December 2023 | Monthly update

Omnis Managed Portfolio Service

Against a background of fading inflation and expectations that central banks are likely to be able to stop hiking interest rates, stock and bond markets enjoyed a substantial rally in November.

Market-moving events

Inflation falls sharply. The latest data reveals the rate of inflation across western economies fell sharply in October, and by more than expectations. The pace of annual consumer price rises slowed to 3.2% in the US, 2.4% in the euro area and 4.6% in the UK, which is the lowest in around two years. The main cause has been lower energy prices.

Interest rates are on hold. Central banks are warning that the battle against inflation is not yet won, and rates may have to rise further or stay on hold for longer. We interpret their announcements as a warning to markets against pricing in interest rate cuts too aggressively. The Bank of England acknowledges higher interest rates are slowing the UK economy.

Heading for a soft landing. Economic activity is sluggish in many areas, but most western economies are likely to avoid recession with a so-called soft landing. However, the full effect of monetary policy tightening has yet to be felt and it is too early to signal the all clear. Europe is one of the weakest regions after its economy contracted by 0.1% during the third quarter.

Investment highlights

Bond yields fall. Fading inflation and confirmation that central banks appear to have reached the peak of their rate hiking cycles fed through into fixed income markets in November. Yields fell, meaning prices increased, delivering strong returns to bond investors. The yield on 10-year UK gilts fell 40 basis points to 4.2%, while two-year gilts fell 20 basis points to 4.5%.

Stellar equity returns. Global stock markets rallied, with Europe (ex UK) and North America leading the pack with double-digit returns. The fall in bond yields helped the growth style outperform, meaning technology was the strongest sector. Industrials, consumer discretionary and financials also enjoyed double-digit returns.

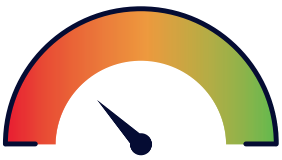
Holding steady. We are retaining our overweight allocation to bonds and modest underweight in equities, in line with our cautious outlook. A strong economic downturn is still possible and inflation could rise again. However, our central case remains falling inflation, a peak in the interest rate cycle and a soft landing, along with some risk of a deeper recession.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

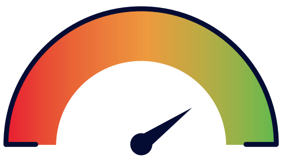
If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities



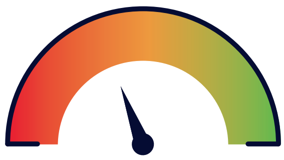
Negative = UK, US + Europe
Neutral = Japan + emerging markets
Positive = Asia

bonds



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

alternatives + cash



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

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Approved by Omnis Investments on 4 December 2023