
## 2022 GETS OFF TO A BUMPY START AS INVESTORS TRY TO GET TO GRIPS WITH THE US FED OUTLOOK

This week there was no gentle easing back into the swing of things for markets which kicked the new year off with big falls in both equities and bonds. This followed the release of the minutes of the last US Federal Reserve rate setting meeting which showed the bank was a lot more worried about inflation than it had been letting on. The news, combined with more inflation data showing prices were rising faster and in more places than expected, spooked a market that had closed out 2021 on edge.

While all the reports highlighted the change in tone, a read of the minutes shows they left themselves plenty of wiggle room to hold off raising rates if they can find a reason to. There is quite a lag between changes to monetary policy and feeling the effects, with inflation now being driven by events of a year ago. The Fed needs to try and convince people it has control of inflation while not being able to do anything about it, at least not immediately. Market reaction this week suggests they might be pulling it off.

## THE MARKETS THIS WEEK

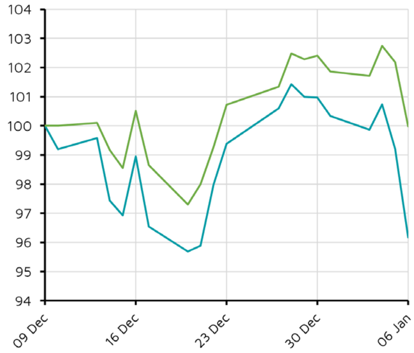
| FTSE 100 | S&P 500 | Nikkei 225 | Euro Stoxx 50 | Hang Seng | US 10 Yr | UK 10 Yr | Brent Crude | Gold | Wheat | GBP USD |
|---|---|---|---|---|---|---|---|---|---|---|
| +0.70% | -1.73% | -1.48% | +0.70% | +0.41% | +0.21% | +0.18% | +7.06% | -2.05% | -4.02% | +0.09% |

### US: MARKETS FALL AS INFLATION AND INTEREST RATE CONCERNS RETURN

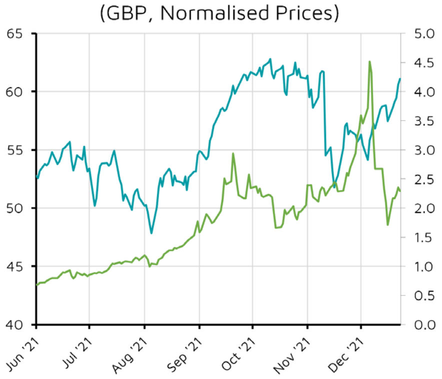
The new year started with equities and government bonds falling sharply, with high value technology stocks leading the way. Tech stocks have seen their biggest decline in almost a year as investors favour value stocks on hopes that Omicron is milder than previous variants and will lead to less economic disruption.

The sell-off accelerated following the release of the Federal Reserve's Open Market Committee meeting minutes. They show the bank's concern about inflation and this has generated speculation that the central bank may raise interest rates faster than expected and further withdraw market support. The two-year Treasury bond yield increased to 0.82% shortly after the release and the yield on the benchmark 10-year Treasury has risen by 0.2 percentage points to 1.72% this week. Tech stocks are sensitive to rising interest rates and the Nasdaq Composite is down more than 3% with some of the pandemic's winners such as Alphabet, Microsoft and Nvidia all down 6% or more.

Nasdaq 100 and S&P 500
(GBP, Normalised Prices)




Brent Crude, UK Natural Gas
(GBP, Normalised Prices)




### COMMODITIES: OIL AND GAS RISING SHARPLY OVER SUPPLY CONCERNS

Oil and gas prices have been rising sharply in the first days of 2022. Earlier this week the OPEC+ nations indicated they think demand will continue to pick up this year as they agreed to stick to their plans to increase supply – with a further 400,000 barrels a day due to come on line in February. However, concerns that political unrest in oil rich Kazakhstan will disrupt production has helped contribute to Brent Crude rising around 7% this week. Output from Libya has dropped recently due to unrest in the country and cold weather in Canada and the northern US has also restricted supply.

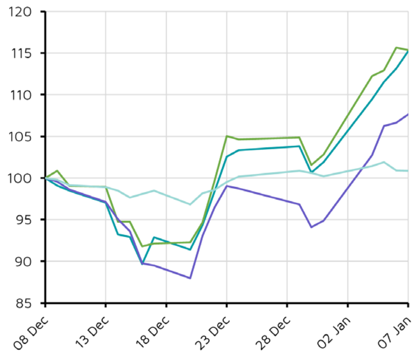
Gas prices in the UK and Europe have been rising steeply once more. Unusually low reserves in Europe have combined with low levels of supply from Russia to drive prices up. A key pipeline from Russia to Europe runs through Ukraine and political tensions over Russian military action in the area have also contributed to the rise in prices. UK gas prices remain far below the peak they hit in early December, but they have risen around 35% this week.

### UK: COVID CASES HIT RECORD HIGHS BUT DISRUPTION MAY BE LIMITED

The Omicron variant of Covid-19 continues to drive a surge in new infections. In the UK the seven-day average for new cases hit 171,000 around three times higher than the previous peak in January 2021, while in the US new daily infections hit 750,000. Despite the huge increase in infections, the UK and US have so far resisted introducing further restrictions to slow the spread as data emerges that suggests Omicron infections are less severe than other variants.

The rise in cases is causing considerable disruption in the NHS due to staff absences and many other employers have issued warnings about staff shortages. However, hopes that this wave of infections will pass quickly without further restrictions have helped cyclical companies outperform highly valued growth stocks. Airlines have been a beneficiary of a more positive outlook. Although they have underperformed considerably since the outbreak of Covid they have been one of the stronger performing sectors in early trading in 2022.

Easy Jet, IAG, Wizz Air and FTSE All Share
(GBP, Normalised Prices)




Data Sourced from FE Analytics, and Bloomberg Finance LP

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