Oxfordshire County Council Pension Fund

Quarterly Investment Report

Q1 2024

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Key Indicators at a Glance

	Index (Local Currency)	Q1 2024	Q1	2023
Equities			**Total Return**	
UK Large-Cap Equities	FTSE 100	7,953	3.98%	7.68%
UK All-Cap Equities	FTSE All-Share	4,338	3.56%	7.70%
US Equities	S&P 500	5,254	10.55%	26.26%
European Equities	EURO STOXX 50 Price EUR	5,083	12.94%	23.21%
Japanese Equities	Nikkei 225	40,369	21.43%	31.01%
EM Equities	MSCI Emerging Markets	1,043	2.41%	10.20%
Global Equities	MSCI World	3,438	9.01%	24.44%
Government Bonds				
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	3,079	-1.62%	3.69%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	3,621	-3.56%	1.65%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	3,965	-1.81%	0.93%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	4,218	-3.44%	-4.28%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	222	-0.65%	7.12%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	2,255	-0.96%	4.05%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	134	-2.24%	10.91%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	911	2.04%	11.09%
Bond Indices				
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	362	0.19%	9.63%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	233	0.56%	8.84%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	447	1.81%	12.78%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	3,208	-0.40%	8.52%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2,517	1.47%	13.45%
Commodities				
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	87	13.55%	-10.32%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	1.76	-29.87%	-43.82%
Gold	Generic 1st Gold, USD/toz	2,217	7.03%	13.45%
Copper	Generic 1st Copper, USD/lb	401	2.99%	2.10%
Currencies				
GBP/EUR	GBPEUR Exchange Rate	1.17	1.40%	2.12%
GBP/USD	GBPUSD Exchange Rate	1.26	-0.85%	5.36%
EUR/USD	EURUSD Exchange Rate	1.08	-2.26%	3.12%
USD/JPY	USDJPY Exchange Rate	151	7.31%	7.57%
Dollar Index	Dollar Index Spot	104	3.11%	-2.11%
USD/CNY	USDCNY Exchange Rate	7.22	1.72%	2.92%
Alternatives				
Infrastructure	S&P Global Infrastructure Index	2,738	1.36%	6.82%
Private Equity	S&P Listed Private Equity Index	225	7.26%	40.75%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	19,823	5.53%	7.21%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,704	-0.39%	3.59%
Volatility			**Change in Volatility**	
VIX	Chicago Board Options Exchange SPX Volatility Index	13	4.50%	-42.55%

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

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Performance

The Fund rose by 4.7% in the third quarter of 2023 to a value of £3.527bn. I would assume that this is close to an all-time high. As can be seen from the previous table, Equities were the driving force behind returns in the quarter with Government Bonds weaker across the board as expectations for interest rate cuts were delayed. Credit achieved a small return as the yield offset slight capital weakness, credit spreads against Government Bonds remain tight. Alternative Investments had more mixed returns, Private Credit should have continued to perform as yields remain attractive, Infrastructure and Private Equity are still struggling with repricing debt levels and restructuring balance sheets and cash-flows. Property was flat.

Much of the underperformance against the benchmark was driven by the poor performance of the Private Equity portfolio in the quarter, in both the Brunel managed element and the direct element. Against this the Fund's slight overweight against its Strategic Asset Allocation Benchmark in Global Equities offset some of this weakness as Equities rose with other assets predominately flat.

Driven partially by this quarter's underperformance, the Fund is now lagging its benchmark over 3 years (by -1.5%); 5 years (by -0.7%) and is flat against the benchmark over 10 years. 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 7.8% per annum over the last 10 years, being above the Fund's actuarial discount rate assumption for future investment returns, will have driven much of the improvement in the funding ratio between the triennual actuarial revaluations.

Comment

Global Equity markets continued to rise in the first quarter of 2024 following on from the strong rally in Q4 2023. This was driven by the major central banks, led by the US Federal Reserve (US Fed), stating in September 2023 that they believed inflation was now under control and that they expected the next move in interest rates to be down. By the end of 2023, markets were discounting 6 quarter percent cuts in US interest rates taking the headline interest rate from 5.5% to 4% over the course of 2024. This spurred both equity and bond returns in the fourth quarter of 2023.

