MARKET COMMENTARY

December 2021

SNAPSHOT

- Omicron variant of COVID-19 rattles global markets
- Bonds rally amid new variant uncertainty
- Commodities and emerging markets weak

All percentages below are monthly returns

EQUITIES

US MARKETS
Weak on persistent inflation

-0.8%
US 500

UK MARKETS
Lower expected growth rate

-2.5%
UK ALL SHARE

EMERGING MARKETS
Sold off on stronger dollar

-4.1%
EM

BOND MARKETS

BONDS
Gilts rally as BoE keeps rates unchanged

UK GILTS	3.0%
US TREASURIES	0.8%
GLOBAL CORPORATE BONDS	-0.8%
GLOBAL HIGH YIELD BONDS	1.2%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Weakens on BoE decision and stronger dollar

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
-3.1%	-3.8%	-1.0%	-3.0%

KEY INDICATORS

GOLD – XAU/USD
-0.5%

OIL – BRENT CRUDE
-16.4%

COMMODITIES
-7.6%

INFLATION – UK CPI
4.2%

DISCLAIMER – The value of investments and the income from them can go down as well as up and past performance is not a guide to future performance. Returns are in local currency unless indicated otherwise. Source: Bloomberg.

GLOBAL MARKETS

New COVID-19 variant hurts both developed and emerging markets

Oil & commodities fall, reversing earlier course

US MARKETS

Hawkish comments by the fed affect the markets

The Federal Reserve's Jerome Powell's hawkish comments on faster tapering caused a loss of momentum to the long US market rally, with some intra-day moves exceeding 3.6% on the announcement. It seems the Fed remains focused on the higher-than-expected inflation numbers, and less on the effects of the new COVID-19 variant to the economy. CPI inflation reached 6.2% in October, ahead of the expected 5.8%. Energy prices, housing, and food were the biggest contributors. The Fed has said that it will begin to taper bond buying to counter inflation.

-0.8%

US 500

EUROPEAN MARKETS

Markets sell off on new variant and renewed lock-down measures

A rapidly rising number of COVID-19 cases in Europe led some countries to enforce mandatory measures, causing unrest and impacting the markets. Eurozone inflation reached 4.9%, the highest level since records began, knocking investor confidence. Energy prices and the cost of imported goods were the major factors driving price rises. The ECB insists that price rises will dissipate in 2022. Core inflation, which strips away volatile items such as food, energy, and tobacco, was also above the ECB's target rate of 2%, at 2.6%.

-2.6%

Euro 600 Index

UK MARKETS

BoE decision to hold rates driven by new variant

The BoE decided to keep rates unchanged despite market expectations. This delay in implementation was not sufficient to counteract the negative impact of the new variant, which was particularly felt in small caps and sectors such as airlines. UK CPI reached 4.2%, as the shortage of goods & services and staff continue to push prices higher. UK house prices rose 10% in November from a year ago, according to Nationwide. Retail sales were buoyant at the beginning of the month.

-2.5%

UK All Share

ASIAN MARKETS

Emergence of new variant hits the markets

Asian markets, including Japan, sold off with the emergence of the Omicron variant. Japan announced it was closing its borders and China has a zero COVID-19 policy. China has an oversupply of real estate, with slowing demand and a $5tn overhang of debt impacting this sector. The Chinese economy grew 4.5% in Q3, lower than the expected rate of 5.2%. The US Fed's announcement of faster tapering is also weighing down on emerging markets, where the prospect of rising rates in the US will be a heavy burden for many companies borrowing in US Dollars.

