TRUE

INSIGHT

True Potential Portfolios | Issue 34 | Spring 2024

WHY WE'RE BIG IN JAPAN.

A reinvigorated Japanese market has much more to offer. **pg. 10**

ALSO INSIDE

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Contents.

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With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. The contents of this magazine should not be interpreted as personalised financial advice.

Mark Henderson
Chief Executive
True Potential Investments

+ The first quarter of 2024 has continued to be good for investors, with positive growth in Portfolio values in each month since the turn of the year. This follows on from 2023 with market sentiment evolving and focussed on the resilience of economic activity in the US and improvements in other regions. Japan is an example of this and is covered in more depth in this edition.

Expectations still hold for interest rate reductions but what is holding back central banks, particularly the US Federal Reserve, is the strength of the economy. This is a timing issue, rates will be cut - the question is when in 2024 will we see the cycle begin?

This holding pattern is in keeping with the mantra of data driven decision making. One key measure is employment where the market is strong with new jobs being created, increasing the power of the consumer to spend or save. As soon as policy makers have statistical evidence to support their decision making, interest rates will fall, the cost of borrowing will fall and the returns on cash will also fall.

However, markets react in anticipation of cuts and our multi asset portfolios have benefitted from favourable market conditions and skilfull allocation of capital. As an example, the Balanced Portfolio is up 4.4% to the end of Q1 and 10.6% over the last six months. Those Portfolios with larger equity exposure, designed for investors who can tolerate more volatility and have a longer investment term outlook, saw higher returns. Our Aggressive Portfolio posted gains over three months of 7.35% and 13.7% over six months. This is evidence of sentiment having a positive effect on asset prices in advance of rate cuts.

Our message to our customers in the first half of last year was to stay invested, growth will come, and it has. We are now looking forward to strong earnings growth from global equity markets, bonds displaying more typical characteristics and the alternatives we hold, helping to dampen any short term volatility which will inevitably come along. The combination of asset classes is what makes our portfolio diversification work.

There is a lot to look forward to with investment opportunities in both developed and emerging markets. This is very much in our minds as we actively manage your investments to help you achieve your financial goals.

In this edition of True Insight we have our regular review of performance across all True Potential Portfolios, the changes made to the composition of each and the forward looking views which will help shape our Portfolios over the coming months. We take an in depth look at Japan and why investing in this country has become more attractive.

Many of you watch our Podcasts, one of the most viewed covered Probate and we summarise this on page 18. Lastly, with inflation never far away from the headlines we examine changes made by the Office of National Statistics to the inflation basket of goods and services used to measure prices rises and falls for all of us in the UK. This may surprise you.

We are now into the 2024/2025 tax year complete with new ISA and Pension contribution allowances. These are so valuable for investors and shouldn't be wasted. I am pleased to tell you that a record number of clients used our unique impulseSave® technology to top up ISAs and pensions before tax year end on 5th April, ensuring they used the available allowances to the full. This technology-enabled way of investing is proving more popular than ever, combining convenience with tax efficiency in one tidy application.

On this positive note, I will now leave you to read this edition of True Insight in peace.

7.35%

The True Potential Aggressive Portfolio was up 7.35% in the first quarter of 2024.

14.06%

The True Potential Growth + Portfolio has grown by 14.06% in the last 12 months.

55.99%

The True Potential Balanced Portfolio has grown by 55.99% since launch (October 2015).

Figures shown after Ongoing Charges Figure (OCF) has been deducted.

Performance update.

Jeff Casson
Chief Investment Officer
True Potential Investments

The first quarter of 2024 saw positive returns from all True Potential Portfolios and funds. The strongest performance came from the Aggressive Portfolio returning +7.35%. The Portfolio performance was driven by the highest allocation to Equities and the US.

In February the market expectations of rate cuts had moderated with inflationary pressures challenging central banks' capacity to cut rates as much as they had previously indicated.

> The first quarter of 2024 saw positive returns from all True Potential Portfolios and funds.

Portfolios	3 months	1 year	Since launch (1 Oct 2015)
Defensive	+2.07%	+5.53%	**+22.55%**
Cautious	+3.16%	+7.65%	**+38.58%**
Cautious +	+3.76%	+8.75%	**+40.81%**
Cautious Income	+2.32%	+8.30%	**+45.88%**
Balanced	+4.42%	+10.21%	**+55.99%**
Balanced +	+4.98%	+10.96%	**+63.26%**
Balanced Income	+3.43%	+10.03%	**+53.27%**
Growth	+5.91%	+12.57%	**+79.45%**
Growth +	+6.65%	+14.06%	**+80.50%**
Aggressive	+7.35%	+14.93%	**+96.68%**

Source: True Potential Investments, data as of 31 March 2024.

Despite this, US equity markets responded very positively to the Federal Reserve confirming in their March meeting that they still expect interest rate cuts this year. Their economic growth forecasts were increased significantly from their December projections, despite the inflationary forecast also ticking up marginally.

The True Potential SEI Aggressive fund grew +8.59% in the first quarter of 2024, ranking it the top performing True Potential fund so far this year. The fund benefitted from having the highest equity exposure of all the True Potential Wealth Strategy funds and a high allocation to US equities. The fund currently represents a 25% allocation of the Aggressive Portfolio and 17.5% of the Growth + Portfolio.

Since the launch of the proposition, investors have been rewarded with solid long-term returns. The True Potential Aggressive Portfolio is up +96.68%, illustrating the power of staying invested over the long-term.

