

# Jupiter Merlin Moderate Select

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 bond<sup>1</sup> yields<sup>2</sup> 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 5<sup>th</sup>. The starting gun has already been fired, even before the nomination primaries formally begin in Iowa on January 15<sup>th</sup>, 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

<sup>1</sup> 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.

<sup>2</sup> 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 Moderate Select review

The Jupiter Merlin Moderate Select fund was launched on 26 April 2023. Upon launching the strategy, we sought to replicate the allocations elsewhere in the Jupiter Merlin Portfolios, albeit with a greater focus on cost and a higher weighting to internal funds dictating some of the fund selection.

In the UK, we allocated towards long-standing Jupiter Merlin holdings in Evenlode Income, Man GLG Income and Jupiter UK Special Situations. We added in BlackRock World Energy and BlueBox Global Technology as our specialist exposures, both of which are held elsewhere in the Jupiter Merlin Portfolios. We also allocated to Jupiter Global Value Equity, run by a team we hold in very high regard and have had significant assets with across the Jupiter Merlin range for some time. In terms of new equity holdings, we introduced M&G Japan into the Portfolio, a value-biased approach which prides itself on its engagement approach in a market where this is often the key to unlocking shareholder value. We also added in Royal London Global Equity Income. The final new equity addition was Evenlode Global Equity, a fund we have added to the existing Jupiter Merlin range, which applies the same, successful investment process as Evenlode Income to the global universe, populating its portfolio with high quality companies priced at what they deem to be reasonable valuations.

Elsewhere, we invested in WisdomTree Core Physical Gold, consistent with the other Jupiter Merlin Portfolios. We allocated to Vikram Aggarwal's Jupiter Global Sovereign Opportunities fund, which takes an active approach across developed and emerging markets. We invested in Jupiter Monthly Income Bond fund run by Hilary Blandy, who invests around half the assets in investment grade bonds<sup>3</sup> and half in high yield bonds<sup>4</sup>. We introduced Adam Darling's Jupiter Global High Yield Bond fund which focuses on the high yield space, as the fund name suggests. We also added Mike Riddell's Allianz Strategic Bond, Ben Lord's M&G Global Corporate Bond and Jupiter Corporate Bond, run by Adam Darling and Harry Richards, all of which are held elsewhere in the Jupiter Merlin Portfolios.

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.

<sup>3</sup> A corporate bond is a bond issued by a company. 'Investment grade' simply refers to its credit rating, indicating that there is a relatively low risk of the companies defaulting on their financial obligations to bondholders.

<sup>4</sup> High yield bonds are bonds issued by companies that are deemed by credit rating agencies to be relatively less likely to meet their payment obligations to bond holders than 'investment grade' bonds. Bonds issued by such companies have a higher yield (income paid to bondholders) to compensate for this higher risk.

**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.

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](http://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.