SEASPRAY PRIVATE
Creating Investment Solutions

Q1 2024

INVESTMENT REVIEW & OUTLOOK

Prepared by Seaspray Private Ltd.
April 2024

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Executive Summary

The Bull run continues......

Q1 2024 closed out with the best first quarter for global markets in 5 years, dominated by the Artificial Intelligence (AI) growth theme and a key driver of the continuation of the bull run in equities.

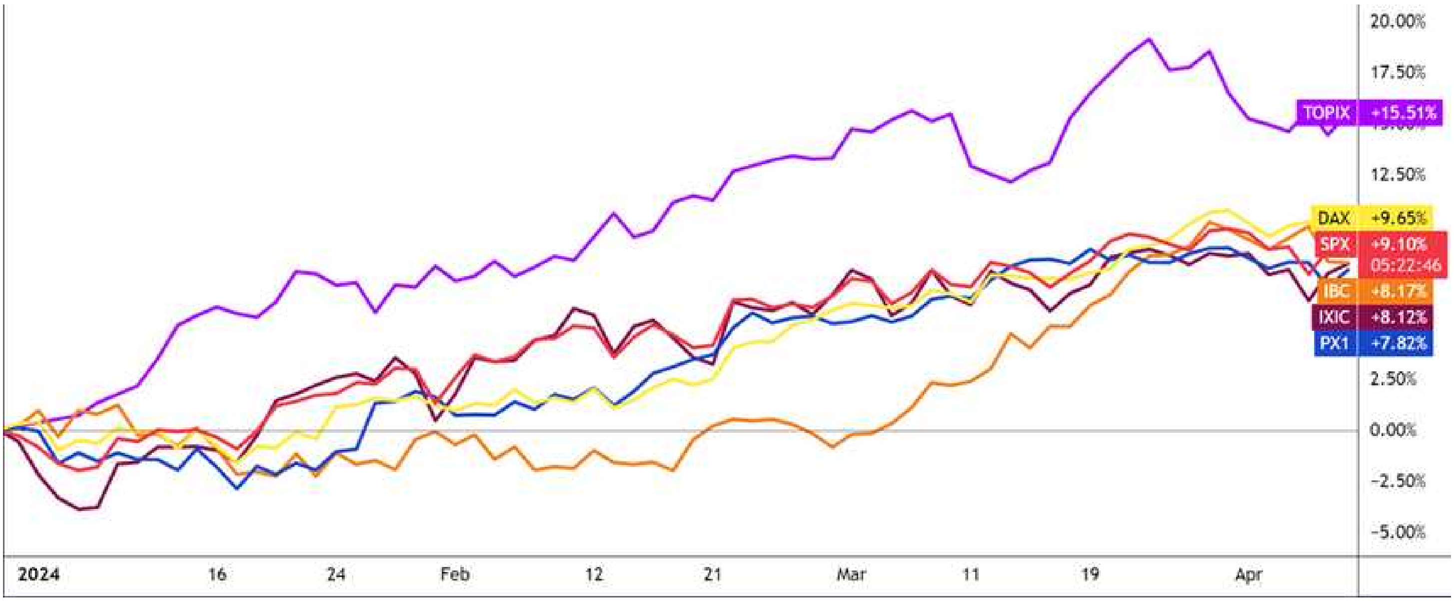
Whereas the rally in Q4 was due in large part to a dramatic shift lower in the yield curve on expectations of a dovish Fed pivot, the continuation of equity gains in Q1 came despite the hawkish repricing of monetary policy. Markets began the year expecting roughly seven rate cuts for 2024. Throughout the quarter, that pendulum swung back to three cuts amidst a backdrop of improving economic growth and slowing disinflation.

The AI boom has fuelled the market's gains, with chip designer Nvidia adding more than $1tn in market value during the first three months of the year, equivalent to about one-fifth of the total gain for global stock markets in Q1.

The MSCI index of worldwide stocks has gained 7.7 per cent this year, the most since 2019, with stocks outperforming bonds by the biggest margin in any quarter since 2020, even as traders scale back their expectations for rapid interest rate cuts. The charge has been helped by the S&P 500, which has closed at a record high on 22 separate occasions during the quarter.

Source – Seaspray Private

What began as a tech-driven rally on Wall Street gradually broadened out across the quarter, with equities in Europe and Japan beginning to outpace the US. The UK's FTSE 100, Germany's Dax, France's CAC 40 and Spain's Ibex 35 all outperformed the S&P 500 in March, as the breakneck pace of Wall Street's rally began to ease while global indices — and sectors beyond technology — caught up with earlier AI-driven gains in the US.



Source – Seaspray Private

With the tailwind of a strong first quarter performance, consensus has swung 180 degrees – disinflation without recession fears - and that a soft landing across the developed economies will be achieved in 2024, supporting risk assets and providing opportunities across investment growth themes such as the AI revolution, Clean Tech and Renewables and Climate Change.

Markets so far have embraced the FED pivot on interest rates and moved closer to the FED expectations with three rate cuts during H2 2024, with inflation dynamics and growth trajectory dictating how quickly interest rates are cut. In Europe, ECB policymakers are increasingly confident that inflation is heading back to their 2% target and the case for interest rate cuts is strengthening, with a first rate cut in June now in play.

Headwinds as we see it.

From a risk perspective, inflation data and timing of interest rate cut expectations remain a dominant topic. If cuts fail to materialise, risk assets and market sentiment may suffer as we move through Q2, and in the near term, equity markets may need to digest the strong start to 2024 which may result in range bound trading and increased volatility.

Geopolitical risks continue to dominate with increased tensions and rhetoric from Russia following Putin's election, and the recent largest aerial attack on Ukraine's energy infrastructure. In the Middle East – the potential escalation of the Israel/Hamas conflict is real, with the continued humanitarian crisis unfolding in Gaza and despite major international pressure, no sign of any ceasefire and a pause in fighting.

The best first quarter for global markets in 5 years........

Q1: A Look in the rear-view mirror!

This quarter marked the 38-year anniversary of Microsoft's initial public offering. The software giant went public on March 13, 1986, at $21 per share. Microsoft shares closed at $415.10 on March 13, 2024.

Since the IPO, the average annual return for Microsoft has been 26.2%, which compares to the S&P 500's annualized return of 10.4% during that same time.

- Despite the change in rate cut expectations, U.S. stocks have continued to climb higher, led by growth and technology names. The S&P 500 returned 10.6% in the first quarter, touching a new high of 5,245 at the end of March. The tech-heavy NASDAQ also set new highs during the quarter and posted a gain of over 9%.

- From the lows of October 2023, the S&P 500 has rallied nearly 30% and added $10 trillion in market value.

- In Europe, the Eurostoxx 50 hit a new 23 year high while the STOXX 600 also reached a new record high.

- Japan's Nikkei 225 set record highs after 35 years, and the Bank of Japan hiked its short-term borrowing rate (to zero) for the first time in 17 years. Japanese companies continue to benefit from corporate reforms and a very weak yen, weighed by years of easy monetary policy.

- The ISEQ reached record highs, not seen since prior to the financial crisis of 2008/2009.

- The mood music around interest rate cuts later in the year continues to be positive albeit under the scrutiny of downward trends in inflation globally, and consistently robust labour markets.

- The UK economy is now technically in recession after contracting by 0.3% in the final three months of 2023, with all three main sectors – services, manufacturing, and construction – going backwards, not good news for PM Rishi Sunak in this potential general election year.

- Solid Corporate earnings: In a sign that the US economy remains on a solid footing, company earnings reported in Q4 2023 were better than expected, coming in with earnings growth of 10% y/y.

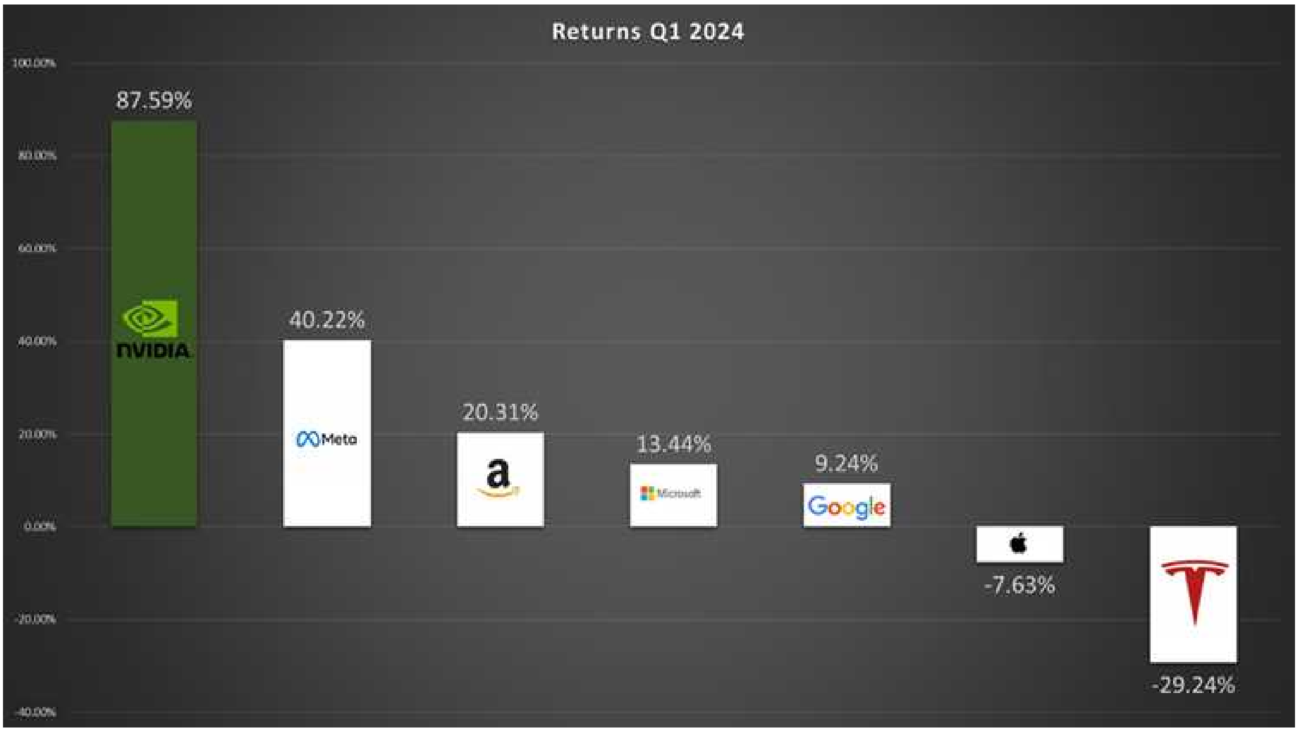
- In Europe, the earnings picture is a little less rosy with Q4 2023 earnings expected to fall by 6.5% compared to Q4 2022, with expectations to emerge from its earnings recession in Q2 2024.

- In contrast to equity markets, the bond market has had a tough Q1, with the Global Bond Index down c 1%, handing back some of the gains made in Q4 as interest rate expectations come back in line with what the FED and ECB have been highlighting for months.

The latest on the Magnificent 7

In the US, the big tech companies have been the dominant source of revenue and earnings growth. These seven mega-cap names returned 17% in Q1, though we are starting to see some divergence in their returns, with negative performance from both Apple and Tesla in Q1.

Nvidia continues to benefit from the focus on AI, reporting better-than-anticipated quarterly results on already lofty expectations for revenue and net income. The share price was up by 87% on the quarter and has gained 225% in the past year. Tesla has been the weakest member of the M7 recently, with shares down by 29% for the quarter, and more than 50% from their 2021 highs. Apple shares were also down about 7% in the first quarter.



