Oxfordshire County Council Pension Fund

Quarterly Investment Report

Q2 2024

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Key Indicators at a Glance

Index (Local Currency)		Q2	YTD
Equities		**Total Return**	
UK Large-Cap Equities	FTSE 100	3.73%	7.85%
UK All-Cap Equities	FTSE All-Share	3.71%	7.40%
US Equities	S&P 500	4.28%	15.29%
European Equities	EURO STOXX 50 Price EUR	-1.58%	11.15%
Japanese Equities	Nikkei 225	-1.86%	19.30%
EM Equities	MSCI Emerging Markets	5.03%	7.60%
Global Equities	MSCI World	2.77%	12.04%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	-0.89%	-2.49%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	-2.77%	-6.23%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	-2.09%	-3.86%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	-4.01%	-7.31%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	-1.34%	-1.99%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	0.09%	-0.86%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	-1.43%	-3.64%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	0.30%	2.34%
Bond Indices			
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	-0.33%	-0.14%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	0.14%	0.70%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	1.39%	3.23%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	-0.09%	-0.49%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	1.09%	2.58%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-1.22%	12.16%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	47.53%	3.46%
Gold	Generic 1st Gold, USD/toz	5.51%	12.93%
Copper	Generic 1st Copper, USD/lb	9.57%	12.85%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	0.89%	2.31%
GBP/USD	GBPUSD Exchange Rate	0.17%	-0.68%
EUR/USD	EURUSD Exchange Rate	-0.71%	-2.95%
USD/JPY	USDJPY Exchange Rate	6.30%	14.07%
Dollar Index	Dollar Index Spot	1.32%	4.47%
USD/CNY	USDCNY Exchange Rate	0.62%	2.36%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	2.62%	4.01%
Private Equity	S&P Listed Private Equity Index	0.76%	8.09%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	0.72%	5.53%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	-2.13%	-2.51%
Volatility		**Change in Volatility**	
VIX	Chicago Board Options Exchange SPX Volatility Index	-4.38%	-0.08%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested and in local currency.

Performance

The Fund rose by 1.1% in the second quarter of 2024 to a value of £3.566bn. This is close to an all-time high. As can be seen from the previous table, Equities continued to generate positive returns in most regions over the quarter with Government Bonds weaker across the board. Higher Yielding Credit achieved a small positive return as the yield offset slight capital weakness, credit spreads against Government Bonds remain tight. Alternative Investments generated marginally positive returns across the board.

The Fund underperformed its benchmark by -1.0%. Much of this underperformance was driven by the poor performance of the Fund's two active equity portfolios with Brunel Global Sustainable Equity behind its benchmark by -3.5% and Brunel Global High Alpha Equity behind its benchmark by -1.6%. These two portfolios dragged down the Fund's relative return against its benchmark by approximately -0.75%. The Fund's direct Private Equity portfolio, which is benchmarked against listed equity markets but failed to keep pace with this return, contributed a further -0.1% to the Fund's underperformance.

The Fund is now lagging its benchmark over 3 years (by -2.0%); 5 years (by -1.0%) and 10 years (-0.1%). Over the last 3 years the performance of the underlying managers selected by Brunel has been somewhat disappointing, however, I believe this to be heavily influenced by the strong environmental slant which is a core part of Brunel's ethos. I continue to support this environmentally focused slant for the longer term. Returns of 7.7% per annum over the last 10 years, being above the Fund's actuarial discount rate assumption for future investment returns, will have helped improve the funding ratio between the triennial actuarial revaluations.

