

A nighttime photograph of a cityscape, likely London, featuring a prominent cable-stayed bridge in the foreground and several modern buildings in the background. A large, full moon is visible in the dark sky. The entire image is overlaid with a semi-transparent blue filter. The text is positioned in the upper right quadrant of the image.

BAGGOT
Investment
Partners

General Update

NOVEMBER 2024

We build and maintain portfolios for clients which address their specific needs

Baggot is a Central bank regulated investment manager. We specialize in designing and monitoring investment strategies that are built using global investment products and assets. Where almost all financial advisors and brokers would simply refer your business to a large external manager, in return for a commission, we use in-house expertise to actively manage your assets.

We offer Investment strategies across various risk profiles. In many cases, we build portfolios in-line with our client's specific needs (CGT focus, Income focus, etc.).

As a principle at Baggot, we do not charge upfront fees or expose our clients to lock-up periods. You can add or withdraw funds at any time and switch between strategies at no extra cost.

If you would like a review of your current investment strategy or to discuss future investment opportunities please contact us.

Call 01-699 1590

Peter Brown
Managing Director

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01.

Portfolio Performance

Returns:

BMA 6, our multi-asset portfolio with a high-risk profile, posted a gain of 2.2% Q3 and 11.8% for the year, at Qtr end. Q4 has started well, YTD returns are currently coming in at 14.7%.

BMA 5, our multi-asset portfolio with a medium-high risk profile, posted a gain of 1.6% in Q3 and YTD gains of 4.3%, to the end of Q3. Q4 has started exceptionally well. As of today, YTD gains come in at 8.1%.

BMA 4, our medium risk multi-asset portfolio posted a gain of 1.4%. YTD returns currently stand at 5.4%.

BEI, our global equity income focused portfolio (medium-high risk profile) posted a gain of 2.4% in Q3. Year-to-date returns currently stand at 4.9%.

BME, our higher risk profile equity/commodity focused portfolio gained 2.7% in Q3 and 5.2% so far in Q4. Year-to-date returns are still negative at - 1.5% which is not nice, but better after being down - 9.9% on the year at the end of Q2. The benchmark MSCI World gained 1.7% in Q3, so BME outperformed the benchmark by 1% in Q3. Year-to-date we're still well behind the benchmark which has gained 17.5%. Our largest position in Uranium has begun to recover after a 20%+ pullback from highs earlier in the year. We've never been more bullish on it than we are now. Also, relative to the benchmark, the fact that we refuse to buy MAG 7 stocks at ridiculous valuations with FCF falling, has hurt us in the near term. We currently have large positions in Uranium, Gold and companies that are rationally priced and can do well in inflationary environments. BME has been a sore spot for us this year but keep in mind that BME beat the benchmark by over 7% in the prior 2 years.

Before I move on, I'd just say that the five portfolios mentioned would be our more popular, but we do have other portfolios that have been tailored more to the specific needs of some clients.

For any further information contact pbrown@baggot.ie.

Market Returns Summary

Q3 Asset Class Returns

All asset class return numbers noted below are all based in Euro denominated terms. Data taken from unhedged (currency) European UCITS ETFs, which include costs as well as dividend payments.

For perspective when comparing returns, the EURUSD gained 2.13% in value in Q3.

Equity Returns (Euro denominated returns)

Q3 Leaders

Q2 Leaders: MSCI China, MSCI Asia Pacific ex-Japan, German DAX

Q3 Laggards

Q2 Laggards: Nasdaq 100, MSCI Latin America, MSCI Japan

Q3/YTD Equities Performance (Euro denominated returns)

S&P 500

1.2% / 19.9%

NASDAQ 100

-2.5% / 17.9%

Euro Stoxx 50

2.4% / 13.6%

German DAX

5.9% / 14.8%

Stoxx Europe

600

2.7% / 11.9%

FTSE 100

3.1% / 14.1%

MSCI EM Asia

4.7% / 19.9%

Vanguard

FTSE EM

5.6% / 17.7%

MSCI China

A Shares

18% / 27.5%

MSCI Japan

1.1% / 11.5%

MSCI World

1.7% / 17.2%

MSCI Latin

America

0.8% / -13.6%

MSCI India

2.2% / 22.7%

MSCI Asia Pacific

ex-Japan

6.1% / 18.2%

Bond Returns (Euro denominated returns)

Q3 Leaders

Q3 Leaders: German 10+ Year Bund, Europe Aggregate Bond ETF, US 10+ Year Treasury Bond ETF

Q3 Laggards

Q3 Laggards: US Inflation Protected Bonds, Europe Investment Grade Ultrashort dated Bond ETF, EM Bond ETF

