

Belvest

momentum
global investment management

GLOBAL MATTERS

MONTHLY VIEWPOINT

VOL #206 | JANUARY 2024



Contents

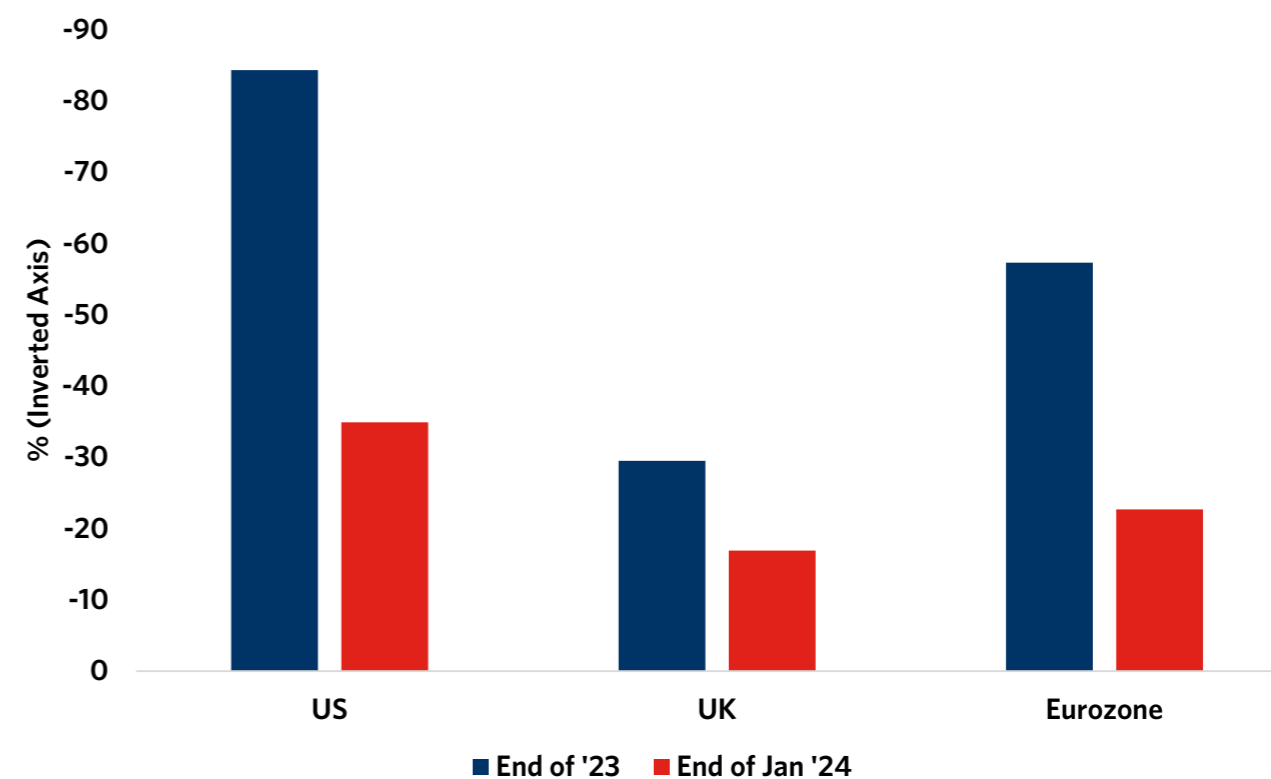
Global market review & outlook

Markets began to consolidate in January and returns ended the month in a more mixed fashion, compared to the '(almost) everything rally' seen in Q4 2023. Global developed and US equities both continued their momentum to reach all-time highs, returning 1.2% and 1.7% respectively. Equity markets in Asia continued to show limited signs of agreement, with Japan posting a 7.8% return, while further challenges in China impacted Emerging Asia, falling 5.2%. UK equities ended the month down 1% after some varied data prints, while European equities outperformed, returning 1.9%. After the bond market rally in December, markets took a step back with global bonds declining 1.3%, following a re-assessment of 2024 interest rate projections. Despite a shaky start, credit markets ended the month undisturbed with a slight 0.2% decline in investment grade. In commodities, a tumultuous month geopolitically, led to a 6.1% rise in oil.

