Belvest

momentum
global investment management

GLOBAL MATTERS

MONTHLY VIEWPOINT

VOL #209|APRIL2024

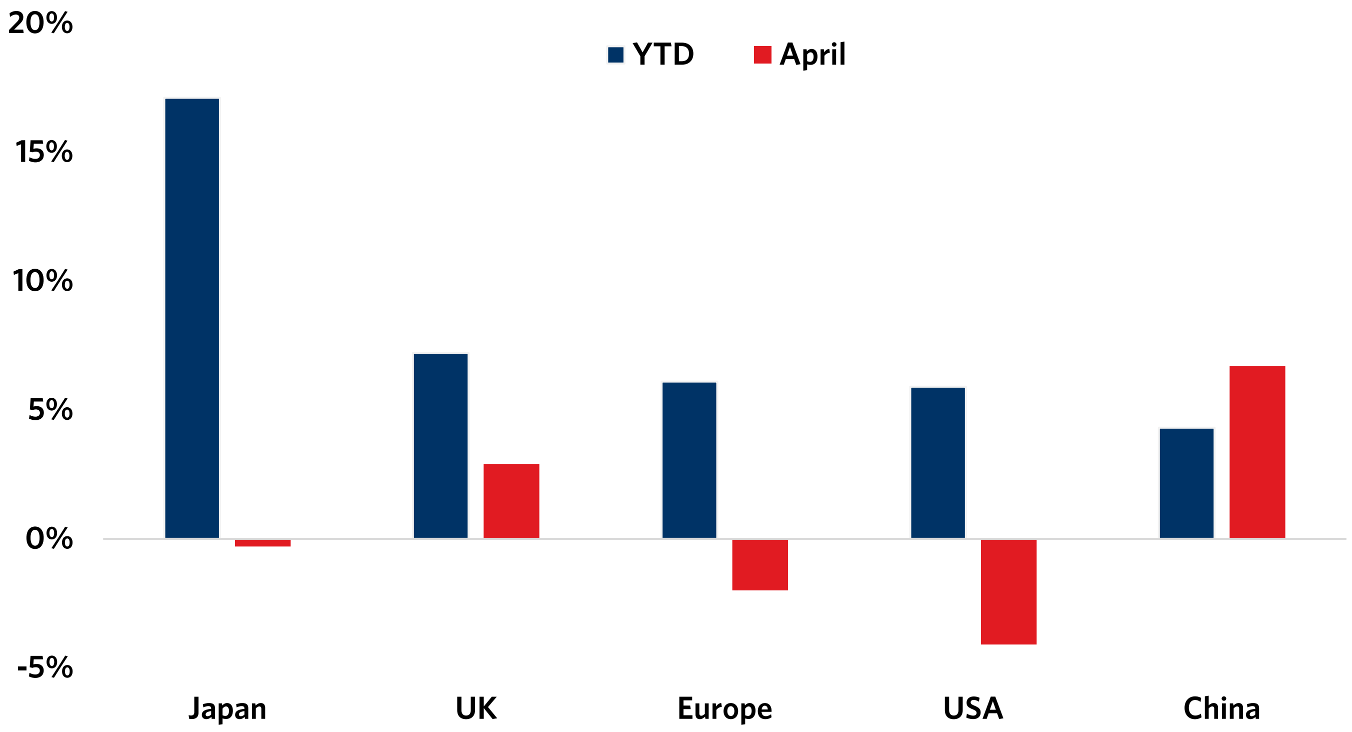
Contents

Global market review & outlook

The key factors driving markets in the first quarter of the year continued through April. Economic growth has remained resilient, labour markets strong and the earlier falls in inflation have slowed. The long period of high inflation, aggressive monetary tightening and geopolitical uncertainty have not damaged economies as much as was widely forecast. As a result, central banks, led by the Fed, have become more cautious about policy easing and have pushed back on cuts in rates, fearing that premature cuts could result in inflation becoming more entrenched and then requiring renewed policy tightening.

The consequential rise in bond yields triggered by this backdrop shifted up a gear in April as data pointed to a worrying stickiness in inflation, especially in the US. The yield on US Treasuries moved up by 40-50bps across the maturity curve over the month, taking yields on 2Y government bonds above 5% by month end and 10Y bonds to close to 4.7%, levels reached only briefly in October 2023 and otherwise not seen since mid 2007. Equities, which had rallied sharply in the previous 5 months as recessionary fears dissipated and corporate profits generally surprised on the upside, succumbed to the sharp rise in the discount rate – the 10Y Treasury bond yield has risen by 80bps in the first four months of the year – and to intensifying uncertainty about the future path of inflation and interest rates, as well as renewed escalation in geopolitical tensions.

