ROYAL LONDON
ASSET MANAGEMENT

Markets round off a strong year

2023 Q4 review by Jake Winterton, Multi Asset Analyst

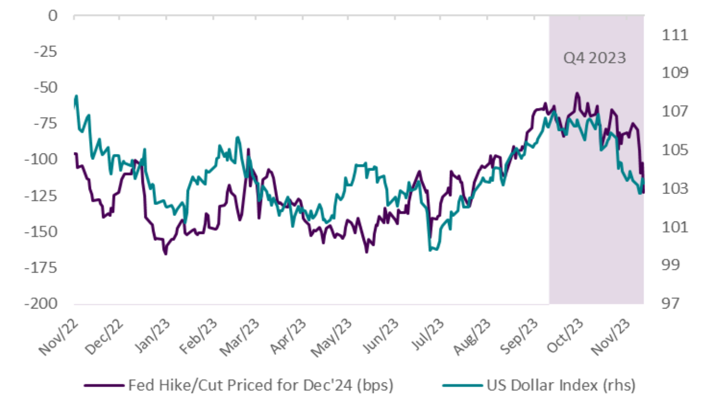
Equity markets ended the year with another positive quarter to end the year up over 16%. Equities and bonds sold off at the start of October on concerns around interest rates staying higher for longer. However, they both rallied sharply from late October into the year-end as investors moved to expect more aggressive rate cuts next year on the back of lower inflation data. This late rally helped move bonds into positive return territory over the year, following two years of negative returns (Table 1).

The tone from central banks over the majority of the year was certainly more on the hawkish side, which pushed bond yields higher, with 10-year US treasury yields even reaching 5% in October, their highest levels since 2007. However, as the year came to an end more dovish commentary from central banks and lower-than-expected inflation data saw markets sharply move to price rate cuts into 2024. Lower rate expectations also saw the US dollar end the year on weaker footing (Chart 1). The market rally in Q4 was led by technology stocks. Growth shares outperformed over most of the year, as excitement around the usage of AI filtered through equity markets (Chart 2). The 'Magnificent Seven' group of growth stocks ended the year up over 100%.

On a tactical level, we held a positive view on stocks for most of the year, viewing the underlying resilience of the global economy as supportive for the asset class. We also benefitted from positive positions in growth stocks at the sector level and Japanese equities at the regional level, which were helped by a weaker yen and improved governance to be the best performing equity region we monitor.

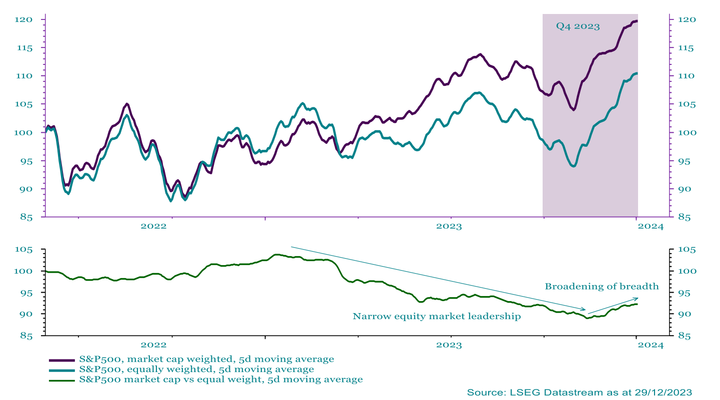
Please see the Investment Clock Insights blog on www.rlam.com for our latest views.

Chart 1: USD fell as expectations grew for Fed rate cuts



Source: Refinitiv Datastream as at 29/12/2023.

Chart 2: Equity market breadth broadened in recent rally



Source: Refinitiv Datastream as at 29/12/2023.

Table 1: Sterling-based annual returns from major asset classes 2016 – Q4 2023

Year	2016	2017	2018	2019	2020	2021	2022	2023
1	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%
2	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +7.9%
3	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	**Multi Asset +6.9%**
4	UK Stocks +16.8%	Property +11.2%	**Multi Asset -1.6%**	**Multi Asset +10.0%**	**Multi Asset +4.9%**	UK Stocks +18.3%	EM Stocks -6.4%	Cash +4.4%
5	**Multi Asset +14.1%**	**Multi Asset +6.3%**	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	**Multi Asset +8.3%**	**Multi Asset -7.3%**	Gilts +3.7%
6	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%
7	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property +0.3%
8	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at December 2023; property as at November 2023. 'Multi Asset' returns are based a mixture of 8.12% UK equities, 21.13% in global equities, 3.25% in EM equities, 7.5% in property, 5% in commodities, 5% in global high yield, 6.25% in UK IG credit, 2.5% in global IG credit, 10% in UK SD IG credit, 2.5% in UK linkers, 1.5% in UK SD linkers, 3.5% in global SD linkers, 6.75% in gilts, 2% in overseas government bonds, 5% in SD gilts and 10% in cash. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: Broad-based year-end rally amid hopes of 2024 rate cuts

