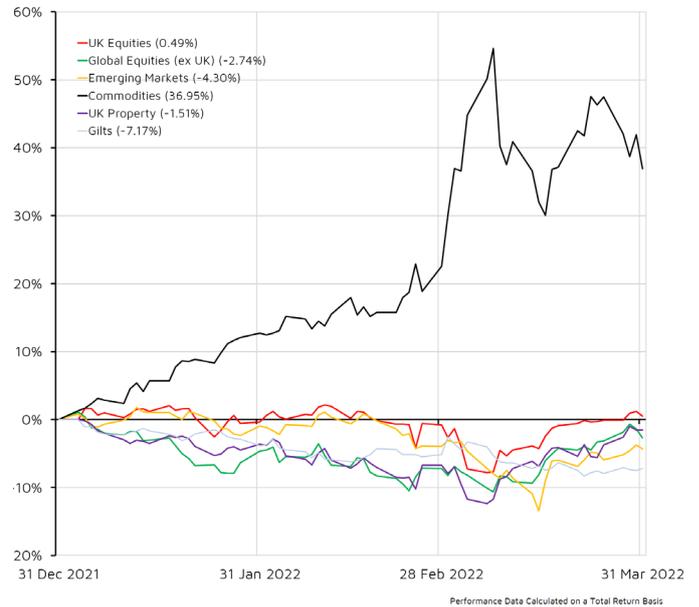


REVIEW OF THE PAST QUARTER:

Markets had a poor start to 2022. The main concerns at the beginning of the quarter were rising consumer prices and how this would impact central bank monetary policy; but this quickly turned to concerns about the unfolding crisis in Ukraine following the Russian invasion. All equity markets produced negative returns and commodities were the best performing asset class as a result of rising energy prices.

UK equities performed well in comparison to other developed equity markets as the heavy exposure to oil, gas and mining companies benefited from high commodity prices. US equities had a poor quarter as the conflict fuelled more concerns about the cost of living as inflation reached 7.9%, however, the strength of the dollar helped to limit losses for UK-based investors. European equities lagged the most due to Europe’s heavy reliance on Russian oil and gas. UK government bonds were also negative as the Bank of England increased interest rates to 0.75% and voted to start the process of passive quantitative tightening.

Commodities were extremely volatile, as the hostilities in Ukraine raised concerns about disruption to supplies of everything from oil and gas to industrial metals and wheat and corn, at a time where global economies are still struggling to recover from disruptions caused by the Covid-19 pandemic. Oil and gas prices rose sharply and Brent crude briefly hit US\$139 per barrel and still remains well above US\$100 a barrel.



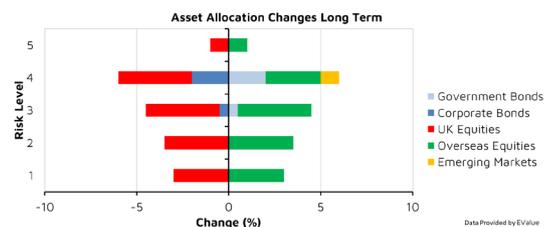
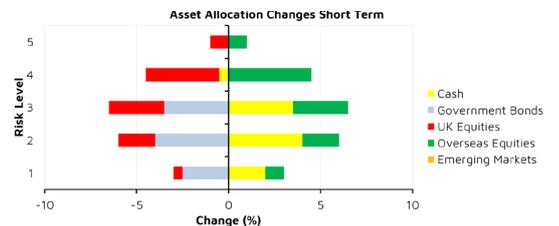
ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Property
+0.10%	-7.17%	-5.50%	-6.16%	+0.49%	-2.74%	-4.30%	-1.51%

THE ACTUARIAL VIEW:

Long anticipated rises in interest rates have materialised in Western markets. Russia’s invasion of Ukraine has driven up commodity prices, adding to inflationary pressure, and expectations are rising for more aggressive tightening by central banks. In the short term, that means higher returns for cash and lower bond returns. Over the long-term, the gains in cash could get pared back a little, but not enough to overcome the good start. Bond should overcome their slower start, but only in the very long term.

Russia’s invasion means there is potential for further volatility in equities, but markets are already beginning to focus on inflation and central bank policy again. There is a plausible theory that supply disruptions have created opportunities for firms with market power. Since the growth in profitability is quite widespread, the markets that did least well over the previous quarter should see the most improvement, so Japan stands to gain most and the US least, although the difference is small. The UK stands out as an exception: although there are some positive signs for the UK economy, they do not seem to be translating into stronger profitability.



WHAT TO LOOK FOR:

- UK:** The Monetary Policy Committee announcements and minutes are set to be released on 5 May and 16 June. Preliminary GDP growth for Q1 2022 is available on 12 May. Labour market overview to be published on 12 April.
- US:** There will be interest rate decisions from the Federal Open Market Committee (FOMC) on 4 May and 15 June. Minutes from the FOMC meeting will be published on 6 April and 25 May. GDP growth for Q1 2022 will be released on 28 April. Core inflation for March 2022 will be released on 12 April.
- Eurozone:** Flash data for GDP growth for Q4 2021 will be published on 29 April. European Central Bank monetary policy meetings will be held on 14 April and 9 June. Unemployment for March is to be published on 3 May.
- Other Data:** Caixin China General Manufacturing PMI is due on 30 April and the JPMorgan Global Composite PMI on 5 April.

