Client Managed Portfolio Monthly Update – August 2023

The almost uninterrupted rally in the US stock market, which began in March, came to an abrupt halt as investors took profits during the quietest of the summer months in August. Headlines tried to pin the reason for the sell-off on the continuing deterioration in the Chinese economy; in particular the real estate market. However, such concerns are nothing new and markets ultimately took their lead from a raft of positive US economic data showing a healthy jobs market, falling unemployment, a pick-up in consumer confidence and retail activity. Even a downgrade of US government debt by the ratings agency, Fitch, failed to dent a rally into the last day of August. Indeed, US 10-year bond yields, which under normal circumstances rise in reaction to such a downgrade, fell to end the month at 4.09%. The central bankers' summit at Jackson Hole in the US was reassuringly bland with Federal Reserve Chairman Jerome Powell indicating that the fall in inflation justified no further hikes in base rates for now. The slight pick up in annualised US inflation, from 3.0% in June to 3.2% in July was dismissed as a base effect from the previous year.

The UK and Europe still have much to do in their battles against persistently high inflation. The Bank of England raised interest rates again at their MPC meeting in early August – a rise of 0.25% to 5.25%. UK inflation fell in July to 6.8%, in line with market expectations but still more than double that of the USA, leaving the Bank of England little option but to signal to markets that further interest rate hikes are likely.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	0.07%	-0.57%	0.64%
	Risk 3	-0.39%	-0.57%	0.18%
20-60% Shares	Risk 4	-0.77%	-0.95%	0.18%
	Risk 5	-1.04%	-0.95%	-0.09%
	Risk 6	-1.37%	-0.95%	-0.42%
40-85% Shares	Risk 7	-1.55%	-1.25%	-0.30%
	Risk 8	-2.07%	-1.25%	-0.82%
Global	Risk 9	-2.31%	-1.62%	-0.69%
	Risk 10	-2.59%	-1.62%	-0.97%

Despite the yawning gap in the inflation figures either side of the Atlantic, the US dollar continued its strong rally from the lows in July – gaining 1.7% against the basket of international currencies. This may have been a contributing factor to the larger fall in UK stocks versus their US peers, falling 3.37% in August – financial and mining stocks led the fall. However, the stronger US dollar had much more of an impact on emerging markets stocks where the benchmark index fell over 6% for the month. With the all-important US corporate earnings season around the corner, markets have come through the summer in optimistic mood, based mostly on the view that the USA will lead the developed world into economic recovery, following the inflation and interest rate shock of the last 18 months. Households and consumers have undeniably been put under considerable pressure through the rise in the cost of living. We will find out in October just how much corporations have managed to mitigate in their efforts to preserve their profits for shareholders.

Throughout August, only Portfolios 2, 3 and 4 outperformed their respective sectors, this follows a restructuring of all portfolios where the underperforming funds have bene replaced by funds we believe will provide improved returns in the future. FACET continues to believe their current strategy is well placed to take advantage of anticipated growth throughout September. 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 August 2023 (except where indicated).
*source: Trustnet