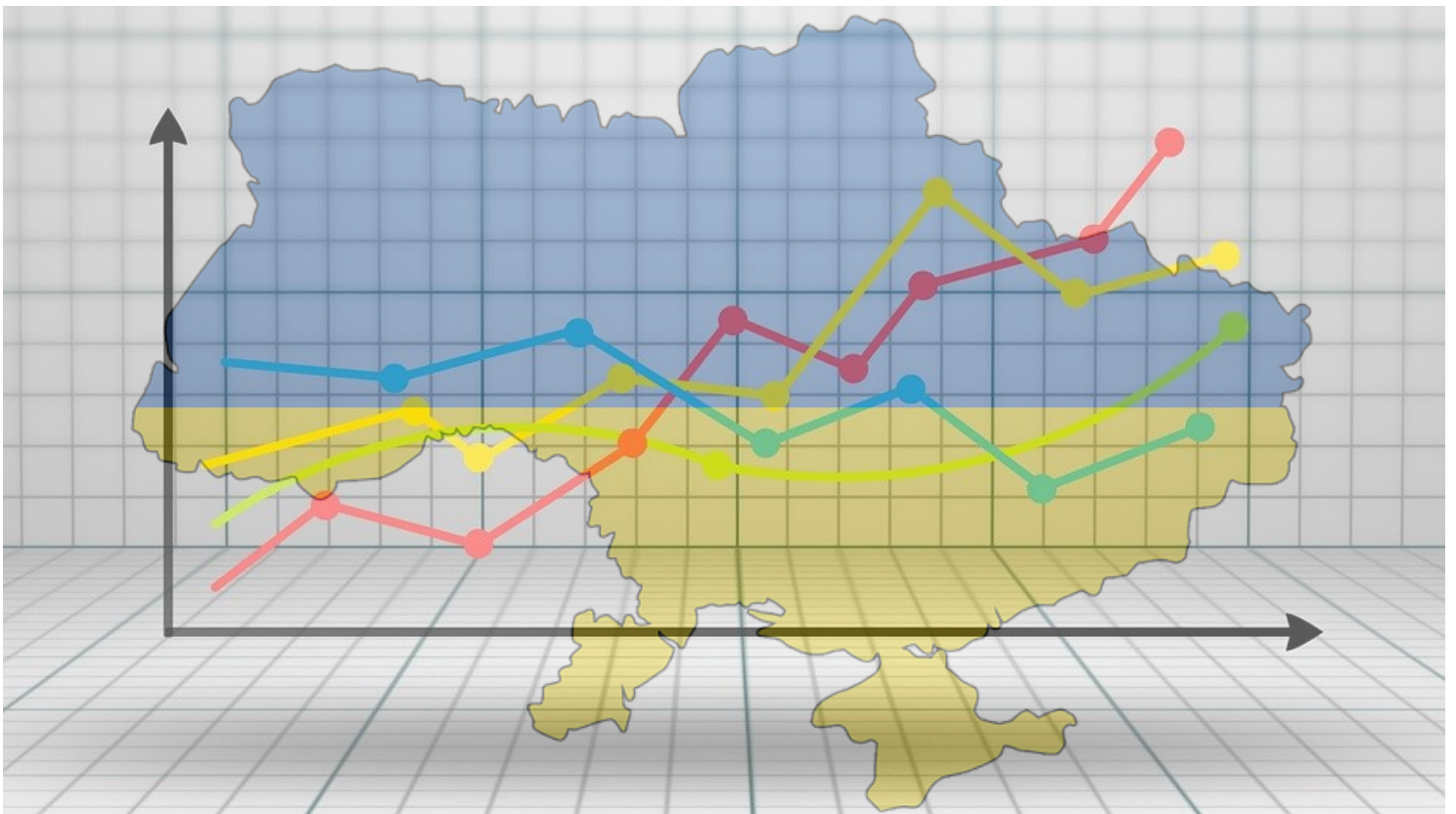




CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



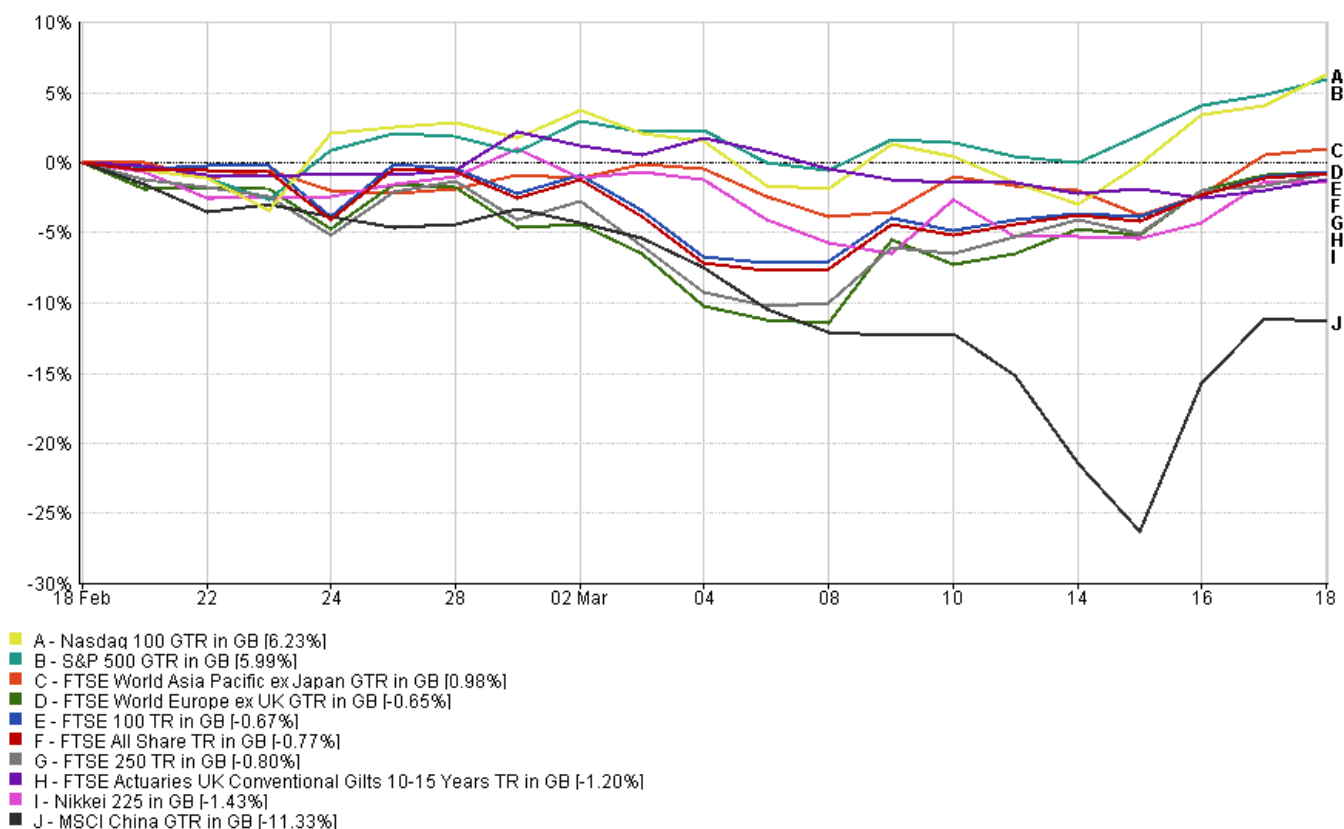
21 MARCH 2022



OVERVIEW

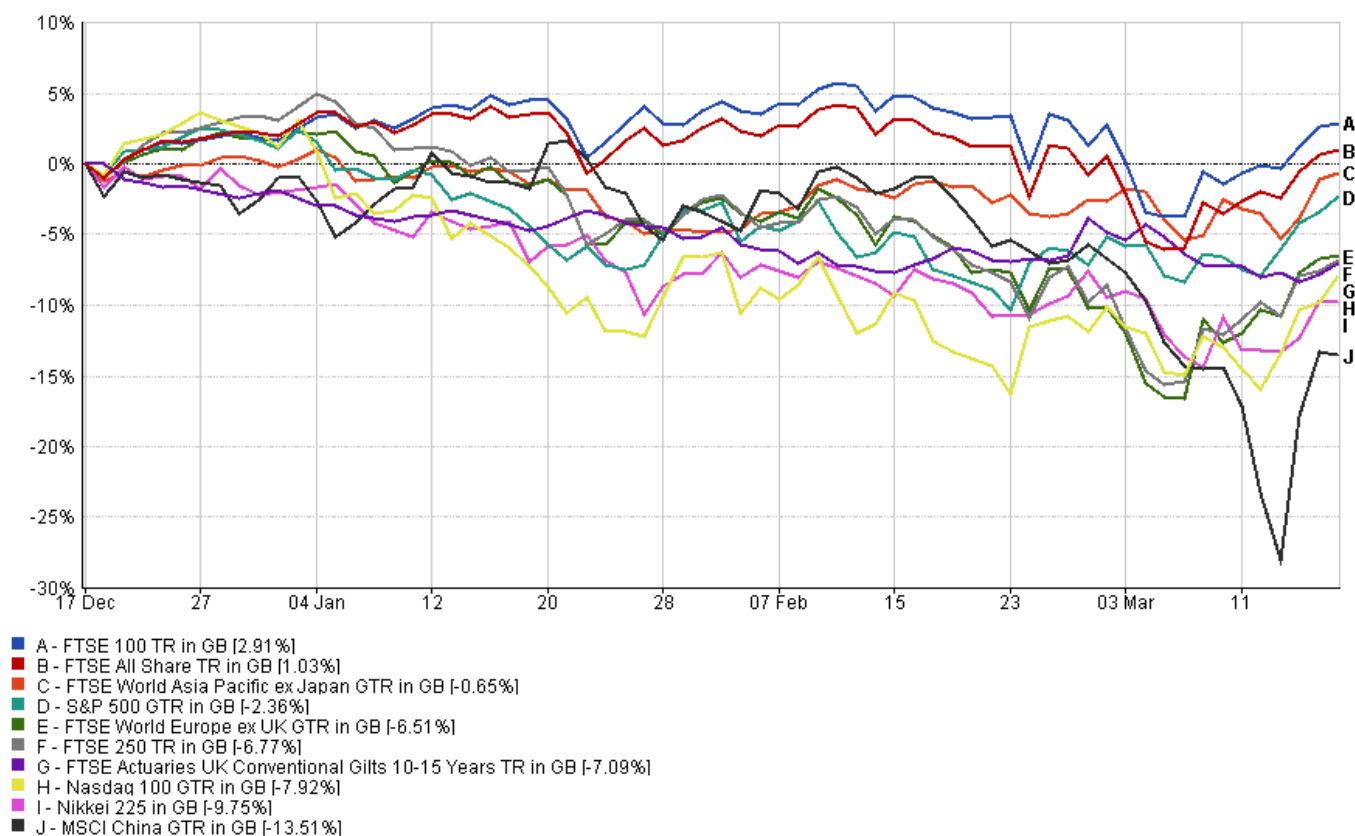
The dreadful conflict between Russia and Ukraine continues to shock the world. The news-flow from the Ukraine coupled with fears over persistently high levels of inflation and tightening central bank policy has led to an unsettled period for global equities. However, US, UK and European equities have recovered the losses made since the invasion happened on 24 February 2022 as peace talks are ongoing and Beijing looks set to support its flagging economy. The US Federal Reserve (Fed) increased interest rates for the first time since 2018 at its latest meeting whilst the Bank of England increased its main interest rates for the third time in as many meetings. The prices of oil and gas remain elevated, exacerbated