Q3/YTD Bonds Performance (Euro denominated returns)

US 10+ Year Treasury Bond ETF 3.1% / 1.0%	German 10+ Year Bund ETF 4.5% / -1.2%	EM Bond ETF 1.8% / 6.8%
Europe Aggregate Bond ETF 3.7% / 2.4%	US Inflation Protected Bonds -0.4% / 3.4%	Global Aggregate Bond ETF 2.3% / 1.8%
Europe Inflation Linked Bonds 2.9% / 0.6%	Europe Investment Grade Ultrashort dated Bond ETF 1.1% / 3.1%	

Q3 Precious Metals (Euro denominated returns):

Q3/YTD

Gold

7.8% / 25.4%

Silver

1.1% / 28.7%

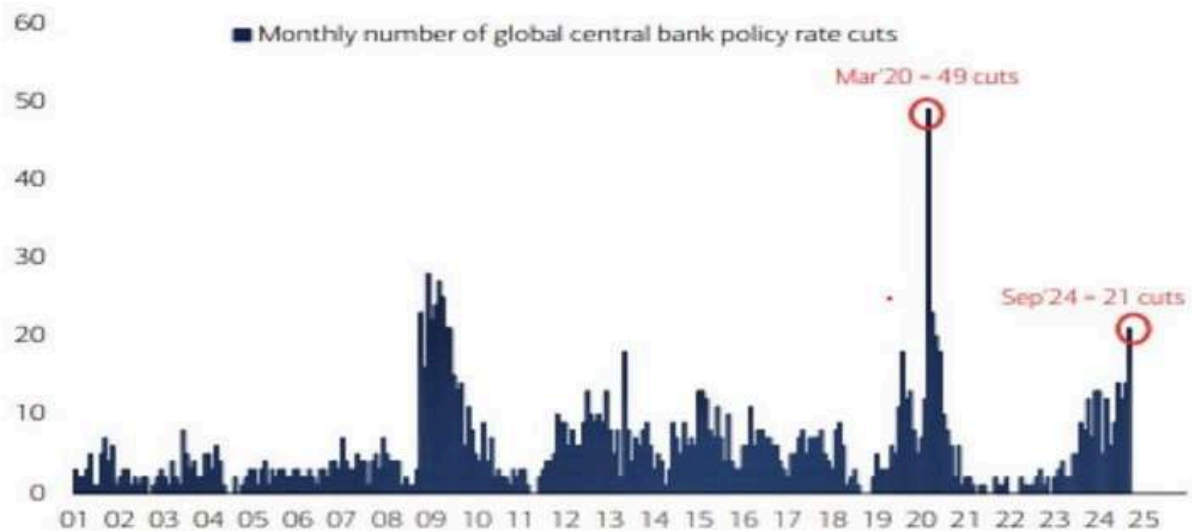


03.

Economic Update

In my 32-year career I have never seen anything like the current economic landscape. Central banks are doing multiple interest rate cuts, while economies are still growing, credit markets are supportive, there's no stress in the banking system, and labour markets are strong.

Chart 3: Sep'24 is biggest month of monetary easing since Apr'20
Monthly global central bank policy rate cuts