Equity market performance broadens out



Source: Bloomberg Finance L.P. as at 30 April 2024, data is shown in local currency except for China which is in USD.

The result was a correction in equities in April, with global developed world equities –3.7% (MSCI World index), while global government bonds returned –2.9% (JPM Global GBI) leaving YTD returns at +4.8% and –4.8% respectively. Within equities there was a distinct shift in the breadth of returns, with most markets outperforming the US, at least in local currency terms. The UK continued its strong relative performance of March with another gain of 2.9% in GBP terms in April, boosted by significant moves among its big index constituents in the banking, energy and mining sectors, and increasing levels of M&A activity as private equity and corporate buyers take advantage of low valuations across much of the UK market. The Japanese market consolidated after its sharp rise in recent months, but is still up by 17% in yen terms this year, while Europe ex-UK also outperformed the US with a return of –2.0% in April in euro terms. The UK, Japan and Europe have now outperformed the US so far this year in local currency terms, although the picture changes when currency moves versus the USD are taken into account. The dollar had another strong month in April, so that YTD sterling has fallen by 1.9%, euro by 3.4% and yen by 10.6%, taking the yen to new 40-year lows.

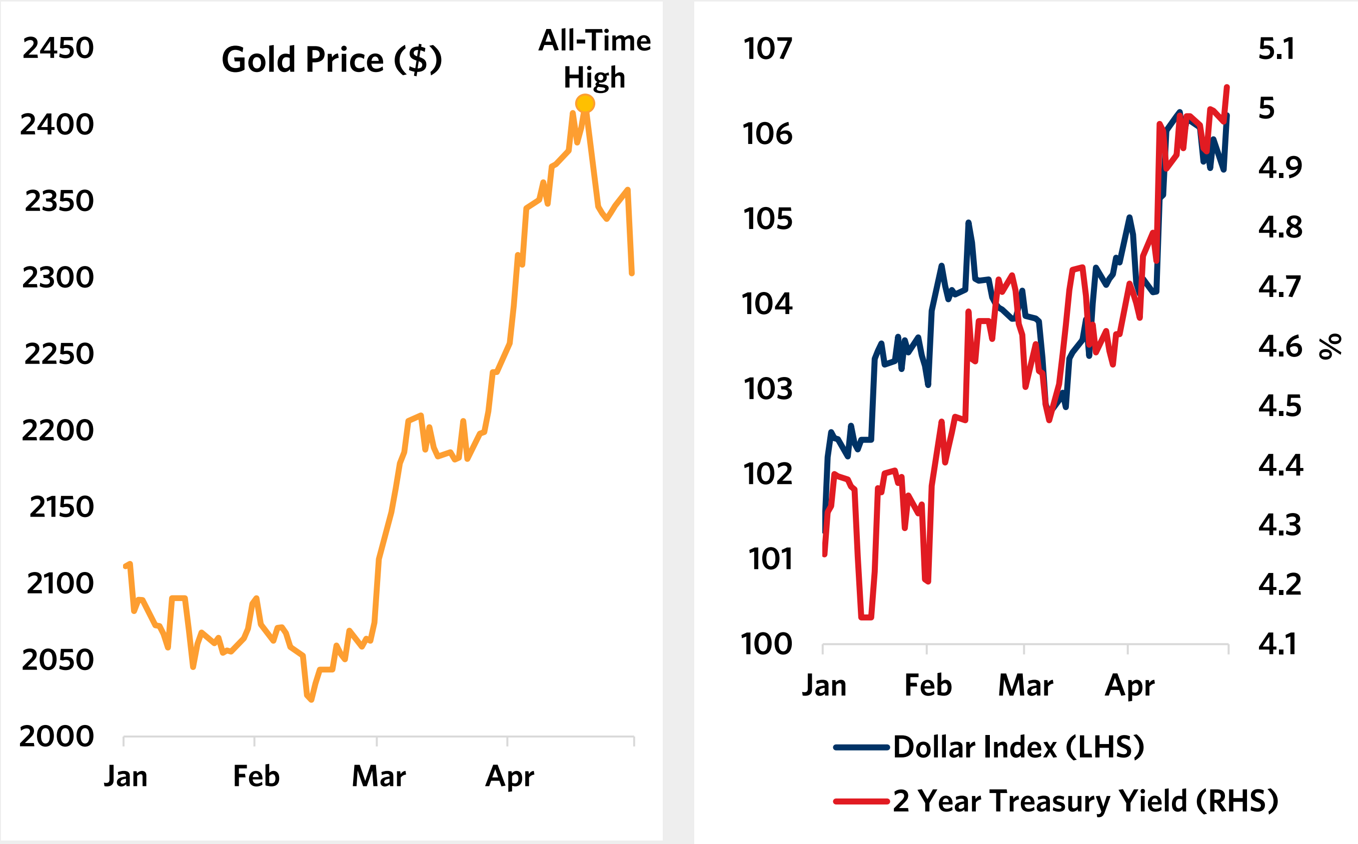
The most notable move came in emerging markets, with China producing a return of 6.7% (MSCI China index) in April, taking its recovery since the low in late January to 19%. This led to a gain of 0.7% in global emerging markets (MSCI Emerging Markets index), outperforming developed markets over both one and three months following a long period of underperformance. The news flow in China has on balance begun to improve: GDP growth in Q1 came in at a reassuring 5.3% yoy, and while house prices continued to fall, -2.7% yoy, debt restructuring among beleaguered property developers made some progress, with the administration providing a more supportive approach to the industry. At the same time there has been some modest thawing of the US-China relationship following visits to China by key US politicians, Yellen and Blinken. No-one realistically expects a big thaw ahead of the US Presidential election, but at least there are efforts to prevent further deterioration. In the meantime, Chinese equities offer good value for investors prepared to accept the political risks.

