One Direction: **In light of the dramatic moves in markets this year, Westminster Asset Management Investment Strategist Peter Lucas reviews his key predictions.**

In my year-end review, I double-downed on my main strategy calls of 2021, repeating my bearish calls on bonds, the US dollar and growth equities (at least on a relative basis) and my bullish calls on value, emerging markets, commodities, and gold. In the past few weeks, there have been several significant developments:

1. Central banks have become increasingly worried about inflation and are now determined to do something about it. The Fed was the first to voice concerns, but they have recently been joined by the Bank of England, the ECB, and others.
2. Britain, France, Ireland, the Netherlands, and some Nordic countries have scrapped or eased their COVID restrictions. Learning to live with COVID is increasingly the new mantra.
3. Government bond yields have burst through the top of their COVID trading ranges.
4. Crude oil prices have taken out their post-2008 downtrends, clearing the way to a full retest of the old high of $150.
5. Growth shares have taken a beating, with two-thirds of the NASDAQ Composite now down more than 20% from their 52-week high and a third down more than 60%!
6. Value, emerging markets, and world equities ex-US have held up much better, registering only small losses, if any. The long-suffering FTSE100, an index dominated by value, has broken its long-term relative downtrend.

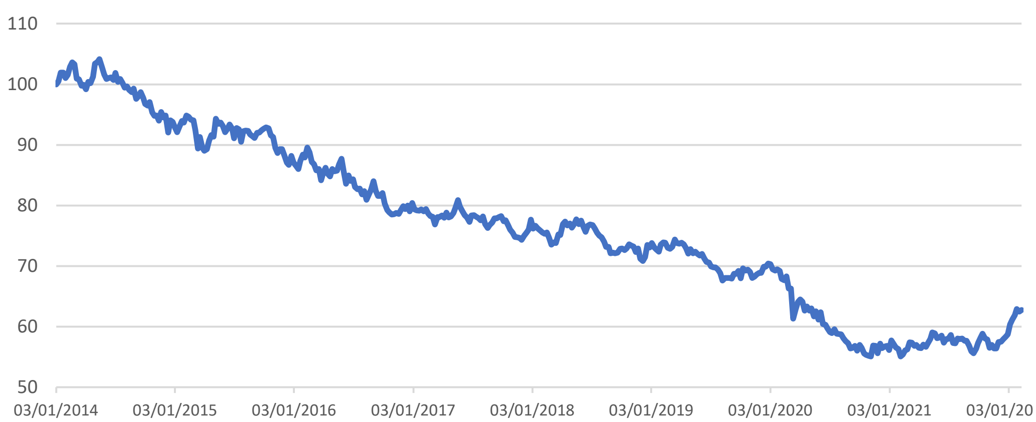

Chart 1: UK FTSE 100 Index versus and equally weighted basket of MSCI Europe, US S&P 500, MSCI Asia Ex-Japan, Nikkei. Source: Bloomberg/Westminster Asset Management.

In summary, things are moving in the direction anticipated. The US dollar has only weakened marginally in 2022, but even here there is room for optimism. In previous reports I have argued that the dollar was a lose-lose proposition: if US inflation fell, investors would sell the dollar on narrowing nominal interest rate differentials and conversely, if inflation did not fall, the dollar would weaken due to low real interest rates.

In the event, a third scenario has unfolded in which the dollar has weakened as other central banks have caught up to the Fed's hawkish disposition. The euro has narrowly broken its downtrend versus the US currency, and hopefully the dollar index (DXY) and the equal-weighted dollar basket will soon do the same. I have expressed a preference for gold, TIPS, emerging markets and world equities ex-US and a weaker dollar would be helpful for all these assets, at least on a relative basis.

Peter Lucas
10 February 2022