MARKET COMMENTARY

July 2022

SNAPSHOT

- Global economic growth forecasts cut
- Worries about recession take hold and volatility rises
- Investors move into safe havens, US dollar rallies

All percentages below are monthly returns

EQUITIES

US MARKETS
Fed raises rates

-8.4%
US 500

UK MARKETS
Consumer confidence hits new low

-6.2%
UK ALL SHARE

EMERGING MARKETS
Struggle despite China recovery

-7.2%
EM

BOND MARKETS

BONDS
Treasury and Gilts remain volatile

UK GILTS	-1.8%
US TREASURIES	-0.9%
GLOBAL CORPORATE BONDS	-0.1%
GLOBAL HIGH YIELD BONDS	-4.2%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Sterling weak against the USD, Euro

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
-3.5%	1.9%	-1.2%	-3.1%

KEY INDICATORS

GOLD – XAU/USD	OIL – BRENT CRUDE	COMMODITIES	INFLATION – UK CPI
-2.1%	-6.5%	-4.2%	9.1%

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

Most asset classes remained in high volatility territory

Central banks continue to tighten monetary policy to cool inflation, even at the risk of tipping economies into recession

US MARKETS

US equity markets encountering inflation headwinds

The US equity market was down over 8% for the second month this quarter, a month in which the Fed raised interest rates by a further 75bps. US first-quarter GDP was revised down, but it was the sharp downward correction in consumer spending which unnerved investors, with US inflation showing little sign of abating. The May monthly US CPI jumped to 1.0% from 0.3% the previous month, pushing the year-on-year CPI to 8.6%, with the Purchasing Managers Indexes (PMI) steadily falling.

-8.4%

US 500

EUROPEAN MARKETS

European markets deal with ECB's delayed inflation response

European equity markets fell on the back of annual CPI inflation in the area hitting 8.6%, driven by record energy prices. The ECB's Lagarde sent a clear signal that rate rises will begin in July, their first rate rise in 11 years. Europe's dependency on Russian gas supplies remains a key risk, with the added concern that Russia may begin to ration or reduce gas supplies.

-8.2%

Euro 600 Index

UK MARKETS

Low consumer confidence contributes to falling markets

UK equity markets were down heavily, particularly in mid-caps. The Bank of England raised rates by a further 25bps to 1.25% and UK CPI YoY inflation reached 9.1%. British manufacturing (as shown by Manufacturing PMI) slowed to a two-year low, and consumer confidence is at a record low. Rising food and energy costs, coupled with rising borrowing costs such as mortgages, means the average UK household has seen negative wage growth.

-6.2%

UK All Share

ASIAN MARKETS

China's lifting of restrictions could not carry emerging markets

Along with other markets, emerging market equities fell on the back of recession worries. China's easing of restrictions improved market sentiment for the region at month-end, and helped to lift commodity-linked stocks. An increased production and output from China could be an important prop for the rest of the world. China export orders rose ahead of expectations.

-7.1%

Asia Index

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THE WORLD AT A GLANCE

	2017	2018	2019	2020	2021	June 2022	Year to Date
UK CASH	0.3%	0.6%	0.7%	0.2%	0%	0.1%	0.3%
US DOLLAR	-9.9%	4.4%	0.2%	-6.7%	6.4%	2.9%	9.4%
UK GILTS	1.8%	0.6%	6.9%	8.3%	-5.2%	-1.8%	-14.1%
US TREASURIES	2.3%	0.9%	6.9%	8.0%	-2.3%	-0.9%	-9.1%
GLOBAL CORPORATE BONDS	8.9%	-3.2%	10.7%	10.0%	-3.2%	-0.1%	-6.1%
GLOBAL HIGH YIELD BONDS	10.4%	-4.1%	12.6%	7.0%	2.0%	-4.2%	-7.6%
US 500	21.8%	-4.4%	31.5%	18.4%	26.9%	-8.4%	-20.6%
UK ALL SHARE INDEX	9.0%	-13.0%	14.2%	-12.5%	14.5%	-6.2%	-6.3%
EURO 600 INDEX	7.7%	-13.2%	23.2%	-4.0%	22.2%	-8.2%	-16.5%
JAPAN INDEX	19.7%	-17.8%	15.2%	4.8%	10.4%	-2.2%	-6.1%
ASIA EX-JAPAN	35.6%	-12.3%	17.9%	22.4%	-3.1%	-3.0%	-12.5%
EMERGING MARKETS	34.3%	-16.6%	15.4%	15.8%	-4.6%	-7.1%	-18.8%
COMMODITIES	-3.4%	-8.5%	13.1%	-26.1%	41.6%	-4.2%	51.5%
GOLD	12.8%	-2.8%	18.0%	20.9%	-4.3%	-2.1%	-1.5%
HEDGE FUNDS	6.0%	-6.7%	8.6%	6.8%	3.7%	-1.8%	-5.0%

