

MM Wealth Market Update

November 2023





Geoff Cooper
Head of Investment Management
Chartered Wealth Manager

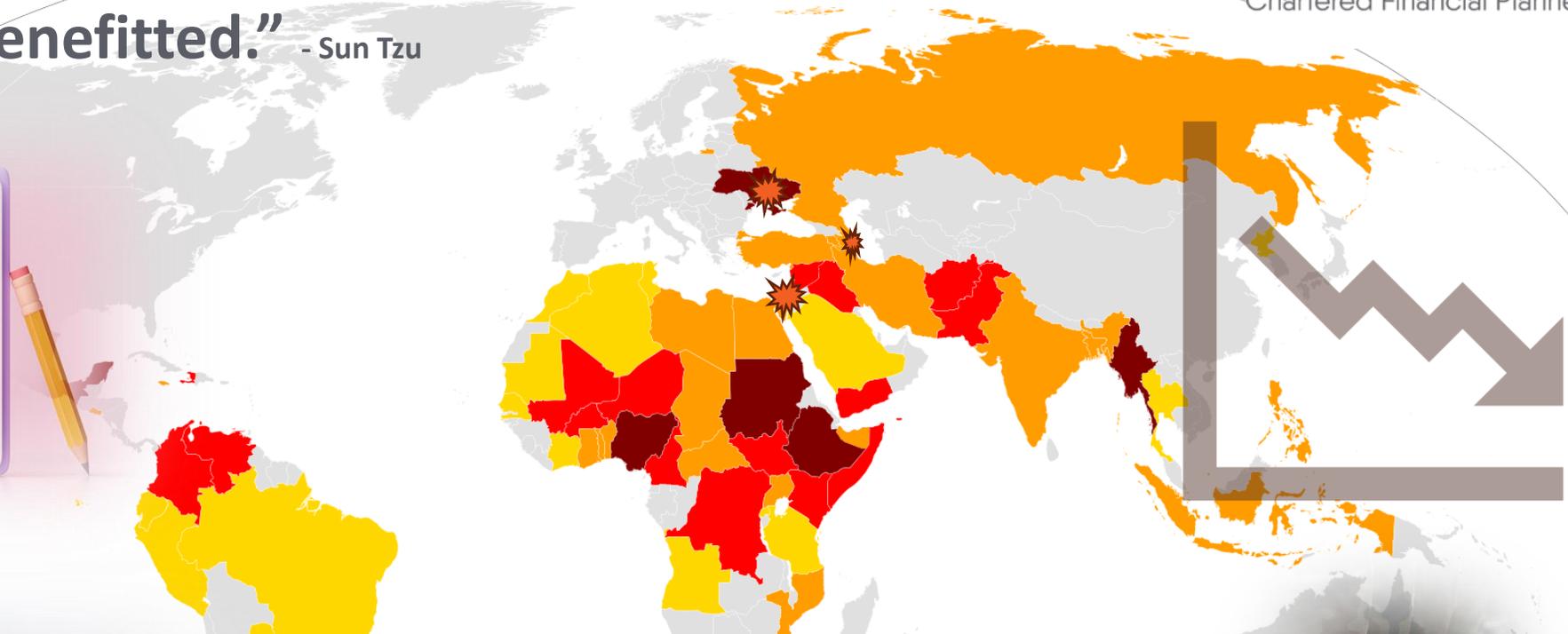


James Clunie
Strategy and Economic Analysis
Chartered Financial Analyst



Adrian Atkinson
Managing Director
Chartered Financial Planner

“There has never been a protracted war from which a country has benefitted.” - Sun Tzu



No. conflict-related deaths in past year:

- Major wars (10,000 or more)
- Wars (1,000–9,999)
- Minor conflicts (100–999)
- Skirmishes and clashes (1–99)

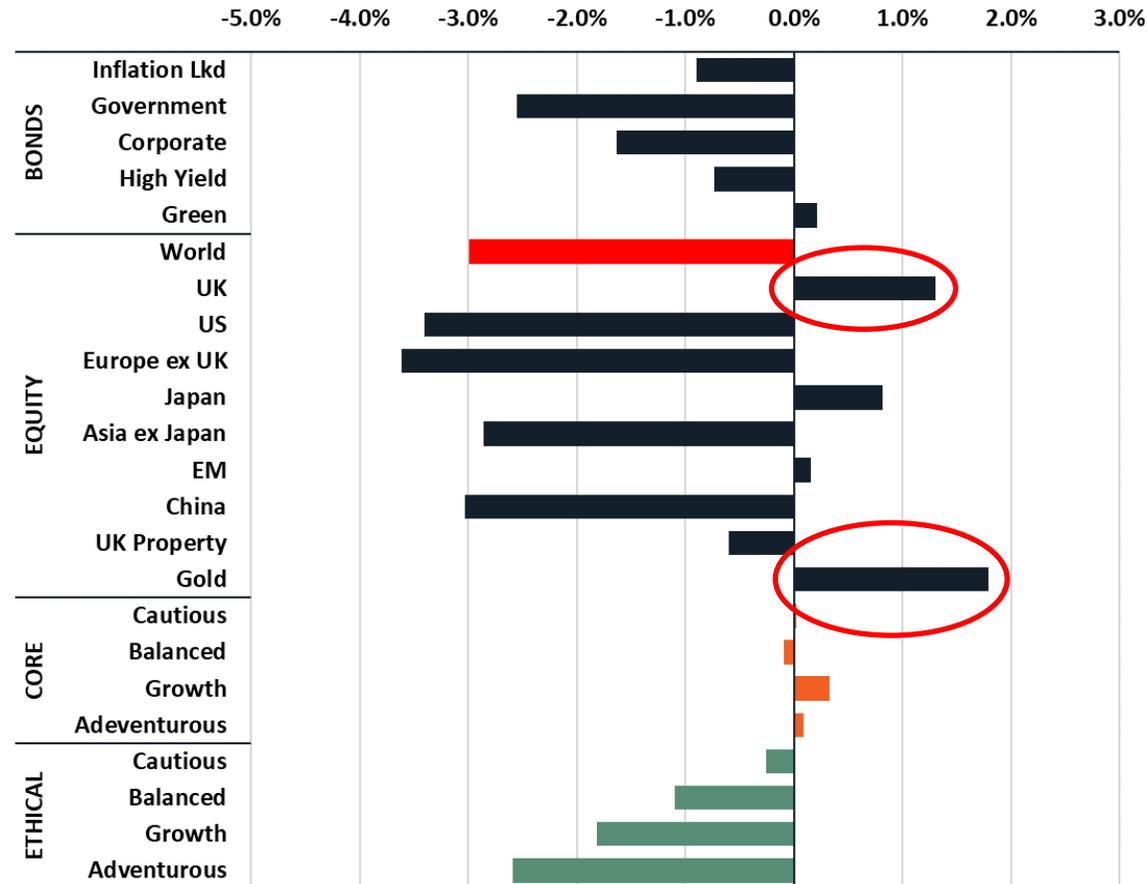


Q3 Outlook – central banks walking the walk?

- Headline inflation is falling, and inflation expectations are too (except maybe at central banks!).
- Cross-asset class signals are confusing. Equities tend not to rally ahead of a recession, but...
- Sharp reaction of UK equities, bonds and currency to an inflation surprise shows us that inflation expectations matter intensely.
- New bull market: the Japanese bull market could run for some time, based on valuations. The US one looks risky over any reasonable time horizon.
- Emerging markets are cheap, with recent USD weakness a tailwind. Chinese stimulus could be a (minor) positive.
- This remains a good time to be well-diversified and to consider how the portfolios might fare under a variety of scenarios.

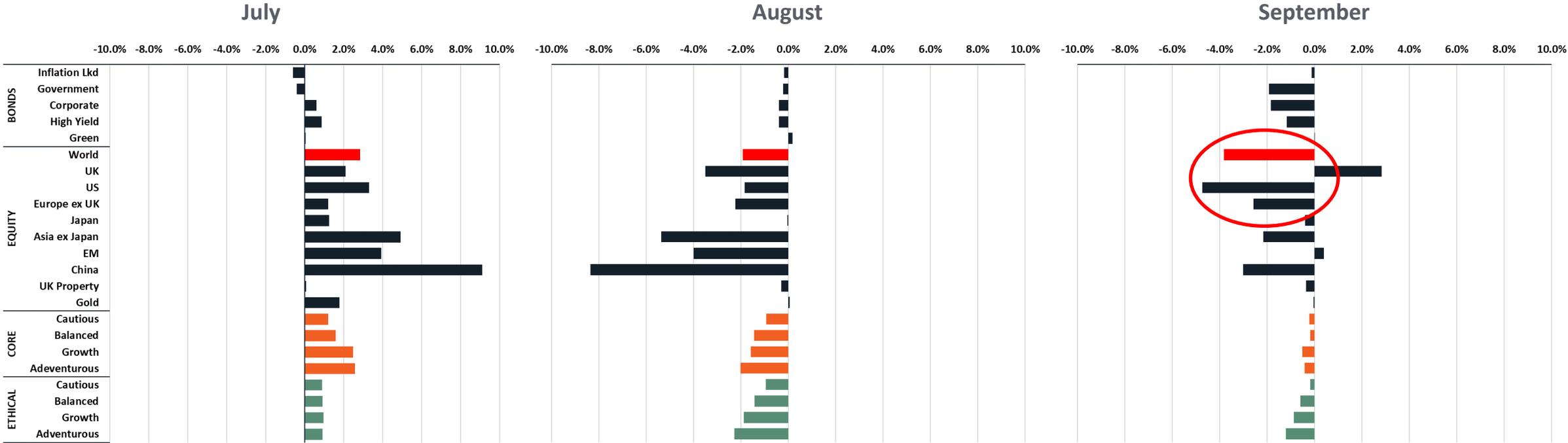


Q3 Markets



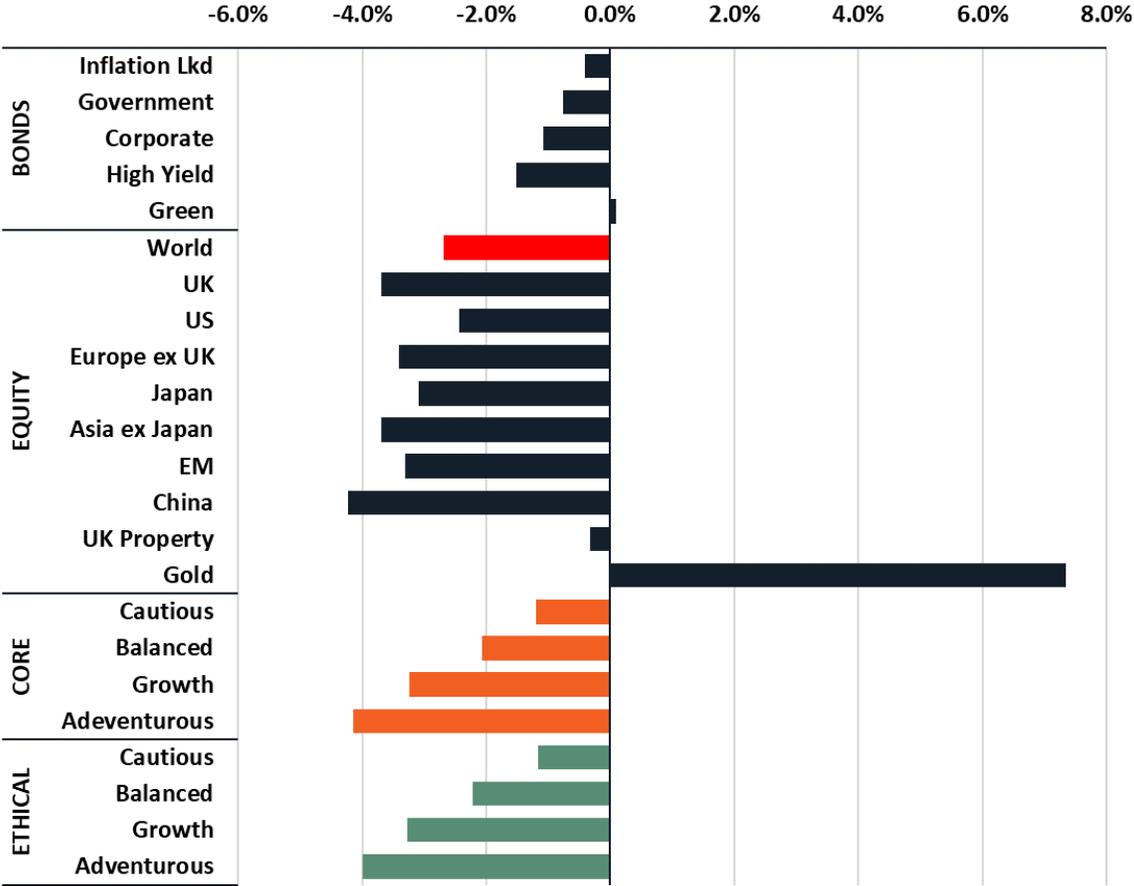
Source: Morningstar. Bonds: ICE BofA Global Inflation Linked Government Bonds, ICE BofA Global Government Bonds, ICE BofA Global Corporate Bonds, ICE BofA Global High Yield Bonds. Equity: MSCI World, MSCI United Kingdom, MSCI North America, MSCI Japan, MSCI AC Asia exc Japan, IA Global Emerging Markets, MSCI China, IA UK Direct Property, WisdomTree Physical Gold ETF. Performance data for period 30/06/23 to 30/09/23.

