

Belvest

momentum
global investment management

GLOBAL MATTERS

MONTHLY VIEWPOINT

VOL #213|AUGUST2024

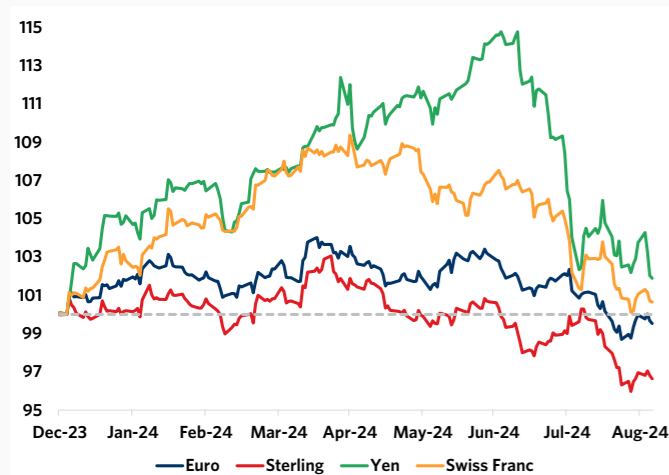


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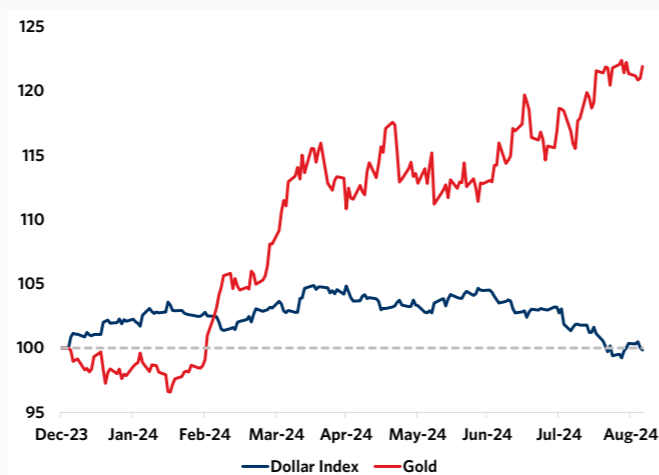
Global market review & outlook

By the end of August, the big correction in markets in late July/early August seemed a distant memory, with markets quickly regaining most of the ground lost in that sudden and very brief risk-off event. Most asset classes and markets ended August in positive territory, with the MSCI World index of developed market equities +2.6%, MSCI Emerging Markets +1.6%, and global government bonds +2.4%, all in USD terms. Returns were boosted by weakness in the US dollar, which fell by 2.1% against the euro and GBP, 2.6% versus the yen, and 2.7% on a trade weighted basis (taking its fall since the end of June to 4.7%, wiping out its earlier gains in 2024). Gold continued to perform well, benefitting from dollar weakness, protecting capital during the brief market sell-off, then participating fully in the subsequent recovery. Gold's rise of 2.3% in August took its gain year-to-date to 21.3%, making it the best performing major asset class.

US dollar performance against select currencies (1\$:LC - indexed to 1 Jan 2024)



US dollar trade weighted index & gold (indexed to 1 Jan 2024)



