

CIO Weekly

28 June 2022

Key Points

- **Equities:** S&P 500 attractive on a 12-month perspective; Sell-down in Technology reaching a tail-end
- **Rates:** US recession potentially a massive headwind for Asia bonds as investors grapple with dollar strength and widening of risk and term premiums

Equities: Positive 12-month view for S&P 500

US corporate earnings remain resilient despite rising rhetoric on recession. US equities have suffered an acute selloff since the start of the year amid rising bond yields and geopolitical uncertainties. Adding on to the proverbial wall of worries are rising recession concerns as elevated inflationary pressure weighs on the outlook for investments and domestic consumption. Indeed, US domestic consumers are essentially stuck between a rock and a hard place today given falling assets prices and rising cost of living.

Despite the domestic headwinds, the earnings outlook for US companies remains resilient. According to Bloomberg consensus, corporate earnings growth (based on calendar year) is still expected at 17.8% in 2022 and 9.1% in 2023. While such a growth trajectory is not what one would typically consider as “spectacular”, however, they are also not as dire as what the prevailing rhetoric on recession is suggesting.

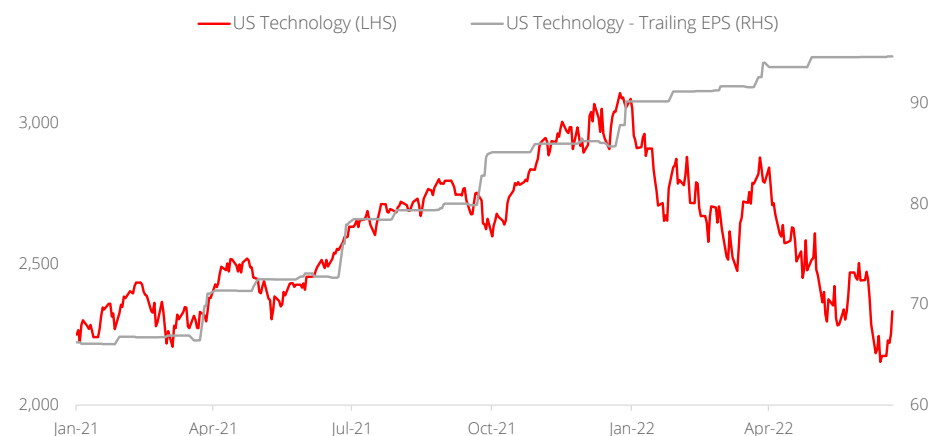
The resilience of US corporate profitability can be attributed to two factors: a) Globally diversified nature of US companies’ revenue base and 2) Strong market positioning and ability of US companies in protecting their profit margins.

S&P 500 attractive on a 12-month perspective; Focus on Quality Plays. We have previously analysed how the S&P 500 tends to trade in subsequent 12-months after an acute correction at the start of the year. Our research concludes that US equities have historically rallied 20% on average, with positive returns occurring on four out of five occasions. Such findings underpin our view that the risk-reward of gaining exposure to the US market is looking increasingly attractive. We advise investors to focus on Quality Plays – companies that possess strong pricing power and market positioning.

Selldown in Technology reaching a tail-end. From a sectoral perspective, we do not advocate switching out of Technology as we believe the selldown (as a result of rising bond yields) is reaching a tail-end. At the end of the day, the Technology space is backed by resilient earnings and rising bond yields have limited impact on their long-term fundamentals.

Dylan Cheang | Strategist

Figure 1: US Technology earnings stay resilient



Source: Bloomberg, DBS

GLOBAL CROSS ASSETS

Returns of cross assets around the world

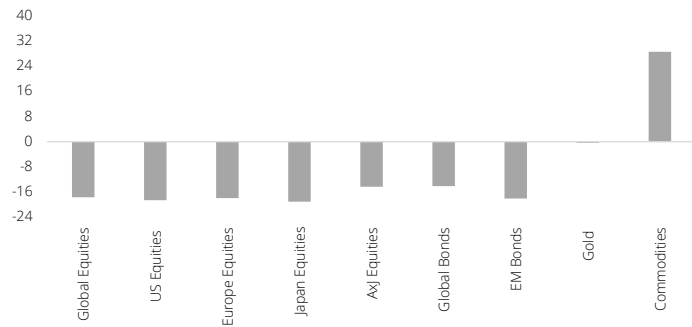
Index	Close	Overnight	YTD
DJIA	31,438.26	-0.2%	-13.5%
S&P 500	3,900.11	-0.3%	-18.2%
NASDAQ	11,524.55	-0.7%	-26.3%
Stoxx Europe 600	415.09	0.5%	-14.9%
DAX	13,186.07	0.5%	-17.0%
CAC 40	6,047.31	-0.4%	-15.5%
FTSE 100	7,258.32	0.7%	-1.7%
MSCI AxJ	669.86	1.6%	-15.1%
Nikkei 225	26,871.27	1.4%	-6.7%
SHCOMP	3,379.19	0.9%	-7.2%
Hang Seng	22,229.52	2.4%	-5.0%
MSCI EM	1,027.55	1.6%	-16.6%
UST 10-yr yield*	3.20	2.2%	169.0
JGB 10-yr yield*	0.24	5.3%	17.2
Bund 10-yr yield*	1.54	7.4%	172.6
US HY spread*	5.02	-1.0%	219.0
EM spread*	427.34	-0.6%	97.1
WTI (USD)	109.57	1.8%	45.7%
LMEX	3,967.70	1.2%	-11.9%
Gold (USD)	1,822.85	-0.2%	-0.3%

