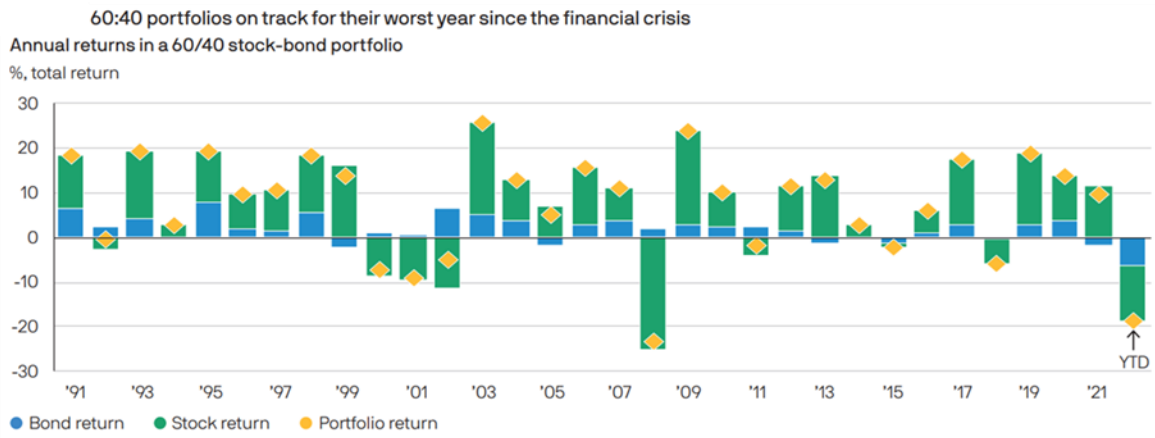
market matters

The second quarter of 2022 continued in the same vein as the first quarter with it being difficult for all asset classes. This is now the worst first half of the year for developed market equities in over 50 years, with only very few assets (such as commodities) posting positive returns. Government bonds have also been hit so far this year meaning that they have failed to provide the protection that investors usually seek from them, last seen in the Covid-19 crash of March 2020.

Figure 1 below shows the performance of a typical 60/40 portfolio so far this year, up to the 14th June. The portfolio consists of 60% global equity and 40% global bonds, and it has lost nearly 20% so far this year.

Figure 1



Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Stock returns are calculated using MSCI All-Country World Index and bond returns using Bloomberg Barclays Global Aggregate. All returns shown are in USD. Data as of 14 June 2022.

What is so peculiar about Figure 1 is that for only the second time in the last 30 years, both equities and bonds have posted negative returns. Usually when equity performance — shown by the green bar — is down for the year, bonds perform positively, acting as a ballast to portfolio returns to mitigate some of the losses.

This has not been the case in 2022 given the specific concoction of market dynamics we presently face. In fact in the last 30 years shown in the chart, there's only ever been one other occasion when both equities and bonds have posted negative performance in any given calendar year, and that was during the credit crisis of 2008.

Government bonds have been hit as markets moved to price in significant further increases in interest rates on top of what has already been announced — markets now expect central banks to combat rising and persistent inflation by raising interest rates to 3.4%, 3% and 1.6% in the US, UK and Europe, respectively, by the end of this year.

The increase in interest rate expectations highlighted an important step change from central banks and broken the previous accommodative habits of low interest rates and high levels of quantitative easing which central bankers had championed in since the credit crisis, and this has contributed materially to sentiment change towards risk assets. This sentiment change towards risk assets has been compounded by other macro events such as the Russia/Ukraine war, global cost of living crises, and raised concerns surrounding the global economic growth outlook for 2022 and 2023.

Recession fears have risen, due to falls consumption in major economies as the squeeze on consumers was increasingly felt throughout the second quarter of 2022 as they were forced to pay considerably more of necessities such as food, shelter and energy.

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The combination of consumption worries, cost of living crises and notably higher interest rates introduced by central banks in order to combat inflation makes it clear why economic growth worries had resurfaced so far this year and formed part of the reason as to why assets have performed poorly this year so far.

Portfolio Performance

The table below shows performance of Gemini Asset Management's (GAM) discretionary risk rated portfolios over the course of the last 5 years. The table compares performance of GAM's Discretionary Models against the FTSE All Share to demonstrate the importance of spreading risk through diversification. Whilst a direct comparison of GAM's portfolios with an equity index such as the FTSE All Share is not like for like it does give an indication of volatility and performance differences on a risk-adjusted basis.

