Quarterly Review

April 2022

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	Q1 2022	Return	Level
Equity	MSCI AW Index	-5.36%	368.19
	S&P 500 Index	-4.60%	4,530.41
	MSCI EM Index	-6.91%	1,141.79
	MSCI CH Index	-13.91%	522.02
	FTSE 100 Index	2.88%	7,515.68
Debt	BBARC GA Index	-6.16%	499.62
	US G2Y Index*	-2.64%	2.33%
	US G10Y Index*	-5.88%	2.34%
	US G30Y Index*	-6.47%	2.45%
Infrastructure	S&P GI Index	7.47%	6,552

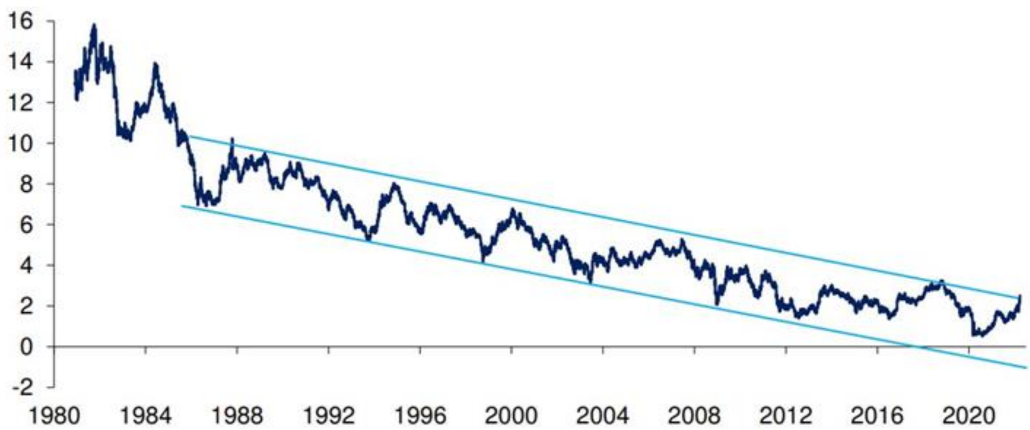
* TR on TSY futures

(Source: Morningstar 31 March 2022)

After an initial shock it is perhaps paradoxical that equity markets should rise during periods of war. However, this phenomenon is not unusual and has again repeated during the past month. The Russo-Ukrainian conflict of course has roots back to 2014 but Mr Putin's tanks rolled into Ukrainian territory during the early hours of February 24th. The S&P 500 index has climbed back within near sight of its all-time high following a much more turbulent beginning to the year. The VIX volatility index remained moderately subdued and has fallen back to much calmer levels. In our podcast #8 (available on our website) we discussed the importance of remaining invested which has certainly played out so far during the cycle. Alpha Beta portfolios have each remained within their stipulated risk corridors during the period – and in fact across all periods since launch, underscoring the Risk First nature of what we do. We remain hopeful resolution can be found quickly and of course our hearts go out to Ukraine and her brave people.

Economically speaking, inflation remains public enemy number one across major economies. An already developed squeeze in commodities has been exacerbated by geopolitical conflict giving rise to a cost-of-living crisis for many. Consumer discretionary goods and services are likely to witness the impact of public spending cutbacks and an economic slowdown following the central bank liquidity propelled tail end of the pandemic is undeniably underway. The US yield curve for

Figure 1: 10yr US Treasury yield downward trend channel since the mid-1980s



Source : Bloomberg Finance LP, Deutsche Bank

Date: 31 March 2022

treasuries with duration between 2 and 10 years is often considered a leading indicator to economic conditions 12-18 months or so ahead.

An inversion of this yield curve typically points to an economic slowdown and sometimes a recession. The yield curve inversion discussed took place during the latter part of the month. However, fixed income generally has endured a volatile start to the year with yields forced higher and capital values correspondingly lower, based upon the expectation for higher interest rates driven by inflation. A multi decade trend in falling bond yields could well be broken, as shown in the chart below with US treasury yields hitting 2.5%.

