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Chartered Financial Planners





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“Complacency is almost always the product of success or perceived success.”

- Was 2023 good or bad for investors?
- Geopolitics – 2024 a year of elections and more war
- The Fed Pivot – inflation and interest rate balancing act
- China Woes, Japan Joy – enough attention on these key markets?
- AI – what next for the tech trade?



What the experts were saying at the start of 2023

Strong H1 despite looming recession in latter half, focus on value stocks and markets in Asia excluding Japan.

Morgan Stanley

HSBC

A "Parallel Worlds" theme, reflecting diverse economic trends across different regions, a departure from the economic environment of the 2010s, and significant shifts in market valuations. There was a particular emphasis on identification of relative-value opportunities, underscoring the importance of dynamic asset allocation, active management, and geographical diversification.

A mixed outlook, with the global economy facing various challenges and opportunities. The Federal Reserve will near the end of its tightening cycle, with inflation expected to trend back towards the 2% target, potentially allowing for easing of monetary policy.

J.P. Morgan

A "risk off" environment prevailing into 2023. The market's direction will largely depend on finding a bottom, which was uncertain within the year. Key factors included technical market weakness, inflation concerns, and the potential for recession, highlighting a cautious outlook for investors.

Seeking Alpha

Energy supply shocks and monetary policy tightening will push major economies into recession, with the UK and Eurozone at the forefront. Global growth to slow to c2.5% in 2023, with developed market economies slowing significantly. Inflation to decline, but core inflation was likely to remain above central bank targets. Central banks to reach the peak of the tightening cycle by mid-2023.

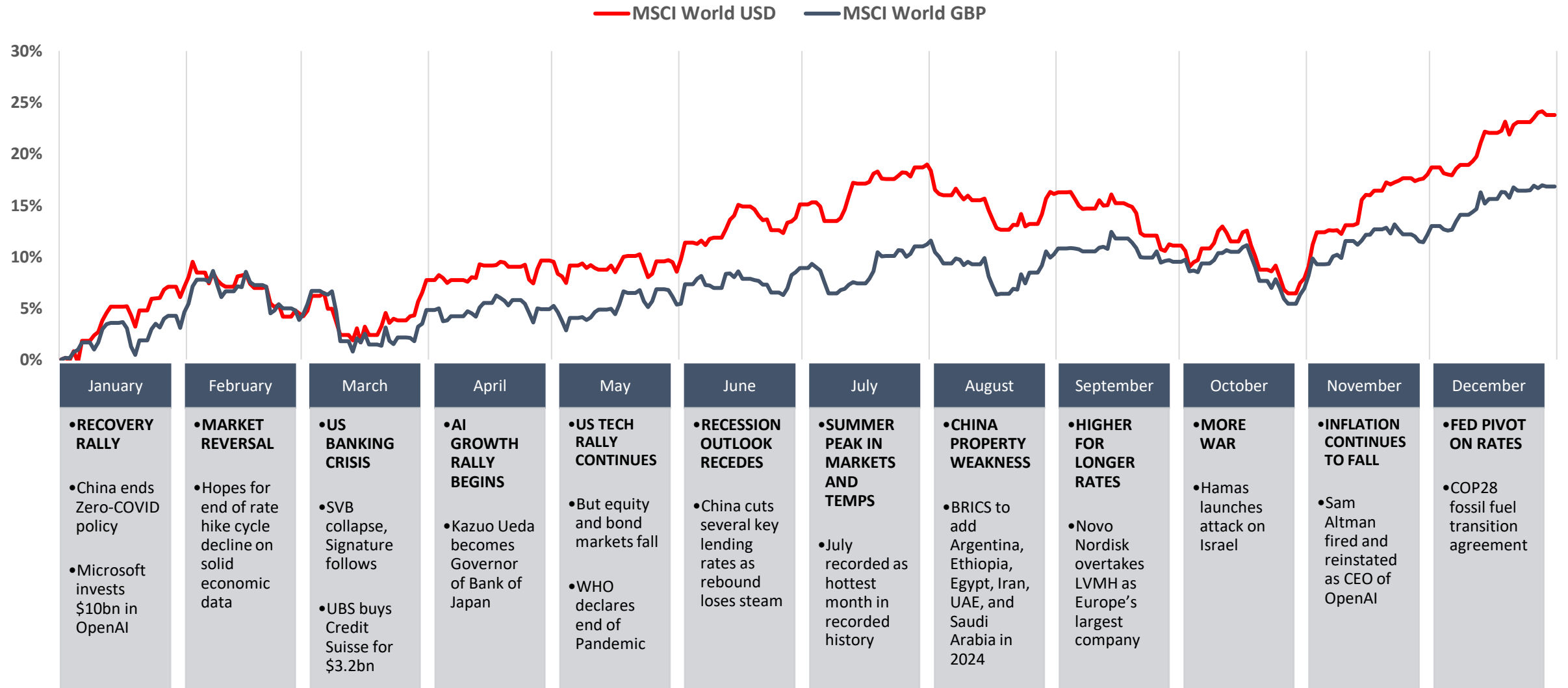
Aviva

The 2023 review emphasized thematic and digital assets ETFs, and sectors like gold, cryptocurrency, and digital infrastructure, reflecting trends and potential areas of growth from wealth managers.

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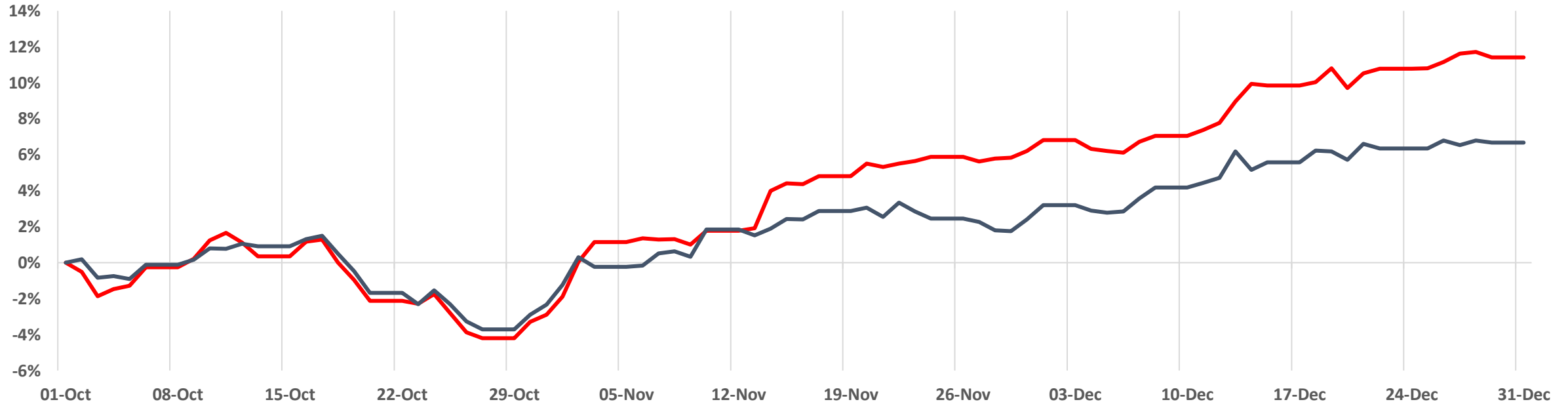
2023 – Year in review



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2023 – Q4

— MSCI World USD — MSCI World GBP



October

- Declines in major stock indices, energy sector biggest laggard, utilities and tech resilience.
- US mortgage rates surge to nearly 8%, impacting house price sentiment.
- Contrasting economic indicators with US showing strong growth, Europe contracts.
- Core inflation declines.
- Middle East emerges as focal point of geopolitical risk.

November

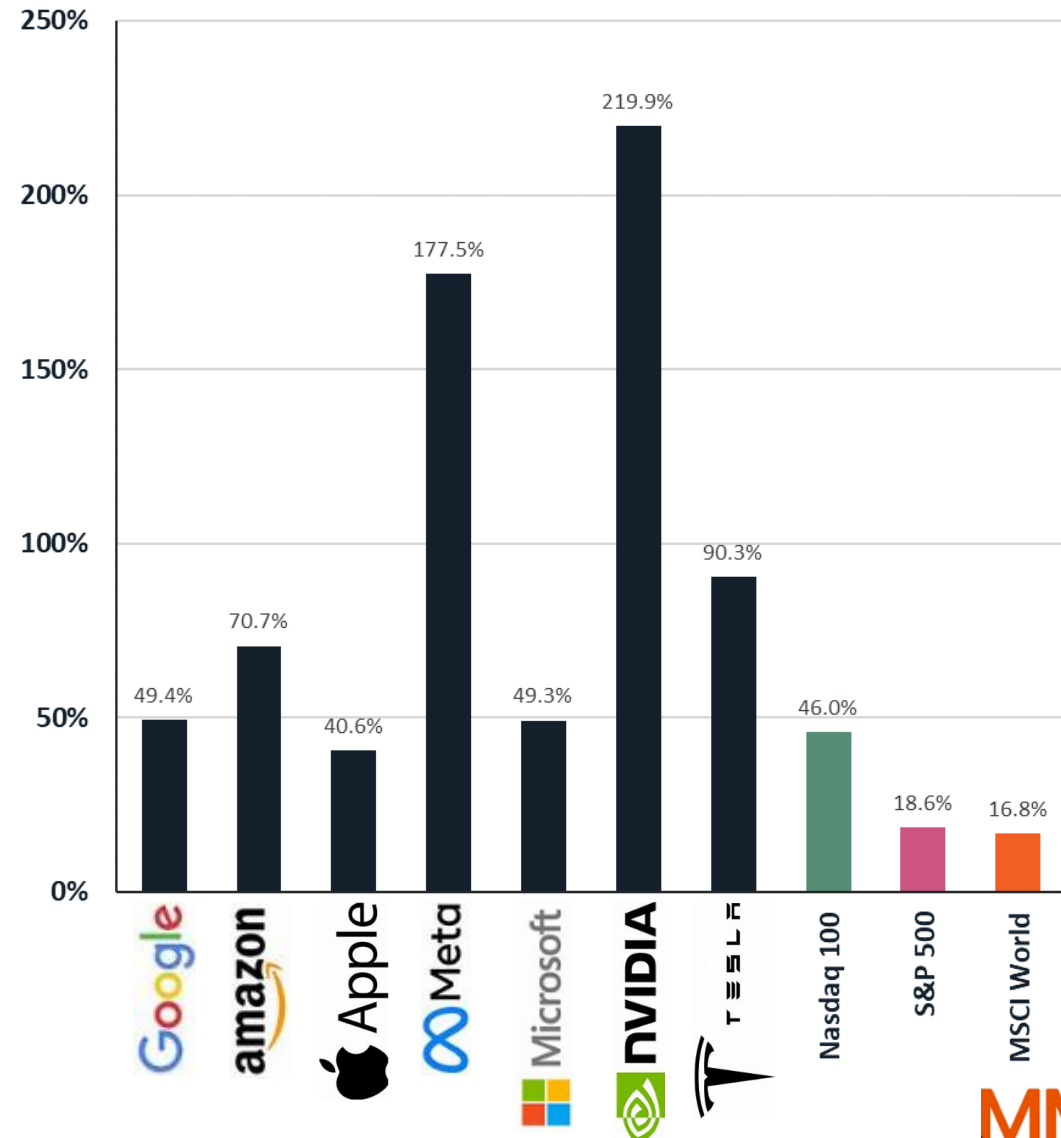
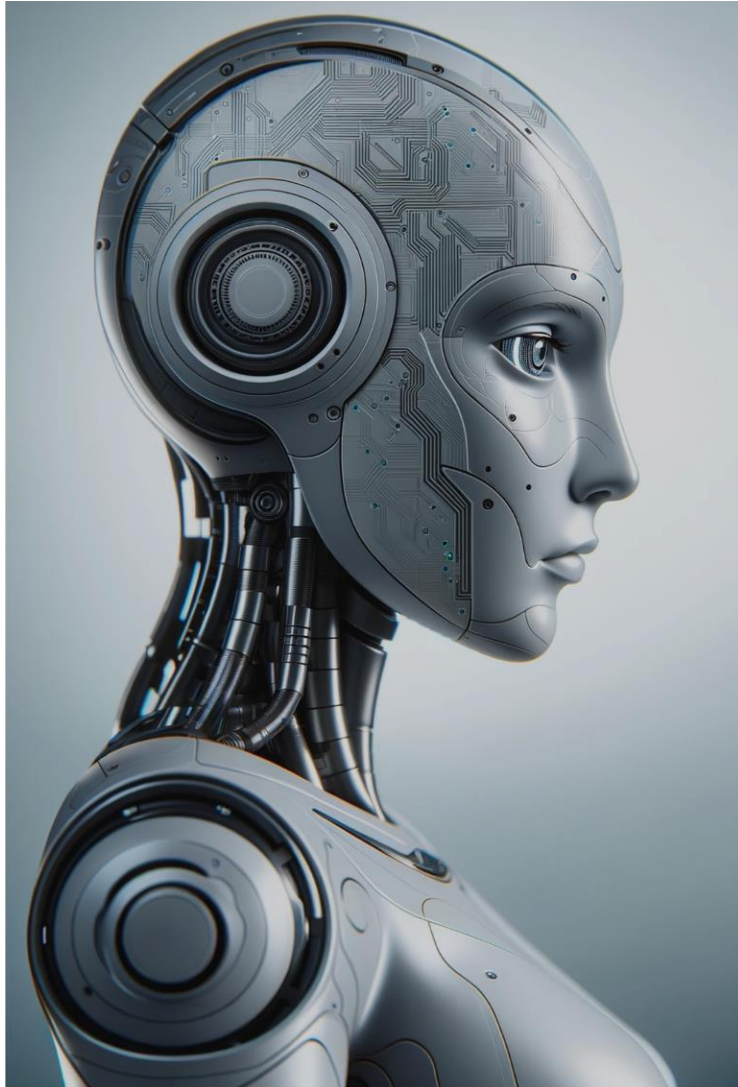
- US economy stronger over first 3 quarters and expected to continue growth in Q4, buoying markets.
- This growth, better than expected job growth rates and declining inflationary pressures led to surge in consumer spending.
- Renewed optimism for “soft landing” with no recession for 2024.