As I noted in my last report, this speed of interest rate cuts seemed optimistic and, over the first quarter 2024, expectations have been scaled back as the US economy has continued to show solid economic growth and inflation has proved stickier than assumed. With the expectation of interest rate cuts being scaled back, government bond markets fell across the board over the first quarter 2024 although not precipitously with credit outperforming government bonds and short-dated bonds out-performing those of a longer duration.

The table below shows annualised, seasonally adjusted, economic growth (GDP) after taking into account inflation for the major economies over the last few quarters.

Table 1: Annual Real GDP Growth

GDP growth	1Q 23	2Q 23	3Q 23	4Q 23	1Q24
US	2.2%	2.1%	4.9%	3.4%	1.6%
EU	1.2%	0.6%	0.1%	0.2%	0.3%
UK	0.2%	0.0%	-0.1%	-0.3%	0.6%*
Japan	2.6%	2.3%	1.6%	1.2%	-0.2%

*Forecast

As can be seen in the table above, it is the US which has maintained strong economic growth through 2023 despite the rise in interest rates. This would seem to be driven by a number of factors:

1. repatriation of supply chains away from lower cost countries to a more home grown base for greater security;

2. a longer duration debt profile of both corporates and individuals with many US residential mortgages fixed for 25 year terms. This has slowed down the impact of raising interest rates;
3. the effect of high European gas prices in 2022 pushing a number of industries, particularly fertiliser and chemical, away from the EU to the US due to cheaper feed stocks;
4. US domestic policy around the Inflation Reduction Act and corporate tax cuts which encouraged corporates to reinvest back into the US leading to signs of higher corporate investment and improved productivity;
5. a higher natural immigration rate in the US boosting the supply of labour.

Whilst the US has continued to post strong economic growth numbers, the EU and UK have been much weaker with the UK in a technical recession (two consecutive quarters of negative economic growth) in the second half of 2023.

In the US, it is the strong economic performance which is keeping employment rates high and wages rising thereby keeping inflation above expectations. If we assume that the potential non-inflationary US economic growth rate is around 2-2.5% per annum in real terms, any rate of economic growth above this will be inflationary and, for inflation to fall, economic growth will have to slow further. US GDP growth does appear to be on a downward projection at present although the figure reported for Q1 2024 may be revised up. Any sign that the US economy is not slowing as forecast will concern markets as it may then require even higher interest rates to slow the economy and bring inflation back to the US Fed's 2% target. We have never, in living memory, seen a rise in interest rates of the speed and scale we have seen in the last few years which has not caused a US recession and yet, it appears, that this may be a first with the forecast for a continued slowdown in economic growth and inflation reverting to the US Fed's 2% target.

The situation in the EU and UK is different, inflation here is not being held up by strong economic growth but by rising costs and more structured labour markets. The transition mechanism by which higher interest rates impact the underlying economy remains effective in these regions with the availability of credit reducing and loan growth slowing. Inflation in the EU is expected to fall further with only service sector and wage inflation remaining above target but these are lagging indicators, especially in more structured European labour markets. The potential non-inflationary economic growth rate for the EU and UK is estimated to be below that of the US at around 1-1.5% due, in part, to lower immigration and very limited productivity gains in the recent past. The EU and UK economies are already growing below this figure and therefore the scope for interest rates to fall remains the central expectation for investors with the EU potentially cutting interest rates in early summer 2024.

In the UK, a fall in the energy price cap charged to consumers should mean the next inflation reading is very close to the Bank of England's (BoE) 2% target which will increase the pressure for interest rate cuts although it is highly likely that any cut will now wait till after the UK election on the 4th July. This compares with the US now expected to cut interest rates no earlier than November 2024, in part due to the timing of the US presidential elections in October 2024. (Central banks are wary of cutting interest rates in the run up to elections due to the potential for this to be seen as politically motivated.)

