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Global Market Overview
January 2022

As we enter 2022, the impact of COVID-19 continues to be felt across global markets. Earlier this month, global stock markets fell in response to the fast-spreading Omicron variant. Additional concerns that rising inflation will lead to faster hikes in interest rates, along with a quicker pace in the removal of central bank stimuli, simply added to volatility. It is clear that the uncertainty surrounding the impact on global economic activity from the virus, and the effect the virus has had on global supply chains, will not evaporate overnight. Consequently, the shortages of various components required in manufacturing and technology sectors will not end soon; these factors will continue to fuel inflation and they simply confirm our earlier view that inflation is currently structural in nature, rather than temporary. We do, however, see tentative signs that inflationary pressures are beginning to moderate, and we anticipate that policy responses, such as additional interest rate increases, will be flagged well in advance.

Within the US market, we have recently seen some intensive selling pressure in the more speculative areas of the market, such as non-profitable technology companies, and there has been a general rotation away from more mature growth companies. The Federal Reserve has telegraphed its intention to reduce the stimuli it has provided since the start of the pandemic, and also to raise rates slightly over the course of the coming year. Nevertheless, overall financial conditions within the US remain extraordinarily accommodative and will remain so for some time. Accordingly, we believe that curated investment opportunities will remain available within the US stock market for a while longer yet.

The pandemic's grip on economic and social activity within western economies is slowly abating, although we are again experiencing local restrictions – and even lockdowns – in some European countries. Inevitably, the return of restrictions has increased concerns about economic activity in those affected regions, but we anticipate this simply means that Europe's full recovery will be slightly delayed. We anticipate its economies will continue to do well as they rebound fully from the pandemic, and, despite the most recent headwinds, continental European stock markets reached new highs in recent weeks.

Concerns further afield include falling economic growth in China where, recently, government intervention has created investor nervousness. In particular, the education and construction sectors have suffered markedly. As a result, Chinese equities have struggled and, in turn, they have generally dragged down regional emerging markets. We believe, however, that plenty of potential longer-term opportunities in China remain, especially in areas more aligned with the government's strategic priorities such as artificial intelligence, quantum computing, and biotechnology. Policymakers will no doubt be keen to keep the economy on track, and recently there have been signs that China's monetary policy is likely to get looser in 2022, which is at odds with the clearly-flagged intentions from US and UK central banks.

During the pandemic, 'old-world' sectors such as financials and, most especially, 'old' energy stocks have been largely overlooked. The pace of change towards cleaner energy sources has led to a deficit of investment within certain sectors, and possibly too much enthusiasm for those stocks with high environmental scores; these incongruences have exacerbated the current energy price pressures but, ironically, could also offer some valuable investment opportunities in the coming year as investors seek out better value. The UK's primary stock index is well placed to benefit from any increased favour towards 'value' stocks.

The potential for significant volatility within markets is high, especially as retail ownership of stock markets is at a record high. Many fixed interest securities (bonds) are priced for perfection, and some sectors within equity markets are richly valued; accordingly, policy makers are expected to make changes slowly as they will be keen to avoid any potential for moral hazard, and this could also result in a rerun of the exceptional volatility we experienced in the final quarter of 2018. Last year was undoubtedly an exceptional year for global growth, and stock markets responded in kind. We anticipate that global growth will continue in 2022, albeit at a slower pace, and both equities and carefully selected bonds have, historically, been proven to provide relatively good returns under various inflationary environments.

Despite all the concerns we have highlighted, investors clearly believe that recession risk remains low, and regions such as Europe and the UK remain attractive from a valuation perspective. In the light of a surge in global capital expenditure, as well as broadly robust household balance sheets, we think it is sensible to retain exposure to the US market and to other international equities. Undoubtedly, however, the need for bottom-up, fundamentally-driven, active selection within investments is, we believe, now more important that it has ever been. As ever, we will remain vigilant to newsflow and will continue to take appropriate action as required in relation to portfolio investments.

