

EPIM Cabot

Q2 2024 Portfolio Update



Latest Market Commentary – June 2024

The rally in US equity markets continued in June, with both the S&P 500 and Nasdaq Composite hitting new all-time highs. Mega-cap technology companies with elevated valuations continued to dominate the headlines.

The FTSE 100 had a more tepid performance, finishing June slightly lower than it started. The performance of UK indices was more subdued compared with those in the US. The lack of technology companies in London markets resulted in a pedestrian rally when compared with US valuations, which are generally higher on Wall Street.

The first-quarter reporting season saw investors focusing on financial guidance for the coming quarters. Any company that issued weak outlook statements saw sharp share-price falls. The rise of artificial intelligence and an increase in demand for cloud computing has supported shares in US technology majors such as Microsoft, Amazon and Google-owner Alphabet.

Inflation is now in retreat on both sides of the Atlantic. Indeed, the European Central Bank cut interest rates in the Eurozone for the first time in almost five years. However, the central bank warned future reductions would depend on price pressures easing further. Canada's central bank also cut its benchmark interest rate and hinted there would be more to come.

Borrowing costs in the US and UK are also expected to fall in the coming months. Bank of England governor Andrew Bailey has said interest-rate cuts could come before inflation hits its 2% target. However, inflation has proved stubborn – but the technical recession seen at the end of last year is over. Major lenders such as HSBC and Barclays have started to reduce mortgage rates in anticipation of the rate cut, but any shift in monetary policy is likely to be data dependent.

Chinese equities have rebounded from a lengthy period of weakness. However, the country's economy is recovering from the Covid-19 pandemic slowly and there are still problems in its property sector. Its equities have remained relatively out of favour.

Campaigning continued in the UK general election campaign, with Labour maintaining a lead over the Conservatives of about 20 points. The US presidential election takes place in November and, following a poorly received performance in the first 2024 presidential debate against Donald Trump, there were some calls for Mr Biden to withdraw.

France's President Emmanuel Macron made a risky decision to hold an election after the success of populist parties in the European elections. The gamble backfired and the far right is in pole position after the first round of parliamentary elections.

The conflicts in the Middle East continued to be unresolved. A short ceasefire in the Israel-Hamas conflict ended after less than a week and the situation remains tense. Attacks by Houthi forces on shipping have resulted in many tankers and container ships avoiding the Red Sea area and this has driven oil prices higher, although the price has moved off highs. The Russia-Ukraine war continues, with little sign of a resolution any time soon.

Market participants now think the US can engineer a soft economic landing as inflation is brought down to the Fed's target level – although interest rates are likely to be kept “higher for longer” to curb inflation in both the US and UK – which has the potential to impede economic growth.

	EPIM Cabot Cautious	EPIM Cabot Moderately Cautious	EPIM Cabot Balanced	EPIM Cabot Growth	EPIM Cabot Global Equity
Fixed Income	59%	50%	38%	20%	10%
Sovereign Bonds	21%	13%	12%	8%	6%
Inflation Linked Bonds	5%	5%	4%	3%	2%
Investment Grade Bonds	34%	33%	22%	9%	2%
Equity	18%	30%	48%	66%	74%
North American Equity	0%	12%	22%	30%	36%
Japanese Equity	3%	5%	6%	7%	7%
European Equity	0%	3%	3%	4%	5%
UK Equity	3%	5%	5%	5%	6%
Asia Pacific ex-Japan Equity	0%	3%	6%	9%	9%
Global Emerging Market Equity	0%	0%	3%	7%	7%
Global Equity / Thematics	12%	2%	2%	4%	4%
Alternatives	5%	10%	11%	12%	14%
Property	3%	7%	8%	8%	8%
Infrastructure	2%	3%	3%	4%	6%
Cash & Equivalent	18%	10%	4%	2%	2%

Source: Charles Stanley as of 30 June 2024. Figures subject to rounding.