Comment

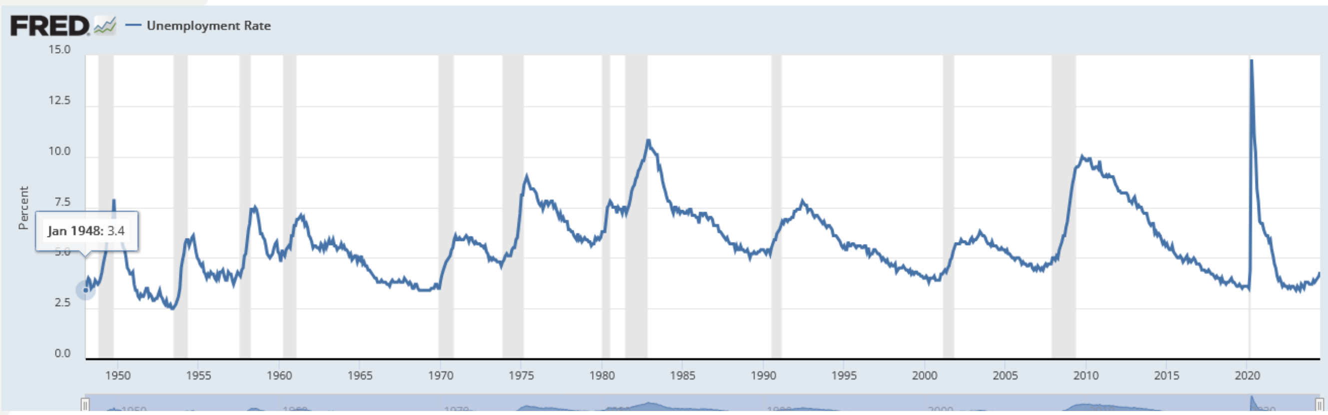
As I write this report markets are experiencing a period of raised volatility as concerns about a potential US recession resurface. There are many hypotheses over what has triggered the market turmoil but the sensitivity of equity markets to bad news is accentuated by stretched valuations, particularly in the US, which give limited support when sentiment becomes risk adverse.

The two main issues which, I believe, triggered the downdraft in equity markets was a confluence of short-term selling pressure with rising concern over a US recession. The realisation that the Bank of Japan (BoJ) would raise interest rates, partly to support the currency, altered the trajectory of the Dollar/Yen exchange rate. This is important because there is a substantial amount of money borrowed in Yen and reinvested into US Treasuries and other, higher risk, assets, this is referred to as the 'carry trade'. Borrowing in Yen is cheap and there is a yield pick up if the proceeds are reinvested into US Treasuries of 4% plus, but this only works if the Yen is stable or weak against the US Dollar, any sudden currency strength quickly wipes out the interest rate pick-up leading participants to unwind their trades very rapidly, this created selling pressure on markets and buying pressure on the Yen versus the US Dollar.

Chart 1: US Dollar/Yen exchange rate.

On the economic front, US data has been confusing of late, with economic growth slowing but not aggressively. However, as economic growth slows there will always be a moment when markets question whether this is just a slowdown or a potential recession. The US unemployment rate picked up to 4.3% in July having been at 3.4% in the middle of last year and 3.7% in January 2024. The chart below, from the St Louis Federal Reserve, shows that whilst one month's data can be of little use, once it confirms a trend it ends in recession. The pick-up seen at the far right hand of this long-term chart is what is worrying markets at present.