After initial trepidation, some positive economic data and growing optimism for a soft-landing led US equities to make further progress, particularly during the middle of January. Gains were again somewhat concentrated among mega-cap tech stocks, with the Magnificent 7 rising 6.4%, before paring back some of the gains at the end of the month, finishing up 2.3%. In contrast, the equally weighted US equity index ended the month in negative territory (-0.8%). US growth stocks continued to outperform returning 2.6% compared to value, which returned 0.5%.

Following the highest two-month return since 1990 in November and December, bond markets experienced a mild setback, marked by a 1.7% decline in global government bonds. A concerted effort by the Fed to push back on markets' seemingly excessive rate cut projections, pushed the US 30-year treasury yield 14 bps higher, while the 10-year yield increased 3 bps to 3.91% after some volatility. On the short end of the curve 2-year yields fell 4 bps to 4.21%. Alongside the more hawkish tone, some hotter than expected economic data prompted markets to make a significant revaluation of future interest rates. By month end futures markets had moved to price in 35% chance of a rate cut in March, as opposed to 84% at the turn of the year – an implicit tightening.

Implicit market probability of a rate cut/hike in March -
Rate cut expectations dialled back



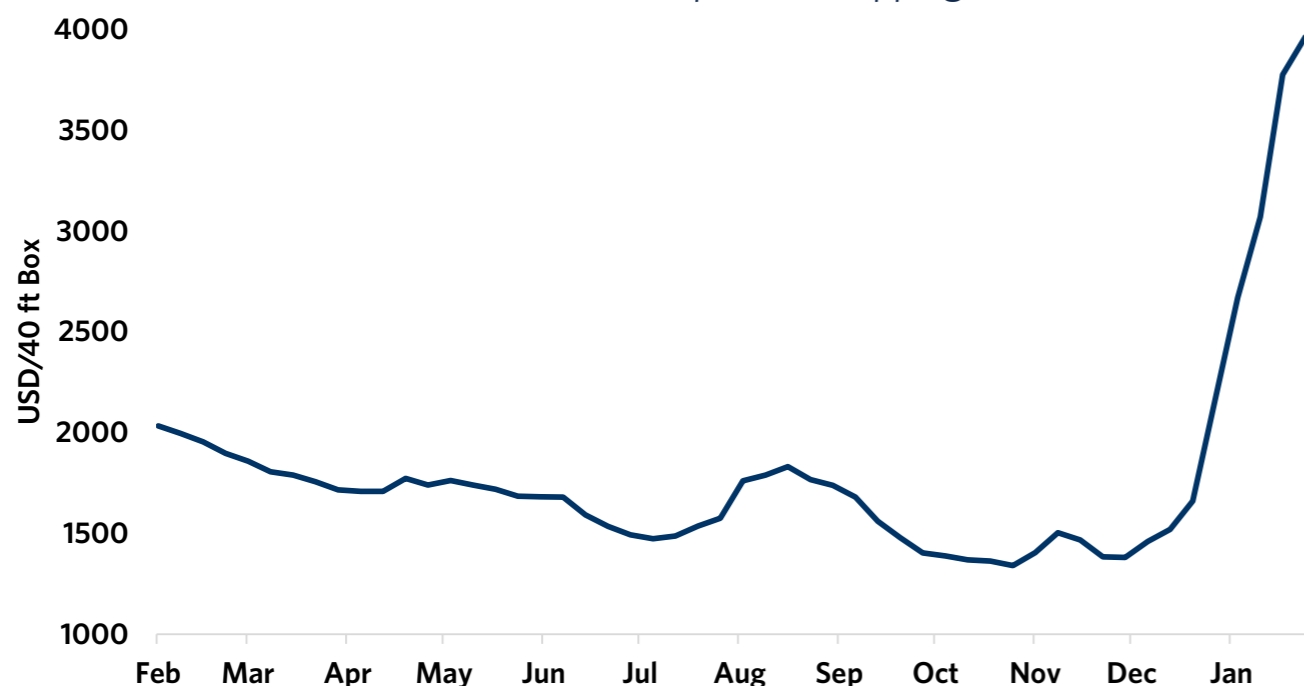
Source: Bloomberg Finance L.P. as at 31 January 2024.

A similar narrative played out in the UK and Europe, with central bank members attempting to persuade markets that despite good progress, declaring victory over inflation would be premature. The upside surprise in UK inflation figures served as a timely reminder of this, with consumer prices rising 4% year-on-year in December, breaking the 10-month disinflationary trend. As a result, gilt yields rose across the maturity curve and UK government bonds returned -2.3% over the month. The ECB is still looking for further evidence of disinflationary momentum, however muted growth prospects may provide cause for an earlier move, after the Eurozone narrowly avoided a technical recession in Q4.

