CROSSINVEST

Wealth & Asset Management
Private Equity & Venture Capital
Family Office Services
Since 1985

Quarterly Outlook Q1 2022

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Our insights and solutions

About Us

We are a privately-owned financial institution, with over 35 years of Swiss heritage that exemplifies the finest wealth & asset management traditions.

Our key business areas are asset & wealth management, private equity & venture capital and family office services. We work exclusively with high & ultra-high-net-worth individuals, families and institutions.

As an award-winning independent asset manager, we are keenly aware of the importance of considering the cross generational impact of investment and wealth-management decisions.

We appreciate that every client is unique, and every need is different. This leads us to create tailored solutions to meet our clients' goals while maintaining institutionalized processes of asset management.

Our Mission

Our clients' wealth is the result of the time they sacrificed away from their families to ensure their financial security; it is our mission to protect and build on this sacrifice.

We achieve this through

- Establishing long-term relationships
- Our independence
- Operating as a dedicated fiduciary advisor
- Our commitment to provide the best investment solutions & services
- Crafting the best solutions for our clients' individual needs

The Real Economic Growth

Handing over of the Baton from Public to Private

Three Key Market Drivers

Vaccine Efficacy

Our base case remains that vaccines will remain effective against COVID-19 variants and that the reopening of economies is delayed but not derailed.

Reducing Duration

Rising rates and earnings momentum position short duration assets for outperformance. We minimize duration across equities and fixed income for our portfolios.

Inflation Concerns

While many factors driving inflation are transitory, supply chain bottlenecks, consumer spending and fiscal policies make it unlikely that inflation will drop to pre COVID-19 levels in 2022.

Overview

During the past quarter we increased our equity overweight and further reduced fixed income. As the market digests concerns over the Omicron variant, we remain confident in the efficacy of vaccines. We note that vaccine makers have expected new variants months before the appearance of Omicron as it is normal for viruses to mutate. BioNTech and Pfizer have said they can adapt their vaccine within 6 weeks to new variants, and AstraZeneca said their vaccine platform enables a quick response to mutations as they emerge. We continue to hold the view that the reopening of developed economies with high vaccination rates is delayed but not derailed. Consumer spending, greater economic activity and higher inflation likely lead to higher rates in 2022, positioning high beta short duration assets for outperformance. We expect credit to outperform duration, and value to outperform growth in the first quarter as Omicron fears recede. Elevated inflation throughout 2021 contributed to hawkish rhetoric by the Federal Reserve. While we believe that the Fed will not be overly hawkish due to the “Taper Tantrum” episode of 2013, persistent inflation heightens concerns of a policy mistake and is a key risk for 2022.

Positive Reopening

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As the Delta variant receded in the third quarter of 2021, investors were faced with the prospects of a new variant named Omicron in the fourth quarter. This led to fears of renewed lockdowns due to preliminary data showing that Omicron was a lot more infectious than previous variants. While mobility stalled, it did not crash as what happened in the winter of 2020. Hence, we did not expect a significant adverse market reaction.

Omicron also appeared to follow the path of most pathogens of getting less lethal over time and was far more infectious than lethal. While infections rose significantly, hospitalization rates did not increase at the same rate. Data from the UK also showed that the case fatality rate for Alpha is 1.9%, Beta 1.2% and Delta 0.5%, according to the UK Health Security Agency.

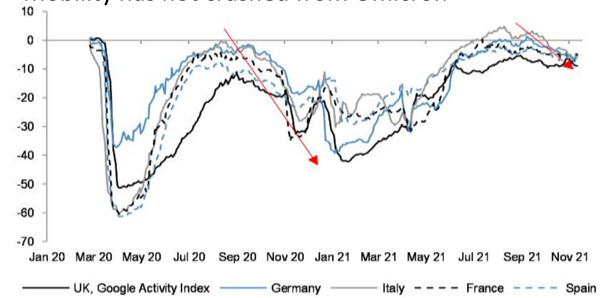
Amidst the headlines, we noted that the market has increasingly taken headlines of COVID-19 concerns in stride. We remain positive risk, and overweight equities over fixed income. While valuation of equities – especially in the US – remain elevated, they are not expensive relative to fixed income. Importantly, dispersion within equity valuations is very wide. Eurozone equities sit at 30% discount versus US equities; value stocks are historically depressed versus growth stocks.

The continued reopening of economies provide a powerful catalyst for value equities to catch up in performance to growth. Above-trend GDP growth, positive earnings revisions and eventual rising rates will eventually lead to sectors which benefit from greater economic activity to do well, such as financials, energy, materials and industrials.

