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# Portfolio and Market Review

## 3rd Quarter 2023

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# Economic Outlook and Market Commentary – September 2023

## Quality Street and Financial Feats: A Grinch's Take on Christmas

Pallets of Celebrations, Quality Street and Roses, unceremoniously dumped in the entrance of every supermarket across the land. That can mean only one thing, Christmas is coming. I will be honest, as I've matured, my fondness for the Christmas period has waned, to the extent that I am regularly referred to as the Grinch, to which, in all honestly, I have no rebuttal.

My other half, however, is quite the opposite, she loves Christmas and takes great pleasure in planning everything, well in advance. Truth be known, there are already presents under the stairs, wrapped and ready to go. I am not that organised so you will find me in my local Tesco on Christmas Eve, fighting over the last remaining Chocolate Orange. Flavored chocolate jokes aside, failing to buy Christmas presents well in advance does have the potential for some time out in the metaphorical doghouse but no long-term impact – well, hopefully.

There is one plan that I do have organised, and which will have a long term and material impact on my life - a robust financial plan. That, hopefully, will not come as a surprise, given that I work at Timeline and with financial advisers daily. I'm blessed, that like you and your clients, I have access to Timeline Planning, which, although I am obviously biased, is easily the best financial planning tool available.

Moreover, working with the exceptionally intelligent and passionately dedicated individuals that continue to develop the software, gives me a profound sense of confidence in its capabilities. I am and always have been a fan of spreadsheets, but if you are still using them or other planning tools to model cashflows, you really are missing out!

Another facet of Christmas that brings out my inner Grinch, is the forever rising costs. Sweets are just one example - and while we're on the subject, Quality Street reign supreme, and that is a fact. Manufacturers seem to believe that we fail to notice that each year that £5 tub (not even a proper tin) of sweets gets smaller and smaller, 'shrinkflation'.

Source: News Group Newspapers (2022)

This phenomenon has become common, especially in the past two years, as companies reduce product weight and volumes to limit price increases. It provides a very visual representation of the impacts of inflation. One silver lining may be an improvement in our waistlines and overall health if we eat fewer sweets.

Central banks also, in a roundabout way, want us to eat less sweets by making it more expensive to borrow money. This means there's less cash circulating in the economy to buy all those sweet treats, which helps keep sweet prices from increasing.

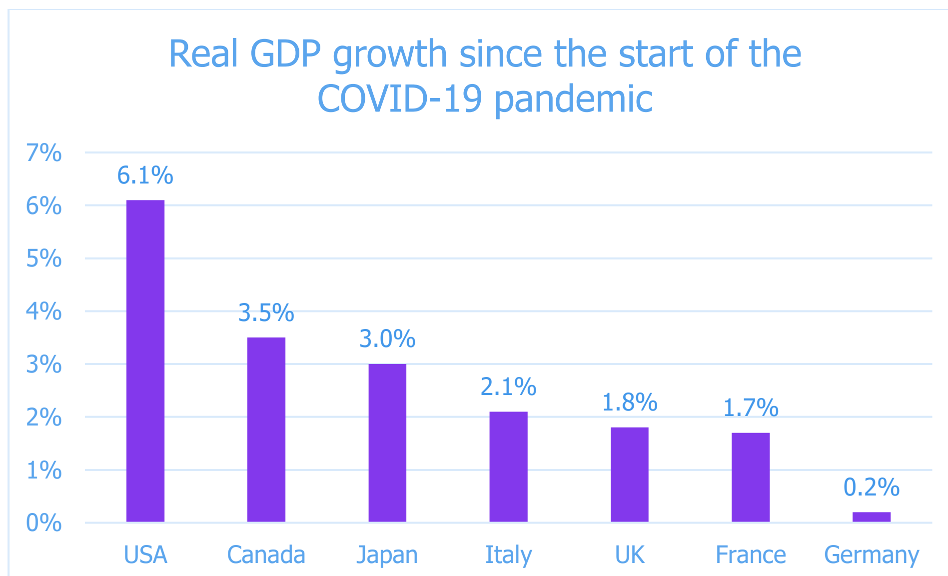
Fortunately, the advisers who work with us, as well as their clients, understand the impact of inflation and recognise the important role capital markets play in delivering long-term returns that can outpace inflation. Investors that have a sweet tooth and wish to enjoy far too much Quality Street each Christmas in retirement give themselves the best chance of doing so by having a sound financial plan and maintaining long term, diverse exposure to the global capital markets. Timeline can help with this!

# Economic Outlook

## Growth

As the quarter drew to a close, there was some positive news for the UK, with the Office of National Statistics (ONS) publishing revised economic growth estimates. The data indicated that that the UK economy has grown 1.8% since the start of the pandemic, not contracted by 0.2%, as previously thought. The revised figures mean that the UK's growth exceeds that of France, with 1.7% and Germany's at 0.2%.[1]

However, compared to many of the other G7 nations, the UK is still somewhat behind in terms of growth. In addition, leading economists from Capital Economics, the EY Item Club and PWC, were quick to point out the challenges still faced by the UK economy. These include high interest rates and frozen tax brackets, that will reduce consumers' spending power. The Organisation for Economic Co-operation and Development (OECD) forecasts economic growth in the UK of 0.3% in 2023 and 0.8% in 2024.[2]




Source: Office of National Statistics (ONS), Organization for Economic Co-operation and Development (OECD) and
Italian National Institute of Statistics (ISTAT) (2023)