Volatile



Source: Morningstar. Bonds: ICE BofA Global Inflation Linked Government Bonds, ICE BofA Global Government Bonds, ICE BofA Global Corporate Bonds, ICE BofA Global High Yield Bonds. Equity: MSCI World, MSCI United Kingdom, MSCI North America, MSCI Japan, MSCI AC Asia exc Japan, IA Global Emerging Markets, MSCI China, IA UK Direct Property, WisdomTree Physical Gold ETF. Performance data for period 30/06/23 to 30/09/23.

The October Effect *

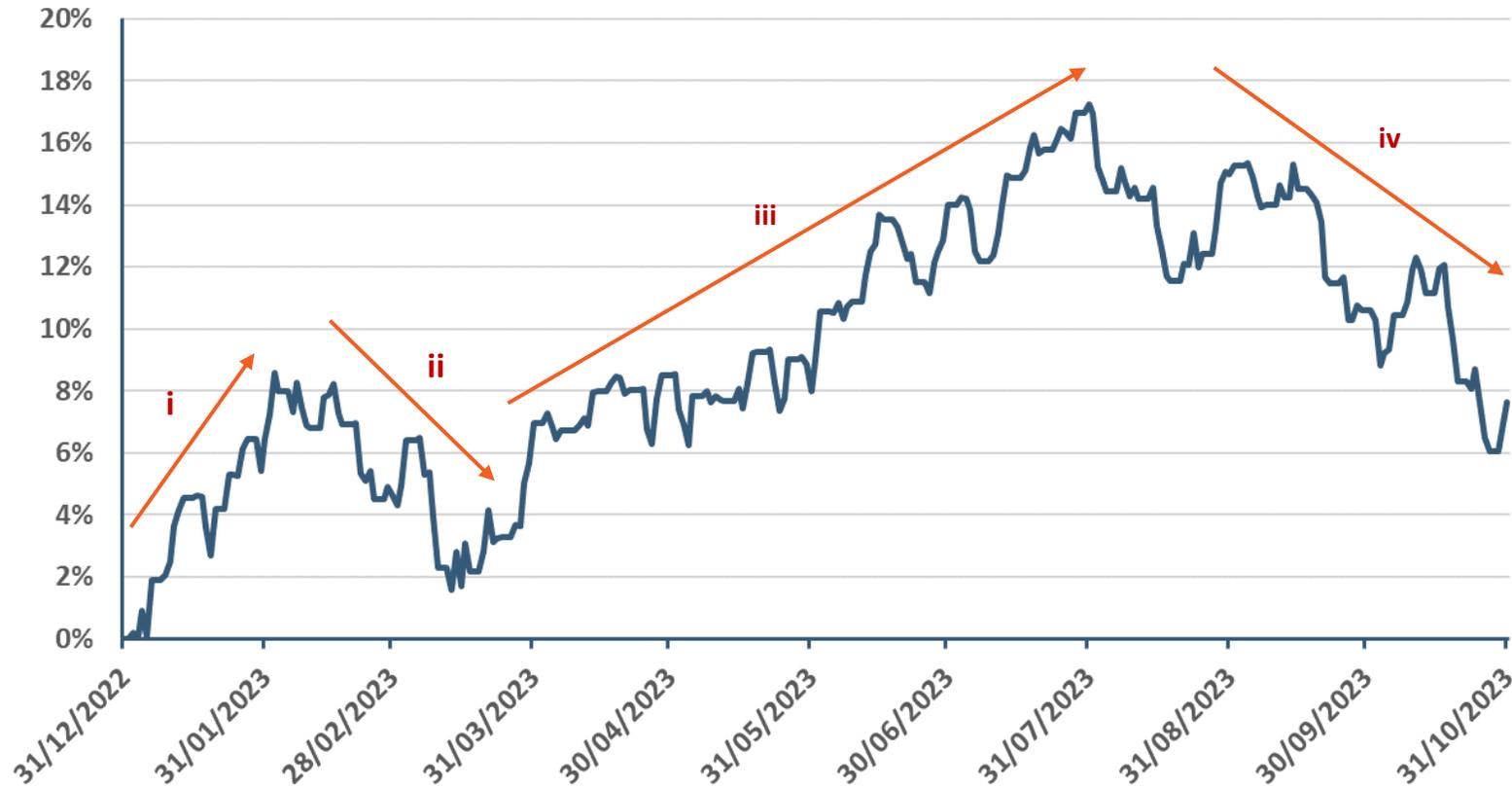


Source: Morningstar. Bonds: ICE BofA Global Inflation Linked Government Bonds, ICE BofA Global Government Bonds, ICE BofA Global Corporate Bonds, ICE BofA Global High Yield Bonds. Equity: MSCI World, MSCI United Kingdom, MSCI North America, MSCI Japan, MSCI AC Asia exc Japan, IA Global Emerging Markets, MSCI China, IA UK Direct Property, WisdomTree Physical Gold ETF. Performance data for period 30/09/23 to 31/10/23. * **The October Effect: Since World War II, the S&P 500's average volatility in October has been 35% higher than the average of the other 11 months of the year – CFRA Research.**

Market performance YTD



MSCI World Index



- i** **January** - Recovery rally

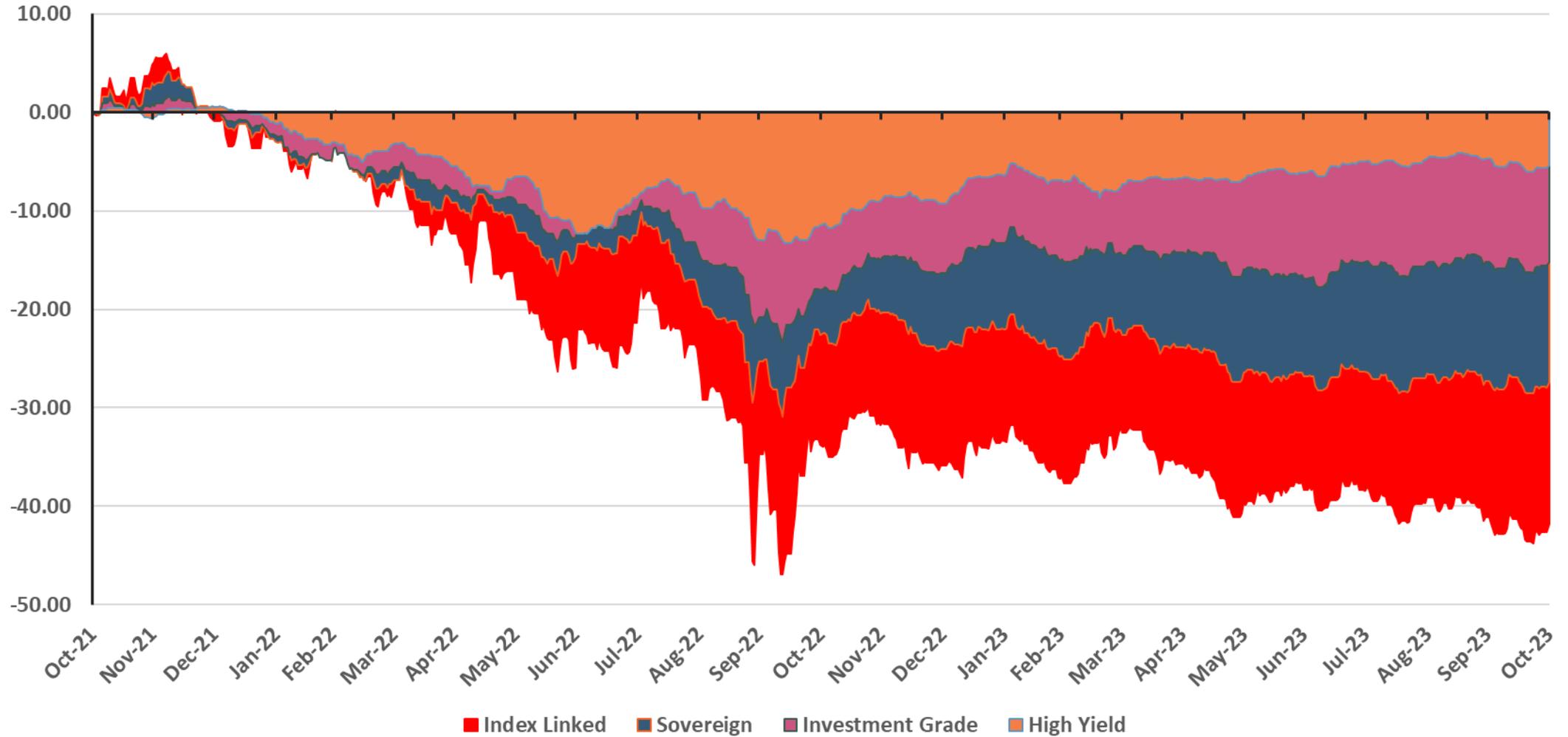
- ii** **February** - Market reversal
March - US banking crisis

- iii** **April to July** - Growth rally/AI

- iv** **August** - Higher for longer rates/China woes
September - Rising bond yields
October - Israel/Hamas/ rising bond yields

Source: Morningstar. MSCI World NR in GBP. Performance data for period 31/12/22 to 31/10/23.

Nowhere to hide in fixed income



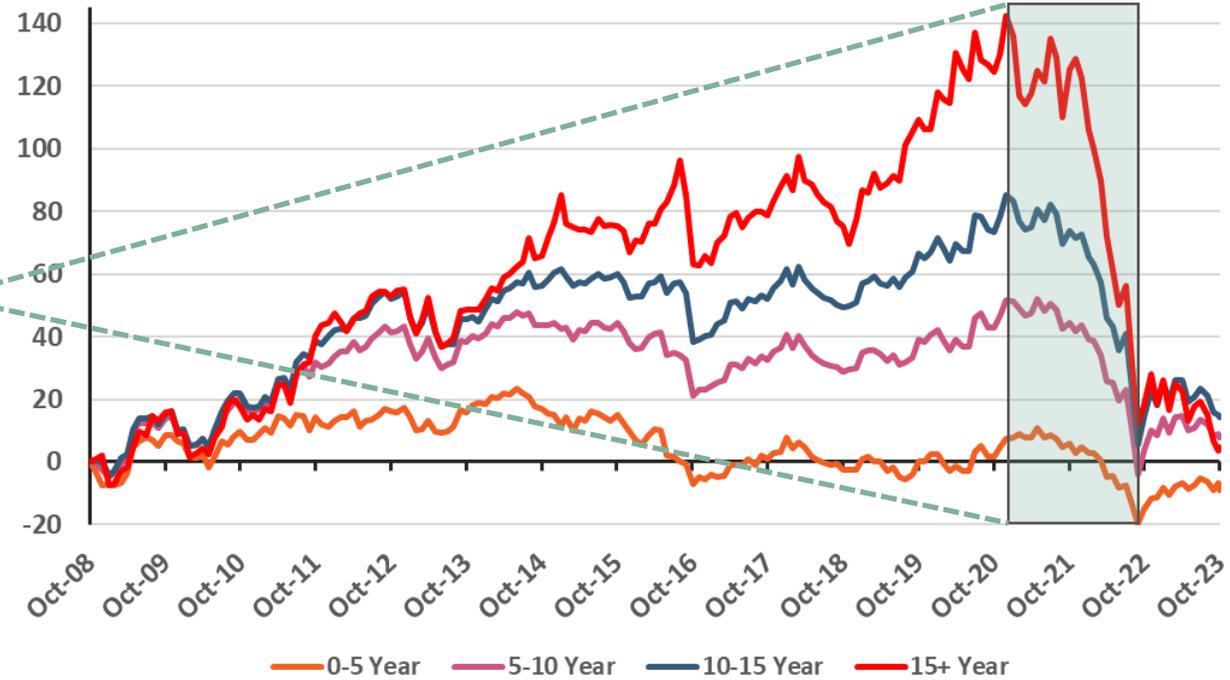
Source: Morningstar, MM Wealth Investment Team. IA UK fixed income indices in GBP for period 31/10/21 to 31/10/23.

