RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

March 2022

Market overview

Global developed equity markets rallied 2.5% during March, recovering some of the losses seen earlier in the quarter, in what has proved to be a difficult period for markets. There was significant disparity in regional market returns, with the US market gaining over 3% and continental European markets falling. Growth outperformed value in a reversal of the style trend seen so far this year. Emerging market equities declined 2% over the month, dragged down by China where renewed virus restrictions added to existing regulatory and property market concerns.

In a widely anticipated move, the US Federal Reserve raised rates (by 0.25%) for the first time since 2018 as it looks to address the current inflationary pressures. Expectations around the trajectory of future rate hikes continue to rise, and global bond yields rose again over the month – the Global Aggregate Index, a measure of global investment grade bonds, has now fallen over 6% this year. In the UK, the Office for Budget Responsibility's latest forecast suggests that inflation might peak at close to 9% before falling back into next year. Market attention globally remains firmly focused on the extent to which central bank policy is likely to be centred on combating these heightened levels of inflation versus supporting potentially fragile economic growth.

The conflict in Ukraine is having a profound effect on energy prices, and in turn on inflation, given Russia's importance as a provider of oil and gas. Food and other commodity prices have also been significantly impacted as markets try to assess potential further supply disruption caused by the conflict and the array of sanctions coming into force.

The US dollar strengthened by 1.7% over the month, which was a significant benefit for dollar-denominated assets, and we would expect its status as a global reserve currency to provide a layer of protection should we see future periods of weak sentiment.

Strategy positioning

Financial markets have experienced a nervy start to the year, with most asset classes being impacted by the reality of higher near-term inflation and a potentially altered path for interest rates. This uncertainty could continue to impact the pricing of risk assets in the near term, but we believe any such commodity-induced inflation spike could be relatively short-lived, as it has been in various previous energy-linked conflicts; central banks will be mindful of this. Therefore, the chances that monetary policy will drift significantly off the expected path are small but subject to change as the situation develops.

History would dictate that during these periods it is often best to sit tight in terms of headline equity exposure, as hopefully we will start to see some recovery soon from current depressed market levels. Therefore, we continue to maintain equity allocations at their current level, with the strategies remaining at the upper end of their corresponding Dynamic Planner risk profile. We have, however, altered underlying equity exposures, reducing the weighting to continental Europe – which is currently facing the brunt of the geopolitical conflict between Russia and Ukraine – and topping up allocations to infrastructure, which not only boasts both defensive and inflation-protection characteristics, but also provides greater exposure to regions outside of Europe.