2024 Perspective

PLURIMI Wealth Redesigned

Patrick Armstrong, Chief Investment Officer

22 November 2023

In 2023 the economy was driven by strong employment, wage growth and fiscal stimulus, primarily from the US. While we were less pessimistic than most, global growth proved to be more resilient than even we expected. Equity markets moved much higher, Gilts and Treasuries fell in value, but only marginally. Oil prices are currently lower by 5% and Gold is 5% higher in USD terms through 17/11/2023. Core inflation in the US fell from 6% to 3% as the supply shocks induced from Covid are now behind us.

We expect that the global economy will continue to grow in 2024 and inflation will continue to slow but stay above central bank targets. China should benefit from easier policy which is already being put in place. Europe will do marginally better than stagnation as real income should recover as the energy shortage from this time last year fades and rising mortgage costs will not be the same drag on growth. The US consumer is the most important factor for economic growth and looks well placed to continue to drive the economy forward in 2024. A divided US government will likely mean fiscal stimulus will slow, but a fully employed US consumer that is getting real wage growth above inflation should be enough to keep the US economy on a steady growth path. US households will benefit from higher interest income and household balance sheets are not stretched.

We expect major Central banks are now done with their hiking cycles and will likely pivot to interest rate cuts in 2024. Historically, large hiking cycles have led to recessions, as Central banks have generally hiked more than they needed to. For the Fed to "stick the landing" it will likely need to cut rates as their current policy will become more restrictive in real terms as inflation falls.

Aggregate debt levels hit new highs in 2023. Bond vigilantes create a risk for all markets as spikes in borrowing rates can create wide ranging selloffs and higher funding costs.

Equities trade at fair multiples and a positive economic outcome should drive earnings growth. We expect the rally to broaden in 2024, but the Mega Cap tech stocks should continue to move higher as they deliver top line revenue growth and continue with share buy backs.

Short term fixed income is offering attractive yields in the US. Growing debt issuance, Fed Quantitative tightening, and lack of demand from central banks looking to "de-dollarize" their reserve have led to spiking real yields in 2023. We expect the curve to steepen as longer yields rise in a "soft-landing" and Central Banks`s pivot to cuts in the second half of the year.

Geo-Politics is a wildcard and largely unpredictable, but politically driven volatility is our base case rather than a potential surprise in 2024. The VIX below 14 seems to indicate a market which is too complacent for the geopolitical backdrop. US and UK elections will create uncertainty. The ongoing Israel-Hamas and Russia-Ukraine wars, are potential sparks for volatility. A broadening of these wars cannot be ruled out, which could create supply shocks and stagflation.

2023 Review *p.2*

Central banks continued to tighten and bond yields rose more than even we anticipated. Risk aversion and inflationary pressures waned as the year progressed. Equities moved higher, driven largely by Mega Cap Technology and AI exuberance.

Asset Allocation

We are now neutral equities and adding duration through TIPS in fixed income. Attractive yields at front end of the corporate curve and compelling real yields at the long end drive our positioning. The Magnificent 7 continue to have a place in portfolios, and Energy shares offer the best value.

Global Economy *p.3*

We expect continued global growth based on resilient consumer demand and a strong employment backdrop. China's growth deteriorating and implications from war are the most likely wild cards that could de-rail our positive view.

Debt *p.7*

Near record debt levels will continue to have consequences as positive real yields prove costly for governments and borrowers.

Central Banks *p.8*

We are very confident the Fed, ECB and BoE are all finished with their hiking cycles. We expect the BoJ to continue to loosen its yield curve control policy.

Equities *p.12*

Fair multiples and economic growth pave the path for positive returns in 2024. Mega Cap tech trade at premium multiples that are deserved.

Fixed Income p.16

We expect curves to steepen in 2024 as 10-year yields move back towards September highs. We expect Central banks next moves will be cuts. Short duration bank debt and long duration inflation linked bonds are best options in our opinion. Long duration now yield enough to be effective insurance.

Commodities p.17

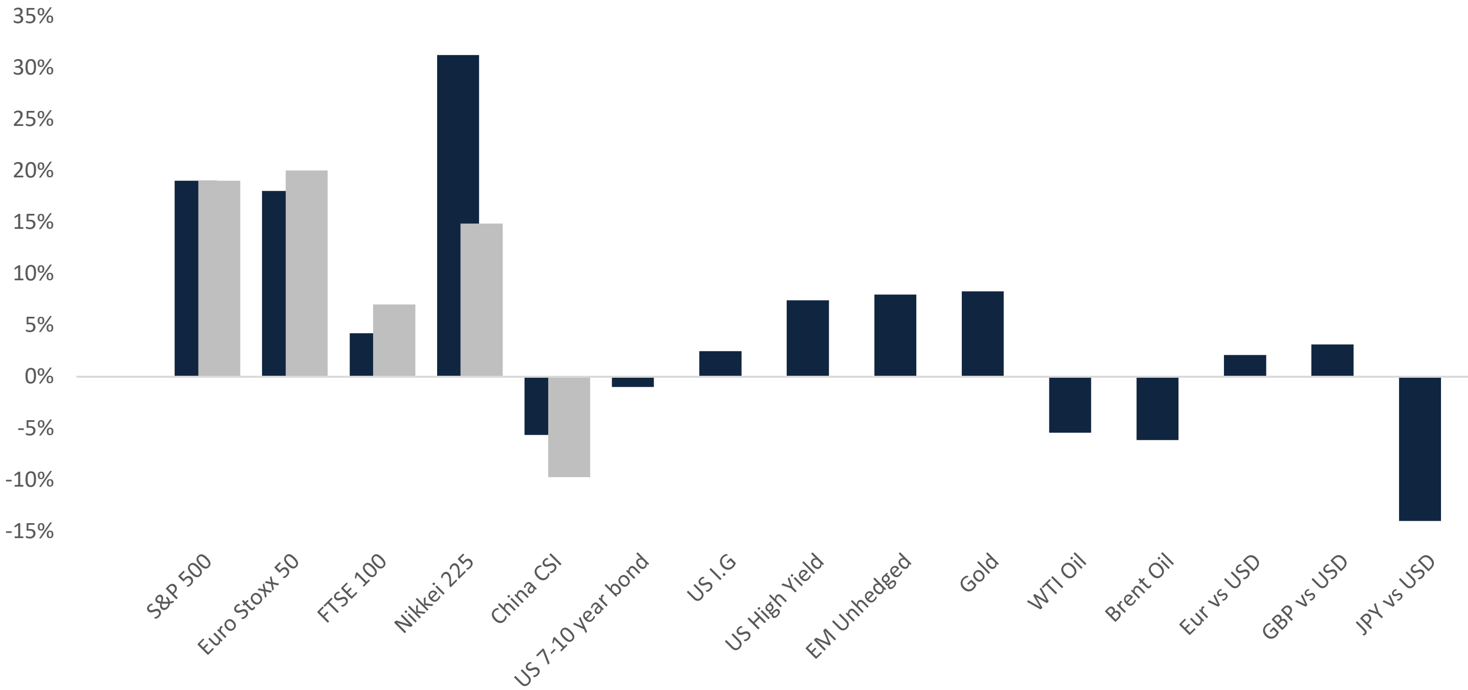
Energy prices should remain elevated based on low inventory levels and small increases in demand. Gold may suffer from higher real yields in Treasuries, but continued central bank buying should keep prices stable.

Currency p.17

We expect Japanese Yen to rally vs all major currencies as the BoJ ends its yield curve control policy. USD should benefit from a stronger economy than Europe and higher rates.

2023 YTD

Year to date performance (% change) to 17/11/2023. (USD Blue, Local Currency Grey)



Source: Bloomberg, Plurimi Wealth LLP

Global equities moved higher by 16.7% in the first 10 and half months of 2023. A very strong January led to the Euro Stoxx 50 leading the regional performance table in USD terms. Almost all the year-to-date gains came from the technology, communications, and consumer discretionary sectors, where Apple, Alphabet, Amazon, Tesla, Nvidia and Meta are classified.

Treasuries lost ground as yields moved higher, but the higher coupons on corporate bonds and EM debt led to positive returns.

GBP and Euro rallied vs. the dollar as pessimistic economic forecasts were beaten. The Japanese Yen was the laggard, as the Bank of Japan continued with stimulative monetary policy while other central banks engaged in a wave of interest rate hikes.

Rising geo-political concerns, central bank demand and a war in the Middle East drove gold prices higher despite improving real yields on other safe havens.