Source: Bloomberg

Total Return – Local Currency

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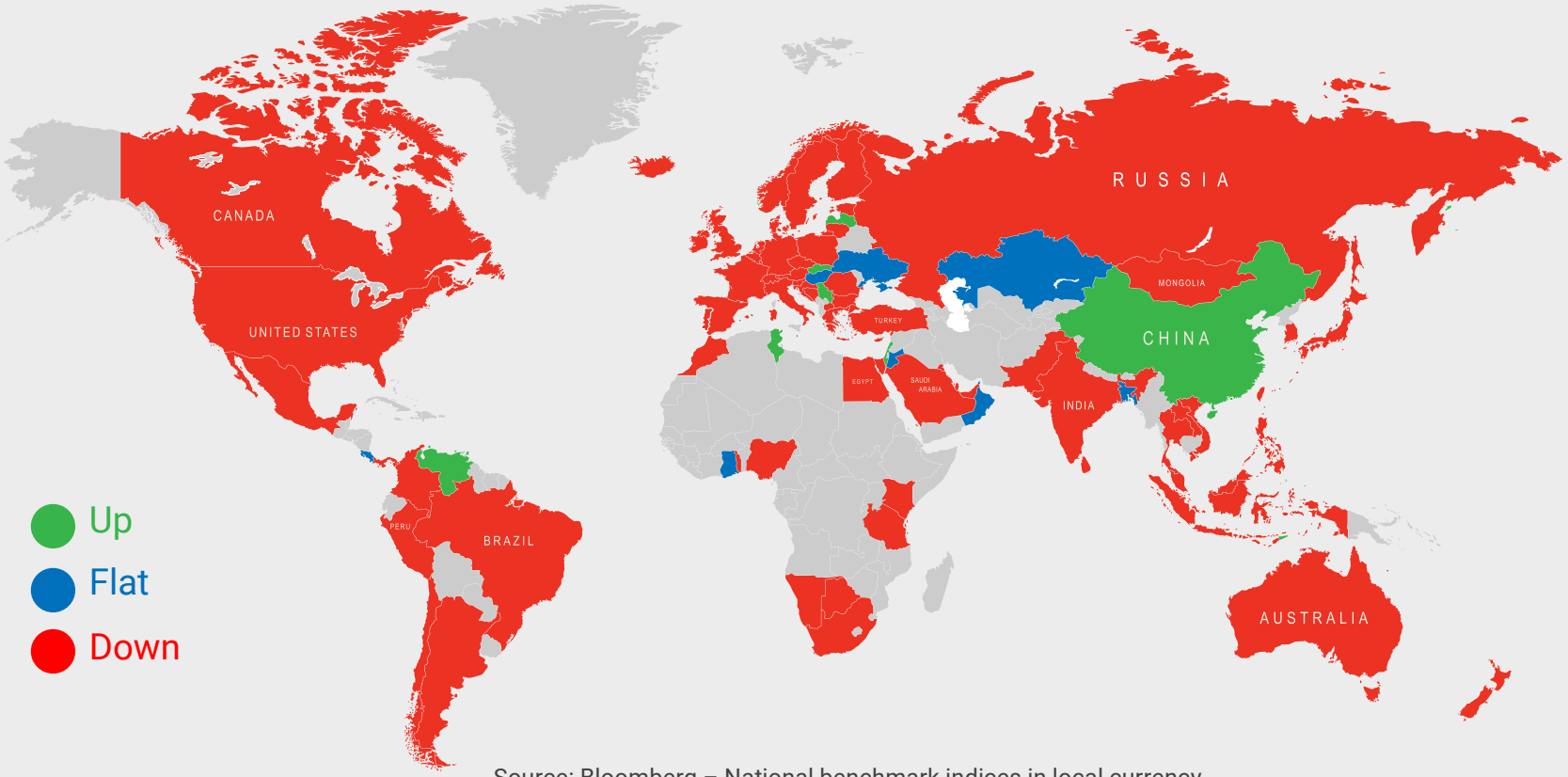
WORLD EQUITY MARKETS