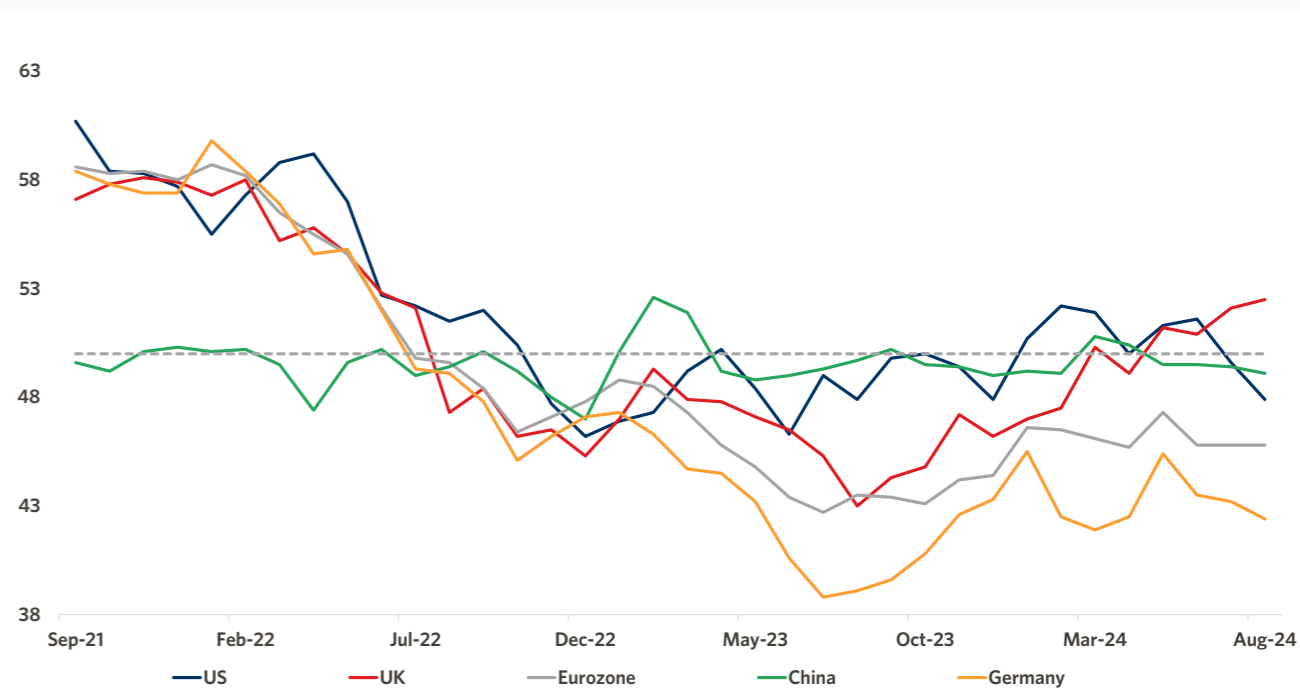
Source: Bloomberg Finance L.P. as at 5 September 2024.

The key concerns that triggered the sudden falls in markets early in the month proved to be mis-placed, or short-lived. Fears of slower growth in the US economy, particularly a weaker labour market following data showing much slower job creation, were eased as subsequent data releases showed ongoing resilience in the economy. The dramatic unwinding of the yen carry trade, triggered by the Bank of Japan's (BoJ) rise in interest rates and hawkish tone in late July, was stabilised as the BoJ provided assurance that it would refrain from interest rate rises when markets are unstable, and fears of collateral damage as leveraged positions were rapidly unwound proved unfounded. Markets quickly returned to more normal conditions as investors focussed on the prospect of the Fed's rate cutting cycle ahead.

At its August monetary policy meeting, the Fed kept rates on hold but clearly signalled a cut in September, placing more emphasis on increased risks to its maximum employment goal, a dovish shift that was emphasised at Chair Powell's annual Jackson Hole speech, when he said that the Fed does not 'seek or welcome further cooling in labour market conditions' and that 'the time has come for policy to adjust - the direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data'. The only questions on investors' minds are whether the first cut in September will be 25bps or 50bps, and what the subsequent pace of cuts will be, with markets pricing in 100bps of cuts by year end, and a further 100bps by mid-2025.

With inflation falling steadily towards policy targets across the developed world, most central banks have already begun the process of easing policy, the exceptions being the BoJ, which is very gradually normalising policy by raising rates, and the Fed, now on the cusp of cutting rates. Despite the long period of high rates and tight policy, financing conditions and credit spreads have remained relatively benign, raising the prospect of the much-sought soft landing for economies. The main concerns are of a softer labour market and weakness in the manufacturing sector, now facing recessionary conditions globally; leading indicators have weakened in recent months in most key economies, notably so in China, which remains mired in structural problems, with weakening growth momentum, and in Germany, the manufacturing hub of the EU.

