SGMC CAPITAL

December Monthly Review

A summary of key events and market trends during the month of December

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Global Markets Update

- We have to go back to 1999 to find a year where the Nasdaq 100 index did better than 2023. And the rest of the global equity markets rose in unison as central banks belatedly acknowledged what markets had long perceived; the end of the aggressive hiking schedule.

- China continues to signal that regulators will act firmly against business and business models which are not aligned with the longer-term plans for the economy. This approach has not been welcomed by investors and they have voted with their feet and are actively looking for alternate avenues.

- One such avenue is the broader Asian expanse which not only sports better demographics but also strong infrastructure spending and pro-growth policies. From the Middle East to India, in particular, to South-East Asia multiple centers of growth are kicking in.

- We expect a benign interest rate environment for 2024 and that should support investor flows into equity assets for the most part. The interest rate markets have already priced in 7 cuts each of 25 basis points till January 2025 and hence there will be room for hawkish data surprises in this scenario and we would expect to play those opportunities tactically long as we do not see the possibility of the Federal Reserve moving back to hiking territory for some time.

- Growth in Europe should be slower than most regions as China continues its slower than usual pace. And as result the European Central Bank will likely also move to rate cuts in earnest during the course of the year.

- The Volatility Index (VIX) has traded most of December below 14 % and this will likely result in strong flows into the equity markets in the new year.

Risk assets came back strong in 2023

Equity indices had a stellar year with the tech-heavy Nasdaq 100 up greater than 50 %. Europe and Japan did well too. China still processing its re-adjustment.

Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	-0.36	25.09
Hang Seng China Enterprises	-1.52	-13.97
Dax	3.31	20.31
Euro Stoxx 50	3.18	19.19
S&P 500	4.42	24.23
Dow Jones	4.84	13.70
Nasdaq 100	5.51	53.81
US 10 Year Treasury	-0.45	0.00
Bloomberg Barclays Global Corporate Investment Grade Index	4.16	5.72
Bloomberg Barclays Global Corporate Bond High Yield Index	4.03	14.04
EUR USD	1.39	3.12
USD JPY	-4.83	7.57
Gold	1.30	13.10

- Asia looks well poised to continue its strong growth in 2024. With the Federal Reserve interest rate outlook moderating considerably various global Emerging Markets will stand to benefit with a relatively weaker US Dollar.

- Asia is home to 60 % of the world's population and is expected to grow by around 11 % by 2050. A young median age means strong economic contribution as long as governments come up with supportive policies; which currently appears to be the case.

- India, Indonesia and Vietnam will lead the charge with growth in the high 4 % to mid-7 % range. Elections in India and Indonesia will need to be watched closely and barring any major surprises we would expect the growth story to continue uninterrupted.

SGMC Forward Views

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Asset Class	**Avoid**	**Reduce**	**Hold**	**Add On**	**High Conviction**	**Notes**
Equities						
US Equities						Less value after the recent rally, but we continue to be structurally positive on this area
EU Equities						Elevated valuations seem stretched against macroeconomic backdrop, even though lower rates will provide support
Chinese Equities						Still waiting for a catalyst to move valuations higher - this will likely take more time
Emerging Market Equities						We have likely seen peak USD appreciation: this should help emerging markets going forward. Upgrade to **"Add on", with India as top pick**
Bonds						
High Yield						More visibility on rates declining over the coming 12 months, hence happy to add further. **Upgrade to "Add on"**
Investment Grade						We have subtantially added fixed inomce exposure over the last two months which has paid off well. We now see more limited upside. **While still positive we slightly downgrade to "Add on"**
Government Bonds						The expected decline in rates has commenced, likely more to come
FX & Alternative Asset Classes						
US Dollar Index						Global Central Banks likely to reduce rates - Fed unlikely to be the most dovish. Further appreciation limited but unlikely to see a substantial decline
Commodities						As rates decline, commodities to find support. **Upgrade to "Hold"**
Private Equity / Hedge Funds						We remain relatively underweight this sector
Real Estate						Declining rates likely to provide support. Asset class offffers a good diversification play
Collectibles						Uncorrelated with markets

- No changes to our allocations this month

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