Economic & Political Roundup

Monthly roundup | Investment companies | June 2022

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A collation of recent insights on markets and economies taken from the comments made by chairs and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Roundup

All eyes are still very much on the conflict in Ukraine, which has shattered any hope of a return to normality in 2022 after two years of volatility and uncertainty. Added to the cocktail are inflation woes, continued supply chain concerns and COVID-19 (which remains a problem, particularly in China). The oil price is creeping towards all-time highs while bond yields continue to climb. It looks as though the global economy is back at square one.

A cocktail of uncertainty

Global

John Evans, chair of Securities Trust of Scotland, says there currently seems to be no respite in the challenges being thrown at financial markets.

Scottish Mortgage's Tom Slater reflects on a tough year and why it is more useful to observe and analyse geopolitical and macroeconomic developments than to engage in futile attempts at prediction.

The chair of North Atlantic Smaller Companies explains why businesses are attempting and largely succeeding in putting through price increases.

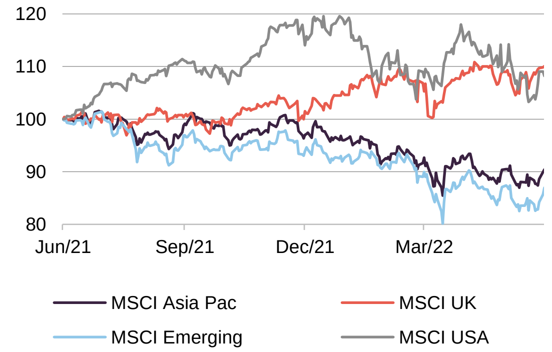
Majedie's chief executive admits that the invasion of Ukraine, apart from the horrendous human cost, has changed a previously optimistic outlook.

Exchange rate	31/05/22	Change on month %
GBP / USD	1.26	0.2
USD / EUR	0.93	(1.8)
USD / JPY	128.67	(0.8)
USD / CHF	0.96	(1.3)
USD / CNY	6.67	1.0

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/06/2021 to 31/05/2022



Source: Bloomberg, Marten & Co

Indicator	31/05/22	Change on month %
Oil (Brent)	122.84	12.3
Gold	1837.35	(3.1)
US Tsy 10 yr yield	2.84	(3.1)
UK Gilt 10 yr yield	2.10	10.3
Bund 10 yr yield	1.12	19.5

Source: Bloomberg, Marten & Co

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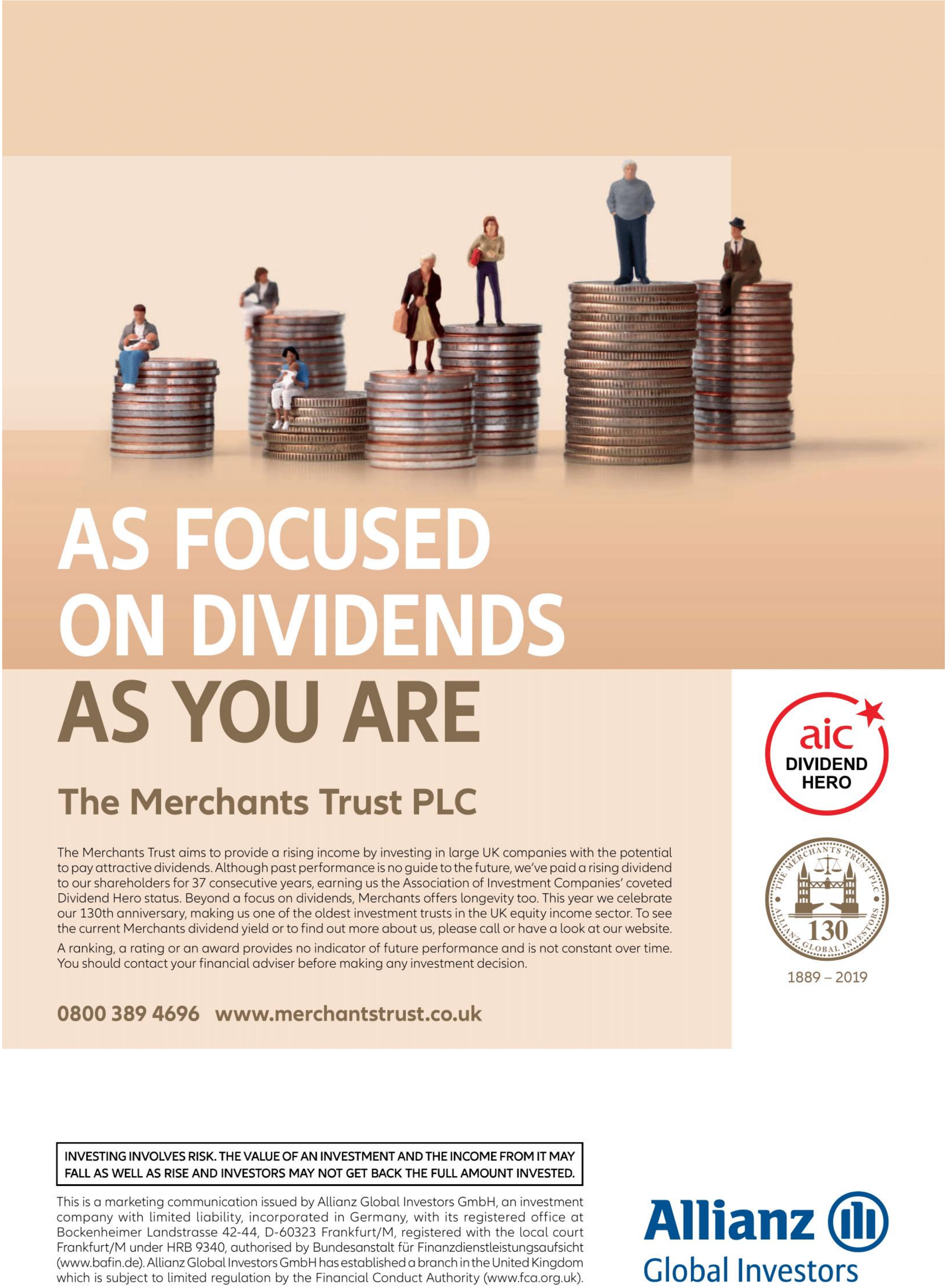
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Global Investors

May's highlights

Global (cont.)

Steve Bates, chair of JPMorgan Elect, says conditions over the next several months are uncertain and that longer term, even with tighter monetary conditions, real rates will remain negative, and equities are likely to offer shelter.

> Conditions over the next several months are uncertain

The managers of Keystone Positive Change highlight that scaling up renewable technologies will mean innovative companies and impact-focused investors can play an invaluable role in tackling climate change.

UK

The managers of Edinburgh Investment Trust say that if the events in Ukraine are a reminder of anything, they are of the importance of managing a sensibly diversified portfolio.

Downing Strategic Micro-Cap's Judith MacKenzie summarises the unforeseen events that have occurred just when it seemed like markets might normalise.

> Inflationary pressures, rising commodity prices and supply-chain disruption are just a few headwinds the economy is currently facing

BMO Capital & Income's chair says there is a great deal of uncertainty at present, from inflationary pressures not seen in decades, rising commodity prices, supply-chain disruption and China still struggling with COVID-19, to a nuclear-armed aggressor starting a major war in Europe.

The managers of Schroder Income Growth consider the implications on energy security, which has become a key priority with governments re-thinking any reliance on Russian supply.

abrdn Equity Income's manager says the resilience of the UK equity market during the period stands in contrast to the weakness seen in other major stock markets, many of which posted heavy declines.

The managers of Lowland say the well-chronicled problems facing the economy are currently the focus of investor attention – but that the surprise may be how well many UK companies cope with these challenges.

Finsbury Growth & Income's Nick Train believes there may be a speculative bubble deflating in technology company shares.

> There may be a speculative bubble deflating in technology company shares.

BMO UK High Income's manager notes that there are still supply chain constraints coupled with pent-up demand, and that the rising cost of living will weigh on the consumer.

Europe

The managers of Henderson European Focus say the invasion marks a significant shift, or at least an acceleration of emergent trends, leading to greater localisation of supply chains and prioritised tangible investment into energy, infrastructure and defence.

An ability to cut through short-term noise is vital if one is to exploit the long-term returns outliers can generate

The managers of Baillie Gifford European Growth say optimism, open-mindedness, and an ability to cut through short-term noise is vital if one is to exploit the long-term returns outliers can generate.

BlackRock Greater Europe's managers expect greater dispersion between sector and stock outcomes and with that a need for continued selectivity.

Biotechnology & healthcare

The chair of Worldwide Healthcare says a shadow has been cast over the longer-term outlook for the sector with the prospect of continued raised levels of geopolitical risk and an increase in investor risk aversion.

The managers of Polar Capital Global Healthcare highlight home health as an area that should see considerable growth over the medium-term as healthcare systems look to shift patient volumes to lower-cost and more convenient settings.

The biotechnology sector has experienced a significant period of weakness in certain areas

International Biotechnology's managers say the biotechnology sector has experienced a significant period of weakness in certain areas since the highs of spring 2021 and that valuations at current levels look attractive.

Other

We have also included comments on **global emerging markets** from BlackRock Frontiers and Barings Emerging EMEA Opportunities; **Asia Pacific** from Pacific Assets, Schroder AsiaPacific and Schroder Oriental Income; **Japan** from abrdn Japan and JPMorgan Japanese; **China** from JPMorgan China Growth and Income and Fidelity China Special Situations; **Latin America** from abrdn Latin American Income; **country specialist** from Weiss Korea Opportunity; **flexible investment** from Capital Gearing, Caledonia and JPMorgan Multi-Asset Growth & Income; **infrastructure** from HICL Infrastructure, Cordiant Digital Infrastructure and Ecofin Global Utilities & Infrastructure; **private equity** from ICG Enterprise; **debt** from TwentyFour Select Monthly Income and **property** from LondonMetric, Tritax EuroBox, Shaftesbury, Helical, Great Portland Estates, Ediston Property, British Land, Land Securities, Picton Property and Assura.

Global

(compare global funds **here**, **here** and **here**)

John Evans, chair of Securities Trust of Scotland - 20 May

The year to 31 March 2022 proved to be a remarkably eventful period that commenced with a sustained recovery from the economic effects of the COVID pandemic before concerns regarding rapidly rising rates of inflation and the required policy response across the G7 began to dominate financial markets. In February 2022 Russian forces invaded Ukraine raising geopolitical risk to levels not seen this century.

There currently seems to be no respite in the challenges being thrown at financial markets. As mentioned, against a background of already rising rates of inflation the war in Ukraine has led to a sharp rise in oil and, in particular, gas prices and shortages are predicted for many major commodities including several foodstuffs. With inflation rates now higher than previously forecast, Central Banks are responding by raising short term interest rates and reversing the quantitative easing that was a response to the COVID related lockdowns.

The recent weakness in the exchange rate of Sterling against most major currencies, but in particular against the US Dollar, is notable. The Sterling value of overseas investments and the dividends they pay rises.

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Tom Slater, manager of Scottish Mortgage - 19 May

It has been a tough year. Markets have been driven by macroeconomic concerns, geopolitics and the ongoing shockwaves from Covid-19. Investing in this environment requires resilience and clarity of purpose. It is more useful to observe and analyse geopolitical and macroeconomic developments than to engage in futile attempts at prediction. A standout lesson from the past two years is that our world is, in Sir John Kay's terms, radically uncertain. We must be wary of those making confident assertions about the future. Instead, our job is to acknowledge the limits of prediction, build a portfolio that is robust to changing conditions and focus on answering the question, 'What is going on here?'.

We think many of the challenges the world faces today are the negative consequences of two contentions that have driven our portfolio construction over the last decade. Firstly, China's economic development is disrupting the established world order. Secondly, technological progress has created companies of increasing geopolitical importance and a complex network of global interconnection. China's rise has brought a vast swathe of humanity out of poverty and created opportunities for workers and investors alike. However, this success has fuelled greater geopolitical ambition and a challenge to US hegemony. Online network companies have built an infrastructure that creates economic opportunity for millions, but the scale of their impact raises questions of governance and trade-offs to limit the influence of bad actors. It will not be possible to resolve these issues quickly or easily.

China

China's economy is now approximately three-quarters of the size of the United States (larger when measured using purchasing power parity) and a multiple of any other country. Its technology companies are world-leading in some important areas.

The Made in China 2025 plan aims to make good its shortcomings in others. Indeed, by denying access to American technology, the US government forces previously ambivalent Chinese corporates to develop domestic supply chains. China's rise has been predictable, and it telegraphs its intentions using five-year plans. The change in recent times has been the deterioration in the China-US relationship. Worsening trade relations have been matched by an increasingly hostile attitude from the US cross-party defence and foreign policy establishment, which events in Ukraine have intensified.

Investors in Chinese companies have suffered from President Xi's regulatory crackdowns in the name of 'common prosperity'. In retrospect, it has been a mistake to reduce our holdings in western online platform companies rather than their Chinese counterparts. The censure of Ant Group at the time of its proposed stock market listing turned out to be the first in a slew of actions that included severe constraints on the online tutoring sector, restrictions on video games, anti-monopoly activities against internet platforms and new policies on data and privacy. Many of the actions in isolation are similar to reforms that have been considered but less successfully implemented elsewhere. In aggregate, they add up to a substantial reinforcement of government control of the private sector. They have discouraged the supply of western capital.

The deteriorating geopolitical situation and significant job losses in the technology and education sectors have made the Chinese government's aggressive regulatory stance less tenable. Vice Premier Liu He's statement in March that the authorities should deliver 'policies favourable to markets and be cautious in introducing contractionary measures' may signal that the worst of the crackdown is behind us. The challenge now for western investors is twofold: incorporating the low but increased chances of future US sanctions into their evaluation of Chinese investments and considering how the Chinese state may limit the upside in stock prices for the breakthrough winners.

Technology

Technology and capital have been critical enablers of globalisation. Start-up culture has spread from its homeland on the west coast of America to the east coasts of both the US and China and then, in the mobile era, to anywhere with an internet connection. However, the providers of the capital and skills required to scale a start-up have remained relatively geographically concentrated. US venture capital companies provided financing and reaped the associated rewards from several of China's most successful start-ups. China's softened stance on the common prosperity policy would suggest some acknowledgement that western capital remains important. Before the war in Ukraine, globalisation was already giving way to a world of three separate economic zones (the Americas, Europe and Asia). It will be increasingly challenging for investee companies to navigate these divides.

We have little to add on the central preoccupation of markets with inflation and interest rates. Supply chains were already tight, and the combination of war in Ukraine and a substantial Covid-19 outbreak in China has exacerbated this situation. Capitalism, combined with the technical brilliance of companies like ASML in the critical semiconductor area, will solve these supply bottlenecks over time. We believe that technological progress is not captured well in aggregate statistics and will be the primary determinant of both growth and inflation in the long term. For example, on the supply side, the production of batteries and solar panels continues to increase exponentially. While the impact on energy markets takes time to accumulate, manufacturing learning curves and ongoing technical improvements will eventually drive down energy costs. From a demand perspective, the companies we speak with that have embraced the modern tools of remote working report that their new recruits are lower cost and higher quality than previously.

Outlook

Despite geopolitical uncertainty, significant increases in the cost of living and rapidly rising interest rate expectations in many parts of the world, we are still expecting most to deliver high levels of growth this year. These firms are well capitalised, led by exceptional leaders and have already demonstrated high levels of adaptability and resilience. A small number of companies create the majority of stock market returns regardless of the prevailing economic conditions.

