

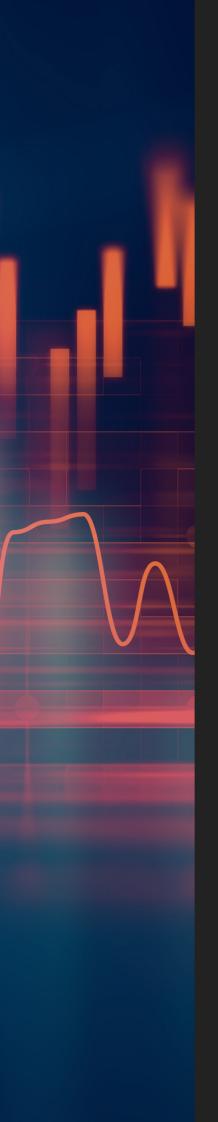
Short Term Portfolio Update

The Short Term portfolio is our income investment solution with an allocation of cash, fixed income and multi-asset funds. Even though the portfolio is considered low risk, the assets are still vulnerable to market influences. Fixed income has experienced a recent downturn as yields rise from record lows. This has reduced the value of existing bonds as investors seek higher yields to combat rising inflation and interest rates. Despite a recent interest rate rise of 0.75% by the Federal Reserve, comments made by the chair have seen yields significantly fall, subsequently seeing fixed income generate returns that mirrored those of equities. The recent growth has been welcomed, however we are reviewing the asset allocation as this gain still highlights the volatility that still exists in what is normally a low volatility asset class.

MARKET ROUND UP

For the second consecutive quarter, the US economy contracted in real terms, signalling a technical recession. The Fed, surprisingly to many, increased interest rates by another 0.75% despite slowing growth. However, the chair of the Federal Reserve released a statement following the increase which indicated reduced tightening. This has seen the 10-year treasury slashed to as low as 2.56% resulting in the fixed income rally.

Government bonds and gilts saw the greatest movement during the rally, with corporate fixed income and high yield following closely. However, the risks to this asset class identified during the first half of the year, still remain at large. Inflation continues to climb and is currently the greatest threat to investment returns as real returns remain negative year to date. Subsequent interest rates may follow in order to combat inflation. This may dampen performance as the value of fixed income is sensitive to these rises. Despite this, July has provided some comfort and for investors the risks to fixed income seem a lot clearer than they were earlier in the year.











Reeves Independent Limited: 30 High Street, Gosforth, Newcastle Upon Tyne, NE3 1LX Tel: 0800 989 0029

Email: info@reevesifa.com

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