LGT Wealth Management

Quarterly report
Model Portfolio Service

Q2 2024 market review

Overview

- US equity markets continued to rally and hit record highs
- Central banks' rate cutting regimes began to pick up pace
- Market participants keep a close eye on global election results

Macroeconomic landscape Q2 2024

After a slight pullback in May, US equity markets continued to **rally** and hit record highs, lifted by Nvidia, Apple and Microsoft, with Nvidia briefly overtaking Microsoft in June to become the world's most valuable company. The narrowness of the markets was even more pronounced this quarter, as Nvidia rose 37% while the S&P 500 **Index** gained 4.3%. Nvidia is responsible for some 35% of the S&P 500's gains since the start of this year. In comparison, the equal weighted S&P 500 Index fell 2.6% in the quarter, clearly indicating a handful of companies continue to drive the indices.

Government **bonds** fell slightly throughout the quarter as market participants weighed up the outlook for inflation and economic growth. Investment Grade and High Yield bonds showed resilience, benefiting from the strong economic growth outlook and the tailwind provided by their high-income component.

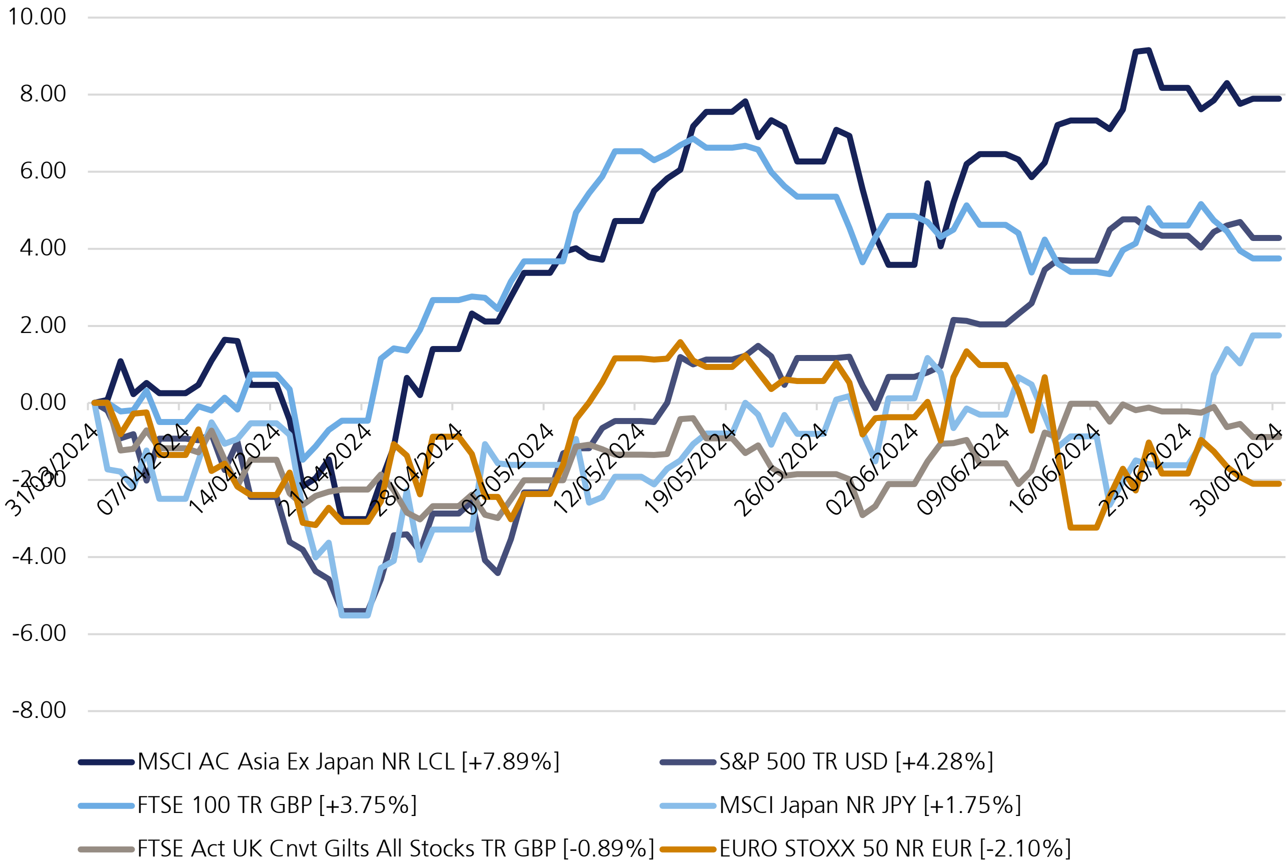
Markets have fluctuated between anticipating one or two Federal Reserve (Fed) rate cuts this year. However, due to persistent price pressures and a robust job market, the Fed is unlikely to rush to cut rates. Meanwhile, the Bank of England (BoE) indicated in June it is more comfortable cutting rates and will likely start in August. While the European Central Bank (ECB) lowering interest rates by 0.25% (to 3.75%) in its June meeting was expected, it is noteworthy that interest rate cutting regimes are picking up pace with central banks in Sweden, Switzerland and Canada all cutting rates.

