Wealth Management
Weekly Market Update

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Market Update

US stocks fell by -5% last week in their worst 7-day decline since March of 2020, as fears of interest rate rises and increased geopolitical tensions weighed heavily on investor sentiment. Technology stocks in the US were hit particularly hard, falling into correction territory after having reached all time highs several weeks ago. Other equity markets fared somewhat better, though still posting negative returns, with UK and EU stocks falling by -0.6% and -1.2% respectively, with emerging market stocks dropping by -0.3%. Japanese equities also fell by -1.4% as record coronavirus case numbers led to a declaration of a quasi-sate of emergency in many regions. The UK 10Y yield rose by 2.1 bps to 1.171% amid surging inflation figures, while the US 10Y yield retreated to 1.758% after weaker than expected jobless claims data. Commodities posted gains, with gold and oil rising +1.7% and +3.6% respectively.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.6%	▼ -5.0%	▼ -1.2%	▼ -4.0%	▼ -0.3%	▼ -1.4%	▼ -0.5%	▼ -0.9%

all returns in GBP to Friday close

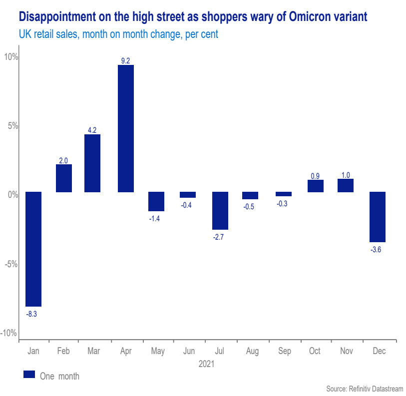
Macro News

- The tensions between Russia and the West continue to make headlines as the rising threat of a Russian invasion of Ukraine is at the centre of attention for NATO and the US military. The deployment of 106,000 Russian troops at the Ukrainian border has encouraged the US to withdraw embassy staff from Russia, whilst NATO begins to send additional reinforcements over to eastern Europe as tensions reach new highs.
- The UK retail sector was hit hard in December as the Omicron variant swept across the nation and kept shoppers away from stores. UK retail sales recorded a month-on-month drop of 3.6%, as record Covid cases and the introduction of the government's Plan B restrictions saw a reduction in footfall on the high street over the Christmas period.
- Germany's annual inflation rate was recorded at 5.3% in December; it's highest level in 30 years. Ongoing supply chain issues and rocketing energy prices have helped fuel the inflation fire, as well as unexpected increases in food prices, up 5.9% year-on-year.

The Week Ahead

- Investors will be paying attention to market drivers that could exacerbate last week's sell-off, including the situation over in Ukraine, as well as the Italian presidential election this week, as prime minister Mario Draghi makes a bid for the position.

Week in Charts



While UK retail sales were weak in December, they were partially offset by the stronger than expected retail sales in November. As cases of Covid continue to fall across the country, this is likely to encourage a return to provide the high street with a much-needed boost to start off the new calendar year.

Record levels of inflation are only part of the issue for Germany's economy. The Bundesbank indicated on Monday that the German economy suffered in the last quarter of 2021 as supply chain issues ravaged the manufacturing industry. They also indicated that the continued climb of energy prices would likely manifest into high price growth for consumers over the course of 2022.

View From the Desk

Entering their fourth week, financial markets have had the worst start in 20 years. A 50% equity/ 50% bond portfolio in the US, the world's biggest market, has now lost nearly -5%, more even than it did during the 2008-2009 Global Financial Crisis. A lot of analysts cite that the retrenchment is really a growth-to-value rotation. Tempting as it may sound blaming big tech valuations, the truth is slightly more complex. The US large cap equities have lost -7.7% since the end of 2021. Excluding the top eight big tech stocks (Apple, Microsoft, Amazon, Google, Meta, Tesla, Nvidia), the rest of the world's leading index is still down -6.4% for the year, which would individually constitute the fifth-worst opening since 1971.

The pandemic may well be improving
Rising volatility has obscured the fact that, fundamentally, we are looking at the increasing possibility of pandemic economic disruptions ending sooner than anticipated. The Omicron variant peaked for a lot of the world almost simultaneously, which in and of itself should help re-harmonise some parts of the global value chain. The potential for the highly-transmissive but milder variant to remain dominant, coupled with higher vaccination rates and Covid-targeted medication in the pipeline, have left an increasing number of analysts more optimistic that disruptive policy responses, like lockdowns, may become a thing of the past. Q1 economic performance may well be worse than originally expected, but the probability of a faster economic rebound thereafter is increasing. The problem for markets is that no one can be sure that we are indeed dealing with the final Covid-19 dominant variant.

The outlier risk
We think that a key risk right now is geopolitical. The Crimean War (1853-1856) marked the rapid decline of the Ottoman and Russian empires, while consolidating Britain's status as the global military superpower for decades. The same area is once again the focus of global powers. Tensions have been rising fast between the US, Russia and China. Further escalation could have unforeseen consequences for markets, especially commodities. Situations like this usually come down to last-minute decisions and/or deals, and there's precious little investors can do, other than quickly recognise a change in the status quo when and if that happens.

David Baker, CIO

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