GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - March 2024

FTSE 100	**7,682**	S&P 500	5,137
Resistance	7,760	Gold	$2,084
Support	7,525	GBP/EUR	1.1684
VIX	14%	GBP/USD	1.2671

Introduction:

Record highs for everyone - Tokyo, New York, Frankfurt, Paris but poor old London isn't getting a look in. Maybe that's a good thing. We don't like all this froth. Yet according to Bank of America, overseas investors should not get too concerned. *"An all-time high is not a sell signal. It's worth remembering equity markets efficiently reflect earnings growth through time. Stock prices don't have memories so, barring a major de-rating, 2024 could be a strong year for equities"*. UK investors should not become too despondent either. Apart from those all-important 'D' attributes (diversification and dividends), an easing rate cycle will make old utility stocks far more attractive and expected weakness in the sterling/dollar exchange rate should drive gains in firms with substantial overseas earnings.

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. With the stock market at or near all-time highs, investors are already wondering how much upside is left. From a technical perspective, the stock market tends to sustain rallies in the period after stocks move to all-time highs. The fundamentals also appear favourable at this time - with a caveat or two. The market's chief concern for the past two years, inflation, is waning. Unfortunately, it has left behind the residue of higher prices for everything, which continues to weigh on consumer sentiment and spending.

Given the overhang of high prices and interest rates, offset by the "*unsinkable*" consumer, GDP is likely to remain volatile. The stock market has rallied on growing confidence that the major central banks are going to cut interest rates early and often in 2024. Now it is looking that rate cuts will not come early in the year and will likely amount to less than what has been priced into the market.

However, they are heading in the right direction and falling inflation and lower interest rates are good for valuations. Stocks are looking attractive with the S&P 500 trading on a forward P/E of 19.1x, a 4% discount to the 5-year market average.

Another key support for stocks, has been the improving earnings environment. S&P 500 earnings are on track for high single-digit percentage EPS growth. Typically, earnings "*surprise*" to the upside by four to six

Market Outlook (cont):

percentage points, because companies deliberately low-ball their EPS forecasts to account for a host of negative contingencies that rarely come to fruition. The extent of the beat this time - high single-digit percentage points, and maybe even low double-digits - is way above average. Nvidia alone, with its recent blowout report, may have added a point to total S&P 500 continuing-operations earnings growth.

The stock market is assumed to be anticipatory, meaning investors should be buying lower rate beneficiaries including Utilities, Small Caps and REITs. That has not happened yet, however. Those sectors deeply lagged the market in 2023, and investors appear fearful of being burned again. Once the central banks begin to cut, we would expect those sectors to take off.

Market Commentary

Recommended Investment:

Greencoat UK Wind plc

Greencoat UK Wind plc (UKW) is an investment trust that owns a diversified portfolio of 47 wind farms operating around the United Kingdom, both onshore (56%) and offshore (44%). It aims to provide shareholders with inflation-protected income along with capital growth by reinvesting excess cashflow in additional operating wind farms. It is the largest trust of its type listed on the London Stock Exchange, with a market capitalisation of £3.4bn.

UKW aims to produce a total NAV return of 10% per annum, an attractive proposition set against many other investment opportunities. The assumptions underpinning the NAV are conservative, and the managers point out that the portfolio has proved robust in the face of downside power price sensitivities, whilst offering upside to power prices, inflation, asset life extension and asset optimisation.

The revenue that operating wind farms receive in the UK is derived from the sale of power produced and green benefits accredited. Power is sold under long term agreements to utilities who are obliged by law to procure a certain percentage of power from green sources. These revenue streams should be capable of withstanding significant downsides in wind volume and power price in any individual year. Due to the direct RPI indexation of the UK Government's strong regulatory support mechanisms for renewable energy, the Company is able to increase the dividend (currently 6.2%) in line with inflation.

