R&S Multi-Asset Growth

Q4 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund Performance (B Class)	7.6%	6.5%	10.3%	-2.71%
IA Mixed Investment 40-85% Shares	5.8%	5.5%	8.1%	1.13%
Sector Quartile	1	1	1	4

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

MARKET REVIEW

Equities and bonds rose in tandem during the final quarter of the year, as market attention turned away from concerns that interest rates would remain higher for longer and towards anticipation that interest rate cuts would occur far earlier than expected. Signs that inflation was rapidly easing were welcomed and hopes that economies would enjoy a soft landing gained traction from economic data continuing to show unexpected strength. While global economies are still forecast to slow in 2024, fears of forthcoming recessions have receded. This enabled developed market central banks to bring their rate-rising agenda to an early halt, with interest rates remaining flat throughout the period, and forward guidance from the Federal Reserve turning noticeably dovish in December, with policymakers signalling that multiple interest rate cuts may occur in 2024. The European Central Bank (ECB) and the Bank of England were more guarded in their outlooks but still hinted that rates may have peaked. While this improved economic outlook boosted market sentiment, geopolitical risks stepped up a notch amid the outbreak of war in Gaza and the continuation of fighting in Ukraine.

In terms of market performance, the FTSE All-World Index climbed 7.7% during the quarter in sterling terms. In the US, the S&P500 and the NASDAQ added 6.8% and 8.9% in sterling terms, but these gains were even stronger in local currency terms, with the indices gaining 11.7% and 13.8% respectively. In Europe, the FTSE World Europe Index ex UK returned 7.7% in sterling terms, while the FTSE All-Share lagged other major markets, gaining 3.2%. Japan's Topix ended its streak of outperformance, climbing 3.5% in sterling terms. Emerging market indices were broadly higher over the quarter in local currency terms, the MSCI Emerging Market Index added 7.8% (3.1% in sterling terms), but weakness in China persisted. Meanwhile, Growth and Quality investment styles outperformed Value on a global basis.

Mirroring the positive response to the improved macroeconomic outlook, bond markets also rallied sharply during the third quarter. Yields moved lower in most regions as bond market participants not only priced in interest rates peaking but also anticipated a loosening of policy in the months ahead. In the US, having topped 5% in the summer 10-year Treasury yields ended the year at 3.96%, and Japanese and German 10-year bond yields also fell back from their decade-plus high.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Multi-Asset Growth Fund enjoyed a robust performance during the quarter, returning 7.6% in absolute terms and outperforming its IA Mixed Investment 40-85% Shares benchmark, which returned 5.8%. This top quartile performance also steered the Fund to a gain of 10.3% for the year, again outperforming its benchmark's return of 8.1%.

The Fund's exposure to UK equities, through holdings in EdenTree's R&S UK Equity and UK Equity Opportunities funds, outperformed, with their overweight small-cap exposure proving to be a tailwind. The Fund's holding in the R&S European Equity Fund also contributed to the Fund's positive returns, although its overweight position in financials, and banks in particular, detracted from performance during Q4 amid concerns that banks' margins might be squeezed if interest rates start to fall. The Fund's UK bond holdings, through the EdenTree R&S Sterling Bond and Short Dated Bond funds, also added to performance, reflecting the more positive quarter for fixed income overall. The prospect of lower financing costs also proved positive for the Fund's infrastructure exposure, held via the EdenTree Green Infrastructure Fund as well as through direct investments in listed infrastructure companies, and real estate holdings, held through a mix of UK and overseas REITS.

OUTLOOK

Despite Q4 23's risk-on rally, the economic outlook remains unclear. The UK, the US and Europe all face broadly similar policy dilemmas. Inflation has fallen back quite sharply, partly through central banks' monetary tightening efforts but also because commodity prices have fallen or moderated. This provides scope for central banks to ease policy during 2024 providing the wider economic environment continues to cool. Current economic indicators certainly suggest this is the way developed countries are moving but, at the same time, unemployment remains low and nominal wage growth is still at a higher level than is compatible with central banks achieving their inflation goals. Moreover, much of the recent economic weakness can be attributed to inventory destocking, which has exaggerated the weakness in the overall economy and may soon be coming to an end. In addition, China continues to be a wild card as it struggles to cope with a serious property crisis that is spilling over into the financial sector. All in all, it remains uncertain whether central banks are truly finished with policy tightening or whether rates may yet have to remain higher for longer.

Tactical Asset Allocation*

From an asset allocation perspective, this has resulted in a more cautious stance towards equities, particularly given the 'Santa' rally at the end of the year. Within the Fund's fixed interest component, the expectation that central banks would begin easing monetary policy during 2024 has prompted a more barbell allocation, with the Fund being exposed to improving yields at both the very short end and the long end of the yield curve. Ongoing economic uncertainty and high refinancing costs for borrowers have meant that the Fund's underweight credit exposure has been maintained while the 'quality' within the Fund's fixed interest holdings is being increased.

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 which should narrow as monetary policy starts to ease. However, the Fund's allocation exhibits a preference for infrastructure over property in the belief that it should be more resilient if economic conditions deteriorate.

PERFORMANCE DISCRETE	12 Months to 31/12/2019	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023
Fund Performance (B Class)				-14.8%	10.3%
IA Mixed Investment 40-85% Shares				-10.1%	8.1%
Sector Quartile				4	1

Past performance is not necessarily a guide to future returns.

** 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.*

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