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ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

Q4 2023 has caught many investors by surprise as bonds and equities have staged a strong recovery despite the Hamas/Israel war starting at the beginning of the period. Possible changes in tone from central bankers led to excitement in the bond and equities markets as demonstrated in our tables below. 2023 as a whole did not turn out as many expected. Bonds had been favoured to be a better investment than equities but this did not turn out to be the case.

The tables below detail relevant movements in markets:

International Equities 29.09.23 - 29.12.23

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+8.4	+9.8	+14.6	+9.9
Finland	+5.0	+4.9	+9.5	+5.0
France	+5.7	+5.6	+10.3	+5.7
Germany	+8.5	+8.4	+13.2	+8.5
Hong Kong	+3.4	-0.7	+3.7	-0.6
Italy	+8.4	+8.3	+13.1	+8.4
Japan	+1.9	+3.3	+7.9	+3.4
Netherlands	+15.4	+15.2	+20.4	+15.4
Spain	+8.0	+7.9	+12.7	+8.0
Switzerland	+1.2	+5.3	+9.9	+5.4
UK	+2.8	+2.8	+7.3	+2.9
USA	+11.9	+7.1	+11.9	+7.2
All World Europe ex UK	+6.7	+7.6	+12.4	+7.7
All World Asia Pacific ex Japan	+5.3	+3.5	+8.1	+3.6
All World Asia Pacific	+4.1	+3.4	+8.0	+3.5
All World Latin America	+14.1	+12.4	+17.4	+12.5
All World All Emerging Markets	+5.0	+2.1	+6.6	+2.2
All World	+9.3	+6.3	+11.1	+6.4

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : +8.1%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	29.09.23	29.12.23
Sterling	4.44	3.52
US Dollar	4.57	3.88
Yen	0.76	0.60
Germany (Euro)	2.84	2.02

Sterling's performance during the quarter ending 29.12.23 (%)

Currency	Quarter Ending 29.12.23
US Dollar	+4.3
Canadian Dollar	+1.8
Yen	-1.5
Euro	N/C
Swiss Franc	-4.1
Australian Dollar	-1.4

Other currency movements during the quarter ending 29.12.23 (%)

Currency	Quarter Ending 29.12.23
US Dollar / Canadian Dollar	-2.5
US Dollar / Yen	-5.6
US Dollar / Euro	-4.2
Swiss Franc / Euro	+4.2
Euro / Yen	-1.4

Significant Commodities (US dollar terms) 29.09.23 - 29.12.23 (%)

Currency	Quarter Ending 29.12.23
Oil	-16.7
Gold	+10.1

PERFORMANCE DURING 2023

International Equities 30.12.22 - 29.12.23

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+12.9	+7.2	+13.6	+9.8
Finland	-2.8	-5.1	+0.6	-2.8
France	+18.4	+15.7	+22.6	+18.4
Germany	+20.6	+17.7	+24.8	+20.6
Hong Kong	-12.7	-17.6	-12.7	-15.7
Italy	+34.1	+31.0	+38.8	+34.1
Japan	+28.3	+13.3	+20.0	+16.0
Netherlands	+21.0	+18.2	+25.3	+21.0
Spain	+27.9	+24.9	+32.4	+27.9
Switzerland	+6.0	+9.9	+16.5	+12.6
UK	+9.0	+9.0	+15.5	+11.6
USA	+27.1	+19.9	+27.1	+22.8
All World Europe ex UK	+17.7	+15.7	+22.6	+18.5
All World Asia Pacific ex Japan	+8.6	+2.3	+8.4	+4.7
All World Asia Pacific	+14.9	+5.9	+12.3	+8.5
All World Latin America	+21.4	+26.2	+33.8	+29.2
All World All Emerging	+9.0	+2.9	+9.1	+5.4
All World	+22.1	+15.7	+22.6	+18.5

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : +3.7%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	30.12.22	29.12.23
Sterling	3.66	3.52
US Dollar	3.88	3.88
Yen	0.41	0.60
Germany (Euro)	2.56	2.02

