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INVESTOR

Economic and political roundup

Investment companies | Monthly | April 2024

During March, whilst the conflicts in Ukraine and the Middle East showed little sign of resolution, economic affairs elsewhere appeared relatively promising. In the US, the Federal Reserve (Fed) held interest rates between 5.25% to 5.50%, its stance stemming from continued labour market resilience and softening goods prices. Moreover, the Fed's Open Market Committee (FOMC) raised its growth predictions for 2024 from 1.4% to 2.1%. This modestly positive outlook corresponds with more assured market sentiment, as a survey conducted by Deutsche Bank revealed that 45% of investors suspect that the US will hold out to achieve a 'no landing scenario' of continued growth but persistent inflation above the Fed's 2% target.

Technology stocks continued to perform well, enjoying the tailwind from the improved outlook for AI-related demand

"A second reason why science cannot replace judgement is the behaviour of financial markets."– Martin Feldstein

Supply chain disruptions have accelerated the relocation of manufacturing out of China, with India emerging as a credible alternative

In a similar fashion, the Bank of England is yet to move on interest rate cuts, despite steady falls in inflation, Catherine Mann, a member of the BOE's monetary policy committee, stated that any policy change would follow action from the US, as the market was pricing in 'too many' cuts. The National Living Wage is forecast to rise by 10% in April, which KPMG noted would help households regain their purchasing power. This should be coupled with reduced utility bills, as Ofgem's energy price cap falls by 12% quarter-on-quarter from 1 April.

Renewable energy remains cost competitive against other forms of electricity generation

The view from Europe was more dovish, however, with the European Central Bank's Piero Cipollone's noting that his organisation could 'swiftly dial back our restrictive monetary policy stance'. Although, ECB President Christine Lagarde's earlier insistence that June would be the earliest date for cuts may suggest otherwise. On the other hand, PMIs compiled by S&P Global indicate an uplift to 49.9 from 49.2 in February, edging the region closer to growth and away from contraction. Contrary to the rest of Europe, Switzerland's national bank became the first major central bank to cut its rates, dropping to 1.5%.

Takeaways from the Bank of Japan's monetary policy meeting in mid-March include a moderate recovery despite downtowns in private consumption, which the central bank attributed to temporary factors.

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At a glance

Exchange rate		28/03/2024	Change on month %
Pound to US dollars	GBP / USD	1.262	0.0
Pound to Euros	GBP / EUR	1.17	0.2
US dollars to Japanese yen	USD / JPY	151.38	0.9
US dollars to Swiss francs	USD / CHF	0.90	1.9
US dollars to Chinese renminbi	USD / CNY	7.23	0.5

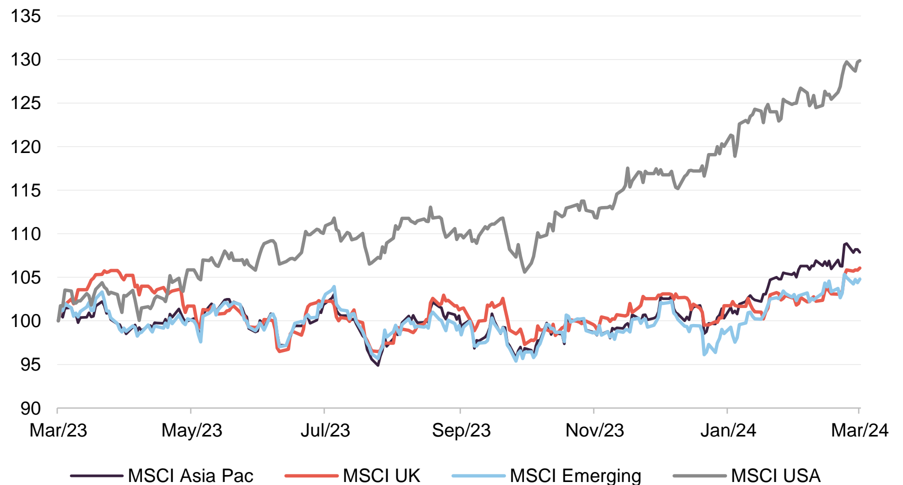
Source: Bloomberg, QuotedData

MSCI Indices (rebased to 100)

Each of these four indices rose over the month. The UK market bucked a very long trend by rising further than the US market over March.

Gold hit a new high in March, which could be a reflection of fears that US inflation will prove more persistent than had been hoped. The oil price has been climbing all year, which could be a factor in that. Nevertheless, bond yields fell.

Time period 31 March 2023 to 31 March 2024



Source: Bloomberg, QuotedData. Converted to pounds to give returns for a UK-based investor.

Indicator	28/03/2024	Change on month %
Oil (Brent – US$ per barrel)	87.48	4.6
Gold (US$ per Troy ounce)	2229.87	9.1
US Treasuries 10-year yield	4.20	(1.2)
UK Gilts 10-year yield	3.93	(4.6)
German government bonds (Bunds) 10-year yield	2.30	(4.7)

Source: Bloomberg, QuotedData

Global

(compare global investment funds here, here, here and here)

Manchester and London Investment Trust, 13 March 2024

The US economy remains robust which is unsurprising considering its make-up is driven by consumption and the latter has a high correlation to high employment and wage growth. We have consistently said that US Interest Rates will have to be 'Higher for Longer' and Technology shares hate surprise increases in discount rates. To be specific, our portfolio has a strong negative correlation to surprise increases in 10-year Treasury yields. There are many forecasts for an impending recession in the USA because that is what happened historically each time rates were raised so steeply. We believe that "every time is different". We are not so convinced that the recession outturn is already written but we do worry about escalating global debt levels.

When/if interest rates do come down there may be a wave of funds that exit Money Market Funds and look for a new home in Equities which could drive Equity markets materially higher.

General IT spending is likely to pick up through 2024 as companies focus on optimisation and automation. Spending is being prioritised into Ai, Cloud, Digitalisation and Security and these are the areas we have refocused our "Hard Technology" portfolio on. Spending will likely focus on platforms that can offer a wide spectrum of services including the management of your data. The era of the networked desktop has moved to the data centre connected end point and this means that those with the scale and resources to invest will win. For the minnows, we have further bad news, which is that in a few further years we may start to see Quantum Computing applications become more prevalent and these will require even greater scale.

We have entered the Era of Ai. We believe that we still have a long way to travel down this road and that those that bank quick profits now will rue the day they did so. We are Era-long investors, and our portfolio is firmly focused on Ai Enablers not ".ai show-boaters". Having said that, we have sold down one holding post the period end that we felt had become overvalued on Ai hype. We will be pragmatic.

The Inflation Reduction Act & CHIPS Act have changed the geopolitical landscape of trade. Relations with China are unlikely to improve. The world is a far more dangerous place which could drive further funds to dollar assets.

The regulation and statis of the Eurozone surely lead to a slow and withering aging of Europe as it is outcompeted on either side by the USA and China.

We have no idea what the future holds but we believe that since 1771 there has been a glacial shift in the utility as economic units from Man to the Machine. Those that have backed the technological advancement of the Machine over this period have quite commonly made excess investment returns. We believe that Ai is, in part, just an extension of software, albeit with non-sequential processing and non-deterministic outcomes. Hence, we feel that expecting the Era of Ai to develop along the same rough path as the Era of Software is not irrational and offers

investors some comfort and guidance. The next decade could be one of the most interesting eras for technology investing ever.

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Andrew Bell, CEO, Witan – 15 March 2024

The world economy could be described as either reaching the end of one economic cycle or entering the beginning of another. A surge in inflation, associated with measures enacted to offset the pandemic and exacerbated by the supply disruptions caused by the same pandemic, appears to be over. Stimulating demand at a time when supply was under pressure has not proved to be a winning formula. However understandable at the time, it has required some cleaning up by the central banks.

Signs of improving inflation performance have been sufficient for central banks (and markets) to conclude that interest rates are high enough to control and curtail the inflation overrun but there is disagreement whether they have simply reached a plateau or will soon need to be cut. Some point to fiscal largesse (in the US) and to the fixing of loans at low rates by companies and mortgagors as reasons why the impact of the rapid rise in rates has simply been delayed and will hit home hard in 2024. If so, rate cuts might be brought forward in order to offset economic weakness. Others suggest that retained pandemic savings and improving real incomes as inflation falls will sustain purchasing power, allowing moderate economic growth to resume as inflation itself moderates. If so, rates need not be cut urgently but could be reduced to prevent real rates from increasing as inflation.

Either way, the likely conclusion is that global policy rates will decline during 2024, which is a fundamentally different investing environment from 2022-23. Rather than speculating about how high discount rates will go and how much collateral damage will be sustained by asset prices and those who took on too much leverage at low rates, investors will be more inclined to look through current conditions towards an economic upswing in 2024-25, when financing costs and demand conditions may well be better than at present. Rather than worrying about how economic growth rates might slow in 2024, necessitating a defensive approach, time is on investors' side if the future is seen as brighter and the cost of waiting reduces.

With the nature of growth in the coming decade shifting towards more resource-intensive areas (infrastructure renewal, new energy investment, defence) inflation seems likely to be higher in coming years than in recent decades. Indebted governments will also have more of a bias to growth (and slightly higher inflation) as the most plausible way to reduce their debt burdens, avoiding explicit default. Consequently, a return to the recent anomaly of zero (or negative) interest rates appears unlikely, as markets price in the risk of a structurally higher inflation rate than the 0-2% which has characterised much of the century so far.

Two notable "disruption" themes seem relevant. One is that the mantra of a few years ago to stress test portfolios for the risks and opportunities from technological change has evolved into a need (temporarily forgotten in 2023) to find the winners and avoid the losers from the energy transition and related moves to decarbonise economies. Lower conventional energy costs and political argument over who should pay the costs of moving to initially less efficient (but ultimately more sustainable) energy sources led to heavy losses in the "new energy economy" sector in 2023. Nonetheless, the trend to "phase down" fossil fuels is likely to prove

inexorable. Secondly, AI, with the potential to transform productivity in many service sectors, as well as manufacturing, must now be added to the list of risks for specific companies, even while it holds out promise as a spur to non-inflationary growth at the whole economy level. With the development of the internet, initially the focus was on a small number of technology companies, then on the wider universe of companies whose businesses were transformed (for better or worse). Although comparisons can be invidious, a similar broadening is likely with the application of AI models.

Event risk is always an issue, however hard to evaluate. 2024 sees a record proportion of the world's population taking part in elections of various kinds. Some might produce changes in a given country (e.g. Argentina in 2023), others might have ramifications elsewhere (e.g. the US) or prompt reactions from other countries (e.g. Taiwan). Given unresolved global conflicts and a lack of sure-footed and secure political leadership to handle them, there is no shortage of potential geopolitical shocks. The fact that the days lengthen from December to June does not guarantee trouble-free weather on the way. Consequently, alongside a generally positive view of the world's medium-term prospects, a heavy dose of watchfulness is warranted.

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Beatrice Hollond, chairman, F&C – 7 March 2024

2023 saw a reversal of many of the performance trends which had dominated equity markets in 2022. The renewed optimism in large capitalisation growth stocks has pushed US equity market valuations to high levels. It is important to recognise, however, that the high valuation levels are largely a function of the small number of exceptional companies which hold dominant market positions in segments of the market which have enjoyed rapid growth and which provide exciting growth prospects for investors going forward.

While economic growth is slowing it currently seems that the outlook for the global economy looking into 2024 and beyond is significantly better than had been feared. Inflation should continue to moderate, falling closer to central banks' targets and the interest rate cuts which markets are now pricing in should materialise as we move through this year. With a reasonable outlook for corporate earnings this backdrop presents a generally more positive fundamental picture for global equities.

As usual, however, markets face numerous risks. Market valuations, while concentrated in a specific segment of the market, leave limited scope for disappointment if inflation and interest rates remain higher, or corporate earnings prove less robust, than expected. Furthermore, conflict in both Ukraine and the Middle East present ongoing risks to wider economic fundamentals, primarily through any potential impact on commodity prices. Globally the large number of elections taking place in 2024 also present scope for uncertainty and impact on investor sentiment. In particular the US Presidential election in November is likely to prove a point of focus as we move through the year.

There remains uncertainty with respect to the near term economic and political outlook and we expect an element of volatility in both bond and equity markets as inflation and interest rate expectations adjust over 2024 and as investors assess the implications of fast-evolving trends in AI and technology.

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Managers, Alliance Trust – 6 March 2024

Although the year ended on a high note for stock markets, it is not easy to predict how they will evolve in 2024. Most economists and analysts were wrong footed by the global economy in 2023, which highlights the difficulty of basing an investment strategy on macroeconomic developments. That is why WTW places limited emphasis on second guessing the speed of global Gross Domestic Product ('GDP') growth, or which country will be up or down, and instead we leave it to our managers to decide if and how macroeconomic conditions impact their choice of holdings.

