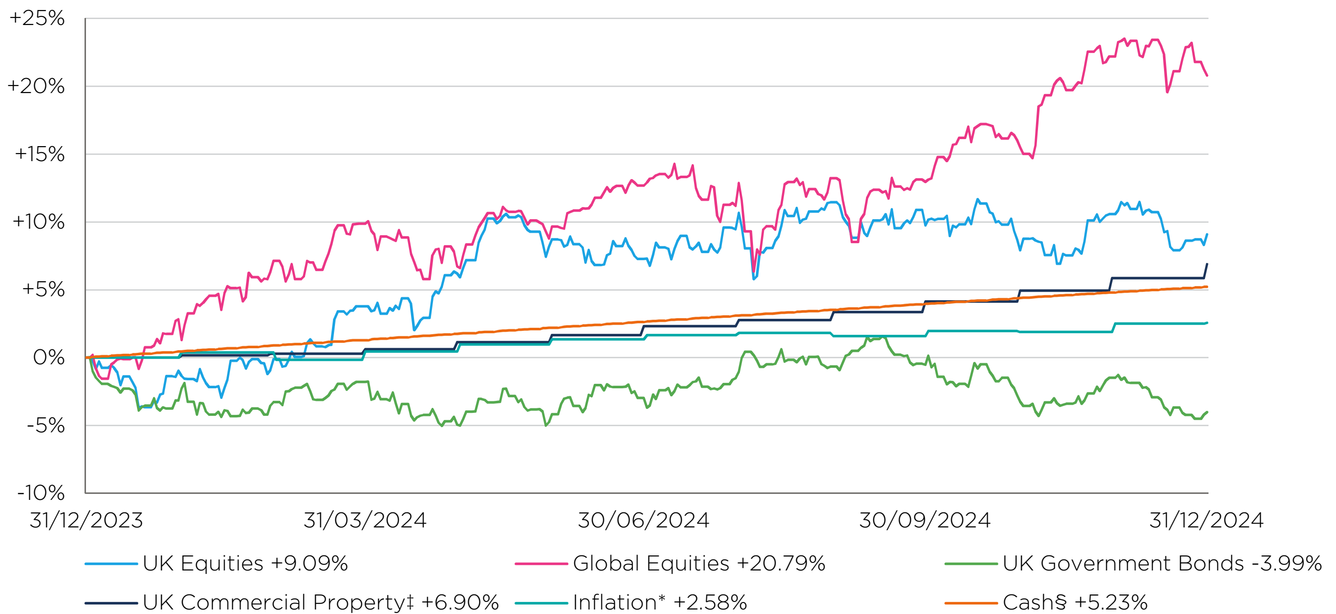
CCLA

QUARTERLY BULLETIN

31 December 2024

Market review and outlook



General Market Indices

	Current quarter (%)	Last twelve months (%)	Last three years annualised (%)	Last five years annualised (%)
UK Equities (MSCI UK Investable Markets Index)	-0.61	+9.09	+6.17	+4.61
Global Equities (MSCI World Index)	+6.93	+20.79	+9.15	+12.42
Global Equities ex UK (MSCI World ex UK Index)	+7.21	+21.24	+9.17	+12.76
UK Govt. Bonds (Markit iBoxx £ Gilts Index)	-3.50	-3.99	-9.31	-5.10
Sterling Bonds ex UK Govt, (Markit iBoxx £ Non-Gilts Index)	-0.49	+1.73	-3.14	-1.03
UK Commercial Property (AREF/MSCI™ All Prop Monthly) ‡	+2.64	+6.90	-1.35	+2.64
Inflation (CPI) *	+0.60	+2.58	+5.67	+4.48
Cash (SONIA) §	+1.22	+5.23	+3.76	+2.26

Source: Bloomberg (Data shown is daily except for Inflation and UK Commercial Property where data shown is monthly)

§ SONIA (Sterling Overnight Index Average) is estimated for the most recent month. From 1/1/21: SONIA. Prior to 1/1/21: 7-Day London Interbank Sterling Bid Rate (7-Day LIBID).
* CPI (Consumer Price Index) is reported on a 1m lag.
‡ MSCI UK Monthly Property is estimated for the most recent month.

By the start of October, central banks in most developed economies had started to cut interest rates. The US was readying itself for a presidential election, and the UK awaited its new government's first budget.

From that starting point, world share prices rose 2.58%([1]) during the fourth quarter of 2024. In pound sterling, world shares delivered a 6.93% return, as the British pound weakened against most other currencies.

