

# PromiseLand



## PromiseLand's Monthly Market Outlook

For April 2022

Caleb Ong Jun Yi

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# 1 USA

## 1.1 Monthly Review

All sectors in the US registered positive returns for the month of March. This occurred against the backdrop of Fed Chairman Jerome Powell being the most hawkish he has ever been, and the ongoing Russian invasion of Ukraine. We believe that the excess pessimism exhibited by market participants regarding rate hikes has caused equity markets as a whole to be relatively underpriced; the very act of the Fed rate hike announcement has, in a way, brought about some level of certainty and predictability into the markets.

Energy continues to be the best performer, as markets continue to grapple with supply disruptions caused by sanctions against Russian energy companies, damage to a major pipeline in the Black Sea, and militant attacks on Saudi oil facilities.

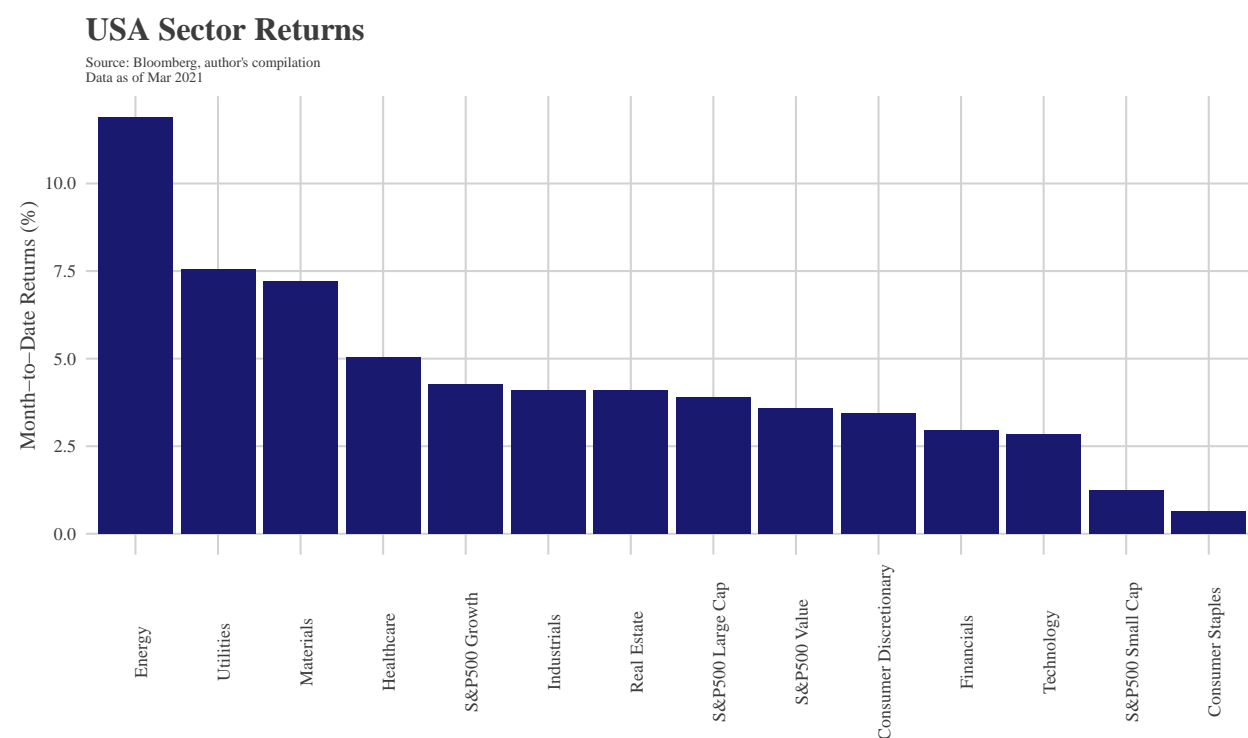




Table 1: USA Sector Monthly Returns (%)

