Market and Economic Review
October 2022

The beat goes on

Markets in September continued the trends of 2022 with falls in both shares and bonds. Our cautious positioning cushioned against these moves meaning most of our funds fell significantly less than the market fall.

Global labour markets remain strong and consumer spending is holding up in the face of inflation headwinds. Spurred by this, central banks remain steadfast in their mission to contain inflation and last month we saw a litany of 'super-sized' interest rate hikes from global central banks. This pace of tightening poses severe risks to the outlook for the economy. Fiscal easing measures in Europe (particularly the UK) are also causing stress in financial markets with sharp falls in the pound and UK government bond markets.

With a precarious outlook, our defensive investment positions have helped avoid the worst of market falls in both bonds and shares. That also puts us in a good position to look for attractive opportunities to invest in. Healthcare, decarbonisation, industrial automation and cybersecurity are just some of the themes that will endure beyond the current economic issues. We currently invest in companies that will benefit from these themes, such as Bristol Myers Squibb, NextEra Energy, Keyence and Microsoft. These companies are not immune from market volatility, but cheaper share prices can offer attractive entry points into these businesses that we think can do well over the longer term.

Increases in interest rates are also providing investment opportunities. Whilst not inflation beating, cash in the bank now offers a positive return in addition to shielding investors from the volatility in bonds and shares. Medium term government bonds are now starting to offer attractive yields whilst corporate bonds are offering yields in the high single digits.

October brings a raft of US company profit reports. Strong profitability over the past two years has been sustained beyond our expectations. However, we continue to be wary of profit downgrades as companies struggle to pass on the rising cost of doing business. Global share markets are unlikely to find surer footing until we see a sustained drop in broad inflation measures. This will take some time, in the meantime, we continue to focus on building conviction in those more enduring themes as mentioned above.

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