Q4 2024 Overview – Countrywide Assured plc Balanced Managed Pension / Life Investing Fund

This report is provided by our Fund Manager Schroders and covers the portfolio activity on our main investing funds the Countrywide Balanced Managed Pension/Life Investing Funds, together with their short-term economic outlook. The report describes the current economic background and Schroders' perspective of this and how it impacts their management of the Countrywide Balanced Managed Pension/Life Investing Fund. It also covers all individual asset class sectors (UK & Global Equities; fixed interest; Property and cash).

Your policy will be invested in a specific customer fund of your choice which has its own fund objectives (see fund list and specific fund objectives) www.countrywideassured.co.uk/fund-centre/understanding-my-funds/fund-objectives/. All customer managed funds are invested in the Countrywide Balanced Managed Pension/Life Investing Funds, to a greater or lesser extent depending on the nature of the fund objective. If you're invested in an individual asset class sector fund, although no specific commentary is provided for these funds, the report does cover individual markets and other asset classes, which is consistent with the fund managers reasoning.

Portfolio Activity

Equities, primarily US equities, were bolstered by Donald Trump's presidential election victory amid hopes that his policies would support growth. However, a pullback occurred in December after the Federal Reserve suggested that persistent inflation could lead to fewer interest rate cuts in 2025 than the markets had anticipated. Within this environment, our equity allocations performed well, while fixed income holdings detracted over the period.

The overweight equity position was maintained throughout the quarter, though regional tilts were adjusted. Initially, this overweight was in US, UK, and Chinese markets. However, we closed positions in UK and Chinese equities in October. UK equities seemed less appealing due to uninspiring Autumn Budget news and no clear growth catalysts, while China's fiscal stimulus announcement disappointed investors.

Given that the equity overweight was concentrated on the S&P 500, we diversified beyond US large caps following the election results. An overweight position in US small caps was added mid-quarter, expecting small and mid-cap companies to benefit from tax cuts and domestic economic stimulus. A tilt towards the US financial sector was also implemented, as the sector could potentially thrive under deregulation and serve as a diversifier if inflation risks further steepen the yield curve. Both sectors were attractively valued compared to the broader US market.

Towards the end of the quarter, we closed the overweight position in US small caps, viewing it as a consensus "Trump" trade. Simultaneously, we reallocated some equity risk to European equities. Valuations in Europe were more attractive, and sentiment towards the region was almost universally negative. With upcoming elections in Germany, which could prompt a shift in fiscal policy, and sustained interest rate cuts from the European Central Bank, we believe there is potential for better market performance in 2025. The underweight position in US 5-year government bonds was maintained to fund the equity overweight.

In fixed income, we added an overweight position in French and Italian 10-year versus German 10-year government bonds in October, aiming to capture the intra-Europe rate convergence theme. The interest rate difference between France and Germany was substantially higher than typical over the long term, while Italian rates had tightened due to positive economic growth and fiscal plans. The position was closed in early December due to the impending collapse of the French government from the no-confidence vote against Prime Minister Michel Barnier.

In currencies, we closed the overweight Japanese yen versus Swiss franc position in early October after the fundamental narrative unfolded as expected, but volatility caused it to reach its stop level. We then established a South African rand versus pound sterling position. trade aimed to capture the positive momentum underlying the South African economy, following the stability shown in its new government and in its monetary policy. In contrast, we believe that the recent outperformance of the pound sterling appears to be a bit extended following the UK election, and we see no clear catalyst to help the currency progress further from here.

The Australian dollar versus euro position was rotated into a US dollar versus euro position mid-quarter. With the US presidential elections behind us, the risk of higher inflation has increased, especially if the new administration implements aggressive trade policies quickly. While the US faces these potential inflationary pressures, other regions, particularly Europe, may experience deflationary trends due to tariffs. We therefore expected the economic divergence to lead to varying monetary policies between the Federal Reserve and the European Central Bank. This position was closed at the end of the quarter in order to book profits.

Outlook

As we enter 2025, we expect a soft landing for the global economy but are shifting focus to divergences across economies, central banks, and market performance. US exceptionalism has been driving global markets recently and we anticipate the "Trump trade" will further this trend. However, the new administration introduces greater uncertainty, suggesting markets may be in for a bumpy ride. Against this backdrop, we expect positive returns from equities in 2025, with market performance broadening out from recent winners. We like gold, the US dollar and selected bond positions as portfolio hedges.

