LONGLEY
ASSET MANAGEMENT

1Q 2022 Commentary

The financial markets have been volatile during the first quarter of this year. Initially this volatility was due to concerns over rising inflationary pressures as well as the ongoing uncertainty surrounding the potential negative effects on global economic activity from the Omicron variant of Covid, exacerbated by the ongoing shortages of various components required in manufacturing and technology sectors, as well as concerns around the speed and timing of the removal of the monthly stimulus provided by the Federal Reserve (Fed) at the start of the pandemic in 2020. In mid-February, geo-politics dominated the headlines, and the worries of a conflict between Russia and Ukraine became a shocking reality.

Concerns about economic growth in China remain, although there have been some recent signs of improvement and stabilisation in the key property sector. Lockdowns remain, though, in some of the largest Chinese cities due to surges in Covid cases, and these once again threaten global supply chains.

At one stage during the first quarter, global equities were down around 13%, but rallies in March meant that they finished the quarter down approximately 5.5%.

The pandemic's grip on economic and social activity is abating. Infection rates are still quite high in Europe, although most regions have reopened following some local restrictions, and it is hoped that the infection rates will fall during the warmer temperatures expected during the upcoming spring and summer seasons.

The vaccination programmes in developed countries have, on the whole, gone well. These, together with antiviral drugs, have helped to ease the strains on healthcare provision.

Global economic growth is expected to remain above the average of recent years in 2022, though, the war in Ukraine makes forecasting very difficult.

Energy prices have continued to rise sharply this year and food prices are likely to increase, particularly as both Russia and Ukraine are huge net suppliers of foodstuffs to the rest of the world. Consequently, inflation data is likely to remain elevated. Some additional supply of gas and oil is expected from OPEC and other suppliers, and this news has helped to ease the recent rate of price increases. Furthermore, investment into renewable and alternative energy sources will remain a key focus for Western governments, especially for those countries such as Germany which now no longer wish to be so dependent upon Russia for energy supplies.

To combat inflation, both the Bank of England and the Fed have recently raised interest rates and the Fed has telegraphed its intention to raise them further at regular intervals over the course of the year.

Despite all the concerns we have highlighted, investors clearly believe that recession risk remains low and financial markets have stabilised in the past few weeks. Certain regions such as Europe and the UK remain attractive from a valuation perspective – although Europe's economy would be negatively affected by a protracted conflict in Ukraine. The global economic recovery is driving earnings higher, and thus should be supportive to both UK and international equities.

The rotation out of growth sectors into value sectors has gathered momentum during the course of the first quarter, partly driven by the indication from central banks to remove their expansionary monetary policies, which were adopted to boost economic activity, with a rapid imposition of restrictive policy. Growth stocks, and in particular technology shares, are, though, more attractive now than they were at the beginning of the year, so we like to position client portfolios with exposure to a mix of such investment styles.

There of course remains the possibility for bouts of volatility in financial markets, and we will remain vigilant to news-flow.

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