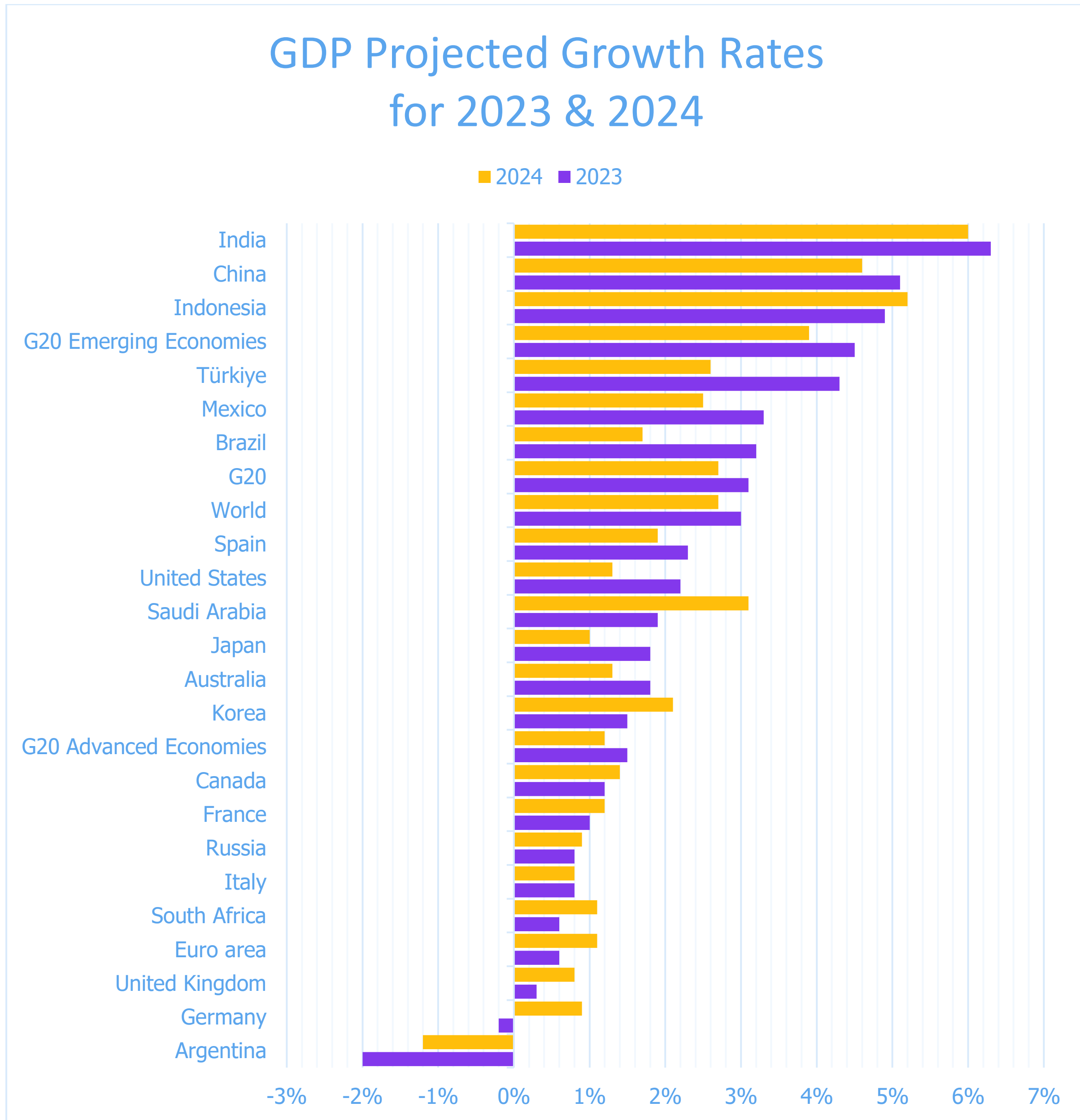
The global figures for economic growth for 2023 and 2024 are somewhat better than the UK, projected as 3% and 2.7% respectively. In fact, the world economy has been more resilient in 2023, than the original forecast of 2.7% growth made by the OECD in 2022. However, the current forecast of growth for 2024 is down from the original forecast of 2.9% also made in 2022.

The 2024 growth forecast downgrade stems from two key factors: the impact of tight monetary policy and a less robust-than-anticipated recovery in China. Notably, despite the subdued expectations for China's recovery, a significant portion of global growth in the 2023-2024 period is anticipated to come from Asian economies, underscoring their important role in the global economy.

There are continuing risks, and the pessimists are already predicting recession. Inflation may persist longer than expected, with potential for additional disruptions in energy and food

[1] Office for National Statistics (ONS) (2023).
[2] Organization for Economic Co-operation and Development (OECD) (2023).

markets. A more pronounced economic slowdown in China could exert a more pronounced drag on global growth. Furthermore, public debt remains elevated in numerous countries.



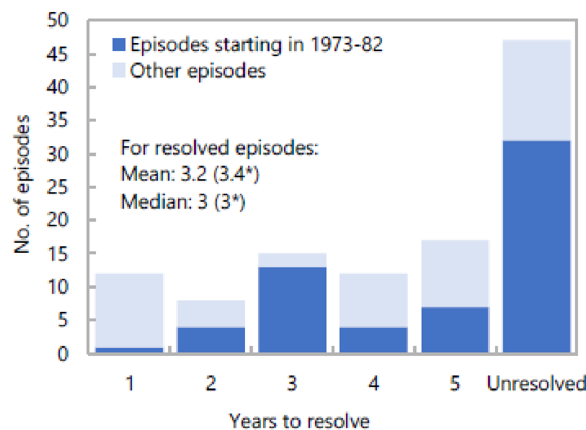

Source: OECD (2023)

## The Endless Journey

Inflation has been a persistent headwind for investors since mid-2021. Regrettably, in the intervening years, it has felt that almost no quarterly commentary was complete without a discussion on either the reasons why inflation was rising so quickly or why central banks seemed to be so ineffective at bringing it under control. But are we being too hard on central banks by expecting a quick fix when an inflation shock occurs?