Full five year past performance data for the True Potential Portfolios can be found on page 22. Figures shown after Ongoing Charges Figure (OCF) has been deducted.

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Review of the markets: Q1 2024

3.2%

US CPI has remained at 3.2% since early Q3 last year.

Source: BLS.

2.2%

German CPI has declined from 6.2% to 2.2%.

Source: Eurostat.

3.2%

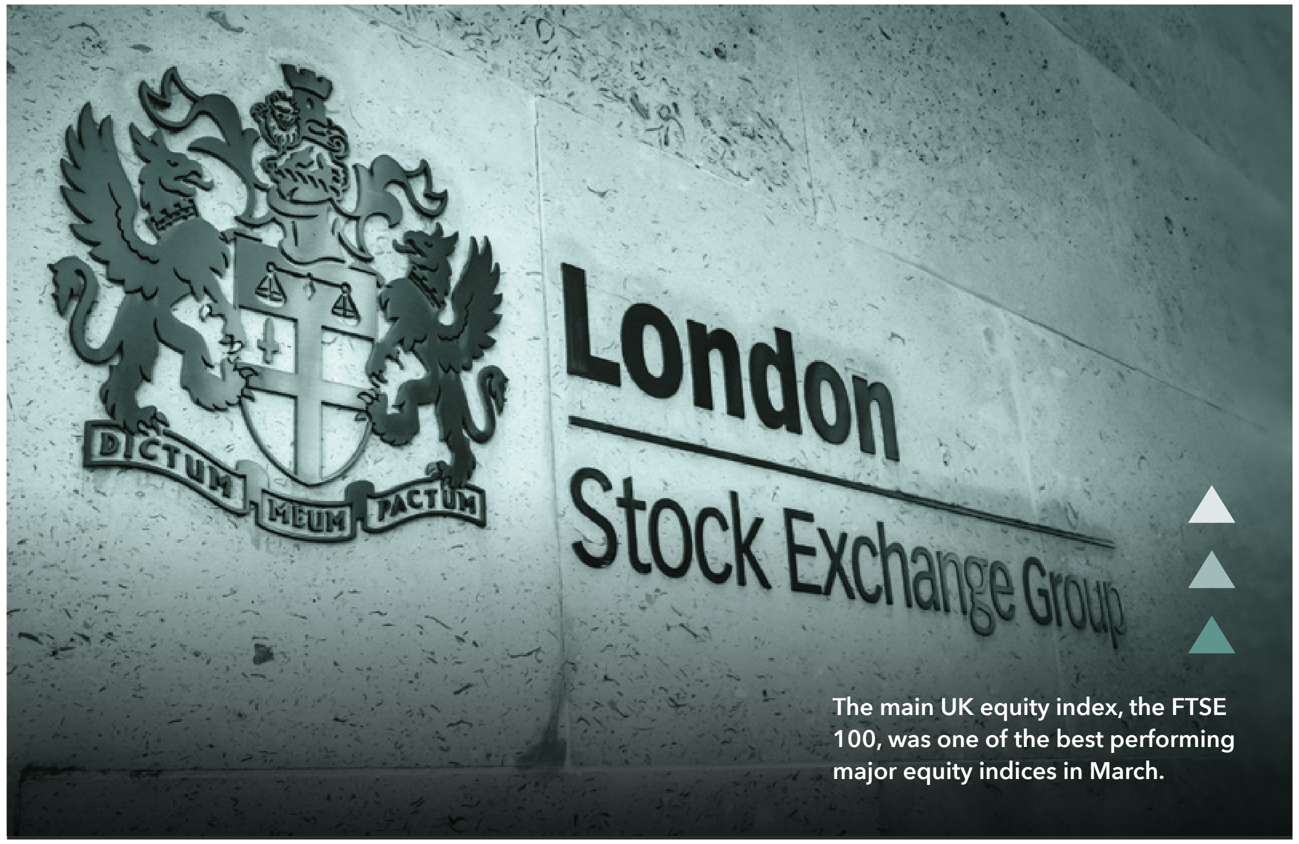
UK CPI declined to 3.2% through March.

Source: ONS.

Investors began the year with increasing optimism on global growth, continuing to be driven by the impressive economic strength from the US. Global recession worries faded considerably, with some regional concerns remaining across the UK and Eurozone. Given both the UK and Germany entered modest recessions in late 2023, concerns initially appeared justified. However, unemployment has remained near multi-decade lows across all major regions. This is a remarkable demonstration of underlying economic strength. In fact, economic data for all the major economies continued to surprise to the upside over the quarter.

Consequently, stock markets pushed higher in the first quarter, reaching new highs in the US, Europe and Japan. In Sterling terms, the MSCI World Equity Index returned over 10%. Ten of the 11 major global equity sectors had a positive quarter, a clear signal of broadening investor optimism. Sector gains were initially led by technology stocks before the value sector then outperformed into quarter-end. To illustrate, the main UK equity index, the FTSE 100, was one of the best performing major equity indices in March. Companies expected to benefit from the boom in artificial intelligence performed strongest within global equity indices in January, before market breadth materialised through March. For example, European banks returned almost 19% and Japan financials almost 30% over the quarter - with both regions benefitting from expectations for fewer interest rate cuts.

In Sterling terms, the MSCI World Equity Index returned over 10%.



The main UK equity index, the FTSE 100, was one of the best performing major equity indices in March.

