Wealth Management

Quarterly report
Sustainable Model Portfolio Service

Q4 2024 market review

Overview

- S&P 500 gains despite volatility
- US, UK, ECB policy shifts
- Global political and economic instability

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.

What does the 'year of elections' mean for 2025

Written by Ben Palmer, Lead Portfolio Manager

2024 saw elections held in more than 70 countries, with an estimated 4 billion people being eligible to vote, making it the 'the year of elections'. So, as we move into 2025, where we will learn more about the implications of this seismic political year, we assess what happened and what might this mean for markets and the sustainability landscape.

The fall of incumbents

One of the key trends seen around the world was the fall in vote share for incumbents, resulting in a high proportion of governments being voted out. This is not too surprising, particularly in western economies where the last two years have seen high inflation and economic uncertainty. Even in the US where the economy has been very robust, polls showed that voters felt the impact of rising prices more than the strength of the economy. Regardless of who or what created inflation, the blame tends to be placed at the presiding government's door. With a large number of incumbents being voted out, a wave of new governments have been voted in.

Change creates uncertainty

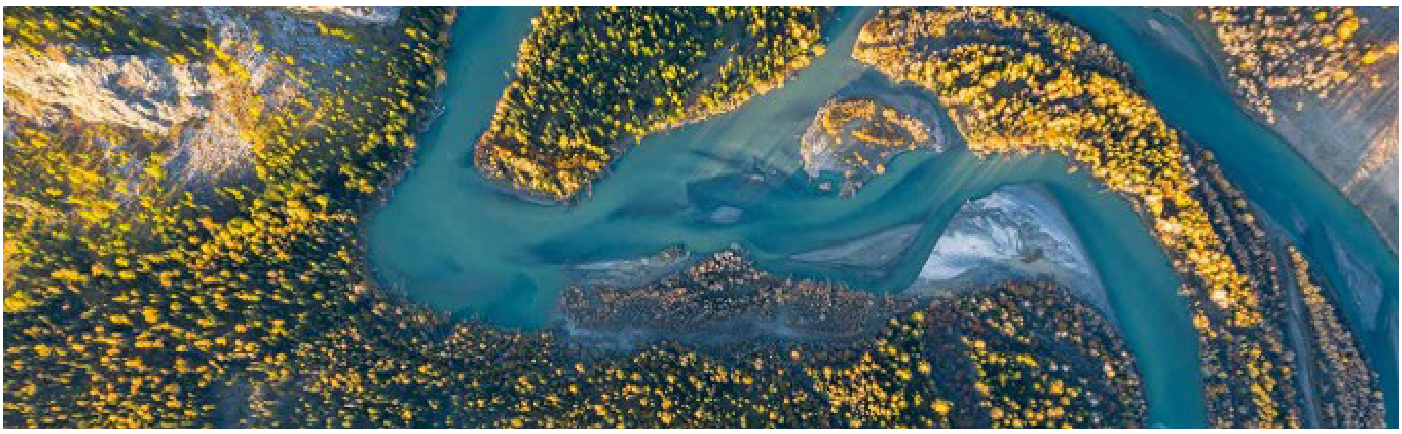
Whilst we can try and forecast the direction of policy from campaign rhetoric and manifestos, ideologies and campaign promises rarely translate fully into policy action. In the US, the new administration's more aggressive style has led to increased uncertainty around the outlook. The market's perception is that we will see tax cuts, deregulation and protectionist trade policies. However, the extent of these policies is still to be seen. The UK's transfer of power to the Labour Party has resulted in a meaningful shift in fiscal policy, and on the continent we have seen the governments of France and Germany come under immense strain. This is coinciding with a period of elevated geopolitical tensions, with the ongoing wars in Ukraine and the Middle East creating a very dynamic political landscape as we move into 2025.

Change also creates opportunity

The power of a strong narrative can be highly appealing and also disruptive, and it is more important than ever to look beyond the rhetoric from politicians and understand what is needed to deliver robust and resilient economic growth. The US is a great example of this with the incoming President being seen as a climate sceptic and negative for those targeting more sustainable economic outcomes. Whilst we do not deny the rhetoric would lead you to these conclusions, we believe the media and market narrative inflates the risks whilst ignoring the opportunities that the administration's actions may offer to key growth trends. For example, the focus on protectionist trade policies that is also being adopted in other regions will require a reindustrialisation of Western nations to foster greater self-sufficiency. This will require significant investment in building manufacturing capacity i.e more factories, processing plants and distribution networks. This creates an interesting opportunity for areas of our investment landscape, from energy efficient machinery and robotics to software and solutions, to minimise energy and resource use in a more fractured global economy.

Conclusions

While policy and politics play important roles in advancing a sustainable economy, they are not the only factors. The impact of last year's elections will continue to unfold through 2025 presenting both challenges and new opportunities. These opportunities will emerge in regions governed by both progressive and non-progressive administrations. We believe our diversified approach, centred on identifying quality companies with a genuine economic purpose and competitive advantages, positions us well to successfully navigate this period of uncertainty.



Sustainable MPS Q4 performance update

Written by Kevin Le, Trainee Sustainable Portfolio mnaager

In Q4, the period has been volatile and mainly driven by US activity with Trump winning the US election in November and the 'hawkish' Fed rate cut in December. Following Trump's victory, the US equity markets rallied with expectations of US exceptionalism and the deregulation of financial markets benefitting growth stocks and financials across our portfolios, with more defensive areas lagging. Japanese equity markets were also a beneficiary as a weaker yen coupled with ongoing corporate reforms and continued optimism surrounding the end of deflation boosted equity returns. For emerging markets, a stronger dollar and sentiment surrounding new US tariffs led to a negative impact on the region's equities.