Following an unexpected rise in April, the US Consumer Price Index (CPI) showed signs of moderation, suggesting inflation is heading in the right direction. Bond yields followed suit, with 10-year Treasuries reaching 4.7% early in the quarter before falling to 4.4% by quarter-end.

On the political front, Rishi Sunak's decision to bring forward the UK general election to 4th July stunned market participants. Labour won the election by a landslide, but markets showed limited reaction to the news as polls had predicted the Labour victory for months. Given that fiscal headroom remains limited, policy changes are likely to be marginal despite the huge electoral swing.

In the US, the first presidential debate brought forth fresh concerns over President Joe Biden's health and former President Trump continues to lead key swing states. In early June, the European Parliamentary elections showed surging support for right-leaning parties, with President Emmanuel Macron calling a snap national election in France. The French CAC 40 fell over 6% following Macron's announcement and the difference in the amount of interest that French bonds pay over German Bunds reached levels not seen since 2017. However, following the second round of voting, France now faces gridlock as none of the three main parties secured a majority.

Q2 2024 index performance (%)



Source: Morningstar

Model portfolio performance as at 30 June 2024

Portfolio	3 months	6 months	1 year	3 years	5 years
Defensive	0.89	2.21	6.28	1.95	11.68
Cautious	1.14	3.28	7.73	3.88	16.52
Balanced	0.89	3.61	7.96	1.91	20.31
Growth	0.99	5.17	9.37	3.35	22.35
Adventurous	1.80	8.42	12.90	6.74	31.78
Strategic Income	0.96	3.86	9.39	9.42	22.23

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	30/06/2023-30/06/2024	30/06/2022-30/06/2023	30/06/2021-30/06/2022	30/06/2020-30/06/2021	30/06/2019-30/06/2020
Defensive	6.28	1.95	11.68	6.28	1.95
Cautious	7.73	3.88	16.52	7.73	3.88
Balanced	7.96	1.91	20.31	7.96	1.91
Growth	9.37	3.35	22.35	9.37	3.35
Adventurous	12.90	6.74	31.78	12.90	6.74
Strategic Income	9.39	9.42	22.23	9.39	9.42

