Create Financial Management
Independent Financial Advisers

HOYL

HOYL Capital Wealth

YOUR 2023 Q4 PORTFOLIO UPDATE

WELCOME

Welcome to our first quarterly update of 2024, which we are pleased to say is very positive both in terms of your portfolio's performance and Invesco's continued work as a discretionary fund manager.

- 2023 Q4 proved positive for almost all asset classes, particularly smaller companies and stocks whose fortunes tend to follow the business cycle of the economy.
- Economic data remained solid, with inflation coming in lower than expected. This led investors to begin pricing-in earlier and greater interest rate cuts in 2024 than previously expected.
- Commodities were the worst performing asset class as oil and gas prices fell, while Chinese equities also struggled.

We feel that, on balance, while Invesco's investment solutions retain a marginally positive view toward equities, they still maintain the diversification also needed during such an uncertain period.

We are also pleased to provide the most recent factsheet for your own recommended investment solution, which as you will see provides more information, including key facts, a portfolio breakdown by fund and past performance.

Let us now briefly review some of the macro-economic events which affected the investment markets during the last quarter of 2023, together with some which may also have a bearing during the year ahead.

ASSET CLASSES

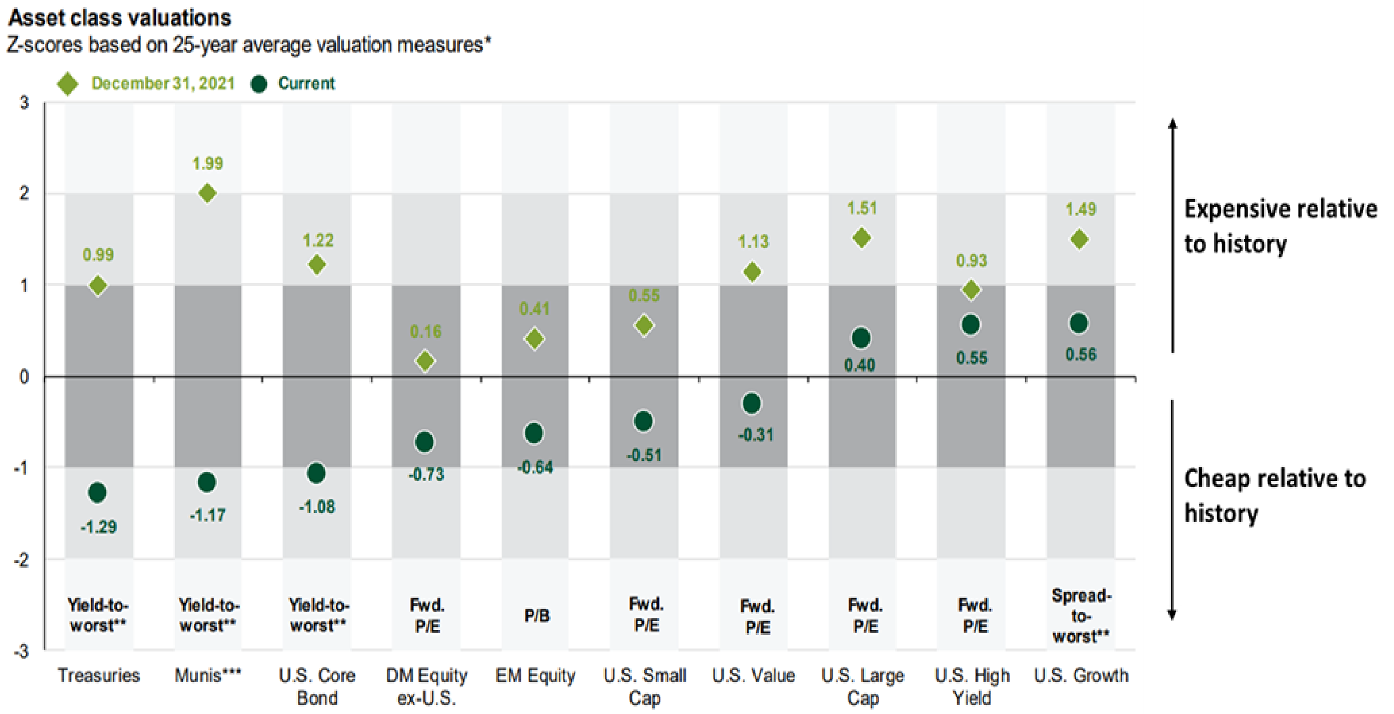
The fourth quarter of the year saw strong performance overall from most asset classes.

