2H'2022 Outlook | A Market Snapshot

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Softer Growth

As the US Federal Reserve steps up its fight against inflation by aggressively tightening monetary policy, **economic conditions are expected to turn softer**.

A spate of data already show increasing evidence of this as **new orders and manufacturing activity decline**. **Earnings expectations have also fallen** as higher input costs crimp company margins.

Whether the Fed's series of rate hikes could tip the US into a recession is being closely monitored. Though, much of the downside risks to growth has already been priced-in by markets.

Vanilla Recession

Real-time data tracker by Atlanta's Federal Reserve show that the US has probably **already met the technical definition of a recession**

(i.e. two consecutive quarters of negative GDP growth)

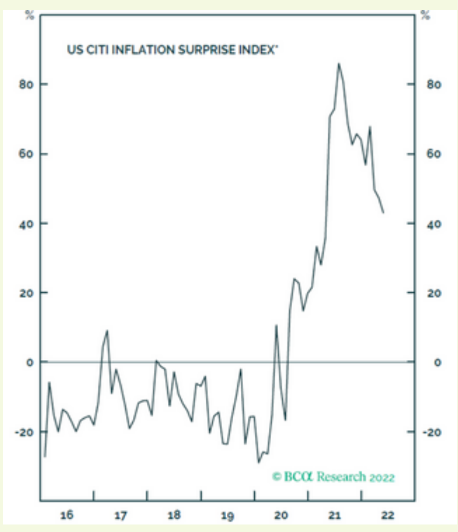
However, many expect a **shallower downturn** with banks well-capitalised and the economy on a stronger footing today.

On aggregate, **household balance sheets are also healthy levels** with many consumers still sitting on **excess savings** from handouts received from past COVID stimulus packages.

Risk is skewed towards more of a plain-vanilla type of recession with limited risk of it slumping into a full-blown financial crisis, due to the lack of any major credit imbalances or asset bubbles.

Inflection Point for Inflation?

Latest economic indicators suggest that **inflation is starting to peak** as commodity and energy prices wane from their recent highs.



Rate hike expectations have already been scaled back, as the market debates over how much the Fed would be able to raise interest rates in a weakening economy.

The stickiest part of inflation including wages and shelter costs which make up 30% of the consumer price index (CPI) appear to be **reaching its near-term peak**, where it could then **taper off**.

As price pressures ease, this could help quell the Fed's hawkish policy stance.

China Bulls Return

Against a global storm of inflation and looming interest rate hikes, China equities have beaten the odds to **emerge as a safe harbour** for investors this year.

Policy shifts are luring investors back to China as its battered equity market begins to look attractive with **recovery gaining momentum**. Authorities are seen **pivoting away** from its strict zero-COVID strategy by easing travel restrictions and shortening quarantine periods.

As lockdown restrictions are lifted, factories in China are now **racing to meet recovering demand** which has contributed to an increase in manufacturing activity.

Beijing has also reaffirmed its commitment to achieving its economic and social targets this year through various policy levers and stimulus.

2H Signposts to Watch

Important indicators to watch include the **upcoming inflation print in the US** which would confirm whether inflation has reached its peak.

Other macro events to monitor include **geopolitical developments between Russia-Ukraine** with hopes for a resolution to the conflict.

The **upcoming earnings season** and more importantly the **forward guidance** by these companies will also offer clues as to when we've reached a trough in the downgrade cycle.

China's 20th Party Congress is also slated to be held sometime in the 4Q'22 which could see **changes in the top composition of the Communist Party** as voting is held.

Portfolio Positioning

We have been **recalibrating the portfolios** to better reflect our current house views with the macro environment.

These include tilting the portfolios towards **quality growth names** with **strong business moats and healthy cashflows** that would be resilient in a downturn.

We are also **avoiding those economically-sensitive sectors** such as commodities that would be vulnerable in a slowdown.

On the flipside, we are **adding our exposure in China** including **reopening-plays** that would benefit as restrictions are eased and the country gradually opens up.