September 2023 | Monthly update

Omnis Managed Portfolio Service

We are maintaining our cautious approach to investing as we wait for developed markets to readjust to the environment of higher interest rates, which may soon reach their peak for this cycle.

Market-moving events

Peak interest rates are approaching in the UK. The Bank of England increased interest rates in August to 5.25%, and signalled that the end of its tightening cycle is not too far away. Recent announcements suggests the bank would prefer to keep rates at these levels for longer rather than increasing them much more. Markets expect UK rates to settle at 5.6%.

The Fed is focusing on the data. US Inflation rose by just 0.2% in July, the smallest increase in two years. The Federal Reserve (Fed) is in two minds about what to do next. Most members believe rates are high enough but some think core inflation will prove sticky and that the economy is still too strong. However, the end of the US tightening cycle is in sight too.

China's property market stumbles. Home sales have been falling rapidly in China as its post-Covid recovery falters, which has put pressure on housing developers. Although regulators are offering funding support, they are unlikely to bail out the sector completely. Contagion is likely to be limited to the Chinese economy and financial system.

Investment highlights

A rocky month for equities. The bumpy Chinese economic recovery, along with problems in its real estate sector, has put Asian and emerging market equities under pressure, both of which fell by over 5% in August. US equities outperformed again whereas the UK and Europe were more mixed. Returns were less negative in sterling, which depreciated over the month.

Bonds also had a bumpy month. Developed market economies remain fairly strong, which increased expectations that interest rates may rise higher than expected to curtail sticky service sector inflation. At one point, UK gilts were down 3.5% before recovering later in the month as business survey data revealed the increased possibility of recession.

A cautious approach to investing. We are underweight equities owing to our UK and US allocations. We are overweight short-dated bonds, which helps to reduce our exposure to rising interest rates. We believe the rapid increase in rates is yet to be fully felt in most developed economies and a cautious approach to investing right now is appropriate.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities

Negative = UK, US + Europe
Neutral = Japan
Positive = Asia + emerging markets

bonds

Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash

Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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Approved by Omnis Investments on 1 September 2023