

Private Wealth Management

2022 Year Ahead

16 November 2021

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Executive Summary

The global economy continues to trudge towards an **uneven recovery**, from the Covid-19 pandemic and collapse in economic activity. We see the highest upsides in many parts of Asia that has underperformed in 2021. Meanwhile, the US is still likely to be supported by private and public sectors. China growth has been slowing down and we anticipate some stabilization in 2022.

At the same time, the main threat to the recovery is **inflation**. Inflation has been more persistent than originally anticipated. Bottlenecks may resolve in 1H-2022 but “normalization” related price increases may step in. **Monetary and fiscal policies are also likely to turn tighter** in the current environment of recovering growth and high inflation.

We highlight in this report a few themes (e.g. **Asia wealth**) that will likely be a key part of 2022.

We anticipate further inroads made by **ESG investments**, to provide for some sustainability against climate change challenges. We still see opportunities in **real estate**, as global activity levels normalizes and the sector restructures to fit in current trends. **Technology** advancements will also drive sectoral growth, and we focus on capital expenditure

and electric vehicle development here.

For 2022, we expect some **selective gains in equities**, with **US** likely to outperform the competition. **Industrials, consumers, and financial services** sectors are our favorite sectors, as inflationary risks may curb gains in other sectors.

For fixed income, expect risks from rising interest rates outlook. We are neutral on **credit**, and underweight on **sovereign rates**.

We expect a **strong USD** in 2022, although some Asian currencies like the SGD and MYR may be resilient. The CNY will also likely be stable from official government policy. Meanwhile, the JPY may underperform from central bank divergence and commodity-related currencies (AUD) see some volatility.

We wish you a great 2022 ahead!

