

The fog of war

In recent weeks, Russia has progressed with a full-scale invasion of their Southern neighbour, Ukraine, under the orders of leader Vladimir Putin. Although the initial aggression was shrouded as 'self-defence', Putin's intentions have proved barbaric with catastrophic loss of life as brave Ukrainians stand up to a tyrant.

We sincerely hope peace will prevail and our thoughts are with the millions affected.

It feels somewhat inappropriate to discuss investments at such a deeply sensitive time for so many. Unfortunately, the conflict shows no sign of slowing down and we believe it is at moments of great uncertainty where communication with our clients is paramount.

Starting the year...

Viewing the escalating tensions, and their cascading effects through the lens of financial markets has to date, been an exercise in protecting client capital. We started the year with our equity book fully invested to benchmark weightings but tilted towards the view that inflation would persist longer than the central

banks had accounted for. This was achieved by favouring value and cyclical stocks that would benefit from an increase in interest rates. Looking back, this was the correct call with the growth focused tech stocks and alike encountering a tough January in particular. Value and cyclical stocks on the other hand suffered much less, epitomised by our core value holding, Pzena Global Value, which is still up for the year. US equities, where we had exercised an underweight relative to our benchmark across our models, sold off more aggressively than their European counterparts, meaning we had leaned towards the correct part of the market and were in a strong position relative to wider markets as geopolitical tensions started to take hold of the narrative.

Our current positioning

The sell-off in February was much broader, with areas like the UK, which had seen a strong start to the year, coming under similar pressure to broader equities. TAM's investment team reacted swiftly by trimming some of the funds we believed could see the most pressure were escalations to continue. One such position has been in European equities, where our long-term bullishness on this part of the market has been muddied somewhat by spill over effects of the horrific conflict. We maintained higher cash levels as the volatility continued but Putin's severe escalation still caught us, like many, off guard. We are now at our lowest ever equity underweight and have initiated a position in physical gold, a traditional 'safe haven' in times of elevated fear. This sits alongside the exposure to precious metals gained from our broad basket of commodities fund and our actively managed gold and silver fund. Since the turn of the year, these strategies have returned 7.74%, 20.84% and 5.81% in a period where the S&P 500 has recently touched lows of -11.22%.

These tactical moves built upon the robust foundations laid in the end of 2021. TAM's investment team spent this period preparing for volatility in equity markets after a stretched period of positivity. Firstly, by adding Amundi Volatility World to our core portfolios, a derivatives strategy that is truly uncorrelated to equities (which is up 4.41% Year to Feb-end). A further subtle tweak was gaining exposure to another traditional safe haven, the US dollar, by switching our US equity exposure from dollar hedged to unhedged, meaning TAM's clients are gaining here from current dollar strength.

Looking forward

Although it is too early to predict the long-term implications of war, there are certain repercussions accounted for in our near-term thinking. Russia's invasion of Ukraine has increased inflationary pressures including for energy, food and wider commodities. We envisage escalating oil prices to be the hardest hitting factor for the US with increased supply chain issues. Federal Reserve Chair Jay Powell on Thursday admitted to wishing they had acted sooner to keep inflation under control. And although the Ukraine war does not change our base case of the first interest rate rise in March, it does increase concern that they may be truly hindering growth in keeping inflation down. This concern is exacerbated further for the European Central Bank, who may well have to delay their first interest rate hike even further as the conflict promises severe risks to economic growth for Europe, as a large net importer of Russian energy as well as from Russian economic sanctions.

With geopolitical tensions driving markets along with inflationary pressures rising, we will, as always, remain well-diversified. Specifically with a strong bucket of equity hedges while looking for protection against inflation. As previously mentioned we have reduced our European equity exposure and are

keeping elevated cash levels which we will reinvest should we see any dislocations in price, perhaps from less affected areas of the market falling foul of wider fear. In the meantime, we are monitoring the situation closely and will not hesitate to act further to protect client capital should the growing negative sentiment transcend into further losses in markets.

If you would like to discuss our portfolios or current positioning further, please do not hesitate to contact me.

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