December

- Bloomberg Global Aggregate Total Return Index (bonds) rose nearly 10%, strongest 2-month performance since records began in 1990.
- Improved manufacturing data from the US and UK, showing resilience.
- Stronger growth shown by emerging markets, particularly India with 7.6% GDP growth in Q3.

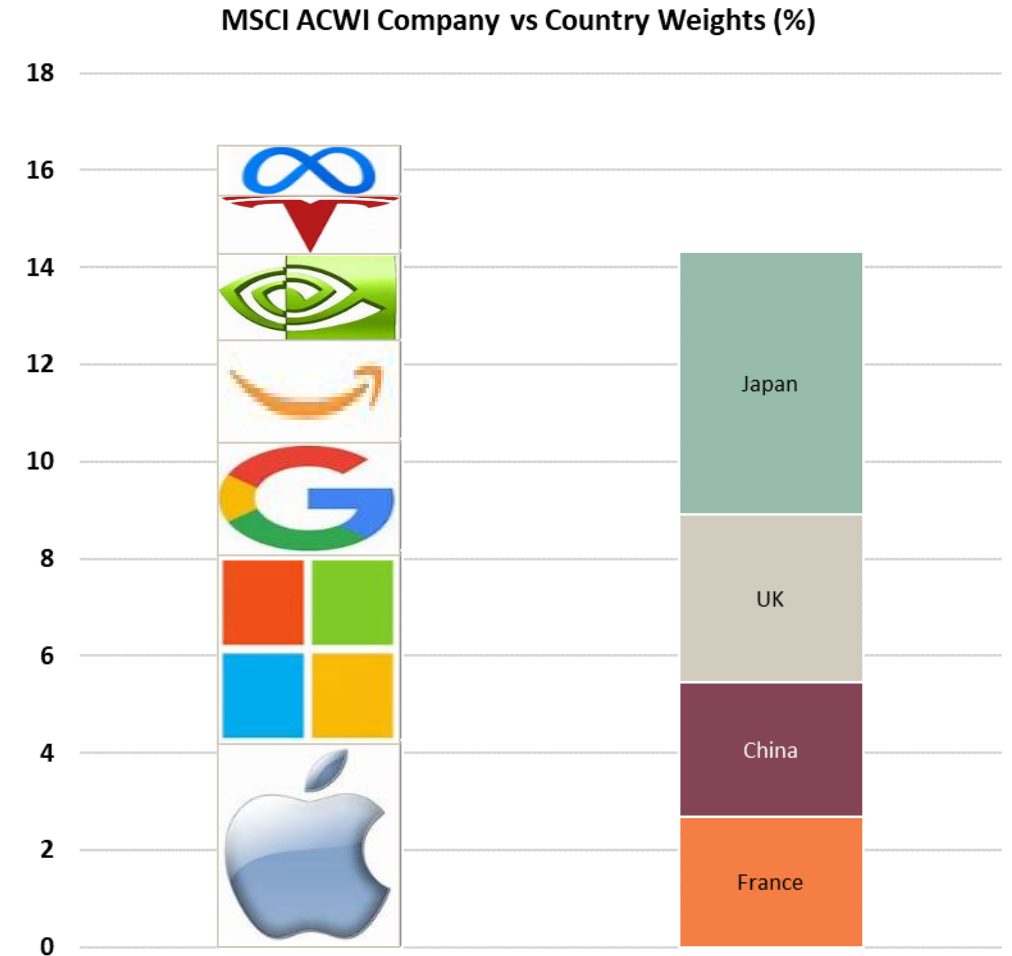
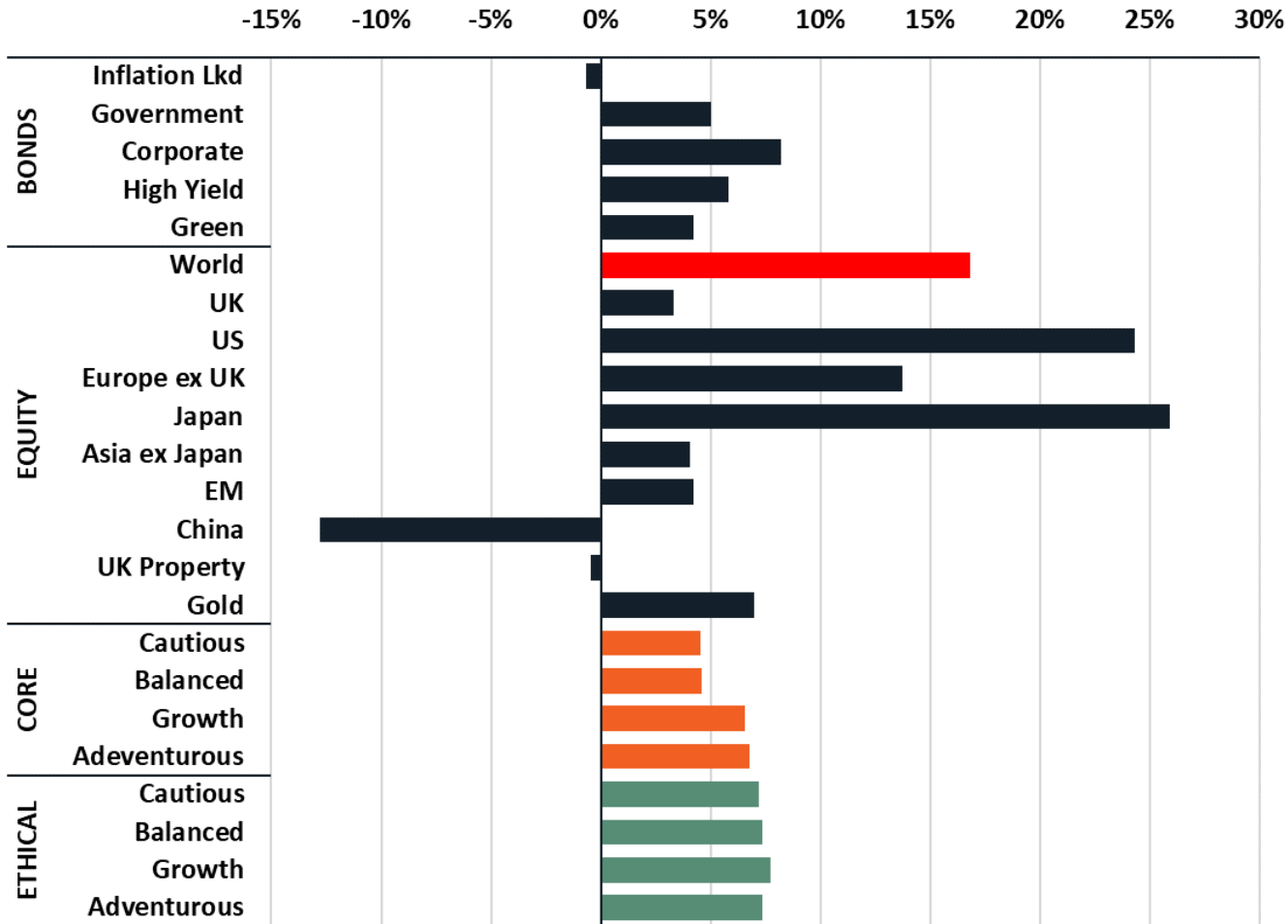
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AI takes over the world



