meridian

ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

Over the last quarter, international equities experienced a strong performance. It is important to note that the market rises were not broadly based but strongly influenced by the movement in Artificial Intelligence (AI) stocks, although there was a positive limited spillover effect. Bonds showed more modest gains, and movements in the foreign exchange market were minor compared to some previous quarters.

The tables below detail relevant movements in markets :

International Equities 30.11.23 - 29.02.24

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+10.0	+8.1	+8.0	+8.9
Finland	+1.1	+0.3	+0.3	+1.1
France	+8.2	+7.4	+7.3	+8.2
Germany	+8.6	+7.8	+7.7	+8.6
Hong Kong	-0.2	-0.4	-0.5	+0.4
Italy	+10.6	+9.8	+9.7	+10.6
Japan	+13.1	+11.8	+11.7	+12.6
Netherlands	+19.9	+19.0	+19.0	+19.9
Spain	-0.6	-1.3	-1.4	-0.6
Switzerland	+4.2	+3.0	+2.9	+3.8
UK	+3.9	+3.9	+3.8	+4.6
USA	+12.0	+12.1	+12.0	+12.9
All World Europe ex UK	+8.2	+7.4	+7.4	+8.2
All World Asia Pacific ex Japan	+5.4	+4.5	+4.4	+5.2
All World Asia Pacific	+8.1	+7.0	+6.9	+7.8
All World Latin America	+3.1	+2.7	+2.6	+3.5
All World All Emerging Markets	+4.6	+4.2	+4.1	+5.0
All World	+10.2	+10.0	+9.9	+10.8

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : +2.0%

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

Currency	30.11.23	29.02.24
Sterling	4.17	4.12
US Dollar	4.33	4.25
Yen	0.67	0.70
Germany (Euro)	2.45	2.41

Sterling's performance during the quarter ending 29.02.24 (%)

Currency	Quarter Ending 29.02.24
US Dollar	-0.1
Canadian Dollar	+0.1
Yen	+1.4
Euro	+0.8
Swiss Franc	+1.1
Australian Dollar	+1.7

Other currency movements during the quarter ending 29.02.24 (%)

Currency	Quarter Ending 29.02.24
US Dollar / Canadian Dollar	-0.1
US Dollar / Yen	+1.2
US Dollar / Euro	+0.8
Swiss Franc / Euro	N/C
Euro / Yen	+0.4

Significant Commodities (US dollar terms) 30.11.23 - 29.02.24 (%)

Currency	Quarter Ending 29.02.24
Oil	+2.9
Gold	-0.7

MARKETS

Over the last quarter, international equity markets performed well. In local currency terms, the FTSE All World Index showed a total return of +10.2%, in sterling terms +10.0%, in US dollar terms +9.9% and in euro terms +10.8%. Looking at local currency returns firstly, the FTSE USA Index showed relative strength with a return of +12.0%, as did the FTSE Japan Index, +13.1%. At the other end of the scale, there were underperformances from the FTSE All World Latin American Index, +3.1%, the FTSE UK Index, +3.9%, the FTSE All World All Emerging Markets Index, +4.6%, and the FTSE All World Asia Pacific ex Japan Index, +5.4%. However, in absolute terms, these are still good performances. Because currency movements have been relatively minor this quarter, relative sterling adjusted performances are broadly unchanged.

In international bond markets, as measured by ten year government benchmark bonds, there was little change, although, on balance, yields fell slightly. The gross redemption yield on the ten year UK gilt fell by 5 basis points to 4.12%, on the US Treasury bond by 8 basis points to 4.25% and on the German Bund by 4 basis points to 2.41%. The yield on the Japanese Government Bond rose by 3 basis points to 0.70%.

As indicated above, there was little change in the foreign exchange market. For choice, sterling was slightly higher. Against the yen it rose by 1.4%, against the Australian dollar by 1.7%, against the Swiss Franc by 1.1%, against the euro by 0.8% and against the Canadian dollar by 0.1%. Against the US dollar, sterling fell by 0.1%.