Not even government “safe haven” bonds



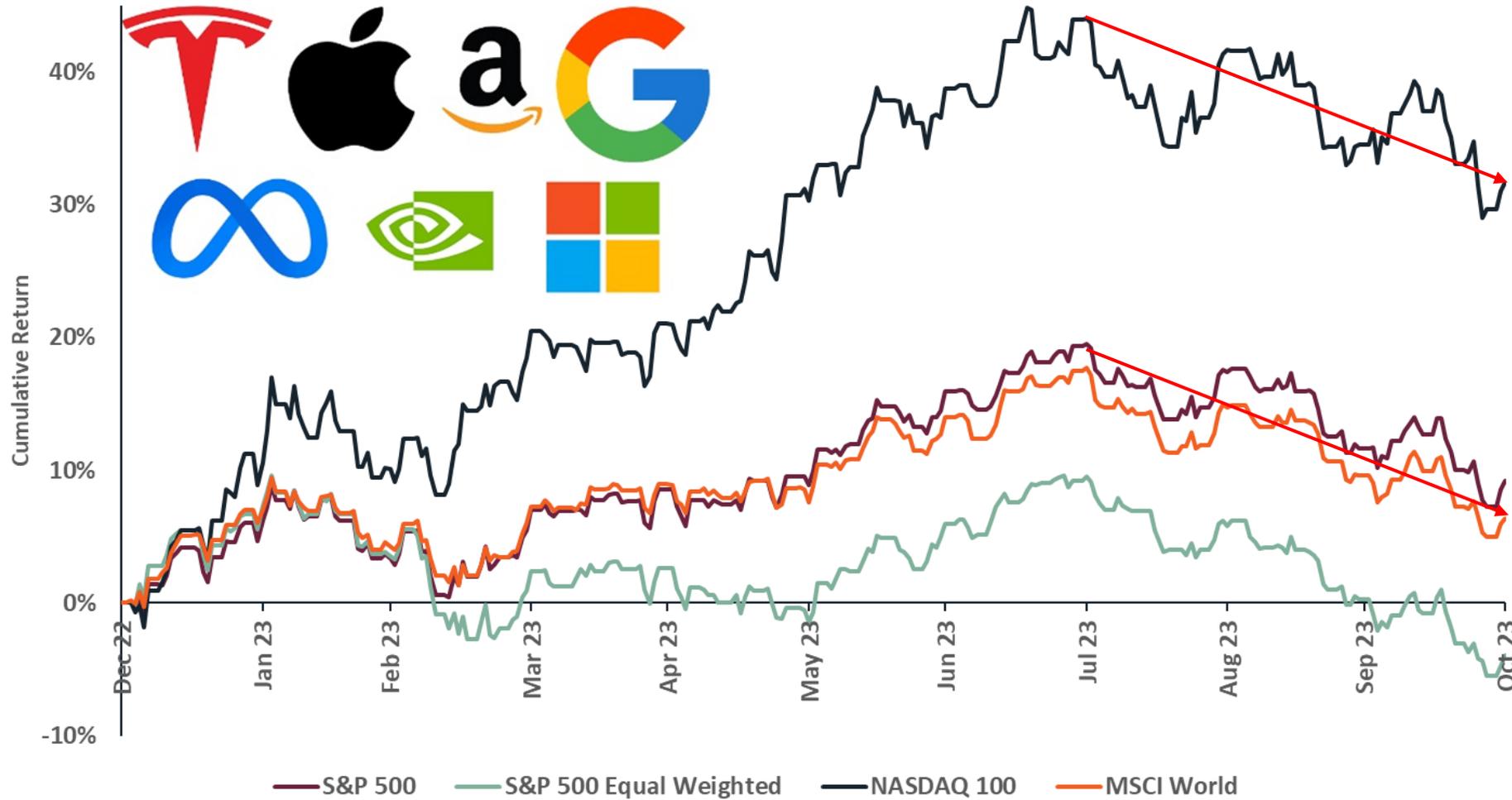
Long duration, long losses

Lost decade for UK Government Bonds



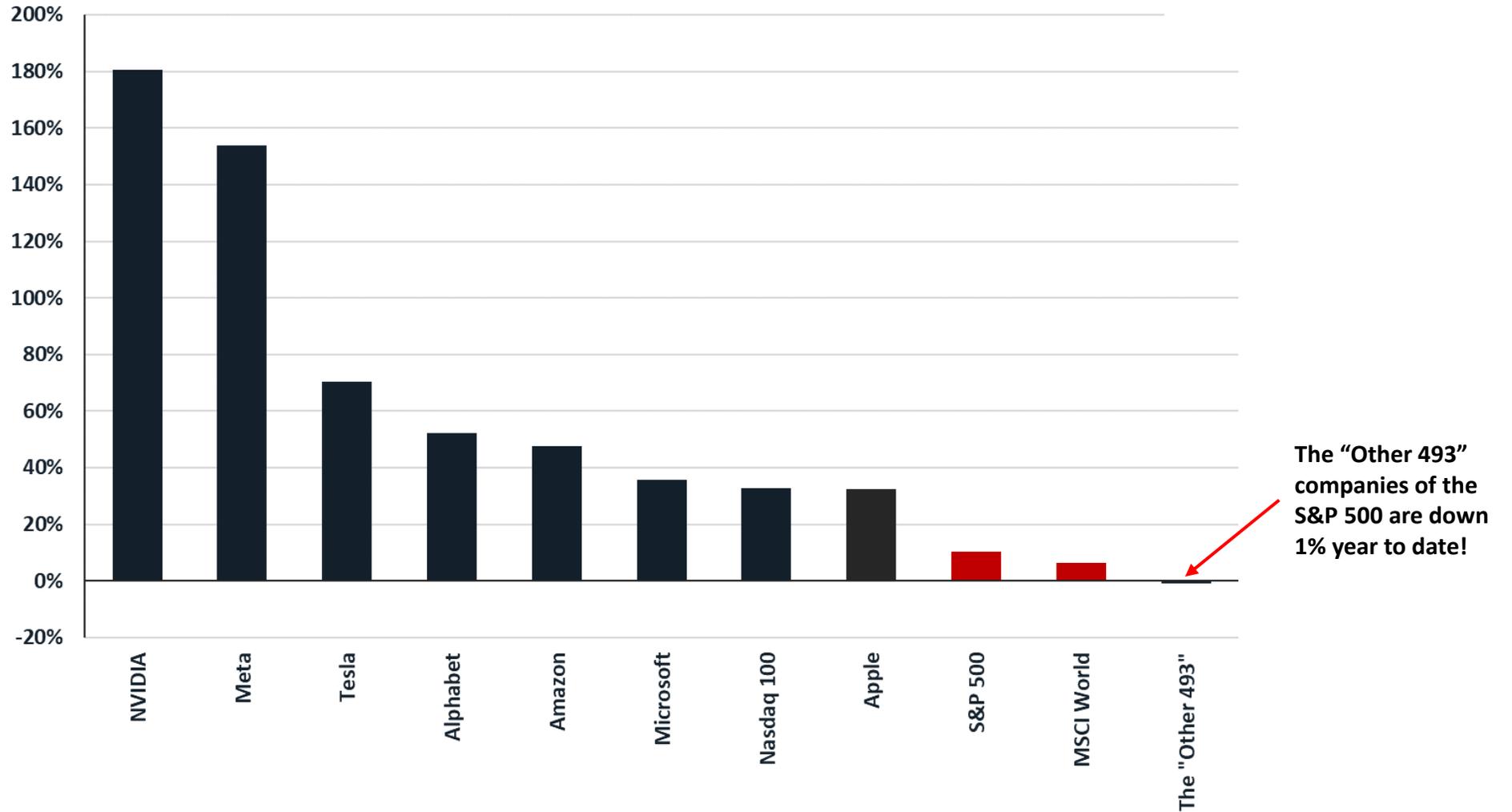
Source: Morningstar, MM Wealth Investment Team. Fixed income duration indices in GBP for period 31/10/2021 to 31/10/23 (left) and 31/10/2008 to 31/10/23 (right).

Technology still dominates...



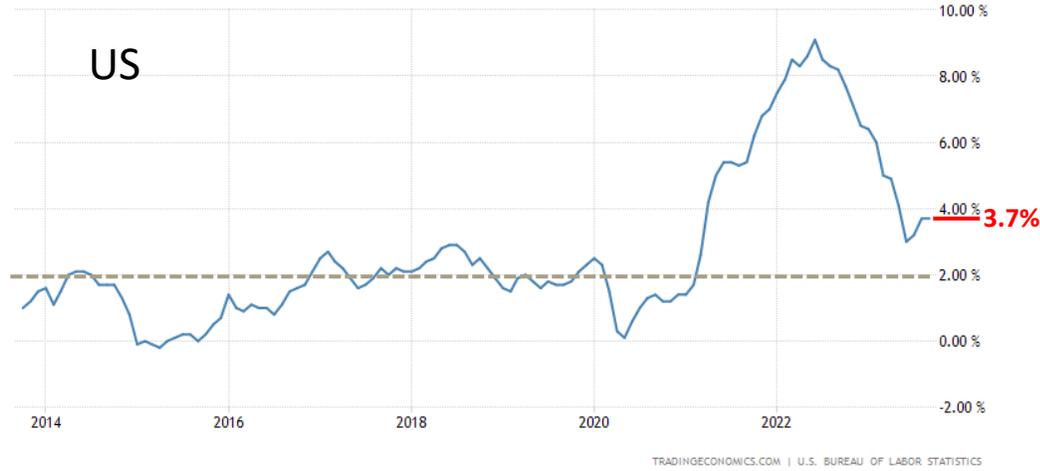
Source: Morningstar, MM Wealth Investment Team. US and Global markets (S&P 500 and MSCI World) dictated by tech companies (Nasdaq 100). The S&P Equal Weighted is an index of the top 500 US companies held in equal positions, neutralising the influence of the very largest over the smaller constituents. All in USD, performance data for period 31/12/22 to 31/10/23.

... It really does!



Source: Morningstar, MM Wealth Investment Team. US and Global markets (S&P 500 and MSCI World) dictated by tech companies (Nasdaq 100). The S&P Equal Weighted is an index of the top 500 US companies held in equal positions, neutralising the influence of the very largest over the smaller constituents. All in USD, performance data for period 31/12/22 to 20/10/23.

Inflation falling, but more to do



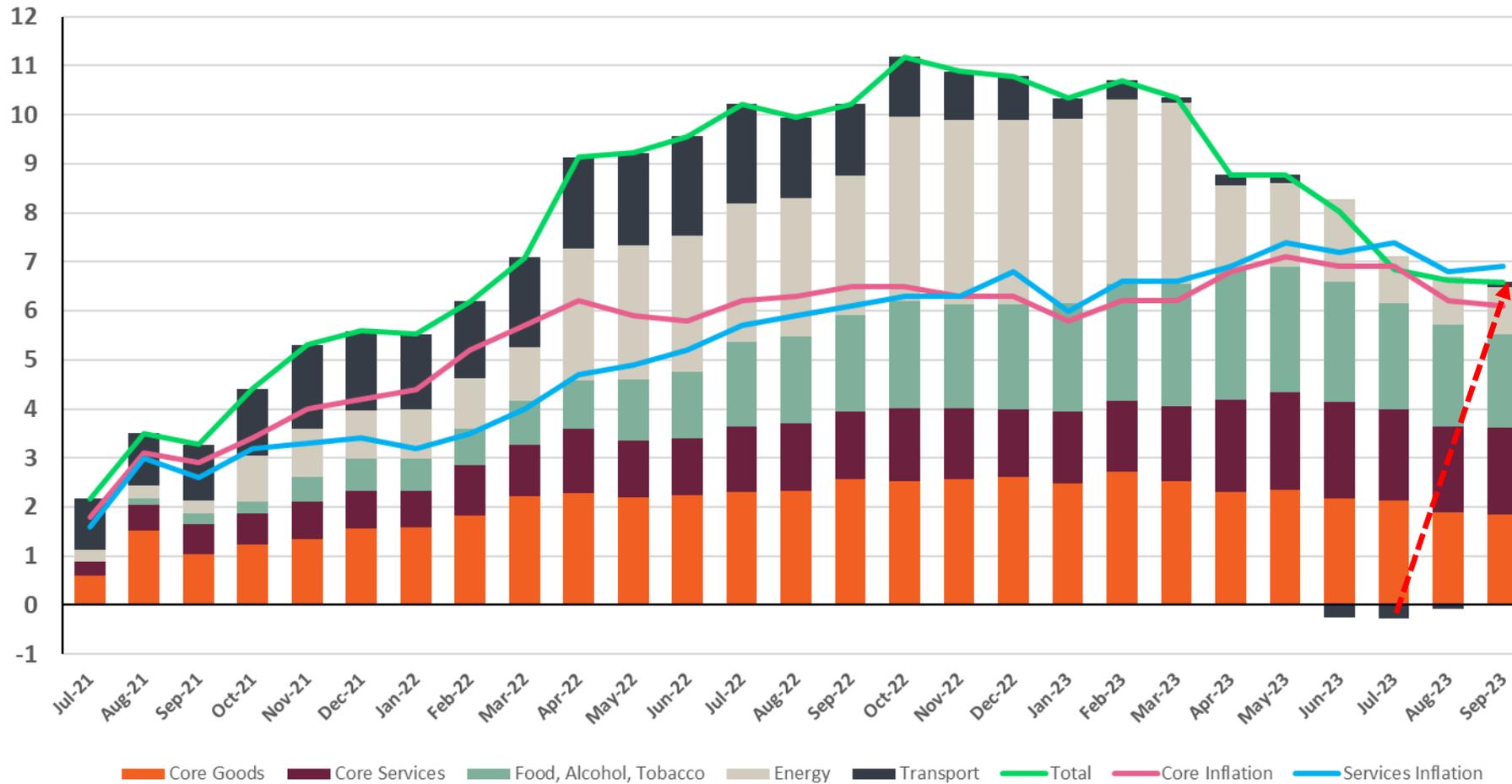
Source: Trading Economics. Inflation Rate for US (upper left), UK (upper right), Europe (lower left) and Japan (lower right).
Dotted line indicates the 2% central bank target rate. 10 Year data to October 2023.

