NEDGROUP INVESTMENTS

see money differently

Quarterly review

Nedgroup Investments Core Global Fund

Marketing communication

As at 31 March 2024

Market Dynamics Amidst Inflation and Geopolitical Tensions

As 2024 commenced, market sentiment had factored in more than six rate cuts by the U.S. Federal Reserve; the U.S. dollar was trading at its weakest since July 2023; and equity markets were experiencing a significant upswing. This optimistic outlook appeared incongruent with the persistent vigor of the U.S. economy and the considerable probability of a tumultuous disinflationary process. Over the quarter, the Nedgroup Investments Core Global Fund increased by 10.2%.

The table below compares an investment in the Nedgroup Investments Core Global Fund to US bank deposits (cash) and its growth target over various time periods. For every $10 000 invested in the Nedgroup Investments Core Global Fund at inception (16 November 2015), you would have $16 748 at the 31st of March 2024. This is better than the $11 460 you would have achieved had you invested your money in US bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market recovery, which helps to contextualise the returns experienced in the past few years.

(Past Performance is not indicative of future performance and does not predict future returns)

	Value of $10,000 investment in Nedgroup Investments Core Global Fund versus US Cash[1]				
	3 Months	1 Year	3 Years	5 Years	Inception 16 November 2015
Growth of fund (after fees) ***(Growth in %)***	$11 021 *10.2%*	$11 696 *17.0%*	$10 939 *3.0% p.a.*	$14 680 *8.0% p.a.*	$16 748 *6.6% p.a.*
Growth of US Cash ***(Growth in %)***	$10 135 *1.4%*	$10 512 *5.1%*	$10 703 *2.3% p.a.*	$11 038 *2.0% p.a.*	$11 460 *1.7% p.a.*
Growth target (EAA Fund USD Aggressive Allocation) ***(Growth in %)***	$10 768 *7.7%*	$11 229 *12.3%*	$10 720 *2.3% p.a.*	$13 910 *6.8% p.a.*	$14 966 *5.1% p.a.*

Source: Morningstar

(Past Performance is not indicative of future performance and does not predict future returns)

Source: Morningstar

Since the inception of the Nedgroup Investments Core Global Fund, it has delivered returns in excess of US cash. However, it is to be expected that occasionally there will be periods where the Fund does not beat US cash over 5 years. Over the long term[2], a portfolio such as Nedgroup Investments Core Global Fund would have delivered a higher return than US cash approximately 64% of the time over any 5-year period.

1. We used the ICE Bank of America 3-month deposit rate for US cash returns
2. Based on Global market returns from 1997 to 2018 (source Morningstar) using the same long-term equity allocation and fees.

Economic and market review

In the first quarter of 2024, the U.S. bond market faced significant headwinds as a result of a strong economic expansion, a steadfast labour market, and inflation rates that consistently exceeded projections. These factors led to a recalibration of expectations for the Federal Reserve's rate reduction schedule, ultimately triggering a sell-off in the bond market. The unexpectedly high Consumer Price Index (CPI) data for February diminished the likelihood of a rate cut in May, while the March CPI data further eroded the chances of a June cut to a mere 30% and cast doubt on a July cut, with market odds at 66%.

Amidst this backdrop of uncertainty, both in macroeconomic data and geopolitical tensions, the direction of monetary policy remains clouded with significant question marks. Despite these challenges, financial markets experienced growth in March, with most major global risk assets delivering above-average returns. Equities saw an uptick, and bonds declined as the robust economic growth of February, coupled with persistent inflation, led investors to scale back their expectations for central bank rate cuts this year. This shift towards a 'risk on' sentiment, buoyed by the prospect of a soft economic landing, spurred a rally across global equity markets, opening attractive investment opportunities.

Developed markets continued their positive trajectory, with the MSCI World index posting a US dollar total return of 3.3% for the fifth consecutive month in March. The outlook for many global markets this year had anticipated disinflationary trends and a slowdown in growth, which would support a gentle economic descent. However, the prolonged hawkish stance of central banks raises the risk of a harder landing.

The manufacturing sector is showing signs of stabilization, particularly in developed markets, which are approaching a break-even point, while emerging markets (EM) have been at the forefront of the recovery. The S&P Global manufacturing purchasing managers' index for EM has consistently remained above the neutral 50 threshold since February 2023, in contrast to the developed market index, which last surpassed 50 in September 2022.

A similar trend is observed in the services sector, contributing to a narrative of developed market recovery and emerging market reacceleration. While it would be erroneous to attribute this reacceleration solely to an earlier cycle of monetary policy easing, it is partially true, as emerging markets have already begun a selective rate-cutting cycle. China's more growth-oriented policy environment is also a contributing factor. The stabilization of commodity prices has bolstered EM export earnings and government revenues, leading to a gradual improvement. However, recent volatile inflation figures have reintroduced uncertainty regarding the timing and extent of rate cuts in the U.S. and other major export markets. Until the monetary easing momentum extends globally, the enhancement in EM growth is expected to remain moderate.

The geopolitical climate demands close scrutiny due to the increasing global fragmentation, the potential for intensification of violent conflicts, and the impact of elections—2024 will see an unprecedented number of voters, representing approximately 49% of the world's population, which could significantly influence market dynamics.

In summary, while the first quarter of 2024 has presented challenges, particularly for the U.S. bond market, the overall financial landscape has shown resilience, with growth in equities and a cautious optimism for a soft economic landing. However, the persistence of inflation and geopolitical uncertainties continue to pose risks, necessitating a vigilant and adaptable approach to market participation.

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