

Omnis Managed Portfolio Service



UK gilt yields have recovered following the surprise fall in the rate of inflation, while investor exuberance around artificial intelligence technologies has been driving the rally in US stock markets.

Market moves that mattered

On course for a soft landing. The US economy continues to defy expectations of a recession. In the second quarter it expanded at an annualised rate of 2.4% as consumer confidence and spending held up better than expected and business investment increased. Meanwhile, the labour market remains relatively strong, as do corporate earnings.

Inflation continues to trend down. Several measures of US inflation slowed in June, where the headline inflation rate is now 3%, the lowest rate since March 2021. Inflation also slowed markedly in the UK from 8.7% to 7.9%, the lowest rate since March 2022. Euro area inflation fell less rapidly to 5.3% in July, which is still the lowest rate since January 2022.

Central banks remain active. Despite inflation slowing, central banks felt the need to tighten monetary policy. In the US, rates were increased by 25 basis points (bp) but the Fed is now in monitoring mode, meaning the future path depends on the strength of the labour market. The European Central Bank also increased rates by 25bp and is in monitoring mode too.

Investment highlights

UK gilts regain some lost ground. Following the fall in UK inflation, gilt yields fell (meaning prices rose). Although these gains have not recovered all the recent losses, they highlight that any further falls in the inflation rate should support gilt prices. The Bank of England forecasts inflation will fall to 5% by the end of 2023 and to 2.3% by the end of 2024.

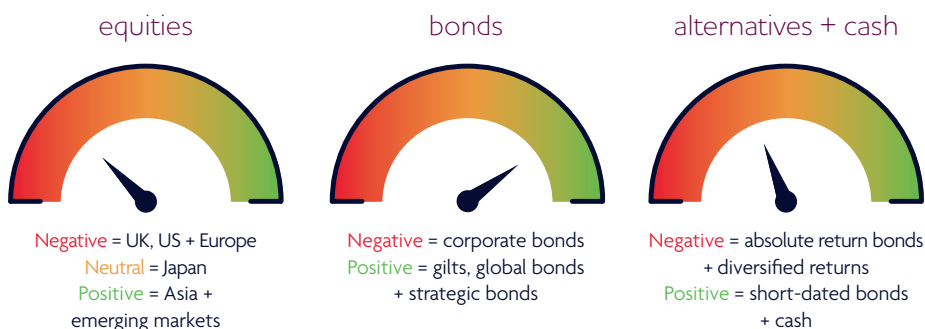
Still cautious on equities. Our positioning in equities remains cautious as we monitor how the global economy adjusts to the rapid increase in interest rates. Although China's post-lockdown recovery has not met expectations, the government has announced measures to support its economy. Asian equities should benefit and we remain overweight.

A concentrated rally. US stockmarkets have outperformed most other regions so far this year. However, these gains have been driven by a few large technology companies benefiting from excitement about artificial intelligence. Narrow leadership in a stock market is usually a reason to exercise caution and we remain underweight US equities.

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](#).



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Approved by Omnis Investments on 1 August 2023