Oil price in a crisis



Source: Macrotrends ([WTI Crude Oil Prices - 10 Year Daily Chart | MacroTrends](#)), price in US\$ per barrel. Data for period 05/11/18 to 05/11/23.

Energy/Transport costs rising again

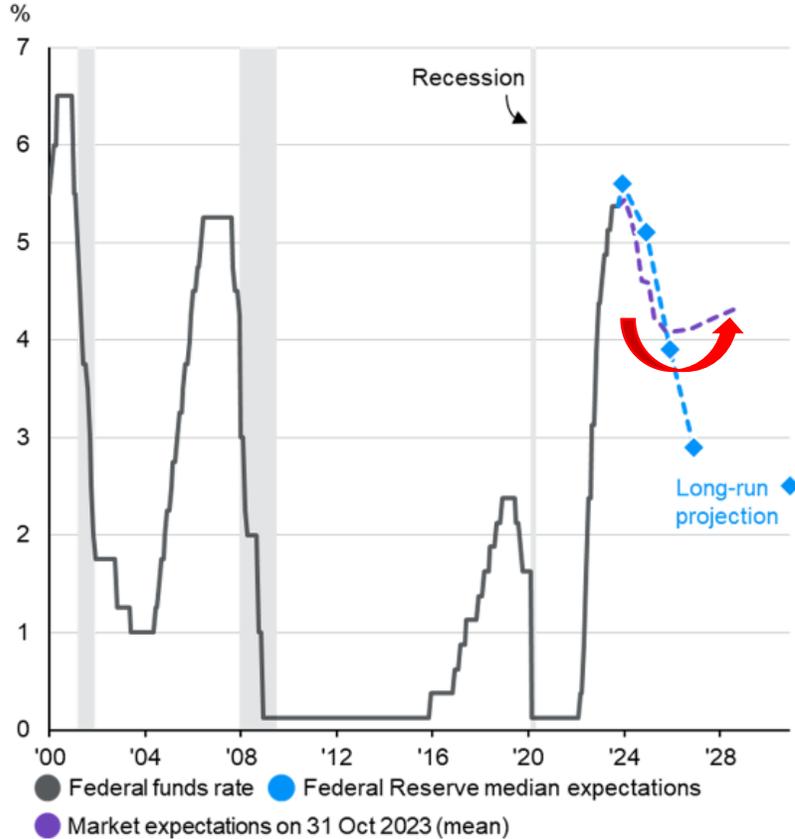


Source: Office for National Statistics, MM Wealth Investment Team. UK Consumer Price Index (CPI) breakdown, data as at 30/09/23.

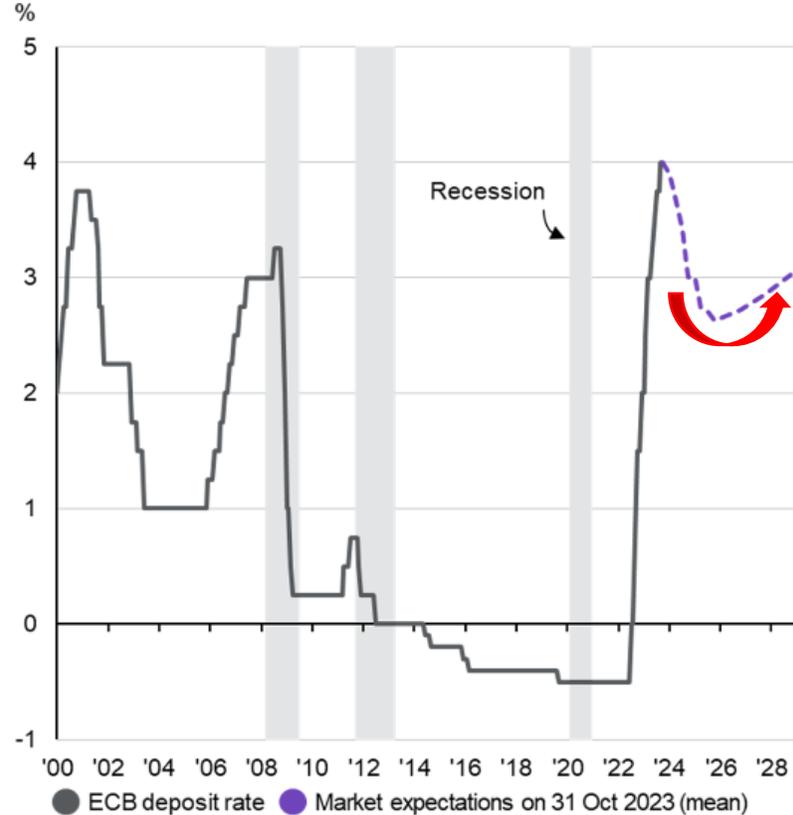
Interest rates



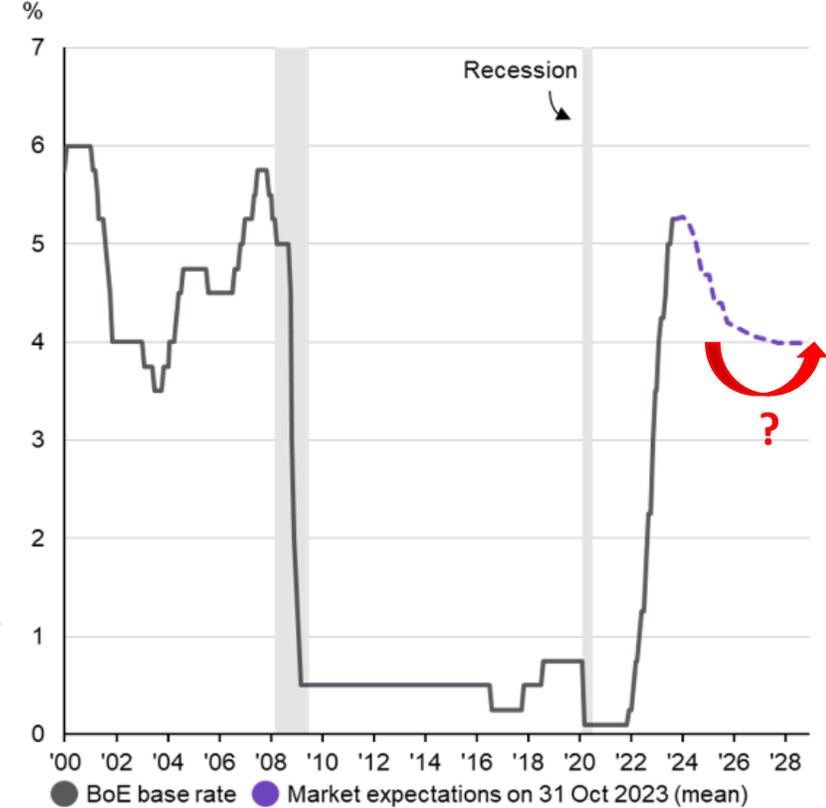
Federal Reserve policy rate expectations



European Central Bank policy rate expectations



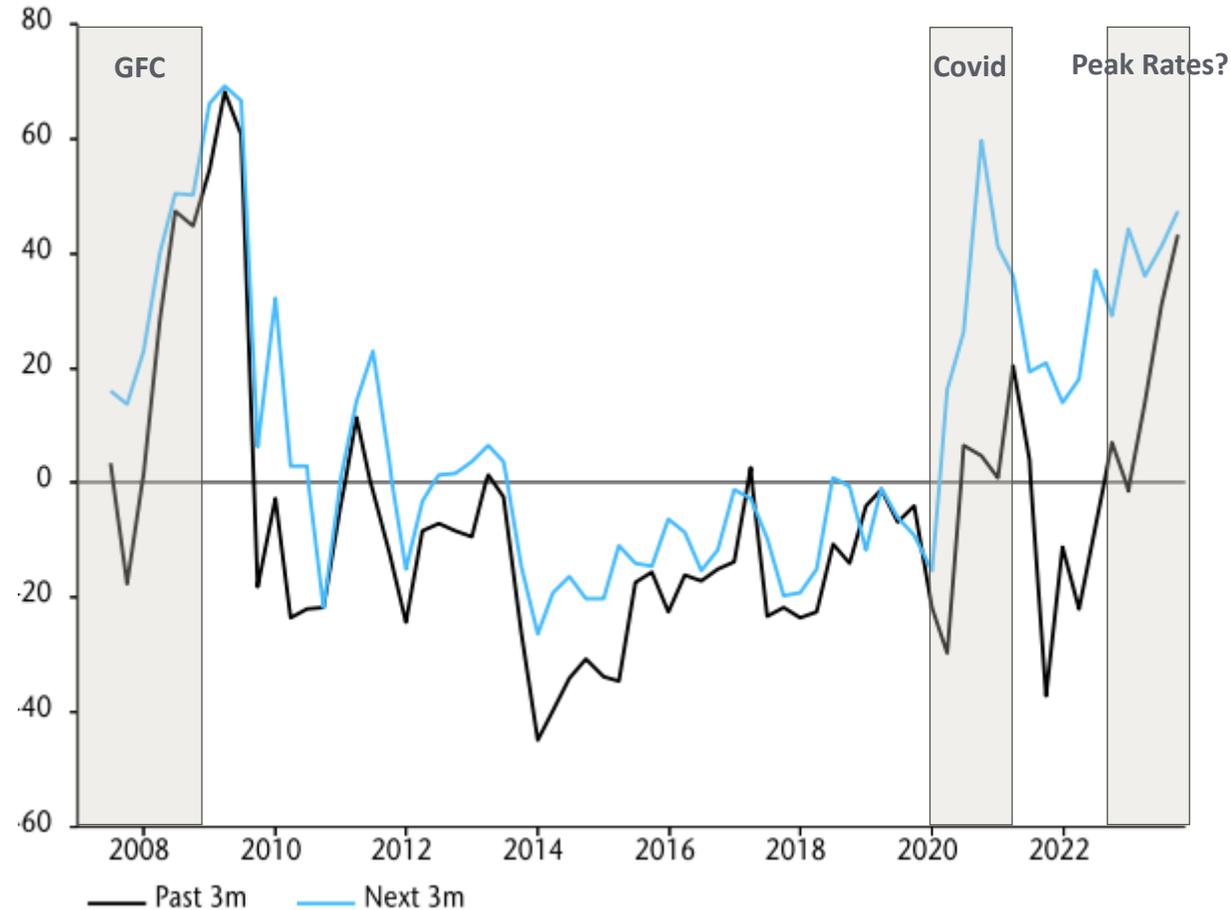
Bank of England policy rate expectations



Source: Bloomberg, BLS, Federal Reserve, European Central Bank, Bank of England, J.P. Morgan Asset Management. Interest rates and forward rate expectations, (Left) US, (Centre) Europe, (Right) UK. Forecast data as at 31/10/23.

Rising mortgage defaults

UK Bank of England Credit Conditions Survey: Change in Default Rate on Secured Credit to Households
Net % Reporting / Expecting Increase



Source: LSEG Datastream, Janus Henderson, MMW Investment Team. The net percentages of banks reporting/expecting higher defaults rise in Q3 BoE credit conditions survey. Data for period 30/09/07 to 30/09/23.