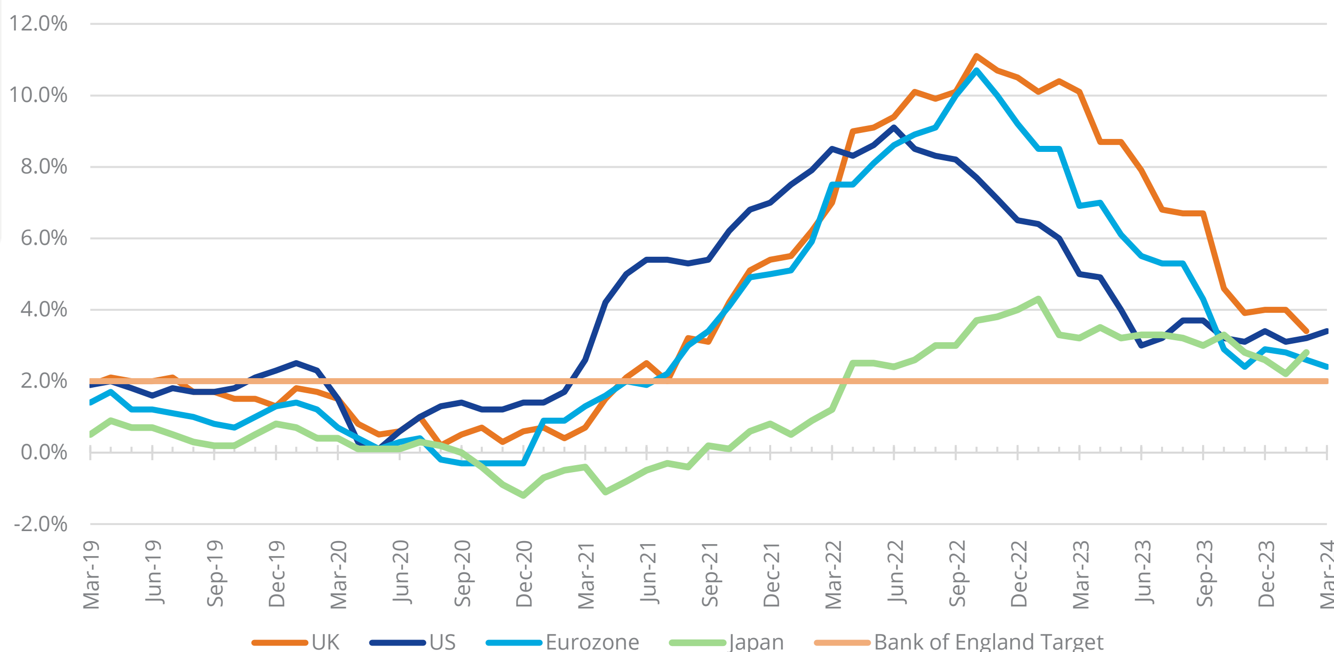
Historically, the US has usually led the economic cycle and it is unusual for the EU and UK to cut interest rates prior to the US Fed. A greater interest rate differential in favour of the US could further strengthen the US Dollar and the potential for currency weakness may curtail the ability of the European Central Bank (ECB) and the BoE to cut rates significantly ahead of the US.

Since the end of the first quarter, the economic data has become more confusing regarding the speed of any further slowdown with a number of leading indicators, particularly around the Purchasing Managers Index (PMI), rising in both the US and EU suggesting the potential for an economic recovery post the very muted slowdown experienced in the last few years. However, there are some signs of a weakening consumer, particularly around the budget and low price sector with rising default rates on credit cards and car loans. The details and some corporate earnings reports suggest that those who have insecure jobs, being unable to maintain their wages in real terms and have no assets to benefit from higher interest rates, are struggling. The better off with stable employment and assets which benefit from rising markets continue to spend strongly and it is this sector which is keeping consumer spending strong and thereby the US economy (consumer spending accounts for 70% of GDP). Having a sector of the population excluded from the benefits of higher economic growth is not good for long-term social stability and I see this as being reflected in the politics in the US (and elsewhere in the developed world).

An economic acceleration from here is not a central market assumption and would lead to higher interest rates, particularly in the US, to contain any resultant surge in inflation. I would expect this to undermine investor sentiment. However, my central expectation is for a continued gentle slowdown in the US with inflation remaining stickier than expected and therefore interest rates higher for longer in the US but with scope for a gentle decline in the EU and UK.

One issue for the major central banks is that they all realise that an inflation target of 2% per annum is probably too low, it leaves open the prospect of undershooting this target and hitting deflation but also a focus on the 2% figure may lead interest rates to remain too high for too long to squeeze the last drops out of inflation and in doing so cause longer lasting damage to the underlying economy. I suspect that all the major central banks would like to move away from their 2% inflation target, settling for 2.5% or even 3%, but feel constrained by how bond investors would take this and whether they would lose confidence in the central banks' commitment to controlling inflation over the longer term and therefore push bond yields higher.

