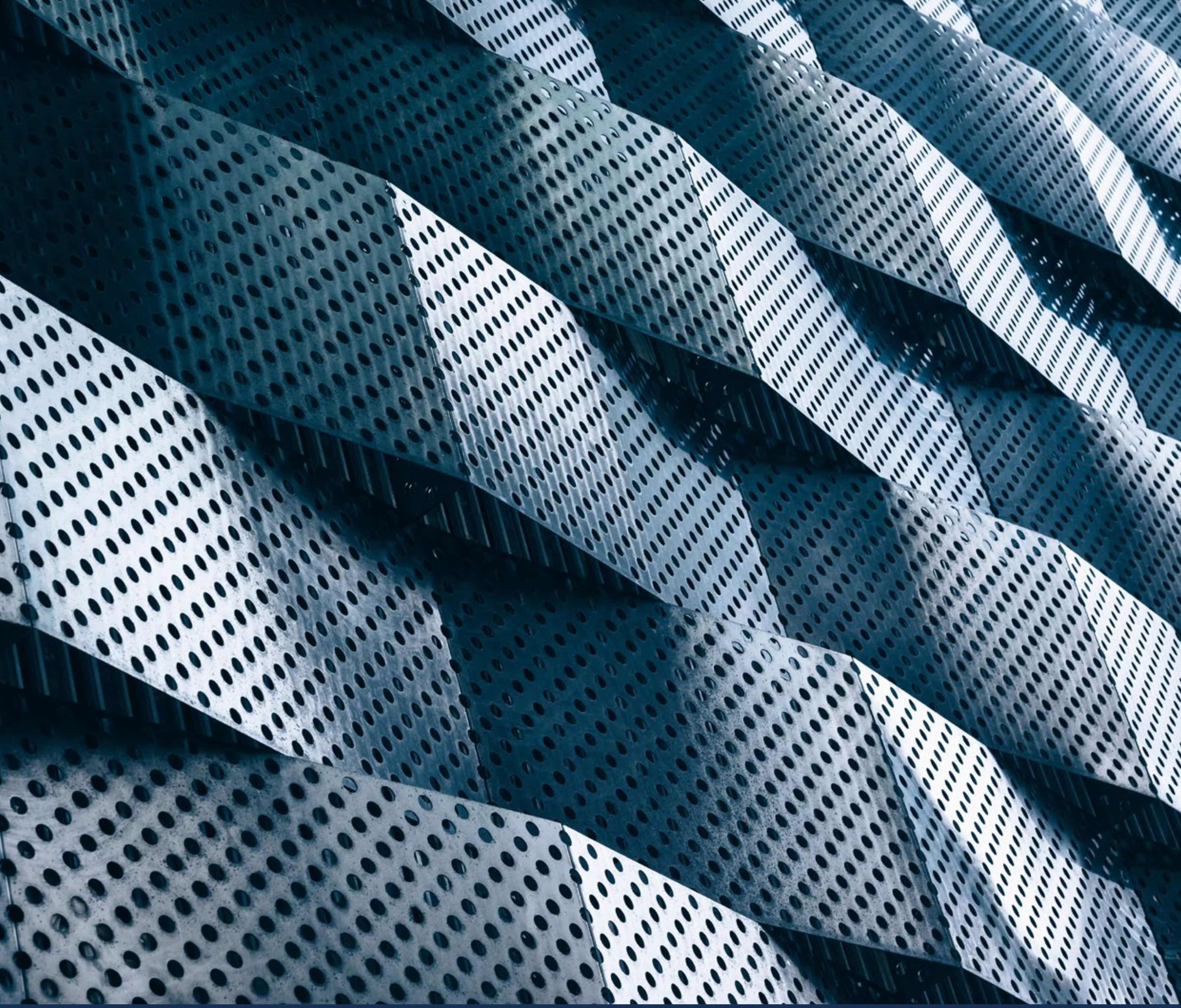


Titan Wealth Group CIO's Monthly Insights

The view from Wigmore Street

May 2024

Written by: Mark Holden

Introduction

The Titan Wealth Group encompasses a number of different investment companies, each with unique styles and investment processes. Each month, the Chief Investment Officers (CIOs) and other key senior investment professionals meet to discuss and debate the investment and macroeconomic backdrop that is potentially influencing our investment decisions. This publication aims to provide you with investment feedback and opinions from the people responsible for heading up the investment of your wealth across the various businesses under the Titan Wealth Group umbrella. This does not represent 'Titan house views,' rather it aims to give you an insight into the investment debates we are having internally across our various businesses.

