MAYBERRY INVESTMENTS LIMITED

VOLUME 4
FEBRUARY 2022

ECONOMIC SUMMARY

Global Recovery Hit by Huge Supply Shock
The recovery from the Covid-19 pandemic is being harmed by a possibly massive global supply shock, which could slow growth and raise inflation. The Ukraine conflict and economic sanctions against Russia have jeopardized world energy supplies. Sanctions do not appear likely to be lifted anytime soon. Russia contributes around 10% of the world's energy, including 17% of natural gas and 12% of oil. The increase in oil and gas prices will increase industry expenses and diminish real incomes for consumers. Europe might face complete energy shortages and rationing if Russia's supply is cut off abruptly. Increased energy prices are unavoidable.

Forecasts Cut on Energy Shocks, Rate Hikes
Rating Agencies have lowered global GDP growth predictions for 2022 by 0.7 percentage points to 3.5%, 1.5% points to 3.0% for the eurozone, and 0.2 percentage points to 3.5% for the US. This reflects the pressure from increasing energy costs and a faster-than-expected pace of US interest rate rises. The predictionn for global growth in 2023 downward by 0.2 percentage points to 2.8%.

EU's Reliance on Russian Energy Exposed
Russia supplied a quarter of primary energy consumption in the eurozone in 2019. This figure corresponds to OPEC's share of global primary energy production in 1973. Eurozone inflation will average 5% in 2022 due to the increase in European gas costs.

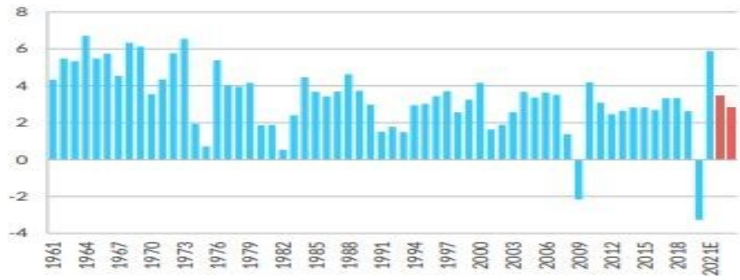
Fed Cannot Help Support Growth this Time
Prior to the Ukraine invasion, the Fed shifted to a hawkish stance and began hiking rates in March. We anticipate that the Fed Funds rate will reach 2% by the end of 2022 and 3% by the end of 2023. Additionally, the ECB indicated an early end to asset purchases in 3Q22, and we now anticipate the ECB raising the main refinancing operations rate by 25bp in 1Q23. By contrast, the People's Bank of China is easing, with inflation remaining low. Additional interest rate and RRR reductions, as well as significant fiscal easing, are expected. However, with consumption and property markets remaining subdued, we forecast growth of only 4.8%, well below the official target. Inflationary pressures and supply shocks might have a significantly greater negative impact on global GDP growth if they result in much more aggressive Fed tightening, push oil prices to USD150 per barrel (bbl), and trigger major European energy restrictions. We explain the consequences in a negative case.

Forecast Highlights
The global economy expanded swiftly at 5.9% in 2021, but the outlook has deteriorated as inflationary pressures have intensified and Russia's invasion of Ukraine and subsequent sanctions have disrupted global energy markets. We now forecast global growth to moderate to 3.5% in 2022, down from 4.2% in December's Global Economic Outlook for 2021. (GEO). Additionally, we reduced our global growth prediction for 2023 by 0.2 percentage points to 2.8%, reflecting the lagged effect of this year's faster-than-expected monetary policy tightening. These predictions for global GDP growth are higher than historical norms, owing to persistent post-pandemic recovery dynamics and strong near-term demand momentum in the United States. However, there are risks to our baseline forecasts, and later in the study, we sketch out a downside scenario in which inflation pressures culminate in a significant growth shock.

Additionally, the global growth prediction for 2023 was lowered by 0.2 percentage points to 2.8%, reflecting the lagged effect of this year's faster-than-expected monetary policy tightening. These predictions for global GDP growth are higher than historical norms, owing to persistent post-pandemic recovery dynamics and strong near-term demand momentum in the United States. However, there are risks to our baseline forecasts, and later in the study, we sketch out a downside scenario in which inflation pressures culminate in a significant growth shock.

