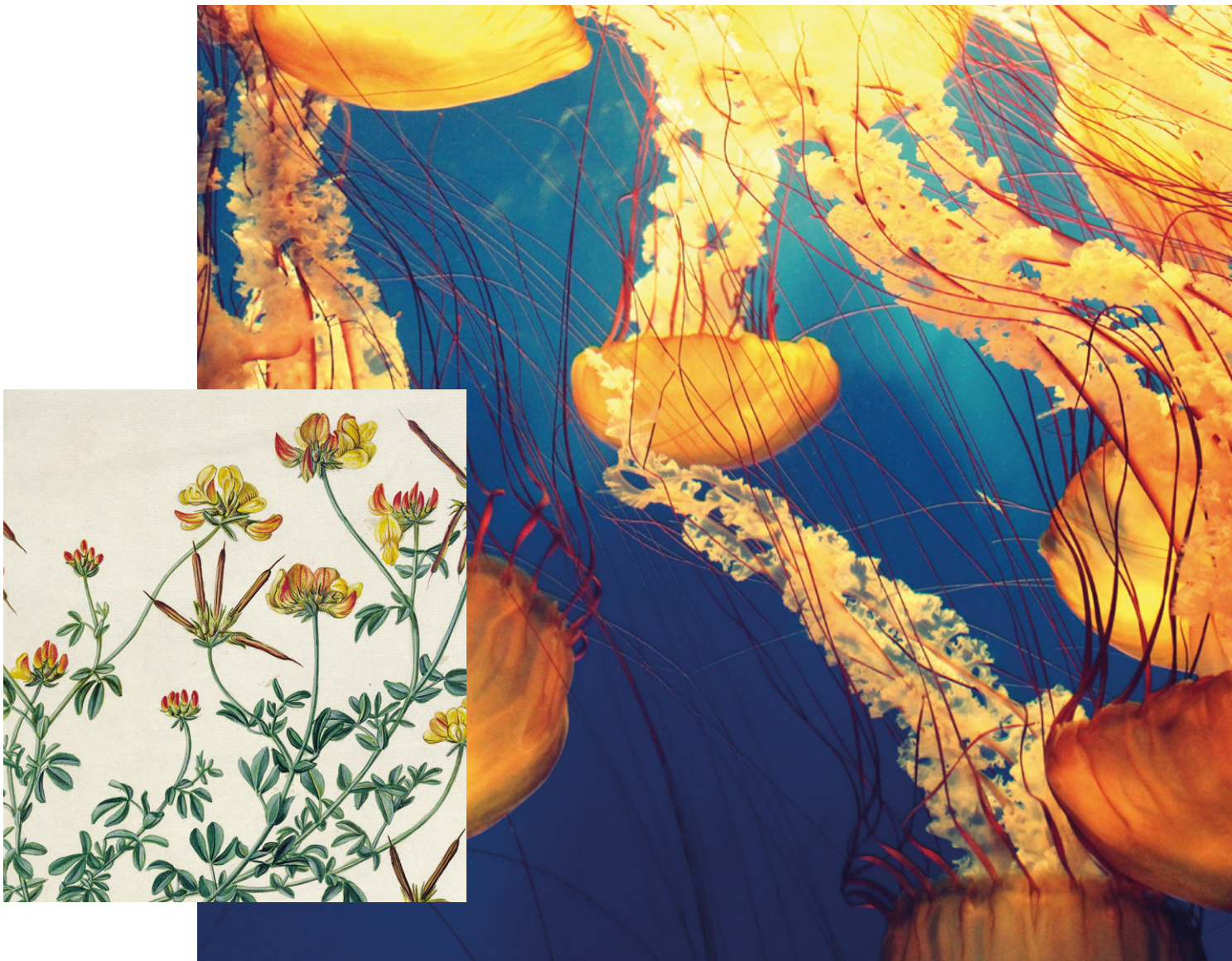




Wealth
Management

Quarterly Report Sustainable Portfolio Service

Q3 2024



| Forward-looking
| for generations



Cover image
Bauer brothers, Hortus Botanicus, detail from
"Lotus corniculatus L.," around 1788
© LIECHTENSTEIN, The Princely Collections, Vaduz-Vienna

Contents

- 4 Summary: Q3 2024
- 7 Portfolios in review
- 10 Sustainability update
- 12 Conclusion

