

# CHETWOOD

INVESTMENT MANAGEMENT

## **INDEX PORTFOLIOS**

QUARTER 3 2024 REPORT



## Quarter Insights

- Most investment asset classes enjoyed positive returns over the quarter, despite several bouts of market volatility.
- US equities posted strong second-quarter earnings, with good results expanding beyond large tech stocks, signalling healthier market environment.
- A surprise rate hike from the Bank of Japan led to the largest single-day drop in Japanese equities since 1987.
- On the other side of the world, The US Federal Reserve started its long-awaited rate-cutting cycle, reducing rates by 0.5%. The Bank of England also cut rates for the first time in four years.
- While inflation cooled, the focus shifted to slowing economic growth, with a weaker July US jobs report.
- The Israel-Hezbollah conflict escalated, adding to geopolitical risks, but markets absorbed the volatility relatively well.
- As the quarter closed, China announced a new stimulus package to encourage growth, leading to a positive response from Chinese equities.

## Market Review

The third quarter of 2024 was, on the whole, a constructive period for the markets, though it wasn't without its bumps. Volatility picked up toward the end of July, triggered by a surprise rate hike from the Bank of Japan. This move, combined with softer economic data from the US called into question the strength of the US economy. The triggering of the Sahn Rule, a common indicator of recession risk, didn't help the mood.

Yet, amid the uncertainty, bonds reminded us of their historical role as a refuge. The yield on the 10-year US Treasury, which started the quarter near 4.5%, fell to 3.8% by early August, reflecting renewed demand. This fall in yield meant prices have risen. For much of the past two years, as inflation dominated market concerns both asset classes moved together.

*But with inflation starting to ease bonds have started to increase in price during periods of equity market stress.*

In tandem, "bond proxy" sectors like utilities and real estate, which offer steady earnings, also saw strong performance.

On the interest rate policy front, the US Federal Reserve held off on raising interest rates during its July meeting. Critics began to argue that the Fed might be behind the curve on cutting rates, much as it was accused of being late to address inflation in 2022. By contrast, the Bank of England took a more proactive stance, cutting rates by 25 basis points in August, marking its first rate cut in over four years.

By September, with inflation nearing the Fed's 2% target, the central bank took action and cut rates by 50 basis points (0.5%), bringing the federal funds rate down to 4.75%. Signs of a cooling labour market likely influenced this pre-emptive move to avoid more serious disruptions.

Meanwhile, equities posted broad gains, supported by robust earnings reports, especially in cyclical sectors and smaller companies. China's announcement of a 3% GDP stimulus package added further support, though concerns linger about its structural issues. Still, markets remain focused on the near term, with stimulus measures sparking a significant surge in Chinese equities.