Global Recovery on Track Pre-Invasion
The global economic recovery was on pace before to Russia's invasion of Ukraine. China's GDP growth outperformed our forecasts in 4Q21, while historical data adjustments resulted in the eurozone and UK annual growth outturns for 2021 exceeding our December GEO predictions by 0.3pp and 0.6pp, respectively. India's recovery accelerated to 8.1% in 2021 (calendar year). The rise of Omicron cases at the turn of the year had a relatively slight and transient effect on activity in the United States, the United Kingdom, and the eurozone.

Consumer and services sector indicators recovered rapidly in January and February, and labor demand continued to improve as a result of robust payroll growth in the United States and declining unemployment rates in Europe. The UK's monthly GDP increased by 0.8% in January, following a 0.2% decline in December. The leading signs of US corporate investment have remained robust, and low inventories of finished goods indicated that restocking would continue to provide a boost. China's January and February activity figures likewise exceeded expectations, with fixed asset investment, industrial production, and retail sales all increasing.



Impact of Russia's Economic Isolation
At the end of February, when Russian armed forces invaded Ukraine, the outlook shifted dramatically. This provoked a rapid, strong, and coordinated response from the US, EU, and UK, among others, aimed at isolating the Russian economy financially. No economy of Russia's size and significance has ever faced such severe sanctions. The Russian economy is the 11th largest in the world, with a GDP of USD1.6 trillion in 2021 (just under 2% of global GDP) and more than USD800 billion in international trade flows (imports plus exports). While much has been made of the fall in global bank exposure to Russia over the last decade, Russia's gross foreign liabilities - which include FDI, portfolio equities and debt, and bank loans – exceeded USD1.2 trillion in September 2021. In terms of potential global economic consequences, 'disconnecting' an economy of this size from the global banking system bears no relation to prior sanctions put on North Korea or Venezuela.

For several economies in eastern Europe, the impending serious recession in Russia will be a big shock to export demand, but exports to Russia account for a tiny proportion of overall exports and GDP in the majority of major economies. Rather than that, the greatest impact is due to Russia's enormous share of world oil and gas production and commerce. Russia produces 13% of the world's oil, 11% of the world's oil exports, and roughly 17% of the world's gas. It is by far the greatest gas exporter in the world, accounting for over a quarter of global exports. Global energy markets are being disrupted by the rising danger of a large section of these energy supplies becoming unavailable.

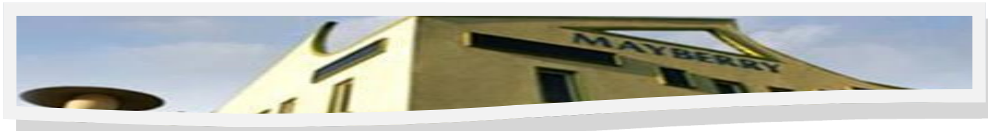
The United States, the United Kingdom, and Canada have already opted to restrict or phase out Russian oil imports, and while Germany and the EU have so far resisted, political pressure to do so is rising. Additionally, there have been rumors of'self-sanctioning,' in which possible buyers have been unable to deal for political or reputational reasons, commensurate with the Russian oil barrels' increasing price discount to global benchmarks. According to press reports, funding for Russian oil commerce is also becoming more difficult. Russia has also threatened to restrict gas exports in retaliation.

UNITED STATES
The US economy has largely remained unaffected by the spike in Omicron cases around the turn of the year. GDP growth in 4Q21 was consistent with the December GEO, at 1.7% quarter on quarter (qoq) (7.0% annualised), and monthly data indicate that momentum will continue to be high in early 2022. Consumer expenditure indicators quickly recovered from a modest dip in December, while non-farm payrolls increased by an average of 580,000 in January and February. Although direct trade with Russia is limited, the spike in global oil prices is escalating what was already a serious inflation problem.

US merchandise exports to Russia and Ukraine amount for barely 0.4% of total US exports and 1% of total imports. In 2021, the US was a tiny net exporter of oil and petroleum products, and wholesale gas prices in the US have not risen as sharply as in Europe. However, the surge in global oil prices in the aftermath of Russia's invasion and subsequent sanctions is exacerbating the spike in headline inflation, which reached a 40-year high of 7.9% yoy in February.