Summary: Q3 2024

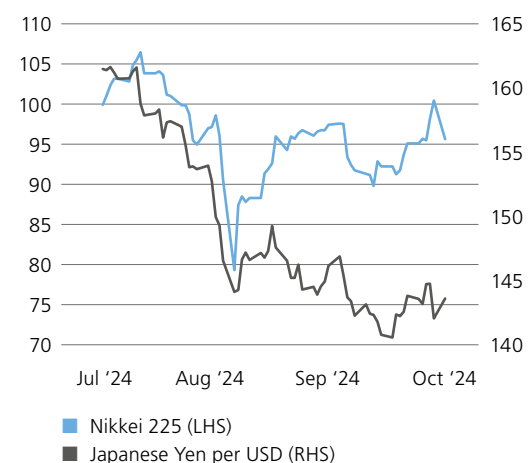
At a glance

- Bank of Japan hike rattles markets
- The Fed goes bold with its first cut
- Growth fears overtake inflation
- Equity market rally broadens out
- Kamala Harris steps in for Joe Biden

Equities

While most of the S&P 500's gains in the first half of the year can be attributed to just a handful of stocks, namely the Magnificent Seven, August proved the importance of diversification. As the BoJ raised rates for the second time this year, it indicated a more hawkish tone. This led to a sharp rally in the Japanese yen, resulting in a sharp global equity market sell-off, as investors reduced exposure to leveraged bets. Japanese equity markets suffered particularly with the Nikkei falling 12% on 5th August, finishing the quarter down 3.6%. However, as this sell-off had more to do with technical reasons and not fundamental causes, the market rebounded strongly from the lows of early August to hit new highs in recent weeks.

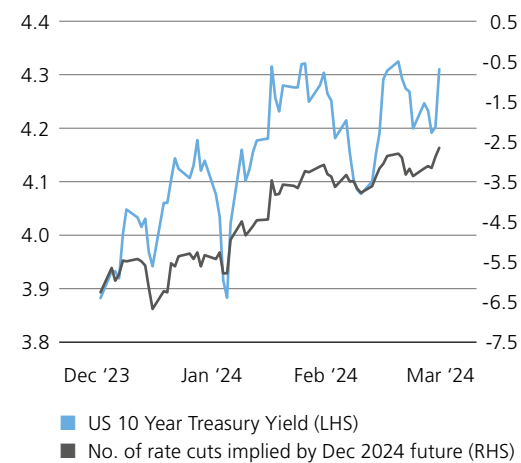
Yen vs Nikkei (Nikkei indexed to 100)



Source: Bloomberg

Despite growth concerns mounting, the S&P 500 finished the third quarter up 5.9%, compared with around 9% for both the S&P 500 Equal Weight and the Russell 2000 smaller caps index. Ten-year Treasury yields fell over 0.6% over the quarter, ending just below 3.8%.

Equal weight S&P vs Russell 2000 (indexed to 100)



Source: Bloomberg

“

While most of the S&P 500's gains in the first half of the year can be attributed to just a handful of stocks, namely the Magnificent Seven, August proved the importance of diversification.

Sanjay Rijhsinghani, Chief Investment Officer



Politics

An assassination attempt on Republican candidate Donald Trump in July seemed to swing momentum in his favour before tilting back towards Kamala Harris, who became the Democratic nominee once President Joe Biden stepped out of the race. Harris has garnered support, particularly after a strong performance against Trump in a debate in September. Nonetheless, the November election remains too close to call and will come down to a few crucial swing states.

Meanwhile in the UK, euphoria around Labour's landslide victory was short-lived. Prime Minister Keir Starmer and his cabinet claim a GBP 22 billion hole in public finances leaves them with no alternative but to raise taxes in the October budget.

Rate-cutting cycle starts

The central bank cutting regime picked up steam in the third quarter, with the Fed kick-starting its rate cutting cycle with a half-point reduction. There was equity market volatility leading up to the Fed's meeting, with expectations gyrating between a 0.25% or a 0.50% cut. The Fed's decision to go with the larger half-point reduction underlines their focus on the labour market as inflation concerns fade. The Fed's projections now indicate rates may fall by a total of 2% by December 2025, including September's reduction.

The Bank of England (BoE) also lowered interest rates in August for the first time since 2020 to 5% from 5.25% while the European Central Bank (ECB) engaged in its second 0.25% rate cut this year to 3.5%. This saw the dollar fall versus other currencies, with sterling strengthening close to 6% over the quarter.



