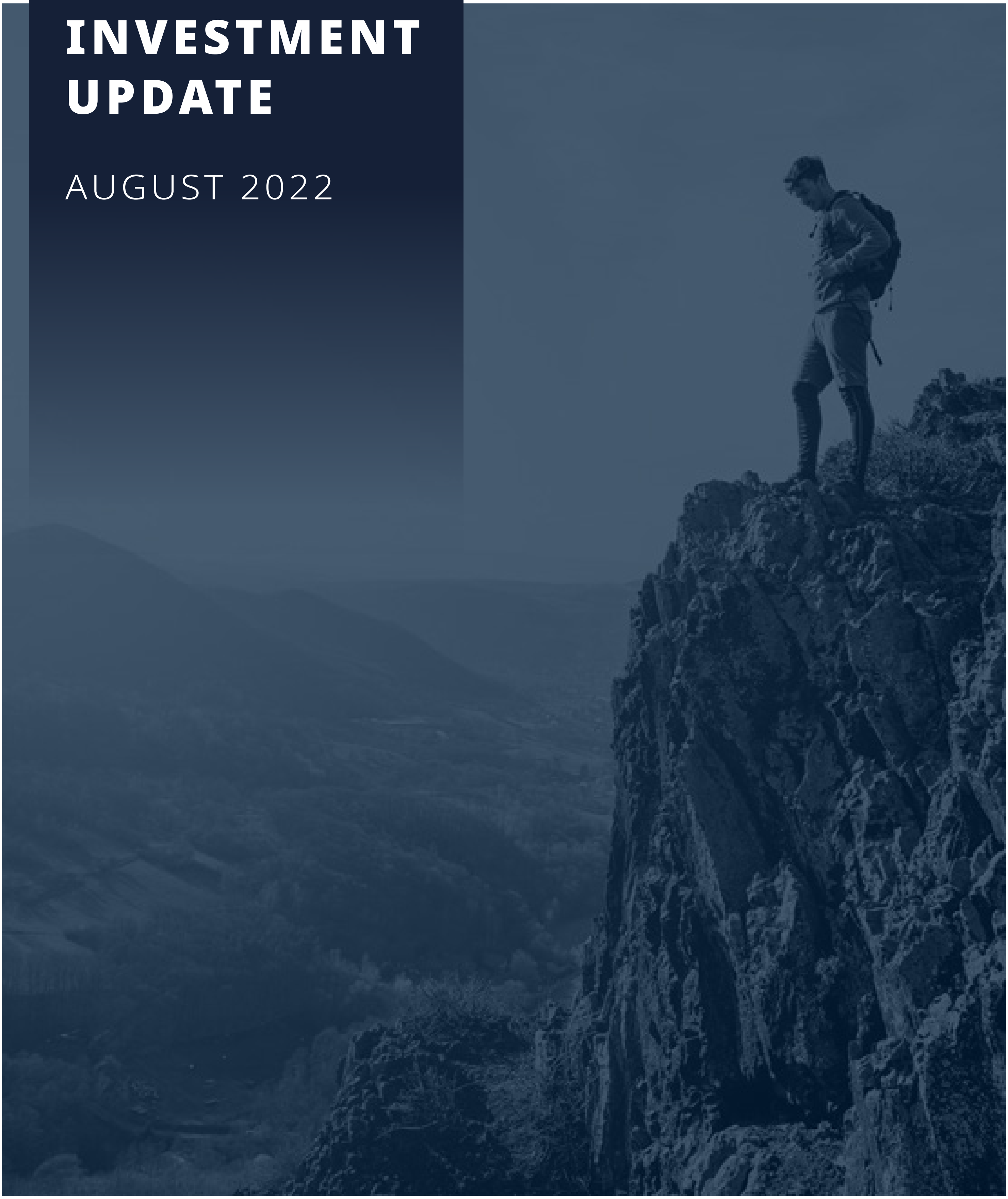
INVESTMENT UPDATE

AUGUST 2022



ROCKHOLD ASSET MANAGEMENT

WWW.ROCKHOLDINVEST.CO.UK

ENQUIRIES@ROCKHOLDINVEST.CO.UK

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Rockhold Asset Management Investment Update – August 22

INDEX	LEVEL 30 JUNE	LEVEL 31 JULY	CHANGE
S&P 500	3785	4130	+9.11%
FTSE 100	7169	7423	+3.54%
Euro Stoxx 600	407	438	+7.61%
Shanghai	3398	3253	-4.26%
US 10 Yr Treasury Yield	3.02%	2.64%	-0.38
UK 10 Yr Gilt Yield	2.22%	1.86%	-0.36
Bund 10 Yr	1.36%	0.82%	-0.54

July provided some relief for investors despite the continued uncertainty over inflation, interest rates and commodity supplies. Major stock markets rebounded strongly following the previous quarter's significant declines. In addition, we saw a fall in bond yields, which equates to an increase in bond prices, thus providing some relief for the normally diversified equity/bond investor. These positive movements were led by the US, where it seemed bad news became good news.

