CIMB PREFERRED INSIGHTS

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Key Highlights

- We take a look at some ideas on Financials, Sustainability & Asian Credit:
  - **Bank of America Corp, Citigroup Inc, Wells Fargo & Co** and **JP Morgan Chase & Co.**
  - **Microsoft, Alphabet, Apple, Meta** and **Amazon**
  - **Allianz Global Sustainability Fund,** and **Manulife SGD Income Fund.**

[1] What can we say about the first trading week of May 2022? A hint of things to come came Monday (9th May 2022) when US stocks mounted a late-session turnaround, the US 10Y Treasury yield rose to 3% for first time since 2018 and the DXY dollar index rose further. Crude prices turned around midsession, as worries over weak demand due to bleak factory data from China were overshadowed by a potential European ban on Russian oil that stoked fears of tightening supply.

We saw US stocks rally in early May and Treasury yields fell after the US central bank raised interest rates by 50 basis points as expected in the highly anticipated May policy meeting, and said it would begin to reduce its balance sheet in June in a decision seen as less hawkish as some feared. The US central bank set its federal funds rate to a range between 0.75% and 1% in a unanimous decision that gave the benchmark overnight rate its biggest bump in 22 years. There was little initial reaction to the Fed policy statement that mostly met expectations. But when Fed Chair Powell said the Fed was not "actively considering" a 75 basis-point rate hike, stocks rallied, and bond yields reversed earlier gains. Stocks initially see-sawed after the announcement, then the benchmark US indices jumped. The S&P 500's Wednesday advance of almost 3% was the strongest since 18th May 2020. Meanwhile, the Australia dollar gained but local equities fell, after the Reserve Bank of Australia, the central bank roiled markets the day before by raising its official cash rate for the first time in more than a decade in response to surging inflation. The RBA raised its key rate more than expected by 25 bps to 0.35%, and signalled more rate increases to come. Meanwhile, the Reserve Bank of India also surprised financial markets after the

[1] Adapted from "Sentiments from the week before", Song Seng Wun, 9 May 2022

Indian central bank unexpectedly raised its key repo rate by 40 bps to 4.4% during an off cycle meeting on Wednesday 4th May. It is the first rate hike since 2018 as persistent inflation pressures are becoming more acute and there is a risk that inflation remains elevated for too long.

Interest rates hikes and inflation jitters did not go away with global stocks coming under more pressure on 5 and 6 May 2022. Just a day after notching the biggest rally in two years, the S&P 500 tumbled, with more than 95% of its companies moving lower. A selloff in the long-end US Treasuries pushed the US10Y yield above 3% and the US dollar climbed. Elsewhere, the British pound slumped as investors looked past the Bank of England's rate increase and turned their focus on forecasts for a recession in 2023. BOE Governor Andrew Bailey said the UK economy was already slowing because of a squeeze on consumer spending power, and that will help reduce inflation next year. The Bank of England had raised its key Bank Rate by 25bps to 1% during its May meeting, which is the 4th consecutive rate hike, pushing borrowing costs to the highest since early 2009. In Asia, China's battered shares recovered some ground as market participants were encouraged by a pledge by China's central bank for more policy support to help businesses badly hit by the latest COVID-19 outbreak. However, the MSCI Asia Pacific Index fell 0.1% & HK's Hang Seng fell for a second consecutive session. Global equities also fell further on risk aversion and long-dated US Treasury yields surged as market participants continue to worry about rising inflation and interest rates.

According to the latest IHS Markit survey, the rate of global economic expansion eased to its weakest level during the current 22-month sequence of increase in April, as slower growth of new orders and declining international trade flows stymied the upturn. Inflationary pressures built, as a near-record increase in input costs drove up output charges to the greatest extent in the survey history.

The JPMorgan Global Composite PMI Index eased to 51.0 in April, down from 52.7 in March. The outlook also became more subdued, with business optimism slipping to a 19-month low. Growth of service sector business activity eased to a three month low, as slower upturns in the business and financial services sectors more than offset an acceleration at consumer service providers. Global manufacturing production fell for the first time since June 2020, reflecting decreases across the consumer, intermediate and investment goods industries (the first concurrent contraction since June 2020). Meanwhile, price inflationary pressures continued to build in the global economy during April. Average output charges rose at a series-record high rate, as companies passed on a further near-record increase input costs to their clients. For both price measures, rates of increase remained substantially faster (on average) in developed nations compared to their emerging market counterparts.

Meanwhile US April jobs report showed the jobless rate dropped last month to its pre-pandemic low of 3.5%. The US economy added 428K jobs in April, the same as a downwardly revised 428K in March and above market forecasts of 400K. It marks a 12th straight month of job gains above 400K but easing from a February gain of 714K amid an increasingly tight labour market. The nonfarm payroll employment increased across all sectors. Surprisingly, the average hourly earnings rose 5.5% from a year ago, slightly slower than the previous month's increase. The data underscored challenges the Fed and other central banks face as they try to tackle elevated prices with China's lockdowns causing persistent supply chain disruptions and the war in Eastern Europe continuing to pressure food prices.

But, it was not all bad news. The UN FAO Food Price Index (FPI) eased by 0.8% MoM to 158.5 points in April, from a record high of 159.7 points in March, as prices of grains and vegetable oils gave some relief. Prices of vegetable oil declined significantly (-5.7%), after hitting an all-time high in March pressured by palm, sunflower, and soy oils. Meantime, prices of cereals declined slightly (-0.4%), after also surging to record highs in March, weighed down by corn and sorghum, although gains in barley and wheat limited losses, amid ongoing export blockades in Ukraine and crop concerns in the US. On the upside, dairy prices rose for the 8th straight month (0.9%) on sluggish production in Western Europe and Oceania, and surging demand for butter amid shortages of sunflower oil and margarine in Western Europe. Lastly, prices rose firmly for meat (2.2%) on tight supplies in the northern hemisphere and disruptions in Ukraine, as well as for sugar (3.3%), underpinned by ethanol production. On an annual basis the UN FAO FPI rose 30% in April 2022 vs. March's 34% and 32% in April 2021.

For investors, some ideas that can be looked at include financials such as **Bank of America Corp, Citigroup Inc, Wells Fargo & Co** or **JP Morgan Chase & Co.**

Customers that wish to consider companies in the tech space can look into **Microsoft, Alphabet, Apple, Meta** or **Amazon**

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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