Chart 2: US Unemployment rate

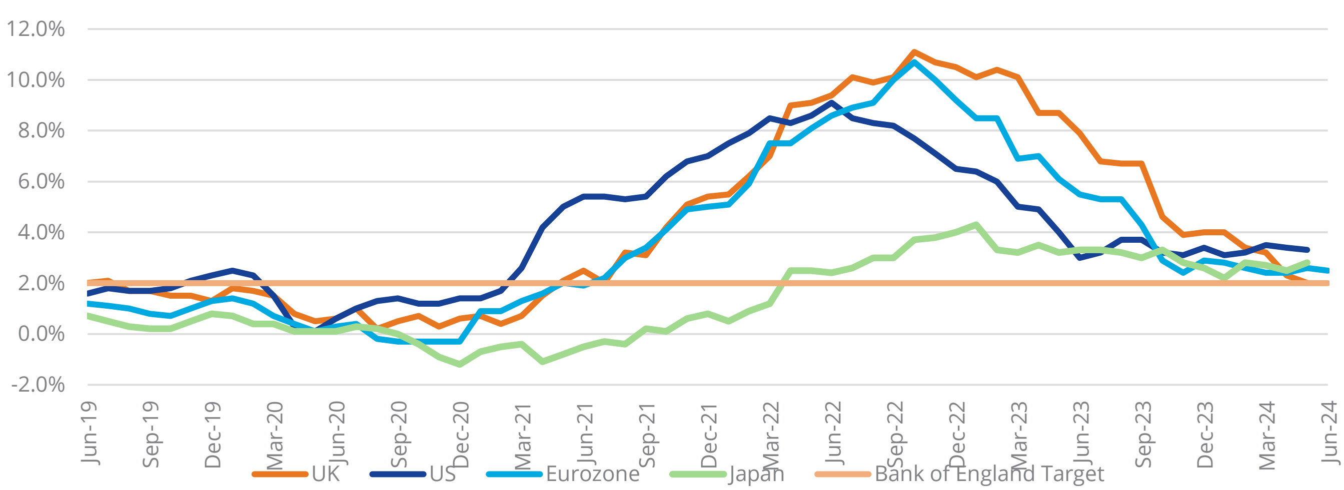


This economic slowdown in the US can also be seen in rising credit card balances and car loan delinquencies as the less well-off consumer continues to struggle with the rising cost of living.

Whilst we remain in a period of uncertainty about the speed of the US economic slowdown in particular, markets are likely to be buffeted by each upcoming data point with little sense of direction. In my experience, periods of market volatility tend to come in clusters.

What we have learnt from the last 18 months is that the time lag between rising interest rates and their effect on the US economy in particular has lengthened as both the corporate sector and the US consumer extended their debt payment profile during the years of ultra-low interest rates. The effects of the rapid interest rate rises in 2022 are still playing out and will continue to do so. This longer time lag should be remembered when interest rates are cut. It may be harder to stave off a recession than it has been in the past.

Chart 3: CPI – Annual rate of Inflation - Five Years to June 2024



Source: Bloomberg

Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

The first quarter of 2024 saw the start of interest rate cuts in the developed world with the Swiss National Bank (SNB) cutting rates by 0.25% in March. The second quarter has seen further cuts with the Riksbank (Sweden) cutting rates in May and the SNB again followed by the European Central Bank and the Bank of Canada in June. Since the quarter end the Bank of England has also cut interest rates by 0.25% as inflation has remained at the target level of 2% for the second month running. As can be seen in the Chart on the previous page, inflation has fallen from its peak in 2022 but central banks are struggling to hit their target of 2% with service sector and wage inflation remaining elevated.

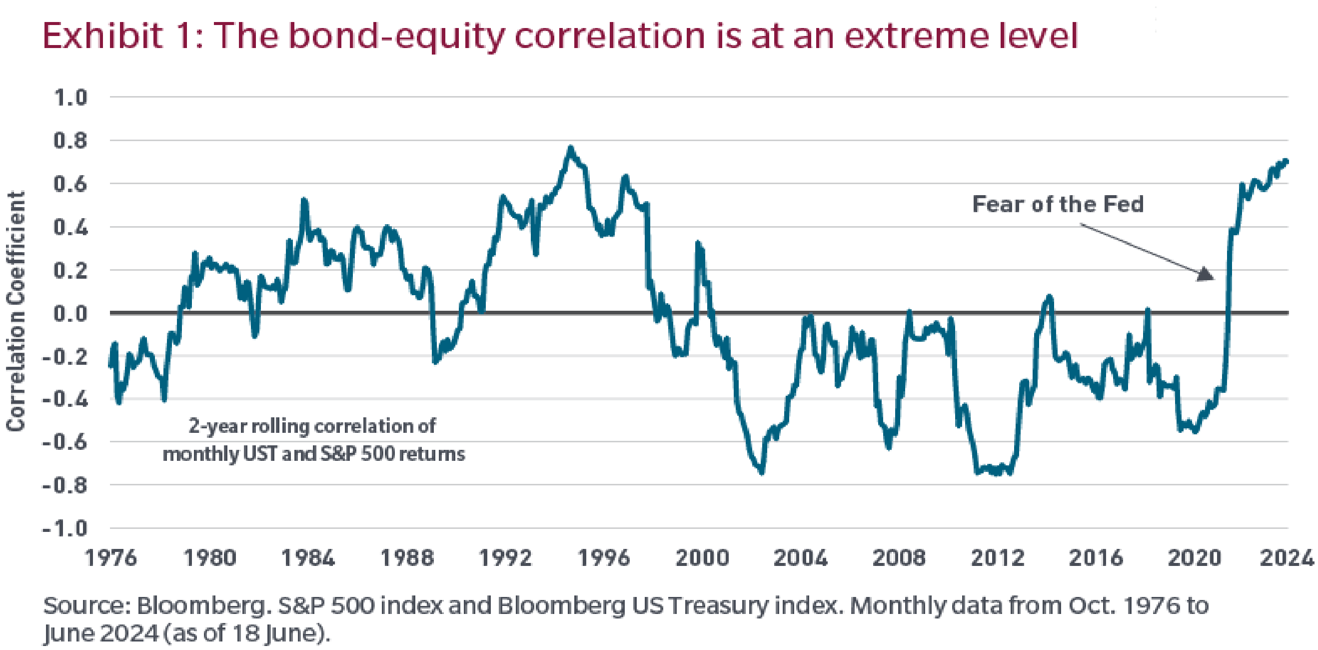
I continue to see inflation as prone to bouts of strength going forward as a number of long-term structural forces have become supportive of higher inflation. This is a different Marlet backdrop than that experienced over the past 20 years. This change can perhaps best be shown by the change in correlation between equities and bonds.