Recent research by the International Monetary Fund (IMF), suggests, yes. After reviewing 111 inflation shock episodes in 56 countries since the 1970s, including over 60 episodes linked to the 1973-79 oil crisis, the authors found that only 60% of the episodes were brought back to within 1% of pre-shock inflation levels within 5 years. Even then, it took on average 3 years to resolve.[3]

**Years until Inflation Declines to within 1% of its Pre-Shock Rate**




Source: International Monetary Fund (IMF) (2023)
(*Episodes starting in 1973–82).

Given that we are currently 2 years into the current inflation shock, and many countries continue to see inflation rates not seen for decades, investors undoubtedly will be concerned that it may be years until inflation returns to pre-shock levels. The IMF did however find a number of factors that influenced how successful policy makers were in combating an inflation shock. In relation to the current shock, two factors seem the most important.

Firstly, success rates were lower, and resolution times longer for inflation triggered by terms-of-trades shocks during the 1973-79 oil crisis. As the recent shock was exacerbated by an increase in energy prices, caused by the war in Ukraine, this could make fighting current inflation more difficult.

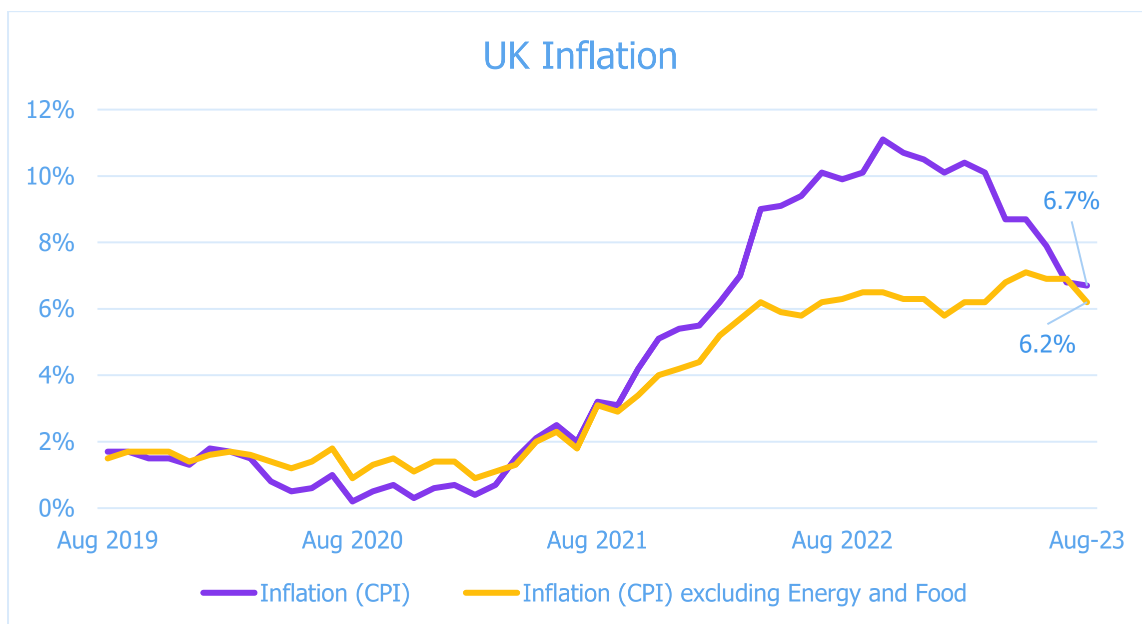
Secondly, consistency is crucial. To successfully combat inflation, tight fiscal and monetary policy must not only be implemented but also maintained for extended periods of time. Policy loosening at the first signs of weakening inflation needs to be avoided as this trend often reverses. Investors should take comfort in the fact that governments and central banks have reacted robustly to the current inflation shock, and continue to do so, voicing their intention to maintain tight policy measures for the foreseeable future.

Recently released data appears to show that inflation is starting to wane. In Europe, inflation in the Eurozone rose by 4.3% in September, the slowest pace since October 2021, dropping from 5.2% in August. Core inflation, which excludes energy and food and is seen my most

[3] International Monetary Fund (IMF) (2023).

economists as a better gauge of the underlying trend, fell from 5.3% to 4.5%, the biggest drop since 2020. It wasn't all good news however, while energy prices declined by 4.7% in September, food inflation remained at 8.8%.[4] In addition, the European Central Bank (ECB) recently revised inflation forecasts upward for both 2023 to 5.6% and 2024 to 3.2%, driven by the belief that energy prices will continue to rise.[5]

In the UK inflation fell by 0.1% to 6.7% in August. This was the third consecutive monthly drop and took economists by surprise, given surging global energy costs. Brent crude oil increased in price by 28%[6] over the quarter, as Saudi Arabia and Russia announced their intention to maintain output cuts for the remainder of the year. Indeed, fuel prices were the largest upward contributor to inflation in the UK, but this was offset by slower increases in food and a drop in the cost of hotel rooms. The Bank of England (BoE) believes by the end of the year, inflation should fall to 5%, continue to fall throughout 2024, and reach the 2% target in the first half of 2025.[7]



Source: Office of National Statistics (ONS) (2023)

UK core inflation was also down 0.7%, to 6.2% in August, again, coming as a surprise to economists who had forecasted a far smaller decrease. Importantly, the decrease in core inflation was driven by a slowdown in services inflation, a key measure that reflects firms' labour costs. This is encouraging, as inflationary periods can lead to a wage-price spiral. As workers demand higher wages to keep up with rising prices, businesses may respond by increasing prices for their products or services to cover the higher labour costs. This creates a feedback loop where wage increases drive price increases and vice versa. This can result in hyperinflation if left unchecked, severely eroding the purchasing power of money, and destabilising the economy.

