Client Passive Portfolio Monthly Update – May 2023

Mega-tech stocks helped drive the US stock market to a 2.5% gain in May, back up to the highs seen last August. Apple shares were a notable performer, up 4.8% and the US semiconductor sector lent support to the main index. As we have seen in past months against this kind of sector rotation, the UK index failed to keep pace, dragged lower by energy heavyweights like Shell and BP which fell 6.9% and 15.1% respectively. The price of Brent crude oil fell 9% in May to just $73.22 per barrel. This compares to more than $117 per barrel a year ago and is one of the main contributing factors to the fall in US inflation measured on a year-year basis which, at 5%, is nearly half what it was a year ago. Indeed, investors in the US have switched their attention to the state of the US economy and how it is faring in the face of higher interest rates. The service side of the US economy appears to be holding up fairly well but manufacturing is showing signs of stress. This was also evident in the May manufacturing data for the UK and eurozone where the Purchasing Managers Surveys indicated continued contraction. This presents a problem for the Bank of England and European Central Banks. Whereas the Federal Reserve could credibly call a halt to further rate rises, both the UK and Eurozone still have much to do in their battle against inflation, running at 8.7% and 8.3% respectively. This differential in circumstances and the forecasts for future interest rates has contributed to continued strength in Sterling against the US dollar and, although virtually unchanged in May at $1.24, is a significant recovery from near-parity last September. May can be a troublesome month for a number of seasonal and geopolitical reasons, particularly when there is still a long way to go to the third-quarter US earnings season – the most important quarter of the year. It is a time when markets are more data dependent than usual and sensitive to factors that may indicate a challenging summer for the consumer. But this year has not been a classic "sell in May and go away" – far from it. The stability of stock markets measured by the Chicago Board of Trade volatility index shows that markets have not been this calm since before the Covid pandemic. The fall in the US headline inflation rate has taken significant pressure off the Federal Reserve to raise interest rates further. And in doing so, has perhaps given investors the reassurance they need to stick with the optimistic outlook for company profits in the months ahead.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-0.97%	-1.13%	0.16%
	Risk 3	-1.34%	-1.13%	-0.21%
20-60% Shares	Risk 4	-1.36%	-1.01%	-0.35%
	Risk 5	-1.14%	-1.01%	-0.13%
	Risk 6	-0.87%	-1.01%	0.14%
40-85% Shares	Risk 7	-1.31%	-0.71%	-0.60%
	Risk 8	-1.33%	-0.71%	-0.62%
Global	Risk 9	-0.95%	0.29%	-1.24%
	Risk 10	-0.69%	0.29%	-0.98%

During May, only Portfolios 2 and 6 outperformed their respective sectors with all other portfolios underperforming, this performance has been disappointing. We still believe the anticipated growth will continue to enter the global markets. FACET continues to believe their current strategy is well placed to provide continuing growth throughout June. 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 May 2023 (except where indicated).
*source: Trustnet