

## Investment Report Q12024

Due to the US economy's continued strength and the continued excitement surrounding artificial intelligence, global stock markets saw significant increases in the first quarter 2024. Developed markets had a quiet start to the year, but by the end of January, the US, European, and Japanese equity markets had risen quickly, setting numerous trading records. Given the poor results in both Hong Kong and mainland China, particular attention was paid to the Chinese markets. The idea that the second-biggest economy in the world was having difficulty growing back to pre-pandemic levels was supported by indicators. The 2023 rally persisted in the first quarter of 2024 as the S&P 500 broke above 5,000 and reached new all-time highs, driven higher by a combination of favourable factors including stable economic growth, declining inflation, imminent Fed rate cuts, and growing enthusiasm towards artificial intelligence (AI). Although the rate of cuts is probably going to be slower than the market had anticipated for at the beginning of the year, expectations of interest rate reductions also helped to increase share prices. The quarter showed negative returns on bonds.

Following the substantial gains in 2023, traders and investors initially booked profits, which led to a little increase in volatility at the start of the year. But soon after the year began, those initially slight drops grew more pronounced when the December Consumer Price Index a crucial measure of inflation dropped less than anticipated. The anticipated timing of the first Fed rate drop was postponed, which was originally projected to occur in June rather than March, as a result of this reading, which cast doubt on the notion that inflation was rapidly declining toward the Fed's 2.0% target. Early in January, concerns about perhaps higher-than-expected rates briefly sent equities lower. Nevertheless, the decreases were brief. First, markets recovered from those early falls when fourth-quarter corporate earnings were once again stronger than anticipated. The Federal Reserve then made it quite evident in late January that rate hikes would be ending and strongly suggested that rate reduction will take place in the upcoming months. As a result, the S&P 500 ended the month with a slight gain of 1.59% and a new all-time high.

Importantly, inflation data released in February did not suggest that inflation was reaccelerating and instead mostly fulfilled forecasts. Consequently, this enhanced anticipation of a June rate drop, which helped stocks sustain their year-to-date gains. The semiconductor company at the centre of the AI boom, Nvidia, then released much-stronger-than-expected profits and outlook on February 21st. Large-cap tech stocks propelled the S&P 500 higher into the month's close, when the index achieved a new record high above 5,000, and those results further bolstered enthusiasm for AI. In February, the benchmark domestic index increased by 5.34%. Even further increases were seen in the last month of the quarter, helped by well-known elements like strong economic growth, mostly as-expected inflation statistics, AI excitement, and optimistic Fed direction. In general, March's inflation and economic data came in around expected and pointed to (slowly) declining prices and steady growth, an expectation for a rate cut in June were then further supported by revised Federal Reserve interest rate predictions released in mid-March, which continued to trend towards three rate cuts in 2024. The S&P 500 crossed 5,200 for the first time late in the month and finished March with sharp gains thanks to these encouraging reasons and another impressive AI-related earnings releases as per Micron.

### **First Quarter Performance Review**

Compared to the fourth quarter of 2023, when the tech and tech-aligned sectors easily outpaced the rest of the markets, the first quarter of 2024 showed a much more equally distributed increase. The last three months have seen widespread gains in the markets that have been dispersed more fairly across different sectors and industries. Even while the stock market rise did broaden in the first quarter, small caps were among the prominent underperformers over the previous three months, so they were not helped by this.

Due to their greater sensitivity to increased funding costs and slower growth, small caps saw a positive return for the first quarter but lagged behind large caps due to worries about persistently rising interest rates.

As previously indicated, gains were widespread across sectors, with 10 of the 11 S&P 500 sectors achieving a positive return at the end of the first quarter. But unlike 2023, the tech and tech-related sectors did not perform any better. Up until then, the industries with the strongest market performance in the first quarter were industrials, financials, energy, and communication services. The enthusiasm for AI, robust financial stock guidance, excellent U.S. economic data, and growing hope for a resurgence of Chinese economic development were all represented in that sector mix. The gains were diversified, indicating that factors other than AI enthusiasm drove the Q12024 boom.

