MARKET COMMENTARY

January 2022

SNAPSHOT

- Developed markets had a strong month
- Commodities and Oil outperformed
- Government bonds were weak

All percentages below are monthly returns

EQUITIES

US MARKETS
Robust corporate earnings

4.4%
US 500

UK MARKETS
Omicron perceived as less severe

4.5%
UK ALL SHARE

EMERGING MARKETS
Positive performance from IT, financials

1.6%
EM

BOND MARKETS

BONDS
Gilts, Treasuries weak on persistent inflation

UK GILTS	-2.7%
US TREASURIES	-0.5%
GLOBAL CORPORATE BONDS	0.3%
GLOBAL HIGH YIELD BONDS	-0.2%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Pound strengthens on surprise rate rise

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
2%	3.8%	1.4%	1.2%

KEY INDICATORS

GOLD – XAU/USD
2.9%

OIL – BRENT CRUDE
10.2%

COMMODITIES
5.1%

INFLATION – UK CPI
5.1%

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

Fed turns hawkish as elevated inflation persists

Government bonds underperform corporate bonds as faster rate rises loom

US MARKETS

Fed prepares markets for tapering and rate rises

Fed manages to avoid another 'taper tantrum' and announces the end to net asset purchases as early as March, along with three rate rises planned for 2022. US corporate earnings rose to fresh highs of $2.5trn, while the unemployment rate fell to 3.9%, the lowest since February 2020. Inflation is a concern, as the annual inflation rate reached 6.8%, while the core rose to 4.9%. GDP growth in the third quarter was 2.3% on an annualised basis, much lower than the previous quarter's 6.7% expansion, mainly due to Covid restrictions delaying businesses reopening.

4.4%

US 500

EUROPEAN MARKETS

European markets outperform

European markets outperformed UK and US markets, as risk appetite returned following robust corporate earnings and the perception that the new COVID-19 variant is less severe than initially anticipated. Healthcare, banks, tech and travel stocks were among the best performing sectors. Inflation is still seen as temporary in the Euro area, where eurozone's annual inflation hit 5.0% in December. Core inflation, which excludes volatile prices such as energy, food, alcohol & tobacco is closer to the ECB's 2.0% target at 2.6%. The ECB has so far ruled out a rate rise in 2022.

5.4%

Euro 600 Index

UK MARKETS

The Bank of England raises rates

The Bank of England raised rates by 15bps to 0.25%. CPI inflation was 5.1%, much higher than the Bank's target of 2.0%, prompting a letter to the Chancellor. The letter outlined the 'uneven effects' of COVID-19, which included supply bottlenecks, as well as a global rise in energy, commodity and household goods prices. While the rate rise benefited banks and financial stocks, travel & leisure stocks and retailers bore the brunt of the supply chain disruptions. The more defensive areas of the domestic market, such as supermarkets, including M&S, staged a turnaround on the back of increased spending for the festive period.

4.5%

UK All Share

ASIAN MARKETS

Omicron fears impact China

Fears that the faster spreading Omicron variant of COVID-19 would derail growth hit China the worst, due to its 'zero-Covid' policy. Hong Kong and Singapore markets were also weak, as investors anticipated more restrictions may be put in place. Tech stocks lifted Taiwan and Indonesian markets. Japan performed exceptionally well, a representation of the post-pandemic reopening of markets - shipping and commodities-related stocks enjoyed rallies from a sector switch, while stocks which were in high demand during the pandemic, such as healthcare and video-gaming, sold off.

