MONTHLY REVIEW – NOVEMBER 2023

OUR PERSPECTIVE

What an eventful month November has been! Winter has undoubtedly arrived in the UK, but financial markets have been anything but cold. Over the course of the month the S&P 500 surged by an impressive 9.1% while the Bloomberg US Aggregate Bond Index posted a 4.5% return, its largest monthly gain since 1985. November also saw gains in gold while TLT, the iShares 20+ Year Treasury Bond ETF, experienced a remarkable double-digit increase. The Santa rally is well and truly underway!

As we reflect on these numbers, we consider the various scenarios that may unfold between now and Christmas, and into the new year. We remain of the view that inflation risks are behind us, and the real risk is deflation. However, given the strength observed in both bond and equity markets, we must ask ourselves what are the key factors investors should consider at this juncture?

Let's start by putting the bond rally into context. In 2008, the 30-year US treasury bond yield reached a peak of 4.79% on June 13th. By December 18th, the 30-year treasury yield bottomed out at 2.53%. During those six months, TLT delivered a remarkable 40% return. In contrast, the S&P 500 fell over 30% during the same period, representing a staggering 70% performance differential. Similarly, in March 2020 the 30-year treasury yield plummeted to 1%, leading to a 22% rise in TLT between January 1st and March 9th that year. The S&P, on the other hand, fell by 30% over the same period. This context is a healthy reminder that volatility brings opportunity.

At present, 30-year US treasury yields stand at 4.5%. If yields were to fall to 1% at any point over the next year, investors would see a remarkable 90% return on their investment in 30-year treasuries. Whilst it is perhaps unlikely that base rates will drop to 1%, a drop from the current 4.5% yield to, say, 3.5% over the next year, would yield a total return of over 30% in USD terms for the 20y+ Treasury Bond ETF. A 1% fall in yields is an outcome we believe is neither unlikely nor unattractive and this is the asymmetry we look for.

Putting the equity rally into context, the P/E ratio on the S&P 500 is currently higher than it was when entering 2008 or 2020. The yield curve remains inverted, housing affordability is at its worst in decades, if not ever, and leading indicators persistently point to a weaker economy. Gargantuan government debt levels and an unprecedented rise in the cost-of-capital further contribute to our perspective that the risk-reward ratio in equities is not overly attractive.

On the flip side, liquidity is improving, the US labour market remains robust, and looking at Black Friday sales suggests that the US consumer appears to be in good shape. Another factor to consider, is valuations outside of the so called 'magnificent seven'. The differential in valuations between US large caps and US small caps (and practically any other region for that matter) is near records highs.

Whether we are in the early stages of a new bull market or witnessing the final stages of the 'last hurrah' remains unknown. However, narratives don't last, volatility will rise again, and with it, opportunities for active asset allocators such as ourselves to profit.

Let's conclude by revisiting those crucial factors that investors should constantly remind themselves of understand the value of your investments, ensure asymmetry in the expected payoff profile, diversifying away risk, not return, and understanding the role each investment has in your overall portfolio. Add to this a big spoon of cash yielding 5% and some patience, and we would argue the outlook is rather attractive for 2024.Market Snapshot

	Index	Currency	As at Previous Close	Total Return MTD	YTD	1 Year
Equities	Bloomberg World Equity Index	USD		9.10%	16.65%	12.16%
	Bloomberg World Equity - Growth	USD		9.96%	21.65%	15.46%
	Bloomberg World Equity - Value	USD		7.45%	7.37%	5.23%
	Bloomberg UK Equity Index	USD		6.30%	8.79%	8.39%
	Bloomberg US Equity Index	USD		9.40%	21.17%	14.10%
	Bloomberg Europe ex-UK Equity Index	USD		10.85%	16.87%	16.82%
	Bloomberg Japan Equity Index	USD		8.71%	16.15%	16.38%
	Bloomberg Asia ex-Japan Equity Index	USD		6.66%	2.65%	2.61%
	Bloomberg China Equity Index	USD		2.31%	-10.19%	-6.07%
	Bloomberg Emerging Market Equity Index	USD		7.17%	4.67%	3.55%
Fixed Income	Bloomberg Global Aggregate Index	USD		5.04%	1.50%	2.05%
	Bloomberg US Treasury Index	USD		3.47%	0.67%	0.14%
	Bloomberg US Corporate Bond Index	USD		5.98%	4.01%	3.55%
	Bloomberg UK Gilt Index	GBP		3.11%	-2.08%	-6.38%
	Bloomberg Sterling Corporate Bond Index	GBP		3.65%	4.59%	2.78%
	Bloomberg EM Hard Currency Aggregate Index	USD		5.30%	4.69%	5.58%
	Bloomberg EM Local Currency Govt Index	USD		4.12%	3.80%	6.12%
Commodities	Gold Spot $/Oz	USD	$ 2,039.81	2.89%	11.83%	13.13%
	LME Copper Spot ($)	USD	$ 8,387.50	4.47%	0.27%	1.95%
	Oil - Brent ($)	USD	$ 80.61	-4.75%	-6.17%	-7.22%
	Bitcoin ($)	USD	$ 38,248.25	7.88%	131.25%	125.92%
Currencies	GBP-USD FX-Rate	USD	$ 1.26	3.93%	4.53%	3.13%
	EUR-GBP FX-Rate	GBP	£ 0.86	0.78%	2.57%	-0.52%
	USD-JPY FX-Rate	JPY	¥ 148.29	1.79%	-11.58%	-8.74%
	EUR-USD FX-Rate	USD	$ 1.09	3.13%	1.83%	3.62%