The company's portfolio produces 1,652 megawatts of electricity per annum, powering 2.2 million homes and avoiding the emission of 2.2 million tonnes of CO2. In contrast to solar irradiation, the wind is something that the UK has plenty of when compared with other nations. In this context, wind farms are likely to remain a central plank to the UK's energy strategy for years to come.

The Company is managed by Schroders Greencoat LLP, the largest renewables investment manager in the UK and Europe, and are now expanding into North America. The trusts' 1.17% TER is one of the lowest in its sector. The two managers who have responsibility for UKW each have ~25 years of investment experience, mainly in the infrastructure and renewables sector. They are supported by a team of 14 professionals who monitor and manage the turbines directly and run the company. There are currently 29GW of operating UK wind farms (15GW onshore plus 14GW offshore) worth approximately £100bn. UKW's share is just 6% so there is no shortage of investment opportunities for the company which is well capitalised and has a self-funding business model.

Over the past year, the entire renewable energy infrastructure sector has been derated and UKW is now trading at a 15% discount to NAV, where historically the shares have traded on a premium. In our view, a significant contributory factor in this has been rising bond yields, which has attracted investors. Whilst UKW's dividend yield of 6.2% remains attractive relative to long-term bond yields, the real attraction to investors is its double-digit prospective total returns. Along with the potential for this discount to narrow, we rate the shares a strong buy.

Market Commentary

Post of the Month:

"AI stocks such as Nvidia have been hugely influential in propelling tech-heavy indices upwards not just in the US but around the world. Where does that leave the UK stock market with its decidedly old-world industries?"

They say when a butterfly beats its wings, a breeze goes around the world. When Nvidia, the now $2tn company at the heart of the artificial intelligence (AI) revolution, reports its results, the response from investors is felt in markets across the globe. Indices that have a strong technology element such as the Nikkei 225 and the Stoxx Europe 600 (which includes chip equipment maker ASML) get lifted up. Those that don't, don't.

The tech effect is not the only reason the Japanese and European markets have risen, but if a portion of stock market returns are now riding on the continuing success of a single company, what does this mean for markets such as London, and highly valued tech shares for the rest of the year? How should investors proceed in a skewed market?

The gnawing concern with big tech companies is that the extraordinary gains of recent years will slip away as easily as they arrived. But the tech darlings tick a lot of boxes - they have solid track records on profits and they invest heavily in R&D. A lot is riding on future AI productivity gains. But unlike in the dotcom era when valuations were propelled skywards in anticipation of transformed revenues, this time Nvidia and Microsoft are already benefiting from the AI phenomenon. They are delivering the tools and processes that will transform other companies' futures, and the revenues are real, not expected. They are drivers not dreamers.

A different conundrum faces investors in British companies. Apart from a handful of shares such as Rolls-Royce, few UK listed companies can say investors are falling at their feet. As Standard Chartered CEO Bill Winters complained, it seems no matter how good the underlying performance, the focus is always on the downside concerns *"and the share price is crap"*.

Yet for all that Britain is struggling, it is nonetheless ranked third in terms of world investable equity market value, admittedly a long way behind the dominant US, as is second-place-ranked Japan. And large firms everywhere, including the UK, are increasingly outperforming their peers *"despite not being obviously better-placed than the average stock to benefit from the AI revolution"* as investors seek quality and profitability.

British firms across the market cap spectrum have lots going for them, not least of which is compellingly attractive valuations, those all-important 'D' attributes (diversification and dividends) and the fact we are heading into an easing rate cycle. Expected weakness in the sterling/dollar exchange rate too should drive gains in firms with substantial earnings from overseas. In fact, the only missing ingredient may be the badly needed resumption of strong capital inflows into UK equities.

Above all, investors should remember two valuable lessons. First, since 1900, equities have outperformed bonds and inflation in every market for which there is a continuous history, and second, the majority of long-run asset returns are earned during easing cycles. The annualised return on US stocks was 9.4% (3.6% for bonds) during easing cycles, compared with just 3.6% (and -0.3%) during hiking cycles, and data for the UK reveals a very similar pattern.

