MARKET COMMENTARY

June 2022

SNAPSHOT

- The war in Ukraine remains the key macro risk affecting markets
- Intra-day equity and fixed income volatility is driven by inflationary concerns
- With monetary tightening continuing, the focus shifts to slowing growth

All percentages below are monthly returns

EQUITIES

US MARKETS
Fed raises rates to 1%

0.0%
US 500

UK MARKETS
FTSE100 performs well

0.4%
UK ALL SHARE

EMERGING MARKETS
China eases lockdown

0.1%
EM

BOND MARKETS

BONDS
Government bond yields off their highs

UK GILTS	-3.0%
US TREASURIES	0.2%
GLOBAL CORPORATE BONDS	0.2%
GLOBAL HIGH YIELD BONDS	-0.5%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Sterling strengthens on lower unemployment data

Pound vs Other Currencies

GBP vs USD	0.4%
GBP vs JPY	-0.5%
GBP vs EUR	-1.4%
GBP vs CNY	1.3%

KEY INDICATORS

GOLD – XAU/USD	-3.6%
OIL – BRENT CRUDE	12.4%
COMMODITIES	4.7%
INFLATION – UK CPI	9.0%

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

Slowing economic growth raises investors' fear of recession and could throw central banks off-course from planned rate rises

If wage growth remains high against a backdrop of surging energy prices, inflation could become entrenched

US MARKETS

Markets dealing with the ramifications of rate increases

The Federal Reserve's latest interest rate rise was the largest rise in borrowing costs since 2000, as it starts to reduce its $9tn balance sheet. The US dollar pulled back and the yield on 10-year US Treasury fell to 2.8% from its mid-May highs of 3.0%. GDP fell to -1.4% in Q1 from 6.9% in the previous quarter, and inflation remains a cause for concern, with annual CPI at 8.3% and core inflation at 6.2% in April.

0.0%

US 500

EUROPEAN MARKETS

The war in Ukraine remains the dominant issue

With the war in Ukraine showing no signs of a resolution, and international aid agencies helping to evacuate civilians from various cities, Europe imposed a seaborne embargo on Russian oil. However this had little effect on gas prices. The price of natural gas is up over 200% year to date. Food price inflation will likely continue given the situation in Ukraine and Russia, where wheat crops have not been planted and fertiliser ingredient prices have surged respectively. Eurozone annual CPI reached 8.1% in May, to which ECB President Lagarde hinted at the possibility of rate increases in July.

-1.6%

Euro 600 Index

UK MARKETS

FTSE100 performed well due to energy exposure

Annual UK CPI came in at 9.0% due to spiralling electricity and oil and gas price rises. The FTSE100 was the best performing equity market, attributed to its heavier weighting in energy stocks. The Bank of England raised interest rates to their highest level since 2009, but still warned of a possible recession. As focus turned away from inflation to slowing growth, gilts had their best performance since March 2020. UK GDP rose by 1.3% in the first quarter 2022, vs -0.9% in Q4 21.

0.4%

UK All Share

ASIAN MARKETS

China's COVID-19 approach continues to impact the markets

China spent most of May in lockdown as the government continued with its zero-Covid policy. There was some gradual reopening at the end of the month, but any new outbreaks would likely result in further shutdowns, impacting the economy. China's GDP is expected to slow down from the annual 8.1% growth recorded in 2021. There were outflows in Asia/EM equities as investors were unnerved about quantitative tightening, which may depress Asian currencies. However, some peripheral markets, such as Taiwan, Thailand and South Korea, saw inflows.

