MONTHLY REVIEW – JANUARY 2024

OUR PERSPECTIVE

Whilst the US equity market continues to make new highs, other markets around the world look like they might be running out of steam. What's more, US equities are up almost 40%, as measured by the S&P 500, since it bottomed out in October 2022. Since then, the biggest headwind in our portfolios has been our basket of trend following managed futures *strategies*.

This month we ask ourselves, why allocate to them at all?

The answer is quite simple: diversification.

Important to note however, not just diversification for the sake of diversification. We are big believers that unthoughtful diversification only destroys returns. What we want to diversify away is risk. Specifically, drawdown risk.

The below graphs show the four largest drawdowns of the MSCI AC World Index over the last 30 years. We also plot the returns of the SG Trend Index, a basket of the largest trend following managed futures strategies globally. The benefits are quite clear.

Add to this our ability to re-allocate capital at points when dislocation gets too extreme, and one not only diversifies away risk, but one could add significant alpha along the way. We are well aware that we will not 'time the market', but that is not our objective. Our objective is to deliver market beating returns in a simple way, whilst focusing on preserving purchasing power and avoid significant drawdowns.

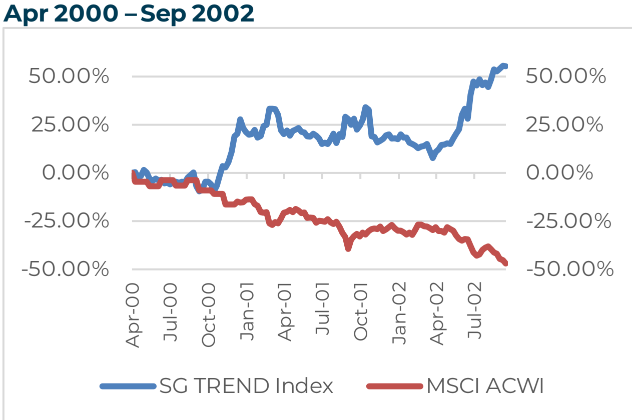
That is in short, the beauty of trend following managed futures. Also, with the US regional banking system in a state and corporate profits set to disappoint, an allocation to trend following strategies is worth considering in our view. We discussed some of the intricacies on trend following with Richard Liddle, CEO of Bowmoor Capital, during our latest podcast. Worth a listen!

"THE IDEA THAT THE FUTURE IS UNPREDICTABLE IS UNDERMINED EVERY DAY BY THE EASE WITH WHICH THE PAST IS EXPLAINED."

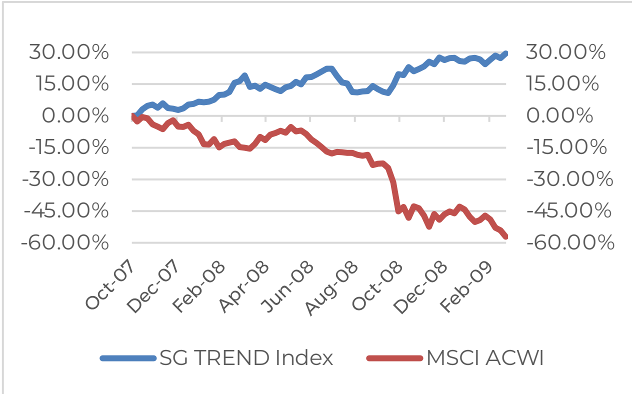
DANIEL KAHNEMAN, THINKING FAST & SLOW

Charts: The below charts show the peak to through – maximum drawdown – of the MSCI AC World Index, and what the return of the SG Trend Index was over that same timeframe.