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Charles Wake, chair of North Atlantic Smaller Companies - 11 May

Last year saw a good recovery in corporate profits which resulted in favourable equity markets for much of the year. This has abruptly changed in recent months as investors become increasingly concerned that high inflation rates are not transitory with the inevitable result that interest rates will need to rise much further than was anticipated at the mid-year. This particularly affected growth stocks as evidenced by the fall in the NASDAQ index which is down at the time of writing by nearly 20% from its all-time high.

Many well-known technology companies such as Netflix, Peloton, Tesla and PayPal are experiencing deteriorating performance. However, the majority of businesses worldwide are experiencing rising commodity prices, supply chain disruption and escalating labour costs. Businesses are therefore attempting and largely succeeding in putting through price increases although whether this will be sufficient to maintain profit margins is by no means certain.

The geopolitical position is, to say the least, uncertain. The war in Ukraine makes daily news and has had a severe impact on world markets since the end of our financial year but other flashpoints include Iran and Taiwan any one of which could further unsettle equity markets.

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William Barlow, chief executive of Majedie - 25 May

Stock markets performed well in the final quarter of 2021 as the global economy recovered more strongly than expected as the impact of COVID-19 faded. Inflation, though a concern, was thought to be transitory and was expected to weaken in the second half of 2022 as supply side bottlenecks eased and Central Banks tightened their expansionary monetary policy. The invasion of Ukraine, apart from the horrendous human cost, has changed that optimistic outlook. It has proved a major shock to the global economy as commodity prices, particularly oil and wheat, have spiked. It is evident that inflation is now more persistent and that Central Banks were behind the curve. They have signalled a more hawkish stance and some commentators are concerned that the global economy is moving towards stagflation, a period of elevated inflation accompanied by low economic growth. Stock markets reacted by de-rating growth stocks as their valuations appeared stretched in a world of higher interest rates. The UK Market has performed well and continues to do so due to its relatively large exposure to commodities and low exposure to highly valued technology stocks.

Outlook

Stock markets volatility has continued and growth stocks, in particular, have suffered a further de-rating. Investor sentiment is unsurprisingly low, faced with the headwinds of inflation, hawkish Central Banks, a slowing economy and war in Europe. Markets are rated at 30% below their peak last year and, apart from the US, are below their long-term medians. In general, corporate earnings, thus far, have been resilient and though earnings revisions have sharply decelerated from last year, they remain positive. It seems likely that there will be a significant slowdown in the second half of 2022, the only question is the magnitude.

The current volatility reflects the wide range of outcomes that could occur for the global economy and earnings. In such an uncertain background fund managers that focus on detailed, research based stock selection, should thrive. Their flexible approach allows them to invest in companies that are significantly mis-priced and avoid the rigid selection criteria that style based managers face.

It is encouraging the UK equity market has continued its relative good performance as investors recognise its low relative and historic valuation. Takeover bids from corporates and private equity remain a feature and validate the attractive valuation.

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Steve Bates, chair of JPMorgan Elect - 13 May

The last six months have been quite traumatic for global markets. The easy money policies which have persisted since the financial crisis in 2008 (with only minor interruptions) have come to a decisive end. This reflected Central Bank views that economies were robust as they emerged from the shadow of the pandemic and inflation was more of a problem than had been foreseen as supply chains were in disarray. When these tighter policies began to roll off the production line, the crisis in Ukraine was only theoretical. Its arrival in the land of the real has exacerbated the inflation problem and threatened the rosy view of economic activity which predated it. For now, monetary tightening remains the order of the day and although outright recessionary conditions may be avoided in some countries, the risks of economic stagnation have risen sharply. Conditions over the next several months are uncertain and longer term, even with tighter monetary conditions, real rates will remain negative and equities are likely to offer shelter.

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Lee Quian and Kate Fox, managers of Keystone Positive Change - 5 May

On many levels, the past six months have been deeply challenging. Russia's invasion of Ukraine has led to unbearable suffering and destruction. Our hearts go out to those affected by this terrible war. In addition, conflicts continue in countries including Syria, Yemen, and Afghanistan, and closer to home, poverty and inequality are becoming increasingly difficult to ignore. These events add to our determination to act for Positive Change. Commerce and prosperity are the best deterrents to conflicts. We need to build a sustainable world where everyone can flourish.

A Critical Juncture

The Intergovernmental Panel on Climate Change ('IPCC')'s latest assessment, released on 4 April 2022, provided a stark warning. The window for addressing climate change is quickly closing. Even if we halve greenhouse gas emissions by 2030, it is almost inevitable that we will, at least temporarily, exceed the 1.5˚C warming limit. Avoiding the worst impacts of climate change requires drastic decarbonisation across all sectors and the removal of large amounts of carbon dioxide from the atmosphere. The investment needed is immense - roughly three to six times greater than the current levels. However, we should not lose hope. The IPCC report noted that the costs of solar, wind, and batteries have fallen by up to 85% since 2010. Here lie exciting opportunities. By scaling up renewable technologies, innovative companies and impact-focused investors can play an invaluable role in tackling climate change.

More innovations are needed for tackling climate change and we are enthusiastic about the opportunity this presents. In recent months, we have been researching companies working on areas including next generation battery technology, green hydrogen, carbon capture, and cultivated meat. We believe these will be fruitful areas for idea generation over the coming years and decades.

Outlook

The near-term outlook remains highly uncertain, but our focus is on the long term. Over time periods of five years or more, there are many more certainties, such as the continued deflation of renewable technologies, the advancement of computer science, and the growing awareness of a need for sustainability. Those long-term, structural trends provide exciting opportunities for patient investors. The road there might be bumpy and the short-term volatility can be unpleasant, but the rewards over the long term - for investors and society - will be enormous.

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UK

(compare UK funds **here**, **here**, **here** and **here**)

James De Uphaugh and Chris Field, managers of Edinburgh Investment Trust - 26 May

For much of the last twelve months there has been improving economic sentiment, as western economies have emerged from varying degrees of Covid restrictions. However, much of the economic progress has been overturned by the depressing turn of events in Ukraine.

If the events in Ukraine are a reminder of anything, they are of the importance of managing a sensibly diversified portfolio. As a result, positive contributors to the portfolio's performance since the start of the war have come from existing holdings in sectors such as oil and defence stocks.

Why invest in the UK equity market? This is a question we are often asked. Our short answer is that the opportunity set remains huge and there are multiple factors underpinning our medium term confidence. There are inevitably risks too: the war in Ukraine, plus factors such as ongoing supply chain issues, make the shorter term harder to predict. But for now we observe that the UK equity market has regained its mojo, but the valuation on a whole host of metrics is still low relative to many markets.

The factors driving the low starting valuation are unduly skewed towards muscle memory: factors that are firmly in the past, less evident in UK quoted companies or of rapidly declining impact. Taking each in turn: first, the prolonged uncertainty around Brexit. It was difficult enough understanding the range of outcomes as a UK voter. It is therefore unsurprising that global investors parked it in the 'too difficult' category and gave the UK market the proverbial long spoon treatment. But that is over - quoted companies can live with the reality of Brexit. Second, UK productivity lags our major peers - this may well be right at a macro level but the companies we invest in certainly do not lag their peers. Third, the long trend towards global equities - which in reality means buying the US given it makes up about 60% of global benchmarks - and pension scheme de-risking which amounts to selling equities and buying bonds are both decreasing in intensity. The starting point of underownership and skinny positioning is a good set up for the current trends.

So what are the trends? Economies are late cycle and central bankers are looking to raise interest rates and where applicable shrink their balance sheets in order to reduce inflation expectations before they get entrenched at higher levels. All this is not easy with actual inflation rates reaching generational highs and more in the pipe near term. One of the economic effects of the tragic events in Ukraine is to layer yet more inflation on already high inflation. Food inflation is one of the myriad examples consumers face.

Input cost inflation combined with waning corporate and consumer confidence means earnings downgrades but the downgrades could well be greatest in a number of the faster growing segments of the market. Here the UK market scores highly as its "par earnings run rate" has over the last few years lagged the US. What investors consider to be a competitive run rate of earning per share is likely to take a step down and the UK will be back in the running. Markets are often about rates of change and changing perceptions. So that ticks off a recurrent concern that the UK doesn't have any growth shares. Not only is it off beam but it is also less relevant for the current environment.

The next concern from some investors about the UK is that the market is full of banks, international energy companies and miners. This is seen to be the Achilles heel. Again taking each in turn: banks - it has been a long work out since the Global Financial Crisis ("GFC") in 2007-08. Regulators have forced capital raises, profits have been eaten up in conduct charges - remember PPI? - but that is all over. Next up are the international energy companies. The Russian invasion of Ukraine has shown that it matters where energy comes from. Then among the miners there is Anglo American, which is about to bring on stream a significant long duration copper project in the form of Quellaveco. The world desperately needs copper to transition our energy sources. Anglos is an agent of that change. So what was an Achilles heel is now definitively a positive. Investment is full of 180 degree changes in perception but they take time to take effect. We are in the early innings of one now.

Then let us look at the UK through the lens of private equity or an activist investor. The growth in money allocated to private equity has been huge over the last decade - "dry powder" that needs to be invested to earn its fees. The UK is a fertile hunting ground as the gap between the earnings yield and the cost of borrowing remains wide. Then there are the activists who can accelerate change and are currently on the register of three of the UK's largest companies. Mega cap is no longer too large for such action.

So there are multiple reasons why we believe the UK equity market is in the foothills of a multi-year rehabilitation.

We also carefully consider the broader backdrop to global equity markets. As many have observed in the last year or so, the long era of low interest rates since the financial crisis of 2008 may have resulted in some excessive valuations, particularly in some technology stocks. Their potential to recover after the recent sell-off is a live debate.

Judith MacKenzie of Downing Strategic Micro-Cap - 9 May

The year-end of the Company over the last two reporting periods has coincided with some historic world (and life) changing events. When it seemed like markets might normalise, we continued to be affected by unforeseen events. Brexit consequences, followed by Covid, followed by war. All of these have driven some of the most uncertain investing market backdrops that I have ever experienced. This has been characterised by extreme demand side shocks, extreme supply side shocks (often at the same time), labour shortages, energy price crises, freight and logistical challenges, and more. It is in these particularly uncertain times that we fall back on a tried and tested investment style which we believe can generate returns regardless of uncertainty and sentiment.

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Jonathan Cartwright, chair of BMO Capital & Income - 27 May

Just as the outlook was starting to appear relatively benign, a combination of increasing macro-economic and geopolitical uncertainty was unleashed during the first quarter of calendar 2022. Inflation had been edging higher throughout 2021, largely a function of economic recovery and compromised supply chains, but the hope that it would prove to be transitory has been shown to be wishful thinking from Central Banks. The prospect of higher interest rates, together with a cost-of-living squeeze from higher food and energy prices are negative for economies and markets. In addition, of course, there is the tragedy of the Russian invasion of Ukraine. The suffering and loss for those involved is clearly unimaginable for those of us not directly affected, but during the period, many financial markets have responded better than might have been expected. This is particularly true in the UK. The direct impact of the Russian invasion is very limited for most companies, but it has had a significant impact on commodity prices and hence a much greater effect on some areas of the market than others. Rising commodity prices are proving to be favourable for the earnings of both the oil and mining companies and hence the share price performances of these two sectors have been strongly positive.

There is a great deal of uncertainty at present, from inflationary pressures not seen in decades, rising commodity prices, supply-chain disruption and China still struggling with COVID-19, to a nuclear-armed aggressor starting a major war in Europe. It would clearly be foolhardy to try to predict individually how any of these will evolve, but at the same time it is not unreasonable to recognise that these circumstances are exceptional.

These factors make it very complex for companies to plan and operate and we are very mindful of that, but it does appear that there are still interesting opportunities to invest for the longer term in high quality companies with robust balance sheets at attractive valuations.

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Managers of Schroder Income Growth - 20 May

UK equities were resilient over the period as investors priced in ongoing pandemic related disruption and the additional inflationary shock of Russia's invasion of Ukraine. Large cap equities outperformed, driven by the oil, mining, and banking sectors. Strength in the banks reflected rising interest rate expectations. The Bank of England moved to increase interest rates ahead of other developed market central banks. It increased the main policy rate by 0.15% in December and followed this up with three consecutive increases to 1.0% at 5 May 2022.

A number of consumer-focused areas underperformed, as did some traditionally economically sensitive ones. These factors combined, drove a poor performance from UK small and mid-cap equities. Towards the end of the period, some of the more traditionally defensive sectors advanced up the leader board, particularly those which offer a degree of inflation protection. Intermittent fears of a global recession, however, drove periodic sell-offs in some of these "safer" stocks too.

Outlook

Russia's invasion of Ukraine, continued pandemic challenges, as well as the effects of rising inflation and taxation on UK consumers, have all been at the forefront of our minds recently.

With the human impact of the invasion paramount, the sanctions applied to Russia, a key exporter of commodities, also have far reaching economic and financial implications. The invasion has prompted commitments to increase defence spend, notably from Germany. Energy security has become a key priority with governments re-thinking any reliance on Russian supply. We expect renewables to benefit as a result, on top of the action pledged to achieve climate objectives longer term. This geopolitical disruption also exacerbates the significant difficulties caused by the pandemic to global supply chains, including food commodities. Though Western countries are moving to 'live with Covid-19', many in Asia are experiencing new waves of the virus and living with restrictions. As a result, the disruption to supply chains is likely to be a significant longer-term issue for companies to manage.

Closer to home, the forecast change in real household disposable income is stark. UK household income could be squeezed harder than it has been for many years. Lower income households will be hit disproportionately hard whilst many other households will have the cushion of elevated savings built up during the pandemic. This will be compounded by the upward trajectory in interest rates adding to mortgage repayments for many homeowners. Concerns over the financial pressures on households adds to persistent pandemic challenges and of course Russia's invasion of Ukraine.

The convergence of these substantial risks in the market today emphasises the importance of a diversified portfolio. We recognise that there are a wide range of scenarios that could play out in 2022. Inflation, stagflation and recession are all potential outcomes, but as ever, we are unable to accurately predict the macroeconomic environment. The prospect of further rate hikes by the Bank of England also adds to this uncertainty.

Thomas Moore, manager of abrdn Equity Income - 19 May

The UK equity market was resilient during the period under review despite a range of headwinds including new Covid-19 outbreaks, the Russia-Ukraine war, supply chain issues, rising inflation and interest rate hikes.

The discovery of the Omicron variant in November 2021 caused global stock markets to fall, as investors feared the imposition of new restrictions which could hamper economic growth. These fears were allayed in December 2021 as it became clear that while this latest variant was easily transmissible, its virulence was low, reducing the risk of another lockdown. Attention turned to the Russian invasion of Ukraine in February 2022, causing global equity markets to drop sharply. This drove a surge in commodity prices, adding to existing inflationary pressures caused by the tightness of labour markets and the global supply-chain bottlenecks in the aftermath of Covid-19 lockdowns. The UK Consumer Price Inflation rate hit 7.0% in March

2022, the highest level since 1992. The Bank of England ("BoE") responded by hiking its base rate three times during the period, from 0.15% to 0.75%.

The resilience of the UK equity market during the period stands in contrast to the weakness seen in other major stock markets, many of which posted heavy declines. The FTSE 100 Index outperformed, in GBP terms, the Dow Jones in the US, the DAX Index in Germany, the Nikkei 225 in Japan and the Hang Seng Index in Hong Kong. This is largely explained by the sector composition of the UK market, with heavy weightings in traditional large cap sectors, such as resources and banks, which tend to perform relatively well in an environment of rising inflation and interest rates. Sector composition also explains the significant divergence in performance between the FTSE 100 index, which generated a positive total return of +7.8%, and the more domestically-orientated FTSE 250 and Small Cap indices, which fell by -7.3% and -5.6% respectively on fears over the impact of rising inflation on consumer spending.

