Market Commentary - April 2024

FTSE 100	**7,911**	S&P 500	5,204
Resistance	8,000	Gold	$2,338
Support	7,700	GBP/EUR	1.1658
VIX	16%	GBP/USD	1.2631

Introduction:

A chart really is worth a thousand words. Technical strategists say that investors in any given period are either in the mood to "*sell the rally*" (bear markets) or "*buy the dip*" (bull markets). If 2022 was all about sell-the-rally, 2023 was (mostly) about buy-the-dip and the strategy was intense and infallible during the final quarter. Year-to-date, the dips have been shorter and shallower, usually less than 1%, before bullish buying has reasserted itself though with less intensity than in Q4. Some technical investors see weakening buy-the-dip enthusiasm as a warning sign of a near-term top. But for over a year, investors have been more inclined to buy dips than to sell rallies. Until we see a change in that trend, the likely direction is upward.

Market Outlook:

Over the long term *(since 1962), the FTSE All-Share has returned 7.2% per annum and that does not include the average 3.8% dividend yield earned on top. Therefore, 'strategically', it pays to be in the market. Also, considering inflation averaged 6.2% over the same period, it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital and thus maintain a 'tactical' view.*

Our allocation to the stock market remains at overweight. The only thing the market has to fear, to paraphrase President Roosevelt, is fear of missing out (FOMO) itself. Historically, the market is balanced between greed and fear. When the only fear in the picture is FOMO, that is not healthy. And when a market rises for five straight months, even the most hard-nosed bulls start bracing for a correction.

Yet given the current set of conditions, this market should be able to absorb a correction. Until we see otherwise, we will assume that investors will view any correction, even a bone-rattling one, as another buy-the-dip opportunity. That is because the fundamentals remain sound. Even the gloomiest perma-bears do not expect interest rates to rise from here. Consumers remain fully employed, and wage growth is running ahead of inflation.

Accelerating stock gains suggest that investors are anticipating the beginning of rate cuts. Indeed, Fed Chairman Jerome Powell has all but assured investors that the Fed would pivot to accommodative policy from restrictive policy this year. His use of the words "*not far*" was reminiscent of the reports of "*green shoots*" in the economy in 2009-2010. Those buzzwords helped investors put behind the great recession of 2008 and sent the stock market soaring.

The stock market is assumed to be anticipatory, meaning investors should be buying lower rate beneficiaries, including Utilities and REITs. That has not happened yet, however. Those sectors deeply lagged the market

Market Outlook (cont):

in 2023, and investors appear fearful of getting burned again. Once central banks do begin to cut, we would expect investment in those areas to take off. Positively, the market in 2024 has better breadth and sector participation than last year. The stock market keeps making new highs, putting a broadening set of investors in the green and willing to commit fresh funds.

The second quarter has historically been a strong one for the FTSE 100, rising an average 1.3% since 1984. Then comes the summer doldrums quarter; since 1984, the FTSE 100 has netted an average 0.6% gain in all third quarters. The fourth quarter tends to wrap up the year with the best gains, averaging 3.4% capital appreciation. The stock market would do well to "bank" additional gains in the April-June period before the summer slowdown.

Market Commentary

Recommended Investment:

ISAs

Picking the right investments is paramount but if you don't hold them tax efficiently they won't deliver as much. One of the most efficient tax wrappers is pensions, however these do not allow you to access your money until at least age 55.

A far more flexible tax wrapper, available to UK residents, is the individual savings account (ISA), as you can access investments held within this at whatever age you like. Investments held within an ISA do not incur capital gains tax (CGT) when sold, and no further tax is payable on any income or interest they yield. This means investments within an ISA can grow more than if held outside. At present the yearly amount you can put into an ISA is far less than what you can put into pensions. And you do not get tax relief on investments you put into an ISA - unlike with a pension.