Chart 1: CPI – Annual rate of Inflation - Five Years to March 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)

As can be seen in the chart above, inflation, as measured by the Consumer Price Index (CPI), seems to have stopped falling over the last few quarters and we are seeing rising prices across a number of commodity markets form Oil (due to raised political tensions in Russia and the Middle East); Cocoa and a number of soft commodities (due to disrupted harvests from abnormal weather patterns); Gold (due to high investor demand as an inflation hedge) and Copper (due to supply shortages).

Given bond yields are now pricing in much slower interest rate cuts than three months ago, bond markets may have some scope for yields to fall as actual interest rate cuts come through in the UK and EU and then eventually in the US. However, I do not see longer duration bonds as particularly cheap because of my assumption of higher ongoing inflation with the scope for inflation surprises on the upside. In addition, politicians, particularly in the US, seem to believe they can spend with impunity and the US budget deficit for 2023 was equal to 6.3% of GDP, a level we have only seen previously in times of war or significant economic recession. The promise by presidential candidate Donald Trump to make permanent his tax cuts of 2017 and look to change the current chair of the US Fed with a more political appointment would suggest no political will to correct this imbalance. This only leaves investors to force fiscal restraint and I would expect the term 'bond market vigilantes' to reappear in commentators lexicon at some stage in the future.

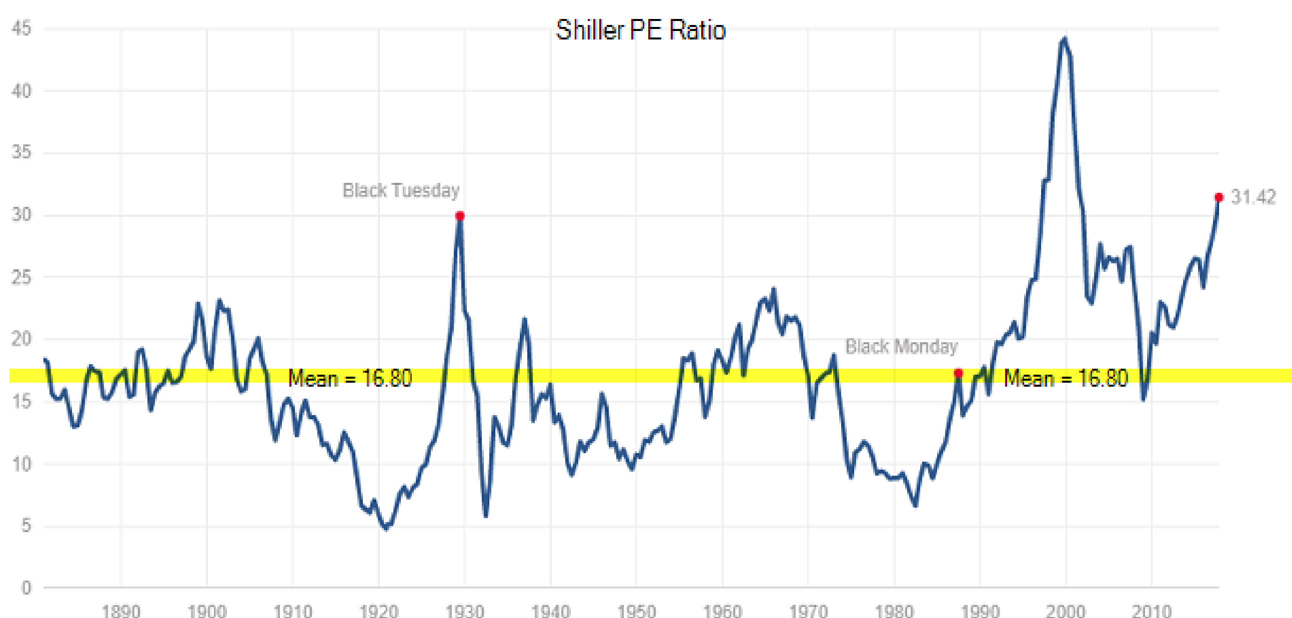
The UK is not much better than this with a current budget deficit and rising debt levels to GDP. It is surprising that neither of the main political parties are challenging the current chancellor's spending plans at present despite both the Office for Budgetary Responsibility (OBR) and the Institute for Fiscal Studies (IFS) stating that they are unlikely to be achievable leaving a potential £30bn hold in the budget in future years.