Even so, the macroeconomic outlook does influence the level of gearing that we set and manager allocations. In a world where geopolitics is back on the investment agenda and there are multiple elections on the horizon, including in the US, India, the European Parliament, and the UK, the short-term outlook for equities is more than usually uncertain. We are conscious that the full impact of past interest rate increases has yet to fully filter through to the real economy, for example, on debt refinancing by households and corporations. It is possible, therefore, that recession may just have been postponed rather than avoided if people pull in their horns. Although hoped for interest rate reductions may limit the damage of a downturn on companies' earnings, a soft landing is not assured. Even if recession is avoided, growth could remain sluggish. Finally, notwithstanding any future reductions, with interest rates back to a more normal level historically, there could be continued competition for equities from the perceived safety of bonds and cash. We therefore remain cautious.

We are, however, excited about the prospects for active management. Macroeconomic and market volatility typically leads to higher differentiation of valuations between stocks, which skilled stock pickers can exploit for long term advantage.

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J Rothschild Capital Management, managers, RIT Capital – 4 March 2024

In 2024, we are navigating a landscape characterised by a balance of conflicting macro indicators. While US GDP estimates are trending upward, certain credit indicators are exhibiting signs of decline. Significant geopolitical risks, such as conflicts in Ukraine and the Middle East, coupled with the potential repercussions of the USA elections in November, cast a shadow over the horizon. The market's late upturn in 2023 was driven by the perception that interest rates may have reached their peak, and that a soft landing is becoming more probable. This has led to a scenario where many assets are perceived to be fully valued.

The above notwithstanding, we believe there are individual assets that currently trade at appealing price points, and therefore provide attractive opportunities for capital deployment. The reopening of the IPO markets may also serve as a near-term catalyst.

We are also excited about quoted equities, where the environment is particularly conducive for bottom-up, fundamental stock picking. We think there are a multitude of areas to deploy long-term capital with attractive return potential in areas such as

the often overlooked small to medium-capitalisation stocks, or in 'event-driven' stocks. At the same time, we continue to be excited by themes such as healthcare and Japan.

In uncorrelated strategies, we are enthusiastic about current opportunities in the corporate credit markets, driven by factors such as the increase in interest rates, reluctance by traditional banks to lend to mid-sized businesses, and the maturing of around $0.6 trillion in loans over the next two years, which were issued at lower rates.

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Bruce Stout, Samantha Fitzpatrick, and Martin Connaghan, managers, Murray International – 29 February 2024

Forty years of relentlessly rising bond markets up until 2020 suggests very few current investment practitioners can lay claim to having witnessed a bear market in bonds. At least not in the Developed World. But even Sir Isaac Newton would not argue that the force that pulled yields downwards for four decades was in any way gravitational. The explanation here is more straightforward, the answer to be found in the abhorrent practice of printing money rather than the pages of a quantum physics textbook! Now, as every discredited Central Bank in the Developed World moves centre stage again in what financial markets currently view as crunch time for policy "leadership", expectations are sky high. Having reacquainted themselves with the most intoxicating financial stimulant of all - hope - equity markets expect nothing less than recent history repeating itself. Such naivety simply inflates expectations without recourse to reality.

Throughout 2023 the compulsion to hang firmly onto the belief in a return to the 2% 'inflationary mean' of the past decade remained all consuming. Such a delusion was not confined to just financial markets and investors either. Central Bankers in the Developed World remained evangelical in their unwavering commitment towards 'returning to the 2% trend'. Perhaps even more incredulously, the widespread belief persisted that this would be engineered without causing economic recessions, without raising unemployment, without deteriorating asset quality and without financial dislocations despite the previous decade of misappropriate capital allocation. The harsh reality is an evolving economic and financial backdrop in which a 2% target remains totally unrealistic short of orchestrating enormous economic pain and suffering. Political practicalities of general elections across the globe in 2024 are unlikely to entertain even the thought!

Meanwhile the sheer magnitude of leverage in the Developed World's Government sector drives over-extended balance sheets towards breaking point, leaving Central Banks paralysed due to dwindling policy options. Such enormous leverage exposes maturing bonds to be priced by markets, where real rates of return are essential. Any compromise or attempted fudge on inflation targeting is likely to send yields spiking higher regardless of movements in short rates. Despite the market euphoria of late 2023, the transition from printing money to prudent money remains the single most important, and necessary, change to monetary conditions going forward. The money supply contractions currently being witnessed in major global economies suggest the process is already under way. Such practice has broad implications for long-term equity multiples (lower), prevailing bond yields (higher) and optimal stock selection. It is reasonable to assume equity valuations adjust to reflect real tangible

value ascribed to profitability, cash flows and dividends. The implications might be lower overall returns from financial assets for the next decade simply because risk-based assets would need to compete with the not-yet-recognised costs of the stunning rise in government debt. The practicalities of securing positive real returns in such an environment could prove demanding.

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UK

(compare UK funds here, here, here and here)

Jeremy Rigg, chairman, Henderson High Income – 27 March 2024

The key drivers for investment markets in 2024 will be the path of global interest rates in response to the level of inflation and the outlook for corporate profits as companies respond to rising costs. Generally, global economic activity remains relatively robust against the backdrop of higher borrowing costs, with overall levels of corporate profitability and consumer demand resilient, albeit China's recovery from the pandemic continues to disappoint. Investors believe that inflation will soften appreciably by the middle part of the year, driven not least by lower energy costs, enabling policy makers to begin reducing interest rates and helping to achieve a relatively soft landing for global economies. Policy makers are, however, continuing to caution against a rapid reduction in interest rates as service sector inflation remains too high in the West, and increasing geopolitical tensions may lead to persistently higher shipping costs. In addition, there are upcoming electoral issues to be mindful of, particularly in the US and of course the UK.

The relative valuation of the UK equity market continues to look attractive when set against other global equity markets and both international and domestic investors have by historic standards a very low exposure to UK assets with the scope for that weighting to increase.

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David Smith, manager, Henderson High Income – 27 March 2024

Over the past two years, global market returns, both equity and bonds, have been shaped by inflation and the sharp rise in interest rates. Now that inflation is falling, the pressure on central banks to keep monetary policy tight is easing which suggests rates could be cut over the next 12 months. While the impact of the significant rise in interest rates on economic growth needs to be carefully watched, consumer borrowings are historically low, corporate balance sheets are robust and the banking sector is well capitalised. With wage growth also likely to outstrip inflation this year, the outlook for the UK economy could be better than current low expectations, albeit still below trend.

Similar to the UK, global economic growth is likely to be better this year than expectations a year ago, given that the US economy has proved more resilient. Offsetting this has been China, where economic growth has disappointed despite the government introducing stimulus measures. The US economy should avoid recession this year given manufacturing lead indicators are now recovering and unemployment, albeit rising, is still at low levels.

While a more subdued economic environment, along with higher interest rates and higher costs, is likely to be a headwind for earnings growth, equity valuations in the UK are attractive both versus their own history and relative to global equity markets and we have continued to see overseas buyers make approaches to quoted UK companies. Although one has to be mindful of geopolitical risks, we remain cautiously optimistic that equities can make positive progress over the medium term. As ever the focus remains on finding good quality businesses at a compelling valuation that can pay and grow an attractive dividend.

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Georgina Brittain, Katen Patel, portfolio managers, JPMorgan UK Small Cap Growth & Income, 22 March 2024

With all the appalling events going on globally, imminent elections bringing potential changes in the US and UK, and a turgid UK economy, it is all too easy to be gloomy about prospects. While the average GDP growth forecast for 2024 is a modest 0.4% in the UK, inflation is predicted to end the year just above target at 2.2%, and the market is expecting interest rates cuts during the year. Add to this low levels of unemployment, stable house prices, declining energy costs, rising real wages helped by National Insurance cuts, the imminent rise in the National Living Wage and prospects appear brighter.

The UK is predominantly a services economy, so the health of the consumer is crucial. The overall resilience of the consumer since the outbreak of the war in Ukraine has been little short of astonishing, given the numerous financial headwinds. The most recent Gfk consumer confidence survey demonstrates a notable rebound in individuals' views on their personal financial situation, and the services PMI (Purchasing Managers' Indices) data of 53.4 suggests an expanding economy. We do not want to get carried away by these and other positive data points, but it does appear that both consumers and companies are adapting to the reality of higher interest rates.

As ever, our focus is on the companies themselves. Overall the message we are hearing from our holdings is a positive one. Many smaller companies have continued successfully to navigate their way through the headwinds of cost inflation, wage inflation, labour shortages and higher interest costs.

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David Fletcher, chairman, JPMorgan Claverhouse – 20 March 2024

The good news is that the UK economy seems to be over the worst of its inflation and cost-of-living crisis. UK equity valuations still remain extremely attractive in absolute terms and relative to other markets. This provides investors, both in the UK and abroad, with what the Portfolio Managers believe is a rare opportunity to enter this market at historically low valuations, with attractive dividend yields. This suggests that there is scope for significant market gains as and when investors' confidence in this market returns, and their focus shifts back to long-term company fundamentals.

The geopolitical outlook remains worrying, with the conflict in Ukraine seemingly no closer to resolution and the conflict in the Middle East threatening to spread across the region. November's US presidential election has potentially broader implications

than usual for the global order and there are also elections taking place in several other countries and regions this year, including the UK and Europe. Whilst all these factors are well known, any dramatic or unexpected developments in any of these situations will likely spark an increase in market volatility.

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Peter Tait, chairman, Murray Income, 5 March 2024

As we turn our attention to 2024, one question I am asking myself is why has the UK market been a laggard and what might cause the situation to improve in the months and years ahead? There is, of course, never one definitive reason for market performance, but such reasons could include higher than anticipated inflation and interest rates, the impact of the Ukraine war on energy supply and utility bills, a lack of technology stocks in the Benchmark, a continuing Brexit hangover (dissuading foreign investors from the market) and the sharp reduction in equity exposure, particularly UK equity exposure, by UK Defined Benefit pension schemes. Information published by the Pensions and Lifetime Savings Association shows that, 20 years ago, UK Defined Benefit pension schemes invested about half of their assets in UK equities, but that this had fallen to only about 3% by 2023.

As a result, the UK market now looks very cheap compared to its own history and to international markets. Of course, there will be headwinds along the way, but interest rate trends are usually very important for equity market movements. The anticipation of falling UK interest rates later this calendar year could attract the attention of potential investors, particularly given the appealing combination of a market dividend yield of 4.0% and forecast dividend and earnings growth in 2024, according to a Bloomberg consensus of estimates in January, of 9.2% and 10.1%, respectively, despite the lacklustre outlook for overall economic growth.

Markets can be blown off-course by many exogenous factors, and there remain significant risks in the current geo-political situation, emanating from the continuing Russian war in Ukraine, the current Middle East crisis, and tensions between China and both Taiwan and the USA, not to mention the fact that nearly half of the world's population will be participating in general elections during the course of 2024.

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Charles Luke, Ian Pyle, Murray Income, 5 March 2024

We expect the sharp monetary policy tightening over the past 18 months to lead to a slowdown in global economic growth in 2024. For the UK, we currently forecast zero GDP growth in 2024. Inflation is expected to continue to trend downwards but still remains higher than BoE targets and a key focus for markets will be on interest rate cutting cycles and when and how quickly they get under way. The most recent Consumer Prices Index data for the 12 months to January 2024 indicated a reading of 4.2%. At its January 2024 meeting, six members of the BoE's 9-strong Monetary Policy Committee voted to maintain interest rates unchanged, at 5.25%. abrdn's economists expect the BoE to start cutting rates in mid-2024.

Political risk, with a number of significant likely elections including the US and UK this calendar year, and geopolitical risk with, in particular, increased tensions in the Middle East, are likely to remain elevated.

The valuations of UK-listed companies remain attractive on a relative and absolute basis. Apart from the global financial crisis in 2008/2009 the UK's price/earnings multiple of 10.4x is near its lowest point for 30 years. The UK stockmarket is cheap in absolute terms, relative to history and also relative to global equities. Investors are earning global income at a knock-down price. Moreover, the dividend yield of the UK market remains at an appealing premium to other regional equity markets.

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Asia Pacific

(compare Asia Pacific funds here, here and here)

Yoojeong Oh and Eric Chan, managers, abrdn Asia – 26 March 2024

The final weeks of 2023 saw the clearest signal yet from the Federal Reserve that its long period of tightening monetary policy could finally be coming to an end. The precise timing and scale of future interest rate cuts remains to be seen, but the benefits of potentially lower borrowing costs and a weaker US Dollar are likely to boost the appeal of Asian assets and currencies. Income investors have more reason to cheer as better economic growth and lower bond yields only serve to increase the appeal of the equity income asset class. Another positive economic factor is that inflation across Asia in 2023 was modest compared with many developed countries, which means interest rates have not risen as much and central banks in several countries were able to stop increasing rates in the second half of 2023.

China remains a source of concern, given its economic recovery has not been as smooth as expected. Domestic consumption continues to be muted, while ongoing challenges persist to stimulate spending and growth. However, we are seeing signs of increasing targeted support and intervention by both the central bank and the government. Other headwinds for the region include geopolitical developments that have already and could continue to dampen investor appetite for risky assets and disrupt supply chains, including attacks in the Red Sea, ongoing trade tensions between the US and China, and territorial disputes in the South China Sea. 2024 will also see political influence as elections loom large across Asia. Whilst outcomes in Taiwan and Indonesia thus far suggest policy continuity, the polls move to India next in April where Prime Minister Modi will look to continue his vision for India as a leading global economy. Further afield, the US Presidential elections in November could lead to an increase in political noise and uncertainty for the Asia region.