Euro equities were the top performing region as very weak economic predictions were beaten. Technology was the winning sector, rising by 50%

2023 MSCI World Sector performance (USD %)

	Total Return (%)	Contribution(%)
MSCI World	**16.7**	**16.7**
Information Technology	50.0	9.0
Communication Services	39.8	2.5
Consumer Discretionary	28.9	2.8
Industrials	12.9	1.4
Financials	9.0	1.4
Materials	5.8	0.3
Energy	3.2	0.1
Not Classified	0.6	0.0
Real Estate	-0.5	0.0
Consumer Staples	-1.8	-0.1
Health Care	-2.1	-0.3
Utilities	-2.8	-0.1

31/12/2022- 17/11/2023

Source: Bloomberg, PW

Global economic dashboard

Indicator	Rate of change (Derivative) 1st	2nd	Interpretation & outlook
Growth			*Employment is the driver of economic growth. Unless tight policy or other forces push up unemployment, we do not expect a Global recession*
Global leading economic indicator	0	0	Showing stability in G7 with a rebound from China
ZEW/IFO	-	0	Negative with no signs of improvement
US ISM manufacturing new orders	-	0	Fallen to contractionary levels.
Consumer confidence	-	0	Weak and falling on higher costs of goods.
Business confidence	0	-	Negative readings
Global PMI	0	0	Global composite PMI is steady at a stagnating level.
G7 employment	+	0	Unemployment is low and workers still have power.
Global trade volume	-	+	Global trade has been curtailed by sanctions, war and protectionism however bellwethers Korea and Taiwan have seen recent improvements.
Oil prices	0	+	Oil prices have been volatile but falling over the year.
Policy			*We believe Central banks hiking cycles are complete.*
Real policy rate	-	0	Global policy is now restrictive but central banks have ample dry powder should growth slow.
Nominal GDP-bond yield gap	0	-	Growth positive but slowing while yields rise
G7 credit growth	0	0	Credit growth is slow but remains neutral for growth.
Financial stress	0	+	Credit spreads not showing stress.
Fiscal thrust	+	-	US Stimulus has been driver of growth, and net positive in West.
Inflation			*We expect inflation to slow in 2023, but remain above CB targets*
Core CPI	+	-	CPI remains elevated but has rolled over in the US and Europe.
Wage growth	+	0	Wage growth is high in nominal terms and positive in real terms in 2024.

Global Economy

We expect continued economic growth throughout 2024.

Our global economic dashboard shows an economy which is not growing rapidly but not in a recession. Leading indicators point to lacklustre growth, but unless something breaks the employment backdrop, we do not expect the US to fall into a recession. The lagged impact of aggressive monetary tightening will likely hit demand in 2024. Fiscal thrust from the US propelled stronger than expected growth in 2023, but further fiscal stimulus is probably off the table given a Republican controlled house and mounting issues surrounding the debt and deficits. The US federal debt-to-GDP ratio is at 100%, but fiscal consolidation will probably not occur until after the US election.

Many negatives on the dashboard are offset by a strong employment backdrop and the prospect for real wage growth driving consumption.

We expect inflationary forces will continue to wane in the US but will remain above the Fed target for some time to come. The supply shocks that created double digit inflation are behind us. Core inflation in the US fell from 6% to 3% in the first ten months of 2023.

Consumer demand will play a bigger role determining inflation levels from here. Consumption should continue to expand at an above-trend pace in 2024. While confidence measures show pessimism, actual activity data are more positive. A continued strong job market and falling inflation should drive household income growth in real terms. A positive trend in income and corporate profits while job security is high drives our optimism. Inflation should bottom out at levels above the Fed's target. We expect the major Western Central banks are all done with their tightening, and this should set the stage for 2024 to almost match 2023's GDP Global growth.

Chinese growth and implications from the war in the Middle East are wild cards that may disrupt our constructive view.

China's economy should continue to grow but faces several headwinds including; continued property weakness, local government debt issues, youth unemployment, negative demographics, and global trade uncertainty based on a number of geo-political disputes. The war in the Middle East is the biggest wild card for growth. A broadening of the conflict risks curtailed trade, and spiking energy prices which could create a global recession.

Global Economy

Global manufacturing PMI has stayed in a contractionary level all year. Services PMI remains in expansionary level but not by a large margin. Overall composite PMI is at a neutral 50 level.

Unemployment in the developed world has settled in at levels below the pre-pandemic period. The job market has cooled but remains strong. Companies are still having difficulty filling the job openings, but the situation has improved over recent months, so overheating is not a concern.

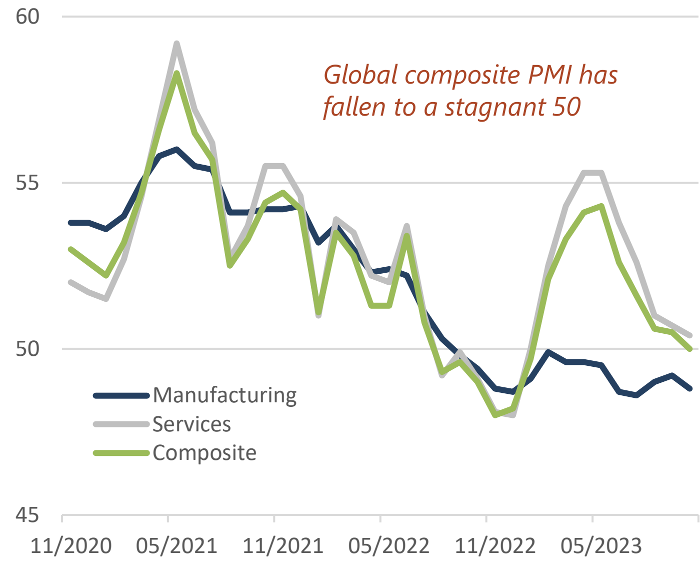
Nominal wage growth has started to slow meaningfully. Average hourly earnings are not as high as they were at the beginning of the year, but as inflation has slowed real wages vs inflation are improving. An aging population is also set to restrain labour supply, which should keep wage pressures on hiring companies. The oldest demographic will also have an income boon from higher interest rates than previous years.

As inflation expectations appear to be getting anchored at lower levels, we do not expect demand driven inflation will be a significant risk in 2024, but real earnings growth should lead to continued strong consumer spending.

With a strong employment backdrop, and less drag from tighter monetary policy we expect the US economy will end up in a soft landing. Household and business balance sheets are not stretched and should not impede consumption or investment.

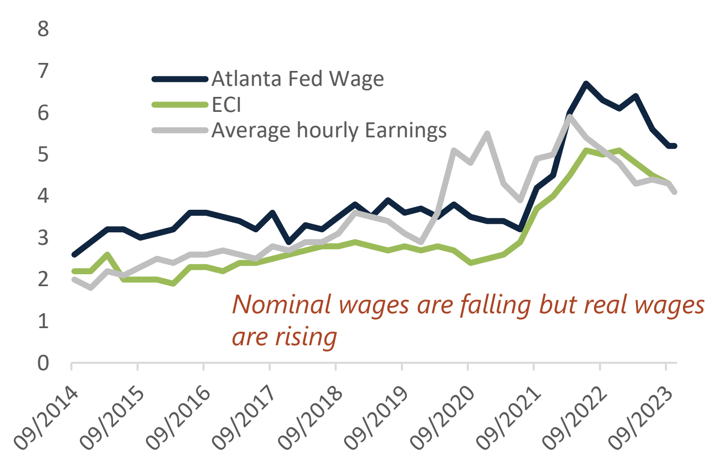
Our dash-board shows global trade being a detractor from growth. The downturn in global trade, and the related weakness in manufacturing activity has been a substantial source of economic weakness over the past two years. Exports from Korea and Taiwan are good indicators for global trade due to the diversified nature of their exports. Recent data have been decidedly positive for these countries. Exports troughed earlier this year and may now be set to expand.

