

## State of Play

---

28 April 2022

**Investment markets remain concentrated on rising inflation and interest rates alongside fears of slowing global economic growth. The escalating lockdowns in China are simply adding to the cost-push inflation pressure prompting further volatility. Our Investment Specialist, Simon Durling, shares his thoughts in this week's State of Play.**

---

### The Federal Reserve (Fed) Chair remains hawkish

Last Friday (22 April), the US investment market ended the week on a volatile note with all the major indices suffering sharp falls<sup>1</sup>, in the main likely fuelled by hawkish comments made by Jerome Powell, the Chair of the Federal Reserve, during a panel event for the International Monetary Fund (IMF) on CNBC TV, moderated by Sara Eisen.<sup>2</sup> He said, 'It is appropriate in my view to be moving a little more quickly to raise interest rates. I also think there is something to be said for front-end loading any accommodation one thinks is appropriate, I would say 50 basis points will be on the table for the May meeting. Our goal is to use our tools to get demand and supply back in sync, so that inflation moves down and does so without a slowdown that amounts to a recession. I don't think you'll hear anyone at the Fed say that that's going to be straightforward or easy. It's going to be very challenging. We're going to do our best to accomplish that. It's absolutely essential to restore price stability, economies don't work without price stability.'

In late 2020, the Fed adopted a subtle change of monetary policy on their normal inflation target, allowing for higher inflation for a short period in

pursuit of maximum employment unless inflation began to build.<sup>3</sup> They stated at the time 'if excessive inflationary pressures were to build or inflation expectations were to ratchet above levels consistent with our goal, we would not hesitate to act'.<sup>3</sup> As US inflation is now rising at its fastest pace in 40 years<sup>4</sup>, it is no surprise that market expectations on the future path for US interest rates has shifted dramatically, pricing in not just a 50 basis points (0.5%) rise at their next meeting but rate rises at each of the remaining meetings this year<sup>1</sup>. This has seen bond yields rise as a consequence<sup>1</sup> and investors repricing different company's share prices as a slowdown in demand caused by the impacts of the cost-of-living crisis and future higher borrowing costs is likely to force market participants to re-evaluate both future earnings and profits.

---

## UK borrowing halves

According to the Office for National Statistics (ONS), UK borrowing more than halved in the last financial year (2021-22) when compared to the previous year but remains well above pre-pandemic levels. Net borrowing, which in simple terms is the difference between how much the country spends when compared with what tax income is collected, was £151.8bn, less than half the £317.6bn borrowed in 2020-21.<sup>5</sup> The UK Government has had to borrow less in the last financial year as schemes like furlough finished following the easing of restrictions. Also, as the economy started to return to normality this, in turn, has increased tax revenues to £619.9bn - an increase of £94.3bn helping to bridge the gap.<sup>5</sup>

---

## Elon Musk agrees to buy Twitter

It seems talk is no longer cheap. Twitter's Board of Directors have accepted Elon Musk's offer to buy the company for approximately \$44bn.<sup>6</sup> According to Forbes magazine, Elon Musk is the world's richest man with an estimated net worth of \$268bn, based on his 21% stake in electric car maker Tesla and his aerospace company SpaceX.<sup>7</sup> He sent his first tweet after concluding the deal, 'free speech is the bedrock of a functioning democracy, and Twitter is the digital town square where matters vital to the future of humanity are debated. I also want to make Twitter better than ever by enhancing the product with new features, making the algorithms open source to increase trust, defeating the spam bots, and authenticating all humans. Twitter has tremendous potential – I look forward to working with the company and the community of users to unlock it'.<sup>8</sup> Initially, Elon Musk had built a 9% stake in the company before making an offer which, based on the deal, is a 38% premium on the closing share price as at 1 April 2022.<sup>9</sup>

This offer has been agreed against a backdrop of rising pressure from politicians and regulators who wanted greater controls on mediating extreme content or misinformation on the social media giant. Elon Musk's desire to

support freedom of speech may face a growing tide of law changes therefore potentially restricting and limiting his intentions for its future.<sup>10</sup> The White House declined to comment on the deal but spokesperson Jen Psaki told reporters: 'No matter who owns or runs Twitter, the President has long been concerned about the power of large social media platforms'.<sup>11</sup> On Twitter, Chairman of the UK's Digital, Culture, Media and Sport Committee, MP Julian Knight, called the deal an 'extraordinary development in the world of social media'.

## Market update

When the pandemic began in early 2020 the consequences of the subsequent lockdowns have seemingly proved to be much longer lasting than probably most expected. After more than two years the long shadow cast from restrictions continues as China instigates further measures as their 'zero tolerance' policy spooks markets<sup>12</sup> who are worried not just about the impact of inflation through the increases in 'cost push' inflation, but also the wider ramifications that restrictions bring, in slower economic growth as the outlook worsens. The strict rules in some cities that have been in place during the first few months of this year have already contributed to a slowdown in the world's second largest economy with growth of 4.8% in the first quarter, above market expectations, but well below the revised 5.5% target set by the Chinese Government.<sup>1&13</sup> An example of this economic concern showed in the 4.7% fall in the price of Brent Crude oil to just over \$100 per barrel.<sup>14</sup> Stock markets remain volatile, with sharp changes in direction for one day to the next with this week being no exception.<sup>1</sup>

**Find out more!**

Listen [here](#) to our latest Market Views from our Head of Systematic Research for TAA and Alpha, Stefano Amato, as he discusses whether controlling inflation is the priority.

Note: Data as at 26 April 2022.

<sup>1</sup> Investing.com, 26 April 2022

<sup>2</sup> CNBC, 21 April 2022

<sup>3</sup> Financial Times, 27 August 2020

<sup>4</sup> BBC News, 10 December 2021

<sup>5</sup> Office for National Statistics, 26 April 2022

<sup>6</sup> BBC News, 27 April 2022

<sup>7</sup> Forbes, 26 April 2022

<sup>8</sup> Twitter.com/ElonMusk, 25 April 2022

<sup>9</sup> Financial Times, 26 April 2022

<sup>10</sup> Tech Crunch, 26 April 2022

<sup>11</sup> Reuters, 26 April 2022

<sup>12</sup> New York Times, 24 April 2022

<sup>13</sup> CNBC, 5 March 2022

<sup>14</sup> BBC News, 26 April 2022

## Important Information

For retail distribution.

This document has been approved and issued by Santander Asset Management UK Limited (SAM UK).

This document is for information purposes only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services. Opinions expressed within this document, if any, are current opinions as of the date stated and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of Santander Asset Management as a whole or any part thereof. While we try and take every care over the information in this document, we cannot accept any responsibility for mistakes and missing information that may be presented.

All information is sourced, issued and approved by Santander Asset Management UK Limited (Company Registration No. SC106669). Registered in Scotland at 287 St Vincent Street, Glasgow G2 5NB, United Kingdom. Authorised and regulated by the FCA. FCA registered number 122491. You can check this on the Financial Services Register by visiting the FCA's website [www.fca.org.uk/register](http://www.fca.org.uk/register).

Santander and the flame logo are registered trademarks. [www.santanderassetmanagement.co.uk](http://www.santanderassetmanagement.co.uk).