Global Equities are now up almost 20% over the last 6 months. Much of this rise has been on the basis of better future growth, i.e. it has been the valuation of equities which has risen rather than higher current earnings. There are some exceptions to this and a number of the US mega tech companies continue to perform well, particularly Meta and Nvidia. Q1 did see a broadening out of the equity market rally from the 7 big US technology names. It does, however, feel to me that markets are purely extrapolating current trends rather than thinking through possible future outcomes at present.

The chart below shows a simple valuation measure of global equity markets against their long-term history using share prices divided by the average 10-year earnings per share.

There are several reasons why this chart can be a poor measure of current market valuations, but I do find the long-term comparison useful. It shows the climb in equity market valuations from 1980 through to 2008 as interest rates fell from cyclical highs to the near zero levels we became accustomed to during the early part of the 21st Century. In theory, the valuation of equity markets should fall as interest rates rise but that has not been the case so far and valuations are beginning to look stretched. Any further strength in the US economy and a realisation that US rates need to rise further rather than fall as forecast could lead to a sudden reappraisal of equity market valuations.

Chart 2: Shiller Price/Earnings ratio using average 10-year earnings per share



The outlook for alternative, less liquid asset classes remains linked to that of equity and bond markets. Private Equity has still not repriced to reflect current market conditions post the rise in interest rates and I would expect returns to lag those of the quoted markets for a few quarters yet, Private Debt continues to hold up well returning around 10-12% at present but competition in this area is increasing driven by the good level of current returns, Infrastructure has taken time to reflect the higher bond yields and, in addition, trading conditions for a number of the renewables sectors have been poor in the UK, especially around battery storage and wind. Commercial Property has also taken time to reflect higher bond yields but may now have over discounted a potential economic recession with scope for higher yields to drive returns from here.

Asset Allocation

Table 2: 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	55.4%	**51%**	+4.4%	-£155m
Fixed Interest	14.6%	**16%**	-1.4%	+£49m
Property	6.3%	**8%**	-1.7%	+£60m
Diversified Growth	0%	**0%**	0%	£0m
Secure Income	4.0%	**5%**	-1.0%	+£35m
Alternatives	17.8%	**20%**	-2.1%	+£66m
Cash	1.9%	**0%**	+1.9%	-£56m

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

The current deviation from the Fund's Strategic Asset Allocation 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. Unfortunately Brunel does not currently offer such a product.

Table 3: Allocations to Alternative Investments Invested/Committed

Called/Committed	Private Equity	Infrastructure	Secure Income	Private Debt
Cycle 1 March 2018	£72.5m/£100m	£41.5m/£50m	£60m/£60m	n/a
Cycle 2 Apr 2020	£32m/£70m	£14.5m/£20m Renewables£9.5m/£20m	£40m/£40m	£42.5m/£70m
Cycle 3 Apr 2022	£0m/£16m	£9m/£60m	£32m/£60m	£14m/£90m
Total	**£104.5m/£186m**	**£74.5m/£150m**	**£132m/£160m**	**£56.5m/£160m**

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

In addition to the above, the Fund has invested directly into a number of Private Equity funds. At the current time these investments have an undrawn commitment of £23m outstanding.

Assuming an 80% maximum investment of committed capital in Alternative funds, 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 investment mature, however, the figures above suggest there is limited need to make new commitments to these asset classes in the immediate future.

Points for Consideration

1) 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, Governance and Social (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.

2) 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.

Brunel continue to research changing the specification for this mandate. If the mandate is changed it will take time for new managers to be selected and the mandate to be operational.

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.

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. 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.

