

January 2024

## Tactical Asset Allocation

Asset Classes	(--) Double underweight	(-) Underweight	(=) Neutral	(+) Overweight	(++) Double overweight
Managed Liquidity	●	●	●	●	●
Global Government Bonds	●	●	●	●	●
Global Index Linked Government Bonds	●	●	●	●	●
UK Corporate Bonds	●	●	●	●	●
Global Strategic Bonds	●	●	●	●	●
Diversified Alternatives	●	●	●	●	●
UK Equity	●	●	●	●	●
US Equity	●	●	●	●	●
Europe ex UK Equity	●	●	●	●	●
Japan Equity	●	●	●	●	●
Asia Pacific ex Japan Equity	●	●	●	●	●
Emerging Markets	●	●	●	●	●

### Overview

The final quarter of the year provided a boost for both bonds and equities. Investors saw meaningful returns from both defensive and growth asset classes - close to double digits in some cases. Much of this was predicated on a belief that numerous interest rate cuts will occur through 2024. This feels like a big assumption to us - there are various ways in which the year could play out.



# Tactical Asset Allocation Changes: A view from the Committee

**Jasper Thornton-Boelman**

Investment Director

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## Commentary

With such a degree of uncertainty, this doesn't feel like the environment for making big bets. The risk of recession in the US seems to be reduced, with economic data slowing but not at a rate to cause obvious alarm. The big unknown is still the impact of the intense interest rate hiking cycle we've been through. That will only be apparent once it's too late.

A defensive tilt to portfolios is still warranted in our view. However, in recognition of the greater probability the Fed can manoeuvre a "soft landing" and avoid a material recession – as well as the compression in bond yields through Q4 – we've slightly reduced our Government Bond exposure. Whilst still an overweight position, the weight of the asset class has been brought closer to its strategic allocation.

The proceeds have been shared between UK Equity and our basket of uncorrelated strategy funds. The former reduces our underweight to Developed Market Equity, but our preference is still towards Emerging Markets. However, within Emerging Markets we have lowered our exposure to the China A Share market a little, in response to continued negative sentiment towards the region. It remains a key position for us, trading at an incredibly attractive valuation, but it felt prudent to temper the allocation a little.

## Parmenion

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