RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

January 2022

Market overview

Markets declined sharply in January as concerns over potential central bank policy tightening and the Russia/Ukraine tensions weighed heavily on sentiment. Developed market equities fell over 5%, however there was a huge dispersion of returns across sectors with 'growth' stocks taking the brunt of the sell off, particularly those companies trading on elevated valuations and companies perceived as vulnerable to a potentially higher cost of borrowing. The declines did extend more broadly across indices, however the 'value' side of the market proved far more resilient, particularly sectors that are perceived as being beneficiaries of a higher interest rate environment such as financials. Commodities performed well with supply shortages and the prospect of Russian sanctions driving the price of natural gas sharply up and the oil price to an eight-year high.

These dynamics also drove some big disparities in regional market returns, with the technology heavy US market badly impacted while the FTSE 100 Index was relatively strong given its heavy weighting in financials and resources.

Emerging markets also fell in January (-2.1%) albeit they outperformed their developed market counterparts with the strongest returns being seen from oil exporting countries. Data coming out of China is mixed, with exports strong but real GDP growth continuing to decline. In contrast to much of the developed world some loosening of policy in China is widely anticipated to re-energise the economy and has already been signalled by policy makers.

Inflationary concerns and expectations of additional rate hikes drove global sovereign bond yields higher and capital values down 2% over the month. The yield on the ten-year Treasury bond rose from 1.51% to 1.78% while the ten-year Gilt yield rose from 0.97% to 1.31%.

On a more positive note, recent earnings data from the US has been encouraging and earnings growth expectations for the next couple of years look healthy at around 8%. It also looks increasingly the case that the economic impact of the Omicron variant will be more muted and more temporary than first feared.

Strategy positioning

January has certainly been quite a dramatic month for markets; however the economic and corporate backdrop has not changed in a way that alters our constructive view on equities – the strategies remain at the upper end of their corresponding Dynamic Planner risk profile. There are clear policy and geopolitical risks ahead, however earnings growth looks well supported and the challenge of finding above-inflation returns should continue to lead investors towards equity markets. Several of the active underlying managers have used the word 'indiscriminate' when talking about the market sell off over the month and have been treating it as a buying opportunity to add to favoured positions.

Our defensive bond positioning, focused on inflation linked and absolute return strategies, continues to work well as government bond yields rise. Our market neutral 'alternative' funds are also again proving their worth in a period of weakness for both equities and fixed income and remain integral in our approach to constructing well diversified multi-asset portfolios for clients.

Risk warnings