



BOWMORE
ASSET MANAGEMENT

BOWMORE ASSET MANAGEMENT GLOBAL MARKETS OVERVIEW

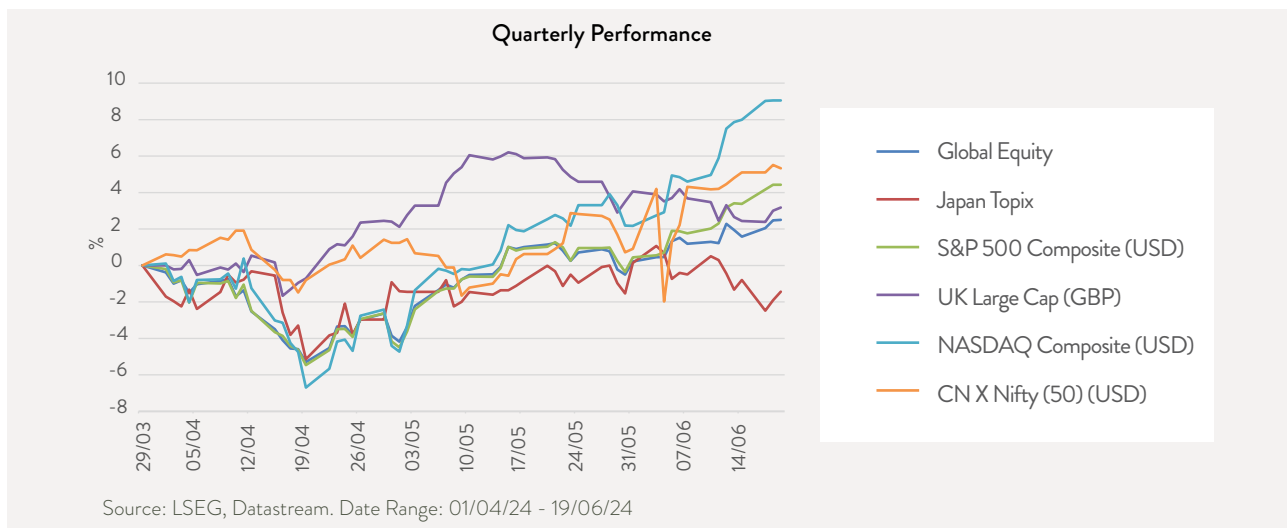
2ND QUARTER 2024

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Global Markets

Our quarterly market overview provides a snapshot of recent activity within the world's financial markets. This quarter, we look at the continued outperformance from tech stocks, the rebound in Chinese shares, the increased level of interest in bonds, the potential ramifications of the UK election, and more. We also provide our outlook for different sectors and markets as we begin the second half of 2024.



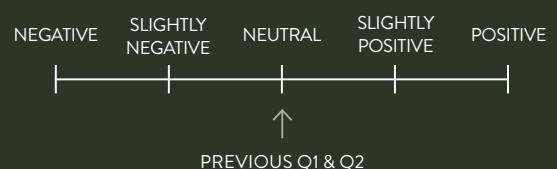
- Global equities rose in Q2 although there were periods of volatility due to uncertainty over the timing of interest rate cuts.
- The best-performing sectors for the quarter were Technology, Communication Services, and Utilities. Large caps outperformed small caps.
- UK large caps hit new all-time highs in May. The UK continued to see a high level of takeover activity with bids coming in for companies of all sizes.
- The artificial intelligence (AI) theme continued to drive the US market higher. Semiconductors and Utilities were two areas of the market that benefitted from the theme.
- Chinese equities staged a rebound after a long period of underperformance. China's Q1 GDP growth was 5.3% – above estimates.
- The European Central Bank (ECB) cut interest rates by 0.25%. The US Federal Reserve and the Bank of England (BoE) held rates steady.
- Historically, the Fed has been the first central bank to cut rates but this time the ECB has gone first, and the BoE will likely be next. The market now expects

only one rate cut from the Fed this year after six were anticipated at the start of 2024.

