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momentum
global investment management

GLOBAL MATTERS
MONTHLY VIEWPOINT

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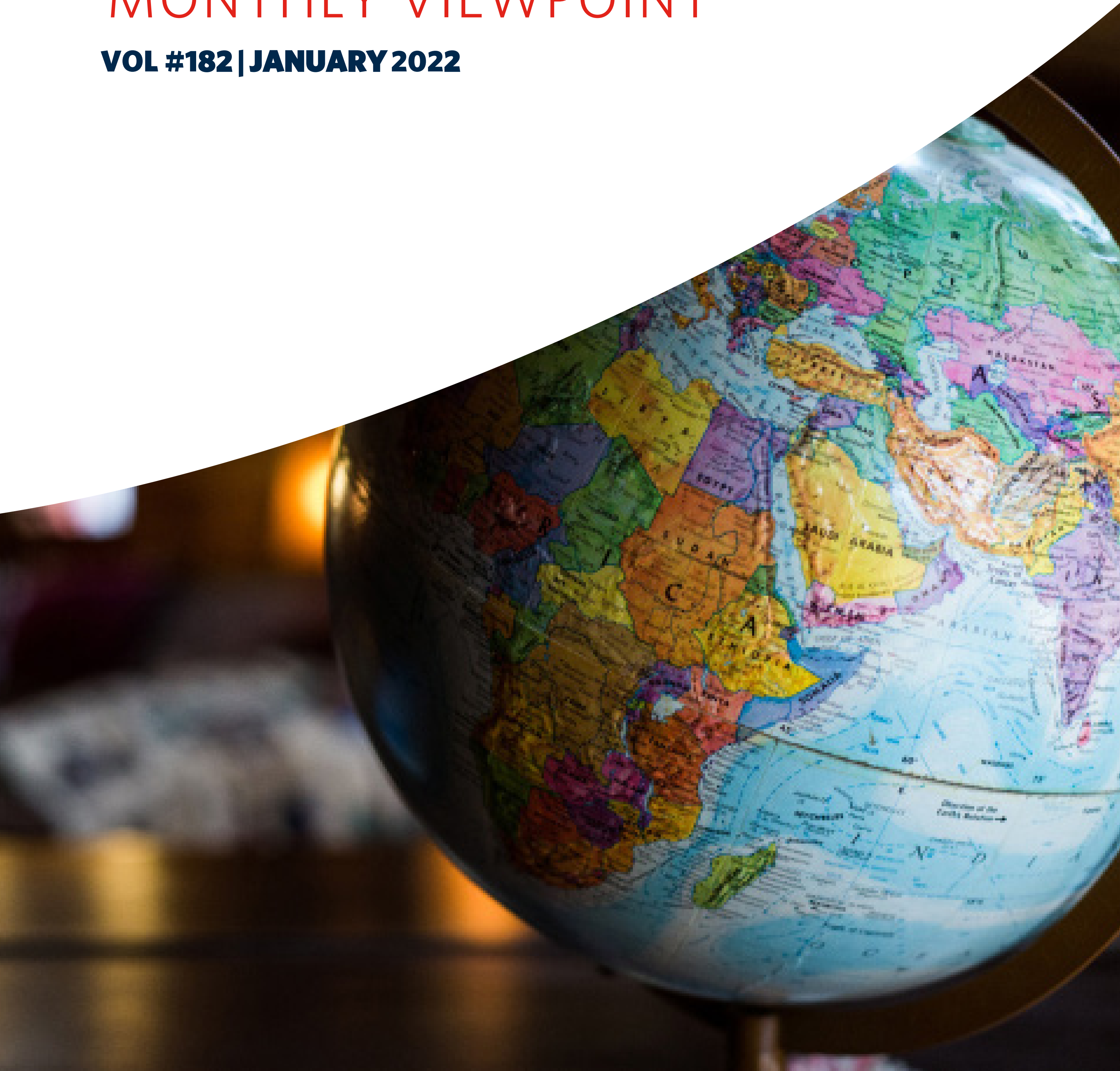

