Q2 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

Throughout the second quarter, our economic forecast maintained a benign growth outlook, supported by a resilient labour market in the US and a global manufacturing recovery. However, this view was reflected in market performance, with interest rate expectations being more realistic and higher equity prices. We maintained a positive view on equities as corporate earnings are expected to be supported by this economic backdrop. We remained neutral on government bonds but adjusted the composition of our holdings.

At a tactical level, the fund maintained an overweight equity position over the period, broadening its exposure to include UK equities in addition to US, European and Japanese equities. This approach aimed to capture growth opportunities across multiple regions as earnings expectations trend upwards, while valuations were also cheap relative to history. The overweight equities position was funded by an underweight stance in global corporate bonds, as prices remained expensive. Towards the end of the quarter, the overweight in Japanese and European equities was rotated into US and UK equities. On the European side, this decision was driven by President Macron calling a snap election in France after the National Rally won the majority of seats in the European Parliament. With increased volatility of European assets and political risk, we decided to close this position. The decision to rotate the overweight out of Japanese equities was motivated by yen depreciation reaching extreme levels, uncertainty over the timing of the Bank of Japan's next move, and weaker consumer confidence.

Turning to fixed income, we became concerned that good news on the US economy may spell bad news for markets as rate cuts would get delayed. The overweight US 10-year versus US 30-year government bonds position was therefore closed in April. Earlier this year we had added an overweight UK 10-year versus US 10-year government bond position, as gilts appeared to have been unduly affected by the sell-off in US Treasuries. However, due to the surprise announcement of the UK election being brought forward to 4th July, this position was closed due to the risk of heightened volatility in the short term. In June, an overweight position in US 10-year government bonds was established in order to hedge the duration aspect of the underweight position in global corporate bonds, while still maintaining exposure to the credit spread component. The overweight position in US treasury inflation-protected securities was maintained to offer some protection against sticky inflation.

In currencies, the overweight basket of emerging market currencies (Malaysian Ringgit, Indonesian Rupiah, Brazilian Real and Chilean Peso) was closed in order to book profits. Having added an overweight US dollar versus Singaporean dollar, euro and sterling position last quarter to hedge our overweight equities position, we

closed the trade mid-quarter. We were concerned that we had over-hedged the fund as our view was very much reflected in market performance. Interest rate expectations had become more realistic compared to the previous quarter where investors had priced in too many cuts too soon.

Outlook

Our baseline forecast remains a soft landing for the global economy, where solid global growth, little sign of an imminent recession in the US and steady disinflation sets a generally positive outlook for financial markets. A number of major central banks have started cutting rates and we expect the Bank of England to start cutting soon, while the US Federal Reserve will likely wait until the Autumn. This backdrop supports our ongoing positive view on equities while we have moved to a more neutral view on government bonds. Our challenge is that our view is increasingly reflected in market performance with rate expectations now more realistic, while market performance has again started to narrow led by US megacap names. However, valuations in the technology sector continue to be supported by strong revenue momentum and positive operating leverage. Geopolitical risk remains elevated with the political consensus being challenged around the globe. This is a known unknown, where the best defence is diversification.

Minor revisions have moved our global economic forecast in a reflationary direction since our previous report. W now expect the global economy to grow by 2.8% this year and next, with most major economies on track to beat expectations during the next eighteen months. However, the trade off from stronger growth is that inflation has also been a bit stickier than we had previously assumed. The US is set to remain the key driver of global growth i 2024, while in turn buoyant US consumption should offer continued support to the recovery in global manufacturing. Our long-held view that an upturn in the global goods cycle would be a positive surprise for markets has now become mainstream. Leading indicators are pointing firmly upwards, which is good news for export-orientated economies, particularly in the emerging markets.

Upward revisions to inflation forecasts for this year mean that completing the final mile of disinflation against a solid growth backdrop will remain the key concern for central banks. Past recessions and falling inflation mean that we expect the European Central Bank and Bank of England to start cutting interest rates during the summer supporting above consensus growth in 2025. However, we still think that less synchronised global growth will ensure that the Federal Reserve will be the last major central bank to lower rates.

We couldn't let this report pass without mentioning geopolitical risk and elections. We have stated before that politics matter but they tend to play over months and years rather than days. In many cases, the results have indicated frustration with the incumbents - think about South Africa, India, France and, of course the UK. This is consistent with an environment where the political consensus is being challenged. Of course, the most importan election is still ahead of us with the US heading to the voting booths in November. Protectionism is likely to remain a feature of US policy whoever wins. Immigration policy could be important in the context of wage growth, particularly because labour markets are still buoyant. The possibility of a Republican clean sweep (winning both houses of Congress as well as the presidency) does raise concerns about more expansionary fisca policy which could point to higher yields at the longer end of the yield curve as investors worry about the sustainability of the fiscal deficit. This is one of the reasons why we do not view government bonds as offering th same diversification benefits that they used to. However, interest rate cuts should underpin yield curves and there is still a significant role for fixed income as a source of yield in portfolios.

Overall, we are keeping things simple, while ensuring the fund is diversified given the degree of political uncertainty. A benign environment for growth is supportive of equities. Inverted yield curves, where shorter-terr interest rates are higher than longer-term rates, mean that in bonds, it still pays to wait for better prices or more tangible signs of recession risk.

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