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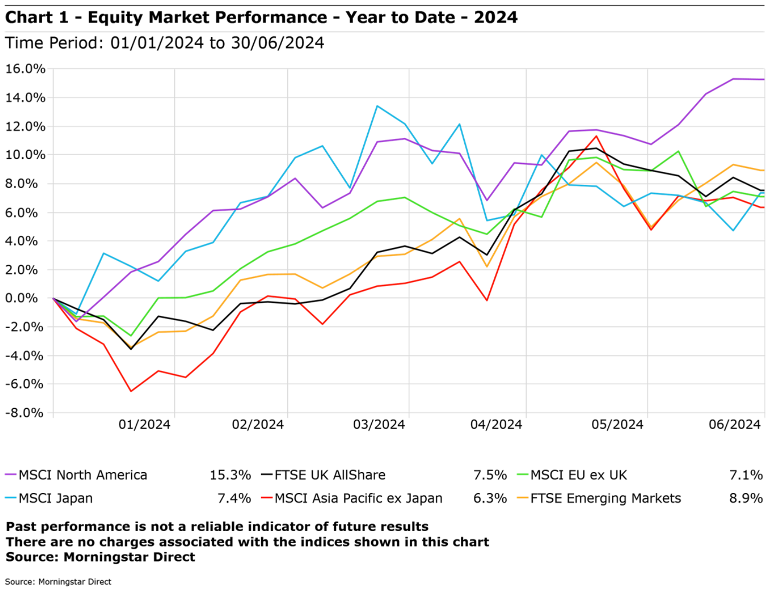
Market Summary



Quarter 2 of 2024 saw volatility in equity markets—both on the upside and the downside — and more sideways movement in bond markets. Equity fundamentals such as corporate profits and earnings remain positive as companies are benefitting from positive consumer and economic sentiment.

The economic backdrop has continued to highlight elements of positivity but the margins between positive growth and negative growth are relatively slim for the UK and Europe. The US continues to stand out in the western world as the main driver of positive economic growth, although there have been some data releases this quarter that point to a slight weakening.

The positive economic growth and relatively stubborn inflation brought into question the likelihood of potential interest rate cuts as typically central banks will cut rates to help stimulate growth which in turn may stimulate inflation. With both inflation being above target in the US and with economic growth remaining robust, investors questioned the likelihood of impending rates cuts in the US, and this led to some volatility earlier on in the quarter. The market consensus at the time of writing this points to rates cuts of roughly 1.5% over the next 12 months in the US … but it's worth bearing in mind that these consensus estimates have been incorrect in the past!

Inflation in the UK fell down to the Bank of England's 2% target but they remained cautious on cutting interest rates whilst the European Central Bank fired the starting pistol on their rate cutting cycle and lower base rates by 0.25% - a move welcomed by investors.

Equity Markets — see Figure 1

US equities fell at the start of the quarter due to market reaction to higher than expected inflation data, with interest rate sensitive sectors such as Real Estate being hit amongst the hardest. However, US equity then powered ahead again through May and June on the back of positive corporate earning releases and with the equity rally broadening out away from just the 'Magnificent 7'.

The UK market performed well in quarter 2 of 2024—in fact the FTSE 100 hit record highs! This was helped by heavy constituent weights to the Financial, Energy and Materials sectors following the market zeitgeist focusing on stubborn inflation and potentially higher for longer interest rates.

Eurozone stocks experienced a mixed quarter with a relatively stagnant April, a strong May and a negative June up to the point of writing this newsletter. Equity sectors with positive correlations to interest rate changes performed the best as the European Central Bank cut base rates during the quarter, but some of the consumer focused stocks lagged.

Japanese equity sold off following the exceptional surge they made in the first quarter of the year, although company results remained strong. Emerging Markets and Asian equities continued their upward trend, bouncing back from lows at the start of the year as China continued to benefit from a return of positive market sentiment.

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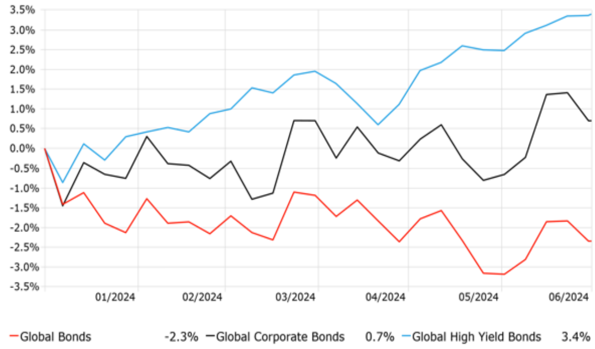
Fixed Income

Figure 2, shows that once again bond markets finished the quarter close to where they started it. The postponement of interest rate cutting cycles by most of the major central banks — the Federal reserve in particular — led there to being limited catalyst for upward revisions in bond values. There was, however, a glimmer of hope in the final month of the quarter as the European Central Bank did indeed cut rates by 0.25%, and this led to a small rally in bond markets.

It is generally expected that whilst economic growth remains resilient, inflation is likely to remain relatively stubborn, and so the impetus to cut rates is dampened. That being said, central banks will not keep rates so high forever, and when they do cut, it may be a welcome relief for bond investors the world over!

