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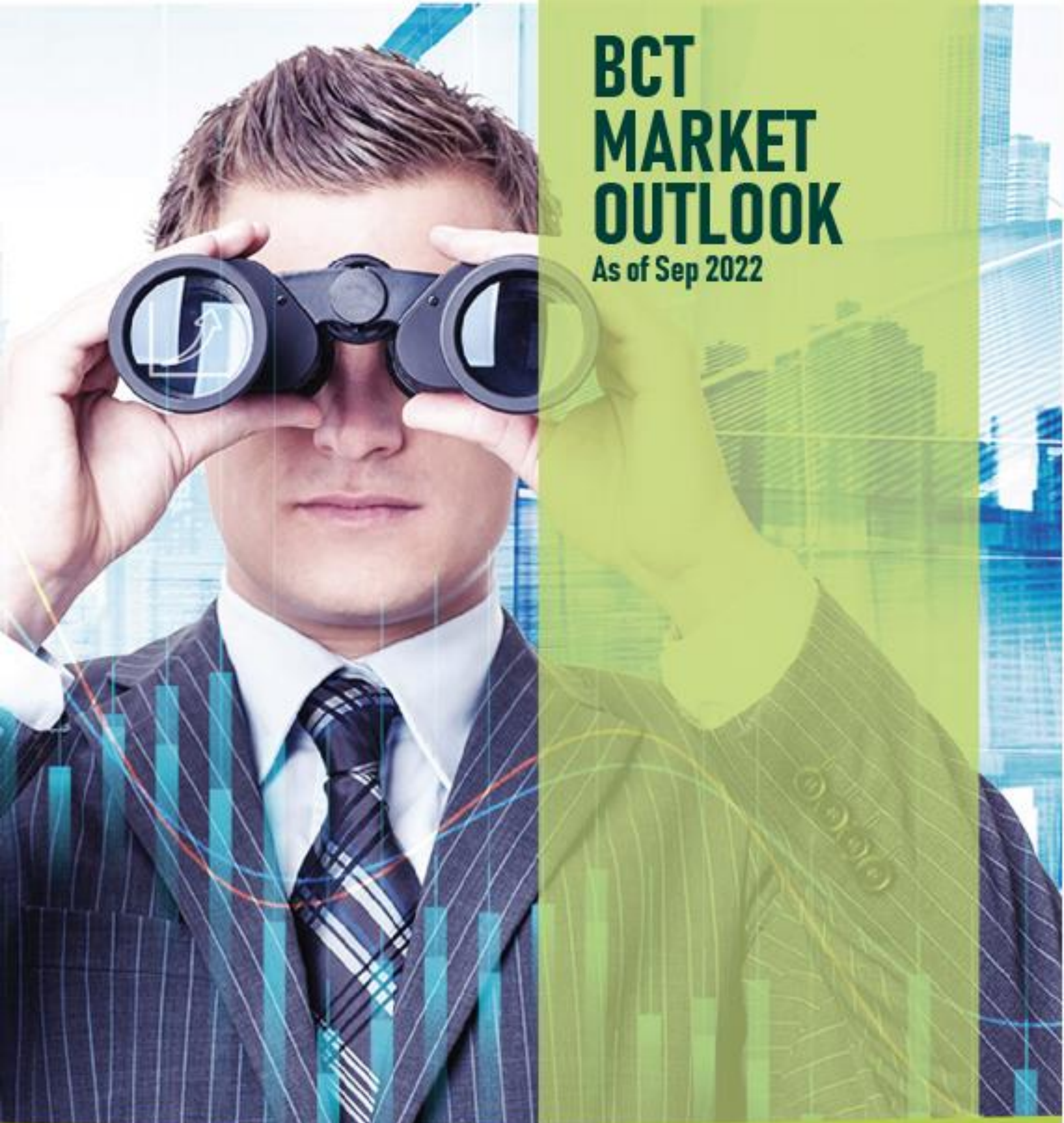

