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Multi-Asset

February 2024

Our view on investment markets

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Our overall view on markets remains positive. This has been the case since we raised it from neutral in the first quarter of 2023 because we believed that investment markets reflected too negative a stance, which had led to valuation opportunities in equities and fixed income markets. Today, we remain of the view that the balance of risks is more positively biased and as a result we have a cautiously optimistic tactical view of the next 12 to 18 months while being cognisant of the potential for short-term headwinds.

While we acknowledge there are short-term challenges posed by policy uncertainty, which has a material bearing on sentiment presently and, consequently, more volatility may lie ahead, markets have calmed down from the high levels of distress seen in recent years. Indeed, the results from markets over 2023 are a testament of the power of a shift in sentiment from negative to merely ambivalent. All the main fears that were popular sources of concern in 2023 have not materialised: economies continue to defy recession fears and inflation data show it falling from previous highs.

Thanks to the ongoing volatile sentiment, equity valuations outside of the US are sitting at historically attractive levels and bond yields are at the highest they have been since the Global Financial Crisis (GFC).

From a Tactical Asset Allocation (TAA) viewpoint, we favour the UK, Japan, Asia ex-Japan and emerging market equities, and we are buying what we deem to be attractive equities in various markets around the world, not just in the fashionable US (where we remain neutrally positioned). In our view, equities do not necessarily depend on their domestic economy and could deliver a good outcome even against a backdrop of insipid domestic growth.

The UK is unloved, but that can also mean undervalued. Its stock market represents good value that we believe compensates for the political uncertainties and gloomy forecasts for its economy. UK small caps have been particularly hard hit over the last year, which we believe means they are likely to have greater potential for future growth than the blue chips. We believe in the small cap premium over the longer term, and valuations for UK small caps are at multi-decade discounts to international peers.

Our positive view on Japanese equities, including small caps, was reflected in our 4th quarter TAA review. We believe the country's economy has reached an inflection point after more than three decades of waiting for its moment in the sun, thanks to structural reforms in the corporate sector and the resumption of inflationary forces.

In common with emerging markets, Asia ex-Japan offers a relatively strong economic growth outlook, benign inflationary pressures and potential policy easing. This should translate into generally stronger corporate balance sheets. Both regions' poor performance over the last two to three years has had a lot to do with problems in China. But now there is a more pro-growth, stimulus-oriented stance in China, emerging markets and Asia ex-Japan could benefit from the relative appreciation of their currencies versus a weakening dollar, and they are set to be boosted by improved international strategic supply chains.

We are broadly neutral on fixed income, but we are most positive on investment grade corporate bonds. We believe the spreads they offer over government bonds, which themselves saw yields reach multi-year highs in 2023, mean that quality businesses could be trading at good value. It is widely acknowledged that central banks will trim interest rates this year although the timing and scale remain unclear.

The ultimate catalysts for central banks to cut interest rates, most likely in 2024, will be unknown until after the event. It might be inflation coming under control or weakness in the economy, creating a reverse situation to that seen in 2022. While we would normally say bonds are inversely correlated to equities, you could argue that they and equities would respond positively to an interest rate cut. It is important to be positioned for this in both the fixed income and equity portion of portfolios but, at the same time, diversity is key to protect investors against the impact of other potential scenarios such as "higher for longer" interest rates.

As always, no one can predict what will happen in markets over the coming year, which has been amply demonstrated over the last few years, and they may encounter more volatility before stronger momentum builds. But thus far disinflation has been relatively pain-free without a spike in unemployment or any other broader damage to the economy. At least for now, central bankers are on course for a soft economic landing, which bodes well for investment markets going forward.

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay;

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;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

Any performance shown in respect of the Model Portfolios are periodically restructured and/or rebalanced. Actual returns may vary from the model returns.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.