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Investment Update February 2022

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defaqto EXPERT RATED DFM MPS on Platform 2022

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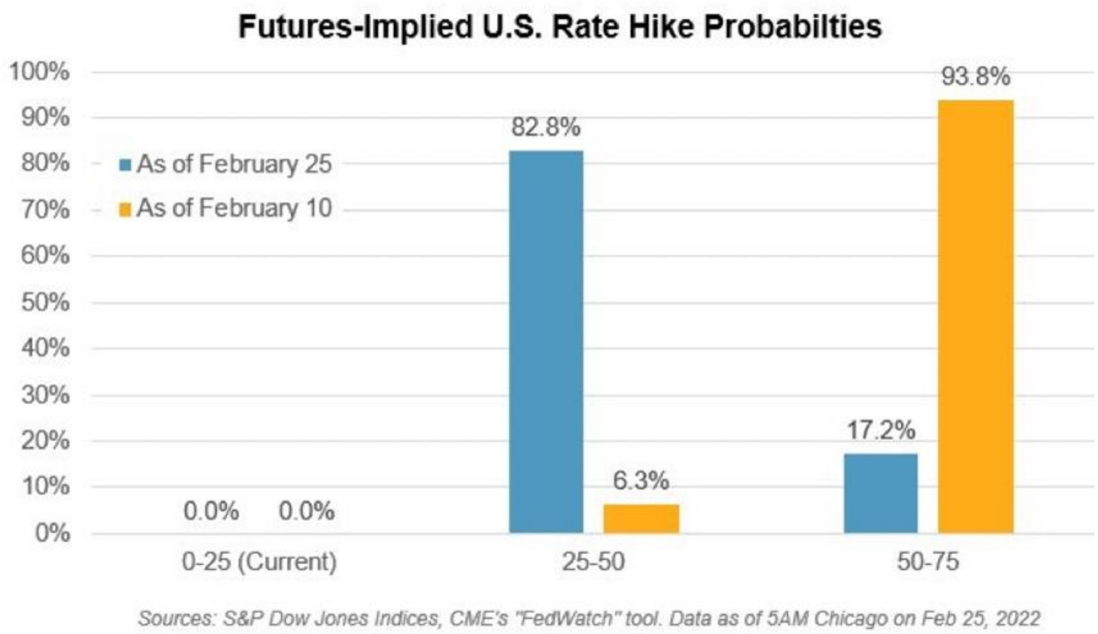
The economic consequences of Russia's invasion of Ukraine continue to unfold but this action coupled with strong inflationary pressure and a tightening cycle for monetary policy have given rise to a challenging beginning to 2022. Oil has marched above $100 a barrel and commodities in general have hit all-time highs pushing inflation further. It seems Russia has been laying down plans for its moves for some time. Russian debt is in the hands of Russians, rather than invested in US Treasuries, whilst its reserves of gold have been bolstered, now at a high point of $635bn. Sanctions will bite but will take time to exact a toll and the world watches Ukrainian bravery proving more problematic to Putin's forces than they had reckoned for. In Russia the ruble has collapsed, and interest rates have hit a stratospheric 20%. Markets have factored in these events but remain understandably jittery as history unfolds.

Economists are busy recalibrating possible trajectories for inflation given the current squeeze on energy prices, particularly oil. US Consumer Price Inflation may exceed 8% for February, before falling back to c5% by year-end. Should oil surge further to $120 a barrel in March this pushes CPI inflation yet higher to 9% with a longer period towards normalisation. There are of course knock-on consequences for interest rates. The central forecast remains for inflation to begin falling back later this year. In 2 short weeks US interest rate futures have moved from indicating high conviction for a 50-basis point hike at the March 16th Federal Reserve meeting, to now having almost as much conviction for a 25-basis point rise, as shown in chart. GDP growth in developed markets will be slowed by consequences of war in Ukraine and this has a direct feed into central banks likelihood for raising rates as high as was forecast just a few short weeks ago.



The VIX volatility index stands just above 30, significantly higher than a few months back, but putting things in perspective the VIX reached 82 during the worst days of the Covid-19 crash just a couple of years ago. Our proprietary momentum indicator points squarely to an oversold equity market

which could well bounce strongly on positive news flow. Speculators betting on crypto currencies delivering an inflation hedge have been sorely disappointed, but gold and the US dollar have once again lived up to their billing as "safe haven" assets. 10-year Treasury yields dipped at the month-end to just below 1.85%, having pierced 2%. US Purchasing Manager's Indices published on the last day of the month pointed to a slowdown in the world's largest economy – in line with expectation.

Within Alpha Beta portfolios, whilst volatility has been at heightened levels, we are pleased to report all strategies remain intact within their stated risk corridors. Our more recent move to reduce fixed income duration has protected investors, likewise the higher US dollar weighting and allocation to gold have provided some buoyancy. Our well diversified, global multi asset portfolios have performed well against a harsh and sudden backdrop. Cash levels remain around the 5% mark, and we will look to raise the weighting as and when positive news flow provides an opportunity. Selling equity into weakness crystallises value reduction for investors and pleases nobody, except dealers extracting their dealing fees.

Of course, we cannot sensibly predict the machinations of Mr Putin's mind and the irrational behaviour that may follow. Logically at least, we should hope and expect the Ukrainian conflict to end and the world to return to important matters of deleveraging with the "great normalisation", about which we penned a recent article, taking centre stage once more. As stated, we would expect to raise cash levels a little, rotate some equity exposure to UK and possibly Europe and consider a move along the yield curve to capture yield compression as economies retard. A slowing global economy withdrawing from the excess of liquidity fuelling very fast growth to overcome the shock of a pandemic is far more navigable for us all.

As ever we would like to thank you for your ongoing support. If you have questions or feedback, please do get in touch.

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