Economic & Market review – April 2022

What a challenging month

Investors continue to face several headwinds during April resulting some pressure on both Equity and Fixed Income.

Global equity tumbled in April with a loss of -8,8% for S&P 500 and -13,4% for Nasdaq 100 as equity multiples continue to come under pressure from the Fed's tightening.

In addition, over the last 50 years, global markets typically troughed seven months after such shock starts. While energy and basic materials tend to perform well, technology usually takes the biggest hit. But the good news is that the economy is better placed to withstand such events than it was in 1970s.

Bond investors are facing a tough time with the Russia-Ukraine conflict adding to the uncertainty caused by multi-decade inflation highs and slowing economic growth.

- There was a significant rise in US Treasury yield in April as investors rushed to position for more aggressive Fed rates hikes.
- European high-yield bonds, especially, appear more vulnerable to events in Ukraine. By contrast, US high-yield debt has held largely steady in the face of Russia's invasion of Ukraine.
- With fundamentals remaining more supportive for investment-grade bonds, we see investment opportunities in some more defensive high-yield sectors.

On the Forex exchange, the dollar index strengthened (+4,7%) due to rising concern about growth risks - which tends to position the USD as a safe-haven currency -, an increasingly hawkish Fed pricing and a decoupling between the Fed vs the other Central Banks. In the past couple of weeks, a sharp move up in USD/CNH has caught the market attention as the Chinese authorities began devaluating the renminbi, which fell by -4% during this month.

On a macro view, the IMF downgraded its forecast projecting a global growth of 3,6% for both 2022 and 2023. Indeed, Forward pricing now already reflects a slowdown.

Among others, China's zero Covid policy and associated lockdowns mean that the domestic growth is likely to slow down which weighted on the overall expansion. The Russia-Ukraine war continues, at the expense of great humanitarian costs, fuelling geopolitical uncertainties.

Last, but not least, ongoing supply chain disruption sets further strains over inflation.

Overall, a worldwide economic slowdown, the war between Russia-Ukraine and inflation constituted the major investor's concerns.

On the micro front, the Q1 earnings season is sending mixed signals. Most companies have been able to achieve strong revenue growths and pass on higher costs to their customers, especially for Financials, Energy and Materials. It is a different story for the Tech sector. Indeed, Netflix fell by 35% after it posted its first drop in subscribers in a decade. Amazon, Facebook and Alphabet were also extremely under pressure. In term of style, value stocks clearly outperformed Growth in April as well as on a Year-to-date basis.