

These are the highlights from a recent online article which shows how the investment landscape has played out so far this year

Year of the niche: 2022's best- and worst-performing funds and trusts

A list of risk factors as long as your arm has made it difficult for investors to find positive returns in 2023.

Soaring inflation, central banks' aggressive interest rate hikes, the war in Ukraine, continued Covid lockdowns in China and an all-out UK government bond meltdown have contributed to uncertainty across markets.

Of the 13 major asset classes examined in research by platform Interactive Investor, only three managed to deliver positive gains this year.

Russian-focused investment strategies have recorded the poorest performance across the board as Western countries froze Russia out of financial markets, forcing managers to value their holdings at zero.

Niche and specialist strategies contain some of the few bright spots in tricky markets, but some have also ended up at the bottom of performance tables.

The leasing and natural resources and commodities sectors have seen the strongest investment performance in 2022, with eight of the 10 top-performing investment trusts and six of the 10 top-performing funds appearing in these sectors, according to Morningstar.

'This has been the year of the niche, both at the top and bottom of the performance tables. We should always take short-term performance with a pinch of salt, but this year the data is a salutary reminder about the importance of having a diversified strategy,' said Dzmitry Lipski, Interactive Investor's head of funds research.

'One year's winners can be next year's poor performers, and vice versa. A balanced portfolio is so important, and geographically diverse'

Top-performing funds in 2022

Energy was the flavour of 2022, with six of the 10 top-performing open-ended funds specialising in the sector, and three in commodities more broadly. That reflects the dramatic share price rises and big dividends delivered by oil and gas stocks this year.

'While the price rise has put pressure on households, it has been a source of gains for investors in commodities and equities in the US energy sector. The iShares Oil & Gas ETF is up 60% on the year, far outpacing the broad S&P index, which is down 15%.'

Worst-performing funds in 2022

When it comes to the worst-performing funds this year, few will be surprised to see Russian-focused strategies languishing at the bottom of the table. If more affected funds had continued to publish daily prices while under suspension, they would probably have taken all 10 spots.

Tech was another disappointment this year as rising interest rates negatively impacted performance.

Abrdn's Macmillan neatly summed up what went wrong for tech.

'The companies most sensitive to changes in interest rates (the "growth" investment style) gave back much of their 2021 outperformance. Following a sugar high, driven in large part by central bank liquidity during and after the pandemic, tech companies led the downturn in stocks,' he said.

'The non-profitable tech sub-sector fell 60% as the appetite for more speculative investments waned. Currently weighing on the sector are concerns around the outlook for advertising revenue as we head into a period of likely economic contraction.'

This year shows that things change and that a diversified risk-based portfolio is still the best way to achieve long term growth at a risk appropriate level. As TLC said..... “Don’t go chasing waterfalls, Please stick to the rivers and the lakes that you're used to”



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