Wealth Management

Quarterly report
Model Portfolio Service

Q3 2024 market review

Overview

- Bank of Japan hike rattles markets
- The Fed goes bold with its first cut
- Equity market rally broadens out

Macroeconomic landscape

Globally inflation is gradually moving toward central bank targets, easing market concerns about the high inflation of 2022. So far the European Central Bank, Bank of England, and Federal Reserve have made their first interest rate cut. Japan, on the other hand, raised interest rates for only the second time in 17 years.

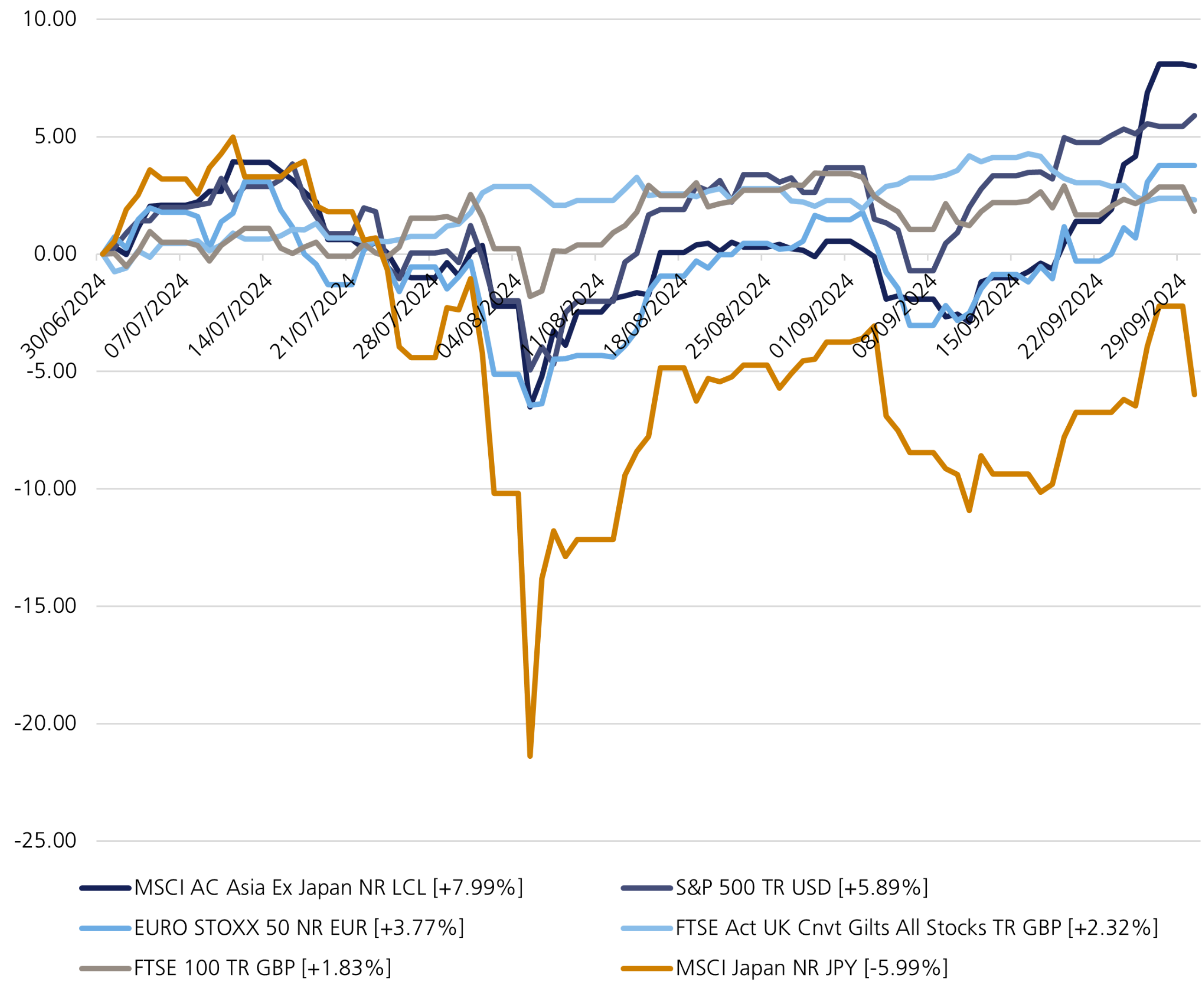
The global economy remains robust but signs of weakness are emerging. In July, markets were spooked by weak US economic news, as payroll data weakened, and the unemployment rate unexpectedly rose to 4.3%. Despite a more aggressive US interest rate cut than expected, growth continues to be resilient and the US consumer healthy, and while the labour market is fraying around the edges, it is structurally healthy from a historical standpoint.