All this was fuelled by more optimistic expectations for corporate earnings outlooks. In particular, earnings momentum shifted higher in Europe and the UK, joining robust outlooks in both the US and Japan. This virtuous circle of higher aggregate earnings has supported higher equity valuations.

An important theme that emerged over the quarter is that of 'inflation divergence' – the phenomenon of inflation declines slowing in the US but continuing across Europe and the UK. To illustrate, US CPI has remained at 3.2% since early Q3 last year, yet German CPI has declined from 6.2% to 2.2% in that time. UK CPI declined to 3.2% through March, the lowest rate of price pressures since Q3 2021. It even appears possible that UK inflation may fall below 2% over the next few months, which should be welcomed by both the FTSE 100 and the Bank of England.

The consequence from this inflation 'stickiness' within the US was reduced expectations for interest rate cuts over the remainder of the year. Markets began the year expecting six rate cuts of -0.25% points each in the US, starting from March. Those expectations have now been reduced to only two rate cuts, following March's slightly higher than expected inflation reading. The yields on sovereign bonds adjusted accordingly. Stronger US data has also filtered into expectations for a more persistent level of interest rates across the UK and Eurozone than when we began the quarter.

Altogether, stronger labour markets and buoyant consumers helped drive renewed momentum in global equity prices. This strength from equity markets reflected the ongoing upward revisions to expectations for global growth – a tailwind that can support portfolio returns for some months ahead.

Market outlook.

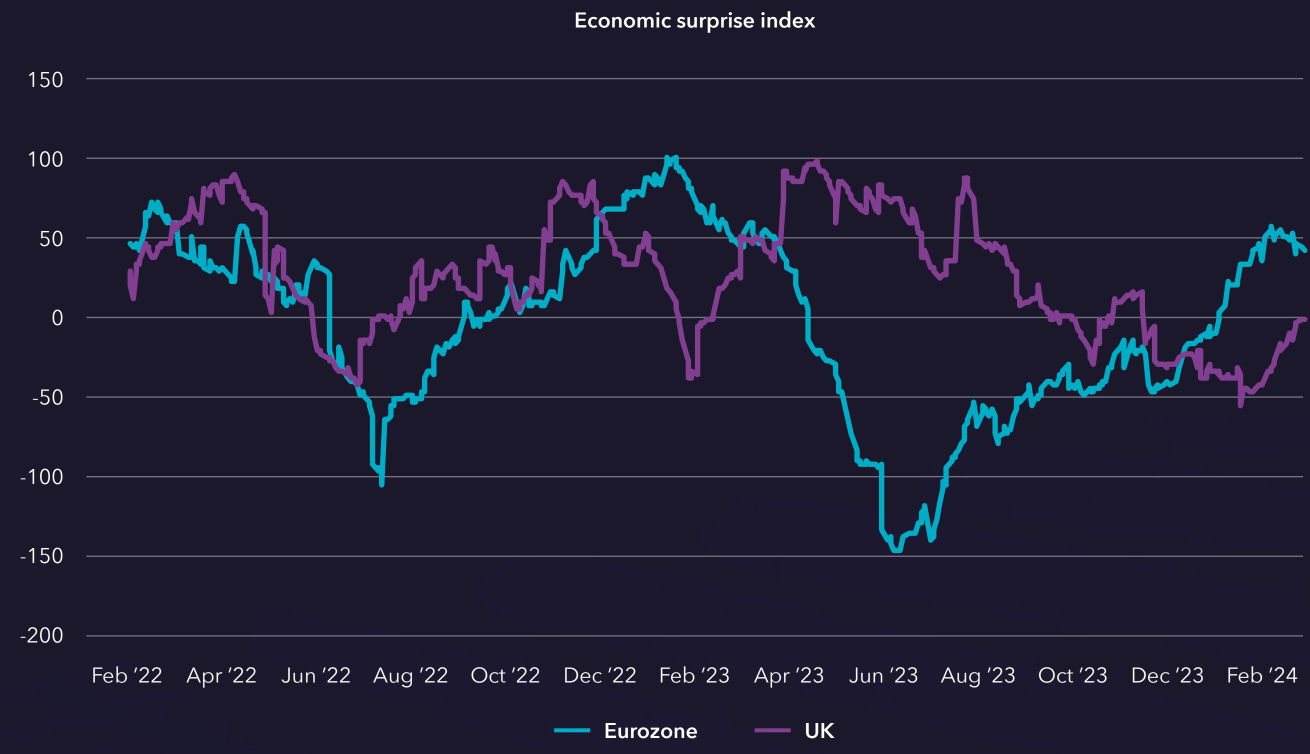
While it may seem intuitive to link GDP growth directly to stock market performance, the relationship between the two is more nuanced. For example, German GDP contracted modestly in both the third and fourth quarters of 2023, with the economy entering a minor recession. The response of the DAX, the main German equity index? It rose 8% through the last quarter of 2023 and a further 10% in Q1. This illustrates why current GDP growth often doesn't matter for stock markets. What does matter though is the direction of GDP, particularly any 'inflection' point. That is, when there is an expected change in direction of GDP growth, which may mark the end of a recession for example.

We believe a growth inflection is ongoing. Inflation concerns weighed on market returns for much of 2022 and 2023. Growth optimism has now replaced inflation worries. We expect that this growth tailwind will support portfolio returns for much of the year. Specifically, it is a change in growth outlook for both the Eurozone and UK which appears to be driving global equity indices to new highs. Taken together, the Eurozone and UK economies are similar in size to the US – so any change in GDP outlook would have a material positive impact on global growth.