China

After a year of paltry returns and stagnant growth, China's 5% GDP growth target looked unachievable, with many economists downgrading their outlook for the region. This prompted China's central bank and financial regulators to announce a combination of bold policies, which appear to have gone beyond market expectations. With sentiment in the region at historic lows, along with the stock market trading at levels seen in 2019,¹ the authorities needed to act in order to stabilise the economy and restore confidence.

The People's Bank of China (PBoC)'s economic policies include reducing short-term lending rates; cutting the amount of cash banks are required to hold; reducing both the average interest rates on existing mortgages and downpayments for second home purchases; and injecting over USD 100 billion to help bolster equity markets. These larger-than-expected policies had an immediate impact, with both the Hang Seng and Shanghai Composite surging, bringing their third quarter gains to 21.7% and 14.3%, respectively.²

The impact of this stimulus could go beyond the mainland's borders—China is a major market for commodities, raw materials, construction, automotive and luxury goods, so renewed investor interest

in China could in our view undoubtedly lift these sectors as well.

Oil prices remained in flux, notably with the prospect of additional supply from Libya and Saudi Arabia. Ongoing Middle Eastern tensions means a resolution appears unlikely. Copper prices rose 9.8% in September, rebounding from losses earlier this year on the back of the recent news from China.

Conclusion

Concerns remain over the US labour market, and it remains to be seen whether the Fed has engineered a soft landing. As the Fed's focus shifts from inflation to the labour market, inflation targets among other central banks will likely result in more measured cutting cycles.

We are cautiously optimistic about China and Asia more broadly, as we believe China's recent policy measures should support the economy and there are plans for further policy measures.

The US election remains a global wildcard. As always, we continue to monitor geopolitical risks while constructing portfolios, but our focus remains on quality companies able to withstand political turbulence and deliver solid returns over the medium to long-term.

Portfolios in review

Looking at the portfolio in July, we were happy with our broad-based equity allocation, remaining focused on investing in high conviction investments with a quality bias. We were aware of the increased market concentration and the possible risks that this posed. In the second half of July, we did see a rotation out of mega cap growth stocks, which benefited the portfolios on a relative basis.

Following a sharp move downwards in global equity markets at the start of August, we thought it prudent to take advantage of this short-term dislocation, taking the decision to increase our allocation to equities. To fund this, we reduced our exposure to short term government bonds and increased market risk within portfolios.

During Q3 western central banks had firmly moved into rate cutting cycle, with the Federal Reserve, ECB and Bank of England all delivering rate cuts in some form. Upon review of our sovereign debt positioning in early September, shortly after the Federal Reserve announced a 50bps cut to US bank rate, we took the view that US treasuries were not as attractively valued relative to UK Gilts. Given this view, we took the decision to rotate some US Treasury exposure into UK Gilts.

Fixed income

In the third quarter, fixed income markets celebrated the start of the eagerly awaited rate-cutting cycle. Bonds rallied globally as the Federal Reserve, Bank of England (BoE), and European Central Bank (ECB) all cut interest rates, shifting their focus from combating inflation to supporting their economies.

In August, UK government bonds surged after the BoE's first rate cut since 2020, a narrow 5-4 decision to reduce rates by 0.25%. Governor Andrew Bailey maintained a cautious stance on future cuts, empha-

sising data dependence. Despite UK inflation hitting the 2% target in May and June, the BoE forecasts a rise, prompting a cautious approach.

Following the BoE's decision, weak US manufacturing and payroll data sparked fears of economic decline. The ISM report showed the weakest employment subcomponent since the pandemic, raising the unemployment rate to 4.3% from 4.1%. US Treasuries rallied amid concerns of a faster-than-expected economic slowdown.

Fed Chairman Jerome Powell hinted at rate cuts during his Jackson Hole speech, and worsening employment conditions led to a significant rate cut in September. The Fed reduced rates by 0.5%, signalling confidence in controlling inflation but concern for employment. US bond yields fell, with the 2-year yield dropping 1.1% to 3.6% and the 20-year yield down 0.5% to 4.15%.

The ECB also cut its deposit rate by 0.25% to 3.5%, the second cut this year. With Eurozone inflation nearing the 2% target and growth concerns, especially in Germany, the outlook remains challenging. The 2-year German bund yield fell by 0.8% over the quarter to 2.0%.

