MERRION INVESTMENT MANAGERS | CANTOR Fitzgerald

Strategy & Outlook

MARKET UPDATE

MARCH 2022

February: The Russian invasion of Ukraine, the threat of which was warned about for weeks but denied consistently by Russia, finally happened. The response of the West has been swift and far-reaching, Russia effectively being frozen out of the international financial system and sanctions being imposed on its large foreign reserves. The private sector is also reacting, energy companies announcing they will divest of Russian holdings / end joint ventures, Apple and Nike putting a halt to sales of their products in Russia.

The conflict has driven the price of oil materially higher, further exacerbating concerns about inflation whilst at the same time raising concerns about the short-term impact on growth (which is disinflationary). The expected pace of rate hikes from the Federal Reserve has fallen, helped by Fed Chair Powell's testimony in Congress that he favoured a 25bp hike in March rather than the 50bp that was priced only 2 weeks ago, whilst any expectations for rate hikes from the ECB have been all but removed.

Equity markets obviously were hit hard, global equities following January's fall with another 2.5% drop in euro terms to stand 5.9% lower year to date. European equities and European banks in particular fell markedly. Emerging markets (bonds and equities) also suffered, whilst US equities, after the initial lurch lower, performed strongly in absolute and relative terms. Developed market bonds have also rallied strongly, a combination of reduced rate hike expectations and flight-to-quality being the drivers.

Prior to the invasion markets had been volatile, attempting to rally early in the month as bond yields appeared to stabilise, only to give back all those gains after one of the more hawkish members of the Fed (James Bullard) called for a 50bp hike at the March meeting and a full 100bp by July. His comments also caused significant dislocations at the front end of the US Treasury curve, the 2-year yield rising by 30bp intra-day, something that hasn't happened since the GFC. Post-invasion however, as noted above, expectations for rate increases have come lower.

Positioning Changes

We had added to long-dated developed market bonds (US and German) over the last month in the defensive side of our multi-asset funds, as the increase in yields and aggressive monetary policy action which had been priced in meant our underweight position in bonds was no longer warranted. This has delivered significant protection over the last week, and we continue to hold these positions. Within our alternative funds (a key part of the multi-asset strategies) we had hedged a significant portion of our equity exposure via European index put options and short positions in European banks, in addition to long positions in German bonds and US Treasuries. We have reduced some of these hedges given the size of the moves in European indices.

We are currently positioned above the mid-point in our allocation to growth assets, those growth assets being skewed towards quality / structural growth themes rather than cyclical / value.

Outlook

The invasion of Ukraine threatens the post-cold-war order, Germany announcing a sizeable increase in its defence spending, something which would have been considered almost impossible a few weeks ago. Other countries will likely follow. Financial markets have, since the beginning of the year, been pricing ever-increasing interest rate hikes from central banks, the Federal Reserve in particular, but also the ECB. This has led to a significant outperformance of "value" over "growth" year-to-date. As economic growth outlooks get lowered this outperformance must now be questioned and in the very short-term at least this trend should be interrupted. In periods of instability, it seems unlikely that central banks would be aggressive in removing policy accommodation, although central banks are in a difficult situation: inflation is well above their targets, and the oil price spike is likely to make this worse in the short-term. But as the ECB's President Lagarde has made clear, tightening monetary policy to stem energy-driven inflation is unlikely to yield a positive outcome.

WARNING: Past performance is not a reliable guide to future performance.

WARNING: The value of your investment may go down as well as up.

Merrion Capital Investment Managers Limited (trading as Merrion Investment Managers) is regulated by the Central Bank of Ireland and is regulated by the Central Bank of Ireland and is a Member Firm of Euronext Dublin and the London Stock Exchange.

© 2021 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

MERRION INVESTMENT MANAGERS | CANTOR Fitzgerald **Want to talk to us about investments? Contact us.**

T: +353 1 670 2500 | **e:** info@merrion-investments.ie | **www.cantorfitzgerald.ie** | Cantor Fitzgerald House 23 St Stephen's Green, Dublin 2.

Cantor Fitzgerald Ireland Ltd is regulated by the Central Bank of Ireland and is a member of Euronext Dublin and The London Stock Exchange.