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CHARLES STANLEY Wealth Managers

EPIM Cabot

Q3 2024 Portfolio Update

Latest Market Commentary – September 2024

September was a positive month for equity markets, with indices in the US and Europe hitting record highs. This followed a 50-basis point (bp) interest rate cut by the Federal Reserve and hopes there would be further reductions in the cost of borrowing this year.

There was an improvement in tone from August, where fears of a recession in the US resulted in significant market volatility. However, these worries were overblown and equity markets generally recovered in the latter part of the month to end higher.

The sharp fall in early August was triggered by disappointing US employment data, as well as concerns about elevated valuations in the technology sector as second-quarter earnings season progressed. However, subsequent US jobs data proved reassuring and the official estimate of US output growth in the second quarter was revised higher – to 3% from an initial reading of 2.8%. This helped bring a sense of calm back to markets.

The size of the interest rate cut by the US central bank in September was large but has been interpreted by markets as an "insurance" cut to assist the economy following a slight weakening in the employment market rather than a portent of recession. However, the central bank has not provided any clarification on how fast rates will fall – and futures markets appear to have priced in an overly optimistic view of the pace in interest rate cuts. This expectation will need to be managed by the US central bank to prevent any disappointment if rates are not cut as swiftly as many in the market currently hope.

At the start of August, the Bank of England (BoE) surprised markets as it reduced interest rates for the first time in more than four years. BoE governor Andrew Bailey warned that the 25bp move would not herald a rapid succession of further cuts. Indeed, interest rates were held at the bank's September meeting. The action followed a rate cut by the European Central Bank in June. Both central banks warned that future reductions would depend on a further easing of price pressures.

Concerns about high valuations in the technology sector have been around for some time, but nervousness increased during the second-quarter earnings season. Statements from Google-owner Alphabet and electric-vehicle-maker Tesla disappointed investors and helped spark a wider sector sell-off.

The mega-cap technology stocks – known as the 'Magnificent 7' – have been major drivers of recent equity market gains, with perhaps the most important member of this cohort, artificial intelligence (AI) microchip designer Nvidia, reporting highly-anticipated earnings at the end of August. Although revenue and profits came in ahead of Wall Street expectations, the shares fell as the valuation of the company implied an outcome that was even better than the good results reported by the business.

Chinese equities rallied sharply in September after authorities announced the largest raft of stimulus measures since the Covid-19 pandemic. The nation's economy is teetering on the brink of deflation and there are concerns that a prolonged structural slowdown is in prospect. The measures are aimed at stimulating domestic consumption in the export-dependent economy. The property market support package included a 50bp reduction in average interest rates for existing mortgages, and a cut in the minimum downpayment requirement to 15% on all types of homes. The Federal Reserve's 50bp cut in rates in the previous week allowed the People's Bank of China (PBOC) to follow suit without putting too much pressure on the yuan. PBOC Governor Pan Gongsheng said the central bank would cut the amount of cash banks have to hold in reserve – known as reserve requirement ratios – which will allow them to issue more loans.

The US is expected to engineer a soft economic landing as inflation is brought down to the Federal Reserve's target level – although the pace of interest rates cuts by most central banks is likely to be slower than many in the market currently believe.

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Portfolio Positioning

	EPIM Cabot Cautious	EPIM Cabot Moderately Cautious	EPIM Cabot Balanced	EPIM Cabot Growth	EPIM Cabot Global Equity
Fixed Income	**60%**	**51%**	**37%**	**20%**	**8%**
Sovereign Bonds	21%	13%	12%	8%	6%
Inflation Linked Bonds	5%	5%	4%	3%	2%
Investment Grade Bonds	34%	33%	21%	8%	-
Equity	17%	29%	47%	66%	75%
North American Equity	-	12%	21%	29%	36%
Japanese Equity	3%	5%	5%	6%	6%
European Equity	-	3%	3%	4%	5%
UK Equity	3%	5%	6%	6%	7%
Asia Pacific ex-Japan Equity	-	3%	6%	9%	9%
Global Emerging Market Eq	-	-	3%	7%	7%
Global Equity / Thematics	12%	2%	2%	4%	4%
Alternatives	5%	11%	12%	12%	15%
Property	2%	3%	3%	4%	6%
Infrastructure	3%	7%	8%	8%	8%
Cash & Equivalent	18%	10%	4%	2%	2%

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

Over the quarter we made a couple of changes to portfolios to reflect our latest Asset Allocation views.

