

MARKET COMMENTARY

May 2022

SNAPSHOT

- Global equities volatile on high inflation and monetary tightening
- Government bonds sell off on slowing economic growth
- Currencies volatile, US Dollar strength hurts Sterling

All percentages below are monthly returns

EQUITIES



BOND MARKETS

BONDS

US Treasuries turn bearish

	UK GILTS	-2.8%
	US TREASURIES	-3.1%
	GLOBAL CORPORATE BONDS	-1.6%
	GLOBAL HIGH YIELD BONDS	-0.3%



*Values represent bond index returns

CURRENCIES

CURRENCIES

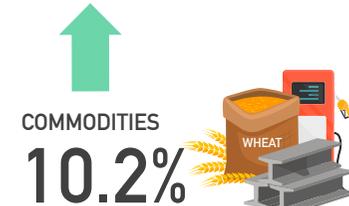
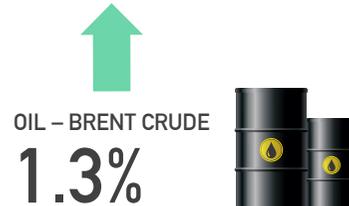
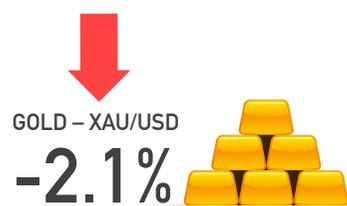
Sterling weakens on growth concerns



Pound vs Other Currencies



KEY INDICATORS



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GLOBAL MARKETS

Bonds and equities fall on the back of higher inflationary pressures and continuation of the war in Ukraine

Global economic outlook deteriorated as China toughened COVID-19 restrictions



US MARKETS

US Techs impacted by negative sentiments for growth

The annual US Consumer Price Inflation (CPI) reached 8.5%. Technology stocks suffered as the market sentiment for growth turned. Core inflation, taking out items such as food and energy, hit 6.5%, a 40-year high. Equity markets fell on the back of lower-than-expected earnings. Large tech companies were among those citing supply-chain issues and rising energy prices for missed earnings. US GDP unexpectedly declined 1.4% in the first quarter, from an expansion of 6.9% in the final quarter of 2021. Government spending fell, investment growth declined, but consumer spending remained resilient.

-8.8%

US 500



EUROPEAN MARKETS

The war in Ukraine still heavily impacting the region

Equity markets were generally down but still supported by stronger than expected earnings from large blue-chip stocks. Eurozone inflation rose to 7.5% as the prolonged war between Ukraine and Russia continues to impact the supply of commodities from these two countries. The shortages have already caused prices to spike, and inflationary pressures are not likely to abate soon. Russia halted gas supplies to NATO members Poland and Bulgaria in retaliation to economic sanctions. ECB has been slow with regards to rate rises but inflation numbers are putting pressure on the central bank.

-1.2%

Euro 600 Index



UK MARKETS

Inflation continues to weigh on the overall markets

UK GDP grew 1.3% in the fourth quarter of 2021 while Manufacturing PMI fell to 55.2 in March from 58.0 in February. Earnings from Astra Zeneca, Reckitt Benckiser came in higher than expected, with both benefiting from their defensive non-discretionary properties. UK CPI rose to a 30-year high of 7.0% in March, with the biggest contributor being the rise in fuel prices. Retail sales fell in April as stores reported a fall in sales volumes, with consumers showing signs of changing their spending habits to counter the effects of rising inflation.

-0.1%

UK All Share



ASIAN MARKETS

Continued lockdowns in China an on-going concern

China's hard and prolonged lockdown of businesses prompted worries about slowing demand, and commodity prices got hit as a result. China's factory activity was also down as lockdowns impacted production. Caixin/Manufacturing Purchasing Manager's Index (PMI) was 46 from 48.1 a month ago. A reading of below 50 indicates contraction.

