Context is Everything: April Market Update 2022

Callum McPherson
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[vc_row][vc_column][vc_column_text]Context is everything when we look at markets, and April was a month where the effects of the Ukraine Crisis intersected with heightened inflation concerns around the world to create the perfect storm of uncertainty. It is a matter of record that most commentators believe central banks have waited too long to raise interest rates to arrest the emerging inflation risks. Where central banks persisted with the view that inflation pressures were transient – Covid-related supply chain issues – it is now clear that inflation is structural. The combined uncertainty spooked markets in April, with further sell-offs across the globe affecting most asset classes.[/vc_column_text][vc_single_image image="8713" img_size="full" alignment="center"][vc_column_text]Global shares caught the brunt of the sell-off, being impacted by continued inflationary pressures, the ongoing war in the Ukraine, and China continuing to target a zero-Covid policy. This led the S&P500 to fall by 8.72% for the month and the Nasdaq to fall further, dropping by 13.2%. Part of this is a shift away from US-based tech stocks, which make up a significant portion of these indices, and which have benefited hugely from the lower interest rates over the last few years. A great example of this shift is the growth company Amazon which slumped by 14.2% for the month. This change has widened the gap between Global Value stocks and Global Growth since the start of the year and has helped the Capital Partners' portfolios outperform due to the tilt toward Value.[/vc_column_text][vc_single_image image="8714" img_size="full" alignment="center"][vc_column_text]Thankfully, the Australian market was more resilient over April, despite still dropping 0.84% as technology and materials dragged. Utilities and transport were the biggest positive contributors providing 9.3% and 5.4% respectively. While global markets are now showing a marginal dip for the 12 months, the Australian market has remained strong, providing over 10% for the year.

Emerging Markets

The emerging markets continue to be plagued by China's zero-Covid policy, with the country making up over 30% of the sector's benchmark. China's own benchmark, the CSI 300, posted its biggest one-day tumble since February 2020 during the month, of 4.9%. This was after Beijing's biggest district began mass testing for Covid-19 because of a rise in infections. This will likely add more disruptions to worldwide trade and global supply chains while dragging on its economy, which was a major driver of global growth for years.

Inflationary Pressures

Inflation continues to be a pressing matter both here in Australia and across the globe. Headline inflation in the US dropped during the month of April, from its 40 year March peak of 8.5% to 8.3%. The Federal Reserve continued to hold its hawkish approach and raised rates by 50 basis points at the beginning of May. In Australia, we also saw the Reserve Bank raise rates from 0.1% to 0.35% in early May, following a rise in inflation, which hit 5.1% over the March quarter. This is after previously stating it would not raise rates until 2024. These inflationary figures led to rising bond yields and more negative returns in the bond market. The bond market is now pricing in up to 10 rate hikes over the next 12 months with two-year treasury yields rising from 2.33% to 2.73%. It is unusual for bonds and shares to be sold off together, indeed, the last time was thirty years ago in the early nineties. Only time will tell if the bond market's prediction of rate rises is right.[/vc_column_text][vc_column_text]

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