Sector	Return
Energy	11.900
Utilities	7.560
Materials	7.220
Healthcare	5.050
S&P500 Growth	4.270
Industrials	4.090
Real Estate	4.090
S&P500 Large Cap	3.890
S&P500 Value	3.590
Consumer Discretionary	3.440
Financials	2.950
Technology	2.840
S&P500 Small Cap	1.230
Consumer Staples	0.639

## 1.2 Monthly Outlook

Despite the impressive rally in equities over the past two weeks, geopolitical risks still remain elevated. Investors will continue to monitor developments in the Russian invasion of Ukraine, and expectations regarding the Fed's plans to hike interest rates; Fed Chairman Powell has vowed to be tough on inflation, remarking that rate increases could become more aggressive if necessary.

Consumer sentiment fell to a new ten year low, as concerns about inflation grow amid the ongoing Russian invasion of Ukraine, which continues to be a major source of continued economic disruption. That being said, the manufacturing and services sector continue to register growth; the US manufacturing and services PMI rose to 58.5 and 58.9 in March respectively. We believe that the ongoing Russian invasion of Ukraine, and sustained inflation will remain as key themes for the coming weeks ahead. Accordingly, prudent monitoring and sector selection and allocation will be paramount.

## 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 Small Cap	3.000	-7.04	13.00
Financials	2.620	-5.72	11.00
Energy	2.000	-24.40	28.40
S&P500 Growth	1.900	-10.60	14.40
S&P500 Large Cap	1.170	-7.07	9.42
Consumer Staples	0.935	-7.63	9.50
Technology	0.767	-11.80	13.30
Real Estate	0.634	-12.30	13.60
S&P500 Value	0.172	-11.90	12.30
Healthcare	-0.105	-11.30	11.10
Utilities	-0.272	-11.10	10.60
Consumer Discretionary	-0.599	-15.80	14.60
Industrials	-1.090	-10.10	7.89
Materials	-1.740	-14.30	10.80

Recent market events provide for some interesting short-term opportunities; the excess pessimism regarding market uncertainties prior to the Fed's recent rate hike provide investors a chance to pile back into equities; Large Caps and Growth stocks spurred the surge in US equities for the month of March. In light of the relatively decreasing uncertainty regarding the path of interest rate hikes, earnings growth could be the key driver of returns going forward, as higher rates puts more emphasis on profitability.

Small Caps, which tend to be more volatile and risky, could also offer some upside opportunity; a cautious approach with regards to monitoring and asset allocations is suggested in this regard.

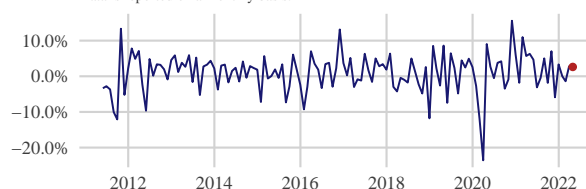
For the medium to long term, the Financials sector continues to offer offer some decent upside opportunity in an increasing interest rate environment, as investors prepare for the certainty of future rate hikes.

**One Step Ahead Forecast for Energy**

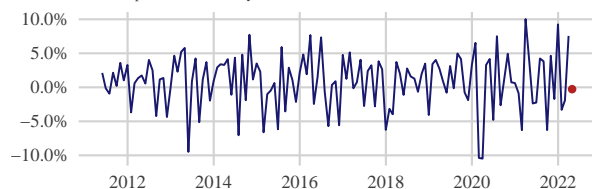
Data is reported on a monthly basis.

**One Step Ahead Forecast for Financials**

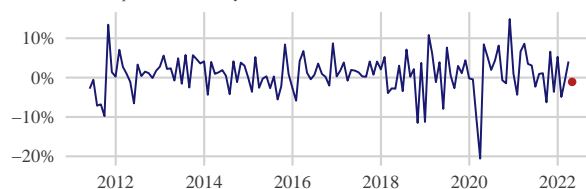
Data is reported on a monthly basis.

