Q1 2024 MARKET REVIEW

Fund Literature	Fund Facts	Views & News

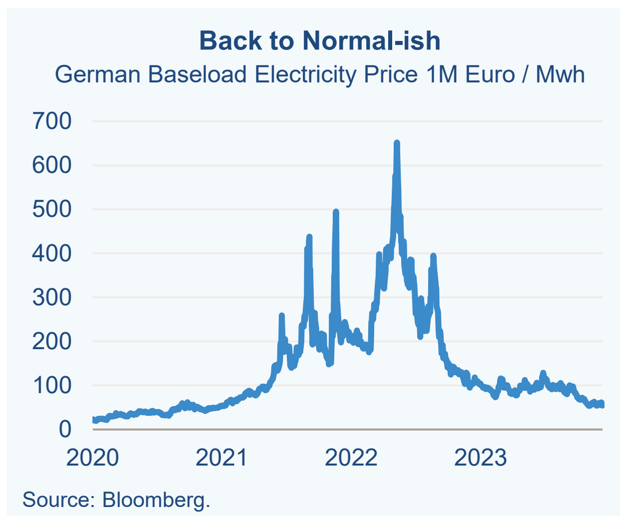
Equities Rose Despite Higher Yields and Central Bank Caution

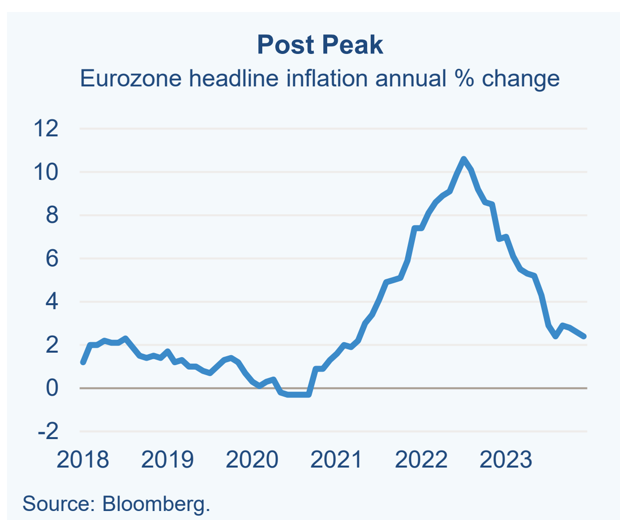
Market Review

Equities Rose Despite Higher Yields and Central Bank Caution

The first quarter was a strong period for stock market returns, with positive returns in each month. The driver was very much valuation expansion with the European index converging upon long-term normalised levels, whilst earnings estimates have broadly been holding up in Europe which is better than many other regions. This year had an unusual starting point of measured earnings expectations of flattish full-year growth as opposed to the usual over optimism. The European yield curve remains inverted and we saw an increase in yields in the middle of the curve with the German ten-year rising 28 bps to 2.3% and a slight pushout of the timing of the first interest rate cut.

Medium term inflation expectations have been broadly unchanged over the quarter, but monthly headline inflation data has seen a decline from a reading of 2.9% for December to 2.4% for March. Core inflation remains higher at 3.1%, falling from 3.7% in December, with the European Central Bank focused on the outlook for wage growth. Wholesale gas prices have remained measured falling from €32 MWh in December to €27.3 Mwh at the end of the quarter, at roughly equivalent levels to just before the invasion of the Ukraine. Electricity prices have significantly declined, German baseload one-month forward prices fell 40% from the end of last year to €54 MWh.





Q4 2023 MARKET REVIEW

January was propelled by a very strong performance by the technology sector. Bond yields made a strong upward inflection for most of the month before regressing in the final week. Central bank comments were more in the direction of delaying the timing of the first rate cut, with the ECB's chair Christine Lagarde stating the ECB remains 'data dependent, not date dependent'. Euro area GDP flash estimate remained sequentially unchanged for Q4 2023 and 0.1% YoY, later confirmed by the final estimate, disappointing in Germany but exceeding expectations in Spain and Italy. We saw a stronger than expected manufacturing PMI at 46.6 for January, whilst services were sequentially weaker at 48.4.