0.2%

Asia Index

THE WORLD AT A GLANCE

	2017	2018	2019	2020	2021	May 2022	Year to Date
UK CASH	0.3%	0.6%	0.7%	0.2%	0%	0.1%	0.2%
US DOLLAR	-9.9%	4.4%	0.2%	-6.7%	6.4%	-1.2%	6.4%
UK GILTS	1.8%	0.6%	6.9%	8.3%	-5.2%	-3.0%	-12.5%
US TREASURIES	2.3%	0.9%	6.9%	8.0%	-2.3%	0.2%	-8.3%
GLOBAL CORPORATE BONDS	8.9%	-3.2%	10.7%	10.0%	-3.2%	0.2%	-6.0%
GLOBAL HIGH YIELD BONDS	10.4%	-4.1%	12.6%	7.0%	2.0%	-0.5%	-3.6%
US 500	21.8%	-4.4%	31.5%	18.4%	26.9%	0.0%	-13.3%
UK ALL SHARE INDEX	9.0%	-13.0%	14.2%	-12.5%	14.5%	0.4%	-0.1%
EURO 600 INDEX	7.7%	-13.2%	23.2%	-4.0%	22.2%	-1.6%	-9.1%
JAPAN INDEX	19.7%	-17.8%	15.2%	4.8%	10.4%	0.7%	-4.0%
ASIA EX-JAPAN	35.6%	-12.3%	17.9%	22.4%	-3.1%	0.2%	-9.8%
EMERGING MARKETS	34.3%	-16.6%	15.4%	15.8%	-4.6%	0.1%	-12.5%
COMMODITIES	-3.4%	-8.5%	13.1%	-26.1%	41.6%	4.7%	58.0%
GOLD	12.8%	-2.8%	18.0%	20.9%	-4.3%	-3.6%	0.6%
HEDGE FUNDS	6.0%	-6.7%	8.6%	6.8%	3.7%	1.1%	-3.3%

Source: Bloomberg

Total Return – Local Currency

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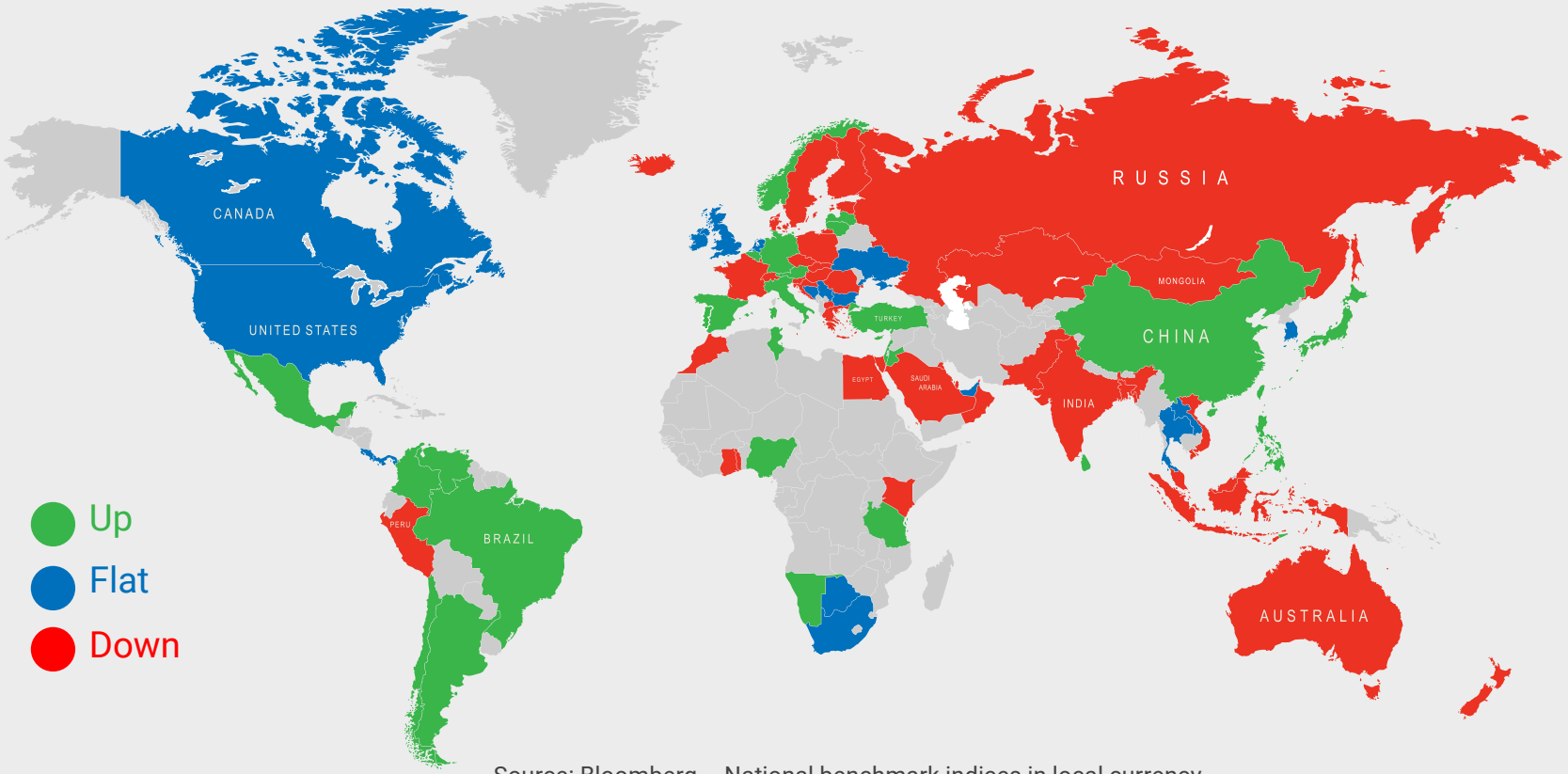
WORLD EQUITY MARKETS