Sterling’s performance during the year ending 29.12.23 (%)

Currency	Year Ending 29.12.23
US Dollar	+5.2
Canadian Dollar	+2.9
Yen	+13.2
Euro	+2.1
Swiss Franc	-4.2
Australian Dollar	+5.3

Other currency movements during the year ending 29.12.23 (%)

Currency	Year Ending 29.12.23
US Dollar / Canadian Dollar	-2.3
US Dollar / Yen	+7.6
US Dollar / Euro	-3.0
Swiss Franc / Euro	+6.6
Euro / Yen	+10.9

Significant Commodities (US dollar terms) 30.12.22 - 29.12.23 (%)

Currency	Year Ending 29.12.23
Oil	-8.6
Gold	+13.7

MARKETS

International equity and fixed interest markets finished the year strongly, perhaps even more surprisingly given the Hamas attack on Israel on 7th October. Looking at international equity markets firstly, the FTSE All World Index returned +9.3% in local currency terms, +6.3% in sterling terms, +11.1% in US dollar terms and +6.4% in euro terms. Looking at individual markets in local currency terms, we see outperformance from the FTSE USA Index, +11.9%, and the FTSE All World Latin America Index, +14.1%. There were below average performances from the FTSE Japan Index, +1.9%, the FTSE UK Index, +2.8%, the FTSE All World Asia Pacific Index, +4.1%, the FTSE All World Asia Pacific Index ex Japan, +5.3%, and the FTSE All World All Emerging Markets Index, +5.0%. Turning to sterling adjusted returns, we note relatively strong performances from the FTSE All World Latin America Index, +12.4%, and the FTSE Australia Index, +9.8%. There was relative weakness from the FTSE All World All Emerging Markets Index, +2.1%, the FTSE UK Index, +2.8%, the FTSE All World Asia Pacific Index, +3.4%, and the FTSE All World Asia Pacific ex Japan Index, +3.5%.

Fixed interest securities, too, enjoyed a spectacular final quarter. Taking ten year government bond benchmark yields, the gross redemption yield on the UK gilt fell by 92 basis points to 3.52%, on the US Treasury bond by 69 basis points to 3.88%, on the Japanese Government Bond by 16 basis points to 0.60% and, on the German Bund by 82 basis points to 2.02%.

In the foreign exchange market, the stand out performer was the Swiss Franc against which sterling fell by 4.1%. Sterling fell by 1.5% against the yen and by 1.4% against the Australian dollar. On the other hand, it rose by 4.3% against a weak US dollar and by 1.8% against the Canadian dollar.

In the commodity markets, oil, as measured by Brent Crude, fell by 16.7% despite the efforts of OPEC+ to limit supplies, but gold had an excellent quarter, rising to well over US$2,000 an ounce.

The strength shown in Q4 by equities and bonds impacted heavily the calendar year returns. Looking at equities, firstly in local currency terms, the FTSE All World Index returned +22.1%, in sterling terms, +15.7%, in US dollar terms, +22.6%, and, in euro terms, +18.5%. Looking at individual local currency returns, there were noticeable outperformances from the FTSE Japan Index, +28.3%, and the FTSE USA Index, +27.1%. Within the FTSE All World Europe ex UK sector, there were notable outperformances from the FTSE Italy Index, +34.1%, and the FTSE Spain Index, +27.9%. On the negative side was the FTSE Hong Kong Index, -12.7%, a side effect of weakness in the Chinese market. Other underperformers, but still satisfactorily positive in normal circumstances, were the FTSE UK Index, +9.0%, the FTSE All World All Emerging Markets Index, +9.0%, the FTSE All World Asia Pacific ex Japan Index, +8.6%, and the FTSE Australia Index, +12.9%. The FTSE All World Europe ex UK Index, whilst very strong in absolute terms, +17.7%, underperformed, with the FTSE Switzerland Index a notable underperformer, +6.0%. Turning to sterling adjusted returns, the stand out regional index was the FTSE All World Latin American Index, +26.2%. Of the major markets, the FTSE USA showed an outstanding performance, +19.9%. The relative underperformance of the UK market, noted above, remained, and other notable underperformers, although still positive, were the FTSE All World Asia Pacific ex Japan Index, +2.3%, the FTSE All World All Emerging Markets Index, +2.9%, and the FTSE Australia Index, +7.2%.