JPM Global PMI



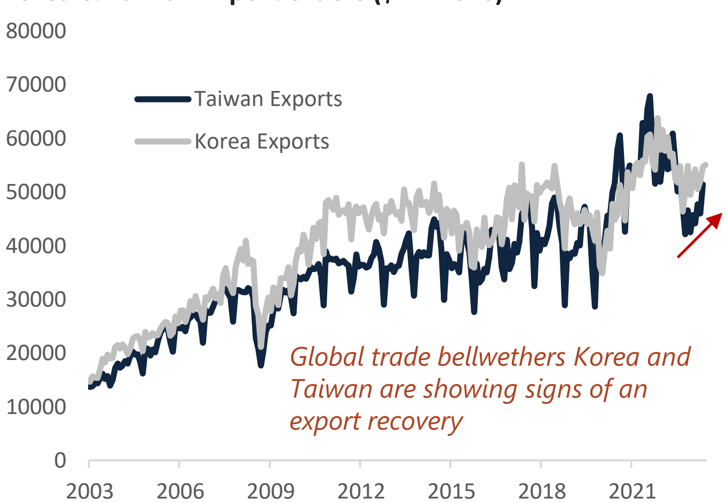
Source: Plurimi Wealth, Bloomberg

Wage growth indicators (% change yoy)



Source: Bloomberg

Korea & Taiwan Export orders ($Millions)



Source: Bloomberg

NFIB Survey (% of respondents)

Source: NFIB, Bloomberg , Plurimi Wealth

Consensus growth for the developed market in 2023 is running at just over 2% and Global growth is on track for 2.7%. This is about 1% higher than the consensus estimate from last year. Asia should continue to drive global growth in 2024 but we expect China's growth to slow further next year. China should benefit from easier policy which is already being put in place. In our economic dashboard we use composite leading indicators (CLI) to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long-term potential level. CLI in China have shown a sharp rise in recent weeks, while the G7 CLI is broadly stable.

Forecast GDP Growth

	2021	2022	2023e	2024e
World	5.9	3.1	2.7	2.6
US	5.6	2.8	2.4	1.9
Euro	5.3	3.3	0.5	0.7
UK	7.5	4.4	0.6	0.7
China	8.1	3.0	5.3	4.8
India	8.3	6.9	6.4	6.3

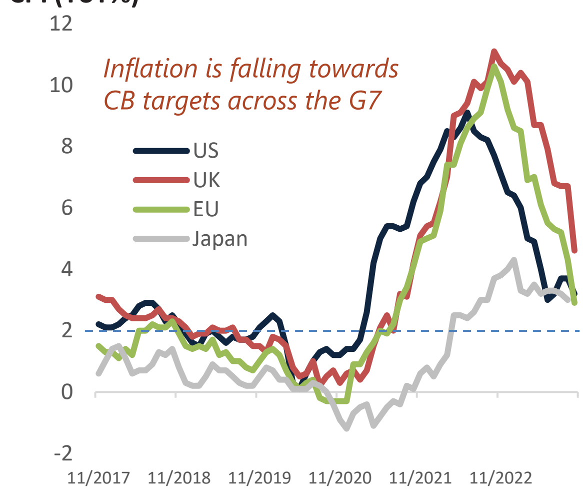
Source: Bloomberg, OECD, Plurimi Wealth

OECD Composite leading indicator (CLI)

Source: OECD

Inflation has rolled over, but central banks continue to warn it is too early to declare victory

CPI (YoY%)

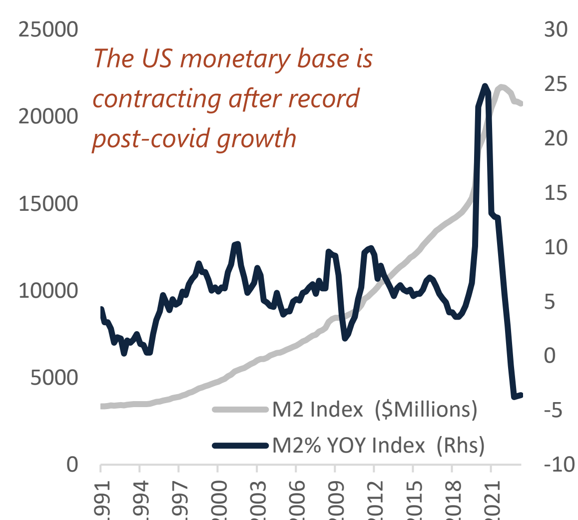


Source: Bloomberg, IMF, Plurimi Wealth

Europe should do marginally better than stagnation as real incomes should recover as the energy shortage from this time last year fades and rising mortgage costs have likely passed. The US consumer is the most important factor for economic growth and looks well placed to continue to drive the economy forward in 2024. A divided US government will likely mean fiscal stimulus will slow, but a fully employed US consumer that is getting real wage growth above inflation should be enough to keep the US economy on a steady growth path. Globally inflation remains above central bank targets but on a clear decline. US monetary aggregates are now contracting, after record growth during the Covid crisis.

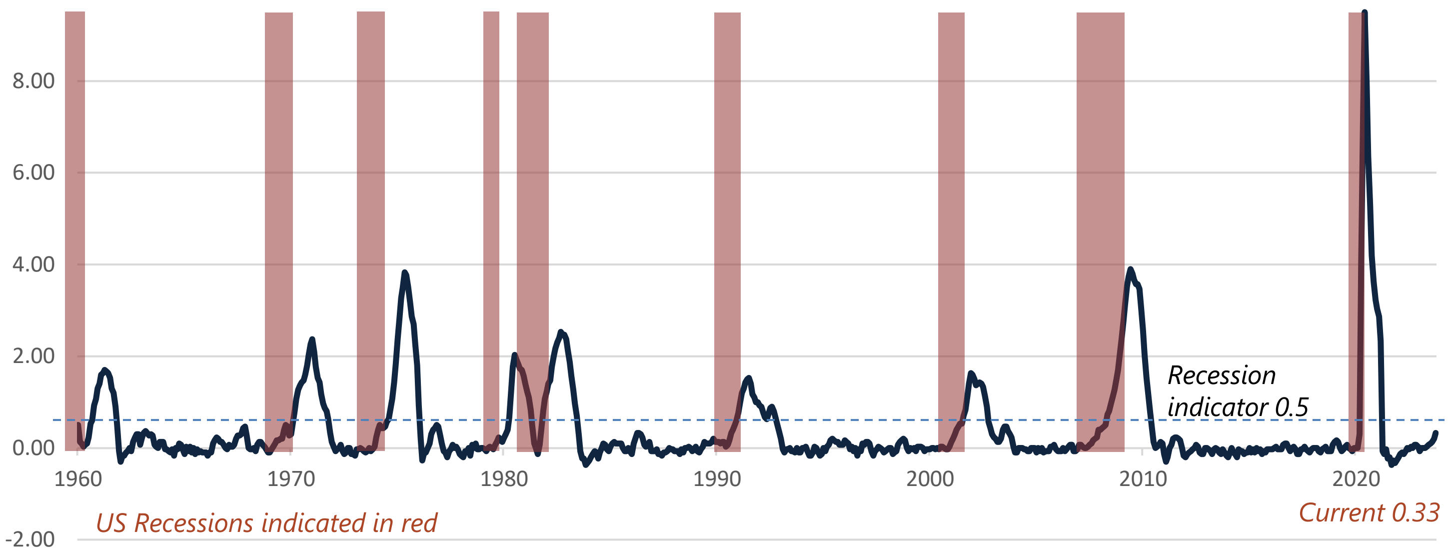
Geo-politics will make us and markets re-assess views as the year progresses. With tightly contested US and UK elections on the calendar, wars in Europe and in the Middle East, and likely sabre rattling over trade policy between major economic powers politically driven volatility is our base case for 2024.

US M2 Money Supply



Source: Bloomberg, IMF, Plurimi Wealth

Sahm Rule Recession Indicator, Percentage Points, Monthly, Seasonally Adjusted



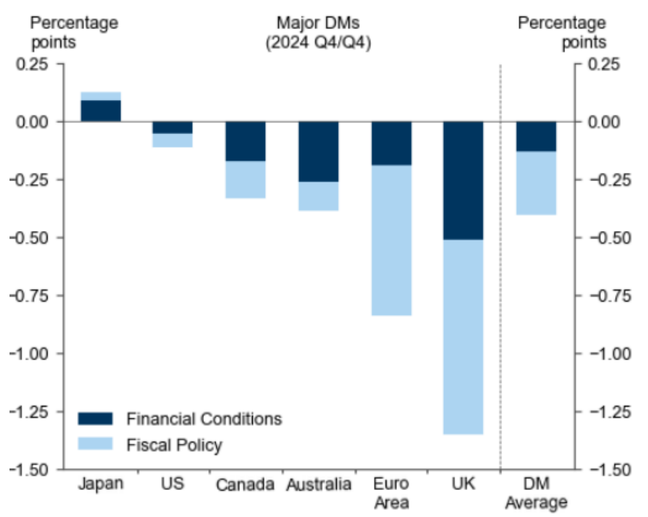
Source: Plurimi Wealth, St Louis Fed

While we are more optimistic than consensus on Global and US growth in 2024, a recession is not a farfetched outcome. We subjectively put the odds at 20%. The lagged impact of previous hikes is still to be felt. The job markets looks to be on sound footing as we enter 2024, but employment is a lagging indicator of economic strength. Anything that materially dents the employment outlook could quickly push the US economy into a recession. The Sahm Recession Indicator is meant to signal the start of a recession. It measures the three-month moving average of the national unemployment rate (U3). If it rises by 0.50 percentage points or more relative to the minimum of the three-month averages from the previous 12 months, then a recession is indicated with this rule. The rise in unemployment to 3.9% last month means joblessness is close to triggering the Sahm Rule, putting it at 0.33 level. The 0.5 indicator has proven to be reliable predictor of recessions in the past.