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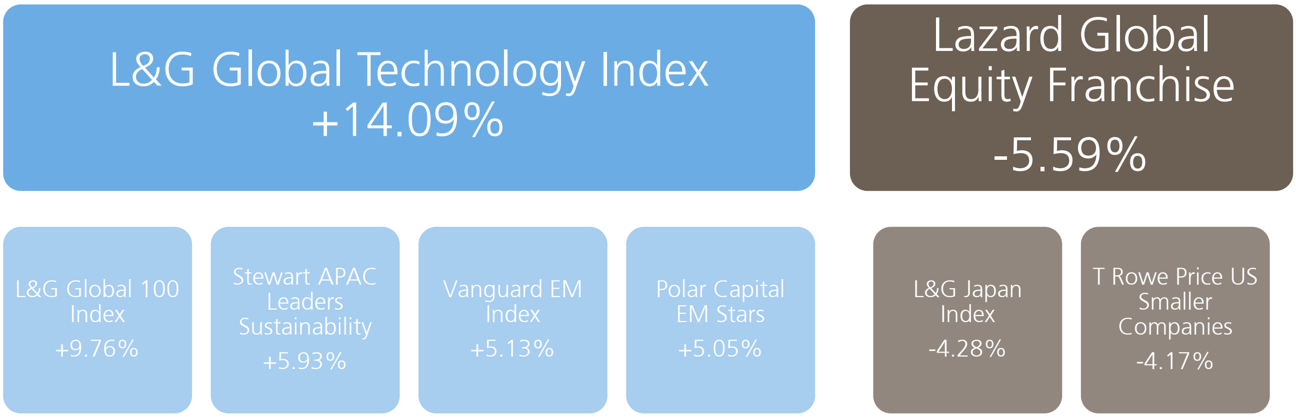
Performance of all LGT WM funds in Q2 2024



Source: Morningstar

In Q2, several funds thrived amid varying global economic conditions, showcasing robust performance and promising prospects for continued growth. The L&G US, Global 100, and Global Technology indices all posted impressive gains of +4.90%, +9.76%, and +14.09%, respectively. The strength of major tech companies, particularly Nvidia, which saw significant appreciation, underscores the continued vitality and innovation within the technology sector. The broadening rally in technology and **growth** stocks signals a positive trend that could sustain momentum in the coming quarters.

In the UK, the L&G UK 100 index achieved a gain of +4.54%. The UK economy's strong rebound in Q1 2024, coupled with the highest bid activity for UK-listed companies since 2018, has invigorated market **sentiment** and attracted foreign investment, showcasing the resilience and attractiveness of the UK market.

Emerging markets, especially those in Asia, provided significant opportunities, with funds like Stewart APAC Leaders Sustainability, Vanguard EM Index, and Polar Cap EM Stars rising by +5.93%, +5.13%, and +5.05%, respectively. Positive macroeconomic data, effective government stimulus, and attractive stock valuations have turned investor sentiment favourable, leading to strong performance and promising prospects for continued growth.

Elsewhere, the Vanguard UK Long Duration Gilt Index faced a slight decline of -2.79%, influenced by fluctuating expectations for interest rate cuts and inflation concerns. However, the UK's proactive monetary policies and anticipated interest rate adjustments could bolster long-duration gilt performance moving forward.

The T. Rowe US Smaller Companies saw a decline of -4.17% due to high borrowing costs. These companies, however, are well-positioned to benefit from eventual interest rate cuts and economic normalisation, which could significantly enhance their performance.

The L&G Japan Index faced a modest decline of -4.28%, largely due to the yen's continued weakness and conservative earnings forecasts from Japanese companies. However, the Bank of Japan's proactive interest rate hike indicates a commitment to stabilising the economy, which could pave the way for future recovery and growth.

The Lazard Global Equity Franchise fund experienced a dip of -5.59% as its focus on quality value investments led to underperformance in Technology, Financials, and Energy sectors. Nevertheless, its concentrated portfolio, despite temporary setbacks like CVS Health, underscores its potential for robust long-term returns as market conditions evolve.

Overall, Q2 highlighted the resilience and adaptability of our funds amid diverse market conditions. The varied impacts of economic policies and market dynamics underscore the importance of strategic fund allocation and a focus on quality investments. As we move forward, we remain committed to identifying and capitalising on opportunities to deliver solid returns for our clients.

Portfolio changes and rationale

Going global

- Beutel Goodman US Value added to Cautious & Balanced portfolios for its quality value strategy.
- Reduced UK equity exposure, especially domestic companies, to mitigate 'home-bias'.
- Increasing investments in global markets with better long-term growth prospects.
- Rationalised passive exposures for more effective and economical use of index funds.

