Oxfordshire County Council Pension Fund

Quarterly Investment Report

Q4 2023

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Key Indicators at a Glance

	Index (Local Currency)	Q4 2023	Q4	YTD
Equities			Total Return	
UK Large-Cap Equities	FTSE 100	7,733	3.63%	6.22%
UK All-Cap Equities	FTSE All-Share	4,232	4.62%	6.24%
US Equities	S&P 500	4,770	11.67%	26.76%
European Equities	EURO STOXX 50 Price EUR	4,521	9.61%	21.14%
Japanese Equities	Nikkei 225	33,464	5.48%	32.83%
EM Equities	MSCI Emerging Markets	1,024	7.99%	10.14%
Global Equities	MSCI World	3,169	12.10%	24.22%
Government Bonds				
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	3,129	9.20%	3.69%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	3,755	16.67%	1.65%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	4,037	10.48%	0.93%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	4,368	16.79%	-4.28%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	223	7.72%	7.12%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	2,277	6.26%	4.05%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core In	137	7.99%	10.91%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	893	9.98%	11.09%
Bond Indices				
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	362	8.13%	9.63%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	232	5.99%	8.84%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	439	5.63%	12.78%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	3,221	8.50%	8.52%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2,480	7.16%	13.45%
Commodities				
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	77	-19.17%	-10.32%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	2.51	-14.17%	-43.82%
Gold	Generic 1st Gold, USD/toz	2,072	12.10%	13.45%
Copper	Generic 1st Copper, USD/lb	389	4.09%	2.10%
Currencies				
GBP/EUR	GBPEUR Exchange Rate	1.15	-0.03%	2.12%
GBP/USD	GBPUSD Exchange Rate	1.27	4.36%	5.36%
EUR/USD	EURUSD Exchange Rate	1.10	4.41%	3.12%
USD/JPY	USDJPY Exchange Rate	141	-5.58%	7.57%
Dollar Index	Dollar Index Spot	101	-4.56%	-2.11%
USD/CNY	USDCNY Exchange Rate	7.10	-2.71%	2.92%
Alternatives				
Infrastructure	S&P Global Infrastructure Index	2,724	14.21%	6.46%
Private Equity	S&P Listed Private Equity Index	212	20.57%	40.56%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	18,783	3.59%	7.21%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,718	9.92%	3.59%
Volatility			Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	12	-28.94%	-42.55%

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

Performance

The Fund rose by 4.7% in the fourth quarter of 2023 to a value of £3,364m. This return was marginally behind the benchmark which returned 5.0% As can be seen from the table on the previous page, during the fourth quarter there was a strong rally across all asset classes led by Fixed Interest markets where an improved outlook on inflation lead to forecasts of falling interest rates and hence to a fall in bond yields, this supported all risk assets. The price of oil and gas fell over the quarter, reversing previous quarter's gains, which also helped the inflation outlook.