Employment is a lagging indicator of economic strength and any further uptick in unemployment would trigger a Sahm rule for recession

Fiscal stimulus has been mostly absent in Europe we expect growth to remain sluggish. Monetary policy will likely be eased as the year progresses, but it should stay in restrictive territory. Availability of credit may be constrained by conservative banks and an ECB which is no longer pushing credit expansion. In Southern Europe the end of energy-related payments and a pullback in EU Recovery Fund spending will likely impede growth. Goldman Sachs estimate the effect of fiscal and monetary policy will be most detrimental in the UK and Europe. They estimate that fiscal policy will subtract 0.2pp from global growth in 2024. In the US fiscal consolidation is unlikely to start in a presidential election year.

GS: Estimated effect of Policy on GDP Growth in 2024



Source: Goldman Sachs

The Fiscal thrust of 2023 will need to be offset by stronger consumption and investment in 2024 for our base case to be achieved.

Sovereign Debt and Deficits

Debt is a two-sided sword. Fiscal stimulus was a key driver of growth in 2023, but "bond vigilantes" caused yields to spike in Q3. High levels of government debt are the consequence of populist policies, and spending following the covid pandemic. US Debt will end 2023 at almost $35 trillion. Interest on debt is currently more than $1 trillion per year and at 5% interest rates it grows to $1.65 trillion per year.

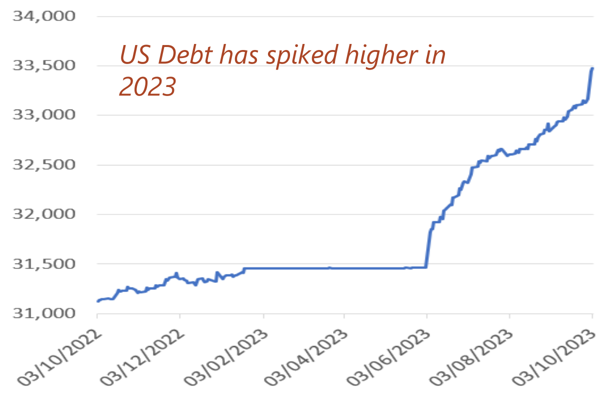
Global total debt has risen as a share of GDP since the global financial crisis in 2008. High debt was less of an issue when interest rates were low, but this has changed dramatically in 2023. Western governments have committed to decarbonization, which will require significant investment, and likely new debt as well. Higher interest payments will likely pose a challenge for governments, especially if growth fades.

Financial repression, higher taxes, stealth taxes through persistent inflation, or even defaults may result.

When central banks bought bonds and supressed interest rates governments could manage with very high levels debt. Japan has a 260% debt to GDP ratio. Its central bank owns half of the debt, but any normalisation of interest rates quickly blows out Japan`s deficit with higher interest rate expenses. Italy has 150% debt to GDP ratio, and interest expense already accounts for 5% of its economy.

The path to deal with debt will determine if it will be deflationary or inflationary in the long term. In previous years we have argued debt was a problem down the line, but debt dynamics are now stressed, and the spike higher in yields we saw in September may be an ongoing event until sustainability of spending is addressed by governments.

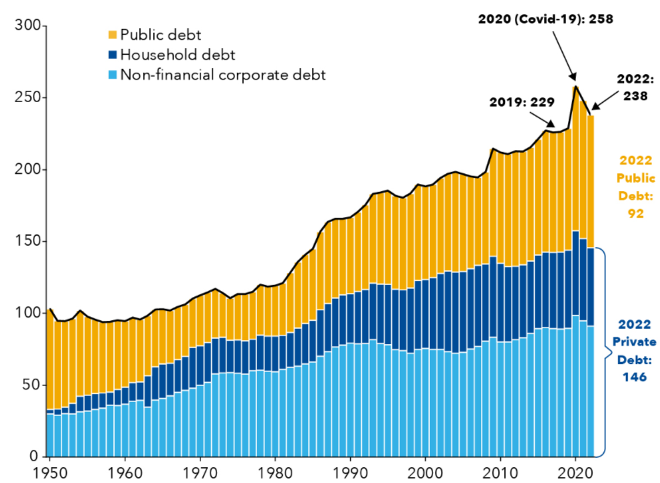
US GDP ($ Billions)



Source: Bloomberg, Plurimi Wealth

The spike in interest rates combined with much higher debt levels mean a debt crisis is one of the biggest risks the global economy and financial markets face in 2024.

Debt to GDP (%) IMF



Source: IMF

Source: Bloomberg

Central Banks — Cuts coming in 2024…but when?

We expect the major Central banks are finished with their hiking cycles and will likely pivot to interest rate cuts in 2024. Historically, large hiking cycles have led to recessions, as Central banks have generally hiked more than they needed to. In all four instances where the Fed hiked by 375bp or more since 1971 a recession has followed. All central banks are aware of this, and our base case assumes they have engineered a soft landing where inflation has been brought down, and a recession is avoided. To "stick the landing" cuts in policy will likely be needed in 2024 as even in a soft-landing scenario the Fed will likely need to cut rates as their current policy will become more restrictive in real terms as inflation falls. While we expect cuts in 2024, a strong labour market, and some persistent inflationary pressures may mean cuts will not happen as soon as the market expects.

Fed: The Fed has not been unequivocal in their outlook, however following a below consensus October inflation print and no signs of overheating in the employment market we are very confident they are done with their hiking cycle. The market is pricing cuts by the spring which we think will be delayed until the third or fourth quarter based on a resilient economy.

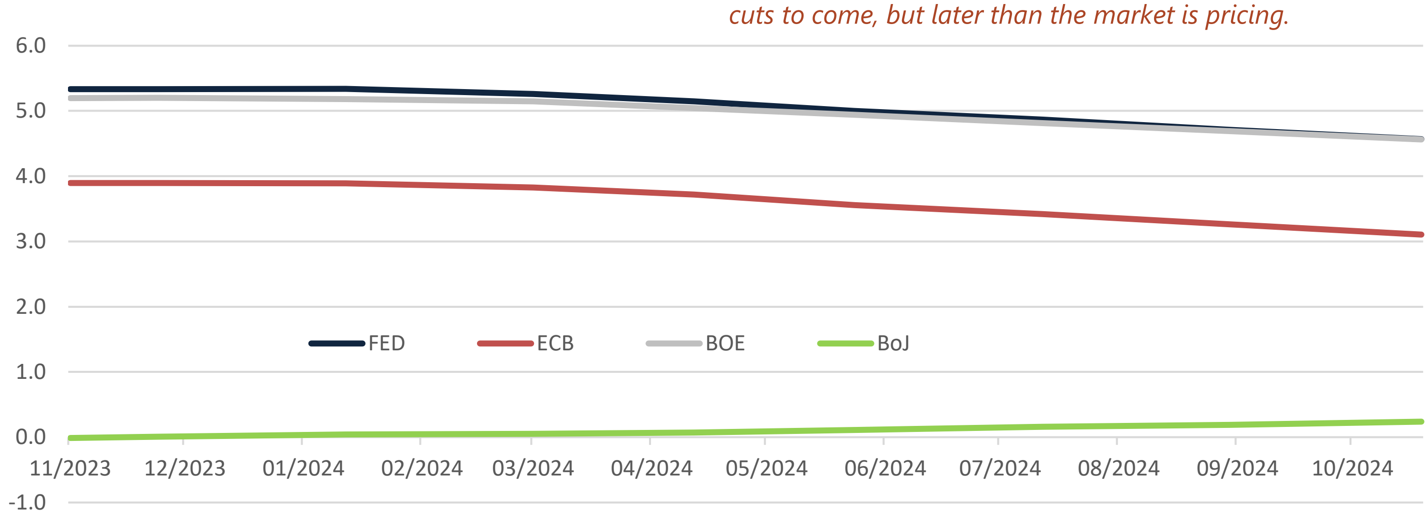
ECB: The ECB has a weaker economy, and higher unemployment than the US. We expect they will be the first bank to cut in 2024, roughly in line with where futures are pricing.

