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Quilter Investors

The *Quite Interesting Survey*

Q1 2024

Welcome to the first Quilter Investors Quite Interesting Survey, a quarterly survey of the views of a selection of leading UK and international asset managers.

The inaugural Quite Interesting Survey found that:

- There is little consensus as to interest-rate and inflation expectations.
- This year's US presidential election is likely to have a bigger impact on equity markets in Europe than in the US.
- Despite escalating tensions in the Middle East, most of those surveyed believe the biggest geopolitical risk currently facing markets is an escalation of US and Chinese political tensions.

First edition

We asked some of the leading UK and international asset managers 10 simple questions covering their macroeconomic forecasts and their views on the impact of this year's US presidential elections, today's heightened geopolitical risks, and long-term structural market trends.

The survey was sent to a selection of our investment partners including the likes of BlackRock, Fidelity, Schroders, and JPMorgan. We work closely with all these asset managers, each of which manages underlying funds within our multi-asset investment portfolios.

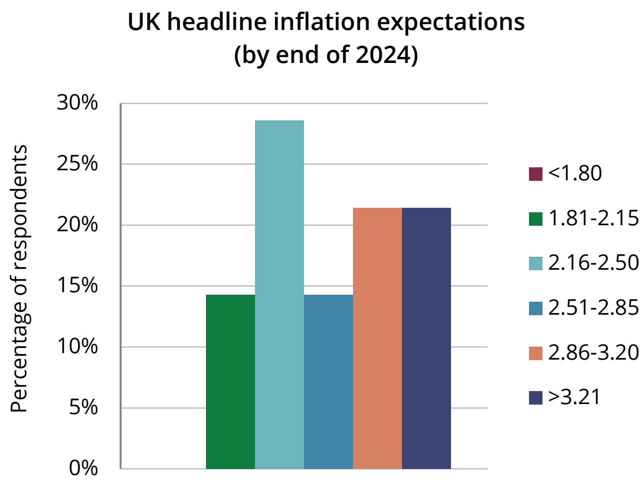
Our 10 questions in the first quarter of 2024:

1. What are your expectations for real GDP growth for 2024 and 2025 in the UK, US, and eurozone?
2. What are your expectations for headline CPI in the UK, US, and eurozone for the end of 2024 and 2025?
3. What are your expectations for central bank base rates in the UK, US, and eurozone by the end of 2024 and 2025?
4. What are your expectations for earnings growth in the UK, US, and eurozone for 2024 and 2025?
5. What is the most likely market outcome from the US presidential elections?
6. In the event of a Trump presidency and Republican control of the Senate, what would you expect to see?
7. Do you think geopolitical concerns will negatively impact market performance in the next 12 months?
8. What's the biggest challenge currently facing UK markets?
9. Is a 2% inflation target still reasonable for developed economies given longer-term inflationary pressures?
10. What is the greater risk in the medium term - inflation that's structurally higher, or inflation that's structurally lower, than the 2% target?

Little consensus on the UK inflation outlook

There is little agreement on where UK inflation might finish the year. UK CPI could be anywhere between 1.81% and 3.20% according to more than three quarters of those who took part in our survey, with the remainder indicating they expect it to be still higher.

As the chart (right) demonstrates, inflation expectations are spread relatively evenly across the spectrum. This reflects the potentially volatile impact of energy costs in a more uncertain world.

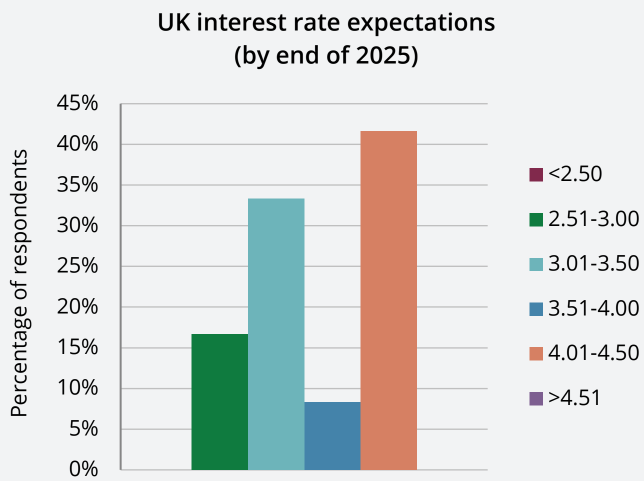


A range of expectations for UK interest rates

Over 40% of those surveyed forecast that UK interest rates will be between 4.01% and 4.50% by the end of 2025.

