



LGPS MARKET UPDATE

January 2024

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RATES & INFLATION

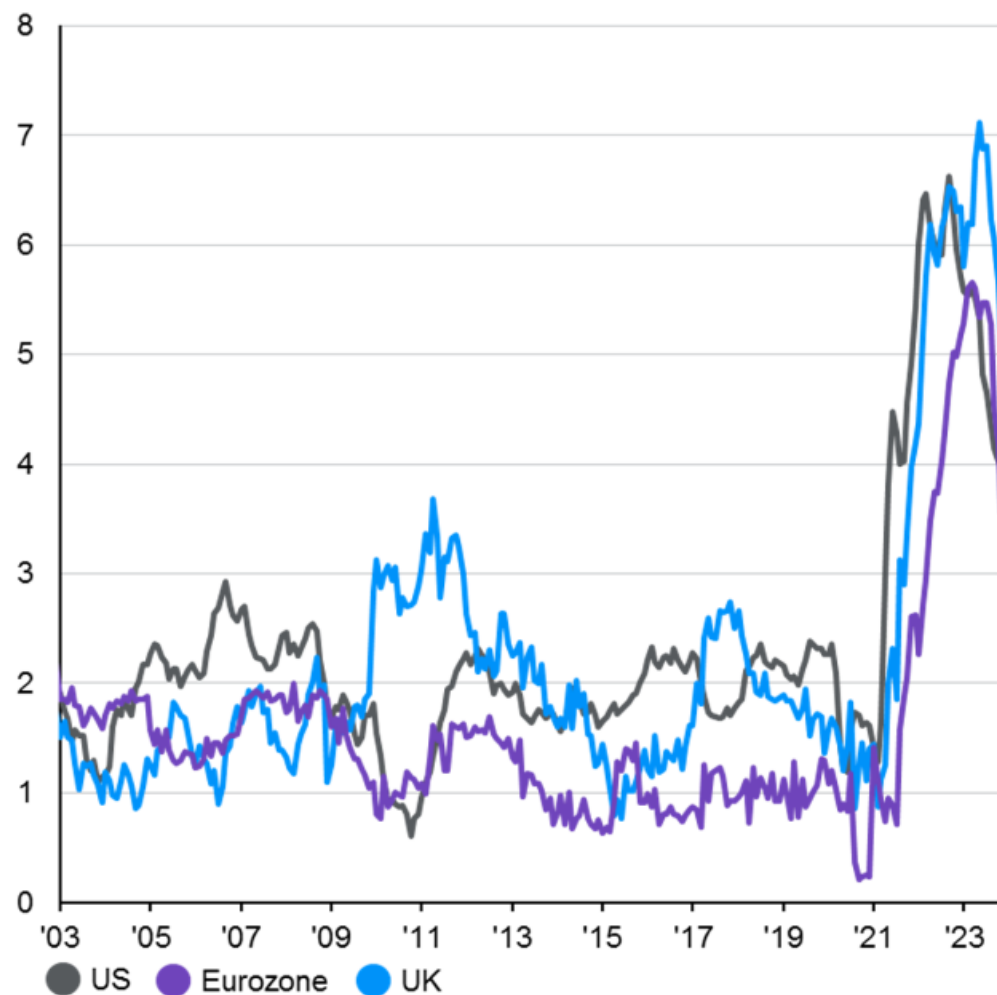
INFLATION

FELL ACROSS THE BOARD

	US	UK	EU
January	6.4	10.1	8.6
February	6	10.4	8.5
March	5	10.1	6.9
April	4.9	8.7	7
May	4	8.7	6.1
June	3	7.9	5
July	3.2	6.8	5.3
August	3.7	6.7	5.2
September	3.7	6.7	4.3
October	3.2	4.6	2.9
November	3.1	3.9	2.4
December	3.4	4.0	2.9

Source: JP Morgan, ECB, Federal Reserve, LSEG Datastream. Eurozone countries use HICP inflation, US and UK use CPI inflation. Data as at 31/12/2023.

