Wealth Management
Weekly Market Update

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Market Update

Last week was mixed for equities as the Federal Reserve announced preparations for a new round of quantitative tightening (QT) in order to reign in the significant expansion of the Fed's balance sheet over the course of the pandemic. Global stocks fell -0.9%, as the healthcare & energy sectors outperformed, whilst technology was the main laggard. US equities fell -0.7% whilst the UK's heavy exposure to energy companies dragged performance positive, finishing the week up 1.9%. European stocks fell -0.8% as the contest for the French presidential election saw the incumbent president Emmanuel Macron and far-right candidate Marine Le Pen top the polls in the first round results. Japan was the major underperformer last week, down -3.3%, as the IMF downgraded its projection for Japan's economic growth in 2022 from 3.3% year-over-year to 2.4%. The announcement of QT saw bond yields creep ever higher. The UK 10Y gilt yield rose another 14.2bps last week, whilst the yield on the US 10Y treasury yield rose 31.8bps, finishing the week at 2.70%. Both oil & industrial metals fell a modest -0.5%, whilst gold benefitted from a stronger dollar, recording a gain of 1.9% last week to finish at $1944.7/oz.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.9%	▼ -0.7%	▼ -0.8%	▼ -0.9%	▼ -1.0%	▼ -3.3%	▼ -1.5%	▼ -0.7%

all returns in GBP to Friday close

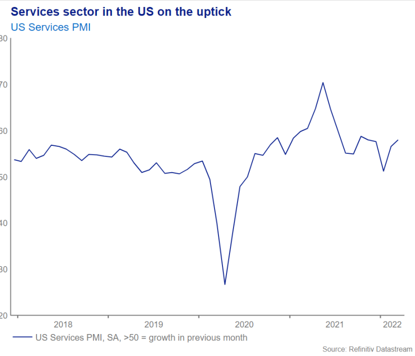
Macro News

- US consumer debt jumped by nearly $42 billion last month, the largest increase since December 2010. Revolving credit, which includes credit card debt, was the larger contributor to this increase, rising 20.7%. The figures echo those of the UK, which two weeks ago reported its highest net figures for consumer borrowing since records began.
- Minutes released by the Federal Reserve revealed that the central bank would be planning to reduce the size of its balance sheet by $95 billion per year. At this pace, it would take 4 years to unwind its asset purchases during the pandemic. The minutes also revealed that many members supported a 50 basis point hike in March, but refrained due to the situation in Ukraine.
- The Russian Ruble rebounded to its pre-pandemic level versus the US dollar last week, after falling sharply following the Russian invasion of Ukraine. However, this is likely largely due to strict capital controls introduced by the government, which prevent residents from transferring money aboard, foreign investors from exiting Russian assets, and force exporters to transfer 80% of their foreign currency reserves to Ruble.

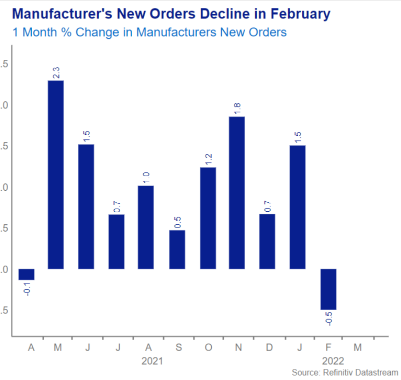
The Week Ahead

- All eyes will be on inflation this week, as the US will be releasing its CPI figures on Tuesday, while the UK will follow suit on Wednesday. Analysts are expecting an inflation rate of 8.5% for the US and a rate of 6.7% for the UK.

Week in Charts



US service providers reported a strong upturn in business activities in March, extending a streak of improvement in recent months. Providers saw a strengthening of client demand despite record inflation. Cost burdens were passed to customers as output prices increased significantly.



New orders for manufactured goods fell for the first time in nine months in February, after a 1.5% increase in January. Shipments, unfilled orders and inventories increased marginally, while new orders for durable goods fell by 2.1%

View From the Desk

Last night, we saw the first round of the French elections. Pundits notice that Macron won easily, but in the second round he has his work cut out for him. The stakes are high and thus in the next two weeks investors should not be too surprised at the high levels of alarmism over the fate of France and, subsequently, Europe. The larger probability event, excluding surprises, is that Mr Macron will be re-elected. However, what this means for Europe and the Euro is greatly exaggerated. Mr Macron may well be re-elected in two weeks, but a slim victory will not help his European cause.
Longer term considerations for the Euro's survival will probably remain the same well after the 24th of April. In case Ms Lepen wins, pressures on the common currency could significantly intensify.
Meanwhile in the US we saw another set of very hawkish minutes from the FOMC. Markets are now pricing in eight interest rate hikes, up from three in January. They have lost their monetary tether and are drifting trendless. Which brings us to the real issue. Portfolio managers have no guidance from neither the past, nor the powers that be. How should portfolio holders react? They shouldn't. When one finds oneself in the middle of a tornado, the best idea is probably to stay anchored in the centre and wait. In this maelstrom, we don't expect policymakers, shackled by inflation to do much, at least for another six months. As conventional portfolio theory goes out of the window, along with the previous financial paradigm, asset allocators should wait to see how the new market paradigm will shape and who, if any will lead it. Which is why in our recent investment committee we decided to maintain our headline bond and equity weightings at underweight and neutral respectively, while reducing risks within equities.

David Baker, CIO

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