During the first 20 years of the twenty first century inflation was a weak force and, when interest rates were cut, it was because of a heightened risk of deflation. In this scenario the heightened economic uncertainty of a deflationary environment was a negative for equities. So equities fell and bond yields fell (bond prices rising) with equities and bonds moving in opposite directions (a negative correlation). Now, with inflation a stronger and more immediate force, any rises in interest rates and ensuing falls in bond prices increase economic uncertainty around the economy overheating and potential inflation and so bond yields will rise (bond prices fall) at the same time as equity prices fall and vice versa with equities and bonds now positively correlated.

The chart below shows that since 2020 the rolling two-year correlation between US equities and bonds has altered. Now they are positively correlated, both rising and falling in unison. This means that the previous benefits of diversification through holding both equities and bonds in the Fund is less apparent now and so the performance of the Fund will be more volatile going forward.

The next Strategic Asset Allocation (SAA) review will take into account the increase in correlation between asset classes and look at how the Fund can achieve the desired levels of diversification. It may make sense to increase exposure to real assets such as property or infrastructure or to invest in short-term credit such as private loans which have a very low sensitivity to changes in interest rates.

Chart 4: The rolling 2 year correlation between the US equity and Government bond markets.



Source MFS

My central assumption remains, a slowing US economy with scope of interest rate cuts in the EU, UK and US during the second quarter of this year and into 2025. I am concerned that market participants may be over estimating the scope for interest rate cuts, particularly in the US and feel this would likely restrain investment returns going forward.

The US Presidential election will, at some stage, have to focus on the actual policies of each candidate rather than their respective personalities, however, neither candidate seems to be looking to restrain the growth of government debt in the US. In addition, Donald Trump's desire to introduce wide ranging trade tariffs, make permanent his tax cuts and remove the US Federal Reserve's (US Fed) independence in setting interest rates are highly likely to create inflation for the US and hence the global economy. Globally, trade tariffs have been continuously unwound over the last 100 years, benefitting lower costs of production and increasing international trade. If one country introduces a tariff on imports the damaged party will undoubtedly respond with tariffs of their own raising the cost of production globally and causing unnecessary inflation which will require higher interest rates to encourage global investors to continue to purchase bludgeoning amounts of government debt.

Asset Allocation

Table 1: The Fund's current asset allocation against the Strategic Benchmark

Asset class	Asset Allocation as at 31/3/24	Strategic Asset Allocation	Position against the SAA	Deviation in cash terms
Equities	55.8%	**51%**	+4.7%	-£166m
Fixed Interest	14.4%	**16%**	-1.6%	+£56m
Property	6.6%	**8%**	-1.4%	+£49m
Private Equity	12.2%	**10%**	2.2%	-£78m
Secure Income	4.2%	**5%**	-0.8%	+£28m
Private Debt	2.0%	**5%**	-3.0%	+£105m
Infrastructure	3.8%	**5%**	-1.2%	+£42m
Cash	1.0%	**0%**	+1.0%	-£35m

These figures are taken from the State Street report. Figures may not add up due to rounding.

