FEBRUARY 2022

Investment Navigator
Asia Edition

With the US inflation hawks flying, can the Chinese Tiger roar in 2022?

Key questions

- After a hawkish Federal Reserve press conference, what is our latest view on inflation, the labour market and the pace of Federal Reserve tightening? What are the key inflation indicators to watch in 2022?
- Will the China Economy finally start to roar in the year of the Tiger? It is the only major economy loosening policy both fiscal and monetary. Will it be enough?
- How to position in global financial markets given the volatile start to the year? Which sectors and regions?

The Federal Reserve hawks are flying? What is our latest view?

With the recent Federal Reserve meeting, it did not surprise us that Fed Chair Powell maintained a hawkish stance in the press conference. There is definitely a need for the Federal Reserve to keep their options open, with headline US CPI inflation at 7% in December. In addition, the US economy is rapidly approaching full employment, with the recent unemployment rate at 4.0% vs 14.7% during the pandemic. Finally, it is also an election issue as the mid-term elections will be held in November this year. The Federal Reserve had been successful before the meeting to raise market expectations to four hikes for this year and following the FOMC meeting, the market has increased its expectation to five hikes.

Our forecasts are for full year above consensus inflation of +4.6% in 2022 and back to trend of +2.1% in 2023. However, the path is important as we expect inflation to peak in Q1 2022 and decline over the year.

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In addition, we maintain four rate hikes for 2022 and an additional four rate hikes in 2023. Furthermore, our expectation of quantitative tightening announcement moves up by one month from July 2022 to June 2022.

Our 10-year Treasury yield forecast remains at 2% and the 2-year yield target at 1.5%. Importantly, the Federal Reserve signaled they would not conduct outright asset sales, rather quantitative tightening will be achieved via caps on reinvestments, allowing the balance sheet to decline smoothly predictably. Prior to the FOMC, the market had feared a more aggressive outright selling of assets by the Federal Reserve.

We must think of tightening as a combination of interest rate hikes and quantitative tightening.

How will inflation evolve in 2022? What are the key indicators to watch?

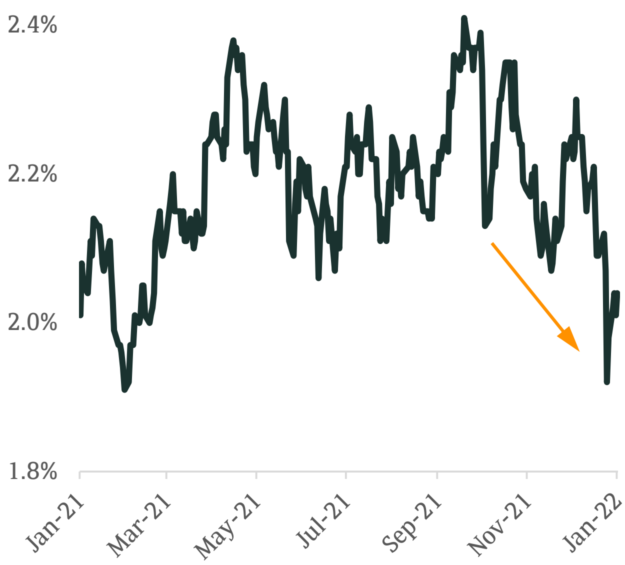
The level of inflation and the state of the labour market are obviously central to the Fed's response. Why aren't we changing our rate rise forecasts at the moment?

(1) Wage Inflation: **Employment Cost Index**, which tracks employees' total compensation, will provide further insights into a **possible wage-price spiral**. The figure jumped in 3Q 2021. The most recent figure of 1.0% mom for the 4Q actually missed estimates of 1.2%. Of course, the year-on-year rate rose at 4.0%. The key will be the evolution of labour participation rate this year. To what extent will discourage workers to re-enter the labour force?

(2) Supply Chain: **ISM Priced paid** – About to Improve? This can lead CPI by six months. The good news is the figure of suppliers deliveries and priced paid for materials fell to their lowest in a year in December. In addition, a number of indicators are falling from peak levels, such as lumber (-25%) and Baltic Dry freight index (-75%). Auto production is also improving. The key will be to examine the impact of Omicron and any new delays to supply chain as well as other bottlenecks.

(3) **Medium-term inflation expectations are actually falling!** Another comforting factor for the Fed is that the 5-year inflation expectations are falling year-to-date. This reflects the market's view that the inflation pickup is cyclical in nature and not structural in the medium term.

