Quarterly Market Update

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1Q 2022

Five Key themes over the 1st Quarter, 2022

Deepening Ukraine-Russia Conflict

The escalation of measures and military action alongside ongoing geopolitical uncertainties have likely shaped a central scenario in which, in our opinion, there is a long and protracted conflict with no quick diplomatic resolution. In this scenario, there may be short term "demand destruction" induced by elevated commodity prices and continuing supply chain disruption. Higher commodity prices (esp. oil prices), suggest significantly higher inflation which will depress real income and weaken real consumption, leading to overall weaker global growth. Adding to this is the risk of policy error of central banks.

U.S. Core Inflation Momentum Slows

In March, the year-on-year (YoY) US headline CPI inflation increased from 7.9% to 8.5%, a fresh 40-year high; however, energy and food prices account for 40% of the YoY increase. US core inflation, on the other hand, decelerated sharply on a month-on-month (m/m) basis to 0.3%, below expectations of 0.5% m/m. The decline in core inflation can be attributed to a fall in used cars and truck prices. As US Treasuries rallied following the CPI release, slowing core inflation may suggest that price pressures are already moderating; however, one may be cautious given that there is excess aggregate demand alongside supply chain problems, on top of a hot labor market. Looking ahead, despite the slowdown in core inflation, the Fed may still decide to lift its policy rate by 50 bps at its upcoming May meeting; the markets are already discounting more than 270 bps of rate hikes in the next 12 months.

Yield Curve Inversion

The topic of inverted US Treasury (UST) yield curves has featured prominently in market headlines. Based on possible combinations of points on the constant maturity Treasury curve (e.g., 3m, 2y, 10y), less than 15% of the points are inverted. The 10y-2y Treasury spread, a widely watched indicator for signaling recessions, inverted for the first time since September 2019; on average this slope inverts 15.9 months before the start of a recession and 10.5 months before the S&P 500 peaks. However, not all yield curve signals are flashing red, as the 10y-3m "term spread" remains wide. Historically, the 10y-3m curve has also been a good leading indicator of recessions, inverting on average 11 months before a recession and 6 months before the S&P 500 peaks. While inverted yield curves are useful for forecasting recessions, they remain unproven at predicting when an economy declines.

China in Focus (COVID, GDP Concerns)

China is targeting 5.5% growth, but it remains unclear how to achieve. China's recent rolling Covid restrictions (i.e., Zero Covid Policy) in addition to continuing property market slump have increased concerns regarding the economy's recovery. Strict lockdowns imposed has significantly reduced activity level in China's financial center. The low booster vaccination rate especially among elderly (20% had booster jab) have also led to higher transmissibility. Based on the current vaccination pace, it would take ~13 weeks for 80% of the population to receive 3 doses of vaccine. In economic data, China's March PMI has reflected higher unemployment rate and longer supplier's delivery times due to lockdown. A recent Morgan Stanley forecast has cut 2022 GDP by another 50 bps to 4.6% driven by covid-zero lockdown measures.

Safe Haven Destinations

With markets nervously awaiting the next headline on the Russia-Ukraine conflict, investors continue to seek out the relative safety of bonds and other safe-haven assets. Historically, US Treasuries have been reliable safe-haven assets during period of high uncertainty; however,

Source: Eastspring Investments.

seeking shelter in such assets amid a rising commodity price / high inflation backdrop poses quite a challenge. Gold is another familiar haven asset, albeit a currently costly one, with its price having breached $2,000 an ounce in the first quarter of 2022. As an alternative, we believe gold mining companies are an attractive safe-haven destination, given they currently trade at low valuations, provide decent free cash flow yield, and also stand to benefit from rising gold prices.

Source: Eastspring Investments.