Fears of escalation in the Middle East conflict were raised as Houthi rebels targeted Red Sea shipping and the US and UK retaliated. Although shipping costs have risen sharply as a result, with cargoes redirected around the Cape, oil and energy prices avoided any dramatic price swings, in the face of ample supplies, with US production at or near record levels, high levels of gas in storage in Europe and concerns about weak global demand (especially China). The bigger risk is that Iran and the US are drawn into direct conflict, an outcome neither side wishes, but which cannot be dismissed.

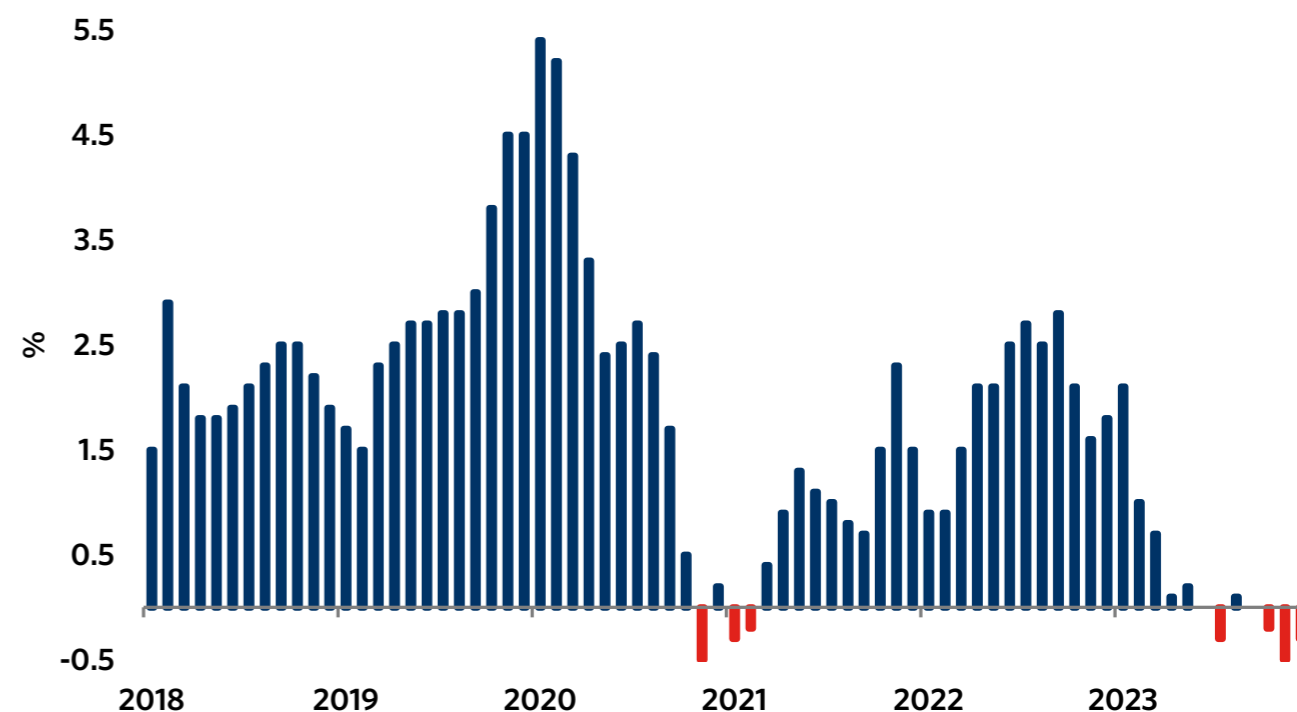
China's economic woes continued. GDP unsurprisingly met the government's target for 2023, growing 5.2% for the year, but there were notable signs of weakness with retail sales decelerating and housing activity remaining soft. Dangers of a deflationary trap persist as year-on-year CPI (Consumer Price Index) figures came in negative territory for the third consecutive month. China's property travails also continued with the Hong Kong high court imposing a liquidation order on Evergrande, two years after the property giant first defaulted on its debt and exposed frailties in an overly leveraged industry. Authorities responded with the PBOC announcing a 50bps cut in the reserve requirement ratio from early February, which should inject RMB1tn (USD139bn) of liquidity into markets. Furthermore, authorities proposed plans to mobilise state owned enterprises (SOEs) by using their offshore accounts to prop up stock markets with up to RMB2tn (USD278m) potentially available. However, optimism was short-lived with equities selling off again and concluding the month a dismal 10.6% down. The prevailing market distress indicates that authorities will need a more sustained and assertive approach to reverse the rapidly deteriorating sentiment.

