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Monthly Market Update

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"Inflation, interest rate hikes and the the geopolitical tensions between Russia and the West led to a broad equity market decline in January"

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January 2022 Market Commentary

The prospect of prolonged inflation, expectations of interest rate hikes and the tension between Russia and the West over Ukraine saw negative equity market returns. However, global bond yields rose, with markets projecting up to 5 rates hikes in the US starting in March.

Regionally, US and European equities were some of the biggest losers, with the UK and Emerging Markets falling less severely. With energy prices rising, the Commodities Sector as a whole had another very positive month and oil alone finished January 18.0% higher.

United Kingdom

FTSE All Share: -0.33%

UK equities were broadly unchanged over January, as corporate earnings growth forecasts remained steady and some companies provided positive earnings surprises. The latest economic data was also encouraging with GDP growth 0.9% in November, which was ahead of expectations and saw the economy recovering to its pre-pandemic peak.

Investor sentiment for domestically focused companies was hit. Fears that the full impact of inflation, interest rate hikes and worries around a potential cost of living crisis impacted sentiment. Despite most

Covid restrictions being lifted, a number of companies in the travel and leisure sectors, extended share price losses from 2021 following negative earnings reports.

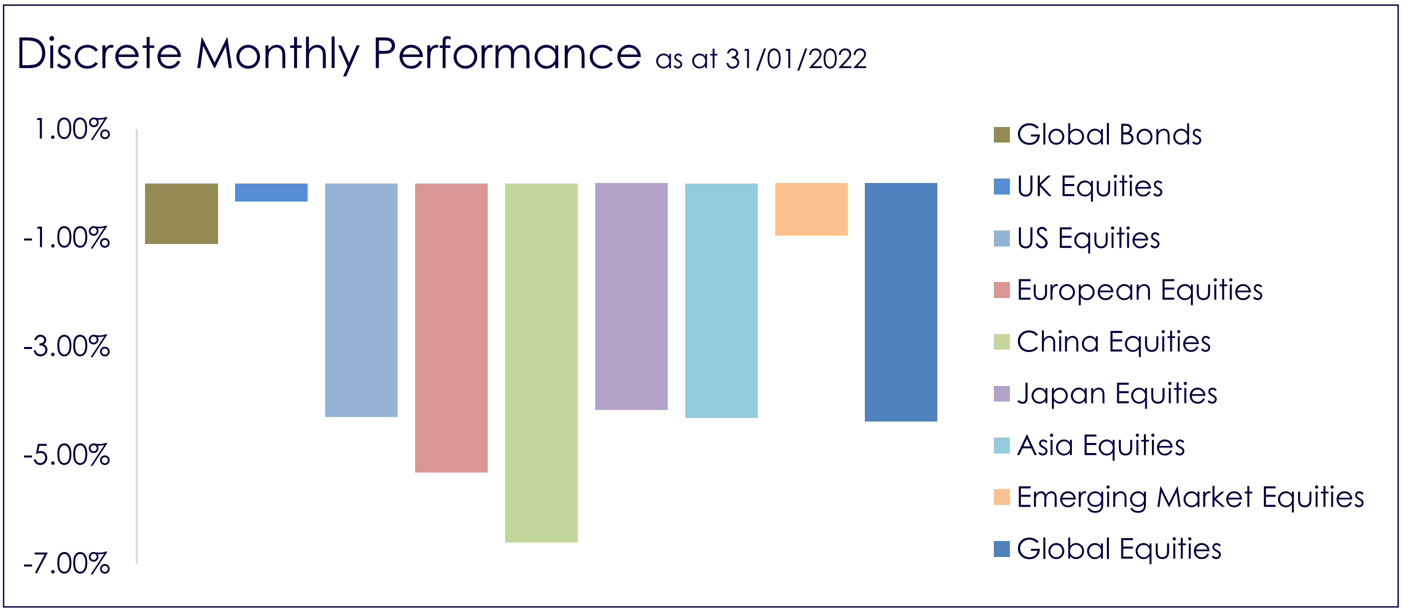
United States

S&P 500: -4.30%

Investor expectations of rate hikes and the escalating tensions between the US and Russia over Ukraine saw a notable market sell down.