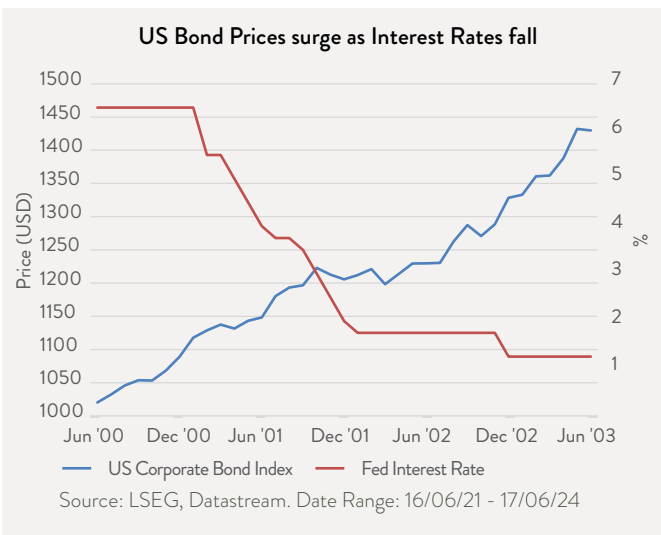
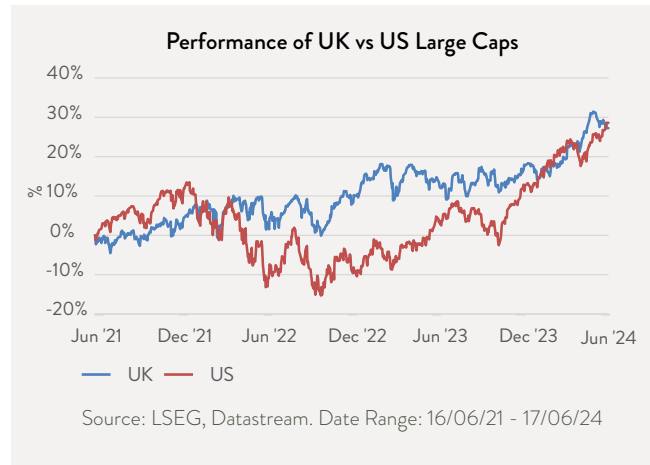
- UK inflation fell to 2% in May – the first time in almost three years that it was not above the Bank of England's target level.
- Gold hit new all-time highs in Q2 due to geopolitical uncertainty while oil prices fell.

Our Stance

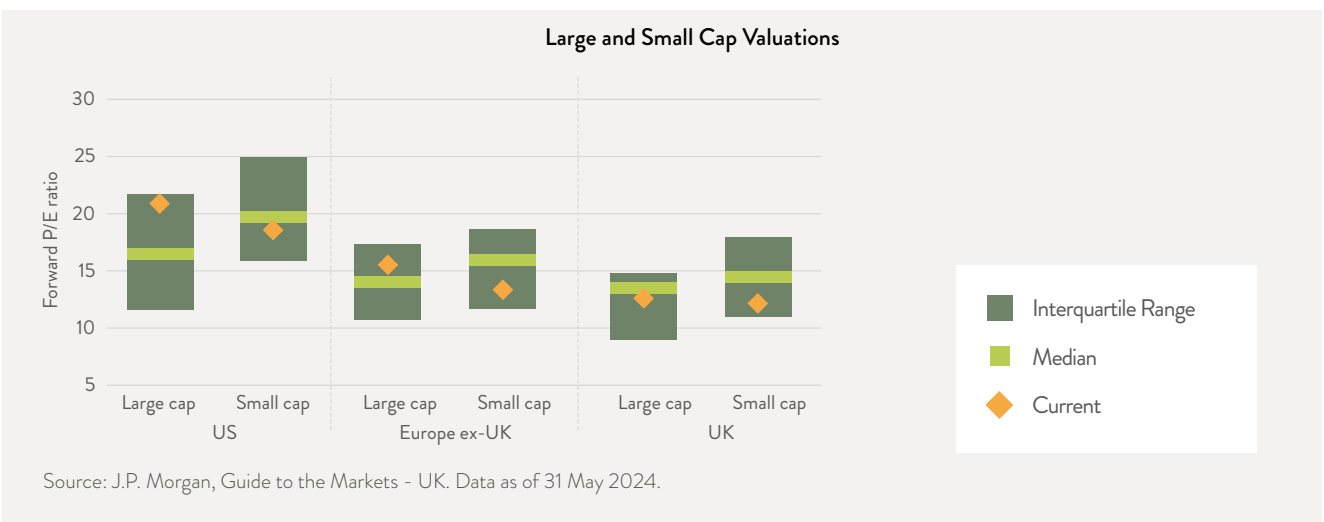
We currently have a neutral stance on global equities. Geopolitical uncertainty remains high and there is a busy election schedule ahead. Meanwhile, central banks are at different stages of their battle with inflation and economic growth expectations vary significantly between regions. Looking ahead, we will continue to be selective with our asset allocation.



- The overwhelming sentiment is that UK equities are cheap, unloved, and underperforming. Yet until recently, UK large caps had actually outperformed US large caps over a three-year horizon.
- The UK market's returns have been boosted by a near-4% dividend yield. Dividends are a crucial, but often overlooked, part of total return.
- UK stocks are currently trading at an average forward-looking price-to-earnings (P/E) ratio of about 11 versus 21 for US shares. So, there is a substantial valuation gap.



- We are entering a rate-cutting cycle. The ECB has already started cutting rates and other central banks are likely to follow.
- There is a clear inverse correlation between interest rates and bond prices. Therefore, we are expecting strong returns from fixed income securities in the years ahead.
- When US interest rates were cut from 6.5% to 1.25% over the three-year period from 1 June 2000 to 1 June 2003, bonds produced a 40% return.