**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**

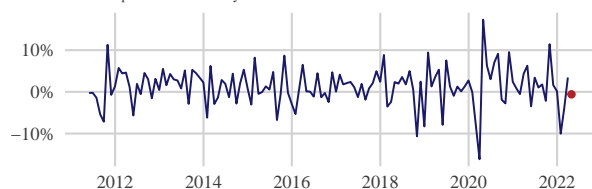
Data is reported on a monthly basis.

**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**

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 Real Estate**

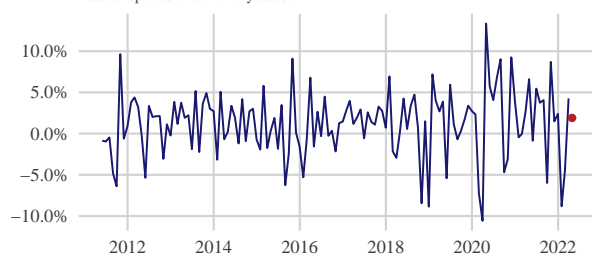
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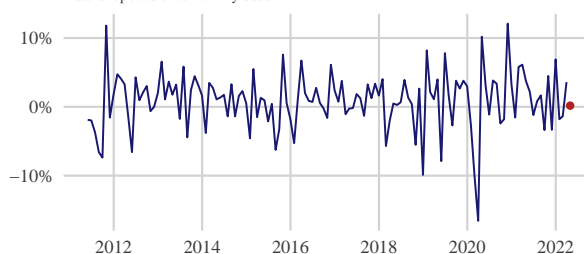
— Actual — Prediction

**One Step Ahead Forecast for S&P500 Growth**

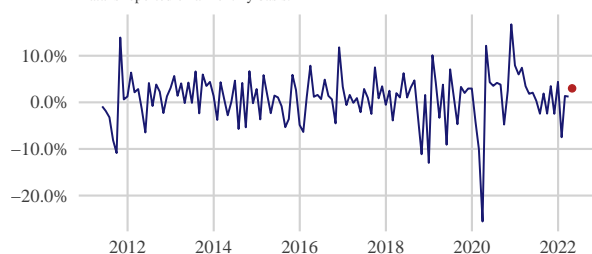
Data is reported on a monthly basis.

**One Step Ahead Forecast for S&P500 Value**

Data is reported on a monthly basis.

**One Step Ahead Forecast for S&P500 Small Cap**

Data is reported on a monthly basis.

**One Step Ahead Forecast for S&P500 Large Cap**

Data is reported on a monthly basis.



— Actual — Prediction



## 2 Europe

### 2.1 Monthly Review

Inflation-robust sectors, such as Real Estate, Energy, and Value performed the best in March. Europe markets as a whole remain mixed, as markets focused again on supply disruptions and fallout from the Russian invasion of Ukraine. Negativity in Europe markets appears to be bubbling; the Eurozone PMI Composite fell to 54.5 in March, and the Eurozone consumer confidence plunged to -18.7. Efforts are in place to resolve such issues though; for instance, US President Biden's visit to Brussels has yielded breakthroughs, including the announcement of a joint task force with Europe to wean Europe's dependence on Russian oil and gas.