Source - Seaspray Private

Multi Asset portfolio chart

	1-Month	3-Month	2024 YTD
Equity Indices			
S&P 500	0.81%	10.79%	10.79%
Nasdaq	1.38%	10.34%	10.34%
DAX	1.67%	10.28%	10.28%
EuroStoxx 50	0.21%	12.64%	12.64%
ISEQ	4.98%	13.93%	13.93%
FTSE 100	3.86%	2.99%	2.99%
Multi-Asset Funds			
Aviva Multi-Asset ESG 3	0.22%	2.65%	2.65%
Aviva Multi-Asset ESG 4	0.79%	5.59%	5.59%
Aviva Multi-Asset ESG 5	1.24%	8.11%	8.11%
Irish Life MAPS 3	0.98%	4.25%	4.25%
Irish Life MAPS 4	1.17%	5.89%	5.89%
Irish Life MAPS 5	1.30%	7.12%	7.12%
New Ireland iFunds 3	0.50%	3.30%	3.30%
New Ireland iFunds 4	0.90%	5.40%	5.40%
New Ireland iFunds 5	1.40%	8.20%	8.20%
New Ireland PRIME 3	0.60%	3.00%	3.00%
New Ireland PRIME 4	1.20%	6.40%	6.40%
New Ireland PRIME 5	1.60%	8.40%	8.40%
New Ireland Water Fund	1.50%	7.20%	7.20%
New Ireland Alternative Energy	0.20%	-2.30%	-2.30%
Zurich Prisma 3	1.29%	3.58%	3.58%
Zurich Prisma 4	2.36%	6.87%	6.87%
Zurich Prisma 5	3.61%	11.03%	11.03%
Bonds			
US Government Bonds	-2.96%	-3.19%	-3.19%
US Corporate Bonds	-2.18%	-2.65%	-2.65%
European Government Bonds	-0.48%	0.51%	0.51%
European Corporate Bonds	0.52%	-0.18%	-0.18%
Currencies			
EUR/USD	-1.65%	-1.98%	-1.98%
EUR/GBP	0.61%	-0.60%	-0.60%
GBP/USD	-2.29%	-1.38%	-1.38%
USD/JPY	3.84%	4.80%	4.80%
Commodities			
Gold	8.29%	16.71%	16.71%
Brent Crude Oil	8.85%	16.33%	16.33%

Source: Seaspray ,April 2024

Q2 Global Economic Outlook

As stated in our 2024 Investment Outlook, at Seaspray we believe that the Global Economy will perform better than many expect based on our view that rate hikes have already delivered their biggest hits to GDP (Gross Domestic Product) growth and as we move through H2 2024, Central Banks will have the room to reduce rates if they are concerned that the economy is slowing.

We have achieved good disinflation without recession fears during the course of Q1, and our macro base case still stands as we move into Q2: A soft landing for 2024 with GDP growth remaining close to, or modestly below trend across Developed Markets, with inflation – whilst sticky - cooling to broadly target-consistent levels by year end.

Our House view: The 4 'i's

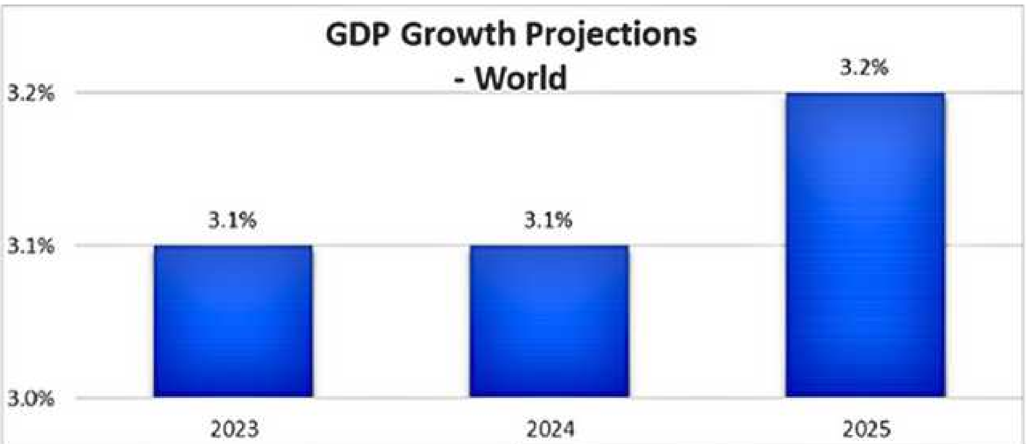
- **Inflation:**
  The last mile of disinflation – though sticky- continues to fall to target levels by year end.

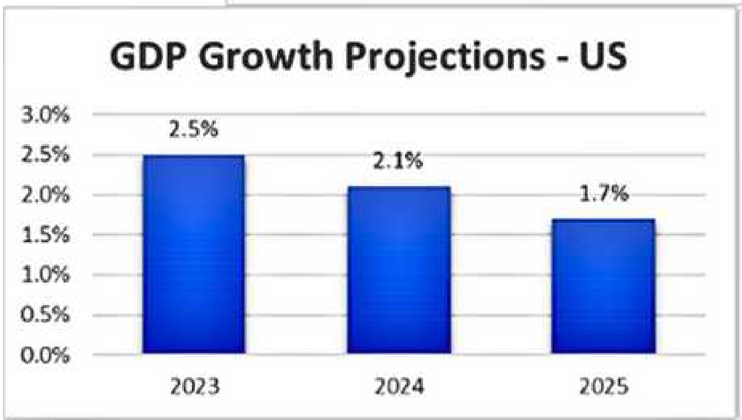
- **Interest Rates:**
  From H2 2024 – gradual and cautious rate cuts through 2024 and 2025.

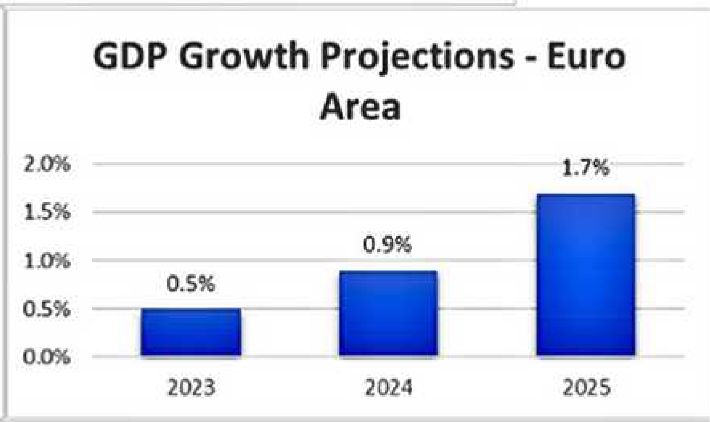
- **Income/Earnings:**
  US earnings expectations remain robust, and Europe is expected to emerge from its earnings recession in the coming quarter; Global Equities to move ahead as valuations ease.

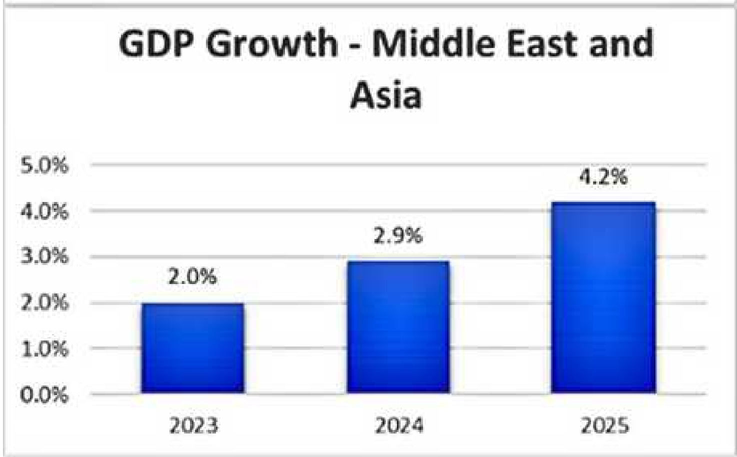
- **Investment themes:**
  Artificial Intelligence/ High Tech and Semiconductor sectors to outperform; The Magnificent 7 to ride again through 2024 albeit at a slower pace and supported by a broader market rally.

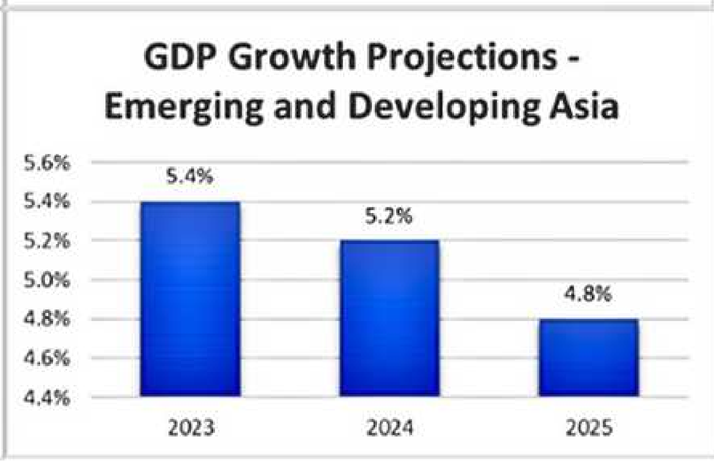
Q2 Global Economic Outlook











Source – Seaspray Private – IMF World Economic Outlook 2024

Inflation

- Consumer price growth in the euro zone slowed to 2.4% in March from 2.6% in February and has been on a steady downward trend for more than a year but has fallen more quickly since last autumn than many predicted, shifting the debate to just how soon and how quickly the ECB will unwind record rate hikes.

- US Inflation Rate Seen Steady at 3.1%, Core to Slow: Annual inflation rate in the US likely steadied at 3.1% in February 2024, matching January's figures and maintaining levels not seen since 2021. However, consumer prices are expected to increase by 0.4% from the previous month, a slight uptick from January's 0.3%, primarily driven by a surge in gasoline prices. Core inflation, on the other hand, is predicted to slow to 3.7% annually, marking the lowest level since April 2021, down from 3.9% in January. The monthly rate is also expected to ease to 0.3% from 0.4% in January. The February report is likely to reflect a continued gradual disinflation process in the US, although the inflation rate remains elevated.

