Wealth Management
Weekly Market Update

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Published 04 April 2022

Market Update

US stocks started the week strongly as reports appeared to show that a ceasefire deal, in which Ukraine would abandon its drive for NATO membership in exchange for security guarantees and potential EU membership, could be possible. However, the mood soured in the middle of the week as Pentagon officials cast doubts on reports that Russia was scaling back operations in Kyiv. Nevertheless, major indices in developed markets ended higher at the end of the week, with the US stock market ending +0.7% higher, the UK stock market rising +0.8%, and European stocks gaining +2.4% in Sterling terms. Emerging markets also fared well, despite China imposing large scale lockdowns on Shanghai and showing weakening manufacturing data, as investors appear to expect that Beijing will take measures to support the economy and financial markets. UK and US bond yields retreated, ending the week at 1.61% (down 8.4 bps) and 2.39% (down 9.8 bps) respectively. Oil fell by -13.9% as Joe Biden ordered the release of 180 million barrels of crude oil from the US Strategic Petroleum Reserve, ending the week at just under $100 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.8%	▲ +0.7%	▲ +2.4%	▲ +0.8%	▲ +2.6%	▼ -0.7%	▲ +1.0%	▼ -0.6%

all returns in GBP to Friday close

Macro News

- Inflation in the Euro area continues to rise as doubts persist over the ability of the ECB to keep prices under control. The flash estimate data released by Eurostat revealed a 7.5% year-on-year increase in March of the Harmonised Index of Consumer Prices (HICP). This is a sizeable jump from the 5.9% rise recorded in February and a far-cry from the 6.6% consensus view. Whilst the impact of high energy prices contributes to this worrying inflation number, it is evident that the rally in prices is now becoming significantly more broad-based.
- Manufacturing PMI data for a number of developed economies was also released last week. The broad consensus view points towards a sharp rise in both input costs and backlogs, with few regional areas of respite. Supply chain pressures also worsened globally with the notable exception of the US, where both the S&P Global and ISM Manufacturing PMIs indicated some easing of supply chain pressures. Geopolitical tensions and the war in Ukraine were also cited as having a significant, detrimental impact on both business confidence and demand, particularly for European businesses.

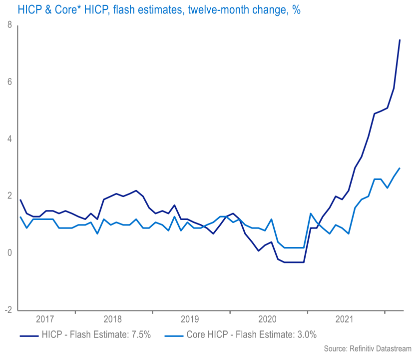
The Week Ahead

- Services PMI data for several important economies will be released this week, giving indications as to how inflation may develop in the next few months, as well as the impact of both reduced Covid restrictions in developed economies and the rising infection numbers.

Week in Charts

Inflation in Eurozone surges past analyst expectations

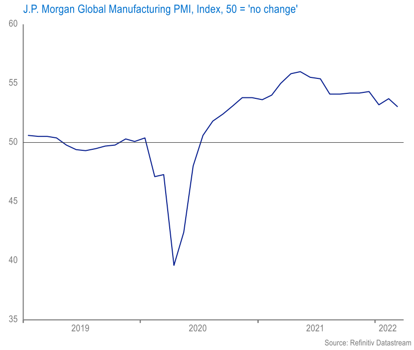
HICP & Core* HICP, flash estimates, twelve-month change, %



The inflation across in the Eurozone is becoming increasingly broad-based. This is reflected in the core HICP reaching 3%, a level significantly higher than the ECB's long-term target of 2% inflation. This is a serious concern for a central bank that is mandated to control price rises and will create further pressure to move away from the relatively dovish stance adopted by the ECB.

Global manufacturing growth slows as supply chain disruption continues

J.P. Morgan Global Manufacturing PMI, Index, 50 = 'no change'



Manufacturing PMI data released in March continues to display further evidence that growth is slowing. However, the fall of the J.P. Morgan Global Manufacturing PMI in March does not tell the whole story. Business confidence has been dealt a severe blow by the war in Ukraine and supply chain disruptions continue to fuel the story of worsening inflation.

View From the Desk

Central banks are playing from their standard playbook. As long as unemployment and growth are unaffected, they can afford to raise rates. However, eventually, growth and unemployment will be affected, in which case they know not to raise the cost of money anymore.

The probability of recession, following rate hikes is rising fast. How do we know this? The yield curve is inverting, which constitutes a powerful sign of recession. Of course the yield curve is not a magic crystal ball. Higher short term yields and lower long term yields suggest that borrowers attach a stronger probability that:

a. Central banks will hike short rates fast (short term yields rise)
b. Inflation at very high levels is not expected to persist (long term yields rising less quickly)

There's a string probability that central banks will fail to keep prices stable, and cause stagnation or recession at the same time. This means that their ability to make decisions all by themselves could be significantly compromised. This is the worst scenario for markets and portfolios. Asset prices over the last twelve years rose because of the central banks' ability to make quick decisions without waiting for political approval.

Central banks need to change. They should take their standard playbook and hurl it into the sea. The need to be led by the brightest and most forward looking of economic minds, not the politically-adaptive and the consensus-forgers. They need to adapt their policies for a globalised market. For the meta-capitalism of a globalised world, away from the traditional nation-state. This would mean independence from their own authorities and close cooperation with each other. This mentality saved capitalism in 2008-9. But few are the heads of nation-states with the foresight to allow for the internationalisation of their monetary policy. It is more likely that, when the current form of independence fails, they will seek to take back control, and possibly risk the modern monetary system.

So what can asset allocators do? Think broadly and understand that such a sea-change won't happen overnight. First, they need to watch for signals that the central banks are coming under fire for constrictive policies. Second, they need to monitor news about changes at the top of the helm. And third, they need to watch for possible legislation which would limit their independence. At every step, they need to prepare their clients' portfolios for more volatility.

David Baker, CIO

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