

Global Matters | Monthly

Market Update

May 2022

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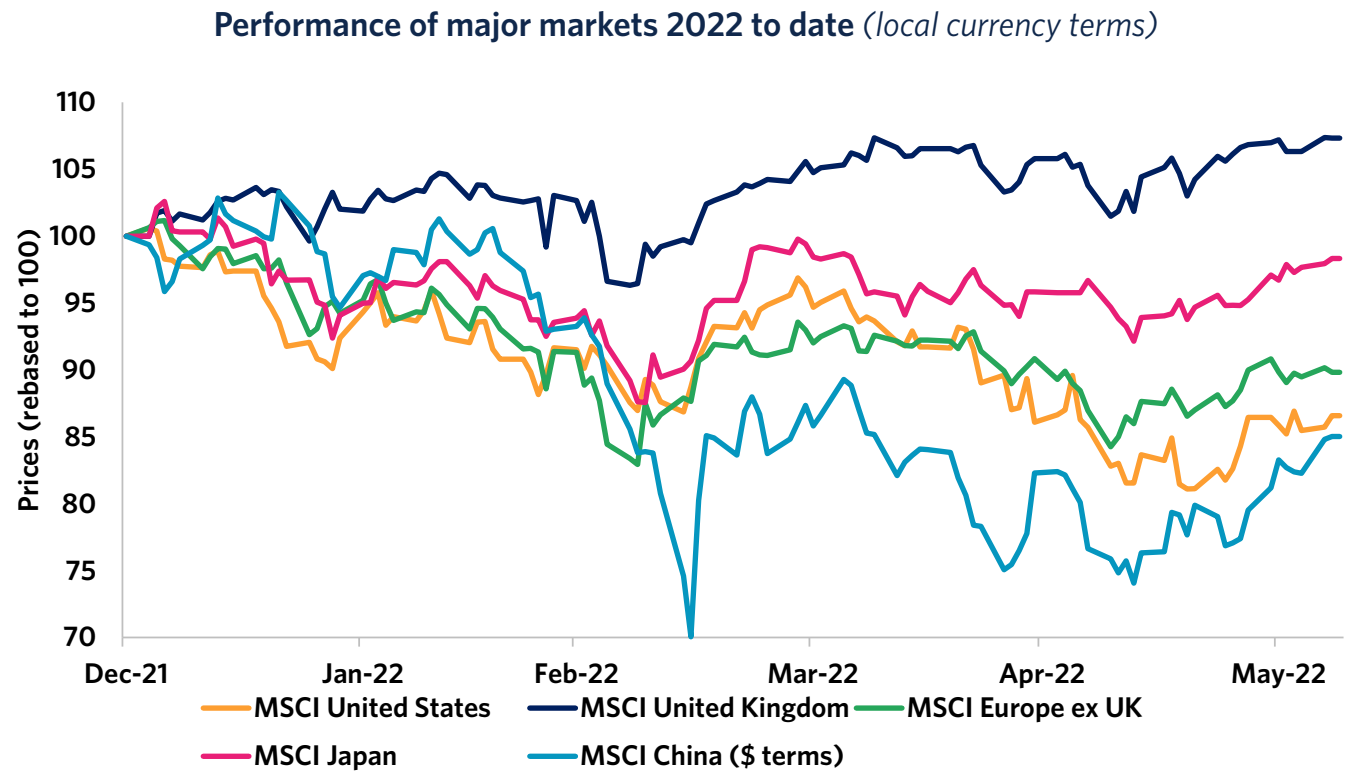
Global Market Review & Outlook

"The stabilisation of markets in May is welcome, but the outlook remains extremely uncertain"

The brutal sell-off in markets this year finally stabilised during May, although the rally was by no means uniform, and investor sentiment remained nervous in the face of intense uncertainties about inflation, growth, and the unfolding impact of the war in Ukraine. No single catalyst triggered the rally, rather a combination of factors: signs of a consumer squeeze and economic slowdown ahead, leading to a sense that inflation is nearing a peak and the Fed's hawkish policy shift could be enough to bring it under control; improved valuations leading to some dip-buying and a short squeeze in some of the big tech stocks which have been hammered this year; a weaker dollar; and China's support for its ailing economy and loosening of covid restrictions in major cities.

