Client Portfolio Monthly Update – August 2021

All the major global stock markets enjoyed a strong month in August. US stocks rose 3% to a new all-time high and UK stocks were not far behind, rising 2.7%. Due to the lifting of Covid restrictions around the world in June and July, investors expected a strong recovery to show up in the raft of economic data in August. On the one hand, the US manufacturing and services data showed very strong growth in economic activity and the July jobs report showed nearly a million jobs created. However, the pick-up in the economy brought with it an exceptionally big rise in inflation which rose to 5.4% year-on-year. Furthermore, the squeeze on the supply of labour was evident in wage data rising 0.4%.

In the UK, similar labour constraints impacted supply chains and job vacancies hit a record high. The extent to which both inflation and wage growth will prove to be transient is something that has bugged investors since the first quarter of this year and 10-year bond yields have risen to reflect the concern that central banks may be forced to raise interest rates. However, in his speech to the Jackson Hole summit, Fed chairman Jerome Powell re-iterated the US central bank view that the jump in inflation is temporary. This was well received by stock markets, underpinning the move for stocks to end the month on a high.

The bigger issue for both stock and bond markets is the question of when the central banks of the Federal Reserve, Bank of England and ECB will start to reduce the amount of stimulus which grew spectacularly in response to the pandemic. Whilst investors are under no illusions that the unprecedented high levels of quantitative easing cannot last forever, there is no denying that its continuation is what has fuelled a boom in all asset classes from stock and bonds to property. It is a policy decision which will have to be carefully managed. In the meantime, all eyes will now turn to the all-important US third quarter corporate earnings season and the guidance into the fourth quarter that comes with it. The 20% year-to-date gain in the US stock market has acted as a rising tide that lifts all boats and we expect the UK and European stock markets to continue to take their lead from the US in the months ahead.

Lastly, all eyes will be on the ECB Thursday 9th September as there is speculation that it could be the first central bank to taper. Many expect a domino effect, and Thursday could be the first push.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	0.61%	0.85%	-0.24%
	Risk 3	1.24%	0.85%	0.39%
20-60% Shares	Risk 4	1.92%	1.43%	0.49%
	Risk 5	2.39%	1.43%	0.96%
	Risk 6	2.77%	1.43%	1.34%
40-85% Shares	Risk 7	3.33%	2.22%	1.11%
	Risk 8	3.33%	2.22%	1.11%
Global	Risk 9	3.46%	3.35%	0.11%

This month has been a good month for all of our risk levels. All portfolios have produced positive returns and all bar Risk 2 have outperformed their sector benchmarks. Risk 2 has outperformed inflation and its benchmark of CPI +1%. We wanted to make this comment as Risk 2 has a very low exposure to equities, circa 11%, and this benchmark can have up to 35% exposure to shares. If we compare the annualised volatility over 1 year of the Risk 2 portfolio and the 0-35% Shares sector, our Risk 2 portfolio has 25% less volatility, which can explain slight underperformance when equity markets are rising. *

For a number of months, our Japanese exposure has been a conversation point in all our meetings, debating whether a substitution is required or whether we allow the slight dip before we see an increase in performance again. We are pleased to say that our patience seems to have paid off, with both our Japanese funds having a very strong month. However, this does not mean that we will stop looking for potentially better suiting alternatives. We always aim to be proactive in investment decisions rather than reactive, and this means searching for potential issues before they arise and are seen in our models.

This does mean therefore that there have been no amendments in the Facet Model Portfolios this month.

Information in this report is at the last valuation point on 1st September 2021 (except where indicated).
*source: FE Analytics