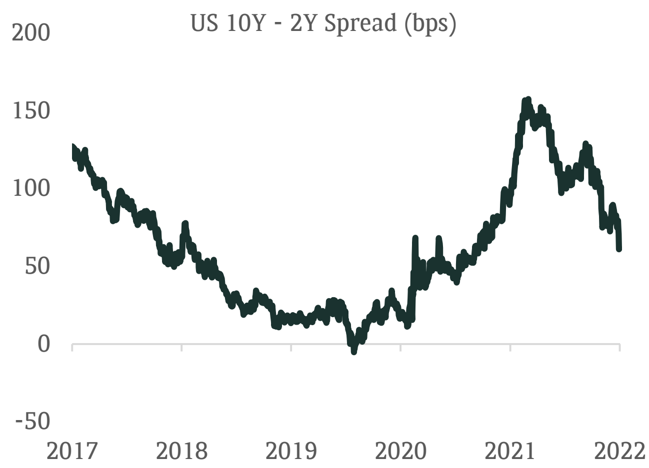
FED'S 5-YEAR INFLATION EXPECTATION IS DECLINING



Source: Bloomberg, BNP Paribas (WM), as of 4 Feb 2022
Past performance is not indicative of current or future performance.

(4) Yield Curve Flattening: When could they Blink? This medium term inflation dilemma is reflected in the recent flattening of yield curve. An inversion (when short-term yields become higher than long-term yields) is typically a sign of a recession coming in 12-18 months and or a possible policy error of too aggressive tightening. **Currently, the differential between the 10-year yield and the 2-year yield stands at 57bps. In December 2018, it flattened closer to a 30bps differential before the Federal Reserve pivoted.** This will be a key reality check to monitor on market expectations. If the flattening accelerates further, the Federal Reserve could get worried about a potential policy error. Ultimately, we expect growth to slow but still be above trend growth in 2022, with a low chance of recession.

YIELD CURVE IS FLATTENING



Source: Bloomberg, BNP Paribas (WM), as of 4 Feb 2022
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(5) Credit Matters – Watch credit indices as the Federal Reserve also paused tightening when the high yield market seized up in late 2018. Despite some spread widening (as we forecasted in 2022), clearly we are not experiencing frozen credit markets at the moment.

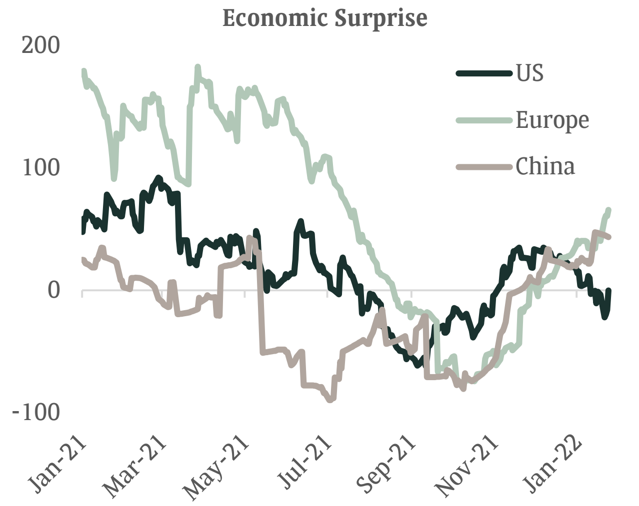
(6) US Economic growth – US growth expected to slow but remain healthy in 2022. Currently, the US economic surprise index is falling which could help easing inflation over the course of 2022. Fiscal stimulus will be a drag.

China: Will the Tiger roar in 2022?

The China economy weakened in 2021 due to the property downturn, Covid-19 restrictions affecting consumption growth, and regulatory pressures. The recent Central Economic Work Council and Politburo meetings in December of 2021 have resulted in a **focus on economic stability rather than deleveraging**. It was stated that fiscal policy will be front loaded, including boosting infrastructure spending. Therefore, any **moves by China to boost both fiscal and monetary stimulus are important catalysts to monitor.**

In that regard, **China had a second reserve rate cut in December as well as cut in policy rates including medium term lending rate and loan prime rate in January**. Furthermore, further reserve rate cut and key rates cut are forecasted in the coming quarter. If these conventional policies are not enough, loosening property curbs and boosting issuance of local government debt seems possible.

THE CHINA ECONOMIC SURPRISE INDEX IS RISING, CONFIRMING GROWTH BOTTOMING



Source: Bloomberg, BNP Paribas (WM), as of 4 Feb 2022
Past performance is not indicative of current or future performance.

