

RATHBONES

Incorporating
Investec Wealth &
Investment (UK)

INFORMATION FOR
FINANCIAL ADVISERS ONLY

Investment Update

Keeping Your Balance

Speaker:
John Wyn-Evans,
Head of Investment Strategy

March 2024





Keeping Your Balance

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UK Politics – Budget & Election

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A Quick Look Back

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Key Themes For 2024

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US Election

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Conclusions

UK Politics

Spring Budget & General Election

Hunt's Headroom



Source – Freepik

Hunt's Headroom



Source – Freepik

Spring Budget Headlines



Source – Investec Wealth & Investment (UK)

Spot The Difference



Source – Universal Pictures

Spot The Difference

Major UK Parties Are Hard To Tell Apart

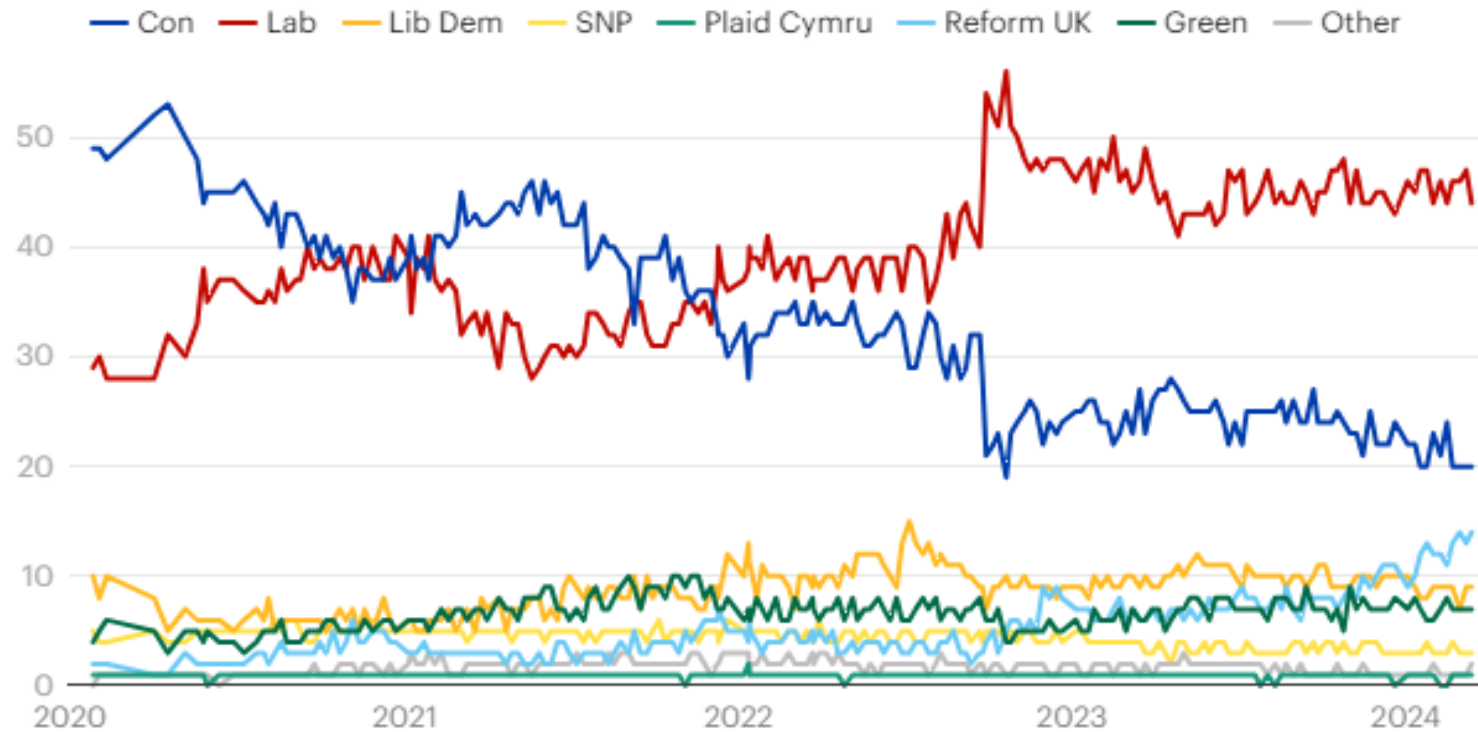


Source – Sky News

Except In The Opinion Polls

Latest Opinion Polls

If there were a general election held tomorrow, which party would you vote for? %



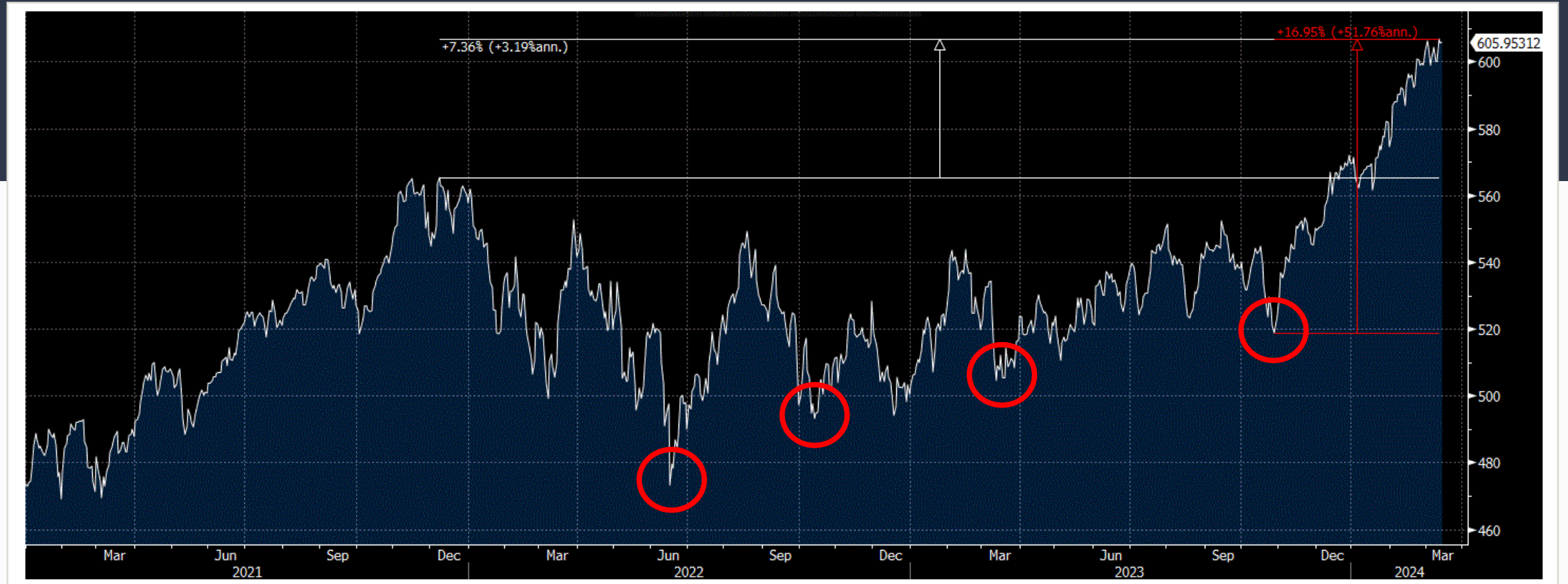
Source – YouGov (13-14 March 2024)

A Quick Look Back

A Tough Two Years – But Patience Rewarded

The Post-Covid Equity Market

MSCI ACWI (GBP) 2021 to Present



Source – Bloomberg – 15/03/2024

The Post-Covid Bond Market – The Worst Is Over

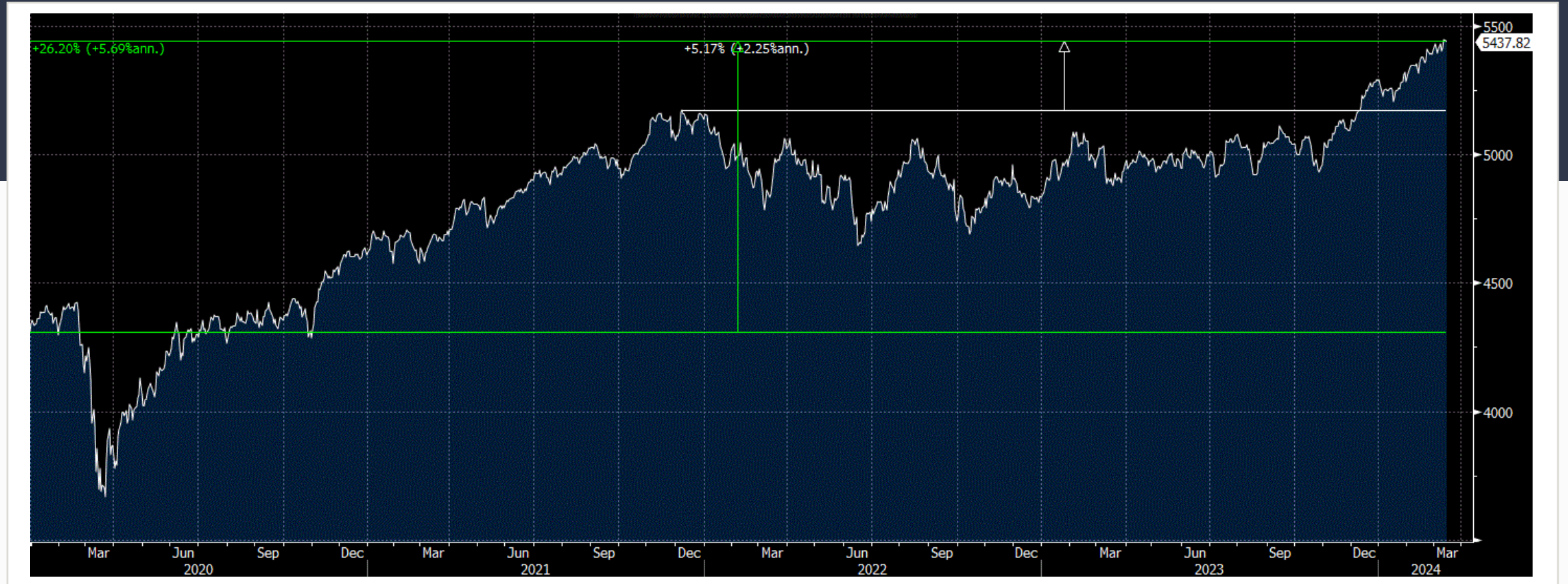
Bloomberg Global Aggregate Bond Index (Hedged GBP) 2021 to Present



Source – Bloomberg – 15/03/2024

The Post-Covid Balanced Portfolio

FTSE Private Investor Balanced Index 2020 to Present – Two Years Of Going Nowhere Since December 2021