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MARKET REVIEW

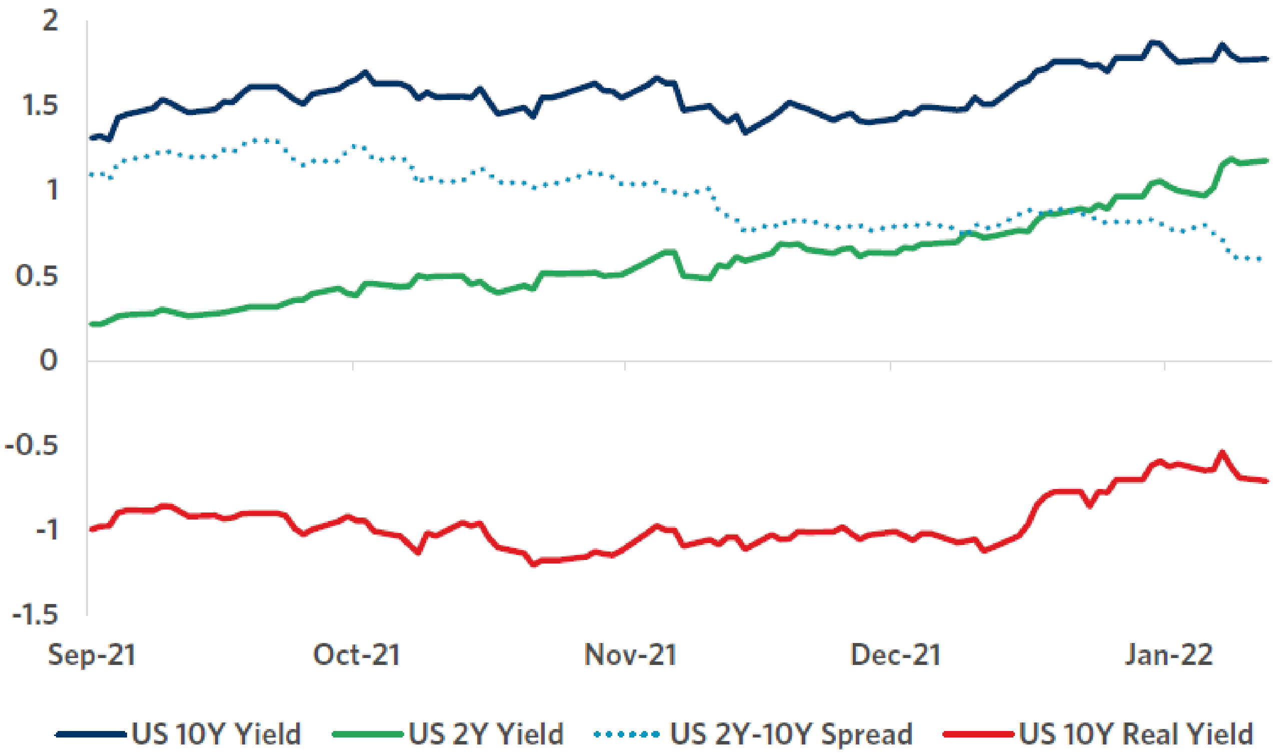
Markets suffered a severe jolt in the early weeks of the new year. Bond yields rose sharply, and Wall Street suffered its steepest drop since the pandemic crash of March 2020. The S&P 500 fell by close to 10% from its all-time high recorded on 3rd January before a late rally reduced the loss for the month to 5.2%. Most other equity markets were dragged down with similarly large declines, but there were notable exceptions; some emerging markets benefitted from strength in commodity markets, notably oil, up +17% in January, while the UK market delivered a positive return, up +1.6% in GBP terms. UK equities have underperformed substantially in recent years, held back by an especially steep drop in economic activity during the pandemic, and by a high weighting in energy, commodity and financial stocks, representing 40% of the index, and seen by many investors as long term laggards. January saw a sharp reversal in these trends, with the UK emerging from the pandemic earlier and more robustly than other major economies, oil and mining shares enjoying a strong tail wind from commodity price rises, and financials responding to the prospect of higher interest rates, leading to improved margins and earnings.

As so often through market cycles, the trigger for the setback was the Federal Reserve, which has been moving gradually to remove its ultra-loose policy but shifted to a much more hawkish stance in recent weeks, finally reacting to much higher and more persistent inflation than previously forecast. The release early in January of the minutes of the December meeting of the FOMC, the Fed's policy setting committee, revealed a dramatic acceleration in the Fed's tightening plans. Noting the very different circumstances of this cycle compared with the global financial crisis, with a stronger economic outlook, higher inflation, the labour market approaching maximum employment, and a Fed balance sheet much larger than ever before ($8.9tn in January compared with $4tn pre-pandemic), the Fed signalled a much faster pace of policy normalisation.