European equities moved higher in February despite bond yields having a relatively sharp upward move, with the Bund ten-year yield adding 25bps to 2.41% amidst central banks becoming more hawkish. Euro area inflation dropped from 2.8% in January to 2.6%, marginally higher than expected. Inflation components are being supported by the services sector inflation at 3.9% driven by the continued strength in wages, whilst fresh food price inflation has fallen to 2.2%, the lowest since 2021. Gas prices continued to fall in February from €30.5 to €24.9 MWh, which indicates that an electricity price tailwind is growing both for disinflation and for the economy. We had very strong jobs data in the US early in the month, where the economy added 353,000 jobs, almost twice as many as forecast and led to economists pushing out their expectations for rate cuts closer to the summer. Within the Eurozone Unemployment remains at the lowest ever level at 6.4%.

March was another strong month for European equities, cementing five months of sequential positive returns. The ECB hinted that it would wait until June before making the first interest rate cut and emphasised the importance of the wage data to the decision. Staff forecasts saw a decline in inflation expectations this year to 2.3% and GDP to 0.6%; whilst expecting inflation to be at 2% and 1.9% in the following two years. The Swiss National Bank unexpectedly cut rates by 25bps to 1.5%, leading to further weakness in the Swiss franc. Consumer confidence data increased as expected in March, highlighting the benefits of real wage growth are being seen.

As has been a theme over recent quarters we saw pronounced dispersion in sector performance, against the index (non-12pm adjusted) rising 7.8% in euro terms. Technology outperformed by a significant 10.2%, followed by consumer discretionary at 6.1% and financials which outperformed by 4.3%. Utilities was the largest underperformer by 13.9% versus the index falling 6.1% in absolute terms. Other more defensive areas underperformed led by consumer staples underperforming the index by 10.9% and Energy by 7.8%.

Current Positioning

Holding with technology, adding to financials

As at the end of the quarter the main overweights are in technology, communication services and industrials. The largest underweights are in consumer discretionary, financials and energy.

We did mitigate the size of the underweight to financials over the quarter by adding exposure predominantly to banks and also to the holding in AXA. Having recently seen a number of the sector bellwethers, we recognise that whilst the outlook is not one of significant growth from here it appears the cost of risk will stay lower for longer and shareholder distributions will be sustained. Given interest rates have peaked and will likely start to fall, we are happy remaining with an overall underweight position. We also reduced the utilities exposure, with our only remaining position being Veolia Environment.

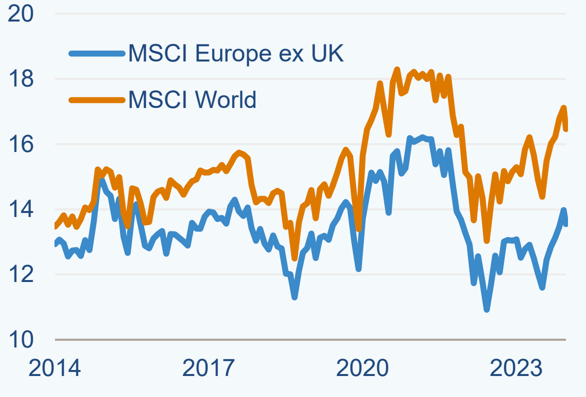
Outlook

Low valuations, Relative Opportunity Drawing Investor Interest

Equity markets have continued to power on despite the push back of the timing of the first interest rate cuts and the rise in yields at the long end of the curve. We feel that Europe's relative positioning versus other parts of the globe is improving given the modest valuations, still at some of the widest discounts versus MSCI World, and the overall undemanding levels of expectation.

The Widening Gap

Bloomberg estimated (BEst) Price/Earnings



Source: Bloomberg.

We know that GDP growth is set to be weak this year with consensus forecasting just 0.5%, but the mechanics should be in place to see a decent incremental rebound in 2025. This will be driven by improving consumer confidence, rising global Manufacturing PMIs and of course the overall tailwind of some monetary easing. Consumer confidence is supported by the lowest levels of unemployment, rising wages and falling inflationary headwinds from food and electricity. We expect European interest rates to start falling from the early summer period, but unusually we believe it is possible that Europe cuts before the US, given the recent strength in a broad range of US activity and monetary data. In a nutshell, Europe may well get the monetary stimulus more quickly than others.

Within the equity market we are likely to see a modest tailwind for more cyclical areas and at the margin small and midcap stocks, the latter we have modestly added to. The tailwind is set to be incremental rather than forceful, therefore whilst we see some positioning risk in some of Europe's large cap winners we absolutely do not think these should be jettisoned. The likes of ASML and Novo Nordisk have performed well because they are great companies, with broad moats, with lots of growth and high returns. On the more cyclical side of things, we have added a little to IT services, travel and construction, but these are cyclicals backed by positive thematic drivers. Defensive stocks have lagged but largely suffer from a lack of growth, we see interest in certain consumer staples such as the brewers.