*Best Regards,
Jeff*

18 November 2021

The Year Ahead

Macro & Market Outlook

2022 Themes

Inflation – Energy, Shortages and Bottlenecks

Central Bank Normalization and USD Strength

Long-term Opportunities in China

ASEAN Recovery

Asia Consumers and Wealth Accumulation

ESG for the Long-term

Real Estate Sector in Covid-19 Endemic

Technology & Linkages

Asset Class Outlook

Equities & Sectors

Fixed income

FX

Macro & Market Outlook



GDP

Differing stages of economic recovery



Trade

More rebounds as bottlenecks resolve



Inflation

Key 2022 theme



Fiscal Policy

Turn towards tightening policies



Central Banks

Convergence towards higher policy rates



Equities

Tug between Growth vs. Inflation



Fixed Income

Higher rates present challenges

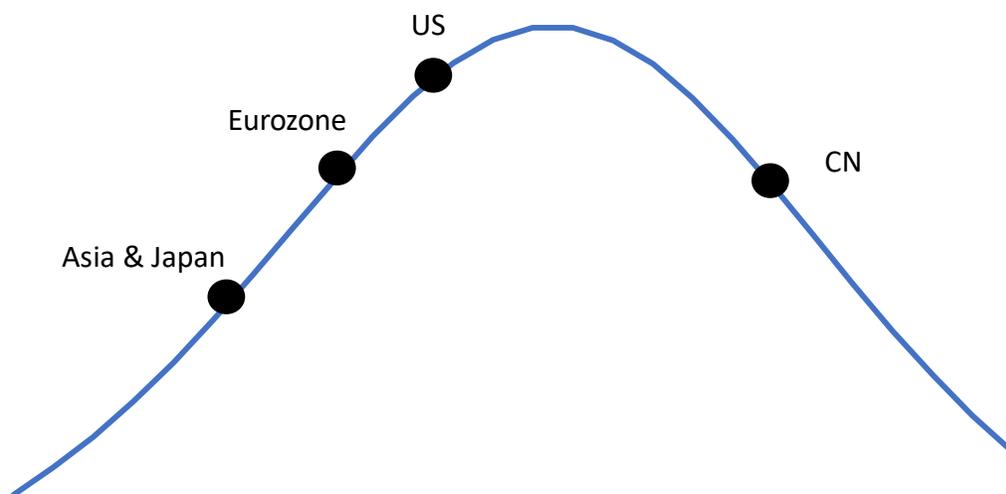


FX

USD strength
MYR and SGD outperformance

2022 Global Economic Outlook

Differing Stages of Recovery



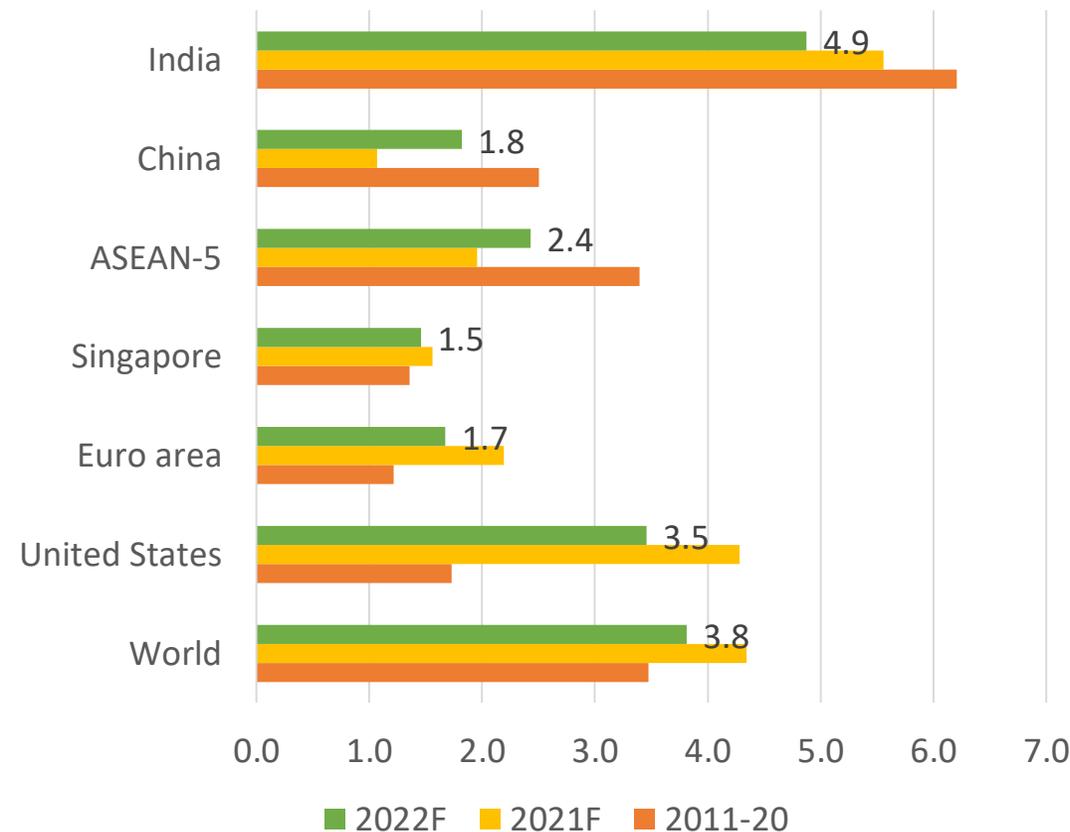
- Major economies are likely to be **relatively diverse** in their economic trajectory in 2022.
- Growth is likely to be **uneven across geographies and sectors**.
 - In the US, growth will likely stay above-trend. The IMF forecasts growth at 5.2% in 2022, from 6% in 2021. This is likely supported by domestic consumption and investments. Labour market fundamentals are supportive.
 - In contrast, China is seeing a near-term blip before some possible stabilization in mid-2022. We see China taking a medium-term approach, tolerating slower growth for quality/medium-term development.
 - The Eurozone and the rest of Asia is likely to see faster expansion in 2022, compared to 2021. This comes after Covid-19 delayed respective 2021 recoveries. The South-east Asia (ASEAN) region underperformed in 2021, and is set to rebound in 2022. Growth is supported by export demand, as well as normalization in economic activities.

Theme 1: Inflation – Energy, Shortages and Bottlenecks

Commodity Price Swings from Base Effects (% y/y)



Elevated Inflationary Pressures (IMF inflation forecasts, %)



Source: Bloomberg, HL Bank; IMF

Theme 2: Central Bank Normalization and USD Strength

- Barring any event risks, we anticipate that a well-managed and coordinated tapering by the US Fed to consolidate rather than exacerbate excessive dollar strength. Expectations of further central bank tightening will likely be a factor towards USD movements compared to other major currencies. We anticipate only modest dollar strength over the year ahead, due to most major central banks either moving towards tighter monetary policy or at least staying pat on its stance.
- Examining dollar movements between 2013 to 2017, DXY strengthened around 20% before the its first rate hike in 2016. However, the effect was amplified by central bank divergence – the European Central Bank launched quantitative easing in March 2015, while the Bank of Japan provided a new framework (higher inflation target) on its QQE program in 2016.
- At this stage, markets are already pricing in several central banks hiking policy rates before the Fed. These include the BOC and BOE. With rising inflation expectations, the ECB and RBA may also have to consider some flexibility or adjustments to their respective bond buying programs. The ECB’s pandemic emergency purchase program (PEPP) run out in March 2022. They had already slowed the pace of PEPP purchases in September.
- Overall, the rest of world’s catch-up to the economic recovery, positive market sentiments and some lingering inflationary risks (globally) will likely dampen against excessive dollar strength.

