FACET

Client Portfolio Monthly Update – December 2022

After four consecutive interest rate hikes of 0.75%, the Federal Reserve lifted rates by just 0.5% in December to 4.5%. This came as US core inflation surprised markets with a year-on-year rise of 6% on the back of a lower-than-expected rise of just 0.2%. The US dollar fell slightly by 0.35% against Sterling but fell more against the DXY basket of currencies by 2.3%. However, Federal Reserve Chairman, Jerome Powell, maintained a hawkish tone, sending the message that stemming inflation remained their main objective. US 10-year yields moved higher into year-end to finish the month at 3.83% although the longer-term trend is still downwards and well off the high of over 4.25% back in October. The Bank of England followed the Federal Reserve with its own hike, raising the UK base rate by 0.5% to a 14-year high of 3.5%. Throughout the year, The Bank of England has found it difficult to raise rates as far and as fast as the Fed, conscious that UK household mortgages are impacted more immediately than US mortgages where-25 year fixed-rate mortgages are the norm. On the flip-side, other fundamental differences between the US and UK showed up in the annual performance of their respective stock markets. The UK index, more heavily weighted to energy and financials rose 1% compared to the US stock market which fell 20%. The poor performance of the US index was due mostly to the fall in the price of the huge growth/tech companies which fell out of favour exactly a year ago when central banks first started raising rates. Notable contributors to the fall in the US index were Apple, Amazon and Tesla which fell 27%, 50% and 65% respectively over the year. It has been a challenging year for investors having to navigate a combination of aggressive rate hikes, persistent inflation and, of course, the war in Ukraine, amid other geopolitical tensions. Whilst these issues have still not run their course, they are all at least better understood and more or less factored into the asset prices in stocks, bonds, commodities and property. As we start a new year, it is evident that the primary concern for investors has turned to the prospect of a recession, firstly in the USA but also UK and Europe. However, as we have seen in previous cycles, what is bad for consumers can be good for markets. A sharp downturn in the USA would almost certainly be met with swift and decisive action from the Federal Reserve and that action alone could act as a rising tide that lifts all boats.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-1.23%	-1.48%	0.25%
	Risk 3	-2.01%	-1.48%	-0.53%
20-60% Shares	Risk 4	-2.16%	-1.38%	-0.78%
	Risk 5	-2.04%	-1.38%	-0.66%
	Risk 6	-1.70%	-1.38%	-0.32%
40-85% Shares	Risk 7	-1.62%	-1.85%	0.23%
	Risk 8	-1.44%	-1.85%	0.41%
Global	Risk 9	-1.07%	-2.59%	1.52%
	Risk 10	-0.76%	-2.59%	1.83%

During December, Portfolios 2 and 7 through to 10 outperformed their respective sectors with the other four Portfolios underperforming, this performance has been a little disappointing as it was hoped the global markets had turned a corner. FACET believes their current strategy is correct and with the anticipated positive growth in January, we believe the markets may provide further growth into January. We continue to believe our asset allocation will provide a strong performance over the medium to longer term.

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

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