4 November 2021 – Monthly update

Omnis Managed Portfolio Service

Despite concerns about rising inflation, supply constraints and slowing consumer spending growth in the US, data released throughout the month suggests these pressures may have peaked, which helped boost equity markets.

US jobless claims fell more than expected to a new pandemic low, while retail sales rose by 0.7% in September. The US Senate has approved a deal to raise the government's borrowing debt limit through to early December, averting a federal default that experts say would have devastated the economy. Meanwhile, at its last meeting in September, the Federal Reserve, the US central bank, said economic conditions would likely justify keeping interest rates near their current level for the next two years.

During October, US stocks reached record levels on the back of strong earnings reported by companies, which helped boost investor confidence.

In the UK, rising prices mean some commentators are predicting at least one hike in interest rates before the end of the year. Inflation remains a concern, with the Bank of England warning it could hit 5% early next year. The number of UK workers has recovered to pre-pandemic levels, rising to a record 29.2 million, while the unemployment rate has edged down to 4.5%. Supply chain problems and shortages of staff and materials continue to drag UK manufacturing levels down, but there are some shoots of growth in the sector.

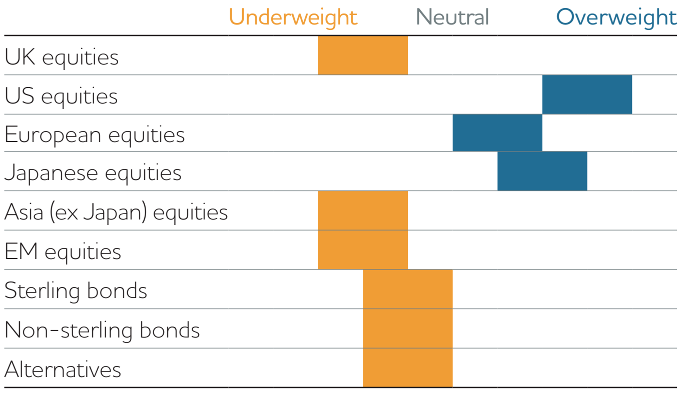
The IHS Markit/Cips flash purchasing managers' index (PMI) – which measures economic activity in the manufacturing and services sectors – rose for the first time in five months in October to 57.8, driven by a pickup in services. Any reading above 50 indicates growth in activity.

In Europe, supply chain issues and rising energy prices are pushing prices higher, with inflation now at a 13-year high of 4.1%. The European Central Bank expects the rise to be temporary and has played down the chances of an interest rate hike in 2022.

As an example of the severity of the supply chain issues, German industrial production suffered its steepest drop in 17 months, with the auto sector hit the hardest.

China's economic growth has slumped to its slowest pace in a year as a downturn in the property sector and power shortages continued to bite. Its property sector is facing increasing pressure to rein in debt after property developer Evergrande collapsed owing more than $300 billion. While Evergrande has managed to avoid going into default, risks remain, particularly as the real estate sector in China accounts for about a third of GDP in the country.

Asset allocation



Investment strategy

With global growth slowing and inflation rising, the near-term macroeconomic outlook remains highly uncertain. Over the month of October, we reduced our allocation to UK equities to an underweight position due to the deteriorating economic and policy outlook.

With a more favourable US economic outlook, we have increased our allocations to US equities across the US Smaller Companies and US Leaders funds. The European catch-up story that we have mentioned over the last six months has now played out, so we are reducing our overweight position to European equities.

Emerging market and Asian equities face headwinds from a deteriorating economic and policy outlook in China. We have moved to underweight in Asia from a neutral position and remain underweight in emerging markets.

We have reduced our exposure in fixed income assets to a moderately underweight position. In the long term, fixed income assets offer good diversification for investors, so it is important to continue to hold them in diversified portfolios such as those in the Omnis Managed Portfolio Service.

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