WAVERTON

GLOBAL OUTLOOK

October 2024

This document should be used as a guide only. It is based on our current view of markets and is subject to change.

INTRODUCTION

This document shows the charts that we think are particularly useful to help us determine where we are in the economic cycle and what the outlook is for markets.

Contents

SUMMARY OF OUR VIEWS

Macroeconomic background

The market narrative at the moment is being driven by high conviction that central banks, led by the Federal Reserve, will continue to cut rates in coming months. The market expects the Fed and the European Central Bank to both cut by a cumulative 1% to 4.0% and 2.5% respectively by March 2025. The Bank of England is expected to get the base rate to 4.0% from the current 5.0% in August 2025.

The market adjusts the speed of the expected rate cuts depending on the data flow. Strong US labour market data has reduced the expectation for another 0.5% rate cut from the Fed in coming months, for example. But conviction about the direction of travel remains high.

A lot of this rests on the view that inflation will continue to moderate. Although there have been occasional slightly disappointing inflation reports such as the US one for September, there remains conviction that inflation will moderate as reflected in the inflation swaps market or the inflation breakeven derived from the spread between nominal and inflation linked bonds.

The equity market has benefited from the combination of ongoing growth and lower policy rates. Indeed, as we highlight on the next page, while equity market volatility picked up in Q3, the leadership of the market was broader than in the first half which is a healthy sign.

The bond market has reacted less well to the above narrative. Bond yields are up 0.4% since the Fed rate cut on 18 September. Bond investors may be fearing that the combination of ongoing reasonable economic growth and lower policy rates are taking risks with inflation in the medium term. That is not reflected in the inflation markets, yet, but this will be important to watch in coming weeks.

The US Presidential election on November 5 could impact the current market narrative, particularly if Trump wins. His policy mix of lower taxes and increases in tariffs on imports could be interpreted as a threat to the improving inflation story.

It is also possible that the market will become more concerned about the outlook for fiscal policy in 2025 thanks to the need to address the Federal government debt ceiling, and how to address the fact that the 2017 tax cuts for individuals and small businesses expire at the end of 2025 so need to be re-legislated. If the tax cuts expire it is the equivalent of an over $4 trillion tax hike (14% of GDP). Maintaining at least some of the cuts seems likely to avoid a deflationary shock to the economy. But the budget deficit is 7% of GDP and neither Presidential candidate seems to have any proposals that will do anything other than increase the deficit. At some point it is possible that becomes an issue for markets.

The election remains too close to call. The bump upward that the Democrats received when Biden stepped aside has dissipated. Whether one looks at opinion polls or at the betting markets, the race has tightened again in recent weeks. It also remains the case that control of the House of Representatives and Senate may switch. The Senate looks likely to have a Republican majority rather than the current Democrat one. The House may end up flipping to the Democrats.

Divided government is generally seen as market friendly as it makes it harder to enact legislation. So, although the election remains a fascinating drama, it may end up not meaning much for investors.

Risk warning: The above should be used as a guide only. It is based on our current view of markets and is subject to change. As at 10.10.24

SUMMARY OF OUR VIEWS (continued)

Equities (overweight)

The MSCI All Country World Index rose 0.5% in Q3 and is up 12.8% this year.

In Q3 there was a more defensive and value bias to markets and the largest sector moves were driven by investors rotating out of the technology and AI-related names that had driven markets higher in the first half of the year, in favour of sectors perceived to be defensive in a recessionary environment. As a result, we saw consistent outperformance of rate-sensitive Real Estate (+10.1%) and Utilities (+9.9%), at the expense of Information Technology (-4.7%) and Energy (-7.8%), with the latter a reflection of lower oil prices despite the escalation of tensions in the Middle East.

Beyond these extremes, however, the swing in sentiment from extreme bearishness towards the end of July to the restoration of the soft-landing narrative by the end of September, also saw frequent changes in support for more cyclical parts of the market.

This was significantly enhanced by the sudden rally in Chinese equities towards the end of the quarter, which saw not only the largest domestic consumer discretionary stocks rally over 15% during September, but also renewed support for global Materials and Industrial companies set to benefit from a sustained economic recovery in the region.

Against this backdrop, we saw an encouraging improvement in market breadth after the concentrated nature of the MSCI ACWI's returns over the 1H (+12.3%), 50% of which had been driven by the Magnificent 7, most notably Nvidia (25%). By contrast during Q3, the largest 5% of the MSCI ACWI detracted from index performance (-1.9%), while the other 95% performed relatively strongly (+3.1%).

Fixed income (underweight)

The overall gilt total return index returned 2.5% in Q3 and -0.5% so far this year.

We still see value in government bonds. We also see them as an important diversifier.

Short dated sterling credit is also attractive with yields of 5.5% on offer for an investment grade portfolio of bonds maturing within the next 18 months.

Alternatives (neutral)

We believe Alternatives have an important role to play in diversified portfolios.

Absolute Return strategies can give exposure to an uncorrelated stream of returns giving diversification benefits. This sector has struggled in recent years, but well-run funds have attractive volatility dampening characteristics.

Real Assets such as property (both physical and intellectual), infrastructure (including transportation), commodities (such as gold) and other investments underpinned by physical assets offer a combination of income and capital return that is attractive. Many of the assets that produce income have inflation-linked cashflows.

Cash (neutral)

Even though savings rates have risen, cash still loses purchasing power quickly in any period of high inflation.

Risk warning: The above should be used as a guide only. It is based on our current view of markets and is subject to change. As at 10.10.24

Part 1

POLITICS, POLICY, BONDS & CURRENCIES

RATE CUTS EXPECTED IN THE US AND UK

The top chart shows current expectations for the US Federal Reserve policy rate over the next two and a half years and how those expectations have shifted since mid-August.

The market still expects the Fed to cut rates further in coming months but is not quite as aggressive as it had been on how far rates are cut in 2025.

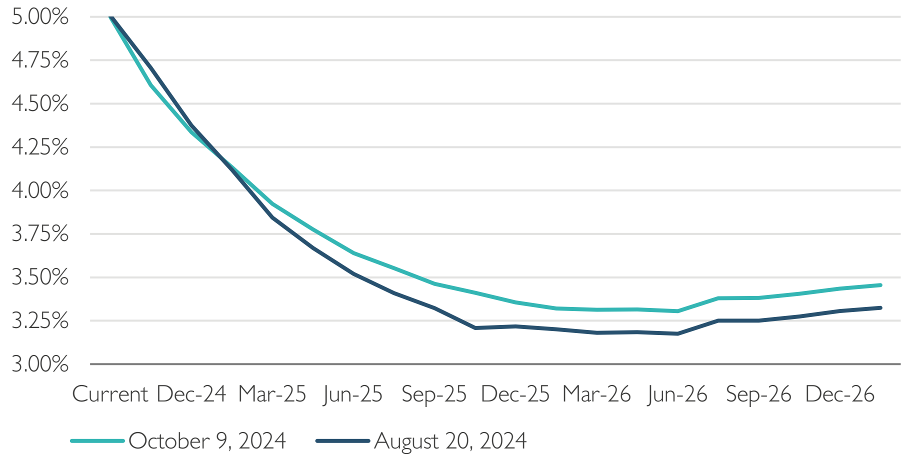
The extended period we are able to show for expectations of future interest rate moves reveals that the market thinks the low point for the Fed Funds rate will be just over 3.25% which the market expects it to get to in early 2026.

Such forecasts so far in the future are generally unreliable in terms of precision. But the direction of travel is important to understand. If the direction of travel is accurate it implies that the US economy will indeed have a soft landing with slower growth, slower inflation but no recession. Such an outcome would be good for both equities and bonds.

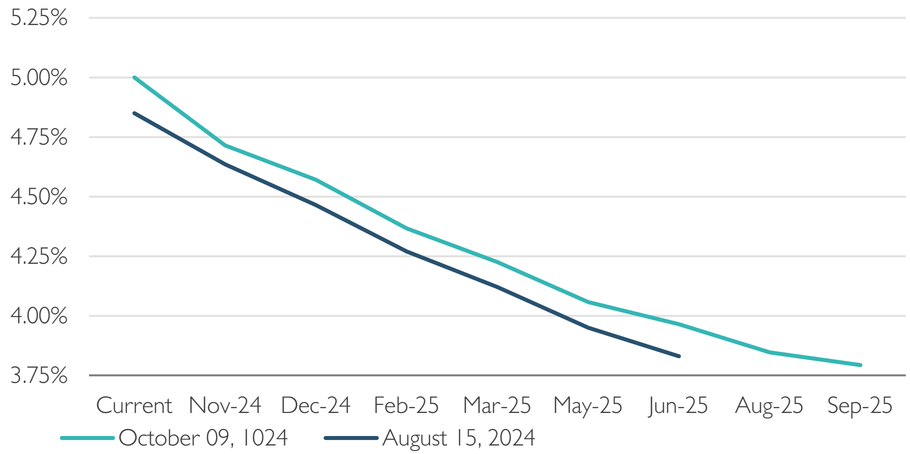
The bottom chart shows current expectations for the Bank of England's base rate and those expectations in August. The Bank is now expected to cut rates four times by June 2025, very similar to the expectations in August.

Better inflation data has increased market confidence that interest rate cuts are coming on both sides of the Atlantic. The Bank of England lowered rates at its August meeting which the market was not sure it would do. It seems reasonable to think the Bank will cut again later this year. More cuts would help stimulate parts of the economy that have been in the doldrums such as the property market.

Implied US Fed Funds rate %



Implied UK Base Rate %



Source: Bloomberg, Waverton. As at 09.10.24

PRESIDENTIAL ELECTION TOO CLOSE TO CALL

The top chart shows the current probability of who wins the 5 November Presidential election based on betting done on www.predictit.org. As of October 9, the probability of Vice President Harris winning is 54%, of Trump winning is 51%.