Chart 2 - Bond Market Performance - Year to Date - 2024
Time Period: 01/01/2024 to 30/06/2024



Global Bonds shown by Bloomberg Global Aggregate Bond Index
Global Corporate Bonds shown by Bloomberg Global Aggregate Corporate Bond Index
Global High Yield Bonds shown by Bank of America ICE Global High Yield Bond Index
Past performance is not a reliable indicator of future results
There are no charges associated with the indices shown in this chart
Source: Morningstar Direct
Source: Morningstar Direct

Economic Update

The US economy has shown remarkable resilience, and this has produced both positive sentiment and concerns. With the economy rolling along nicely, investors have been asking themselves how likely it is that the Federal Reserve will cut rates. Interest rates remained unchanged this quarter and also inflation remained practically the same. At of the time of writing this, the market consensus expects rate cuts of roughly 1.5% in the next 12 months.

The UK economy bounced out of recession as quickly as it fell into one—the margins are slim, but the UK returned to positive growth in recent times. Inflation fell to the 2% Bank of England (BOE) target (the lowest level we have seen since 2021), and yet the BOE still took a cautious stance on cutting interest rates which remained unchanged.

The European Central Bank (ECB) cut interest rates during the quarter in a welcome move for investors. The ECB chief has stressed the need for caution and slow progress but it is positive news on this front for the ECB.

Economic growth expectations in the rest of the world have seen a swing in positivity, especially in Emerging Markets. Japan continues to hold interest rates lower than any other developed market counterpart as they continue to enjoy some positive economic growth.

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 30/06/2024											
	31/03/2024 30/06/2024		Year to Date		30/06/2023 30/06/2024		30/06/2021 30/06/2024		30/06/2019 30/06/2024		16/03/2017 30/06/2024	
Portfolio Name	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector	GAM Portfolio	Sector
GAM 3	0.53	0.66	2.73	2.12	8.49	7.57	2.95	-1.62	12.89	6.18	21.12	12.02
GAM 4	0.44	1.19	4.03	3.73	9.99	9.50	3.30	2.84	18.11	14.17	27.57	21.80
GAM 5	1.08	1.69	5.87	5.92	11.94	11.79	5.17	7.23	25.39	26.00	38.33	38.48
GAM 6	1.60	1.69	6.90	5.92	12.64	11.79	4.50	7.23	28.34	26.00	43.49	38.48
GAM 7	2.15	1.69	8.14	5.92	13.68	11.79	2.72	7.23	29.73	26.00	49.28	38.48
FTSE All Share	3.75		7.54		12.91		25.95		30.96		43.59	

Source: Morningstar Direct data 17/03/2017 – 30/06/2024. 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 Q2 2024, detailed in the insert provided.

Asset Allocation and fund changes – Quarter 2, 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 Q2 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 2 2024. Increases in weight are highlighted green, and decreases in weight are highlighted red.

	Risk Level									
Asset Class	**GDP1**	**GDP2**	**GDP3**	**GDP4**	**GDP5**	**GDP6**	**GDP7**	**GDP8**	**GDP9**	**GDP 10**
Cash/Money Market	100.0%	49.0%	18.0%	8.0%	5.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	0.0%	38.0%	54.0%	44.0%	27.0%	17.0%	7.0%	6.0%	0.0%	0.0%
Property & Infrastructure	0.0%	2.0%	5.0%	5.0%	5.0%	5.0%	3.0%	2.0%	0.0%	0.0%
UK Equity	0.0%	2.0%	5.0%	7.0%	16.0%	17.0%	26.0%	9.0%	5.0%	0.0%
North America	0.0%	4.0%	10.0%	15.0%	21.0%	21.0%	24.0%	13.0%	10.0%	8.0%
Europe	0.0%	1.0%	2.0%	6.0%	6.0%	6.0%	6.0%	7.0%	5.0%	0.0%
Japan	0.0%	2.0%	4.0%	7.0%	7.0%	7.0%	7.0%	10.0%	8.0%	0.0%
Far East ex Japan	0.0%	0.0%	0.0%	4.0%	4.0%	10.0%	11.0%	22.0%	25.0%	26.0%
Emerging Markets	0.0%	0.0%	0.0%	1.0%	5.0%	11.0%	12.0%	27.0%	43.0%	63.0%
Global Specialist	0.0%	0.0%	0.0%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	3.0%
Global Equity	0.0%	2.0%	2.0%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Commentary

The changes made to the GAM Active MPS in Quarter 2 2024 were made with the view to potentially capitalise on investment opportunities in various sub-asset classes, or with the aim to potentially mitigate risks within the current investment environment. The main asset allocation changes made during Quarter 2 2024 were:

- Reduce the overweight position in Fixed Interest and move to a Neutral position on Equity
- Reduced Fixed Interest to lessen the overweight position held in this asset class—the asset class remains overweight, but just to a lesser extent:
  - ◊ GAM reduced the overweight in Fixed Interest due to inflation being more stubborn and due to interest rate cut expectations being reconsidered by the market.
  - ◊ The market consensus expects interest rates cuts to be less drastic and arrive later than had been previously expected at the start of the year.
- Reduced exposures to Property & Infrastructure in Risk 7 and Risk 8:
  - ◊ This was based on the idea that there may potentially be better opportunities elsewhere in the Equity section of the portfolios.
  - ◊ Also we reduced Property & Infrastructure due to the desire to play the potential interest rate cutting story within the Fixed Interest section of the portfolio, rather than a section with more Equity like characteristics.
- 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.
- Increased European Equity weight - move from underweight to neutral
  - ◊ To take advantage of depressed valuations within these regions and based on the idea that economic sentiment has improved in the region, as well as interest rate cuts expected to arrive earlier than in the US.
  - ◊ Added diversification to Global Equity sub-asset class and enhanced the quality factor within the portfolios.

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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