LGT Wealth Management

Quarterly report
Model Portfolio Service

Q4 2024 market review

Overview

- S&P 500 gained 25% in 2024, driven by a strong tech sector.
- Trump's re-election reshapes economic and political dynamics.
- UK tax hikes and ECB rate cuts reflect responses to regional pressures.

Macroeconomic landscape

As 2024 ended, political volatility continued to shape market dynamics. The S&P 500 recorded a 25% gain for the year, despite a 2.4% drop in December. Equity markets continued to show growth, primarily driven by robust US job reports data. This climate indicates a potential soft landing for the economy, leading to speculation that the Federal Reserve may adopt a more cautious approach towards future rate cuts. Meanwhile the Q4 earnings season especially favoured technology companies, enabling equity markets to reach new highs.

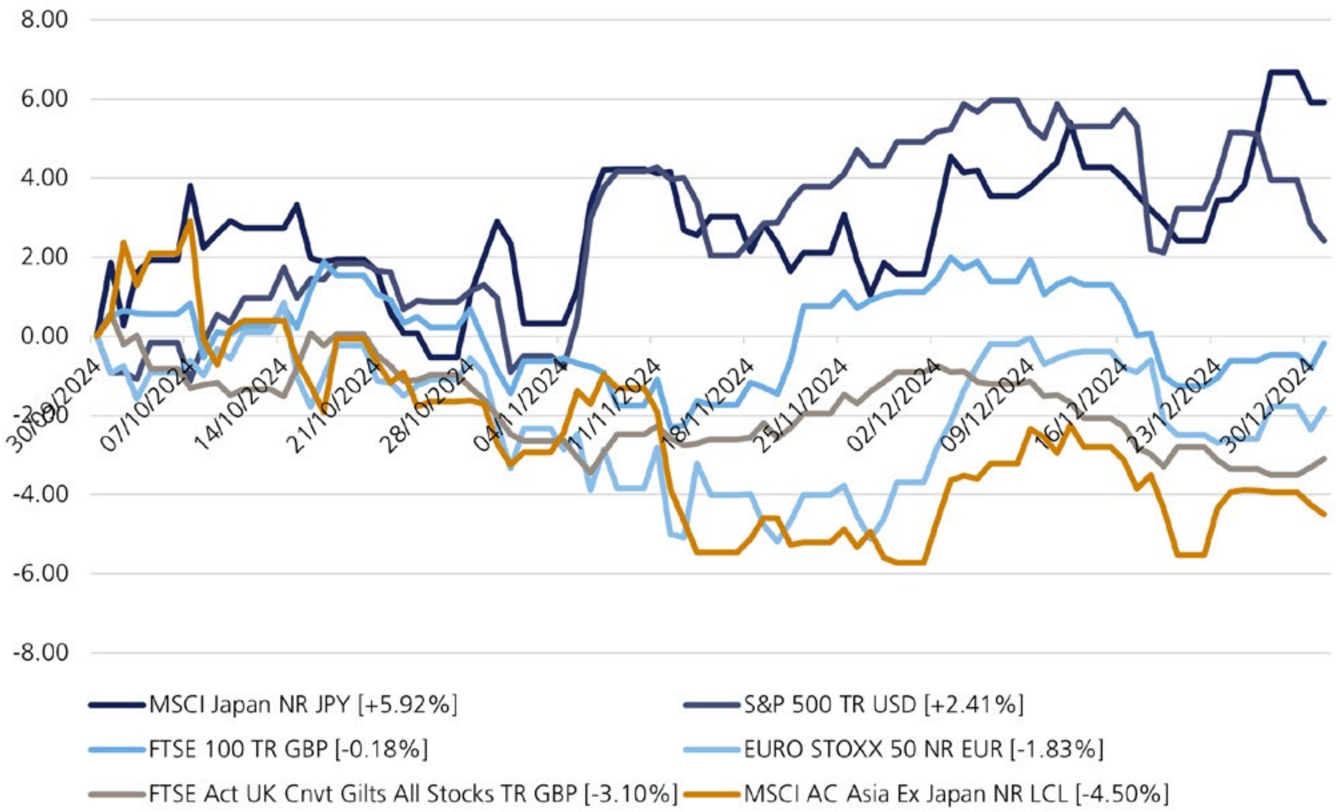
The impact of America's resounding choice to re-elect Trump will be felt around the world, although to what extent remains unclear for now. He has voiced intentions to impose tariffs on some of the US's largest trading partners, cut corporate taxes and restrict immigration. Deregulation and tax cuts may appear market-friendly, but tariffs and mass deportations could have adverse economic impacts.

