Q1 2022: market snapshot

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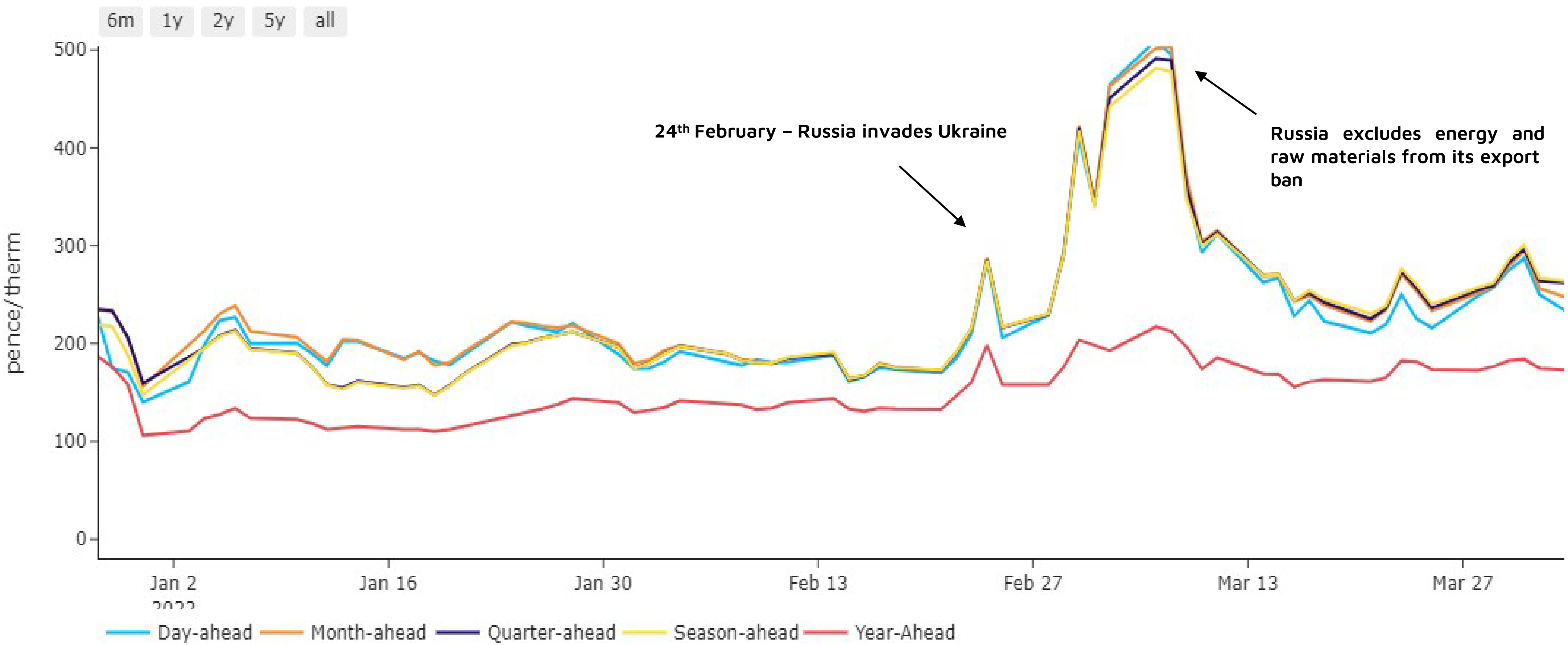
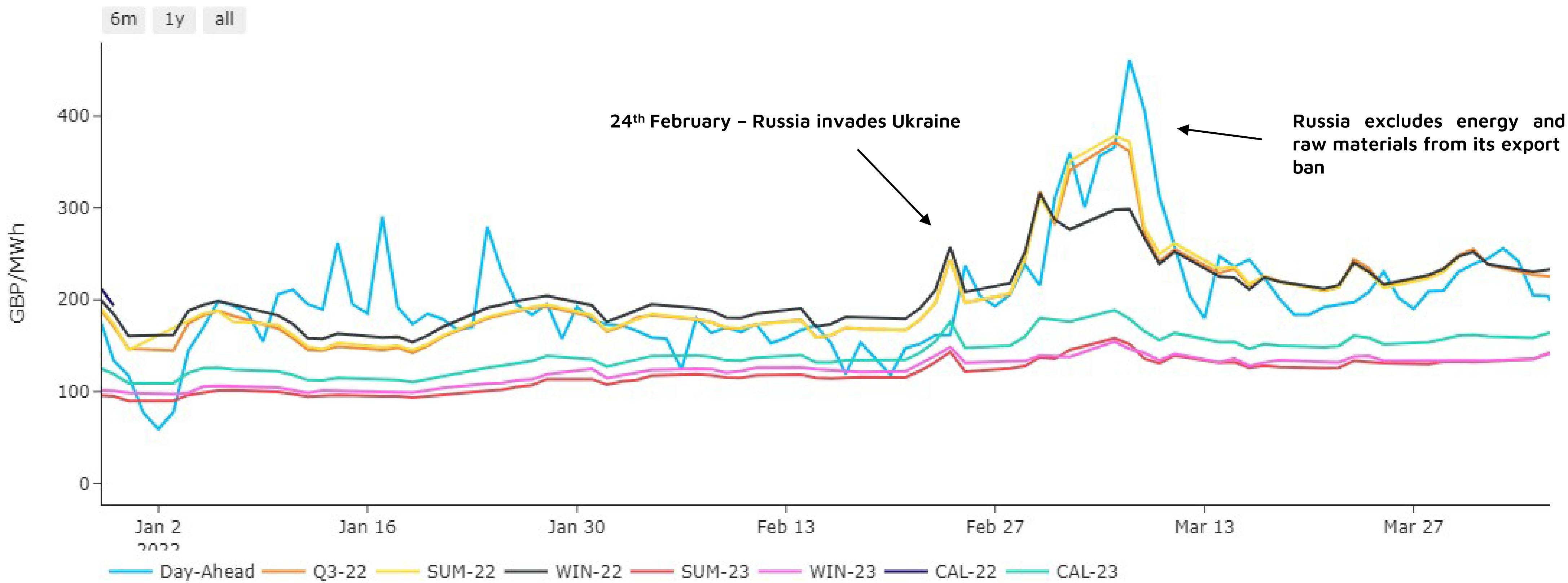
