Q2 2022 COMMENTARY
GBP PORTFOLIOS

MARKET REVIEW

Much of what happened in Q2 has oscillated around two factors, inflation and what this means for interest rate rises. As inflation continued to head towards 9%, stock markets sold off on fears of more interest rates rises than previously thought. Economic growth around the world continued to flatten in Q2 which caused further jitters in the market that the global economy was headed towards a worldwide recession.

These jitters saw more indiscriminate selling of a broader range of stocks than just those classified as "growth" stocks which bore the brunt of the selling pressure in the first months of the year. Likewise, the fears around the economic environment saw investors move back towards the bond market which has always been a safe haven in times of uncertainty and given the steep selling which occurred in Q1 investors were eyeing some bargains in this sector.

In this style of market, it pays to shorten one's investment scope to companies which have low levels of debt, high levels of surplus cash and products and services that remain in demand regardless of the economic environment.

PERFORMANCE REVIEW

The performance data below relates to the period 01 April – 30 Jun 2022.

	Portfolio %	Benchmark %	Relative %
Defensive	-4.19	-6.43	2.24
Cautious	-5.38	-6.12	0.74
Balanced	-6.44	-5.67	-0.77
Growth	-7.07	-5.30	-1.77
Adventurous	-7.04	-4.75	-2.29

Source: TAM Asset Management Ltd. Notes on Benchmarks: Composite of an equity and fixed income component. The equity component is the FTSE All World Index and FTSE All Share split equally, the fixed income component is the FTSE World Government Bond Index and FTSE UK Gilts All Stocks Index split equally. Both components are apportioned based on each individual risk profile.

PORTFOLIO ACTIVITY

We entered the quarter with moderately lower levels than the ESG benchmark in terms of pure equity exposure. This theme remained through the quarter as economic headwinds multiplied but TAM did make some rotations in the make-up of our equity portfolio. In May, TAM completed the last tranche of selling the Liontrust Sustainable Future Europe fund. TAM no longer has any direct European equity funds where there is the chance of a recession in the Eurozone amid rampant inflation and geopolitical tensions. TAM continues to favour the US, topping up exposure slightly via the high-quality focused Brown Advisory US Sustainable Growth fund.

Later in the quarter, TAM also rotated some holdings from other funds which focus on future growth companies such as Pictet Global Environmental Opportunities and Premier Miton Responsible UK Equity and rotated them into Schroder's Global Sustainable Value Fund. This strategy has provided the closest exposure achievable, within a strict ESG mandate, to the recent strong performance of those companies structurally undervalued by the market.

Lastly, we introduced the Pictet Climate Government Bond fund, an SFDR classified article 9 strategy focusing on Government debt issued only by those companies showing clear and demonstrable efforts to reach net zero targets.

OUTLOOK AND STRATEGY

Looking forward there remain things to be positive about and things to be cautious about which usually means volatility is going to be dictated by news on inflation. On the positive side of the argument, the US consumer is still considered to be in good health which, if inflation in the US starts to trend down meaningfully will be taken as a very strong indication that the US will be able to avoid a recession providing a boost to equity markets. Conversely, if inflation remains persistently high this will likely mean more rate hikes are needed and could prompt more volatility in markets.

As we remain in "wait and see" mode on inflation and interest rates, it makes sense to remain underweight equities as both a measure of defence if the market moves lower but also as a strategy to keep dry powder if we want to buy into a recovering equity market.

Let's not forget a few key elements to investing which we think are worth mentioning half way into this challenging year. A recessionary market is not a disaster, it's a normal healthy function of the economy and market and as we move closer to the prospect of a recession it should be seen as a chance to reset the investment clock and get back to owning high-quality businesses at steep discounts for the long term. Approaching these tricky markets with the right mindset to capture long term value for clients whilst protecting where we can in the short term forms the core of what it means to be a good investment manager.