INVESTMENT STRATEGY WEEKLY VIEW

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CHINA'S ECONOMY IS SLOWING AS THE FED ACCELERATES HIKES

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- Economic data in China points at a significant slowdown
- German data is also showing signs of strain, suggesting Europe could face a recession
- US stocks have started to reflect expectations of slower global growth
- High-yield bonds indicate US delinquency rates may be about to rise

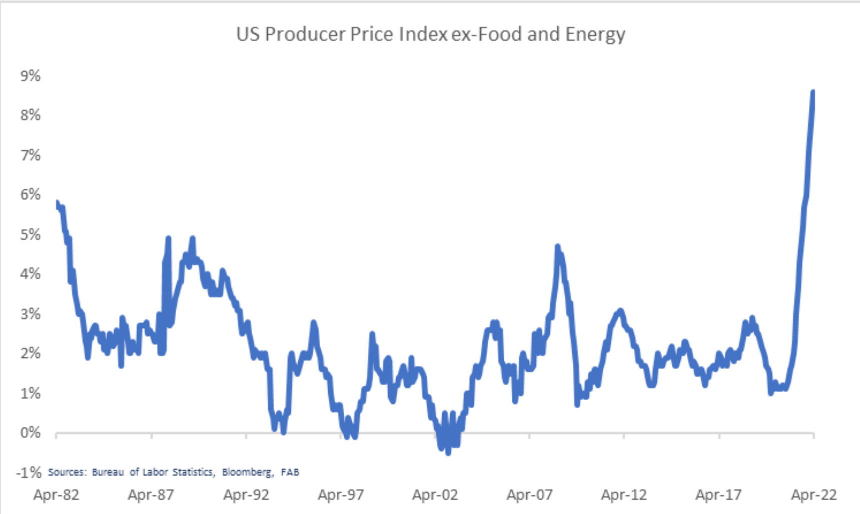
After the 2008 recession, the Fed was reluctant to raise rates as job creation lingered. When it finally began to do it in late 2015, the US economy was in overdrive, and further accelerated after the late 2016 corporate tax cuts, which also helped mitigate the impact of the higher rates. Now, the US economy still has momentum, but the world, is tightening on both the fiscal and monetary fronts at the same time. And Fed speakers are indicating that market turmoil will not stop the rate hikes this time. Risky assets, from stocks to high-yield, have started to reflect the new market reality. In a world looking at rising recession probabilities, investment-grade bonds may offer the best investment option, even if yields are still rising.

CHINESE INDUSTRIAL OUTPUT FELL BY THE MOST SINCE THE ECONOMIC SERIES BEGAN

- Manufacturing activity, the key driver of the Chinese economy, fell by 2.9% year-on-year in April.
- The drop reflected movement restrictions in Shenzhen, Shanghai and more recently in Beijing, since the start of the year.
- The People's Bank of China has added stimulus incrementally and Beijing has started to talk about infrastructure spending again.
- Still, the drop suggests China might miss its economic growth target this year, which has global implications.

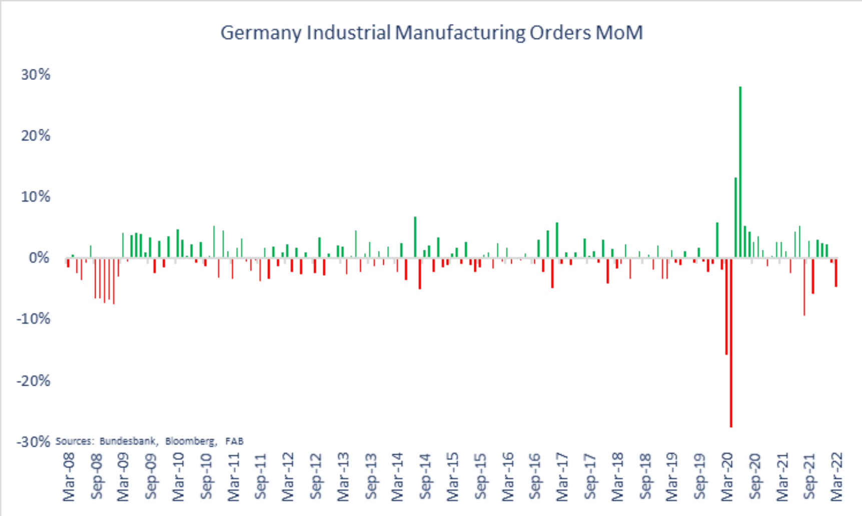
US YOY CORE PRODUCER PRICE INFLATION HIT 8.6% IN APRIL, THE HIGHEST SINCE 1981

- Producer costs rose 8.6% in April compared to a year ago even after food and energy are excluded.
- The jump, driven partly by rising wages, suggests inflation has momentum, which justifies the Fed's stance of hiking rates aggressively.
- The month-on-month figure, though, decelerated to 0.82% from the February high of 2.51%.
- Quarterly reports of some retailers have also shown that the rising producer prices are starting to weigh on profit margins.

