BRI Wealth Management PLC

Oct 2022

Q3 2022 was another poor quarter for investors. Whilst extreme heatwaves during the summer months put a smile on the face of millions throughout the UK, this was in dire contrast to the chill winds that continued to blow across the global economy.

It was a quarter of two halves. July started off on a positive note, despite the thin summer news flow. Investors were treated to some respite as the month managed to post the best performance for global developed markets since November 2020. The rally was helped by markets beginning to price in interest rate cuts from the Federal Reserve in 2023, stoking hopes of a softer landing for the economy. Markets were surprisingly upbeat until mid-August despite little change in the economic picture. It seemed that markets were being too optimistic about the outlook. Short, sharp market rallies are not uncommon in bear markets.

In late August, the Federal Reserve reiterated at their Jackson Hole summit that their priority remains to fight against inflation rather than supporting growth, thus hitting market sentiment. This was the primary driver of the sharp rise in bond yields and sell-off in stocks in the second half of the quarter. Central banks backed up their tough talk with policy rate hikes totalling 1.5% from the Fed, 1.25% from the European Central Bank and 1% from the Bank of England as they all attempted to apply the brakes on what appeared to be runaway inflation.

Financial markets were now grappling with a much more aggressive path of future rate hikes. September was the worst month for developed markets since March 2020 at the height of the pandemic fears.

The US economy entered a technical recession (defined as ‘a fall in GDP for two successive quarters’) during the quarter and wasn’t immune from the sell-off in markets, with the S&P 500 falling 6%. Growth stocks were also resilient, marginally outperforming more value-orientated parts of the market for the first time this year.

Inflation continues to distress markets, but it does appear to be slowly falling. US inflation came in at 8.3% in August after peaking at 9.1% in June, largely thanks to lower energy and petroleum prices as the oil price continued to fall from $110 a barrel at the start of July to $84 by the end of September, a fall of -25%. What is key to note is that Core Inflation (which strips out the volatile food and energy components) continues to edge up. Inflation remains close to the forty-year high and the FED will need to see more compelling evidence that inflation is easing for them to change course on monetary tightening.

In the UK on the economic front, most of the information that came out demonstrated a loss of momentum. Inflation remained elevated in the UK and even though the headline CPI slightly decreased in August to 9.9% year on year, core CPI increased from 6.2% to 6.3% year on year. However, it was the mini budget on 23 September that attracted vast market attention. The UK Government announced details on a substantial unfunded fiscal package that proved to be rather controversial. The announcement caused sterling to plummet to historical lows and sent Gilt yields substantially higher, causing UK markets to tailspin - other world markets followed. The UK Gilt market recorded a quarterly return of -14%, a substantial fall for an asset class historically deemed as 'low risk'. By late September, the Bank of England was forced to intervene by purchasing long-dated government bonds to restore some stability to the UK market. The FTSE 250 fell -7.15% with the negative returns exacerbated by the events of late September. The FTSE 100's international diversification and dollar exposure proved beneficial, with the index recording a return of -2.71%.

Elsewhere in the world the news flow and sentiment continued to weigh to the downside. In Europe, the energy crisis continued to dominate the headlines as Russia completely halted gas flows through the key Nord Stream 1 pipeline at the start of September. The European market fell -4.5% over the quarter. The Chinese economy was also confronted with several headwinds in the quarter, such as the country's zero COVID policy, weather-related disruptions, and lingering weakness in the housing market, dampening the emerging markets sector which fell -8% over the quarter. All major asset classes recorded a negative return in Q3.

Overall, while the growth outlook remains challenging in the short term, many stocks are now already pricing in a relatively high probability of at least a moderate recession. Government bonds are now also pricing in a significant amount of further monetary tightening. Valuations for both stocks and bonds are now looking more attractive. Despite the gloomy news flow this year, it's important to remember that recessions are a normal part of an economic cycle. Markets have experienced them in the past and have always bounced back stronger. This time is no different, and one should not lose sight of the long-term attractions of investing.

"The key to making money in stocks is not to get scared out of them"

PETER LYNCH
US investor and philanthropist

BRI Wealth Management plc
BRI House
Elm Court
Meriden Business Park
Meriden
CV5 9RL

Telephone: 01676 523550
Email: invest@brigroup.co.uk

www.brigroup.co.uk

BRI Wealth Management PLC

@BRIWealth

INVESTORS IN PEOPLE

BRI Wealth Management plc is authorised and regulated by the Financial Conduct Authority. The price and value of investments and the income, if any, from them can fall as well as rise. Past performance of investments is not necessarily a guide to future performance. Changes in rates of exchange may adversely affect the value of non-UK shares. Tax relief and the beneficial tax treatment of certain investments may not continue in the future.

This commentary has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell a security. It does not purport to be a complete description of our investment policy, markets, or any securities referred to in the material. Please note that this commentary may not be reproduced, distributed, disseminated, broadcasted, sold, published or circulated without prior consent from BRI Wealth Management plc. Whilst every care is taken over the content of this newsletter, no responsibility is accepted for errors and omissions that may be contained herein.