

CIMB PREFERRED INSIGHTS



FEB 2022

Key Highlights

- We take a look at some ideas within Tech, Financials and Asian Credit:
 - **Cisco Systems, Micron Technology, Microsoft, Alphabet, Meta Platforms and Apple Inc.**
 - **Fidelity Global Financial Services Fund, and Manulife SGD Income Fund.**

¹ Seems that it is going to be another big week for the financial market as market participants are likely to continue struggling to price the outlook for interest rates and the impact of various asset classes given the diverging global monetary trends amid mixed corporate earnings and elevated geopolitical risks. Last week the US Central Bank was unexpectedly more hawkish than expected in its first policy meeting of the year.

A quick recap of the last trading week of January 2022...

Asian Pacific equities started the week in the red amid COVID-19 jitters, hawkish Fed bets and

heightened geopolitical tensions over Ukraine and high oil prices. Nonetheless, the MSCI Asia-Pacific Index ended Friday in the green for the first in six days as bargain hunting in Japan and Australia offset declines in mainland China and Hong Kong. Despite the late lift, both the MSCI Asia Pacific index and the MSCI Asia Pacific ex-Japan indexes fell to a 14-month low. In Singapore, the STI ended the week 1.5% lower than predicted, despite better than expected December and Q4 manufacturing growth.

Furthermore, despite the MAS unexpectedly announcing a tightening in its monetary policy in an unscheduled meeting on Tuesday, the S\$ fell 0.8% on week to 1.355 per US\$.

Over in Europe, European equities started and ended the week in a sea of red. For the week, both the DAX and the STOXX 600 fell 1.8%, the fourth straight weekly loss for the pan-European index. Over in the UK, the FTSE100 ended virtually flat on week to outperform its European counterparts. Meanwhile, the UK10Y yield rose, and the pound sterling rose close to a 23-month high against the euro as Forex traders expected the Bank of England to tighten its monetary policy again

¹ Adapted from "Sentiments from the week before", Song Seng Wun, 31 Jan 2022

by raising its benchmark interest rates during its policy meeting.

In its latest monetary policy update, the Fed signalled that it is likely to raise US interest rates in March and reaffirmed plans to end its bond purchases the same month before launching a significant reduction in asset holdings. In the follow-up virtual press conference, the Fed Chair warned that US inflation remains above the Central Bank's long run goal and supply chain issues may be more persistent than previously thought. The Fed also said its policy-setting members had agreed on a set of principles for shrinking its balance sheet, set to start sometime after interest hikes begin.

On Friday, the three major US stock indexes began in the red but turned green into the trading day to notch its best day so far in 2022 after another volatile session of strong earnings from tech firms lured dip buyers including Apple.

The S&P 500 and the DJIA posted modest gains on week, but the NASDAQ was essentially flat on the week, after four straight weeks of losses. Even with Friday's recovery, the S&P 500 was down 7% in 2022, with the NASDAQ and Dow down by 12% and 4.4%, respectively. On the US earnings front, the S&P 500 earnings season is not yet at the halfway point with 168 of the companies in the S&P 500 having already reported. Of those, 77% had delivered consensus-beating results, according to data by Refinitiv.

On the macro data front, December personal spending in the US fell for the first time in nine months while labour costs did not rise as much in Q4 2021 to paint a mixed picture of the US economy at the end of 2021 as the COVID-19 Omicron variant started to spread across the country.

In the energy markets, crude oil prices rose to seven year highs due to supply worries amid elevated geopolitical tensions.

In the bond markets, US Treasury yields fell across the curve on Friday on month-end buying amid a mixed

bag of US macro data. The US2Y and US10Y yield spread fell to 61 bps on Friday, the narrowest spread since November 2020.

In the FX markets, the US dollar consolidated gains and posted its biggest weekly rise in seven months' as markets priced more aggressive hikes in US interest rates. The stronger US dollar pushed gold to below US\$1800 an ounce.

The MSCI's all-country world index rose 1.5% Friday to narrow the weekly loss to 1% (705.1). The VIX fell 9.3% Friday and 4.1% on week to a six-session low (27.7).

Meanwhile, the International Monetary Fund (IMF) has lowered its global economic forecasts mainly due to the unforeseen economic slowdown in US and China, the world's top economies. In its latest update of the World Economic Outlook, the IMF now forecasts global growth in 2022 to 4.4%, 0.5 percentage points lower than its previous forecast.

