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CHARLES STANLEY Wealth Managers

EPIM Cabot

Q4 2024 Portfolio Update

Latest Market Commentary – December 2024

Global stock markets were unseasonably weak in December, but the falls ended what was an exceptionally strong year for equities. Inflation cooled in major markets and consumer spending remained strong, particularly in the US.

The year-end fall followed a note of caution over the pace of US interest rate cuts during 2025 by the Federal Reserve. The US central bank is now projecting just two interest rate cuts over the year, as inflation has remained stubborn – and several of president-elect Donald Trump's policies are likely to be inflationary.

Mr Trump has threatened new tariffs on China, Mexico and Canada from the first day of his presidency in January, as he targets illegal immigration and drug smuggling. These are likely to lead to some price rises if fully enacted. The president-elect has proposed signing an executive order that would put a 25% tariff on all goods imported from Canada and Mexico, with Chinese exports subject to an additional 10% tariff until Beijing cracks down on the illegal export of fentanyl to the US. These three countries account for about 40% of US imported goods. Also proposed are mass deportations that will make low-skilled workers scarce, and tax cuts that are likely to increase or support consumer spending.

Markets initially gave a warm response to Donald Trump's decisive win in the presidential election. Although more policy details are needed to ease any fears over the reemergence of inflation as a significant problem, the overall sentiment is that the new administration will help create a supportive environment for growth and earnings as it cuts both regulation and taxes. In addition to the Republican Party's election victory, the US stock market was assisted by a series of interest rate cuts in the last few months of 2024.

Gains in UK equities have been more subdued than those on Wall Street, as the market trades at a discount and has little exposure to the technology sector. In 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 but a further 25bp cut was announced following the November meeting of its policy committee.

UK interest rates were kept unchanged in December following Labour's Budget statement, its first in 15 years, which was interpreted by markets as inflationary because spending is frontloaded in the plans and tax rises come later. Businesses are also subject to an increase in National Insurance contributions, which could mean price rises for consumers and issues in the jobs market as companies attempt to recoup these extra costs.

The market initially took Chancellor Rachel Reeves's tax increases – estimated at £40bn – in its stride. However, the yield on gilts jumped in the following days as the market digested the implications for UK borrowing, as many of the tax rises come with a delay.

The European Central Bank cut interest rates in June, October and December. Inflation is now at its target level, although the Eurozone economy remains weak. Political problems in France are so acute that the French government collapsed over disagreements relating to an austerity budget. Ousted Prime Minister Michel Barnier and his government will act in a caretaker capacity until the appointment of a new government.

Third-quarter reporting season was supportive for markets. In general, results from the quarter were solid, but a significant number of businesses disappointed the market with their guidance for sales and profit in the coming quarters.

The US is still expected to engineer a soft economic landing as inflation is slowly brought down to the Federal Reserve's target level. Although evidence of a slowdown has emerged in the UK, there is nothing yet in the data to suggest the slowdown could morph into a recession.

	EPIM Cabot Cautious	EPIM Cabot Moderately Cautious	EPIM Cabot Balanced	EPIM Cabot Growth	EPIM Cabot Global Equity
Fixed Income	58.8	50.1	36.4	18.7	7.8
Government Bond	20.0	12.5	11.4	8.0	5.9
Inflation Linked	4.8	4.6	4.2	3.0	1.9
Investment Grade Bond	34.0	33.0	20.9	7.8	0.0
Equity	17.9	29.5	48.2	67.1	76.0
North America	0.0	13.1	22.7	31.1	37.7
Japan	2.8	4.6	5.5	6.4	6.4
Europe	0.0	2.7	3.1	4.0	4.7
UK	2.6	4.8	5.4	5.8	7.1
Asia Pacific ex-Japan	0.0	2.9	6.0	8.7	8.8
GEM	0.0	0.0	3.4	6.9	7.2
Global/Thematic Equities	12.5	1.4	2.0	4.0	4.1
Alternatives	5.4	10.6	11.5	12.3	14.3
Property	2.2	3.3	3.1	4.1	6.1
Infrastructure	3.2	7.4	8.4	8.2	8.2
Cash & Equivalent	17.9	9.7	3.9	1.9	1.9

Source: Charles Stanley, as at 31st December 2024.

