

CIO Insights 2Q21

Back on Track

Normalisation on track

World economic growth to snap back as vaccines rollout will end the stop-start cycle of lockdowns and reopenings. Expect momentum of corporate earnings growth to continue, led by the US. We view recent inflation fears as premature, hence the rise in bond yields will not go unabated.

A broadening market

We see the rotation from Technology to laggard sectors as a healthy broadening of the equity market. Continue to engage risk assets through a Barbell portfolio comprising Growth on one end and Income assets on the other.

Add laggard equity sectors to Growth

On the Growth end of the Barbell, add laggard sectors of Financials, Materials, Energy, and Asia ex-Japan equities as beneficiaries of a normalising world economy.

High Yield over High Grade for Income

Sweet spot is in BBB/BB-rated credits in Asia and Europe. Maintain average portfolio duration of 5 years where the roll down of the steeper yield curve is highest.

Contents

- 1 Executive Summary
- 2 Asset Allocation
- 19 Global Macroeconomics
- 31 US Equities
- 36 Europe Equities
- 41 Japan Equities
- 46 Asia ex-Japan Equities
- 56 Global Rates
- 65 Global Credit
- 73 Global Currencies
- 84 Alternatives: Gold
- 89 Theme: e-Commerce
- 102 CIO Expert Series: Energy transition
- 110 Special Feature I: Buy-Write Strategy
- 115 Special Feature II: Global Semiconductors
- 122 Glossary



Note: Unless otherwise stated, views are as of 16 March 2021



Dear valued clients,

We are today at the inflexion point of moving from “A New Hope” to “Back on Track”.

The rollout of vaccines will break the start-stop cycle of economic lockdowns and re-openings. Coupled with trillions of dollars in fiscal stimulus globally, we are now on track for growth and for corporate earnings to normalise.

Over the past quarter, we have seen two significant developments. On bonds, the 10-year Treasury yield spiked by 90% from 0.9% to 1.7%. This was on the back of inflation fears, fanned by optimism of a V-shaped recovery. On equities, we saw a strong rotation from the Growth sector of Technology to Value sectors of Financials and Energy.

But the top-of-mind questions among investors are:

- Have equity valuations already factored in the good news?
- Is the high-flying Tech sector about to crash?
- Will bond yields continue to spike?

While there is no denying valuations are above historical averages, the abundance of zero cost liquidity across the world, in our view, will minimise an imminent market crash. Unlike the dot-com bubble era of 2000, Big Tech companies today generate "structural" earnings growth and free cashflows. In addition, we will see increasing "recurring" profits from their subscription-based models. The strong recovery in energy and financial stocks also signals to us a healthy broadening of the market.

On inflation, we are of the view the fear is premature, hence the rise in bond yields will not go unabated. Given these dynamics, we remain constructive of risk assets going forward.

In this publication, we have a special feature on the "covered call" strategy, which when implemented through a disciplined portfolio approach would enhance income generation.

I wish you a profitable quarter ahead!



Hou Wey Fook, CFA
Chief Investment Officer



Live more,
Bank less

Source: Unsplash

Asset Allocation | 2Q21

Fast and furious

Macro Outlook



Monetary Policy

Fed monetary accommodation to stay even though the debate on QE tapering continues. Managing inflation risk to take centre stage in 2H21.



Economic Growth

Strong fiscal stimulus and rising vaccination rollout to provide significant boost to the global economy in 2H21 as economic reopening gathers pace.



Geopolitics

Biden administration expected to view China as a strategic competitor while leaving the door open for partnership. Low likelihood of further trade war escalation.



Inflation

Prices have risen across financial assets and commodities. However, consumer price inflation is not apparent.



Fiscal Policy

The USD1.9t stimulus bill passed by the Biden administration will provide a significant boost to the American economy. US GDP is on track to expand by 6% this year.

Market Outlook



Equities

Faster vaccination rollout and strong corporate earnings to underpin equities. Adopt tactical rotation to Value plays as the global recovery takes hold.



