USD ANNUAL REPORT
2023

ECONOMIC BACK-DROP & MACRO SITUATION

Reviewing the past few years, towards the end of 2021 the Bank of England surprised the markets raising their benchmark "Base Rate". Prior to this, as a response to the Covid crisis, Central Banks across the globe had cut their benchmark rates, with some actually charging customers to place money with them. In addition, they also printed money and some Governments stimulated their respective economies further with handouts. The Bank of England were the first to signal an end to their stimulus package and soon after other Central Banks, including the USA's Federal Open Market Committee (FOMC), started to follow suit by raising rates in 2022.

With the benefit of hindsight, the stimulus response was too much, which arguably resulted in a massive increase in inflation. Most Central Banks have an inflation target of 2% and at one stage the US saw their inflation rise to over 9%, with the UK's peaking at just over 11%. The situation in Ukraine disrupted oil, gas and grain supplies, which fuelled inflation to alarming levels. In response to this, 2022 witnessed the FOMC rapidly raising interest rates in order to calm the pace of inflation. In the second half of 2022 we saw inflation eventually start to rise at a slower pace, but throughout 2023 it remained above the FOMC's target level of 2%.

Against this background, the US unemployment level, which is seen as an indicator of how "healthy" their economy is, remained robust. In fact there was a shortage of jobs, leading to wage negotiations in line with elevated inflation levels. During 2023 the FOMC were fearful that this would lead to a second wave of inflation and therefore resisted the calls to cut their benchmark interest rates.

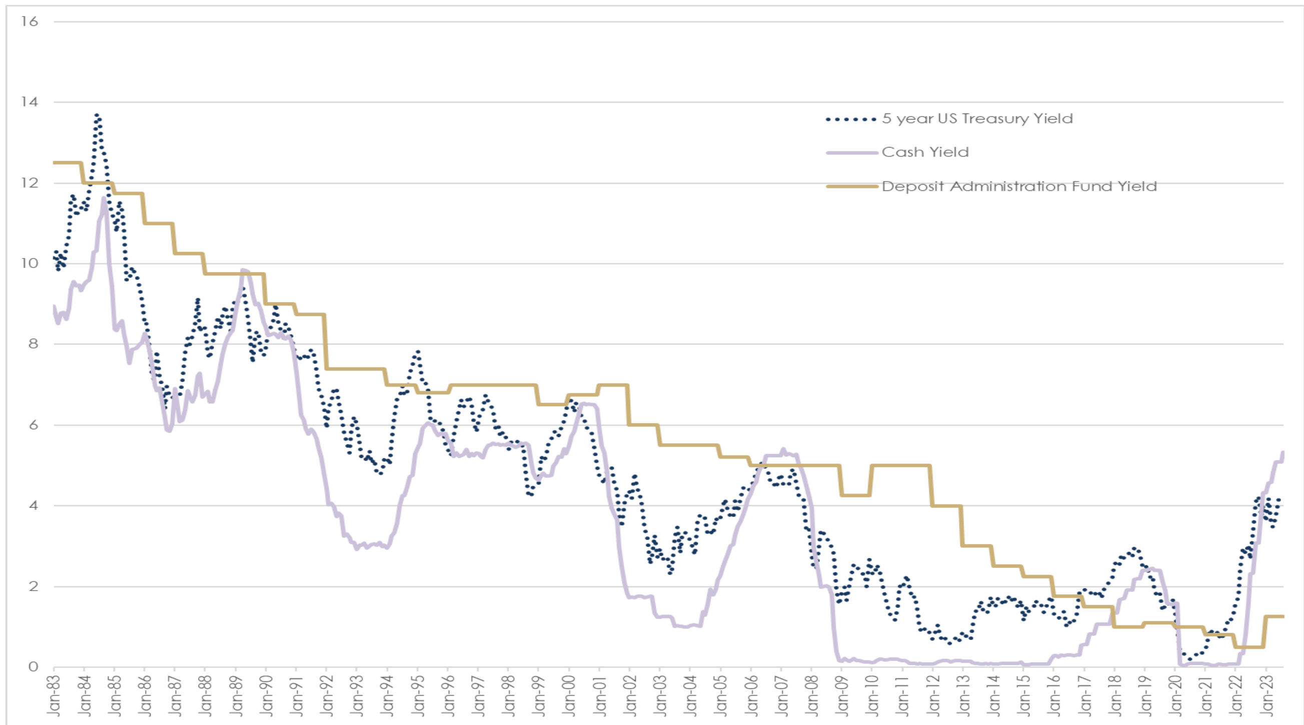
With inflation stable, but still above 2%, unemployment levels resilient and global trade normalizing, the FOMC have kept interest rates on hold for the moment. However, the market is fearful that the current rate is too restrictive and will eventually cause the US economy to enter into a recession. If this happens, the classic Central Bank response is to cut interest rates. Towards the end of 2023, longer dated bond yields started to fall increasing asset prices, but the US economy has yet to show signs of entering a recession. The last reading of US economic activity showed the economy growing at over 3.3% per annum and there is speculation that if a recession occurs, it would not be as severe as previously speculated.