Within cyclicals, we remain highly selective and prefer energy and financials over materials and industrials. While activist campaigns continue to restrain capex in fossil fuels, we highlight that the green transition takes time, and that the world still relies on fossil fuels for 83% of it's energy needs in 2020, according to BP's *Statistical Review of World Energy 2021.* The increase in demand when economies reopen provide support to energy prices, while oil stocks have not caught up in performance relative to oil prices.

Financials not only benefit from greater economic activity – they are highly levered to GDP growth – they benefit from rising interest rates due to expansion of Net Interest Margins (NIMs) when interest rates rise. Yield curves are depressed relative to historical means due to Omicron concerns, and we believe they will eventually steepen as the market digests yet another wave.

Mobility has not crashed from Omicron

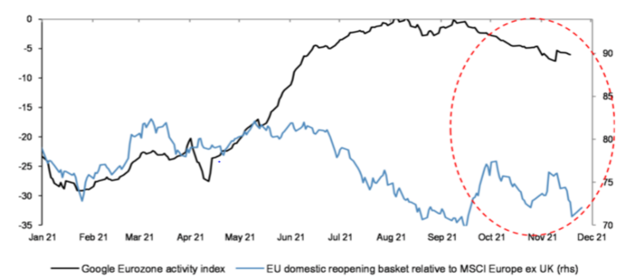


Source: JPM

SPX since first lockdown

Source: JPM

Reopening plays are still cheap



Source: JPM

Positive ex-US Assets

Relative value between equities and fixed income tilt risk reward profile in the former's favour. While earnings momentum provide support for risk, we remain wary of multiple contraction in a year of shrinking liquidity and eventual peak reopening. We remain positive risk and do so in a disciplined manner while being cognizant of downside protection.

Within equities, our major geographical overweights are Continental Europe and Japan. Eurozone equities are cheap versus the US, where stellar returns of the past decade have come from multiple expansion rather than fundamental outperformance. As the U.S. Federal Reserve (Fed) tapers, the European Central Bank (ECB) remains much more comfortable on inflation. As a result, the ECB is more dovish and has signalled a continuity of zero interest rates and will continue buying bonds while the Fed ends bond purchases in March. We prefer Eurozone equities over the UK. While UK equities are also cheap, we point out that cheap assets do not automatically mean-revert, and that UK equities suffer from a lack of structural growth. 2021 has been a stellar year for equities, yet the UK has not participated in that rally.

Japan has undergone a corporate restructuring in recent years. Returns on equity and profit margins have steadily marched upwards, yet Japanese equities remain under the radar of most investors. While political issues and the Omicron variant have presented setbacks, we expect them to prove transitory. High vaccination rates and generous government stimulus provide a powerful catalyst for economic reopening. Many Japanese companies have also become global powerhouses in the various sectors they compete in.

We remain underweight Emerging Market equities due to lower access to vaccines. While many emerging economies are buoyed by higher commodity prices, they are plagued by inflation concerns.

Chinese assets have underperformed in 2021 due to regulatory crackdowns on the tech sector, and the imposition of government policies such as "common prosperity". While this has led to investors in some quarters to question whether Chinese assets are investable, our view that it is a rebalancing of society, with short-term pain but long-term benefits. We believe that GDP growth is now below what authorities can accept and expect further policy support for economic growth. We prefer onshore over offshore equities due to greater sensitivity to economic activity, which is where authorities are looking to support.

Yield gap shows relative value of equities

	Dividend yield	10Y Bond yield	Dividend yield minus bond yield	Average since '00	Current vs Average (bp)
US	1.3%	1.4%	-0.1%	-1.3%	120
Japan	2.2%	0.1%	2.2%	0.8%	134
Eurozone	2.2%	0.0%	2.2%	0.4%	180
UK	3.8%	0.8%	2.9%	0.6%	236

Source: JPM

Eurozone is cheap vs US equities

Source: JPM

Consensus EPS growth higher in Eurozone

	2021e	2022e
MSCI World	51.1%	7.3%
S&P 500	49.7%	8.2%
Stoxx 600	63.4%	8.0%
Euro Stoxx	70.7%	8.6%
FTSE 100	86.5%	4.0%

Source: JPM

Inflation

We view inflation and expectations of inflation as the key risks looming over the markets in 2022. This is because the Fed has said that evidence of destabilized long-term inflation expectations would cause them to be really concerned about inflation. This would likely cause the Fed to aggressively reduce liquidity in the system and hike interest rates, which would be very negative for risk assets.

As economies have yet to reopen fully, upward pressure on prices remain elevated. Our base view is that inflation remains transitory and expect it to taper down over the course of the year. However, we think it is unlikely it will drop below pre COVID-19 levels in 2022.

