

# MARKET THOUGHTS

With Steve McGregor  
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**In late February, following the invasion of Ukraine and subsequent market sell off, I wrote a blog (Commentary & Positioning) outlining Tavistock Asset Management's thoughts. Three months on, financial markets have continued to come under pressure and have weakened further.**

Inflation and rising recession fears ahead of aggressive central bank tightening have investors on the run, looking for safety.

Pointing to the US equity markets, Morgan Stanley strategists recently issued a note sounding a warning that the S&P 500 index is likely to see a steep downward decline. Morgan Stanley said:

*“The market has been so picked over at this point, it's not clear where the next rotation lies. In our experience, when that happens, it usually means the overall index is about to fall sharply with almost all stocks falling in unison.”*



Investors are selling risk assets as central banks double down on their priority to fight inflation no matter what. During recent International Monetary Fund (IMF) and World Bank spring meetings, Federal Reserve (the US Central Bank) Chair Jerome Powell signalled the likelihood of two or more fifty basis point (0.5%) rate hikes in the US. According to the Fed Chair, even if we saw an inflation peak in May, the central bank would still proceed with its aggressive tightening plan.

Against this backdrop it is clearly a time for prudence and an element of caution. The Tavistock Asset Management Investment Toolkit has been positioned accordingly, as I articulated in February (Bubbles & Dividends and Commentary & Positioning):

- ◆ Increased exposure to gold via gold producers and gold miners; a hedge against inflation and an asset class that investors traditionally seek, amidst a market correction
- ◆ Increased exposure to dividend-paying strategies, via UK and European ex-UK holdings
- ◆ Increased US Dollar (USD) exposure as investors fly to the quality that the USD represents
- ◆ More defensive positions in the US, such as US healthcare and minimum volatility strategies

These are undoubtedly challenging times for investors, but they also present opportunities for nimble asset-allocators. Positioning of the Toolkit should help to insulate clients from the current downturn to an extent, whilst positioning them to benefit from the investment team's long-term view.



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