# Market Outlook – Asset Class 4Q 2022



## **Equities**



Slightly Underweight

- Economic activity continued to normalize lower. Global recession risks may accelerate as we come close to the peak of the rate hike cycle.
- Slower than expected decline in inflation may drive global central banks to continue with the path of policy tightening. Financial conditions are likely to remain in the tight zone.
- Global equity valuations are moving towards fair value and relatively reasonable. Earnings may be downgraded under the backdrop of looming recession risks and rising borrowing costs.
- Concerns over recession risks may grow amid rising rate environment. Brief rebounds are possible, while bear market may stay for a longer time.



**Fixed Income** 

• Government yields could fall as markets price in recession risks and investors become more risk averse.



Neutral

- Fed is expected to continue hiking rate in the quarter. This may push the frontend yields higher. Yield curve inversion is likely to aggravate further.
- There could be more deteriorations in fundamentals as economic conditions worsen. Spreads could widen as a result.











# Market Outlook - Equities 4Q 2022

# U.S.

- While the economic condition remains relatively resilient compared to other developed markets, the risk of an economic recession may increase in the first half of 2023.
- With core inflation accelerating, the Fed may not be able to slow the rate hike before the mid-term elections and may push the rate to 4.5% by the end of the year. The tightened financial conditions may pose threat to the stock market.
- Large caps remain relatively expensive while small and mid caps are below historical average. Margin may be pressured as the risk of economic downturn grows, especially for the small caps.

### Eurozone

- The conflict between Russia and Ukraine stays uncertain that will continue to weigh on business and consumer confidence. The suspension of gas delivery through Nord Stream 1 pipeline from Russia may worsen the energy shortage crisis and add fuel to the rising inflation trend.
- Inflation in the region is perhaps yet to peak and may stay well above the ECB's 2% target in the foreseeable future. Even though the economy is under great pressure, more aggressive rate hikes are likely to follow as ECB endeavours to contain inflation.
- Despite relatively attractive valuations, corporate earnings may struggle in face of these headwinds.



### lapan



- The government is expected to keep relaxing its travelling restrictions to boost tourism.
  Supportive fiscal policies may stay to boost economic growth.
- Divergence in monetary policies between BOJ and other major markets has caused a significant depreciation of Yen this year. If the weakening trend of Yen expedites, BOJ may intervene, posing threat to economic recovery. This may create volatilities for Japanese stocks.



- ASEAN countries have been benefiting from the less restrictive pandemic control and border reopening. The economic activities in the region may continue to normalize.
- Despite the strong dollar, the decline of Asian currencies is relatively contained and the risk of capital outflow may be controllable.
- While the tightening pace of some of the Asian central banks may accelerate in the face of rising inflation and currency depreciating pressure, China and global economic slowdown could further dampen the external demand of the region.







- With stimulus from reopening fading and resurgence of COVID cases, the Chinese economy has weakened further. More policy supports are expected.
- Without further industry regulation tightening together with more supportive measures to stabilize growth, investment sentiment may gradually improve.
- Hong Kong equities valuations have entered the reasonable zone.
  However, the uncertainties over zero-COVID approach in mainland China may still cloud the market.





Slightly Overweight



Neutral

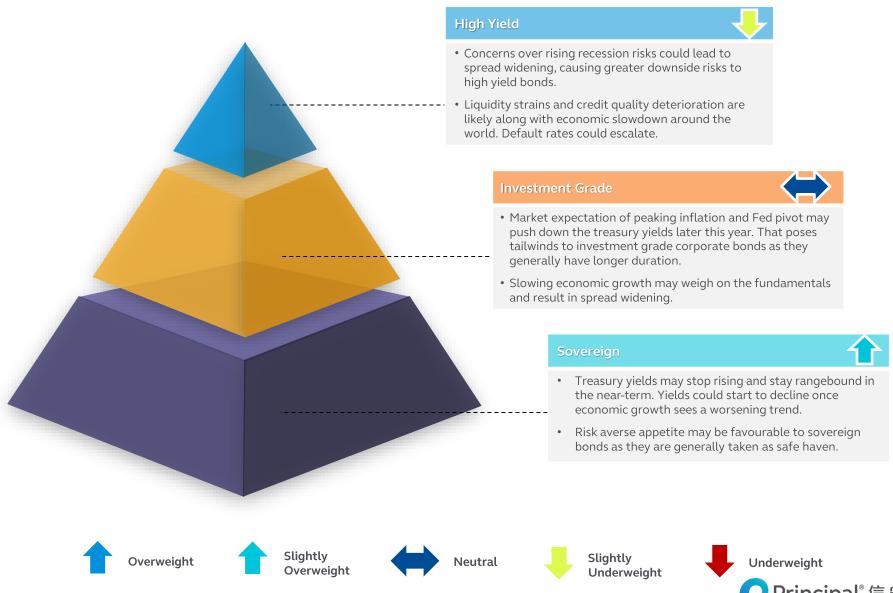


Slightly Underweight





# Market Outlook - Fixed Income 4Q 2022



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