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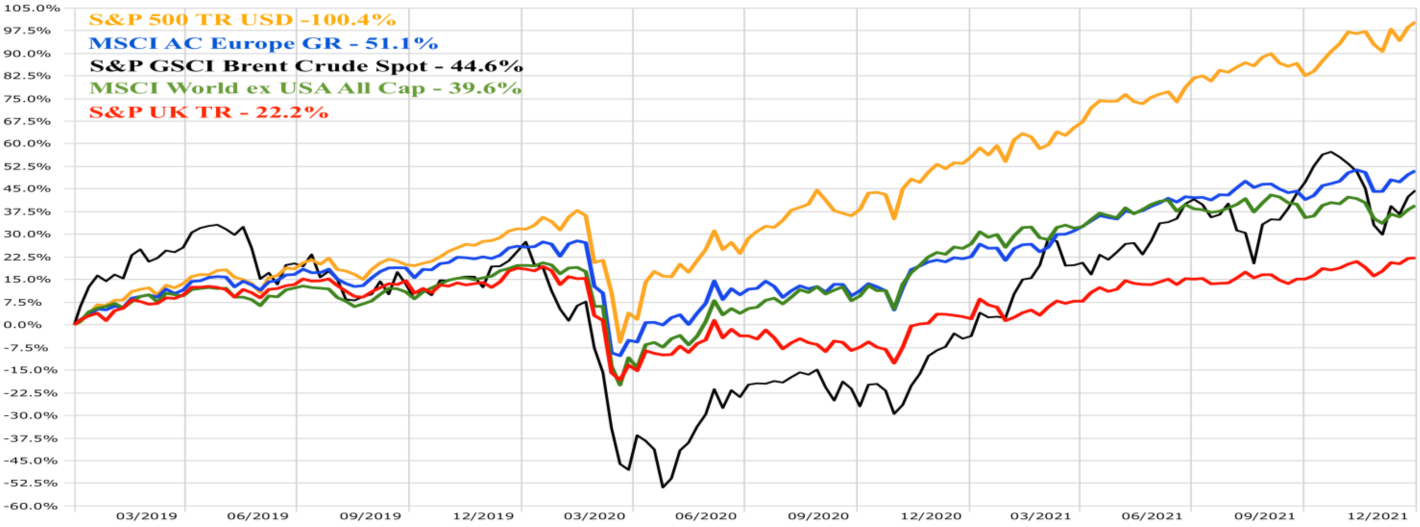
Three Years to end December 2021 — percentage price/return



Index, Benchmark and Exchange Traded Fund — percentage growth to end December 2021

	Currency	Three Months	Six Months	One Year	Three Years
Fixed Interest/Bonds					
Bloomberg Global High	GBP Hedged	-0.48	-0.39	2.23	18.38
Bloomberg Sterling Gilts	GBP	2.53	0.57	-5.27	10.52
Bloomberg US Treasury	USD	0.01	0.02	0.05	3.12
US Equities					
S&P 500 TR	GBP	10.53	13.90	29.89	88.41
S&P 500 TR	USD	11.03	11.67	28.71	100.37
NASDAQ 100 TR	USD	11.28	12.50	27.51	164.73
UK Equites, and RPI					
S&P UK TR GBP	GBP	5.20	7.41	19.77	22.17
iShares MSCI UK Small	GBP	0.73	3.37	13.92	39.18
UK RPI				6.40	10.05
Japanese Equities					
Nikkei 225 Average TR	Yen	-2.08	0.85	6.66	52.27
TOPIX 500 PR	Yen	-1.62	2.63	10.56	34.27
European Equities					
iShares STOXX Europe	Euro	7.77	8.64	25.29	56.89
MSCI AC Europe GR	Various	6.18	7.17	23.24	51.06
Asia, and Emerging					
Morningstar Asia GR	GBP	-2.62	-3.57	0.25	32.84
iShares Core MSCI	GBP	-0.79	-8.60	-0.64	37.98
Morningstar China GR	GBP	-6.26	-20.76	-20.37	19.85
Morningstar India GR	GBP	-0.35	14.81	31.78	54.41
Global Equities					
MSCI World Value PR	Various	7.07	6.21	21.52	35.28
MSCI World All Cap PR	Various	7.06	7.12	21.74	69.47
MSCI World ex USA All	Various	3.40	4.22	16.52	37.87
Global Property, and					
S&P Global Property TR	USD	8.51	7.68	22.63	39.97
Morningstar Gbl Eq Infra	USD	7.62	4.73	14.66	41.03
Commodities					
S&P GSCI Copper Spot	USD	8.98	3.93	25.48	63.20
S&P GSCI Brent Spot	USD	-0.68	4.23	50.15	44.57
S&P GSCI Gold Spot	USD	4.08	3.22	-3.51	42.71
Asset Risk Consultants					
ARC Cautious PCI TR	GBP	1.31	1.70	4.09	17.18
ARC Balanced Asset PCI	GBP	2.52	3.35	7.90	25.75
ARC Steady Growth PCI	GBP	3.23	4.47	10.76	33.18
ARC Equity Risk PCI TR	GBP	3.94	5.32	13.32	41.54
ARC Cautious PCI TR	USD	1.29	0.96	2.78	19.65
ARC Balanced Asset PCI	USD	3.20	2.26	7.30	34.19
ARC Steady Growth PCI	USD	4.62	3.59	11.39	47.55
ARC Equity Risk PCI TR	USD	5.64	2.57	11.75	60.22