Wealth Management

eden park
INVESTMENT MANAGEMENT

Eden Park Quarterly report

Q3 2024 market review

Overview

- Bank of Japan hike rattles markets
- The Fed goes bold with its first cut
- Equity market rally broadens out

Macroeconomic landscape

Globally inflation is gradually moving toward central bank targets, easing market concerns about the high inflation of 2022. So far the European Central Bank, Bank of England, and Federal Reserve have made their first interest rate cut. Japan, on the other hand, raised interest rates for only the second time in 17 years.

The global economy remains robust but signs of weakness are emerging. In July, markets were spooked by weak US economic news, as payroll data weakened, and the unemployment rate unexpectedly rose to 4.3%. Despite a more aggressive US interest rate cut than expected, growth continues to be resilient and the US consumer healthy, and while the labour market is fraying around the edges, it is structurally healthy from a historical standpoint.

In August, equity market **volatility** spiked, with US tech and Japanese stocks impacted by the unwinding of the **Yen 'carry trade'**, which caused major disruptions. Japan experienced a brief but intense **bear market**, with a 20% drop in just three days, followed by a swift recovery. Fixed income provided ballast to portfolios in August, outperforming equities, with **defensive** stocks outperforming previous market darling technology. Gold also reach all-time highs in September, continuing an impressive run YTD.

In the UK, the euphoria surrounding the Labour landslide victory was short-lived. The upcoming budget announcements are unlikely to be market-moving, but it will undoubtably have implications for UK consumers and businesses. The US election continued to gain attention, with Kamala Harris narrowly leading in key swing states after the second assassination attempt on Donald Trump. With a month until the 60th US Presidential election completes on 5th November, the result remains far too close to call, but the shift in momentum towards the Democratic party and Kamala Harris cannot be ignored.

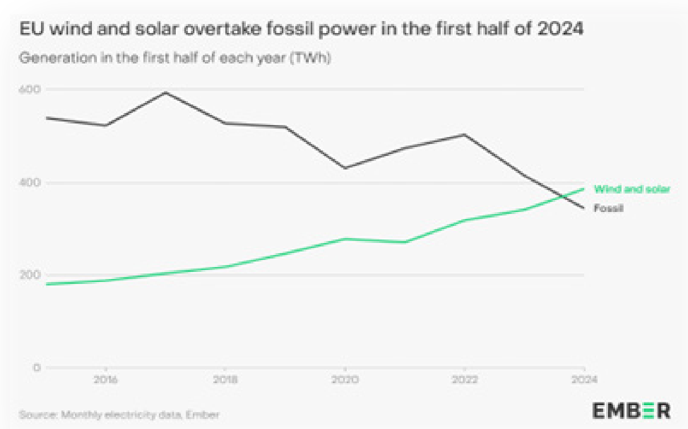
China unveiled its largest stimulus package yet to boost the property market, including cuts to outstanding mortgage rates and record-low down payments for second homes. The market responded positively, as scepticism turned to optimism, with the meeting itself signalling that China are focusing on getting their economy back on track. China and broader Asia **rallied** into the quarter end.

The energy transition hits three important milestones

Written by Ben Palmer, Lead Portfolio Manager

The pressing need to replace fossil fuels with renewable sources in our global energy system is one of the most dynamic economic transitions in human history. We are all aware of the scale of the challenges and at times it is easier to focus on these rather than the significant progress that is being made and the opportunities that building a new energy system creates. In 2024 we have continued to see record installation of new capacity and we have hit three important milestones.

