12-Month Market & Fund Review

(as at December 31, 2023)

Fed Pivot Drives Markets Onwards

Latest Developments

- **Shift in Strategy:** The U.S. Federal Reserve's December meeting signaled a change in their policy stance. Not only did they refrain from increasing interest rates, but they suggested a far more relaxed monetary policy than the aggressive rate hikes of the past year. This change in attitude is known as the "Fed Pivot".
- **Global Market Returns:** Although rate cuts over the short term are not certain, global markets were buoyed greatly by the prospect of lower interest rates in 2024. Rate cuts result in lower borrowing costs for companies and consumers, potentially spurring economic growth and investment. For the year, the MSCI World Index rose by 22%, the S&P 500 by 26%, and the NASDAQ Composite surged by 45%, the latter boosted by interest in AI technologies.
- **Inflation Moderates:** U.S. consumer prices increased by 3.4% year-on-year as of December, a substantial decrease from the 9.1% rise in the 12 months to June 2022. Similarly, Eurozone and UK inflation rates have also moderated to 2.9% and 4.0% respectively – influencing global market expectations for potential rate cuts. When inflation moderates, it not only helps in maintaining the purchasing power of consumers but also motivates central banks to potentially lower interest rates, making borrowing cheaper.
- **Steady Jobs Data:** The job market remains robust, with the addition of 216,000 jobs in December, maintaining a steady unemployment rate at 3.7%. Hourly wages also rose by 4.1% year-over-year.

What this Means

- **Central Banks' Success:** The restrictive monetary policy of western central banks has been effective in combating inflation over the last 18 months. Favorable inflation readings in early 2024 are vital for gauging the Fed's capacity to reduce rates in the spring, signaling the potential of a so-called soft-landing for the economy – an outlook that's grown more likely thanks to recent core inflation trends. Whether this happens, however, is clearly reliant on the data over the coming months.
- **Cautious Market Optimism:** Upon hearing the news of a policy change, markets immediately anticipated six potential rate cuts in 2024, though officials at the Fed cautioned against premature optimism, indicating a possible delay in rate reductions, and suggested around three cuts in 2024, rather than six. The focus of the Fed is on achieving a sustainable inflation rate, considering factors like global supply chains, geopolitical events, and economic stability.

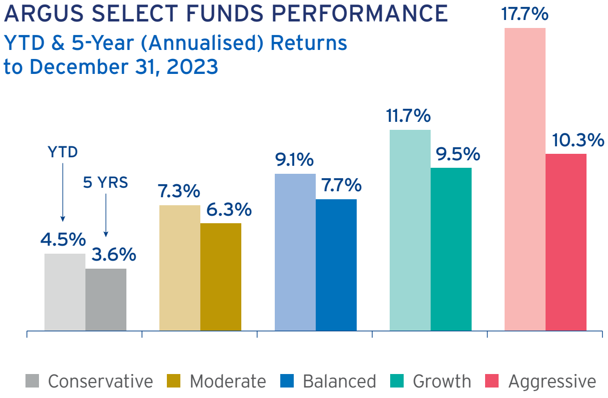
ARGUS
Our Interest is You.

12-Month
Market & Fund Review

(as at December 31, 2023)

Impact on Portfolios

ARGUS SELECT FUNDS PERFORMANCE
YTD & 5-Year (Annualised) Returns
to December 31, 2023



- **Equities and Valuations:** The changed monetary policy environment is clearly positive for equity markets. However, a key question remains: How much of this positive news is already factored into stock prices? Stock markets are known for their forward-looking nature, often adjusting well before actual events unfold. They typically react to anticipated changes in economic conditions, often moving based on investor expectations rather than immediate events.

  The buoyant market returns we've seen are a reflection of the optimism that declining inflation rates will lead to falling interest rates. This trend is echoed in the S&P 500's high valuation, indicating that the market has to some extent already incorporated this positive outlook.

- **Growth Backdrop:** The Fed predicts the U.S. economy will grow 2.6% in 2023 but slow down to 1.4% by the end of 2024, indicating a gradual slowing down rather than a direct slide into a recession. This outlook doesn't necessarily point to an imminent recession. The Fed's primary concern is to manage the delicate balance between premature policy relaxation, which might keep inflation high, and excessively delayed rate cuts, which could place undue stress on the economy due to persistently high borrowing costs.

- **Market Outlook:** The global economy exceeded our expectations in 2023, with both stocks and bonds providing positive returns for investors. As we start the new year, there are several reasons to be optimistic. Inflation continues to moderate, consumer spending has increased, and corporate earnings are expected to improve as the year progresses. Investors also hold high conviction that the Fed will soon achieve a soft landing and start to cut interest rates. However, we believe that 2024 may bring its own twists and turns, especially with elevated geopolitical risk and the upcoming U.S. election. Timing the market is almost impossible. Instead, we will continue being cautious and humble about the macroeconomic uncertainties, following a diversified and risk-conscious investment approach across all asset classes.

- **Argus Select Funds:** Both bond and equity markets rose over the quarter, significantly bolstering performance for the year. The more equity oriented strategies benefitted more from the year-end rally, recovering a significant portion of the losses suffered in 2022. Our exposure to U.S. real estate detracted from performance over the year. The 5-year returns remain positive across all strategies.

Fact sheets are updated monthly and are available on the Argus website: www.argus.bm

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GUARANTEED ACCOUNT (INTEREST ACCUMULATOR) — gross of fees

The continued increase in interest rates has had a positive impact on the yield of the interest accumulator. The gross declared yield on the five-year accumulator is 3.65% and 3.85% on the one-year accumulator. The advantage of this investment is that there is no volatility in the value. However, consider the return after pension administration fees.

If you would like to change your investment selection, please visit www.argus.bm to learn more about all the available investment options.