Core inflation
% change year on year

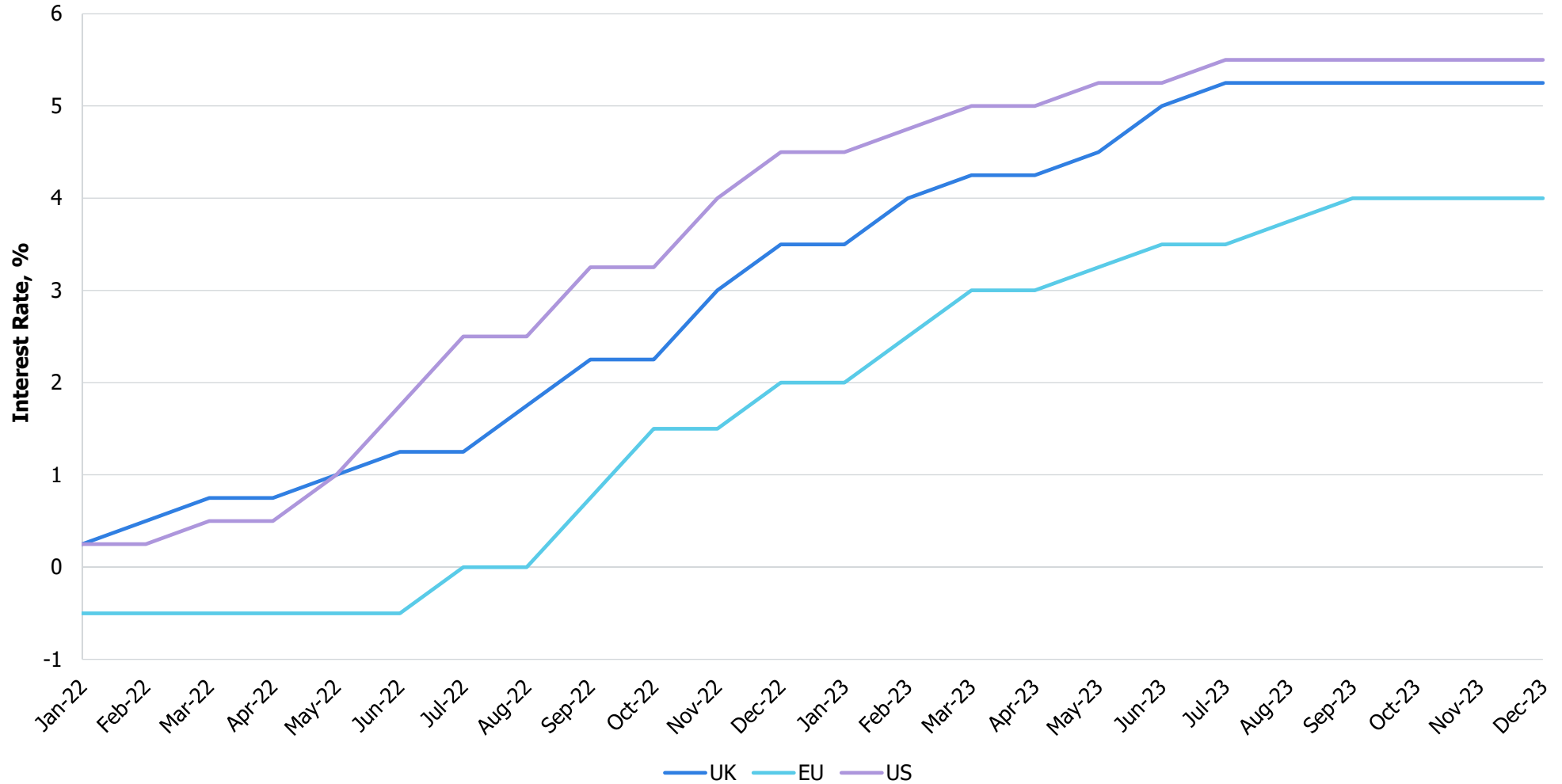


Source: JP Morgan Guide to the Markets. Data as at 31/12/2023.