In the commodity markets, there was a small rise in the oil price as measured by Brent crude, +2.9%, whilst gold was marginally lower, -0.7%.

ECONOMICS

Views can change and thank goodness they do. It’s hard to think of a subject where the prevailing outlook on it is unaffected by the passage of time. Collective attitudes towards the environment have been changed through, amongst other things, the observation of weather events around our planet. Modern thinking on how we view each other and celebrate our differences has moved a long way in a very short period of time. Today’s norms contrast with those of just one generation before and, doubtless, will look outmoded to future generations in ways that are difficult for current inhabitants of earth to imagine.

On these or on any other subject, and with the filter of subjectivity, comes the opportunity to remain either a pessimist or optimist. This is a testing time for both groups, for different reasons, as we appear to enter a period of history that is less comfortable than the recent past. To quote from The Cellist of Sarajevo “Do you know the difference between an optimist and a pessimist? A pessimist says ‘Oh dear, things can’t possibly get any worse.’ to which the optimist replies ‘Don’t be so sad. Things can always get worse.” Within the realm of our sober economic review the middle ground between those who see the glass half full and those that insist it is half empty is the target. A steely realism is necessary at this time: whilst there is conjecture about the quantity of water in the glass relative to the demands upon it, the glass is well engineered, the quantum of water would appear adequate and there is capacity to supplement the current level; the owner of the glass has good grounds to be satisfied.

Perhaps for those whose monies are exposed to the world's capital markets the immediate future lies within the words of the optimistic Cellist. The uncertainties that politics, history and religion contribute to the sometimes chaotic progression of the day-to-day mean the outlook is nigh on impossible to read. All it takes is for risks to remain risks and the pessimist's worst fears are not met. It is neither realistic to invest in fear of all possible world events nor for the most pernicious deterioration of the current position or put another way it is unwise to abstain from investment for fear of those two. What markets can absorb, in terms of bad news, is informed by the experience of the past. Equity markets are characterized by long years of gentle upwards growth with short sporadic periods of high volatility and uncomfortable falls. There is little to suggest this will change, by which we mean both the extended periods of gentle upwards growth and short sporadic periods of high volatility but armed with that knowledge, short term falls in markets in response to negative triggers should be accepted. 2023 was an unusual year for investors and Meridian received, possibly, more positive feedback from clients at year end than in any previous year despite the absolute performance of markets and portfolios not being particularly outstanding. It would seem that investors will, quite naturally, reflect on the uncertainty around domestic and world events over the twelve months and frame the likely performance of their portfolios in those terms.

The most significant single datum for investors should be the basic economic measure of world growth as it quantifies the amount of extra activity in the world through the consumption of goods and services; to that can be added the anticipated forecast of the same. Technological advances, improved productivity, more cross-border trading and the advancement of populous emerging market countries have all contributed to a larger world GDP figure in forty eight of the last fifty years and growth has averaged, after allowing for inflation, around 3.8% each year since 2000. The two largest outliers in the year on year sequence were the Great Financial Crisis and COVID-19 which caused a heartbeat-styled fall and then (almost) compensating rise in the growth rate.

Returning to where we started this memorandum, the last quarter has borne witness to a change in the forward-looking view of the world economy. Whilst always being a curate's egg, there are now greater grounds for optimism than there were, even only three months ago. Markets have responded, as they always do, with the FTSE All-World Index rising accordingly by10.0% (total return and in sterling). The United States, or more accurately the American consumer, has proven to be very resilient and has managed to keep consuming despite the obstacles which have appeared. A number of emerging market countries now look to be growing their economies more than it was thought they would, again as consumption holds up in the face of inflation and higher interest rates. Examples would be China, India and Mexico. The January 2024 World Economic Outlook from the IMF now projects global growth at 3.1% in 2024 and 3.2% in 2025 with the 2024 figure being a significant 0.2% higher than the figure they estimated in October. Perspective is provided by the recent average of 3.8%, so, growth is below par but, seemingly, with an improving outlook and markets thrive in times of improving outlooks. These figures do not point towards a golden period of expansion but nor do they imply an economic winter. In fact, against a backdrop of sharply raised interest rates in many of the world's leading economic areas, the growth figures are quite encouraging though the lagging effect of interest rates rises may not yet have been fully felt.

