ESTATE CAPITAL INVESTMENT PORTFOLIOS
OUTLOOK

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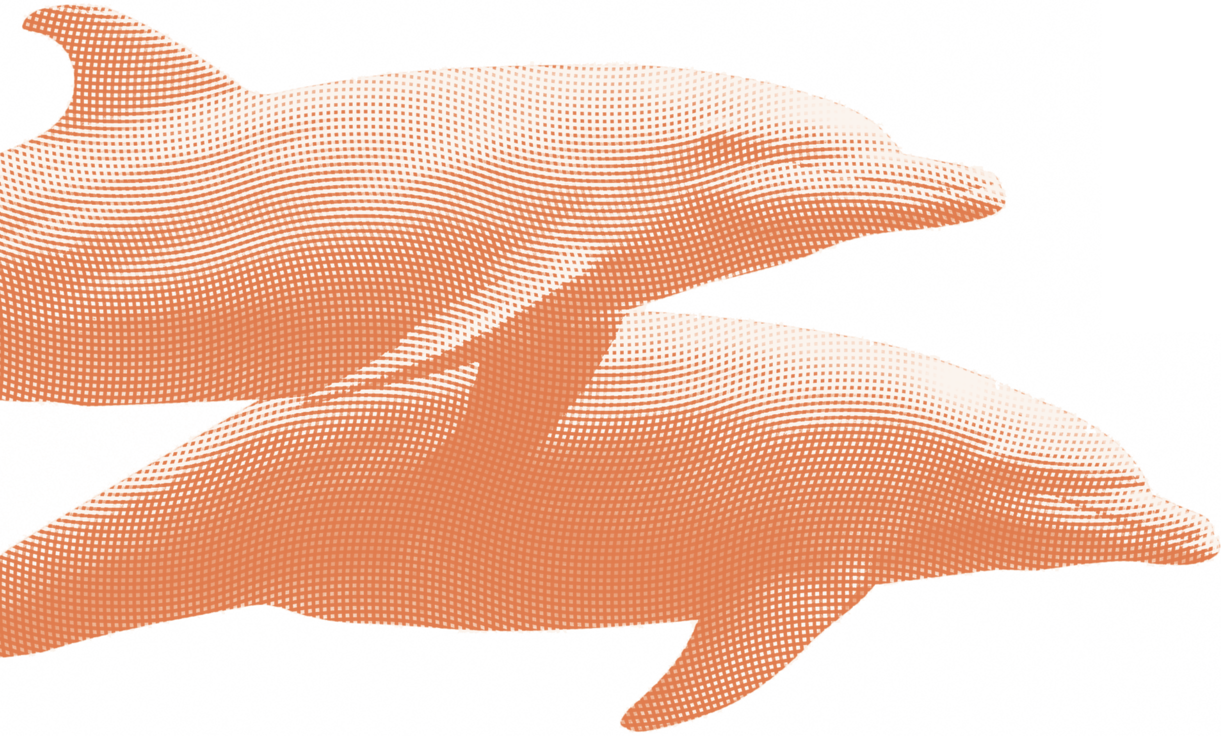

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ESTATE CAPITAL

The Federal Reserve must not over tighten and make any recession worse.

At the beginning of 2023 there was a consensus for an early recession in Europe and with the USA not far behind. Economists were concerned that a continuation of China's zero Covid policy would lead to another poor growth year. As it is, inflation has peaked and is falling, recession has been avoided and China has ended its zero Covid policy. China's opening should boost world growth and improve supply chains as well as push down inflation.

The swift recovery of equity markets in January came as a bit of a surprise to investment professionals. The strong equity rally came despite economic indicators predicting economic contraction. Central Banks continued to raise interest rates and the level of consumer excess savings having been run down in the face of a cost-of-living hike which will inevitably impact consumer confidence, household spending and corporate earnings. So far that has not been the case but is expected.

The failings of both Silicon Valley Bank in the US and Credit Suisse in Europe has caused concern about a looming banking crisis. There were unique factors that put pressure on these banks that are not representative of the broader banking system.

SVB was a tech lender with a very concentrated corporate deposit base mostly above the Federal Deposit Insurance Corporation guarantee levels of US$250,000 per deposit. Raising rates meant that SVB was burning through its cash to cover interest payments that were not offset by a traditional mortgage book.

Credit Suisse was in trouble long before the recent banking concerns. Its share price had fallen 80% from its peak as it was incapable of making money. Credit Suisse has struggled for some time and was known as the weakest bank in Europe.

The outcome of these banking fears is that tighter credit conditions will develop as banking becomes less willing to lend and will look after securing their balance sheets. Tighter lending standards does slow growth but at this stage it is not clear what will develop. We are facing uncertainty in the banking sector but not expecting a new major banking crisis. The general health of the global economy is far

stronger than it was in 2008.

The impact of tightening of monetary conditions will be monitored by policy makers and it is likely to result in a pause in interest rate rises in order to see if inflation continues to fall without any further rate hikes. A recession in the US in late 2023 is a possibility, so the Federal Reserve will be mindful of not over tightening and making any recession worse than is needed.

While the Fed raised their interest rates by 0.25% on 3rd May, the Bank of England's (BoE) Monetary Policy Committee met on 11th May and raised rates by 0.25% to 4.5%. UK inflation at 8.7% continues to be a problem. Higher interest rates will hit mortgage payers and business costs. The UK growth forecasts are relatively weak but positive so an early pause in interest rate rises is expected.

The bond market is returning to be the diversifier to equity it always used to be, after a period of combined losses over the past 12 months. With interest rates peaking and bond yields stabilising, bonds can be the diversifier they need to be. Any threat of recession will boost the bond market attraction, particularly government bonds and investment grade credit.

The general outlook is better for high quality value stock. Markets have not yet priced in recession as PE ratios are back to be above average in the US but remain good value in the UK, Europe, China, and Emerging Markets. European stock is expected to outperform US stock this year.

China is now seeing consumer confidence return but this is not being reflected at all in stock market values. The large pent-up savings from months of zero Covid lockdown will be spent as China opens. The lower stock values of Chinese equities and the accelerated consumer spending should make China an attractive investment region but this is not coming through yet.

The opening of China, the easing of Europe's energy crisis and the warmer weather in the USA and Europe have all boosted global growth. But despite these improvements, mild recession in the developed economies later this year is now likely. Europe could potentially enter recession this summer followed by the US in the Autumn. China with no inflation problems is expected to expand.

Inflation remains a problem particularly in the UK at 8.7% year on year to the end of April (falling from 10.1% in March) and in the Eurozone with inflation at 6.1%. Because of this, central banks have not yet finished their tightening policy of raising interest rates. It is common to discover the impact of interest rate rises some 12 months after the changes were made. It is this quarter that the effects of rapid rate hikes are being felt. This has been expressed as pressure in the banking sector which has led to several banking failures and additionally, excess savings accumulated by households is declining on the back of the cost-of-living increases. This will impact consumer confidence that has so far been surprisingly robust.