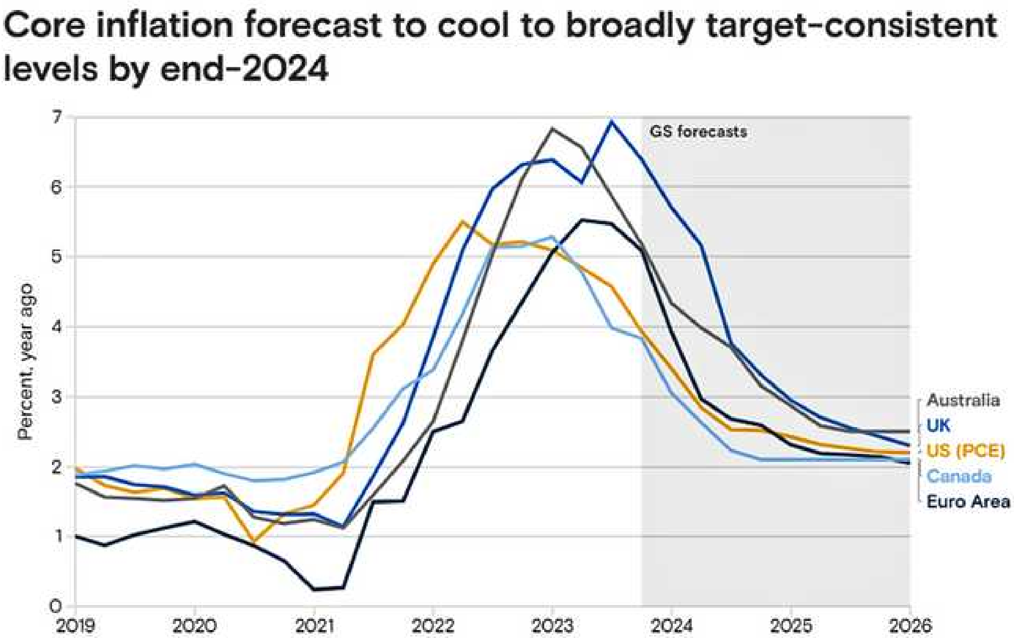
- Federal Reserve Chair, Jerome Powell reiterated that the FED has time to deliberate over its first interest rate cut given the strength of the economy and recent high inflation readings. Powell stated that “Recent data do not, however, materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labour market, and inflation moving down toward 2% on a sometimes-bumpy path”.

- In Ireland, annual inflation fell below the euro zone wide target of 2% for the first time in almost three years after slowing to 1.7% in March. Irish inflation peaked at almost 10% year-on-year in the middle of 2022 and has fallen steadily over the last 12 months.

- In the UK, the rate of inflation for February slowed to an annual rate of 3.4%, falling from 4,0% in January and the lowest recorded rate since September 2021.The Bank of England maintained borrowing costs at their 16-year high of 5.25% with Governor Andrew Bailey stating "We are not yet at the point where we can cut interest rates, but things are moving in the right direction”.

- In China, deflationary pressures will likely ease in 2024, with headline CPI inflation trending up modestly to 0.9% year-over-year and core CPI inflation reaching 1.2%.

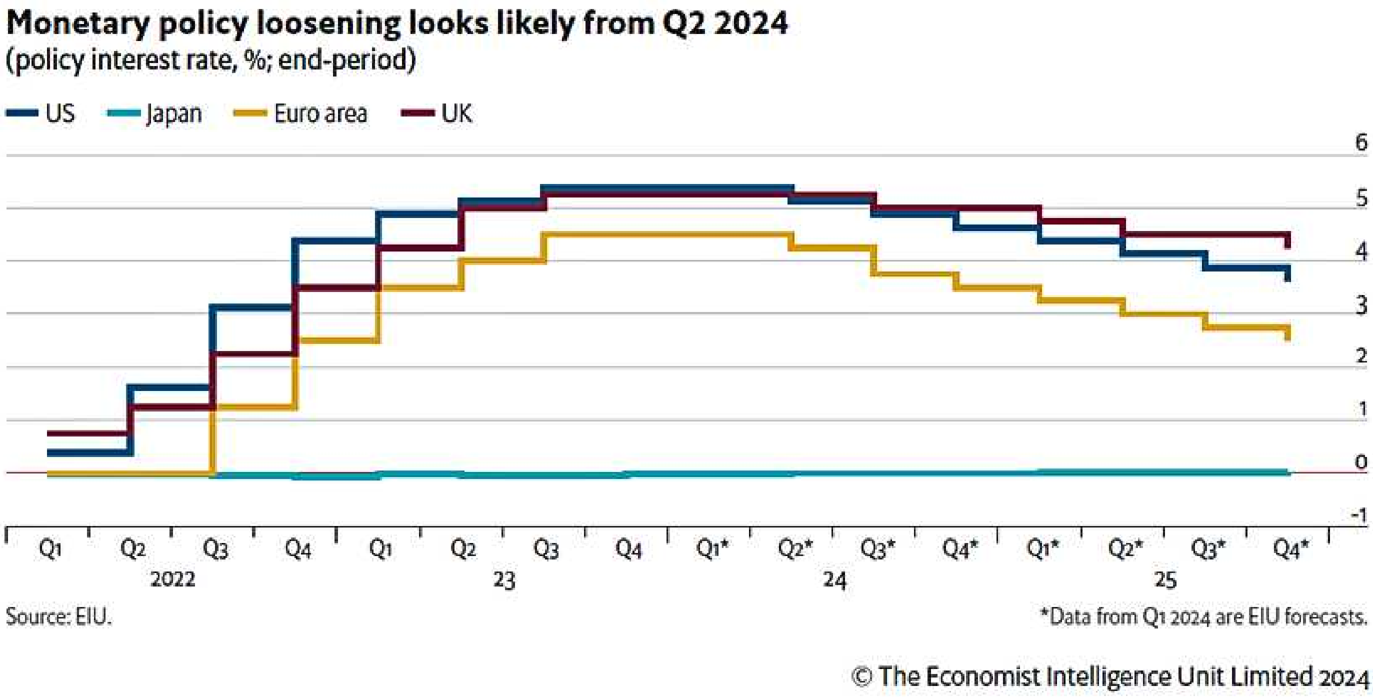
- In emerging markets (ex-China and Turkey), J.P. Morgan Research expects both core and headline inflation to decline by 100 basis points (bp) over the course of 2024.



Source: Goldman Sachs

Interest Rates

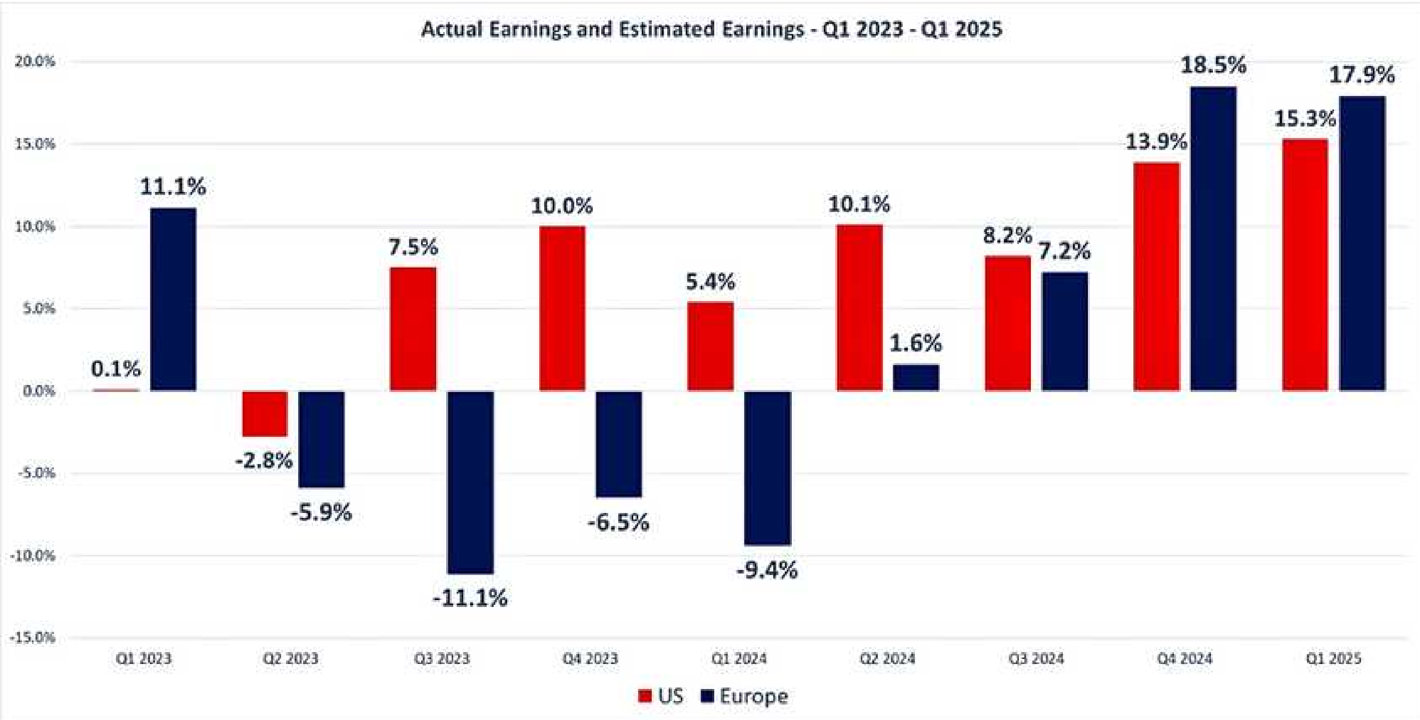
The Federal Reserve (Fed, the US central bank) and the European Central Bank (ECB) have concluded their policy rate increases. A desire to fully anchor inflation expectations means that both institutions are likely to move later than markets expect in terms of lowering rates – with first rate cuts mid 2024 (Summer) and gradual cuts thereafter which will be data driven.



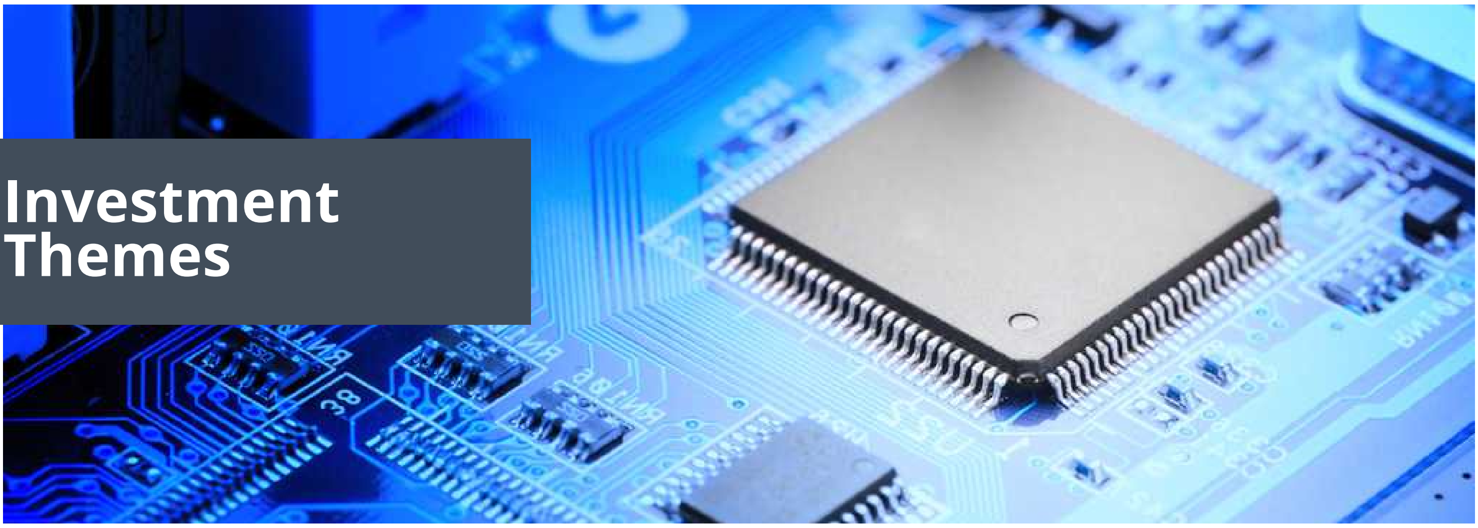
Source: The Economist Intelligence Unit

Income/Earnings

US earnings expectations remain robust, and Europe is expected to emerge from its earnings recession in Q2 :



