

KMG Rebalance – February 2024

At the start of a New Year the Investment Committee met to review our investment strategy as we look ahead to 2024. With inflation set to fall there is the continued expectation of interest rates falling as well.

We discussed many scenarios and predictions but expect rates to start to fall in the springtime in the UK. Whilst there remain challenges to inflation with the issues in freight and the Red Sea, we do not think these will have a great impact because shipping costs are set many months in advance. However, should issues continue into the latter part of this year then we may see some pressure on pricing. For now, this is a reminder that inflation does not fall in a straight line and there will be some bumps along the road.

Wars and politics will continue to influence short term sentiment. With so many countries going to the polls this year nothing is certain. Should Trump be successful, and despite his dramatic rhetoric, the likelihood is that he will be restricted by the same financial constraints as Biden and so it seems likely Trump will follow a similar path; one that is already pretty insular and protectionist.

We then consider how this all applies to the investment strategy. With interest rates falling we considered the duration of the debt in the portfolios since the longer the term of the debt the more it is impacted by changes in inflation. We decided we should not add to long term debt at this time but will amend the allocation to include more investment grade corporate bonds.

We also agreed to remove the Battery Value ETF as we have exposure to the components of this in other funds. This fund is more narrowly focused than others and in the current climate commodities could well struggle, albeit we remain positive on the rationale of the fund. We also feel that the larger US companies are dominating the US market currently and would like to expand into the US market - but without adding to those few, larger dominant companies. We will therefore amend the equities exposure to add monies to global equities that focus on high quality with strong and stable earnings.

The fund changes in the portfolio can be viewed on our website and will be instigated early February. For those invested in the KMG fund the changes will be mirrored within the fund strategy imminently.

There are no changes to the KMG fund charge. For those in model portfolios the lower risk profiles will see some slight increase in fees as we invest cash again in fixed income funds. For the medium portfolios there is no more than a 0.01% increase in fund fees and for medium high portfolios the fees remain the same.

There are no tax consequences for changes in the fund, nor in the portfolio if held in a Pension or Individual Savings Account. If the portfolio is held in a non-tax efficient manner, then there may be some capital gains tax implications.

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