-8.4% USA

-8.2% EUROPE

-2.2% JAPAN

-6.2% UK

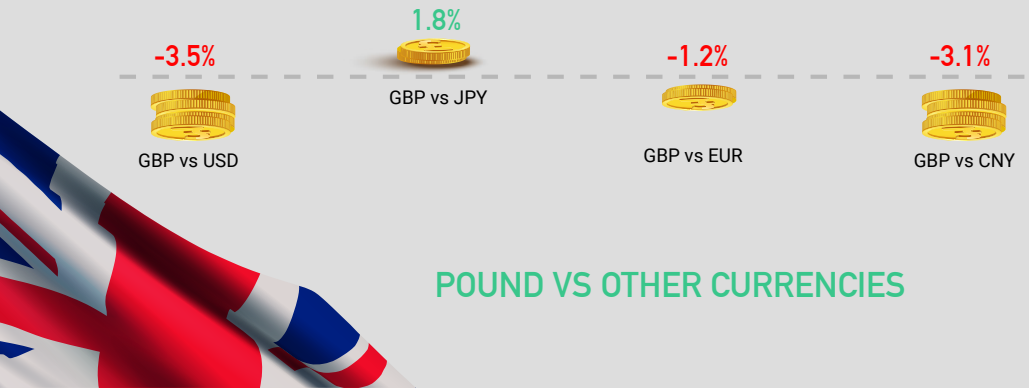
-7.2% EMERGING MARKETS

Source: Bloomberg – National benchmark indices in local currency

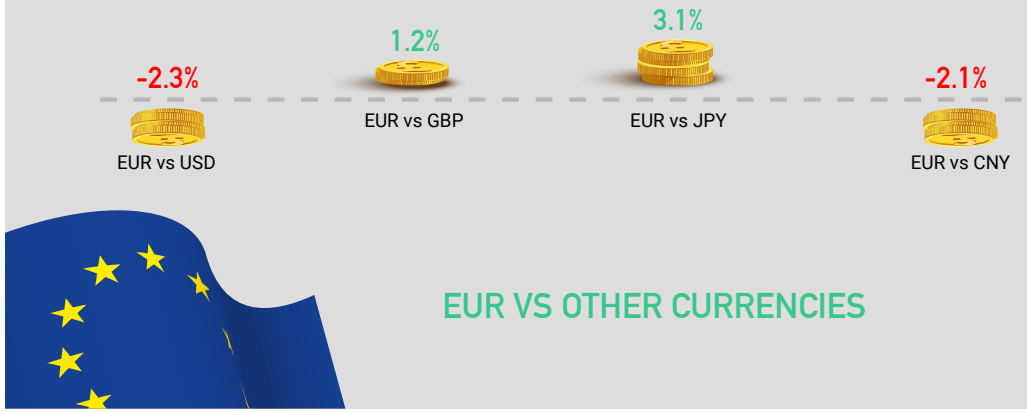
Key Points

- Renewed fears of a global recession hit markets and there was a general sense of risk aversion.
- Recession worries seem to be replacing inflation as the primary market driver, as markets digest the implications of slowing growth while consumers learn to live with higher inflation.
- Volatility in equity and fixed income markets remains high due to inflationary and recessionary concerns, along with continuing geopolitical risks.
- Over the quarter, consumer discretionary and technology stocks were the biggest losers, falling 23.8% and 21.8% respectively. Over the first six months of the year, energy was the biggest riser, up 24.0%.