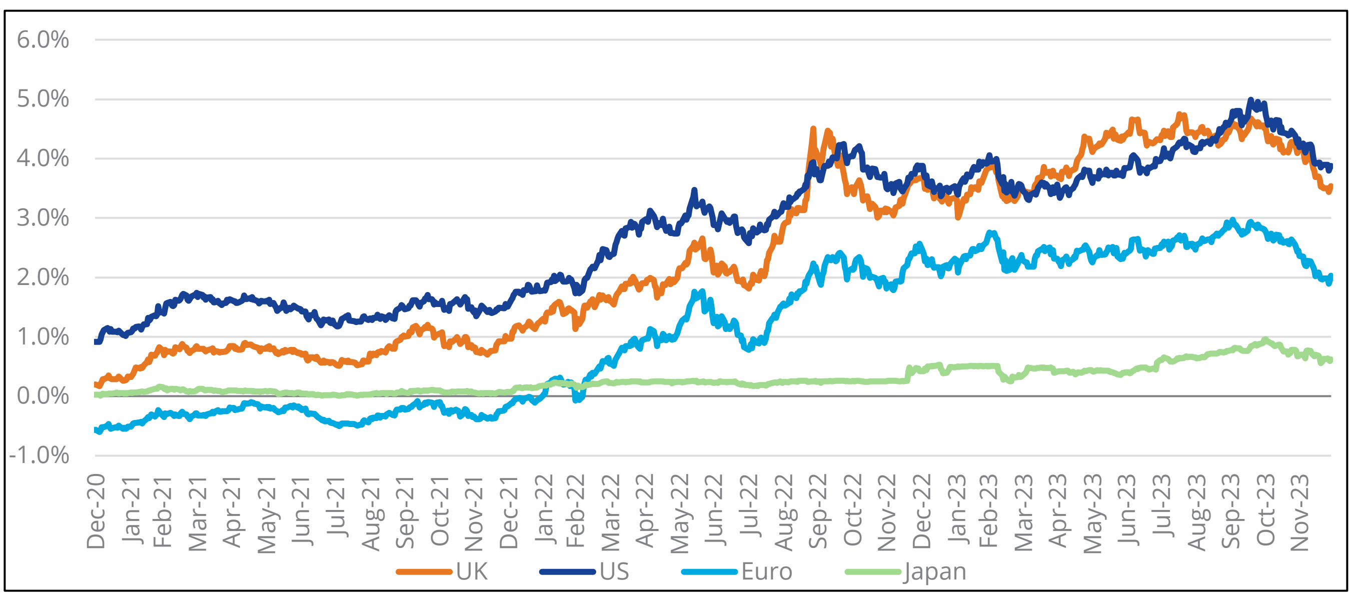
The underperformance against the benchmark was driven mainly by Private Equity with both in-house portfolio and the Brunel managed funds underperforming their benchmarks. The majority of the Brunel managed portfolios outperformed their individual benchmarks with the only area of weakness being the UK and International property portfolios. All the Brunel equity portfolios remain behind their benchmark over longer time periods.

This quarter's underperformance continues the trend of the last few years with the Fund now behind its benchmark over 1, 3 and 5 years and matching the benchmark over 10 years, but with returns of 7.4% p.a. for the last 10 years being above the Fund's actuarial discount rate assumption for future investment returns, this has driven much of the improvement in the funding ratio aided by the rise in bond yields since the last actuarial valuation in 2022 which will have lowered the valuation of the liabilities.

Comment

A strong fourth quarter for all asset classes turned 2023 into a year of good returns with the Fund up 9.8% over the course of 2023. This is a far better outcome than was expected at the start of last year when the vast majority of investment strategists (and me!) were predicting a US recession and poor returns. What changed is the strong growth in the US economy, defying rising interest rates, coupled with falling inflation. The rally in the fourth quarter was driven by the US Federal Reserve (US Fed) suggesting that peak interest rates had arrived and that they believed there was scope to cut interest rates during 2024. Bond markets were soon discounting 6 times 0.25% rate cuts during 2024 but have now rowed back from that optimistic scenario.