Global manufacturing in recessionary conditions
Manufacturing Purchasing Managers Indices - below 50 is contraction

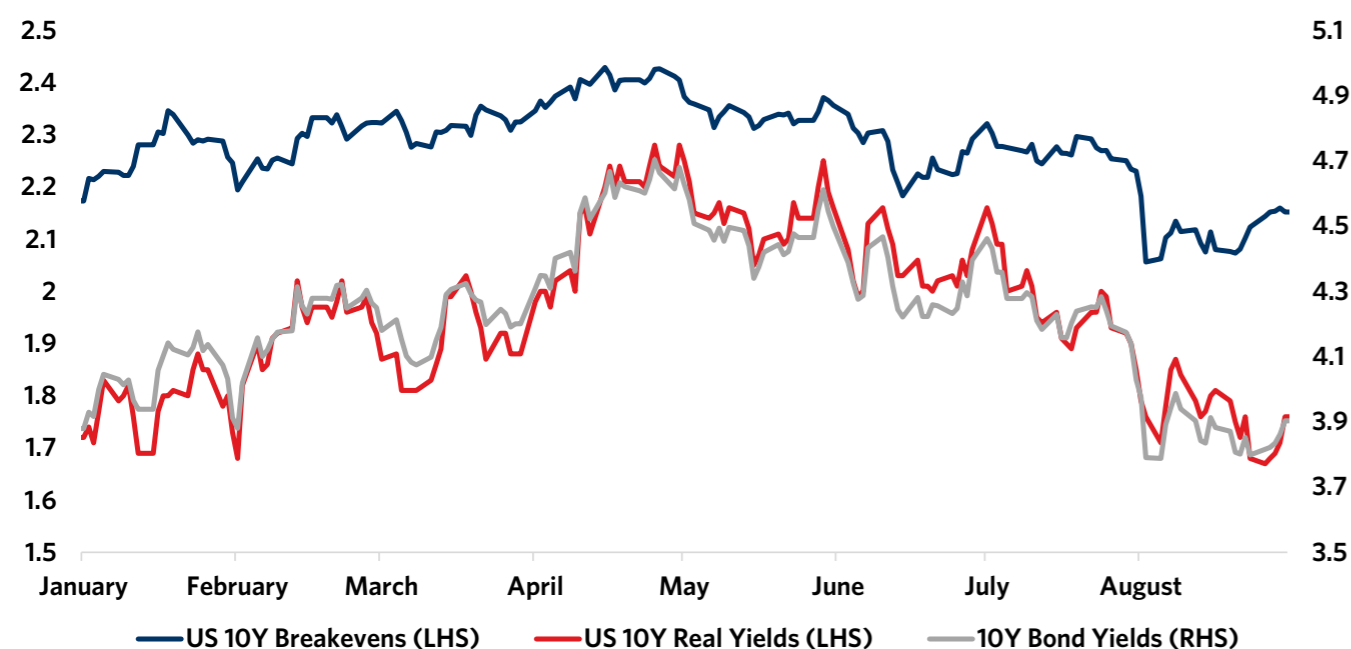


Source: Bloomberg Finance L.P. as at 31 August 2024.

"The only questions on investors' minds are whether the first cut in September will be 25bps or 50bps and the subsequent pace of cuts"

These factors, along with the increased certainty of a series of rate cuts ahead by the Fed, have resulted in significant declines in bond yields, driven in part by a fall in inflation expectations but mostly by falling real yields. Since the end of June, 10-year inflation expectations in the US, as measured by break-even rates, have fallen by 14bps to 2.15%, while 10-year real rates have dropped by 35bps to 1.76%, taking the 10-year Treasury bond yield down to 3.9% by end August, 50bps lower than at the end of June. The falls in yields have been even sharper at shorter maturities as rate cuts come into view, and the yield curve, which has been inverted for over 2 years, the longest period on record, has steepened and moved close to a more normal curve where the duration risks of longer maturities are reflected in higher yields than shorter dated bonds.

