



Live more,
Bank less



Thematic Strategy | 1Q21

I.D.E.A.

Theme: I.D.E.A.

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I.D.E.A.: Champions of the new world

We have continually advocated a Barbell approach to investing. To reiterate, our Barbell Portfolio construct comprises taking on outsized exposures in two areas. On one end, take on income-generating assets such as corporate bonds and dividend-yielding equities, given the ultra-low interest rate environment we are in. On the other end of the portfolio, take on secular growth equities that ride on long-term, irreversible growth trends. We are most excited about the trend of the world becoming a digital economy.

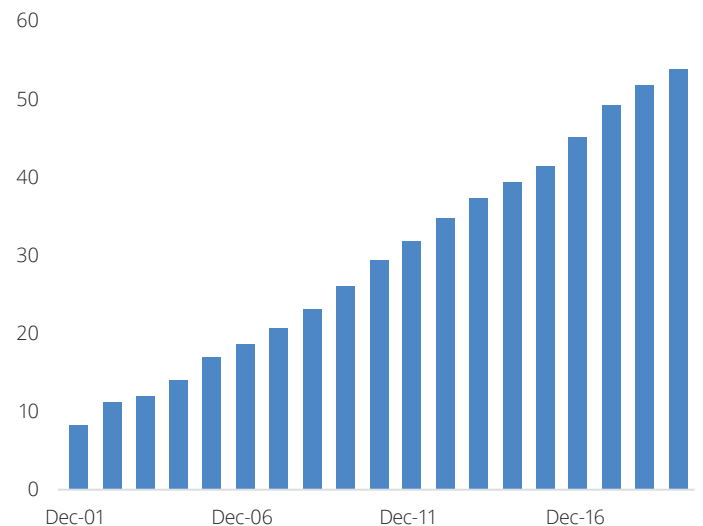
You may ask, “What are the companies that are riding this trend?”

At the DBS Chief Investment Office (CIO), we have coined the acronym I.D.E.A. to encapsulate the types of companies that will be winners of this new digital world. The acronym represents:

I	INNOVATORS	Constantly doing things differently to challenge the status quo
D	DISRUPTORS	Create new products and services which displace mainstream leaders
E	ENABLERS	Empowers innovation and disruption to be successful
A	ADAPTERS	Traditional companies that successfully adapt and transform their business models

In 1990, the World Wide Web came into being and set in motion the widespread use of the Internet. Today, the number of end systems connected to the Internet has risen to 300b. Globally, 55 out of every 100 persons have Internet access (Figure 1). We have witnessed the exponential growth of activities

Figure 1: Rising Internet penetration boosting the digital economy and innovation (%)



Source: Bloomberg, DBS

conducted on the Internet. Common day-to-day activities include online shopping, education, social media activities such as messaging and video streaming, banking transactions, and stock market trading.

In Switzerland, citizens are even voting in elections on the Internet.

Digital innovation has truly engendered a huge and very promising opportunity set.

New retail



Marketplace



Digital finance/
payments



Logistics/
speed delivery



Content/
streaming



Advertising



Digital ecosystems

e-Sports



Health care



Social media



Cloud computing



Data analytics



Artificial intelligence



I nnovators

Constantly challenge the norm by inventing new ways to improve on current methods



D isruptors

Create a new normal that drastically changes the industries they operate in



E nablers

Empower innovation and disruption, aid disruptive ideas, making them possible



A dapters

Traditional businesses that successfully adapt and transform their business models, turning adversity into advantage



e-Commerce: the digital economy pulses at a different beat

e-Commerce is not simply retail sales on B2C and C2C platforms; it forms the heart of the digital economy, just as how general commerce embodies the core of economic growth. It is everything that involves buying, selling, and transacting online.

The exponential growth of e-Commerce has challenged the traditional ways businesses are conducted. Operating in a “borderless” world, it enables businesses to reach millions of customers beyond their domestic markets. e-Commerce also encompasses transactions on B2B and P2P portals. B2B online transactions are expected to increase at a CAGR of 17.5%, hitting USD20.9t by 2027.

