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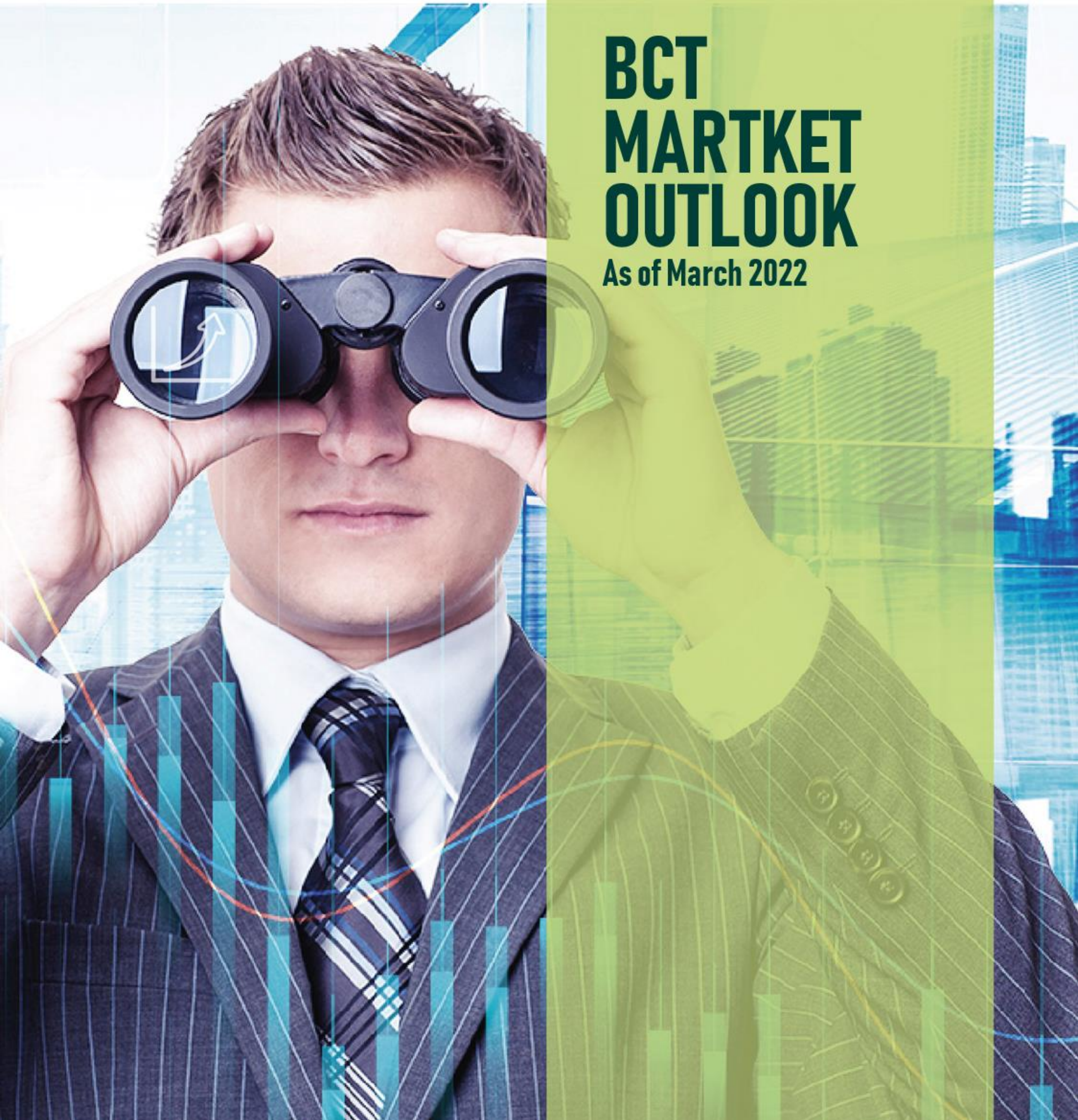
BCT MARTKET OUTLOOK

