skerritts

SEPTEMBER REVIEW

INVESTMENT UPDATE

Chartered Financial Planners and Wealth Managers

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What happened in markets?

Modest moves in global bond and equity markets were overshadowed by a monumental rally in Chinese equities following the announcement of a range of stimulus measures by the Chinese authorities. Indices tracking Chinese equity markets have risen as much as 30-40% across late September and early October, with the CSI 300 Index registering its best five-day return since 2008. The policy support includes cuts to short term interest rates and the rates charged on existing mortgages, to alleviate stress in the property market and revive a slowing economy. Perhaps the biggest surprise was the announcement of measures to directly support the stock market.

The Fed began the rate cutting cycle by voting to reduce interest rates by 0.5% at it's September meeting, a more aggressive move than some investors had expected. Most officials anticipated further cuts at meetings in November and December according to the central bank's updated quarterly projections. The Fed's dovish shift has been followed by other major central banks, with the European Central Bank and Bank of England acknowledging that they may need to follow the Fed in cutting rates more aggressively.

With the UK government's honeymoon period over, they have faced criticism following the recent fall in consumer and business confidence. Having ruled out changes to income tax, VAT, or national insurance, speculation has mounted that Labour will target other parts of the tax system including capital gains tax and inheritance tax, and this has weighed on economic activity. The most recent data shows that investors were once again net sellers of UK equities in September.

What did we do in the funds?

We recalibrated exposure to an actively managed global equity fund across the VT Esprit range, and increased global small cap exposure, reflecting our belief that lower rates will be supportive of companies associated with the artificial intelligence theme and smaller companies more generally. In order to accommodate these changes we reduced Japanese equity exposure, although we maintain a modest overweight to the region.

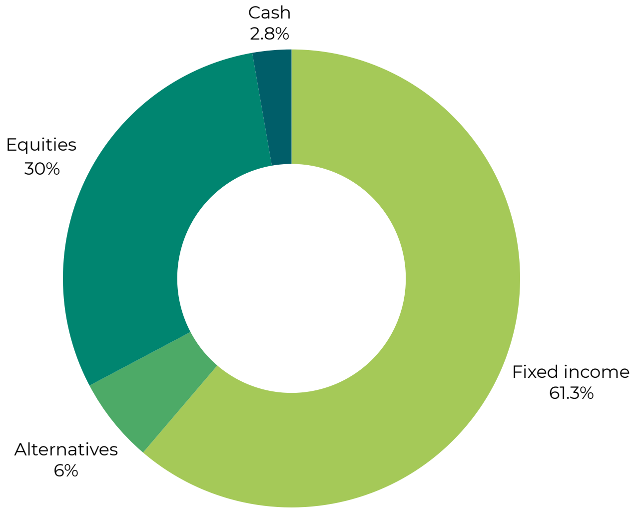
In Careful Growth and Balanced, we increased Sanlam Global Artificial Intelligence and purchased a holding in Montanaro Global Select. The former has exposure to large cap US technology stocks which have underperformed of late, whilst global small cap stocks are poised to benefit from lower funding costs and rising demand as interest rates fall. The Amundi Prime Japan ETF and the HSBC Pacific Index fund were reduced in order to fund these changes.

With meaningful positions already in place, we actually reduced the Sanlam fund in Growth and Alpha Plus. Within Growth, we added an initial position in the Invesco S&P 500 ETF in-line with our longer-term objective to increase US equity exposure, marginally increased Montanaro Global Select, and reduced the Amundi Prime Japan ETF.

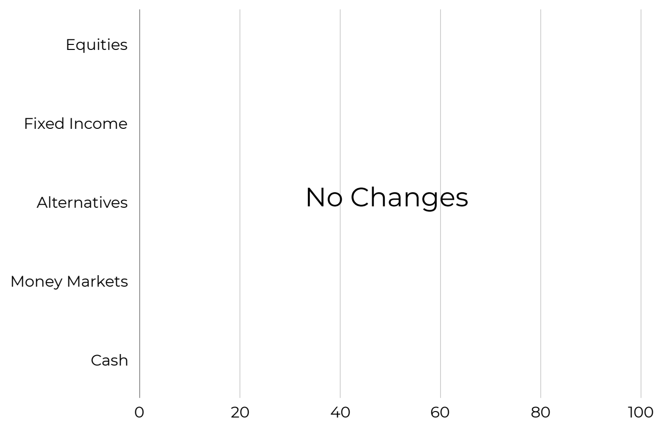
Within Alpha Plus, Montanaro Global Select was reduced as we allocated some of our small cap budget to the Invesco S&P Small Cap 600 ETF. This provides some diversification and aligns with our core satellite investment philosophy. Again, we added an initial position in the Invesco S&P 500 ETF in-line with our longer-term objective to increase US equity exposure, whilst the Amundi Prime Japan ETF was reduced.

