RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

April 2022

Market overview

April proved to be a very difficult month for markets with global equities falling 8% and global bonds falling 5%. The impact of the continued conflict in Ukraine and the prospect of tightening monetary policy to combat rising inflation weighed heavily on sentiment, while renewed lockdowns in China also served as a reminder that covid-related risks to the economic outlook remain.

With inflation in the US rising to 8.5%, the highest figure since 1981, the rhetoric coming from US Federal Reserve ('Fed') members continues to turn more towards further increases in interest rates. Bond markets are now pricing in 50 basis point rises at each of the Fed's next three meetings and there was a sharp rise in both shorter-term and longer-term bond yields. Two-year Treasury bond yields rose from 2.3% to 2.9% over the month while 10-year Treasury bond yields nudged 3%, rising from 2.4%. Similar moves were seen in continental Europe and the UK where 10-year yields pushed 2% by the end of the month. Weaker economic data and sentiment led credit spreads to widen, and corporate bonds further underperformed government bonds. Central banks are facing a very difficult balancing act of looking to tighten policy to curb inflationary pressures without causing too much impact on economic growth and consumption.

Weakening economic growth data and rising inflation again impacted growth stocks more severely than value stocks and the disparity between them so far this year widened further over the month. Some of the large high profile US technology companies bore the brunt of this, which weighed heavily on US indices although many consumer discretionary companies also experienced a torrid month. More defensive sectors such as consumer staples and pharmaceuticals proved more resilient, while commodity-related companies continued to benefit from rising energy prices as supply chain fears stemming from the conflict in Ukraine continue.

Given its substantial exposure to commodities, and the relatively defensive nature of its sector makeup, the FTSE 100 Index outperformed over the month, albeit the mid and smaller cap area of the market struggled in line with elsewhere. Rising yield expectations in the US continue to propel the US dollar higher and it rose nearly 5% against sterling over the month, a further significant boost to companies with substantial dollar earnings.

Strategy positioning

The economic backdrop is undoubtedly complicated at present and there is much uncertainty across markets. Overall, we think it is right to maintain stockmarket positions at their current levels, with the strategies remaining at the upper end of their corresponding Dynamic Planner risk profiles. Valuations are not excessive, particularly after Q1 2022's market adjustments, and are backed up by a continued profits recovery, albeit this is expected to be at a slower pace than in 2021. By remaining at the upper end of their corresponding Dynamic Planner risk profiles, we are giving the strategies the opportunity to make returns that can combat rising inflation – few assets can do this at present. We have reduced exposure to European markets, which we believe look most vulnerable to the impact of the conflict in Ukraine, and increased exposure to more defensive assets such as infrastructure. We are also continuing to give good exposure to the US and Asia, which are less likely to be exposed to the economic fall-out from the war in Ukraine, and which also have strong domestic demand characteristics.

Outside of stockmarkets, our strategic bond managers and positions in index-linked bonds are helping to offset the difficulties in conventional bond markets from rising inflation and interest rates, whilst market neutral 'alternative' investment funds are acting as good diversifiers of return during more challenging times for markets.

We are pleased to note that the substantial exposure we are running in the strategies to the US dollar, which has risen sharply versus sterling so far this year, has significantly alleviated some of the losses we have seen in overseas markets. We expect the dollar to continue to exhibit safe haven qualities, particularly if we see a further deterioration in the economic outlook.

Risk warnings