Client Portfolio Monthly Update – February 2023

There was a sharp rise in US bond yields in February which undid the January falls and returned the benchmark 10-year yield to over 4%, a level not seen since November. The Federal Reserve did raise interest rates by 0.25% at the beginning of the month to 4.75% but this was very much in line with expectations and investors were more focussed on the statements from Fed Chairman Jerome Powell who maintained his hawkish warning that the battle against inflation is far from over. US January inflation came in at 6.4%. This was slightly higher than expected but still a far cry from the peak of 9.1% last June. Nevertheless, the shift in markets reflected a mood of caution having descended after the euphoria of January. The US stock market index fell 2.4% as the US dollar strengthened against other major currencies. The defensive qualities of the UK stock market were again evident posting a monthly rise of 1.5%. Shares in UK banks and energy stocks were notable risers. European stocks also held up well, up 1.3% in February. The huge shift into European assets in January continued into February, supported by relatively lower valuations compared to the US – although this has been true for some time. The messaging from both the Bank of England and the European Central Bank have been no less hawkish than the Federal Reserve. But both central banks are lagging in their rate rises and both are still battling much higher inflation rates of 10% and 10.1% respectively. The Bank of England raised rates by 0.5% to 4% early in the month. The reversal of the January market moves inevitably impacted emerging markets where the benchmark index fell 6.5%. Nevertheless, it is now evident that the re-opening of the Chinese economy from its Covid lockdown has gone far better than initially expected. The way in which stocks and bonds have tended to follow the various communications of central banks is indicative of a market that has become data dependent and more short-term in its strategic thinking. This is to be expected at a time when investors will not have much insight into corporate profits until the third-quarter earnings season in October, which is a long way off. Company CEOs are even more cautious than normal in their forward sales and profit guidance when there is still the geo-political uncertainty surrounding Ukraine and elsewhere. In addition, the jury is still out on the health and wealth of the consumer and household finances. Jobs and wage data in the US and UK are encouraging but how or when consumers will choose to spend their money when the cost of living has risen so much is hard to gauge. The markets may well be unusually data-dependent in the months ahead.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-0.71%	-1.35%	0.64%
	Risk 3	-1.31%	-1.35%	0.04%
20-60% Shares	Risk 4	-1.08%	-1.03%	-0.05%
	Risk 5	-0.73%	-1.03%	0.30%
	Risk 6	-1.09%	-1.03%	-0.06%
40-85% Shares	Risk 7	-0.92%	-0.53%	-0.39%
	Risk 8	-2.56%	-0.53%	-2.03%
Global	Risk 9	-3.21%	-0.07%	-3.14%
	Risk 10	-4.49%	-0.07%	-4.42%

During February, only Portfolios 2, 3 and 5 outperformed its sector with all other portfolios underperforming, this performance has been a little disappointing, but we are not discouraged as we believe the anticipated growth will still enter the global markets. FACET believes their current strategy is correct we believe the markets may provide growth into March. 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 28th February 2023 (except where indicated).
*source: Trustnet

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