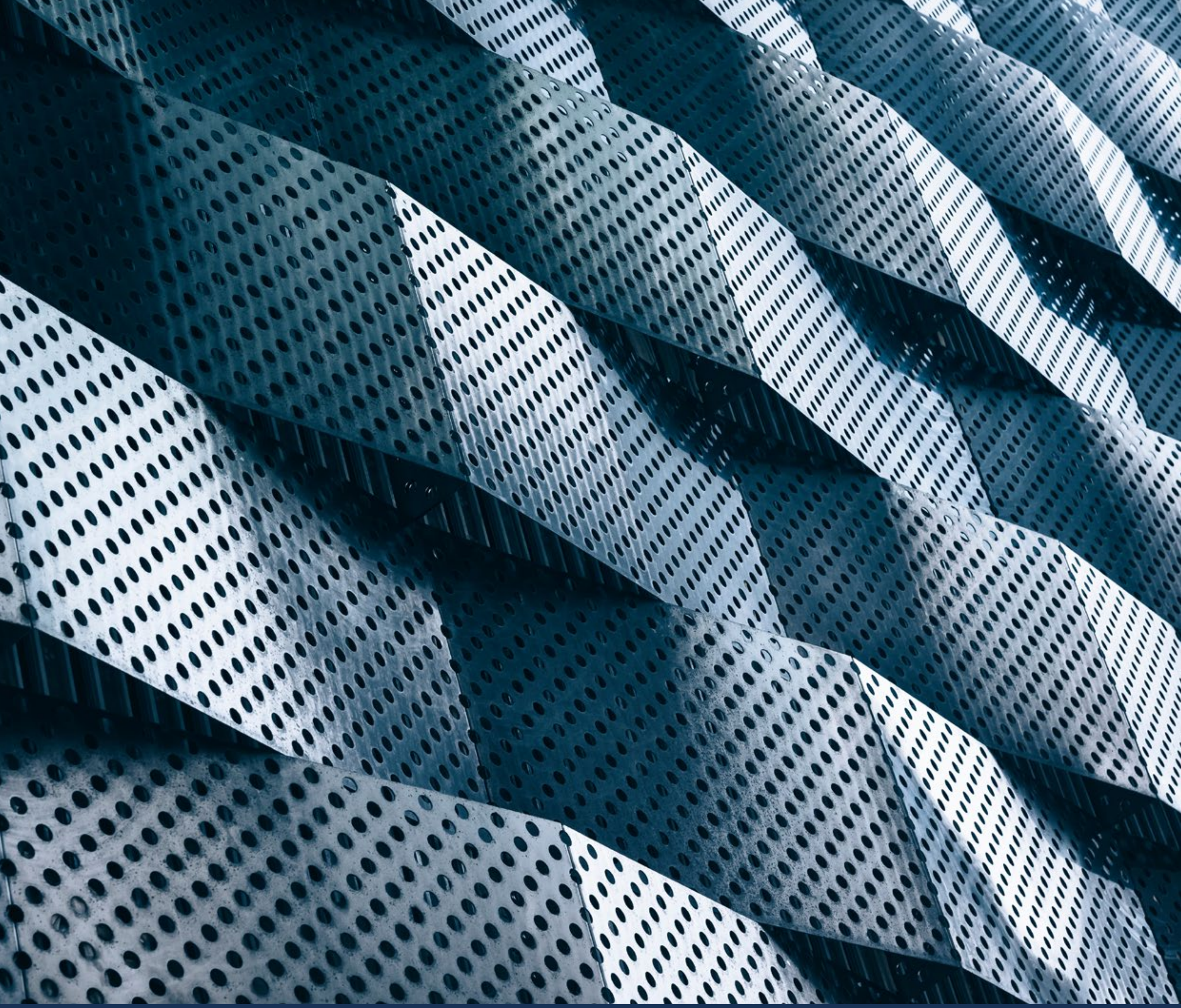


Titan Wealth Group CIO's Monthly Insights

The view from Wigmore Street

April 2024

Written by: Mark Holden

Introduction

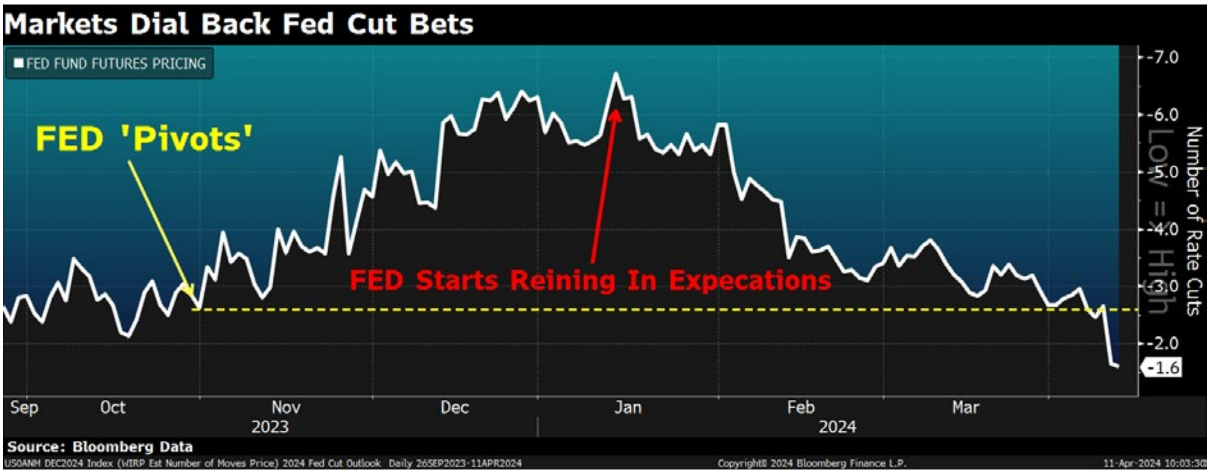
The Titan Wealth Group encompasses a number of different investment companies, each with unique styles and investment processes. Each month, the Chief Investment Officers (CIOs) and other key senior investment professionals meet to discuss and debate the investment and macroeconomic backdrop that is potentially influencing our investment decisions. This publication aims to provide you with investment feedback and opinions from the people responsible for heading up the investment of your wealth across the various businesses under the Titan Wealth Group umbrella. This does not represent 'Titan house views', rather it aims to give you an insight into the investment debates we are having internally across our various businesses.

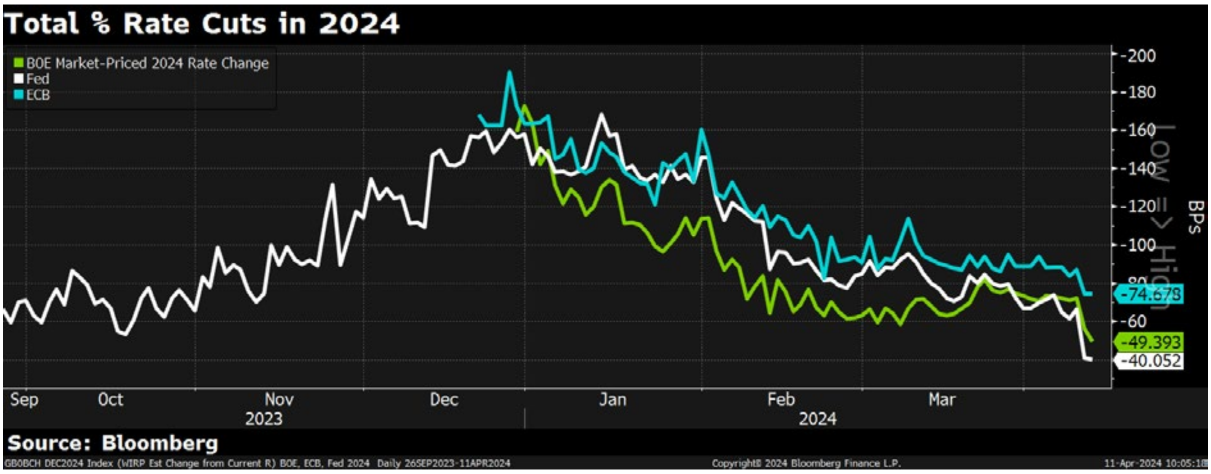
* Subject to regulatory approval

A game of asset price 'snakes and ladders' with central banks

As a matter of course our CIOs begin meetings by reviewing the performance of the major asset classes around the world over the prior period (monthly, quarterly, or annually as appropriate) and analysing the principal drivers behind that. This month, with the first quarter of 2024 behind us and fast fading into the distance we spent time looking at the first three months of the year as a whole. On the face of it, at the top level, it's been a positive period for total returns. However, this disguises a marked divergence in the performance across the various key asset classes. In a nutshell, equities have climbed high (up the ladders) and have performed very well with many country indices, the US, Germany and Japan to name just a few, hitting new all-time highs. However, all developed market government bond markets seemed to have found the 'snakes' and, having made good progress at the end of 2023, so far in 2024 have seen all their previous gains, and more, slide away and eradicated by price falls and consequently rising yields.

