

Singlife Model Portfolios

Quarterly Investment Review – Q1 2022

Model Portfolios advised by abrtn Asia Limited (“abrtn Asia”)



Singlife
with AVIVA

Asset Manager's Reflections

Market Review

Global equities suffered a difficult quarter, falling materially in January and to a lesser extent in February before erasing some losses in March. Worries over escalating inflation in many developed economies and the prospect of rising interest rates accounted for the sell-off in the early weeks of 2022. Further market volatility followed as Russia invaded Ukraine on 24 February: energy and food costs surged in response, oil prices hit multi-year highs and natural gas prices soared. European and US stock markets were particularly weak, but Asian and emerging markets also dropped, especially in China, which was affected by Covid-19 lockdowns. Japanese equities fell slightly over the quarter, faring better than their international peers, helped by an improving picture on Covid-19 infections.

In fixed income, global government bonds experienced a dismal quarter, with US Treasuries suffering their worst quarter in decades. Despite the asset class being regarded as a haven, bond yields rose sharply (and bond prices fell). Investors reacted negatively to the pronounced shift by the US Federal Reserve (Fed) to a more hawkish stance on monetary policy. Faced with inflation at a 40-year high and a strong jobs market, the central bank increased its key interest rate by 25 basis points (bps) and signalled as many as ten rate increases in 2022. Elsewhere, the Bank of England increased its base rate. Bucking the trend, the Bank of Japan and People's Bank of China kept monetary policy loose, amid long-term deflation worries and slowing growth concerns, respectively. Corporate bonds also suffered a poor quarter. Investment grade (IG) and high-yield (HY) debt performed weakly, as investors worried about multi-decade high inflation levels in the US and Europe leading to higher interest rates.

Outlook

Looking ahead, we expect the following three factors to drive markets: the behavior of the 2-10-year US Treasury curve, the evolution of the conflict between Russia-Ukraine and its impact on inflation and, finally, the reaction of central banks and its impact on economic and corporate earnings data.

On the yield curve, the US 2-10-year curve inverted for the first time since 2007 in March, as more hawkish central-bank pricing pushed front-end yields to their highest levels since mid-2019. While curve inversion is one of the leading indicators of recessions, there is a lag time of about one year from when the curve inverts to when the equity market peaks. History has shown that during this period equities outperform, with the S&P 500 delivering a +15% return on average. Importantly, not all yield signals are pointing towards recession. The 3-month and 10-year spread – the Fed's preferred leading indicator of recession – has not inverted but has been strongly steepening over the past months.

We are also of the view that this current curve inversion is unlike previous ones and as a result, do not expect a recession to follow suit soon. Historically, an inverted yield curve was a good lead recession signal as it would indicate that financing conditions have become highly restrictive, with real rates averaging +200bps at the time of past curve inversions. However, this is not the case at present. Current 10-year real yields are negative, with financial conditions supported by accommodative bank lending standards, as well as well-capitalised banks that can drive continued credit expansion.

Regarding the conflict between Russia and Ukraine, we are at a stage where the invasion may have reached a momentary peak. Uncertainty remains high, with a ceasefire or near-term resolution unlikely. In addition, the dispute around the currency for payments of natural gas shipments from Russia is raising some concerns about the supply of energy to Europe. Oil prices also remain volatile as governments try short-term solutions to combat fuel inflation amid a tight market, such as the US government's Strategic Petroleum Reserve release. We expect inflation to remain elevated, driven by higher commodity prices and supply-chain constraints due to the conflict between Russia-Ukraine.

Lastly, regarding the reaction of central banks, Fed Vice Chair Lael Brainard has indicated recently that the Fed will commit to policy normalisation by reaching the neutral rate quickly and will proceed with the Fed's balance sheet run-off plans even in a scenario where core inflation moderates. This signals the likely near-term peak of Fed hawkishness for now, and markets have priced accordingly for it. It allows markets to move on and focus on how the macroeconomic economic environment and corporate earnings will unfold as rates rise.

Singlife Model Portfolios

Quarterly Investment Review – Q1 2022

Model Portfolios advised by abrtn Asia Limited (“abrtn Asia”)



Singlife
with AVIVA

US economic data continues to further surprise on the upside, with non-farm payrolls increasing further on the back of strong prints in the last two months and the unemployment rate declining. The strength of the US economy underscores our view that it is better positioned to withstand more tightening than in past cycles. We expect demand to be buoyed by strong consumer balance sheets and tight labour markets that will support positive sequential gains in real earnings by the end of the year. In addition, the corporate sector remains healthy, with debt growth flat in 2021 and interest costs declining. In stark contrast to 2015-2018, when the Fed was one of the few developed market (DM) central banks to raise rates, central banks across are looking to tighten this year

Portfolio positioning

We have adopted a neutral equity position in the portfolios, given the balance of risks. In March, we saw a V-shaped recovery in markets across equities and IG and HY spreads. This provided a clear signal that markets are struggling to balance between growth and inflation, and thus we have prudently adopted a neutral position, given the dynamics. With China’s zero-Covid policy likely to drive further weakness in its macroeconomic outlook at the same time as most DMs are adopting an endemic approach to Covid-19 and reopening their economies, we expect growth momentum divergence. We have positioned the portfolios for this by having the majority of the equity allocation in developed equities.