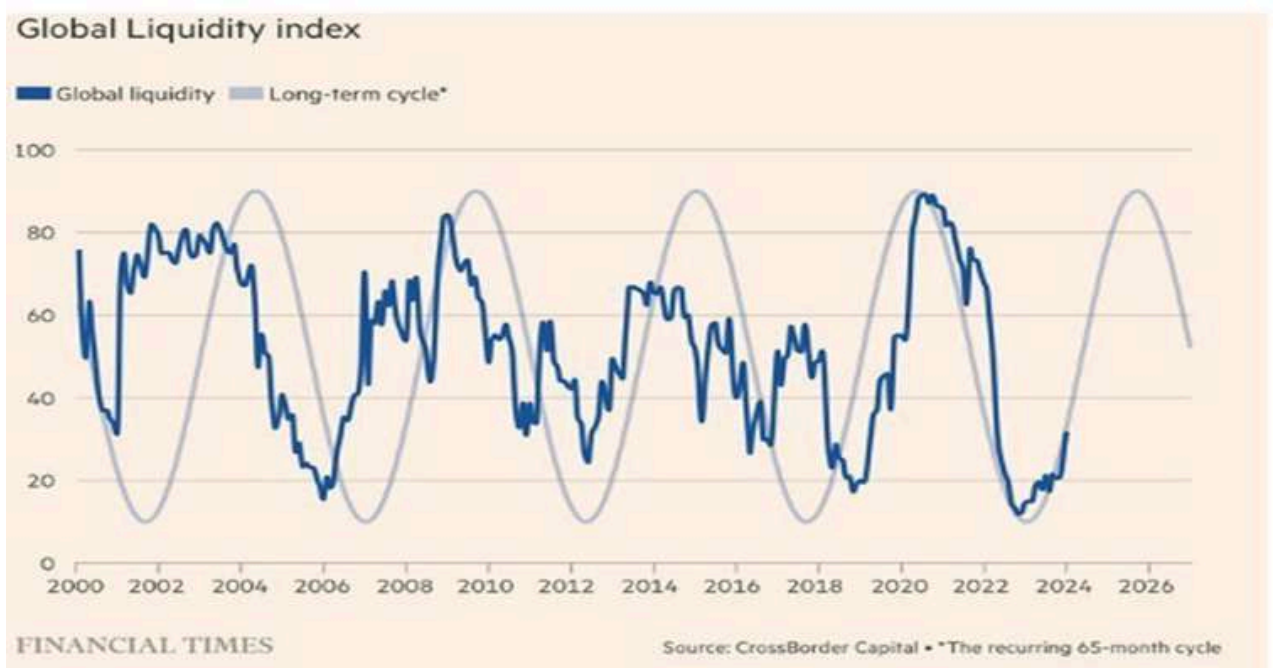
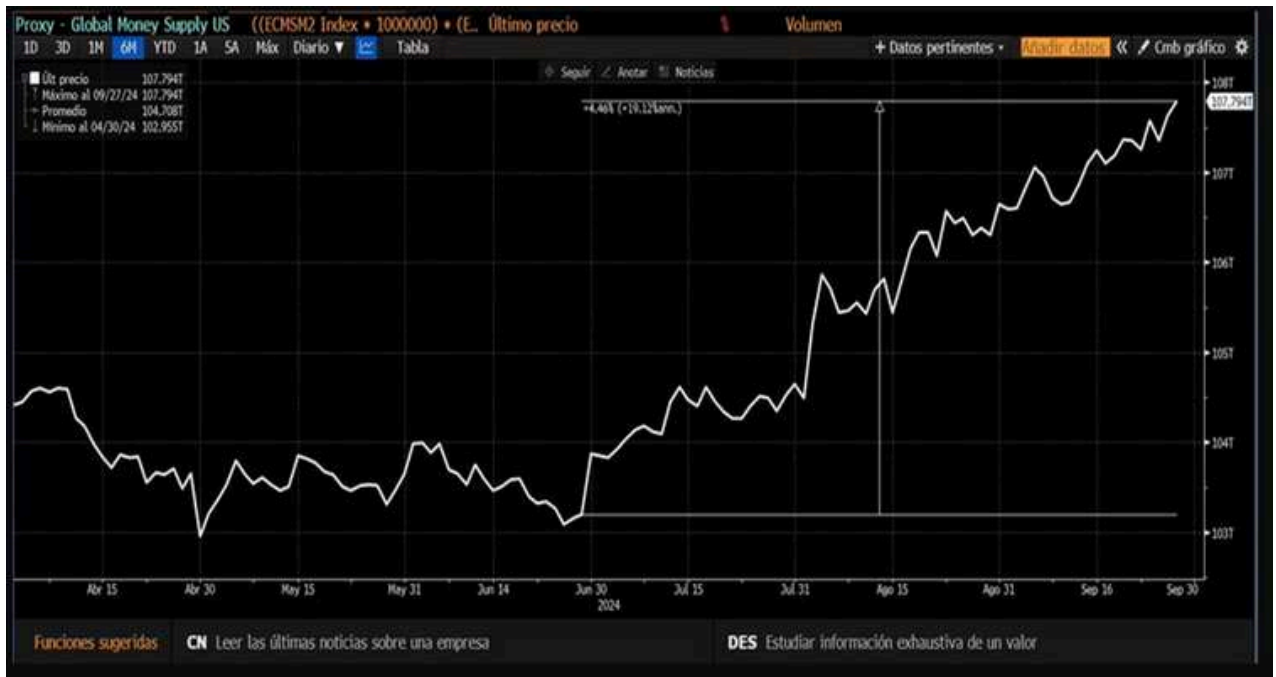


Source: BofA Global Investment Strategy, Bloomberg. Large sample of 100+ central banks
BofA GLOBAL RESEARCH

Usually, central banks cut interest rates when a crash or serious economic contraction is underway, but this is all happening with zero sign of recession. Budget deficits are very high (7% in the US and not too far off that in Europe). All of this in spite of the fact that we are still above stated inflation targets. Keep in mind that based on reported inflation rates (governments always under-report the true rate of inflation) in the last few years you've already lost 25% of your purchasing power in both Europe and the US. What happens to budget deficits in the West if we do get a recession?

