CHETWOOD
INVESTMENT MANAGEMENT

GROWTH PORTFOLIOS QUARTERLY REPORT '24 Q1

Quarter insights

- Equity markets enjoyed a strong start to the year, driven by robust corporate earnings reports and supportive comments from global central banks. The stock market rally was broader and less driven by the so called "Magnificent Seven" large US technology stocks.
- US economic growth remains resilient, helped by unusually high Government spending. Elsewhere growth is slower, as the UK joined the list of advanced economies experiencing a technical recession during the second half of 2023.
- The Swiss National Bank unexpectedly cut rates by 0.25% as inflation fell close to 1%. All other major developed central banks held off cutting interest rates. US Federal Reserve Chairman Jerome Powell reiterated in March that he expects 0.75% of rate cuts during the rest of 2024.
- It was a more challenging environment for fixed income investors as mixed inflation data forced markets to price in less interest rate cuts than were expected at the start of the year.
- The UK chancellor Jeremy Hunt delivered his Spring Budget, which included a 2p cut to National Insurance.

Market review

Equity markets ended 2023 on a high note following Fed Chairman Jerome Powell's dovish 'pivot' in December, which raised hopes of significant interest rate cuts. The rally for equities has continued into 2024, despite the likelihood of fewer cuts than were expected at the start of the year. The explanation for this is the strong global economy, particularly in the US. Investors are translating this into better prospects for corporate earnings growth.

> *The global economy continues to evade the recession that many analysts were predicting.*

Despite this, the purchasing manager indexes compiled by S&P Global show that the global economy has recently moved back into expansion mode.

Both the US and Chinese manufacturing sectors are contributing to the strength, although Europe continues to lag. The bond yield curve remains inverted, a condition where longer-term bonds yield less than short-term ones, reflecting the market's continued expectation of a recession.

Cyclical stocks, that tend to do well in an economic growth cycle, outperformed defensives stocks in Q1. The S&P 500, which is the bellwether for US equities, enjoyed a strong quarter. Its current run without a pullback of even as little as 2% now stretches to five months. It is notable that the performance continues to broaden out and is less focussed on the "Magnificent Seven" large technology names. Japanese equities continue to do well, with the Nikkei 225 Index posting its first all-time high for nearly 30 years. UK equities lagged behind, but finished with a strong March performance. An index of 100 leading UK stocks ended the quarter up with a close to 4% total return.

The strong global economy and jobs market, as well as relatively sticky inflation prints, did cause a weaker performance for government bonds. With fewer rate cuts being expected, the relative attractiveness of bonds has reduced in the short term.

> *Credit spreads, which measure the extra yield that investors require to take the extra risk of lending to a company rather than the government are as low as they have been in a quarter of a century. This meant that bonds issued by companies did a little better, a further sign of risk appetite during the quarter.*

Elsewhere, commodity prices were broadly strong. US crude oil futures surged to $85 a barrel for the first time since October. Cocoa prices rose above $10,000 per tonne for the first time ever, more than doubling in two months, due to poor harvests in Africa. Despite generally being regarded as a safe haven asset, the price of gold also continued to climb higher, exceeding $2,200 per troy ounce for the first time.

