Q1 Market Commentary 2024

Quarter in review:

What happened in 2023?

Over the year, 2023 provided investors with changing market conditions as the global economy evolved. The year started with optimism that central banks globally would get inflation under control without causing too much of an economic slowdown.

Inflation did not fall as quickly as many had hoped during the first half of the year, which led to central banks increasing interest rates higher than predicted, providing a headwind for asset prices and returns. The collapse of Credit Suisse in Europe and Silicon Valley Bank in the US, alongside some smaller regional US banks, increased volatility in what were already challenging market conditions.

The political uncertainty with the on-going war in Ukraine, as well as the conflict that has erupted in the Middle East, has added further volatility and caused many investors to become focused on the short term and the next risk event that could impact markets.

As we moved into the final months of the year, markets began to provide investors with a more positive footing for 2024 as inflation figures started moving lower, towards central bank targets.

This provided the markets with some optimism that 2024 may bring interest rate cuts to many economies, which led to assets rallying and providing investors with positive returns.

What about 2024 and how have we positioned our portfolios for what is predicted?

2024 should provide investors with positive opportunities but with continued volatility as we move into a lower interest rate environment.

Opportunities in equities:

We believe the backdrop for equities will improve but risks will not fully dissipate. We continue to be selective in where we invest on a geographic, size and style basis. Active selection is key as new opportunities will arise with changing markets. We are favouring funds that are focusing on quality businesses with manageable debt levels, high barriers to entry and solid growth opportunities which should outperform over time.

The equity allocation we have been implementing across our portfolios has been positioned for this new economic backdrop. We invest in areas that we believe are currently undervalued including the UK, Europe, and Emerging Markets. We also continue to be selective from a size perspective and will be utilising the opportunities in smaller companies globally as valuations become even more appealing.

Finally, from a style perspective, we will continue to invest within growth and value. For 2024 we will maintain a tilt towards value biased equities as many of the valuations in these areas are currently more favourable.

Opportunities in fixed income:

For the first time in several years, fixed income is providing investors with both the opportunity for positive capital return and positive real yields that are above inflation.

Due to the reduction in inflation over the past few quarters, central banks are now pricing in future interest rate cuts which should provide a better backdrop for fixed income, especially for longer duration assets.

Longer duration fixed income had underperformed as interest rates rose; however we expect the opposite to occur as interest rates are cut. In anticipation of this, in Q4 we increased the average duration of our fixed interest exposure across our portfolio range. We also added in exposure to government debt as we expect this area of fixed income to provide positive real yields and capital growth as underlying prices continue to move higher over time.

We think our other fixed income holdings could also provide positive returns for investors as yields are now far higher than they have been for several years. For higher quality businesses where refinancing is not an issue, the outlook is far more positive than it has been over the past few years, and we expect these types of credit to outperform over time.

We will continue to monitor both inflation and interest rates and anticipate that more action may be undertaken within our fixed interest exposure over the coming months.

Opportunities for Alternatives:

Within alternatives, we believe the assets that should provide the best opportunities will have low correlation to equities & bonds and their own sources of alpha. We continue to utilise infrastructure, gold and defined returns assets within our portfolios for these reasons.

Infrastructure spending is predicted to increase substantially as governments move to greener energy-based initiatives and upgrades to basic infrastructure continues to drive productivity for the future. The long-term benefits have been present for several years already, however we still believe these are relevant for the asset class.

Gold continues to provide a ballast to portfolios due to its low correlation to other assets. As gold does not provide an income or yield, falling interest rates will benefit the price of the metal, as will a softer US dollar. As both are predicted to occur over the coming years, we think the positive performance for gold should endure.

Defined return funds provide similar benefits within our portfolios as our other alternative holdings. The defined return funds we utilise have a low correlation to both equity and bond markets. They also provide a known return to investors if certain parameters are met. Within this return profile there is downside protection built into the funds we hold, meaning that positive returns can still be made over time even if markets are flat or have moved lower within certain limits. We think this is extremely beneficial to investors, as positive returns can be made in a multitude of market scenarios.

In Conclusion:

Due to the positive changes to the macroeconomic backdrop, the opportunity for investors across asset classes is far more positive than has been the case over the past few years. Risks remain and volatility will likely continue to be higher as we move through a year where central banks will look to engineer a soft landing and a large percentage of the world population will go to the polls for elections. Even with these risks being present however, we believe that applying an active asset allocation with diversified exposure should continue to produce positive returns for investors over the long term.

MAIA Asset Management,
April Barns, Redditch Road,
Ullenhall, Warwickshire,
B95 5NY

T. 01564 796870
E. info@maia-am.co.uk

www.maia-am.co.uk

T. 01564 796870 E. info@maia-am.co.uk www.maia-am.co.uk