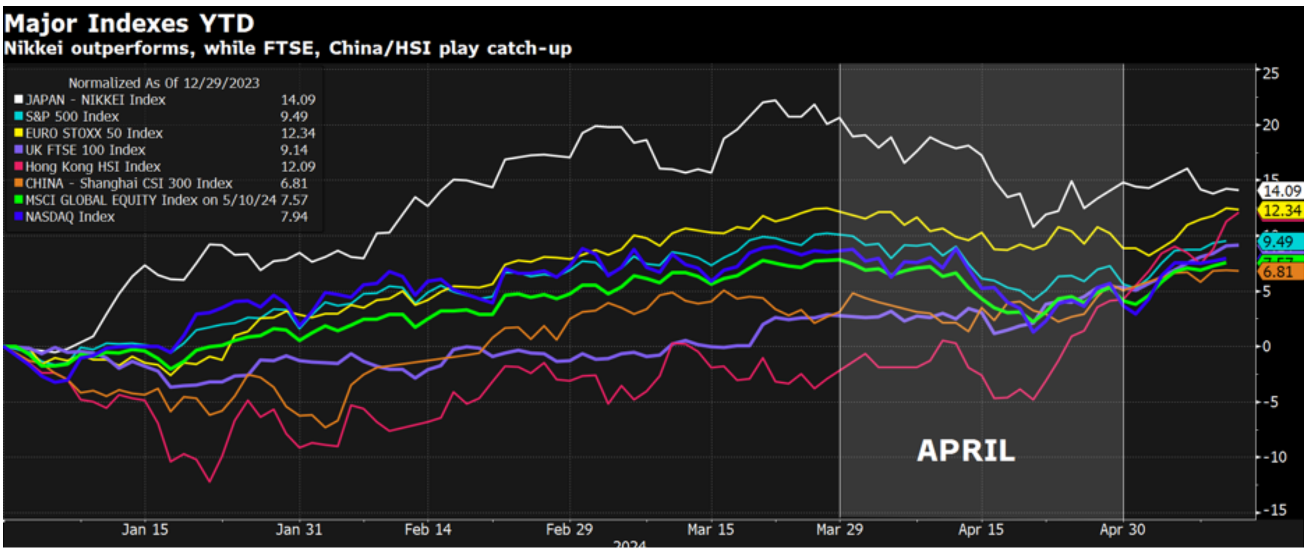
Slippage and catch ups

Our meeting began, as it normally does, with a review of the previous month's noticeable asset price moves. April proved to be a difficult month for most assets, particularly those that had performed well in the first quarter of the year.

Marginally negative inflation data out of the US caused bonds to fall (again) and equities to slip a little in the face of some modest profit taking for the first time since the 1st November 2023 FED 'pivot', when the Federal Reserve (the FED) changed from guiding that they expected interest rates to 'stay higher for longer' to 'expect as many as three interest rate cuts in 2024'.