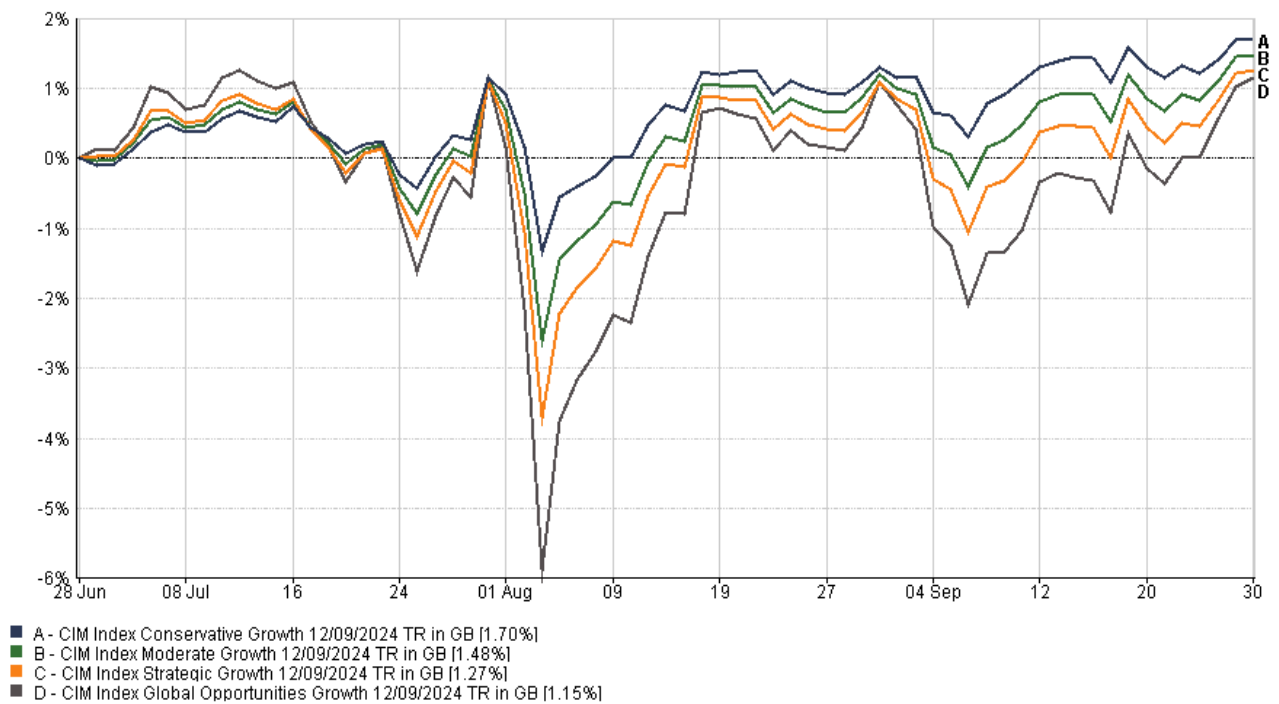
## Portfolios performance

Portfolio / Comparator	3 months
CIM Index Conservative Growth Portfolio	1.70%
ARC Sterling Cautious PCI	1.91%
CIM Index Moderate Growth Portfolio	1.48%
ARC Sterling Balanced Asset PCI	1.81%
CIM Index Strategic Growth Portfolio	1.27%
ARC Sterling Steady Growth PCI	1.81%
CIM Index Global Growth Opportunities Portfolio	1.15%
ARC Sterling Equity Risk PCI	1.71%

Index Returns <sup>1</sup>	3 months
UK Equities	1.75%
UK Government Bonds (Gilts)	2.36%
All Country World Equities	0.49%
Pacific Equities (ex Japan)	7.66%
Emerging Market Equities	1.98%
US Equities	-0.28%
UK Headline Inflation	0.30%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

## Performance graph



28/06/2024 - 30/09/2024 Data from FE fundinfo2024

## Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
iShares Global Corp Bond ETF	4.78% ▲
Amundi Index Global Agg Bond Hedged ETF	3.93% ▲
iShares Global High Yield Corp Bond Hedged ETF	3.88% ▲

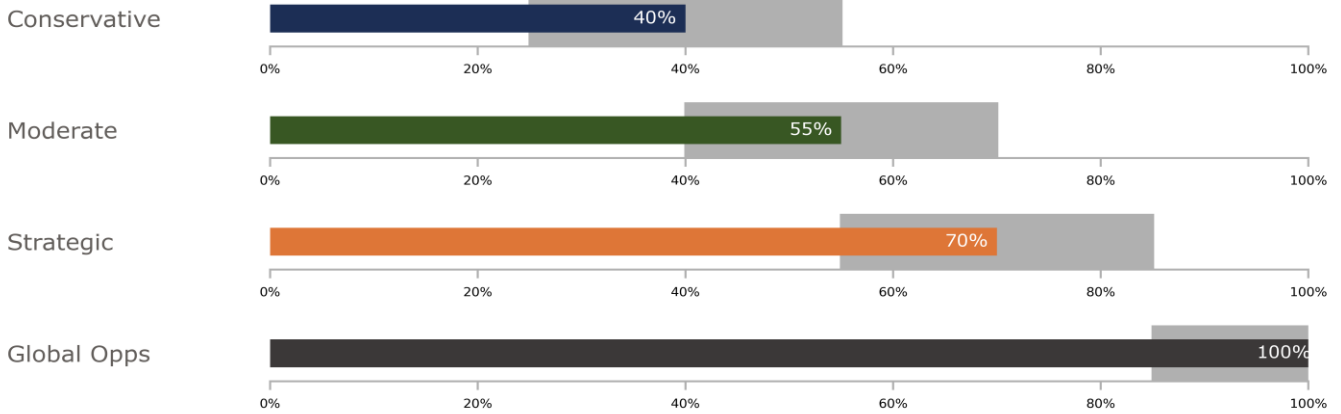
Bottom 3 Model Funds	3 months
Amundi Prime Global ETF	0.16% ▼
Vanguard S&P 500 ETF	-0.28% ▼
Lyxor Core US TIPS ETF	-1.84% ▼