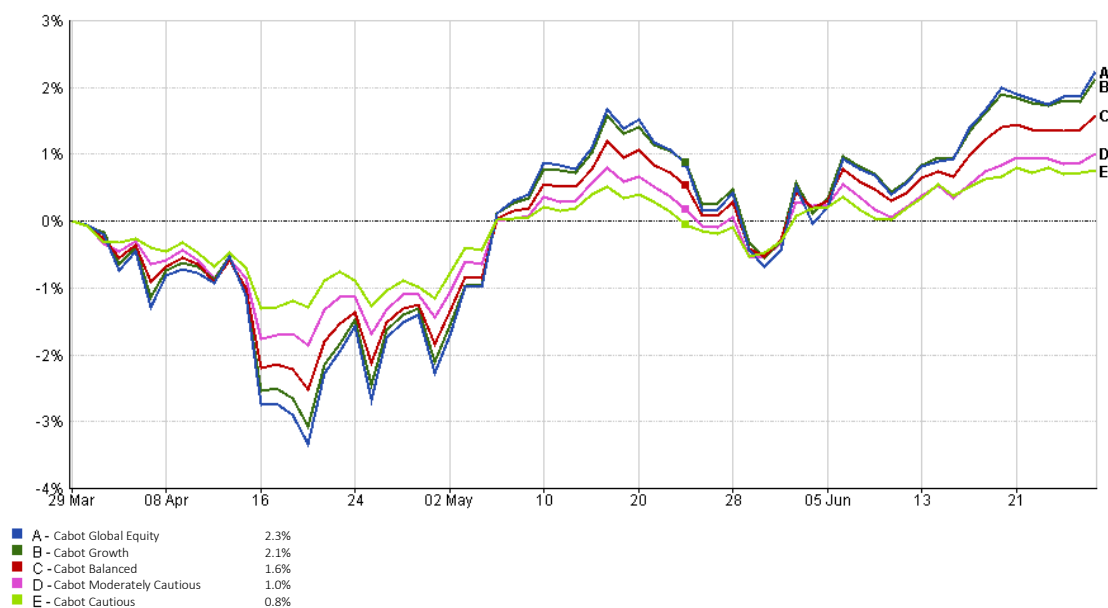
Portfolio Positioning

Over the quarter, we made a number of changes. We have upgraded our view on European equities to neutral (from underweight) and upgraded our preference for Infrastructure.

We believe the earnings outlook for European equities could be stronger from here, bolstered by our view that the macroeconomic backdrop should improve and our expectation that the European Central Bank may be the first to cut rates this summer. We believe the infrastructure sector has a strong outlook and trades on inexpensive valuations compared to other parts of the market. We expect peaking interest rates to be a tailwind for the sector. In higher-risk portfolios, we also initiated a position in the Vanguard Global Small Cap Fund, which we feel is attractive after a sustained period of underperformance relative to its larger-cap counterparts.

While there were no headline changes to the fixed-income ratings, we do currently have a preference for UK & European credit over the US, where we view spreads as having tightened to expensive levels. We continue to see the new interest rate/bond yield environment as offering attractive risk-adjusted return opportunities, particularly with peaking Central Bank interest rates. Our preference remains to hold shorter to mid-dated Investment Grade Corporate Bonds, alongside 7–10-year maturity sovereign bonds as a risk anchor.

Figure 1: 3 month Performance



Source: Financial Express Analytics, net income reinvested. Past Performance is not a reliable indicator of future returns. As at: 30 June 2024.

Quarterly Performance

The second quarter of the 2024 was a net positive for portfolios overall, though it was slightly more volatile than the first quarter.

The rally in equity markets that started in November last year lost steam in April as market expectations of the number of interest rate cuts in the US and UK this year dropped. This was due to stubborn inflation and continuing resilience in jobs markets. Markets then turned their attention to earnings with investors focusing on financial guidance for the coming quarters. In this period, the FTSE 100 was a bright spot and pleasingly we saw stronger performance from the FTSE 250.

As the quarter evolved, the equity markets recovered. The observed 'broadening out' of the S&P 500 index reversed, as the mega cap AI darlings once again re-established themselves as market leaders. Tech related outperformance also drove other markets, such as Taiwan (within L&G Pacific Index) which has a sizeable weighting to Taiwan Semiconductor Manufacturing. Emerging market equities in general performed better, with India being the brightest spot despite some jitters around the election.

The tempering of rate cut expectations led to volatility over the quarter for fixed income holdings. In general, better performance was seen from corporates, with our allocations tilted towards shorter maturity bonds rather than longer maturity bonds.

