August 2024 | Monthly update

Omnis Managed Portfolio Service

Expectations of interest rate cuts continue to influence markets against a background of political uncertainty

Market-moving events

Interest rates begin to fall. The US Federal Reserve held its benchmark interest rate in the 5.25% to 5.50% range at its most recent meeting but is likely to announce a cut in September. In June the European Central Bank (ECB) reduced its main rate from an all-time high of 4% to 3.75%, and at the start of August the Bank of England cut rates to 5% in the first drop since March 2020.

A cautious outlook for the US. The US economy is growing but at a slower pace, with GDP forecast to expand by 2.3% this year and 1.8% in 2025. In the short term, the stock market is supported by forecasts of lower interest rates but the longer-term outlook is weaker. Enthusiasm around artificial intelligence is likely to continue to drive some sectors higher.

Political uncertainty. This year has been a busy one at the ballot box with elections around the world. Financial markets tend to shrug off political uncertainty, although share prices in Europe dipped recently after an indecisive election result in France. After Biden stepped down in the race to the White House, US markets could experience some volatility in the short term.

Investment highlights

Relative performance. Value continued to outperformed growth with interest rate cuts weighing on the minds of investors and many large tech stocks missing earning expectations. Small caps outperformed large caps as investors rotated their positions ahead of the expected period of lower rates. In fixed income, corporate bonds outperformed government bonds.

Tactical asset allocation. Rate cuts should pave the way for out-of-favour asset classes to come back into vogue, including value, small cap and sovereign debt. Investors are already tilting their portfolios to these areas. Our diversified portfolios hold all these asset classes and we'll continue to make tactical decisions to capture opportunities we identify.

We remain cautiously positioned. We have an overweight allocation to bonds and slight underweight in equities. Although stock markets have rallied, a weaker economy could put pressure on company revenues. Our central case remains falling inflation, a peak in the interest rate cycle and a soft landing, but with a larger than normal risk of a deeper recession.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities

Negative = UK, US + Europe
Neutral = Asia, Japan + emerging markets

bonds

Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash

Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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