

PromiseLand



PromiseLand's Monthly Market Outlook

For January 2022

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1 USA

1.1 Monthly Review

Consumer Staples, Healthcare, and Utilities were the winners for December 2021, with returns registering at 9.12%, 8.29%, and 8% respectively. The stellar performance of these sectors could be attributed to greater sector rotations into such defensive sectors, which tend to perform well during periods of economic stresses. The heightened activity occurred amidst the backdrop of the fresh and emerging Omicron coronavirus variant, which has sent jitters throughout the financial markets, propelling fears that the new variant could derail economic growth.

The impact of the new variant is also evident in the bottom-performing sectors, which are mainly the cyclical and growth sectors. Consumer Discretionary fared the worst, with a return of approximately 0.55%.

USA Sector Returns

Source: Bloomberg, author's compilation
Data as of Dec 2021

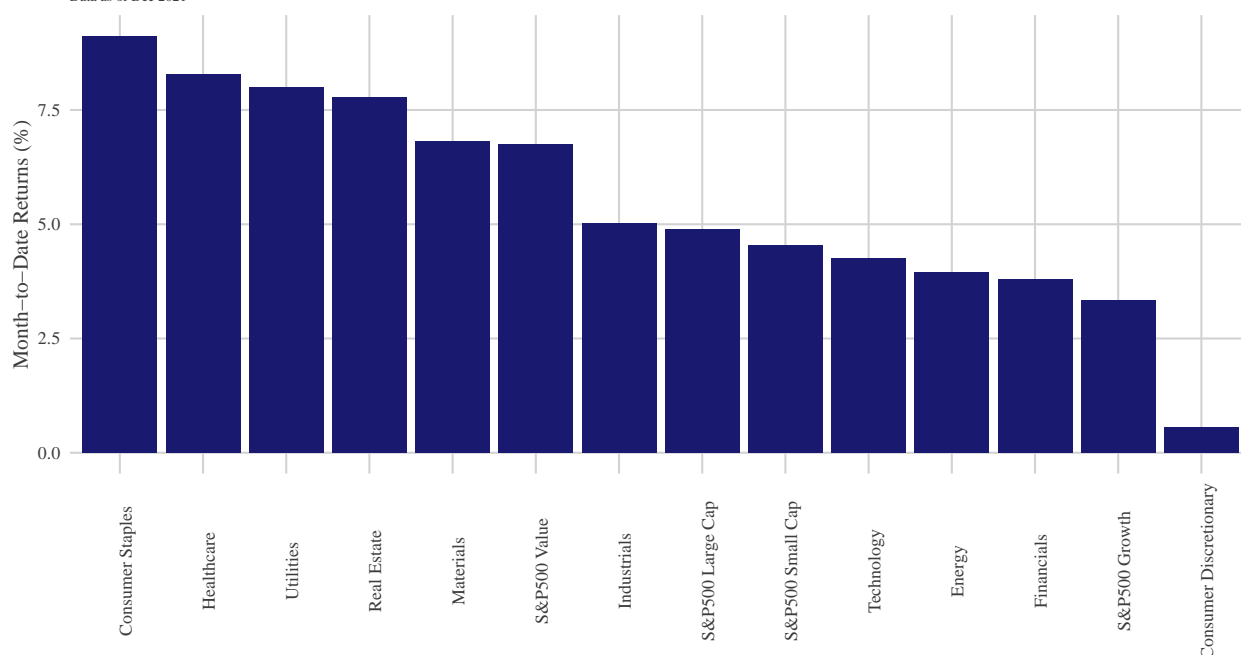




Table 1: USA Sector Monthly Returns (%)

Sector	Return
Consumer Staples	9.120
Healthcare	8.290
Utilities	8.000
Real Estate	7.770
Materials	6.820
S&P500 Value	6.750
Industrials	5.020
S&P500 Large Cap	4.890
S&P500 Small Cap	4.550
Technology	4.260
Energy	3.960
Financials	3.800
S&P500 Growth	3.330
Consumer Discretionary	0.552

