March 2023 quarter end review update

The table details the quarterly data for the FTSE All-Share Index.

Quarter	Open	Close	High	Low	Return year to date
January – March	4075	4157	4377	4007	2.01%

January 2023 saw markets improve on the back of positive sentiment, with inflation having peaked and the expectation that interest rate increases were likely to slow and possibly pause over the coming months. There have been two camps – one thinking that inflation will fall reasonably rapidly and that interest rates may even be cut towards the end of this year. The opposing view is that inflation will prove to be more sticky and remain higher for longer, which means that interest rates will also be kept at an elevated level. From our point of view, inflation has peaked and is expected to continue coming down but there are pressures, including the cost of living and wage growth, which we believe will make this a gradual process notwithstanding that the calculation for inflation is based on a rolling twelve months.

As economic activity starts to normalise, companies and supply chains are adjusting to a post Covid environment which means that companies are encouraging staff to return to the office and establishing new supply chains, although this takes time. As anyone looking to buy a new car will attest to, order times remain prolonged.

There are some positives, and in the UK, consumers still have a good degree of savings. Energy prices, while high, are coming down and the recent budget confirmed that the energy price cap is to continue for three more months. However, the cost-of-living crisis and interest rates for borrowers will continue to weigh on earnings and the choices consumers can make.

Globally growth is expected to be 2.9% this year, which is an improvement from the previous forecast. China opening up by removing their Covid lockdown policy is also positive. However, as seen recently with the demise of SVB in the USA, there are still the unforeseen events which send shock waves through markets. Whilst that was managed quickly, it has impacted negatively on investor sentiment in terms of the global banking sector as investors assess who might be next, which creates a degree of uncertainty. However, when trust in a bank dissipates it is almost impossible to re-establish as has been the case for Credit Suisse which will now be taken over by its rival UBS.

As we witnessed the benefits of the Covid pandemic coming to an end and economies opening up once again, all of which is positive, it does not insulate markets against the unintended consequences of gradually increasing interest rates. This has been exacerbated by concerns within the banking sector, currently focused on the USA, but is affecting investor sentiment globally. In times of stress within markets, it is even more important not to lose sight of the fact that most investors have a longer-term investment horizon. History shows that these short-term shocks, whilst unsettling, do pass as markets adjust.

Whilst the recent budget maintained the previously announced tax changes, including the reductions to both the Capital Gains Tax and dividend “exemptions” (down from £12,300/£2,000 in the 2022/23 tax year, to £6,000/£1,000 in 2023/24 and £3,000/£500 in the 2024/25 tax year, respectively), they removed the Lifetime Allowance (LTA). The removal of the LTA was totally unexpected and will have implications for those individuals who currently exceed the LTA, although should there be a change of government the opposition party have already announced that they will revoke this.

The table sets out our current asset allocation views.

Underweight	Neutral	Overweight
Government Gilts	Index-linked Gilts: Global High Yield Bonds (for income)	
Investment-Grade Bonds	Equities: US, China, Far East, Emerging Markets, Japan	Equities (large cap): UK, Europe, Asia
	Equities (small cap): UK, US, Europe	Specialist Equities (including global equities and global property shares)
Property (bricks & mortar)	Commodities	
Gold		

*Neutral means that, while we support the asset class, we do not generally want to adopt an overweight position

3rd April 2023