Source – Bloomberg – 15/03/2024

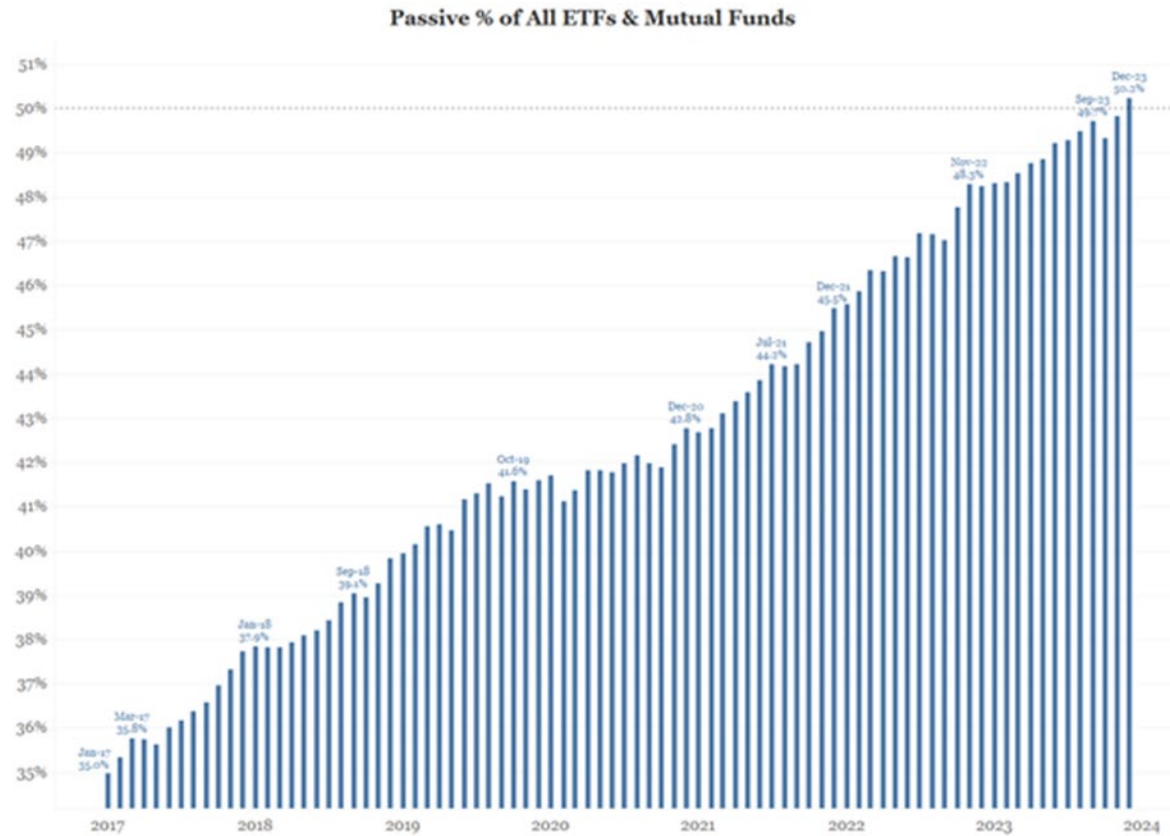
Narrow Market Leadership

Selected Global Indices



Source – Bloomberg – 15/03/2024

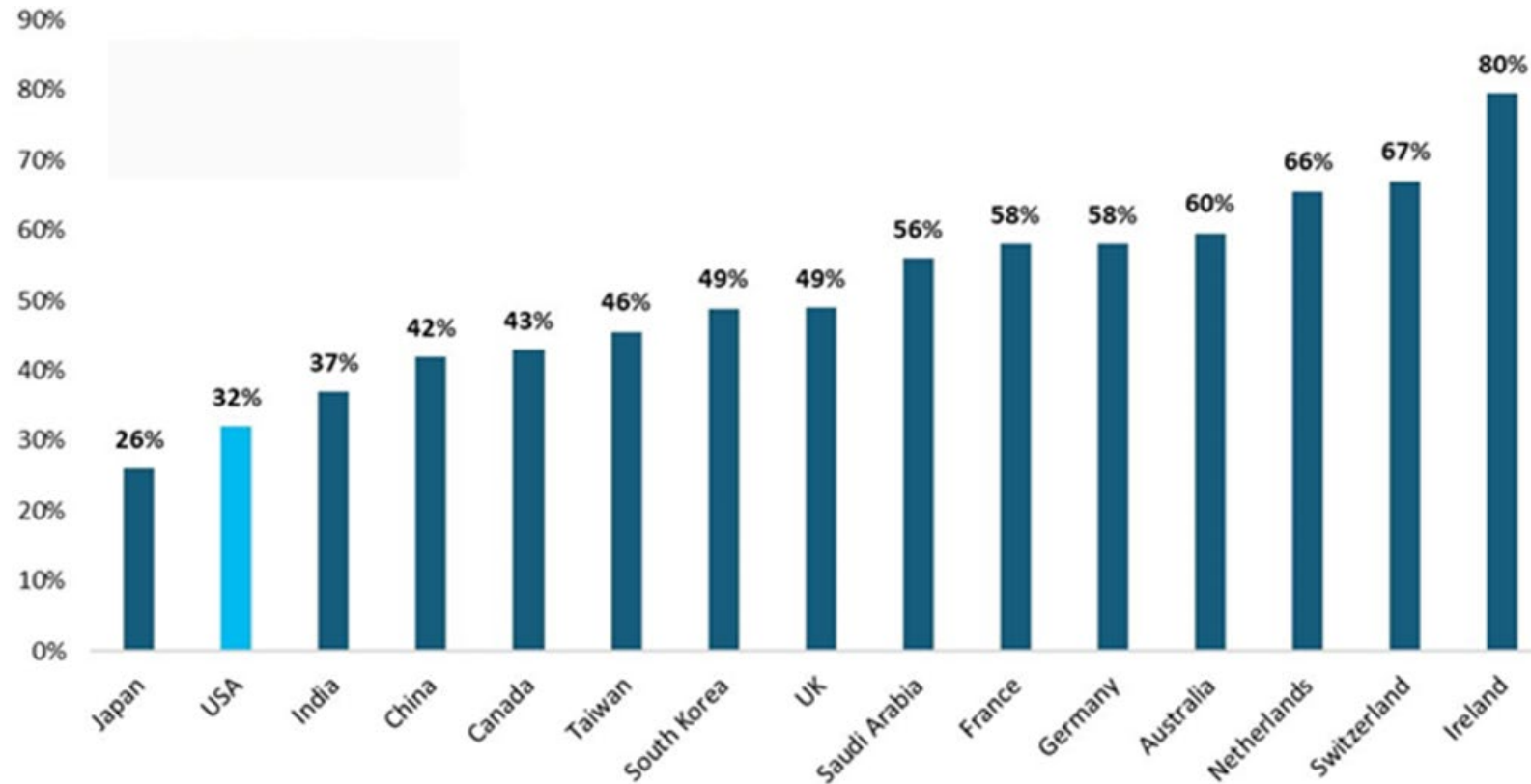
Passive Funds Have Become Dominant



Source – Bianco Research / Bloomberg (December 2023)

But Concentrated Leadership Is a Global Phenomenon

Weight of Top 10 Holdings in MSCI Index-Based Index ETFs



Source – Creative Planning (February 2024)

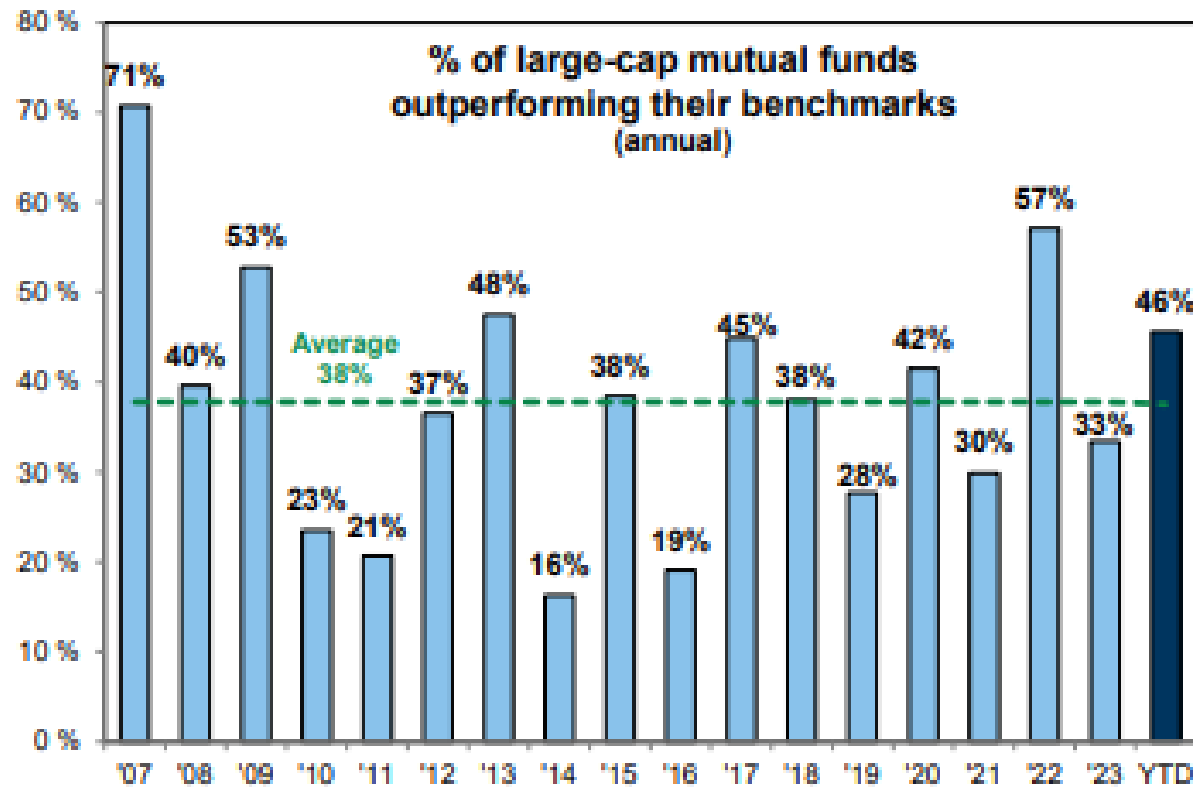
Although Dispersion Is Increasing...

