INVESTMENT STRATEGY
WEEKLY VIEW

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INFLATION STILL LOOKS VERY HIGH, BUT IT WILL PROBABLY PASS

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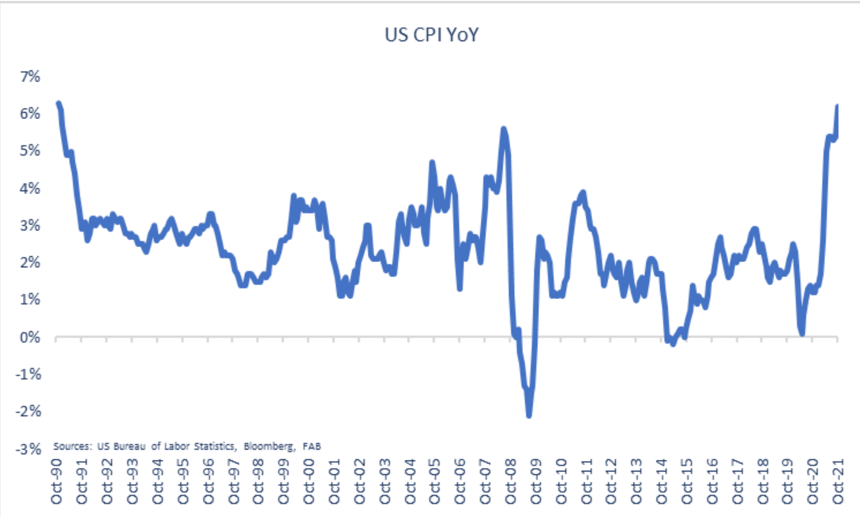
- US year-on-year CPI came in at 6.2% in October, the highest in 31 years
- Gold rallied and Treasury yields rose after the economic data was released
- Chinese high-yield bonds recovered amid signs of support from Beijing
- Food prices continued to rise as fertilizer costs soar

It has become harder for Jerome Powell, the Federal Reserve Chairman, to defend the idea that inflation in the US is going to pass. Last week, the broad CPI came in at 6.2%, the highest year-on-year print since October 1990. The main culprit, however, has been energy, with fuel costs increasing 59% since October, 2020. Hence, if the energy supply shortage is corrected, inflation could slow.

In the meantime, investors are hedging their positions and pushing Treasury yields higher, particularly the five-year. The move in Treasuries may create an opportunity for some investors to add exposure to high-quality, short duration. Equities, however, were unabated, approaching their recent highs last week as investors seem to still find value in stocks of companies with pricing power.

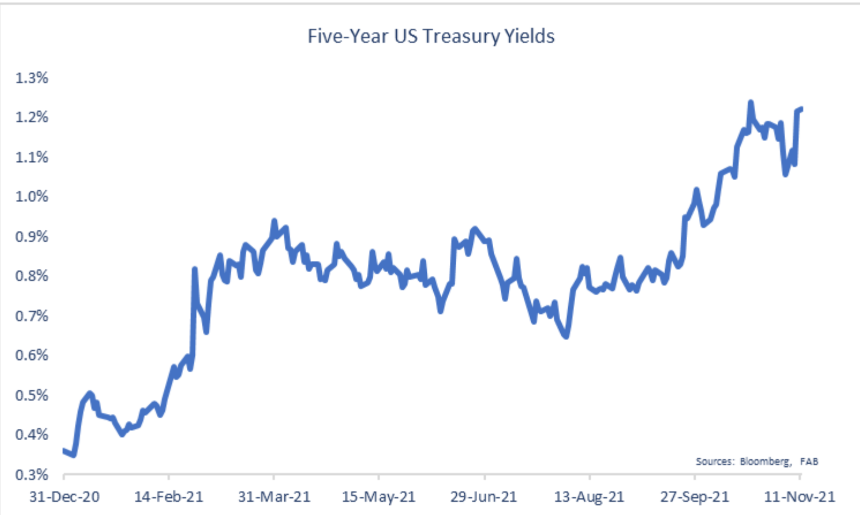
US CPI CAME IN AT THE HIGHEST YEAR-ON-YEAR LEVEL SINCE OCTOBER, 1990



- Year-on-year US inflation rose to 6.2% in October, the fastest broad consumer price index rise in 31 years.
- The 0.9% month-on-month rise was a lot higher than the 0.6% median forecast of economists, and twice as fast as the 0.4% of September.
- Energy and heating prices were the biggest drivers of the unexpected rise, while used cars continued to add pressure to the index.
- Excluding those factors, inflation looks a lot tamer and justifies the Fed's reluctance to fight it.

