

Market briefing

31st January 2024

Headlines

2023

Research carried out by the department of Children's Dictionaries and Children's Language Data, at Oxford University Press, has revealed 'climate change' to be Oxford Children's Word of the Year 2023 ⁽¹⁾.



Although technically a phrase rather than a word, it nonetheless shows what younger minds are thinking, and in this case, concerned about.

Upsettingly, but understandably, 'war' was the next word in the 'word of the year' review.



Clearly not the only conflicts in the world, but the Ukraine war entered its second calendar year, and October saw the latest instalment in the 3,500+ year conflict in the Middle East.



The third word on the list was 'coronation' as the United Kingdom saw King Charles III being crowned on Saturday 6th May, the first such national event for 70 years.



More broadly, the end of 2023 saw a news item that has incensed the UK public.

Although it had been in the public consciousness for over a decade, on four consecutive nights from 1st January (technically 2024 of course, but filmed in 2023), ITV screened the drama 'Alan Bates vs The Post Office'.



Detailing the mysterious financial losses that led the Post Office to sack and prosecute village sub-postmasters, the subsequent outcry, and its pace, has led to speedy investigations right up to Parliamentary select committee hearings.

More broadly, 2023 saw UK inflation, as measured by the consumer price index (CPI), starting at over 10% falling throughout the year to just over 4% at year-end ⁽²⁾. Correspondingly, interest rates across the globe were increased to combat these inflation changes.

Staying with economic matters, and in the light of 2023's events, including higher inflation and interest rates, how have different asset types – for example equity sectors, bonds & cash, different geographical equities, and real assets – reacted and responded?

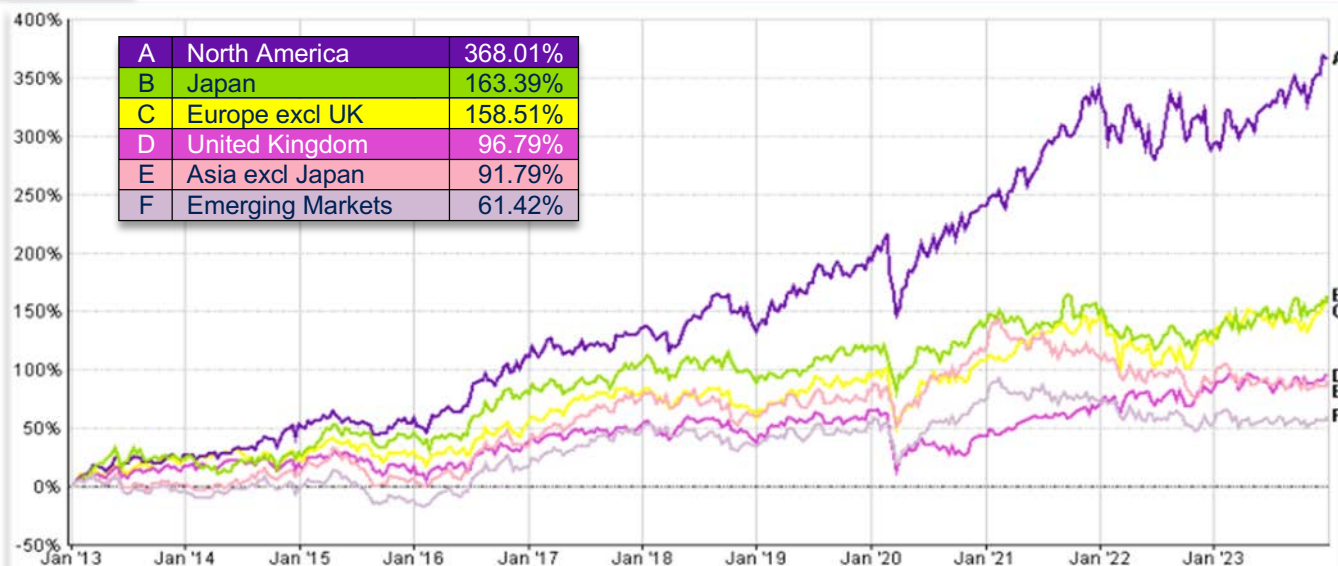
INFLATION
RATES

A patchwork of performance

Geographical equities

As graph 1 shows – which covers the period 01.01.13 to 29.12.23 – the North American market dominates as a country or region in returns (as expressed as Total Return in British pounds).