The Magnificent 7—5...? Performance YTD

NVDA US Equity	USD	77.59%
META US Equity	USD	38.95%
AMZN US Equity	USD	17.65%
MSFT US Equity	USD	13.08%
GOOG US Equity	USD	2.42%
AAPL US Equity	USD	-10.14%
TSLA US Equity	USD	-34.60%

Source – Bloomberg – 15/03/2024

Leading To Better Fund Manager Performance



Source – Goldman Sachs – 21/02/2024

Market Drivers

Market Drivers – It's Mainly About Inflation

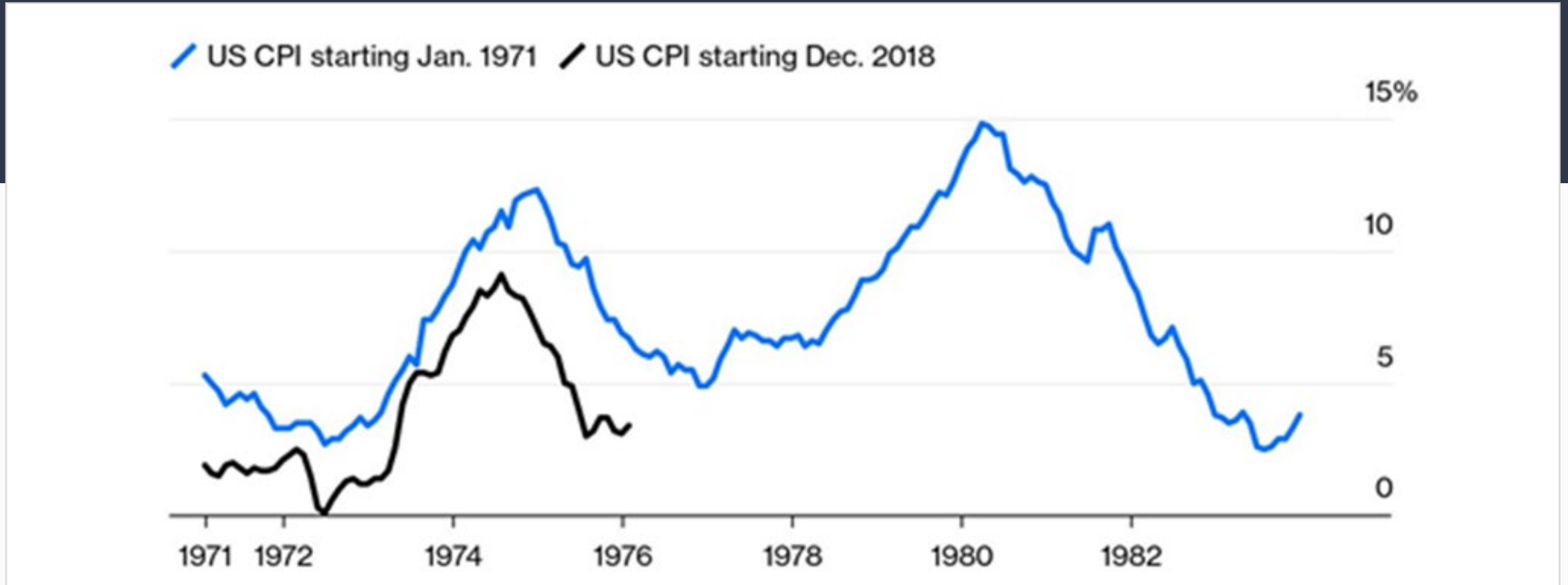
Headline Inflation % Change Year-on-Year

		2022										2023										2024			
		Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Eurozone	Eurozone	7.4	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0	6.1	5.5	5.3	5.2	4.3	2.9	2.4	2.9	2.8	2.6
	France	5.1	5.4	5.8	6.5	6.8	6.6	6.2	7.1	7.1	6.7	7.0	7.3	6.7	6.9	6.0	5.3	5.1	5.7	5.7	4.5	3.9	4.1	3.4	3.1
	Germany	7.6	7.8	8.7	8.2	8.5	8.8	10.9	11.6	11.3	9.6	9.2	9.3	7.8	7.6	6.3	6.8	6.5	6.4	4.3	3.0	2.3	3.8	3.1	2.7
	Italy	6.8	6.3	7.3	8.5	8.4	9.1	9.4	12.6	12.6	12.3	10.7	9.8	8.1	8.6	8.0	6.7	6.3	5.5	5.6	1.8	0.6	0.5	0.9	0.9
	Spain	9.8	8.3	8.5	10.0	10.7	10.5	9.0	7.3	6.7	5.5	5.9	6.0	3.1	3.8	2.9	1.6	2.1	2.4	3.3	3.5	3.3	3.3	3.5	2.9
	Greece	8.0	9.1	10.5	11.6	11.3	11.2	12.1	9.5	8.8	7.6	7.3	6.5	5.4	4.5	4.1	2.8	3.5	3.5	2.4	3.8	2.9	3.7	3.2	3.1
	Ireland	6.9	7.3	8.3	9.6	9.6	9.0	8.6	9.4	9.0	8.2	7.5	8.1	7.0	6.3	5.4	4.8	4.6	4.9	5.0	3.6	2.5	3.2	2.7	-
Developed	Sweden	6.3	6.6	7.5	8.9	8.3	9.5	10.3	9.8	10.1	10.8	9.6	9.7	8.1	7.7	6.7	6.3	6.3	4.5	3.7	4.0	3.3	1.9	3.4	2.6
	Switzerland	2.2	2.3	2.7	3.2	3.3	3.3	3.2	2.9	2.9	2.7	3.2	3.2	2.7	2.6	2.2	1.8	2.1	1.9	2.0	2.0	1.6	2.1	1.5	1.2
	UK	7.0	9.0	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	6.7	4.6	3.9	4.0	4.0	-
	US	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2
Emerging	Japan	1.2	2.5	2.5	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3.0	3.3	2.8	2.6	2.2	-
	China	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	0.0	-0.3	0.1	0.0	-0.2	-0.5	-0.3	-0.8	0.7
	Indonesia	2.5	3.3	3.4	4.4	4.9	4.5	5.9	5.6	5.4	5.4	5.1	5.4	5.0	4.4	4.1	3.5	3.1	3.4	2.3	2.6	3.0	2.8	2.6	2.8
	Korea	4.2	4.8	5.3	6.0	6.3	5.7	5.5	5.6	5.0	5.0	5.0	4.7	4.2	3.7	3.4	2.7	2.4	3.4	3.7	3.8	3.3	3.2	2.8	3.1
	Taiwan	3.3	3.4	3.4	3.6	3.4	2.7	2.8	2.7	2.4	2.7	3.1	2.4	2.4	2.3	2.0	1.8	1.9	2.5	2.9	3.0	2.9	2.7	1.8	3.1
	India	7.0	7.8	7.0	7.0	6.7	7.0	7.4	6.8	5.9	5.7	6.5	6.4	5.7	4.7	4.3	4.9	7.4	6.8	5.0	4.9	5.6	5.7	5.1	5.1
	Brazil	11.3	12.1	11.7	11.9	10.1	8.7	7.2	6.5	5.9	5.8	5.8	5.6	4.7	4.2	3.9	3.2	4.0	4.6	5.2	4.8	4.7	4.6	4.5	4.5
	Mexico	7.5	7.7	7.7	8.0	8.2	8.7	8.7	8.4	7.8	7.8	7.9	7.6	6.8	6.3	5.8	5.1	4.8	4.6	4.5	4.3	4.3	4.7	4.9	4.4
	South Africa	5.9	5.9	6.5	7.4	7.8	7.6	7.5	7.6	7.4	7.2	6.9	7.0	7.1	6.8	6.3	5.4	4.7	4.8	5.4	5.9	5.5	5.1	5.3	-

Source – JP Morgan Asset Management – 15/03/2024

Market Drivers – It's Mainly About Inflation

What Central Banks Fear Most – Sticky Inflation Or A Second Wave



Source – Bloomberg Opinion

Market Drivers – Interest Rate Expectations

Market Implied Interest Rates December 2024

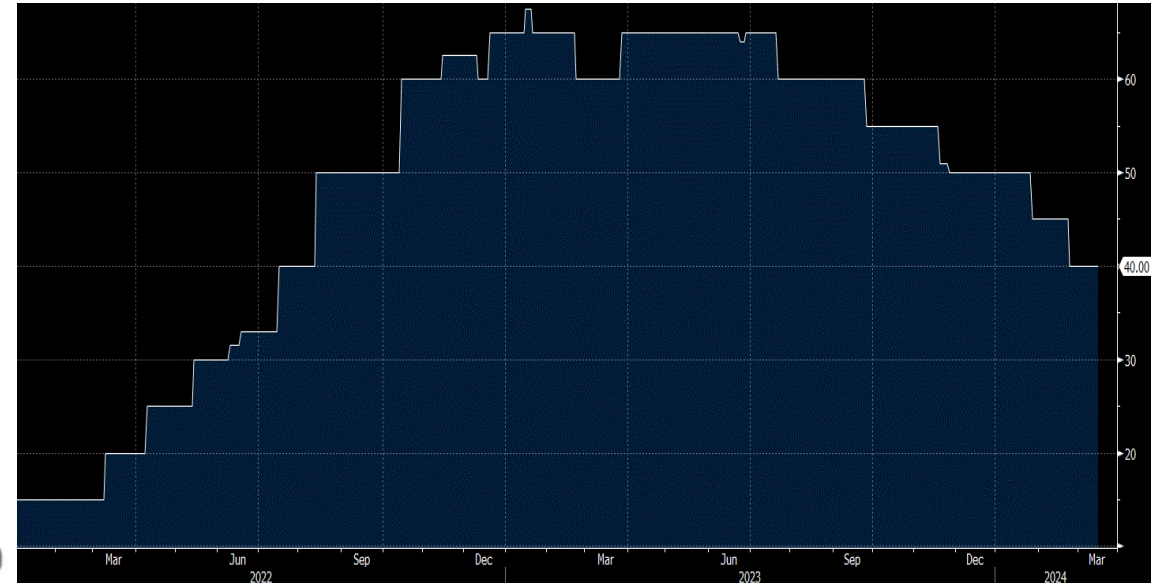
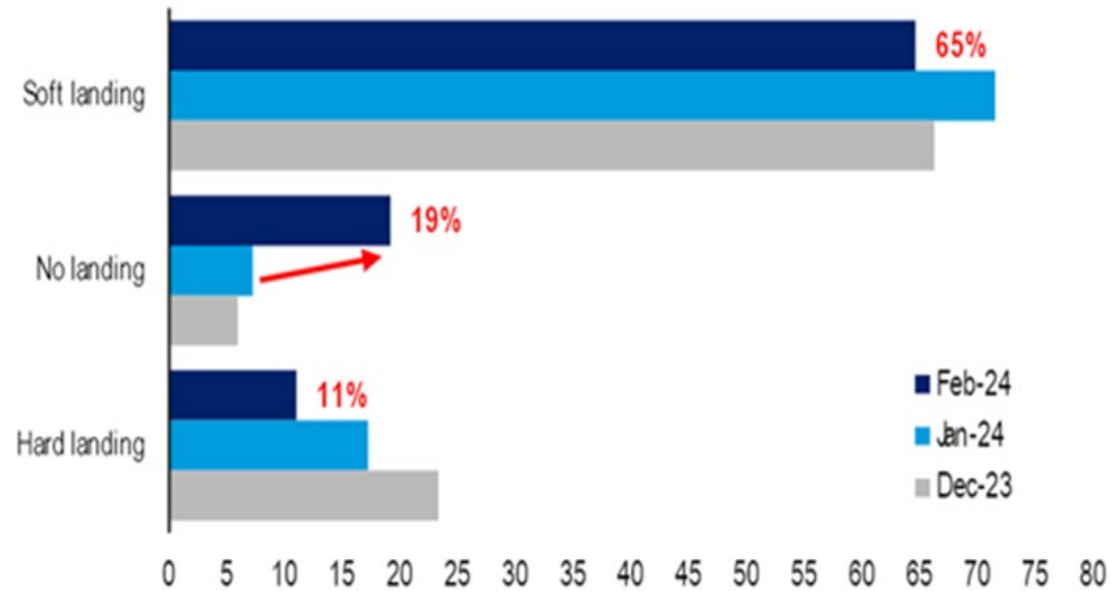
	Current Base Rate	Expected Base Rate	Expected Base Rate 1/1/24
US	5.5%	4.6% (-0.9%)	4.0% (-1.5%)
UK	5.25%	4.6% (-0.65%)	4.15% (-1.1%)
Europe	4%	3.0% (-1.0%)	2.6% (-1.4%)

Source – Bloomberg – 15/03/2024

Market Drivers – What Happens Next?