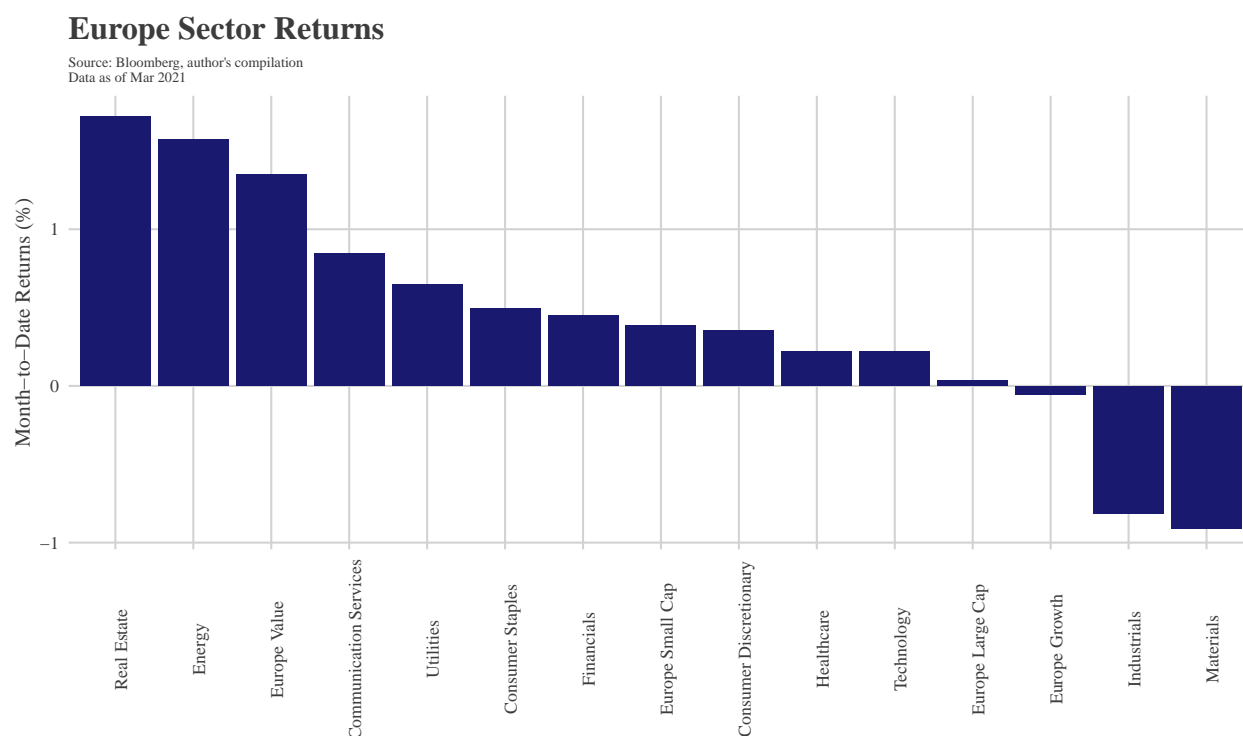






Table 3: Europe Sector Monthly Returns (%)

Sector	Return
Real Estate	1.7200
Energy	1.5700
Europe Value	1.3500
Communication Services	0.8480
Utilities	0.6490
Consumer Staples	0.4920
Financials	0.4510
Europe Small Cap	0.3850
Consumer Discretionary	0.3560
Technology	0.2170
Healthcare	0.2170
Europe Large Cap	0.0331
Europe Growth	-0.0548
Industrials	-0.8120
Materials	-0.9110

## 2.2 Monthly Outlook

We believe that the main energy crisis will continue to play out in Europe in the short to medium term, due to supply shortages. With Russia being the second-biggest crude exporter, and with Energy prices already high, the conflict has raised concerns about a worsening supply crunch that could make persistently rising inflation even worse. Worries over instabilities and economic slowdowns in European nations have also been escalating. For now, we believe that market movements would be primarily influenced by geopolitical effects which arise from the ongoing Russian invasion of Ukraine.