Could we see a 15% budget deficit? Sure, you don't ever have a recession if you keep printing and spending money at faster and faster rates, but the cost of those policies is inflation and that is stealth tax.

This is bad for bond and cash holders because they never earn enough to compensate them for the purchasing power they lose over time to reckless inflationary policies.



But remember, there is a silver lining here. The government's liability (bonds are loans) is the public's credit. Money that gets printed and spent, ends up generating earnings for companies and demand for hard assets such as commodities.

Central banks are stimulating economies. This will devalue the Dollar and other fiat currencies. It will flood markets with cheap capital. Your purchasing power will be eroded away, and asset prices will be inflated. Savers lose. Investors win. Regardless of what you do, central banks are going to implement their playbook. Cut rates. Print money. Stimulate to avoid catastrophe. Increase the debt. Kick the can down the road for some other politician to deal with. This is highly inflationary in the long run and that's why our portfolios are built for inflation.

04.

US Election

Regarding the US election, could the economy be different under Trump? Sure, the winners and losers could be very different, Trump would pursue a weak Dollar policy and Fiscal stimulus would probably be directed differently. One thing we know will be the same whether it is Kamala Harris or Trump is that neither are fiscally conservative. Both have pursued inflationary policies in the past and will continue to do so.

05.

Bonds

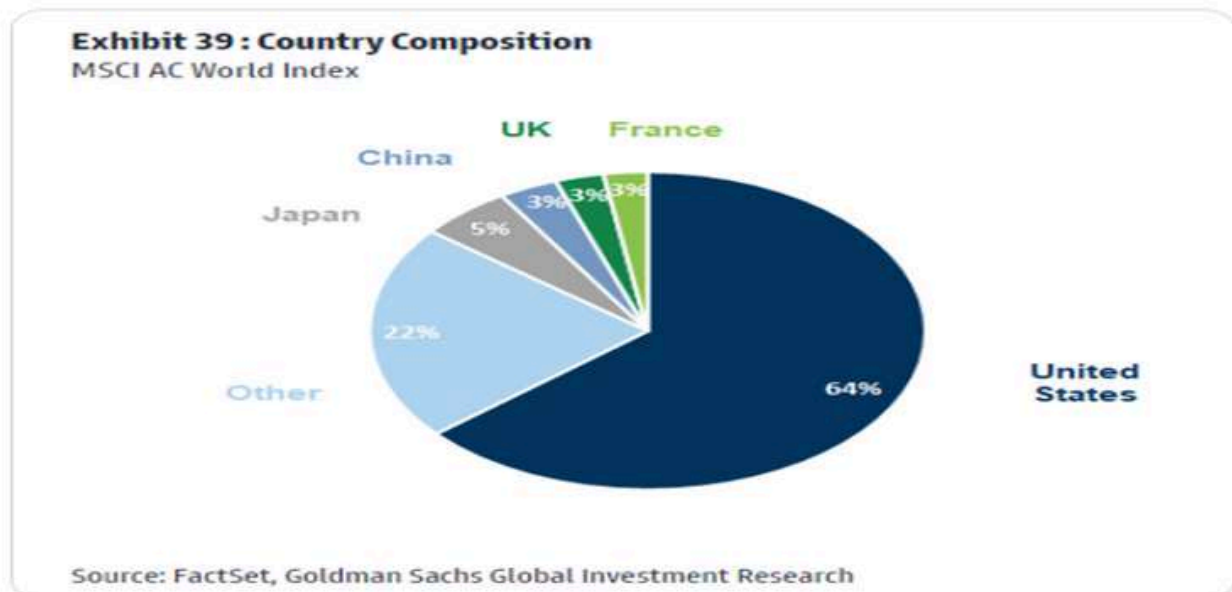
We do not like long duration bonds because of the prospects for future inflation. If you buy a 10-year bond yielding 3.5% and inflation goes up to 6% in the next 2 years (entirely possible given the reckless print and spend policies of Western governments), then you are losing 2.5% purchasing power per year on that bond. In contrast, if you own a short duration bond, then if inflation goes up and central banks respond by hiking interest rates, the yield on short duration bonds will go up. With short duration bonds, yields track inflation more closely. For clients who need ultra-low risk investments, we have been using an ETF that acts like a money market fund and yields about 3.5%, circa 3% after costs.

06.

Equities

In 2024, around half of global GDP will be generated by Emerging Markets, compared to just 19% in 2000. Two-thirds of global GDP growth in the last 10 years was generated by emerging markets. US GDP as a % of World GDP is 25%, yet it makes up 64% of the composition of the global stock market.

