March Newsletter

RAYMOND JAMES | Exeter

Ukraine Conflict

Whilst our thoughts are with the people of the Ukraine and the troubling world events following Russia finally deciding to reveal its hand last week and staging a full-scale invasion, our role as wealth managers is to continue to look after our clients' financial interests with an objective point of view.

At the start of the year, rising interest rates subdued earnings expectations for growth style stocks, epitomised by tech companies, leading to the sell-off in January. Future earnings for such companies are currently being discounted at higher rates (along with adjustment for higher borrowing costs) due to the rate rises, thus lowering market expectations for profit margins.

Back in October last year we reduced our growth exposure in favour of value style companies in light of the building inflationary pressures and in anticipation of the shift in Central Bank interest rate policy.

Of course, we did not anticipate the scale of the conflict in the Ukraine which has exacerbated the prevailing conditions, at least in the short-term, with particular concerns about energy supply and wider commodity prices, especially across continental Europe.

Last week's western nations' sanctions response aimed at Russian banking and business interests, saw global risk assets plunge initially, taking the US NASDAQ index briefly into bear market territory (-20% from its all-time high achieved just three months ago), before staging an aggressive rebound with major regional equity benchmarks all trading higher, which felt entirely perverse given the enormity of events on Ukrainian soil.

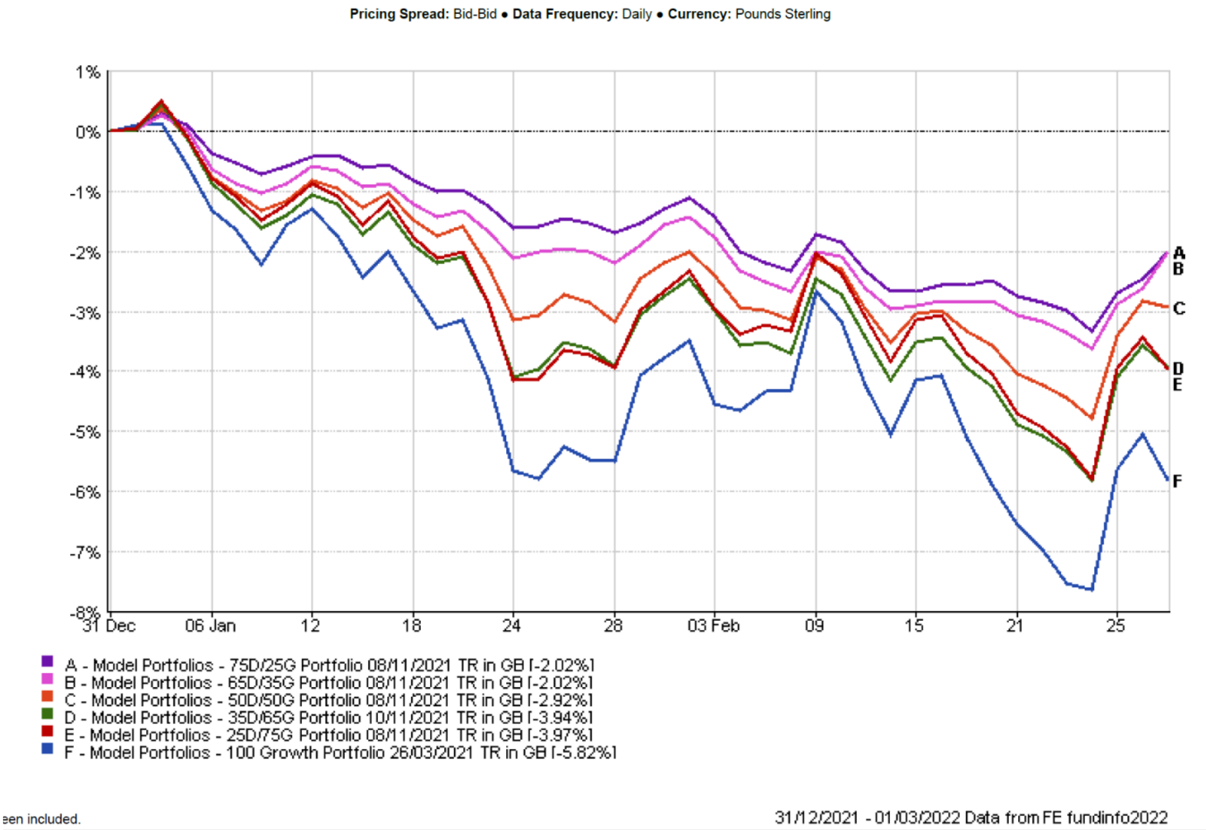
As well as western governments, a growing number of global firms are cutting ties with Russia, with BP and Shell making headlines by exiting joint ventures worth billions of dollars with Gazprom and Rosneft, both Russian State-owned companies.

In a world so financially and politically entwined it will be virtually impossible to believe that we can impose sanctions on Russia without sharing in the pain ourselves. Broadly speaking, a sustained price rise in energy and basic materials will inevitably stifle the pace of the economic recovery on a global scale.

During times like these we can draw some comfort from the fact that our principle strategy of 'buy and hold' is underpinned by a highly diversified range of funds and regular due diligence, allowing us the option to stay the course during periods of uncertainty. Diversification naturally dampens some of the short term volatility in certain 'hot' sectors of the market via exposure to other sectors and styles that have less of the limelight.

Last week, our investment committee took the pro-active decision to increase our cash position selling defensive assets in order to be able to respond with a tactical purchase of growth assets should markets weaken further from current levels.

At time of writing, (including the tech sell off in January), our portfolios have shown a good degree of resilience since the conflict began to escalate with all portfolios, including 100% growth down single digits year to date.



Please note the performance excludes our management fees

As ever, please feel free to contact us if you have any thoughts or suggestions with regards to the topics covered in this newsletter, or, any other matter that you wish to share

Clive Down, Duncan Ratley, Martin Glover
Branch Principals
Telephone: 01395 548458
1 Emperor Way, Exeter Business Park
Exeter EX1 3QS