The main reason for this reversal of fortunes in the government bond markets has been a pickup in inflation data, especially in the US, coupled with the continued efforts by central bankers, particularly at the US Federal Reserve (the FED), to rein in over exuberant interest rate cutting expectations. The top part of the chart below shows how bond markets have shifted their expectations for the number of interest rate cuts in the whole of 2024. As you can see, these expectations have shifted from around five or six at the very start of the year, which then climbed to nearly seven by the end of January, but have now fallen to just one to two. This means that, as can be seen on the lower chart, for the FED, the cumulative cuts for the year as a whole have reduced from about 1.5.% (-150 BPs, or basis points) to just c0.40% (40 BPs) by the end of the first quarter. This is a very large reversal in a very short period of time.



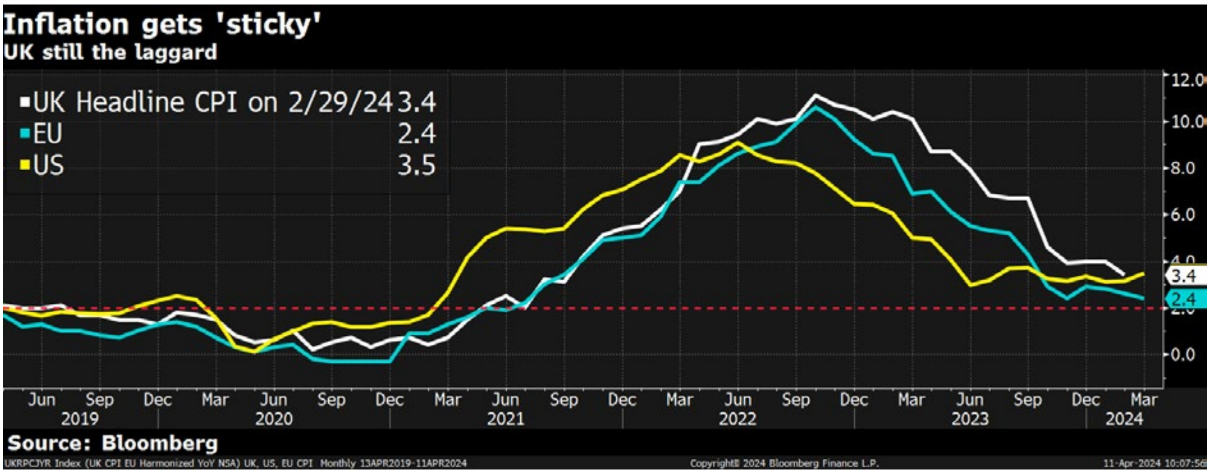


We spent considerable time discussing and debating what is likely to happen next and the implications for government bond prices. A lot will, of course, depend on the likely messaging from the central bankers over the coming weeks and months, but the majority felt that the reduction in expectations has now probably largely run its course. That said, a minority felt there was probably further pain to come in bonds given the strength we are seeing in the US economy and the 'sticky' inflation data we are now getting. Strong economic growth is ordinarily bad news for bonds but potentially positive for equities. However, should all the forecast rate cuts be wiped out because of rising inflationary fears, all of us accepted that this could be bad for most assets, although most felt this was a very unlikely outcome.

Regarding the timing of the potential rate cuts, bond markets are indicating that the first cuts should begin in the summer, sometime between July and September/November. It is now expected that Europe may cut first, followed by the UK and then the US. Given equity markets tend to look forward between three and six months, this expectation remains a positive influence for stock markets and the majority of our CIOs felt this would likely remain the case. However, for bonds we continue to expect 'a year of carry,' in other words we are not anticipating much, if any, price appreciation, with the only return likely to come from the interest payments.