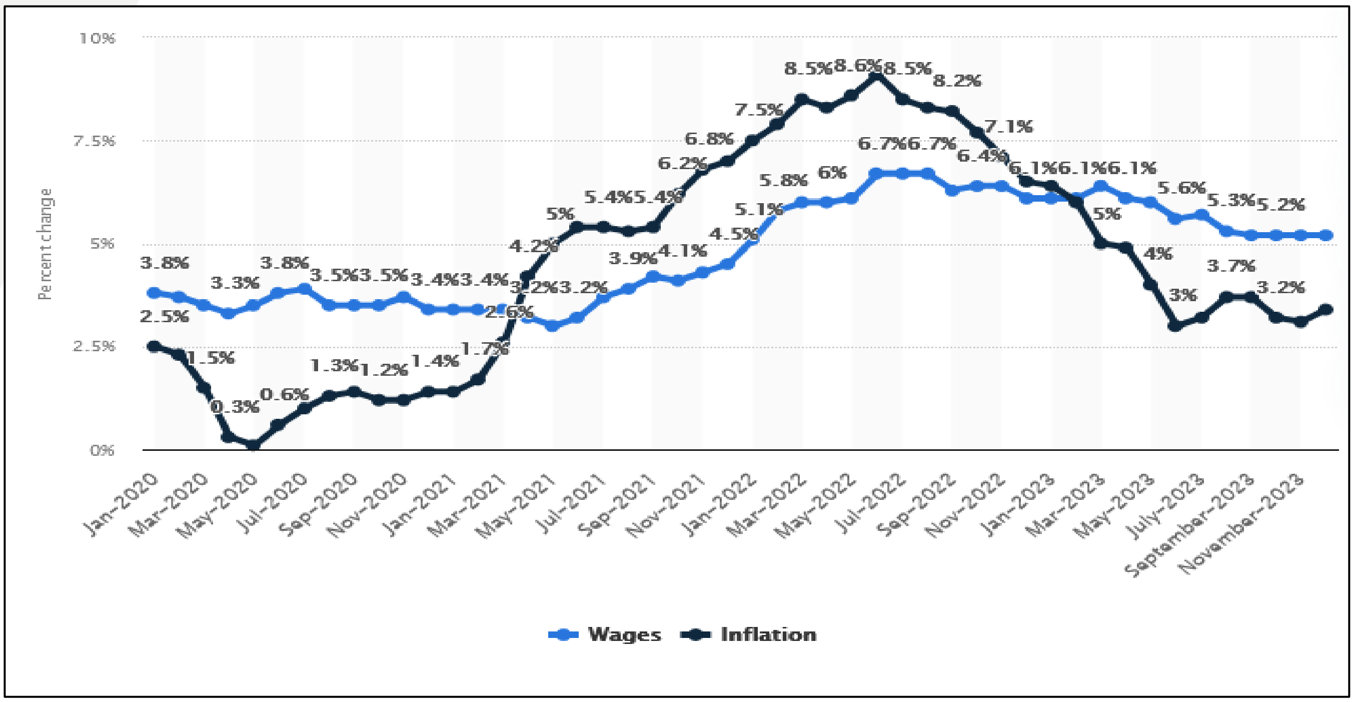
Chart 1:Government Bond Yields



So what did we learn from markets in 2023 and should there be any changes to the Fund's asset allocation?

I have spent much time writing about the backdrop for inflation globally over the last few years with a number of long-term factors changing and becoming more supportive of higher inflation. (Globalisation moving to deglobalisation; rising global workforce to shrinking global workforce due to changing demographics.) My view on this has not changed. Whilst the consensus at the start of 2023 was for a US recession, the consensus for 2024 is for the year to finish with inflation in the US around 3% with continuing economic growth. Whilst this is quite possible, it is the strength of that conviction and its almost universal acceptance which is concerning. If we are to end the year with sub 3% inflation in the US that will be on the back of a slower US economy than currently forecast as wage growth needs to slow from here for 2% inflation to be sustainable. The February US unemployment rate reading remained low at 3.7%. It is hard to see wage inflation slowing without unemployment rising and, therefore, we should expect any further fall in inflation to be hard won with more upward pressure than we have seen in the last 12 months.

Chart 2: US inflation and wage inflation



For inflation to fall from here, economic growth has to be below potential allowing spare capacity to build up, forcing prices lower. In the US, economic growth potential is guesstimated at 1.8% p.a. yet the economy is currently growing at 3.5% p.a. Either economic growth has to slow noticeably for inflation to fall or the guesstimate of potential growth is wrong. The latter is a possibility as there have been signs recently of some growth in productivity but I see this as the final removal of some Covid era supply constraints and, therefore, transitory rather than the start of the much heralded AI revolution.

Given my comments above, for the US, wage inflation and the unemployment rate will be the most important factors in decerning the direction of interest rates from here although an eye should be kept on productivity growth.

Whilst the issue in the US is a relatively strong economy keeping inflation high, the economic outlook in Europe and the UK is much weaker. Economic growth potential is guesstimated at 1.0% p.a with actual economic growth in the region around 0-0.5% p.a. Interest rates are likely to be cut earlier here as economic growth deteriorates. Again wage rises are an issue (UK wage growth was 6% in the year to February 2024) but with unemployment higher and the economy weaker, interest rate cuts should come before those in the US. This should favour European equity markets over the US but may lead to a stronger US Dollar.

The other area where I have not changed my view is that inflation will be more volatile going forward. The period of subdued and stable inflation over the past 10 years has ended with inflation now easier to ignite, either by rising economic growth hitting capacity constraints; the scope for trade disputes and tariffs (which will be inflationary); the cost of decarbonising the economy (which will be inflationary) or by geopolitical unrest restricting the supply of important commodities. This will lead to shorter business cycles and more rapidly changing interest rates. Altogether a more complex outlook for the market.