In the United States, shares returned 2.69% over the fourth quarter. The US stock market reached new all-time highs in October and November, but with significant falls along the way.

The Federal Reserve's (Fed's) 0.50% interest rate cut in September had given shares a boost ahead of the fourth quarter. In October, banks reported strong third-quarter earnings, and the rally in artificial intelligence (AI) shares

continued.

In November, Donald Trump's election victory boosted share prices because of his emphasis on tax cuts and deregulation. Another Fed rate cut, two days after the election, also helped.

But US share prices stumbled several times during the quarter.

Prices usually fall when companies report disappointing results. But in the fourth quarter, some highly-valued companies' share prices fell after they reported results that met or even beat investors' expectations. That was the case with, e.g., Microsoft, NVIDIA and Meta.

Then, in December, the Fed halved its outlook for rate cuts in 2025, from 1% of cuts to just 0.5%. This change raised the projected Fed funds rate at the end of 2025 to 3.75%-4%. Investors showed little tolerance for such a surprise, and US shares fell more than 3% over the two days that followed.

In the United Kingdom, share prices fell 0.61% over the fourth quarter. Prices fell in October, as investors awaited the new government's first budget. They barely recovered in November, as higher national insurance rates in that budget dimmed the corporate outlook.

But UK share prices fell most in December, as the economic outlook weakened. The UK economy shrank 0.1% in October, month on month, and the Bank of England (BoE) does not expect it to have grown over the fourth quarter. In addition, rising inflation means that the Bank of England may keep interest rates higher for longer in 2025.

In the Eurozone, share prices fell 1.98% during the fourth quarter. Prices fell steeply in October, on poor corporate earnings for leading consumer companies such as L'Oréal and industrial firms like Bayer. But in December, the European Central Bank's more dovish outlook helped Eurozone shares recover somewhat, even as Eurozone inflation rose.

Chinese share prices fell 7.00% over the fourth quarter, after their 20%+ gain in September. Investors appeared unimpressed with the Chinese government's £1.1 trillion stimulus, announced in November. Share prices in Japan advanced 5.92%, as the economic outlook improved and the central bank kept rates on hold.

There were noteworthy moves in the bond market during the fourth quarter. Central banks in the US, the UK and the Eurozone cut interest rates. But long-dated government bond yields rose in each case. In the US, for example, 10-year Treasury yields rose from 3.81% to 4.58% over the quarter.

The likely explanation for those rising yields is that central banks' plans have changed. As a result, investors now expect fewer rate cuts in 2025 than they did at the start of the fourth quarter.

Investors' changed outlook prompted falls in bond prices, particularly during December. (Bond prices fall as yields rise.) The Bloomberg Global Aggregate bond index rose just 1.64% during the fourth quarter, in pound sterling, but fell 0.69% in December.

Outlook

During December, several central banks dialled back their outlook for rate cuts in 2025. That slowing pace of rate cuts disappointed many investors and weighed on share prices.

But what's more important: in 2024, central banks lowered inflation without causing a recession. That 'soft landing' is a reason to look at shares constructively.

The US economy, for example, grew 3.1% (annualised) in the third quarter of 2024, and it is set to benefit from Trump's promised tax cuts in 2025. Even in case of a trade war, the closed US economy can continue to do well. And US companies' earnings are already growing faster than those of their G7 peers.

It is true that, as share prices have risen, so has volatility. The principal risk, in our view, is that earnings momentum slows. As the fourth quarter showed, it's even possible for companies to deliver the earnings that investors were expecting but see their share prices decline. For that reason, we don't invest 'blindly' across the board, but continue to be selective.

([1])Sources of share prices: MSCI (net total return in local currency)

The market review, analysis, and any projections contained in this document represent CCLA's house view and should not be relied upon to form the basis of any investment decisions.

Rising bond yields: are the 'bond vigilantes' riding again?

You've probably read or heard about it already: in early January, yields on UK government bonds (gilts) reached their highest level since 2008. Two-year gilt yields rose from 4.07% at the start of December to 4.39% on 14 January. And 10-year gilt yields rose from 4.23% to 4.89% over that time.

When bond yields rise, bond prices fall, and so do the valuations of private equity, infrastructure and other interest rate-sensitive assets. So bond yields have a broad impact on the economy.

Why did bond yields surge after central banks started cutting interest rates?