Moving on to the laggards, the real estate sector was the only one within the S&P 500 to have a negative return for the first quarter due to ongoing worries about the strength of the commercial real estate market. In particular, reminder of the ongoing difficulty in the commercial real estate market by New York Community Bank's appalling quarterly results, which had a negative impact on the real estate market. While several merchants cautioned about a possible slowdown in consumer spending during the first quarter 2024, consumer discretionary likewise trailed and only showed a marginally positive return.

While posting strong quarterly gains, international markets continued to underperform the S&P 500. Looking more closely, overseas developed markets beat emerging markets in Q1 due to stronger-than-anticipated economic data and growing anticipation of early summer rate cuts from the Bank of England and the European Central Bank. In the first quarter, emerging markets had only marginal gains and significantly lagged the S&P 500 due to inconsistent economic statistics from China and the absence of significant economic stimulus from the country early in the quarter.

Ultimately, the first quarter of 2024 yielded the highest overall equity market returns in the first quarter in nearly five years. With a return of 20.6% in local currency, the NIKKEI was the top index, followed by the EUROSTOXX (12.4%), S&P (10.2%), and NASDAQ (9.1%). The main UK index returned a meagre 2.8%. Following decades of stagnation, the Japanese market index reached an all-time high in 2023, partly as a result of corporate reforms and the strong value of the yen, which attracted many overseas purchasers. The excitement surrounding generative AI continued to favor US equities, as constant updates on the technology's advancement drove the markets to record highs. Strong results were also produced by the US Q4 earnings season, with 75% of corporations exceeding analyst estimates. But there were also some unexpected underachievers on an individual basis, particularly large-cap brands like Apple and Tesla, who struggled with issues related to competition or handling legal actions brought by US and EU regulators. Surprisingly, European stocks outperformed their US counterparts throughout the quarter. With 5.17% gain in February, the S&P 500®'s year-to-date return increased to 6.84%. The Dow Jones Industrial Average® was up 3.47% year-to-date and 2.22% for the month. The S&P MidCap 400® had gains of 5.80% for the month, resulting in a 3.92% YTD return. The S&P SmallCap 600® was down 1.00% YTD but gained 3.15% in February.

International Equity Indexes	Q1 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	5.81%	5.81%
MSCI EM TR USD (Emerging Markets)	2.16%	2.16%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	4.66%	4.66%

Source: YCharts

Index	1-Month (%)	YTD (%)	3-Month (%)	1-Year (%)	3-Year (%)
S&P 500	5.17	6.84	11.57	28.36	33.72
Dow Jones Industrial Average	2.22	3.47	8.47	19.41	26.07
S&P MidCap 400	5.80	3.92	12.76	11.14	15.80
S&P SmallCap 600	3.15	-1.00	11.48	4.47	2.07

## Overview

### Total returns (net) % – to end March 2024

Equities	3 months			12 months		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	8.9	11.4	9.9	25.1	25.9	22.5
MSCI World Value	7.5	9.9	8.5	18.8	19.5	16.3
MSCI World Growth	10.2	12.8	11.2	31.2	32.0	28.4
MSCI World Smaller Companies	4.4	6.8	5.3	15.9	16.6	13.4
MSCI Emerging Markets	2.4	4.7	3.3	8.2	8.8	5.9
MSCI AC Asia ex Japan	2.4	4.7	3.3	4.0	4.6	1.8
S&P500	10.6	13.1	11.6	29.9	30.7	27.1
MSCI EMU	7.8	10.3	8.8	16.0	16.7	13.5
FTSE Europe ex UK	5.9	8.3	6.9	16.3	16.9	13.8
FTSE All-Share	2.6	5.0	3.6	10.8	11.4	8.4
TOPIX*	10.1	12.6	11.1	24.3	25.0	21.7

