Flash stats

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Jordan Irvine, Senior Investment Consultant

It has been a challenging start to 2022 for investment markets. Expectations of tighter monetary policy to combat high inflation, which has been exacerbated by the Russia-Ukraine conflict, has resulted in negative returns across bond and equity markets.

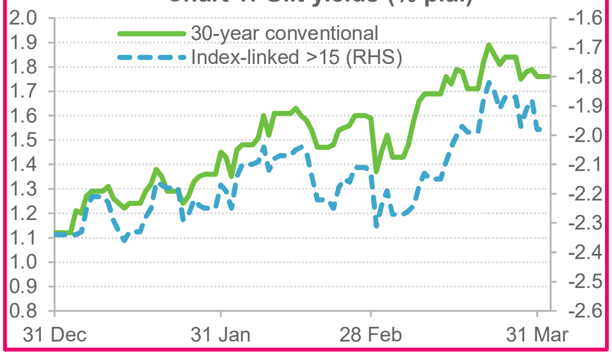
Sterling returns (%) to 31st of March 2022

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	-2.4	12.7	Gilts (All)	*FTSE*	-7.2	-5.1
UK	*FTSE 100*	2.9	16.1	Index-linked (All)	*FTSE*	-5.5	5.1
	FTSE All-Share	0.5	13.0	Corporates (All)	*iBoxx*	-6.6	-5.5
US	*S&P 500*	-1.9	21.2	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	-3.5	-2.7	70% equity		-2.9	7.4
Europe ex UK	*FTSE Dev Europe*	-7.1	6.5	50% equity		-4.0	3.7
Emerging	*FTSE Emerging*	-2.5	-3.3	30% equity		-5.2	0.1

- Russia and Ukraine represent a small share of global GDP and trade but produce a disproportionate share of key global commodity exports. Physical disruptions and sanctions have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes.

- As a result, CPI forecasts have reached new highs while consensus forecasts for global growth have been revised downwards, but still point to a relatively robust pace of growth over 2022 and 2023 by post-GFC standards.

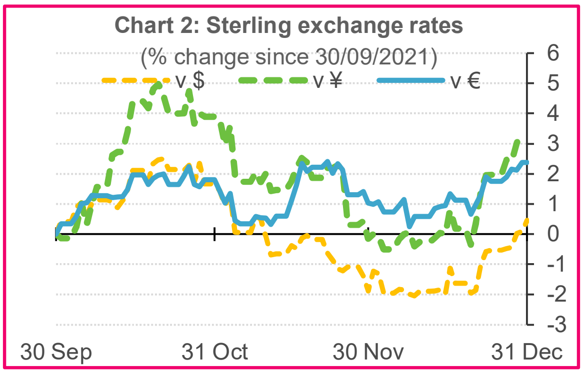
Chart 1: Gilt yields (% p.a.)



- Composite Purchasing Managers Indices moderated in March, but generally remain at a level consistent with month-on-month expansion: services were more resilient than manufacturing and European and North American surveys were stronger than their Asian counterparts.

- Soaring energy costs pushed headline inflation higher, but core inflation, which excludes volatile energy and food costs, also rose and is running at a 30-year high. UK, US and eurozone headline CPI inflation increased to 6.2%, 7.9% and 5.9% year-on-year, respectively in February.

- The inflation backdrop has seen central banks turn gradually more hawkish this year, despite the potential downside risks to growth from higher commodity prices.
- After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a., and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting 7 rate rises in 2022 and 4 in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Fed noted it plans to reduce the size of its balance sheet.



- Sovereign bond yields rose significantly to reflect increased rate rise expectations. UK 10-year gilt yields rose 0.7% p.a., to 1.6% p.a., while equivalent US and German yields rose 0.8% p.a., to 2.4% p.a. and 0.6% p.a., respectively.
- UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.5% p.a., to 4.4% p.a., as real yields rose to a lesser extent then their nominal counterparts (Chart 1).
- Global investment-grade spreads increased by 0.3% p.a., while US and European speculative-grade spreads increased 0.3% p.a. and 0.7% p.a., respectively. Larger increases in European spreads perhaps allude to the greater exposure of European corporates and consumers to higher energy prices.
- Commodity prices surged to extreme levels and faster expected monetary tightening in the US contributed to a rally in the dollar (Chart 2), whilst safe-haven appeal drove gold prices higher.
- Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation have all contributed to global equities falling 4.6% this year, despite a bounce back in March. Value stocks notably outperformed growth stocks as rising yields weighed most heavily on the valuations of stocks with earnings growth further in the future, such as those in the technology sector.
- The UK was the only region to deliver a positive return, benefiting from above-average exposure to energy, metals, and miners. Europe fell to the bottom of the performance rankings, whilst Emerging Markets fell further as new COVID-19 lockdowns and broader geopolitical concerns weighed on Chinese markets.
- A 15.9% rise in the MSCI UK IPD capital value index over the 12 months to the end of February is largely attributable to a 34.6% rise in industrial capital values. Return on the all-property index, including income, was 21.8% in the 12 months to end-February.