Quarterly Report
Q3 2023

HFP Independent Financial Advice and Planning

In association with

BROOKS MACDONALD

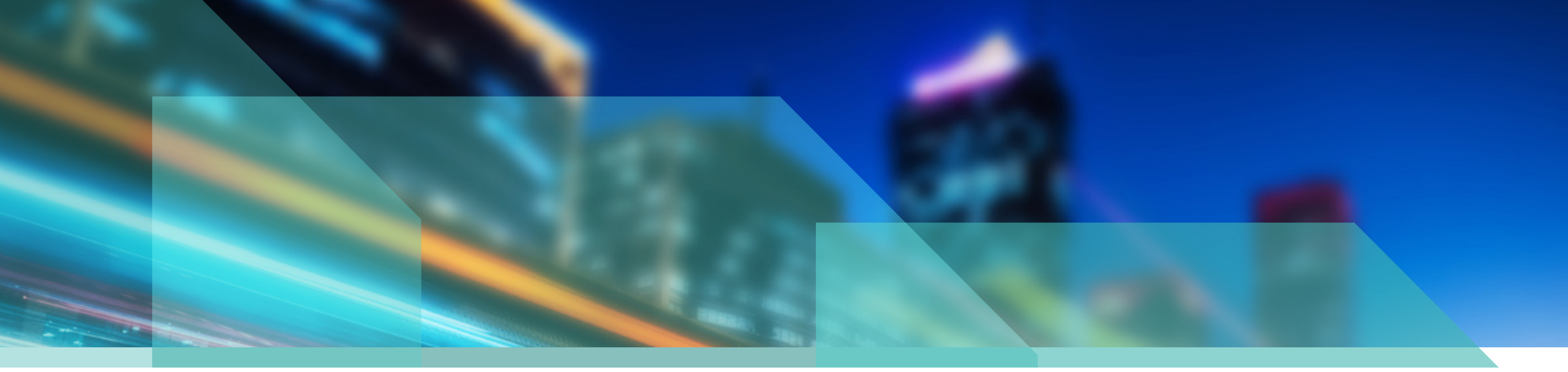
- Global economic growth, consumer spending, and corporate earnings continue to prove more resilient than expected, pushing back on recession fears which ebb during the quarter.
- The flipside of relatively more resilient economic growth, still-sticky inflation remains a risk whether led by resilient consumer demand or a resurgence in cost-push energy supply curbs.
- Next steps for markets depends on how the inflation picture evolves - our asset allocation goal remains one of 'balance', keeping exposure towards more than one economic scenario outcome.

The inflation outlook is still calling the shots. While the latest annual inflation rates in Europe and the US are well below the post-pandemic peaks of last year, they are equally still not yet at the central banks' 2% inflation target. Over the past year or so, getting economies to see some pull back from peak inflation rates has arguably been relatively straightforward. Economic supply versus demand imbalances have continued to unwind post-pandemic, tough year-on-year comparables have helped the maths, and the rapid hikes from central banks have started to bite. Going forward however, getting inflation rates all the way down to target, especially without an outsized negative impact on economic growth, may prove to be much harder.

Inflation continues to be multifaceted, and adverse inflation inflexion risks worried the market during Q3 in particular. Energy prices which had initially dragged inflation rates lower earlier in the year, started to move higher over the summer. This was driven by a relatively constructive global energy demand picture on the one hand, versus voluntarily extended crude oil supply curbs from Saudi Arabia and Russia on the other. While core consumer gauges (which exclude energy and food prices) still generally moved lower during Q3, should higher oil prices prove to be more of a sustained feature, this could ultimately filter through as a headwind for many economies. Neither is the inflation picture uniform globally, with very different messages between the world's two largest economies. While US consumer inflation remains some way above the 2% target, China instead spent Q3 flirting with outright annual deflation risks.