## Commodities

A weaker US currency, smaller-than-expected inflation decreases, and persistently high geopolitical tensions all contributed to commodities' significant gains in the first quarter. Due to late-quarter expectations of faster Chinese economic growth, higher geopolitical tensions as a result of ongoing attacks on commercial ships in the Red Sea and increasing Russian attacks on Ukrainian energy infrastructure, oil saw a sharp increase in value in the first quarter of this year. Meanwhile, gold had strong gains in the first quarter, setting a new record, helped by the weaker US dollar and the previously noted encouraging inflation figures. With all of the index's components finishing the quarter in positive territory, the S&P GSCI Index had strong growth in the first quarter. The two components that performed the best were energy and livestock, while industrial metals and agricultural saw more moderate development. All energy subsectors saw robust price growth, with the exception of natural gas, which saw a precipitous decrease in price throughout the quarter. Due to increasing demand and shortages in West Africa, where more than half of the world's cocoa beans are cultivated, the price of cocoa skyrocketed during the quarter. The quarter saw a little increase in the price of copper, lead, and nickel in the industrial metals market, but a decline in the price of zinc and aluminium.

Commodity Indexes	Q1 Return	YTD
S&P GSCI (Broad-Based Commodities)	10.36%	10.36%
S&P GSCI Crude Oil	15.93%	15.93%
GLD Gold Price	7.93%	7.93%

Source: YCharts/Koyfin.com

The start of interest rate decreases was pushed back further in 2024, and fewer cuts were anticipated for the entire year, which put pressure on fixed income markets. Global central bank rhetoric, which fluctuated between dovish and hawkish projections, and bond markets' overreaction to any ambiguity surrounding inflation statistics that contradicted the disinflation narrative were the key causes of the turbulent ride for global government bond yields. The Swiss National Bank was the first significant bank to lower its base rate by 25 basis points, while the Bank of Japan eventually abandoned its yield control measures and entered a negative interest rate environment.

## Bonds

At first, the market expected the central bank to cut interest rates more quickly. With a few noteworthy exceptions, such as the Bank of Japan (BoJ), which raised interest rates from -0.1% to 0.1% for the first time in 17 years, signalling the end of negative rates, expectations were tempered. In the meantime, the markets were taken aback by the Swiss National Bank's 25 basis point reduction to 1.5%. The Federal Reserve (Fed), the Bank of England, and the European Central Bank (ECB) all acted cautiously and refrained from making hasty pronouncements of their triumph over inflation. The economy was expanding worldwide. Amidst decreasing inflation, the US economy maintained its superior performance, driven by persistent consumer spending and growing real incomes. There was cause for optimism despite the eurozone's slower growth, as the service sector was recovering and manufacturing was beginning to show signs of life. China's economy recovered as well, despite ongoing difficulties in the real estate market. The corporate bond market, "reach" for greater yield in the riskier segments of the credit spectrum due to impending Fed rate cuts, rising inflation, and sustained economic growth. greater-yielding but lower-quality "junk" bonds outperformed investment grade paper.

US Bond Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	-0.78%	-0.78%
BBgBarc US T-Bill 1-3 Mon	1.32%	1.32%
ICE US T-Bond 7-10 Year	-1.35%	-1.35%
BBgBarc US MBS (Mortgage-backed)	-1.04%	-1.04%
BBgBarc Municipal	-0.39%	-0.39%
BBgBarc US Corporate Invest Grade	-0.40%	-0.40%
BBgBarc US Corporate High Yield	1.47%	1.47%

Source: YCharts

Government bond rates changed over the quarter in reaction to changes in economic data and market attitudes. All 10-year government bond yields rose, which resulted in lower prices. By the end of Q1 2024, the US 10-year Treasury had increased from 3.87% at the end of Q4 2023 to 4.21%. While the German 10-year Bund yield remained stable at 2.03%, up 26 basis points from the end of Q4, the UK 10-year gilt yield increased from 3.54% to 3.94%. Government bonds were outperformed by corporate bonds, with UK high yield emerging as a standout performer. The robust equity market tailwind did not fully assist convertible bonds. In USD hedged terms, the FTSE Global Focus convertible bond index only increased by 1.1% during the quarter. The primary market exhibited robust activity, with a notable degree of demand for recently introduced convertible vehicles. One may describe the current level of refinancing activity in the convertible market as opportunistic.

