

# New Capital Prudent Multi-Asset Fund



Quarterly Commentary | As of 30 September 2024

## Market overview

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The third quarter of 2024 experienced a sustained rally in global equity markets, despite occasional volatility and economic uncertainties. The MSCI World Index and the MSCI All Countries Index showed consistent gains, with 1 year returns of 18.8% by the end of September.

The quarter opened with a change in investor sentiment in July. Soft US consumer price index inflation numbers led to the anticipation of a Fed funds rate cut, prompting a move from mega-cap tech stocks to US small-cap stocks. Reflecting a weakening in the US economy, bond markets rallied, with yields on US Treasury bonds falling to the lowest in more than a year.

August witnessed a continuation of the equity rally, but volatility increased due to fears of a looming US recession and changes in Japanese monetary policy. These concerns, as well as geopolitical tensions and the prospect of monetary easing contributed to the gold price rally.

September brought new all-time highs for global stock markets. The Federal Reserve started easing interest rates, shifting its focus from inflation control to supporting the labour market and economic growth. Chinese authorities announced measures to stimulate their economy, and declining oil prices provided further market support. Throughout the quarter, all major developed market currencies and the yuan renminbi recovered against the US dollar.

The outlook at the end of the quarter is supported by the expectation of a prolonged period of monetary policy easing and moderate bond yields.

The third quarter saw one of the most dovish shifts in policy for some time. In August, Federal Reserve Chair Powell said at Jackson Hole that the “time has come for policy to adjust”, signalling rate cuts were finally near. And then at the September meeting, the Fed delivered a larger 50bp rate cut that reassured investors they wouldn’t keep policy too tight. That pivot has been evident in market pricing. In fact, futures have gone from pricing in 44bps of Fed rate cuts this year at the start of the quarter to 123bps now. It’s a similar story for the European Central Bank, where overnight index swaps have moved from pricing in 69bps of cuts this year to 100bps. This shift has been helped by much weaker inflation data. The US Personal Consumption Expenditures (PCE) price index (the Fed’s target measure) was down to just 2.2% on a year-on-year basis, the lowest since February 2021. Oil prices have also seen a notable decline over Q3, with Brent crude down around -16% since the start of the quarter.

On the data side at the start of August, the underwhelming US jobs report was the initial catalyst for the market turmoil. And that was backed up by other indicators, with the 4-week average of weekly initial jobless claims rising to 241k. But since then, data releases have been much stronger, and have pointed away from a sharper downturn or recession. For instance, the 4-week average of initial jobless claims is now down to its lowest since May. Non-farm payrolls were up by +142k in August and the Atlanta Fed’s GDPNow estimate is pointing to annualised growth of +3.1% in Q3. Other indicators like retail sales and industrial production have also pointed away from a recession.

In China we have just seen stimulus announcements from the government which have led to a phenomenal performance among Chinese equities, along with China-exposed stocks more broadly.

The CSI 300 was down to a 5-year low on 13 September, but in the final week of the quarter it posted its best weekly performance since 2008, with a +15.7% gain, taking the index up to a 1-year high. Over in Europe, the CAC 40 had its best weekly performance since March 2023 with a +3.9% gain thanks to the luxury goods companies in the index. Copper was another beneficiary, posting its biggest weekly gain since May with a +7.4% advance.

## Fund performance and positioning

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The Prudent Multi Asset Fund was up 2.54% (outperforming its benchmark ICE BofA SONIA 1-Month Constant Maturity Index + 3% by 44bps) over the quarter driven by both fixed income and equities. This compares favourably with most asset classes and has captured 38% of the equity upside. Year-to-date the Fund is up 5.9% slightly underperforming the benchmark by 48bps. Fixed income benefitted from rate cuts by central banks and weaker inflation data. UK 5-year gilt yields fell over the

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quarter from 4% to 3.8% giving a total return of +2.4%. Corporate bond spreads, which were already tight widened slightly which meant that corporate bond returns were slightly worse than gilts. It was interesting to note that the iShares sterling corporate bond ETF only returned 2.19% over the quarter. The Fund's corporate bond exposure did somewhat better over the period rising 2.7% while the high yield segment was up 3.4% driven by a good return from Virgin Media and Intesa Sao Paolo. The reverse convertibles overall returned 1.7% with Adyen performing well while Adobe had some disappointing results. The subordinated debt did well rising 5.4% while our index linkers only managed a marginal return of 1.2%.

