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Habib Investment Limited

Views from the desk

Monthly Global Market Overview and Outlook

Habib Investment Limited
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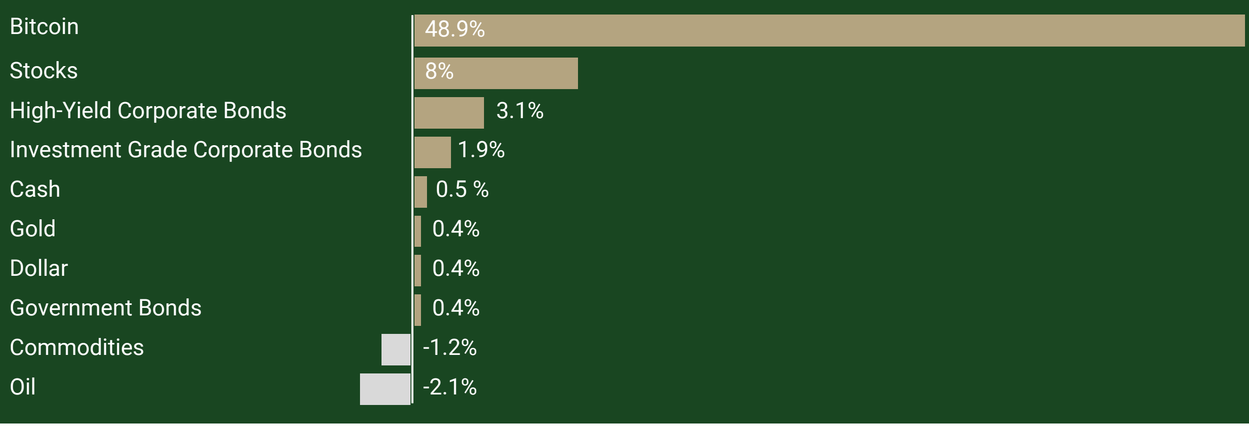
Asset Classes by Year-to-Date Total Return



Macro Overview

2023 by far has seen confused optimism or denial pessimism. Irrespective of the narrative, it is giving time to investors to re-position and re-balance their holding to align with their risk appetites as well as investment objectives.

> *Its not hard to make money, but rather make money work hard for you, that's the difficult part."*
>
> **- Sandeep Jadwani | ACSI**
> **Head of Investment Advisory**

February has been the busiest and most important month for analysts, advisors, investment managers as well as economists as the data surprises on the positive side while the counter effect also surprises.

Hotter-than-expected reports on CPI, Wholesale Prices and Retail Sales raised worries they could prompt a more hawkish from Fed policymakers leading to more rate hikes along the way in 2023 against our base prediction of rate pause in May 2023. . For the third time in a row for the. U.S. Treasury yields rose to their highest levels in over a month, with the yield on the 10-year note breaching 3.9% on Friday (17th Feb,2023).

Crude oil prices fell as well on expectations of a demand slowdown, while a report from the EIA (Energy Information Administration) showed U.S. crude inventories rose to their highest level since October. The price of WTI crude—the U.S. benchmark—fell to $76 per barrel.

While we all prepare for diverging monetary policies, in Japan we expect FY22-24 economic outlook revisions. The main scenario through 2024 is for an ongoing economic recovery, and BOJ to adjust yield curve control (YCC).

Leadership of the BOJ is in transition to academic Kazuo Ueda, who is expected to succeed current Governor Haruhiko Kuroda, when his second five-year term ends in April. While Ueda is a dove, investors expect his tenure to YCC. The $8-trillion question for the Japanese bond market, though, is when? Ueda could raise interest rates by the fourth quarter. Global bond bulls are already fretting that moves to normalize policy in Tokyo will set off a wave of Japanese cash flowing out of international markets toward rising yields at home

The STOXX 600 hit a one-year high. If improving business conditions are contributing to rising price pressures, this could bolster expectations for the European Central Bank to keep raising interest rates given persistently high inflation. The FTSE 100 also hit a new all-time high as it crossed the 8,000 threshold with retail sales coming in better than expected m-o-m rising 0.5% against a forecast of -0.3%

The dividend yield on the S&P 500 is one third the 5% yield on a risk free loan to UST (US Treasuries). The equity risk premium has now sunk to a dangerous 160 basis points and the Feds tight money/EPS risk and the biggest yield curve inversion since 1981 all flash a recession SOS. This time is different, but a macro crash landing is never pretty

This overview could provide reasonable information to one for reconsidering their individual risk appetite, to be a bit more prudent in asset allocation and one may choose to rebalance their portfolios to suit their objectives.