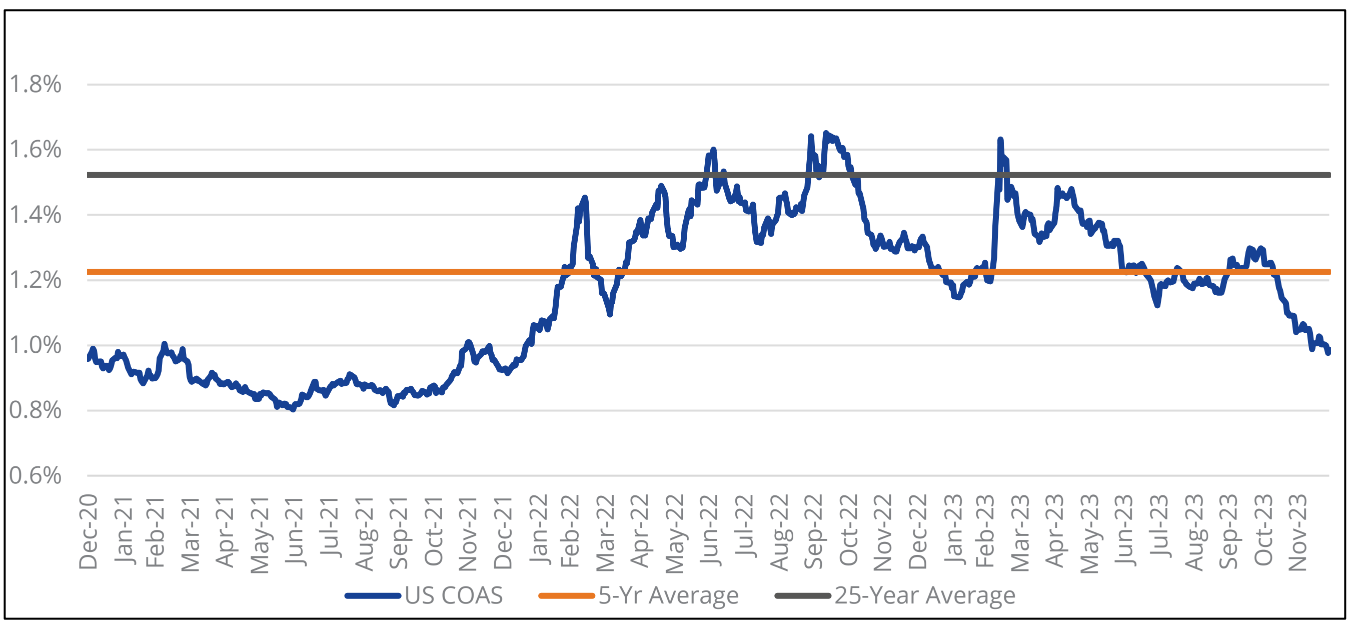
The other issue is politics. Many politicians believe they can impact global markets but this is very rarely the case. Perhaps Mao Zedong is the only one with his drive to open up the Chinese market and compete globally leading to a seismic change in the availability of labour, helping set the scene for 50 years of global deflation. However, we have almost half the world's population voting in an election this year with votes in over 50 countries. A number of these may be predetermined but the scope for surprises is high and in the US presidential elections, to be held on 5th November this year, the outcome could be disruptive to the current global status quo. Elections to the European parliament could also throw up some disruptive factors with the rise of populism (or short-termism as I see it) a potential outcome. It is possible that elections do not provide the required solutions and, as we are seeing in Pakistan, this could herald a prolonged period of uncertainty.

Against all of this, markets are better value now with a decent yield in UK Government debt and long-term return expectations increasing across many asset classes although whether this higher absolute return is actually a higher real return after taking inflation into account remains to be seen.

From a Fixed Interest point of view, because long-term inflation will not be as acquiescent as in the past, long-term inflation expectations may settle higher than current market expectations and so I would favour shorter duration bonds. This is particularly true in the UK where, even with a slowing or recessionary economic environment, long-term interest rates could grind higher if wage pressures remain high and investors are unconvinced by the prevailing government's drive to tackle its borrowing and debt levels. From an investment perspective, whilst the yield on Government bonds in the US, Europe and the UK now looks attractive, the premium over this that corporate borrowers pay to reflect their individual credit quality is low with credit spreads tight driven by the continuing strength of the US economy and low default rates.

