This is SAC's weekly newsletter for 15 June 2022. Thank you for reading.

Market Moves

The Fed hiked rates by 75bp, with the target federal funds rate now at 1.5%-1.75%. The officials also signalled more 75bp hikes in the following months, with the fed funds rate at 3.4% at year's end, the highest since Jan 2008. The aim is to bring inflation down to 2%, which hit a record 8.6% yoy in May (+1.0% mom).

Higher rates have cooled new home sales (Apr: -16.6% mom). Retail sales also unexpectedly fell in May by 0.3% mom (Apr: +0.7%), led by auto sales (-0.4%). Weaker consumer spend on durables could ease inflationary pressure, but this would also slow economic growth in 2H. The Fed lowered its economic outlook to 1.7% this year, expects unemployment rate to rise to 3.7% by year end and 4.1% through 2024. This seems to suggest that recession might not rear its head while unemployment rises.

On the other hand, China surprised with better-than-expected economic data. Retail sales rose marginally by 0.05% mom in May, after 3 consecutive months of decline, hurt by strict zero-COVID policy. Industrial production rose 0.7% yoy (Apr: -2.9%), and fixed asset investment for Jan-May rose 6.2%. Export growth rebounded strongly by 16.9% yoy (Apr: +3.9%) and imports +4.1% (Apr: 0%). The government's call for banks to boost credit growth to fund corporates' cash flow needs, and lower lending rates have helped. Household loans also increased by RMB105bn in May, from a decline in April, signalling higher demand for mortgage loans and recovery in property sales. Yanlord reported +16.9% mom contracted sales in May. On a YOY basis, the decline has eased to -62.5%, from -81.8% in April.

SIA's May passenger load factor rose to 81.5%, +4.1% pt mom, with passenger loads at 68% of pre-COVID level in Feb 20. In spite of the spike in airfare, pent-up demand for air travel remains unabated. Passenger loads are expected to rise further in the months ahead, during June school holidays and with more Asian countries, such as Japan and Taiwan, lifting entry controls. Cargo loads gained 3.4% mom, after a steep 15.2% mom decline in April. Load factor to East Asia continued to decline, by -5.4% mom (Apr: -4.3%), which we believe points to deceleration in export growth for high-end electronic components.

Analysts' Notes

United Hampshire US REIT | United Hampshire is acquiring a shopping centre in Pennsylvania for US$85.7m. The cap rate of mall was 6.5% in 2021, higher than the REIT's FY21 NPI yield of 6.1%. This will be funded by proceeds from recent divestment and internal resources. Aggregate leverage will rise from 39.0% to 42.7%.

weaker outlook for US consumer spending. US retail sales fell 0.3% mom in May (Apr: +0.7%), even with gasoline sales up 4%. Walmart, one of its key tenants, has cut its full year profit projection to -1% compared to mid- single-digit growth previously. *(Lam Wang Kwan)*

Frasers Hospitality Trust | A unit of Frasers Property Limited is looking to privatise FHT at S$0.70/sh cash. The offer price is at 1.07x the latest P/NAV as at May 2022. Adjusted NAV was S$0.6519, after accounting for distribution, divestments and forex impact on valuation. This is at a premium to the FHT's average historical P/NAV of 0.86x and average hospitality REITs' P/NAV of 0.8x. Recent acquisition of MNACT by MCOT was priced at 1x P/NAV.

FPL and TCC hold 25.8% and 36.7% effective stakes respectively. The scheme requires the approval of 75% of remaining 38% shareholders, and therefore has a higher chance of success. The deal will complete in late September if carried through.

Border re-opening and resumption of tourism are tailwinds for the hospitality sector. However, the slowing macro-economic environment could dampen travel and tourism spending in 2H2022, especially in the developed markets. Occupancy rates and RevPAU might not return to pre-COVID levels till 2H2023. Rising interest rate adds pressure to asset value and borrowing costs for REITs. We recommend unit holders to accept the offer. *(Christopher Ong)*

China retail sales | China retail sales was flat mom in May. On a yoy basis, May sales were still down by 6.7% although it was a softer drop compared to April (-11.1%). Shanghai and Beijing only reopened at the beginning of June. 3 out of 4 CapitaMalls in Beijing under CLCT were closed for most of May. However, soaring cases in recent days have triggered new rounds of lockdowns in both cities. This could potentially erase the growth in May retail sales as retail footfall drops. Residents could be deterred from leaving their homes to avoid coming in close contact with a positive case which would force them into quarantine. The government's hard-line stance in its zero-Covid policy also means that mass testing and lockdowns would occur more frequently. This further disrupts the operations of retail businesses and dampens consumer sentiment. *(Lim Shu Rong)*