Outlook

Geopolitical risk has resulted in a number of cross-currents. Inflation expectations have continued to increase as a result of supply-chain bottlenecks and tight labour markets, driving bond yields higher. This has catalysed a market rotation towards value stocks, albeit the impact on our portfolio has been mixed as the value rally has been concentrated in large-cap value sectors with inflation hedge characteristics, at the exclusion of mid and small-cap holdings. This reflects an undertone of nervousness as the rising cost of living drives fears of stagflation. While the weakness of many small and mid-cap stocks was a headwind for the portfolio in the first six months of the financial year, we have historically found that these periods can create valuation opportunities as well managed businesses with solid fundamentals are sold off for spurious reasons. These opportunities can play out in the long sweeps of more stable market conditions in the wake of geopolitical disruption.

We will continue to use our influence to engage actively with management teams in driving positive outcomes on ESG issues. Our experience is that this is not only the right thing to do, but it can also help deliver improved financial returns. Our investment process is centred around the potential for change and it is therefore a natural part of our stock-level analysis to assess the change that companies are capable of achieving. We have recently observed that some of the most attractive valuations and highest dividend yields are available in stocks that other investors might exclude without considering this potential for change. This underlines the benefits of our flexibility, investing across different sectors across the UK market.

From a capital perspective, we expect the inflationary backdrop to increase the attractions of lowly-rated companies offering a growing stream of cash flows and dividends, as investors recognise the role that these holdings can play in protecting against rising living costs. After a long period of dominance, growth stocks have faded as bond yields rise. As I described in the activity section, a number of our holdings have received bids in the past year, reflecting the widespread mismatch between share prices and underlying corporate fundamentals.

Despite the geopolitical uncertainty, we believe that these market conditions have the potential to be supportive, as we continue to find plenty of holdings that can help us achieve our objectives. We therefore look forward to the rest of the financial year with confidence.

James Henderson and Laura Foll, managers of Lowland - 18 May

Investors have plenty of concerns at a macro level. Stagflation, where inflation is high and economic growth is low, is being talked about. However, it is because it is being talked about that expectations for future returns from equities are low. Share prices are already reflecting to a large degree the very real problems. Valuations for many companies are at reduced levels using a historic perspective, yet many of the companies in the portfolio are well managed with strong balance sheets and good operating margins.

Lowland's portfolio is not a proxy for the UK economy, it is a collection of individual company holdings that to a degree control their own destiny. The management teams will react to the circumstances they find and if their product or service is good enough they will in time prosper. Many of the management teams we regularly meet are upbeat about their business prospects. The earnings outlook for many of the companies held is reasonably robust; cost increases are being pushed through and margins defended. Cash generation is underpinning the recovery in dividends. It will be dividend increases inspired by the earnings growth that reawaken interest in UK equities despite the concerns around the global backdrop. The well chronicled problems facing the economy are currently the focus of investor attention - the surprise may be how well many UK companies cope with these challenges.

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Nick Train, manager of Finsbury Growth & Income - 16 May

The state of the world and of global stock markets, as I write this report, is apprehensive. The duration and effects of war are uncertain. There may be a speculative bubble deflating in technology company shares. It is possible inflation and interest rates will go higher. We have no particular perspective on any of these issues that would give us an edge in timing the markets. In such circumstances, I always remind myself of this, paraphrased, advice from the late, great investor Sir John Templeton. “The best time to buy sound common stocks is when events look most uncertain.” This is indeed great advice. Often events don’t work out as badly as people fear; but even if they do, owning shares in solid companies is a good strategy to see you through to the better days to come.

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Philip Webster, manager of BMO UK High Income - 31 May

Having felt we were emerging from the bleak COVID lockdowns, despite the new and contagious Omicron variant, we now face a new set of challenges. Markets were rocked by the tragic and unjustified invasion of Ukraine, inflation has spiked to a multi-decade high and central banks are reacting by raising interest rates. The question we are all trying to answer is how will the rising cost of living impact the consumer and in turn global growth?

While we face many challenges, the backdrop isn't all negative. Employment levels and activity indicators, for now, remain robust. We are seeing low single-digit wage inflation and consumers have built up significant savings during the pandemic. Demand also seems to be holding firm, and consumers are also looking forward to their first restriction-free summer for a few years, which may buoy travel and leisure sectors.

At this point in the year, and with a lot of uncertainty ahead, we are seeing a very cautious outlook from management teams. There are still supply chain constraints coupled with pent-up demand, but the rising cost of living will weigh on the consumer.

Pricing is the topic of discussion and who has managed to pass through inflation to mitigate the margin pressure. In the main, the businesses that have a brand, IP or a sustainable competitive advantage have a much stronger position and have to date managed this exceptionally well. The focus has also shifted to high recurring revenue stream business models, where the decision is non- discretionary, for example software or healthcare where you have no choice.

That said, I do feel that the valuations on some of the consumer names are pricing a lot of distress. This comes back to simple 'fear and greed', when all are fearful that may well be your opportunity, especially for the patient investor. This contrarian stance in quality businesses will I believe be the right strategy to adopt which is why I am opportunistically adding to these names on weakness.

Global emerging markets

(compare global emerging markets funds **here**)

Sam Vecht and Emily Fletcher, managers of BlackRock Frontiers - 26 May

Market Review

During the period, it was devastating to see the start of an unprecedented war in Ukraine. We also saw a new COVID-19 variant cause serious worldwide concern, surging global inflation, ongoing conflict in the Middle East and an attempted coup in Kazakhstan. While it is natural to focus on the many challenges that have beset markets globally during the first half of our financial year, and indeed our report will discuss these issues, we have found many resilient companies with strong operating trends to invest in within our investment universe.

Post COVID-19 reopening

The fourth quarter of 2021 started with a semblance of “normality” resuming, yet it was quickly overshadowed by the emergence of the highly transmissible Omicron variant. As more data emerged, it became clear that although more transmissible, Omicron was less severe and certainly less fatal than previous COVID-19 variants, largely since populations were inoculated and healthcare systems were better prepared. Vaccination rates in most of the countries we invest in have continued to tick up, which, coupled with natural immunity from past infections, bodes well for a long-overdue pickup in economic activity within our Frontier Markets universe.

Geopolitical turmoil

January 2022 started with an unexpected eruption of violent coordinated protests in Almaty and elsewhere in Kazakhstan, following large fuel price hikes. In response, Kazakh security forces, with the backing of Russian troops, returned the country to order. The government then reshuffled several key political appointees in an attempt to appease public ire, and stocks bounced off their lows, which had seen some of our significant holdings fall 40% in a matter of days. Unfortunately for the world, this was a precursor to a much more severe conflict. Beyond the unthinkable human tragedy, Russia’s invasion of Ukraine has the potential to drive far-reaching changes to global commodity supply chains. The blockade of Ukraine’s ports, together with the coordinated sanction effort from the West, particularly the freezing of Russian companies and their assets, has resulted in significant disruptions to regional exports, causing price spikes across the commodity complex.

Middle East stability

While sadly many globally will be negatively impacted by these price changes, frontier countries with significant exports of oil in the Middle East or of soft commodities in ASEAN and Latin America could prove more resilient. For 2022, the Gulf Cooperation Council region is currently on track to report the highest current account and fiscal account surpluses for 8 years. The irony of a region, that has seen so much conflict for the last 70 years, being considered a relative safe haven for investment, is not lost on us. However, as long-term investors, we look for the anomaly and the unexpected in order to generate returns. The emergence of Dubai as a truly global financial centre, and workplace of choice for those in creative industries and crypto enthusiasts alike, was not predicted pre-COVID-19, hence asset prices there have done well.

Supply constraints and not-so-transitory inflation

Even prior to the Russian invasion, we had seen consistent signs of inflation, particularly in the West following a long period of fiscal largesse and behind-the-curve monetary policy. The Russia/Ukraine crisis risks turning that persistent inflation into a full-scale global supply shock. The developed world is seeing levels of inflation that are the highest in your fund managers' lifetimes, with countries such as the United States of America and United Kingdom seeing prices rising by numbers that previously would only have been seen by countries deemed to be 'uninvestible' to mainstream investors. However, while German wholesale prices are up 23% year-on-year, the biggest move since the data series began in 1968, European interest rates remain at zero, a record low. The contrast to frontier markets such as Indonesia, Thailand and Vietnam, where inflation is currently below the 10-year average, and interest rates are at normal levels, is very notable.

While speaking of inflation and the fact that most of our universe is at present much better placed than the western world, it would be remiss not to mention Turkey, where the central bank has continued to lower interest rates despite consistently high inflation rates, most recently hitting a 20-year high of 61%. The country's deeply negative real interest rates have put huge pressure on the Turkish lira. We believe this unorthodox policy is unlikely to be effective in restoring confidence in either the currency or the economy. We currently have no exposure to the market. However, we can envisage a scenario where the outlook over the next 18-24 months could look significantly better.

During the last six months we were once again able to travel to meet our portfolio companies. Our travels took us to countries including Egypt, Kazakhstan, Saudi Arabia, Turkey, United Arab Emirates (UAE) and Uzbekistan. Our broad conclusions from these trips were that our companies have, in general, used the desperately unpleasant pandemic period to strengthen their market positions, improve their product portfolios and refine their Environmental, Social and Governance (ESG) credentials. We anticipate that the next six months will see us travel to the remainder of our portfolio countries, and to a few jurisdictions to which we currently have no exposure but look interesting on a medium-term view.

In recent months, we have seen a reimposition of COVID lock-downs across China impact global supply chains. Post the imposition of US tariffs a few years ago, manufacturing for a variety of industries had slowly started to relocate out of China. We see the current environment as giving continued impetus to this trend and expect countries across South-East Asia and Eastern Europe to benefit.

Outlook

While the current global macro environment does present concerns for western equity markets, we believe investors will find the endogenous growth, low correlation, diversification, and valuations of our universe attractive. While COVID-19 has been a challenging time for these countries, we see strong growth potential across our investment universe in the years ahead.

We continue to monitor the path of inflation and the likelihood of a global growth shock. However, we feel encouraged by the fiscal and monetary discipline shown by several countries in our universe, which contrasts starkly with the largesse seen in developed countries. We continue to see multiple stock specific opportunities in both South-East Asia and the Middle East which are relatively shielded from the current conflict. We are avoiding countries which are prone to severe inflation shocks from commodity market tightness.

Valuations in most of the frontier and emerging markets remain attractive relative to their own history and also relative to the more developed markets. We believe our opportunity set is a compelling universe to generate alpha, and with global investors from both east and west increasingly looking for friendly foreign geographies to place their assets, we sense that the outlook for frontier markets may be brighter than many imagine.

Management team at Barings Emerging EMEA Opportunities - 30 May

Global markets declined significantly over the period, following Russian President Vladimir Putin's invasion of Ukraine, which saw Western peers respond with a range of severe economic sanctions. This conflict, and the accompanying economic sanctions imposed on Russia, increased uncertainty for the economic growth outlook globally whilst also exacerbating inflationary pressures, as access to Russian and Ukrainian produced commodities declined, causing global commodity prices to soar. This occurred at a time when markets were already contending with supply chain disruptions and the prospect of monetary tightening, causing risk appetites to wane across equity markets worldwide.

Russia's invasion of Ukraine led to broad based condemnation and a united approach by Western nations as they applied wide-ranging sanctions to companies and key individuals. The Russian stock market registered rapid substantial declines which, in a bid to stabilise, led to the suspension of trading on the Moscow Stock Exchange, whilst internationally listed depositary receipts were also suspended.

Despite the setback to the Russian component of the portfolio, the expansion of the Company into the EMEA region has served to provide some helpful diversification, with the smaller emerging Europe subset (the Company's prior investment universe) falling approximately 70% in comparison. In addition, rising oil prices supported the region's energy exporters, such as Saudi Arabia, the United Arab Emirates ("UAE") and Qatar, whilst a buoyant commodity sector and a stronger Rand helped lift South Africa.

The Turkish equity market registered a small gain over the period whilst, in contrast, its currency declined significantly. Strength across the country's equity markets was in part caused by the positive performance of the larger exporting companies in the benchmark, many of whom earn their income in US Dollars and therefore benefitted from a weakening Lira. These companies tend to be well run businesses with strong balance sheets and limited debt. Meanwhile, the government's focus on cutting interest rates, despite very high inflation, continued to put pressure on the currency.

Energy Security

Following the events in Ukraine, oil and gas prices have seen significant volatility, with oil rising as high as $120 a barrel before retreating to $100. This has served to push energy security up the agenda, most notably in Europe, where Russian supply constitutes the largest proportion of its energy mix at approximately 40%. We believe this will lead governments to meaningfully reduce their exposure to Russian energy over the next decade by finding new trading partners for oil and gas and generating significant investment into renewable infrastructure. While this shift has impacted the long-term outlook for Russian energy, it has created opportunities for investment across EMEA, most notably for Middle Eastern energy exporters such as Saudi Arabia and Qatar, which have become key partners in ensuring the West's energy security.

We believe this shift is set to benefit the economies of Middle Eastern markets. Demand for their exports should not only improve the spending power of its consumers, where we see investment opportunities in areas such as healthcare and financials, but also allow for continued investment into infrastructure and diversification of their economies away from oil, helping support long term stability.

Supplying the Green Revolution

Climate change and the need to transition toward a world less dependent on fossil fuels remains one of the most critical issues of our time. While we continue to see an increased demand for electric vehicles and the associated charging infrastructure as the most tangible examples of shifting consumption patterns, what is often overlooked are the commodities required to support this move to a greener society. Furthermore, a lack of investment in supply has led to growing imbalances within critical commodities such as copper, nickel and aluminium, all of which are projected to hit supply deficits following declines in inventory levels. This is especially relevant given the amount of steel required for an offshore wind farm, which is roughly four to five times greater than that required by an onshore facility with the same gigawatt generation capacity. Electric vehicles are another example, requiring significantly more copper relative to a standard internal combustion engine vehicle. We believe this creates a unique prospect for these commodities, as the increase in investment is set not only to benefit the volume of exports of these metals but also to sustain high prices as the world wrestles with limited supply.

A renewed vigour and focus on renewable energy infrastructure offers a wealth of benefits for global commodity producers such as South Africa which, in light of higher prices, has seen its current account balance improve and its currency strengthen. The country finds itself in a unique position as an enabler of the energy transition via its access to a broad range of key metals.

Central Europe – Changing Tide

Taking stock of the potential implications of the sanction regime, it becomes evident that emerging European markets are most exposed to this war, predominantly via their close energy links between the continent and Russia, but also because of the region's geographical proximity to the conflict. However, we believe recent weakness has served to mask the ongoing opportunity ahead for these countries, which remain resilient.

One such area of opportunity is nearshoring, with companies increasingly looking to bring manufacturing closer to their customers in light of supply constraints and pandemic-related disruption. A number of European Union ("EU") member states are well placed to provide lower cost skilled labour, strong regulatory protection, and crucially, a lower delivery time for the end consumer due to their closer geographical proximity. Elsewhere, the European Green Deal, announced in 2021, is set to bring billions of euros to EU member states to help transform their energy systems, which in turn should provide a significant fiscal boost to these economies, supporting employment and development.

Outlook

In the short term, markets are likely to remain volatile as investors closely monitor developments in the Ukraine and the knock-on impact to various commodity markets. In an increasingly volatile global environment, one outcome is clear: beyond the moral implications, this war will prove devastating for the Russian economy and its civil society, destroying decades of development.