Inflation in the United States was initially fueled by a surge in core consumer goods prices. While it is expected that commodities bottlenecks will reduce, there is little concrete evidence of this occurring thus far. Meanwhile, inflation in the services sector continues to accelerate, reaching a 30-year high of 4.4% in February. While some of this reflects the transportation sector's reopening characteristics, the primary cause was the acceleration of house rentals. The expansion of inflation to services is a result of labor market tightening and wage growth.

Fed messaging had already shifted to a more hawkish tone in recent months, and the central bank boosted interest rates by 25 basis points to 0.5% on 16 March. Oil price increases are expected to propel US inflation near 9% in March, and we now forecast six additional hikes in 2022 and four in 2023, bringing the Fed Funds Rate back to 3% by end-2023. May is also likely to be the start of the Fed's balance sheet run-off. The commentary following the Fed's March meeting shows that the Fed has shifted its focus entirely to restoring price stability through the use of its tools.



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UNITED STATES

GROSS DOMESTIC PRODUCT

According to the Bureau of Economic Analysis, bea)"second" estimate, real gross domestic product (GDP) increased at an annual rate of 7% in the Fourth quarter of 2021. Real GDP increased by 2.3% in the third quarter. The GDP estimate released today is based on more complete source data than were available for the "advance" estimate in February. In the advance estimate, the increase in real GDP was 6.9%. Notably, "the updated estimates primarily reflected upward revisions to non-residential fixed investment, state and local government spending, and residential fixed investment that were partly offset by downward revisions to personal consumption expenditures (PCE) and exports," as per bea.

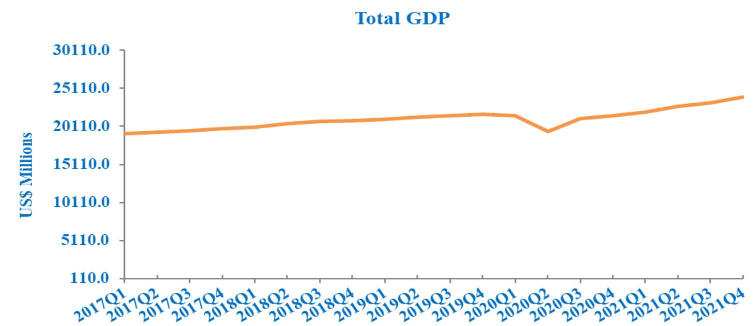
The ongoing economic impact of the COVID-19 pandemic was evident in the increase in fourth-quarter GDP. In some sections of the country, a revival of COVID-19 cases has resulted in increased restrictions and disruptions in the operations of establishments. Payments to businesses in the form of forgivable loans, grants to state and local governments, and social benefits to households also decreased, as provisions of several federal programs expired or tapered off.

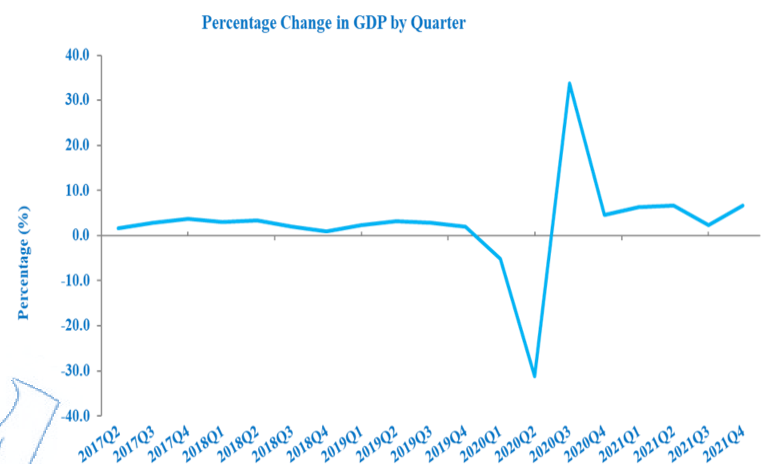
The increase in GDP was led by an increase in private inventory investment, PCE, exports and non-residential fixed investment during the fourth quarter, this was partially offset by a decline in both federal and state and local government spending. Imports increased, which is a factor in calculating GDP.

Private inventory investment increased as wholesale trade (driven by nondurable goods industries) and retail trade industries (led by motor vehicles dealers). The increase in PCE was due to an increase in services, led by health care, financial services, and insurance. The increase in exports reflected increases in both goods and services. Notably, "the increase in exports of goods was widespread, and the leading contributors were consumer goods, industrial supplies and materials, and foods, feeds, and beverages. The increase in exports of services was led by travel," stated bea. The increase in non-residential fixed investment was mainly due to a rise in intellectual property products that was partly offset by reductions in structures.

