Wealth Associates Global Portfolio Commentary

Quarter 1 | 2024

Important Perspective

The first quarter of 2024 was a positive one for risk-tolerant investors. This is especially true for those with high equity exposure, with stocks advancing in most parts of the world. At a global level, the Morningstar Global Markets index rose by high-single digits for the quarter and over 20% for the last year in local currency terms. The gain also marked the fastest first quarter rise in five years for the S&P 500, with every sector increasing except real estate. Among defensive assets, bonds broadly treaded water, with yields inching higher after a period of volatility.

Investors appeared to shrug off news that the central banks may postpone rate cuts as board members await additional cooling signs amid resilient global economic activity, a strong job market, and stabilising inflation readings. Strong corporate earnings results helped equity markets, especially for AI-related companies.

Let’s remember that investors went into the first quarter optimistic that a soft landing was in store for the economy, whereby a recession would be avoided, inflation would continue to improve, and the central banks would start cutting interest rates by mid-year. Fast forward to the end of the quarter, rate cut expectations have been pushed out as economic data proves resilient. Equity returns were far from uniform across countries. Japanese stocks rose strongly, while U.K. equities eked out a small gain despite a recession announcement. Performance was similarly divergent across emerging markets; Chinese and Brazilian stocks endured losses while India gained.

From a style perspective, growth and value stocks were virtually neck and neck. Technology and communication-services sectors outperformed, while consumer discretionary stocks lagged due in large part to weakness in the automobile industry. Small companies also struggled versus their larger counterparts, although they still delivered positive outcomes for investors. The market's proclivity for mega-cap stocks continued, with the “Magnificent Seven” dominating performance, although this was heavily swayed by Nvidia, which rose more than 80% in the first quarter. Outside of Nvidia, Tesla was down -27% in the quarter—the worst stock in the entire S&P 500. Apple was also down 11%, while Alphabet was up 8%, but trailed the broad market. Withstanding these changes, market concentration in the very largest stocks has reached a level not seen since the "nifty-fifty" era of the early 1970's.

Turning to bonds, improving news on the global economy caused yields to inch higher, providing a headwind for fixed income asset classes. Longer-duration bonds underperformed their short-duration counterparts. High-yield bonds were a standout winner among fixed income. Broadly speaking, the US dollar gained value versus most developed- and emerging-market currencies, providing a tailwind for unhedged exposures.

Wealth Associates Global Moderate

Quarter 1 | 2024

The Morningstar USD Moderate Allocation peer group posted a gain of 3.4% for the quarter and 10.2% for the past 12 months. The performance was largely driven by robust returns from most global equity markets, as key major developed equity markets delivered strong returns in the first quarter of 2024. The performance from fixed income allocations was a bit more mixed, with sticky inflation prints leading to a recalibration in expectations for monetary policy easing later in the year. This led to higher yields (and lower prices), particularly for longer duration fixed income assets. Wealth Associates Global Moderate returned 3.2% over the quarter and 11.0% for the past 12 months.

Asset Allocation

Portfolio returns were pleasing over the quarter. Equities were the key contributor to returns whilst bonds detracted at the broad asset class level.

Within equities, the portfolios have been overweight Japanese equities for a long period of time and the position was amongst the key contributors to returns over the quarter as the market continues to converge to our long-held thesis. Elsewhere in the equity sleeve, allocations to the US and overweight positions to Emerging Markets and the UK also contributed positively to returns.

The picture was a bit more mixed within fixed income, as riskier assets such as Global Investment Grade Credit contributed positively to returns as the global macro backdrop remains broadly constructive. The longer duration and safe haven type of assets such as Treasuries detracted from performance as the market re-assessed their inflation and interest rate expectations.

Fund Selection

Turning to the underlying investments, the contribution from fund selection was positive over the quarter.