## 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.



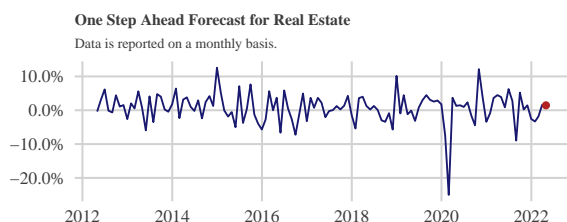
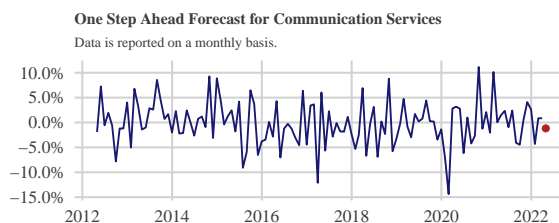
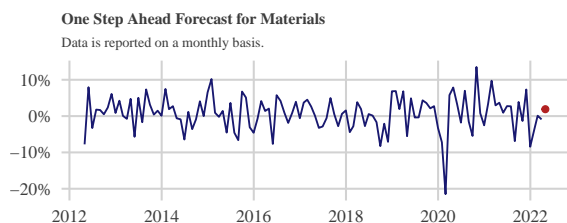
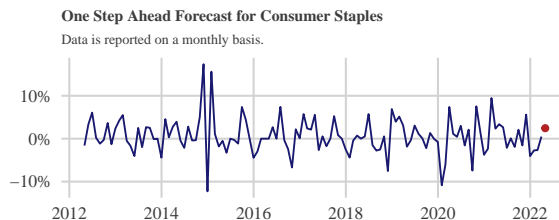
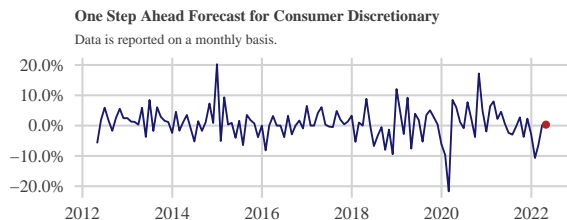
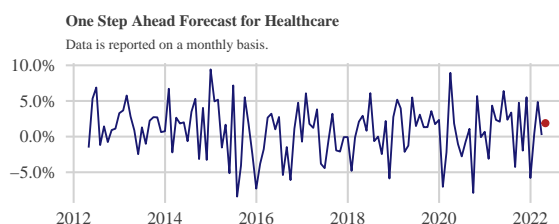
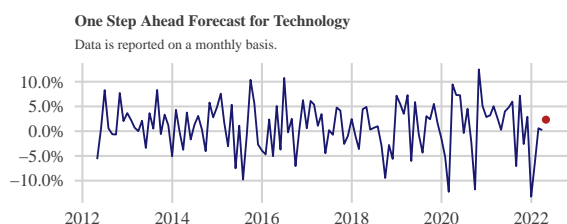
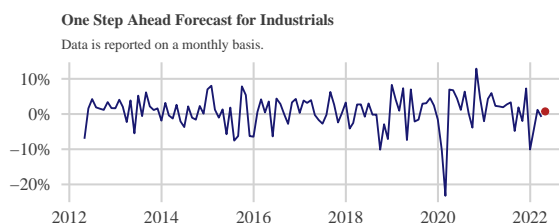
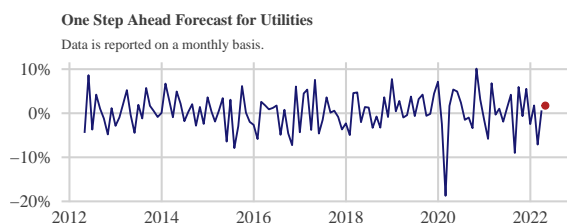
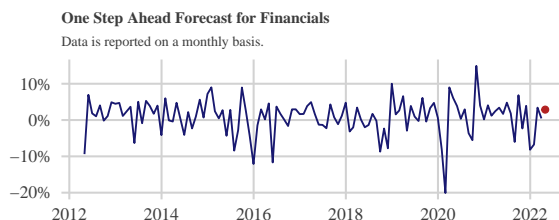
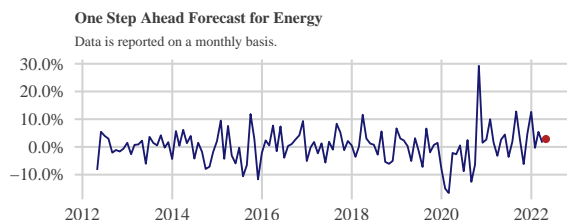
Table 4: Europe Sector Return Expectations (%)