US up to 64% of the global stock market



Most standard pensions will hold a similar weighting to the US as the image above, for one simple, but not very smart reason. It is because it has the largest market cap. When considering the valuation of the US stock indices, compared to most other countries, especially Emerging Markets, we feel it is priced to underperform over the long term. In 10 years' time we see the US making up a much smaller percentage of the composition of the global stock market. That is not to mean there aren't certain sectors in the US that can do well in the coming years, but they make up such a small percentage of the US indices, that it won't save your pension from underperforming.

In the developed world we see much more opportunity in Japan and selective parts of Europe, which are priced much more attractively on a valuation basis, but we are most excited about Emerging Markets due to low valuations, high growth, low debt levels and very strong demographics. We're most excited about the area stretching between Jakarta, Indonesia and New Delhi, India (Emerging Asia), where 3.8 billion people (ex-China) are entering the global economy, imminently. Never in history has there been more people entering the Energy intensive part of the economic cycle. Fuelling their demand will be a voracious appetite for commodities.

Chinese Technology Sector, which we have written about extensively, earlier in the year. Our position has gained roughly 30% since we added it to multi-asset portfolios, but we believe it is very early innings for this investment. China has its problems, particularly in the property and banking sectors, but the Tech Sector trades at an extraordinary valuation discount to its western peers, its market is much larger, and it throws off tons of Free Cash Flow. We think buying China Tech now is akin to buying US Tech in 2009.

Biotechnology is a huge benefactor of advancements related to AI (drug and medical research) and much more attractively priced on a valuation basis than the Big Tech AI stocks.

The Energy sector makes up only 4% of the US S&P 500 index, yet it generates 10% of the free-cash flow of the index. That is a huge disconnect. These companies are cheap, throw off big dividends and do stock buybacks which drives earnings per share higher, even if revenue stays flat. We see it as a very attractive place to be invested for the longer term. It is also an asset that can add inflation protection to your portfolio. A comforting thought given how reckless western governments have become with their print and spend policies.

The Global Agriculture sector trades at 14X earnings (nearly half that of the US stock market) and pays a 3% dividend yield. It is a cheap asset that can generate good returns during periods of economic stress and inflation. Not to mention that those 3.8 billion people in Emerging Asia who are coming into the global economy will consume more calories as they become wealthier.

7.

Commodities

Generally speaking, it is difficult not to like broad based commodity exposure. They're historically extraordinarily cheap vs Bonds and Equities and many parts of the commodity complex have been acting well. These assets can perform well despite inflationary environments.

The image below shows the Goldman Sachs Commodity Index vs the S&P 500 stock index from 1971 – 2024. When it is rising commodities are outperforming equities and when it is falling, commodities are underperforming equities. Commodities are pretty much as cheap as they've ever been vs US equities (the largest equity exposure you have in your standard pension portfolio).



We believe a new commodity bull market began in 2020, ushered in by covid.



There is obviously some crossover between Commodities and Equities because there are many companies in the space (Energy, Materials and Agriculture) which I have already discussed.

Gold (and it's highly correlated, more volatile little brother Silver) is an important component in the commodity space. We recommend that everyone should have some, at least small exposure to Gold because it is not correlated to Equities and Bonds and so it adds true diversification.

Gold Captivates as Equity Hedge S&P 500 Return vs. Gold Return during Times of Equity Crashes

IGWT
Present

Date of Market High	Date of Market Low	S&P 500 Return	Gold Return	Gold Relative to S&P500
9/16/1929	6/1/1932	-86.19%	0.29%	86.48%
8/2/1956	10/22/1957	-21.63%	-0.11%	21.52%
12/12/1961	6/26/1962	-27.97%	-0.06%	27.91%
2/9/1966	10/7/1966	-22.18%	0.00%	22.18%
11/29/1968	5/26/1970	-36.06%	-10.50%	25.56%
1/11/1973	10/3/1974	-48.20%	137.47%	185.67%
11/28/1980	8/9/1982	-27.27%	-45.78%	-18.51%
8/25/1987	10/20/1987	-35.94%	1.38%	37.32%
7/16/1990	10/11/1990	-20.36%	6.81%	27.17%
7/17/1998	10/8/1998	-22.29%	1.71%	24.00%
3/24/2000	10/10/2002	-50.50%	11.18%	61.68%
10/11/2007	3/6/2009	-57.69%	25.61%	83.30%
9/21/2018	12/26/2018	-20.21%	5.59%	25.80%
2/19/2020	3/23/2020	-35.41%	-3.63%	31.78%
1/3/2022	3/8/2022*	-13.05%	12.25%	25.30%
	MEAN	-36.65%	10.28%	45.85%
	MEDIAN	-27.97%	1.38%	27.54%