With markets still attempting to work out where interest rates will settle to keep inflation close to target, the responses on interest rates highlight the number of differing views on what's probably the single most important number in determining UK financial market levels.

The lack of consensus likely signals further volatility ahead. It also suggests potential investment opportunities ahead for those managers best able to navigate such conditions.

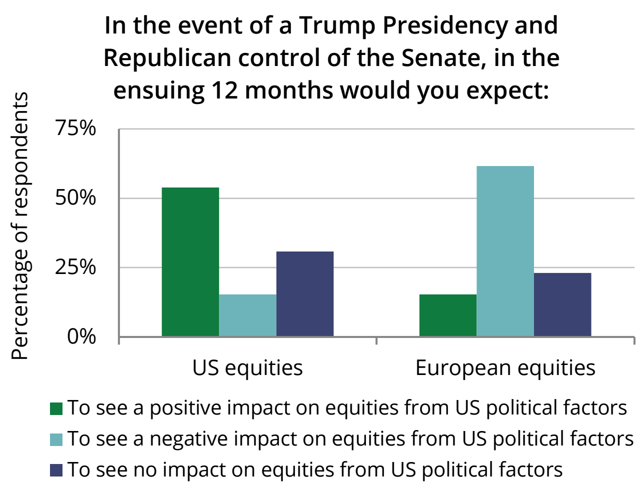


The 'best' US election outcome for markets

In aggregate, the 21 asset managers who took part decided the 'best' US election outcome for markets would be a Biden presidency with Republican control of the Senate. A split in power was generally favoured over one-party dominance.

Some managers highlighted that a unified US government could potentially result in a higher budget deficit through higher spending and/or tax cuts, which could exacerbate market concerns around US government debt levels.

Others flagged that a Republican-controlled Congress would also be expected to pave the way for deregulation, particularly as it relates to financial services, energy, and corporate mergers.



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>
> Lindsay James, Investment Analyst

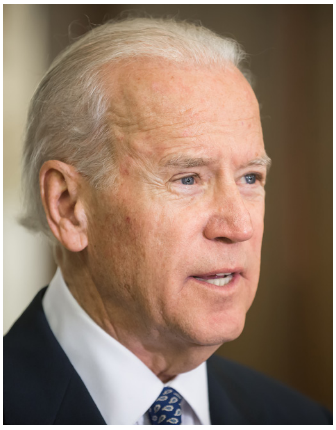
A positive impact for US equities?

Overall, 53% of respondents still saw a positive impact for US equities should Donald Trump return to power with the Republicans also winning control of Congress. This suggests that many professional investors don't see the election result as being nearly as important to US market prospects as the headlines might suggest.

As one manager explained: "History suggests that equity markets tend to see lower average returns and higher volatility in US election years versus non-election years. But these averages are skewed by events that have coincided with elections, notably the bursting of the dot-com bubble, the global financial crisis, and the covid-19 pandemic.

"What's happening in the economy tends to be much more important for markets than what's happening in the White House."

Even so, a Trump victory is expected to be a significant blow for European markets, with 61% of those surveyed expecting a negative impact on Europe.



Current US President, Joe Biden

Donald Trump, Republican Party presidential nominee

Editorial image credit: Shutterstock.com/Drop of Light

Sabre-rattling between US and China the greatest concern

Not surprisingly, geopolitical risks were widely recognised although it was the relationship between the US and China that was the most pronounced source of potential market instability.

One respondent summed it up by saying: "Geopolitical risk is increasing at a time when markets are pricing-in no risk premia. So any further geopolitical risk, which seems to be the likely path, is not priced-in".

Is the 2% inflation target still relevant?

Our final question asked our managers how relevant they thought the 2% inflation target for developed economies would remain.

Although there was little consensus, there was some agreement that the credibility of central banks could stand in the way of any shift, but that inflationary pressures will remain heightened.

One respondent summed it up by saying: "The world is focused on security over the medium to long term. National security, energy security, supply-chain security, and food and water security. All this will require capital and fiscal spend, which means inflation will be higher than we've been used to in the post-global financial crisis period."

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Lindsay James, Investment Analyst

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