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Q4 2023 Market Commentary

“Equities & bonds performed well with the backdrop of falling inflation and expectations that the interest rate rising cycle has now ended”

Q4 2023 saw strong performance for global equities and bonds. Markets reacted positively as the US Federal Reserve (Fed), signalled interest rate cuts may be on the way for 2024, which was further fuelled by falling rates of global inflation, despite the backdrop of slowing global growth. There were regional disparities in equities, as developed markets outperformed emerging markets and ongoing concerns over China's real estate sector and limited government policy intervention, impacted investor sentiment. Global bond yields fell over the quarter, which reflected a subsequent rise in price.

United Kingdom

FTSE All Share: 4.52%

UK equities rose over Q4 2023. Domestically focused stocks performed well on hopes that interest rates may have peaked in the UK and increased interest from overseas investors in smaller UK companies. Larger UK companies were held back as Sterling strengthened against the US Dollar.

Revised GDP data highlighted that the UK contracted in Q3 2023, but inflation moderated more than expected over Q4 2023 and fell to 3.9%. This contributed to hopes that the Bank of England (BoE) may have finished its series of interest rate hikes.



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United States

S&P 500: 3.78%

There were strong gains in Q4 2023 in US equities, buoyed by the expectations that interest rate cuts may be approaching. The S&P 500 index ended the year just short of its record high set, in early 2022.

The annual inflation rate in the US fell to 3.1% in November. However, economic growth for Q3

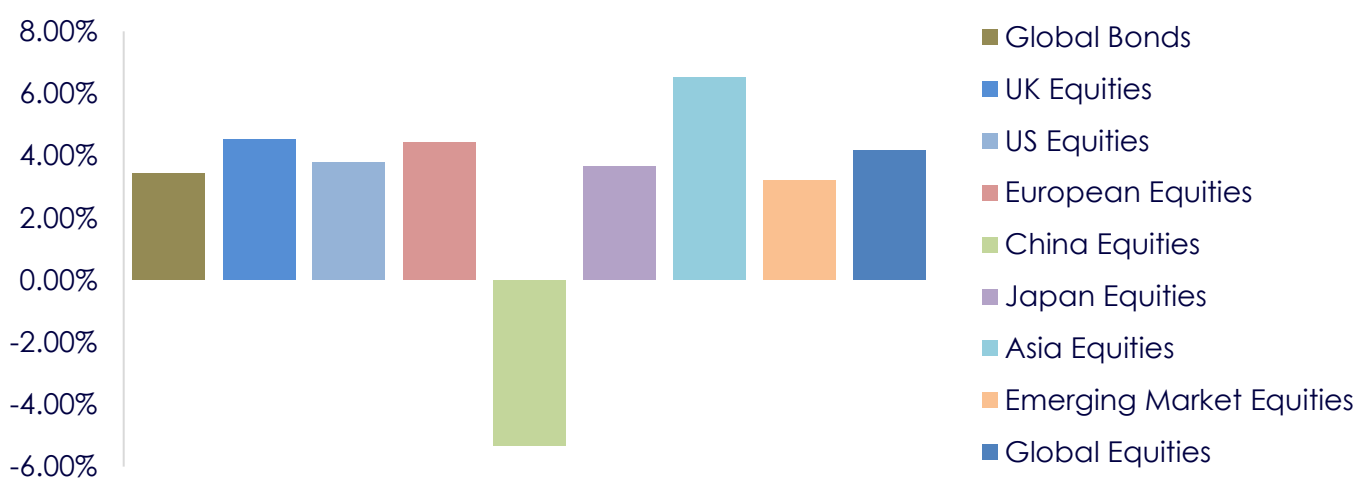
managers' index (PMI) fell to 47.0 in, which suggests that the region's economy is also likely to have contracted in Q4 2023 as well.

China

CSI 300: -5.33%

Equities in China bucked the trend in Asia by falling as investors remained concerned about weaker economic growth. There were also fears that stimulus measures by the Chinese

Discrete Quarterly Performance as at 31/12/2023



2023 was revised down to an annualised rate of 4.9%. With this data in mind, the US Fed indicated that it was aware of the risk of keeping rates at restrictive levels for too long. Furthermore, minutes from their latest policy meeting showed policymakers expect rates to end next year at 4.5%-4.75%, down from the current 5.25%-5.5% range.

Europe

FTSE Developed Europe ex UK: 4.41%

Eurozone equities were boosted by expectations that there may be no further interest rate rises. This was supported by softer inflation figures, which raised hopes that interest rates may not only have peaked, but may be cut in 2024. Annual inflation fell to 2.4% in November, having a year ago been 10.1%.

Higher interest rates have weighed on the Eurozone economy with GDP falling by 0.1% in Q3 2023. Furthermore, the purchasing

government may not be sufficient to spur growth in the world's second-largest economy. The ongoing real estate crisis and uncertainty over China's regulatory regime also weakened sentiment towards Chinese stocks.

Japan

MSCI Japan: 3.64%

Japanese equities ended Q4 2023 up, with the gains in November offsetting the negative returns in October and December. The positive return was despite the backdrop of concerns regarding the path for US interest rates and a weakening Yen.

At a corporate level, the fundamentals remain strong. Earning results remain robust and the weaker Yen has given Japanese companies a pricing advantage as well.

The overall macroeconomic conditions in Japan have improved, with the Bank of Japan's (BoJ) December Tankan Survey

showing continuous improvement in business sentiment for both the manufacturing and non-manufacturing sectors. The BoJ also continued to normalise its monetary policy and continued to hint that they are likely to take further actions during 2024.

Emerging Markets

MSCI Emerging Markets: 3.19%

Taiwan, South Korea, and India were the strongest emerging markets performers in Q4 2023, with all three achieving strong growth. In Taiwan and South Korea especially, technology stocks and chipmakers gained as investor enthusiasm over artificial intelligence continued to accelerate.

Overall emerging market equities were strong in Q4 2023, albeit behind developed market equities. Signs of a “soft landing” for the US economy and increased expectations for interest rate cuts in 2024, were supportive. However, China continued to be a drag on the broader performance.

Global Bonds

Bloomberg Barclays Global Agg: 3.43%
Q4 2023 was a very positive one for bonds and marked their best quarterly performance in over two decades. The major driver of this performance was a perceived shift in interest rate policy direction, from a “higher-for-longer” stance, to prospective rate cuts. Government bond yields fell sharply, and corporate bond markets also rallied and outperformed the former.

With an easing in conditions priced in, government bond yields fell across the board. The US 10-year Treasury yield fell to 3.87%, the UK 10-year gilt yield fell to 3.54% and the German 10-year Bund yield ended Q4 2023 at 2.03%.

Despite the slowing growth outlook, the corporate bond market staged an impressive rally on hopes that a deep recession could be averted as financial conditions ease.

All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.

Cumulative Performance and Annualised Volatility as at 31/12/2023

	1 Year %	3 Years %	5 Years %	Volatility % ²
Global Bonds	-0.25	-9.53	-1.66	6.91
UK Equities	7.92	28.12	37.69	14.34
US Equities	18.58	40.72	101.79	13.96
European Equities	14.92	23.17	59.07	14.58
Japan Equities	13.53	9.38	39.55	12.01
Asia Equities	8.33	11.02	50.08	15.91
China Equities	-18.89	-32.94	18.11	17.79
Emerging Market Equities	3.63	-8.29	19.73	14.38
Global Equities	16.81	32.36	82.48	13.34

Data source FE Analytics 31/12/2023. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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