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Interim Market Thoughts

Tough Start to 2022

As you are aware we monitor the funds and asset allocation in our portfolios constantly, I would like to update you with the reasons for the recent softening of markets and the future outlook.

It has been a grim 2022 to date with positive expectations dashed by the continued rise in inflation and in turn rising interest rates. This has been further compounded by the Russian invasion of Ukraine and ongoing Covid lockdowns in China, stressing supply chains to already near fractured levels following the pandemic.

Commodities

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Commodity prices across the spectrum have exploded following Putin's manipulations of wholesale gas prices leading up to the Ukrainian invasion.

Energy, the price input into 'everything' has ensured that the world is now suffering a 'cost of living' crisis with the poor the most vulnerable (Saharan and East Africa already facing famine from climate change) suffering the most.

Inflation

UK inflation is expected to push above 10% (CPI) with inflation likely to remain relatively high for the rest of year, whilst the Bank of England has been behind the curve (as with all the Central Banks) with raising UK base rates, further exacerbating the tightening conditions.

Stock Markets

Stock markets suffered a harsh sector rotation in the first calendar quarter from 'Growth' (predominately expensive Tech stocks) to 'Value' (banks, resources and pharma) which has benefitted the UK Market in relative terms. The table below highlights the YTD returns across the UK and US markets:-

Index	YTD Return
FTSE 100 Index	-1.78%
S&P 500	-16.23%
NASDAQ	-25.32%
GBP:USD	-9.75%

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Note that the Tech heavy NASDAQ is down -25%, while the FTSE 100 Index (no real Tech exposure) is just slightly down. Sterling is notorious as the ‘piggy-in-the-middle currency’, soaks in inflation by depreciating against the US Dollar (all commodities are priced in US Dollars, as the world’s reserve currency).

The UK will import this inflation over the months ahead; expect further dire news headlines and expect recession talk to dominate news headlines over the months ahead. The conditions of Stagflation will be met (high inflation, no growth). All this is needed so that demand destruction occurs (a price reset), consumers stop spending on more expensive products & services. So far labour markets remain firm (provides central banks the confidence to raise rates)

Looking ahead..

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However, there is hope, a potential resolution to Ukraine Russia war (later on this year – just maybe) and China gives up on its economically destructive zero-Covid policy, commodity prices would fall back, and supply chains will be able to recover.

Markets could then surge on these outcomes and portfolios have the opportunity to recover stronger. Reducing risk (equity exposure) at a low point will only crystalise losses and reduce the opportunity for a good recovery. It's tough at the moment, but we expect it to get better!

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