Only a few weeks ago, the Fed was intent on a gradual rate of reduction in its asset purchase programme, no more than one rate rise of +0.25% by the end of 2022, and little prospect of reducing its massive holdings of bonds for some considerable time. The extent of the policy pivot is clear: the Fed expects now to increase rates to close to 1.0% this year and by a further +0.75% in 2023; to end its asset purchase programme (quantitative easing) by March; and to consider quantitative tightening shortly after the first rate rise, which would reduce the size of its balance sheet and remove liquidity from the financial system.

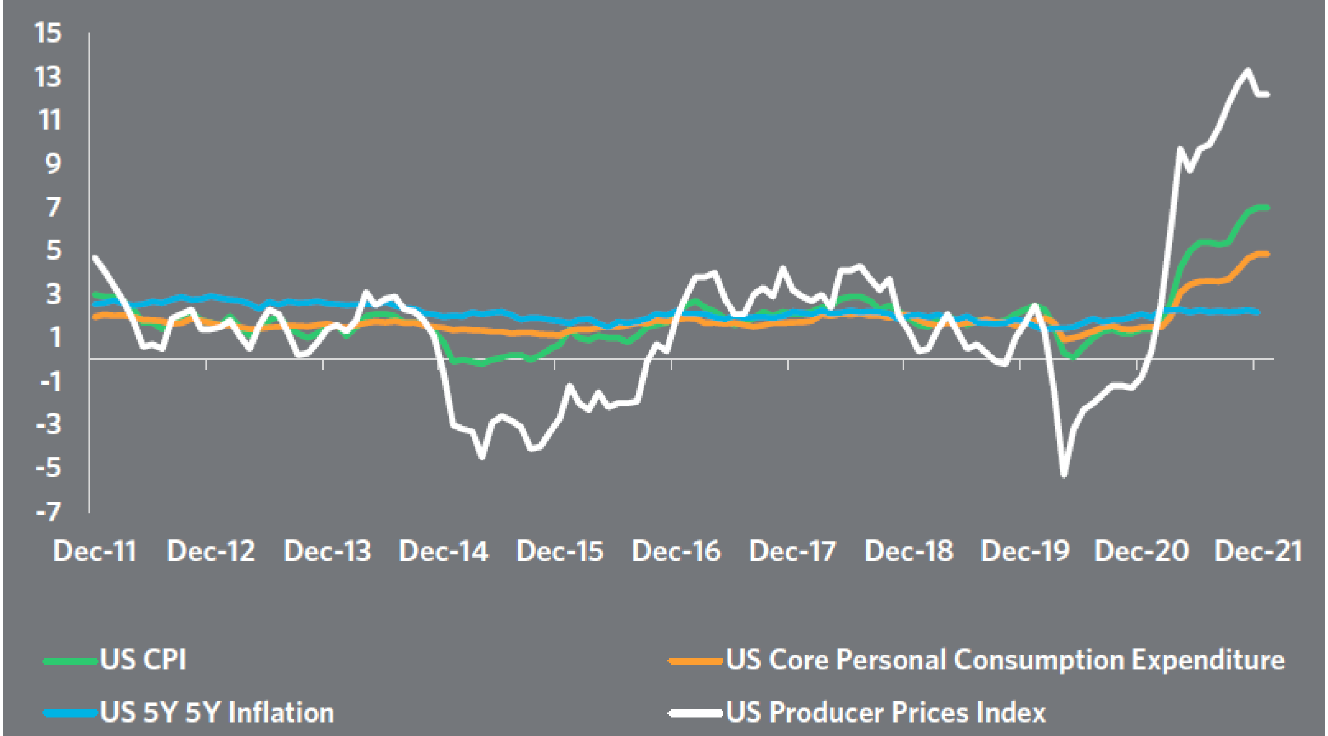
The importance and impact of this shift should not be under-estimated. Bond markets in the US and around the world reacted by pushing up yields across the maturity curve, but especially in shorter dated bonds, resulting in a higher discount rate, with implications for the valuation of all asset classes, and a flatter yield curve, often a sign of more difficult economic conditions ahead. The yield on 2-year US Treasury bonds rose by +45bps in January to 1.18%, a full 1.0% higher than four months ago, while 10-year bonds saw a +27bps move in yield to 1.78%. The move in rates was driven entirely by real rates, which rose by 40bps in January, although still in negative territory at -0.6%. Surprisingly, and reassuringly, longer term inflation breakeven rates, which reflect the market's expectation for inflation years ahead, declined somewhat, while expectations of longer term interest rates remained anchored around 2.5%.

