



# Market Review

Quarterly Report

Q4 2023

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## Key Indicators at a Glance

Index (Local Currency)		Q4 2023	Q4	YTD
<b>Equities</b>		<b>Total Return</b>		
UK Large-Cap Equities	FTSE 100	7,733	3.63%	6.22%
UK All-Cap Equities	FTSE All-Share	4,232	4.62%	6.24%
US Equities	S&P 500	4,770	11.67%	26.76%
European Equities	EURO STOXX 50 Price EUR	4,521	9.61%	21.14%
Japanese Equities	Nikkei 225	33,464	5.48%	32.83%
EM Equities	MSCI Emerging Markets	1,024	7.99%	10.14%
Global Equities	MSCI World	3,169	12.10%	24.22%
<b>Government Bonds</b>				
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	3,129	9.20%	3.69%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	3,755	16.67%	1.65%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	4,037	10.48%	0.93%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	4,368	16.79%	-4.28%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	223	7.72%	7.12%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	2,277	6.26%	4.05%
EM Gov Bonds (Local)	JP. Morgan Government Bond Index Emerging Markets Core In	137	7.99%	10.91%
EM Gov Bonds (Hard/USD)	JP. Morgan Emerging Markets Global Diversified Index	893	9.98%	11.09%
<b>Bond Indices</b>				
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	362	8.13%	9.63%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	232	5.99%	8.84%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	439	5.63%	12.78%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	3,221	8.50%	8.52%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2,480	7.16%	13.45%
<b>Commodities</b>				
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	77	-19.17%	-10.32%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	2.51	-14.17%	-43.82%
Gold	Generic 1st Gold, USD/toz	2,072	12.10%	13.45%
Copper	Generic 1st Copper, USD/lb	389	4.09%	2.10%
<b>Currencies</b>				
GBP/EUR	GBPEUR Exchange Rate	1.15	-0.03%	2.12%
GBP/USD	GBPUSD Exchange Rate	1.27	4.36%	5.36%
EUR/USD	EURUSD Exchange Rate	1.10	4.41%	3.12%
USD/JPY	USDJPY Exchange Rate	141	-5.58%	7.57%
Dollar Index	Dollar Index Spot	101	-4.56%	-2.11%
USD/CNY	USDCNY Exchange Rate	7.10	-2.71%	2.92%
<b>Alternatives</b>				
Infrastructure	S&P Global Infrastructure Index	2,724	14.21%	6.46%
Private Equity	S&P Listed Private Equity Index	212	20.57%	40.56%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	18,783	3.59%	7.21%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,718	9.92%	3.59%
<b>Volatility</b>			<b>Change in Volatility</b>	
VIX	Chicago Board Options Exchange SPX Volatility Index	12	-28.94%	-42.55%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested.

## Executive Summary

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- Inflation (including core inflation) fell again in Q4 and allayed many market fears over it proving stickier than expected. As a result of this continued fall, central banks have taken a more dovish stance and indicated that rates will be cut sooner in 2024 than previously expected. Lower inflation and peaking rates have shifted the concern more on the side of stagnating growth and recessionary risk, with UK and Europe showing declining GDP growth and China still feeling the effects of the property crisis. **However, as inflation failed to fall in 2024 more recently, these expectations of falling rates have reversed.**
- Q4 delivered a rally in almost all markets, following the Q3 correction, returning to the positive trend of the first half of the year. Global equities (MSCI World) rose sharply by 12.1% in local currency terms over the quarter, with Growth (+13.2%) rising more sharply than Value (+8.8%). Japanese and UK equities notably lagged behind other markets, with broad Japanese equities returning 2.0% (TOPIX Index) and 5.5% (Nikkei 225) in local currency and UK equities returning 4.6%. Following a spectacular year, Japanese equities lagged, due to the lesser impact of changes in rate policy combined with yen appreciation acting as a headwind. UK equities suffered from the drops in oil and gas prices and sterling strength. **A key aspect driving markets is the performance of the so-called Magnificent Seven mega-cap US tech stocks....**Apple, Amazon, Alphabet (Google), Meta (Facebook), Nvidia, Microsoft and Tesla. They have accounted for the lion's share of gains in World Markets for many quarters. All government bonds performed strongly over the quarter, with long dated gilts showing the biggest recovery but this has reversed YTD.