Graph 1 ⁽³⁾



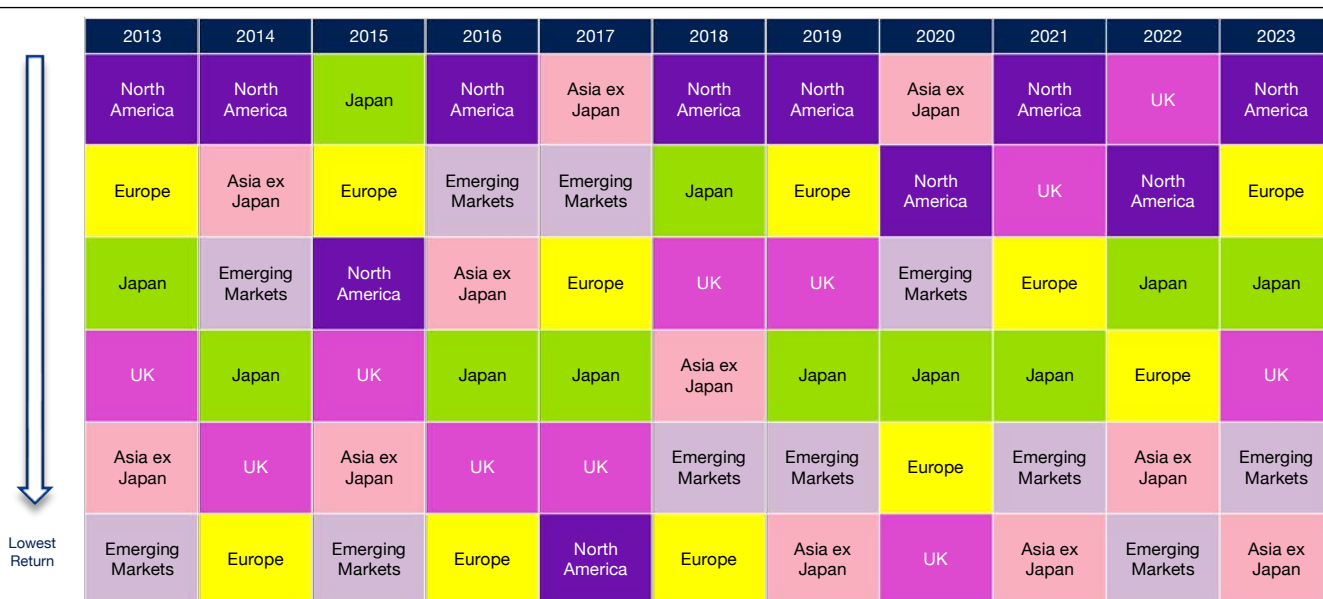
Past performance is not a reliable indicator of future returns

01.01.13 to 29.12.23

But is that the case every year? Looking back over the last decade, plus 2023 up to the end of December, an analysis calendar year on year – known as discrete annual performance – is enlightening.

Geographical equities - a patchwork quilt

Showing total return performance in British pounds for some of the six main global geographical equity regions up to the end of 2023, North America appears highest in seven of the eleven years covered below, and gets back the highest return spot it lost to the UK in 2022.



Source FE Fundinfo ⁽³⁾ dated 29th December 2023. All indices are total return and in British pounds.

Past performance is not a reliable indicator of future returns

North America

Staying with North America, in two of the remaining four years (2020 and 2022) it appears in second place and is only out of the top three in 2017 (last). Combined with Canada, the US, the world's largest economy, certainly has provided consistent returns.

On the other hand, Asia excluding Japan shows inconsistency by appearing highest in two years (2017 and 2020) but is either second from last or last in six of the eleven years, one of which was 2023.