Source: Seaspray Private



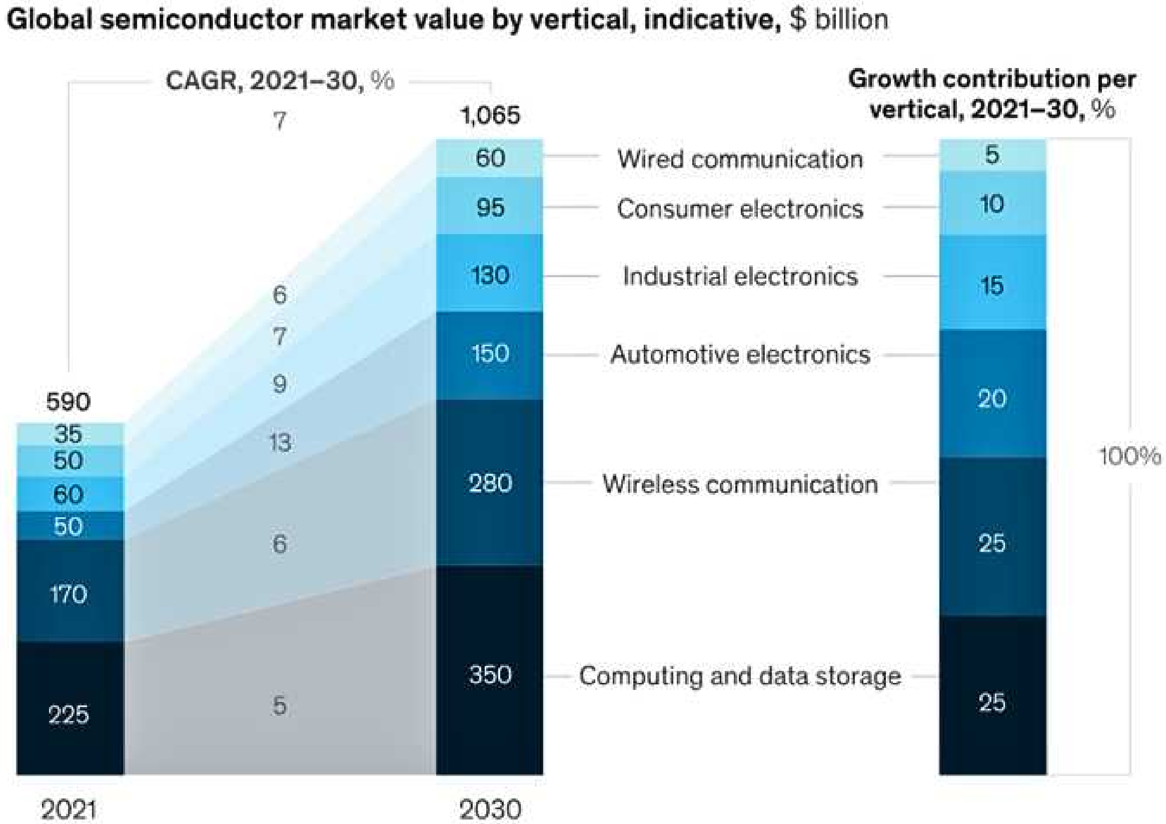
Investment Themes

Long Term Structural Investment Growth Themes

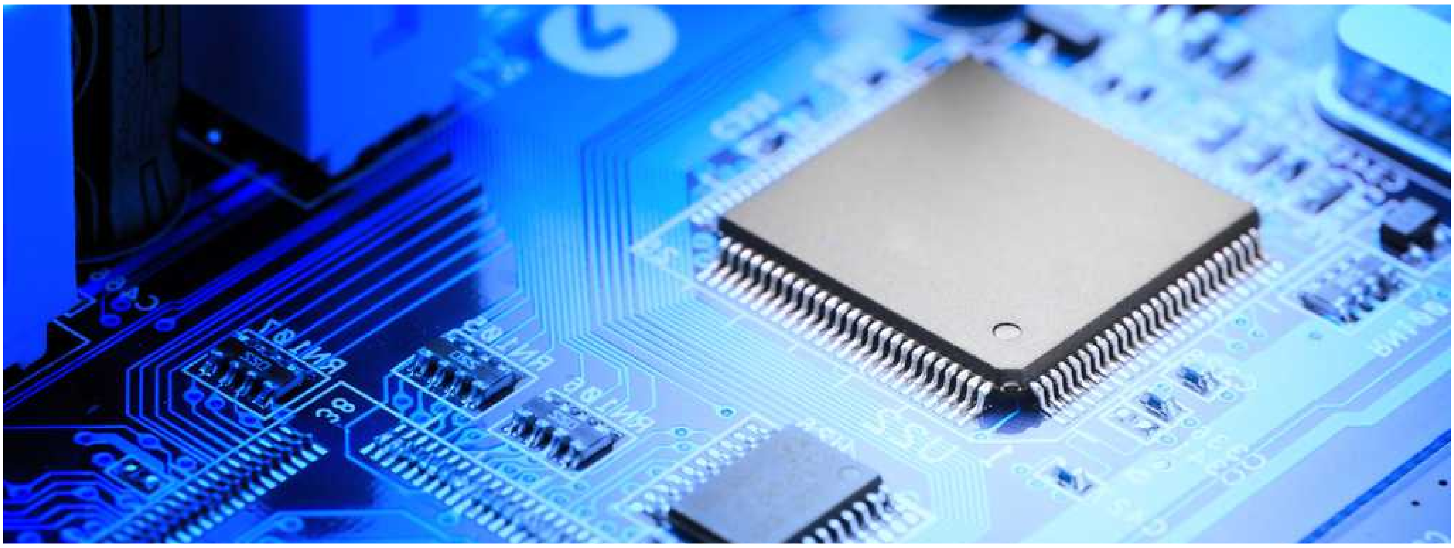
1. **Semiconductors** – computing & data storage chips
2. **Pharma** – Weight loss/obesity
3. **Clean Tech** – Green energy

Semiconductors.

As can be seen in the chart below, by 2030, the global semiconductor industry will be worth over $1 trillion, with over a third of that in computing and data storage chips alone. Estimates for the next decade are that 70 per cent of the growth in semiconductors will be driven by just three sectors, these being automotive, computation and data storage, and wireless. Computation and data storage will be used to further support AI systems, while wireless means more smartphones.

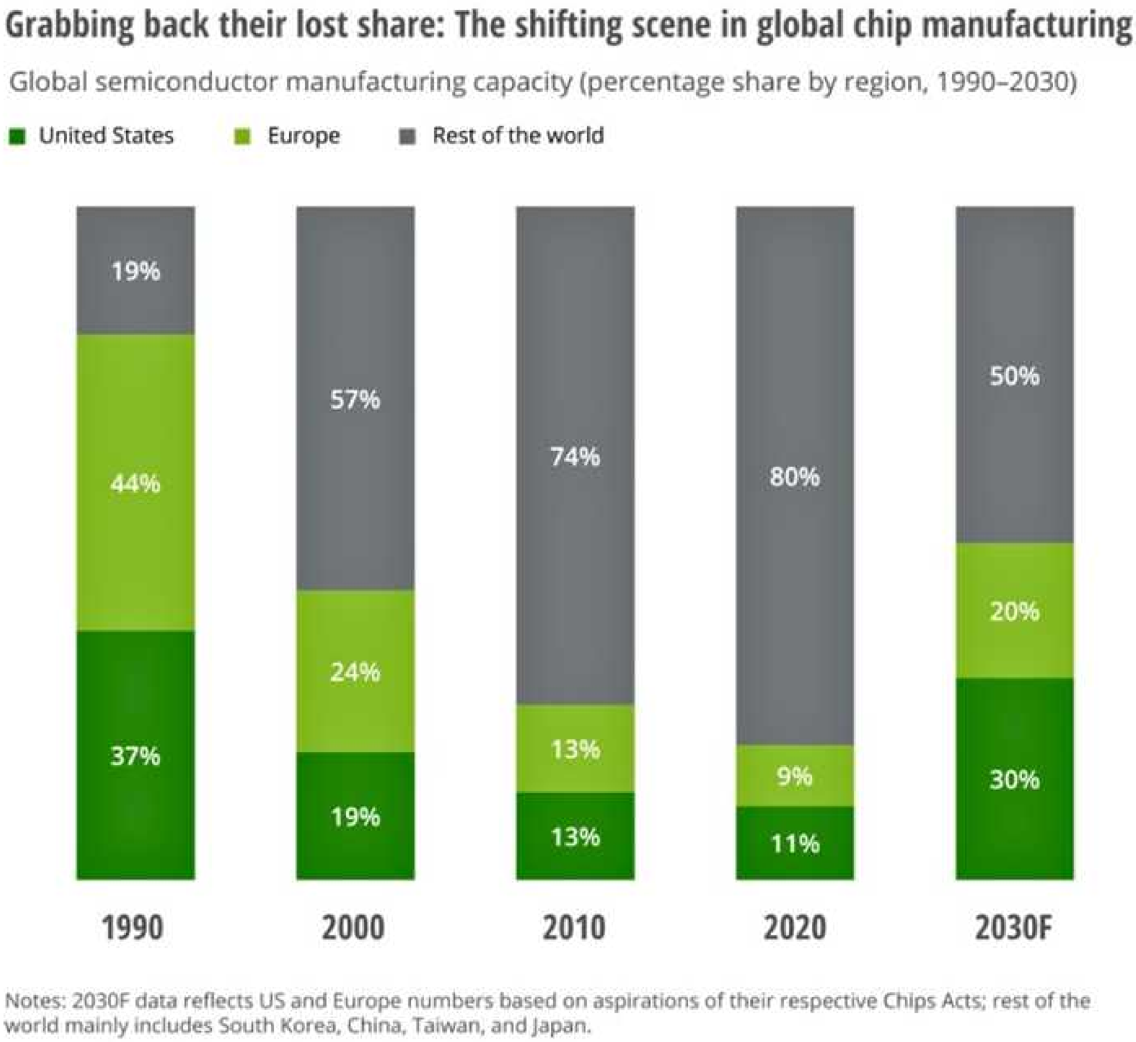


Source: McKinsey



Semiconductors, contd....