-3.5%

Asia Index



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THE WORLD AT A GLANCE

	2017	2018	2019	2020	2021
UK CASH	0.3%	0.6%	0.7%	0.2%	0%
US DOLLAR	-9.9%	4.4%	0.2%	-6.7%	6.4%
UK GILTS	1.8%	0.6%	6.9%	8.3%	-5.2%
US TREASURIES	2.3%	0.9%	6.9%	8.0%	-2.3%
GLOBAL CORPORATE BONDS	8.9%	-3.2%	10.7%	10.0%	-3.2%
GLOBAL HIGH YIELD BONDS	10.4%	-4.1%	12.6%	7.0%	2.0%
US 500	21.8%	-4.4%	31.5%	18.4%	26.9%
UK ALL SHARE INDEX	9.0%	-13.0%	14.2%	-12.5%	14.5%
EURO 600 INDEX	7.7%	-13.2%	23.2%	-4.0%	22.2%
JAPAN INDEX	19.7%	-17.8%	15.2%	4.8%	10.4%
ASIA EX-JAPAN	35.6%	-12.3%	17.9%	22.4%	-3.1%
EMERGING MARKETS	34.3%	-16.6%	15.4%	15.8%	-4.6%
COMMODITIES	-3.4%	-8.5%	13.1%	-26.1%	41.6%
GOLD	12.8%	-2.8%	18.0%	20.9%	-4.3%
HEDGE FUNDS	6.0%	-6.7%	8.6%	6.8%	3.7%

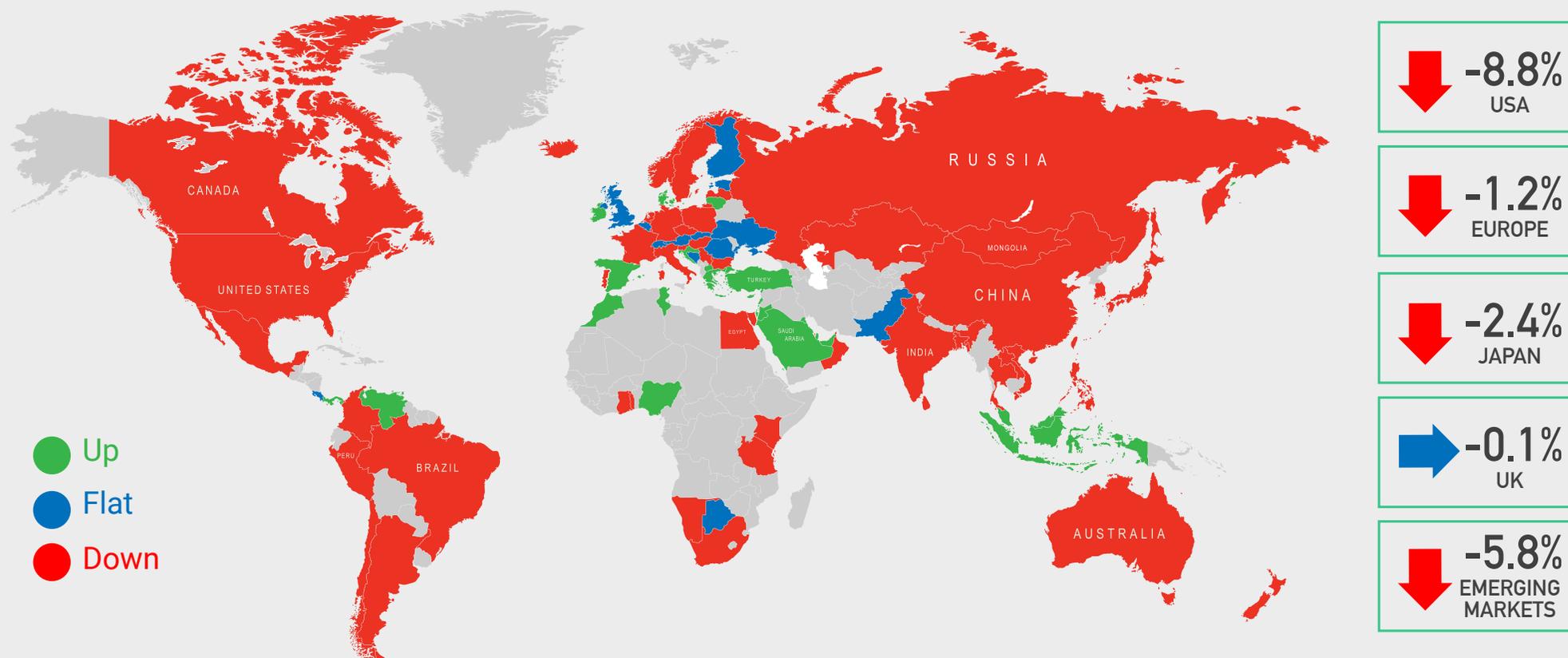
	April 2022	Year to Date
	0.1%	0.2%
	4.7%	7.6%
	-2.8%	-9.8%
	-3.1%	-8.5%
	-1.6%	-6.2%
	-0.3%	-3.2%
	-8.8%	-13.3%
	-0.1%	-0.5%
	-1.2%	-7.7%
	-2.4%	-4.7%
	-3.5%	-10.0%
	-5.7%	-12.6%
	10.2%	51.0%
	-2.1%	4.3%
	-0.9%	-2.2%