In August, equity market **volatility** spiked, with US tech and Japanese stocks impacted by the unwinding of the **Yen 'carry trade'**, which caused major disruptions. Japan experienced a brief but intense **bear market**, with a 20% drop in just three days, followed by a swift recovery. Fixed income provided ballast to portfolios in August, outperforming equities, with **defensive** stocks outperforming previous market darling technology. Gold also reach all-time highs in September, continuing an impressive run YTD.

In the UK, the euphoria surrounding the Labour landslide victory was short-lived. The upcoming budget announcements are unlikely to be market-moving, but it will undoubtably have implications for UK consumers and businesses. The US election continued to gain attention, with Kamala Harris narrowly leading in key swing states after the second assassination attempt on Donald Trump. With a month until the 60th US Presidential election completes on 5th November, the result remains far too close to call, but the shift in momentum towards the Democratic party and Kamala Harris cannot be ignored.

China unveiled its largest stimulus package yet to boost the property market, including cuts to outstanding mortgage rates and record-low down payments for second homes. The market responded positively, as scepticism turned to optimism, with the meeting itself signalling that China are focusing on getting their economy back on track. China and broader Asia **rallied** into the quarter end.

Q3 2024 index



Source: Morningstar

Model portfolio performance as at 30 September 2024

Portfolio	3 month	6 months	1 year	3 years	5 years
Defensive	2.21	3.12	8.65	3.46	11.70
Cautious	1.82	2.98	9.98	5.22	16.82
Balanced	1.55	2.46	10.23	3.36	20.37
Growth	1.38	2.38	11.64	4.27	21.74
Adventurous	0.81	2.63	14.17	7.22	30.31
Strategic income	3.30	4.29	13.25	12.10	24.14

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

12-month rolling performance

Portfolio	30/09/2023-30/09/2024	30/09/2022-30/09/2023	30/09/2021-30/09/2022	30/09/2020-3/09/2021	30/09/2019-30/09/2020
Defensive	8.65	2.44	-7.05	6.08	1.77
Cautious	9.98	3.48	-7.54	9.00	1.86
Balanced	10.23	3.98	-9.83	12.36	3.65
Growth	11.64	4.97	-11.02	14.66	1.83
Adventurous	14.17	5.54	-11.02	16.11	4.68
Strategic Income	13.25	7.03	-7.52	13.35	-2.31

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Performance of all LGT WM funds in Q3 2024

Lazard Global Equity Franchise
+6.89%

Fundsmith Equity
-1.99%

Polar Capital Global Insurance
+6.21%

Vanguard Global Bond Index
+4.37%

Evenlode Global Income
+4.14%

Muzinich Global Tactical Credit
+4.00%

L&G US Index
-1.36%

L&G Global Equity Index
-0.59%

Global equities were volatile in the third quarter of 2024, with a rotation towards **value** stocks at the expense of **growth** stocks. Following strong gains in the first half, most US **mega-cap** tech stocks have lost ground since June, despite solid fundamentals. Small-cap US equities have outperformed in the past three months, supported by rising expectations of a **soft landing** for the US economy and lower interest rates.

Amidst these trends, the Lazard Global Equity Franchise fund rose by 6.89% over Q3. Its focus on a '**quality-value**' investment strategy, steering away from technology, helped it avoid the **correction** in tech stocks. This diversification provided a strong return, differentiating it from the broader market.

In **fixed income** markets, the Vanguard Global Bond Index delivered a 4.37% return in Q3. Following rate cuts by many central banks, bond prices rose, benefiting from the safe-haven demand during the market volatility in early August. Sovereign **yields** have declined for the year, with the U.S. 10-year government bond yield dropping by 0.7% since June. Shorter-term bond yields fell even further as markets grew more confident in future central bank rate cuts. **Credit spreads** remained tight despite some volatility.