The rally was led by US bonds, which had suffered their worst start to a year in decades. Yields on 10-year US Treasuries peaked at 3.12% on 6th May, fell

back to 2.75% before ending the month at 2.84%, slightly lower than at the end of April, delivering a return for US Treasuries of 0.2% in May. Higher risk appetite produced better returns from investment grade corporate bonds, 0.9%, and emerging market debt, 1.2%, and this fed into equities. By the third week of May, the S&P 500 had fallen over 5% from the end of April (taking its drop from the peak at the beginning of the year to 19%), but by month end the falls had been recovered, leaving the market up 0.1% in May. Growth stocks have been the biggest fallers in this bear market, their higher valuations being most vulnerable to the sharp upward re-pricing of interest rates, and this pattern continued. From peak levels to the May trough the Nasdaq and FANGs indices had fallen by 30% and 41% respectively, before sharp rallies of 7% and 12% respectively recovered much of the ground lost earlier in May, leaving them down for the month by 1.5-2%.



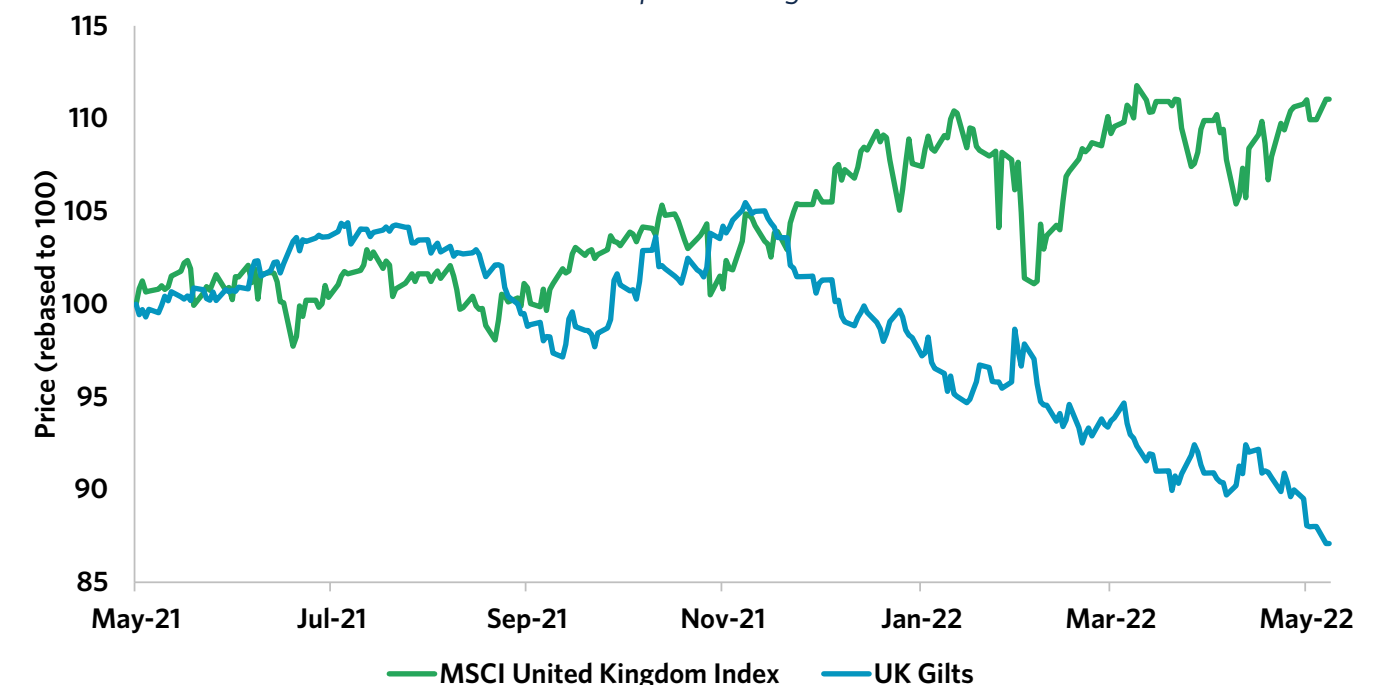
Sources: Momentum Global Investment Management, Bloomberg Finance L.P.