Previously weak property stocks rose most, with smaller companies and emerging market debt also rising particularly strongly. Commodities fell, weighed down by oil and gas weakness, as did Chinese equities on the back of continued worries over the Chinese economy. The pound was mixed but rose against the dollar.

The conflict in the Middle East, so harrowing from a human perspective, also raises the prospect of disruption to commodity supplies, particularly oil, with these pressures becoming more acute if the conflict were to draw in other oil producing nations, such as Iran.

In the US economic activity far outstripped expectations, largely driven by US consumers still confident in the workplace and armed with ample savings, although this higher growth could also mean a longer period of higher interest rates may be needed to cool the economy and return inflation back to target.

A lot of the stylistic returns above can be attributed to the performance of the "Magnificent 7" – the 'growthy' mega-cap US tech stocks, which were responsible for a good chunk of global large-cap and growth outperformance over the year.



Source: J.P. Morgan Asset Management Guide to the Markets US, 5 Oct; a Z-Score of 0 is average relative to history, roughly 68% of historical observations have Z-Scores between -1 and 1 and roughly 95% of historical observations have Z-Scores between -2 and 2

In terms of currencies the pound rose 4.4% against the US dollar (up 5.4% over the year), was flat against the euro (+2.1% for the year) and fell 1.5% against the yen (but up 13.3% for the year as a whole).

UK EQUITIES

The UK equity market enjoyed relative success in 2022, as lower valuations, the absence of Technology names (which during that period suffered some of the most material selling) and its high energy exposure, captured investor attention, while in 2023 markets have been a little more pedestrian.

FIXED INCOME

The dramatic rise in interest rates over the past 18 months has resulted in losses to nearly all fixed income investments. These rises may soon start to bite harder into economic activity, pulling demand and prices down with it, especially in economies whose consumers carry significant debt linked to short-term interest rates – such as the UK mortgage market.

However, as inflationary pressures appear to be receding, the need to raise interest rates has also faded, which could be more favourable for fixed income assets moving forward.

GILTS/SOVEREIGN BONDS

Closely linked to the path of interest rates for the economy in which the bonds are issued, their performance is largely dependent on the changing expectations for growth and inflation within the associated economy, as it relates to interest rate decisions.

An end to interest rate hikes could therefore prove beneficial for bond performance, and is an outcome that appears increasingly likely given weakening inflation and job market trends. However, should labour markets remain resilient and inflationary pressures reassert, the ‘higher for longer’ narrative surrounding interest rate policy could keep yields elevated.

CORPORATE BONDS

While corporate bonds have also suffered due to the significant rise in interest rates in 2022 and 2023, the outlook for these is now looking more favourable as the inflationary threat looks to be receding. If the global economy enjoys a soft landing or a mild recession the asset class may continue to enjoy a recovery.

YOUR 2023 Q4 INVESTMENT UPDATE continued

EUROPEAN EQUITIES

European equities, which had been out of favour for an extended period, enjoyed a marked recovery given the depth of market fears last year, although momentum has in the last couple of quarters.

There are several reasons to believe the European equity recovery may resume though, as valuations remain attractive relative to other global equity markets, the fading inflationary threat from rising energy prices due to a successful gas storage strategy by European authorities and the turnaround in government support relative to other developed economies.

Whilst few expect a resurgent China, as it carefully manages the balance of excessive leverage and a crumbling housing sector, such low expectations leave room for positive surprises. Government support and the removal of zero-covid policies may yet breathe a little more life into the economy – though there is considerable vulnerability to this prospect.