Source: Bloomberg, HL Bank

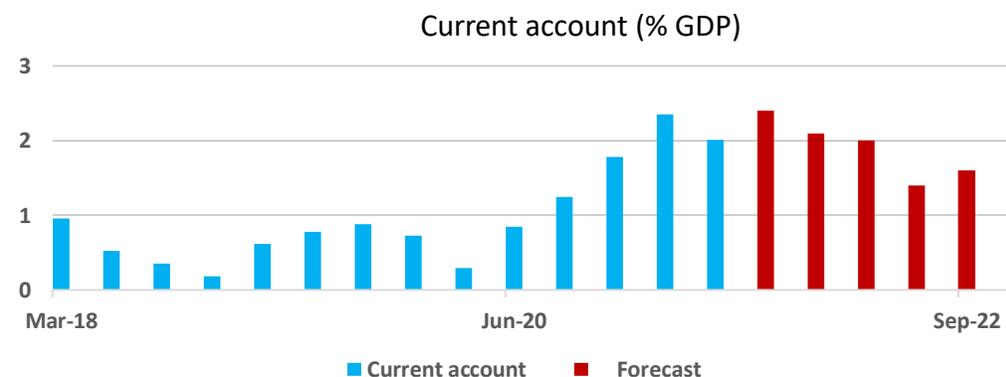
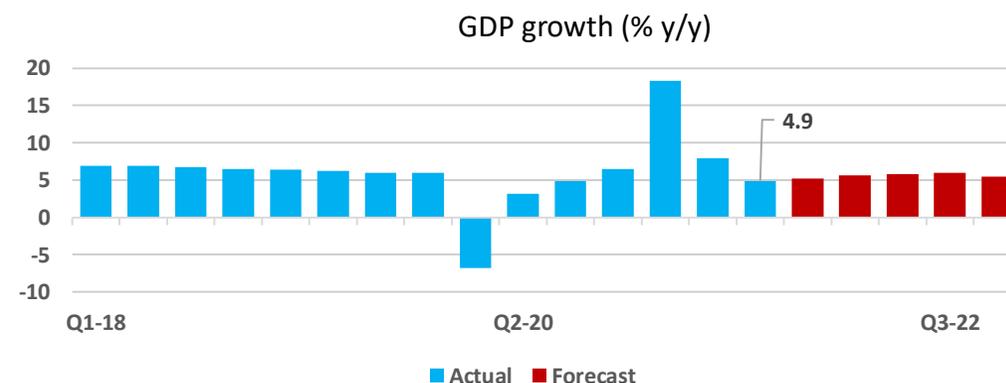
US Normalization and USD Strength



Theme 3: Long-term Opportunities in China

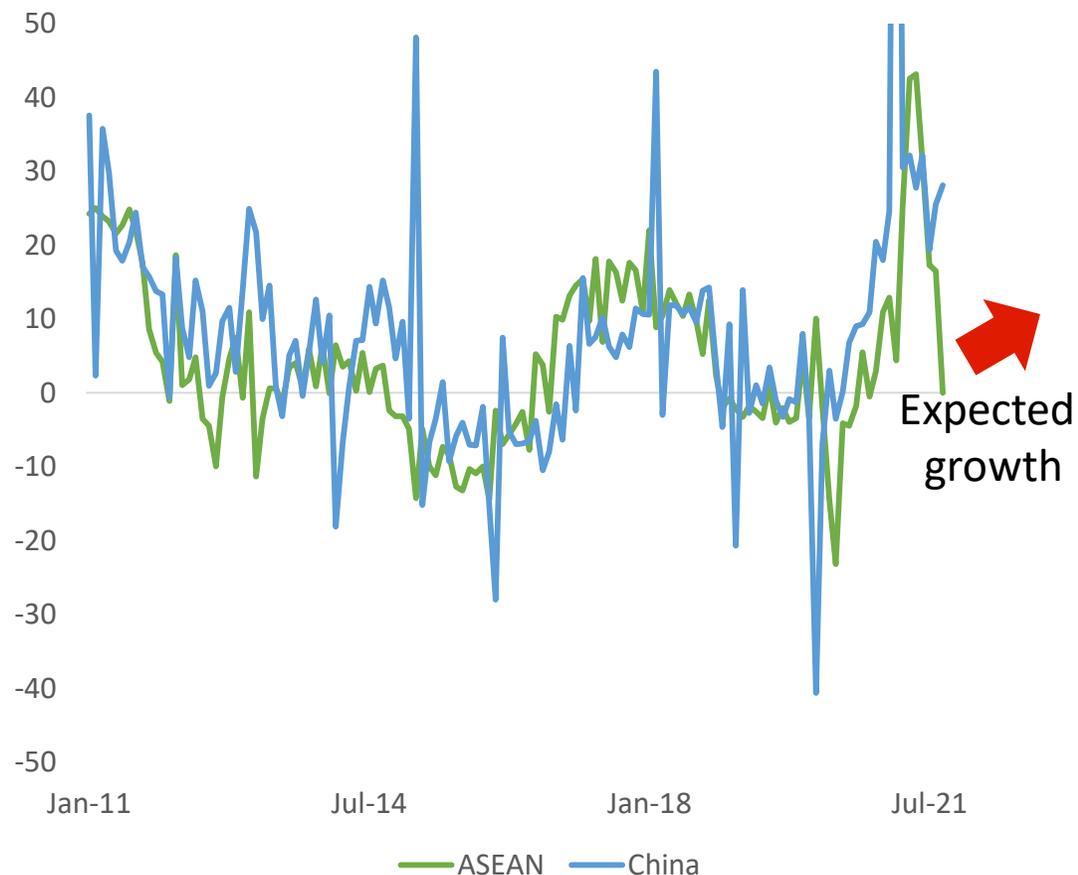
- Growth is set to shift from external-supported to domestic over the course of 2022. The economic outlook over the next few quarters is on China's economic growth stabilising at 4.5 to 5.5% (see upper Chart).
- We forecast GDP growth at 5.7% in 2022 (8.5% in '21).
- Near-term growth is likely to be subdued as a result of tight government policies, meant to reduce imbalances in income equality and the housing market. At the same time, supply-side shortages are likely to limit near-term potential.
- Oct data showed some stabilization in economic activity, with retail sales continuing its recovery. This comes even as industrial production and fixed asset investment growth stay subdued.
- On the flipside, growth is likely supported by positive export growth and net export contribution to growth (lower Chart shows China's projected current account surplus).
- Regulatory uncertainty may present a risk to sectors like real estate, education, etc. We do not expect long-term contagion risks, as authorities will likely manage healthy development.

