4 October 2021 – Monthly update

Omnis Managed Portfolio Service

Following the bounce back economies experienced after exiting lockdown, the post-Covid recovery is running out of steam. Despite the growth outlook for the UK looking less positive, UK markets have had only a mediocre month, driven by rising energy prices and gains in financial services. BP and Shell have seen their shares soar by over 10%, while banks have benefited from rising bond yields.

Tighter fiscal policy is set to weigh on UK growth over the winter. National insurance will rise next April to 1.25%, which will reduce pay and make it more expensive to employ people. The £20 uplift in Universal Credit for the Covid-19 pandemic is also being cut, while the end of furlough risks a rise in unemployment. Despite the easing of Covid restrictions, households remain cautious and are still saving, which points to low consumer confidence and concerns about future employment.

A shortage of UK lorry drivers caused by the pandemic, Brexit and lack of driver training has strained supply chains to breaking point, disrupting food and fuel deliveries. Soaring oil and gas prices are also increasing inflationary pressure as economies reopen and supplies stall. The Bank of England has warned that if inflationary pressures persist, a rise in interest rates next year is more likely.

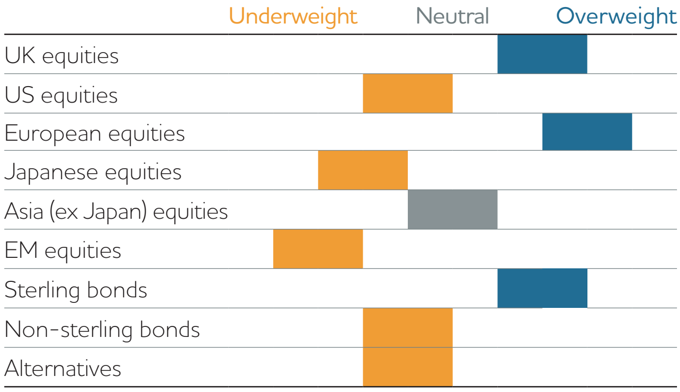
In the US, Treasury Secretary Janet Yellen has warned that the federal government could run short of cash to pay its bills by 18 October unless Congress acts quickly to increase the government's debt limit. While we believe the debt ceiling will be raised, the headlines will be ugly enough to cause market jitters. The standoff between factions of the Democrat party over voting through over $3 trillion in infrastructure and social reforms has also caused market uncertainty.

We are somewhat optimistic on the outlook for the US economy. As federal unemployment benefits come to an end, we will likely see people rejoin the workforce, which will help ease wage pressures and reduce inflation. Companies are also increasing capital investment, for example by spending on new machinery, which should improve growth and consumption. The US Federal Reserve is likely to start tapering its bond buying towards the end of the year, paving the way for interest rates to rise. If inflationary pressures prove to be transitory we don't expect rates to rise too far.

The collapse of China's second-biggest property developer Evergrande has highlighted the growing cracks in China's property market. With over $300 billion in liabilities, Evergrande is struggling to meet its debt obligations. While the central bank has pledged to protect domestic investors with cash injections, if the firm collapses it could send shockwaves through the entire financial system.

In response to growing concerns about the property market, the Chinese government introduced limits on debt borrowing last year. However, there are fears further property developers could collapse, which would hit growth. If this happens, we believe the state would have to step in with economic stimulus measures.

Asset allocation



Portfolio positioning

The global economy is at a turning point following the post-lockdown boom in growth. Global growth is slowing and rising inflation in the next few months, even if transitory, is likely to cause some market jitters in the short term.

We have remained overweight UK equities, but will we monitor this situation given the deteriorating macroeconomic outlook.

Despite our overall position in US equities, we have been overweight to US smaller companies as we have seen large companies come under pressure due to bond yield rises.

We have had an overweight allocation to European equities, which have surged since lockdown restrictions eased. The delayed vaccine rollout in the eurozone means the economic recovery is coming later than in the US and UK.

In this period of readjustment, we have had an overweight position to good-quality UK government bonds.

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