1.2 Monthly Outlook

Preliminary research has indicated that the Omicron coronavirus variant, while more contagious, is less lethal than the Delta coronavirus variant. This has calmed market nerves, spurring sentiments that the market is still well on track towards economic growth. Economic indicators still look promising; for instance, the ISM United States Manufacturing Purchasing Managers Index and Non-Manufacturing Purchasing Managers Index stand at 61.1 and 69.1 respectively, with the latter at all time highs.

While such news are good, the dangers of sustained high inflation looms in the horizon. We are already seeing sustained and elevated Producer Price Index and Consumer Price Index levels. The Fed signaled that it will make aggressive policy moves in response to rising inflation, including accelerating the reduction of its monthly bond purchases. Fed officials also see as many as three rate hikes coming next year.

1.3 Base Case Estimates

Our models have considered all the information set up to this point, and estimated the relative rankings and sector return expectations.



Table 2: USA Sector Return Expectations (%)

Sector	Expected Return	Bear Case	Bull Case
S&P500 Value	5.370	-5.01	15.70
Financials	4.770	-7.90	17.40
Utilities	3.530	-7.90	15.00
Real Estate	3.190	-5.78	12.20
S&P500 Small Cap	2.960	-4.32	10.20
Consumer Discretionary	2.270	-6.58	11.10
S&P500 Large Cap	2.200	-4.99	9.38
Energy	2.100	-12.10	16.30
Healthcare	2.000	-8.05	12.10
Technology	1.980	-7.96	11.90
S&P500 Growth	1.440	-7.60	10.50
Industrials	1.140	-8.30	10.60
Consumer Staples	0.999	-7.64	9.63
Materials	-2.340	-13.10	8.44

In light of still-present inflationary pressures, we advocate allocating a greater proportion of portfolio holdings into the Value, Financials, Utilities and Real Estate sectors. Value stocks tend to do well during periods of sustained high inflation, and Real Estate can offer a value hedge against inflation in this current period. Financials could offer some decent upside opportunity as investors prepare for an inevitable rate hike, and Utilities, being a defensive sector, could provide additional diversification benefits and downside protection.

**One Step Ahead Forecast for Energy**

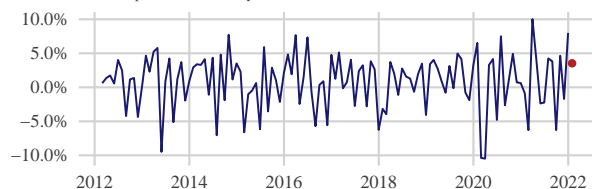
Data is reported on a monthly basis.

**One Step Ahead Forecast for Financials**

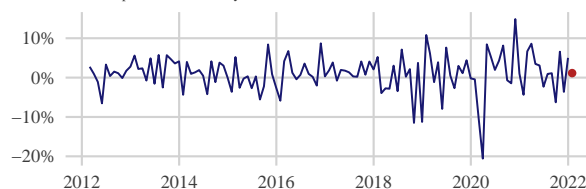
Data is reported on a monthly basis.

**One Step Ahead Forecast for Utilities**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Industrials**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Technology**

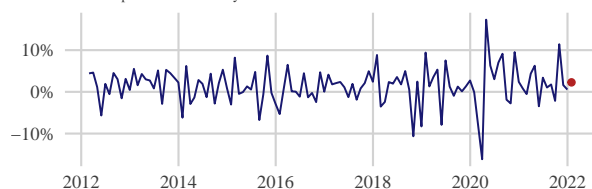
Data is reported on a monthly basis.