The chart below shows the premium an investment grade corporate borrowing in the US would have to pay over the equivalent US government Treasury with a similar maturity profile. Because of this I would prefer Government Bond and Investment Grade Credit over higher yielding bonds at the current time.

Chart 3: US Corporate Bond Spreads



Source: Bloomberg

Notes: Bloomberg Barclays US Corporate Option Adjusted Spread (Ticker: LUACSTAT Index); Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury

In the table below are the Long-term Return Assumptions for Alternative Asset classes as forecast by BCA Research, who are one of the world's leading providers of investment research in this area.

Table 1: Alternative Asset Class return forecasts

Asset Class	Private Equity	Private Debt	Property	Hedge Funds
BCA Research 5-7 year forecast	6.2%	11.8%	3.3%	6.9%
BCA Research 20 year forecast	10.5%	9.2%	9.6%	6.3%

The forecasts above are useful as they show where the revaluation of bond yields will continue to weigh on returns for the next few years (Private Equity and core property) before returning to trend and where they are unaffected (Private Credit) due to this asset class's variable interest rate exposure meaning the loans have already been repriced to reflect current interest rate and bond yield assumptions. Whilst the absolute figures forecast by the BCA will invariably be wrong, I do agree with the attractiveness of the individual asset classes and would continue to favour Private Debt over Private Equity for the next few years.

Table 2: The Fund's current Asset Allocation against the Strategic Benchmark

Asset class	Asset Allocation as at 31/3/23	Strategic Asset Allocation	Position against the SAA	Deviation in cash terms
Equities	55.3%	**51%**	+4.3%	-£145m
Fixed Interest	15.4%	**16%**	-0.8%	+£27m
Property	7.1%	**8%**	-0.9%	+£30m
Secure Income	3.9%	**5%**	-1.1%	+£37m
Alternatives (ex PE)	5.2%	**10%**	-4.8%	+£161m
Private Equity	12.0%	**10%**	+2.0%	-£67m
Cash	1.1%	**0%**	+1.1%	-£36m

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

The last column shows the amount of money in cash which would need to be invested/divested from each asset class to bring its weighting back to the Strategic Asset Allocation.

Points for Consideration

1) **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 the energy and mining 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 a focus on UK Smaller Companies outside of the FT-100 index. (Largest 100 stocks listed in the UK.) This is highly likely to require a change in managers but, in my opinion, is likely to improve long-term returns and increase the probability of the portfolio outperforming the benchmark over time.

Brunel and the four member funds invested in this portfolio have now agreed to amend the UK equity mandate to benchmark it against the FT-All share excluding the FT-100 index. This will focus the mandate on smaller UK companies than at present and remove the industry bias in the current mandate. My only concern in this change is that the mandate could force the underlying managers to sell investments as soon as they enter the FT-100 index. Scope should be given within the mandate for the underlying managers to continue to hold successful companies as they grow even if they become part of the FT-100 index.

I would expect this change to lead to a new set of underlying managers and so a full manager selection exercise will be needed.

The Fund currently has an allocation of 10.28% of total assets to the existing UK equity mandate. The Strategic Asset Allocation benchmark weight is 10% so the Fund is marginally overweight this mandate. I would recommend a weighting to this mandate of between 5% - 10% of the Fund's assets. If the weighting in this mandate is reduced to 5% then thought will need to be given as to where any sale of assets is reinvested. I will look to update the Committee on this issue following further discussion with Brunel and your officers.

2) **Paris Aligned Global Equities Passive (Brunel):** I note the sudden increase in the carbon intensity of this portfolio which is not reflected in the index, this is surprising given the passive nature of this portfolio. I have a meeting with Brunel next week and will raise this and hope to be able to update the committee verbally at the next meeting.

