James Hambro & Partners

January 2021

January investment update

A swift response to rising COVID-19 infections and better data restored investor confidence in December, while central banks moved to control inflation.

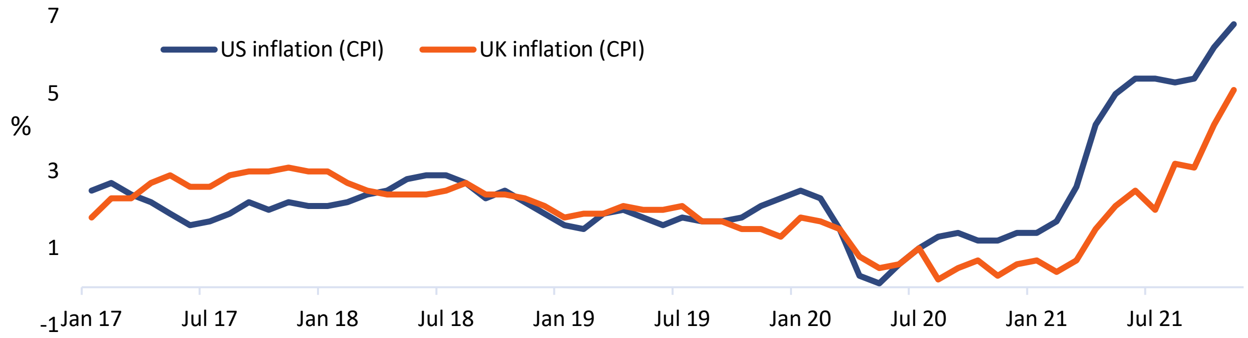
Caution ruled the markets in November in the face of many unknowns around the new Omicron variant of COVID-19. Confidence returned to markets in December, thanks to containment action by governments and a steady flow of information suggesting that the worst fears around the deadliness of the new variant were misplaced.

As a result, world equities made a solid 3.4% return in December, compared with the -1.9% fall in November (MSCI All Country World Index, local currency basis including income). This year-end rally enabled markets to round off another positive quarter and brought to an end another year of strong returns across many regions and asset classes.

Central bankers tighten the purse strings, but only a little

Although Omicron dominated the headlines, the final quarter was most notable for marking the end of ultra-loose monetary policy as central banks across the world began to reduce their emergency support. The Bank of England wrongfooted markets in November by not raising rates, contrary to new Governor Andrew Bailey's media briefings, before surprising them again by breaking with tradition and raising rates to 0.25% in December. This marked the first December rate rise in the history of the bank.

Rising inflation has prompted central banks take action



Source: US Bureau of Labor Statistics, UK Office for National Statistics. January 2022.

Federal Reserve Chair Jerome Powell celebrated his belated re-appointment by not only confirming the tapering of the $120 billion monthly asset purchases. He also announced an increase in the pace of tapering, to reduce repurchases to zero by March, a decision precipitated by a November inflation rate in the US of 6.8%, the highest in 40 years.

	December 2021	12 months to 31 December 2021	Calendar 2020
MSCI AC World	3.7%	20.8%	14.0%
MSCI USA	3.9%	27.2%	20.1%
MSCI UK	4.6%	12.9%	-13.2%
MSCI Europe ex UK	5.3%	22.0%	0.2%
MSCI AC Asia ex Japan	1.4%	-4.5%	24.7%
MSCI China	-3.2%	-22.0%	26.0%
MSCI Japan	3.2%	11.4%	6.6%
MSCI Emerging Markets	1.6%	-4.4%	15.6%

All data as 31 December 2021, calculated in local currency terms, including income. Past performance should not be relied on as an indicator of future returns. This table provides a limited snapshot of market performance; for a longer-term view please refer to the long-term market performance data at the end of this article. Source: Bloomberg/James Hambro & Partners. January 2022.