0.0% USA

-1.6% EUROPE

0.7% JAPAN

0.4% UK

0.1% EMERGING MARKETS

Source: Bloomberg – National benchmark indices in local currency

Key Points

- In the US, central bank policy error risk remains high as the Fed alternates between hawkish (at start of the month) to more dovish (toward month end), with its focus shifting from inflation to poor economic data.
- Basic materials, oil & gas and construction materials sectors performed well. The S&P 500 Energy Sector is up 14.5% in May alone, while the tech heavy Nasdaq was down 1.9%.
- In the UK, the Bank of England's Andrew Bailey hinted that the economy will likely shrink due to double digit inflation, causing a temporary dip in gilt yields mid-month.
- Inflationary pressures look likely to continue across the globe due to spiralling energy and gas prices, as well as food prices (from a shortage of crops due to the war in Ukraine and a surge in energy intensive fertiliser ingredients needed for crop growth).
- While central banks may be able to control some elements of inflation, with interest rate rises and quantitative tapering, the energy component may prove more difficult to influence.

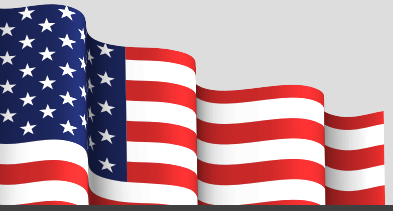
CURRENCIES

POUND VS OTHER CURRENCIES

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
0.4%	-0.5%	-1.4%	1.3%

EUR VS OTHER CURRENCIES

EUR vs USD	EUR vs GBP	EUR vs JPY	EUR vs CNY
1.8%	1.4%	0.7%	2.8%



DOLLAR VS OTHER CURRENCIES

USD vs GBP	USD vs JPY	USD vs EUR	USD vs CNY
-0.4%	-0.9%	-1.8%	1.0%

JPY VS OTHER CURRENCIES

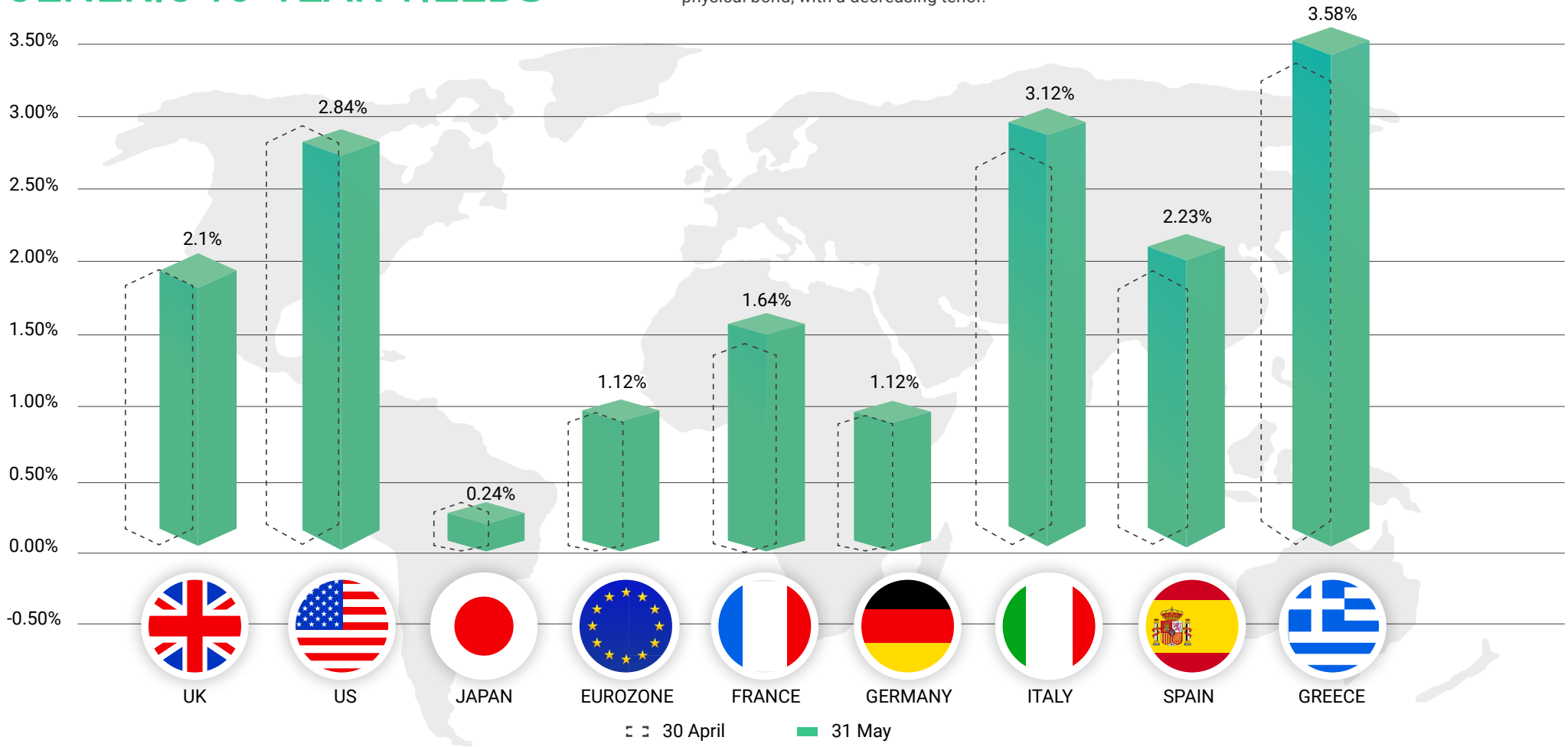
JPY vs USD	JPY vs GBP	JPY vs EUR	JPY vs CNY
0.9%	0.6%	-0.8%	1.9%

Key Points

- The US Dollar retreated from its highs as investors paused to take stock of slowing global economic growth data.