“The broad pattern of markets has been similar to the US, but European bond markets underperformed, being more exposed to the inflationary impact of the Russian war, and reacting to an increasingly hawkish shift by the ECB”

The broad pattern of markets elsewhere was similar to the US, but European bond markets underperformed, being more exposed to the inflationary impact of the Russian war, and reacting to an increasingly hawkish shift by the European Central Bank (ECB). Euro government bonds returned -1.9%, while UK gilts delivered -3.0%, both markets also hampered by the very low absolute level of yields and the continuing overshoot of inflation versus expectations. In equities, Japan and the UK continued their outperformance, up in local currency terms by 0.8% and 1.4% respectively,

taking their returns year-to-date to -2.8% and 7.0%, well ahead of the US, -12.9%. Japan and the UK have been supported by significantly lower valuations than the US and, in the case of the UK, by the composition of the market, with some 40% of the UK stock market capitalisation in the biggest beneficiaries of the current environment, energy, mining and financials. The underperformance of UK gilts versus equities over the past six months is extreme and extraordinary in light of the tough market conditions and investor risk aversion.

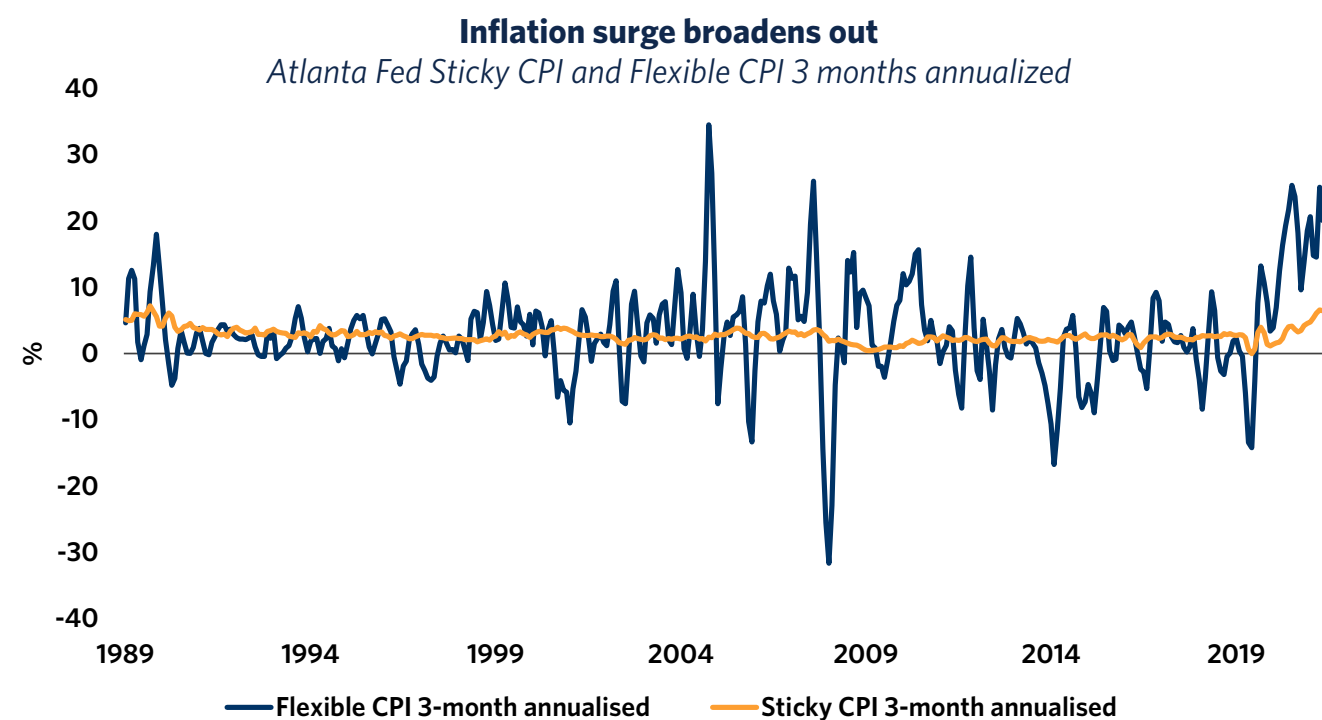
UK bonds crash – UK equities and gilts over 12 months



Sources: Momentum Global Investment Management, Bloomberg Finance L.P.