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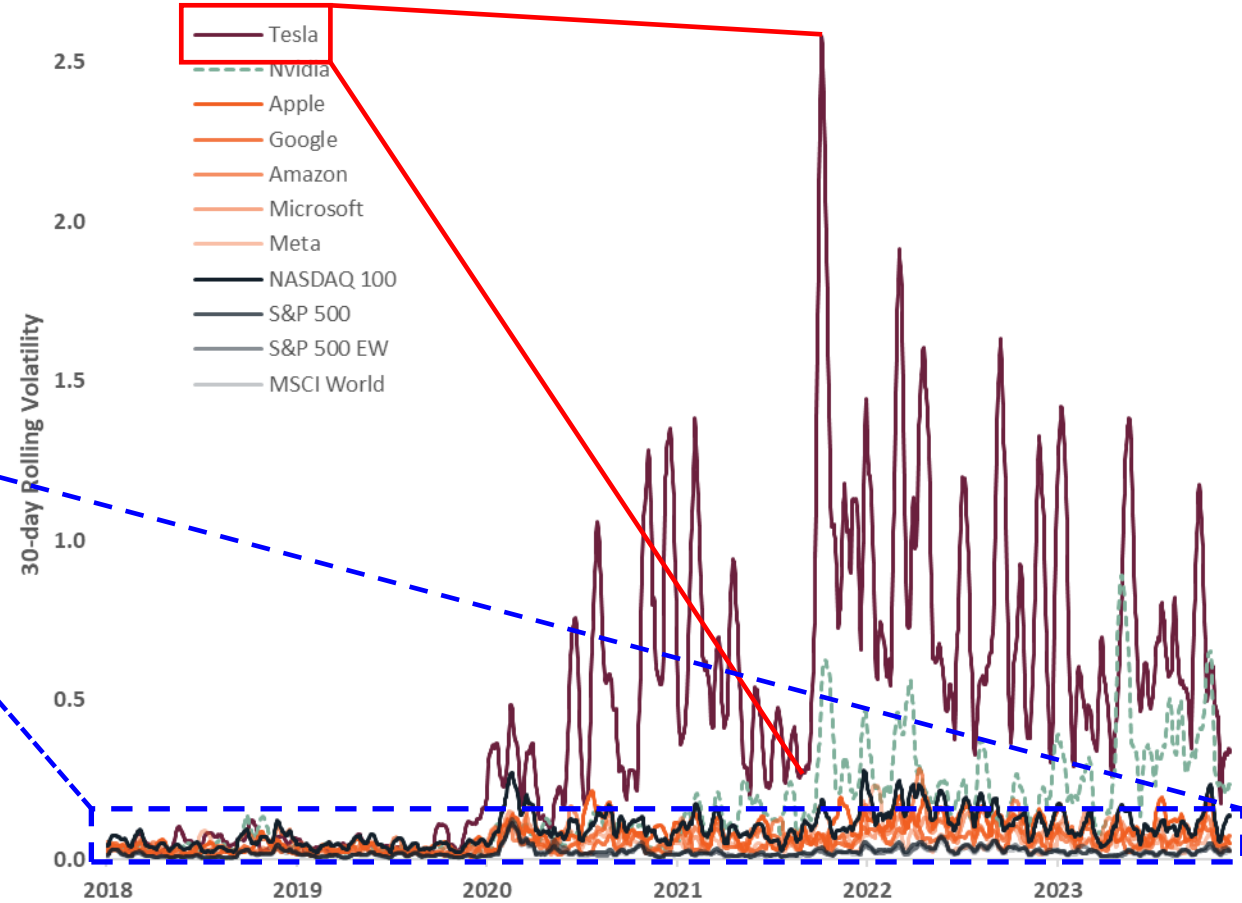
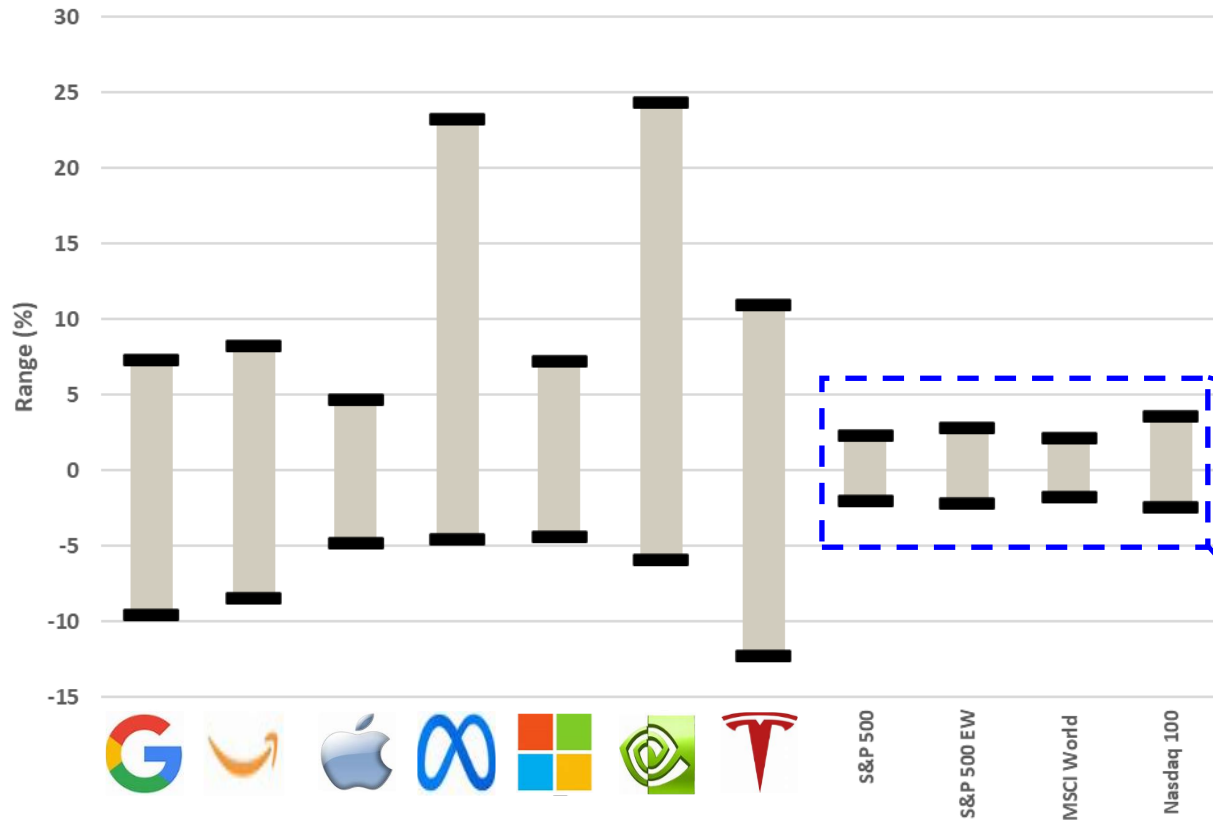
Magnificent 7, quite magnificent



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It sometimes is about the journey

Magnificent 7 Stocks Vs Key Market Indices



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What has changed since the last update?

- Middle East conflict gradually spreading
- US GDP data satisfactory at annualised 2.5% to December 2023; CPI inflation at 3.4%
- Japanese equities hit multi-year highs
- The US Securities and Exchange Commission (SEC) approves the first bitcoin Exchange Traded Funds (ETF)
- Miscellaneous:
 - Reuters/Ipsos poll: Trump edging ahead of Biden
 - Bankruptcy of large Chinese wealth management company
 - Plenty of company trading statements



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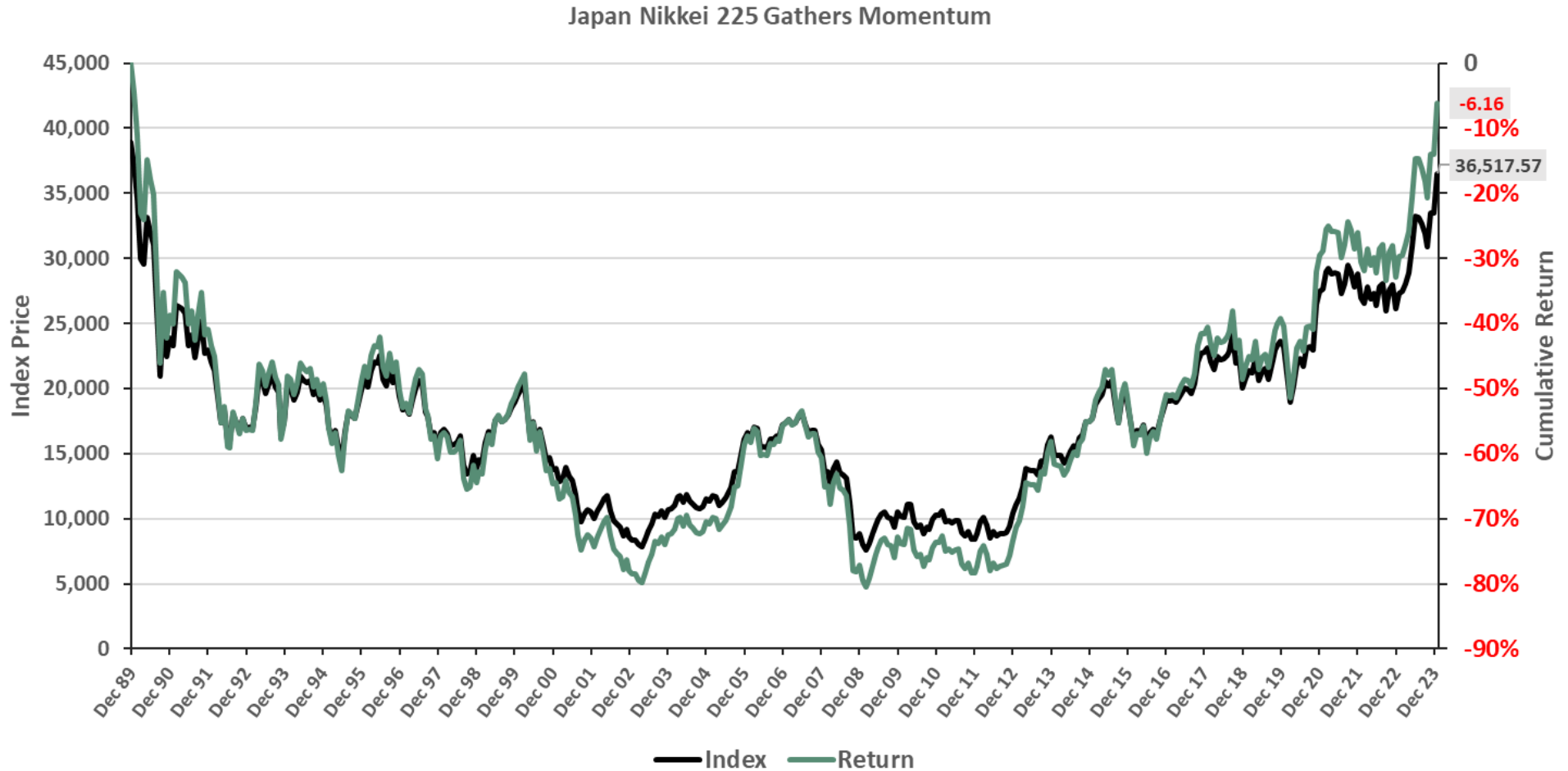
Middle Eastern conflict

- Israel / Hamas – ‘two-state solution’ a no-go in peace talks
 - *“In any future arrangement... Israel needs security control of all territory west of the Jordan.” – Benjamin Netanyahu*
 - Israel / Lebanon border red flags
 - Houthi militant attacks in Red Sea, with US/UK bombing targets in Yemen
 - Iran seizes tanker in Gulf of Oman
 - Pakistan / Iran cross-border strikes
- ... while the conflicts have gradually escalated in scope, this has not produced much reaction in global markets, including oil.



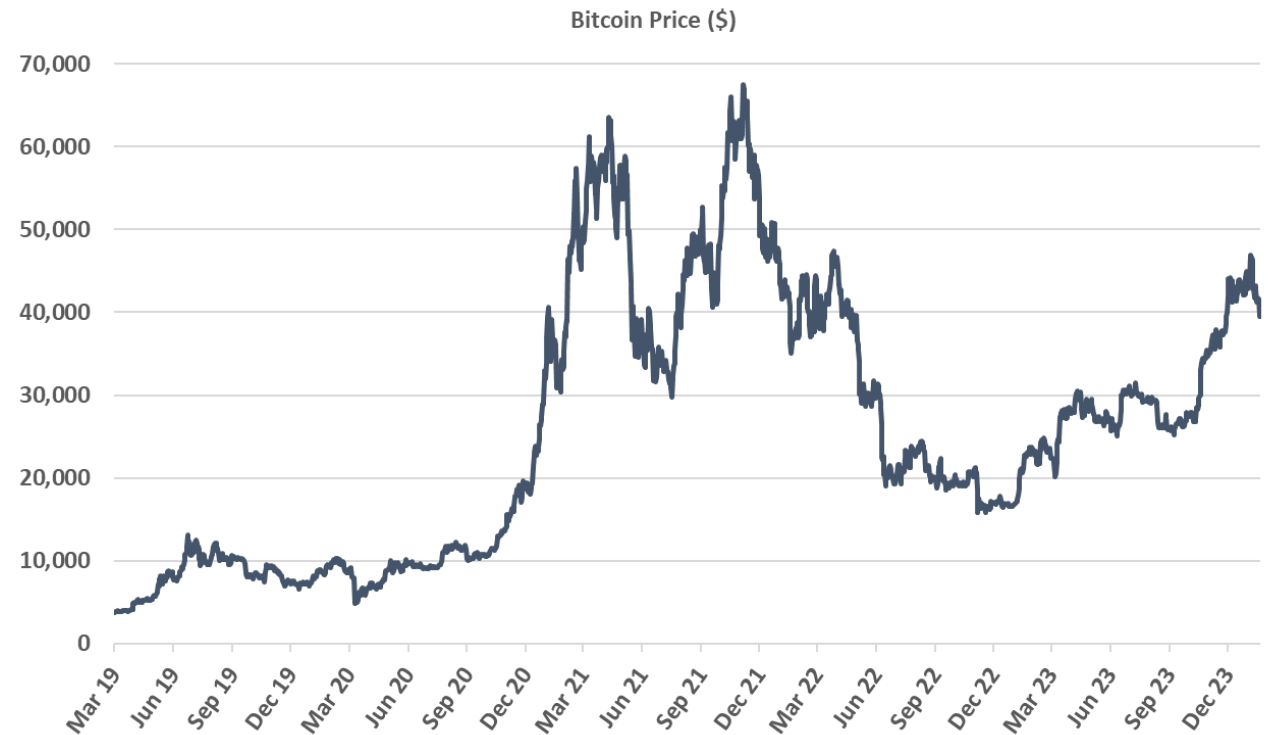
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Land of the rising sun



“Blockchain is the tech, Bitcoin is merely the first manifestation of its potential.”

- 11 Bitcoin ETFs have been approved by the US SEC
- Crypto ‘market cap’ currently stands at \$1.7 trillion – not small!
- What will be the implications of Bitcoin ETFs?
 - a further round of speculation?
 - a draining of demand from most other speculative assets?
 - a legalised bridge between criminal cash and retail investments?