"The most notable move came in emerging markets, with China producing a return of 6.7% in April, taking its recovery since the low in late January to 19%"

The headwind provided by a strong dollar, with the trade weighted dollar index up again, +1.7% in April, taking its move year-to-date to +4.8%, did little to restrain the bull market in gold, up by 2.5% in April and taking its rise this year to 10.8%. Gold is proving again to be an excellent safe haven and portfolio diversifier, and benefitted in the month from an escalation in Middle East tensions as Iran landed missiles directly on Israeli territory and Israel responded in kind. Although both countries played down the threat of further escalation, a reasonable case could be made that markets are under-pricing geopolitical risks, in which case gold should continue to offer reliable insurance. In the meantime China continues with its huge buying spree, with the central bank a large buyer of gold since the Russian invasion of Ukraine, reflecting fears that the freezing of Russia's central bank reserves is a weaponisation of the dollar which could also be used against China in the event of an invasion of Taiwan.

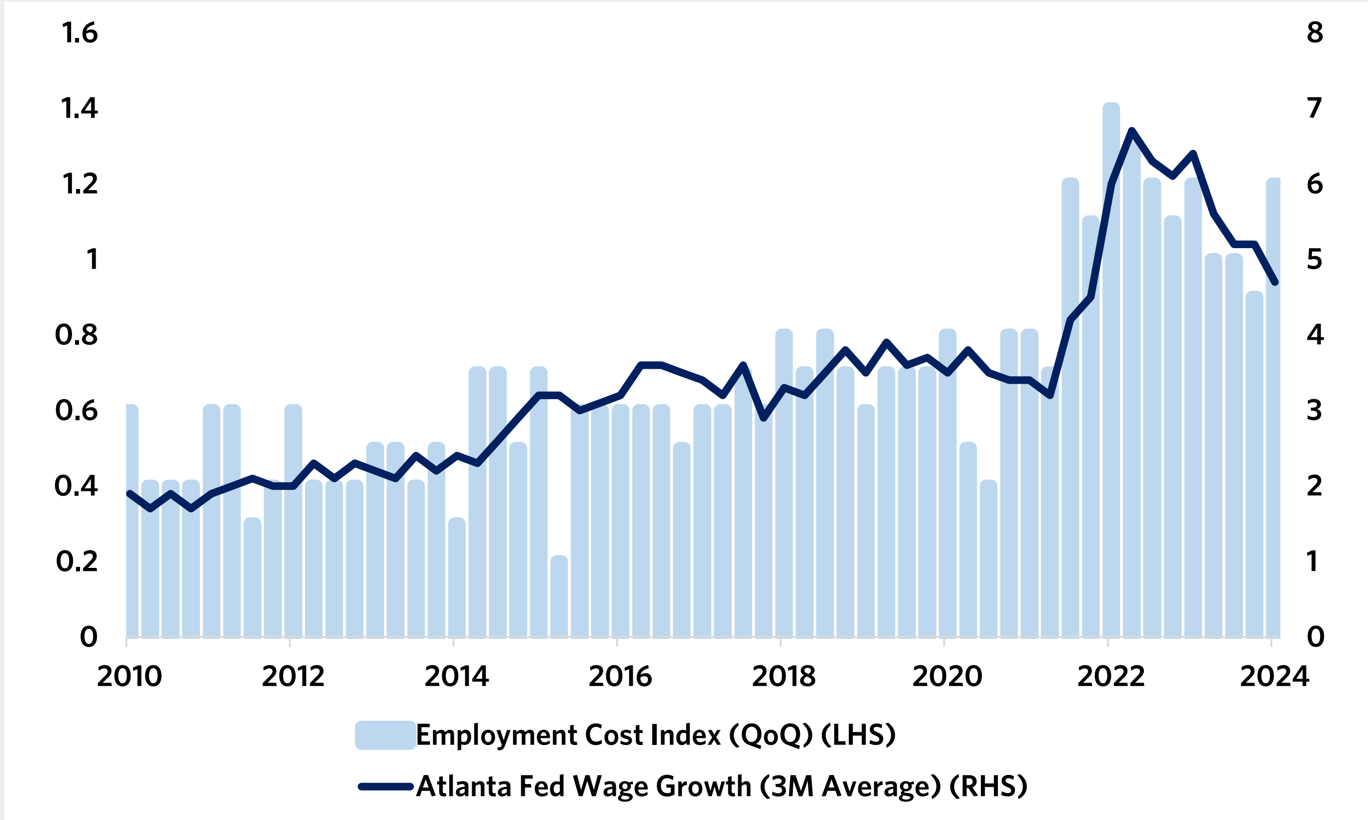
Most economic data continued to surprise on the upside. While Europe and the UK have broadly stagnated over the past 18 months, activity levels, leading indicators and labour markets point to stabilisation and modest recovery, albeit still at low rates of growth. It is US exceptionalism, however, which is the critical feature of this cycle. The advanced estimate of Q1 GDP in the US showed an apparently disappointing growth rate of 1.6% qoq annualised, but underlying this was continuing strength in consumer spending, reflected in rising imports and falling inventories (both of which are negative contributors to growth), and in fixed investment. Consumer spending is supported by the strong labour market, where job creation remains robust and wages are rising in real terms, but the distinguishing feature of this cycle is the extraordinary surge in capital investment.

Gold surges despite rising bond yields and strong dollar



Source: Bloomberg Finance L.P. as at 30 April 2024.

Employment cost inflation still high



Source: Bloomberg Finance L.P. as at 30 April 2024.

Several factors are contributing to this expansion. The security of supply challenges highlighted by the pandemic and the over-reliance on China for critical supplies at a time of rising geopolitical tensions have led to a reshoring/onshoring expansion in manufacturing and technology facilities, turbo-charged by the Inflation Reduction Act and CHIPS Act enacted in 2022. Add in the unfolding AI boom across all industries, leading to a rapid expansion of data centres and infrastructure to meet surging demand, and there is the making of a 'super-cycle'.