Amidst a backdrop where geopolitical uncertainty is high and possibly set to rise with a Trump election win, we see European equities relatively well placed. We are seeing a pickup of investor interest in Europe itself, with positioning still incredibly modest, realising that a relative opportunity is starting to present itself.

Professional investors only.

Issued and approved in the UK by J O Hambro Capital Management Limited ("JOHCML") which is authorised and regulated by the Financial Conduct Authority. Registered office: Level 3, 1 St James's Market, London SW1Y 4AH. Issued in the European Union by Perpetual Investment Services Europe Limited ("PISEL") which is authorised by the Central Bank of Ireland. Registered office: 24 Fitzwilliam Place, Dublin 2, Ireland D02 T296. References to "JOHCM" below are to either JOHCML or PISEL as the context requires. Perpetual Group is a trading name of JOHCML and PISEL.

This is a marketing communication. Please refer to the fund prospectus and to the KIID / KID before making any final investment decisions.

These documents are available in English at www.johcm. com, and available from PISEL, or (for UK investors) JOHCML, at the addresses set out above.

Information on the rights of investors can be found here.

The distribution of this document in jurisdictions other than those referred to above may be restricted by law ("Restricted Jurisdictions"). Therefore, this document is not intended for distribution in any Restricted Jurisdiction and should not be passed on or copied to any person in such a jurisdiction.

The registrations of the funds described in this document may be terminated by JOHCM at its discretion from time to time.

Notice to investors in Switzerland: The representative of the Company in Switzerland is 1741 Fund Solutions Ltd., Burggraben 16, 9000 St. Gallen, Switzerland (the "Representative"). The paying agent of the Company in Switzerland is Tellco Ltd, Bahnhofstrasse 4, 6430 Schwyz, Switzerland. The Prospectus, the KIDs, the Instrument of Incorporation / the Constitution, and the annual and semi-annual reports may be obtained free of charge from the Representative. The Company is defined as J O Hambro Capital Management UK Umbrella Fund (domiciled in the UK), Perpetual Investment Services Europe ICAV (domiciled in Ireland) or Regnan Umbrella Fund ICAV (domiciled in Ireland), as relevant.

This fund has not been authorised by the Hong Kong Securities and Futures Commission and no person may issue, or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation, or document relating to this fund, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong. This fund is only for offer and sale to persons in Hong Kong who are "professional investors" as defined in the Securities and Futures Ordinance (cap. 571) of Hong Kong and any rules made under that Ordinance. This document and the information contained herein may not be used other than by the person to whom it is addressed and may not be reproduced in any form or transferred to any person in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about the contents of this document, you should seek independent professional advice.

This document is only allowed to be distributed to certain relevant persons and not to the retail public in Singapore. The Fund, which is not authorised or recognised by the Monetary Authority of Singapore (the "Authority"), is registered under the Restricted Foreign Scheme with the Authority and the shares in the Fund ("Shares") are not allowed to be offered to the retail public. Moreover, this document is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Investors should consider carefully whether the investment is suitable for them. This document and any document or material in connection with the offer or sale, or invitation for subscription or purchase, of Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the retail public or any member of the retail public in Singapore other than (i) to an institutional investor, and in accordance with the conditions specified, in Section 304 of the SFA; (ii) to an investor falling within the definition of "relevant persons", and in accordance with the conditions specified, in Section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where Shares are acquired under Section 305 of the SFA by a relevant person, investors should note that the first sales and transfers of the Shares are subject to the applicable provisions of the SFA, which include section 305A of the SFA.

The investment promoted concerns the acquisition of shares in a fund and not the underlying assets.

Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation.

The information in this document does not constitute, or form part of, any offer to sell or issue, or any solicitation of an offer to purchase or subscribe for any funds or strategies described in this document; nor shall this document, or any part of it, or the fact of its distribution form the basis of, or be relied on, in connection with any contract.

Telephone calls to and from JOHCML and PISEL may be recorded. Information on how personal data is handled can be found in the JOHCM Privacy Statement on its website: www.johcm.com

Sources: JOHCM/FTSE International/Bloomberg (unless otherwise stated)