Client Portfolio Monthly Update – October 2021

It was another good month for global stock markets, particularly for the USA where the benchmark index rose 6.9% to a new all-time high. European stocks were not far behind, rising 4.1% but the UK returned just 1.8% due to a number of factors weighing on the minds of investors. Not least of these was the announcement by Andrew Bailey, Governor of the Bank of England, who gave that starkest warning yet that interest rates would have to rise much sooner than previously expected in order to combat rising inflation. This came as a surprise, and in total contrast to the view expressed by the US Federal Reserve, who told a gathering of central bankers that, in their opinion, inflationary pressures are temporary in nature. Furthermore, the Bank of England's announcement added to a sense of confusion because the conventional wisdom was always that the bank would wind down stimulus, or quantitative easing, before raising interest rates. The prospect of a rate rise, possibly as soon as 4th November, was an unpalatable one for the bond market, coming as it did so soon after the announcement of tax rises next year. Meanwhile, the European Central Bank, who share the Federal Reserve's more sanguine view of inflation, oversaw the payments of the Covid-19 recovery funds to Italy and Spain which helped to underpin European stocks. In Germany, Angela Merkel ended her 16-year reign as Chancellor as the election handed power to a coalition of centre-ground parties. This was an important election for the both the German and EU economies but will take some time to resolve. As a result, all eyes turned on the USA and the all-important third-quarter earnings season. A very strong bounce back in economic activity had been well-flagged by the data throughout the summer, but company revenues and profits were well ahead of even the most bullish of expectations. Average sales across the biggest US companies were up 15% compared to the average in any normal year of 3%. On the back of that, earnings rose nearly 65%. At the sector level there were winners and losers due to the uneven recovery and bottlenecks in the real economy and this showed up in employment data. While employment did fall to 4.5%, wages continued to rise at an annualised rate of 5.5% amid reports that companies in the leisure sector continue to be constrained by staff shortages. These constraints may mean that GDP growth will moderate from the 5.5% growth seen over the summer. As October drew a close, an increasing number of market strategists were drawing attention to the underperformance of the UK stock market citing low valuations compared to its international peers. The likelihood of the gap closing does exist but may well be dependent on the resolution of a number of political issues ranging from the budget to the Northern Ireland trade agreement.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	0.08%	0.26%	-0.18%
	Risk 3	-0.07%	0.26%	-0.33%
20-60% Shares	Risk 4	0.09%	0.50%	-0.41%
	Risk 5	-0.14%	0.50%	-0.64%
	Risk 6	-0.29%	0.50%	-0.79%
40-85% Shares	Risk 7	-0.56%	0.86%	-1.42%
	Risk 8	-0.02%	0.86%	-0.88%
Global	Risk 9	0.16%	1.87%	-1.71%

It has been a difficult month in the market seeing large pull backs in most equity markets, which is disappointing, with all portfolio's showing a loss for the month. At present the Baillie Gifford American fund remains on our watchlist, it is still first quartile over the longer periods but is experiencing some short-term volatility. Also added this month is the CFP SDL UK Buffetology fund. This, too, is due to the short-term volatility whereas the longer-term periods remain top quartile

Information in this report is at the last valuation point on 31st October 2021 (except where indicated).
*source: FE Analytics

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