In the UK, Chancellor Rachel Reeves unveiled a budget featuring significant tax hikes alongside increased spending on infrastructure. Major changes included elevated National Insurance and capital gains taxes, as well as the elimination of VAT exemptions for private schools. The path for UK interest rates remains more uncertain amidst budget uncertainty coupled with a rise in inflation over the quarter.

As the US reigns in expectations of rate cuts this year, the European Central Bank (ECB) remains on course to cut at every meeting until June, as the German economy, Europe's largest, struggles with a mild recession. The ECB faces a considerable amount of uncertainty going forward, particularly around the timing, extent and impact of potential US tariffs. Notably, China opted to reduce its benchmark lending rates to foster economic growth, responding to market pressures.

Several European governments dissolved last month, and martial law was declared in South Korea, demonstrating that the political turbulence has extended beyond elections and many nations are seeking change. The world watches in anticipation as these nations grapple with unprecedented challenges and changes in power – setting the stage for a transformative new year in global politics.

Q4 2024 index



Model portfolio performance as at 31 December 2024

Portfolio	3 month	6 months	1 year	3 years	5 years
Defensive	-0.01	2.20	4.48	1.95	12.27
Cautious	0.58	2.41	5.79	3.66	17.73
Balanced	1.21	2.79	6.52	2.10	21.21
Growth	2.06	3.47	8.84	3.81	22.72
Adventurous	3.12	3.96	12.74	8.00	32.02
Strategic income	0.49	3.81	7.85	9.00	23.00

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	31/12/2023-31/12/2024	31/12/2022-31/12/2023	31/12/2021-31/12/2022	31/12/2020-31/12/2021	31/12/2019-31/12/2020
Defensive	4.48	4.81	-6.90	5.03	4.84
Cautious	5.79	5.98	-7.54	7.47	5.68
Balanced	6.52	6.26	-9.79	9.11	8.80
Growth	8.84	6.35	-10.32	10.12	7.36
Adventurous	12.74	7.78	-11.12	10.06	11.07
Strategic Income	7.85	8.37	-6.73	10.93	1.72

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Performance of all LGT WM funds in Q4 2024

L&G Global Technology Index
+14.12%

Vanguard UK Long Duration Gilt Index
-7.15%

L&G US Index
+11.02%

L&G Global Equity Index
+7.14%

T. Rowe Price US Smaller Companies
+6.38%

Brown Advisory Global Leaders
+5.57%

Lazard Global Equity Franchise
-4.49%

L&G All Stocks Gilt Index
-3.16%

The year 2024 was characterised by strong economic growth, a shift in monetary policy, and significant market movements. Equity markets flourished, with the S&P 500 achieving a stellar 25% return, marking back-to-back years of gains exceeding 20%—a feat last seen in the late 1990s. Central banks began easing monetary policy by cutting interest rates, contributing to optimism in equities. However, bond markets faced challenges, as the delayed rate cuts pushed the 10-year Treasury yield higher for the fourth consecutive year, a trend not observed since the 1980s.

Commodities reflected the year's uncertainty. Inflationary concerns and geopolitical tensions drove significant price shifts. Gold emerged as a standout, recording its largest annual gain since 2010, as investors sought safe-haven assets amid the volatile environment. While equities benefited from robust economic fundamentals and the start of a new monetary easing cycle, fixed-income markets and commodities underscored the lingering complexities and risks in the financial landscape. Late December tempered equity gains slightly, yet the year closed positively across most global markets.

