Cantab
ASSET MANAGEMENT

Investment Comment

05 May 2022

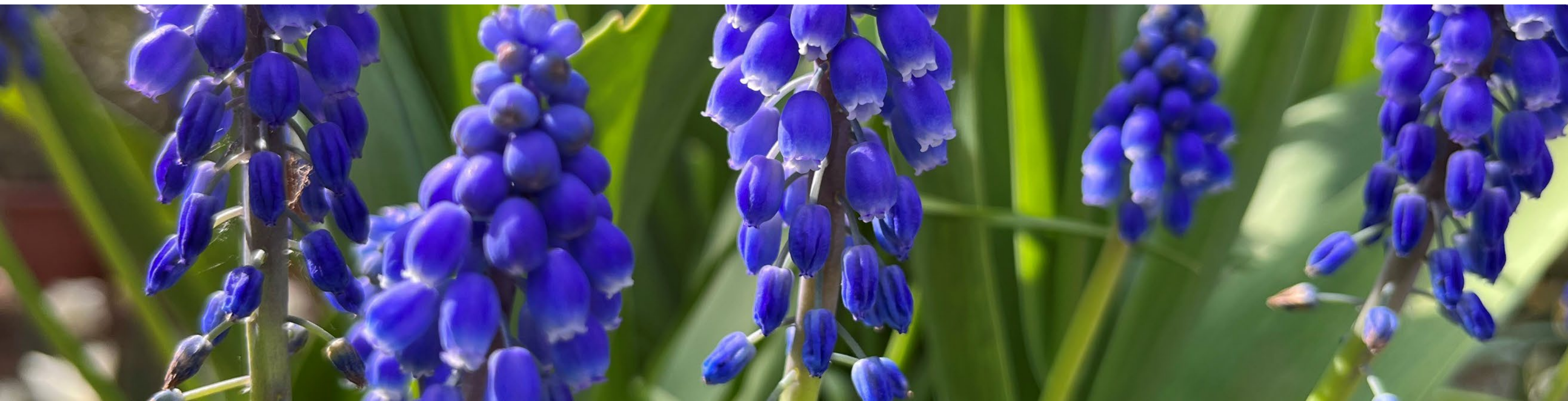
2022 has proven to be a difficult year so far for investors and April unfortunately followed this trend. The Russia-Ukraine war, lockdowns in China and Central Bank policy normalisation contributed to a 3.52% decline for global equities over the month, as measured by the MSCI ACWI. Bond market volatility also persisted, principally impacting longer-duration and higher quality assets.

The MSCI USA Index lost 4.66% in April, the largest monthly fall of all the major equity markets. Fears of an economic slowdown initiated a sell-off in US equities, which was then exacerbated at the month-end by lacklustre earnings from technology giants such as Amazon and Alphabet. Sentiment around the severity of the Federal Reserve's monetary tightening programme also changed dramatically over the month. The market is now pricing in three consecutive 50 basis point rate hikes as Federal Reserve Chair Jerome Powell increases efforts to address the 40-year high 8.5% inflation rate. This pushed US 10-year Treasury yields above 2.9% for the first time since December 2018, dragging down US bond markets but providing further support to the strengthening US dollar.

The MSCI Asia Pacific ex Japan and MSCI Emerging Markets Indices posted losses of 0.69% and 0.96%, respectively, in April. Chinese equities drove volatility in the indices as policymakers appeared to be prioritising the zero-Covid strategy over economic growth. Shanghai spent the whole of April in lockdown and there are fears that Beijing may follow suit as cases rise and mass-testing gets underway. A 'Living At Work' policy was even introduced by several firms to keep production running, with Tesla reportedly providing employees with sleeping bags and mattresses. Towards the month-end, monetary and fiscal support were pledged to help the country achieve its economic targets and maintain stable operations of capital markets. This prompted a strong market bounce, most pronounced in the technology sector. However, China's 5.5% 2022 growth target still looks ambitious given the virus spread, strict lockdown policy and interest rate rises in the US. Whilst the US dollar strengthens, the Chinese renminbi closed out its steepest relative monthly fall on record in April.

The MSCI Japan Index fell 4.36% over April, continuing a poor year for Japanese equities. The manufacturing and service sectors suffered over the first quarter of 2022 due to Covid restrictions, however daily cases are now coming down and restriction measures are easing. Japan maintained its ultra-loose monetary policy in April to address pandemic-driven weakness, with the Bank of Japan leaving the key short-term interest rate unchanged at -0.1% and vowing to keep bond yields "around zero". In a similar fashion to the Chinese renminbi, the Federal Reserve's aggressive monetary tightening caused the Japanese yen to fall to a 20-year low against the US dollar in April. A weakening yen combined with rising raw material costs puts pressure on the Bank of Japan to raise interest rates. Bank of Japan governor, Haruhiko Kuroda, has given no indication that this will happen.

European equities, as measured by the MSCI Europe ex UK Index, fell 1.83% in April. The month sadly concluded with fighting in eastern and southern regions of Ukraine intensifying, and no indication of a resolution to the war. As a result, European gas prices remain elevated, up over 40% year to date. Russia's state-controlled gas exporter, Gazprom, also suspended supplies to Poland and Bulgaria, adding to concerns that Russia is willing to cut its energy exports as a form of retaliation more broadly across Europe. This is likely to increase European countries' focus on energy security and has catalysed debate among EU nations as to proposed sanctions on Russian energy, with an embargo on Russian oil under discussion. In light of the wartime backdrop and clouded growth outlook, European Central Bank (ECB) policymakers left the -0.5% deposit rate unchanged in the April meeting. ECB President Christine Lagarde also chose not to bring forward the ending of net bond purchases despite headline inflation of 7.5%, warning of the risks of de-anchoring inflation expectations. Elsewhere in Europe, Emmanuel Macron's re-election as French President, defeating his far-right rival Marine Le Pen, was welcomed by European leaders and somewhat reassured investors.



UK equities posted a marginal gain over the month, with the commodity heavy MSCI UK Index rising 0.51%. At 3.8%, UK unemployment is now at its lowest level since 2019. However, UK consumer and business confidence indicators fell sharply in April as 7% inflation weighs on growth. Fuel costs are providing the most upward price pressure and inflation is expected to exceed 8% in the autumn when the energy price cap increases again. As a result of these soaring prices and the planned corporation tax rise in April 2023, the International Monetary Fund currently views the UK growth outlook as the weakest of the G7 nations. Uncertainty over the growth forecasts and how rapidly the Bank of England will raise interest rates to address inflation pushed 10-year Gilt yields above 2% at the month-end.

As parts of the world continue to wrestle a pandemic and Europe endures a devastating war, market volatility remains elevated and the global growth outlook uncertain. Commentators are viewing Monday 9 May as a potentially significant date in the context of the war. Known as 'Victory Day' in Russia, it commemorates the country's defeat of the Nazis in 1945, and provides a symbolic opportunity for Vladimir Putin to announce any developments in his "special military operation". We will be following any developments closely but continue to advocate remaining invested in your well diversified Cantab portfolios.

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