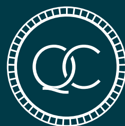
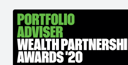
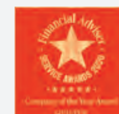


MARKET COMMENTARY - MARCH 2022

QUILTER CHEVIOT

Quilter Cheviot provides bespoke investment management for private clients, trusts, charities and pension funds. To provide a truly personal service, we assign to each client an investment manager whose role is to design and implement an investment strategy tailored to the needs of the client. A local presence and easy accessibility to investment managers is a key element to the personal attention we give our clients. Quilter Cheviot has a network of regional offices located in major cities in the UK, as well as offices in Jersey and a subsidiary Quilter Cheviot Europe in Dublin.





Past performance is no guarantee of future returns.

Most global stock markets fell last month following a period of serious geopolitical tensions which ultimately resulted in the Russian invasion of Ukraine on 24 February. This caused another spike in commodity prices, including oil and gas, and intensified concerns about inflation and the economic outlook. It also overshadowed the more welcome news that the pandemic was continuing to wane in most countries with restrictions being relaxed further.

In terms of market returns, US indices were down by about 3% in GBP terms with Europe falling by around 6%. However, UK markets were essentially flat and benefitted from the significant weighting of oil and gas stocks in the index while other sectors such as technology and banks struggled. Elsewhere, commodities rallied sharply given concerns over an interruption of supply from both Russia and Ukraine in areas like gas, oil and wheat.

Within fixed income, index-linked gilts outperformed conventional gilts and corporate debt due to rising inflation expectations, although overall most bond markets made negative returns. However, gold prices were boosted by safe haven demand and were up about 6.5% on the month in GBP terms.

Before the invasion of Ukraine, investors had been focussing their attention on central banks and the likely path of interest rates. Inflation has been rising sharply for several months now and the Federal Reserve, European Central Bank and Bank of England have all turned more hawkish as a result. It had been hoped that the peak in inflation was around the corner but that might now be delayed by the Ukraine crisis.

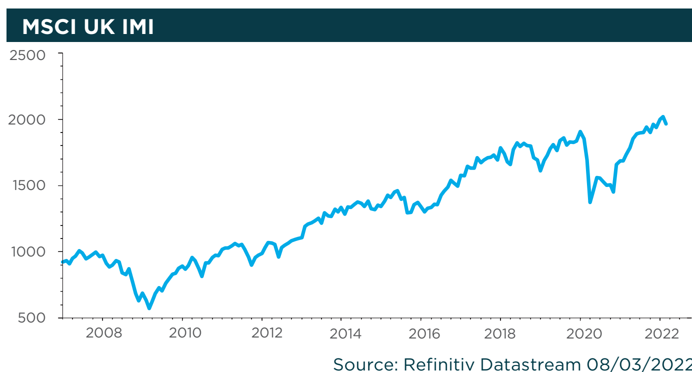
The Fed have made it clear that they will end quantitative easing in March and at the same time are likely to begin

raising rates, while the Bank of England increased the base rate to 0.5% during the month. Further rate rises are expected as the year goes on although central bankers will be mindful of causing an economic slowdown given the impact of rising energy prices on consumers.

Most economic data was relatively strong during the month, and, amid the geopolitical worries, it is easy to forget that much of the global economy is emerging from the pandemic and growth is likely to be strong in 2022. In general, global PMI readings were upbeat in February as the impact of the Omicron variant waned and the US recorded another solid month of job gains. Of course, supply chain issues continue to cause a problem in several sectors while US consumer confidence has also fallen of late on inflation concerns.

Looking ahead, volatility is likely to remain elevated as the war in Ukraine continues and tensions between NATO and Russia intensify. The sanctions imposed by the West will have a serious impact on the Russian economy but are unlikely to seriously alter Vladimir Putin's thinking in the short-term. Meanwhile, inflation pressures will remain acute and central banks will probably need to raise interest rates further in the months ahead.

On the positive side, economic growth is strong in most developed markets and corporate earnings are holding up well. History gives us some comfort that markets usually recover quickly once geopolitical concerns subside even if this episode seems particularly serious. In terms of what we are doing in client portfolios, we continue to take a long-term approach and favour a broad mix of internationally diversified equities alongside lower risk alternatives and fixed income. We have been gradually rotating into sectors that should benefit from higher interest rates, such as banks as well as adding to energy companies. However, we continue to favour longer-term growth companies with strong franchises and will look to take advantage of any prolonged volatility. Rest assured that we are monitoring developments closely.



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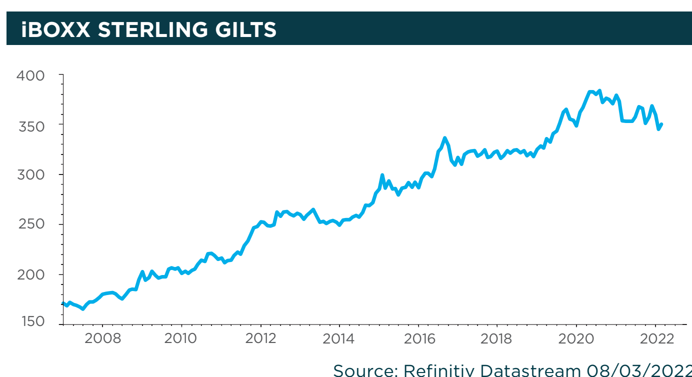

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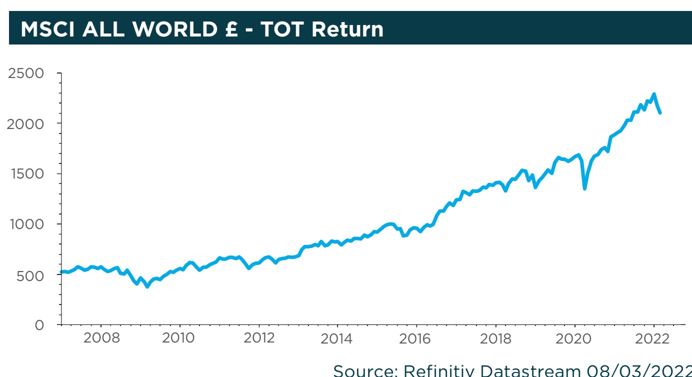

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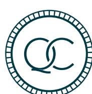

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