Fortunately, inflation is generally now falling across the major developed countries and is expected to continue to fall throughout the rest of the year. Inflation in goods that suffered acute shortages during the pandemic have now all but ended in the US and not far behind in Europe. Food inflation remains a big issue but energy costs are materially reducing. UK Natural Gas prices have fallen by 50% from £165 to £83 per trm so far this year. The fall in gas prices in Europe particularly has been a boost both to sentiment and energy security and strong inventories will ensure lower gas prices this year and next.

While inflation is expected to fall, it may not fall back as quickly as hoped due to the tightness in the employment market. The US labour market is strong with 3.7% unemployment while the UK has 3.8% unemployment. For these reasons wage growth, which is inflationary, will remain strong for some time.

The actions of all major central banks since the failure of SVB and Credit Suisse has been to continue to raise interest rates. Despite the impact on the weaker banks of rapid rate rises, the central banks remain focused on bringing down inflation. With all G20 countries with inflation over 2% target, other than China at 0.7%, it is hard to see rate cuts happening soon unless there is a widespread failing in banks or a deep recession. Neither look likely at this moment but the stress on banks is real.

Risk appetite has deteriorated while global growth is expected to fall.

Looking at global market sentiment reveals a more cautious investor landscape. Government bonds have done well and outperformed equity markets as a reaction to higher credit costs, a potential upcoming recession, and the threat of further banking failures. The banking failures remind us that monetary policy impacts the economy with a lag and rate rises impact is just starting to make its mark on the economy. The tightening of credit conditions can be seen as being equivalent or a substitute to a rate rise.

Markets expect the Fed to now pause its rate rising while the ECB will likely continue to hike. This will have the impact of weakening the US$. Inflation is expected to decline but we are in a contraction phase so therefore should be more cautious.

Global growth is expected to remain low and the chances of a fall in GDP growth are rising. For this reason, fixed income is favoured over equities and that value sectors and regions are preferred for equity such as Europe and Japan. The GDP growth figures for China, emerging markets and South East Asia are relatively strong but the stock returns are not reflecting that yet.

One sector of the equity market that has deteriorated is the real estate sector. There have been obvious declines due to work from home policies and on-line shopping due to the pandemic. However, due to interest rate rises and borrowing costs increases along with defaults, voids and financing problems in the real estate sector has meant the fall off in property fund values. This has not been helped by the rise in bond yields. We are therefore planning to reduce our holdings in property.

We do feel that the banking sector can withstand the recent failures, but the Fed and US treasury will need to act decisively when needed. The recent failure was a result of loose monetary policy that encouraged risk using cheap money and that the rapid reversal of policy exposed this. It is quite possible that there will be more minor banking failures particularly in the USA.

The outlook for GDP growth is likely to fall except for China. Global inflation will fall as will interest rates but with a lag. Government bond yields will strengthen as the year progresses but commodities will struggle as demand slows. We will reduce our natural resources holdings. The US$ should weaken against other major currencies which will aid non-US markets.

Given the rise in bond yields and the recent strength of the US$, gold has done well as an asset. One might have expected an easing in the gold price, but with elevated inflation and the threat of recession has helped sustain gold prices.

With recession expectations in the global markets, it is likely that longer dated government bonds will become more attractive. We have been used to cash rates and bond yields at or close to historical lows over recent years. The rise of bond yields will help valuations of other assets and that yields are now equal to or above equity dividend yields. Bonds are now back in fashion and again as a diversifier in a blended portfolio.

Having been underweight in government bonds we have shifted our preferences to US Treasuries. The feeling that the global economy is at risk of recession due to monetary tightening and banking stress may increase the possibility of a fall in long term yields and a corresponding rise in prices. We will be underweight in high yield and favour investment grade and US government bonds.

Despite the feeling that risk appetite has deteriorated and global growth expected to fall due to lending conditions tightening, economic data has been stronger than expected in Q1. It is the strength in labour markets and consumer spending that has strengthened the position of central banks to continue to raise rates further despite the potential banking crisis and recession.

Without doubt inflation will remain the critical driver of financial markets. While inflation appears to be falling, some data is suggesting that it may not fall as rapidly as expected. US CPI is currently 4.9% and expected to fall to 4% in June. The momentum is in the right direction but may not satisfy the Fed sufficiently that inflation is beaten.

The picture of inflation in the Eurozone is less clear as headline CPI is 6.1% while core CPI is 5.3%. The Eurozone has a wide range of inflation ranges within its member countries. Spain has a CPI of 4.1% while Italy's is 8.3%. The ECB current rate of interest is 4%. Markets are expecting another increase at the ECB's meeting in June and there is certainly the possibility one more thereafter resulting in a peak rate of 4.25%. This stands in contrast to the Federal Reserve, for whom the long-awaited 'pause' looks to have arrived. This transatlantic differential in the direction of monetary policy should prove supportive to the Euro relative to the US$. A falling dollar provides a liquidity boost to markets.

Some global forces should ease inflation over the months ahead. Commodity prices have started to fall. This is happening at a time when supply chain pressures are easing and the opening of the Chinese economy will help. For these reasons analysts are feeling that global inflation has passed its peak. The US is further ahead than Europe, while China is likely to see a rise in inflation. Despite the easing of inflationary pressure, central banks are not letting their focus diminish in reducing rates just yet. They want clear evidence that inflation is beaten.

The outlook for GDP growth is likely to fall except for China. Global inflation will fall as will interest rates but with a lag.

These are the undesirable consequences of rapid rate rises.

The US Federal Reserve Open Markets Committee (FOMC) has raised interest rates by 0.25% to 5.25%. This was consistent with market expectations. The increase in the Fed Funds rate leaves it consistent with the year-end peak implied by the Fed's March projections. 5.25% is the highest US interest rate since 2007. US markets initially took the news positively as the rise was expected but then reversed on the press conference comments of Fed Chair Jerome Powell who warned that the recent uncertainty in the banking sector would hit jobs and economic growth.

The decision to raise rates further comes after three US banks have failed in the past two months and others now are under stress due to the pressure of the US rapid interest rate rises. Mr Powell will be aware that failure of banks will lead to tighter credit conditions for both households and business on top of the increased cost of borrowing and living. Mr Powell was insistent that the broader US banking system remained 'sound and resilient.' Despite his reassurances, concerns remain about the solvency levels of some regional banks. Markets are now anticipating the Fed will pause its interest rate hiking cycle.

The rapid rise in interest rates over the past 12 months from 0.25% in March 2022 to 5.25% in May 2023 has had the impact of driving down inflation. Headline inflation in June 22 was 9.1% and has now fallen for eleven consecutive months to 4% in June of 2023. Although there are still pockets of inflation in the economy such as food prices, the Fed Funds rate is now higher than Fed forecasts of underlying inflation for 2023 and 2024. This positive real interest rate indicates that policy is already restrictive, which should help to tame inflation further.

