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Monthly Market Update



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“Developed market equities post a third consecutive month of positive returns amid strong earnings, despite the spread of the Omicron variant”



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December 2021 Market Commentary

Developed market equities continued to rally in Q4 2021, providing investors with a third consecutive calendar year of positive returns. Investor sentiment was aided by strong corporate earnings growth despite the concern about the spread of the Omicron Covid variant.

Returns from global bond markets were quite subdued during Q4 2021, as investors contemplated the impact of rising inflation, the potential of accelerated easing of central bank policy, and the possibility of a faster pace of interest rate rises in the US.

United Kingdom

FTSE All Share: 4.68%

UK equities rose over Q4 2021 on the back of encouraging news about the less severe impact of Omicron. This saw a number of economically sensitive sectors, such as banking, recoup the losses they sustained in the November sell-off. Albeit other sectors reliant on the removal of restrictions, such as travel and leisure, were unable to make up their November losses and ended lower.

Many UK businesses continue to face supply chain disruptions, resulting in some companies releasing profit warnings. However, this has not impacted strong continuing consumer demand.

The Bank of England Monetary Policy Committee voted in December to increase the base rate of interest to 0.25% from 0.1%, having surprised markets in the previous month by keeping rates unchanged.

United States

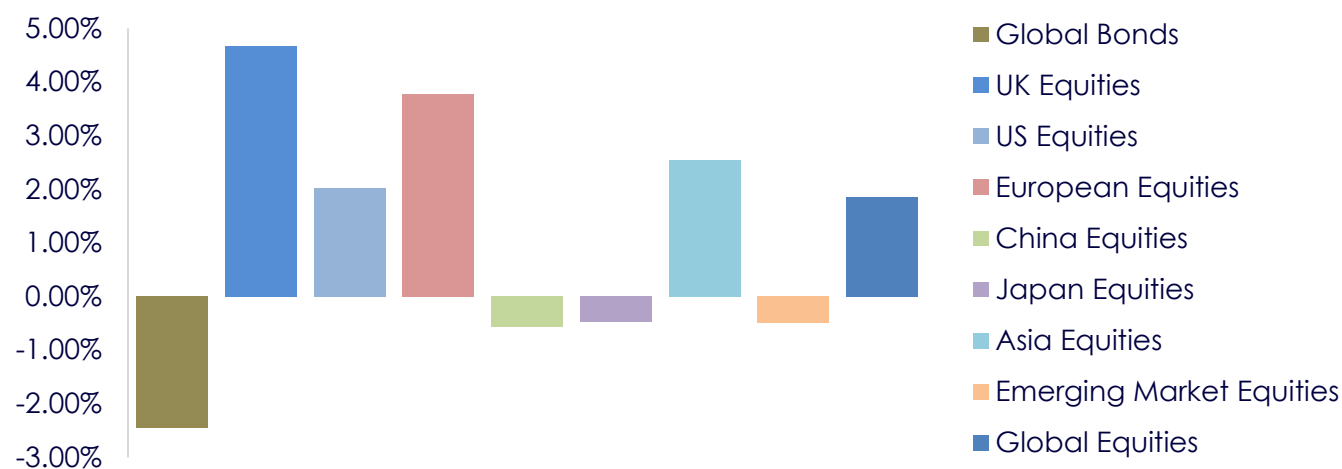
S&P 500: 2.02%

Despite the fear of rising cases of Omicron and the speed of the US Federal Reserve's (Fed)

hospitality in order to try and reduce the spread of Omicron. However, equities gained overall in Q4 2021, as strong corporate earnings and economic resilience offset worries about the new Covid variant and the early data indicating a lower risk of severe illness.

Volatile energy prices contributed to higher inflation which reached 4.9% in November. The

Discrete Monthly Performance as at 31/12/2021



asset tapering, US equities rose in Q4 2021.

Data released in December indicates that the US economy remains stable along with companies reporting robust earnings.

The US economy also remains on track to record its best economic growth since 1984. Furthermore, unemployment fell to 4.2%, which is the lowest level since February 2020.

Minutes from the Fed's December meeting show that consideration is being given to a more aggressive reduction in their asset purchase programme than previously announced. The Fed remains wary about the continuing high rate of inflation and are mindful that the economy is also nearing full employment.

Europe

FTSE Developed Europe ex-UK: 3.78%

A number of European countries introduced new restrictions on sectors such as travel and

European Central Bank has also said that it would scale back its bond purchases but ruled out interest rate rises in 2022.

Germany's coalition talks have also reached a conclusion. In December, Olaf Scholz of the Social Democrats succeeded Angela Merkel as Chancellor. His party is in a coalition government with the Greens and Free Democrats.

China

CSI 300: -0.57%

China was the worst-performing emerging market in Q4 2021, as equity prices moved sharply lower as investors feared that new lockdown restrictions would be instigated following the rapid spread of the new Covid-19 variant and the continuing zero tolerance policy of the Chinese government.

The Peoples Bank of China announced that it would keep its monetary policy flexible for 2022

as it seeks to stabilise economic growth and lower financing costs for businesses who are facing growing economic headwinds.

Japan

MSCI Japan: -0.47%

Japanese equities recovered in December after falling in October and November. But still ended down -1.7% over Q4 2021.

Following the October election, the political focus has now shifted to an expectation of a substantial fiscal stimulus package, which would include a direct cash payment to households in an effort to kick-start a consumption recovery.

The rate of inflation has crept slightly back into positive territory, but the Bank of Japan does not expect a short-term inflation spike as seen in other developed economies.

Emerging Markets

MSCI Emerging Markets: -0.49%

Emerging Markets equities posted negative returns in Q4 2021, especially with the

headwind of a strengthening US dollar. Turkey was the worst performer as its central bank struggles to control inflation which has now accelerated to 21.3%. Russia also underperformed the sector, especially as geopolitical tensions with the West ratcheted up a few levels amid a build-up of Russian troops on its border with Ukraine.

Global Bonds

Bloomberg Barclays Global Agg: -2.46%

Bond markets were buffeted during Q4 2021 by the persistently elevated inflation figures, the emergence of the Omicron variant and the shift to a more hawkish tone from developed market central banks. Most notably, the Fed's rhetoric turned increasingly aggressive with the announcement that asset purchase tapering could be accelerated, and that they may stop referring to inflation as "transitory".

The US 10-year Treasury yield was little changed for the quarter at 1.51%. The UK 10-year yield fell slightly to 0.97%. Corporate bonds lagged government bonds for the quarter.

All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.

Cumulative Performance and Annualised Volatility as at 31/12/2021

	1 Year %	3 Years %	5 Years %	Volatility % ²
Global Bonds	-3.83	4.54	7.62	7.34
UK Equities	18.32	27.16	30.19	13.70
US Equities	29.34	85.46	107.14	13.18
European Equities	16.75	50.79	58.03	13.10
Japan Equities	2.65	30.96	37.25	11.46
Asia Equities	8.21	46.27	64.04	13.58
China Equities	-0.08	75.98	64.64	15.87
Emerging Market Equities	-1.64	28.40	46.09	13.08
Global Equities	22.94	69.50	83.75	12.35

Data source FE Analytics 31/12/2021. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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