Asia ex Japan

Japan

Moving to Japan, 'mid table mediocrity' appears to be the narrative, appearing either third or fourth in nine of the eleven years, with one highest return in 2015. 2023 saw it retain its third place from 2022.

Emerging markets, so often the most volatile sector, doesn't disappoint in this regard. It appears in all positions except fourth, and also, tellingly, doesn't appear in the top spot at all. 2023 saw another poor year, appearing second from last.

Emerging Markets

Europe

Moving across to Europe (excluding the UK), a mixed bag by appearing at least once in all but the top spot with four second positions, including 2023. On the downside, along with Asia excluding Japan and Emerging Markets, Europe clinched last place in three years (2014, 2016 and 2018).

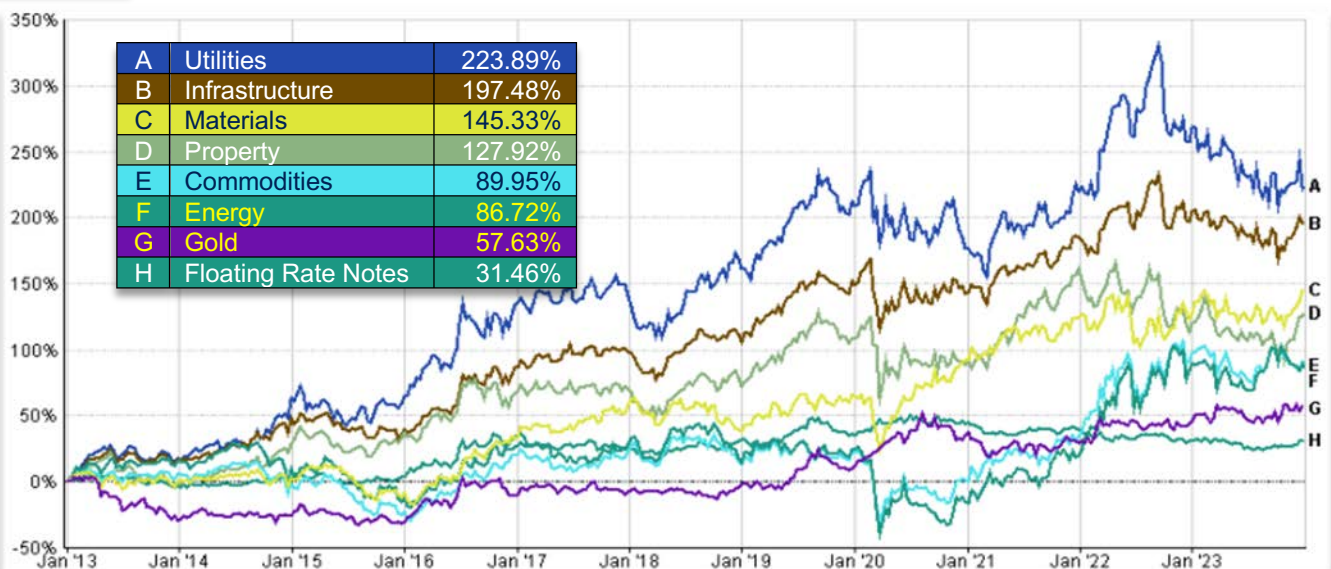
And back here in the UK? A picture paints a thousand words, and it certainly does when we look at the UK. One appearance in last place in 2020, was contrasted by a second in 2021, and an excellent top spot in 2022. In all other years, like Japan, 'mid table' seems to be the order of the day, appearing either in fourth or fifth in six of the eleven years, including being fourth in 2023.

UK

Real assets

Investable assets fall into two overall categories: tangible and intangible assets. Real assets ⁽⁴⁾ are categorised as tangible assets. This is because they are physical assets that have an intrinsic value due to their substance and properties. Real assets include precious metals, commodities, property/real estate, utilities, infrastructure, and energy, etc. They can be appropriate for inclusion in a diversified portfolio because of their relatively low historical correlation ⁽⁵⁾ with financial assets, such as stocks (equities) and bonds. In addition, real asset returns often have an inflation linkage which has acted to preserve and enhance their purchasing power over time.

