GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - January 2024

FTSE 100	**7,688**	S&P 500	4,697
Resistance	7,800	Gold	$2,028
Support	7,500	GBP/EUR	1.1606
VIX	14%	GBP/USD	1.2686

Introduction:

We wish all our clients and readers a very Happy New Year. John Bogle, the founder of index-tracking firm Vanguard, once said *"Intelligent investors will use low-cost index funds to build a diversified portfolio of stocks and bonds, and they will stay the course. And they won't be foolish enough to think they can consistently outsmart the market."* As we know, 2023 followed a nasty bear market in many stocks, especially in the Technology sector. Coming into the new year, investors generally were bearish and not loaded with tech stocks. Well, if you just owned the S&P 500, you have done quite well. But the 71% of stocks in the S&P 500 have underperformed the index, with most of the gains coming from a few tech giants. While Mr Bogle has probably rolled over in his grave based on the concentration of returns this year, his simple advice worked again.

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 moves to equalweight. We expect a slow start in the first half of the year, as interest rates remain high and the economy flirts with recession. But as the year progresses and inflation continues to fall, central banks can start to lower interest rates. Lower interest rates help corporate profit margins as well as support higher stock-market valuation multiples.

There are risks to our outlook, including that central banks may have raised interest rates too far and too fast. The lagged effects of higher rates are indeed dragging on consumer and business spending and confidence. If a recession ensues, corporate earnings could tumble, taking stock prices along for the ride. Global risks include potential geopolitical developments in the Middle East and Russia/Ukraine, as well as simmering tensions in China. Energy prices are always a wild card, though current supply/demand trends point to a steady oil market in 2024. There is a US presidential election in November, which is certain to be close and controversial. And the stock market has had a good run, partly because corporate earnings are expected to rebound from a year of negative comparisons. While equity valuations appear attractive, stocks will seem pricey if earnings fail to grow as anticipated.

On the upside, interest rates are clearly coming down, and central banks are almost certain to begin cutting rates probably around the half-year mark. The overhang of higher prices is an issue, but inflation is decelerating. Consumer confidence is likely to track the trend in consumer prices, which appears to be

Market Commentary

Market Outlook (cont):

heading in the right direction.

In summary, stock markets are set to have a good year, valuations having de-rated sufficiently to compensate for higher bond yields. In terms of market segments, we look for growth stocks, technology and small caps to outperform in an environment of falling interest rates and rising earnings.

Market Commentary

Recommended Investment:

Investment Themes for 2024

In this unpredictable investing environment, we recommend the following five key themes over the next 12 months, which should continue to perform irrespective of geopolitics.

1-Quality Dividend-Payers

At this stage of the economic cycle, investors tend to pay close attention to companies raising guidance and increasing dividends. We think consistent - and accelerated - dividend growth at a company gives three important signals to investors in a stock. First, the company's balance sheet is strong enough to pay a dividend. Next, management is mindful of shareholder returns, which include dividends. And finally, a significant dividend increase can be a message from management to the market that the near-term outlook for the company is promising, even during an economic slowdown. *SPDR S&P UK Dividend Aristocrats UCITS ETF trades on the LSE (UKDV.L) with a Total Expense Ratio (TER) of 0.30% per annum.*

2-Artificial Intelligence

The industry was worth ~$208 billion in 2023, and it is expected grow at a compound annual growth rate (CAGR) of 33% a year to 2030, when it is expected to reach $1.9 trillion in annual revenue. *Roundhill Magnificent Seven ETF trades on the Nasdaq (MAGS) and provides equal-weighted exposure to the 'magnificent seven' (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia & Tesla) with a TER of 0.29%.*

3-Clean Energy

The rise in global land and sea temperatures, the melting of Arctic Sea ice, and the alarming frequency of extreme weather events provide evidence that climate change is underway. United in their concern, 194 member states of the United Nations signed the Paris Agreement in 2015. This legally binding international treaty on climate change seeks to limit global warming to well-below two, preferably 1.5 degrees Celsius, compared to pre-industrial levels. This has prompted governments around the globe to develop and deploy clean, renewable sources of energy, providing incentives relating to energy security, grid energy storage, electric vehicles as well as tax credits for wind power, solar power and hydro. *iShares Global Clean Energy UCITS ETF trades on the LSE (INRG.L) with a TER of 0.65%.*

