Market trends in 2022

From manpower shortages to the metaverse, these are the key themes that could continue to have an outsized impact on markets and the economy in the coming year. **BY YONG JUN YUAN**

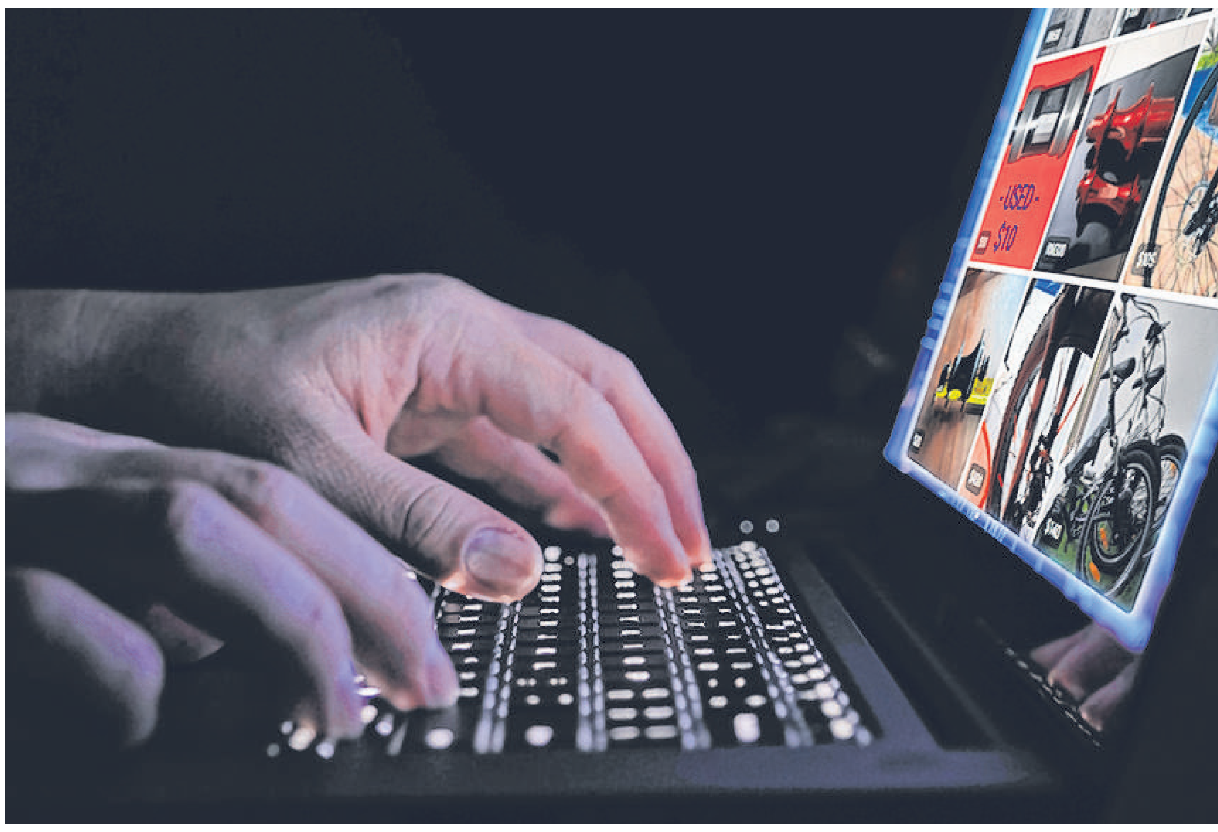
Web 3.0

Non-fungible tokens, cryptocurrencies and the metaverse are just some of the technologies associated with Web 3.0 that are likely to remain of interest in 2022. Web 3.0 has been described as a better, less-centralised version of the Internet made possible through the use of blockchain technology.

Some proponents have even suggested Web 3.0 represents an opportunity for companies to leave the shadow of "Big Tech" behind. Cryptocurrency exchange Coinbase listed on the Nasdaq in April last year. Its competitor, Binance, signed a deal with the Dubai World Trade Authority in December last year to work on an international ecosystem for virtual assets.