Turning to the fixed interest markets and, again, using the ten year government bond benchmark gross redemption yields, that on the UK gilt fell by 14 basis points to 3.52%, on the US Treasury it was unchanged at 3.88%, on the JGB it rose by 19 basis points to 0.60% and on the German Bund it fell by 54 basis points to 2.02%.

In the currency markets, sterling enjoyed a strong year, but not as strong as that of the Swiss Franc, against which sterling fell by 4.2%. Against every other currency on our table it strengthened, by 13.2% against the yen, by 5.3% against the Australian dollar, by 5.2% against the US dollar, by 2.9% against the Canadian dollar and by 2.1% against the euro.

In the commodity markets, oil, as measured by Brent crude, fell by 8.6%, but gold enjoyed a good year, rising by 13.7%, giving some credence to its reputation as a store of value in troubled times.

ECONOMICS

At the end of each calendar year, we find it useful to reflect on what we said in our review twelve months earlier to see what we got right about 2023's prospects, where we were wrong and where the outturn was somewhere in between.

In that review, we reaffirmed that equities were our preferred asset class. We said that we were still not attracted to fixed interest securities because, although central banks had started their journey towards normality, nominal yields were not yet realistic against a background of significant negative real yields and a poor technical background with so many bonds coming onto the market. Cash we found unattractive as an investment as opposed to being held for opportunistic purposes as one would almost certainly lose money in real terms given the then prevailing rate of inflation. So, we favoured equities, believing that other asset classes had too many negative attributes. It is also the case that we emphasised that, because of the uncertain background, there was likely to be some significant volatility in share prices. This turned out to be the case with a sharp fall in share prices between the end of July and the end of October, only for there to be a sharp recovery after that. But, at the end of the day, equities turned out to have performed much better than bonds. If we take the US dollar return on the FTSE All World Index and that on the Bloomberg Global Aggregate Total Return Index, we see that the US dollar total return on the FTSE All World Index was 22.6% whereas the Bloomberg Global Aggregate Total Return Index was 5.7%. The latter index, too, was subject to big swings with a sharp downwards movement in bond prices between mid July and the end of October only for there to be a sharp recovery in prices to the end of the year as optimism about the prospect for interest rate reductions in 2024 grew. This change in sentiment clearly benefited equities as well and both equities and fixed interest securities ended the year well. But in the contest between bonds, equities and cash, equities were the clear winner. So, in terms of asset class preferences, our view turned out to be correct. Our level of confidence did not extend to seeing the magnitude of the rise in equities over the year because we were at pains to emphasise the difficulty of the economic and political background. However, it is important to note that the US indices and therefore the majority component of world indices were propelled by the excitement surrounding AI which caused a small number of US technology giants, the Magnificent Seven, to perform extraordinarily well. In reality, in a diversified portfolio, such a heavy weighting in a very small number of shares is unlikely to feature because of perceived concentration risk. What could not have been foreseen was the

7th October attack by Hamas on Israel and it seems counter intuitive that the markets, after an initial fall, should have climbed so strongly afterwards to end the year around high points in many markets including, most importantly, the USA. Whenever conflict flares up in the Middle East, investors are understandably nervous, an economic reason being the expected effect on the oil price. However, oil has not reacted as it might have done in the past, one reason why markets have been relaxed in the context of a horrific background. All the time, the conflict in Ukraine continues and it is a sad fact that it fades somewhat into the background partly because the Hamas/Israel conflict has been uppermost in people's minds and partly because of the passage of time. Rather like the effect which Covid19 had on supply chains and inflation, the war in Ukraine added to both difficulties. However, as the fall in the rate of price increases shows, workarounds have been undertaken and both supply chain difficulties and inflation are less of a problem than they were. However, twelve months ago if investors had been able to foresee events in the Middle East, it is likely that we would have been more cautious in our assessment of prospects. It is not to be flippant to say that events which would have seriously destabilised securities markets in the past are now being seen to become the "new normal" and investors are less inclined to make kneejerk decisions to bad news, realising the potential dangers of being out of the market and suffering significant opportunity costs.