By mid-2024, UK consumer price (CPI) inflation had fallen to 2%, year on year, so the Bank of England cut its official interest rate twice, in August and November. But inflation climbed to 2.6% by November, so the Bank became more tentative about further rate cuts. Was a change in the Bank of England's outlook to blame for rising gilt yields? That's not the entire story.

In fact, rising bond yields weren't just a UK phenomenon. In the US, the Federal Reserve cut interest rates in September and December. From early December to mid-January, however, two-year US Treasury yields rose from 4.13% to 4.37% and 10-year US Treasury yields from 4.18% to 4.78% — nearly as large an increase as in the UK. Could rising inflation have been behind rising bond yields? Again: there's more going on.

Incoming US Treasury Secretary Scott Bessent points out that the increased yield on inflation-linked US Treasuries (bonds that are indifferent to inflation) accounted for most of the overall rise in bond yields. In the UK, inflation-linked bonds showed a similar pattern. Instead of higher inflation, Bessent suggests, investors in US shares might have been pricing in higher economic growth because of President Trump's proposed policies. That would dovetail nicely with the recent strength in stock markets.

'Bond vigilantes' are a more sobering explanation for rising bond yields.

'Bond vigilantes' is a 1980s nickname given to bond investors, who require higher bond yields when governments spend too lavishly or let inflation run out of control. Bond vigilantes are so powerful that Bill Clinton's political advisor James Carville once said: 'if there was reincarnation, I [...] would like to come back as the bond market. You can intimidate everybody.'

Some observers suggest that the recent rise in yields signals bond markets' scepticism over government budgets. That's because, in the US, the incoming Administration is expected to add trillions to the country's national debt. In the UK, Chancellor Rachel Reeves' October 2024 budget announced higher spending, financed by higher taxes and increased borrowing.

The Chancellor aims to balance the UK government's budget by 2029/2030 and reduce government debt as a percentage of GDP by then. But if interest rates fall more slowly than expected, she may not be able to reduce the UK's national debt as quickly as she expects.

Where next?

The December/January rise in bond yields is probably the result of a chain of events, one that started with more persistent inflation than expected, and ended with 'bond vigilantes' bidding up bond yields.

But in mid-January, UK consumer price (CPI) inflation was reported to have fallen to 2.5% in December, year on year. This led to lower bond yields within days – good news for government budgets, and for any investor who holds bonds or other rate-sensitive assets.

Air pollution: "The single biggest environmental threat to human health." (WHO 2022)

In early 2024, we set out on a new project aimed at tackling corporate air pollution. Inspired by ShareAction's air quality work, and with clear evidence of the human and environmental damage caused by poor air quality, we joined forces with Guys & St Thomas' Foundation and set out to create a mechanism for examining company preparedness and resilience to the impacts of urban air pollution.

The case for action

There have been enormous improvements in air quality in Global North countries since the 20th century through regulatory intervention and evolving economic structures away from industrialisation. Despite this, air pollution levels remain harmful in virtually all countries; 99% of people worldwide breathe air that exceeds WHO limits for key pollutants. Poor air quality damages human, environmental and economic health in the following ways:

Human health

- Pollution is responsible for approximately nine million deaths per year, corresponding to one in six deaths worldwide.
- It is a major risk factor for non-communicable diseases including cardiovascular and respiratory diseases, type 2 diabetes, cancers and neurological diseases

The economy

- Air pollution-related ill health results in 1.2 billion lost working days annually. This is projected to reach 3.7 billion by 2060.
- The global cost of health damages from outdoor air pollution was estimated to be US$8.1 trillion in 2019, an economic value equivalent to 6.1% of global Gross Domestic Product (GDP).

The environment

- Air pollution is an invisible and pervasive threat to biodiversity and to both terrestrial and aquatic ecosystems worldwide.
- Ground-level ozone damages vegetation and agricultural crop yields, while sulphur can lead to excess levels of acid in lakes and streams, damaging trees and soils.

Air quality is a sustainability blind spot for investors and when compared to climate risks, it is underrepresented in corporate disclosure requirements relative to its impact on society.

That said, an increasing number of key reporting standards now require companies to disclose emissions of air pollutants. These include the Global Reporting Initiative, World Benchmarking Alliance, the Taskforce for Nature-Related Financial Disclosures, India's Business Responsibility and Sustainability Reporting and the EU's corporate Sustainability Reporting Directive.