Source: Bloomberg

Total Return – Local Currency

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WORLD EQUITY MARKETS

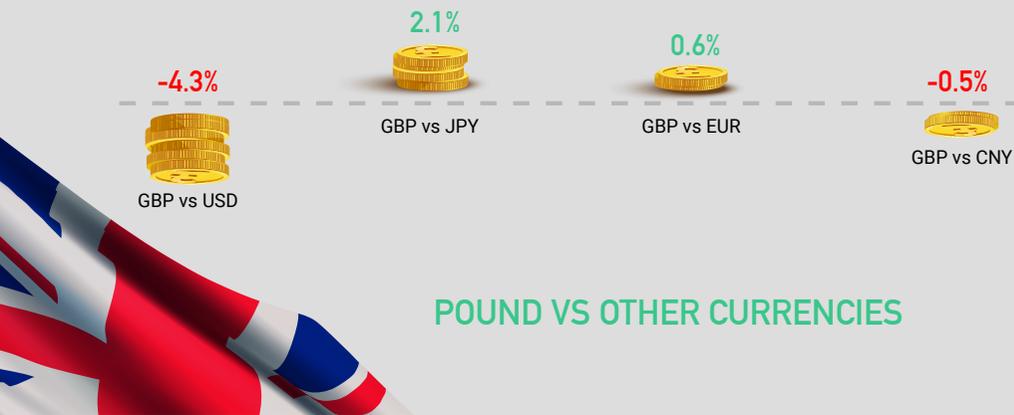


Key Points

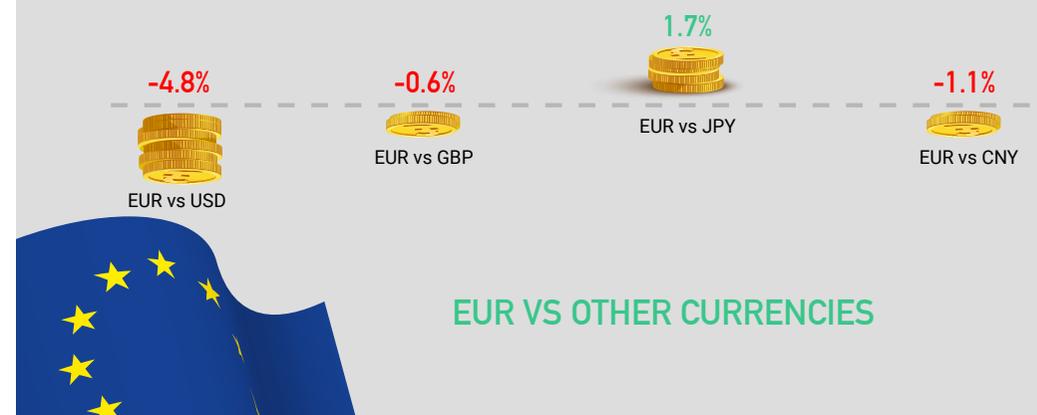
- US equity markets, and in particular the tech heavy Nasdaq, spiralled downwards as Apple and Amazon corporate earnings came in below expectations.
- UK equity market fared better than US, Europe and Emerging Markets, as the FTSE 100 is heavily weighted with inflation-protection and defensive sectors.
- WTI Crude oil was volatile during the month as the rising inflationary environment, coupled with the weakening demand backdrop, weighed on investor minds.
- Defensive sectors such as REITs and infrastructure performed well in the month. These real assets are seen to have a degree of inflation protection and are thus preferred by investors during times of market turmoil.