### It is worth highlighting the following themes, impacting investment markets:

- **Core inflation is going down but watch for false rallies.** Inflation fell across the board through most of the quarter. UK annual CPI fell to 3.9% in November, compared to 3.4% for the US and 2.9% for Eurozone in December (UK estimates for December not yet available). Core inflation (excluding energy and food prices) has now also been falling more significantly, resulting in the Fed taking a more dovish stance and increasing predicted cuts in 2024. However, tensions in Ukraine and the Middle East illustrate the potential for renewed inflationary shocks (from supply constraints) and sustained inflationary pressure (through "friendshoring", the onshoring of businesses to friendly nations, and the re-engineering of supply chains). It is likely that as 2024 progresses we will see more pauses/false rallies as central banks balance the need to keep the inflation figures falling and the risks of recession.
- **AI has now been operational for over a year, what are the next steps?** Since ChatGPT's launch in November 2022, it and other AI platforms have had a significant impact. The scale of its potential can be seen in the way it has materially driven technology investment over the course of the year and in the enormous outperformance of the US tech majors ("Magnificent Seven").

Increasing regulation and concerns over its misuses may lead to a slight slowing of the speed of advancement and investment, but the power of AI to disrupt businesses and, indeed, the political process in the largest electoral year in history, should not be underestimated. It offers huge opportunities, but also creates an increasingly risky investment environment.

**Investment risk is higher and harder to diversify in geopolitically driven or inflationary environments.** In inflationary environments, where central banks have to balance taming inflation with causing recessions, equity/bond correlations tend to be positive: raising rates is mathematically bad for bond prices, but also increases recession risk, impacting equities. This means the traditionally stable assets (bonds), as well as being inherently more volatile, are also less likely to offset movements in risk assets (equities). In addition, 2024 will be a year of elections and the Taiwanese elections, in which the DPP (the champions of Taiwan's separate identity) have been re-elected, illustrates the potential for such events to have global impacts; none more so than the US election at the end of this year, which could impact whole sectors, changing the outlook for global trade and the energy transition.

- Global equities rose in Q4, returning to the rally of the first half of the year. The VIX decreased over the quarter from 18 to 12.
  - In the US, the S&P 500 rose by 11.7% and the NASDAQ composite also rose by 13.8%.
  - UK equities increased by 4.6%, underperforming global equities.
  - The Euro Stoxx 50 rose by 9.6% in Q4.
  - Japanese equities continued their positive run in Q4 but underperformed other equity markets in part due to yen appreciation.
  - Emerging market equities rose by 8.0% in Q4, whilst Chinese equities fell (-4.8%) over mounting growth concerns. The rest of the emerging markets performed strongly, with MSCI EM LATAM returning 17.8% over the quarter.
- Yields generally fell over the quarter, as a result of more dovish stances taken by central banks (mainly the Fed) and predictions of rate cuts in 2024 which resulted in strongly positive performance across the main government bond markets..
- Energy prices declined during Q4, with crude oil falling -19.2% from the highs of Q3 to finish the calendar year -10.3% down. Similarly, natural gas was down -14.2% and ended the year -43.8% down, the largest annual percentage decline since 2006.
  - Gold and copper rose 12.1% and 4.1% respectively over Q4. Precious metals prices (particularly Gold) generally rose following concerns around geopolitical stability, while industrial metals were more mixed.

- Global listed property rebounded this quarter, with the FTSE EPRA Nareit Global Index rising 9.9% in Q4.
  - The Nationwide House Price Index in the UK has increased after its decrease last quarter, with the seasonally adjusted price index up 1.1% for the quarter, and down -1.7% for the last 12 months.
- In currencies, US dollar weakened generally throughout the quarter (DXY -4.6%), weakening against sterling, the euro and the Japanese yen. Bitcoin and Ethereum saw strong performance in Q4 (57% and 37% respectively) with a main driver being the increasingly likely approval of the US spot bitcoin ETF by the SEC.