The Federal Reserve announced on March 16th that it would raise interest rates for the first time since 2018. Rates were raised 0.25% in response to rising inflation and undoubtedly have further to go with mortgages set to cost significantly more in time. Again, equities have been resilient in the face of central banks tightening monetary policy – which is not unusual during the early stages of an interest rate rising cycle. Our unhedged dollar exposure proving extremely beneficial as the de facto global reserve currency once again offered a solid haven. Interbank liquidity remains unruffled. As we know from the pandemic, equity markets are a remarkably efficient discounting mechanism. Currently markets have chosen to look through the present geopolitical conflict, discounting all but the most irrational behaviour of political leaders. Corporate earnings for many larger companies are higher today, some by as much as 25% and with considerable pricing power, than they were at the outset of the pandemic. However, the soon to unfold corporate earnings season where listed companies announce their latest profits will be fascinating, as indeed will the next set of announcements three months hence as consumers hold back from certain purchases. Central bankers have other tools at their disposal to reduce excess liquidity in economies, with quantitative tightening, or QT if you prefer, potentially able to play a role alongside higher interest rates. Care should be taken not to raise rates too high too soon and choke off growth aggressively as economies naturally retard, as set out earlier. There is scope for central bank policy error in this regard and we remain alert to early signals. Forecasters, including the independent Office for Budget Responsibility (OBR) here at home in UK maintain that inflation is due to fall back to long term trend levels beginning next year. Heightened wage settlements becoming embedded across economies run the risk of derailing this forecast.

Economic conditions coupled with a squeeze on real incomes leads us to instruct some modest equity reduction now and possibly with more to follow across portfolios. We believe now is time for some sensible housekeeping. There is still scope for equity upside, of that we have little doubt, but the risk reward balance has shifted. The Russian gas centric nature of Germany's and to an extent Italy's energy policy has been laid bare and presently the ECB has not turned from its course of euro printing despite record levels of inflation across the Eurozone. Elsewhere, the Bank of Japan is exercising so-called "yield curve control" by artificially holding back government bond yields from rising. This is understandable with the Bank of Japan's balance sheet at 130%+ of GDP, higher interest rates would prove painful to service. The yen has hit a 15-year low point. China's leaders have provided a verbal underpin to its stock market following recent unhelpful interventions and share prices rallied. This is a positive sign, and we keep our country allocation under constant review.

Portfolios have performed in line with our expectation and well relative to peers, now expanding beyond £1 billion assets under management – for which we thank you. Rest assured our focus and resilience remains undimmed as we enter the next transitionary phase towards the "great normalisation".

Written by the Alpha Beta Partners Investment Team.

Our Portfolio Returns

AB Core Performance %	Quarter to Date	Month to Date	Since Launch
AB1 Core	-2.35	1.27	3.59
AB2 Core	-2.59	1.92	4.84
AB3 Core	-2.29	2.92	6.09
AB4 Core	-1.45	4.33	7.71
AB5 Core	-1.63	4.55	7.73
AB6 Core	-1.06	4.85	7.40

Core Plus Performance %	Quarter to Date	Month to Date	Since Launch
Core Plus Cautious	-2.08	2.24	4.61
Core Plus Cautious Balanced	-2.56	2.49	5.54
Core Plus Balanced	-2.81	3.28	7.43
Core Plus Balanced Growth	-2.01	4.57	9.16
Core Plus Growth	-2.62	3.91	7.51
Core Plus Adventurous	-2.34	4.06	7.45

SRI/Ethical Performance %	Quarter to Date	Month to Date	Since Launch
SRI Defensive	-4.28	1.15	2.37
SRI Balanced Income	-4.17	1.86	3.87
SRI Balanced Growth	-7.33	3.41	6.87
SRI Adventurous	-9.54	3.03	9.17
Ethical Balanced Income	-4.51	1.75	3.59
Ethical Balanced Growth	-7.35	3.26	6.95

(Source: ABP and Morningstar, Date: 31 March 2022)

Contact: **Andrew Thompson**
Tel: 07968 934127
Email: at@alphabetapartners.co.uk

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Alpha Beta Partners Ltd.
Northgate House, Upper Borough Walls, Bath BA1 1RG
info@alphabetapartners.co.uk T 020 8059 0250