Key structural themes, such as increasing personal incomes and the move to renewable energy, continue to provide some of the best investment opportunities across a range of sectors from infrastructure to financial services and vehicle manufacturing. Asia has some of the largest and fastest growing companies in the world. Many are established global brands or have built dominant positions in growing sectors. The technology sector is now recovering as AI-related applications and chips start to proliferate, fuelling further demand in the semiconductor and consumer electronics sectors.

More broadly, there are expectations that corporate earnings will show improvement from the beginning of 2024. We continue to believe that quality companies with solid balance sheets and sustainable earnings growth will emerge stronger from tough times. For income investors, the prospects are improving, with dividends of Asian companies showing steady growth. A growing valuation divergence between Asia and developed markets over the past 12 months means that Asian companies now offer better value coupled with better forecast earnings growth. This means investors have an excellent opportunity to prosper from the twin benefits of rising income and capital growth.

Over the longer term, we see the most attractive opportunities around some key structural themes in Asia. Rising affluence is spurring growth in areas including financial services, while urbanisation and an infrastructure boom is set to benefit property developers and mortgage providers. The region is also in the driving seat when it comes to the green transition, with renewable energy, batteries, electric vehicles, related infrastructure, and environmental management all leading the way. We continue to favour fundamental themes, which we believe will deliver good dividends for shareholders over the long run.

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Pacific Horizon Investment Trust – 14 March 2024

The past couple of years have seen Asian markets hampered by several major headwinds, notably the strongest US dollar in decades, fears of recessions in western markets and armed conflicts in Europe and the Middle East. Despite these, there has been no Asian crisis, quite the opposite. Asian economies have remained resilient and are generally growing far faster than most western economies. This is a remarkable change from the Asian economies of old, when such a recent move in the US dollar alone would have been enough to spark a major economic crisis across the region.

We have previously articulated in detail the reasons for these changed fortunes. To summarise: Asian economies are far better positioned than in the past, especially when compared to developed markets; they have managed their economies more prudently, without printing money and have maintained sensible real interest rates for many years.

Combining this favourable macro-economic position with Asia's structurally faster growth rates and valuations at multi-year lows relative to developed markets, the obvious question is why haven't Asian markets performed better?

The first reason is timing. Several of the headwinds facing Asia, most importantly the strength of the US dollar, are yet to subside. Judging precisely when these might turn is difficult. However, with inflation peaking in the west, US interest rates likely to fall sometime in the next 18 months, US and European government spending and indebtedness continuing to soar, Asian economies will become increasingly more attractive.

The second issue continues to be China. A year ago, the stock market looked set to embrace China's reopening: Covid-19 was put in the rear-view mirror, the consumer was expected to bounce back, regulation of big tech was abating, Beijing was rolling out measures to restore confidence in the property sector and Biden's meeting with Xi in Bali gave hopes of a thawing in geopolitical tensions.

Instead, China continues to underperform, with an almost unprecedented third year of market falls and the MSCI China index down nearly 60% from its peak in early 2021. What went wrong? The consumer, largely shell-shocked from Covid-19 lockdowns and witnessing challenges in the property sector, has been significantly more cautious than envisaged. In turn, the private sector, with a weaker domestic economy and still cautious from the memory of regulatory headwinds, has been slow to invest and employ.

Despite these issues, we continue to believe there are compelling investment opportunities in China. Firstly, valuations are extreme with many world class companies trading on low single digit multiples and others even below the cash on their balance sheet.

Secondly, the macro situation is not as dire as these valuations suggest. We are aware of many of the questions surrounding local government finance vehicles, GDP growth rates, demographics and much else. However, this is a US $17tr economy, with a relatively strong balance sheet and considerable fiscal, monetary and policy room to support the economy which it is starting to do.

Longer term, however, China faces two key challenges. The first is geopolitics; tensions with the US and her allies appear unlikely to significantly improve. Our analysis would suggest much of this is out of China's hands with the direction of US policy already set irrespective of who becomes the next US president.

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Robin Parbrokk and Lee King Fuei, managers, Schroder Asia Total Return – 13 March 2024

We thought a summary of our observations post our recent five-week trip to the region would be of interest. The month we spent in Asia was busy and fascinating and after many meetings, including c. 50 one-on-one corporate meetings, it generated some solid new investment ideas and some interesting bigger picture thoughts.

Our first observation reviewing our company visit notes is that inflation is not an issue in the places we visited in Asia (Hong Kong, Taiwan, Singapore and Thailand). Nearly all companies we met instead discussed weak end demand, selective discounting, increasing promotions and incentives, the need to pass on falling raw material costs, disruption, and oversupply and irrational competition from China. This applied whether it was e-commerce in Taiwan, DIY stores in Thailand, technology companies, battery manufacturers, convenience stores, bicycle manufacturers, Indonesian paint suppliers or consumer staple companies. The picture across the region was quite consistent with very few companies talking about putting up prices or claiming to have pricing power. For stockmarkets this is clearly a double-edged sword - falling inflation is likely to be positive for market sentiment but clearly pricing pressure is a headwind for earnings unless companies can eke out cost savings.

The other factor that came out of our visits was that oversupply from China in certain industries is very real and poses a threat to those companies competing with Chinese ones. This applies to multiple industries with China's economic slowdown very clearly structural and likely to be prolonged given the extent of the excesses particularly in the property and financial sectors. With weak demand at home

Chinese companies are likely to be exporting their excess capacity whether this is electric vehicles ("EV"), batteries, semiconductors, solar panels, wind turbines, pharmaceuticals, medical equipment, construction machinery etc etc. The Chinese domestic slowdown and continued build out of overcapacity in many industries is likely to be deflationary. For the EV and solar industries the capacity build out is huge and this is being replicated across sectors that are considered "strategic" by the Chinese Communist Party ("CCP").

The second observation from our extended trip was how visibly demographics in Asia are changing. In Hong Kong we did not get in a taxi where the driver looked under 70 years old, and whilst out hiking the many workers clearing up after the recent typhoons and thunderstorms all looked well past the age that they should be wielding chainsaws (especially after one just missed the head of one of your Portfolio Managers). Restaurants in Taiwan meanwhile were full of robot servers, and Taiwanese convenience stores are increasingly unmanned (shoplifting is less of an issue in law abiding Taipei!) whilst at Bangkok airport the same Portfolio Manager was literally run over by a robot cleaner whilst not looking where he was going (rather embarrassingly I should add). With many Asian countries facing a rapidly ageing demographic this will throw up some interesting structural dynamics particularly in Korea, Taiwan, Hong Kong, China and Thailand - it is an area we will be doing some more work on. We remain convinced that ageing demographics in Asia at least are likely to be profoundly deflationary - a quick cut and paste from Schroders internal Chat GPT model probably explains this as well as any:

"The impact of aging demographics on inflation or deflation is not straightforward and can vary depending on several factors. However, in general, aging demographics tend to have a deflationary effect on an economy. Here is why:

1. Decreased consumer spending: as the population ages, the proportion of older individuals typically increases. Older individuals tend to have lower consumption patterns compared to younger generations. This can lead to reduced consumer spending, which can put downward pressure on prices and contribute to deflationary pressures.
2. Declining workforce and productivity: aging demographics often result in a shrinking workforce as the number of older individuals retiring exceeds the number of younger individuals entering the workforce. A decline in the working-age population can lead to lower productivity growth, which can further contribute to deflationary pressures.
3. Increased savings and reduced investment: older individuals tend to save more and have a higher propensity to save for retirement. This can result in increased savings in the economy, which may lead to reduced investment and lower aggregate demand. Lower investment can limit economic growth and contribute to deflationary pressures.
4. Increased healthcare and pension costs: aging populations typically require increased healthcare services and pension provisions. The rising costs associated with healthcare and pensions can strain government budgets and potentially lead to reduced spending in other areas of the economy, contributing to deflationary pressures.

It is important to note that the impact of aging demographics on inflation or deflation can be influenced by various factors, including government policies, technological advancements, and global economic conditions. Therefore, it is always advisable to

consider a range of factors when assessing the potential impact of aging demographics on inflation or deflation in a specific country or region."

The third observation from our trip was how supply chains in Asia are rapidly adapting to our new geo-political world. Most export related companies we met indicated they are moving some of their production facilities out of China with favoured destinations usually Vietnam, India and to lesser extent Indonesia. US end clients increasingly want all final goods whether technology products, semiconductors, window blinds, auto parts, textiles out of China - whilst European clients are happier with China plus one (or derisking of supply chains) strategies.

The question for investors then is whether the trade realignment is good or bad news for corporate earnings - and for end consumers is it likely to be inflationary as manufacturing outside China is likely to be higher cost? The evidence here is interesting and certainly not yet conclusive.

For some technology companies where the threat of Chinese competition decreases due to sanctions that work (bans on access to semiconductor equipment and key skill sets) it increases their moats or competitive positioning. This would be the case for companies like TSMC, Hynix and Samsung Electronics and other specialist Taiwanese and Korean technology companies with genuinely high levels of intellectual property.

For other industries however where we see companies adding large scale capacity outside of China, whilst Chinese competitors continue to expand their domestic facilities in China, we are likely to see very significant oversupply and major price pressures. Areas we would be particularly worried about would be EV batteries and the related supply chains, auto parts, commodity semiconductors, green energy, biotech etc - basically any industry under the American Inflation Reduction Act and/or any industry considered a strategic priority for the CCP.

The other point to note around the movement in supply chains is this is not currently a wholesale exit from China. The production moving to India, Mexico and Vietnam is often just final assembly whereas all the components and higher value-added parts still come from China. For the moment this is not a massive realignment.

Digressing slightly this had your Portfolio Managers thinking: is deglobalisation really happening and do sanctions normally actually work? The truth looks to be that neither is having much impact. As the charts below on Chinese (and German) exports to Kyrgyzstan and Kazakhstan suggest goods are getting to Russia as middlemen facilitate trade, and latest trade numbers showing booming European diesel shipments from India suggest Russian oil is arriving in Europe just by different routes.

So, our conclusions after many company meetings in Asia and surveying evidence on the ground is that the movement of supply chains appears real, but not necessarily fundamentally large. By creating more capacity in many industries, particularly the more commoditised ones we think it may actually be disruptive and deflationary. This is quite contrary to what appears the consensus belief amongst some top-down economists in the West.

What struck us after our month in Asia is that we may be seeing the return of the 4Ds in Asia at least. The 4Ds was a presentation your Portfolio Managers used to give 10 years ago. It highlighted that deflationary forces were likely structural. These

forces were Disruption (and overcapacity), Demographics (i.e. aging societies), Debt (too much debt in China and the West), and Disparity in Income (middle class incomes squeezed whilst rich do better but the rich save more of their income thus depressing overall consumption). We plan to do some more analysis on the implications but as it stands we do not see evidence of inflationary forces, or higher for longer, in Asia (quite the opposite in fact in China where the risks of a Japanese style prolonged debt deflation are rising).

What other observations came out of our trip? On a more positive note, we were struck how financially healthy most of the companies we met were. Nearly all companies we hold in the portfolio are net cash positive and nearly all committed in our meetings to maintaining dividends whether in absolute terms or percentage payout ratios. We see plenty of opportunities to make total returns in Asia even if the total return comes principally from dividends. It is particularly heartening to see increasing numbers of Asian companies announcing very large buy backs. Another positive that came from our meetings was that in most industries the painful process of running down excess inventories built post-COVID is almost complete (homewares, textiles, mobile handsets) or is well underway (semiconductors, bicycles). This means, whilst the outlook for end demand in 2024 is uncertain and visibility low, at least the double headwind we had in 2023 of weak demand and inventory clearing has gone. This left us feeling more upbeat about select export businesses in the region.

Overall then it was a great month in Asia, the first long trip your Portfolio Managers have made since pre-COVID. Overall, we left a little more upbeat on prospective Asian stockmarket returns as we enter 2024. We think inflation is likely to be less of a headwind and outside of China the economic picture in Asia looks reasonable. Company balance sheets are generally in good shape and whilst the earnings outlook is uncertain, valuations and market sentiment in the main reflect this in your Portfolio Managers' view.

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Europe

(compare European funds here)

Sam Cosh, manager, European Assets Trust – 19 March 2024

The outlook for inflation and its influence on interest rates are likely to continue to dictate market direction, however, the debate has shifted from when will rates stop rising, to how quickly will they fall. This should provide a positive backdrop to investing, though we are aware that the impact of the rapidly tightening liquidity environment of the last few years has yet to fully impact the economy which may lead to a risk of wider recession for this year. Nonetheless, the low valuation of European smaller and mid-cap companies suggest much of this is priced in. Following two years of underperformance for smaller companies against the larger market, we think this is an excellent opportunity for the creation of long-term returns.