The Citi 'economic surprise' index is a timely illustration of this optimism. The index reflects the direction of incoming economic data – if the series is trending higher (but below zero) it means economic data is no longer disappointing. If the series is positive, then it indicates that data overall is stronger than expected. From the chart opposite, we can see that the Eurozone economy started to accelerate again at the beginning of the year when economic surprises turned (net) positive. The UK economy struggled in 2023, but economic data is no longer disappointing markets. Notice the 'inflection' point in late February when economic surprises stopped trending lower. The ongoing trend now indicates that the UK can deliver a series of positive data surprises in the quarters ahead.

Back in 2017, "Global synchronised growth" became a major market theme. Equity indices in the US and UK were already at all-time highs but would go on to deliver positive returns of up to 20% through 2017. We believe that 'Global synchronised optimism' can continue to drive further positive returns for investors this year. The interest rate cycle looks set to turn now that inflation has fallen materially across Europe and North America. The UK, Eurozone and Canada look well placed to enjoy further declines in CPI through the Spring. The Governor of the Bank of England has recently communicated that interest rate cuts are now "in play" given the expected path of Consumer Price Inflation (CPI) over the next few months. Whilst interest rate cuts may be modest, markets expect that central banks in the US, Canada and Eurozone will all lower policy rates this year.

Stronger growth and lower inflation are the perfect tailwind for well diversified portfolios through the quarter ahead.



Source: Citi economic surprise index.

WHY WE'RE BIG

日本 IN JAPAN

It's been quite a while since Japan was the future. Only those of us old enough to remember the 1980s can recall a time when much of the Western world looked towards Japan with admiration, envy and awe.

This was the decade of the sushi bar, Super Mario Bros. and the Sony Walkman. Car-makers like Honda, Toyota and Nissan posed a serious threat to their Western peers. The Tokyo Stock Exchange accounted for half of the world's market capitalisation. Japan's property market was worth four times as much as that of the US, and its economy was expected to become the largest in the world.[1] But it all culminated in a colossal asset-price bubble that burst spectacularly in 1990.

That was when Japan entered its "lost decades" – a long period of economic stagnation characterised by low economic growth, persistent deflation (falling prices) and a moribund stock market.

Rates rise at last.

Although the Bank of Japan initially raised interest rates sharply in the 90s to rein in the property market, it reduced its main interest rate below 1% in 1995 and kept it below that level thereafter. In a desperate bid to stimulate growth and battle deflation, the central bank introduced negative interest rates in 2016 and persisted with them for eight years.[2]

Now, though, things have changed. Japan was the world's strongest stock market in 2023, and this robust run has continued into 2024. And in March, the Bank of Japan abandoned negative interest rates, raising its main short-term rate for the first time in almost 17 years.[3] In most countries, higher rates would be negative for the stock market. In Japan, however, the modest increase is an encouraging sign that the long struggle with deflation may be at an end.

The Bank of Japan has also abandoned its longstanding policy of yield-curve control. Under this policy, the central bank bought and sold government bonds of different maturities to keep market interest rates in line with its targets. The bank is also phasing out quantitative easing.

The return of inflation.

Japan's rate of inflation has now been above the target 2% for two years.[4] The modest shift in interest rates and the end of bond-market interventions suggest that the Bank of Japan now feels confident that it can attempt to lower inflation without risking a slide back into deflation.

All of this is good news. After a long period in which Japan has been trapped in a spiral of falling prices and anaemic growth, a modest degree of inflation would help to get its economy working again. This would allow companies to raise prices, and workers would then expect higher pay – which in turn should boost consumption.

So far, the signs are good – one reason that many investors, including us at True Potential, are increasingly positive on the Japanese stock market's prospects.

Earnings on the up.

There's much more to the case for Japan, however. Corporate profits have surged in the past year, with many Japanese companies reporting record profits.[5]

Automobile and electronics exporters have done particularly well – among them many names familiar from the 80s, such as Toyota, Honda, Sony, Hitachi and Canon.[6]

The main reason for these eye-catching profits has been the weakness of the yen. A weaker currency helps exporters because their goods become more affordable abroad. Currencies tend to strengthen as central banks raise interest rates, because bank deposits offer higher returns. Since 2022, most Western central banks have raised interest rates significantly. With the Bank of Japan persisting with negative interest rates until this year, the pronounced difference in interest rates has rendered the yen extremely weak.

Now that the Bank of Japan has raised rates, the yen may start to strengthen. But although the rate rise was significant, it wasn't sizeable. Japan's benchmark short-term rate is now in a range of 0.0% to 0.1%, which still contrasts starkly with 5.25% to 5.5% in the US.[7] Thus far, the yen has been little changed against the dollar.[8] So the situation still bodes well for Japan's corporate profits – and, consequently, returns from its stock market.

Corporate governance.

The link between Japan's corporate profits and shareholder returns has become significantly stronger recently.

Dividends have been rising, and the government and the stock-exchange regulator have been putting pressure on companies to improve their capital allocation.

This improvement in corporate governance is perhaps the most important of the recent developments in Japan. For a long time, Japanese companies paid only lip-service to investor demands for dividends or share buybacks. But regulatory intervention has accelerated the shift towards payout ratios more in line with those of Western markets.[9]

More to come?

All of this has helped to improve consumer confidence in Japan, which is now at its highest level for more than two years.[10] A sustained pick-up in consumer spending would boost the country's GDP and corporate earnings – leading to a virtuous cycle rather than the deflationary spiral that set in after the 80s bubble burst.