The decrease in federal government spending was mostly due to a decrease in defence spending on intermediate goods and services. Also, the decrease in state and local government spending is as a result of a drop in "consumption expenditures (led by compensation of state and local government employees, notably education) and in gross investment (led by new educational structures)," noted bea. The increase in imports was mostly due to an increase in goods (led by non-food and non-automotive consumer goods, as well as capital goods).

The increase in exports, private inventory invest and PCE accelerated real GDP in the fourth quarter by 7.0% after increasing 2.3% in the third quarter. The acceleration in real GDP primarily reflected upturns in exports and residential investment, and accelerations in private inventory investment and consumer spending. Imports accelerated.





UNEMPLOYMENT

In January, total nonfarm payroll employment increased by 678,000. The unemployment rate ticked down to 3.8% to 6.3 million persons in February 2022. The job growth was spread across various industries, with leading gains in leisure and hospitality, professional and business services, health care, and construction.

Furthermore, among the major worker groups, the unemployment rates for adult men (3.5%) and Hispanics (4.4%) declined in February. The jobless rates for adult women (3.6%), teenagers (10.3%), Whites (3.3%), Blacks (6.6%), and Asians (3.1%) showed little or no change over the month.

Total nonfarm payroll employment rose by 678,000 in February but is down by 2.1 million, or 1.4%, from its pre-pandemic level in February 2020. In the pass month professional and business services added 95,000 jobs in February 2021. Employment in leisure and hospitality continued to trend up in February (+179,000). Transportation and warehousing added 48,000 over the month. Additionally, employment in wholesale trade added 18,000 and retail trade added 37,000. Other sectors such as health care (+64,000), Construction (+60,000), Manufacturing (+36,000), Mining (+9000), added to total employment.

Notably, the number of persons on temporary layoff was at 888,000 in February. The number of permanent job losers declined to 1.6 million. While the number of long-term unemployed (those jobless for 27 weeks or more) was stable at 1.7 million. Moreover, the number of unemployed persons who were jobless less than 5 weeks in February decreased by 286,000 to 2.1 million.

The labour force participation rate for February 2022 stood at 62.3%, while the employment population ratio changed little to 59.9%. Nonetheless, persons employed part-time for economic reasons stood at 4.1 million in February. Based on BLS assessment, "these individuals, who would have preferred full-time employment, were working part time because their hours had been reduced or they were unable to find full-time jobs."

The number of persons not in the labor force who currently want a job declined by 349,000 to 5.4 million in February. A total of 1.5 million individuals were slightly attached to the labour force. Of the marginally attached, 408,000 persons were classified as discouraged workers in February.

Labour Force in Thousands	Jan-Mar	Apr-Jun	Jul-Sep	Oct - Dec
Year	Q1	Q2	Q3	Q4
2017	437,406	439,138	440,693	442,035
2018	444,015	446,253	447,645	448,865
2019	450,572	452,192	453,246	454,715
2020	455,638	401,328	421,393	427,388
2021	431,175	435,533	440,619	445,897

Prepared by: Research Department

CONSUMER PRICE INDEX

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.8% for February 2022, on a seasonally adjusted basis, according to U.S. Bureau of Labour Statistics (BLS) after a 0.6% increase in January. The all-items index rose 7.9% before seasonal adjustment over the last year.It was noted, "The 12-month increase has been steadily rising and is now the largest since the period ending January 1982."

The all-items less food and energy index climbed 0.5% in February 2022 compared to January 2022. Notably, "The shelter index was by far the biggest factor in the increase, with a broad set of indexes also contributing, including those for recreation, household furnishings and operations, motor vehicle insurance, personal care, and airline fares." The all-items less food and energy index increased 6.4%, the largest 12-month change since the period ending August 1982.

The index shelter accounts for 40% of the all-items less food and energy monthly increase, it rose by 0.5% while the recreation index increased 0.7% in February. The index for household furnishings and operations also continued to rise month over month by 0.6%. The index for motor vehicle insurance rose 1.2% and the index for personal care rose 1.2%. Other indexes such as airline fares (+5.2%), medical care (+0.2%) and new vehicles (+0.3%). While the index for used cars and trucks declined month over month by 0.2% and a 1.5% increase in January.