WCI composite freight rate -
Red Sea attacks cause sharp rise in shipping costs



Source: Bloomberg Finance L.P. as at 25 January 2024.

China CPI -
Destination deflation



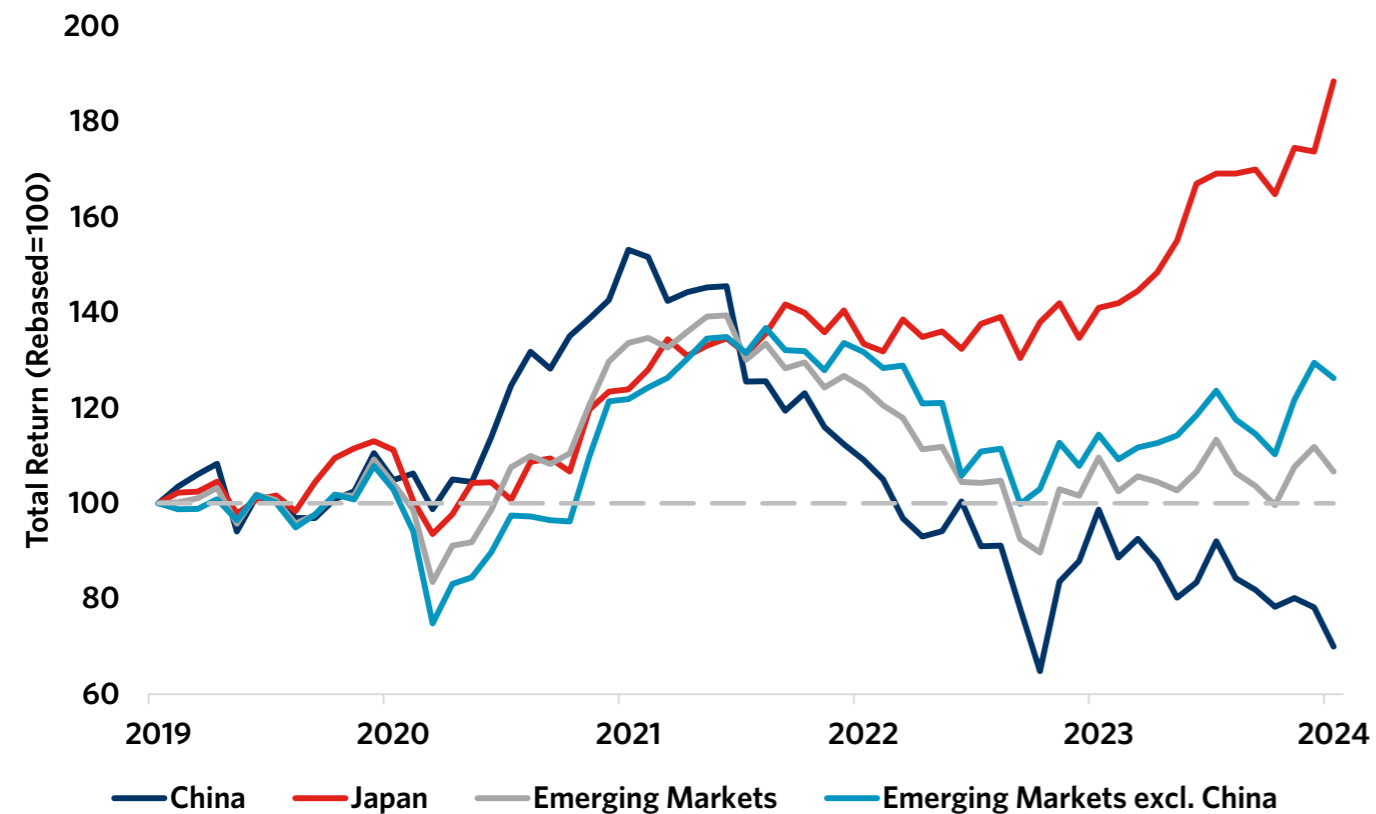
Source: Bloomberg Finance L.P. as at 25 January 2024.