Probability Of US Recession – Bank of America Client Survey & Economists' Forecasts

What is the most likely outcome for the global economy in the next 12 months?



Source – Bank of America Fund Manager Survey (February 2024) / Bloomberg (15/03/2024)

Market Drivers – Growth Forecasts

GDP Growth By Country 2022 – 2025 (Bloomberg Consensus)

Growth for the past two years and consensus for the next two

	22	23	24	25
USA	2.1	2.5	2.1	1.7
Japan	1.1	1.9	0.7	1.1
EU	3.45	0.5	0.5	1.4
Germany	1.9	-0.1	0.2	1.2
France	2.6	0.9	0.7	1.3
Italy	3.9	0.7	0.5	1.1
Spain	4.6	2.4	1.5	1.9
UK	4	0.3	0.4	1.2
China	3	5.2	4.6	4.3
South Africa	2.3	0.6	1.2	1.6
DM	2.73	1.68	1.49	1.71
EM	3.06	3.94	4.09	4.12
World	3.1	3	2.8	2.9

Source – Bloomberg / IW&I – 7/03/2024

Geopolitics & Macro – Key Events/Concerns



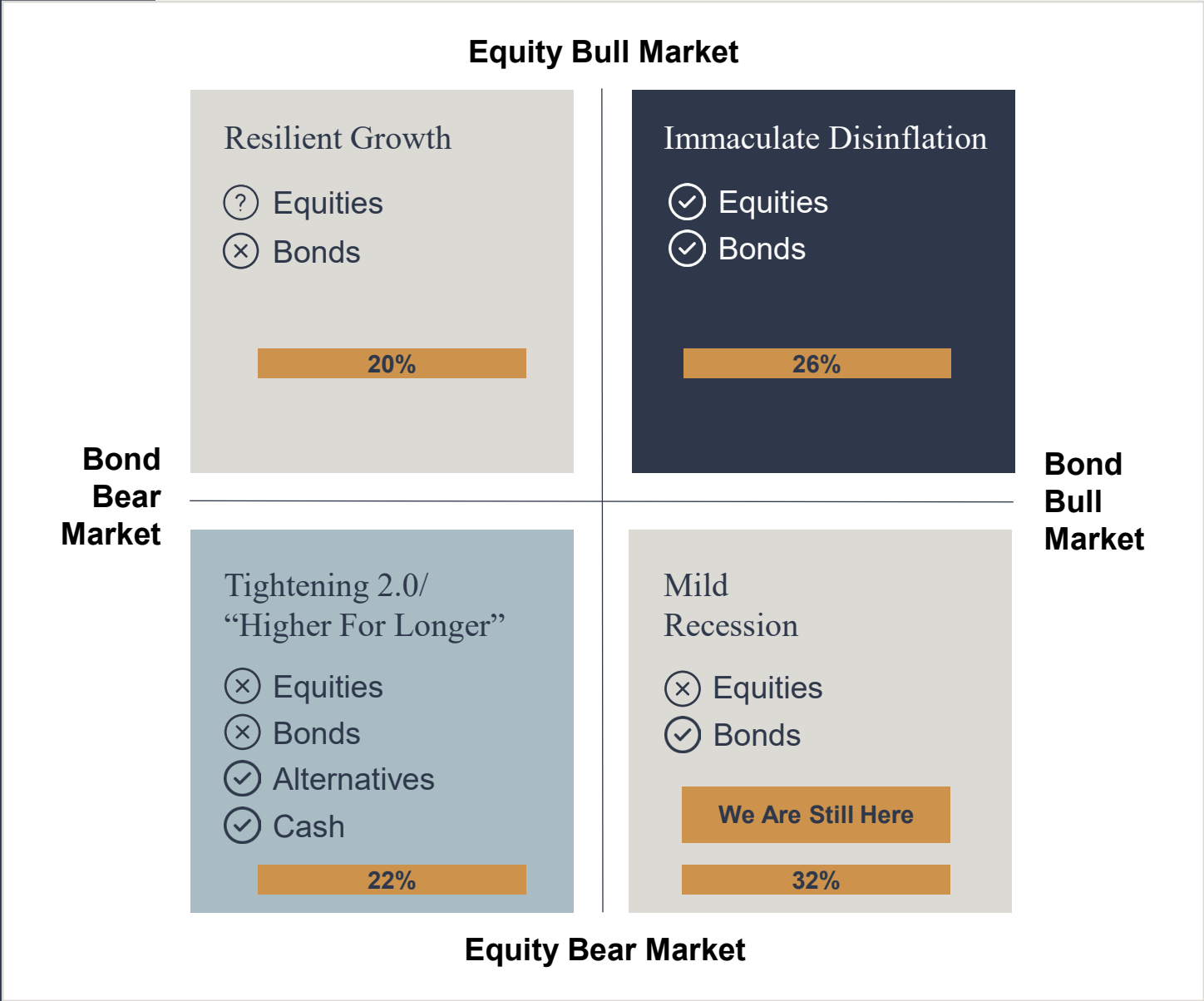
Source – Investec Wealth & Investment (UK)

Tactical Asset Allocation Recommendations

Building Portfolios

Please note that these are recommendations and will not necessarily have been implemented in all portfolios owing to various constraining factors and individual preferences