As of March 2022



U.S. RATE HIKE CYCLE KICKS OFF AMID SOARING INFLATION AND WAR

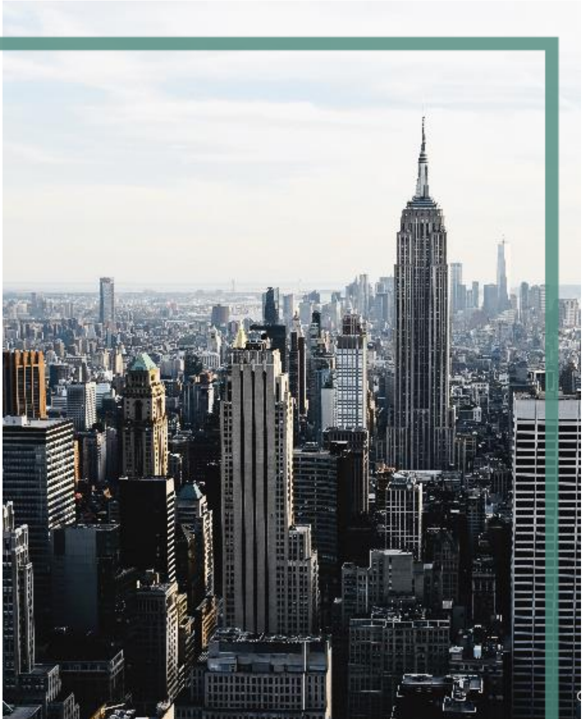
Investment Markets	BCT's Investment Views	Summary
Equities	▬	
U.S.	▬	The rotation from U.S. growth stocks to value stocks is a medium-term trend supported by rising real rates, and we believe this will continue as economic growth remains solid and the valuation discount of value is still attractive.
Europe	▬	Visibility on European equities is decreasing amid the escalating Russia-Ukraine conflict and increasing energy prices. While the economic reopening still bodes well for the area, we take a neutral stance in order to reassess the evolution of the conflict and its economic implications for the area.
Japan	▬	We are neutral on Japanese equities. As we have seen many times in the past, Japan's stock market reflected global market moves. The principal conduit for such uncertainty is often seen through the currency as the yen maintains its traditional role as a safe-haven asset.
Asia Ex-Japan	▬	We are neutral on Asian equities regarding upward inflation data but generally reopening theme for outlook.
China & Hong Kong	▲	We are slightly positive on Chinese and Hong Kong equities. Better policy visibility emerging from a clear easing stance, coupled with a more balanced growth approach that should help clear out systemic risks, is supportive of Chinese equities.
Global Bonds	▬	
Government Bonds	▼	We are slightly negative on government bonds. Flexibility in fixed income is crucial when policy uncertainty and geopolitical risks are high.
Credit	▬	Overall, we remain neutral to credit. Credit markets have been affected by the tightening stance shown by the Fed even as financial conditions remain accommodative. We believe current valuations reflect the positive fundamentals, but there is uncertainty with respect to future central bank policy.

Scales of Weighting	▼ Underweight	▬ Neutral	▲ Overweight

U.S. EQUITIES

The U.S. equity market had a volatile month and was generally weaker as Russia's entry into Ukraine affected investors' sentiment. The risk-off tone from geopolitics and hawkish expectations of interest rates hikes weighed on the markets with the S&P 500 closing the month with a -3% return. The technology-heavy Nasdaq Composite Index declined -3.4%: the tug of war between healthy earnings growth and fears over monetary tightening continued to dominate sentiment with the Nasdaq Composite suffering the higher implied discount on future earnings. Over the month, value stocks outperformed growth stocks, with the former down -1.6% against a loss of -4.6% for the growth. The economic recovery continues amid strong consumption, and this together with rising rates is supporting the rotation towards value stocks. The Ukrainian war now exacerbates the situation (less growth, more inflation) and increases the risk of policy mistake. For now, the war reinforced the Federal Reserve (Fed) dilemma, but doesn't prevent it from starting hiking rates.