That's why we've increased our allocations to Japan, taking some profits along the way, and why we are confident that this reinvigorated market has much more to offer. As deflation fades into the past and corporations make better use of their eye-catching profits, Japan has the opportunity to be the future once more.

Sources:
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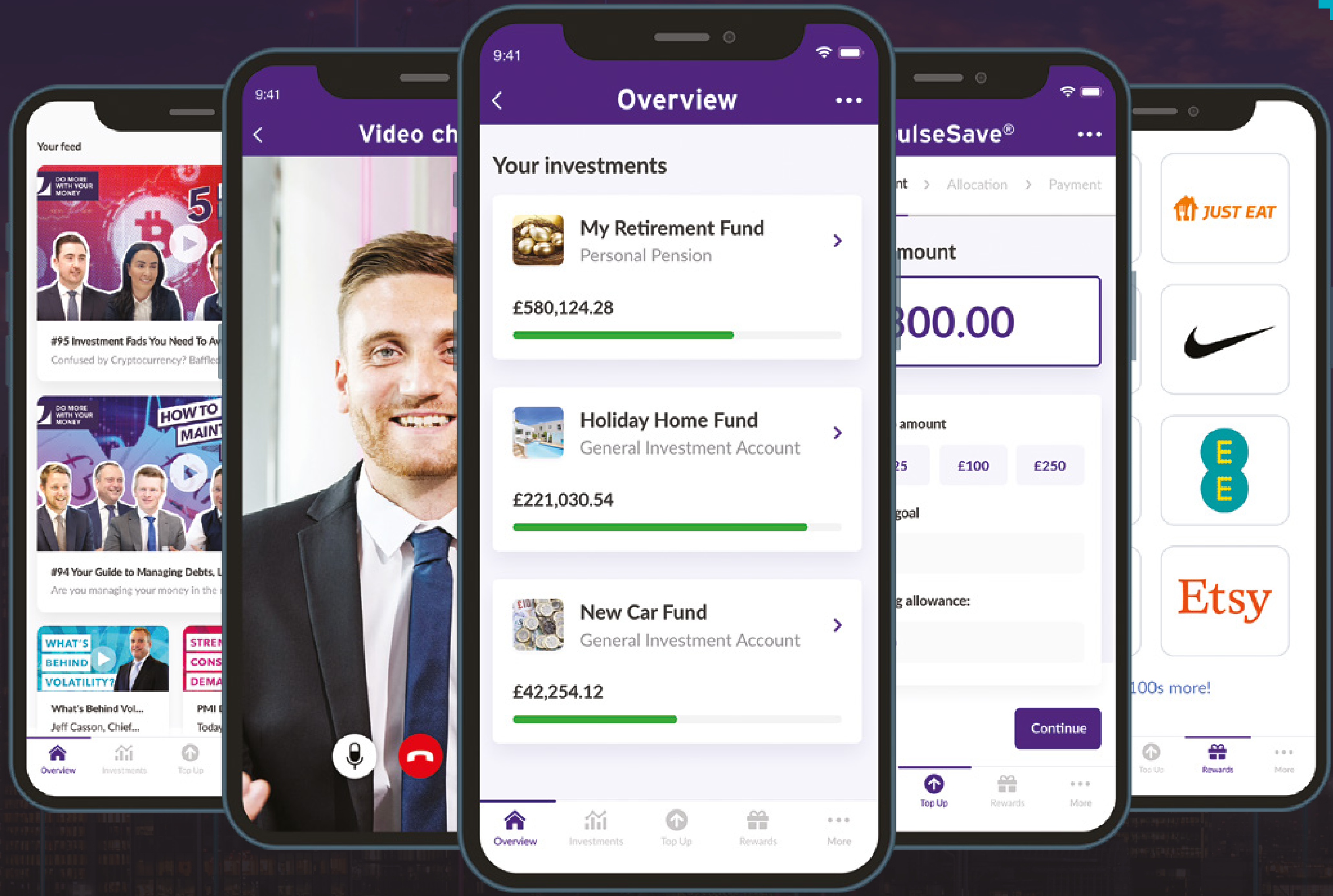

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Portfolio changes: Q1 2024

As a result of changes made both at the Portfolio and underlying manager level, overall equity exposure increased over the quarter driven by additions to Japanese and US equities. Within fixed income exposure to UK Gilts and global sovereign bonds decreased whilst high yield and global corporate bonds increased.

A key development over the quarter has been our expectation of a transition towards a reflationary regime. In this scenario, we expect growth to hold up above 2% and inflation to trend away from target sitting in the 2-4% range. Markets have acknowledged this development by halving the number of rate cuts expected for 2024 and pushing out the timing of these cuts from spring to summer. Given these developments, we remain constructive on equities, favouring the US and Japan. Within fixed income we are constructive on high yield bonds given an expectation for the asset class to outperform in a reflation regime and continue to favour global sovereign bonds for diversification.

In respect of fund manager allocation changes, we increased Goldman Sachs Income Builder in the Balanced portfolio, funded from Goldman Sachs Balanced 4. Income Builder has significantly higher high yield bond exposure compared to the True Potential manager cohort so provides an efficient way to increase the high yield bond allocation. The manager also has a good track record of security selection within both fixed income and equities.