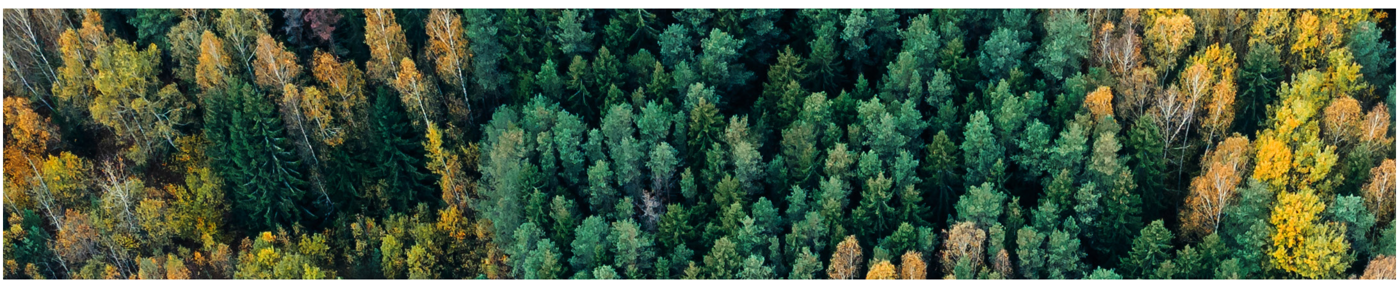
Starting off close to home the UK turned off its last coal fired power station in September. This brings an end to the 142 year era of coal powering our electricity grid and a rapid decline in its share of energy production over the last couple of decades. First driven by the move to gas, and more recently the rapid expansion of wind and solar capacity. This is a landmark moment for the UK electricity grid and the focus now switches to displacing gas. This shift in our electricity generation has helped contribute to UK domestic emissions falling to their lowest level since 1879 last year. Over a shorter time frame UK annual emissions have fallen 53% from 1990 levels, while GDP has grown 82%. (Ember, 2024) So whilst we should not be too self-congratulatory because we still have a lot of work to do, it is important to acknowledge these milestones as evidence of the change that is being delivered.



Moving from the domestic to the regional the next milestone that was achieved this year relates to the EU. The first half of 2024 saw wind and solar provide more electricity than fossil fuels for the first time. Similar to the UK this milestone has been reached through a combination of a significant scaling up of renewables capacity coupled with falling investment in fossil fuel. The interesting dynamic is that this shift is being driven across the member states rather than a few larger ones. 13 out of the 27 member states now generate more electricity from renewables than fossil fuels, broadening from just five in 2019. (Ember, 2024). It is also interesting to look at the political picture. Much has been made of the rise in popularity of right wing parties in Europe and the impact this might have on the energy transition, however one of the states that tipped into renewables supremacy this year was Hungary led by the well known right wing leader Viktor Orban. This helps evidence that the energy transition does not always align neatly with political ideologies.

Finally and perhaps most importantly China is projected to hit peak emissions this year, ahead of its initial 2030 target. China has dominated both the production and installation of wind and solar capacity as it fights to meet growing energy demand whilst weening itself off fossil fuels. The speed at which it has been able to build its renewables footprint is unmatched. In 2023 it installed 217 gigawatts of new solar capacity, more than the whole of the US current capacity (175 gigawatts) (Ember, 2024). This has allowed China to not only meet growing demand but now start to displace its historic reliance on coal. As the worlds second largest economy moves into structural emissions decline it signifies an important milestone in the global ambition to meet net zero targets.

These milestones are just that, indicators on a much longer journey and the companies that are enabling and benefiting from the transition to renewables based energy system still have huge opportunities ahead of them.



Sustainable MPS performance update

Written by Kevin Le, Trainee Sustainable Portfolio mnaager

While the second quarter was a story of a few companies dominating equity returns, Q3 has seen **volatile** equity markets with sentiment swinging from positive inflation and economic data driving positive returns in areas like **mid** and **small cap** companies to concerns over weakening labour markets, switching focus towards more **defensive** areas of the market. Overall equity returns have begun broadening away from the high **growth mega-cap** names and we have seen several of the funds held in our portfolios be beneficiaries of this.

Morgan Stanley Global Sustain (+7.65%) performed strongly particularly in the latter part of the period with its allocations to more defensive parts of the equity market.

Foresight Global Real Infrastructure (+7.46%) continued to deliver positive returns since its poorer performance in Q1. Since the US fed cut rates by 50bps in September, the negative impact of a high-rate environment on the fund's significant exposure to long duration assets such as digital and renewable energy infrastructure have eased. This translated into positive performance for portfolio holdings with Clearway Energy, a leading US renewables developer and operator, **rallying** over 25% for the quarter.

Ninety One Global Environment (+5.31%) has seen a significant recovery since its negative performance earlier in the year. In addition to its **long-duration** asset exposure benefitting from an easing of rates, another key factor in Ninety One's performance has been the recent Chinese stimulus measures which included cuts to rates and government funding to boost equity markets. With holdings such as Sungrow and CATL which have returned c. 60% and 40% respectively over the quarter, Ninety One's high conviction in a select number of leading Chinese clean tech companies has been favourable this quarter.

