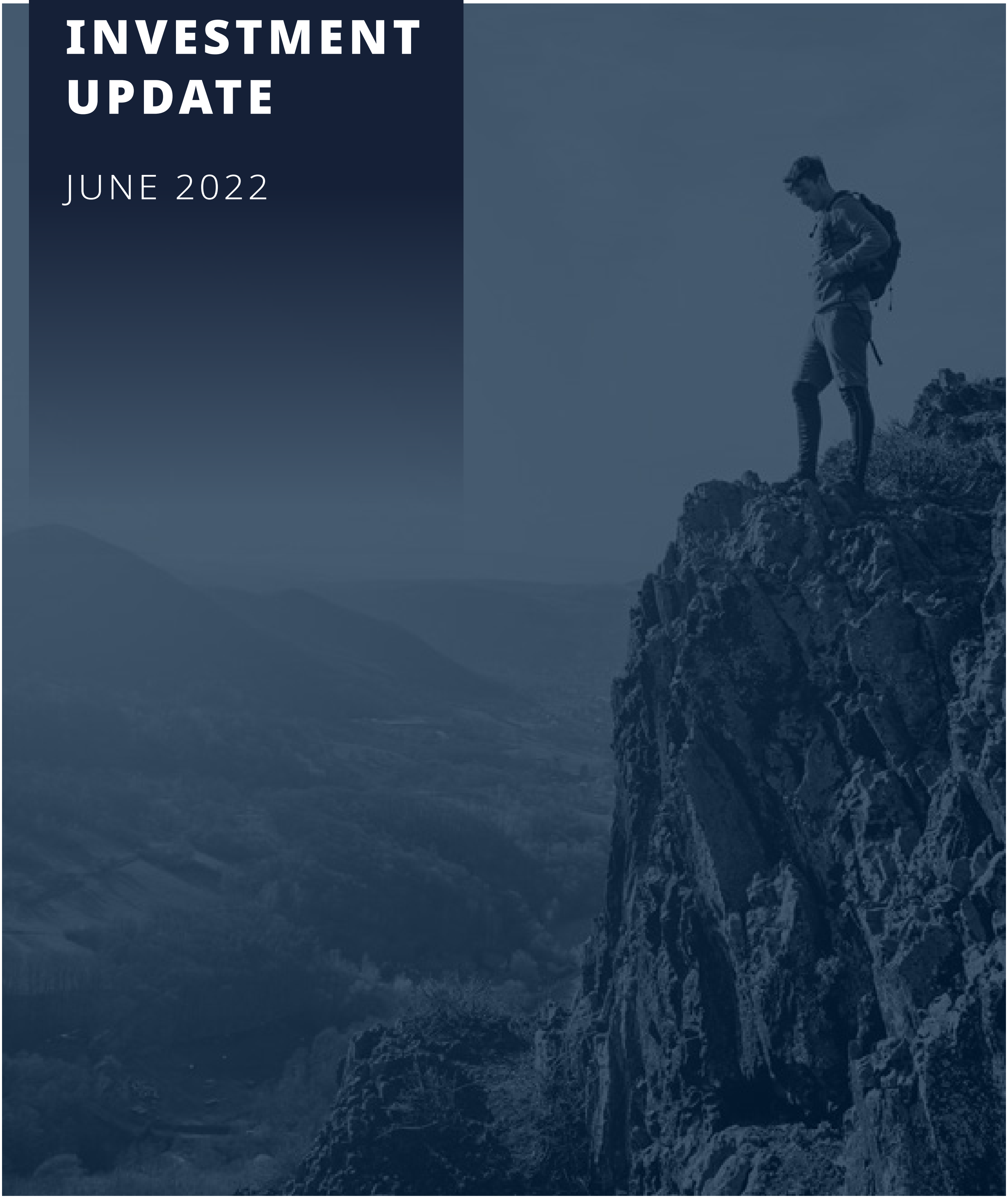
INVESTMENT UPDATE

JUNE 2022



SCOTT FYFFE WEALTH MANAGEMENT

WWW.SCOTTFYFFEWM.CO.UK

INFO@SCOTTFYFFEWM.CO.UK

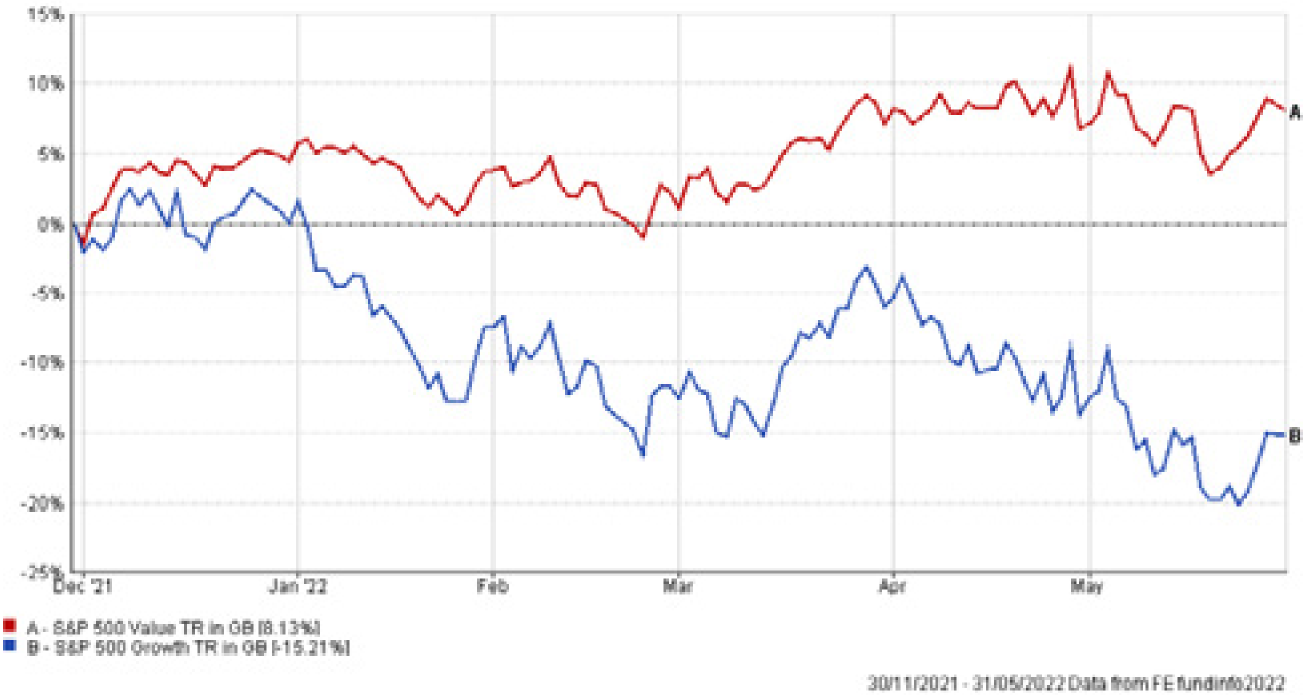
Scott Fyffe
WEALTH MANAGEMENT

Rockhold Asset Management Investment Update – June 22

Index	Level 2 May	Level 31 May	Change
S&P 500	4130	4132	+ 0.05%
FTSE 100	7544	7606	+ 0.82%
Euro Stoxx 600	443	443	Unch.
Shanghai	3047	3186	+4.6%

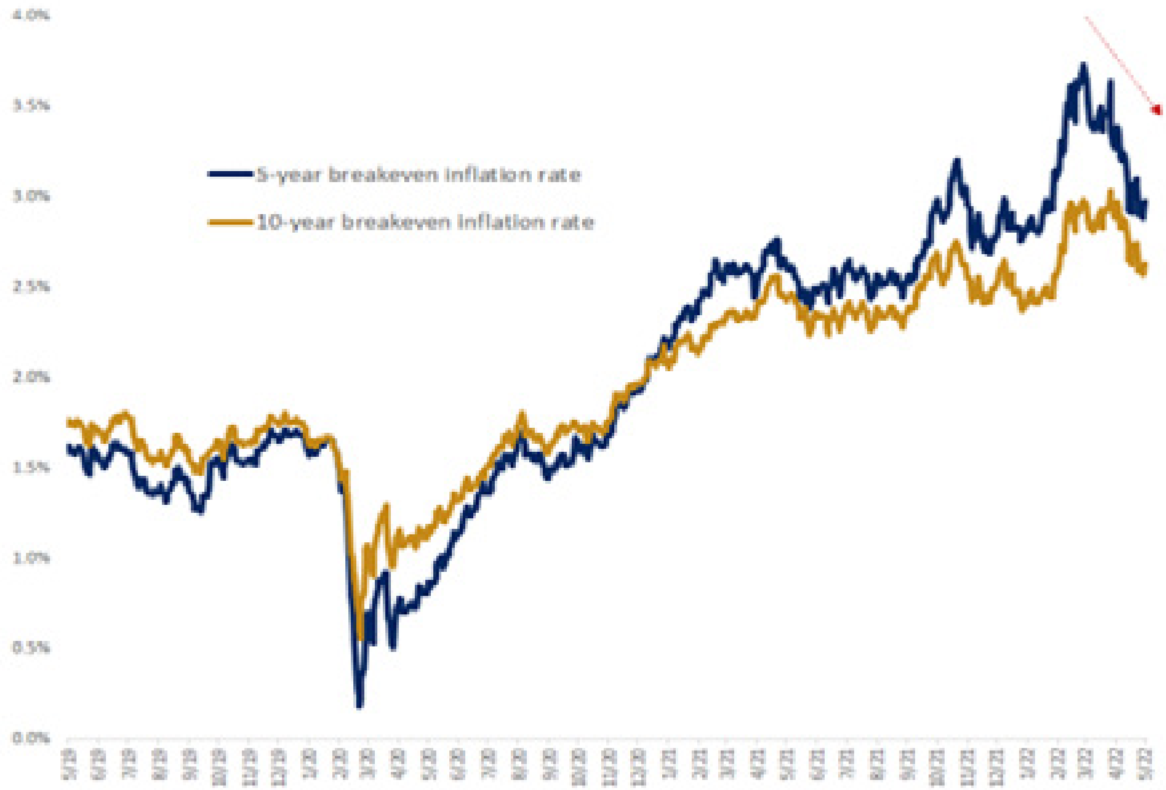
If one were to look at only the start and end of month data in the table above then, barring China, you might come to the conclusion that for equity markets May was a quiet month. However, these figures belie the truth. In fact, the month witnessed some extreme moves for these markets from the highs to lows and back again. The unchanged Euro Stoxx 600 fell nearly 6 percent from its starting value and the S&P 500 nearly 5%. The latter flirted briefly with the index attaining bear market status, although the tech laden NASDAQ was already firmly in that category.

