October 2023 | Monthly update

Omnis Managed Portfolio Service

With the pace of global economic growth slowing and inflation fading, central banks may be able to stop hiking interest rates, although policymakers have indicated they are likely to remain higher for longer

Market-moving events

Economic growth is slowing. The pace of global growth is slowing and although we believe the slowdown will be shallow, a recession is not out of the question. China's recovery has failed to materialise and risks are increasing in the real estate sector. In the US, the services sector is slowing, consumer pandemic savings are all but spent and the labour market is weakening.

Global inflation is fading. There remains a risk of a renewed rise in inflation but we are confident the trend lower is in place. Recent inflation numbers from the US were largely in line with expectations. Excluding volatile food and energy components, price rises have decelerated to 4.3% from 4.7%. UK inflation is higher and stickier, but here too the trend is down.

Central banks are pivoting. Most central banks are noting progress on inflation but are still talking tough. This is important because it helps to reduce expectations of inflation, which can be self-reinforcing, particularly in the labour market. If this trend continues, we expect central banks to pause and begin reversing the rate hiking cycle in the next six to nine months.

Investment highlights

Market moves. Overall, equities fell slightly in September, driven by negative returns in Europe, Asia (ex Japan) and emerging markets. Japan delivered strong positive returns, followed by the UK. Sterling weakened, which enhanced returns from overseas equities. Bonds and gilts in particular have had a rocky ride again, owing to a range of factors.

Our trades. We increased our allocation to gilts and global bonds in anticipation of a peak in the interest rate cycle. We have reduced exposure to the US, European and Asian equity markets because we think economic growth is slowing. We have also rebalanced our UK and European fund exposures to better fit our regional convictions.

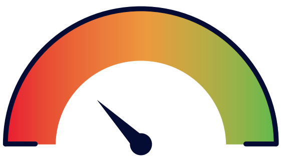
Our positioning. We continue to maintain a cautious approach, and have underweight positions in most risky assets, including equities. Within equities we are underweight the UK, US and Europe, and overweight Asia (ex Japan). We are overweight government bonds, primarily through high grade sovereigns, and underweight corporate bonds.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

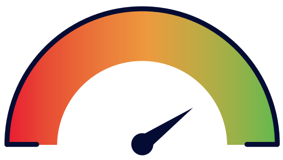
If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities



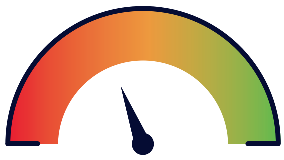
Negative = UK, US + Europe
Neutral = Japan + emerging markets
Positive = Asia

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 2 October 2023