# Monthly Macro

## March 2022

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## What were the biggest drivers of markets in February?

- The start of February was a particularly weak period for bond markets, continuing the theme seen in January as central banks lined up to announce or hint at policy tightening measures in the face of continued inflationary pressures. The Bank of England made its first back-to-back rate hikes since 2004. This was followed by an announcement at the European Central Bank (ECB), which effectively paved the way for possible rate hikes this year, as well as slowing the pace of its asset purchases. In the US, upwardly revised employment data continued to heap pressure on the Federal Reserve.

- However, market sentiment shifted dramatically following Russia's military invasion of Ukraine. Riskier assets everywhere reacted negatively and Russian assets were unsurprisingly badly hit in the market fallout, particularly as economic sanctions were announced. The news brought some relief in government bond markets towards the end of the month. Even so, Treasuries (-0.8%), bunds (-1.2%) and gilts (-1.4%) all lost ground in February. Credit markets (both high yield and investment grade) followed other risky assets lower.

- Numerous commodities saw prices surge as a result of the conflict. Oil (Brent crude) was 10.7% higher, breaching US$100 per barrel for the first time since 2014. Natural gas prices also continued their relentless increase, while several food prices such as wheat and corn recorded double-digit moves higher.

- In February, market concerns shifted from inflation and rising rates to the conflict in Ukraine and potential growth threats.

- Having recovered somewhat from their lows in January, most developed equity markets delivered a negative return in February. The US equity market was ultimately resilient when Ukraine concerns intensified in the final week of the month, while Europe underperformed.

- Having weakened on rate and inflationary pressures, developed market government bonds then rallied in response to the geopolitical threat, potentially reflecting some desire for safety and a view that interest rate increases my come later. Most delivered a negative return during the month.

- Many commodity prices resumed their upward moves seen since the start of December. Oil and natural gas price increases related to the Ukraine situation supported assets in the energy sector and some emerging markets.

- The US dollar was relatively unchanged versus the euro, yen and sterling, while most emerging market currencies appreciated modestly. The clear exception to these observations of relatively muted price responses across assets was the weakness in Russian and Ukrainian assets themselves, which unsurprisingly declined dramatically in most cases.

## What will you be looking out for in March?

- Investor focus will momentarily shift from Putin to Powell at the beginning of the month as the US Fed Chair testifies before Congress. His remarks on how the Russia-Ukraine conflict could affect the path forward for US interest rate hikes will be closely watched.

- Headlines of COVID-19 disruption have been quickly replaced by geopolitics and the tragic events of war in Europe's eastern flank. It's undoubtedly a difficult and frustrating time for many investors as uncertainty remains elevated. What happens next in energy markets is likely to be a key driver of global financial market sentiment in the coming weeks.

- The market response to the Ukrainian issue has been relatively discerning thus far, with little notable contagion to other assets. That said, whether the situation itself - or market perceptions of it – worsens or softens seems likely to be an important driver of markets from here.

- As always there is the possibility for escalation, and with it a temptation to hide from risk. Such uncertainty is very real, but common throughout history. We should be wary of letting it shorten our investment time horizons.

### Key dates for the month ahead:

**3 Mar:** US Fed Chair Powell's testimony

**4 Mar:** US jobs report

**10 Mar:** US inflation data

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