When could the Property Downturn End?

Property down cycles have ranged from 12 months on average from peak sales to trough sales and 8 months on average of negative year on year sales growth. The peak sales was experienced in February 2021 and the first month with negative sales growth year-on-year was August 2021.

Hence, based off previous cycle averages, the downturn could end in the second quarter of 2022 on these two metrics. Wildcards such as omicron and further shutdowns clearly remain, and these will have to be closely monitored.

While the easing will be incremental and gradual, it could put an end to further downgrades to economic growth in 2022.

Crucially, opportunities will develop for prudent investors in the coming quarters. We have been positioning defensively via China A-shares last year. They outperformed last year, while China small/mid caps (CSI-500) was also up +17% in 2021, leveraged to the common prosperity theme.

Opportunities will develop for broader China equities and selected China bonds for patient investors in 2022, especially as current valuations remain attractive. Policy will finally turn into a catalyst.

Maintain overweight: Non-US to US equities

Non-US equities have outperforming materially year-to-date against the falling US equities (maintain neutral). Their overweighting to technology shares drives this underperformance. **We particularly favour Eurozone, Japan and UK, as their valuations are reasonable and those markets have more exposure to value/cyclicals. We remain overweight two of the best performing sectors EU energy +11% and EU banks +11% year-to-date.**

Growth and technology stocks are looking hamstrung currently with higher yields, and they typically stabilize only after the first rate hike.

Historical data shows that high-quality stocks can generally play a defensive role in times of market volatility, and volatility is the name of the game for 2022. Dividend stocks portfolio has also typically done well in a rising rate environment. Hence these are suitable for investors who are bullish on future performance but worried about short-term volatility.

CONCLUSION / STRATEGY:

- The Federal Reserve meeting reignited market fears on the pace of rate rises. We maintain our forecasts for four rate rises in 2022 and four in 2023 with Quantitative Tightening announcement in June 2022, one month earlier than previously forecasted. US inflation could be peaking in the first quarter. Watch out for key indictors which are now pointing towards a lower future inflation. Medium term inflation expectations are actually declining.
- China is the only major economy easing policy in 2022. We have been positioning defensively via China A-shares, which outperformed last year. Opportunities will develop for broader China equities and selected China bonds for patient investors in 2022, especially as current valuations remain attractive.
- We continue to favour Non-US, which have outperformed US Equities (maintain neutral) YTD. We like Eurozone, Japan and UK, as their valuations are reasonable and those markets have more exposure to value/cyclicals. Investors should consider increase exposure to Quality and Dividend Yielding stocks with higher expected market volatility.
- We are negative on US Treasuries as we see yields to move up further with our yield targets for 2-year at 1.50% and 10-year at 2.0%.
- We also see real assets, precious metals and green commodities as good inflation hedges.

Overview of our CIO Asset Allocation for February 2022

	Views Current	Views Prior	Constituents	We like	We avoid	Comments
EQUITIES	+	+	Markets	EU, UK, Japan		Prefer non-US over US equities Prefer Cyclical/value over expensive growth/tech stocks Favour quality names and dividend stocks
			Sectors	Financials, Healthcare, Semiconductors, Construction, Gold miners, EU Energy	Transportation	We **downgraded** US real estate from positive to neutral
			Styles/ Themes	Megatrend themes		Good potential remains for secular themes such as **5G, AI, cloud, cybersecurity, smart consumers, health tech, water, waste & infrastructure.**
BONDS	-	-	Govies		US short-end & long-end Treasuries	■ **We revised up our 2-year US bond yield target to 1.5% and keep 10-year at 2%.** ■ We stay **negative** on US govies, whatever the maturity
			Segments	Emerging Markets Bonds (USD + local currency) Fallen Angels & Rising Stars		■ We are **neutral on US investment grade (IG) & high yield (HY).** ■ We prefer **Fallen Angels & Rising Stars.** ■ We are **positive on EM bonds, in both hard and local currency.**
CASH	=	=				
COMMO-DITIES	+	+		Gold & Base Metals		■ **Gold - positive**: We expect gold to trade in the $1800-2000 range. ■ **Oil - neutral**: $100/barrel could be seen next year and even earlier should unforeseen supply disruptions occur ■ **Base metals – Turned Positive from neutral**
FOREX			EURUSD			Our 12-month target remains 1.12.
ALTERNATIVE				Real Estate; Private Equity Macro, Event-driven Hedge Funds		We are neutral on Relative Value & Long/Short Equity, with a preference for Macro & Event Driven strategies.