In our review twelve months ago, we discussed views on what would be the terminal interest rates as measured by central banks' policy rates and we can now see that estimates of terminal interest rates were understated although not by too much. Our updated table below compares inflation rates, ten year government bond yields and policy rates with the levels a year ago. In relation to central bank policy rates, projected ranges we mentioned were 5% for the USA, 3.25% to 4.0% for the eurozone and 4.25% for the UK. As can be seen from the table, all of these projections have been exceeded with current rates at 5.25% to 5.50%, 4.5% and 5.25% respectively. Following central banks' underestimates of the inflation prospects in 2021, they didn't want to be caught out again and they reacted with extraordinary speed in terms of the timing and the trajectory of their tightening of monetary policy through interest rates and the reduction in their balance sheets as they started to reduce their bond holdings bought in the period of Quantitative Easing (QE). Had investors foreseen the path of monetary policy in 2023, they may have been forgiven for underestimating the rise in international equity markets because such strength would have seemed counterintuitive. On the other hand, had investors had a crystal ball and forecast the extent of the deceleration in inflation, they may have reached the stage we appear to be at now where cuts in policy rates in 2024 are now anticipated, fuelling a strong rise in bonds and equities. The updated table below is instructive in these respects.

Review December 2022

	Year on Year Inflation	**10 year Government Bond Yields (at time of writing - 10.01.2023)**	**Policy Rate**
USA	7.1%	3.58%	4.25%
UK	10.7%	3.59%	3.5%
Eurozone	9.2%		2.5%
France	5.9%	2.80%	2.5%
Germany	8.6%	2.28%	2.5%
Italy	11.8%	4.22%	2.5%

Review December 2023

(at the time of writing 06.01.2024)

	Year On Year Inflation	**Year on Year Core Inflation**	**10 year Government Bond Yields**	**Policy Rate**
USA	3.1%	4.0%	4.05%	5.25% to 5.50%
UK	3.9%	5.1%	3.78%	5.25%
Eurozone	3.4%	3.4%		4.5%
France	4.1%	3.6%	2.64%	4.5%
Germany	3.8%	3.5%	2.15%	4.5%
Italy	0.5%	3.1%	3.84%	4.5%

We have added to the table the latest core inflation rates as central bank policy makers are likely to pay more attention to them as they determine the appropriate policy rates.

So, we see something of a paradox here. The inflation rates, although still too high, are at levels which would potentially have enthused investors a year ago, had they been able to foresee current rates.

Inflation and interest rates are clearly key determinants in how investors formulate their investment policies but economic growth forecasts are important, too, in determining the background for equities. A year ago, we looked at the then latest economic growth forecasts for 2023 from the OECD and it is relevant to compare them with the OECD's latest forecasts issued in November 2023. If we take the USA, a year ago, the OECD forecast growth in 2023 of 1.0% but now estimates it at 2.4%. So clearly the USA has done much better than expected in the face of the sharp rise in interest rates which the Federal Reserve instigated in 2022 and 2023. The OECD forecast a contraction for Germany of -0.2% and its forecast a year later is not much different at -0.1%. For France, it expected very modest growth of 0.6% and now it has slightly raised its forecast to 0.9%. Italy, too, has come in above its previous expectation. Then it was 0.2% growth and now it is 0.7%. Although still at a low expected growth rate for the UK at 0.5% this year, this quite significantly exceeded its earlier expectation of -0.4%. Growth for Japan was put at 1.8% and the OECD's latest projection is almost the same, 1.7%. Eurozone growth was forecast at 0.5%, little different from its latest forecast of 0.6%. China's forecast a year ago of growth of 4.6% now comes in at 5.2% with the Covid restrictions having been lifted. India (a March 2024 forecast) has moved up from 5.7% to 6.3% reflecting a strong economy. Overall, the OECD expects world economic growth in 2023 to have been 2.9%, an upgrade on its November 2022 forecast of 2.2%. Given the geopolitical and economic headwinds, these figures are not disastrous and, given the importance of expectations, exceeded those from twelve months ago and therefore are a more positive factor.