4-Investing in the Cloud

The emergence and adoption of cloud computing reflects a confluence of factors. A key driver of cloud adoptions is the ability to match and scale IT resources to an enterprise's needs in real time. The traditional on-premises approach is inherently inefficient, given that IT needs may fluctuate. In cloud services models, enterprises only consume as much computing, storage and networking bandwidth as they need at any one time. *First Trust Cloud Computing UCITS ETF trades on the LSE (FSKY.L) with a TER of 0.60%.*

5-Cyber Security

The large number of well-publicised security breaches in recent years has forced businesses and governments to invest heavily in cybersecurity products and services to meet the challenge. Cybercrime cost the world an estimated $8 trillion in 2023, compared to $3 trillion in 2015. Thus, cybercrime represents one of the largest transfers of wealth in the history of humankind. The cyber security solutions market, consisting of dedicated hardware & software, comprises a $170 billion annual revenue opportunity, that is expected to grow at more than a 10% compound CAGR over the next several years. *L&G Cyber Security UCITS ETF trades on the LSE (ISPY.L) with a TER of 0.69%.*

GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary

Post of the Month:

"Although it might not feel like it, we have been living through a period of relative calm. According to Deutsche Bank analysts, we have been "statistically lucky over the last 40 years in how few shocks there have been". This 'luck' could soon run out"

A long run study from Deutsche Bank sets out the typical recession of the past. Over the past century, a recession has arrived every 12 years, lasted an average of 7.5 quarters and resulted in GDP shrinking by around 5.5%. Yet contractions have also become shorter and milder over the course of the past 100 years. What's more, we have had rather minimal experience of them: the UK economy has entered recession only three times since 1982.

Today, high inflation and low growth leave policy firepower limited, while there are signs that economic shocks could become more commonplace. These are the figures that signal that 'boom and bust' could be coming back. Scientists warn that the pandemic wasn't really a bolt out of the blue. Researchers at Duke Global Health Institute calculated that, based on historical patterns, there is a 2% chance of a pandemic with a similar impact to Covid-19 emerging in any given year. Over time, this compounds: the researchers pointed out that even someone born in the year 2000 had around a 40% chance of experiencing one by now.

And such economic shocks can trigger a recession with terrifying speed: it took just weeks for pandemic restrictions to plunge the UK economy into a deep downturn. According to the Office for Budget Responsibility (OBR), economic shocks since 2000 have had twice the intensity and twice the public sector cost of the shocks we experienced in the latter half of the 20th century. Deutsche Bank calculates that no country in the world has managed to keep inflation below the 2% target since 1971, despite a relatively benign economic backdrop. And if inflation is harder to control over the years ahead, we will see more monetary policy tightening. Historically, high interest rates have been a significant recession 'trigger': research shows that monetary tightening is one of the most common factors preceding an economic contraction. More unpredictable inflation could mean more unpredictable economic cycles, too.

In previous recessions, the government has fought downturns with fiscal policy - upping spending and/or cutting taxes to keep recession at bay. But higher inflation and higher interest rates make servicing debt more difficult, exposing government finances to more scrutiny as a result. According to Deutsche Bank analysts: *"If markets become less tolerant of continually high deficits and/or debt, then more frequent recessions are likely."* In simple terms, the government won't have the policy firepower to do much about them.

When a shock hits (all other things being equal) it is far easier to tip into negative growth if your economy is expanding at 1% per year, rather than 5%. The OBR recently downgraded its estimate for the UK's potential growth rate from 1.8% to 1.6% which (mathematically, at least) makes dodging a recession even harder.

