



CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



11 NOVEMBER 2022

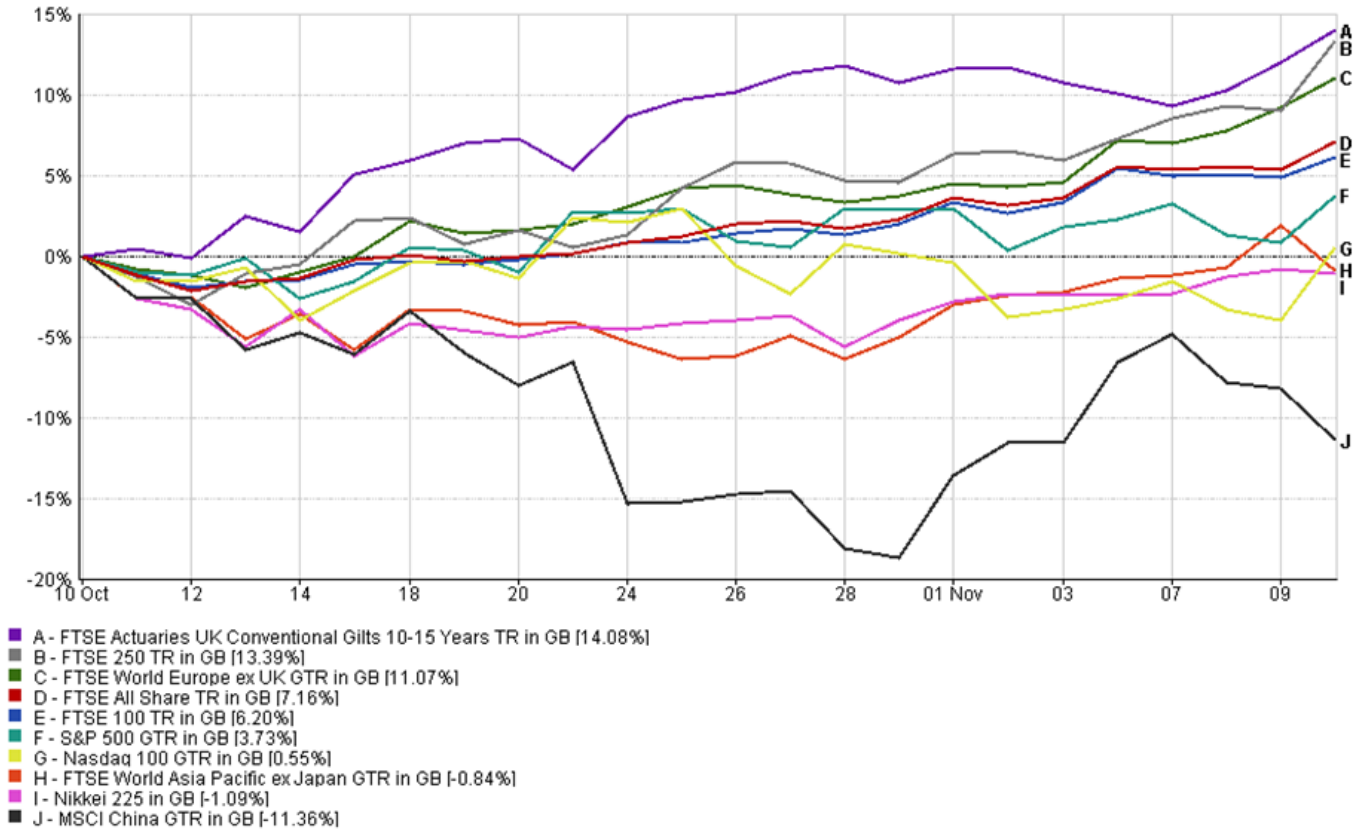


OVERVIEW

In the face of above target inflation, the major central banks, with the exception of the Bank of Japan, have continued to raise rates aggressively. The Bank of England (BoE), the US Federal Reserve (Fed) and the European Central Bank (ECB) raised their base interest rates by 0.75% following their most recent monetary committee meetings. At the beginning of 2022, interest rates were around 0%. In the space of 10 months they have risen to 4% in the US, 3% in the UK and 2% in the EU. Economic growth in these regions and indeed globally has weakened, as rapidly rising inflation is eroding real economic growth.