The IMF update walks the line between being critical of any particular country and being realistic about the threats posed by the actions of any particular country. In line with their forecasts for global growth, the update projects world trade growth at 3.3% in 2024 and 3.6% in 2025 with both below the historical average growth rate of 4.9% and highlights 'rising trade distortions and geoeconomics fragmentation' and the effect that has on trade. It calculates that countries imposed about 3,200 new restrictions on trade in 2022 and about 3,000 in 2023, up from around 1,900 in 2019. This memorandum often refers to the risks posed by the erosion of international cooperation and rising tensions abound as countries find growing economic might is accompanied by growing political might and this presents choices on how it is used; China, for example, develops its foreign policy, India focuses, more so, on internal matters.

Is there growing anti-westernism? On one hand there is a belief that trade between countries insulates those countries from, at worst, war but, on the other, the emergence of more ambitious non-western leaders means that their political will may not take relations in the way that the political incumbents, largely northern hemisphere western countries may endorse. A term that emerged at the turn of the century is one that is likely to be heard more often in the future, being BRIC. This acronym identified the rising economic powers of Brazil, Russia, India and China but has now become a political and economic entity whose primary goal is to further the interests – economic primarily, of its members. South Africa has been added to the end of the title making one BRIC into many. The most recent summit, its fifteenth, took place in South Africa in 2023 with four of the five lead countries' heads of state in attendance. Russia was represented by Sergey Lavrov. It may not be by design that this bloc is anti-western but it may be emblematic of a pivot away from the current perceived world leadership, something that has been seen elsewhere by less than wholehearted support for the measures against Russia over the last two years. The Economist Intelligence Unit's Democracy Index 2022, a recommended read, cites reasons for this as being "frustration with the established international order; resentment of perceived Western hypocrisy in the context of past Western meddling and intervention in their affairs; and dependency on Russian minerals and other resources". Egypt, Ethiopia, Iran and the United Arab Emirates have signed up to BRICS and many more are likely to follow. As an example of the intentions of this new body, the New Development Bank has been set up to provide financing and technical assistance to its members and has lent, to date, $32.8 billion. This begs the question where will this all lead? The optimist will envisage a faster rate of development due to better access to capital, a new spirit of cooperation and more efficient production of goods and services; this would be to overall benefit. The pessimist may worry about the emergence of a politically driven rival economic bloc that seeks advantage and will employ anti-competitive measures such as tariffs, quotas and market access restrictions to achieve it.

The contribution that China has made to world growth through its carefully managed economic policies cannot be relied on forever. It has morphed in one lifetime from an agrarian inward-looking sleeping giant into the factory for the world's consumers and now through its foreign policies, wants to join the world board or, more worryingly, it may be trying to set up its own board. China's economic ascent has run into difficulties though continues to grow strongly. Some of the slowdown in growth is down to policy decisions such as the regimented lockdowns introduced during COVID, some of the slowdown is due to the level of indebtedness, particularly corporate and in local government and some of the slowdown is due to the fact that the trading advantage relative to western customer countries is narrowing. Concerns about whether the ambition of the Chinese Communist Party represents a threat to the current economic order appear to be growing and reticence to allow Huawei to supply communications infrastructure in the United Kingdom is one example of many where trust is thought to be at a premium. At least China makes the right noises, most of the time. Its leaders insist that we are not in a nil sum game, meaning that China can grow and prosper without it being at the expense of others. It also pledges to do its bit on green matters but its view on other matters are expressed in a forthright and uncomplicated manner. Its claim on Taiwan is unambiguous and puts it on a collision course with the United States. The matter simmers as both sides posture but, most likely, at a moment of China's choosing, the situation will erupt. At that point it will be difficult to see its external relations ever returning to the position they are currently in. The concern is that its allegiances with Russia, Pakistan, Iran, a number of African countries allow it to build into an economic bloc of global significance. Its financial might is such that it would be able to exchange investment for political support with many.

