Wealth Management
Weekly Market Update

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Market Update

Markets were whipsawed last week as traders scrambled to manage the risk of conflict in Ukraine on top of newly released minutes from the Federal Reserve's most recent meeting. US stocks fell on Monday following a 'sarcastic remark' from Ukrainian president Zelensky, rallied on Tuesday after reports that Russian troops were pulling back, and reversed course again after US officials stated that they had no evidence of such a pullback. Minutes released by the Federal Reserve on the other hand were interpreted as dovish relative to expectations, as members did not rally around a policy of front loading hikes. UK and European stocks were similarly affected by these developments, falling -1.8% and -2.4% respectively after a volatile week, while emerging market and Japanese stocks fell by smaller amounts of -0.5% and -0.9% respectively. Yields in the UK and EU fell in response to the geopolitical tensions, with the UK 10 year yield falling 16.7 bps and the German 10 year falling by 10.5bps. Oil ended the week down -2.1% after a mixed week, while gold stood out as a strong performer, continuing its rally to end the week up +2.3% in Sterling terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.8%	▼ -1.4%	▼ -2.4%	▼ -1.7%	▼ -0.5%	▼ -0.9%	▲ +1.7%	▲ +0.2%

all returns in GBP to Friday close

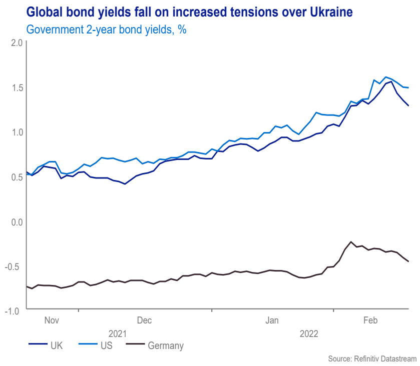
Macro News

- Tensions over the situation in Ukraine continue to unnerve markets that are only beginning to recover from the latest wave of the pandemic. Neither side have meaningly moved on their stances regarding Ukraine and NATO's continued expansion, with western leaders are releasing solemn warnings. Uncertainty shrouds the current situation and markets have begun to look towards traditionally safe assets, with gold and short-dated government debt both performing well last week.
- Inflation in the UK also made headlines last week as CPI rose 5.5% on a one-year basis, a rate of increase not seen in the UK since 1992. There was also little respite in core UK inflation, up 4.4%. This indicates that although the sharp rise in energy prices has notably influenced the inflation numbers, a much broader range of goods and services is being affected.
- US industrial production figures were broadly positive for January, displaying robust growth of 1.4% and far surpassing the expectations of a 0.5% increase.

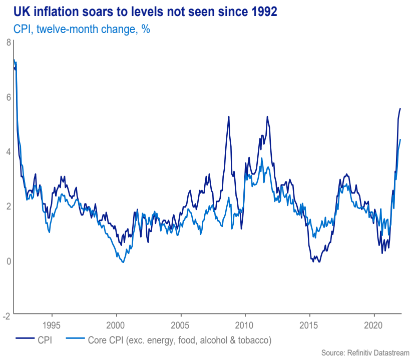
The Week Ahead

- Markets will continue to watch for developments in the Ukraine-Russia conflict this week as potential talks between Putin and Biden could prove critical for the outcome of the situation. The Fed's preferred gauge of inflation, PCE is also released this Friday.

Week in Charts



The potential for conflict in Ukraine has taken the media by storm, as the severity of the situation continued to escalate last week. After several months of yields steadily rising, investors began to flock to short-dated government debt on the news that Russian troops appeared not to be pulling back from the Ukrainian border.



Coming in at a record 5.5%, the UK Consumer Price Index continued to rise in January despite economists' expectations that inflation would hold steady at 5.4%. Whilst rocketing energy prices continue to contribute to the headline number, core CPI (excluding energy, food, alcohol & tobacco) also continued its climb higher, up 4.4% year-on-year.

View From the Desk

We feel that the market is not in a transitional phase, but rather at a crossroads.

On the right, a road returning tinvestingo as we once knew it: de-correlation, higher volatility, a world where opportunity and risk co-existed. Active asset managers will probably be rewarded and economic growth, albeit volatile, will be higher.

On the left, incredibly this is still a QE-driven world. A generation of consumers will turn into a generation of caretakers, as the world battles environmental change. Most shorter-term inflation pressures will eventually subside and what remains will be modest growth, secular stagnation-level prices, plus "Green" and "China Transition" inflation. In this world, QE has only taken a hiatus, to return as investors remain sceptical about assuming risks.

Which way we go is really a coin-toss. The central banks' lack of real conviction about inflation, evidenced by their paced approach to hiking rates, suggests that either they are slow to realise that the world has changed, or that they want to cover some downside risks without compromising their central strategy.

Our take is that the world tends to move forward not backward. Both of these scenarios describe a world either before 2020 or one before 2008. In reality, there's a third path, towards a new world emerging after the pandemic. A world at the cusp of the New Green Economy and more technological revolutions wrought by Blockchain, quantum computing and possibly a new form of energy that would make redundant the internal combustion engine. A path where nations realise that globalisation can't be scaled back and that this interconnected world needs new economic and political theories if the transition to the next phase of the nation-state is not to become dystopian. In this world, central planning is subordinated to the bottom-up forces of the economy, and the picture that emerges will not be one driven by policy but the one of the most prevailing winds. Companies understand this and focus on positioning for the next decade. Some prepare their 'metaverse' and 'blockchain' strategies. Some focus on evolving hybrid work and a new way of managing. Meanwhile, supply chains are being repaired without - or even in spite of - national strategies, showcasing exactly how potent the power of businesses and innovation is to drive the economy. New theories will describe how the new world can evolve from the chaos of the old and how policy makers can restore civic supremacy.

The first two paths are easier to see, courtesy of hindsight and history. The third, and more likely, is lost in the mist. But, in our humble view, this is also the more likely one. We might not have an exact road map for it, but then again, when has there ever been one where the future (and not the past) is concerned? As asset managers, charged with preserving wealth for our clients, we need only ask ourselves not what paradigm of the past is more applicable but rather what vision of the future is more likely.

David Baker, CIO

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