

Jupiter Merlin Balanced Portfolio

JUPITER INDEPENDENT FUNDS TEAM

Jupiter Merlin investment outlook

Global economy: 2023 was characterized by a significant stand-off between investors and central banks as to who really determines monetary policy. The situation in 2021 has reversed today: then investors were pushing up government bond¹ yields² as the perceived inflationary risk grew, while the central banks denied there was a problem and refused to raise interest rates from rock bottom; in the final quarter of 2023, however, investors were driving yields down while central banks were reluctant to reduce interest rates from current highs. In effect markets were telling them, and the US Federal Reserve in particular, that if they were not cautious enough two years ago, they are being far too conservative now. Apart from the US economy which remains buoyant despite the most aggressive policy tightening programme in history, most others including the UK are flatlining and flirting with recession.

Back in September and early October markets were spooked by the combination of the political stalemate in the US Congress over government spending and breaching its borrowing limits and the outbreak of a new conflict in the Middle East. If investors were later determined not to be deflected from having a happy Christmas, those underlying problems have still not gone away.

As 2024 begins, it is already obvious that it is going to be a year of consequences. Two billion people worldwide will go to the polls over the next 12 months in countries as diverse and sensitive as the UK and the US, India, Indonesia, Russia (and Taiwan has already gone to the polls). Domestically, the UK election will naturally be of great interest to all of us. But much the most significant geopolitically (assuming Putin is returned unopposed in Russia) is the US Presidential election, appropriately on November 5th. The starting gun has already been fired, even before the nomination primaries formally begin in Iowa on January 15th, with state courts in Colorado and Maine banning Donald Trump from standing as a candidate because of his inciting “insurrection and rebellion” in the wake of his defeat by Joe Biden in the 2020 election. Leaving aside changes in direction in economic and social policy which might emerge from any of these elections, a significant consideration is the potential geopolitical ramifications as the West struggles to establish a consensus to confront the strategic threats posed by Russia, China, Iran and North Korea, as well as dealing with the competitive recognition and representation challenges laid down by India’s Prime Minister Modi on behalf of the developing economies and the Global South.

It was an adviser to aspiring president Bill Clinton who famously said when distilling down the 1992 Presidential election strategy to its bare essentials, “it’s the economy, stupid!”. He wasn’t wrong. But in 2024, arguably the world is a more complex, dynamic and dangerous place than three decades ago. For investors, the economy is still the central focus but those contextual political and security elements need to be borne in mind just in case they decide to force themselves to centre stage.

Equities (commonly known as shares): 2023 ended with markets in euphoric mood. Having been propelled for much of the year by the colloquial ‘Magnificent Seven’ (the world’s biggest Artificial Intelligence and technology-related companies comprising Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla) but also helped by old-world luminaries such as Berkshire Hathaway and Exxon Mobile, during Christmas Week the broad-based US S&P 500 equity index equalled its all-time high recorded in 2021. It rose 22.4% in US dollar terms over the year. In contrast, and with rather less razzamatazz, the UK FTSE 100 Index rose 4.7% for the year, although it too is close to its all-time high seen in February 2023 when, blink and you missed it, for the briefest of moments it broke out of the 7000-8000 band in which it has traded for most of the past three years.

Fixed Income (commonly known as ‘bonds’): In fixed income, convinced that they have forced a change of narrative among the principal central banks to lower interest rates in 2024, much sooner than the authorities’ natural instincts tell themselves is right, investors continued to drive government bond yields down and thereby push prices in the opposite direction. The strong price recovery in the final quarter of the year helped recoup some of the significant losses recorded between early

¹ Government bonds are issued by governments. Bonds are a type of fixed interest investment, in which a company, government or other institution borrows money and, in most cases, pays a fixed level of interest until the date when the loan is due to be repaid.

² The rate of interest or income on an investment, usually expressed as a percentage.

2022 and October 2023. Supporting the markets' thesis, generally weak reported economic data and sentiment indicators for the end of 2023 across most western economies pointed not only to interest rates having peaked, but also that the case was growing to cut interest rates sooner than previously anticipated.

This has been an epic battle of wills between investors and policymakers. While the Bank of England and the European Central Bank are still resolutely defending their line that inflation is far from beaten, the US Federal Reserve has given ground. With the Fed having been smoked out of its own defensive position, the anticipation is that the British and European authorities will cave in too and be forced to concede to interest rate cuts sooner rather than later.

Jupiter Merlin Balanced Portfolio review

	3 months	1 year	3 years	5 years	10 years	Since inception*
Jupiter Merlin Balanced Portfolio Fund	5.0	8.3	19.8	41.2	97.9	459.3
IA Mixed Investment 40-85% Shares	5.8	8.1	8.0	32.1	67.0	285.1
Quartile	4	3	1	1	1	1
Sector Ranking	169/216	107/209	11/193	39/164	13/104	5/33

Past performance is no guide to the future. Returns may increase or decrease as a result of currency fluctuations.

Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Merlin Balanced Portfolio I Acc, to 31.12.23. *Since inception: 01.10.2002.

Comparator: IA Mixed Investment 40-85% Shares.