Potential Outcomes Matrix

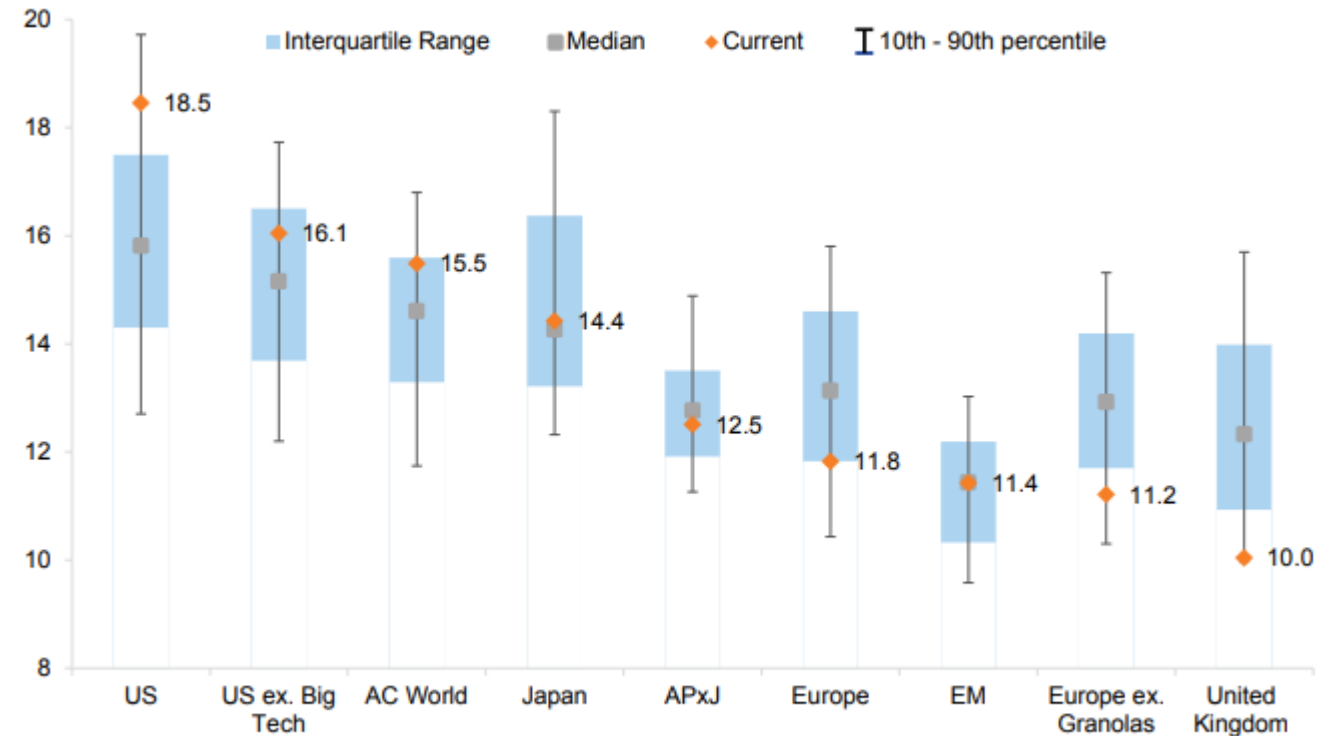


Source – IW&I

Market Valuations Favour Non-US Equities

Global Indices Price/Earnings Ratios

12m fwd P/E, MSCI regions; data since 2003

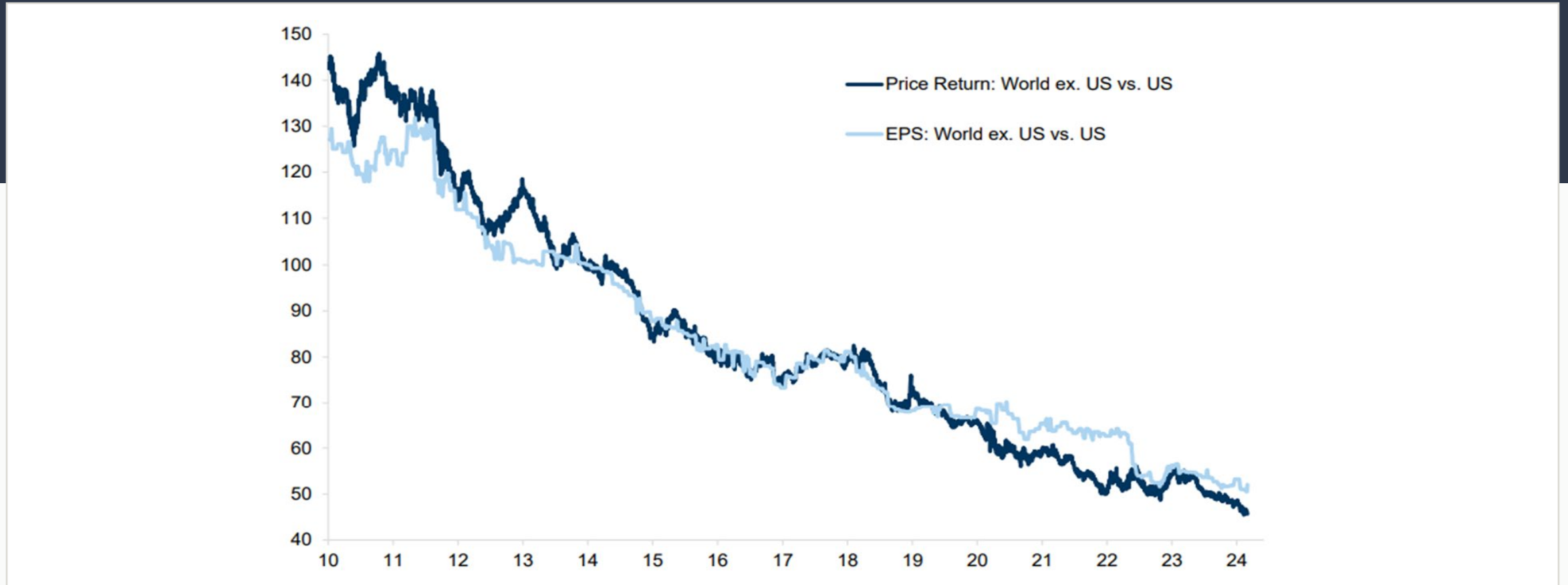


Source: Factset, Goldman Sachs Global Investment Research

Source – Goldman Sachs

There Is A Good Reason Why US Equities Have Done Well

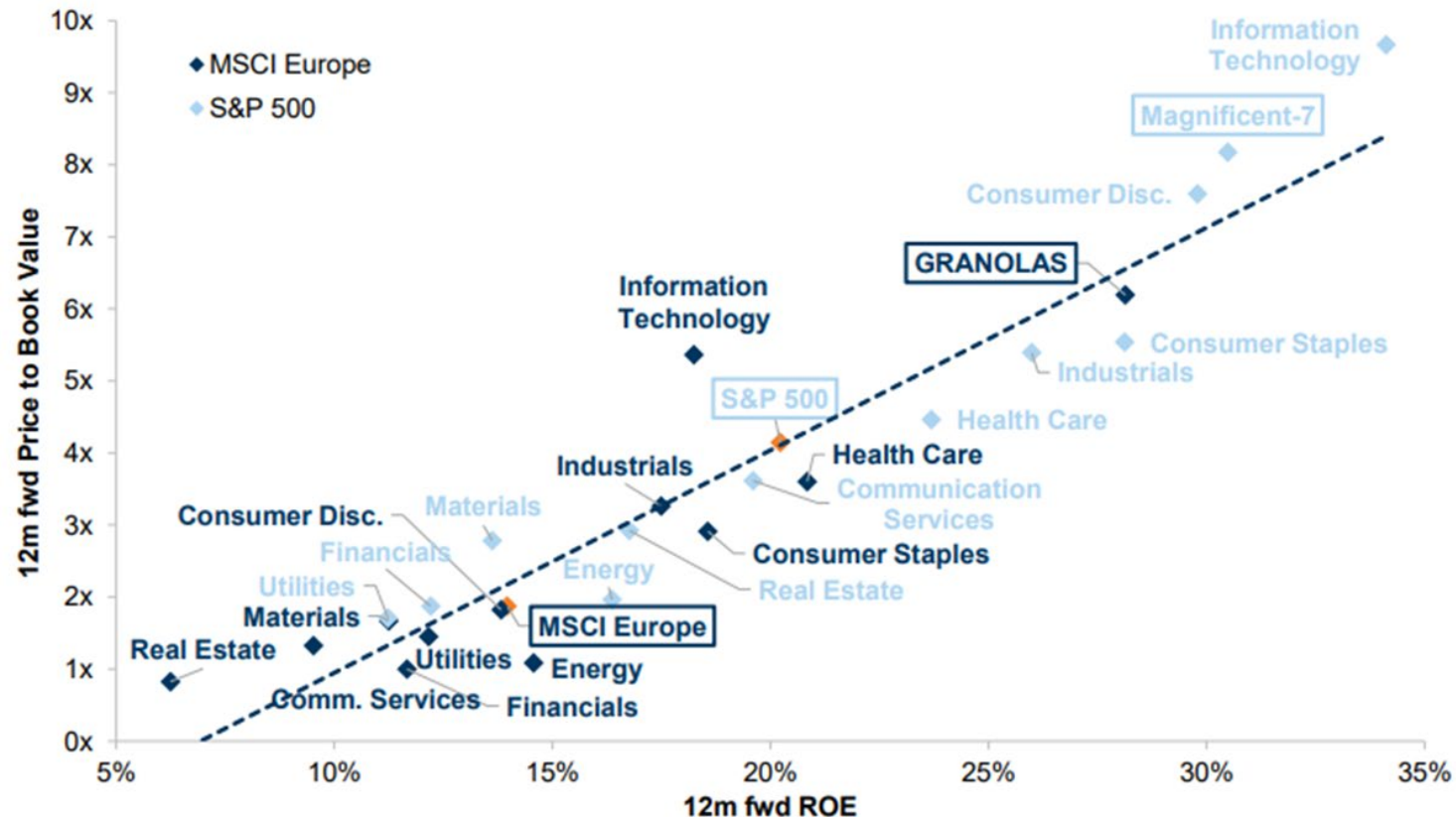
Price Return and EPS – World ex-US vs US



Source – Goldman Sachs (11/03/2024)

And We Have To Look Beyond PE Ratios

S&P 500 and MSCI Europe – 12m Forward Price to Book Value vs Return on Equity (ROE)



Source – Goldman Sachs (11/03/2024)

What's The Right Yield For A 10-Year Sovereign Bond?

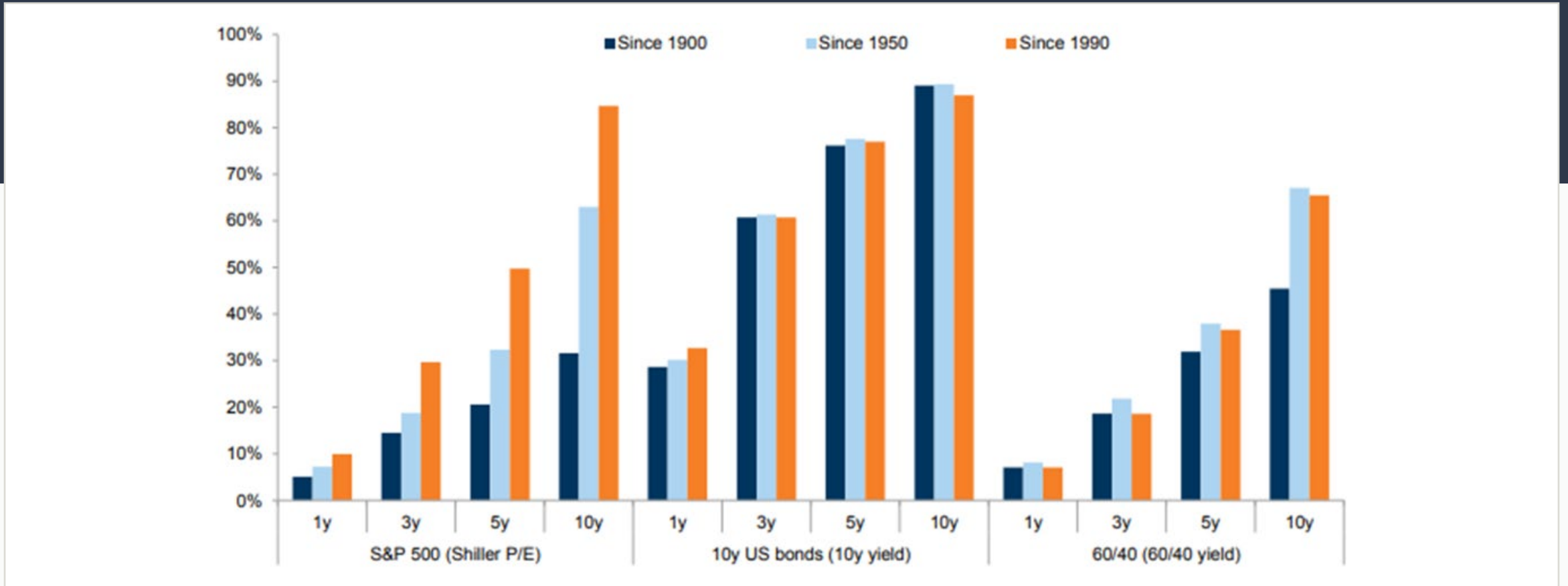
Real GDP + Inflation = Nominal GDP = 10-Year Yield

	Real GDP	Inflation	Nominal GDP	Today
US	1.5% - 2%	2% - 3%	3.5% - 5%	4.30%
UK	0.5% - 1.5%	2% - 4%	2.5% - 5.5%	4.10%
EU	0.5% - 1.5%	2% - 3%	2.5% - 4.5%	2.65%

Source – IW&I – 6/03/24

But Valuation Is A Dreadful Market Timing Tool

R Squared of Valuations for Subsequent Returns



Source – Goldman Sachs / Robert Shiller

Current Tactical Asset Allocation Tilts

	--	-	N	+	++
Global equities					
US equities					
Japan					
Europe					
EM					
UK equities					
Mid/SC exposure					
Cyclical					
Defensive					
Global bonds					
US 10					
US 10 ILB					
German 10					
Japan 10					
UK10					
IG credit					
HY credit					
EM sovereign					
Currency					
USD					
EUR					
JPY					
GBP					
Listed property					
Alternatives					
Gold					
Uncorrelated					

