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Monthly Highlights July 2022

Improving economic activity in China, if sustained, will be a much-needed boost to global growth and emerging market equities. Meanwhile, we expect value stocks to continue their outperformance.

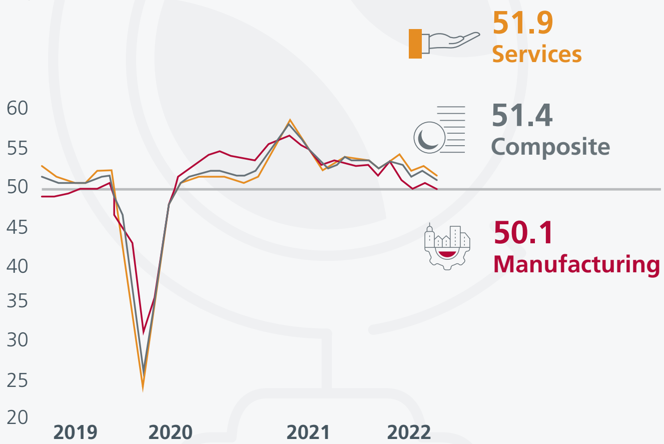
Macro: Global outlook challenging; China's activity improving

June: US headline inflation hit 9.1% a 40-year high

Continued Fed rate hikes, on the back of elevated inflation, raise the probability of a US recession.

Global PMI new orders trending lower

New orders impact economic growth. A Purchasing Managers' Index (PMI) New Orders reading above (below) 50 indicates expansion (contraction) of new orders.



Source: Bloomberg. As of June 2022.

China's 2Q GDP grew 0.4% on an annual basis, below expectations

The Chinese economy may have bottomed in 2Q22. Manufacturing production, new orders, domestic travel and hotel occupancy rebounded in June, but property sector outlook remains cloudy.

Markets: Waiting for inflation's peak

The Fed raised 75bp in July

Inflation needs to peak, among other factors, for equities to have a sustained rally. However, periodic rallies cannot be ruled out given extremely bearish investor sentiment. Bond yields may remain range bound till inflation peaks.

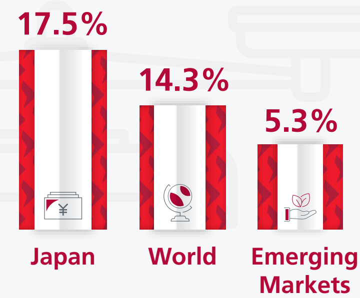
Some recent signs that inflation may be decelerating:

- Oil prices below **USD95**/bbl
- **Falling** commodity prices
- **Easing** supply chain tightness
- **Lower** rents and home prices (US)

We are also monitoring wages as it is the largest cost component for US businesses.

Year to date outperformance of value vs growth[1]

We expect value stocks to continue outperforming as slowing global growth, geopolitical risks, rising interest rates and expensive valuations weigh on weigh on growth stocks.



Given undemanding valuations, Emerging Market equities can have a sustained rally if we get:

- Slower Fed rate hikes
- More aggressive stimulus from China

EM equities have underperformed US equities by 16.6% in the last 12 months[2]

[1]Bloomberg. As of 15 July 2022. In USD. Indices: MSCI World Value, MSCI World Growth, MSCI EM Value, MSCI EM Growth, MSCI Japan Value, MSCI Japan Growth.
[2]Bloomberg. As of 15 July 2022. In USD.

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