But there is no tax to pay as you take out your money which makes ISAs great for drawing an income in retirement, and there is no restriction on when or how much money can be withdrawn. It is not a pension product but can be a useful complement to a pension for retirement income, particularly when it is desirable to draw down capital at a faster rate than may be prudent in a pension. It is also a great place to build up a sum to pay for a house deposit, wedding costs, education fees or all sorts of other savings goals.

A broad range of investments can be held in a Stocks and Shares ISA. Qualifying investments include:

1) Cash
2) UCITS authorised funds such as unit trusts, ETFs and investment trusts
3) Shares listed on one of the many recognised stock exchanges, including AIM
4) Fixed interest securities such as treasuries, corporate bonds, debentures and Eurobonds
5) Depository interests such as CDIs or ADRs, provided there is an underlying listing on a recognised stock exchange

<u>Subscription Limits</u>
The ISA Allowance for the 2024/2025 tax year (6th April to 5th April) is £20,000.

<u>Bed & ISA</u>
Investors keen to shelter capital gains from tax can do so by selling investments and reinvesting the gains in tax wrappers in advance of the tax year end. The old so-called 'Bed & Breakfast' loophole, whereby individuals could sell investments at the end of one tax year and immediately re-buy them at the start of the next in order to reduce CGT or avoid paying it altogether, was closed in 1998. Now you can no longer reduce CGT by selling and buying the same holding within 30 days. However, a 'Bed & Isa' strategy allows investors to sell investments in their usual equity account and then immediately re-buy them in their ISA (note that caution is needed as you need to ensure you avoid paying CGT). Because the transaction is carried out within a tax wrapper, the 'Bed & Breakfast' 30-day rule does not apply, and it also means investors can fund their ISAs without the need to find new cash. GAM can do this via an 'agency cross' whereby we sell and buy back simultaneously at a very small cost with a market maker (they charge £30, which is built into the spread) on the stock exchange.

Market Commentary

Recommended Investment (cont):

Recommendations

UK investors have an annual CGT allowance of £3,000 for this tax year. Higher-rate taxpayers are charged 20% on any gains above this. For income, the taxes are even more punitive. The level of dividends individuals can receive tax-free is just £500. Above that level, higher rate taxpayer's dividends are taxed at 33.75%. Therefore, it is important for investors to take advantage of their ISA allowance and particularly buy income-producing investments. Some of our favourite income-producing investments include:

Equities	
Dunedin Income & Growth	Investment trust investing in UK blue chips yielding 4.6%
Ecclesiastical 8.625% Prefs	Preference shares yielding 6.4%
Alternatives	
Greencoat UK Wind	Invests in operating UK wind farms. Yields 6.3%
HICL Infrastructure	Invests in a portfolio of infrastructure investments. Yields 5.2%
Fixed Interest	
A2D Funding 4.5% 30/09/26	A-rated retail bond listed on the LSE. 5.0% GRY
Greensleeves 5% 17/12/30	Retail charity bond listed on the LSE. 6.2% GRY

How to Apply Contact GAM on +350 200 75181 to receive your ISA application form

Market Commentary

Post of the Month:

"Since the 1960s, there have been 85 easing cycles in the major G10 economies. This means that past experience gives us a good idea about what generally happens to markets when rates are cut and where investors should look to invest"

2022 was a year of unrelenting rate hikes. In 2023, interest rates plateaued. And in 2024, it looks as though we will finally see interest rate cuts. In theory, lower interest rates should be good news for equities and past performance bears this out. Since 1900, the annualised return on US stocks and bonds was 9.4% and 3.6%, respectively, during easing cycles, compared with just 3.6% and -0.3% during hiking cycles. UK data since 1930 has revealed a similar pattern.

