

Omnis Managed Portfolio Service



Stock markets jumped for joy after the latest data showed US inflation has started to fall, but we remain cautious on the investment outlook as major economies head into recession.

Market moves that mattered

Is inflation finally peaking? There's been some good news to suggest global inflation may be falling at last. Notably, annual consumer price growth in the US has slowed by more than expected to 7.7%, which is the lowest level since January. Although inflation has hit a 40-year high in the UK, it has also fallen back across the euro area.

Central banks have more room to breathe. These dips have fuelled speculation that the US Federal Reserve and European Central Bank may slow their programmes of interest rate rises. That would then relieve pressure on their economies, and would also be positive for returns from both bonds and equities.

China's zero covid policy in the spotlight. The population is straining against strict lockdown rules that are suppressing economic activity. Investors have pushed up the price of Chinese equities on hopes of a post-Covid rebound. Yet the authorities must balance reopening with the risks associated with low vaccination rates among the elderly and vulnerable.

Investment highlights

Cautious on equities despite positive returns in November. We've maintained an underweight allocation to equities for some time due to concerns about the economic outlook and an expectation that profit growth would fade. There's a risk that analysts will downgrade company earnings forecasts, which could depress stock market values over the medium term, even though investors have welcomed the news of lower inflation in the very short term.

The macroeconomic outlook remains negative. We expect the sharp increase in rates over 2022 to trigger a recession in most major regions. Over the short term, central banks may cool off from very aggressive rate hikes, and this optimism has provided some relief for stock markets. But the deteriorating growth outlook remains a challenge.

Fixed income remains a key part of portfolios. We continue to prefer good-quality government bonds, which should provide a safe haven as the economy slows and major economies head into a recession.

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](#).



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