Beyond consumer goods, e-Commerce has expanded to solutions and services such as loans, insurance, and

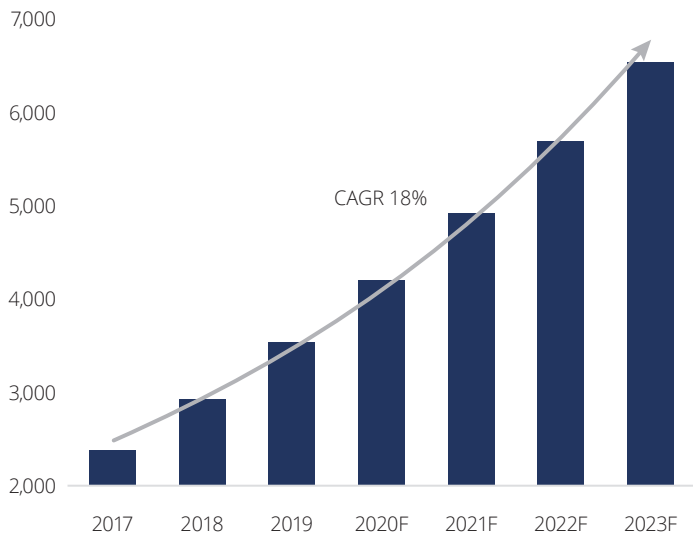
investment products. Other segments include cloud storage, online education, software applications, telemedicine, online gaming services, and consultancy services.

Despite the exponential growth in e-Commerce in the last decade, the reality is that we are in the early innings of this secular growth trend. There is a long runway ahead.

This is encapsulated in the current low penetration of e-Commerce within total global retail sales. Standing at 14% currently, annual retail e-Commerce spending is forecasted to reach USD6.5t (Figure 2), or 22% of global retail sales by 2023.

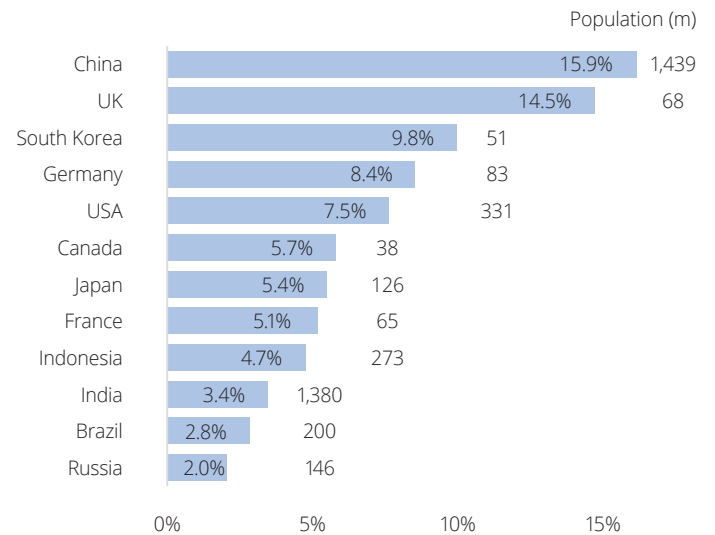
Geographically, penetration rates are highest in China at 16%, and below 10% in other major economies. This is particularly marked in populous nations such as the US, Japan, Indonesia, Brazil, and Russia (Figure 3).

Figure 2: Global retail e-Commerce sales to grow exponentially (USDb)



Source: Bloomberg, DBS

Figure 3: Global retail e-Commerce penetration rate (% of retail sales)



Source: Matthews Asia, Advisor Perspectives, livemint.com, DBS

INNOVATORS impact the way we live, work, and play through inventions that lead to new trends.

“When Henry Ford made cheap, reliable cars, people said, ‘Nah, what’s wrong with a horse?’ That was a huge bet he made, and it worked.”

– Elon Musk

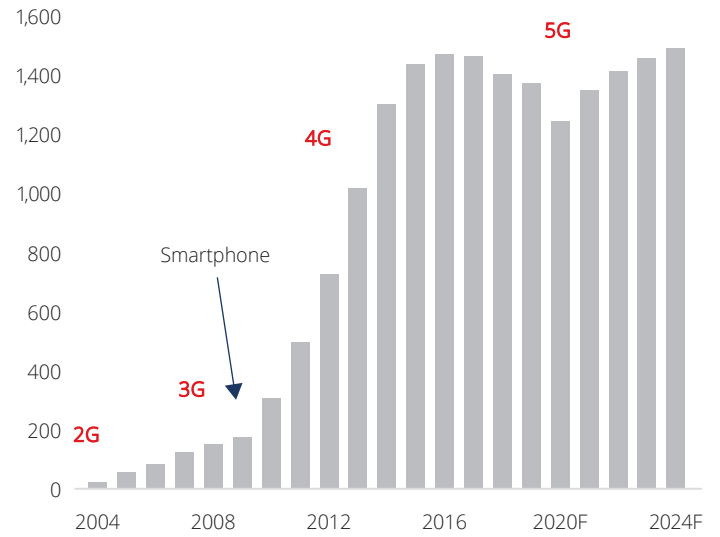
The most impactful innovation in recent years, in our view, has to be the smartphone. The introduction of Apple Inc’s iPhone more than a decade ago created a whole new era of communication and information access.