Currencies

DXY to consolidate in 2021 after sharp selloff in 2020. Factors that bolstered EUR last year have weakened, and EUR/USD to retreat into 1.15-1.20 range.



Rates

Yield curves steepened amid brightening prospects for the economy. Expect unwinding of COVID-19 premium, and 10Y US yield to hit 2%.



Credit

Favour China onshore bonds given attractive yields, long-term structural inflows, and low default rates.



Thematics

A long runway for e-Commerce remains despite exponential growth. Government policies and EV adoption to accelerate Energy Transition.



Theme:
e-Commerce

Global digitalisation is still at early stages with a long runway ahead. At its core is e-Commerce. Expect online spending behaviours to remain post-COVID 19, with Asia and North America at the forefront. Besides B2C, B2B is increasingly taking the role as a new pillar of growth.



CIO Expert Series: Energy Transition

The world is at the start of a multi-decade journey on global energy transition. This massive trend comprises a) renewable energy production; b) energy efficiency, technology, and materials; and c) energy transportation and infrastructure. US, EU, and China have companies best placed to benefit from regulatory, macro, and industry drivers.



Special Features:
(a) Buy-Write
(b) Semiconductors

With Big Tech disrupting traditional businesses, the commonly held notion of equity income premised on dividends alone may no longer suffice. We introduce the Buy-Write strategy as a means of enhancing equity income.

Semiconductor equities are overreacting to the recent shortage of IC chips, where the undersupply is mainly prevalent in the automotive sector. This heightens the already robust demand for chipsets, thus an opportune time to be engaged in this secular growth sector.

Asset Allocation

Hou Wey Fook, CFA | Chief Investment Officer

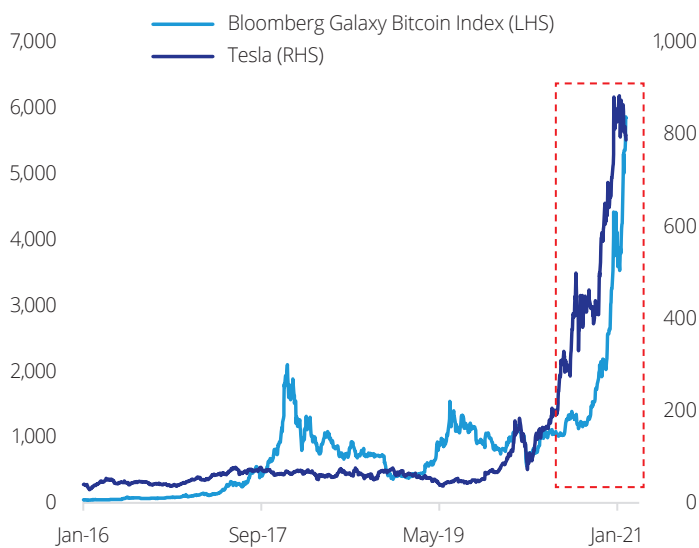
Dylan Cheang | Strategist

Too fast, too furious?

Positive sentiment towards global risk assets continued through 1Q21. However, it is the sharp retail-driven rally in out-of-favour companies like GameStop and Blackberry, coupled with news of Elon Mask investing USD1.5b in Bitcoin, that really triggered rising uneasiness about the speed of the rally.

Such concerns are not surprising. Global equities have rallied 78% since its trough in 2020 in spite of the ongoing pandemic and prevailing macro uncertainties. Inevitably, questions surrounding whether markets have “ran ahead of fundamentals” will come to the fore. Apart from the speed of the rally, another major issue that is keeping investors on the edge is the potential return of inflation.

Figure 1: Parabolic moves in risk assets – Euphoria or rationality?



Source: Bloomberg, DBS

Given the proverbial wall of worry facing investors, we tackle the following topics head on in this quarter’s CIO Insights:

- Have financial markets reached a euphoric stage?
- Will the return of inflation trigger acute market drawdowns?
- What are the factors that will underpin the current rally?
- Given tightness in credit spreads, what other ways can investors enhance portfolio income stream?

Market sanity check: Euphoria or rationality?