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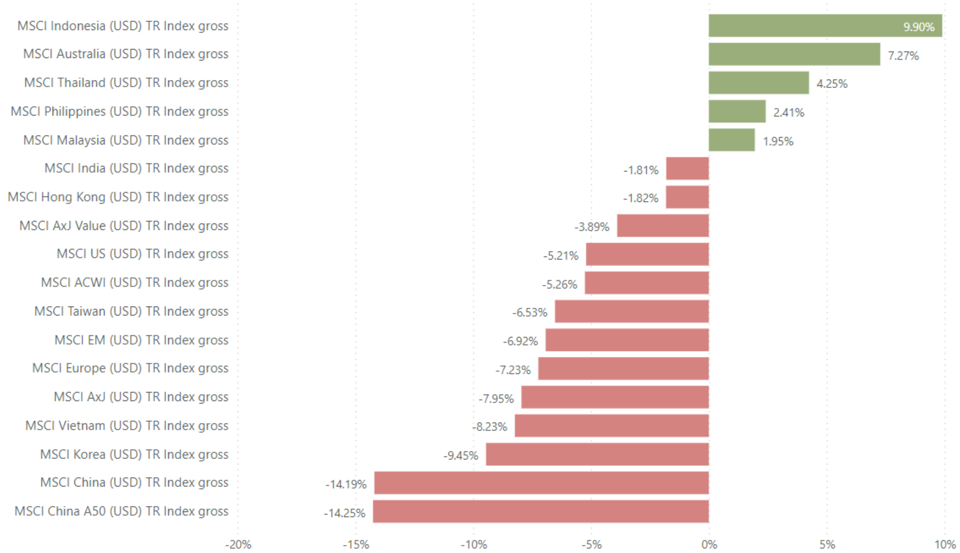
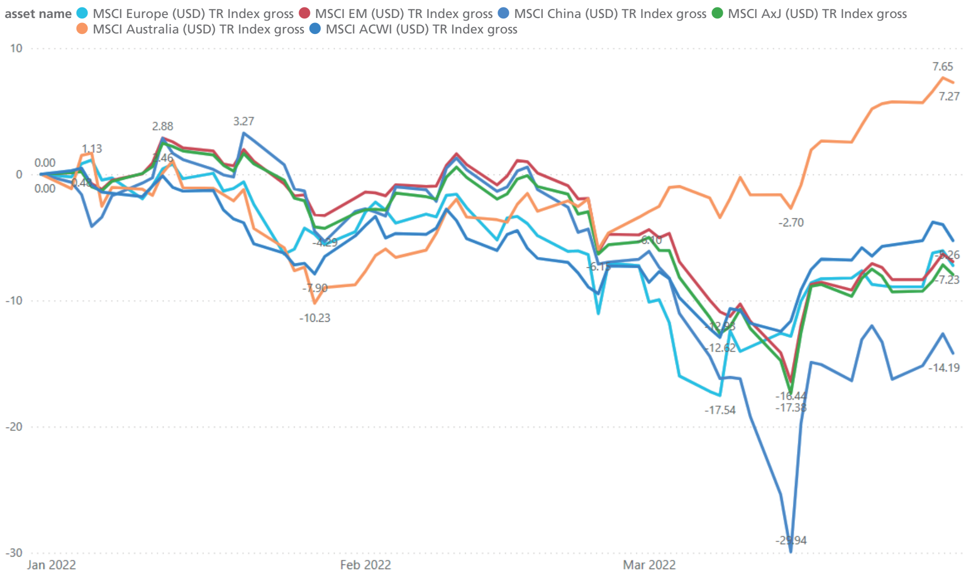
Equities

- Global equity markets fell over the first quarter of 2022, ending its worst quarter since the COVID-19 pandemic. The conflict between Russia and Ukraine escalated, further heightening the ongoing inflationary pressures, and building on the weaker sentiment in early 2022 amid the ramp up of interest rates by major central banks. Indonesia was one of the strongest performing markets during the period, MSCI Indonesia (9.9%) along with MSCI Australia (7.2%), both of which benefited from a broader commodity rally. The broader markets represented by MSCI ACWI (-5.3%), MSCI EM (-6.9%), MSCI Europe (-7.2%) and MSCI Asia ex Japan (-8.0%) all finished the quarter in negative territory. MSCI China (-14.2%) was one of the main laggards over the quarter and MSCI Hong Kong (-1.8%) also finished the first 3 months of the year in the red.

Asset Performance Custom (31 Dec 21 till 31 Mar 22)



Asset Performance 31 Dec 21 till 31 Mar 22



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Fixed Income

- The global bond market rout continued to deepen in the last month of the quarter, buffeted by a mounting wall of macroeconomic concerns arising from Russia-Ukraine conflict, higher inflation, tightening monetary policy, as well as COVID lockdowns in China. The US 10-Year yield sharply adjusted higher from 1.52% to 2.32%. Asian USD investment grade bonds also did not escape the market rout unscathed. Amongst a sea of negative returns, the China 5Y Bond edged in positive territory up 1.3%. The Bloomberg Barclays Global Aggregate index finished the quarter lower by -6.2%. The JACI Index was not far behind the Global Aggregate index, finishing lower by -6.3%. The JP Morgan EMBI Global Diversified index (-10.0%), JACI non-investment grade index (-10.1%), ICE BofA Current 30-Year Treasury Index (-11.4%) all rounded of double-digit negative returns for the 3 months ending March 2022.