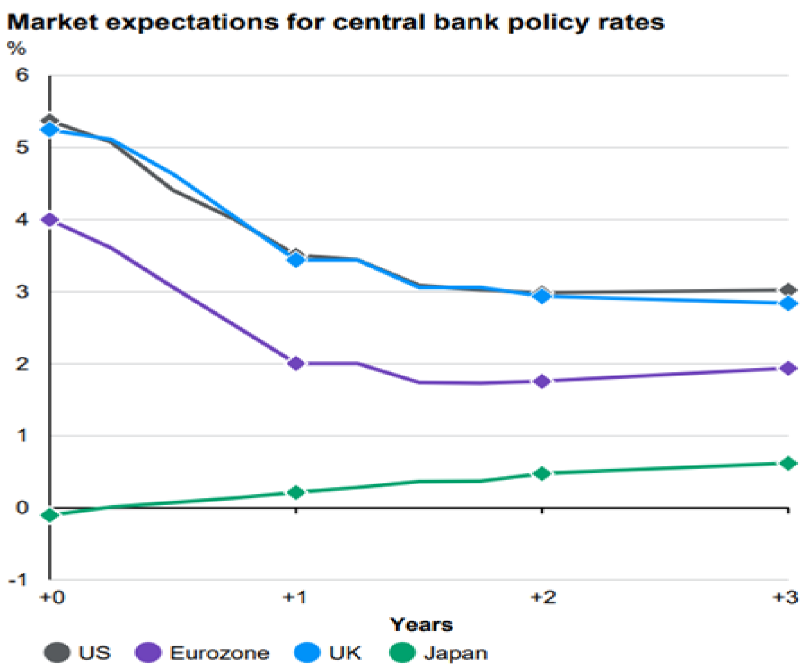
FALLING INFLATION

Inflation continued to fall over the last few months, with falling oil and gas prices playing a big part, but core inflation (headline inflation excluding volatile energy and food prices) has also been coming down quickly.

However, this is still above central bank targets of around 2% (headline inflation) in major developed markets, so the key question is how quickly it continues to fall, and if it gets back to target in the near future.

This better news on inflation has seen markets moving from expecting modest further interest rate rises from central banks to pricing in some material cuts for 2024, but if these cuts don't materialise to the degree expected it could cause markets to pull back.

Below we've shown aggregate investor expectations for the path of central bank rates over the next 3 years, with these expectations inferred from bond and derivative prices as at the end of 2023.



As you can see, markets expect rate cuts in the US starting in March, with total cuts of 1.75% to 2% for the US, UK and Eurozone priced in over 2024.

Lower rates mean lower borrowing costs for businesses and consumers, which should be positive when combined with already solid growth expectations.

It's worth noting markets have moved very quickly recently and investors shouldn't expect to see these levels of returns every month.

The main economic risks to watch for in 2024 are inflation proving more stubborn that expected or growth surprising to the downside.

Source: J.P.Morgan Asset Management Guide to the Markets UK, Q1 2024 as at 31 Dec. 2023

Stubborn inflation would reverse some of the optimism around falling rates, which would likely be bad for both bonds and equities, while weaker growth may benefit bonds but be negative for equities.

Neither of these risks is inevitable, and crucially, valuations on the whole remain attractive against history which bodes well for longer-term investors as we move into 2024.

YOUR 2023 Q4 INVESTMENT UPDATE continued

LOOKING FORWARD

Moving into 2024, the themes of inflation, interest rates and recession remain the key uncertainties from an economic standpoint.

Political risk will also be a factor, with more than half the world's population heading to the polls.

Russian and North Korea election results are not really in doubt, but others are more open with different potential impacts on markets depending on the result.

The most important of these elections globally is the US election in November, likely (but not yet certain) to be a rerun of 2020's matchup between Joe Biden and Donald Trump.

More locally, a UK election needs to be held before the end of January 2025 and will most probably occur this year too.

While geopolitics is always an arena for the unexpected, we shouldn't ignore deeper macroeconomic trends and questions, with the interplay between inflation, interest rates and economic growth remaining at the fore.

LIKE TO KNOW MORE?

We hope you have found this first quarterly update interesting, and it has helped give you a broad overview of global investment conditions as seen by both Invesco and our Investment Committee.

Please get in touch with your dedicated Financial Adviser if you would like to discuss anything covered in this update, have any questions, or would like any further information, either about your portfolio, the investment markets or simply investing in general.

Our next update will be in April, so until then it just remains for us to wish you well in the months ahead.

This investment update is for professional financial advisers, their clients, or prospective clients.

All information provided is for information only and not intended to constitute financial, legal, tax, investment, or other professional advice. It should not therefore be relied upon as such and neither Invesco, Create Financial Management, Hoyl Capital Wealth or Hoyl Independent Advisers accept any liability for losses incurred from doing so.

The value of investments and the income from them can go down as well as up, and you could get back less than you invest.

Past performance is not a reliable indicator of future performance.

Portfolio holdings and asset allocation can change at any time without notice.

Create Financial Management is a trading style of Create FM Ltd, which is an appointed representative of Hoyl Independent Advisers Ltd

Hoyl Capital Wealth is a trading style of Hoyl independent Advisers Ltd

Hoyl Independent Advisers Ltd is authorised and regulated by the Financial Conduct Authority (FCA)
Our Financial Services Register number is 433927 which can be checked on the Financial Services Register at
https://register.fca.org.uk/
Company Number 05343956 Registered in England