MARKET REPORT

Friday 13th May 2022

Market Headlines

Federal Reserve Chair Jerome Powell reaffirmed the Fed was likely to raise rates by half a point and wasn't actively considering a 75bp hike, as he warned the battle to control inflation would include some pain.

Moscow said Finland's decision to join NATO was hostile and threatened retaliation including 'military-technical' issues.

The US dollar hovered around 20 year highs against a basket of currencies, supported by safe haven demand.

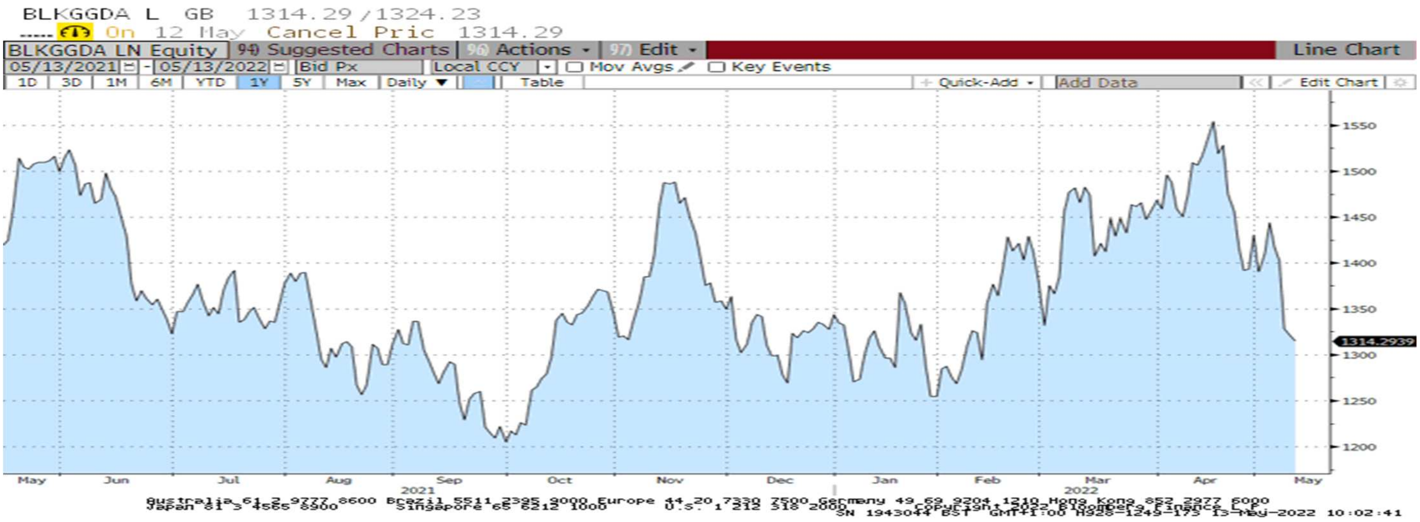
The S&P 500 dipped 0.1%, the Nikkei 225 rose 2.6%, the Hang Seng gained 2.5%, whilst the Shanghai Composite closed up 1.0%. European markets were higher.

Investments on our buy list

Legal & General plc (LGEN) – the group reported annual results for 2021 in March and disclosed a near 40% rise in pre-tax profit. Operating profits increased by 11% and the full-year dividend grew by 5% to 18.45p per share. The Solvency II coverage ratio came to 187% (2020: 175%), and stood at 198% on 7 March 2022, before the payment of the final 2021 dividend.
The group's shares have suffered since the Russian invasion of Ukraine and amidst growing fears of economic slowdown. There is no evidence of a negative impact on its operating performance at this time, but the market is looking ahead and pricing-in bad news.
Trading on just 7.3x forecast earnings for this year and offering a dividend yield of 7.8%, the shares are cheap.

Source: Bloomberg

Blackrock Gold & General Fund – the fund invests in equity securities in an actively managed portfolio of gold mining, commodity, and precious-metal related shares.
Gold is often regarded as a hedge against inflation but recent price action has been negative despite rampant inflation. The poor performance is mostly related to the strength of the U.S. dollar which has risen strongly on safe-haven buying and the perceived aggressive interest rate policy of the U.S. Federal Reserve.
We still believe that the asset class has a place in portfolios as it provides diversification and should the case for aggressive rate rising suddenly soften, gold shares are likely to rally from currently relatively depressed levels.



Source: Bloomberg

Chart of the Day

Bloomberg analysis today suggests that banks are already pricing in big recession fears, at a time when they might otherwise be benefitting from rising bond yields.
The Stoxx 600 Banks Index hit a three-year high on February 10th but has since fallen 24% and is the second worst-performing subgroup on the wider gauge amid large investor outflows. Despite beginning the year as a favoured play on inflation and rising interest rates, they're now firmly in the crosshairs of slowdown fears. Banks tend to perform poorly on a relative basis during U.S. recessions, making investors wary of a sector which has had the burden of underperforming for more than a decade.
Banks' first-quarter earnings have surprised positively but mainly due to trading income rather than core lending activities. There is also increasing caution about rising costs.

Source: Bloomberg

Recap of yesterday

BT added 1.0% as it announced for the year to 31 March pre-tax profit rose 8.8% to £1.96bn on revenues down 2.3%, it backed current full year guidance noting a tough economic outlook. It agreed a sports joint venture with Warner Bros Disney and said growth at Openreach was offset by a fall in Enterprise & Global.

Hargreaves Lansdown fell 3.6% as revenues for the 4 months to 30 April fell 15.7% to £196.5m, in line with expectations and backed full year guidance.

JD Sports rose 6.6%as it announced sales for the fiscal year-to-date were up 5% year-on-year, at least in line with expectations, despite supply issues and lifted full year guidance for the year to 29 January 2022 to a pre-tax profit of at least £940m, up from £900m.

Rolls Royce gained 1.1% as it said year-to-date it had performed in line with expectations and kept full year guidance unchanged. Civil Aerospace flight hours rose 42% year-on-year as passenger demand recovered, the Defence business had a strong order backlog, and Power Systems had seen a strong order intake.

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Important information