**One Step Ahead Forecast for Healthcare**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Consumer Discretionary**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Consumer Staples**

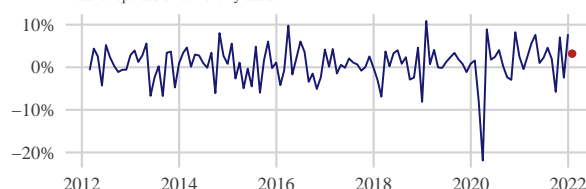
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**One Step Ahead Forecast for Materials**

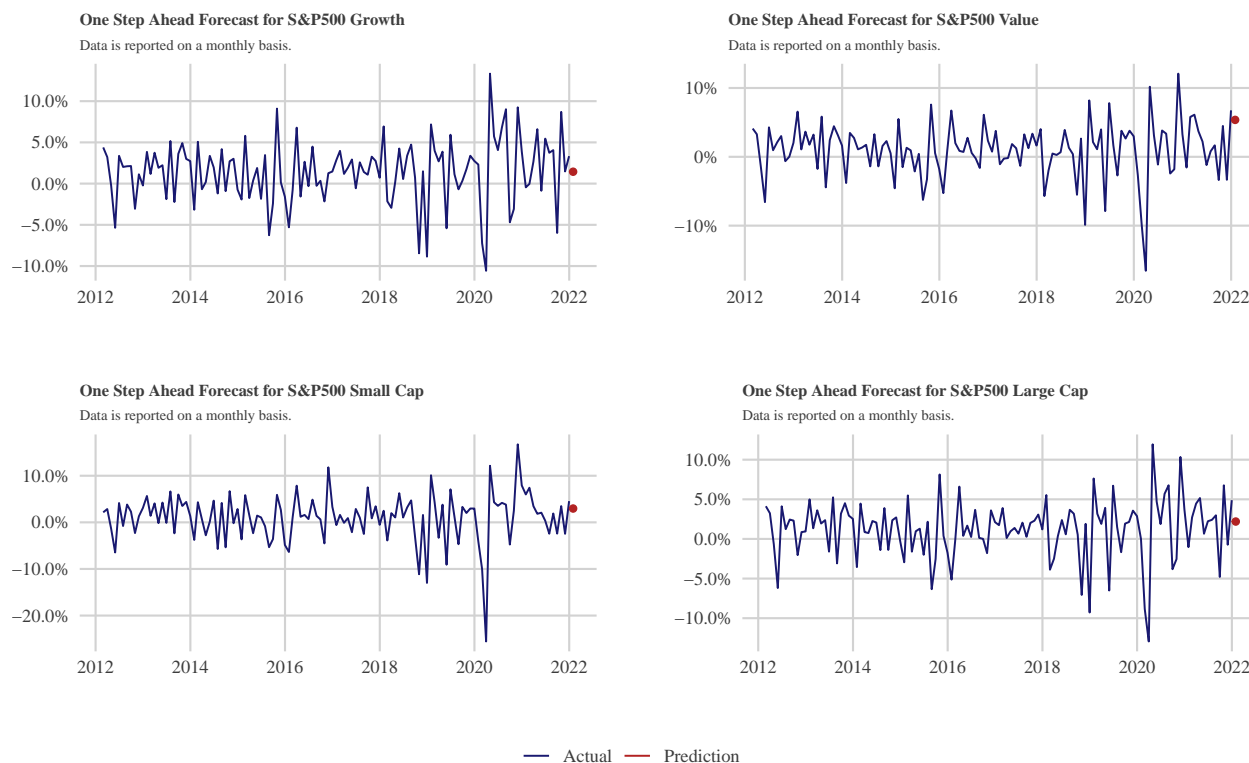
Data is reported on a monthly basis.

**One Step Ahead Forecast for Real Estate**

Data is reported on a monthly basis.



— Actual — Prediction





2 Europe

2.1 Monthly Review

Industrials, Energy, and Materials were the winners for December 2021. Despite elevated price levels, Europe has performed well across the board, with the exception of Consumer Staples and Consumer Discretionary.