Source: Bloomberg LP, 30/11/2023

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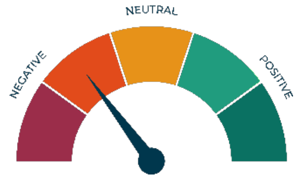
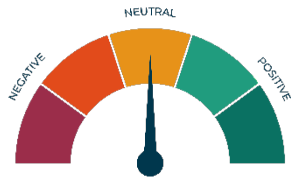
EQUITIES

Most equity markets participated in the rally during the month, with active managers generally doing well. US growth stocks led the rally; however, the Nasdaq finished the month well into double digit territory. The exception was China – clearly not benefitting from foreign, or local, flows into its equity markets. We remain underweight the asset class, with exposure we do have, biased towards high profitability and low financial leverage. We also retain exposure to some of our longer-term themes and continue to like gold equities.



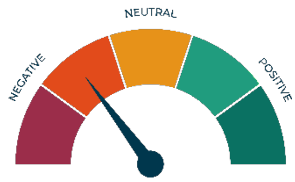
FIXED INCOME

US Treasury markets took a rather sharp turn. What looked set to be a third consecutive annual fall in value, government bond yields fell on the back of the continued fall in inflation, weakening economic data, and some dovish comments from the Fed. We remain well into the worst drawdown in US treasuries ever. Given the diversification benefits alongside our equity exposure, we remain neutral, and specifically overweight the short end where yields look attractive, and risks limited. Credit spreads remain very tight and given the significant rise in interest rates and material refinancing risks, credit markets are not being priced accordingly and we remain underweight.



REAL ASSETS

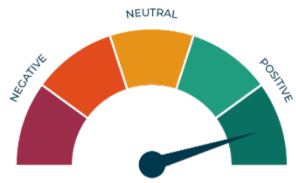
Energy prices continue to fall as the market focus on oversupply in US Natural Gas markets alongside a global slowdown in demand. Gold continues to shine given the hedge it provides against monetary devaluation and event risk, alongside strong price momentum, we retain significant exposure and remain bullish on the shiny stuff.



Listed Real Estate and Infrastructure markets rallied on the back of risk-on sentiment. As we mentioned previously, we continue to be wary, with specific concerns around commercial real estate markets given the differential between cap-rates and short-term government bond yields.

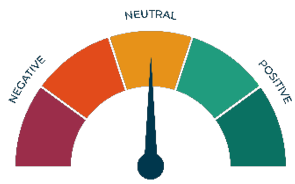
SPECIALIST STRATEGIES

Our specialist strategies continue to play a significant stabilising role within our portfolios. Our managed futures & trend following exposures had a rather lacklustre November but continue to be a fantastic diversifier and we retain a positive outlook for the specific strategies we own. Our market neutral and relative value hedge fund exposures had another good month despite low equity correlations. We retain limited exposure to private markets, both credit and equity, given our concerns regarding debt and the refinancing cycle.



CURRENCIES

We remain broadly neutral on currencies. On the margin we note that, whilst interest rate differentials would support a stronger USD, despite weakening over the course of the month, the Greenback remains very expensive on a trade weighted basis. The US Dollar however remains the global reserve currency of choice, and in a severe market sell-off, we expect it to do well. We retain our positive view on the Japanese Yen, which we believe is undervalued with clear catalysts for a potential revaluation on the horizon.



CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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