Another strong year for equities, despite events

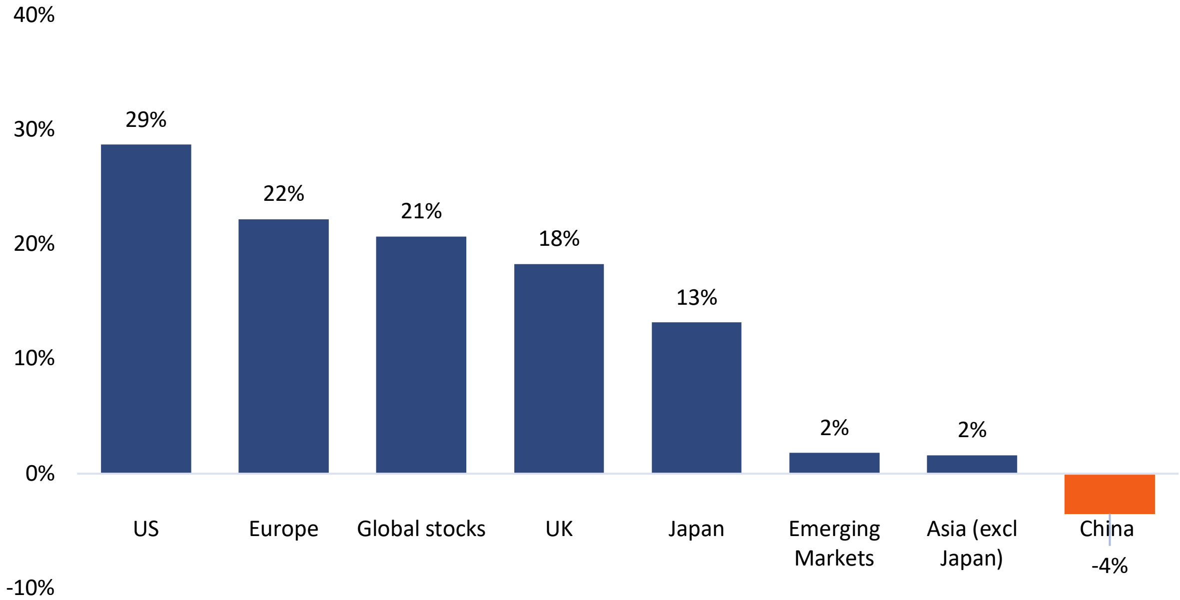
The end of December marks another of those calendrically imposed points in the cycle where investors take stock of returns, being both the end of the quarter and the end of the year.

The end of the third quarter saw returns more or less flat, subdued by inflationary fears, arguably combined with a typical summer reduction in market activity. By contrast, the fourth quarter saw markets bounce back with a strong October and December book-ending weaker returns in November. In the end, the MSCI All Countries World Index returned 6.5% over the last three months of the year, making for a strangely coordinated pattern of 2021 quarterly returns: Q1 6.5%, Q2 6.9%, Q3 -0.4% and Q4 6.5% (local currency basis, including income).

Overall, world equities returned 20.7% in 2021, the sixth best year since 1995 and considerably ahead of the annualised return for world equities over the last five years of 12.9%. This is the third consecutive positive annual return, quite remarkable given the context of COVID.

