RAYMOND JAMES

Welcome to February!

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"Uncertainty of any sort results in volatility…" – Raghuram Rajan

There is a famous quote by the legendary Belgian professional cyclist Eddy Merckx that he "raced from 1 February to 31 October every year, competed for everything". Unfortunately for financial markets there is never a defined season, and, whilst 2021 ended positively, January 2022 will go down into the history books as being a little bit more difficult.

However, whilst most global equity and fixed income markets made losses, these were lowered by the end of the month which included a couple of the major U.S. equity market indices enjoying their best last couple of business days of a month for a number of years. It was certainly a volatile and changeable first few weeks of the year driven specifically by heightened interest rate expectations in a number of the world's major developed market countries as well as geopolitical uncertainty centred on potential events between Russia and Ukraine.

Rising uncertainty or caution tends to manifest itself more overtly in areas that have enjoyed general success in recent months and years. Unsurprisingly losses during January were more apparent in growth, technology and small-cap equity markets which - despite the aforementioned late month gains - were more apparent in the United States equity markets than in Europe or Asia. Equity markets in the U.K. were among the best performers, helped by the significant commodity sector allocation aided by rising energy prices.

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Early February may well see the second consecutive Bank of England interest rate increase, after the central bank's first increase in a number of years during December. A combination of underlying inflationary concerns and evolving central bank stimulus efforts have led to a continuation of bond yield increases in January. Combining this with slowing global growth rate expectations, geopolitical concerns and continuing COVID-19 challenges means that the significant flow of global corporate earnings season statements in upcoming weeks is going to be highly influential on prospects for the world's financial markets. Fortunately - as already shown in late January - more corporate updates are still beating or matching current expectations than disappointing them. This means for investors, thinking carefully about the options and opportunities over upcoming months and years, there are reasons to remain cheerful.

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There is still the clear potential for the world's global equity markets - on average - to finish 2022 offering a positive total return, in some cases aided by dividend yields in advance of both many government bond yields and underlying inflation levels. Much uncertainty continues but this is always the nature of financial markets, hence the importance of trying to factor this in too. However do not worry too much about uncertainty or volatility, think more about an appropriate future reaction. Fortunately the world - and its financial markets - remains an opportunistic place for investors and pension fund holders alike looking beyond a single day, week or month. At least we know that every February is guaranteed to be a different month from every January. The weather may even be a little bit warmer too…

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