US Treasury bonds: 10-Year yields, breakevens and real yields



Source: Bloomberg Finance L.P. as at 5 September 2024.

Falling bond yields have been a strong tailwind for multi-asset portfolios since April this year, after having suffered from the sharp rise in yields in the preceding couple of years. At the same time, there has been a significant rotation in recent weeks out of megacap tech stocks, mostly US based, into a broader spread of sectors. The Magnificent 7 US tech stocks, widely seen to be the prime beneficiaries to date of the AI boom, have seen considerable volatility, especially in Nvidia, and the Mag 7 index fell by 9% between mid-July and end August, a period when the S&P 500 index was flat. Some of this underperformance has been caused by increasing question marks around the sustainability of their high valuations, which leave little room for disappointments, along with concerns that their huge capital investments into AI-related infrastructure will pay little rewards for some time. Also, the near-monopoly position of some of these companies, especially Nvidia, is attracting the attention of regulators. Inevitably, the extraordinary outperformance of this elite group of stocks could not be expected to go on indefinitely, and the broadening out of the market is a welcome shift for active managers, which have almost universally been underweighted in this area.

Geopolitics has been a persistent concern for investors over the past couple of years, and events in August did nothing to ease those concerns. With Biden dropping out of the US Presidential race, the outcome has been thrown into doubt. Trump seemed set on a near-certain win, but the early success of Kamala Harris on the campaign trail has left the outcome wide open. However, investors have a reasonable idea of what a Harris Presidency might mean, essentially more of Biden, while another Trump Presidency is considerably more predictable than his first term, when he, his team, and his policies were either in constant flux or largely unknown quantities. One near-certainty seems to be that, whoever becomes President, the huge fiscal deficit in the US will not be reined in, something that is likely to become of increasing concern in the years ahead.

Events in the Russia-Ukraine war and the conflict in the Middle East during August raised fears of wider escalations, although to date there has been no material impact on energy prices. The oil price fell by 2.4% in August, worries about weak demand especially from China outweighing supply worries.

The unpredictability of geopolitics aside, the key issue for investors remains the US economy and Fed monetary policy. The economy is slowing and softer than previously thought, but current conditions are not evidently recessionary. The labour market has weakened but unemployment is still low compared with previous cycles and wages are rising in real terms. Investment remains strong, inflation has fallen to levels which give the Fed ample room to cut rates, and the recent softening of the economy will only accelerate that programme.

The rate cutting cycle is underway in Europe and will begin in the US in September, where rates are likely to be at least 150bps lower by mid-2025. Bond yields have reflected some of these expectations, but real yields still offer value, and this is not an environment which is bad for risk assets. We recognise the risk of policy error and the possibility of the economy weakening further, but the Fed has considerable room to ease and given its dual mandate which prioritises both inflation control and maximum employment, it will no doubt use its full armoury if necessary. We therefore remain broadly constructive about markets, and, as in early August, we intend to use periods of weakness to add to risk assets in our portfolios.