Note: + Positve / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2021f	2022f	2023f	2021f	2022f	2023f
	Global	5.6	4.8	3.8	-	-	-
Developed	US	5.5	4.7	2.8	4.7	4.6	2.1
Developed	Japan	1.7	2.6	1.6	-0.2	0.7	0.5
Developed	Eurozone	5.0	4.2	3.0	2.5	3.1	2.0
Developed	UK	7.1	5.4	2.1	2.5	4.5	2.1
	Developing Asia	5.9	8.2	5.2	3.8	4.0	3.6
North Asia	China	7.9	5.3	5.5	0.9	2.1	2.5
North Asia	Hong Kong*	6.4	3.5	3.1	1.9	2.1	2.3
North Asia	South Korea	3.9	2.7	2.2	2.3	2.3	1.7
North Asia	Taiwan*	5.9	3.3	2.6	1.6	1.5	1.4
South Asia	India	8.0	11.0	6.0	5.4	5.7	5.0
South Asia	Indonesia	3.6	5.8	5.1	1.5	1.9	2.2
South Asia	Malaysia	2.6	4.7	5.1	2.3	1.7	1.9
South Asia	Philippines*	4.3	3.0	3.0	4.3	6.3	7.0
South Asia	Singapore*	6.0	3.2	2.7	1.6	1.5	1.5
South Asia	Thailand	1.2	3.6	4.0	1.1	1.1	1.1

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 31 January 2022
* IMF data and forecasts as of 31 January 2022

GROWTH

- We reiterate our above-trend growth scenario for 2022, thanks to strong households spending, low unemployment, high savings and a stimulative policy mix.
- Economic growth in the US and Eurozone should stabilise above 4% this year and around 3% next year.

INFLATION

- Inflation remains the key source of uncertainty. The year-on-year comparisons will become less extreme over the coming months especially for energy prices. This so-called "base effect" will thus be a source of lower inflation later this year.
- We do, however, see more resilience in the price pressures coming from the supply chains.

Equity

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: POSITIVE

	POSITIVE	NEUTRAL	NEGATIVE
COUNTRY	Eurozone Emerging Mkt Japan UK	US	-
SECTOR	Healthcare Financials	Consu. Discre. Technology Energy, Comms Materials Industrials Consu. Sta. Utilities ▼ Real Estate	

OVERALL ASIA: POSITIVE

	POSITIVE	NEUTRAL	NEGATIVE
COUNTRY	China Singapore South Korea Indonesia	Taiwan India, Thailand Malaysia Philippines	-
SECTOR	Technology Healthcare ▲ Consu. Discre. Consu. Sta. Utilities	Comms Energy Materials Real Estate ▼ Industrials	Financials

- Non-US equities are preferred over US equities; cyclical/value preferred over expensive growth/tech stocks. We favour quality names and dividend stocks
- After superb performance in 2021, we **downgrade US REITs to neutral**. We prefer EU REITs as they remain relatively cheap.
- **Upgrade Asia consumer discretionary to positive** due to attractive valuations and anticipated pro-growth economic policies.
- **Downgrade Asia industrials to neutral** as the sector is facing high material cost pressure.

		1-month (%)	YTD (%)	2021 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2022f	EPS Growth (%) 2022f	EPS Growth (%) 2023f	ROE (%) 2022f
Developed	US	-5.7	-5.7	25.2	19.9	4.9	1.9	7.8	10.2	22.2
Developed	Japan	-5.0	-5.0	11.4	13.5	1.5	2.2	38.5	6.8	9.2
Developed	Eurozone	-3.6	-3.6	20.1	14.4	1.9	2.4	7.3	8.6	10.3
Developed	UK	1.8	1.8	15.0	12.0	1.9	3.6	3.7	2.9	9.9
	Asia Ex-Japan	-3.1	-3.1	-6.4	13.3	1.9	2.4	9.5	12.4	11.5
North Asia	China	-2.9	-2.9	-22.7	11.9	1.7	2.5	14.7	15.4	11.1
North Asia	China A-shares	-7.6	-7.6	-5.2	16.9	3.2	1.6	15.3	14.7	11.3
North Asia	Hong Kong	1.0	1.0	-5.9	15.4	1.3	2.9	15.9	14.1	8.7
North Asia	South Korea	-9.0	-9.0	-1.6	9.8	1.2	2.6	-1.0	11.0	13.6
North Asia	Taiwan	-1.5	-1.5	21.6	14.4	3.1	2.5	2.9	4.1	19.6
South Asia	India	-1.0	-1.0	27.3	22.1	4.1	1.1	19.9	14.5	13.9
South Asia	Indonesia	1.4	1.4	1.5	15.3	2.7	2.4	19.1	11.6	15.5
South Asia	Malaysia	-3.2	-3.2	-7.3	14.9	1.6	4.2	-10.2	13.1	10.2
South Asia	Philippines	4.0	4.0	0.9	18.0	2.0	1.3	26.8	21.8	8.8
South Asia	Singapore	-0.8	-0.8	4.4	14.9	1.5	3.4	12.6	15.7	8.1
South Asia	Thailand	-0.1	-0.1	7.1	17.8	2.3	2.7	15.0	13.6	9.6