INTEREST RATES

REMAINED STEADY OVER Q4

Interest Rates

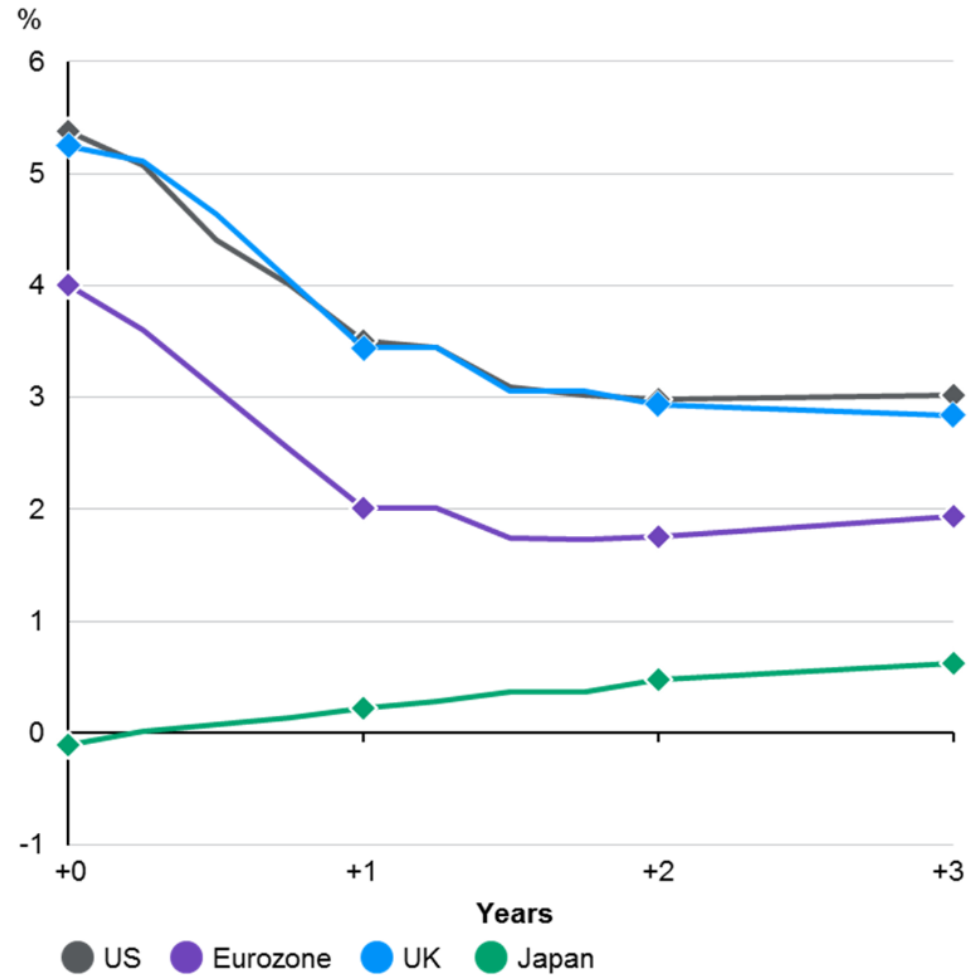


Source: Bloomberg

INTEREST RATES

CUTS NOW GENERALLY PRICED IN

Market expectations for central bank policy rates



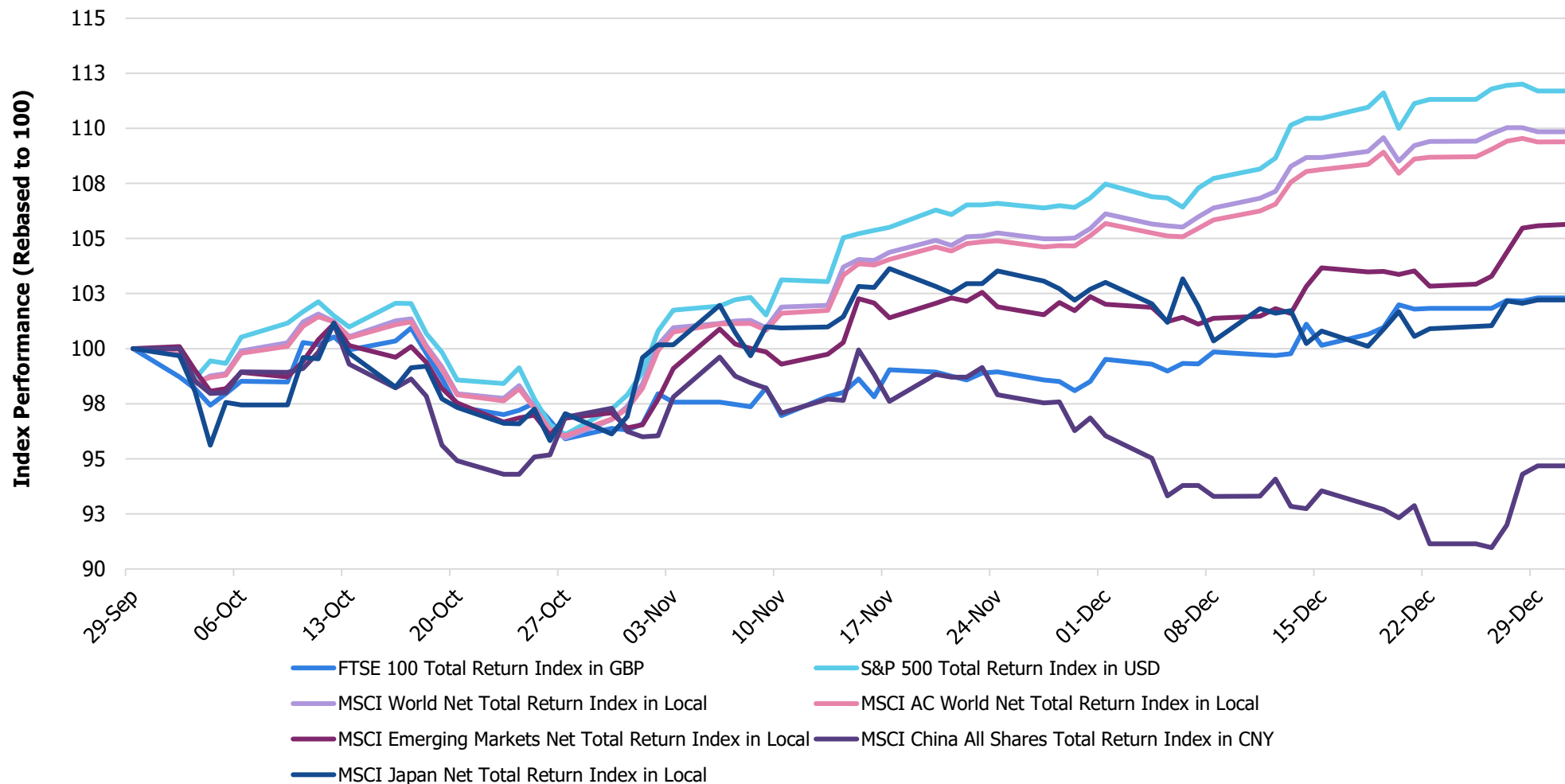
Source: JP Morgan Guide to the Markets. Data as at 31/12/2023.

EQUITY MARKETS

EQUITY MARKETS

STRONG PERFORMANCE OVER Q4 DRIVEN BY THE US

Global Equity Markets



Source: Bloomberg

EQUITY MARKETS

S&P 500 INCREASINGLY DOMINATED BY MAGNIFICENT SEVEN...

