Newsletter

October 2022

RAYMOND JAMES | Exeter

“If you are not confused, you don’t know what is going on”

Having just completed our quarterly review we are writing to keep you abreast of the most recent changes that we have made to our portfolio models. The backdrop for our decisions is a global economy showing further signs of coming down through the gears. Happily, these changes were made before the Chancellor’s unpopular mini-budget which, in the immediate future, will deny us any clarity on the benefits of our decisions.

We took our first steps towards a more defensive outlook this time last year and after reappraising the economic outlook, we have taken further steps to improve stability across the entire risk spectrum of our portfolio models, including those with a thematic or environmental focus.

We surmise that we are heading for a ‘1990’s style’ recession in so much as the economic fundamentals remain fairly robust, but the financial headwinds; stubbornly high inflation and rising interest rates serve to subdue economic activity and slow growth rates.

Where tax considerations allow, we have disposed of our traditional index-based approach to Real Estate Investment Trusts REITs (shares in companies whose business function is property ownership and development) and replaced it with a more diverse view of the property and infrastructure sector.

Historically, index REIT funds have been weighted towards city centre shops, offices and industrial parks which have played a key role in our lives for decades. However, we feel that the Covid pandemic accelerated a trend towards home working and online shopping which requires a different kind of infrastructure. We have therefore repositioned our portfolios to access this global secular shift, with targeted exposure to the essential physical assets of tomorrow. In short, the focus is on long-term, inflation-linked leases granted to quasi-government agencies and multi-nationals.

We recognise that 21st Century infrastructure will shift towards digital assets (for example data storage sites) and logistical warehousing suited to the Amazon delivery business model that is fast becoming part and parcel (forgive the pun) of our daily lives.

We have also taken the opportunity to dilute (but not extinguish) our current exposure to energy supply, in particular Green Energy, principally to dampen volatility in our portfolios, but also taking some profits on the basis that recessionary forces may well dampen prices and demand for commodities in the coming months so long as there is unfettered supply available (the world continues to watch Ukraine with sharp-eyed concern).

In a slight tactical step away from our long-held index-based portfolio approach, we have allocated an active fund manager to deploy capital in a targeted fashion. The intention is to allow the manager to use their stock picking expertise to allocate funds in what has become a complex investment universe.

This further foray into active management does not detract from our guiding tenet that we are ‘buy and hold’ investors who allocate on a strategic basis but, as our contributor to July’s newsletter, James Sullivan, suggested; Absolute conviction in an ever-changing world is a hazardous pursuit!

As ever, please feel free to contact us if you have any thoughts or suggestions with regards to the topics covered in this newsletter, or, any other matter that you wish to share

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