# ABACUS PASSIVE - DFM PROFILES

## QUARTERLY UPDATE (Q3 2024)

tavistock
ASSET MANAGEMENT

### Market Commentary

2024 started with markets expecting an acceleration in global growth and corporate earnings, declining inflation, and massive central bank interest rate cuts. In anticipation, bonds and equity prices rallied strongly through the turn of the year.

The combination of all these expectations proved too good to be true. Growth has been resilient but so too has inflation. This dynamic supported equity and commodity markets in the first half of the year, but was challenging for Government bond markets, as the prospect of large and imminent rate cuts has diminished.

All this led to strong gains for most equity markets in the first six months of the year. For example, US equities were up 14.48% to the end of June, with the UK, Europe, and Emerging Market equities all up around 6%. Broad commodity markets were also up on average 6% in the first six months of 2024, whilst gold saw a 12% rise and silver 22%.

In contrast, global Government bonds were down close to -5% by the end of June.

As we look to the next 12 months, we expect global growth to remain robust, although its geographical composition is changing. Momentum is starting to weaken in the US, but the opposite is true in Europe, which is seeing real wages rise and an improvement in consumer confidence.

With resilient growth comes resilient inflation, but it is likely central bankers will be willing to tolerate some overshoot of their targets. Interest rates are therefore set to move modestly lower in most major regions but are likely to remain considerably higher than pre-pandemic levels.

Geopolitical risks remain but are hard to position for. Despite the harrowing continual loss of life from the ongoing conflicts in Ukraine and the Middle East (to name just a couple), we do not foresee significant economic or market ramifications.

UK and European Parliament elections are unlikely to result in major global market movements. The new UK Government will live in the shadow of Liz Truss's mini-budget crisis, so fiscal prudence and economic stability will be their focus.

Looking ahead to the US election, we still don't know for sure who will win, or whether they will have full control of Congress and therefore the ability to enact their full agenda.

All that said, we continue to see risk assets rise, led by US equities continuing their march upwards. A slip in earnings for the likes of Nvidia (who's market capitalisation is now valued higher than all UK stocks combined!) could bring prices sharply lower, but equity market volatility remains low and stable, which is a good sign.

As we head into the summer season, we do so with decent returns under our belts for the half year, in the knowledge the models remain well managed. We remain pragmatic and continue to question our assumptions and market outlook. Should the economic environment change, we will adapt as required.

## Passive Profile Allocations

| FUND | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|
| ABRDN Global Government Bond | 4.00% | 8.00% | 8.50% | 11.00% | 11.00% | 12.00% |
| Fidelity Index Pacific | 4.00% | 8.00% | 8.50% | 11.00% | 11.00% | 12.00% |
| HSBC American Index | 4.00% | 8.00% | 8.50% | 11.00% | 11.00% | 12.00% |
| iShares Continental Europe Equity | 0.00% | 0.00% | 3.50% | 9.00% | 9.00% | 12.00% |
| iShares UK GILT All Stock | 0.00% | 0.00% | 0.00% | 0.00% | 9.00% | 12.00% |
| iShares 100 UK Equity | 3.00% | 6.00% | 8.00% | 9.00% | 9.00% | 11.00% |
| Vanguard Global Short Term Corporate Bond | 3.00% | 6.00% | 8.00% | 9.00% | 9.00% | 11.00% |
| iShares Emerging Markets Equity | 2.50% | 5.00% | 6.00% | 7.00% | 8.00% | 9.00% |
| iShares Japan Equity | 2.50% | 3.00% | 4.00% | 4.50% | 4.50% | 5.00% |
| iShares North America Equity | 1.00% | 2.00% | 2.00% | 3.50% | 3.50% | 4.00% |
| iShares US Equity | 15.00% | 14.00% | 10.50% | 6.00% | 4.50% | 0.00% |
| Vanguard FTSE UK All Share | 13.00% | 8.50% | 7.00% | 3.50% | 2.50% | 0.00% |
| Vanguard Global Bond | 11.00% | 7.50% | 6.50% | 3.50% | 2.50% | 0.00% |
| Vanguard Emerging Market | 11.00% | 8.00% | 5.00% | 2.50% | 1.50% | 0.00% |
| Vanguard US Government Bond | 10.00% | 10.00% | 8.00% | 4.50% | 2.00% | 0.00% |
| Cash | 16.00% | 6.00% | 6.00% | 5.00% | 2.00% | 0.00% |

| | | | | | | |
|---|---|---|---|---|---|---|
| OCF* | 0.12% | 0.11% | 0.10% | 0.10% | 0.10% | 0.10% |

*OCFs as at 30/06/2024

## Changes & Rationale

We made some changes to the fixed income exposure in Abacus Passive - DFM Profiles 3-7, following recent changes to our tactical asset allocation. Specifically, we increased exposure to UK Government bonds, and we increased duration.

No changes were made to Abacus Passive - DFM Profile 8 as it does not contain any fixed income holdings.

There were no changes made to the equity allocations within the Abacus Passive - DFM Profiles this quarter, except to bring them back to model weights, via a rebalance.

Whilst events have been fast moving in financial markets over the quarter, the Passive Profiles have held up well.

The Passive Profiles are ahead of their peer average (by reference to the Investment Association Sector) in the 12-months to the 30th of June 2024, and they are amongst the best performing set of models in the Abacus DFM – Profile range.

We therefore remain comfortable with the current equity allocations and new fixed income positions, confident in their ability to deliver positive risk-adjusted returns.

## Performance

Performance over the last 12-months is as follows:

| | |
|---|---|
| Abacus Passive Profile 3 - DFM | 6.82% |
| Abacus Passive Profile 4 - DFM | 10.58% |
| Abacus Passive Profile 5 - DFM | 11.89% |
| Abacus Passive Profile 6 - DFM | 14.51% |
| Abacus Passive Profile 7 - DFM | 15.57% |
| Abacus Passive Profile 8 - DFM | 17.38% |

Source of Data: FE Analytics
Data as of 30/06/2024

## Case Study/Theme

**This quarter our focus is on investing in times of uncertainty.**

There is no doubt that the pandemic, the invasion of Ukraine and the cost-of-living crisis have resulted in market volatility over the last few years.

Economic and geopolitical events always prompt investors to question whether now is a good time to invest, or to remain invested. And with 2024 a prime election year across the world, with at least 64 countries due to hold elections, depending on the outcomes, some of these elections carry significant global implications, influencing not only the geopolitical landscape but also global and regional investment markets.

It is important to remember that some market volatility is inevitable; markets will always move up and down.

Many investors are getting used to a variety of political, financial and economic factors and learning to look through the 'noise' to focus on what really matters. Portfolio diversity holds the key to approaching your investments and managing risk. It is important to think about longer-term timescales instead of focusing too intently on short-term events and market fluctuations.

Timing the stock market is next to impossible. No one knows exactly what the markets will do, but it is important to remember that the best and worst trading days often happen close together.

• History tells us that over the long-term, equity returns are significantly higher than bonds and cash

• Remaining invested means that one can participate in any market recovery, which often follows a market fall

• Equity markets have historically recovered from a downturn to deliver positive returns more than inflation

It is impossible to predict what the market will do next and trying to catch a falling knife can be very costly. As the adage goes; "it is not about timing the market, but time in the market."

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