



## A Quarter



## in the Markets

**Q1 2022**

We are pleased to introduce our latest edition of 'A Quarter in the Markets', which provides an insight into financial markets from the Multi-Asset Solutions team at Santander Asset Management UK.

### Key factors influencing markets

Throughout the first three months of 2022, global investors faced an increasingly volatile environment due to various factors. We observed that the ongoing COVID-19 pandemic continued to cause uncertainty in global stock markets and constrict supply chains. At the same time, rising demand for goods and services pushed up prices across the board, causing a sharp increase in inflation in several economies.<sup>1</sup>

In February, the focus abruptly shifted away from the pandemic towards Eastern Europe after Russia invaded Ukraine. This injected a great deal of ambiguity into stock markets as multiple governments set out a range of sanctions packages aimed at deterring Russia.<sup>2</sup> We saw this, in turn, place enormous pressure on the price of oil and gas globally given that Russia is a major producer of oil and gas. Several major central banks adjusted their respective monetary policies in an effort to stem surging inflation and forecasts about the subsequent cost of living crisis.<sup>3</sup> Among these were the Bank of England (BoE) and the US Federal Reserve (Fed).

<sup>1</sup> Trading Economics, 31/03/2022

<sup>2</sup> Reuters, 24/02/2022

<sup>3</sup> Financial Times, 16/03/2022 and 17/03/2022

## So, what happened during the quarter?

The first quarter of the year was challenging for global stock markets. Though no region emerged unscathed, the UK proved to be one of the few bright spots, with its stock market ending the quarter in positive territory.<sup>4</sup>

In the US, stock markets retreated over the quarter.<sup>4</sup> We believe this was due to speculation around the Fed's intention of raising interest rates, paired with high levels of inflation and a move away from technology companies. After a difficult January, US stock markets fell further in February.<sup>4</sup> In March, the technology-focused Nasdaq stock exchange fell into a bear market, having dropped more than 20% from the all-time highs witnessed in November.<sup>5</sup>

In Asia, Japan's stock market was negative for the quarter, even though it had shown signs of life towards the end of the quarter.<sup>4</sup> The value of the Japanese yen fell significantly across the quarter.<sup>6</sup> Meanwhile, Chinese stock markets were the hardest hit in the region, with the benchmark Shanghai Composite Index falling by more than 10% by the end of the quarter.<sup>7</sup>

## How did different economies react?

Throughout the quarter, global economies grappled with the rise in inflation and subsequent squeeze on the cost of living, as well as the uncertainty surrounding the situation in Ukraine.

In the UK, the BoE raised interest rates on two separate occasions, to 0.50% in February and then to 0.75% in March<sup>8</sup>, as it attempted to dampen inflation levels last seen in the nineties<sup>9</sup>. Russia's invasion of Ukraine in February sent oil and gas prices, along with several agricultural commodities, soaring.<sup>10</sup> This further compounded the BoE's challenges.

Similarly in Europe, energy costs were the key drivers of inflation throughout the quarter, which reached 7.5%.<sup>11</sup> The eurozone was more directly impacted by the crisis in Ukraine than the UK.<sup>12</sup> However, the European Central Bank (ECB) president Christine Lagarde remained unmoved regarding a potential raise in interest

<sup>4</sup> FE Analytics, 31/03/2022

<sup>5</sup> Investing.com, 31/03/2022

<sup>6</sup> Trading View, 31/03/2022

<sup>7</sup> Wall Street Journal, 31/03/2022

<sup>8</sup> Reuters, 11/03/2022

<sup>9</sup> Reuters, 23/03/2022

<sup>10</sup> BBC News, 31/03/2022

<sup>11</sup> Eurostat, 1/04/2022

<sup>12</sup> Deutsche Welle, 1/04/2022 and Office for National Statistics, 1/02/2022

rates. She pushed any such consideration back until late 2022, after the bank has completed its bond-purchasing scheme.<sup>13</sup>

In the US, the Fed raised interest rates in March, nudging it up by 0.25 percentage point.<sup>14</sup> This was the first time since 2018 that the Fed had lifted rates, with inflation and concerns over rising costs of living cited as the key reasons. Within the same announcement, the Fed noted that economic indicators and employment figures<sup>15</sup> had continued to strengthen, whilst also alluding to further rate rises throughout the year.

Economies in Asia remained more susceptible to the effects of COVID-19 as many continued to enforce restrictions and lockdowns in line with the prevalent zero-COVID strategy.<sup>16</sup> In China, the arrival of the Omicron variant sent swathes of the country into lockdown, most notably in Shanghai where residents were confined to their homes at the end of March<sup>17</sup>. Factory activity in the area slumped as a result, putting further pressure on global supply chains.<sup>18</sup>

However, in Japan, the country continued to ease restrictions, relaxing international travel into the country for the first time this year.<sup>19</sup> Restrictions on attending bars and restaurants were also lifted, providing positive news for the domestic economy.<sup>20</sup>

## What is the outlook for markets?

Though markets appear to have priced in a lot of the pessimism surrounding tighter monetary policy and the ongoing conflict in Ukraine, we are still vigilant about a great deal of uncertainty. The Russia-Ukraine situation is on a knife-edge, with escalation a real possibility, be that from Russian President Vladimir Putin or from the international community. Partly due to this, we anticipate inflation remaining higher for longer than originally forecast, with the situation in China also a key factor.

**Find out more**

Learn more, visit our website [here](#) for more insights into financial markets.

<sup>13</sup> Reuters, 17/03/2022

<sup>14</sup> Financial Times, 17/03/2022

<sup>15</sup> Financial Times, 1/04/2022

<sup>16</sup> Centre for Strategic & International Studies, 17/03/2022

<sup>17</sup> The Guardian, 1/04/2022

<sup>18</sup> Reuters, 1/07/2022

<sup>19</sup> Japan Times, 1/04/2022

<sup>20</sup> Nikkei Asia, 22/03/2022

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