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Market Review

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EQUITY

Global equity markets advanced in October 2021, supported by the strength of the broad-based economic recovery and rising vaccination rates. However, inflation persisted, fueled by relentless supply chain disruptions, rising employment costs, and elevated commodity prices. Commodity prices continued to climb, led by the sharp surge in fuel costs as high demand and supply constraints pushed energy prices to unprecedented highs.

In the U.S., equities advanced 6.2% (in SGD terms), boosted by a positive batch of earnings reports and momentum from the Biden administration's $1.75 trillion Build Back Better spending plan. European markets rose 3.7% (in SGD terms) as investors bet that the European Central Bank (ECB) would soon increase rates to battle surging inflation in the euro zone, despite President Lagarde‘s insistence that this view contradicted with the central bank's guidance. The ECB reiterated its position to keep its key interest rate negative for at least another year and to continue its asset purchase program through at least March 2022.

Asia-Pacific ex Japan markets rose 0.7% (in SGD Terms), grossly underperforming developed markets. Skepticism intensified as to whether the region could be successful without China's massive spending. Low growth trajectories and deepening political headwinds further affected market sentiment. China gained 3.0% despite a contraction in factory activity for a second straight month in October 2021. The country's vast manufacturing sector was weighed down by soaring raw material costs, a widespread power crisis, and a sharp slowdown in the property sector, which further weakened growth momentum for the economy. In addition, stress in the market for Chinese property bonds have led to surging borrowing costs making refinancing dollar too expensive and as the weak housing market shrinks revenue. Japan dropped 4.9% (in SGD terms), as the market telegraphed concern over results of the recent elections, whereby the newly appointed Prime Minister Kishida's party was awarded majority rule in the government.

FIXED INCOME

US Treasury yields rose, especially in the belly of the curve, with the 5-year yield rising by 25 basis points (bps) in October 2021 on concerns of inflation expectations and prospects of tighter monetary policy. Similarly, the 5 year Singapore Government Securities (SGS) yields rose by 50 bps as the Monetary Authority of Singapore (MAS) tightened its policy stance by raising the slope of SGD Nominal Effective Exchange Rate (NEER) "slightly".

JP Morgan Asia Credit Index (JACI) composite was down for a second consecutive month, reporting losses of 1.35% in October 2021. For the year, JACI is down 2.44%. Switches away from Chinese High Yield (HY) property bonds and market jitters resulted in HY losses of 5.17%. Investment Grade (IG) was relatively more resilient, and was down 0.31% for the month. IG spreads tightened 7 bps to 173bps while HY spreads widened by 100bps to 821bps. As a whole, the JACI composite spread widened by 4bps to 291bps.

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