

## Stay Ahead of the Game

## Global Matters Weekly

7 February 2022

– Richard Parfect

My mother used to say to me “a stitch in time saves nine”, as a child who grew up in the war and rationing, she was the product of her formative years. In the 1970s and 80s I would see her darning my father’s socks in the evening, something I doubt many households do today as the price of clothing and the expectation of durability has waned in the decades since. My father ran an industrial clothing firm, John Peck Ltd, on Edge Lane in Liverpool; it had hundreds of employees and was renowned as a high-quality supplier to a wide range of customers throughout the public and private sectors, they even held a Royal Warrant as a supplier to the Royal Households.

The firm closed down in 1981 and the site where the factory existed became a retail park. As always, there was no single cause for the failure; however high up on the list were inflation, high energy costs and the emergence of cheap (but low quality) imports; predominantly from Hong Kong and Taiwan. I suppose it was the beginnings of the “throw away” generations as my father called it. This was of course before “sustainability” was a thing.

We are all influenced heavily by what we experienced in childhood- the knocks leave their marks. For me it was growing up under the self-imposed austerity of our household when my father lost his job. A cold house meant you put a jumper on, meals where nothing went to waste, clothes that had been worn by my cousins and even my brother (17 years older than me). “Cry me a river” you may say, as millions had it worse than us. That fear of inflation stuck with me, it always bemused me when people thought it had gone for good. When I applied for my first job as a graduate trainee in 1996, I had to write an essay answering the question, “Is Inflation Dead?”

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The answer was “no” of course, it was just dormant, but little did I appreciate it had actually gone into long term hibernation. The forces that kept it down for so long were powerful and long running.

Unfortunately, just like a bear awaking from its winter hibernation, inflation has now emerged, and it has a ravenous appetite. Central bankers have been afraid to pick up their darning thread in time and are now confronted with an enormous job. Just like a pilot, who should always be mentally five minutes ahead of the aircraft, central authorities should have stayed ahead of the game.

They are now scrambling around the cockpit trying to get their charts out and plot a new course, in the meantime telling their passengers to behave themselves and not ask for pay-rises to even match inflation.

We are in for a bumpy ride as policies and markets readjust to what is likely to be a longer period of higher energy costs than people initially thought. It can be argued that energy has been mis-priced for years anyway, as the long-term financial costs of carbon intensive energy was ignored. It is for that reason we have been seeking to participate in the energy transition story with investments in renewable power generation, storage and distribution. For in a world where there are many casualties of a 1970s style energy crisis, they are some of the few beneficiaries.

## The Marketplace

- Global equities rallied +1.9% last week
- US labour surprised despite rising Covid cases
- Brent crude rose +3.6% to \$90.0 a barrel
- Gold rose +0.9% to \$ 1791.5.

## Market Focus

### US

- Benchmark US equities rallied +1.6%. Metal, Mining and Oil & Gas outperformed, whilst Communication Services and Homebuilders underperformed.
- January Nonfarm Payrolls increased to 467k, beating the 125k estimate.
- Average hourly earnings rose 5.7%, which spiked US yields from 1.8 to 1.9. However, the January unemployment rate of 4.0% came in higher than the 3.9% estimates.

### Europe

- European equities fell -0.6% last week on rate jitters. Banks and Oil & Gas outperformed, whilst Retail and Chemicals underperformed.
- President Christine Lagarde faced pressure to push back on market expectations for rate hikes this year but was instead unexpectedly hawkish. There was no repeat of her December line that a rate hike in 2022 is “very unlikely”. She said that risks to the inflation outlook are tilted to the upside, particularly in the short term. The ECB left interest rates and plans for its bond-buying programs unchanged for now, with Lagarde nodding to new projections in March.
- Lagarde’s words pushed the euro higher, euro-area bond yields extended gains and money markets pulled forward bets for a rate hike.
- German January manufacturing PMI came in at 59.8 (vs the 60.5 estimates).

### UK

- UK equities rose +0.6% last week.
- The Bank of England raised its benchmark interest rate a quarter-point to 0.5% in the first back-to-back increase since 2004, yet four dissenters would have preferred a more significant move to 0.75%. Governor Andrew Bailey said the hit to households from the cost-of-living crisis and the rate rise was unavoidable. The central bank also committed to reducing its bond holdings, including fully unwinding its stock of corporate bonds. Which saw the 10-year Gilt yield from 1.3 to 1.4.
- January manufacturing PMI of 57.3 was better than the 56.9 estimated.

