May 2024 | Monthly update

Omnis Managed Portfolio Service

Healthy employment numbers and stubborn inflation have pushed back US interest rate cut expectations

Market-moving events

Stubborn and sticky. Inflation has fallen a long way since the post-pandemic high a couple of years ago but is still some way off central bank targets, as we expected. In the UK the annual rate slowed to 3.2% in March and the latest figure for the euro area is 2.4%. In contrast, inflation remains stubborn in the US after rising again in March to 3.5% from 3.2% in February.

Higher for longer. Investors have pushed back their expectations on the timing of interest-rate cuts after Federal Reserve chairman Jerome Powell said inflation is taking "longer than expected" to fade. The European Central Bank may be the first to reduce rates, but they are unlikely to fall in the US until much later in the year now.

Geopolitical tensions. Markets have remained relatively unaffected by the conflict in the Middle East but were rattled by the recent increase in tensions. There remains a concern that any further escalation of the conflict risks leading to higher oil prices, a reversal of the recent fall in inflation and a puncturing of the optimistic mood in financial markets.

Investment highlights

Rally of the unloved. Developed markets have outperformed emerging markets recently. At a sector level, utilities, communications and financials have outperformed consumer discretionary, staples, healthcare and technology, reversing a previous trend. Meanwhile, value stocks have enjoyed a resurgence in popularity after a period dominated by growth stocks.

Rate cuts are on the way. Market forecasts for interest rates have now started to fall in line with the expectations of central banks, which have been on a mission to tame investor optimism until the trajectory of inflation became clearer. However, the battle is not yet over and central banks will remain sharply focused on inflation data before making any decisions.

We remain cautiously positioned. We have an overweight allocation to bonds and slight underweight in equities. Although stock markets have rallied, a weaker economy could put pressure on company revenues. Our central case remains falling inflation, a peak in the interest rate cycle and a soft landing, but with a larger than normal risk of a deeper recession.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities

Negative = UK, US + Europe
Neutral = Asia, Japan + emerging markets

bonds

Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash

Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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Approved by Omnis Investments on 2 May 2024