Sector	Expected Return	Bear Case	Bull Case
Financials	2.8700	-8.61	14.30
Energy	2.8500	-11.20	16.90
Consumer Staples	2.4400	-7.15	12.00
Technology	2.3300	-13.10	17.80
Europe Small Cap	2.3100	-3.31	7.93
Europe Large Cap	2.0700	-4.26	8.41
Materials	1.8900	-7.98	11.80
Healthcare	1.8800	-6.05	9.82
Europe Value	1.8700	-7.39	11.10
Utilities	1.7300	-6.37	9.83
Real Estate	1.4600	-4.67	7.58
Industrials	0.7410	-11.30	12.70
Consumer Discretionary	0.3150	-13.10	13.70
Europe Growth	-0.0821	-18.00	17.90
Communication Services	-1.1800	-7.33	4.97

In light of recent geopolitical uncertainties and their effects, we advocate for a greater allocation towards sectors that are robust to market shocks.

The Energy sector could present an interesting short term opportunity, given that the heart of the energy crisis lies in Europe. We advocate for greater and prudent monitoring of investments in this particular sector.

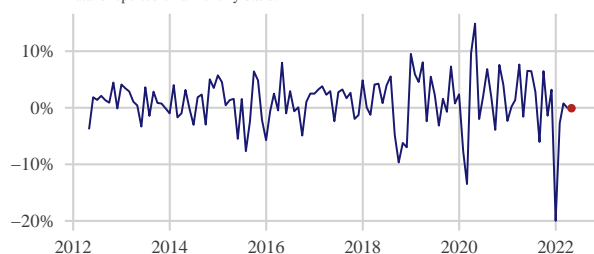
For the medium to long term, similar to US, the Financials sector continues to offer some decent upside opportunity due to contagion effects of an increasing US interest rate environment. The Consumer Staples sector, which tends to have a relatively lower volatility, could contribute towards increasing portfolio diversification in these unpredictable times.



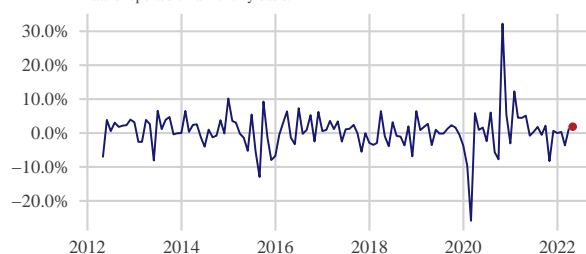
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**One Step Ahead Forecast for Europe Growth**

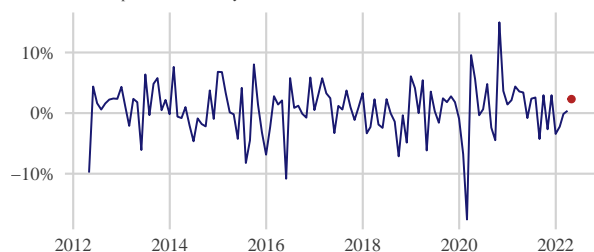
Data is reported on a monthly basis.

**One Step Ahead Forecast for Europe Value**

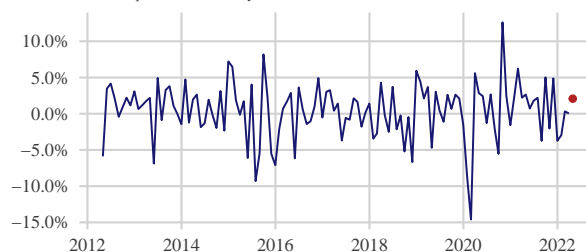
Data is reported on a monthly basis.

