Client Portfolio Monthly Update – June 2022

It was another difficult month for global stock and bond markets as the persistent rise in inflation threatened to derail global economies by throwing them into recession. Central banks, led by the US Federal Reserve, voiced a strong determination to combat inflation with interest rate hikes but were notably reluctant to back up the rhetoric with action. The Fed hiked rates by 0.75% to 1.75%; a bigger rise than the market was expecting. In contrast, the Bank of England followed suit with just a 0.25% rise which attracted criticism for being well behind the hawkish language used by the Bank since last November. The European Central Bank and Bank of Japan both chose to keep interest rates unchanged. The resulting US dollar strength against all major currencies fuelled higher inflationary expectations for the UK and eurozone. Sterling was a notable loser against the US dollar, falling 7.5% to $1.21 in just a month. However, as has become a familiar pattern this year, Sterling weakness, which is notionally good for UK exporters, gave some relative support to the main UK stock index heavy with energy, mining and global banking. UK stocks still fell 5.7% in June but compared favourably with the US stock market which fell 8.4%. Growth stocks led the falls, losing on average 20%, versus value stocks which lost half that. Overall, the fall took US stocks back to where they were in February last year. It also took valuations back down to historical averages and some bargain hunting was evident towards month end which stabilised markets a little. The inexorable rise in the price of Brent crude oil peaked at $124 per barrel in early June as economists dialled down their GDP forecasts. It ended the month at $116. Other economic indicators, such as consumer confidence, inevitably deteriorated in the face of the rising cost of living across the developed world. However, market attention is not currently drawn by headline economic statistics which, on the whole, are broadly stable – particularly employment and wages. As we enter the second half of the year, investors focus will be on the run up to the third quarter earnings season starting in early October. As a barometer of economic health of the US economy over the summer months, it is by far the most important earnings season in any year, but especially this year. Over the past 25 years, the US economy has repeatedly proved to be incredibly robust in its ability to weather turmoil and in its ability to recover. Investors will be conscious that companies have, for some time, been very cautious in their profit forecasts. Few are ready to call the bottom of the current downturn but there is a palpable sense that the bigger risk is to be out of markets altogether.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-2.36%	-3.51%	1.15%
	Risk 3	-4.25%	-3.51%	-0.74%
20-60% Shares	Risk 4	-5.18%	-3.86%	-1.32%
	Risk 5	-5.20%	-3.86%	-1.34%
	Risk 6	-4.85%	-3.86%	-0.99%
40-85% Shares	Risk 7	-5.35%	-4.06%	-1.29%
	Risk 8	-4.28%	-4.06%	-0.22%
Global	Risk 9	-3.79%	-5.01%	1.22%

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

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