Better resistance expected during the crisis: the U.S. is not at the epicenter of the Ukrainian war and U.S. assets are usually less volatile in case of an international crisis. The Fed will remain data dependent and ready to move more aggressively in the future if inflation moves stronger than expected. We keep unchanged our expected rates path (4 hikes in 2022, 5/6 times within 12 months), with Quantitative Tightening starting in May. Overall, growth remains overvalued, and if real rates increase, it may weaken further. Yet, we acknowledge that selective tech growth names are becoming attractive after the recent volatility. We are neutral on U.S. equities. Recent weeks have been characterised by higher market volatility, led by the more hawkish tone from the Fed and rising geopolitical risks. In a rising real yield environment with inflation risks, U.S. equity is a place to look at, but selection is key. We are slightly overweight on U.S. value equities. The rotation favouring value is a medium-term trend supported by rising real rates, and we believe this will continue as economic growth remains solid and the valuation discount of value is still attractive. We explore high-quality value names. We are slightly underweight on U.S. growth equities. Thus, the move in U.S. from growth to value is a medium-term trend owing to the latter's still-attractive valuations and the reasonably strong economic growth (reopening).



EUROPEAN EQUITIES

In Europe, in the first part of February, equity was affected by monetary policy and more hawkish European Central Bank (ECB) positions but later the geopolitical tension over Ukraine and Russia's entry fueled fears of higher inflation and an economic slowdown and pulled down the markets. During the month, the Euro Stoxx 50 finishing the month down by -5.9% in local net return terms. The large majority of equity indices we track posted negative returns with the countries more vulnerable to Russian restrictions and commodity export disruption being affected the most. The Eurozone Consumer Price Index (CPI) surged in January, rising 0.3% from previous month against expectations for a decline and rising to 5.1% year to year, while February Eurozone Purchasing Managers' Index (PMI) fell to 58.2, down from 58.7 in January. Strong rebound in PMI in the EU in February, thanks to the falling number of COVID-19 cases. The Russia-Ukraine conflict has not yet been priced in. The last ECB's statement is clearly on the hawkish side: The ECB has accelerated its plans to taper asset purchases and surprised by announcing that it could end its net asset purchases in Q3.

Russia's entry has repercussions for energy markets and supply, particularly in Europe. The price of natural gas has risen recently. This sharp upswing is likely to have serious effects on European growth and inflation, with expectations of downward revisions to Gross Domestic Product (GDP) growth and upward revisions regarding inflation. We remain biased towards value, cyclical stocks and are evaluating the earning season from an inflation and margins perspective, as we see better sales than earnings for some companies. While some businesses are unable to pass on costs and raise prices sufficiently, some are increasing margins through price hikes. The ECB is now focusing heavily on inflation and is determined to deliver on the mandate on price stability. The ECB acknowledged the very high level of uncertainty and asserted that all options were on the table. The path of monetary policy will depend on data. Uncertainty remains on continental Europe, directly hit by energy prices and lower global growth, with potential impact on Earnings Per Share (EPS). If the crisis lasts too long, the global shift to more defensiveness will last and weigh further on this pro-cyclical region. We are neutral on European equities. Visibility on European equities is decreasing amid the escalating Russia-Ukraine conflict and increasing energy prices. While the economic reopening still bodes well for the area, we take a neutral stance in order to reassess the evolution of the conflict and its economic implications for the area.

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JAPANESE EQUITIES

After an initial recovery from January's weakness, the Japanese stock market ended February with a loss of 0.4%. The yen ended the month with little change against the U.S. dollar, although there was some underlying strength in the second half of the month as global uncertainty increased. The second estimate of Q4 GDP was revised down from 5.4% to 4.6%, due to lower private consumption and capex prints. That said, even with the downward revision, the domestic economy still rebounded strongly in Q4, thanks to the lift of state of emergency. The Bank of Japan (BoJ) reassured investors about monetary policy continuity and acted to curb rising yields but concerns about the conflict between Russia and Ukraine weighed on sentiment. Russia is a relatively small trading partner for Japan, accounting for around 1% of exports and 2% of imports. The balance is skewed by the import of energy from Russia, while exports are predominantly in auto-related areas. Most auto makers are now moving to suspend these links. Some Japanese companies, especially the large trading companies, have production assets based in Russia, but these generally account for less than 1% of their global exposure. Technology-related trade between the two countries is very small.

