Wealth Management
Weekly Market Update

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Market Update

Equity markets posted overall gains last week after further volatility. US stocks rose by +0.5% in Sterling terms on rising energy prices, and a generally strong earnings season in which 76% of companies beat expectations. Earnings of mega-cap names had a large impact on the wider US equity market, as a -26.4% decline in Facebook's share price following a disappointing earnings report led to a decline in major indices, but strong earnings from Amazon helped to fuel a rebound only a day later. European stocks fell by -0.6% in Euro terms after ECB officials made hawkish remarks following higher than expected inflation data. However, owing to a fall in the Pound relative to the Euro, European stocks finished +1.0% higher in Sterling terms. Bonds struggled last week due to hawkish central banks and a stronger than expected US jobs report, which caused US and UK 10 year yields to spike and end the week at 1.91% and 1.41% respectively. The German 10 year Bund yield also crossed into positive territory, rising from -0.05% to 0.21%. Emerging market and Japanese stocks rebounded, while oil continued to rise, reaching $92.10 per barrel. Gold remained relatively steady, falling -0.2%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.7%	▲ +0.5%	▲ +1.0%	▲ +0.8%	▲ +1.4%	▲ +1.7%	▼ -1.6%	▲ +1.0%

all returns in GBP to Friday close

Macro News

- The persistence of inflation across the Eurozone began to unnerve the European Central Bank (ECB) last week. At 5.1%, Eurozone CPI was much higher than the ECB's forecast of 4.1% for the first quarter of 2022 and is likely to force them into action. With a indisputably more hawkish rhetoric than previous statements, ECB President Christine Lagarde's press conference last Thursday saw European bond markets sell-off. The 10-year yield on German Bunds rose decisively into positive territory, finishing the week at 0.21%.
- IHS Markit PMI data for January revealed weakening growth in the manufacturing sector as well as significant strain on the services sector, particularly in countries where Covid restrictions are still firmly in place. Inflation was also a hot topic, as the rate of increase in input costs began to ease, particularly for manufacturing businesses in the US & China. Nevertheless, the J.P.Morgan Global Composite PMI highlighted that output charges rose at the fastest rate in three months.

The Week Ahead

- Investors will be paying close attention to US inflation data which will be released on Thursday, as larger than expected figures could spark further volatility in markets. Earnings will also be in focus as Pfizer, Toyota and Unilever are set to release results.

Week in Charts

The persistence of inflation in the eurozone is raising fears that this may not be confined to energy prices. Whilst the 10.9% growth in energy prices undeniably contributed to the final figures, core CPI was still recorded at 2.3%. This was down from 2.6% in December, but still above the ECB's long-term target of 2.0%.

Although not unexpected, the mobility restrictions in place across much of the world in 2022 have noticeably affected global growth. However, the data is somewhat mixed. Growth in Germany is very encouraging, whilst UK PMI data also held up reasonably well. However, manufacturing in US and China softened somewhat, whilst Japan's services sector was forced into contraction.

View From the Desk

Last week saw the resumption of volatility. American stocks have recovered almost half of their -10% losses, mostly due to soaring energy prices and another good earnings season. More than half of US companies have reported earnings, with a very decent 76% beat of expectations.

But that's not how all investors experienced it. Facebook, the global social media behemoth and a key holding for many portfolios, found itself losing more than a quarter of a trillion US Dollars in capitalisation during one day, as it reported a plateau in new subscribers. Meanwhile, US 10-year bond yields, the bedrock of global asset management, continue to experience steep price declines, as central banks across the world become more hawkish by the day. Last week, even the dovish ECB, which oversees a more rigid and less prone to wage-inflation market, refused to rule out rate hikes in 2022.

Central bankers have a very difficult task ahead: They need to moderate wage growth enough to curtail inflation expectations but not too much to cause a dampening of demand and swift return to secular stagnation. They have a local bullhorn, but a global problem.

Supply-side inflation will probably eventually sort itself out anywhere between six months and two years from now. It will be done in a bottom-up way, and there's precious little policymakers can do about. It will all depend on the sum of myriads of inventory and logistics decisions. Until that time, it will be difficult for central banks to do much in the way of curtailing price rises. Messaging and moderate interest rate hikes might be their only tools to try and curtail inflation expectations and stem the wave of demands for higher wages. But, much like they couldn't control global deflation, it is doubtful they can control global inflation.

And herein lies the risk. Central banks have abandoned market accommodation in favour of trying to moderate inflation expectations. If they are not successful in the latter, then they have stopped performing the function they were good at, absorbing market risk.

The idea that a big problem can't be managed centrally poses an existential challenge for institutions whose job is exactly to manage big problems. If their core mandates are redundant, for whatever internal or external reason, can their efforts to 'do their job', in essence to confirm their usefulness, result in more harm than good?

Business literature is littered with cases of systems and processes that either were not updated in time (if ever), or where changes weren't done right. Meanwhile, normal operations continued, but ended up causing more costs and less benefits. Central banks have been a key component of the post-GFC recovery. We feel that the time has come where their role and independence will be re-assessed, with implications far and wide for all portfolios, and economies.

David Baker, CIO

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