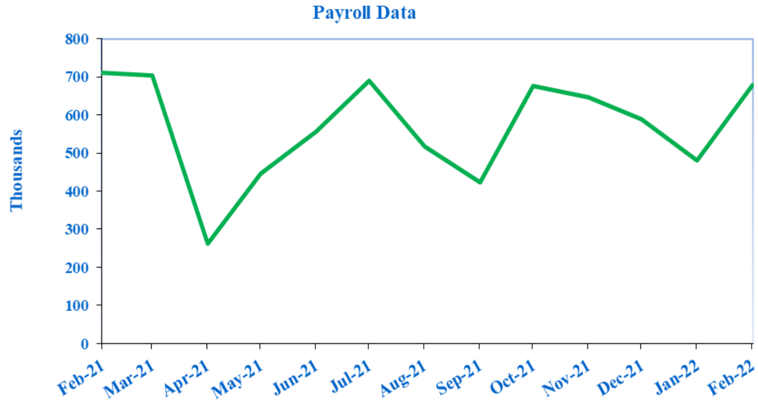
The index for food rose 1.0% in February, after a 0.9% increase in January. The index for food at home increased 1.4%, while the index for food away from home rose 0.4% in February. Over the last 12 months, the index for food at home and food away from home increased 8.6% and 6.8%, respectively.

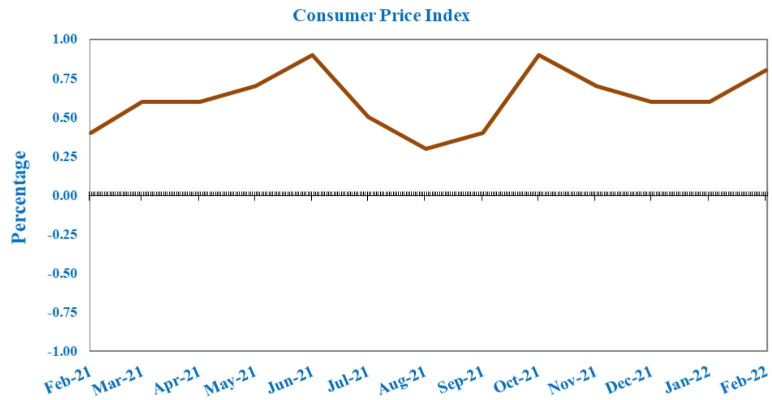
Furthermore, all six major store food group indexes increased in February, fruits and vegetables (+2.3%), meats, poultry, fish and eggs (+1.2%), cereals and bakery products (+1.1%), dairy and related products (+1.9) and non -alcoholic beverages (+1.6).

The index for energy increased 0.9% in January. However, a 0.8% decrease was recorded in the gasoline index. Meanwhile, the index for natural gas decreased 0.5% whereas the electricity index increased 4.2% in January.

The food away from home 0.4% increase was mainly due to the index for full-service meals which rose 0.6% and the index for limited service meals increased 0.3%.

The energy index rose 3.5% in February after a 0.9% increase in January. This increase was due to gasoline index sharp increase in February, rising 6.6% after falling 0.8% in January. The energy index rose 25.6% over the past 12 months with all major energy components indexes rising.





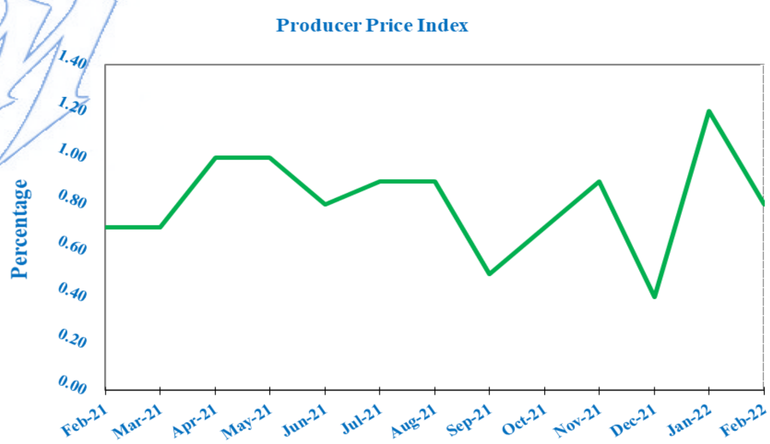
PRODUCER PRICE INDEX

The seasonally adjusted Producer Price Index for final demand gained 0.8% in February 2022, according to the US Bureau of Labor Statistics. Following gains of 1.2% in January and 0.4% in December 2022. Final demand prices increased 10% in 2022 on an unadjusted basis, for the twelve months ended February 2022.