China: troubled economy, weak stock market

- Consumer prices are exhibiting deflation, suggesting weakness in consumer spending
- Youth unemployment hit a record high of 21.3% in the summer, prompting authorities to abandon publication of future figures
- A series of large property developers, including Evergrande and Country Garden, are in financial distress and this has led to the failure of several large, property-linked retail savings products (e.g. Zhongzhi)
- Inwards Foreign Direct Investment recently went negative for the first time in many years



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Outlook – navigating choppy waters



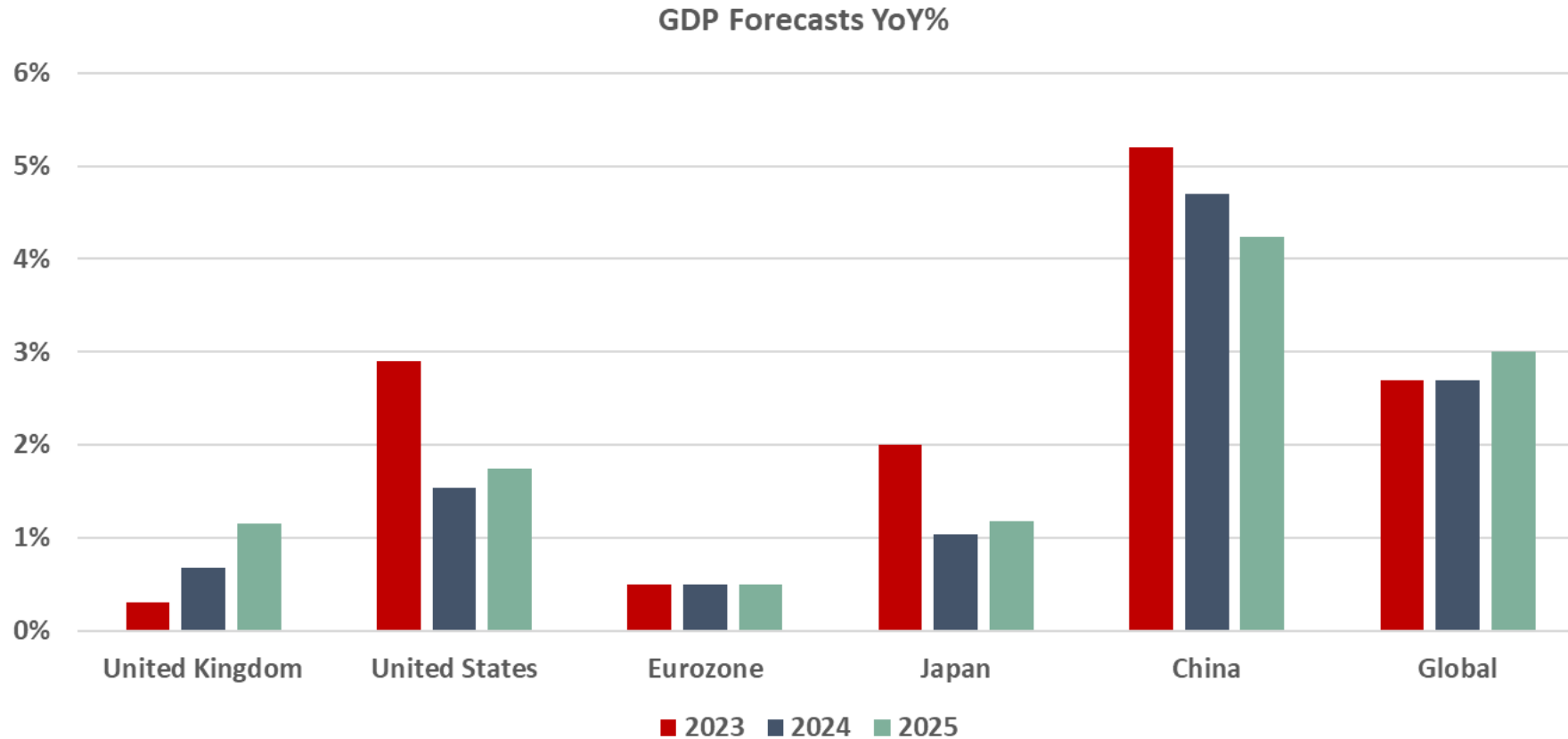
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2024 a big year for elections

- Over 4 billion people head to the polls in over 64 countries, representing about 49% of global population



Economic growth forecast to fall in 2024



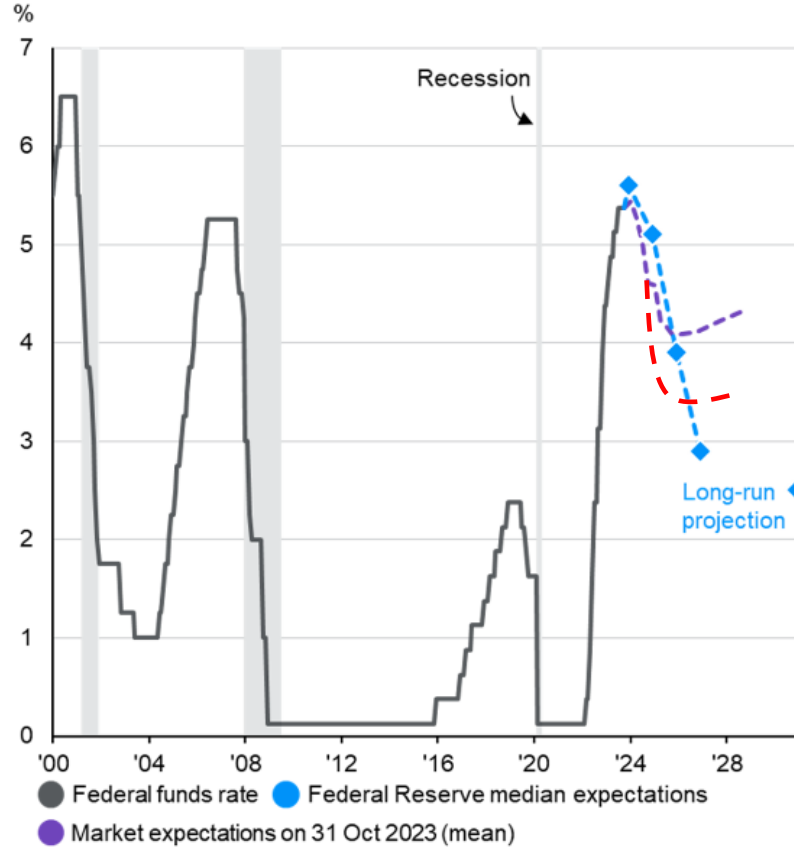
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Inflation appears to be under control

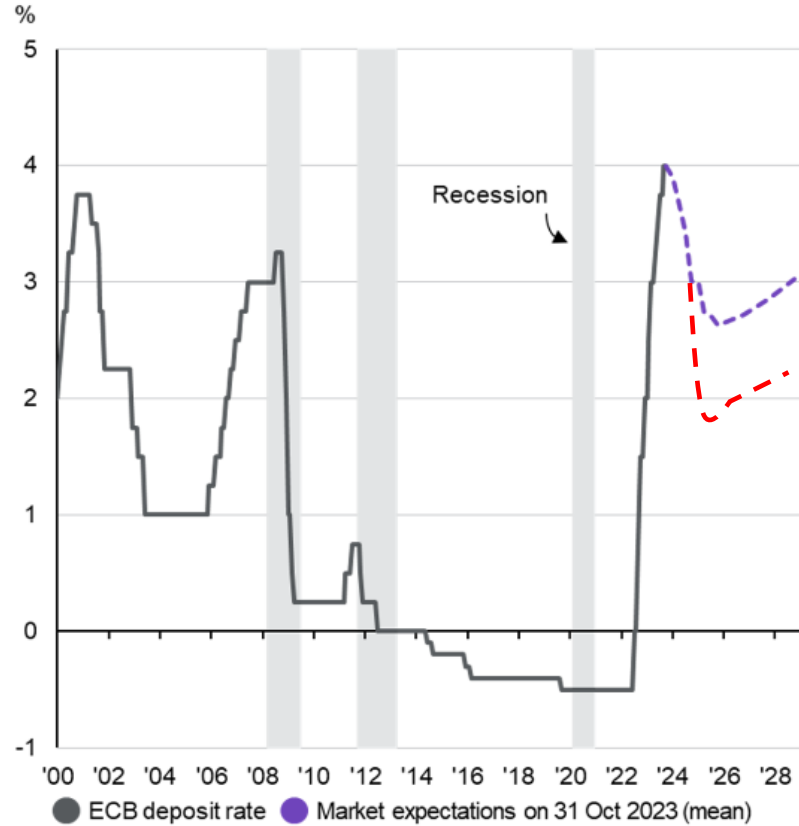


Interest rate expectations – October 2023 v December 2023

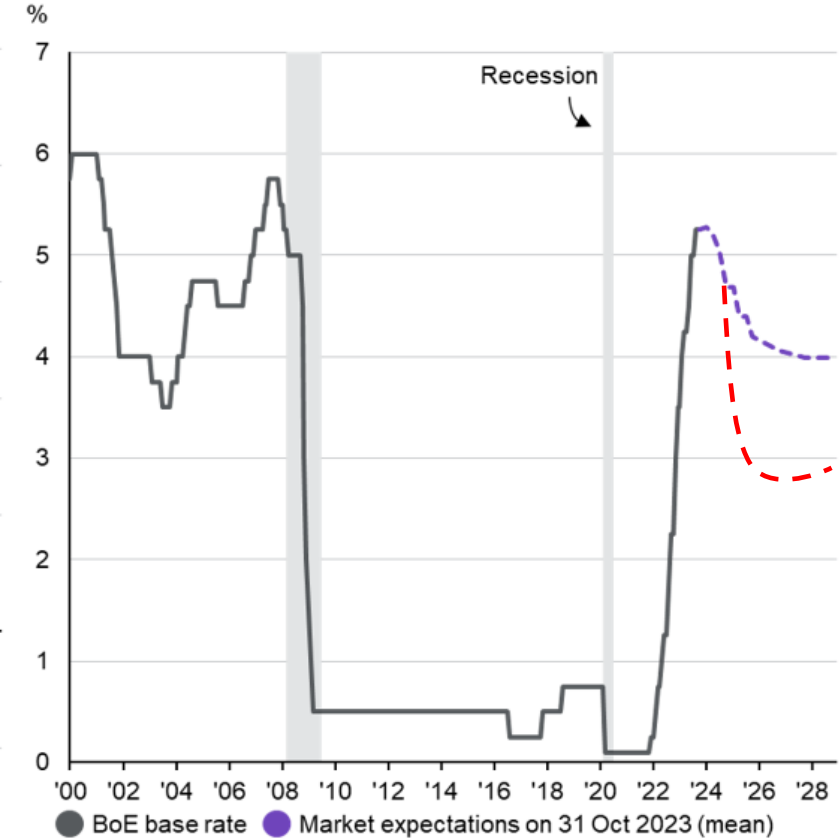
Federal Reserve policy rate expectations



European Central Bank policy rate expectations



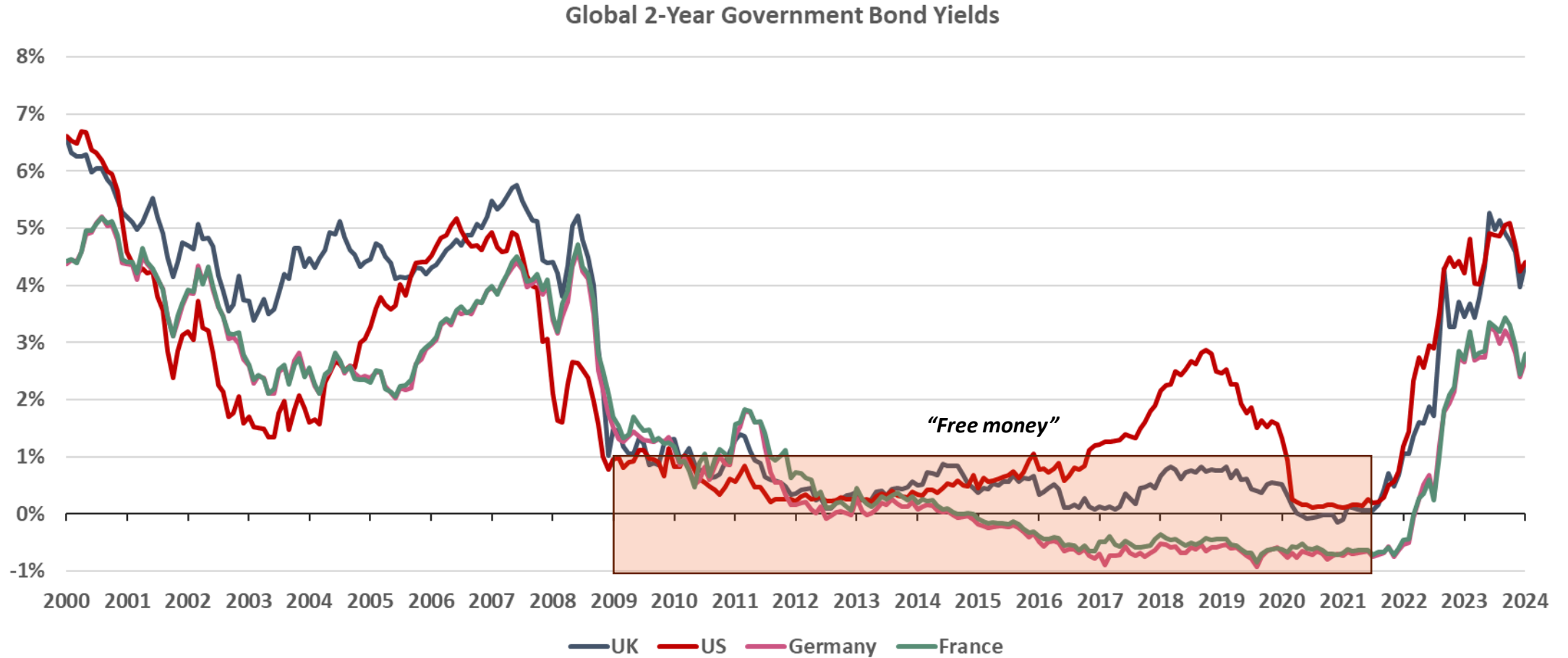
Bank of England policy rate expectations

