

# ABACUS PASSIVE - DFM PROFILES

## QUARTERLY UPDATE (Q4 2023)



### Market Commentary

2023 was challenging for investors. Rising geopolitical concerns (Russia-Ukraine and Israel-Hamas wars), high inflation, burdensome interest rates, and worries over the sustainability of the US government's finances, were factors that weighed heavily on market sentiment.

That said, the US Central Bank (the Federal Reserve) seems to have managed to successfully bring inflation down and investors are now expecting a cut in interest rates in 2024. Cooling inflation in the fourth quarter, and the hope of lower interest rates to come, led to a sharp equity market rally into year end. The S&P 500 equity market in the US, for example, finished up 4.5% for the month of December and over 24% higher for the year.

Of course, all markets are different. For example, the 24% return we saw from the US market in 2023 was fuelled by the 7 big tech stocks (Apple, Microsoft, Google parent Alphabet, Amazon, Nvidia, Meta, and Tesla), which were responsible for 95% of the returns.

In contrast, the FTSE 100 equity market in the UK was up just over 3.5% in 2023, whilst Chinese equities fell -4% over the year.

Whilst the US economy is holding up well, growth in the UK and Europe is muted. Inflation in these two regions is also declining but it remains higher in the UK than other developed countries. The Bank of England has a battle to reach its inflation target, and ideally it would like to see wages come down before it considers cutting interest rates.

It is a delicate balancing act for central banks, and we remain concerned about the lagged impact of prior tightening. Specifically, the pace and scale of prior rate hikes and the shift from quantitative easing to quantitative tightening, pose real risks to the economy.

However, as we said last quarter, it takes a long time for the narrative described above to play out and we cannot rule out further market gains.

Inflation data has declined at a faster pace than the global economy has weakened, providing a tailwind for risk assets. If inflation continues to fall faster than the economy contracts, equities could continue to move higher.

With that in mind, we remain pragmatic and continue to question our assumptions and market outlook. Should the economic environment change, we will adapt as required.

## Passive Profile Allocations

FUND	3	4	5	6	7	8
ABRDN Global Government Bond	10.00%	10.00%	8.00%	4.50%	2.00%	0.00%
Fidelity Index Pacific	1.00%	2.00%	2.00%	3.50%	3.50%	4.00%
HSBC American Index	4.00%	8.00%	8.50%	11.00%	11.00%	12.00%
iShares Continental Europe Equity	2.50%	5.00%	6.00%	7.00%	8.00%	9.00%
iShares UK GILT All Stock	8.00%	7.00%	4.50%	2.50%	2.00%	0.00%
iShares 100 UK Equity	3.00%	6.00%	8.00%	9.00%	9.00%	11.00%
Vanguard Global Short Term Corporate Bond	16.00%	9.00%	9.00%	4.50%	3.00%	0.00%
iShares Emerging Markets Equity	0.00%	0.00%	3.50%	9.00%	9.00%	12.00%
iShares Japan Equity	2.50%	3.00%	4.00%	4.50%	4.50%	5.00%
iShares North America Equity	4.00%	8.00%	8.50%	11.00%	11.00%	12.00%
iShares US Equity	4.00%	8.00%	8.50%	11.00%	11.00%	12.00%
Vanguard FTSE UK All Share	3.00%	6.00%	8.00%	9.00%	9.00%	11.00%
Vanguard Global Bond	15.00%	14.00%	10.50%	6.00%	4.50%	0.00%
Vanguard Emerging Market	0.00%	0.00%	0.00%	0.00%	9.00%	12.00%
Vanguard US Government Bond	11.00%	8.00%	5.00%	2.50%	1.50%	0.00%
Cash	16.00%	6.00%	6.00%	5.00%	2.00%	0.00%

OCF*	0.13%	0.11%	0.11%	0.10%	0.10%	0.10%
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\*OCFs as at 31/12/2023

## Changes & Rationale

There were no changes made to the Abacus Passive – DFM Profiles, this quarter.

Whilst events have been fast moving in financial markets over the quarter, the Passive Profiles have held up well.

The Passive Profiles are ahead of their peer average (by reference to the Investment Association Sector) in the 12-months to the 31st of December 2023, and they are amongst the best performing set of models in the Abacus DFM – Profile range.

We remain comfortable with the current Profile allocations and their ability to deliver positive risk-adjusted returns.

We are therefore content not to have made any changes in Q4.

## Performance

Performance over the last 12-months is as follows:

Abacus Passive Profile 3 - DFM	5.91%
Abacus Passive Profile 4 - DFM	8.62%
Abacus Passive Profile 5 - DFM	9.05%
Abacus Passive Profile 6 - DFM	10.18%
Abacus Passive Profile 7 - DFM	10.26%
Abacus Passive Profile 8 - DFM	10.91%

Source of Data: Titan Asset Management / Titan Investment Solutions  
Data as of 31/12/2023

## Case Study/Theme

This quarter our focus is on long-term investing.

2023 was an eventful year with investors having to contend with economic crises, historically high inflation, a rising cost of living, burdensome interest rates, and ongoing conflicts in Ukraine and Gaza, amongst other things.

These factors caused even some of the most experienced investors to re-evaluate things last year.

During a volatile market, it could be tempting to exit. Whilst this may provide some form of short-term comfort, missing just a few good days can significantly reduce how much a portfolio grows.

Timing the stock market is next to impossible. No one knows exactly what the markets will do, but it is important to remember that the best and worst trading days often happen close together.

- History tells us that over the long-term, equity returns are significantly higher than bonds and cash
- Remaining invested means that one can participate in any market recovery, which often follows a market fall
- Equity markets have historically recovered from a downturn to deliver positive returns more than inflation

It is impossible to predict what the market will do next and trying to catch a falling knife can be very costly. As the adage goes; "it is not about timing the market, but time in the market."

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