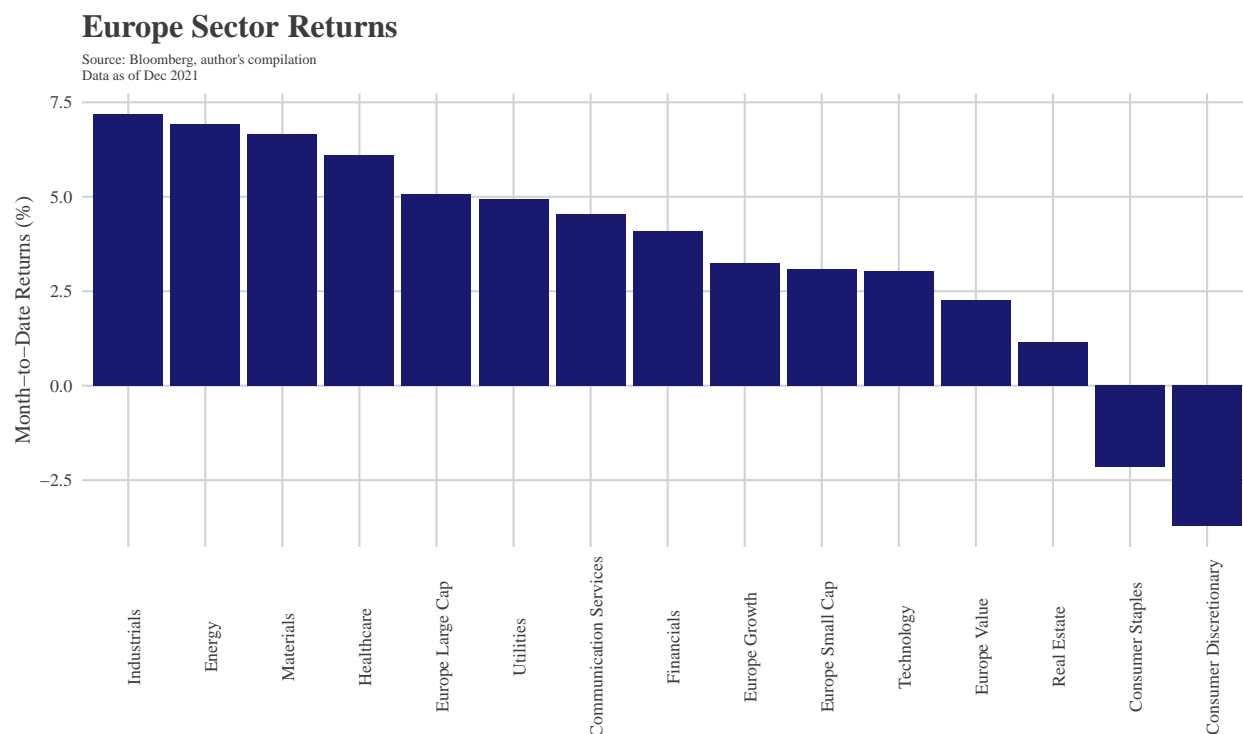


Table 3: Europe Sector Monthly Returns (%)

Sector	Return
Industrials	7.19
Energy	6.92
Materials	6.66
Healthcare	6.11
Europe Large Cap	5.06
Utilities	4.94
Communication Services	4.54
Financials	4.09
Europe Growth	3.23
Europe Small Cap	3.08
Technology	3.04
Europe Value	2.27
Real Estate	1.16
Consumer Staples	-2.15
Consumer Discretionary	-3.72



2.2 Monthly Outlook

Economic indicators still look promising; for instance, the Markit European Union Services Purchasing Managers Index and Manufacturing Purchasing Managers Index stand at and 53.3 and 58 respectively. The European Union Industrial Confidence Indicator also remain at elevated levels, which signal improvements in manufacturing sector conditions.