Sharp rise in bond yields especially at shorter maturities



Source: Bloomberg Finance L.P., Momentum Global Investment Management

Inflation surges-but forward expectations remain subdued

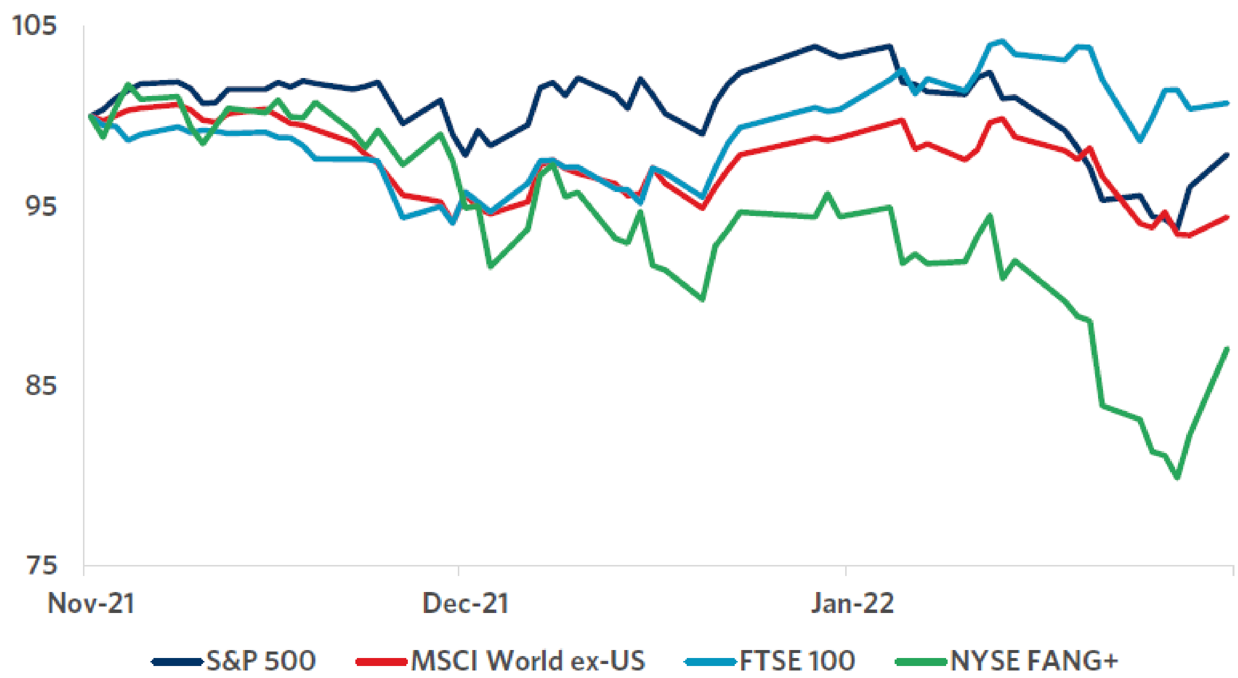


Source: Bloomberg Finance L.P., Momentum Global Investment Management

The result was a negative return for all fixed income markets in January, with US Treasuries -1.7%, investment grade corporate bonds -3.4%, high yield -2.7% and emerging market bonds -3.9%. Equities suffered across the board but by far the biggest falls were reserved for growth stocks, especially at the aggressive end of the spectrum, where valuations are very high and earnings and cash flow are non-existent or expected well into the future.

The NASDAQ index in the US, with a concentration of growth stocks, fell by -9.0%, which includes a rally of +6.6% in the last two days of the month, while US small cap growth stocks fell by -13.4%, and are in bear market territory after a fall of -22.0% since their peak in November. In contrast, value stocks held up well, with two sectors, energy and banks, producing positive returns in January.