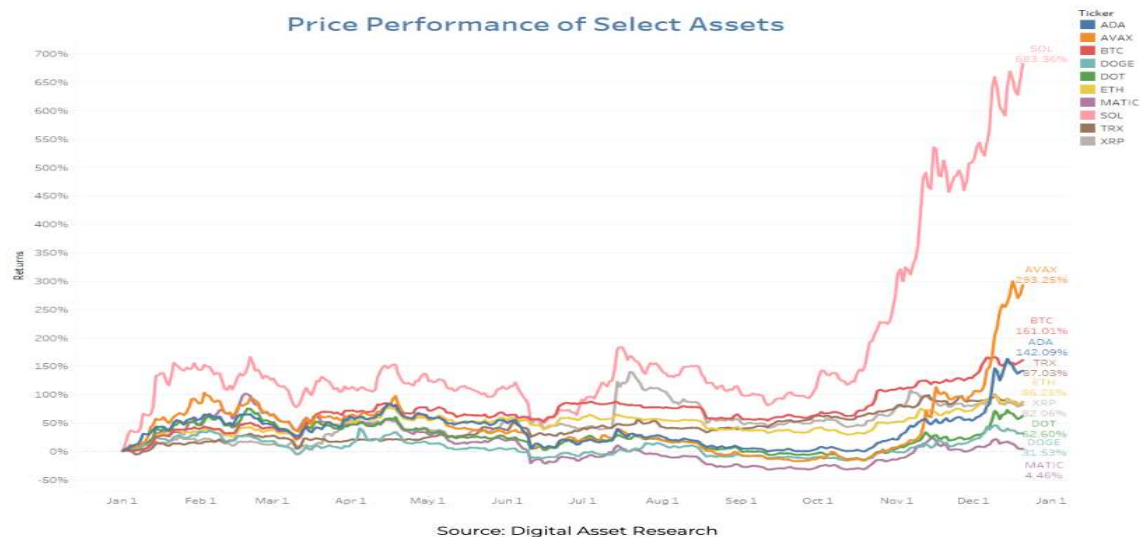
	3 months			12 months		
	USD	EUR	GBP	USD	EUR	GBP
<b>Government bonds</b>						
JPM GBI US All Mats	-0.9	1.4	0.0	0.2	0.8	-1.9
JPM GBI UK All Mats	-2.6	-0.4	-1.7	1.9	2.5	-0.2
JPM GBI Japan All Mats**	-7.2	-5.1	-6.3	-14.1	-13.6	-15.9
JPM GBI Germany All Traded	-3.5	-1.3	-2.6	1.5	2.1	-0.6
<b>Corporate bonds</b>						
BofA ML Global Broad Market Corporate	-0.7	1.5	0.2	5.1	5.7	2.9
BofA ML US Corporate Master	-0.1	2.2	0.8	4.7	5.3	2.5
BofA ML EMU Corporate ex T1 (5-10Y)	-1.9	0.4	-1.0	7.6	8.2	5.3
BofA ML £ Non-Gilts	-0.9	1.4	0.0	8.4	9.1	6.1
<b>Non-investment grade bonds</b>						
BofA ML Global High Yield	1.5	3.8	2.4	11.1	11.7	8.7
BofA ML Euro High Yield	-0.4	1.9	0.5	10.9	11.6	8.6

Source: LSEG DataStream. Local currency returns in Q1 2024: \*18.1%, \*\*-0.4%.

Past performance is not a guide to future performance and may not be repeated.