Acting for change

Our aim is to mobilise the investment industry into action on this underserved topic and to accelerate corporate efforts to measure, disclose and reduce emissions of toxic pollutants into the air. Successful implementation will bring about positive outcomes for people and for the planet and help to improve the long-term resilience of the companies in which we invest.

During 2024, CCLA and Guy's & St Thomas' Foundation joined forces to commission a scoping review by Chronos Sustainability Ltd to explore the role of investors in tackling corporate air pollution. The outcome of this review is a proposal to develop a global benchmark to assess company preparedness and resilience to the impacts of urban air pollution.

Specifically, the proposed benchmark will:

1. define investor expectations of companies involved in urban road transport
2. drive increased transparency and disclosure by companies on air pollution
3. provide investors with an accessible way to understand and evaluate corporate practices
4. showcase examples of good practice in corporate management of air pollution for the benefit of investors and companies.

In November, we launched a public consultation to test our proposed approach, which will close in mid-January. At the time of writing, the consultation had received responses from investors, academia, non-governmental organisations, businesses and government. We will report on the outcomes of the consultation in 2025.

Reducing air pollution to WHO recommended levels in the UK could regain...

- 3 million working days per year
- £1.6 billion to the economy
- £900 million in wages
- 17,000 prevented deaths

Ethical and responsible investment report

Our work has four strands:

1. Engagement focused on social and environmental issues in the context of Christian mission and witness.
2. Setting appropriate constraints on investment and exposure in line with the faith consistent investment policy, informed by a dedicated Faith-Consistent Investment Committee.
3. Proxy voting on corporate governance issues to protect shareholder value and address excessive remuneration.
4. Responsibilities under the UK Stewardship Code and the UN Principles for Responsible Investment (PRI).

Quarterly highlights

In December, we submitted the paperwork to co-file a shareholder proposal at Amazon for the company's 2025 annual general meeting (AGM). The proposal asks Amazon to publish an independent report into the alignment of its practices on Freedom of Association and Collective Bargaining with its own policies and human rights standards. This follows a similar proposal that we co-filed last year.

In Q4, we published the second iteration of the CCLA Modern Slavery UK Benchmark. This assesses and ranks 110 UK-listed companies on their compliance with the UK Modern Slavery Act, conformance with Home Office guidance and efforts to find, fix and prevent modern slavery. Thirty-five companies improved their tier ranking in the benchmark since last year, with 10 companies mentioning the benchmark in their public reporting.

CCLA is engaging with Nvidia in relation to its downstream human rights due diligence processes, following allegations that their semi-conductor chips had been found in Russian weaponry. We have met Nvidia several times during the year. The company is now working with a Human Rights consultancy called Article One to undertake a Human Rights Impact assessment, which includes upstream and downstream risk. Discussions continue.

In October, we published the third iteration of the CCLA Corporate Mental Health Benchmark – Global 100+. This assesses 119 of the world's largest listed companies on their approach to workplace mental health and showed that 12 companies had improved their approach since last year. In November, we wrote to each one of the 119 company CEOs on behalf of 56 investors with a combined $10 trillion in assets under management and in Q4 met with a total of 22 companies to discuss workplace mental health.

In early 2024, CCLA and Guy's & St Thomas' Foundation joined forces to commission a scoping review to explore the role of investors in tackling corporate air pollution. The outcome is a proposal to develop a global benchmark to assess company preparedness and resilience to the impacts of urban air pollution. This went to public consultation in Q4; we will report on the outcome in 2025.

Quarter four voting in detail

CCLA aims to vote at all company meetings where we have portfolio holdings. The Catholic Investment Fund did not support 21% of management resolutions at investee companies this quarter.

We aim to support all pro-active shareholder proposals, particularly where a proposal complements our existing engagement priorities. For example, during the quarter, at Microsoft, we supported Item 4, 'Report on Risks of Weapons Development'. More detailed information on the risks associated with technologies being developed by the company, in particular, technology for use in augmented reality headsets for training and combat, would be beneficial for investors and broadly aligns with our clients' values in this area. We also supported Item 6, 'Report on Risks of Operating in Countries with Significant Human Rights Concerns'. This focuses on the risk of hosting data centres in countries such as Saudi Arabia, which lack cloud computing laws that align with international human rights standards.

Nature Action 100: Zoetis and McDonald's

In 2023, we joined Nature Action 100, a global investor engagement initiative focussed on biodiversity, and in 2024, commenced engagement with three portfolio holdings: AstraZeneca, McDonald's and Zoetis.

