# The Way We See It

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## *Is January reflecting the rest of the year ?*

### Concluding Remarks from Last Report

In November of last year, our inaugural "The Way We See It" report, which outlines our somewhat contrarian view on the 2022 Investment Outlook, concludes as follows:

> *"In our opinion, based on the above and the dynamism of forward-looking markets, we believe that this year's very strong bounce in economic-sensitive assets has "borrowed" a substantial amount of market returns from those of next year and, possibly, the year after next.*
>
> *Investors should consider starting to take profit gradually on parts of their risky asset classes, particularly those which are deemed overvalued relative to the past 3, 5 and 10 years. Depending on the type of portfolio one is managing, for investors who can and are looking to re-balance their portfolios, they should consider implementing this plan from Q4 of this year. While safe and low volatility asset classes have experienced a poor return performance year-to-date and may not offer much room for yield pick-up or capital growth, they can, and would most likely offer capital preservation in 2022. In brief, this suggests*

*that a global balanced portfolio should look to reduce exposure to equities (particularly the hyped-up sectors), high yield bonds and commodities, and consider adding more defensive assets from Q4 onwards. Furthermore, while investors are feeling comfortable with the out-performing US and other developed markets at the expense of China and the emerging world, into next year, the (currently low) probability of a reversal of this trend could increase, if China were to unexpectedly loosen.*

*Lastly, we wish to point out that our relatively more cautious investment stance, when compared against the still-bullish view held by the majority of buy- and sell-side strategists and CIOs in the marketplace, may be construed as somewhat contrarian."*

**US Fed: from Dove to Hawk**

The first three opening weeks of January were expected to see a continuation of the bull market in risk assets, based on a very bullish consensus amongst fund managers and sell side analysts. Instead, we witnessed one of the rare and quite brutal liquidation of some of the most favored sectors and stocks in the US equity market, notably the FAANG group of mega-cap technology stocks, plus the NASDAQ, Semiconductors, Biotech indices and other high growth stocks.

**US Fed's change of tone: from super-dovish to moderately hawkish**

This sell-off was attributed to the "sudden" change of tone of the US Federal Reserve, from super-dovish to moderately-hawkish. Timing-wise, interestingly, this occurred right after Mr. Jay Powell was re-nominated as the Fed Chairman. He and the Fed Board expressed concerns over the stubbornly high inflation trend and announced that they will continue to terminate the Quantitative Easing program, as soon as they can pragmatically implement it. Following this, the Fed will raise interest rates, with an increasing sense of urgency. This, together with a slowing of economic activity, caused by the Omicron pandemic spread, raised fear of stagflation in the US and elsewhere in the world. As a result, over-confident and fully-invested speculators and investors had to start to cut some of their exposure to both bonds and risk assets.

Since Technology and Growth have been significant winners and well owned by investors over the past two years, they were the first to be sold, when long-term investors and fast-money speculators looked to reduce equities and raise cash. Value, which has been under-performing substantially during this period and obviously under-owned, out-performed. In the same vein, Gold out-performed Crypto assets by a wide margin.

## Where to go from here?

Net-net, a very volatile start in the US and global financial markets in the new year. Where to go from here?

In the short-term, we believe that the recent liquidation of growth and risk assets at any price has brought about some good selective investment opportunities. However, in an inflationary world which is set against the backdrop of a tighter monetary policy phase (which has not even started yet!), it is unlikely that the under-performance of Growth and Technology versus the overall equity universe is over.

**Revival of global economic growth to favor HK/China, Asia and other selective Emerging markets.**

For the rest of the year, we expect that the global economy will continue to re-open. This is economic-growth positive. In addition, very large amounts of savings are estimated to have been built up by households during the Covid pandemic. Some of this will be spent as pent-up demand for traveling and new durable goods is high. This, therefore, is also economic-growth positive. Furthermore, while the Fed is expected to raise rates, they will do it gradually. This is unlikely to hurt economic activity. Lastly, there are clear signs that the Chinese government has commenced to ease its very tight monetary policy in order to help their weak and highly indebted property sector.

In brief, all the above factors point to a revival of global economic growth once the Omicron concerns fade. Consequently, this is favorable for the Value and Cyclicals investment style and markets, including Hong Kong China, Asia and other selective Emerging markets. These economic and investment settings remain consistent with the previous conclusion of our November Outlook document.

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