Harris got a bounce after the perception that she had done better than Trump in their one debate on 10 September. But in the last two weeks the race appears to have narrowed again and is too close to call whether you look at what the betting markets are saying, or at the polls.

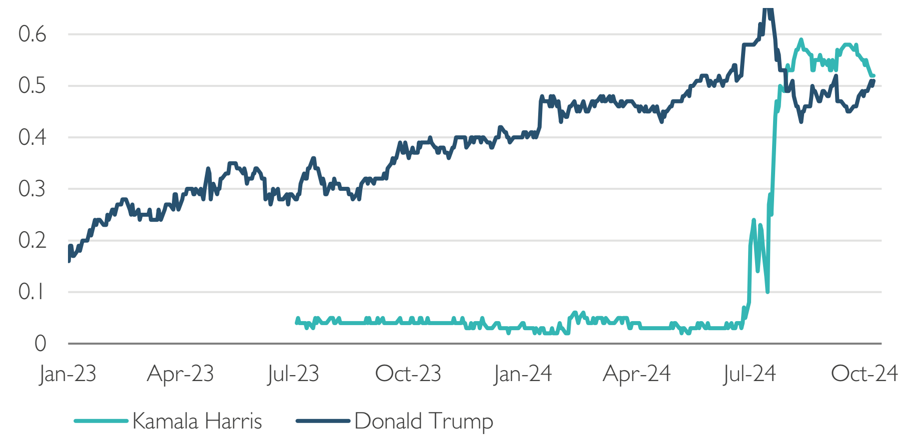
The bottom chart shows the latest opinion poll data for the seven key "swing states" that are likely to determine the election outcome. Most states tend to consistently vote for one party or the other but these seven have either alternated or been extremely close in recent elections.

One of the reasons for the betting markets to have gone back to thinking the race is tight is that Trump has returned to the lead in North Carolina, Georgia and Arizona. Harris is ahead in the other four but her lead in each of those has shrunk.

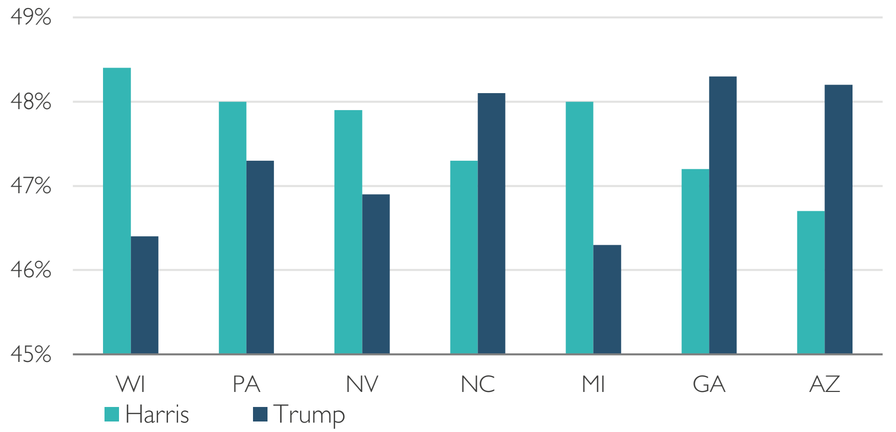
Financial markets are relaxed about Trump winning. Trump cut taxes and had a light touch on regulation in his term.

If the Democrats win the market will not expect significant policy change, which will also be acceptable given the Biden administration kept the economy growing and oversaw a stock market at record highs.

Probability of Harris or Trump winning election %



Latest Opinion Polls in seven Swing States%



Source: Bloomberg, www.predictit.org, President: general election : 2024 Polls | FiveThirtyEight Waverton, As at 09.10.24

US CONGRESSIONAL ELECTIONS LOOK CLOSE

The policy impact any President has is in part determined on the outcome of the Congressional elections. All of the House of Representatives and one third of Senate seats are in play this year.

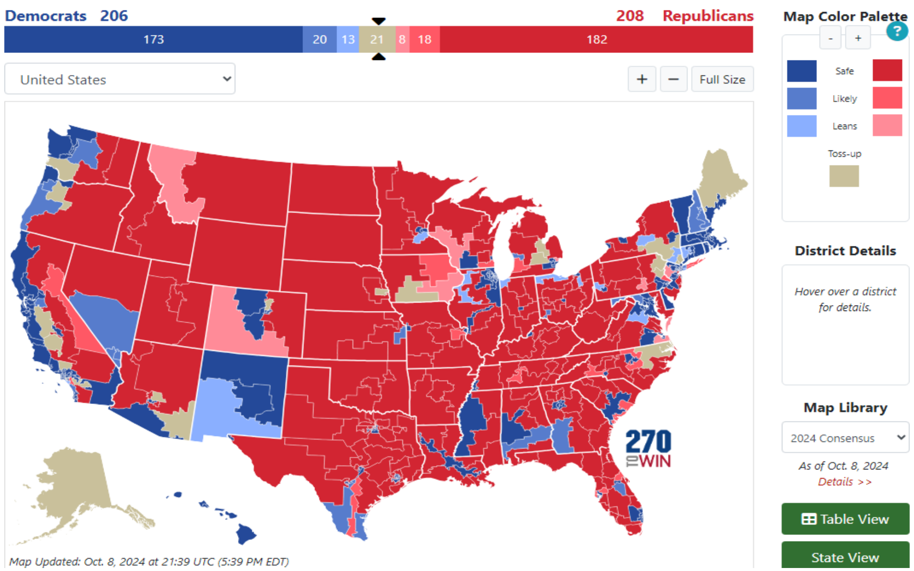
Currently the Republicans control the House 220 – 212 with three vacant seats. The current consensus is that the Republicans look like they are leading in 208 seats, the Democrats in 206. So, the majority will be determined in the other 21 seats.

A big reason that the Democrat party persuaded Biden to withdraw was concern that apathy about him would reduce the turnout and hurt the Democrats chances of taking the House. Those chances now again look good.

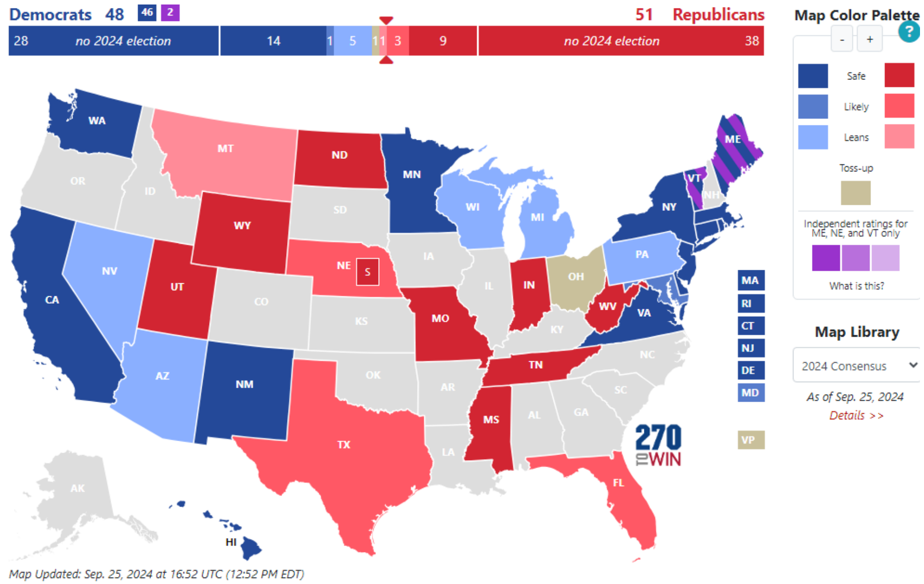
The Democrats currently control the Senate by 51 – 49. The consensus is that the Republicans are likely to take control of the Senate. The party is favoured in the majority of the 34 seats up for election. At the moment, that is seen giving the party 51 seats with the Democrats looking likely to have 48 seats with only Ohio deemed too close to call.

A divided Congress is generally seen as a market friendly outcome.

US House of Representatives projection after 2024 election



US Senate projection after 2024 election



Source: https://www.270towin.com/ As of 25.09.24 and 08.10.24

FISCAL POLICY WILL BE DOMINANT ISSUE IN 2025

This chart shows the US budget deficit as a % of US GDP. It is currently 7.2% of GDP. So far, the bond market has been relaxed about the likelihood of more supply of government bonds in the months and years ahead. But that could change in 2025 for two reasons.