Source – IW&I – 20/02/2024

Cash Is Not King

Key Portfolio Asset Class Component Returns And Inflation 2000 - Present



Source – Bloomberg – 15/03/2024

The Balancing Act

The Asset Return “Quilt” 2000-2024

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
Commodities 58.2%	US Treasuries 6.7%	Commodities 39.5%	MSCI EM 56.3%	REITS 32.0%	MSCI EM 34.5%	REITS 37.5%	MSCI EM 39.8%	US Treasuries 14.0%	MSCI EM 79.0%	Gold 29.2%	US Treasuries 9.8%	REITS 23.8%	S&P 500 32.4%	S&P 500 13.7%	S&P 500 1.4%	Commodities 17.5%	MSCI EM 37.8%	Cash 1.8%	S&P 500 31.5%	Gold 24.8%	Commodities 46.3%	Commodities 31.1%	S&P 500 26.3%	S&P 500 8.4%
US Treasuries 13.4%	Global IG 4.6%	Gold 25.6%	MSCI EAFE 39.2%	Commodities 26.7%	Commodities 33.7%	MSCI EM 32.6%	Commodities 33.0%	Gold 4.3%	Global HY 62.0%	MSCI EM 19.2%	Gold 8.9%	Global HY 19.3%	MSCI EAFE 23.3%	REITS 11.7%	US Treasuries 0.8%	Global HY 14.8%	MSCI EAFE 25.9%	US Treasuries 0.8%	REITS 27.4%	MSCI EM 18.8%	REITS 37.1%	Cash 1.5%	MSCI EAFE 18.9%	Commodities 6.1%
REITS 8.5%	Cash 4.4%	Global IG 14.9%	REITS 33.5%	MSCI EM 26.0%	Gold 17.8%	MSCI EAFE 26.9%	Gold 31.9%	Cash 2.1%	MSCI EAFE 32.5%	REITS 15.9%	Global IG 4.5%	MSCI EM 18.6%	Global HY 8.0%	US Treasuries 6.0%	Cash 0.1%	S&P 500 12.0%	S&P 500 22.0%	Gold -1.9%	MSCI EAFE 22.8%	S&P 500 18.4%	S&P 500 28.7%	Gold -0.8%	Global HY 13.4%	MSCI EAFE 5.4%
Cash 6.2%	Global HY 3.1%	US Treasuries 11.6%	Commodities 30.1%	MSCI EAFE 20.7%	MSCI EAFE 14.0%	Gold 23.2%	MSCI EAFE 11.6%	Global IG -8.3%	REITS 31.7%	S&P 500 15.1%	Global HY 2.6%	MSCI EAFE 17.9%	REITS 0.7%	Global IG 3.2%	MSCI EAFE -0.8%	MSCI EM 11.2%	Gold 12.9%	Global HY -3.3%	Commodities 20.1%	Global IG 10.3%	MSCI EAFE 11.9%	US Treasuries -12.9%	Gold 12.7%	Gold 4.7%
Global IG 3.1%	Gold -0.7%	Cash 1.8%	Global HY 30.7%	Global HY 12.4%	REITS 10.7%	S&P 500 15.8%	US Treasuries 9.1%	Global HY -27.9%	S&P 500 26.5%	Global HY 13.9%	S&P 500 2.1%	S&P 500 16.0%	Global IG 0.1%	Gold 0.1%	REITS -3.4%	Gold 8.6%	REITS 11.5%	Global IG -3.4%	MSCI EM 18.6%	MSCI EAFE 8.4%	Global HY 1.4%	Global HY -13.2%	REITS 11.3%	MSCI EM 2.5%
Gold -5.4%	MSCI EM -2.4%	Global HY -1.1%	S&P 500 28.7%	S&P 500 10.9%	S&P 500 4.9%	Global HY 13.5%	Global IG 7.3%	S&P 500 -37.0%	Commodities 26.1%	Commodities 13.3%	Cash 0.1%	Global IG 11.1%	Cash 0.1%	Cash 0.0%	Global IG -3.8%	Global IG 4.3%	Global HY 10.2%	REITS -3.9%	Gold 17.9%	US Treasuries 8.2%	Cash 0.0%	MSCI EAFE -13.9%	MSCI EM 10.1%	Global HY 1.5%
Global HY -6.8%	REITS -7.8%	REITS -2.4%	Gold 19.9%	Global IG 9.4%	Cash 3.1%	Global IG 7.2%	S&P 500 5.5%	Commodities -42.6%	Gold 25.0%	MSCI EAFE 8.2%	Commodities -2.6%	Gold 8.3%	Commodities -2.1%	Global HY -0.1%	Global HY -4.2%	REITS 1.3%	Global IG 9.3%	S&P 500 -4.3%	Global HY 13.7%	Global HY 8.0%	MSCI EM -2.3%	Global IG -16.7%	Global IG 9.5%	Cash 1.1%
S&P 500 -9.1%	S&P 500 -11.9%	MSCI EM -6.0%	Global IG 14.5%	Gold 4.6%	US Treasuries 2.8%	Cash 4.9%	Cash 5.0%	MSCI EAFE -43.1%	Global IG 19.2%	Global IG 6.0%	REITS -8.4%	US Treasuries 2.2%	MSCI EM -2.3%	MSCI EM -1.8%	Gold -10.4%	US Treasuries 1.1%	Commodities 7.6%	Commodities -13.1%	Global IG 11.4%	Cash 0.5%	US Treasuries -2.4%	S&P 500 -18.1%	Cash 5.1%	Global IG -0.6%
MSCI EAFE -14.0%	MSCI EAFE -21.2%	MSCI EAFE -15.7%	US Treasuries 2.3%	US Treasuries 3.5%	Global HY 1.5%	US Treasuries 3.1%	Global HY 3.0%	REITS -50.2%	Cash 0.2%	US Treasuries 5.9%	MSCI EAFE -11.7%	Cash 0.1%	US Treasuries -3.3%	MSCI EAFE -4.5%	MSCI EM -14.9%	MSCI EAFE 1.0%	US Treasuries 2.4%	MSCI EAFE -13.2%	US Treasuries 7.0%	REITS -4.4%	Global IG -3.0%	MSCI EM -19.8%	US Treasuries 3.9%	US Treasuries -1.1%
MSCI EM -30.6%	Commodities -21.4%	S&P 500 -22.1%	Cash 1.1%	Cash 1.3%	Global IG -3.0%	Commodities -0.2%	REITS -10.0%	MSCI EM -53.2%	US Treasuries -3.7%	Cash 0.1%	MSCI EM -18.2%	Commodities -0.3%	Gold -27.3%	Commodities -29.3%	Commodities -29.4%	Cash 0.3%	Cash 0.8%	MSCI EM -14.3%	Cash 2.2%	Commodities -15.0%	Gold -4.1%	REITS -25.2%	Commodities -3.5%	REITS -1.7%

Source – Bank of America (15/03/2024)

2024 Presidential Election

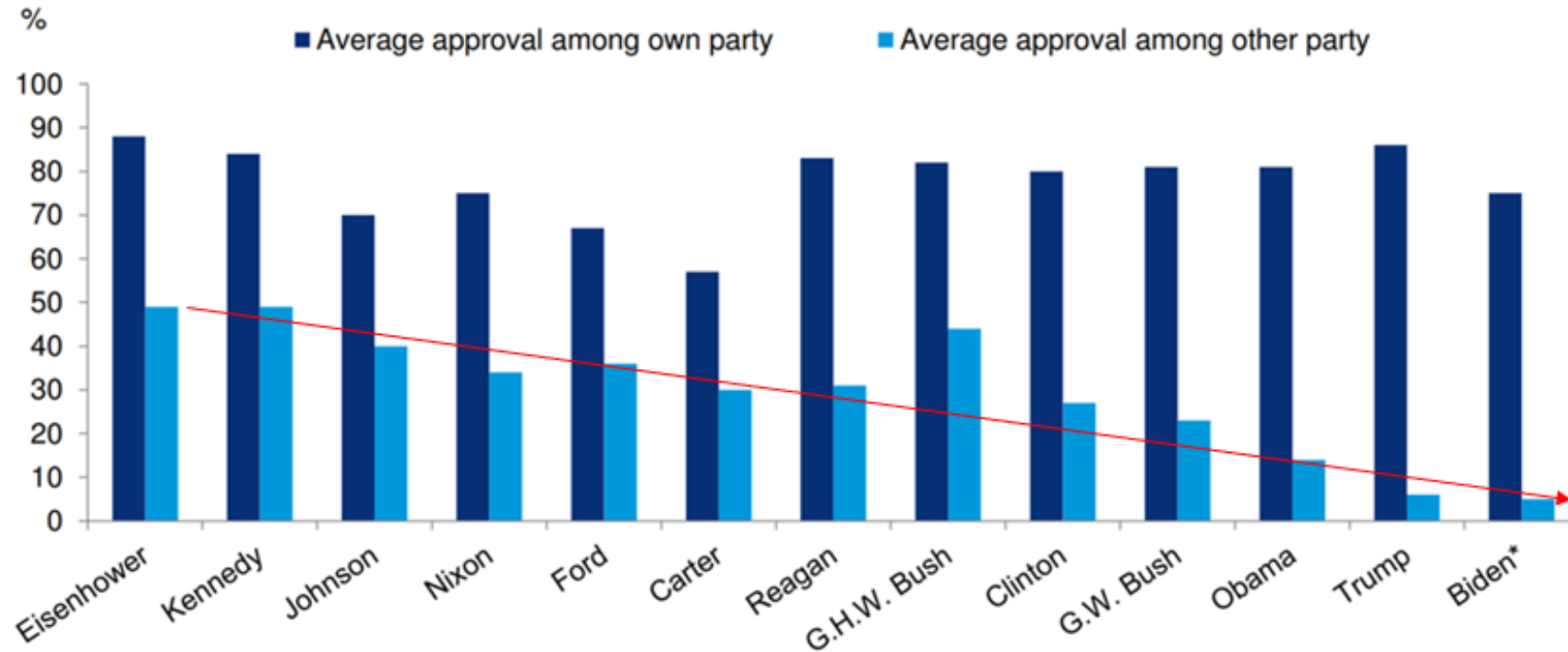
Biden vs Trump – Round 2



Source - Bloomberg

A Polarised Country

Difference in Presidential Approval Rating By Party

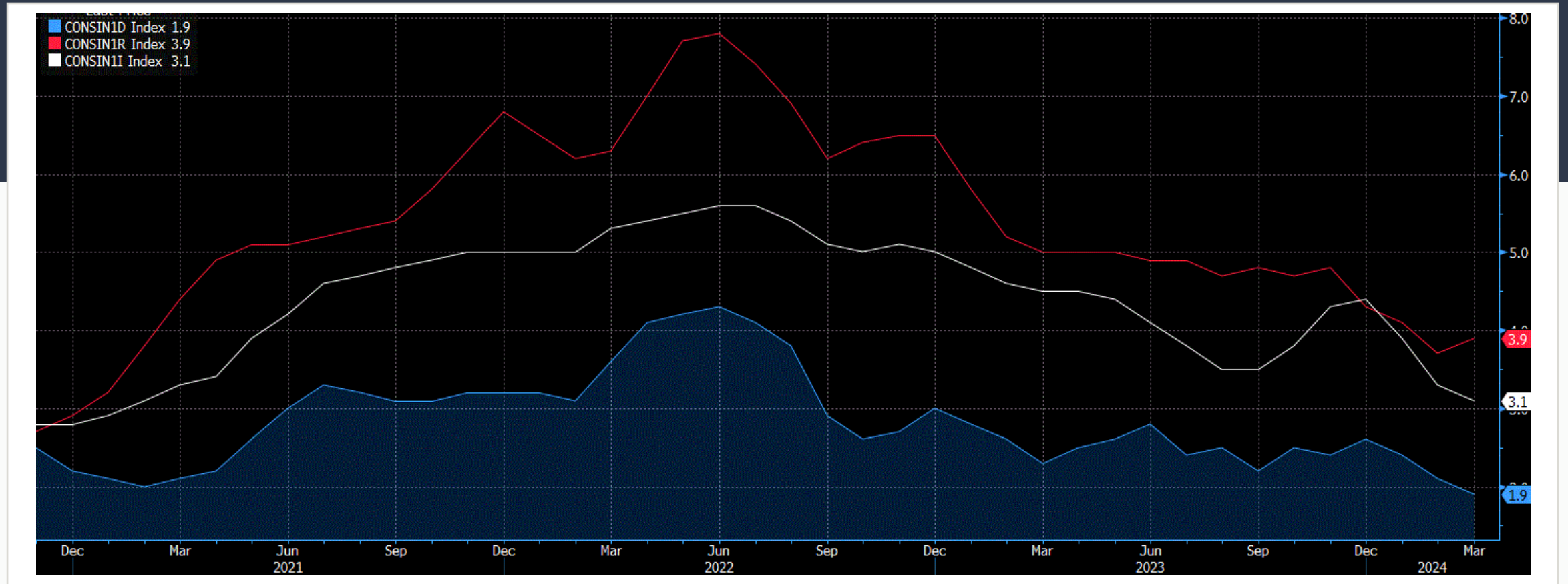


*Latest Survey October 2023
Source: PEW Research Center, Gallup Survey, Deutsche Bank

