Important investment update – 26th September 2022

In addition to our regular quarterly investment updates, we occasionally write to clients during times of adverse market or economic conditions. These ad hoc updates are designed to educate rather than alarm but if you do have any queries please let us know.

Thus far, 2022 has been an abysmal year for investors. We have seen the value of global stock markets fall and this is fairly well reported in the normal press and news reports. Generally speaking, the US stock market has lost about 23% of its value year to date and we have seen similar falls in many of the European and Far East markets. The UK market has actually fared reasonably well and is down approximately 6.5%.

Less well reported, however, are the movements in the bond and fixed interest markets and these have been significant. Over the last 12 months we have now seen the capital value of bonds fall by approximately 25% - far more than we witnessed during the early stages of the Covid pandemic and, in recent times, only on a par with the banking and global financial crisis of 2008.

Throughout much of 2021, UK investment grade bonds (issued by companies like HSBC, Glaxo SmithKline) were paying interest in the region of 1.5% per annum. Through a combination of falling capital value and higher interest rates these returns have now soared to c.6.05% per annum* and higher yielding bonds issued by companies such as Ford and Vodafone are now yielding c.7.6% per annum**.

Unfortunately, this has meant that the bond element of portfolios have seen a reduction in their capital value. However, investors who continue to hold these investments should be rewarded with substantially higher returns in the future. Not only will the annual interest payments be higher but the typical bond is now priced at less than par and, in the absence of default, we will see the capital values rise over the next few years as these bonds approach their maturity date. This is a mechanism of the bond markets which, unlike share prices, have fixed and predetermined returns.

The message we are sending you is that future returns from bonds should be significantly higher than we have seen over the last few years purely by virtue of interest rates increasing. Now is not the time to panic and sell your bond holdings. Far from it, we should be looking forward to some potentially excellent returns in the years to come. We now expect a Balanced Portfolio to produce an income yield (this excludes any fluctuation in capital values) in the region of 4.5% per annum.

Many of you will have attended our client event at the Liverpool Town Hall in 2016 when we explained the importance of portfolios generating interest and dividends. Of course, we all hope to achieve capital appreciation in addition to income but this fundamental basic approach remains key to successful long term financial planning.

Kind regards,

The Pavis Investment Committee

*S&P U.K. Investment Grade Corporate Bond Index | S&P Dow Jones Indices (spglobal.com)

** iShares Global High Yield Corp Bond UCITS ETF | HYLD