- Sterling was stronger against the US Dollar after the UK posted 3.7% unemployment for Q1 22, its lowest level since 1974.
- The Japanese Yen was strong versus the US Dollar and Sterling. Having lagged behind the US and Europe on economic reopening, the Nikkei is up 1.6% in May against a flat US equity market. Since the middle of March, the Nikkei is up 8.4% versus 2.4% for the S&P500.
- The Euro was stronger against most major currencies, despite the Euro almost reaching parity with the US Dollar mid-month, as the ECB changed from its loose monetary policy to fall in line with the Fed and the Bank of England.

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 Treasuries and global corporate bonds were up while global high yield fared poorly. UK gilts were down nearly 3%, wiping £150bn off the value of Gilts since the beginning of January 2022.
- The US 10-year Treasury, UK 10-year Gilt, and German Bund yields fell below levels of 3.0%, 2.0%, and 1.0% respectively in the month. Yields of US 10-year Treasuries and UK 10-year Gilts ended the month at 2.84% and 2.10% respectively.
- Yields continue to gyrate as investors try to determine whether rising inflation or slowing growth will drive the markets. In April, the annual rate of CPI fell to 8.3% from 8.5%, which, to some, is a sign of inflation peaking in the US.
- Seen by some as a hedge against inflation, US Treasury Inflation Protection (TIPs) notes have seen outflows for three consecutive weeks.

DISCLAIMER

Sources: Collidr, Bloomberg. Indices: Barclays, FTSE, Bloomberg, STOXX, Japan Exchange Group, MSCI, S&P, New York Mercantile Exchange, Chicago Mercantile Exchange, Bureau of Labour Statistics, US and Office for National Statistics, UK.