Client Portfolio Monthly Update – April 2022

Whilst headline news was understandably focused on the ongoing conflict in Ukraine, market attention was watching the actions of the main central banks just as closely. This was reflected in the USA where the bond market priced in a base rate rise to over 2.8% before the end of the year, around 1% higher than was forecast just a month ago. This was perhaps an understandable reaction given the hawkish messages being given out by the Chairman of the Federal Reserve, Jerome Powell, who is under pressure to control inflation which hit an annualised rate of 8.5% in March – the highest since 1981. But the move was interesting for another reason. It inverted the US yield curve, a chart of where the bond market believes interest rates will be next month, next year and out to 25 years and beyond. The inversion meant that, even before interest hikes are implemented by the Fed, the bond market already expects their action to damage the economy, leading to an inevitable need to lower them again in the future. In short, an indicator of a looming recession. This was not lost on the Bank of England Governor, Andrew Bailey, who said "We are walking a very tight line between tackling inflation and the output effects of the real income shock, and the risk that could create a recession". His words reflect a growing sense of unease that the UK is heading for an uncomfortable period of stagflation – a combination of falling economic growth but rising prices. The rise in US interest rate expectations also had a dramatic effect on the US dollar, which strengthened against all major currencies. Against Sterling, it gained over 5% in March. The Japanese Yen fell 7.2% against the US dollar to Y130 – a level not seen for over 20 years. This was generally quite supportive of the Japanese stock market which fell 2.4% vs a fall in the US market of 8.8%. The same was true of Sterling weakness against the US dollar and the relatively high export-ratio of the constituent UK companies helped to lift the index to a 0.3% gain for the month. The next Bank of England meeting is scheduled for 5th May. UK inflation hit 7% in March and has now been above the Bank's 2% target for over a year. The temptation to raise interest rates to 1% a raise of 0.25%, may be overwhelming. If the Monetary Policy Committee does vote for such a rise, it will do so knowing that it may make a technical recession inevitable.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-1.12%	-1.80%	0.68%
	Risk 3	-2.12%	-1.80%	-0.32%
20-60% Shares	Risk 4	-2.14%	-1.63%	-0.51%
	Risk 5	-2.08%	-1.63%	-0.45%
	Risk 6	-2.06%	-1.63%	-0.43%
40-85% Shares	Risk 7	-2.04%	-1.85%	-0.19%
	Risk 8	-2.26%	-1.85%	-0.41%
Global	Risk 9	-2.40%	-3.19%	0.79%

During April, Portfolios 2 and 9 outperformed their respective sectors with all other Portfolios underperforming. This is due to FACET taking a recovery approach and looking for increased upside when the markets become more favourable. We believe our asset allocation will continue to provide a strong performance over the medium to long term and it is only due to current short term volatility that the majority of portfolios are temporarily underperforming.

Information in this report is at the last valuation point on 30th April 2022 (except where indicated).
*source: Trustnet