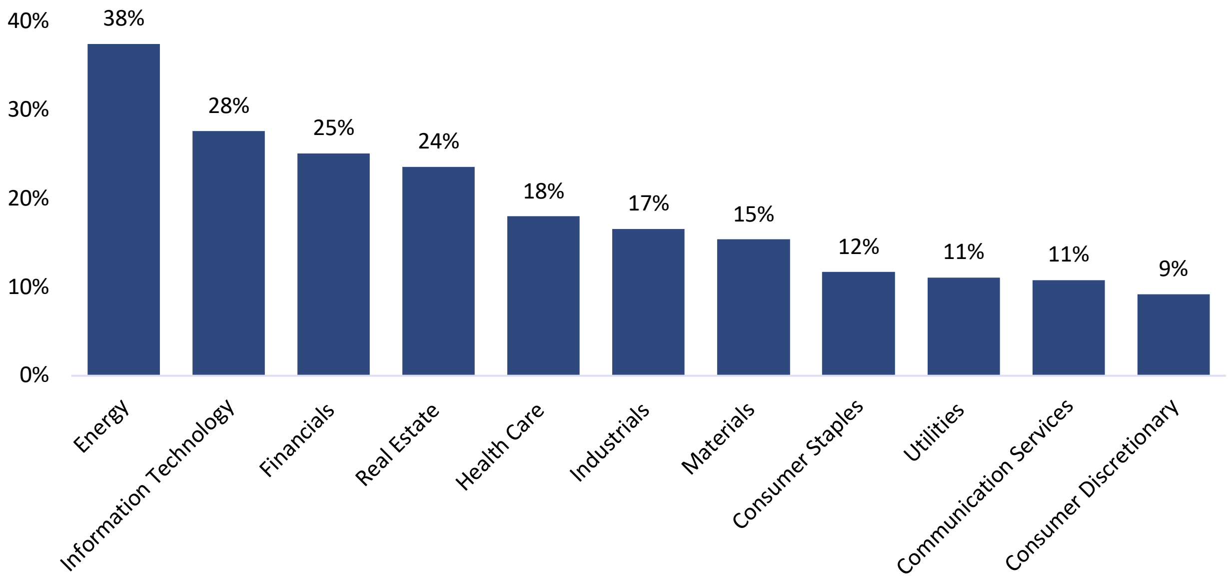
Looking deeper into what did well

Developed markets well ahead of Asia and emerging markets due to stronger dollar and China's economic woes
(Regional performance, calendar 2021)



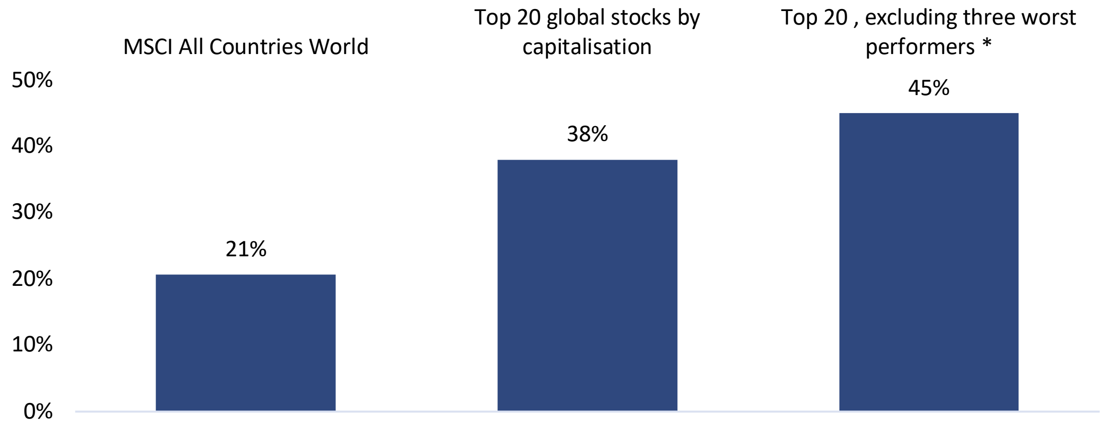
MSCI regional indices, local currency basis including income to 31 December 2021. Past performance should not be relied on as an indicator of future returns. This table provides a limited snapshot of market performance; for a longer-term view please refer to the long-term market performance data at the end of this article. Source: Bloomberg. January 2022

Revival of economic activity positive for energy stocks and financials while tech companies continue their inexorable rise
(Sector performance, calendar 2021)



MSCI sector indices, local currency basis including income to 31 December 2021. Past performance should not be relied on as an indicator of future returns. This table provides a limited snapshot of market performance; for a longer-term view please refer to the long-term market performance data at the end of this article. Source: Bloomberg. January 2022