The squeeze on consumer incomes from the rise in energy and food prices has begun to show through in falling consumer sentiment and reduced discretionary spending, reflected in profit warnings by US retail giants Walmart and Target, while there is early evidence of a slowdown in the US housing market in the face of the highest 30-year mortgage rates since 2009. Existing home sales fell by 2.4% month-on-month in April, the third consecutive month of declines, while new home sales fell by 16.6%, the fifth month of declines. Forward indicators of activity across the economy more broadly also point to slower growth ahead, with Purchasing Managers' Indices slipping in the US, Europe and Japan, although still above the 50 threshold between expansion and contraction.

Inflation showed some signs of peaking; US CPI fell to 8.3% in April from 8.5% in March, with the surge in commodity prices at the outbreak of war in Ukraine beginning to abate, with the notable exception of crude oil, which rose a further 12% in May, taking its year-to-date gain to 58%. But underlying the headline inflation figure was a broadening out of price pressures. Services inflation continued to rise, now at 5.4%, while the Sticky-Price CPI produced by the Atlanta Fed, a weighted basket of items that change price relatively slowly, was up 0.6% in April, and 6.5% annualised over the last three months, taking its year-on-year rise to 4.9%, a forty-year high. The Flexible CPI, with items that change price frequently, fell in April by 0.3%, but is still up by 18% year-on-year.



Source: Federal Reserve Bank of Atlanta, Momentum Global Investment Management

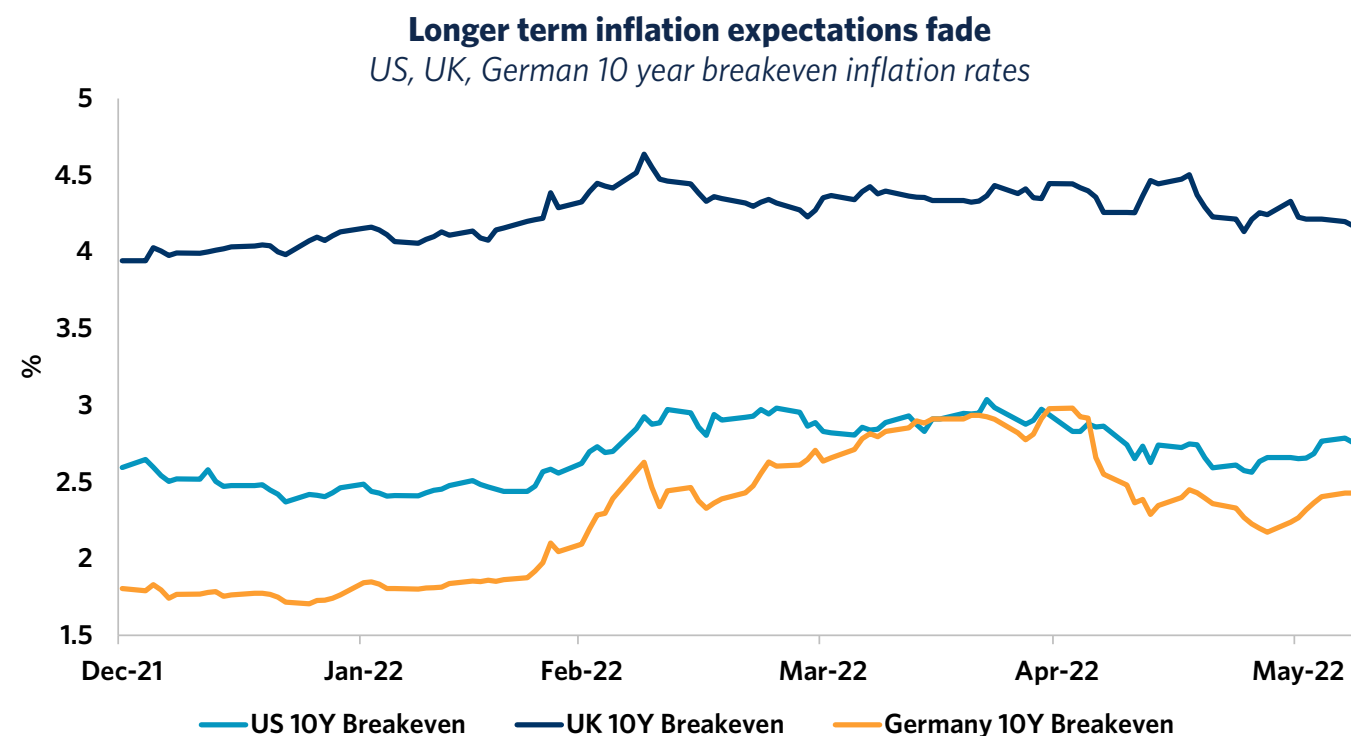
The surge in energy and food prices triggered by Russia's invasion of Ukraine was an exogenous shock that could not have been foreseen, but central banks plainly misjudged the broadening and persistence of inflation now evident. Policy catch-up is underway in earnest, with many central banks around the world shifting rapidly to aggressive tightening. The Fed has led the way, with a rate rise of 50bps in May, the first of this size since 2000, and signalling two further 50bps rises in its next two policy meetings, with more rises to follow and probably taking its policy rate above neutral of around 2.5%. It has also brought forward its plans to remove liquidity from the financial system, with quantitative tightening beginning in June at the rate of \$47.5bn per month, before moving to \$95bn per month within three months. This means it will be running off its huge balance sheet of Treasury holdings and mortgage-backed securities at an annualised rate of over \$1tn, a liquidity drain that is only just beginning.