As the US dollar is the global reserve currency, the benchmark interest rate for valuing financial assets is that of the US. For example, the valuations of growth companies, such as technology companies, have been negatively affected as their future earnings are valued at a lower rate as interest rates increase. As we have seen over various points in the past year, asset prices have risen when investors expected US monetary policy to become less aggressive. Conversely, they have fallen steeply when the Fed has indicated that it will continue to tighten strongly to combat inflation. Ahead of the Fed's meeting, the market was hopeful that it would start to moderate the size of interest rate increases or even cut interest rates, so equity markets rose. However, the Chair of the Fed, Jay Powell, warned that the Fed has "some ways to go" to achieve its aim of bringing inflation back to target. However, the Fed's tightening policy does appear to be having some impact, as the October US inflation figure was lower than expected at 7.7% pa - dropping from 8.2% pa in September. This news alone saw the US S&P 500 rise 4% in a day and has been supportive of equity markets globally. The Fed indicated, following its last meeting, that although the ultimate level of interest rates may be higher than expected, the levels of any increases over the next few months may be less than the series of 0.75% rises seen at the last four meetings. Even with a lower inflation rate, the Fed may well continue to raise rates, but at a slower pace - although the US employment market still looks incredibly tight, which may lead to relatively high wage rises maintaining inflationary pressure.

ONE MONTH INVESTMENT MARKET STERLING RETURNS



10/10/2022 - 10/11/2022 Data from FE fundinfo2022

UK gilts have made a dramatic recovery from extreme lows following the mini Budget in September and the problems for pension funds using liability driven investment strategies. The reversal of most of the September budget announcements coupled with the new Prime Minister and Chancellor considering government spending cuts and tax increases to reduce government borrowing have largely calmed the gilt market and the wider UK fixed interest market. The pound has strengthened from its recent lows. The Bank of England indicated that interest rates may have to increase further to control inflation but perhaps reach a terminal rate that is lower than expected – currently 5%. The Bank of England has warned of challenging economic conditions with UK GDP expected to decline around 0.75% in the second half of 2022 as real incomes are squeezed from high energy and goods prices. The UK economy contracted by 0.2% in the third quarter of 2022. Inflation is expected to reach 11% in the final quarter of 2022 with private sector pay growth at around 6%. Inflation should start to fall back in early 2023 as the sharp increases in energy prices seen a year ago fall out of the inflation figures. Goods prices should also fall back as supply chain pressures appear to be easing and demand falling.

The continuation of Xi Jinping's premiership for a further five years coupled with ongoing Covid restrictions had weighed heavily on the performance of the Chinese equity market as Chinese economic growth has slowed. However, speculation that China may start to ease its zero-Covid policy in 2023 saw the equity market rise not only in China but also particularly evident in European equity markets, as China is a key market for European countries, especially Germany. European economies are facing recession as inflation remains high and economic growth has slowed so if China does reopen fully this would be supportive. Mining and other commodities stocks climbed in value against this backdrop, which saw the UK Equity market make gains as a result. Although it seems very unlikely that the Chinese Covid restrictions will ease in the very near future, the Chinese authorities may need to turn their attention to taking measures to improve economic growth in 2023.



The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartledge Morland's Investment Services team.

Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

OUR VIEW

Equity markets are already priced for recession and for a much deeper one than appears likely in developed markets. A 5% contraction (which would be far greater than anticipated) would mean 95% of the economy was still there but in the shorter term, there would be lower expectations for earnings growth in most companies. Such conditions by no means justify the fall in equity prices witnessed this year. Bond yields were beginning to look interesting but more 'doveish' tones from the central banks mean they have fallen back. As we have observed previously, current levels of global government debt provide a natural brake for interest rate rises. Longer term, normalised bond markets are better for investors than the artificial pricing created by quantitative easing.

Investment returns over 2022 have been poor as the charts below show both in sterling and local currency terms. The dreadful war in Ukraine was unexpected and with it the impact on Ukraine itself as well as globally. Inflation levels around the world, which were already above target levels after economies re-opened following Covid-19 restrictions, were further stoked by higher energy and food prices. The response of most of the major central banks in increasing interest rates relatively rapidly has weighed on economic growth as demand is reduced and consequently on investor sentiment. Normally lower risk asset classes, such as fixed interest and property, have been hit by persistently high inflation and rapidly rising interest rates. Growth companies, including those in the technology-related sectors, have seen their valuations fall rapidly. More defensive, higher quality income producing companies, energy and oil companies have fared relatively well in comparison. Interest paid on cash has increased but with inflation running at such high levels, the real return from cash is negative. The strength of the US dollar has flattered the sterling returns of funds investing in dollar assets.

