

MONTHLY STRATEGY SUMMARY

EASTSPRING PORTFOLIO ADVISORS

May 2022



Top of Investors' Minds

Signs of Slowdown in Global Manufacturing

The manufacturing sector is a structural driver of global growth, contributing to overall higher standards for living, higher wage jobs, and even commercial innovation. In April, global factory output was the weakest of the Purchasing Managers Index's (PMI) five components, falling to 48.5 from 50.9 in March (where >50 is considered "expansive"), one of the steepest declines in recent history. Another negative signal can be seen in Taiwanese export orders, a bellwether for global technology demand and also a leading indicator of demand for Asian exports, which contracted 5.5% year-on-year in April, marking the first contraction since February 2020. Japanese machine tool orders are yet another useful gauge of global manufacturing and trade; April's annual growth rate moderated to 25% (versus 30% previously). A rebound in global manufacturing can be supported by a growth recovery in China and assuming no full embargo on Russian oil and energy by Europe.

Bond Yield Rise Momentum Losing Steam

Year to date (YTD) 2022, global bond yields have surged at a breathtaking pace due to market expectations of aggressive Fed rate hikes and also elevated inflation expectations, caused by pandemic-related disruptions and Ukraine-Russia tensions, among other factors. Notably, the US 10Y yield breached the psychologically important 3% level a few times in early May but has since pulled back by 25-35 bps recently. At the margin, global growth concerns are becoming more prominent as China's zero-Covid policy constrains the country's domestic economic growth (and in turn overall global growth); inflation expectations started to recede a tad while price pressures are also likely to moderate in the rest of 2022 as the consumption pattern shifts from goods to services when economic activities normalize. On the surface, the pressures responsible for higher bond yields seem to be abating for now.

S&P 500 Dips Into Bear Territory on Recession Concerns

The S&P 500 officially slipped, albeit briefly, into bear market territory in May, falling more than 20% from its record high, joining the Nasdaq. Stock prices have vacillated on rising rates and high inflation, while risk of recession has increased as markets question the Fed's soft-landing attempt. The AAI Sentiment Survey, a weekly survey of investor sentiment and forward-looking perspective (i.e., next 6 months), currently reflects unusually high bearish sentiment readings. However, readings for unusually high bearish sentiment in the past have led to above-average and above-median 6-month returns for the S&P 500. From a contrarian perspective, this may be good news for equities as it suggests a reversal may be imminent. However, both the Ukraine crisis and China lockdowns pose upside risks to inflation in the near term.



Rising Inflation Pressure

Indonesian inflation is rising above 3% for the first time since 2019. This is because of the impact of the seasonal Lebaran festive demand, the higher VAT rate and pertamax price hikes.

We expect the inflation pressure would continue in rest of 2022 and reach 4.6% for the year. As the high commodity prices are projected to persist until year-end amid the Russia-Ukraine conflict, producers will likely intensify their input cost pass-through to consumers. We also anticipate administered price adjustments on Peralite and non-subsidized electricity/LPG 3kg in second half of 2022. Therefore, we believe the government will raise the social stimulus budget to maintain the purchasing power of the middle-low income segment.

ASSET CLASS VIEWS

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

Source: Eastspring Investments (Singapore). All data as of 20 May 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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