## Digital assets

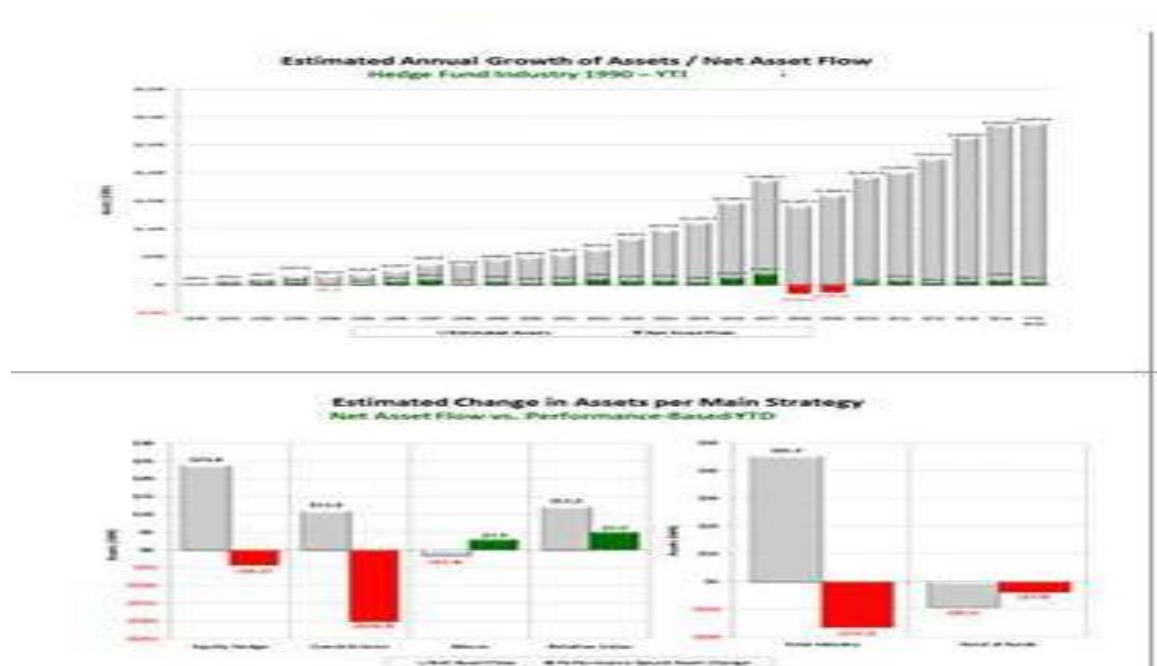
Digital asset markets saw a boom in February and March following a sluggish January, making it one of the best quarters in recent memory. The returns on Ethereum and Bitcoin were 59.9% and 68.8%, respectively. On March 14, Bitcoin hit a new all-time high. After eleven physically backed Bitcoin exchange-traded funds (ETFs) were approved and launched in the US on January 11, these robust returns were produced amid an encouraging macro environment and significant demand. Since their launch, these products have brought in a net of \$12.1 billion. Since the previous quarter, market dynamics have also undergone a significant shift, with Bitcoin trade volumes rising by 85% year to date. While the correlations to traditional risk assets, like stocks, are still modest, the correlations between digital assets are still declining. Going forward into 2024, the bitcoin sector will still be changing quickly. More innovation and acceptance in the field are probably in the works as a result of the popularity of Bitcoin and the launch of spot ETFs. The bitcoin market is still vulnerable to changes in regulations and volatility, though.



## Hedge Funds

According to results of the HFR Global Hedge Fund Industry Report, HFR®, the reputable global leader in the indexation, analysis, and research of the global hedge fund industry, total hedge fund assets climbed for the sixth consecutive quarter in first quarter of 2024, reaching an estimated \$4.30 trillion, or a quarterly increase of nearly \$190 billion despite navigating a complex environment on improving economic outlook and accelerating M&A concurrent with unprecedented geopolitical risks, including ongoing and potential military conflicts as well as inflation, interest rate, and macroeconomic uncertainty. Strong first quarter performance-based gains and net asset inflows drove the expansion in hedge fund capital as investors boosted their exposure to directional Equity Hedge, Event-Driven, and uncorrelated Macro strategies. In the first quarter 2024, the HFRI Fund Weighted Composite Index® increased by +4.5 % driven by directional Equity Hedge and Event-Driven strategies. Gains were also driven by acceleration in M&A and exposure to Technology/AI. Greater proportional success was achieved by larger funds; for the quarter, the HFRI Asset Weighted Composite gained +5.12 %. The trailing 6-month return for the HFR