## **FUND PERFORMANCE AND INVESTMENT STRATEGY**

Overall fund performance was better against the benchmark for the fourth quarter returning +4.9% versus +4.5%. The 12 month return has now improved and ahead of benchmark returning 9.6% versus 8.8%. The performance improvement is welcome and was due to underlying fund performance from Brunel sub-funds mainly....Global Sustainable, UK Active, Emerging Market Equities and Multi Asset Credit were all ahead of their respective benchmarks . Only Global High Alpha and Global Small Cap were behind. The investing environment for Brunel's style....growth and quality styles....was more positive in November/December 2023 as bond yields declined. The logic is that if interest rates decline, the present value of the future profits of fast growing companies becomes more valuable when a lower discount rate is applied.

The view of the future direction of interest rates is therefore central to the performance of our assets and the Brunel portfolios. Brunel has faced headwinds in this regard in earlier in 2022 and 2023, but if we get a period of little change in interest rates this should be in Brunel's favour.

Looking at specific Brunel funds, the Multi Asset Credit was a stand-out performer +12.4% over the calendar year as markets endorsed the likelihood of a "soft landing". So far, we seem to be navigating this economically turbulent cycle without a credit crunch. Global Sustainable performed much better, as mentioned above, but we still hope to claw back past underperformance over the last 3 years in a more favourable environment. Brunel and their underlying managers have the unenviable task of navigating the positions in the "Magnificent Seven". Since those stocks are driving upside, and downside, the relative weights of those stocks are important to relative performance. There is a great deal of debate about whether we have "been here before" (internet bubble 2000) or whether "this time it is different" (some of these companies have built giant economic moats). My own view is that some will maintain their dominance and some will face competitive threats that erode their high valuations over time. But neither the pension fund, nor Brunel, directly makes those choices of which stocks will fall

into which category. The choices are made by the individual underlying asset managers of each actively managed portfolio operating under the appointment by Brunel. Nevertheless, I find it informative on page 6 of the quarterly Brunel report that the aggregation of all the underlying positions is totalled and that 5 of the Magnificent Seven appear in the top ten equity holdings and 2 do not. The 2 that do not are Tesla and Meta, and even from my distance I can understand the logic behind that.

The Equity portfolios are currently undergoing a review by Mercer. The output of this review will involve a minor consolidation of the passive climate funds into the Paris-Aligned Benchmark portfolio.

# Charts and Data

## Economic Indicators

Table 1: Quarterly GDP Growth Rate and Monthly CPI

%	GDP		CPI		
	Q3 2023	Q4 2023	Oct	Nov	Dec
UK	-0.1	N/A*	4.6	3.9	N/A*
US	1.1	N/A*	3.2	3.1	3.4
Eurozone	-0.1	N/A*	2.9	2.4	2.9
Japan	-0.7	N/A*	3.3	2.8	N/A*

Source: Bloomberg; Trading Economics.

