*Quarterly Financial Market Update, December 2023*

The major asset classes did very well during the last quarter of the year. This good performance was driven by the anticipation of cuts in benchmark interest rates by the central banks during 2024.

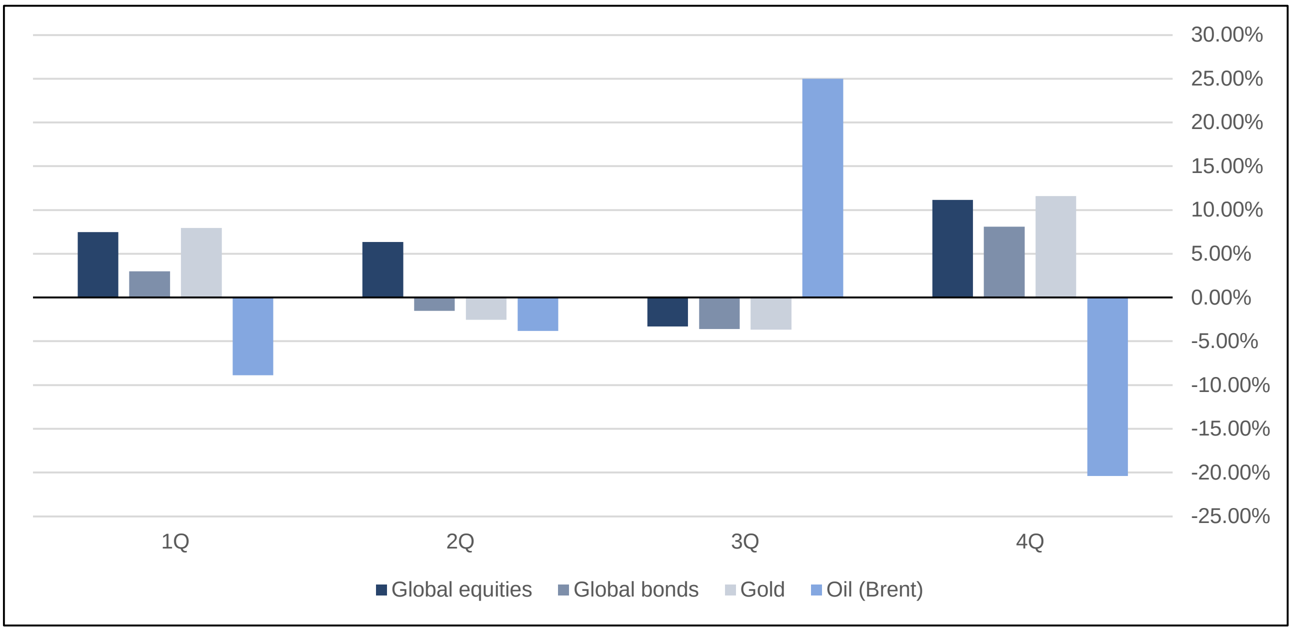
Global equities posted a return of 11% in the fourth quarter (4Q), led by the US. Indeed, the S&P 500 Index gained 12% over that period. At the other end of the spectrum were Chinese stocks, down 7% due to ongoing concerns over the state of the economy.

Bonds and gold also fared well in a declining interest rate environment, posting returns of 8% and 12%, respectively. Regarding the gold price, at USD 2'043.-/oz. at the time of writing we believe it now reflects most of the good news. The consensus anticipates that the gold price would move in a relatively tight range, between USD 2'000.- and USD 2'100.-/oz. during the year. Aside from declining interest rates, geopolitical tensions are also a factor that would support the price of the precious metal.

As far as bonds are concerned and as mentioned many times during the year, we believe that interest rates have reached a plateau, leading us to our view that buying high-quality bonds would pay off in the long-run. Furthermore, although we are in an inverted yield curve environment which is now supporting cash investments, this should not last for years. It is expected that short-term yields would decline faster than long-term ones. For short-term rates, the consensus foresees the yield on the 3-month in US dollar to lose about 100 bps by the end of the year, i.e. to be at 4.27% vs. 5.32% currently. This picture is relatively similar in euro and in British Pound. Thus, investors should lock in some attractive yields for the years to come via Investment Grade bonds instead of keeping the cash in deposits for example.

Unlike other asset classes, the oil price has experienced a rollercoaster ride, falling sharply (-20%) during the quarter, following a very strong 3Q. As the situation in the Middle East has not escalated further, investors were reassured that the oil supply has not been disrupted.