In Q4, **T. Rowe Price US Smaller Companies** achieved a gain of +6.38%, buoyed by optimism surrounding Donald Trump's re-election. Policies focused on deregulation and tax cuts provided a favourable environment for domestic, cyclical small and mid-sized companies, which should thrive under the "America First" agenda.

Similarly, **L&G US Index** posted an impressive +11.02%, with US equities rallying strongly on expectations of fiscal spending and reduced regulatory red tape. Growth and technology stocks, which had experienced a quieter Q3, rebounded sharply, boosting the performance of funds like the **L&G Global Equity Index** fund, which rose by +7.14%. The fund's exposure to large US-based technology companies allowed it to benefit from the broader market's positive momentum. **L&G Global Technology Index** benefitted most from these moves in Q4 and posted +14.12% in the quarter.

In contrast, bond faced headwinds. The **Vanguard UK Long Duration Gilt Index** fell by -7.15%, reflecting the impact of rising gilt yields driven by persistent inflationary concerns and the sensitivity of long-duration bonds to interest rate changes. Similarly, the **L&G All Stocks Gilt Index** dropped by -3.16%. The **Lazard Global Equity Franchise** fund declined by -4.49%, hindered by its relatively low allocation to US equities and higher exposure to UK and European markets, which struggled during the quarter.

Political and economic developments promise to shape the year ahead. Donald Trump's second term as US President could bring new tariffs and shifts in global trade, with markets likely to react to his unpredictable policies. Central banks, including the Fed and the ECB, are expected to continue easing rates, though inflation remains slightly above target. This creates uncertainty about the extent of further rate cuts.

Geopolitical risks remain pronounced. Russian gas supply disruptions to Europe and rising natural gas prices may exacerbate inflationary pressures. Additionally, Europe faces political turbulence from right-wing movements and ongoing challenges from the war in Ukraine. Investors should monitor geopolitical developments, inflation trends, and bond yields closely.

Despite the complexities, opportunities remain for well-positioned companies with strong growth potential. By focusing on quality investments resilient to political and economic turbulence, portfolios can navigate these challenges effectively.

Portfolio changes and rationale

Equity increase

The MPS Investment Committee decided to increase equity exposure in portfolios due to favourable global economic conditions and supportive market dynamics.

Key drivers for this decision include strong fundamentals in the US economy, bolstered by pro-growth fiscal policies in the US and China.

Robust US corporate earnings, superior on both relative and absolute bases compared to other regions, support confidence in a positive equity outlook.

A synchronised rate-cutting cycle across developed markets provides a significant tailwind, reinforcing expectations of equity outperformance and making a 'soft landing' scenario increasingly plausible.

