HEALTHIER, LONGER, BETTER LIVES

Monthly Investment Insights

May 2023

Macro Economic Updates

In the first quarter of 2023, the US economy remained resilient. Annual real GDP growth was 1.1%, while employers added 345,000 payroll jobs per month. In addition to strong job growth and persistently low unemployment rates, there were signs that labor supply expanded to meet demand. **Inflation has also slowed over the year due to improved supply chain resilience, lower energy prices, and tighter monetary policy.** However, inflation rates continue to exceed the Fed 's 2% inflation target.

Central banks maintain a hawkish stance as inflation remains elevated, but peak rates are approaching.

Inflation and the impact of credit tightening, which Fed officials believe is still evolving in the aftermath of both higher interest rates and a financial sector shaken by the recent failure of three U.S. banks.

The **China reopening is starting to be reflected in activity indicators as well as credit growth that should help support its Gross Domestic Production** (GDP) growth in the first half of this year.

A stronger pickup in demand in the China property sector is still required for its economy to rebound in a sustainable manner as bottom-up data from the sector remain lackluster.

Asset Allocation

With the persistent inflationary pressures and tighter financial conditions, the risk of a global recession remains high. We **remain underweight equities, neutral to credit (as we expect spreads to widen) while holding some cash as dry powder for opportunities.**

Equities

- **Lower price earning multiples and earnings are expected to be negative for equities, reflecting the weak growth outlook.**
- With Chinese re-opening underway along and growth recovering robustly, Chinese equities can continue to recover. Valuations and earnings are expected to recover and improve further hence, within equities, **our preference remains for Asia ex-Japan.**

Investment Grade Credit

- Credit spreads **should widen from their current tight levels** as the economic slowdown and lower earnings are priced in.
- Falling rates can help mitigate the impact of spread widening. **Staying at the short end of curve can further help reduce exposure to interest rate risk**.

Treasuries

- As evidenced by **Silicon Valley Bank** (SVB) failure, financial stability has become a constraint to Fed's reaction function and consequently more volatile market pricing of future rate path. **Therefore, we have tactically neutralised our US Treasuries positions since SVB failure.**
- With our base case of an upcoming US recession, **the risk to US bond yields level over the next 6-12 months is now lower, not higher**, hence our overweight position for Treasuries for the medium term, and we are gradually deploying cash position back to treasuries when yields level hit our target range.

Market Performance

(US$, As of 30 Apr 2023)		Apr- 23	Q1- 23	Q4- 22	Q3- 22	Q2- 22	Q1- 22	2022
Equity	MSCI All Country World Index	▲ 1.3%	▲ 6.8%	▲ 9.4	▼ -7.3%	▼-16.1%	▼-5.7%	▼-19.8
	MSCI Asia (ex. Japan) Index	▼-2.2%	▲ 4.1%	▲ 1.0	▼-14.6%	▼ -9.8%	▼-8.2%	▼-21.5
Fixed Income	Bloomberg Barclays Global Aggregate Bond Index	▲ 0.4%	▲ 3.0%	▲ 4.5	▼-6.9%	▼-8.3%	▼-6.2%	▼-16.2
	Bloomberg Barclays US Treasury Total Return Unhedged USD	▲ 0.5%	▲ 3.0%	▲ 0.7	▼ -4.3%	▼ -3.8%	▼-5.6%	▼-12.5

Source: Bloomberg. Past performance is not necessarily indicative of future performance.

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