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***Plus Ça Change !* - Investment Strategist Peter Lucas reassess the investment outlook for 2022 and beyond following Russia's invasion of Ukraine .**

The tone of my New Year 'outlook for 2022' piece was one of cautious optimism. Economic growth would be "decent", with the tailwind of easing COVID restrictions overwhelming the headwinds of rising prices and tighter monetary policy. Inflation would ease a little but would be stickier than many thought. It would be a good year for equities and commodities, but a bad year for bonds and the US dollar. Emerging markets and value would outperform in the equity space. And then Russia invaded Ukraine, and everything changed. Or did it?

In my first five Westminster articles (which can be found on the website under "News") I described a world of extremes that would make for a challenging environment for investors in the years ahead. Extreme income inequality would foster populism, which in turn would lead to expansionary fiscal policy and geopolitical instability. And as fiscal policy moved centre stage, monetary policy would be tightened, thereby reducing the attractions of overvalued assets such as growth shares and property. At the same time, record debt levels would mean that Central Banks would have to tread particularly carefully to avoid a repeat of the 2007-09 financial crisis, thereby increasing the odds of an inflationary policy error.

The election of President Trump was perhaps the first concrete sign that these trends were starting to unfold, but the progress was slow. Then along came the global pandemic which gave everything a big shove. Austerity went out of the window as governments embraced big deficits, firstly to protect the economy against the adverse impact of lockdown, and then to promote their climate change agendas. Even fiscally conservative Germany joined the party. Furthermore, governments developed a taste for getting involved in the workings of the economy, in a way that must have Reagan and Thatcher spinning in their graves. The acceleration in inflation during 2021 has been blamed on supply chain disruptions, but it's my belief that there is more to it than that. Big deficits are inherently inflationary, as are deglobalization and the green agenda (the enforced adoption of more expensive technologies). That is why I believe that higher inflation is here to stay.

Just like COVID, the Russian invasion of Ukraine has given these trends another big shove. With global distrust now at its highest level since the end of the Cold War, many countries in Europe are reviewing the amount that they are spending on defense. In addition, they are keener than ever to reduce their reliance on Russian energy; I'm guessing that they will ramp up their spending on cleaner energy, thereby killing two birds with one stone. And no doubt governments are now even keener to onshore production and shorten their supply chains. So, big deficits and deglobalisation are here to stay, with all their inflationary consequences. It also seems likely that the treatment of Russia will cause China to reconsider the significant sums that it currently has parked in the US bond market, which will mean a weaker US dollar and higher US interest rates in the long run.

In summary, although the terrible events in Ukraine have thrown some of my views off course in the short-term, they make it more rather than less likely that they will be vindicated in the medium to long term.

Peter Lucas

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