Market Commentary

Quote of the Month:

"It must be apparent to intelligent investors that if anyone possessed the ability to do so (forecast stock prices) consistently and accurately he/she would become a billionaire so quickly they would not find it necessary to sell their stock market guesses to the general public" - David L. Babson

A major investor pitfall is trying to time markets. Even though we all know that the stock market is always vulnerable to occasional 10%, 20% or even larger drawdowns, historical data clearly shows that there is no evidence that you'll benefit by trying to time a market bottom or top.

Economics:

The UK has slipped into recession just months ahead of a general election. GDP fell 0.3% in the final three months of 2023, following a 0.1% contraction in Q3. The Office for National Statistics estimates that UK GDP increased by a meagre 0.1% in 2023. That's the worst performance since 2009 when the economy was still reeling from the global financial crisis, if 2020, which was affected by the pandemic, is excluded. *"Though the shallowness of this recession provides comfort, these figures also confirm that our economy remained locked in a cycle of persistent stagnation throughout 2023,"* said Suren Thiru, economics director at the Institute of Chartered Accountants in England and Wales. Notwithstanding the mild recession, the UK economy has fared much better than many economists feared a year ago, when several were predicting a considerably sharper downturn. "*It's overly dramatic to label the decline in economic activity in the second half of 2023 a recession, given that employment continued to rise, real wages rebounded and measures of business and consumer confidence returned to levels consistent with rising activity by the end of the year*," said Samuel Tombs, chief UK economist at Pantheon Macroeconomics.

Inflation in the Euro area slowed to 2.6% in February year-on-year, their slowest rate in three months, but they're still hovering above the European Central Bank's (ECB) target inflation rate of 2%. ECB President Christine Lagarde has reiterated that the current disinflationary trend is anticipated to persist. However, she emphasised the necessity for the governing council to maintain confidence that this trajectory will ultimately guide the economy sustainably towards the targeted 2% inflation rate. Market expectations of rate cuts have diminished compared to a month ago. In early February, speculators bet on over 160 basis points of cuts, implying six rate cuts by 25 basis points fully priced by the end of the year. However, this forecast has now shrunk to four cuts.

After more than 20 months of inflation and higher borrowing costs, Federal Reserve officials said they expected the economy to soften this year, allowing the central bank to finally start cutting rates. But those expectations of a Fed pivot keep getting pushed back. While the market initially expected six rate cuts this year, starting in March, that's now off the table. "*I don't think it's likely that the committee will reach a level of confidence by the time of the March meeting to identify March as the time to do that,*" Fed Chair Jerome Powell said of possible cuts at the Fed's January meeting. Now, some economists think the Fed won't cut interest rates at all this year. The economy is not slowing down and some underlying measures of inflation are growing, said Torsten Slok, chief economist at Apollo Global Management.

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.*

March

March is 9th in the ranking of monthly performance, rising 55% of all the years in March, with an average return of 0.2%. The general trend for the market in March is to rise for the first three weeks and then fall back in the final week - the last week of March has historically been one of the weakest weeks for the market in the whole year.

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 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.*

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Investment Calendar:

7th March	ECB Meeting
10th March	New Moon (markets tend to reach a high point around this time)
15th March	Options Expiry Day
19th March	FED Meeting
21st March	BoE Meeting

Technical Analysis:

Last month, we noted that the market was trending and thought that if resistance at 7,560 was broken, the market would push forward to 7,730 which it did do. The stock market is very difficult to call at the moment. The RSI at 60 suggests the market is not overbought and has further to run. But with the FTSE 100 at 7,682, the question is how much further? Not much if the ADX is anything to go by. Lying at just 13%, it is telling us that the market has completely run out of any direction. That is not to say that it cannot push higher but it would probably be limited to 7,760, the upper Bollinger band. That is just 78 points away. On the other side, the lower Bollinger band is lying at 7,525, which is 157 points away. Therefore, there is twice the amount of potential downside. Worth noting.