Source – Deutsche Bank/Gallup October 2023

A Polarised Country

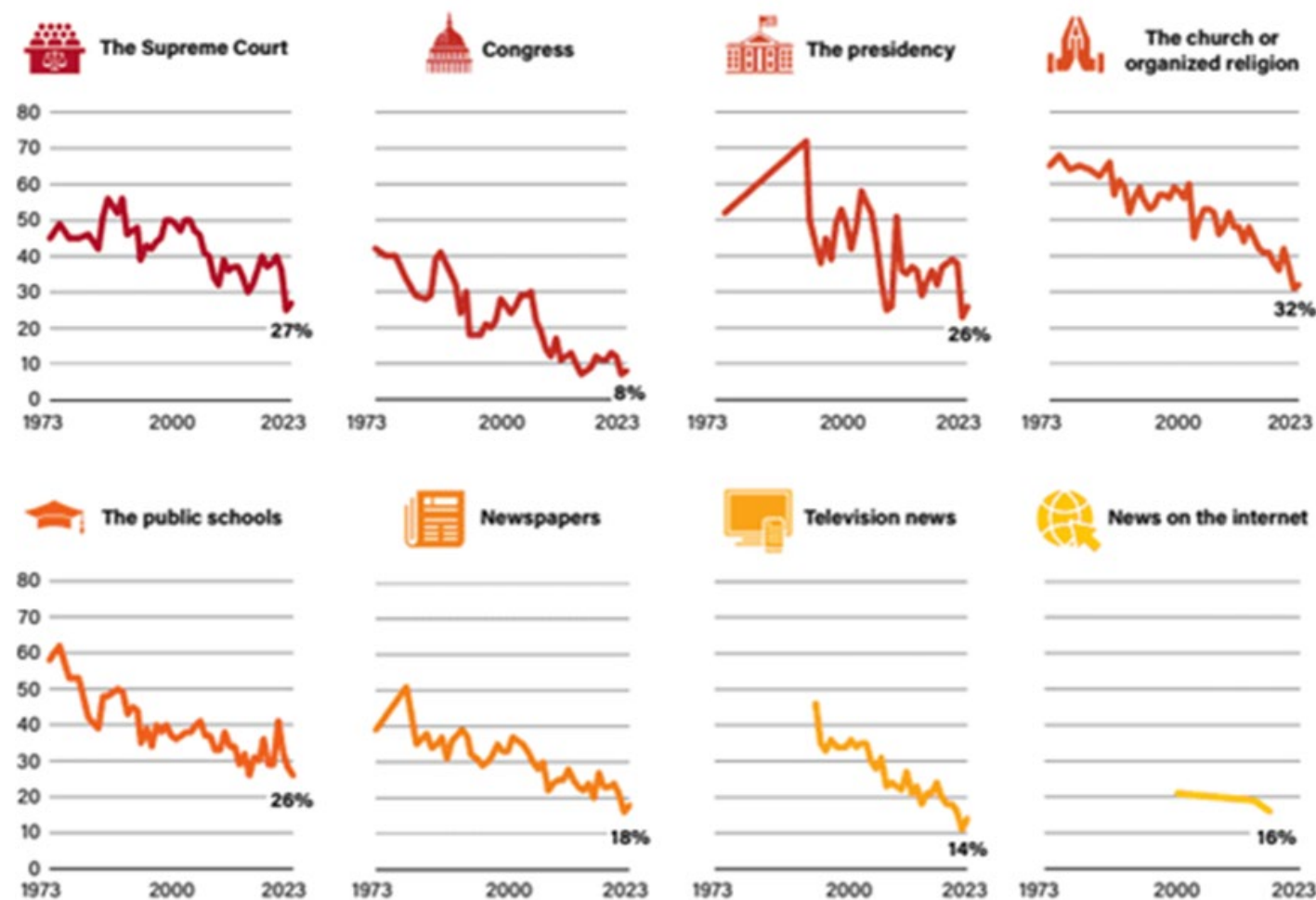
1-Year Inflation Expectations By Party Allegiance – Rep (Red); Dem (Blue); Ind (White)



Source – University of Michigan / Bloomberg (February 2024)

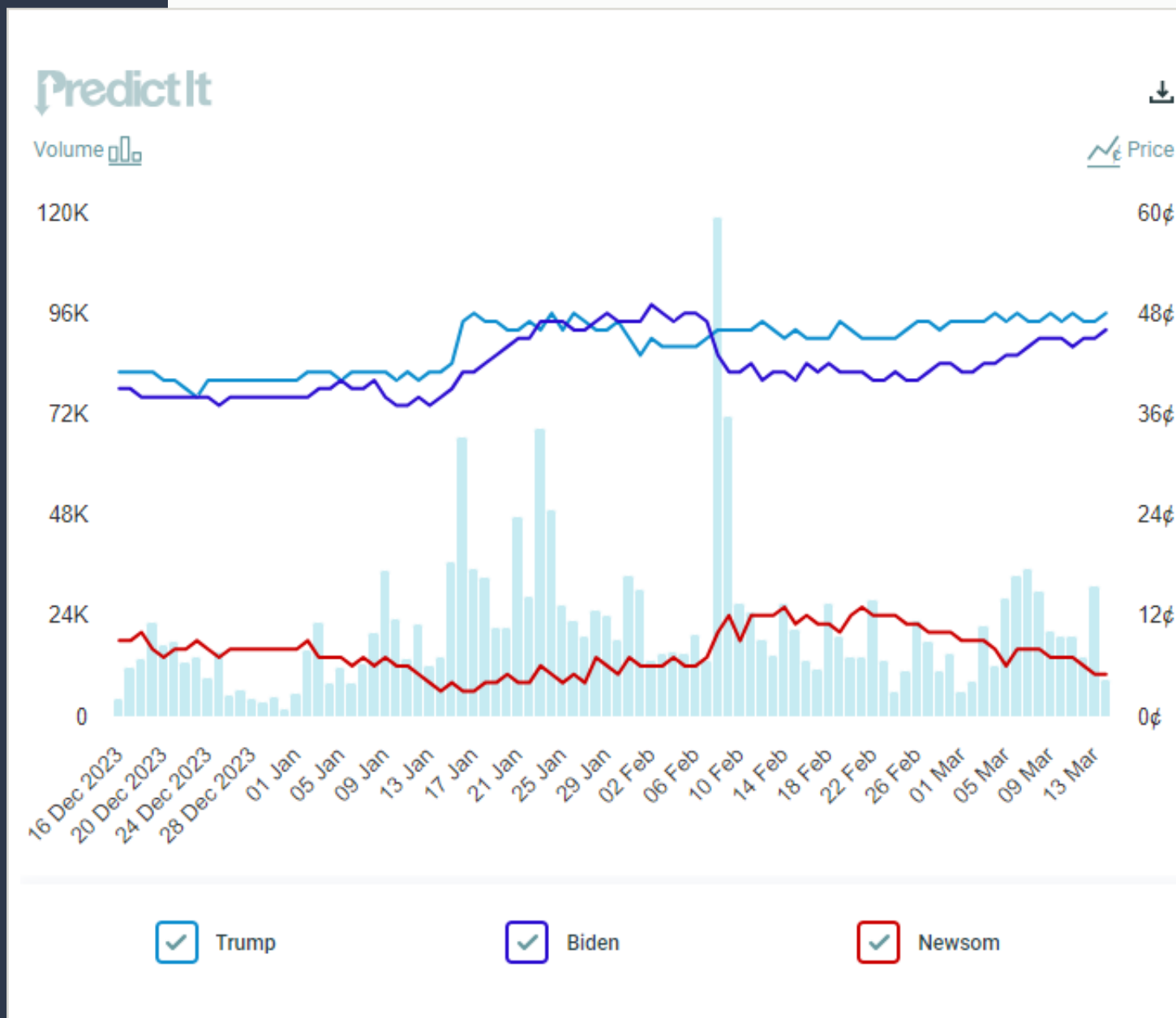
Falling Confidence In Political and Social Institutions

“What is your confidence in...”