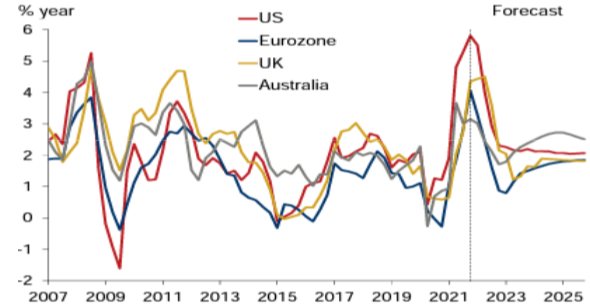
Many factors driving inflation remain of an impermanent nature, such as supply chain bottlenecks, strong consumer demand, and COVID-19 induced labour shortages. Energy prices remain strongly correlated with inflation. We do not believe that that OPEC+ will allow energy prices to remain sustainably above $100 a barrel as it incentivizes competition from other sources of supply. Importantly, inflation is not merely the increase in prices – it is the rate of the increase in prices. Even if oil prices remain at $80 a barrel, we do not expect inflation to accelerate.

The key risk to our base case would be the massive amounts of liquidity injected into system by the central banks of developed nations. Should velocity of and demand for money accelerate, entrenched inflation may result.

As such, we monitor inflation and our macro indicators closely for signs of deviation from our expectations of tapering inflation. We believe that any reduction of liquidity in the system will be well communicated and gradual. We are mindful of the lessons that the Federal Reserve has learnt from the “Taper Tantrum” episode of 2013 – where a sharp climb in yields led to a market sell off. The Federal Reserve Chair Jerome Powell has portrayed recent hawkish moves as only a shift away from an ultra-expansionary policy implemented to counter the effects of COVID-19, and not as adoption of a restrictive stance aimed at cooling off an overheated economy.

This supports our stance of being positive on risk. However, we stay neutral in the US, and prefer to take risk in the Eurozone and Japan, where liquidity remains supportive, valuations are lower, and the runway of economic growth is longer.

Inflation expected to peak in Q1 2022

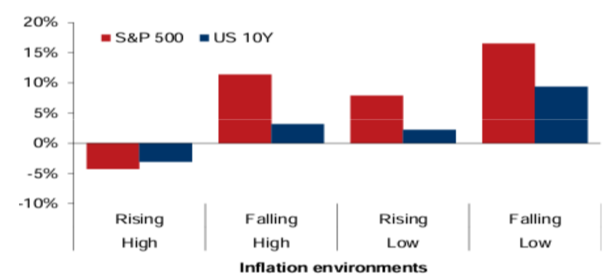


Source : Oxford Economics/Haver Analytics

Breakevens paring back further out the curve

Source: Oxford Economics/Macrobond

Falling inflation supportive of equities



Source : Oxford Economics/Refinitiv Datastream

Key Calls

Looking Forward

In short, we remain cautiously optimistic on risk assets.

- We remain overweight cyclical assets as they are disproportionate beneficiaries from economies continuing to reopen.
- We remain short duration on USD assets.
- We have raised our allocation to non-US assets for the increase in global trade flows and rising discount rates.

Our current views are as follow

- United States: Neutral – Caution on extended valuations is counterbalanced by still positive earnings momentum
- Japan/Developed Europe: Overweight – Lower valuations and longer runways of economic growth.
- Asia ex Japan: Neutral – Cautiously optimistic as China increases policy support for economic growth.
- Emerging Markets: Underweight – Supportive commodity prices have also led to inflation worries and EM underperformance.
- USD Rates: Underweight – Above trend economic activity, inflation and a hawkish Fed will result in higher yields.
- IG Credit, USD: Underweight – Tight spreads are unlikely to fully absorb the rise in rates.
- HY Credit, USD: Neutral – North Asia offers interesting opportunities as spreads have widened while government policy is turning supportive.
- Local currency Credit: Neutral – USD strength reduces the attractiveness of high yields in local currency EM bonds.

CROSSINVEST AWARDS

2021

Rising Star for Asia-Pacific

Best Multi-Family Office Singapore 2021

Best Independent Wealth Manager Singapore 2021

2020

Best Asset Manager Serving Family Offices & Private Banks

Best Next – Generation Offering – Highly Commended 2020

HIGHLY ACCLAIMED OUTSTANDING INDEPENDENT WEALTH MANAGER – OVERALL

WINNER BEST ASSET MANAGER OVERALL

2019

Outstanding Contribution to Wealth Management

Best Discretionary & Advisory Offering

Best Client Experience Overall

Outstanding Independent Wealth Manager & Client Experience

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