Janus Henderson
INVESTORS

MARKET GPS

MULTI-ASSET QUARTERLY

Q4 2024

The Janus Henderson Multi-Asset Team applies a “partnership and transparency” approach, providing access to differentiated insights, disciplined investments, and world-class service. This quarterly update shares the team’s views on market dynamics as well as the dashboard that informs their positioning across Janus Henderson’s range of multi-asset models and portfolios.

Macro overview

- The arrival of rate cuts from the Federal Reserve (Fed) has likely extended the economic cycle in the U.S. but the knock-on effects for the global economy may be limited as Europe and China face headwinds.
- Economic data are supportive of a soft landing and a cycle extension but we are cautious of dramatically increasing exposure to risk because of the late-cycle backdrop.
- The benefits of lower U.S. inflation, rate cuts, and a resilient economy are accompanied by counterweights in the form of an uneven labor market and rising consumer defaults.



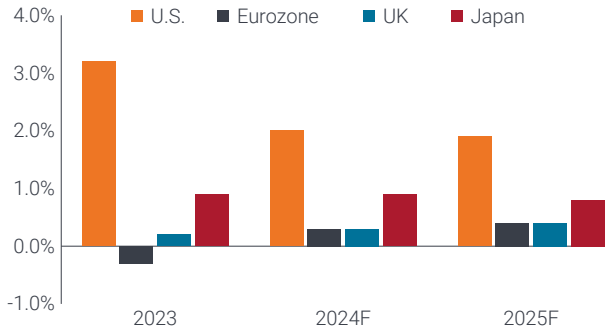
Adam Hetts
Global Head
of Multi-Asset

Oliver Blackbourn
Portfolio Manager,
Multi-Asset

The combination of U.S. rate cuts and stimulus in China should lend support to the global economy. But we are still relatively late cycle and any incremental risk taking should be done with caution. China's policy support, in our view, will need to continue if it is to meet the magnitude of the country's economic challenges, and European data indicate renewed headwinds. Equities and bonds were quick to price in the cycle's extension, leaving valuations vulnerable to downgrades in expectations.

Forecast GDP growth

An extended cycle might translate to stabilizing – not rising – growth, meaning investors should approach risk with an abundance of caution.



Source: Bloomberg, as at 3 Oct 2024. "F" = Bloomberg consensus forecasts. GDP = gross domestic product

China's rally in perspective

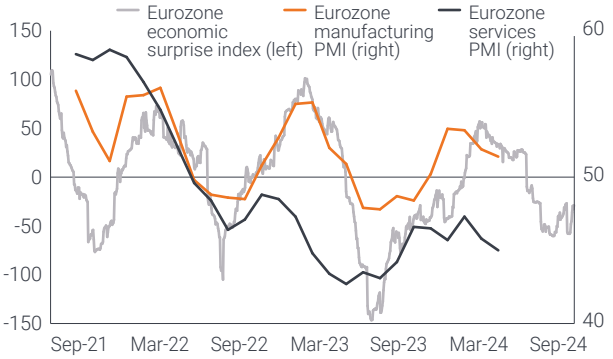
While the market welcomed China's series of fiscal and monetary accommodation, further gains might depend on more stimulus and fundamental support.



Source: Datastream, as at 3 Oct 2024.

European economic surprises flash caution

Celebrating green shoots in Europe within the services sector may have been premature as purchasing surveys catch up with negative surprises.



Source: Bloomberg, Citigroup, as at 3 Oct 2024; Note: economic surprises represented by Citigroup Economic Surprises Index. PMI = Purchasing Managers' Index.

> "Economic strength, a resilient labor market, and lower interest rates mean the U.S. remains the bulwark of a global soft landing but China may now provide further support."
>
> **Janus Henderson Multi-Asset Team**

Equities

Rather than increasing equity allocations at the expense of fixed income, we prefer to be slightly more cautious by rotating within equities, toward small and mid caps, in anticipation of a broadening U.S. market.

