

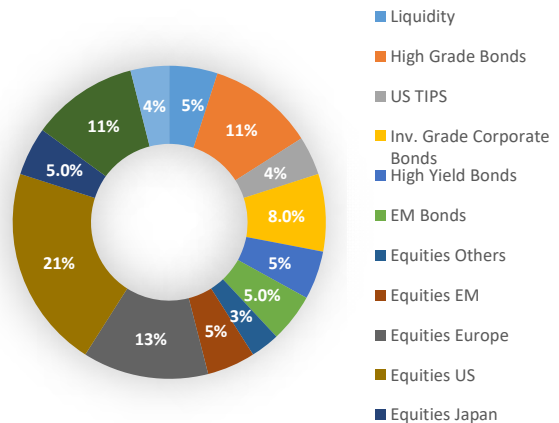
**FINANCIAL MARKET OUTLOOK (SHORT TERM)**

APPEALING		LESS FAVOURED
Eurozone equities Japanese equities Global Financials US mid-caps Global Financials Disruptive technologies (ABCs of tech, 5G, Digital assets and fintech) Greentech, clean air and carbon reduction Global healthtech, medical devices, genetic therapies	Equities	Global industrials Global real estate Global consumer staples Excess mega-cap tech Least Preferred Stocks
Alternative yield (US senior loans, private credit, synthetic credit, synthetic credit) Asia high yield Sustainable bonds	Bonds	Expensive and sell-rated bonds High grade bonds
USD, GBP, NOK, NZD, SGD Hawks vs. Doves	Currencies	CHF, EUR, JPY, SEK
Commodities Oil	Precious Metals & Commodities	

**ASSET ALLOCATION**

Inflation, growth, and concerns over COVID-19 are likely to remain in the spotlight as the post-pandemic recovery continues. We expect inflation to stay elevated in the coming months until the pandemic-related supply issues are worked through. We also think growth should remain strong, since we don't think the delta variant, or any other variants will derail economic reopening, especially as rising vaccination rates enable governments to look beyond recurring outbreaks. Emergency stimulus measures are likely to be reduced, but policymakers will remain cautious of "overtightening." Overall, this backdrop should support more cyclical equities. As we approach the second half of the year, inflation and growth should both fall to more "normal" levels, favoring healthcare, a more defensive sector with structural growth attributes.

**BALANCED USD MODEL PORTFOLIO**



**EQUITIES**

Equities have done well this year, but November ushered in a period of heightened volatility as the Fed turned hawkish, and the omicron variant raised concerns about global growth. COVID-19, inflation and policy uncertainty will likely shape financial markets next year and could produce episodes of risk-off behavior. However, we believe that macro and liquidity conditions remain supportive of equities. Overall, resilient end demand and easing inflation bode well for top line growth and margins. Also, China is showing signs of bottoming out, with manufacturing PMIs ticking up and the credit impulse levelling out. In this environment, we remain positive on global equities, although we expect higher volatility ahead.

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**BONDS**

As economies reopen, inflation has spiked and remains at elevated levels. We expect price pressures to ease as global supply chains overcome pandemic-related interruptions and energy prices stabilize. Fiscal stimulus of the magnitude enacted has gone beyond replacing incomes lost to the pandemic. The consequent excess savings and pent-up demand as the US economy reopens are resulting in a strong growth impulse. The combination of strong growth, reduced Fed asset purchases, and low market implied terminal policy rates lead us to believe that rates should move slowly higher. Within credit, we are neutral high yield as spreads have compressed and the upside appears limited from current levels. US investment grade remains least preferred due to tight valuations and its vulnerability to rising yields. With Asia HY spreads trading above 800bps, we think default risk is largely priced in. While we may see further downside in the near term due to weak market technicals and sentiment toward the China property sector, we are more sanguine over the next six months, as we expect spreads to tighten thanks to regulatory relief that would help ease refinancing pressures and support the physical property market in China.

Source: UBS House View January 2022

**CURRENCIES**

Among G10 currencies, we have a preference for the USD and the GBP. US inflation has risen enough for the Fed to taper and prepare rate hikes. The GBP should be supported soon by rate hikes by the Bank of England. The Swiss franc and the JPY are our least preferred currencies as the USD is strong enough to cover any potential demand for safe havens and CHF and JPY will be used increasingly to finance carry trades. We keep the EUR neutral in a period of continued global recovery supporting the common currency but note the persistence of negative rates weighing on it. The CNY is expected to weaken moderately versus the USD amid decelerating Chinese growth momentum

**TOPIC OF THE MONTH**

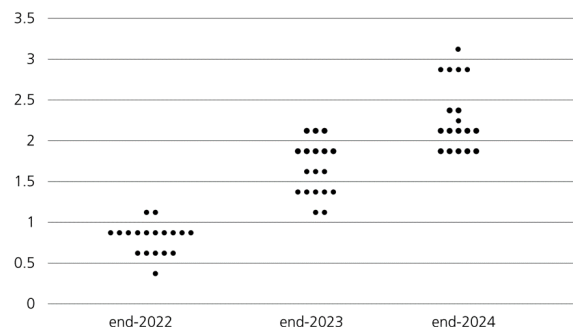
**2021 IS COMING TO AN END AND 2022 IS JUST AROUND THE CORNER**

**Fed’s steady tightening shouldn’t derail equities**

The Federal Reserve last week announced an accelerated tapering of bond purchases at a pace of USD 30bn per month, raised its growth and inflation outlook, and released a new “dot plot” that signaled three rate hikes in 2022. But while the Fed has turned more hawkish, we think policymakers have struck a balance between taking steps to curb inflation—which reached 6.8% annually in November—while continuing to support growth and monitor developments in the labor market. We think the Fed will remain cautious of overtightening. It’s unlikely that even three interest rate hikes over the next year would dent the outlook for corporate profit growth, which we forecast at 12% in 2022 and 9% in 2023 for S&P 500 companies. Economic growth is also strong: We forecast real US GDP will expand 4.5% in 2022. So, while Fed tightening may remain a source of market volatility, we don’t expect it to derail the equity rally.

