

MONTHLY STRATEGY SUMMARY

EASTSPRING PORTFOLIO ADVISORS

March 2022



Top of Investors' Minds

Deepening Ukraine-Russia Conflict

The recent 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. The Fed, facing the highest inflation reading in four decades (in an already highly uncertain growth environment), is widely expected to increase its policy rate by 25bps at its next meeting.

1970s Oil Crisis Redux?

Recently Brent crude prices easily breached \$100 and are poised to hit previous highs. Due to the current crisis, oil may see its biggest supply shock since the 1970s, which could potentially serve as a potential cautionary tale for the Fed for negative consequences of a sharp rise in oil prices. The Fed currently faces circumstances uncomfortably similar to those in the 1970s (i.e., high inflation, slow growth); however, we should also highlight that there are major differences in today's environment as well. For example, the US is less exposed to oil prices today given its larger domestic production base and its more services oriented economy (i.e., requiring less oil to generate a unit of real GDP). Regardless, the Fed will be walking a tight-rope as a “soft landing” may be more difficult to maneuver going forward.

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, 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 recently breaching \$2,000 an ounce briefly, and inching toward record highs. 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.



Indonesia in a ‘Sweet Spot’

The prolonged Russia-Ukraine conflict presents a silver lining for the Indonesian economy because it has led to a surge in the prices of Indonesia's mainstay commodities such as coal, palm oil and nickel. We expect Current Account surplus for Indonesia in 2022E at 5.0% of GDP vs. 2021 at +0.3% of GDP as the first surplus in the past decade.

The Jakarta Composite Index has risen 4.9% in USD this year, compared to a drop of about 11% in the MSCI World Index and MSCI Emerging Market Index. Foreign investors book net inflows totaled Rp17.3trn in Feb-22, as the highest monthly inflows in the last 5 years. Bond market flows reversed with Rp10.3trn inflows in Feb-22 (mainly in short tenor) after five straight months of outflows totalling Rp93.2trn.

ASSET CLASS VIEWS

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

Source: Eastspring Investments (Singapore). All data as of 11 March 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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