Graph 2 ⁽³⁾



Past performance is not a reliable indicator of future returns

01.01.13 to 29.12.23

Looking at graph 2 above, over the same period as graph 1 (01.01.13 to 29.12.23), the winner has been utility stocks, with a circa 25% of additional return over the second placed infrastructure sector. Materials is in at third and property in fourth. Floating rate notes ⁽⁶⁾ – in other words, bonds with variable interest rates – is in last place as would be expected of this fixed income asset type, given ultra-low interest rates for most of the period, when compared with the real assets in this list.

Real assets - a patchwork quilt

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Utilities	Utilities	Property	Commodities	Materials	Utilities	Infrastructure	Gold	Energy	Energy	Materials
Infrastructure	Infrastructure	Utilities	Energy	Infrastructure	Gold	Utilities	Materials	Commodities	Commodities	Gold
Energy	Property	FRN	Materials	Property	FRN	Materials	FRN	Property	Utilities	Property
Commodities	FRN	Infrastructure	Utilities	Commodities	Infrastructure	Property	Infrastructure	Materials	Gold	FRN
Materials	Gold	Gold	Infrastructure	Utilities	Property	Gold	Property	Infrastructure	Infrastructure	Infrastructure
Property	Materials	Materials	Gold	Gold	Commodities	Energy	Utilities	Utilities	Materials	Energy
FRN	Energy	Energy	Property	FRN	Energy	Commodities	Commodities	Gold	FRN	Commodities
Gold	Commodities	Commodities	FRN	Energy	Materials	FRN	Energy	FRN	Property	Utilities

↓
Lowest Return

Source FE Fundinfo ⁽³⁾ dated 29th December 2023. All indices are total return and in British pounds.
Past performance is not a reliable indicator of future returns

Utilities

Although the winner over the eleven-year period, utilities appear only three times with the highest annual return, in addition to two second places and one third place. Of note, utilities never appear in the last two places, until last year.

Infrastructure

While being top once (2019), infrastructure is the only real asset type that does not appear in the last three places. Property, so often a perceived ‘safe haven’, appears top only once in 2015. As with infrastructure, a ‘steady eddy’ as it were, in ‘mid table’.

Property

Energy

With seven appearances in the last three places, energy significantly recovered in 2021 and 2022, appearing in both years in top spot – no doubt caused in part by a spike in energy prices instigated by the war in Ukraine. 2023, saw it return to familiar territory by finishing in the bottom three.

Gold

Gold and commodities are the only asset types that don’t appear in third over the eleven-year period. But that’s where the correlation stops with 2023 seeing gold in second, but commodities second from last.

Commodities

FRN

Floating rate notes (shown above as ‘FRN’) unsurprisingly is the only asset type never to achieve a top spot. And in six of the eleven years appears either second from last, or last. Its best years – in third – being 2015, 2018 and 2020.