"Fears of escalation in the Middle east conflict were raised as Houthi rebels targeted Red Sea shipping and the US and UK retaliated. Although shipping costs have risen sharply as a result, oil and energy prices avoided any dramatic price swings"



The Bank of Japan, as anticipated, maintained its ultra-loose policy, but signalled a somewhat more hawkish approach to its negative interest rate policy and displayed more confidence about reaching long-term inflation targets. A rate rise to take the short-term policy rate above zero from the -0.1% of the past 8 years is now expected within months. The gradual normalisation of policy is a welcome development, and its stock market remains among the more attractive globally, despite its strong performance recently.

Asia equities- Diverging fortunes



Source: Bloomberg Finance L.P. as at 31 January 2024.

Amidst the escalation in the Middle East, spurred by the involvement of the UK and US retaliating against Houthi rebels and Iran backed militant groups, geopolitics has taken centre stage, amplifying the significance of upcoming US elections. Donald Trump has emerged as the clear favourite in the Republican nominations, and the re-run of Trump v Biden now seems inevitable. While polls currently show the Republican nominee edging ahead of his opponent, it is too early to assess the ramifications of such an outcome. What is perhaps easier to predict with some certainty, is an increase in volatility as events unfold and a decision draws closer.

The US economy remains key to the 2024 global outcome. Growth was surprisingly strong in 2023 despite the headwind of rapidly rising interest rates, and although the growth rate is widely expected to slow sharply this year, economists continue to be proven wrong. US GDP came in much higher than expected at 3.3% annualised growth, strong employment data as well as flash PMIs (Purchasing Managers' Index), usually good indicators of future activity, point to remarkable continuing resilience in the economy. Headline CPI showed a slight uptick of 3.4% compared to 3.1% the previous month. Meanwhile the latest core PCE (Personal Core Expenditure) inflation, a key metric monitored by the Fed, continued to move in the right direction at 2.0% quarter-on-quarter annualised for the second consecutive quarter.

Prospects of a soft landing have therefore continued to increase, and we remain constructive for risk assets over the course of the year. The monetary policy cycle is at a turning point and the next major move in rates will be down, underpinning markets. But in the short term we are concerned that investors are still pricing in too much policy loosening this year and are potentially complacent about the inflationary risks of the tight labour market, high fiscal spending and geopolitical risks. A disconnect is building between the market's expectations for the pace and extent of cuts and the resilience of the economy. We therefore expect a period of consolidation ahead and will be cautious in seeking to add to duration in fixed income and to risk assets.

"A disconnect is building between the market's expectations for the pace and extent of cuts and the resilience of the economy. We therefore expect a period of consolidation ahead"

Market performance - Global (local returns) as at 31 January 2024

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	1.7%	15.9%	1.7%	20.2%
United Kingdom	MSCI UK NR	GBP	-1.0%	5.1%	-1.0%	2.4%
Continental Europe	MSCI Europe ex UK NR	EUR	1.9%	13.7%	1.9%	11.5%
Japan	Topix TR	JPY	7.8%	13.4%	7.8%	32.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.8%	7.0%	-4.8%	-5.9%
Global	MSCI World NR	USD	1.2%	16.1%	1.2%	17.0%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	2.3%	13.8%	2.3%	28.4%
Emerging Asia	MSCI EM Asia NR	USD	-5.2%	5.3%	-5.2%	-6.0%
Emerging Latin America	MSCI EM Latin America NR	USD	-4.8%	17.5%	-4.8%	15.0%
China	MSCI EM China NR	USD	-5.6%	1.2%	-5.6%	-10.2%
BRICs	MSCI BRIC NR	USD	-10.6%	-10.6%	-10.6%	-29.0%
Global emerging markets	MSCI Emerging Markets NR	USD	-4.6%	7.0%	-4.6%	-2.9%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-0.3%	6.6%	-0.3%	1.4%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	0.2%	5.8%	0.2%	2.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.2%	10.4%	-0.2%	4.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.0%	8.4%	0.0%	9.3%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-2.3%	6.3%	-2.3%	-1.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.0%	6.4%	-1.0%	3.8%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.5%	6.2%	-0.5%	4.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.1%	5.2%	0.1%	6.0%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	0.7%	6.6%	0.7%	9.5%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.8%	1.8%	-0.8%	-0.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.1%	6.2%	0.1%	1.6%
Global Government Bonds	JP Morgan Global GBI	USD	-1.7%	7.4%	-1.7%	-0.5%
Global Bonds	ICE BofAML Global Broad Market	USD	-1.3%	8.2%	-1.3%	1.1%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-1.4%	9.0%	-1.4%	3.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.3%	10.8%	-1.3%	5.1%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-4.2%	15.9%	-4.2%	-2.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	1.3%	23.8%	1.3%	5.6%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-5.7%	4.8%	-5.7%	-12.1%
Global Property Securities	S&P Global Property USD TR	USD	-3.8%	15.7%	-3.8%	-1.9%
Currencies						
Euro		USD	-2.0%	2.3%	-2.0%	-0.4%
UK Pound Sterling		USD	-0.3%	4.4%	-0.3%	3.0%
Japanese Yen		USD	-4.0%	3.2%	-4.0%	-11.5%
Australian Dollar		USD	-3.6%	3.6%	-3.6%	-6.9%
South African Rand		USD	-1.7%	-0.2%	-1.7%	-6.8%
Commodities & Alternatives						
Commodities	RICI TR	USD	1.6%	-2.7%	1.6%	-3.3%
Agricultural Commodities	RICI Agriculture TR	USD	1.5%	1.1%	1.5%	-0.4%
Oil	Brent Crude Oil	USD	6.1%	-6.5%	6.1%	-3.3%
Gold	Gold Spot	USD	-1.1%	2.8%	-1.1%	5.8%
Interest Rates						
						Current Rate
United States						5.50%
United Kingdom						5.25%
Eurozone						4.50%
Japan						-0.10%
Australia						4.35%
South Africa						8.25%