The European Central Bank rejected suggestions that it should start to raise interest rates more quickly than planned in response to high inflation and intimated that it was very unlikely to raise rates in 2022.

Data showed that GDP increased by 0.3% quarter-on-quarter in Q4 2021, taking the Eurozone's economy back to its pre-pandemic size.



The US Federal Reserve (Fed) minutes suggested a rate hike in March is extremely likely, underpinned by persistently high inflation and the strong labour market. The Fed expects inflation to decline in the second half of 2022, but are mindful that it could also surprise on the upside. In the meantime, early estimates put Q4 GDP growth at 6.9%, which was above the market expectation of 5.5%.

Potential sanctions to deter Russian activity in Ukraine pushed energy stocks significantly higher. However, consumer discretionary, real estate and technology were among the weakest sectors.

Europe

FTSE Developed Europe ex-UK: -5.32%

Shares in the Eurozone fell in January amid the outlook for US interest rates and the uncertain situation in Ukraine. Furthermore, as food and energy prices soared, the annual inflation rate rose to 5.0%.

China

CSI 300: -6.61%

China under-performed the wider emerging market index by a large margin. The authorities announced some modest monetary easing as the economic data released was mixed. The Chinese economy slowed down, with annual GDP growth slowing to 4.0%. The monthly economic activity indicators also pointed to weak domestic demand. The resurgence of regional Covid outbreaks and lockdowns, as well as supply bottlenecks put pressure upon consumption. Despite the domestic slowdown, China's exports rose by 20.9% during December, ahead of the consensus expectation.

With growth below expected levels, further stimulus policies are highly anticipated. Policy makers have already signalled a shift to accommodative economic measures.

China's zero-Covid policy and strict lockdown measures remain the biggest downside risk for its economy and also global supply chains, given the high transmissibility of Omicron.

Japan

MSCI Japan: -4.17%

Equities in Japan ended down in January, with particularly sharp declines seen in technology stocks.

Japanese investor sentiment was impacted by the potential for US interest rate rises. However, such a move is unlikely to be followed by the Bank of Japan (BoJ) as inflation remains subdued and likely to remain below target.

January also saw a sharp increase in Covid infections, driven by the Omicron variant. The government has so far avoided re-imposing the state of emergency, but borders remain closed to foreigners until at least the end of February. The overall impact of Omicron has been to push out further the expectations for a full recovery of Japan's domestic economy.

Emerging Markets

MSCI Emerging Markets: -0.96%

Emerging market (EM) equities recorded a negative return in January as markets priced in more aggressive policy tightening by the US Fed. Oil exporters, ex-Russia, were beneficiaries of higher energy prices; the result of rising geopolitical tensions in Russia, whose market finished significantly down as tensions with the West over Ukraine increased.

Global Bonds

Bloomberg Barclays Global Agg: -1.11%

Government bond yields moved higher in January, whereas corporate bond yields fell. The latter also under-performed the former, as investors focused on continued elevated inflation and impending policy tightening from the US Fed.

US 10-year Treasury bond yields rose to 1.78%. The German 10-year yield rose to 0.01%, above 0% for the first time since May 2019 and the UK 10-year yield increased to 1.31% as inflation raised expectation for a rate hike in February.

All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.

Cumulative Performance and Annualised Volatility as at 31/01/2022

	1 Year %	3 Years %	5 Years %	Volatility %2
Global Bonds	-3.62	5.17	7.14	7.35
UK Equities	18.90	21.66	30.20	13.70
US Equities	25.66	69.80	98.15	13.40
European Equities	13.01	38.53	48.69	13.39
Japan Equities	-0.18	22.18	29.11	11.64
Asia Equities	2.13	35.35	51.03	13.71
China Equities	-10.25	56.53	51.48	16.22
Emerging Market Equities	-5.05	20.76	39.68	13.04
Global Equities	19.27	55.30	74.66	12.59

Data source FE Analytics 31/01/2022. Indices used: Global Bonds: Boomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.