The current deviation from the Fund's SAA is within acceptable bounds although I would suggest taking the equity weighting back to the benchmark and reinvesting into shorter-dated UK corporate investment grade bonds particularly as this money has already been committed to invest into Alternative asset classes and is awaiting drawdown. Unfortunately Brunel does not currently offer such a product meaning the Fund would either have to procure a manager outside of Brunel or invest into their existing Bond fund which would mean taking duration risk.

Table 2: Allocations to Alternative Investments Invested/Committed

Called/Committed	Private Equity	Infrastructure	Secure Income	Private Debt
Direct by OCCPF	£290m	£37m		
Cycle 1 March 2018	£99.0m/£100m	£50.4m/£50m	£53.7m/£60m	n/a
Cycle 2 Apr 2020	£45.5m/£70m	£17.9m/£20m Renewables£14.3m/£20m	£35.1m/£40m	£45.9m/£70m
Cycle 3 Apr 2022	£0m/£16m	£18.4m/£60m	£60.8m/£60m	£25.7mm/£90m
Brunel Total	**£144.5m/£186m**	**£101m/£150m**	**£149.6m/£160m**	**£71.6m/£160m**

These figures are based on a number of assumptions and should be used as a guide only.

The direct investment into a number of Private Equity funds have an undrawn commitment of £23m outstanding. There remains a requirement for improved cash flow reporting from Brunel for the Alternative asset classes they are responsible for.

Assuming a 90% maximum investment of committed capital in each Alternative asset class, these above figures show that the Fund should still expect drawdowns into the Alternative asset classes over the next few years. Distributions from existing investments into Alternative assets should start to rise as the underlying investments mature, however, the figures above suggest there is limited need to make new commitments to these asset classes in the immediate future. Private Equity, in particular, is likely to remain overweight against the Strategic Benchmark for the foreseeable future.

Points for Consideration

1) Performance of the underlying portfolios continues to be poor across much of Brunel especially within Global Equities which is where a substantial part of the Fund is invested. There are detailed reasons why this has happened, much of which is due to the strong Responsible Investment and ESG philosophy which Brunel has adopted. However, the continued underperformance across a number of portfolios brings into question Brunel's ability to select investment managers who can outperform over the longer term. The Pensions Committee should remain cognisant of why this underperformance has happened and continue to challenge Brunel over performance issues.

2) Recent discussions I have had with Brunel have underlined just how central their environmental focus is to their selection of investments managers. I do not now see Environmental, Social and Governance (ESG) factors as part of their criteria they use for selecting managers but as an initial screen setting a high bar for those managers to be considered for selection. Brunel would not employ a manager that could not complete the level of ESG reporting they require irrespective of how strong they appeared outside of this criteria. This strong ESG ethos will likely remain the defining factor on future performance against more ESG neutral benchmarks and peer groups. It could be useful for the Pensions Committee to have Brunel present on how they select managers to run portfolios as this may increase the understanding and confidence in Brunel capabilities in this area, particularly as the performance of the majority of Brunel portfolios has now been below the benchmark since inception.

3) UK Equity Mandate (Brunel): The Fund is currently invested in UK Equities via an actively managed mandate through Brunel. This mandate is benchmarked against the FT All-Share ex Investment Trusts Index which includes all companies quoted on the UK's main market. The largest companies quoted in the UK are focused around the Oil, Banking and Mining industries with very little exposure to technology companies. This bias means a UK portfolio selected from stocks within the FT All-Share is likely to have some focus on cyclical industries and have relatively high carbon emissions.

   Given the Fund's UK base there is some benefit in holding UK assets but better performance over the long-term with a lower carbon impact is likely to be found in the smaller companies' space and, as such, it would make sense to switch this mandate to the FT 250 or FT Smaller Companies Index. This is highly likely to require a change in managers but, in my opinion, is likely to increase the probability of the portfolio outperforming the benchmark over time.

   Historically, mid to small sized companies have outperformed their larger brethren over the long-term but the last 5 years have seen a reversal of this trend globally with large caps outperforming initially as large oil and gas production companies rose post Russia's invasion of Ukraine then as AI focused stocks rose with the birth of the Magnificent 7. With equity markets now trading at high valuations, particularly in the US, it seems an opportune time to switch to an unloved part of the market which has historically shown good performance over the long-term. Moving to a more mid cap/small cap focus in the UK would give more exposure to British innovation and entrepreneurial flair which may have been held back due to government policy uncertainty and BREXIT.