Outlook scenarios



Scenario	Outcome	Probability
Slowdown	Mild economic recession in most countries	55%
<i>Possibility I</i>	<i>Moderate global economic recovery</i>	30%
<i>Possibility II</i>	<i>Stop-start economy with policy uncertainty</i>	20%
<i>Possibility III</i>	<i>Strong economy, led by high global capex</i>	50%
Goldilocks	US economic soft-landing with mild recession most elsewhere	30%
<i>Possibility I</i>	<i>Moderate global economic recovery</i>	20%
<i>Possibility II</i>	<i>Stop-start economy with policy uncertainty</i>	30%
<i>Possibility III</i>	<i>Strong economy, led by high global capex</i>	50%
Overheating	Moderate/deep recession in most countries	15%
<i>Possibility I</i>	<i>Moderate global economic recovery</i>	30%
<i>Possibility II</i>	<i>Stop-start economy with policy uncertainty</i>	30%
<i>Possibility III</i>	<i>Strong economy, led by government spending and high global capex</i>	40%

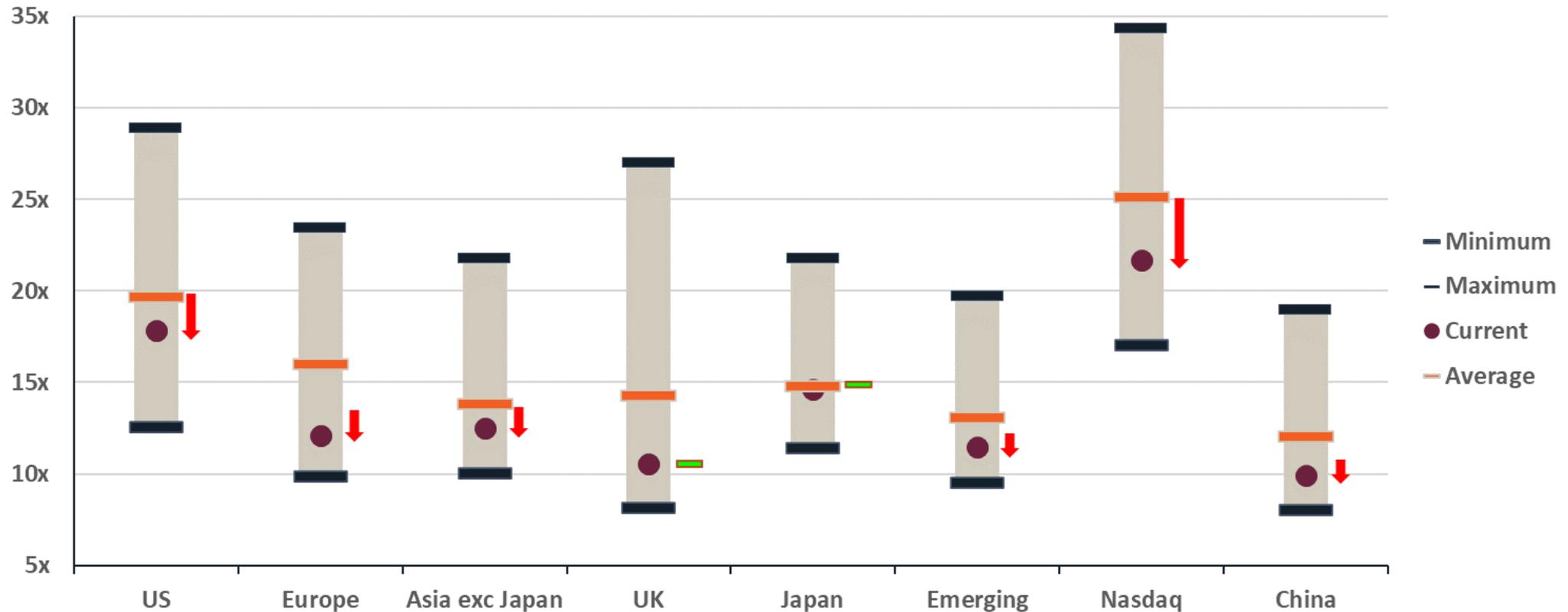
Source: MM Wealth Investment Team. Short term 6-9 month forecast @ October 2023.

Slowing inflation/slowing growth (slowdown), rising growth/slowing inflation (goldilocks), rising growth/rising inflation (overheating), and slowing growth/rising inflation (stagflation).

Finding the value

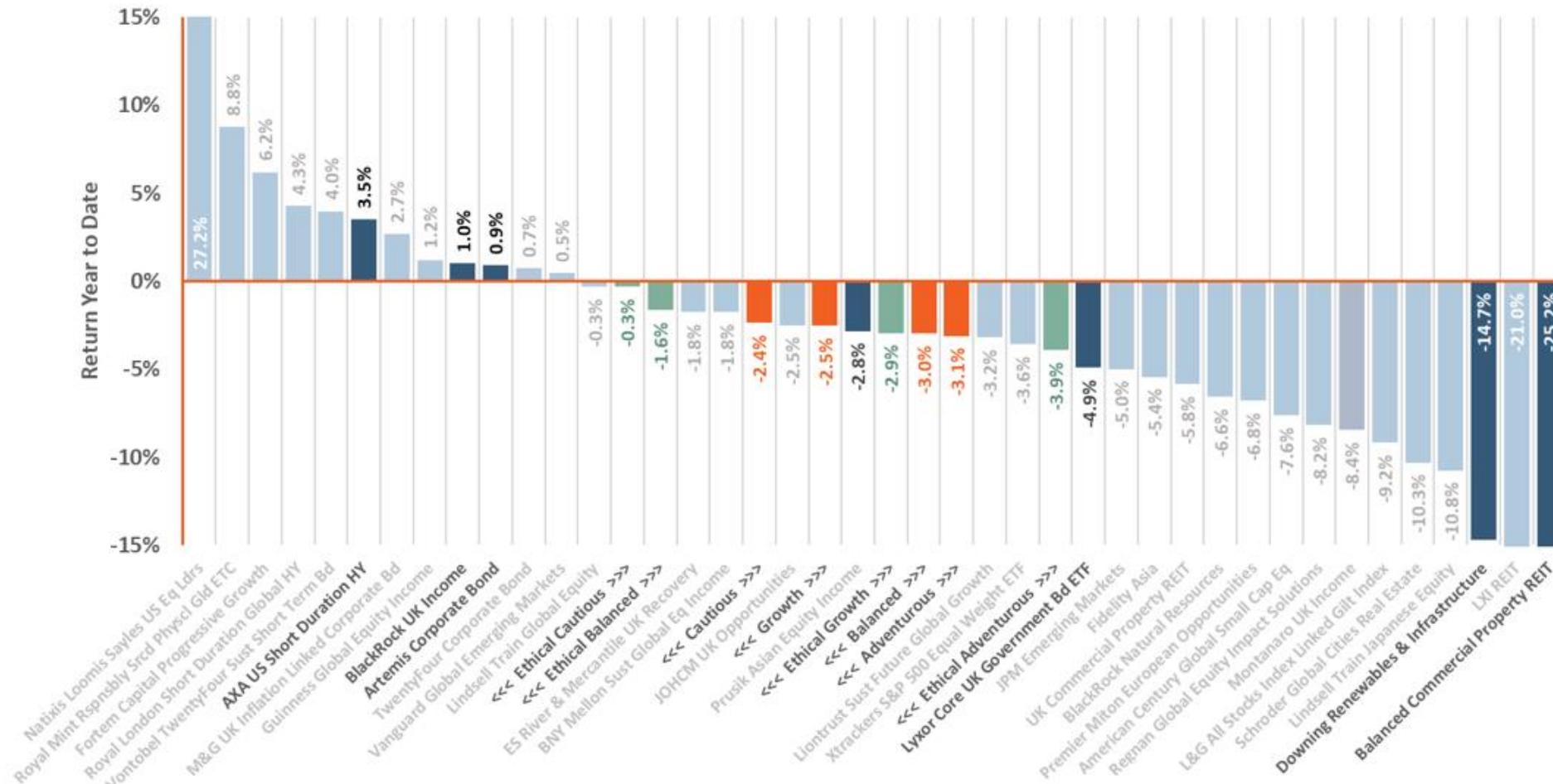


FORWARD Price Earning (P/E) Ratios



Source: Morningstar, MM Wealth Investment Team. Based on Estimated earnings per share (EPS) for current fiscal year, trailing data from January 2008 to October 2023. US = S&P 500 in USD, Europe = MSCI Europe exc UK in EUR, Asia exc Japan = MSCI AC Asia Pacific exc Japan Local currency, UK = FTSE 100 in GBP, Japan = MSCI Japan in JPY, Emerging = MSCI Emerging Markets Index in local currency, WORLD = MSCI World in USD, Nasdaq = Nasdaq Composite in USD, China = MSCI China in RMB.

Fund vs Strategy Performance YTD



Source: Morningstar, MM Wealth Investment Team. Data for period 31/12/2022 to 31/10/23.

Income - jam today



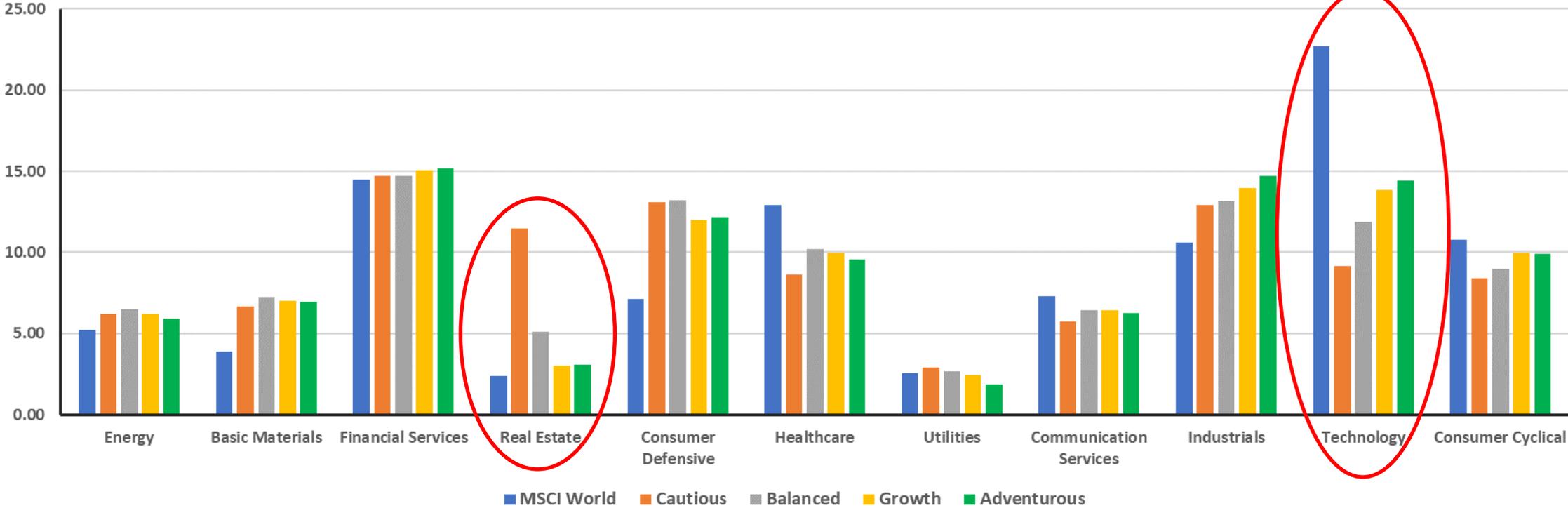
Asset Type	Name	Purchase Date	Current Yield (or Yield-to-maturity for bond funds)	Average* Experience Since Purchase	Cumulative Dividend Since Purchase	Total Return
Investment Trust - Property	Balanced Commercial Property REIT	31/12/2018	7.7%	-25.9%	+16.3%	-9.6%
Investment Trust - Infrastructure	Downing Renewables & Infrastructure	31/12/2020	5.6%	-6.5%	+10.2%	+3.7%
Bond Fund - Sovereign	Lyxor Core UK Govt Bd ETF	31/03/2020	4.7%	-21.3%	+15.2%	-6.1%
Bond Fund - Investment Grade	Artemis Corporate Bond	31/12/2019	5.1%	-9.7%	+11.1%	+1.4%
Bond Fund - High Yield	AXA US Short Duration High Yield	30/09/2014	4.7%	-6.7%	+36.8%	+30.1%
Equity - UK	BlackRock UK Income	30/09/2020	4.0%	+14.5%	+13.4%	+27.9%
Equity - Far East ex Japan	Prusik Asian Equity Income	31/08/2022	5.9%	-1.9%	+5.5%	+3.6%

Source: Morningstar, MM Wealth Investment Team. * Using average of client returns, not accounting for additional trading that may have occurred. Data as at 31/10/23. "Jam tomorrow and jam yesterday, but never jam today." – Lewis Carroll.