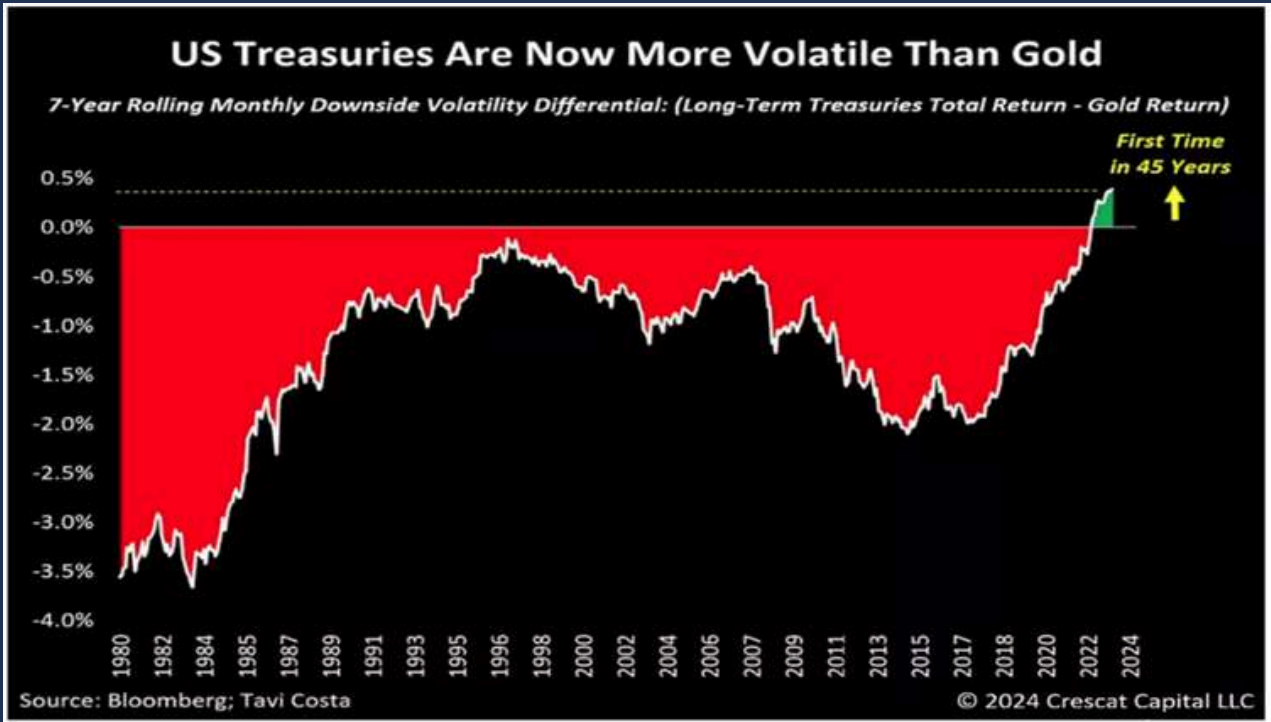
Source: Cornerstone Macro, Bloomberg, Reuters Eikon (*Lowest Closing Price Since 1/3/2022), Incrementum AG