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
Secure Income	Cash + 4%	07/20		Some 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		Existing managers have performed well

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Market Summary

- Inflation (including core inflation) fell slightly in Q1, but less than expected, driven by persistent wage and services prices, causing central banks to revise the more dovish stances they took in Q4 2023. All major central banks held their current rates in Q1, though the prevailing direction is still downward, albeit at a slower pace. Generally, economic indicators proved more positive than expectations, reducing some fears of stagnating growth and recessionary risk, but the UK and Europe are still showing declining GDP growth (with the UK entering a technical recession). China, whilst beginning to recover, is doing so slowly and is still struggling with its property crisis. The US once again led the way with a resilient domestic job market (unemployment at 3.8%) and a healthy consumer market leading to steady GDP growth.
- Q1 was positive for most markets bar government bonds, in keeping with the largely positive trend of 2023. Global equities (MSCI World) rose sharply by 9.0% in local currency terms over the quarter, with Growth (+10.0%) rising more sharply than Value (+6.9%). Emerging Market and UK equities notably lagged behind other markets, with Emerging Markets returning 2.4% in local currency and UK equities returning 3.6%. Following a strong 2023, Japanese equities had a spectacular quarter (returning c.20%) as optimism over positive economic indicators and the Bank of Japan's (BoJ) monetary overhaul signalling a departure from negative rates drove foreign investment. UK equities suffered slightly from a value bias as well as the lack of rate cuts as the UK entered a technical recession. US equities performed strongly (+10.5%) as Q4 GDP growth was revised up and economic indicators improved. Bonds had weaker performance this quarter, as rate cuts were held across the major markets. Longer-dated Government Bonds (and index-Linked Bonds) showed the biggest fall, particularly in the UK. Shorter-dated credit did better, with credit spreads tightening and investment grade credit underperformed high yield. Alternatives generally performed well, with private equity (+7.3%) as measured by the S&P Listed Private Equity Index showing the strong performance but real estate proving more mixed.

It is worth highlighting the following themes, impacting investment markets:

- **Core inflation continues stubbornly high – is c.4% rates the "new" normal?** Inflation generally fell slightly during the quarter but, particularly in the US, ticked up again towards the end of the quarter. Annual CPI fell to 3.4% in the UK (February) compared to 3.4% for the US and 2.4% for the Eurozone (March). But the fall in core inflation (excluding energy and food prices) has slowed and it remains uncomfortably high (3-5%), resulting in a more cautious reaction from central banks who mostly chose not to cut rates. Meanwhile, rising tension in the Middle East and continued strong growth (including a pick-up in China) have led oil back up over $90/bbl, up almost 15% year-to-date which will close the gap between CPI and core inflation. It is likely that rates may stay elevated through much of 2024, and central banks will need to see evidence of weakening demand (e.g. recession) to cut them, i.e. a traditional "cycle"!
- **"Higher for longer" interest rates may favour more defensive positioning.** High rates are a drag on businesses requiring funding and favour those businesses with strong free cash flows (FCF): this usually drives investors to favour large companies over smaller companies, cheaply valued equity over expensive (UK on 11x forward price/earnings ratio vs US on >20x), strong FCF yields (typically defensive business models, but also tech majors where cash generation is high; it penalizes leverage of all varieties (real estate, utilities etc) and also caveats higher yield fixed income; it increases cyclical risk, and, with credit spreads tight and US 10-year bonds yielding 4.6%, urges increased caution with credit risk. The accompanying inflationary pressure can benefit commodities (mining and energy equities are currently rallying). Having said all that, with expectations of interest rate cuts reset (fewer cuts now expected), it may be time to consider longer duration assets with some inflation characteristics (e.g. unlevered infrastructure, real estate).
- **Investment risk is higher and harder to diversify in 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).

Global equities rose in Q1 on the back of good corporate earnings, positive economic data (particularly in the US) and increasing enthusiasm over AI. The VIX increased slightly over the quarter from 12 to 13, having fallen over the course of last year from the previous highs. Growth continued to outperform Value.