Big tech underperforms as Fed pivots

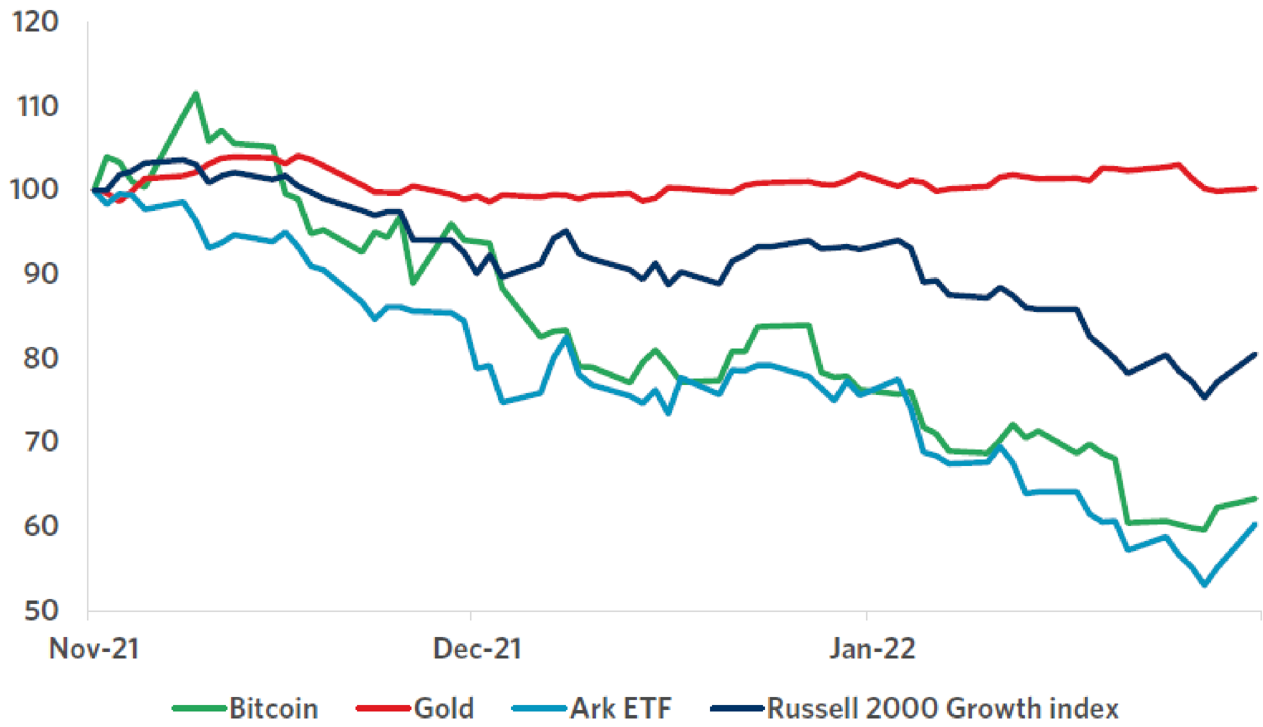


Source: Bloomberg Finance L.P., Momentum Global Investment Management

Those assets which have been the prime beneficiaries of zero interest rates and vast amounts of liquidity pumped into the system by central banks suffered the biggest falls. Cryptocurrencies are a good example; while not an asset which we own, nor intend to own, in our portfolios, their price can be a good indicator of excessive optimism and liquidity in markets. Bitcoin's decline of -17.0% in January, taking its fall from the mid-November peak to 48%, gives pause for thought for those investors who see cryptocurrencies as a substitute for gold as a safe haven. Gold, which we own in our portfolios as a well-proven defensive asset, was broadly stable in price over the same period, which encompasses the beginning of the period of volatility as markets began to discount the Fed's policy shift.

News on the economic front continues to point to robust growth in 2022, albeit somewhat lower than earlier projections. The Omicron variant dampened activity in the short term but to a much lesser extent than earlier waves, and leading indicators of activity are reflecting considerable optimism across the corporate world for recovery and strong growth this year, well above the long-term trend. The biggest reported concern of businesses is the impact of rising costs and continuing supply difficulties. There are some signs of an easing in supply chain disruption, but a return to normality is likely to take until well into the second half of 2022 and in some cases potentially longer.

Speculative and highly valued assets crash, gold stable



Source: Bloomberg Finance L.P., Momentum Global Investment Management

The combination of strong demand and supply constraints is pushing up prices at the highest rate in decades; inflation is the biggest risk to financial markets this year. The rise we have seen can no longer be considered transitory, and the question now is just how persistent or even permanent it will be. The factors driving inflation are global in nature, and the US CPI of 7.0% in 2021, with core CPI at 5.5%, while higher than other major developed nations, is reflected around the world. Most central banks have been following the Fed in tightening policy, with the Bank of England the first to raise rates among the key banks, as well as signalling further rises through 2022, while the ECB is substantially reducing its asset purchase programme and flagging the prospect of rate rises within the next 12 months, albeit from a negative level of -0.5%. With inflation at 5.3% in Germany, a country particularly fearful of the damage inflicted by high inflation, the ECB, like the Fed, risks being behind the curve in tightening policy.