"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 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:

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).

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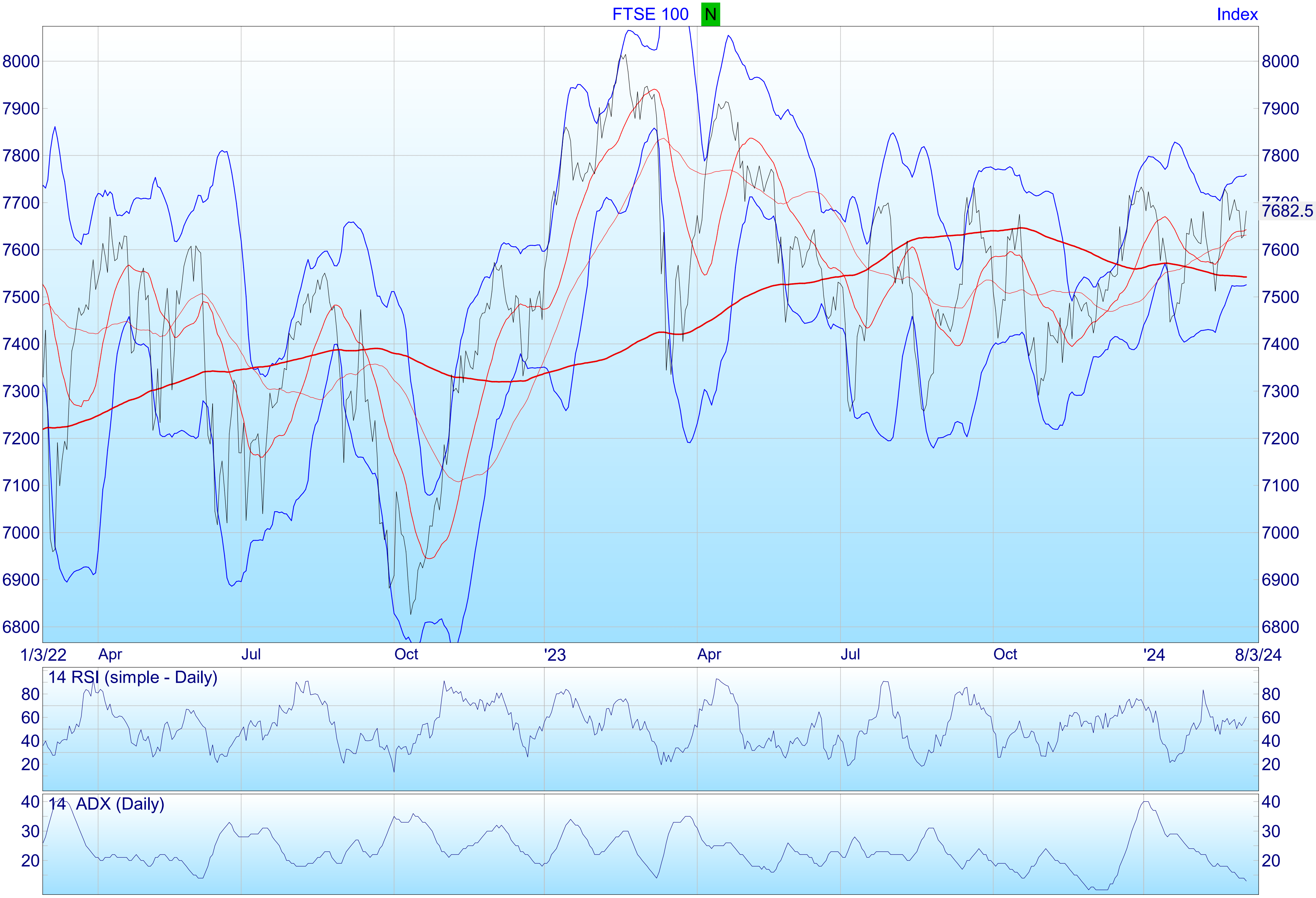
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