AUGUST REVIEW

INVESTMENT UPDATE

Chartered Financial Planners and Wealth Managers

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What happened in markets?

The month began with a bang as weak US economic data and yen strength prompted an aggressive sell-off in Japanese equities, although few regional equity markets emerged unscathed. This bout of volatility was amplified by lower summer trading volumes. However, global equities regained their poise in the second half of August finishing the month 3% higher (in USD terms), and even Japan reversed most of its losses. Fears over rising US unemployment saw defensives rally, with sectors such as healthcare and consumer staples in demand.

A weak US jobs number was the main driver behind a bond rally as fears over a US recession and the resulting impact on global growth dragged yields lower. However, even as global equities recovered in the second half of August bond yields remained lower than at the start of the month. Oil prices falling by 5% over the month may have been a factor, as well as inflation data remaining well behaved, opening the door to a potential 0.50% cut in US interest rates in September.

The Bank of England cut UK interest rates to 5% in a finely balanced decision which saw the Banks Chief Economist vote against the Governor. With inflation receding rapidly in 2024 this seemed a sensible first step, even if services inflation remains too high for comfort. With UK growth improving, there may only be a short window of opportunity to lower rates further. Rises in the energy price cap will also put upward pressure on headline inflation over the rest of the year.

What did we do in the funds?

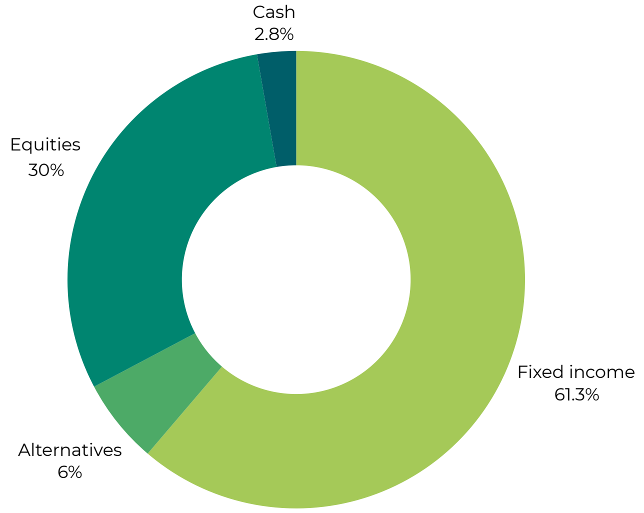
During periods of extreme volatility the best plan of action is usually to do nothing, unless you have significant amounts of cash to deploy. However, we did marginally increase global high yield bond exposure by adding to the BNY Mellon Efficient Global High Yield fund across the VT Esprit range. We think yields over 7.5% are difficult to resist, particularly in an environment where inflation is falling, interest rates are moving lower, and economic growth is modest but positive.

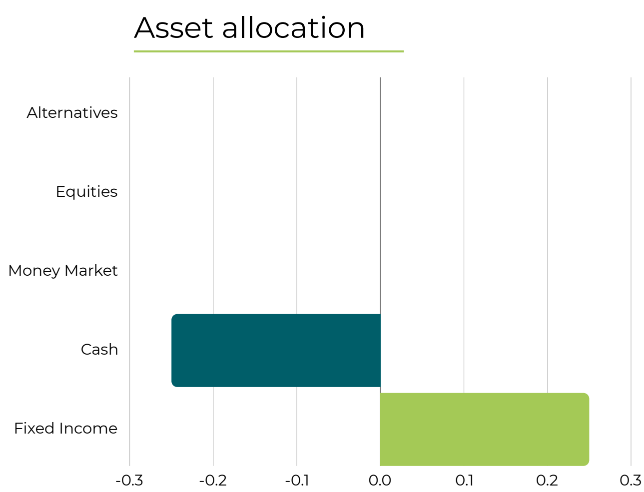
We have additional exposure to high yield bonds through a global strategic bond fund, which enjoys a flexible go anywhere approach to global bond markets depending on where the manager sees most value. The fund is currently split between government bonds, high quality corporate bonds and high yield bonds.

Elsewhere, we introduced Montanaro UK Income into VT Esprit Careful Growth following a spell of weakness by UK smaller companies. The initial wave of excitement around UK assets following Labour's victory has waned in recent weeks, and this move brings the fund in-line with the other VT Esprit funds. This was funded by a reduction in the iShares UK Equity Index which tracks the FTSE All Share.