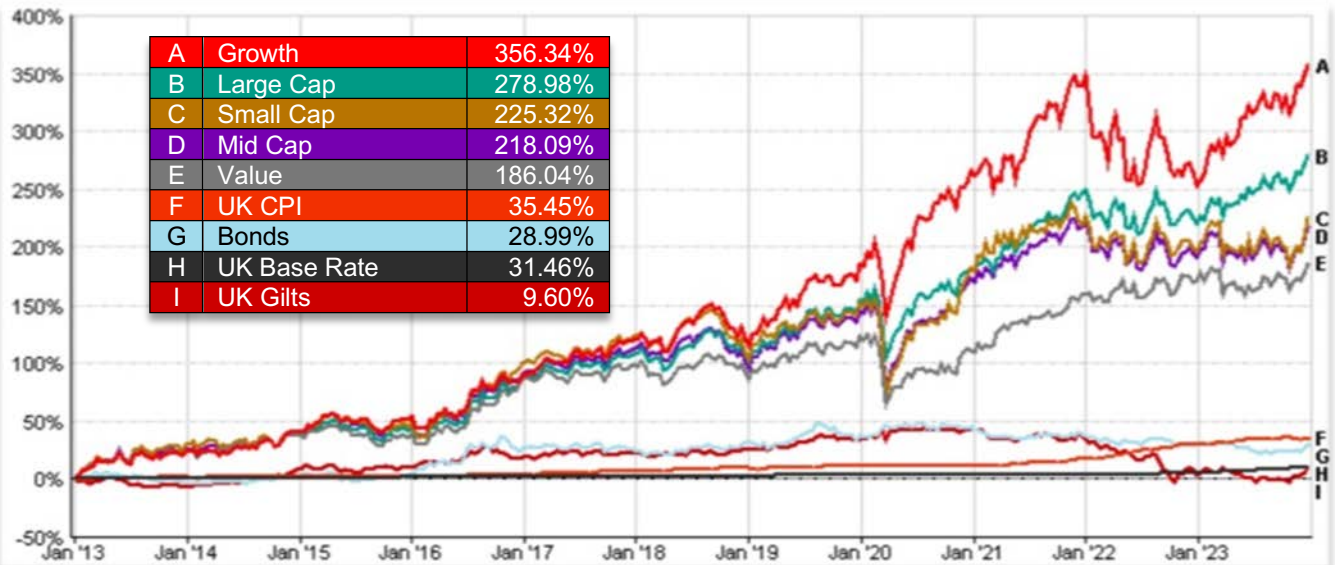
Materials

And finally, materials. Third overall in terms of total returns during the period, materials finished 2023 in top spot, only the second time it has achieved this accolade, previously winning in 2017. Materials overall history however is far more volatile, appearing in most positions, with fifth its most frequent position with three appearances.

Global equity sectors, bonds, and cash

As would be expected over a longer period, such as the period under consideration (01.01.13 to 29.12.23) graph 3 shows all equity sectors returning higher than their fixed income alternatives such as bonds and UK gilts. Of note, is that all equity sectors return higher than UK inflation (UK Consumer Price Index) and UK base rates over this decade+ period. Despite increases in inflation and interest rates during the last 18 months, equities continue in returning higher, even when factoring in those sharp increases – and subsequent decreases.

Graph 3 ⁽³⁾



Past performance is not a reliable indicator of future returns

01.01.13 to 29.12.23

What does the annual discrete performance show?



Source FE Fundinfo ⁽³⁾ dated 29th December 2023. All indices are total return and in British pounds.
 Past performance is not a reliable indicator of future returns

Growth

Global growth ⁽⁷⁾ equities were far and away the most successful sector in terms of overall returns, also appearing top in five of the eleven years under consideration, with small cap equities being the only other sector to appear more than once at the top.

Small Cap

That said, small caps ⁽⁸⁾ finished third in overall returns, showing why looking at discrete annual returns in conjunction with overall returns tells a more thorough story.

Large Cap

Although appearing second in overall returns, large cap equities only appear top once, but in conjunction with mid cap equities likely the two most consistent overall sectors in both discrete annual performance and overall returns over the eleven-year period. Large cap never falls below sixth (out of nine), and mid cap only appears below sixth once.

Mid Cap

Value

Two to three years after the original growth to value rotation which saw value ⁽⁹⁾ go from last place to second in two consecutive years (2021 and 2022) at the expense, in part, of growth which fell to second from last in 2022, value – the last of the equity sectors being considered here – returned to its mid-table positioning in 2023.

UK Gilts

After suffering last place for two consecutive years (2021 and 2022), UK gilts improved and gained a fifth spot in 2023; the highest of the non-equity sectors being considered above. That said, in overall return, gilts were significantly adrift of all other asset classes, including interest rates.

UK Base Rate

Predictably one of the lowest in terms of overall return, the UK base rate has seen flashes of higher returns due to interest rates being used to combat inflation. One such example was 2022 – appearing third – but returning to its normal position as one of the bottom three in 2023.

