

# MONTHLY STRATEGY SUMMARY

## EASTSPRING PORTFOLIO ADVISORS

January 2022



## Top of investors minds

### CORONAVIRUS

The world's attention is firmly focused on the Omicron variant of the coronavirus and how it impacts the global economy but there has also been spluttering mentions of other variants. Lambda and Mu variants are on WHO's variants of interest list. However, the financial markets have thus far taken the recent surge in infections in its stride. Valuations in global equity markets have rebounded strongly, and US markets ended 2021 around all time highs, but there has been wide dispersion across returns at the country level. Heading into 2022, pockets of market volatility seem likely to persist, with the evolution of COVID-19, withdrawal of extraordinary accommodation by policymakers, and global growth trajectory at the core of the investment outlook.

### RATES AND INFLATION

Recent comments from the US Federal Reserve see it clearly adopting a more hawkish stance and navigating this risk will be key for investors. As the inflation discussion carries on, commodity prices are featuring as a watchpoint as they will likely go up in line with the typical decade-long cycles. Pricing pressures will result as supply falls behind demand. This phase will likely persist till we see supplies ratcheting up again. In Asia, the inflation sensitivity of the economies in the region to higher energy prices has historically been relatively muted due to factors such as price rigidities, the nature of electricity pricing agreements, and time lags. Although Asia is a commodity importer, Asian central banks have had a track record of looking past commodity price increases, viewing them as transitory and a tax on growth, rather than having sustained impact on wages or broader prices.

### CRYPTOS

The future investment potential of cryptocurrencies continues to be a hotly debated topic. Enthusiasts have drawn parallels to gold while skeptics have dismissed it as a fad. Volatility around cryptocurrencies remains high and they are looked upon more as financial assets, rather than as a way to facilitate payments. Although there appears to be a longer term potential for this asset, it may still be a little early to incorporate it into portfolios to seek diversification benefits. While gold has clearly been shown to support portfolio performance in periods when a balanced (equity - bond mix) portfolio may be suffering, the sample size is far too limited to draw any firm conclusions for cryptos. Another challenge is to find an appropriate (risk-managed) way to access this space.



### RISING DOMESTIC INFLATION

We expect inflation to reach 3.3% in 2022 from 1.8% in the previous year. Core inflation is also expected to rise, aligned with reopening of economy and the higher money velocity, coupled with the potential pass-through from producers, as the gap between CPI and PPI remains wide.

In the context of the timeline, the inflation pressure will build up in 2Q22, parallel with the VAT rate increase in April and the much-improved seasonal festivity demand during Eid al-Fitr. While we assume crude oil prices will drop by 3.3% year-on-year in 2022 following a 64% surge in 2021, we expect the government to maintain domestic fuel subsidies and electricity rates in 2022.

## ASSET CLASS VIEWS

Asset Class	Under Weight	Neutral	Over Weight	Conviction*
<b>Equities</b>				
Global Equities		●		Neutral
US Equities		●		Neutral
Asian Equities	●			-
Emerging Market Equities	●			- - -
European Equities			●	+ +
Indonesian Equities			●	+ +
<b>Bonds</b>				
Global Bonds		●		Neutral
US Bonds	●			- -
US High Yield Bonds			●	+ +
Asian Bonds	●			-
Emerging Market Bonds	●			-
European Bonds			●	+
Indonesian Bonds		●		Neutral
<b>Currency</b>				
USD Broad		●		Neutral

Source: Eastspring Investments (Singapore). All data as of 12 January 2022 unless otherwise stated. Asset class views should not be taken as a recommendation. The information provided herein is subject to change at the discretion of the Investment Manager without prior notice.

\*Conviction ranges from a minimum of '- - - -' to 'Neutral' to a maximum of '+ + + + +'.

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