Market performance dominated by global mega caps



*Average performance of Apple, Microsoft, Amazon.com, Tesla, Alphabet, Meta Platform (Facebook), NVIDIA, TSMC, United Health, JP Morgan, Johnson & Johnson, Home Depot, Berkshire Capital, Procter & Gamble, Nestle, Visa, Tencent, Bank of America, ASML, Pfizer. * Excludes Tencent, Visa and Amazon.com. US dollar basis including income to 31 December 2021. Past performance should not be relied on as an indicator of future returns. Source: Bloomberg. January 2022*

Bonds remain calm in face of changing circumstances

Despite the shift in direction of central bank policy and bubbling inflation, bond markets remained calm over 2021. UK 10-year gilt yields remained below 1% with their US equivalent nearer 1.5%, barely changed over the quarter. This implies that markets are pricing in a return to the low growth, low inflation environment that persisted pre-pandemic. This looks like a particularly sanguine view to us, but we shall see.

Rising prices and global uncertainty shape 2022

After 12 months of twists and turns, the year ahead looks set to be another eventful one for financial markets as they always seem to be. Inflation is likely to continue to grab the headlines, and geopolitical tensions could also cause periods of volatility.

America is redefining its role in world affairs after withdrawing its troops from Afghanistan, while Russia and China are both flexing their military muscles. There will be a new leader in Germany and presidential elections in France; there are murmurings of a leadership challenge against the Prime Minister in the UK, while the US mid-terms are likely to see the Democrats cede one or both houses in Congress. Change creates uncertainty, not well-liked by investors, although in the case of the US, political gridlock is not necessarily bad news for markets as it favours legislative status quo.

The investment background remains positive for equities and liquidity is high even if it has passed its peak. The global economy is likely to continue to expand in 2022, although at a slower pace following the post-lockdown surge. Consumers are still nurturing inflated bank balances, which should power activity and drive money towards markets and companies look set to join in.

We continue to believe in companies with strong fundamentals and pricing power that will protect their profits in an inflationary environment. Global growth will favour equities over other assets, although we will be paying careful attention to the impact of monetary tightening on asset prices in the months ahead.

Long-term market performance

	Calendar 2017	Calendar 2018	Calendar 2019	Calendar 2020	Calendar 2021
MSCI AC World	19.7%	-8.4%	26.0%	14.0%	20.8%
MSCI USA	21.2%	-5.0%	30.9%	20.1%	27.2%
MSCI UK	8.7%	-13.3%	13.1%	-13.2%	12.9%
MSCI Europe ex UK	9.0%	-12.9%	24.1%	0.2%	22.0%
MSCI AC Asia ex Japan	41.7%	-14.4%	18.2%	24.7%	-4.5%
MSCI China	52.3%	-20.3%	20.4%	26.0%	-22.0%
MSCI Japan	17.6%	-16.8%	16.0%	6.6%	11.4%
MSCI Emerging Markets	34.3%	-16.6%	15.4%	15.6%	-4.4%
MSCI World Consumer Discretionary	13.4%	0.7%	22.2%	33.1%	18.5%
MSCI World Consumer Staples	7.5%	-3.9%	18.8%	5.4%	14.3%
MSCI World Energy	-3.3%	-9.9%	8.2%	-32.4%	41.4%
MSCI World Financials	12.7%	-11.3%	21.6%	-4.9%	29.9%
MSCI World Health Care	9.9%	9.3%	19.1%	10.9%	21.6%
MSCI World Industrials	14.9%	-8.9%	23.5%	9.0%	17.6%
MSCI World Information Technology	26.6%	3.7%	42.4%	40.2%	30.8%
MSCI World Materials	18.2%	-11.5%	19.2%	17.2%	17.1%
MSCI World Real Estate	5.5%	0.2%	19.1%	-7.0%	30.9%
MSCI World Communication Services	-2.5%	-3.5%	23.0%	20.0%	16.1%
MSCI World Utilities	4.8%	9.4%	19.0%	2.8%	12.1%

All data calculated on a local currency basis including income. Past performance should not be relied on as an indicator of future returns. Source: Bloomberg/James Hambro & Partners, January 2022.