**The Fed has turned more hawkish...**

FOMC dot plot, December 2021 meeting



Source: Bloomberg, UBS, 16 December 2021.

**Markets can continue to look past omicron concerns**

The spread of omicron remains a worry, with the variant now detected in mainland China and in 33 US states. But equities are still near record highs, and we see reasons why this sanguine reaction makes sense. The equity market impact of successive COVID-19 waves has diminished since the start of the pandemic. In the three months from the start of the first wave (early February 2020 to April 2020), global equity total returns were – 13.4%, and US returns –11.3%. From the start of the second wave in June 2020, subsequent three-month total returns for global and US equities were +6.6% and +9.4%, respectively. Following the delta wave, which started in May 2021, three-month total returns were +7.8% for global equities and +10.1% for US equities. While we await more real-world data on omicron, what we’ve learned so far is consistent with our base case that, from a market perspective, the variant will broadly “merge” into the existing delta wave. Existing two-dose vaccines show reduced protection against omicron, but with booster shots efficacy is much higher. This has helped investors look beyond the fear of vaccine evasion and focus on economic fundamentals, which remain robust.

**China’s focus on stability should cushion economic slowdown**

China’s economy broadly weakened in November, with retail sales and fixed asset investment growth slowing. But we expect more pro-growth policies ahead, which should cushion the country’s economic deceleration. The Central Economic Work Conference emphasized “stability” as the top priority for 2022. Policymakers urged faster fiscal spending, highlighting new tax and fee cuts along with greater infrastructure investment. Monetary policy should also remain supportive: The People’s Bank of China’s recent 50-basis-point cut in the reserve requirement ratio (RRR) should release CNY 1.2tr of liquidity for banks to support credit growth in the real economy. Further steps next year may include more RRR cuts, credit easing measures, and medium-term lending facility injections. Support will be directed toward SMEs, technology innovation, and green initiatives in particular. So, while virus restrictions, the energy crunch, and regulatory headwinds may still weigh on China’s economic activity into 1Q22, we expect an acceleration in subsequent quarters as these pressures fade and additional policy easing comes through. We expect 2022 GDP growth to reach around 5.5%, with a relatively soft 1H followed by a stronger 2H.

Source: UBS Global Weekly 20.12.2021

## KEY FIGURES 2021

## EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2020	17.12.2021	% Chg YTD
Dow Jones Ind.	30'606.48	35'365.44	15.55%
S&P 500	3'756.07	4'620.64	23.02%
RUSSELL 2000	1'974.86	2'173.93	10.08%
NASDAQ COMP	12'888.28	15'169.68	17.70%
CANADA - TSX	17'433.40	21'125.90	21.18%
MEXICO - IPC	44'066.88	52'379.37	18.86%
BRAZIL IBOVESPA	119'017.24	107'200.56	-9.93%
COLOMBIA COLCAP	1'437.89	1'407.88	-2.09%
ASIA	31.12.2020	17.12.2021	% Chg YTD
JAPAN- NIKKEI	27'444.17	28'545.68	4.01%
H.K. HANG SENG	27'231.13	24'080.52	-11.57%
CHINA CSI 300	5'211.29	4'954.76	-4.92%
EUROPE	31.12.2020	17.12.2021	% Chg YTD
EURO STOXX 50	3'352.64	4'161.35	24.12%
UK - FTSE 100	6'460.52	7'296.92	12.95%
GERMANY - DAX	13'718.78	15'531.69	13.21%
SWITZERLAND - SMI	10'703.51	12'715.48	18.80%
SPAIN - IBEX 35	8'073.70	8'311.60	2.95%
NETHERLANDS - AEX	624.61	771.70	23.55%
RUSSIA - RTSI	138'530.00	156'900.00	13.26%

## VOLATILITY

	31.12.2020	17.12.2021	% Chg YTD
SPX (VIX)	22.75	20.57	-9.58%

## CURRENCIES

	31.12.2020	17.12.2021	% Chg YTD
EUR/USD	1.2237	1.1239	-8.15%
USD/JPY	103.2360	113.7100	10.15%
USD/CHF	0.8840	0.9244	4.57%
GBP/USD	1.3673	1.3238	-3.18%
USD/CAD	1.2739	1.2895	1.23%
EUR/CHF	1.0817	1.0389	-3.96%

## COMMODITIES (USD)

PRECIOUS METALS	31.12.2020	17.12.2021	% Chg YTD
GOLD USD/OZ	1'897.70	1'797.95	-5.26%
SILVER USD/OZ	26.45	22.38	-15.39%
PLATINUM USD/OZ	1'075.50	940.00	-12.60%
ENERGY	31.12.2020	17.12.2021	% Chg YTD
WTI Crude Oil	48.52	70.86	46.04%
Brent Crude Oil	51.80	75.02	44.83%
Natural Gas	2.53	3.69	45.85%

## INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	0.051	0.642	1.402
GERMANY	-0.839	-0.706	-0.372
SWITZERLAND	-0.740	-0.754	-0.304
UK	0.319	0.521	0.759
JAPAN	-0.095	-0.107	0.044

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**T&T INTERNATIONAL GROUP**

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