"the key issue for investors remains the US economy and Fed monetary policy"



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

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	2.4%	7.3%	19.2%	26.6%
United Kingdom	MSCI UK NR	GBP	1.1%	2.6%	12.0%	17.7%
Continental Europe	MSCI Europe ex UK NR	EUR	1.8%	1.2%	11.3%	16.9%
Japan	Topix TR	JPY	-2.9%	-2.0%	16.0%	19.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	2.3%	6.5%	11.2%	16.7%
Global	MSCI World NR	USD	2.6%	6.6%	16.7%	24.4%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-2.3%	-2.0%	12.9%	20.1%
Emerging Asia	MSCI EM Asia NR	USD	1.6%	6.4%	12.5%	17.0%
Emerging Latin America	MSCI EM Latin America NR	USD	2.6%	-2.7%	-12.6%	0.4%
China	MSCI EM China NR	USD	1.5%	3.8%	9.0%	11.1%
BRICs	MSCI BRIC NR	USD	1.0%	-2.2%	4.4%	-2.8%
Global emerging markets	MSCI Emerging Markets NR	USD	1.6%	5.9%	9.5%	15.1%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	1.3%	4.4%	2.6%	6.0%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	0.8%	3.4%	3.3%	6.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.6%	4.7%	3.5%	9.3%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.6%	4.6%	6.3%	12.5%
UK Gilts	JP Morgan UK Government Bond TR	GBP	0.5%	3.6%	-0.4%	6.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.3%	2.8%	1.8%	9.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.4%	2.9%	0.7%	5.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.3%	2.7%	2.6%	7.3%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	1.2%	2.7%	5.3%	11.5%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	1.2%	1.4%	-2.1%	-2.0%
Australian Government	JP Morgan Australia GBI TR	AUD	1.2%	3.5%	2.7%	4.9%
Global Government Bonds	JP Morgan Global GBI	USD	2.4%	5.5%	0.7%	5.2%
Global Bonds	ICE BofAML Global Broad Market	USD	2.3%	5.4%	1.8%	6.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	1.6%	3.5%	5.3%	9.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	2.7%	5.3%	7.3%	14.2%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	6.4%	16.0%	12.1%	20.5%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	0.1%	5.9%	15.5%	21.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	6.3%	7.9%	-0.5%	3.2%
Global Property Securities	S&P Global Property USD TR	USD	5.7%	12.5%	9.4%	18.5%
Currencies						
Euro		USD	2.1%	1.8%	0.1%	1.9%
UK Pound Sterling		USD	2.1%	3.0%	3.1%	3.6%
Japanese Yen		USD	2.6%	7.6%	-3.5%	-0.4%
Australian Dollar		USD	3.4%	1.7%	-0.7%	4.3%
South African Rand		USD	2.2%	5.5%	3.0%	5.9%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.2%	-5.3%	2.9%	-2.4%
Agricultural Commodities	RICI Agriculture TR	USD	2.3%	-6.9%	-0.3%	-3.5%
Oil	Brent Crude Oil	USD	-2.4%	-3.5%	2.3%	-9.3%
Gold	Gold Spot	USD	2.3%	7.6%	21.3%	29.0%
Interest Rates						
						Current Rate
United States						5.50%
United Kingdom						5.00%
Eurozone						4.25%
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.

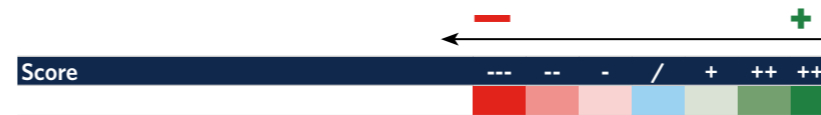
Market performance - UK (all returns GBP) as at 30 August 2024