Courage of your convictions

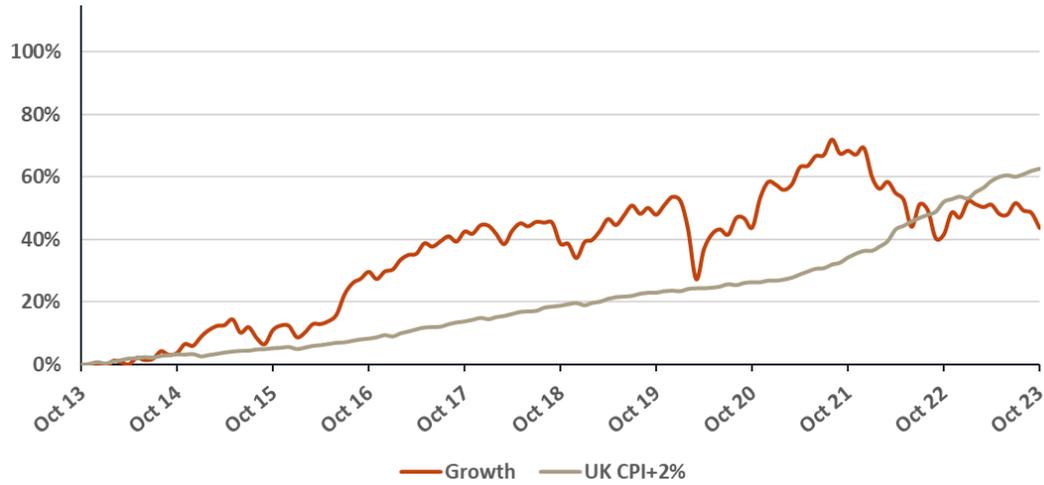
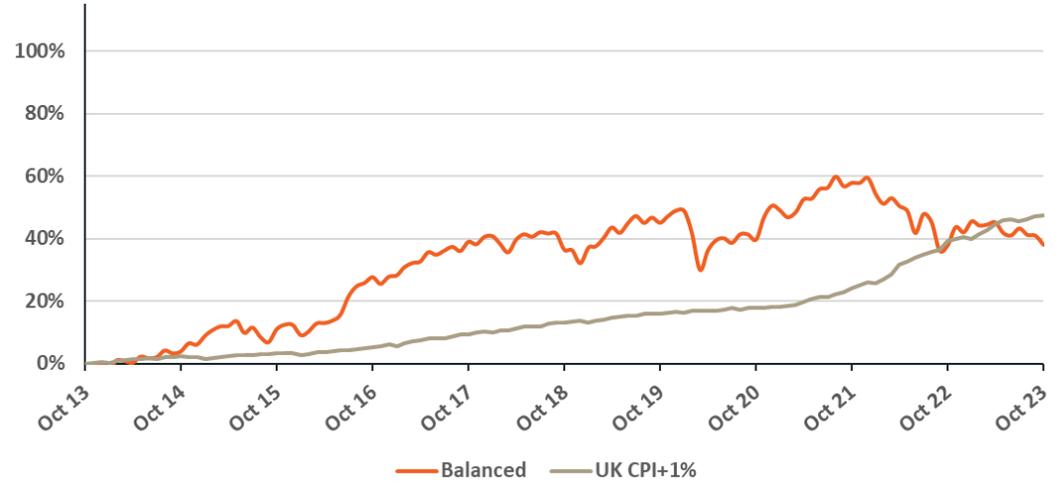
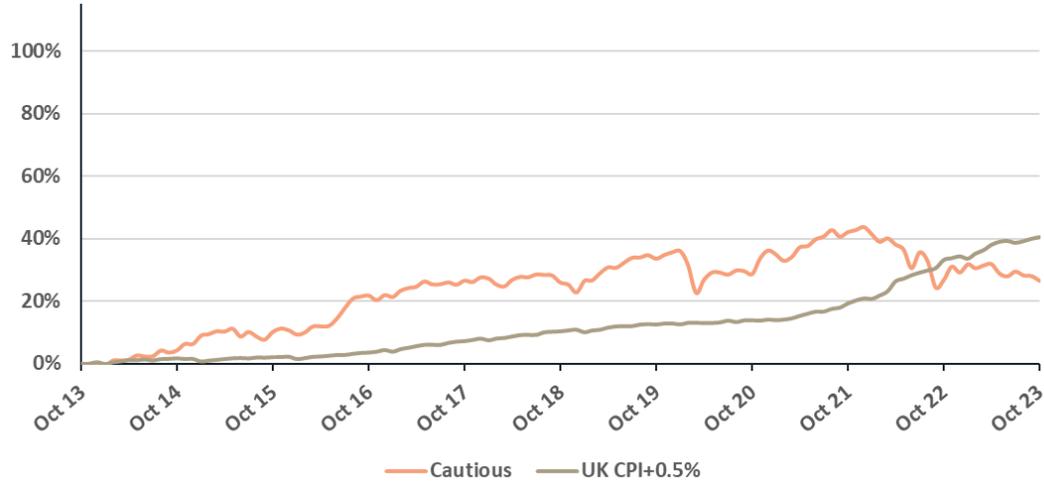


MSCI World vs MMW Unconstrained Equity Exposure



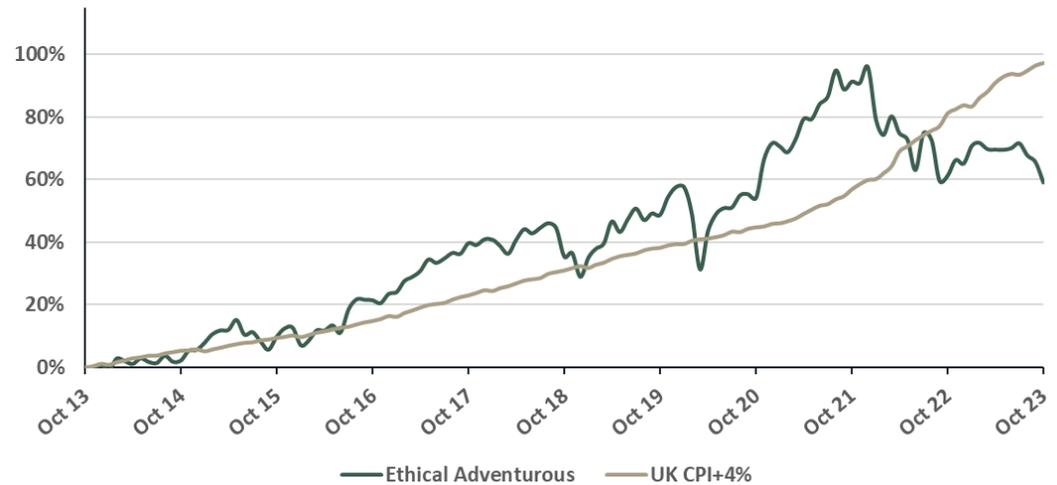
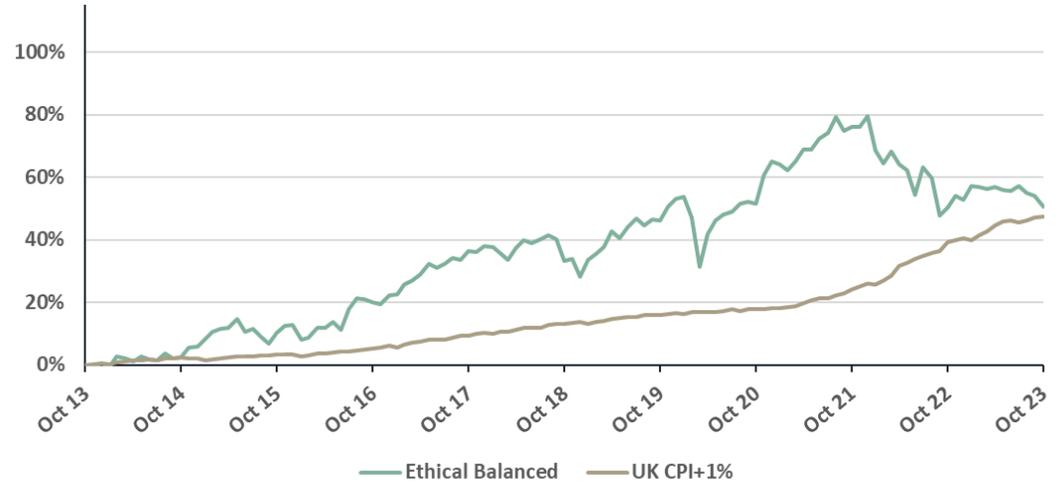
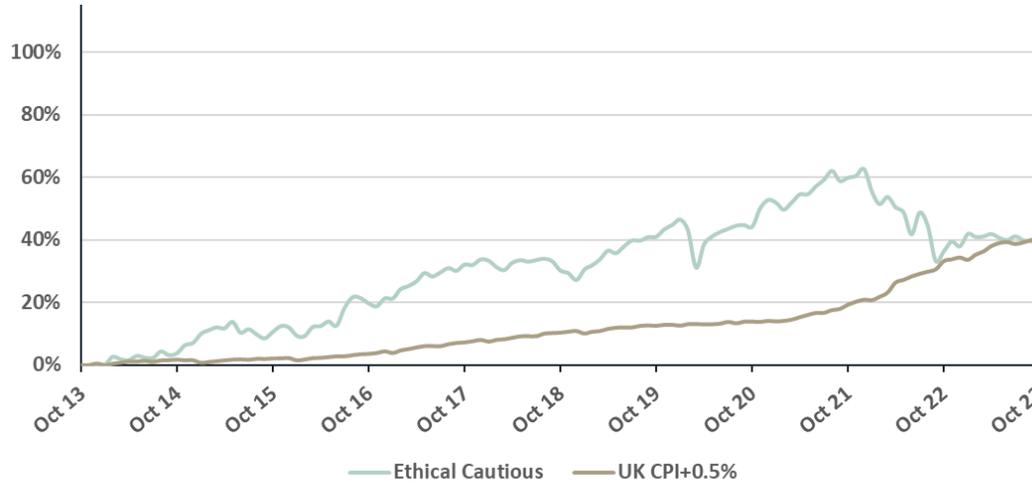
Source: Morningstar, MM Wealth Investment Team. MSCI World Index (GBP). Data as at 31/10/23.

Unconstrained – 10 years



Source: Morningstar, MM Wealth Investment Team. Unconstrained investment strategies versus benchmark UK Consumer Price Index (CPI) plus x% cumulative in GBP. Strategy equity exposure: Cautious 20-40%, Balanced 40-60%, Growth 60-80%, Adventurous 80-100%. Performance data for period 31/10/13 to 31/10/23.

Ethical – 10 years



Source: Morningstar, MM Wealth Investment Team. Ethical investment strategies versus benchmark UK Consumer Price Index (CPI) plus x% cumulative in GBP. Strategy equity exposure: Cautious 20-40%, Balanced 40-60%, Growth 60-80%, Adventurous 80-100%. Performance data for period 31/10/13 to 31/10/23.

10 years in markets and the return of inflation



Source: Morningstar Direct. Indices used: Global Developed Equity = MSCI World Net Revenue LCL, Global Developed Bonds = Bloomberg Global Aggregate Total Return USD, Property = S&P Global Property Total Return USD, UK Inflation = UK CPI. Data for period 31/10/13 to 31/10/23.

Q4 Outlook and beyond

- Financial conditions have tightened via the rising US Dollar, oil prices and long bond yields – this is unhelpful for asset and commodity prices.
- Expected returns from cash and government bonds currently look attractive.
- Consider whether assets are priced competitively against the risk-free rate and government bond yields.
- Japanese equities, UK equities and REITs look sensibly priced; emerging markets look close to sensible; but longer dated corporate bonds and US equities do not.
- Global economy weakening into 2024 as impact of rate rises takes toll on household and business spending.
- Market is no longer pricing in rate cuts for 2023. Central bank policy for 2024 uncertain.
- US and UK elections ahead which will no doubt confuse the outlook further.
- COP28, in Dubai, likely to focus on efforts to make climate funding available to developing countries and the (over) ambitious targets set at previous meetings.