But the largest tech companies are also stretching their wings. Meta Platforms (formerly Facebook) made waves after it revealed its plans to build a virtual world where people can live and play together.

Locally listed companies that have gotten on board include Hatten Land, SMI Vantage and Alset.



Digitalisation woes

Covid-19 has thrust many companies into the deep end of figuring out how to digitalise their operations. While some have been successful, they have also opened themselves to cyber attacks as they failed to adopt proper cybersecurity practises. As a result, 2021 saw numerous ransomware hacks involving companies both large and small – from clinics to telcos.

Individual Singaporeans were not spared either. In the first 6 months of 2021, victims lost S$168 million to the top 10 scam categories – up from S$63.5 million a year earlier. At least 469 people fell to phishing scams involving OCBC, losing at least S$8.5 million in December alone.

Still, this has not stopped the nation's progress towards being a more digital society. All government agencies began accepting the digital identity card on the Singpass app in November last year and vouchers for residents to use in their local communities were also given out digitally.

ESG

Environmental, social and governance factors will continue to gain importance as investors seek to move the needle on various issues by pushing companies to do better. Shareholder activism was responsible for board changes at oil major ExxonMobil and may also have motivated Apple's introduction of its self-service repair programme in 2021.

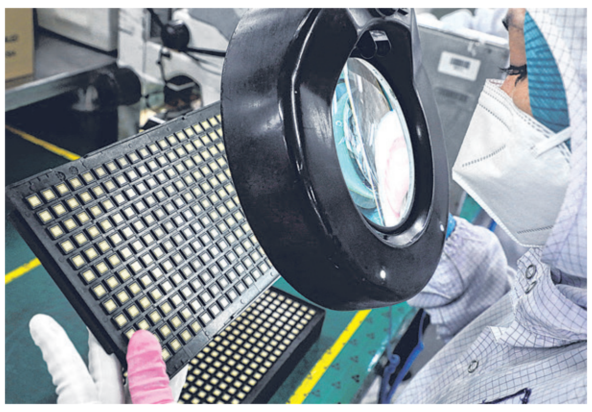
Closer to home, the Singapore Exchange (SGX) announced that issuers in the financial, energy and agriculture, and food and forest products industries will need to adopt mandatory climate reporting from the financial year commencing 2023. New rules, such as a 9-year term limit on independent directors, also came into effect this year.

Some studies have shown that funds focused on ESG factors have outperformed benchmark indices, making it even more difficult for companies to ignore these factors in the coming year.

Inflation & interest rates

Consumer prices around the world have risen dramatically, with central banks observing multi-year highs in inflation rates in 2021. In the coming year, these central banks are likely to raise interest rates more quickly in order to tackle inflation. The US Federal Reserve said it would end its pandemic-era monetary policy of bond purchases in March this year and possibly enact 3 quarter-percentage-point rate hikes by the end of this year.

Singapore has also seen headline inflation climb in recent months on stronger private transport inflation as well as higher electricity and gas costs. For its part, the Monetary Authority of Singapore (MAS) appeared to express confidence in global and domestic growth and bucked market consensus in October last year to "raise slightly the slope" of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. Further tightening may be observed if the inflation rate continues to rise.



Supply chain recovery & diversification

Supply chains around the world were severely disrupted due to the pandemic. Demand for cars and other goods surged on the back of stimulus cheques and a lack of travel and services spending, leading to a shortage of key components. Semiconductor chips were a particular focus as companies scrambled to place orders with a small number of key foundries, among them Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung Electronics.

Companies have been diversifying to strengthen their resilience. Qualcomm, for instance, has begun sourcing chips from both TSMC and Samsung. After the shipping snarls observed in 2021, due to a lack of shipping containers, the reshoring of manufacturing facilities has also picked up pace, with the likes of General Motors and Intel announcing plans to bring production back to the United States. The pace of these reshoring and diversification plans may not abate, even as supply chain bottlenecks ease in 2022, due to other factors, such as geopolitical tension between the US and China.