China Outlook for 2021-2022

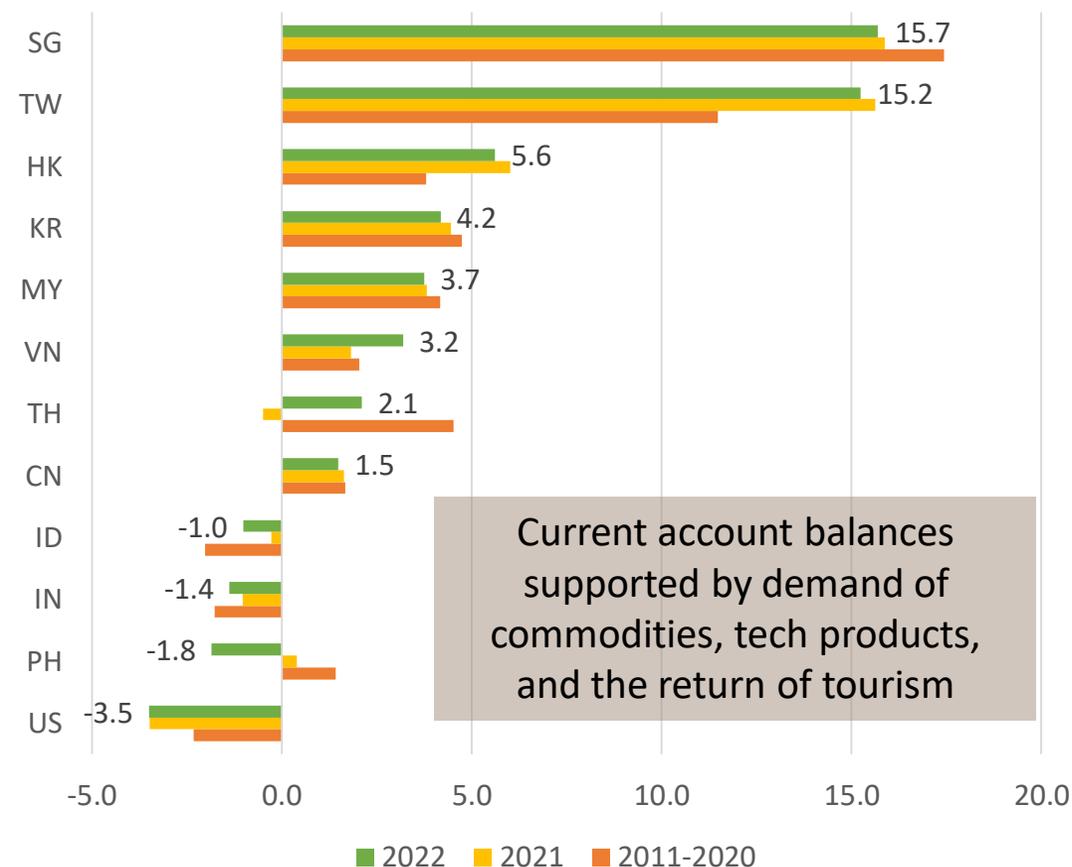


Theme 4: ASEAN Recovery

Export growth to recover (% y/y)



