

VAM market update

Significant market volatility

Global equity markets have been especially volatile in the first few days of August, following interest rate decisions in the United States and Japan as well as recent US labour market data. We see these moves more as the result of a rapid de-risking by investors with concentrated positions in 'momentum' markets seeking to close positions. The summer months tend to be times of lower liquidity and so can exacerbate these sorts of moves, rather than reflecting fundamentals.

The volatility has been centred around Japan, where the currency has rallied strongly from a weak position, and elements of the technology sector which had also experienced strong gains in the year to date, as well as more speculative areas including crypto-currencies in which we do not invest. Recent employment data in the United States was a little softer than some expected if continuing a trend and still showing reasonable strength. The economy is still expanding and inflationary pressures are easing, and the Federal Reserve decided last week to maintain interest rates in the 5.25-5.5% range when the Bank of Japan increased its target rate, if just from 0.1% to 0.25%.

The volatility may persist a little while longer although we would expect markets in due course to focus on fundamentals while central banks in the US and Europe should err on the side of caution in their approach to interest rates, as investors are now anticipating. This should prove to be supportive for markets and particularly for those sectors that are more interest rate-sensitive.

Portfolios remain diversified across asset classes or style and we have favoured a more valuation sensitive approach by active funds, as well as markets such as the UK, which are more lowly valued, and which have shown greater resilience this month. Bonds have rallied strongly, playing their part in a diversified portfolio, and they feature as a significant allocation for more Cautious portfolios.

We believe this approach should enable us to serve clients well in riding out these more volatile times to enable the growth in capital over the longer term. We shall provide the next monthly update on 2nd September and we are ready as always to help with any queries.

Edward Hands – Director

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