Client Portfolio Monthly Update – December 2021

Global stock markets enjoyed a strong December as they recovered from the initial shock of the news of the new omicron Covid variant in late November. The US stock market led the way, underpinned by strong corporate earnings and better than expected economic data. In the USA, unemployment fell to 4.2%, an indication of just how tight the labour market has become. Unsurprisingly, wages rose strongly and combined to drive US inflation to a year-on-year gain of 6.8% - a 39 year high. The Federal Reserve stuck to its view that the spike in inflation will be short lived and kept interest rates on hold. However, newly re-appointed Chairman, Jay Powell, gave the markets guidance on the rate at which monetary stimulus will be withdrawn in the first quarter of 2022 – an indicator that a hike in interest rates will follow. The bond market responded and, by the end of the year, was pricing in an expectation that the US central bank will hike rates three times in 2022. Following the stark inflationary warning given by Governor Andrew Bailey in November, The Bank of England finally raised interest rates from 0.10% to 0.25%. Sterling strengthened a couple of cents on the US dollar to end the year at $1.35. Against all the major currencies, the US dollar remained flat in December, giving emerging markets some relief from the inexorable strengthening seen over the last 12 months. European stocks fared a little bit better than in the UK – buoyed by the stance adopted by the European Central Bank which has emerged as the most dovish of all the major central banks. Looking ahead to 2022, there is a sense that stocks and bonds are entirely dependent on the next actions taken by the Fed, ECB and Bank of England. Despite the dramatic rise in inflation, they have all taken the common view that the bottlenecks in supply of goods and workforce shortages are temporary. The emergence of the omicron variant has also given them a justification for taking a cautious stance although markets appear to have looked through the latest wave as far less severe than those before it. However, it is unlikely to fade as an issue of public and political concern for the foreseeable future. The stronger employment and wage data in December points to potential problems for company managements next year. The extent to which higher wages will impact profits, or whether they will be passed on to the consumer, will be closely watched. 2021 was good year for stocks and even the UK index, weighed on by the additional post-Brexit concerns, recovered to pre-covid levels. The new year starts with a palpable sense of optimism which the central banks will be wary of derailing.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-0.75%	0.34%	-1.09%
	Risk 3	-1.21%	0.34%	-1.55%
20-60% Shares	Risk 4	-0.79%	1.14%	-1.93%
	Risk 5	-0.48%	1.14%	-1.62%
	Risk 6	-0.28%	1.14%	-1.42%
40-85% Shares	Risk 7	-0.20%	1.52%	-1.72%
	Risk 8	-0.74%	1.52%	-2.26%
Global	Risk 9	-1.17%	1.80%	-2.97%

December saw all portfolios underperform their respective Sectors. We believe this is due to short term volatility and unexpected news rather than poor asset allocation and therefore maintain a hold position at present. Baillie Gifford American and CFP SDL UK Buffetology funds remain on our watchlist due to short term poor performance, and their continued inclusion in the models is being assessed.
2021 closes as a disappointing year yet, over the longer term, our performance still provides a strong positive return and we therefore maintain that our asset allocation model is sound.

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

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