BANQUE HAVILLAND

Q1 2022 OUTLOOK
UKRAINE UPDATE

MARCH 2022

Banque Havilland, a well-established banking group offers services to both ***private*** *and* ***institutional*** *clients, who can benefit from the advantages of a robust banking platform located across seven financial centres. The bank was founded in 2009 in Luxembourg, where it has its head office, and today also has presences in Monaco, Liechtenstein, London, Dubai, Geneva and Zurich.*

As the crisis in Ukraine intensifies, market volatility remains elevated as investors scramble to react to frantic headlines and commentators readjust their outlooks in light of the energy supply crunch that is exacerbating an already heightened inflationary backdrop. Much like the start of 2020, when the emergence of Covid-19 shattered early-year optimism of a subdued but positive period of economic growth, the Russian invasion has stopped risk assets in their tracks as spring 2022 approaches. While our clients' portfolios have next to no direct exposure to either Russian or Ukrainian assets, the inextricable importance of Russia's contribution to the world's (and particularly Europes') energy supply has drawn in global markets in a stark reminder of how much the economy still depends upon oil and gas. Prior to the invasion, we were particularly focussed on inflation and the actions of central banks, and now with energy and commodity prices spiking higher this focus is more warranted than ever. In general, we are not minded to make significant changes to our investment views while volatility is heightened and the headlines are coming thick and fast, though we are afforded this luxury by our structurally diversified and all-weather approach, and prior reluctance to chase enhanced equity returns at the expense of sensible valuations or enhanced fixed-income yields at the expense of credit quality and low duration. Going into the crisis with a defensive stance in terms of relative equity weighting compared with benchmarks and competitors, in addition to conviction allocations to markets such as the UK and Japan for cyclical and valuation reasons means that portfolios have held up pretty well. Furthermore, our longstanding and unfashionable positons in precious metals and inflation-linked securities have proved their worth beyond doubt as safe havens when other asset values are tumbling, while having a larger allocation to cash than average provides flexibility to quickly return to a pro-risk stance should conditions improve.

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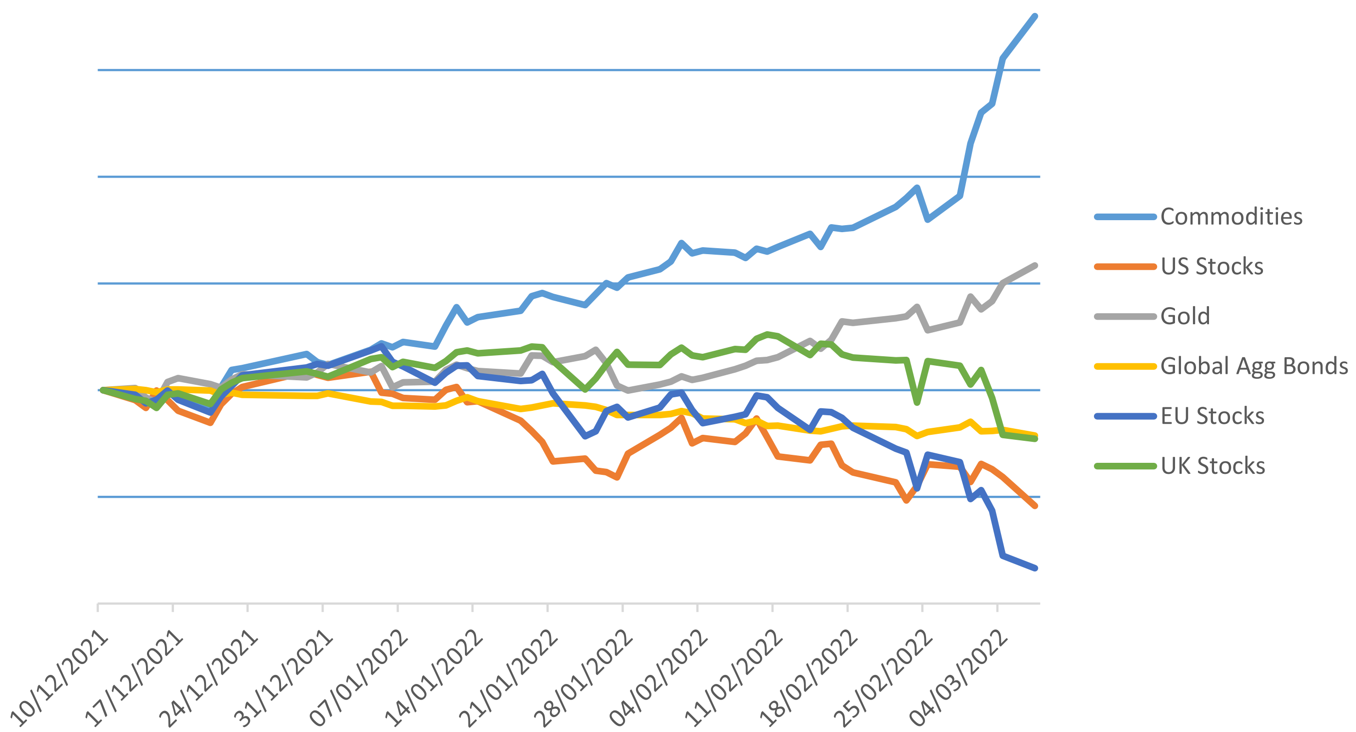
Currently the geopolitical landscape is dominating sentiment, and we do not think that second guessing the outcome of the situation in Ukraine is a good way to make investment decisions for the longer term, nevertheless it is not all doom and gloom and some prudent portfolio rebalancing (i.e. topping up equities back to our long-term target weights) may well turn out to be a profitable strategy. There remain some reasons to be positive: there was considerable economic momentum before Russia invaded Ukraine. US employment has been very strong, and PMIs were strong and rising – led by the UK. US corporates reported strong profits for the end of last year. European corporate earnings were even better and Europe's economy was generally expected to show strong growth this year - faster than the US. Unfortunately the consensus call that European equities would outperform this year has probably crumbled, due to the overdependence of the region's economy on Russian energy, and there's little chance European equities will regain outperformance anytime soon, even though they remain historically cheap. Much will depend on the price of crude, and the effect this will have on inflation: broadly speaking with Brent crude at $120 a barrel as it currently is, we can expect a significant economic slowdown but at $150 a full recession is likely which would hit earnings already under pressure from rising wages and other costs.

2022 so far: in a crisis not all assets are equal



Commodities and Gold are currently strongly positive ytd, while within the equity market there are real dispersions between regional indices, with the UK market so far proving as resilient as global bonds!

Furthermore, the latter scenario would prevent the Federal Reserve and ECB from any sort of monetary loosening while consumers and corporates wrestle with considerably higher inflation than they've seen in recent memory. As such, a cautious but invested approach is the best course. While we recognise that Sovereign bonds have strengthened during the conflict, it would be a mistake to increase allocation here in trying find a safe harbour while the longer term headwinds of higher inflation and tighter policy remain. In terms of equities, we continue with a neutral allocation, though a global approach has never seemed so crucial, especially for European investors - with Japanese and Asian markets seeming more sheltered from Russia, while the cyclical/defensive nature of the UK indices remains appealing. Commodities already looked appealing as a general inflation hedge before the Russian invasion, following the explosion in pent-up demand as the world emerged from the Covid pandemic, and now with one of the world's largest exporters likely to be at least partially blocked from the global marketplace – it is unsurprising to see the current spike in crude and industrial metal prices. There is likely to be a pullback at some point as other oil producing nations start to increase output and higher prices ultimately beget more supply, and we think this could be a good opportunity to increase exposure to commodities for diversification purposes at a time that equities and bonds are under pressure.

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