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 31 January 2022

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEGATIVE		
Positive	Neutral	Negative
EMD (LC) EMD (HC)	US IG High Yield	Long-term UST Short-term UST

OVERALL ASIA (USD): NEUTRAL		
Positive	Neutral	Negative
Hong Kong ▲ Indonesia	India Philippines South Korea China	-

		Total Return (%)			Yield-to-Worst (%)
		1-Month	YTD	2021	
Asia	Asia USD Bond	-2.3	-1.7	7.3	3.5
	Asia Local Currency Bond	-1.6	-7.0	9.7	3.6
	China	-2.2	-4.6	6.1	4.2
	Hong Kong	-1.5	0.8	8.0	2.8
	India	-1.8	3.2	6.7	4.1
	Indonesia	-4.0	0.8	9.8	3.4
	Singapore	-1.5	0.5	6.9	2.5
	South Korea	-1.3	-0.3	6.9	2.0
	Philippines	-3.3	-0.1	7.4	3.1
Other Regions	US 10-year Treasuries	-1.9	-3.0	8.7	1.8
	US Investment Grades (IG)	-2.2	-1.5	7.5	2.1
	US High Yield (HY)	-2.7	5.3	7.1	5.3
	Emerging Market USD Bond	-2.5	-2.8	6.8	4.6

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 31 January 2022

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	▲ 1.5	1.75	2.0	2.6

- We think that Chair Powell is talking tough given that inflation is too high and has become a political issue. Inflation may decline over the year, allowing the Fed not to hike rate at every meeting. We expect 4 rate hikes of 25bps each at every quarter in 2022, starting from March.
- The quantitative tightening announcement looks more likely to come in June for a July start, one month earlier than we had previously thought.
- We expect bond yields to continue rising in the US. Our 12-month targets for 10-year remains at 2%, while **we revised up the 2-year target to 1.5%.**
- The easing measures in China would help ease the liquidity pressure, especially for some better quality China HY issuers and may create some bottom fishing opportunities.
- We are **positive on Indonesia** credit as Indonesian economy will gain momentum on further reopening and follow through on the reforms and infrastructure projects.
- We still **see value in Hong Kong names** where most of them have demonstrated resilience in bond price despite concerns on China policy risk and rate hikes. This is primarily mitigated by their largely non-China asset portfolios and relatively short duration.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

12-MONTH FOREX VIEW: Positive	Neutral			Negative
AUD	USD	JPY	EUR	CNY
NZD	KRW	TWD	HKD	INR
GBP	MYR	PHP	IDR	
CAD	THB		SGD	

COMMODITIES: Positive	Neutral	Negative
Gold ▲ Base metal	Oil	-

DXY Index: US Inflation reached a new record level at 7% in December and the Fed is tightening its tone and soon its policy. The recent rise of the US 2-year yield relative to Germany and the Eurozone is a strong support factor for the greenback.

3M & 12M USDJPY target at 114: The Bank of Japan now expects inflation to be above 1% for 2022 and 2023, still far from the 2% target. As long as this target is not reached, the BoJ will remain ultra accommodating. The US 2-year above 1.2% creates a significant yield differential with the JPY. In this context, we adjust our target from 111 to 114, suggesting less appreciation for the JPY.

GOLD: The risk of persistent inflation and negative real yields should support gold prices in the range $1800-2000/oz. Gold remains our preferred hedge against economic, financial et geopolitical tail risks.

OIL: Brent is overbought and the seasonal effect will become negative in February but increasing demand, low stockpiles and tight supply management by OPEC+ are such that risks remain tilted to the upside. $100/barrel could be seen next year and even earlier should unforeseen supply disruptions occur.