Smartphones today are embedded with advanced applications, baseband processors, large memory storage, battery density, brighter display, and multiple cameras. Owning a smartphone has become a necessity in the modern world.

These features have contributed to the success of digitalisation of commerce as the ability to shop, connect to social media, and execute payments from anywhere can all be done easily on the smartphone.

With 3.2b smartphone users worldwide, the smartphone penetration level reached 41.5% in 2019 (Statista.com). Since 2015, an average of 1.4b units of smartphones have been sold every year (Figure 4). The 5G wireless communication standard will further boost global smartphone penetration, expediting the digitalisation wave and its monetisation potential.

Figure 4: Global smartphone annual sales (m units)



Source: Bloomberg, DBS



Source: Unsplash

DISRUPTORS upend the existing industry structure with their new products or methods, rendering conventional models obsolete.

“Disruption is a critical element of the evolution of technology – from the positive and negative aspects of disruption a typical pattern emerges, as new technologies come to market and subsequently take hold.”

– Steven Sinofsky

e-Commerce platforms are disruptors to physical retail storefronts. Over the past decade, e-Commerce with its marketplaces and surrounding ecosystems have swept across the globe at whirlwind speed. Such disruption by digital commerce has led to a long trail of conventional store closures and bankruptcies.

In consumer finance, we see mobile banking apps being challenged by digital wallets as consumers’ first choice for making payments – disintermediating banks from their retail customers, and placing 30% of major bank revenues at the risk of disruption.

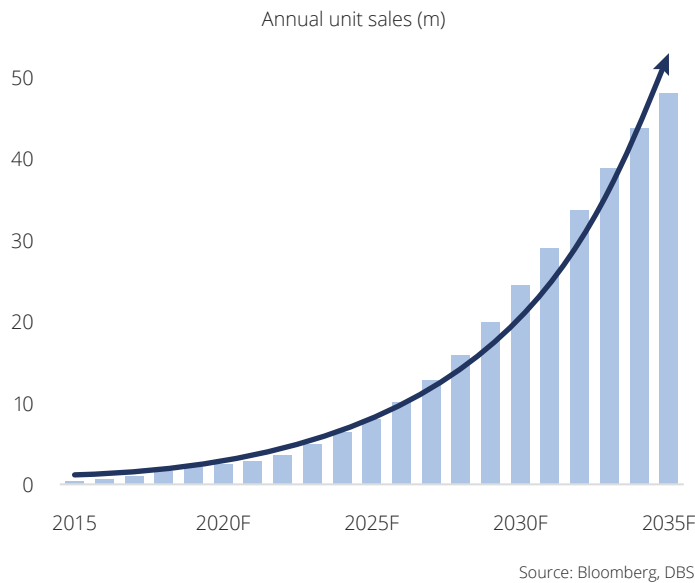
Fintech and payment systems like Amazon Pay, Alipay, GrabPay, and WeChat Pay disrupt conventional banking and physical payment modes.

Electric vehicles (EV) are another disruptor in the making. They are becoming increasingly popular, leading to the cannibalisation of traditional vehicles sales. As a result, we are going to see consequential changes in the supply side of the automobile industry.

EV benefits from the secular trend of the world moving towards greener and cleaner energy sources, and away from fossil fuels. This shift disrupts the vast automobile industry manufacturing chain, leading to new research and development, as well as supply chain partnerships.



Figure 5: Global EV sales to accelerate



Against the backdrop of rising environmental awareness among consumers and arrival of commercially viable technology, EV sales are projected to rise significantly, potentially becoming a new normal (Figure 5).

ENABLERS facilitate effective digital and technological transformation. Companies which integrate technology, social media, mobile, data, and cloud give rise to next-generation applications and new business opportunities.