- In the US, the S&P 500 and NASDAQ rose by 10.6% and 8.7%, respectively. GDP growth for Q4 was revised up to 3.4%, above expectations, and Manufacturing PMI increased above 50 for the first time in over a year. Whilst this caused a positive reaction, the US Fed holding rates for the quarter tempered market sentiment. However, US Fed open markets committee still predicts three interest rate cuts this year.
- UK equities increased by 3.6% but continued to underperform global equities. Inflation continued to fall slightly to 3.4% but the Bank of England (BoE) held rates despite Britain entering a technical recession. Energy (excluding natural gas) and financial sectors, which the UK is biased to, performed well but the UK's value bias hindered performance.
- The Euro Stoxx 50 rose by 12.9%, with the IT sector leading returns over AI enthusiasm. Inflation and core inflation continued to fall, now both under 3% but the European Central Bank (ECB) was more cautious in commentary around rate cuts as it wants to avoid a reversal. Composite PMI hit 50 again showing business levels are almost at stable levels (although Manufacturing PMI still lags significantly).
- Japanese equities returned 20% in Q1 in local currency. Optimism over wage growth and positive economic indicators drove foreign investment with the Nikkei reaching 40,000 Yen for the first time. The BoJ's monetary overhaul (lifting negative interest rates, abandoning Yield Curve Control and the market purchase programme) led to further weakening of the Yen.
- Emerging market equities rose by 2.4% in Q1, with Asian Markets returning slightly better as China began to recover (although slowly), Indian Manufacturing grew due to relocations from China and Taiwan enjoying the AI boom. Outside of Asia markets saw mixed results as Turkey's more orthodox interest rate policy instilled confidence, but South Africa and Egypt suffered from political tensions and 35% currency devaluation respectively. Colombian and Peruvian markets saw positive monetary policy developments but generally Latin American returns were low, in part due to sensitivity to US rates.

- Yields generally rose over the quarter, dovish stances taken by central banks last quarter were tempered, resulting in mildly negative performance for most government bonds. Japan's Central Bank raised its policy rate for the first time in 17 years. The inversion of US yield curve (10-year minus 2-year yields) increased slightly but remained around -40bps. In corporate bonds, credit spreads tightened as default rates remain low and recessionary fears further reduced over the quarter.
  - The US 10-year Treasury yield rose from 3.88% to 4.20%, while the 2-year yield rose from 4.25% to 4.62%. The US Fed policy rates remained the same, but the US Fed slightly reigned back dovish rhetoric and delayed rate cuts whilst still predicting three quarter of a percent cuts for 2024.
  - The UK 10-year Gilt yield rose from 3.53% to 3.93% while 2-year yields rose from 3.95% to 4.17%. The BoE held rates this quarter as despite its continued fall, the inflation rate (particularly core inflation) remains above its peers as does wage growth.
  - European government bonds also fell in Q1 as yields rose, the ECB was also cautious and tempered previous dovish rhetoric. Italian – German spreads continued to tighten causing Italian bonds to outperform German bonds.
  - Corporate bonds outperformed Government bonds, with high yield leading but all returns were muted. US and European high yield returned 1.5% and 1.8%, while US, UK and European investment grade credit returned -0.4%, 0.2% and 0.6% respectively.
- Energy and livestock prices rose during Q1, with crude oil rising by 13.55% as supply and distribution difficulties met with an increased demand. Natural Gas was a notable exception falling almost 30%. Agriculture showed more modest returns, although West African supply shortages increased the cocoa price. Industrial metals showed mixed returns, but precious metals were broadly positive.
  - US gas prices fell even further in Q1 due to record production and abundant inventories with relatively mild winter temperatures.
  - OPEC+ supply cuts and geopolitical uncertainties limited supply (particularly Houthi attacks in the Red Sea redirecting shipping) causing the high Q1 demand to raise oil prices. Poor weather conditions also impacted supply from non-OPEC+ sources.
  - Gold and copper rose 7.0% and 3.0% respectively over Q1. Precious metals prices (particularly Gold) rose following concerns around geopolitical stability, while industrial metals were more mixed.

- Global listed property fell slightly this quarter, with the FTSE EPRA Nareit Global Index falling by -0.4% in Q1.
    - The Nationwide House Price Index in the UK has increased again this quarter, with the seasonally adjusted price index up 1.1% for the quarter and up 1.6% for the last 12 months.
    - European commercial property has finally bounced back slightly this quarter after a steady decline since early 2022, with the Green Street Pan European Commercial Property Price Index up by 1.4% this quarter versus -4.7% over the past 12 months.
- In currencies, US Dollar strengthened generally throughout the quarter (DXY 3.1%), slightly against Sterling, more against the Euro and significantly against the Japanese Yen. Bitcoin and Ethereum saw another quarter of very strong performance in Q1 (69% and 60% respectively) after the approval of the US spot bitcoin Funds by the US Securities commission and subsequent successful launch of multiple Funds.