CS INVESTMENT MANAGERS

VIEW FROM THE SQUARE

August 2024

Summer Heat Set to Cool

There is a school of thought that social trends chime with market trends. The current unrest in the UK and concerns about the impact of Donald Trump winning the US election play into this.

However, with the US election in November, and the end of summer in the UK which tends to literally cool extreme behaviour, markets may return to economic factors that underpin direction. We have been focussing in recent months on the likely trend of interest rates and whatever has been happening to recent equity volatility, the market has started to increasingly anticipate interest rate reductions, and this underpins improvements in fixed interest investments.

These factors have revived interest in the 60:40 investment strategy that used to work well in the past for balanced portfolios. With the 60% allocation giving exposure to potential capital growth in equities, and the 40% allocation to bonds and alternatives being the steadying anchor, reducing volatility and providing income. With bonds already on the move, the argument for equities should strengthen as equity risk premia reduces.

Encouragingly in the UK we have a further improving fundamental trend in our favour- the cheapness of our stocks. The recent market volatility, particularly in Japan and US Nasdaq stocks, has perhaps provided a backdrop that encourages international investors to have another look at the UK; and this is certainly something we are starting to see in the AIM stocks we research. More economists and commentators are talking about this. Additionally, the likes of Bank of America and the Office for National Statistics have produced data that shows that for the first time in 2 years, institutional investors are net buyers of UK stocks (i.e. more money has been invested in the UK market than withdrawn). This is a very pertinent point as it may well highlight that the rest of the world is starting to put past troubles with the UK behind them and capitalise on the lower valuations of UK stocks compared to overseas peers.

While there will be ebbs and flows in bond markets, our recent trend of slightly increasing duration (later maturity dates) seems the right thing to do.

The elevated nature of the Magnificent 7 tech stocks in the US is coming under greater scrutiny with Tesla stumbling and Warren Buffet halving his holding in Apple. As US equities in general are standing on usefully higher ratings than in recent times, we have locked in some profit in JPM Enhanced Research highlighting our move to slightly underweight the US market.

Turning to the AIM market where many of our clients have experienced good gains, there is clearly a note of caution with Labour's plans to raise taxes. However, we have noted with interest an article in the Guardian that hints that rather than full abolition an exemption of c£500k might apply to this sector of the market and that a further exemption of £500k for other areas of Property relief might be available as well. Given the employment benefits coming from young growth companies this would seem to make good commercial sense.

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12 August 2024

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