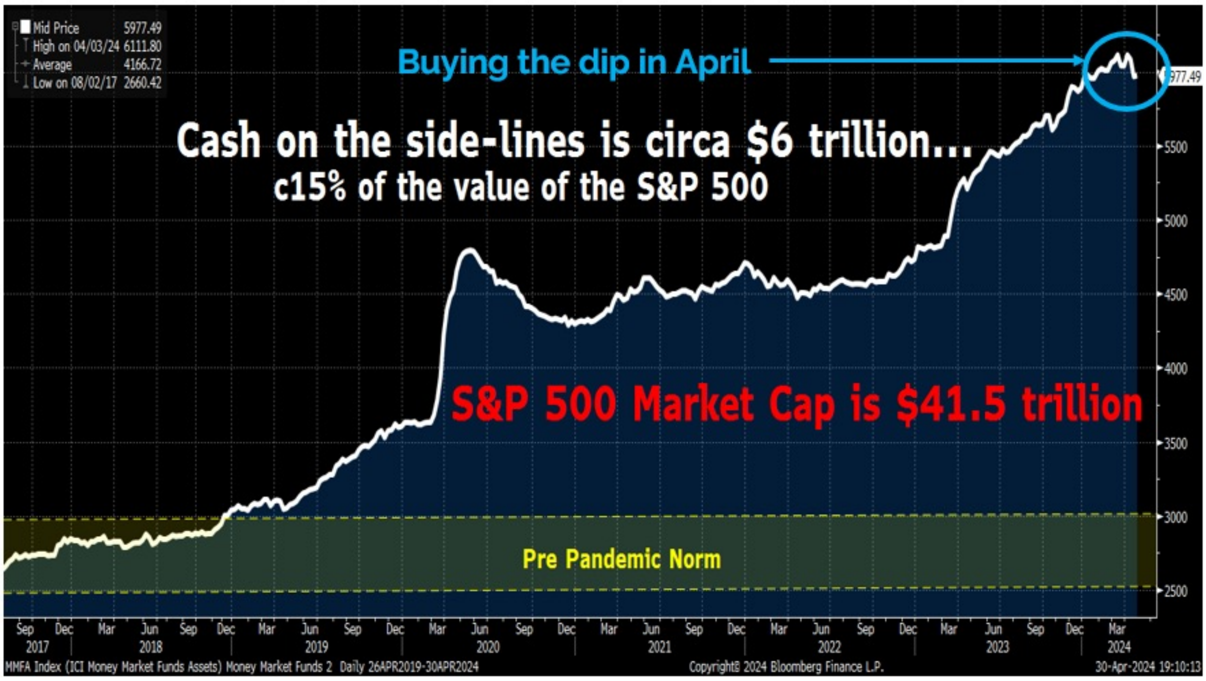
We have opined in the last couple of these publications that a period of consolidation, or even a mild drawdown, would be healthy given the speed of the recent rise in stock markets. Consequently, we were not surprised to see modest falls in the likes of the S&P 500 which fell about 4% over the month of April. However, despite the drawdown, it remains comfortably in positive territory over the year to date, up about 6% at the end of April.

Encouragingly, its seems that money coming out of those major markets that had performed best in the year to date (Japan, Europe and the US), in April rotated into markets that had lagged, namely, the UK, China and Hong Kong, all of which performed positively and, as can be seen on the chart below showing the performance of the world's major equity indices year to date, they rejoined the majority of their peers in being up 6% to 14% at the end of April.



Buying the dips!

In last month's publication we highlighted the huge amount of cash sitting on the sidelines, over $6 trillion in the US alone! We also said that should we see any drawdowns in equity markets, we would not be surprised to see some of this cash put to work with investors 'buying the dips' likely making any falls modest and short lived. As it turns out, that may well have been the case as you can see from the chart below.