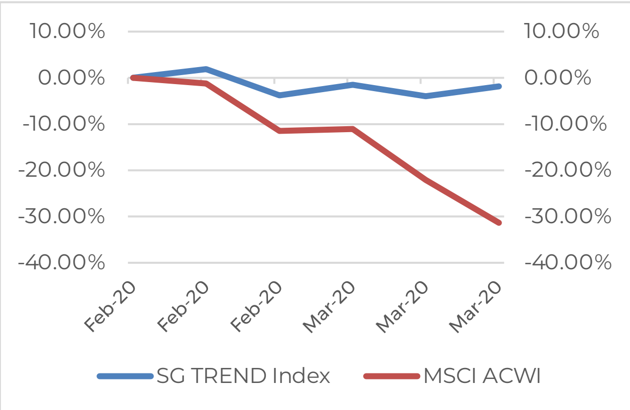
Apr 2000 – Sep 2002



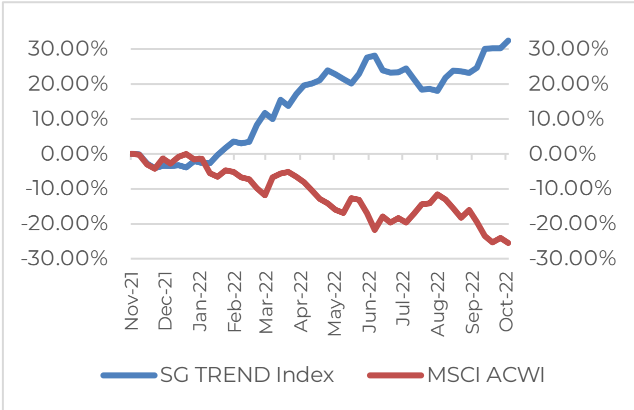
Oct 2007 – Feb 2009



Feb 2020 – Mar 2020

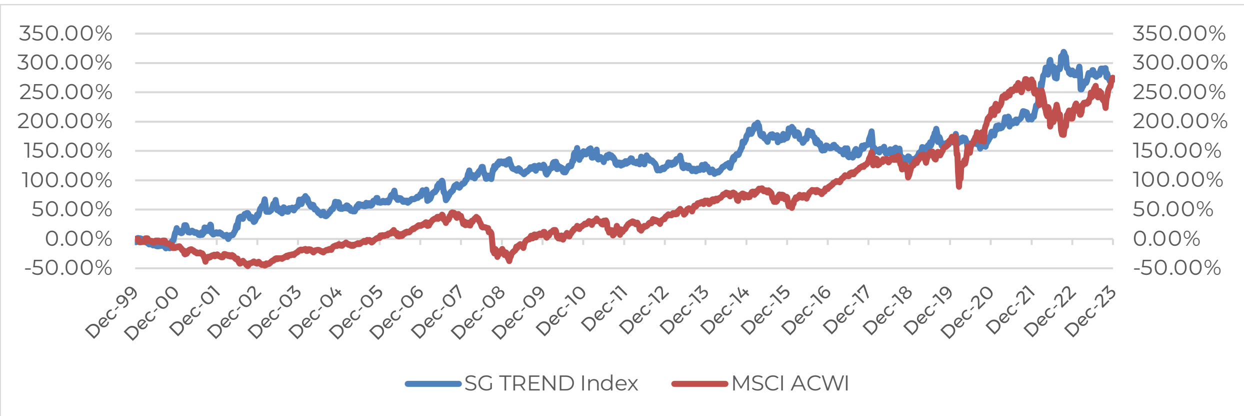


Nov 2021 – Oct 2022



Source: Morningstar, Shard Capital, 31/01/2024

Chart 1: The long-term total return from trend following strategies, on the whole, are not too different from that of global equities – but the path to get there is vastly different!