- Small caps have traditionally outperformed large caps over the long term. Between 1926 and 2022, US small caps outperformed large caps by 1.7% annually.
- Recently, small caps have been left behind. The valuation differential between smaller and larger companies is the widest it has been since 2003.
- Small-cap stocks are more sensitive to interest rates. So rate cuts could create an opportunity for small caps to outperform once again.

UK Equities

UK equities delivered a solid return of 3.7% in Q2. Building on a good first quarter, large-cap UK shares hit new record highs in mid-May, helped by strong performances from a number of blue-chip companies including several banks. The market pulled back in the second half of May though, after UK prime minister Rishi Sunak announced a general election. Markets like certainty, and before an election, there is always some political uncertainty.

One UK stock that performed well in Q2 was pharmaceutical giant AstraZeneca, which is the largest business on the London Stock Exchange today. In April, it reported quarterly revenue and profit above market estimates, buoyed by resilient demand for its oncology and rare blood disorder drugs. Then, in May, it told investors that it aims to grow its revenue by about 75% to \$80 billion by 2030. As a result of these developments, the stock ended the quarter up about 16% – a significant gain for a large-cap company.



Source: LSEG, Datastream. Date Range: 24/06/21 - 24/06/24

Another well-known UK-listed stock that produced strong gains was consumer goods business Unilever. It has underperformed in recent years as consumers have become more budget-conscious and shifted towards cheaper private label brands. The company now has a new management team in place though, and they have set out a plan to turn Unilever into a leaner, more efficient

business. Q1 results were promising with underlying sales growth of 4.4% and a strong performance from the company's 'power brands'.

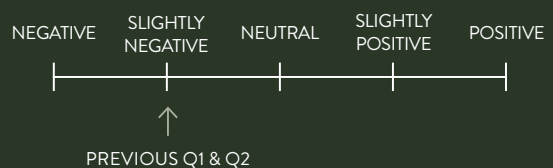
As banks benefit from higher interest rates, it was no surprise to see NatWest, Barclays, Lloyds, and HSBC all perform well. Recently, these banks have been making a lot of money from their cash on deposit with the Bank of England (BoE). It's worth noting that Nigel Farage has proposed restructuring the way the BoE pays interest on reserves. He believes that this could lead to a £40 billion tax cut for Britain.

Amid the market's rise, National Grid was one notable underperformer. It announced a £7 billion rights issue in May to fund its renewable energy investment plans and this sent its share price down sharply. easyJet was another stock that lost ground over the period. It posted a £350 million pre-tax loss for the first half of its financial year, and also announced that CEO Johan Lundgren will step down in early 2025.

Our Stance

We remain a little cautious on UK equities.

Economic growth continues to be low in the UK and we believe that the value bias of the large-cap index could lead to underperformance when interest rates start to come down. That said, sentiment is starting to turn, and any sign of net inflows could generate significant momentum.



With UK valuations remaining low, we continued to see a high level of takeover activity within the market. During the quarter, Australian mining powerhouse BHP made several bids for Anglo American, however, the offers were rejected, with Anglo American stating that the bids were too low. Other companies that surged on takeover activity were IDS (Royal Mail), which agreed to a £3.6 billion takeover from Czech billionaire Daniel Kretinsky, cybersecurity company Darktrace, which agreed to a £4.3 billion takeover from US private equity firm Thoma Bravo, and Hargreaves Lansdown, which received multiple bids from a private equity consortium.

In June, the Initial Public Offering (IPO) of Raspberry Pi generated quite a bit of buzz in the market. Raspberry Pi is a technology company that designs and develops small computers built on a single circuit board. The tech company's IPO price was 280p, giving it a market cap of around £540 million, yet the stock rose 40% on the first day of trading and continued to rise in the days following the IPO. The success of this IPO could lead to more private technology companies listing on the London Stock Exchange instead of in the US.

On the economic front, the UK bounced back from a shallow recession late in 2023, registering Q1 GDP growth of 0.6%. Meanwhile, inflation came in at 2.3% in April and 2.0% in May. Despite the reduction in inflation, the BoE held interest rates steady. However, the central bank is expected to start cutting interest rates in August and many economists expect at least one more rate cut this year despite persistently high wage growth (year-on-year wage growth in May was 6%) and services inflation in the UK¹.

In terms of the implications of the UK election for the stock market, our research shows that UK stocks have performed better under Conservative governments than Labour governments. Since 1983, the market has grown at 4.9% per annum under Conservative governments and 3.9% per annum under Labour governments. That said, stock market performance is usually more influenced by the interest rate cycle than by moves from a specific government. While there are examples of government policy contributing to rises in the stock market (e.g. Margaret Thatcher's Big Bang), they are quite rare.



