Market Update 2022 Q4

What's Been Happening?

Looking back & market Summary

Another tough quarter, with August seeing the major stock market indices in the UK, US, and Europe all falling by:

- FTSE: -3.85
- FTSE All share: -4.75
- S&P: -7.36
- Nasdaq: -9.69

Year to date, these markets have performed as follows:

- FTSE: -6.07
- FTSE All share: -6.67
- S&P: -24.28
- Nasdaq: -32.77

More detail is included at the end of this report, however it is important to stress that your portfolio does not buy markets or indexes. This applies to both the Equity and Bond markets. You are invested in companies and other specialist assets that include investment companies, alternative investments, and markets. All of these are negatively correlated to investment markets to provide additional expertise and diversification to reduce risk.
Some of the strategies available are able to deploy specialist protection and hedging strategies, which actively insures your portfolio against elements of equity risk.

Backdrop & the USA

- Yet another quarter dominated by inflationary pressures.
- In general, most financial markets around the world had a tough August.
- Both company shares and bonds fell again following a rise in July.
- The primary driver of performance were the minutes from the US Federal Reserve's July meeting, and the hawkish comments from US Federal Reserve Chair, Jerome Powell, at the annual Jackson Hole economic symposium.
- Jackson Hoe is where central bankers, policymakers, and economists from around the world gather to discuss the challenges ahead for the global economy.
- This year, these policy makers affirmed their commitment to raising interest rates and, therefore, their commitment and willingness to potentially tip the world's largest economy into recession in order to combat inflation.
- When the USA sneezes, we all catch a cold.
- Rate rises means tighter monetary policy, removing liquidity from the system and increasing borrowing costs.
- Thus, policy making is impacting economic growth, with growth equities and fixed income under the most pressure.

In the UK

- In the UK, the Bank of England (BofE) monetary policy met at the start of the start of August.
- This resulted in an interest rates increase of 0.50%.
- This was the first time in 27 years the UK has had such a large increase.
- The BoFE predicted that inflation will peak at just over 13% in October.
- They predicted this will be driven largely by the impact of rising natural gas prices.
- The Office of Gas and Electricity Markets (Ofgem) announced an 80% increase in the household energy price cap from October.
- This has led to expectations of further support from the government to help consumers during the current cost of living crisis.
- The dollar's rise against sterling resulted in the month ending with sterling at near historic lows.
- Sterling was at its lowest since the aftermath of the Brexit vote.
- Thanks to the drop in sterling, US companies posted positive returns in sterling.
- Serious concerns for the UK economy persist.
- The BofE projected that the UK will enter into the UK's longest recession since the global financial crisis from the fourth quarter of 2022.

Rest of the world

- The European Central Bank (ECB) is expected to continue to tighten monetary policy by increasing interest rates.
- Soaring gas prices on inflation has led to European energy ministers contemplating an emergency meeting to discuss further measures.
- This includes a potential EU-wide price limit to try to curb the energy crisis that threatens to tip the region into a recession with winter approaching.
- The initial catalyst of unreliable supplies from Russia was exacerbated by droughts, driving weak hydroelectric power production and recent outages, causing delays.

Looking ahead, what can I expect?

- Volatility is likely to remain high in global financial markets.
- The focus continues to be on the future path of monetary policy, as central banks continue to increase interest rates to combat inflation.

The question is; how far do they go, and what will be the implications on growth?
Is there any good news?

By now, most commentators are in agreement that the investment landscape is fundamentally different to that which we enjoyed for well over a decade. Change is normal:
"When facts change, I change; what do you do, Sir?" – John Maynard Keynes (1883-1946).

1920s Boom

1930s Depression

1940s Conflict

1950s Recovery

1960s Boom & Monetary Bust

1970s Low Growth & High Inflation

1980s High Growth & Falling Inflation

1990s Bust to Boom To Bust

2000s Boom & Bubble Burst

2010s Slow Growth, Low Inflation & QE

2020s Volatility, High Inflation & QT?