The global economy is projected to grow between 2.5% and 3% over the next few years. This relative stability hides significant shifts at the country level, with US growth expected to balance weaker growth elsewhere. In the US, we believe Trump's pro-growth policies, along with relatively mild supply-side measures, will boost growth. Faster growth is likely to ensure that inflation remains higher than we previously assumed. The Labour government's mildly expansionary budget should give some boost to the UK economy, but with inflation unlikely to return to target on a sustained basis, interest rates are likely to fall only gradually. The eurozone economy is expected to register some improvement this year, but it will be tough going as there is no end in sight to the dra from the structural decline of European manufacturing. We have cut our growth forecast for China to 4% this yea and with inflation expected to hover around 0%, we continue to believe further fiscal stimulus is required to escape the current deflationary slump.

Turning to equities in more detail, the S&P 500 is looking expensive but valuations away from the mega caps and outside of the US appear more reasonable. Equity investors have grown used to a small number of large companies powering the stock market's gains; however, this pattern is already changing. We think there is potential for markets to broaden out further in the US, particularly given Trump's focus on deregulation and corporate tax cuts. Valuations in Europe are more attractive and sentiment is almost universally negative toward the region. With elections in Germany (which could prompt a shift in fiscal policy) and rate cuts from the ECB, we believe there is potential for the market to do better in 2025. In EM, valuations excluding India and Taiwan are broadly cheap. Much of the uncertainty is priced in and market stress may provide opportunities to add to exposures in the coming months.

Divergent fiscal and monetary policies around the world will provide cross-market opportunities in fixed income and currency. We have a neutral view on government bonds overall as improved valuations and attractive incom are offset to a degree by the risks posed by expansionary fiscal policies and renewed inflationary fears. In corporate credit, strong fundamentals support the level of yield on offer, however, spreads (additional yield over government bonds) are tight, meaning many credit markets look expensive. On this basis, we prefer European high yield where valuations are more attractive. We remain positive on the US dollar which should benefit from US exceptionalism, further divergence in monetary policy, and equity inflows to the US, while proving a hedge against a more protectionist environment.

While the economic backdrop generally looks favourable for returns, we can't gloss over the fact that there are many risks to markets. We are facing disruption on unprecedented scale and it's taking various forms. We've already mentioned the potential disruption from tariffs and trade wars. There are also the ongoing conflicts in the Middle East and Ukraine where the risks of political miscalculations can't be ignored. The transmission mechanism of geopolitical events to markets is typically through commodities. As an asset class, commodities have been out of favour due to global growth worries, but they have an important role to play in offering diversification and creating resilient portfolios. Energy is one way to play this, while gold is still the ultimate safe haven asset.

Overall, we think conditions are favourable for good returns to be made in 2025, but there will be challenges to navigate. A diversified approach, looking across regions and asset classes, can contribute to making portfolios more resilient, no matter what the year ahead brings.

Important Information

This communication is marketing material. This information is not an offer, solicitation or recommendation to buy or sell any financial instrument or to adopt any investment strategy. Information herein is believed to be reliable but we do not warrant its completeness or accuracy.

Any data has been sourced by us and is provided without any warranties of any kind. It should be independently verified before further publication or use. Third party data is owned or licenced by the data provider and may not be reproduced, extracted or used for any other purpose without the data provider's consent. Neither we, nor the data provider, will have any liability in connection with the third-party data.

The material is not intended to provide, and should not be relied on for accounting, legal or tax advice. Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions. No responsibility can be accepted for error of fact or opinion. Any references to securities, sectors, regions and/or countries are for illustrative purposes only.

Schroders has expressed its own views and opinions in this document and these may change.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance is not a guide to future performance and may not be repeated. Exchange rate changes may cause the value of any investments to rise or fall.

The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

This information/document is produced and complied for use by Countrywide. Any onwards distribution in part or full will be the responsibility of Countrywide as the issuer of the material and should be appropriately disclosed as such. If information is distributed onward, you will ensure that the Information is suitable for the intended audience and that it does not breach any applicable laws and regulations in the relevant jurisdiction(s).

This document is issued in January 2025 by Schroder Investment Management Limited, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220. Authorised and regulated by the Financial Conduct Authority.