Monthly Report
February 2022

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GLOBAL EQUITIES MARKETS (%)						
As Of 28/02/2022	1-MONTH	3-MONTHS	YTD	1-YEAR	3-YEARS	5-YEARS
TOPIX	-0.40	-4.74	-4.37	-0.69	19.33	21.82
FTSE All Share	-0.47	3.84	-0.80	16.03	18.37	25.68
MSCI Asia Pacific (ex-Japan)	-1.80	-4.63	-4.12	-10.15	21.99	35.16
MSCI ACWI IMI	-2.29	-5.03	-6.48	11.36	43.49	57.57
MSCI Emerging Markets	-3.00	-4.39	-3.92	-6.94	18.19	30.04
S&P 500	-3.04	-5.33	-7.21	20.77	61.40	82.90
MSCI Europe (Ex-UK)	-3.91	-5.38	-8.96	8.40	30.16	39.52

Source: Morningstar

Overall Market Backdrop, February

- February marks the second month running that global equities have seen negative returns. The previous downward pressure coming from monetary policy tightening and inflation concerns have been seen to be trumped by the ongoing war in eastern Europe.
- Negative equity returns were not the only thing that remained persistent throughout February, volatility measures such as the VIX index continued to stay at high levels and maxed out around 30% towards the end of the month.
- The concerns surrounding the Russian invasion of Ukraine have only exacerbated inflationary pressures.
- Small-Cap was the best performing factor of the month.

Drivers of Market Conditions in February

- The month of February could be split into two halves and neither half was favourable to equity markets. In the first half of the month, we saw a lot of speculation that the central banks would move with more haste to quell the ever-present inflation concerns. This caused increased fears that the central banks may dampen growth in their efforts to get inflation under control. In the second half of the month, investors, markets and the whole world watched as the conflict in Ukraine seemed to increase the pace at an exponential rate.
- The start of the month did see gains for many global equities despite varied US earnings results and the continuation of a more hawkish monetary policy approach coming from Europe. However,

the S&P 500 has continued to be a part of a tech sell-off that is driven by select earnings misses. Ongoing concerns in relation to the war starting in Ukraine made sure UK equities saw a tumultuous month. The added downward pressure from high inflation prints and rate hike concerns have also added to the volatility in the equity market. Global equities continue to tumble throughout the month due to the Russian invasion rattling the market, this caused increased fears and a change in investor sentiment. The S&P 500 entered correction territory for the first time since 2020, falling 10% from its January 3rd highs. The main driver is economic markets digesting the potential geopolitical, economic, and financial implications of what seems like the start of a full-scale invasion of Ukraine.

- Something that we have seen across the UK and US is that housing demand continues to outstrip supply causing, an increased inflationary effect on house prices and pushing up the average house price to record highs. In the US in December, the number of single-family homes for sale reached a 30-year low. We now have a potential issue where rate hikes could challenge affordability.

- Due to recent events inflation continues to print higher as demand soars while supply chains remain constrained. The Russian – Ukraine war has now brought expectations of energy inflation to continue to rise or maintain its current level. The economic impact coming from the evolution of the Russia – Ukraine conflict remains uncertain, but what we do know is that in the short-term the most likely economic impact on developed markets is via food and energy prices.

- We have also seen policy updates within Europe and the UK. In February the BoE pushed the button and raised the Bank Rate by 25 bps to 0.5%. In Europe, we had a statement from the ECB President Christine Lagarde who played down the chances of a "measurable tightening" of monetary policy and suggested any shift would be gradual.

- Europe was the hardest hit equity sector on display which comes as no surprise as it's one of the regions that would be hardest hit by Russian commodity exports being damaged. Around a quarter of the EU's crude oil imports and 40% of its natural gas imports come from Russia.

- The 10-Year US Treasury yield breached 2% for the first time since 2019, however, this was short-lived as the yield ended on 1.83% for the month. This wasn't the only big milestone for Treasuries in February; the 2-Year US Treasury yield saw its biggest daily gain since 2009. This 2% breach was nevertheless at the start of the month and sovereign yield trading was mixed throughout the month on the back of escalating geopolitical tensions and economic data. The early Russian-Ukraine standoff which transitioned into an invasion amalgamated with the prospects for evolving monetary policy saw yields fall towards the end of the month.