For **fixed income**, **bonds** have posted strong performance providing investors protection against a volatile equity market. As interest rate cut expectations increased, government bonds performed well particularly in the UK where fiscal policies are expected to remain tight. We saw investors begin to take advantage of attractive yields across corporate debt which has been positive across our investment grade holdings. The Brown Advisory Global Sustainable Total Return Bond (+5.11%), which is majority US government bonds but also invested in global investment grade corporates, performed strongly over the period. Similarly, Pictet Global Sustainable Credit (+4.95%) which has a significant exposure to North American and Developed Europe investment grade credit saw favourable returns.

Robeco Smart Materials (-2.11%) while recovering slightly in September, performed negatively over the quarter. Given the fund's cyclical nature and its sensitivities to commodities, a reduction in manufacturing activity and the ongoing decline in commodity prices particularly in materials such as copper and lithium have been a headwind for the fund. Following the announcement of the China stimulus package, the fund has performed positively as we enter into Q4.

Reduced cash

While cash has been an attractive opportunity with the rise of rates providing positive returns in an uncertain market, the likelihood of additional rate cuts over the short-term has reduced the attractiveness of holding cash relative to equities. We therefore, have reduced cash across our Defensive, Cautious and Balanced portfolios, increasing our equity allocations.

Removing Impax Asian Environmental Markets

At the start of the quarter, we removed Impax Asian Environmental Markets from our portfolio range. We have been monitoring the strategy over several months following a period of weak performance, a change in manager and negative fund flows. Following a full review the committee decided that we have greater conviction in our other regional and global holdings and therefore decided to remove the position across portfolios and redistribute capital.

We still view Asia, particularly Asia Emerging Markets as an attractive opportunity so in the higher risk portfolios we rotated the allocation into the Polar Capital Emerging Market Stars and RobecoSAM Smart Materials funds, both of which are exposed to Asian growth. This allowed us to remove Impax without deviating the exposures within the portfolio.

Increased equities

While there has been volatility and questions posed on the negative impacts of higher rates on the economy. We still maintain our belief that a **soft-landing** scenario is the most likely outcome with falling inflation, interest rate cuts and a relatively resilient economic backdrop. We have therefore used the volatility to add to our equity allocation across our Cautious, Balanced, Growth and Adventurous portfolios.

In August, from our decision to reduce cash from Defensive, Cautious and Balanced, we reallocated this across our core global equity funds and to Alliance Bernstein Sustainable US thematic. For our Growth portfolio, we reduced the L&G All Stocks Gilt by 1% and Rathbone Ethical bond fund by 1%, allocating this capital to RobecoSAM Smart Materials fund. After a difficult period of performance, we still have conviction in fundamentals and the pullback at the start of the quarter has given us an opportunity to build this position. For our Adventurous portfolio, we sold out of the Vanguard UK Long Duration Gilt (3%), allocating this evenly across our core global equity funds. With bond **yields** falling and the equity market pullback, we saw an opportunity to move the gilt position into equities.

Q3 2024 performance

Performance of all LGT WM funds in Q3 2024

Morgan Stanley Global Sustain
+7.65%

Foresight Global Real Infrastructure
+7.46%

Ninety One Global Environment
+5.31%

Brown Global Advisory Sustainable Total Return Bond
+5.11%

Pictet Global Sustainable Credit
+4.95%

Robeco Smart Materials
-2.11%

12-month rolling performance

Portfolio	01/10/2019-30/09/2020	01/10/2020-30/09/2021	01/10/2021-30/09/2022	01/10/2022-30/09/2023	01/10/2023-30/09/2024
LGT WM Sustainable Defensive	3.89	5.98	-10.19	2.68	10.23
LGT WM Sustainable Cautious	5.14	9.92	-11.30	3.70	11.49
LGT WM Sustainable Balanced	6.70	15.29	-11.85	4.21	12.60
LGT WM Sustainable Growth	9.91	19.00	-14.32	4.50	14.71
LGT WM Sustainable Adventurous	11.10	21.25	-15.32	4.64	15.21

