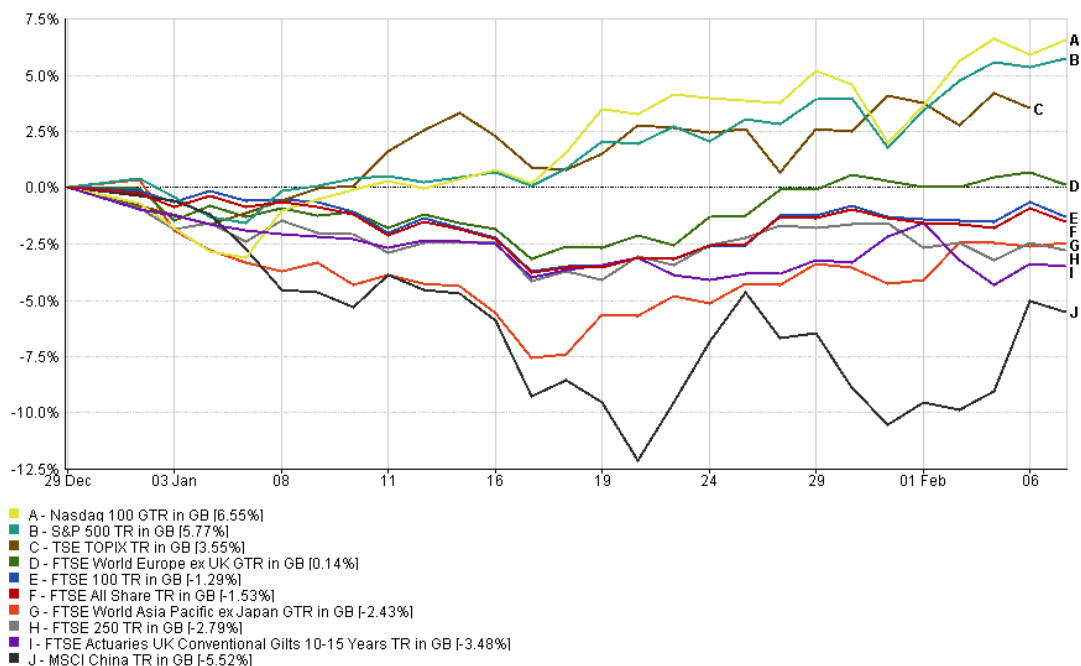
7 FEBRUARY 2024



OVERVIEW

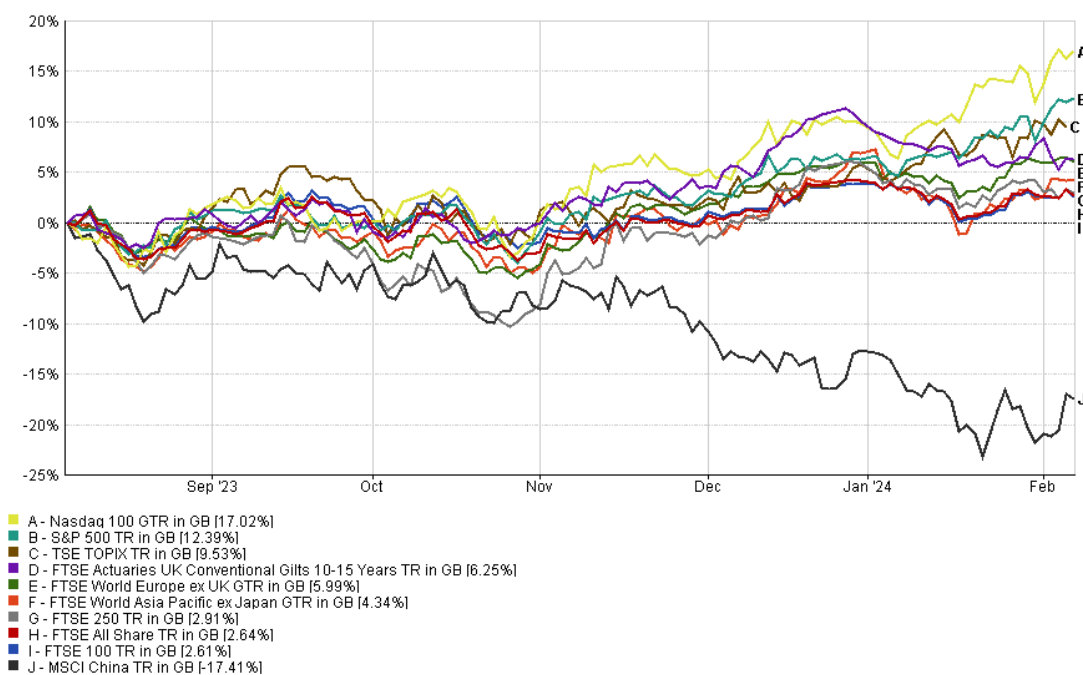
One major theme running through our investment commentaries over the years has been the impact of macroeconomics on investment markets. Monetary policy, the inflation outlook and expectations of the next move in interest rates have been the principal drivers of investment sentiment and returns since late 2021. The start of 2024 has proved no exception. The major central bank meetings took place at the end of January/beginning of February and speculation on when the first interest rate cuts would take place has been influential on short term market performance.

