



By the dawn's early light

Could the news that inflation fell in the US in April herald a brighter outlook for investors?

Update
12 May 2023

While in the UK inflation numbers have remained obstinately high, motivating the Bank of England to continue raising interest rates, across the pond a different story is playing out altogether. US inflation, which many analysts had expected to rise slightly in April, instead fell further to 4.1%.

Although this is still not within the Federal Reserve's target range, it is positive news for the US economy and strongly suggests that a pause in the tightening cycle may be due. But, what does this mean for investors?

Interestingly, the latest cycle has come with some unusual features. Although growth has declined dramatically, and there is still potential for a recession, the unemployment rate has remained relatively low, suggesting there is some resilience in the economy.

This mixed picture can best be described as cautiously optimistic. But, from an investing standpoint, it is indicative of the economy and market having progressed further through the cycle. With many investors having dramatically reduced their allocations to the US, another glance at the world's biggest equity market may be due.

For the most cyclical sectors, such as biotechnology, financials and consumer discretionary, this "recovery" phase can be where the most promising opportunities lie. All saw their share prices plunge in late 2021, and many are seeing tentative signs of recovery in their prices.

For more nimble companies in these sectors, the early recovery stage can also be the point at which they begin to see interest from acquirers again, as larger companies seek growth to build out their resilience as the cycle continues.

However, with the risk of a recession still a present threat, it pays to be careful when it comes to allocating to the US again.

With this in mind, looking for investors who take a balanced approach to the market may be one route. **JPMorgan American (JAM)** is run by a pair of co-managers who each focus on growth and value respectively. While it is due to go through a management change early next year, with one of the existing pair retiring, both the incumbent and incoming managers have

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deep through-the-cycle experience investing in US equities, a valuable track record at a delicate point for the US market.

Alternatively, investors could consider an allocation smaller caps. **Brown Advisory US Smaller Companies (BASC)** allocates to quality growth names in the small- and mid-cap areas of the market. However, the management team, led by Chris Berrier, seeks to mitigate some of this risk by carefully managing position sizes and other risk factors. Its emphasis on quality is beginning to pay off, with the fund performing strongly over the last year – although there is of course no guarantee of future performance.



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