Asset allocation

VT Esprit Careful Growth

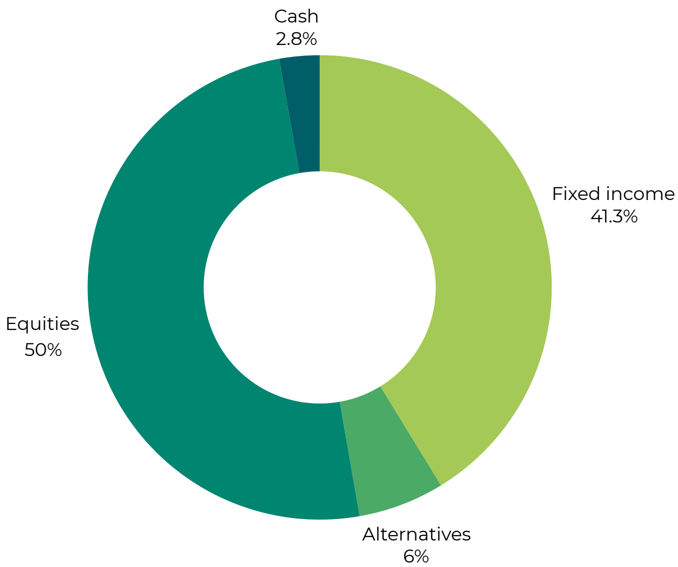


Asset allocation

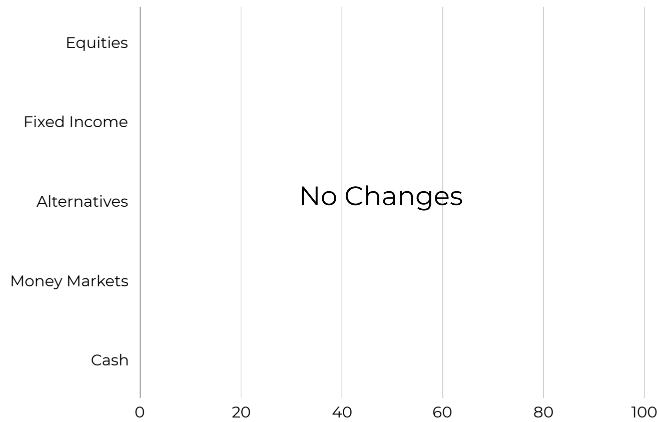


**Actual portfolio weightings may fluctuate slightly based on market movements and rounding*

VT Esprit Tactical Balanced



Asset allocation



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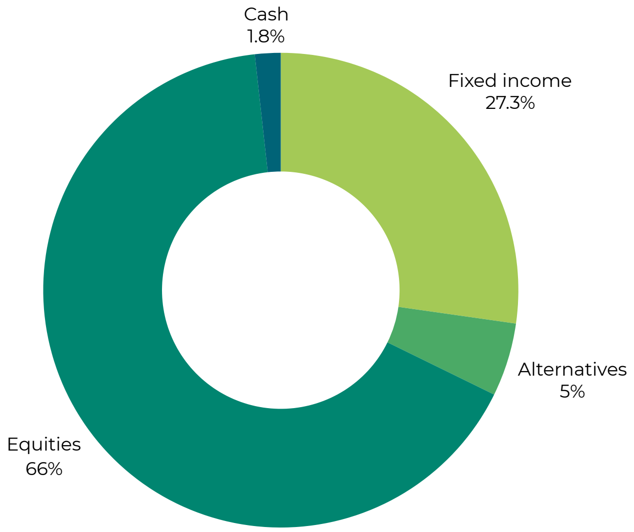
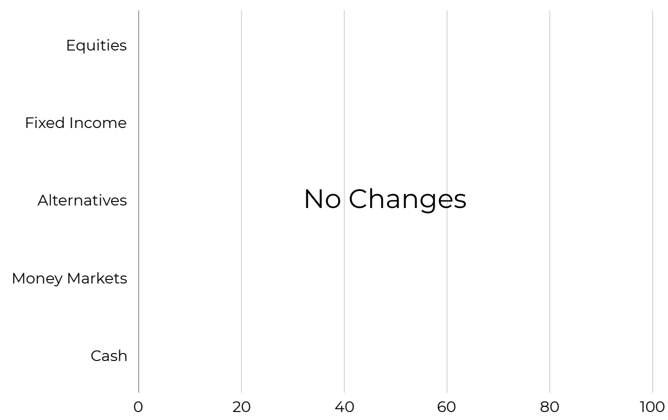
VT Esprit Tactical Growth