Taking stock of the potential implications of the sanction regime it becomes evident that emerging European markets are most exposed to this war, mostly via the close energy links between the continent and Russia. Supply disruptions across energy markets will have an impact on inflationary trends, whilst the region's geographic proximity to the war will harm economic sentiment. This increase in inflationary pressures is occurring at a time when supply-side bottlenecks have yet to be fully resolved.

Providing diversification to the portfolio, Middle Eastern economies and South Africa can be seen as potential safe havens for investors. This is a view reflected across stock markets, where returns are positive for the year.

In Saudi Arabia, the near-term outlook is supported by high oil prices which in turn help keep consumer confidence high. A combination of geopolitics and tight supply dynamics has boosted the price of fertilisers and oil products, which bodes well for earnings growth across region. Additionally, because of the high oil price and extensive government reserves, consumers in the region are relatively immune from global inflationary pressures and fears regarding food security. Longer term, the representation of Middle Eastern countries in benchmarks is going up, whist a strong IPO pipeline is helping to broaden and deepen the market.

South Africa continues to benefit from its key competitive advantage – access to a broad range of metals, many of which will help enable the energy transition. Higher commodity prices are helping to improve the country's current account balance, which is supportive of long-term economic growth. Whilst challenges remain, a focus on structural reforms is helping to foster private investment and promote employment.

Asia Pacific

(compare Asia Pacific funds **here**, **here** and **here**)

Manager of Pacific Assets - 10 May

The only certainty about the outlook is that it is uncertain. As we write this report, newspapers are consumed with the direction of inflation, interest rates, economic growth, heavily indebted national accounts, heightened political uncertainties, a pandemic and the outbreak of war in Europe. This is on top of longer-term structural headwinds such as biodiversity loss, inequality and climate change. Reasons for despondence are many but, as always, we rely on our investment principles as alluded to in our Hippocratic Oath: "We will not succumb to irrational exuberance in good times, nor to unjustified gloom in bad times".

Managers of Schroder AsiaPacific - 24 May

Asian markets were volatile over the six months to end March 2022, with a number of headwinds globally and regionally weighing on sentiment. The Russian invasion of Ukraine towards the end of the period is a tragedy that has created a humanitarian crisis which will have long lasting impacts. In Asia the period was dominated by ongoing elevated levels of regulation in China (particularly amongst the internet names), the health of the Chinese economy and weakness of the property market, the potential impact of Omicron and the knock-on effects of global concerns over supply chain issues, rising inflation and the outlook for interest rates. Later in the period some easing measures from the Chinese authorities, signalling an apparent shift in focus towards 'stability', initially helped underpin sentiment.

However, Chinese stocks came under significant pressure in March as these concerns combined with worries over China's stance with respect to the conflict and a renewed focus on the potential delisting of Chinese ADRs from the US exchanges. This sell-off was followed by a top official coming out with a market-calming announcement addressing many of the issues in a bid to bolster confidence.

With the potential for a more sustained higher level of inflation globally, there was renewed concern over the potential for higher interest rates. This saw some of the more highly rated growth stocks come under pressure, especially the less profitable names, with value stocks outperforming growth stocks over the period.

The divergence of returns across the regional markets continued to be high with China lagging due to a combination of ongoing regulatory fears, concern over defaults in the property sector and weaker economic growth, partly as a result of its continuing "Zero Covid" policy. Korea was also weak with the semiconductor memory sector stocks in the doldrums and some of the internet names under pressure, not only from rising rates impacting valuations, but also uncertainty over regulation given the presidential election which took place in early March. Of the larger markets Taiwan, India and Singapore all outperformed. Taiwan saw a recovery in some of the oversold IT names, as well as strength in other areas including financials. India demonstrated ongoing resilience despite elevated valuations in some areas buoyed by resilient earnings, favourable liquidity and domestic fund flows.

The other ASEAN markets performed better, helped initially by potential for opening up, as well as value stocks outperforming, in which they tend to have higher weightings.

Sector returns across the region also saw a large spread of returns. Beneficiaries of rising commodity prices did well, with energy and, to a lesser extent, materials outperforming, and the prospect for higher interest rates meant financials also outperformed. Sectors with a high growth component were sold off including the healthcare names dragged down by the high multiple biotechnology stocks, as were a number of the e-commerce and internet related names.

Outlook and policy

At the time of writing (April) the tragic conflict unfolding in Ukraine has created a humanitarian crisis resulting in suffering for millions of people. This crisis also has implications for the global economy and stock markets. The conflict demonstrates the unpredictability of geopolitics and its impact on commodity prices will have ramifications for inflation, trade balances, nominal GDP and earnings growth globally as well impacting markets. Although direct impacts on Asia are relatively limited, rising commodity prices and any impact on global growth are headwinds. China's relationship with Russia is also likely to continue to be a focus. Unfortunately this crisis has exacerbated some of the trends that were already there in relation to rising prices and shortages. It has also reinforced the need for self-sufficiency; a desire that will inevitably have implications for globalisation.

This backdrop means that Asian markets are likely to remain volatile, with the path of the conflict in Ukraine a key driver of markets. None of the Company's investments having significant exposure to Russia or Ukraine from a revenue or asset perspective, and direct trade between the region and Russia is extremely limited. However, it is the indirect impacts that are potentially more significant, specifically the pressure that the conflict has had on commodity prices which were already rising. Higher prices will eat into consumers' real incomes globally and hence consumption, potentially hurting demand for Asian products. Asia, in aggregate, is a net importer of many commodities, including energy, and thus rising prices will act as a drag on economic growth and trade balances. Furthermore, Asian companies in general will find their raw material costs rising which will potentially squeeze profitability unless companies are able to pass them through in end prices. Nevertheless, although painful for certain countries' external accounts, and many companies' input costs, volatility in commodity prices is a risk investors are used to dealing with in Asia and creates winners as well as losers.

With price rises being seen globally in many areas, the question whether inflation will be transitory or more structural remains but for now the path for rate expectations has moved higher. Therefore, it is likely that we see renewed concerns over tightening and tapering going forward. Although most economies in Asia remain better placed than in 2013, when we last saw a prolonged QE tapering episode, thanks to improved external accounts and higher real interest rate differentials with the US, valuations in some 'high growth' areas may come under pressure. Beneficiaries of higher prices and firmer interest rates include materials companies and financials, both areas where we have exposure.

The other trend that the crisis has reinforced has been the need for increased self-sufficiency. The need for diversified supply chains was something that the COVID crisis had highlighted following the disruption the pandemic caused. With security of supply already a focus in areas such as semiconductor production owing to ongoing US-China tensions and the concentration of advanced manufacturing in Taiwan, the Ukraine conflict has also highlighted the vulnerability of nations to energy supply dependency. All this will likely lead to further localisation of supply chains and an era of reduced globalisation.

Regionally, a number of other issues have been weighing on sentiment. Although globally most countries are starting 'to live' with COVID, in part thanks to high rates of vaccination, China remains an outlier in continuing to pursue a zero COVID policy. The Omicron variant has proven to be very difficult to control, with a deadly 5th wave impacting Hong Kong. At the time of writing various parts of China including Shanghai are locked down, with estimates that around 200 million people are under full or partial lockdown. Although the overall vaccination rate is high in China, there still remains a large tranche of the very elderly that are unvaccinated, which means a move away from zero COVID in the near term is unlikely and that these rolling shutdowns are likely to continue and potentially weigh heavily on growth.

From an economic perspective, there were already concerns over the strength of the economy in China given the weakness of the property sector and the generally lacklustre consumer. This combined with the ongoing regulatory scrutiny being faced by many of the internet names had already seen the government shift policy onto an easing track, with a focus on stability. These latest lockdowns are likely to see renewed pressure to take further stimulative actions especially if global growth, and thus exports, start to slow.

All of the above paints a pretty negative backdrop. However, this has in part been reflected in market action with valuations today looking much less frothy than they did a year ago, particularly versus global equities. Although it is likely we will see further downward revisions to earnings, aggregate valuations for the region are now trading at or below long-term averages and at the lower end of the range versus the rest of the world.

To conclude it is worth remembering that as investors we buy companies not countries. We are mindful of the impact political and macroeconomic factors can have on equities and returns, but we are bottom-up stock-pickers first and foremost, focusing on the company's return prospects and valuation. We do not try to pick companies which will do well based purely on a particular macro environment which we have forecast; rather we try to pick well-managed companies which have structural advantages allowing them to survive (and hopefully thrive!) in as wide a range of external conditions as possible. Therefore, a focus on attractive bottom-up ideas, in our view, remains essential.

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Paul Meader, chair of Schroder Oriental Income - 23 May

Global financial markets have had a bumpy ride since I wrote to you last autumn. Bond yields have risen swiftly as global interest rate forecasts pivoted higher and, combined with the war in Ukraine, this has acted as a considerable headwind to equities. Asia has had its own challenges, especially continued outbreaks of Covid in China and the consequent lockdowns and economic slowdown.

In times of rising interest rates or rising inflation, investors first focus back on to companies with visible earnings growth and pricing power and then, as economic growth slows, a focus on quality and sustainable earnings growth becomes increasingly important. The love affair with profitless growth companies can quickly turn sour.

What has been especially pleasing recently has been the resumption of growth in dividend receipts from our investments. It is notable that, despite a dip, dividend flows in Asia were much more robust through the Covid pandemic than in traditional equity income markets such as the UK.

Looking forward, it is easy to focus on the short term negatives in the world: Covid, Ukraine and the squeeze in living standards to name just a few. It is also important to ponder the longer term shifts, many of which, themselves, are not positive for global investment markets: the likelihood that inflation will be structurally higher in the next decade, the reversal of globalisation, the fracturing of geo-politics and the increasing hazards of investing in China all give pause for thought. The almost inevitable outcome will be lower real investment returns over the coming decade relative to the last. But, despite these global headwinds, Asia and the Asian income strategy in particular look well placed.

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Europe

(compare European funds **here** and **here**)

Tom O'Hara and John Bennett, managers of Henderson European Focus - 23 May

Readers may recall that our previous update in the Annual Report contained the following forward-looking statement:

Aside from the macro debate surrounding inflation and associated interest rates, the near-term outlook is likely to be shaped by the many and varied supply side constraints to doing business. Thus, we should not be surprised to see a margin squeeze across a wide range of companies and industries.

We did not expect a European war to be one of those constraints. The needless suffering of millions of innocent people appears to have shaken the Western world from its comfortable, introverted slumber. In order to impose the strongest possible deterrent on the Putin regime, various governments have judged that sacrifices must be made. In the case of our investee companies, the sacrifice is invariably the price - or in some cases even the availability - of the raw materials required for heat, power and processing, of which Russia constitutes a key supplier. This has further compounded an already creaking post-Covid supply chain, the increasingly complex and global nature of which has been the result of a near 30-year project since the creation of the World Trade Organisation.

We believe the invasion marks a significant shift, or at least an acceleration of emergent trends, leading to greater localisation of supply chains and prioritised tangible investment into energy, infrastructure and defence. We also hope it brings an end to the arbitrary and counterproductive 'moral score-carding' adopted by large sections of the asset management industry towards economically critical - and therefore socially critical - companies in recent years. If these forecasts prove to be correct, the market implications could be profound, requiring investors to 'care about valuation' - the price paid for a stream of cash flow - in a manner largely elusive over the last decade. Regular readers will by now be well-accustomed to our musings on the potential return of a broader, more valuation-conscious equity market after half a generation of easy-money conditions and fiscal austerity.

Do we live in too much hope? Certainly, the last six months have tormented us with an epic value-growth tug of war. The summer 2021 outperformance of growth over value we spoke of in our last update only became more extreme into the end of the calendar year, with headlines of yet another Covid variant - this time Omicron - offering the perfect excuse for investors to avoid risk. This made for a Blue Christmas for your Fund Managers, given the portfolio's exposure to the 'consumer-reopening' theme. Attempting to console ourselves, we held out hope that the movements had been a non-fundamental case of risk-off into the calendar year-end; perhaps it was pure cynicism on our part to note that, for many in the asset management industry, 31 December marks the end of the annual performance measurement period that determines variable remuneration. When in doubt, get out.

In any case, our hope was rewarded with a dramatic value and 'reopening' rotation ushered in at the start of 2022 on the back of rising interest rates and Omicron-relief. Yet just as capitulation felt imminent by those who have spent a career as growth disciples (we noted broker headlines such as "Is rotation becoming momentum?"), the great rotation was abruptly stamped out by Russian boots in Ukraine. The market reverted to defensive stocks and those offering secular quality growth. An intermittent flirtation with yield curve 'inversion' - indicating recessionary sentiment - while inflation aggressively erodes cash and bonds, has hinted at a form of 'TINA' ('there is no alternative') to equities that avoids economically sensitive areas of the market. European industrial recession is increasingly being priced into many stocks, as is the impact from a less dynamic consumer, squeezed by higher energy and food bills.

Outlook

Our outlook is therefore strikingly similar to the one we offered six months ago, only more acute: the Q1 results season so far has not offered up margin shocks in the quantity we might have predicted, but share price behaviour implies that 'the worst is yet to come', as companies grapple with an exceptionally difficult operating environment. We doubt that there is easy money to be made in the market from here, but active stock-picking should enable a level of protection and differentiation. The key, as always, given the equity market is a forward-looking construct, is to judge when these new, fresher, bigger, scarier uncertainties are priced in. We already feel that edging closer in a number of stocks - if not the market as a whole - and we are poised.

Managers of Baillie Gifford European Growth - 17 May

We live in uncertain and often disheartening times. Crisis follows crisis. 'Out of the frying pan and into the fire' would be an apt metaphor if the nightmare of the aforementioned pan had ended, but the dislocations of the pandemic still ripple through our lives only now aided and abetted by Russia's invasion of Ukraine. Economic uncertainty abounds with inflation rife, rising interest rates and a growing probability of recession, but geopolitical uncertainty is equally prevalent. Germany is re-arming; Finland and Sweden are openly considering NATO membership; and Switzerland has abandoned its neutrality. None of us expected such tectonic shifts six months ago. More recently, the French Presidential elections added fuel to the fire, with rampant speculation about a possible 'Frexit' had Marine Le Pen won. President Macron's victory may have calmed fears for now, but resolution is a luxury in this environment. Seldom have there been so many reasons to fear Europe.

We see a different version of the world, one expressed by the portfolio we have constructed. It is a portfolio of companies driving and benefiting from inexorable, momentous changes that promise to rewrite industries, habits and lives. Upstaged by fever pitch noise, it is altogether too easy to forget the underlying revolution in biotechnology driven by advances in gene sequencing and other novel tools, or the paradigm shifts underway in our relationship with food, or global decarbonisation, or the digitisation of retail and so on. In a decade's time we suspect that it is the big intrinsic shifts to which our portfolio companies are exposed that will be proven to matter far more than the next rate hike or another few months of high inflation.

Our preoccupations therefore reflect this. Most of our time is spent analysing companies through an optimistic lens, not sifting through myopic headlines. We focus on the long term and devote ourselves to considering the potential upside should our companies thrive. As Hendrik Bessembinder demonstrates in his 2017 paper, 'Do Stocks Outperform Treasury Bills?', long-term returns in stock markets tend to be driven by a handful of extraordinary outliers. In fact, from 1926 to 2016, just 4% of US stocks accounted for the entire period's net wealth creation, or US$35tn. A further paper in 2019 discovered that this was even more extreme outside the US. What is also striking is that, if one looks at the many of these long-term winners, they have at times been short-term losers.