¹ Reuters

US Equities

The bull market in US stocks continued in Q2, (+3.3% for the quarter), with major indexes hitting new all-time highs. However, there was volatility at times, with share prices pulling back in April on the back of concerns over bond yields. The best-performing sectors for the quarter were Technology, Communication Services, and Utilities, all of which benefitted from the AI theme. Energy and Materials were the biggest underperformers.

Throughout Q2, the AI theme was a major area of focus for investors. This led to powerful gains for semiconductor stocks. Nvidia – which is seeing incredible demand for its AI chips – was again the star of the show, rising nearly 40% (helped by a 10-for-1 stock split). At one stage in June, it was the world's most valuable company with a market cap of over \$3.3 trillion. Broadcom – the 10th-largest business in the S&P 500 – also performed well after the company delivered a big earnings beat on the back of demand for its AI chips.

In an interesting twist, AI also led to strong gains for Utility stocks. The theory here is that AI is going to lead to a huge data centre build out, propelling demand for electricity significantly higher. According to analysts at Goldman Sachs, data centre power demand could increase at an annualised rate of 15% between 2023 and 2030². In the short term though, AI could be a double-edged sword for a lot of Utility companies as many will need to spend more on infrastructure.

While the Technology sector produced strong gains, there was a notable underperformance from software, with stocks like Salesforce, Atlassian, and Workday all falling significantly. Higher-for-longer interest rates and decelerating growth were two factors behind the weakness here. Another factor was AI. Recently, enterprises have been taking a wait-and-see approach to software spending, evaluating the potential of artificial intelligence before making significant investments.

Q1 earnings in the US were generally good, with the overall earnings growth rate of 8.0% surpassing the start-of-quarter estimate of 5.0%. Yet, as in previous quarters, much of the earnings growth came from the mega-cap technology companies. Stripping out the impact of the 'Magnificent 7' stocks, Q1 aggregate earnings growth declined to 1.6%. Analysts expect to see a broadening of earnings growth contribution in the second half of the year.

²Goldman Sachs

While Apple's quarterly results in May weren't spectacular, the company announced a \$110 billion buyback – the largest buyback ever. This pushed its share price up substantially. Its share price got another boost later in the quarter after the company announced the launch of 'Apple Intelligence' – its move into AI – at the Worldwide Developers Conference (WWDC) 2024. Apple Intelligence includes generative AI features like writing and image creation – powered by ChatGPT – as well as an improved Siri assistant.



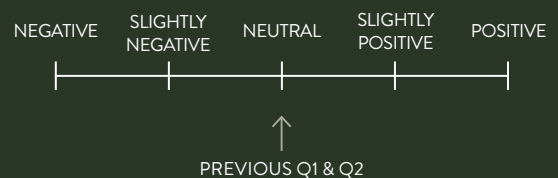


As for Tesla, it had a volatile quarter. In April, it tanked on the back of the cooling electric vehicle (EV) market. However, it rallied late in the quarter after shareholders approved a \$56 billion pay package (more than 3,000 times the average CEO pay) for CEO Elon Musk. At the company's 2024 annual shareholder meeting in Texas, Musk claimed that its Optimus robots could make Tesla a \$30 trillion company one day. This forecast should be taken with a grain of salt though – Musk is notorious for making ambitious promises to investors and customers that don't pan out.

In the US, inflation came in at 3.4% in April and 3.3% in May while GDP rose at an annualised pace of 1.3% in January to March – below the estimate of 1.6%. At its June meeting, the Fed held rates steady, with Fed Chair Jerome Powell stating that policymakers were content to leave rates where they are until the economy sends a clear signal that action is needed (i.e. a more convincing decline in price pressures or a jump in the unemployment rate). The Fed also said that it expects to make one rate cut this year. This boosted sentiment towards equities as some investors had been beginning to fear that there would be no rate cuts at all in 2024.

Our Stance

We currently have a neutral stance on US equities. The market has momentum at present, yet it is very concentrated, with most of the gains being generated by just a few stocks – which history suggests isn't sustainable. On the plus side, a recession is very unlikely this year due to the upcoming election year and excitement surrounding AI is unlikely to go away anytime soon. However, with valuations as high as they are, a lot of upside is already priced in.



