Date: June 29, 2022
Topic: Macroeconomic

Authored by:
Investment Forum

Jon Maier
Chief Investment Officer

Michelle Cluver
Portfolio Strategist

Morgane Delledonne
Head of Investment Strategy, Europe

Pedro Palandrani
Director of Research

Rohan Reddy
Director of Research

Global X House Views

Elevated inflation, slowing global economic growth expectations, and reduced central bank liquidity remain the key economic considerations. Together, they create a typical late cycle environment, but with a few extra complications from the war in Ukraine.

	House View
Global Macro	The Federal Reserve (Fed) increased short-term interest rates by 75-basis points at their June FOMC meeting. On the back of higher-than-expected May CPI data, the expected trajectory for interest rate hikes has accelerated. Going forward, we expect the Fed to play catch-up, with the potential for a 50 or 75 bps increase at the July meeting followed by 50 bp increases at the September and November FOMC meetings. Inflation and rising interest rates remain key concerns when assessing the global macroeconomic backdrop. We expect elevated inflation to continue into 2023 due to the lagged impact of food supply disruption. Economic growth concerns are rising as inflation reduces real disposable income. On the positive side, China eased their lockdowns. This may provide some relief to global growth and supply chains. China is Europe's largest trading partner, and consequently Europe stands to benefit from China's economic improvement. The negative side of China's reopening may include higher goods inflation as supply plays catch-up to demand – this is likely to reflect in future CPI readings.
Regional Macro	We expect less policy interest rate divergence between the U.S. and Europe, as the European Central Bank (ECB) will end net asset purchases from July and is set to increase interest rates by 176bps by year end according to OIS pricing as of 14 June 2022. The faster Fed hiking cycle is likely to strengthen the USD relative to the euro. Currently, the market may be pricing in more ECB interest rate hikes than Europe's economy can withstand. Should underlying economic data deteriorate significantly, interest rate expectations could be pared back. Europe is likely to accelerate its energy transition as cutting off energy imports from Russia continues. The European Commission recently announced a ban on most Russian oil but stands ready for retaliatory actions likely impacting gas supply. In Asia, the People's Bank of China (PBOC) is expected to remain accommodative amid China's economic slowdown. The Bank of Japan (BoJ) has not signaled intentions to tighten its monetary policy amid supply-led inflation and stagnant wages. Lockdowns were the largest Chinese economic growth risk during the first half. Easing lockdown restrictions provide some economic relief. From a market perspective, this solves half the issues. Markets remain focused on improved regulatory certainty and clarity on the path to mitigate risk of Chinese companies being delisted from U.S. exchanges.

Asset Class Views	Current conditions are typical of a late cycle environment. We expect market volatility to remain elevated through the interest rate hiking cycle, although aggressive tightening by the Fed and the ECB seems mostly priced into the market. At this stage, we prefer equities over fixed income because real yields are still in negative territory. In fixed income, we prefer lower duration assets due to the rising rate environment. The inflationary environment creates a favorable backdrop for commodities. Easing lockdown restrictions in China is supportive for commodity demand.
Sub Asset Class & Industry Views	The Energy sector is the key beneficiary of the current environment. Consumer Discretionary is an area of concern as inflationary pressures dampen real disposable income. For more detail, please refer to our sector views blog post. Raw materials and commodities including lithium and copper are well-positioned if inflationary pressures and supply chain disruptions continue. Demand for commodities will likely rise as Chinese lockdowns ease. Inflation protection should be balanced with quality, defensive equity position.
Product Opportunities	Food and energy remain key inflation concerns. A few key products stand to benefit from disruption in these areas: • Global food security is a growing risk, thus increasing the need for Agtech & Food Innovation solutions to counter future challenges. • Renewable Energy Producers provides more defensive, utility focused exposure to the energy transition. • The world moving away from Russian uranium is creating opportunities for alternative uranium suppliers, and uranium miners may be well positioned. Cybersecurity is an area of growing importance in the public and private sectors. Secure digital connectivity is essential to and benefits from the digitization trend. We expect the sticky nature of the cybersecurity business model to increase, helped by growing awareness of cyber threats, including those related to the Russia-Ukraine crisis. Cloud Computing has become a business essential. Cloud companies benefit from recurring revenue streams and are currently trading at attractive valuations relative to historic levels. Currently, cloud companies in (CLOU/CLO) are trading at an average price/sales (P/S) ratio of 4.3x, below its long-term average of 8.7x.

Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit nor guarantee against a loss.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information is not intended to be individual or personalized investment or tax advice and should not be used for trading purposes. Please consult a financial advisor or tax professional for more information regarding your investment and/or tax situation.