Influence of the Magnificent Seven on the S&P 500



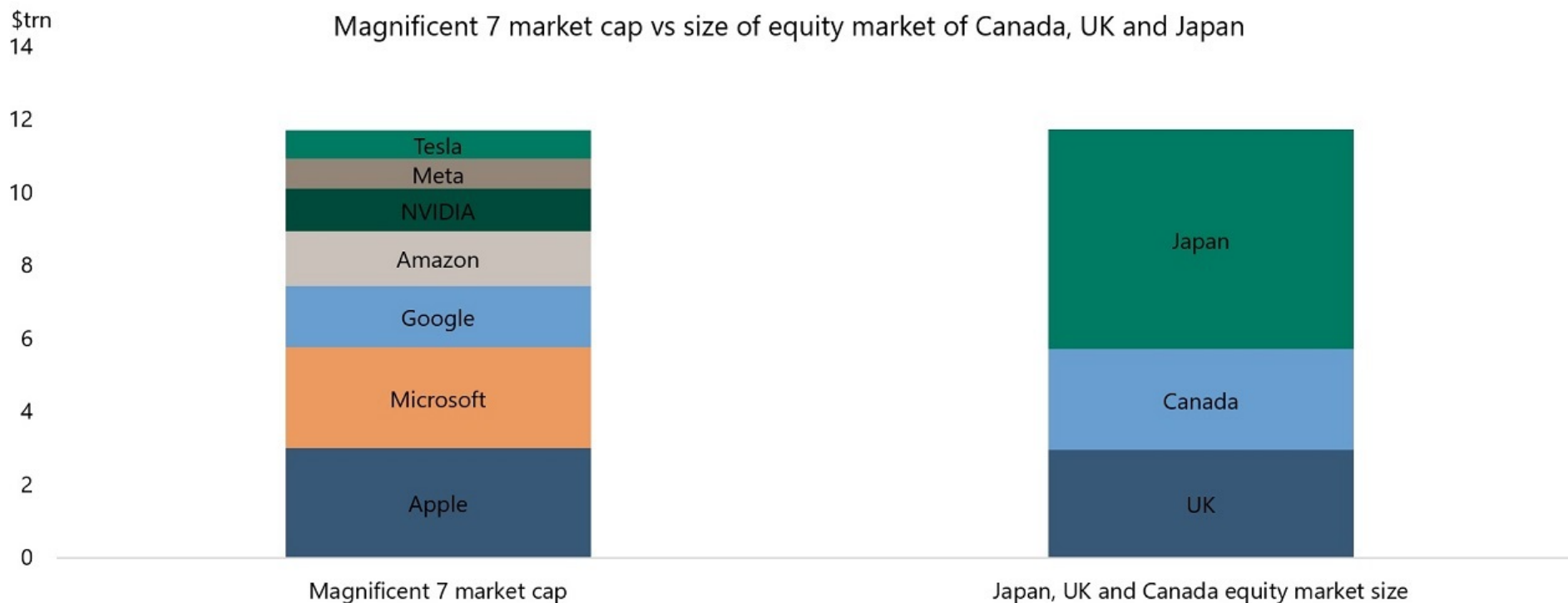
Source: Bloomberg

EQUITY MARKETS

MAGNIFICENT SEVEN VS UK, CANADA AND JAPANESE MARKETS

APOLLO

Market cap of the Magnificent Seven is the same as the combined market cap of the stock markets in the UK, Canada, and Japan



Source: Bloomberg, Apollo Chief Economist

EQUITY MARKETS APPEAR RELATIVELY EXPENSIVE

Valuation vs 15-year median (% above or below)

Equity market	CAPE	Forward P/E	Trailing P/E	P/B
US	31 (27%)	20 (20%)	25 (21%)	4.5 (57%)
UK	14 (7%)	11 (-12%)	12 (-18%)	1.8 (0%)
Europe ex. UK	19 (17%)	14 (-2%)	15 (-10%)	2.0 (15%)
Japan	19 (-8%)	14 (1%)	16 (-2%)	1.4 (7%)
EM	12 (-15%)	12 (2%)	15 (7%)	1.6 (0%)

Key:	<-25%	-25% to -15%	-15% to -5%	-5% to 0%	0% to 5%	5% to 15%	15% to 25%	>25%
	Cheap			Neutral		Expensive		

