Monthly Market Update

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"Markets fell as the shock invasion by Russia into Ukraine effected sentiment and subsequent rising energy prices have led to further inflationary issues"

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February 2022 Market Commentary

Russia's invasion of Ukraine in late February has shocked the world. The humanitarian impact is significant, as are the economic and financial implications. In response to the invasion, markets fell as investors assessed the potential economic impact of the sanctions imposed on Russia, who remain a key global exporter of commodities.

With high exposure to the energy and natural resources sectors, the UK was the best performing equity market. In contrast, European equities were the worst performer due primarily to the region's heavy dependency on Russian energy imports.

United Kingdom

FTSE All Share: -0.47%

UK equities remained broadly unchanged, benefiting from the exposure to the mining, oil and healthcare sectors. Earnings forecasts for UK companies remained steady, with many companies reassuring the market as they published positive full year results. This was despite concerns that inflation is yet to be factored into future profit margins.

UK GDP contracted by 0.2% in December, reflecting the re-imposition of restrictions on economic activity with the outbreak of the Omicron

Covid-19 variant. However, the impact was less severe than feared by economists. The Bank of England (BoE) raised the base rate of interest by 0.25%, whilst inflation reached a 30 year high of 5.5%.

United States

S&P 500: -3.04%

US stocks fell as investors tried to process the implications of Russia's invasion of Ukraine. The US deployed a broad range of severe sanctions. This included banning transactions with the Russian Central Bank and placing restrictions on key financial institutions, as well as the wealthiest Russian individuals and families. The US has also cut Russia out of the Swift International Payments System.

However, the US economic picture remains broadly unchanged. US growth continues to look robust despite elevated inflation and the impact that this is having on consumer confidence. Inflation rose to 7.5% which is the highest rate of increase since 1982.

Europe

FTSE Developed Europe ex UK: -3.96%

The Eurozone under performed other regions given its significant reliance on Russian energy, especially gas. The invasion has seen energy prices spike considerably higher, putting pressure on consumer spending and economic activity.

Inflation was 5.1% in January, up on the previous month, with the rising energy prices accounting for more than half of this rise. The European Central Bank (ECB) has declined to rule out interest rate rises this year in response to higher inflation. However, the Ukraine crisis may now make it less likely that the ECB will tighten its current monetary policy.

The European Union and individual European countries announced sanctions on Russia. These included a commitment by Germany to increase its defence spending and the suspension of the approval of the Nord Stream 2 gas pipeline.

China

CSI 300: 1.23%

In local currency terms, stocks in China fell as US and European countries started to impose economic sanctions on Russia. This has led to commodity price rises and fresh concerns over higher inflation in the region. Technology stocks also declined due to further concerns over more changes to the Government rules regulating such companies and their activities.

Japan

MSCI Japan: -1.13%

The Japanese stock market ended February down, with geopolitical events dominating market sentiment. However, experts forecast

Discrete Monthly Performance as at 28/02/2022

that any direct impact of the Russian invasion of Ukraine on Japan is likely to be limited, especially as the Yen acts a safe haven currency for investors. Furthermore, Russia is a relatively small trading partner for Japan, accounting for around 1% of exports and 2% of imports.

With energy prices predicted to remain higher for longer than previously anticipated, this is likely to boost the long-term inflation expectations in Japan. The result may see a temporary rise in inflation, with the Bank of Japan's 2% target, being met slightly earlier than was previously anticipated.

Emerging Markets

MSCI Emerging Markets: -3.00%

Emerging market (EM) equities registered a negative return in February as geopolitical tensions took centre stage. Russian equities and the Rouble plummeted as President Putin launched a full-scale invasion of Ukraine. Investment risk aversion impacted other emerging European markets, specifically Hungary and Poland which also fell sharply. Egypt, which is likely to see some economic impact through the loss of grain imports and tourist revenues from Russian and Ukrainian visitors, under performed the broader EM index.

Rising energy prices, as a result of the Russian war in Ukraine, were a headwind for net energy importers, notably India. Conversely, some EM's performed well, specifically those benefiting from stronger commodity prices, and those who are net oil exporters.

Global Bonds

Bloomberg Barclays Global Agg: -1.2%

Bond yields were volatile during February. Initially they rose sharply on further hawkish surprises from the central banks of the US, Europe and the UK. Yields then began to decline from around mid-month as geopolitical tensions increased, with further declines seen in the days following the invasion as investors sought safe havens.

The US 10-year Treasury yield rose to 1.82%, and the equivalent UK yield rose to 1.41%.

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 28/02/2022

	1 Year %	3 Years %	5 Years %	Volatility %2
Global Bonds	-1.34	5.68	4.21	7.34
UK Equities	16.03	18.37	25.68	13.66
US Equities	20.77	61.40	82.90	13.42
European Equities	8.25	30.32	40.05	13.54
Japan Equities	-1.01	22.19	24.87	11.63
Asia Equities	2.48	35.29	46.45	13.62
China Equities	-9.07	39.36	48.53	16.19
Emerging Market Equities	-6.94	18.19	30.04	13.03
Global Equities	15.40	48.58	63.83	12.62

Data source FE Analytics 28/02/2022. 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.