Source: Bloomberg

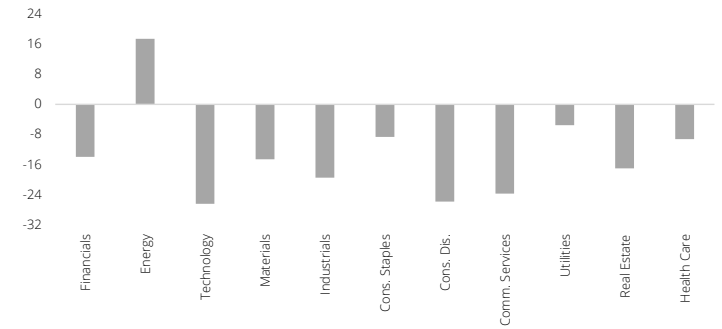
* Changes in basis points

CIO Markets Watch

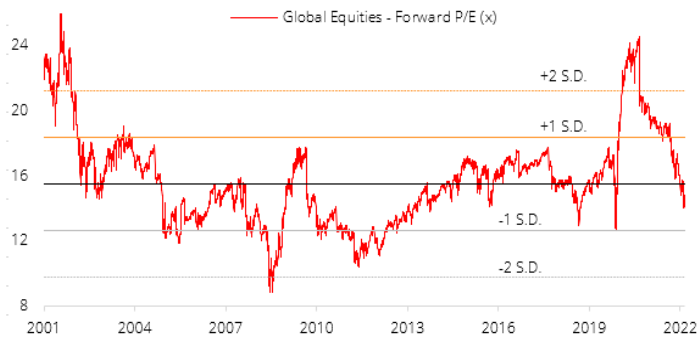
Global Cross Assets YTD Returns



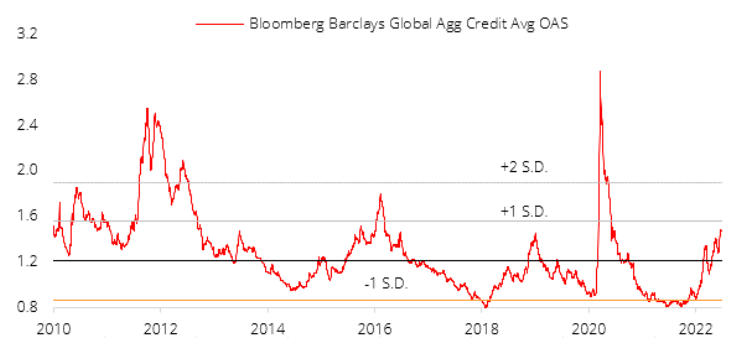
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