On the equities front, our global income stocks rose 4.9% slightly underperforming the MSCI AC global equity index. Asia was dragged down by Samsung although the China exposure did well to offset. Prior winners in Europe like Novo and BE Semis gave back some of their gains during the period but we also saw an improvement from the financials and utilities. Japan saw some strong relative gains up 23% with the yen also strengthening while our US equity exposure did well rising 6.6% outperforming the S&P500 by 70bps. Value and yield stocks did much better in the US as tech corrected and we saw good bounces by the bond proxy stocks. UK stocks like Astra and BAe struggled along with Shell but we saw good performance by the Swiss pharma and financials stocks.

In alternatives, gold did well over the quarter bouncing by 12.6%. The infrastructure stocks were up 11% with bounces in both Cordiant and HICL while Twelve Capital was up another 5.5%. Hedge funds were flat. On the currencies, the US dollar depreciated by 6%. Although we hedge most of our FX exposure there is a portion which remains unhedged and that has had a small negative impact.

Over the quarter we maintained our equity exposure for much of the period only reducing marginally more recently to reduce risk. We took some profits out of the semiconductor exposure given the strength of the rally in July and rotated into more defensive names like Pepsico and Nestle. In September when we dropped the equity exposure by 3%, we sold index positions in Europe and the US and top sliced our tech exposure moving to a higher cash weighting.

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	New Capital Prudent Multi-Asset Fund	ICE BofA SONIA 1-Month Constant Maturity Index + 3%	Difference
1 Month	+0.60%	+0.67%	-0.07%
3 Months	+2.54%	+2.10%	+0.44%
6 Months	+3.51%	+4.23%	-0.72%
YTD	+5.88%	+6.36%	-0.48%
1 Year	+12.12%	+8.56%	+3.56%
3 Years	+2.17%	+20.58%	-18.41%
5 Years	+15.43%	+28.54%	-13.11%
Since Inception Annualised	+2.73%	+4.59%	-1.86%
Since Inception (30/01/2017)	+22.89%	+41.05%	-18.16%

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## Outlook

We are maintaining our large position in fixed income at 56%. Of that 8% is in gilts, 5% in high yield while 35% is in investment grade. Spreads remain tight and although we have seen quite a rally across fixed income the overall yields remain attractive in our view. We are maintaining our reverse convertibles exposure at 4% with yields close to 10% and we will continue to look for new additions as we hit results season. Equity exposure has been reduced recently closer to the 20% mark due to the strong rally in equity markets. Rate cuts combined with a soft landing mean that the outlook remains supportive although we also recognise that short term, we could well see some room for profit taking. As a result, running slightly higher cash balances gives us some flexibility to add exposure into any weakness. The alternatives exposure remains steady with our hedge exposure at 10% providing us with attractive non correlated optionality. The Cat bond exposure may be marginally impacted by the recent Hurricane Helene in southern America but with the end of the season in sight yields up at 12% makes this still a very attractive investment arena in our view.

Given how strong things have been for markets recently, there have understandably been questions as to whether this can continue. But there are still clear signs that investors are pricing in a higher-than-usual chance of more negative outcomes like a recession. The futures are still pricing in over 170bps of rate cuts from the Fed by the June 2025 meeting, on top of the 50bps we've already had. If that were realised, that would be the sort of pace we only normally see in a recession, with over 220bps of cuts in under 10 months. Moreover, looking at the Bloomberg consensus of economists' forecasts, they still see a US recession as a 30% probability in the next 12 months, which is well above the recent frequency of recessions.

From a market perspective, that suggests that investors could still price in better news over the months ahead if economic growth does hold up. Indeed, there have normally been decent gains for the S&P 500 when the Fed is easing into a soft landing. And although some have questioned what would happen if those rapid rate cuts being priced in didn't materialise. If the reason is due to stronger-than-expected growth, then that doesn't necessarily mean it would be bad for risk assets, as we saw in the first quarter of this year. Back then the S&P 500 kept advancing, even though rate cuts were being priced out,

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because growth was holding up and recession risks were falling back. So, if a soft landing can be achieved, the historical precedents from here are very positive for markets.

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agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client;  
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