BOE: We expect BoE will closely match cuts from the Fed in 2024. Higher inflation dynamics and weaker growth put them in a difficult situation.

Bank of Japan: We expect yield curve control will be ended in 2024. A stronger Yen may limit hikes to an ending rate of 0.2%.

CB implied interest rates

Interest futures imply cuts beginning in Q2 2024. We expect cuts to come, but later than the market is pricing.



Source: Bloomberg Plurimi Wealth

Scenarios

Range of scenarios with subjective probabilities

Soft Landing: Our base case is growth continues and inflation falls towards central bank targets. Earnings growth spurs equities higher, and bonds yields move back to October levels. Growing demand vs flat supply in commodities pushes prices higher. (60%)

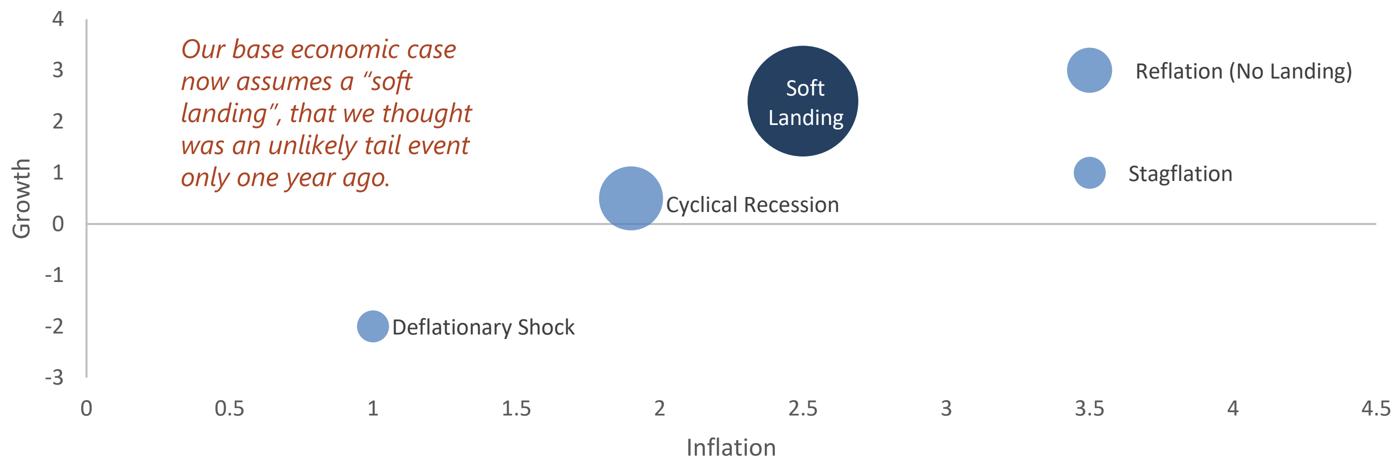
Cyclical Recession: A cyclical recession is the second most likely scenario for 2024. The lagged impact of previous hikes impair the job market, as well as consumer and business confidence plummet. Long duration in fixed income would be rewarded. and Central Banks would cut aggressively. Equities would struggle with lower margins, growth and falling earnings. Supply is greater than demand for energy leading to negative commodity returns. (20%)

Reflation (no landing): Strong GDP and wage growth due to a tighter than expected job market. Rising and embedded inflation expectations leave the Fed behind the curve. Cyclical equities and commodities well placed in this backdrop while bonds are long duration equities hit by a 7% Fed Funds rate Powell warned about in his last press conference. (10%)

Stagflation (War, protectionism): Economic contraction, and supply side shocks. A broadening of the war in the Middle East is a wild card that may disrupt our constructive view and lead to Stagflationary outcome. (5%)

Deflationary Shock: A financial crisis causes sharp contraction and heightened risk aversion. (5%)

Growth and inflation expectations in different scenarios. (Size of bubble probability weighted)



Source: Plurimi Wealth

Expected Returns in different scenarios

	Soft Landing	Cyclical Recession	Reflation (No Landing)	Deflationary Shock	Stagflation (Wars, Protectionism)	Probability Weighted
Probability	60%	20%	10%	5%	5%	**100%**
Equities	12.0	0.0	20.0	-15.0	3.0	**8.6**
Treasuries	2.5	9.0	-7.5	16.0	0.0	**3.4**
Inv. Grade	4.5	6.5	-3.5	7.5	2.0	**4.1**
Commodities	9.0	-15.0	22.0	-30.0	18.0	**4.0**
Gold	-3.0	7.0	0.0	11.0	-5.0	**-0.1**

Source: Bloomberg Plurimi Wealth

Asset Allocation

Our tactical asset allocation is based on a "soft-landing" expectation in 2024. Monetary easing in the latter part of the year should sustain equity multiples. Investors can achieve attractive nominal returns in credit and lock in real returns above inflation in TIPS. We have a neutral allocation at the asset class level but are making significant tactical calls within each asset class.

Equities: Neutral

Overweight : Energy, Consumer discretionary. We expect consumer demand to prove to be resilient in 2024. Energy trades at undemanding multiples.

Underweight: Real estate, Utilities, Staples

Fixed Income: Neutral

Short duration investment grade bank debt continues to offer the best risk adjusted return potential.

Steepeners should be profitable in our base case.

Inflation protected Treasuries offer compelling real yields above inflation.

Other Asset classes

Commodities: Neutral

Positive real yields on 10-year treasuries reduces the appeal of gold. We expect lower prices, but demand from Central banks looking to diversify reserves will be a positive(particularly China). Oil remains under supplied except in a significant recession. It is also a good hedge to energy crisis from implications if the war in the Middle East and Ukraine.

Alternatives:

Long volatility opportunistically. Quantitative Tightening should continue to remove the liquidity which has previously supressed volatility. Closely contested elections and risks from broadening wars are our base case rather than tail risks.

Long/Short managers should benefit from volatility and a return to fundamentals driving returns rather than liquidity.

Macro managers should be able ot profit from divergent growth and policy across countries.

Selling out of the money put options on somewhat expensive quality growth stocks is an attractive way to create a buy discipline and generate an attractive premium.

	U/W	Neutral	O/W
Equity (Neutral)			
Energy			++
Consumer Discretionary			+
Defence			+
Real Estate	-		
Consumer Staples	-		
Utilities	-		
Fixed Income			
Short Duration Senior Bank Bonds			++
Long Duration TIPS			+
Industrial Credit	-		
Japanese Bonds	--		
Commodities			
Oil			+
Gold	-		
Alternaitves			
Reverse Convertible on Oil			++
L/S Equity			+
Macro			+
Long Vol Strategies			++
Shut Put Options on Quality Growth Stocks			++
Steepeners			+
Inflation Swaps			+

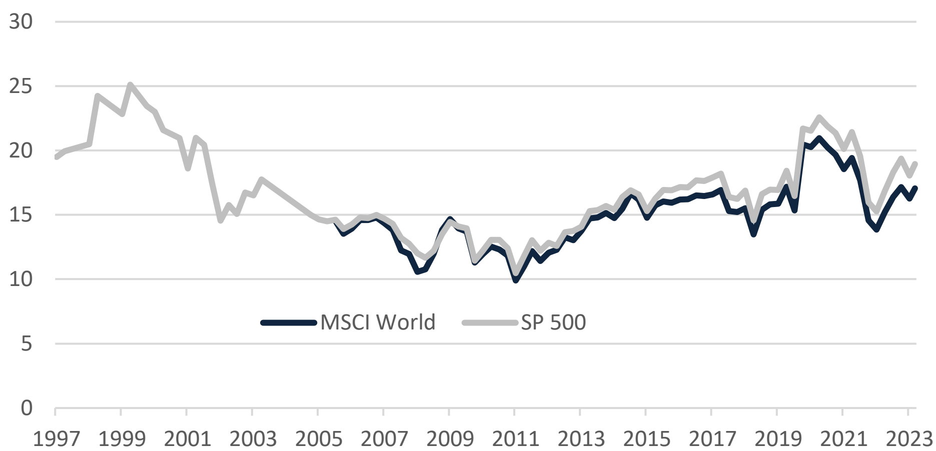
Tactical positions are driven by our expectation of a soft landing in 2024...however within this view, we are overweight positions which should work in our base case but positions in Energy, Defence, long volatility, Macro and duration as a hedge against more negative outcomes with War and protectionism.