by the war in Ukraine. Food prices have also risen as the Ukraine supply of wheat will be impacted. The actions of central banks are challenged by the need to control soaring inflation and the aim of maintaining economic growth.

INVESTMENT MARKET STERLING RETURNS OVER ONE MONTH



18/02/2022 - 18/03/2022 Data from FE fundinfo2022

INVESTMENT MARKET STERLING RETURNS OVER THREE MONTHS



17/12/2021 - 18/03/2022 Data from FE fundinfo 2022

In the face of core inflation running at 5.2% pa – far in excess of its 2% target, the Fed raised interest rates by 0.25% to a range of 0.25%-0.5%. The market is anticipating another six interest rate rises this year as the Fed tries to tame inflation towards its target level. Jay Powell, the Chair of the Fed, commented that the committee had increased interest rates “against the backdrop of an extremely tight labour market in high inflation”. Aware that the Fed is tasked with achieving price stability and almost full employment, Jay Powell has not ruled out increasing interest rates by larger increments. The Fed has acknowledged that the Ukraine/Russian war is putting pressure on inflation and growth prospects. The US economy has still to re-open fully after the pandemic, so inflationary pressures could build further unless the Fed takes further action to normalise interest rates. Action will also need to be taken to reduce its substantial balance sheet which expanded rapidly as the Fed bought bonds to support the economy over the pandemic. The US equity market initially fell on news of the rate rise. However, the important signal of a further six rates rises this year to combat inflation coupled with Jay Powell’s view that the US economy is in good shape and that the probability of a recession is “not particularly elevated” proved supportive with equities then rising sharply.