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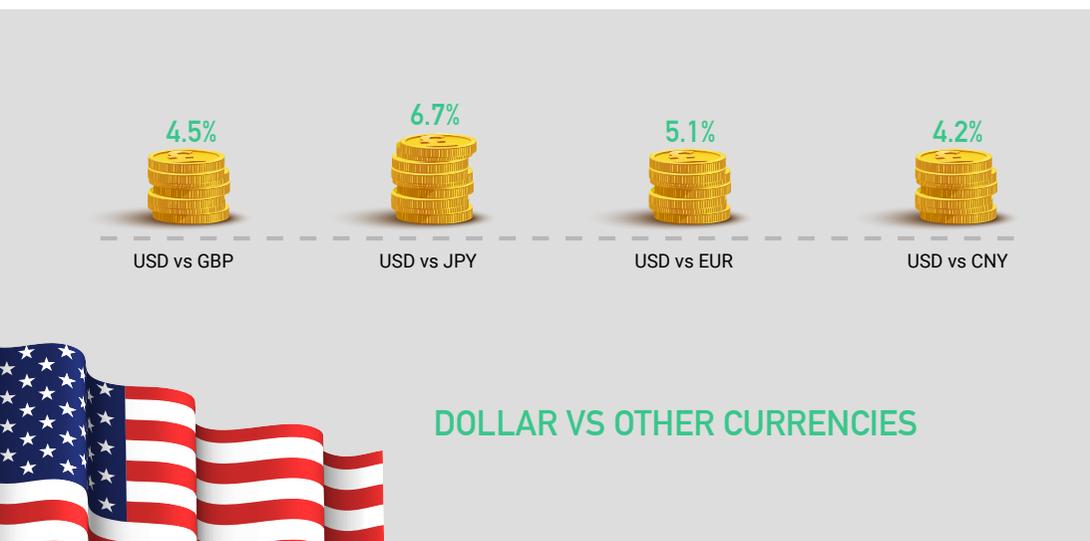
CURRENCIES