Portfolio Positioning

Although there were some changes to our asset allocation through the fourth quarter of the year, these were generally reflected in portfolios through the active decision to allow positions sizes to drift with the market rather than pulling them back to initial target weights.

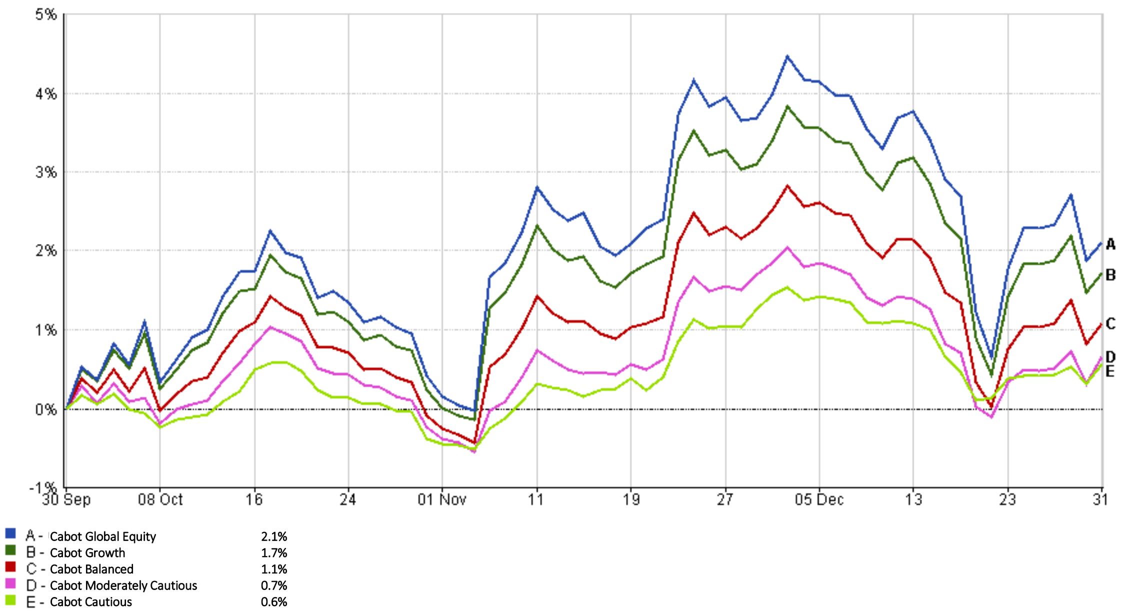
The key Asset Allocation changes through the quarter can be summarised as:

- Neutralising our previous overweight in Fixed Income and underweight in Equities.
- Moving one notch down each of our recommendations for Investment Grade and High Yield Corporate Bonds.

At the inception of these relative views, we had seen sovereign bond yields rise and credit spread remain at or near longer term trend levels. This was delivering investment grade bond yields in excess of 6%. Given our long-term return expectations for regional equity markets are generally in the range of 5-7% this was delivering an "equity-like" return from a lower-risk asset class. On a risk-adjusted basis these returns were compelling and allowed us to deliver against our inflation plus return targets with a diversified portfolio leveraging both fixed income and equity asset classes, alongside some alternatives.

While sovereign bond yields have remained high, and in many instances risen higher, we have seen credit spreads compress to such an extent that now we see less value in holding the riskier segments of the fixed income markets. In many geographies, the majority of your return is now likely to come from the sovereign bond component of the yield rather than the incremental credit spread received above that. We therefore have moved our Investment Grade score down to Neutral and our High Yield Bond score down to Under Weight.

Figure 1: 3 month Performance



Source: Financial Express Analytics, net income reinvested. Past Performance is not a reliable indicator of future returns. As at: 31 December 2024.

Quarterly Performance

The fourth quarter of 2024 saw heightened volatility, with a lot of focus on the US general election and subsequent policy narrative from the Trump campaign. Higher risk mandates produced modest total returns, with lower risk mandates marginally ahead after rising yields pushed several of the fixed income components offside.

US equities continued to be the biggest positive contributor to returns with unhedged US equities the best performing region. European assets struggled, due to weakness in France where political problems remain acute and the French government collapsed over disagreements relating to an austerity budget.

As markets began to price in less aggressive rate cuts by most major Central Banks, fixed income assets felt the pain of rising yields. Shorter duration or higher credit spread products generally eked out positive total returns, but longer duration assets sold off.

