Client Portfolio Monthly Update – September 2022

Global stock markets woke up to the reality that the Federal Reserve was not for turning in its determination to keep raising interest rates in its battle against inflation. Their 0.75% hike took the US base rate up to 3.25% which impacted both stock and bond markets. The US index fell nearly 10% over the month although UK stocks held up better, falling just 5%. The relative strength of the UK stock market owed much to the direction of Sterling which fell 5 cents against the US dollar, ending the month at $1.11. As has become a familiar pattern, the UK stock market index is laden with export-heavy companies with around 75% of their sales in international, and mostly US dollar denominated, markets. This means that Sterling weakness, although unwelcome in the Bank of England's own battle against inflation, is supportive of the profits of the UK's largest companies. It came as somewhat of a surprise, therefore, that the Bank of England followed the Federal Reserve with a modest hike to base rates of just 0.5%. Perhaps the BofE was hoping for a statistical year-on-year base effect for the annual inflation figure to start falling; after all, it was this time last year when inflation first started to rise. Unfortunately, their caution meant that the interest rate differential between the US dollar and Sterling yawned even larger at a time when the US dollar was strengthening against all major currencies. Even the 0.75% interest rate hike by the European Central Bank, didn't stop the euro weakening by a couple of cents from parity to 0.98. The consequent Sterling weakness also contributed to the 9.9% inflation figure for September which is also driving higher wage demands. The UK unemployment rate, at 3.6% in July is the lowest since 1974, and indicative of a very tight labour market. Wage data showed a rise of over 5% for non-government employees. This combination of embedded inflation, weak Sterling and wage demands presented a difficult challenge to the UK Chancellor of the Exchequer, Kwasi Kwarteng under the new premiership of Liz Truss. However, there is a sense that the global headwinds of inflation, energy price rises and geopolitical tensions are now fully priced into stock and bond markets. The policy response of central banks is now fully focused on stemming inflation into Q4. If successful, and barring any new setbacks, it is possible that long-term investors may be justified in seeking opportunities in oversold assets at the end of what has been a very challenging quarter.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-2.50%	-4.12%	1.62%
	Risk 3	-4.26%	-4.12%	-0.14%
20-60% Shares	Risk 4	-5.03%	-4.48%	-0.55%
	Risk 5	-5.32%	-4.48%	-0.84%
	Risk 6	-5.51%	-4.48%	-1.03%
40-85% Shares	Risk 7	-5.73%	-4.88%	-0.85%
	Risk 8	-6.16%	-4.88%	-1.28%
Global	Risk 9	-6.38%	-5.34%	-1.04%
	Risk 10	-6.39%	-5.34%	-1.05%

During September, only Portfolio 2 outperformed its respective sector with the other Portfolios underperforming. FACET believes their current strategy is correct and with the increase in inflation and volatile performance in September, we believe the markets become more uncertain. 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 30th September 2022 (except where indicated).
*source: Trustnet