Fixed income positioning

- Short-term bonds offer excellent value due to attractive yields.
- Narrow credit spreads suggest potential future losses for lower quality, long-term bonds.
- High-quality, short-term bonds provide a healthy yield and strong investment opportunity.
- Increased allocation to AXA US Short Duration High Yield.

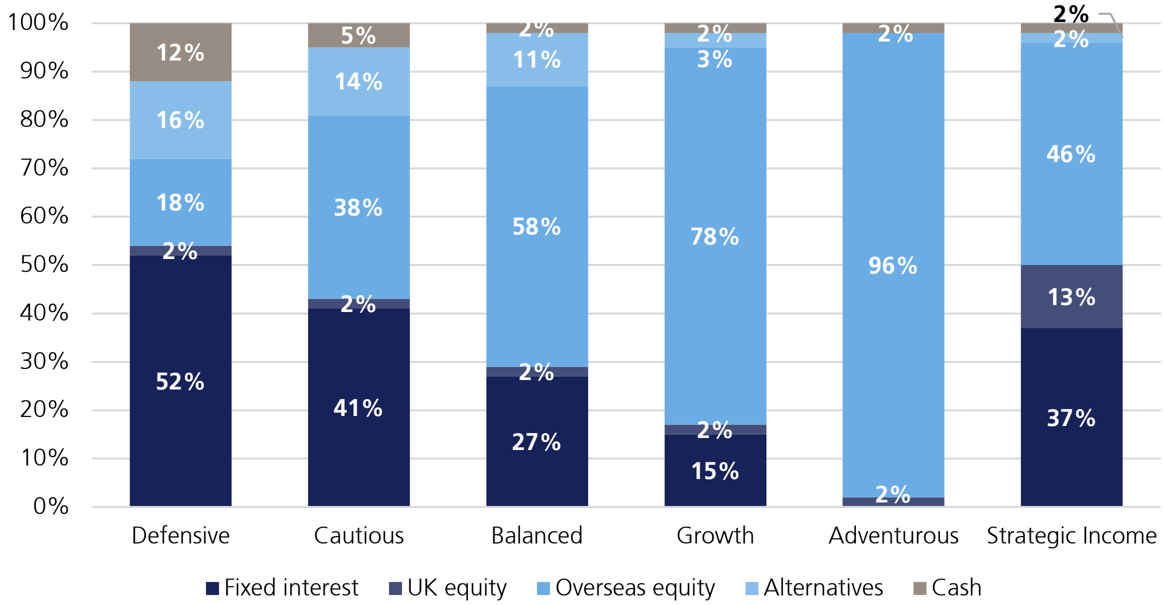
Rethinking our Asia exposure

- Increased Stewart Asia Pacific Leaders and Polar Cap EM Stars in Balanced and Growth portfolios.
- Polar Cap EM Stars is a quality growth fund with strong ESG credentials.
- Emphasising our high conviction active management in Asia.

Deploying cash and increasing equity

- Reduced allocation to absolute return funds, particularly Ruffer Diversified Return.
- Increased overall equity allocations, focusing on undervalued areas.
- Adjustments made to avoid overexposure to assets with recent momentum-driven gains.

Portfolio positioning



Further material

Take a deeper dive into the Q1 2024 investment landscape with key members of the LGT Intermediary Investment Services team.

Click here

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

Click here

Glossary of terms

Absolute return funds	Absolute return funds are 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.
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.
Defensive	Defensive positions prioritise preserving capital over growth. It is important to hold such positions in periods of market turbulence.
Delisting	When a stock exchange removes a company's shares, making them no longer publicly traded.
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.
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.
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.
Market capitalisation / mega-caps	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).
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.
Value-trap	An investment that is currently selling at depressed or cheaper prices but is often cheap for a reason due to intrinsic issues.
Volatility	Volatility refers to 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.

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