



Source: Deutsche Numis as at 15 October 2024.



Investment trust discounts

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What this chart shows

This shows how the UK investment trust market (excluding 3i) has moved to varying degrees of discount over the last 20 years. By the term 'discount' we are referring to where the share prices are in relation to their underlying Net Asset Value (NAV). Clearly, certain economic and geopolitical events have had a significant influence on the sector's valuation by the market.

Share price discounts are inherently cyclical, however what we can see is that the periods of significant widening of discount tend to be relatively short, followed by a longer-term grind upwards with discounts narrowing closer to 'Par'. However, the current period of widening the sector has experienced has been somewhat more protracted.

Why this is important

The factors that drove the sector in to the current de-rating were:

- » higher interest rates causing investors to worry about large falls in Net Asset Values as NAVs are partially pegged to bond yields especially in the 'real assets' spaces such as property and infrastructure.
- » the UK equity market being significantly out of favour with investors selling their exposure via index Exchange Traded Funds. As investment trusts account for c. 25% of the FTSE-350 index, outflows from the UK market create forced selling regardless of the price of investment trusts.
- » previously applied 'cost disclosure' rules placed upon investment trusts made them look more expensive than they actually were, therefore deterring buyers and creating forced sellers mindful of UK Consumer Duty assessments.

The confluence of those factors created a significant headwind for the sector. However, bond yields are now easing back; the UK equity market, partly due to its very low valuation, is attracting international money and the FCA has communicated forbearance on the 'cost disclosure' rules which will be laid down in law by the UK Treasury in its forthcoming Statutory Instrument on PRIIPs.

In essence therefore, the factors that got us here are now passing into the rear-view mirror. We believe that the road ahead presents a rare means to participate in profitable mean reversion.

Emerging markets are becoming increasingly attractive to investors, reflecting a shift in global economic focus amidst persistent geopolitical challenges.



US

- » Retail sales unexpectedly increased by 0.4% in September, up 0.1% from the prior month and the third consecutive monthly increase
- » The Philadelphia Federal Reserve Manufacturing Index, a significant indicator of general business conditions in the region, surged to 10.3 in October, surpassing all expectations. Any reading above zero indicates improving conditions. The Empire State Index, a similar gauge of factory activity in New York, showed business activity contracted in October after a large improvement in the previous month
- » Concerns are rising among US banks about potentially reducing interest payments on corporate deposits to protect profit margins
- » Political uncertainties are creating fragile confidence in economic recovery, affecting business and consumer sentiment



UK

- » Chancellor Rachel Reeves is preparing for a significant Autumn Budget aimed at closing a £40 billion funding gap, which may involve tax increases
- » Inflation eased to 1.7% in September, increasing the likelihood for further interest rate cuts
- » British retail sales rose for the third consecutive month, surpassing expectations, defying expectations of a slowdown



Europe

- » The European Central Bank lowered interest rates to 3.25%, indicating a strategy to combat slowing inflation
- » Concerns remain over rising food prices, which overshadow improvements in headline inflation figures
- » The Eurozone's economic outlook is mixed, with some signs of recovery but persistent risks from global economic pressures
- » The euro fell to a two-month low against the dollar as market expectations of further rate cuts grew



Rest of the World/Asia

- » China's economy grew by 4.6% year-on-year in Q3, its slowest pace since early last year and slowing from 4.7% in Q2
- » The Japanese yen continued its decline, falling below ¥150 against the US dollar as market participants doubt the Bank of Japan's commitment to interest rate hikes
- » Emerging markets are witnessing a surge in investment interest as global financial conditions evolve
- » Global commodity prices are fluctuating due to geopolitical tensions, affecting various economies differently

Market data ending 18 October 2024

Asset Class / Region	Currency	Cumulative returns			
		Week ending 18 October	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	0.9%	1.8%	23.9%	37.3%
United Kingdom	GBP	1.3%	1.6%	11.5%	14.1%
Continental Europe	EUR	0.2%	0.2%	11.0%	21.2%
Japan	JPY	-0.6%	1.6%	16.1%	19.9%
Asia Pacific (ex Japan)	USD	-0.4%	-1.6%	18.1%	28.1%
Australia	AUD	0.8%	0.2%	12.5%	21.5%
Global	USD	0.6%	0.8%	19.9%	33.6%
Emerging Markets Equities					
Emerging Europe	USD	-0.9%	-5.1%	6.7%	18.2%
Emerging Asia	USD	-0.5%	-1.1%	20.2%	28.9%
Emerging Latin America	USD	0.2%	-2.1%	-14.3%	5.1%
BRICs	USD	-1.8%	-3.5%	18.2%	23.8%
China	USD	-2.8%	-3.0%	25.5%	22.7%
MENA countries	USD	-0.2%	-2.2%	-0.4%	8.7%
South Africa	USD	1.5%	0.5%	22.0%	37.1%
India	USD	-0.4%	-4.0%	14.4%	26.7%
Global emerging markets	USD	-0.4%	-1.3%	15.3%	25.6%
Bonds					
US Treasuries	USD	0.1%	-1.6%	2.4%	9.9%
US Treasuries (inflation protected)	USD	-0.2%	-1.0%	3.8%	9.7%
US Corporate (investment grade)	USD	0.1%	-1.1%	4.6%	15.0%
US High Yield	USD	0.3%	-0.1%	7.9%	17.3%
UK Gilts	GBP	1.4%	0.0%	-0.3%	9.3%
UK Corporate (investment grade)	GBP	1.3%	0.7%	3.2%	13.5%
Euro Government Bonds	EUR	1.0%	0.3%	2.3%	10.4%
Euro Corporate (investment grade)	EUR	0.7%	0.5%	4.3%	10.7%
Euro High Yield	EUR	0.5%	0.6%	7.3%	14.1%
Global Government Bonds	USD	0.0%	-2.4%	0.4%	9.4%
Global Bonds	USD	0.1%	-2.0%	1.6%	11.7%
Global Convertible Bonds	USD	-0.6%	-0.5%	5.4%	14.7%
Emerging Market Bonds	USD	0.3%	-1.0%	6.8%	20.1%

Asset Class / Region	Currency	Cumulative returns			
		Week ending 18 October	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	3.0%	0.4%	15.2%	34.7%
Australian Property Securities	AUD	0.3%	-0.4%	22.5%	39.9%
Asia Property Securities	USD	0.0%	-3.6%	0.9%	9.4%
Global Property Securities	USD	1.5%	-1.6%	11.8%	30.7%
Currencies					
Euro	USD	-0.7%	-2.5%	-1.8%	3.1%
UK Pound Sterling	USD	-0.2%	-2.7%	2.2%	7.3%
Japanese Yen	USD	-0.3%	-4.2%	-5.7%	0.3%
Australian Dollar	USD	-0.7%	-3.3%	-1.8%	5.9%
South African Rand	USD	-1.1%	-2.0%	3.9%	8.2%
Swiss Franc	USD	-1.0%	-2.4%	-3.0%	3.9%
Chinese Yuan	USD	-0.5%	-1.2%	0.0%	3.0%
Commodities & Alternatives					
Commodities	USD	-3.9%	-1.3%	4.4%	-2.2%
Agricultural Commodities	USD	-1.8%	-2.9%	2.4%	0.1%
Oil	USD	-7.6%	1.8%	-5.2%	-20.2%
Gold	USD	2.4%	3.1%	31.9%	39.6%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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