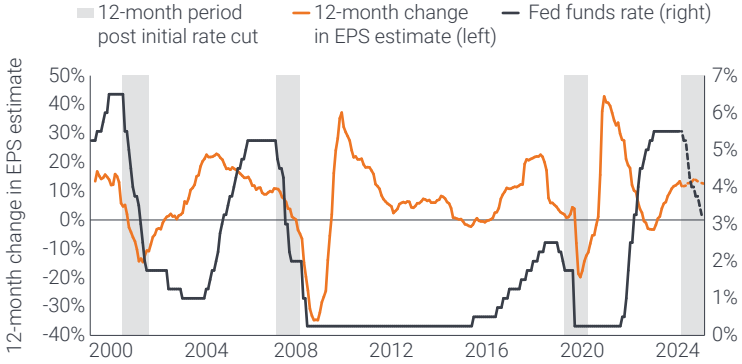
Buoyant earnings estimates may not sufficiently reflect the fact that soft landings can be accompanied by tepid earnings growth.

Stimulus in China may be supportive not only of domestic stocks, but also European manufacturers and consumer names.

A key beneficiary of the cycle's extension could be the U.S. consumer, who may also be called upon to buoy global economic and earnings growth. It's too early to gauge the endurance of China's post-accommodation rally, although the market showed relief that something was done. Any rise of consumption in China, along with capital purchases, could be a lifeline to select European stocks as the continent's economic downdraft seems to have found another leg.

U.S. earnings estimates and Fed funds rate

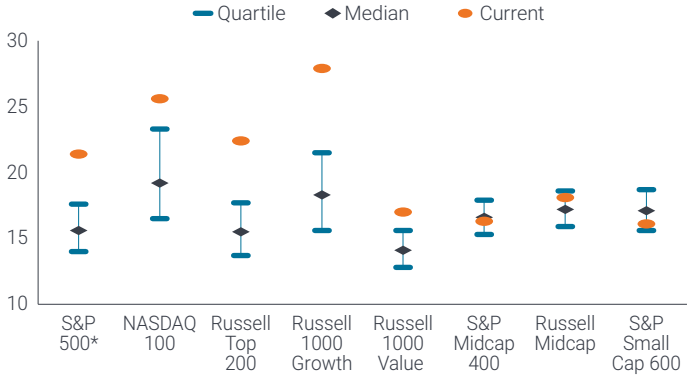
The market needs to consider why it expects the Fed to cut so aggressively when it doesn't see material economic weakening expressed through earnings downgrades.



Source: Bloomberg, as at 11 September 2024, September data are based on market forecasts. Dotted lines are forecasts. EPS = earnings per share.

U.S. equity market earning projections

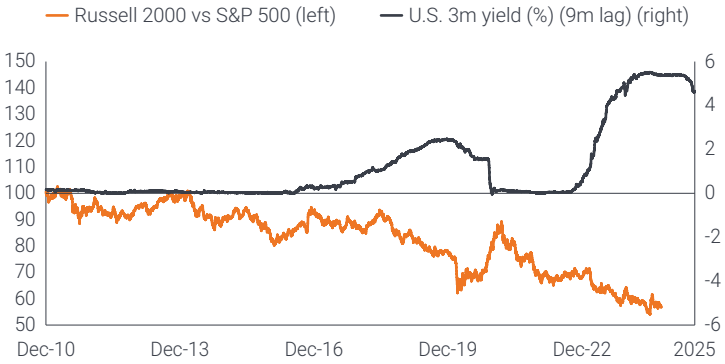
U.S. large value, mid-cap, and small-cap stocks offer potentially more room for earnings growth compared to large growth stocks.



Source: Datastream, as at 11 Oct 2024. Projections based on 12 month forward growth expectations.

U.S. small-cap versus large-cap stocks and short-term Treasury yields

Recent history shows U.S. small-cap underperformance vs. the S&P 500 is highly correlated to lagged rate levels.



Source: Datastream, as at 03 Oct 2024.

