gemini asset management

marketmatters

Market Summary

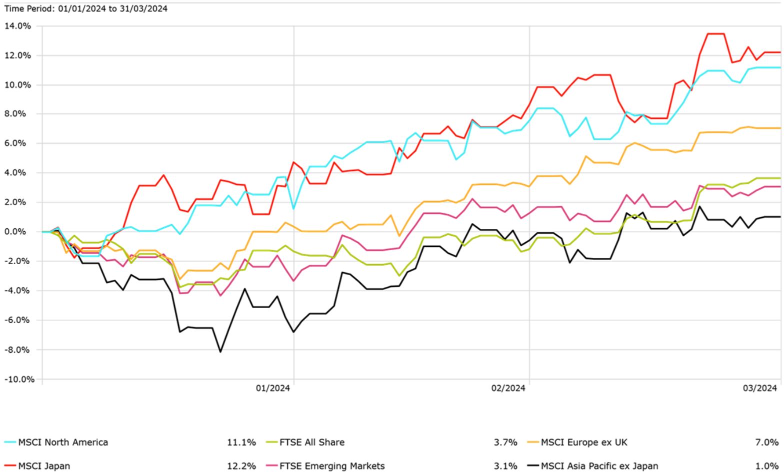
Quarter 1 of 2024 saw a large deviation in asset market performance — equity markets generally posted strong returns whilst bond markets generally moved sideways. The economic backdrop has seen good data coming from the US and mildly negative data coming from the other developed regions. However, inflation has fallen rapidly, and central banks have insisted that they will not wait until the inflation data is back down to the 2% targets before cutting interest rates.

The US equity market seemingly priced in a ‘soft landing’ and an almost ‘immaculate deflation’ which led to some very strong gains throughout the quarter. A ‘soft landing’ manifests when the economy avoids a recession following an interest rate hiking and interest rate cutting cycle; whilst an ‘immaculate deflation’ cites the bringing down of inflation to more normalised levels also without triggering a recession. Both concepts are rare, but with the strength of the US economy in Quarter 1 these two ideas have become market consensus.

Other markets dealt with a worse economic picture, but the recessionary feeling is expected to be mild & short-lived. The recessionary feeling in these markets — specifically UK — has been seen as positive in some ways as it may provide scope for the central banks to cut interest rates sooner.

Bond markets have been a bit more cautious. With interest rate expectations at the start of 2024 changing from an expectation of 2% cut in the US over the next 12 months, down to 1.25% cuts in the next 12 months, the bond markets have had to adjust their expectations by the end of Quarter 1, and so they mainly tracked sideways so far in this year.

Chart 1 - Equity Market Performance - Quarter 1 2024



Source - Morningstar Direct
Past performance is not a reliable indicator of future results
There are no charges associated with the indices shown in this chart

Equity Markets — see Figure 1

US equities showed robust gains, buoyed by corporate earnings, lower inflation, positive economic growth and the anticipation of interest rate cuts. Sectors leading the gains included the Tech sector which has been rocketed upwards by the talk of advancements in artificial intelligence, whilst the market more broadly made solid and steady returns.

The UK market was relatively flat for most of the quarter, but generated some gains in March. Much of this was due to the rebound in Energy and Financial stocks which had lagged earlier in the quarter. Market expectations also progressed to expecting interest rate cuts earlier than previously forecast. This was due to confirmation that the UK entered a technical recession in the second half of 2023.

Eurozone shares surged — particularly in the Tech sector — amid improving economic outlook in Quarter 1 2024. Business activity showed signs of improvement as reflected in the rising flash eurozone purchasing managers' index (PMI). Eurozone inflation cooled slightly during the quarter.

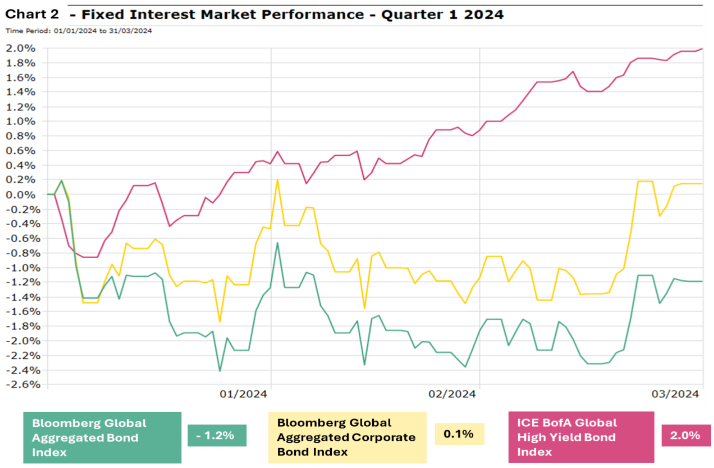
Japanese equities experienced a strong rally, supported by positive economic indicators and corporate earnings. The Bank of Japan took significant actions at its March policy meeting, contributing to the market's performance. Emerging market equities gained but underperformed compared to developed markets. China's performance dragged on returns despite policy stimulus measures.