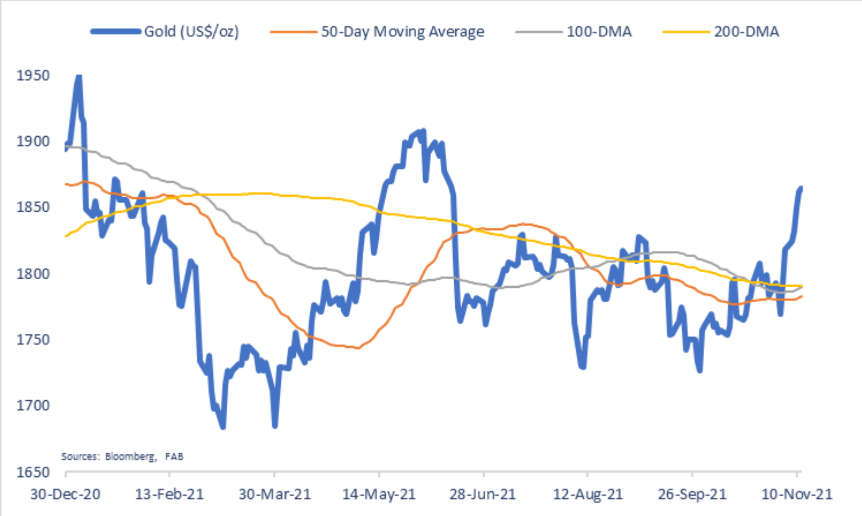
THE YIELD ON FIVE-YEAR US TREASURIES ROSE 16.6 BASIS POINTS LAST WEEK

- The five-year bond underperformed the rest of the Treasury curve as investors adjusted their expectations of when the Fed will hike rates.
- The US Treasury curve flattened as the 10-year yield rose by 11 basis points, and the 30-year, by 4.4.
- Speculative futures positions for five-year are the most bearish since the beginning of the year.
- The move could continue for a few days and may create an opportunity for investors to add high-quality, short duration debt to portfolios.



GOLD HAS BROKEN THROUGH KEY RESISTANCES AND IS UP 4.6% SO FAR THIS MONTH

- Gold prices rose 2.56% last week after inflation in the US came in higher than expected.
- The yellow metal had risen 1.96% the previous week as another US price gauge also came higher than forecast.
- The rise has pushed bullion prices through resistances which had held since mid-June.
- Gold gained came even as the dollar index rose for two weeks and has just hit its highest level since July, 2020.
- Gold ETFs, however, have seen outflows, which could cap the rise.