Appendix

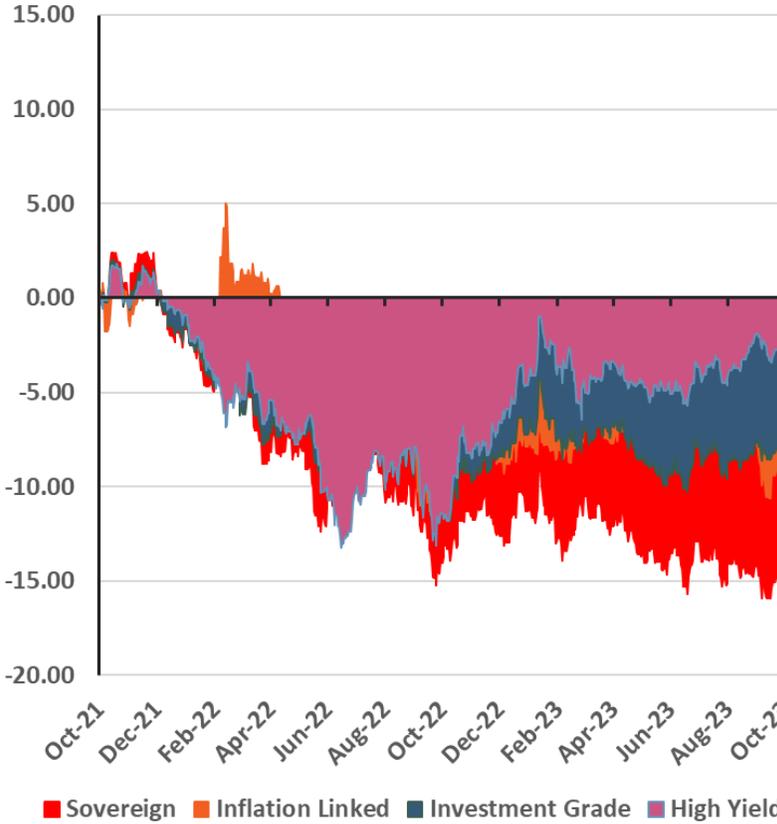
2-year bond performance globally



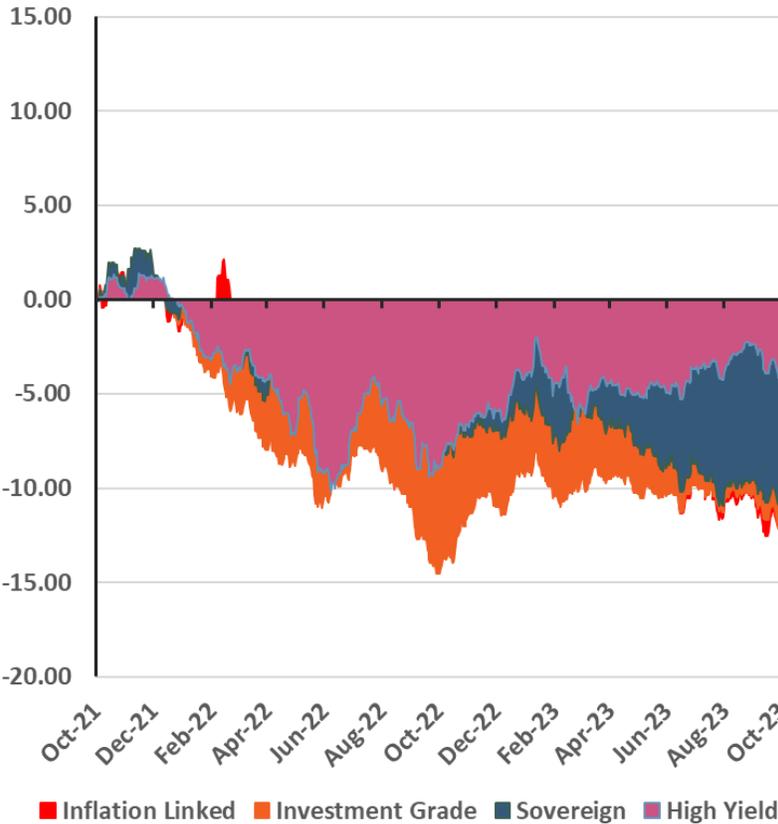
US



Europe

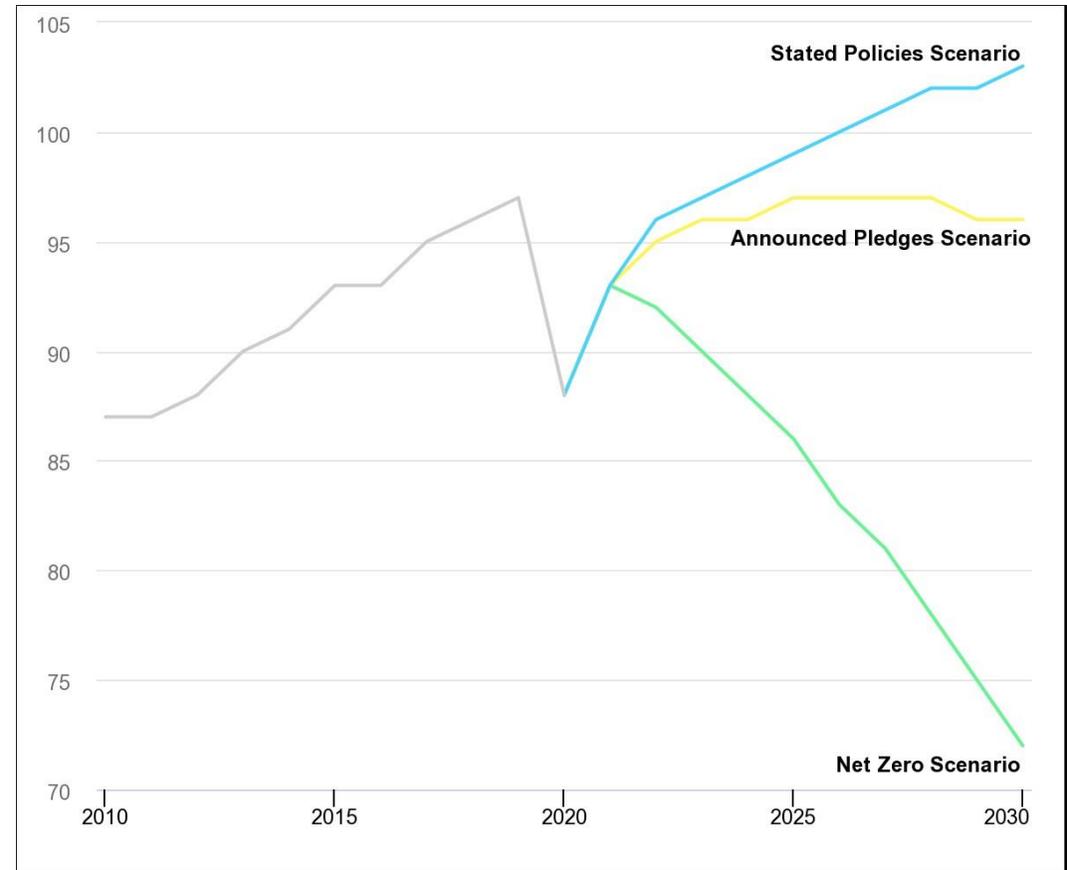
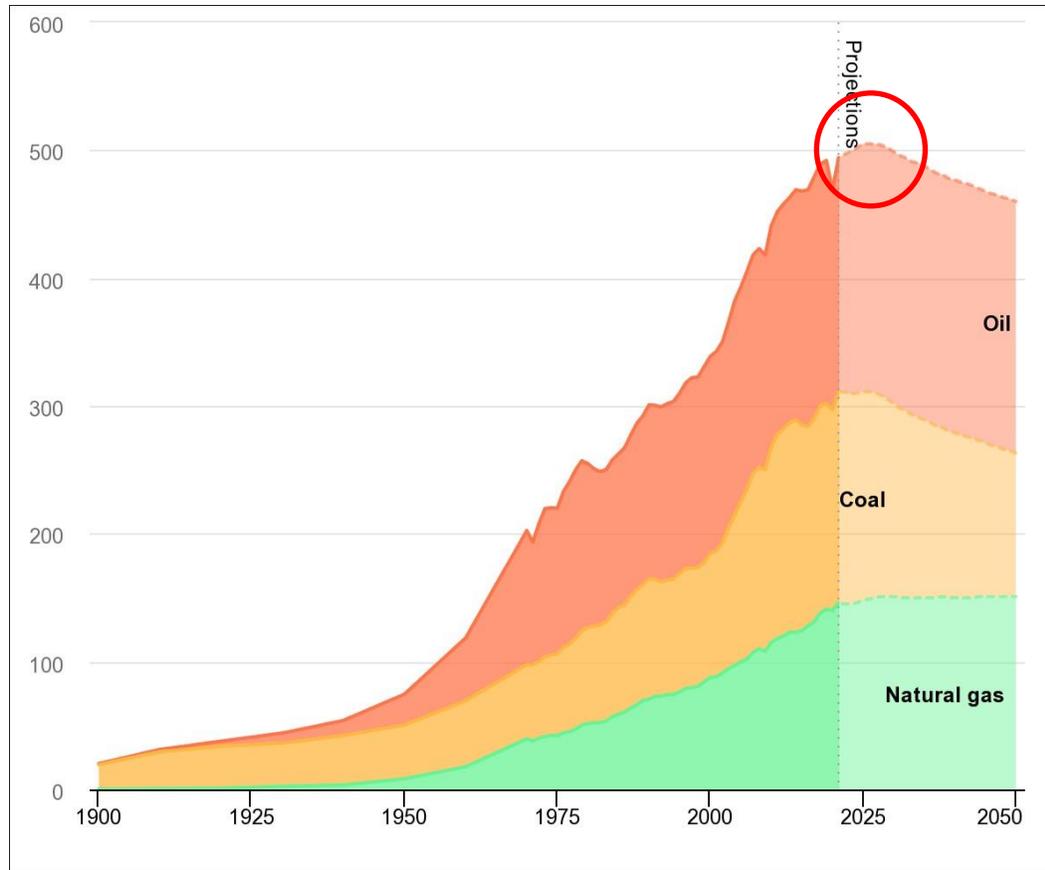


Global



Source: Morningstar, MM Wealth Investment Team. IA and Morningstar fixed income indices in GBP for period 31/12/22 to 24/10/23.

Peak fossil fuel demand

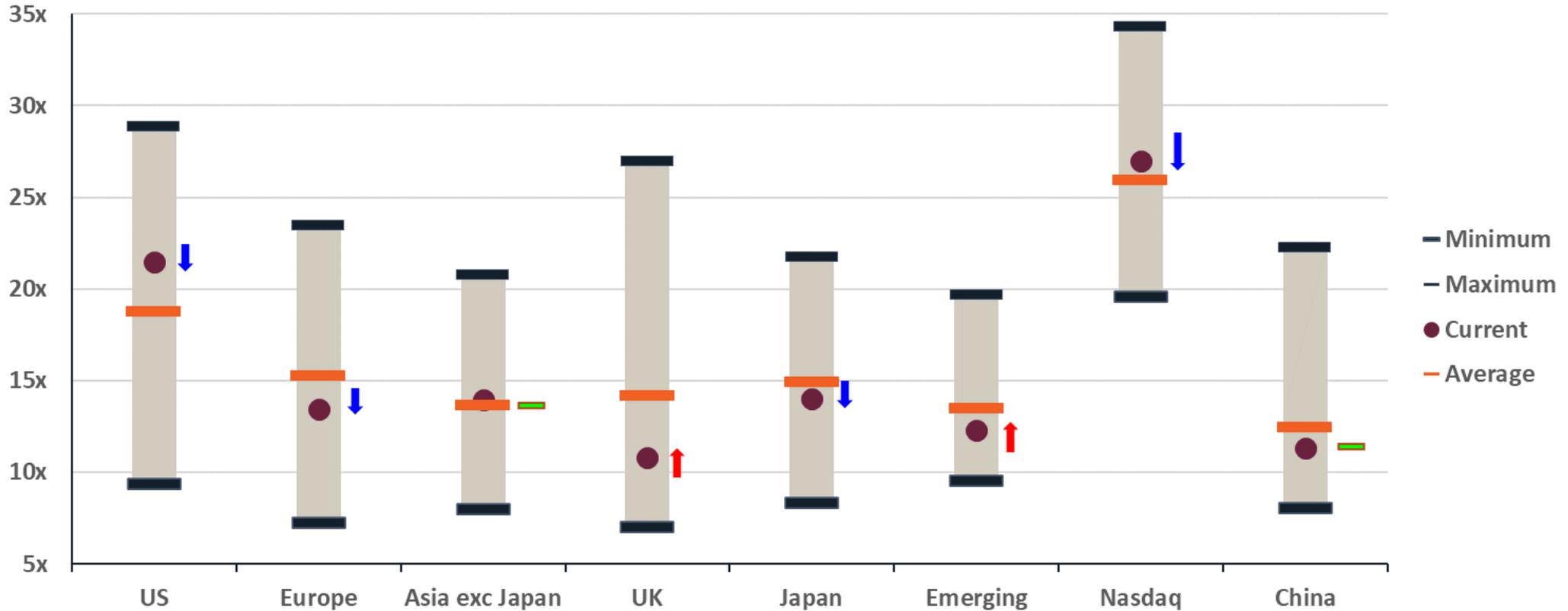


Source: International Energy Agency. (Left) Fossil fuel demand in the Stated Policies Scenario 1900-2050, million barrels oil per day equivalent. (Right) Oil demand by scenario, 2010-2030. Data as at 30/09/23.