UK CPI

Unsurprisingly due to the explosion in inflation, UK CPI appeared top in 2022. However, overall returns quite clearly show that equities always outperform inflation over the long term, and so deliver real returns. This is in contrast with all fixed income and cash assets being below inflation, eroding their long-term value in terms of purchasing power.

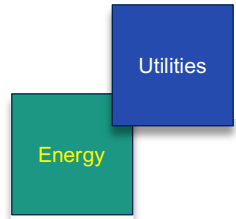
Bonds

The position of global bonds' in last place for 2023 once again shows that over the long term, non-equity investments, even those that carry some risk – which of course bonds do – suffer significantly inferior returns. In the case of global bonds, their long-term purchasing power, as shown by comparing them against long term UK CPI, sees bonds losing value in real terms over the long term no matter what their discrete annual performance may be.

All asset types and sectors – a patchwork of performance

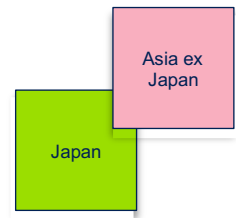
Growth

Combining all the discrete annual tables (below), global growth equity records three top spots, with real assets energy and utilities appearing top, twice. No other sector appears more than once, evidencing that past performance really is not a reliable guide to the future.



North America

Unsurprisingly, North America is the most consistent geographical equity sector by appearing second, three times; but never gains the top spot. That accolade goes to Japan (2015) and Asia excluding Japan (2017) respectively.



