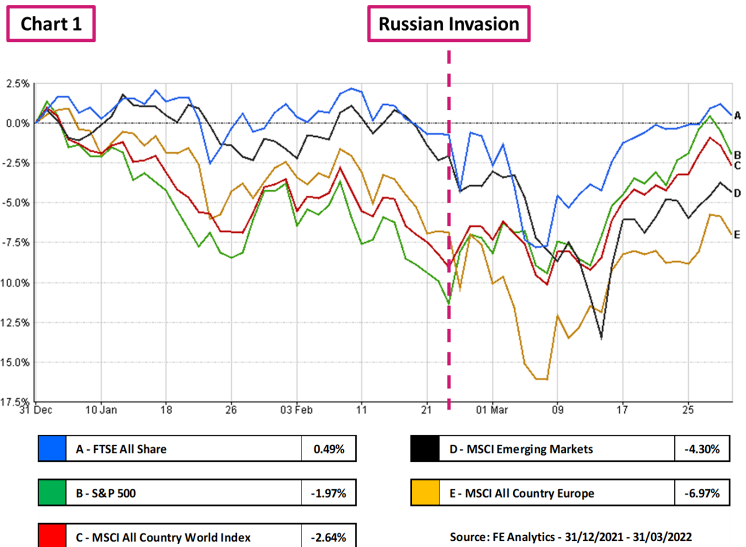
gemini
asset management

marketmatters

The first quarter of 2022 was volatile for both world order and financial markets — Russia's invasion of Ukraine at the end of February caused a global market shock and also led to grave outcomes for people and communities around the world. Whilst we are sympathetic to the humanitarian and moral crisis presently unfolding in Ukraine, for the purposes of this publication we will focus solely on the market impacts during the quarter.

The implications of the crisis, along with heightened levels of uncertainty, spread through markets and led to increased volatility across the board, although by the end of the quarter most of the price declines in major equity markets were re-gained — as shown here on Chart 1 to the right, with the FTSE All Share even posting positive returns!



Much of the positive performance during this period has been achieved in the commodity and energy sectors with companies linked to commodity production delivering strong returns due to the soaring prices of the goods they produce. However, this is a double edged sword for business as a whole, as businesses that are commodity consumers have seen their input costs of production increase substantially in the first quarter of 2022.

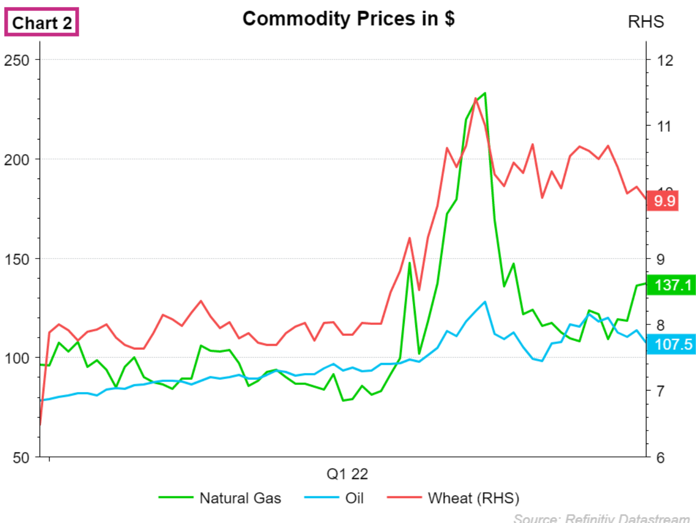


Chart 2 shows the performance of some major commodities which have been greatly impacted by the war in Ukraine. As you can see, they have been incredibly volatile but they have all risen substantially due to the demand shock caused by the war and the retaliatory sanctions imposed by western nations on Russia.

This demand shock for commodities has mainly been due to a coordinated effort to cut Russia out of the western economic system by banning imports of Russian goods, which are primarily fossil fuels and natural resources. This has not come without pain for western society as the sanctions by western governments have further compounded supply chains issues around the world and have led to even greater inflationary pressures within the global economy.

Elsewhere, Chinese assets were also negatively affected by renewed Covid-19 outbreaks, leading to new lockdowns in some major cities, some of which are major logistics hubs for global trade; again adding to the inflationary pressures within the global economy as demand and supply dynamics are strained even further.

This confluence of events has only served to push headline inflation even higher in major economies in the first quarter of 2022, and it has forced central bankers to significantly shift their stance from the accommodative policies of recent years.