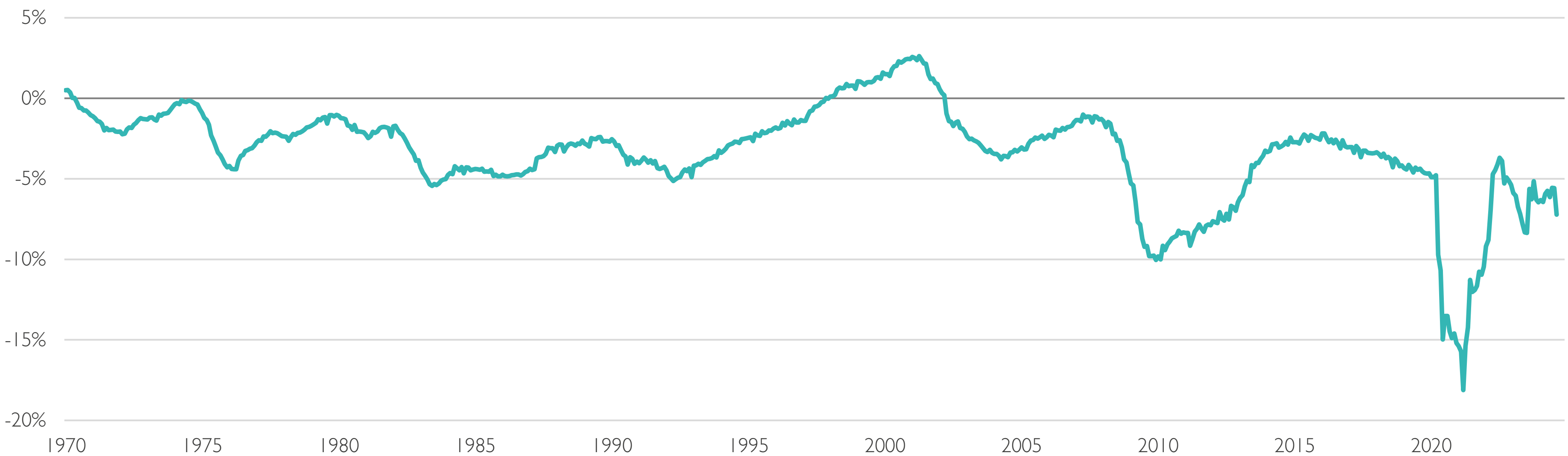
Firstly, the Federal government debt limit will be reinstated on 2 January 2025 at the level that includes all borrowing since the June 2023 suspension of the debt limit by Congress. So, it is a legal requirement that at some point next year Congress will have to raise the debt limit to permit more borrowing. The US Treasury can rely on its cash holdings for a little while before the limit needs to be raised but it is likely that the new Congress will have to deal with this issue in the first weeks of 2025. If no one party controls both houses of Congress and the Presidency that could be a challenge.

Secondly, the 2017 tax cuts for individuals and small businesses roll off at the end of 2025. If new legislation is not passed to renew them, then taxes will rise by over $4 trillion.

A Trump administration with Republicans in control of both houses will definitely renew them. It could be a battle to do so if that is not the situation.

Renewed tax cuts would be a positive for demand in the economy in the short term but will boost the deficit further in the medium term. Could the bond vigilantes come out of hibernation at that point?

US budget deficit as % of GDP 1970 - current



Source: Bloomberg, Waverton. As at 30.08.24

US PROFITS AS % OF GDP REMAIN RESILIENT

This chart shows pre-tax profits of corporate America relative to GDP through Q1 2024, the most recent data available. This profit series shows aggregate profits across the whole economy and shows them in US dollars, not as earnings per share.

Consequently, this series is not susceptible to financial engineering via such things as share buybacks to boost earnings per share. It is a proxy for profit margins.

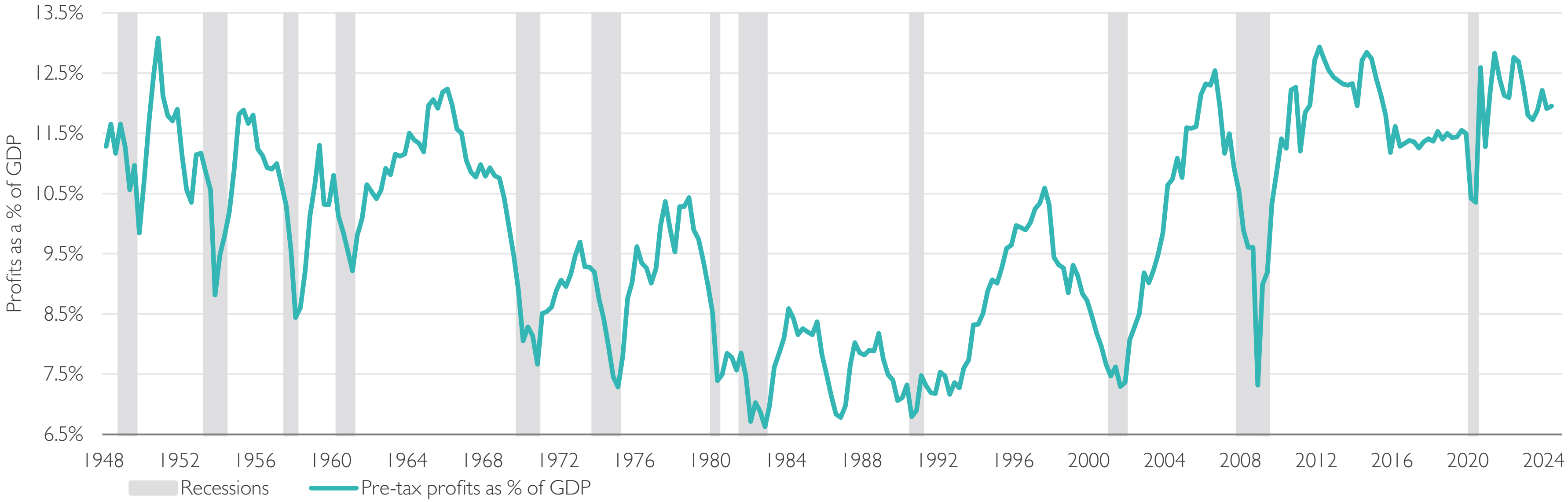
In every recession except 1982, profits were falling as a % of GDP before it.

Profits are below the cyclical peak as % of GDP which was 12.8% in Q2 2021.

But on this measure profits have been resilient in the last three quarters when they were reported as 11.9%, 12.2% and 11.9% of GDP respectively.

This is another indicator suggesting a recession in the near term is unlikely.

US profit cycles and recessions (%)



Source: MSCI, FactSet, Waverton. As at 30.06.24

GOVERNMENT BONDS REMAIN INTERESTING AT THESE LEVELS

The top chart shows how the yield on 10-year gilts and 10-year US Treasuries has evolved over the last two years. Bond yields have risen since the Fed cut rates in mid-September, aided by some stronger than expected economic data.

The bottom chart shows those same yields after deducting the current 10-year inflation swap rate in each market. The swap rate is one indication of market expectations for inflation over the life of the bond.

Inflation swaps are priced on RPI in the UK so we have deducted 1.2% from the swap rate to get an implied indication of expectations of CPI inflation (1.2% is about the long-term "wedge" between RPI and CPI inflation).

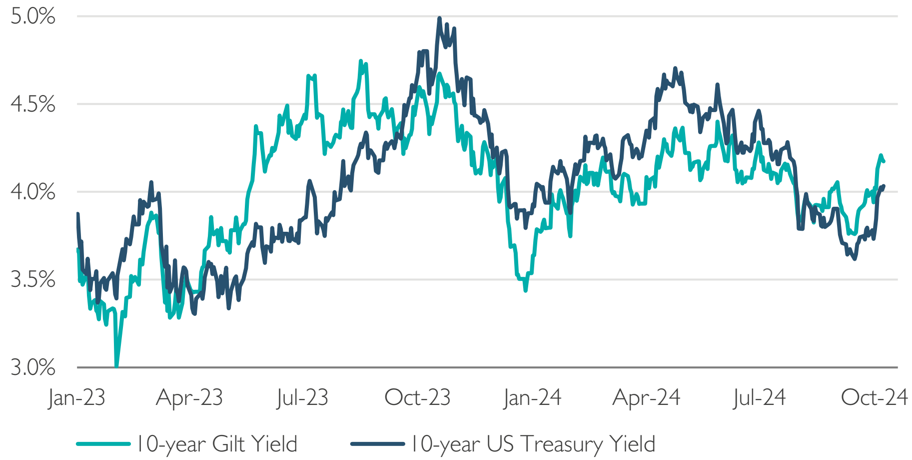
As the chart shows, both markets continue to offer, on this measure, a positive real yield.

The inflation linked bond market is saying something similar in the US where the Treasury Inflation Protected Securities market is giving a positive real yield. The January 2034 TIPS yields 1.80%.

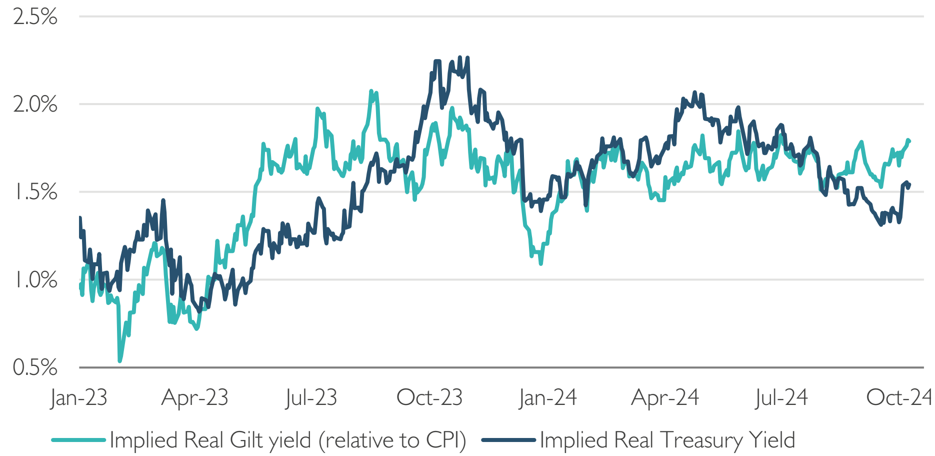
The UK linker market is less attractive (the March 2034 linker yields 0.66%).

We still think there is some value in government bonds given the positive real yields on offer.

US and UK10-year bond yields (%)



US and UK implied real 10-year bond yields (%)



Source: Bloomberg, Waverton. As at 09.10.24

STERLING RANGEBOUND AGAINST THE EURO

Sterling has strengthened a little against the euro in recent weeks as the expectations for the extent the Bank of England will cut interest rates this year has reduced. The current rate is above the average rate of just under 1.15 euros per pound from the Brexit referendum to the end of 2023.

We continue to think that the exchange rate versus the euro is a better measure of the market view of UK specific risks is the sterling/dollar rate.

The chart shows the number of euros per pound since 1 July 2016. The average exchange rate since then is shown as the dark blue line and we show a range 6% either side of that average.

