Santander Asset Management

Where evolution meets tradition

A Month in the Markets

APRIL 2022

In this latest edition our Head of Systematic Research for TAA and Alpha, Stefano Amato, looks at how investors got to grips with the new investment environment in March: rising inflation, interest rate rises and the Ukraine crisis.

Market Overview

Stefano Amato
Head of Systematic Research for TAA and Alpha

March was a month of two halves for global stock markets. Initially, markets continued along the negative trajectory set in February[1], as investors grappled with continued inflation, interest rate rises and Russia's ongoing invasion of Ukraine. High reliance on Russian exports in areas such as wheat production and oil resources contributed to price rises[2], particularly in Europe. But the midway point of the month[1] signalled a reversal in sentiment, as investors seemingly got to grips with the new investment environment. Many developed market indices finished the month in positive territory.[1]

From a sector perspective, energy stock prices rose sharply as demand continued to outstrip supply.[1] During the first half of March sectors that have previously been viewed as overvalued declined as investors reassessed valuations and weighed the prospects of higher interest rates and their effect on future cash flows.[3] As sentiment improved, these sectors gained in value and finished the month in positive territory along with the main indices.[3]

UK and Europe

UK and European stock markets weathered an early storm in March to end the month on a higher note. However, both economies were mired by the rise in inflation[4/5] and subsequent cost of living pressures[6].

In the UK, the Bank of England increased interest rates for the third consecutive time[7], as it sought to mitigate the sharp rise in inflation, which has been exacerbated by the Russian invasion. In mid-March, rates returned to their pre-pandemic levels of 0.75%.[7] European policymakers continued to hold firm, with European Central Bank (ECB) President Christine Lagarde reiterating her stance of deferring any rate rise until late 2022, once the ECB's existing bond-purchase scheme has run its course.[7]

US

In mid-March, the US Federal Reserve (Fed) raised interest rates for the first time since 2018[8]. It nudged up by a quarter percentage from near zero and signalled further rate rises to come throughout the year.

Employment data supported the Fed's lean towards tighter monetary policy. This data indicated continued job growth across the country, as more workers returned to the workforce following the global pandemic.[9]

President Joe Biden challenged domestic oil companies to increase production in an effort to lower soaring gasoline prices.[6] In addition, the president announced a plan to release one million barrels of the US strategic oil reserve each day to further relieve the pressure on prices.[6]

Despite the measures, the energy sector continued to outperform wider stock markets and achieved performance of nearly 40%.[1]

Asia Pacific

Asian stock markets continued to bear the brunt of the global pandemic, as several countries remained in pursuit of a zero-COVID-19 strategy. China particularly suffered with this, as an outbreak of the Omicron variant sent the country's financial hub, Shanghai, into an extended lockdown.[6] Other cities and towns experienced similar restrictions throughout the month.[10] China's manufacturing purchasing managers' index (PMI) fell to 48.1 in March, as productivity in the region slowed dramatically, further clogging global supply chains.[5]

In Japan, the Bank of Japan (BoJ) continued courting a weaker domestic currency, with the yen value falling significantly over the month.[7] The BoJ also seemingly signalled it had no intention of raising interest rates at this stage, as inflation levels across the country are far lower than those in other global markets.[7]

Outlook

While markets may have rallied towards the latter half of March[6], in our opinion there is still a great deal of uncertainty around the outcome and impact of the Russia-Ukraine conflict, as well as the global economy more generally. Particularly in Asia, where the Omicron variant is having a more lasting effect, we anticipate supply chain issues to continue, or even worsen, in the short-term. This should lead to further pressure on prices.

Inflation and rising interest rates across major global economies may threaten the potential for investment returns, particularly within fixed income markets. We believe this can likely determine market direction in the coming months.

All data as at 31 March 2022.

[1] Refinitiv Datastream, 31/03/2022
[2] OEC World, 31/03/2022
[3] Trading View, 31/03/2022
[4] Office for National Statistics, 31/03/2022
[5] Trading Economics, 31/03/2022
[6] The Guardian, 30/03/2022
[7] Reuters, 11/03/2022, 17/03/2022 and 4/04/2022
[8] Financial Times, 16/03/2022
[9] U.S. Bureau of Labor Statistics, 1/04/2022
[10] BBC News, 5/04/2022

Important Information

For retail distribution.

This document has been approved and issued by Santander Asset Management UK Limited (SAM UK).

This document is for information purposes only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services. Opinions expressed within this document by the SAM UK Multi Asset Solutions team, if any, are current opinions as of the date stated and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of Santander Asset Management as a whole or any part thereof. While we try and take every care over the information in this document, we cannot accept any responsibility for mistakes and missing information that may be presented.