	01 Jan '19 to 31 Dec '19	01 Jan '20 to 31 Dec '20	01 Jan '21 to 31 Dec '21	01 Jan '22 to 31 Dec '22	01 Jan '23 to 31 Dec '23
Jupiter Merlin Balanced Portfolio Fund	13.3	4.0	14.4	-3.2	8.3
IA Mixed Investment 40-85% Shares	15.9	5.5	11.2	-10.2	8.1

Past performance is no guide to the future. Returns may increase or decrease as a result of currency fluctuations.

Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Merlin Balanced Portfolio I Acc, to 30.09.23. Since inception: 01.10.2002.

Comparator: IA Mixed Investment 40-85% Shares.

Over the 12 months to 31 December 2023, your Portfolio returned 8.3% net of all fees and charges, ahead of the IA Mixed Investment 40-85% Shares sector average of 8.1%. It ranked 107 of 209 competitors in the group. Over three years it ranked 11th of 193, over five years 39th of 164 and over 10 years 13th of 104. Over 15 years it ranked 11th of 67, and over 20 years 6th of 37. Since inception in October 2002, it has returned 459.3% net of all fees and charges against 285.1% for the average of the sector, ranking 5th of 33 in the group. It ranked third quartile over one year. Over three years it ranked top decile while over longer time periods it was top quartile.

In equities, we have maintained a foot in both 'growth'³ and 'value'⁴ camps to avoid the traps inherent in chasing momentum and constantly being faced with making binary decisions and second-guessing swings in market mood. Our performance, whether in absolute terms or relative to the sector, suggests this nudge-on-the-tiller approach has been appropriate, not least because we do not profess to have all the answers when it comes to the outcome of momentous world events.

In equities, Portfolio activity was light in the period. However, we introduced a new holding, the Royal London Global Equity Income fund managed by Nico de Walden.

With volatile bond yields (prices move in the opposite direction to yields), fixed income has been a rollercoaster. The Portfolio has an 85% ceiling for equities (at the period end the weighting was 82.3%); allowing for the 4.7% weighting divide d

³ Growth is an investment style that focuses on companies with the potential to grow their earnings significantly over time. Such companies typically reinvest earnings into the business to fund future expansion.

⁴ Value investing is based on the idea that a major factor in determining if an investment will be successful is whether the price paid to buy the shares is high or low relative to the company's long-term earnings history.

between gold and property, plus a small cash weighting, our fixed income portion is 11.7%. Wishing to be less exposed to the big macro-economic calls in such uncertain times, during the period we reduced our holding in Jupiter Strategic Bond and with the proceeds opened a new position in Aegon High Yield Global Bond. Aegon's Tom Hanson and his team focus almost entirely on company fundamentals when lending to companies across the world.

The Jupiter Merlin Portfolios are long-term investments; they are certainly not immune from market volatility, but they are expected to be less volatile over time, commensurate with the risk tolerance of each. With liquidity uppermost in our mind, we seek to invest in funds run by experienced managers with a blend of styles but who share our core philosophy of trying to capture good performance in buoyant markets while minimising as far as possible the risk of losses in more challenging conditions.

Fund-specific risks

Currency (FX) Risk - The Fund can be exposed to different currencies and movements in foreign exchange rates can cause the value of investments to fall as well as rise.

Interest Rate Risk - The Fund can invest in assets whose value is sensitive to changes in interest rates (for example bonds) meaning that the value of these investments may fluctuate significantly with movement in interest rates, e.g. the value of a bond tends to decrease when interest rates rise.

Pricing Risk - Price movements in financial assets mean the value of assets can fall as well as rise, with this risk typically amplified in more volatile market conditions.

Credit Risk - The issuer of a bond or a similar investment within the Fund may not pay income or repay capital to the Fund when due.

Derivative risk - the Fund may use derivatives to reduce costs and/or the overall risk of the Fund (this is also known as Efficient Portfolio Management or "EPM"). Derivatives involve a level of risk, however, for EPM they should not increase the overall riskiness of the Fund.

Counterparty Risk - the risk of losses due to the default of a counterparty e.g. on a derivatives contract or a custodian that is safeguarding the Fund's assets.

Charges from capital - Some or all of the Fund's charges are taken from capital. Should there not be sufficient capital growth in the Fund this may cause capital erosion.

For a more detailed explanation of risk factors, please refer to the "Risk Factors" section of the Scheme Particulars.

Important Information: This document is for informational purposes only and is not investment advice. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested. We recommend you discuss any investment decisions with a financial adviser, particularly if you are unsure whether an investment is suitable. Jupiter is unable to provide investment advice. For definitions please see the glossary at jupiteram.com. The views expressed are those of the Fund Managers at the time of writing, are not necessarily those of Jupiter as a whole and may be subject to change. This is particularly true during periods of rapidly changing market circumstances. Every effort is made to ensure the accuracy of any information provided but no assurances or warranties are given. Jupiter Unit Trust Managers Limited (JUTM) and Jupiter Asset Management Limited (JAM), registered address: The Zig Zag Building, 70 Victoria Street, London, SW1E 6SQ are authorised and regulated by the Financial Conduct Authority. No part of this document may be reproduced in any manner without the prior permission of JUTM or JAM.