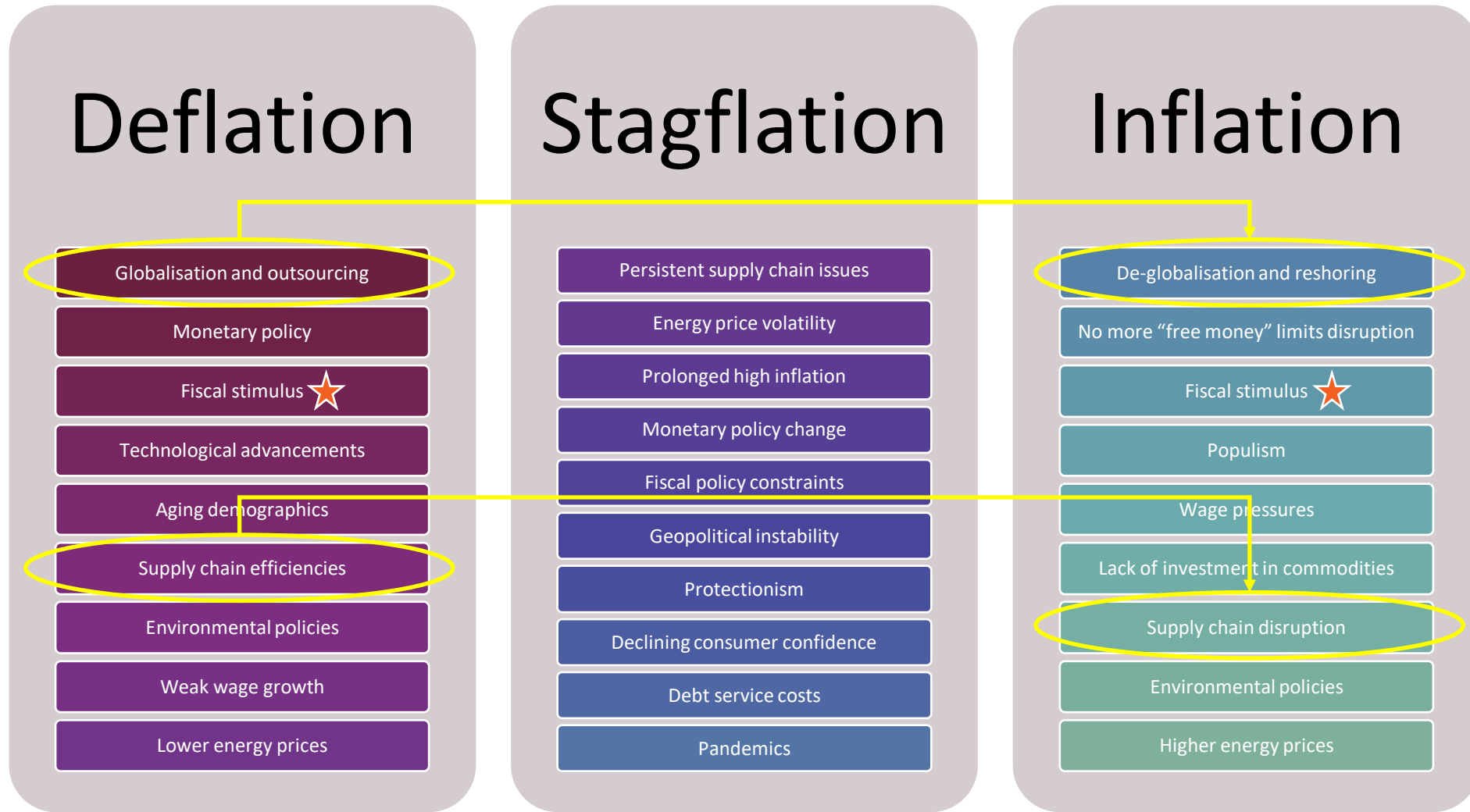


● **Market expectations on 31 Dec 2023**

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Era of “free money” comes to an end





What are the experts saying now

US equity market rally at end of 2023 leaves stocks overvalued, with little room for error.

Morgan Stanley

HSBC

Disinflation in the West should continue into 2024, despite some areas of 'stickier' inflation, while growth is slowing. Eastern economies face a more benign growth and inflation picture, with pockets of strength across Latin America and Asia, despite China's slower economic recovery. In light of the above, we maintain a cautious stance in portfolios.

Lacklustre earnings growth and geopolitical risks are set to weigh on the outlook for stocks. Forecast 4,200 for S&P 500 with downside bias.

J.P. Morgan

Persistent inflation, potentially leading to fewer Fed rate cuts than anticipated. The economy may slow, with a possible rise in unemployment. Credit spreads expected to widen, impacting stock PE multiples. The S&P 500 could face a downturn, with predictions pointing towards a return to approximately 3,900, influenced by these economic factors

Seeking Alpha

The global economy looks set to slow in 2024, as fiscal policy starts to drag on growth and higher interest rates weigh on household and business activity, with excess savings built up during the pandemic largely spent. We expect global growth of around 2.75 per cent in 2024, down from around 3.25 per cent this year.

Aviva

The extraordinary performance of equity markets in 2023 was unusually narrow, with the so-called Magnificent Seven stocks driving performance. As a result, the Magnificent Seven now account for around 30% of the MSCI USA Index at the end of 2023 and about 30% for the MSCI World Index 20%. This now raises concerns about overvaluation and susceptibility to profit-taking.

HANetf

Adoption of AI and growth in industry

Robotics

- Precision manufacturing, tight skilled labour market, policy shift (e.g. reshoring)

Cloud Computing

- Software, servicing, infrastructure

Entertainment

- Software development, mobile application consumption, Virtual and Augmented Reality (VR and AR) experiences

Digital Commerce

- Personalised, efficient, seamless transactions

Healthcare

- Telemedicine, wearables, AI diagnostics, precision medicine, genomics

Sustainable Energy

- Smart grids, energy storage, Internet of Things (IoT) for energy management

Transportation

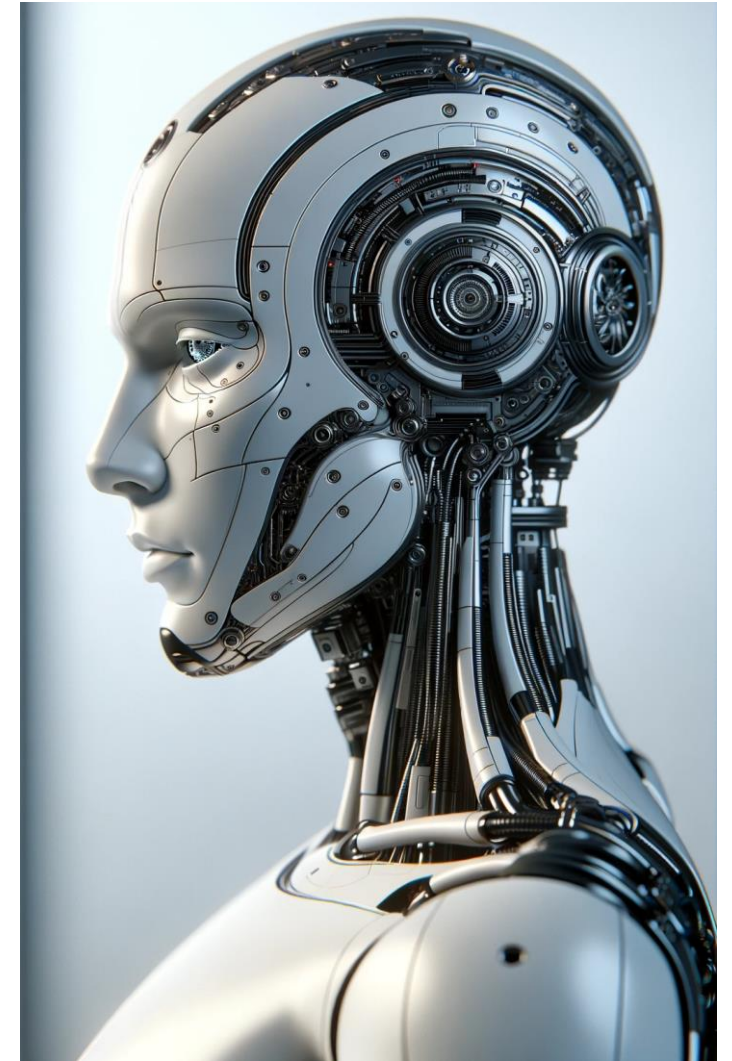
- Electric vehicle (EV) advancements, autonomous driving, traffic management

Education

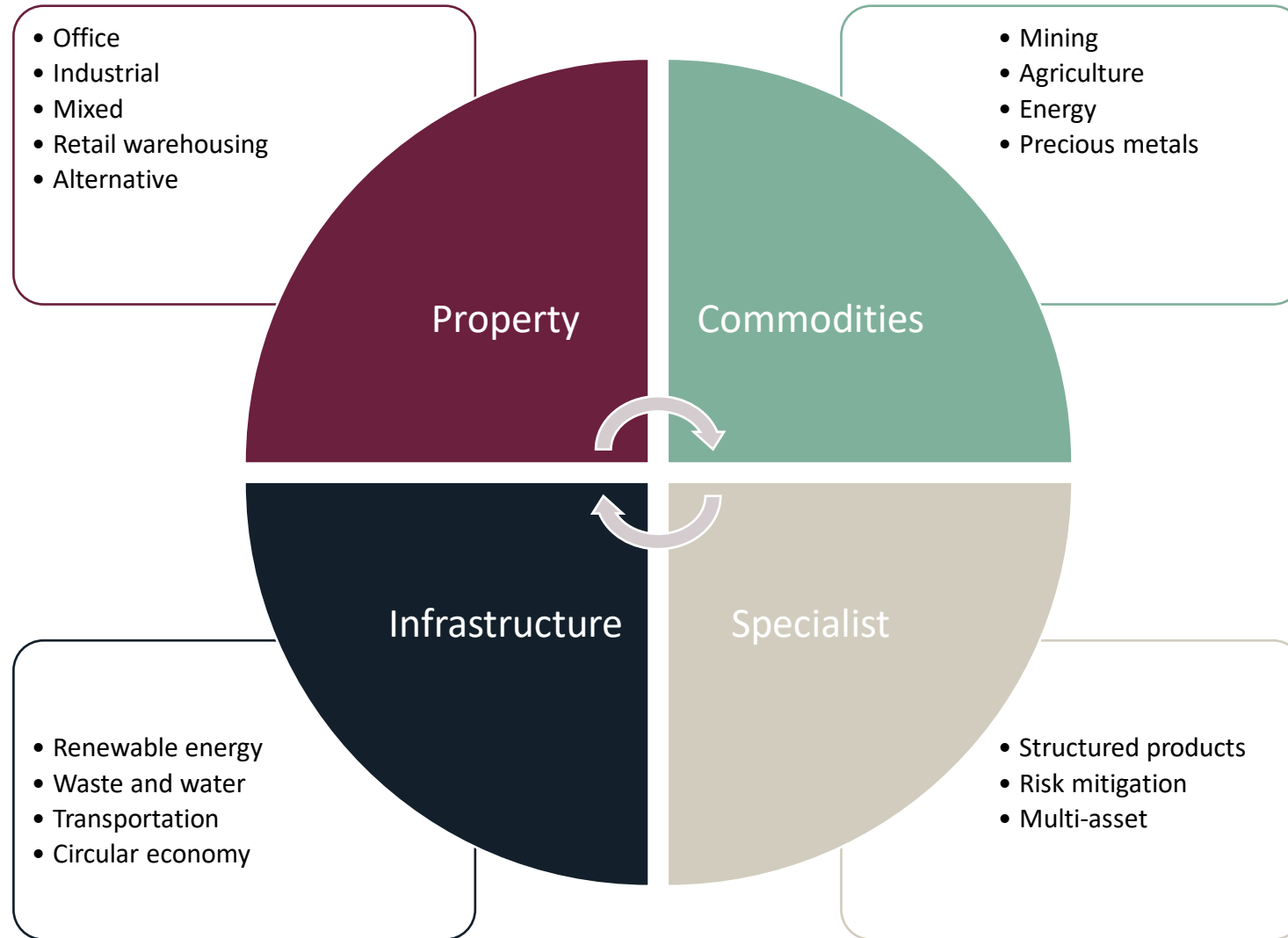
- Virtual classrooms, VR/AR tools, blockchain record keeping

