# Client Portfolio Monthly Update – January 2022

After an initially good start to the new year, stocks in the USA, UK and Europe hit trouble due to a raft of concerns over inflation, Ukraine and the prospect of monetary tightening and rising interest rates. As if sensing the point of maximum pain for the US Federal Reserve ahead of their January policy meeting, US stocks sold off around 10% mid-month. With the exception of the infamous "Volker moment" in the late 1970s, out of the last 50 occasions when the Federal Reserve has raised rates, it has done so only once when their stock market was down 10% or more from the peak. Despite US annual inflation hitting 7% in December, the Fed ultimately held off on raising rates, quite possibly due to a big drop in services side of the PMI indicators which nearly fell into negative territory as the omicron variant dampened economic activity. However, the headline economic indicators for US unemployment and wages remain very strong and Fed Chairman, Jerome Powell, cited the strength of the economic bounce back as being a factor to consider at the next meeting in March. Meanwhile in the UK, the bond market reacted by selling off on the back of the strong December inflation rate of 5.4%. The Bank of England has been in much more hawkish mood since November and, despite just the one small 0.15% hike last month, the UK Gilt market is pricing for five more raises throughout 2022. That this should be happening in January, just as the cost-of-living increases are starting to hit households, presented investors with additional cause for concern and there were calls for a scrapping of the planned 1.5% raise in national insurance contributions. Despite these concerns, the UK stock market held up better than its global peers, losing just 0.3% in a volatile month, owing to the high proportion of index stocks engaged in energy and mining. In addition, the proportionately large financial sector is a natural beneficiary of a rising interest rate environment. Given the global nature of price driven inflation, the EU experienced similar headline inflation and pressure on the central bank to raise rates. However, the European Central Bank has long been the most cautious of the major central banks and signalled to markets that interest rates are unlikely to rise in 2022. EU stocks performed a little better than in the US, dropping 4.5%. Whilst the US Federal Reserve will not meet again now until March, February is likely to be a month where investors will be placing central bank action under far more scrutiny than we are used during the market recovery from the Covid pandemic.

| | | 1m | Sector 1m | Relative to Sector |
|---|---|---|---|---|
| 0-35% Shares | Risk 2 | -4.44% | -2.60% | -1.84% |
| | Risk 3 | -4.78% | -2.60% | -2.18% |
| 20-60% Shares | Risk 4 | -6.77% | -3.08% | -3.69% |
| | Risk 5 | -8.01% | -3.08% | -4.93% |
| | Risk 6 | -8.65% | -3.08% | -5.57% |
| 40-85% Shares | Risk 7 | -9.05% | -4.77% | -4.28% |
| | Risk 8 | -7.66% | -4.77% | -2.89% |
| Global | Risk 9 | -6.57% | -7.35% | 0.78% |

January, like December, saw all portfolios underperform their respective Sectors. We still believe this is due to short term volatility rather than poor asset allocation. However, we made some changes to our portfolios. We have removed CFP SDL UK Buffettology and Comgest Japan, replacing them with Slater UK Recovery and Fidelity Japan funds respectively. We have also reduced the holding in Baillie Gifford American Fund and introduced either the BNY US Equity Income Fund or M&G North American Value Fund, depending on the platform. This is due to changes in sector allocation preferences and the decision to reduce technology stock exposure.
With the new allocation we believe we have produced a stronger, more robust, portfolio reflecting the current investment environment

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