Conversely, funds with significant exposure to tech stocks struggled. The L&G Global Equity Index and L&G US Index, both naturally tilted towards mega-cap technology, saw returns reverse sharply, hurting their performance. The L&G US Index fell by 1.36% as the **rally** in mega-cap stocks stalled, reflecting investor caution over potential US growth slowdown. Similarly, the L&G Global Equity Index declined by -0.59%, with the '**Magnificent 7**' tech stocks – comprising 20% of the index – dragging down overall performance.

Fundsmith, which was a top performer in Q2, saw a fall of 1.99% in Q3 due to stock-specific issues and its focus on mega-cap tech. This reversal followed a period of strong returns for its major holdings in the tech sector.

Portfolio changes and rationale

US Treasuries to Gilts

Moved exposure due to attractive yield opportunities in Gilts.

Widening yield premium between US Treasuries and Gilts (Atlantic spread) influenced the decision.

US economic slowdown and moderated inflation have accelerated rate cut expectations, favouring UK Gilts.

Upcoming US election expected to continue high government spending and fiscal deficits.

Higher neutral rate of interest anticipated, supporting higher growth levels in the US.

Reduced exposure to Vanguard Global Bond Index & Vanguard Global Short Term Bond Index.

Increased allocation to L&G All Stock Gilt Index, targeting Gilts with around 8 years duration.

Changes to Strategic Income portfolio

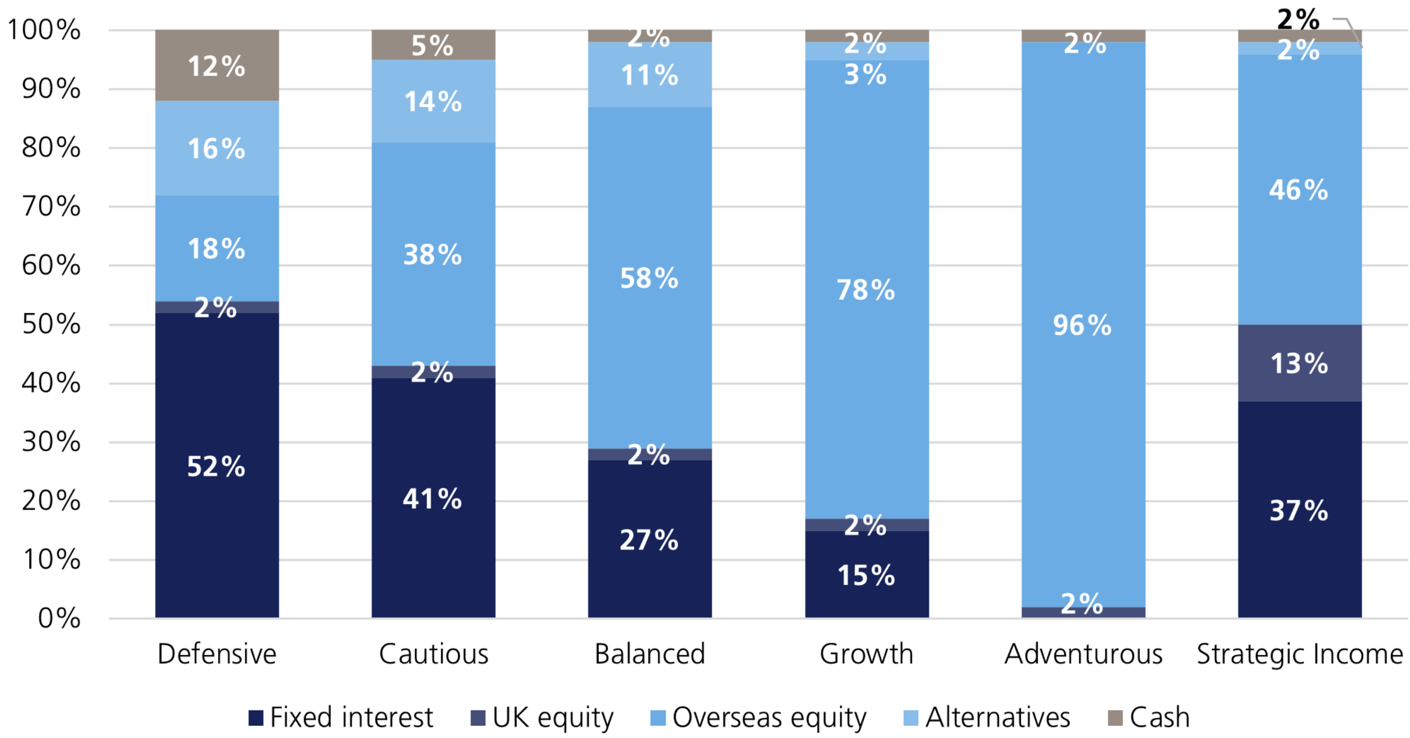
Increased yield to approximately 4% for better income generation.