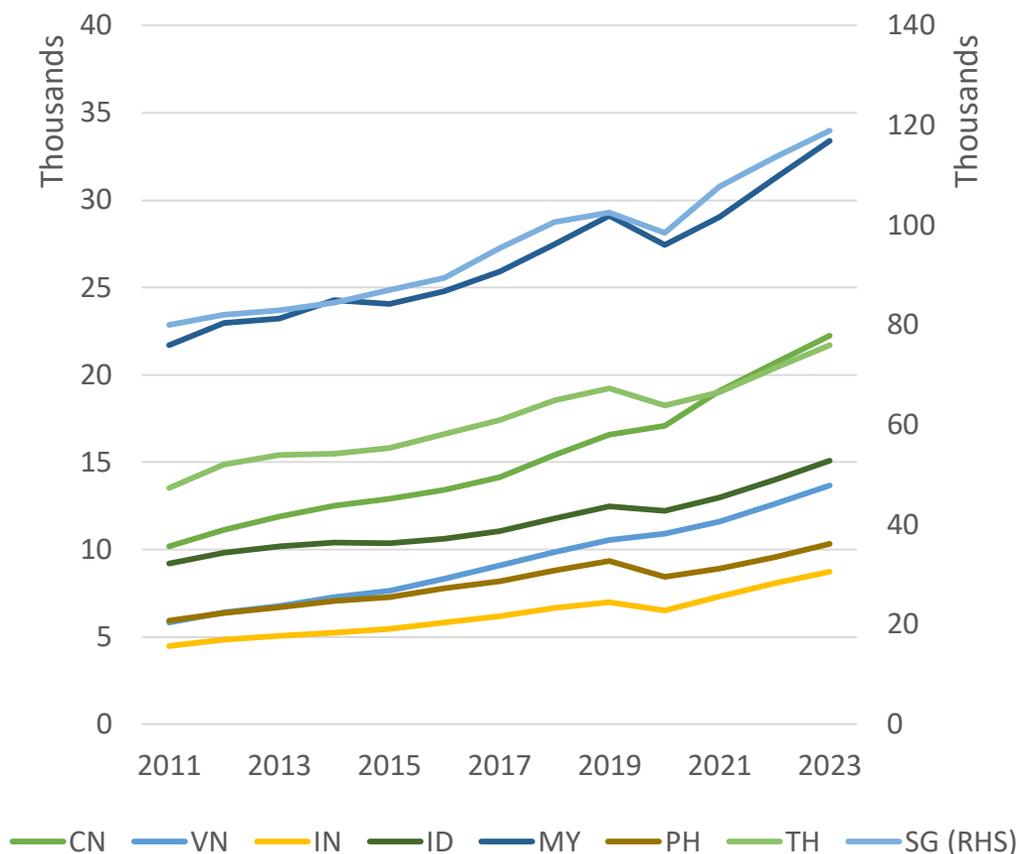
IMF Current Account Forecasts (% GDP)



Source: CEIC, HL Bank; IMF

Theme 5: Asia Consumers and Wealth Accumulation

Per Capita Incomes Took A Blip in 2020

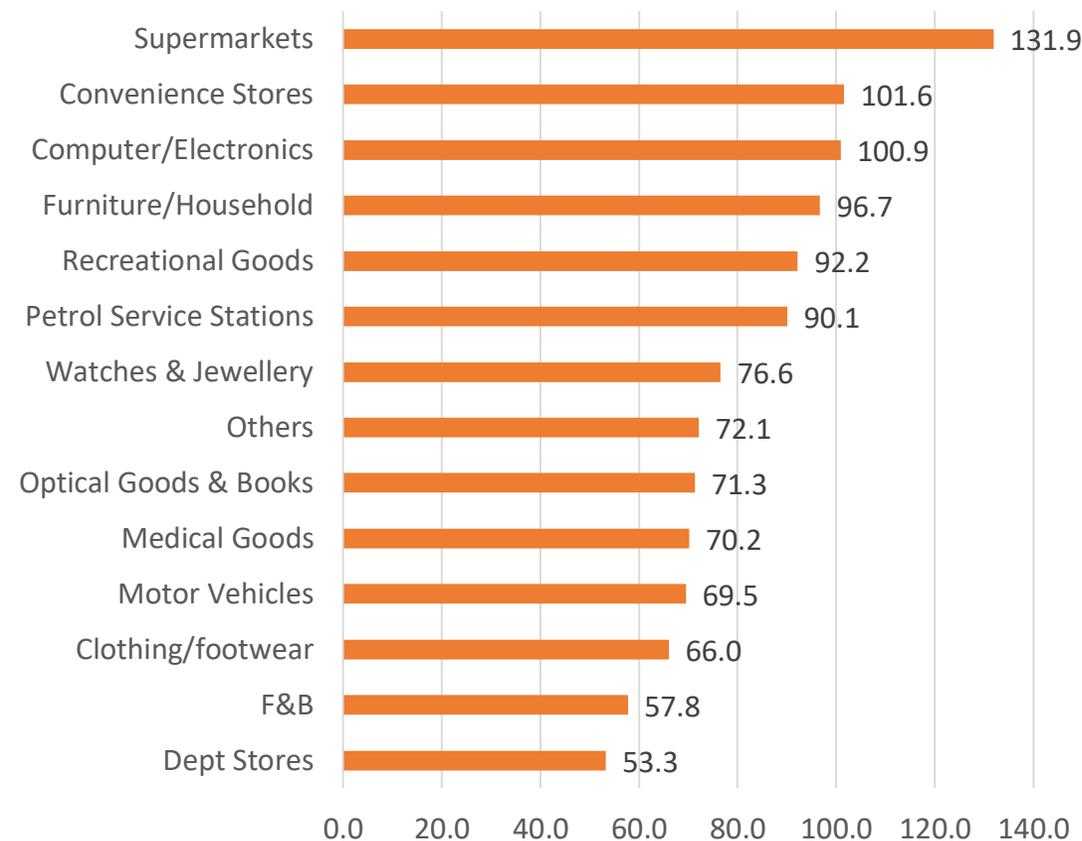


- The Covid-19 pandemic has temporarily hit per-capita incomes. However, the rebound is underway and projected to increase in 2022-2023.
 - Some less affected economies (CN, VN, etc) continue to see per-capita incomes rise over this period.
 - The broadening economic recovery will support per-capita incomes and consumer spending.
 - The unequal recovery means that those less impacted have more spending power and accumulated savings from 2020-2021.
- Asia-Pacific remains one of the fastest growing regions for wealth with 168,567 UHNWIs (net worth > USD 30mn) expected by 2025 (Knight Frank).
 - Knight Frank expects Asia UHNWI population to grow by 38% over the next 5 years.