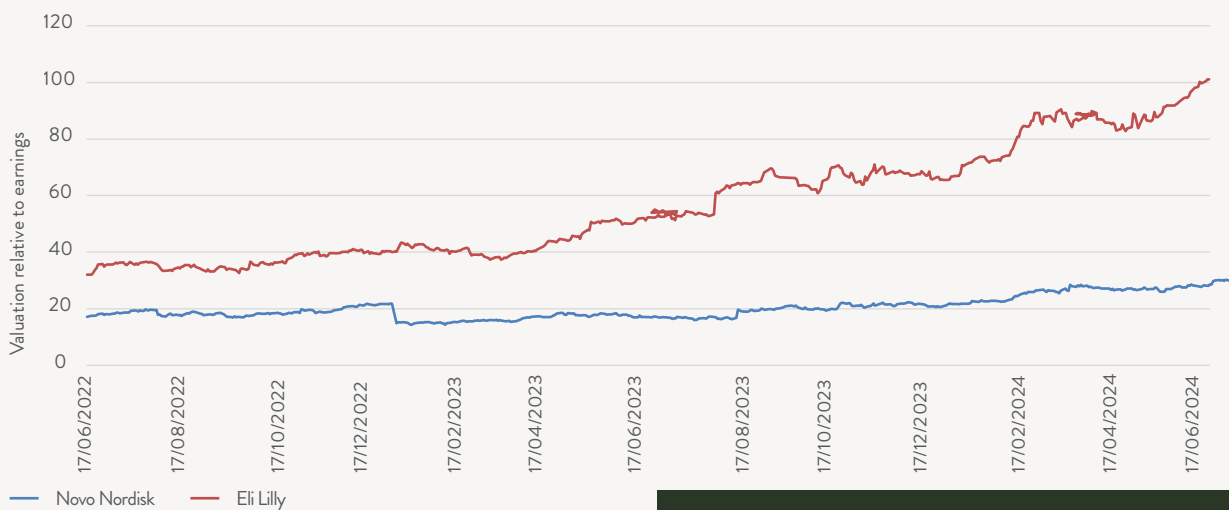
European Equities

European equities experienced some turbulence in Q2, but ultimately ended the quarter flat. In April, share prices across Europe fell as the prospect of US rate cuts receded. They recovered in May, as a rate cut from the ECB came into focus. Yet they then took another hit in June after French President Emmanuel Macron called a snap election, leaving market participants worried that the far right – led by Marine Le Pen's Rassemblement National (RN) – could win and push a high-spending agenda.

Within the European market, Danish drug developer Novo Nordisk – the largest company in Europe – continued to outperform, posting a double-digit gain for the quarter. It is having a lot of success with its weight-loss drug Wegovy at the moment, and it raised its outlook for the year in May. Note that analysts at Goldman Sachs believe that the global weight-loss drug market could be worth \$130 billion annually by 2030, so the company could have a long growth runway ahead of it. While the stock has a high valuation today, it remains far cheaper than its main US rival, Eli Lilly.

In June, the European Central Bank (ECB) cut interest rates by 0.25% to 3.75% despite lingering inflationary pressures in the eurozone (inflation for May came in at 2.6%). This was the central bank's first cut since 2019. This cut should provide a boost for the European economy, which has strengthened recently. In May, PMIs hit 12-month highs while euro area business confidence hit a 27-month high⁴.

Valuation gap between companies listed in Europe and the US



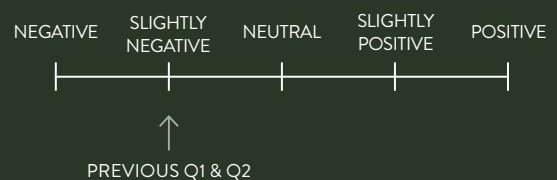
Source: LSEG, Datastream. Date Range: 19/06/19 - 19/06/24

As for LVMH, which is currently Europe's second-largest company, it lost ground during the quarter. It has seen a slowdown in sales growth recently as consumers have adjusted their spending habits in the higher-interest rate environment and sales from China have dropped. In the first quarter, for example, revenues only grew by 3%. It's worth pointing out that the luxury goods industry has come to rely on growth in China – where the industry tripled in size between 2017 and 2021³.

³ Reuters ⁴ Morning Star

Our Stance

We retain our slightly negative outlook on European equities due to concerns over economic conditions in some countries within the EU. That said, the ECB rate cut could be beneficial for European small-cap growth stocks.



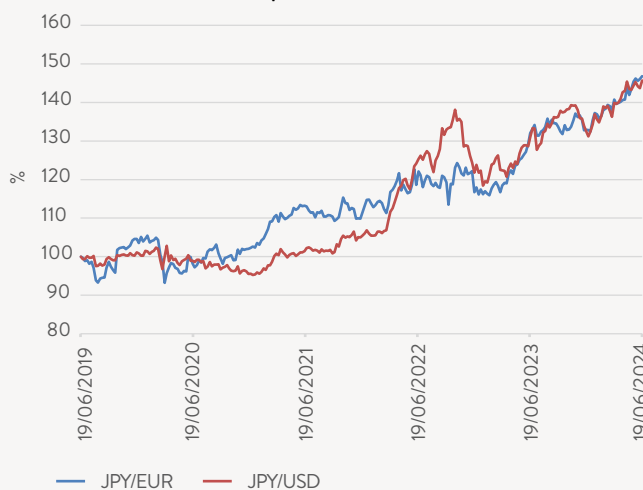
Japanese Equities

After a strong run in the first quarter of 2024, Japanese equities delivered a return of 1.8% in Q2. Note, however, that returns in USD terms were -4.2% due to the depreciating yen. Over the period, value stocks (+2.4%) outperformed growth stocks (+1.2%). Growth stocks were hit by a sell-off in chip stocks early in the quarter, after Taiwan Semiconductor Manufacturing Company slightly lowered its outlook for chip market growth in 2024.