From the perspective of the portfolio, the fixed income component delivered a strong return over the quarter. Given the sharp move lower in US government bond yields, our positions in US Treasuries were some of the best performing holdings in the fixed income allocation. Despite inflation expectations falling marginally over the period, the portfolio's position in inflation protected bonds was also a positive contributor. Our position in the long-dated UK Gilt achieved a positive return, but lagged the performance of US bonds as the path of interest rate cuts appears to be slower in the UK than the US.

¹ Bloomberg

² Bloomberg, Deutsche Bank

Turning to credit markets, credit spreads (the additional risk premium of holding a corporate bond over a government bond) were flat over the quarter but proved volatile as investors navigated deteriorating economic data and moderating but above trend inflation. The portfolio's exposure to corporate debt performed well as nominal interest rates fell while the absolute level of income received from credit remains elevated.

Equities

Despite volatility in early August, equity markets more than recovered to end the quarter close to all-time highs, as a combination of more robust US economic data, the beginning of the Fed rate cutting cycle, and the announcement of new stimulus in China led to a more optimistic outlook for the global economy.

The quarter saw a shift in market leadership. Interest rate-sensitive sectors like Real Estate and Utilities, along with cyclicals such as Industrials and Financials, outperformed. Conversely, Technology, especially the Magnificent Seven, lagged after leading in the first half of the year. This shift led to a broader dispersion of returns, benefiting equity portfolios, which outperformed the MSCI ACWI.

Sustainable portfolios also performed well, thanks to allocations in Utilities, Industrials, and broader Technology exposure, which helped navigate market rotations effectively.

Chinese markets rebounded strongly at the quarter's end, reversing earlier weakness. The Chinese central bank's additional monetary easing measures, combined with the Politburo's focus on fiscal stimulus targeting the consumer, acted as significant catalysts. This positively impacted Asia Pacific allocations in portfolios.

Commodities like iron ore and copper rose on Chinese stimulus news, boosting mining stocks. However, oil prices remained flat due to rising geopolitical tensions and increased supply from countries like Saudi Arabia.

Smaller companies outperformed large caps, benefiting from higher concentrations in Industrials, Financials, and Real Estate sectors. The US rate-cutting cycle further aided small companies, which often carry floating rate debt and high leverage.

This quarter's market rotation and return broadening highlight evolving market drivers. We remain confident that a diversified core of actively managed funds with a quality bias, complemented by high-conviction global investment ideas, will provide durable long-term returns from the equity component of the portfolio.

Alternatives

Short term market sentiment around growth, inflation and monetary policies led to increased cross asset volatility over the past few months, with the Bloomberg Commodity Index down -1.20% in USD terms for the quarter.

The upward trend in global equities and downtrend in Japanese yen reversed sharply towards end of July and early August as recession fears remerged and Bank of Japan announced a sudden rate hike. As a result, many discretionary macro and trend following strategies were caught up in this cycle and posted considerable losses for the quarter. Despite these moves, alternatives exposure in sustainable portfolios generated a strong return over the quarter and positing a positive return.³



³ All data and information sourced from Bloomberg and LGT Wealth Management

Sustainability update

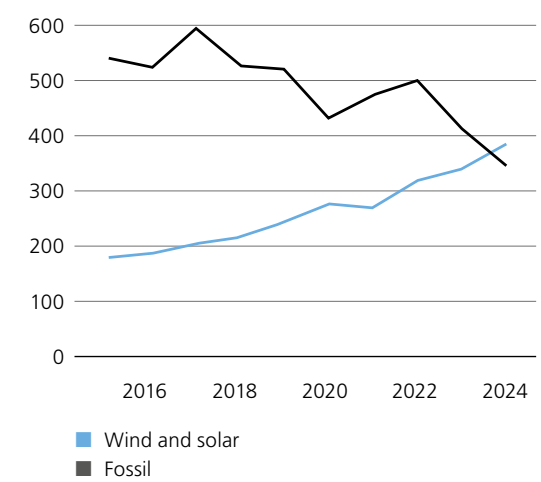
The energy transition hits three important milestones

The pressing need to replace fossil fuels with renewable sources in our global energy system is one of the most dynamic economic transitions in human history. We are all aware of the scale of the challenges and at times it is easier to focus on these rather than the significant progress that is being made and the opportunities that building a new energy system creates. In 2024 we have continued to see record installation of new capacity and we have hit three important milestones.