-3.5%

Asia Index

THE WORLD AT A GLANCE

	2016	2017	2018	2019	2020	November 21	Year to Date
UK CASH	0.4%	0.3%	0.6%	0.7%	0.2%	0.0%	0.0%
US DOLLAR	3.6%	-9.9%	4.4%	0.2%	-6.7%	2.0%	7.2%
UK GILTS	10.1%	1.8%	0.6%	6.9%	8.3%	3.0%	-1.4%
US TREASURIES	1.0%	2.3%	0.9%	6.9%	8.0%	0.8%	-2.1%
GLOBAL CORPORATE BONDS	3.7%	8.9%	-3.2%	10.7%	10.0%	-0.8%	-3.2%
GLOBAL HIGH YIELD BONDS	14.3%	10.4%	-4.1%	12.6%	7.0%	-1.2%	3.8%
US 500	12.0%	21.8%	-4.4%	31.5%	18.4%	-0.8%	24.8%
UK ALL SHARE INDEX	12.5%	9.0%	-13.0%	14.2%	-12.5%	-2.5%	13.8%
EURO 600 INDEX	-1.2%	7.7%	-13.2%	23.2%	-4.0%	-2.6%	20.3%
JAPAN INDEX	-1.9%	19.7%	-17.8%	15.2%	4.8%	-3.6%	10.3%
ASIA EX-JAPAN	6.1%	35.6%	-12.3%	17.9%	22.4%	-3.5%	-2.6%
EMERGING MARKETS	8.6%	34.3%	-16.6%	15.4%	15.8%	-4.1%	-4.3%
COMMODITIES	32.8%	-3.4%	-8.5%	13.1%	-26.1%	-7.6%	40.5%
GOLD	7.7%	12.8%	-2.8%	18.0%	20.9%	-0.5%	-6.6%
HEDGE FUNDS	2.5	6.0%	-6.7%	8.6%	6.8%	-1.3%	3.0%

Source: Bloomberg

Total Return – Local Currency

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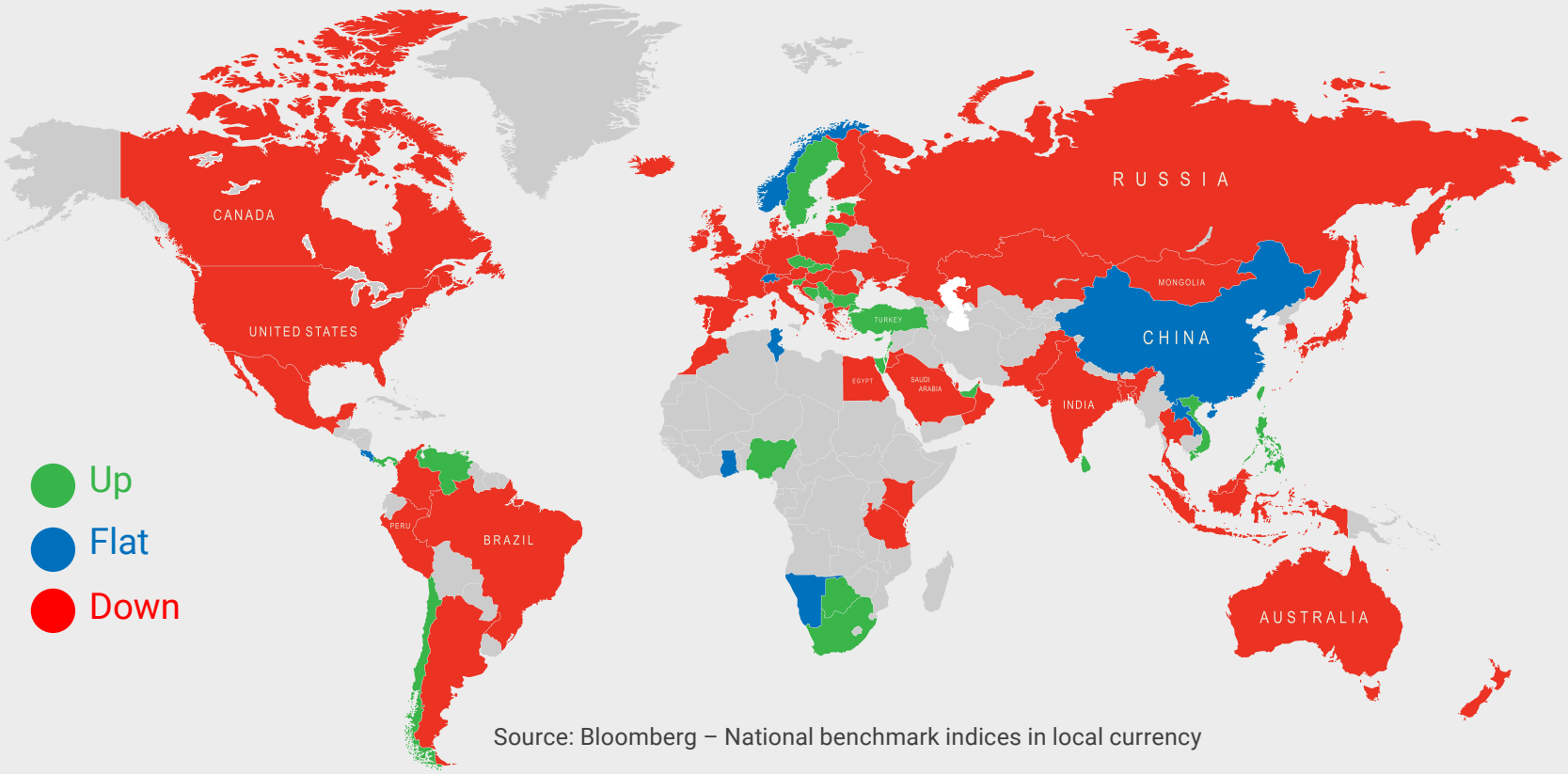
WORLD EQUITY MARKETS