Asset Allocation

Neutral investor positioning and reasonable valuations mean earnings growth likely the determinant for equities.

We expect a positive returns from traditional assets in 2024 based on persistent economic growth driving earnings and falling inflation keeping yields anchored. A

Blended 12-month forward P/E

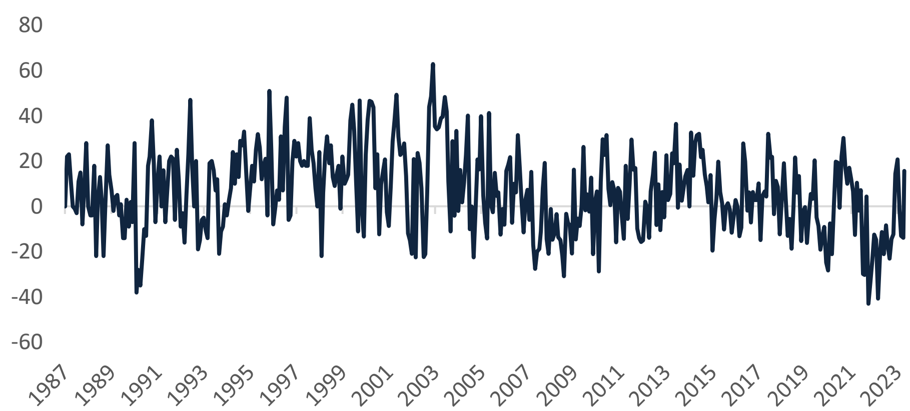


Source: Bloomberg, Plurimi Wealth

Earnings growth was diminutive in 2023, meaning the bulk of returns came from multiple expansion.

Multiples are elevated but not to levels which should provide major headwinds.

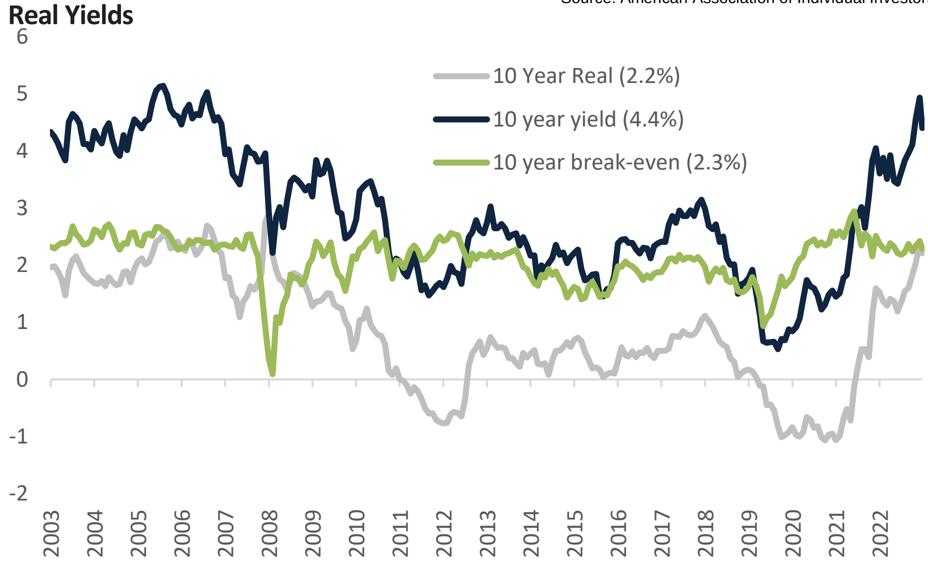
Investor positioning (% of investors who are bullish minus bearish)



Source: American Association of Individual Investors

The strong start to 2023 was driven by pessimistic investor positioning. This positioning has neutralised as the year has progressed meaning good news, rather than just the lack of bad news will be needed to push equities higher.

Real Yields



Source: Bloomberg, Plurimi Wealth

Growing debt issuance, Quantitative tightening, and lack of demand from central banks looking to "de-dollarize" their reserve have led to spiking real yields in 2023.

Treasuries should fulfil their role as safe havens given the jump in yields.

Equities

World (Neutral)

MSCI WORLD	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	19.07	53	20.17	18.43
BEst P/E Ratio	18.34	85	16.12	15.92
Long Term Price Earnings Ratio	25.63	76	22.64	22.35
Price to Book Ratio	2.94	84	2.45	2.42
Price/EBITDA	10.85	91	8.43	8.05
Price to Sales Ratio	1.98	94	1.40	1.35
Enterprise Value/EBITDA	12.41	77	11.82	11.77
Profit Margin	9.68	95	6.55	6.77
Operating Margin	13.07	92	10.65	10.76
Dividend Yield	2.04	33	2.22	2.18
10Y Yield	4.42	65	3.69	3.65

Source: Bloomberg. Jan 1995 to 27 Nov 2023

We end 2023 with neutral stance on equities. Reasonable*(ish)* valuations, neutral investor positioning with a soft landing as our base case sets the stage for upside in equities in 2024. While TINA (There is no alternative) drove equity investments in prior years, more compelling yields in fixed income keep our rating of this asset class neutral.

Current consensus earnings forecasts, as is almost always the case this time of year, look a bit too optimistic at 11%, but 8% earnings growth is consistent with our procyclical outlook. In Europe and the UK stocks look to offer good value. Japan is attractive based on valuation and corporate governance reforms.

The MSCI World is trading at 2.0x sales, which is up from 1.8x this time last year. This multiple is elevated, while on an earnings and ebitda basis the market looks expensive but reasonable based on higher profit margins. We expect companies that generate significant free cash flow and are not reliant on debt to fund their growth will be best positioned in 2024.

Factors favouring equities

- Resilient consumer.
- Above average nominal growth in a world where inflation may prove to be sticky.
- Potential central bank pivots top cuts.
- $6 trillion in cash may get allocated to riskier assets if cash rates fall.

Factors working against equities

- Valuations and strong returns in 2023 may set up a pull back.
- Potential regulation headwinds to large cap US stocks and continued Chinese regulatory and geo-political risks.
- Higher Bond yields may attract capital away from equities and impact multiples.

Overweight:
Energy
Consumer Discretionary
Defence

Neutral:
Technology
Financials
Materials
Industrials
Healthcare
Communications

Underweight:
Staples
Utilities
Real Estate

We are attracted to double digit shareholder yield in energy equities (Buybacks plus dividends).

Consumer Discretionary stocks offer innovation, exposure to AI and should be propelled by growing real spending power.

Defence stocks should have a long-lasting tail wind as countries bolster their militaries, modernize aging systems and rebuild equipment used in conflicts.

Heavily indebted and levered companies will likely face earnings headwinds as old debt matures and rolled over into higher cost debt.

Equities

World Equity *Magnificent 7, Contributor/Detractors*

You cannot look at equities in an appropriate way without considering the primary contributors to return as a sector to themselves. Year to date, the *Magnificent Seven* of Apple, Microsoft, Amazon, Nvidia, Alphabet, Meta and Tesla have more than doubled on average. The 105% average gain accounts for 9.4% of (56%) of the 16.7% MSCI World return. The other 1600 stocks account for the remaining 7.3%.

After the strong gains, these stocks now trade at 31.8x forecast earnings, vs the MSCI World at 16.6x. On P/Sales they trade at 7.8x, vs the World at 1.9x. These are expensive multiples, but we think these stocks deserve premium multiples. Sales growth of 9.4% which compares to 4.2% for the World and profit margin of 21.8% compares to 9.6%.

