HFP
Independent Financial Advice and Planning

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BM
BROOKS MACDONALD

Market Commentary and Positioning

'Over recent months we have sought opportunities to de-risk the non-equity component of portfolios, particularly those in Low Risk and Low to Medium Risk.'

Investors have been increasingly concerned that the huge run up in interest rates (both actual hikes but also expectations) would have a major impact on the economy but also financial markets. The question of what would 'break' has been an active debate, but few expected this to take place in the financial sector given how well capitalised the banking sector is compared to previous crises. The collapse of Silicon Valley Bank (SVB) is arguably as much a technology sector story as a banking story, but it has led to huge volatility within the bond market, with the US yield-curve completely repriced. This has led to a large shift in rate expectations with the terminal US interest rate expected to reach just 4.8% rather than the almost 5.7% expected after Powell's testimony in early March[1].

The yield curve moves show that bond markets feel that a high-profile bank failure may be enough to convince the Fed not to raise interest rates by 50bps at this month's meeting, maybe raising rates by 25bps or perhaps not at all. As ever, the Federal Reserve is not entirely in control of its destiny and the stubborn inflationary pressures seen in recent weeks, alongside a generally robust economy, make a pause in interest rates at this point tricky. March's US CPI release alongside the PPI data has helped to set market's expectations for the March Fed meeting however the recent data suggests that inflation may be sticky in the short term. Bond markets have used interest rate expectations as a release valve for the SVB incident.

Brooks Macdonald have been considering positioning in light of the recent market moves, concluding that whilst short-term volatility is a risk, SVB in and of itself is likely to be more of a symptom of interest rate risk rather than a fresh source of market wide contagion. Over recent months we have sought opportunities to de-risk the non-equity component of portfolios, particularly those in Low Risk and Low to Medium Risk. The moves recently to include uncorrelated assets, which have a historically lower beta to equities, into the portfolios are to help reduce the risk.

[1] Bloomberg, 13 March 2023
(www.bloomberg.com/news/articles/2023-03-13/now-that-the-fed-broke-something-traders-overhaul-bets-on-rates)

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 be 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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