Amongst the UK equities, while our views on the headline index did not change, we continued to find the mid-cap space attractive and saw the pull back during the summer as an opportunity to add to our position in this part of the market. We feel that the macroeconomic backdrop for the UK has improved, with growth bottoming, inflation falling, and a greater level of political certainty – albeit the direction the new government will take is still being confirmed. Valuations also remain undemanding, providing a buffer to some of the downside. We are continuing to monitor earnings closely and do not believe the hurdle rate for UK companies to exceed market expectations is unrealistic.

Amidst the sell-off in August, we saw a quick move towards safe-haven assets such as government bonds. US Treasuries also benefited from mixed employment data in the States, leading to pundits forecasting several near-term rate cuts. The result was the yield curve 'shifting down' in quick succession, with the capital value of the bonds rising. UK Gilt yields and US Treasury yields were offering very similar yields across nearly all maturities. We reviewed the weights allocated between US Treasuries and Gilts and felt we had the right balance. Amongst other changes, we did make some small adjustments to our short dated corporate bonds.

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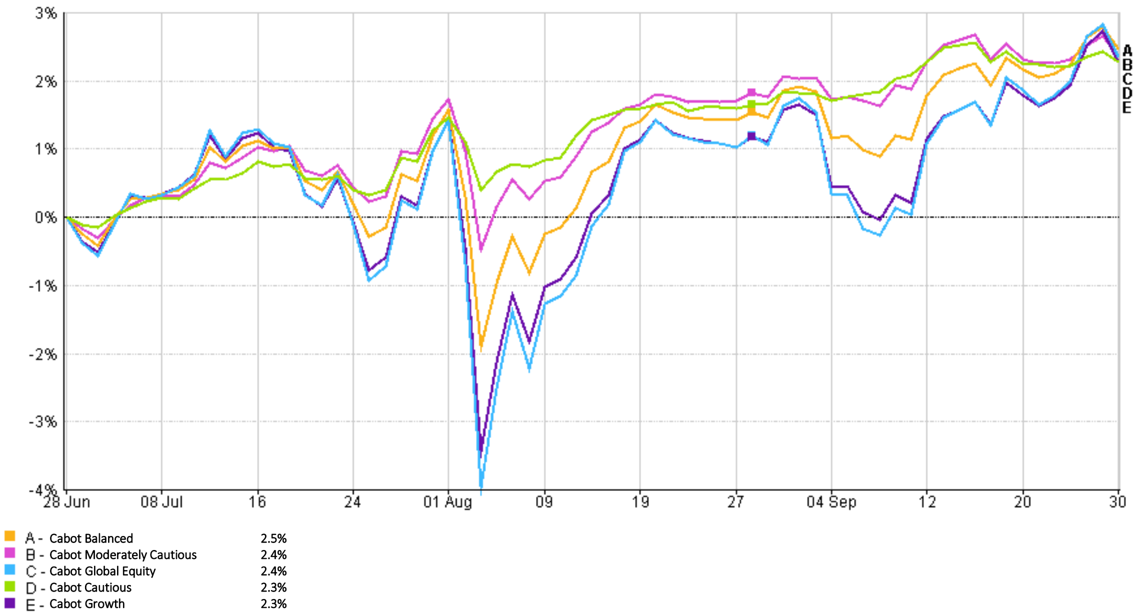
Figure 1: 3 month Performance



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

Quarterly Performance

The third quarter of 2024 was positive for portfolios overall but required a recovery from significant falls in global equity markets during August, repeating the pattern seen in Q2.

In this case, growing investor concerns around high valuations and the ability of companies to meet lofty growth expectations, particularly those highly linked to AI, coupled with weak US employment data sparked a sell-off in the US and other regions with a large exposure to technology such as Taiwan and South Korea. Elsewhere, Japan also saw notable volatility as a sharp appreciation in the yen following an interest rate rise impacted Japanese equities. More reassuring economic data led to a recovery in almost all regions through the quarter.