Still on the economic side, we noted possible problems in the eurozone arising from the tightening of monetary policy and the effect which it might have on heavily indebted countries like Italy with a public debt to GDP ratio of around 150%. In the event, there were potentially difficult periods during 2023 when the yield spread in the 10 year Italian government bonds compared with its counterpart in Germany rose to over 200 basis points, a sign of stress but, in the event, the big fall in bond yields towards the end of the year released the stress, at least temporarily as the yield differential narrowed.

In our review twelve months ago, we spent some time discussing China which was just coming out of lockdown following a sharp about turn in government policies. We discussed not only the economic effects of the severe lockdown for China and the world economy because of its effect on supply chains but also the adverse effect of political attacks on the private sector as part of President Xi's "common prosperity" scheme. We said that, as the world's second largest economy, China would be at the forefront of investors' attention for geopolitical and economic reasons and that there was the possibility that it would be the main influence on markets in 2023. In the event, this did not happen. The stock market in China performed poorly in 2023 but that was not a major influence on world stock markets. Of course, the main risk which investors perceive in China is a possible invasion of Taiwan. If this were to happen, the consequences would be severe and it would be difficult to see markets brushing that off. In 2023, thankfully, it did not become an issue but it was always at the back of investors' minds.

This leads on to our comments on politics in 2023. We regard political influences as potentially as important as economic issues in shaping investors' attitudes to individual markets. As we have mentioned above, politics is very important in China, probably more so than anywhere else. As well as the economy in general, specific companies and sectors can be targeted as many investors in China are painfully aware. But we also talked about the USA, UK and Europe in this context. At least for 2023, we felt that the USA was relatively low risk on the simple basis that Congress was deadlocked with the Senate controlled by the Democrats and the House of Representatives by the Republicans. Whilst President Biden wanted to introduce tax measures for companies and some individuals which would not have been helpful from the point of view of investors, his plans could not be carried out because of opposition in the House of Representatives. Therefore, we felt that investment in the USA in 2023 would be low risk from the political perspective and so it proved. This was one of the less noticed drivers of performance for the US stock market in 2023. However, we were more negative about the UK in this respect, pointing out some politically driven decisions, citing windfall taxes in the energy sector at the company level. We pointed out that, whilst politicians may think such taxes have populist appeal, they send out a bad message to investors not only for the stock market but for investment in the country in general. Indirectly, this was probably a contributor to the underperformance of the UK stock market in 2023. For the euro area, politics does not have appeared to have influenced market movements in 2023 with European markets generally performing well although it is always a potential issue in the background because of the EU's interventionist tendencies.

One area we got wrong, although we would never consider investing in it, is cryptocurrencies. Bitcoin has had a spectacular year and it is difficult to know why given that cryptocurrencies are speculative and do not have any obvious backing to support them. We find it difficult to envisage any circumstances where we would include them in our clients' portfolios.

So, looking back to our December 2022 review, it would be fair to say that the investment conclusions contained in it were broadly valid but against the background of some surprises on the way. Apart from geopolitical events, we did not foresee the effect which excitement about AI would have on markets and individual companies in particular. So, what does 2024 hold for investors?

2023 has ended off on a very strong note for bonds and equities as investors are captivated by the prospect of earlier and bigger interest rate reductions than had previously been thought possible. In effect, they are banking these in advance so it is important that their hopes are realised.