During the second quarter, Japanese automakers were caught up in a safety certification scandal after several major auto manufacturers – including Toyota, Mazda, and Honda – admitting to falsifying testing data and performing safety tests under inappropriate conditions. As a result of the scandal – which has led to halts in vehicle shipments – Japan's transport ministry raided the headquarters of Toyota in June. Toyota's share price ended the quarter down around 13%, while shares in Mazda also fell heavily.

Throughout Q2, the weak Japanese yen was in focus. In June, the yen fell to a rate of 160.9 against the US dollar – a level not seen since 1986 and the weakest real rate in around 50 years – despite the yield gap between the two countries narrowing. While a weak yen is good for tourism, the Japanese government has expressed concern about its impact on inflation, as it could delay domestic demand-oriented economic growth. However, after making its first rate hike in 17 years in Q1, the Bank of Japan (BoJ) did not increase rates further in the second quarter. Data showed that in the first quarter, Japan's economy contracted by 1.8% due to weakening domestic consumption and decreased capital spending.

Depreciation of the Yen

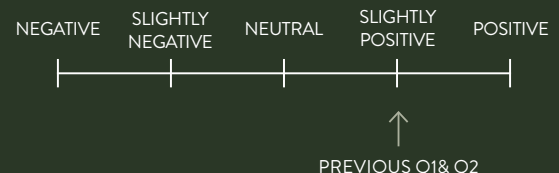


Source: LSEG, Datastream. Date Range: 19/06/19 - 19/06/24

In Japan, the Tokyo Stock Exchange's capital efficiency initiatives continue to gain traction, with a growing number of companies embracing them. This is leading to record levels of share buybacks. In April and May, for example, the total amount of announced share buybacks by Japanese companies hit 6.5 trillion yen. That figure represents nearly 70% of the total share buybacks announced during the whole previous fiscal year.

Our Stance

We have a positive view on Japanese equities, especially after their recent pullback. We like the fact that Japanese companies are buying back record amounts of stock. Buybacks tend to lead to higher earnings per share, which in turn, can lead to higher share prices.



Asian and Emerging Market Equities

Chinese stocks had a good quarter, posting a return of 7.2%.. These gains were driven by strength from tech stocks such as Tencent Holdings, PDD Holdings, and Meituan, which all generated double-digit returns. In recent years, Chinese equities have underperformed global markets by a wide margin.

With the Chinese economy experiencing a slowdown in growth, and its property market facing some major challenges, share prices have slumped. Yet there are signs that the economy, and the market, are turning the corner. In Q1, GDP growth came in at a healthy 5.3%, and Beijing has set a growth target of 5% for 2024⁵.

One factor that is helping China at present is government stimulus. Over the last 12 months, the government has been very proactive in implementing measures to support the economy. Recent actions include reducing capital requirements for banks – which have freed up a substantial amount of capital – and injecting one trillion yuan into the market to support spending. Beijing has also asked local governments across the country to buy unsold homes from property developers and convert them into affordable housing.

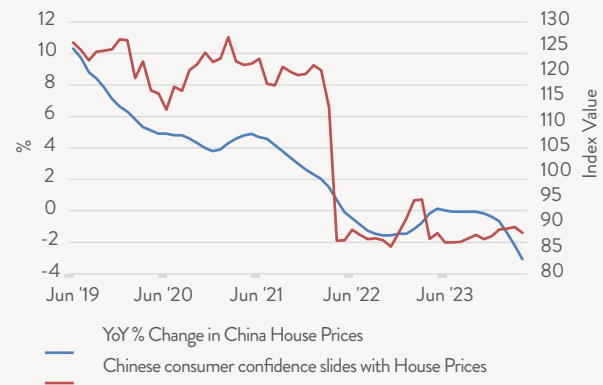
Another positive for China is its hi-tech manufacturing sector, which has emerged as a major growth driver. In Q1, this sector grew by 7.5% year on year. Within this, the computer, communications, and other electronic equipment manufacturing category rose 13.0% year on year⁶. This high level of growth reflects China's semiconductor self-sufficiency drive.

On the downside, there is still uncertainty in relation to China's property sector. This led to a pullback in share prices late in the quarter. In May, prices of new homes in China fell 0.7% from April⁷ – their biggest fall in nearly a decade. This suggests that more stimulus from the government may be needed.

Away from China, Indian stocks had a good – albeit volatile – quarter. In June, Indian PM Narendra Modi won a third consecutive term in power. Yet, in an unexpected outcome, he lost the outright majority. This unnerved investors, with stocks falling sharply before making a recovery. Modi listed electronics, semiconductors and defence manufacturing, renewables, and the farm sectors

as areas of focus for his third term. A coalition government could introduce some uncertainty into policymaking though. The IMF expects India to register GDP growth of 6.8% this year – well above the world average of 3.2%⁸.