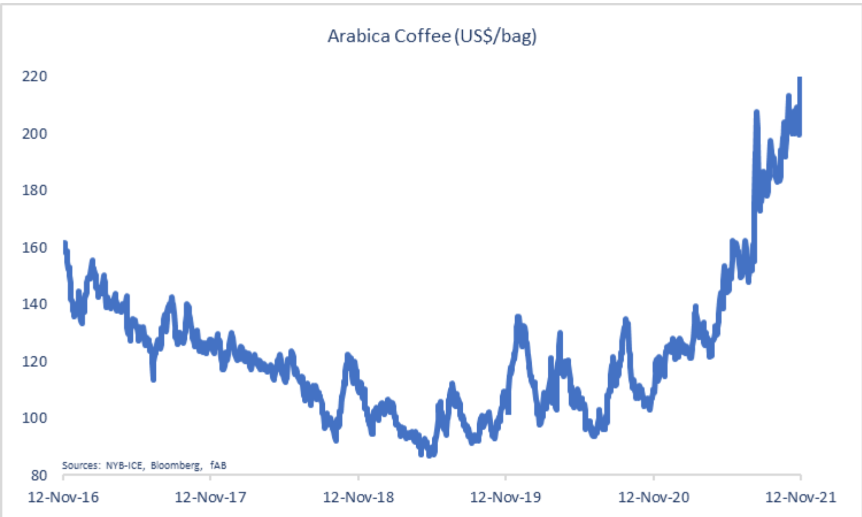


CHINESE HIGH-YIELD BONDS ROSE AS BEIJING SIGNALED SUPPORT TO DEVELOPERS

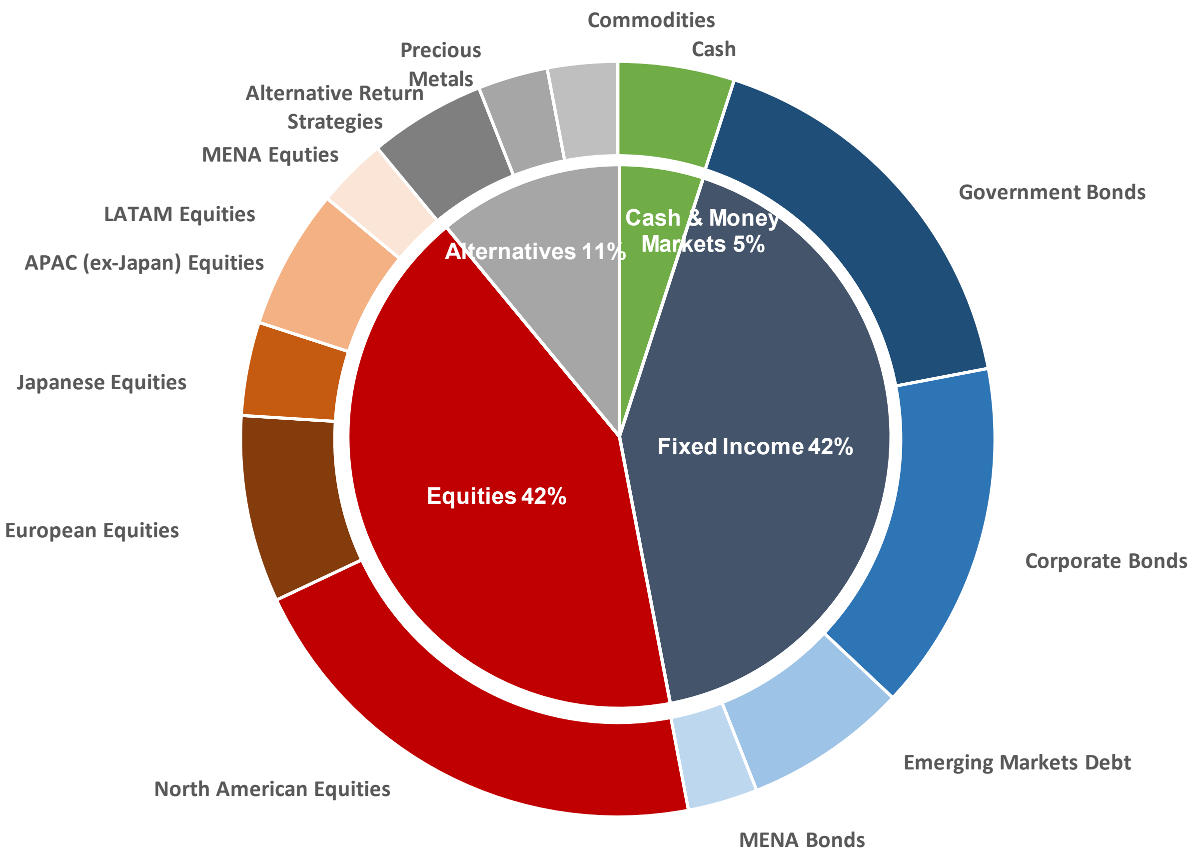
- The ICE BofA ML China High-Yield index jumped 6.53% on Friday.
- The move followed Chinese news articles suggesting Beijing would reopen the local interbank bond market to property developers.
- A rising tide of bankruptcies may be stemmed if property companies are able to refinance some of their near-term maturities onshore.
- Meanwhile, Evergrande once more narrowly avoided a full-blown default by making certain coupon payments just before the end of a grace period.

COFFEE PRICES HIT THE HIGHEST SINCE 2014 AMID SUPPLY CHAIN CONSTRAINTS

- A bag of Arabica coffee hit US$219.5 in the New York Board, the highest price since October, 2014.
- The spike in prices came amid news of lower output by key countries.
- High fertilizer costs now suggest that high prices could continue next year.
- The commodity is becoming a poster-child for the outlook for various agricultural products.
- This suggests that inflation, especially in emerging markets, which are more sensitive to food prices, could remain high in 2022.



Asset Class	Positioning	Detail
Cash	Underweight	Putting cash to work in risk assets.
Fixed Income	Overweight	Keeping a slight overweight focused on EM dollar debt.
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds.



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