JOHNSTON CARMICHAEL WEALTH

Market Update

April 2022

SQUARE MILE INVESTMENT SERVICES

A market and economic commentary on the first quarter of 2022

Economic Backdrop

- The dreadful events in Ukraine are exacerbating economic trends which were already established: rising inflation and slowing economic growth.
- The latest annual Consumer Price Index inflation rate in the UK stands at 6.2%, up from just 0.4% only 12 months ago. It is expected to reach almost 9% later in the year after the energy price cap is reviewed again in August.
- Forecasts of economic growth in 2022 are being revised downwards as rising energy and raw material costs, rising interest rates, rising wages and, in the UK, rising taxes batter consumers and companies.
- Central banks are therefore walking a tightrope as they battle to control inflation without tipping economies into recession.

Stock Markets

- Undermined by rising interest rates, global stock markets had their worst quarter since the start of the COVID pandemic. Astonishingly, however, share prices finished the quarter higher than where they were at the start of the Russian invasion.
- With its heavy weightings in old economy 'Value' stocks, such as large oil companies, miners and banks (which benefit from the soaring price of oil and other commodities and rising interest rates), the UK was the best performing stock market in the quarter, posting a small gain.
- However, most UK fund managers struggled to match the market indices due to their investments in more domestically focussed and economically sensitive medium-sized and smaller companies.
- The US stock market, with its much heavier weighting in technology stocks, fell by nearly 5%. European stock markets suffered because of their energy and trading links with Russia. The Chinese stock market dropped by another 13% as further COVID lockdowns were imposed.
- Looking ahead, companies are, for now at least, protecting their profits by passing on higher costs to their customers. Equities also continue to be attractive compared to bonds and cash. However, we are watching very closely for any signals of impending recession.

Bond Markets

- Government bond markets continued to be buffeted as yields rose (and prices therefore fell) in response to higher inflation. Investors in the broad UK government gilt market lost more than 7% over the quarter.
- Although bond yields are higher and therefore more attractive than they were, they are still much lower than inflation, so investors are losing money in 'real' terms.
- Slowing economic growth should lend some support to prices of bonds but we expect returns from bonds to be modest in 2022.

Currencies

- The pound depreciated by almost 3% against the dollar and was fractionally lower against the euro over the quarter. The dollar has been strong because interest rates are expected to rise much faster in the US than elsewhere.

Other Investments

- The price of gold appreciated by 9% in sterling terms over the quarter due to rising inflation and the conflict in Ukraine.
- It has been touted as a digital alternative to gold, but the price of bitcoin slumped by 25% in January as stock markets tumbled and then recovered as share prices rallied. We continue to believe that cryptocurrencies are speculative investments.
- It remains Groundhog Day for retail funds that invest in physical property as the Regulator continues to delay its decision about whether daily dealing liquidity for investors in such funds is appropriate.

There's obviously been a lot of market turmoil during Q1 2022, brought about firstly by stronger stances on interest rate policies and then by the sad developments in the Ukraine. However, whilst we understand this is an unnerving time for investors and valuations, it is important to remember the benefits of being invested in a diversified portfolio.

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