Close Tactical Select Passive Funds

Monthly fund manager update

OCTOBER 2022

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MONTH IN REVIEW

October was mostly positive for our investments and all Close Tactical Select Passive (TSP) Funds are currently ahead of their respective Investment Association sectors on a year-to-date basis (sector average in brackets): Conservative -11.4% (vs -11.6%), Balanced -10.5% (vs -12%) and Growth -10.8% (vs -11.1%).

Overseas equities fared well, but suffered from a strengthening of sterling. Overall this was quite encouraging considering the turmoil that followed Liz Truss's appointment and rapid departure. Fixed income markets rebounded after Rishi Sunak succeeded her and October was therefore the first month of the year when our fixed income allocation delivered positive returns across the board. On the other hand, diversifiers mostly slipped,as might be expected given their role within the portfolio of reducing correlation to equities and bonds. As such, broad commodities were negative with gold suffering the most.

Refreshingly, UK mid-caps outperformed large-caps by almost +2%. Tech was mixed with the Invesco S&P Technology Sector ETF up +2.2% while the Lyxor Nasdaq 100 ETF was down -1.6%. Our best performing fund across the board was a European equity ETF: the UBS MSCI EMU GBP Hedged ETF which advanced +7.8%, benefitting from its currency hedging strategy.

Sterling-denominated fixed income was positive with longer duration leading the way, albeit marginally, adding c. 0.3%-0.8% in gilts and 0.6%-1% in corporates. Long-end performance helped the Lyxor Index Linked Gilt ETF climb +1.8% while the shorter duration broad gilt ETF, Lyxor Core UK Government Bond, added +3.3%. The broad corporates HSBC Iboxx Sterling Corporate Bond Index Fund was up +3.8% for the month.

In diversifiers/alternatives, the iShares FTSE Global Infrastructure ETF slipped -1.6%; the broad commodities tracker UBS CMCI Composite ETF was just slightly down at 1.4% while outperforming our broad commodity proxy. The physical gold ETCs were one of the worst performing investments in the fund, which were down ca. -5%.

GENERAL POSITIONING

In October, our cash balance increased as we choose to leave new inflows in cash, given market volatility. We've remained in risk-off mode, 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, and we are still overweight corporate bonds relative to government bonds, and much shorter in duration. Within alternatives, we now only invest in infrastructure and commodities; the latter is currently split about 60/40 between broad commodities and gold, as gold has slipped behind other commodities.

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