China’s economy has been negatively affected by the country’s continuing ‘zero-Covid’ policy. The major commercial centres of Shanghai and Shenzhen have been put into partial lockdown as Covid-19 cases have risen. Such restrictions will impact on manufacturing and exports. Increasing energy and commodity prices are also likely to hold back growth. The Chinese equity market had fallen as a result of negative sentiment. The Chinese authorities indicated that they would take measures to support the economy which then saw Hong Kong and mainland Chinese equities rally strongly and also equity markets around the world.

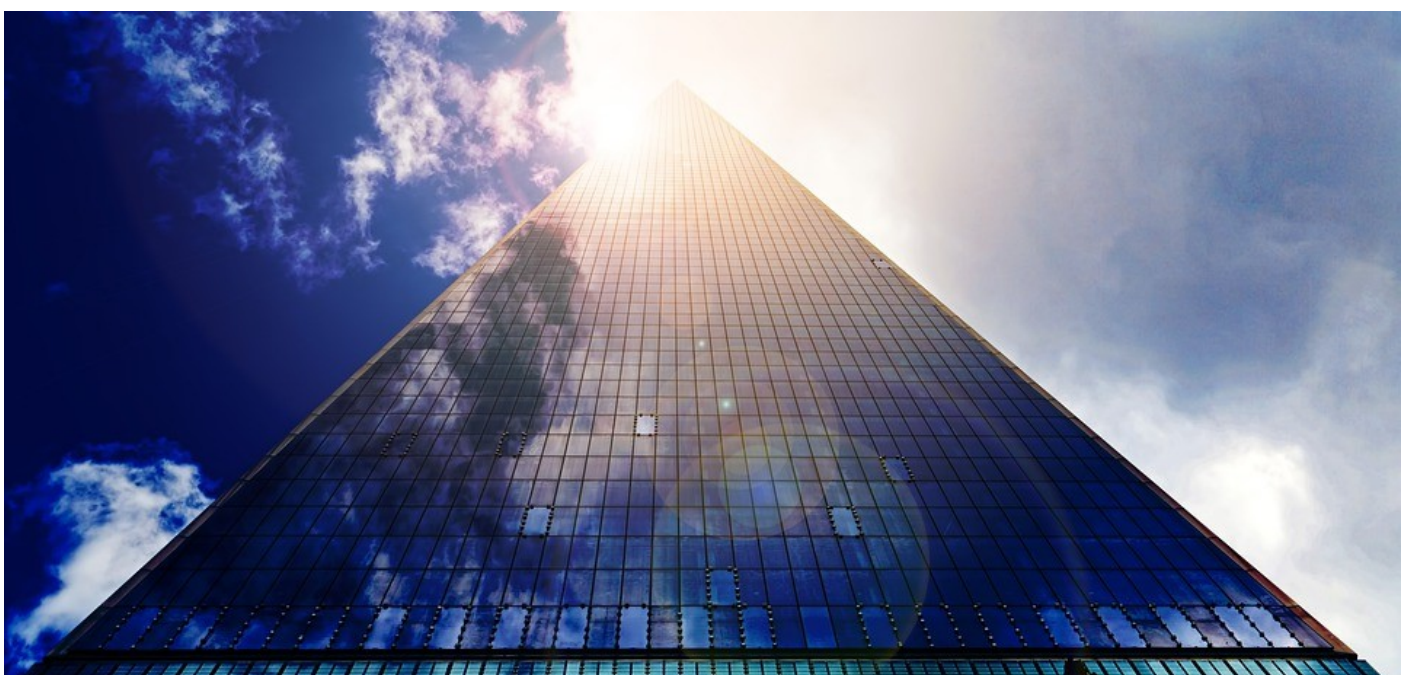


The Bank of England (BoE) continues with its monetary tightening policy as inflation runs way above the Bank's 2% pa target and is expected to reach 8% pa by the end of June 2022. Bank Rate was increased for the third time to 0.75% pa at the latest meeting. The Bank Rate is now at its pre-pandemic level. The Monetary Policy Committee (MPC) of the BoE believes that the Russian invasion of Ukraine will further stoke inflation and therefore squeeze household incomes and impact on economic growth. The MPC signalled that it was less likely to raise rates aggressively because of the possible impact on future growth. Due to its significant exposure to commodities and energy, the UK equity market has performed relatively well over the last three months as oil, gas and metal prices soared. Latterly, the rate of price increases has moderated to some extent.

The European Central Bank did not raise interest rates at its March meeting, but did scale back its bond buying activity more quickly as it took steps to tighten monetary policy in the face of potentially higher inflation and slowing growth resulting from the invasion of Ukraine. It seems that interest rates rises are likely to follow once the bond buying scheme has stopped but any rises would be gradual.