   Brunel are currently undertaking manager selection for this mandate with a view to completing this by year end and transitioning to the new managers early in the new year.

   The following chart compares the performance of the FT All-Share index against the FT 250 index over the long and medium-term.

Chart 5: FTSE All-Share v FT-250

4) Alternative Investments: Brunel accept that the current figures produced for drawdowns to and distributions from the Alternative asset portfolios are inadequate for a Fund to be able to create a useful cash flow forecast from these asset classes. They are working to improve their processes and the quality of information they provide to member funds. I will continue to push for better data in this area. It would make sense, now the initial investments into Alternative Asset Classes have been made, for Brunel to move to an evergreen funding process where, rather than member funds committing to individual funds over a succession of vintages in Infrastructure, Private Equity and Private Debt, Brunel provide one unitised wrapper in each of these asset classes and manage the member funds cash flow requirements into and out of each Alternative asset class directly. This would reduce the administrative burden on your Fund's officers and could simplify reporting.

5) Paris Aligned Passive Global Equity: This fund uses a quantitative approach to stock selection, weighting each stock based on its data relating to the Paris Alignment criteria. The result has been a high level of turnover within the benchmark and therefore within the portfolio, in part due to the changes in data quality over time rather than improvements at the underlying company level. This is suboptimal and underlines the issues with data quality around carbon emissions and Paris Alignment. The manager has now appointed a new team to run this portfolio but this needs monitoring, particularly as it is a large part of the Fund.

Underlying Mandates

Rather than comment on each portfolio separately, duplicating the reporting from Brunel, the table below sets out each portfolio within the Fund with a note on my opinion of the management and performance using a traffic light system. Because of the transfer of assets to Brunel all the portfolios will have changed manager over the last four years. For this reason I have rated some of the portfolios amber purely because the performance history is too short to support an opinion.

We now have 3-year performance figures for both Private equity and Infrastructure and, whilst the initial drawdowns to these portfolios were slow and Brunel's speed of commitment was initially poor this has now speeded up and performance figures do suggest that Brunel are achieving a reasonable level of return from these asset classes.

Portfolio	Benchmark	Inception	Performance	Comment
UK Equity	FT All-Share EX IT	09/18		Mandate currently under review by Brunel
Global High Alpha	MSCI World Equity	09/19		Underperformance over three years
Global Sustainable	MSCI All World Equity	09/20		Performance a concern
Global Paris Aligned	MSCI Paris Aligned	07/18		Passive portfolio
UK Fixed Interest	£ Non-Gilt Credit	11/21		Acceptable performance
Multi Asset Credit	Cash + 2%	11/21		Performance has lagged the benchmark
Property	Property benchmark	04/20		Too early to comment; some concerns
Secure Income	Cash + 4%	07/20		Noticeable performance issues
Infrastructure	CPI	01/19		Drawdown has been slow; performance looks good
Private Equity	MSCI All World Equity	01/19		Drawdown has been slow; performance looks good
Private Debt	Cash + 5%	08/17		Drawdown has been slow; performance looks good

Market Report

- Inflation remained stubbornly high in Q2 2024, particularly in services, on the back of strong economic data which kept central banks cautious. The ECB cut rates by 25 basis points, while the US Fed and BoE held rates steady. Markets now expect a 0.5% fall in US rates by the end of the year, while the US Fed itself is slightly less positive, due to weakening economic data throughout the quarter, notably a soft US labour market and consumer data, although corporate earnings have continued to surprise positively in Q2. Treasury yields ended the quarter where they started. Similarly, the UK economy showed signs of slowing following a strong Q1 rebound, and markets have greeted the new Labour Government with cautious optimism, their large majority driving hopes of a period of greater stability. In the UK, inflation hit 2%, however, this was principally driven by a base effect, with annualised quarterly inflation rates still well-above the target rate. The scope for further rate cuts in Europe also looks limited due to sticky inflation. Economic indicators ultimately, however, remain positive, with GDP growth of 0.3%, 0.4% and 2.9% in the UK, Europe and US, respectively, the latter of which continues to be driven by high fiscal spending.
- Q2 saw positive returns for most risk assets. Developed market equities gained 2.8%, driven by strong performance in larger companies and the technology sector, particularly those linked to AI. Emerging markets outperformed developed markets, with Asia ex-Japan equities delivering returns of 7.3%, boosted by policy support and supressed valuations in China alongside strong performance in Taiwan due to AI exposure. Fixed income had mixed results, with US Treasuries delivering slight positive returns given the declining economic data through the quarter, while European and UK government bonds