3) **Alternative Investments:** The Fund has the opportunity to reallocate to the Alternative investment space with Brunel opening a further window to commit new allocations in April 2024 (cycle 4). In order to review allocations and whether the target weightings in the Fund's Strategic Asset Allocation are being met, it would be useful to review the expected cash distributions from existing holdings and conduct a cash flow analysis of where the Fund is currently and how this will develop into the future. I would expect Brunel to be able to provide the necessary data to conduct this review.

4) **Brunel performance:** The performance of the majority of the Brunel managed portfolios remains below their individual benchmarks for many of the portfolios since inception despite some improvement this quarter. Much of this is due to the focus on low carbon and the focus on Responsible Investment when selecting the underlying managers and this stance has not paid off since the Russian invasion of Ukraine and the ensuing high inflation. Nonetheless, the performance of Brunel should remain a focus for the Committee.

5) **Private Equity (Brunel):** Much of the exposure to Private Equity is via UK based investment trusts, these vehicles have moved to a discount of their net asset value (NAV) recently as markets have become concerned that the rise in interest rates may constrain PE managers' ability to refinance some of their underlying businesses. If equity markets remain stable over the coming year I would expect this discount to slowly close but it could take a number of years for these investment trusts to trade close to their NAV unless the underlying portfolios surprise on the upside.

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 most of 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. I remain impressed by the intellectual rigour with which Brunel designs portfolios and selects managers.

We now have 3-year performance figures for both Private equity and Infrastructure and, whilst the initial allocations to these portfolios will have been very slow and Brunel's speed of commitment was poor, returns do suggest that Brunel are achieving a reasonable level of return from these asset classes.

From an asset allocation point of view I am very ambivalent towards having a standalone UK equity portfolio rather than Global Equities and am happy to see any further reduction in the Fund's equity weight continuing to come from UK Equities.

Portfolio	Benchmark	Inception	Performance	Comment
UK Equity	FT All-Share EX IT	09/18		Reduced to two managers, poor performance
Global High Alpha	MSCI World Equity	09/19		Acceptable performance to date
Global Sustainable	MSCI All World Equity	09/20		Performance becoming a concern
Global Paris Aligned	MSCI Paris Aligned	07/18		Passive portfolio
Emerging Markets	MSCI Emerging Markets	10/19		Poor performance to date
UK Fixed Interest	£ Non-Gilt Credit	11/21		Transitioned to Brunel in the second quarter 2021
Multi Asset Credit	Cash + 2%	11/21		Transitioned to Brunel in the second quarter 2021
Property	Property benchmark	04/20		Too early to comment; some concerns
Secured Income	CPI	07/20		Poor performance to date
Infrastructure	CPI	01/19		Drawdown has been slow; performance looks strong
Private Equity	MSCI All World Equity	01/19		Drawdown has been slow; performance looks strong
Private Debt	Cash +4%	08/17		Existing managers have performed well

I have moved the Infrastructure portfolio to amber on my traffic light system as the performance fails to impress. The Sustainable Global Equity portfolio is red due to the poor performance since inception.

Private Equity

The Fund holds a variety of Private Equity (PE) investments, some through Brunel some directly with the underlying manager and some via UK Investment Trusts. The Investment Trusts are quoted and therefore priced daily and these can, therefore, give an indication of investors' views on this sector. Of the Investment Trusts held by the Fund, the largest position is in HG Capital Trust. This Investment Trust currently trades at a -13% discount to estimated Net Asset Value (NAV) despite a strong long-term track record. A number of the other Private Equity Investment Trusts trade at discounts of over 30% to estimated NAV at the current time. These discounts reflect the market's concern that part of the Private Equity business model during the previous 10 years has been the use of cheap debt to boost returns. With bond yields now higher, this debt needs to be refinanced with the ensuing higher interest rates reducing cash returns. I suspect that it will now take a number of years for these concerns to dissipate fully and for these Investment Trusts to trade close to NAV again. If equity markets rise from here, the discount to NAV may begin to tighten but I feel that, given the low level of PE transactions at present, there is limited pricing transparency and we are seeing some stresses within the industry with greater use of Payment In Kind (PIK) for interest payments to preserve cash flows and efforts to extend debt terms whilst PE owners are occasionally having to put in more cash to existing businesses to enable debt to be refinanced. I would let the dust settle in this area before moving to pick up any apparently cheap Private Equity vehicles.