The main exception to this policy shift is the PBoC, the central bank of China, which, in the face of a serious slowdown in activity, loosened policy in the past month by cutting interest rates and injecting liquidity. China's regulatory clampdown, the drive to deleverage the vast property development industry, and its zero-Covid policy, combined to produce the slowest growth in GDP since the worst of the pandemic, with fourth quarter growth at 4.0% year-on-year.

The fear of a Russian invasion of Ukraine is also worrying investors. The stand-off between Russia and the West risks a dangerous mis-step, and any incursion by Russia into Ukrainian territory seems sure to trigger severe sanctions on Russia followed by retaliation, with energy supplies to Europe considered to be at greatest risk. Since the EU relies on Russia for some 40% of its gas supplies, the consequences, at least in the short term, could be severe, pushing inflation sharply and rapidly higher. Given the economic damage that would be inflicted on both sides, the most likely outcome seems to be a diplomatic resolution, but the risks are unlikely to dissipate in the short term and remain a threat to short term market stability – calling for a continued allocation of defensive assets, including gold, in portfolios.

"Gold, which we own in our portfolios was broadly stable in price and is a well-proven defensive asset"

We are at a critical transition in the cycle. On the positive side, we are learning to live with Covid, and in practical terms are moving to endemic status where it will have little impact on economic activity. The surge in household wealth and savings during the pandemic and the release of pent-up demand is underpinning strong growth in the global economy, expected to moderate as the year progresses but still at above trend rates. But that also means the need for extraordinary levels of policy support are no longer necessary, and the process of normalisation is underway.

Monetary policy is being tightened much more rapidly than expected only a few weeks ago, and the transitory inflation narrative has been dropped. Markets are in the process of adjusting equally rapidly to this new reality, and already financial conditions have been tightened significantly by the policy pivot. Markets moved a long way in January to discount this tightening, and futures markets are now well up with the Fed's likely progression to a Fed Funds rate of around 1.25% within twelve months and 1.75% by the end of 2023.

Sharp moves like those in January worry investors, but some perspective is required. Even with the policy tightening ahead, interest rates will be very low by historical comparisons and still negative in real terms. Monetary policy is tightening but still relatively accommodating, and policy has shifted for the good reason that the economy is strong and likely to remain so for the next 18 months at least. The risks of inflation becoming persistent cannot be dismissed, and with it a more aggressive tightening by the Fed, but we believe that inflation will peak in the first half of 2022 due to base effects and the gradual easing of supply chain disruption, as well as moderating growth as the year progresses. Inflation expectations have remained stable and wages, while rising at around 4.6%, are within the range of the past two decades.

We recognise the risks through this period of transition, and we expect lower returns in 2022 and periods of volatility as in the past month. But we see the sharp moves of recent weeks as a healthy correction, towards normalisation of monetary policy, a shift away from unsustainably low interest rates, and a rotation from excessively valued assets driven primarily by liquidity to those built on sound fundamentals and reasonable valuations. We believe that the best way to navigate this more challenging year for markets is to hold a diversified blend of assets, and, within equities, a blend of styles, with value stocks likely to make a strong comeback after years of underperformance.

"We are at a critical transition in the cycle.On the positive side, we are learning to live with Covid, and in practical terms are moving to endemic status"

Market Performance - Global (Local Returns)

