# Q1 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

Over the period, we have seen a resilience in US economic data as the labour market has remained buoyant. This led to a repricing of interest rate expectations in the US bond market, which now aligns more closely with our view of a soft landing (a soft-landing refers to a scenario where economic growth slows but a recession is avoided). Portfolio activity focussed on positioning for this soft landing as we increased the portfolio's exposure to equities and adjusted the composition of the government bonds allocation.

At a tactical level, going into the quarter, we were neutral on equities given how far equity markets had moved. As the quarter progressed, economic growth continued to surprise on the upside, while inflation remained under control. This led to the belief that equity prices could rise further and so we upgraded our view to positive in February. This was expressed through overweight positions in the US, Eurozone and Japan at the expense of global corporate bonds where we see little additional value relative to cash.

Turning to fixed income, we adjusted the composition of the government bonds exposure over the quarter. An overweight US 10-year versus US 30-year government bonds position was added to the portfolio at the start of the period so as to benefit from lower interest rates. We also implemented an overweight position in US treasury inflation-protected securities as a hedge against the risk of inflation being stickier than expected. In March, an overweight UK 10-year versus US 10-year position was added to the portfolio. With rate cuts now less aggressively priced in the UK compared to the start of the quarter, we expect monetary policy divergence to occur this year between the UK and the US.

In currencies, the overweight basket of emerging market (EM) currencies (Malaysian Ringgit, Indonesian Rupiah, Brazilian Real and Chilean Peso) versus the euro and US dollar was maintained as we expect EM currencies to benefit from stable inflation and healthy fiscal balances. The portfolio's exposure to the US dollar was increased over the period as a hedge against the risk that the Federal Reserve is less proactive than market expectations. The overweight US dollar position was held against an underweight position in the Singaporean dollar, euro and sterling.

## Outlook

In our previous report, we set out our 'soft-landing' baseline scenario, under which the global economy trundles along at fairly sluggish rates of growth and inflation continues to cool. This remains broadly our view but economic data has improved leading us to upgrade our growth forecast and edge closer to a 'no landing' scenario. With better growth and a window where inflation should continue to move in the right direction, we continue to favour equities. As the year progresses, however, inflation could start to be problematic again as flattering year on year effects dissipate. Against this more reflationary backdrop, we have downgraded our view on fixed income assets.

The term 'immaculate disinflation' was coined by economists last year to describe an unlikely risk scenario where inflation moderates while economic activity continues to grow, and unemployment remains low. This scenario now appears to be playing out. The outlook for the world economy is looking brighter and we have revised our global GDP forecast upwards from 2.2% to 2.6% for 2024. This upgrade is led by the US where the economy has proven to be far more resilient than expected, all whilst inflation has continued to moderate. Job creation is easing but is set to remain healthy, supporting consumer spending which is also benefitting from improving real income growth. The eurozone has managed to avoid a technical recession, but manufacturing-heavy countries such as Germany are struggling. Growth here has been revised marginally higher, mostly on the back of a better external outlook, although domestic demand is also expected to recover through 2024. Stronger growth in developed markets, in particular the US, is likely to have some positive spill over to EM and we have nudged up our projections for activity there.

While the economic backdrop is supportive of equites, the challenge currently facing markets is that the very concentrated performance has left things looking lopsided. Stock markets have risen to new highs and some of the largest growth companies, such as Nvidia, have again powered equity markets. However, a look at valuations under the surface shows that, globally, equity valuations are still attractive. Other markets are trading at a significant discount to the US. While by no means cheap as a group, even the magnificent seven have delivered corporate earnings to support their valuations, so we are still a long way from bubble territory.

A global manufacturing recovery is supportive of stocks in Europe, Asia, and emerging markets. There is also a window where falling inflation justifies rate cuts in the US and Europe, which is helpful to valuations and many emerging economies have already started to loosen monetary policy. Furthermore, we have liked Japan for some time due to its stimulative monetary policy and an ongoing cultural shift toward improved capital allocation and shareholder returns. All in all, we are positioning for a broadening of equity market performance by extending our exposure from the US to the rest of the world. The environment may become more challenging as the year progresses if central banks fail to meet their inflation targets, but for now, we remain positive on equities.

Turning to bonds, ongoing resilience in US data has led to a repricing of rate expectations in the US bond market which now more closely aligns with our view of a soft landing. Although yields have risen, given the reflationary risks and to balance risk in the portfolio we have downgraded government bonds to negative. In currencies, we favour the US dollar as a positive carry hedge to balance risk in the portfolio. We also have a positive view on emerging market currencies where we see inflation under control and healthy fiscal balances.

In summary, we are still positioned for improving global growth and a window where inflation continues to moderate. The key question in the next few months is at what point does good news on the economy spell bad news for markets. If better growth does lead to higher inflation, then resultant higher interest rates present a risk to valuations of cyclical assets. We are holding short bond positions as a hedge against this risk. For now though, the manufacturing recovery supports a pro cyclical tilt to the portfolio.

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