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Q3 2022 COMMENTARY
GBP PORTFOLIOS

MARKET REVIEW

The third quarter was another one of volatility which has been the mainstay of 2022's investment landscape. The standout differential in Q3 was a large market rally in the summer months which lasted most of the quarter. From the outset, the S&P 500 rallied nearly 15% from the lows in Q2 then sold off back to those same levels. Much of the euphoria seen in the third quarter's 15% rally has been down to a large sell off in the price of oil which feeds directly into petrol pump prices, which in turn feeds directly into lower inflation numbers.

This move lower in oil and pump prices gave investors the confidence that, with inflation consistently coming down, there would be less need for central banks to raise interest rates to such an extent that would cause a recession, which in turn caused a strong rally in global equities and bonds. The selloff set in at the back end of September as inflation numbers failed to come down in the magnitude that the summer's positivity had led investors to expect.

The UK Chancellor's mini budget focused steeper levels of borrowing and tax cuts which was so poorly received by the market that the pound and UK government bonds virtually collapsed under the selling pressure. It was narrowly saved at the end of the month with the Bank of England stepping in to begin buying bonds to stabilise the market. This capped off what has been a highly volatile quarter from not only a stock market perspective but also a political one and a social one with the very sad passing of Queen Elizabeth II.

PERFORMANCE REVIEW

The performance data below relates to the period 01 Jul – 30 Sep 2022.

	Portfolio %	Benchmark %	Relative %
Defensive	-3.79	-4.99	1.20
Cautious	-1.94	-3.93	1.99
Balanced	-1.87	-3.21	1.34
Growth	-1.66	-2.32	0.66
Adventurous	-2.34	-1.71	-0.63
Speculative	-2.27	-1.14	-1.13

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

In line with a volatile market moving from bull to bear and back again, the portfolios have had to adjust to the three scenarios over the quarter. Portfolios had their defensive positioning improved in the form of T Rowe Price's Global Bond Fund which is defensively placed to take advantage of a falling bond market. This investment helped to deliver significant levels of capital protection to clients over the quarter.

As we continued to move towards a recessionary environment, TAM sold its exposure to commodities and took some well-earned profits from this sale at the same time. The last element of defensive positioning was to move clients' UK bond exposure to entirely long dated exposure. We believe that sitting out the volatility in a part of the market which looks through the short term volatility of the next two years makes sense from a capital preservation perspective.

Finally, we made improvements to the multi-asset space in clients' portfolios with an investment into Fulcrum's Diversified Core Absolute Return Fund which has been performing extremely well in this market volatility and continues to protect clients as we move into the fourth quarter.

OUTLOOK AND STRATEGY

In Q4 the market looks set to remain as volatile as it has been all year. Why? The global economy appears to be slowing down but inflation doesn't, and markets seem to be waking up to the idea that central banks are going to raise rates into a recession if that's what it takes to control inflation. If volatility does remain in Q4, it will oscillate around economic indicators such as unemployment numbers, wage inflation, everyday goods inflation, consumer sentiment, house prices and interest rates.

It is worth stressing that if news flow from the above indicators surprises on the upside and indicates inflation slowing faster than many are expecting, and economic growth is staying strong, then we can reasonably expect a more positive market in Q4.

Whilst there is an opportunity in this uncertain market to start to invest now, we envisage more challenging months ahead and thus remain very much in defensive investments which are suited to protecting investors in times of stock market volatility, as opposed to stepping in and buying stocks and bonds.

Nonetheless, we have one eye on investments that we think will outperform a rallying market and will be looking to invest into these over the coming months to provide clients with the best investments to begin repairing the damage to portfolios during 2022.

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