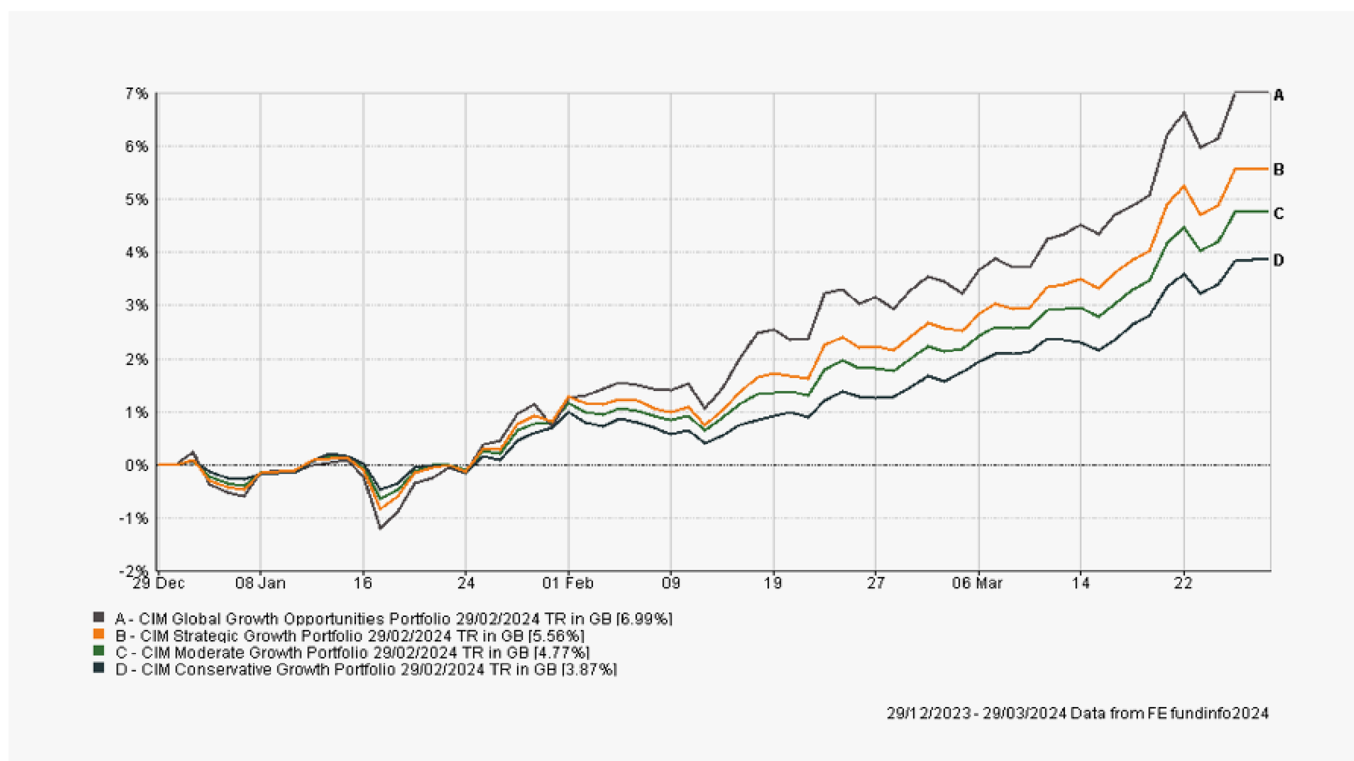
Growth portfolios performance

Growth Portfolios	3 months
CIM Conservative Growth Portfolio	3.87%
ARC Sterling Cautious PCI	1.90%
CIM Moderate Growth Portfolio	4.77%
ARC Sterling Balanced Asset PCI	3.01%
CIM Strategic Growth Portfolio	5.56%
ARC Sterling Steady Growth PCI	4.03%
CIM Global Growth Opportunities Portfolio	6.99%
ARC Sterling Equity Risk PCI	4.96%

Index Returns[1]	3 months
UK Equities	3.96%
UK Government Bonds (Gilts)	-1.63%
All Country World Equities	9.09%
Pacific Equities (ex Japan)	-0.86%
Emerging Market Equities	2.88%
US Equities	11.49%
UK Headline Inflation	0.46%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance graph



Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
AQR Style Premia	21.41% ▲
Amundi Prime Japan ETF	12.34% ▲
Invesco S&P 500 ETF Hedged	10.31% ▲

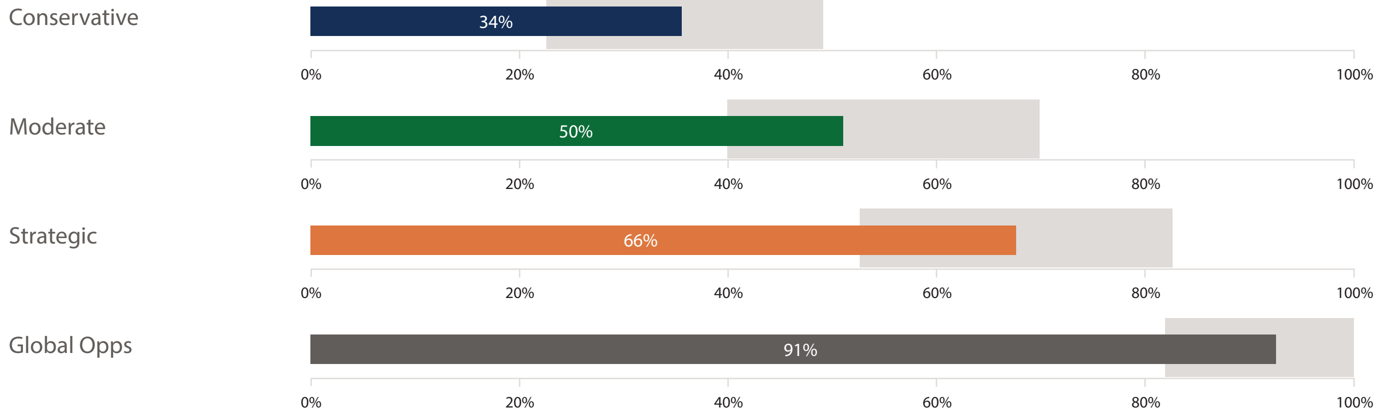
Bottom 3 Model Funds	3 months
Amundi Index Global Agg ETF	-0.35% ▼
iShares $ Treasury Bond 3-7yr ETF	-0.70% ▼
Lyxor Core UK Government Bond ETF	-1.63% ▼

