July 2023 | Monthly update

Omnis Managed Portfolio Service

Although inflation in the UK remains stubbornly high, the pace of price rises is slowing in the US, which has allowed the US Federal Reserve to take a break from increasing interest rates.

Market moves that mattered

UK inflation remains elevated. Although there is a softening of prices in some areas, of major concern is the strength of inflation in the services sector. Mindful of a credibility gap, the Bank of England went big and increased interest rates by 0.5% points instead of the more recent pace of 0.25% points. It also signalled there are more rate rises to come.

US inflation is slowing. While the Fed paused from hiking rates, they signalled that further rate rises are likely. Investors are expecting rate cuts at the end of this year and with inflation set to fall quickly, this could be justified. The exact timing is not that important – what matters is that US interest rates are close to their peak.

Business sentiment surveys show the global manufacturing sector is struggling. The service sector has been a beacon of hope, but there are early signs of slowing activity there too. Given higher rates are still flowing through the global economy, this trend seems likely to worsen.

Investment highlights

Cautious on equities. Interest rates will likely remain elevated for some time – this is impacting economic activity, which we think is weaker than some recent data suggests. We think this will become more apparent in the coming months, as will the continuing fall in inflation in most regions. It is still a time for caution in portfolios, but there is light at the end of the tunnel.

Trimming US equities. The US stock market continues to be buoyed by excitement surrounding artificial intelligence, focused on a handful of companies. This is making the technology sector look a little frothy. We reduced the exposure to US equities as a result and will continue to trim if necessary. We also trimmed emerging market equities due to a weaker global growth outlook.

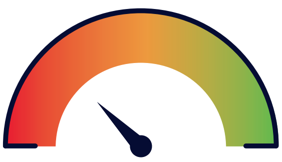
Increasing short-dated bonds. Instead, we have increased the amount invested in short-dated bonds, which are attractive compared with longer-term bonds and equities, especially after considering the effects of tax. As central banks near the end of their rate hikes and inflation eases, we believe short-term bonds are once again a favourable asset in portfolios. In the meantime, we will benefit from the higher yields currently available in short-dated bonds.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

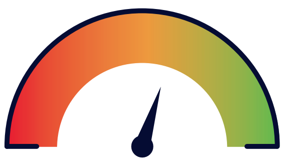
If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities



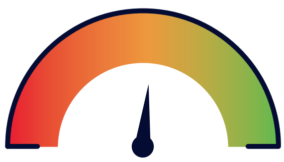
Negative = UK, US + Europe
Neutral = Japan
Positive = Asia + emerging markets

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 Openwork Wealth Services Limited on 3 July 2023

Omnis INVESTMENTS