April 2023 | Monthly update

Omnis Managed Portfolio Service

Although the failure of banks in the US and Europe is unlikely to lead to a wider financial crisis, the risks of an economic slowdown or recession continue to weigh down on the investment environment.

Market moves that mattered

Banks in turmoil. Although there have been bank failures in the US and Europe, we believe the risks are contained. Most banks have healthy levels of liquidity and tighter regulation following the 2008 financial crisis, which means another crisis is unlikely. However, risks remain as depositors continue to be nervous and move assets away from regional banks to safer places.

Rising interest rates. The Federal Reserve, Bank of England and European Central Bank all rose interest rates in March as they continue to battle inflation. Higher rates are one of the causes of the recent bank failures, which leaves policymakers striking a fine balance between fighting inflation and maintaining financial stability.

Recession ahead? Following the UK Chancellor's Spring Budget, inflation is forecast to fall to 2.9% by the end of 2023 and the UK economy is expected to contract by 0.2%. Beyond the UK, we believe the global economy is likely to hit a recession later this year. Markets are expecting interest rate cuts as early as June, which would happen if the economy is slowing significantly.

Investment highlights

Decreased exposure to developed market equities. We've reduced exposure to equities in the US, UK and Europe. We still expect a recession in these regions, and the banking issues have sent ripples through markets, impacting equity prices. When combined with central bank rate rises, the pace of economic growth is likely to slow, which will weigh on equity markets.

Positive outlook on Asian equities. We remain positive on Asia and, to a lesser extent, more broadly on emerging markets. We believe China's post-covid reopening is a work in progress. Policy conditions support economic expansion and the effects should be felt in the broader Asian regions as Chinese consumers spend savings built up during the lockdowns.

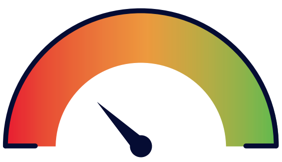
Overweight on bonds. We've increased our allocations to UK gilts, which are attractive when the economy is slowing or in recession because demand increases, pushing up prices. In the meantime, higher interest rates translate to higher yields for gilt investors. We've also increased allocations to short-dated bonds given high yields available, and added to our cash holdings.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

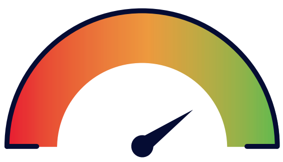
If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities



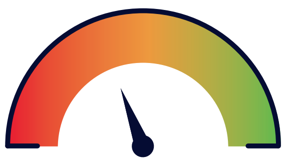
Negative = UK, US + Europe
Neutral = Japan
Positive = Asia + emerging markets

bonds



Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash



Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

www.omnisinvestments.com

Omnis INVESTMENTS