With the Q1 GDP data was the core Personal Consumption Expenditures price index, a favoured measure of inflation of the Fed, which showed core PCE of 3.7% annualised qoq, up from 2.0% in the preceding two quarters. Along with the Employment Cost Index rising by 1.2% in Q1, up from 0.9% in the previous quarter, and with financial conditions benign, the Fed continued to push back on rate cuts, with markets pricing in little more than a single 25bps cut in the Fed Funds rate by year end.

In contrast, the EU and UK face softer, albeit slightly improving, economic conditions and a faster fall in inflation than the US, and as a result it has become increasingly likely that the European Central Bank will be the first major central bank to cut rates, probably in the next couple of months, with the Bank of England not too far behind. However, further cuts could be constrained by the Fed, which will be much slower to ease, with the possibility in coming months of shifting up its longer term expectations of rates.

There is a risk that the global disinflation of the past 2 years will stall without a significant economic and labour market slowdown, neither of which are in clear sight currently. This increases the possibility of the rate cutting cycle ahead being relatively shallow. High cash rates, now offering reasonable real yields, and the 'higher for longer' narrative, argue against adding to duration of bond portfolios. However, the sharp rise in bond yields this year already reflect at least some of this shift in expectations, and a 'soft landing' is increasingly being priced in by markets. We are therefore looking for opportunities at these higher yield levels to add to duration. In equities, we are encouraged by the recent broadening out of the market, and by the generally healthy corporate profits across many industries. With the next move in interest rates set to be down during the second half of the year, albeit later than earlier anticipated, there is a strong foundation for further gains in markets. We recognise the risk of complacency, around inflation, a soft landing, high fiscal spending and debt sustainability, geopolitics and election risks, and diversification remains vital, but we are seeking opportunities to add to risk assets if equity markets continue their period of consolidation seen in April.

