

Hang on in there, the market is on the mend

Most investors will know, the best remedy for poor market performance is a good uptick in returns. One of the more reliable tenets of investing is the idea that prices and performance are usually mean reverting. Bluntly speaking, what goes down must, at some juncture, come back up again.

Another well-known investment principle is that sitting in cash when the market has those rare but incredibly good months of performance can drastically detract from the long-term returns in any portfolio. To sit on the sidelines is a great idea when markets are going down but then suddenly, it isn't such a good thing when they aren't! Certainly, a cautionary tale for those who have chosen to sit in cash accounts with the intention of "timing the market" for their re-entry.

2023 has largely been a year of lacklustre performance with just 7 behemoth tech stocks in the US delivering virtually all of the market performance. Investors have piled into these AI related investments believing they represent the cutting edge of an AI led future, wrapped up in mega sized companies that are too big to fail. We've heard that one before!

Sadly, these 7 stocks occupy so much of the S&P500 that their collective performance has served to give rise to the mirage of a broad stock market in rally mode. In actual fact it's those 7 stocks that have done all the heavy lifting and the other 493 have barely participated or are negative. Hardly a positive story - any significant performance has entailed accepting high concentration risk.

In short, if you have not been invested heavily into this narrow band of star struck stocks then your portfolio gains have been nothing short of lacklustre, and if you have, then ask yourself what level of risk has been taken to achieve such a result. If we were sitting here writing an investment note to you saying we had placed the fate of our clients' hard-earned cash in the hands of just 7 stocks this year, we would expect to be managing significantly less in 2024, and for good reason! The risk taken may have indeed produced positive relative returns but the risk levels to achieve that would be possibly catastrophic to long-term gains.

So, if you are looking at your portfolio against the global stock market (not the UK), try to take your findings with a pinch of salt given the lion's share of the performance has come from just 7 stocks out of a total of 1,500 in the world index. Of course, explaining that to clients is no easy task but conversely, it is easy to explain that within those 1,500 companies are hundreds of tomorrow's winners trading at rock bottom prices in the shadow of just 7 mega companies, and it is our job to focus our efforts on those opportunities.

As a result, the angst amongst investment managers and advisers has been palpable, faced as they have been by the challenge of maintaining a balanced portfolio of high-quality investments when it has really been only 7 individual stocks driving the rally, but also conveying the message that a proper, well-rounded portfolio includes investments in fantastic companies across multiple markets, not just buying 7. No easy task when that gilded strategy of buying and holding long-term, high-quality investments has fallen foul to a high street savings account.

Going back to our earlier point about sitting on the sidelines in cash, as if to prove a point, right at the perfect moment in time, the market delivered November's "everything rally" in which almost everything everywhere went up, and in some areas, went up high!

In terms of performance, only once in the last 40 years has the month of November delivered such stellar gains, and only in the wake of the great financial crash in 2008 did we see a rally of similar scope and scale. Why did it come about and is this the end already of the fabled "Santa Rally"? It would seem not if the first half of December is anything to go by.

"Everything" rallies of November's size are not that common and usually occur after a bout of stock market depression. In this instance, positivity was spurred on by the persistent and surprising drops in inflation leading many to finally conclude with some conviction that central banks have finally finished raising interest rates and we could well avoid a recession… hurrah!

After a year of soggy returns, it was the turn of the bond market to be in the driving seat for November, with some areas up over 6% in a month! Equities were by no means absent, with broad gains coming across global markets with notable moves that benefit from a weak dollar. When one considers that a

high street savings account gives savers circa 5% per year, we saw November's rally beat that in some areas… in just one month. It pays to keep the faith.

Of course, we are not completely out of the woods, there will undoubtably be more trials and tribulations to come in the New Year. We are alert to the possibility of an economic slowdown in 2024 turning into a recession and we have the playbook for that market as well. Whilst that's not our base case, only a fool would not prepare for it.

Months like November are a critical reminder, and an even more critical pay back to those who have stayed the course this year and remained invested when others were sat in cash. December is palpably following behind that as we write. Portfolios for calendar 2023 are likely to make positive returns across all risk profiles and our investment team is seeing some real value areas popping up on the investment map to generate good returns in 2024. Areas under the microscope for 2024 include highquality corporate bonds, emerging market and Asian equities, Japanese equities and UK small and mid-sized companies to name a few, and the list is growing.

So, for now, all that's left for us to say is have a very merry Christmas and remember, hang on in there, the market is on the mend.

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