

# SEPTEMBER

## MONTHLY COMMENTARY

September was a volatile month for financial markets with global equities as measured by the MSCI World falling 9.3% in US dollar terms. Concerns over global growth, inflation and central bank policy continued to be the key drivers of financial market performance.

The US central bank, following on from Chairman Powell's hawkish speech at Jackson Hole in August, increased interest rates by 0.75% to 3-3.25%. Economic growth projections were downgraded compared to its July forecasts and the closely watched Fed (Federal Reserve) dot plot pointed to further large interest rate increases and no cuts by end of next year. This increase followed a worse than expected US consumer price index print which rose 0.1% in August, above consensus estimates for a 0.1% fall. While core inflation - which strips out food and energy - rose 6.3% annually versus the prior month of 5.9% in July. So, the message from the Fed was clear. They will do 'whatever it takes' to control inflation even at the expense of the US economy falling into a recession - which was the first time Powell had admitted the idea of a soft landing appeared unrealistic.

Global equity markets dutifully jolted down while US two-year treasuries rose to a 15 year high of above 4%. 12 months ago, the 2 year was 0.27%.

In the UK the newly elected Chancellor delivered a mini budget that sent the pound spiralling to a historical low of 1.03 (at the time of writing sterling had recovered to 1.11) and pushed short term rates as high as 4.5%. The debt fuelled tax cuts and the censorship of the independent Office for Budget Responsibility forecasts were interpreted negatively by markets. On one side of the coin the Bank of England (BOE) was raising rates to curb inflation, and on the other, contradictory, the government were ploughing forward with a growth mandate that was considered inflationary. The policy lent in favour of higher income earners with a 45% tax rate abolished which would be unusually funded with debt. The knock-on effect was extraordinary with mortgage lenders withdrawing products, pension funds liquidating investments to meet margin calls and the BOE buying UK Gilt bonds to depress yields. It was a poor start for the newly elected Prime Minister and Chancellor. On the plus side an energy cap was introduced that will protect households, but will cost the governments an estimated 150 billion pounds.

The European Central Bank & Bank of Canada followed a similar monetary trajectory raising rates by 0.75%. One of the key drivers of inflation, oil, has fallen from around 120\$ a barrel in early June to around 85\$ as measured by WTI however there is talk of OPEC (The Organization of the Petroleum Exporting Countries) cutting production. Europe continues to suffer from Russia's weaponization of gas supplies with recent leaks in the Nord Stream gas line that provides 35% of Russian gas imports to Europe. Russia continued its laboured offensive in Ukraine but the reaction to increasing Russian troops has received a lukewarm response from locals.

Putin's nuclear threats have also drawn attention with the US dollar the global currency and safe haven benefitting against most currencies. Against a basket of leading global currencies, the USD is up 13% year to date.

The Chinese economy significantly underperformed as concerns around its zero covid policy lockdown, leveraged property market and restrictive regulation on the technology sector continued to weigh heavily on growth outlook. While the renminbi weakness against dollar means lowering rates is not a feasible policy.

On a US macro level, economic data continues to surprise on the downside. US manufacturing PMI's have trended downwards but still sit above the expansionary 50 level, and the labour market continues to be tight with unemployment still around the 3.7% mark. While the housing market appears to be cooling on the back of rising mortgage rates.

Within equities, all sectors were down. Defensive sectors such as healthcare and consumer staples fell 4% & 8% respectively, while technology and real estate were the laggards down double-digits. Cyclical areas such as materials, consumer discretionary and industrials sat in the middle of the pack. Regionally investors took no prisoners as the selloff across all regions whether Europe, US, UK or Emerging Markets was broadly indiscriminate.

Within fixed income, an aggressive shift up in US short term yields, as already discussed, depressed bond prices. The US yield curve remains inverted – short term rates are higher than long-term rates – which tends to imply concerns overgrowth in the short term. A key measure of bond performance, the Barclay Global Aggregate in USD, was down 4.8% in September and is down 11% year to date.

Within commodities, there was respite for oil and gas prices which fell 4% and 20% respectively. Performance mainly was driven by European natural gas targets reaching around 85% of capacity -viewed as manageable for the winter months. While wheat prices rose on the back of weak production caused by the global heat wave in the summer.

In terms of asset allocation, for balanced multi asset portfolios, the strategies remain well diversified with high quality bias. Within equities, the core proposition is the London & Capital Global Star flagship product that focuses on leading global brands with resilient cash flow generation, stable business models, low debt to equity and attractive growing dividends. While fixed income is short duration with a focus on key economic sectors such as financials, utilities and global corporates that are considered well capitalised, highly cash flow generative and well covered for interest payments. Commodities is in the portfolio for inflation hedging purposes.

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