June 2022 | Monthly update

Omnis Managed Portfolio Service

Financial markets have endured a challenging few months. While geopolitical risks remain elevated, investors have increasingly focused on central banks' efforts to tame inflation.

Market moves that mattered

US consumers are propping up the economy. American households have excess savings they accumulated during the pandemic, which could explain why consumer spending remains so strong. Yet the latest surveys of economic activity show the pace of US growth is slowing. The extent of this slowdown is likely to depend on how long consumers are able and willing to continue to draw down on their savings, at a time when consumer sentiment is falling.

A fine balance between growth and inflation. Prices have been rising rapidly for over a year now as the global economy has readjusted from the pandemic and the Ukraine War has disrupted energy supplies. Inflation looks like it may be peaking, which may give central banks the breathing space they need to avoid increasing interest rates too aggressively and choking off growth.

Shot-term optimism but medium-term caution. Even when the economic outlook is deteriorating, there are always going to be positive signs to encourage optimism. China is a good example, where falling infection rates may allow the government to ease draconian "zero-Covid" restrictions. Whilst this should help with inflation, we see some medium-term challenges ahead for financial markets.

Investment highlights

Dialling down exposure to US equities. The US stock market has been under a lot of pressure recently with technology companies in particular falling out of favour with investors. We've reduced our exposure from overweight to neutral due to the risk of recession if the central bank raises interest rates too aggressively.

We remain cautious of UK equities. The UK stock market is one of the few that has delivered positive returns recently. Yet a large proportion of these gains come from energy companies and the sector remains vulnerable to a global economic slowdown.

Overweight high-quality government bonds. Bond yields have been rising for most of this year (meaning prices have fallen). But now that inflation expectations are falling, yields have stabilised. In our opinion, high-quality bonds remain the best protection against the risk of a marked economic slowdown.

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, Europe + EMs*
Neutral = US, Japan + Asia
*Emerging markets

bonds

Negative = corporate bonds
Positive = gilts + global bonds

alternatives + cash

Negative = absolute return bonds
Positive = short-dated bonds

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