

# MONTHLY STRATEGY SUMMARY

## EASTSPRING PORTFOLIO ADVISORS

April 2022



## Top of Investors' Minds

### Yield Curve Inversion

The topic of inverted US Treasury (UST) yield curves has featured prominently in market headlines. Based on all possible combinations of points on the constant maturity Treasury curve (e.g., 3m, 2y, 10y), less than 15% of the points is actually 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 actually declines.

### 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 50bps at its upcoming May meeting; the markets are already discounting more than 270 bps of rate hikes in the next 12 months.

### China in Focus (COVID, GDP Concerns)

China is targeting 5.5% growth, but it remains unclear how this will be achieved. 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.



### Indonesia Tech Giant GoTo Debut

The Indonesian e-commerce, ride-hailing and financial technology firm, raised about \$1.1 billion in its IPO at 11 April 2022, priced at Rp 338 per share, representing a market value of about \$28 billion. Based on the total funds raised, GoTo's IPO is the third-largest in Asia and fifth-largest in the world this year

As per 14 April 2022, GOTO is the largest market cap in the country with 10% in the JCI Index. If included in the large cap indices at a free float of 66%, GoTo (GOTO IJ) will have a weight of 13.55% in the IDX30 Index and 12.12% in the LQ45 Index.

## ASSET CLASS VIEWS

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

Source: Eastspring Investments (Singapore). All data as of 12 April 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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