Meet the Author

Sandeep Jadwani | ACSI
Head of Investment Advisory

Outlook: Risk On - Everyone is Looking Up

Whether it's eggs, CPI, Interest Rate, Retail sales, Crypto or even the Spy Balloon..

While the market continues to do whatever proves the most people wrong, we have more and more calls that this rally is too extended, and both CPI and rates remain *higher for longer*.

Prior to the strong **nonfarm payrolls** report for January, the federal funds futures market implied a peak rate of 4.81%. This has now risen to 5.19%, compared with the most recent median estimate from top Fed officials of 5.125%.

Deteriorating economic indicators have had strong track records of predicting recessions, but many have incorrectly warned of oncoming contractions. Soft and hard data hit their historical recessionary levels in 2022, but we believe some indicators may be over-signalling this time due to labour strength, consumer resilience, and cooling inflation. We believe universal and sustained weakness in economic and market signals may prove more reliable for recessionary calls.

CME probabilities show that markets are now pricing in a 25bp hike each in March, May and June. This is a change from two 25bp hikes that were priced last week in March and May. Goldman Sachs and Bank of America have now come out with calls for three more 25bp rate hikes this year. The chance of a 25bp hike in June has risen to 55% from 38%

> *In light of the stronger growth and firmer inflation news, we are adding a 25bp (basis points) rate hike in June to our Fed forecast, for a peak funds rate of 5.25%-5.5%"*
>
> **- Goldman Sachs**

Of the **S&P 500** companies that have reported earnings so far (as on 19th Feb,2023), 69% have exceeded their EPS expectations, which is below the five-year average of 77% and the 10-year average of 73%, according to research by FactSet. In total, reported earnings for S&P 500 companies have exceeded projections by just 1.1%, well below the five-year average of 8.6% and 10-year average of 6.4%.

China's PBOC kept benchmark rates unchanged at 3.65% for 1 year and 4.3% for 5 year loans. The PBOC is expected to ease monetary policy to support China's post-covid recovery this year. The central bank did inject liquidity (CNY224bn) into the financial system through open market operations this morning. We remain optimistically constructive and have started to tilt towards our SAA (Strategic Asset Allocation) mark for EM specifically China.

Egypt's finance ministry is expected to launch a USD sukuk according to local press, with an estimated USD 1.5bn issuance.

> *Resurgent inflation and solid employment gains mean the risks to this (only two interest rate hikes) outlook are too one-sided for our liking"*
>
> **- Bank of America**

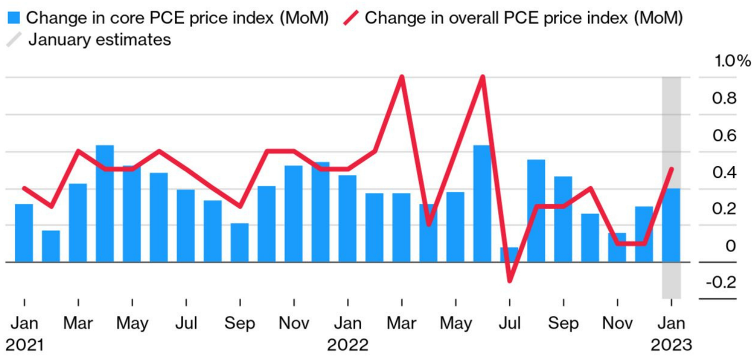
Indian economic growth remained resilient. High frequency indicators suggest that growth momentum remains resilient with PMIs well in the expansionary territories on consistent basis. Further, retail auto registration, retail consumer spending (Sum of UPI+IMPS), GST collections and unemployment remains robust or grew at healthy pace. Robust power demand, high PMIs and railway tonnage growth along with CV sales also indicates strong growth in industrial sector. Relative to other economies, India's economic activity is holding up well supported by domestic consumption and robust industrial activity. We expect the momentum to slowdown over coming quarters but still higher than most major economies.

