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Investment Management

Weekly Investment Update

18th February 2022

News Headlines

Economic data – US economic data came in stronger than expected, backing up the better-than-expected recent jobs report. Retail sales rose at the fastest pace since March 2021, and industrial production numbers grew by 1.4% vs 0.5% forecast. Inflation however continues to be a major concern. In the US, there was a further upside surprise, with January's PPI reading coming in above all economist's estimates on Bloomberg. The UK also saw a post 1992 CPI high of 5.5% in January, which was above all Bank of England staff projections of 5.4%. Over in Canada, CPI rose 5.1%, surpassing 5% for the first time since 1991.

Russia/Ukraine tensions – The US and its NATO allies warned that Russia is increasing forces near the border with Ukraine, while Russian dismissed the warnings of invasion as "hysteria". De-escalation efforts remain the focus on both sides, as work continues on a package of sanctions to deter President Putin from further action. The Russian Foreign Minister, Sergei Lavrov, has agreed to meet the US Secretary of State in Europe for talks next week, which eased some anxiety in financial markets for now. However, there have been reports of cease-fire violations in the disputed Donbas region, with the OECD regularly reporting dozens of violations on a daily basis.

Federal Reserve minutes – After the latest Federal Reserve meeting, investors are now pricing in six interest rate hikes in 2022. There are increasing concerns that the central bank may now not be able to slow inflation without inflicting some damage to the economy. Fed Bank of St. Louis President, James Bullard, repeated his view that interest rates should be raised by 100 basis points by July in response to the fastest inflation rise in 40 years. Bullard also said that there was too much emphasis on the idea that inflation would ease, with the risk being that it wouldn't.

Market Summary

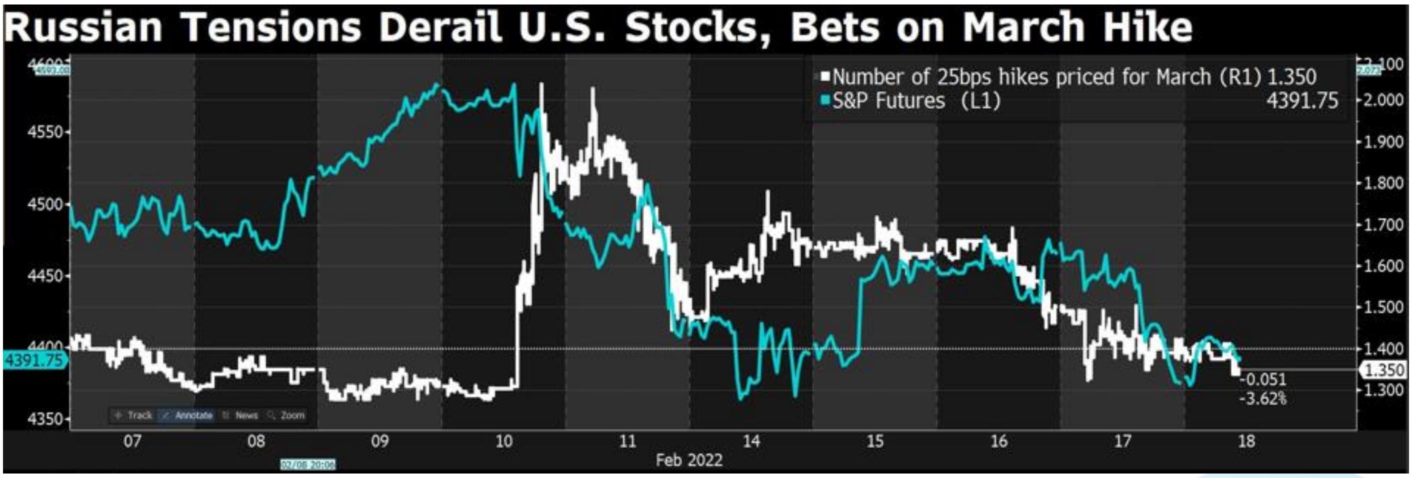
Global Equities – Equities globally were led by the dominant theme of geopolitics this week. Risk assets recovered at the start of the week, thanks to signs of easing tensions between Russia and the West over Ukraine, as Russia pulled back thousands of troops. The risk-on sentiment changed, however, on Thursday after US President, Joe Biden, stated that Russia did not move troops back from the border and an invasion is highly likely imminently. The soured investor sentiment saw US equities take a beating, losing all their weekly gains on Thursday. In the broad-based decline, the S&P 500 saw its second worst day of the year, while the Dow Jones had its worst day of the year. European, Asian and UK indices also finished lower as at Thursday's close, with the MSCI World Index posting a loss of -0.94%.

Commodities – Gold prices finally broke out of a tight range to hit an 8-month high, surging past $1,900 per ounce on the back of continuing geopolitical tensions in Ukraine. The uncertainty has driven investors to safe havens, and if tensions continue, the price may rally past May 2021's high of $1,917 soon.

Oil prices headed for their first weekly fall in nearly two months. Continuing talks between the US and Iran has raised the prospect of a new deal between both nations, which is likely to result in extra supply from Iran flooding the market and relieving pressure on supplies from OPEC+, who continue to miss targets.

Fixed Income – Due to the rise in geopolitical tension throughout the week, the chance of a 50 basis point rise in Federal Reserve interest rates has diminished somewhat. This has benefitted sovereign bonds, as the US 10-year Treasury yield has pulled back below 2%. This was much the same story in Europe with sovereign yields declining as investors moved into safer assets.

Chart of the Week



Source: Bloomberg – bets of a 50 basis point Federal Reserve interest rate hike fade as tensions rise

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- US Consumer Confidence	- EU inflation yy		- Germany GDP yy

Market Performance – 18/02/2022

Global Market Indices	2022 YTD %*
FTSE 100	0.60%
S&P 500	-8.46%
STOXX 600	-5.86%
Nikkei 225	-7.06%
Hang Seng	6.46%
Fixed Income	**Yield %**
UK 10 Yr Gilt	1.47%
US 10 Yr Treasury	1.95%
Commodities	**2022 YTD %**
Gold	3.61%
Currency	
GBP/USD	1.36 (18/02/2022)
GBP/EUR	1.19 (18/02/2022)

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

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