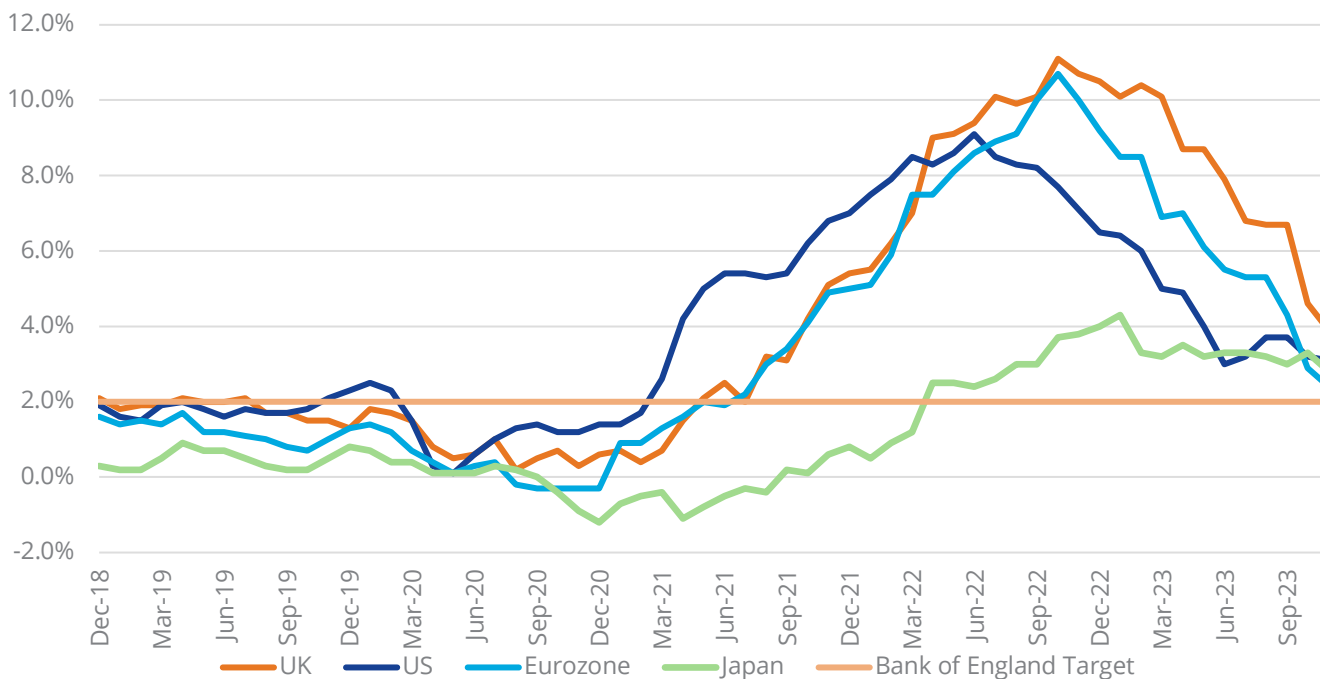
Notes: \* Not available at time of publication; \*\* Forecasts based on leading indicators (not available at time of publication this quarter)

CPI: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat

Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

GDP: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: GDP CQOQ Index) de-annualised, Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: JGDPQGDP)

Chart 1: CPI – Annual rate of Inflation - Five Years to December 2023



Source: Bloomberg

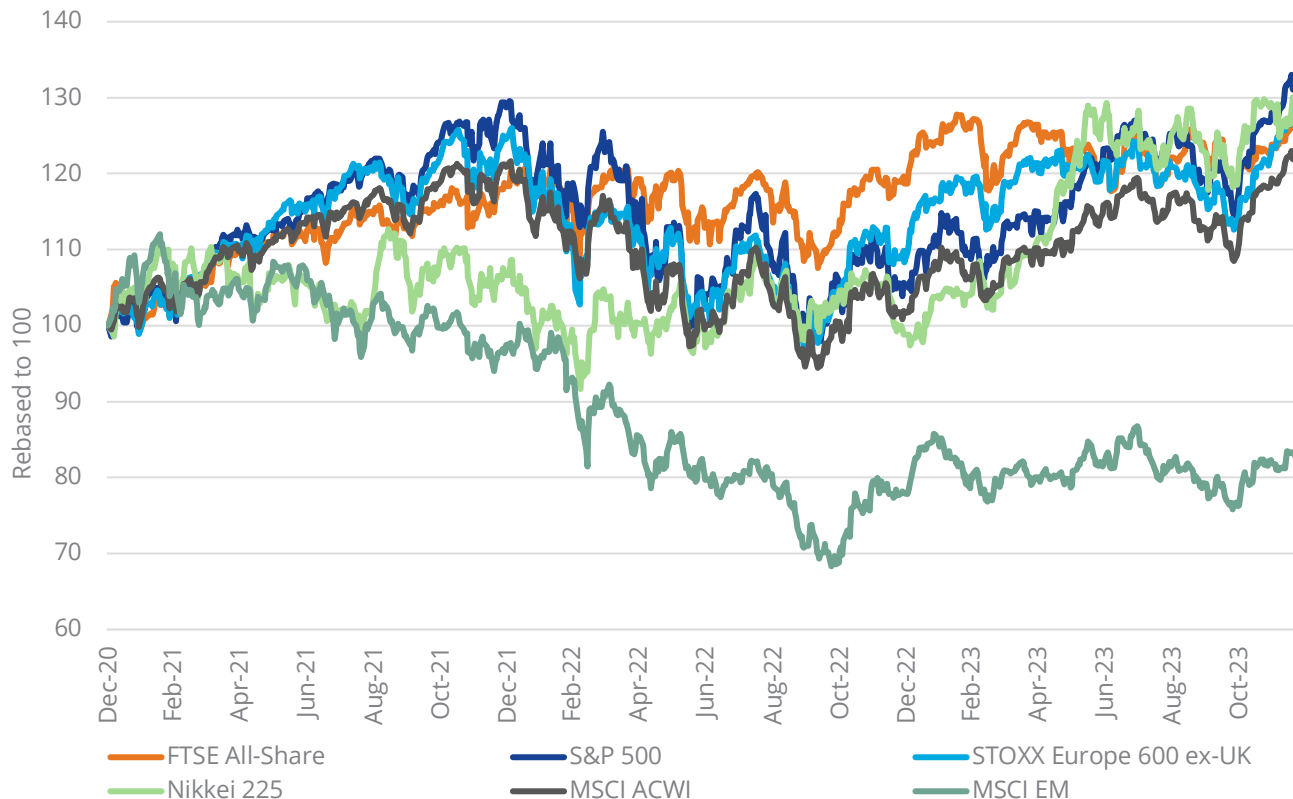
Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat

Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)



# Equities

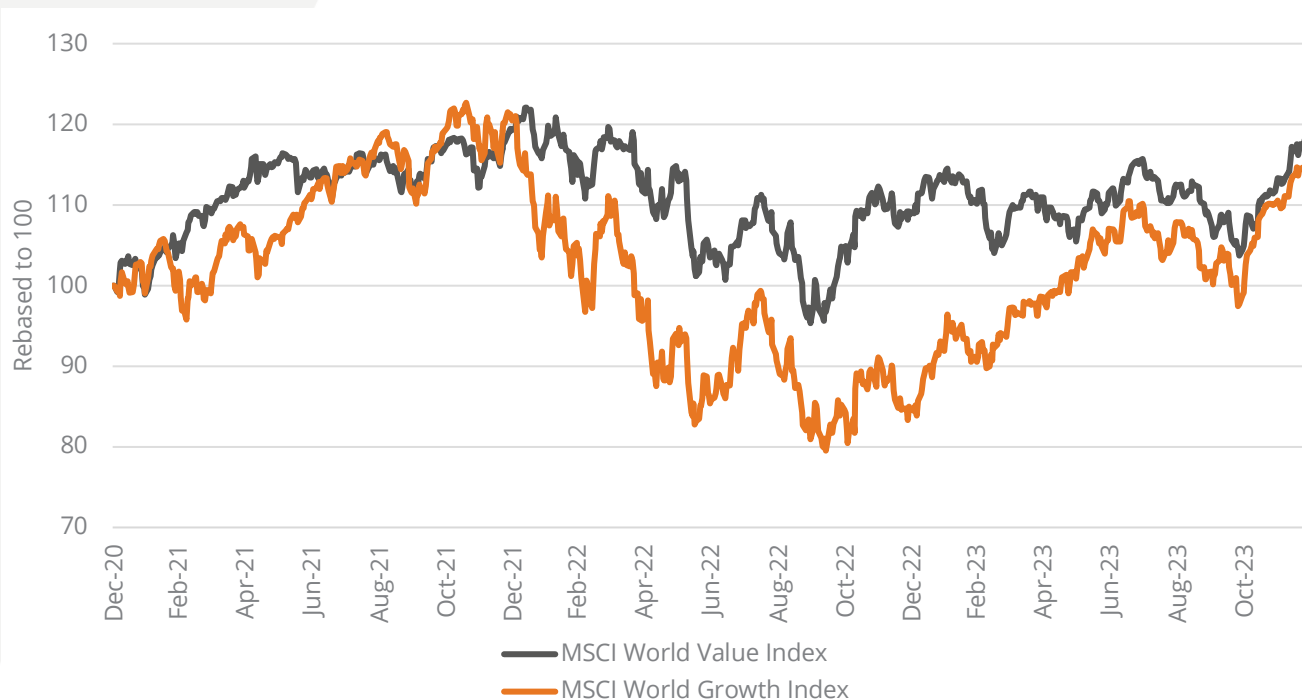
Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currencies