Over the quarter growth and value stocks were virtually neck and neck, with Dodge & Cox Worldwide US Stock performing in line with managers who have more of a growth style. The technology and communication services sectors outperformed, while consumer discretionary stocks lagged due in large part to weakness in the automobile industry. Small companies also struggled versus their larger counterparts, although they still delivered positive outcomes for investors.

Exposure to emerging market equities contributed to performance in absolute terms, however, developing markets delivered performance which lagged developed market peers. Within the emerging market universe, Chinese equities were a significant detractor from performance over the quarter. Allocations to the Chinese equity market within Baillie Gifford China and Fidelity Emerging Markets detracted from performance.

Most fixed income managers ended the quarter in negative territory, with longer-duration fund managers underperforming their short-duration counterparts. High-yield bonds were a standout winner among the fixed income cohort. Broadly speaking, the US dollar gained value versus most developed- and emerging-market currencies, providing a tailwind for unhedged exposures.

Summary

Looking ahead, market participants are trying to reconcile a few key developments. On one hand, the market backdrop appears favourable, with sentiment improving and corporate earnings rising. On the other hand, central banks may not pursue rate cuts at the speed many hoped, with valuations edging on expensive across many measures. Taken together, we believe a cautionary optimistic stance is warranted, balancing risk and return drivers while selectively identifying pockets of opportunity.

Some of our high-conviction ideas currently include:

- Emerging Market Equity
- China Equity
- US Smaller Companies
- World Financials
- Defensive Equities
- Emerging Market Debt

We combine these positions with effective diversifiers that will place the portfolios in a better position to withstand more adverse scenarios, thereby aiming to achieve better risk-adjusted portfolios overall.

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MORNINGSTAR

Wealth Associates Global Balanced

Quarter 1 | 2024

The Morningstar USD Moderate Allocation peer group posted a gain of 3.4% for the quarter and 10.2% for the past 12 months. The performance was largely driven by robust returns from most global equity markets, as key major developed equity markets delivered strong returns in the first quarter of 2024. The performance from fixed income allocations was a bit more mixed, with sticky inflation prints leading to a recalibration in expectations for monetary policy easing later in the year. This led to higher yields (and lower prices), particularly for longer duration fixed income assets. Wealth Associates Global Balanced returned 4.5% over the quarter and 14.7% for the past 12 months.

Asset Allocation

Portfolio returns were pleasing over the quarter. Equities were the key contributor to returns whilst bonds detracted at the broad asset class level.

Within equities, the portfolios have been overweight Japanese equities for a long period of time and the position was amongst the key contributors to returns over the quarter as the market continues to converge to our long-held thesis. Elsewhere in the equity sleeve, allocations to the US and overweight positions to Emerging Markets and the UK also contributed positively to returns.

The picture was a bit more mixed within fixed income, as riskier assets such as Global Investment Grade Credit contributed positively to returns as the global macro backdrop remains broadly constructive. The longer duration and safe haven type of assets such as Treasuries detracted from performance as the market re-assessed their inflation and interest rate expectations.

Fund Selection

Turning to the underlying investments, the contribution from fund selection was positive over the quarter.

Over the quarter growth and value stocks were virtually neck and neck, with Dodge & Cox Worldwide US Stock performing in line with managers who have more of a growth style. The technology and communication services sectors outperformed, while consumer discretionary stocks lagged due in large part to weakness in the automobile industry. Small companies also struggled versus their larger counterparts, although they still delivered positive outcomes for investors.

Exposure to emerging market equities contributed to performance in absolute terms, however, developing markets delivered performance which lagged developed market peers. Within the emerging market universe, Chinese equities were a significant detractor from performance over the quarter. Allocations to the Chinese equity market within Baillie Gifford China and Fidelity Emerging Markets detracted from performance.

Most fixed income managers ended the quarter in negative territory, with longer-duration fund managers underperforming their short-duration counterparts. High-yield bonds were a standout winner among the fixed income cohort. Broadly speaking, the US dollar gained value versus most developed- and emerging-market currencies, providing a tailwind for unhedged exposures.