Against this very negative backdrop, our diversified portfolios have remained invested - as our strategy is to look for the longer-term returns, which we have achieved over the past twenty-six years. If portfolios were encashed, when would be the correct time to invest again? We could miss that day when markets turn. We have taken action over the past few years to

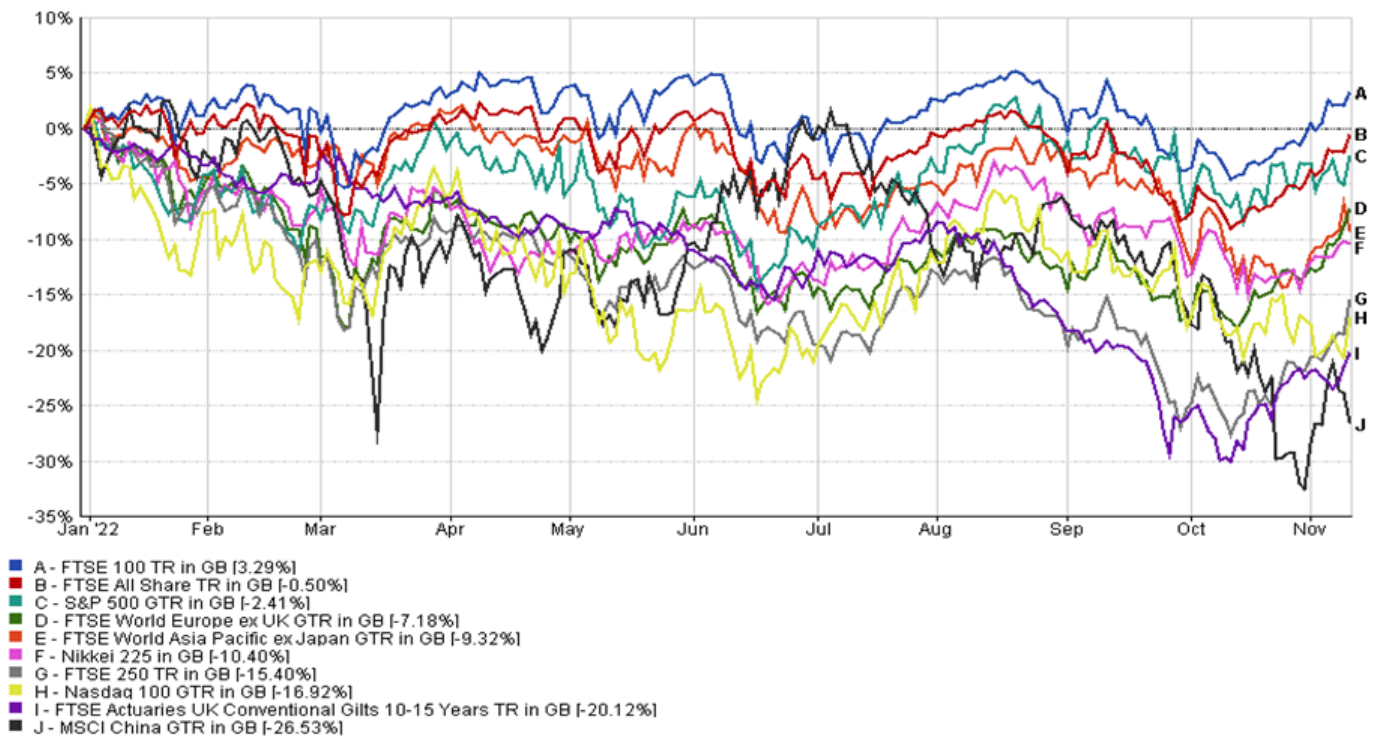
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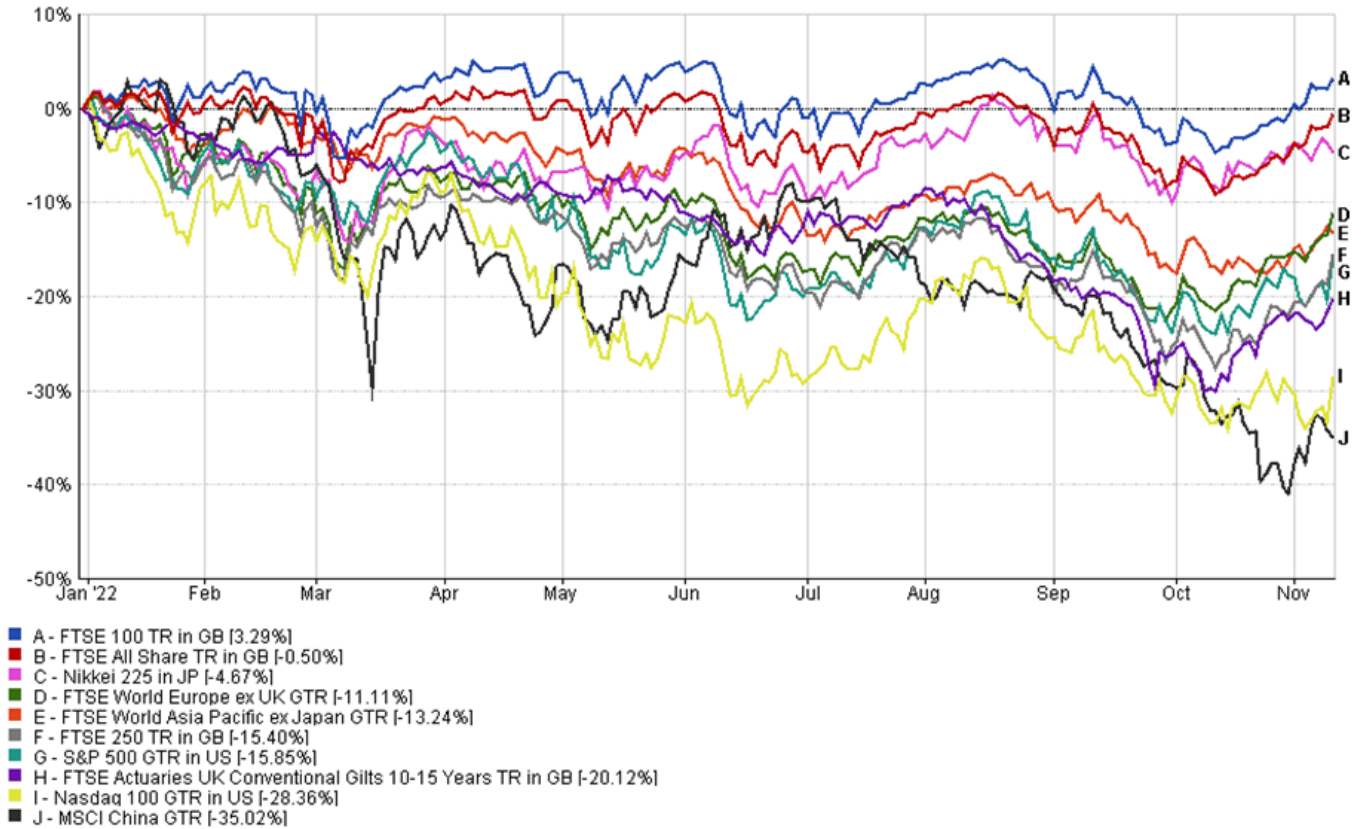
diversify lower risk exposure using protected funds and property funds. We have looked to increase income generation with more emphasis on income producing funds in major equity markets and through infrastructure funds. At all times, we have been cognisant of risk parameters. We believe that markets will turn and that financial markets will once again provide attractive total returns for investors. It has been painful to hold mid cap, smaller companies and growth funds over the past year. However, these areas of the market offer attractive entry points. High quality corporate bond funds also offer value as yields have widened in the face of higher interest rates and inflation.

YEAR TO DATE INVESTMENT MARKET STERLING RETURNS



31/12/2021 - 10/11/2022 Data from FE fundinfo 2022

YEAR TO DATE INVESTMENT MARKET LOCAL RETURNS



31/12/2021 - 10/11/2022 Data from FE fundinfo2022

**If you have any queries
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