MSCI World and Contributions from Magnificent 7

	Total Return (%)	Contribution
MSCI World	**16.7**	**16.7**
APPLE INC	46.8	2.0
MICROSOFT CORP	55.6	1.9
NVIDIA CORP	237.5	1.7
AMAZON.COM INC	72.8	1.1
ALPHABET INC	54.3	1.1
META PLATFORMS INC-CL	178.4	1.0
TESLA INC	90.2	0.6
Magnificent 7	105.1	9.4
Other 1600 Stocks	8.8	7.3

	Div Yld	(P/E)	Est P/E	(P/CF)	Est EV/ EBITDA	EV/ EBITDA	(P/B)	Est P/S	Est PEG	Debt /Equity	Est ROE	Sales Gr	Debt/ EBITDA	ROC	Profit Margin	Op Inc Gr
MSCI WORLD	**2.2**	**19.6**	**16.6**	**13.7**	**11.2**	**12.5**	**3.0**	**1.9**	**2.3**	**144.9**	**39.2**	**4.2**	**3.1**	**7.4**	**9.6**	**-0.4**
APPLE	0.5	31.0	28.5	27.1	21.8	23.1	47.5	7.4	3.1	199.4	151.0	-2.8	1.0	54.4	25.3	-4.3
MICROSOFT	0.8	35.5	31.0	29.0	21.2	24.2	12.5	10.7	2.0	47.9	32.7	7.5	0.9	27.3	35.3	10.9
AMAZON.COM	0.0	68.3	33.0	20.8	13.5	18.9	8.2	2.4	0.4	83.9	16.7	10.3	1.8	7.4	3.6	103.4
NVIDIA	0.0	114.8	30.7	102.4	26.2	96.2	44.3	16.0	0.5	39.8	73.3	9.9	0.9	28.5	31.6	34.8
ALPHABET	0.0	25.1	19.4	16.2	11.7	15.7	6.2	6.1	1.2	10.8	26.7	5.3	0.3	22.9	22.5	0.2
META	0.0	21.9	18.9	13.1	10.3	17.0	6.0	5.8	0.8	25.8	25.9	7.5	0.8	18.2	23.4	4.7
TESLA	0.0	75.2	61.2	61.0	39.2	48.0	13.9	6.4	5.6	15.3	20.4	28.1	0.5	19.8	11.2	-13.3
Magnificent 7	**0.2**	**53.1**	**31.8**	**38.5**	**20.5**	**34.7**	**19.8**	**7.8**	**1.9**	**60.4**	**49.5**	**9.4**	**0.9**	**25.5**	**21.8**	**19.5**

Source: Bloomberg, Plurimi Wealth

US Mega Cap growth are all big contributors and big beneficiaries of Artificial intelligence advances. AI has stoked investor euphoria over its potential. While there is some speculative excesses and potential reckless investing around the AI theme, we believe the most profitable companies in the Magnificent Seven do warrant the confidence the market is showing in them. We expect AI will have a major impact on productivity, automation of laborious tasks, improve value of advertising content, and assessing data in new ways to driven revenue and profit.

The other area of potential speculative excess, which we think is warranted is on weight loss and diabetes drugs from Eli Lilly and Nov Nordisk. Both stocks rose by more than 50% year to date, but the revenue growth potential is growing by a similar magnitude. Covid was the pandemic of 2020, while Obesity is the pandemic of today`s generation.

Other significant contributors and detractors in 2023

	Total Return (%)	Contribution
ELI LILLY & CO	63.3	0.4
NOVO NORDISK A/S-B	52.6	0.2
BROADCOM INC	78.1	0.4
ADOBE INC	79.1	0.2
ADVANCED MICRO DEVIC	86.2	0.2
NETFLIX INC	58.0	0.2
CHEVRON CORP	-16.3	-0.1
NEXTERA ENERGY INC	-30.0	-0.1
ABBVIE INC	-11.0	-0.1
MODERNA INC	-57.4	-0.1
BRISTOL-MYERS SQUIBB	-26.8	-0.1
JOHNSON & JOHNSON	-13.3	-0.1
PFIZER INC	-38.9	-0.2

Source: Bloomberg, IMF, Plurimi Wealth

Equities

Regional Characteristics

SP500	Current	Percentile	Average
Price Earnings Ratio (P/E)	21.76	74	19.99
BEst P/E Ratio	20.97	75	18.58
Long Term P/E	29.19	81	23.31
Price to Book Ratio	4.25	89	3.04
Price/EBITDA	12.75	93	8.95
Price to Sales Ratio	2.47	94	1.61
Enterprise Value/EBITDA	14.12	88	11.68
Profit Margin	10.43	95	7.29
Operating Margin	13.58	90	12.02
Dividend Yield	1.54	17	2.04
10Y Yield	4.42	55	4.22

Russell 1000 Growth	Current	Percentile	Average
Price Earnings Ratio (P/E)	31.50	79	25.36
BEst P/E Ratio	29.22	82	22.77
Long Term P/E	52.66	87	35.88
Price to Book Ratio	11.68	94	5.96
Price/EBITDA	20.19	92	13.12
Price to Sales Ratio	4.19	93	2.49
Enterprise Value/EBITDA	20.84	89	14.63
Profit Margin	12.22	93	8.81
Operating Margin	15.98	96	13.65
Dividend Yield	0.73	13	1.18
10Y Yield	4.42	65	3.69

US has the most dominant and innovative companies. American exceptionalism and a business-friendly environment is a strong force for US equities, especially its growth equities.

Russell 1000 Value	Current	Percentile	Average
Price Earnings Ratio (P/E)	16.33	52	16.79
BEst P/E Ratio	15.65	53	15.86
Long Term P/E	18.35	57	17.64
Price to Book Ratio	2.29	70	2.12
Price/EBITDA	8.53	66	7.31
Price to Sales Ratio	1.55	78	1.29
Enterprise Value/EBITDA	10.43	56	10.40
Profit Margin	8.73	90	6.60
Operating Margin	11.59	61	11.13
Dividend Yield	2.44	56	2.47
10Y Yield	4.42	65	3.69

Russell 2000	Current	Percentile	Average
Price Earnings Ratio (P/E)	27.71	33	35.55
BEst P/E Ratio	28.03	63	30.15
Long Term P/E	17.30	13	21.33
Price to Book Ratio	1.86	24	2.08
Price/EBITDA	10.69	64	10.09
Price to Sales Ratio	1.12	63	1.04
Enterprise Value/EBITDA	15.18	66	14.04
Profit Margin	1.79	33	1.59
Operating Margin	5.00	33	5.42
Dividend Yield	1.73	90	1.46
10Y Yield	4.42	65	3.69

Value and small cap US stocks are much cheaper than growth, but not particularly cheap vs their own history.

UK FTSE 100	Current	Percentile	Average
Price Earnings Ratio (P/E)	10.89	17	18.18
BEst P/E Ratio	10.78	28	12.71
Long Term P/E	17.23	59	16.51
Price to Book Ratio	1.67	43	1.77
Price/EBITDA	5.41	14	6.92
Price to Sales Ratio	1.14	57	1.09
Enterprise Value/EBITDA	5.72	1	9.21
Profit Margin	11.00	97	6.49
Operating Margin	14.99	95	9.91
Dividend Yield	4.04	68	3.84
10Y Yield	4.10	67	2.86

UK market is an outlier in terms of valuation. 5.7 EV/EBITDA is 67% discount to the SP 500. We are attracted to Energy as a sector.

Euro Stoxx 600	Current	Percentile	Average
Price Earnings Ratio (P/E)	12.98	20	18.43
BEst P/E Ratio	12.90	32	14.13
Long Term P/E	20.02	66	18.22
Price to Book Ratio	1.70	55	1.74
Price/EBITDA	7.11	42	7.26
Price to Sales Ratio	1.24	77	1.09
Enterprise Value/EBITDA	9.68	9	11.96
Profit Margin	9.00	91	6.17
Operating Margin	12.98	91	9.93
Dividend Yield	3.45	58	3.33
10Y Yield	2.58	57	2.07

European equities were the surprise performance leader in 2023, this has made them a bit more expensive than the UK.

Source: Bloomberg, IMF, Plurimi Wealth

Equities

Regional Characteristics

Japan TOPIX	Current	Percentile	Average
Price Earnings Ratio (P/E)	16.03	30	41.22
BEst P/E Ratio	15.44	46	19.49
Long Term P/E	21.68	47	26.80
Price to Book Ratio	1.32	40	1.49
Price/EBITDA	7.21	86	6.05
Price to Sales Ratio	0.89	89	0.69
Enterprise Value/EBITDA	6.71	13	9.14
Profit Margin	5.53	89	2.98
Operating Margin	7.42	81	5.86
Dividend Yield	2.29	84	1.54
10Y Yield	0.70	34	1.27

Increasing share buy backs in Japan and improving corporate governance, strong forecast earnings growth and continued accommodative monetary policy boost should drive returns higher in 2024.