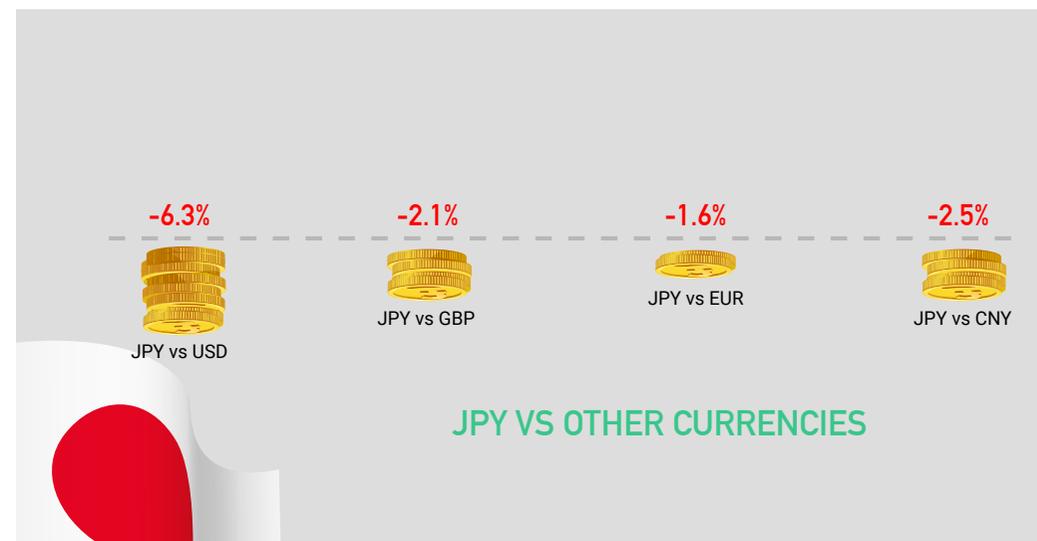
POUND VS OTHER CURRENCIES



EUR VS OTHER CURRENCIES



DOLLAR VS OTHER CURRENCIES



JPY VS OTHER CURRENCIES

Key Points

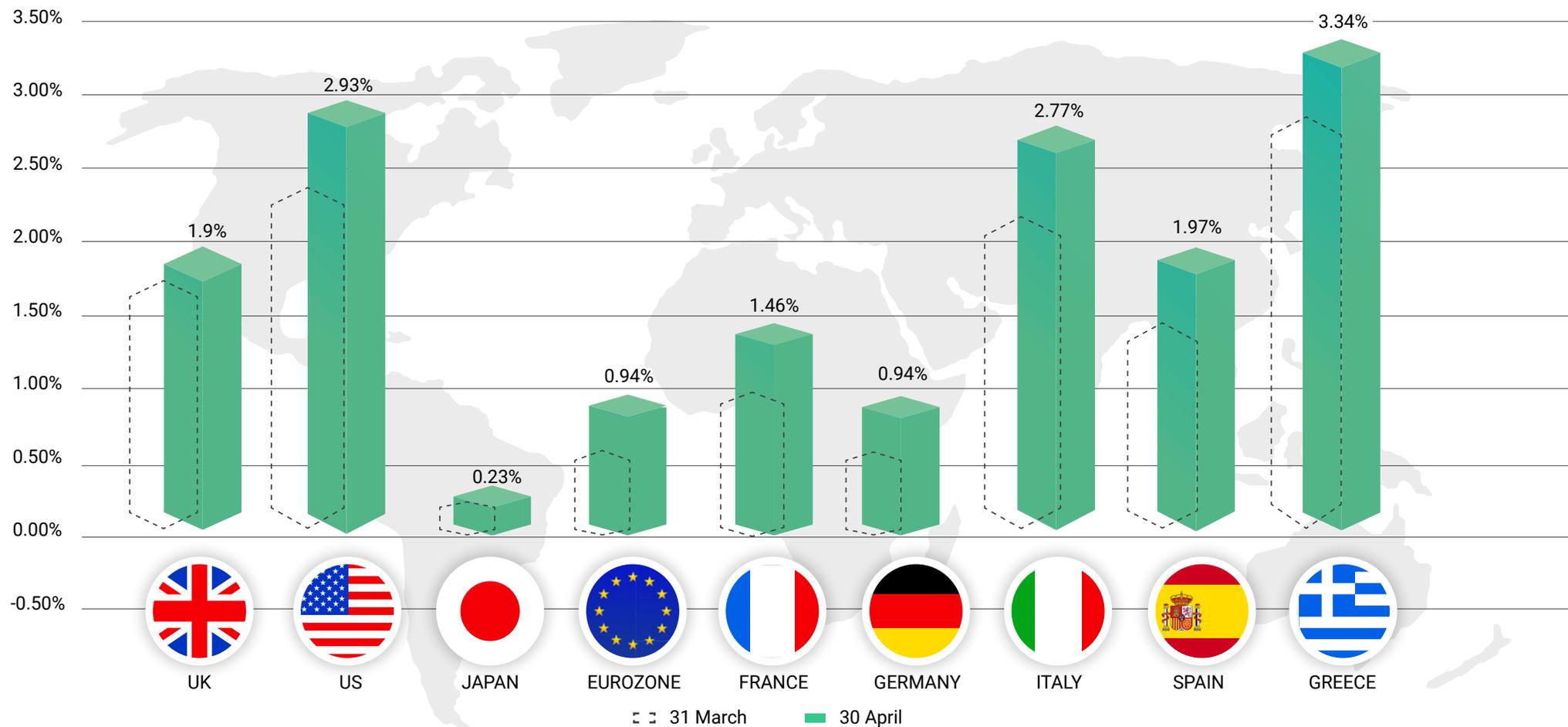
- US Dollar continues its ascent against major world currencies, supported by the Fed's quantitative tightening and rate rise programme. The US Dollar index hit 2-year highs against a basket of currencies as investors seek the safety of the USD.
- Sterling was weak on the back of the US Dollar rally. Poor economic data, such as retail sales numbers and rising inflation, has created a headwind for GBP.

- Japanese Yen reached 20-year lows against the US Dollar as the Bank of Japan continues, unlike the rest of the world in quantitative tightening, a loose monetary policy.
- Euro lost around 5.0% against the US Dollar in April, and is down around 7.0% in the year, as inflation and economic slowdown weighed on investors.

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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 10-year Treasury yield rose to 2.78% as the Fed continues to raise rates and reduce quantitative support in an attempt to control inflation. UK 10-year Gilt yield rose to 1.88% while, notably, the yield on the 10-year German bunds rose to 1.04%, reversing three years of negative yields.
- Escalating Fed hawkishness caused riskier assets to fall. US High Yield market is down 3.2% year-to-date. High yield spreads have also widened, reflecting investor concerns about the increasing risk of default at the riskier end of the spectrum.
- Government bond market volatility is higher than that of equities as investors continue to sell bonds. Economic data globally is weak, which is not supportive of government bonds. High inflation and a contracting, rising interest rate environment is weakening investor confidence.
- Inflation has an eroding effect on both the coupons and principals of bonds, especially the principal of bonds with longer terms to maturity. Inflation generally negatively impacts bond markets.

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