The ECB has also become increasingly hawkish, and signalled an end to its huge asset purchase programme along with its first interest rate rise in July, and an end to negative policy rates during the third quarter. Although, unlike the Fed, the ECB intends to continue to reinvest principal from maturing bonds, the end of net purchases removes a huge buyer from the market: in April the ECB invested a net EUR40bn, and in May EUR30bn, in eurozone bonds.

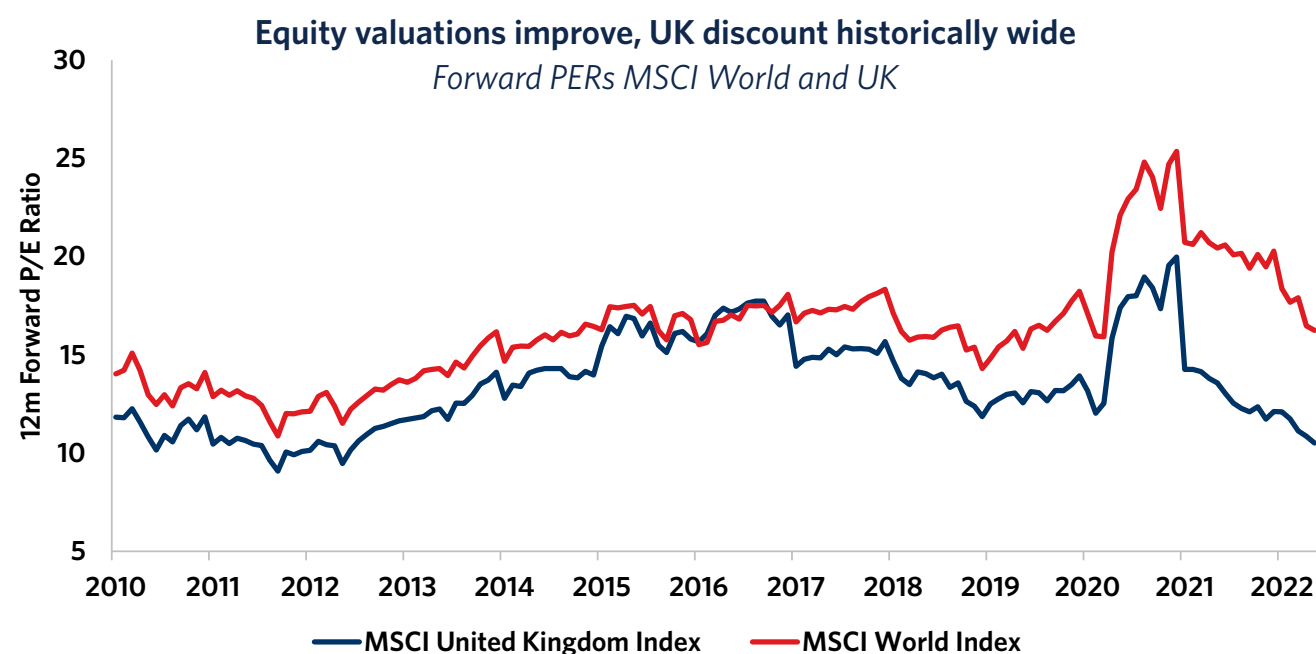
Whereas the Fed's policy moves in May had been well flagged and were much in line with expectations, the ECB has been later to respond to the inflationary surge, becoming much more hawkish only recently. The market's implied policy rate for year-end in the US of 2.74% was slightly lower over the month, suggesting that much has been discounted, while expectations for year-end euro policy rates doubled during May to 0.6%. This move was reflected in bond yields; US 10 year yields fell by 9bps, those in Germany rose by 20bps. The narrowing of the yield differential helped the euro to recover by close to 2% against the dollar and finally triggered a setback in the dollar's trade weighted index, which had risen in an almost unbroken line by 17% over the preceding 12 months.

