Close Tactical Select Passive Funds

Monthly fund manager update

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MONTH IN REVIEW

September was a high-octane version of August, with the Conservative strategy down the most and Growth strategy the least within the Close Tactical Select Passive range.

On a year-to-date basis, our Funds' returns are (with the respective IA sector in brackets): Close TSP Conservative -12.8% (-12.1%), Close TSP Balanced -11.7% (-12.5%) and Close TSP Growth -11.6% (-11.2%).

Sterling continued its slide during September, especially in last week of the month when the new UK Prime Minister Liz Truss and chancellor Kwasi Kwarteng delivered their "mini-budget". Together with sterling weakness the month also saw significant selling of GBP bonds, which sent yields rising across the curve. This hurt high duration bonds the most and could have been worse had the Bank of England not stepped in, effectively temporarily restarting its QE program and buying longer-dated gilts. Regardless, our fixed income allocation performed worse than the equity allocation, with gold being the only positive investment for September.

As in August, September saw FTSE 100 ETFs continue to outperform their FTSE 250 counterparts. Tech kept sliding against non-tech as the SPDR S&P US Financials Sector ETF and First Trust US Equity Income ETF both outperformed broad US equities; while the Invesco S&P US Technology Sector ETF and SPDR S&P US Communication Services Sector ETF both underperformed.

As noted sterling-denominated fixed income kept sliding, with shorter duration outperforming long in both corporate and gilts. This also meant that (generally longer duration) inflation linked bonds were deeply negative, with the Lyxor FTSE Actuaries UK Index Linked Gilts ETF down -12.7% (at one point it had retreated -28.8% but was lifted by the Bank of England's intervention). In broader gilts, the Lyxor Core UK Government Bond ETF fell -8.4%, while broad corporate indices were similar, with the HSBC Iboxx Sterling Corporate Bond index fund falling -8.0%.

Diversifiers (or alternatives) have been the go-to asset class throughout the year, cushioning otherwise rocky markets. The iShares FTSE Global Infrastructure ETF had a tough time though and was down -7.6% for the month. Our broad commodities tracker, the UBS CMCI Composite ETF, was notably better and only slightly down for the month at -0.5%, while the only positive investments in September were the physical gold ETCs which were up circa +1.5%.

GENERAL POSITIONING

Over the month, we increased our cash balance as the markets increasingly volatile. As such we have taken risk off the table across the board, considering cash to be safer than short duration bonds, which have outperformed broad fixed income indices, but are still down more than some equity indices.

Our fixed income allocation remains marginally underweight versus equities. We remain overweight corporate bonds relative to government bonds, and much shorter in duration than market indices. Within alternatives, we currently only invest in infrastructure and commodities, with the commodity exposure split about 60-40 between broad commodities and gold, as the latter has rallied behind other commodities.