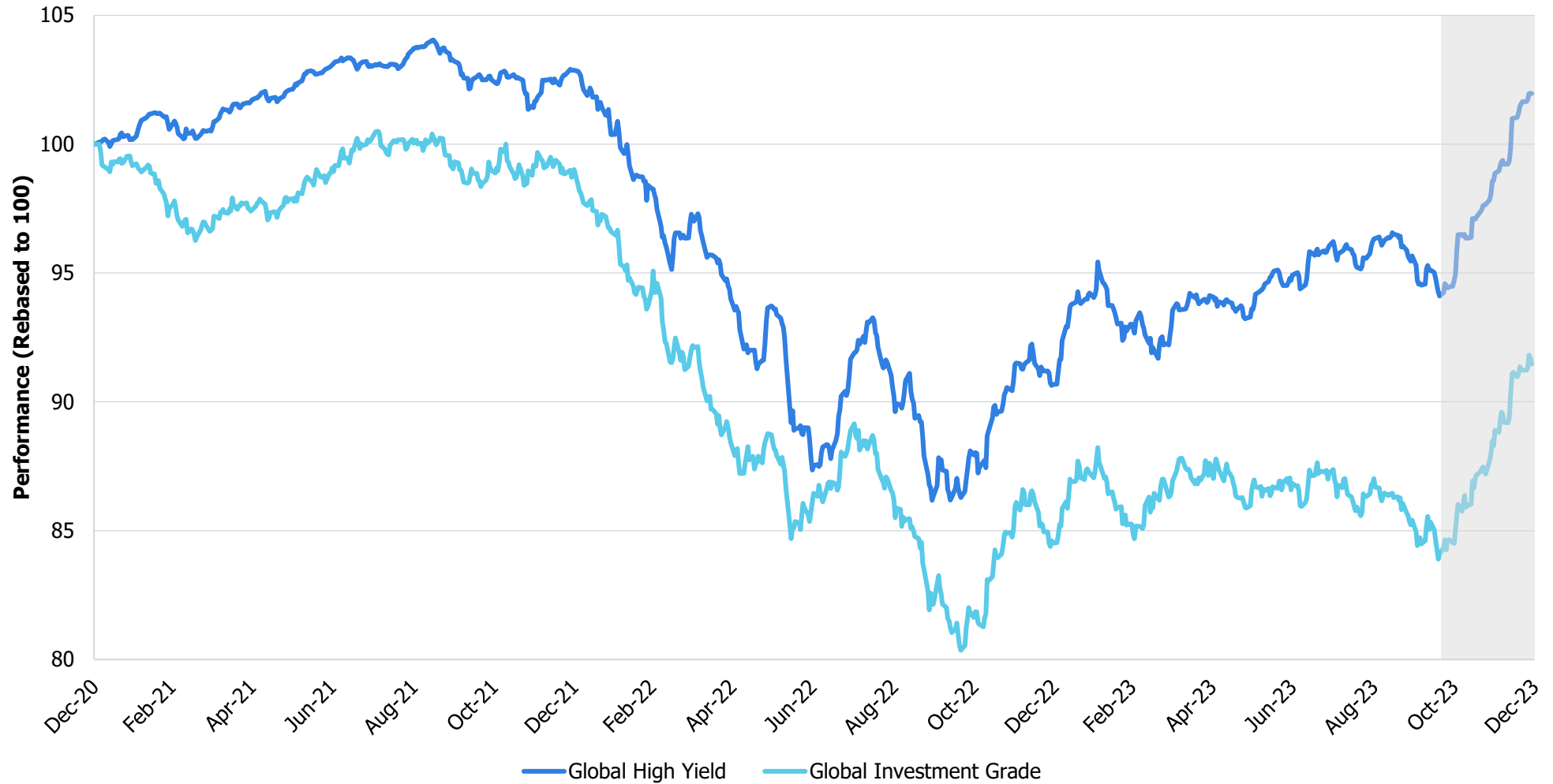
Source: LSEG Datastream, MSCI and Schroders Strategic Research Unit.