The certainty of progressively tighter policy ahead, together with signs of slower growth and peak inflation, led to a decline in inflation expectations. The 10-year breakeven inflation rate in the US fell from 2.94% to 2.65% over the month, resulting in negative returns from inflation protecting assets such as US TIPs and gold, down 1.2% and 3.1% respectively. These remain important defensive diversifiers in our portfolios, safe-haven assets with inflation protecting characteristics.

'Inflation showed some signs of peaking; US CPI fell to 8.3% in April from 8.5% in March'



An important exception to the widespread policy tightening has been China. Strict Covid lockdowns have pushed the economy into recessionary conditions, not dissimilar to March 2020, with industrial production and property investment both down close to 3% in April, and retail sales down 11%. This is clearly worrying the authorities, with growth likely to be well below the 5.5% target for this year, and policy has responded accordingly. The People's Bank of China (PBoC) lowered key interest rates in May and the government offered tax relief to companies and consumers. The key to recovery, however, will be the ending of Covid restrictions, and here there was progress in May, as restrictions began to be progressively eased. The reopening should help to ease supply chain issues, although also creating higher demand for resources, but on balance is likely to be a positive development for the global economy as the developed world enters an increasingly difficult environment for growth. China's equity market, which collapsed by 54% from its peak in February 2021 to its trough in March 2022, has responded positively to looser policy and the prospect of a post-lockdown growth recovery, and has rallied by 19% from its low, albeit still 45% lower than 15 months ago.



Sources for charts above: Momentum Global Investment Management, Bloomberg Finance L.P.

The stabilisation of markets in May is welcome, but the outlook remains extremely uncertain. The war in Ukraine has all the signs of being attritional and long; the longer it goes on the higher is the risk of escalation, and the greater the damage globally to food and energy supplies. While central bank policy tightening is now well flagged and at least in part discounted by markets, the bulk of the tightening probably lies ahead, in particular the withdrawal of liquidity is only now beginning. Economic growth is expected to slow and inflation should peak in coming months but the timing, pace and extent of these shifts is highly uncertain. This is likely to be reflected in markets, with further periods of high volatility, but as we move through the second half of the year some of these clouds should clear. Markets have already corrected materially from peak levels and valuations are significantly more attractive as a result. With careful diversification, we believe it is important to ride out the short-term volatility and stay invested for the longer-term opportunities being presented.

“With careful diversification, we believe it is important to ride out the short-term volatility and stay invested for the longer-term opportunities being presented”

Market Performance - *Global (local returns) as at 31 May 2022*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	0.1%	-5.3%	-12.9%	-0.7% ^e
United Kingdom	MSCI UK NR	GBP	1.4%	4.1%	7.0%	15.4%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.1%	-1.6%	-10.2%	-0.9%
Japan	Topix TR	JPY	0.8% ^e	2.6%	-2.8%	1.8% ^e
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.2%	-5.7%	-10.5%	-18.9%
Global	MSCI World NR	USD	0.1%	-5.7%	-13.0%	-4.8%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-1.6%	-55.4%	-74.3%	-74.0%
Emerging Asia	MSCI EM Asia NR	USD	0.4%	-7.7%	-13.0%	-22.0%
Emerging Latin America	MSCI EM Latin America NR	USD	8.2%	6.4%	19.8%	3.8%
China	MSCI EM China NR	USD	0.0%	-10.1%	-17.2%	-29.8%
BRICs	MSCI BRIC NR	USD	1.2%	-10.7%	-16.7%	-35.9%
Global emerging markets	MSCI Emerging Markets NR	USD	0.4%	-7.3%	-11.8%	-19.8%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.2%	-5.8%	-8.0%	-7.1%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.2%	-5.2%	-6.6%	-1.8%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.9%	-7.0%	-11.9%	-10.3%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.2%	-4.4%	-8.0%	-5.3%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-3.0%	-7.8%	-12.8%	-11.7%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.4%	-5.3%	-10.0%	-9.8%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.9%	-7.8%	-10.6%	-10.6%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.2%	-5.1%	-8.7%	-8.9%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-1.2%	-4.0%	-8.1%	-7.3%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.2%	-0.8%	-2.1%	-2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	-1.1%	-6.7%	-8.9%	-9.0%
Global Government Bonds	JP Morgan Global GBI	USD	0.0%	-8.8%	-11.4%	-13.8%
Global Bonds	ICE BofAML Global Broad Market	USD	0.2%	-8.3%	-11.5%	-13.6%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-2.5%	-9.0%	-14.7%	-15.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.2%	-7.6%	-21.2%	-21.6% ^e