Starting off close to home the UK turned off its last coal fired power station in September. This brings an end to the 142 year era of coal powering our electricity grid and a rapid decline in its share of energy production over the last couple of decades. First driven by the move to gas, and more recently the rapid expansion of wind and solar capacity. This is a landmark moment for the UK electricity grid and the focus now switches to displacing gas. This shift in our electricity generation has helped contribute to UK domestic emissions falling to their lowest level since 1879 last year. Over a shorter time frame UK annual emissions have fallen 53% from 1990 levels, while GDP has grown 82%. So whilst we should not be too self-congratulatory because we still have a lot of work to do, it is important to acknowledge these milestones as evidence of the change that is being delivered.

Moving from the domestic to the regional the next milestone that was achieved this year relates to the EU. The first half of 2024 saw wind and solar provide more electricity than fossil fuels for the first time. Similar to the UK this milestone has been reached through a combination of a significant scaling up of renewables capacity coupled with falling investment in fossil fuel. The interesting dynamic is that this shift is being driven across the member states rather than a few larger ones. 13 out of the 27 member states now generate more electricity from renewables than fossil fuels, broadening from just five in 2019.⁴ It is also interesting to look at the political picture. Much has been made of the rise in popularity of right wing parties in Europe and the impact this might have on the energy transition, however one of the states that tipped into renewables supremacy this year was Hungary led by the well known right wing leader Viktor Orban. This helps evidence that the energy transition does not always align neatly with political ideologies.

EU wind and solar overtake fossil power in H1 2024
Generation in the first half of each year (TWh)



Source: Monthly electricity data, Ember

⁴ Ember, 2024



Finally and perhaps most importantly China is projected to hit peak emissions this year, ahead of its initial 2030 target. China has dominated both the production and installation of wind and solar capacity as it fights to meet growing energy demand whilst weening itself off fossil fuels. The speed at which it has been able to build its renewables footprint is unmatched. In 2023 it installed 217 gigawatts of new solar capacity, more than the whole of the US current capacity (175 gigawatts).⁵ This has allowed China to not only meet growing demand but now start to displace its historic reliance on coal. As the worlds second largest economy moves into structural emissions decline it signifies an important milestone in the global ambition to meet net zero targets.

These milestones are just that, indicators on a much longer journey and the companies that are enabling and benefiting from the transition to renewables based energy system still have huge opportunities ahead of them.

NY Climate Week creating heat

As global leaders and stakeholders gather in New York this week for the United Nations General Assembly (UNGA) and Climate Week NYC, the momentum behind addressing the climate crisis has never been stronger. At this pivotal moment, LGT is proud to have signed the investor statement to governments on the climate crisis, joining 534 institutional investors representing more than USD 29 trillion in assets. Ahead of the 29th United Nations Climate Change Conference (COP29) in Azerbaijan, we, along with hundreds of investors worldwide, call on governments to embed five critical climate actions into their national legislation. Chief among these is the call for governments to increase the ambition of their Nationally Determined Contributions (NDCs), which are due next year as part of ongoing commitments to the Paris Agreement. Effective policies that align with limiting global warming to no more than 1.5°C are essential for accelerating and scaling up private capital flows needed for a climate-resilient, net-zero transition. You can read more about the statement and what is being requested [here](#).

⁵ Ember, 2024

Conclusion

In terms of the US macroeconomic backdrop, things look particularly sanguine at present. A combination of falling interest rates, strong earnings growth and a continued economic expansion make for an unusually smooth economic picture for investors. Historically interest rate cuts have spelled danger for global equity investors, especially those of a 0.50% magnitude. However, whilst US unemployment numbers have been volatile of late, September's number was very strong, indicating that these rate cuts appear to be pre-emptive rather than a reaction to a severe downturn.

Despite the many column inches dedicated to either a hard-landing or no-landing, we have ended up in a position where the rate cuts being delivered are mainly due to the fact that in our view inflation has broadly gone away on its own. Whilst a lumpy first quarter has kept the year on year US CPI rate up at 2.5%, it is at target on an annualised basis over the past 6 months, and actually somewhat below it over the past three months.

This is despite robust earnings growth expectations for 2025. The S&P 500 index earnings, the index with the largest US companies, are expected to grow at 13.7%. That picture gets better the smaller you go, with consensus expectations for the S&P 400 Mid Cap index showing 15.6% earnings growth and S&P 600 Small Cap index 17.7%, whilst the FTSE 100 (+4.5%) shows positive expected growth but is weighed down by its energy exposure. Emerging market earnings are expected to grow at 15.7%.⁶

Elsewhere, the Asia excluding Japan region has had an excellent run over the past few weeks, as China's stimulus has awoken a sleeping equity market. We have long spoken about cheap valuations and weak sentiment in the region presenting an opportunity for those that can be patient and this has now come to fruition. The most important part of the stimulus will be the fiscal aspect as this directly creates aggregate demand – if consumer and business confidence is weak, merely lowering the cost of borrowing via monetary policy is not enough.