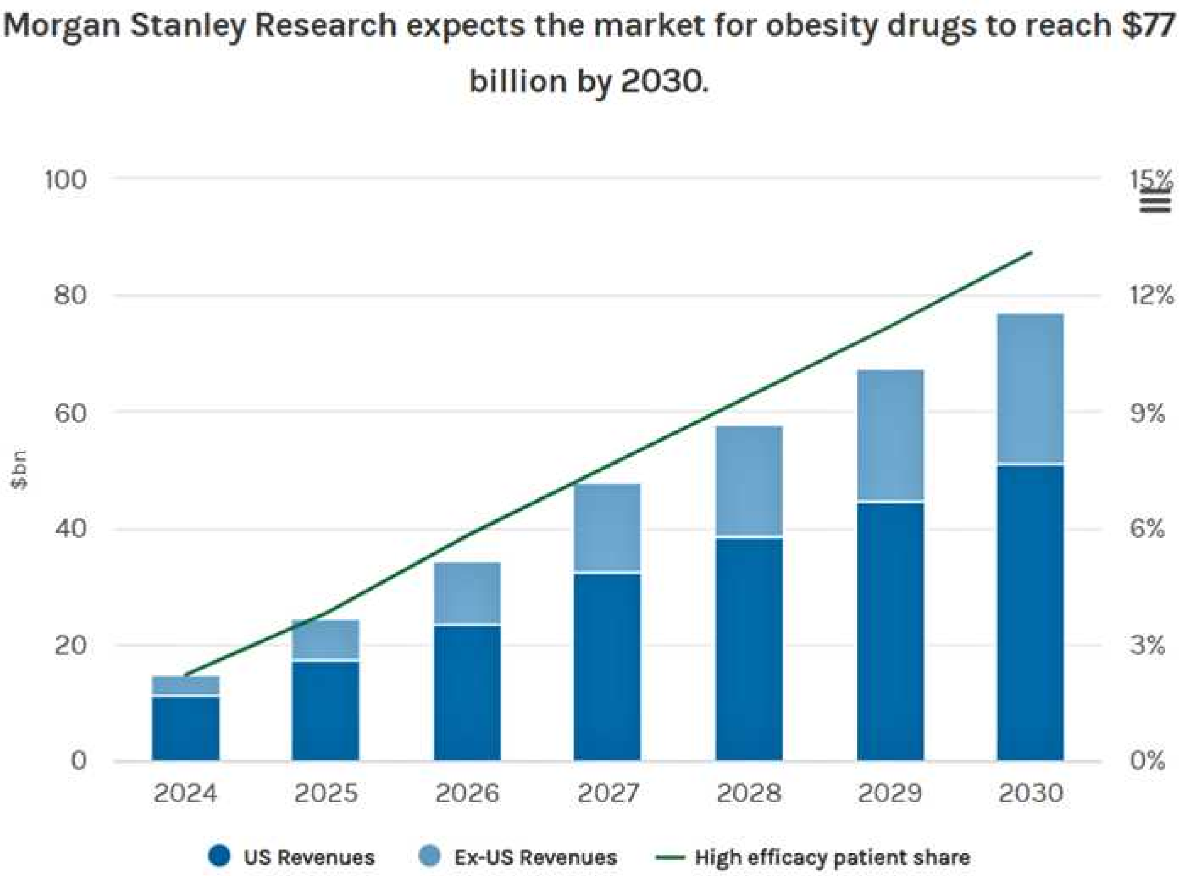
In the early 1990s, nearly half of the world's semiconductors came from Europe. Due to the expansion of Asian economies and that many of the rare earth minerals used in the manufacturing of semiconductors are sourced from China, by 2020 that figure had halved. Meanwhile, the rest of the world produced up to 80 per cent of all semiconductors in 2020. It is now estimated that by 2030, the US and Europe will together account for half of the world production of semiconductors. This is based on the fact that since 2020, governments in the US and Europe have allocated over $100bn in incentives for the manufacture of semiconductors.



Source: Deloitte Insights, 2021

Weight-Loss/Pharma.

Earlier this year, the global market for anti-obesity drugs reached $6 billion on an annualized basis. By 2030, it could grow by more than 16 times to $77 billion, as evidenced by this chart below.



Source: Morgan Stanley Research Estimates

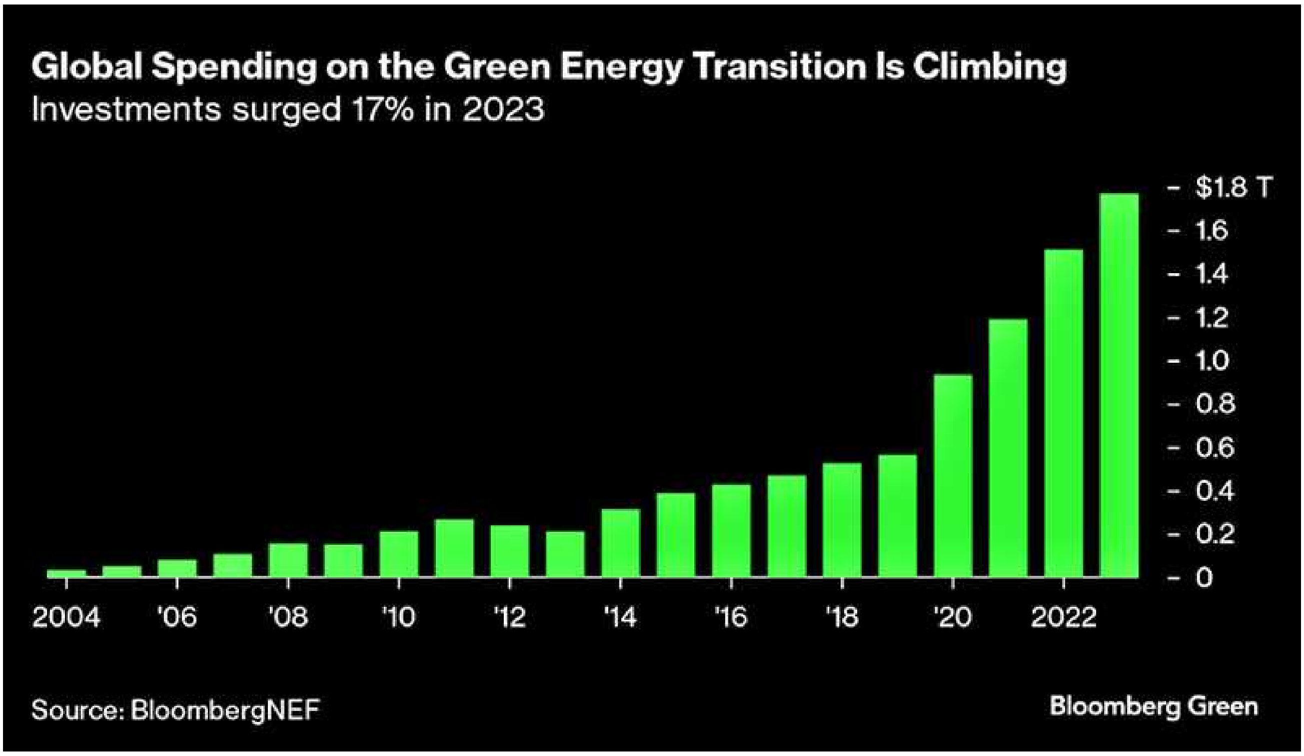
A greater understanding among physicians of obesity's root causes and the benefits of treating it to prevent associated illnesses, such as heart disease, has driven record levels of interest. This, in turn, has fuelled consumer demand, setting up the new class of appetite-suppressing drugs to surpass initial estimates for blockbuster growth. Novo Nordisk, Eli Lilly and Pfizer lead the way in this market, with Novo Nordisk, the Danish Pharma titan, achieving the status of Europe's largest company by market capitalisation late last year.

More than 750 million people are living with obesity, which causes 5% of deaths globally, according to World Health Organization estimates. New studies are helping make the case for weight management as a focus of treatment for not just obesity but related illnesses, such as heart disease and strokes

Green Energy.

The transition to green energy will be a complex journey and will require the collective collaboration of many, such as governments, industries and communities working together. In the below chart from Bloomberg, we can see that global spending on Green Energy increased by 17% last year, with a total of $1.8tn of investment pumped into the sector. The figure is the highest in history, so far, as countries around the world aim to bring global temperatures down and reduce the risk of climate related disasters.

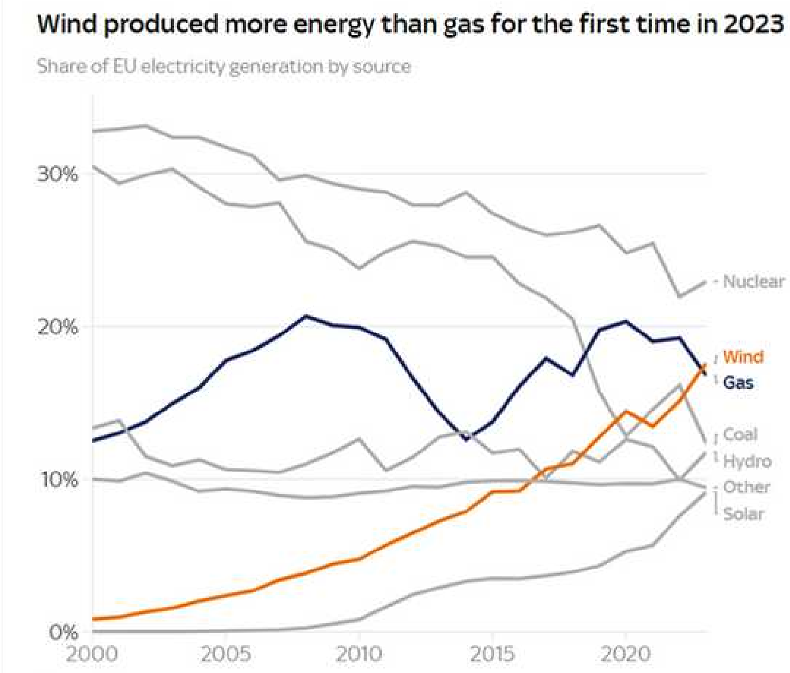
However, while $1.8 trillion was spent on Green Energy, this does not include the extra $1 trillion that was spent to build out clean energy supply chains and $900bn in financing. Therefore, the total figure of funding and spending in the green energy sector in 2023 was $2.8 trillion. While this is a positive step, it is half of the $4.8 trillion that BNEF, a London based research provider, estimated should be spent annually on green energy between 2024 and 2030 to get the world on the path to net zero emissions.



Source: Bloomberg NEF

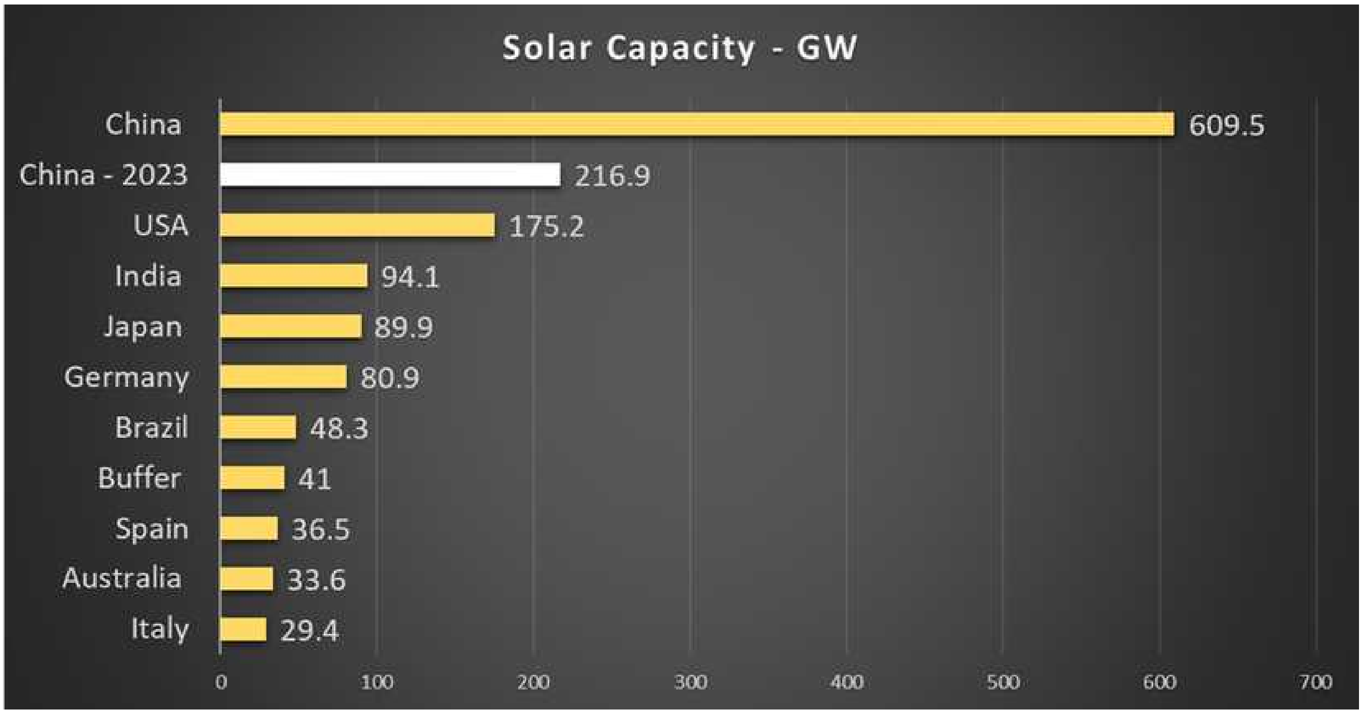
Green Energy, contd...