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	1.1%	2.6%	12.0%	17.7%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.3%	2.6%	13.2%	18.6%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-0.9%	1.1%	1.4%	8.5%
UK - Small Cap	MSCI Small Cap NR	GBP	-0.9%	2.8%	10.3%	18.3%
United States	S&P 500 NR	USD	0.2%	4.1%	16.0%	22.2%
Continental Europe	MSCI Europe ex UK NR	EUR	1.8%	0.1%	8.1%	15.0%
Japan	Topix TR	JPY	-2.2%	2.2%	8.7%	14.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.1%	3.3%	8.2%	12.6%
Global developed markets	MSCI World NR	USD	0.4%	3.4%	13.6%	20.1%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.6%	2.8%	6.6%	11.1%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.5%	3.8%	-0.6%	6.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.4%	2.0%	1.9%	5.7%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.4%	3.7%	-0.2%	7.8%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	0.8%	5.3%	-3.1%	6.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-0.2%	2.0%	-2.7%	2.8%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-0.2%	1.5%	-0.6%	4.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-0.3%	2.6%	-5.4%	0.4%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.3%	2.8%	1.8%	9.5%
US Treasuries	JP Morgan US Government Bond TR	USD	-1.0%	1.2%	-0.4%	2.2%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.7%	1.4%	0.4%	5.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.6%	4.6%	6.3%	12.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.4%	2.9%	0.7%	5.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.3%	2.7%	2.6%	7.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.2%	2.7%	5.3%	11.5%
Global Government Bonds	JP Morgan Global GBI	GBP	0.2%	2.4%	-2.0%	1.5%
Global Bonds	ICE BofAML Global Broad Market	GBP	2.3%	5.4%	1.8%	6.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	1.6%	3.5%	5.3%	9.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.5%	2.2%	4.4%	10.2%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	3.4%	9.1%	6.4%	14.4%
Currencies						
Euro		GBP	-0.1%	-1.2%	-2.9%	-1.6%
US Dollar		GBP	-2.1%	-2.9%	-3.0%	-3.4%
Japanese Yen		GBP	0.5%	4.4%	-6.4%	-3.9%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	-2.3%	-8.1%	0.1%	-5.8%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	0.1%	-9.6%	-3.0%	-6.9%
Oil	Brent Crude Oil	GBP	-4.5%	-6.3%	-0.5%	-12.4%
Gold	Gold Spot	GBP	0.1%	4.4%	18.1%	24.5%
Interest Rates						
						Current Rate
United Kingdom						5.00%

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

Asset allocation views



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

Overall View

We remain somewhat cautious on equity risk overall, mindful of the dominance of the US in the global equity context, and of the concentration within the US market. Our fixed income view remains largely constructive, more so in sovereign bonds which still offer attractive nominal and real yields, but we recognize risk premia on corporate credit are thin today. Alternative assets including gold remain a good diversifier of returns, proving useful as market volatility has increased. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in medium term rates by extending duration.

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

UK equities remain the highest conviction valuation call with the UK remaining the cheapest developed market. The attractive earnings yields continue to draw in private and overseas buyers, and with the recent election behind us, sentiment finally appears more constructive. Japan remains attractive both on improving fundamentals and in valuation terms - more so after recent volatility saw prices correct sharply. The lack of breadth in US equities has started to play out through a sector and size rotation which should increasingly favour an active approach to stock selection. European equities have optically quite attractive valuations but mask some fundamental regional challenges. Emerging market equities remain cheap as China, the dominant index constituent, battles domestic growth concerns.

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

Global treasury yields still look attractive today, despite recent tightening, and we maintain our overweight government view. Inflation linked bonds offer reasonable real yields but are not particularly 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, the growth outlook has moderated, and financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly higher quality credit.

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/—							
Global Listed Property	—							
Global Infrastructure	—							
Specialist Financial	—							
Liquid Alternatives	—							
Gold	—							

Alternatives continue to offer diversification benefits but compete today with higher yielding cash and quality sovereign bonds. Increasing discounts in NAVs in listed private equity appear overly pessimistic, and we upgrade our view to take advantage. 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 from this sector after the resetting higher of global rates in recent years. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive as a non interest bearing asset today.

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

Against long term valuation metrics, the Yen remains cheap relative to the Dollar. The Bank of Japan's policy of yield curve control crushed the Yen in recent years, but their recent shift to a hiking bias has seen a rapid reappraisal as carry trades unwind. This should have further to run. The higher for longer narrative in the US has buoyed the dollar, but as rates look set to fall later this year its dominance may wane. Its safe haven status at a time of heightened geopolitical risk does however assure it a diversification premium.

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

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