Across the pond there was yet more positive inflation news. While inflation did increase to 3.5% in September, up from 3.4% in August, it was the slowest increase since September 2021. Core inflation, although growing 3.9%, was down 4.1% from the previous month. The Federal Reserve (Fed) expects inflation to drop to 3.3% by the end of 2023, to 2.5% next year and to 2.2% by the end of 2025. It will take until 2026 to get inflation back to its 2%

[4] Eurostat (2023).
[5] European Central Bank (ECB) 2023.
[6] Reuters (2023).
[7] Bank of England (BoE) (2023).

target.

Although the BoE, ECB, and Fed are still far from their 2% target inflation rate, its clear real progress has been made. Inflation peaked in the UK and Eurozone last October, at 11.1% and 10.6% respectively. In the US, inflation peaked a few months earlier at 9.1% in June 2022. But fighting inflation comes at a cost, that of increased interest rates.

## Will They, Won't They?

Investors may hope that following the recent good news on inflation, central banks would cut interest rates. This, thankfully, seems unlikely. In the past, central banks have made the mistake of acting too swiftly, lowering interest rates at the first signs of declining inflation, only to see inflation subsequently rebound. This caused central banks to lose credibility. It seems central banks have learned from the past and are applying policy consistency in their approach to tackling inflation, which the IMF noted as essential to successfully tackling inflation. Central banks remain hawkish on inflation and do not rule out further interest rate increases despite the recent weakening of inflation. The consensus seems to reflect that two or three further hikes are expected in the near term and are priced into capital markets.

In August, UK interest rates were held at a 15 year high of 5.25% after 14 consecutive increases. Andrew Bailey, Governor of the BoE warned against "*complacency*" and "premature celebration" explaining "we've got a long way to go to bring inflation down to the Bank's 2% target".[8]

On the continent, Christine Lagarde, the head of the ECB said interest rates will stay high enough to restrict business activity for "*as long as necessary*"[9]. The interest rate in the Eurozone is now at its highest since the Euro was established in 1999, after 10 consecutive increases, at 4%.

In the US, the Fed left rates unchanged at a 22-year high of 5.5%. Since March 2022, the Fed has raised rates 11 times, only holding them steady on two occasions, including September's pause. The Fed's Chairman, Jerome Powell, has made it clear that he believes inflation is still too high and: "*We are prepared to raise rates further if appropriate, and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective*"[10] .

The trade off is of course, economic impact of higher rates, central banks would like to mitigate inflation without causing a recession and increasing unemployment. This ideal scenario has been coined the "soft landing". However, central banks have made it clear that avoiding a recession is not their primary concern.

Andrew Bailey remarked in June that: "*We are not desiring a recession, but we will do what is necessary to bring inflation down*"[11]. Jerome Powell takes a similar position, and acknowledged last year that rising interest rates does bring "*some pain*"[12] in the form of job losses and weaker economic growth. Economists seem optimistic that further increases in interest rates, although expected will be limited.

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[8] British Broadcasting Corporation (BBC) (2023).
[9] European Central Bank (ECB) (2023a).
[10] Federal Reserve (Fed) (2023).
[11] Sky News (2023).
[12] Federal Reserve (Fed) (2022).

## Taming The Property Dragon

The UK and China have something in common when it comes to their property markets. Both are in crisis, and the underlying reason comes down to basic economics - a mismatch between supply and demand. In the UK, supply is too low to meet demand, the result has been skyrocketing prices and rents. It's estimated that the UK needs an additional 4.3 million[13] homes to alleviate the crisis.

In China the opposite is true. Years of debt-fuelled overbuilding has resulted in an estimated 65-85 million[14] homes and apartments standing empty, putting downward pressure on prices and spooking the property market. The scale of the oversupply is simply mindboggling. It's estimated that filling all the vacant properties would require more people than currently live in China - that's over 1.4 billion[15] people!

Property has been a key driver of Chinese economic growth since the 1980s, when the country first started to open its economy and adopt capitalism. However, it was not until 1998, that China's property boom truly started, when the government removed the restriction on the private sale of property. This coincided with a rapid period of urbanisation, as people moved from the countryside, looking for better opportunities. This created strong demand for new property.

As the market boomed, and with limited access to traditional financial markets, the emerging middle class invested in property, believing it to be a safe investment. Developers were encouraged to build by local and regional authorities, as the sale of public land bolstered their budgets. Central government was equally supportive, recognising the significant contribution of the property sector to the high levels of economic growth China experienced throughout the 2000s and 2010s.

The major problem underlying the Chinese property boom, was that it was being funded by vast sums of debt. Developers, desperate to finance construction projects, increasingly sold homes off plan and borrowed from foreign investors. Annual sales of dollar-denominated offshore bonds surged from $675 million in 2009 to $64.7 billion in 2020.[16] Investors in turn borrowed to buy the properties.

In 2020 the boom in prices reached such levels that housing was becoming unaffordable in many cities. The government responded, introducing new rules in August 2020 based on the principle that "property is to be lived in, not to be speculated on"[17]. The rules imposed annual borrowing limits on developers and introduced more stringent lending criteria. The new rules coincided with the start of the pandemic, which resulted in lockdowns in China and falling demand for property.