There is a stronger case now than there has been since 2008 for more active management, following an extended period of successful investments in lower cost, passive vehicles. The same could be said for highly concentrated portfolios that are growth biased, which have also enjoyed very favourable market conditions. Active investments that are diversified with a more agnostic investment style have been performing well, relatively speaking, and it is hard to argue that this won't continue to be the case moving forward.

So what does this all mean for investors?

Simply put, if inflation is structural, investors will need to take a different approach to investing - particularly those close to or post-retirement. At present, most investors, even those post retirement, are given a total return portfolio. The idea being that capital gains can be booked to provide cash income in retirement. There are two increasingly obvious problems with this approach.
Firstly, in a higher inflation environment, growth as a strategy typically underperforms value and real assets. This exacerbates the problem with drawdown as a strategy post retirement. In drawdown, investors who want a fixed monthly income must sell more units when markets are weak, and less when they are high. This is the reverse of pound cost averaging, and is a very damaging strategy. This becomes even more true as markets become more volatile.
The second problem is that in a higher inflation, clients will need to draw an increasing level of income from their portfolios. Again, it is becoming increasingly obvious that trying to do this in weak and volatile markets is a poor strategy.
The language around inflation has changed too. In late 2021 and early 2022, the word 'transitory' was bounded around hinting it will be short lived. We now know this is going to be a longer term issue for a number of reasons - most notably supply issues. There is a trend among established economies of de-globalisation, which will move production of goods from low cost labour areas to high cost areas, which is another inflationary pressure. Consideration must be taken to protect against ingrained inflation when constructing investment portfolios.

Any good news for investors?

With rising volatility, opportunities present themselves for the active manager. Inefficiencies that can be identified following sell-offs can be capitalised on by a good, experienced fund manager, backed by a highly affective analyst team. We also expect the Bond market to eventually show some pockets of opportunity as yields begin to spread. However, concerns remain over defaults and re-financing, particularly in the higher yield sector.

Market Data (as of October 1st 2022)

Global Equities (£ return)	Month	YTD	1 year
MSCI All Country World Index	-3.70%	-4.30%	0.50%
MSCI Developed Market Index	-2.50%	-4.10%	1.60%
MSCI Emerging Market Index	-0.90%	-6.60%	-7.60%
MSCI Growth Index	-3.30%	-13.00%	-9.70%
MSCI Value Index	-1.30%	4.40%	10.90%
Key Markets (£ return)			
FTSE 100	-1.50%	0.90%	6.70%
FTSE 250	-7.30%	-18.30%	-18.40%
S&P (USA)	-4.50%	-2.40%	6.30%
Nasdaq Composite (USA)	-7.30%	-12.60%	-8.10%
Euro Stoxx 50 (Europe ex UK)	-4.00%	-12.40%	-10.60%
Euro Stoxx 600 (Europe)	-3.70%	-3.70%	-10.10%
TOPIX (Japan)	-2.50%	-12.40%	-10.60%
Hang Seng (Hong Kong)	0.90%	-2.40%	-5.70%
CSI 300 China (China)	-2.90%	-12.30%	-6.60%
S&P/ ASX 200 (Austrailia)	-1.70%	4.20%	6.50%
IBOV (Brasil)	-0.60%	29.70%	15.50%
SESSEX (India)	4.20%	13.40%	12.50%
Sector Movements (TR GICS, £, MSCI)			
Financials	-0.60%	2.50%	6.90%
Energy	6.30%	45.60%	61.00%
Health Care	-0.20%	3.70%	9.10%
Consumer Staples	-1.60%	5.60%	13.30%
Utilities	0.40%	1630.00%	24.90%
Consumer Discretionary ,	-3.50%	-10.10%	-5.90%
MSCI All Country World Index	-3.70%	-4.30%	0.50%
Real Estate	-4.10%	-5.50%	1.40%
Industrials	-5.30%	-5.20%	-2.20%
Materials	-3.70%	-3.90%	-0.20%
IT	-9.30%	-16.00%	-8.90%
Communications	-7.00%	-18.60%	-21.90%