The increase in the final demand index in February can be attributed to a 2.4% increase in final demand goods prices, the highest calculated increase since December 2009. Notably, "nearly 40% of the February increase in prices for final demand goods can be attributed to the index for gasoline, which rose 14.8%. Prices for diesel fuel, electric power, jet fuel, motor vehicles and equipment, and dairy products also advanced. In contrast, the index for fresh and dry vegetables decreased 9.4%. Prices for beef and veal and for hot rolled steel sheet and strip also moved lower" according to the U.S Bureau.

Following a 1.0% increase in January 2022, prices for final demand services were stable in February 2022. There was a 1.9% increase for final demand transportation and warehousing services. Prices for final demand services excluding trade, transportation, and warehousing decreased by 0.2%, offset by a 0.4% increase in margins.

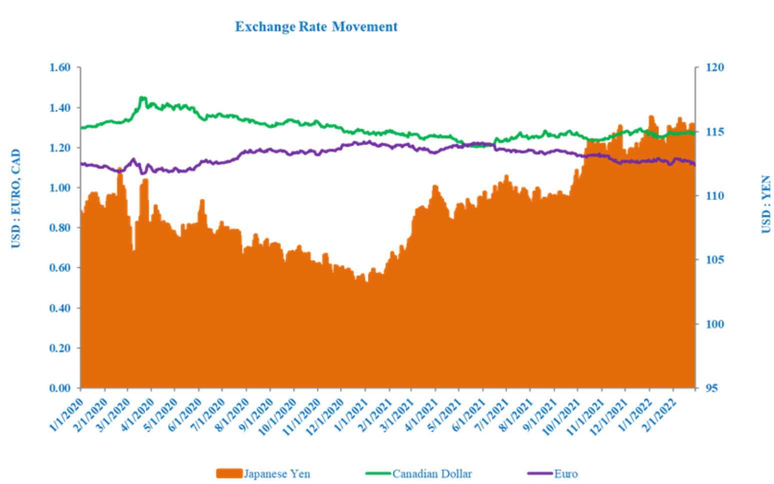
The final demand goods index rose 2.4% in February, after a 1.5% increase in January 2022. The final demand foods index rose 1.7% (January 1.9%) and for energy rose 8.2% (January 3.7%) . Prices for final demand products, excluding food and energy, increased by 0.2%.



U.S. Dollar

For February 2022, the EUR/USD pair closed at $1.1124 versus $1.1306 at the start of the month, a 0.16% decrease. According to FX empire, this decrease is as a result of "market reacting heavily to any news regarding US-Russia crisis. There is no trending at the EUR/USD only range bound market. At this point projected point 3 is a possible bounce spot for the market. 1.1140-50 might bounce and target 1.1215"

Looking ahead, "the Fed has just informed markets that policymakers are coming out guns blazing in the fight against inflation. They raised interest rates in the US by 25 basis points on Wednesday, their first hike since December 2018, and signaled they're set to hike further at each of their 6 remaining scheduled meetings in 2022," as per FX Empire. The market reaction to this decision according to FX empirer, "as long as markets believe that the Federal Reserve can stick to its aggressive approach to combatting inflation without triggering a recession, the US dollar is expected to rise."