Consequently, many developers found it challenging to comply with the new requirements. Notably, Evergrande, at the time, the second largest property developer, missed a deadline to repay interest on approximately $1.2 billion of international loans in December 2021, leading credit rating agencies to declare it in default.[18] Fears of a global crash resulting from the default did not materialise; however, it did rattle markets, leading foreign investors to seek reduced exposure to the Chinese property market.

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[13] Centre for Cities (2023).
[14] Fortune (2023). ()
[15] Business Insider (2023).
[16] Bloomberg (2023).
[17] Jin (2023).
[18] British Broadcasting Corporation (BBC) (2023a).

The Chinese property market remained sluggish in the intervening years, as it dealt with the fallout from the default of Evergrande and others. Now, there are renewed signs that the crisis is deepening once more. In August, Country Garden, which until last year was China's biggest property developer and was considered financially sound, missed two coupon payments totalling $22.5 million and announced it faced a debt restructuring.[19] Unsurprisingly, this caused its shares to plunge in value.

Evergrande also made the news again in August, as it filed for bankruptcy protection in the US, to allow it time to reach a deal with creditors.[20] In the final days of the quarter, Evergrande was again back in the headlines, as police detained current and former executives and trading of the company's shares was suspended.[21] This has put in jeopardy a massive government supervised debt restructuring plan, which was due to be finalised in the coming weeks, designed to prevent the firm collapsing under its $300 billion of liabilities.

Evergrande's collapse could have wide ranging impacts in China. Investors that had purchased properties off plan from the developer, risk losing their money as projects are never started, or finished. Suppliers could see invoices go unpaid and be forced into bankruptcy themselves. Banks and other lenders may be forced to lend less, resulting in a "credit crunch". In such a scenario, businesses may face difficulties in securing loans at favourable rates to fund their expansion, which can impede overall economic growth.

Some analysts believe, because of the potential impact on the Chinese economy from Evergrande's collapse, the government will step in and rescue the beleaguered firm. The problem for the government, is that although Evergrande and Country Garden grab the headlines, there are hundreds, if not thousands of development companies that are in similar situations. That said, some of the firms may indeed be "too big to fail", especially as the property sector contributes to approximately 25% of GDP growth.

Investors have naturally drawn comparisons to the US sub-prime housing market collapse, which led to the 2008-09 global financial crisis. However, there are differences between the scenarios that reduce the prospects of a financial crisis and its spread within and beyond China.

The financial sector in China is dominated by 20 large, government owned banks, which are well capitalised and regulated. Smaller banks, that have run into problems because of exposure to property, according to various media sources, are being quietly bailed out by local government.[22] Leverage, which is often the cause of financial crises, is comparatively lower in China than it was in the US before the 2008 collapse. In the US, where NINJA (no income, no job, no assets) no-money-down loans were commonplace; however, the use of leverage by homebuyers in China has been low. In fact, until recently, a 30-50% downpayment in cash was required to purchase a home.[23] The lack of excessive leverage could be a major mitigating factor when it comes to financial contagion from China's real estate downturn. Finally, global markets have already priced in losses stemming from the crisis in the property market.

It's also noteworthy that the Chinese property market carries a relatively low weight in emerging markets, accounting for just 1.02% in the FTSE All-World Emerging index and 0.91% in the MSCI Emerging Markets index.

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[19] Reuters (2023a).
[20] New York Times (2023).
[21] The Guardian (2023).
[22] Nikkei Asia (2023).
[23] Bloomberg (2023a).

## Don’t Panic

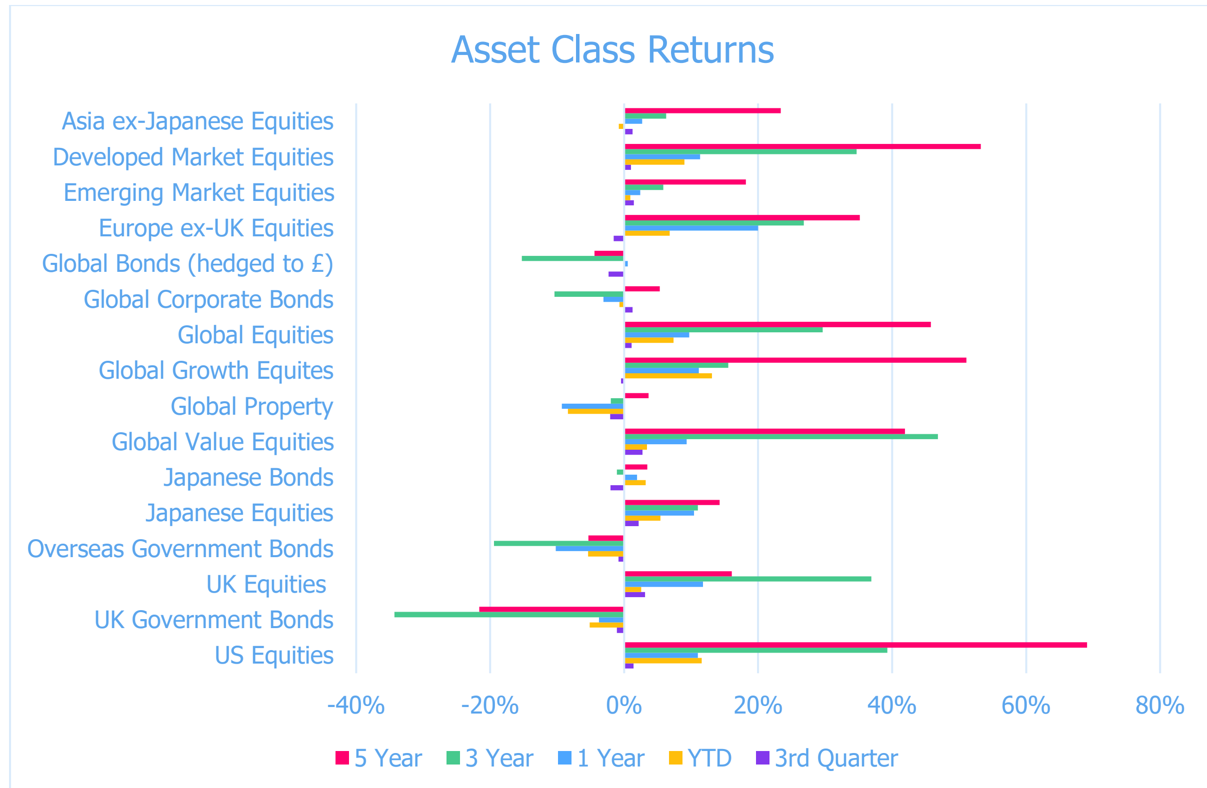
Faltering growth, never ending inflation, high interest rates, a shaky Chinese property market? That’s just what investors have contended with in 2023. If we look back even a few more years, and remind ourselves of the pandemic, the start of the war in Ukraine, and Trussonomics it seems like we never get a break! Against such a continuing backdrop of headwinds, it’s understandable that some investors consider withdrawing entirely from the markets and waiting for a more favourable environment before reinvesting.