In December, the Fed cut rates by 25 basis points, sparking a sell-off in both bonds and equities. While the Fed highlighted the economy and labour markets were in good shape, they adjusted their interest rate cutting path from three cuts to two cuts in 2025 amidst inflation concerns. This had a negative impact on equity and bond markets with longer duration and more cyclically exposed parts of the market underperforming. Overall, the period was positive with a significant proportion of returns being driven by the US market, a reversal of the broadening we had seen in the previous period.

Liontrust Sustainable Futures Global Growth (+5.27%) performed strongly towards the last two months of the quarter with its heavier allocation to US financials and software technology. Trump's stance on deregulating the financial market was seen as favourable to US financial payment providers which the Liontrust fund has exposure to through companies such as Visa and Paypal.

SVS Alliance Bernstein Sustainable US equity (+2.87%) also returned positively given recent strength in US markets. The fund's diversified and core approach to equities across US markets meant that it saw positive returns in areas such as technology and financials. Economic resilience and a surge in growth stocks had led to an underperformance in the fund's healthcare and industrials allocation.

Sparinvest Ethical Global Value (+2.22%) performed positively over the quarter. The fund's allocation to US and Japanese banks has proved favourable to the fund given expectations of deregulation for financial markets. On the other hand, the fund's exposure to other value sectors such as healthcare and industrials were negatively affected.

Trojan Ethical fund (+2.11%) also performed positively as equity exposure to US payment providers such as Visa performed well.

Foresight Global Real Infrastructure Assets (-7.45%) in contrast to last quarter, struggled to perform as the Fed adjusted their rate cut expectations for 2025. In Q2 and Q3, we saw the fund perform positively as markets began to price lower fund rates. Expectations of a higher-for-longer rate in environment in Q4 has brought back some headwinds for the fund.

Q4 2024 performance

Performance of all LGT WM funds in Q4 2024

Liontrust Sustainable Futures Global Growth
+5.27%

Foresight Global Real Infrastructure Assets
-7.45%

Alliance Bernstein Sustainable US Equity
2.87%

Sparinvest Ethical Global Value
+2.22%

Trojan Ethical fund
+2.11%

12-month rolling performance

Portfolio	01/01/2019-31/12/2019	01/01/2020-31 /12/2020	01/01/202-31/12/2021	01/01/2022-31/12/2022	01/01/2023-31/12/2023	01/01/2024-31/12/2024
LGT WM Sustainable Defensive	10.22	6.10	5.33	-10.22	6.51	4.73
LGT WM Sustainable Cautious	12.29	8.53	8.22	-12.15	7.41	5.83
LGT WM Sustainable Balanced	15.18	11.77	11.95	-13.34	8.00	6.66
LGT WM Sustainable Growth	18.70	16.07	14.15	-15.65	8.75	7.37
LGT WM Sustainable Adventurous	20.82	17.27	15.59	-16.73	8.82	7.78

Model portfolio performance as at 31st December 2024

Portfolio	3 month	6 months	1 year	3 years	Since inception
LGT WM Sustainable Defensive	-0.18	2.45	4.73	-0.52	20.96
LGT WM Sustainable Cautious	0.00	2.51	5.83	-0.14	29.22
LGT WM Sustainable Balanced	0.06	2.38	6.66	-0.17	40.29
LGT WM Sustainable Growth	-0.15	2.25	7.37	-1.51	50.01
LGT WM Sustainable Adventurous	-0.06	1.99	7.78	-2.34	54.16

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.

Portfolio changes and rationale

Increasing equities

The indicators of a soft landing scenario are strengthening with resilient corporate earnings, moderated inflation and falling interest rates. Trumps policy agenda should stimulate economic activity which will be beneficial for equities however there are still some concerns on the inflationary impact of these measures which may create headwinds for bonds. The market will need to digest the implications of how tariffs are applied but we believe the relative merits of equities have strengthened. We have therefore marginally increased equity in the portfolios from Defensive to Growth. As the Adventurous portfolio is already fully invested in equities, no changes were made. The increase in equity was focused on our US exposure, however we also increased our allocation to global funds in Balanced and Growth to benefit from broader market tailwinds.

Pictet Global Sustainable Credit

The Pictet Global Sustainable Credit fund has been one of our higher credit beta strategies and provided strong returns lately driven by its higher US credit exposure. Given credit spreads were at multi year lows in the US, we decided to take profits and reduce the risk of spreads widening by rotating this capital to more defensive areas in our fixed income exposure, where yields are still attractive.

Allianz Green Bond

The Allianz Green bond fund predominately focuses on European credit. In our view, lately the fund has lacked in downside protection compared to the other bond funds we hold within the portfolio. The weak economic data surrounding Europe also means we see European credit as less attractive as a defensive position. We have sold this fund in our Defensive and Cautious portfolio in order to rotate into more defensive fixed income exposures. Within the Balanced portfolio we used the allocation to increase equity as for the reason stated above.

Further material

Click here to watch a five-minute roundup of the last quarter with LGT's Lead Portfolio Manager (SMPS), Ben Palmer.

Click here to watch the "Reaction to Trump election for sustainable investors" webinar.

Glossary

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.

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