as at 31 January 2022

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-5.2%	-1.7%	-5.2%	22.8%
United Kingdom	MSCI UK NR	GBP	1.6%	4.3%	1.6%	22.3%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.8%	-2.2%	-4.8%	19.8%
Japan	Topix TR	JPY	-4.8%*	-5.1%*	-4.8%*	7.0%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.0%	-6.4%	-4.0%	-9.9%
Global	MSCI World NR	USD	-5.3%	-3.4%	-5.3%	16.5%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-5.6%	-15.9%	-5.6%	10.0%
Emerging Asia	MSCI EM Asia NR	USD	-3.5%	-5.6%	-3.5%	-12.2%
Emerging Latin America	MSCI EM Latin America NR	USD	7.4%	10.4%	7.4%	5.8%
China	MSCI EM China NR	USD	-1.8%	-7.9%	-1.8%	-16.0%
BRICs	MSCI BRIC NR	USD	-3.0%	-11.6%	-3.0%	-29.2%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.9%	-4.1%	-1.9%	-7.2%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-1.7%	-1.5%	-1.7%	-3.1%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-2.2%	-0.9%	-2.2%	3.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-3.4%	-3.4%	-3.4%	-3.1%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-2.7%	-1.9%	-2.7%	2.0%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-4.0%	-3.7%	-4.0%	-7.5%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-2.9%	-2.9%	-2.9%	-5.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.1%	-1.0%	-1.1%	-3.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.3%	-1.2%	-1.3%	-2.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-1.5%	-1.1%	-1.5%	1.5%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.8%	-0.8%	-0.8%	-0.7%
Australian Government	JP Morgan Australia GBI TR	AUD	-1.1%	0.9%	-1.1%	-3.7%
Global Government Bonds	JP Morgan Global GBI	USD	-2.0%	-2.6%	-2.0%	-7.1%
Global Bonds	ICE BofAML Global Broad Market	USD	-2.2%	-2.8%	-2.2%	-6.4%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-5.8%	-9.4%	-5.8%	-6.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-3.9%	-4.1%	-3.9%	-6.5%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-7.0%	0.2%	-7.0%	31.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-9.5%	-1.8%	-9.5%	14.7%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.2%	-3.9%	1.2%	-1.9%
Global Property Securities	S&P Global Property USD TR	USD	-5.0%	-1.5%	-5.0%	17.7%
Currencies						
Euro		USD	-1.2%	-2.8%	-1.2%	-7.4%
UK Pound Sterling		USD	-0.6%	-1.7%	-0.6%	-1.9%
Japanese Yen		USD	0.0%	-1.0%	0.0%	-9.0%
Australian Dollar		USD	-2.7%	-6.0%	-2.7%	-7.5%
South African Rand		USD	3.7%	-0.9%	3.7%	-1.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	9.1%	7.2%	9.1%	47.7%
Agricultural Commodities	RICI Agriculture TR	USD	3.1%	7.5%	3.1%	32.6%
Oil	Brent Crude Oil	USD	17.3%	8.1%	17.3%	63.2%
Gold	Gold Spot	USD	-1.8%	0.8%	-1.8%	-2.7%
Hedge funds	HFRX Global Hedge Fund	USD	-1.8%e	-2.6%e	-1.8%e	1.9%e

Interest Rates	Current Rate
United States	0.25%
United Kingdom	0.25%
Eurozone	0.00%
Japan	-0.10%
Australia	0.10%
South Africa	4.00%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
e=estimate

Market Performance - UK (GBP Returns)

as at 31 January 2022

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	1.6%	4.3%	1.6%	22.3%
UK - Large Cap	MSCI UK Large Cap NR	GBP	4.2%	6.9%	4.2%	25.3%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-6.8%	-3.8%	-6.8%	10.1%
UK - Small Cap	MSCI Small Cap NR	GBP	-7.5%	-6.4%	-7.5%	7.2%
United States	S&P 500 NR	USD	-4.5%	0.0%	-4.5%	25.2%
Continental Europe	MSCI Europe ex UK NR	EUR	-5.5%	-3.2%	-5.5%	13.0%
Japan	Topix TR	JPY	-4.4%	-4.3%	-4.4%	-0.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-3.3%	-4.7%	-3.3%	-8.1%
Global developed markets	MSCI World NR	USD	-4.6%	-1.7%	-4.6%	18.9%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.2%	-2.4%	-1.2%	-5.4%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-4.0%	-3.8%	-4.0%	-7.5%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.8%	-0.6%	-0.8%	-2.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-2.7%	-2.0%	-2.7%	-6.4%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-6.6%	-6.6%	-6.6%	-10.7%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-2.7%	-2.6%	-2.7%	4.2%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-0.6%	0.2%	-0.6%	4.1%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-3.9%	-4.1%	-3.9%	4.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-2.9%	-2.9%	-2.9%	-5.0%
US Treasuries	JP Morgan US Government Bond TR	USD	-0.8%	0.6%	-0.8%	-0.8%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-2.4%	-1.3%	-2.4%	-0.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-2.7%	-1.9%	-2.7%	2.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.1%	-1.0%	-1.1%	-3.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.3%	-1.2%	-1.3%	-2.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-1.5%	-1.1%	-1.5%	1.5%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.3%	-0.9%	-1.3%	-5.3%
Global Bonds	ICE BofAML Global Broad Market	GBP	-2.2%	-2.8%	-2.2%	-6.4%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-5.8%	-9.4%	-5.8%	-6.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-3.2%	-2.4%	-3.2%	-4.7%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-4.3%	0.2%	-4.3%	20.0%
Currencies						
Euro		GBP	-0.7%	-1.1%	-0.7%	-5.7%
US Dollar		GBP	0.6%	1.8%	0.6%	1.9%
Japanese Yen		GBP	0.6%	0.8%	0.6%	-7.3%
Commodities & Alternatives						
Commodities	RICI TR	GBP	9.9%	9.1%	9.9%	50.7%
Agricultural Commodities	RICI Agriculture TR	GBP	3.9%	9.4%	3.9%	35.2%
Oil	Brent Crude Oil	GBP	18.1%	10.0%	18.1%	66.5%
Gold	Gold Spot	GBP	-1.0%	2.6%	-1.0%	-0.8%
Interest Rates				**Current Rate**		
United Kingdom				0.25%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns. e=estimate

