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Monthly Market Update

July 2022

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June 2022 Market Commentary

"China proved to be exception to the further fall in global equities as prolonged lockdowns were lifted in some of the major cities"

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As Q2 2022 came to an end, both shares and bonds remained under pressure as investors factored in further interest rate rises, increased risk of recession and inflation continuing to move higher in most major economies. Generally, global equities fell during the month, with Chinese shares proving to be the exception as prolonged lockdowns were lifted in some of the major cities.

United Kingdom

FTSE All Share: -5.98%

The stock market fell in the UK during June. On a positive note, unemployment remains low. However, consumer confidence has hit a record low as the high level of inflation has led to negative real wage growth. Whilst the Chancellor has introduced measures for consumers to cope with higher prices, question marks remain as to whether these measures will be enough to prevent a recession.

Some households are also having to deal with rising mortgage costs at the same time as higher food and energy prices, as the Bank of England tries to bring inflation down by raising rates. A survey of lenders confirmed that about 17% of households are on tracker mortgages, while about a third of fixed rate mortgages are only fixed for two years. Thus, as interest rates rise and some fixed rate mortgage deals expire, mortgage costs will also increase.

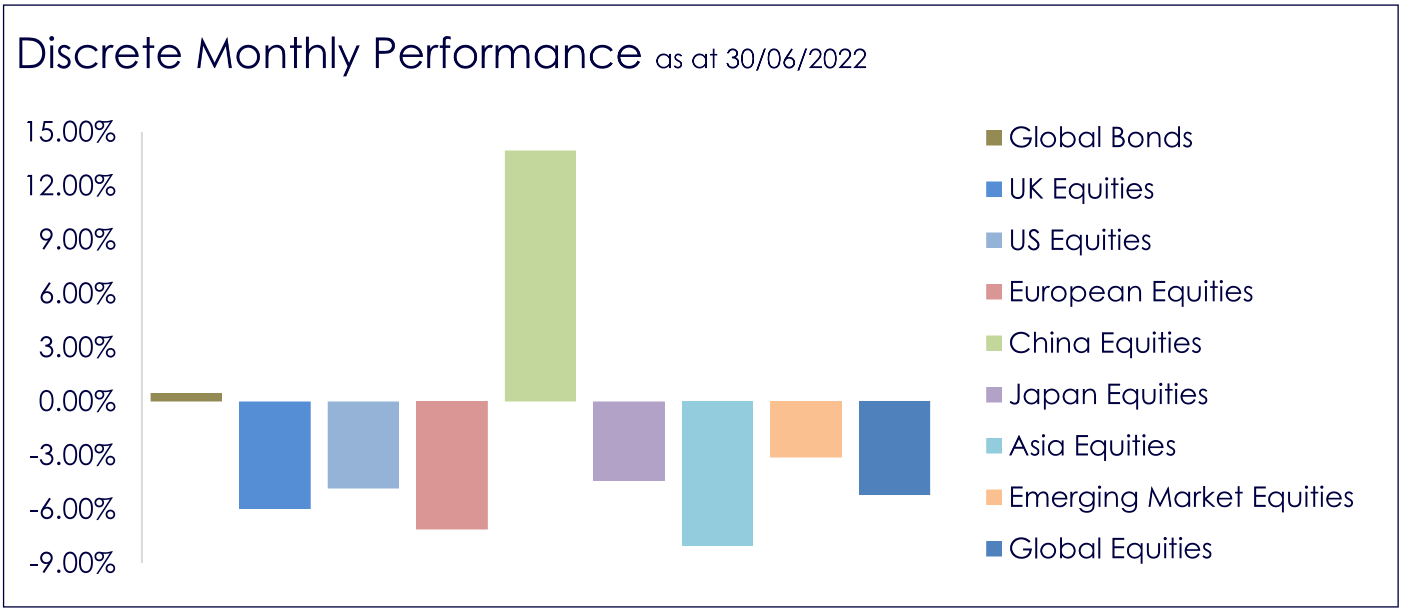
United States

S&P 500: -4.83%

It was another negative month for the US stock market, despite unemployment remaining low and wage growth strong. However, the University of Michigan Consumer Sentiment Index, has fallen sharply this year which has negatively impacted the market.

The US Federal Reserve continues to intimate that it is determined to get the high level of inflation under control. The average consensus from market commentators is interest rate rises of of 3.8% by 2023 to combat the persistently high level of inflation.

The expectation for higher interest rates is starting to weigh on economic activity. Housing has become less affordable, with prices almost 40% higher than at the start of 2020, and the rate for a 30-year fixed rate mortgage has risen from below 3% to nearly 6%. This has led to the number of home sales declining.   However, a survey of lenders confirmed that 95% of Americans are on long-term fixed rate mortgages, which means that the impact of the interest rate rises should not lead to an increase in the mortgage costs for a large proportion of the population.



Europe

FTSE Developed Europe ex UK: -7.15%

European stock markets also fell in June, as with the UK and US, consumer confidence has fallen considerably. The biggest risk to the European economy is the reduction in gas supplies coming from Russia, which has driven prices up significantly, and is raising fears of outright shortages and rationing if it continues. Gas shortages could have grave consequences for the European economy. The concerns about future gas supplies has been exacerbated by a variety of business surveys starting to weaken too.

Despite concerns about the strength of the European economy, the market is expecting significant rate rises from the European Central Bank (ECB).

China

CSI 300: 13.95%

The easing of lockdowns in some of the major cities boosted stock markets, and Chinese shares produced a double digit recovery in June. A recent study from the Chinese Centre for Disease Control and Prevention showed that only a small proportion of the 33,000 patients who were sent to hospital after catching the Omicron variant of Covid developed severe illness, all of whom were over 60 and had pre-existing medical conditions. This study raises hope that China may be able to move beyond the heavy "zero tolerance" restrictions that have severely affected its economic activity so far this year.

Japan

Topix: -4.42%

The Japanese stock market ended the month and the quarter lower, being primarily driven by the news flow on monetary policy and currency markets, where the Yen has depreciated markedly against the US Dollar. Furthermore, Japanese markets have been impacted over concerns about the growing possibility of recession in the US, as well as reasonably poor domestic corporate results. Inflation has also weighed on investor sentiment and has increased to 2.1%.

Emerging Markets

MSCI Emerging Markets: -3.12%

The strength of the US Dollar has continued to be a headwind to emerging market equities, which also fell during June. However, with the exception of China, emerging markets did outperform most developed markets.

Latin America (Colombia, Peru and Brazil) continued to be among the weakest markets in the index, as rising concerns over a global recession, domestic policy uncertainty, and weaker industrial metals prices, contributed to declines in equities and currencies. Furthermore, Poland and Hungary both under-performed, as the geopolitical risks stemming from Russia's invasion of Ukraine persisted.

Global Bonds

Bloomberg Barclays Global Agg: 0.45%

Bonds continued to sell off sharply, with yields markedly higher amid still elevated inflation data, hawkish central banks and rising interest rates. Inflation rates in major economies continue to run at multi-decade highs, with various central banks raising interest rates and others signalling their intention to do so soon.

10 year bond yields rose in the US to 2.97%, to 2.24% in the UK and 1.37% in Germany.

Corporate bonds suffered in the broad bond market sell-off, under-performing government bonds.

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 30/06/2022

	1 Year %	3 Years %	5 Years %	Volatility %[2]
Global Bonds	-3.59	-5.00	4.03	7.25
UK Equities	1.64	7.41	17.77	13.78
US Equities	1.23	39.67	77.90	13.95
European Equities	-10.93	8.88	18.99	13.73
Japan Equities	-8.92	8.01	16.72	11.89
Asia Equities	-9.10	18.91	34.36	14.23
China Equities	-3.82	33.88	47.14	17.38
Emerging Market Equities	-15.01	6.59	19.13	13.05
Global Equities	-2.56	28.37	54.76	13.12

Data source FE Analytics 30/06/2022. 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.