Source: Bloomberg Finance L.P., Momentum Global Investment Management. Past performance is not indicative of future returns.

Market performance - UK (all returns GBP) as at 31 January 2024

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	-1.0%	5.1%	-1.0%	2.4%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-1.1%	3.2%	-1.1%	0.9%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-2.0%	12.8%	-2.0%	5.1%
UK - Small Cap	MSCI Small Cap NR	GBP	-1.9%	14.1%	-1.9%	1.3%
United States	S&P 500 NR	USD	2.0%	10.7%	2.0%	16.5%
Continental Europe	MSCI Europe ex UK NR	EUR	0.3%	11.4%	0.3%	8.0%
Japan	Topix TR	JPY	4.1%	12.1%	4.1%	14.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.4%	2.3%	-4.4%	-8.8%
Global developed markets	MSCI World NR	USD	1.6%	10.9%	1.6%	13.4%
Global emerging markets	MSCI Emerging Markets NR	USD	-4.3%	2.2%	-4.3%	-5.9%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-2.4%	6.5%	-2.4%	-1.5%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.3%	2.3%	-0.3%	2.8%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-1.8%	6.4%	-1.8%	0.8%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-4.9%	10.1%	-4.9%	-7.1%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-5.0%	5.6%	-5.0%	-7.2%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-2.2%	4.6%	-2.2%	2.2%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-7.8%	7.3%	-7.8%	-16.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.0%	6.4%	-1.0%	3.8%
US Treasuries	JP Morgan US Government Bond TR	USD	-0.2%	1.6%	-0.2%	-2.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.1%	5.2%	-0.1%	0.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.0%	8.4%	0.0%	9.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.5%	6.2%	-0.5%	4.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.1%	5.2%	0.1%	6.0%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.7%	6.6%	0.7%	9.5%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.3%	2.6%	-1.3%	-3.5%
Global Bonds	ICE BofAML Global Broad Market	GBP	-1.3%	8.2%	-1.3%	1.1%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-1.4%	9.0%	-1.4%	3.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-0.9%	5.8%	-0.9%	1.9%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-3.5%	10.5%	-3.5%	-4.9%
Currencies						
Euro		GBP	-1.7%	-2.0%	-1.7%	-3.3%
US Dollar		GBP	0.3%	-4.2%	0.3%	-2.9%
Japanese Yen		GBP	-3.7%	-1.1%	-3.7%	-14.0%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	1.9%	-7.0%	1.9%	-6.3%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	1.8%	-3.4%	1.8%	-3.5%
Oil	Brent Crude Oil	GBP	6.4%	-10.7%	6.4%	-6.3%
Gold	Gold Spot	GBP	-0.8%	-1.8%	-0.8%	2.5%
Interest Rates						
						Current Rate
United Kingdom						5.25%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