Theme 5: Asia Consumers and Wealth Accumulation

- The Covid-19 pandemic has distorted spending patterns. Supermarkets, convenience stores and spending on durable goods had increased. This has come at the expense of tourism, F&B, and on services.
- Post-pandemic “revenge” spending
 - Travel and tourism
 - F&B: Dining out
 - Services: Entertainment
 - Meetings, Incentives, Conferences & Exhibitions (MICE)

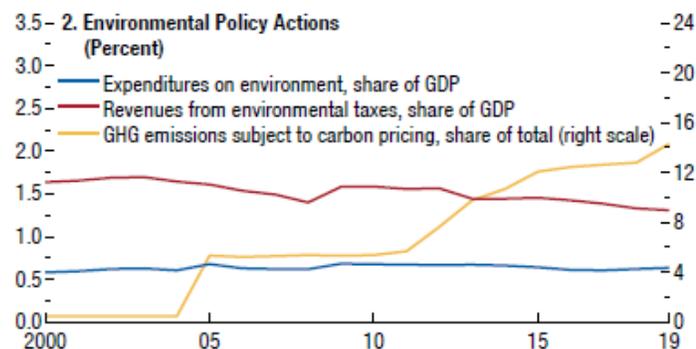
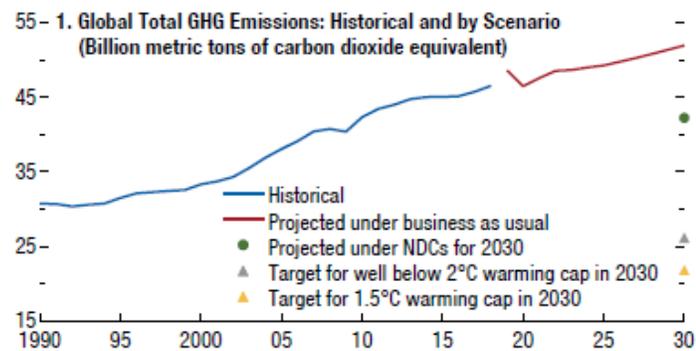
Singapore’s retail sales: average monthly spending level Apr-20 to Aug-21 compared to 2017-2019 (=100)



Theme 6: Environment, Sustainability & Governance

Climate Change Policy Gaps (IMF)

- World greenhouse gas emissions remain higher than national commitments to reduce emissions
- Risk of higher global temperatures



Source: Sources: IMF, Climate Change Indicators Dashboard; World Bank, Carbon Pricing Dashboard; and IMF staff calculations.

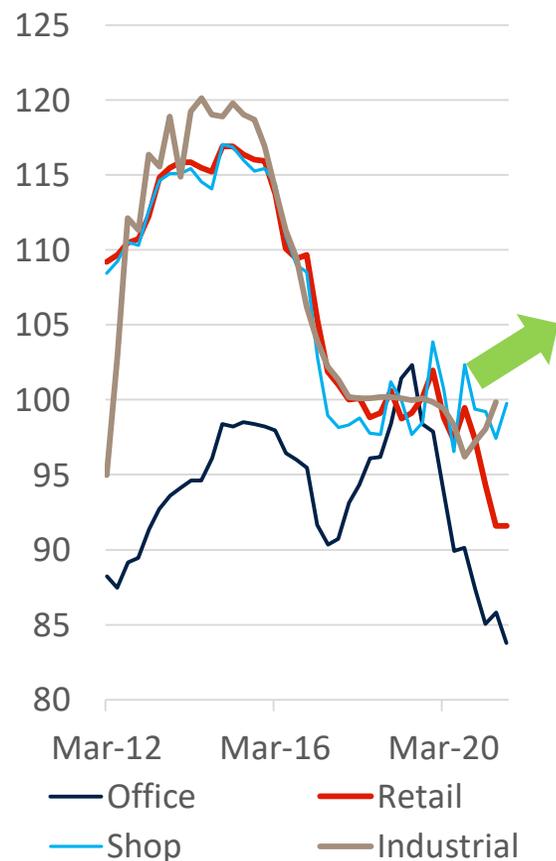


COP 26: International Agreement & Key Takeaways

- First climate deal to target to reduce coal usage, emissions
- Glasgow Leaders' Declaration on Forest and Land Use: pledge to half and reverse forest loss and land degradation by 2030
- Global Methane Pledge: Reduce overall emissions by 30% by 2030, compared to 2020 levels
- US returns after withdrawing from the Paris Agreement
- China calls for multilateralism to combat climate change
- India pledged to be carbon-neutral by 2070
- Singapore will review its climate change target, post-COP 26

