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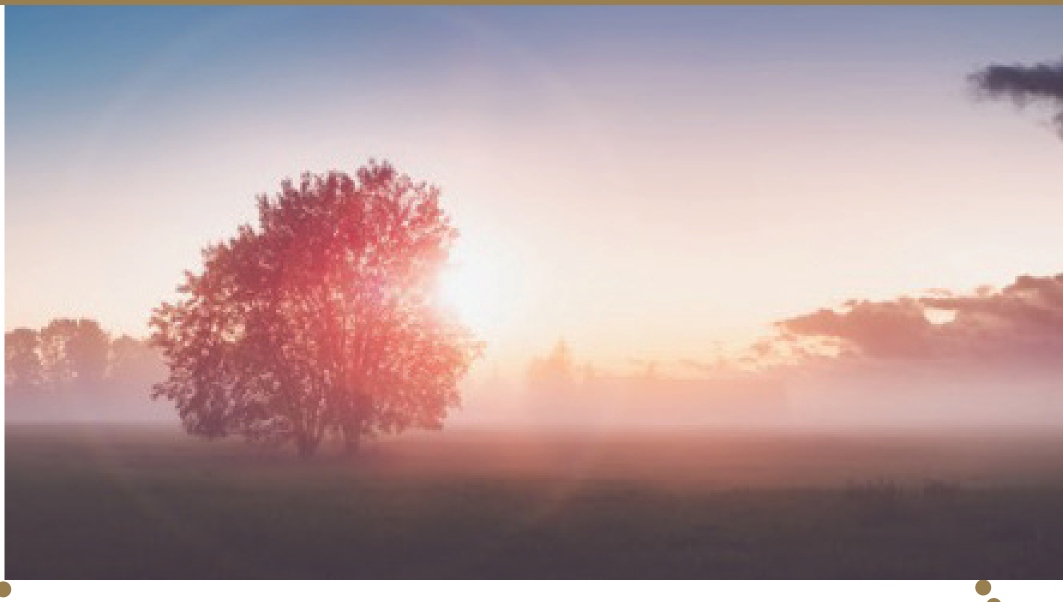
Market Environment

Q3 2022



Market Environment

It was another difficult quarter for global equities, even if it started positively. In July, markets responded to a slew of positive corporate results, and US equities returned their best monthly performance in more than 18 months.

But it wasn't to last. In August, high inflation rates and central bank tightening sparked fears of a recession in Europe, where stocks underperformed. The downward trend slipped into September, as inflationary concerns continued. In the US, the S&P 500 Index recorded its biggest daily loss in over two years. European stocks fell again but performed slightly better than the global average. The UK was outperforming the global average until the mini-Budget, after which the pound weakened significantly.

In emerging markets, Latin America was strong, while China and Eastern Europe underperformed.

The US Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) all hiked interest rates over the quarter. The BoE raised rates twice, hitting 2.25%. The Fed bumped rates by 75 basis points (bps) in July and September. The ECB raised interest rates by 50 bps in July, its first hike in over a decade. The market was expecting a smaller raise, but ECB president Christine Lagarde noted that higher-than-expected inflation required a greater-than-anticipated rate hike. The ECB raised rates by 75 bps again in September as inflation continued to soar.

In the UK, September's mini-Budget sparked a wave of selling, leading to criticism from the International Monetary Fund and an emergency gilt purchase programme by the BoE. Annual inflation in the UK rose to 10.1% in September, a 40-year high, while Eurozone inflation also hit 10%. Sovereign and corporate bond prices fell in September, with higher-quality bonds holding up better than higher-yielding and emerging market issues.

Market Outlook

Equity markets are likely to remain volatile, given rising inflation, higher rates, the slowdown in China and geopolitical worries. The Russia-Ukraine conflict has added to the challenging global macroeconomic backdrop and driven inflationary pressures.

Meanwhile, concerns have risen about the UK economy after the recent mini-Budget and its implications for the country's fiscal position. On the plus

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side, the People's Bank of China has, in contrast to other major central banks, maintained an accommodative policy stance.

Within fixed income, investor attention will focus on the effectiveness of central-bank measures to control inflation. Comments from the Fed have led to expectations of additional, substantial rate increases in 2022. Meanwhile, the ECB is also raising rates to control inflation. After the UK's mini-Budget created turmoil, investors will be paying attention to the details of the government's medium-term fiscal plan, expected at the end of October.

While we expect UK real estate to provide reasonable returns for calendar year 2022, a strong first half is likely to be followed by a much weaker second given the weakening macroeconomic environment, and a backdrop of rising interest rates.

Chartered Wealth Model Performance

Over Q3 the Chartered Wealth models fell in line with broader market movements, with returns of -2.95% in Risk II, -2.19% in Risk III, -1.50% in Risk IV and -0.88% in Risk V.

Fixed income allocations were hit hard, as central banks grappled with inflation. Client portfolios with higher fixed income allocations suffered losses that at times exceeded those of more equity-driven, higher risk accounts.

In terms of underlying Fund selection, Q3 saw a mixed picture. After suffering alongside the broader selloff in the second quarter, the position in abrdn Global Mid-Cap enjoyed a better period, gaining 4.6% (vs 1.5% for MSCI AC World index).

But there were less favourable relative returns with other advisory elements of the portfolio, with the alternatives bucket positions all losing ground. Waverton real assets, Gravis and abrdn listed private capital each fell almost 10% in September, with only the Ruffer fund providing some respite, gaining 2% over the quarter.

Outside of the advisory portion, fortunes were also mixed. US equity selection was strong across portfolios, led by the value oriented Artemis Fund, which gained 5.9%, and JPM US Select, which gained 4.9%. This is against a gain of 3.4% in GBP terms for the S&P index.

After a tough three months in Q2 the US Enhanced index Fund was also positive, adding 3.7% (although note that fund performance for all US Funds in Q3 was flattered by a pricing point - 30 September - that misses the market falls seen that day).

Relative returns were also mixed in small cap allocations, with a 6.2% gain in Emerging markets the standout performance. The US small cap also outperformed the market, gaining 5.1%. But UK and European strategies continued to suffer, falling 10% and 7% over the quarter as the managers' quality growth style remained out of favour.

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