For most advanced economies, if Q3 has generally been a story of stickier inflation, the flipside is that this has in part been the result of more resilient economic growth, at least relative to expectations – in July the International Monetary Fund upgraded its estimate for calendar Real (constant prices) Gross Domestic Product (GDP) global growth from 2.8% to 3% in 2023. With labour markets still comparably tight, and annual nominal wage rates starting to edge over inflation, a consumer that is still able and willing to spend has helped companies continue to post solid earnings results and outlooks. As a result, global recession fears have been pushed back, but questions remain whether this is a global recession that has been cancelled, or merely just one that has been delayed. Perhaps not surprisingly, markets have been skittish, continuing to move back and forth between the 'no-recession and soft-landing' camp (where interest rates curtail inflation without unduly impacting economic growth), and the 'recession and hard-landing' camp during Q3.

The inflation picture continues to lead central banks' actions and dominate sentiment for markets. Sticky inflation remains a risk, whether brought about by resilient consumer demand or a resurgence in cost-push inflation via the energy market. This might lead to a longer period of peak interest rates, in turn weighing more on economic growth. Equally, should inflation fall sufficiently quickly, this would give central banks the confidence that they can ease monetary policy settings and language and still see inflation settle around their target levels. Financial markets meanwhile do not operate in a vacuum – following a more constructive consumer and



business picture relative to what had been feared at the end of last year, equity valuation multiples so far this year have recovered some of their 2022 full-year downdraught and globally are back around their longer-term average.

As we weigh up the investment outlook, the challenge for asset allocation is how to take a calculated position so that we keep exposure towards more than one economic scenario materialising. We have seen rapid swings between market optimism and pessimism around inflation and economic growth. As such we have maintained our equity barbell investment approach with an equal weighting between value and growth investment styles. Simply, there is not enough visibility currently to decidedly shift our investment weight behind a single expected sustained outcome. Instead, staying invested but keeping balance continues to be our goal. To us, the amplitude and frequent rotation of investment style leadership post pandemic is an important reminder of the advantage of our barbell, first introduced at the beginning of 2021. That said, we continue to take conviction views within our global equity allocations, giving regional and country granular guidance.