Growth stocks should be particularly well placed to gain from falling rates. They were badly hit initially as borrowing costs rose and a higher discount rate was applied to future earnings. Every one percentage point increase in the risk-free rate decreases the present value of corporate earnings by just over 10%, hitting valuations hard. We tend to see some familiar sectoral patterns, too. Housebuilders could also see their fortunes reversed, this time for the better. Even the spectre of rate cuts was enough to trigger a rally at the end of 2023, as markets were buoyed by the prospect of lower rates reinvigorating the property market. History also teaches us that bonds perform well in a falling rate environment. As interest rates fall, coupon payments start to look more attractive, driving up bond prices. If rate cuts do materialise as expected in 2024, bonds should see strong total returns driven by both income and capital gains.

Unfortunately, Fed projections suggest that rates will fall to 4.6% by the end of the year - implying only around 0.75 percentage points-worth of cuts. In the UK, BoE projections imply something similar. And though inflation looks set to return to target within a matter of months, economists are split on whether or not a recession will accompany it. A best-case scenario would see a 'soft landing', where inflation returns to target but the economy avoids a nasty contraction. This would be would be positive for stocks in more cyclical sectors (such as industrials) as well as small caps where valuations are currently modest. Fidelity analysts believe the traditional impact of higher rates on the real economy has been delayed rather than abolished however, leaving a mild recession the most likely outcome this year. History bears this out. According to Schroders research, in 16 of 22 cycles, the US economy was either already in a recession when rate cuts started, or entered one within 12 months. Historically, stock returns tend to be better when corporate profits don't have a recession to contend with, but are still positive on average as rates are cut.

Indeed, it could be easier to make money in shares this year for the simple fact that rate cuts should bolster a wider range of firms. The year-end rally was broad-based, and sectors that proved vulnerable to higher rates (like housebuilders) saw a surge, in addition to the big tech stocks that enjoyed a stronger performance all year. JPMorgan Asset Management expects quality stocks (those characterised by robust balance sheets and a stronger ability to defend margins) to outperform in a mild recession along with traditional defensive sectors. Fidelity analysts think that the 'Magnificent Seven' acted as a defensive safe haven in 2023, and could do so again if economies falter this year.

UK shares could have a better year, too. The relative attractiveness of the UK is likely in its defensive characteristics. The FTSE 100 has the highest dividend yield of any developed market, and offers a relatively low correlation to global stocks.

Market Commentary

Quote of the Month:

"Given a 10% chance of a 100 times payoff, you should take that bet every time" - Jeff Bezos

Most people dismiss many of the best and most profitable investment ideas simply because they probably won't work. These investors never stop to consider how much they could make if unlikely outcomes actually occur. Jeff Bezos took those bets and became the richest person in the world. More risk-adverse investors may look to take a diversified approach and invest in a smaller companies fund to obtain exposure to this theme. We recommend the Invesco Perpetual UK Smaller Companies Investment Trust. As interest rates start to fall, valuations will rise and investors receive a 4% dividend in the interim.

Economics:

For all the caution surrounding the UK economy, its PMI is currently top of the developed economy league table. The UK's PMI remained comfortably in expansionary territory at 52.9 in March. Anything above 50 indicates growth. And revised figures from the manufacturing sector published earlier this week suggest that the UK performed better than first estimated, with the 'flash' reading of 49.9 revised up to 50.3. This meant the manufacturing sector recorded growth for the first time since July 2022. The UK's strong start to the year has been fuelled by falling inflation and hopes of lower interest rates. A strong labour market has also kept wage growth high, meaning households have seen a boost to their real income.

The Eurozone economy is witnessing an upswing, with the latest business surveys indicating the fastest expansion in private sector activity in the last ten months, primarily driven by the services sector's robust growth. According to the latest Eurozone Composite PMI data, activity expanded to 50.3 in March, the most robust level observed since May 2023. However, a stark contrast between the health of the services and manufacturing sectors remains evident. The Eurozone Services PMI climbed to 51.5 from February's 50.2. On the other hand, manufacturing PMI lingered in contraction territory at 46.1 in March 2024, underscoring ongoing challenges in the sector. A principal risk to European equities currently stems from the rise in commodity prices. Brent crude oil's ascent to $90 a barrel, marking a 16% increase since the year's start, could foreshadow a resurgence of inflation. Such a development may squeeze corporate profit margins and place the ECB under pressure regarding its interest rate decisions.