Allocation to Schroder was increased in the Balanced, Cautious + and Growth + Portfolios given increased probability of inflation moving away from target and growth holding up, known as a no landing. Whilst our base case continues to be a soft landing (inflation falls to target, growth holds up), the probability of a no landing is now higher. We therefore added to Schroders as we believe they offer the best hedge to our base case given they have the lowest correlation to other True Potential manager partners, low duration and differentiated alternatives exposure. This addition was funded from 7IM within the Balanced Portfolio, a manager who is more highly correlated to other True Potential manager partners, have a lower alternatives allocation and longer bond duration. Within the + Portfolios, manager allocation changes also focussed around ensuring risk is consistent with the core Portfolios. Growth + was slightly above our desired risk level so the addition to Schroders was funded from UBS Aggressive, the highest risk manager within the Growth + Portfolio. Conversely, Cautious + was slightly low on risk so SEI Defensive was the funding source here being a lower risk manager.

Pictet was increased within the Defensive, Cautious + and Balanced + Portfolios funded from 7IM. Pictet's view and positioning align closer to the True Potential view in respect of their higher allocation to US and Japanese equities as well as lower exposure to Emerging Market equities.

Underlying fund managers have also been active over the quarter. Within equity, our stock pickers Close Brothers and Waverton have increased exposure to cyclical equities given the resilient economic backdrop. Waverton, for example, added to Canadian Pacific Kansas City, a US rail company poised to benefit from a cyclical recovery. Elsewhere, managers such as Growth Aligned have added to the US through both market cap and equal weight positions.

Within fixed income, fund managers such as Growth Aligned and Pictet added to high yield due to attractive yields, supportive fundamentals such as low net leverage and an expectation for high yield to outperform in a reflation regime.

What's in the inflation basket?

Guinness is good for you (or so the old adverts claimed). But it no longer appeals to the Office of National Statistics (ONS). This March, the ONS announced that it would remove draught stout from the "basket of goods and services" that it uses to track inflation. This was just one of 29 changes to the basket, some of which have raised a few eyebrows.

In this article, we'll take a look at what has changed and why, both to understand how the ONS's inflation measures work and to see what they say about the way we live now.

First of all, what exactly is the "basket of goods and services"? Well, it's simply the representative collection of items that the ONS uses to measure consumer price inflation. By charting changes in the prices of the goods and services that many of us buy regularly, the ONS seeks to establish how prices are changing for consumers overall.

How it works.

Not only does the basket contain items that many of us buy, but it also weights those items in proportion to how much we typically spend on them. Importantly, the basket doesn't just contain everyday essentials. Rather, it consists of goods and services that many people buy, whether they're necessary or not.

This is designed to give the ONS a clearer picture of our spending habits and how changes in prices are affecting us. Looking at a representative spread of price changes allows the ONS to calculate inflation more accurately. Some goods or services may get cheaper as others become more expensive. And other purchases may be made only occasionally but may take up a significant portion of the household budget.

Still bitter?

After the latest revisions, the basket contains 744 items in 12 different categories. These range from food and non-alcoholic beverages to restaurants and hotel stays.

So why has Guinness gone? Are we no longer downing as much of the black stuff as we used to? Not so: Guinness is the most popular beer in the UK. But draught stout's exclusion from the basket isn't terribly significant; a pint of bitter is still included, and stout and bitter prices tend to move in tandem. Essentially, the ONS is just removing duplication here.

The other changes, however, offer a bit more insight. Some signal significant changes in our lifestyles while others point to the advance of technology.

In the first category, hand sanitiser's disappearance from the basket is an acknowledgement of the end of the Covid pandemic. The days when hand sanitiser was an essential – and often scarce – commodity now seem distant, and this change to the basket reflects that. The sofa bed has gone too: perhaps because the visitor-light pandemic years encouraged us to buy more permanent forms of furniture.

Chicken out.

Another lifestyle change is reflected in the food that goes into the basket. Here, the ONS seems to be acknowledging the growing appetite for healthier eating. Gluten-free bread and rice cakes have been added this year, along with sweet potatoes and melons – all of which point to more health-conscious consumption. Meanwhile, whole rotisserie chickens – once a cheap supermarket staple – have flown the coop. Popcorn has gone too, again suggesting a shift away from traditional snack foods.

Air fryers – sales of which have rocketed over the past couple of years – have also been added to the list. In part, their inclusion reflects the trend towards healthier eating. But it's also an example of how technology is changing the way we live. The inclusion of e-cigarettes is another, as is the exclusion of satnav devices. Here, the ONS is catching up with a change that's been well underway for almost a decade: the replacement of dedicated navigation tools with smartphone apps.

Back in the groove.

But old technology doesn't always die out. One of this year's most eye-catching inclusions was vinyl records, which have returned to the basket after 32 years. But while its sales have risen significantly in recent years, vinyl makes up only a very small proportion of the total basket – just one of the many indicators that allow the ONS to track inflation with a greater degree of accuracy.

> "The "basket of goods and services" is a collection of items that the ONS uses to measure consumer price inflation."

Dealing with Probate.

+ When someone close to you passes away and you're dealing with their estate, you can be forgiven for not knowing where to start. In this article, we share some key points to consider. It is also a topic that we discussed recently on our Do More With Your Money podcast, which you can find on True Potential's YouTube channel.

What is probate?

Probate is the legal right to deal with someone's property, money, and possessions – essentially their 'estate' – when they pass.

If you are named in someone's Will as an executor, you can apply for probate. It's important to ensure you have this legal right before making any financial plans or putting property on the market.

Obtaining probate.

Obtaining probate is a relatively straightforward process – you can apply yourself online or by post.

The importance of making a Will.