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-6.2%	-4.7%	-14.2%	2.8%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-8.7%	-7.2%	-15.3%	-0.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	0.4%	-2.9%	-3.0%	-12.6%
Global Property Securities	S&P Global Property USD TR	USD	-4.3%	-5.5%	-12.3%	-4.7%
Currencies						
Euro		USD	1.8%	-4.3%	-5.6%	-12.2%
UK Pound Sterling		USD	0.2%	-6.1%	-6.9%	-11.3%
Japanese Yen		USD	0.8%	-10.7%	-10.6%	-14.9%
Australian Dollar		USD	1.6%	-1.2%	-1.2%	-7.2%
South African Rand		USD	1.1%	-1.8%	1.9%	-12.2%
Commodities & Alternatives						
Commodities	RICI TR	USD	2.4%	15.9%	35.9%	55.0% ^e
Agricultural Commodities	RICI Agriculture TR	USD	-2.1%	9.5%	21.2%	37.2% ^e
Oil	Brent Crude Oil	USD	12.3%	21.6%	57.9%	77.2%
Gold	Gold Spot	USD	-3.1%	-3.8%	0.4%	-3.6%
Hedge funds	HFRX Global Hedge Fund	USD	-1.1% ^e	-1.5% ^e	-3.3% ^e	-3.0% ^e
Interest Rates			Current Rate			
United States			1.00%			
United Kingdom			1.00%			
Eurozone			0.00%			
Japan			-0.10%			
Australia			0.35%			
South Africa			4.75%			

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
e=estimate

Market Performance - UK (all returns GBP) as at 31 May 2022

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	1.4%	4.1%	7.0%	15.4%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.5%	7.4%	13.9%	22.4%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-4.0%	-8.7%	-17.5%	-11.0%
UK - Small Cap	MSCI Small Cap NR	GBP	-1.5%	-4.2%	-14.8%	-13.5%
United States	S&P 500 NR	USD	-0.2%	0.5%	-6.6%	11.7% ^e
Continental Europe	MSCI Europe ex UK NR	EUR	0.3%	0.0%	-9.2%	-2.1%
Japan	Topix TR	JPY	1.4% ^e	-2.5%	-6.9% ^e	-2.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.1%	0.0%	-4.0%	-8.7%
Global developed markets	MSCI World NR	USD	-0.3%	0.0%	-6.7%	7.1%
Global emerging markets	MSCI Emerging Markets NR	USD	0.1%	-1.6%	-5.4%	-9.8%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-3.1%	-8.1%	-13.1%	-11.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.1%	-1.0%	-1.7%	-2.7%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-1.1%	-4.8%	-7.8%	-8.2%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-6.5%	-14.1%	-22.1%	-19.1%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-7.9%	-16.3%	-18.9%	-13.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-2.8%	-6.4%	-5.7%	-0.3%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-11.5%	-22.7%	-26.7%	-21.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.4%	-5.3%	-10.0%	-9.8%
US Treasuries	JP Morgan US Government Bond TR	USD	-0.1%	0.3%	-1.1%	4.8%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.5%	-1.0%	-5.3%	1.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.2%	-4.4%	-8.0%	-5.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.9%	-7.8%	-10.6%	-10.6%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.2%	-5.1%	-8.7%	-8.9%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-1.2%	-4.0%	-8.1%	-7.3%
Global Government Bonds	JP Morgan Global GBI	GBP	-0.3%	-3.2%	-5.0%	-3.0%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.2%	-8.3%	-11.5%	-13.6%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-2.5%	-9.0%	-14.7%	-15.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.9%	-1.9%	-15.5%	-11.8% ^e