Inclusion of the S&P 500 Equal Weight

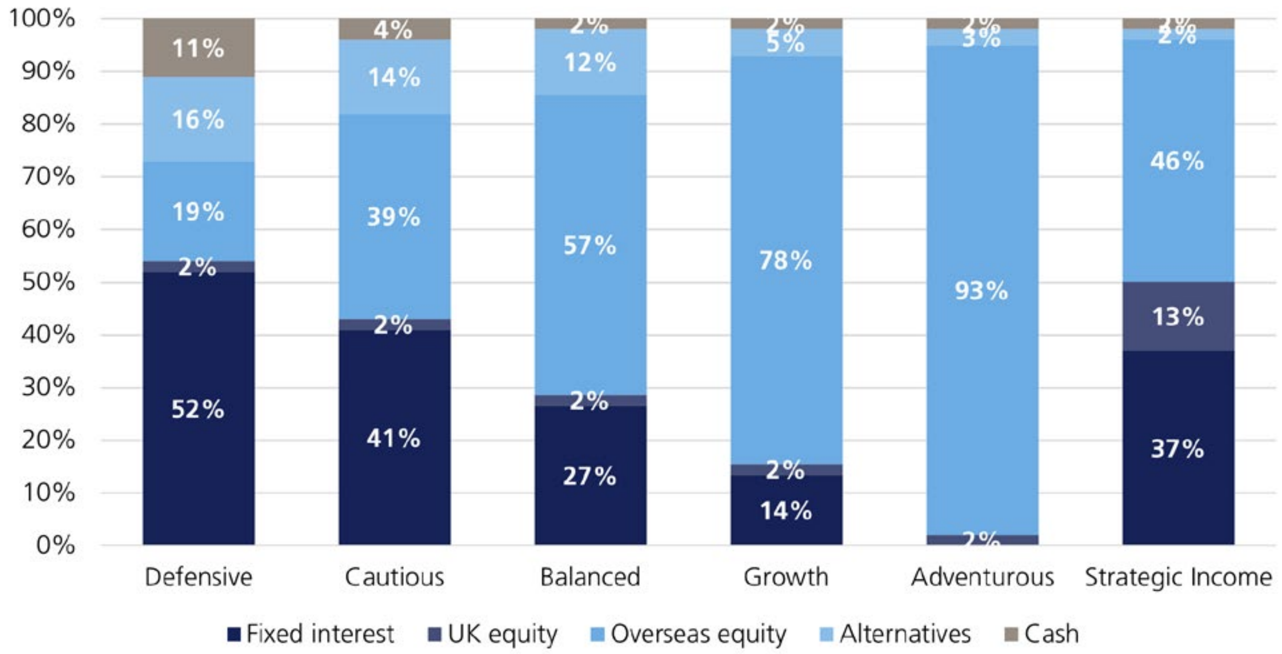
The inclusion of the L&G S&P 500 Equal Weight Index in the portfolio introduces greater diversification and reduces concentration risk in US equity exposure.

Traditional capitalisation-weighted indices, like the S&P 500, are dominated by mega-cap stocks, with the top 30 companies accounting for 50% of the index's weight, particularly in technology and communication services.

The equal-weighted approach redistributes exposure more evenly across sectors and company sizes, reducing reliance on mega-cap stocks (e.g., the 'Magnificent 7') and increasing allocations to undervalued sectors like industrials, real estate, and utilities.

This diversification aligns well with other portfolio holdings, such as the technology-focused L&G US Index and small- to mid-cap strategies like T. Rowe US Smaller Companies and Beutel Goodman US Value.