### Asia/Rest of The World

- The benchmark Global Emerging Markets index rose +2.5%. After a three-day break, Hong Kong led Asian shares higher, China was closed due to the Lunar New Year.
- Japanese equities rose +2.9% last week.
- Japan is expected to relax border controls this week.
- Emmanuel Macron will visit Russia and Ukraine this week. US lawmakers are rushing to draft a new round of potential sanctions on Russia intended to deter any aggression against Ukraine despite Moscow repeatedly denying plans to attack.
- The Royal Bank of Australia scrapped its QE program while saying it will otherwise remain “patient” as it monitors inflation.

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Asset Class/Region	Currency	Currency returns			
		Week ending 4 Feb. 2022	Month to date	YTD 2022	12 months
<b>Developed Market Equities</b>					
United States	USD	1.6%	1.6%	-5.5%	17.4%
United Kingdom	GBP	0.6%	0.6%	2.7%	22.0%
Continental Europe	EUR	-0.6%	-0.6%	-6.3%	13.6%
Japan	JPY	2.9%	2.9%	-3.1%	5.7%
Asia Pacific (ex Japan)	USD	2.9%	2.9%	-2.3%	-12.0%
Australia	AUD	1.9%	1.9%	-4.4%	9.2%
Global	USD	1.9%	1.9%	-5.2%	12.6%
<b>Emerging markets equities</b>					
Emerging Europe	USD	2.3%	2.3%	-5.4%	7.9%
Emerging Asia	USD	2.9%	2.9%	-2.1%	-15.1%
Emerging Latin America	USD	1.3%	1.3%	6.6%	1.5%
BRICs	USD	3.7%	3.7%	-0.4%	-19.3%
China	USD	4.6%	4.6%	-1.0%	-31.4%
MENA countries	USD	-0.1%	-0.1%	6.1%	34.8%
South Africa	USD	4.0%	4.0%	6.9%	5.0%
India	USD	3.0%	3.0%	0.8%	16.4%
Global emerging markets	USD	2.5%	2.5%	-0.8%	-10.2%
<b>Bonds</b>					
US Treasuries	USD	-0.9%	-0.9%	-2.6%	-3.6%
US Treasuries (inflation protected)	USD	-1.5%	-1.5%	-3.9%	1.8%
US Corporate (investment grade)	USD	-1.2%	-1.2%	-4.5%	-4.0%
US High Yield	USD	-0.3%	-0.3%	-3.1%	1.1%
UK Gilts	GBP	-1.6%	-1.6%	-4.6%	-6.7%
UK Corporate (investment grade)	GBP	-2.5%	-2.5%	-5.0%	-6.4%
Euro Government Bonds	EUR	-2.1%	-2.1%	-2.8%	-5.5%
Euro Corporate (investment grade)	EUR	-1.9%	-1.9%	-2.9%	-3.7%
Euro High Yield	EUR	-1.5%	-1.5%	-2.7%	-0.4%
Japanese Government	JPY	-0.4%	-0.4%	-1.1%	-1.0%
Australian Government	AUD	0.0%	0.0%	-1.5%	-3.6%
Global Government Bonds	USD	-0.5%	-0.5%	-2.4%	-6.6%
Global Bonds	USD	-0.4%	-0.4%	-2.6%	-6.2%
Global Convertible Bonds	USD	1.5%	1.5%	-4.4%	-10.0%
Emerging Market Bonds	USD	-0.4%	-0.4%	-4.4%	-7.0%

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<b>Property</b>					
US Property Securities	USD	-0.2%	-0.2%	-8.3%	26.2%
Australian Property Securities	AUD	2.6%	2.6%	-8.4%	14.8%
Asia Property Securities	USD	1.5%	1.5%	2.2%	-1.5%
Global Property Securities	USD	0.4%	0.4%	-5.6%	15.1%
<b>Currencies</b>					
Euro	USD	2.7%	2.7%	0.6%	-4.2%
UK Pound Sterling	USD	1.1%	1.1%	0.0%	-0.9%
Japanese Yen	USD	0.0%	0.0%	-0.2%	-8.5%
Australian Dollar	USD	1.1%	1.1%	-2.9%	-6.9%
South African Rand	USD	1.2%	1.2%	3.1%	-2.8%
Swiss Franc	USD	0.7%	0.7%	-1.5%	-2.3%
Chinese Yuan	USD	0.0%	0.0%	-0.1%	1.7%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	2.6%	2.6%	11.3%	46.2%
Agricultural Commodities	USD	1.2%	1.2%	4.7%	34.3%
Oil	USD	3.6%	3.6%	19.9%	58.5%
Gold	USD	0.9%	0.9%	-1.1%	1.1%
Hedge funds	USD	0.5%	0.5%	-1.3%	1.2%

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