Gemini Asset Management Limited
Gemini House, 71 Park Road, Sutton Coldfield, West Midlands B73 6BT
T: 0800 255 0123 E: info@gemini-assetmanagement.com W: www.gemini-assetmanagement.com

Fixed Income

Figure 2, on the right hand side shows the performance of 3 different bond market indices — Global Aggregated (a version of a total market index for bonds), Global Corporate bonds, and Global High Yield bonds.

In the last quarter — with the exception of the equity-like High Yield Bond index — bonds trended sideways. The holding pattern observed in bond markets in Quarter 1 emerged on the back of a more measured approach to inflation and interest rate expectations moving forwards after markets appreciated the continued strength in the US economy and slightly more stubborn inflation than had been expected. High Yield bonds performed well again Quarter 1 as economic positivity tends to help this sector.



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Economic Update

The US economy has shown remarkable resilience, with inflation moderating while economic activity continues to grow. The labour market remains healthy, which has been supporting consumer spending & income growth. Falling inflation is expected to prompt the Federal Reserve to start cutting interest rates, although expectations for rate cuts have been tempered throughout Quarter 1 of 2024.

The UK economy declared a recession in Quarter 1 2024 and the market consensus expects the economy to see a sluggish recovery in 2024, hindered by persistent inflation and structural supply problems. Pre-election Government spending promises may support growth in the near-term, but are seen as being likely to also contribute to inflation

Growth forecasts have been revised higher after recessionary feeling weighed heavily on the Eurozone economy. This improved forecast was been driven by improved external outlook and expected recovery in domestic demand. Falling interest rate expectations remain the story of the day in the EU and these may provide a boon for recovery.

In Japan, the economic outlook remains optimistic following the removal of negative interest rates and mild inflation from within the country. China is experiencing near-term improvement in outlook, but there is still some way to go before government policy manages to instill confidence in meaningful economic recovery.

Portfolio Performance

The table below shows the performance of Gemini Asset Management's (GAM) discretionary risk-rated portfolios over the course of the last 5 years. The table compares the performance of GAM's Discretionary Models against the FTSE All Share and the most relevant Investment Association (IA) Mixed Investment sector. The weight of equity in each IA Mixed Investment sector is the main deciding factor when choosing which is the most suitable comparator to each GAM portfolios but the constitution of the GAM portfolios and the relevant IA sectors could still be very different from one another. Whilst a direct comparison of GAM's portfolios with an equity index such as the FTSE All Share, or the relevant IA Mixed Investment Sector are not like-for-like, it gives an indication of volatility and performance differences on a risk-adjusted basis and can demonstrate the importance of spreading risk through diversification.

	Cumulative Performance (%) to 31/03/2024											
	31/12/2023 31/03/2024		Year to Date		31/03/2023 31/03/2024		31/03/2021 31/03/2024		31/03/2019 31/03/2024		16/03/2017 31/03/2024	
Portfolio Name	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector
GAM 3	2.18	1.45	2.18	1.45	7.72	5.85	4.92	-0.12	14.97	8.12	20.48	11.28
GAM 4	3.57	2.51	3.57	2.51	9.34	7.80	6.49	4.25	21.34	16.22	27.01	20.37
GAM 5	4.74	4.14	4.74	4.14	11.38	10.11	8.67	10.67	29.00	29.15	36.85	36.16
GAM 6	5.21	4.14	5.21	4.14	11.55	10.11	7.81	10.67	32.26	29.15	41.91	36.16
GAM 7	5.86	4.14	5.86	4.14	11.77	10.11	6.13	10.67	34.29	29.15	46.14	36.16
FTSE All Share	3.65		3.65		8.39		28.13		30.28		38.40	

Source: Morningstar Direct data 16/03//2017 – 31/03/2024. Past performance is not a reliable indicator of future results. Figures given do not include initial, advice, discretionary management or platform fees, but do include fund charges/OCFs.

The sectors used as comparators with the portfolios are the respective IA Mixed Investment sectors. Gemini's GAM 3 is compared to the IA Mixed Investment 0-35% Shares sector; GAM 4 is compared to the IA Mixed Investment 20-60% Shares sector; and GAM 5, GAM 6, and GAM 7 are compared with the IA Mixed Investment 40-85% Shares sector.

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

Asset Allocation and Fund Review

The Gemini Asset Management investment team reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were changes made to the GAM discretionary models during Q1 2024, detailed in the insert provided.