BCT MARKET OUTLOOK

As of Sep 2022

THE FED WILL RESOLUTELY CURB INFLATION AT THE EXPENSE OF ECONOMIC GROWTH

Investment Markets	BCT's Investment Views	Summary
Equities	▬	
U.S.	▲	Overall consumption is strong but there are early signs of weakness. We think earnings growth should drive markets. Thus, we remain cautious of any indication of falling demand and we are focusing on names with strong earnings potential and a track record of rewarding shareholders.
Europe	▼	A recession in the region is likely to be caused by high inflation. We see near-term risks on earnings and are becoming slightly more conservative. But we maintain a focus on stock selection, balance sheet strength and companies with the ability to deliver sustainable profits.
Japan	▬	We stay neutral amid the headwinds on global growth, given the export-oriented nature of Japanese markets. However, a weak yen should be supportive.
Asia Ex-Japan	▬	We are neutral on Asian equities, most central banks took steps to normalize policy. However, Asian countries continued to make progress on reopening.
China & Hong Kong	▲	Supportive policy, the economic reopening and the move towards a more balanced growth model are all positive. However, sporadic COVID-19 lockdowns and the weakness in the housing sector are likely to weigh on economic growth in the near term.
Global Bonds	▬	
Government Bonds	▬	Overall, we are neutral towards government bonds. In the U.S., inflation and Fed policy remain the key variables in yield direction. In Europe, the ECB is committed to controlling inflation and is likely to raise rates higher than previously expected.
Credit	▲	We are slightly overweight on credit. In the U.S., in the lookout for strong corporate fundamentals, valuations are not very far from long-term averages, but we remain selective. In Europe, the near-term recession outlook, high inflation and a hawkish ECB mean potential pressures on earnings.

Scales of Weighting	▼ Underweight	▬ Neutral	▲ Overweight

U.S. EQUITIES

The U.S. equity market had a negative month in August, with the S&P 500 falling by 4.1%. After a positive momentum at the beginning of the month with positive inflation data, the market contracted following the Federal Reserve (Fed) Chair Powell's speech at Jackson Hole. Rate worries increased, driving stocks to plunge sharply. In terms of monetary policy, Fed Chair Powell delivered a hawkish message. In his remarks, Powell said that getting back to price stability would likely require maintaining a restrictive policy stance for some time. In terms of macro data in the U.S., headline consumer price inflation came in flat month-on-month and on an annualised basis headline inflation was 8.3% in August, decreased from 8.5% in July. The unemployment rate increased by 0.2% to 3.7% in August, but still close to February 2020 level. U.S. Manufacturing index was 51.5 in August, down from 52.2 in July. The headline Purchasing Managers' Index (PMI) dropped to its lowest level since July 2020.

In the U.S., the Fed has clearly indicated its resolve to control inflation, even if this means putting the brakes on the economy. On the other hand, companies remain optimistic about their results for the second half of 2022, which will surely be revised downwards due to the announced slowdown in activity. We are slightly overweight on U.S. equities. Overall consumption is strong but there are early signs of weakness. We think slowdown in growth (this year and 2023) should drive markets. Thus, we remain cautious of any indication of falling demand and we are focusing on names with strong earnings potential and a track record of rewarding shareholders. We are overweight on U.S. value equities. Value outperformance has continued year-to-date. We think investors should focus on companies with strong and sustainable earnings even in a slowdown economy. Conversely, they should avoid cyclical companies whose activity is strongly linked to economic activity. We are underweight on U.S. growth equities. As the Fed looks committed to hiking rates to tame inflation, we believe this could put further pressure on growth stocks, especially the expensive and unprofitable ones.

EUROPEAN EQUITIES

Overall, the European equity index posted negative returns during the month, with the MSCI Europe depreciating 7.7% in local total return. In Europe, similar to the U.S., in the first half of the month, markets rose as fears of more aggressive interest rate hikes eased. However, renewed concerns that the European Central Bank (ECB) would need to tighten its monetary policy aggressively to keep inflation under control in the Eurozone weighed on the markets in the second half of August. In terms of macro data in Europe, Eurozone inflation hit a new record high in August at 9.1% with high energy prices being the main driving force. The rate was above expectation and it is a new record high for the ninth consecutive month, with the climb starting back in November 2021. Inflation pressures have broadened and intensified with prices for many goods and services increasing strongly. Eurozone PMI moved from 49.8 in July to 49.6 in August signaling a contraction of the manufacturing sector in the Eurozone. From a monetary perspective, the ECB hiked its key interest rates by 0.75%, driven by concerns about the risk of inflation expectations getting de-anchored.