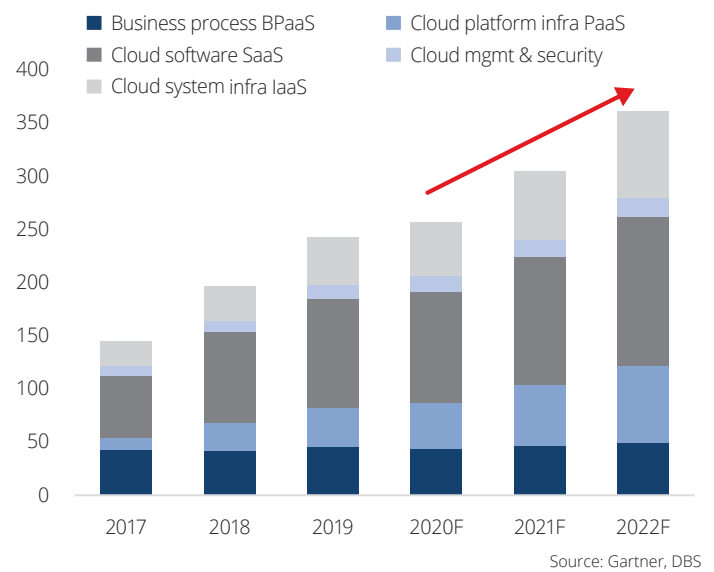
A key success factor among enablers is the ability to integrate a wide range of technology applications into interfaces that are agile, scalable, robust, and business-centric to support sustainable monetisation.

"Design, in its broadest sense, is the enabler of the digital era - it's a process that creates order out of chaos, that renders technology usable to business."

- Clement Mok

The emergence of cloud services has brought businesses and customers closer, where users can access information and databases **anytime, anywhere, on any device.**

Figure 6: Global public cloud TAM to reach USD362b in 2022



The annual growth rate for the public cloud industry is anticipated to resume at 20% in 2021 and 2022, after slowing to 6% in 2020 due to a temporary cut back in corporate Internet technology cloud capex spending. Cloud software and Platform and Infrastructure as a Service companies have a projected TAM of USD362b in 2022 (Figure 6).

Here are some examples of successful enablers:

1. Cloud and data centres enable reliable and efficient information access and data analytics. The global leaders include Amazon Web Services and Microsoft Azure.
2. Cybersecurity ensures the reliability of the cloud network and credibility of data safety.
3. Development of application specific IC, advanced NODE semiconductor chipsets, and 5G enable stronger processing power. These have benefited the IC design firms and semiconductor foundries.
4. Online payment methods foster fast progression of the digital economy.

5. Augmented reality integrates physical and digital realms, creating better user experience.
6. 5G and advanced graphic processors facilitate gamers with low latency when engaging in the highly competitive online gaming arena, thus offering extraordinary gaming experiences like never before.

ADAPTERS transform and adjust old business models to suit ever-changing trends.

"In today's era of volatility, there is no other way but to re-invent. The only sustainable advantage you can have over others is agility, that's it. Because nothing else is sustainable, everything else you create, somebody else will replicate."

- Jeff Bezos



Source: Unsplash

As technology evolves, so does the world. Ongoing digital transformation is a good litmus test through which companies that adapt should emerge as the winners of tomorrow.

The Walt Disney Company is a great example of an adapter. It created its streaming services in 2015, later named Disney+. This initiative allowed the Old Economy media conglomerate Disney to enter the new digital world and transform its business model to embrace the benefits of digital connectivity.

Now, Disney+ brings entertainment to many households, and its TAM has increased immensely. The best testimony is that the revenue from "direct-to-consumer and Internet" segment rose to nearly one-third of Disney's consolidated revenue in June 2020, from less than 10% in 2018.

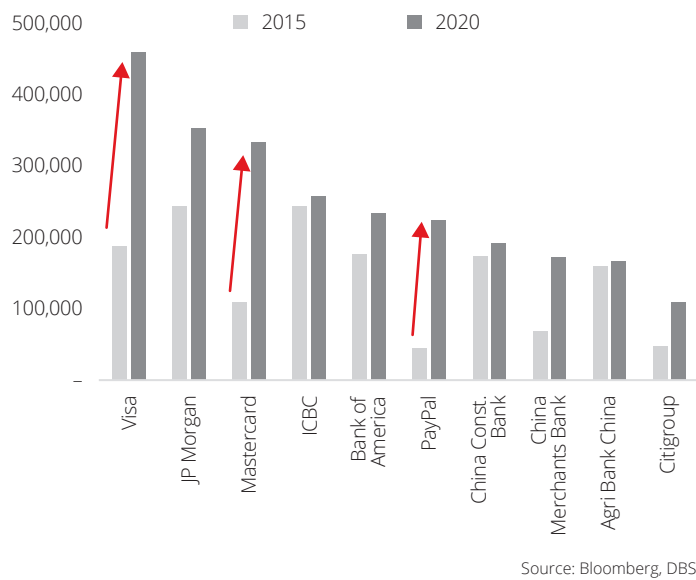
Other exemplary adapters include the following:

1. Walmart Inc's transformation to embrace e-Commerce allowed it to continue to grow swiftly, including introducing marketplaces and building a robust logistic network for quick delivery. Grocery has emerged as the strategic cornerstone of its business adaption.
2. As part of the 4th Industrial Revolution, industrial automation to adapt and transform conventional manufacturing to a programmable smart factory, facilitated by IOT and Industrial IOT architecture. Common names include Fanuc, Keyence, ABB, and Rockwell Automation Inc.
3. Credit card companies capturing the business of fast rising digital commerce by providing borderless online payment methods. Visa Inc and Mastercard Incorporated are among these payment providers.

The payment sector benefits greatly as online spending flourishes and brick-and-mortar shops with storefront presence are increasingly establishing online platforms to better serve their customers. Credit card and payment companies which adapted their businesses to facilitate fast growing digital consumption have seen their income and market value surge.

The combined market capitalisation of Visa, Mastercard, and PayPal reached nearly USD1t, equal to the market value of the world's five largest banks combined. Notably, Visa is now more valuable than any commercial bank, while Mastercard is worth more than any Chinese bank (Figure 7). Intriguingly, some of these large banks have been in business for more than a century.

Figure 7: Strong performance of payment adapters (market cap USDm)



Investment Conclusion

The pace of digital change is faster than ever in our ever-evolving complex and fast moving world. Looking ahead is critical to success.

DBS CIO's I.D.E.A. focuses on technology trends that will help investors select sectors and companies to be ahead of the pack (Table 1).

Companies which have the characteristics of Innovators, Disruptors, Enablers, and Adapters have seen their stock prices surge, and we expect this trend to continue (Figure 8). These companies are featured heavily on the growth end of our Barbell portfolio construct.

Figure 8: Glaring outperformances of Innovation and New Economy sectors (2014 = 100)

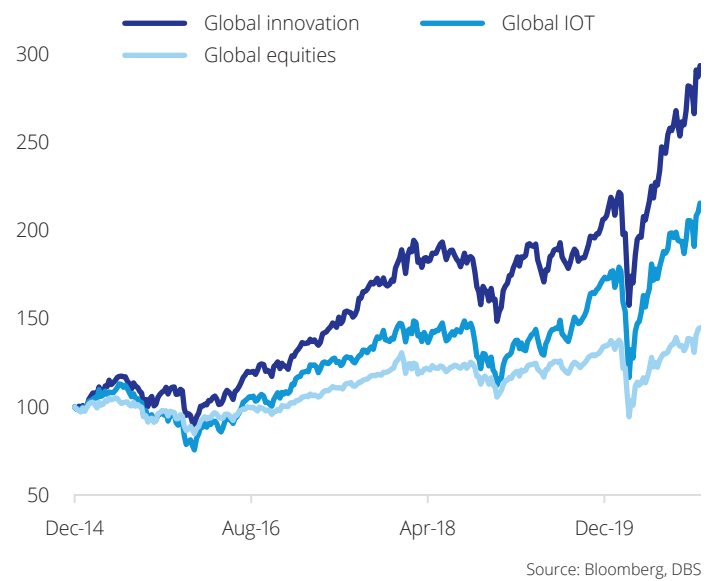


Table 1: Investment themes relating to IDEA

	Innovator	Disruptor	Enabler	Adapter
5G	✓		✓	
Artificial Intelligence	✓	✓		
Cloud, Data Centre	✓		✓	
Cyber Security			✓	
e-Commerce		✓		✓
Electric & Autonomous Vehicles	✓	✓		
e-Sports	✓		✓	
IC Design, Semiconductor	✓		✓	
Industrial Automation	✓			✓
Online Payment			✓	✓
Smartphone	✓		✓	

Source: DBS

2021 investment themes

	Growth	Income
Ongoing themes	I.D.E.A. Work from Home 5G Cloud Computing Industrial Automation Semiconductor, IC Design e-Commerce Millennials: e-Sports Millennials: Athleisure Global Health Care China A-shares Vaccine Winners	Global Infrastructure BBB/BB-USD Corporate Bonds Singapore REITs China Large Banks Europe Integrated Oil Majors Europe Bank Additional Tier-1 Capital