1.0%

Asia Index

THE WORLD AT A GLANCE

	2017	2018	2019	2020	2021	December 21	Year to Date
UK CASH	0.3%	0.6%	0.7%	0.2%	0%	0.0%	0.0%
US DOLLAR	-9.9%	4.4%	0.2%	-6.7%	6.4%	-0.3%	0.0%
UK GILTS	1.8%	0.6%	6.9%	8.3%	-5.2%	-2.6%	-1.9%
US TREASURIES	2.3%	0.9%	6.9%	8.0%	-2.3%	0.5%	-1.4%
GLOBAL CORPORATE BONDS	8.9%	-3.2%	10.7%	10.0%	-3.2%	0.3%	-1.4%
GLOBAL HIGH YIELD BONDS	10.4%	-4.1%	12.6%	7.0%	2%	-0.1%	-1.6%
US 500	21.8%	-4.4%	31.5%	18.4%	26.9%	4.4%	-1.1%
UK ALL SHARE INDEX	9.0%	-13.0%	14.2%	-12.5%	14.5%	4.5%	0.8%
EURO 600 INDEX	7.7%	-13.2%	23.2%	-4.0%	22.2%	5.4%	-1.0%
JAPAN INDEX	19.7%	-17.8%	15.2%	4.8%	10.4%	3.3%	-0.3%
ASIA EX-JAPAN	35.6%	-12.3%	17.9%	22.4%	-3.1%	1.0%	0.6%
EMERGING MARKETS	34.3%	-16.6%	15.4%	15.8%	-4.6%	1.6%	-0.9%
COMMODITIES	-3.4%	-8.5%	13.1%	-26.1%	41.6%	5.1%	4.5%
GOLD	12.8%	-2.8%	18.0%	20.9%	-4.3%	2.9%	-0.6%
HEDGE FUNDS	6.0%	-6.7%	8.6%	6.8%	3.7%	0.5%	-0.7%

Source: Bloomberg

Total Return – Local Currency

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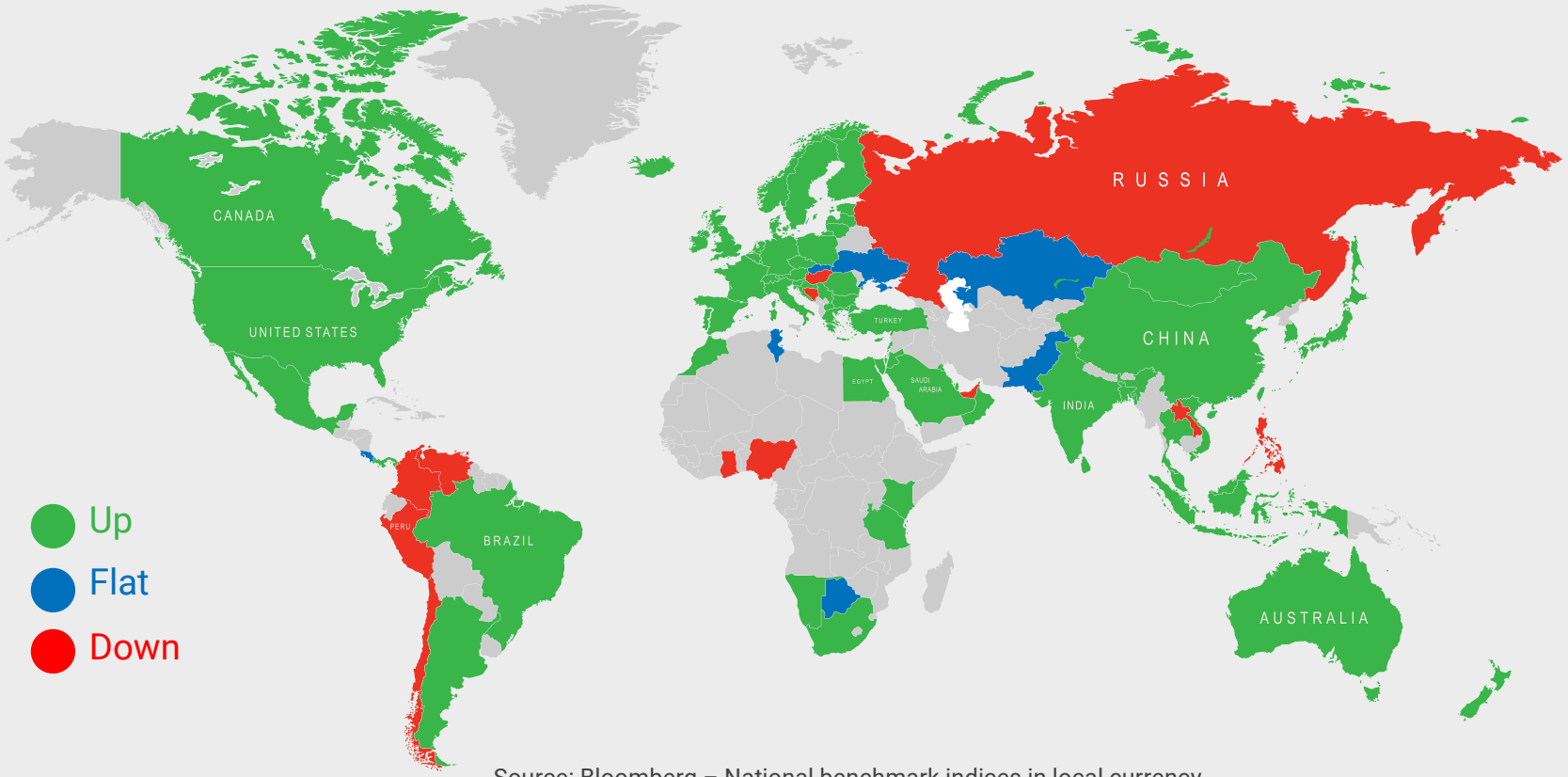
WORLD EQUITY MARKETS