We have written in previous reviews about what the shape of the yield curve is telling us about investors' views on an economy's growth prospects. Quantitative Easing (QE) badly distorted the price signalling mechanism because it involved financial repression. Now, with gradual moves towards more orthodox monetary policies, albeit still with a long way to go, the shape of the yield curve is still worth examining. We show below the range of yields on government bonds of the UK, USA, Germany and Japan.

Gross Redemption Yields %

At 06.01.24

	2 years	5 years	10 years	30 years
UK	4.21	3.75	3.78	4.39
USA	4.38	4.01	4.05	4.20
Germany	2.56	2.10	2.15	2.37
Japan	0.03	0.19	0.60	1.61

The normal slope of the yield curve is upwards because one would expect a greater reward for lending for longer due to the risks involved, including inflation. A downward sloping yield curve, when longer term rates are lower than short term rates, is often thought to presage a recession, this on the basis that a buyer goes longer to lock in better interest rate on the basis that a central bank will cut short term interest rates to stimulate its economy. For the shortest dates maturities their yield will be influenced by the level of the central bank policy rate. Other than in Japan, which is an idiosyncratic market and where the policy rate is negative, we see from the table that the 2 year government bond yields are well above those of the 5 year bond. But, if we go beyond that from the 5 year bond to the 30 year bond the shape is in the normal direction, albeit with quite a gentle slope, again excluding Japan. This may be telling us that investors are a little more optimistic than they were about the chances of avoiding a general recession. So, with the OECD’s November 2023 Economic Outlook comes its projections for 2024 and 2025. Of course, as we know from events geopolitical and economic so far this century, there are a lot of what Donald Rumsfeld, the former US Secretary of Defense, called “unknown unknowns” as well as some “known unknowns” but with those caveats, it is worthwhile to see what a forecaster of the OECD’s standing thinks. Here is a selection of its forecasts for 2024 and 2025.

GDP growth year over year %

	2024	2025
USA	1.5	1.7
UK	0.7	1.2
Germany	0.6	1.2
France	0.8	1.2
Italy	0.7	1.2
Japan	1.0	1.2
India	6.1	6.5
China	4.7	4.2
G20	2.8	3.0
Euro area	0.9	1.5

Source : OECD Economic Outlook November 2023

What is noticeable here is that amongst the G7 countries, there is expected still to be quite a wide gap between the performance of the USA and the rest and the widening gap between the growth rates expected in India and China. These are below average growth rates and, on the face of it, suggest that investors' confidence about the prospects for interest rate reductions in 2024 are well placed. But central banks, having been caught out by the rise in inflation in 2021, will not want to get it wrong again. For 2024, the OECD is forecasting US inflation at 2.8% falling to 2.2% in 2025. For the euro area, its forecasts are respectively 2.9% and 2.3%. For the UK, the forecasts are 2.9% and 2.5%. However, we noticed in the earlier table that core inflation was higher than the headline rates in some countries and this last yard to get to 2%, the central banks' roughly common target rate, might be quite hard. There is pressure from some quarters for central banks' target inflation rates to be raised, say to 3%, if growth looks like becoming harder to obtain because of the current lower target. That would enable monetary policy to be eased earlier. These quite low growth rates which are being forecast reflect the lagged effect of the interest rate increases which have been put into place and it is easier to see those who set the central banks' target becoming impatient. It is also important to note that the recent sharp fall in bond yields, albeit that they have risen in recent days, is a form of monetary loosening. Central bankers will be keen to ensure that this does not threaten to cause a rise in inflation and, paradoxically, although unlikely, could force a further tightening in monetary policy