Source FE Analytics to 30<sup>th</sup> September 2024

Key fund	Commentary
Amundi Index Global Aggregate Bond Hedged ETF	This fund tracks a broad index of investment-grade bonds from around the world, predominantly issued by governments and corporations. The performance of global bonds was helped by expectations of interest rate cuts. We intentionally hold a share class of the fund that hedges out the foreign exchange risk, meaning performance was not impacted by the relative strength of Sterling over the quarter.
Lyxor Core UK Equity All Cap ETF	This fund provides broad exposure to UK equities. It produced a solid performance over the quarter. The UK market remains relatively modestly priced compared to the rest of the world, and there are signs that this value is starting to get realised through Merger & Acquisition activity, with offer prices significantly above the prevailing market price of the target company. Value is also being returned to shareholders via a relatively high dividend yield and share buybacks.
HSBC MSCI Emerging Markets ETF	The fund rallied strongly towards the end of September after Chinese policymakers announced a coordinated raft of new stimulus measures designed to support their economy, which includes help for the property and stock market. This fund has significant exposure to Asian markets, which were positively impacted given China's importance in the region.
Amundi Prime Japan ETF	The Japanese stock market fell in early August following a surprise interest rate hike from the Bank of Japan, which sent the Japanese Yen sharply higher. A more reassuring tone from BoJ officials later helped Japanese stocks to pare losses. When translated to Sterling, the fund managed a gain of 2.4%.

## Asset class review

### Equity Exposure



### Conservative

#### Ten largest fund holdings (%)

Lyxor Core US TIPS (DR) UCITS ETF	14.0%
Lyxor Core FTSE Actuaries UK Gilts 0-5Y	12.8%
Amundi Index Global Agg Hedged ETF	11.2%
iShares Global Corp Bond UCITS ETF	10.2%
iShares Glb HY Corp Bond Hdged	9.8%
Lyxor Core UK Equity All Cap ETF	8.1%
Vanguard S&P 500 UCITS ETF	7.4%
Amundi IS Prime Japan ETF	6.8%
Amundi Prime Global ETF	6.6%
HSBC European Index	5.6%
Assets in top ten holdings	92.5%

#### Ten largest asset class exposures (%)

Government Bonds	20.6%
Index-Linked Bonds	14.0%
Corporate Bonds	13.6%
North American Equities	12.1%
High Yield Bonds	9.8%
UK Equities	8.4%
Japan Equities	7.3%
European Equities	6.6%
Asia Pacific ex Japan Equities	4.2%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

### Moderate

#### Ten largest fund holdings (%)

Lyxor Core US TIPS (DR) UCITS ETF	12.0%
Lyxor Core UK Equity All Cap ETF	11.3%
Vanguard S&P 500 UCITS ETF	10.4%
Amundi IS Prime Japan ETF	9.6%
Amundi Prime Global ETF	9.2%
iShares Global Corp Bond UCITS ETF	8.2%
HSBC European Index	7.9%
iShares Glb HY Corp Bond Hdged	7.8%
HSBC MSCI Emerging Markets ETF	7.7%
Lyxor Core FTSE Actuaries UK Gilts 0-5Y	7.5%
Assets in top ten holdings	91.6%

#### Ten largest asset class exposures (%)

North American Equities	16.9%
Government Bonds	12.0%
Index-Linked Bonds	12.0%
UK Equities	11.7%
Japan Equities	10.2%
Corporate Bonds	10.1%
European Equities	9.2%
High Yield Bonds	7.8%
Asia Pacific ex Japan Equities	5.9%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

## Asset class review

### Strategic

#### Ten largest fund holdings (%)

Lyxor Core UK Equity All Cap ETF	14.1%
Vanguard S&P 500 UCITS ETF	13.0%
Amundi IS Prime Japan ETF	11.9%
Amundi Prime Global ETF	11.5%
Lyxor Core US TIPS (DR) UCITS ETF	10.0%
HSBC European Index	9.8%
HSBC MSCI Emerging Markets ETF	9.6%
iShares Global Corp Bond UCITS ETF	5.1%
iShares Glb HY Corp Bond Hdged	4.9%
Lyxor Core FTSE Actuaries UK Gilts 0-5Y	4.3%
Assets in top ten holdings	94.2%

#### Ten largest asset class exposures (%)

North American Equities	21.2%
UK Equities	14.7%
Japan Equities	12.7%
European Equities	11.5%
Index-Linked Bonds	10.0%
Asia Pacific ex Japan Equities	7.4%
Government Bonds	6.9%
Corporate Bonds	6.2%
High Yield Bonds	4.9%
Emerging Market Equities	2.5%

Cash includes cash held in underlying funds plus GBP held in model.