We expect yields across the sovereign curve to increase as central banks tighten and normalise, and markets to switch between growth equities and value equities as higher interest rates affect potential economic growth. As a result, we have positioned the portfolios with a mix of growth and value exposures to balance across market-style swings.

As sovereign yields push higher from current levels, we have positioned the portfolios with credit spread buffers to cushion the compression. As markets reopen for businesses and activity picks up, we expect spreads to compress. We saw validation of this in March with a sizeable reversal of US HY credit spreads from 410bps to 310bps. Within HY, our preference is to have a tilt towards DM HY exposures, as we expect the Asian HY market to muddle through the knock-on implications of the Chinese real estate sector.

Singlife Model Portfolios

Quarterly Investment Review – Q1 2022

Model Portfolios advised by abrdn Asia



Singlife
with AVIVA

Singlife Model Portfolios' Allocation (as of 31 March 2022)

Funds	Singlife Conservative	Singlife Balanced	Singlife Dynamic
Fixed Income			
Neuberger Berman Strategic Income Fund SGD-H	50%	34%	11%
United SGD Fund	12%	3%	4%
BlackRock Global Funds - US Dollar High Yield Bond Fund SGD-H	10%	8%	3%
United Asian High Yield Bond Fund SGD-H	8%	5%	2%
Equities			
United Global Quality Growth Fund	6%	12%	20%
Allianz Best Styles Global Equity SGD-H	1%	3%	5%
Nikko AM Shenton Global Opportunities Fund	6%	15%	21%
Fidelity Funds - World Fund	5%	11%	18%
Eastspring Investments - Global Low Volatility Equity Fund	0%	2%	5%
JPMorgan Funds - Asia Pacific Equity Fund	2%	7%	11%

Source: abrdn Asia. The portfolios allocation may change from time to time, at the discretion of the Asset Manager. Figures may not always sum up to 100% due to rounding.

Singlife Model Portfolios

Quarterly Investment Review – Q1 2022

Model Portfolios advised by abrtn Asia



Important Information

With effect from 1 January 2022, Aviva Ltd and Singapore Life Pte. Ltd. (Singlife) came together to create a leading financial services company in Singapore. The combined company will be known as Singapore Life Ltd.

The Singlife Model Portfolios are advised by abrtn Asia Limited ("abrtn Asia"), which is licensed to conduct Fund Management and Dealing in Capital Markets Products regulated activities. abrtn Asia is registered with the Accounting and Corporate Regulatory Authority in Singapore (Reg. No. 199105448E) and its business activities are regulated by the Monetary Authority of Singapore.

This document is for information only and does not constitute an offer or solicitation to buy or sell any of the investments mentioned. Neither Singlife nor any officer or employee of Singlife accepts any liability whatsoever for any loss arising from any use of this publication or its contents. This document is confidential and constitutes proprietary information and may not be used other than by the intended recipient. This document may not be reproduced, distributed or published without prior written permission from Singlife. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately.

The views expressed are opinions of abrtn Asia as of the date of this document and are subject to change based on market and other conditions. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase or sell securities, and the information provided regarding such individual securities is not intended to be used to form any basis upon which an investment decision is to be made. Nothing in this document constitutes accounting, legal, regulatory, tax or other advice. Portfolio allocations, holdings and characteristics are subject to change at any time. Any statistics have been obtained from sources abrtn Asia believed to be reliable but the accuracy and completeness of the information cannot be guaranteed. All investments involve risks, including possible loss of principal. Past performance is not necessarily indicative of future performance. The information contained in this document, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available as at the date of this document and reflects prevailing conditions and abrtn Asia's views as of the date of this document, all of which are accordingly subject to change at any time without notice and abrtn Asia is under no obligation to notify you of any of these changes.

Recipients should be aware that many of the investment products which may be described in this newsletter involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such investment products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any investment product should not be considered to be a disclosure of all risks or a complete discussion of such risks. This document was prepared without regard to the specific investment objectives, financial situation or needs of any investor. You should seek advice from a qualified financial advisor before relying on the information, analyses and opinions for any investment decisions. In the event that investors choose not to seek advice from a financial adviser, investors should consider whether the product is suitable for them.

Unless otherwise stated, performance results do not reflect the deduction of policy charges. It should be noted that performance results will be reduced by policy charges. Investment into the model portfolios are not bank deposits or other obligations, or guaranteed or insured by Singlife or any of their affiliates, or by any local governmental or insurance agency, and are subject to investment risks, including the possible loss of the principal amount invested. Investors should be aware of the risk of exchange rate fluctuations that may cause a loss of principal.

This newsletter is only for the purpose of distribution in Singapore. The information and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, availability or use would be contrary to the applicable law or regulation or which would subject Singlife to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This advertisement has not been reviewed by the Monetary Authority of Singapore.