

Inflationary Environment: Tidal Waves Ahead

DIGITAL ENGAGEMENT TEAM

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TRADING MATTERS SERIES: NEWS FOCUS

The summary and impact of a major news event

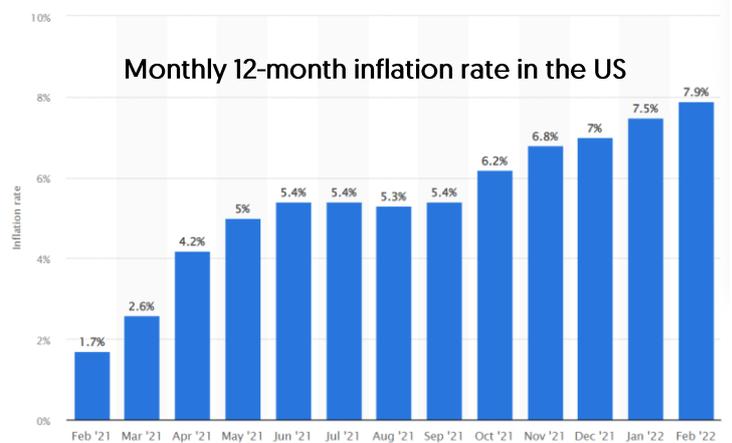
Month by month, the central banks are raising interest rates to curb inflation pressures that were already on the rise. Yet real interest rates remain deep in negative territory, a sign that more hikes will be needed to reduce or anchor inflation expectations.¹

What triggered the inflation?

1st Tidal Wave: Inflation triggered by economic reopening

Vaccine makers from Pfizer, BionTech and Moderna were expected to produce 132 million doses in March 2022, nearly tripling the February 2022's figure.² The massive vaccine production leads to the reopening of the economy.³ As countries starts to reopen, there is a surge of consumer consumption across the globe, disrupting the global supply chains. These supply chains should be able to catch-up to demand by mid-2022.⁴

Looking back, US inflationary rate soared by 3 folds from 2.6% in March 2021 to 7% in December 2021.⁵

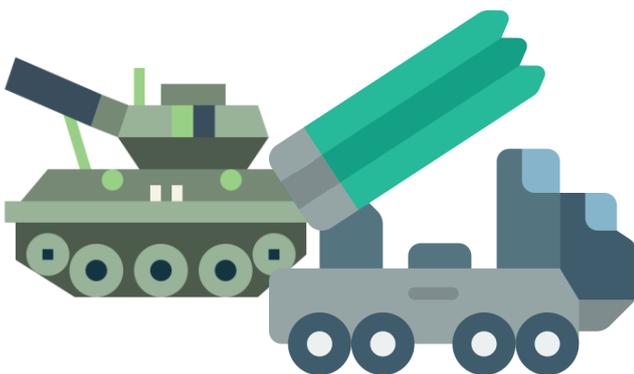


Source: Statista

2nd Tidal Wave: Inflation triggered by Russia-Ukraine war

Russia-Ukraine war tensions will worsen the inflationary outlook as oil and natural gas prices rise sharply during wars.⁶ In reflection of the Afghanistan and Iraqi wars, oil prices jumped 7-fold from US\$25 per barrel in September 2001 to US\$140 in September 2008.⁷

Besides, both Russia and Ukraine account for approximately 29% of the global wheat export market, as well as major suppliers of metals and other commodities such as copper and Nickel.⁸



Commodities & Inflation

When commodities rise in price, the costs of basic goods and services generally increase.¹² Here's an example¹³:



Why do inflation matter in the financial markets?

Uncertainty Matters: US January inflation gained 7.5% year on year, the strongest number in 40 years.¹⁴ The hawkish St Louis FED President James Bullard called for a full percentage point for rate hikes by July 2022.¹⁵ San Francisco FED President Mary Daly commented, "History tells us with Fed policy, that abrupt and aggressive action can actually have destabilizing effect on every growth and price stability we are trying to achieve."¹⁶ The anticipation of uncertainty matters.

Cash Matters: Facing the potential headwinds from the macro uncertainties, say the above 2 scenarios of the Russia-Ukraine tensions and interest rates hike, cash flow attenuates the market uncertainty effect on investment.¹⁷ In the midst of systematic or unsystematic risks, it is cash rather than book earnings, which meets obligations and weather through the economic downturn. The management of cash and cash flow plays a critical role as a safety net for businesses from failing. Cash flow management matters.

How should investors face inflation?

