Parmenion
Investment Management

DT Active

Quarterly Update, Q2 2024

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The big picture: Macro and Markets

In a nutshell

- **Risk assets continue to lead the way**

  Equities continue to outperform fixed interest and Emerging Markets maintain momentum.

- **Politics takes centre stage**

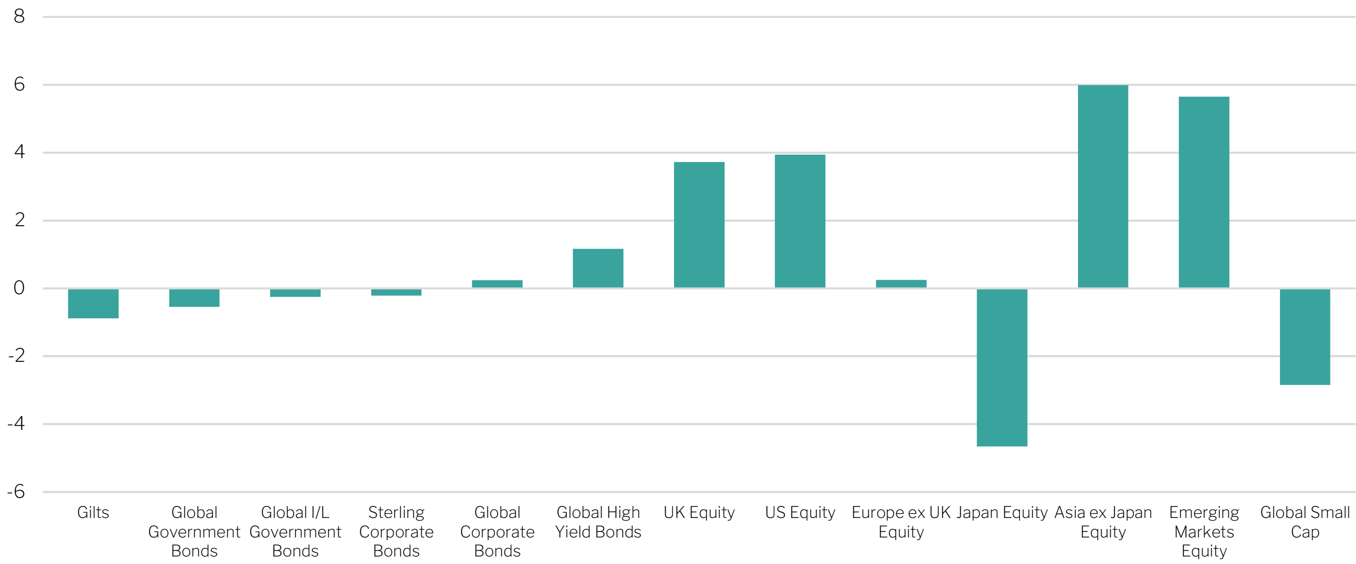
  Voters are rallying, with elections taking place across the world.

- **Inflation continues its downward path**

  The UK finally reached its 2% target but we're still waiting for rate cuts.

What's been happening in Q2?

Asset class returns (Q2 2024)



Asia and Emerging Markets led the way in Q2, continuing their strong performance this year, while Fixed Interest returns were broadly flat with risk assets still providing the lion's share of returns.

Politics continues to dominate headlines, with campaigning and voting happening across the world. The US, UK, France, India, Mexico and South Africa have all had elections recently or are on the campaign trail. This means uncertainty for a large proportion of global markets. Though this hasn't materialised into any notable losses or volatility yet.

President Biden and Donald Trump had the first of their two presidential debates. Biden's performance was unanimously panned, though neither candidate shone. The lack of coherence from Biden has left many in his party wondering if it's not too late to put someone else forward. This combined with Trump being the first criminally convicted former president, makes all this somewhat of a circus.

Macron surprised everyone by calling an election after a poor showing in EU Parliamentary voting. A strong initial showing from the Rassemblement National (RN) party was surprisingly reversed in the second round of voting, following a left-wing coalition. A hung parliament now awaits.