EPIM Cabot Growth	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	23.6	6.3	1.7
Sovereign Bonds	8.7	2.8	0.3
Inflation Linked Bonds	3.0	2.8	0.2
Investment Grade Bonds	12.0	9.3	1.2
Equity	64.9	19.7	12.3
North American Equity	33.1	25.8	8.2
Japanese Equity	5.4	20.1	0.8
European Equity	4.3	13.1	0.6
UK Equity	5.1	14.6	0.8
Asia Pacific ex-Japan Equity	8.1	12.5	1.0
Global Emerging Market Equity	5.7	12.4	0.7
Global Equity / Thematics	3.2	6.6	0.2
Alternatives	9.5	5.4	0.6
Property	3.9	4.2	0.2
Infrastructure	5.6	5.9	0.4
Cash	2.1	1.9	0.0

12m Attribution

We saw very strong returns across equity markets over the last twelve months, with the US leading the way.

Nearly all markets delivered strong returns, with the key top contributors being North America and Japan – noting that hedged Japanese equities substantially outperformed unhedged equities.

Fixed Income returns were modest, with corporate bonds performing particularly well, with credit spreads tightening materially. The alternatives allocation positively contributed to portfolios despite a turbulent journey that echoed sovereign bond markets movements.

EPIM Cabot Cautious	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	64.7	7.1	4.8
Sovereign Bonds	20.8	3.6	0.8
Inflation Linked Bonds	5.1	2.8	0.1
Investment Grade Bonds	38.9	9.6	3.8
Equity	17.6	19.5	3.2
North American Equity	2.5	20.8	0.4
UK Equity	2.5	13.8	0.3
Global Equity / Thematics	12.6	21.1	2.4
Alternatives	4.4	5.5	0.3
Property	2.0	4.2	0.1
Infrastructure	2.3	5.9	0.2
Cash & Equivalent	13.3	4.5	0.6

EPIM Cabot Balanced	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	54.9	7.3	4.1
Sovereign Bonds	12.7	2.9	0.4
Inflation Linked Bonds	4.9	2.8	0.1
Investment Grade Bonds	37.2	9.4	3.6
Equity	31.6	18.7	5.4
North American Equity	13.8	26.0	3.2
Japanese Equity	3.5	20.5	0.6
European Equity	2.3	13.1	0.2
UK Equity	4.7	14.6	0.7
Asia Pacific ex-Japan Equity	3.8	13.5	0.5
Global Emerging Market Equity	0.6	-2.1	0.0
Global Equity / Thematics	2.9	6.0	0.2
Alternatives	5.4	4.9	0.3
Property	2.4	4.2	0.1
Infrastructure	3.0	5.9	0.2
Cash	8.2	4.0	0.3

EPIM Cabot Balanced	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	39.2	6.7	2.7
Sovereign Bonds	12.0	3.2	0.4
Inflation Linked Bonds	4.4	2.8	0.1
Investment Grade Bonds	22.8	9.4	2.2
Equity	50.1	19.6	9.3
North American Equity	25.0	26.0	6.1
Japanese Equity	4.7	20.8	0.8
European Equity	3.7	13.1	0.5
UK Equity	4.6	14.8	0.7
Asia Pacific ex-Japan Equity	5.7	11.6	0.7
Global Emerging Market Equity	3.2	12.4	0.3
Global Equity / Thematics	3.4	6.7	0.2
Alternatives	7.4	5.5	0.5
Property	2.8	4.2	0.2
Infrastructure	4.6	5.9	0.3
Cash	3.3	3.7	0.1

EPIM Cabot Global Equity	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	11.3	3.0	0.5
Sovereign Bonds	6.8	2.9	0.2
Inflation Linked Bonds	2.6	2.8	0.1
Investment Grade Bonds	1.8	6.1	0.2
Equity	74.6	19.7	14.3
North American Equity	38.5	26.0	9.6
Japanese Equity	6.7	19.4	1.1
European Equity	4.5	13.1	0.6
UK Equity	5.6	14.8	0.9
Asia Pacific ex-Japan Equity	9.3	11.9	1.1
Global Emerging Market Equity	6.2	12.4	0.8
Global Equity / Thematics	3.8	5.7	0.2
Alternatives	11.5	5.4	0.7
Property	5.3	4.2	0.2
Infrastructure	6.2	5.9	0.4
Cash	2.7	3.4	0.1

