

# Monthly Market Review

## Review of markets over April 2022

### Author



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The first quarter of the year was difficult for investors and April proved no different. The war in Ukraine, lockdowns in China and the prospect of substantially tighter US monetary policy all weighed on sentiment.

Global equities continued their recent decline, with MSCI All Country World falling by -8.0% over the month. The commodity-heavy FTSE All-Share was a relative bright spot, returning 0.3% in April. Conversely growth stocks saw substantial losses of -11.9%.

Fixed income also came under pressure, with global bonds delivering -5.5% in April as US 10-year Treasury yields approached 3%. Expectations for the path of monetary policy have seen a major shift this year, with markets now pricing in interest rates of well over 2% in both the US and the UK by year-end, while eurozone rates are expected to move into positive territory as early as October.

**Exhibit 1: Asset class and style returns**

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Apr'22
Small cap 26.6%	Global Agg 5.6%	Global REITS 23.0%	Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITS 32.6%	Cmdty 30.7%	Cmdty 4.1%
Global REITS 22.8%	Global REITS 2.3%	MSCI EM 18.6%	Value 27.5%	Growth 6.5%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.4%	Value -4.9%
MSCI EM 19.2%	Value -4.9%	Small cap 18.1%	DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global REITS -8.3%	Global REITS -4.9%
Cmdty 16.8%	DM Equities -5.0%	Growth 16.6%	Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITS 24.4%	Small cap 16.5%	DM Equities 22.3%	Global Agg -11.3%	Global Agg -5.5%
Growth 14.9%	Growth -5.1%	DM Equities 16.5%	Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	MSCI EM -12.1%	MSCI EM -5.5%
DM Equities 12.3%	Small cap -8.7%	Value 16.4%	MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	DM Equities -12.9%	Small cap -7.8%
Value 9.8%	Cmdty -13.3%	Global Agg 4.3%	Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Small cap -13.7%	DM Equities -8.3%
Global Agg 5.5%	MSCI EM -18.2%	Cmdty -1.1%	Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITS -10.4%	Global Agg -4.7%	Growth -20.4%	Growth -11.9%

Source: Bloomberg Barclays, FTSE, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. DM Equities: MSCI World; REITS: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 April 2022.

## Europe

April concluded with no sign of a resolution to the war in Ukraine, as fighting in the eastern and southern parts of the country intensified. The impact on energy markets remains particularly notable given the difficulties faced by Europe in reducing its energy dependency on Russia. European gas prices cooled a little on the month but still stand 42% higher year-to-date. The recent increase in oil prices paused due to both the release of strategic oil reserves and also expectations of lower demand from China.

The impact of the conflict is now starting to become clearer in economic data. Labour markets continue to be the bright spot, with unemployment rates across both the UK and euro area sitting close to multi-decade lows. Yet despite strong wage growth, consumer confidence in both the eurozone and the UK has tumbled to levels consistent with a recession. April's flash purchasing managers' indices (PMIs) were a little more positive in the eurozone, with the composite index rising to 55.8 despite a sharp fall in German manufacturing. UK data was weaker, with retail sales declining by 1.4% month-over-month in March and flash PMIs falling by more than anticipated. A relatively strong 3.7% start to the year for the FTSE 100 highlights the disconnect between the UK economy and UK large cap stocks in an environment where the energy and materials sectors are performing strongly.

Meanwhile, Emmanuel Macron was re-elected for a second five-year term as French president, defeating Marine Le Pen in a repeat of the 2017 run-off. While the margin of victory was narrower than five years ago, the result had little bearing on financial markets given that it was largely as predicted by polls.