Cyber Security

- Encryption, quantum computing, threat detection, data protection, privacy




The importance of diversification



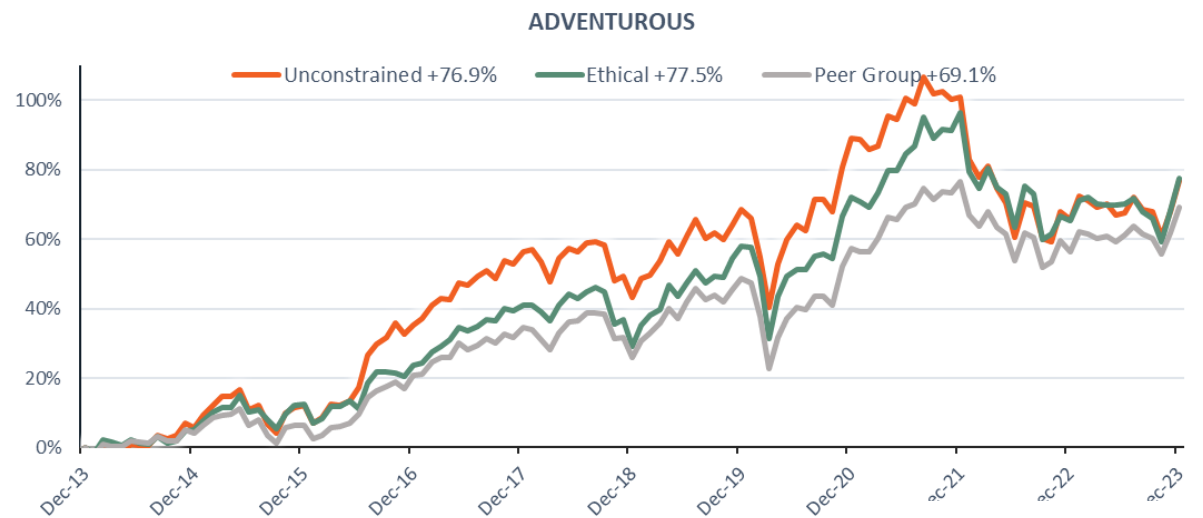
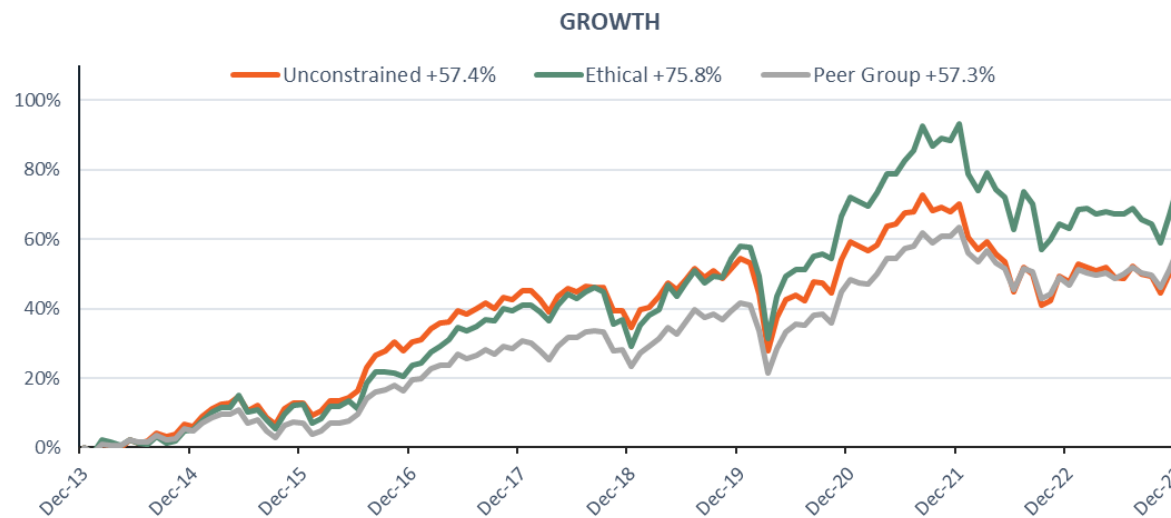
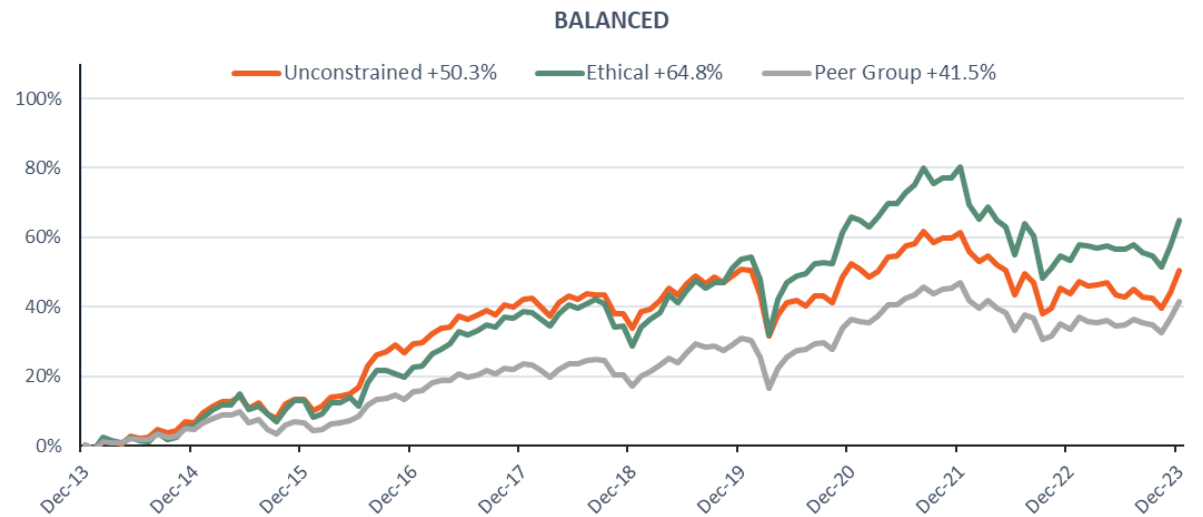
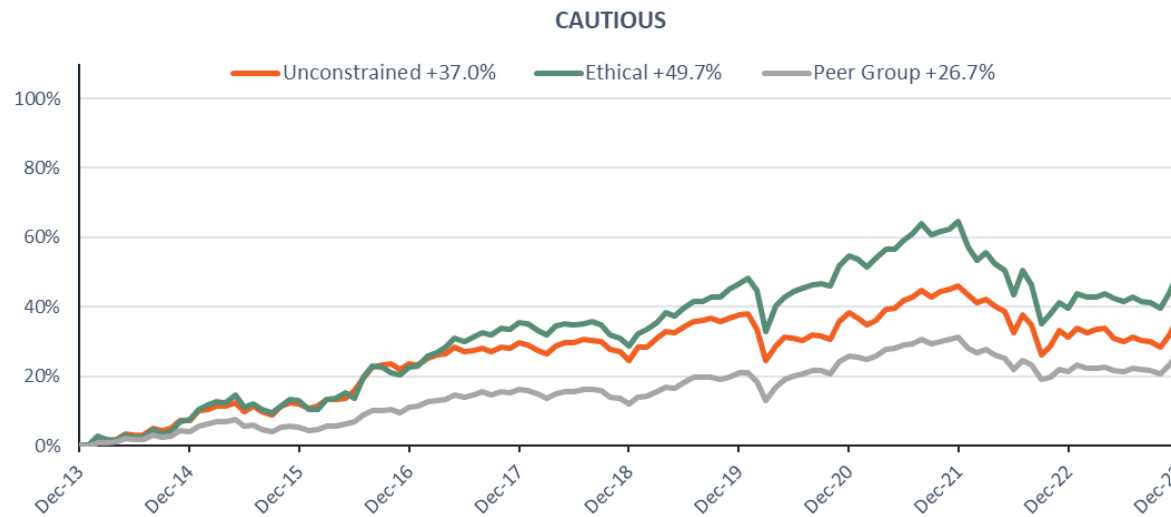
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Outlook scenarios

Scenario	Outcome	Probability
Slowdown	Mild economic recession in most countries	55%  50%
<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%  40%
<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%
Hard Landing	Moderate/deep recession in most countries	15%  10%
<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%