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Vivian Bazalgette, chairman, Fidelity European Values –19 March 2024

Last year, I sounded a cautious note on the outlook for the portfolio, given the risk of a global recession at some stage in 2023. While this has not yet come to pass – and indeed, there was a degree of euphoria in markets towards the end of the reporting year under review – it would be unwise to buy too fully into the idea that 'normalising' interest and inflation rates will ensure a rosy picture in 2024. A return to target inflation rates of 2% could be seen as quite restrictive in a historical context. If this is achieved only because of a flatlining global economy, then the market could take fright over the prospects for corporate earnings and dividends, particularly if interest rate reductions are seen to be delayed. Other reasons to be cautious include the possibilities arising from many elections this year, the Chinese economy and the property market – which appear to have deeper-seated problems than anyone expected, the ongoing conflagration in Ukraine, and the conflict in the Middle East, which has been affecting energy prices given concerns over security of shipping in the Red Sea.

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Japan

(compare Japanese funds here)

Nicholas Price, manager, Fidelity Japan – 26 March 2024

A long-awaited reform effort to boost capital efficiency in Japan's stock market started to gain traction, with the TSE issuing guidance promoting the requirement of a price-to-book ratio above one, among other measures, to improve capital efficiency.

Traditionally, Japanese companies have notoriously sat on excess cash piles, thus tending to limit investor returns. But that is changing. From the first quarter of 2023, the TSE required most listed firms, especially those trading below book value, to "properly identify" their cost and efficiency of capital.

The TSE's latest reform measures represent a bold step forward which has helped to bolster investor confidence. While these measures are encouraging, we think it is even more important to introduce incentives for companies to pursue sustainable growth. With wider reforms and quicker steps, we believe many more Japanese firms could unlock their value and the country's stock market would attract greater inflows of foreign capital.

With the rate hike cycle in the US peaking out and the Bank of Japan widely terminating its negative interest rate policy, there is scope for the yen to strengthen somewhat. However, demand in the Japanese economy is not that tight and I do not expect the Bank of Japan to pursue further significant tightening. Governor Ueda has already stated that monetary policy will remain accommodative and a key focus point once negative rates are ended will be forward guidance about the path of future hikes.

The most significant risks are still around inflation and how interest rates can impact market valuations and levels. Continued signs of weakness in China's recovery and

a slowdown in America also represent potential headwinds that could prompt a near-term adjustment in Japanese stocks. Additional shocks from energy prices, driven by an escalation in geopolitical events, remain a risk factor that we are closely monitoring.

On the macroeconomic side, the Bank of Japan has ended its negative interest rate policy and the loosening of interest rates by the US Federal Reserve, could drive yen strength in the second half of the year. The domestic economy is doing quite well, and companies are investing in digitalisation and reshoring in the technology space, especially across the semiconductor industry. China is likely to see an uneven recovery, though there are opportunities among associated companies that underperformed last year.

Tentative signs of improvement in the global manufacturing cycle are supportive of technology and factory automation related stocks held by the Company. As the machine tool cycle bottoms out, early cyclicals typically perform strongly at the start of the recovery. We also expect to see a strong semiconductor cycle, spurred by greater needs for artificial intelligence (AI), the Internet of Things (IoT), smartphone AI and developments in edge computing. This is creating opportunities in niche materials and component makers that offer attractive levels of potential upside. Political change in the US is a potential risk factor, as it could lead to greater protectionism, which could hurt Japan and particularly exporters.

Labour supply shortages in Japan will continue to underpin inflationary pressures and a successive year of successful wage hikes, potentially leading to growth in real wages, would have positive implications for consumer facing sectors.

Corporate governance improvements, such as sustained efforts by companies that trade below book value to rectify their situation, an acceleration in the unwinding of cross-shareholdings, and further progress in the restructuring of business portfolios, can enhance the outlook for returns on capital in Japan. Last year, most of the activity came from companies that trade below 1x book. However, as TSE-led governance reforms are broadening out across the market and through our engagements we are seeing higher valuation companies and mid-caps become more active in terms of shareholder returns. After a year of significant style headwinds, this broadening of corporate change should be conducive to a more balanced market environment in Japan.

A reversion of the interest rate cycle in the US is generally conducive to better performance by growth stocks, an area of the Japanese market where we are seeing a lot of undervaluation. From a technical perspective, the recent market rally in Japan has been concentrated in a small number of large-cap names that are collectively looking overbought and investor interest is likely to move down the market cap scale. In particular, mid/small caps that are overlooked or under appreciated by the market and are trading on reasonable valuations offer a source of differentiated returns. All of these factors combined will, we believe, be supportive of a reversion in growth stocks.

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Managers, Baillie Gifford Shin Nippon – 22 March 2024

The Japanese large cap-oriented indices, TOPIX and Nikkei 225, are near their all-time highs recorded at the peak of Japan's asset bubble of the late 1980s. There

are specific factors, which we discuss below, for this performance gap between large and small caps.

The strong performance of the Japanese market over the past year has been driven largely by so-called value stocks. These are mostly large cap stocks from traditional resource intensive sectors with cash rich balance sheets and large cross-shareholdings. The Tokyo Stock Exchange has issued directives, including the threat of delisting, aimed at forcing such companies to improve their financial performance. This has led many companies, especially those trading below book value, to increase their dividend significantly, conduct large buybacks and sell down their cross-shareholdings. Such companies have attracted considerable investor interest and feature prominently among the best performing stocks

Despite moderation in inflation, especially in the US, the major central banks across the developed world are yet to cut interest rates. There is a possibility that interest rates may remain higher for longer and some market participants seem to have taken this view. The inevitable consequence of this has been continued selling of high growth stocks, including those in Japan. This is due to the perception that they all require access to third-party funding at increased rates of interest, slowing their progress to profitability. In Japan, the Central Bank's favoured measure of inflation (which excludes fresh food and fuel) remains above its target level. This has stoked speculation of a potential rate rise in Japan after years of negative interest rates and has led to considerable buying of banks and other interest rate sensitive stocks.

For the first time in decades, we are witnessing significant levels of corporate action in Japan. Activist investors and private equity groups, both domestic and from overseas, are taking large stakes in underperforming Japanese companies and agitating for change. This, along with the pressure being applied on such companies by the Tokyo Stock Exchange, is resulting in a major change in corporate behaviour. This includes, but is not limited to, changes in dividend policy, share buybacks and the sale of unproductive or loss-making assets. While this is very positive for the overall health of corporate Japan, this unfortunately has also resulted in a significant flight of shareholder capital from young, disruptive and fast-growing companies into traditional, old economy businesses. Data from the Tokyo Stock Exchange shows that Japan's domestic individual cash investors, traditionally among the largest buyers of small caps, have been net sellers over the past year.

Given these developments, it is unsurprising that Japanese small caps as an asset class remain completely out of favour, in particular growth names. However, it is precisely for these reasons that we remain cautiously optimistic about the future.

Small caps can be extremely volatile at the best of times and in the current environment they remain very much out of favour. However, we believe that the stocks that are driving the current market rally in Japan have a time-bound investment appeal. As their attraction in terms of improving shareholder returns plays out, there is little else to get excited about in terms of their fundamentals. It is at this point, we think, that investor interest will refocus on the prospects for dynamic small cap growth companies in Japan.

Already, based on recent quarterly results, we have observed tentative signs of such a move. Portfolio holdings that have reported strong results have seen a sharp and sustained upward move in their share price. As the focus on fundamentals takes a firm hold, we should start seeing a strong recovery.

North America

(compare North American funds here)

Jonathan Simon and Felise Agranoff, managers, JPMorgan America – 26 March 2024

The US economy has so far held up better than many expected, and diminishing inflation pressures, combined with improved growth prospects have fuelled hopes of a soft landing. The unemployment rate has remained in a narrow range between 3.4% and 4.0% since December 2021, and could stay in this range in the year ahead.

However, the pace of job creation is likely to slow, so consumer spending could grow more slowly, especially as we expect banks to gradually tighten lending standards. However, while younger and lower income households are showing signs of increased financial stress, overall consumer financial conditions remain quite manageable, and with interest rates set to decline, we do not expect to see an outright decline in consumer spending.

Inflation should continue its steady downward trend. Last year, reported inflation was boosted by several factors, including its large housing component, which significantly lags actual house prices and rent levels. A restricted supply of new and used cars also contributed to inflation pressures, as did faster wage growth and a sustained resurgence in airline travel following the pandemic. However, all these trends are now abating, suggesting that inflation will continue to moderate in the year ahead.

Oil prices have fallen back within a more normal range of US$ 70-80 per barrel for West Texas Intermediate crude. Going forward, the combination of a sluggish global economy and increased output from the US and non-OPEC nations should more than offset any further reductions in OPEC and Russian output, holding oil prices in check.

This combination of factors - a soft landing, lower inflation, falling rates and relatively stable oil prices might appear to offer a 'Goldilocks' scenario for the stock market; not too hot and not too cold. The market's valuation certainly reflects a more optimistic consensus, although the headline number is boosted by some multiple expansion for the highflying Magnificent 7, with other areas of the market still offering attractive investment opportunities.

There are certainly many potential risks to a rosy outlook, including the US presidential election, the lagged impact of higher interest rates, an expanding fiscal deficit and very significant geopolitical tensions. But the market is often said to climb a wall of worry, and in the current instance such worries have resulted in the accumulation of vast amounts of cautious cash enjoying safe, but unexciting 5.0% money market returns. As money market returns begin to track the Fed fund rate lower, at least some of this cash is likely to be tempted back to the more compelling and rewarding opportunities on offer in US equity markets.

Don San Jose, Jon Brachle, and Dan Percella, managers, JPMorgan US Smaller Companies – 18 March 2024

As 2024 unfolds, we are constructive on the outlook for small cap companies, given a compelling valuation case and potential for small caps to benefit as they have historically after similar periods of large cap concentration. In addition, the earnings picture looks robust for small caps, with earnings poised to grow twice as fast as large cap earnings after two consecutive years of declines. Falling interest rates and a dovish Fed also tend to provide a conducive environment for small cap stocks. Once investors begin to look beyond the risk of recession and sense the potential for an improvement in economic momentum, small caps should benefit.

We are also relatively upbeat about the macroeconomic backdrop. Easing inflation and improved growth prospects have helped fuel optimism for a soft landing, although growth will remain subdued by historical standards and risks remain. However, be it the U.S. election, higher policy rates or significant geopolitical tension, there are continuing risks that could push the economy into recession in 2024.

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Global emerging markets

(compare global emerging markets funds here)

Nick Price, Chris Tennant, portfolio managers, Fidelity Emerging Markets, 11 March 2024

Interest rates are coming down across emerging markets…

Although emerging markets continued to underperform developed markets over 2023, with weakness in China explaining part of this, the discount at which emerging markets are trading relative to both history and developed markets remains at odds with the improving fundamental picture – particularly given the improving backdrop for inflation and interest rates. Emerging market central banks have been some of the most proactive in the world, with Brazil the poster child of this trend, as both inflation and interest rates in the country come down. We see a similar picture in other emerging economies, with Chile, Poland and Hungary having all cut rates, and other countries set to follow.

…Although rates will likely remain higher over the long term

Falling interest rates should provide a measure of support for longer-duration growth assets over 2024. However, rates will likely remain more elevated than they have been over the past 15 years – which continues to underpin our view that some form of value exposure has a continued role to play in actively managed portfolios. In an environment where structurally higher inflation continues to challenge the outlook for growth, evidence of companies returning cash to shareholders also remains vital. One key aspect of the portfolio’s enhanced toolkit is the ability to short companies, and in a higher interest-rate environment this has the potential to offer a particularly good source of alpha, as the unsustainable debt levels of many companies come into focus, and they pay the price of carrying too much leverage.

Weakness in China, but signs of shareholder-friendly activity

As the largest single constituent of the emerging market universe, China plays a significant role in determining the outlook for the asset class in 2024. There remains marked weakness in the Chinese property market, which has implications for both consumer confidence and commodity demand. In an environment where growth is likely to be weaker than it has been historically, and where demographics are worsening as the population ages, evidence that companies are returning capital to shareholders is critical. Valuations are attractive and the extent of the derating, especially in H shares, means there is potential for a rebound, although what the catalyst will be and exactly when it will emerge is unclear.

A diverse opportunity set, with dispersion apparent

Elsewhere, we see pockets of the market overlooked, while dispersion is very broad, as valuations differ significantly across regions. This throws up some interesting opportunities and offers the potential to unlock attractive shareholder returns in the year ahead. 2024 will be a busy election year for emerging markets, with polls due in India, South Africa, Mexico, and Taiwan, among many other countries. These are the types of events we continue to scrutinise closely, drawing on external strategists to help us make sense of the elevated unpredictability we see in markets.

While valuations have derated significantly, as the rally throughout November and December showed, bouts of stronger performance can result in rapid re-rating, underlining the importance of active management and disciplined position size management. Given the derating in Chinese H shares, the extent of any market move in this area could be significant, for example.

