REVIEW OF 2021 – OUTLOOK FOR 2022

The table below sets out the quarterly open and closing values for the FTSE All-Share Index as well as the highs and lows in each quarter to highlight the changes for 2021.

Quarter	Open	Close	High	Low	Return year to date
January – March	3724	3838	3879	3641	3.06%
April - June	3838	4014	4088	3838	7.79%
July - September	4014	4059	4144	3909	9.00%
October - December	4059	4208	4224	3995	13.00%

The start of 2021 saw the roll out of vaccines, and the year end sees the roll out of the booster vaccination. Sandwiched between these two events has been a strong and rapid increase in economic activity as the majority of countries eased restrictions, consumer spending increased and most valuations returned to pre-Covid levels. All of this was very welcome, and 2021 was a good year for investors, but it also created a number of headwinds which markets are still grappling with.

Supply chain issues (although having eased) still remain, such as the supply of microchips which has led to long delays for new cars and other products reliant on this component. The significant rise in oil prices, with OPEC plus Russia managing the supply side to maintain current levels. As we all recall the lack of HGV drivers led to long queues at petrol stations and some shelves in supermarkets being empty. This has contributed to a sharp rise in inflation, which initially was thought to be transitory or short term and is now expected to be with us for most of 2022.

The supply chain itself is like a finely honed machine, and so any disruption is quite acute. Having said that, it is also able to adapt, which it is doing now but the process is being prolonged because of the pandemic and the restrictions that inevitably follow. As we enter 2022 these issues are likely to weigh on investor sentiment for the first quarter at least, and with valuations at a high level, increased volatility is expected.

In general, markets go into 2022 if not at an all time high, at a much higher level than a year ago. Whilst there is still value, the benefit that 2021 gave investors was that it was starting from a low base, which is no longer the case. Our expectation is that active fund managers should be better placed to identify value for investors in the coming year. By way of example, the Nasdaq in the USA has had a phenomenal year. Year to date the index went up 21.3%, but five companies represented 71% of that gain from a total of 3,765 stocks in the index.

Central banks are expected to either continue or commence the withdrawal of liquidity from economies, and at the same time they have all indicated that interest rates are more likely to increase than they are to remain at current levels. All of this against the backdrop of above target inflation, with the USA currently experiencing levels of inflation not seen since the early 80's (of 6.8% over the year) due in no small part to the 58% rise in the price of gasoline.

In terms of allocations for client portfolios we have provided a brief synopsis of the main markets and where we consider there are opportunities, all of which are now influenced by the impact of ESG in a way that both governments and companies are developing policies that further this objective.

For the UK, notwithstanding its recent recovery, we are still of the view that the region offers value because companies are still undervalued and are attractive to external purchasers. We can see consolidation within the market, mergers and acquisitions and a continued recovery in valuations.

For Europe, whilst a little bit behind the UK in terms of recovery, the economic data suggests that this is set to continue and increase. The EU central bank has indicated that they will continue to provide support to the markets for as long as necessary, which does present investors with opportunities.

The USA, despite reaching record highs on an almost daily basis and rising inflation, continues to surprise investors in terms of its resilience. At the same time, the President secured agreement for his infrastructure program, which will be positive for the economy along with benefiting from the dominance of their tech sector.

China is still a significant indicator for global economic growth, with a recent concern being the central parties' policy change on how they regulate the technology sector which has seen swift restrictions on what they are able to do. Another sector under scrutiny is real estate because the levels of debt are predicated on continued increases in property values and purchases.

The table sets out our current asset allocation views.

Underweight	Neutral	Overweight
Government Gilts	Index-linked Gilts: Global High Yield Bonds (for income)	
Investment-Grade Bonds	Equities: US, China, Far East, Emerging Markets, Japan	Equities (large cap): UK, Europe, Asia
Equities (large cap):	Equities (small cap): UK, US, Europe	Specialist Equities (including global equities)
Property (bricks & mortar)	Commodities	
Gold		

*Neutral means that, while we support the asset class, we do not generally want to adopt an overweight position

We wish you and your family a safe and healthy 2022.

4th January 2022