Sticking with these companies can therefore be hard when the market tells you that you're wrong, sometimes for long periods of time. A long-term focus is crucial. What's clear from Bessembinder's work is that extreme winners only become so over many years, not a handful of quarters. His research also shows that the average share price drawdown in the same decade as extraordinary success for the extreme winners is 32.5%, and that these drawdowns last, on average, for ten months. This is a lifetime in today's myopic market. Optimism, open-mindedness, and an ability to cut through short-term noise are vital if one is to exploit the long-term returns outliers can generate. We're therefore willing to pay the short-term price of seeming foolish.

Crucially, our optimism also stems from what we're seeing in company fundamentals. For calendar year 2022, the expected revenue growth rate for our portfolio is 25% and for the next three years it is 19%pa. Compare this to the 10%pa anticipated three- year forward revenue growth rate for the portfolio at the end of calendar 2019. Balance sheets are also in good shape, with the average net debt/EBITDA ratio for the portfolio standing at 0.6x compared to 1.8x for the benchmark. Among our top 10 performance detractors for the period, six were profitable last year, another three were only unprofitable because they prioritised investment and the other was cyclically depressed thanks to the pandemic. What strikes us generally is that fundamentals appear to be on track, yet valuations have collapsed. We won't get everything right, but this gives us confidence in the prospects for the portfolio.

Stefan Gries and Sam Vecht, managers of Blackrock Greater Europe - 10 May

Overview

The last six months proved highly volatile, dominated by several sharp market rotations. The market was pre-occupied first by a macro narrative around high spot inflation figures and the path of monetary policy and then by the invasion of Ukraine by Russia.

During the period under review, the market at times aggressively moved into value assets which led to a mechanical derating of higher quality growth stocks. In January, all of this culminated in the most significant value rotation seen since the global financial crisis. This subsequently saw a sharp reversal in February as market participants grew concerned over the possibility of a policy mistake in an already slowing cycle and favoured defensive assets. This was significantly exacerbated by the invasion of Ukraine by Russia. Equity markets sold off heavily, while commodity prices including Brent crude oil, natural gas and wheat moved higher, as the market was quick to price potential supply disruptions as a result of this conflict.

During these market moves, only the energy sector delivered strong absolute returns while all remaining sectors fell in absolute terms. Consumer staples, utilities and financials fared slightly better, while technology, industrials and real estate sold off.

In our previous reports we highlighted how market volatility and a health crisis such as the COVID-19 pandemic posed a real test to our investment philosophy. This was also the case over the past, highly volatile six months. These times require adherence to our core investment beliefs: owning growing businesses which can maintain a spread between their returns on capital and their cost of capital. If company fundamentals remain unimpaired, volatility creates opportunities to selectively add to high conviction holdings that suffered in indiscriminate market sell-offs.

Besides our exposure to Russian companies, which we address in more detail below, it is important to highlight that negative share price performance was driven by factor moves (one style significantly outperforming or underperforming another) in the market rather than earnings disappointments or weaker business fundamentals. In fact, the full year 2021 earnings season has so far been positive with many of the Company's investee companies delivering very strong results. When markets are driven by macroeconomic narratives and factor moves, earnings season can serve as a welcome 'reality check' that helps us remove ourselves from the market noise and instead concentrate on the operating environment for our companies.

Following the invasion of Ukraine, countries around the world and international organisations introduced economic sanctions against Russian individuals and entities. At the time of writing, the Central Bank of Russia has been sanctioned by the United States of America, the European Union and Japan. As a result, roughly half of Russia's US$620 billion foreign currency reserves are now frozen – this pivotal measure has generated a dollar liquidity squeeze in Russia impacting external payments, as well as creating risks around Russia's banking system's ability to meet dollar deposit withdrawals. To stabilise the domestic market, Russia's Central Bank has hiked interest rates to 20% (from 9.5%) and is enforcing mandatory conversion of export revenues into US dollars. This was only done three times before, in Iran, North Korea and Cuba, explaining the collapse in the Rouble exchange rates, as well as share prices of key Russian banks. Russian stock markets have been closed since 25 February 2022 and secondary listings of Russian companies trading on international exchanges have been suspended since 3 March 2022.

Outside of the first order effects described above, it is important to consider second and third order effects. Following the invasion, markets were quick to price higher energy and agricultural commodity goods, given that Russia is the source of significant European oil and gas imports, while Russia and Ukraine together also account for 29% of global wheat exports (Source: The Economist, 12 March 2022).

This may lead to a deterioration in spending power for consumers in the lower quartiles of the income distribution and will likely cause margin compression and/or demand destruction for energy intensive industries.

Outlook

The macro-economic and geopolitical environment remains highly uncertain. As bottom-up investors, we do not seek to forecast these outcomes, but it is likely that economic growth will slow and global fiscal support will fade. The damaging impacts of the Russia-Ukraine war may cause monetary policy makers to more closely weigh high spot inflation against a deteriorating growth outlook, which could ease some of the rate induced market volatility seen in January.

Moving from macro to micro, we are of the view that we are only in the early stages of transformational shifts in many industries in Europe. Our portfolio is fundamentally set up to benefit from high-quality, long lasting investment spend to electrify the European economy, to reduce emissions from the existing building stock, and to accelerate the shift to decarbonise transport, to name but a few. Here, we focus our research hours on finding structural drivers and increased spending that can help companies deliver superior returns over the long term.

All in all, we expect greater dispersion between sector and stock outcomes and with that a need for continued selectivity. In our view, this environment will favour well-managed businesses with strong pricing power, which are able to execute in a tough market environment. We continue to believe that holding these businesses will be to the benefit of our shareholders over the medium to long term.

Japan

(compare Japan funds **here** and **here**)

Karen Brade, chair of abrdn Japan - 30 May

Overview

The Japanese stock market moved through a number of alternating phases during the year: early on, markets benefited from positive investor sentiment arising from vaccine breakthroughs and improved economic data. Then fears of rising infections, the initially slow vaccination programme and Tokyo entering its third emergency lockdown weighed on markets in the late spring and early summer. However, Japan became one of the strongest major developed markets in August and September 2021, as investors reacted positively to the change in the political landscape and easing of the Covid-19 pandemic. Fumio Kishida replaced former prime minister Yoshihide Suga as leader of the ruling Liberal Democratic Party in the third quarter, and the party comfortably retained power in the general election held at the end of October.

In November 2021, Prime Minister Kishida released details of a stimulus package of almost ¥56 trillion. The measures included direct payments to families with children and support for businesses. However, in common with global stock markets, Japanese equities sold-off abruptly in January 2022, with technology-related stocks especially weak. Unlike the US Federal Reserve, however, the Bank of Japan ("BoJ") indicated that it will not raise interest rates quickly. The initial impact of Russia's invasion of Ukraine on the Japanese stock market was limited. While Russia is a relatively small trading partner for Japan, the implications of the invasion for global energy prices are very relevant given that Japan is an energy-importer. Inflation is rising in Japan with implications for the consumer and businesses.

Outlook

Japan has a large, sophisticated economy which remains at the forefront of technological innovation and occupies a key role in the global economy with a huge export sector. The country hosts a wealth of successful companies of all sizes, many with leading global market shares and strong products. In view of this, the Board is optimistic about the long-term future for Japanese equities. Despite the multiple challenges posed by the ongoing pandemic, rising commodity prices and the global outlook for inflation, companies with strong business models and management teams have coped and, in some cases, thrived. Alongside structural improvements in governance in Japan, we remain resolute in our belief that these companies will do well. Weighing the risk-reward in the market, valuations look attractive for these companies for the medium term.

On a global scale, risks remain in the system. The Omicron variant of Covid-19 resulted in less severe illness and governments globally have treated the surge differently, some with fewer lockdowns and less severe restrictions. Nevertheless, infection rates are still high globally. The effects of high energy prices following Russia's invasion of Ukraine are feeding through into widespread price inflation - the impact is only just being felt by the Japanese consumer. For now, the slow growth in the Japanese economy means that the Bank of Japan will keep rates low - it remains to be seen if rising inflationary pressures or a weakening currency will change that calculation later in 2022.

Nicholas Weindling and Miyako Urabe, managers of JPMorgan Japanese - 19 May

Economic and market backdrop

The Japanese economy grew by 1.6% during 2021, a much more tentative recovery than the post-pandemic rebound experienced by other major economies, but it is, at least, starting to normalise. Manufacturing production has risen for fifteen consecutive months and service sector activity is showing early signs of expansion and corporate earnings are solid. A program of booster vaccines is proceeding well, and most Covid restrictions have been lifted. Although Japan remains closed to tourists, it is only a matter of time before remaining restrictions are lifted. Meantime, retail sales are still weak and consumer sentiment is fragile. Historically, there has been little correlation between the Japanese economy and earnings growth. Earnings have grown close to 250% over the last ten years while GDP has been flat.

Investing in Japanese equities is not investing in the Japanese economy

The worst of the Covid threat may have receded since our last report but two new, and equally unwelcome, developments dominated financial markets in the six months to end-March 2022 - rising inflation and Russia's invasion of Ukraine. Even before the tragic events in Ukraine, rising energy and commodity prices, combined with supply chain disruptions, especially in the semiconductor industry, had driven inflation to thirty-year highs in the US and other major economies. The Ukraine conflict is exacerbating upward price pressures, including on soft commodities, as Ukraine is one of the world's largest grain producers. As a result, investors' fears of rising interest rates have begun to be realised in some major markets. The Bank of England embarked on a series of rate increases beginning in December 2021 and the US Federal Reserve followed suit in March 2022, accompanying the hike with a clear signal that it will take further tightening steps in coming months.

Compared with other markets, Japan remains different in several respects, notably in its low inflation rate (0.8 percent in the 12 months to March vs 8.5% in the US) and in the maintenance of very low interest rates by the Bank of Japan. Nevertheless the markdown in growth stocks which has characterised global markets has fed across into Japan, while interest rate differentials have caused a weakening of the yen and therefore in the sterling valuation of our portfolio.

The Japanese yen has been one of the weakest currencies in the world this year. The yen has weakened due to a difference in monetary policy between the US and Japan. The US is hiking interest rates in response to rising inflation while Japanese policy remains ultra easy as inflation is at a much lower level. We see few signs of 'sticky' inflation in Japan such as rising rents or wages and, in contrast to the US, there is little need to shift policy. While the weak yen is good for the profits of companies that export it is negative for the average person. Salaries and pensions remain stable while the price of essential items such as gasoline, energy and food is increasing particularly in yen terms. This is likely to hurt the Japanese economy overall. While it is not impossible that monetary policy changes, particularly as the current Bank of Japan governor is due to retire next year, we do not currently expect interest rate hikes. Regardless of inflation or the level of the yen we believe the high quality companies in the portfolio are able to cope with the environment and will ultimately be able to reflect these changes in pricing.

Outlook

Japan's post pandemic recovery is likely to remain relatively subdued compared to other major economies. The war in Ukraine will have an inevitable adverse impact on activity. Japan procures less than 10% of its liquefied natural gas imports from Russia, so it is better placed in terms of energy security than many European countries that rely heavily on Russian oil and gas. Japan also has little other direct trade with Russia and Ukraine. Consumers will, however, feel the indirect effects, especially through rising energy prices, as Japan has almost no gas, oil or coal of its own, and the production of energy from renewable sources such as solar and wind remains in its infancy. Import price rises will be compounded by the weaker yen, although on the positive side, the lower yen will boost export receipts.

But unlike the case in most other major nations, inflation should not be a significant concern in Japan. Although prices have begun to rise due to rising energy and material costs, there has been no significant increase in property rents, and despite a tight labour market, wage growth remains low. In this environment, rises in energy and other prices may prove to be mostly one-offs, that do not feed through into higher wage demands and long-term inflation expectations.

Despite some inevitable short-term uncertainties, we are positive about the longer-term outlook for Japan. The country is in the process of a major technological transformation that should deliver growth and substantial productivity gains over time. Moreover, Japan's Prime Minister Fumio Kishida, who was elected in September 2021, remains very popular and we expect Japan's political landscape to remain stable for the foreseeable future, while improvements in Japan's corporate governance continue.

We therefore maintain our positive view on the long-term prospects for Japanese growth stocks and the themes that guide our investment decisions. Indeed, just as Covid accelerated the pace of change in some areas, such as e-commerce and digitalisation, so too have recent developments accelerated other trends. For example, energy price rises have made the transition to renewable energy more urgent, while mounting wage pressures have in some major economies boosted the demand for automation.

This is an ideal environment for Japan's many dynamic, innovative, quality businesses, especially those in the small and mid-cap space. We seek out the very best of these investment opportunities, at the heart of Japan's new growth. The recent market sell-off has made many of these opportunities available at more attractive prices. We have therefore increased the combined weight of Premium and Quality stocks to reflect this. The high quality companies we own have strong balance sheets, leading competitive positions and are often number one in their respective industries, in Japan or internationally. They have demonstrated pricing power over many years, and we believe they are capable of prospering, over the long-term, regardless of the macroeconomic environment.

China

(compare China funds **here**)

Management team at JPMorgan China Growth and Income - 24 May

The past six months were a challenging time for the Chinese economy. Annual GDP growth decelerated from 7.9% in Q221, to 4.8% in Q122. Consumption remained constrained by China's very stringent dynamic COVID policy, which has seen large cities such as Xi'an, Shenzhen and Shanghai, with populations of over 10m, under strict lockdowns. While exports held up incredibly well, despite global logistic bottlenecks, investment weakened. The government's attempt to stabilise the economy by stepping up infrastructure investment was not sufficient to offset the drop in property-related investments following the government's efforts to deflate China's property bubble.

Credit risk in the property sector was heightened in September 2021 when Evergrande, one of the largest private property developers, failed to honour interest payments on some of its debt. However, as we discussed in our last report, we see little risk that any private developers' liquidity problems will trigger systemic risk. We expect Evergrande to solve its liquidity problem at the individual project level, with the support of local governments, which are coordinating assistance measures with banks, suppliers and other developers. And as expected, the government has begun to ease constraints on the property sector as a whole. Purchase restrictions are being loosened, households' and developers' access to capital is improving and the cost of credit is declining.

China is also facing the same headwinds as the global economy - inflation and the war in Ukraine. In the case of inflation, the impact has so far been less severe than in the US and certain developed countries, as labour shortages are not an issue for China and food inflation is being dampened by the low pork price. But inflation has nonetheless impacted corporates, putting pressure on the margins of companies that lack the power to pass cost increases on to their customers.

Russia's invasion of Ukraine has also had limited ramifications for our portfolio companies, beyond the indirect effect on energy markets. We do not have any investments in companies engaging in defence and military activities, and for those few holdings that have operational facilities in Russia, the contribution to revenues and profits from this market is low, around low single digit percentages on average. In terms of energy, China does import 9% of its pipeline natural gas from Russia, but pipeline gas is priced independently in each region. However, LNG prices may experience higher than usual volatility going forward and China imports about 8% of its LNG from Russia.

Outlook

Global economic growth is facing mounting pressure from inflation, interest rate rises in the US and the UK and the war in Ukraine. In China, growth is likely to remain below trend. The government's dynamic COVID policy is delaying the service sector recovery, and manufacturing activities are also being disrupted by factory closures. We expect this policy to remain in place until most elderly people are vaccinated. Meanwhile, as lockdowns persist, manufacturing activities, the backbone of the Chinese economy, are being protected and prioritised over consumption. While energy prices in China may be insulated to some extent by existing supply and pricing arrangements with Russia, food prices are likely to increase due to shortages of grain, oil and fertilisers created by the war in Ukraine.

All these factors are likely to impose downward pressure on corporate earnings, at least for the short term.