Market Summary

- Inflation (including core inflation) fell again in Q4 and allayed many market fears over it proving stickier than expected. As a result of this continued fall, central banks have taken a more dovish stance and indicated that rates will be cut sooner in 2024 than previously expected. Lower inflation and peaking rates have shifted the concern more on the side of stagnating growth and recessionary risk, with UK and Europe showing declining GDP growth and China still feeling the effects of the property crisis. The notable exception to this is the US, where resilience in the domestic job market and a healthy consumer market have led to steady GDP growth. Labour markets continue to remain robust, especially in the US (unemployment at 3.7% and job openings up 5.3% YoY in November).
- Q4 delivered a rally in almost all markets, following the Q3 correction, returning to the positive trend of the first half of the year. Global equities (MSCI World) rose sharply by 12.1% in local currency terms over the quarter, with 'growth' (+13.2%) rising more sharply than 'value' (+8.8%) as an investment style. Japanese and UK equities notably lagged behind other markets, with broad Japanese equities returning 2.0% (TOPIX Index) and 5.5% (Nikkei 225) in local currency and

UK equities returning 4.6%. Following a spectacular year, Japanese equities lagged, due to the lesser impact of changes in rate policy combined with Yen appreciation acting as a headwind. UK equities suffered from the drops in oil and gas prices and Sterling strength. US equities (+11.7%) rose after the more dovish stance taken by the US Fed allayed fears of 'higher for longer' rates. Bonds enjoyed a reprieve in Q4, as markets discounted 1.5-2% cuts in rates during 2024. All government bonds performed strongly over the quarter, with long-dated gilts showing the biggest recovery. Investment grade mildly underperformed government bonds, with spreads tightening as refinancing concerns decreased and slightly outperformed high yield, due to a greater sensitivity to rates. Alternatives all showed a strong recovery, with private equity (+20.6%) as measured by the S&P Listed Private Equity Index showing particularly strong performance.

- It is worth highlighting the following themes, impacting investment markets:
    - Core inflation is going down but watch for false rallies. Inflation fell across the board through most of the quarter. UK annual CPI fell to 3.9% in November, compared to 3.4% for the US and 2.9% for Eurozone in December (UK estimates for December not yet available). Core inflation (excluding energy and food prices) has now also been falling more significantly, resulting in the US Fed taking a more dovish stance and increasing predicted cuts in 2024. However, tensions in Ukraine and the Middle East illustrate the potential for renewed inflationary shocks (from supply constraints) and sustained inflationary pressure (through "friendshoring", the onshoring of businesses to friendly nations, and the re-engineering of supply chains). It is likely that as 2024 progresses we will see more pauses/false rallies as central banks' balance the need to keep the inflation figures falling and the risks of recession.
    - AI has now been operational for over a year, what are the next steps? Since ChatGPT's launch in November 2022, it and other AI platforms have had a significant impact. The scale of its potential can be seen in the way it has materially driven technology investment over the course of the year and in the enormous outperformance of the US tech majors ("Magnificent Seven"). Increasing regulation and concerns over its misuses may lead to a slight slowing of the speed of advancement and investment, but the power of AI to disrupt businesses and, indeed, the political process in the largest electoral year in history, should not be underestimated. It offers huge opportunities, but also creates an increasingly risky investment environment.
    - Investment risk is higher and harder to diversify in geopolitically driven or inflationary environments. In inflationary environments, where central banks have to balance taming inflation with causing recessions, equity/bond correlations tend to be positive: raising rates is mathematically bad for bond prices, but also increases recession risk, impacting equities. This means the traditionally stable assets (bonds), as well as being inherently more volatile, are also less likely to offset movements in risk assets (equities). In addition, 2024 will be a year of elections and the Taiwanese elections, in which the DPP (the champions of Taiwan's separate identity) have been re-elected, illustrates the potential for such events to have global impacts; none more so than the US election at the end of this year, which could impact whole sectors, changing the outlook for global trade and the energy transition. This suggests investors should examine their risk exposures with particular care this year.
- Global equities rose in Q4, returning to the rally of the first half of the year. The VIX decreased over the quarter from 18 to 12.
- In the US, the S&P 500 rose by 11.7% and the NASDAQ composite also rose by 13.8%. The US Fed's more dovish stance and the addition of a third predicted rate cut in 2024, signalled a move from the 'higher for longer' rates predicted last quarter and resulted in a positive market reaction.
- UK equities increased by 4.6%, underperforming global equities. Inflation fell noticeably from 6.7% in August to 3.9% in November, however, Sterling strength detracted from returns. Significant falls in oil and natural gas prices contributed strongly to underperformance given the UK stock market's energy sector exposure.
- The Euro Stoxx 50 rose by 9.6% in Q4. Inflation continued to move downwards, with core inflation proving less sticky than feared. The ECB continued to loosen hawkish rhetoric.
- Japanese equities continued their positive run in Q4 but underperformed other equity markets in part due to Yen appreciation. Growth companies outperformed, with the Nikkei returning 5.5% relative to the broader TOPIX index's more muted returns (+2.0%).