The risks of an overtightening monetary policy are becoming clear. The failure of Silicon Valley Bank and Signature Bank in March exposed fragilities in the US banking system. The collapse of First Republic further exacerbated these concerns. But these failures may also help the Fed. As lending standards tighten in response to these events this will reduce the availability of credit, which in turn lowers economic activity and inflation.

Some leading analysts are of the view that a pause may not be sufficient and that the Fed will have to reverse these rate rises as soon as the autumn to support the economy due to tightening credit conditions impacting the health of the economy. That would run opposite to the Feds current resolve to bear down on inflation.

Analysts feel that a time may come when the Fed will have to make a decision to either prioritise inflation control or economic growth and the avoidance of a banking crash.

US banks are having to use their reserve capital in order to cover higher interest rate payments to their depositors. This problem has developed as a result

of near zero lending rates during the pandemic now insufficient to offset higher deposit payments. This is leading to concerns that with US interest rates at 5.25%, how long can this prevail until another bank fails. Potentially there could be large numbers of US banks that become technically insolvent. The Hoover Institute has reported that 2315 out of 4800 US banks have higher liabilities than their assets.

Deposits can leave banks quite quickly in these days of mobile banking and therefore the risk of a run on the bank is elevated. Depositors fled First Republic at a pace so rapid that the Federal Deposit Insurance Corporation (FDIC) had to seize the bank, wiping out the value of both shareholders and bond holders' assets and then needing to pump US$13bn of capital into the bank as well as a US$50bn loan to JP Morgan for them to take over the failed bank.

The next bank on the taxi rank of concern is Pacific Western Bank (Pac West) who's shares are down 40% before trading was suspended in the first week of May. Since then its share value has recovered.

The Fed and Treasury are sticking to their position that the failed banks had weak lending criteria and poor management. First Republic lent to technology startups but was also exposed to falling real estate values particularly office blocks and industrial property. US interest rate rises has led to a tightening of financing. As a result, US commercial property prices have fallen 5% so far this year but Capital Economics expects a full peak to trough to hit 22%. This would create negative equity and default rates to rise.

Commercial Mortgage-Backed Securities (CMBS) have dropped in value to levels seen in the early days of Covid 19. This is problematic for banks as they hold 46% of CMBS debt. Small US regional banks are particularly exposed to these assets.

SVB's failure was in the offset of lending and deposit rate imbalance and sought to bridge that imbalance by investing in safe US treasuries which fell in value as interest rates rose. This left a short-term hole in the balance sheet.

These are the results of aggressive interest rate rises over a short period of time and last weeks Fed rate rise to 5.25% will place more pressure on banks to cover higher deposit rates. Some analysts are suggesting that the technical insolvency of many US banks will continue until the Fed cuts interest rates by 1%. At present that does not look likely as rates have just risen and the Fed are all over this issue. The Fed is currently prioritising inflation control.

If we are faced with further failures, then the Fed and Treasury Dept will be faced with a big decision. Should they intervene by further funding buy outs or seek to protect all deposits through a federal guarantee so that no run on any bank occurs. That would be a massive and last call. These are challenging times for the experienced Janet Yellen.

The US authorities can deal with further losses of regional banks.

When central banks raise interest rates then something comes under pressure. Businesses take time to adjust to rate rises and if they are rapid as we have seen over the past 12 months the more likely it is that something will go wrong. This has been evidenced in the US and European banking sector. We are now seeing the effects of the Feds aggressive inflation beating rate rises that started a year ago.

After long periods of ultra-low interest rates and loose monetary policy, a sharp rise in interest rates has exposed weakness in business models that are no longer profitable when financing costs are higher.

Silicon Valley Bank was involved in tech sector lending to start ups and venture capital. Signature Bank was connected to crypto currency lending. First Republic was the victim of a run on its deposits and share price.

Credit Suisse was forced into a fire sale take over by UBS due to its largest shareholder, Saudi National Bank not wishing to raise its holdings, that 110bn Swiss Francs left the bank just in Q4 2022 alone and auditors PWC included an adverse opinion in their audit.

These four banking failures look to have been well controlled by the banking authorities and institutions, but we cannot rule out further pinch points if interest rates remain high. These are the unwanted and undesirable consequences of rapid rate rises which may now lead to more cautious lending criteria and more cautious tightening policy going forward.

For the present it is likely that the US authorities can deal with a limited loss of further regional banks and the economy avoid the combination of high inflation and rising unemployment. The modern threat is that any lack of confidence in a bank can quickly turn a liquidity problem into a solvency problem.

The broader reality of bank failures, elevated volatility in banking stock, the rising cost of capital and on-going threat of deposit flight from more fragile small US banks raises the issue of significant

tightening of credit conditions particularly in the USA and therefore the risk of an earlier recession.

We expect that the recent banking failures will lead to further tightening in credit and financial conditions as banks become more conservative in lending. This is likely to have the same impact as a 0.5% -1% rate rise.

It is unlikely that the Fed can return the US economy to an inflation target of 2% without creating a recession in late 2023 or early 2024.

The US is looking overpriced.

US annual headline CPI inflation fell to 4% in May down from 5% in March and 4.95% in April. Core inflation that excludes food and energy costs fell slightly from 5% to 5.3%. US CPI has fallen every month for the past 11 months starting from June 2022. Along with data that suggests we can expect falling new job vacancies and lowering goods prices all indicate that US CPI inflation is set to continue to fall.

While there are pockets of rising inflation with food costs being an example, the Fed Funds rate of 5.25% is higher than the rate of CPI inflation. The risk for the Fed is that if it overshoots its tightening policy more than is needed, that leads to a financial problem in the banking sector and adds to recessionary pressure.

There are inflation drivers outside the control of central banks such as energy costs. Brent Crude oil prices have lifted due to OPEC production cuts but remain sensitive to recession pressures. Oil prices are currently US$75 pb down from the June 2022 high of US$122pb.

Job creation in the US remains robust, despite higher borrowing costs. Employers added another 253,000 new workers in April, and 165,000 in March. The unemployment rate came in at 3.7% versus 3.4% in March. 3.4% unemployment is a multi-decade low.

The latest number of new jobs created was 339,000 in May which is in line with the 12-month moving average. Importantly, employment growth has slowed to an annual 2.9% increase in April, a steady deceleration over the past year. Average weekly hours in the private sector have tailed off to their lowest level since the pandemic and is an early indicative signal that businesses are cutting back on labour.

Average hourly earnings from the payroll report, slowed to an annual rate of 4.4%, against a cyclical peak of 5.9%. Importantly, the number of workers quitting their jobs to look for better paid opportunities has steadily fallen over the past year. As a lead indicator for the overall compensation rate for workers, the quit rate suggests that the risk of an upward spiral in wage rates has likely fallen.

Even with this softening in the jobs and wage data, there is still a long way to go before the Fed can feel comfortable that the labour market has eased sufficiently to be consistent with 2% inflation over time. After all, the unemployment rate is close to a 50-year low.