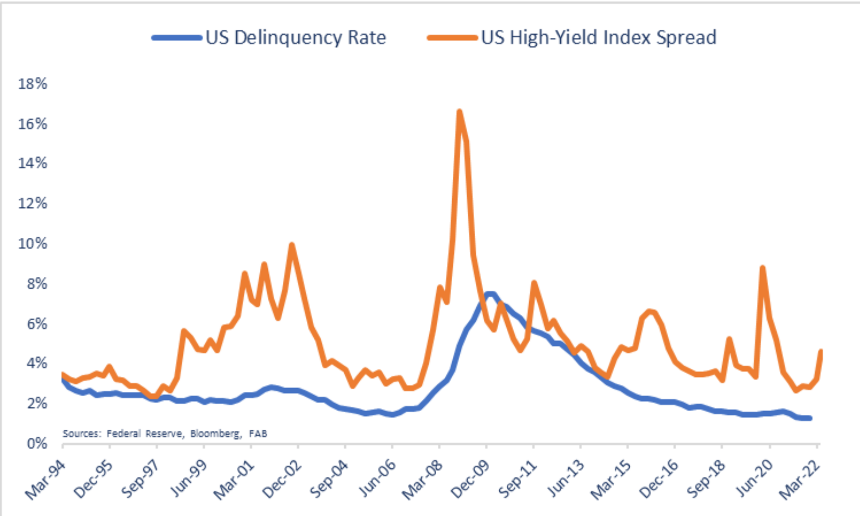


GERMAN MANUFACTURING ORDERS FELL 4.7% IN APRIL AS CHINESE ACTIVITY SLOWED

- China is Germany's second biggest export market, so the lockdowns in the country have an impact on Europe's largest economy.
- Exports to Russia have also dropped nearly 59% year-on-year.
- Inflation in the country, meanwhile, hit the highest in at least 30 years, at 7.4% year-on-year in April.
- The acceleration in price rises has prompted more speculation that the ECB will move earlier than expected, helping to stem a rise in the US dollar index in the past few days.



HIGH-YIELD BONDS ARE SIGNALING AN IMPENDING RISE IN LOAN DEFAULTS IN THE US

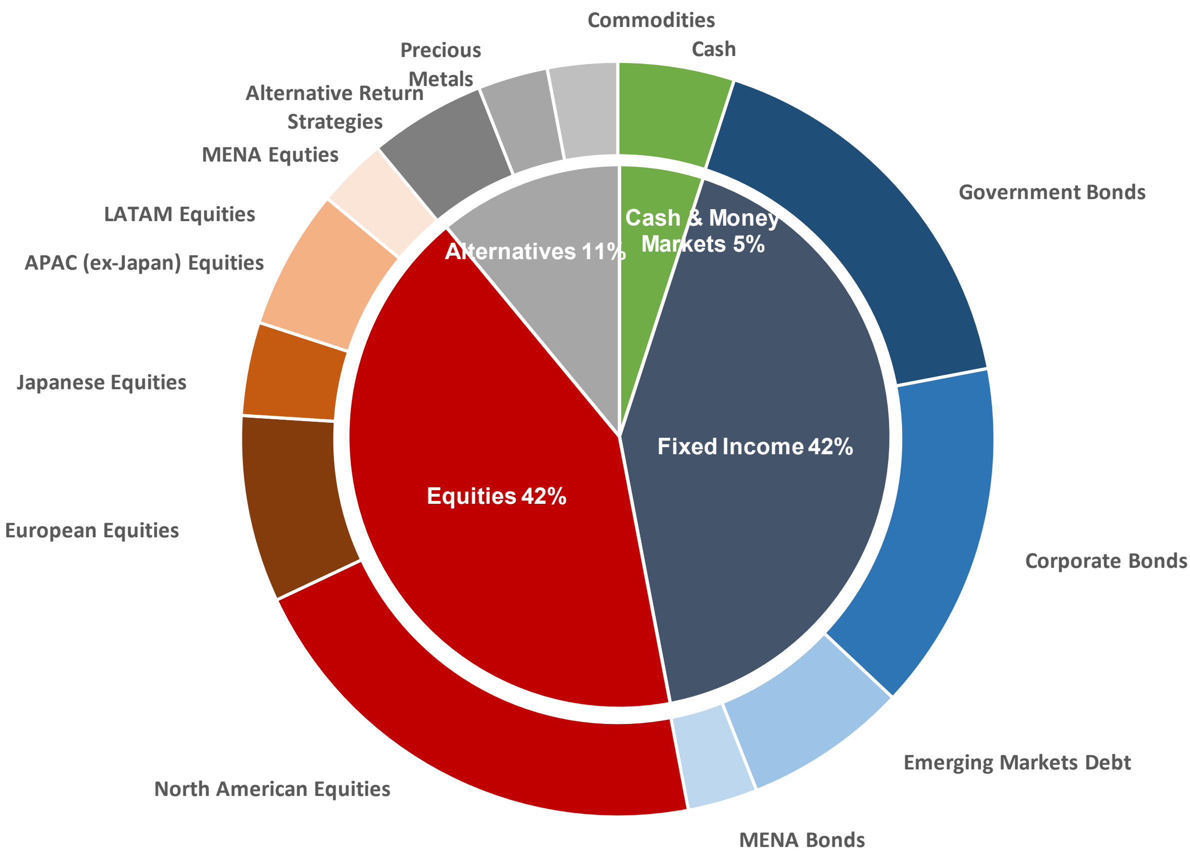


- Loan delinquency for all US banks hit an all-time-low of 1.3% in the fourth quarter as Americans used record savings from the pandemic to pay off their debts.
- This means the US economy will have additional strength from releveraging.
- Rising rates and a slowing global economy, however, suggest that default rates could be about to rise.
- US high-yield bond spreads tend to ascend before default rates, and they have risen to 460bp from a record low of 340bp in December, 2019.

CHINESE HOME SALES HAVE SEEN ONE OF THEIR WORST YOY DROPS IN HISTORY

- Sales of residential buildings in China fell by 32.2% year-on-year in the four months leading to April.
- The country's three biggest cities faced some movement restriction since the start of the year due to the Covid-zero policy.
- The news could mean lower profits for battered homebuilders and bad news for their global bond investors.
- The Chinese government has started to ease funding conditions and has just said it will reopen some local bond issuance for some developers.

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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