Handelsbanken
Asset Management

28 March 2022

Weekly bulletin: Europe races to undo its reliance on Russian gas

Key takeaways

The crisis in Ukraine continues to hold press headlines, while the US tries to help Europe wean itself off Russian gas. In China, partial lockdown has begun in Shanghai.

- Geopolitical news continued to dominate media attention last week, albeit with limited impact on financial markets or economic data. This is quite typical of geopolitical events throughout history; while their human cost can be terrible, they rarely derail the economic cycle.
- Of course, this doesn't mean that geopolitical events have no real-world economic impact at all; indeed, materially higher oil prices are already having a significant effect by increasing the cost of living. We don't expect these inflated prices to last indefinitely, though they will be painful for households in the short term.
- Sticking with the subject of energy, last week the US and EU agreed a landmark deal in which the US will increase exports of natural gas to Europe. This would provide short-term assistance in reducing Europe's dependence on Russian energy, potentially weakening Putin's income from Russia's rich natural resources in the process. European Commission President Ursula von der Leyen claimed that the deal would replace one third of the Russian gas imported to Europe today – currently, over 40% of natural gas used by the EU countries is sourced from Russia.
- Meanwhile, retaliating against economic sanctions, Putin is pulling on some financial levers of his own. Last week, Putin demanded that gas purchases made by so-called 'unfriendly countries' be paid for in the Russian ruble. This is intended to put pressure on European countries as well as supporting the ruble, the value of which has fallen drastically in response to Western sanctions.
- Elsewhere, in China, population mobility restrictions have reared their ugly head once more, with Shanghai – China's most populous city – now in partial lockdown following rising COVID-19 case numbers in the city. Shanghai will experience this lockdown in phases (the eastern side this week, the western side next week), as Chinese authorities – which had been following a zero-tolerance approach to COVID-19 – struggle to find ways to manage living with the virus without harming the national economy.

Weekly market moves

It was a positive week in sterling terms for most major regional stock markets, though mainland Europe played the laggard in performance terms.

Bond yields picked up (bond prices, which move inversely to yields, fell) as bond investors began anticipating relatively larger interest rate hikes from the US Federal Reserve Bank (Fed) at subsequent policy meetings this year. Public comments by Fed members speaking over the past week have encouraged this line of thinking.

What to look out for this week

European inflation data is due for release this week, and could give better insight into the impact of rising energy prices on European consumers.

US employment data covering the month of March is due for release on Friday.

Market moves (as at 25 March 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,143.8	1.5%	1.5%	4.2%
MSCI United Kingdom Mid Cap	1,283.1	-2.2%	-2.8%	-12.0%
MSCI United Kingdom Small Cap	419.0	-1.2%	-1.2%	-12.1%
MSCI World (GBP)	2,340.8	1.1%	4.3%	-2.7%
S&P 500 (GBP)	4,543.1	1.6%	5.8%	-1.8%
MSCI Japan (GBP)	1,218.8	1.6%	1.4%	-3.9%
MSCI Europe ex-UK (GBP)	1,574.2	-1.6%	-0.6%	-9.5%
MSCI Pacific ex-Japan (GBP)	1,686.6	1.6%	7.5%	5.3%
MSCI Emerging Markets (GBP)	64,693.3	0.0%	-2.1%	-5.9%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,237.3	-1.8%	-3.0%	-8.3%
BoA Merrill Lynch Index-Linked Gilts	603.6	-2.3%	-4.8%	-7.7%
BoA Merrill Lynch £ Corporate	432.0	-1.0%	-2.0%	-7.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$113.9	8.6%	20.5%	55.2%
Gold (GBP)	$1953.8	0.8%	4.0%	11.1%
S&P / GSCI (GBP)	3,986.3	7.5%	20.3%	47.5%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

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