When faced with such uncertainties, investors have slashed bullish bets on bank bonds, boosted cash levels and rotated towards safe havens, according to Bank of America's latest European investor survey.¹⁸ Banks like Goldman Sachs have also told clients to switch to cash.¹⁸

Despite this, investors do not seem ready to abandon the stock market yet, and have sunk US\$152 billion into equities this year, according to JPMorgan.¹⁹ They cite a bull case for equities as despite red-hot inflation, some companies have ridden the wave of price pressures to record profits,¹⁹ passing on rising costs to consumers.²⁰

Geopolitics and rising rates also do not have the same effect on every stocks. Growth stocks that rely on future rather than current cash flows experience much greater risks as rates rise,²¹ while weak-balance-sheet stocks are more vulnerable with spreads widening.²²

In this environment, cash and cash flows as it seems, do matter.



Source: ING Macrobond

Cash and Cash Flows Matter



The flight to safety

- Goldman Sachs highlights that cash itself is helped by better yields in short-dated rates markets¹⁸
- For stocks, company debt levels become more pertinent as rates rise and the taps of central-bank liquidity turned off²²
- Fiduciary Trust International highlights the shift toward quality, picking stocks with more stability, predictable earnings, lower debt and stronger balance sheets and cash-flow growth²²
- Morgan Stanley similarly makes the case to seek haven in quality stocks in the face of geopolitical risk²²

Inflation is here to stay for a while longer

US inflationary pressures are due to supply bottlenecks, a stronger job market, rising shelter costs and tight commodity markets, which saw the US Consumer Price Index hit a 40-year high⁹. On the other hand, the Eurozone spike of inflation is due mainly to rising energy prices¹⁰. US FED is now forecasting 6 more rate hikes and inflation of over 4%, a significant increase in its inflation outlook¹¹.

Straits Times Index



A glance at the companies with the highest cash and cash flows, and the biggest equity index movers based on their % change in 2022

Price chart



Source: TradingView, extracted 22 Apr 2022 closing

Top leaders & laggards (01 Jan 2022 – 31 Mar 2022)

Here are the biggest index leaders & laggards year-to-date, to show in more detail which companies have fluctuated the most in this period of geopolitical and interest rate uncertainty

Ticker	Name	Price	% Change	Ticker	Name	Price	% Change
SCI SP	Sembcorp Industries Ltd	2.67	+33.50 %	KDCREIT	Keppel DC REIT	2.28	-6.17%
KEP SP	Keppel Corp	6.42	+25.39 %	MCT SP	Mapletree Com Trust	1.89	-5.50%
JCNC SP	Jardine Cycle & Carriage	25.03	+21.50 %	VMS SP	Venture Corp Ltd	17.57	-4.04%
UOB SP	United Overseas Bank	32.02	+19.03 %	FLT SP	Frasers Log & Com	1.46	-3.95%
CLI SP	Capitaland Investment	3.99	+17.01 %	HKL SP	Hongkong Land	4.90	-2.55%

Source: Bloomberg, extracted 21 Apr 2022 closing

A Peek into the Cash Hoard²² Companies

Here are the index component stocks that have the highest upside to their analyst consensus 12-month target prices as compiled by Bloomberg. Cash, cash flows, and measures of liquidity have also been provided

Ticker	Name	Price	Cash & Cash Equivalents [USD]	Cash Flows from Operations [USD mil]	CFO/Total Liabilities	Analysts Consensus 12M Target Price	Upside from Analyst Consensus [%]
DBS SP	DBS GROUP HOLDINGS	33.39	41.83B	7490.66	1.60	39.62	18.64%
UOB SP	UNITED OVERSEAS BANK	31.15	27.12B	-503.10	-0.16	35.96	15.43%
OCBC SP	OVERSEA-CHINESE BANKING	12.08	20.71B	8888.32	2.45	14.11	16.85%
SIA SP	SINGAPORE AIRLINES	5.52	9.21B	-2521.73	-16.16	5.09	-7.77%
JM SP	JARDINE MATHESON HLDGS	55.5	7.28B	5076.00	15.33	61.70	11.17%
WIL SP	WILMAR INTERNATIONAL	4.59	6.34B	51.14	0.14	5.91	28.76%
JCNC SP	JARDINE CYCLE & CARRIAGE	26.87	4.58B	3028.30	23.92	30.30	12.77%
CLI SP	CAPITALAND INVESTMENT	4.02	2.87B	1738.52	13.31	4.22	5.02%
KEP SP	KEPPEL CORP	6.65	2.68B	26.51	0.18	6.85	2.94%
GENS SP	GENTING SINGAPORE	0.815	2.46B	279.30	41.85	0.93	14.18%

