Macroeconomic Commentary[1]

The first quarter of 2022 delivered difficult conditions for markets, having been dominated by global concerns over inflation, hawkish monetary policy and geo-political risk following Russia's invasion of Ukraine. After a volatile start to the year, global equity markets began to recover some of their losses towards the end of the quarter. The MSCI World, S&P 500 and Euro STOXX 50 finished the quarter down by 2.3%, 4.6% and 8.9%, respectively, whereas the FTSE 100 gained 2.9%. With the continuation of the Russia/Ukraine war, extreme volatility in energy and commodity prices led to further fears of economic slowdowns across the globe, especially in those areas that are heavily dependent on Russian exports. Inflation soared to 5.9% in Europe, 6.2% in the UK, and hit a 40-year high of 7.9% in the US. Accordingly, the Bank of England and the US Federal Reserve have raised rates and tapered asset purchases. Yields on the US, UK and German 10-year bonds increased by 83, 64 and 73 basis points respectively. The pound lost 2.9% against the US dollar and 0.2% against the euro.

Fund Commentary

During the first quarter of 2022, the Credo Global Equity Fund (CGEF) decreased by 0.03% outperforming the MSCI World Index by 2.26%[2] in GBP terms.

Q1 of 2022 was another very volatile quarter, with the main theme being the Russian invasion of Ukraine. Besides the tragic humanitarian devastation, loss of lives and displacement of hundreds of thousands of people, the war has also had a significant impact on world markets and the geo-political climate across the globe. The West has imposed economic sanctions on Russia and strategic Russian citizens associated with the Putin regime. Prices of commodities where Ukraine and Russia are seen as major suppliers to Europe, such as agricultural commodities and natural gas, have spiked. This has added more concern to those already worried about inflation and rising interest rates. To this point both the UK and US central banks have raised rates and have indicated more significant monetary tightening to come. Sentiment and business confidence have turned negative, at a time when China continues to grapple with Covid-19, having to lockdown large cities again, which has added more concern with regards to overall global economic growth and further supply issues.

Within the portfolio, the main positive contributors to the CGEF over the period were our "inflation friendly" basket of stocks including Insurance, Healthcare, Energy and Defence. Bayer was our top performer benefiting from strong moves in the soft commodities sector. Likewise, both BP and Shell were outperformers given the rise in energy prices. Other contributors included our Defence basket (Northrop Grumman, Lockheed Martin, and Raytheon Technologies). The single biggest detractor for the quarter was Sberbank. We originally had a 3% position in Sberbank at the end of 2021 and had reduced that position down to around 1% on the day of the invasion. After sanctions were implemented, we marked that investment down to zero. Other detractors in the portfolio included Meta Platforms, which surprised the markets with a negative set of results, and saw its price drop over 30% the day after results. Flutter Entertainment continues to underperform as investors continue to worry about enhanced regulation in the UK, and a fall in consumer spending.

(1) Source: Bloomberg.
(2) Source: Bloomberg. Performance of the Credo Global Equity Fund Class A Retail Shares over the period 31/12/2021 to 31/03/2022

Looking Forward

Sentiment in the markets is negative right now. It seems that there are more headwinds than tailwinds ahead. Rampant inflation, rising interest rates, a slowdown in consumer spending, shutdowns in China, and escalation of the Russian invasion are some of the major concerns. Stocks that miss earnings or guide downwards are being severely punished. We have always said and believed that interest rates would need to normalise post Covid-19. This seems to be playing out, but at a far more rapid rate than the market wants and expects, and arguably for the wrong reasons. Generally, in an inflationary environment Value strategies outperform Growth strategies. This has played out to a point, where Growth stocks have been significantly bruised during the period under review.

Our portfolio remains defensively positioned. We continue to have a significant weighting towards Diversified Financials and Insurance, Energy, Defence and Healthcare. These are sectors that should continue to perform well in the current environment.

As always, we remain patient and true to our investment philosophy.

Jarrod Cahn, Co-Portfolio Manager