**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

Energy is the only sector that registered a positive return for March. Sustained inflation and geopolitical risks from the Russian invasion of Ukraine have been recurring themes for the past few weeks. The poor performance of China for March is further compounded by lockdown measures implemented as a response to record-high COVID-19 cases. The situation appears to be quite dire; most recently, Shanghai, an important financial and manufacturing hub, has already implemented steps to execute China's biggest COVID-19 lockdown in two years. The effects of such drastic lockdown measures include severe disruptions in the daily operations and business activities of companies that have a presence in China.

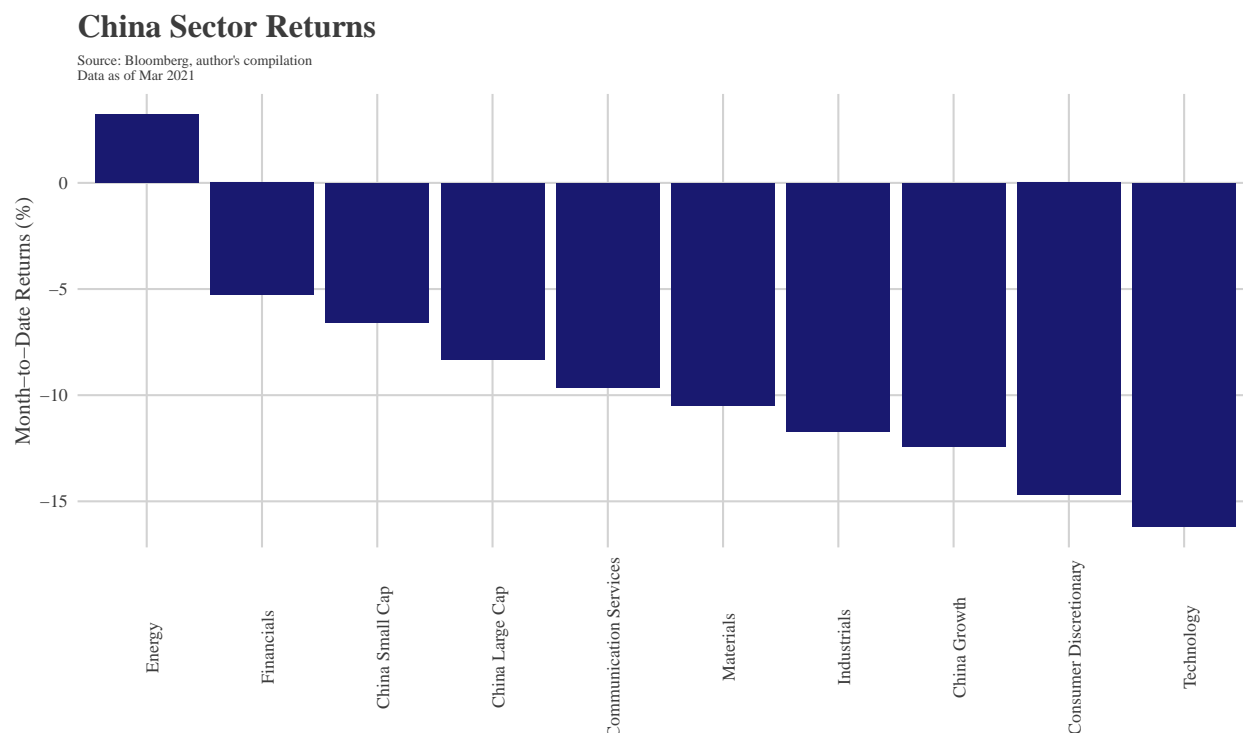


Table 5: China Sector Monthly Returns (%)

Sector	Return
Energy	3.22
Financials	-5.28
China Small Cap	-6.57
China Large Cap	-8.30
Communication Services	-9.65
Materials	-10.50
Industrials	-11.70
China Growth	-12.40
Consumer Discretionary	-14.70
Technology	-16.20



### 3.2 Monthly Outlook

The effects of such lockdown measures stoked investors' expectations of further global supply chain disruptions as well as a fall in demand. With China's economic growth already slowing, such extreme measures could also worsen unemployment. Uncertainties to the outlook for Chinese equities have compounded, complicating China's goal to achieve its 5.5% GDP growth target this year. However, we do expect the Chinese government to remain flexible with regards to monetary policy, fiscal policy, and property easing. A more pragmatic approach to contain virus outbreaks also looks to be on the cards. Interest rates could also be lowered "quite significantly" in the coming weeks.