However, the poor long-term performance of active managers, who attempt to beat the market, by varying exposure to particular factors, sectors, or stocks, should be evidence enough that for those lacking clairvoyant abilities, trying to time the market is a difficult, risky proposition and rarely successful.

Recent research, conducted by the team here at Timeline and soon to be published, underscores the significance of staying invested and provides quantifiable insights into the adverse effects of missing out on the most lucrative trading days. Drawing from data spanning from 1915 to 2022, our findings reveal that an investor who missed just five of the best trading days within a 20-year timeframe would witness a decline in returns of around 2% per year.

# Asset Class Returns

After a robust rally in equity markets during the first half of the year, the third quarter delivered a sobering reality check to investors. Equity markets struggled to remain in positive territory, with some delivering negative returns over the quarter. Bond markets, unsurprisingly, given the economic conditions continued to struggle. Commodities performed well, as oil prices surged.




Source: Timeline (2023)[24]

## Equities

Global equities delivered a modest return of 1.12% for the quarter, which, while falling short of the strong returns achieved in the first two quarters, culminated in a pleasing year-to-date return of 7.36% as of the end of September.

Global value equities recouped some lost ground during the quarter, posting a return of 2.74% in contrast to the -0.46% return of global growth stocks. Nonetheless, this resurgence wasn't sufficient to offset the 13.10% gains achieved by global growth stocks since the beginning of the year, in contrast to the overall gain of 3.4% for global value stocks.

[24] Proxies. Asia ex-Japanese Equities: Asia ex-Japanese Equities: Morningstar Asia Pacific ex-Japan Large-Mid Cap GR GBP; Developed Market Equities: Developed Market Equities: Morningstar Developed Markets Target Market Exposure GR GBP; Emerging Market Equities: Emerging Market Equities: Morningstar Emerging Markets Target Market Exposure GR GBP; Europe ex-UK Equities: Europe ex-UK Equities: Vanguard Emerging Markets Stock Index Acc GBP in GB; Global Bonds: Global Bonds: Vanguard Global Bond Index Hedged Acc GBP in GB; Global Corporate Bonds (hedged £): Vanguard Global Bond Index Hedged Acc GBP in GB: Global Equities: Global Equities: Morningstar Global Markets GR GBP; Global Growth Equites: Global Growth Equites: Morningstar Global Growth Target Market Exposure GR GBP; Global Property: Global Property: Morningstar Global Real Estate GR GBP; Global Value Equities: Global Value Equities: Morningstar Global Value Target Market Exposure GR GBP; Japanese Bonds: Japanese Bonds: Morningstar Japan Treasury Bond TR GBP Hedged; Japanese Equities: Japanese Equities: Morningstar Japan GR GBP; Overseas Government Bonds: Overseas Government Bonds: iShares Overseas Government Bond Index (UK) D Acc in GB; UK Equities: UK Equities: Morningstar UK GR GBP; UK Government Bonds: Vanguard UK Government Bond Index Acc GBP in GB; US Equities: US Equities: Morningstar US Target Market Exposure TR GBP. Performance periods: 3rd Quarter: 30/06/2023 -- 30/09/2023, Year: 30/09/2022 - 30/09/2023; 3 Year: 30/09/2018 - 30/09/2022, 5 Year: 30/09/2016 - 30/09/2022; 7 Year: 30/09/2014 - 30/09/2022.

Technology stocks struggled over the quarter, in stark contrast to the first half of the year, as investors grew increasingly concerned about persistent inflation and higher than expected interest rates. Key tech indices gave up some of the gains they had made so far in 2023: The Nasdaq, dropped by 9% from its 19th July peak, having achieved a return of 37.18% up to then, and the S&P 500 Information Technology Index, having peaked on 18th July, experienced a 10% decline, after a 47.65% gain year to date.

The exceptional returns earlier in the year had been driven by the Artificial Intelligence boom, particularly among the "Magnificent Seven"[25] group of large-cap technology stocks. This was bolstered by the anticipation of interest rate cuts by the Fed, which would have benefitted those growth stocks relying on debt to fund investment. As the Fed's intentions to sustain high-interest rates for longer became clear, investors took flight from these companies.