To offset the disruptions caused by COVID, as well as to ease pressure on the property sector, the Chinese authorities continue to loosen monetary and fiscal policy. But realistically, it may take time for these efforts to take effect, as consumer and business confidence and activity will not be restored until restrictions are lifted and daily life returns to some semblance of normality.

Elsewhere on the regulatory front, we are seeing some positive developments. China's Vice Premier Liu He hosted a meeting with the Financial Stability and Development Committee of the State Council to orchestrate a policy shift away from the deleveraging and de-risking measures imposed in the past couple of years, towards economic stabilisation and capital market development. One step in this direction is an apparent easing of regulatory controls on the internet sector. After an eight month hiatus, the government recently granted 45 publishing licences for domestic games - a meaningful concession that has boosted confidence in the outlook for the whole sector. And in April, the Politburo of the Chinese Communist Party announced that the 'rectification' of internet platforms is approaching completion and that it supports the healthy development of platform companies within this new regulatory framework.

Furthermore, tensions between China and the US seem to be diminishing. In March 2022, the Chinese Securities Regulation Committee announced that it was drafting policy which will give US regulators full access to the financial accounts of most US-listed Chinese companies. If an agreement on this issue can be reached, it will significantly reduce the delisting risk for Chinese companies listed in US. On the US side, the Biden administration has extended tariff exemptions on key Chinese imports until the end of 2022, to ease US inflationary pressures.

Although, as ever, China faces near term challenges, we remain optimistic about the long term prospects for Chinese equities, which will be supported by the admirable entrepreneurial spirit of China's private businesses and continuous improvements in living standards. The government's strong determination to digitalise, adopt other technological innovations and implement supply side structural reforms will also drive growth and productivity improvements over the medium term. In addition, recent market volatility has ensured that the valuations of Chinese equities are now very attractive. Our proprietary, five-year expected return model, as well as common market metrics such as price/earnings (P/E) and price to book (P/B) ratios, have all reached historical lows, suggesting that a strong, and protracted recovery in Chinese equities is soon likely.

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Dale Nicholls, manager of Fidelity China Special Situations - 31 May

COVID-19

Slowing economic growth - notably slowing consumer activity highlighted in data points such as retail sales - has been exacerbated by the recent COVID lockdowns that we have seen in large cities such as Shanghai. The feedback from consumer related businesses in the region indicate that the impact will be significant in the short-term. Despite the severity of these lockdowns, and while the direction of policy is not always easy to predict, I do believe that we will see a shift towards a loosening of restrictions relatively soon. I believe that recent commentary from certain officials, the approval of foreign antiviral drugs, as well as the evident social strain the policy is having, are all factors that support this view.

There is also a clear impact on supply chains. We are already seeing impact of the recent lockdowns in Shenzhen given the huge productive capacity that was affected there; limits of ports in places like Shanghai are also clearly having a major impact. In terms of implications for the portfolio, as there is a focus on domestic consumption, we are focused on ensuring the fundamentals (such as earnings visibility) of companies we own in the portfolio remain intact.

I do not think that we should underestimate the risks from the zero-COVID policy and I expect the short-term outlook for the consumer sector will be difficult; and this is partly reflected in the portfolio's current underweight to consumer discretionary positions. However, I remain positive on the long-term potential of the Chinese consumption theme and believe that there is good potential for the unleashing of spending power as the country comes out of the pandemic.

Russian conflict

Geopolitics is definitely something we all need to be mindful of. Some of the significant economic concerns we held prior to the Russia and Ukraine conflict have indeed been accentuated by the crisis. For example, there is now a greater risk of global stagflation – with greater risks to growth, and ongoing supply chain disruptions increasing costs for everyone.

It seems likely that China will continue its more 'neutral' stance towards the conflict, in keeping with the policy actions taken by other large countries in Emerging Markets. The base case would be that we do not see a further deterioration in what is already a strained relationship with the US. While geopolitics often dominates headline news, what I concentrate and focus on is the potential direct impact this can have on the companies I invest in and their earnings, which in most cases, is negligible.

As in previous years, the sales of the companies in which we invest are predominantly domestic. Of the overall portfolio, sales exposure to China is over 90%.

Regarding cost pressures, while these trends and their short-term impact on earnings need to be monitored, we are very focused on companies that have pricing power that will allow them to pass on these costs over time.

Inflation

Inflationary pressures in China have been relatively benign and less of a risk compared to trends seen in many Developed Markets. China's headline Consumer Prices Index ("CPI") inflation has maintained relatively moderate levels in the past few months and we will need to watch how this trend evolves. Although the year-on-year CPI could be pushed up by higher-than-normal vegetable prices due to weather conditions and COVID restrictions (which have already been partially offset by widening pork deflation), as well as rising fuel costs due to geopolitical tensions on the supply side, we expect such increases to be moderate as Chinese consumer demand remains weak and domestic supply chain disruptions lessen over time. However, this does need to be monitored given volatile commodity prices.

In contrast, the headline CPI inflation in major Developed Market ("DM") economies hit decade highs in early 2022. The divergence is partially technical, reflecting relatively high weights of pork but low weights of fuels, as highly regulated prices in China somewhat shield inflationary pressures from the global spike in oil prices. In addition, the difference in labour markets may also contribute to the divergence. Service inflation in China was still muted with the labour market deteriorating due to the zero-COVID Policy and tightened restrictions, while the elevated inflation in DM economies like the US had broadened from goods to services with tight labour markets driving strong wage growth.

Valuations in China, both on a historical basis and compared to global peers, have become increasingly more attractive. Given the concerns discussed, investor sentiment remains quite negative.

I believe there is good potential for less “negative news” going forward. One key factor will be developments in the property sector – a sector whose correction has also been a major drag on the country’s economy from late 2021. At this point, we are already seeing signs of easing measures from purchasing restrictions being lifted to easing mortgage lending in certain cities. I believe this has good potential to continue and expand.

The regulatory wave has good potential to ebb, with a shift more on the implementation of announced policies versus policy surprises. A key example of this is the government’s messaging at the end of April after their Politburo meeting where it was indicated that policy would shift to support economic growth via increased infrastructure spending, more supportive property measures (albeit the policy that housing is for ‘living not speculating’ remains) and the healthy development of internet platforms in order to help underpin consumption and enable pent up demand and spending once lockdowns are lifted.

Finally, I feel we can expect more actions to be taken on both the monetary and fiscal side to support economic growth. This contrasts significantly with the monetary tightening we are seeing in other markets such as the US. These levers, combined with easier comparisons relative to the slowdown from the first half of 2021, have considerable scope to drive faster earnings growth in the market from the second half of 2022.

Outlook

Despite recent challenges and ongoing uncertainty, we remain positive on the long-term investment opportunities on offer in China. We believe a lot of the negative news flow is reflected in current valuations, which look very attractive relative to other markets and to China’s own history. As discussed above, we are seeing increased messaging from authorities around measures to support growth and address challenges such as those posed by the property market slowdown. Our ongoing analysis highlights that we should be past the worst of the regulatory headwinds we experienced during 2021. Adding to this is the likely looser policy stance which is in direct contrast to what we are seeing across other major economies - this backdrop supports the case for China to outperform on a relative basis moving forward.

Finally, investor sentiment towards China has been very weak and therefore any alleviation of the factors depressing sentiment could be the catalyst for a share price recovery. The combination of weak sentiment and low valuations has created a number of opportunities and we continue to put money to work in areas where we see long-term value.

Latin America

(compare Latin America funds **here**)

Brunella Isper and Viktor Szabó, managers of abrdn Latin American Income - 4 May

Latin American equities fell over the review period. The persistence of the COVID-19 pandemic, with the emergence of new variants, set back reopening efforts in the region and around the world. Rising inflation has also been a key driver of market events. Higher costs have pressured both manufacturers and consumers, and subsequently triggered a turnaround in the monetary policy stances of major central banks. Brazil's central bank had already begun its aggressive rate tightening policy in the first half of 2021, and continued to restrict liquidity in the market throughout the period. Similarly, in Mexico, the regulator imposed a series of interest rate hikes to counter mounting inflation, while central banks in Argentina, Chile, Colombia and Peru also followed suit, following signals from the US Federal Reserve (the "Fed") that it too would begin tapering its policy from 2022. The Fed's semi-annual report to Congress stated that "it will soon be appropriate to raise the target range for the federal funds rate". By the end of the period, the Brent crude oil price reached over US$100 per barrel due to expected disruptions to global energy markets driven by sanctions on Russia. In turn, the changing interest rate climate gave investors cause to rebalance their investment portfolios, shying away from growth-oriented stocks, such as technology and ecommerce, that had previously performed exceptionally well during the pandemic.

Volatile energy and commodity prices also influenced Latin America's stock markets. Earlier in the period, low iron ore prices pressured the region's miners. However, by the end of 2021 commodity prices reached their highest levels in seven years, thanks to the increased demand for raw materials in the pandemic-recovery climate. This surge in demand was exacerbated in the new year as Russia's invasion of Ukraine sent both energy and commodity prices soaring, proving beneficial for Latin America's energy and commodities producers.

In Argentina, the ruling Frente de Todos coalition performed poorly in the mid-term elections, as expected, losing control of the senate. The Government was unable to secure enough votes to pass the 2022 budget bill in October 2021, highlighting the difficulties that the administration will face after a poor performance in the midterms. Meanwhile, the presentation of the International Monetary Fund deal to the Argentine Congress was expected to take place at the end of February, but was delayed as the Government finalised details of energy subsidy cuts and utility price hikes.

The Brazilian Government's proposal for an expanded social welfare programme and a revision of the parameters of a spending cap increased fiscal uncertainty, as the senate approved changes to the spending cap to fund social welfare programmes. Throughout the period, the Central Bank of Brazil hiked the SELIC rate citing the need for a tighter monetary policy, forecasting that rates would peak at 12% in May 2022. The Government recorded a modest primary surplus of 0.7% gross domestic product ("GDP") in 2021, which was the first primary surplus recorded since 2013. This was supported by strong tax revenues and the drop off in pandemic-related spending.

In Mexico, in a four-to-one vote early in the period, Banxico's board decided to raise the monetary policy rate by 25bps to 4.75%, in line with market expectations. Marginal data for the second half of November 2021 put inflation in the consumer price index ("CPI") up to 7.7% year on year ("y/y") - its highest level in 20 years. The central bank hiked rates by 50bps to 5.5% in response. Mexico's GDP grew by 0.1% y/y in the fourth quarter of 2021, bringing overall growth in 2021 to 4.8% y/y. The CPI surprised in January 2022, on the upside, at 7.1% y/y, while core inflation hit a 21-year high with a print of 6.2% y/y. In its first meeting with the new governor, Victoria Rodriguez, the central bank hiked rates by 50bps to 6% in a four-to-one majority vote, with the dissenting member voting for a 0.25% increase.

Outlook

The military conflict between Ukraine and Russia has shifted the gears for investors, understandably making them more risk averse. This, following sharply on the heels of monetary tightening moves by the major central banks in Latin America and globally, seeking to combat rising inflation, has created several near-term uncertainties for investors. As investment managers, we continue to be watchful of rapidly rising inflation, particularly in Brazil, where higher rates could further strain the country's fiscal balances. However, the early tightening of monetary policy in the region, ahead of the policy normalisation cycles in the US and Europe, could mean that the region's spiraling inflation could fade over the course of this year. The president of Brazil's central bank, Roberto Campos Neto, recently declared that he expects the country's inflation to peak around May. Yet, it is difficult to predict exactly as the country's economic trajectory still seems uncertain. While Russia's invasion of Ukraine has presently helped energy and commodity producers in the Brazil and the broader region, supply chain disruptions and soaring energy prices are likely to slow down economic activity.

Overall, we continue to believe that Latin America is well-placed to benefit from a conducive external backdrop for commodities and that domestic economies in the region will stay on track for a gradual recovery. Meanwhile, we will continue to observe domestic political events amid several upcoming election cycles in the region.

Country specialist

(compare country specialist funds here)

Norman Crighton, chair of Weiss Korea Opportunity - 3 May

During 2021, the Korean economy enjoyed robust growth during the year, as GDP grew by 4.0% and exports grew at their fastest pace in 11 years. 33 The continued success of Korea’s economy, however, will depend on its ability to continue exporting large amounts of goods to China and importing reasonably priced commodities both for domestic consumption and for manufacturing the goods that it exports. With Russia’s invasion of Ukraine, an event rightly condemned around the world, both of these outcomes are significantly more uncertain today than they were on 31 December. Russia’s war could result in damage to China’s economy if China’s trading partners begin to sanction Chinese companies; this would negatively impact Korean exports. Russian sanctions have already exacerbated the effects of inflation on global commodity prices, so this too is a net negative for companies in Korea, and elsewhere.

Flexible investment

(compare flexible investment funds **here**)

Peter Spiller, Alastair Laing and Christopher Clothier of Capital Gearing - 30 May

Our situation today is the mirror image of the last 40 years. Globalisation is being rolled back both for reasons of security of supply and the geopolitical risks associated with Russia and China. The just-in-time worldwide model of manufacturing is fading. Furthermore, there are no realistic candidates for any equivalent increases in the workforce of the capitalist economy from elsewhere. Manufacturing closer to home will be more secure, but also more expensive. The consequence will be wider than just goods; the bargaining power of labour is being at least partially restored.

The scale of investment required to achieve net zero is also likely to maintain inflationary pressures. Not least through higher commodity prices as demand for natural resources for infrastructure renewal meets the constrained supply of metals and minerals due to low levels of capital expenditure in recent years.

The greatest imbalance that has developed over the last 40 years has been the extraordinary increase in debt that has been encouraged by abnormally low interest rates. History suggests that the only way to reduce the burden of excessive debt that does not risk a depression is to engage in financial repression; elevated inflation with moderate nominal rates. An extended period of financial repression is likely to cause some shocks but in time will bring debt into better balance.

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Will Wyatt, chief executive of Caledonia - 26 May

The Western world appears to have come through the worst of the Covid-19 pandemic, absent further mutations. This is not the case in Asia where China's zero-Covid policy remains firmly in place. Further geopolitical events have unsettled markets, particularly in commodities and have exacerbated supply side constraints. The prospect of increasing interest rates to combat unhealthily strong inflation makes the old market adage of 'don't fight the Fed' look ominously prescient this year. Bond yields have already risen strongly and, with equities at lofty valuations, investors are thinking carefully about allocation to alternative assets.

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Sarah MacAulay, chair of JPMorgan Multi-Asset Growth & Income - 16 May

The impact and duration of the devastating conflict in Ukraine is likely to dominate financial markets in the coming months. Whilst it is impossible to determine when the conflict may end, even an imminent ceasefire would not resolve the fragile geopolitical situation. Similarly the repercussions for global growth expectations created by sanctions and elevated energy and commodity prices are unlikely to dissipate in the immediate term. China's zero Covid-19 policy, which has imposed extended lockdowns on major cities such as Shanghai, has exacerbated these concerns over global growth and supply side constraints. Inflationary expectations have altered dramatically and central banks have the very difficult task of trying to manage relatively high levels of inflation without tipping economies into recession. Previously buoyant consumer spending, bolstered by significant amounts of pent-up savings accumulated during the last two years of the pandemic, is expected to decline in response to the dramatic increase in household energy costs. As a consequence, corporate earnings forecasts, which have been strong in this post-covid recovery period, may be threatened by downward revisions.

Infrastructure

(compare infrastructure funds **here** and **here**)

Ian Russell, chair of HICL Infrastructure - 25 May

The outlook for infrastructure investment remains positive. The key defensive attributes of core infrastructure, including the strong yield, inflation-linked returns and low beta, underpin the continuing attractiveness of the asset class, and of HICL itself, to investors against the broader market backdrop. Demand for infrastructure investment is expected to continue to support valuations for high quality assets.