Like US, the dangers of sustained high inflation looms in the horizon. We are also seeing sustained and elevated Producer Price Index and Consumer Price Index levels. Major European indices have been hovering below their all time highs, as investors remain cautious due to uncertainty surrounding the economic outlook amid a spike in coronavirus cases. Investors are also digesting the beginning of the tightening cycles of monetary policies in major central banks.

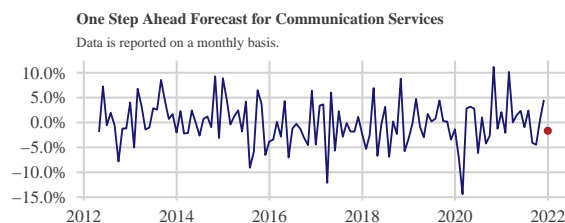
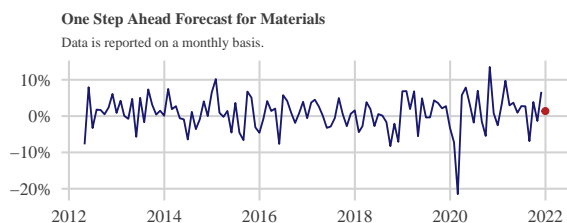
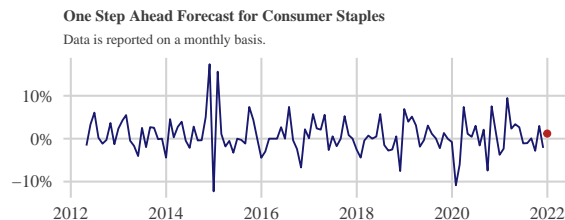
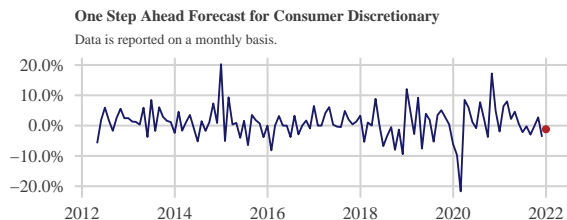
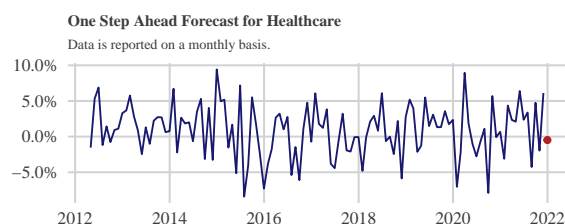
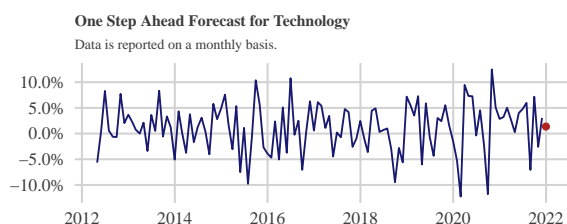
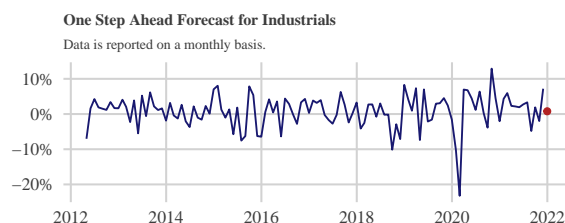
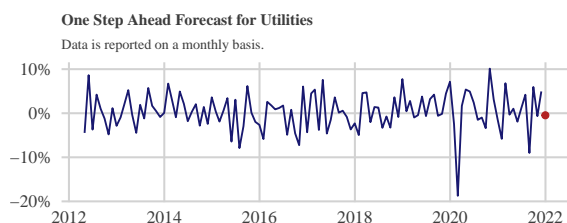
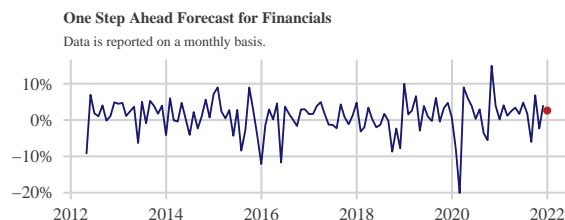
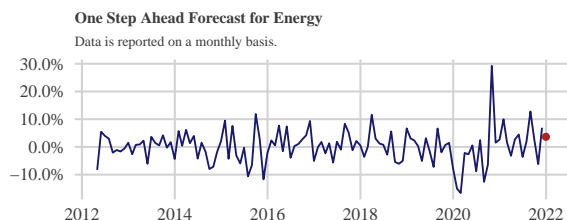
2.3 Base Case Estimates