THE USD DEPOSIT ADMINISTRATION FUND

In response to the above global events, the Fund reduced risk by reducing the duration of the Portfolio, in an effort to protect the value of the assets in a rising interest rate environment. However, it must be noted that the Deposit Administration fund is designed to smooth returns to its shareholders and so the shareholders did not "experience" the turbulence that sharp increases in FOMC base rates caused to Fixed Income markets.

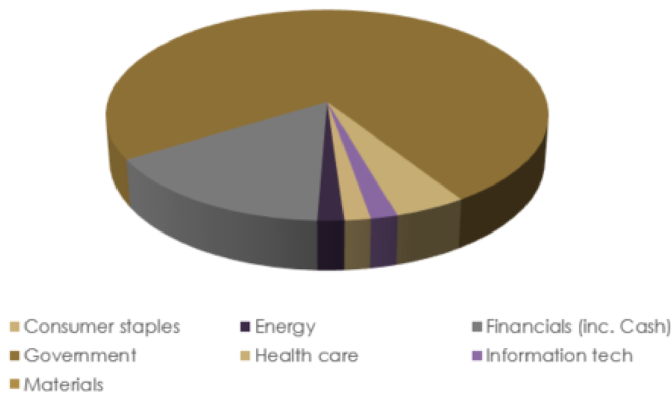
The following chart details the fund's 2024 declared rate along with the cash and 5 year US Treasury yields.

PERFORMANCE COMPARISON CHART

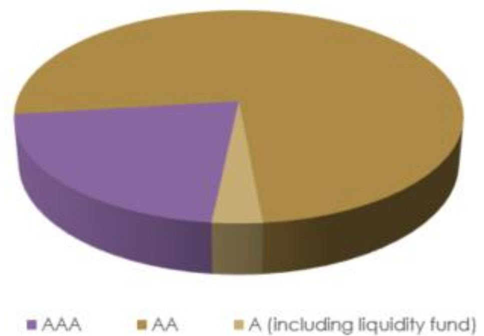


Investments in US Treasuries has been volatile over the 5 year period. For direct investors strong gains would have been achieved in the run up to Covid, but then as the world recovered from Covid and interest rates started rising, these gains would have been given back. Only towards the end of 2023 would investments in US Treasuries have generated profits.

ASSET DISTRIBUTION BY SECTOR



ASSET DISTRIBUTION BY CREDIT RATING



At the year end the portfolio was 72% allocated to government and government related bonds with the balance in covered bonds, corporate bonds and cash.

The Portfolio was cautiously positioned throughout 2022 and 2023 amid concerns over the potential peak in interest rates. Over the medium term interest rate cuts are inevitable and they will most likely support bond prices as the market adjusts. In expectation of this, we will look to extend portfolio duration and its resultant sensitivity to interest rates. Ahead of these changes we would like to see further signs that inflation is back under control and that the strong jobs market is showing signs of weakening, reducing wage pressures.

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