Conversely, July marked an upturn for bond markets as interest rate cuts took centre stage and the Fed guided the market towards a September cut as inflationary pressures eased. While aggressive cuts into the year-end were initially priced in, these have pulled back to more realistic levels with bond markets providing good returns as yields fell. Credit spreads also tightened over the quarter, supporting corporate bonds.

Outside of developed markets, Chinese equity markets saw a sharp rise at the end of the quarter on the back of supportive fiscal and monetary stimulus with the government’s change in stance being warmly received by markets.

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EPIM Cabot Growth	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	22.8	9.1	2.2
Sovereign Bonds	8.8	8.6	0.8
Inflation Linked Bonds	3.2	8.4	0.3
Investment Grade Bonds	10.8	9.6	1.1
Equity	64.9	21.1	13.3
North American Equity	32.0	27.2	8.6
Japanese Equity	5.6	15.1	0.5
European Equity	4.3	14.7	0.6
UK Equity	5.3	16.3	0.9
Asia Pacific ex-Japan Equity	8.3	17.2	1.4
Global Emerging Market Equity	6.0	14.4	0.9
Global Equity / Thematics	3.5	10.4	0.4
Alternatives	10.4	16.9	1.9
Property	4.0	16.0	0.7
Infrastructure	6.4	17.4	1.2
Cash	1.9	1.9	0.0

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12m Attribution

We saw strong returns across all asset classes and regions, with US equities once again leading the way. The positive numbers disguised some significant volatility over the period as rate expectations fluctuated.

All equity regions delivered double-digit returns, with US equities the largest contributor due to the superior performance of technology companies and size of the allocation to this region. Emerging markets continued to underperform developed countries but a strong rally by China at the end of the period helped close the gap.

The fixed income positions made solid contributions as yields fell, with corporate bonds performing well on the back of credit spreads tightening materially. Alternatives were buoyed by expected cuts to interest rates and made good contributions to overall performance. Listed infrastructure was helped by strong returns from utilities.

EPIM Cabot Cautious	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	62.7	8.9	5.7
Sovereign Bonds	20.7	8.2	1.7
Inflation Linked Bonds	5.0	8.4	0.4
Investment Grade Bonds	37.1	9.5	3.6
Equity	17.2	18.2	2.9
Japanese Equity	2.6	18.1	0.3
UK Equity	2.6	13.0	0.3
Global Equity / Thematics	12.0	19.8	2.3
Alternatives	4.7	17.0	0.8
Property	2.1	16.0	0.4
Infrastructure	2.6	17.4	0.5
Cash & Equivalent	15.3	4.6	0.7

EPIM Cabot Moderately Cautious	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	54.0	9.0	5.0
Sovereign Bonds	12.9	8.4	1.1
Inflation Linked Bonds	4.8	8.4	0.4
Investment Grade Bonds	36.4	9.4	3.5
Equity	30.1	18.7	5.4
North American Equity	12.9	24.8	3.0
Japanese Equity	3.9	15.4	0.5
European Equity	2.4	14.7	0.3
UK Equity	4.8	16.7	0.8
Asia Pacific ex-Japan Equity	3.4	15.4	0.5
Global Emerging Market Equity	0.1	-2.6	-0.1
Global Equity / Thematics	2.6	9.8	0.3
Alternatives	7.0	16.1	1.2
Property	2.7	16.0	0.5
Infrastructure	4.3	17.4	0.8
Cash	8.9	4.2	0.4

EPIM Cabot Balanced	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	39.1	9.0	3.7
Sovereign Bonds	12.0	8.4	1.0
Inflation Linked Bonds	4.3	8.4	0.4
Investment Grade Bonds	22.8	9.5	2.2
Equity	48.7	20.9	9.9
North American Equity	23.8	27.0	6.3
Japanese Equity	5.0	15.3	0.6
European Equity	3.5	14.7	0.6
UK Equity	4.8	16.7	0.8
Asia Pacific ex-Japan Equity	5.7	16.9	0.9
Global Emerging Market Equity	3.0	14.4	0.4
Global Equity / Thematics	3.0	9.7	0.4
Alternatives	8.8	17.0	1.6
Property	3.0	16.0	0.6
Infrastructure	5.8	17.4	1.0
Cash	3.4	3.8	0.1