In the Eurozone in 2023, for the first time ever, wind energy produced more electricity than gas generation. This means that wind energy was the second highest producer of electricity in the bloc, only surpassed by nuclear energy but above both gas and coal generation. Overall, renewable energy sources accounted for 44% of the EU's total electricity generation in 2023.



Source: Ember

Last year alone, China added more solar energy in Gigawatt (GW) terms than any other country in the world has in total, as indicated in the chart below. China recorded solar additions of 216 GW in 2023, passing out the United States total solar energy capacity of 175.2 GW. To put it in perspective, 216 GW of power capacity would be enough energy to power 162 million homes, almost the equivalent of the combined populations of England, France, and Spain.



Source – Seaspray Private (Bloomberg NEF)

Regional Analysis

United States

In the near term, the US economy looks stronger than expected.

The U.S. economy appears on track for 2.5% average growth this year, spurred by a sturdy labour market--repeating last year's outperformance versus peers. However, the average growth forecast gives an overly positive outlook of the economy. A strong handoff from last year--with 3.1% annual growth in the fourth-quarter of 2023--masks the forecasted gradual slowdown to 1.8% by fourth-quarter 2024. After the upside inflation surprise over the last two months, the Fed, which has become increasingly data dependent, is looking for further signs of cooling inflation before making the first rate cut, the futures market pricing in a first cut in June. The risk to this assessment is that the Fed may further delay easing, especially if inflation fails to come down significantly in the next two to three months. The strength of the American economy has given the Fed the option to be patient as inflation moves toward the 2% target.

Labour market tightness has been remarkably persistent over the last year and should continue over the coming quarters. The tightness largely reflects a shrinking labour force as Baby Boomers retire. As such, businesses are likely to be resistant to lay off workers.

There has been little impact from higher interest rates to date as so much of the US Mortgage market is fixed rate in nature. Combined with full employment, this has meant mortgage default rates have remained subdued. However, personal and credit card debt default levels have begun to rise, the first indication of the impact of higher interest rates.

Europe

The Eurozone economy is now in its sixth quarter in a row of quasi stagnation and is trailing most other economies.

GDP growth expectations remain below consensus as a further weakening in the European Commission consumer confidence index in January 2024 indicated a more muted and delayed household consumption-led recovery than consensus expected, despite rising real wages.

- Inflation is on track to hit the 2% central bank target this year.
- Policy interest rates will likely begin their descent from June 2024 into 2025.
- Labour market loosening underpins our economic outlook and holds the key to rate cuts.
- European labour markets will be crucial to determine the path of inflation, growth and interest rates over the coming months. These are showing resilience relative to weak economic activity (e.g. -0.3% q-o-q real GDP growth in Germany in Q4 2023), but lagged effects are still playing out with signs of softening in the coming months, strengthening the case for interest rate cuts this year. As job vacancy rates fall and unemployment slowly rises, policymakers expect wage growth to lose steam, allowing sticky services inflation to ease.
- European Parliamentary elections will take place in June 2024 for the next five-year term. The new Parliament will set Europe's policy priorities and strategic agenda in areas such as energy, transport, industrial policy, and immigration. These decisions ultimately shape progress on the key structural trends we see defining the long-term European outlook: Decarbonisation, Digitalisation, Demographics and Debt.

Regional Analysis

United Kingdom (UK)

The UK is in an election year with the economy struggling to grow as households and businesses remain under pressure from high borrowing costs, higher taxes, and elevated living expenses.

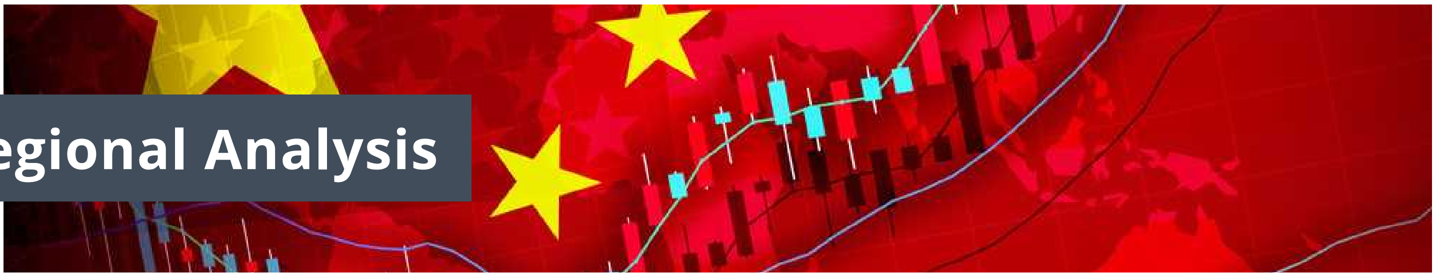
The UK economy looks on track to exit recession despite a slowdown in services activity in March. After almost two years of contraction, manufacturing returned to growth according to the latest PMI (Purchasing Managers Index) UK Manufacturing data, with upward revision to 50.3 from 47.5 in February.

UK Inflation has fallen from more than 10% in January 2023 to 3.4% in February, driven mainly by cooling energy prices. However, the annual rate has stuck at persistently higher levels than anticipated, as the UK grapples with the highest rate in the G7. While inflation is expected to continue to fall in 2024, the Bank is forecasting it to remain above its government-set target until the end of 2025, maintaining pressure on households. Financial markets are predicting that cooling inflation and weak economic growth will force the Bank to start cutting interest rates from the current level of 5.25% from as early as the summer, as central banks across advanced economies begin to dial back the toughest increase in borrowing costs for decades.

Ireland

- In terms of Gross Domestic Product, the Irish economy contracted by 0.7% in the fourth quarter of 2023, marking the fifth consecutive quarter in which the Irish economy has shrunk. The main driver in this contraction was the large cap multinational pharmaceutical and manufacturing firms which are based in Ireland, who have been heavily impacted by higher interest rates. However, it is important to note that due to the number of multinational businesses within Ireland, the GDP figure is incredibly skewed. Modified Domestic Demand, which is used as more of a barometer for the economy is expected to grow at an average rate of 2% in 2024.

- Looking ahead, the EU has revised its forecast for the Irish economy in 2024, bringing its expected growth rate down from 3% to 1.2% year on year.



Regional Analysis

China

- Consumer prices in China fell at the fastest annual rate in 15 years in January. The consumer price index (CPI) fell 0.8% in January, which was the fourth straight month of declines, as the government continues to struggle in kickstarting the economy.

- European investors have in recent weeks increased their exposure to China by investing in luxury goods indices, in an attempt to capture returns from a possible economic recovery without the need to invest directly in the Chinese stock market. The Stoxx Luxury 10, which is made up of stocks such as LVMH, Christian Dior and Ferrari, and whose overall constituents derive 26% of their earnings from China has risen 9.3% this year. There are early signs that the flagging Chinese economy, which last year grew by one of its slowest paces in decades and has suffered with persistent deflation, will recover, with European stocks offering a safer way of getting exposure to China.

Despite restrictions on the development of high-end semiconductors by the US, Chinese technology firms are now expected to make next generation smartphone processors within the next year. SMIC, the largest producer of semiconductors in China, has built two new production lines in its Shanghai facility, which will be used to manufacture and produce chips designed by Huawei, the largest indigenous smartphone maker in China.

Emerging Markets

Even with China's economy slowing to less than 4% growth by 2028, we forecast that developing and emerging economies (EMs) will contribute the bulk of global GDP growth over the next five years, helped by stronger contributions from other markets. India is forecast to expand the quickest of any major global economy in 2024-28.

Growth paths across EMs will diverge significantly in 2024. Across the 18 major EMs, we expect GDP growth to accelerate in half and decelerate in the rest. In 2023, only two major EMs saw faster GDP growth than 2022 (China and India).

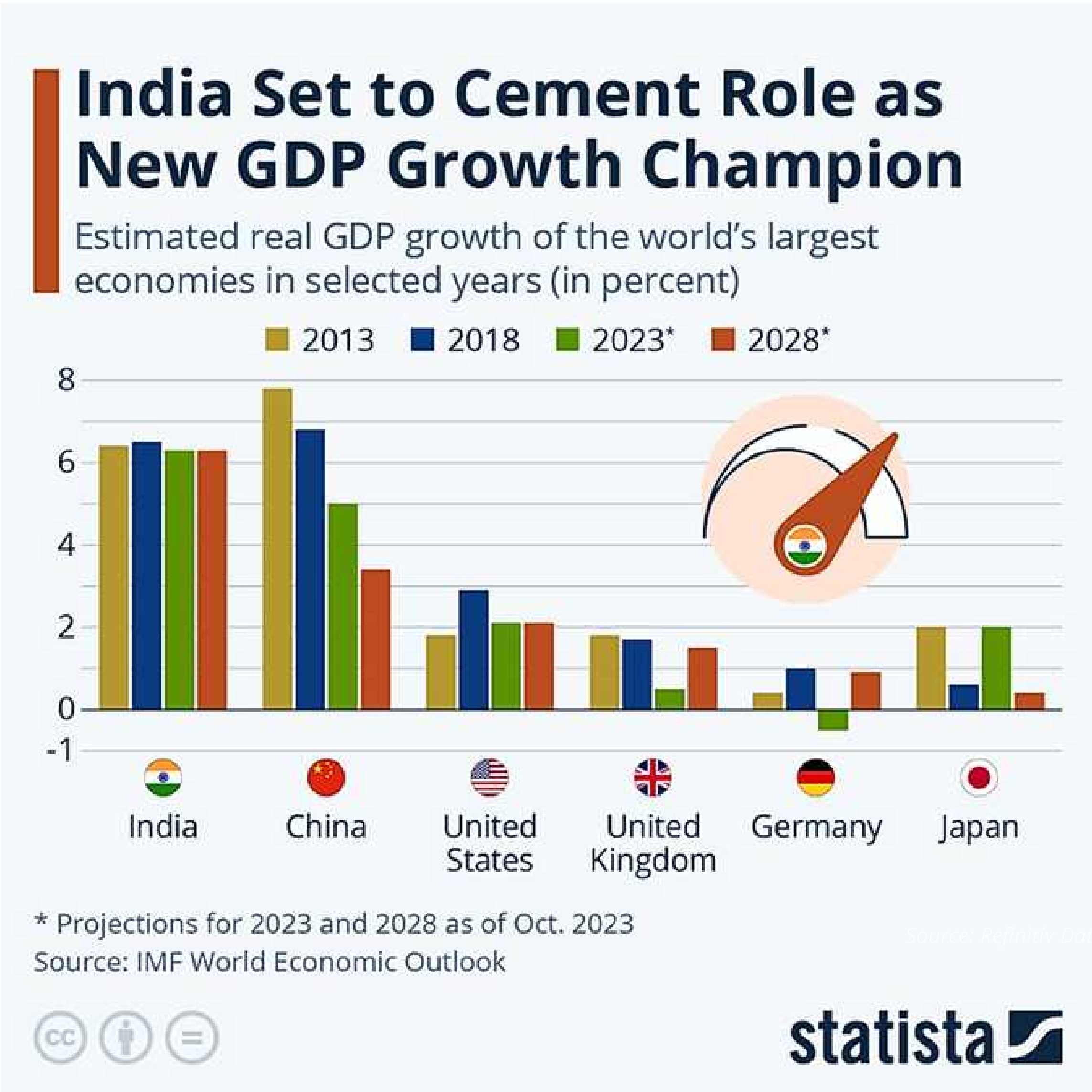
We generally expect countries that are more exposed to the U.S. to outperform again this year relative to those more exposed to the eurozone or China. In 2023, EMs exposed to the U.S. did better than those exposed to the eurozone, while those with close economic ties with China saw mixed performance.

