BCT INVESTMENT ALERT

21 June 2022

IMPLICATIONS OF THE FED'S HAWKISH RATE HIKE DECISION

The FOMC raised the federal funds rate by 0.75% to 1.75% on 16 June and projects the rate to reach 3.25% to 3.50% by the year end. The current 2-year treasury bond yield at 3.18%* has almost discounted the upcoming 1.50% -1.75% rate hikes in the second half of the year. The Fed's current priority is to curb inflation even if continued monetary tightening would lead to lower U.S. economic growth.

The IMF and World Bank have cut global economic growth forecasts to 3.6% in April and 2.9% in May respectively, citing the concerns of war in Ukraine, weakening consumer confidence on elevated inflation, high energy and food prices.

Investors are increasingly worried about corporate earnings outlook and the current forecasts are subject to further downward revisions in the next reporting season on weakening global economy and deteriorating profit margins.

We expect the Chinese economy gradually recovers from recent sharp slowdown as the number of COVID cases is coming down and the government is implementing 2.5 trillion yuan fiscal support in tax and fee reduction this year. Our fund managers are slowly warming up to Hong Kong and China A-share markets.

Looking ahead to market environment in the coming months, global equity and bond markets remain vulnerable to news flow in inflation, rate hikes and potential corporate earnings disappointment, so members should restrain from taking aggressive positioning.

MPF is a long term investment. We suggest members to review your investment goals, understand your risk tolerance level and invest according to the appropriate equity content level. BCT will continue to maintain a closed dialogue with fund managers and share investment updates regularly.

* Source: BCT, data as of 20 June 2022