Our models have considered all the information set up to this point, and estimated the relative rankings and sector return expectations.

Table 4: Europe Sector Return Expectations (%)

Sector	Expected Return	Bear Case	Bull Case
Real Estate	6.770	-9.28	22.80
Europe Large Cap	5.580	-1.85	13.00
Europe Value	4.430	-7.25	16.10
Energy	3.640	-11.00	18.30
Financials	2.620	-6.40	11.60
Europe Growth	1.770	-6.43	9.97
Materials	1.380	-8.53	11.30
Technology	1.370	-9.08	11.80
Consumer Staples	1.190	-5.14	7.53
Industrials	0.779	-6.61	8.16
Europe Small Cap	-0.272	-5.36	4.82
Utilities	-0.466	-11.50	10.50
Healthcare	-0.481	-8.65	7.68
Consumer Discretionary	-1.200	-10.00	7.61
Communication Services	-1.660	-9.64	6.33

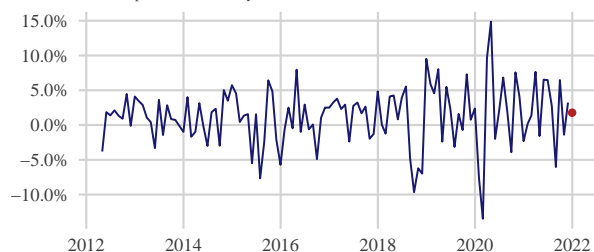
In light of recent uncertainties in the European markets stemming from a spike in coronavirus cases in the winter months and sustained inflationary pressures, we advocate allocating a greater proportion of portfolio holdings into the Real Estate, Europe Large Cap, and Europe Value sectors. Value stocks tend to do well during periods of sustained high inflation, and Real Estate can offer a value hedge against inflation in this current period. Large caps tend to provide some volatility cushioning during rough and uncertain markets, as Large Caps tend to be more mature companies.



— Actual — Prediction

**One Step Ahead Forecast for Europe Growth**

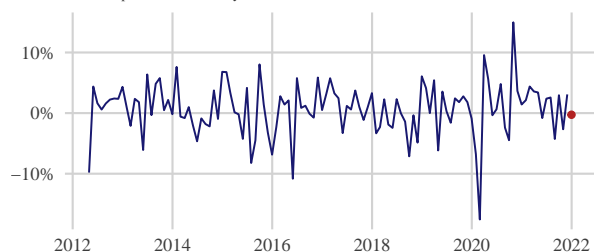
Data is reported on a monthly basis.

**One Step Ahead Forecast for Europe Value**

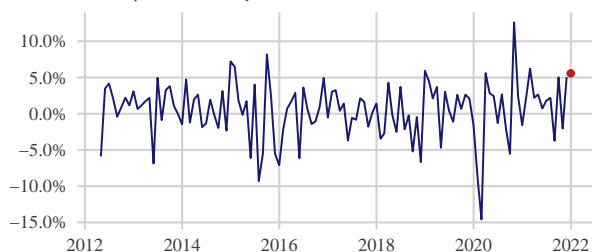
Data is reported on a monthly basis.

