

# MONTHLY STRATEGY SUMMARY

## EASTSPRING PORTFOLIO ADVISORS

February 2022



## Top of investors minds

### Market Volatility

Both bonds and equities have had a challenging start to 2022, which impacted the portfolio primarily owing to global markets repricing an accelerated tapering and a hawkish interest rate hike cycle signaled by the US Federal Reserve (i.e. front- and long-end yields tracking significantly higher), alongside deepening tensions between Russia and Ukraine. Omicron, the latest Covid-19 variant, broadly weighed on market sentiment. However, from a longer-term perspective, there are signs of optimism. We expect the path to normalization to return on track as the Omicron wave eventually subsides, with Covid-19 moving from pandemic to endemic stage. We do not expect China to pursue aggressive policy tightening (as seen in second half of 2021) and we believe there will be attractive opportunities for beaten-down areas of the Equity markets (e.g. consumer discretionary, information technology).

### Red Hot Inflation

U.S. inflation (CPI) in January reached the highest level in four decades, printing firmer than expected at +7.5% year-over-year (YoY), and increasing the prospect of a larger rate hike (50bps) for the upcoming Fed meeting in March. On a year-over-year basis in January, both core and total CPI reached their highest since 1982. Recently, the St. Louis Fed President James Bullard indicated his "dramatically" more hawkish stance that firmer inflation will support a big hike in rates. With this backdrop in mind, it will be prudent to assess future trajectory of the global markets through the lens of an evolving monetary policy framework and continuing pandemic.

### Ukraine

There has been a storm of diplomatic activity in recent days with Joe Biden, Emmanuel Macron and other European leaders trying their level best to diffuse the tensions between Russia and Ukraine. While the consensus is marginally in the no war camp, the situation continues to evolve rapidly. Impact on energy prices, particularly oil and natural gas are ones to watch, particularly if the crisis drags on for a few weeks or months. Supply shocks are likely to weigh most on Europe, but the fallout will hurt Asia and the US as well. In essence, higher and volatile energy prices will have significant implications on inflation and economic growth. Additionally, concerns over a possible invasion of Ukraine by Russia will likely dent investor risk appetite.



### Assessing the Omicron Impact

Indonesia's economic growth rebounded to 5.02% year-over-year (YoY) in 4Q21 from 3.51% YoY in 3Q21. Domestic demand increased to 4.0% YoY from 1.9% YoY in the same period, with all components improving, while external demand remained strong. FY2021 grew by 3.7% YoY from the 2020 bottom (-2.1% YoY). We believe that, to some extent, the economic momentum will be affected by the Omicron wave in 1Q22. However, it does not change the narrative of our growth story, as the impact on the domestic demand will not be as severe compared to last year's Delta wave. We expect 2022 GDP growth to recover further to between 4.8% to 5%, as the government maintains healthcare and social protection spending.

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A Prudential plc company

## ASSET CLASS VIEWS

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

Source: Eastspring Investments (Singapore). All data as of 14 February 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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**Eastspring Investments (Singapore) Limited (UEN. 199407631H)**

10 Marina Boulevard  
#32-01 Marina Bay Financial Centre Tower 2  
Singapore 018983

[eastspring.com](http://eastspring.com)