INDEX RETURNS

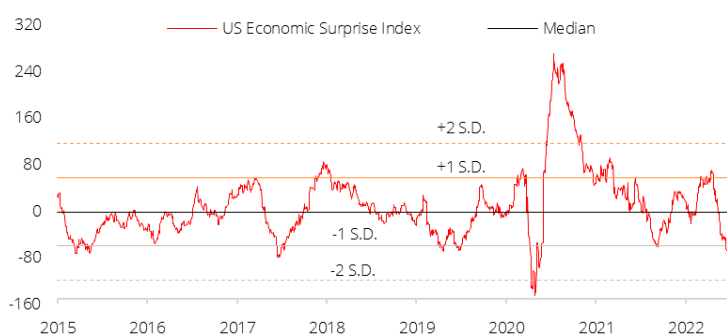
	1 week	MTD	QTD	YTD
Equities				
S&P 500	6.1%	-5.6%	-13.9%	-18.2%
NASDAQ	6.7%	-4.6%	-19.0%	-26.3%
Russell 2000	6.4%	-5.0%	-14.4%	-21.1%
Euro Stoxx 600	2.0%	-6.4%	-8.9%	-14.9%
Nikkei-225	4.3%	-1.5%	-3.4%	-6.7%
MSCI WORLD	5.1%	-6.0%	-14.1%	-18.8%
MSCI ACWI	4.9%	-5.9%	-13.6%	-18.6%
MSCI Asia ex-Japan	3.2%	-2.6%	-7.5%	-15.1%
MSCI EM	2.7%	-4.7%	-10.0%	-16.6%
HSCEI	5.6%	5.4%	3.9%	-5.1%
SHCOMP	1.9%	6.0%	3.9%	-7.2%
Hang Seng	5.0%	3.8%	1.1%	-5.0%
STI Index	1.3%	-2.9%	-8.0%	0.4%
Fixed Income				
Barclays Global Aggregate	0.7%	-3.5%	-8.5%	-14.1%
Barclays US Aggregate	0.3%	-2.6%	-5.7%	-11.3%
Barclays US High Yield	0.6%	-5.0%	-8.1%	-12.6%
Barclays Euro Aggregate	1.3%	-3.1%	-7.9%	-12.9%
Barclays Euro High Yield	-0.5%	-5.1%	-9.0%	-12.7%
JPM EMBI Global	0.2%	-4.6%	-9.7%	-18.0%
JPM EMBI Global Diversified	0.4%	-5.0%	-10.1%	-19.9%

PRICES & SPREADS

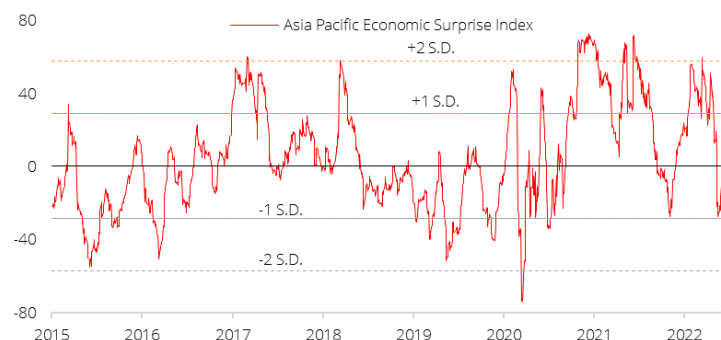
	Spot	4Q21	3Q21	2Q21
Rates				
Fed Funds Target	1.75	0.50	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	3.20	2.34	1.51	1.49
Japanese Govt Bond 10-yr	0.24	0.21	0.07	0.07
German Bunds 10-yr	1.54	0.55	-0.18	-0.20
Spreads				
US Agg Corporate Spread	1.48	1.16	0.92	0.84
US Corporate HY Spread	5.02	3.25	2.83	2.89
Euro Agg Corporate Spread	1.98	1.31	0.97	0.87
EM USD Agg Spread	3.76	3.13	2.85	2.87
Currencies				
US Dollar Index (DXY)	103.9	98.3	95.7	94.2
EUR/USD	1.06	1.11	1.14	1.16
USD/JPY	135.5	121.7	115.1	111.3
USD/CNY	6.7	6.3	6.4	6.4
Commodities				
WTI Oil	110	100	75	75
London Metal Exchange (LMEX)	3968	5174	4502	4161
TR/CC CRB Commodity	299	295	232	229
Gold	1823	1937	1829	1757

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



MACRO CALENDAR

	Date	Period	Survey	Prior
United States & Eurozone				
Initial Jobless Claims (US)	30-Jun	25-Jun	229k	229k
GDP Annualised q/q (US)	09-Jun	1Q	-1.50%	-1.50%
ISM Manufacturing (US)	01-Jul	Jun	54.5	56.1
Conf. Board Consumer Confidence (US)	28-Jun	Jun	100	106.4
MBA Mortgage Applications (US)	29-Jun	24-Jun	--	4.20%
S&P Global Eurozone Manufacturing PMI (EU)	01-Jul	Jun	52	52
S&P Global US Manufacturing PMI (US)	01-Jul	Jun	52.4	52.4
Personal Income (US)	30-Jun	May	0.50%	0.40%

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
Industrial Production m/m (JP)	29-Jun	May	-0.30%	-1.50%
Jobless Rate (JP)	30-Jun	May	2.50%	2.50%
Manufacturing PMI (CN)	29-Jun	Jun	50.5	49.6
Caixin China PMI Mfg (CN)	30-Jun	Jun	50.2	48.1
Tokyo CPI Ex-Fresh Food y/y (JP)	30-Jun	Jun	2.10%	1.90%
Jibun Bank Japan PMI Mfg (JP)	30-Jun	Jun	--	52.7
Tankan Large Mfg Index (JP)	30-Jun	2Q	13	14
Job-To-Applicant Ratio (JP)	30-Jun	May	1.24	1.23

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