> "While an artificial intelligence (AI) super-cycle might support large caps, small and mid caps have more space to run as interest rates fall and a soft landing supports risk assets generally."
>
> **Janus Henderson Multi-Asset Team**

Equities dashboard

	- -	-	=	+	++	Views
U.S.				→		Expectations for strong growth and expensive valuations leave little room for disappointment
Large Cap Growth						AI remains a key driver of growth but expectations and valuations are very elevated
Large Cap Value						While now expensive vs history, there is still room for earnings growth in a soft landing
Mid Cap						A soft landing should support earnings and valuations remain around average
Small Cap			→			Falling interest rates and a soft landing should be supportive, while valuations are far from stretched
Developed ex U.S.			←			Drags in key countries should be balanced by a U.S. soft landing and continuing global cycle
Europe			←			Potential domestic weakness set against improving global demand and undemanding growth expectations
Europe ex UK			←			Concerns about domestic weakness are offset in the near term by potential benefits of stimulus in China
UK						Perpetually cheap due to its sector mix but less so once sector adjusted
Japan		←	—			A tightening Bank of Japan remains a headwind for this export-driven market, despite shareholder reforms
Emerging Markets (EM)				→		Expensive but stimulus in China and a U.S. soft landing should boost earnings
China			—	→		Renewed stimulus should drive at least a short-term rally, although concerns about structural issues persist
EM ex China				→		Significant country differences but cheaper areas look set to benefit from a soft landing and stimulus in China

Underweight Neutral Overweight ← → Change from last quarter

Fixed Income

If U.S. rate cuts continue to be met with a still-solid economy, we believe that the yield on the 10-year Treasury may experience upward pressure.

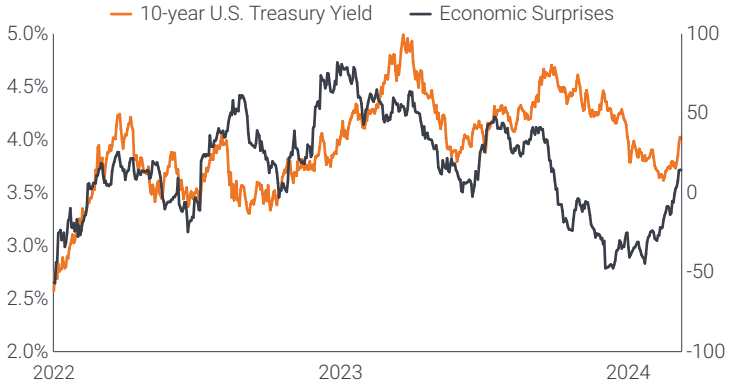
The varying cadence in accommodation among major economies creates opportunities to capitalize on rate differentials across jurisdictions.

Historically tight spreads in high-yield mean investors could add risk within fixed income by focusing on securitized and quality high-yield corporates.

Diverging policy in major economies represents an opportunity to capture excess yield and diversify returns across geographies. While 10-year U.S. Treasury yields may see upward pressure from economic strength, those on shorter-dated notes could still fall, although perhaps not as far as in Europe, as policy makers there have more work to do. Within credit, we believe diversification and quality should be prioritized.

Economic conditions and U.S. 10-year Treasury yields

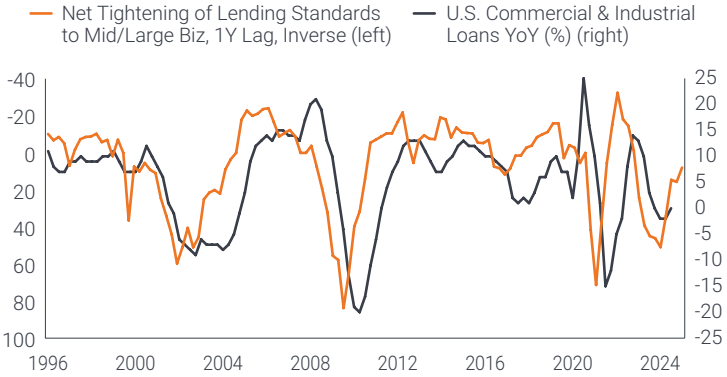
If U.S. economic data continue to inflect higher, the historical relationship indicates 10-year yields might increase.



Source: Bloomberg, Citigroup as at 8 October 2024. Note: economic surprises represented by Citigroup Economic Surprises Index.