The risk-reward trade-off therefore remains unfavourable for broad US indicies.

The economy remains a very elusive puzzle. There are many indicators out there that tell very different stories. Strong retail figures - strong labour numbers are flying in the face of recession. While company earnings, inverted yield curves, and a **"higher for longer"** Fed point towards the increased probabilities of recession. In this tug of war, it's important to be more active in security selection, be more patient with your long-term ideas, and add to any high-conviction stocks in pullbacks.

Buckle up, Diversify & Brace for Landing!

Fed's Preferred Inflation Gauge Seen Accelerating



Source: Commerce Department, Bloomberg

Bloomberg

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Market Definitions 101

Mergers

When two individual businesses combine into one legal entity. This can help them expand their reach in the market.

For instance, the infamous $130B deal in 2013 between Verizon and Vodafone allowed Verizon to pay for its US wireless division and build new mobile networks.

Takeovers

When one company successfully purchases another and assumes control of it.

We can refer to Kraft Food's acquisition of Cadbury PLC as an example of a hostile takeover. The incident inspired an overhaul in how takeovers are governed in the UK.

Acquisitions

Unlike a merger, an acquisition is when one entity absorbs another entirely.

An example of this is Elon Musk's $44b acquisition of Twitter. After this event, Twitter became private instead of a listed company.

Asset Class Views

Asset Class	Sub-Class	View (Feb '23)	Rationale
Main Asset Class	Equities	=	Rate cycle still uncertain, we maintain out neutral view on equities with selective positions on companies that have revamped toward being more efficient. We continue to favor healthcare, consumer staples & energy.
	Fixed Income	=▲	Yields have backed up and now provide diversification. Current bond yields are fairly close to levels that have historically been associated with a moderately high inflation environment. Yields and quality are now no longer mutually exclusive. Slower Inflation growth, peaking interest rates . We prefer quality over returns and IG over Govt or HY with medium term maturities.
	Commodities	=▲	We remain positively tilted towards commodities from a consumption perspective & supply side could provide the alpha and the hedge to portfolios. Copper joins the energy-transition-related metals & commodity super cycle.
	Currencies	=▲	We believe we have moved from a strong, trending US dollar to more of a rangebound trade in USD. With uncertainty on rates still high we take a step toward risk haven USD.

Asset Class Views

Asset Class	Sub-Class	View (Feb '23)	Rationale
Equities	USA	=	Huge surprises on all fronts means more room for rate hikes and hence we maintain neutral weight in the US Equity Markets.
	EU (Ex UK)	=	Growth in Europe is likely to accelerate in the coming months. Lower gas prices and fiscal support have helped cushion the downturn. We now see upside risk to our estimate that Eurozone GDP in the fourth quarter of 2022 shrank 0.4% from the previous quarter, and for the first three months of 2023, growth could be flat or even slightly positive. We expect a further improvement in the second and third quarters. We change our view to be neutral from underweight.
	UK	=	We maintain neutral view on UK with inherent risks of inflation increasing at a fast pace, cost of living crisis. This CPI data released is likely to only add to the Bank of England's (BoE) inflation concerns as they weigh up how much further rates need to go up to combat the rising prices. An increase in the key interest rate by the BoE to 4.52% by September is now priced in by money markets.
	EM (Ex MENA)	▲	Selective EM selection remains a key. Drivers such as domestic demand, monetary policy & fiscal prudence. India's economic activity is back to pre-pandemic levels, structural growth drivers like reforms, demographics, FDI flows are in place. This further gives confidence in the long term prospects of the economy. For China, the delayed reopening boost suggests that policy may need to stay accommodative in the first half of 2023 before normalizing in the second half once consumption and services rebound sharply. It also leads us to project above-consensus GDP growth for 2024 (5.3%) as the reopening tailwind lingers through 2024H1. Recent policies and accommodative stance to stimulate growth in China is a clear over weight.
	MENA	=▲	Scaling of capital markets by divesting PSU, Range bound Oil prices, Rising USD IR and key structural reforms make GCC a key low beta, attractive return allocation specially RSA & UAE. The UAE's economy is estimated to have grown by 7.6% in 2022, the highest in 11 years, after expanding by 3.9% in 2021. It is forecast to grow 3.9% 2023, while non-oil sector expansion is estimated at 4.2% and oil GDP projected at 3%. The head of the International Monetary Fund told a conference in Dubai on Monday that Gulf economies really are weaning themselves off oil. We prefer UAE, RSA, Qatar. We stay cautious on Turkey, Bahrain, Egypt.