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2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Small Cap	Utilities	Japan	Commodities	Asia ex Japan	Utilities	Growth	Growth	Energy	Energy	Growth
29.92	35.38	15.91	55.70	29.45	8.00	28.52	29.70	40.81	61.04	29.27
North America	Infrastructure	Growth	Energy	Emerging Markets	Bonds	North America	Asia ex Japan	Commodities	Commodities	North America
27.16	23.82	9.08	52.48	25.40	4.94	25.65	21.16	33.00	48.77	18.86
Mid Cap	Property	Property	Materials	Materials	Gold	Large Cap	Gold	Property	Utilities	Large Cap
25.56	21.26	6.03	46.07	17.78	4.64	22.80	19.31	29.88	13.26	18.20
Europe	North America	Small Cap	Utilities	Growth	FR Notes	Mid Cap	North America	North America	Gold	Europe
25.28	18.86	5.46	42.69	16.93	4.54	22.46	16.24	27.60	11.74	14.83
Japan	UK Gilts	Mid Cap	Small Cap	Europe	Infrastructure	Small Cap	Materials	Large Cap	UK CPI	Japan
24.80	17.59	5.34	34.44	15.84	4.31	21.32	16.23	23.80	10.51	13.53
Growth	Growth	Europe	Value	Japan	UK CPI	Infrastructure	Emerging Markets	Value	UK	Mid Cap
24.37	12.75	5.11	33.99	13.25	2.10	20.52	14.65	23.07	7.15	9.03
Value	Mid Cap	North America	Infrastructure	Mid Cap	UK Gilts	Europe	Small Cap	Growth	Infrastructure	Materials
24.27	11.70	4.84	33.94	12.63	1.50	19.99	12.38	22.30	5.73	8.30
Large Cap	Large Cap	Large Cap	North America	Small Cap	UK Base Rate	Utilities	Large Cap	UK	Value	Gold
24.07	11.42	4.77	33.09	12.04	0.61	19.49	12.36	19.59	5.26	7.80
UK	Asia ex Japan	Utilities	Emerging Markets	UK	North America	Materials	Mid Cap	Mid Cap	UK Base Rate	UK
18.43	11.32	3.56	32.63	11.71	0.13	18.59	12.08	18.71	1.44	7.66
Utilities	Value	Bonds	Gold	Large Cap	Property	Property	Japan	Materials	Materials	UK Gilts
16.93	10.14	2.45	31.58	11.63	-0.54	18.21	10.95	17.39	0.5	5.71
Infrastructure	Small Cap	FR Notes	Large Cap	North America	Growth	Value	UK Gilts	Infrastructure	FR Notes	Value
16.82	8.24	2.08	28.24	10.43	-0.94	17.05	7.64	16.90	-5.62	5.23
15.94	Bonds	UK Gilts	Mid Cap	Value	Large Cap	UK	Europe	Small Cap	Bonds	UK Base Rate
15.94	6.84	0.76	28.23	6.96	-2.01	16.37	7.49	16.82	-5.7	4.64
Commodities	FR Notes	Value	Asia ex Japan	Infrastructure	Value	Gold	FR Notes	Europe	Japan	UK CPI
6.11	6.82	0.69	25.77	6.07	-5.24	15.15	6.28	16.73	-6.14	3.93
UK CPI	Gold	UK Base Rate	Property	Property	Japan	Japan	Bonds	Utilities	Europe	Property
2.05	5.89	0.50	22.65	4.72	-7.47	14.99	5.83	15.15	-7.62	3.89
Materials	Emerging Markets	UK CPI	Growth	UK CPI	Mid Cap	Emerging Markets	UK CPI	UK CPI	Large Cap	Emerging Markets
1.51	3.90	0.20	22.62	2.94	-7.88	13.86	0.65	5.40	-7.62	3.63
Asia ex Japan	Japan	UK	Japan	Commodities	Small Cap	Asia ex Japan	UK Base Rate	Japan	Small Cap	FR Notes
1.16	1.95	-2.21	22.12	2.75	-8.50	13.61	0.23	2.65	-8.52	0.48
Property	Materials	Infrastructure	FR Notes	UK Gilts	Commodities	Energy	Infrastructure	UK Base Rate	Mid Cap	Bonds
0.82	0.85	-3.71	21.83	2.67	-8.54	7.97	-1.52	0.11	-8.89	0.25
UK Base Rate	UK	Asia ex Japan	Bonds	Utilities	UK	Commodities	Value	Emerging Markets	North America	Asia ex Japan
0.50	0.50	-3.91	21.77	2.33	-8.82	7.33	-4.21	-1.64	-9.39	0.00
FR Notes	UK Base Rate	Gold	UK	Gold	Asia ex Japan	UK Gilts	Property	Gold	Asia ex Japan	Infrastructure
-4.08	0.50	-6.95	19.16	1.94	-9.05	6.53	-7.92	-2.48	-9.55	-1.77
Emerging Markets	UK CPI	Emerging Markets	Europe	UK Base Rate	Emerging Markets	FR Notes	Utilities	FR Notes	Emerging Markets	Energy
-4.41	0.50	-9.99	18.62	0.29	-9.27	3.05	-9.20	-3.53	-10.02	-1.90
Bonds	Europe	Materials	UK Gilts	FR Notes	Europe	Bonds	UK	Bonds	Property	Commodities
-4.41	-0.73	-10.35	9.87	-1.50	-9.87	2.71	-13.23	-3.83	-16.58	-4.12
UK Gilts	Energy	Energy	UK CPI	Bonds	Energy	UK CPI	Commodities	Asia ex Japan	Growth	Small Cap
-7.80	-6.36	-19.03	1.60	-1.90	-11.09	1.31	-17.72	-3.84	-20.29	-9.26
Gold	Commodities	Commodities	UK Base Rate	Energy	Materials	UK Base Rate	Energy	UK Gilts	UK Gilts	Utilities
-29.37	-7.18	-21.32	0.40	-3.77	-11.76	0.75	-32.21	-5.91	-23.18	-11.47

Lowest Return

Source FE Fundinfo ⁽³⁾ dated 29th December 2023. All indices are total return and in British pounds. Past performance is not a reliable indicator of future returns

What should this tell you

Remembering that 'past performance is not a reliable indicator of future returns', no matter what annual statistics show. Therefore from an investment perspective, as the 'patchwork quilts' show above, investors should ignore short-term periods.