Asset Allocation and fund changes – Quarter 1, 2024

The Gemini Asset Management (GAM) investment committee reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were changes made to the GAM Active MPS (managed portfolio service) models during Q1 2024, with the main themes for the asset allocation changes covered below.

The table directly below shows the asset allocation for the GAM Active MPS – the weight for each sub-asset class is noted, and the colour of the text signifies whether or not a weighting has been increased, decreased or remained the same during Quarter 1 2024. An increase in weight is shown by green text, a decrease in weight is shown by red text, and an unchanged weight is shown by amber text.

Risk Level										
Asset Class	**GAM 1**	**GAM 2**	**GAM 3**	**GAM 4**	**GAM 5**	**GAM 6**	**GAM 7**	**GAM 8**	**GAM 9**	**GAM 10**
Cash/Money Market	100.00%	49.00%	18.00%	8.00%	5.00%	2.00%	0.00%	0.00%	0.00%	0.00%
Fixed Interest	0.00%	40.00%	56.00%	46.00%	29.00%	19.00%	9.00%	8.00%	0.00%	0.00%
Property & Infrastructure	0.00%	2.00%	5.00%	5.00%	5.00%	5.00%	5.00%	3.00%	0.00%	0.00%
UK Equity	0.00%	2.00%	5.00%	7.00%	16.00%	17.00%	26.00%	9.00%	5.00%	0.00%
North America	0.00%	3.00%	9.00%	14.00%	20.00%	20.00%	23.00%	13.00%	10.00%	8.00%
Europe	0.00%	1.00%	1.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	0.00%
Japan	0.00%	1.00%	3.50%	7.00%	7.00%	7.00%	7.00%	10.00%	8.00%	0.00%
Far East ex Japan	0.00%	0.00%	0.00%	4.00%	4.00%	10.00%	11.00%	22.00%	25.00%	26.00%
Emerging Markets	0.00%	0.00%	0.00%	1.00%	5.00%	11.00%	12.00%	26.00%	43.00%	63.00%
Global Specialist	0.00%	0.00%	0.00%	1.50%	2.00%	2.00%	1.00%	2.00%	2.00%	3.00%
Global Equity	0.00%	2.00%	2.00%	1.50%	2.00%	2.00%	1.00%	2.00%	2.00%	0.00%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Commentary

The changes made to the GAM Active MPS in Quarter 1 2024 were made with the view to potentially capitalise on investment opportunities in various sub-asset classes, and to provide consistency across the suite of portfolios relative to the Dynamic Planner Strategic Asset Allocation. The asset allocation changes made during Quarter 1 2024 were:

- Reduced UK equity weight within portfolios to take UK exposures consistently underweight in portfolios:
  - ◊ Reduction to a relatively high exposure to UK assets within the portfolio, in favour of other opportunities in other regions around the globe.
- Increased US equity weight:
  - ◊ We believe that the US equities may potentially provide a greater level of resilience and growth when compared with other major equity regions due to the high quality growth characteristics of the leading companies in the region.
- Decreased exposures to cash in Risk 4 to Risk 6:
  - ◊ With more talk of peak interest rates, cash returns looked set to dwindle as potential investment returns from other asset classes — such as fixed income — in our view look more attractive.
- Increased exposures to fixed interest in Risk 8:
  - ◊ Desire to take advantage of the potential change in interest rate environment and add more diversification into a heavily equity dominant portfolio — with interest rates expected to decrease, fixed income securities have historically benefitted.
- Increased Emerging Markets and Asia ex Japan equity weight in Risk 8 to Risk 10:
  - ◊ To take advantage of depressed valuations within these regions and to add more consistency to the asset allocations within these portfolios relative to the Dynamic Planner Strategic Asset Allocation.
- Removed L&G Global Healthcare Index. Replaced with the Northern Trust Quality Low Volatility Low Carbon fund:
  - ◊ Added diversification to Global Equity sub-asset class and enhanced the quality factor within the portfolios.
- Increased weight in the Global Specialist sub-asset class to gain greater exposure to Global Small Cap equities:
  - ◊ Increase exposure based on positive economic sentiment, expected interest rate pathways, and the valuation opportunity in Global Small Cap equities, which had been sold off substantially in recent years.

Disclaimer

The price of shares and investments and the income derived from them can go down as well as up, and investors may not get back the amount they invested. Past performance is not necessarily a guide to future performance.

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Gemini House
71 Park Road Sutton Coldfield West Midlands B73 6BT

0121 354 2700

info@gemini-assetmanagement.com www.gemini-assetmanagement.com

@GeminiAsset
https://www.linkedin.com/in/geminiasset/

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