Philequity Corner (January 31, 2022)
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Catch Phrases

Global markets had a bloody start for 2022. The All-Country World Index Fund (ACWI) is down 6.5% year-to-date (ytd), the S&P 500 dropped 7% ytd while the tech-heavy Nasdaq Index slumped 12% ytd. The extreme volatility and plunge in equities were brought by different factors. Several catch phrases encapsulate the important themes that have greatly affected the direction of financial markets, the global economy, and even our daily lives. We enumerate these below.

1. **Fed liftoff.** This is a catch phrase used by analysts to describe the Fed's first interest rate hike in so many years. The Fed liftoff is one of the main reasons behind the stock market volatility and decline. It has also caused the US dollar to strengthen. The Fed's first rate hike since 2018 may come as early as March. Investors are wary that there may be more rate hikes this year than the market's previous expectation of three to four.
2. **Transitory vs. persistent inflation.** The inflation spike is the reason behind the Fed liftoff. Fed officials and other central bankers initially believed that inflation was caused by transitory factors that were specific to the COVID-19 pandemic. However, US inflation reached 7% in December, the highest level in nearly 40 years. The Fed and other central banks later realized that inflation was more persistent than they anticipated.
3. **Supply-chain disruptions.** Supply chains were strained and ports became congested due to strong pent-up demand which came with the economic reopening. There were also major shortages in many commodities and raw materials that contributed to inflationary pressures.
4. **Energy crunch.** Energy commodities have surged to multi-year highs due to shortages in China and Europe. This coincides with higher energy demand amid a reopening of many economies globally.
5. **OPEC Plus.** The Organization of Petroleum Exporting Countries (OPEC) is led by Saudi Arabia and includes many Middle Eastern oil-producing countries. OPEC+ is a larger group which includes Russia and other oil exporters. Last month, OPEC+ failed to deliver on its output hike of 400,000 barrels a day. Though OPEC+ has kept this target, there are concerns that it may not be enough to meet higher oil demand.
6. **Russia-Ukraine conflict.** The threat of a Russian invasion in Ukraine may escalate into a more serious dispute involving the US and Russia. This can have major ramifications for the global economy, commodities, and financial markets.
7. **Fed tapering.** The Fed has started to taper its bond-buying program and is scheduled to finish in March. This signals the end of ultra-easy monetary policies that supported the economy during the pandemic.
8. **Balance sheet reduction.** After ending its bond-buying program, the Fed will unwind its balance sheet which has swelled to $8.9t, more than double its pre-pandemic level of $4.2t. The Fed has maintained that bond maturity runoff will be the main tool for balance sheet reduction.
9. **China crackdown.** China implemented a regulatory crackdown on key sectors such as education, ride-hailing, food delivery, property, and internet-based companies. This prompted an exodus in Chinese equities while causing global and emerging stocks to correct.
10. **Common prosperity.** This was the justification for the clampdown on major sectors and prominent tycoons in China. The crackdown was meant to promote common prosperity which is the Communist Party's goal of creating moderate wealth for all rather than just a few.
11. **Greek alphabet variants.** Since the start of the COVID-19 pandemic, we have encountered different variants named after letters in the Greek alphabet. These include the alpha, beta, delta, and

omicron variants. The coronavirus pandemic is a once-in-a-lifetime event that has forever altered our daily lives and the way we conduct business. The last comparable pandemic is the 1918 Spanish flu which occurred more than 100 years ago.

12. **Lockdowns and quarantines.** Despite their detrimental impact to the economy, many countries implemented lockdowns to prevent COVID-19 from spreading. Meanwhile, quarantines became an additional safety measure imposed on travelers and those who made close contact with confirmed cases.
13. **Work-from-home.** Because of COVID-19 restrictions, most businesses and governments had to establish work-from-home arrangements to sustain their operations. Blended or flexible setups have also been utilized. Instead of face-to-face meetings, video calls or teleconferences in Zoom, Microsoft Teams, and Viber became staples of working from home.
14. **Pandemic vs. endemic.** Many countries are learning to live with COVID-19. They are starting to treat COVID-19 as an endemic (a disease that regularly occurs among a particular people or in a certain area) instead of a pandemic (occurring in a wider geographic area, affecting a significant portion of the global population). Denmark recently removed all restrictions while Netherlands lifted its toughest controls.
15. **Economic reopening.** The reopening of businesses will enable the economy to regain its footing and return to pre-pandemic conditions. Governments have eased restrictions and reopened parts of their economies when cases and hospitalizations become manageable.

The catch phrases above allow us to understand the evolving themes that drive financial markets and enable us to calibrate our investment strategies accordingly. The global spread of the virulent delta variant and highly contagious omicron strain triggered drops in equity markets. Nonetheless, many governments and businesses are now anticipating the end of the pandemic, and the reopening of many countries is expected to spur economic growth.

Meanwhile, inflation has risen to its highest since 1982, prompting the Fed to hasten its tapering and contemplate rate hikes. Markets have corrected sharply due to elevated inflation and concerns regarding the Fed's policy rate hikes. Moving forward, it will be crucial to monitor the actions of the Fed and major central banks. It remains to be seen how central banks will balance their goals of taming inflation and supporting the economic recovery.

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