In Europe, a stagflationary shock looks to be a certainty, and the increasing challenges on the gas front imply that it will be prolonged. A recession is likely to occur in Q4 2022 and Q1 2023, which would increase the cost of living and would eventually affect consumer demand. The ECB is committed to controlling inflation and is likely to raise rates higher than previously expected. However, it has to balance this with the need to prevent fragmentation. A recession would affect European equities as falling consumption impacts corporate earnings and rising rates affect valuations. Furthermore, a weak global economy would be negative for European companies because of their large international operations. We are underweight on European equities. We see near-term risks on earnings and are becoming slightly more conservative. But we maintain a focus on stock selection and companies with the ability to deliver sustainable profits.

JAPANESE EQUITIES

In Japan, the Nikkei 225 rose by 1.1% in total return terms. Towards the end of month, the Japanese market increased the gains, supported by yen's strong depreciation against the dollar and the expectations to economic reopening with easing on COVID-19 restrictions. In terms of macro data in Japan, after decades of deflation, signs come out that Japanese inflation may be becoming anchored at a moderate, but sustainable rate. Nationwide consumer price inflation increased again to 2.6% in August driven by higher food and energy prices. This is in contrast to the Bank of Japan's (BoJ) own benign forecast of a modest increase to 1.5% by 2024. The first estimation of Q2 Japan Gross Domestic Product (GDP) came at 2.2% on quarter-on-quarter annualised rate, slightly lower than consensus expectations. Aside for macro data, Q2 results were the main driver on individual stocks performances. Overall results beat again expectations and profit margins appear to have remained resilient so far.

In Japan, the BoJ stood firmly as a dovish, resisting pressures from markets to make a policy change. However, following the appointment of two new BoJ members in July who favor higher interest rates, some positive opportunities may emerge in the fourth quarter. The easing of restrictions on COVID-19 with the reopening of the country to tourists could present tailwinds to the Japanese economy. Nevertheless, the economic outlook is dimming, as recovery momentum that stems from a delayed reopening is weakened by plunging export demand, and the latter will likely drag the whole economy into recession in first half of 2023. The stock market is expected to continue to be unstable amid increasing concerns about inflation, rising long-term interest rates, and concerns about a recession in the global economy. We are neutral on Japan's equities. We stay neutral amid a slowing global growth could present headwinds to the export-driven Japanese markets, but relatively attractive valuations and a weakening yen are positive.

ASIA EX-JAPAN EQUITIES

Asian stock markets ended the month lower, the hawkish message sent by the Fed to make inflation a top priority was the main driver. Asian equities led the way with India at the fore, the Sensex rose by 3.4% in total return terms. Thailand, Indonesia and the Philippines all also strengthened. India outperformed once again the region and the rest of the world. The Reserve Bank of India (RBI) hiked its Policy Rate by 0.5% to 5.4%, higher than consensus estimates. Positive macroeconomic data drove gains, industrial production beating estimates and headline inflation declined mildly in July to 6.7% year-on-year from 7.0%. Nonetheless, India's trade deficit continued to widen as exports growth fell considerably and energy imports costs has risen sharply. In South Korea, the Bank of Korea also rose its base policy rate by 0.25% to 2.5%, with forward guidance indicating similar hikes in the remaining meetings in 2022. In Taiwan, it was a tough month for equities with value falling. Investor confidence was particularly tested as U.S. House speaker Nancy Pelosi visited Taiwan.