YEAR TO DATE INVESTMENT MARKETS STERLING TOTAL RETURNS



29/12/2023 - 07/02/2024 Data from FE fundinfo 2024

SIX MONTH INVESTMENT MARKETS STERLING TOTAL RETURNS



07/08/2023 - 07/02/2024 Data from FE fundinfo 2024

The European Central Bank (ECB), the US Federal Reserve (Fed), the Bank of England (BoE) and the Bank of Japan (BoJ) all maintained their main interest rates at their current levels, albeit that the BoJ's main rate remains negative. Commentators paid attention to the rhetoric around the various announcements. In the US, the Fed commented on continuing strong economic growth and weakening inflation coupled with fewer people leaving their jobs as encouraging. Fewer people changing jobs leads to less pressure on wages. Nevertheless, other employment market statistics still point to a very tight jobs market. Wage growth has accelerated to 4.5% pa which in turn may lead to increased consumer spending and demand, but higher staff costs for businesses. Above target inflation could remain persistent as a result. The Chair of the Fed, Jay Powell, indicated he did not "think it's likely" that the Fed would begin to cut interest rates as soon as March. The Fed's official statement said that they would not consider cutting interest rates until it had "greater confidence that inflation is moving sustainably toward 2%". Consequently, markets are not now expecting a March rate cut and US bond yields increased as a result.

It seems that the BoJ is gradually moving to the view that a change in monetary policy to normalise interest rates is in sight, as price stability looks likely. If proven to be the case, the BoJ will move away from negative interest rates but is still expected to maintain relatively accommodative monetary policy.

The eurozone unexpectedly avoided recession in the final quarter of 2023 as the economy recorded flat growth. It had contracted 0.1% in the previous quarter. Over the 12-month period, GDP rose just 0.1% as the economy struggled against a backdrop of high inflation and interest rates. Underlying the broader regional figure, the German economy contracted, whilst the Spanish and Italian economies posted positive growth rates. Eurozone annual inflation slowed to 2.8% pa in January from 2.9% pa in December, in part due to falling energy prices. Core inflation, excluding energy, food, alcohol and tobacco, fell to 3.3% pa from 3.4% pa, although markets expected the fall to be greater.

Whilst the ECB kept interest rates on hold, Christine Lagarde, its President, said that it was still "premature to discuss rate cuts," but acknowledged that inflation was heading down. The ECB also said that risks to economic growth "remained tilted to the downside." European equity market sentiment became less positive as a result.

The Bank of England, whilst keeping interest rates on hold, indicated that it would consider cutting interest rates. Andrew Bailey, the Governor of the BoE, commented that interest rates would only be reduced if there was more evidence that inflation is set to fall to its 2% target and remain there. However, it appeared from his comments that his position had changed to one of how long the current position on rates would need to be maintained, rather than on how tight monetary policy needs to be. Nevertheless, the UK equity market is seeking clearer direction from the BoE. Against the background of possible interest rate cuts later in the year, the all important housing market - one of the key drivers of the economy - appears to be stabilising as mortgage rates continue to fall. Mortgage approvals in December were at a six month high.

Looking at other indicators, UK consumer confidence reached a two-year high in January following a third consecutive monthly increase. January's cut in national insurance, falling mortgage rates and rising real wages seem to be underpinning consumer sentiment, despite the cost of living crisis still having an impact on household budgets and on retail sales levels. Economic statistics point to the UK economy expanding in January at the strongest level in seven months.

The Chinese economy has experienced continuing weakness although manufacturing statistics point to a slowing in the rate of contraction, whilst the far smaller services sector has started to expand. There are still concerns that the troubled property sector could weigh further on the economy. A Hong Kong court has ordered the massive former property developer, Evergrande, be liquidated after it could not reach agreement with its creditors on restructuring its debt, on which it defaulted in December 2021. It remains to be seen if this order is binding in mainland China which has a separate legal system. Furthermore, new home sales in China have fallen by a third over the past year piling more pressure on property developers. The Chinese authorities have intervened in the stock market to try and shore up confidence. A number of state investment vehicles have been buying shares in state banks and ETFs to date. However the purchases may broaden out over time. The Chinese equity market continues to remain weak which may see the Chinese authorities take further action to support it.

