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Investment Management

Weekly Investment Update

28th January 2022

News Headlines

Federal Reserve – The much-anticipated Federal Open Market Committee meeting concluded on Wednesday. Federal Reserve chair, Jerome Powell, struck a hawkish tone and stated that the central bank was ready to raise interest rates in March as expected, but didn't rule out an increase at every meeting to tackle high inflation levels. Markets are now pricing in further rate hikes in 2022, with latest estimates pointing to a 94% probability of five quarter percentage point moves in 2022.

Ukraine/Russia tensions – Russia and Ukraine, along with France and Germany, held eight hours of talks on Wednesday which produced an agreement to meet again in two weeks to discuss the continuing tensions in the Donbas region of Ukraine. European powers remain focused on a diplomatic solution to the standoff, as many countries in the region rely on gas supplies from the east. The US, however, has said that it would consider personally sanctioning Vladimir Putin, to which a Kremlin spokesman said would be tantamount to breaking off relations. Russian Foreign Minister Sergei Lavrov signalled that Moscow would respond to any aggressive action by the US and its allies.

Market Summary

Global Equities – World equities declined throughout the week, with the MSCI World index posting a loss of -1.81% as at Thursday's close. Equity markets struggled to find direction, experiencing huge swings in prices as the Volatility Index (VIX) hit its highest levels since October 2020 after seven consecutive daily rises. The Federal Reserve's hawkish rhetoric dampened investor sentiment, preventing any sign of sustained rallies. In the US, the S&P 500 has fallen c.9% year-to-date, the tech heavy NASDAQ is now c.17% below its all-time high, and the Russell 2000 index (small caps) has fallen into "bear market" territory. In Asia, the Nikkei 225 and the Hong Kong Hang Seng index fell -4.91% and -4.64% respectively throughout the week, while the European STOXX 600 and UK FTSE 100 held up relatively well, outperforming the MSCI World index.

Commodities – Gold prices started the week at a two-month high due to increased tensions between Ukraine and Russia, but retreated to a three-week low on Friday, as the US dollar rallied after the Federal Reserve looked set to deliver its first rate hike in March. The price of gold now sits around $1,780 per ounce.

Heightened geopolitical risks as well as continuing robust global demand has put oil on track for its sixth straight weekly gain, with prices trading near a seven-year high. Prices of both WTI and Brent Crude are tipped to go even higher as supplies remain tight.

Fixed Income – The US yield curve flattened further this week, as the 2 and 10-year yield spread fell to its tightest level in over a year at just 60.9bps. The yield curve generally tends to flatten in the year after interest rate hikes, while an inversion would signal a possible recession.

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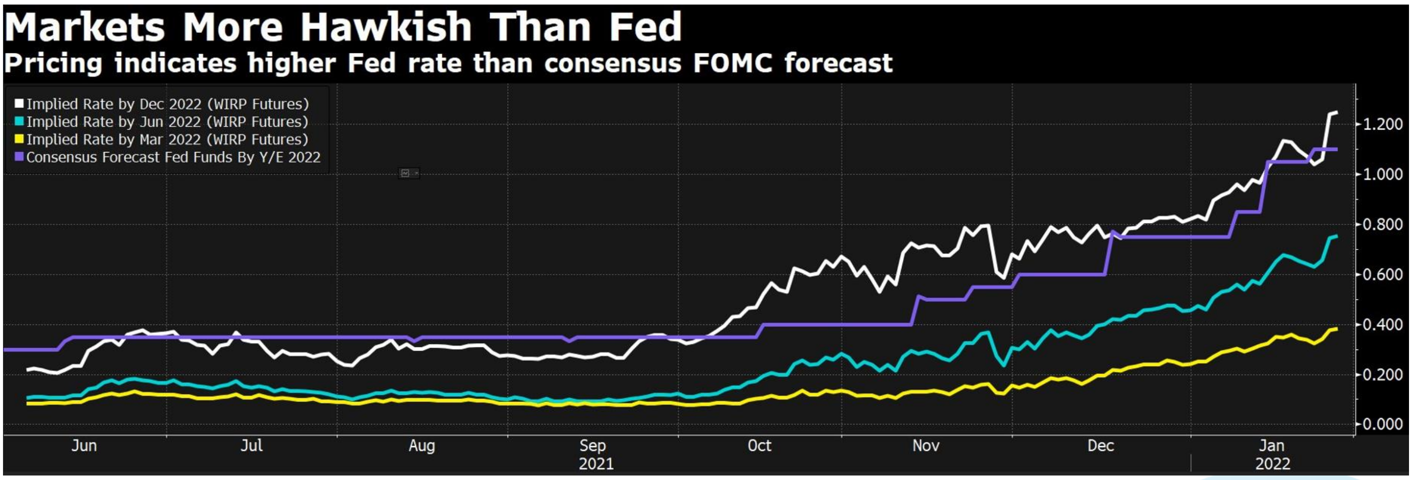
Chart of the Week



Source: Bloomberg – Market predictions for Federal Reserve rate hikes in 2022

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
- China Manufacturing PMI - Japan unemployment	- Australia RBA cash rate - Germany unemployment rate - US Manufacturing PMI	- EU inflation	- UK BoE rate decision - ECB rate announcement	

Market Performance – 28/01/2022

Global Market Indices	**2022 YTD %***
FTSE 100	2.30%
S&P 500	-9.22%
STOXX 600	-4.20%
Nikkei 225	-9.10%
Hang Seng	1.75%
Fixed Income	**Yield %**
UK 10 Yr Gilt	1.25%
US 10 Yr Treasury	1.80%
Commodities	**2022 YTD %**
Gold	-1.84%
Currency	
GBP/USD	1.33 (28/01/2022)
GBP/EUR	1.20 (28/01/2022)

Source: FE Analytics/ Bloomberg.com **Total Return/Local currency*

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