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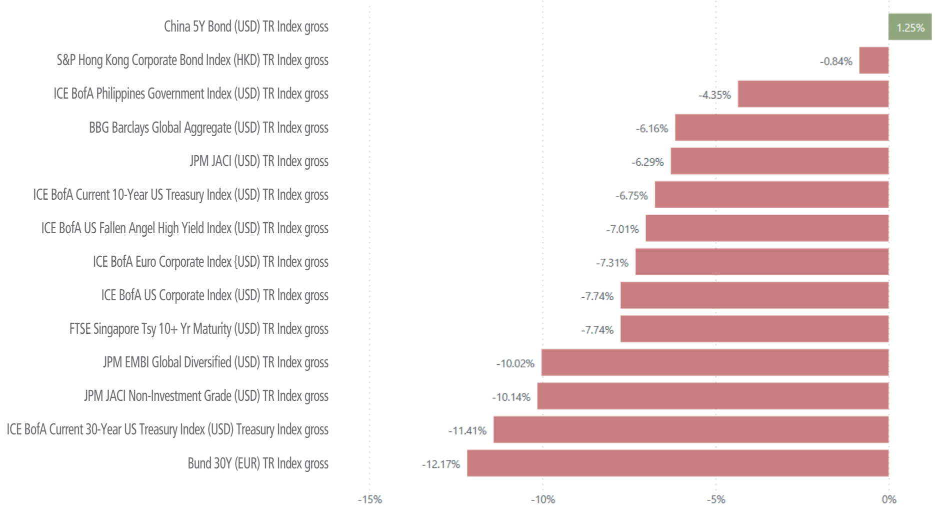

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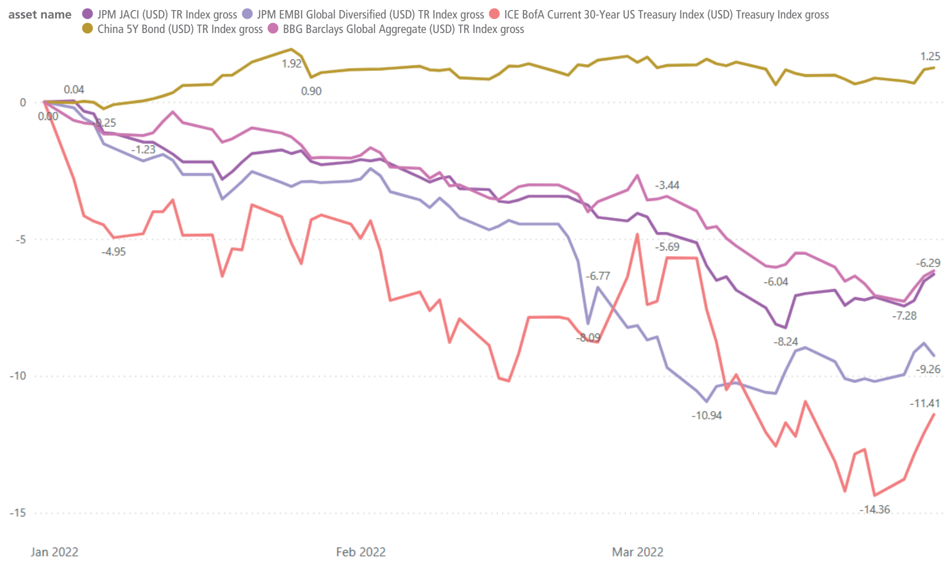

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Currencies

- The USD Dollar Index rose marginally, 0.2% in the first quarter of 2022. The Dollar saw strong gains, building on top of its rise seen in the previous quarter against the Japanese Yen (5.8%). The greenback also rose against the Chinese Yuan (0.5%) and also moved up against the British Pound (3.0%)
- The Taiwan Dollar, (-3.2%), Korean Won (-2.4%), Indian Rupee (-1.9%) and the Thai Bhat (-0.5%) all edged lower against the dollar over the quarter.

