Investment Update - May 2022

Dear Investors,

With not so good news both in terms of market conditions, inflationary concerns and the ongoing troubles in Eastern Europe volatility continues to dominate with global markets continuing to display weakness in recent weeks.

Two of the major US indices, the S&P 500 and the Nasdaq are down 16.6% and 25.8% year to date with the UKs major index, the FTSE 100 down just 1.68% over the same period.

The FTSE has held up well this year in comparison, largely due to the large energy and financial exposure as opposed to the technology based US markets but how long will this last? Sterling gets weaker by the week against the dollar with the UK economy weakening as we head into the summer months.

The recent US hike, the most aggressive since 2000, of 0.5%, was the worst guarded secret and in line with market expectations yet still markets acted surprised and fell away leaving a painful 2022 thus far both for equity and bond markets.

Whilst there is no end in sight regarding the Russian invasion of Ukraine, markets have largely turned their attention back to macro economics with the persistent threat of higher inflation and the interest rate debate which in turn questions when and how aggressively will policy makers react? The decision to lock down parts of China as a result of rising Covid cases is not helping matters either. China plays a very important role in the world economy.

It is incredibly difficult to predict the bottom of the market, we re-iterate time and time again it is about ‘time in the markets’ not ‘timing the markets’. Timing can look obvious with hindsight but there are very few that are able to ‘hand on heart’ say they called the bottom of the market during the covid crisis or the 2008 banking crisis.

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Economics will prevail and will be determined by the level of inflation and interest rates over the coming months with global markets often taking the lead from the US and the Federal Reserve. Although one could argue the US, UK and Europe and in very different positions at the moment with Europe in the most precarious position being more dependent on a lower interest rate economy and more highly dependent on Russian energy.

Our investment committee continues to assess the global macros and their impact, global macros being a key driver in deciding how to manage risk, pick asset classes and their respective weightings as have we have discussed before. We are still forecasting on a slow down in global growth, but it pays to look at the detail. Household spending patterns are different but are still there, oil and gas prices are likely to settle around their current levels but we are likely to see further rises in food based commodity prices as supply is affected by the Russian / Ukraine situation. An end to the war and a positive outcome may change these views and markets will then likely react positively as and when.

Policy makers have a difficult task ahead of them in balancing interest rate rises to curb inflation whilst ensuring the global economies don't fall into recession. Recession, technically defined as two consecutive periods of negative economic growth looks inevitable, but how hard and for how long is harder to predict. Some of the largest global banks still remain divided in their opinions some taking a more bullish approach than others. Inflation is likely to ease from current levels but slower growth is clearly unavoidable.

Following recent portfolio reviews there are no changes being made at the moment. Volatility is not going away but we remain well diversified and positioned with hedge and absolute return strategies to protect on the downside and equity exposure to gain on any recovery.

If you have any questions please make contact with your adviser, this is especially important if your financial circumstances have changed and feel that the level of volatility and negative returns thus far in 2022 have any significant detrimental effect on your financial affairs.

We have been through many periods of instability; history tells us that it's never been permanent and markets will recover in time.

Many thanks,

RStott

Richard Stott