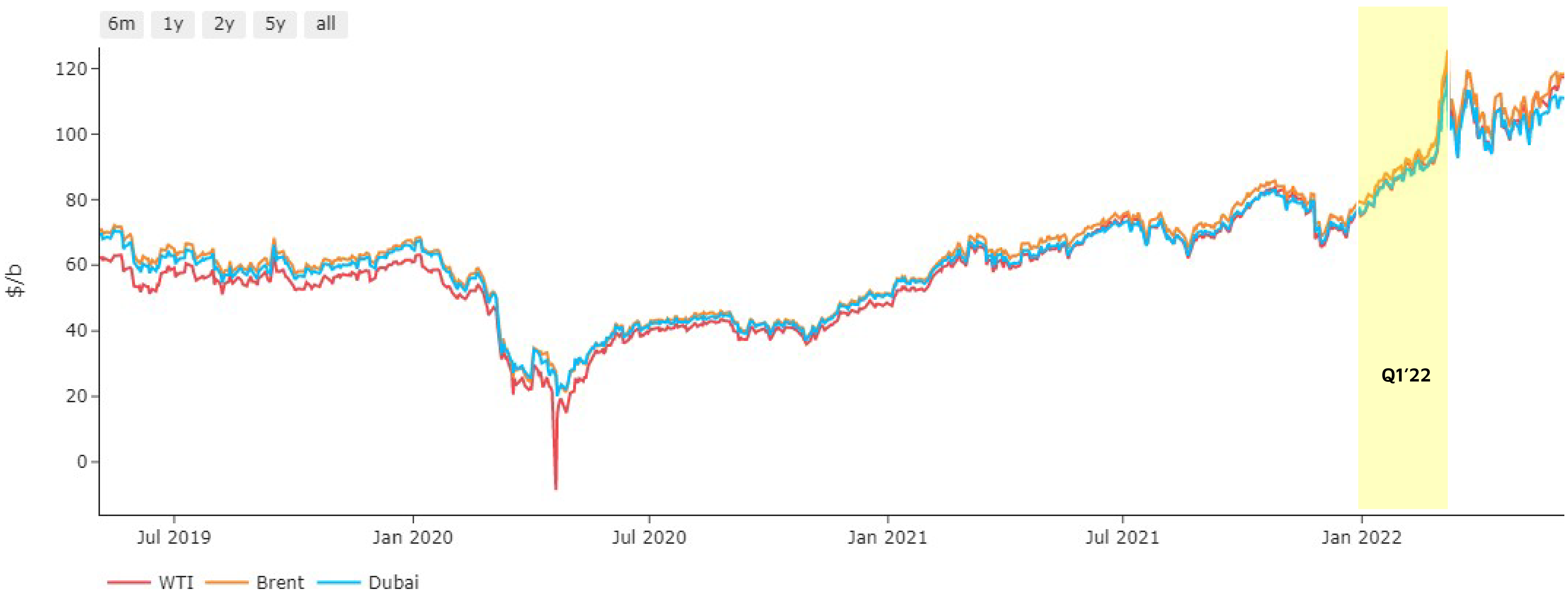
Q1'22 NBP gas prices were dominated by Russia's invasion of Ukraine and supply security risk:



Q1'22 UK Power Baseload forward prices echoed risk in the front markets – Day-Ahead/Summer '22/Winter '22:

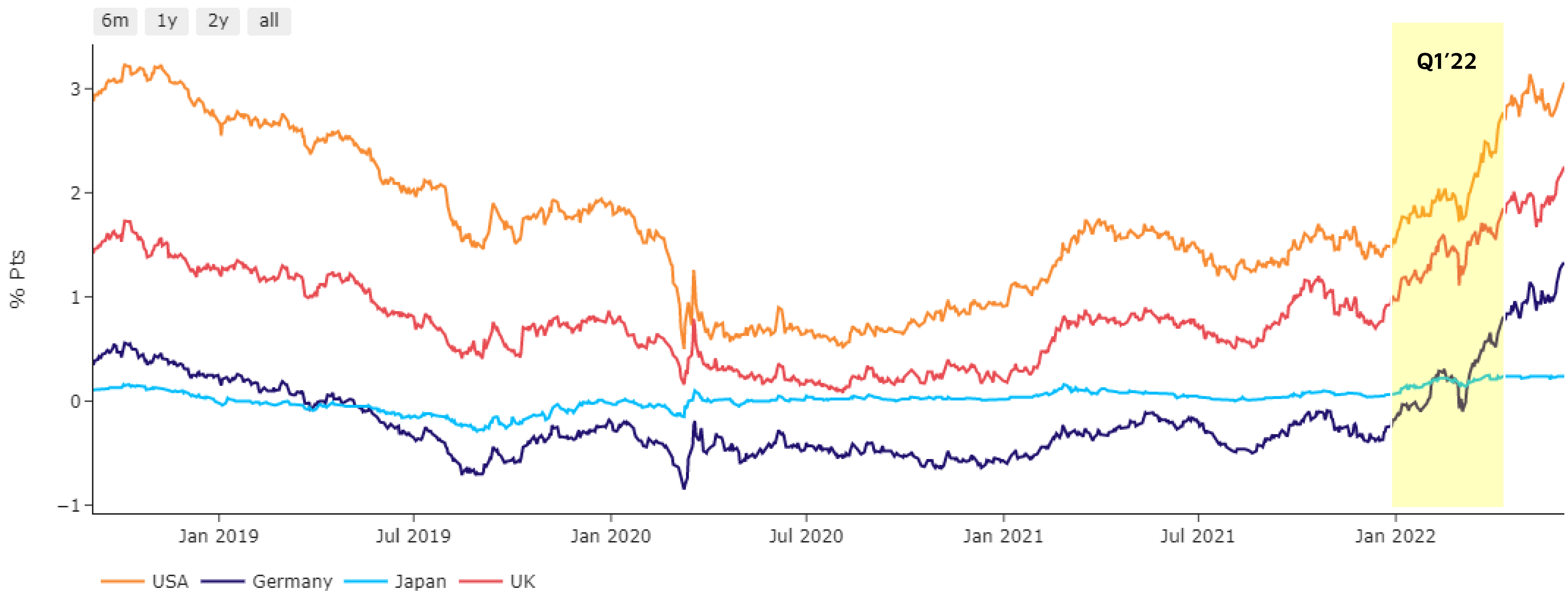


The price of oil bottomed out in Spring `20 during the COVID downturn. Post-pandemic, with demand outstripping supply, prices rallied over 50% in 2021 supported by a lack of production capacity and limited investment. The Russian invasion of Ukraine heightened concerns over supply security during a period of increasing consumer demand. Accordingly, Q1'22 saw a 40% increase as leading oil-producing nations throttled output off the back of record breaking profits:

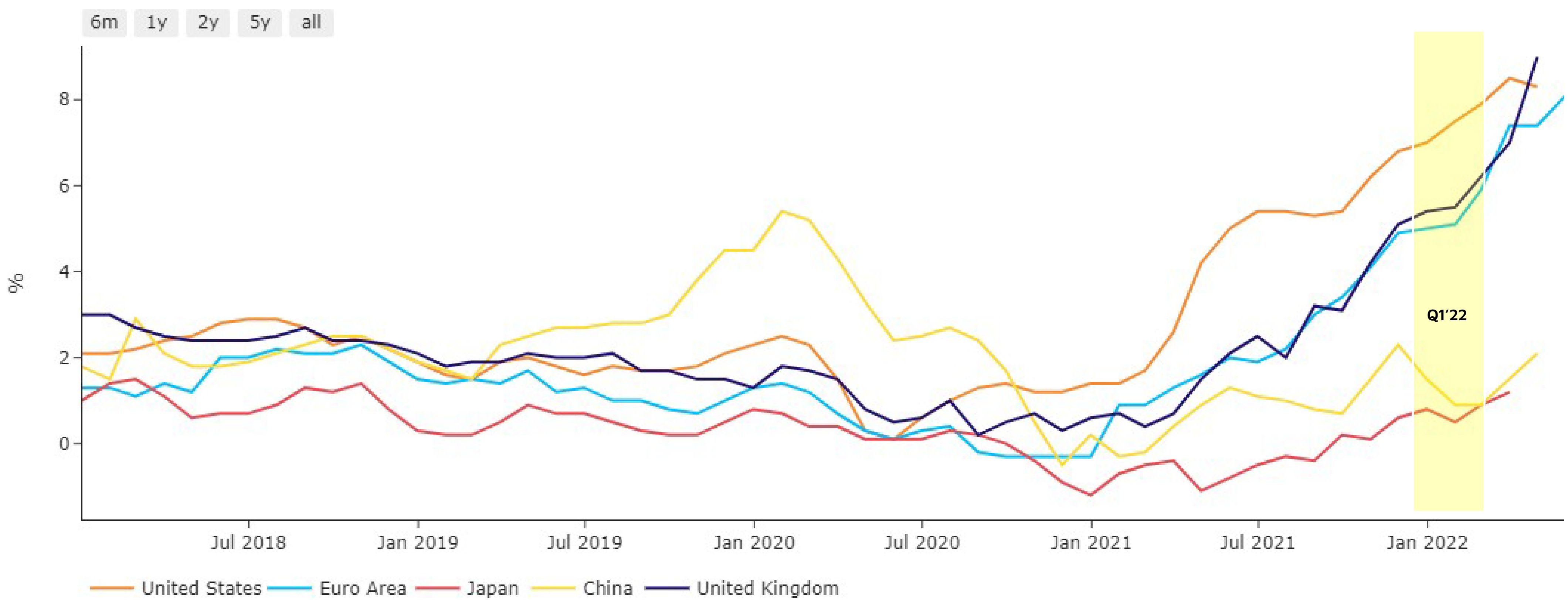


The benchmark stock exchange, S&P 500, started the year having more than doubled from the lows of March 2020, an upswing that went into reverse almost immediately as the calendar flipped to 2022. The main factor cited by investors and analysts for the market's reversal/weakness was the policy change at the Federal Reserve. As the pandemic took hold in 2020, the U.S. central bank put in place emergency policies to stabilize the economy that encouraged a shift away from safe havens (gold/dollar) and into stocks and other riskier assets (commodities, high-yield bonds, real estate, and currencies). In early 2022, the Fed signalled it was pivoting to tighter monetary policy to tackle surging inflation. In March, interest rates were increased for the first time since 2018:

At the same time that inflationary fears were suppressing equity investment, expectations of tighter Fed policy pushed up previously dormant bond yields. The yield on the 10-year U.S. Treasury note rose by 2% in Q1'22 approaching levels not seen since late 2018, when the Fed was reaching the end of its most recent tightening/hawkish cycle. Bond yields across all the major economies told the same story:



As the world continued to deal with the economic impact of the pandemic, the war in Ukraine further exacerbated year-on-year inflationary increases. Central banks began to grapple with the reality that controlling rising prices via interest rate hikes would inevitably lead to recession/contraction into Q3/Q4'22:



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