

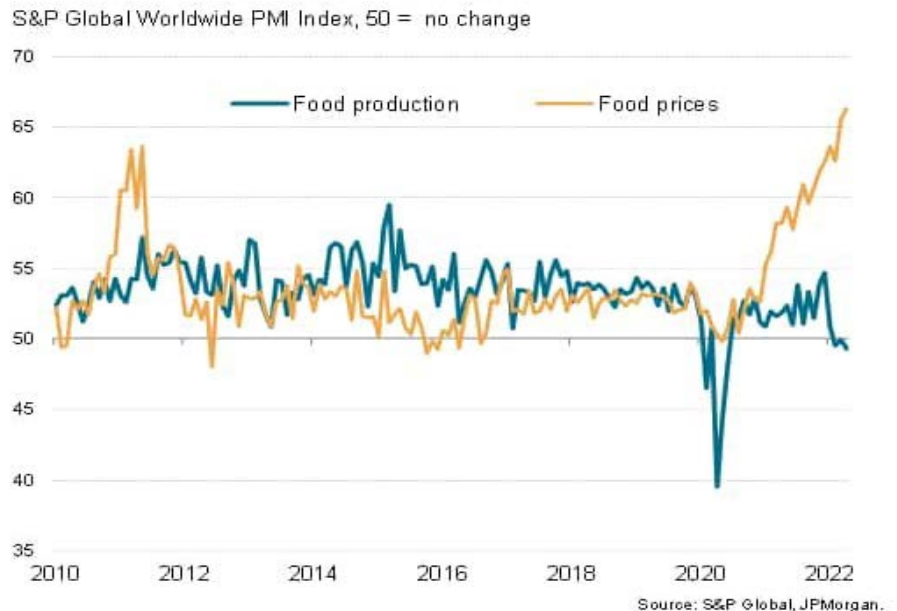
Review of recent developments

■ Recent official reports have pointed to weakening growth rates across the major economies. Perhaps the most notable report during the month was the publication by the US Department of Commerce, which showed that US Gross Domestic Product (GDP) decreased at an annual rate of 1.4% in the first quarter of 2022 (following a gain of 6.9% in the previous quarter).

■ The pace of economic growth has also decelerated sharply in the UK since January 2022. Data from the Office for National Statistics (ONS) showed that the UK economy contracted in March, following a flat performance in February. Notably, the weakness was led by the services sector, which accounts for about 80% of GDP. Consumer spending has also weakened, with retail sales down by 1.4% in March.

■ While growth has been weak, price pressures have persisted in recent months on the back of ongoing increases in food and energy prices. Figure 1 illustrates the recent surge in global food prices as Covid-19 and, more recently, the war in Ukraine have disrupted production.

Figure 1: Global food production and prices



■ The combination of weaker growth and rising inflation has fuelled concerns that the global economy might be entering a period of stagflation. This has spooked investors in recent weeks and driven further sell-off in asset prices. In the equity markets, April marked the worst month since March 2020 for the S&P 500 index as the index returned -8.7% (in USD total returns) for the month. Technology stocks were particularly weak, with the Nasdaq index down over 13% in April.

■ In the fixed income markets, sovereign bonds lost further ground as investors worried about the prospect for further

interest rate increases. In aggregate, US Treasuries, UK Gilts and German Bunds returned -3.2%, -2.8% and -3.0% respectively. Corporate bonds also declined, with losses ranging from 2% to 5% depending on the currency and credit quality.

■ In the currency markets, the US Dollar recorded its best month since January 2015, with a gain of 4.7%. The USD is currently the top-performing G10 currency so far in 2022, boosted by the combination of yield support and safe-haven demand.

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■ At this point, the factors that have driven returns lower remain in force. It remains unclear how long the ongoing war in Ukraine will last. China persists with its aggressive Covid-19 policy and investors continue to fret about the prospects for more aggressive interest rate tightening by the major central banks, particularly the US Federal Reserve. Overall, the heightened level of uncertainty calls for caution in asset allocation decisions.

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