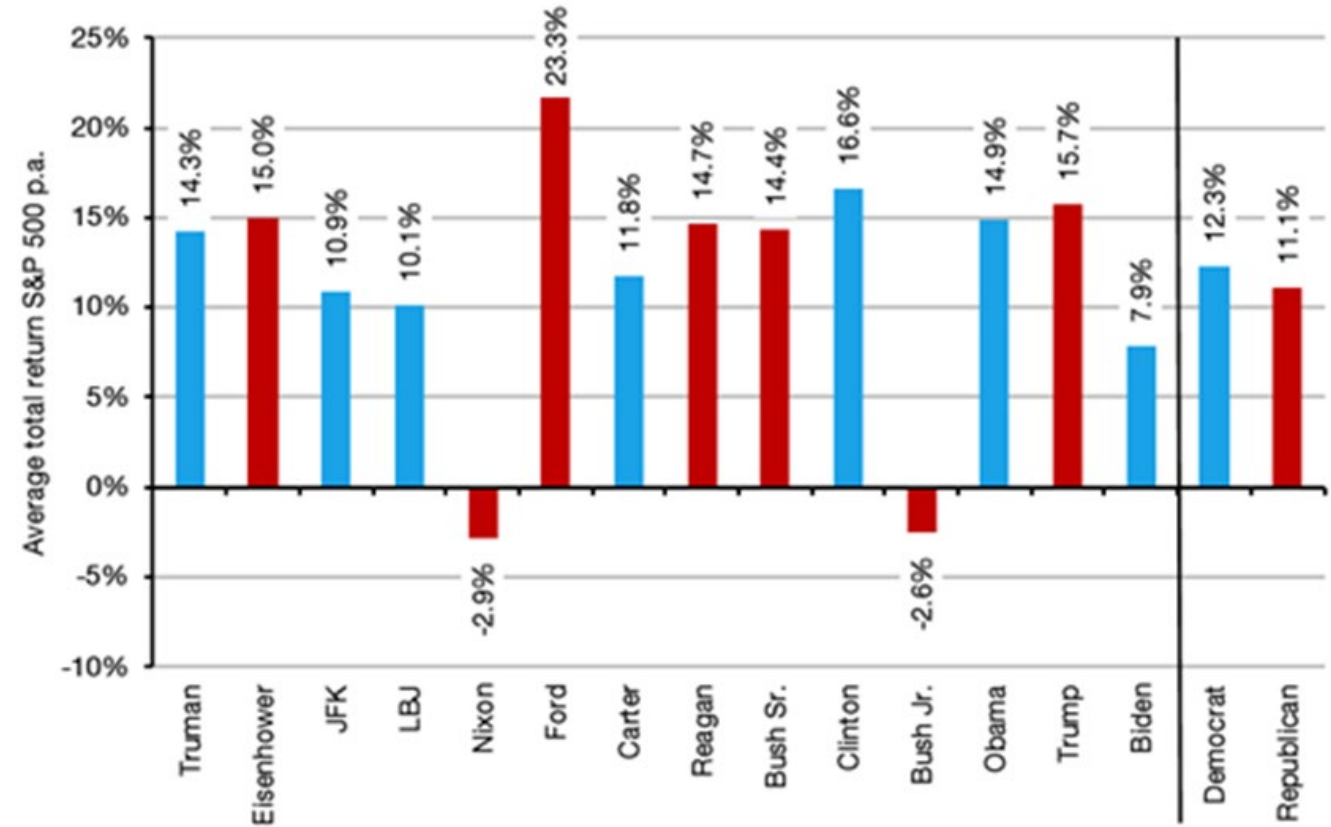
Source – Gallup

Latest Betting



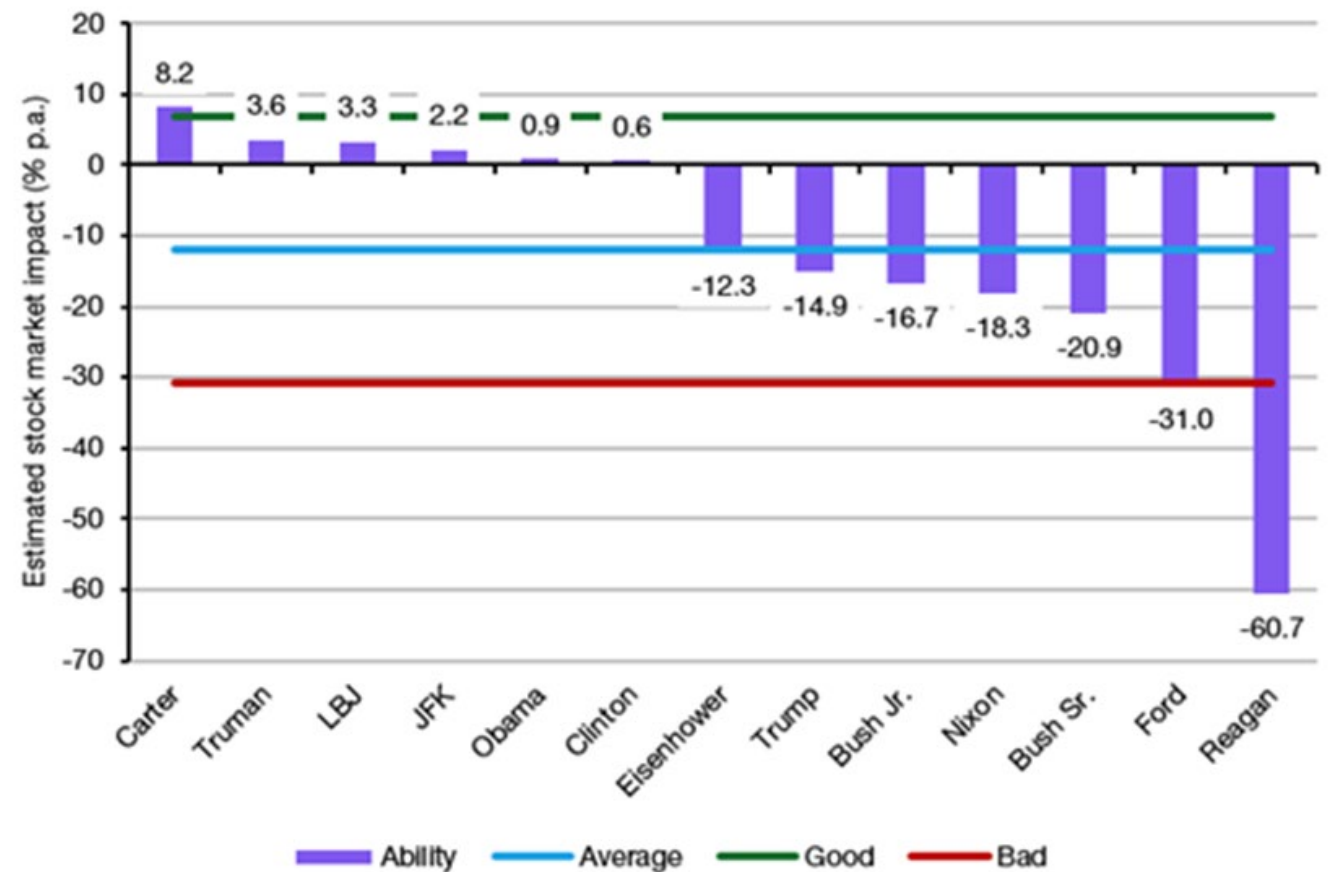
Source – PredictIt – 15/03/2024

Stock Market Returns by Party



Source – Liberum (March 2024)

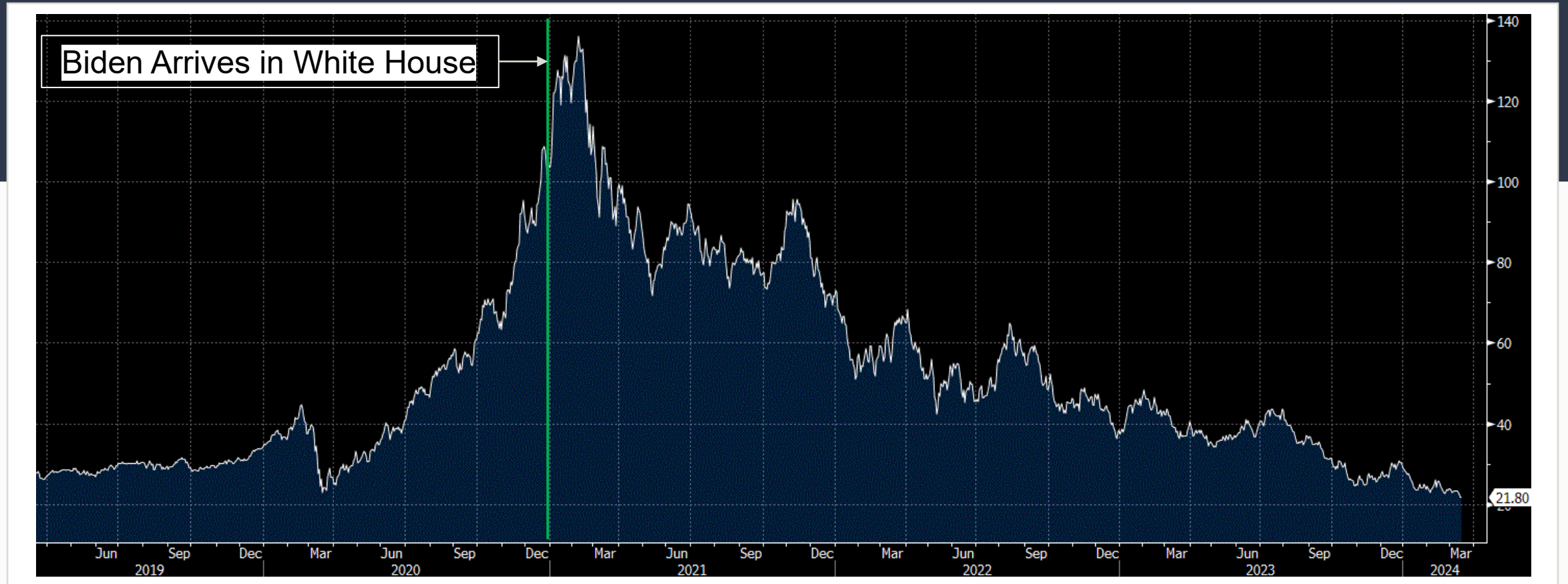
Value Added by President



Source – Yosef Bonaparte, University of Colorado

A Cautionary Tale

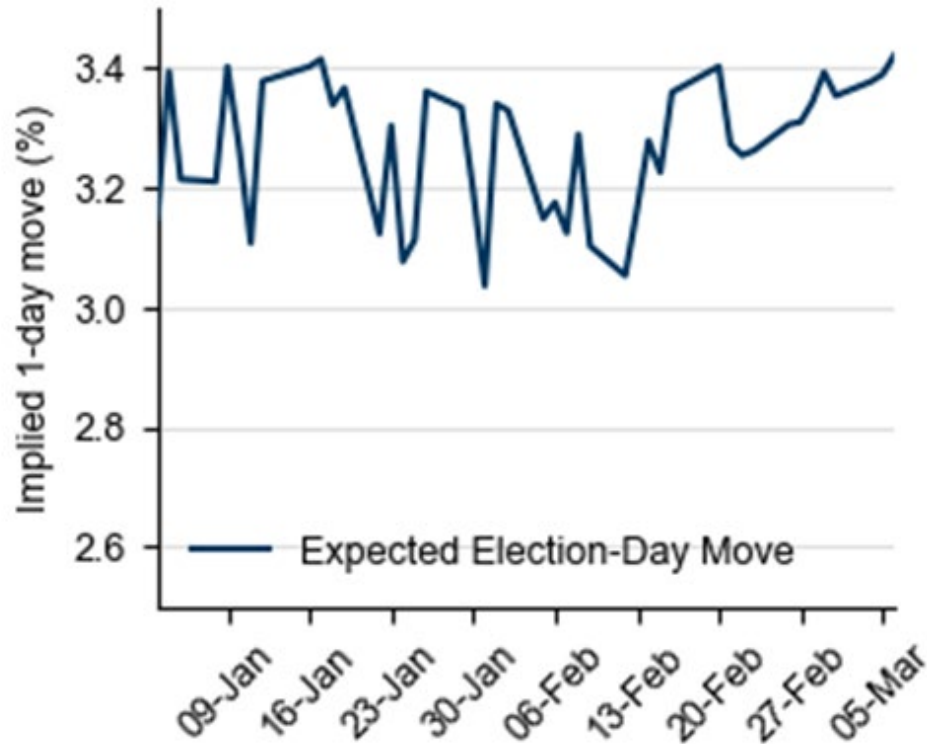
Invesco Wilderhill Clean Energy ETF



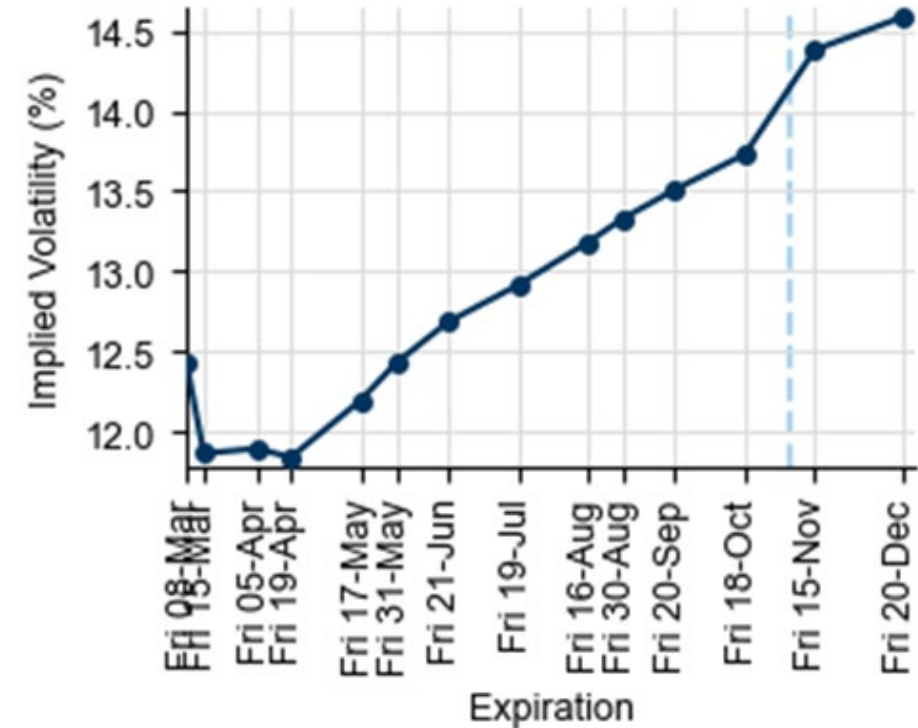
Source – Bloomberg (15/03/2024)

Expect Increasing Volatility

Expected S&P 500 1-Day Move On Election Day



S&P 500 Forward Volatility Curve



Source – Goldman Sachs

Conclusions



Prepare for all weathers

- ✓ Inflation has peaked... but might be slower to fall from here
- ✓ Interest rates have peaked... but how fast will they be cut?
- ✓ We should be leaving behind a long period of flat returns...
- ✓ ...But it's difficult to take strong market views today
- ✓ More alpha generation from stock-picking
- ✓ US and UK elections will create some volatility – more in the US

Thank You

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