To detect signs of euphoria in risk assets, we look at the following checkpoints: (1) Valuation, (2) Liquidity, (3) AAll Bull/Bear ratio, and (4) Percentage of stocks closing above their 200-dma. Our findings are:

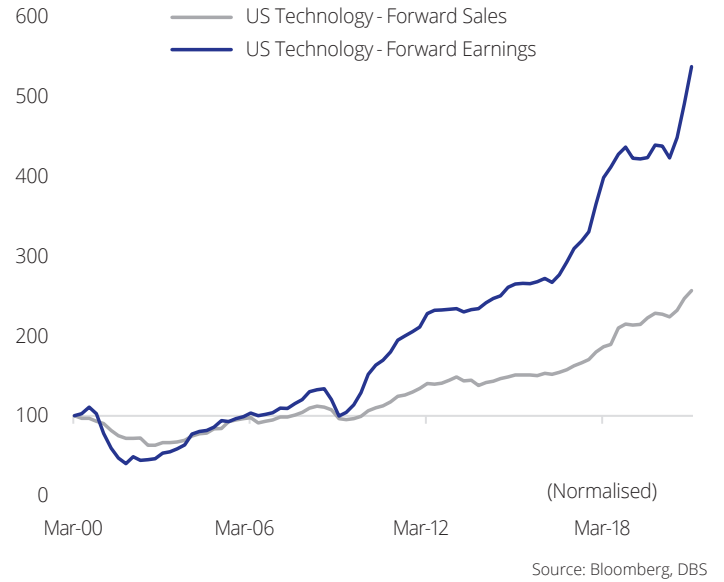
- **Checkpoint 1 – Valuation:** The outsized gains in US Technology have triggered valuation concerns on the sector, with market commentators comparing this with the dot-com bubble. Data, however, suggest otherwise. On forward P/Sales basis, it is not untrue that valuation is looking stretched at 6.2x. But this ratio belies the fact that profitability for US Technology companies is rising.

Since 2011, the forward sales for US Technology was up 119% while forward earnings saw substantially higher gains of 199%. The strong earnings momentum put a lid on forward P/E and this explains why valuation is nowhere near levels seen during dot-com bubble.
- **Checkpoint 2 – Liquidity:** Apart from economic fundamentals, liquidity is the other significant driver of risk assets. Since the pandemic, unprecedented quantitative easing by the US Federal Reserve has put an effective

Figure 2: US Technology valuation on forward P/E basis nowhere near dot-com bubble level



Figure 3: Strong Tech earnings growth put a lid on forward P/E



backstop to financial markets – the global search for yield drove risk assets higher.

- Judging from the Fed’s intention to cater for inflation overshoot, there are no near-term plans to ease on monetary easing. Despite recent rally in US equities, the

S&P 500 Index relative to M2 money supply ratio is only trending broadly in line with the long-term average.

- **Checkpoint 3 – AAI Bull/Bear ratio:** The AAI Bull/Bear ratio reflects the sentiment of financial advisors. A reading above “1” connotes more bullish advisors relative

Figure 4: Unprecedented quantitative easing unleashed by the Fed since the pandemic

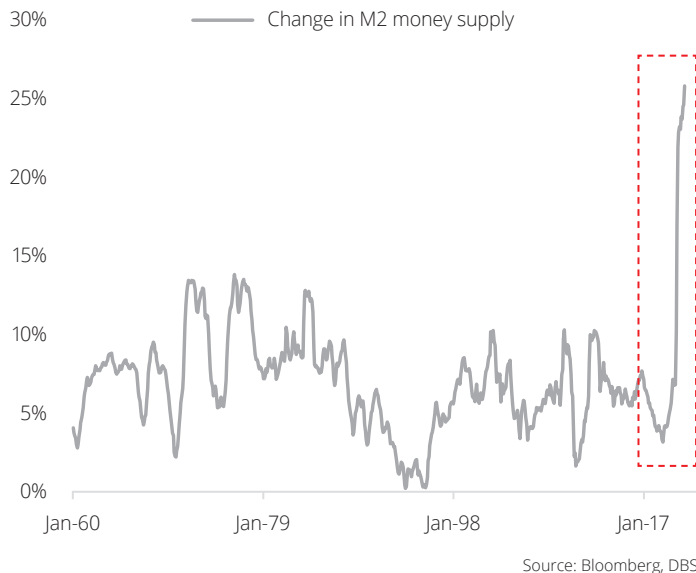


Figure 5: S&P 500 relative to M2 money supply ratio trending broadly in line with the long-term average