Top & Bottom Contributors – 12m to 30 June 2024

	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR(%)	Description	Weight (%)	Return (%)	CTR(%)
Cabot Cautious	L&G Short Dated Corp Bond Index C Inc	14.0	12.4	1.8				
	Vanguard Developed World ex-UK Equity Index	8.3	21.0	1.6				
	Vanguard UK Short Term Invest. Grade Bond Index	14.1	9.0	1.3	Legal & General Japan Index C Inc	0.9	-3.5	-0.1
Cabot Moderately Cautious	Legal & General US Index	9.5	26.2	2.3	L&G Global Robotics & Automation Idx	1.3	-2.4	0.0
	L&G Short Dated Corp Bond Index	13.1	12.4	1.7	Fidelity Index Emerging Markets	0.6	-2.1	0.0
	Vanguard UK Short Term Invest. Grade Bond Index	8.3	9.0	0.7	Legal & General Japan Index	0.9	-3.5	-0.1
Cabot Balanced	Fidelity MSCI Japan Index P Hedged GBP	2.3	32.0	0.6				
	Legal & General US Index C Inc	9.3	26.2	2.3	L&G Global Robotics & Automation Idx C Inc	1.3	-2.4	0.0
	Fidelity US Index Fund Inc	4.4	24.1	1.1	Legal & General Japan Index C Inc	1.0	-3.5	-0.1
Cabot Growth	Legal & General US Index C Inc	10.3	26.2	2.6	Vanguard Global Small-Cap Index Fund Inst Acc	0.2	-0.4	0.0
	Fidelity Index US P Acc Hdg	8.3	17.1	2.1	L&G Global Robotics & Automation Idx C Inc	0.9	-2.4	0.0
	Fidelity US Index Fund Inc	7.2	24.1	1.8	Legal & General Japan Index C Inc	1.3	-3.5	-0.1
Cabot Global Equity	Legal & General US Index C Inc	14.4	26.2	3.6	Vanguard Global Small-Cap Index Fund Inst Acc	0.2	-0.4	0.0
	Fidelity US Index Fund Inc	9.6	24.1	2.4	L&G Global Robotics & Automation Idx C Inc	1.4	-2.4	0.0
	Fidelity Index US P Acc Hdg	8.7	17.1	2.2	Legal & General Japan Index C Inc	1.5	-3.5	-0.2

Risk Characteristics

	Max Drawdown			Sharpe Ratios			Volatility		
	1y	3y	5Y	1y	3y	5Y	1y	3y	5Y
EPIM Cabot Cautious	-1.0	-9.3	-9.3	1.8	0.0	0.2	3.9	5.0	4.8
EPIM Cabot Moderately Cautious	-2.3	-11.7	-11.7	1.5	0.0	0.2	5.3	6.6	6.6
EPIM Cabot Balanced	-3.7	-12.3	-12.3	1.6	0.2	0.4	6.9	8.1	8.5
EPIM Cabot Growth	-4.8	-12.6	-13.4	1.6	0.3	0.5	8.2	9.2	10.1
EPIM Cabot Global Equity	-5.4	-12.8	-15.9	1.5	0.3	0.5	8.9	10.0	11.4

Source: FE Analytics. All data as at 30 June 2024

Past performance is not a reliable guide to future performance. The performance is net of Eden Park Investment Management fees, with income reinvested. Return Period: Weekly

● Risk Free Rate: 1.5% ● Annualised Ratios: Yes ● Currency: Pounds Sterling

General Regulatory Disclosure

The value of investments, and any income derived from them, can fall as well as rise and may be affected by exchange rate variations. Investors may get back less than invested.

Performance is calculated on a Total Return basis using a notional portfolio in Financial Express Analytics. Performance is net of Charles Stanley investment management fees but not adviser fees nor platform costs. Any charges and fees applied by platforms and/or authorised intermediaries will be charged in addition to the charges shown. The Total Ongoing Charges Figure (TOC) is calculated on a periodic basis using a weighted average of the most recent publicly available Total Ongoing Charges for the underlying investments as at the date of the factsheet. This includes the underlying funds' Ongoing Charges Figure plus Transaction costs plus Incidental costs. Please note that whilst we endeavour to show all charges associated with specific funds, sometimes this is not possible due to the information not being made available by the fund provider. In such cases transaction or incidental cost information may be missing. Portfolios linked to this Model Portfolio may not exactly replicate the model due to the difference in timing of initial investment or rebalancing differences resulting from minimum transaction size limits on platforms. The management and rebalancing of this Model Portfolio does not take Capital Gains Tax into consideration. This document has been prepared for information purposes only and does not constitute advice or a personal recommendation, nor does it constitute an invitation to purchase units or shares. The information on which the document is based is deemed to be reliable. Charles Stanley has not independently verified such information and its accuracy or completeness is not guaranteed. Charles Stanley & Co. Limited is authorised and regulated by the Financial Conduct Authority.