"we are seeking opportunities to add to risk assets if equity markets continue their period of consolidation seen in April"

Market performance - Global (local returns) as at 30 April 2024

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-4.1%	4.2%	5.9%	22.1%
United Kingdom	MSCI UK NR	GBP	2.9%	8.3%	7.2%	7.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.0%	4.1%	6.1%	11.1%
Japan	Topix TR	JPY	-0.3%	8.6%	17.1%	36.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.7%	7.7%	2.5%	7.5%
Global	MSCI World NR	USD	-3.7%	3.6%	4.8%	18.4%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	5.3%	8.8%	11.3%	35.2%
Emerging Asia	MSCI EM Asia NR	USD	1.3%	10.1%	4.3%	9.8%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.5%	-2.7%	-7.3%	15.2%
China	MSCI EM China NR	USD	3.9%	10.0%	3.9%	7.1%
BRICs	MSCI BRIC NR	USD	6.7%	16.6%	4.3%	-6.8%
Global emerging markets	MSCI Emerging Markets NR	USD	0.7%	7.8%	2.8%	9.9%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-2.3%	-2.9%	-3.1%	-2.6%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.7%	-2.0%	-1.8%	-1.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-2.5%	-2.8%	-2.9%	1.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.9%	0.5%	0.5%	9.0%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-3.1%	-2.5%	-4.7%	-1.5%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.8%	-0.8%	-1.8%	4.2%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.4%	-1.5%	-2.1%	2.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.8%	-0.5%	-0.4%	5.2%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	-0.1%	0.7%	1.5%	10.2%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-1.4%	-1.0%	-1.8%	-4.0%
Australian Government	JP Morgan Australia GBI TR	AUD	-2.0%	-1.2%	-1.1%	-1.6%
Global Government Bonds	JP Morgan Global GBI	USD	-2.9%	-3.9%	-5.5%	-4.8%
Global Bonds	ICE BofAML Global Broad Market	USD	-2.7%	-3.6%	-4.8%	-2.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-2.7%	0.6%	-0.7%	6.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-2.0%	1.6%	0.3%	8.0%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-7.1%	-3.7%	-7.7%	0.4%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-7.8%	5.6%	7.0%	14.7%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-1.4%	0.9%	-4.8%	-7.5%
Global Property Securities	S&P Global Property USD TR	USD	-4.9%	-1.8%	-5.5%	2.0%
Currencies						
Euro		USD	-1.1%	-1.4%	-3.4%	-3.2%
UK Pound Sterling		USD	-1.0%	-1.5%	-1.9%	-0.6%
Japanese Yen		USD	-4.1%	-6.9%	-10.6%	-13.6%
Australian Dollar		USD	-0.7%	-1.4%	-5.0%	-2.1%
South African Rand		USD	0.8%	-0.5%	-2.2%	-2.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	1.8%	5.7%	7.3%	8.2%
Agricultural Commodities	RICI Agriculture TR	USD	-1.2%	1.8%	3.3%	6.7%
Oil	Brent Crude Oil	USD	0.4%	7.5%	14.0%	10.5%
Gold	Gold Spot	USD	2.5%	12.1%	10.8%	14.9%

