

Market Outlook

March 2022



The Russia-Ukraine conflict is likely to dominate news flow in the short term, with the conflict adding to the challenging macroeconomic backdrop for global equities, as well as putting more pressure on energy and commodities. Markets will remain volatile, with the Omicron variant, rising inflation, higher rates and the slowdown in China also weighing on sentiment. That said, many of the risk factors throughout 2021 have moderated, with global vaccination rates rising and the direction of Chinese policy becoming clearer. The fourth-quarter reporting season also suggests that earnings are holding up quite well, despite cost pressures and supply-chain disruption.

Within fixed income, investor attention will likely focus on how effective central-bank measures to control inflation will be, especially with the Russia-Ukraine conflict exacerbating rising consumer prices in the short term. Further hawkish comments, as well as the first interest-rate hike, from the US Federal Reserve have now led to expectations of seven rate hikes in 2022. Meanwhile, the conflict in Ukraine has left investors uncertain about the timeline of rate hikes in Europe, although the European Central Bank has not ruled out rate hikes in 2022.

In UK commercial real estate, the office sector is likely to face some major structural challenges ahead, with polarisation between the very best and the rest likely to become more evident in 2022/2023. For real estate investment trusts, inflationary fears and the debate around its transitory nature have been net positives so far. Low borrowing costs and ample liquidity are providing support to real estate valuations.

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