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-4.7%	0.3%	-5.9%	7.3%
Currencies						
Euro		GBP	1.6%	1.9%	1.2%	-1.0%
US Dollar		GBP	-0.2%	6.5%	7.3%	12.8%
Japanese Yen		GBP	0.6%	-4.8%	-4.0%	-4.0%
Commodities & Alternatives						
Commodities	RICI TR	GBP	2.1%	23.0%	45.8%	74.3% ^e
Agricultural Commodities	RICI Agriculture TR	GBP	-2.4%	16.2%	30.0%	54.4% ^e
Oil	Brent Crude Oil	GBP	12.0%	29.1%	69.4%	99.5%
Gold	Gold Spot	GBP	-3.5%	2.1%	7.7%	8.5%
Interest Rates			Current Rate			
United Kingdom			1.00%			

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
e=estimate

Asset Allocation Views

Main Asset Classes	Change	Negative	Neutral	Positive
Equities	-	○ ○	●	○ ○
Fixed Income	-	○ ●	○	○ ○
Alternatives	-	○ ○	○	● ○
Cash	-	○ ○	○	● ○

Our Overall View

We continue to favour equities over fixed income in recognition of their leverage to post covid growth. Despite the recent sharp repricing, most fixed income remains expensive in real terms today but pockets of value remain. Alternatives are attractive for their diversifying qualities as much as the return potential, while cash offers increasing return and optionality in the event of market weakness.

EQUITIES	Change	Negative	Neutral	Positive
Developed Equities	-	○ ○	●	○ ○
UK Equities	-	○ ○	○	● ○
European Equities	-	○ ○	●	○ ○
US Equities	-	○ ●	○	○ ○
Japanese Equities	-	○ ○	○	● ○
Emerging Market Equities	-	○ ○	●	○ ○

Equities offer the potential for decent returns as the global economy continues to recover. Financial conditions remain loose in aggregate and central bank support, excess savings and residual pent-up consumer demand should support equities. The UK continues to trade at a discount and is well positioned sectorally to benefit from the economic recovery. We also favour Japan on valuation grounds and for the accompanying Yen exposure. European equities have cheapened but rising fundamental risks caution against increasing today.

FIXED INCOME	Change	Negative	Neutral	Positive
Government	-	● ○	○	○ ○
Index-Linked	-	○ ●	○	○ ○
Investment Grade Corporate	-	○ ●	○	○ ○
High Yield Corporate	-	○ ○	●	○ ○
Emerging Market Debt	-	○ ○	●	○ ○
Convertible Bonds	-	○ ○	●	○ ○

Bonds remain expensive today despite sovereign yields having moved meaningfully higher over the quarter, retreating only for a few weeks post Russia's invasion of Ukraine before reasserting the rising trend. Inflation linked bonds have marginally better prospects, but their anticipatory inflation protection has been mostly used up. We remain fundamentally constructive on corporate credit but valuation headwinds meaner higher yielding, short duration bonds are preferred. Convertibles play an important role in multi-asset portfolios and look fair value today.

REAL ASSETS / ALTERNATIVES	Change	Negative	Neutral	Positive
Commodities	▼	○ ○	●	○ ○
Property	-	○ ○	●	○ ○
Infrastructure	-	○ ○	○	● ○
Liquid Alternatives	▲	○ ○	○	● ○
Private Equity	-	○ ○	○	● ○

Real assets look attractive on both fundamental and valuation grounds, with a bias to infrastructure assets which ultimately should benefit from government policy initiatives. Investors are paid well to wait, and the diversifying qualities, also offered by the more esoteric liquid alternatives allocation, is attractive today in a world of expensive bonds. The backdrop of supply chain disruption and buoyant consumer demand is likely to support commodity prices in the near term.

CURRENCIES vs. USD	Change	Negative	Neutral	Positive
GBP	▲	○ ○	○	● ○
EUR	-	○ ○	●	○ ○
JPY	-	○ ○	○	● ○
Gold	-	○ ○	○	● ○

Sterling and Yen are mildly favoured following their recent sharp repricing lower, and the latter's (usually) diversifying qualities retain some added portfolio attractiveness. The Euro may continue to struggle in the face of higher relative rate expectations. Gold has inflation protection qualities vs. the fiat currencies, plus haven qualities that are attractive today.

“We continue to favour equities over fixed income in recognition of their leverage to post Covid growth”

The Asset Allocation views are as of March 2022 and are updated quarterly unless otherwise stated.

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Important Notes

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