EPIM Cabot Global Equity	Average Weight (%)	Total Return (%)	CTR (%)
Fixed Income	11.0	8.3	1.0
Sovereign Bonds	6.5	8.5	0.6
Inflation Linked Bonds	2.4	8.4	0.2
Investment Grade Bonds	2.1	7.8	0.2
Equity	74.2	21.0	15.4
North American Equity	37.7	26.7	10.0
Japanese Equity	6.5	14.5	0.8
European Equity	4.6	14.7	0.7
UK Equity	5.9	16.8	1.0
Asia Pacific ex-Japan Equity	9.1	17.3	1.6
Global Emerging Market Equity	6.5	14.4	1.0
Global Equity / Thematics	3.9	10.5	0.4
Alternatives	12.5	17.0	2.2
Property	5.6	16.0	1.0
Infrastructure	6.8	17.4	1.3
Cash	2.4	3.1	0.1

Source: Charles Stanley, Bloomberg, 12m to 30 September 2024. Figures Subject to rounding. Past performance is not a guide to future performance. CTR is Contribution to Returns.

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Top & Bottom Contributors – 12m to 30 September 2024

Fund	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
Cabot Cautious	Fidelity MSCI Japan Index P Hedged GBP	1.0	21.6	0.4	Legal & General Sterling Corporate Bond Index C Inc	0.2	-0.4	0.0
	Vanguard Developed World ex-UK Equity Index Inst	6.4	20.6	1.5	Legal & General Japan Index C Inc	1.6	-2.9	-0.1
	Legal & General Global Infrastructure Index C Inc	2.6	17.4	0.5				

Fund	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
Cabot Moderately Cautious	Legal & General US Index C Inc	9.6	22.1	2.1	Fidelity Index Emerging Markets P Acc	0.1	-2.6	-0.1
	L&G Short Dated Corp Bond Index C Inc	12.0	10.9	1.4	Legal & General Japan Index C Inc	1.7	-2.9	-0.1
	Fidelity Index US P Acc Hdg	3.4	33.3	0.9				

Fund	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
Cabot Balanced	Fidelity Index US P Acc Hdg	10.3	33.3	3.2	Legal & General Japan Index C Inc	2.0	-2.9	-0.1
	Legal & General US Index C Inc	8.7	22.1	2.0				
	Fidelity US Index Fund Inc	4.8	22.9	1.1				

Fund	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
Cabot Growth	Fidelity Index US P Acc Hdg	12.3	33.3	3.8	Legal & General Sterling Corporate Bond Index C Inc	0.2	-0.4	0.0
	Legal & General US Index C Inc	10.0	22.1	2.2	Legal & General Japan Index C Inc	2.5	-2.9	-0.1
	Fidelity US Index Fund Inc	7.8	22.9	1.7				

Fund	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
Cabot Global Equity	Fidelity Index US P Acc Hdg	13.3	33.3	4.1	Legal & General Japan Index C Inc	2.8	-2.9	-0.2
	Legal & General US Index C Inc	13.1	22.1	3.1				
	Fidelity US Index Fund Inc	10.4	22.9	2.3				

Source: Bloomberg – 30/09/2024. CTR = Contribution to Returns. Past performance is not an indicator of future performance.

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	2.2	0.1	0.2	3.7	5.0	4.8
EPIM Cabot Moderately Cautious	-1.2	-11.7	-11.7	2.0	0.1	0.2	4.9	6.6	6.6
EPIM Cabot Balanced	-1.9	-12.3	-12.3	2.2	0.3	0.4	6.2	8.0	8.4
EPIM Cabot Growth	-2.5	-12.6	-13.4	2.1	0.3	0.5	7.3	9.0	9.9
EPIM Cabot Global Equity	-3.0	-12.8	-15.9	2.1	0.4	0.5	8.1	9.8	11.2

Source: FE Analytics. All data as at 30 September 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.
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