Asset Class Views

Asset Class	Sub-Class	View (Feb '23)	Rationale
Fixed Income	US Treasuries	=	FED Hawkishness fully priced into the treasuries. Demand for duration will grow from these levels as portfolios flow back to rebalance and safe havens. The curve inverted & yields peaked is now less attractive relative to IG credits.
	Euro (Bunds)	▼	Bund yields at highest levels but gradually pricing in rake hikes. Yields still not peaked out and uncertainty remains.
	UK Gilts	▼	We are underweight UK gilts following the UK government's fiscal splurge. The Bank of England will need to hike rates higher to rein in price pressures, and we believe the move raises serious questions about the UK's fiscal credibility.
	US IG	=▲	Sluggish corporate earnings for 2023 and likely FED rate hikes priced in; prefer IG companies with high interest coverage ratio, and tilt towards cautious stance over HY or UST whilst gradually increasing duration.
	US HY	=	Based on majority analyst consensus, neutral high yield. We prefer up-in-quality credit exposures amid a worsening macro backdrop and potentially increasing default rates. We assume HY with strong corporate balance sheets should limit default risks even in a recession.
	Europe IG	▼	Economic and political struggles to weigh on EU credits whilst ECB remaining hawkish.
	EM	=	We are neutral with a positive tilt in few selected EM including GCC fixed income amid a recovering macro-outlook. Though Valuations are compelling, risk may not be, to turn more positive on the asset class, EM local ccy could prove a good play based on tactical risk allocation. Some caution is warranted for select emerging markets as recessionary conditions could see risk spreads rise in some areas.

Asset Class Views

Asset Class	Sub-Class	View (Feb '23)	Rationale
Commodities	Oil	=▲	With Global supply disruption easing, while supply reduction to support Oil and potentially improved demand due to China easing Covid Zero policy faster than anticipated neutralizes the impact of bearable winter in EU.
	Precious Metals	=▲	Heightened geopolitical risks amidst recessionary fears, Russia-Ukraine and market volatility to drive safe haven demand, however, Lunar New year seasonal demand & weakening USD could hold the metal higher.
Currencies	USD	=▲	Good news on inflation has resulted in bad news on USD and any reversal will have an impact on the USD. USD remain the safe haven global currency but still will remain range bound as expectations of rate hikes come back in.
	EUR	=	Weak economic outlook but technically overvalued USD and valuations can give an upside lift in the mid-term.
	GBP	=	Weak economic outlook, and anticipation of aggressive BOE rate hike could support the GBP strength;
	EM	=	Weaker USD, compelling currency valuations, consolidating energy/commodity prices may support EM currencies.

DISCLAIMER This article is <u>not</u> written by a human [only edited by one]

ChatGPT is a highly advanced language model developed by OpenAI, one of the leading research organizations in the field of artificial intelligence. It is based on the GPT (Generative Pretrained Transformer) architecture and has been trained on a massive corpus of text data, making it capable of generating human-like responses to a wide range of prompts and queries.

The benefits of ChatGPT are numerous, and its impact can be felt in a variety of industries and applications. In the field of customer service, for example, ChatGPT can be used to automate frequently asked questions and provide instant, accurate responses to customers, reducing wait times and improving the overall customer experience.

It can help businesses and organizations to automate and streamline their operations by automatically generating reports, freeing up employees to focus on other tasks. It can also be used to automate data entry and processing, reducing the risk of human error and saving valuable time.