The emerging market universe still presents compelling opportunities and the relative attractiveness of emerging market valuations compared to developed markets, particularly the US market, is clear. However, discipline is critical, as not all markets and not all sectors and regions are (or will remain) cheap, making an active approach vital.

Strong fundamentals and attractive valuations

The macroeconomic backdrop is uncertain, and it remains to be seen whether the US will achieve a soft landing or when consumer confidence in China will start to recover – two factors that will have a significant influence on the outlook for emerging markets in 2024. Nonetheless, falling interest rates will act as a tailwind for companies and consumers, and should also create a shift in mindset as investors retreat from safe-haven assets and start to consider opportunity costs, looking at the value on offer in markets, including in risk assets such as emerging market equities.

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Maria Luisa Cicognani, chairman, Mobius Investment Trust – 5 March 2024

Uncertainties remain ahead. The themes that have dominated investors' attention over the past year, such as inflation, interest rates, geopolitics, supply chain disruptions and the slowdown in China, will continue to shape the landscape in the months ahead.

Although US inflation is moderating, the timing of interest rate adjustments remains uncertain. The resilience of the US economy suggests a potential soft landing, but it could also prolong the period of elevated interest rates. Elections in countries representing more than half of the world's population could have far-reaching implications.

The recent election in Taiwan is a good example of the potential geopolitical impact of these polls. Marked by the victory of pro-sovereignty candidate Lai Ching-te, the people of Taiwan have resisted Chinese pressure for change. The MCP team, which recently visited Taiwan*, is monitoring the situation closely but believes that military intervention by China is unlikely at this stage because of the potential economic consequences. With elections in India in April and May, a fragile political balance in the Middle East and the upcoming US elections, the geopolitical landscape could change significantly.

Despite these uncertainties, we expect well-managed companies to emerge as winners in emerging markets. The backdrop of demographic growth and rising domestic demand should support the recovery in corporate and consumer spending, especially as interest rates begin to fall. In addition, the technology investment landscape remains robust, driven by growing trends across industries such as automation, digitalisation and artificial intelligence. I am confident that MMIT's portfolio is well positioned to take advantage of these opportunities.

While larger companies catering to artificial intelligence have already seen their share price rise, lesser-known companies that provide essential components for high-performance AI chips are experiencing exponential growth as we saw reflected in their third quarter earnings reports.

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India/Indian subcontinent

(Compare Indian funds here)

India Capital Growth – 28 March 2024

Entering 2024 there is broad consensus that India's growth story is structural and GDP growth should average ~6-7% p.a. for the next few years. The foundation has already been set; a favourable regulatory environment, improved infrastructure, healthy corporate balance sheets and policies geared towards investment led development. What has come as a bonus is geopolitics. The rush to de-risk supply chains is accelerating investment by global firms into India, many of whom are viewing India as an alternate to China especially since demographics are extremely favourable. We thus believe the momentum in the economy will remain strong.

We, however, see several trends which are different from what we have seen in the past:

1. India's growth until now has largely been consumption led, but this phase is driven by investments. Even within investments, a different set of sectors like Renewable Energy, Green Hydrogen, Electronic manufacturing etc. are leading investments. Also, `Make in India' is a big focus. Policies are geared towards encouraging local manufacturing and the impact is visible in sectors

like Defence, Railways and Electronic manufacturing, which until now have been import dependent. What is more exciting is the pace of execution. Earlier, execution seldom matched targets, but this has changed as bottlenecks and legal hurdles have been addressed through policy changes.

2. Consumption patterns are surprising. Premium products are doing well while mass market products are struggling. This trend is across categories ranging from automobiles, housing to consumer electronics. Though it is being attributed to inflation, the weakness has been prolonged. We do believe the trickle-down effect will lead to consumption being broad based, but this is also creating new opportunities.
3. India's low-cost digital infrastructure is also impacting business models and behaviour patterns. Our own industry is a case in point, with domestic mutual funds now being the driver of the equity market as opposed to FIIs. The ease of online transactions is leading to individuals from smaller towns channelling savings which were traditionally deployed in bank fixed deposit, real estate, or gold into equity markets through mutual funds. The rising domestic flows into funds is influencing market behaviour, with funds struggling to deploy the flows. Digitisation remains a big disruptor and a great opportunity.

So, as we enter 2024, we are confident on the growth of the economy, but at the same time conscious that generating returns will require fresh thinking. A high base both on earnings and valuations remain our biggest concern, significant growth is already factored in numbers leaving little room for negative surprises.

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Ashoka India Equity Investment Trust – 12 March 2024

Over the last few quarters, the global macro environment has been characterised by unfavourable inflation dynamics, higher for longer interest rates, persistently high geopolitical risks, and higher climate costs. Despite these economic and geopolitical challenges, global growth in 2023 was more resilient than anticipated by several economists at the start of the year. At the headline level, developing economies like India reaped the benefits of maintaining healthy macro-fundamentals and garnered strong domestic as well as foreign inflows.

Continuing this trend, India's economy is expected to deliver a solid GDP growth of over 7% in CY24. The macro-fundamentals are healthy, with resilient corporate earnings and promising growth prospects. A redeeming feature of India Inc. since the pandemic has been the sharp improvement in its earnings profile, marked not only by a trajectory that has reset higher but also by uncharacteristic stability, which was missing for most of the last decade. The emergence of value-added exports, led by upskilled labour and the government's thrust on ease of doing business, is adding to the tailwinds.

Supply chain disruptions have accelerated the relocation of manufacturing out of China, with India emerging as a credible alternative. Policy support in the form of Product Linked Incentive ("PLI") schemes for key sectors and measures to improve the 'ease of doing business' have emerged as critical enablers. India has a marginal market share in many manufacturing industries, and even a 1-2% incremental market share gain from China could result in a high-teens growth rate for exports.

Meanwhile, the services sector, led by the IT companies, stand to benefit from the accelerated digital transformation of global enterprises and cloud adoption. Enhanced by the business continuity showcased during COVID-19 lockdowns, global customers have preferred Indian IT & engineering services providers due to their exceptional talent pool and depth of competencies across service lines. This favourable dynamic is helping India boost its foreign exchange reserves, thereby increasing the cushion against external shocks.

The ingredients of a revival in the investment cycle are also in place. The twin balance sheet problem (overleveraged corporates' balance sheet and high bad loans of banks), which held back private investments in the last decade, seems to be behind us. Public sector capex, which grew at a brisk pace in the recent past, could continue, though at a slower pace, with the government committed to building infrastructure, thereby crowding in private investments. The uptick in demand for housing and real estate and the emergence of opportunities in green energy are other supportive factors. The recently announced interim budget too lays stress on capital expenditure while laying emphasis on fiscal rectitude.

The Investment Manager believes that India is at the cusp of realizing its true economic potential while benefitting from several secular tailwinds, the most important being its favourable demographics and rising income levels, thereby allowing domestic consumption to flourish - with the demand for discretionary goods, travel and leisure, financial and healthcare services on the rise. The country is experiencing rapid digitalisation of services, supported by increasing internet penetration and formalization on the back of ongoing structural reforms. We believe all these factors place India as one of the most promising economies over the medium term and make for a highly compelling investment proposition.

From a potential risk perspective, an absence of consistent improvement in external (global) demand and any further escalation in geopolitical tensions pose risks to near-term growth. However, we believe the ingredients of an uptick in domestic investment cycle remain skewed towards the positive side.

General elections in India are likely to be held in April or May 2024. Though the current Prime Minister's popularity remains strong and the risk of regime change appears low, such an event or a weak coalition central government could be a negative surprise for the markets, which would like to see policy continuity.

We claim no great skill in forecasting elections, nor do we believe it's something many analysts demonstrate great aptitude for. What we do know is that many of the changes PM Modi's government has overseen would be very difficult to undo. Nor would it be in interest of a new government to hinder them - given the aspirations and expectations of a young, intellectual and vibrant population.

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Latin America

(compare Latin American funds here)

Sam Vecht and Christoph Brinkmann, managers , BlackRock Latin American Income – 26 March 2024

We believe that global markets are starting to feel the impact of higher interest rates, noting slowing credit growth as evidence that a demand slowdown may be imminent in developed markets. When combined with a Chinese economy which is struggling to find its footing we find it difficult to see where a meaningful pick up in global growth could come from. On the other hand, we observe stronger fundamentals in EM, particularly in Latin America, as inflation has decreased and central banks have eased monetary policies across many of our markets. This is typically a good set up as domestic economies should see a cyclical improvement.

We are especially positive about the outlook for Brazil. We believe that the combination of a benign outlook for inflation and a relatively prudent fiscal policy by the government will enable the central bank to decrease interest rates faster than market participants currently expect. We expect further upside to the equity market in the next 12-18 months as local capital starts flowing back into the market.

We remain positive on the outlook for the Mexican economy as it is a key beneficiary of the ‘friend-shoring’ of global supply chains. Mexico remains defensive as both fiscal and the current accounts are in order. While our view remains positive, we have taken some profits after a strong relative performance, solely because we see even more upside in other Latin American markets such as Brazil. We also note that the Mexican economy will be relatively more sensitive to a potential slowdown in economic activity in the United States.

We continue to closely monitor the political and economic situation in Argentina, after libertarian Javier Milei unexpectedly won the presidential elections in November. Milei is facing a very difficult situation, with inflation at 210% year on year, foreign exchange reserves depleted and multiple economic imbalances. The country needs to go through a painful adjustment process and we worry about the hardship that this inflicts on society. We are hopeful that the country comes out stronger after the adjustment process, but we have limited exposure to the Argentinian economy for now.

We remain optimistic about the outlook for Latin America. Central banks have been proactive in increasing interest rates to help control inflation, which has fallen significantly across the region. As such we have started to see central banks beginning to lower interest rates, which should support both economic activity and asset prices. In addition, the whole region is benefitting from being relatively isolated from global geopolitical conflicts. In a world splitting into three groups: those aligned with China, those aligned with the US and the rest, the latter group which have been coined as the “Transactional 25”, are uniquely positioned to benefit from their ability to trade with both blocs. We are already seeing an increase in their share of global Foreign Direct Investment (FDI) flows, with the prime example being Mexico. Although some investor attention in 2024 may focus on the political and social challenges in countries such as Ecuador, Guyana and Panama, we maintain that the region when taken as a whole, appears to be a more attractive investment destination than many in the market currently believe.

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Vietnam

(compare country specialist funds here)

Andy Ho, managing director and chief investment officer, VinaCapital Vietnam Opportunity Fund, 25 March 2024

A challenging start to the financial year

We started the second half of the calendar year with a guarded sense of hope. This also marked the first half of our financial year, commencing 1 July 2023. Market consensus, as well as government forecasts, were banking on an optimistic outlook to the calendar year, with a base-case recovery led by exports and tourism reaching pre-Covid levels, and optimism that stronger export orders to the US and developed markets would help bring Vietnam's GDP growth rate back to its 10-year historical average.

However, these hopes were soon dashed and much of that optimism gave way to uncertainty as lingering doubts over the strength of the economic recovery clouded the economic outlook, while sector specific issues including the ongoing challenges concerning the real estate sector and corporate bond market persisted. Investors were also left wondering how much longer the impasse on project approvals would continue given the reluctance by the government to approve major real estate, land or infrastructure projects. Furthermore, the ongoing fall-out from the anti-corruption initiative, which has led to several high-profile arrests and disciplinary actions on government and business leaders, has left a sense of uncertainty among some foreign investors.

That being said, during the year, the government did seem to try their very best to support key sectors in the economy, evidenced by a slew of laws and decrees being issued and implemented into policy, several of which deal with problems concerning the real estate market, corporate bonds, interest rates, public spending and domestic consumption. These efforts are commendable, and longer-term will certainly help in the recovery of key sectors of the economy.

Resilient GDP growth despite challenges

In the short term, however, the headwinds proved too strong and for 2023, Vietnam posted a modest GDP growth of 5.05% year-on-year ("y-o-y").

A drop in manufacturing output and exports had an impact on Vietnam's growth given that the economy is among the most trade-dependent in the world with total exports plus total imports equivalent to almost 200% of GDP. Additionally, weak consumer confidence resulted in a downturn in consumer spending and the challenges that have dogged the real estate market continue to dampen domestic investor and consumer sentiment.

Within this modest GDP growth figure, the fourth quarter of the calendar year saw an unexpectedly strong economic recovery, with GDP rising 6.7% compared to the weak 3.3% y-o-y growth in the first quarter of the calendar year.

Looking ahead however, we expect Vietnam's GDP growth to rebound to 6.0% to 6.5% in 2024, driven by a recovery in manufacturing and export activity, a modest acceleration in domestic consumption, further improvements in international tourist

arrivals, and the resumption of public spending on national infrastructure projects. Furthermore, a combination of new land law reforms and accommodative monetary policy with lower interest rates should also support the real estate sector recovery.

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Dynam Capital, managers, Vietnam Holding – 16 March 2024

Today's world is complex and often chaotic, and exporting economies such as Vietnam are impacted by trade and tariff disruptions. As we write this report, terrorists are attacking ships on the Red Sea maritime route, and the Panama Canal's severe drought has cut the number of crossings by 36 percent.