Swiss SMI	Current	Percentile	Average
Price Earnings Ratio (P/E)	18.37	45	21.06
BEst P/E Ratio	16.93	45	16.85
Long Term P/E	23.34	56	23.28
Price to Book Ratio	3.75	100	2.63
Price/EBITDA	10.94	56	9.62
Price to Sales Ratio	2.42	88	1.91
Enterprise Value/EBITDA	12.11	13	14.43
Profit Margin	15.36	95	9.26
Operating Margin	19.56	99	12.30
Dividend Yield	3.24	82	2.35
10Y Yield	0.93	63	0.73

The Swiss market was an alternative to bonds in the zero-yield environment. Bond investors who were forced into defensive yielding equities are being attracted back to fixed income. 16.9x forward P/E is in line with its history.

Source: Bloomberg, IMF, Plurimi Wealth

Fixed Income **Neutral**

We expect central banks to commence rate-cutting cycles in 2024 but do not expect this to lead to a parallel shift lower in the yield curve. In our base case scenario cuts will come due to confidence in falling inflation, rather than collapsing economic growth. While falling, inflation will likely remain above the 2% central bank targets through all of next year. Resilient growth should lead to the long end of the curve moving marginally higher by year end 2024. The re-establishment of a term premium across the curve will be consistent with an economy that is not the edge of a recession. Growing debt issuance, Fed Quantitative tightening, and lack of demand from central banks looking to “de-dollarize” their reserve have led to spiking real yields in 2023. We expect the 10-year US Treasury yield to rose back to 4.75% by the end of next year. This is consistent with a 10-year inflation of rate of 3%, a real yield of 1.0% and a term premium of 0.75%.

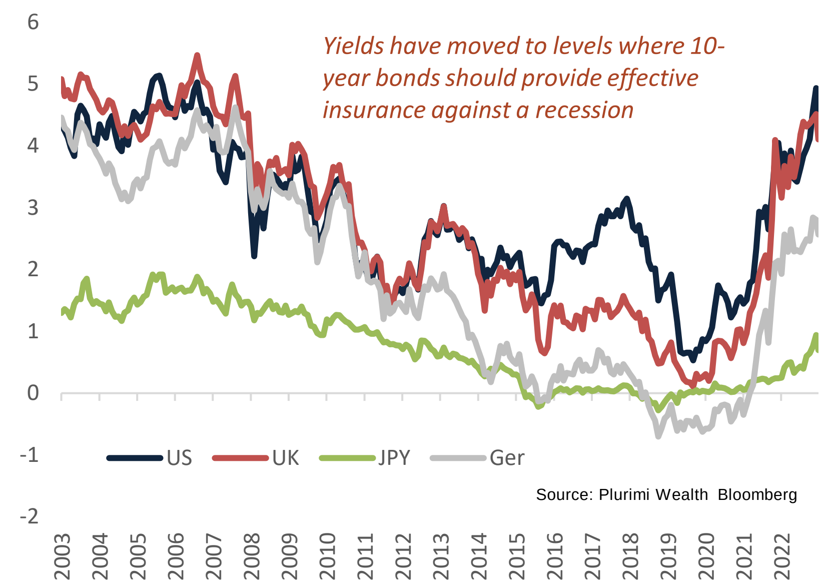
For corporate bonds we continue to prefer short duration bonds, especially in the form of senior bonds from investment grade rated banks. Short duration bank debt offers strongest risk adjusted return potential in 2024 with 6% yields. Major banks are well capitalized, well run and regulators will do everything they can to make sure there is not a default in these bonds. (Too big to fail). Despite these advantage, these bonds offer a significant yield pick-up vs similarly rated industrial bonds.

We prefer inflation protected bonds for duration, as the market is now pricing CPI in line just above the Fed target for the next decade. Over the next decade an inflation overshoot is much more likely than an undershoot in our opinion. Populism, Protectionism, Nationalism and Wars all lead to higher cost structures. While we expect inflation to wane this year, we expect the coming decade will be characterised by periods of intermittent spikes in inflation. Populist policies promise things that cannot be afforded, and printing new money to pay old debt will continue to create periods with high inflation.

We forecast modestly higher 10-year yields across most of the world, with Treasuries yielding 4.9%, Germany Bunds 2.7%, Japan 1.80% and UK 4.9% by year end 2024.

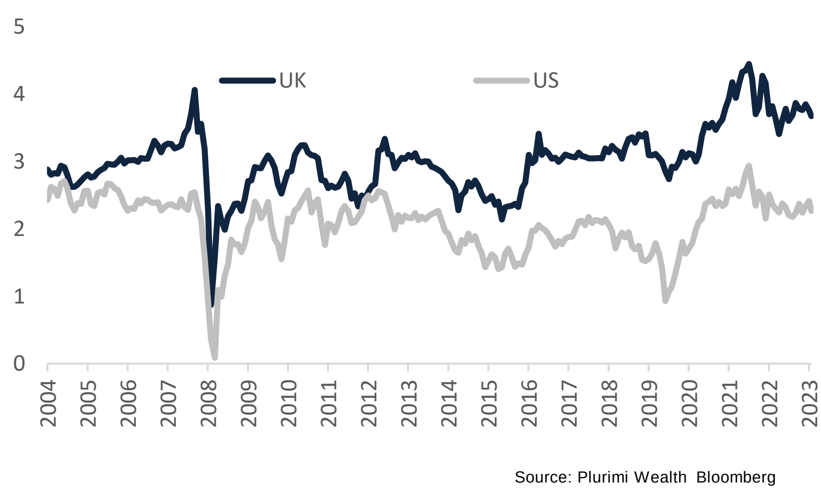
Break evens are above central bank targets but are back below our longer-term expectations for inflation especially in the US. Given the potential for inflation to spike higher on exogeneous shocks and governments inclination to monetize debt, we favour inflation protected bonds as the sector to be long duration. For non-US investors we prefer US TIPS to UK, with the currency being hedged to lock in higher real yields.

10-year sovereign bond yields



We expect some steepening of the curve as the year progresses. Lower CB rates combined with marginally higher 10-year yields.

10-year inflation break evens



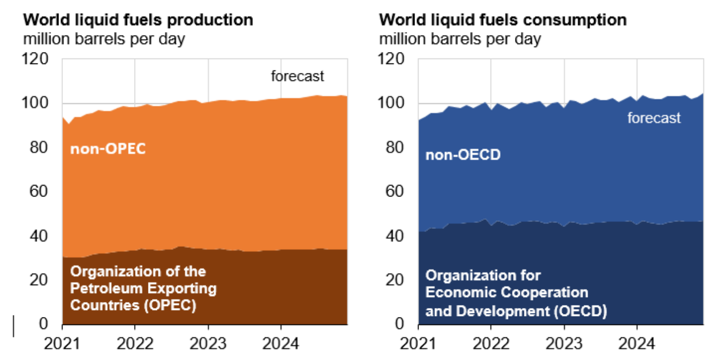
Commodities

We are positive on Energy commodities for 2024. Tight supply, and OPEC seemingly committed to defending $70/bbl drive our thesis. Should economic growth play out as we expect the market will price higher demand in the coming months. Oil also provides a hedge against geopolitical disruptions

Global growth continues to push demand higher and supply curbs from OPEC+ leaders Saudi Arabia and Russia were extended for the rest of the year. Oil benchmarks are trading near its highest level this year. Russia plans to reduce diesel exports from its key western ports by a quarter this month as a result of seasonal refinery maintenance and plans to keep more supplies at home. A rise in diesel futures outpaced gains in crude. We expect stable oil prices form here will translate into strong performance for energy equities based on the cash flow they are producing. The Energy Information Administration are forecasting continued growth in daily oil consumption for the rest of the year, while new production is basically only offsetting declines from existing wells.

Gold has risen to $2,000 per ounce, near its record high following the he conflict in the Middle East. We expect lower gold prices based on headwinds from positive real yields in other haven alternatives. In scenarios where we get positive outcomes relating to wars and geo-politics yielding instruments should have less downside than gold prices in our opinion.

DOE Crude Oil Total Inventory Data ('000 barrels)



Source: EIA

Gold Price and Real Yields Inverted

Source: Plurimi , Bloomberg

Currency

We expect Japanese Yen to rally vs all major currencies as the BoJ ends its yield curve control policy. The Yen is extremely undervalued on both Consumer and Producer Purchasing Power Parity measures. USD should benefit from a stronger economy than Europe and higher rates.

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