Source FE Anaytics to 31st March 2024

Key fund	Commentary
Amundi Prime Japan ETF	We increased the allocation to this passively managed fund during the quarter. It offers broad exposure to Japanese equities. Stocks in Japan are benefitting from a number of tailwinds, including a weak currency (helping exports), corporate governance reforms enacted by the Tokyo Stock Exchange, the Bank of Japan's accommodative policy stance, and renewed buying among overseas investors.
Man Alternative Style Risk Premia	We upped the holding of this actively managed fund, which aims to produce a steady return in all market environments by taking long and short positions in various investment markets. Overall, it has a low correlation to traditional asset classes. We have funded the increase by selling the holding of AQR Style Premia, following a very strong period of performance. The two funds are relatively similar, but the Man fund is the more defensive option.
Invesco S&P 500 High Dividend Low Volatility ETF	This ETF holds US stocks that pay a reasonably high dividend and filters out those with the highest past price volatility. These stocks tend to be more resilient during a downturn. We added to this holding, which was funded by liquidating the Invesco S&P 500 ETF, which also holds US stocks. However, it weights each position based on the size of the company rather than a measure of value, such as dividend yield. This ETF has performed very well lately but we believe that it is now a good time to lock in the gains and rotate into a slightly more defensive exposure.
iShares Edge MSCI World Minimum Volatility ETF	We added to this ETF, which holds global stocks that have previously displayed low price volatility. It usually acts as a highly defensive holding, which we currently favour. It can also participate in rising markets, as evidenced by the 6.6% gain during Q1.

Asset class review

Equity Exposure



Conservative

Ten largest fund holdings (%)	
Man Alternative Style Risk Premia	15.9%
Lyxor Core UK Government Bond ETF	15.3%
Amundi Index Global Agg Hedged ETF	11.8%
Vanguard Global Credit Bond Inst Hedged	10.9%
JPM Glb HY Corp Bond Multi-Factor Hdged	10.1%
Fidelity Index UK	8.0%
Invesco S&P 500 High Div Low Vol ETF	7.0%
Amundi IS Prime Japan ETF	5.9%
iShares Edge MSCI World Min Vol	5.5%
Liontrust European Dynamic	3.9%
Assets in top ten holdings	94.3%

Ten largest asset class exposures (%)	
Government Bonds	23.6%
Other Alternatives	15.9%
Corporate Bonds	14.4%
North American Equities	11.0%
High Yield Bonds	10.1%
UK Equities	8.1%
Japan Equities	6.5%
European Equities	4.6%
Asia Pacific ex Japan Equities	2.5%
Cash	2.0%

Moderate

Ten largest fund holdings (%)	
Man Alternative Style Risk Premia	13.9%
Fidelity Index UK	11.8%
Invesco S&P 500 High Div Low Vol ETF	10.3%
Lyxor Core UK Government Bond ETF	9.7%
Vanguard Global Credit Bond Inst Hedged	8.8%
Amundi IS Prime Japan ETF	8.7%
iShares Edge MSCI World Min Vol	8.1%
JPM Glb HY Corp Bond Multi-Factor Hdged	8.1%
Amundi Index Global Agg Hedged ETF	7.5%
Liontrust European Dynamic	5.7%
Assets in top ten holdings	92.6%

Ten largest asset class exposures (%)	
North American Equities	16.2%
Government Bonds	14.9%
Other Alternatives	13.9%
UK Equities	11.8%
Corporate Bonds	11.1%
Japan Equities	9.6%
High Yield Bonds	8.1%
European Equities	6.7%
Asia Pacific ex Japan Equities	3.6%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Asset class review

Strategic

Ten largest fund holdings (%)

Fund	%
Fidelity Index UK	15.5%
Invesco S&P 500 High Div Low Vol ETF	13.6%
Amundi IS Prime Japan ETF	11.5%
Man Alternative Style Risk Premia	11.3%
iShares Edge MSCI World Min Vol	10.8%
Liontrust European Dynamic	7.5%
Vanguard Global Emerging Markets	7.1%
Lyxor Core UK Government Bond ETF	5.7%
Vanguard Global Credit Bond Inst Hedged	5.5%
JPM Glb HY Corp Bond Multi-Factor Hdged	5.1%
Assets in top ten holdings	93.6%

Ten largest asset class exposures (%)

Asset class	%
North American Equities	21.4%
UK Equities	15.6%
Japan Equities	12.6%
Other Alternatives	11.3%
European Equities	8.9%
Government Bonds	8.8%
Corporate Bonds	6.8%
High Yield Bonds	5.1%
Asia Pacific ex Japan Equities	4.8%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Global Opps

