Alan Boswell Financial Planners

Market Update - April 2022

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Investors faced inhospitable conditions on multiple fronts during the first three months of 2022. Global equities delivered their poorest quarterly performance since early 2020 - bottoming in mid-March before mounting a sharp partial recovery. Global bonds fared worse, tumbling by the most since late 2016.

UK shares earned a positive return during the quarter, outpacing other major markets. Hong Kong was slightly negative, while the US, Japan and Europe had steeper losses. Mainland Chinese shares bounced higher after plummeting from mid-February to mid-March, but still finished the quarter with double-digit losses. The selloff in Chinese equities was most severe in technology companies, forcing Vice Premier Liu He—China's top economic advisor—to pledge that the government would take a "standardised, transparent and predictable" approach to the regulation of technology; this comes after more than a year of interventions.

Meanwhile, with commodities markets having been the epicentre of the financial fallout from Russia's attacks on Ukraine, commodities had their strongest quarter in at least 30 years. The price of natural gas spiked by more than 50%, while West-Texas Intermediate and Brent crude-oil prices both climbed by over 30%. The price of wheat also increased by more than 30%. Commodity-producing nations, therefore, were the first quarter's big winners, led at a distance by Latin American equities' double-digit gains. On the other side of the spectrum was Russia—the greatest loser by a wide margin—as its aggression against Ukraine opened the door to an expansive set of coordinated economic restrictions, imposed rapidly and with a high degree of uniformity across Western powers. The country's banishment from global financial systems translated into massive declines in the value of Russian securities. Government bond rates increased across maturities in the UK, eurozone and US during the first quarter. Shorter-term rates climbed by more than longer-term rates, leading to flatter yield curves across the three jurisdictions. An inversion of US Treasury rates that began at the long end of the yield curve in late 2021 broadened in March to include the 3-year/10-year segment of the curve as well.

In the immediate aftermath of the invasion, the European Commission, France, Germany, Italy, the UK, Canada, and the US committed to taking several actions including removing Russian banks from the SWIFT (Society for Worldwide Interbank Financial Telecommunication) messaging system for financial payments; blocking the Russian Central Bank from deploying its international reserves; limiting the sale of citizenship to wealthy Russians; and launching a transatlantic task force to freeze the assets of sanctioned entities. The imposition of these coordinated sanctions has effectively blocked Russian entities from trade in major foreign currencies.

By mid-March, the EU had instituted a broad ban on investments in Russia as well as exports to and imports from the country (although imports of Russian metals and energy are still permitted). Russian state-controlled companies across an array of industries are blocked from trading with the EU, while prominent Russian individuals (including business executives, media personalities and oligarchs) faced asset freezes and travel bans. The US went a step further in banning all new purchases of Russian energy imports, allowing a 45-day wind-down period for existing agreements.

Also in mid-March, Russia legalised the nationalisation of more than 500 airplanes leased to Russian airlines by Western companies. This came after an early-March move to restrict the export of more than 200 products and raw materials until the end of 2022; although its chief commodity exports were not included.

Economic Data

- UK manufacturing growth dropped in March to its lowest (albeit still healthy) level since February 2021 - falling below the defined the fourth quarter of 2021 and the first two months of this year.
- Growth in the UK services sector accelerated sharply in February and March after a low-growth lull as we moved into the New Year.
- Inflation climbed to 6.2% in the UK for the 12-month period through February, the highest level since 1992.
- The UK claimant count (which calculates the number of people claiming Jobseeker's Allowance) continued to improve in the first two months of the year—declining by roughly 125,000, with total claimants representing 4.4% of the population in February compared to 4.6% in December.
- The expansion in eurozone manufacturing stumbled at the end of the first quarter, diluting an otherwise strong start to the New Year as March delivered the slowest monthly rate of growth since January 2021.
- Growth in the eurozone services sector cooled to still-healthy levels in March, having accelerated in February after slowing to a near standstill to start the year.
- The year-over-year rate of consumer price inflation in the eurozone climbed to 7.5% in March, hitting an all-time high for the fifth successive month.

- Labour-market improvements persisted into 2022—with the eurozone unemployment rate declining to 7.0% in January and 6.8% in February, the lowest level since Eurostat began tracking the dataset in 1998.
- US manufacturing growth started 2022 by continuing to cool from the redhot activity of last summer, bottoming in January before accelerating through February and March.
- Services-sector growth jumped to notably high levels in March after recovering in February from a near-standstill at the start the year.
- US joblessness remained on a multi-year downward path, with the March unemployment rate of 3.6% sitting just above the lows attained in late 2019 and early 2020.
- The US Consumer Price Index climbed to 7.9% year over year in February, while the Federal Reserve's (Fed) Personal Consumption Expenditures (PCE) Price Index (the central bank's preferred inflation gauge) rose to 6.4%—both measures reaching their highest respective levels since January 1982.

Summary

Periods of crisis and instability are worrying for investors, particularly as the turn of events in the short term can be difficult to predict. We saw this in the first weeks following Russia's invasion of Ukraine, as impacts from the crisis overwhelmed more traditional market drivers.

Like the pandemic that hit with full force this time two years ago, no one knows how long the conflict will last or how extensive its impact will be on the global economy. However, our experience with COVID-19 and the economic and financial response to prior geopolitical events serve as a guide. Pre-invasion, there was optimism that global economic growth would remain solid as countries eased their COVID-19-related restrictions. Europe was expected to improve at least as fast as the US, if not faster. This is now a questionable assumption. Although Russia's GDP amounted to just 1.8% of the world's total in 2020 (about the same as Brazil), its importance as a commodity exporter cannot be denied. Disruption to the supply of several globally traded commodities has had a predictable result: yet another leap in commodity-price inflation.

It is fortunate for the advanced economies that households and businesses were in mostly good financial shape coming into the crisis. Year-over-year growth in employment was continuing to accelerate heading into 2022 despite the Omicron outbreak. The US, Canada, France, and Italy have been recording gains well ahead of their longer-term trends. Job growth in Germany and the UK is still at or slightly above the pre-pandemic trend after having experienced smaller year-on-year declines during the 2020 pandemic lockdowns.

The long period of ultra-low interest rates has allowed companies to engage in a refinancing boom. Earnings before interest and taxes in the US non-financial corporate sector cover interest expense 7.9 times, the highest ratio in more than 50 years.

In emerging markets, Latin America has bucked the trend seen in other geographies as the region generally benefits from the rise in commodity prices. The jump in interest rates in countries like Brazil and Mexico has also stabilized their currencies against the US dollar despite currently high domestic rates of inflation. Europe and Asia have been comparatively poor performers thus far in 2022. Even before the invasion, the emerging stock markets in Europe were giving ground as tensions ramped up between Russia and Ukraine.

Please note the following:

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