On balance, given that there are still plenty of job vacancies, the participation rate has yet to recover to before the Covid outbreak and initial jobless claims have been stable at a low level, employment is still likely to grow, but at a slowing pace. This suggests

there is a decent chance that the US can avoid an economic hard landing.

Markets expect the Fed to now pause any further rate rises. Slowing inflation is increasing the likelihood of the Fed coming to the end of its interest rate rises. If the BoE and ECB continue to raise their interest rates, this could lead to a depreciation of the US$ against other major currencies. A weaker US$ will help improve the price of equities and bonds.

Markets have been volatile this year but data remains robust and with policy expectations now around pausing rate rises we could, subject to the banking situation and US debt ceiling negotiations being successful, see some stronger equity performance over the months ahead. Any fall into recession should lead to an out performance by fixed income assets for the rest of 2023.

One factor that does have an impact upon the health of the US economy is the level of consumer spending. Interestingly, consumer confidence has improved from September 2022 lows as one might have expected, and that the higher costs of living to have hurt consumer confidence. This has also been less the case in Europe as energy prices have fallen back to pre-Ukraine invasion levels at €39mwh, thanks to mild weather and high storage levels. US unemployment is currently 3.7% in May. Companies are not making mass layoffs so the threat of job losses are not hitting consumer confidence.

Household balance sheets improved over the Covid lockdowns so that savings rates are above historical averages.

However, consumer weaknesses have started to show through. Data from Q1 on US personal disposable income and spending suggests that over the coming months that US consumer spending will start to decelerate. Such a slowdown, will help control inflation and help the Fed pause on further interest rate rises. A decline in inflation will have a positive impact upon US equity and bond markets.

US equities have become less attractive recently due to the higher interest rates and a risk of recession. In the past US equities have had a low sensitivity to the global economic cycle and have been less volatile than global equities. However, since the start of last year, US equities have not provided their typical defensiveness in this economic cycle and underperforming since the start of 2022. A key reason appears to have been the high valuations of US markets against the backdrop of high valued stock generally underperforming as interest rates rose. The S&P 500, for example, has gained 1% over the past 12 months while the FTSE 100 gained 7.7%.

US earnings forecasts do not appear to reflect the risk of recession with analysts still forecasting solid growth across most sectors. Unless analysts have additional insight, the US is looking overpriced.

How can the BoE get its forecasting so very wrong?

The Bank of England followed the Federal Reserve and the European Central Bank in raising its base interest rate by 0.25% to 4.5%. While it appears, the Fed is pausing its interest rate hiking cycle, the BoE and ECB could still have some work to do.

Governor Andrew Bailey had to accept that it is now likely to take two years to get inflation back to under the Banks 2% inflation target. Having previously predicted a 2-year long recession in the UK, the BoE is now reporting the biggest of up-grades to UK growth due to the British economy's resilience.

The BoE raised their estimate for economic activity this year and no longer think there will be a recession. More importantly, they expect year-on-year inflation to take more time to slow, to remain above 8% as of June, and to finish 2023 at 5.1%. They say the risks are skewed towards inflation continuing to be high rather than below the BoE's 2% target.

At 10.1% in March and 8.7% in April, UK inflation remains stubbornly high. In contrast, US and Eurozone CPI rose 4% and 6.1%, respectively in May. This divergence has been driven by two main factors. First, like the rest of Europe, the UK has experienced a major energy price shock since the Russian invasion of Ukraine. Second, the UK has experienced far greater labour shortages than the rest of Europe, similar to what we have seen in the US. Many young European workers have left the UK after Brexit and older workers are leaving the labour force due to retirement or long-term sickness. This has placed upward pressure on wages and inflation.

As a result, markets have repriced their expectations of the peak in the UK base rate over the last month – they now expect a peak of 5.5% instead of the current 5%.

The problem will then be, whether, the BoE will overtighten more than is needed to rein in inflation and put the economy, which has confounded critics, under unnecessary pressure. This could be the next error from the BoE.

Critics of the BoE are asking how the BoE, can get

its forecasting so very wrong. We have moved from a forecast of a 2-year recession to no recession at all. In the wake of stronger than expected survey and PMI data, the drop in energy prices and new government spending, UK GDP growth is expected to remain flat but not fall and then grow for the next two years up until 2026. This is a remarkable change of position from the BoE.

We expect to see UK inflation start to ease as the base effects turn more favourable and the impact of higher rates is felt by the real economy. In its latest forecasts, the Bank of England now expects inflation to fall to around 8% for Q2 and 5% by Q4. They expect to meet their 2% target by the end of 2024.

Governor Andrew Bailey had to accept that it is now likely to take two years to get inflation back to under the Banks 2% inflation target.

Inflation is expected to fall over the coming months.

UK annual headline CPI inflation for April was reported at 8.7% down from 10.1% in March. Core inflation (excluding food, energy, alcohol, and tobacco) was 6.8% up from 6.2% in March.

In the week that Andrew Bailey, Governor of the Bank of England, admitted he was no longer relying on the Bank's inflation models, we received another surprise with April's inflation release. Despite a 1.4 percentage point fall in year-on-year inflation compared to March, headline CPI surprised on the upside. More troubling, core inflation recorded its highest reading since March 1992. In last month's monetary policy committee report, the Bank highlighted that inflationary risks remain skewed to the upside, and once again this has proven to be the case.

The easing in the annual inflation rate was mainly driven by changes in the housing and energy, particularly for gas and electricity. Monthly gas prices fell by 1.0% between March and April this year. This was driven by base effects, with the higher April 2022 Ofgem energy cap dropping out of the annual estimates.

This decline in prices was offset partially by another sharp increase in food and non-alcoholic beverage prices, which increased 1.4% month-on-month and 19.1% year-on-year. The ONS estimates that this is the second highest reading in the last 45 years.

On the back of another disappointing set of data, we saw an instant reaction from bond markets: traders increased their expectations of the peak in UK interest rates from 5% to around 5.5%. Sterling also extended recent gains, rising 0.4% against the dollar.

The Bank of England's decision on whether to continue its hiking cycle will depend on the incoming data. The latest CPI data increases the probability of another increase at the June meeting.

UK GDP growth held up at 0.1% in Q4 2022 and is expected to remain at 0.1% in Q1 2023 and therefore has avoided recession. The UK has surprised on the upside at the start of 2023 with the FTSE 100 having had a relatively good year so far with gains of 4.4%. The avoidance of recession and a tight labour market has given confidence to the BoE MPC to further rise UK interest rates by 0.25% as the UK inflation rate is a G7 outlier at 8.7%.

JP Morgan revised their UK forecast for GDP growth by +0.3 for Q2 and +1.3 for 2023. This is a boost

for the economy but higher growth will add further inflationary pressure.

The MCP will weigh the improved economic activity against the tightening already in place. UK interest rates have increased by over 4% in the past 18 months which is a very fast tightening cycle. Until the battle to control inflation is won, the BoE will feel it will have to apply pressure. The Fed have already been more aggressive and have somewhat achieved their goal of falling inflation. The BoE had been slow to act decisively and are now in a harder place with inflation much higher than that of the US. Therefore, the BoE will seek to raise rates until rate rises start to work but that may hurt the economy in doing so.

