

EdenTree R&S Multi-Asset Balanced

Q3 2024 Commentary



PERFORMANCE

	3 Months	6 Months	1 Year	3 Years
Fund (B Class)	3.2%	4.8%	13.2%	-0.8%
IA Mixed Investment 40-85% Shares*	1.6%	3.3%	13.8%	7.5%
Sector Quartile	1	1	3	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

MARKET REVIEW

Risk assets posted a marginally positive performance over the quarter, but the period was marked by episodes of elevated volatility. A positive start to the period was quickly reversed by poor earnings among the “Magnificent 7” and a weak US jobs report which heightened fears about a looming recession. The decline was exacerbated when a rate hike by the Bank of Japan sparked a reversal of the yen carry trade. While the risk-off sentiment didn’t persist for long, the recovery was interrupted when fresh economic data reignited recession worries. These concerns about the US economy intensified market speculation around the size of the expected rate cut from the Federal Reserve (Fed) at its September meeting. However, the Fed’s 50bps rate cut served to reassure the market that the central bank was ready to take the necessary steps to protect a smooth economic landing. The market also welcomed a second interest rate cut from the European Central Bank in September, the first having taken place in June. However, the central bank slightly lowered its growth outlook and raised its forecast for core inflation this year and next, and the market is now pricing in a further 25bps cut this year. The Bank of England also eased monetary policy over the period, cutting rates by 25bps, and with inflation moving ever closer to the central bank’s 2% target the door remains open for further cuts before the year-end. The market received a final boost at the end of the period when China announced a fresh round of fiscal stimulus, supporting China-exposed equities.

In terms of market performance, the FTSE All-World Index climbed 0.4% during the quarter in sterling terms. In the US, the S&P 500 Index and the NASDAQ lost 0.1% and 3.1% in sterling terms but, in local currency terms, their respective returns were 5.9% and 2.8%. In Europe, the FTSE World Europe Index ex UK returned 0.1% in sterling terms, while the FTSE All-Share gained 2.2%. Japan’s Topix gained 0.7% in sterling terms but dropped 5.0% in local currency terms. Emerging market indices were broadly positive, the MSCI Emerging Market Index added 2.7% in sterling terms and the China-related indices – the Shanghai Shenzhen and Hang Seng, jumped 15.1% and 15.3% respectively in sterling terms. Meanwhile, in a reversal of recent trends, value outperformed both growth and quality investment styles on a global basis.

In anticipation of further interest rate cuts, it was a stronger quarter for global bond markets. In the US, 10-year government bond yield ended the period at 3.74%, while the German 10-year government bond yield ended at 2.06%.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Balanced Fund gained ground during the quarter, returning 3.2% in absolute terms and outperforming its IA Mixed Investment 40-85% Shares benchmark, which returned 1.6%.

In terms of the Fund’s overall equity performance, its tilt towards value and lack of exposure to some of the large-cap names driving volatility proved to be supportive this quarter, particularly the Fund’s underweight US exposure where the “Magnificent 7” underperformed. The portfolio’s lack of exposure to the oil & gas sector, due to its responsible and sustainable principles, was also a positive as a significant fall in the price of oil negatively impacted the sector.

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The Fund's European equities exposure, through its holding in EdenTree's R&S European Equity Fund, was a strong outperformer. From a sector perspective, while the overall technology sector retreated, several of its technology hardware holdings bucked the sector trend. The portfolio's lack of exposure to the luxury goods sector also contributed – these names are highly connected to the Chinese economy and its ongoing lacklustre growth meant that many of these companies underperformed until the end of the period. Surprisingly, given the backdrop of lower interest rates, the portfolio's overweight position in financials – and banks in particular – continued to contribute positively during the quarter. Commerzbank was one of the top performers, as the German bank faced an unexpected takeover approach by its Italian counterpart UniCredit, a combination welcomed by the market as it is expected to result in significant cost savings.

On the other hand, the Fund's exposure to small-cap UK equities, through its holding in EdenTree's R&S UK Equity Opportunities Fund, detracted from relative returns. In anticipation of the new UK government's first budget in October, speculation that AIM-listed companies may lose their inheritance tax exemption status prompted an exodus out of such stocks – in contrast to the positive returns for other UK indices, the FTSE AIM All-Share Index lost 2.7% during the quarter.

The Fund maintains a modest underweight fixed income versus equities allocation, which added value over the quarter as bonds generally benefited from the fall back in the yield curve in line with changing interest rate expectations. An easing monetary policy environment was also supportive for the Fund's real estate exposure, which is held through a mix of UK and overseas REITs. These holdings benefited from a narrowing of NAV discounts during the quarter. The Fund's infrastructure exposure, held via the EdenTree Green Infrastructure Fund as well as through direct investments in listed infrastructure companies, also performed well.

OUTLOOK

In our view, the loosening of monetary policy should continue during the coming quarter and we expect this to be supportive for the global economy. So, while we currently see signs of economic weakness, there is every reason to believe that central banks will be successful in their aim of ensuring a soft landing for the global economy. That said, this quarter's volatility may well reoccur amid any unexpected economic or corporate newsflow – especially among the "Magnificent 7" companies. The already high level of geopolitical tension could also be further ramped up by an escalation of the conflict in the Middle East or during the US presidential election.

Tactical Asset Allocation**

From an asset allocation perspective, we remain slightly overweight equities versus fixed income moving into the final quarter, but we are also mindful of macroeconomic uncertainties and are therefore keeping a fairly balanced position. Within equities, the Fund retains its overweight value position as we still see value as being the most attractive area of the market right now. The valuation gap between growth and value remains very wide and companies are offering sustainable dividend yields that will grow over time from already attractive levels. Whereas when we look at the growth market, we find that valuations are very stretched. The Fund also retains its overweight exposure to the UK market, which we feel is attractively valued and offers some interesting global exposure. Meanwhile, we have shifted to a more neutral position in terms of the overall market capitalisation of its holdings.

Within the Fund's fixed income component, we continue to hold an overweight long-duration position as central banks are sending out some strong indications that there will be further interest rate cuts over the next six months. However, we remain underweight credit given credit spreads have fallen to very low levels.

In terms of the Fund's exposure to property and infrastructure, these assets remain attractive as both listed infrastructure funds and property REITs stand at large discounts to NAV and also offer some inflation linkage. However, the Fund retains a preference for infrastructure over property in the belief that it should be more resilient.

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PERFORMANCE DISCRETE	12 Months to	12 Months to	12 Months to	12 Months to	12 Months to
	30/09/2020	30/09/2021	30/09/2022	30/09/2023	30/09/2024
Fund (B Class)			-17.7%	6.5%	13.2%
IA Mixed Investment 40-85% Shares*			-10.3%	5.3%	13.8%
Sector Quartile			4	2	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Past performance is not necessarily a guide to future returns.

*As the Fund invests in a range of assets, investors may compare the Fund's performance to the Investment Association Mixed investment Sector 40-85% shares. Funds in this sector must have between 40 to 85% invested in company shares. However, the Manager is not bound or influenced by the Sector category when making investment decisions

** Our tactical asset allocation decisions are informed by the quarterly meeting of EdenTree's Tactical Asset Allocation Committee, which analyses prevailing macroeconomic conditions, discusses positioning within each of the sub-funds and determines the appropriate factor exposures for the multi-asset portfolios.

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A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass.

For further information please speak to your normal EdenTree representative, visit www.edentreeim.com or call our support team on **0800 011 3821**

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