2024 is also a year when 60 percent of the world's population goes to the polls. Taiwan and Bangladesh held elections in January, Pakistan and Indonesia in February, and India and the United States of America face presidential elections later this year. In the past, the Republican front-runner has made comments about levelling the playing field regarding trade with the US, signalling a policy of renewed trade tariffs if elected in November's presidential election.

The positive backdrop to the external challenges facing Vietnam is the relatively robust domestic macroeconomic conditions. The country has robust FX reserves of around USD 100 billion, which have been bolstered by the record trade surplus and FDI levels achieved in 2023. Additionally, inflation remains modest, and government bond yields are at near record lows.

There are also encouraging indicators of domestic spending on infrastructure. The new international airport at Long Thanh in Dong Nai Province (approximately 50km from Ho Chi Minh City) is taking shape, new ports and roads are being built, and the Hanoi and Ho Chi Minh City metro systems might finally see the light of day. Infrastructure has a multiplier effect on economic growth, especially new 'green field' projects. This is often shown as an improvement in the lives of local communities and increased opportunities for Vietnam's numerous Small to Medium sized Enterprises.

Another positive development is in the capital market infrastructure. The delayed stock exchange upgrade may not solve every problem when it comes online later in 2024, but it may provide enough of an impetus to remove prefunding requirements for stock trading accounts. This small technical adjustment may be all that is needed to see the FTSE Russell upgrade Vietnam from frontier market to secondary emerging market.

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Biotech and healthcare

(compare biotech and healthcare funds here)

Managers, RTW Biotech Opportunities – 27 March 2024

The Federal Reserve's interest rate pivot and a flurry of takeouts helped the biotech sector avert a historic three down years in a row with a sharp rally in the last two months of the year. In October, the sector was close to recording and setting new lows across most of the key metrics we track. However, the sector's vigorous move

off the bottom gives clues to how complacent the market had become. For the past year and a half, selling exposure to the biotech sector was an easy trade and worked even in the face of strikingly low valuations, strong innovation, and accelerating M&A. Those caught off-side the last two months of the year have likely driven this early move. Capital flows are suggestive of what may be in store for 2024. Flows were consistently negative throughout 2023, with total outflows the highest in three decades. Generalists have remained on the sidelines but should that turn, it will be a significant tailwind for the sector.

At the same time, the list of investible assets has declined significantly. In the past year the acquisitions of Seagen, Horizon, Karuna, Prometheus, Immunogen, Cerevel, Reata, Televant, Iveric, Mirati, and Rayze totaled over US$140bn, which amounts to about a third of acquirable US market cap in the post-mega merger FTC era (i.e. companies with a market cap below US$25bn). Investors will compete with large pharma companies for the sector's remaining marquee assets. While Pfizer and AbbVie have made significant progress on refilling their pipelines, Bristol and Merck must remain active or face existential patent cliff risk. Meanwhile, companies like J&J, Roche, and the obesity giants, Eli Lilly and Novo Nordisk, have over US$200bn of unused capacity that is growing rapidly due to the transformation of obesity-related products. In total, large pharma companies have about US$600bn of dealmaking capacity and premiums are already indicative of increased competition for assets. For deals over US$1bn in 2023, the average deal premium was 71%, which is right at the upper end of historical ranges.

Despite the end of year rally, 32% of sub-US$10bn market cap biotech companies in the US still trade at less than the cash on their balance sheets, down only 3% from the high. The number of companies has started to decline, which is healthy. Many of these are companies that never should have made it out in the last bull market, but importantly, from a market dynamic perspective, they now represent only a small percentage of the sector's market capitalisation. Even then, digesting these companies over the last several years has resulted in an IPO bear market. Twelve companies IPO'd last year, down from nineteen the year before and 108 in 2021. We think this is likely the bottom and expect normalcy to return in 2024 with a slate of promising companies already in the pipeline.

The most challenged part of the ecosystem should continue to be companies with smaller products (sub-US$1bn peak sales). Since the demise of Valeant catalysed the disappearance of specialty pharma, there are few natural buyers for sub-scale products, no matter how promising. Lack of investor interest in such companies is instructive for the FTC, which fails to understand the positive impact M&A has on promoting competition and innovation in our sector. Should any midsized biopharmas with financial flexibility (e.g. Vertex, Regeneron, BioNTech, or Daiichi) emerge as consolidators for smaller products, interest could return, although we do not see evidence of this happening yet.

In 2022, the Inflation Reduction Act gave Medicare the ability to dictate drug prices for small molecules nine years post-launch. The drug industry has responded by shifting innovation away from pills for the elderly. This most notably impacts targeted oncology and cardiovascular disease. Of course, these remain the leading causes of death in developed societies, so it is important to our collective future health to support policy mitigations and litigation. A win in the courts in the coming year has the potential to improve the status quo. In all, there are nine legal challenges to the

IRA's Medicare price negotiations including challenges from the likes of Merck, Novo Nordisk and Johnson & Johnson.

Fortunately, new modalities, mostly not subject to government price setting until thirteen years, have the potential to take medical innovation to new heights. While less convenient and safe, cell therapy and novel antibody technologies have shown striking efficacy in multiple cancers. RNA medicines also have the ability to address some cardiovascular targets and have matured enough to offer placebo-like safety profiles. Gene therapy made a strong recovery this year. As the FDA has gained comfort with the modality, Director of the Center for Biologics Evaluation, Peter Marks, has led by offering regulatory flexibility for companies pursuing urgent unmet needs.

In total, the FDA approved sixty-one novel drugs in 2023, the highest number in one year in history. Drugs from new modalities represented fourteen, one more than last year. We continue to expect more new highs to be set in the coming years. This is consistent with our belief that we are living through a golden age of innovation in our sector, built on a combination of cheap genetic information and the foundation of new modalities to address disease. Looking forward, we are excited about opportunities in several areas. Within metabolic disease, we eagerly await the first approval for fatty liver disease. In oncology, we have shifted our emphasis towards novel antibody technologies (e.g. bispecifics, ADCs, radioRx) and cell therapy. We expect continued innovation in neurology, rare disease, and after a wave of historic breakthroughs, slightly more incremental advances in immunology. Like gene therapy this past year, we are optimistic RNA medicines could make a comeback in 2024.

Commodities and natural resources

(compare commodities and natural resources funds here)

Ian Francis, Keith Watson, and Rob Crayfourd, managers, CQS Natural Resources Growth and Income – 27 March 2024

The outlook for commodities looks more varied than we have seen in prior stages of the cycle in our view. Energy and precious metals offer an attractive risk reward on a top-down and bottom-up view, hence the large positioning. Commodities should prove more defensive in a slowing economic backdrop, whilst the bottom-up valuations lead to strong returns for the underlying companies held.

Uranium miners are seeing an exciting fundamental backdrop as a tightening supply demand balance is seeing stronger pricing. Unlike other commodities, higher prices have little impact on demand for Uranium as it is such a small proportion of the overall cost of power production. The political support for this zero-carbon form of baseload power will lead to a further build out of the global reactor fleet, supporting demand and thus prices received by the miners. This demand will remain regardless of the global economy so also offers defensive characteristics.

We see demand risks in base metals in the near term primarily driven by a Chinese slow down hence the zero weight in iron ore and reduced weight in base metals, but we like the long-term structural deficits some years out, especially in copper.

Valuation remains hugely important in our allocation, which for now leaves copper miners looking relatively expensive. We will add back to these names on weakness or where we see outlying value opportunities.

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New City Investment Managers, Golden Prospect Precious Metals – 22 March 2024

Notwithstanding Middle East tensions and potential inflationary consequences, shifts in the interest rate outlook provided significant volatility around the broader upward trend in gold prices as markets increasingly focussed in on prospects for a peak in near-term rates. While the US 10-year-forward treasury yield ended the year at more or less at the same level as it started it made two round trips on the way as inflationary pressures and FED guidance were digested: rising to 5% then falling to 3.8% by year-end. Notably, in the first quarter of 2023 guidance from the Federal Reserve committee indicated that the process of disinflation had started, while outlining the need to see evidence of this before action to reduce rates would be taken. Though US CPI and wage data remaining above expectations inflationary pressures are now trending lower and while the exact pace of rate reductions from here may be debated, it now appears as though rates have peaked and the future direction of rates has moved decisively to anticipate cuts: markets currently imply a 0.6% reduction in the FED rate during 2024 followed by a further 0.5% reduction in 2025.

This backdrop set the tone for gold prices which, having slipped towards $1,800/oz in Q1 subsequently jumped above $2,000/oz in Q2, a process repeated in the second half of the year, as shown below. If rate cuts feed through as expected this should provide a supportive tailwind for precious metals.

Consistent net buyers since 2010, accumulating over 7,800t in (~251Moz) over that time, of which more than a quarter was bought in the last two years, testament to the recent strength in central bank demand. As outlined by the World Gold Council, gold's role as a safe haven, has been the primary driver to increasing ownership. It is also notable that the majority of purchases continued to be emerging market central banks. Lead among these was the Peoples Bank of China, which has been conspicuously increasing exposure at the same time as its appetite for US treasuries has fallen, illustrating an increased desire to diversify reserves. The Chinese central bank added 225t to its reserves over the year, taking PBoC gold reserves to 2,235t (71.9Moz), although this still represents only 4% of reserves.

While tense Sino-US relations have undoubtedly played a part in this decision we reiterate our comments from the interim period of the increasing risks to the US dollar posed by the US government's ever increasing debt burden, which has been accompanied by rating agency downgrades. Indeed, China's increased gold purchases dovetails with its recent loss of appetite for US treasuries, holdings of which continued to trend down during 2023, consistent with a rising distrust of the US dollar outside of EU/G7 regions.

Across remaining segments of demand, bar and coin investment saw a mild -3% y/y contraction as divergent trends in key Western and Eastern markets largely offset one another, while jewellery consumption remained steady at 2,093t (67.3Moz) despite higher gold prices – again supported by a recovery in China's retail demand which is sustaining a regional gold price premium of around $50/oz

when compared to western prices. Overall, ETFs remained a swing determinant of overall demand: physically backed ETFs experienced a third consecutive annual outflow, with holdings reducing 244t (7.85Moz)).

Gold supply rose a modest 3% over the year. Within this, rising mine production costs kept a lid on mine supply which grew just 1% y/y to 3,644t (117Moz). However, full year recycling responded to the higher price environment increasing 9% y/y to 1,237t (39.8Moz). Total gold supply was 3% higher y/y as a result.

Valuation differentials are extreme. This is particularly the case for non-producing mining equities unable to self-fund operations, which continue to trade at some of the largest discounts we have known given the lack of investor appetite, accentuated by anticipated dilution. Such heavily discounted valuations present an opportunity, but we are approaching this with caution as the timing of any equity rerating is uncertain. They will need an improvement in sentiment towards the sector, and with additional funding providing a more certain entry point. In this regard it is encouraging that M&A activity has continued.

Out of favour gold equities appear a good hedge for portfolios at present, particularly with approaching elections in the US and in the UK.

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Evy Hambro and Olivia Markham, managers, BlackRock World Mining – 7 March 2024

The energy transition

The energy transition continues to gather pace. EVs are taking market share away from combustion engine vehicles at levels well in excess of expectations. The roll out of renewable power projects and related infrastructure is happening far quicker than planned. This has, in part, been driven by a desire by European countries to diversify away from Russian supplied fossil fuels and the fact that with fossil fuel prices so high, renewable power is substantially more cost effective, not to mention helping countries/companies to meet their net zero commitments.

It is clear that we remain very close to the start of the energy transition cycle given the enormous scale of investment that is going to be needed over the coming decades. Looking at the data for renewable power, it is increasingly obvious how much more resource intensive it is. On top of this there will also be commodity demand from battery storage needs and the buildout of the hydrogen economy.

It is also essential for mining companies to embrace the need to decarbonise their own operations as future demand is likely to seek out supply from companies that do not just meet quality but also have green credentials. This move from “Brown to Green” presents a range of investment opportunities for the Company both in trying to reduce the heavy discount rates applied to carbon intensive production techniques, as well as new technologies that could solve some of the more damaging historical processes.

Base metals

It was a difficult year for the base metals with average prices down across the board as concerns around global growth, higher interest rates and China’s property sector saw significant destocking of metals which depressed prices. With prices moving lower and costs increasing (albeit at a slower rate than in 2022) margins for the

producers also declined reducing cash generation and dividends. Encouragingly, as we approached the end of the year, expectations of US interest rate cuts and signs of demand stabilisation and stimulus in China buoyed prices.

Copper, our favoured base metal, finished the year flat as macro concerns offset improving fundamentals particularly on the supply side. Despite headwinds from China's property market, China's copper demand was healthy with apparent demand +12% year-on-year. China's focus on "green" related investments in renewables, EVs and the grid, offset the drag on copper demand from the property sector.

The most interesting feature in the copper market this year has been the escalation in copper supply disruptions as we approached the end of the year. It was widely expected that 2024 would see notable supply growth as assets recovered post COVID-19 and new assets began ramping-up. However, we now expect copper concentrate supply to be lower in 2024 versus 2023.