Steven Marshall and Benn Mikula, managers of Cordiant Digital Infrastructure - 24 May

It is an exciting time to be involved in the digital sector. The COVID-19 pandemic initiated an acceleration in the adoption of digital applications. While that rate of growth may slow as the world recovers and new patterns of work emerge, the overall direction of travel in data consumption appears to be persistently upwards. None of this would be possible without the corresponding investment in Digital Infrastructure to support it.

As the world recovers from the impact of COVID-19, we are unlikely to see the clock rewound. Augmented adoption of digital technologies will remain part of our business and social lives, and demand for new and improved digital services, made possible by the infrastructure we invest in, is likely to continue to grow.

Cisco, the American telecommunications equipment giant, periodically publishes a review of global internet trends. In March 2020, before the impact of COVID-19 had even become clear, Cisco was already forecasting that the number of devices connected to IP networks would, by 2023, exceed the global population by a factor of 3.6x. Some forecasts show the volume of data created and transmitted online will almost double between 2022 and 2025.

With the growth of the internet in the 1990s, users - in particular corporations and governments - began to build their own networks. The number of players building, operating and owning Digital Infrastructure consequently expanded significantly.

In the early 2000s, with demand for data increasing apace, it became clear to this expanded sector that the value added for any telecoms operator or business or government department lay in the applications that were delivered - the Facetime call, the online order, the sharing of information - rather than ownership of the pipes that carried the data.

This in turn led to the model of outsourced, shared infrastructure. This model - of sharing towers and data centres and fibre - allows carriers and corporations to optimise their capital structures and devote more resources to software-based customer interactions.

It is the combination of these two factors - demand growth and efficiency-driven outsourcing - that has resulted in Digital Infrastructure becoming the third largest category of infrastructure spending (as measured in annual capital expenditure).

We see active opportunities in areas such as edge and interconnect networking, hybrid cloud, the growth of DAS and fibre densification in relation to tower networks, multi-asset platforms, misunderstood assets requiring strategic repositioning, the potential integration of 5G and broadcast, and other areas.

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Managers of Ecofin Global Utilities & Infrastructure - 19 May

The half-year encompassed COP26, with its attendant carbon-reducing commitments, economic recovery as the harshest restrictions of the pandemic were lifted, and rising inflation due to bottlenecks and shortages. Late in the period, Russia's invasion of Ukraine caused still higher energy prices and fresh uncertainty. Some Central Banks started to increase interest rates and longer term bond yields rose to pre-pandemic levels. Global equities were volatile and approximately flat over the period but dividends and sterling's 2.5% decline against the US dollar meant that the total return in sterling for the MSCI World index was 4.9%.

The war in Ukraine had a damaging impact on the valuation of European utilities given doubts about gas flows from Russia following the unprecedented economic sanctions imposed by EU countries. The affordability of energy in Europe became a major political issue, triggering government intervention and uncertainty in the sector. EDF was a stark example as the French government capped power price rises for consumers and required EDF to sell more power to third-party suppliers at well below market rates.

By March, strong reported earnings for portfolio holdings with inflation indexation and pricing power resulted in a broad-based recovery in our performance. Investors began to appreciate that the policy push towards European energy independence would materially accelerate the already substantial growth opportunity for utilities to increase renewables capacity.

Power markets, particularly in Europe, were already tight before Russia's war in Ukraine started. It appears Europe had been sleep-walking into a risky position; Germany had decided to phase out nuclear and coal power at an accelerated pace while other countries reduced fossil fuel generation without a commensurate increase in renewables. This made Europe highly dependent on Russian gas. French nuclear plants also faced unscheduled outages and some hydroelectric plants operated at reduced levels due to poor hydro resources.

Energy commodity prices have remained high and power prices have risen 40% in the US and some 10-100% in Europe in the year-to-date. European carbon prices were rising for most of the half-year and approached highs of €100/ton in early 2022 before settling back to around €80/ton.

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Biotechnology & healthcare

(compare biotechnology & healthcare funds **here**)

Sir Martin Smith, chair of Worldwide Healthcare - 27 May

Global markets are currently experiencing unusually high levels of uncertainty. In addition to the appalling human cost, Russia's invasion of Ukraine has created near-term risks for markets as high energy prices, rising food prices and disrupted supply chains threaten a substantial increase in global inflation. It has also cast a shadow over the longer-term outlook with the prospect of continued raised levels of geopolitical risk and an increase in investor risk aversion, both of which may affect markets and economic confidence for some time.

This comes in addition to existing market and economic concerns that troubled investors before the invasion, including the onset of U.S. Federal Reserve tightening, the impact of COVID-19 lockdowns on supply chains and inflation and also the outlook for China where there are problems in the real estate sector, as well as around its zero-tolerance COVID-19 policy and heavy-handed regulation of technology firms.

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James Douglas and Gareth Powell, managers of Polar Capital Global Healthcare - 10 May

An unwelcome combination of economic and geo-political events has made the first half of 2022 an extremely challenging period for global equity markets. Despite being faced with a cocktail of rising inflation, hawkish central banks and war in Ukraine, the equity markets have been remarkably resilient and over the six month period to the end of March 2022. More importantly, the macro environment has shifted to one that is very supportive for the healthcare sector, especially for larger and generally higher quality companies. The potential for slowing economic growth and elevated inflation, i.e. stagflation, is one that should benefit healthcare. The essential nature of its products and services provides an offset to slowing economic growth. On the inflation side, healthcare is populated with businesses that have pricing power, are vertically integrated, or have high gross and operating margins and thus can absorb the additional costs.

Tackling the backlog

COVID-19 has been incredibly disruptive for millions of people, for many different reasons, but the impact on global healthcare systems has been particularly profound. The COVID-19 pandemic has had significant repercussions for the delivery of elective care, meaning that many patients are now waiting longer for treatment than they were before the pandemic began. In order to address the ever-growing backlog healthcare systems, and their staffing policies, will need to learn to live with COVID-19, increase capacity, prioritise diagnosis and treatment and look to utilise alternative sites of delivery. If successfully delivered, then utilisation and volumes should accelerate, which is a clear positive for the top-lines of healthcare facilities, healthcare providers and medical device companies.

To try and understand the magnitude of the problem, and indeed the opportunity for the healthcare industry, a recent NHS report pointed to 6 million people on waiting lists, up from 4.4 million before the pandemic. The NHS is just one example of the challenge that healthcare systems face, but it is perfectly reasonable to assume that similar dynamics exist in other jurisdictions globally. What that statistic does not capture, however, is the number of people who have missed all-important diagnoses and could now be faced with more advanced and more problematic health challenges. Cancer is a case in point, with the NHS launching the Help Us Help You campaign to encourage people with cancer symptoms to come forward. Recent analysis by Macmillan Cancer Support has suggested that around 50,000 patients have missed a cancer diagnosis during the pandemic. Research has also shown that women being diagnosed with stage four breast cancer has increased by 48% over the last few months, which the charity say is down to COVID-19 disruption to NHS care. Tackling the backlog is a clear and immediate priority.

Disrupting the delivery of healthcare

The disruption of delivery is critical given there is an acute need globally to generate greater efficiencies and deliver more healthcare to more people for less money. Investment in products and services that drive efficiencies has been evident for some time, but the COVID-19 crisis has brought a greater level of focus and has accelerated momentum in certain areas. The use of out-patient facilities and Ambulatory Surgery Centres to perform surgeries that might previously have been performed in a more traditional hospital setting has really accelerated during the tail-end of the COVID-19 pandemic. Cataract surgeries, endoscopies and colonoscopies have been performed in out-patient settings/ Ambulatory Surgery Centres for some time, but there is a clear drive to conduct more and more procedures, for example orthopaedic surgery and cardiovascular intervention, in those facilities.

We would also highlight home health as an area that should see considerable growth over the medium-term as healthcare systems look to shift patient volumes to lower-cost and more convenient settings. The Centers for Medicare & Medicaid Services, a federal agency that administers the United States' major healthcare programs, has projected that home health spending will grow in the mid- to high-single-digits per annum through 2028 which should translate into healthy organic growth for providers. It is interesting to note that in March UnitedHealth Group announced its intention to acquire home-health provider, LHC Group, helping to underpin our view that home-health offers durable growth prospects. Once part of the UnitedHealth Group, management will look to improve care coordination, improve outcomes and patient experiences as well as drive better value for the healthcare system.

Prevention: The cornerstone of public health systems

Effective prevention should be the cornerstone of public health systems, not just vaccinations, but early and accurate diagnoses to set patients on to optimal treatment pathways. The COVID-19 crisis has offered a timely reminder not only of the value of safe and effective vaccines, but also of the need for effective diagnostics infrastructure. Early intervention coupled with effective disease management should drive better outcomes for patients and, ultimately, generate much-needed cost savings. Genetic testing to help greater understanding of underlying disease biology will only accelerate from here, as will the use of biomarkers to enhance therapeutic accuracy and reduce waste.

Preventative medicine and preventative measures come in a very wide range of guises, but we feel it appropriate to focus on diagnostics and vaccines. In a post-COVID-19 world there is hope that the much-needed investment in diagnostics infrastructure will be put to good use as testing menus expand. Definitive diagnosis, coupled with guided therapies, are foundational to precision medicine with the goal of driving better outcomes for patients. Safe and effective vaccines will also continue to be a critical part of the healthcare eco-system.

The outlook for healthcare is compelling, especially for high quality large-cap stocks

The combination of a challenging macro-economic environment and positive industry dynamics drives a compelling investment case for healthcare. On the macro side, rising inflation, slowing economic activity and dented consumer confidence all point to a scenario that enhances the appeal of a defensive sector like healthcare. Further, as we all learn to live with COVID-19, the consumption of healthcare products and services should accelerate, putting upward pressure on revenues and potentially earnings. One final observation is that the greater the uncertainty, the more attractive larger capitalisation companies become given their high operating margins and enhanced ability to absorb inflationary pressures. Importantly, many will continue to invest in future growth opportunities in concert with delivering attractive earnings.

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Managers of International Biotechnology - 4 May

During the period under review there was significant market volatility with two major drawdowns in the sector occurring in November 2021 and January 2022. The reasons behind these two downturns are multifaceted.

During the pandemic, the sector's rampant innovation was under the spotlight, drawing attention from generalist investors impressed at the speed that both vaccines and treatments came to the aid of the world. Investor focus expanded into early-stage biotechnology companies with potential game changing platform technologies (such as gene therapy and CRISPR) causing valuations to overheat. Biotech valuations corrected over the summer months and took another step down with rest of the markets in the Autumn as the Federal Reserve (FED) hinted at raising interest rates to address the threat of persistent inflation. Naturally the smaller and mid-sized companies were affected the most, whereas the profitable, cash-flow generating larger sized companies were relatively stable. During February 2022, the general equities market was disrupted by news of war in Eastern Europe which resulted in risk aversion and market sell off.

The market sentiment has recently been poor due to market disruptions, inflation and geopolitical events, and the biotechnology sector has not been spared. After a bumper year in 2021 with record numbers of IPO's and huge investor support, the tide appears to have turned, and valuations have retracted to more normal and, in some cases, cheap levels. The lack of positive news flow and the 'risk-off' investor environment exacerbated the weakness.

Outlook

The biotechnology sector has experienced a significant period of weakness in certain areas since the highs of Spring 2021 and valuations at current levels look attractive. The sector fundamentals remain intact with continuous innovation and exciting new approaches addressing debilitating diseases suffered by many all over the world and a corresponding rise in patient numbers due to demographic factors.

Catalysts such as a pickup in M&A, positive clinical readouts and good product launches could reignite interest in the sector once more and boost returns into the future.

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Private equity

(compare private equity funds **here**)

Investment team at ICG Enterprise - 12 May

We believe that the private equity model of active ownership is well positioned to generate long-term value and to withstand market volatility and economic uncertainty.

Calendar year 2022 is expected to see a large number of experienced private equity managers raising capital for new funds. This is creating attractive opportunities, with favourable supply/demand dynamics enabling us to selectively commit to funds managed by top-tier managers.

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Debt

(compare debt funds **here, here** and **here**)

Claire Whittet, chair of TwentyFour Select Monthly Income - 30 May

The six-month interim period ending 31 March 2022 proved to be an extremely challenging one for market participants.

In the last quarter of 2021, the Central Banks finally recognised that rising inflation was not merely transitory but had become imbedded in various economies. This resulted in a complete pivot by the Federal Reserve System (the “Fed”), the impact of which was an immediate increase in interest rates and yields with a flattening of the yield curve. Likewise, the Monetary Policy Committee (the “MPC”) increased UK base-rates to 0.75% in the first quarter of 2022 and the expectation is for further hikes to above 2% by the financial year-end. Furthermore, the European Central Bank (the “ECB”) has become hawkish in its rhetoric and has indicated an end to asset purchases in the first half of 2022 and an expectation of a positive deposit interest rate by the year-end. This has resulted in a sell-off of risk assets and a widening of credit spreads as investor sentiment deteriorates on concerns of aggressive monetary policy impacting economic growth. However, at the start of 2022, the market regained some buoyancy as a light new issuance calendar fed into an already strong technical backdrop leading to a tightening of secondary credit-spreads, particularly as market professionals were caught with minimal inventory.

This all changed again on 24 February 2022 when Russian troops invaded Ukraine. Not only has this been a human disaster but it further invigorated already strong energy-prices, adding to general supply-chain pressure and fears of higher inflation. Increased concerns regarding an economic recession in Europe, particularly if Germany succumbs to pressure and applies full sanctions against Russia to include the ending of oil and gas imports further added to the ‘wall of worry’. Correlations broke down again, risk assets weakened and yields rose.

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Property

(compare UK property funds **here**, **here**, **here**, and **here**)

Andrew Jones, chief executive of LondonMetric - 26 May

We are operating in an ever-changing macro environment. The conflict in Ukraine is adding to the geopolitical uncertainty which, together with the economic impact from a re-opening of the global economy and the lingering effects of Covid-19 lockdowns, has increased the cost of goods and resulted in elevated inflation and a cost of living squeeze.

These macro factors are having a profound impact on a real estate market that has already seen a significant acceleration of evolving consumer habits as a result of Covid-19, a number of which were already in the system: increased online shopping, greater convenience, better experiences and increased flexibility from working from home. This has led to a shift in demand and supply dynamics highlighting material polarisation in performances across various real estate subsectors; the gap between the winners and losers remains wide.

Many landlords have emerged from the pandemic realising that their assets are not fit for purpose. They will blame the pandemic for poor performances, dividend cuts, share price collapses and falling rental income, although the truth is that many failed to embrace a rapidly changing world and shift their portfolios to support these emerging trends. A quick look back shows that, as we emerged from the Global Financial Crisis, new structural trends in how we work, shop and interact with our friends and family began to surface, largely driven by the introduction of new technological innovations.

This is evidenced by the enormous rise in online sales penetration, from 9% a decade ago to 19% pre-pandemic and 26% today. This represents an extraordinary acceleration and has meant that growth that was forecast to take five years has taken just two. However, it is unlikely to stop there with some of the strongest retailers seeing significantly higher online sales, including both John Lewis and Next who have reported online sales at around 70% and 65% respectively. Online grocery has also seen a significant rise, from 8% pre-pandemic to 13% today. Again, what was expected to take years has happened in a matter of months.

In all likelihood, this upward trend will be maintained as consumers' appreciation of online convenience, price transparency and quicker delivery times continues to grow. Demand for warehousing remains both broad and deep with online operations competing with businesses who are reacting to global trade disruptions by onshoring more of their operations and also holding higher inventory levels within the UK. We do believe that peak globalisation may have passed and localisation is emerging. It's no longer a case of just in time, but now just in case.