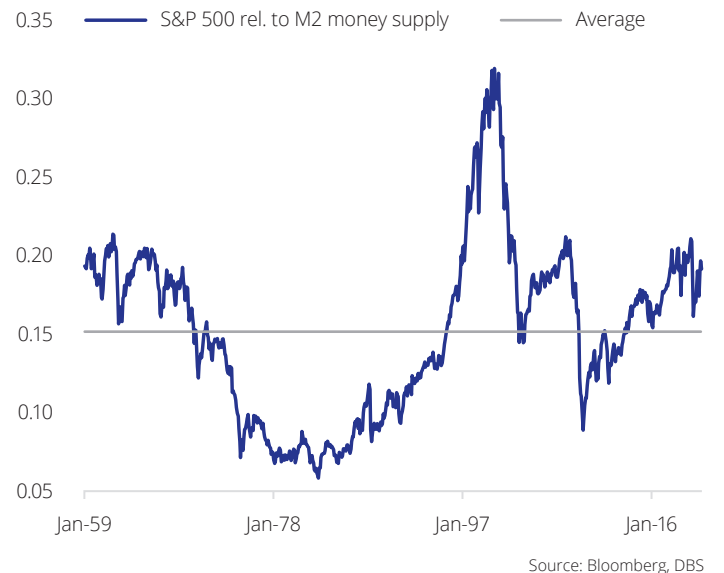


Figure 6: AAI Bull/Bear ratio suggests sentiments are not at an extreme

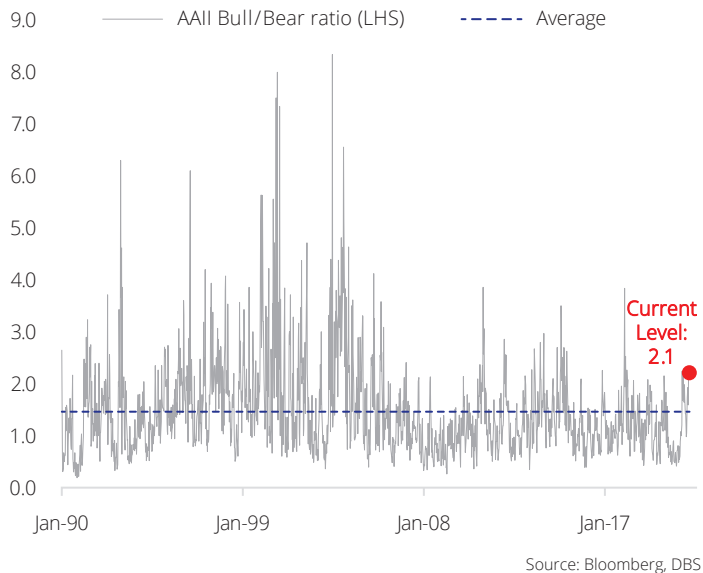
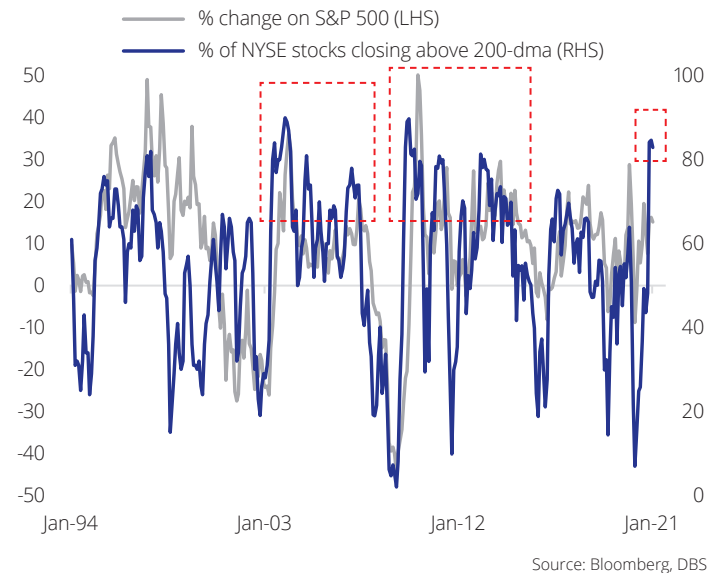