At the sectoral level, we see opportunities tied to supply-chain restructuring and to demand for resources that are critical to future industries and the green transition. Artificial intelligence (AI) will create cost-cutting opportunities and lead to some disruption, but overall, we believe that it is more likely to augment rather than replace human capabilities, resulting in job changes rather than job destruction.

India

Growth of India's economy:
A momentous shift is underway in global markets as investors pull billions of dollars from China's economy, two decades after betting on the country as the world's biggest growth story. Much of that cash is now heading for India, with Wall Street giants like Goldman Sachs and Morgan Stanley endorsing the South Asian nation as the prime investment destination for the next decade.

While the bullish sentiment about India is not new, investors are more likely now to see a market that resembles the China of times past: a vast, dynamic economy that is opening up to global money in novel ways.



Source: IMF World Economic Outlook

Wall Street giants like Goldman Sachs and Morgan Stanley are endorsing the South Asian nation as the prime investment destination for the next decade.

Global Equities – Overlooked opportunities

Notwithstanding the strong Q1 performance from global equities, our House view remains:

- With inflation falling, even to a bumpy path of 2-3%, interest rates still likely to fall from H2 2024, and economic growth likely to deliver a soft landing in 2024, the ingredients are in place for risk assets to continue to perform through 2024.

- Through Q4 2023 and Q1 2024 we have not witnessed a broad-based bull market, and because it has been driven by technological innovation and Artificial Intelligence as a core part of the long-term technology opportunity, we see value across many sectors as highlighted in our investment growth themes.

Investment rationale:

1. Index levels can deceive: The current bull market is not broad based- driven in the main by technological innovation

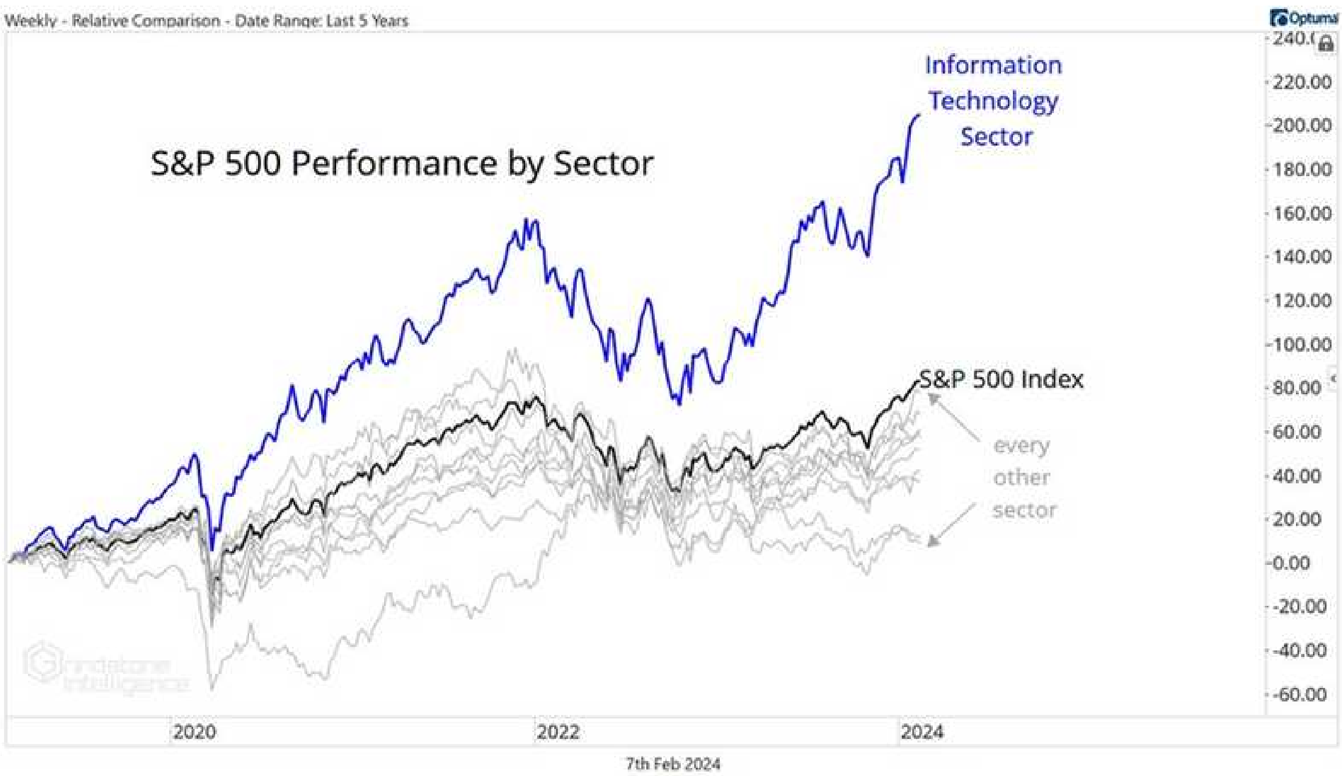
Source: Bloomberg

Investment rationale:

2. Average stock valuations are reasonable.

Source: Bloomberg

The dominance of the technology sector has been spoken about ad nauseum for some time now. However, it is interesting to note just how much the dominance of tech in recent years has skewed the wider market. The chart below shows the S&P 500 performance by sector since 2019. Over the last 5 years, the Information Technology sector has risen more than 200%, which is 2 times the return of the S&P 500 index. It goes even further than that, though. Tech's dominance has been so extreme that every other sector has lagged the benchmark. 10 out of the 11 sectors are below 'average'.



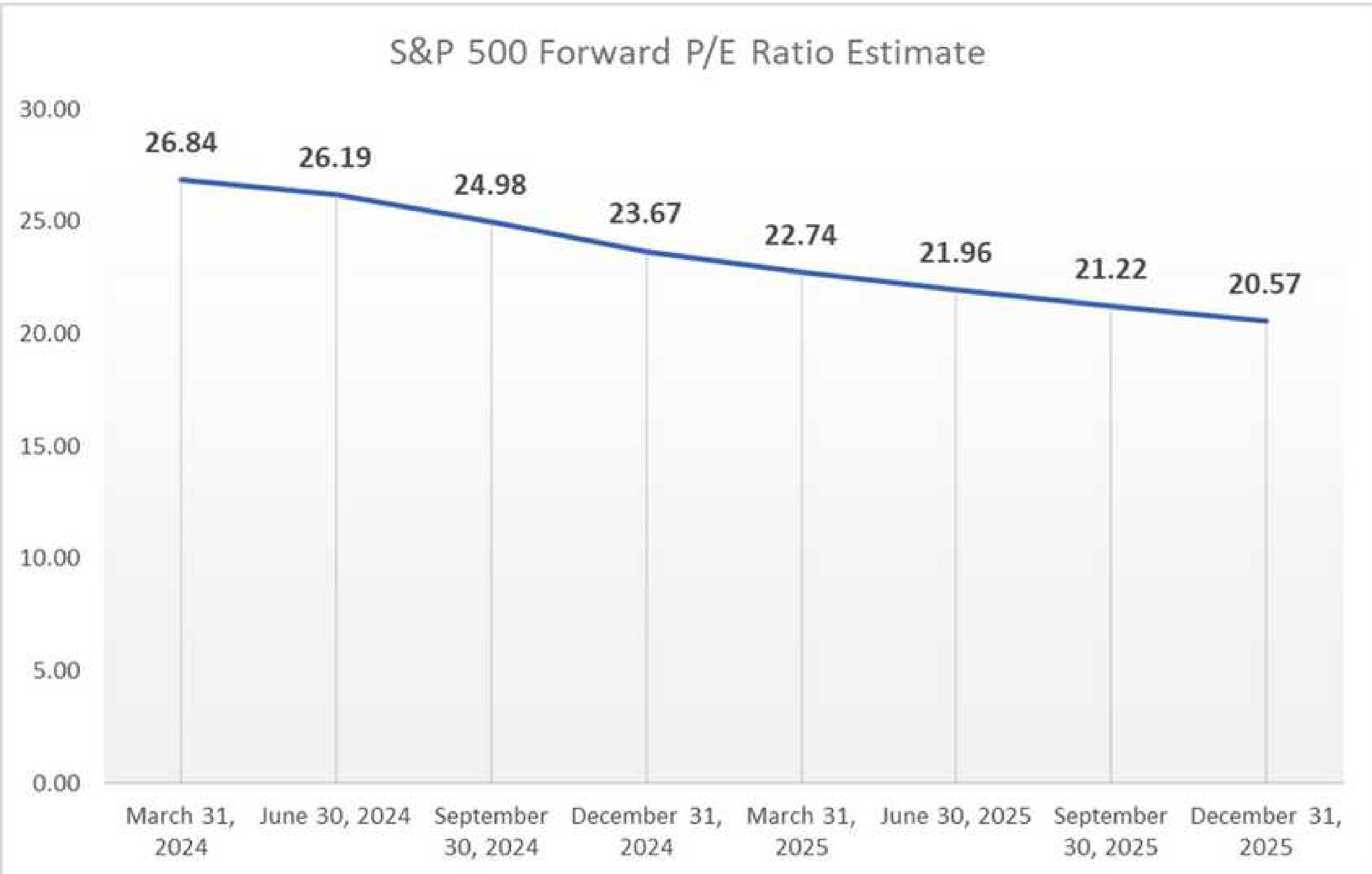
Source: Grindstone Intelligence

Global Equities – Overlooked opportunities

Artificial Intelligence (AI) holds the potential to transform employment, drive faster productivity growth, and drive gains for investors.

Business investment is likely to climb in 2024 as the benefits of AI to their businesses become more evident, offering the potential for a productivity payoff in the second half of this decade.

AI related stocks may benefit from increasing capital investment and provide an opportunity for investors as firms look to improve their business processes. But portfolio diversification remains important given the heightened volatility that often accompanies new technologies and likely shifts in leadership as the technology and adoption evolves.



