

Omnis Managed Portfolio Service



Prime Minister Rishi Sunak calls a snap election as inflation slows and the economy rebounds

Market-moving events

Sunak's election gamble. Prime Minister Rishi Sunak announced a general election, surprising many, including his own party. His decision to go the polls came after official figures showed inflation has slowed to 2.3% and the economy is growing after slipping into recession. He may also have sensed the economic landscape is unlikely to improve before the end of the year.

Fed holds rates. The US Federal Reserve (Fed) voted to hold policy rates steady for the sixth consecutive time at 5.25% to 5.5%. Although inflation eased to 3.4% in April, it remains high, pushing back rate cut expectations. Fed Chair Jerome Powell said inflation rate cuts would not happen until he has greater confidence that price growth was falling towards the 2% target.

Euro area recovery begins. Europe's outlook is improving. The region emerged from recession in the first quarter and growth is picking up, while slowing inflation has boosted hopes of rate cuts. In contrast, the US economy has slowed sharply to its weakest rate in almost two years, suggesting the inflation surprise seen earlier in the year is unlikely to be repeated.

Investment highlights

Rally of the unloved. Developed markets have continued to outperform emerging markets. At a sector level, utilities, communications and financials have outperformed consumer discretionary, staples, healthcare and technology, reversing a previous trend. Meanwhile, value stocks have enjoyed a resurgence in popularity after a period dominated by growth stocks.

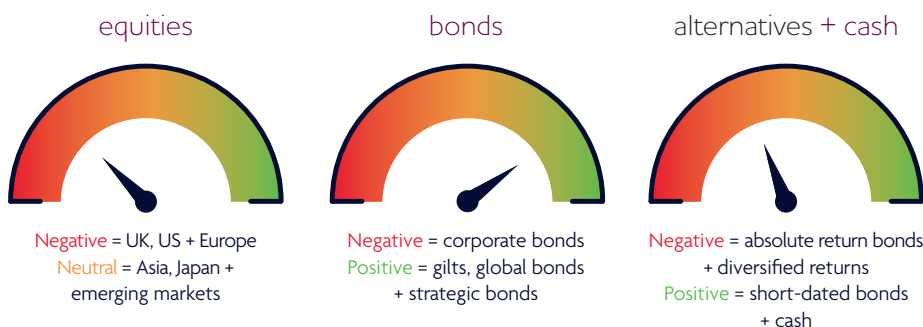
Rate cuts are on the way. Market forecasts for interest rates have fallen in line with central bank expectations, which have been on a mission to tame investor optimism until the trajectory of inflation became clearer. However, the battle is not yet over and policymakers remain sharply focused on inflation data before making any decisions.

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](#).



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