Valuation dispersion



HISTORIC Price Earning (P/E) Ratios Since 2008



Source: Morningstar, MM Wealth Investment Team. Trailing 12 month P/E data from January 2008 to October 2023. US = S&P 500 in USD, Europe = MSCI Europe exc UK in EUR, Asia exc Japan = MSCI AC Asia Pacific exc Japan Local currency, UK = FTSE 100 in GBP, Japan = MSCI Japan in JPY, Emerging = MSCI Emerging Markets Index in local currency, WORLD = MSCI World in USD, Nasdaq = Nasdaq Composite in USD, China = MSCI China in RMB.

World stock market returns



	2016	2017	2018	2019	2020	2021	2022	Q3 '23	YTD	QTD	10-year ann. return
GBP	33.6% S&P 500 12.0%	29.8% Asia ex-Jp 35.9%	1.6% S&P 500 -4.4%	26.4% S&P 500 31.5%	21.5% Asia ex-Jp 22.7%	29.9% S&P 500 28.7%	0.3% FTSE All-Share 0.3%	3.4% TOPIX 2.4%	9.7% S&P 500 10.7%	-1.5% S&P 500 -2.1%	16.0% S&P 500 12.6%
Local	33.1% MSCI EM 10.1%	25.8% MSCI EM 31.0%	-6.4% Portfolio -9.3%	21.0% Euro ex-UK 27.5%	15.0% MSCI EM 19.5%	18.3% FTSE All-Share 18.3%	-4.1% TOPIX -2.4%	1.9% FTSE All-Share 1.9%	5.3% TOPIX 21.9%	-3.0% Euro ex-UK -3.3%	9.6% Portfolio 8.6%
	26.2% Asia ex-Jp 6.4%	17.0% Portfolio 21.4%	-8.4% TOPIX -16.0%	19.6% Portfolio 23.2%	14.7% S&P 500 18.4%	17.6% Euro ex-UK 24.4%	-5.7% Portfolio -10.3%	1.3% MSCI EM -1.3%	4.3% Euro ex-UK 6.3%	-3.1% Portfolio -3.2%	9.3% Euro ex-UK 8.1%
	25.4% Portfolio 9.8%	16.7% Euro ex-UK 14.5%	-8.8% Asia ex-Jp -12.0%	19.2% FTSE All-Share 19.2%	9.6% TOPIX 7.4%	14.3% Portfolio 16.4%	-6.9% Euro ex-UK -12.2%	1.0% Portfolio -1.0%	2.8% Portfolio 5.8%	-3.3% Asia ex-Jp -3.6%	9.3% TOPIX 10.6%
	23.4% TOPIX 0.3%	15.6% TOPIX 22.2%	-8.9% MSCI EM -9.7%	14.6% TOPIX 18.1%	8.2% Euro ex-UK 2.1%	2.0% TOPIX 12.7%	-7.8% S&P 500 -18.1%	0.8% Asia ex-Jp -1.9%	0.3% FTSE All-Share 0.3%	-3.3% MSCI EM -3.6%	7.0% Asia ex-Jp 5.1%
	19.7% Euro ex-UK 3.2%	13.1% FTSE All-Share 13.1%	-9.1% Euro ex-UK -10.6%	14.3% MSCI EM 18.5%	7.8% Portfolio 8.4%	-1.3% MSCI EM 0.1%	-9.2% Asia ex-Jp -15.1%	0.8% S&P 500 -3.3%	-2.6% MSCI EM 0.7%	-3.8% TOPIX -3.0%	6.5% FTSE All-Share 6.5%
	16.8% FTSE All-Share 16.8%	11.3% S&P 500 21.8%	-9.5% FTSE All-Share -9.5%	13.9% Asia ex-Jp 18.2%	-9.8% FTSE All-Share -9.8%	-3.6% Asia ex-Jp -2.8%	-9.6% MSCI EM -15.2%	-2.0% Euro ex-UK -3.4%	-4.8% Asia ex-Jp -1.3%	-4.1% FTSE All-Share -4.1%	4.9% MSCI EM 5.0%

Source: MSCI, Refinitiv Datastream, S&P Global, TOPIX, J.P. Morgan Asset Management. Annualised return (right) covers the period 2013 to 2022 inclusive. Data as at 31/10/23.

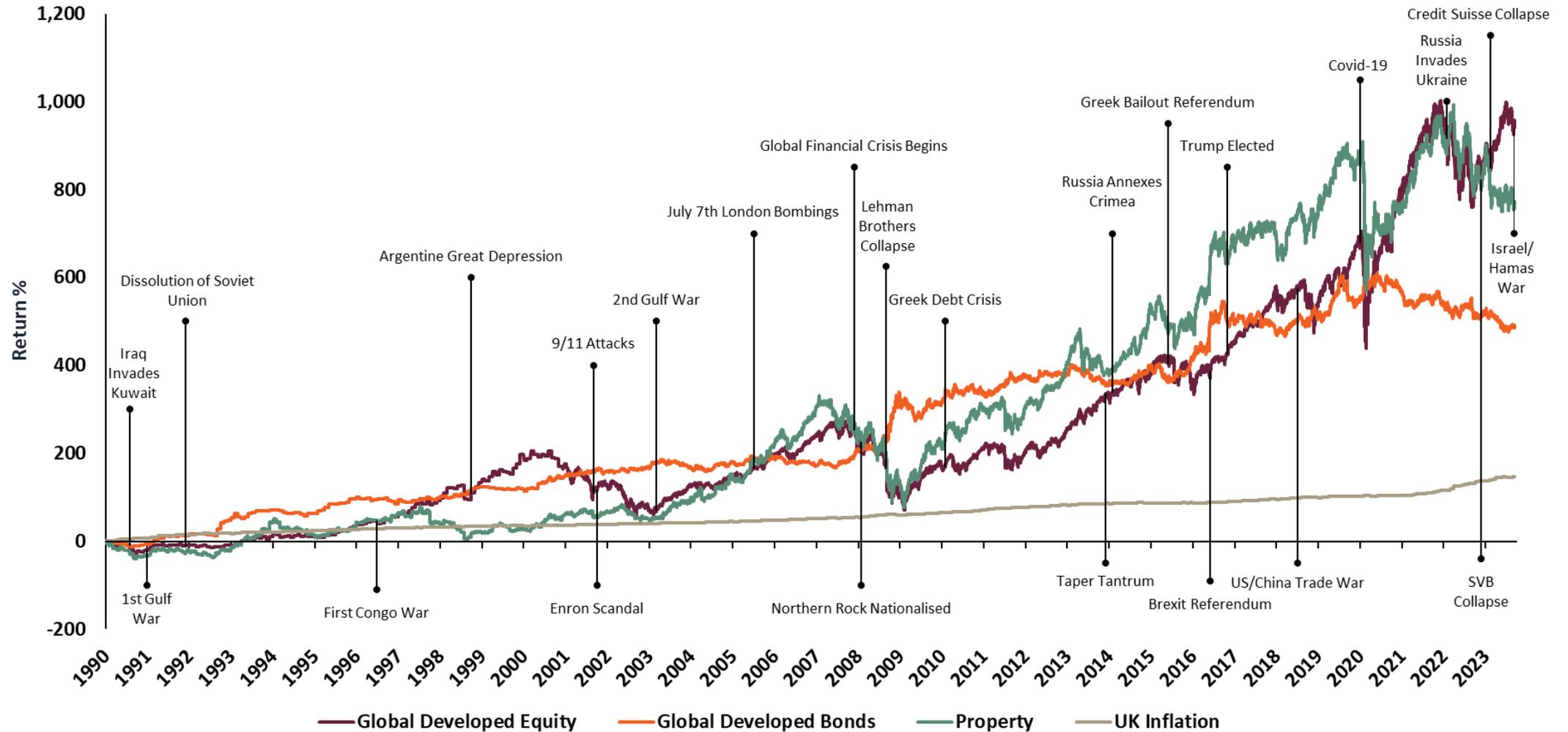
Asset Class Returns (GBP)



2016	2017	2018	2019	2020	2021	2022	Q3 '23	YTD	QTD	10-year ann. return	Vol.
HY bonds 36.9%	EM equities 25.8%	Govt bonds 5.8%	DM equities 23.4%	EM equities 15.0%	REITs 41.2%	Cmdty 30.7%	Cmdty 9.1%	DM equities 7.4%	Cmdty 0.9%	DM equities 12.8%	Cmdty 18.8%
Cmdty 33.3%	DM equities 12.4%	HY bonds 2.7%	REITs 23.1%	DM equities 12.9%	Cmdty 28.3%	Hedge funds 7.6%	Hedge funds 4.9%	HY bonds 3.3%	Cash 0.4%	REITs 10.1%	REITs 18.5%
EM equities 33.1%	Portfolio 5.6%	IG bonds 2.4%	EM equities 14.3%	Portfolio 7.1%	DM equities 23.5%	Cash 0.0%	HY bonds 4.2%	Cash 2.6%	Hedge funds -0.2%	Portfolio 7.0%	EM equities 14.7%
EMD 31.4%	EMD 0.7%	REITs 1.9%	Portfolio 12.6%	IG bonds 7.0%	Portfolio 9.7%	HY bonds -2.3%	EMD 1.8%	Portfolio 0.7%	HY bonds -0.5%	HY bonds 6.3%	DM equities 11.5%
REITs 30.4%	HY bonds 0.6%	EMD 1.7%	EMD 10.6%	Govt bonds 6.1%	Hedge funds 4.6%	Portfolio -4.4%	Portfolio 1.4%	Hedge funds -0.3%	Govt bonds -0.7%	EM equities 4.9%	EMD 10.9%
DM equities 29.0%	Cash 0.4%	Cash 0.9%	HY bonds 9.3%	HY bonds 4.7%	HY bonds 2.3%	IG bonds -6.2%	IG bonds 1.3%	EMD -0.5%	IG bonds -0.7%	Hedge funds 4.9%	HY bonds 10.5%
Portfolio 27.0%	REITs -0.2%	Portfolio -0.5%	IG bonds 7.2%	Hedge funds 3.5%	Cash 0.1%	Govt bonds -7.1%	EM equities 1.3%	IG bonds -1.4%	EMD -0.8%	EMD 4.7%	Portfolio 8.1%
IG bonds 24.4%	IG bonds -0.4%	Hedge funds -0.9%	Hedge funds 4.4%	EMD 2.0%	EMD -0.9%	DM equities -7.4%	Cash 0.9%	EM equities -2.6%	Portfolio -1.4%	IG bonds 3.9%	IG bonds 8.1%
Hedge funds 22.3%	Govt bonds -2.0%	DM equities -2.5%	Cmdty 3.5%	Cash 0.6%	EM equities -1.3%	EMD -7.4%	DM equities 0.7%	Cmdty -4.0%	DM equities -2.3%	Govt bonds 1.9%	Govt bonds 8.0%
Govt bonds 21.3%	Hedge funds -3.2%	Cmdty -5.7%	Govt bonds 1.5%	Cmdty -6.1%	IG bonds -2.0%	EM equities -9.6%	Govt bonds -0.2%	Govt bonds -5.6%	REITs -3.0%	Cmdty 1.7%	Hedge funds 6.5%
Cash 0.7%	Cmdty -7.1%	EM equities -8.9%	Cash 1.0%	REITs -8.8%	Govt bonds -5.7%	REITs -15.7%	REITs -4.2%	REITs -9.3%	EM equities -3.3%	Cash 0.5%	Cash 0.3%

Source: Bloomberg Barclays, FTSE, J.P. Morgan Economic Research, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management.
Annualised return and volatility (right) covers the period from 2013 to 2022. Vol. is the standard deviation of annual returns. Data as at 31/10/23.

Global markets and major events since 1990



Source: Morningstar Direct. Indices used: Global Developed Equity = MSCI World Net Revenue LCL, Global Developed Bonds = Bloomberg Global Aggregate Total Return USD, Property = S&P Global Property Total Return USD, UK Inflation = UK CPI. Data from 01/01/90 to 31/10/23.

Disclaimer

Opinions constitute our judgement as of this date and are subject to change without warning. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance is not a reliable indicator of future results and forecasts are not a reliable indicator of future performance. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up and down. The information in this document is not intended as an offer or solicitation to buy or sell securities or any other investment, nor does it constitute a personal recommendation.

We hope you found this presentation of interest and useful.

If you have any questions, please do not hesitate to contact us.



MM Wealth is authorised and regulated by the Financial Conduct Authority. Incorporated in England and Wales.

Registration Number: 01454074. MM Wealth Ltd Wellbrook Court, Girton, Cambridge CB3 0NA 01223 233331 info@mmwealth.co.uk