# Titan Group CIO's Monthly Insights
## The view from Wigmore Street

**March 2024**

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## Introduction

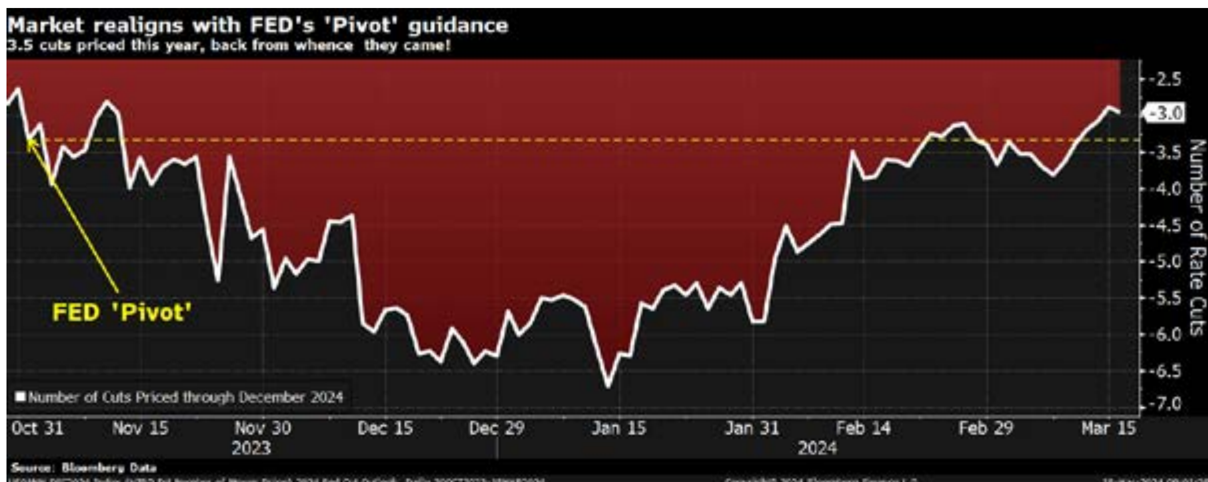
The Titan Group encompasses a number of different investment companies, each with unique styles and investment processes. Each month, the Chief Investment Officers (CIOs) and other key senior investment professionals meet to discuss and debate the investment and macroeconomic backdrop that is potentially influencing our investment decisions. This publication aims to provide you with investment feedback and opinions from the people responsible for heading up the investment of your wealth across the various businesses under the Titan Group umbrella. This does not represent 'Titan house views', rather it aims to give you an insight into the investment debates we are having internally across our various businesses.

* Subject to regulatory approval

## Bond markets giveth, and then taketh away

The most notable change that has occurred over the past month is that government bond markets have been drifting lower, irradicating some of the enthusiasm that followed the 'pivot' by the US Federal Reserve (the FED) when, on 1st November, they changed their guidance from 'expect interest rates to stay higher for longer' to, 'expect us to possibly cut interest rates by as many as three times in 2024'. As discussed in our previous publications this has been, rightly, a very positive development and the main driver to the strong end to 2023 and the strong start to 2024 that equities have shown.

You may recall that in last month's commentary we felt that the expectations for interest rate cuts had perhaps got ahead of themselves as we had seen the bond markets predict three cuts in 2024 to suggesting as many as six or seven, which we felt to be excessive. The path of these cuts is shown on the chart below which tracks daily interest rate expectations in the US.




At the time of our meeting, interest rate cutting expectations had been largely reined in by market participants and central bankers have been reiterating as often as they can that they are standing by their original expectation of just three possible cuts in 2024. Their comments have been accompanied by further strengthening of US economic data and, as can be seen on the chart above, bond markets have now fully reverted to the original FED thesis, namely, to expect only three cuts in 2024.

Our CIOs felt on balance that this was now likely to be the correct outcome. However, a minority felt that we still might have more to go and so we could see the expectation of three cuts falling further to just one or two as US economic growth is so strong and, if anything, accelerating. All felt that if rate cutting expectations were to be further reined in due to strong growth and provided inflation expectations also remained subdued, then the backdrop for the equity markets should remain positive.