Gold Performance in Major Currencies, 2000–2024 YTD

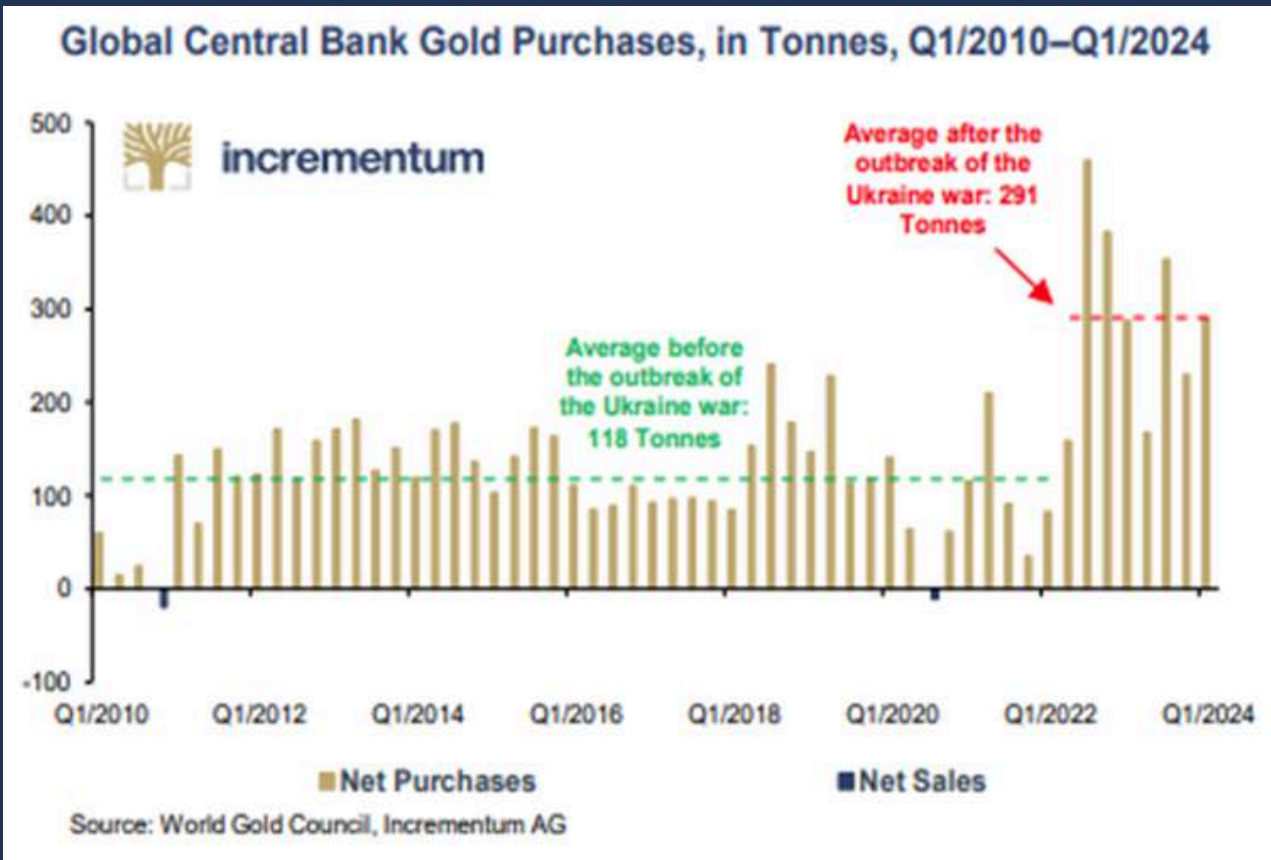
Year	USD	EUR	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2000	-5.3%	1.2%	2.0%	11.3%	-1.9%	-5.4%	5.8%	-4.2%	1.4%	0.6%
2001	2.4%	8.3%	5.3%	11.4%	6.8%	2.4%	18.0%	5.5%	5.8%	7.6%
2002	24.4%	5.6%	12.2%	13.3%	22.9%	24.4%	12.2%	3.5%	23.7%	15.8%
2003	19.6%	-0.2%	8.0%	-10.7%	-1.3%	19.6%	8.1%	7.4%	13.9%	7.2%
2004	5.6%	-1.9%	-1.7%	1.5%	-2.0%	5.6%	0.8%	-3.1%	0.1%	0.5%
2005	18.1%	35.1%	31.6%	25.9%	14.1%	15.1%	35.9%	36.3%	22.6%	26.1%
2006	23.0%	10.4%	8.1%	14.3%	23.3%	19.0%	24.2%	14.1%	20.7%	17.5%
2007	30.9%	18.5%	29.2%	18.0%	12.6%	22.5%	22.5%	21.6%	16.9%	21.4%
2008	5.4%	10.0%	43.1%	30.5%	26.7%	-1.5%	-14.2%	-0.8%	30.0%	14.6%
2009	24.8%	21.8%	12.0%	-1.6%	7.9%	24.8%	27.9%	21.1%	19.2%	17.6%
2010	29.5%	38.6%	34.2%	13.6%	22.8%	25.1%	13.2%	16.8%	24.8%	24.3%
2011	10.2%	13.9%	10.6%	10.3%	12.7%	5.2%	4.5%	10.7%	30.7%	12.1%
2012	7.1%	5.0%	2.5%	5.3%	4.2%	6.0%	20.7%	4.5%	11.1%	7.4%
2013	-28.0%	-30.8%	-29.4%	-16.1%	-23.0%	-30.1%	-12.6%	-29.8%	-19.1%	-24.3%
2014	-1.8%	11.6%	4.4%	7.3%	7.5%	0.7%	11.6%	9.4%	0.2%	5.6%
2015	-10.4%	-0.1%	-5.3%	0.6%	6.8%	-0.2%	-9.9%	-0.7%	-5.9%	-4.5%
2016	8.5%	12.1%	29.6%	9.6%	5.3%	16.1%	5.4%	10.3%	11.4%	12.0%
2017	13.1%	-0.9%	3.3%	4.6%	5.9%	6.0%	9.0%	8.3%	6.3%	6.2%
2018	-1.5%	3.0%	4.3%	8.9%	6.8%	4.1%	-4.2%	-0.8%	7.3%	3.1%
2019	18.3%	21.0%	13.7%	18.8%	12.6%	19.7%	17.2%	16.6%	21.3%	17.7%
2020	25.0%	14.8%	21.3%	14.1%	22.6%	17.2%	18.8%	14.3%	28.0%	19.6%
2021	-3.6%	3.6%	-2.6%	2.2%	-4.3%	-6.1%	7.5%	-0.6%	-1.7%	-0.6%
2022	-0.2%	6.0%	11.6%	6.3%	7.0%	6.3%	13.7%	1.1%	10.8%	7.2%
2023	13.1%	9.7%	7.4%	13.1%	10.5%	16.3%	21.6%	2.9%	13.7%	12.0%
2024 YTD	10.8%	14.7%	12.9%	16.6%	15.3%	13.0%	24.0%	21.1%	11.2%	15.5%
CAGR	8.9%	8.6%	10.6%	8.9%	8.7%	8.3%	10.9%	6.5%	11.9%	9.2%