Source: Morningstar, Shard Capital, 31/01/2024

Shard Capital

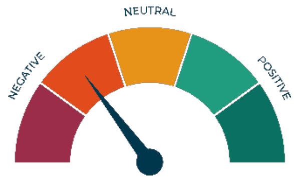
MARKET SNAPSHOT

	Index Series	FX	Last Price		Since: 31/01/2024 MTD	YTD	1 Year TR
EQUITIES	Bloomberg World Equity Index	USD			0.47%	0.47%	14.62%
	Bloomberg World Equity - Growth	USD			1.05%	1.05%	19.48%
	Bloomberg World Equity - Value	USD			-0.64%	-0.64%	5.39%
	Bloomberg UK Equity Index	USD			-1.47%	-1.47%	5.05%
	Bloomberg US Equity Index	USD			1.49%	1.49%	20.80%
	Bloomberg Europe ex-UK Equity Index	USD			0.28%	0.28%	12.66%
	Bloomberg Japan Equity Index	USD			4.81%	4.81%	19.49%
	Bloomberg Asia ex-Japan Equity Index	USD			-5.71%	-5.71%	-7.26%
	Bloomberg China Equity Index	USD			-9.81%	-9.81%	-28.72%
	Bloomberg Emerging Market Equity Index	USD			-4.83%	-4.83%	-3.83%
FIXED INCOME	Bloomberg Global Aggregate Index	USD			-1.38%	-1.38%	0.94%
	Bloomberg US Treasury Index	USD			-0.28%	-0.28%	1.22%
	Bloomberg US Corporate Bond Index	USD			-0.17%	-0.17%	4.16%
	Bloomberg UK Gilt Index	GBP			-2.35%	-2.35%	-1.60%
	Bloomberg Sterling Corporate Bond Index	GBP			-1.08%	-1.08%	4.37%
	Bloomberg EM Hard Currency Aggregate Index	USD			- 0.56%	-0.56%	5.11%
	Bloomberg EM Local Currency Govt Index	USD			-0.77%	-0.77%	2.12%
CURRENCIES	GBP Trade Weighted Index	GBP			1.33%	1.22%	3.87%
	USD Trade Weighted Index	USD			2.31%	2.25%	3.10%
	EUR Trade Weighted Index	EUR			-0.94%	-0.90%	-1.13%
	JPY Trade Weighted Index	JPY			-2.76%	-2.68%	-11.17%
COMMODITIES	Gold Spot $/Oz	USD	$	2,041.87	-1.02%	-1.02%	4.68%
	LME Copper Spot ($)	USD	$	8,500.50	0.43%	0.43%	-7.60%
	Oil - Brent ($)	USD	$	80.37	4.32%	4.32%	-2.98%
	Bitcoin ($)	USD	$	42,175.34	-3.33%	-0.78%	78.09%

Source: Bloomberg L.P. 31/01/2024

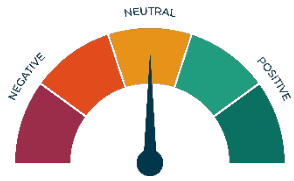
EQUITIES

Following a strong finish to equity markets last year, US equities continued the upward trend in January, and the trend behind growth companies remain robust as the disinflation narrative continues to drive markets. Other markets seem to have caught a bit of a wobble. We remain underweight equity markets due to the risk-reward outlook, specifically US equities which we believe are overvalued with earnings season set to show cracks in the US business cycle.



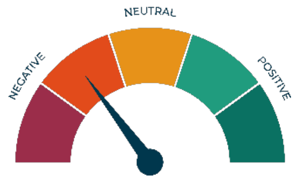
FIXED INCOME

Fixed Income volatility bounced back up as fears of a US debt default rose to the fore. Core UK inflation proved to be stickier than many expected, and Gilts sold off heavily over the course of the month. We retain our views that inflation is a problem in the rear-view mirror, and that the bigger issue lies in deflationary risks alongside an over-reliance on debt. For this reason, we retain exposure primarily towards high quality nominal bonds, with a marginal exposure in short duration inflation-linked bonds as a hedge. With regards to broader credit markets, we remain underweight as we believe markets are mispricing risk, with downside potential further exacerbated by our concerns around liquidity.



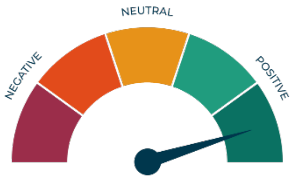
REAL ASSETS

WTI continues to trade in the mid-70's range and Brent in the low $80's. Natural Gas continues its decline with many markets oversupplied and demand being questioned. Gold is the only commodity we are overweight, and despite giving back a little during January, remains well above the key $2000 mark and in a strong upward trend. Given half the world will vote in national elections this year, we especially like the hedge it provides against monetary devaluation and event risk.



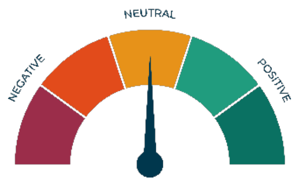
SPECIALIST STRATEGIES

Our specialist strategies continue to play a significant stabilising role within our portfolios. Our managed futures & trend following exposures had a difficult 2023, but as per our earlier comments above, we retain significant conviction in their role in our portfolios. Specifically, we continue to have conviction in the sustainability of the competitive advantage of the strategies we own, and the alignment of interest between the managers, and us and our clients. As for private markets exposure, we retain limited exposure to these, 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 changes in interest rate expectations would likely support a weaker USD. 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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