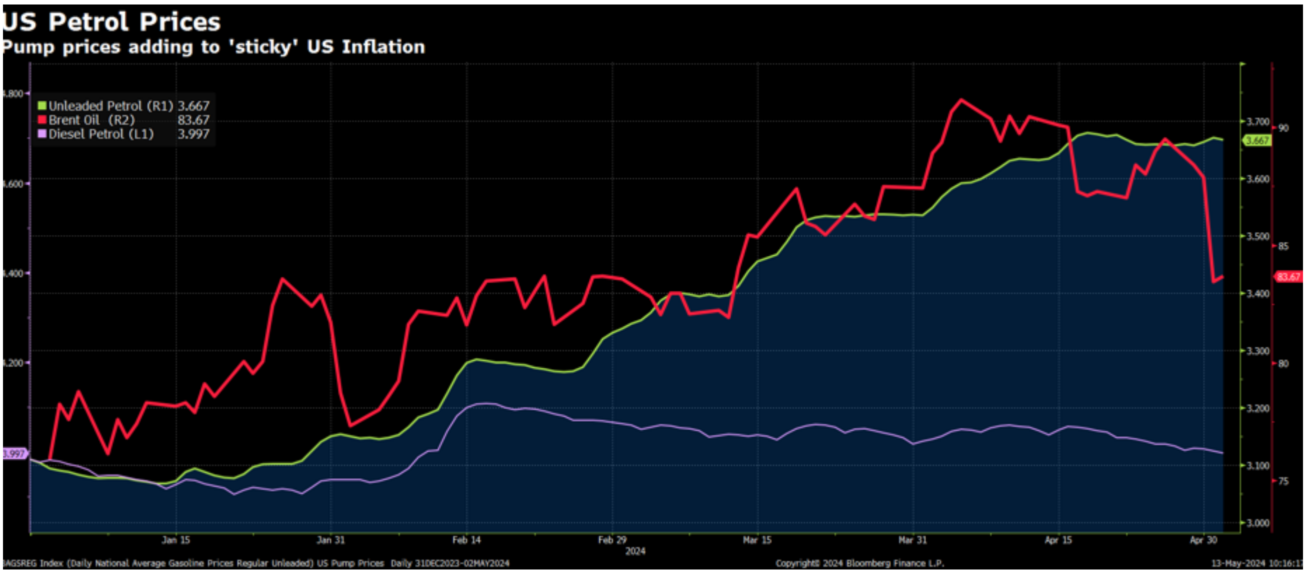


As the equity markets fell in April, so too did the cash held in US money market funds. Interestingly, equities have had a solid bounce back in May (as I write this) and those indices that fell have recouped nearly all of April's loses and are once again nearing all-time highs. Furthermore, the gap between the best performer, Japan's Nikkei 225 Index and the worst, Hong Kong's HSI Index, having been c23% at the start of April has narrowed dramatically to just c7% now! This suggests that investors have been rotating some profits out of the best performers (Japan, Europe and the US) and buying the laggards, namely the UK, Hong Kong and China, keeping the money in equities rather than banking their profits and investing in other assets such as bonds or cash.

Government bonds still causing angst

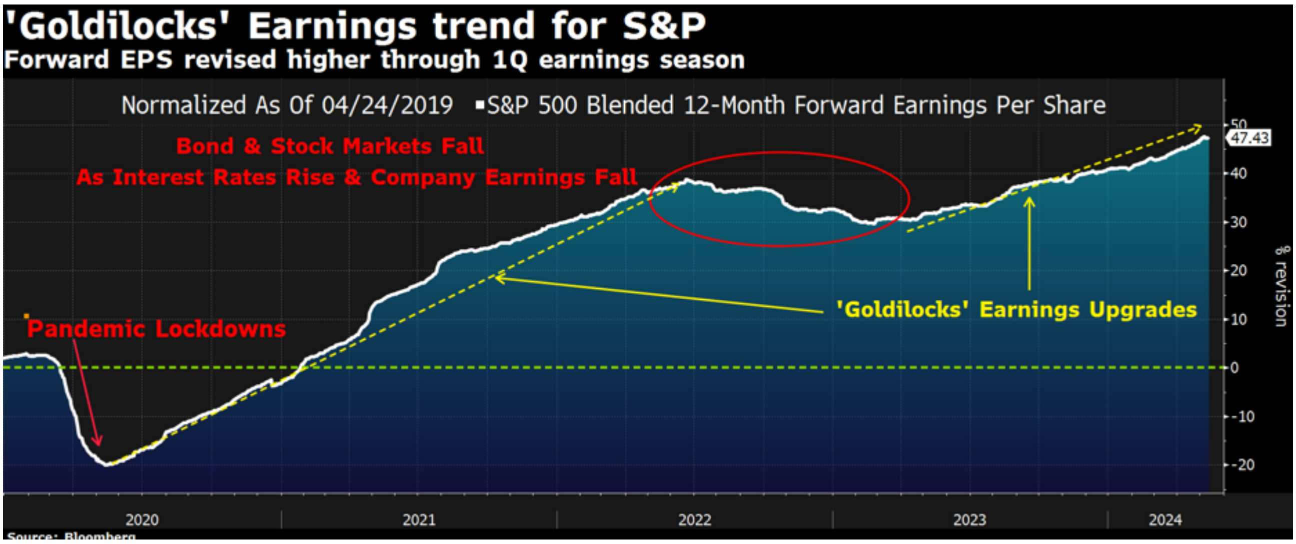
At this month's meeting we debated in detail why bonds had fallen once again in April and whether we were now at, or close to, the end of their run of poor performance.

Concerns around the 'sticky' nature of US inflation have remained a worry for bond investors globally with ongoing high rental/housing costs and insurance premiums preventing the headline level of inflation from falling over the past few months. Furthermore, employment costs, as measured by the employment cost index in the US, unexpectedly rose last quarter (1.2% in Q1 vs. consensus expectations of 1%). These factors, when coupled with the price of unleaded petrol in the US (green line on the chart below) remaining high despite the move lower in the oil price (red line) has unsettled investors. All things being equal, the majority of our CIOs felt that it would be fair to expect that the price of unleaded petrol should soon begin to follow the oil price lower, which would of course be good for consumers, company profits and inflation in the coming months.