Added exposure to Schroder's Income Maximiser funds.

Removed Lazard Global Equity Franchise and Lindsell Train Global Equity.

Introduced Brown Advisory Global Leaders and other global managers for higher dividend orientation and quality.

Portfolio positioning



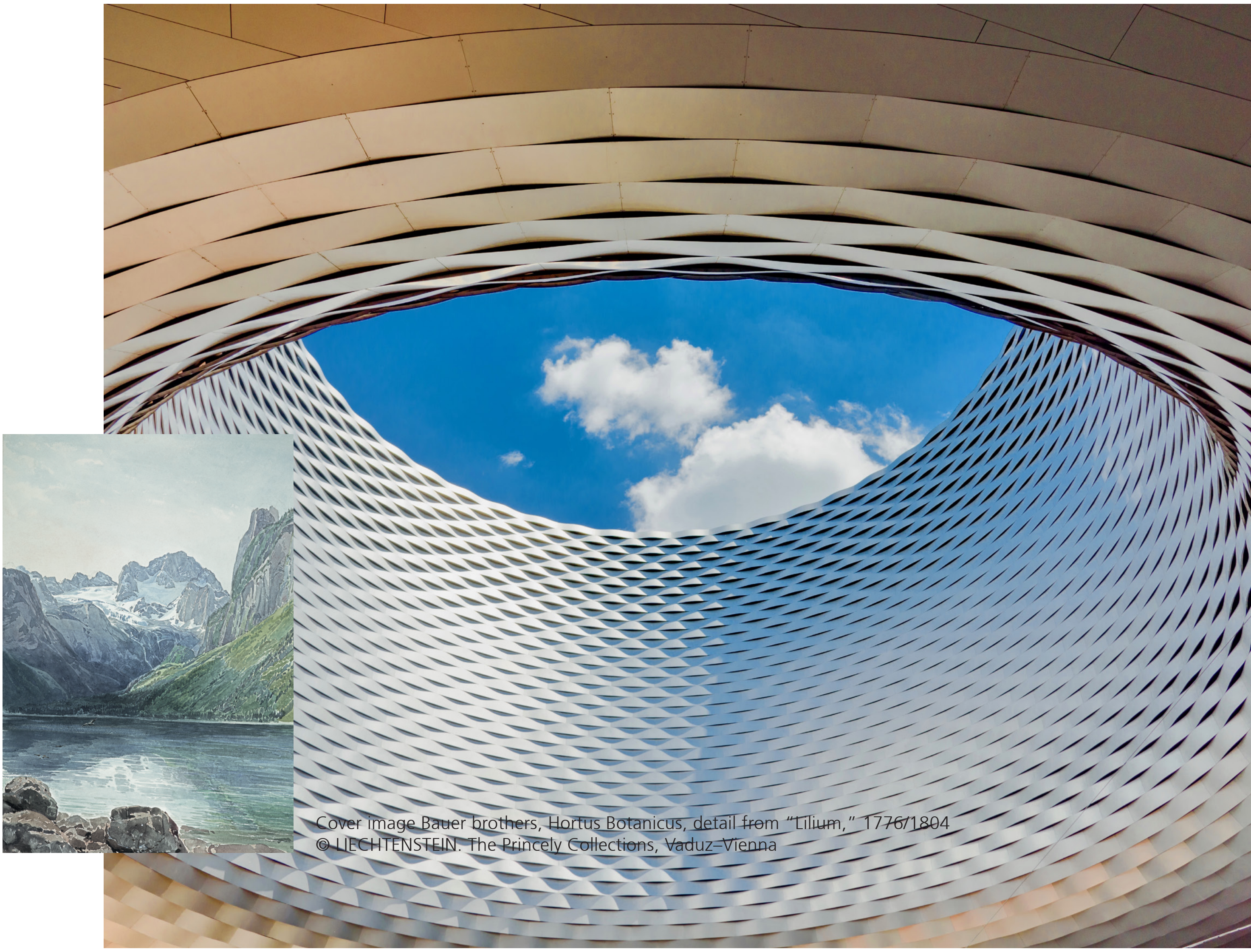
Further material

Click here to watch a five-minute roundup of the last quarter with LGT's CIO, Sanjay Rijhsinghani.

Click here for a deeper dive into recent market trends, including market volatility, political shifts, and economic policies, read "A Look Back at the Quarter".

Glossary of terms

Bear Market	A market condition where stock prices drop significantly
Bonds	Bonds are debt securities issued by governments and corporations to raise money. Similar to an IOU, the investor lends money with the agreement that it will be paid back by a specific date, and they will receive periodic interest payments along the way. Bonds come under the umbrella of '**fixed income**' investments.
Credit spreads	The difference in yield between two bonds of similar maturity but different credit quality.
Defensive	Defensive positions prioritise preserving capital over growth. It is important to hold such positions in periods of market turbulence.
Diversification	Spreading your money across different types of investments, such as equities, bonds, and property, instead of putting all your money in just one type of investment. By doing this, you can reduce the overall risk of your investment portfolio.
Duration	The sensitivity of the price of a bond to changes in interest rates. A bond with a longer duration will typically be more sensitive to changes in interest rates than a bond with a shorter duration.
Fixed Income	Investments that provide regular, set interest payments, such as bonds or treasury bills, and return the principal at maturity.
Growth vs Value	Most stocks are classified as either value stocks or growth stocks. Generally speaking, a value stock trades for a cheaper price than its financial performance and fundamentals suggest it's worth. A growth stock is a company which comes at a higher price however, its profits are expected to grow significantly in the coming years as the company develops – this is typical for technology firms.