Cryptocurrency Index was +106.9 percent after the index returned +47.9 % in the first quarter. Leading macro strategies, hedge funds maintained the 1Q surge through March, posting their greatest month since March 2022 and their highest quarter in more than 20 years. Trend-following CTAs, energy, multi-strategic, healthcare, and cryptocurrency exposures drove industry-wide gains, increasing the HFRI Fund Weighted Composite Index® (FWC)'s impressive 5-month return to +11.1%, the highest since the 5-month period ending in April 2021. The HFRI 500 FWC Index increased by +2.8 %, while the HFRI FWC increased by an expected +2.5% for the month. The first quarter gain increased to +5.5% as the HFRI Equity Hedge (Total) Index surged +2.4 %(estimated) for the month. The HFRI EH: Energy/Basic Materials Index, which increased by +3.8 % in March, the HFRI EH: Quantitative Directional Index, which increased by +3.2%, and the HFRI EH: Healthcare Index, which increased by +2.8%, led the EH sub-strategy performance.



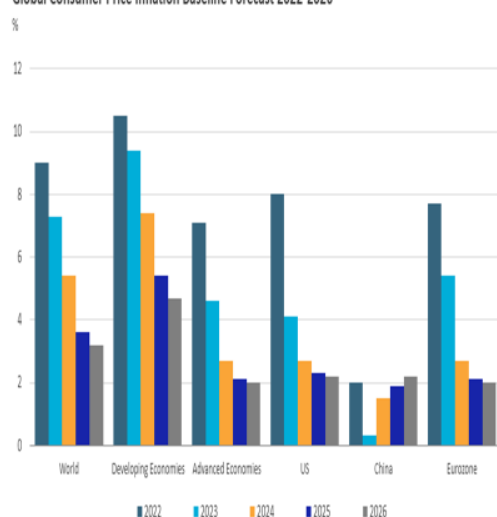
## Global Inflation

The biggest economies' inflationary pressures are mostly relieved by tighter monetary policy and slower growth in the economy and demand. Because energy costs have stabilized and there are less inflationary pressures in the services sector, advanced economies are expected to witness a sharper decrease in inflation in 2024. In contrast, the majority of emerging economies will still see significant inflationary pressures in 2024. The US is expected to see a slowdown in inflation to 2.3% in 2025 and 2.7% in 2024. In general, tighter monetary policy contributes to the economy's cooling down and the reduction of price pressure. The tight labour market, however, is expected to slow down the pace of further disinflation, suggesting that tighter monetary policy may be necessary for a longer period of time. The continuous deflationary forces are expected to mirror China's annual inflation rate, which is predicted to average 1.1% in 2024 and 1.7% in 2025. This pattern also highlights the difficulties the Chinese economy is facing from declining consumer confidence and diminishing economic activity. The eurozone's inflation risks are expected to stay low in 2024 and 2025 due to slower economic growth and the stabilization of energy costs, which serve to restrain price increases. Germany and France, the two biggest economies in the



eurozone, are expected to see 2.8% and 2.5% of inflation, respectively, in 2024. But in 2024, supply-side inflationary threats brought on by geopolitical unrest and transportation delays might cause brief price spikes. The UK's inflation rate is expected to drop to 2.1% in 2025 after slowing down to 3.1% in 2024. Price pressures are being lessened by slower economic growth and tighter monetary policy, but because of the tight labour markets, services inflation is still sticky. The Bank of England will find it more difficult to balance its monetary policy this year in order to avoid maintaining interest rates too high for an extended period of time due to slow economic growth and tight labour markets. India's inflation is expected to decline to 4.8% in 2024 and to 4.3% in 2025. The primary threats to price stability in India, however, continue to be the volatility of food and energy prices. The cost of food has been a major factor recently. Although export restrictions on sugar, wheat, and rice until the end of 2024 are intended to maintain a sufficient domestic food supply and aid in price control, lower output brought on by unfavourable weather conditions may contribute to higher costs.