Notes: FTSE All-Share Index (Ticker: ASXTR Index); S&P 500 Index (Ticker: SPXT Index); STOXX Europe 600 (Ticker: SXXG Index); Nikkei 225 Index (Ticker: NKYTR Index); MSCI World Index (Ticker: DLEACWF Index); MSCI Emerging Markets (Ticker: M1EF Index)

Chart 3: Global Equity Markets, Growth vs Value



Source: Bloomberg

Notes: MSCI World Value Index (Ticker: MXWO000V Index); MSCI World Growth Index (Ticker: MXWO000G Index)

Table 2: MSCI ACWI Composition

Region	Q3 2023 (%)	Q4 2023 (%)
US	62.3	62.7
UK	3.7	3.6
Europe (ex-UK)	12.2	12.3
Japan	5.7	5.5
Developed Asia-Pacific	2.8	2.8
Emerging Markets	10.2	10.1
Other	3.1	3.1

Source: iShares MSCI ACWI ETF

## Fixed Income

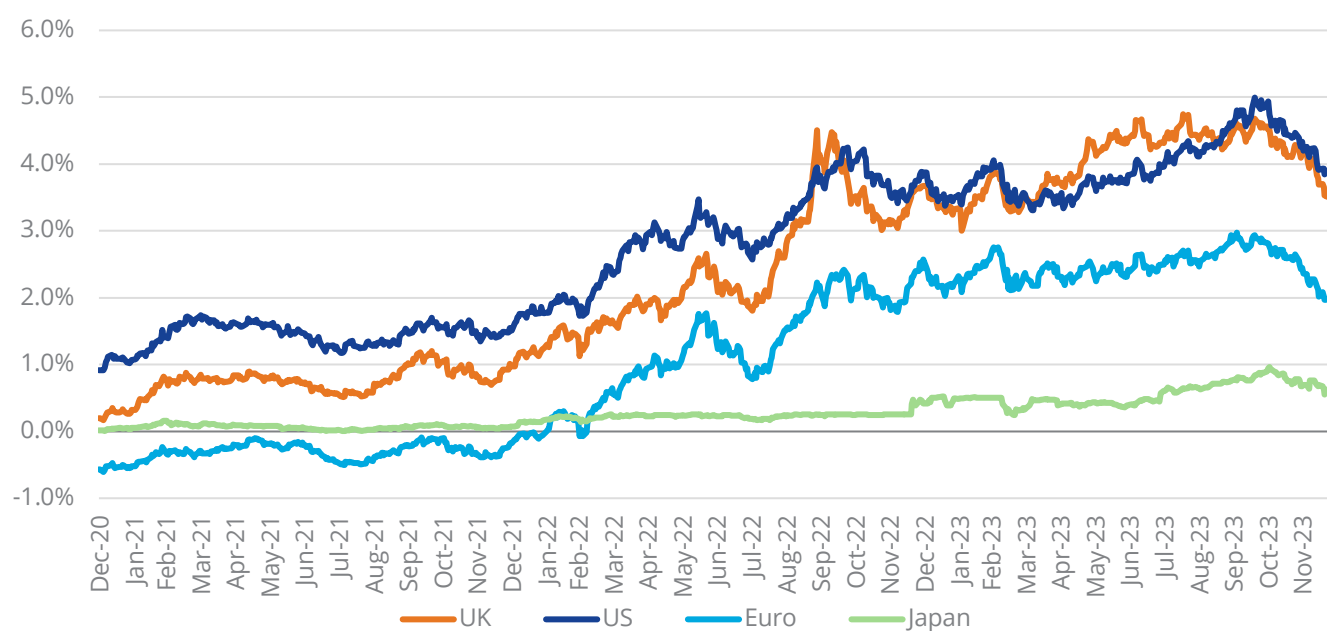
Chart 4: US Corporate Bond Spreads



Source: Bloomberg

Notes: Bloomberg Barclays US Corporate Option Adjusted Spread (Ticker: LUACSTAT Index); Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury

Chart 5: Government Bond Yields



Source: Bloomberg

Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index); Japan Generic Govt Bond 10 Year Yield (Ticker: GJGB10 Index)

# Commodities

Chart 6: Gold and Brent Crude Oil Prices

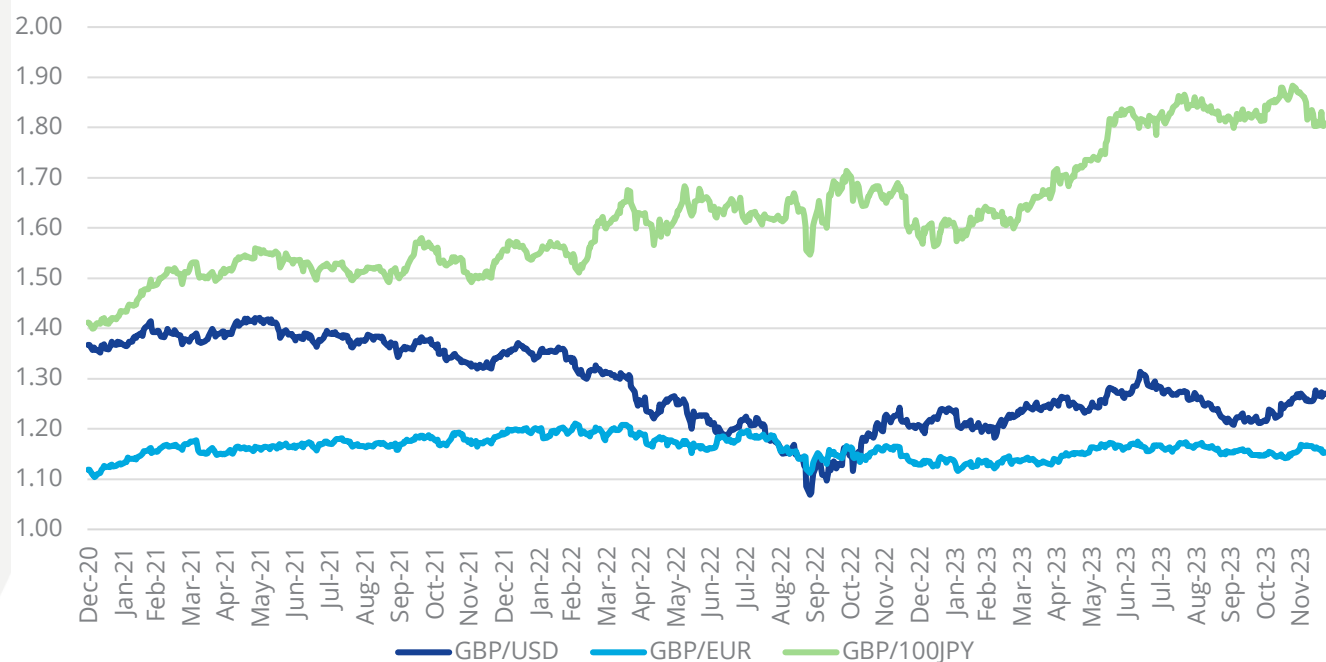


Source: Bloomberg

Notes: Gold USD Spot (Ticker: XAU Currency); Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

## Currencies

Chart 7: Three-Year Currency Rates of Major Currencies vs Pound Sterling



Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); GBPJPY Spot Exchange Rate (Ticker: GBPJPY Currency)

Table 3: Currency Rates as of 31 December 2023

Pair	Q4 Value	% Change Over Quarter
GBP/EUR	1.1535	-0.03%
GBP/USD	1.2731	4.36%
EUR/USD	1.1039	4.41%
USD/JPY	141.04	-5.58%

Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); EURUSD Spot Exchange Rate (Ticker: EURUSD Currency); USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)

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