

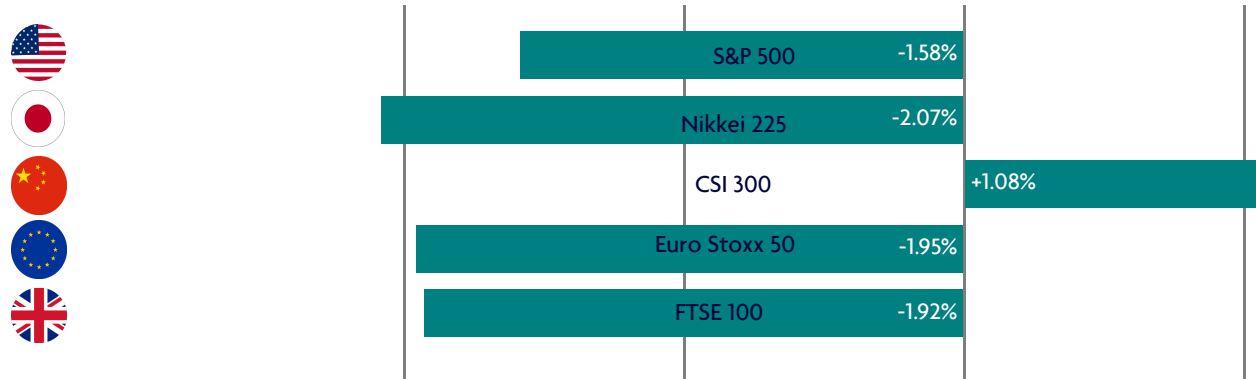
Weekly Market Update

21 February 2022

The situation in and around Ukraine is deeply political and highly complex and it remains far from obvious how events will unfold. Meanwhile, the consensus outlook for inflation, economic growth and interest rates continues to shift, adding to the uncertainty. For investors, uncertainty means volatility – as evidenced by the ups and downs of major market indices over the past week.



Market Monitor (%): How did major stock markets perform last week?



Market Update:



The headline consumer price index recorded a year-on-year gain of 5.5% in January – the fastest pace of inflation since 1992. Coupled with further evidence of tightness in the labour market, the data prompted investors to price in a faster pace of policy tightening from the Bank of England.



In addition to geopolitical concerns, investors had to interpret mixed messages from the Federal Reserve. While the minutes from the latest meeting suggested interest rates would rise only gradually from here, however one member of the interest rate setting committee called for a full 1% increase in rates at the next meeting in March. As if that wasn't enough, the quarterly reporting of company earnings remains in full swing, with share prices very sensitive to forecasts of future earnings and any signs that inflation has eaten into profit margins.



Europe

As in the US, fears over the situation in Ukraine were mixed in with uncertainty over the outlook for interest rates. While European Central Bank president Christine Lagarde emphasised that policy will be changed only gradually, the bank's chief economist Philip Lane hinted at a shift in his outlook for inflation and the possibility that pandemic era support needs to be removed more quickly than currently expected.



Japan

Unlike the Federal Reserve, the Bank of Japan remains unambiguously supportive, last week moving to cap the yield on long-term Japanese Government Bonds. Meanwhile, GDP data showed consumer spending helped the economy return to growth in the fourth quarter of 2021 after a decline over the previous three months. The announcement that Japan's will gradually open its borders from 1st March gave rise to hopes the domestic consumer will soon have a helping hand from inbound visitors.



China

China's policymakers collectively announced a string of measures to counteract the recent slowdown in economic growth. Premier Li Keqiang pledged to swiftly unleash a range of measures to support the economy, while separately investors welcomed news of a cut to corporate tax rates, more aggressive fiscal targets and confirmation that the People's Bank of China will keep monetary policy loose this year..



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