We use 6% as that was the range sterling was allowed to trade against its DM2.90 central rate when it was in the Exchange Rate Mechanism (ERM). Famously sterling was forced out of the ERM in September 1992 when it was unable to hold within that range.

We note that over the period shown (over 2,100 trading days), sterling has only been out of a 6% trading range for five days.

For now, there is little sign of an elevated UK sovereign risk premium on this measure at least. If anything, the market is more worried about the euro area after the inconclusive French election.

Euros per pound (01.07.2016 – current)

Source: Bloomberg, Waverton. As at 09.10.24

INFLATION RATES SLOWLY DECELERATING AROUND THE WORLD

The peak for US inflation was in June 2022 at 9.1%. It is now 2.4%. The euro area peaked in October 2022 at 10.6% (now 1.8%) and the UK also peaked in October 2022 when RPI was 14.2%, and CPI 11.1%. RPI is now 3.5% and CPI is 2.2%.

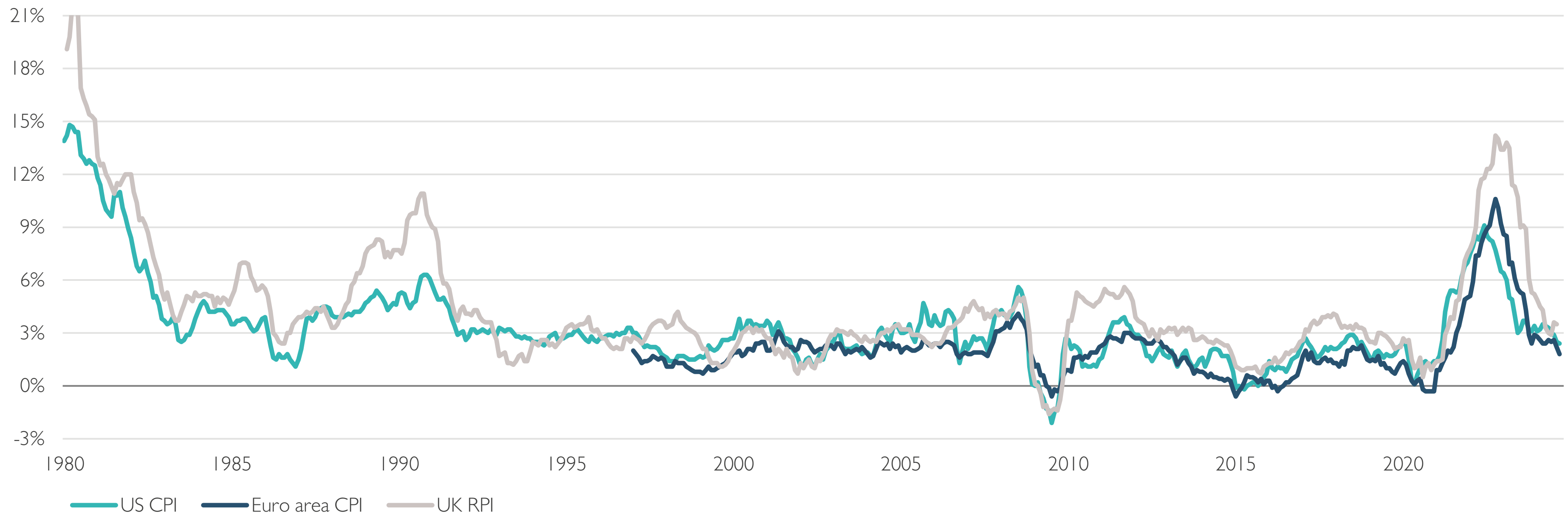
US core inflation (excluding food and energy) peaked at 6.6% in September 2022. It is now 3.3%.

Despite the recent improvements, there remain concerns about the inflationary impulse across the developed world. The detail of recent inflation reports shows a slower reduction in price increases and Service inflation, in the US in particular is a concern.

However, as the next charts show, the market is still somewhat sanguine about future inflation.

Inflation (% change year-on-year)

1980 - current



Source: Bloomberg, Waverton. As at 30.09.24

EXPECTATIONS FOR FUTURE INFLATION REMAIN SANGUINE

The top chart shows the 2-year inflation swap rate which is one reflection of the market's view on future inflation. One can buy or sell the swap. If you think inflation will average more than the current price, you buy the swap and vice versa. The payoffs are roughly linear. If you buy at 2% and the outcome is 2.2%, you make about 10%.

The moves in rate markets and inflation swaps are clearly interlinked. The market remains sanguine about inflation over the next two years.

But if future inflation actually takes longer to return to target that will be an issue for investors as it will almost certainly see a reversal upward in rate expectations.

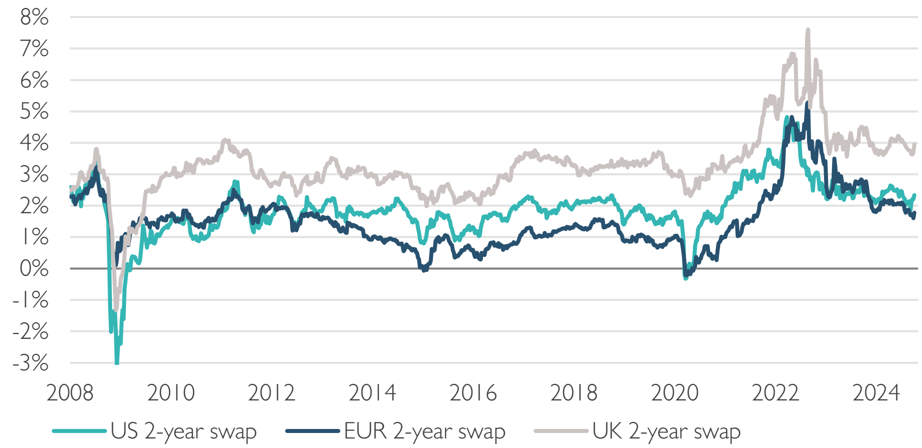
The bottom chart shows longer-term inflation indicators. Here the picture remains encouraging.

The green line is the 10-year US inflation swap and the dark blue line is the inflation rate calculated from the spread between five year nominal and inflation linked bonds five years forward. Both have been rangebound in recent months.

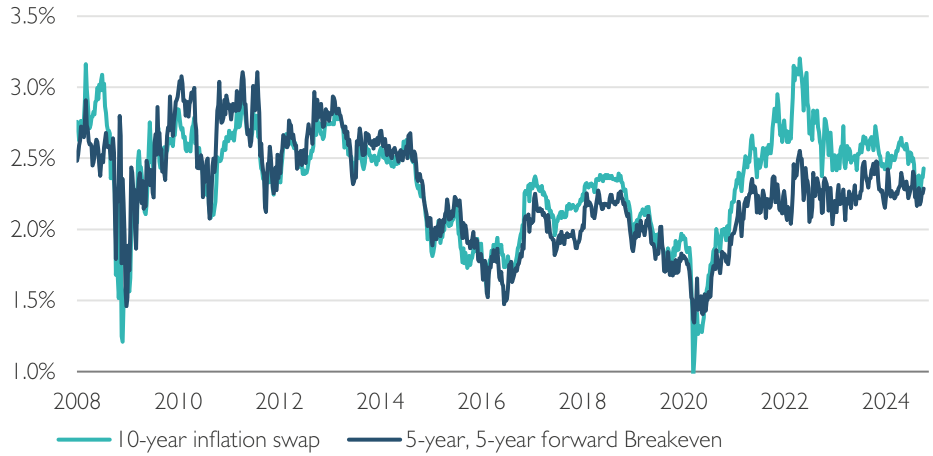
The general picture from both these charts is that the market remains pretty sanguine about future inflation.

One of the critical things to watch in coming weeks will be to see if anything shifts upward market expectations for future inflation. The risk of a Trump Presidency would be that the imposition of tariffs on a wide range of goods will raise headline inflation levels. And the likelihood of an increased budget deficit could also be seen as inflationary.

2-year inflation swap rate (%)



Long-term US inflation expectations



Source: Bloomberg, Waverton. As at 04.10.24

THE BROAD COMMODITY COMPLEX HAS BEEN WEAK

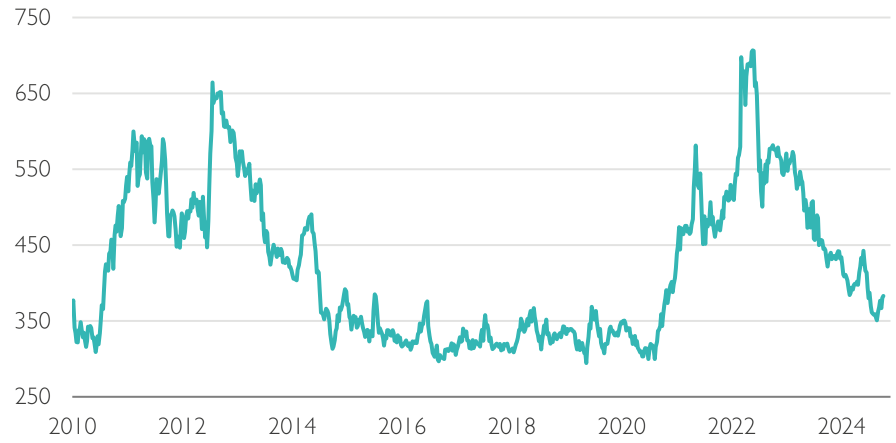
The broad commodity complex is in the doldrums.

Grain prices have been falling as fears of supply disruption from Ukraine, the bread basket of Europe, and Russia, have not materialised sufficiently to support prices.