Covid-19 treatments

If Covid-19 is to be treated like the common cold, treatments for the virus will need to be effective and available in large quantities. These new forms of treatments should also be easily administered in a pill form, unlike the monoclonal antibody treatments that are currently being given intravenously in hospitals.

Initial signs suggest effective treatments have been crafted by companies such as MSD and Pfizer. Their respective treatments appear to reduce the risk of hospitalisations and deaths among high-risk patients by 30 to 90 per cent. In Singapore, deals have been struck with AstraZeneca and MSD for their treatments – paving the way for better treatment outcomes.

Although it appears that booster shots can extend the effectiveness of existing vaccines towards the most recent Omicron variant of the virus, pharmaceutical companies such as Moderna as well as Pfizer and BioNTech have also said that they will be able to quickly put new vaccine versions into production if the need arises.

Travel resumption & vaccine passports

Travel has been particularly hard-hit, as countries scrambled to secure their borders to prevent the spread of Covid-19. To reopen their borders, countries have begun cautiously reopening their borders to those who have been vaccinated. This year could see more bilateral and regional agreements like the ones that Singapore has struck with other countries – to mutually recognise vaccination records and spur travel resumption.

Aviation, hotels and tourist attractions are some of the sectors that are expected to see further growth as tourism returns. The opening of vaccinated travel lanes (VTLs) to different countries has lifted the shares and fortunes of airlines. Flag carrier Singapore Airlines saw losses narrow to S$427.6 million in the quarter ended September 2021, down from a S$2.3 billion loss a year ago. Hotels have also shown signs of recovery: Occupancy rates for Singapore hotels hit 75.6 per cent in November 2021 – the highest since the 82.9 per cent registered in January 2020.

Manpower shortages

Demand for labour has been uneven across different sectors. The number of Work Permit holders in the manufacturing, food and beverage services, and administrative and support services sectors has declined substantially as workers returned home while border restrictions prevented new entrants from picking up the slack.

As border restrictions are relaxed, it is likely that the manpower crunch in these sectors will improve. Still, other skilled jobs have also seen tight labour conditions. Companies in the tech sector vying for a limited talent pool have raised salaries and improved benefits to poach and retain workers. With more work being done virtually, companies could also start outsourcing work overseas – taking job opportunities out of the market.

An interesting development to keep an eye on could be unemployment benefits recommended by the Singapore National Employers Federation (SNEF) and the National Trades Union Congress (NTUC) in October last year. Such benefits could give the unemployed time to upskill and find job opportunities that are more suitable, thereby reducing underemployment in the labour market.

Hybrid working arrangements

Working from home has been a boon for some employees who desire more flexibility with their working hours. As Covid-19 becomes endemic, companies may be looking to bring their workforce back to the office. Yet, they are likely to face some resistance. If the same amount of work could be done at home, employees may well ask why they should be forced to return.

This dynamic has already played out in larger companies such as Apple, which saw pushback against its plans to get its employees to return on Mondays, Tuesdays and Thursdays. With the Omicron variant looming, its full office reopening has been delayed, and the company is giving every employee a US$1,000 bonus to build their home workspaces. In 2022, expect to see further negotiations between companies and their employees on how they can better create a balance of in-person and remote working – as well as negotiations between landlords and tenants as the positions of offices as places of work evolves.

Property prices

Property prices in Singapore climbed at a relatively quick pace in 2021 on low interest rates despite the pandemic. According to the government's flash estimates, private home prices rose by 10.6 per cent for the whole of 2021, marking the highest annual growth since 2010.

As interest rates are expected to tick higher in the coming year, the government has introduced several measures to cool the property market. The additional buyer's stamp duty rates have been raised and the total debt servicing ratio tightened. Additionally, there will also be a 35 per cent increase in the supply of build-to-order (BTO) flats for buyers.

The effectiveness of the cooling measures will be keenly observed as the pandemic continues to impact the property market. The increase in supply of BTO flats could still be affected by construction delays, which may lead buyers to continue seeking out resale flats.

PHOTOS: REUTERS, CMG, ST FILE