Asset allocation

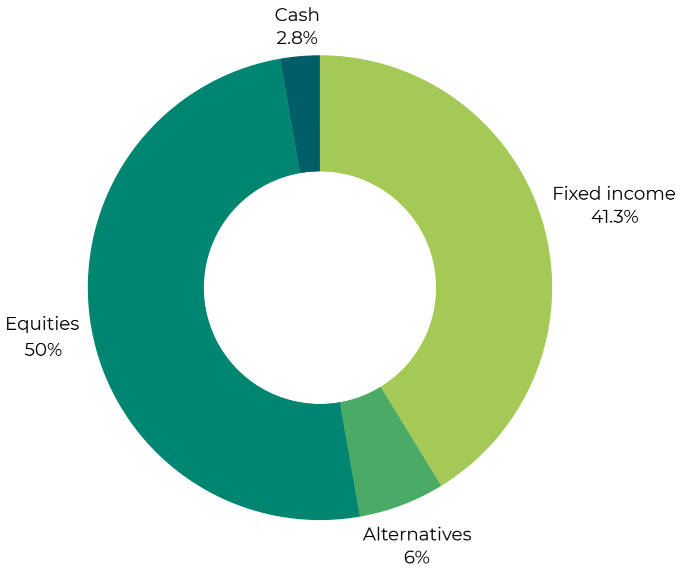
VT Esprit Careful Growth

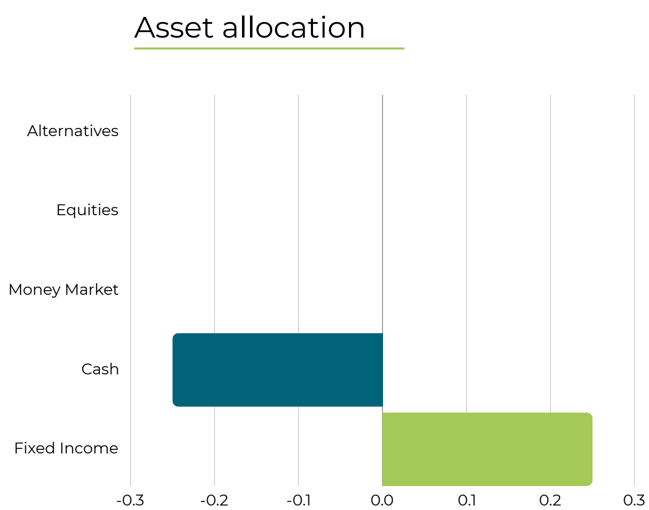




**Actual portfolio weightings may fluctuate slightly based on market movements and rounding*

VT Esprit Tactical Balanced





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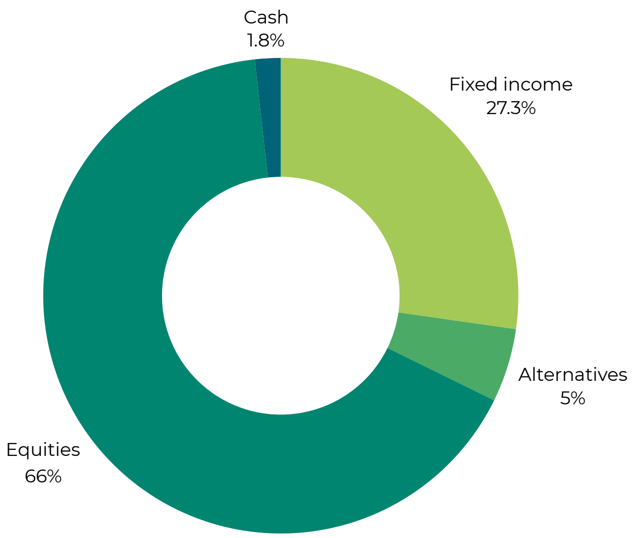
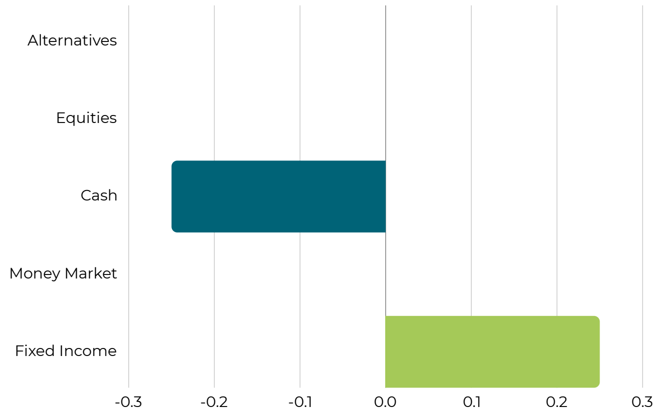
VT Esprit Tactical Growth