Asset allocation



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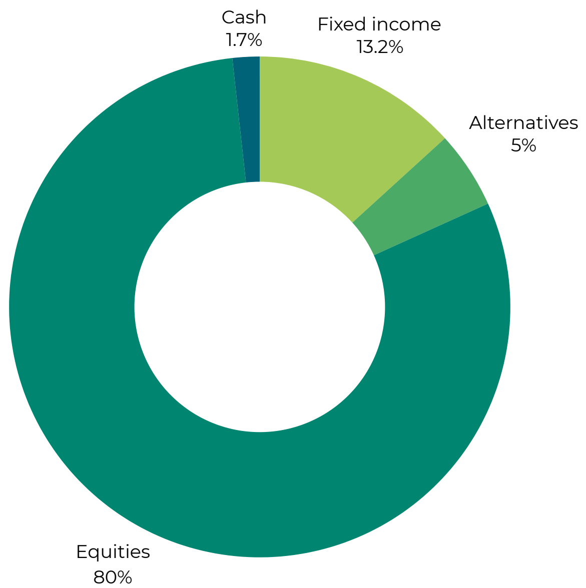
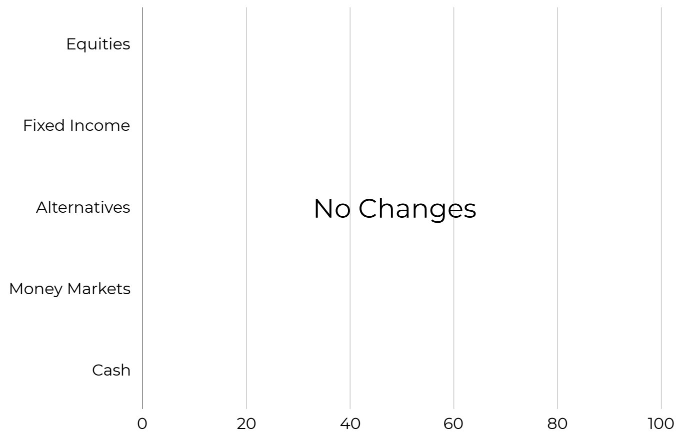
VT Esprit Tactical Alpha Plus



Asset allocation



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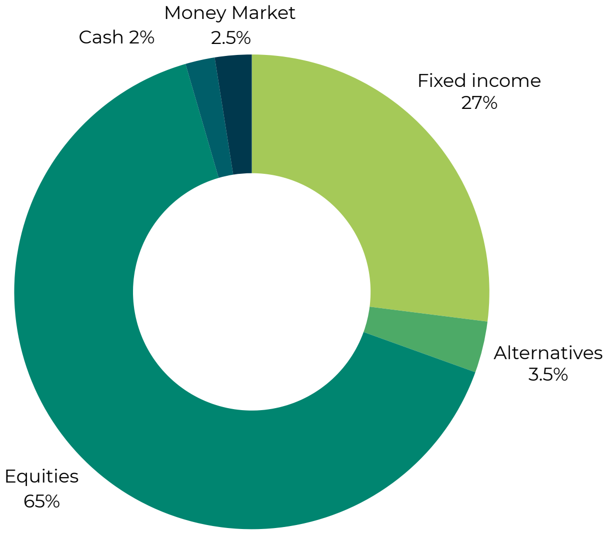
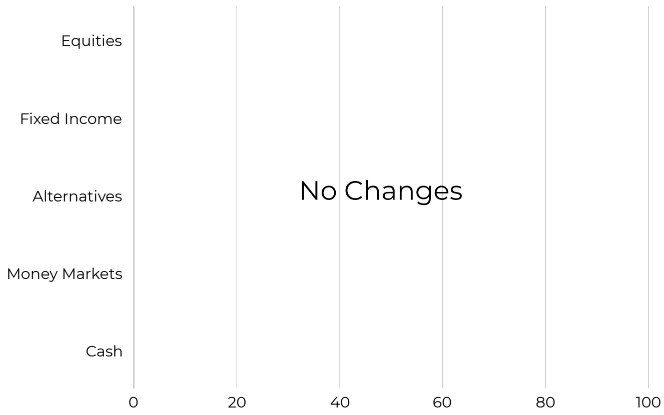
VT Esprit Sustainable Growth



Asset allocation



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What is the outlook?

We feel US recession fears have been overblown and with growth moderating to trend, inflation falling, and the global rate cutting cycle underway, we see a relatively benign macro backdrop. Furthermore, the Fed has indicated a willingness to act more forcefully should US labour market weakness start to accelerate from here. The US election will also be decided next month, removing a key event risk from the minds of investors, whilst the prospect of further Chinese stimulus may provide some support for equity markets outside of the US.

For UK investors, the most eagerly awaited event of the year is October's budget. Labour's negative rhetoric has painted a picture of an economy in a mess, with significant tax rises required in order to fix the public finances. We suspect that the Chancellor will deliver a better-than-expected budget, in the sense that some of the measures touted may be scaled back or even abandoned, as changes to fiscal definitions and rules could create some additional headroom.

Finally, it would be remiss of us not to mention the escalation of hostilities in the Middle East, and the potential impact on oil prices, but OPEC have considerable scope to increase production were facilities in Iran or elsewhere to be incapacitated for a period of time. In addition, sluggish oil demand means that oil prices have remained fairly stable this year despite rising geopolitical uncertainty.