Source: Bloomberg – National benchmark indices in local currency

-0.8% USA

-2.6% EUROPE

-3.6% JAPAN

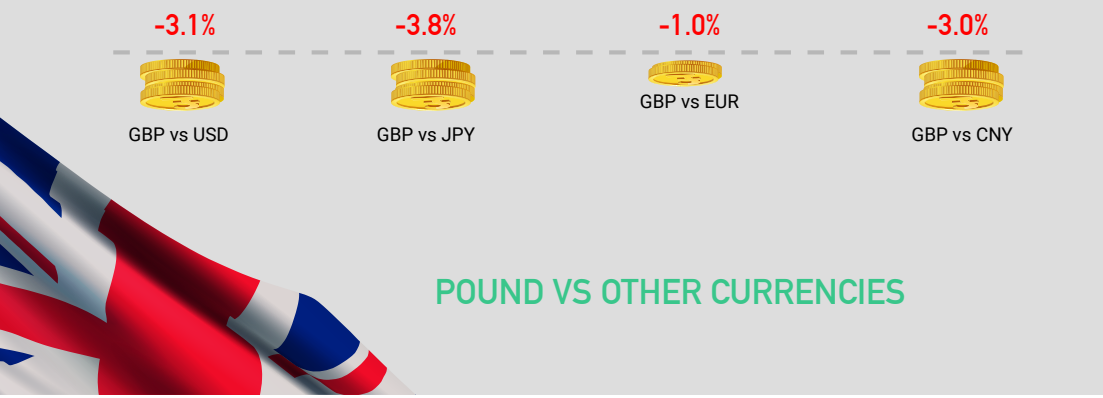
-2.5% UK

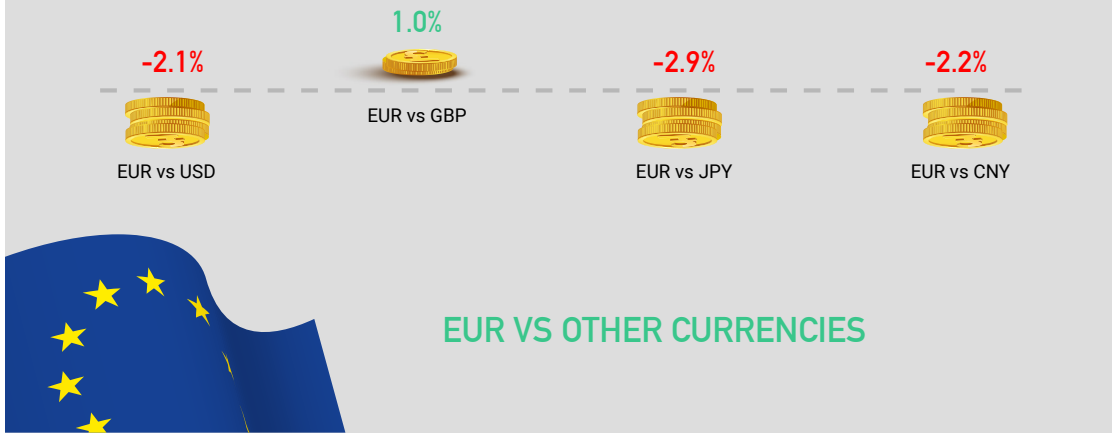
-4.1% EMERGING MARKETS

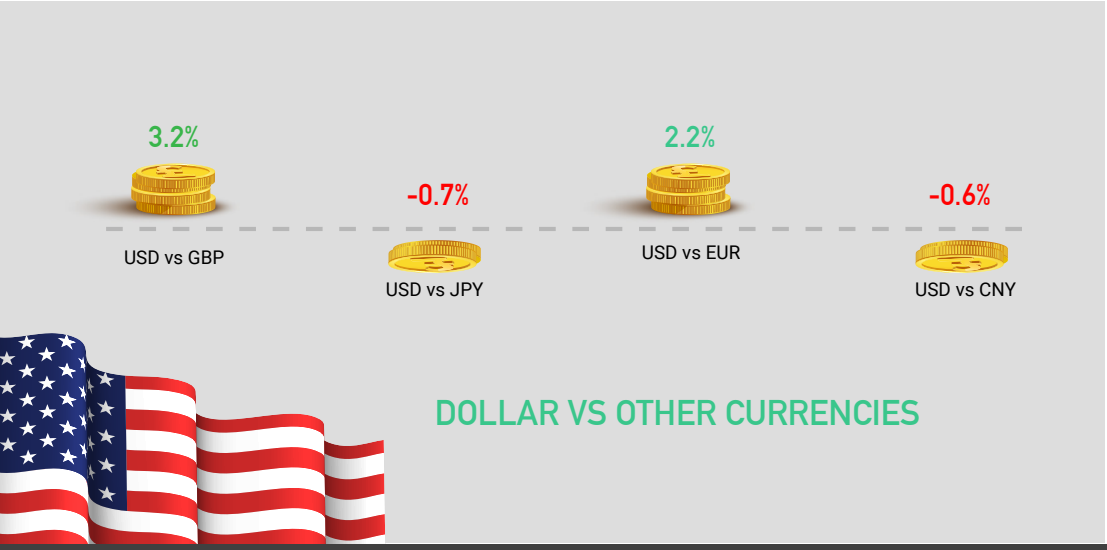
Key Points

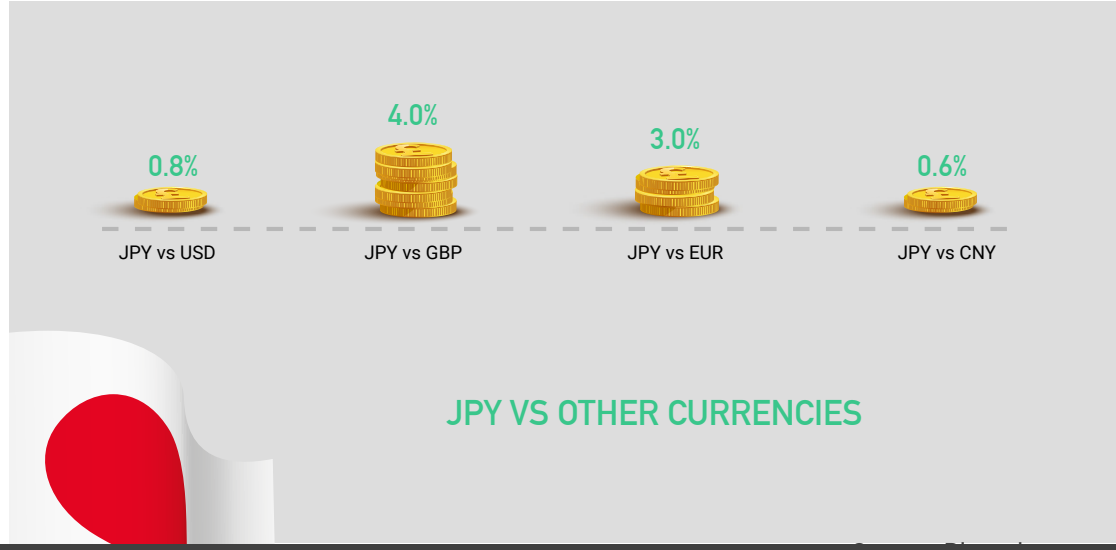
- Oil prices fell sharply on the annoucements of new travel restrictions to deal with the emerging Omicron COVID-19 variant
- Energy prices and the price of industrial metals were also down, as the new variant looks to derail economic growth and cut demand
- Continued strength in the US dollar, reflecting the prospect of rising borrowing costs for US Dollar dominated debt, puts pressure on emerging markets
- Asia, including Japan, and Emerging Markets were down sharply after the new variant was detected in South Africa