"We continue to favour equities over fixed income in recognition of their leverage to a sustained global economic recovery"

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Asset Allocation Dashboard

Main Asset Classes	Change	Negative	Neutral	Positive
Equities	-	○ ○	●	○ ○
Fixed Income	-	○ ●	○	○ ○
Alternatives	-	○ ○	○	● ○

Our Overall View

We continue to favour equities over fixed income in recognition of their leverage to a sustained global conomic recovery. Most fixed income remains expensive given the inflationary backdrop but pocketsof credit continue to offer some value. Alternatives, including infrastructure, are attractive for their diversifying qualities as much as the return potential.

EQUITIES	Change	Negative	Neutral	Positive
Developed Equities	-	○ ○	●	○ ○
UK Equities	-	○ ○	○	● ○
European Equities	-	○ ○	●	○ ○
US Equities	-	○ ●	○	○ ○
Japanese Equities	-	○ ○	○	● ○
Emerging Market Equities	-	○ ○	●	○ ○

Equities offer the potential for further forward returns as the global economy continues to recover. Huge stimulus programs, central bank support and pent-up consumer demand and savings paint a favourable backdrop. The UK remains attractive as it slowly shakes off its Brexit discount and is well positioned sectorally to benefit from the economic recovery. We also favour Japan on valuation grounds and for the accompanying Yen exposure.

FIXED INCOME	Change	Negative		Neutral	Positive	
Government	-	●	○	○	○	○
Index-Linked	-	○	●	○	○	○
Investment Grade Corporate	-	○	●	○	○	○
High Yield Corporate	-	○	○	●	○	○
Emerging Market Debt	-	○	○	●	○	○
Convertible Bonds	-	○	○	●	○	○

Bonds remain expensive today. Sovereign yields have lifted off their lows but remain unattractive given the risk of inflation becoming more entrenched. Inflation linked bonds have marginally better prospects. We remain fundamentally constructive on corporate credit but see limited upside and returns to come mostly from carry in the near term. Convertibles play an important role in multi asset portfolios but look fairer value today.

REAL ASSETS / ALTERNATIVES	Change	Negative		Neutral	Positive	
Commodities	-	○	○	○	●	○
Property	-	○	○	●	○	○
Infrastructure	-	○	○	○	●	○
Liquid Alternatives	-	○	○	●	○	○

Real assets look attractive on both fundamental and valuation grounds, with a bias to infrastructure assets which ultimately should benefit from government policy initiatives. Investors are paid well to wait, and the diversifying qualities, also offered by the more esoteric liquid alternatives allocation, is attractive today in a world of expensive bonds. The backdrop of supply chain disruption and buoyant consumer demand is likely to support commodity prices in the near term.

CURRENCIES *vs. USD*	Change	Negative		Neutral	Positive	
GBP	▼	○	○	●	○	○
EUR	-	○	○	●	○	○
JPY	-	○	○	○	●	○

US yields creeping higher makes it challenging for the more rate anchored currencies like the Euro not to depreciate. We take a more neutral view on Sterling following recent strength and a resetting higher in expectations for base rates both in the UK and the US. The Yen has continued to soften but its defensive qualities make it attractive as a portfolio diversifier.

The Asset Allocation views are as of December 2021 and are updated quarterly unless otherwise stated.

Belvest

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