- Emerging market equities rose by 8.0% in Q4, whilst Chinese equities fell (-4.8%) over mounting growth concerns. The rest of the emerging markets performed strongly, with MSCI EM LATAM returning 17.8% over the quarter. Poland was another strong performer following Donald Tusk's election as Prime Minister, Taiwan and South Korea benefitted from tech-related performance and overall expectations of more and sooner US rate cuts helped overall emerging market performance.
- Yields generally fell over the quarter, as a result of more dovish stances taken by central banks (mainly the US Fed) and predictions of rate cuts in 2024 which resulted in strongly positive performance across the main government bond markets. The inversion of the US yield curve, as measured by the 10 year–2 year yields, reduced slightly, ending the quarter at around -40bps, as mid and long term yields rose more than shorter bond yields. In corporate bonds, credit spreads tightened as default rates remain low and recessionary fears reduced over the quarter.
- The US 10-year Treasury yield fell in Q4 from 4.57% to 3.88%, while the 2-year yield fell from 5.05% to 4.25%. US Fed policy rates remained the same, but the US Fed took a more dovish stance and indicated there would be more rate cuts and sooner in 2024.
- The UK 10-year Gilt yield fell from 4.44% to 3.53% while 2-year yields fell from 4.90% to 3.95%. The BoE is more divided over its stance but, with the latest inflation measures being lower than expected, the market rallied and yields fell.
- European government bonds rose in Q4, the ECB was also more cautious than the US Fed, but continues to unwind the Pandemic Emergency Purchase Programme (PEPP) support and the market is still pricing in several rate cuts in 2024. Italian – German spreads tightened.
- US high-yield and investment grade credit performed strongly, returning 7.2% and 8.5% respectively. European high-yield and investment grade bonds returned 5.6% and 6.0%, respectively, with UK investment grade returning 8.1%.
- Energy prices declined during Q4, with crude oil falling -19.2% from the highs of Q3 to finish the calendar year -10.3% down. Similarly, natural gas was down -14.2% and ended the year -43.8% down, the largest annual percentage decline since 2006.
- US gas prices fell in Q4 due to record production coupled with abundant inventories and relatively mild winter temperatures.
- OPEC+ supply cuts had little impact on falling crude oil prices as the International Energy Agency forecasted softening global oil demand to continue into 2024. The quarter saw weaker than anticipated demand in Europe, Russia and the Middle East, which was paired with an increase in supply from non-OPEC+ sources.
- Gold and copper rose 12.1% and 4.1% respectively over Q4. Precious metals prices (particularly Gold) generally rose following concerns around geopolitical stability, while industrial metals were more mixed.
- Global listed property rebounded this quarter, with the FTSE EPRA Nareit Global Index rising 9.9% in Q4.
- The Nationwide House Price Index in the UK has increased after its decrease last quarter, with the seasonally adjusted price index up 1.1% for the quarter and down -1.7% for the last 12 months.
- European commercial property has also continued to decline in the face of higher interest rates, with the Green Street Pan European Commercial Property Price Index down by -2.8% this quarter and -10.9% over the past 12 months.
- In currencies, the US Dollar weakened generally throughout the quarter (DXY -4.6%), weakening against Sterling, the Euro and the Japanese Yen. Bitcoin and Ethereum saw strong performance in Q4 (57% and 37% respectively) with a main driver being the increasingly likely approval of the US spot bitcoin ETF by the SEC.