What about the prospect for bonds? With inflation having fallen back so quickly and yields risen so far, the relationship between inflation and bond yields, say as measured by the ten year government bond yields, is much less unattractive. Equally, the relationship between the dividend yields in different markets and those bond yields is less unfavourable to bonds. In the case of the USA, the dividend yield on the S&P 500 is well below that on the ten year US Treasury bond and has been for some time. At the time of writing, the dividend yield on the S&P 500 is 1.51% and, with an earnings yield for the year just started of around 5.6%, the relationship between US equities and bonds is quite tight. Because fixed interest securities are less unattractive than they were, it doesn't make them attractive in their own right. Whilst some say that the volume of bonds being sold by various governments to finance their budget deficits doesn't affect yields, intuitively one feels that this may not be the case on this occasion because, not only do governments have these large budget deficits in finance, central banks are engaged in Quantitative Tightening (QT) either by selling back securities to the private sector or by not reinvesting the proceeds of maturing debt. These budget deficits are often very large. According to the Economist Intelligence Unit's forecasts, the USA's budget deficit in 2023 will be 6.3%, for the euro area to be 3.4% but within that 5.0% for France, 5.3% for Italy and 4.1% for Spain. For the UK, the figure is 3.5%. So, there is pressure on the bond market from the sheer volume of issuance and central banks' QT. The relationship between yields and inflation is still not favourable.

We have talked about the influence of politics on markets and China is the most obvious market to be directly affected by it. Effectively, companies have to follow the will of the CCP (Chinese Communist Party) and, if they fall foul of it, the consequences, as we have seen from the effects on some companies' share prices, can be severe. We are more sanguine about the position in the USA at present but the results of November's elections and, crucially, the Senate and House of Representatives, will be important. As in the UK and Europe, there is a strong anti-business strand of opinion which, if it is manifested in law, could affect the markets. For the moment this is not an issue in the USA but, as November draws near, we might have a better understanding as to what might happen.

But there is another area which has increasingly exercised us and that is the various competition authorities with the UK at the moment perhaps the most concerning. The UK competition regulator appears to be quite an activist one with sights set on the technology sector. At a time when the UK government is trying to make its stand as a high-tech centre of excellence, the Competition and Markets Authority seems to be sending off signals which conflict with the government's position.

Microsoft was particularly vocal about this. In the USA, the President has been able, through his executive authority, to install people sympathetic to his viewpoint but the courts can provide an offsetting balance if the facts of the case dictate. The EU has always had quite an activist competition authority. The point we are making is that, irrespective of the rights and wrongs of regulators' actions, they do send out a message which resonates with foreign investors and, indirectly, through the stock market. In the case of the UK, this is not good, in our view. Hints from a UK government minister that the CMA should look at the wider picture at a time when the UK is seeking to market its credentials as a country attractive to high tech seem to be falling on deaf ears. The signals being sent out by the competition authority are not good and a negative for foreign investors' view of the UK and, by extension, its stock market.

So, where does this leave prospects for investors in 2024? From the information which we have at present, it looks like a year of modest movements. In the case of bonds, we continue to consider that they offer doubtful value until we can be sure that inflation has been tamed. The relationship between inflation and bond yields remains unattractive although obviously less so than a year ago. For cash to be a good investment as an asset class, as opposed to being held opportunistically, we would have to believe that prospects elsewhere were extremely bad and rarely is that the case. The risks of loss of profit from missing the almost inevitable recovery at some stage are generally too great. It is hard to see it being a banner year for equities given how well they have held up in 2023 against the background of a sharp rise in interest rates and modest economic growth prospects in 2024 and 2025. However, the outlook is not bad for equities and there should be some modest earnings increases which should sustain equally modest dividend growth and, relative to bonds, they look a better prospect. Of course, a lot will depend on the profile of the equity markets' movements. In 2023, it was heavily skewed towards the Magnificent Seven US technology stocks. Will AI be such a driver of markets in 2024? If interest rates decline as markets currently expect, these types of stocks might have another reason to flourish. However, exciting though prospects for AI connected companies may be, diversification of portfolios by sector, type of stock and geography remains of paramount importance. A modest but satisfactory return from international equites seems the most realistic assumption at present but, if any of the "unknown unknowns" or "known unknowns" turn nasty, we must expect periods of volatility such as had occurred in 2023 albeit that it ended well.