Given the low level of copper inventories, the lack of investment in new mine capacity and structural operating challenges for many copper mines, prices are poised to rebase higher once the demand outlook improves.

The aluminium price finished the year flat compared with 2022. However, this masks the 17% decline in average prices year-on-year. Aluminium prices have declined significantly over the last two years as energy prices have fallen which is the largest cost component of producing aluminium. China's demand for aluminium has been strongly boosted by its solar rollout, but so too has its production levels which has left the Chinese market largely balanced. Demand ex-China declined by circa 1% in 2023 largely due to inventory de-stocking with limited new supply coming into the market ex-China. Longer term we see upside to aluminium prices as carbon costs begin to be incorporated into prices. The demand for "green" or "low-carbon" aluminium continues to grow with these products sold at a premium to traditional London Metals Exchange grade aluminium.

The nickel market was particularly challenging in 2023 with the nickel price finishing the year down 45% and average prices declining 18% year-on-year. Significant growth in Indonesian nickel supply has structurally changed the nickel market in recent years and with nickel pig iron (NPI) producers rapidly growing production and adapting their facilities to allow the production of nickel matte and other intermediary products. This allows them to sell into the market for class 1 battery grade nickel which is expected to see increasing demand alongside the growth in EVs. A key question for the nickel market is whether or not we see differential pricing for nickel based on the carbon intensity of production which is significant for many of the Indonesian producers given their reliance on thermal coal

Bulks and steel

The iron ore market was an area of strength in 2023 with the price finishing 20% higher and average prices flat year-on-year. Given the depressed outlook for China's property sector, the broad expectation from commodity analysts was for prices to decline in 2023 alongside falling steel production in China. The iron ore market benefited from better-than-expected Chinese steel production in 2023, rising blast furnace production at the expense of lower scrap-fed electric arc furnace production and higher steel exports from China which were up 40% year-on-year. With steel margins in China under pressure, the premium for higher grade material

declined. However, we remain positive on the outlook for higher grade iron ore longer term, particularly as the steel industry looks to reduce its carbon intensity.

The iron ore market remains highly concentrated with the four largest producers accounting for circa 70% of the seaborne market. We have seen the industry remain disciplined from a supply perspective with limited supply growth from the major producers, despite strong cash generation from their existing iron ore assets. We expect this to remain the case over the next few years as producers continue to focus on value over volume and decarbonising their operations.

During 2023 we saw notable differences in the performance of steel margins and equity prices for each of the key steel producing regions. The US has remained an area of strength in the global steel market, supported by higher infrastructure and re-shoring investment, alongside supply discipline from the producers. In Europe, steel prices and margins have been under pressure as industrial production in areas such as Germany have remained depressed and higher Chinese exports have weakened prices. Steel margins in China have remained around breakeven levels for much of the year, with steel prices largely tracking moves in its key cost inputs iron ore and coking coal. Our expectation was for steel production in China to moderate in the second half of 2023 in line with the government's target of reducing steel production year-on-year. However, this did not eventuate supporting iron ore prices.

Stronger than expected steel demand and rising blast furnace utilisation also benefited coking coal prices which averaged US$295.5/tonne during the year. China's coking coal imports remained healthy with domestic supply impacted by accidents and rising safety inspections. India, the world's fastest growing steel market, continued to increase its imports of coking coal and is set to increase its coking coal demand by circa 50Mt by the end of the decade, equivalent in size to Japan's coking coal demand today. Combined with limited supply growth we expect a "stronger for longer" price environment over the medium term to persist.

After record-high thermal coal prices in 2022 following the European energy crisis, prices declined meaningfully in 2023 but finished modestly above market expectations. China has dominated coal demand growth in 2023 with thermal power generation higher in 2023, with both coal imports and domestic coal production in China higher year-on-year. This higher level of demand was largely met by rising Indonesian coal exports, along with higher Australian supply which has been hampered in recent years by heavy rainfall. We have seen less supply disruption in Australia during 2023 which has helped stabilise demand.

Precious metals

Precious metals were an area of strength during 2023 with the gold price up by 14% and the average price 8% higher year-on-year. The gold price benefited from elevated geopolitical issues during the year, strong central bank purchases and as we approached the end of the year and the expectation of Federal Reserve interest rate cuts which would see real yields fall. Central bank net purchases of gold in 2023 of 1,037 tonnes almost matched the 2022 record, falling just 45 tonnes short. Central bank purchases have been dominated by China which continues to build gold reserves.

Another interesting feature of the gold market in recent years has been the disconnect between the gold price and real yields. Historically, gold has performed

well in an environment of low real yields, as gold is a non-yielding asset. Conversely, in an environment of rising real yields, the attractiveness of other "safe haven" assets such as cash and government bonds improves, which typically acts as a headwind to gold. Rising physical demand for gold from central banks alongside elevated geopolitical risk partly explains the strong performance of gold despite elevated real yields in 2023. As we approached the end of 2023 and the market began to price in rate cuts, we did see the gold price rally, more in line with the traditional correlation between gold and rates.

The silver price has modestly underperformed gold when looking at average prices during 2023 versus the same period last year. Industrial demand for silver was strong during 2023 with solar installations globally exceeding expectations. With silver inventories declining over the last two years and supply challenges in the world's largest producer of silver, Mexico, the physical market for silver is set to tighten further particularly if solar installations continue to supply to the upside.

Energy transition metals

Battery electric vehicles (BEVs) sales continued to grow in 2023, with estimates that sales would reach over 14 million battery electric vehicle units. This growth has been mainly driven by China, where BEV sales totalled 8.8 million units, +38% year-on-year according to the China Passenger Car Association. Globally, competition has resulted in EV price declines supporting volumes. However, this has cost profitability and led to weakening investor sentiment as some large equipment manufacturers, particularly in the US, have slowed investment plans as they prioritise returns.

Legislation continued to evolve and of particular note was the US looking to exclude Foreign Entity of Concern (FEOC) owned companies from qualifying for EV incentives under the Inflation Reduction Act. Beginning in 2024, an eligible clean vehicle may not contain any battery components that are manufactured by an FEOC and beginning in 2025 an eligible clean vehicle may not contain any critical minerals that were extracted, processed or recycled by a FEOC. This is disruptive as it will exclude many Chinese companies from the US supply chain.

Lithium is a critical component of an EV battery and, although demand for lithium has been strong this year, prices have been weak falling by 43% as the sector saw both destocking and increased supply.

A critical component of the electric car is also the e-motor, which most commonly uses a Praseodymium-Neodymium (NdPr) magnet, an alloy of two rare earth elements (REEs). REEs are commonly mined and processed in China and have been deemed of strategic importance by both Europe and the US.

2023 saw a rapid rise in interest around uranium cumulating at the 28th United Nations Climate Change Conference (COP28), which recognised the key role of nuclear energy in reaching Net Zero with a declaration to triple nuclear energy capacity by 2050. The uranium price rose sharply during the year with the Ux Consulting weekly spot price up by 82.3%.

Outlook

The dominant story for 2023 was that of interest rates versus inflation. The transition to higher rates was far from smooth as short-term expectations gyrated markets creating a bumpy ride for investors. However, it now looks likely that inflationary pressures have more than peaked and there is an increasing consensus that rates

are not moving higher. It is worth remembering that the post global financial crisis and Covid period of zero rates are an outlier versus history and as such the new norm should be anchored around current levels rather than a return to such extreme lows.

At the time of writing it appears we are seeing a change in China's demand for commodities, with investment into renewable infrastructure, manufacturing and EV's growing significantly, against more traditional areas of commodity demand such as property declining. Energy transition spending globally continues to drive commodities demand growth and with supply growth across a number of commodities increasingly constrained markets look set to tighten further over the next few years which bodes well for prices.

For mining companies whose balance sheets remain strong and management teams are anchored to disciplined capital allocation frameworks, the challenge will be balancing the desire to invest either for decarbonisation or growth, versus returning capital to shareholders. Given the high level of capital intensity attached to building new capacity, those with the flexibility to repurchase shares should take advantage of the current low equity valuations given that it generally remains cheaper to buy existing capacity than to build it.

In summary, the near term as always remains volatile.

Infrastructure Securities

(compare infrastructure securities funds here)

Gillian Nott OBE, chair, Premier Miton Global Renewables Trust, 6 March 2024

European power prices moderated during 2023; a largely healthy development when seen against the very high and exceptionally volatile conditions of 2022. European gas and power prices have, however, settled at levels materially above their "pre-Ukraine" prices as markets adjust to higher volumes of seaborne Liquified Natural Gas ("LNG") and much lower volumes of piped gas from Russia.

The situation in Ukraine appears no closer to being resolved than when I wrote my letter for the 2022 annual report. In addition, the situation in the Middle East is very worrying and could have important ramifications for energy markets in 2024.

What concerned markets in 2023, however, is that the long-term decline in renewable energy costs largely came to a stop as a result of higher project financing and capital goods costs. While the capital costs for solar projects have continued to fall on manufacturing over-capacity, the cost of wind turbines increased due to higher commodity costs (steel, copper etc) and the efforts by manufacturers to restore their financial health through improved margins.

High profile project cancellations, such as those by market-leading offshore wind developer Orsted, acted to "spook" the markets, and the share prices of companies with substantial offshore development businesses fell in sympathy. Likewise, the UK's 2023 renewable energy auction failed to attract bidders for new offshore wind installations, as the maximum permitted price was viewed as too low in the current environment, this also being seen as a negative development by the market.

Against this, it appears that governments have now recognised the issue, with higher prices being achieved in German onshore and US offshore renewable energy auctions toward the end of the year, and the UK government now having indicated a far more realistic maximum bid price for the upcoming auction in 2024 for new offshore wind contracts. In addition, commercial power sales contracts are being struck at levels reflecting the current cost environment. This demonstrates that realism is starting to prevail in the renewable energy market. Importantly, renewable energy remains cost competitive against other forms of electricity generation.

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Technology

(compare technology funds here)

Mike Seidenberg, manager, Allianz Technology – 12 March 2024

At the start of 2023, valuations were compelling. After a significant market improvement - along with higher earnings - technology companies appear to be trading at around fair value today. That said, there are some tailwinds for the year ahead and we believe the equity market recovery over the past few months can extend into 2024.

At the December 2023 Federal Open Market Committee meeting, the US Federal Reserve signalled multiple rate cuts could come in 2024. Inflation continues to weaken and, while the jobs market remains buoyant, growth is moderating. With interest rate cuts on the horizon and an economic soft landing expected, investors are likely to be confident enough to look beyond the mega-caps into other parts of the market. Broader earnings growth may accelerate this trend.

There are going to be bumps along the way and the market might be due for a short-term pause after its recent strength, but there are reasons to be optimistic about the long-term secular growth prospects for technology. These include artificial intelligence and machine learning, the Internet of Things, cyber security, digital assets and mobility. The macroeconomic challenges of the past few years are likely to ease, which should give investors greater confidence.

The challenges of the past few years have forced companies to look at their cost structures, re-engineer their businesses and cut unprofitable lines. The result is that the survivors are far stronger, with better competitive positions and stronger earnings. We continue to believe the technology sector can provide some of the best absolute and relative return opportunities in the equity markets.

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Leasing

(compare leasing funds here)

Tufton Oceanic Assets, 19 March 2024

The Shipping Market

The financial period saw improving world GDP growth with the IMF revising their 2023 world GDP growth estimate from 3.0% in June 2023 to 3.1% in January 2024. Global seaborne trade is expected to grow by c.3% in 2024, in line with the long-term trend rate of c.3% CAGR between 2003 and 2023. The combination of price inflation (commodity, wage), reduced shipyard capacity and tightening environmental specifications continue to boost newbuild prices leading to higher values for secondhand vessels. The Clarksons Research Newbuilding Price Index has risen c.42% since the end of 2020. Global shipyard capacity remains c.35% below the 2011 peak. Shipyard orderbook forward cover (i.e. the number of years required to deliver the orderbook at the output level of the last 12 months) was 3.6 years at the end of the financial period.

Trade routes tend to be optimised across the industry so disruption of traditional trade routes often results in diversion through longer routes which reduces the available vessel capacity. During the financial period, transit through two key global shipping routes, the Panama Canal and the Suez Canal, faced disruption. Vessel transit through the Panama Canal was disrupted from late October due to an ongoing drought while transit through the Suez Canal was disrupted as Houthi rebel attacks on vessels in the Red Sea escalated from late November.

Tankers

Product tanker demand was set for structural growth, benefiting from refinery capacity expansions in Asia and the Middle East. However, demand growth accelerated as the war in Ukraine partially replaced some demand for short-haul product tanker cargoes with demand for long-haul cargoes: increasing Russian exports to Asia and increasing European imports from non-Russian suppliers including the Middle East, the US and Asia.