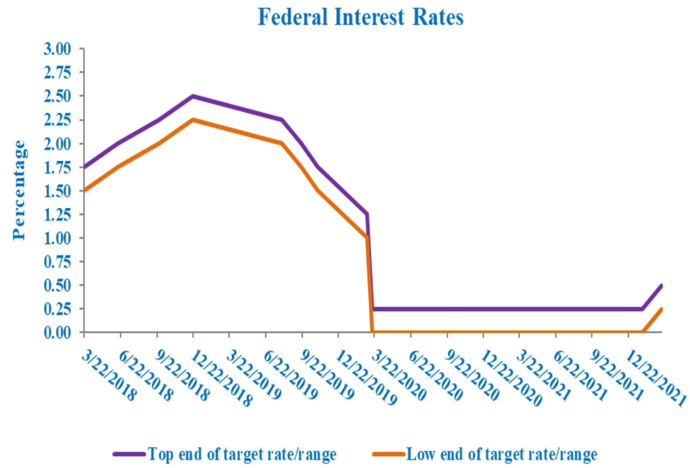
FEDERAL RESERVE MINUTES

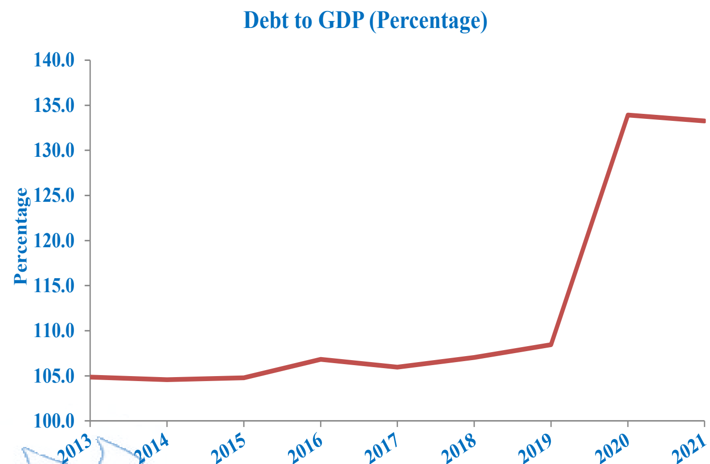
The Federal Reserve approved a 0.25 percentage point rate hike, the first increase since December 2018. The Federal Reserve believes that indicators of economic activity and employment have continued to strengthen. Job gains have been strong in recent months, and the unemployment rate has declined substantially. However, inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.

The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity.

The Federal Reserve cites, "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong." To support these goals, the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.

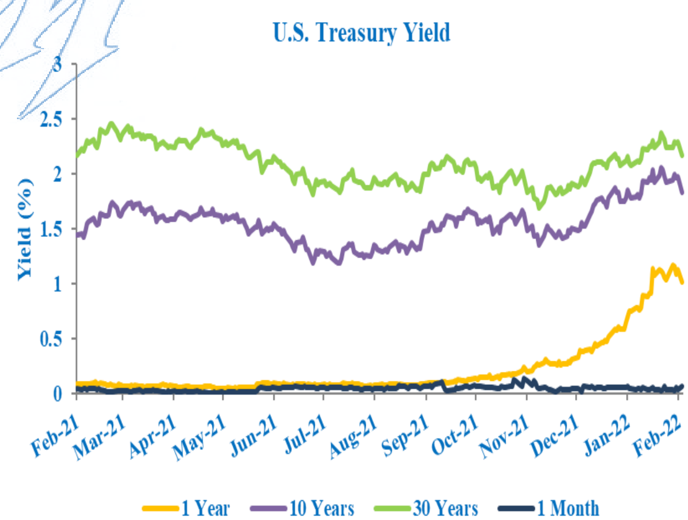
The Board of Governors of the Federal Reserve System voted unanimously to raise the interest rate paid on reserve balances to 0.4 percent, effective March 17, 2022. The Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.





U.S. TREASURY YIELD CURVE

The 3-month Treasury bill rate stood at 0.35% up from January's 0.22%. The 5-year rate rose to 1.71% in January 2022 relative to 1.62%, a month earlier. The 10-year rate (also constant maturity) increased to 1.83%, from January's 1.79% and November's 1.52%.



GOVERNMENT DEBT/ DEFICIT

The Congressional Budget Office (CBO) indicated that the federal budget deficit amounted to $475 billion for the first five months of fiscal year 2022.

Furthermore, for the first five months of the fiscal year 2022, CBO estimates receipts to amount to $1,807 billion, $371 billion more than in the similar period in 2021.

However, based on CBO estimates for four months of the fiscal year 2022, outlays are estimated to total $2,282 billion, a $201 billion less relative to the same period last year.

Budget Totals, October-February

Billions of Dollars

	Actual, FY2021	Preliminary, FY 2022	Estimated Change
Receipts	1,436	1,807	371
Outlays	2,483	2,282	-201
Deficit (-)	-1,047	-475	572