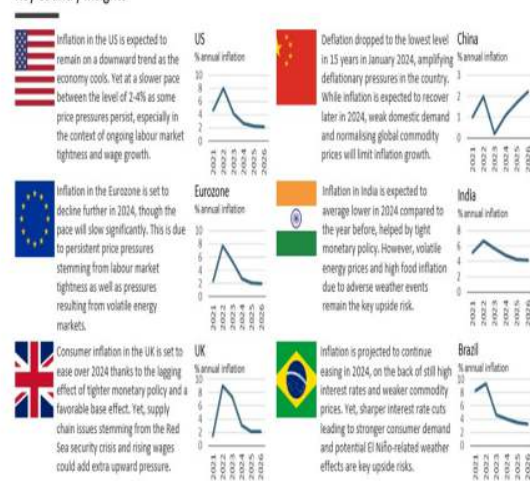
Global Consumer Price Inflation Baseline Forecast 2022-2026



Source: Euromonitor International Macro Model. Note: Data from 2023 onwards are forecasts; forecast updated 17 January 2024



#### Key country insights



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Pepper

## Performance Across Regions

### Asia (ex Japan)

Equity markets in Asia excluding Japan saw some improvement in the first quarter as share prices recovered from recent lows and investors showed cautious optimism that the bad news about China might be beginning to fade. In the MSCI AC Asia ex Japan Index, Taiwan, India, and the Philippines had the strongest markets, while Hong Kong, Thailand, and China had poor quarter-end results. Taiwanese stocks had significant increase during the quarter, propelled by investors' ongoing excitement for technology and stocks connected to artificial intelligence. Chinese stocks ended the quarter slightly lower even though they had somewhat recovered in the middle, as international investors continued to be cautious due to persistent concerns about the future of the Chinese economy. In the first quarter, Hong Kong's stocks also saw significant drops, as investors shifted their focus to other markets as Beijing tightened its

grip on the former British colony and as concerns about China's post-pandemic economic recovery persisted. In the first quarter, Indian stocks also did well, as investors hoped that if the existing prime minister wins a third election this year, the political stability that has supported the country's recent stock market growth will hold. As businesses look to diversify their supply chains beyond China, India has benefited from foreign investment in manufacturing, and the nation's physical and digital infrastructure has also strengthened.

## **UK**

Throughout the quarter, UK equities increased. Financials, industrials, the energy sector, and a few other economically sensitive segments of the market all performed well. The market adjusted to factor in the first UK interest rate decrease earlier than anticipated when inflation beat the Bank of England's (BoE) projections. At its meeting in March, the Monetary Policy Committee (MPC) of the Bank of England determined to maintain the UK's main policy interest rate at 5.25% at the end of the quarter. The consumer price index, which measures annual inflation, peaked in October 2022 at 11.1%. In February, it fell to 3.4%, the lowest rate of price rises since September 2021.

## **US**

US shares markets saw a strong quarter of growth. Gains were helped along by a few well-received corporate earnings reports and the continued anticipation of rate reductions later in the year. Given the strong US economic data at the end of the year, the rate of monetary policy relaxing is probably going to be slower than anticipated; nonetheless, this did not significantly reduce the desire for equities. Strong corporate results, particularly those from a few of the renowned "Magnificent Seven" corporations, helped to lift the S&P 500 index. The sectors with the highest gains were financials, energy, information technology, and communication services. Utility companies underperformed as well, while real estate saw a decline in returns. Interest rates were maintained by the Federal Reserve (Fed) at 5.25–5.5%. According to the personal consumption expenditure statistic, US inflation increased somewhat from 2.4% in January to 2.5% in February. The majority of data releases showed continued economic resilience. The third estimate of the annualized GDP growth for Q4 increased to 3.4%. Despite the fact that the unemployment rate increased in February, nonfarm payrolls were strong. After declining for 16 consecutive months, the ISM manufacturing PMI began to show signs of improvement in March, increasing to 50.3.

The macroeconomic climate is favourable as the second quarter 2024 gets underway: growth is steady, inflation is still declining, the Fed is probably going to lower rates for the first time in four years, and excitement around artificial intelligence keeps earnings estimates high. Although this is clearly a good setup, the S&P 500 has reached historically unsustainable prices due to the last six months' tremendous advance, and investor and analyst sentiment is extremely euphoric and maybe complacent. As a result, even though the macroeconomic horizon presents no threats, one must keep an eye out for them because the market is susceptible to a negative surprise given its stretched values and extremely high attitude.