FACET

Client Portfolio Monthly Update – February 2022

As if to demonstrate that markets can only think about one thing at a time, a month that started with investors obsessing over the threat of higher interest rates, very quickly turned to worry over the consequences of Russia's invasion of Ukraine. Paradoxically, some early commentors suggested that the obviously bad news could, in fact, be good news for markets because the invasion would shelve any plans the US Federal Reserve, Bank of England or European Central Bank would have for raising rates to fight inflation which was already causing concern in December. By the time the major central banks meet in March, and failing a peaceful resolution, the additional factors to be considered will be the falls in stocks and the lowering of interest rate forecasts implied by bond markets. Furthermore, the ensuing flight to safety unsurprisingly saw the US dollar strengthen against all major currencies and the benchmark US dollar index rose 5% and close to a 2-year high – last seen when Covid 19 emerged. As if rising inflation, 7.5% in the USA and 5.5% in the UK, wasn't bad enough, the price of Brent Crude oil raced up to $100 per barrel with no sign of stopping by month end. Other commodities followed. Metals like nickel and copper rose sharply and soft commodities like wheat and corn were up 20% or more. All these moves threaten to stoke inflation further as costs of production and transportation are quickly passed onto the consumer. The main headlines, however, were dominated by the price of natural gas. While the UK only imports 3% of its natural gas from Russia, the import figure for the EU is nearer 40%. As Germany mulled the halting of the Nord Stream 2 pipeline, and other countries pushed for a full boycott of Russian gas, the price of natural gas rose 3-fold from $40 to $120. These combined price rises were good for the UK stock market given its relatively high weighting towards energy and mining. By comparison with the other major markets of USA (down 3%) and Europe (down 4.3%), the fall in the headline UK stock market of only 0.5% was good by any measure. Long before the invasion of Ukraine, the Bank of England raised interest rates by 0.25% to 0.5%. Whilst the rise in food and energy prices will undoubtedly push UK inflation data higher, it is hard to imagine the Bank doing anything but watching and waiting to see how events unfold in March and beyond. Mindful of the rise in the cost of living being compounded by planned tax hikes, they will not want to make a bad situation worse.

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	-1.23%	-1.43%	0.20%
	Risk 3	-1.94%	-1.43%	-0.51%
20-60% Shares	Risk 4	-1.84%	-1.55%	-0.29%
	Risk 5	-2.08%	-1.55%	-0.53%
	Risk 6	-2.29%	-1.55%	-0.74%
40-85% Shares	Risk 7	-2.93%	-1.22%	-1.71%
	Risk 8	-2.85%	-1.22%	-1.63%
Global	Risk 9	-3.45%	-0.21%	-3.24%

During February, portfolios 3-10 underperformed their respective sectors, with Risk 2 outperforming. This is due to FACET taking a recovery approach and looking for increased upside when the markets become more favourable. We believe our asset allocation will continue to provide a strong performance over the medium to long term and it is only due to current short term volatility that the majority of portfolios are temporarily underperforming.

Information in this report is at the last valuation point on 28th February 2022 (except where indicated).
*source: Trustnet