It might feel like a small silver lining, but history suggests that frequent booms and busts could actually be good news for longer-term economic performance. Deutsche Bank analysis found that the US has had the most frequent recessions of all G7 economies, but also the strongest economic growth. Analysts think that this is because of creative destruction and the subsequent economic regeneration: *"By enabling a more efficient allocation for resources, it can set the stage for stronger growth over the longer term."*

Market Commentary

Quote of the Month:

"Firm and patient optimism always yields its rewards" - Carlos Slim

Economic and political uncertainty may have you concerned about the future and prompt you to make rash decisions, but this is a recipe for disaster when it comes to managing money or making investments. Instead, consider buying and holding investments for the long term, avoiding panic selling during market corrections, not selling prematurely during rallies, and remembering that recoveries always happen is generally the best path forward.

Economics:

British business leaders have turned more pessimistic about the outlook for the country's economy and they are holding back on investment decisions, according to a recent survey. Roger Barker, policy director at the Institute of Directors (IoD), said sentiment among directors had been largely stuck in the doldrums over the second half of 2023 as the impact of higher interest rates took its toll on the economy. *"Although aspects of the business environment have improved in the last couple of months, particularly with regard to inflation, this is not yet exerting a meaningful impact on business decision-making,"* Barker said. The IoD called on the Bank of England to start cutting interest rates in early 2024. With inflationary pressures abating, business is in dire need of a boost if it is to help drive meaningful economic growth in 2024.

Annual inflation in Germany and France, the European Union's leading economies, rose in December. The first estimate of eurozone consumer price inflation for last month confirmed the trend - it rose to 2.9% from 2.4% in November. It was the first increase in the annual rate of inflation across the eurozone since April 2023. Economists were expecting the upswing in part because governments have been unwinding generous subsidies introduced to support households during the energy crisis of 2022. But Paul Donovan, chief economist at UBS Global Wealth Management, said he expects core inflation - which strips out volatile food and energy costs - across the eurozone to continue to slow. *"The more important issue is what happens to core inflation and underlying inflationary pressures,"* said Andrew Kenningham, chief Europe economist at Capital Economics.

US Treasury Secretary Janet Yellen made an unusual declaration after positive job numbers. *"What we're seeing now I think we can describe as a soft landing,"* she said after December's report showed a gain of 216,000 - more than the 164,000 expected. A soft landing is when inflation recedes without an attendant recession. While last month's jobs growth reading was significantly higher than forecast by economists, the agency revised its estimates for October and November lower. As a result, the US workforce in these two months was some 71,000 jobs smaller than previously reported. Bloomberg Economics said the news *"is permeated with evidence of a fast-cooling labour market,"* including drops in labour participation and household employment. Add to that Russia's war on Ukraine, the Middle East conflict and related attacks on shipping in the Red Sea, and you get significant global insecurity.

GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

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, 2023 is likely to be a negative year for the stock markets.*

January

January is the 6th in the ranking of monthly performance, rising 55% of all the years in January, with an average return of 0.5%. In an average January shares usually start trading strongly in the first few days most likely a momentum effect from the surge in prices traditionally seen in the last two weeks of the year. However, that ebullience soon wears off and prices then slide for the rest of the month until recovering somewhat in the last few days.

First Quarter

The FTSE 100 has risen 27 of the 40 years (68%) 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 Rabbit

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 rabbit is said to represent longevity, peace, prosperity and luck. Thus, we could see calm and stability return to the markets after a tumultuous 2022 with a stabilisation of interest rates and a return of geopolitical calm.*

GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary

Investment Calendar:

11th January	New Moon (markets tend to reach a high point around this time)
19th January	Options Expiry Day
25th January	Full Moon (markets tend to reach a low point around this time)
	ECB Meeting
30th January	FED Meeting (two day)

Technical Analysis:

Last month, we recommended that traders should tread with caution. In the event, strong seasonal factors took control and the market rose 135 points (1.8%). Interestingly, the FTSE smashed through its 200-day moving average and is now sitting 118 points above. Year End can always prone to a certain amount of "*window dressing*" and the market does look toppy at these levels. The FTSE appears to have formed a "*triple top*" where previous tops have led to a breakdown in the market. The RSI is retreating from extremely overbought readings. Perhaps traders should consider shorting the market, at least in the near term.

"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)
red thin line	50 day moving average	(signifies the medium-term direction of the security)
red thick 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:

RSI (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).

ADX (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).

Printout from Alpha Terminal - 05/01/2024 17:40