**One Step Ahead Forecast for Europe Small Cap**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Europe Large Cap**

Data is reported on a monthly basis.



— Actual — Prediction



3 China

3.1 Monthly Review

The performance for China has faltered across the board, with the exception of Energy and Financials. It seems to be evident that the current plays in the market are in the Energy sector, which tends to provide a hedge against inflation. The uncertainties with regards to crackdown measures and extended coronavirus lockdowns contributed to the poor performance across the board.

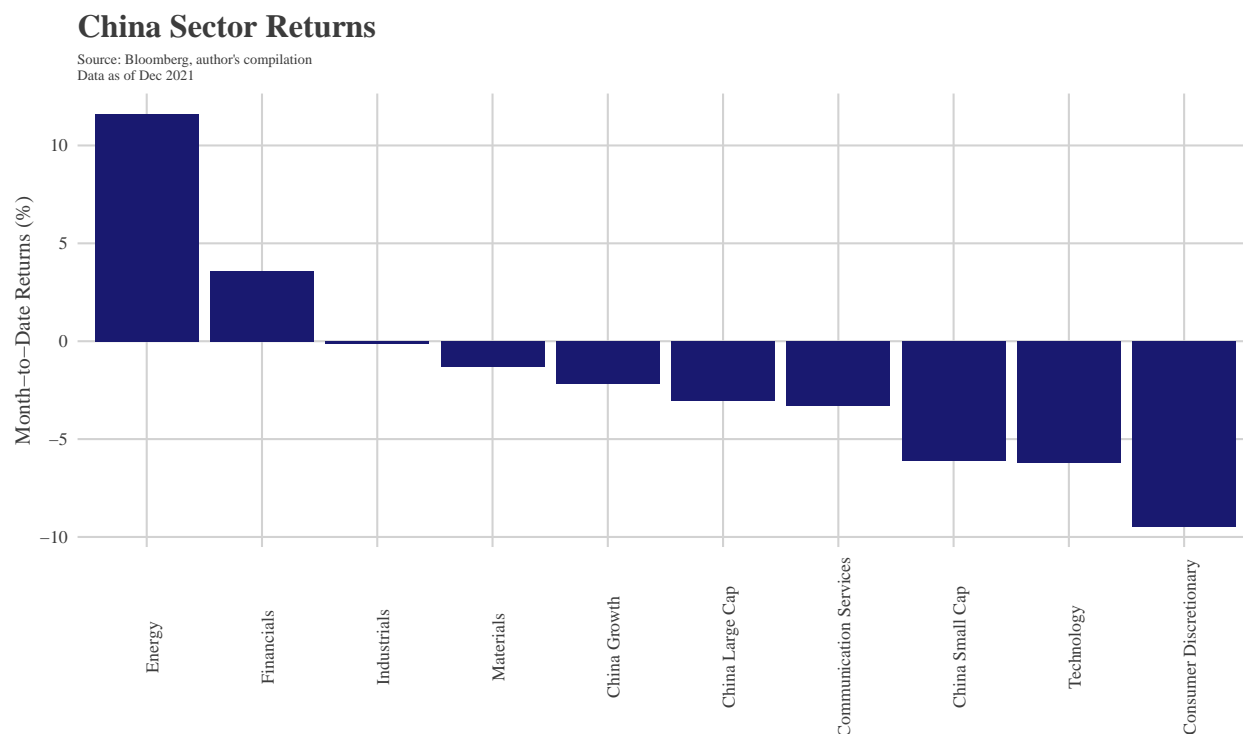


Table 5: China Sector Monthly Returns (%)

Sector	Return
Energy	11.600
Financials	3.590
Industrials	-0.115
Materials	-1.280
China Growth	-2.190
China Large Cap	-3.030
Communication Services	-3.320
China Small Cap	-6.120
Technology	-6.210
Consumer Discretionary	-9.460



3.2 Monthly Outlook

Economic indicators generally remain ‘neutral’; for instance, the Caixin China Manufacturing Purchasing Managers Index and Services Manufacturing Purchasing Managers Index stand at 49.9 and 52.1. This could signal a slowdown in the economy, as there are indications that manufacturing business activity is slowing down. It also does not help that the current scenario is coupled with elevated Production Price Levels, which indicates a general increase in the value of goods manufactured by producers.