FIXED INCOME

FIXED INCOME

STRONG PERFORMANCE THROUGH Q4

Global Fixed Income - Performance

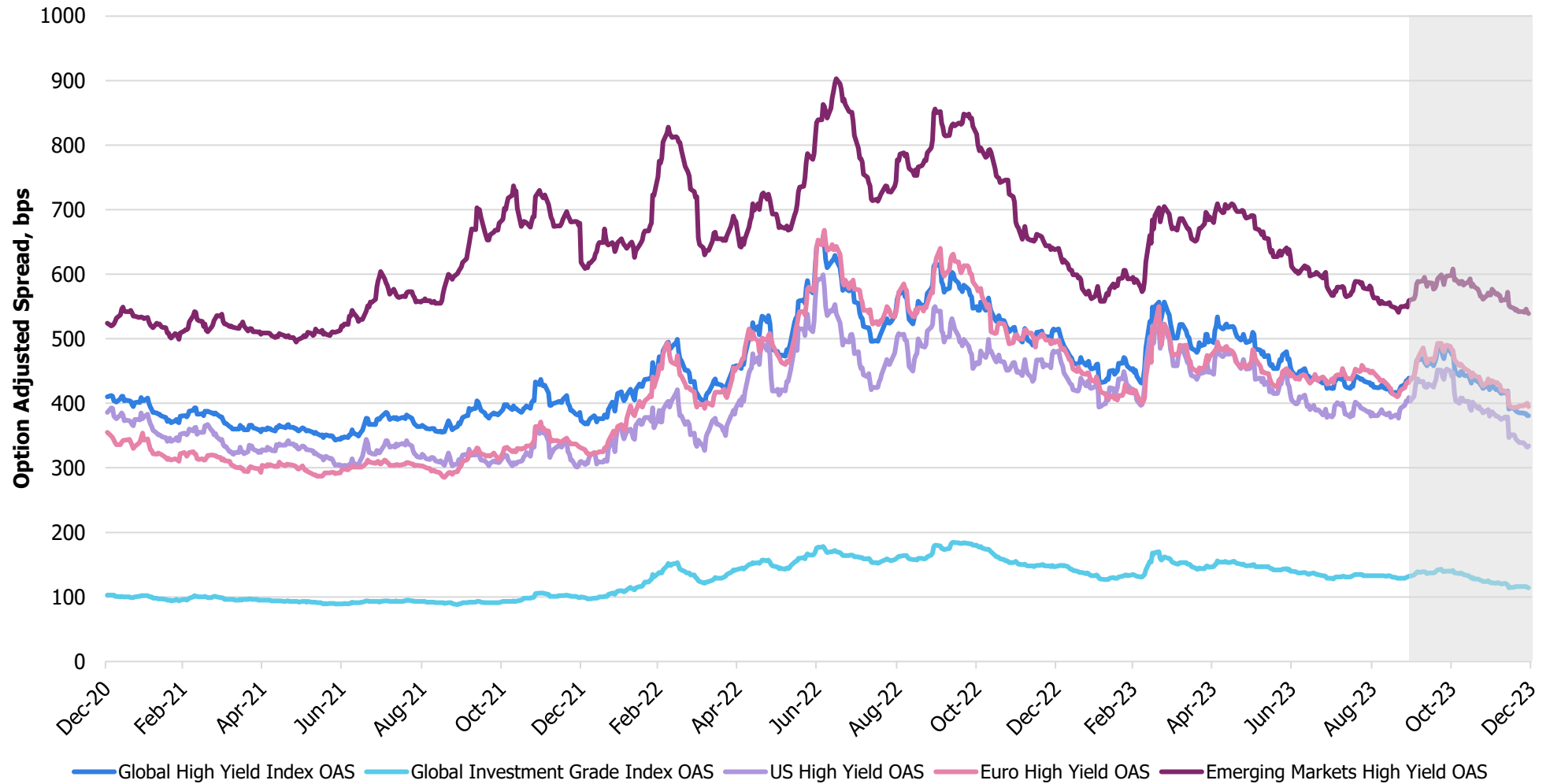


Source: Bloomberg

FIXED INCOME

WHILST SPREADS HAVE TIGHTENED

Global Fixed Income - Spreads



Source: Bloomberg

FIXED INCOME

GILT YIELDS DOWN FROM PREVIOUS HIGHS

10Y Gilt Yields since January 2019



Source: Bloomberg

LOOKING TO 2024

LOOKING TO 2024

IS THE OUTLOOK AS ROSY AS IT LOOKS?