Along with fixed income, other rate sensitive asset classes such as Property also struggled to maintain the positive total returns they had delivered earlier in the year.

With inflation heading towards target, at least at the headline level, our return objectives are back in sight, and we have seen positive progress in closing some of the gap that had built in recent years following the pandemic induced inflationary wave. On a full year basis, the models are achieving these once again over the shorter time horizons.

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12m Attribution

EPIM Cabot Growth	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	21.3	1.5	0.3
Government Bond	8.6	-2.1	-0.2
Inflation Linked Bond	3.2	1.7	0.1
Investment Grade Bond	9.5	5.0	0.5
Equity	65.6	16.3	10.5
North America	31.2	26.1	7.8
Japan	6.0	15.7	0.7
Europe	4.1	2.3	0.1
UK	5.5	8.6	0.4
Asia Pacific ex-Japan	8.6	7.3	0.6
Global Emerging Market	6.5	9.2	0.6
Global Equity / Thematics	3.7	5.8	0.2
Alternatives	11.3	8.2	1.1
Property	4.1	2.2	0.1
Infrastructure	7.3	12.6	1.0
Cash & Equivalent	1.8	2.3	0.0

We saw strong returns across many asset classes and regions on a trailing 12-month basis, with US equities the standout performer again. Equities in general performed well, with positive returns across the regions. Japanese equities delivered attractive total returns, though these would have been higher had they been held on a fully, rather than partially, hedged basis given the continued weakness of the Japanese Yen.

Within our US equity exposure, it was the unhedged positions that stood out, with a total return of over 27% for the period, driven by technology shares. USD weakness as we ran through Q3 turned around sharply in Q4, adding to the performance of the underlying market. Our weakest equity performance came from the L&G European Equity Index fund which lost half the yearly gain in the final quarter as political problems in France intensified.

Fixed Income allocation delivered modest positive total returns in aggregate, with the best performance coming from shorter duration investment grade bonds. This once again highlighted the benefit of our active duration management against a backdrop of volatile rate expectations. The picture was mixed amongst the Alternatives exposures, with a small positive return from Property but a good contribution from Infrastructure where the utilities sector delivered a solid performance.

EPIM Cabot Cautious	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	60.7	2.6	1.5
Government Bond	20.5	-0.9	-0.2
Inflation Linked Bond	4.9	1.7	0.1
Investment Grade Bond	35.3	4.7	1.6
Equity	17.4	17.5	2.9
North America	0.0	0.0	0.0
Japan	2.7	17.0	0.3
Europe	0.0	0.0	0.0
UK	2.6	9.3	0.2
Asia Pacific ex-Japan	0.0	0.0	0.0
Global Emerging Market	0.0	0.0	0.0
Global Equity / Thematics	12.0	20.1	2.3
Alternatives	5.1	7.8	0.4
Property	2.2	2.2	0.0
Infrastructure	3.0	12.6	0.4
Cash & Equivalent	16.8	4.6	0.8

EPIM Cabot Moderately Cautious	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	52.4	2.6	1.3
Government Bond	12.7	-0.8	-0.1
Inflation Linked Bond	4.7	1.7	0.1
Investment Grade Bond	34.9	4.0	1.4
Equity	29.6	14.9	4.3
North America	12.6	26.5	3.1
Japan	4.3	16.0	0.5
Europe	2.5	2.3	0.0
UK	4.8	8.7	0.4
Asia Pacific ex-Japan	3.2	6.4	0.2
Global Emerging Market	0.0	0.0	0.0
Global Equity / Thematics	2.2	-1.0	0.0
Alternatives	8.6	7.6	0.9
Property	3.0	2.2	0.1
Infrastructure	5.6	12.6	0.7
Cash & Equivalent	9.4	4.3	0.4

EPIM Cabot Balanced	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	38.2	2.3	0.9
Government Bond	11.8	-1.3	-0.2
Inflation Linked Bond	4.2	1.7	0.1
Investment Grade Bond	22.2	4.5	1.0
Equity	48.1	16.1	7.6
North America	22.9	26.1	5.7
Japan	5.3	16.1	0.7
Europe	3.3	2.3	0.1
UK	5.0	8.6	0.4
Asia Pacific ex-Japan	5.8	7.1	0.4
Global Emerging Market	3.2	9.2	0.3
Global Equity / Thematics	2.7	-0.4	0.1
Alternatives	10.0	8.4	1.0
Property	3.1	2.2	0.1
Infrastructure	6.9	12.6	0.9
Cash & Equivalent	3.6	3.8	0.1