The US economy added 303,000 jobs in March, blowing past expectations and indicating that economic growth remains on a firm footing. The reading matches the largest one-month boost in payrolls since May 2023 and is a significant increase from the 270,000 added in February and the 256,000 in January. "*The economy continues to display remarkable resilience, defying high interest rates and fears of a substantial slowdown,*" Mark Hamrick, Bankrate's senior economic analyst, said. He added that more people were both working and looking for work, something that brought the labour force participation rate up to 62.7% - another sign of a strong economy. The strong data point may prompt the Federal Reserve to continue to push back the interest rate cuts it had been signalling for this year. That means the cost of borrowing money for everything from credit cards to autos to homes is likely to remain elevated for some time. By keeping interest rates high, the central bank seeks to cool consumption for goods and services - too much of which keeps price growth elevated.

Market Commentary

Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

The January Barometer ☹

Historically, the returns in January have signalled the returns for the rest of the year. If they are positive, the returns for the whole year tend to be positive and vice versa. First mentioned by Yale Hirsch in the Stock Trader's Almanac in 1972, a variant has it that returns for the whole year can be predicted by the direction of the market in just the first 5 days of the year. *Judging by the first 5 days, 2024 is likely to be a negative year for the stock markets.*

April ☺

April is 2nd in the ranking of monthly performance, rising 73% of all the years in April, with an average return of 1.8%. In an average month, the market historically gets off to a good start - the first trading day of April is the second strongest first trading day of all months in the year. The market then tends to be fairly flat in the middle two weeks before rising strongly in the final week.

Second Quarter ☺

The FTSE 100 has risen 25 of the 40 years (63%) between 1984 and 2023, posting an average gain of 1.3%.

November - April ☺

Delaying re-entering the market from St. Ledgers Day to Halloween has yielded statistically significant outperformance with the FTSE All-Share rising an average 13.4% from Halloween to May Day since 1965. There is a 1-in-2,000 chance of this arising by chance in random data. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

Fourth-Year US Presidential Cycle ☺

The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

Chinese New Year - Year of the Dragon ☺

The Chinese calendar revolves around a 12-year cycle where each year is associated with an animal (rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, rooster, dog and pig). Each New Year starts between 21st January and 21st February, the exact date being dependent upon a variety of complex factors. The best performing animals since 1950 have been the goat and dog. The worst performing animals have been the rooster and snake. *The Year of the Dragon is believed to foster growth, progress, and abundance. For investors in Chinese stocks, that would be a most welcome break from the past few years.*

GIBRALTAR ASSET MANAGEMENT

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Market Commentary

Investment Calendar:

8th April	New Moon (markets tend to reach a high point around this time)
11th April	ECB Meeting
19th April	Options Expiry Day
24th April	Full Moon (markets tend to reach a low point around this time)
30th April	FED Meeting

Technical Analysis:

The FTSE broke through all resistance levels last month to close near all-time highs. The reason it broke through the upper Bollinger band was because the market started trending, and strongly. Now with the ADX at 30, the market is still in a strong trend. We would argue that with the RSI at 73%, that trend is likely to breakdown. The market is extremely overbought and in touching distance of the psychologically-important 8,000 level. Trees don't grow to the sky and we feel an unwinding has to occur before the market can go on and make new highs. A move down to the 50-day moving average (lying at 7,715) is highly likely.

"The illusion of randomness gradually disappears as the skill in chart reading improves" – John Murphy

Chart Legend:

red dashed line	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
thin red line	50 day moving average	(signifies the medium-term direction of the security)
thick red line	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
blue line		(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

<u>RSI</u> (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

<u>ADX</u> (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. ending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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