posted losses due to political uncertainty (notably from France), persistent inflation, and cautious central bank guidance. Within corporate bond markets, high yield generally outperformed investment grade in the US and Europe, while UK corporate credit was marginally weaker. Commodities posted modest gains, driven by industrial and precious metals, while digital assets saw a slight pullback after a strong Q1. The US Dollar was up 6.3% on the Japanese Yen due to interest rate differentials, slightly up on the Euro and Yuan, and slightly down on Sterling.

We highlight the following themes impacting investment markets:

- **Inflation remains elevated, driven by services, limiting scope for rate cuts.** While moderating in places, inflation remains stubbornly high across developed western markets and continues to be driven by services. This remains a key concern for the US Fed and, while the ECB did cut rates, it emphasised that any further cuts would be dependent on falls in persistent services' inflation. The political uncertainty surrounding the US elections in November and the snap elections in France added to market volatility, further complicating the inflation outlook: both a Trump win and rising populism in Europe are potentially inflationary. With limited scope to cut rates, the ongoing effects of the rate rises of 2022 likely to impact weaker sectors of the real economy (younger consumers, small caps, high yield) and point to slowing growth in H2 2024.
- **Elevated political and fiscal risk may start impacting bond markets**. Political risk is particularly acute in France, given Emmanuel Macron's surprise call for snap parliamentary elections, and the US, with the fractious presidential race, though the UK now appears more predictable. Given sizeable budget deficits being run by most developed economies, the risk of weak or populist governments raises the spectre of government bond markets losing confidence (as they did in UK in 2022). Though likely not yet acute in 2024, this may become a serious risk in the medium term. Investment grade corporate bonds and quality equities may benefit in such scenarios.
- **Excitement around AI continues but warning signs increase:** Companies exposed to Artificial Intelligence themes continued to outperform. Sector-wide earnings in tech were up 15.8% year-on-year ("Magnificent 7": +25.5%), but any disappointments were punished with severe valuation reverses and the Magnificent 7 stocks now comprise ~32% of the S&P500. This represents a significant concentration risk and valuations / expectations do leave some stocks very exposed to any disappointment.
- Global equities rose 2.8% in Q2, resulting in +12% returns year-to-date largely on the back of continued momentum in AI-related stocks and strong but moderating economic growth. The performance was relatively broad-based regionally, however, we note value stocks outperformed growth in Europe, reflective of hawkish commentary from central banks which are now more aligned to the US alongside lower exposure to AI and the Magnificent 7. The VIX remains low, particularly for an election year, reverting to 12, bringing it in line with Q4 2023.
    - In the US, the S&P500 and NASDAQ rose +3.9% and +8.3% respectively, again driven by the Magnificent 7. Q1 quarterly real GDP growth was revised down to 1.3% from 1.6%, with the manufacturing Purchasing Manager's Survey (PMI) recovering strongly from a substantially weaker April print of 50, to 51.6 in June. This metric ran counter to labour and consumer data, with unemployment rising from 3.9% to 4.1% through the quarter, and other data generally falling below consensus since May.
    - The MSCI Europe ex-UK rose by 0.6%, with value outperforming growth. Inflation was relatively unchanged, however forward-looking guidance turned slightly more hawkish with the ECB citing a data-driven approach against a backdrop of high underlying services inflation. The Manufacturing PMI remained at similar levels to Q1 (~46.2), however composite PMI saw sustained momentum at 51.6, reflective of strong services growth.
    - UK equities rose +3.7% with the FTSE 100 reaching all-time highs. Performance of SMID-cap companies was supported by strong bid activity. It was confirmed the UK economy rebounded from a technical recession in H2 2023, recording quarterly Q1 GDP growth of 0.7% (revised up from 0.6%). Although composite PMI remained above 50 (led by services), labour and consumer data weakened throughout the quarter, with unemployment rising to 4.4% from 3.8% in December 2023.
    - The Nikkei 225 returned -1.9%, however year-to-date gains are 19.3%, driven by the weakening Yen. The BoJ's actions, including raising Japanese government bond yields and reducing Japanese Government Bond purchases, failed to curb Yen weakness. Despite weak real-term wage growth and stagnant consumer sentiment, record-high tourism bolstered spending. Earnings season showed strong results but was marred by conservative guidance. Increased share buybacks positively impacted stock prices.