We noted that the resilience, or 'sticky' nature of inflation in the US, is at odds with the situation in the UK and Europe where inflation continues to fall, albeit modestly. As a result, and as we will discuss later, it now looks like the US will be the last major central bank to begin cutting interest rates this year, which is a huge change from the beginning of this year when they were expected to be the first.

In the main, companies have been able to pass on rising costs to consumers in the form of higher prices. However, we noted that there are some nascent signs that this is becoming increasingly difficult, particularly in respect of lower income households. This is one of many reasons why we closely monitor the expected company earnings which have, as can be seen on the chart below, risen steadily for the past 18 months or so. This steady upward slope, when coupled with falling or stable interest rate expectations as we have now, is the principal reason why stock markets have performed so well over the same period. The equity experts on the committee felt that this steady rise in earnings forecasts, a 'goldilocks' scenario, was likely to continue given the current economic, interest rate and inflationary backdrop.



With regard to interest rate cutting expectations, these have continued to fall in tandem with bond markets. At the end of April, bond investors were expecting the FED to cut rates just 1.2 times over the course of the remainder of the year. Remember that in mid-January, 6/7 cuts were being forecast! Expectations in the UK and Europe are also less positive than at the end of the first quarter, but on balance the majority of our CIOs felt that we may now have seen the bottom in interest rate cutting expectations and so things may well begin to improve from here, or at least stabilise, provided there are no new inflationary shocks.

The timing of any interest rate cuts is notoriously difficult to forecast. That said, bond markets are the best way to gauge when the first cuts may manifest themselves. The tables below show when bond investors think the first cuts might occur. Please note that the dates are those of the central bank's meetings and formatted for US investors. These tables show that the European Central Bank (the ECB) are now likely to be the first to cut (0,25%) on either 6th June, or at their meeting on 18th July. The Bank of England (the BoE) is expected to be next with a 0,25% cut at their meeting on 1st August, while the FED is forecast to cut 0.25% either just before the US Presidential election at their meeting on 18th September, or just after on 7th November. Although these expectations move around on a daily basis, the majority of our CIOs felt that these were on balance a fair reflection of their own views.

Meeting	#Hikes/Cuts	%Hike/Cut
06/06/2024	-0.946	-94.6%
07/18/2024	-1.201	-25.5%
09/12/2024	-1.934	-73.3%
10/17/2024	-2.266	-33.2%
12/12/2024	-2.832	-56.6%

Meeting	#Hikes/Cuts	%Hike/Cut
06/20/2024	-0.553	-55.3%
08/01/2024	-1.043	-49.0%
09/19/2024	-1.415	-37.2%
11/07/2024	-1.883	-46.9%
12/19/2024	-2.250	-36.6%
02/06/2025	-2.653	-40.3%
03/20/2025	-3.007	-35.5%

Meeting	#Hikes/Cuts	%Hike/Cut
06/12/2024	-0.038	-3.8%
07/31/2024	-0.253	-21.5%
09/18/2024	-0.693	-44.0%
11/07/2024	-1.068	-37.5%
12/18/2024	-1.525	-45.7%
01/29/2025	-2.004	-47.9%

Company bonds have performed much better than government bonds

We spent time discussing the outlook for corporate credit/bonds which have performed much better this year than government bonds. In fact, they have been acting more like 'equities' than 'bonds'. Our head of Fixed Income sees the current environment as akin to a 'golden era' for these types of bonds, particularly those of companies who have ample cash on their balance sheets and for whom 'higher for longer' rates are a positive. We regularly see large companies, such as the world's biggest company Microsoft, issue corporate bonds and use the proceeds, in part, to buy back shares which, at the margin, is good for equity markets, but marginally less so for bonds.

Given our continued positive outlook on the equity markets, we see the corporate credit market as being in a 'good space' although there are some signs of pressure in stressed credit and high yield (lower quality companies with large amounts of debt). In this part of the market, investors continue to urge company management to use the strength of these markets, where debt issuance and demand is at record levels, to push for early restructurings/payback of some of their more expensive debt and we see these conditions persisting for some time.

Overall, for the rest of this year, we now see the whole bond market as a 'world of carry' (with limited prospects for material capital appreciation) in which investors are being paid handsomely (with high interest payments) to wait in the short-term and not to chase after longer term yields that often pay you less but which are more volatile and riskier.