If someone passes without a Will, there are certain rules which dictate how the money, property or possessions should be allocated. Making a Will ensures the individual remains in control of their estate, ensuring a smooth transition of assets. Planning prior to death can also help individuals to potentially reduce the amount of Inheritance Tax for which the estate is liable.

A Will can also establish trusts to protect the interests of beneficiaries, while providing ongoing support to ensure that their inheritance is managed responsibly.

Applying for probate if there is a Will.

You can apply for probate if you're named as an executor in either the Will or an update to it by codicil – you should have been informed by the person who passed away if you're an executor.

If the circumstance arises where more than one person is named as an executor, you must all agree who makes the application for probate. Up to four executors can be named on the application, however, if only one is named in the application then that person will need to prove that they tried to contact all executors named in the Will before they applied.

You'll need to send the original Will with your probate application and the probate registry will keep this. You should keep a photocopy for your records. If there's more than one Will, you must send in the most recent one.

Once you have estimated the value of the estate to find out if there's Inheritance Tax to pay, you can apply online to obtain probate.

If there is not a Will.

If someone passes away without a valid Will, this is known as dying intestate. In this situation, the law will determine who inherits what and who can administer the estate.

The most 'entitled' person can apply to become the administrator of the estate. This will be the closest living relative – normally the husband, wife, or civil partner (including if you were informally separated) followed by any children 18 or over (including legally adopted children but not step-children).

What about Pensions?

An Expression of wish is a statement to your Pension provider that lays out who you wish to receive your Pension savings if you die before you have taken all of your Pension savings.

Your Pension sits outside of your estate, meaning your beneficiary won't normally pay any Inheritance Tax on the money inherited through your Pension. Crucially the Pension funds can be distributed before probate is granted helping to ease any financial hardships in difficult times.

With True Potential, you can update your Expression of wish by simply logging into your True Potential app, selecting your Pension, viewing full details, and selecting Edit on the Expression of wish section. You can then provide the name and contact details for your chosen Pension beneficiary.

If you are in any doubt or want to make sure your beneficiaries are named correctly it could be worth speaking to a financial adviser. They'll be able to assist with your beneficiaries and ensure your Pension is best suited to being tax efficient and appropriate to your goals.

Thinking of applying for probate? Here's a checklist to follow:

- Check that probate is needed and that you're eligible to apply;
- Find the original Will – the person who passed should have told all the executors where to find this;
- Check who is named as an executor;
- Estimate the estate's value for Inheritance Tax;
- Find out whether you need to report the full details of the estate to HMRC. If you do not have to send full details it is called an 'excepted estate';
- If Inheritance Tax is due, you must report the value of the estate to HMRC by completing form IHT400. You must submit the form within 12 months of the person dying;
- You may have to pay a fee to apply for probate, depending on the value of the estate. You may also be entitled to help in paying the probate fee and other court fees;
- If you have completed the steps above, you can apply for probate at: **www.gov.uk/applying-for-probate/apply-for-probate**;
- If you're a True Potential Wealth Management client and have any queries around applying for probate, you can speak to one of our financial advisers or call our Relationship Management team on 0191 500 9164. They're available 7am – 8pm weekdays and 8am – 12pm on Saturdays.

Scan to watch our latest Probate episode on YouTube.

The Financial Conduct Authority does not regulate, Will Writing, Tax Advice and Estate Planning. The guidance and/or advice contained within this blog are subject to the UK regulatory regime and is therefore primarily targeted at customers in the UK. Tax is subject to an individual's personal circumstances, and tax rules can change at any time. Please note, this blog is not a recommendation or personal financial advice, and it is not always necessary to apply for probate.

The value of valuations.

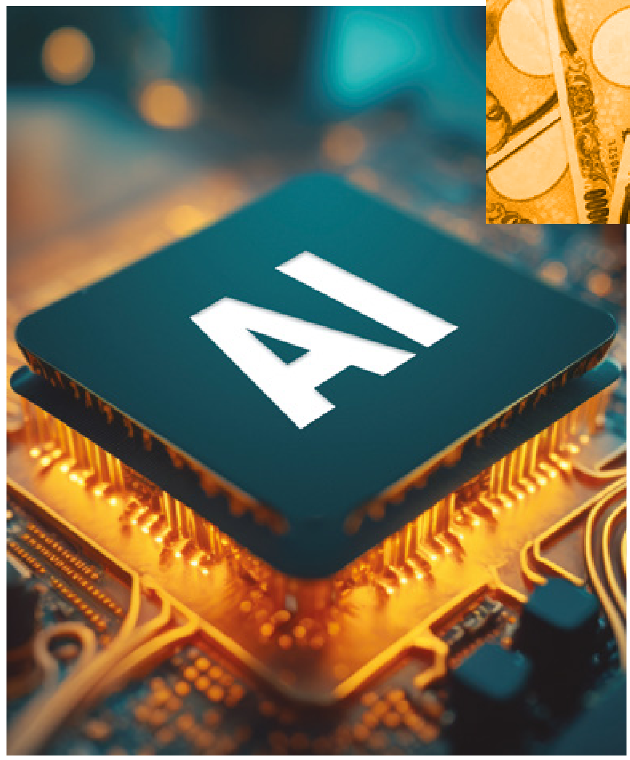
As multi-asset investors, we aren't confined to any particular region or asset class. But wherever we're hunting for investment opportunities on behalf of our clients, we focus squarely on valuations. By assessing potential investments on measures such as price-to-book or price-to-earnings ratios, we aim to hone in on stock-buying signals while ignoring the market noise.

