Weekly Investment Update

1st July 2022

News Headlines

NATO – At a summit in Madrid, NATO leaders agreed to the biggest upgrade of its military presence in Europe since the end of the Cold War. The alliance has put 300,000 troops on high alert and committed to bolstering forces, air power and providing new equipment in response to Russia's continued invasion of Ukraine. Further to this, both Finland and Sweden took one step further to become members of NATO after Turkey dropped its opposition of their applications. Turkey now supports inviting the two countries into the expanding military alliance after the Nordic countries agreed to now provide support for Kurdish militants in Syria that Turkey views as terrorists.

Low-inflation requiem – Central bankers from around the world have been forced to rethink their monetary policy strategy going forward, in a world where inflation is set to remain at comparatively high levels. At a conference in Portugal, US Federal Reserve Chair, Jerome Powell, and his European counterparts debated how they would be tackling the rising prices and slowing economic growth and called an end to an era of low interest rates and moderate inflation. The central bankers said that failing to raise interest rates quickly enough could allow high inflation to become embedded and require even more drastic action to bring price growth back to moderate levels. They warned that the splintering of the global economy into blocs could fracture supply chains, reduce productivity, and reduce growth via rising costs. The Bank of England's governor also warned that the UK's economy is suffering more from the energy crisis than other countries, and inflation is likely to stay higher for longer than other nations.

Market Summary

Global Equities – Equity markets sold-off again, attributing losses to growing concerns of a recession in 2023 and poor economic data releases globally. The MSCI World Index lost -2.57% for the week as at Thursday's close. To put this year's market rout into perspective, the US S&P 500 has had its worst first half of the year since the 1970s in total return terms. In a recent Deutsche Bank survey over 70% of people think that the S&P 500 is more likely to fall to 3,300 than hit 4,500 from its current levels. In contrast, an equity market that has performed well recently has been the Chinese market (CSI 300 Index), which returned its biggest monthly gain in almost two years in June (8%) as investors thought that the worst of the covid lockdowns are over and the tech crackdown has passed.

Commodities – Both Brent Crude and WTI oil contracts fell for the third consecutive week. Lingering fears of a recession caused by aggressive interest rate hikes in the US weighed on sentiment.

The price of gold fell below $1,800 per ounce, dropping for the fifth consecutive day on Friday, leaving the metal's price at its lowest levels since early May. The slump in price came amid fears of escalating inflation and economic slowdown, pushing investor sentiment towards the US dollar and bond-buying. Looking at industrial metals, copper prices have had their biggest quarterly fall since 2011 after China's covid lockdowns and slowing economic growth curtailed demand.

Fixed Income – Investors continued to seek out safe havens after growing more doubtful that central banks would be able to persist with their aggressive monetary policy approaches. The yield on the 10-year US Treasury fell back below 3% for the first time in three weeks, once again flattening the 2/10-year yield curve.

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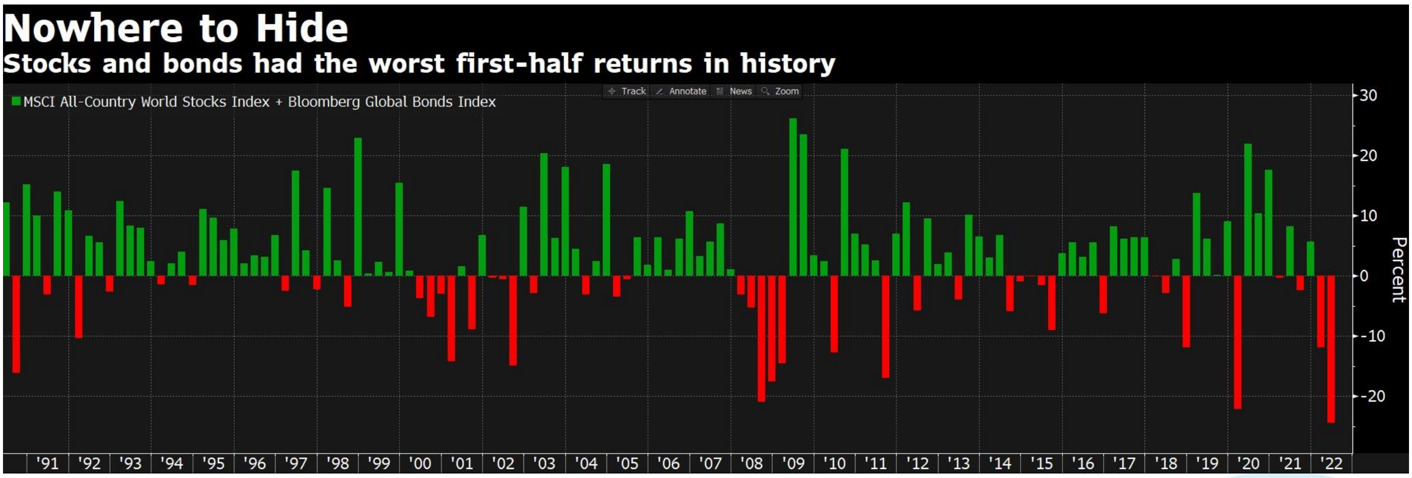
Chart of the Week



*Source: Bloomberg – **Equities and bonds post worst first half returns in history***

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- Bank of Australia rate decision	- EU retail sales		- US unemployment

Market Performance – 01/07/2022

Global Market Indices	**2022 YTD %***
FTSE 100	-2.60%
S&P 500	-20.43%
STOXX 600	-15.51%
Nikkei 225	-8.94%
Hang Seng	-4.38%
Fixed Income	**Yield %**
UK 10 Yr Gilt	2.22%
US 10 Yr Treasury	3.02%
Commodities	**2022 YTD %**
Gold	-1.93%
Currency	
GBP/USD	1.22 (01/07/2022)
GBP/EUR	1.16 (01/07/2022)

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