AI mania continues to push Nvidia (and US equity indices) even higher, briefly overtaking Apple and Microsoft to become the world's most valuable company. Index concentration is extremely high which raises questions about diversification. How long the momentum can last is anyone's guess, but active fund managers will tell you it's a painful bet to be on the wrong side of.

Inflation continued to fall over the quarter. The UK hit its 2% target, although wage and services inflation remain elevated. This led the Bank of England to hold interest rates until at least August. The Fed is cautious not to cut rates too quickly - a recession is less concerning than the embarrassment of having to reverse course. The ECB has been on the front foot, taking their deposit rate down from 4% to 3.75%.

China announced support measures to revive the property sector and boost confidence amongst consumers. To hit its GDP growth targets, China needs its population to be spending not saving.

What does that mean for performance?

Cumulative Performance (%)

This table outlines the cumulative investment performance of this solution across various risk grades, versus their IA benchmark.

	Q2	YTD	1 Year	3 Year	5 Year
Risk Grade 1	1.30	2.63	5.47	8.91	9.69
IA Standard Money Market	**1.29**	**2.60**	**5.44**	**8.81**	**9.61**
Risk Grade 2	0.52	1.39	6.54	1.43	7.01
Risk Grade 3	-0.04	1.52	8.39	-0.56	9.21
IA Mixed Investment 0-35% Shares	**0.63**	**2.14**	**7.59**	**-2.46**	**5.57**
Risk Grade 4	0.19	2.84	9.98	3.39	17.49
Risk Grade 5	0.55	4.24	11.42	8.47	27.51
IA Mixed Investment 20-60% Shares	**1.14**	**3.65**	**9.38**	**2.83**	**15.20**
Risk Grade 6	1.21	5.37	12.15	9.74	31.67
Risk Grade 7	1.49	6.13	12.53	10.86	34.83
IA Mixed Investment 40-85% Shares	**1.67**	**5.91**	**11.82**	**7.19**	**25.58**
Risk Grade 8	2.58	6.32	11.18	2.55	28.86
Risk Grade 9	3.36	7.05	11.02	-1.15	26.87
Risk Grade 10	3.93	7.00	10.20	-7.27	22.41
IA Flexible Investment	**1.71**	**6.27**	**11.78**	**7.27**	**28.57**

Discrete Annual Performance (%)

This table outlines the discrete annual performance of this across various risk grades, versus their IA benchmark.

	2023	2022	2021	2020	2019
Risk Grade 1	4.75	1.31	0.02	0.32	0.76
IA Standard Money Market	**4.74**	**1.28**	**-0.05**	**0.43**	**0.73**
Risk Grade 2	6.24	-7.36	2.67	2.77	6.33
Risk Grade 3	7.93	-11.85	5.20	4.65	10.17
IA Mixed Investment 0-35% Shares	**5.97**	**-10.87**	**2.84**	**3.90**	**8.70**
Risk Grade 4	8.59	-10.84	8.23	5.69	12.68
Risk Grade 5	9.37	-8.73	10.79	6.51	15.08
IA Mixed Investment 20-60% Shares	**6.81**	**-9.47**	**7.20**	**3.51**	**11.84**
Risk Grade 6	8.87	-7.70	11.49	6.94	16.76
Risk Grade 7	8.61	-7.26	12.97	6.68	18.61
IA Mixed Investment 40-85% Shares	**8.08**	**-10.04**	**10.94**	**5.32**	**15.78**
Risk Grade 8	5.50	-9.23	8.74	11.88	18.90
Risk Grade 9	4.16	-10.29	6.53	14.60	19.53
Risk Grade 10	3.04	-12.60	3.30	19.01	19.80
IA Flexible Investment	**7.08**	**-8.98**	**11.30**	**6.70**	**15.66**

What worked and what didn't?

Despite marginally negative returns from gilts and UK corporate bonds, high managed liquidity rates, and positive UK and US equities meant all risk grades except risk grade 3 (-0.04%) delivered positive returns over the quarter.

Alignment of returns through the risk grades remains sequential up to risk grade 7 over longer periods however, it begins to fall through the higher risk grades. As you can see in the asset allocation table on page 6, the allocation to Asia and emerging markets has increased significantly, acting as a drag. Over the last quarter where Asia and emerging markets have outperformed the returns are all sequential, as expected. Returns are also positive over nearly every period and risk grade except risk grade 3, 9 and 10 over 3 years. This is after a difficult couple of years for lower risk investors, due to the rate hiking cycle of 2022 and 2023 which led to negative returns from bonds.

Most models continue to outperform their respective IA benchmarks' overall cumulative time periods. Higher risk grades have fallen behind longer term due to the reliance on Asia and Emerging Markets.

Asset classes

Equity returns were mixed over the quarter. UK, Asia Pacific ex Japan and emerging markets continued to perform well. Emerging market returns were driven mainly by the biggest countries within the index, China, Taiwan, and India with South Africa also performing well.

US equities were once again one of the top performers. The return profile of the US index remains unchanged from previous quarters with small and mid-caps struggling. However, the large cap and tech-focused part of the market continues its upward trajectory. This is leading to significant concentration at the top of the US index. Global indices are also becoming very dependent on the US equity market.

Bond yields were range bound over the quarter with the UK 10 gilt yield moving within a 40bp range between 4.00 and 4.40%. The 10-year yield ultimately ended the month slightly above where it started leading to marginally negative returns despite still high absolute yields.

A similar story played out across other sub-indices within the portfolio's overall bond allocation.

Japanese equities were the worst performing asset class over the quarter. This is possibly a short-term correction after a period of outperformance from the region following positive corporate governance reforms playing through to equity returns.

Manager selection

Lightman European performed very well versus the wider European index. The fund has a strong value bias and value as a style outperformed over the quarter. The fund performed exactly as we'd hope in that environment, not only keeping up with the more value focused benchmark but outperforming it.

Given the concentration of the US index and how narrow the returns drivers have become we were pleased to see that Amundi Pioneer US Fundamental Growth kept up with the index. This fund is our highest growth active manager. However it is also very disciplined in terms of valuation so does not own all the top weighted tech names.

Despite a flat quarter for fixed income sub asset classes, our UK and global credit managers performed well. Though we didn't see significant outperformance.

Premier Miton US Opportunities pulled down our US asset class against the benchmark. The fund's positioning is significantly different from the index, with no allocation to large cap tech names and more exposure to cyclical stocks. This fund offers good diversification compared to the now very concentrated index, resulting in different performance patterns. This quarter, this difference was not in our favour. However, we expect the fund to offer good relative returns if/when returns within the index become more widespread.

Fund changes

Sell	Buy
Jupiter UK Special Situations **Lindsell Train UK Equity**	**Invesco UK Opportunities** **Evenlode Income**

The changes to our UK Equity asset class were initiated by Ben Whitmore deciding to leave Jupiter later this year to set up a new fund house. His UK Special Situations fund provided the 'value' component of our UK asset class, and so we've selected a fund with this style factor, Invesco UK Opportunities, as a replacement.

The fund offers consistent large cap value but to a lesser degree than Jupiter. As such, we looked to rework the overall fund weights within the asset class to ensure a balanced overall blend. Furthermore, we've condensed the number of funds from 6 to 5. Alongside Jupiter, Lindsell Train UK Equity is being removed. In conjunction with this we have added to Evenlode Income. In Evenlode we have a very similar return profile to Lindsell Train but a fund where there is collectively more conviction in.

Asset allocation (%)

Risk Grade	1	2	3	4	5	6	7	8	9	10
Managed Liquidity	100	50	18	10	7	4	0	0	0	0
Government Bonds	0	10	10	5	3	0	0	0	0	0
Index Linked Government Bonds	0	4	8	8	4	0	0	0	0	0
UK Corporate Bonds	0	7	15	15	8	8	0	0	0	0
Global Strategic Bonds	0	14	20	14	10	7	0	0	0	0
High Yield Bonds	0	0	0	0	0	0	5	5	0	0
Property	0	5	5	5	5	5	5	5	0	0
UK Equity	0	7	9	12	21	22	31	14	10	0
US Equity	0	3	10	15	22	22	25	12	8	8
Europe ex UK Equity	0	0	0	6	6	6	6	6	6	0
Japan Equity	0	0	5	6	6	6	6	6	6	0
Asia Pacific ex Japan Equity	0	0	0	4	4	10	11	24	26	26
Emerging Markets	0	0	0	0	4	10	11	28	44	66

OCF & Yield

Risk Grade	1	2	3	4	5	6	7	8	9	10
OCF (%)	0.10	0.34	0.51	0.60	0.68	0.75	0.80	0.85	0.88	0.91
Yield (%)	5.44	4.27	3.39	2.85	2.43	2.21	2.01	1.96	1.77	1.47

A view on risk

	Volatility (%)			Max Drawdown (%)		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Risk Grade 1	0.08	0.64	0.61	0.00	-0.02	-0.02
IA Standard Money Market	**0.08**	**0.66**	**0.62**	**0.00**	**-0.08**	**-0.10**
Risk Grade 2	4.04	4.54	4.20	-0.90	-8.79	-8.79
Risk Grade 3	6.25	7.34	6.96	-1.97	-14.13	-14.13
IA Mixed Investment 0-35% Shares	**5.49**	**6.09**	**6.47**	**-2.37**	**-13.28**	**-13.28**
Risk Grade 4	6.99	8.06	8.22	-2.81	-13.72	-13.72
Risk Grade 5	7.36	8.27	9.29	-3.35	-11.86	-12.40
IA Mixed Investment 20-60% Shares	**6.23**	**6.89**	**8.36**	**-3.30**	**-12.14**	**-12.89**
Risk Grade 6	7.70	8.42	10.13	-3.98	-10.88	-15.05
Risk Grade 7	8.28	9.07	11.21	-4.79	-11.02	-17.47
IA Mixed Investment 40-85% Shares	**7.28**	**8.19**	**10.12**	**-4.39**	**-12.54**	**-15.41**
Risk Grade 8	8.89	9.52	11.49	-5.50	-13.97	-17.58
Risk Grade 9	9.46	10.34	12.31	-5.90	-16.97	-18.48
Risk Grade 10	10.44	11.36	13.27	-6.17	-21.35	-21.35
IA Flexible Investment	**6.98**	**7.81**	**9.97**	**-4.31**	**-11.20**	**-15.53**

What’s the outlook?

As we move through the year, politics looks set to keep the limelight. The run up to the US Presidential election in November is sure to create some headlines, with potential ramifications for international trade and relations top of the agenda for markets.

The narrative for the US economy is more and more that a ‘soft landing’ is most likely, with markets priced as though it’s a certainty.

We do see downside risk, like widening credit spreads or equities correcting. However, we still expect a shallow recession, with risk assets (particularly small cap) outperforming in the medium term.

Given the strong starting yields, we expect fixed interest to produce good, absolute performance regardless of how quickly interest rates might fall. We should also see the Bank of England cut rates next quarter, as long as inflation data is stable.

Finally, after years of post-Brexit uncertainty and all the changes at No.10, Kier Starmer’s sizeable majority might actually mean the UK is a relative stable political option. The idea of a Prime Minister staying in power for a full term could provide a catalyst to the UK market. Given the extent of recent underperformance (even with the FTSE 100 reaching a new high), any boost to sentiment would be welcome. UK valuations remain cheap, emphasised by the level of interest in private equity – just look at Hargreaves Lansdown.

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- All data sourced from FE fundinfo.

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