Source: Bloomberg, extracted 21 Apr 2022 closing

Hang Seng Index



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Ticker	Name	Price	% Change	Ticker	Name	Price	% Change
883 HK	CNOOC Ltd	10.74	+33.75 %	2382 HK	Sunny Optical Tech	126.10	-48.86%
688 HK	China Overseas Land	23.45	+27.03 %	175 HK	Geely Automobile	12.36	-41.97%
5 HK	HSBC Holdings PLC	54.20	+18.96 %	2018 HK	AAC Technologies	18.98	-38.38%
27 HK	Galaxy Entertainment	47.00	+17.09 %	3690 HK	Meituan	155.60	-30.97%
857 HK	PetroChina Co Ltd	4.06	+17.00 %	2313 HK	Shenzhou International	104.80	-30.09%

Source: Bloomberg, extracted 21 Apr 2022 closing

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1398 HK	IND & COMM BK OF CHINA	4.74	487.47B	217030.81	4.39	6.33	33.45%
939 HK	CHINA CONSTRUCTION BANK	5.72	434.84B	110778.42	2.58	8.18	43.02%
5 HK	HSBC HOLDINGS PLC	55	407.15B	121248.00	4.41	63.28	15.06%
3988 HK	BANK OF CHINA	3.13	360.01B	85321.67	2.26	4.05	29.35%
267 HK	CITIC	8.65	92.36B	27239.49	2.42	9.75	12.72%
3968 HK	CHINA MERCHANTS BANK	50.8	89.23B	13649.24	1.05	76.12	49.84%
2388 HK	BOC HONG KONG	29.9	59.70B	4901.43	1.15	34.92	16.78%
9988 HK	ALIBABA GROUP HOLDING	87.9	46.11B	34239.25	38.21	157.16	78.80%
941 HK	CHINA MOBILE	54.25	38.96B	51456.65	52.59	77.09	42.11%
700 HK	TENCENT HOLDINGS	348	26.42B	27275.22	23.91	513.78	47.64%

Source: Bloomberg, extracted 21 Apr 2022 closing

S&P 500 Index



A glance at the companies with the highest cash and cash flows, and the biggest equity index movers based on their % change in 2022

Price chart



Top leaders & laggards [01 Jan 2022 – 31 Mar 2022]

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Ticker	Name	Price	% Change	Ticker	Name	Price	% Change
OXY US	Occidental Petroleum	56.74	+96.19 %	EPAM US	EPAM Systems Inc	296.61	-55.63%
MOS US	Mosaic Co/The	66.50	+69.62 %	ETSY US	Etsy Inc	124.28	-43.24%
HAL US	Halliburton Co	37.87	+66.18 %	PYPL US	PayPal Holdings Inc	115.65	-38.67%
APA US	APA Corp	41.33	+54.30 %	NFLX US	Netflix Inc	374.59	-37.82%
MRO US	Marathon Oil Corp	25.11	+53.43 %	IPGP US	IPG Photonics Corp	109.76	-36.24%

Source: Bloomberg, extracted 20 Apr 2022 closing

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Ticker	Name	Price	Cash & Cash Equivalents [USD]	Cash Flows from Operations [USD mil]	CFO/Total Liabilities	Analysts Consensus 12M Target Price	Upside from Analyst Consensus [%]
GS US	GOLDMAN SACHS GROUP	341.06	274.00B	921	0.07	424.10	24.35%
BRK/B US	BERKSHIRE HATHAWAY	348.82	146.72B	39421	8.88	360.67	3.40%
BK US	BANK OF NY MELLON	47.02	141.83B	2838	0.71	56.45	20.05%
MS US	MORGAN STANLEY	90.61	127.72B	33971	3.14	107.02	18.11%
SCHW US	SCHWAB [CHARLES] CORP	76.45	91.10B	2118	0.35	101.22	32.40%
USB US	US BANCORP	53.05	44.30B	9870	1.91	61.17	15.31%
AAPL US	APPLE INC	167.23	37.11B	104038	36.14	190.98	14.20%
AMZN US	AMAZON.COM INC	3079.96	36.22B	46327	16.41	4064.49	31.97%
BAC US	BANK OF AMERICA CORP	39.66	29.76B	-7193	-0.25	49.20	24.06%
UNH US	UNITEDHEALTH GROUP INC	546.01	28.39B	22343	16.46	571.24	4.62%

Source: Bloomberg, extracted 20 Apr 2022 closing

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