Client Portfolio Monthly Update – May 2022

May was a choppy month for global stock markets. Inflation continued to be the primary concern with the UK reporting a 9% annualised inflation rate. The USA was not far behind with a rate of 8.3%. Expectations that central banks would raise rates in the coming months acted as a drag on both stock and bond markets. The hawkishness of the US Federal reserve did dissipate somewhat as the month went on as evidence emerged that economic growth, as measured by GDP, is starting to be impacted by monetary tightening. As a result, the US dollar, which has been strengthening against all major currencies year-to-date, stabilised – albeit at still strong levels. Conversely, the weak Yen was generally supportive of the exporter-heavy Japanese stock market which rose 0.8%, making it the best performing of the major indexes for the month of May. UK stocks were not far behind, rising 0.7%, as the continued inflationary rise in energy and commodities favoured companies that make up proportionally more of the UK economy than its international peers. The Bank of England raised the base rate of interest to 1% and the bond market priced in a further rise at the next meeting in June. Concern that another rise so soon would impact GDP growth was evident, but this balancing act was acknowledged last month when the Bank of England Governor, Andrew Bailey, said that “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”. A series of planned strikes throughout the UK in June underlines the reality that although unemployment continues to fall (indeed, to the lowest level in nearly 50 years), wages are nowhere near the inflation rate which is expected to reach double digits before the end of summer. The inflationary spike, compounded by the ongoing Covid lockdown in China and the supply side shock from the war in Ukraine, means that almost all economies are being impacted globally. However, there is an emerging divergence between the major central banks in their willingness to raise interest rates. All eyes are, for now, on the US Federal Reserve, from which the Bank of England may begrudgingly have to take its lead. The European Central Bank faces a more complicated balancing act as it seeks to balance very different needs across the eurozone and is noticeably working on a longer, more cautious, timeline. The possibility of policy error is obvious. A misreading of consumer sentiment in areas such as retail and tourism, over the summer months, could necessitate a reversal of policy. If the outlook looks more like stagflation, it will be hard for investors to reconcile that with stock markets not very far from their current post-Covid highs.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-0.83%	-0.70%	-0.13%
	Risk 3	-1.28%	-0.70%	-0.58%
20-60% Shares	Risk 4	-1.53%	-0.50%	-1.03%
	Risk 5	-1.64%	-0.50%	-1.14%
	Risk 6	-1.37%	-0.50%	-0.87%
40-85% Shares	Risk 7	-1.42%	-0.86%	-0.56%
	Risk 8	-0.86%	-0.86%	0.00%
Global	Risk 9	-0.57%	-1.53%	0.96%

During May, Portfolio 9 outperformed its respective sector with Portfolio 8 keeping pace and 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 31st May 2022 (except where indicated).
*source: Trustnet