Source: Bloomberg – National benchmark indices in local currency

4.4% USA

5.4% EUROPE

3.3% JAPAN

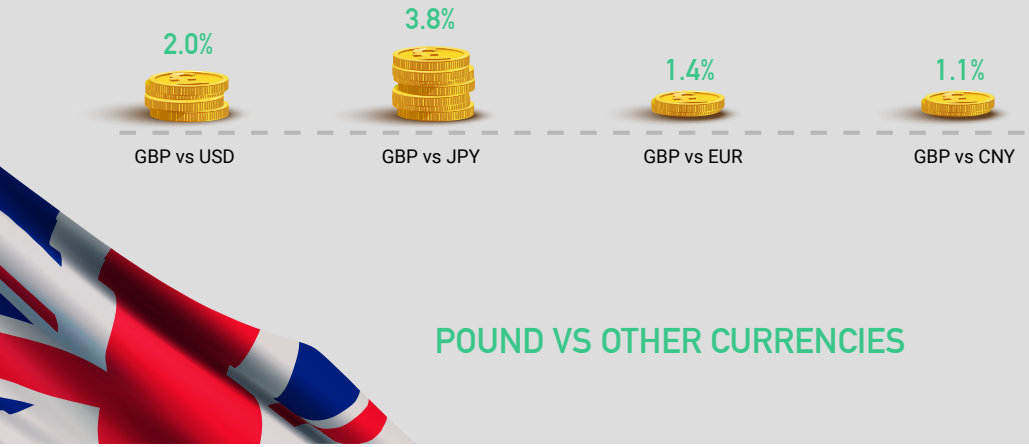
4.5% UK

1.6% EMERGING MARKETS

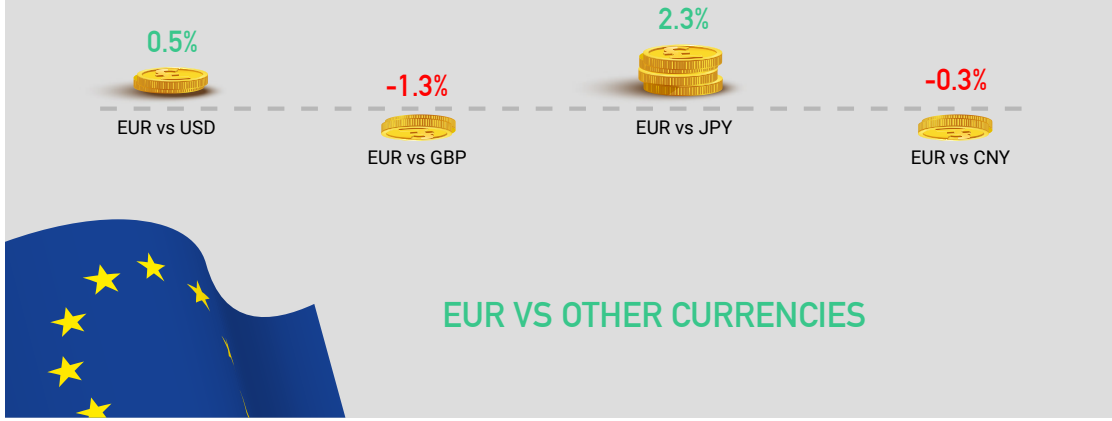
Key Points

- Equity markets saw increased volatility at the start of the month due to Omicron concerns and Fed policy news, but eventually stabilised at year-end, where the S&P hit all-time highs.
- Markets are displaying increased signs of a sector rotation, away from growth – e.g. technology stocks selling off - and a rising demand for value stocks.
- Emerging markets underperformed developed markets, and in particular the US, with the strength of the US dollar, combined with rising borrowing costs, being a headwind.
- Oil prices surged in December as Omicron concerns eased and vaccinations rose, the demand for crude oil outstripped supply and lead to a surge in oil prices.
- Sterling proved resilient, as the rate rise by the Bank of England, as well as the subsequently planned four rate rises, offers sufficient investor support of a stronger economy.

