

CIMB PREFERRED INSIGHTS

MAY 2022



Key Highlights

- We take a look at some ideas on China, Sustainability and Asian Credit:
 - **Hang Seng China Enterprises Index ETF (2828 HK), and iShares FTSE A50 China ETF (2823 HK).**
 - **Allianz Global Sustainability Fund, and Manulife SGD Income Fund.**

¹ After a relatively uneventful start, global equities ended the previous week in a spectacular sea of red amid mixed earnings news and more hawkish US Fed chatter on interest rate rises - causing traders to worry about the tightening of US monetary policy over the coming months.

The three benchmark US equity indices had their best days in over a month in April, with the NASDAQ closing up more than 2% at one point, as investors responded to positive earnings. The tech-heavy NASDAQ led the way for gains in US markets helping market participants look beyond the current wall of worries. However, US equities tanked after Fed Chair Powell suggested that the US central bank would be

more aggressive with its monetary policy. He made the comments whilst speaking during an International Monetary Fund panel discussion on the global economy - that the US central bank remains committed to taming inflation, currently at a 40-year high, while opening the door for a 50bps interest rate hike in May. He added that a half-point interest rate increase was "on the table" when the Fed meets in May, adding it would be appropriate to "be moving a little more quickly." His remarks effectively confirm market expectations of at least another half percentage-point rate hike from the Fed in May (post-meeting note: confirmed).

There was also a significant cut to global growth expectations from the World Bank and the IMF. Traders continued to worry about the fallout from China's pandemic lockdowns paired with persistent worry over tightened regulatory oversight. An address by President Xi Jinping failed to soothe market participants pining for more measures to support growth.

In the FX markets, the prospect of aggressive hikes lifted the US dollar, which surged to a more than two-

¹ Adapted from "Sentiments from the week before", Song Seng Wun, 25 Apr 2022

year high. The US dollar's surge took a toll on the Yen and fellow safe-haven, gold.

Money markets priced in 200 bps of tightening by the Fed's September decision according to interest-rate swaps last Friday, implying an half-point hike – unheard of since 2000 in May, June, July and September.

In the energy markets, oil was down on concerns of looming interest rate hikes, weaker global growth and Covid-19 lockdowns in China hurting demand. These outweighed a potential EU ban on Russian oil that would tighten supply.

Finally, on the US macro data front, the prelim April S&P Global/CIPS US Composite PMI eased to a three-month low of 55.1. Although service providers recorded a softer upturn in activity, manufacturing firms noted the quickest uptick in production since last July. New orders growth eased from March's nine month high, but new export orders expanded sharply and at the steepest pace since the series began in September'14. Meanwhile, the rate of job creation was the second-fastest since May 2021. On the contrary, the prelim April data indicated a series-record rise in input costs. Businesses also signalled the steepest rise in output charges on record, and as a consequence passing on the higher costs to consumers. Not surprising then for the less than 100 S&P500 companies that have reported quarterly results thus far, more than 79% have beaten estimates for profit and 65% have surpassed sales forecasts, according to a Bloomberg report.

Looking ahead -

As the earnings reporting season picks up pace, the Russia-Ukraine war enters its third month amid a mix of high energy and commodity prices as well as rising interest rates. The aggregate impact of the war, sanctions and supply disruptions on global demand will likely be seen more in Q2 GDP than in Q1 GDP given the Russian invasion took place from end-February'22.

According to the prelim April S&P Global Eurozone Composite PMI report, prices charged for goods and services in the Eurozone rose at an unprecedented rate in April amid another near-record rise in firms' costs, hinting that inflation has further to rise. The Eurozone inflation update on Friday comes as ECB policymakers are increasingly worried about anchoring inflation expectations. Likewise in Australia and Singapore, inflation numbers will be updated with particular focus on the Australia Q1 CPI given recent remarks from the Reserve Bank of Australia with regards to faster inflation and the potential for quicker rate-rises.

For investors, some ideas that can be looked at include ETFs such as **Hang Seng China Enterprises Index ETF (2828 HK)**, and **iShares FTSE A50 China ETF (2823 HK)**.

For a broader exposure into Unit Trust Funds that have a sustainability theme, or invest into Asian Fixed Income/debt securities, we take a look at **Allianz Global Sustainability Fund**, and **Manulife SGD Income Fund**.

Please speak to your Relationship Manager for more details.

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