TERRA NOVA
ASSET MANAGEMENT

April 2022
Market Highlights

777 Third Avenue | New York, NY 10017 | USA | tel. +1.212.355.1234 | fax +1.212.355.8873

In Brief

The S&P 500 Index rose 3.7% in March and reduced its year-to-date loss to 4.6%.

The utility sector gained 10% followed by energy, real estate, materials, health care, consumer discretionary, information technology, industrials, consumer staples and communication services. Financials was the only sector that slightly declined (0.35%).

The equity markets recovered in record time from the initial shock of the war in Ukraine, and the havoc it has wreaked on global commodity supplies. That followed their resistance to successive waves of the coronavirus pandemic since 2020. However, the headwinds for the markets are getting stronger as inflation squeezes demand, economic growth slowing, and central banks look to finally end the era of excessively loose monetary policy. While all that means corporate profits are poised to take a hit, equity investments may still have a case, not lastly because the alternative options are scarce. With cash and bonds offering negative real yields, and mortgage rates rising, investors are still inclined to "buy the dips" in equities, despite deteriorating fundamentals. While the first quarter was the worst since the outbreak of the pandemic, the recovery in March showed that the war induced slump is thus far proving to be the shortest market rout this century.

The recent inversion in the U.S. Treasury yield curve, is a negative signal for the economy. It does not, however, if proven correct, spell imminent trouble for equities as there is historically a long time lag, and equities typically rise in the intervening period. Among the reasons that there is unlikely to be a near-term slump in the economy are strong employment numbers in the U.S. Also, consumers have a strong pandemic savings cushion, and solid corporate balance sheets allow for stock buybacks.

Meanwhile, the energy-price shock after the invasion has eased. The planned release from U.S. oil reserves, have helped alleviate the crunch, lowering prices back to around $100 a barrel.

The market will remain choppy in our opinion. Opportunities lie in energy, food, data technology and climate — sectors set to benefit from a renewed focus on security and stability. Our focus remains on large cap companies that can innovate, enable, adapt and have a strong focus on margins.

We have rebalanced our investments slightly, and kept a cash balance between 8%-11% during that process.