In Europe, equity returns were -1.58% over the quarter, due to growing concerns about the potential effects of sustained higher rates on economic growth, as well as the ongoing property crisis in China. Despite this, equity returns to the end of September in Europe were a respectable 6.78%.

At home, UK equities marked a notable improvement over the quarter, with a gain of 3.10.% compared to the -0.42% decline witnessed in the preceding quarter. The UK market, owing to its substantial exposure to the energy sector, reaped the rewards of a remarkable 30% surge in oil stocks over the past three months.

The fall in the value of the pound was also positive news for many firms in the FTSE 100, which generate approximately 75% of their sales from overseas. The pound's value has dropped -6.87% from its peak in mid-July, when a pound was worth $1.31, finishing the quarter at $1.22, which should make UK goods more competitive. As the quarter drew to a close, upward revisions to the UK's economic growth figures since the pandemic's onset, the unexpected softening of inflation, combined with a pause in interest rate hikes, provided a significant boost to market sentiment.

The disparity between the performance of developed and emerging market equites was narrow over the quarter with returns of 1.03% and 1.44% respectively. However, over the first three quarters of 2023, developed markets have outperformed by 8.09%, continuing the trend of emerging market underperformance that began in early 2021. Nevertheless, there are indications that this period of underperformance may be coming to an end.

Despite downgraded economic growth forecasts for 2023 and 2024 in most countries, emerging market nations are expected to exhibit resilience. Projections from the OECD suggest that India, China, and Indonesia will achieve growth rates of 6%, 5.2%, and 5%, respectively, in 2024, in contrast to the 1.5% forecasted for the G20 advanced economies. Investors with exposure to emerging markets will be well-positioned to benefit from the rapid growth anticipated in these countries.

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[25] Amazon, Aphabet, Apple, Meta Platforms, Microsoft, Nvidia and Tesla.

## Fixed Income

It was another challenging quarter for fixed income. Bond prices are inversely related to interest rates; when interest rates rise, bond prices typically fall. In addition, fixed-coupon bonds not linked to inflation face added price pressure as their real coupon value declines.

As yields rose over the quarter, government bond returns were negative across developed markets. The impact of this can be seen in the returns of Global bonds, UK government bonds, and overseas government bonds, all of which posted negative third quarter returns of -2.34%, - 1.08%, and -1.1%, respectively. Global corporate bonds did provide some positive news, with a modest positive return of 1.26% that, however, was not enough to offset the -0.71% figure returned since the start of the year.

Rising yields pose challenges not only for fixed-income investors but also for equity investors. Firstly, elevated yields raise borrowing costs for both businesses and households. Secondly, rising bond yields create investment competition by offering a profitable alternative to the equity market.

## Property

Global property continued to struggle over the third quarter, returning -1.94%. To the end of September, the return was -6.75%. With central banks maintaining high interest rates and signalling their willingness to further hike rates to combat inflation, borrowing costs are unlikely to drop until at least mid-way through 2024.

The continuing property crisis in China piled on further pressure, as investors worry about the final outcome and the potential for contagion in the Asian property market. The S&P High Yield Asia Pacific-Ex New Zealand REITs Select Index, designed to follow the performance of the top 30 REITs with the highest dividend yields in Singapore, Japan, Australia, and Hong Kong, posted a net total return of -8.02% during the first three quarters. This performance is notable and reflects the behavioural impact, given that not all Asian REITs have substantial direct exposure to China's residential property market.

# Portfolio Performance

Our investment philosophy is focused on building portfolios that take a globally diversified market-cap approach, so the performance of our portfolios relative to the general market can be predicted with some degree of confidence. This is opposed to active strategies which may perform contrary to the overall market.

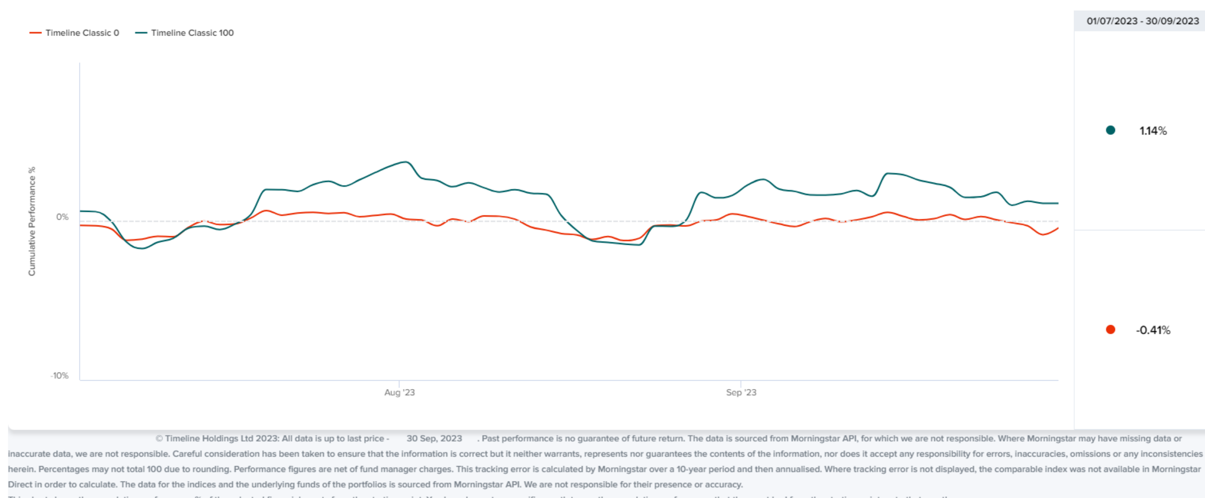
## Timeline Tracker

The Timeline Tracker 100 model returned 1.34% over the quarter, broadly in line with the performance of the global equity market, continuing the positive growth seen in the first two quarters. With a return of -0.80%, the Timeline Tracker 0 model, consisting solely of fixed income investments continued to struggle through the third quarter. However, performance was improved following a -2.08% decline in the second quarter.