Focus should be on 'smart diversification'. In other words, investing should be across different asset types, such as bonds as well as equities, including different geographical jurisdictions, so they are not confined to one or two countries or regions. It should also involve investing across investment styles, which would include active management and index/passive investing, and across different investment philosophies such as growth and value. Where possible, tangible assets should also be invested in, such as real assets, which could include precious metals, commodities, property/real estate, utilities, infrastructure, and energy, etc.

Although 'smart diversification' doesn't guarantee performance in any way, and does not eliminate risk completely, having a diversified portfolio can help investors minimise their risks.

It is also important to remember often that investors have a long-term investment time horizon. So, although 'smart diversification' does not guarantee against loss, it will likely help with the most important component of reaching long-range financial goals whilst minimising risk.

As we have said many times before, we will continue to monitor the current financial situation and keep you notified of any significant changes that are made. Please contact your Foster Denovo Partner if you wish to discuss your financial situation further.

At times like these, it is even more important that you are taking advice on your finances by a qualified and experienced financial planner. If you think any of your friends, family or colleagues would benefit from speaking to us, especially in the current situation, then please introduce them to your Foster Denovo Partner who would be happy to help.

On this day ... ⁽¹⁰⁾

23 rd January 1571	Queen Elizabeth I of England opens Royal Exchange in London
24 th January 1962	Brian Epstein signs management contract with the Beatles
25 th January 2021	Janet Yellen is confirmed as the first female treasury secretary by the US Senate
26 th January 1871	The Rugby Football Union is formed at a meeting of 21 clubs at the Pall Mall Restaurant, London, England
27 th January 1671	Welsh pirate Henry Morgan lands at the gates of Panama City
28 th January 1986	Space Shuttle Challenger explodes 73 seconds after lift-off from with all 7 crew members killed, including Christa McAuliffe who was to be the first teacher in space
29 th January 1802	First celebration of Burns Night, in honour of poet Robert Burns' birthday by The Mother Club in Greenock (later realised his actual birthday was 25 th January)
30 th January 1948	Mahatma Gandhi assassinated by Hindu extremist Nathuram Godse
31 st January 1849	Corn Laws abolished in Britain

Sources

- 1) <https://fdslive.oup.com/www.oup.com/oxed/children/500-words/Oxford-Childrens-Word-Year-Report-2023.pdf?region=uk>
- 2) <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2023>
- 3) FE Fundinfo
- 4) A real asset can be described as a tangible asset that possesses value due to being able to produce goods or services - <https://www.wallstreetprep.com/knowledge/real-assets/>
- 5) Correlation describes the relationship that exists between two shares/stocks and their respective price movements. It can also refer to the relationship between shares/stocks and other asset classes, such as bonds or real estate. In general, stock correlation refers to how shares/stocks move in relation to one another - <https://smartasset.com/investing/stock-correlation>
- 6) FRN (Floating rate notes) are a bond that have a variable interest rate, vs. a fixed-rate note that has an interest rate that doesn't fluctuate. The interest rate for an FRN is tied to a benchmark rate... [such as] the London Interbank Offered Rate (LIBOR). They are issued by financial institutions, governments, and corporations in maturities of two-to-five years. <https://www.investopedia.com/terms/f/frn.asp> They are included in real assets due to their relatively short-term time period.
- 7) Growth investing is a stock-buying strategy that looks for companies that are expected to grow at an above-average rate compared to their industry or the broader market. Growth investors tend to favour smaller, younger companies poised to expand and increase profitability potential in the future - <https://www.investopedia.com/terms/g/growthinvesting.asp>
- 8) On the London Stock Exchange, the term 'small cap' refers to companies with a market capitalisation between £50m and £230m. This is vastly different from the United States, where stocks in this category have much larger market caps, ranging between \$300m and \$2bn - <https://www.fool.co.uk/investing-basics/types-of-stocks/investing-in-small-cap-stocks-in-the-uk/>
- 9) Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value. Value investors actively ferret out stocks they think the stock market is underestimating. Value investors use financial analysis, don't follow the herd, and are long-term investors of quality companies - <https://www.investopedia.com/terms/v/valueinvesting.asp>
- 10) <https://www.onthisday.com>

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