MARKET UPDATE

February 2024

Equity markets were buoyant in February, leading to strong positive returns, particularly for the higher-risk BAM portfolios. The returns of lower-risk portfolios were more muted, as fixed-income assets, in particular, were weaker for the month as expectations for interest rate cuts were pushed back.

COMMERCIAL REAL ESTATE

Whilst the resilience of the US economy has continually surprised investors in recent months, commercial real estate is undoubtedly one sector that finds itself in the doldrums. The US office sector, in particular, has faced headwinds from a slow return to the office and the rising cost of borrowing, which has been felt in all developed economies. This issue is only now rearing its (potentially ugly) head as, for some time, no one could confidently figure out the value of properties as there were very few transactions. What we see now, however, is that the number of transactions is picking up again, revealing just how far values have fallen. Not only this, but according to the Mortgage Bankers Association, an estimated $1.2 trillion of commercial real estate debt in the US is maturing in the next two years, of which around twenty-five per cent relates to office and retail buildings. The takeaway point from this scenario is that lenders financing US commercial real estate find themselves in a somewhat challenging situation. Most of these lenders are US regional banks, to which the BAM portfolios have very little direct exposure. Despite this, the team are alert to potential secondary impacts beyond commercial real estate and the regional banks.

EMERGING MARKET MEGATRENDS

In February, emerging market equities were among the strongest-performing equities globally. BAM's allocation to China returned over 10% for the month. Still, the portfolios also have exposure to some less mainstream yet vitally essential regions for our future with the potential for strong positive returns. The megatrend of our lifetime, the energy transition, benefits numerous developing countries such as Chile and Peru, the two largest copper-producing countries globally. Emerging market opportunities don't only come from the extraction of raw materials. Whether it be the manufacturing of microchips smaller than a fingernail in Taiwan or providing remote island communities with banking services in Indonesia, many exciting investment opportunities in emerging markets also have a positive real-world impact. The largest tailwind for emerging markets tends to come from weakness in the US dollar, as most global trade uses the currency. Current consensus suggests that the US Fed could be one of the first central banks to cut interest rates, potentially leading to dollar weakness, which the team believe presents a compelling investment opportunity.

NVIDIA

A new record was set in February as US chip designer Nvidia posted the largest single-day valuation gain, rising by $275 billion. That's approximately the value of 1,000 of the latest Boeing 787 Dreamliner jets or four million kilograms of gold. Regardless of whether you believe artificial intelligence is a useful technology that is here to stay, companies are clearly willing to give it a shot and are buying Nvidia chips hand over fist as they are some of the best available. Whilst this move wasn't unjustified, as it occurred on the back of a strong earnings report, BAM remains concerned about the lofty valuations placed on large US technology companies and the concentration of the US equity market. Consequently, the BAM portfolios remain underweight to the US, preferring to allocate funds to Japan and emerging markets.

SOCIAL IMPACT

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

*5 Years to 21/01/2024 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL

FOCUSED GROWTH MIXED ASSETS MODEL

BAM MPS PERFORMANCE FIGURES TAKE INTO ACCOUNT THE ONGOING CHARGES OF THE UNDERLYING HOLDINGS BUT EXCLUDE ADVISER CHARGES AND PLATFORM FEES. INCLUSION OF THESE WILL RESULT IN A LOWER RETURN TO THE END INVESTOR, DEPENDING ON THE CLIENT AGREEMENT AND THE PLATFORM USED.

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