Conversely, physical retail assets face significant challenges with reduced demand and over supply as the consumer pivots towards a more omni-channel model, meaning that there are few hiding places for those without an online platform, with too many shops and behind the curve strategies. Department stores and over built shopping centres look particularly vulnerable with prime shopping centres not being the 'safe haven' that many management teams thought they would be. The effect has been witnessed in rising vacancies, falling rents, increasing obsolescence and almost universal value destruction.

Commentary from retailers, as well as evidence from property investment transactions, continues to highlight that the pricing power has firmly shifted away from traditional retail owners to the retailers, with rents continuing to fall and valuations continuing to drift downwards. However, there are some bright spots within the retail space with convenience, grocery and discount retailers outperforming as consumer shopping patterns continue to evolve.

In offices, it is hard to ignore that demand is facing structural disruption and continued uncertainty. Working from home during the pandemic has transformed employees' views on traditional working practices. Despite a strong re-opening and a 'buzz' returning to many city centres, there is increased demand from employees for greater flexibility leading to reduced office presence and occupancy settling well below pre-pandemic levels. This is making future office demand and rental growth harder to predict, and at a time when owners are having to retrofit their offices to meet new sustainability requirements.

Whilst the post-pandemic economic recovery is well underway, inflationary pressures arising from current macro events and the reopening of the global economy risk derailing this. We are now faced with constrained supply chains, surging commodity, energy and food prices which are leading to higher interest rates.

Consumers are having to adjust to higher household bills which will likely suppress non-essential expenditure. Experiential shopping increasingly feels like a luxury that few will be able to afford. We believe that all these factors will continue to drive the polarisation in performances across various real estate subsectors with legacy retail assets likely to experience further headwinds. After all, the macro trends accelerated by the pandemic will almost certainly outpace micro decisions.

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Nick Preston, manager of Tritax EuroBox - 17 May

The European logistics market continues to see strong and growing occupier demand generated from a wide range of different business types, all driven by powerful structural trends. At the same time, supply of suitable logistics assets in the right locations is highly constrained and there are significant barriers to developing new stock to meet this demand, both in the short and long term.

The primary structural trends driving long-term occupier demand are: the continued growth of e-commerce, requiring companies to have large and often highly automated logistics facilities, close to major population centres and strong transport links; the need to optimise, reinforce and de-risk supply chains, by adopting the latest supply chain planning tools, reviewing manufacturing locations and transportation networks, and by holding more critical stock closer to customers and end users, hence making the supply chain more resilient; and the growing necessity for businesses to operate from sustainable properties that will remain fit for purpose for years to come.

The global events of recent years have accelerated and intensified these trends. The COVID-19 pandemic continues to disrupt supply chains, with countries globally following different approaches to COVID-19 and local lockdowns, disrupting the production and flow of goods. Geopolitical risk has been elevated in recent years and Russia's invasion of Ukraine has increased uncertainty for businesses. The Suez Canal blockage in 2021 also highlighted the vulnerability of global supply chains to unexpected events.

Occupiers are therefore looking to minimise the risk of future disruption by increasing inventories, diversifying and/or reshoring, and adding back-up storage space. They are also accelerating long-term plans to ensure facilities can cope with increased online business. Automation is an important part of this process, which also improves resilience against COVID-19 and potential future pandemics, in part by reducing the reliance on close human interaction. Occupiers are also focused on digital connectivity, reflecting the need for advanced tools and data to give them end-to-end visibility of their supply chains and also allowing these advanced building management systems to provide efficient goods handling and energy reduction processes.

At the same time there are ever fewer suitable vacant buildings, and little land on which to build new ones. There are even fewer sites available that can accommodate the very largest logistics facilities, and municipalities are often reluctant to zone land for the construction of assets of this scale. As a consequence, companies looking for large new logistics facilities have few choices.

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Brian Bickell, chief executive of Shaftesbury - 9 May

The continuing strong rebound in the West End economy since the lifting of pandemic restrictions last summer has continued throughout the period. The patient, long-term stewardship of our high profile, centrally-located ownerships, and the actions we took to support our occupiers and stakeholders through the long period of pandemic challenges, have underpinned the welcome recovery we are now seeing in key operating metrics, EPRA earnings and net tangible assets.

Although Covid concerns are receding, new challenges are now coming to the fore, both in the UK and in many other economies, exacerbated by macroeconomic and political issues. Whilst London and the West End cannot be completely sheltered from these headwinds, their global status, appeal and broad-based, dynamic economies should provide a considerable degree of protection, which few other locations can match.

With the prospect of an extended period of uninterrupted trading as we enter the important summer season, further enhanced by the improving outlook for international leisure and business travel, the revival in confidence and growth we are now seeing is already providing a firm foundation for the return to long-term prosperity for the West End and our exceptional portfolio.

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Gerald Kaye, chief executive of Helical – 24 May

The Central London commercial property market continues to demonstrate its inherent resilience. The end of the UK Government's Covid-19 restrictions has enabled employees to return to the office and confidence to grow throughout the sector. Data collected by The Freespace Index, which provides office use statistics, shows that daily London office occupancy has steadily increased, demonstrating the importance of the office in effective working practices, albeit employees are adopting a range of working practices depending on the nature of their industry. Any uncertainty over the future of the office has much reduced as the value of the office to workplace culture, efficiency and knowledge sharing is rediscovered and reinforced.

These trends are evidenced in the letting market where velocity has continued to increase in Central London as greater stability has enabled occupiers to develop longer-term plans. According to CBRE, since July 2021 the amount of space under offer has exceeded the 10 year average of 3.3m sq ft. While availability remains high at 26.0m sq ft, 18.1m sq ft of this relates to second hand stock, further demonstrating that best-in-class space is desired as the flight to quality intensifies. A combination of these factors, coupled with limited newly built office space, has led to increases in headline rents across most Central London sub-markets in 2021 for these best-in-class buildings.

From an investment perspective, a significant amount of capital continues to be allocated to the Central London office market with CBRE identifying more than £40bn of capital targeting the sector at the end of 2021. While London saw consecutive years of declining investment volumes in 2019 and 2020 due to the destabilising impacts of Brexit and Covid-19, this trend reversed in 2021, with investment into London offices of £12.3bn, an increase of £3bn on 2020. 2022 has continued this trend with CBRE reporting a record first quarter of £5.5bn of inbound investment, with a further £5bn under offer.

London continues to be a highly desirable market and the renewed sense of confidence is manifesting in growing development activity, with the amount of new development starting on site at 1.0m sq ft above the long-term average. While this is positive, significant headwinds remain, with the impact of increasing cost price inflation, rising interest rates and disrupted global supply chains adversely impacting development activity. As general inflation hits its highest levels in 40 years, Arcadis notes that manufacturing inflation is outpacing all other sectors, with raw material prices increasing by 13.6% during the year. These disruptive trends will need to be monitored over the coming year and are likely to partially moderate some of the renewed sectoral confidence.

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Tony Courtauld, chief executive of Great Portland Estates – 19 May

As the London economy continues its recovery from the pandemic, we are seeing some encouraging positive prospects. London remains a dominant global city and is the world's top ranked city for innovation. Whilst inflationary pressures and the unknown full impact of the Ukraine conflict persist, healthy office employment growth is driving demand for prime and flex office space, with buoyant investment market activity demonstrating London's enduring appeal for investors. We have seen this positive momentum feed into our occupational markets, where we expect the future supply of new office space in central London to decline further, leading to a potential shortage of some 55% over the next three years. As a result, we expect rents for the best office space to rise over the next 12 months by 0.0%-6.0%.

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Calum Bruce, manager of Ediston Property - 25 May

Global supply chain issues, rising inflation and the squeeze on household incomes all pose a risk to the economy and the forecast recovery since the health crisis. Inflation may prove to be less transitory than previously forecast, interest rates could increase further by the end of 2022 and consumers might have less money in their pockets to spend - all of which could impact on retail, particularly discretionary purchasing. However, our tenant line-up is underpinned by convenience led retailers, a strength during the pandemic when retail was under pressure.

Whilst these issues must be borne in mind, there are still plenty of reasons to be optimistic. There is no doubt that the Company is in a much stronger position than it was 12 months ago. There are no signs that investment demand for retail warehousing will wane in the near term, which should lead to further NAV improvement. There is good occupational demand from tenants looking to extend leases and acquire new space. In a sector with low supply levels, this could lead to rental growth. Rent collection remains strong, the EPRA vacancy rate has fallen, and we continue to identify and complete asset management projects across multiple properties.

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Simon Carter, chief executive of British Land - 18 May

We are mindful that the year ahead will be impacted by heightened macroeconomic and geo-political uncertainty. In the context of higher inflation, we are seeing investors rotate out of bonds and increase their allocations to real estate, particularly in subsectors with strong pricing power and affordable rents. We are well positioned in this respect across both Campuses and in Retail & Fulfilment. In addition, we are pleased with our financial position and that our strong momentum has continued into the new financial year.

Our Campus offering provides customers in London with best-in-class space where we expect demand to remain strong, particularly from the growing, innovative businesses we are targeting. Rents typically represent a small proportion of salary costs, meaning demand is less sensitive to price and for prime London office space, vacancy remains low and new supply is constrained. Reflecting these dynamics, and continued gravitation to the best space, our central case is for rental growth on our Campuses of 1-3% with the potential for some further yield compression.

We expect the strong occupational demand for our Campus developments to continue, reflecting their market leading sustainability credentials. We target BREEAM Outstanding ratings on developments and just 1% of available London office buildings are BREEAM Outstanding. This year construction cost inflation is likely to be between 8-10% and we are pleased to have fixed 91% of the cost on our committed development programme of 1.7m sq ft. Forecasting is difficult with elevated uncertainty, but our base case is for construction cost inflation to moderate to 4-5% over the next 18 months as commodity, transportation and energy prices continue to increase but at a lower rate and capacity in the construction industry slowly increases. The attractive IRRs we are forecasting on our development pipeline of 10-15% incorporate these levels of construction cost inflation and additional contingencies. Higher land values mean that returns from London development are more insulated to cost inflation than development in other parts of the country and we anticipate being able to achieve the modest increase in rents needed to offset any further cost inflation above our base case.

In Retail Parks, we attract a broad tenant base and space is more affordable than alternative formats, thereby making them attractive for retailers facing increased margin pressures due to rising input prices and labour costs; supply is relatively tight, with retail parks accounting for around 10% of the total retail market and vacancy falling. We expect the value play opportunity in retail parks to continue and our ability to unlock value through asset management means we are well placed to make further acquisitions whilst retaining a strong focus on returns. Overall, we expect rents to be stable with some growth for smaller, well-located parks with further yield compression likely. For shopping centres, we have seen ERV decline moderating, and yields were flat in the second half of the year. We expect that yields could compress for the best centres, given increasing investor interest delivering attractive medium-term returns.

In Urban Logistics, the market in London is chronically undersupplied and demand remains strong, underpinned by the continued growth of same day delivery. We expect strong rental growth of over 5% p.a. with stable yields - a good backdrop for delivering new space via our repurposing and intensification strategy..

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Mark Allan, chief executive of Land Securities - 12 May

The recent surge in geopolitical risk has the potential to upend decades of relative international stability and increasing globalisation, which is adding further disruption to global supply chains already affected by the pandemic. It also is putting significant upward pressure on energy costs in the short term, and potentially in the long term through an accelerated energy transition. This clearly creates uncertainty around the economic outlook, with gilt yields having risen to the highest level in six years and UK inflation at its highest level in 30 years - something which will be felt by many in the months ahead. Whilst we are alive to the risks this creates, we look forward to the future with confidence.

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Michael Morris, chief executive of Picton Property - 26 May

The speed and strength of the property market's recovery from the pandemic was better than expected. Although the average returns are positive, there is still polarisation between sectors and within subsectors, particularly retail.

According to the MSCI UK Quarterly Property Index, commercial property delivered a total return of 19.6% for the year ended March 2022, which compares to 1.1% for the year ending March 2021. The stellar performance was largely attributable to the continued growth in the industrial sector and a recovery in values in the retail warehouse subsector. All Property capital growth was 14.9% in the year to March 2022, significantly better than the -3.2% recorded for the previous year. The income return was 4.2%, slightly lower than the 4.5% recorded for the preceding year.

The industrial sector had an extraordinarily strong year. The industrial total return for the year ending March 2022 was 40.7%, with annual capital growth reaching an all-time high of 35.9% and an income return of 3.6%. Industrial ERV growth for the period was 11.2%, with a subsector range of 15.8% to 8.2%. Capital growth ranged from 47.7% to 28.2% within subsectors. Equivalent yields for industrial property now stand at 4.1% (March 2021: 5.0%).

The office sector continued to face a degree of uncertainty over future demand levels and suffered an additional setback in December 2021 as people were once again advised to work from home in the face of the Omicron wave. The office sector produced a total return of 6.9% for the year to March 2022, comprising 3.2% capital growth and 3.7% income return. All Office annual rental growth was 1.4% ranging from 2.4% to 0.9% within subsectors. Office capital growth ranged from 6.5% to -0.6%. Equivalent yields for office property now stand at 5.5% (March 2021: 5.8%).

The elevated rate of online sales over bricks and mortar retail and oversupply of retail units continues to hamper the retail sector as a whole, albeit some segments have recently seen a return to positive capital growth. The retail sector produced a total return of 14.9% for the year to March 2022. This comprised capital growth of 8.9% and income return of 5.6%. Rental values fell -2.0% over the period, ranging from 0.6% to -7.0%. Retail subsector capital growth ranged from 22.9% to -5.8%. The retail warehouse subsector was the driver of growth, with increased demand from investors pushing down yields. Equivalent yields for all retail property now stand at 5.9% (March 2021: 6.7%).

According to Property Data, the total investment volume for the year to March 2022 was £70.5 billion, a 66.5% increase on the year to March 2021. The volume of investment by overseas investors in the year to March 2022 was £33.0 billion, accounting for 46.8% of all transactions.

As the disruptive threat of the pandemic recedes, new challenges for the property market are emerging from the macroeconomic and geopolitical environment. In times of uncertainty, UK property is often seen as a safe haven for investment. During periods of increased inflationary pressure property can provide a hedge in the form of an opportunity to grow income through rental growth and in turn generate capital growth. Certain property types are more akin to acting as an inflation hedge. At the current time, assets where demand is strong and supply limited are likely to offer protection through rising rental values, equally leases with fixed or inflation linked leases will also provide support.

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Jonathan Murphy, chief executive of Assura - 12 May

The critical need for investment in the infrastructure that supports the services delivered by the NHS is as pronounced as it has ever been. Waiting lists are longer than they have been for decades because hospitals are overburdened, and appropriate space doesn't exist in a community setting to deliver care where it is needed.

The existing NHS estate is not fit for purpose and requires significant investment to meet this demand. Healthcare professionals openly admit that the premises they work in are constraining the services they can provide, hindering recruitment of additional staff and holding back progress on tackling the care backlog. So it is not surprising that 98% of Primary Care Network clinical directors feel more investment is needed for primary care premises.

The restructuring of the NHS into Integrated Care Partnerships in the coming months provides an opportunity for greater collaboration across health professionals, services and estate - with scope to improve individual patient experiences and reduce health inequalities.

The NHS has ambitious targets to become the world's first net zero carbon health system, but this is not yet filtering down to plans on how this will be implemented and paid for across the existing estate. Our role is to be an expert partner to bridge those gaps and share our learnings with the NHS, always pushing the bar higher at our buildings and through our impact - using our unique expertise and financial capacity to deliver.

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