

Review & Outlook – 2023

Global equity markets recovered much of the losses of 2022 however a soft Q3 put a positive returning year in doubt for a few months. In the final weeks the sentiment of interest rates being higher for longer in the US and Europe eased along with the initial shock of renewed conflict in the Middle East and the focus on interest rate cuts returned as inflation data trended lower. Bond markets were volatile but followed a similar pattern to equities with the strongest returns coming from high yield and Emerging Markets.

- ▶ US stocks were led by the tech sector as AI became a primary theme. Specifically the biggest companies in the tech industry drove the market most of the year and became so dominant they were labelled the “magnificent seven” by most financial commentators. That said, in the final quarter the rally broadened with a third of the index reaching new 52 week highs. The Federal Reserve kept rates unchanged at 5.5% and have indicated three cuts for 2024 as inflation eased and growth expected to weaken, however market expectations for a mild recession whilst inflation melts away led to six cuts being priced into the market by year end.
- ▶ European markets were also driven higher on expectations for an easing in monetary policy. The ECB kept rates at 4.0% while the BOE held at 5.25% at year-end. Both are expected to cut rates by second half of 2024 while more aggressive calls being made for a March cut. The negative impact on energy prices due to the Russian / Ukraine conflict has eased however the conflict keeps us cautious with our outlooks.
- ▶ Asia Pacific equities were higher with the exception of China and Hong Kong. Japan led markets helped by a central bank that has bucked the trend of raising rates from their historic negative levels. There was optimism on China equities at the start of the year when the government ended Covid restrictions however slowing global growth hurt manufacturing and exports while a slowing property market and subsequent decline in prices raised default risk and hurt equity market returns.
- ▶ Emerging markets benefited from investor belief that developed market central banks were done in raising rates and that the first interest rate cuts would come mid 2024 with the most aggressive forecasts pointing to as early as March. Latin America was the strongest returning region while Taiwan and Korea also led Asian markets alongside Japan.
- ▶ Global bond markets followed a similar return pattern to equity returns over the year with a soft patch experienced during Q3 when developed market central banks were seemingly done raising rates but were promoting higher for longer rates. High yield, Emerging markets and investment grade sectors led bond returns as yields trended lower on expectations of interest rate cuts in 2024.

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► **HSBC World Selection portfolios**

The World Selection portfolios were all higher over the year led by equities and higher risk bonds. During the course of the year we gradually reduced our defensive positioning as inflation began to ease and it became evident developed market interest rates were near or at their peak. Within equities we maintained an overweight in Emerging markets, reduced our underweight in Europe and increased to overweight in Japan and UK. Within fixed income we maintained an overweight in Emerging Market local bonds, increased duration and by mid year went overweight government bonds while reducing our underweight in investment grade. Tight yield spreads discouraged us from an overweight position in credit. We eliminated Asia high yield which proved to be a disappointing allocation. Within alternatives we have generally maintained a neutral allocation. Going forward we expect inflation to continue to ease while growth is expected to weaken. We are currently more positive on the bond sector while being cautious in equities especially in the first half of 2024. Within alternatives we maintain a positive bias to gold and are underweight property.

Fund Performance: December, 2023

Portfolio	1 Year	3 Year	5 Year	10 Year
Managed Portfolio World Selection 1 IC	7.1%	-5.8%	9.4%	20.0%
Managed Portfolio World Selection 2 IC	9.0%	-3.0%	17.1%	28.8%
Managed Portfolio World Selection 3 IC	11.9%	2.7%	29.6%	42.8%
Managed Portfolio World Selection 4 IC	14.2%	7.5%	39.7%	55.1%
Managed Portfolio World Selection 5 IC	15.7%	9.9%	44.0%	84.4%
Specialist Fund Alternative Class AC (Nov)	5.4%	12.7%	31.7%	56.2%

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