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Wealth Associates Global Growth
Quarter 1 | 2024

The Morningstar USD Aggressive Allocation peer group posted a gain of 5.3% for the quarter and 13.3% for the past 12 months. The performance was largely driven by robust returns from most global equity markets, as key major developed equity markets delivered strong returns in the first quarter of 2024. The performance from fixed income allocations was a bit more mixed, with sticky inflation prints leading to a recalibration in expectations for monetary policy easing later in the year. This led to higher yields (and lower prices), particularly for longer duration fixed income assets. Wealth Associates Global Growth returned 5.4% over the quarter and 17.8% for the past 12 months.

Asset Allocation

Portfolio returns were pleasing over the quarter, with developed market equities being a key contributor to returns at the broad asset class level.

Within equities, the portfolios have been overweight Japanese equities for a long period of time and the position was amongst the key contributors to returns over the quarter as the market continues to converge to our long-held thesis. Elsewhere in the equity sleeve, allocations to the US and overweight positions to Emerging Markets and the UK also contributed positively to returns. China on the other hand, was a detractor from performance.

Fund Selection

Turning to the underlying investments, the contribution from fund selection was positive over the quarter.

Over the quarter growth and value stocks were virtually neck and neck, with Dodge & Cox Worldwide US Stock performing in line with managers who have more of a growth style. The technology and communication services sectors outperformed, while consumer discretionary stocks lagged due in large part to weakness in the automobile industry. Small companies also struggled versus their larger counterparts, although they still delivered positive outcomes for investors.

Exposure to emerging market equities contributed to performance in absolute terms, however, developing markets delivered performance which lagged developed market peers. Within the emerging market universe, Chinese equities were a significant detractor from performance over the quarter. Allocations to the Chinese equity market within Baillie Gifford China and Fidelity Emerging Markets detracted from performance.

Broadly speaking, the US dollar gained value versus most developed- and emerging-market currencies, providing a tailwind for unhedged exposures.

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Looking ahead, market participants are trying to reconcile a few key developments. On one hand, the market backdrop appears favourable, with sentiment improving and corporate earnings rising. On the other hand, central banks may not pursue rate cuts at the speed many hoped, with valuations edging on expensive across many measures. Taken together, we believe a cautionary optimistic stance is warranted, balancing risk and return drivers while selectively identifying pockets of opportunity.

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Wealth Associates Global Equity

Quarter 1 | 2024

The Morningstar Global Large-Cap Blend Equity peer group posted an impressive gain of 7.1% for the quarter and 19.4% for the past 12 months. The performance was largely driven by robust returns from most global equity markets, as key major developed equity markets delivered strong returns in the first quarter of 2024. Wealth Associates Global Equity returned 7.0% over the quarter and 21.3% for the past 12 months.

Asset Allocation

Portfolio returns were pleasing over the quarter, with developed market equities being a key contributor to returns at the broad asset class level.

Within the key geographic regions, US equities were a key contributor to performance, while Japanese equities also continued a recent strong run. Emerging market allocations managed to deliver positive performance, however, these allocations lagged the performance in developed markets. This was largely driven by continued weak performance in Chinese equities, which detracted from performance over the quarter.

Fund Selection

Turning to the underlying investments, the contribution from fund selection was positive over the quarter.

Over the quarter growth and value stocks were virtually neck and neck, with value managers performing in line with managers who have more of a growth style. The technology and communication services sectors outperformed, while consumer discretionary stocks lagged due in large part to weakness in the automobile industry. Small companies also struggled versus their larger counterparts, although they still delivered positive outcomes for investors.

Exposure to emerging market equities contributed to performance in absolute terms, however, developing markets delivered performance which lagged developed market peers. Within the emerging market universe, Chinese equities were a significant detractor from performance over the quarter.

Broadly speaking, the US dollar gained value versus most developed- and emerging-market currencies, providing a tailwind for unhedged exposures.

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