RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

October 2023

Market overview

October was a weak month for both equities and bonds as the market's 'higher-for-longer' expectation around interest rates rolled over from September. Developed market equities fell nearly 3% in local currency terms while global bonds fell slightly over 1%. While the tragic events in the Middle East have not materially affected markets to date, the added level of geopolitical uncertainty did serve to further dampen market sentiment.

Stronger-than-expected economic data, particularly in the US, led to this view that a reversal in rate policy might be further away than hoped. Economic growth in the US has picked up significantly in Q3 while both the latest retail sales and employment data surprised on the upside.

The economic outlook in the UK continues to look challenging. Recent retail sales numbers have disappointed and other indicators point to a slowdown in activity and declining sentiment. Despite this, inflationary pressures (particularly in the services sector) remain more acute than in most other key regions and the Bank of England's task of bringing inflation down without damaging already fragile economic growth remains a very difficult one looking ahead.

Emerging market equities also suffered in what was very much a risk-off month, declining nearly 4%. This was despite the fact that newsflow on the Chinese economy was largely positive with some encouraging consumer data in particular.

The benchmark 10-year Treasury bond yield rose above 5%, a level not seen for over 15 years, and sovereign bond yields in several other countries reached multi-year highs. Credit spreads also widened, leading to both investment grade and high yield bonds underperforming.

Strategy positioning

Markets continue to look for more clarity in the outlook for interest rates and the global economy. While data remains mixed, we are positioned for our central view that inflation in developed regions will revert to close to central bank target levels by the end of next year and that we will see global growth of between 2% and 3% per annum over the next three years, a supportive level for risk assets, accompanied by a recovery in corporate earnings.

This thesis leads us to favour equities as an asset class. We continue to actively manage our equity exposure and, where appropriate for the strategy, we are targeting companies most likely to benefit from advances in artificial intelligence ('AI') via a specialist active manager. This addition to portfolios will complement our existing 'thematic' exposure to global infrastructure and sustainable energy.

With inflationary pressures easing and the likelihood that interest rates have peaked, or are close to peaking, we also see attractive investment opportunities in fixed income. As a result, we are adding further to investment grade credit exposure in portfolios, funded from a slight reduction in our more defensive alternative funds. We are, however, retaining some exposure to alternatives – the challenging environment for both equities and bonds recently has again showed the value of holding these funds, all of which have posted positive returns over the last couple of months.

Risk warnings

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