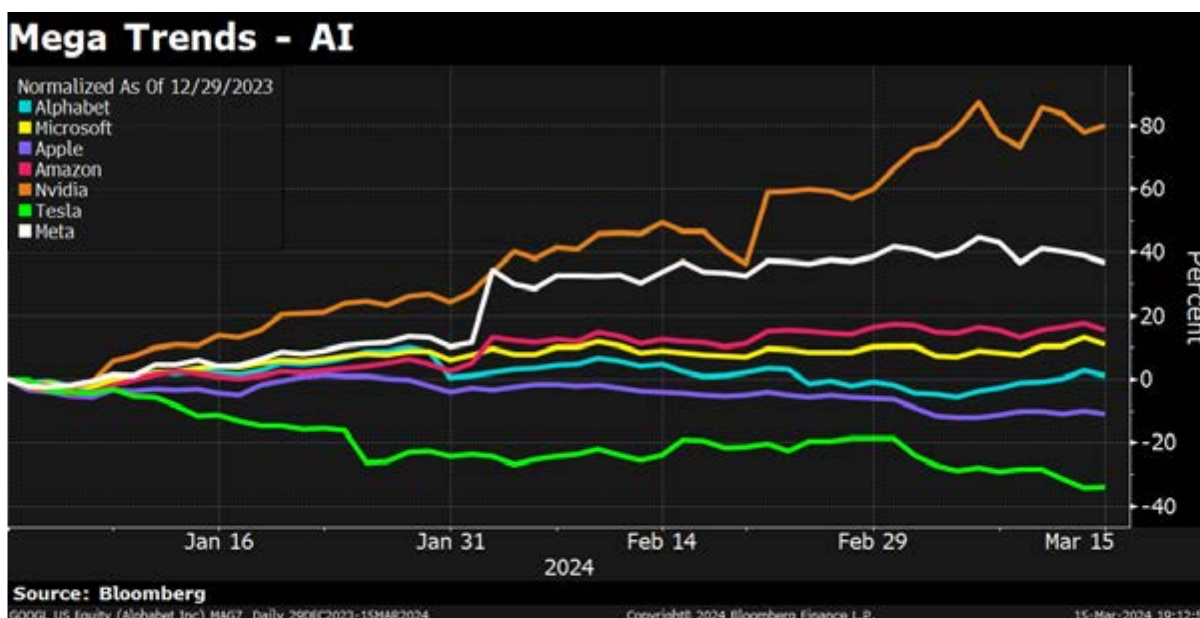
In this scenario, however, it was felt that for bond markets 2024 is likely to be 'a year of carry' and bond prices are likely to remain subdued. This means that most of the of the total return investors will get from investing in bonds will probably come from taking the interest on them and not from capital gains and price appreciation.

There was some debate around which of the major central banks (the Fed, Bank of England and the European Central Bank) was likely to cut first, the most and when. However, it was felt that, on balance the markets were correct in thinking that all three could begin cutting around the same time, namely June/July. The current thinking is for there to be around three cuts by all three central banks during 2024, a scenario which seems reasonable given the current economic backdrop in each of their regions.

## Equities riding high

In 2022 it was poor bond market performance generated by high inflation (caused by Russia's invasion of Ukraine) and rapidly rising interest rates across the world that led to a poor year for most assets, including equities. Consequently, we always spend time during our CIO meetings discussing the possibility of the same thing happening again, particularly given how well equities have performed this year. As alluded to earlier, we feel that despite us expecting very little price appreciation from bonds this year, the fact that they are being subdued by strengthening economic growth is a positive for equity markets and is an important contrast to 2022 when economies were slowing down fast in the face of sharply rising interest rates. So, from this perspective, we remain positive on the backdrop for equity investing.

Although many stock markets have recently been hitting new all-time highs, including Japan which has taken about 34 years to do so, there are marked contrasts within most of them. As we've discussed before, in the US, the 'Artificial Intelligence' (AI) related stocks that performed so strongly last year have in the main continued to drive higher again in 2024. However, our equity specialists describe last year as a year of 'hype', while this year will be a year of 'delivery'. Companies that fail to live up to last year's hype will markedly underperform and we are already seeing signs of that. Amongst the 'magnificent seven' (or 'Mag7'), we can see huge performance gaps appearing. For example, and as can be seen on the chart below of the performance of the Mag7 year to date, there are already some massive differences in performance, with Nvidia up 80%, Meta (Facebook) up about 40%, but Apple down 10% and Tesla down a massive 35% in less than three months. Consequently, we see this year being one when stock picking ability will be more crucial than ever.



## It's tough being small

The other trait we've seen in equities for some time now is the perennial underperformance of the mid and smaller companies around the world. All the small and mid-cap indices in Europe and the UK have struggled in comparison to their large cap counterparts over the past year and only the US's Russell 2000 Index (their small and mid-cap index) has performed positively. In our meetings we continually debate whether we are about to see a reversal of this long and painful trend, but, whilst recognising that company valuations in these parts of the markets are extremely attractive and near historic lows, the majority of us feel that the conditions are still not conducive to that trade. Sadly, we felt that the UK Government, in its latest budget, missed an opportunity to make a difference with the 'Great British ISA' which was underwhelming from an investor's standpoint. However, should growth in the UK and Europe accelerate and interest rate cuts be forthcoming and increase in number, we may see a pick-up of performance in these stocks and so it is an area we will continue to monitor closely.

As mentioned, there is only one small cap market that has been picking up lately, the Russell 2000 Index in the US. We believe this is down to the underlying strength of the US economy and that growth is steadily broadening out. This, coupled with a resurgent Donald Trump with his ever-improving chances to regain the Presidency in November, may be the reason for its improved performance. Trump is certainly a 'marmite' character but investors recognise that first and foremost he puts his own country and companies first, loves claiming he is the man behind any upwards movement in stock markets and will always take a swipe at America's global competitors, not least China, on who he is promising to impose a 60% tax on all goods and services coming into America. As he is the bookies' odds-on favourite to become the next President, markets may already be positioning themselves for his return. We certainly believe it would be unwise to bet against that eventuality and most of us feel it makes investing directly in China too high a risk for our clients.

## Outlook

At the time of our meeting and writing this many stock markets, buoyed by robust 'Goldilocks' (not too hot, not too cold) economic conditions, the mega-trends led by AI, falling inflation and the prospect of interest rate cuts beginning in the second half of this year, are now hitting new all-time highs. This bodes well for the rest of the year. However, it is the nature of markets that nothing goes in straight lines, and so all our CIOs felt it would be healthy to see some consolidation of the recent gains in the coming months. Provided nothing comes along to disrupt those key drivers, we remain optimistic for the rest of 2024.

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