EPIM Cabot Global Equity	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Fixed Income	10.0	-0.7	0.0
Government Bond	6.2	-2.1	-0.2
Inflation Linked Bond	2.1	1.7	0.0
Investment Grade Bond	1.6	3.2	0.1
Equity	74.4	16.7	12.2
North America	37.1	26.1	9.3
Japan	6.6	15.0	0.9
Europe	4.6	2.3	0.1
UK	6.3	8.7	0.5
Asia Pacific ex-Japan	9.0	7.4	0.7
Global Emerging Market	6.9	9.2	0.7
Global Equity / Thematics	4.0	4.9	0.2
Alternatives	13.5	7.8	1.3
Property	5.9	2.2	0.2
Infrastructure	7.6	12.6	1.0
Cash & Equivalent	2.1	2.8	0.1

Source: Charles Stanley, Bloomberg, 12m to 31 December 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 31 December 2024

Cabot Cautious	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
	Vanguard Developed World ex-UK Equity Index	4.9	20.4	1.1	L&G All Stocks Gilt Index Trust C Inc	9.7	-3.2	-0.3
	L&G International Index Trust	6.6	13.2	1.0	Vanguard US Government Bond Index GBP Hedged	1.8	-3.4	-0.2
	L&G Short Dated Corp Bond Index	12.9	4.9	0.6	Legal & General Japan Index	2.3	-0.4	0.0

Cabot Moderately Cautious	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
	Legal & General US Index C Inc	9.3	27.2	2.4	Vanguard US Government Bond Index GBP Hedged	1.7	-3.4	-0.2
	Fidelity Index US Hdg	3.3	24.5	0.7	L&G All Stocks Gilt Index Trust C Inc	4.8	-3.2	-0.2
	Legal & General Global Infrastructure Index	5.6	12.6	0.7	L&G European Index Trust	2.1	-1.8	-0.1

Cabot Balanced	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
	Fidelity Index US Hdg	9.8	24.5	2.3	L&G All Stocks Gilt Index Trust C Inc	5.7	-3.2	-0.2
	Legal & General US Index C Inc	8.2	27.2	2.1	Vanguard US Government Bond Index GBP Hedged	1.4	-3.4	-0.2
	Fidelity US Index Fund	4.9	27.2	1.2	L&G European Index Trust	2.5	-1.8	-0.1

Cabot Growth	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
	Fidelity Index US Hdg	12.4	24.5	2.9	L&G All Stocks Gilt Index Trust C Inc	4.7	-3.2	-0.2
	Legal & General US Index C Inc	10.0	27.2	2.6	Vanguard US Government Bond Index GBP Hedged	1.3	-3.4	-0.1
	Fidelity US Index Fund	8.0	27.2	2.0	L&G European Index Trust	3.3	-1.8	-0.1

Cabot Global Equity	Positive Contributors				Negative Contributors			
	Description	Weight (%)	Return (%)	CTR (%)	Description	Weight (%)	Return (%)	CTR (%)
	Fidelity Index US Hdg	13.9	24.5	3.2	L&G European Index Trust	3.7	-1.8	-0.1
	Legal & General US Index C Inc	12.1	27.2	3.2	L&G All Stocks Gilt Index Trust C Inc	3.5	-3.2	-0.1
	Fidelity US Index Fund	10.6	27.2	2.7	Vanguard US Government Bond Index GBP Hedged	0.9	-3.4	-0.1

Source: Bloomberg – 31/12/2024. 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	1.3	0.1	0.2	2.9	5.1	4.8
EPIM Cabot Moderately Cautious	-1.1	-11.7	-11.7	1.5	0.0	0.3	3.6	6.7	6.7
EPIM Cabot Balanced	-1.2	-12.3	-12.3	1.9	0.2	0.4	4.2	8.1	8.5
EPIM Cabot Growth	-1.3	-12.6	-13.4	2.0	0.2	0.5	5.0	9.1	10.0
EPIM Cabot Global Equity	-1.5	-12.8	-15.9	2.1	0.3	0.5	5.5	9.9	11.3

Source: FE Analytics. All data as at 31 December 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

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