UK inflation sits at 8.7% while the Eurozone is currently 6.1% and the USA 4%. Core inflation which does not include food and energy costs have both added most to inflation recently, this being 6.8% in the UK and 5.3% in both Eurozone and USA.

So why has the UK suffered such higher inflation that our peers. There are three main reasons. The UK has endured a big energy price shock just like Europe has. UK energy prices are linked to European rates. The UK has a tight labour market just like the US so wage inflation is more pronounced. The BoE were slow to react to the signs of inflationary pressure early enough unlike the US Federal Reserve. The UK has been hit in three ways.

However, headline inflation is expected to fall over the coming months due to declining energy costs and improved supply chains. The tight labour markets may mean getting inflation back to the BoE 2% target will take longer in the UK. Unemployment is at 3.8% while the number of job vacancies are 1.1 million and there are 1.5 million looking for work who are registered unemployed. The UK employment rate is 75.8% of working age and the participation rate is 78.9% of working age. Core inflation is expected to stay higher than peer countries through to late 2024.

The BoE increased interest rates in May by 0.25% to 4.5% in order to continue to bear down on inflation. The BoE will be pleased that the UK banking system has not endured the rate rise consequences of the US and Eurozone. UK mortgages are more based upon short fixed rates and variable rates as compared to 30 or even 40-year fixed rates in the USA. Hence the mis-match between mortgage payments on low interest rates and deposit interest payments on recently elevated rates is far less acute in the UK as it has become in the US.

Analysts expect that the BoE will be soon forced to decide between driving down inflation or avoiding a damaging recession. The talk from the BoE sounds as if a rate hike, then pause is on the cards.

With an environment of high interest rates, high inflation, and pressure on the cost of living, one would expect house prices to fall and are down 4% from last year's peak. However, while confidence remains subdued, the outlook over the next 12 months has improved as inflation is expected to fall in the second half of the year and that the employment market remains strong and wage rises are attractive. On the back of this sentiment residential property prices rose by 0.5% in April having fallen 2.7% in the past 12 months.

Our emphasis within our UK asset allocation has been a clear preference for large cap companies over their mid cap alternatives. The FTSE 100 has outperformed the FTSE 250 by 7.7% over the past 12 months to May and by 1.3% over the year to date to May. The FTSE 100 emphasis on energy and financials has been beneficial in 2022 and in Q1 2023. The defensive and value qualities of the companies in the FTSE 100 is attractive in the current economic climate, reflecting our preference for defensive sectors across the board.

The UK has endured a big energy price shock just like Europe has.

If the BoE do not control inflation, a recession will occur anyway.

Headline CPI inflation fell from 10.1% in March to 8.7% in April, but this fall was less than the BoE had expected. Meanwhile the figures for core inflation which exclude the currently expensive heating and food costs which are considered imported inflation, showed a monthly rise from 6.2% to 6.8% pa. Core inflation is seen as domestic inflation.

Analysts are now expecting that the BoE will have to continue to rise interest rates to a new peak of 5.5% up from the current 4.5%. These rises are expected over the next 3 meetings of the Monetary Policy Committee in June, August, and September.

Markets are becoming concerned about this inflationary data, to the extent that pricing has been moving significantly. For this reason, Jeremy Hunt made it clear that the control of inflation was the governments priority even if this means higher interest rates that cause recession.

On the back of these figures and expectations, the yields on UK government gilts increased. The 2-year gilt rate, which is the most sensitive to short term interest rates, increased to 4.48%. The 10-year rate to 4.33% and the 20-year rate to 4.63%.

Some leading mortgage providers simultaneously announced increases in their variable and fixed mortgage rates. Raising mortgage costs will have an impact on consumer spending and confidence.

Economists are now warning of a likelihood of the UK falling into recession in Q1 2024, which so far, the UK economy has avoided. The strength of the economy is a problem in that the strong labour market is resulting in rising wages. Wage growth is around 6% which is double the rate that the BoE consider consistent with their target of 2% inflation.

Economists are of a view that a 5.5% rate of interest could trigger new economic stress as we have already witnessed. The BoE will have to choose between inflation or a recession. Jeremy Hunt has indicated already the preference. However, if the BoE do not control inflation a recession will occur anyway.

European equities have rallied strongly in recent months.

We are now over 12 months on from the commodity price jumps that followed Russia's invasion of Ukraine. Due to this there was a big drop in European headline inflation from 8.5% to 6.9% in March. European inflation has lagged US inflation but eventually pushed above US inflation due to firstly, the strength of the US$ which increased imported inflation into Europe, and secondly, the rise in European natural gas prices. Both factors have reversed recently; hence the headline rate of European inflation should fall below that of the US as 2023 unfolds. Inflation in the Eurozone is now an average of 6.1% and the US is at 4%.

European headline inflation is expected to fall but Core inflation seems to be more stubborn. The ECB will want to see the decline in core inflation before reducing interest rates. Hence the view that The ECB will keep interest rates higher for longer than the Fed might.

The ECB met in early June and increased rates by 0.25% to bring the headline interest rate to 4%. This change represents a down-shift from the larger increases that the central bank had been making so far in this hiking cycle.

The ECB is further behind in its hiking cycle relative to both the Federal Reserve and the Bank of England. May's smaller 0.25% move represents a recognition that the end of rate rises is in sight.

Two elements will have weighed on the ECB's decision. First, although inflation is still high, the General Council will have been encouraged by May's inflation report, which showed core inflation decelerated to 5.3% from 5.6% in May, helped by good prices. The report did not include any unpleasant upside surprises, which might have persuaded GC members to opt for a bigger increase today.

Second, credit conditions. The ECB's quarterly Bank Lending Survey showed that both demand and supply of credit is waning in the eurozone. This will act as a brake on economic activity, and therefore inflation, removing some of the need for monetary policy to do the job. In the US, the Federal Reserve has made a similar calculation, following regional bank failures. Europe likely has a greater sensitivity to this, because European commercial banks provide a greater proportion of lending in the economy compared to the US, which has more developed capital markets.

European equities have rallied strongly in recent months as the continent made it through the winter by mild weather, lower energy demand and falling wholesale gas prices. The EuroStoxx 50 index is up 14.7% year to date to May.

Japan has wanted inflation and wage growth within its economy for decades.

The corporate governance reforms first introduced by former Japanese Prime minister Shinzo Abe are starting to see progress in the Japanese stock market. Sadly, Mr Abe who was Japan's longest serving Prime Minister till he stood down on health grounds in 2020 will not see the success of his hard-fought policies as he was assassinated in July 2022. Earnings growth in Japanese equities has continued to improve on the back of Mr Abe reforms.

