Invesco

Global Monthly Outlook

January 2022 (covering December 2021)

Index	December (%)	YTD(%)
MSCI World	USD 4.3	22.4
S&P 500	USD 4.5	28.7
MSCI Europe	EUR 5.5	25.8
MSCI Asia Pac ex Japan	USD 1.8	-2.7
Hong Kong Hang Seng	HKD -0.3	-11.8
Hang Seng China Enterprises (H-shares)	HKD -1.6	-21.2
Topix	JPY 3.4	12.7

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as of December 31, 2021. YTD refers to year-to-date.

Global Outlook

Global equites fared well in December despite rising concerns over the new Covid-19 variant Omicron. Although the new variant proved to be highly transmittable the evidently low hospitalisation rates lead markets to believe that the risk of further restrictions is not likely to materialise. Some more positive news came from the US job market and business activity, signalling a strong economic recovery. In Europe, however, the business activity and sentiment fell somewhat, while Germany's economic growth expectations were corrected down for the current and the following year.

The Bank of England (BoE) raised interest rates for the first time in three years, and the US Federal Reserve (Fed) announced plans to wind-down its programme of bond purchases at a faster pace, paving the way for higher US interest rates in 2022. The central bank action had a negative impact on government bonds with US treasuries, UK gilts and German bunds all losing ground in December.

United States

- US equity markets advanced strongly, despite a mid-month dip caused by Omicron variant fears given news of its greater transmissibility than the Delta variant. Research eventually showed that Omicron caused fewer hospitalisations, and initial concerns were alleviated.

- In addition, the household employment survey was extremely strong with a 1.1m increase in employment, as well as a decline in unemployment to 4.2% (consensus was 4.5%). Core inflation (which excludes the more volatile food and fuel items) rose in-line with expectations, increasing by 4.9% year-on-year, its highest since 1991.

Europe (including UK)

- European shares ended higher in December on the hopes that further restrictions to fight the new Covid variant seemed unlikely given the low hospitalisation rates. The UK equity market ended higher in December as initial fears about Omicron had been alleviated.

- The eurozone IHS Markit's Composite Purchasing Managers' Index (PMI) fell further in December than most economists expected to a nine-month low of 53.4, down from 55.4 the previous month. Business activity slowed after restrictions to tackle surging coronavirus infections hit the services sector.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asia ex-Japan equities finished slightly higher in December amid continued concerns surrounding the Omicron variant and the shifting FED policy stance. Korea, Taiwan, India and select markets in ASEAN outperformed.

- Technology names were a key driver of Korea's equity markets' advance, as investors' appetite persisted despite initial Omicron concerns. Promisingly, much of the market seemed to digest the Federal Reserve's decision to hasten the reduction of monetary stimulus.

Hong Kong and Mainland China (H-shares)

- Hong Kong market edged lower. Utilities, consumer staples, and real estate were among outperformers while consumer discretionary and industrials underperformed the most.

- China ended lower this month, led down by consumer discretionary and healthcare sectors amid ongoing US-China conflicts. Policies have turned supportive this month, indicating improving growth momentum and liquidity in 2022.

Japan

- Despite some volatility around Omicron news, Japan's equity markets registered gains, with year-on-year vehicle sales (-10.2%) continuing to recover since October's low of -30.2%.

- Japan's manufacturing Purchasing Managers' Index (PMI) saw a moderate uptick, and annualised industrial production did improve from last month's, however annualised third quarter GDP contracted more than forecasted, at 3.6%..

Fixed Income

- Despite the rapid spread of the coronavirus Omicron variant, and the US Federal Reserve (Fed) announced plans to wind-down its programme of bond purchases at a faster pace, paving the way for higher US interest rates in 2022.

- For the whole year, treasuries and gilts both recorded their first negative annual total return since 2013, while EU sovereign bonds experienced their first negative performance since 2006.

Emerging Markets

- Global emerging equity markets (EM) posted positive monthly returns but underperformed relative to the developed markets. All regions posted gains, led by Latin America, and followed by Europe, Middle East and Africa (EMEA) and Asia.

- Latin American equity markets advanced and outperformed the broader EM region. In EMEA, the Czech Republic was the top performer, while Russia lagged at the back amid geopolitical jitters. Thailand was Asia's best-performing region

From the perspective of Hong Kong pension investing. All data are sourced from Invesco dated January 19, 2022, unless otherwise stated.

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