Asset allocation views

Our Overall View

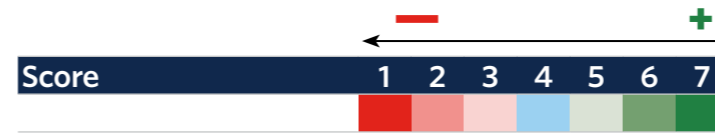
Score	Change	1	2	3	4	5	6	7
MAIN ASSET CLASSES	▲/▼/—	1	2	3	4	5	6	7
Equities	—							
Fixed Income	—							
Alternatives	—							
Cash	—							

Score	Change	1	2	3	4	5	6	7
EQUITIES	▲/▼/—	1	2	3	4	5	6	7
Developed Equities	—							
UK Equities	—							
European Equities	—							
US Equities	—							
Japanese Equities	—							
Emerging Market Equities	—							

Score	Change	1	2	3	4	5	6	7
FIXED INCOME	▲/▼/—	1	2	3	4	5	6	7
Government	▲							
Index-Linked	—							
Investment Grade Corporate	—							
High Yield Corporate	—							
Emerging Market Debt	—							
Convertible Bonds	—							

Score	Change	1	2	3	4	5	6	7
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/—	1	2	3	4	5	6	7
Commodities	—							
Property	—							
Infrastructure	—							
Liquid Alternatives	▼							
Private Equity	—							
Specialist Financial	—							

Score	Change	1	2	3	4	5	6	7
CURRENCIES vs. USD	▲/▼/—	1	2	3	4	5	6	7
GBP	—							
EUR	—							
JPY	—							
Gold	—							



The lack of depth in this year's market rally is a cause for concern with fears of a recession still high and lead indicators suggesting slower growth ahead. Our fixed income view remains broadly neutral overall, but in light of the recent sharp moves higher in treasury yields, we upgrade our government view. Although the threat of a recession requires an element of caution with certain fixed income assets, good opportunities can be found in selective rates and credit markets. Alternative assets remain a good diversifier of returns, especially favourable should market volatility increase. Cash is an attractive lure today but won't preserve real wealth long term.

We temper our positive view on Japanese equities, taking some profit after the strong year to date performance. Last year's aggressive rate hikes continue to show signs of pushing developed economies towards recession and there is a risk of complacency taking hold in risk markets. US equities in particular have shown a worrying lack of breadth in this year's rally, but the opportunity set for active managers is appealing. European equities look reasonably attractive, but the most compelling markets remain the UK and Japan which trade at a discount to global peers and offer healthy dividends.

After their rapid move higher over the summer months, treasury yields have reached levels we think offer value today, and we upgrade our government view. Despite offering alluring all in yields, we think the spreads offered today on investment grade and riskier high yield corporate bonds do not compensate investors adequately for the underlying fundamental credit risk. The possibility of a recession and rising default rates suggest that an element of caution is necessary. We continue to prefer shorter duration bonds in both developed and emerging markets. Improving real yields and weak growth expectations have recently improved the appeal of inflation linked bonds.

Commodity prices are likely to be challenged against a slowdown in global growth. With expectations of a more turbulent period ahead in markets, alternatives continue to offer diversification benefits at attractive valuations after a period of poor investor sentiment. Discounts in NAVs in private equity continue to appear overly pessimistic while secular trends in infrastructure and specialist financials have boosted our outlook for both asset classes.

Against long term valuation metrics, Sterling and Yen continue to remain cheap relative to the Dollar. The Bank of Japan's ongoing policy of yield curve control policy holds the Yen back, for now. Recession expectations in the US and inflation in Europe could mean divergent rate expectations in support of the Euro, but the Fed's higher for longer narrative keeps the common currency in check for now. Gold's status as a haven asset means it remains a useful diversifier, although somewhat expensive versus real rates today.

"Improving real yields and weak growth expectations have recently improved the appeal of inflation linked bonds"



The asset allocation views are updated at the end of each quarter unless otherwise stated.

Belvest

For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Ltd.
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

This communication is issued by Belvest Investment Services Limited and/or Belvest related companies (collectively, and individually Belvest) solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of Belvest. Opinions or views of any Belvest company expressed in this communication may differ from those of other departments or companies within Belvest, including any opinions or views expressed in any research issued by Belvest. Belvest may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. Belvest has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advise to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by Belvest.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or return (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by Belvest are not the only ones that might reasonably have been selected and therefor Belvest does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of Belvest, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. Belvest therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communication carried within the Belvest system may be monitored.