Across Asian countries, inflation remained on an upward trajectory. Asian central banks are acting aggressively to control inflation by large interest rate hikes, even Bank Indonesia (BI) start to normalise policy throughout in August. In Indonesia, Bank Indonesia (BI) hiked rates by 0.25% to 3.75%. Headline Inflation is well above the target, the hiking path should continue at a gradual pace, with about 1%-1.25% cumulative raise. In Thailand, amid the laggards, Bank of Thailand (BoT) raised its Policy Rate in August by 0.25% to 0.75%. Still the approach to policy normalisation will be very gradual, in consideration of a still subdued recovery phase. We are neutral on Asian equities, most central banks took steps to normalise policy. However, Asian countries continued to make progress on economic reopening.

CHINA & HONG KONG EQUITIES

The Chinese Shanghai Composite Index returned -1.6% whilst the Hong Kong Hang Seng Index experienced a depreciation of 1%. China's stock markets contracted and relatively elevated levels of COVID-19 cases with drought conditions in parts of the country adding to the gloom. Furthermore, the housing downturn continued to weigh on China's economic recovery, dampening fiscal and monetary easing efforts. In terms of macro economy in China, retail sales contracted 0.3% month-on-month and the service sector has also slowed down as the service production index increased only 0.6% year-on-year, down from 1.3% in June. In terms of monetary policy, the People's Bank of China continued to diverge from other central bank policies by lowering its interbank markets rates by 0.1% and cutting the one-year loan prime rate by 0.05% and the five-year by 0.15% in order to stimulate the economic activity. In Hong Kong, as released by government on 17 August, unemployment rate improved from 4.7% in June to 4.3% in July, following the easing of social distancing measures. In addition, Consumption Voucher Scheme also helped the employment market.

In China, the central government has stepped up its support for the housing market to boost demand relaxing purchase restrictions months ago and mortgage rates are at multi-year lows. However, housing sales have remained on a sharp downtrend and we expect a bigger housing contraction from August to December. Thus, we are downgrading our 2022 annual growth target to 2.9% from 3.2% and to 5.2% from 5.5% for 2023. In Hong Kong, number of Omicron cases has increased to above 9,000 cases per day, new restrictions could come. We are slightly overweight on Chinese and Hong Kong equities. Supportive policy, the economic reopening and structural easing from PBoC are all positive. However, sporadic COVID-19 lockdowns and the weakness in the housing sector are likely to weigh on economic growth in the near term.

GLOBAL BONDS

In August, sovereign bond yields rose sharply, meaning prices fell, as inflation remained high and central banks reaffirmed a commitment to slow price increases. Central banks are acting aggressively to control inflation by large interest rate hikes. These tight monetary measures are putting pressure on the momentum of global economic activity. In terms of monetary policy, J Powell, Chair of Fed displayed a hawkish stance, though inflation seems to have passed its peak as Consumer Price Index (CPI) later shown to be increased to 8.3% year-on-year in August, down from 8.5% in July. In his speech, Powell said that getting back to price stability would likely require maintaining a restrictive policy stance for some time. In Europe, the energy crisis has worsened in the Eurozone, intensifying upside risks regarding inflation. The ECB is determined to front-load rate hikes and normalise rates rapidly.

We are neutral on government bonds. In the U.S. a "soft landing" seems possible, inflation is still high and accordingly the Fed remains hawkish. Hence, we stay neutral but are very active. In the Eurozone, the ECB is committed to controlling inflation and is likely to raise rates higher than previously expected. However, it has to balance this with the need to prevent fragmentation. We are neutral amid the potential pressures from political events despite the ECB's support. We are slightly overweight in credit. In the U.S., we remain biased towards high-quality credit, where fundamentals more accurately reflect valuations and should benefit from the resilience of the U.S. economy. We believe investors should watch out for the default outlook and earnings robustness. We focus on liquidity in light of the tightening Fed and persisting inflation. In Europe, the near-term recession outlook, high inflation and a hawkish ECB mean potential pressures on earnings. Thus, quality credit is our priority. We are monitoring the default outlook, which is robust for now. However, if financial conditions tighten and markets come under stress, highly indebted companies may struggle.

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