Figure 7: Percentage of stocks closing above 200-dma is above 80% mark; but correction for S&P 500 not imminent



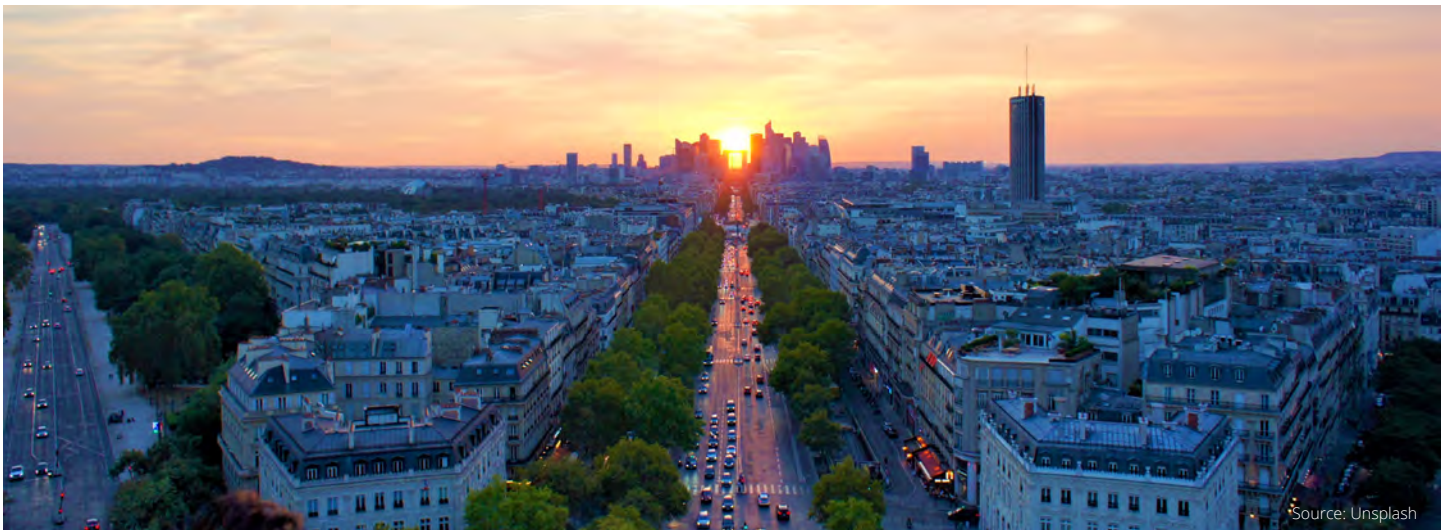
to bearish ones, and a reading below “1” indicates a larger proportion of bearish advisors to bullish ones.

Extreme readings on either end of the spectrum are often used as a contrarian indicator by investors. Currently, the ratio of 2.1 is broadly in line with the long-term average and this suggests sentiment is not at an extreme.

- **Checkpoint 4 – Percentage of stocks closing above their 200-dma:** The monthly change on S&P 500 exhibits close correlation with the percentage of stocks closing

above their 200-dma (see Figure 7). When the indicator breaches the 80% mark, the likelihood of a pullback in the rate of change for S&P 500 is high.

