FACET

Client Portfolio Monthly Update – August 2022

The global stock market rally that started in June, came to an abrupt end in August in response to rising interest rates, rising inflation and the threat of recession. Following the Federal Reserve's hike of 0.75%, bringing the base rate up to 2.5%, there was no meeting in August and, ahead of the Jackson Hole meeting of central bankers at the end of the month, markets had little forward guidance to go on. The Bank of England continued their cautious approach, following the Fed's hike with just a half-point rise to 1.75%. This was not well received given that UK inflation hit a 40-year high in July of 10.1%. There emerged a feeling that central banks have given up trying to give reliable guidance in the face of steeply rising inflation and have retreated to a data dependent meeting-by-meeting approach. Furthermore, the decision not to follow the Fed's move added to the yawning gap between base rates which, in turn, attracted investors to a stronger and stronger US dollar at the expense of Sterling which fell 3.8% to $1.17. Other major currencies fared a similar fate with the Euro lagging the US dollar by 2% and the Yen 4.5% - a 24-year low. The acceleration in the rise of interest rates also sparked concern for consumer confidence on both sides of the Atlantic and fears that a cost of living crisis could lead to a recession. Global stock markets responded to the deteriorating outlook with US stocks falling 4.25%. As seen throughout this year, UK stocks held up relatively better due to a weaker Sterling helping the export-heavy index, which fell just 1.87%. National and international geopolitics added to uncertainty in markets. The UK government remained in limbo awaiting a final vote between Rishi Sunak and Liz Truss for the next prime minister. Without knowing the taxation policies a new leader will take, it was perhaps understandable that the Bank of England took a wait-and-see stance. The polling for the September election in Italy took a lurch to the right with a relatively unknown candidate, Georgia Meloni, emerging as the favourite to lead a new euro-sceptic coalition, to the general dismay of the leaders of the European Union. However, the main concern in Europe remained the prospect of Russia cutting off gas supplies to Germany. Despite this, the global price of Brent crude fell 5.7% to $95.64 per barrel; the fall being largely attributable to the likelihood of a drop in economic activity in the developed world feeding through to lower GDP. Looking ahead, September could prove to be a pivotal month as the "base effect" could mark the point where year-on-year inflation figures begin to fall. If that leads to just an easing of future interest rate hike expectations, it will be a welcome relief to volatile markets.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	1.46%	2.03%	-0.57%
	Risk 3	2.76%	2.03%	0.73%
20-60% Shares	Risk 4	3.04%	1.97%	1.07%
	Risk 5	2.88%	1.97%	0.91%
	Risk 6	2.34%	1.97%	0.37%
40-85% Shares	Risk 7	1.89%	2.56%	-0.67%
	Risk 8	0.71%	2.56%	-1.85%
Global	Risk 9	-0.04%	5.70%	-5.74%
	Risk 10	-1.48%	5.70%	-7.18%

During July, Portfolios 3, 4, 5 and 6 outperformed their respective sectors with the other 5 Portfolios underperforming. FACET believes taking a recovery approach is correct and with the increased performance in July, we believe the markets become more favourable. We believe our asset allocation will continue to provide a strong performance over the medium to longer term.

Information in this report is at the last valuation point on 31st August 2022 (except where indicated).
*source: Trustnet