Asset allocation



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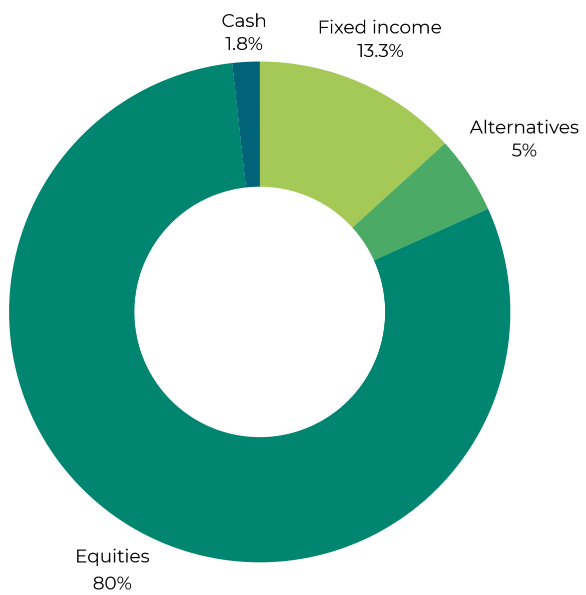
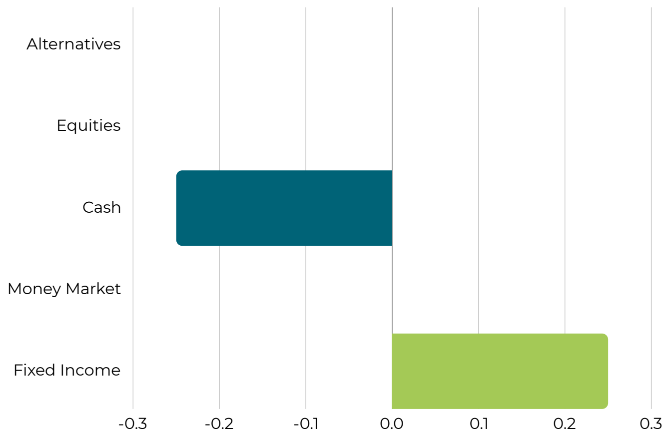
VT Esprit Tactical Alpha Plus



Asset allocation



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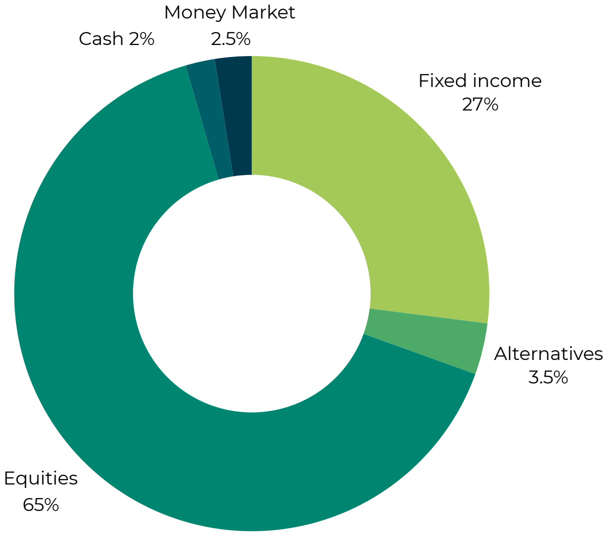
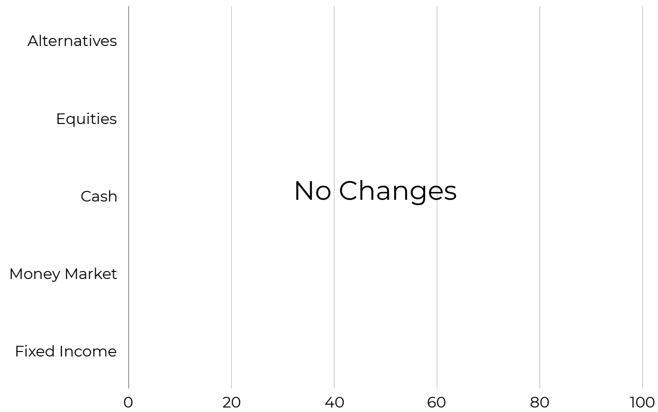
VT Esprit Sustainable Growth



Asset allocation



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What is the outlook?

The Fed have all but confirmed they'll reduce US interest rates at their September meeting, although it remains to be seen whether they cut by 0.25% or 0.50%. Our money is on the former given that the US non-farm payrolls report on 6th September is unlikely to be weak enough to warrant a more forceful response from the Fed, although they've now placed the health of the labour market at the front and centre of their thinking.

However, we feel the market may once again have got ahead of itself and we do not believe that we're on the cusp of a major US slowdown. Indeed, we expect further disinflation without a recession, more commonly referred to as a 'soft landing'. As growth settles at a modest level, we should expect bond yields to stabilise around current levels as central banks reaffirm their slow and steady approach to rate cuts.

Sterling is the best performing G7 currency this year, and global institutions and investment banks are hastily revising up their UK growth forecasts. However, the Labour party have created a narrative that there is a black hole in the UK's public finances which needs addressing in October's budget. This approach risks damaging consumer confidence at a time when real wages are rising, and mortgage rates are falling. Higher CGT rates (if confirmed) may also discourage the sort of entrepreneurship the government's growth ambitions require.