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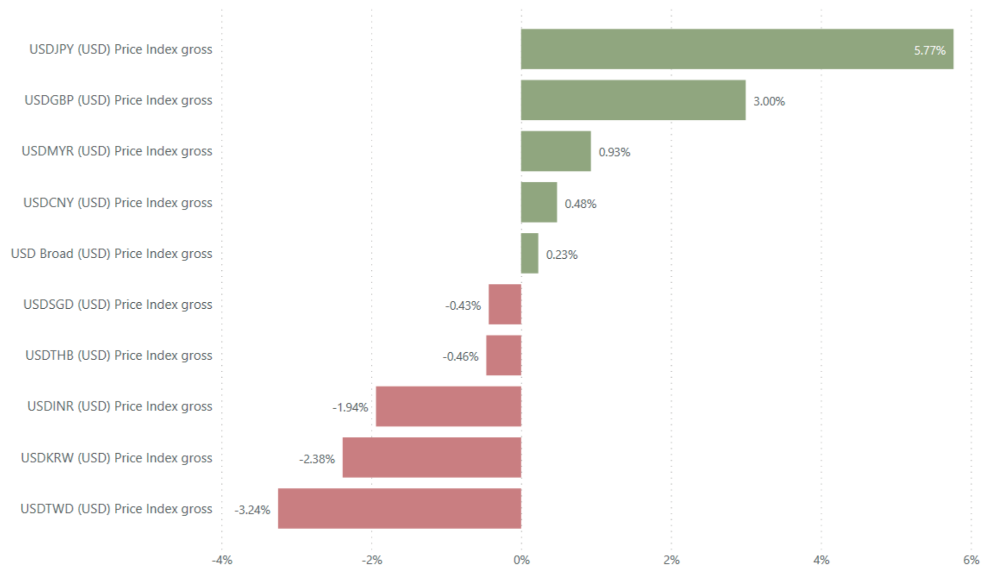

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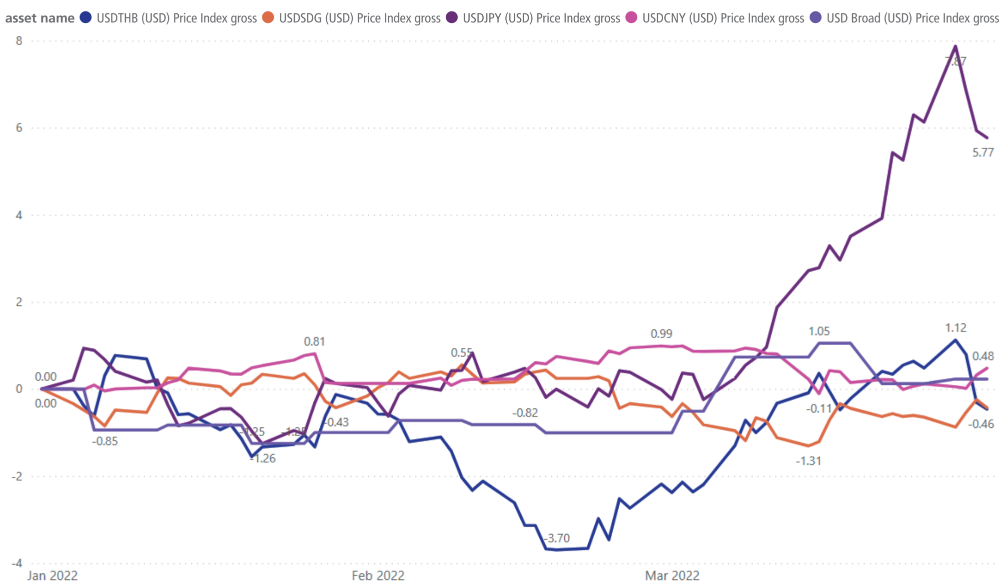

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Economics

- As we progress into 2022, market volatility seems likely to persist in the near term. In the near term, we may see global growth slowing as consumption is crimped by the rising commodity prices. However, we do not expect global growth to be fall off the cliff, as the waning impact of the Omicron variant, robust labour market, and generally healthy corporate fundamentals should help cushion the impact of weaker purchasing power due to the rising inflationary pressures. China also remains a key risk to monitor as the country is facing the most severe lockdown since the initial wave of COVID infection, though it has significant room to ease monetary and fiscal measures to stabilise growth.
- The International Monetary Fund (IMF) expects the global growth to slow down to 4.4% in 2022, as per its most recent World Economic Outlook Update, published in January 2022. Although this forecast remains well in the positive territory, it is half a percentage point lower than its forecast that was published in October 2021 of 4.9%. Global growth projection for 2023 stands at 3.8%, with Emerging Markets expected to grow at 4.7% and Advanced Economies at 2.6%, as per the IMF's forecasts.

Source: Eastspring Investments.

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