Model portfolio performance as at 30 September 2024

Portfolio	3 month	6 months	1 year	3 years	Since inception
LGT WM Sustainable Defensive	2.64	3.37	10.23	1.65	21.19
LGT WM Sustainable Cautious	2.50	3.28	11.49	2.55	29.22
LGT WM Sustainable Balanced	2.32	3.25	12.60	3.44	40.20
LGT WM Sustainable Growth	2.41	3.35	14.71	2.71	50.24
LGT WM Sustainable Adventurous	2.06	3.07	15.21	2.08	54.26

Sources: Morningstar
Performance is gross of 0.30% AMC and net of underlying charges.
Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Further material

Click here to watch a five-minute roundup of the last quarter with LGT's Senior SMPS Portfolio Manager, Ben Palmer.

Click here for a comprehensive analysis of recent market trends, including market volatility, political shifts, and economic policies, read "A Look Back at the Quarter".

Glossary

Absolute Return Funds	A form of alternative asset. They actively adjust their positions between equities, bonds, gold and other asset classes, typically with the aim of providing investment return across all market conditions.
Bear Market	A market condition where stock prices drop significantly
Bonds	Bonds are debt securities issued by governments and corporations to raise money. Similar to an IOU, the investor lends money with the agreement that it will be paid back by a specific date, and they will receive periodic interest payments along the way. Bonds come under the umbrella of '**fixed income**' investments.
Defensive	Defensive positions prioritise preserving capital over growth. It is important to hold such positions in periods of market turbulence.
Delisting	When a stock exchange removes a company's shares, making them no longer publicly traded.
Diversification	Spreading your money across different types of investments, such as equities, bonds, and property, instead of putting all your money in just one type of investment. By doing this, you can reduce the overall risk of your investment portfolio.
Duration	The sensitivity of the price of a bond to changes in interest rates. A bond with a longer duration will typically be more sensitive to changes in interest rates than a bond with a shorter duration.
Fixed Income	Investments that provide regular, set interest payments, such as bonds or treasury bills, and return the principal at maturity.
Growth vs Value	Most stocks are classified as either value stocks or growth stocks. Generally speaking, a value stock trades for a cheaper price than its financial performance and fundamentals suggest it's worth. A growth stock is a company which comes at a higher price however, its profits are expected to grow significantly in the coming years as the company develops – this is typical for technology firms.
High Yield Bonds	High yield bonds pay investors a higher level of interest due to a great risk the borrower may default
Index	A fund that aims to track the performance of a market index.
Magnificent Seven	A group of high-performing technology companies considered industry leaders, including Apple, Amazon, Alphabet, Microsoft, Meta, Tesla, and Nvidia.
Market Capitalisation (Market Cap)	Market 'cap' is the market value of a company based on its current share price and total number of shares. Ultra-large cap companies have the largest market capitalisation. The largest companies by market cap are currently Apple, Microsoft, Alphabet (Google), Amazon, Nvidia and Meta (Facebook).
Mega-cap	Ultra-large cap companies with the highest market capitalization
Quality-value	An investment style focusing on quality and value stocks, avoiding sectors like Technology
Rally	A market rally is a sustained increase in stock prices driven by positive investor sentiment and economic conditions.
Sentiment	Market sentiment is the overarching attitude or outlook of investors towards a particular security, sector of the market or economy as a whole.
Soft vs. Hard Landing	A soft landing refers to a gradual economic slowdown or adjustment, usually avoiding a recession, while a hard landing is a sudden and severe economic downturn often leading to a recession.
Value-Trap	An investment selling at depressed prices due to intrinsic issues
Volatility	The degree of fluctuation in a security's price or a market's performance over time. A highly volatile share experiences larger price changes compared to more stable investments, indicating higher risk.
Yen Carry Trade	The Yen carry trade is a financial strategy where investors borrow funds in Japanese yen, which typically has low-interest rates, and invest in higher-yielding assets in other currencies.
Yield	The income you receive on an investment, such as dividends from shares or interest from bonds.
Yield Curve	A visual depiction of how the yields of bonds vary at different maturities. It shows how much you'd earn if you invested your money for a short time, e.g. 6 months, versus if you invested it for a longer time,

Cover image Bauer brothers, Hortus Botanicus, detail from "Lilium," 1776/1804