Monthly Review and Outlook March 2022

Review

Global equities were mixed in March, as markets continued to digest the impact of the shocking events in Ukraine following Russia's invasion.

Government bond prices fell sharply; declines in corporate bond prices were less steep.

Commodities gained in March, with prices for natural gas, gas oil and heating oil significantly higher in the month.

Company shares

UK equities rose, with large companies performing more strongly than medium-sized and small companies, in keeping with a trend seen since the beginning of 2022. So-called 'defensive' sectors, such as producers and retailers of essential consumer products, were well represented among the stronger performers, because they have the potential to offer some inflation protection. US and European stocks rose in March. Defensive European sectors, such as healthcare and communication services, were among the top performers, with energy also posting a positive return. Producers and retailers of non-essential consumer goods performed weakly amid worries that higher inflation, particularly fuel prices, could hurt consumer spending. Equities fell in the Asia region (excluding Japan). Share prices fell in Taiwan, Thailand and the Philippines, with China the worst-performing market. India, Indonesia and Singapore achieved modest gains in the month. Emerging market (EM) equities declined in March, due in part to the strength of the US dollar. Egypt and Greece performed particularly poorly. Latin American markets all made strong gains, led by Brazil. EM commodity exporters posted sizeable gains, including Kuwait, the UAE, Saudi Arabia and South Africa. India also rose, driven by demand from domestic investors. Russia was removed from the MSCI Emerging Markets Index on 9 March.

Bonds

In fixed income markets, prices of bonds issued by governments fell, with the US Treasury market seeing one of its worst sell-offs ever. The yield on a US government bond with 10 years to maturity rose from 1.82% to 2.35% during the month, with the yield on a two-year US government bond rising from 1.44% to 2.33% (bond yields rise when bond prices fall). The UK 10-year government bond yield rose from 1.41% to 1.61% while the German 10-year bond yield increased from 0.16% to 0.55%. Bonds issued by companies saw negative total returns, but still performed more strongly than government bonds in March. Corporate bonds considered to be higher risk (high yield bonds) performed more strongly than those considered lower risk (investment grade bonds).

Commodities

The S&P GSCI Index rose in March. Prices for natural gas, gas oil and heating oil were all significantly higher in the month, due to Russia's invasion of Ukraine. Wheat prices gained on fears that the Ukraine crisis could limit supply (Russia and Ukraine account for around 30% of global wheat exports). Cotton and sugar prices also rose. Regarding industrial metals, nickel and zinc gained strongly.

Outlook

We believe the risk of recession has increased and the economic outlook remains one of high inflation combined with low economic growth (stagflation). The strong performance of equities following the financial crisis was supported by a low interest rate environment. But we now expect to see more modest company earnings as central banks increase interest rates to control inflation. Valuations of companies have generally become more attractive, but with greater geopolitical risks and rising interest rates, we have adopted a more cautious stance and our view on equities has been downgraded to negative. We also have a negative view on government bonds, particularly on US government bonds. This is because inflation has been rising, therefore we expect the US Federal Reserve to press ahead with rate rises this year, and government bond prices often fall when interest rates rise. With further disruptions to the supply of goods caused by the geopolitical situation in Europe, we expect the outlook for inflation to continue to deteriorate. Even so, we have upgraded corporate bonds from negative to neutral, reflecting the fact that corporate bond prices have fallen more steeply than those of government bonds in the year to date.

Asset overview

Our general view of assets over the coming months can be summarised as follows:

Equities	🔴	We anticipate more modest company earnings than in recent years, due to expected rising interest rates and greater geopolitical risks.
Government bonds	🔴	We expect central banks to increase interest rates in the near term, and government bond prices often fall when interest rates rise.
Corporate bonds	🟡	Prices of corporate bonds have fallen more strongly than those of government bonds, so we have upgraded our outlook for this asset class to neutral.
Commodities	🟢	Demand for commodities has increased as we emerge from the pandemic, while supply has been constrained by post-pandemic disruption and Ukraine.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroders, 11 April 2022

Important information

Forecasts of future performance are not a reliable guide to actual results, neither is past performance a reliable indicator of future results. The value of investments and the income from them can fall as well as rise and are not guaranteed, and the investor might not get back their initial investment.

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