Discrete Performance (%) to 30/06/2022										
Name	3 months	Sector	YTD	Sector	1 Year	Sector	3 Years	Sector	5 Years	Sector
GAM 3	-5.64	-6.09	-8.79	-9.57	-6.81	-8.57	2.19	-1.05	8.28	3.48
GAM 4	-6.88	-6.30	-10.99	-9.44	-8.47	-7.09	4.65	4.09	11.31	9.71
GAM 5	-8.10	-7.4	-12.87	-10.81	-9.85	-7.16	7.48	8.77	16.36	18.18
GAM 6	-8.11	-7.4	-13.68	-10.81	-10.97	-7.16	9.35	8.77	20.25	18.18
GAM 7	-9.25	-7.4	-16.18	-10.81	-13.83	-7.16	8.83	8.77	21.53	18.18
FTSE All Share	-5.04		-4.57		1.64		7.41		17.77	

Source: Financial Express Analytics data 30/06/2017 – 30/06/2022. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

The sectors used as comparators with the portfolios are the respective Investment Association Mixed Investment sectors. Gemini's GDP 3 is compared to the IA Mixed Investment 0-35% Shares sector; GDP 4 is compared to the IA Mixed Investment 20-60% Shares sector; and GDP 5, GDP 6, and GDP 7 are compared with the IA Mixed Investment 40-85% Shares sector.

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

Asset Allocation and Fund Review

The Gemini Asset Management investment team reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were changes made to the GAM discretionary models during quarter 2 2022, which are outlined below. There are no changes recommended advisory models this quarter.

Asset Class Changes										
Asset Class	Risk 1	Risk 2	Risk 3	Risk 4	Risk 5	Risk 6	Risk 7	Risk 8	Risk 9	Risk 10
Cash/Money Market	100.00	55.00	21.00	15.00	12.00	8.00	0.00	0.00	0.00	0.00
Fixed Interest	0.00	33.00	52.00	40.00	24.00	15.00	8.00	7.00	0.00	0.00
Property & Real Assets	0.00	2.00	4.00	7.00	8.00	8.00	8.00	4.00	0.00	0.00
UK Equity	0.00	7.00	10.00	11.00	18.00	18.00	29.00	18.00	13.00	3.00
North American Equity	0.00	2.00	8.00	11.00	17.00	17.00	14.00	10.00	8.00	7.00
European ex UK Equity	0.00	0.00	0.00	5.00	5.00	5.00	6.00	6.00	6.00	0.00
Japanese Equity	0.00	0.00	3.00	4.00	5.00	6.00	7.00	5.00	5.00	0.00
Asia Pacific ex Japan Equity	0.00	0.00	0.00	3.00	3.00	9.00	11.00	21.00	24.00	26.00
Global Emerging Markets Equity	0.00	0.00	0.00	0.00	3.00	9.00	12.00	25.00	42.00	61.00
Global Specialist	0.00	1.00	1.00	2.00	3.00	3.00	3.00	2.00	0.00	0.00
Global Equity	0.00	0.00	1.00	2.00	2.00	2.00	2.00	2.00	2.00	3.00
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Fund Changes			
Sector	Sell	Sector	Buy
Equity	Various	Property & Real Assets	Schroder Global Cities
Equity	Various	Global Specialist	L&G Global Healthcare

Asset Allocation Changes

Given changes in the inflation & interest rate landscape we increased exposures to property and defensive equity sectors (such as healthcare), specifically through the Schroder Global Cities and L&G Global Healthcare funds respectively.

These changes reduced our underweight to property which we had previously held due to concerns around liquidity in the 'bricks & mortar' property funds following their previous suspensions at times of recent crises. The reduction of the property underweight was through the inclusion of a property fund known as a 'real estate investment trust' which invests in real estate equities and provides daily liquidity.

The changes to the models will result in the above allocations for each level of risk. Those highlighted green indicate an increased allocation, red a reduced allocation with the remainder unchanged.

Fund Changes

Equity (Various) — Reduction in traditional equity within various equity regions in favour of Schroder Global Cities (property & real assets) and L&G Global Healthcare (global specialist)

Both property and healthcare have previously demonstrated relatively favourable characteristics in high inflation and low economic growth environments but the allocation change may also allow the portfolios to take advantage of other potential future trends which may emerge within these sectors.

These changes were presented to the Gemini Wealth Management Investment Committee by the Gemini Asset Management Investment Team, and they were agreed upon by the members of the Gemini Wealth Management Investment Committee.