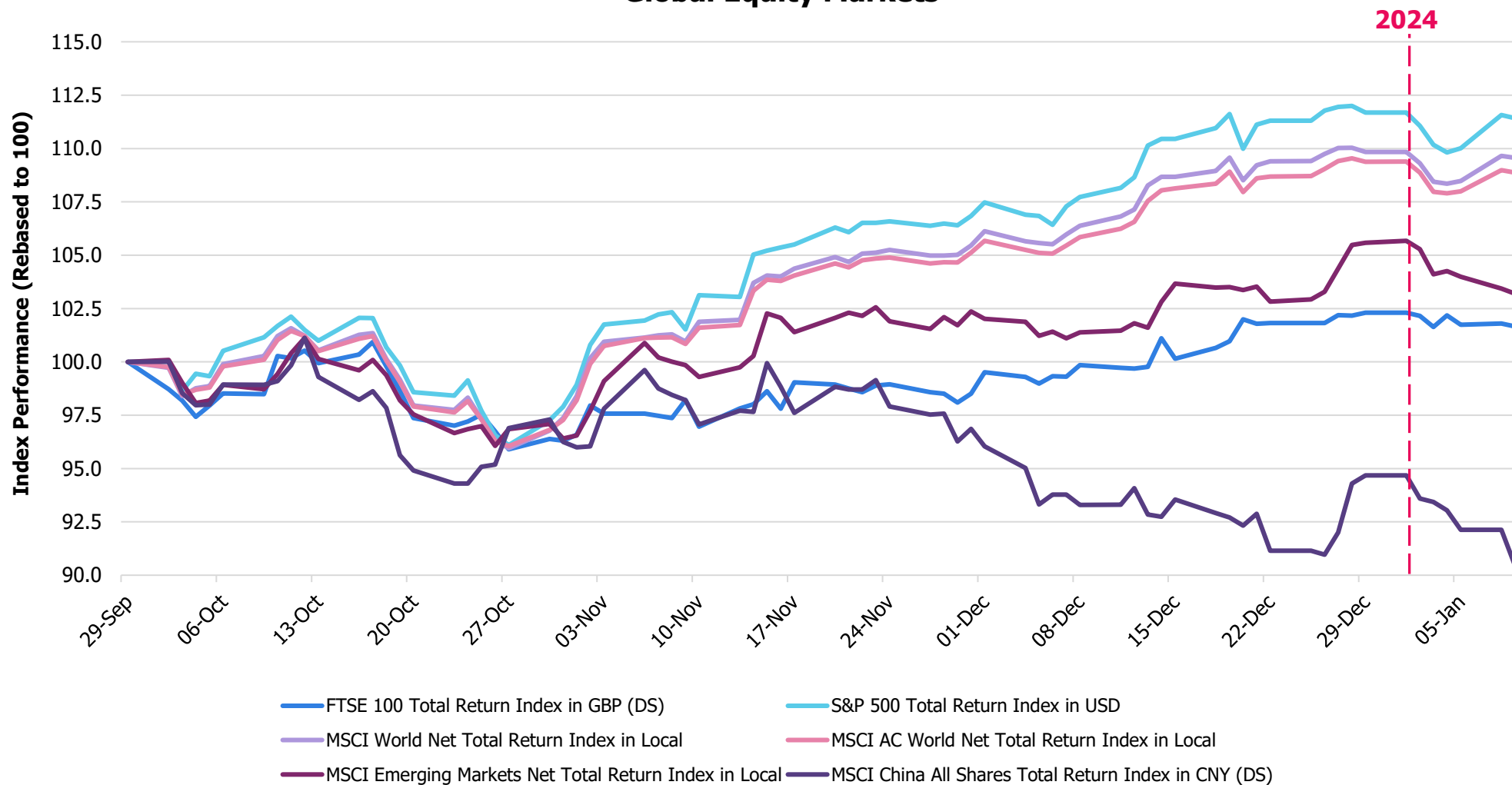


Source: Hedgeye

EQUITY MARKETS

OFF TO A MIXED START

Global Equity Markets



Source: Bloomberg

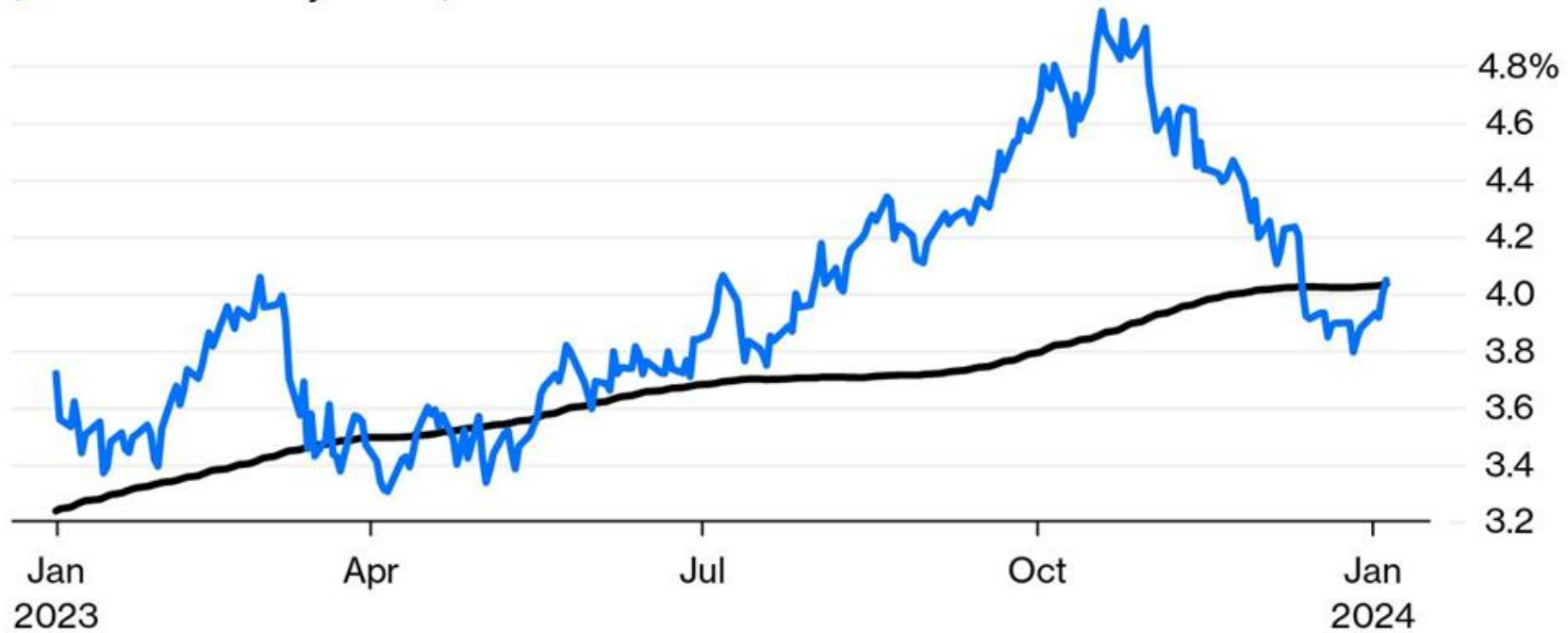
FIXED INCOME

IS THE CURRENT RISE IN YIELDS JUST A CORRECTION?