The US/NASDAQ equity market performance has been strong with record highs reached. However, there was some disappointment in the recent earnings guidance from Microsoft and Alphabet whereas earnings from Amazon, Meta and Apple surprised on the upside. One of the 'Magnificent Seven' (Tesla) has been struggling with its share price falling sharply after the company missed both earnings and revenue estimates and warned of slower growth in 2024.





The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartledge Morland's Investment Services team.

Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

OUR VIEW

We believe that interest rate cuts are on the horizon but have not been in the camp of early cuts. The major central banks have said that they would wait to see inflation fall and stay there. Currently, there are further potential inflationary pressures which could weigh on the central bankers' decisions. The strength of the labour markets could see wages continue to rise strongly which could stoke the inflation rate. The attacks on shipping in the Red Sea have seen shipping companies use safer and longer routes which could again cause price rises to compensate for the additional costs.

More optimistically, inflation has fallen steeply and expectation is that it will return to the 2% pa target level in most developed economies by May/June. The extent of the squeeze exerted upon the global economy by the rapid succession of interest rate increases should not be ignored, when one assesses the extent to which the cost of debt increased. Some of the latter is yet to be felt.

Central bankers walk a delicate tight-rope and some economists take the view that the pressure exerted so far is sufficient to provoke recession. UK/Europe are certainly flirting with recession and the US economy has slowed, whilst growth in Japan remains delicate. Global economic growth is needed – not least to support burgeoning government budgetary deficits and debt repayment/servicing costs. As inflation is tamed, the central bankers' attention inevitably shifts towards preventing recession and supporting controlled expansion.

Based on the expectation of reductions in interest rates within the next six months, we anticipate improving investor sentiment in both the bond and equity markets. Smaller/mid-cap and 'growth' orientated stocks will probably benefit most, as they tend to be more sensitive to interest rate movements. Value orientated stocks will benefit from improved levels of economic activity and from lower interest rates too, although to a lesser extent.

Balanced portfolios are now comfortably yielding more than 3% pa and our 'balanced income' model portfolio around 5% pa. Strong cashflows from dividends (equity funds) and interest (bond funds) are of major benefit to those drawing income from their portfolios. In order to improve growth prospects we are introducing investment funds strongly correlated with the US NASDAQ

[.... continued](#)



OUR VIEW Continued

100 Index to capture greater returns from the so-called 'Magnificent Seven' mega-tech stocks which now account for over 15% of global equity market capitalisation. What is sobering is that the combined weighting of the entire UK, French and German equity markets is only around 10% of global equity market capitalisation, with the Japanese market adding only a further 6%. We have little alternative but to increase exposures to these titans but still to a limited degree, because we cannot expose 15% of 'balanced' portfolios to just seven overseas stocks priced in dollars.

The most recent six month period has witnessed strong returns from most investment sectors with the obvious exceptions being Asia Pacific and Emerging Markets. Funds with direct or vicarious exposure to China have suffered whilst many emerging economies are heavily dependent upon the export of primary products to a slower Chinese economy. We maintain modest weightings as part of the diversification of risks and opportunities, but expect the developed economies' bond and equity markets to offer investors more for the time being.

We are witnessing strong performance from 'active' stock-picking managers in UK/European equities and in the gilts/corporate bond markets presently. In the US, the onward march of the 'Magnificent Seven' ensures out-performance of our index tracking positions against most active US fund positions. This phenomenon is not untypical of the US equity market – but (a) it does not mean active positions never over-deliver or (b) what is typical of the US equity market applies to other markets. The blending of 'active' and passive 'tracking' positions in portfolios remains essential to both opportunity and risk control.



83-85 Mansell Street London E1 8AN
t +44 (0)20 7709 5560
e: enquiries@cartlidgemorland.com
www.cartlidgemorland.com

This material is not intended to be relied on as a forecast, research or investment advice, and is not a recommendation, offer or solution to buy or sell any securities or to adopt any investment strategy. Cartlidge Morland's current views and suggestions in this document are based on research which is obtained from a variety of sources. Whilst these sources are believed to be reliable, the information obtained cannot be guaranteed to be accurate and may be condensed or incomplete. Past performance not a guide to the future. The value of investments and income arising may go down as well as up.

Cartlidge Morland is a trading name of The Cartlidge Morland Partnership, an appointed representative of Cartlidge Morland Ltd, which is authorised and regulated by the Financial Conduct Authority.