ChatGPT can be used to generate articles, summaries, and even entire books, freeing up writers and editors to focus on more high-level tasks. This can help publishers and media companies to create and distribute content more efficiently, increasing the speed and accuracy of their output.

Finally, ChatGPT can have a positive impact on the world by helping to reduce the language barrier that often exists between people of different backgrounds and cultures as it can handle translation and language-specific responses with ease.

In conclusion, ChatGPT has the potential to revolutionize a wide range of industries and applications, improving efficiency, accuracy, and customer experiences. Its ability to understand and respond to natural language inputs, combined with its vast corpus of knowledge, make it a valuable tool for businesses, educators, and individuals alike. Microsoft's investment in ChatGPT is a testament to the company's commitment to advancing the field of artificial intelligence.

How will ChatGPT be impacted by new competiton being launched?

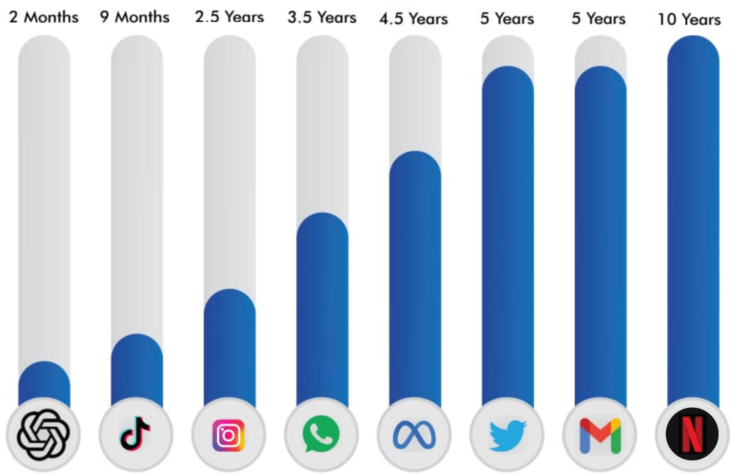
The launch of new competitors in the field of artificial intelligence is likely to have an impact on ChatGPT. However, the exact nature of this impact will depend on several factors, including the features and capabilities of the new competitors, their target markets, and the competitive landscape as a whole.

One possibility is that new competitors may offer similar or improved features, leading to increased competition in the market and potentially putting pressure on ChatGPT to evolve and improve.

Another possibility is that new competitors may target different markets or applications, leading to segmentation of the market and reducing the direct competition between ChatGPT and the new entrants. In this scenario, ChatGPT may still face competition in its core markets, but would be less impacted by the new entrants.

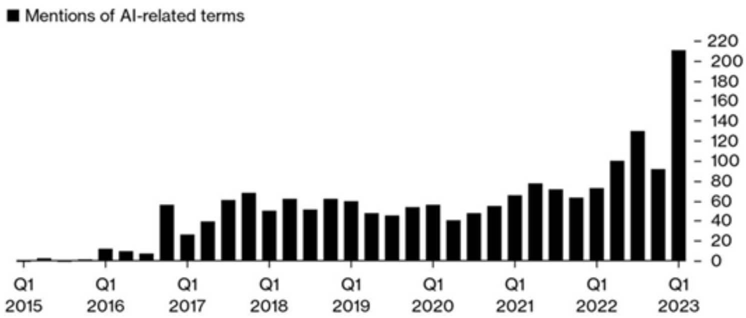
In conclusion, the launch of new competitors in the field of AI is likely to have an impact on ChatGPT, but the exact nature of this impact will depend on a variety of factors. To remain competitive, ChatGPT will need to continue to evolve and improve its features and capabilities, and stay ahead of the curve in the rapidly evolving field of AI.

Time taken for top apps took to reach 100m users



Tech's AI Gold Rush

Mentions of AI in big tech companies' latest earnings calls spiked



Source: Bloomberg

Anyway, if this is an area you're interested in exploring, do your own research carefully, don't neglect valuations, and most importantly, don't let Fear Of Missing Out (FOMO) cloud your brain.

Source and Sighting: Goldman Sachs Asset Management, Bloomberg Research, Blackrock BII, Pimco Outlook, Emirates NBD, Chat GPT, HSBC Asset Management, Amundi Asset Management, Bank of America