# Wealth Management
# Weekly Market Update

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## Market Update

Equities broadly retreated during the first week of 2022, as the minutes of the Federal Reserve meeting and Friday's US jobs report both raised market expectations for interest rate hikes by the Federal Reserve. US and EU stocks suffered losses led by falls in the technology sector, whilst UK stocks fared well due to gains in the energy sector. Government bonds also recorded widespread sell-offs in anticipation of rising interest rates. Global stocks fell by -2.0%, emerging market and Japanese stocks fell by -0.8% and -0.9% respectively, whilst UK stocks posted gains of +1.4%. The US 10Y Treasury yield rose significantly; up 25.2bps, finishing the week at 1.762%, while the UK 10Y yield rose 20.7bps to 1.178%. In US Dollar terms gold fell by -1.8%, while oil rose by 2.5%, reaching $79 per barrel.

| UK Stocks | US Stocks | EU Stocks | Global Stocks | EM Stocks | Japan Stocks | Gilts | GBP/USD |
|---|---|---|---|---|---|---|---|
| ▲ +1.4% | ▼ -2.2% | ▼ -1.3% | ▼ -2.0% | ▼ -0.8% | ▼ -0.9% | ▼ -2.1% | ▲ +0.4% |

*all returns in GBP to Friday close*

## Macro News

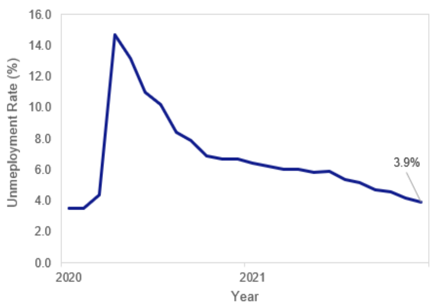
- US nonfarm payroll data showed that employers added 199,000 jobs in December, bringing the unemployment rate to 3.9%. While this number fell far short of the 444,000 expected by economists, it brings the rate within touching distance of the pre-pandemic normal of 3.5%, strengthening the Federal Reserve's case for withdrawing the stimulus it put into place to support the economy at the start of the pandemic.
- Data released last Friday showed that Eurozone inflation in December hit a new record high of 5.0%, surpassing analyst expectations. Price increases in the EU were strongly led by energy prices which increased by 26% year-on-year, and food prices, which increased by 3.2% year-on-year. Core Inflation, a measure excluding food and energy, rose at a rate of 2.6%. These figures put additional pressures on the European Central Bank, which has asserted that Eurozone inflation is transitory. ECB board member Isabel Schnabel stated on Saturday that the ECB may need to act if energy prices rises turn out to be more persistent.

## The Week Ahead

- Investors will be paying attention to inflation this week, as China and the US are set to release their CPI numbers. Major US banks are also set to report their earnings with JPMorgan, Citigroup and Wells Fargo due to deliver their quarterly results by Friday.

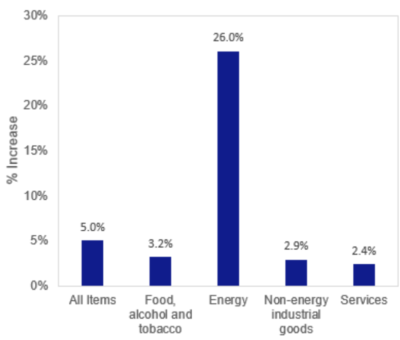
## Week in Charts

**Unemployment Rate Approaching Pre-Pandemic Levels**




While the December jobs report fell short of analyst expectations, it edges the unemployment rate closer to the pre-pandemic average, strengthening the Federal Reserve's case for removing its stimulus.

**Eurozone Inflation Led by Energy**




EU CPI rose to a record high of 5% in December, surpassing analyst expectations of 4.8%. Price increases were led by energy costs, which increased by a staggering 26% over last year. Core CPI, a measure excluding food and energy, rose by 2.6%.

## View From the Desk

**Asset Allocation**

In January our Investment Committee voted to keep our equity allocation unchanged. Despite mounting risks we maintain a neutral position in equities and an underweight position in fixed income.
The biggest risk in our view comes from central bank tightening. Less QE and higher interest rates slow liquidity growth in the financial system and create tighter economic conditions. This leads to financial markets which are less forgiving when negative news inevitably arises, whether it is economic data or pandemic-related. This is the main reason we reduced our equity overweight in October and why we maintain that position.

It is also worth noting that within our equity portion we are tilted away from international equities towards UK equities. The attractive valuations of UK companies compared to some of the stretched valuations abroad ought to do well in portfolios should markets become more skittish. Similarly, we expect our allocation to US value companies to drive outperformance as some of the more expensive areas of the US market come under scrutiny.

Central bank tightening and inflation lead us to remain underweight bonds in portfolios. As central banks move closer to raising interest rates, as has already happened in the UK, the relative attraction of bonds is diminished. We maintain an underweight position and have taken further steps to reduce duration (sensitivity to rising interest rates) within our more conservative portfolios.

At a fund level, this quarter we have introduced Morgan Stanley Global Asset Backed Securities to our Defensive, Cautious, Balanced and Income portfolios to reduce duration. To reduce concentration in any single fund we have spread our Japan equity exposure across an index tracker to sit alongside Lindell Train Japanese Equity and we have reduced our allocation to Foresight Global Real Infrastructure fund and added M&G Global Listed Infrastructure.

***David Baker, CIO***

**Important information**

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