Exhibit 2: World stock market returns

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Apr '22
MSCI Asia ex-Japan 19.9%	US S&P 500 2.1%	MSCI Asia ex-Japan 22.7%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.8%	UK FTSE All-Share 0.3%
MSCI EM 19.2%	UK FTSE All-Share -3.5%	Japan TOPIX 20.9%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -3.5%	MSCI Europe ex-UK -1.1%
US S&P 500 15.1%	MSCI Europe ex-UK -12.1%	MSCI Europe ex-UK 20.0%	MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -9.1%	Japan TOPIX -2.4%
UK FTSE All-Share 14.5%	Japan TOPIX -17.0%	MSCI EM 18.6%	UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	MSCI EM -12.1%	MSCI Asia ex-Japan -5.2%
MSCI Europe ex-UK 5.1%	MSCI Asia ex-Japan -17.1%	US S&P 500 16.0%	MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -12.7%	MSCI EM -5.5%
Japan TOPIX 1.0%	MSCI EM -18.2%	UK FTSE All-Share 12.3%	MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	US S&P 500 -12.9%	US S&P 500 -8.7%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 April 2022.

## China

Having kept Covid-19 under tight control for most of the past two years, Chinese authorities are now struggling to contain a major outbreak. Shanghai spent all of April in full lockdown, and market sentiment was dented further towards the end of the month when reports emerged of new containment measures being implemented in Beijing. Monetary and fiscal policy has provided some offset, but China's 5.5% growth target for 2022 is now looking difficult to achieve while policymakers prioritise the zero-Covid strategy over economic activity. Stock markets came under further pressure, with the MSCI China index declining by -4.1% in April. Valuations on Chinese stocks relative to developed markets now stand at levels last seen in 2015, while Chinese 10-year yields have moved below US 10-year Treasury yields for the first time in over a decade.

Exhibit 3: Fixed income sector returns

2014	2015	2016	2017	2018	2019	2020	2021	YTD	Apr'22
Euro Gov. 13.1%	Euro Gov. 1.6%	US HY 17.5%	EM Debt 9.3%	Euro Gov. 1.0%	EM Debt 14.4%	Global IL 12.7%	US HY 5.3%	Euro HY -7.5%	Euro HY -3.1%
EM Debt 5.5%	EM Debt 1.2%	EM Debt 10.2%	Global IG 9.1%	US Treas. 0.9%	US HY 14.4%	Global IG 10.4%	Euro HY 3.4%	US HY -8.0%	US Treas. -3.1%
Euro HY 5.5%	US Treas. 0.8%	Euro HY 10.1%	Global IL 8.7%	US HY -2.3%	Global IG 11.5%	US Treas. 8.0%	Global IL 2.7%	US Treas. -8.5%	US HY -3.6%
US Treas. 5.1%	Euro HY 0.5%	Global IG 4.3%	US HY 7.5%	Global IG -3.6%	Euro HY 10.7%	US HY 6.1%	EM Debt -1.5%	Euro Gov. -8.9%	Euro Gov. -3.8%
Global IL 3.4%	Global IG -3.6%	Global IL 3.9%	Euro HY 6.1%	Euro HY -3.6%	Global IL 8.0%	EM Debt 5.9%	US Treas. -2.3%	Global IL -10.3%	EM Debt -5.5%
Global IG 3.1%	US HY -4.6%	Euro Gov. 3.2%	US Treas. 2.3%	Global IL -4.1%	US Treas. 6.9%	Euro Gov. 5.0%	Global IG -2.9%	Global IG -12.8%	Global IG -5.8%
US HY 2.5%	Global IL -5.0%	US Treas. 1.0%	Euro Gov. 0.2%	EM Debt -4.6%	Euro Gov. 6.8%	Euro HY 2.7%	Euro Gov. -3.5%	EM Debt -14.2%	Global IL -6.1%

Source: Bloomberg Barclays, BofA/Merrill Lynch, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. Global IL: Barclays Global Inflation-Linked; Euro Gov.: Barclays Euro Aggregate Government; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 April 2022.

US

After several months of talking the talk, there are now signs that the Federal Reserve (Fed) is preparing to walk the walk on tackling inflation. With US headline inflation standing at 8.5% – the highest level since 1981 – several members of the Fed’s Board of Governors used speeches in April to highlight their desire to take rates back to neutral as quickly as possible. The market has now priced 50 basis point hikes at each of the Fed’s next three meetings, a path that Fed Chair Jerome Powell hinted was perfectly feasible during a panel discussion at the International Monetary Fund. Bond markets reacted sharply to Powell’s more hawkish tone. US 2-year and 10-year yields rose by 39 basis points (bps) and 56 bps respectively in April, with global government bond yields rising in tandem. Credit spreads also widened over the course of the month.