BASE METALS: We turned positive as the short-term outlook for base metals is improving with the end of the winter, the restocking needs and a more accommodative policy stance in China. The medium-term outlook remains bright due to the energy transition needs and tight supply.

Forex Forecasts

		Spot As of 31 Jan 2022	3-month View	3-month Target	12-month View	12-month Target
Developed	USD Index*	96.54	=	96.3	=	96.3
	Japan	115.2	=	114	=	114
	Eurozone	1.121	=	1.12	=	1.12
	UK	1.342	+	1.37	+	1.37
	Australia	0.705	+	0.73	+	0.73
	New Zealand	0.658	+	0.70	+	0.70
	Canada	1.272	+	1.25	+	1.25
Asia Ex-Japan	China	6.365	-	6.50	-	6.50
	Hong Kong*	7.798	=	7.78	=	7.79
	South Korea*	1,206	=	1,195	=	1,230
	Taiwan*	27.81	=	28.0	=	28.6
	India	74.62	=	76.0	-	74.0
	Indonesia*	14,382	=	14,200	=	14,400
	Malaysia*	4.186	=	4.17	=	4.20
	Philippines*	50.98	=	50.8	=	52.9
	Singapore*	1.352	=	1.35	=	1.37
	Thailand*	33.30	=	32.70	=	33.20

Source: BNP Paribas (WM) as of 31 January 2022
*BNP Paribas Global Markets forecast as of 31 January 2022

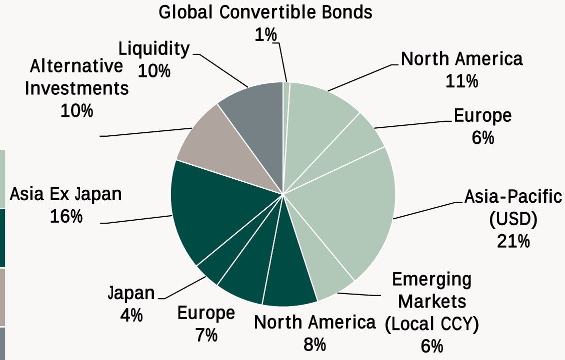
Note: + Positve / = Neutral / - Negative

Strategic & Tactical Asset Allocation

OUR TACTICAL ASSET ALLOCATION IS BASED ON OUR CIO'S ASSET ALLOCATION VIEWS. THERE IS NO CHANGE THIS MONTH.

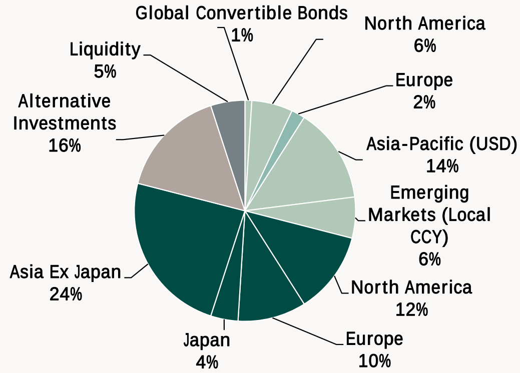
INVESTMENT PROFILE: BALANCED

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	50%	-5%	45%
EQUITIES	30%	5%	35%
ALTERNATIVES	10%	-	10%
LIQUIDITY	10%	-	10%



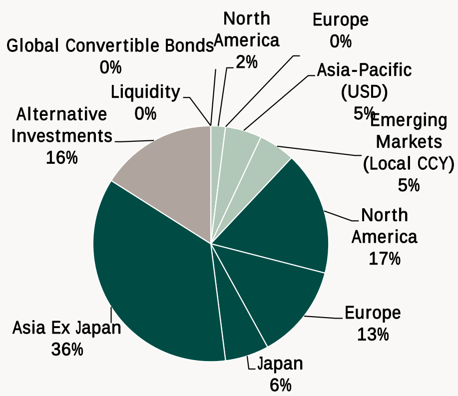
INVESTMENT PROFILE: DYNAMIC

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	35%	-6%	29%
EQUITIES	45%	5%	50%
ALTERNATIVES	15%	1%	16%
LIQUIDITY	5%	-	5%



INVESTMENT PROFILE: VERY DYNAMIC

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	20%	-8%	12%
EQUITIES	65%	7%	72%
ALTERNATIVES	15%	1%	16%
LIQUIDITY	0%	-	0%



Source: MyAdvisory, as of 3 February 2022
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