The Ukraine crisis will be growth negative and inflation positive for Japan's economy, via higher energy costs, global financial repercussions, and further supply chain disruptions. While it is hard to measure the latter two factors in this fluid situation, the direct shock from energy price surge will shave 0.2% off economic growth in 2022, and raise headline CPI inflation by 0.6%. Unlike ECB and Fed, Japan is not caught in the high inflation and dimmer growth outlook paradox. Even after counting in the energy price shock, Japan's headline CPI will likely shoot over 1.5% temporarily in Q2 then drift downwards. Core inflation (ex. fresh food and energy) will approach 1% gradually, but stay subdued. BoJ has room to manoeuvre, and not to force itself into a tightening cycle when the economic recovery is still fragile. We maintain our view that it will hold policies unchanged through 2022-23. We are neutral on Japanese equities. As we have seen many times in the past, Japan's stock market reflected global market moves. The principal conduit for such uncertainty is often seen through the currency as the yen maintains its traditional role as a safe-haven asset.

ASIA EX-JAPAN EQUITIES

In Asia, equity returns were generally mixed in February. Positive return was seen in Malaysian FTSE Kuala Lumpur Composite Index (KLCI) (+6.3%), Bank Negara Malaysia kept the Overnight Policy Rate (OPR) at 1.75% to accommodate the downside risk in Malaysia's economic growth, i.e. Supply chain disruptions or new COVID-19 variants. In Indonesia, Jakarta Stock Price Index (JCI) also returned positively with +3.9%, Bank Indonesia (BI) announced that it would administer a staggered increase to banks' reserve requirement ratio. The authorities did not impose restrictions on mobility given that the hospital bed utilization rate is still under control. In Thailand, the Stock Exchange of Thailand index went up for +2.2%, though the daily confirmed cases of COVID-19 surged to 8,000 daily on average towards the beginning of February, the death trend deviated from the rising cases thanks to the high inoculation rate. Amongst other equity indices, we find Taiwan (-0.1%) and the Philippines (-0.7%). Singapore was slightly negative with the Straits performing -0.2%. For the month, daily cases continued to rise due to the Omicron variant. At the bottom of our sample, there is India with the Sensex down -3% and the Nifty posting a -3.1% return.

Most Asian economies eased mobility restrictions. Indonesia removed a ban on all foreign arrivals, Malaysia reduced the quarantine period for those with booster shots, while Thailand resumed quarantine-free tourism, with registration for international travelers to reopen on 1 February 2022. For the rest of Asia, inflation trended upwards but still remained below or within most central banks' targets. The Bank of Korea hiked rates by another 0.25%, while the Monetary Authority of Singapore tightened policy in a surprise off-cycle policy meeting. In Indonesia, as of February, 69% of the population has received at least 1 dose of vaccine and 48% of the total population is fully vaccinated. Although the new daily confirmed cases are breaking new highs, we continue to draw comfort from the speedy vaccination rates. There is near-term risk for the reopening theme, but the outlook for the medium-term is still intact. In Thailand, the Government is shifting to re-open the border again, with the "Test & Go" scheme to resume on 1 February. Thailand's finance ministry maintained its economic growth outlook as the easing COVID-19 situation is expected to support local spending and a tentative resumption of tourism. With the easing mobility and borders, the reopening theme is still in place. In Malaysia, the Ministry of Health revised the quarantine period to 5 days for foreign travelers who received booster shots, 7 days for those with primary vaccinations. As of beginning of February, 79.8% of total population were fully inoculated (98% of adults and 89% of adolescents). The reopening theme is still in place with noises of the new variant in the near term. We are neutral on Asian equities regarding upward inflation data but generally reopening theme for outlook.

