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February Overview

February saw another round of developed market rate hikes. The US, UK and Eurozone all raised rates at their latest meetings, in-line with expectations. Strong economic data lessened recession risk in major economies, but also led to market expectations of interest rate cuts being pushed out further into the future. Higher for longer interest rate expectations were also emphasised by a number of central bank officials through public statements. The higher rate expectations fed through into higher bond yields and thus lower bond prices for the month. And whilst the lower risk of recession was helpful for equities, this was ultimately outweighed by higher rate expectations and broad equity markets retraced some of their January gains.

In the **UK**, the Bank of England raised interest rates by 0.5% at the start of the month, taking the base rate to 4%. This had been widely expected given how high inflation remains, partly due to a strong labour market. Inflation did ease slightly to 10.1% in January, down from 10.5% in December. Unemployment remained at 3.7% in December, near its 50-year lows, whilst wage growth for the month excluding bonuses rose 6.7%, the largest rise since records began in 2001. Indeed, higher wage costs were frequently cited in response to the purchasing managers index (PMI) surveys. Despite this, businesses were optimistic - the flash composite PMI reading showed a sharp rise in February up to 53.0, from 48.5 in January, breaking into expansionary territory for the first time in 6 months. It's also possible that the UK escaped slipping into a technical recession (two consecutive quarters of negative growth) at the end of the year - the preliminary figure for Q4 GDP growth was flat, after shrinking 0.2% in Q3. Lastly, at the end of the month, the UK government agreed the Windsor framework with the EU, outlining amendments to goods movement between the UK and Northern Ireland. The early mood music surrounding this has been positive, given it potentially heralds a more constructive relationship between the UK and EU more broadly.

February also saw a rate rise in the **US**, the federal open markets committee voted to increase their base rate by 0.25%. Statements from those on the committee noted that further rate hikes remain likely to get inflation under control. This was reinforced by the data as inflation only fell slightly to 6.4% in January, from 6.5% in December, less than had been expected. Inflation appears to have been held up by housing costs (which account for 1/3 of the inflation basket). Rent inflation rose to 7.9% in January, the highest level in over 40 years. Fortunately for households, the labour market has been buoyant, unemployment is the lowest it has been for over 50 years and a whopping 517,000 new jobs were created in January, significantly more than the 185,000 expected. This sign of future economic expansion was also reflected in the composite PMI, which jumped up to 50.2 in February, from 46.8 in January, with services providing most of the heavy lifting

Falling gas prices continued to provide relief to citizens and businesses alike in mainland **Europe**. Despite this, inflation has remained stubbornly high. Although headline inflation fell from 9.2% in December to 8.6% in January, core inflation increased slightly to 5.3%. As a result, the European Central Bank (ECB) emphasised its focus on the inflationary threat and, like the UK, raised rates by 0.5% in February. ECB President Lagarde also explicitly noted that they intend to raise rates by another 0.5% next month. Higher rates aren't good for businesses, but for now, prospects remain good as the composite PMI edged up to 52.3 in February, from 50.3 in January. This was well above expectations of 50.6, with a high jump in services (although manufacturing was somewhat disappointing). And the future could be even better for Sustainable businesses as the European Commission launched their 'Green Deal Industrial Plan' at the start of February, aimed at supporting industries in Europe to achieve climate neutrality faster. This is on the heels of similar plans that the US and China have launched.

Recent comments from **Japan's** next central bank governor seemed to suggest there wouldn't be any hurry to shift their loose monetary policies and that inflation would have to heighten significantly before they tighten policy. Inflation did rise again in January, to 4.3% from 4.0% in December. This was the highest reading in over 40 years.

In **Emerging Markets**, late February marked the 1st anniversary of Russia's invasion of Ukraine. Unfortunately, the fighting continues, with the supply of many commodities still hampered, the effects of which are still being felt globally.

Currencies - Sterling had a good month against most major currencies. It was up 3% against the Japanese yen, 0.7% stronger versus the euro and 2.8% up against the Australian dollar, but it was 1.7% weaker against the US dollar. Against emerging market currencies, the pound was up 3.6% versus the South African rand and 0.8% stronger against the Brazilian real.

Asset Classes

February was a challenging month for most asset classes in both local currency and pound terms. European equities, and in particular those in the UK, were the best-performing asset classes, with their economies and businesses aided by falling gas prices. Pacific ex-Japan and Emerging Markets were the worst-performing equity markets. Real assets also struggled, with property, infrastructure and commodities all falling by around 3%.

Within UK equities, larger companies outperformed in February. The mid-cap FTSE 250 index was up 0.4%, whilst the large-cap FTSE 100 was up 1.8%.

Fixed income performance was also weak. Government bond yields rose during the month as signs of a potential recession receded, and the near-term expectation of rate cuts declined. This resulted in bond price falls across all fixed-income asset classes. Government bonds fared best, but still fell 1.3%, whilst EM bonds were the weakest bond asset class.

Cash & Short-Term Bonds	Global Government Bonds	Global Inflation Linked Bonds	Global Corporate Bonds	Global High Yield	Emerging Market Bonds	US Equities	Europe ex-UK Equities	UK Equities	Japan Equities	PACIFIC ex-Japan Equities	Emerging Market Equities	Global Infrastructure	Global Property	Commodities	FTSE 100	FTSE 250
£	HDG	HDG	HDG	HDG	HDG	£	£	£	£	£	£	£	£	£	£	£
0.29%	-1.32%	-2.00%	-2.39%	-1.50%	-2.48%	-0.89%	0.79%	1.52%	-2.21%	-4.89%	-4.90%	-3.19%	-2.90%	-3.09%	1.76%	0.42%

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