- Global equities finished off the year on a strong footing, as downside data surprises and a more dovish tone from central bankers gave markets hope for policy to loosen quicker than investors had previously anticipated.
- US stocks outperformed against this backdrop, given their relatively high sensitivity to interest rates. Japanese stocks lagged over the quarter but still ended the year as the best performing region in local currency terms.
- Bond yields fell sharply on hopes of more aggressive 2024 rate cuts; UK 10-year gilt yield was 90bps lower over the quarter. Elsewhere, November saw US bonds record their best month since 1985.
- Commodity prices fell on aggregate. The energy complex led losses, as Brent fell below $80 a barrel on fears of weaker demand. Precious metals smoothed the pain for commodities though, as gold made all-time highs.
- In FX, US dollar suffered steep losses while the Japanese yen strengthened as BoJ hinted of an end to the YCC framework.

FX	1 GBP buys	%chg Q4 (vs GBP)	%chg 2023
USD	1.27	-4.2	-5.1
EUR	1.15	0.0	-2.1
CHF	1.07	4.2	4.4
JPY	179.6	1.5	-11.7
AUD	1.87	1.5	-5.1
CAD	1.69	-1.8	-2.8

CB rates	Rate (%)	chg in Q4 (%)	chg 2023 (%)
Fed	5.50	0.00	1.00
BoE	5.25	0.00	1.75
ECB	4.00	0.00	2.00
BoJ	-0.04	0.02	-0.02

Bond Yield	Yield (%)	chg in Q4 (bps)	chg 2023 (bps)
US 10 Year	3.88	-69	0
UK 10 Year	3.54	-90	-14
EU 10 Year	2.02	-82	-55
JP 10 Year	0.62	-13	20

	Local Currency		GBP	
Multi Asset	Q4	2023	Q4	2023
UK Stocks	3.2	7.9	3.2	7.9
Global ex UK Stocks	9.6	22.7	6.5	16.0
Gilts	8.1	3.7	8.1	3.7
UK Cash	1.3	4.4	1.3	4.4
UK Property	-0.7	0.3	-0.7	0.3
Commodities	-4.6	-7.9	-8.7	-13.1

	Local Currency		GBP	
Equity Regions	Q4	2023	Q4	2023
UK	3.2	7.9	3.2	7.9
North America	11.8	26.5	7.1	19.4
Europe ex UK	7.7	18.5	7.6	15.7
Japan	1.9	28.3	3.3	13.3
Pacific ex Japan	8.2	14.9	8.5	8.3
Emerging Markets	5.0	9.0	2.1	2.9

	Local Currency		GBP	
Global Equity Sectors	Q4	2023	Q4	2023
Consumer Discretionary	8.3	29.5	5.2	22.2
Industrials	11.0	22.4	8.6	15.6
Financials	10.6	15.5	7.8	9.8
Consumer Staples	3.5	1.7	1.1	-2.7
Utilities	9.2	0.3	6.2	-4.4
Healthcare	4.4	3.1	1.5	-1.8
Energy	-4.2	4.6	-6.9	0.0
Materials	8.7	11.4	6.9	6.3
Communication Services	7.6	7.5	5.6	1.6
Technology	16.6	51.5	12.6	42.9

	Local Currency		GBP	
Bonds	Q4	2023	Q4	2023
Conventional Gilts	8.1	3.7	8.1	3.7
Index Linked Gilts	8.7	0.9	8.7	0.9
GBP Credit	7.3	8.6	7.3	8.6
Global High Yield	6.6	11.8	6.5	11.2

	Local Currency		GBP	
Commodities	Q4	2023	Q4	2023
Energy	-18.1	-21.6	-21.6	-26.1
Agriculture	-0.3	-4.4	-4.5	-9.8
Industrial Metals	0.2	-9.1	-4.1	-14.3
Precious Metals	10.4	9.6	5.7	3.5

Note: Standard indices sourced from DataStream and Bloomberg as at 29 December 2023; Property data as at 30 November 2023.

Jake Winterton is a multi asset analyst within Royal London Asset Management's multi asset team. The team manages portfolios including the Governed Range pension portfolios, the Global Multi Asset Portfolios (GMAPs), Multi Asset Strategies Fund (MAST) which is available on third party platforms and the euro based multi asset funds that form the core of the Royal London Irish pensions offering.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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