In October, we met Zoetis to discuss aligning the company's sustainability strategy with biodiversity goals. We discussed its biodiversity priorities, related materiality assessments, antibiotics use, and sustainable packaging. Zoetis committed to incorporating biodiversity more fully into future materiality assessments and we look forward to monitoring its progress on this topic.

Despite several attempts to arrange a meeting with McDonald's on this topic, we have to date failed to do so. Given the company's unresponsiveness, we submitted paperwork to co-file a shareholder proposal for its 2025 AGM, asking it to prepare a public report assessing the extent to which its supply chains and operations impact biodiversity and are vulnerable to biodiversity loss.

Ethical constraints

We confirm that the Catholic Investment Fund has been managed in accordance with its faith consistent investment policy this quarter.

Catholic Investment Fund

Performance comment

Many stock markets reached all-time highs during the quarter. In the US, share prices rose to record highs because companies reported strong third-quarter earnings, because the artificial intelligence (AI) boom continued and because of president-elect Trump's proposed tax cuts.

But some highly-valued companies' share prices stumbled during the quarter, even after they reported results that met investors' expectations. This was the case with e.g. NVIDIA and Meta.

And in December, America's central bank halved its outlook from 1% of rate cuts in 2025 to just 0.5%. As a result, US share prices fell more than 3% in the two days that followed, and bond yields rose steeply.

Over the quarter the Fund returned -0.06% compared with the comparator return of 4.84%. Over the last 12 months, the Fund returned 4.83% compared with the comparator return of 15.30%.

- The fund's shareholdings boosted performance during the quarter, led by IT firms such as chip producer Broadcom, which delivered better-than-expected financial results. Our positions in Google parent Alphabet and retailer Amazon were large contributors as well.
- By contrast, rising bond yields detracted from returns. Those higher yields depressed the prices of the fund's bond holdings, and of its investments in social and environmental infrastructure, property and private equity. In our analysis, bond prices are now below fair value, and bond yields are higher than fair value, which offers opportunities for the fund.

Fund update

During the fourth quarter of 2024, we sold the fund's positions in food and beverage firm PepsiCo, sportswear firm Nike and health insurer Humana. Instead, we added positions in mining equipment firm Epiroc and infrastructure firm Infratil.

Several key risks could impact stock market returns in 2025, and many of those risks have been with us for some time. Inflation may remain higher for longer than many investors expect. Geopolitical conflicts may escalate in the Middle East, Ukraine or over Taiwan. And consumer or business confidence will continue to wax and wane. Policy risk, however, stands out for 2025. This includes changes in government budgets and in central banks' monetary policies.

Income

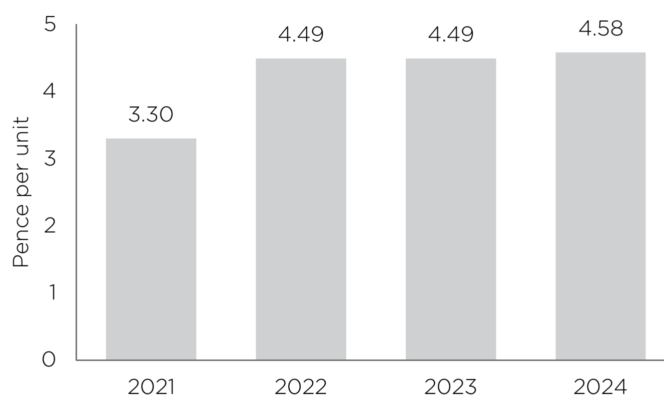
Gross dividend yield 2.84%*

MSCI $ UK IMI dividend yield 3.74%

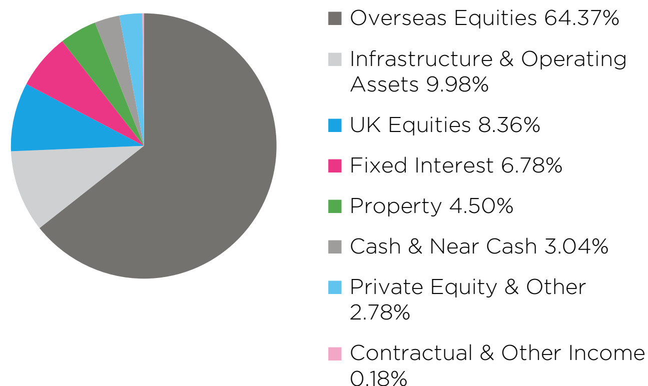
MSCI $ World ex UK dividend yield 1.66%

* Based upon the net asset value and an estimated annual dividend of 4.58p.

