HFP
Independent Financial Advice and Planning

in association with

BROOKS MACDONALD

Market Commentary and Positioning

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In terms of the next steps for markets, much depends on the evolution of the global inflation picture. Developed market central bankers have signalled that the US, Euro Area and UK are all close to their peak interest rates for the cycle. The bond market has therefore shifted from worrying about what level interest rates will get to and instead now ponders how long interest rates will need to stay in restrictive territory. Sticky inflation, whether brought about by consumer demand or a resurgence in cost-push inflation via the energy market, would lead to a longer period of peak interest rates which will ultimately weigh on economic growth and increase the possibility of 'something breaking'.

The question then is whether inflation falls sufficiently quickly to give central banks the confidence that they can ease off monetary policy and still see inflation settle around their target levels. Stickier inflation would lead to higher interest rates for longer which raises the risks of a hard-landing economic scenario. Sentiment appears to be shifting each week, with last week characterised by concerns over heightened inflation and robust economic growth, in contrast to the previous week where a soft-landing narrative led a large rally in US equities. Financial markets are therefore quite skittish and prone to extrapolating individual data points into the future, even as conflicting data emerges. Making the narrative even more complex is the reality that if economic growth falters, and ultimately triggers a recession, there will be a period of time when that slower growth is welcomed as it makes a soft-landing outcome more likely.

While Brooks Macdonald are mindful of the recent uptick in energy price inflation, recent US inflation readings point to a disinflationary trend. It is too early to say where inflation will settle, however the month-on-month inflation readings suggest that peak US inflation is behind us. Historically a disinflationary backdrop has boded well for equity investment performance versus inflation and with global equity forward Price/Earnings Per Share valuations around their historical 30-year average, we are overweight equity risk relative to our strategic ranges. Given the rapid swings between market optimism and pessimism around inflation and economic growth, we maintain our equity barbell investment approach with an equal-weighting between value and growth investment styles.

We have a preference for shorter dated (3-5 year) duration positioning and we have a 50:50 ratio balance guidance between sovereigns compared to corporate credit. Within credit, we prefer investment grade over high yield, and given the relatively tight spreads, we are wary that the yield premium for high yield is not providing sufficient reward for the additional risk.

Important information

Investors should be aware that the price of your investments and the income from them can go down as well as up and that neither is guaranteed.

Past performance is not a reliable indicator for future results. Investors may not get back the amount invested. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment. Investors should be aware of the additional risks associated with funds investing in emerging or developing markets. The information in this document does not constitute advice or a recommendation and you should not make any investment decision on the basis of it. This document is for the information of the recipient only and should not be reproduced, copied or made available to others.

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