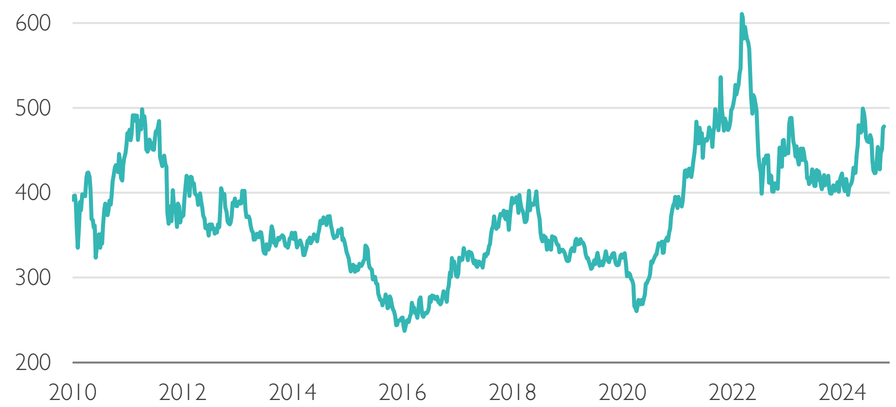
The Industrial Metals index (bottom chart) had picked up a little in recent weeks. Iron ore, copper and nickel have risen over the last month.

Demand from the People's Republic of China (PRC) is an important driver of industrial metals prices but that is less likely to be driving the move in the last month. It is possible that should the efforts to stimulate economic activity in the PRC bear fruit that the commodity complex will be a beneficiary of that shift.

S&P GSCI Grains Index



S&P GSCI Industrial Metals Index



Source: Waverton, Bloomberg. As at 04.10.24

DOLLAR RANGEBOUND

The top chart shows a trade weighted dollar index. It has been range bound in recent months.

The bottom chart shows that an index of emerging market currencies. This index is weighted by the weighting of each country in the MSCI Emerging Market equity index, so China is the biggest component. The recent rally in the renminbi is reflected in the rise more broadly of EM currencies as the Fed begins what is perceived to be a rate cutting cycle in coming months.

Trade Weighted US dollar (BBDXY)

MSCI Emerging Market Currency Index

Source: Waverton, Bloomberg, MSCI. As at 04.10.24

GOLD AT RECORD HIGH

As of the end of September 2024, gold is at an all-time high in US dollars and is also at an all-time high in sterling terms.

With all the uncertainty highlighted on previous pages of this presentation, we are of the view that gold has a role to play in diversified portfolios.

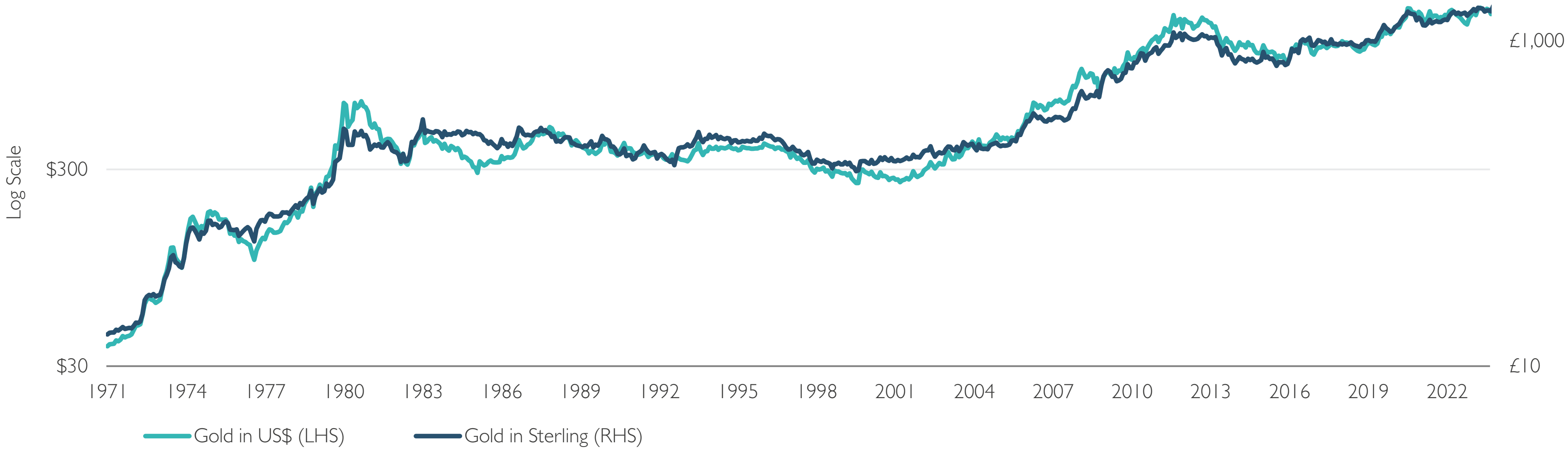
Gold benefitted from the exceptional monetary policy in evidence from 2008 to arguably 2021. With zero or even negative nominal interest rates the opportunity cost of owning gold had never been lower.

In recent months, the rally in gold appears to be based on buying by central banks around the world, including in China. There is also some evidence that Chinese retail investors have been buying gold.

It is also possible that gold has benefitted as a hedge against any reappearance of inflation.

It could also be benefitting as a hedge against fears about broader currency debasement in a world of elevated government budget deficits.

Gold price per troy ounce in US dollars and in sterling
1971 - current



Source: Bloomberg, Waverton. As at 30.09.24

Part 2

EQUITIES & CREDIT

2024 EARNINGS GROWTH ESTIMATE +10% GLOBALLY AND 10% FOR THE US

The consensus for the Global Index is for EPS to rise 10% in 2024. For the US the expectation is also for an 10% increase.

Both numbers have been remarkably stable over the summer.

It remains the case that there are valuation excesses in some of the leading companies in the US but valuations in the rest of the US market, and in the rest of the world, are not stretched.

Earnings per share calendar year growth rate

			GROWTH RATE		
REGION	PE NTM	RELATIVE	2024	2025	2026
World	17.9		+9.5%	+13.0%	+11.3%
US	21.5	120%	+10.1%	+15.0%	+12.7%
Europe ex UK	14.3	80%	+3.9%	+10.2%	+10.2%
UK	11.7	66%	+3.5%	+7.5%	+8.6%
Japan	14.6	82%	+13.9%	+8.6%	+9.1%
Asia Pac ex Japan	13.9	78%	+25.4%	+14.1%	+12.0%
Latin America	8.9	50%	(12.1%)	+17.2%	+8.5%
Emerging markets	13.0	73%	+1.6%	+9.9%	+10.0%
World ex USA	13.8	77%	+9.1%	+10.9%	+9.9%

Source: MSCI, FactSet, Waverton. Data as at 05.10.24

STOCK MARKET VALUATION IN LINE WITH RECENT RANGES

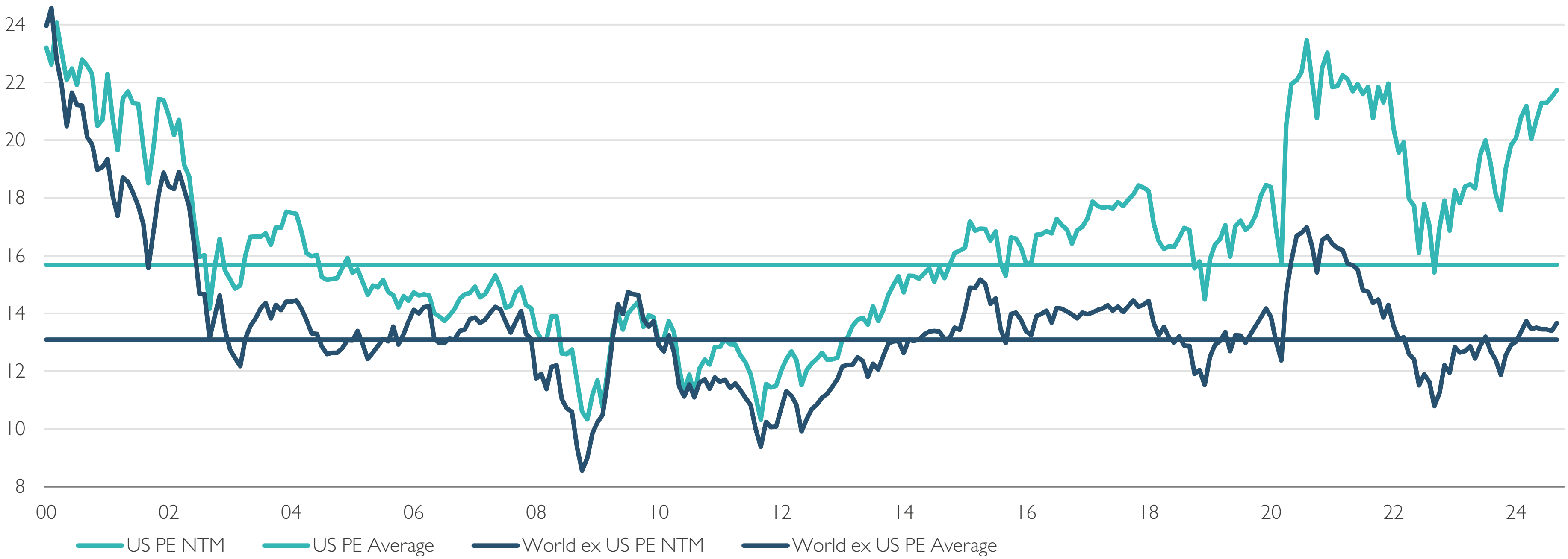
The PE ratio for the US market (solid teal line) is 21.7 times.

It is again above its 20-year average of 15.7 times (the teal horizontal line).

The World outside the US now trades at 13.7 times earnings, a little above its 20-year average of 13.1.

There is always uncertainty about the EPS these valuations are predicated on but particularly outside the US there is a reasonable amount of that uncertainty priced in.