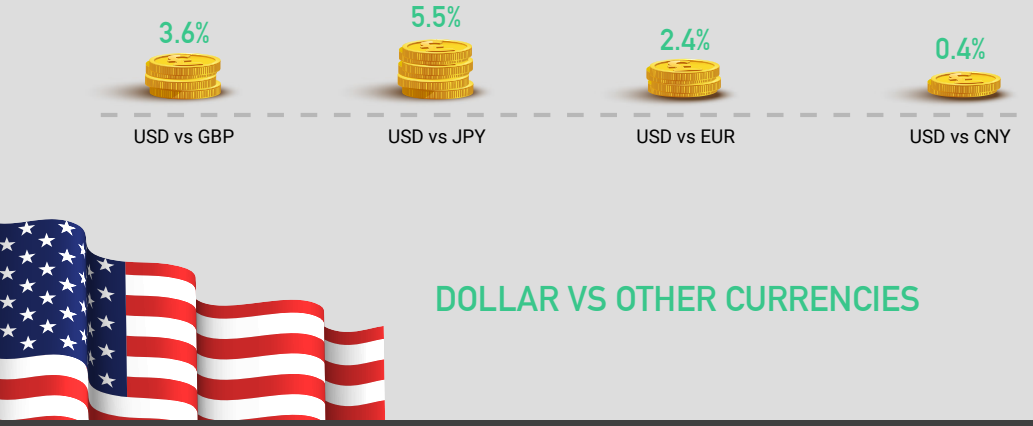
CURRENCIES



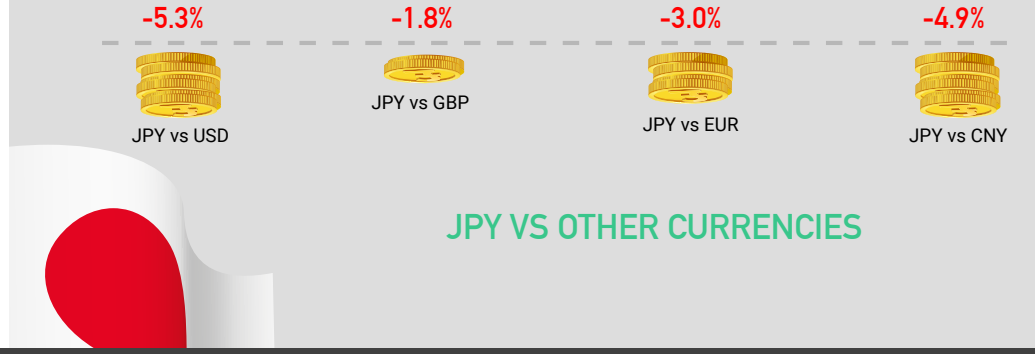
POUND VS OTHER CURRENCIES



EUR VS OTHER CURRENCIES



DOLLAR VS OTHER CURRENCIES



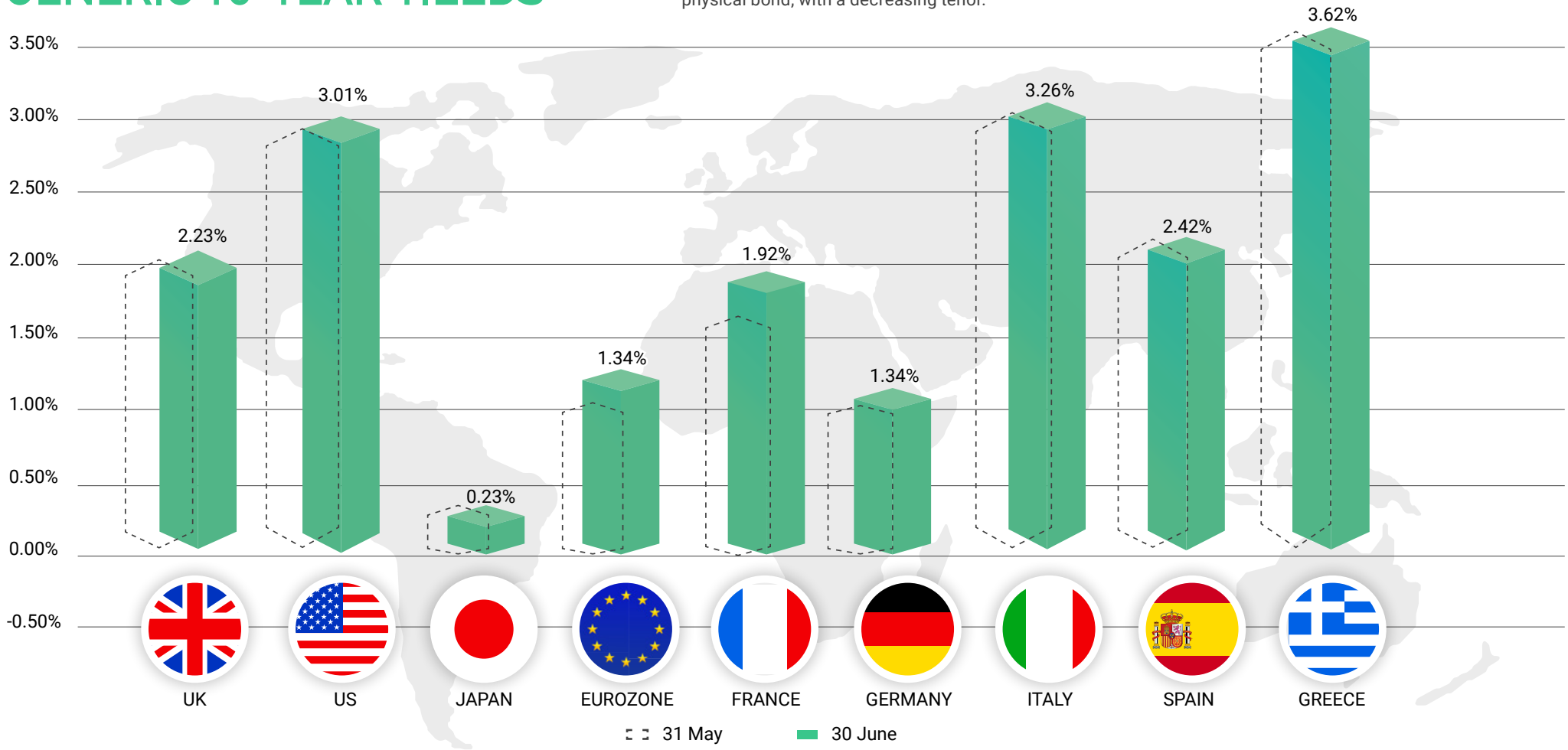
JPY VS OTHER CURRENCIES

Key Points

- The risk-off investor sentiment helped strengthen the US dollar, which rose against Sterling, Japanese Yen and Euro.
- Sterling weakened against the US dollar and the Euro on the back of weak economic data. The British economy contracted further, where the gross domestic product (GDP) was -1.8% in April from -0.1% the previous month.
- The Euro was supported against GBP and JPY by a more determined ECB, who finally looks to be tackling inflation. At an emergency meeting, the ECB's Lagarde hinted at starting interest rate rises in July.

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

- Investor nervousness about high inflation, slowing growth, and rising borrowing costs, was not enough to reverse losses in US Treasuries and UK Gilts as volatility remains high.
- Over the first two quarters of the year, bonds witnessed a fairly consistent sell-off.
- US 10-year Treasury yield ended the month at 3.01%, while the UK 10-year Gilt yield closed the month at 2.23%, down from a peak of 2.65% within the month.
- Most fixed income sectors, even index-linked bonds, endured heavy falls in the month.
- Corporate bonds and high yield bonds were worst off; the S&P 500 Investment Grade Corporate Bond Index fell 2.6% while the Barclays Global High Yield Bond index was down 4.2%.

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