Source: Reuters Eikon (as of 04/30/2024), Incrementum AG

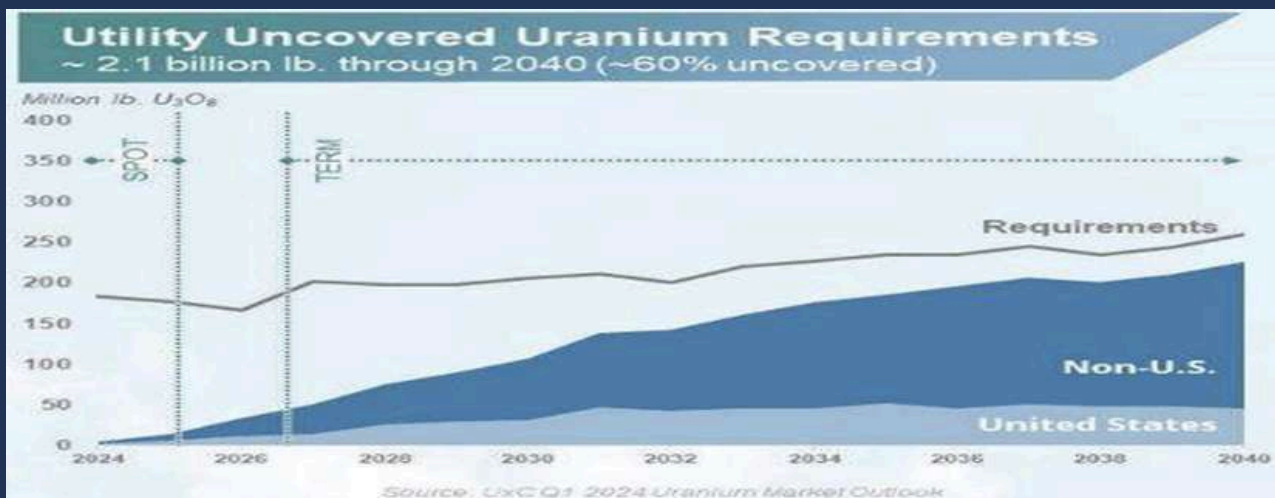
It can also do well during both in inflationary and deflationary periods. Finally it is now less volatile than US Treasuries which used to be considered the most important safe haven for portfolios.



Also, since the US decided to weaponize the Dollar (not a political statement, just a fact) by confiscating Russian money held in the Swift banking system, global central banks have (as a consequence) been selling US Treasury Bonds (and European Government Bonds) and buying Gold.



Uranium at current levels, has gone up 400% since we originally added physical uranium to our multi-asset portfolios nearly 5 years ago, but we still see dramatic upside going forward. After a good pullback in price since January, we think now is an attractive entry point for longer term focused investors. Nuclear is the only viable path to zero emissions and there just isn't enough of the stuff readily available to meet demand now and in the coming years. We recently wrote a more detailed update on it, contact us if you missed it or did not receive it. Bottom line – There is no pathway to a rebalanced Uranium market in the current decade. A sustained structural supply deficit will continue to lead prices higher for many years to come. This is the perfect setup for dramatically higher prices in the long term.



8. Conclusion

To conclude, we remain confident in the way our portfolios are constructed. Our multi-asset portfolios provide true diversification when you really need it, in an uncertain world.

Please do let us know if you wish to discuss your portfolio at any time. We appreciate your faith and trust in us.

Kind Regards,

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