MSCI US and MSCI Global ex US price–earnings ratio based on next 12 months earnings



Source: MSCI, FactSet, Waverton. As at 30.09.24

UK MARKET HAS BEEN A DISAPPOINTING ONE FOR MANY YEARS

The UK stock market has significantly underperformed the World index in recent years.

Between 2001 and 2014 there was not a lot of difference between the two.

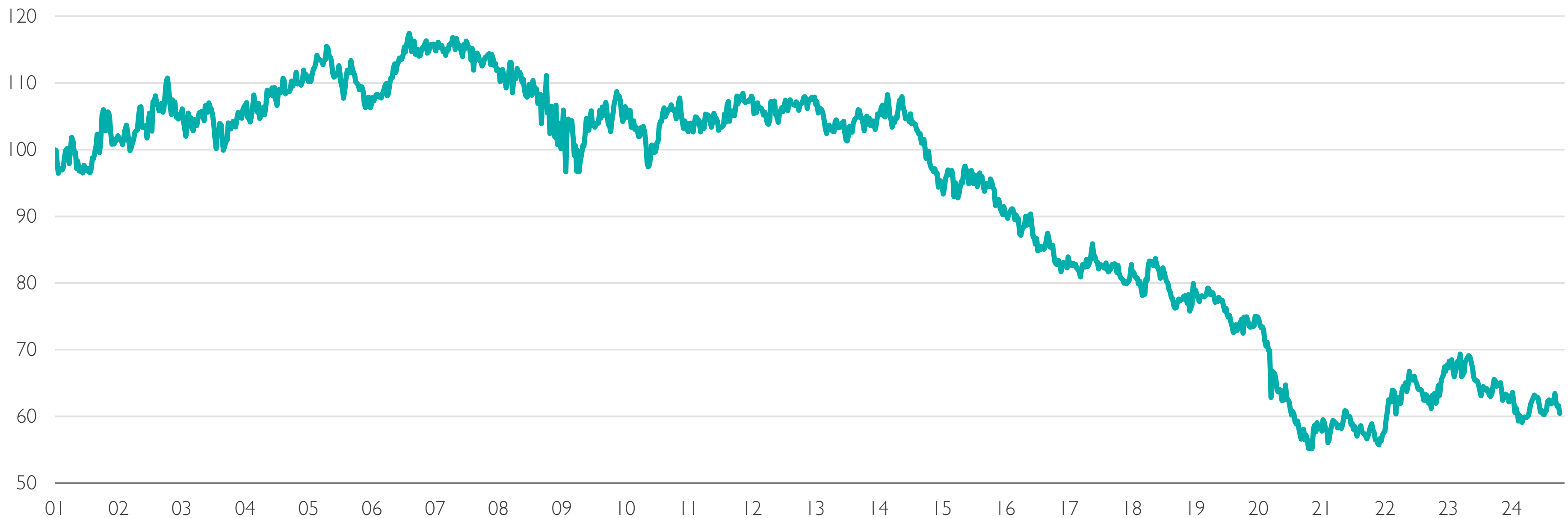
But from May 2014 to October 2020, the UK market underperformed by 49%. It had a better time in 2022 but it has resumed underperformance in the last twelve months.

One of the issues for the UK is that it has few technology or communication service companies that have been the market leaders in recent years. They are a combined 4% of the UK market.

Another issue is that recently the weakest sectors in terms of earnings growth have been energy, healthcare, materials and financials. They are a combined 52% of the UK market.

It will be interesting to see if the recent rotation out of technology related sectors produces a better performance from the UK.

MSCI UK relative performance to MSCI All-Country World, both in sterling



Source: MSCI, Bloomberg, Waverton. As at 04.10.24

JAPANESE MARKET HAS SEVERAL TAILWINDS

The Japanese stock market has been aided by a number of tailwinds in recent years. The market first hit new all-time highs in March when it finally (as measured by the Nikkei 225 Index) closed above its 29 December 1989 previous high.

Macro factors have played a role. The Bank of Japan has bucked the trend of other developed world central banks by, coincidentally also in March, only ending negative policy rates recently. The policy rate is at +0.25%. The apparent ending of deflation enabled this to happen although policy rates obviously remain very negative in real terms.

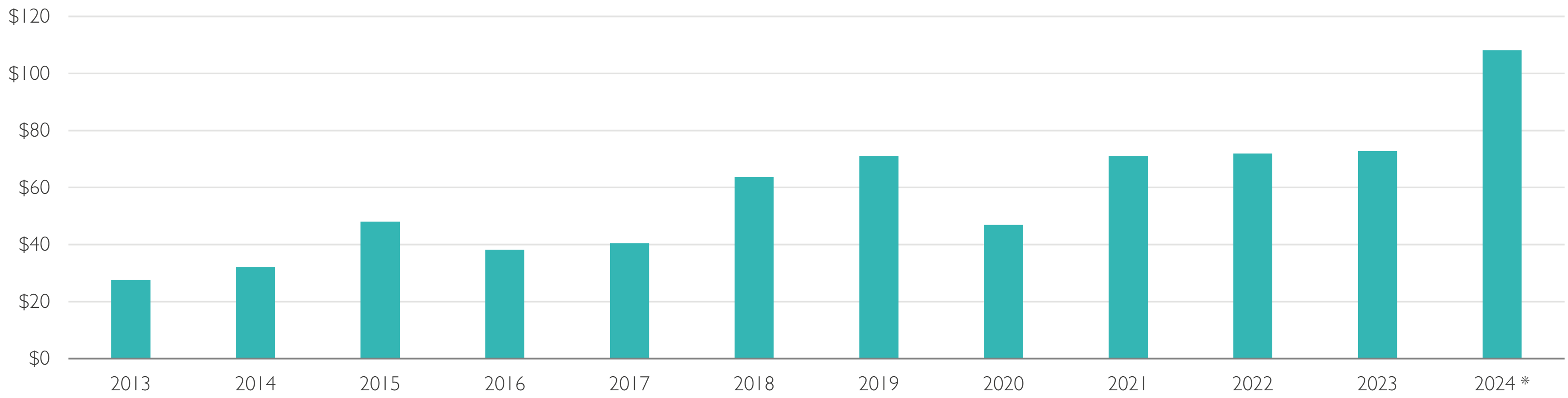
But there have also been significant changes to corporate governance including a sharp increase in the number of independent directors on Boards. Shareholders have benefitted directly from a pick up in the number of buybacks done by Japanese corporates.

This chart shows that buybacks are heading for a record level this year, 50% above the level of last year.

On top of that, foreign investors have been more bullish and have also been buying the market. We continue to like a number of Japanese companies and are overweight the market in aggregate in our global equity portfolios.

These secular tailwinds make us confident that select Japanese equities have an important role to play in equity portfolios.

Japanese corporate share buybacks 2013 – current in US$ billion



Source: MSCI, Bloomberg, Waverton. As at 15.05.24

STOCK MARKET IS INDEED DRIVEN BY EARNINGS OVER TIME

This is a simple chart but an important one. The stock market moves with earnings and has continued to do so over the last 20+ years despite the various shocks investors have had to absorb over that time. These include the 2008 crisis and Covid of course, but also the policy response to each of those events.

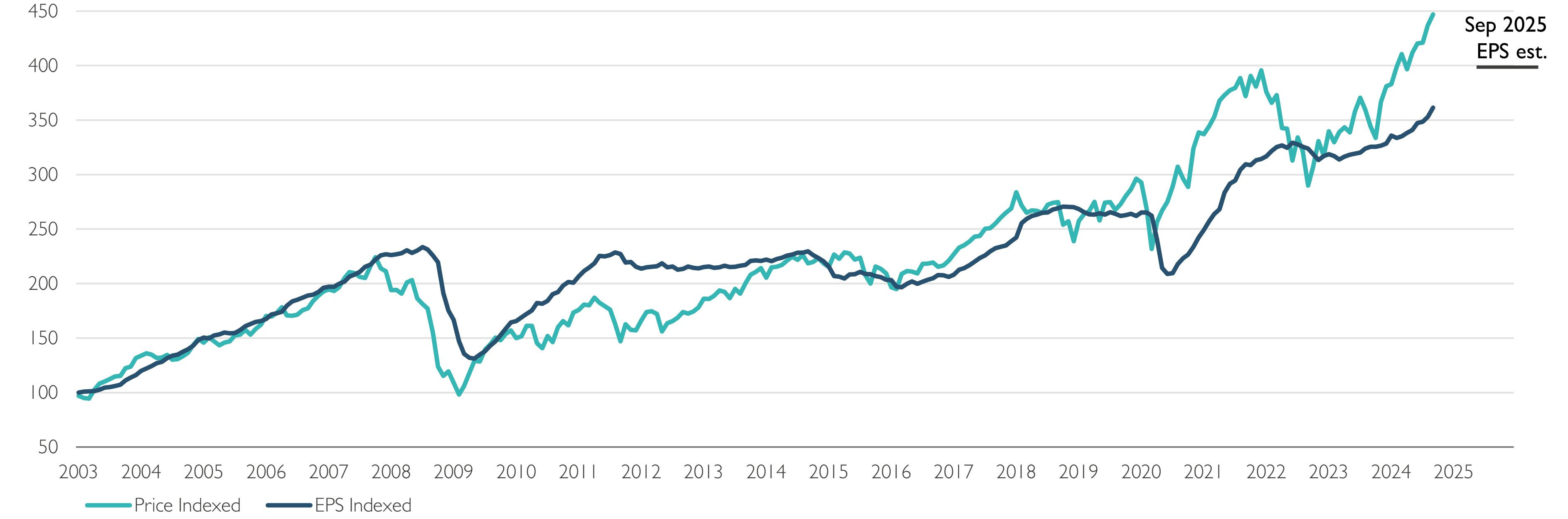
As the chart shows, the market reacted to the robust fiscal and monetary stimulus packages of 2020 by rising very strongly into 2021. Earnings recovered too but not as quickly. The market pullback in 2022 brought prices back to the point where they were below the earnings line.