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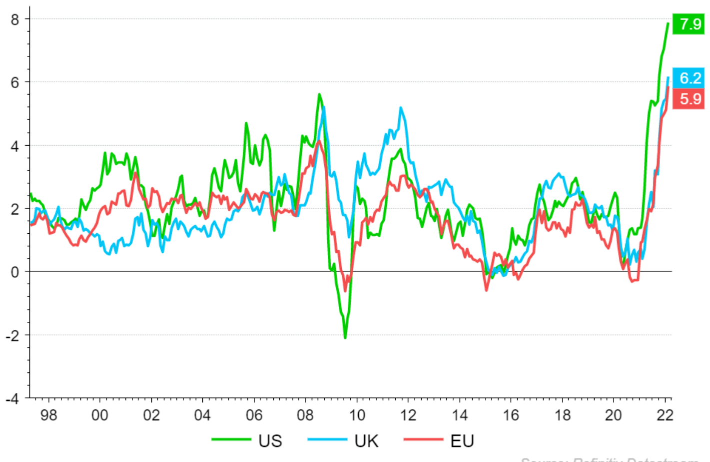
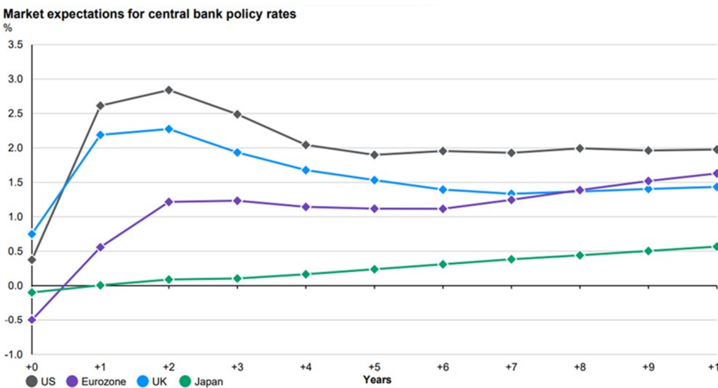
To put things into perspective, and to understand why there has been such a shift in the accommodative stance of policy makers in the last few months, we have produced Chart 3, which shows inflation running at multi-decade highs in the US, UK and EU.



Frankly, central banks could not ignore these levels of inflation anymore and so they have been tightening monetary policy to try to bring inflation back down to more manageable levels, and it's these policy changes that have mostly been driving market performance throughout the first quarter.

This change in stance to tighter monetary policy is exceptionally important as central banks are essentially stepping away from the previous 'new normal' narrative of ultra low interest rates, and moving towards a new 'new normal', where interest rates are more akin to the long term averages we have seen in the past.

Chart 4 – Source – JP Morgan – Guide to Markets – Q1 2022



The speed with which the central banks make this transition is going to be key for markets and economies. If they raise rates too quickly, they risk pushing the economy into recession and upsetting asset markets. If they raise rates too slowly, they run the risk of inflation completely running away with them and doing some serious damage to the global economy.

Chart 4 — on the left — shows the current expected interest rate path for some central banks given the current inflationary outlook. As you can see, the market is not yet expecting interest rates to sky rocket and this indicates a modicum of faith that the central banks still have the fire power to control inflation within their economies.

To round up, whilst there are plenty of crises which have roiled asset markets during the first quarter of 2022, there has also been an element of resilience which has been pleasing to see and has helped some assets bounce back from their quarterly lows. At Gemini, we will continue to be proactive in our approach and rely on our tried and tested processes of effective diversification in the portfolio. This means that there are more types of assets which may produce positive performance, but also allows us to potentially spread the risk of any single asset negatively affecting the portfolio.

Portfolio Performance

The table below shows performance of Gemini Asset Management's (GAM) discretionary risk rated portfolios over the course of the last 5 years. The table compares performance of GAM's Discretionary Models against the FTSE All Share to demonstrate the importance of spreading risk through diversification. Whilst a direct comparison of GAM's portfolios with an equity index such as the FTSE All Share is not like for like it does give an indication of volatility and performance differences on a risk-adjusted basis.

Discrete Performance (%) to 31/03/2022										
Name	3 months	Sector	YTD	Sector	1 Year	Sector	3 Years	Sector	5 Years	Sector
GDP 3 Historical IA Sector	-3.33	-3.71	-3.33	-3.71	1.19	-0.2	10.88	7.96	16.25	10.97
GDP 4 Historical IA Sector	-4.42	-3.36	-4.42	-3.36	1.77	2.73	15.87	14.26	21.07	18.5
GDP 5 Historical IA Sector	-5.19	-3.68	-5.19	-3.68	2.45	5.23	21.52	22.42	28.85	29.65
GDP 6 Historical IA Sector	-6.07	-3.68	-6.07	-3.68	1.57	5.23	24.48	22.42	33.57	29.65
GDP 7 Historical IA Sector	-7.64	-3.68	-7.64	-3.68	0.21	5.23	26.47	22.42	37.24	29.65
FTSE All Share	0.49		0.49		13.03		16.79		25.77	

Source: Financial Express Analytics data 31/03/2017 – 31/03/2022. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

The sectors used as comparators with the portfolios are the respective Investment Association Mixed Investment sectors. Gemini's GDP 3 is compared to the IA Mixed Investment 0-35% Shares sector; GDP 4 is compared to the IA Mixed Investment 20-60% Shares sector; and GDP 5, GDP 6, and GDP 7 are compared with the IA Mixed Investment 40-85% Shares sector.

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

Asset Allocation and Fund Review:

The Gemini Asset Management investment team reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were no changes made to the asset allocation models or the funds during the first quarter of 2022.