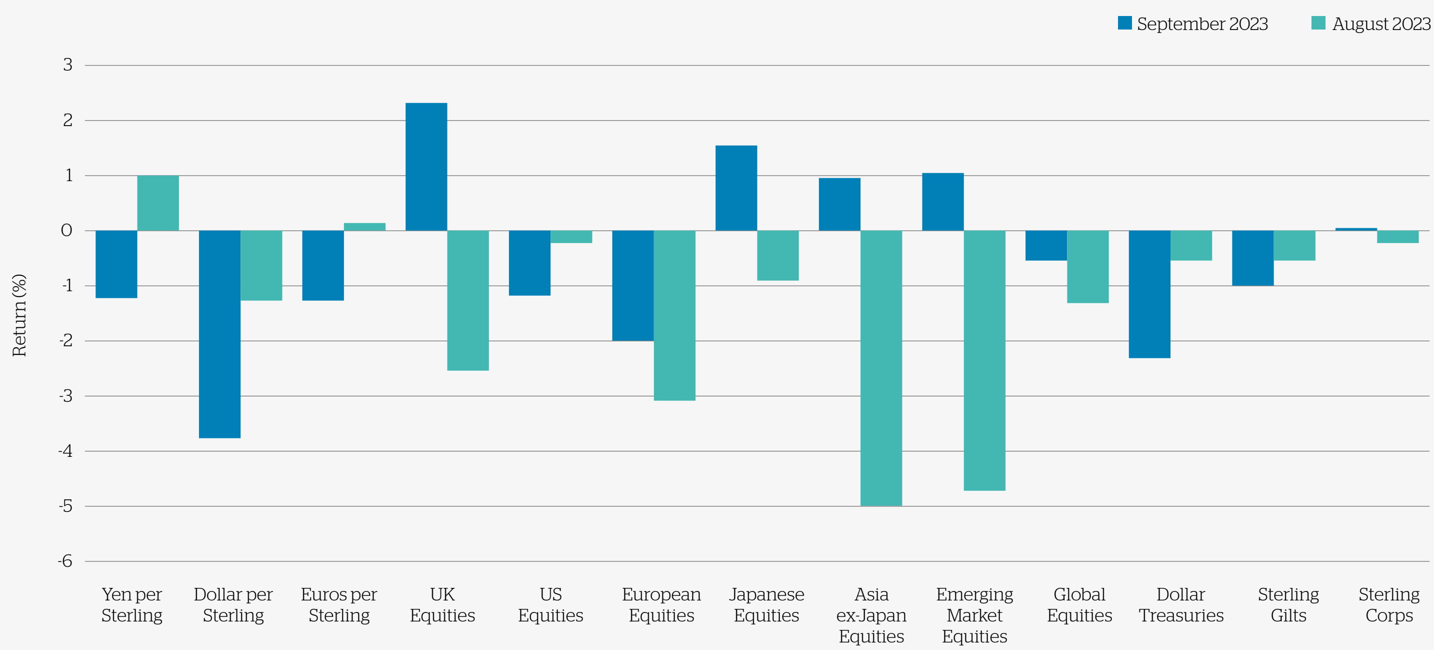
Our top three investment risks

> **Inflation:** should inflation pressures prove to be sustained and become engrained in the economy more broadly, including wages, this could curtail central banks' room for manoeuvre. This could risk a still-further tightening of monetary policy, with interest rates higher and for longer than expected.

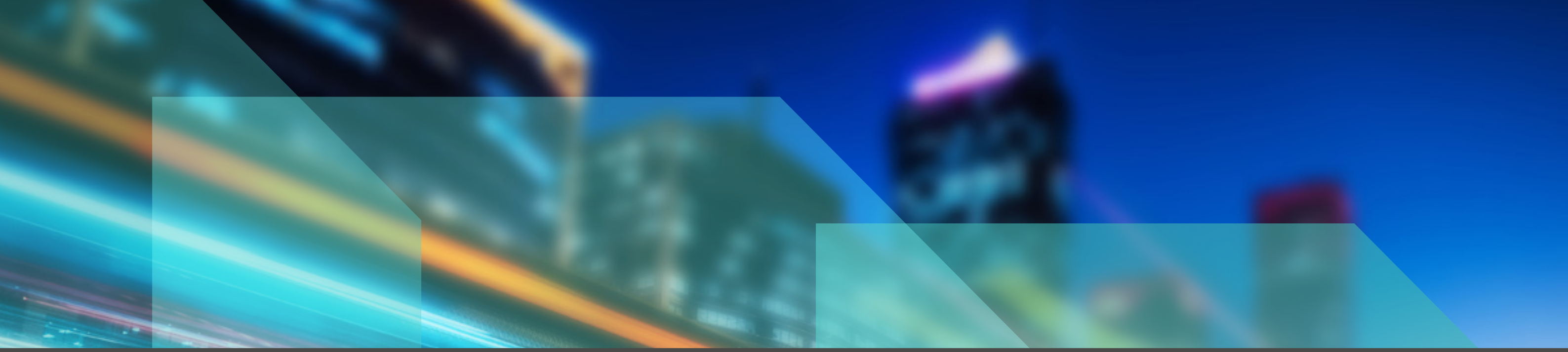
> **Policy error:** governments and central banks face the risk of unintended policy errors as they seek to transition their economies away from unprecedented pandemic levels of fiscal and monetary support, as evidenced by the concerns over financial systemic stress contagion earlier in 2023.

> **China's re-opening:** with the pace and scale of China's economic recovery post zero-COVID proving disappointing, there is a risk that efforts by Beijing to stimulate the economy might prove insufficient, further challenging broader economic growth hopes.

Asset market return



Sterling-denominated market performance, total return performance figures. Past performance is not a reliable indicator of future results. Source: Bloomberg, MSCI: please see important information. Data from 31.08.23 to 30.09.23.



Important information

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