At a minimum, the announcements signify a much-needed re-prioritisation of economic growth and with such under-allocation from emerging mar-

ket managers to China, we expect the trade to continue to run in the short term, potentially with a period of consolidation first. For the move higher to become something more medium term, the market will need to see the details of the fiscal programme, with the hope that it prioritises boosting personal consumption, which has been the missing part of the China growth story over the past couple of decades. We will be monitoring this closely over the coming weeks.

The biggest risk now seems to be from sources external to the market and the economy – namely the Middle East and the US election. Whilst being cognisant of one's exposures to the specific situation is

of high importance, navigating potential external risks like these from an investment perspective is more about having a robust framework. Ours is based on sticking to a plan and staying invested, owning quality liquid assets, and lastly being diversified.

In terms of sticking to a plan and staying invested – if investors attempted to mitigate every geopolitical event they would never be invested. When we assess risk tolerance and formulate investment plans we know there will be periods of volatility and capital loss, and being clear-headed about this empowers us to stick to the plan when the going gets tough.

Owning a combination of quality, liquid assets, such as government bonds, diversified corporate bond exposure, quality liquid equities and liquid alternatives offers you a portfolio that you feel relatively comfortable with even during times of global uncertainty. Low quality assets that can turn illiquid in moments of market stress are generally to be avoided in a discretionary portfolio.

And lastly, diversification here is not deliberately buying assets that you do not like or hedging away all your potential returns. It is owning a collection of assets that we believe have a positive expected return over the medium term, but whose short-term performance could diverge from one another depending on the economic outcome. This reduces volatility whilst maintaining strong expected returns.



⁶ All data and information sourced from Bloomberg and LGT Wealth Management



Imprint

Image credits

Cover: LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna, Nagoor Ashraf/shutterstock.com
Page 2: unterwegs/shutterstock.com
Page 5: solarseven/shutterstock.com
Page 6: Ralf's Icons/shutterstock.com
Page 8: Fahreni/shutterstock.com
Page 11: Mike Mareen/shutterstock.com
Page 12: Shan_shan/shutterstock.com
Page 14: Aleksandar Grozdanovski/shutterstock.com

Media relations

Esther Clark
Phone +44 (0)203 207 8007, esther.clark@lgt.com

Important information

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority Registered in England and Wales: OC329392. Registered office: 14 Cornhill, London, EC3V 3NR.

LGT Wealth Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in Scotland number SC317950 at Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP.

LGT Wealth Management Jersey Limited is incorporated in Jersey and is regulated by the Jersey Financial Services Commission in the conduct of Investment Business and Funds Service Business: 102243. Registered office: Sir Walter Raleigh House, 48-50 Esplanade, St Helier, Jersey JE2 3QB.

LGT Wealth Management (CI) Limited is registered in Jersey and is regulated by the Jersey Financial Services Commission: 5769. Registered Office: at IFC1, The Esplanade, St Helier, Jersey, JE1 4BP

LGT Wealth Management US Limited is authorised and regulated by the Financial Conduct Authority and is a Registered Investment Adviser with the US Securities & Exchange Commission ("SEC"). Registered in England and Wales: 06455240. Registered Office: 14 Cornhill, London, EC3V 3NR.

This publication is marketing material. It is for information purposes only. Certain services described herein are not available to retail clients as defined by the FCA or the JFSC, as applicable; please speak to your investment adviser for further clarification in this regard. All services are subject to status and where local regulations permit. The wording contained in this document is not to be construed as an offer, advice, invitation or solicitation to enter into any financial obligation, activity or promotion of any kind. You are recommended to seek advice concerning suitability from your investment adviser. Any information herein is given in good faith, but is subject to change without notice and may not be accurate and complete for your purposes. This document is not intended for distribution to, or use by, any individual or entities in any jurisdiction where such distribution would be contrary to the laws of that jurisdiction or subject any LGT Wealth Management entity to any registration requirements. When we provide investment advice it is on the basis of a restricted approach that is to say, whilst we review and advise on retail investment products from the whole of the investment market.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