High Yield Bonds	High yield bonds pay investors a higher level of interest due to a great risk the borrower may default.
Index	A fund that aims to track the performance of a market index.
Magnificent Seven	A group of high-performing technology companies considered industry leaders, including Apple, Amazon, Alphabet, Microsoft, Meta, Tesla, and Nvidia.
Market Capitalisation (Market Cap)	Market 'cap' is the market value of a company based on its current share price and total number of shares. Ultra-large cap companies have the largest market capitalisation. The largest companies by market cap are currently Apple, Microsoft, Alphabet (Google), Amazon, Nvidia and Meta (Facebook).
Mega-cap	Ultra-large cap companies with the highest market capitalization.
Quality-value	An investment style focusing on quality and value stocks, avoiding sectors like Technology.
Rally	A market rally is a sustained increase in stock prices driven by positive investor sentiment and economic conditions.
Sentiment	Market sentiment is the overarching attitude or outlook of investors towards a particular security, sector of the market or economy as a whole.
Soft vs. Hard Landing	A soft landing refers to a gradual economic slowdown or adjustment, usually avoiding a recession, while a hard landing is a sudden and severe economic downturn often leading to a recession.
Value-Trap	An investment selling at depressed prices due to intrinsic issues
Volatility	The degree of fluctuation in a security's price or a market's performance over time. A highly volatile share experiences larger price changes compared to more stable investments, indicating higher risk.
Yen Carry Trade	The Yen carry trade is a financial strategy where investors borrow funds in Japanese yen, which typically has low-interest rates, and invest in higher-yielding assets in other currencies.
Yield	The income you receive on an investment, such as dividends from shares or interest from bonds.
Yield Curve	A visual depiction of how the yields of bonds vary at different maturities. It shows how much you'd earn. if you invested your money for a short time, e.g. 6 months, versus if you invested it for a longer time, e.g. 10 years.



Cover image Bauer brothers, Hortus Botanicus, detail from "Lilium," 1776/1804

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