Ten largest fund holdings (%)

Fund	%
Fidelity Index UK	21.3%
Invesco S&P 500 High Div Low Vol	18.7%
Amundi IS Prime Japan ETF	15.8%
iShares Edge MSCI World Min Vol	14.8%
Liontrust European Dynamic	10.3%
Vanguard Global Emerging Markets	9.8%
Man Alternative Style Risk Premia	7.3%
Assets in top ten holdings	98.0%

Ten largest asset class exposures (%)

Asset class	%
North American Equities	29.4%
UK Equities	21.5%
Japan Equities	17.4%
European Equities	12.2%
Other Alternatives	7.3%
Asia Pacific ex Japan Equities	6.6%
Emerging Market Equities	2.2%
Cash	2.0%
Other	1.5%

Cash includes cash held in underlying funds plus GBP held in model.

Asset Class	Portfolio Views
Fixed Interest	Bonds faced a headwind during Q1 from rising yields, as expectations of rate cuts were pushed back, although higher-risk bonds outperformed. Fixed income markets are now more fairly priced, and we expect them to protect well against a growth shock. With inflation not yet beaten we are wary of increasing duration too high.
UK Equity	UK equities underperformed most other equity markets during the first quarter against a backdrop of the poor performance of the UK economy, which fell into a technical recession at the end of 2023. The market is now looking very undervalued, especially smaller UK companies and there were signs at the end of the quarter that the tide of performance is beginning to turn.
US Equity	US equities continued the recent trend of outperformance, helped by strong earnings growth and a resilient economy. The larger stocks are now looking very overvalued, so we are favouring companies that have stronger fundamentals, with higher dividend yields. We expect a continued catchup in their performance.
Japan Equity	We continue to overweight Japanese equities, which again performed well in Q1. The region is now firmly back on the radar of international investors and enjoying inflows. Earnings are growing strongly, yet the market overall remains quite modestly valued.
Asia and Emerging Market Equity	Asian and EM as a whole underperformed during Q1. China did recover somewhat on the back of better economic activity and some easing measures from the People's Bank of China. We view the region as undervalued and favour companies that are cheap compared to their fundamentals (earnings etc). We are not yet overweight.
Alternatives	We favour an investment allocation to equity market-neutral funds, which seek to exploit risk premiums like the 'value' investing approach. The trades are usually executed with a relative-value strategy, resulting in surplus cash that is currently generating significant additional income due to elevated interest rates.

Outlook

The current market narrative is that inflation is being brought under control without causing an economic slowdown, which has been described in the financial media as a "no landing" scenario.

> *However, historically when inflation reaches the highs that it did in 2022, it is the last mile back to 2% which is the most difficult, and there has been several spikes higher before the target is achieved.*

The Fed's preferred inflation indicator is the core personal consumption expenditures price index, which strips out the volatile food and energy components. This jumped higher on a month-over-month basis in January and February. The recent uptrend in many commodity prices is a further reminder that inflation may not yet be completely under control and is something we will be watching closely during the second quarter.

Interest rates are currently appreciably above the rate of inflation. Historically, when real (inflation-adjusted) rates are high, growth eventually slows as it represents a tightening of financial conditions. Part of the reason that growth hasn't slowed so far is due to the strength of the consumer, which is supported by the fact that most people who want a job have one. If unemployment does pick up, it will likely impact on consumer spending.

Coming into 2024, bonds were pricing in more rate cuts than were being indicated by central bankers. The fall in bond prices since then means that the two are now much more closely aligned. We believe if the global economy does show signs of weakening, it would likely be met with more aggressive rate cuts than are currently being priced in.

> *This should be very positive for the performance of bonds and parts of the equity market that have a bond-like profile, meaning defensive stocks that generate a stable income.*

We see a potential asymmetric risk/reward profile for these types of assets, given that the market appears to be positioned for the opposite scenario.

Thoughts for the quarter ahead...

- The market narrative that inflation is being brought under control without causing a significant economic slowdown will be tested if commodity prices, particularly crude oil, continue rising. We are watching this closely.
- Markets are expecting the US Federal Reserve and Bank of England to start cutting interest rates during the second quarter. We believe this will be key for asset prices going forward.
- We are currently avoiding markets that we view as overvalued, such as large US technology companies, and are positioned for a continued catch-up from more fairly priced equities. We are favouring lower volatility stocks that have an attractive dividend yield.
- The US quarterly earnings season covering Q4 2023 was positive, and all eyes will be on companies when they start reporting on Q1 2024. Nvidia results will be particularly influential.
- Geopolitical risks remain elevated, with conflicts being fought in several geographic regions.
- The build-up to national elections in many countries will gather steam during Q2. This could influence many investment markets in the short term.

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you originally invested.

[1]For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative Index	ETF Name
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	SHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF