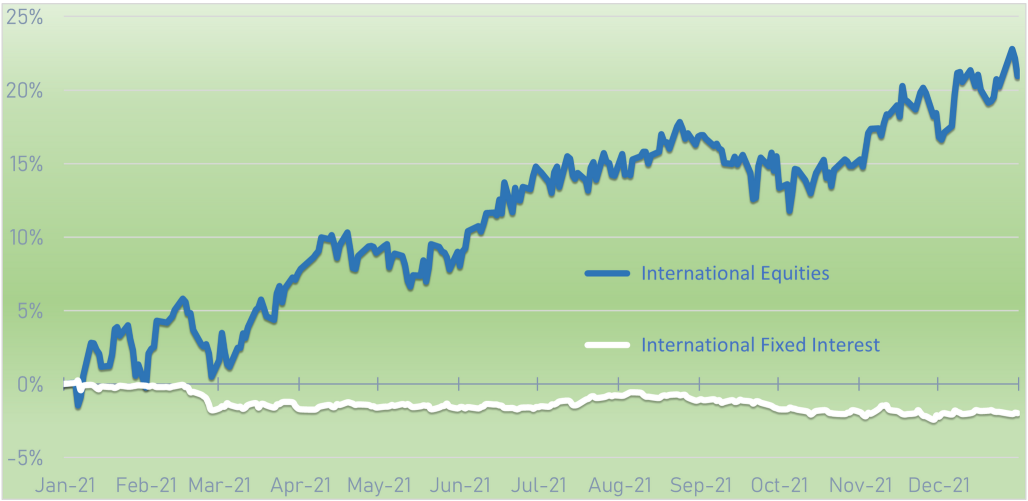
Market Update
January 2022

A YEAR OF CONTRASTS

Throughout 2021, there was no middle ground and the line of demarcation between being on the right side of events seemed to challenge conventional wisdom. Those who lived in major population centres suffered the greater restriction of movement and lost the benefit of living in close proximity to a wide range of services.

At the same time, investors who favour taking less risk in the expectation of lower but steady gains, endured a year that only delivered modest returns. By contrast, residents of low population centres enjoyed a relatively normal way of life, and investors with a higher degree of international growth assets in their portfolios experienced strong and stable gains.

Why the disparity in investment returns? Well, it is to do with the on-going unusual economic consequences of COVID-19.



International equities – the undisputed winner of 2021 – benefited from the world's major central banks continuing to flood markets with cash via their asset purchasing activities despite economic activity having returned to pre-Covid levels. On the less favourable side of things, international fixed interest investments made a small loss over the year.

Bonds make losses as interest rates rise; which happens when inflation is increasing. There is little need to explain inflation, as a result of pent-up consumer demand and supply chain problems, because you have no doubt experienced it first-hand by now ... at the supermarket, the petrol pump, on anything related to property.

WHAT COULD LAY AHEAD...

At the beginning of 2022, there is cause to be optimistic in terms of both fixed interest and equities. Long-term interest rates have plateaued and with interest rates now at higher levels, this means portfolios that hold a greater proportion of defensive assets will benefit from the higher yield. Additionally, underlying economic and central bank activity should continue to be supportive of equity markets in the near-term, although not quite to the same degree as in 2021.

A NEW PHENOMENON

During 2021, The Great Resignation emerged - an economic trend where employees voluntarily resigned from their jobs en masse.

This trend is in response to the COVID-19 pandemic, where the labour movement began. Workers who were made to work long hours for low wages, observing businesses making increasing profits, causing income inequality in the United States to intensify.

Other factors contributing include: employees having tasted the remote working lifestyle and want more of it; people switching careers and following their passion; people seeking a greater work-life balance; others are wanting to start their own business; many are unable to find or afford childcare; and some are concerned about contracting COVID-19.

The Baby Boomer generation is retiring, so the number of available workers relative to the size of the total population is shrinking. This scenario is beneficial for those still in the workforce, as it gives them greater bargaining power via alternative employment options. But it also puts a question mark over the strength of the global economy for the coming decade. This is a slow-moving phenomenon, with potentially significant economic implications. Something to watch.