Rising US yields continue to support the US dollar, with the greenback now up 7.3% on a trade-weighted basis year-to-date. Dollar strength has been especially notable relative to the Japanese yen. The Bank of Japan (BoJ) is coming under increasing pressure to move away from its current yield curve control targets, with the yen down -11.1% versus the dollar year-to-date. No changes were made at the BoJ’s April meeting, but its actions will be important to monitor in the coming months given the potential impact on global bond yields if Japanese yields move higher.

Exhibit 4: Fixed income government bond returns

2014	2015	2016	2017	2018	2019	2020	2021	YTD	Apr'22
Spain 15.9%	Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	Global 9.7%	Japan -0.2%	Japan -1.8%	Japan -0.2%
Italy 15.2%	Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	UK 8.9%	US -2.3%	Germany -8.1%	UK -3.0%
UK 14.6%	Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	US 8.0%	Germany -2.9%	US -8.5%	Germany -3.1%
Germany 9.0%	US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Italy 7.9%	Italy -3.0%	Italy -8.7%	US -3.1%
US 5.1%	UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Spain 4.3%	Spain -3.0%	Spain -8.8%	Spain -3.6%
Japan 4.5%	Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Germany 3.0%	UK -5.3%	UK -10.3%	Italy -4.5%
Global -1.0%	Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -0.8%	Global -5.8%	Global -11.2%	Global -5.7%

Source: Bloomberg Barclays, Refinitiv Datatsream, J.P. Morgan Asset Management. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 April 2022.

**Exhibit 5: Index returns for April 2022**

Index	GBP	USD	JPY	EUR	LOC
<b>Equities (MSCI)</b>					
MSCI World Index	-3.8	-8.3	-2.1	-3.2	-6.9
MSCI USA	-4.6	-9.1	-2.9	-4.1	-9.1
MSCI Europe ex-UK	-1.7	-6.2	0.1	-1.1	-1.1
MSCI United Kingdom	1.0	-3.7	2.8	1.6	1.0
MSCI Japan	-4.4	-8.8	-2.7	-3.8	-2.7
MSCI AC Asia ex-JP	-0.5	-5.2	1.2	0.0	-3.5
MSCI EM Latin America	-8.7	-12.9	-7.1	-8.2	-9.6
MSCI EM (Emerging Markets)	-0.9	-5.5	0.8	-0.4	-3.5
<b>Bonds</b>					
Bloomberg Barclays Global Aggregate	-0.9	-5.5	0.9	-0.3	
Bloomberg Barclays US Aggregate	0.9	-3.8	2.7	1.5	-3.8
Bloomberg Barclays Japan Aggregate	-1.9	-6.4	-0.1	-1.3	-0.1
Bloomberg Barclays UK Aggregate	-2.5	-7.1	-0.8	-2.0	-2.5
Bloomberg Barclays Euro Aggregate	-4.0	-8.4	-2.3	-3.4	-3.4
<b>Currencies</b>					
Sterling		-4.6	2.1	0.5	
US dollar	4.9		6.7	5.5	
Yen	-2.1	-6.3		-1.2	
Euro	-0.5	-5.2	1.2		

Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 30 April 2022.

## Conclusion

The global economy entered 2022 with strong tailwinds. While robust labour markets and large amounts of pent-up savings remain supportive, risks to the recovery are building, most notably in Europe. Central bankers face substantial challenges as they look to tighten policy to help bring inflation back down to target without tipping the economy into recession. Against this backdrop, we see the potential for further pressure on equity valuations ahead. Companies that can maintain healthy margins thanks to strong pricing power will likely be relative outperformers. In fixed income, the case for owning duration is stronger than it was at the start of 2022, but yields may still rise further as central banks push ahead with their tightening plans.

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