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Portfolio Review *May 2022*

After seven consecutive weeks of declines, the longest losing streak since 2001, equity markets finally bucked the trend and logged strong gains in the final week of the month. April's sell-off initially spilled over into May but a combination of positive retail earnings reports, potential easing of lockdown restrictions in China and hints of Fed flexibility all helped global equities rebound from their lowest level in more than a year. Volatility nevertheless remained high; for example, during May the S&P 500 index saw both its best and worst daily performances since spring 2020. And whilst risk assets staged a late rally, most major indices ended the month largely where they had started it.

The risk-off narrative remained the same, with concerns focused on inflation, monetary tightening, Covid and geopolitical issues however, there were no major downside surprises during the month. Geopolitical events were numerous but less impactful on markets than in previous months. Russia continued its offensive in Eastern Ukraine, tensions between the UK and EU rose again over post-Brexit agreements and relations between the US and China were again strained over Taiwan. Russia and China launched a joint exercise over the Sea of Japan when President Biden was visiting to announce the launch of the Indo Pacific economic pact.

There were some encouraging signals from China towards the end of the month which has been grappling with the Omicron variant and seen some of its largest cities lockdown for several months. Officials announced that a gradual reopening of Shanghai will take place in June and the government said it would enact measures to boost the beleaguered economy. The news of the reopening prompted a rise in the oil price, with the price of Brent crude topping $120 a barrel. However, there are still a large number of districts classed as 'high risk' and the continued zero-Covid approach adopted by the country does not rule out the possibility of further lockdowns.

Peak inflation continues to be the dominant focus of markets right now, although whether or not we are yet approaching the peak remains to be seen. There were some encouraging signs in the US and the eurozone where despite inflation remaining high, it did not meaningfully change from the previous month. Some saw this as an encouraging sign of inflation peaking and allowing central banks to slow the pace of tightening. In the UK on the other hand, inflation continued to rise reaching its highest level in 40 years. CPI rose to an annual rate of 9% in April and notably increased by 2.5% between March and April alone. Over half of this monthly increase was driven by energy prices which directly contributed 3.5% of the annual rise, although it will undoubtedly have an indirect impact driving prices elsewhere in areas such as manufactured goods and food. In an effort to ease the cost of living crisis, Chancellor Rishi Sunak announced a £15 billion injection into household finances funded by a temporary windfall tax on oil and gas companies.

For now, at least, the major central banks remain hawkish. On the back of strong labour market data, the Bank of England raised the bank rate by 25 basis points to 1.0% in May, its fourth consecutive hike. The UK unemployment rate in the three months to the end of March fell to 3.7% - the lowest level since 1974 – with job vacancies now exceeding the number out of work for the first time on

record. In the US, the Federal Reserve announced a 50 basis points rate hike and signalled they intend to repeat this in June and July. Having pre-warned markets of their intention in April, the rate hike was in line with market expectations and so did not prompt a jump in US yields and bond market returns were flat to slightly negative for the month as a whole. There were also rate hikes from the Bank of Canada and the Federal Reserve Bank of Australia while the European Central Bank has indicated it will likely increase rates from negative levels in July.

After a painful April, investors gained some respite in May, although in sterling terms most equity markets still delivered marginally negative returns. Duration heavy growth stocks once again sold off, underperforming their value counterparts. This was also reflected at sector level where energy stocks rallied amid another sharp increase in oil prices. Other value sectors such as financials and healthcare also posted positive returns, offsetting negative returns from other sectors, most notably inflation-scarred consumer discretionary and consumer staples. Real estate was the worst performing asset class as leading indicators suggested the US and UK housing markets are starting to slow.

The UK market continued to outperform other developed market indices as the clear valuation attractions are beginning to be recognised in an era of rising interest rates and a large weighting to the energy sector continues to provide a useful tailwind. The FTSE 100 registered a positive return of 1.13% in May and remains the only equity market in positive territory year to date with returns of 4.83%. The broader FTSE All Share index rose 0.69% in May, up 1.5% year-to-date. Given its high exposure to growth stocks, US equities unsurprisingly underperformed most overseas markets falling 0.25%, while European equities delivered a small positive return of 0.18%. Emerging market equities turned a corner towards the end of the month as Chinese equities rebounded on optimism that lockdowns were potentially nearing an end, as well as receiving a boost from the commodity driven markets of Latin America. Returns as measured by the MSCI Emerging Markets index were broadly flat.

Portfolios

The Beckford James portfolios followed the gyrations in the markets falling in the first part of the month but staging a rally into month end. Overall returns were marginally negative for all portfolios apart from the Income portfolio which delivered a positive return of 0.73% to once again make it the best performing portfolio. The Growth portfolios fell between a range of -0.77% to -0.91% as again both fixed interest and equities fell in tandem. The Ethical portfolio ended the month down 2.57% having been the worst affected by rising bond yields and growth stocks in the early part of the month.

Once again income generating funds fared well as value stocks outperformed growth stocks with strong performances from the Schroder Global Equity Income, GAM UK Equity Income and JO Hambro UK Equity Income funds. In the Growth portfolios, the direct property funds once again showed their inflation protection credentials to deliver positive returns while the Atlantic House Defined Returns fund, which has recently been added to was also up on the month.

At the other end of the spectrum funds which have a strong bias towards growth and/or the US unsurprisingly underperformed such as the Goldman Sachs Global Millennials fund and the Natixis Sayles US Equity Leaders fund.