**Asset Classes, Evolution Quarter on Quarter**

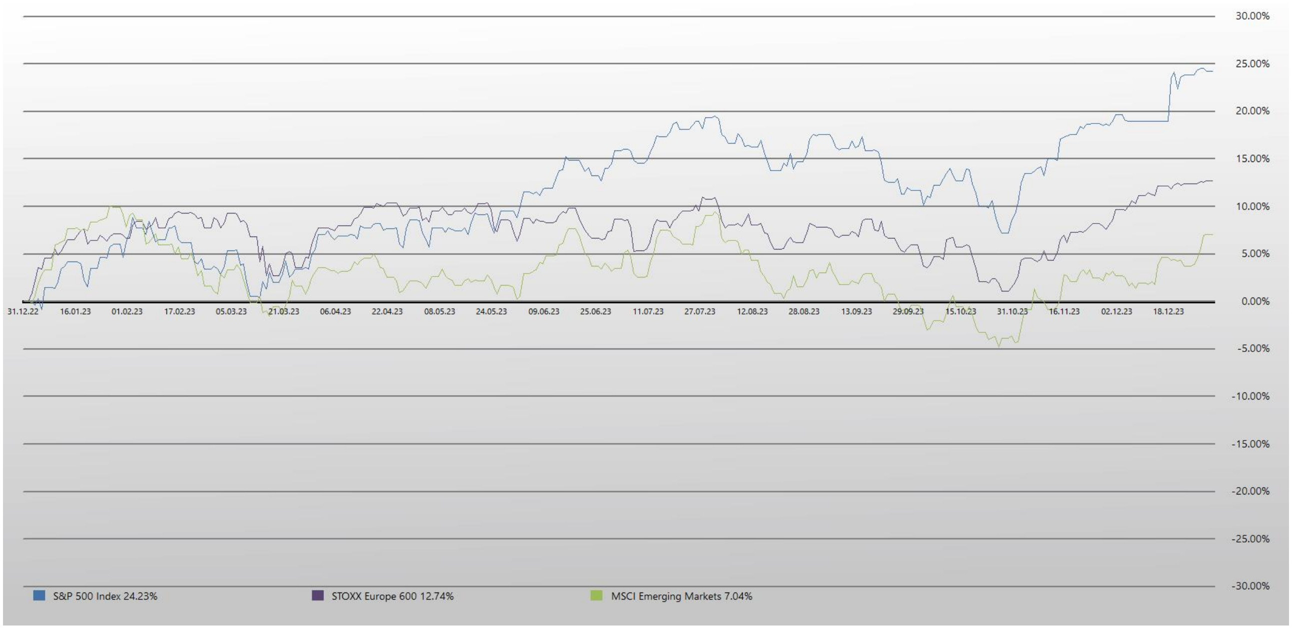



Source: Bloomberg, Kestrel Wealth Management

For this year, we do not anticipate that central banks would start to cut their benchmark interest rates over the next few weeks though, unless their respective economies show signs of a upcoming severe recession. This is not the case for the time being and our readings lead us to believe that a soft landing of the economy is the most likely scenario.
2024 will be an election year in many countries, such as the. US. This would create volatility in the financial markets, but it should not change the underlying fundamentals of the different economies. The election campaigns could nonetheless influence the evolution or the pace of rate cuts, as the candidates would wish to present the best possible economic/financial environment.

In the very short-term and after the solid performances in the financial markets in general, some profit taking on equities would not come as a surprise. Nonetheless, this would not alter our slightly positive bias overall, as rate cuts should occur a bit later in the year, helping equities to go through the economic slowdown. In this context, the consensus expects earnings per share to increase 7% in 2024, implying an estimated Price-to-Earnings ratio of 20x for the S&P 500 Index, limiting the upside potential in the very short term. Nevertheless, this remains adequate in an economic scenario forecasting anemic GDP growth, in our view.

**Equity Index Performance, rolling 12 months (%)**




Source: Kestrel Wealth Management

The risks to our overall supportive stance on equities and bonds is mostly linked to the state of the economy, predominantly in the US, as well as the evolution of the inflation rate and geopolitical tensions. The US economy is currently cooling down, but we believe that the Federal Reserve has now sufficient ammunition to help it if a severe recession, or a hard landing, would occur.
Regarding inflation, the consensus foresees a decline to 2.3% by the end of this year in the US, down from 3.4% today. As the labour market is weakening alongside the economy, we see this expected level as achievable, unless some overall supply disruptions (finished goods, raw materials, energy, etc.) occur if, for example, the war in the Middle East escalates.
Last but not least, geopolitical tensions across the world and social unrest could lead far right politicians to government in 2024. This could significantly affect foreign policies, creating high volatility within financial markets.