3.3 Base Case Estimates

Our models have considered all the information set up to this point, and estimated the relative rankings and sector return expectations.

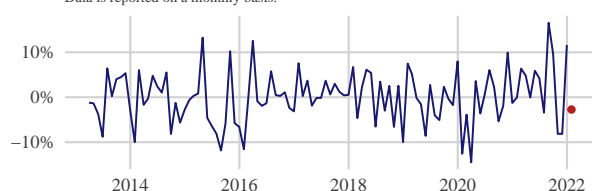
Table 6: China Sector Return Expectations (%)

Sector	Expected Return	Bear Case	Bull Case
Consumer Discretionary	1.600	-18.20	21.40
China Growth	0.133	-14.90	15.10
China Small Cap	-0.291	-10.10	9.55
Communication Services	-0.416	-20.00	19.20
Materials	-1.020	-15.10	13.00
Financials	-1.570	-17.00	13.90
Industrials	-1.580	-9.81	6.65
Technology	-2.610	-23.90	18.70
Energy	-2.740	-22.20	16.70
China Large Cap	-2.880	-20.90	15.10

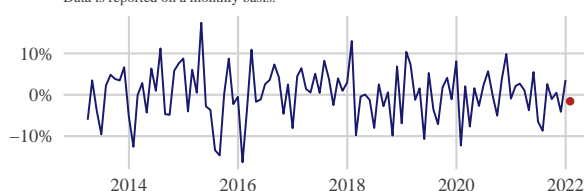
In light of recent uncertainties in China markets, we advocate for prudent monitoring of sector performances for the coming month, given the poor return expectations for China, and the fact that market conditions can change over the course of the month.

**One Step Ahead Forecast for Energy**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Financials**

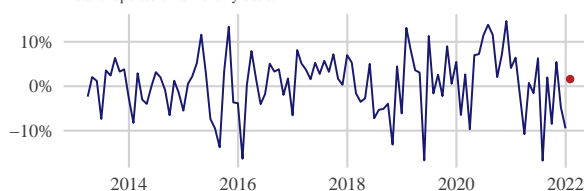
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**One Step Ahead Forecast for Industrials**

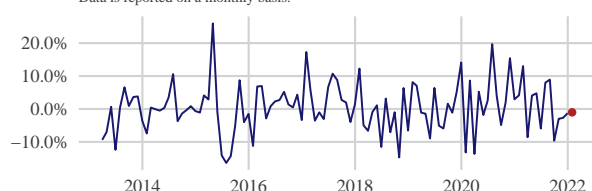
Data is reported on a monthly basis.

**One Step Ahead Forecast for Consumer Discretionary**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Materials**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Communication Services**

Data is reported on a monthly basis.

**One Step Ahead Forecast for Technology**

Data is reported on a monthly basis.

**One Step Ahead Forecast for China Small Cap**

Data is reported on a monthly basis.

**One Step Ahead Forecast for China Large Cap**

Data is reported on a monthly basis.

**One Step Ahead Forecast for China Growth**

Data is reported on a monthly basis.



— Actual — Prediction



4 Ending Notes

Please refer to our client introductory document (Introduction to PromiseLand's Economic Forecasts) for a brief description of our methodology.

Clients are reminded to diligently monitor their holdings. Please contact your financial advisor for the latest market expectations, or if you have any questions. Alternatively, you may contact us at +65 6505 4100, or email us at enquiries@promiseland.com.sg.