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CHINA & HONG KONG EQUITIES

The Chinese Shanghai Composite Index was a positive performer in the region with a gain of +3% whilst the Hong Kong Hang Seng Index experienced a depreciation of -4.6% in February. Chinese stocks rose amid a perception that the country's regulatory crackdown cycle had peaked and the Chinese government's easing efforts to support the economy are slowly gaining traction whilst Hong Kong was affected by the spike in new COVID-19 cases. As the United States and Europe began to apply economic sanctions against Russia, causing commodity prices to increase and renewed fears about rising inflation, Technology stocks in Hong Kong have fallen as a result of increased fears about China's altering regulatory policies. In line with market expectations, the Municipal Liquidity Facility (MLF) and 7-day reverse repo rates were cut by 0.1%. Subsequently the 1-year and 5-year Loan Prime Rate (LPR) were cut by 0.1% and 0.05%, respectively. The recent correction was primarily driven by concern surrounding the magnitude of a slowdown in economic growth. With significant increase in the number of pandemic cases, tighter social distance measures were implemented. In addition, the Government required members of the public to have at least 1 vaccine dose, otherwise they are not allowed to enter certain places, such as shopping malls and supermarkets. In the 2022/23 Budget released, the Government put counter-cyclical measures totaling over HKD 170 billion, including HKD 67 billion on anti-epidemic package, HKD 45 billion on one-off individual or enterprise tax/fee reductions or subsidies, and HKD 10,000 consumption voucher handouts for 6.6 million local residents, to ease impact of the COVID-19 pandemic.

To restore demand and confidence, Beijing is likely to further step up support with broad monetary easing, accelerate fiscal spending and provide marginal relaxation on developer funding. Broad-based de-risking continues to prompt the growth to value rotation. Fixed asset investment improved, driven by strong manufacturing, but real estate investment slowed notably and the physical property market will remain weak. In Hong Kong, the total number of vaccination reached over 10 million, with half of the population fully vaccinated. Given there was an increase in number of local cases, the Government further tightened the social distancing measures. The tightening of measures back to levels seen in 2020 will likely result in further pressure on the economy in Q1 2022. Consumer sentiment and domestic consumption has been adversely impacted. The fall in the unemployment rate will reverse as business confidence has been hit hard. More government support has been provided when the Financial Secretary announced the 2022/2023 Budget. We are slightly positive on Chinese and Hong Kong equities. Better policy visibility emerging from a clear easing stance, coupled with a more balanced growth approach that should help clear out systemic risks, is supportive of Chinese equities. However, there are near-term uncertainties under the zero-COVID policy. All this requires a watchful and a selective approach in navigating the country's equities.

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GLOBAL BONDS

Russia's entry into Ukraine, with the possibility of a major regional catastrophe, and ramifications for the global political system, dominated February. The West's sanctions have effectively shut Russia off from the global banking system. As markets began to comprehend the gravity of the situation, volatility spiked in the closing days of the month. Bond yields were erratic, ending the month marginally higher due to prior swings. On more hawkish shocks from central banks, yields initially jumped considerably (meaning prices declined). Moves by the ECB and the Bank of England (BoE) compounded investor anxieties at a time when the market was already anticipating significant tightening in the U.S. ECB statements suggested that rates may be raised before the end of the year, while the BoE raised rates for the second time, despite worries about the economy. As geopolitical tensions rose, yields began to fall towards the middle of the month, with significant drops in the days following the entry. As spreads expanded, corporate bonds suffered negative returns, particularly in Europe. The U.S. did reasonably well, although certain sectors, such as oil, had some spread tightening.

In U.S., we believe the Fed will raise rates multiple times this year. Hence, it will not tighten financial conditions so much that it stalls the economic recovery. Flexibility in fixed income is crucial when policy uncertainty and geopolitical risks are high. In Europe, we believe the relatively hawkish ECB supports our cautious stance amid our belief in upward yield trajectory. However, the policy path for the ECB will not be straightforward and it becomes increasingly uncertain amid rising risks from the Russia-Ukraine crisis. Hence, we are slightly negative on government bonds.

In China, we see relatively stable appetite for Chinese debt amid monetary easing and expectations of foreign inflows. Thus, we remain slightly positive and are closely monitoring the policy environment. Credit markets have been affected by the tightening stance shown by the Fed even as financial conditions remain accommodative. We believe current valuations reflect the positive fundamentals, but there is uncertainty with respect to future central bank policy. Recent ECB communications indicate near-term volatility for the asset class due to receding support from the regulator's purchase programme, increases in core yields, and higher liquidity premiums. However, corporate fundamentals (balance sheet strength, earnings) are strong. Overall, we remain neutral to credit.