The attractive fundamentals in the product tanker segment have resulted in newbuild investments. The product tanker orderbook rose from c.9% of fleet as at the end of June 2023 to 12.5% of fleet at the end of the financial period. This is still relatively low in historic terms. Most of the newbuild product tankers ordered are expected to be delivered starting only in 2025. Further, many of the new orders are focused on the larger Long Range ("LR") segment which often represents "swing" tonnage between the clean product tanker and the crude tanker market. The orderbook for crude tankers remained close to historic lows (c.4% of fleet, Grieg Shipbrokers) at the end of the financial period. The chemical tanker market also benefits from good supply-side fundamentals with a low orderbook (c.6% of fleet, Grieg Shipbrokers) and strong demand growth forecast. 25-30% of MR product tankers can engage in the chemicals/vegetable oil trade.

The chemical tanker market benefits as MR product tankers shift to the tightening product tanker market. The Company's chemical tankers benefit from this trend as they are employed in a revenue-sharing pool and have spot market exposure.

Over the financial period, 1-year time charter rates for MR product tankers rose c.1% to c.US$26,300/day while average spot earnings rose 47% to c.US$33,000/day.

Towards the end of the financial period, attacks by Houthi rebels on vessels around the Gulf of Aden impacted normal vessel transit through the Red Sea and consequently the Suez Canal. As a result, many vessels have been rerouted around

the Cape of Good Hope instead, adding to vessel tonne-mile demand and further boosting the product tanker market.

Bulkers

The bulker market strengthened during the financial period due to a combination of improving demand growth for major bulk and the impact of reduced transit through the Panama Canal. Though bulker demand faces near term uncertainty from slowing Chinese demand growth for major bulk commodities, we believe the bulker market will be supported by strong supply-side fundamentals. The bulker orderbook remained at a low level of c.8% of fleet at the end of the financial period.

We have chosen to employ some of our bulkers on index-linked charters in anticipation of market improvement. As the market improves, we will selectively redeploy our bulkers on new longer-term charters at higher rates over the next financial period. Over the financial period, 1-year time charter rates for Handysize bulkers rose c.29% to c.US$13,800/day while average spot earnings rose 58% to c.US$17,600/day.

The combination of tightening environmental regulations and low shipyard capacity suggests newbuild prices of bulkers and tankers will remain high thereby also supporting secondhand prices in the medium term. Global shipyard capacity remains c.35% below the 2011 peak. Many newbuild designs incorporate more flexible machinery and storage systems to handle multiple fuel types to reduce emissions. These further increase newbuild prices. Environmental regulations from the IMO to measure and improve vessel carbon emission intensity incentivise lower speeds resulting in reduced shipping capacity, aiding the supply-side adjustment. The Company's fuel-efficient vessels are likely to benefit.

Property

(compare UK property funds here, here, here, here, here, here and here)

Aubrey Adams, chair, Tritax Big Box REIT

Our sector is a key part of the UK's economic infrastructure and the long-term drivers of e-commerce, supply chain resilience and ESG continue to sustain strong demand for modern buildings. Occupiers continue to consolidate older logistics facilities into larger modern ones that can provide economies of scale, accommodate automation for e-commerce sales, add resilience to their supply chains and meet ESG objectives as well as improved working environments for staff.

Following a period of exceptional demand, 2023 has seen market fundamentals normalise, with UK-wide market vacancy rates increasing from the very low levels reported in 2022. In response to this, and heightened levels of economic uncertainty, construction starts of speculatively developed buildings have fallen back sharply through the year.

Overall, while the occupational market has softened compared to its all-time highs in 2021/22, it remains at levels which would historically be considered strong. Macro-economic improvement is likely to increase occupier demand, which could

outstrip decreased levels of supply, causing reduced vacancy levels and maintaining rental growth at attractive rates.

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Steve Smith, chair, PRS REIT

There are long-term drivers supporting the private rented housing sector, most fundamentally lack of supply and burgeoning demand, which is driven by many factors, especially the affordability challenges of buying a home and population growth.

These factors support the long-term prospects for the PRS REIT, and we believe our homes will continue to rent very well over the long-term. This reflects not only macroeconomic factors, but also the attractions of our high-quality, well-located, and professionally-managed homes, which have been designed to be affordable for the typical family. The portfolio's average rent as a proportion of household income is about 23%.

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Max Shenkman, fund manager, Triple Point Social Housing REIT

Whilst operating conditions have been volatile during this recent period of high inflation, as they were throughout the COVID pandemic, one constant of the sector is the structural excess demand for more Specialised Supported Housing. We see this on a daily basis through a requirement for funding for new developments brought to us by Local Authorities, and our Registered Provider and Care Provider partners. Similarly, the Government estimates that demand for more Specialised Supported Housing homes is set to increase by over 100,000 by 2030, or almost double relative to the number of Specialised Supported Homes occupied today[1]. A growing prevalence of disability, combined with the requirement to move people out of institutional care settings and provide independent community homes, is driving this increase in demand.

Demand for more Specialised Supported Housing properties underpins the performance of our Registered Provider and Care Provider partners and, in turn, the performance of the Group. Demand drives high levels of occupancy at the Registered Providers the Group works with and has helped ensure that the occupancy of the Group's portfolio has continued to increase as it matures. In addition, it supports our ability to address any issues within the Group's portfolio, such as if a new care provider needs to be brought into a property or an alternative Specialised Supported Housing use needs to be sought, thereby adding resilience to the portfolio's performance.

Looking forward to a year in which there will likely be a General Election, we are reassured that our business model is unlikely to be impacted by the result. Specialised Supported Housing continues to enjoy cross-party support due to its ability to provide independent homes to individuals with care needs whilst ensuring they can remain within their local community receiving the care and support on which they rely. Whatever form the next Government takes, we expect them to preserve the level of benefits available to some of the most vulnerable members of society. Similarly, due to a cross-party focus on fiscal responsibility, we expect any

new Government to continue to rely on private funding to help build the new homes required to make meaningful inroads into the UK's housing crisis. All of this reaffirms the strong fundamentals on which the Group's strategy is predicated.

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Alison Fyfe, chair, Target Healthcare REIT

Care homes fill a crucial role in meeting the nation's health and social care need. A growing and ageing population is placing stress on the system overall, given the increased frailty and dementia naturally associated with an increased elderly population. This is an obvious demand driver for care home places. As our healthcare system struggles to keep up with increasing demand, social care is increasingly being recognised and looked-to as the appropriate setting for many who don't necessarily require NHS/primary care. Increased investment in the sector can readily help alleviate the pressures on the NHS and primary medical care settings. We see no let-up in the need for substantial investment in modern care home real estate and our mission is to provide and support such investment.

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Simon Laffin, chair of Impact Healthcare REIT

There are 6.5 million people aged over 75 living in the United Kingdom in 2024. That number is forecast to increase by 55%, to 10.1 million over the next 25 years. The over 75's are the fastest growing part of the UK population. These increases will happen during the lives of our long leases.

While rising life expectancies are good news, the downside is that most people will spend the last 15 years of their life with some ill health. Around 10% of people over 80 have care needs that make it difficult for them to live at home. Many people end up stuck in hospital beds, which means they're in the wrong setting for the type of care they need, particularly if they have dementia, and this increases costs for the NHS.

Despite the ageing population and rising acuity, the number of available care beds for elderly care has been stagnant. Between 2012 and 2021, the number of beds in nursing and residential care homes fell from 11.3 per 100 people aged over 75 to 9.4 - a 17% decrease. Looking at longer-term trends, an estimated 25% of over 85s lived in care homes for the elderly in 1996. By 2017, this had fallen to 15%. This reflects several factors, including a shift in social care policy towards home care. It might also reflect an element of rationing in the care system, as many older people struggle to access the care they need.

Although the care home market is attractive, for existing care homes the economics make it difficult to create much new supply. Construction costs have risen substantially over the past two years, making it difficult to deliver a high quality new care home for less than £200,000 per bed. In contrast, an older home with an established record for providing good quality care can cost less than £100,000 per bed, which we believe offers a better risk adjusted return. Given the higher capital costs of brand new homes, tenants have to pay higher rents - up to 20% of their revenues as opposed to our average of 12.6% - which means that they in turn have to pass these costs on by charging higher fees to their residents. The higher fees needed by newly built care homes limit the number of residents who can afford this,

restricting the size and growth of this segment of the market. Slightly older homes also offer opportunities to add value, by updating them, adding facilities and improving their environmental performance, which is another reason we favour this part of the market over new builds.

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Nick Hewson, chair, Supermarket Income REIT

The UK grocery sector continued to show strong growth in 2023 against a persistently uncertain economic backdrop. During the period, Kantar reported an 8% increase in UK grocery sales building on the strong growth seen in the previous period. Tesco and Sainsbury's, the UK's largest grocery operators by revenue, and our two largest tenants, have performed particularly strongly, with both operators growing market share and sales, which is fuelling cash flow growth and profit margins.

In a tight market for new sites due to a lack of prime locations, planning restrictions and elevated construction costs, our large format stores provide the operators with the space to grow sales volumes and thus sales densities, which will further increase rental affordability and should feed through to higher rental income at lease expiry.

The importance of mission-critical supermarkets, the revenue hubs in this growing sector, together with long inflation-linked full repairing and insuring (FRI) leases, has attracted a growing range of investors to this market. In 2023 we saw a record £2.1bn of investment volumes. In addition, we continue to see our two biggest tenants, Tesco and Sainsbury's buying in their stores with over £2.0bn of supermarkets purchased in the last five years, testament to the value that they see in owning their top trading, omnichannel stores.

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Duncan Garrood, chief executive, Empiric Student Property

Demand and supply imbalance continues unabated. Participation rates in the UK's higher education sector remains historically high with over 2.2 million full-time students. China remains the dominant domicile of international students, but shifting demographic trends demonstrate the attractiveness of a relatively affordable UK higher education to a growing number of students from other international markets, particularly India. The UK remains a very attractive high quality, and affordable higher education destination of choice.

A clear flight to quality is continuing, with higher tariff, typically Russell Group, universities experiencing year on year growth in acceptances to the detriment of medium and lower tariff universities. This validates our strategy of focusing our portfolio on these cities, which deliver growth and encourage investment.

The take up of postgraduate studies has grown considerably, aided by the student loan system, visa changes and the desire for further qualifications, while meeting the need of UK universities to generate additional revenue. One quarter of all students now study at postgraduate level full time.

The year saw a net increase in Purpose Built Student Accommodation (PBSA) beds of only 8,760, the lowest in a decade. This highlights the challenges faced, including

planning, construction costs and increased interest rates. Legislative changes have driven more than 400,000 private rental properties from the market, contributing to a decline in HMOs, our main competitive market. This has driven more students, particularly domestic students, towards PBSA operators like ourselves.

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Kevin McGrath, chair, Regional REIT

In a challenging environment for REITs, the company continued to see a rise in tenants' return to the office with an average of 4.1 days per week and increased space enquiries across the portfolio. The Asset Manager's survey showed an increased 71.4% active office occupation across the portfolio (June 2023: 65.4%) and that current active occupation is 102% of the pre-pandemic occupancy levels and is expected to grow further. However, the company was not immune from the wider macro-economic environment with inflation continuing to impact costs and in-turn potential occupiers taking a 'wait and see' position on office requirement or downsizing in the near-term.

Investment in commercial property amounted to £36.7bn during 2023, according to research by Lambert Smith Hampton, 34.5% below the volumes recorded in 2022, and 23.5% below the five-year average. However, improving investment volumes in the final quarter suggest the market bottomed out in 2023, signalling the early stages of an upward trend and a reason to be optimistic moving into 2024.

Overall, investment in regional offices, throughout the UK reached £2.4bn in 2023, and although investment in regional offices across 2023 was 40.2% below trend, optimism in the regional markets continues to be supported by strong employment levels and a fall in the number of employees exclusively working from home. As demonstrated with Q4 2023 investment volumes being 62.1% higher than the previous quarter, reaching £0.8bn.

According to monthly data from MSCI, rental value growth held up well for the rest of UK office markets in the 12 months ended December 2023 with growth of 2.3%. Conversely, central London offices experienced modest growth of 1.7% over the same period.

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Claire Boyle, chair, Life Science REIT

With five interest rate rises over the year, occupiers have been more cautious about taking new space. The life sciences sector, where fit-out is relatively more expensive and businesses move less frequently, has not been immune. As a result, take-up in Oxford was down slightly on last year's peak, although was stronger in Cambridge where availability is critically low at under 3%.

However, confidence built towards the end of the year, with greater certainty that we are at or close to peak interest rates, even if the consensus is that they will remain higher for longer. Venture capital (VC) funding in the sector looks to be stabilising following the post pandemic peak in 2021 and has proved more resilient than other areas of the market, down 6% year on year, compared with a fall of 43% for total UK VC investment.

The second half of the year also saw a string of key policy announcements in support of our sector, most notably the Government's decision to rejoin Horizon Europe in September. The £520 million funding package announced in the Autumn Statement and positive response to the review of university spin-outs also supports an ecosystem where young life sciences businesses can be successful. This backdrop is helpful for our occupiers, many of whom are emerging businesses, looking for affordable space close to their roots in the academic institutions of the Golden Triangle.

The fundamentals of our sector are among the strongest in UK real estate, with demand supported by powerful long-term trends and supply constrained by the need to be located in centres of academic excellence, notably the Golden Triangle.

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