Portfolio positioning



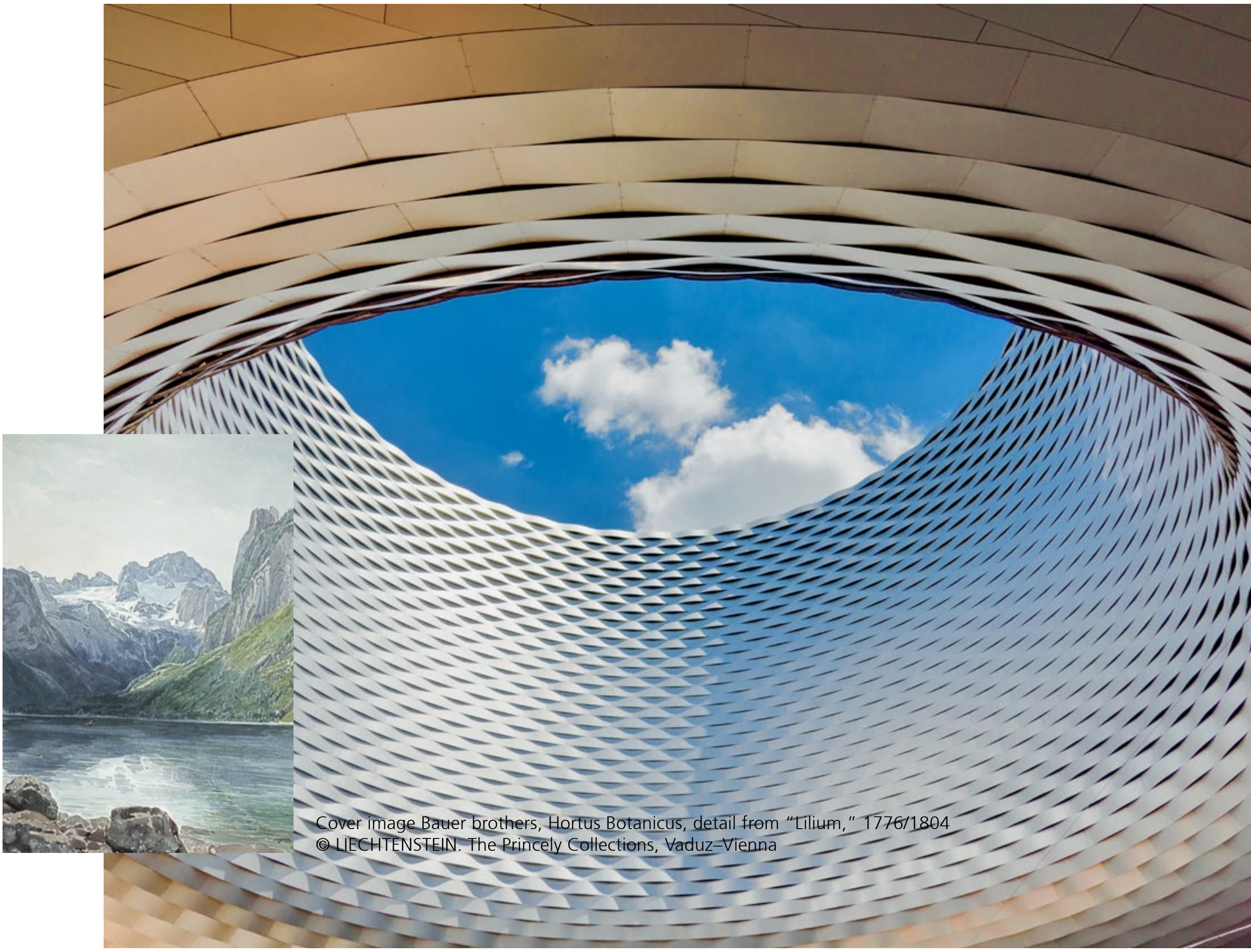
Further material

Click here to watch a five-minute roundup of the last quarter with LGT's Henry Wilson, Partner and Senior Portfolio Manager.

Click here for a deeper dive into the Q4 2024 investment landscape, with LGT's CIO Sanjay Rijhsinghani and other key members of the team.

Glossary of terms

Absolute Return Funds	A form of alternative asset. They actively adjust their positions between equities, bonds, gold and other asset classes, typically with the aim of providing investment return across all market conditions.
Active fund	A portfolio of investments that is selected by a professional investment manager and managed on an ongoing basis with the aim of achieving an outperformance objective.
Beta Strategies	Investment approaches that aim to match or closely follow the performance of a market index, reflecting the overall market movements.
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 interest rates between two bonds, typically one being riskier than the other. It's a measure of the extra return investors demand for taking on additional risk.
Cyclical company	Companies with a direct relationship to the performance of the wider economy as consumers may purchase their goods when the economy is doing well but cut spending during downturns.
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.
Gilt:	A type of fixed income investment issued by the UK government. They are considered to be among the safest investments available. They have a fixed interest rate and a specific maturity date, which can range from a few months to several decades.
Growth vs Value	Most stocks are classified as either value stocks or growth stocks. Generally, 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.
Hawkish	Describes a stance by central banks or policymakers that favor higher interest rates to control inflation, even if it might slow down economic growth.
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.
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).
Maturity	The length of time until the bond issuer must repay the original bond value to the investor.
Passive fund	A passive fund aims to follow a market index, offering a low-cost way to invest in a broad range of stocks or bonds.
Quality	Quality investing is an investment style that focuses on selecting stocks of companies with strong financial health, stable earnings, and solid management.
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.
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.
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