Outlook

Having hoped for, and now seen, a modest pullback in equity markets in April, we feel that on balance the markets are now well positioned for the remainder of the year. Furthermore, the majority of our CIOs felt that bond markets have probably fallen far enough and so any good news on inflation will likely be met with enthusiasm and a pickup in interest rate cutting expectations. Such a backdrop would be ideal for most assets and equities in particular. Consequently, and given the continued attractive 'goldilocks' fundamentals for equity investing, our CIOs remain positive for the remainder of the year.

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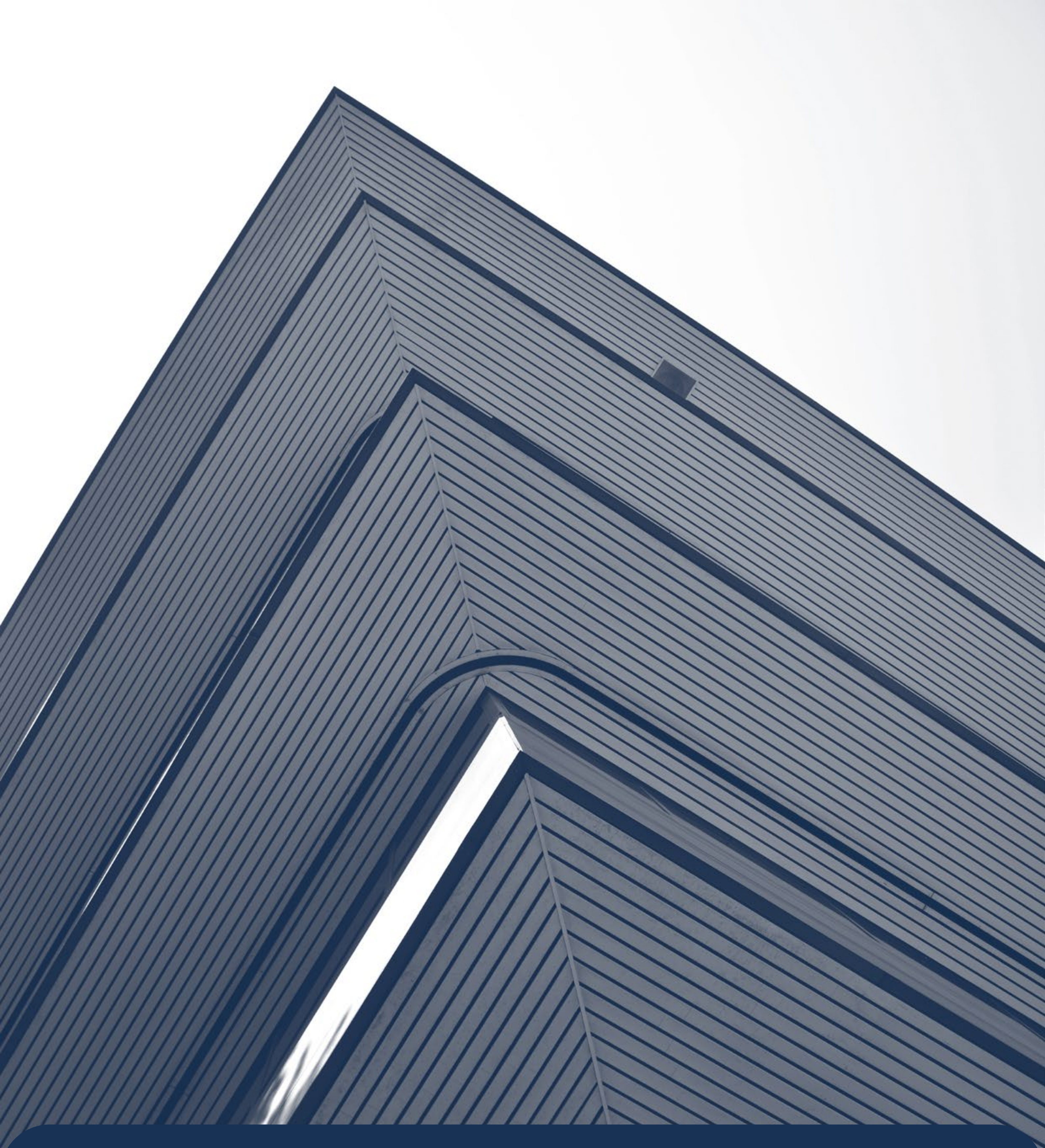

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