Where will be the next driver of economic growth? The most likely candidate is India, reputed for its entrepreneurial national identity, its ability to export services as well as goods but with leadership that is strong-willed and strong-handed. Its population is young, westward-looking and ambitious and Indians now out-number Chinese. According to World Bank figures its GDP per capita is around $2,400 per annum whereas China's is $12,700 (UK's is $45,800) China's median age is 38 but India's is 29. China's ability to grow its economy is now affected by, amongst other more immediate factors, its demographics with its population shrinking by 2,000,000 in 2023, having shrunk by 850,000 in 2022, which was the first year of shrinkage since the 1960s. This has affected the proportion of its population that is economically active. In 2023 those aged between 16 and 59 accounted for 61.3% of the total but this dropped from 62.0% the previous year. Despite Beijing's best efforts, the country is choosing a much lower birth rate than its leaders would like and, amazingly, most forecasters agree that the country's population is likely to be slightly more than half of its current level by the end of this century.

Much is being made about the potential for change in the world in 2024 with half of its adult population going to the polls. That might be for another future memorandum and it is worth noting that it's the countries whose governments are least troubled by elections that are the greatest reason for concern but, more immediately, military conflict has re-emerged in places where we are not surprised to hear of it, others where we are and a third area would be where we shouldn't be. February marked the second anniversary of the war in Ukraine and offensive has been met with counter-offensive, moral boosting 'wins' have sat alongside tactical withdrawals, but this phase of the conflict appears to be one of stalemate. There has been little hand to hand fighting throughout the war meaning a reliance on ordnance and hardware and Ukraine, not being a wealthy country, has relied on the support of the West whose motives lie beyond the borders of the invaded lands. History shows that the longer wars drag on for, the less likely there is outright victory. Wars that persist for extremely long periods disfavour the aggressor. Will Moscow ever lose the will to continue? Will the West choose or need to deploy elsewhere? The optimist sees an end to this or just no expansion to the theatre of war. The pessimist is allowed to fear for humanity.

Putting the human tragedy of war aside, Ukraine and Hamas/Israel have remained localised issues and at the outset, in both cases, there were fears that a wider economic impact was going to be felt. Ukraine, by dint or war, and Russia by exclusion had a direct effect on commodity markets but that has ebbed away and the conflict in the Middle East does not directly affect global trade but any disruption to maritime traffic does. The people of Gaza and southern Ukraine do not have the luxury of worrying about the effect on inflation which follows on indirectly from their plight. The intervention by western powers to protect shipping lanes through the region risks an escalation of unknown proportions but markets remain optimistic that a jarring conflict with Iran is not the likely next phase. Far from these waterways, on the virtual trading floors of western capitals, markets continue to ebb and flow. The drama of war, if at all possible, is amplified by the drama of news reporting, the risk of any possible deterioration seems amplified by even greater degree but more than this, markets remain more focused on interest rates and inflation and any subtle change in the direction of monetary policy.

Those who are in stocks and shares often say that news is not split into good and bad but, rather, into better or worse and perhaps this explains why Meridian clients have found the last twelve months comment-worthy. In absolute terms world economic growth has been and is forecast to be below the recent twenty year average but the outlook has improved as the worst fears have not been realised: consumer spending has held up, inflation has fallen and conflicts, where we see the worst of humanity, have not, expanded. We continue to advise clients that negative quarters are a distinct possibility but equities remain our preferred asset class for those whose time horizon is suitably long and who can endure those negative periods. "Don't be sad. Things can *always* get worse".