The rally in recent months has pushed the price line well above the earnings line.

The chart includes a horizontal line for the level of EPS in twelve months' time (September 2025) expected by the current consensus forecast. One could argue that prices have fully discounted that level of expected EPS.

MSCI Global Price Index and earnings per share

December 2002 = 100



Source: MSCI, FactSet, Waverton. As at 27.09.24

US INVESTOR SENTIMENT LESS BULLISH

This is the weekly survey of its members done by the American Association of Individual Investors. The chart shows the % of respondents who are bullish among those that express a view (so it is Bulls as a % of Bulls plus Bears).

This could not be a simpler sentiment measure, but it is worth knowing about.

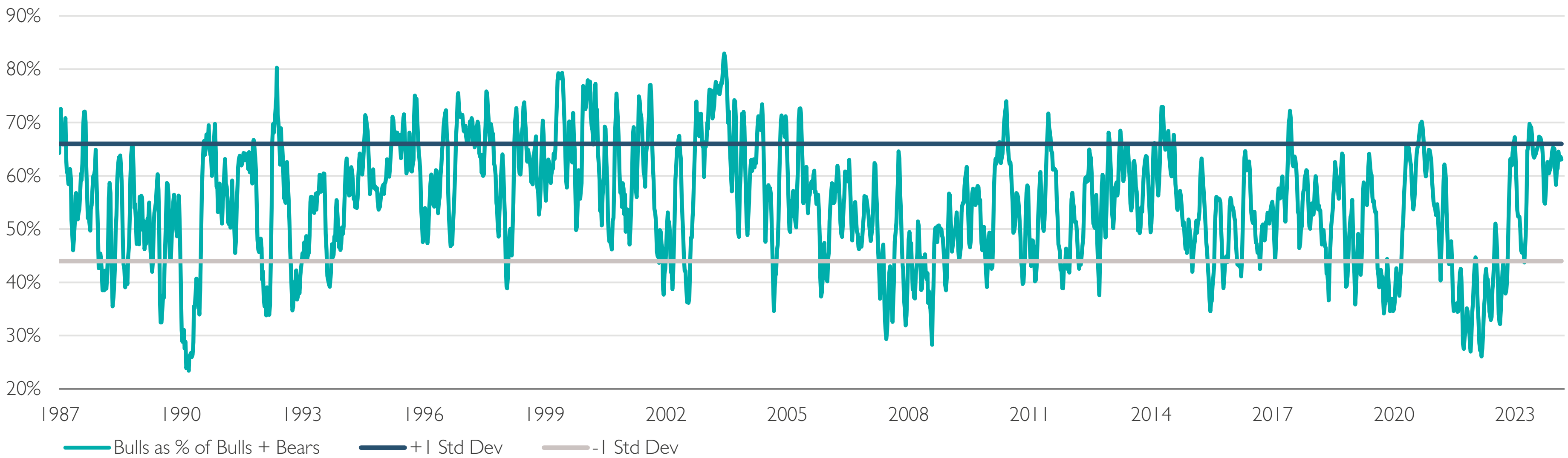
The two horizontal lines are showing one standard deviation above (dark blue line) the average level and one standard deviation below (grey line).

If you buy the market when the green line is below the grey line your average return in the next year is +15%.

If you buy the market when the green line is above the dark blue line your average 12-month return is +6%.

This sentiment measure has followed the market by staying at the top end of the bullish range in recent weeks. Don't think one could describe as investor sentiment as euphoric, but there may be a little complacency around.

American Association of Individual Investors survey, Bulls as % of Bulls plus Bears



Source: AAII, Bloomberg, Waverton. As at 03.10.24

CORPORATE BALANCE SHEETS YET TO SHOW REAL STRESS

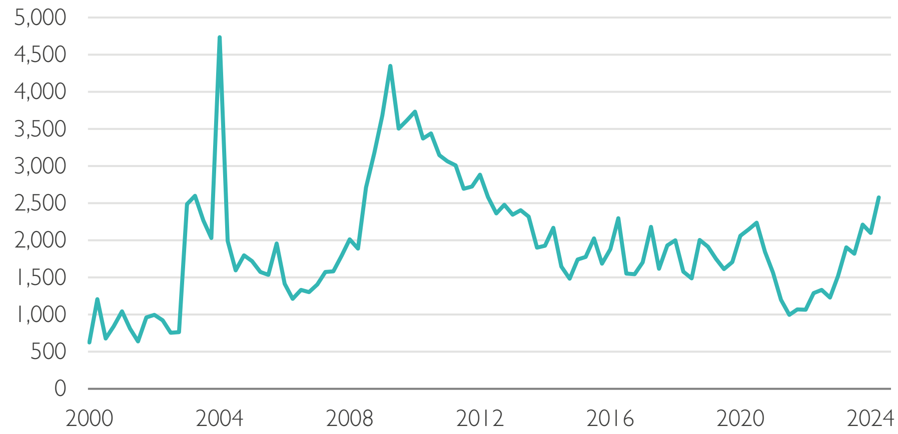
The top chart is a quarterly series showing the number of US corporate bankruptcies (officially called "Chapter 11" filings). It hit its lowest level for 18 years in Q3 2021.

It has moved up since then and moved further up in Q2 2024.

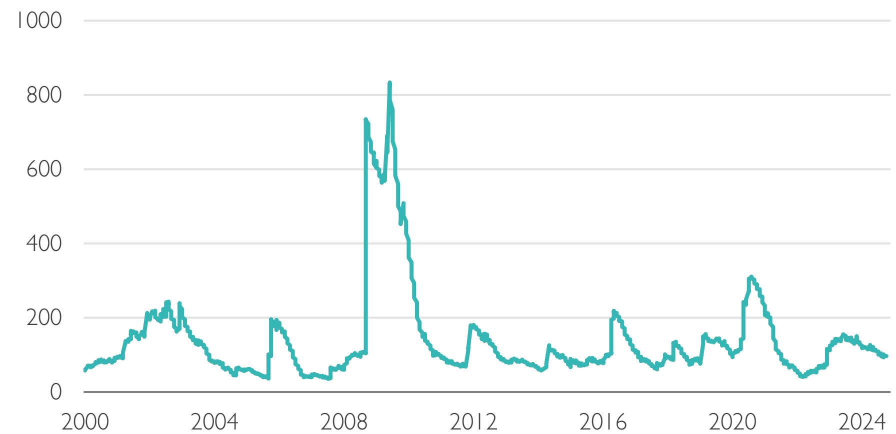
The Bloomberg Index in the bottom chart is of economy wide US bankruptcies and takes into account the size of the bankruptcy as well as the number of them. Hence there were more big bankruptcies in 2009-10 than in 2003-04. That index is at historically very low levels.

It remains the case that corporate balance sheets are holding up well in the face of higher interest rates. We have seen a decrease in corporate bond yields in recent weeks and spreads remain narrow.

US bankruptcy filings (2000 to current, quarterly)



Bloomberg US Corporate Bankruptcy Index (2000 – current, weekly)



Source: Bloomberg, Waverton. As at 04.10.24

CORPORATE CREDIT MARKETS NOT STRESSED

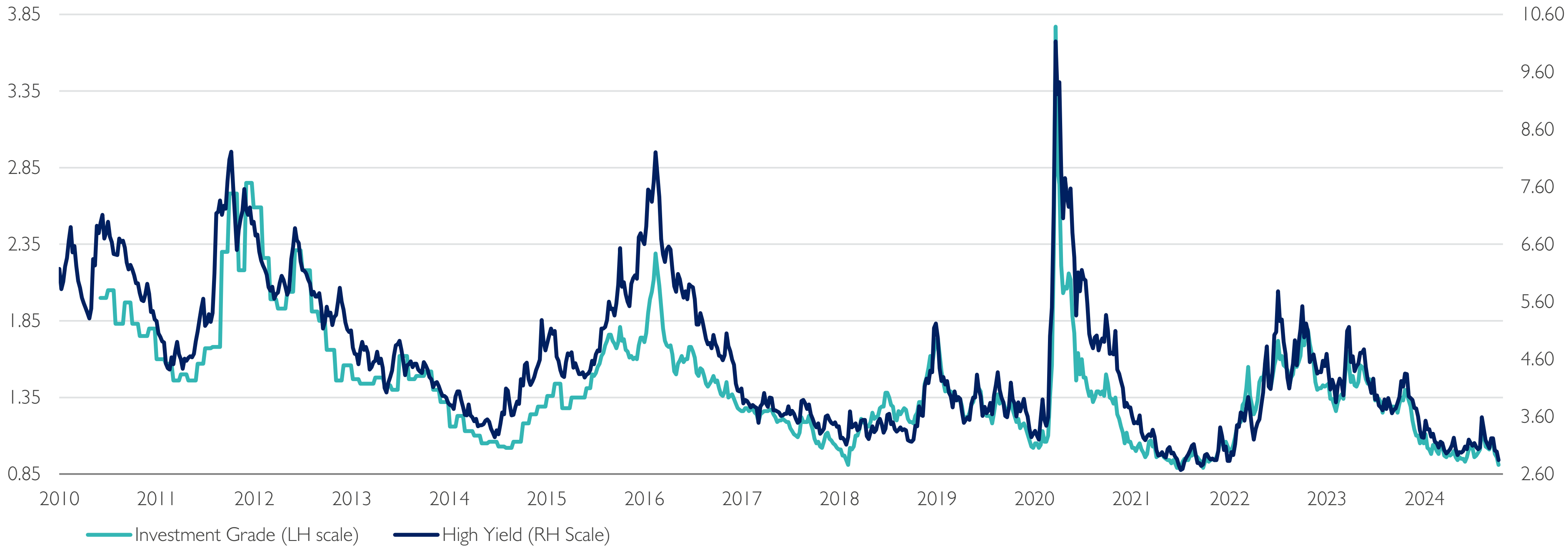
Credit spreads have tightened as the risk-on rally continued in recent weeks.