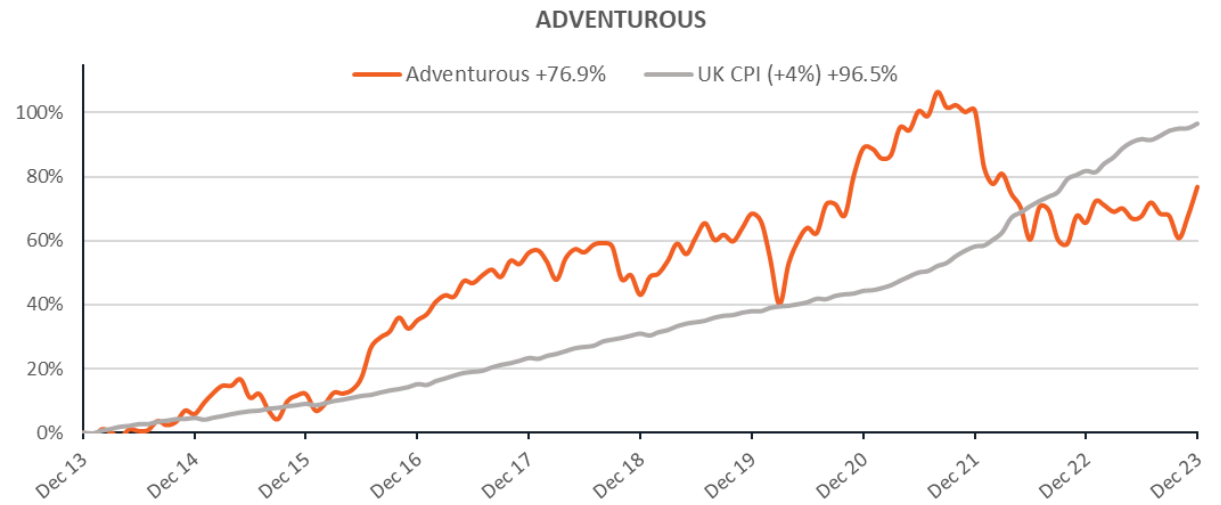
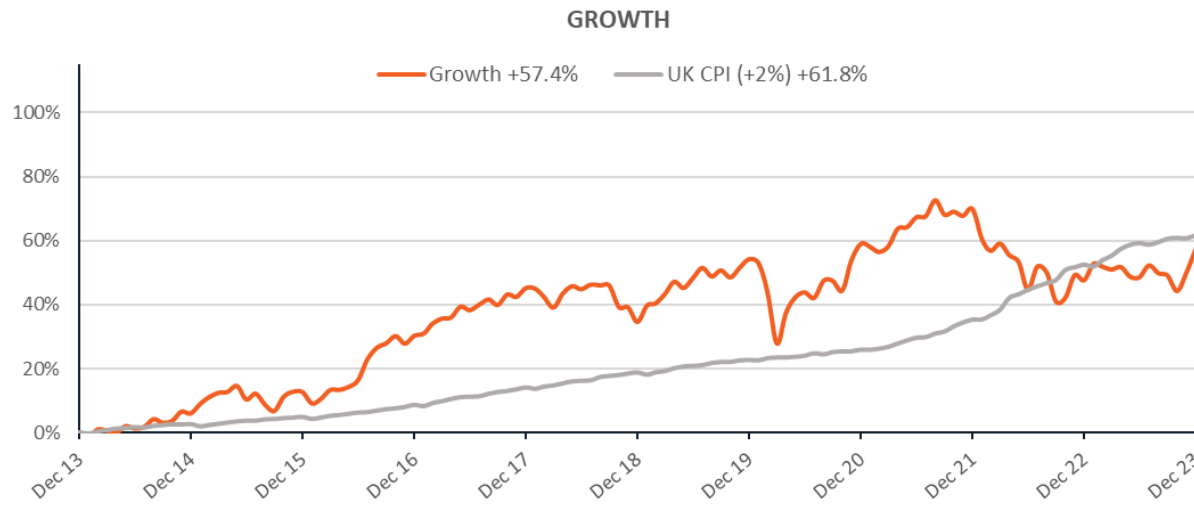
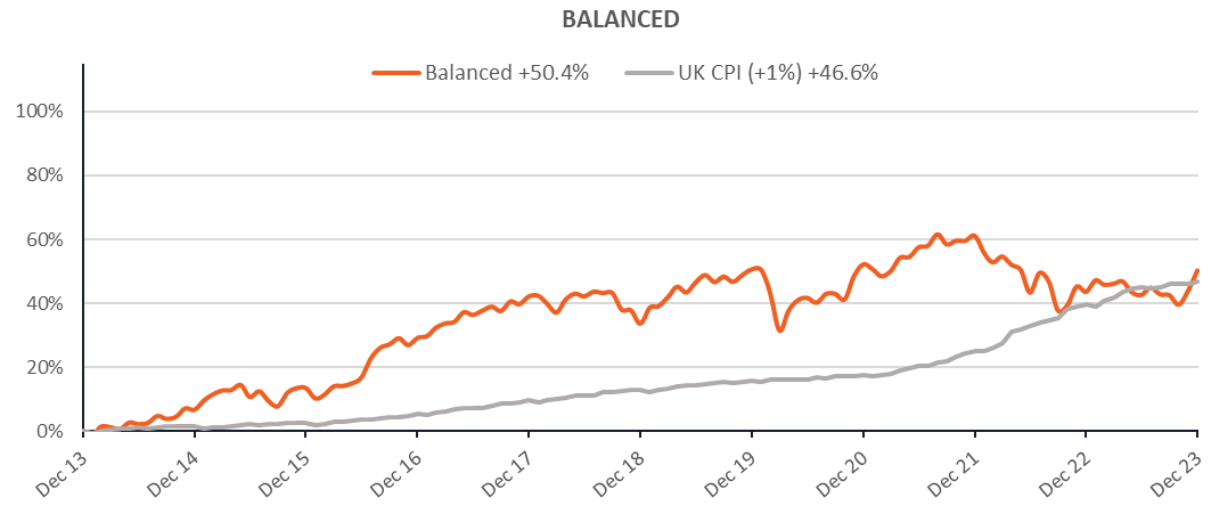
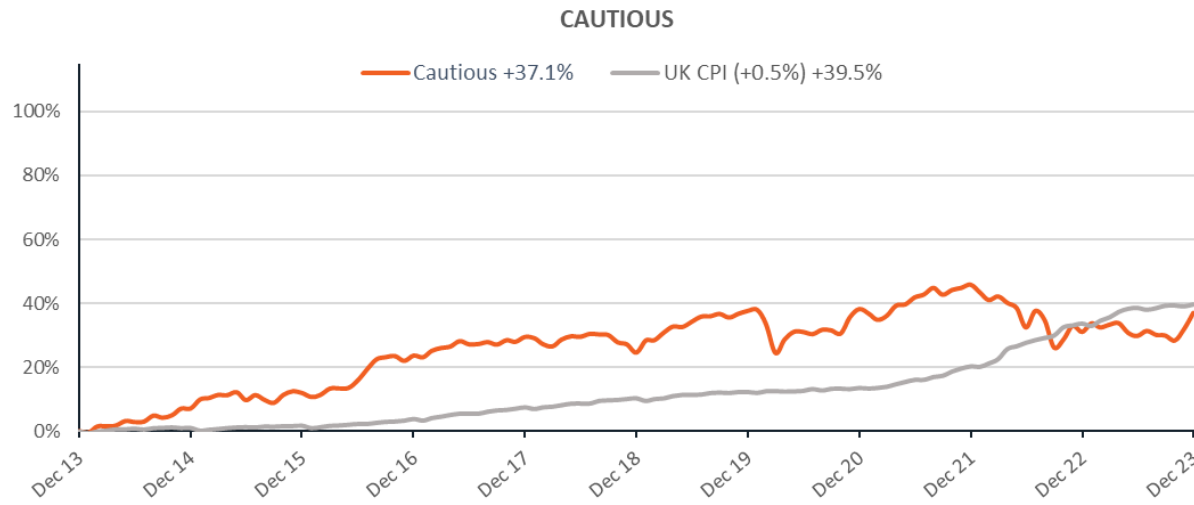
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MM Wealth strategies – 10 year performance vs peer group comparison



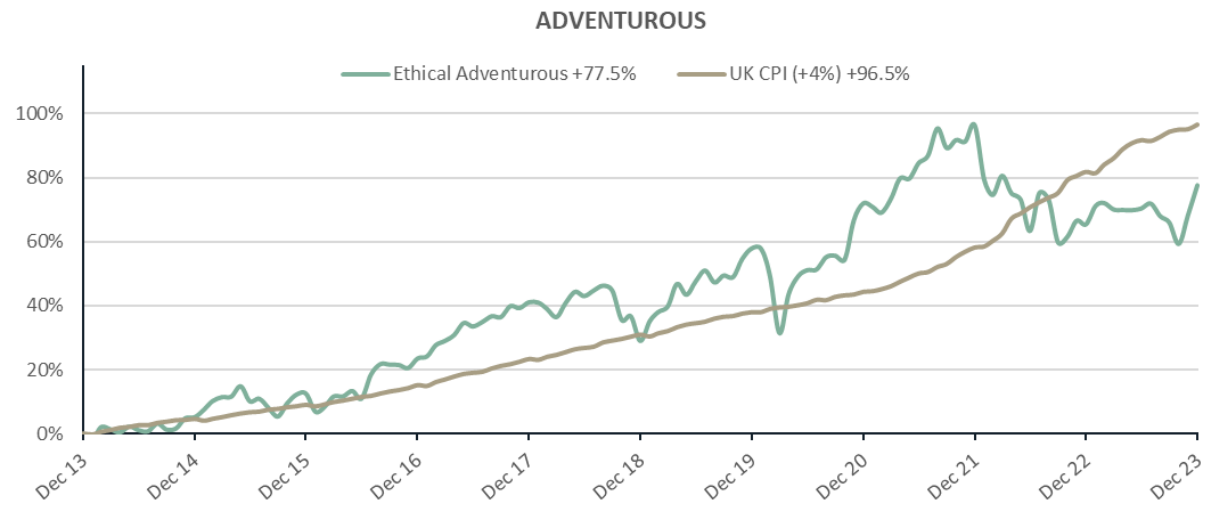
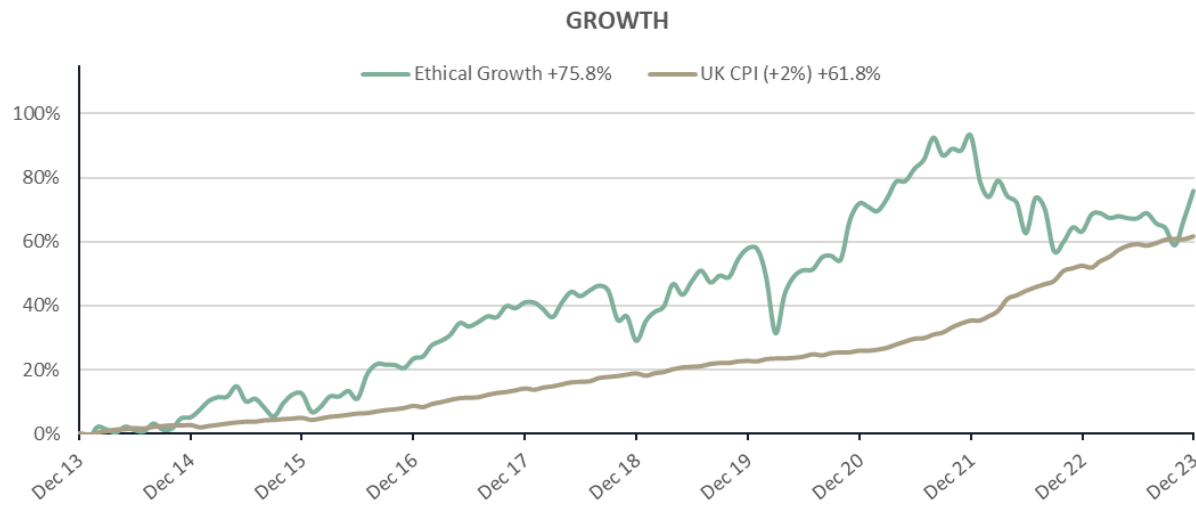
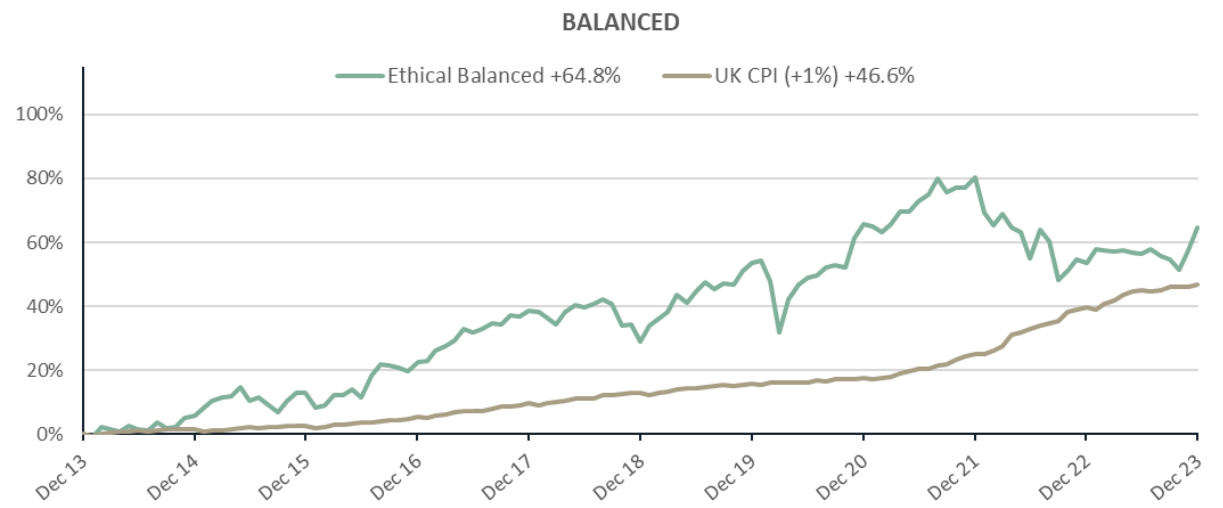
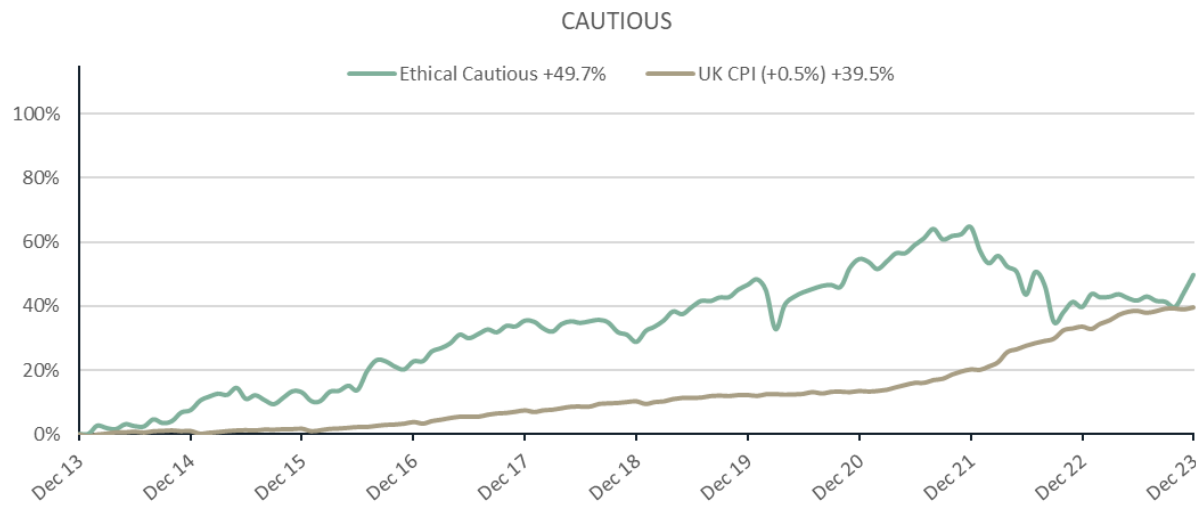
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Unconstrained strategies – 10 year performance vs CPI-plus targets