Adding to the structural improvements, wages are also rising and so the domestic economy may experience growth this year as consumers spend their higher wages. Japan's unions recently secured significant increases in this year's annual pay bargaining round. The increase was 3.8% and above that what was expected. Japanese inflation is 3.2% which is an achievement given decades of exceptionally low inflation. The BoJ may start tightening monetary policy as Japan's inflation rate is at a 40-year high and the BoJ will naturally wish to control inflation.

Labour shortages have driven up wages in many sectors of the economy in both skilled and unskilled, part, and full-time workers. Japanese unemployment is currently 2.8% and is expected to fall to 2%. The tightness of the labour market is driving wage demands. With wage growth comes spending power and this has been helped by the easing of energy costs and the strengthening of the Yen.

Japan has wanted inflation and wage growth in its economy for decades and while other economies are trying to reduce inflation, Japan is welcoming it. Higher real wages, higher productivity, dividend growth and relatively modest inflation are encouraging. These are tailwind factors for Japanese equities.

Japanese equities continue to look relatively attractive compared to other developed regions and countries. Valuation risk is low in Japan. The weakness of the Yen helped the competitiveness of Japanese exporters but also erodes returns for foreign investors in Japanese shares.

The Abe governments corporate governance reforms and the return on equity through dividends has been the focus of successive governments and as yet is not finished but has advanced Japanese equity markets. An additional influence also improving Japanese equities is that both local and foreign investors are pushing for improved dividend returns.

The Nikkei 225 is up 10.9% so far this year to May and has now reached a 30 year high at levels not seen since 1990.

China has started to recover strongly.

China has started to recover strongly as GDP improved and is expected to hit 5.3% in 2023.

The Chinese authority's fiscal policy push to support jobs and incomes remains important to support growth. Higher wages for lower income households and small business will provide a boost to consumption and prices. China's opening has also coincided with the reduction in pressure over global supply chains and therefore helping reduce inflation and generate a fall in US import costs.

Share prices did lift on positive sentiment around China's re-opening after the swift abandonment of its zero covid policy which coincided with improved inflation and economic data that reduced the odds of a recession in the developed world.

There are opportunities emerging from China's faster than expected re-opening which will be a key market driver in 2023. The lifting of activity restrictions and the supportive monetary, fiscal, and regulatory policy mix creates an environment for GDP growth above analyst expectations.

However, the rally in Chinese equities fuelled by the ending of the zero Covid policy has already faded with Chinese focused investment funds showing significant recent falls. Therefore, while many fund groups are positive about China for good reason it is worth remaining cautious.

Chinese policy makers have announced lower than expected economic growth targets for 2023, which some have suggested mean that the monetary and fiscal support may be limited. The threat of Covid has not gone away and Chinese vaccination rates are relatively low.

China is facing a significant challenge over its working age population, a limit on its investment led growth model and the geopolitical tension between itself and the West.

Rising yields will be a gift to investors who have been deprived of income.

Financial cracks are opening due to the fastest rate rise cycle since the 1980's. On the back of this pressure, we expect to see bond yields rising especially in short dated bonds. This yield rise will be a gift to investors who have been deprived of income. Central banks will stop at peak rates soon and will hope that they have done sufficient to combat inflation. A pause to see if interest rate rises have done sufficient to curb inflation. The next steps will be dictated by the direction of travel over headline and core inflation and job numbers.

The outlook for short duration US treasuries and inflation linked bonds remains appealing while long duration and higher yield credit has risk. Inflation linked bonds will be useful if inflation remains stubborn.

Bond markets are starting to price in rate cuts in later 2023 reflecting the established view that central banks cut rates on the signs of economic and financial damage as we are starting to experience. However, high, and persistent inflation will likely mean that rates will likely stay higher for longer.

We have moved our allocation of fixed interest to take a more overweight position in short dated US treasuries and short dated global inflation linked bonds and reduced our long-dated credit and high yield bonds.

Bonds will look attractive at current yields and will continue to offer a balance between income and a cushion against economic downside.

It is against this background we make our recommendations.

12th June 2023

INVESTMENT PORTFOLIOS

Equity markets started 2023 with a recovery in tech stocks pushing US equities to the best January performance in 20 years. Stocks were lifted by positive sentiment over the opening of China and economic activity that appeared to reduce the chances of a recession. February saw these expectations fall with uncertainty over the path of interest rates and inflation. While March was influenced by the prospect of a new banking crisis with the failure of well- established banks in both the USA and Europe.

Labour markets and inflation continue to be robust but the trend is stalling. The US added 339,000 new jobs in May having created 253,000 new jobs in April and 165,000 new positions in March. At the same time inflation has fallen from 4.9% to 4%. Investors would be hoping for a pause in interest rate rises to see if enough has already been done to bring inflation down further. As it was, rates did rise and the expectation of higher rates being maintained for longer. With this outlook, markets soon lost their January gains although the UK and Europe held up better due to improving business confidence and consumer sentiment.

May's annual headline CPI inflation for the US was 4.0%, its lowest level since March 2021, and compares to 4.9% in April. In monthly terms, CPI rose 0.1%, compared to a gain of 0.4% in April. The broad message is that headline CPI inflation continues to slow. The base effects, where prices rose sharply in the first half of 2022, are still working to dampen the annual rate of inflation. With interest rates positive against the Fed's own forecast of inflation in 2023 and 2024, there appears little need to continue to raise interest rates materially

The Fed position this year has been to fight off persistent inflation and to achieve this aggressively increase interest rates. The Fed has stated that they expect peak interest rates to be higher than they had previously expected at 5.25%. These announcements caused stocks to fall and bonds to start to recover. However, the uncertainty in the Banking sector soon changed the narrative and this drove market sentiment in March. Both Silicon Valley Bank, the 16th largest US bank by asset and Signature Bank went from business as usual to failure within a matter of days. A week later Credit Suisse, a 166-year-old banking institution was forced to merge with rival UBS at a fire sale price. These events led to heightened volatility across the banking sector.

This pressure on the banking sector put the spotlight on liquidity concerns and the central banks aggressive tightening policy. To relieve these concerns, the major central banks announced measures to improve access to US$ liquidity. The Fed did increase interest rates again in March but softened its language over 'ongoing increases' being necessary to bring inflation under control. These moves restored stability in the banking sector and led to equity market improvement.

The US super banks are in a strong position for liquidity and after recent events have seen big inflows of deposit money.

The UK avoided recession at the end of Q4 of 2022 and Q1 of 2023 with 0.1% growth in both quarters. The UK is still 0.8% below it pre Covid growth position while both the US and the Eurozone are up 5.1% and 2.4% respectively.

UK inflation at 8.7% is very high and not fallen as rapidly as it has in the US. UK inflation has been driven by high food and services costs. Chancellor Jeremy Hunt described the UK inflation numbers as ‘dangerously high’ and above levels in all other G7 countries. The BoE expect inflation rates to fall to 5% in Q4 which is about half the current rate and in line with Prime Minister Rishi Sunak’s promise. The interest rate rises have led to UK bond yields rising and a corresponding fall in bond prices.