Credit conditions continue to improve

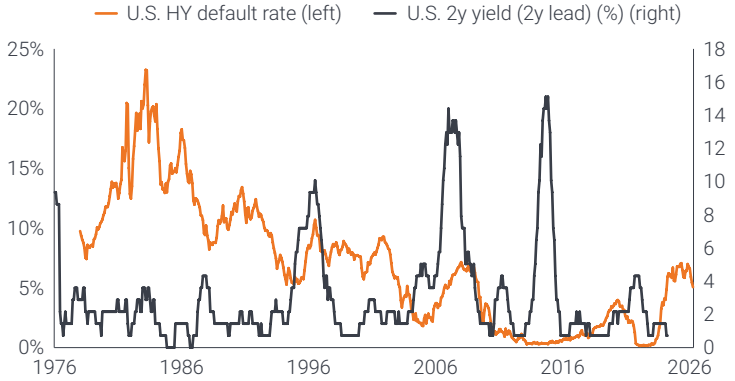
Worrisome signs of credit freezing seem to have abated, as lenders show improved ability and willingness to make loans.



Source: Bloomberg, Federal Reserve Senior Loan Officers Survey as at 8 October 2024.

Market-based policy path trajectories

High-yield spreads remain historically tight and could be at risk if the lagged impact of rate hikes feeds through to create refinancing pain.



Source: Bank of America, Bloomberg, as at 3 October 2024.

> "Economic resilience is a headwind for sovereign bonds but can support weaker borrowers in high yield. Longer maturities might see a drag if it becomes apparent interest rates might not fall as far as markets expect."
>
> **Janus Henderson Multi-Asset Team**

Fixed income dashboard	- -	-	=	+	++	Views
Sovereign bonds						Significant splits between different regions, with upward pressure on U.S. yields but less so in other major markets
U.S.						Sustained growth raises questions about a higher terminal rate, with positive surprises pushing up yield near term
UK						Sticky wage growth and surprisingly strong economic data are offset by concerns about building interest rate risks
Eurozone						Signs of weakness at the core of the Eurozone economy are balanced by an improving global picture
Inflation-linked						Recession fears ebbing and the geopolitical threat of higher oil prices has already led to a rise in inflation expectations
Investment grade						With credit spreads tight, duration risk is likely to dominate in a benign economic outcome
U.S.						Very tight credit spreads leave little room for compression to offset the duration risk from government bonds
Euro						Credit spreads remain off their lows and duration risk is lower
High yield						Yields remain attractive in our view, but the market is expensive except for the lowest-rated parts
U.S.						Credit spreads look very tight outside of the lowest-rated segments but we believe the yield is still attractive and default rates rising, but still low
Euro						While credit spreads look a little less tight than the U.S., lower valuations are only really found at the worst ratings
Hard currency EM debt						Credit spreads look tight in higher-rated debt and the U.S. dollar looks likely to appreciate on ebbing recession fears
Local currency EM debt						Expectations for a slower path of U.S. interest rate cuts on better labor market data likely to weigh on EM currencies

Underweight Neutral Overweight ← → Change from last quarter

Alternatives and currencies

Although not the first to move, the Fed's rate cut has given other central banks cover to increase accommodation.

While inflation's decline may have diminished the need for real assets, some could benefit from lower rates and also serve as a diversifier during a period of heightened geopolitical risk.

An appreciating Japanese yen must be taken within context of headwinds for Japan's export economy.

Real assets served as a hedge against inflation over the past few years but as the risk of higher prices recedes, alternatives can still be used as a diversifier against equities and bonds as suitable for an investor's risk profile. We favor private equity and infrastructure over property and precious metals. Currencies exposure across asset classes also takes on greater relevance as monetary policy diverges.

Alternatives	- -	-	=	+	++	Views
Real assets			■			
Property		■				Concerns about a move higher in government bond yields are likely to be a near-term headwind
Infrastructure				■		Assets remain cheap and tend to be of higher quality than some other segments
Renewables			■			Significant divergence between categories needs careful implementation
Private Equity				■		Strong public markets and lower interest rates in a soft landing environment are a tailwind
Gold		■				Better U.S. economic data is likely to weigh on gold, but geopolitical events create an upside risk

	Currency vs column header					Views
Currencies	$		€		£	
U.S. dollar vs			■		–	A reduction in recession concerns and an expected shallower path of rate cuts should support the dollar
Euro vs	■				–	Weakening Eurozone data is likely to keep the ECB in cutting mode, removing support for the euro
Sterling vs	■		■			The pound has remained strong on better-than-expected data but this could gradually fade
Japanese yen vs	+		+		+	Risks remain to the upside, particularly once interest expectations for the Fed have reset higher

■ Underweight ■ Neutral ■ Overweight ← → + – change from last quarter

Definitions, Indices, & Risks

Definitions

10-Year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

Default rate measures the failure of debtors (such as a bond issuer) to pay interest or to return an original amount loaned when due.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Earnings per share (EPS): EPS is the bottom-line measure of a company's profitability, defined as net income (profit after tax) divided by the number of outstanding shares.

