Wealth Management
Weekly Market Update

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Market Update

The fallout from the invasion of Ukraine continued to rock markets last week, as the attack on the Zaporizhzhia nuclear plant gained widespread media attention and represented a further escalation of the conflict. Most major indices posted losses last week, although geographical location significantly influenced price action. US stocks remained relatively stable, down -0.1%, whilst European markets suffered losses of -9.1% on concerns over rising energy prices and the potential for further supply chain disruption. The risk-off sentiment and subsequent flock to safety by investors saw bond yields fall. The US 10Y fell 23.1 bps, finishing the week at 1.731%. The German 10Y Bund recorded similar inflows as the yield crossed back into negative territory, finishing the week at -0.069%. Russia's role in the global economy as exporter of many commodities has encouraged sharp price rises. Oil rose a staggering +26.4% to $125.5 per barrel, whilst metals returned +12.0% in GBP terms. Gold also performed well, up 5.5% on the week. The US Dollar also benefitted from the safety trade and performed well relative to the Euro and Sterling.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -6.7%	▼ -0.1%	▼ -9.1%	▼ -1.6%	▼ -1.1%	▲ +0.4%	▲ +2.3%	▼ -1.3%

all returns in GBP to Friday close

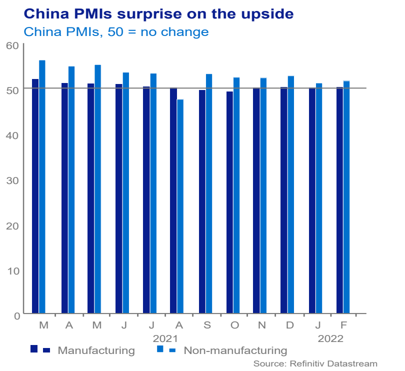
Macro News

- The official NBS Manufacturing PMI for China unexpectedly inched higher to 50.2 in February, compared with market estimates of 49.9 and January's figure of 50.1. The latest reading marked the fourth straight month of growth in factory activity, amid the seasonality impact of the Lunar New Year holidays. Non-Manufacturing PMI rose to 51.6 from a five-month low of 51.1 in the prior month, as COVID-19 cases eased.
- Annual inflation rate in the Euro Area rose to a fresh record high of 5.8% in February from 5.1% in January, above market expectations of 5.4%. Energy continues to record the biggest price increase. The inflation rate is almost three times above the ECB's target of 2% and hopes that it would start to peak in the early part of 2022 faded as the war in Ukraine exacerbated the energy crisis threatening fuel costs to accelerate even further.
- The US economy added 678K jobs in February, the most in seven months and above market forecasts of 400K. Job growth was widespread, led by leisure and hospitality.

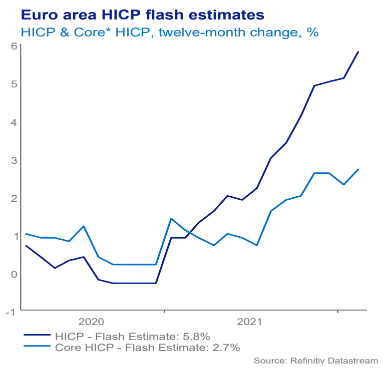
The Week Ahead

- US inflation data will be released on Thursday this week. Analysts will be watching closely as Fed chairman, Jerome Powell, has said that if inflation remains high, the Fed could raise interest rates by 50 basis points during its next monetary policy meeting.

Week in Charts



China's manufacturing activity and new orders expanded last month despite the interruptions caused by the Lunar New Year holiday and Winter Olympics, but lingering supply shortages and inflation remain disruptions to services sector activities.



The jump in the cost of living in the eurozone to well above the ECB's 2% inflation target has put the central bank in a difficult spot. Steeper increases in the price of energy and food were accompanied by higher surges in the cost of services and manufactured goods.

View From the Desk

'Cancel culture' is not a new thing. Ancient Egyptians did it regularly for Pharaohs who were not liked by their successors, like Queen Hatshepsut (1507-1458 BCE). Publius Septimius Geta (AD 189-211) was an emperor slain by his brother, Caracalla, and virtually expunged from history. The ancient Romans had a self-explanatory name for the practice: "Damnatio Memorae". The Soviet Union created a lot of non-people, with Leon Trotsky, Lenin's comrade-at-arms and Nicholai Yezhov, Stalin's number one hitman in the secret police, being literally erased from Soviet history. Even a Soviet Premier, Nikita Khrushchev was, for a time, almost completely omitted from the "Great Soviet Encyclopaedia". Damnatio Memorae has been rekindled in the past few years with the removal of offensive statues and perma-angry Twitter users who cancel artists and celebrities over statements or past behaviours.

In the past week, we are witnessing a historical novelty, however. The essential cancelling of an existing state, a nuclear superpower no less, and its people. It's not just banks and oligarchs. It's Russian athletes and sports teams, Russian expats and Russian culture, including the Ballets. Electronic Arts updated its flagship "FIFA 22" game to omit all Russian Teams. Developed markets mean to behave as if Russia simply is an ex-entity.

Russia is a key producer of energy, nickel and palladium (used for car manufacturing), wheat (along with Ukraine 1/3 of global production), copper, gold and aluminium. Supply chains that were just beginning to recover after tremendous pressure are now facing another massive hit. Input prices will, in all probability, soar. The IMF predicted 4.4% global growth for 2022, but risks are now to the downside. Rising prices will also change the central banks' inflation calculus in ways we can't yet predict. By some estimates, oil prices could reach $150 per barrel. It was already $130 on Monday morning. The Fed's decision between supporting risk assets and fighting inflation is getting a lot more difficult. Failure on those fronts could compromise its independence. Europe, meanwhile, is preparing for a cold winter. It's not just the price of energy at stake but also its availability.

More dominoes may yet fall. China, which is by far Russia's biggest trading partner after the EU, could benefit from cheaper trading with Russia, but payments in Yuan could mean significant upward currency pressures. To offset these, it would have to buy Dollars, making the USD even more expensive. So while emerging market commodity producers may gain from higher prices, they could lose from Dollar firming. It is likely that investors will focus on some obvious categories, like Dollar-based real assets. This could put even more pressure on commodity prices, further destabilising global growth. US housing prices might also see upward price pressures, on the one hand giving an "equity" windfall to those who own their property and on the other pushing the dream of homeownership even further for a generation of young consumers and voters.

The point we are trying to make is that the war in Ukraine and the concomitant reactions will have consequences we can't yet imagine or, frankly, predict and plan for. As economic concerns take a backseat over geopolitical objectives, so will final decisions and, inasmuch as policy affects them, the returns for risk assets. This is what textbook "systematic risk" looks like, and it is un-hedgeable. But unlike anything we have seen in the past forty years, this instance comes with high inflation, which prevents central banks from mitigating the bulk of that risk. It also makes holding cash as an alternative a very expensive proposition.

The repercussions of this war and the West's response will be felt across the globe on both the economic and political front for many years. Investors with a high tolerance for risk may choose to roll the dice. As with any significant milestone in financial history, the next few months will see new winners and 'gurus' emerge, while failed strategies will be forced to throw in the towel. But for the critical mass of investors, those for whom risk is a measurable quantity and financial planning is part of the equation, we think that the best course is to avoid taking significant action before the dust settles and trust in the long term properties of diversified portfolios.

David Baker, CIO

mazars