Client Portfolio Monthly Update – October 2022

Stock markets regained some composure in the US, UK and Europe in October despite a mixed bag of economic data and rising interest rates. In the USA, the unemployment rate fell further to a record low of 3.5%, giving the Democrats a boost ahead of the mid-term elections next month. However, housing starts fell again as two three-quarter percent rises in interest rates took their toll on the whole housing sector. The stronger employment data gave the Federal Reserve the confidence it needed to raise interest rates to 3.25% in its fight against inflation which was 8.2% year-on-year in September. Back in the UK, the focus of investors was the turmoil in UK government bonds in the wake of the Chancellor of the Exchequer's Kwasi Kwarteng's mini-budget. The aggressive pro-growth, tax cutting agenda was met with a sell off in UK government bonds (Gilts) which threated to turn into a self-fulfilling price drop as institutions became forced sellers to cover margin calls. The Bank of England was forced to intervene and committed to a temporary fortnight-long program of buying long-dated Gilts. It was a confusing and embarrassing time for the new chancellor and his 5-week tenure in office ended on 14th October followed by the appointment of Jeremy Hunt who reversed much of the previous budget and an assurance of a less radical approach next month. Rishi Sunak took up the post of Prime Minister on 25th October and the combination Sunak and Hunt with new plans for the budget restored some confidence to both stock and bond markets and helped Sterling regain 3 cents against the US dollar to end the month at $1.14. Against the DXY basket of major currencies, the US dollar remained pretty much unchanged although still around 15% stronger year-to-date. US stocks enjoyed a strong month, rising around 8%, whilst UK stocks rose only 3%, held back, in part, to the renewed Sterling strength and the index being heavily weighted with exporters which tend to hold up well when Sterling weakens. The European Central Bank (ECB) followed the Federal Reserve with its own 0.75% hike in interest rates. However, this was in spite of economic data being significantly worse than in the USA. October eurozone PMI data flagged recession with both manufacturing and services both in retreat. Eurozone inflation was also worse, coming in at 10.7% year-on-year. Germany announced a huge fiscal package of support amounting to EUR 200 billion, much to the consternation of other EU members who had already announced a package of EUR 40 billion to help businesses and households facing significantly higher costs for energy this winter. Energy remains the primary threat to the economies of the UK and Europe although, as we saw in September, it doesn't take much of an increase in supply to see the price of a barrel of Brent oil fall to $82, down from $120 earlier this year.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	0.86%	0.59%	0.27%
	Risk 3	1.10%	0.59%	0.51%
20-60% Shares	Risk 4	1.06%	0.60%	0.46%
	Risk 5	0.68%	0.60%	0.08%
	Risk 6	-0.55%	0.60%	-1.15%
40-85% Shares	Risk 7	-1.00%	0.53%	-1.53%
	Risk 8	-3.48%	0.53%	-4.01%
Global	Risk 9	-5.11%	1.84%	-6.95%
	Risk 10	-7.22%	1.84%	-9.06%

During October, only Portfolio 2, 3, 4 and 5 outperformed their respective sectors with the other Portfolios underperforming, this has been an improvement on recent months. FACET believes their current strategy is correct and with the continued volatile performance in October, we believe the markets become more uncertain. Despite the recommended asset allocation now being more conservative, we believe our current 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 October 2022 (except where indicated).
*source: Trustnet