So what are valuations telling us today? When we look at the world's markets, we need to acknowledge that valuations aren't "one size fits all". Different markets have historically traded at different valuations, and a valuation that's expensive in one market might be cheap in another.

Everything's big in America.

The US is a case in point. After performing well in 2023, the US equity market has made a strong start to 2024. This sustained rally has been led by the 'Magnificent Seven' tech stocks: Alphabet, Apple, Meta, Nvidia and Tesla. But it hasn't just been driven by hype. Instead, the market's strong performance is based on earnings delivery, the high quality of those earnings and the rude health of the US economy.

We should remember, too, that the US has historically traded at a higher valuation than most other equity markets.[1] So while US valuations are fuller than in most other markets, they don't necessarily look stretched – especially in light of fast-growing earnings and the significantly higher valuations at which the US market has sometimes traded in the past.[2]



All eyes on AI.

The same can hold true for individual stocks. Let's take Nvidia as an example. The company is the main supplier of the advanced microchips used in artificial intelligence (AI). This makes Nvidia a prime beneficiary of the surge of interest in AI applications that has followed the launch of ChatGPT in late 2022. The company's share price has shot up over the past year, but so have its earnings, which were up 265% on the previous year in its recent quarterly results.[3] Because of the huge acceleration in its earnings, Nvidia's price/earnings ratio isn't nearly as high as it has been at times in the past year.[4]

And although Nvidia's valuation is lofty compared with most US shares, this should be set against the company's crucial role in a transformational technology that is only just getting started. At True Potential, we see a staggering range of applications for AI, so it's no surprise that we think Nvidia has much more room to run.

> Valuations give us our grounding as we seek out the best investment opportunities for our clients.

Beyond the Magnificent Seven.

Amid all the excitement over new technology, it's important to remember that there's much more to the US market than the Magnificent Seven. As the US economy has remained robust and avoided recession, there are lots of other sectors and companies that are doing well. These opportunities have been somewhat overshadowed by the enthusiasm for big tech stocks – making them potentially all the more rewarding for those who take the trouble to seek them out. It's in the context of all of this that we remain overweight in the US market in our portfolios.

At the same time, it's important not to overlook the opportunities in other markets. The US often leads the world's stock markets, but its leadership implies that other markets will follow. The valuations of UK shares are remarkably low, for example, and seem unlikely to remain perpetually depressed. But even after their striking performance in recent months, Japanese equities look compelling. Corporate reforms, robust earnings and an improving economic picture are the key attractions here. And although the Nikkei 225 index set a new all-time high earlier this year, valuations in Japan are still well below historical highs.[5,6,7] As in the US, the delivery of expectation-beating earnings has helped to keep price/earnings ratios attractive.

Opportunities of interest.

One of the positive economic shifts in Japan has been the central bank's decision to abandon negative interest rates. But even as rates are rising in Japan, expectations are growing that other countries will begin to cut their benchmark rates once more. After successive rate rises in the US, the UK and Europe, central banks appear to be succeeding in taming inflation.[8]

The prospect of falling interest rates underscores the opportunities to be found in the bond markets. Fixed-income investments are valued by assessing their yields in light of expected conditions. And there are certainly attractive yields available among both sovereign and corporate bonds at present.[9,10,11] At a time when inflation appears to be waning in most major markets, these yields look set to be all the more attractive if and when interest rates come down.

Objective assessments.

If valuations were the whole story, investing would be easy. But they do offer a clear objective measure that can then be assessed in the context of historical precedent, current conditions and future prospects. Valuations give us our grounding as we seek out the best investment opportunities for our clients.

Sources:
[1] FTAdviser
[2] MacroTrends
[3] Tech Monitor
[4] MacroTrends
[5] Yahoo Finance
[6] MacroMicro
[7] SimplyWall.st
[8] YCharts
[9] Bloomberg
[10] spglobal.com
[11] YCharts

Five year performance.

Portfolios	31 Mar 2019 to 31 Mar 2020	31 Mar 2020 to 31 Mar 2021	31 Mar 2021 to 31 Mar 2022	31 Mar 2022 to 31 Mar 2023	31 Mar 2023 to 31 Mar 2024	Since launch annualised (1 Oct 2015)
Defensive	-2.06%	+8.37%	+0.80%	-4.28%	+5.53%	**+2.42%**
Cautious	-5.09%	+16.44%	+1.95%	-4.47%	+7.65%	**+3.91%**
Cautious +	-5.61%	+16.89%	+2.91%	-4.98%	+8.75%	**+4.11%**
Cautious Income	-8.88%	+20.58%	+5.48%	-5.29%	+8.30%	**+4.54%**
Balanced	-7.74%	+22.59%	+3.89%	-5.15%	+10.21%	**+5.37%**
Balanced +	-6.90%	+22.30%	+4.62%	-4.96%	+10.96%	**+5.94%**
Balanced Income	-10.06%	+22.77%	+5.11%	-4.70%	+10.03%	**+5.15%**
Growth	-8.57%	+27.41%	+5.94%	-4.65%	+12.57%	**+7.12%**
Growth +	-9.87%	+28.40%	+6.28%	-5.16%	+14.06%	**+7.20%**
Aggressive	-11.02%	+32.79%	+7.72%	-4.57%	+14.93%	**+8.28%**

Source: True Potential Investments, data as of 31 March 2024.
Figures shown after Ongoing Charges Figure (OCF) has been deducted.

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