European inflation was 6.1% in May, down from 7% in April and down from February’s 8.5% due to a big decline in energy costs. Core inflation that excludes energy and food stood at 5.6%. Despite the concerns over Credit Suisse, and the pressure interest rates are having on the banking system, the ECB put up rates by 0.5% in March and 0.25% in May to 4.00%. Unemployment in Europe is falling and now stands at 6.5%. Business activity in the Eurozone is robust with the PMI index raising to 54.1 points. Generally, the outlook for Europe is encouraging.

European banks due to Basil 3 requirements are much better capitalised than they are in the US. As a comparison, European banks have US$16tn in reserve while US banks have US$13.75tn. Europe will still suffer tighter credit conditions but not as much as the US so the growth risk is higher in the US this year than Europe.

The Bank of Japan (BoJ) believes that their lose money policy has been a success despite it not having sustainably achieved its 2% inflation target. The BoJ maintains its negative interest rate policy and bond buying programme. Inflation is now at last rising in Japan and now stands at 3.2% down from January’s high of 4.3%, which is the highest rate of Japanese inflation since 1982.

Japan’s major employers have all agreed to give a 3.8% pay raise for this financial year. Japan is confronted by post pandemic labour shortages and a heavy reliance upon imported commodities and a weakened Yen. We do think that the BoJ may consider interest rate rises to keep a control upon inflation. However, the recent decline may make life easier for BoJ Governor Kazuo Ueda in trying to control inflation when Japan has wanted to create and retain sensible levels of inflation for so long.

The Chinese economy advanced 4.5% year on year in Q1 of 2023, accelerating from a 2.9% growth in Q4 and topping market estimates of 4%. It was the strongest pace of expansion since Q1 of 2022, amid efforts from Beijing to spur the post-pandemic recovery. Retail sales growth was at a near 2-year high in March, industrial output rose the most in 5 months, and the surveyed jobless rate fell to its lowest in 7 months. However, a complex global environment and insufficient domestic demand mean the foundation for the country’s recovery is “not yet solid.”

Last year, the economy added 3%, missing the government’s goal of about 5.5% despite the zero Covid policy. This year the National People’s

Congress have set a growth target of 5%. There is likely to be pent up demand from consumers after years of tight Covid restrictions. Chinese consumers have US$2.5 trillion in excess savings. A long-term recovery in China will be needed and some tax cuts and incentives already in place have helped the lower paid households and small businesses.

The property market in China will need support. China's banks have increased lending after an injection of liquidity from the state banks to support property development.

The general outlook for the global economy is one where the real economy seems to be in reasonable health despite such high inflation and aggressive interest rate hikes. The condition of easy money led to asset price inflation and goods price deflation. We now have the opposite. The move from 'free money' to 'expensive' money has led to the re-pricing of assets. Breakages are beginning to emerge in the system such as the spike in the UK gilt yields last September and the failure of US and Swiss banks. The impact of higher interest rates may yet not have been fully felt and further breakages will unsettle markets and investors. So far, the institutions who have created the pressure are dealing with the damage sufficiently.

The banking capital adequacy rules that were introduced in 2008 have ensured that the capital position of most banking institutions remain very strong and therefore credit quality remains sound. Silicon Valley Bank and Credit Suisse for example faced their own unique issues and their problems were responded to swiftly to reduce the chance of contagion. The overall impact is a reduction of risk appetite and a likely tightening of lending criteria so that liquidity in markets falls leading to a slowing of growth.

Amid this environment the attraction of gilts and treasuries will rise. We can now expect government bonds to fare better. With interest rates rising, bond investors can benefit from higher yields.

Corporate earnings could be a concern with the slowdown in consumer spending. Earnings expectations in the S&P 500 have reduced and potentially decline further. This is an issue as stock prices often follow earnings. Some sectors have taken advantage of the excuse of inflation and put-up prices by far more than needed and taken advantage of the consumer. While others it is far harder to pass on costs. The health of the consumer will be a key issue over the next 6 to 12 months while inflation reduces significantly.

Our general view is to slightly underweight our previous positions in the US, as earnings expectations are not reflecting a potential recession. We will ease our positions in the UK, but increase our allocation to Japan and Europe. We are expecting growth in China and consequently the emerging markets but as yet this has not materialised in investment returns. Concerns over China's lacklustre reopening recovery have been weighing heavily on China's stock market and have been one of the major recent risks in the hope for a global economic soft landing. The news that Beijing is working on a sizeable property sector support package seems to be precisely what investors are looking for.

It is good to see how much more as compared to last year, that equity markets are taking the return to higher yield levels in their stride. Particularly notable is that the growth companies of the tech sector, whose valuations suffered substantially last year under rising yields, seem to no longer be seen as growth companies this year, but safe-haven investments. Markets appear to accept that rates and yields are unlikely to come down in the very near future as inflation proves stickier than anticipated. Yet with a still booming services sector compensating for the slowdown in manufacturing, the notion that the global economy will avoid a painful inflation-busting recession has become the new narrative.

We have increased our tech exposure on the back of the advances in AI companies and as a reaction to growth orientated companies making a recovery. We have redirected allocations to tech from property, sustainable energy and infrastructure as these sectors have been more affected by interest rate rises.

Investors were pleased to see a resolution to the standoff over the US debt ceiling vote and that the solvency of US banks has fallen from the headlines but not gone away. US interest rate rises are now expected to be paused so that further pressure is not placed upon lenders. US new job numbers remain both strong but showing signs of slowing which suits the Fed. Inflation figures in Europe have also declined faster than expected

Investors are now starting to feel a bit more optimistic. To justify this, they would point towards the wider market expectation that yields will fall in the medium term, making equities more attractive against bonds. As for the already expensive US stock market, those optimists would argue this is mainly driven by those companies that will shape our society's future, and therefore justify the premium.

Pessimists will point to the higher-for-longer risks emanating from high interest rates and lending costs eventually driving down demand and profits, causing a recession that starts a debt default cycle. They might also point out that US tech firms will have to generate high profits in the future to justify the current valuations. We are mindful of liquidity concerns in the market in future through the banks' tighter lending conditions and capital adequacy requirements.

As we are unsure as to what is ahead of us, we do need to prepare portfolios for a range of outcomes. A fully diversified portfolio including alternative assets will prove more resilient risk adjusted returns than a conventional equity and bond only portfolio.

We will maintain a fully diversified portfolio built on a combination of passive low-cost index trackers and actively managed funds. We are maintaining our weighting in equities but with an improved emphasis on markets such as Europe and Japan. As far as bonds are concerned, we will remain short on duration with an emphasis on quality.

Within Edition 39 we have continued to hold conventional government and corporate bonds. We have continued to select short dated credit and continue with strategically managed bond funds in the form of the Dodge and Cox Global Bond Fund, the Royal London Diversified Asset Backed Securities Fund and M&G Global Floating Rate High Yield Fund. We have retained the Aegon Short Dated High Yield Bond Fund.