As central banks continue with monetary tightening - higher interest rates and winding down of bond purchase programmes - yields on government bonds have risen (ie the prices of bonds have fallen). The impact of high inflation, rising interest rates and slowing growth is negative on fixed interest assets as values of coupons are eroded by inflation over time.

Commercial property funds have performed well over the last six months as economies have recovered following the pandemic. This asset class also provides some protection against inflation as asset values increase and income proves a useful component of total returns.





The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartledge Morland's Investment Services team.

Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

OUR VIEW

It would appear that the signs of some tentative progress on Ukraine/Russia peace talks have for the time being quelled the initial panic which led to big outflows from equity markets when Russia began its invasion. There does seem to be a move back to trading on fundamentals and outflows have slowed as investors once more look for value opportunities in markets. Big institutional funds will also be looking to re-balance their portfolios so will be selling fixed interest assets to bring equity positions up to the required positions for the longer term growth they offer. However, the progress of the conflict in Ukraine adds a high degree of uncertainty and ongoing news-flow will influence investor sentiment and further investment market volatility is expected.

In general, investors have not been helped by the general sag in enthusiasm for tech/social media on Wall St, following an exceptional period of spectacular gains. Renewed interest in more traditional companies and the asset bases/cashflows they offer – in some cases very cheaply – is a feature of major developed markets including the UK and European bourses. Our portfolios are well positioned to benefit from this as we have long been wary of valuation levels in US tech/social media and sold down profits in order to consolidate them – although with the benefit of hindsight, prematurely. The latter said, significant index tracking holdings and some of our smaller companies and ESG investments still provide significant exposure to US tech/social media.

Even with global economic growth reduced by higher energy prices resulting from the potential Western embargo/shift from cheap Russian oil and gas, equities continue to offer the best hedge against inflation. They have scope to perform well against the background of a US economy that is growing robustly alongside UK and probably Europe, where the European Central Bank remains highly accommodative. Asia is the third critical engine of global growth/demand and is undoubtedly suffering as the region remains in the grip of Covid-19 virus variants and restrictions intended to contain them. Whilst this seems likely to continue for some time yet, it is above all a temporary phenomenon.

continued



OUR VIEW continued

Global fixed interest (bond funds) are challenged by a combination of tapering central bank purchases, higher inflation and rising interest rates. This combination of toxicity has long been inevitable but until recently, postponed for far longer than ever seemed likely, thanks to the intervention of the Covid-19 pandemic. Bonds are always needed in 'balanced' portfolios to counter equity market risk – and at a time of elevated inflation – investment grade options towards the higher end of the yield spectrum have proved relatively more resilient. The bonds of heavily indebted/weaker companies in the investment grade space may become vulnerable to down-grading if interest rates rise too far. On this basis, some managers consider higher credit grade debt to be most defensive by this stage in the cycle.

Global and UK property funds are one of the few asset classes to have rallied strongly in recent months. Although we reduced typical balanced portfolio property weightings to around 5% x portfolio value some years ago, we still regard 'bricks and mortar' investment funds as a valuable non-correlated asset class, which can also offer protection against inflation. A drift to remote working and internet shopping has not led us to believe that office and shop rental streams are dead, whilst a range of newer opportunities, such as healthcare, amenity sectors and scientific/laboratories present themselves. The sector is adapting to changing demand.

We are currently not making significant moves in portfolios, preferring to maintain our diversified, longer term investment approach. Where appropriate, we have added to income yielding assets. Through challenging investment periods, we believe a reliable flow of income arising from well capitalised companies with strong cash flows held in good quality equity income and corporate bond funds should prove a vital element of total returns.



83-85 Mansell Street London E1 8AN
t: +44 (0)20 7709 5560
e: enquiries@cartlidgemorland.com
www.cartlidgemorland.com

This material is not intended to be relied on as a forecast, research or investment advice, and is not a recommendation, offer or solution to buy or sell any securities or to adopt any investment strategy. Cartlidge Morland's current views and suggestions in this document are based on research which is obtained from a variety of sources. Whilst these sources are believed to be reliable, the information obtained cannot be guaranteed to be accurate and may be condensed or incomplete. Past performance not a guide to the future. The value of investments and income arising may go down as well as up.

Cartlidge Morland is a trading name of The Cartlidge Morland Partnership, an appointed representative of Cartlidge Morland Ltd, which is authorised and regulated by the Financial Conduct Authority.