Market Update

I thought it would be useful to outline the current position with our portfolios given the current recent falls in equity markets since the start of 2022.

Stocks got off to a volatile start to the year The MSCI All Country World equity benchmark fell 4.0% in January in GBP terms, the biggest fall since a 11% fall in March 2020 at the height of the market pandemic panic.

Concerns over rising tensions in Ukraine sent the oil price up 12% on the month, helping the FTSE 100, driven by its high exposure to energy (11%) and low weighting in tech stocks (1%).

The current biggest concern is the potential for conflict in Ukraine, not that Ukraine itself is important to the world economy. The concern is a geopolitical security issue which could destabilise Europe which would cause major disruption to the world economy. The markets are nervous, even though no invasion so far has taken place. This is likely to continue until a satisfactory resolution is achieved.

The FTSE has done better than most global equity investment regions for a number of main reasons: -

- The UK government taking quicker action on COVID than many other Countries, especially not locking the UK down again and accelerating the COVID booster jab program, despite a slow start.
- The FTSE has a high weighted concentration of energy forms (Oil and Gas – energy) as well as banks (higher interest rates) and pharmaceutical companies that have performed very well in the last 6 months. This has a large effect of the FTSE.
- As our portfolios are well balanced, there is only a proportional investment in UK stocks. Remember the FTSE only accounts for less than 4% of world stock markets, so using the FTSE as a benchmark for performance does not give an accurate picture to base investment decisions on.

The US has concerns over the federal reserve, indicating they may increase interest rates a number of times this year to reduce inflation risk, which is running at a 40 year high. Tech stocks such as Facebook, Google and Amazon reducing 15%-20% in share price since their highs in 2021, due to competition and lower earnings expectations in the short term.

Bond yields for both 6-month and 10-year gilts rose and are back to levels last seen in 2019, putting pressure on long duration stocks.

Asian stocks have underperformed due to poor production levels, as the amount of vaccine availability has increased absenteeism from the workplace severely affecting productivity. Again, we expect this to improve as COVID risks reduce.

We expect inflation to be persistent and settle above pre-Covid levels. We expect central banks to push through rate hikes but remain more tolerant of price pressures, keeping real interest rates historically low.

All asset backs balanced portfolios have seen recent falls, but my belief is that the Russia situation will subside, Covid restrictions around the world will improve as we all "learn to live with Covid" and the world economy should have growth this year, which will have a more positive effect on the portfolios as the year progresses.

Please feel free to call me or email me if you would like to discuss anything further.

IMPORTANT INFORMATION

Please remember the value of investments and the income from them can fall as well as rise and investors may not receive back the original amount invested. Past performance is not a guide to future performance.

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