Strategy & Outlook

MARKET UPDATE

AUGUST 2022

Following the first half of the year which saw steep losses for both equities and bonds, July saw a very strong rebound in both, global equities rallying 10% in euro terms on the month with growth (+13.2%) significantly outperforming value (+6.7%), and longer dated bond yields falling by more than 30 basis points in the US and more than 50 basis points in Germany. The euro fell further against the dollar (-2.5%).

The first half of the year saw the market driven by accelerated tightening from the Federal Reserve and increased hawkishness from the ECB, with inflation concerns remain elevated. July saw further tightening on monetary policy, with another 75bp hike from the Federal Reserve and 50 basis points from the ECB, ending the negative interest rate policy that had been in existence since 2014. Despite these out-sized hikes, the overall tone on central banks became less hawkish over the month, as concerns about the impact that the rapid pace of monetary tightening would have on growth in the second half – monetary policy does operate with a lag, after all. Concerns about growth were driven by particularly down-beat consumer sentiment and PMI surveys of businesses, all of which suggest that growth is slowing fast – indeed, the US recorded a second consecutive quarter of negative growth, despite continued robust employment growth, leading to much speculation about the definition of a recession.

There are many contradictions or apparent anomalies visible at present - consumer sentiment is at multi-decade lows, yet unemployment is also at multi decade lows, and consumers, despite their apparent depression, continue to spend robustly. It would appear there are almost 2 jobs available in the US for every unemployed person, but employers, though apparently desperate for staff, aren't paying up, as is evidenced by the lack of any significant surge in wage inflation, which after an initial surge appears to be falling back again. But although these anomalies are making the picture more difficult than usual to assess, we are seeing clear evidence of all the below playing out, in macro data, corporate commentary, market pricing, fed speak etc:

- Peak policy tightening from the Fed
- Peak inflation and peak inflation expectations
- Commodity bubble collapsing (especially US gasoline)
- Slowing but not collapsing growth (risks from here are all to the upside/reacceleration)
- Corporate profits being driven by long term structural growth themes that in some cases are accelerating (Digitalisation, Decarbonisation, Deglobalisation)
- Strong corporate balance sheets (increasing record buybacks)
- Equities, especially growth equities are cheap (some are attracting value and activist investors)
- Margins are on long term upward trajectory due to increasing technology investment
- Minor earnings downgrades (mainly due to historic dollar strength/input costs, risks here are also now to the upside)
- China housing-exposed assets, namely industrial commodities, are at risk
- The level of underinvestment/bearish sentiment amongst investors and brokers is unprecedented.

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The funds produced strong returns for the month. The MMA70/Managed fund was up 10.5%, a record for July and one of the strongest monthly returns in its history. The MMA30 and MMA50 produced returns in line with their risk asset weightings of 6.6% and 8.5%.

Although it is only one good month in an otherwise disappointing year it is encouraging that a lot of the factors listed above would appear to be only starting to turn favourably, as are the assets which they impact.

As for positioning we remain top end of allocation but even more overweight US equities (at the expense of Europe and Emerging Markets) but we are underweight the US dollar. Our hedges sit in the German equities (Russian gas risk) and Hong Kong (China property risk). The market has regained the last four 20% selloffs within 4 months. This current rally off its lows is on course to match that.

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