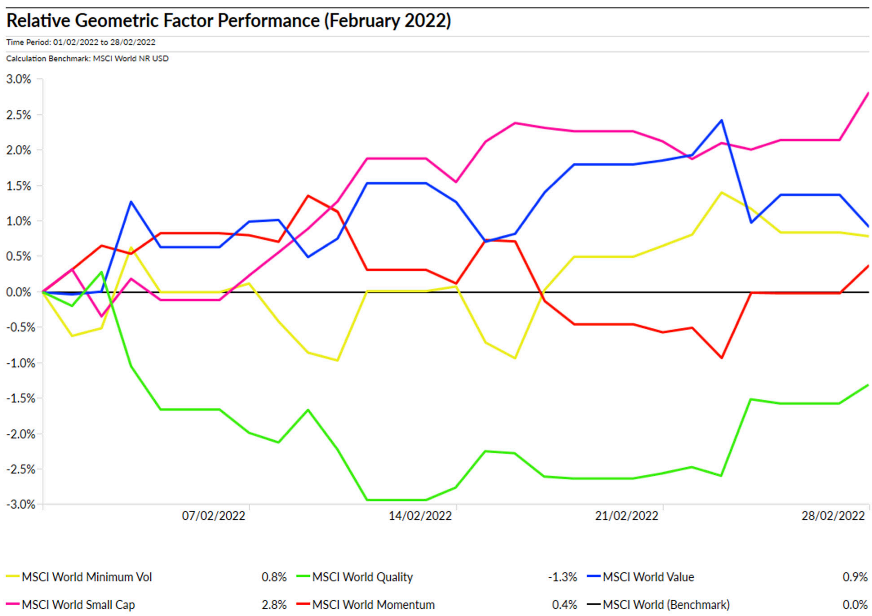
- While oil prices have been subjected to ample amounts of media coverage throughout the month, as prices continue to increase, it should be noted that the upward pressure oil prices are facing are coming from numerous avenues:

    - Oil prices increased at the start of the month as OPEC+ decided to continue on its framework to gradually restore production back to pre-pandemic levels, which would mean continued supply tightness ahead.

    - There have been concerns over a potentially greater Iranian oil supply.

    - Oil prices volatility can largely be explained by the Russian invasion of Ukraine, this has caused concerns of supply disruptions from either sanctions against Russia or Russia restricting exports. Russia is a significant exporter of commodities, accounting for 13% of global crude oil production and 17% of natural gas production.

How did Factors Perform in February?



The chart shows the relative Factor performance benchmarked against a global index (MSCI World). Performance data is for each factor index over the course of the month, with the market benchmark being the black line horizontally shown along the x-axis.

- The current market environment that is still not yet to pre-pandemic supply chains and still forgoing a type of economic reopening will favour Small-Cap. Small-Cap is known to thrive in a state of economic reopening as would be expected by a prominently cyclical Factor.

- Value companies have also been the beneficiaries of higher interest rates, while the rate transition may drive near-term volatility, traditionally it has also seen cyclical and Value stocks perform well. This is partly because traditionally financials tend to be correlated with rising government bond yields. In addition, Growth stocks have a vulnerability to tighter liquidity policies and higher financing costs which may come sooner rather than later.

- It's definitely worth noting that even though every factor besides Small-Cap had negative returns, almost all factors have outperformed the market (MSCI World) as seen on the relative performance chart.

FACTOR PERFORMANCE (%)						
As Of 28/02/2022	1-MONTH	3-MONTHS	YTD	1-YEARS	3-YEARS	5-YEARS
MSCI World Small Cap	0.21	-5.27	-6.48	4.27	35.94	47.20
MSCI World Value	-1.64	2.07	-1.95	19.08	28.51	33.17
MSCI World Minimum Vol	-1.76	-3.16	-6.31	14.54	22.63	35.85
MSCI World Momentum	-2.17	-9.68	-8.87	7.64	52.32	90.38
MSCI World	-2.54	-5.09	-6.81	15.40	48.58	63.83
MSCI World Quality	-3.81	-9.38	-10.68	16.92	63.10	91.93

Source: Morningstar

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