The reasons for these swings were varied and we have often reported on some of them: inflation, exacerbated by the conflict in Ukraine and China's lockdown, and central bank language over how they were going to handle these multi-decade inflation highs. However, during May, volatility was also sparked by some negative news on company earnings. Most notably, we saw surprises on this front from major US retailers such as Walmart. Such stocks were previously regarded as relative havens during an inflationary environment, so negative news on this front saw large falls in their share prices. Consequently, value stock indices, which had up until this point provided some respite for investors, fell in tandem with growth stocks for a short period.



Source: Trustnet 01/05/22

However, fortunately, during the latter part of the month, what were interpreted as more soothing noises coming from the US Federal Reserve's meeting minutes, helped to lead a recovery in both sectors. Indeed, perhaps we can take encouragement from the bond market's view on inflation prospects when we look the implied inflation breakeven levels now:



Source: Marlborough 01/05/22

In the UK, the FTSE continued to benefit from its heavy commodity exposure. Europe managed to shake off increased embargoes on Russian energy related exports. China clearly benefitted from an easing of COVID related restrictions, particularly in Shenzhen, which helped to ease production and supply chain concerns there.

On the bond market front, we saw a mixed picture. Fortunately, having previously correlated strongly with equities' falls this year, we saw more normal behaviour from US bonds, as yields fell and prices rose, while equities fell. The UK painted a different picture, as investors took a more pessimistic view of the prospects for higher inflation, partly due to its greater susceptibility to wage increase pressures because of a tighter labour market, Brexit related supply issues and a perception of the Bank of England being behind the curve on inflation. That last comment can also be applied to the ECB, although despite witnessing the highest level of inflation since the creation of the Euro, the majority of this was energy and food price related. Wage price increases in the Eurozone remain muted at around 2%. Regardless, the net impact was that we saw the UK 10 year gilt yield hit a level not see for seven years and the Bund yield for eight years.

Outlook

Clearly, the inflation threat and the prospect for higher rates still exist and a 0.5% interest rate rise is anticipated to be announced by the Federal Reserve at the forthcoming June meeting. Quantitative tightening (QT) is also expected to kick-off around this time, but gathering momentum a little later, perhaps by September. The level of QT will be accelerated from $30-60 billion per month to around $95 billion per month. QT effectively sucks liquidity out of the system by draining bank reserves, with potentially relatively minimal impact on interest rates and the real economy. QT was first introduced pre-pandemic in 2017 and so is a new central banking tool. The probability of a central banking policy error tipping economies into recession is rising. Therefore, we are likely to see some de-risking of portfolios ahead of time, if this becomes necessary to ensure they remain within allocated volatility boundaries, as required.

We know markets are a hugely efficient discounting mechanism, looking forwards and discounting back future probabilities to today's stock and bond prices. This means markets are already pricing in much of the slowdown and potential recession we could see in due course. Therefore, it begs the question – "why would a sensible investor cash in his/her portfolio today?" As higher rates get closer it can be reasonably expected that future, longer term rates are likely to begin falling based upon the expectation of the slowdown passing and a recovery getting underway. Having previously seen our MPS and Fund solutions benefit by a move to short bond duration and increased cash level positions, at some point, the move to a longer duration stance will be rewarded.

Scott Fyffe Wealth Management 1st June 2022 – with contributions from Alpha Beta Partners and Marlborough

TAKE **HOLD** OF YOUR FUTURE

Rather than you having to focus your time on designing and maintaining investment strategies, we have partnered with leading discretionary fund managers to build a range of managed portfolios.

The Rockhold Portfolios have been designed to analyse, research and implement investment decisions, keeping them under constant review with the aim of helping your clients achieve their investment objectives.

Designed with a 'risk-first' approach you can be confident that Rockhold Portfolios will remain consistent with your advice, align to your client's risk profile and help fulfil their investment goals over time.

The Rockhold Portfolios are available across a range of platforms and have been 5 Star rated and 5 Diamond rated* by Defaqto.

*Active range 4 Diamond rated by Defaqto

Scott Fyffe
WEALTH MANAGEMENT

SCOTTFYFFEWM.CO.UK

INFO@SCOTTFYFFEWM.CO.UK