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 30 April 2024

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	2.9%	8.3%	7.2%	7.8%
UK - Large Cap	MSCI UK Large Cap NR	GBP	3.9%	9.7%	8.6%	8.2%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-3.6%	-0.1%	-2.1%	1.0%
UK - Small Cap	MSCI Small Cap NR	GBP	-0.6%	3.6%	1.6%	5.7%
United States	S&P 500 NR	USD	-3.2%	5.9%	8.1%	22.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.2%	4.2%	4.5%	8.1%
Japan	Topix TR	JPY	-3.2%	2.6%	6.8%	18.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.6%	9.5%	4.6%	8.1%
Global developed markets	MSCI World NR	USD	-2.8%	5.3%	7.0%	19.0%
Global emerging markets	MSCI Emerging Markets NR	USD	1.7%	9.7%	4.9%	10.5%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-3.2%	-2.6%	-5.0%	-1.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.6%	-0.3%	-0.6%	2.9%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-3.0%	-2.9%	-4.6%	-0.6%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-5.6%	-4.4%	-9.1%	-7.0%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-3.8%	-1.1%	-6.0%	-5.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-2.2%	-0.9%	-3.1%	1.1%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-6.3%	-2.0%	-9.6%	-12.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.8%	-0.8%	-1.8%	4.2%
US Treasuries	JP Morgan US Government Bond TR	USD	-1.4%	-1.2%	-1.4%	-2.2%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.7%	-1.1%	-1.2%	1.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.9%	0.5%	0.5%	9.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.4%	-1.5%	-2.1%	2.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.8%	-0.5%	-0.4%	5.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.1%	0.7%	1.5%	10.2%
Global Government Bonds	JP Morgan Global GBI	GBP	-2.0%	-2.3%	-3.6%	-4.3%
Global Bonds	ICE BofAML Global Broad Market	GBP	-2.7%	-3.6%	-4.8%	-2.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-2.7%	0.6%	-0.7%	6.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-1.0%	3.3%	2.4%	8.6%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-4.1%	-0.1%	-3.6%	2.6%
Currencies						
Euro		GBP	-0.1%	0.1%	-1.5%	-2.6%
US Dollar		GBP	1.0%	1.6%	1.9%	0.6%
Japanese Yen		GBP	-3.1%	-5.4%	-8.9%	-13.2%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	2.8%	7.5%	9.5%	8.8%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	-0.3%	3.5%	5.4%	7.3%
Oil	Brent Crude Oil	GBP	1.4%	9.3%	16.4%	11.1%
Gold	Gold Spot	GBP	3.5%	14.0%	13.1%	15.5%
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.

March 2024

Asset allocation views

Score	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/—							
Equities	—			■				
Fixed Income	—				■			
Alternatives	—					■		
Cash	—				■			

Overall View

The continued move higher for risk assets year to date, on the back an improving 'soft landing' growth outlook, is welcome, but leaves less room for upside surprise. Our fixed income view is largely constructive, more so in sovereigns today which offer attractive nominal and real yields, but we recognize risk premia on corporate credit are thin today. Alternative assets remain a good diversifier of returns, especially favourable should market volatility increase. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in rates further out by extending duration.

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/—							
Developed Equities	—			■				
UK Equities	—						■	
European Equities	—				■			
US Equities	—			■				
Japanese Equities	—					■		
Emerging Market Equities	—					■		

UK equities remain the conviction valuation call with the UK remaining the cheapest developed market. There is little obvious catalyst to rerate, but the attractive earnings yields continue to draw in private and overseas buyers. Japan remains attractive both in valuation terms and on improving fundamentals. US equities continue to show a worrying lack of breadth in the continuing rally, but the opportunity set for active managers grows. 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.

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/—							
Government	—					■		
Index-Linked	—				■			
Investment Grade Corporate	—				■			
High Yield Corporate	—			■				
Emerging Market Debt	—				■			
Convertible Bonds	—			■				

After a late year end rally and subsequent modest reset, global treasury yields offer reasonable value today, and we maintain our overweight government view. Inflation linked bonds offer attractive real yields but are not cheap today. 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. Although defaults remain low and the growth outlook has moderated, financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly high-grade credit.

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/—							
Commodities	—				■			
Property	—				■			
Infrastructure	—					■		
Liquid Alternatives	—			■				
Private Equity	▲							■
Specialist Financial	—						■	

Commodity prices are likely to remain idiosyncratic supply and demand driven stories with price moves exacerbated by geopolitical risk which has taken gold to new highs. Alternatives continue to offer diversification benefits but compete today with higher yielding cash and bonds. Increasing discounts in NAVs in private equity appear overly pessimistic, and we upgrade our view. Infrastructure and specialist financials remain attractive. Our liquid alternatives continue to offer attractive diversification benefits during periods of market uncertainty, but the bar has been raised for the performance after the great rate reset.

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/—							
GBP	—					■		
EUR	—				■			
JPY	—					■		
Gold	—			■				

Against long term valuation metrics, Sterling and Yen remain cheap relative to the Dollar. The Bank of Japan's continuing policy of yield curve control, in the face of other central bank policy hikes, has crushed the Yen in recent years. The higher for longer narrative in the US has buoyed the dollar which looks somewhat expensive as rates look set to fall later this year, but its safe haven status at a time of heightened geopolitical risk assures a diversification premium. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive versus real rates today.

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

"the most compelling markets remain the UK and Japan which trade at a discount to global peers and offer healthy dividends"

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