# The Way We See It

March 2022
Issue 03


**Goji Consulting Limited**

enquiry@goji-consulting.com


## *A Roller-Coaster First Quarter*

### INSIDE THIS ISSUE



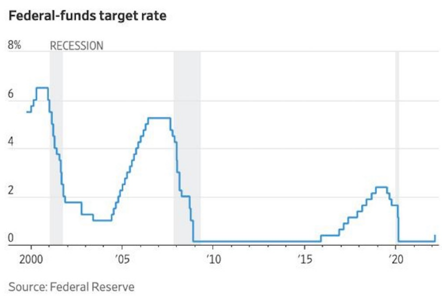
### Notes on the US Fed's first rate hike, the Russia-Ukraine conflict, and China's market stabilisation measures

Global financial markets rejoiced over the past couple of days, based on their optimistic interpretation of three developments highlighted below:

### US Fed Tightening

In their March FOMC Meeting which took place this week, the Fed raised their cash rate by 25bps to 0.50% p.a., the first time since 2018. The Fed also telegraphed to the world that they are likely to have to raise rates by another six rounds for the rest of this year, and possibly by a further four times next year. This, in their opinion, has to be done in order to combat the high and rising inflation problem and to slow down a very strong domestic economy in the US. If this were to be fully implemented, investors will likely face a cash rate of around 2% p.a. by December 2022, and possibly 3% p.a. by the end of December 2023. In addition, the Fed announced that they will significantly reduce the monthly QE program from the month of May. This, in our opinion, reflects a very aggressive tightening phase, given the high amount of leverage carried by the US government, corporates, and households. In addition, this would

**Fed Raises Rates for the First Time Since 2018**



undoubtedly impact negatively on borrowers in USD around the world. Net net, this would certainly lead to a severe slowdown in the US and the world, if not an outright recession. As far as the impact of this monetary tightening on the US and global financial markets is concerned, the examples of 2007-2008 and 2018-2019 suggest that there is potential for downside risk ahead.

In his Q&A session, the Fed Chairman predicted that, despite the monetary tightening phase, the resilient US economy is most unlikely to fall into a recession. This gave investors lots of hope, hence the strong close of US equity markets on Wednesday, 16 March.

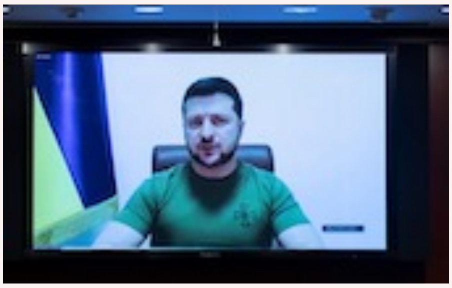
## Russian-Ukraine Conflict

While it is impossible to predict the outcome of the future of Ukraine with any certainty, investors appear to have adopted a fairly sanguine view of a forthcoming truce or ceasefire. This appears overly simplistic and optimistic, given what we know about Mr Putin and his close circle of warmongering generals. As a result, one needs to discount this optimistic scenario to a certain extent.

## China's Market Stabilisation Measures

This week, Chinese authorities announced that they will try to implement measures to restore confidence amongst investors in Chinese equity markets. While details are not yet forthcoming, investors have turned more enthusiastic towards HK Chinese stocks. While this is encouraging, the proof is in the pudding: investors need to ask themselves whether HK China stocks can freely enjoy the fruit of their enterprises' sales and profit growth, and/or whether there will be a renewed interference of government measures restricting their business plans, and so on. In addition, there remain unanswered questions about the frictions between China and the US and Europe on many levels, including fair trade and social practices, the quest for technology superiority, technology transfer, stock listing flexibility, political alliances, and so on. Consequently, while the HK-China equity

**President Zelensky called for a no-fly zone over Ukraine.**



Source: washingontpost.com

**V-shape rebound for HSI within 5 days**


Source: Google Finance

markets may out-perform their US counterparts in the short-term, whether they can continue to do so in the long term remains uncertain.

## Brief Conclusions

Following the 12-15% fall in global equity markets and the poor performance of fixed income year-to-date, one is tempted to assume that the worst may be over. For reasons elaborated above and outlined in detail in our November 2021 Outlook report and subsequent updates, we believe that global equity and bond markets are likely to continue to face headwinds and remain volatile in the coming 12-18 months. Thus, our suggested defensive strategic asset allocation remains unchanged.

**GOJI CONSULTING LIMITED**

Level 34, Tower One, Times Square
1 Matheson Street, Causeway Bay, Hong Kong

www.goji-consulting.com

enquiry@goji-consulting.com

+852 3951 0359