

MONTHLY STRATEGY SUMMARY

MULTI-ASSET PORTFOLIO SOLUTIONS (MAPS) TEAM

June 2022



Top of Investors' Minds

May 2022's Hotter-than-expected US CPI

On the back of May's hotter than expected headline CPI inflation reading of 8.6% y/y (the fastest pace since the 1980s), markets are raising expectations that the Fed will be more aggressive to combat inflation. Following the surprising CPI print and in advance of the mid-June Fed meeting, the 10-year yield briefly eclipsed 3.4%. Additionally, U.S. equity markets tumbled as a widely watched part of the Treasury yield curve (the 2-year and 10-year yield spread) inverted on fears that large Fed rate hikes would tip the economy into recession. Notably, the CBOE Volatility index spiked to 32.54 points, its highest level since May 19, and preliminary results of the University of Michigan's June consumer survey, a proxy of US household sentiment, sent a negative signal. In sum, the recent strong May inflation print highlights that an inflation peak has not clearly materialized yet and may raise the odds of even larger Fed rate hikes, potentially causing further recession concerns.

Revisiting China Equities

MSCI China fell 54% from February 2021 to March this year, while EM ex-China returned -9% (MSCI ACWI ex-US returned -12% over the same period). However, since early May, MSCI China has rallied 18%, but EM ex-China has risen just 4% (underperforming MSCI ACWI ex-US). Versus its EM peers, China's equity valuations look quite attractive – the aggregate MSCI China index traded in-line with EM SOE (state-owned enterprises) peer valuations at March lows. It has bounced by a bit, but still far from the +64% peak in Jan 21. The buoyant sentiment is brought about by the Chinese tech sector; the JD.com 618 shopping festival presale YoY growth has shown excellent improvements over 2021. Regulations are also taking a turn for the better. The WSJ reported last week that the Cyberspace Administration in China is about to conclude a cybersecurity probe on Chinese internet companies.

The Future of the Traditional 60/40 Portfolio?

Historically, the correlation between bonds and equities is mostly negative when valuations for both asset classes are not expensive. 2022 is unique in that both asset classes have traded at relatively lofty valuations post-COVID, and we saw both asset classes experience large drawdowns recently. Time horizon is an important aspect when considering the case for a traditional 60/40 portfolio. Strategic asset allocation (SAA) has shown to be the most significant contributor in meeting a portfolio's return objective over the longer term (five to ten years). Hence, we believe the recent selloffs do not on its own weaken the case for a 60/40 portfolio. Valuations for both equities and bonds have improved dramatically since the start of the year. We think a potential peak in inflation this year implies that the 60/40 strategy could resume its strong performance over the coming decades.



Rising Consumer Spending, Commodity prices help the economy

Social restrictions have eased, while improving consumer and business confidence and the release of pent-up demand is fueling consumption. The Consumer Confidence Index (CCI) rose to 128.9 in May-2022 from 113.1 in Apr-2022, marking the highest CCI since 2001.

Some advantages for Indonesia's economy, at a time of high global prices for many commodities, include the following: As the world's largest exporter of palm oil and coal and a major metals producer, the country is benefiting from soaring commodity prices as well.

ASSET CLASS VIEWS

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