Elston

Elston Insights

29st April 2022

Elston market performance update: April 2022

- Commodities and Gold & Precious Metals strongest MTD
- UK Equities outperform US & Global Equities
- Liquid Real Assets outperforms Gilts

Monthly update, by exposure

Once again, Commodities were the top performing asset class in April, returning +8.36% in GBP terms, owing to ongoing inflation pressure from the Russia/Ukraine war, supply-chain, sanctions and energy crisis.

Gold & Precious Metals returned +2.23% as an inflation hedge. UK Equities were up +0.66%, and UK Equity Income +0.40%, compared to -8.10% for US Equities and -3.12% for Global Equities, in GBP terms.

UK Equities performance was not an indicator of underlying strength, but a function of the translation effect of overseas revenues, in the context of a dramatic -4.37% decline in Sterling vs the USD – the worst decline since COVID March 2020. This came on the back of weaker retail sales and low consumer confidence. Without government spending to fill a growing vacuum, the cost of living crisis (which will only get worse in the autumn) could become recessionary in nature as consumers and businesses defer spending. This risk to growth is greater than the risk of persistently high government debt levels, in our view.

Bonds continued to show they offered no place to hide with Global Aggregate Bonds down -5.45%.

Our Liquid Real Assets index returned +0.38% for the month, compared to Gilts -2.83%, with comparable volatility.

Within the multi-asset space, our Equal Weight index declined -0.67%, and "Equal Risk" (or "Risk Parity" Index_ returned -1.33%, compared to -2.14% for a traditional 60/40 GBP portfolio.

US & UK 10 year yields closed at 2.90% (from 2.32%) and 1.91% (from 1.62%) respectively.

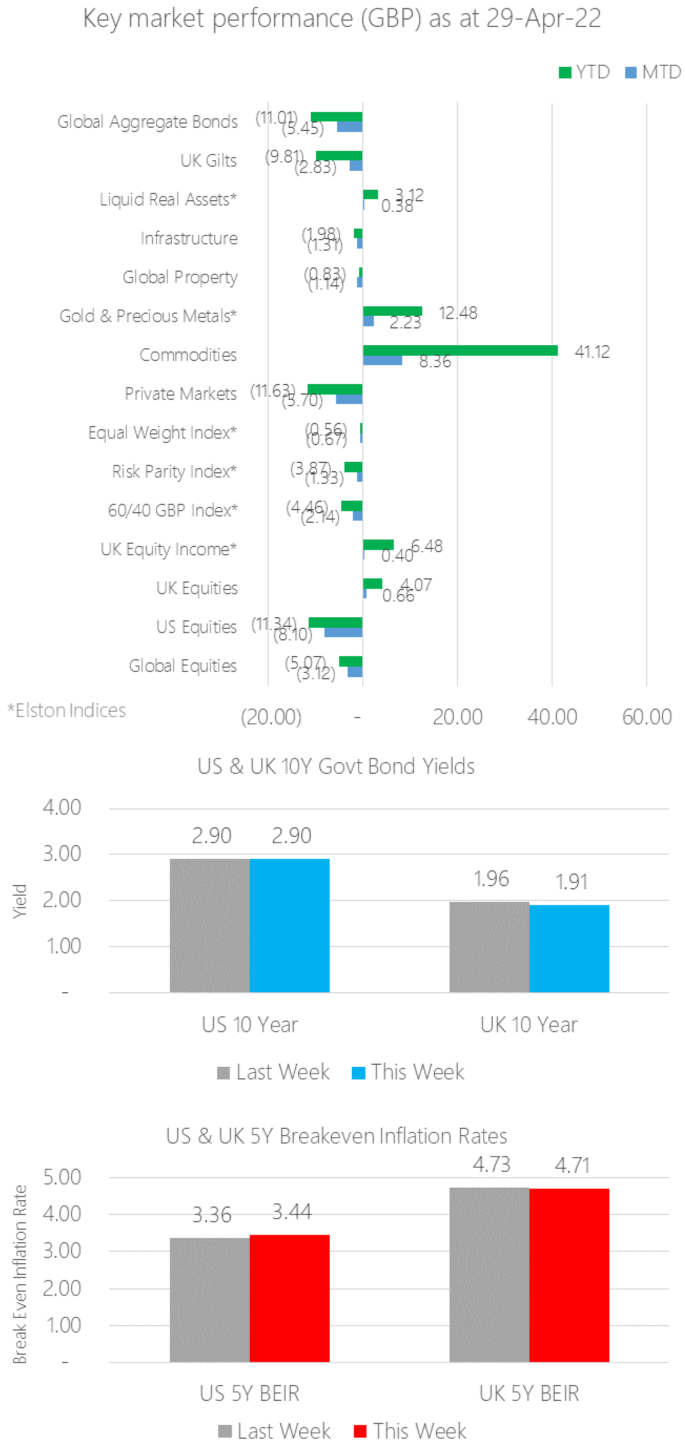
US & UK 5 year market-implied Break Even Inflation Rates closed at 3.44% (from 3.51%) and 4.71% (from 4.72%) respectively.

Market performance

The month-end market performance snapshot is summarised in the chart below.

For latest commentary, please refer to our [Insights] and [weekly Friday Insights email].

Fig.1. Month-end performance snapshot



Source: Elston research, Bloomberg data

Macro Factor Commentary

Growth: During the month, markets began the IMF downgraded global growth estimates to +3.6% from +4.4% in Jan (before the war) and flagged inflation risk as a global problem. Weak retail spending and consumer confidence data in the UK flags a growth risk. Eurozone is expected to be hard hit from the Russian energy supply crisis, risking recession. Pricing in the risk to growth is the biggest macro risk at present, in our view.

Inflation: inflation levels continue to soar across developed and emerging market economies, with the original supply chain problems exacerbated. In the US it has reached 40-year highs and shown the Fed to be behind in the curve. In Europe, remapping European energy supply away from Russian piped gas towards US LNG will take time, cost money and be inflationary in nature. But political risk means that the process is likely to start, with initial targets set for 2030. Reduced food and fertilizer exports, and a disrupted Ukrainian harvest sent agriculture prices soaring.

Interest Rates: US Treasury yields hit a three year high on rising interest rates and expectations that the Fed would start to shrink its balance sheet (i.e. Quantitative Tightening). This will drain liquidity from the system. The US yield curve steepened sharply, as investors sought additional return for term premium.

Geopolitics: With Russian forces now concentrated on the Donbas region, the situation continues to escalate with Russia committing additional firepower and US/NATO countries deciding to supply Ukraine with heavy weapons. With no "off-ramp" to back down for either side, no negotiating format and significant armament supplies, the risk that the war becomes one of long-term attrition is higher. The longer the war, the longer the inflation problem. Macron saw off a challenge from national Le Pen in the French Presidential elections. The latter won the highest ever share of the vote – even Macron acknowledged that dissent would have to be addressed.

Research Team, Elston Consulting

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Our Research & CPD focuses on multi-asset strategies, index funds and ETFs.

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