Spreads will widen if there is a risk of higher inflation and tighter monetary policy for longer than currently expected.

We remain of the view that credit spreads reflect some investor complacency.

Hence our lowest allocation to credit in our bond funds since their inception.

US corporate bond spreads (%)



Source: Markit, Bloomberg Waverton. As at 04.10.24

CORPORATE BONDS, S&P500 EARNINGS YIELD & T-BILLS HAVE SIMILAR YIELDS

The Moody's Baa yield (a benchmark for the investment grade market) has been above the earnings yield of the S&P500 Index at end of each month since January 2023. At the end of September 2024, the numbers were 5.4% versus 4.5%.

The last two periods when this was the case were the run up to the Dotcom peak in 2000 and its unwind. Then this happened again during the Global Financial Crisis of 2007-09.

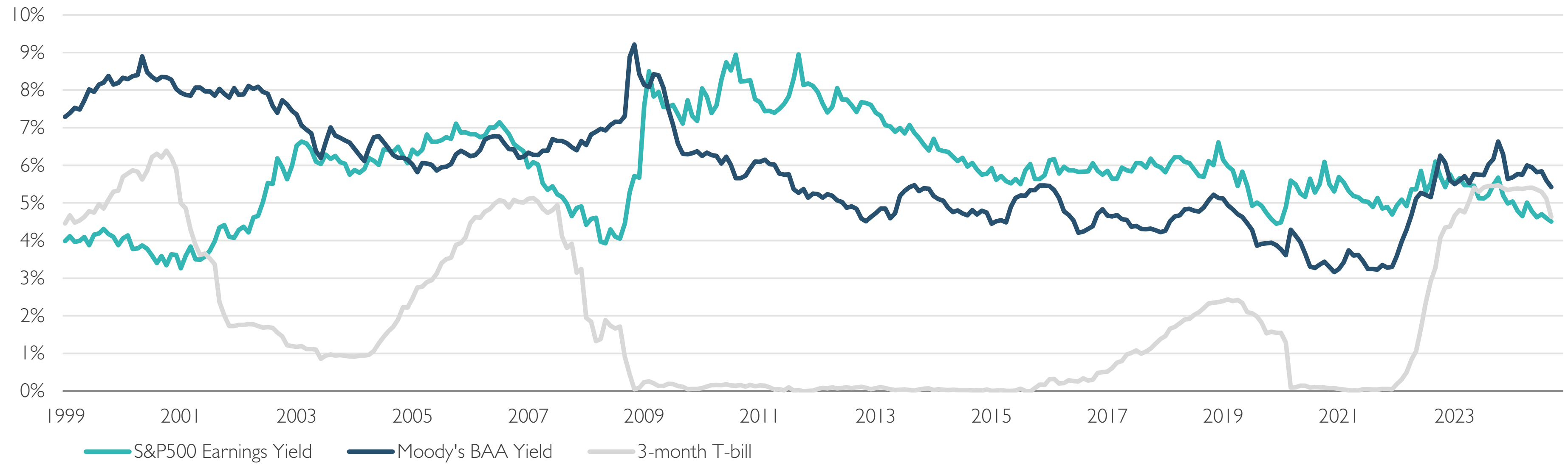
Normally it would be perceived that equities had some valuation challenge from corporate bonds when this is the case but in 2023 both gave good returns.

That the earnings yield and the Baa yield have both moved down over the summer reflects the strength of both markets.

The grey line is the 3-month Treasury bill rate which is currently 4.6%, back to being slightly above the S&P500 earnings yield. Cash is the most competitive it has been to equities since 2001.

This chart also suggests it is rational for investors to be more favourably disposed toward cash today than has been the case since pre the GFC.

Moody's current Baa Corporate yield, S&P500 forward earnings yield, 3-month Treasury bill yield (%)



Source: Moody's, Bloomberg Waverton. As at 30.09.24

NO SIGN OF TENSION IN GREATER CHINA IN CURRENCY MARKET

The Rmb has been stronger in August and September. Some of that is reaction to the US Federal Reserve cutting policy rates and some of it will be the expectation, to some extent delivered, that the PRC would attempt to boost its economic growth rate with a combination of monetary and other policy.

As my colleague Benjamin Hall points out, there has been a clear change in tone from the government, where previously there had been a lack-of-urgency.

The policy announcements reflected a broad and coordinated policy response, with definitive language such as "we will halt the decline in real estate prices". This messaging is particularly important in a centrally planned economy. The stock market rose by a third from the middle of September to October 7 which has attracted a lot of attention. But for our purposes, the fact that the renminbi has also strengthen against the US dollar is encouraging for a narrative that suggests the PRC may be in better shape in the months ahead. Of course, should Trump win, then the question of the impact of US tariffs will be a potential short-term setback to that narrative.

The Taiwan dollar is stable, despite the scaremongering headlines about Taiwan that appear regularly.

We continue to remain sceptical about the PRC conducting a military operation against Taiwan. But the sabre rattling around the issue will continue.

We will continue to watch the Taiwan dollar to see if the market is taking any threat from Beijing more seriously than it apparently does, quite reasonably, at the moment.

Renminbi per US dollar

Bloomberg US Corporate Bankruptcy Index (2000 – current, weekly)

Source: Bloomberg, Waverton. As at 04.10.24

Part 3

OUR APPROACH TO INVESTING RESPONSIBLY

OVERVIEW OF RESPONSIBLE INVESTMENT AT WAVERTON

Signatory of:

PRI Principles for Responsible Investment · UK Stewardship Code · Glass Lewis · Climate Action 100+ · CDP · MSCI

Waverton research process

- Integration of ESG factors into fundamental analysis and decision-making
- Incorporated into research process across all asset classes
- Specialist thematic, sustainable and impact fund research

Engagement and voting

- Direct engagement with company management
- Collaborative engagement activities
- Proxy voting by Glass Lewis

Ethical restrictions

Client-specific ethical exclusions can be applied at the portfolio or fund level

RESPONSIBLE STEWARDSHIP OF CLIENTS CAPITAL

We aim to identify responsible allocators of capital ensuring business resilience and long term financial sustainability

How we incorporate ESG

- Integrated approach to the assessment of ESG factors
- Detailed fundamental analysis avoids greenwashing
- Mitigates poor data quality and inconsistent third-party ESG ratings
- Focus on engagement over an exclusion/divestment strategy
- Identify those successfully adapting to ESG opportunities/risks
- Acknowledge when ESG risks are integral to transition solutions
- Pragmatic approach focussed on high or improving ESG standards

The advantages of our investment approach

- Global: largest universe of investment opportunities
- Direct: greater transparency around ownership
- Active: flexibility to avoid areas at risk of capital loss
- Concentrated: in-depth identification / monitoring of risks
- Experienced team: library of knowledge is an advantage
- Engaged: long-term relationships create a two-way dialogue
- Strong ESG outcomes: natural result of our approach

Signatory of:

PRI Principles for Responsible Investment

UK Stewardship Code

MSCI

Glass Lewis

Climate Action 100+

CDP

RISK WARNINGS

The information provided in this report is for information purposes only and Waverton Investment Management Limited does not accept liability for any loss or damage which may arise directly or indirectly out of use or reliance by the client, or anyone else, on the information contained in this report.

This document should be used as a guide only it is based on our current views of markets and is subject to change.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon.

Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise, you may not get back your initial investment, capital security is not guaranteed.

Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

The returns for structured products may fluctuate according to different market conditions; you may get back less than you originally invested.

The information contained within this document relating to 'yield' is for indicative purposes only. You should note that yields on investments may fall or rise dependent on the performance of the underlying investment and more specifically the performance of the financial markets. As such, no warranty can be given that the expressed yields will consistently attain such levels over any given period.

Funds or vehicles which invest in derivative products such as futures, options, and contracts for differences can be utilised for the management of investment risk. However, some of these products may be unsuitable for investors. Different instruments involve different levels of exposure to risk.

IMPORTANT INFORMATION

Where Waverton's advice is given it is restricted to discretionary investment management services. We do not provide advice on the use of tax or financial planning products (even if the service which we are managing is held within such a product) or non discretionary investment.

This material is for your private information and should not be distributed further.

We encourage you to consult a tax or financial adviser.

All materials have been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

Should you require anything further in respect of the information included in this presentation please address all enquiries to:

William Dinning
Waverton Investment Management Limited
16 Babmaes Street
London
SW1Y 6AH

The personal identifiable information you provide will be held and processed by Waverton Investment Management Limited ("Waverton") strictly in accordance with the UK General Data Protection Regulation (UK GDPR) (the "GDPR") and other applicable laws.

Such data will be used by Waverton to administer our relationship with you and to perform any administrative, dealing, custodial and ancillary services required to enable Waverton to perform its services under this Agreement. Data may also be used by Waverton to update your records and to advise you of other products and services, unless you have indicated otherwise.
We will not, without your consent, supply personal identifiable information about you to any third party except where (1) such a transfer is a necessary part of the activities that we undertake, or (2) we are required to do so by the operation of the law. As an individual, you have a right under the GDPR to obtain information from us, including a description of the data that we hold on you. For further information on your rights under the GDPR, please refer to the GDPR Privacy Policy under the Legal and Regulatory section on the Waverton website. Should you have any queries concerning this right, please contact Waverton on 0207 484 7452 or by emailing compliance@waverton.co.uk

Waverton Investment Management Limited is authorised and regulated in the UK by the Financial Conduct Authority.

Registered in England No 2042285