Past distributions



Asset allocation as at 31 December 2024



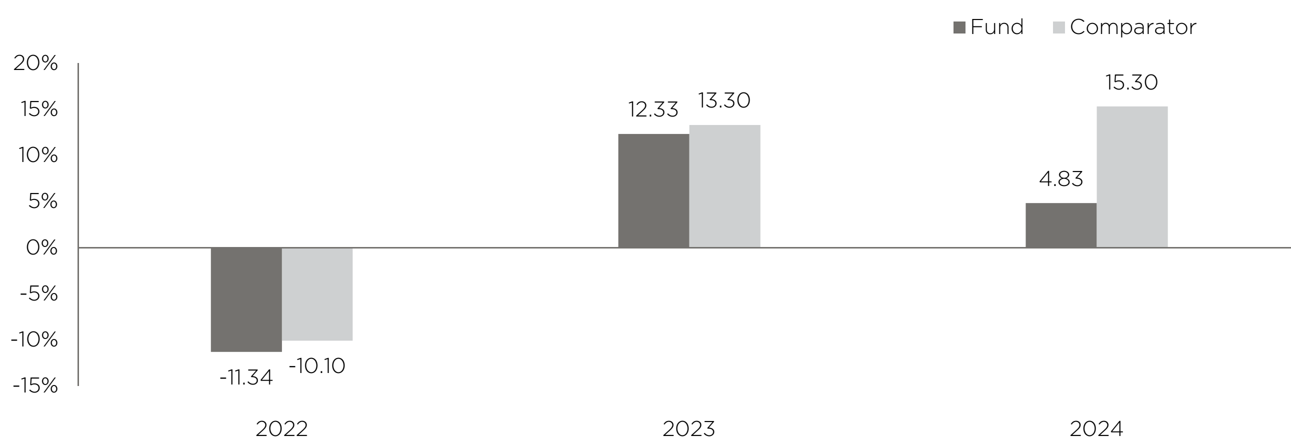
Total return performance

Performance* to 31 December 2024	3 months	1 year	3 years p.a.
Investment	-0.06%	+4.83%	+1.45%
Comparator ‡	+4.84%	+15.30%	+5.51%

‡ Target benchmark is CPI +5%. CPI is reported on a 1m lag.

Total return performance by year

12 months to 31 December	2022	2023	2024
Investment	-11.34%	+12.33%	+4.83%
Benchmark	-10.10%	+13.30%	+15.30%



Comparator - composite: From 01/04/21, MSCI World 75%, MSCI UK Monthly Property 5%, iBoxx £ Gilts 15% & SONIA 5%. Source: CCLA

Top 10 holdings as at 31 December 2024

Holding	%
UK Treasury Gilt 3.25% 22/01/2044	2.4%
UK Treasury 4.5% 07/12/2042	2.3%
Microsoft Com NPV	2.1%
Amazon.Com Com USD0.01	1.9%
COIF Charities Property Fund (Sub-Holding)	1.9%
Alphabet Inc C Com NPV	1.6%
Visa Com - Class A Shares USD0.0001	1.4%
Essilor International EUR0.35	1.4%
HG Capital Trust Ord GBP0.025	1.4%
Taiwan Semiconducter SP ADR(V5 Ord)	1.4%

* Performance of the funds is shown net of management fees and other expenses with income reinvested. Comparator performance is based on market indices which are not adjusted for any management fees or investment expenses. Past performance is not a reliable indicator of future results.

IMPORTANT INFORMATION

This document is issued for information purposes only. It does not provide financial, investment or other professional advice.

To make sure you understand whether our product is suitable for you, please read the key information document and prospectus and consider the risk factors identified in those documents. We strongly recommend you get independent professional advice before investing.

Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise. You may not get back the amount you originally invested and may lose money.

The fund can invest in different currencies. Changes in exchange rates will therefore affect the value of your investment. Investing in emerging markets involves a greater risk of loss as such investments can be more sensitive to political and economic conditions than developed markets. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries. The annual management charge is paid from capital. Where charges are taken from capital rather than income, capital growth will be constrained and there is a risk of capital loss.

Any forward-looking statements are based on our current opinions, expectations, and projections. We do not have to update or amend these. Actual results could be significantly different than expected.

Investment in this fund is only available to charities within the meaning of section 1(1) of the Charities Act 2011.

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