L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **Global energy shortage continues…**
- **…one of the broker surveys we receive suggests it is the first time since June that the biggest perceived risk to markets is now higher yields and inflation…**
- **…Bank of England edging closer to a rate hike**

MARKET OVERVIEW

October was a mixed month for assets, with global equities recovering from their September slump whilst sovereign bonds were hindered by rising inflationary pressure. This pressure has led to expectations about rate rises being brought forwards across developed markets, with investors expecting a UK rate hike by the end of the year and a US rate hike by the second half of 2022. Sticking with the US, President Biden's agenda has been dealt a blow with the more conservative Senators in the Democratic Party watering down the administration's latest spending bill, which now looks set to pass.

US equities in local currency were the best performers over the month, encouraged by strong returns from the tech sector, in particular Tesla* which returned nearly 50% driven by a large order of cars from Hertz*, the rental-car company. European (ex-UK) equities also performed well, with higher interest rates boosting the performance of financials, the largest sector in the index. Rising yields, however, were not good news for developed-market sovereign bonds, which were mostly in negative territory in October. Listed alternatives such as REITs and infrastructure fared well over the month.

FUND PERFORMANCE REVIEW

The Mixed Investment Funds' performance ranged from flat to positive in October. The funds with more exposure to equities fared better than the funds with more bond exposure, given the supportive performance from risk assets.

We continued to manage our exposure to US government bonds over key risk events, with several adjustments being made around speeches from Federal Reserve officials and data releases.

We reduced our exposure to the Chinese renminbi in all but the lowest-risk fund in favour of the US dollar. The currency has been a standout performer this year, but faces downward pressure as a result of the inflationary burden caused by the increased prices of China's commodity imports.

We also sold the holding in European oil & gas stocks, which we held in the income funds, taking profits here after the strong performance driven by the rising oil price amid global energy shortages.

RECENT PORTFOLIO CHANGES

US GOVERNMENT BONDS, US DOLLAR

CHINESE RENMINBI, OIL & GAS STOCKS

MARKET OUTLOOK

We remain positive on risk assets, but retain a degree of caution. We still prefer equities to credit given current historically low credit spreads. We continue to monitor developments in China, including the spread of the Delta COVID-19 variant and the associated growth slowdown, as well as regulatory pressure from the Chinese government on certain corporate sectors and concerns over its real estate market.

The US Federal Reserve announced the tapering of its asset purchases at its recent meeting and is expected to complete the process by mid-2022. Attention now turns to when the US might increase interest rates. An area that will have a large bearing on this is whether inflation is more persistent than previously feared. Even more than the timing, we are particularly interested in the speed and ultimate peak of rate rises. We expect this to be faster and higher than markets are currently pricing, particularly if the Biden administration's two spending bills are passed.

The end of the third quarter saw risk assets negatively impacted but we believe much of the bad news has now been priced in. With this in mind, we will look to buy the dip and cautiously increase our allocation to risk assets.

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