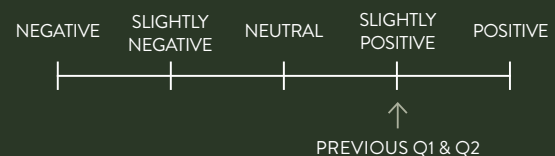
Chinese consumer confidence slides with House Prices



Source: LSEG, Datastream. Date Range: 19/06/19 - 19/06/24

Our Stance

We have a positive view on emerging markets given that the US dollar is looking close to peak value. However, we are still a little cautious on China. The real estate debt crisis is ongoing plus there is geopolitical tension with Taiwan and potentially the US if Donald Trump wins the election in November. We need to see more positive data surrounding consumer spending and inflation before increasing our exposure. We believe that frontier markets could benefit from China trying to reduce its dependence on the US for trade.



Government Bonds

Q2 was a relatively turbulent period for government bonds as yields fluctuated due to uncertainty over the timing of interest rate cuts.

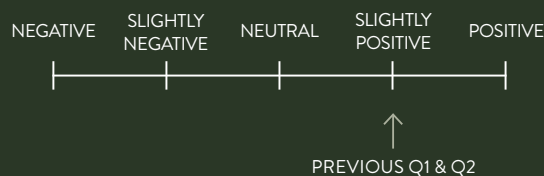
In the US, yields on 10-year Treasuries spiked up in the second half of April amid concerns over inflation and higher-for-longer interest rates. At one stage, they were hovering above the 4.7% level. Yet the high yields didn't last for long as the Fed said that it expects to make one interest rate cut this year. Yields ended the quarter near 4.3% – just above where they started the quarter.

British 10-year gilt yields also spiked up during the quarter, rising above 4.4% in late May. However, they pulled back in June, ending the period near 4.2%. With UK inflation falling back to the BoE's target of 2.0%, it looks like interest rate cuts will be on the cards in the second half of the year. Currently, markets expect the first cut in early August and another one before the end of the year.

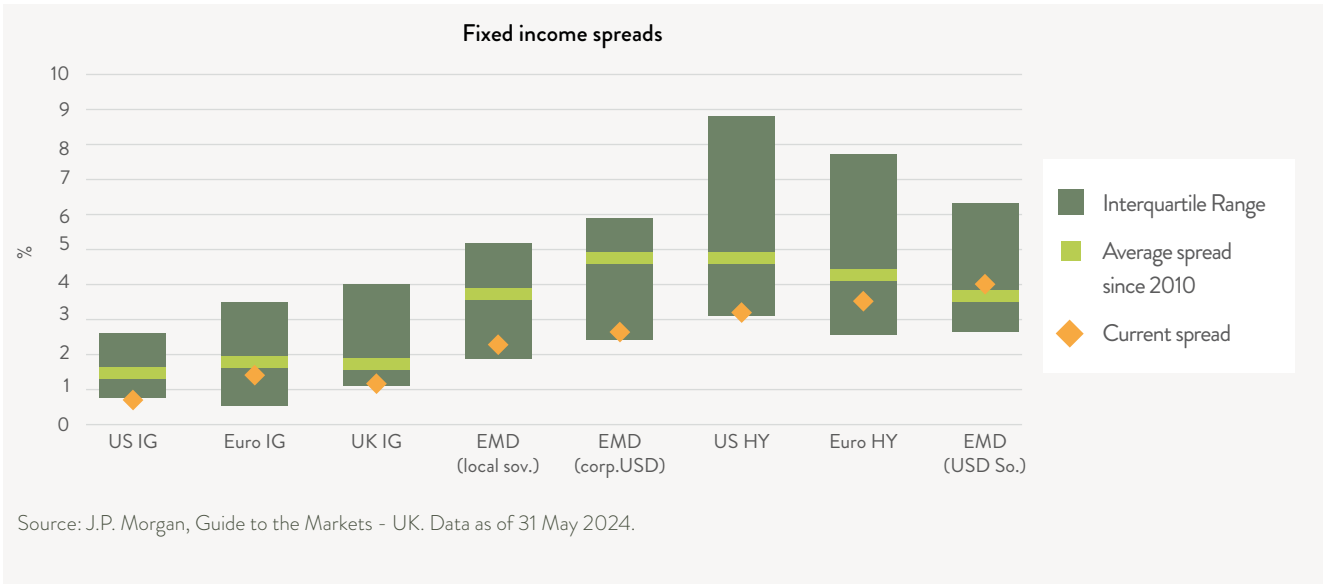
In mid-June, the risk premium on French government bonds surged to its highest level since 2017 after French President Emmanuel Macron called a snap election. This pushed the spread between French and German 10-year government bond yields over 80 basis points. June also saw the ECB cut interest rates by 0.25%. It's worth noting that it is relatively rare for the ECB to cut rates before the Fed – this says something about the state of economic growth in the eurozone relative to the US.