### Global Opps

#### Ten largest fund holdings (%)

Lyxor Core UK Equity All Cap ETF	19.7%
Vanguard S&P 500 UCITS ETF	18.2%
Amundi IS Prime Japan ETF	16.7%
Amundi Prime Global ETF	16.1%
HSBC European Index	13.8%
HSBC MSCI Emerging Markets ETF	13.5%
Assets in top ten holdings	98.0%

#### Ten largest asset class exposures (%)

North American Equities	29.7%
UK Equities	20.5%
Japan Equities	17.8%
European Equities	16.2%
Asia Pacific ex Japan Equities	10.3%
Emerging Market Equities	3.5%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Asset Class	Portfolio Views
Fixed Interest	A shift in rate expectations lifted bonds in Q3, but markets may be overestimating the pace of cuts in a soft-landing scenario, potentially limiting near-term gains. We prefer UK government bonds, given their higher yields versus other developed markets. Emerging market local currency bonds also appeal, with opportunities from easing inflation and currency strength.
UK Equities	UK equities appear attractively valued and well-positioned to benefit from lower interest rates and increased political stability. The economic recovery is gaining momentum, with improving consumer and business confidence. Additionally, robust M&A activity, driven by these low valuations, should support market performance.
US Equity	US corporate earnings are strong, and economic growth is slowing but remains healthy, though volatility is likely, especially with November's election. Encouragingly, the long-anticipated "broadening out" of returns is taking shape, offering opportunities beyond the dominance of large-cap tech. We continue to emphasise diversification, as many tech stocks are priced with limited margin for safety.
Japan Equity	We maintain our positive view on Japanese equities. Japan is benefiting from steady growth and inflation nearing target levels, creating a supportive macro environment. Positive earnings revisions, alongside a rise in stock buybacks and dividends, signal increasing shareholder returns. Structural reforms in corporate governance continue to act as a tailwind supporting the long-term investment case.
Asia and Emerging Market Equity	Asian equities rallied late in September as new stimulus measures from Chinese policymakers boosted sentiment. Valuations across the region remain appealing, and earnings growth is expected to stay robust into 2025. With supportive policies and attractive fundamentals, we maintain our overweight position.
Alternatives	Alternatives provided valuable diversification when bonds and equities showed a positive correlation over the past year. However, with correlations now turning more negative and a growing range of opportunities within equities, we continue our underweight stance.

## Outlook

As we move into the final quarter of 2024, it's clear the market's concern over inflation is now fading into the background. The focus has shifted to the overall health of the economy. In our view, the most likely scenario remains a soft landing, an economy that's slowing but still continues to grow. Inflation is coming down, and while the unemployment rate has ticked up, we see this as more a reflection of an expanding labour force than a sign of trouble. In fact, we should see it as part of a normalisation process, rather than a reason for alarm.

*Even if the economy weakens more than anticipated, central banks are well-equipped to provide additional support. With interest rates relatively high, they have the flexibility to cut rates if needed.*

Looking at corporate earnings, reports covering the third quarter will be closely watched. Expectations have been tempered, but it is curious that while Q3 estimates have been revised lower, full-year 2025 estimates remain strong. We will likely hear more about this as we listen to management commentary during results season. We have also seen a notable broadening of market participation beyond the largest tech stocks particularly as the Fed eases and China's stimulus kicks in.

As ever, there are plenty of potential sources of volatility in the months ahead, from geopolitical tensions to Fed decisions and the US election. Overall, we think the positive momentum in economic data, lower interest rates and support from China should keep markets on solid footing, even in the face of potential headwinds. Our current analysis is that the fundamentals for growth remain solid.

## Thoughts for the quarter ahead...



- Investors will likely focus on signs of a weakening global economy, as this will be critical in determining whether major central banks proceed with anticipated rate cuts.
- If UK interest rates remain higher than those of other countries, we could see upward pressure on Sterling, which we are monitoring closely.
- We're paying particular attention to third-quarter earnings, watching for further signs of broadening earnings, which would support our current positioning.
- Historically, the fourth quarter tends to be strong for equity market returns. With policy easing on the horizon and solid earnings growth, the environment looks favourable for risk assets in our view.
- The upcoming US Presidential election in November may trigger market volatility, which we will aim to capitalise on. A split Congress is typically seen as beneficial for US equities.
- The Labour Budget, set for October 30th, could have a notable impact on UK markets, and we are closely following this development.

### Important information

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**Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.**

<sup>1</sup> For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative index	ETF Name
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	ISHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF