Canaccord Genuity Wealth Management

Model portfolio briefing note

November 2024

(written 12 November 2024)

Portfolio asset allocation

	Risk profile 3	Risk profile 4	Risk profile 5	Risk profile 6	Risk profile 7
Debt and fixed interest	**59.56**	**47.04**	**32.08**	**17.01**	**0.00**
Emerging Markets	3.01	3.00	2.03	0.00	0.00
International	10.95	11.93	8.89	4.37	0.00
Government	21.99	13.50	8.48	4.00	0.00
Corporate	23.61	18.61	12.68	8.64	0.00
Equities	**20.44**	**40.54**	**60.49**	**80.58**	**97.73**
Emerging Markets	0.98	1.93	1.91	2.60	2.83
Far East	1.01	2.03	2.22	3.89	4.85
Japan	1.02	1.10	1.92	2.50	3.04
North America	3.17	7.68	11.20	16.24	20.18
Thematic	2.32	4.18	7.01	8.46	8.73
United Kingdom	6.30	12.29	19.01	25.53	31.41
International	5.65	11.34	17.21	21.36	26.68
Alternative investments	**14.91**	**10.13**	**5.00**	**0.00**	**0.00**
UCITS funds	12.96	8.19	2.99	0.00	0.00
Commodities	1.95	1.93	2.01	0.00	0.00
Cash	**5.08**	**2.30**	**2.43**	**2.41**	**2.27**

As at 31 October 2024

Core inputs to our asset allocation framework

The economy

Global economic growth remains steady but unremarkable. Economic activity has slowed from the strong recovery enjoyed as we first emerged from COVID-19 lockdowns, yet there are still no signs of a recession. The US economy is growing, even if activity is unbalanced, with some sectors strong and some industries lagging. China appears to have avoided worst-case growth scenarios, as the government has begun stimulating its economy.

Europe is divided between core nations, which are struggling - Germany remains in a recession, for example - and peripheral countries, which are enjoying relatively rapid rates of growth. The UK's short-term outlook is slightly better following the recent government Budget, due to various incentives. However, the medium-term forecast is less favourable due to the restrictive impact of tax policy changes. Overall, our base case remains intact: respectable, rather than rampant global growth.

Inflation

Inflation rates continue to cool, which is good news for investors, but it's obvious that the initial, easier progress in reducing inflationary pressures has been made, and further declines will be challenging. Our forecasts also consider China's economic stimulus, the UK's inefficient Budget, and the possibility of looser fiscal policy under the incoming Donald Trump administration. Medium-term uncertainty remains a factor, as we've always anticipated and incorporated into our asset allocations.

Interest rates

Central banks, including the UK and the US, have recently continued to lower interest rates, with guidance at recent meetings suggesting further cuts are on the horizon. Market forecasts suggest roughly three or four further cuts in both countries over the next 12 months.

While these projections depend on many different factors - including how economic activity unfolds under President-elect Trump, they seem realistic. Medium-term expectations also suggest that UK and US interest rates may settle at around 3.5%.

Corporate earnings

We have made significant progress through the latest round of corporate results, which help tell us how companies performed in Q3 2024. The results have been reassuring, with companies globally meeting expectations on solid earnings and revenue growth through the summer. While results were mixed - as always - nothing was particularly surprising. Expectations for growth in the year ahead remain very high, which may have become more realistic with the election of former President Trump for a second term, but a lot can change.

Valuation and positioning

We continue to navigate an investment environment characterised by extremes. US equities have become more expensive and market optimism has reached record highs, with investors more confident than ever the US stock market will rise over the next twelve months. However, after such strong performance, the likelihood of a period of consolidation or a correction have increased. Meanwhile, Asian equities have performed well, though starting from a low position, thanks to improvements in the Chinese economy and the aforementioned government stimulus. The valuation gap between the US and the rest of the world is noticeable and wider than ever, though this discrepancy is easier to explain in the current context.

Key subject of the month: 'Should we expect a Merry Christmas and a Happy New Year?'

- As we begin the final stretch of 2024, we can reflect on 10 months of positive performance so far this year
- Both equities and fixed interest investments have delivered solid returns, as we hoped and predicted, supporting the continued recovery of portfolios from the challenging market conditions of 2022
- The question now is whether this positive trend can continue or if a more challenging period for markets is ahead: will the year end on a high?
- The honest answer is we don't know and that short-term market predictions are very difficult; we think it is better to think about the medium-term, so rather than a Merry Christmas, we ask: will it be a Happy New Year for investors?
- Our base case for 2025 is that both equities and fixed interest will continue to deliver positive returns, but we expect volatility to remain elevated, and market returns could look different from this year
- Our early forecasts suggest economic growth will persist in 2025, with the US benefiting from President-elect Trump's policies, China improving, and the UK seeing short-term boosts from government giveaways; Europe's economic outlook should remain stable
- Inflation should continue to moderate with interest rate cuts likely to boost investor sentiment, though longer-term projections remain uncertain
- Macroeconomic fundamentals should support corporate profit growth and limit the risk of defaults
- Geopolitical issues will likely continue to cause volatility, as they have this year, regardless of who sits in the White House; however, we don't expect anything severe enough to destabilise markets
- Political risks will ease as most global elections are out of the way
- The biggest risk is complacency, as we continue navigating a turbulent decade, but our investment strategies account for this uncertainty
- Overall, we believe next year will be a satisfactory one for investors.

Key asset allocation positioning

- We are still neutral in all asset classes at a 'headline level', reflecting our view that most asset classes are offering a fair balance between risk and reward
- This view has now been consistent in 2024 so far and we believe it's appropriate as we head towards 2025, but we still remain open-minded about an unpredictable 2025
- We maintain a moderate underweight stance towards the US, large-cap tech, and growth themes, though we've slightly adjusted this; we still see value opportunities in Asia, Europe, and the UK, without an extreme positional bias
- Our equity allocation is neutral, with a focus on high-quality companies that are better positioned to perform in a slower economic environment
- Sectors like healthcare, utilities, and consumer staples are performing better as investors adjust for slower economic growth and interest rate cuts
- We remain underweight UK gilts and interest rate duration but expect to increase sensitivity; we're comfortable taking corporate credit risk, avoiding complacent areas, and seeking fair compensation through yields and we've moved up in quality within fixed interest, anticipating more challenging conditions ahead
- Alternatives can still add value in volatile markets, though we now find better opportunities in fixed interest and equities
- Our core strategy remains balanced, diversified, and flexible.

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