Our Stance

With interest rates likely to come down, we have a positive outlook on government bonds. As rates fall, investors should be able to pick up capital growth from fixed income assets as well as income. This should lead to attractive total returns from the asset class. We prefer UK gilts over US Treasuries as we believe that there is less chance of rate cuts being pushed back in the UK.



Investment Grade and High Yield Bonds



Investment grade bonds were flat in Q2. High-yield bonds performed slightly better, producing small positive returns.

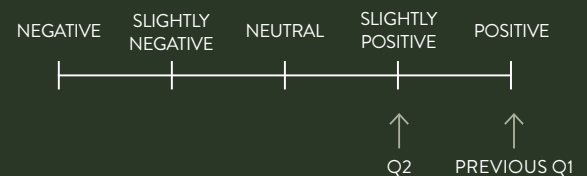
Both investment grade and high-yield bond funds have seen a lot of interest from investors recently. Investors have been lured by the attractive levels of income on offer as well as the potential for bond prices to rally once interest rates start to fall.

With credit spreads having tightened recently, investors need to be a little careful. There is now less scope for spreads to tighten meaning that returns from these areas of the bond market could be limited.

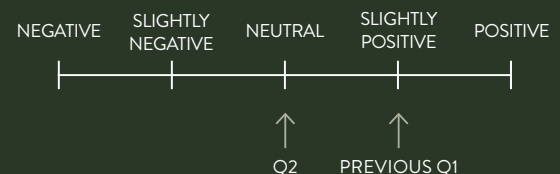
Our Stance

Credit spreads continue to tighten which has been additive this year, but they now present more downside risk than upside potential, in our view. We still prefer shorter duration bonds as the yield curve is inverted and it's possible to pick up very attractive yields without having to take on a lot of duration risk.

Investment Grade



High Yield



Commodities

Commodities delivered strong gains in Q2. However, some sub-sectors of the asset class performed better than others.

Gold moved higher, hitting new all-time highs near \$2,450 per ounce in May due to interest rate cuts expectations and geopolitical uncertainty. It ended the quarter near \$2,325, about 4.2% higher than its level at the end of Q1.

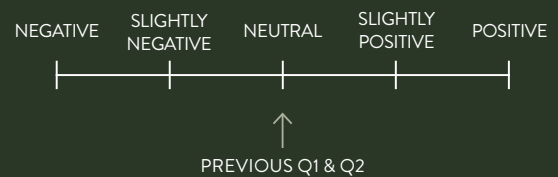
Copper also posted gains for the period, although it ended Q2 well off its highs. Copper is well placed to benefit from several powerful trends in the years ahead including the global data centre buildout, the shift towards renewable energy, and increased defence spending.

Oil had a weak quarter, pulling back amid concerns over economic growth and rising US stockpiles. After starting the quarter near \$87 per barrel, the price of Brent crude oil ended the quarter at \$85 per barrel. Analysts at Citi believe that there could be further weakness ahead for oil. They are forecasting a price of \$74 for the end of 2024 and \$55/\$60 per barrel for the end of 2025⁹.

As for uranium – which has received increased investor interest recently – it traded sideways. Growing interest in uranium stems from the potential of nuclear energy as a bridge to a renewable-based future.

Our Stance

We are neutral on commodities at present. While commodities can help to diversify portfolios, the asset class is volatile, so timing is key to allocating effectively to the space. While we believe that the outlook for uranium is positive due to the focus on nuclear power as a clean energy source, we are less bullish on industrial metals due to the slowdown in China.



Property

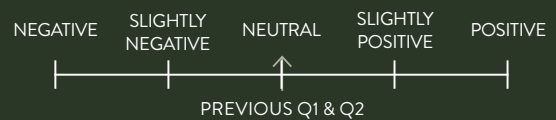
Conditions in the commercial property market remained challenging in Q2 due to the interest-rate environment. Recently, property companies with leverage have been facing increased levels of interest. Meanwhile, investors seeking income have had other options such as bonds.

Looking ahead, there are reasons to be optimistic about the asset class. Currently, many real estate investment trusts (REITs) are trading at large discounts to their net asset values (NAVs). And with interest rates likely to come down, we could see a rally in REIT prices in the not-too-distant future. In the latest RICS UK Commercial Property Monitor, 38% of respondents said that they now feel conditions are consistent with the early stages of an upturn. This was up from 24% in the previous survey¹⁰.

As for residential property, the average asking price for a UK home remained near its record high in June despite election uncertainty, according to figures from property website Rightmove. Rightmove said that agreed sales were up 6% year on year and demand from buyers was up by 5%¹¹.

Our Stance

We currently have a neutral view on property. We are encouraged by the fact that transactions are being completed at or around net asset values (NAVs). However, there is still some uncertainty due to the interest-rate environment.



¹⁰ RICS

¹¹ The Guardian





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