September 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%
April - June	4157	4096	4298	4046	0.52%
July - September	4096	4127	4198	3953	1.28%

China's economic growth did not rebound as expected and markets were disappointed by the ruling party's response to the poor economic data, which very much centers on the property market. The latest development has seen an easing of the debt burden for property companies with regard to the repayment of borrowed capital, which has settled market concerns. The property sector is a large part of China's growth story, which is why it is such an important factor for the region.

Inflation is still significantly above the 2% benchmark in most developed countries, but the headline rate continues to decline albeit at a slower pace. As a result, markets are now looking to Central Banks to signal how long they are likely to pause raising rates in the current cycle, after which the question will be when rates will start to be cut. The issue here is that Central Banks have indicated that, once rates have peaked, they expect rates to remain "higher for longer". In our view, the dilemma for Central Banks is how long rates can remain at higher levels, while at the same time securing economic growth.

In the UK the Bank of England's expectation is that inflation will be below 5% by year end and that we are close to the peak of the current interest rate raising cycle, with the markets expecting no more than one or two rate rises. UK consumers are beginning to see food inflation reduce, with the price of some basic goods declining after the prices of certain food items increased by as much as 20% over the last year.

With interest rates set to peak over the coming months and inflation continuing to fall, the environment for fixed interest funds should become more favourable after a difficult eighteen-month period for the sector.

There remain headwinds. For China it is their property sector with a high ratio of debt, for the USA it is the consumer and whether they can sustain current levels of spending, whereas for the UK it is economic growth post Brexit with signs of a cooling property market which often impacts consumer sentiment and spending. Globally, growth is still expected to be positive for both this year and next, but once again the expected growth rate has been revised lower for 2024 (from 2.9% to 2.65%).

Consensus sees a soft landing for the USA next year, albeit that a recession is expected, and markets are still adjusting, and so there is a tendency to overreact to data. Once interest rates have peaked, in our view markets will be able to concentrate on the core data and be less influenced by the outlook for inflation. Inflation continues to fall, although at a slower pace than expected.

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)
Property (bricks & mortar)	Commodities	
Gold	Global property shares	

**Neutral means that, while we retain the asset class, we do not generally want to add to the position*

2nd October 2023