Markets Overshoot

The new-year rise in yields is (so far) just correcting an overshoot

10-Year Treasury Yield 200-DMA



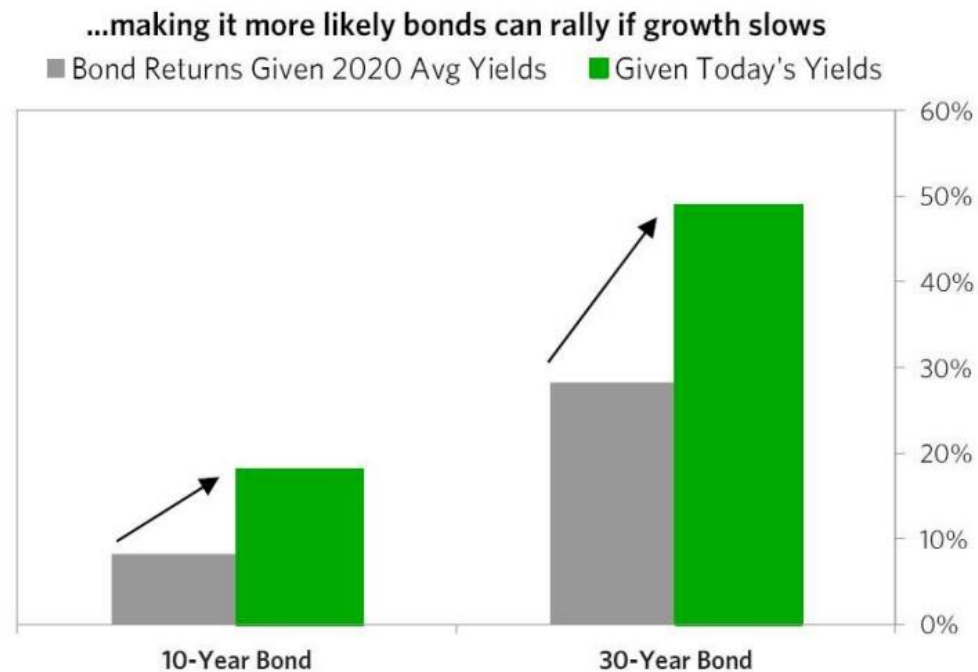
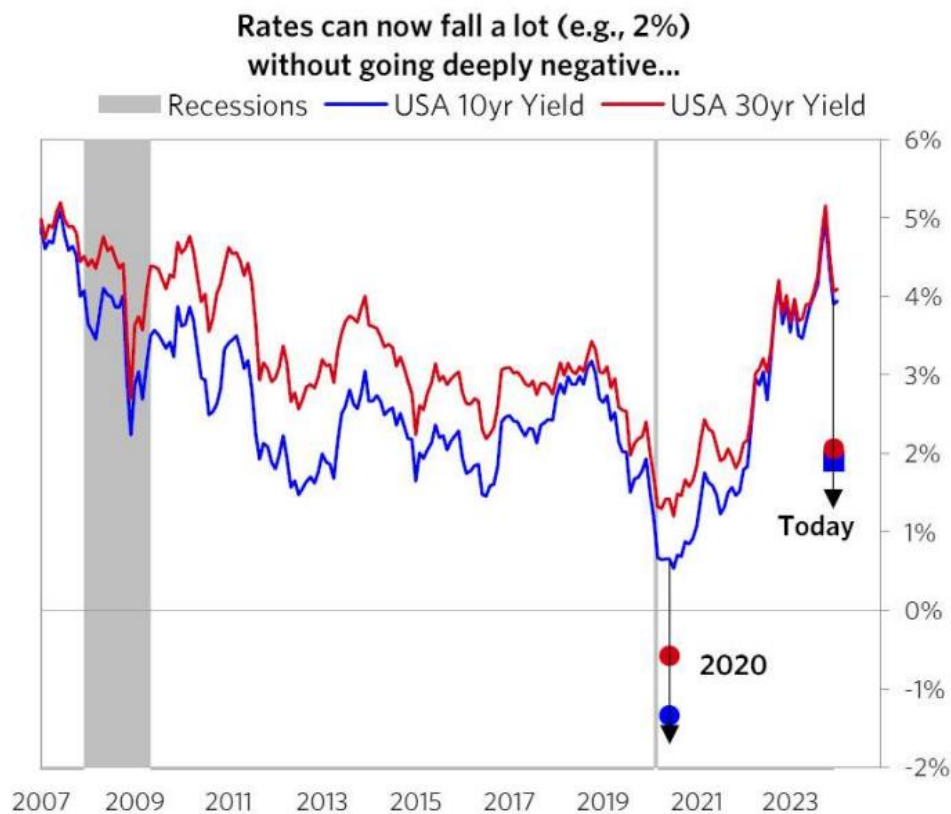
Source: Bloomberg

Bloomberg Opinion

Source: Bloomberg

FIXED INCOME

BONDS STILL LOOK ATTRACTIVE AT CURRENT YIELDS



Returns for a bond at par at the relevant yields. Assumes a 2% fall in yields, but 10-year bond yields do not fall below 0% and 30-year yields do not fall below 0.5%.

Source: Bridgewater

LOOKING TO 2024

WHAT WORKED LAST DECADE WON'T WORK THIS DECADE

		1960's	1970's	1980's	1990's	2000's	2010's	2020's
Starting Valuations		Normal	Normal	Cheap	Normal	Expensive	Cheap	Expensive
Cyclical Drivers	Growth	Strong	Weak	Strong	Strong	Weak	Strong	Strong (so far)
	Inflation	Rising	High	Falling	Falling	Low	Low	High (so far)
	Fed Policy	Neutral	Tight	Easy	Neutral	Neutral	Easy	Tight
Secular Drivers	Geopolitical Risks	Elevated	Elevated	Moderate	Low	Elevated	Rising	Elevated
	Increasing Globalisation	Neutral	No	Yes	Yes	Yes	Yes	No
	Pro-Business Policy	No	No	Yes	Yes	Yes	Yes	No
	Energy Backdrop	Neutral	Oil shocks	Efficiency gains	Efficiency gains	Rising prices	Shale	Transition
	Tech Advances	Neutral	Neutral	Manufacturing	Computing	Computing	Internet	AI

Source: Redington, Bridgewater

SO, WHAT DO YOU NEED TO KNOW?

KEY TAKEAWAYS

WHAT YOU NEED TO KNOW

- Monetary policy continues to be a key driver for markets
- Positive inflation data in Q4 led to optimistic monetary policy signalling from central banks, with rate cuts as early as March now priced in for 2024
- The S&P 500 is increasingly dominated by the Magnificent Seven, with some investors arguing that these companies are now overpriced
- We are likely to see geopolitical risks continue to challenge the status quo
- Portfolio diversification likely to be more effective than it has been over the last decade

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