- Emerging markets equities rose 5.0% during the quarter, with Asia up strongly, led by Taiwan and its exposure to AI themes. Shares in China also experienced strong gains, with investors cautiously returning to markets against a backdrop of low valuations. Indian shares showed strong growth, although there were some concerns regarding valuations. Turkey performed strongly amid hopes it will continue to follow orthodox economic policies. Other European Emerging Markets also did well.

- Yields varied by region over the quarter, with the ECB and BoE guiding to a higher for longer rate environment against a backdrop of underlying annualised quarterly inflation figures that remain well-above target rates. High yield outperformed investment grade, reflective of continued relatively strong economic performance by historical standards. The 2-year to 10-year yield curve remained inverted and largely traded sideways, with a late flattening, arguably attributable to expectations of higher long-term US fiscal spending.
  - The US 10-year treasury yield rose from 4.2% to 4.4%, while the 2-year traded sideways at ~4.6%. US Fed policy remained hawkish, guiding to one rate cut in 2024 versus market expectations of two.
  - The European 10-year composite yield rose from 2.3% to 2.5%, with more hawkish commentary highlighting services' inflation and a need for data-driven policy decisions alongside political uncertainty which caused a spike in French – German spreads.
  - The UK 10-year Gilt yield rose from 3.9% to 4.2%, again reflective of hawkish commentary and inflation prints which suggest an increase in inflation in H2 2024 to levels above the official target.
  - Corporate bonds outperformed Government bonds, led by high yield, however, all returns were relatively muted overall (European corporate high yield +1.4%, US high yield +1.1%, US investment grade -0.1%, UK investment grade -0.3%).
- Energy prices varied, with US natural gas prices up +48% and Brent Crude -1.2%. The S&P GSCI (Goldman Sachs Commodity Index) achieved a modest gain, with industrial metals and precious metals the strongest components. Agriculture was the weakest component of the index.
  - US gas prices rose sharply and returned to Q4 2023 levels (posting 78% gains through mid-June before moderating to +48% by quarter-end). This reflects high demand from AI-related consumption, geopolitical tension in the Middle East, lower US production, supply disruptions in Norway and due to its importance in the renewable energy transition.
  - Brent crude oil prices traded sideways on the back of a strong Q1 and modest OPEC supply cuts.
  - Industrials and precious metals performed well through the quarter, led by silver and zinc. Gold and copper posted more modest increases of +5.5% (+12.9% ytd) and +9.6% (+12.9% ytd) respectively.
  - Within agriculture, significant price gains for coffee failed to offset weaker prices for cotton, corn, cocoa and sugar.
- Global listed property fell, with the FTSE EPRA Nareit Global Index falling by -2.1%.
  - The Nationwide House Price Index in the UK posted modest gains against a backdrop of relative stability.
  - European commercial property continued its recovery into Q2, with the Green Street Commercial Property Price Index increasing by 0.5%, led by the hotel sector (+2.0%). Meanwhile, residential, industrial, and data centre sectors also saw gains, whereas B/B+ quality office prices continued to decline by 1.0% due to negative sentiment among buyers and lenders.
- In currencies, the US Dollar strengthened marginally (US Dollar index +1.3%), led by weakness of the Japanese Yen (USDJPY +6.3%) caused by interest rate differentials. Sterling posted modest gains on the Euro (+0.9%) and US Dollar (+0.2%). Bitcoin (-5.8%) and Ethereum (-12%) consolidated but remained up circa 50% year-to-date. Both saw continued momentum in the approval and launch of spot crypto Exchange Traded Funds (ETFs) by major financial institutions and progress in regulatory frameworks.