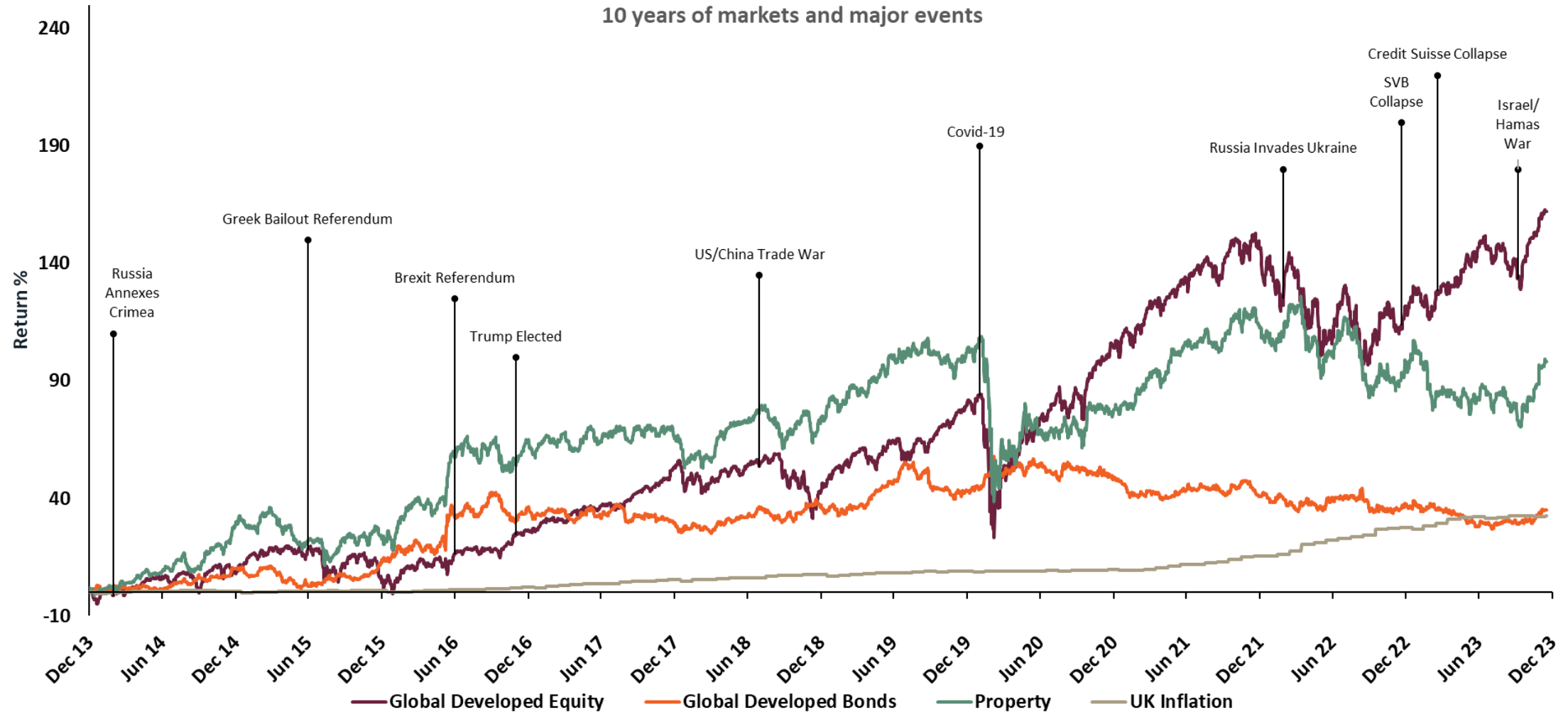
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Ethical strategies – 10 year performance vs CPI-plus targets



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10 years of markets and major events



Q1 Outlook – caution and quality

- Equities and bonds still volatile: some competing narratives (e.g. ‘normalisation’ v ‘back to stimulus’) are unlikely to be resolved soon.
- Nerve-wracking geo-politics and lots of ‘interesting’ elections to come.
- Most company trading statements so far suggest corporate resilience....but weeks more of this to go!
- Historical trends suggest Dividends and Low Volatility perform well in election years, our strategies have a focus on companies with high-quality balance sheets and rising dividends.
- Chinese problems better understood now by investors.
- Japan is breaking out, though it doesn’t feel crystal clear as to why now. It has sensibly-priced shares with momentum and a [contested] change story, though...
- Stay well diversified, emphasis on short-dated high-quality bonds, and cheaper high-quality stocks (just look at the UK for example!), alternatives and cash.



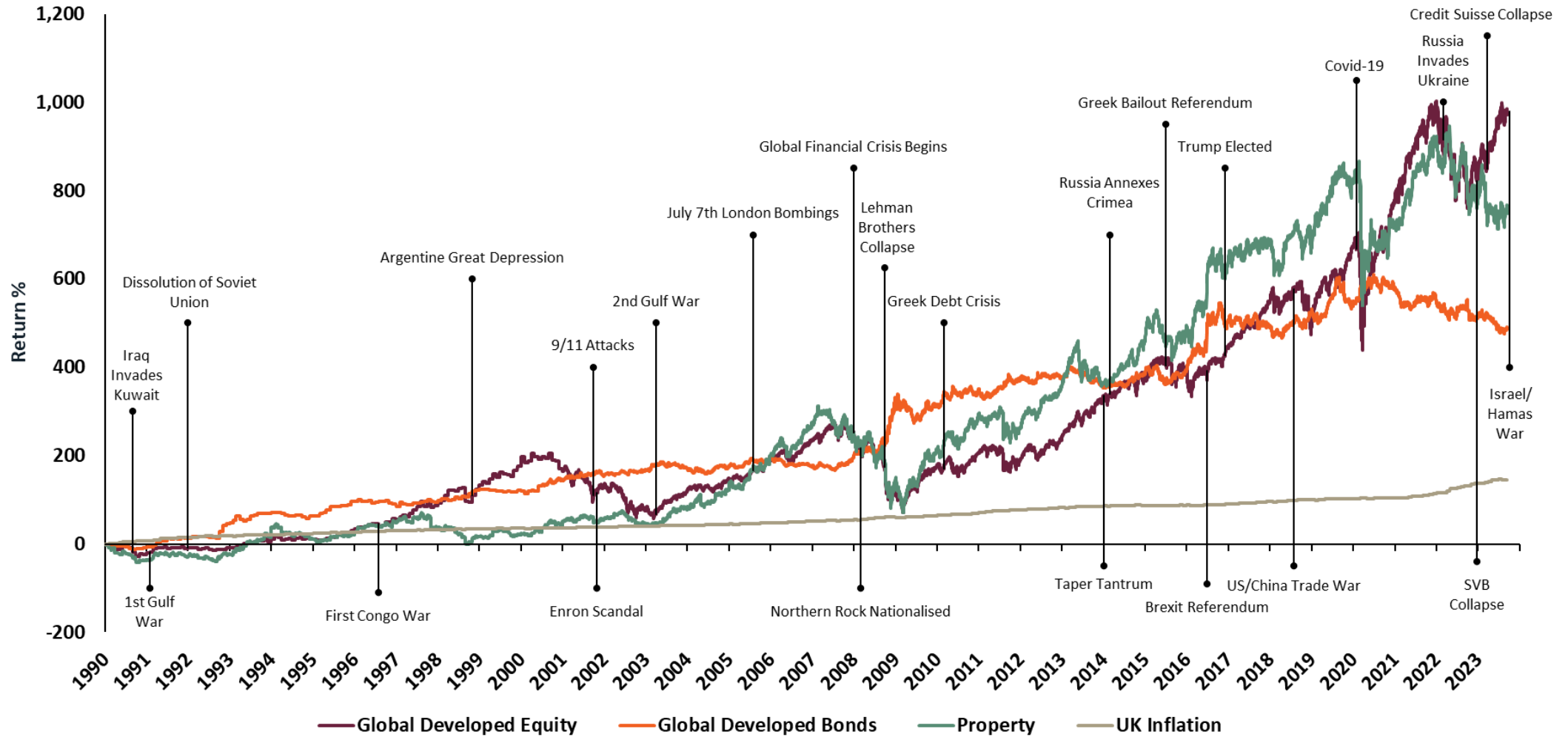
Appendix

Global Market Returns in GBP

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Best	61.54 China	17.04 Japan	33.55 US - S&P 500	30.55 Emerging Markets	6.26 US - NDX	34.07 US - NDX	44.28 US - NDX	29.89 US - S&P 500	0.34 UK	46.38 US - NDX
	26.83 US - NDX	16.11 US - NDX	27.96 US - NDX	25.13 Asia Ex Japan	1.56 US - S&P 500	31.89 China	34.08 China	28.68 US - NDX	-5.42 Global Ex US	21.61 Global
	20.76 US - S&P 500	8.37 China	27.34 Asia Ex Japan	21.48 US - NDX	-2.16 Japan	26.43 Europe Ex UK	20.63 Japan	23.53 Europe Ex UK	-7.08 Asia Ex Japan	19.16 US - S&P 500
	9.32 Global	8.30 Europe Ex UK	25.96 Japan	21.12 China	-7.69 Global	26.41 US - S&P 500	19.12 Emerging Markets	20.90 Global	-7.79 US - S&P 500	16.36 Europe Ex UK
	9.21 Asia Ex Japan	7.25 US - S&P 500	24.64 Global Ex US	19.77 Global	-8.57 Asia Ex Japan	26.24 Global	18.66 Asia Ex Japan	18.32 UK	-8.94 Japan	15.65 Japan
	6.63 Europe Ex UK	1.27 Global	16.75 UK	16.18 Global Ex US	-8.86 Global Ex US	19.17 UK	14.74 US - S&P 500	8.82 Global Ex US	-12.95 Europe Ex UK	9.85 Emerging Markets
	5.17 Emerging Markets	0.98 UK	9.69 Emerging Markets	14.75 Japan	-9.47 UK	18.06 Emerging Markets	14.21 Global	-0.08 China	-15.54 Emerging Markets	9.10 Global Ex US
	2.11 Global Ex US	-0.20 Global Ex US	9.04 Global	13.59 Europe Ex UK	-10.08 Emerging Markets	17.17 Japan	7.24 Global Ex US	-0.19 Emerging Markets	-15.98 Global	7.92 UK
	1.45 Japan	-4.12 Asia Ex Japan	2.31 Europe Ex UK	13.10 UK	-11.31 Europe Ex UK	16.82 Global Ex US	1.43 Europe Ex UK	-2.00 Asia Ex Japan	-17.25 China	1.31 Asia Ex Japan
Worst	1.18 UK	-5.76 Emerging Markets	1.14 China	11.29 US - S&P 500	-23.07 China	14.56 Asia Ex Japan	-9.82 UK	-3.49 Japan	-23.86 US - NDX	-15.96 China

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Time in the market, not timing the market



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We hope you found this presentation of interest and useful.

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



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