Source: Timeline (2023)

## Timeline Classic

The Timeline Classic 100 model, with its factor tilts, benefited from a resurgence of value stocks over the quarter, returning 1.14%. The Timeline Classic 0 portfolio, with its greater exposure to short term bonds was better positioned to weather the continuing volatility in the fixed income market than its Tracker counterpart. Furthermore, Timeline Classic 0's substantial exposure in inflation-linked bonds, nearly four times that of Timeline Tracker 0, proved to be a successful strategy given the continuing high inflationary environment, resulting in a return of -0.41% for the quarter, a strong improvement compared to last quarter's return of -1.61%.



Source: Timeline (2023)

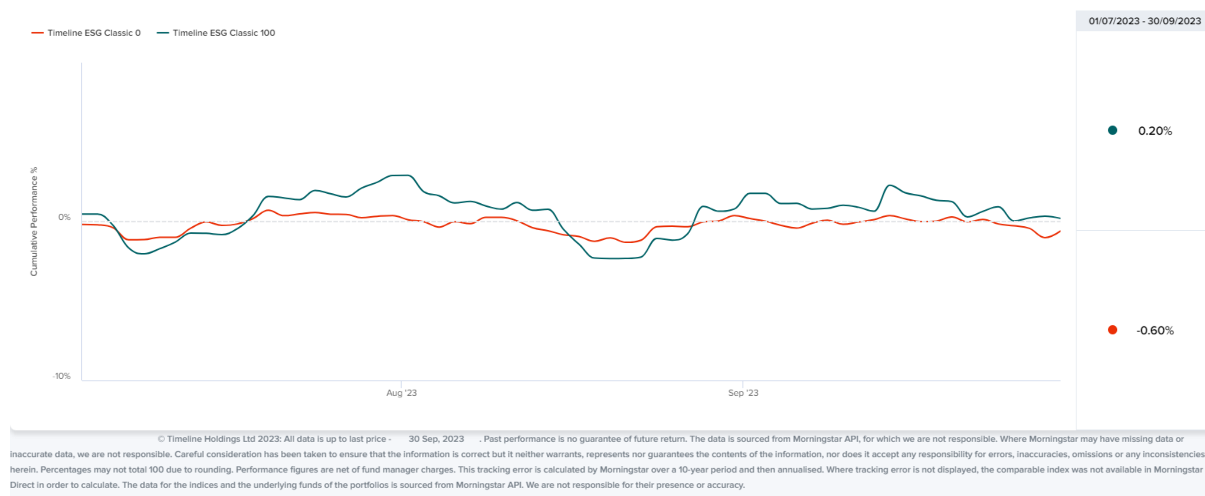
## Timeline ESG Tracker

Timeline ESG Tracker 100 encountered challenging conditions during the quarter due to its greater exposure to the technology sector, and its reduced exposure to energy stocks. Consequently, the portfolio recorded a quarterly return of 0.60%. Timeline ESG Tracker 0, with exposure to just fixed income, returned -0.73%, similar to the returns of Timeline Tracker 0, and the overall bond market, and showed improvement compared to last quarter's figure of -1.81%.

Source: Timeline (2023)

## Timeline ESG Classic

In the third quarter, Timeline ESG Classic 100 generated a commendable return of 0.20%, attributable to its strategic emphasis on value stocks. Nevertheless, mirroring its peer, Timeline ESG Tracker, the fund's substantial allocation to technology stocks and limited exposure to the energy sector exerted a downward pressure on its overall performance. With similar exposure to the main drivers of bond returns, albeit with a somewhat shorter duration than the Timeline ESG Tracker 0 portfolio, returns were -0.60% for Timeline ESG Classic 0.




Source: Timeline (2023)

# Final Thoughts

As we approach the end of 2023, investors continue to grapple with numerous challenges and persistent uncertainty. This may not come as a surprise to most, considering the events of recent years, and it's understandable if some have grown weary. There might be a temptation to throw in the towel and wait for better market conditions. However, our recent research (due out soon) on the impact of missing the best trading days suggests that this could be one of the least favourable courses of action. As history has shown, investors are typically rewarded for their willingness to bear market risk over the long term rather than the short term. To borrow a phrase from Lance Corporal Jones from the classic comedy "Dad's Army," we'd like to remind investors, "Don't Panic."

There are reasons for investors to be optimistic. Inflation, although still elevated compared to recent history, appears to have started to ease. Central banks have responded by temporarily halting interest rate rises. Importantly, they have maintained their credibility by clearly stating that rate cuts are unlikely for some time, and further increases will be implemented if necessary. This approach provides central banks with a solid foundation for tackling inflation. Despite the potential for recessions stemming from ongoing tight monetary policies, the global economic growth outlook remains resilient at 3% for the current year. While next year's forecasts have witnessed significant downgrades, there is still an expectation that the world economy will attain a growth rate of 2.7%. Emerging markets are expected to play a significant role in driving much of this growth, even if the Chinese economy faces challenges due to its delicate property market.

Investing presents inherent challenges, and it's crucial for investors to understand that positive returns are not consistently guaranteed; instead, they should expect short term fluctuations and volatility in their investments against the backdrop of long-term growth. However, by selecting Timeline Portfolios, investors can trust that their hard-earned money is being invested in strategies designed to maintain resilience under all market conditions. This gives investors the best chance of achieving their long-term investment objectives.

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