Theme 7: Real Estate Sector in Covid-19 Endemic

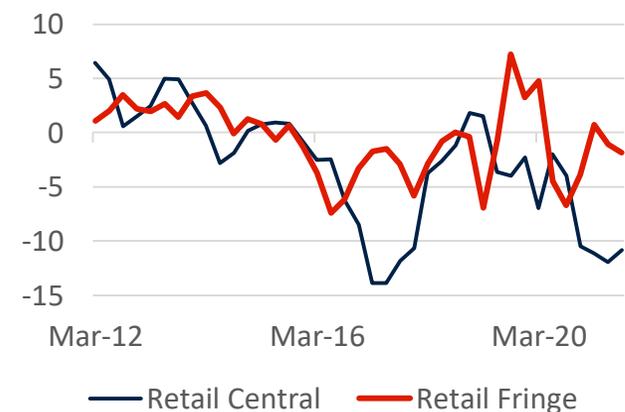
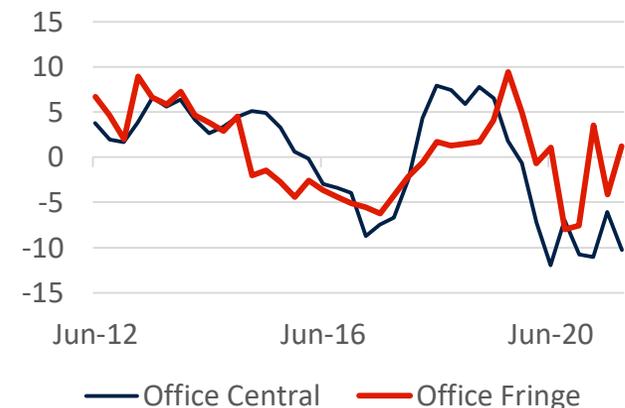
Move to “Endemic Phase” to Drive Economic Activity



- We believe that a more “normalized” Singapore will support the economy and real estate sector in 2022.

- This will likely benefit the retail space the most, after continual headwinds in 2020-2021. This comes as travel/tourism/MICE activities restart.
- Decentralization trends are set to continue for offices and retail spaces.
- For central office spaces, Singapore is reimagining the Central Business District. Urban planners are under way to make the place buzzing with retail, food, lifestyle amenities and recreation.
- Industrial spaces stay supported by demand for Singapore’s exports. China’s near-term slowdown is a risk, but should not affect industrial spaces in the medium-term.

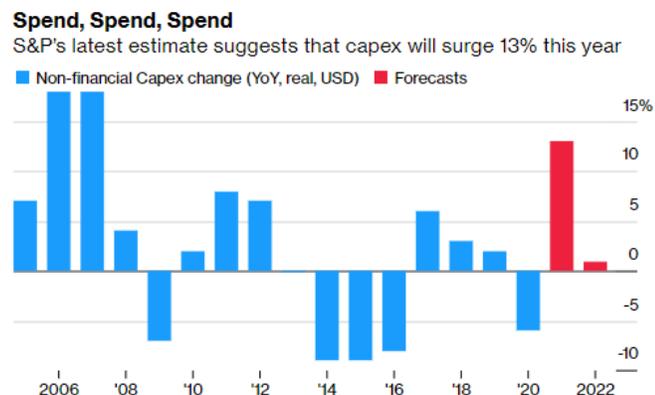
Decentralization Trends (% y/y)



Source: CEIC, HL Bank calculations

Theme 8: Technology Development

Capital expenditure (Capex) is set to boom in 2022



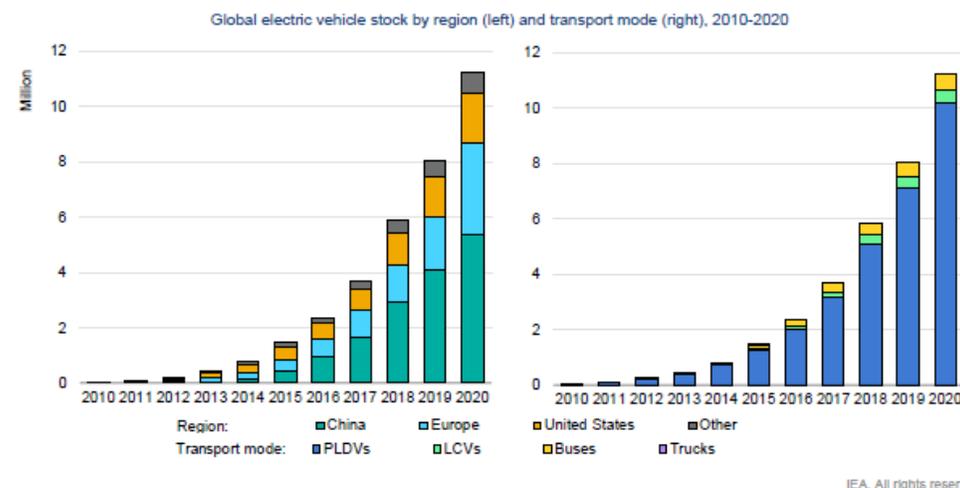
Source: S&P Global Market Intelligence, S&P Global Ratings
Note: Universe is Global Capex 2000