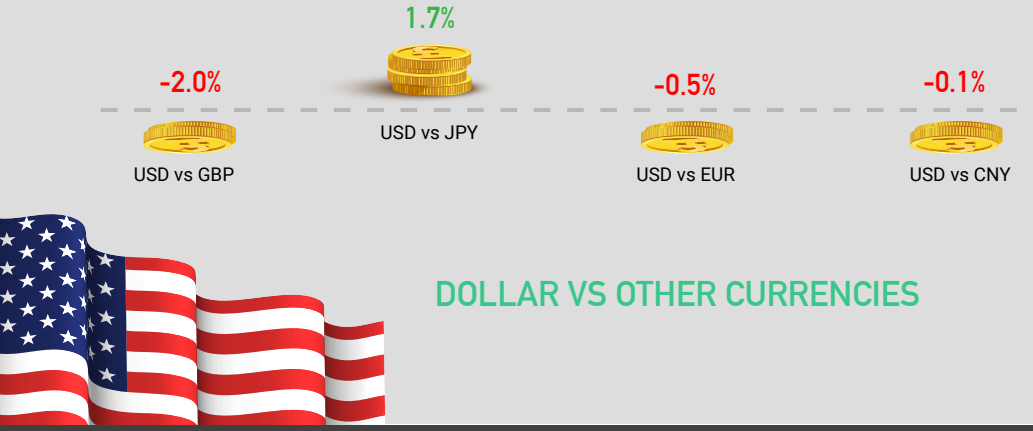
CURRENCIES



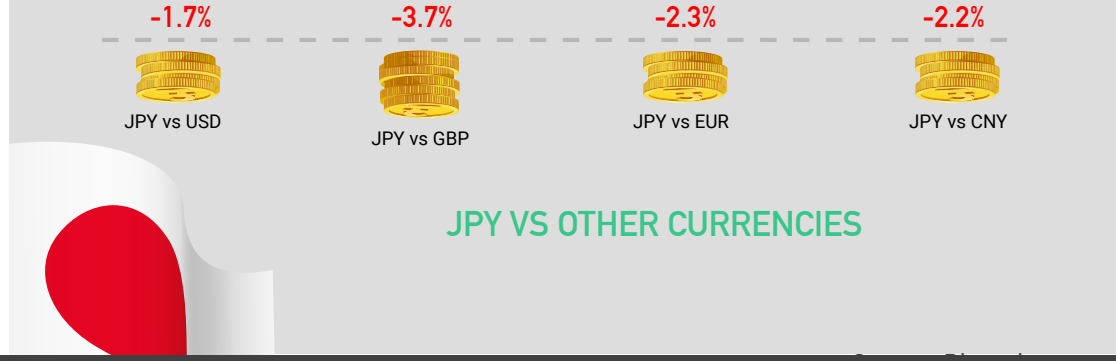
POUND VS OTHER CURRENCIES



EUR VS OTHER CURRENCIES



DOLLAR VS OTHER CURRENCIES



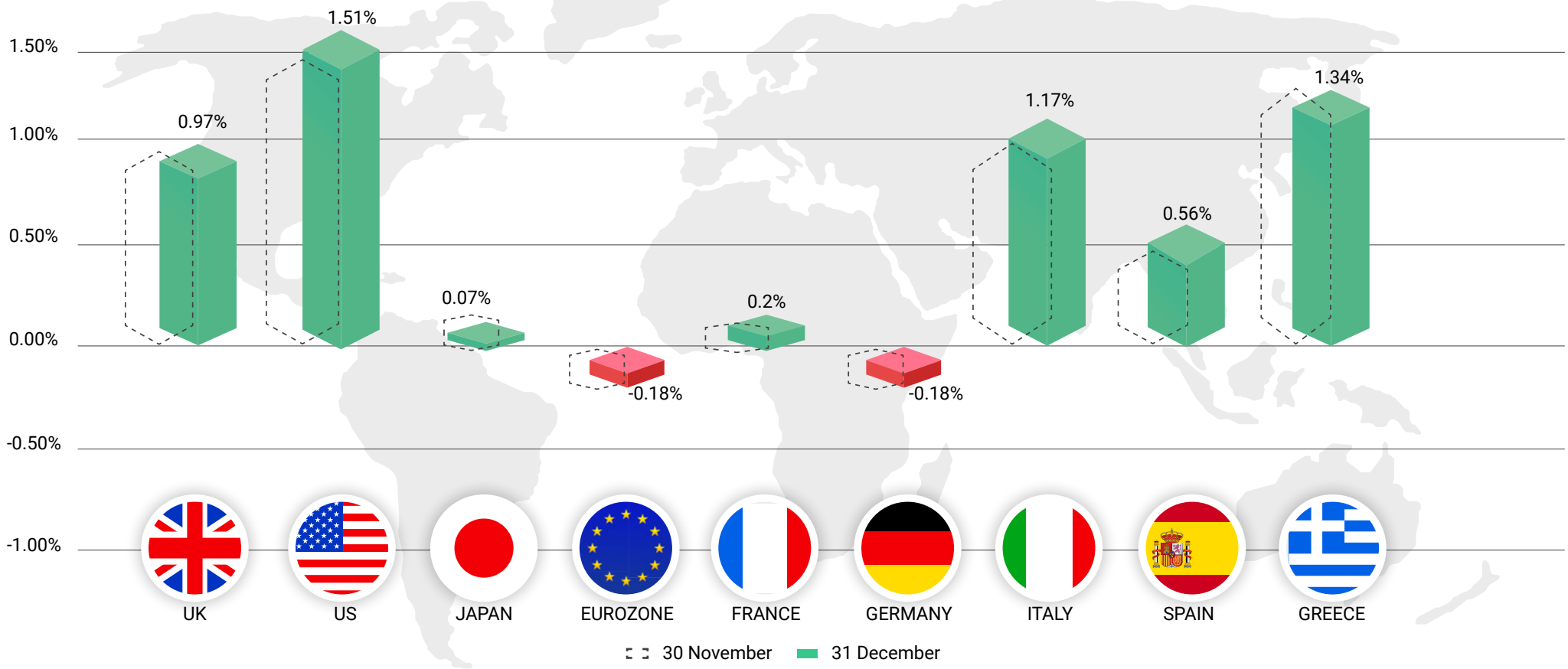
JPY VS OTHER CURRENCIES

Key Points

- Sterling was strong against most major currencies and even came close to its post-referendum highs of around 1.19 against the Euro. The currency was buoyed by the BoE's rate rise in the month, as it became the first central bank in the G7 countries to raise rates.
- The US Dollar ended the month down against Sterling and Euro, but was up nearly 7% in 2021, supported by an improving economy.
- UK investors saw their overseas returns diminish by the strength of the pound, while returns relative to the World Index were enhanced for UK investors.

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

- Government bonds were weak and yields rose, as persistent inflation caused the Fed to turn hawkish and the Bank of England to raise rates.
- UK Gilts and US Treasuries sold off, with yields on the 10-year bonds rising to 0.97% and 1.51% respectively.
- Eurozone bond yields, along with German 10-year bunds, are still at negative territory, as the ECB continues with their ultra-loose monetary policy.
- High-yield bonds continued to produce the best returns for investors, as the expectation that economic and corporate growth is likely to continue to boost investor confidence and, in turn, risk appetite.
- Spreads have not shown much sign of widening, despite increased default risk. However, there remains the risk that spreads may reverse from here.

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