High yield bond: Also known as a sub-investment grade bond, or 'junk' bond. These bonds usually carry a higher risk of the issuer defaulting on their payments, so they are typically issued with a higher interest rate (coupon) to compensate for the additional risk.

Investment-grade bond: A bond typically issued by governments or companies perceived to have a relatively low risk of defaulting on their payments, reflected in the higher rating given to them by credit ratings agencies.

Late cycle refers to the final phase of an economic cycle before a recession. Economic activity often reaches its peak and growth slows but remains positive.

Monetary Policy refers to the policies of a central bank, aimed at influencing the level of inflation and growth in an economy. It includes controlling interest rates and the supply of money. **Monetary stimulus** refers to a central bank increasing the supply of money and lowering borrowing costs. **Monetary tightening** refers to central bank activity aimed at curbing inflation and slowing down growth in the economy by raising interest rates and reducing the supply of money.

Private assets are investments that are not publicly traded or listed on a public stock exchange.

Ratings/Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to C (lowest).

Real assets are tangible investments, such as gold, real estate, or oil, that have an intrinsic value due to their substance and physical properties.

Spreads/Credit Spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

Terminal rate is the interest rate level that the Federal Reserve believes is consistent with a balanced economy in the long run.

Indices

Citigroup Economic Surprises Index measures how economic data compares to market expectations.

MSCI China Index™ reflects the equity market performance of China.

NASDAQ 100 Index is made up of equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ stock exchange in the U.S.

Russell 1000® Growth Index reflects the performance of U.S. large-cap equities with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index reflects the performance of U.S. large-cap equities with lower price-to-book ratios and lower expected growth values.

Russell 2000® Index reflects the performance of U.S. small-cap equities.

Russell Midcap® Index reflects the performance of U.S. mid-cap equities.

Russell Top 200® Index measures the performance of the 200 largest companies in the Russell 1000 Index.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

S&P Mid Cap 400® Index measure the performance of the mid-range sector of the U.S. stock market.

S&P Small Cap 600® Index measure the performance of selected U.S. stocks with a small market capitalization.

Risks

Investing involves risk, including the possible loss of principal and fluctuation of value.

Alternative investments include, but are not limited to, commodities, real estate, currencies, hedging strategies, futures, structured products, and other securities intended to be less correlated to the market. They are typically subject to increased risk and are not suitable for all investors.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Equity securities are subject to risks including market risk. Returns will fluctuate in response to issuer, political and economic developments. **Foreign securities** are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Fixed income securities are subject to interest rate, inflation, credit and default risk. As interest rates rise, bond prices usually fall, and vice versa. **High-yield bonds, or "junk" bonds**, involve a greater risk of default and price volatility. **Foreign securities**, including sovereign debt, are subject to currency fluctuations, political and economic uncertainty and increased volatility and lower liquidity, all of which are magnified in emerging markets.

Growth and value investing each have their own unique risks and potential for rewards, and may not be suitable for all investors. Growth stocks are subject to increased risk of loss and price volatility and may not realize their perceived growth potential. Value stocks can continue to be undervalued by the market for long periods of time and may not appreciate to the extent expected.

Inflation-linked bonds feature adjustments to principal based on inflation rates. They typically have lower yields than conventional fixed-rate bonds and decline in price when real interest rates rise.

Real estate securities, including Real Estate Investment Trusts (REITs), are sensitive to changes in real estate values and rental income, property taxes, interest rates, tax and regulatory requirements, supply and demand, and the management skill and creditworthiness of the company. Additionally, REITs could fail to qualify for certain tax-benefits or registration exemptions which could produce adverse economic consequences.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation, and liquidity risk than other fixed-income securities.

Smaller capitalization securities may be less stable and more susceptible to adverse developments, and may be more volatile and less liquid than larger capitalization securities.

Sovereign debt securities are subject to the additional risk that, under some political, diplomatic, social or economic circumstances, some developing countries that issue lower quality debt securities may be unable or unwilling to make principal or interest payments as they come due.

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