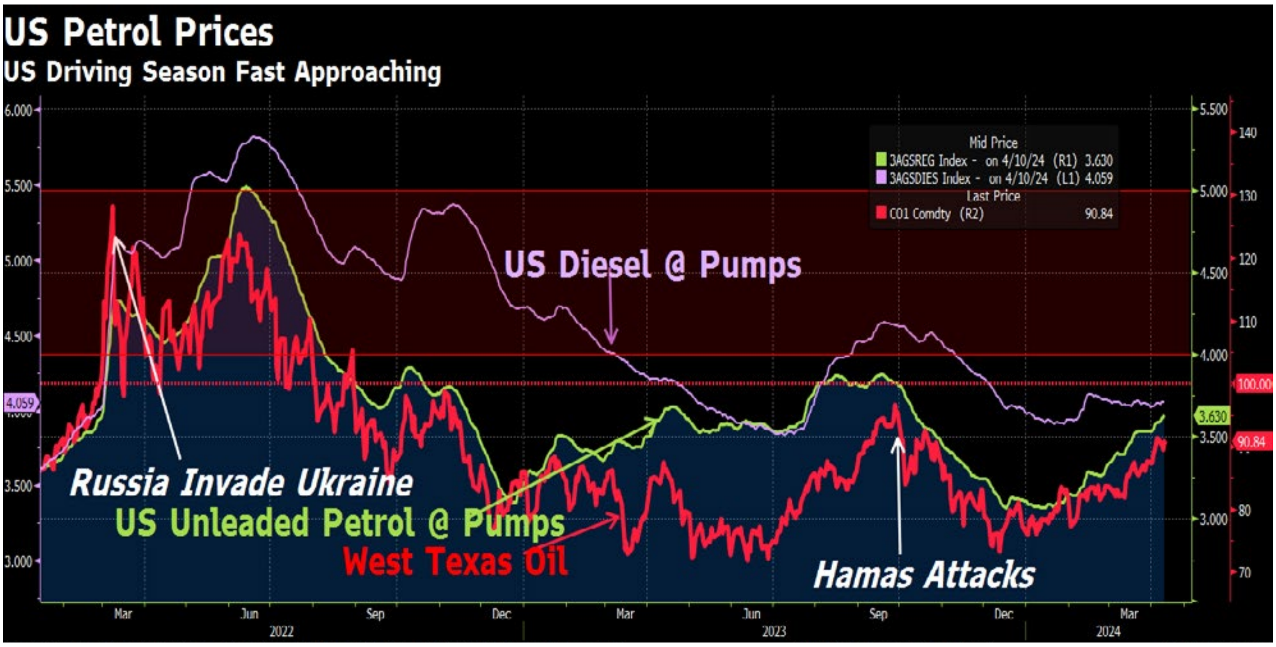
The emergence of 'sticky' inflation

In conjunction with the central bankers talking down interest rate cutting expectations, in the past month or two, economic data relating to inflation has marginally not lived up to expectations. In other words, inflation has been coming in slightly higher than forecast. The chart below shows inflation in the US, UK and EU, reported monthly, falling sharply over the past 18 months although it has just ticked up over the past couple of months. This is one reason why bonds have suffered, because it is generally felt that interest rates should not be cut until central bankers are satisfied that inflation is at, or very close to, their 2% target (the red dotted line on the chart below). Consequently, the next couple of months will see economists and investors closely scrutinising all inflation related economic data releases.



Oil beginning to simmer!

One reason for the 'sticky' inflation may be, as can be seen on the chart below, a result of the steady rise in the oil price (West Texas Oil, the red line), particularly over the past couple of months. The principal reason for this has been rising tensions in the Middle East with the humanitarian crisis in Israel/Gaza causing friction between Israel and its main allies, the UK and US, who had until very recently been fully supportive of Israel's actions in aftermath of the Hamas atrocities on 7th October 2023. This potential split in support has encouraged Iran to become more vocal in their support for the people of Gaza and there has been a marked escalation in their threats to become more directly involved in the conflict. Should Iran's threats turn to action, we feel that the oil price will likely rise further, potentially to over $100 a barrel, which has historically been a level which negatively impacts global economic growth.



Even today, to give you some context, the price of oil (West Texas) in the US has risen this year by circa. 20% (to around $90 a barrel). As a result, a gallon of unleaded petrol at US filling stations has also risen c. 20%, from about $3 to $3.60 (the green line on the chart below). Whilst this is still cheap by UK standards, for many Americans with their big highly fuel consumptive cars and SUVs/trucks, it is unwelcome.

It is the nature of geopolitics that are they are highly unpredictable and very difficult to forecast. Financial markets do not like uncertainty. Consequently, it is something we are closely monitoring.

Cash piling ever higher!

Whilst uncertainty surrounding the outlook for interest rates and oil prices may be edging higher, the amount of cash held in 'money market funds,' or short-term cash deposits has also been rising steadily and now, as can be seen on the following chart, in the US alone, stands at a staggering $6 trillion!

To give you some context, that equates to approximately 15% of the value of the entire US stock market. This is an all-time high. Should any of this cash begin to find its way back into other assets such as bonds or equities, it would, all things being equal, be a positive for price appreciation.

Outlook

In the last edition of this publication, we highlighted in the outlook the fundamental support for positive equity market performance, namely a 'Goldilocks' US economy, the mega-trends led by AI, falling inflation and the prospect of interest rate cuts beginning in the second half of the year, remained in place, and despite some modest 'sticky' inflation, that is still the case.