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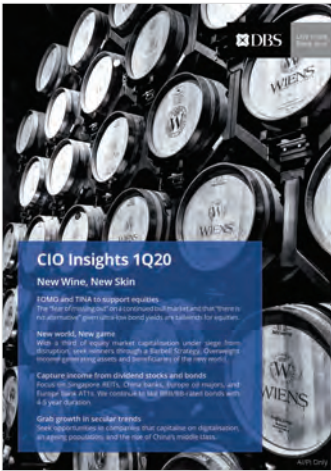
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Glossary of Terms:

Acronym	Definition	Acronym	Definition
ASEAN	Association of Southeast Asian Nations	GDP	gross domestic product
AxJ	Asia ex-Japan	GFC	Global Financial Crisis
B2B	business to business	HIBOR	Hong Kong Interbank Offered Rate
B2C	business to consumer	HKMA	Hong Kong Monetary Authority
bbl	barrel	HY	high yield
BI	Bank Indonesia	IC	integrated circuit
BNM	Bank Negara Malaysia	IG	investment grade
BOE	Bank of England	IOT	Internet of Things
BOJ	Bank of Japan	IPO	initial public offering
BOK	Bank of Korea	ISM	Institute for Supply Management
BOT	Bank of Thailand	IT	Information Technology
bpd	barrels per day	JGB	Japanese Government Bond
BSP	Bangko Sentral ng Pilipinas	KTB	Korea Treasury Bonds
C2C	consumer to consumer	M&A	merger and acquisition
CAGR	compound annual growth rate	MAS	Monetary Authority of Singapore
CFTC	Commodity Futures Trading Commission	MGS/GII	Malaysia Government Securities
CPI	consumer price index	mmbpd	million barrels per day
DM	Developed Markets	NEER	nominal effective exchange rate
DXY	US Dollar Index	OECD	Organisation for Economic Co-operation and Development
EBITDA	earnings before interest, tax, depreciation, and amortisation	OIS	overnight indexed swap
EC	European Commission	OPEC	Organization of the Petroleum Exporting Countries
ECB	European Central Bank	OPM	operating margin
EM	Emerging Markets	P/B	price-to-book
eop	end of period	P/E	price-to-earnings
EPFR	Emerging Portfolio Fund Research	P2P	peer to peer
EPS	earnings per share	PBOC	People's Bank of China
ESG	Environmental, Social, and Governance	PEPP	Pandemic Emergency Purchase Programme
e-Sports	electronic sports	PM	portfolio manager
ETF	exchange-traded fund	PMI	purchasing managers' index
EU	European Union	PPE	Personal Protective Equipment
FCF	free cashflow	QE	quantitative easing
FDA	Food and Drug Administration	R&D	research and development
FDI	foreign direct investment	RBA	Reserve Bank of Australia
FX	foreign exchange	RBI	Reserve Bank of India

Acronym	Definition	Acronym	Definition
RBNZ	Reserve Bank of New Zealand	SME	Small and medium enterprises
RCEP	Regional Comprehensive Economic Partnership	SNB	Swiss National Bank
RCEP	Regional Comprehensive Economic Partnership	SOR	swap offer rate
REIT	real estate investment trust	SORA	Singapore Overnight Rate Average
RM	relationship manager	TAA	Tactical Asset Allocation
ROA	return on asset	TAM	Total Addressable Market
ROE	return on equity	THBFIX	Thai Baht Interest Rate Fixing
RPGB	Philippine Treasury Bonds	TLTRO	Targeted longer-term refinancing operations
SAA	Strategic Asset Allocation	UCITS	Undertakings for Collective Investment in Transferable Securities
saar	seasonally adjusted annual rate	UST	US Treasury
SBV	State Bank of Vietnam	WFH	work from home
SD	standard deviation	WTI	West Texas Intermediate
SGS	Singapore Government Securities	YTD	year-to-date
SIBOR	Singapore Interbank Offered Rate	YTW	yield to worst

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1Q20 CIO INSIGHTS
New Wine, New Skin
December 2019



2Q20 CIO INSIGHTS
Build to Last
March 2020



3Q20 CIO INSIGHTS
Resilient in the Storm
June 2020



4Q20 CIO INSIGHTS
On the Mend
September 2020



1Q19 CIO INSIGHTS
Tug of War
December 2018



2Q19 CIO INSIGHTS
Lift to Win
March 2019



3Q19 CIO INSIGHTS
A Changing World
June 2019



4Q19 CIO INSIGHTS
Ride the Wave
September 2019



1Q18 CIO INSIGHTS
The Bull Ain't Done Yet
December 2017



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Mind the Bends
March 2018



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