Beckford · James
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Portfolio Review — *February 2022*

Equity and bond markets experienced a difficult month in February as concerns surrounding the Russian invasion of Ukraine took hold. In the first half of the month, expectations for the number of interest rate hikes that would be delivered by the US Federal Reserve, Bank of England (BoE) and European Central Bank (ECB) ramped up quickly. Investors were concerned that the central banks may dampen growth in their efforts to get inflation under control. In the second half of the month, just as markets seemed to be coming to terms with rising rates, the focus began to shift to geopolitics as headlines were dominated by the Ukraine crisis and what we now know to be the precursor to the Russian invasion.

Clearly financial markets have been unsettled by the ongoing events in Ukraine. Global equities were once again hit hard in February with the MSCI World declining 2.54%, leaving it down 6.81% for the year-to-date. Europe, with its significant reliance on Russian energy, saw its shares most affected with the FTSE World Europe (ex UK) Index declining 3.99%, underperforming other regions. Emerging markets were also weak by association with Russia, which has now been removed from emerging market indices, and those countries that rely heavily on foreign energy imports, such as India, were the worst affected.

The UK market, with its high allocation to energy and materials, fared the best out of the developed markets with the FTSE 100 rising 0.31%, although the broader FTSE All Share Index fell 0.47%. BP weighed on the index in the final trading day of the month as it announced its plans to divest its share in its Russian partner Rosneft. One significant difference from January's performance was the greater presence of the more traditionally defensive sectors among the market's outperforming areas. Large-cap mining, healthcare and oil stocks advanced helping to stem losses elsewhere in the index, while small and mid-cap equities recorded losses.

Global bonds were also volatile during the month. Bond yields initially rose (meaning prices fell) in the early part of the month as the market priced in aggressive tightening in the US, exacerbated by comments from the ECB indicating they could raise rates toward the end of the year and a second hike from the BoE. However as geopolitical tensions increased around mid-month, bond yields began to decline although this was not quite enough to offset losses in the earlier part of the month.

Portfolios

The Beckford James portfolios have experienced volatility in line with global equity and bond markets. All portfolios fell during February and are in negative territory year-to-date but have still made positive returns over the twelve-month period to the end of February, even taking into account recent falls.

Portfolios with the lowest equity exposure fell the least and the highest the most. Growth 3 therefore delivered the best returns, down 0.78% followed by the other risk profiles in ascending order to Growth 10 which fell 2.84%. The Income portfolio fell 2.06% whilst the Ethical portfolio fell 3.3%. The Ethical portfolio by its nature lacks exposure to the energy and commodity sectors of the market that offset larger falls elsewhere in the other portfolios.

The tragic events unfolding in Ukraine are putting increased pressure on markets. The outlook for global growth and inflation, in particular, now look significantly more challenging than they did even a matter of weeks ago. Investors will understandably be concerned about the impact of current events on their portfolio. To this end we would like to reassure you that our portfolios are designed to be broadly diversified across global equity and bond markets, as well as across multiple asset classes. This long-term, disciplined approach to portfolio construction served our portfolios well during the Covid-19 pandemic and we consider the same to be true of the current volatility markets are experiencing. Some portfolios have a very small degree of exposure to Russia via their underlying fund holdings, the most notable of which is the Baillie Gifford Emerging Market Growth Fund held in the higher risk Growth portfolios. However, our approach is to hold a generalist emerging market fund which means that even where Russia is held, this accounts for less than 0.3% of the overall total of the portfolio and the Ethical portfolio has no direct exposure to Russia. Whilst periods of market volatility are unsettling to investors, we would reiterate that in a historical context, markets have proven resilient to geopolitical risks over the long-term. We will, of course, keep you updated of any further developments.