The downward revision for 2022 reflects uncertainty about the pandemic due to the rapid spread of the COVID-19 Omicron variant, inflation, supply disruptions and tightening of monetary policies by major Central Banks. The US is seen growing by 4% in 2022, down by 1.2% from early estimates, given US President Biden's failed move to pass a massive social and climate spending package.

Meanwhile, China's economic growth forecast was lowered by 0.8 percentage points to 4.8% and the Eurozone's GDP projection was cut by 0.4 percentage points to 3.9%. Elsewhere, India and Japan saw their forecasts upgraded. The IMF has also revised up its 2022 inflation forecasts, saying price pressures were likely to persist longer than previously expected. The IMF said global growth is expected to slow to 3.8% in 2023, a 0.2% uptick from the previous forecast in October.

Notable ASEAN macro news of the week...

- The **Monetary Authority of Singapore (MAS)** unexpectedly tightened its monetary policy in an

unscheduled meeting, amid a further upward shift in Singapore's inflation outlook that reflects both global and domestic factors. The adjustment falls outside of the Central Bank's normal cycle of twice-yearly policy reviews, typically in April and October. The MAS said in a statement that it would raise slightly the rate of appreciation of its policy band while leaving unchanged the width of the policy band and the level at which it is centred. "This move builds on the pre-emptive shift to an appreciating stance in October and is appropriate for ensuring medium-term price stability," the MAS noted. Policymakers now estimate 2022's core inflation in the city-state to be between 2% and 3%, up from the 1% and 2% expected in October. Meanwhile, CPI-All Items inflation this year is projected to be in the range of 2.5% – 3.5%, compared with an earlier forecast range of 1.5% – 2.5%.

Looking into the first trading week of February...

The first trading week of February 2022 can be summarised thus: *"Lunar New Year festivities, ECB, BOE & RBA Rate Decisions; US Jobs Report, Global Jan PMIs, OPEC+ meeting, Winter Olympics and more Earnings!"*

The earnings season is set to accelerate this week with European banks and technology and industrial companies among the main highlights: ABB, Activision Blizzard, AMD, Alphabet, Amazon, AON, BBVA, Banco Santander, Eli Lilly, Enel, Estee Lauder, Exxon Mobil, Ferrari, Ford Motor, General Motors, Gilead, Hitachi, Honeywell, Infineon, ING, Intesa Sanpaolo, Itochu, Merck, Meta Platforms, MetLife, Mitsubishi, Mitsubishi UFJ Financial Group, Mitsui, Mizuho Financial Group, Nintendo, Nordea Bank Abp, Novartis, Qualcomm, Roche Holding, Shell, Sanofi, Snap, SoftBank, Sony, Spotify, Starbucks, Sumitomo Mitsui Financial Group, UBS Group and UPS.

In Singapore, the Singapore Stock Exchange will report its July – December 2021 results on Friday.

On the macro front, the key event risk is likely to be Friday's US jobs report for January. According to a Bloomberg survey (as at 28 January 2022), the US nonfarm payrolls is likely to increase by 150 thousand after rising by 199 thousand in December, the smallest employment gain in 12 months. The unemployment rate is seen steady at 3.9% and the earnings growth is expected to remain elevated (5.2% YOY in January vs. 4.7% YOY in December). Apart from the jobs report, other notable US releases include JOLTs job openings, Q4 labour costs as well as the ISM and Markit PMI reports for January. Key economic releases for the Eurozone meanwhile include Q4 GDP and preliminary January inflation.

Here in Asia-Pacific, it is a holiday-shortened week for many because of the Lunar New Year or Tet festivities. China, Taiwan and Vietnam are closed this week. Elsewhere, markets will be closed for at least part of the week in South Korea, Singapore, Malaysia, Indonesia, Philippines, Taiwan and Hong Kong. Due to the long holiday break for the Chinese New Year, China's Caixin and the NBS PMIs for January were released over the weekend (Sunday). Chinese data showed a moderation in January's economic activities amid coronavirus flare-ups and strict control under Beijing's zero COVID-19 approach.

For investors, some ideas that can be looked at in greater detail into the tech space include companies such as **Cisco Systems, Micron Technology, Microsoft, Alphabet, Meta Platforms and Apple Inc.**

For a broader exposure into Unit Trust Funds that invest into financial services or Asian Fixed Income/debt securities, we take a look at the **Fidelity Global Financial Services Fund**, and **Manulife SGD Income Fund**.

Please speak to your Relationship Manager for more details.

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