Source: Seaspray Private

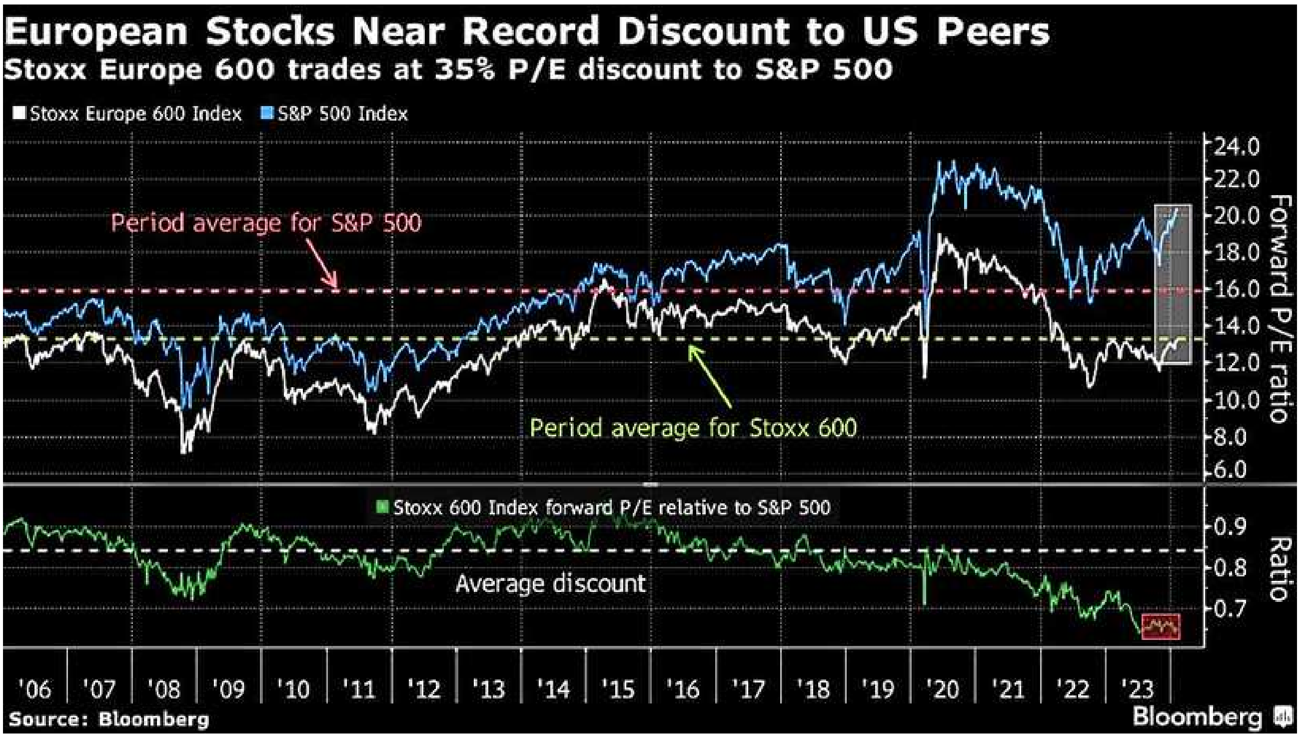
The S&P 500 (above) is anticipated to have a forward P/E ratio of 22.74 times price earnings by the first quarter of 2025, lower than the 2024 quarter one figure of 26.84.

Global Equities – Overlooked opportunities

In Europe

We believe the prospects for further accretion in the value of European equities through 2024 are positive.

The chart below highlights the current near record 35% discount applying to European equities versus their US peers.



Source: Bloomberg

Bonds/Fixed Income

In the **United States**, yields on 10-year Treasury bonds climbed from 3.87% to 4.21% during the quarter. Buoyed by consistently upbeat economic indicators, market sentiment gradually shifted in the first quarter, scaling back expectations from an initial projection of 6-7 interest rate cuts for 2024 to a more modest 2-3 for the remainder of the year. The rise in long-term US Treasury bond yields led to a 4.3% decline in the price of the widely followed iShares 20+ Year Treasury Bond ETF (TLT) over the same period.

Meanwhile, yields on 2-year bonds, which are particularly sensitive to future interest rate expectations, increased from 4.25% to 4.63%. The Federal Reserve opted to maintain its benchmark rates at 5.50% throughout the quarter. Forecasts now anticipate the first rate cut to materialize no sooner than June, possibly extending as far as the end of July.

The increase in yields was also evident in the **Eurozone**. In Germany, yields on 10-year government bonds rose from 2.03% to 2.29% during the quarter, and those on 2-year bonds increased from 2.40% to 2.82%. In contrast, yields on 10-year Italian government bonds remained relatively stable around the 3.70% mark, resulting in a narrowing of the yield spread with German government bonds of the same maturity to below 140 basis points. The European Central Bank (ECB) maintained interest rates at 4.50% in the 1st quarter but signalled potential rate cuts later in the year.

In the **United Kingdom**, yields rose from 3.54% at the end of 2023 to 4.19% by the end of February, before settling at 3.98% by the end of the 1st quarter. The Bank of England maintained its benchmark interest rate at 5.25%.

In **Japan**, yields on 10-year government bonds rose from 0.62% to 0.73% over the quarter. There was some surprise as the Bank of Japan departed from both its negative interest rate policy and its yield curve control policy. Interest rates were raised from -0.10% to +0.10%.

Contrary to the global trend, the interest rate level in **Switzerland** decreased due to the surprising rate cut from 1.75% to 1.50% by the Swiss National Bank (SNB). Yields on 10-year government bonds fell from 0.70% to 0.62%, yields on 5-year bonds from 0.79% to 0.73%, and yields on 2-year bonds stood at 0.93% at the end of the quarter, down from 1.10% at the end of 2023.

Commodities

Commodity Market Outlook: High Uncertainty Amid Soft Economic Outlook and Geopolitical Risks.

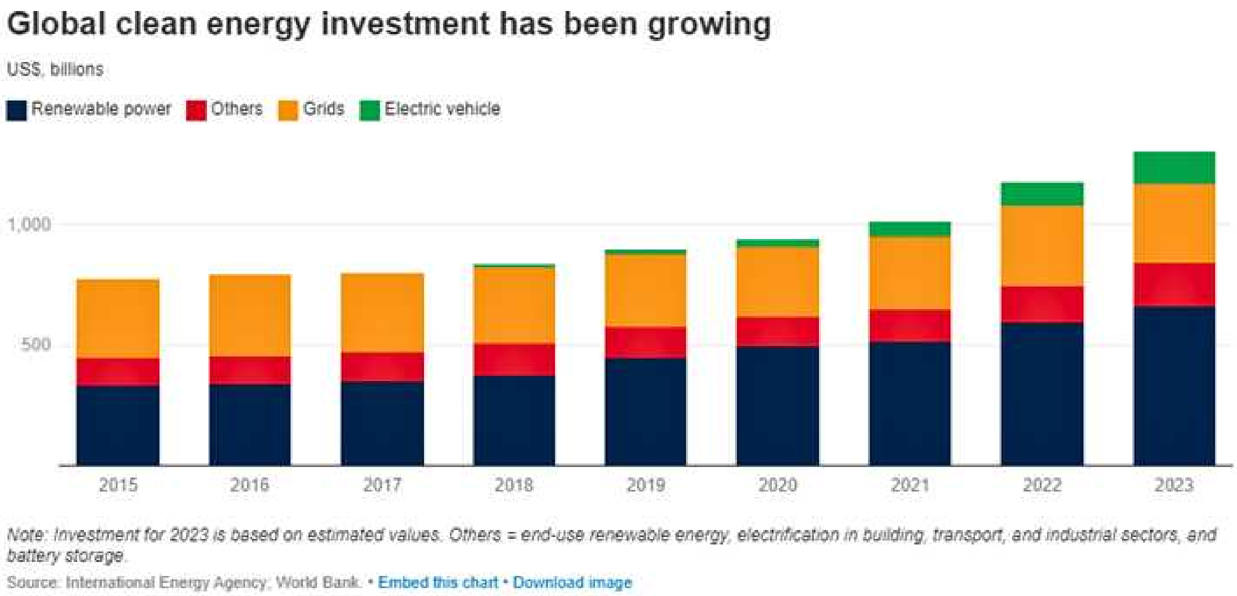
The World Bank commodity price index is expected to fall 4 percent in 2024, following a projected decline of nearly 24 percent in 2023, the sharpest drop since the pandemic.
Energy prices are expected to decline by almost 5 percent in 2024 and remain relatively stable in 2025. Agriculture prices are expected to decline over the forecast period, while metal prices are set to fall in 2024 but see a 6 percent uptick in 2025. The forecasts assume that the conflict in the Middle East will have a limited impact on commodity prices, though geopolitical risks remain high. Disappointing global growth presents a downside risk, especially for industrial commodities. Additional trade restrictions and intensification of El Niño could push food prices higher.

Demand for some critical minerals is soaring.

With electric vehicles now comprising one in five cars sold globally, the demand for minerals used in electric vehicle and battery production, such as cobalt, lithium, and molybdenum, will continue to soar.

In the short term, they have followed the downward trend in base metals prices, although prices remain volatile due to the stratified and concentrated nature of mineral markets. Firming global growth, along with policies to expand renewable energy infrastructure, are expected to underpin a rebound in metal and mineral prices in 2025.

Global investment in clean energy infrastructure has grown by almost 28 percent between 2021 and 2023 and continues to rise rapidly, propelling a demand surge for copper, lithium, and nickel.



Source: International Energy Agency- World Bank

Currencies

Range-bound currencies could persist, but Euro could strengthen gradually.

Although the US dollar has retreated from its prior peak, it remains at quite elevated levels. The continuing strength of the dollar is very much linked to the ongoing impressive performance of the US economy and associated elevated level of US interest rates. Rising geopolitical tension could also add further support for the dollar as a safe haven in the near term.

Source: Seaspray Private - TradingView

Overall, the most notable feature of the main currency markets so far in 2024 has been the continued predominance of narrow trading ranges, with the exception of the yen. EUR/USD was confined to a $1.07-1.10 corridor so far in 2024, with the euro under pressure throughout much of that time. Sterling has traded in a $1.22-1.28 band versus the dollar through Q1 2024. The dollar remains relatively high, but the incoming macro data and readjusted central bank rate expectations mean few directional drivers to reverse this strength in the near term.

Monetary policy has been a crucial driver of currency markets over the past three years. The main central banks have kept policy unchanged in the past few months and are guiding that policy will need to remain cautious and measured for a period of time to get inflation back to its 2% target. Rate cuts are expected in the main economies this year, starting mid-year. This suggests that the main currency markets could continue to range trade for much of the year.

The euro has lost ground so far in 2024. The EUR/USD rate fell from $1.10 at the start of January to around the $1.08 level more recently. Meanwhile, sterling has remained steady, in a narrow $1.26-27 range recently. Rates are at higher levels in the US than most other economies so there is more capacity to loosen policy there once central banks move on to an easing path. The dollar is also still at an elevated level and so it has greater scope to fall than most other currencies. This suggests we could see the dollar losing some ground in 2024 as the Fed begins to lower rates, especially if it is an early mover. However, the fall may be limited. Overall, currencies may make just modest gains against the dollar this year, with the euro rising towards $1.12 by end 2024.

Currencies

Source: Seaspray Private - TradingView

The rise in BoE (Bank of England) rates to 5.25% has been supportive of the currency. EUR/GBP edged downwards from the 87-89p range it occupied in the opening months of last year, to trade in a narrow 85.0-87.5p corridor since May 2023.

Markets expect UK rates to be lowered at a slightly slower pace this year than in the US and Eurozone, which could be supportive of the currency. The Bank rate is seen as falling to c.4.50-4.75% by end 2024. Meantime, the latest positioning data shows the market is somewhat long on the pound. Overall, sterling could remain stable in 2024, especially if market expectations that rates in the UK will be cut slightly less than elsewhere prove correct.

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