The bad news was another significant 0.75% hike in the US Federal Reserve's target rate to 2.25-2.5%,. However, the Federal Reserve's Chairman, Jerome Powell's associated comments about the pace of increase possible slowing down in future, was taken by the market as a sign that we might be heading towards a peak in interest rates.

In Europe, we saw the ECB increase interest rates for the first time in 11 years and by a higher than expected 0.5%, as they also tackled the spike in inflation numbers. At the same time, they vowed support for bonds issued by the big debtor members of the eurozone, although this came with conditions relating to these countries' fiscal policy. Voters in Italy must be wondering whose fiscal policy they'll be voting for following the decision to hold an election there?

In the UK, markets carried on regardless of the political environment, with both equities and bonds rising. Following the trend in both the US and Europe (and post the month end), the Bank of England raised rates by 0.5%, surpassing their previous policy of 0.25% increments- such is the environment we are in now with regards the inflationary backdrop.

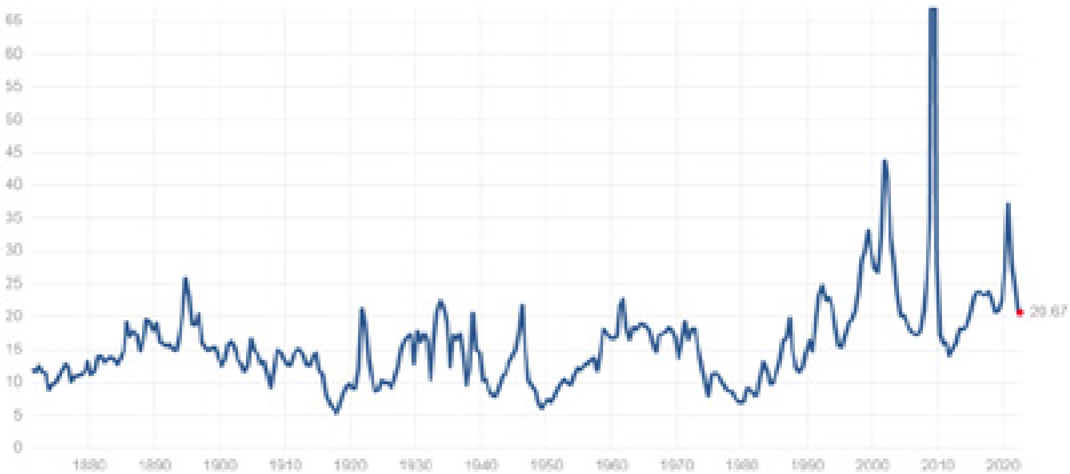
Elsewhere, Chinese authorities attempted to prop up the ailing property sector by offering $150bn of loans to developers, who have been unable to complete developments due to the drying up of liquidity in the sector, following the debt ails of the likes of Evergrande. Japan continues to stand out as it keeps rates low and allows its currency to depreciate, although there are signs that the trend in the weakening Yen might be reversing and the Nikkei index rose over 7% over the month in sterling terms.

Looking forward, we still have many factors to consider at present:

Whilst markets may have convinced themselves in July that we may be nearing peak interest rates (in the US at least), the Federal Reserve's comments were open to interpretation.

Investors who believe inflation and thus interest rates are peaking are pointing to the decline in commodity prices, shipping costs and the fact that the US moved into a technical recession following two consecutive quarters of negative growth (although there are other factors that are combined with this to make this officially a recession).

However, it is an extremely difficult balancing act for central banks between controlling inflation and tipping the economy into a full recession and it remains to be seen as to whether this can be achieved. The recent US earnings reporting season demonstrated a mixed bag of results and associated corporate expectations about the current environment and investors eyes will no doubt revive their focus on this when we get to Q3 results. The chart below shows the historic valuation of the US market based on its Price to Earnings Ratio (the higher the line, the more expensive a market is):



So, while the US market is cheaper than before we should be mindful that it is not cheap, in an historical context at least.

In Europe, economies there must contend with the very real possibility that there will be a shortage of gas supplies during the winter, due to the continued reliance on Russian supplies, especially as it appears that the Russians have weaponised the commodity. This would have a clear impact on companies in countries dependent on supplies to power production facilities, such as in Germany, as well as the input prices for production and thus corporate profits.

We have already seen policies and initiatives to limit energy usage across Europe and any exacerbation of the energy crisis could tip economies there into recession. In a similar vein, the UK also remains vulnerable to higher energy prices and the impact of this on both spending (downwards) and inflation (upwards) has been recognised by the Bank of England, which has been candid in predicting a long recession. At the same time monetary policy seems to be getting more politicised, as the some of the policies being promoted by the candidates for Prime Minister may run contrary to the Bank of England's efforts to control inflation e.g. immediate tax cuts.

Our investment managers continue to be alert to any headwinds and are well placed to take action as required. On the positive front, a slide into recession or lower growth could present opportunities in bonds, particularly those whose prices are particularly sensitive to interest rate declines in the future. It should be remembered that equity market participants are always looking forward, so will also be looking ahead for signs of peak interest rates. We have higher than usual cash across most strategies and might raise levels if any the aforementioned headwinds prevail. Likewise, it will be deployed to take advantage of any opportunities that arise.

Rockhold Asset Management, August 2022

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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

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