As far as the specialist sectors are concerned, we have been happy to maintain our holdings in the Polar Capital Global Insurance Fund, the Guinness Sustainable Energy Fund, but have removed the Gravis Clean Energy Income Fund on performance grounds. We have reduced our iShares Global Property Securities Index Fund and M&G Global Listed Infrastructure holdings as we feel that higher borrowing and mortgage costs will impact returns and values. We have also removed our holdings in the JP Morgan Natural Resources Fund. This fund has been a useful holding and with commodity prices falling, inflation starting to decline and a recession forecast then this capital can be deployed better elsewhere.

We feel that a year of heavy re-pricing of values in almost every asset class and sector is coming to an end and while a recession can bring further sensitive volatility, we can more confident about bond yields stabilising and an improving environment for investors. There has been a strong value style bias over the past 18 months but this is starting to swing back to growth and hence we have re-introduced some growth focused assets.

As of the 30th May 2023, the best performing funds in our portfolio over the past six months have been;

Fidelity Global Technology Fund	14.31%
Blackrock Continental Europe Index	8.55%
M&G Global Floating High Yield Fund	5.52%
Fidelity Japan Index	5.49%
Royal London Diversified Asset Backed Securities	4.5%

As of the 30th May 2023, the worst performing funds in our portfolios over the past six months have been;

JP Morgan Natural Resources Fund	-10.51%
Gravis Clean Energy Fund	-8.75%
Black Rock Environment & Low Carbon Real Estate	-6.88%

As far as the 39th Edition is concerned, across all five portfolios, 9 new funds have entered the selection of which several are re-joining while 10 existing holdings have been dropped or substitutes for performance, ratings, or cost reasons.

The funds that have been removed are;

	TER
Jupiter Merian Global Strategic Bond	1.18%
M&G Short Dated Corporate Bond	0.40%
JP Morgan Global Equity Income	1.37%
Jupiter Asian Income	1.13%
Royal London Short Dated Gilts	0.29%
Vanguard FTSE UK All Share Index	0.07%
JP Morgan Natural Resources	1.57%
Gravis Clean Energy Income	0.76%
Vanguard Pacific ex Japan Index	0.20%
Vanguard UK Investment Grade Bond Index	0.16%

The funds that we have added are;

	TER
M&G Optimal Income	0.81%
Royal London Global Equity Select	0.95%
M&G Japan	0.61%
Royal London Sustainable Leaders	0.98%
Vanguard US Government Bond Index	0.17%
iShares Pacific ex Japan Index	0.17%
L&G Global Technology Index	0.35%
Stewart Investors Asia Pacific Sustainability	1.05%
Baillie Gifford American	0.57%

PORTFOLIO PERFORMANCE

The Estate Capital Investment Portfolios

The balance of investments across different asset classes is the primary driver of portfolio returns.

The Estate Capital Investment Portfolios now offer five risk related investment strategies designed for medium to long-term investors seeking capital growth and income from a portfolio of leading investment funds. The individual funds that make up our diversified portfolios are selected on the quality of the fund manager and both the quality and consistency of past performance.

There is a wide range of asset classes across global markets available to investors. Our portfolios bring together a diversity of global equities, fixed interest securities, cash deposits, commodities, precious metals, infrastructure, and property. The global balance of investments across differing asset classes is the primary driver of portfolio returns.

Our asset allocation is built using a fully modelled asset allocation tool. This system is powered by research from actuaries Willis Towers Watson and investment data from Financial Express.

This modelling system offers us great accuracy to build and test the most efficient blend of assets for our five model portfolios. Each new edition of our portfolios is published on our website with fact sheets, performance figures, risk ratings and range of returns.

We benchmark and publish our portfolio performance against the most relevant national averages.

Cumulative Portfolio Performance from 30th May 2023.

Below are the past five year's gross investment returns for each of our portfolios from 30th May 2023.

Portfolio	*6 months*	*1 year*	*2 years*	*3 years*	*5 years*
Cautious	0.67%	0.26%	-1.42%	3.82%	9.31%
Conservative	0.53%	0.53%	-1.62%	6.58%	
Balanced	0.59%	0.68%	-1.08%	14.84%	21.20%
Strategic	0.70%	1.28%	4.03%	19.20%	23.00%
Speculative	0.60%	1.18%	-0.80%	14.66%	21.91%

Discrete Portfolio Performance from 30th May 2023.

Below are the gross investment returns for each of our portfolios for each 12-month period over the last five years from 30th May 2023.

Portfolio	*2022*	*2021*	*2020*	*2019*	*2018*
Cautious	0.26%	-1.66%	5.32%	2.90%	2.32%
Conservative	0.53%	-2.14%	8.33%	4.12%	
Balanced	0.68%	-1.75%	16.09%	4.87%	0.64%
Strategic	1.28%	2.72%	14.58%	1.98%	1.19%
Speculative	1.18%	-1.95%	15.58%	4.47%	1.77%

The above performance tables are produced by data from Financial Express Analytics. The tables are a proxy to our actual portfolio performance as they do not include adviser, manager and platform charges nor accurately reflect the actual dates that individual investor portfolios are rebalanced from one edition to another. The rebalance lag could amount to 8 weeks per rebalance. The proxy portfolio performance reflects the fund selection in each consecutive edition of our portfolios.

The value of investments can fall as well as rise. Past performance is not a guide to future performance. Cumulative and discrete performance charts show % growth from 30th May, 2023 calculated using bid prices with income reinvested into the fund net of tax.

Asset Allocation June 2023 - Edition 39

Portfolio	*Risk*	*Money Markets*	*Fixed Interest*	*Property*	*UK Equity*	*US Equity*	*Europe Equity*	*Asian Equity*	*Japan Equity*	*Global Equity*	*Other Assets*
Cautious	3	30%	35%	1%	4%	12%	4%	5%	4%	5%	0%
Conservative	4	26%	30%	2%	6%	16%	6%	2%	4%	5%	3%
Balanced	6	16%	22%	3%	7%	22%	9%	1%	6%	6%	8%
Strategic	7	12%	16%	3%	8%	25%	10%	2%	7%	8%	9%
Speculative	8	11%	11%	3%	9%	28%	11%	2%	7%	10%	8%

Perspective Range of Return & Volatility

Portfolio	*Risk*	*Return*	*High*	*Low*
Cautious	3	5.43%	17.16%	-6.30%
Conservative	4	6.11%	21.83%	-9.62%
Balanced	6	7.44%	31.09%	-16.22%
Strategic	7	8.03%	35.47%	-19.41%
Speculative	8	8.63%	40.07%	-22.81%

Investment Ratios

Portfolio	*Risk*	*Beta*	*Alpha*	*Info R*	*MDD*
Cautious	3	0.81	0.14	0.80	-7.30
Conservative	4	0.75	0.03	-0.09	-8.03
Balanced	6	0.83	0.08	0.07	-9.21
Strategic	7	0.87	0.17	0.62	-9.64
Speculative	8	0.94	0.03	0.03	-10.16

Maximise your returns with a level of risk you're entirely comfortable with.

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