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However, we caveated that by saying that 'nothing moves in straight lines' and felt, and still feel, that a period of consolidation, or even a mild drawdown, would be healthy given the speed of the recent rise in stock markets. However, given the size of the cash balances of more than $6 trillion sitting on the sidelines, any drawdowns or falls are likely to be modest as investors who have missed out on the strong performance of equities over the past five to six months will not want to miss out again and are likely to want to 'buy the dips'. For this reason, and given the continued attractive fundamentals for equity investing, our CIOs remain positive for the remainder of the year as a whole.

Mark Holden
April 2024

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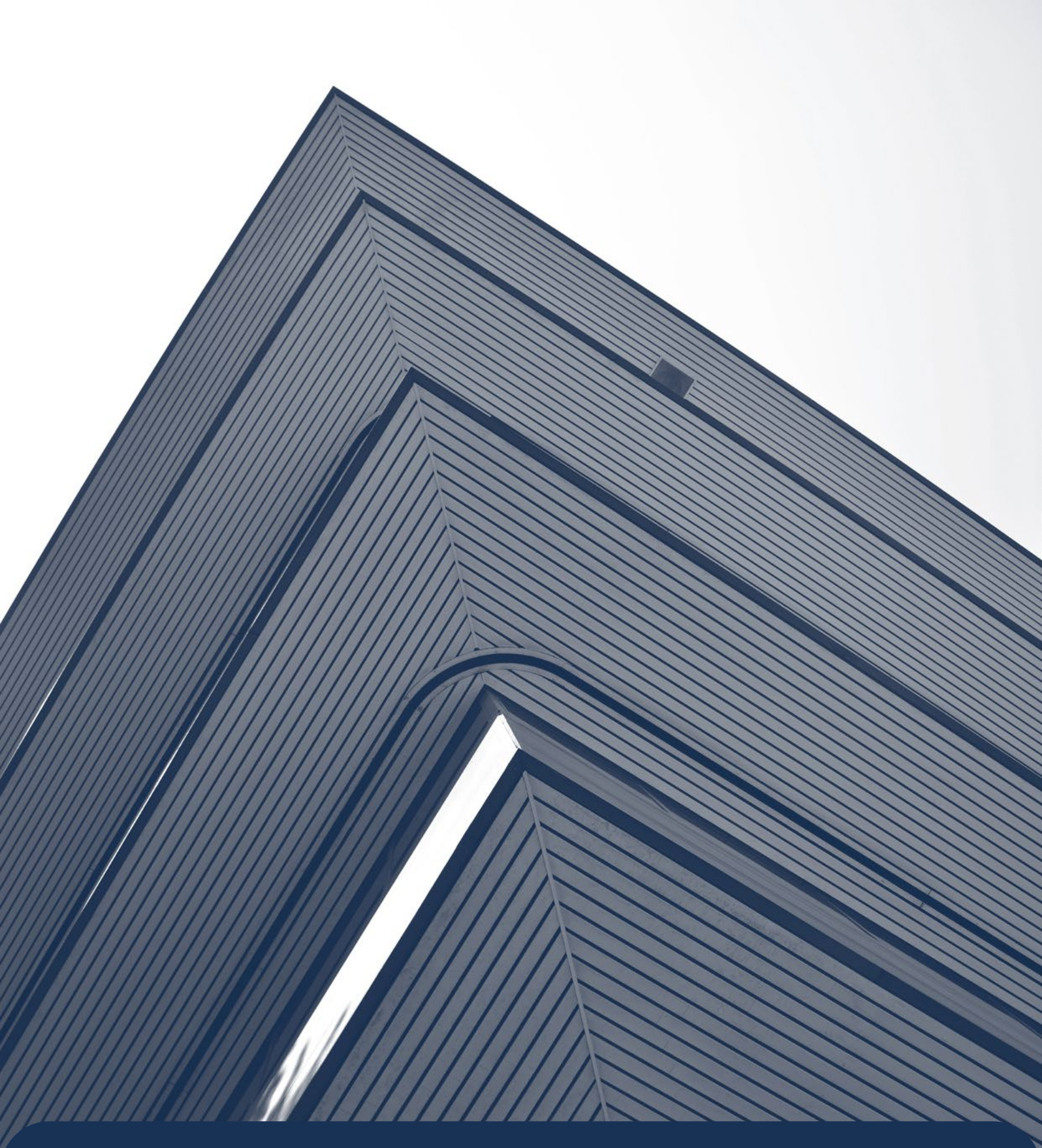

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