	Global	APAC (excluding Japan)	Japan	Latin America	North America	Europe
Total	13.3%	8.9%	8.8%	27%	14.6%	16.6%
Consumer	11.6	-4.8	5.2	44.6	24.8	9.2
Energy	5.5	-1.3	17.8	13.9	-2.3	17.8
Health care	13.6	12.9	27.5	.	18.7	31
Industrials	13.6	9.3	16.2	41	12.4	17.9
IT	22.3	19.1	23.7	.	27.5	18.6
Materials	17.8	15.9	14	36.7	12.3	23.6
Communications	12.9	8.3	11.3	8.8	16.9	10.4
Utilities	16.2	20.1	-3	28.1	9.9	25.1

Source: S&P Global Market Intelligence, S&P Global Ratings
Note: Universe is Global Capex 2000

Electric Vehicles

- The IEA, in its Global EV Outlook 2021, noted strong growth in EV markets despite pandemic, with 41% EV registrations in 2020.
- IEA views that EVs will proliferate in the 2020s, projecting EV stock to reach 145mn in 2030 (7% road vehicle fleet) in its base case scenario. Currently there are 10mn EV stock at end-2020.



Notes: PLDVs = passenger light-duty vehicles, LCVs = light-commercial vehicles. Electric vehicles include battery electric and plug-in hybrid electric vehicles. Europe includes EU27, Norway, Iceland, Switzerland and United Kingdom. Other includes Australia, Brazil, Canada, Chile, India, Japan, Korea, Malaysia, Mexico, New Zealand, South Africa and Thailand.
Sources: IEA analysis based on country submissions, complemented by ACEA (2021); CAAM (2021); EAFO (2021); EV Volumes (2021) and Marklines (2021).

Summary of Key Asset Class Views

Outlook	List
	US equities Consumer discretionary, industrial and financial services sectors Asia credit USD
	Asia equities Defensive, Real estate sectors Investment grade & high yield credit
	Sovereign bonds JPY, EUR and GBP
	Tech sector Energy and commodity-related sectors AUD, NZD, CAD

Markets Outlook – Equities & Sectors

Equities – Positive Outlook

+	<p>US equities: We broadly see positive returns for US equities in 2022, supported by President Biden’s infrastructure bill</p>
=	<p>Asia equities: After near-term pain, fundamentals are set to improve (both China and ASEAN).</p>
+	<p>Consumer discretionary, industrial sectors: Benefit from increased travel and normalization of pre-Covid activities</p> <p>Financial services sectors: interest rate outlook and potential volatility</p>
=	<p>Defensive sectors like healthcare, consumer staples, utilities sectors</p> <p>Real estate sector: improved activity vs. interest rate risks</p>
?	<p>Tech sector: Rising inflation/interest rate risk</p> <p>Energy and commodity-related sectors: may dampen once supply side shortages ease</p>

HK equities corrected while US equities climbed



Markets Outlook – Fixed income

Fixed Income – Focus on Yield Differentials



Sovereigns: Yields (in the US some and other major economies) are looking to move higher, meaning downside risks for bond prices.



Asia credit: Some modest opportunities with equity recover, but weighed down by rising interest rate environment



Investment grade: Expect slight reversion in yield compression with emerging support on yield-carry requirements. Expect range movements. Still, an important part of any diversified portfolio



High yield: Selective opportunities available when risk appetites improves

Central Bank Forecasts (%)

	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22
Fed	0-0.25	0-0.25	0-0.25	0-0.25	0.25-0.50
BOC	0.25	0.25	0.25	0.25	0.25
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.10	0.10	0.10	0.25	0.25
SNB	-0.75	-0.75	-0.75	-0.75	-0.75
RBA	0.10	0.10	0.10	0.10	0.10
RBNZ	0.75	0.75	0.75	0.75	0.75
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	1.75
MAS	-	Tighten	-	Hold	
PBOC	Hold	Hold	Hold	Hold	Hold

Markets Outlook – FX

FX – Driven by Policy Normalization Expectations

+

USD: Fed tapering and rate hike expectations to drive dollar strength.
MYR: Recovery story
SGD: Expectations of MAS moving to currency appreciation policy

= **CNY:** China’s currency stability policy

-

JPY: BOJ’s more accommodative monetary policy
EUR and GBP: To eventually weaken somewhat from dollar strength.

? **AUD, NZD, CAD:** Vulnerable to risk aversion and corrections to commodity prices.

FX Forecasts

	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22
DXY	94.50	95.00	95.50	96.50	97.50
USD/CAD	1.25	1.24	1.23	1.24	1.25
EUR/USD	1.15	1.14	1.14	1.13	1.12
GBP/USD	1.35	1.35	1.34	1.33	1.32
AUD/USD	0.72	0.71	0.71	0.70	0.70
NZD/USD	0.69	0.69	0.68	0.68	0.68
USD/JPY	112	113	114	115	117
USD/MYR	4.15	4.15	4.15	4.15	4.10
USD/SGD	1.35	1.34	1.33	1.34	1.34
USD/CNY	6.45	6.45	6.45	6.50	6.50

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