ASSET CLASS SCENARIOS:



UK EQUITY

Most Likely: The Bank of England continues to raise interest rates, which should support banks. Rising energy prices and higher taxes squeeze incomes and hit consumer confidence while a tight labour market provides further headwinds to small and mid-sized companies. Brent crude and precious metals remain elevated, which should help energy and mining companies. Global tensions and reduction in monetary stimulus continue to slow recovery and add to volatility.

Worst Case: The war in Ukraine worsens, adding pressure to commodity prices, damaging global trade and bringing global activity down. The Bank of England makes a monetary policy mistake, either tightening too quickly or too slowly – compounding the issues the UK market already faces. The unlikely event of a new vaccine-resistant Covid-19 strain would disrupt supply chains just as they start to improve.

Best Case: Global supply chains and international travel return to pre-pandemic levels. A swift end to the war helps to stabilise commodity prices and reduce geopolitical frictions. The change in monetary stance has an orderly impact and inflation starts to subside with minimal impact on activity. Smaller companies would benefit, while recent beneficiaries of the soaring commodity prices would see headwinds.



GLOBAL EQUITY

Most Likely: The ongoing war in Ukraine hits investor confidence and keeps commodity and energy prices high. Sanctions imposed on Russia result in lower profits and slower growth for developed economies. Despite the uncertainty around the war, the US Federal Reserve proceeds with hiking interest rates. Japan lifts Covid restrictions and the prospect of fresh fiscal stimulus should strengthen the economy.

Worst Case: A long war in Ukraine hurts consumers' confidence and activity and pushes commodity and energy prices higher. If Russia stops oil and gas exports there would be a substantial inflationary shock alongside significant disruption to financial markets. Europe's dependence on Russian energy means it would suffer from an economic slowdown. Defensive sectors are set to outperform economically sensitive areas of the market, while smaller companies are likely to lag.

Best Case: The war in Ukraine ends quickly, with limited disruption to the energy and commodities market. China's promise of more economic stimulus helps support the global economy. Consumer and business confidence revert to pre-pandemic levels, and inflation expectations remain elevated but stabilise. Central banks reduce monetary stimulus, thus supporting more cyclical areas of the market.



EMERGING MARKET EQUITY

Most Likely: China is likely to take steps to avoid Western sanctions whilst simultaneously trying to avoid shunning Russia. Rising commodity prices will put further pressure on inflation but also polarise emerging market performance; Brazil and South Africa stand to benefit strongly but wheat and oil importers, such as India, will experience headwinds.

Worst Case: Action by China to either circumvent the sanctions on Russia or provide military support for the invasion of Ukraine could lead to it receiving its own package of sanctions imposed by the West. If infections of China's worst Covid-19 outbreak since Wuhan in 2020 continue to worsen, this could lead to material supply disruption across a variety of industries due to the region's strict zero-Covid-19 policy.

Best Case: China helps persuade Russia to end its invasion of Ukraine, reducing market volatility. The so-called 'green revolution' will provide a structural tailwind to many emerging market economies. A continued change in tone from China, such as vice-premier Liu He's recent commitment to boost the economy and introduce policies that favour the market, could lead to a strong rally in the Chinese market.



CASH

Most Likely: Yields available for money market instruments should improve over the next quarter, with the Bank of England being committed to fighting high levels of inflation. Nevertheless, the pace of interest rates increases is likely to remain behind inflation and, as such, returns adjusted for inflation for those instruments are likely to stay negative. Those instruments will also suffer from negative capital return as their price moves inversely to yields.

Worst Case: Unless the Bank of England moves more aggressively than what is currently priced in, the downside for money market instruments is limited. With inflation expected to remain at current levels, real returns are likely to be negative. For cash investors, it would be even more painful to see both bond and equity markets doing well.

Best Case: If inflation rises above expectations, the Bank of England may further hike rates. If so, it is likely that the interest rate curve will steepen, which would slightly improve the return from money market funds, as managers can lock higher rates at longer maturity dates, which may offset the loss from capital return.



FIXED INCOME

Most Likely: The Bank of England increases rates a further 0.25% in May and June but, with these hikes already priced in, government bond yields remain stable. Peace talks continue between Russia and Ukraine but with limited progress. The conflict along with elevated commodity prices increases the likelihood of recession in the second half of 2022, particularly in Europe, which drives corporate bond valuations lower.

Worst Case: Rising inflation convinces the Bank of England to hike rates faster than expected and begin selling gilts from its purchase programme, driving down bond valuations. Vladimir Putin settles for a peace deal, creating a burst of investor risk appetite and driving significant flows out of government bonds. European and Chinese corporate bonds fall significantly as the energy crisis broadens, and expected Chinese monetary support fails to materialise.

Best Case: Increased oil and gas supply from the US and elsewhere causes energy prices to fall and means the Bank of England is able to slow its pace of tightening. Tensions over Ukraine rise, causing investors to flock to the safety of government bonds. Despite the geopolitical tensions, corporate bond valuations are supported by dovish tilts from central banks and robust financial results.



PROPERTY

Most Likely: The outlook is positive for property companies, although there is likely to be dispersion in performance among sub-sectors as those with better inflation hedging characteristics and pricing power outperform.

Worst Case: Expectations for a weaker economic outlook negatively impact cyclical plays such as property stocks, particularly those operating within economically sensitive sectors such as retail, offices, and leisure. Bond yields moving higher could limit upside in the sector or even cause values to tumble in the short-term.

Best Case: Property companies act as a strong inflation hedge, helped by their strong pricing power and attractive dividend yields. Fundamentals remain strong in sub-sectors that have had solid performance such as industrials, storage, and health care, where supply and demand dynamics are favourable. Government bond yields stabilise or edge down, making shares in property companies more attractive on a relative basis.

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