### 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.

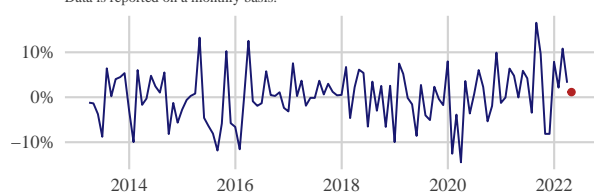
Table 6: China Sector Return Expectations (%)

Sector	Expected Return	Bear Case	Bull Case
China Small Cap	2.480	-7.27	12.2
Financials	1.650	-6.29	9.6
Consumer Discretionary	1.340	-19.80	22.5
Technology	1.170	-14.00	16.4
Energy	1.150	-15.40	17.7
China Growth	0.734	-13.80	15.2
China Large Cap	0.725	-11.30	12.7
Materials	0.363	-12.60	13.3
Industrials	0.210	-10.80	11.2
Communication Services	-0.778	-11.70	10.1

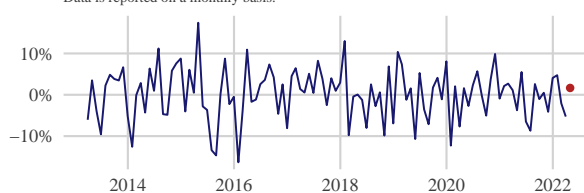
China Small Caps, which tend to be more volatile and risky, could also offer some upside opportunity; a cautious approach with regards to monitoring and asset allocations is suggested in this regard.

**One Step Ahead Forecast for Energy**

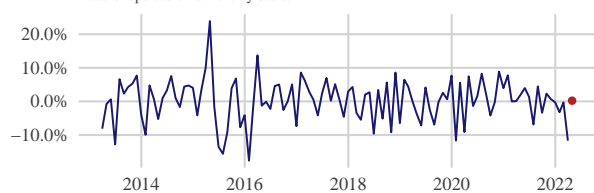
Data is reported on a monthly basis.

**One Step Ahead Forecast for Financials**

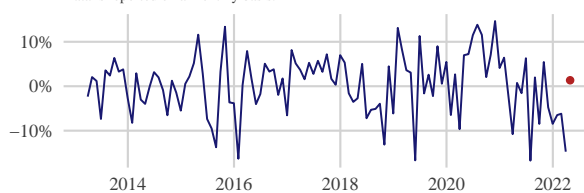
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**One Step Ahead Forecast for Industrials**

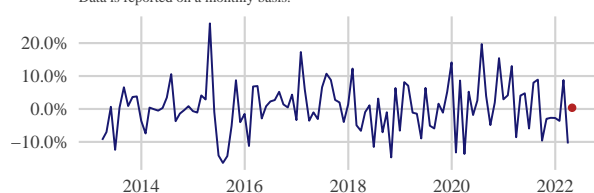
Data is reported on a monthly basis.

**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**

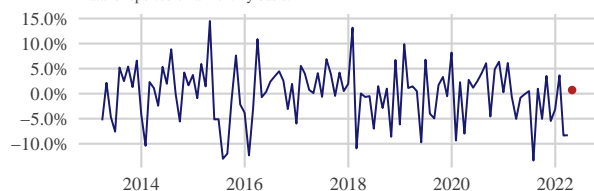
Data is reported on a monthly basis.

**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](mailto:enquiries@promiseland.com.sg).