CURRENCIES







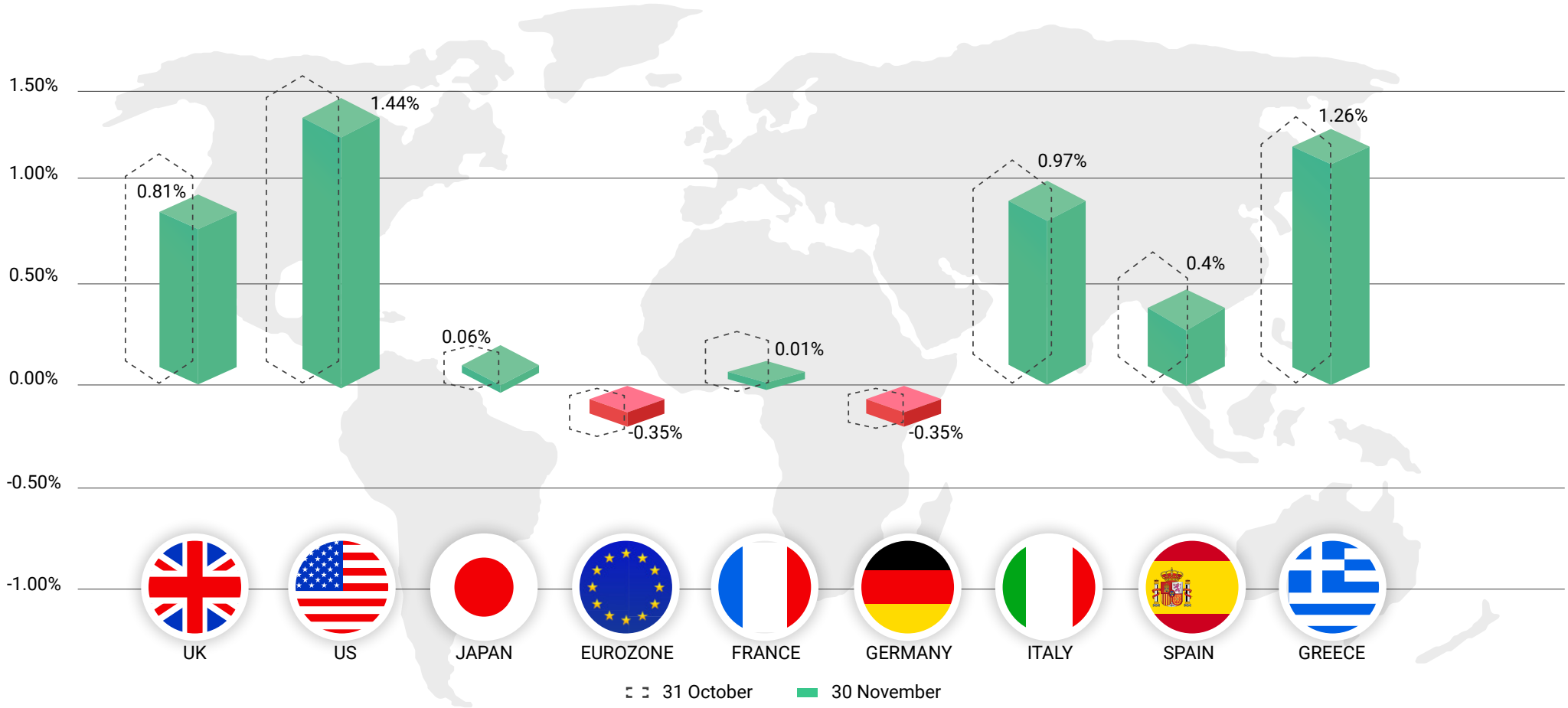


Key Points

- Currency markets have been shaken up with the rise in consumer prices across the globe
- The Bank of England's decision to keep rates unchanged weakened the currency, but benefited the stock market and US dollar earning companies
- The possibility of faster bond tapering was a further boost to the US Dollar

GENERIC 10-YEAR YIELDS*

*A Generic bond is a theoretical bond that always has the specified tenor, unlike a Benchmark bond, which is a physical bond, with a decreasing tenor.



Key Points

- US and UK government bonds rallied as investors sought safe havens. Yields for the 10-year US Treasury fell to 1.46% from 1.56% in November. In the Eurozone, negative yielding bonds are at their highest levels
- UK Gilt prices soared when the Bank of England kept rates unchanged, with the possibility that inflation is still being viewed as transitory. Yields on the 10-year gilt fell 0.8%. Following a stronger than expected economic rebound and higher tax receipts in 2021 versus 2020, the government cut bond sales by £60bn
- Investors appear to have opted for riskier, lower-grade, high-yield bonds and away from the safety of investment-grade corporate bonds
- Global corporate bonds are down year-to-date, as inflation continues to erode capital and cash flows

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