However, one should note that a deceleration in the rate of change need not necessarily mean the S&P 500 will enter a negative correction mode. Instead, it suggests market can continue to grind higher, albeit at a slower pace. This was what happened when the indicator breached the 80% mark on previous occasions (see red highlights in Figure 7).

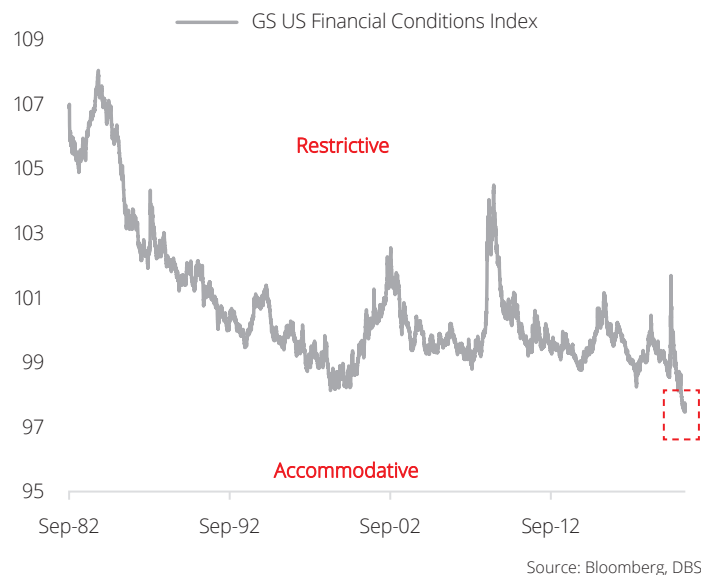


Inflation: In a sweet spot

Rising inflation is one of the commonly cited risk factors for financial markets this year. After all, the aggressive USD1.9t economic rescue package put forth by the Biden administration, coupled with improving rollout of COVID-19 vaccination in the US, is expected to translate to stronger economic momentum and by extension, rising inflation in the economy.

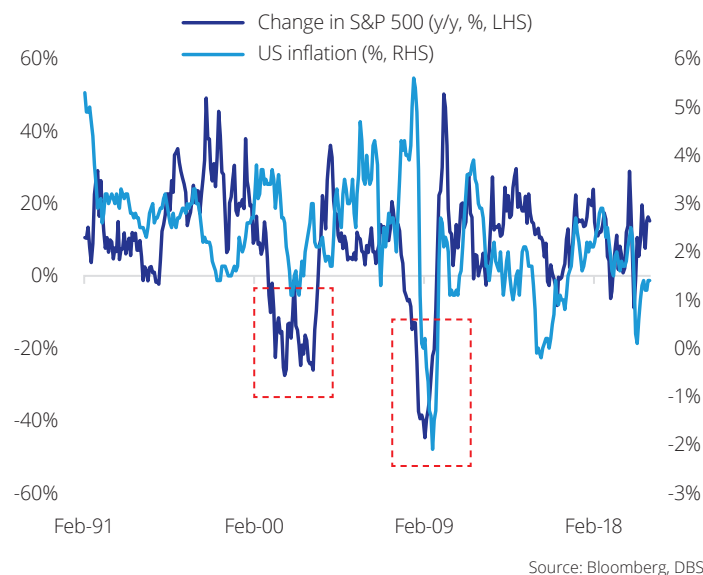
Apart from economic momentum, the other significant driver of inflation is monetary policy. Fed Chair Jerome Powell has opined that the risk of doing “too little” supersedes the risk of “overdoing”. The appointment of former Fed Chair Janet Yellen as Treasury Secretary further cements the view that policy accommodation will persist. Figure 8 shows an index of US financial conditions is at its most accommodative level since the data series started in 1982.

Figure 8: Accommodative financial conditions to persist



It should not be assumed that rising inflation is negative for risk assets. In reality, inflationary pressure arising from demand-side factors (as opposed to supply-side ones) is actually positive for markets. Figure 9 shows the long-term relationship between S&P 500 and US inflation. It is evident that US equities only suffered substantial drawdowns when inflation pulled back sharply. Periods of rising inflation are not commonly associated with huge market drawdowns.

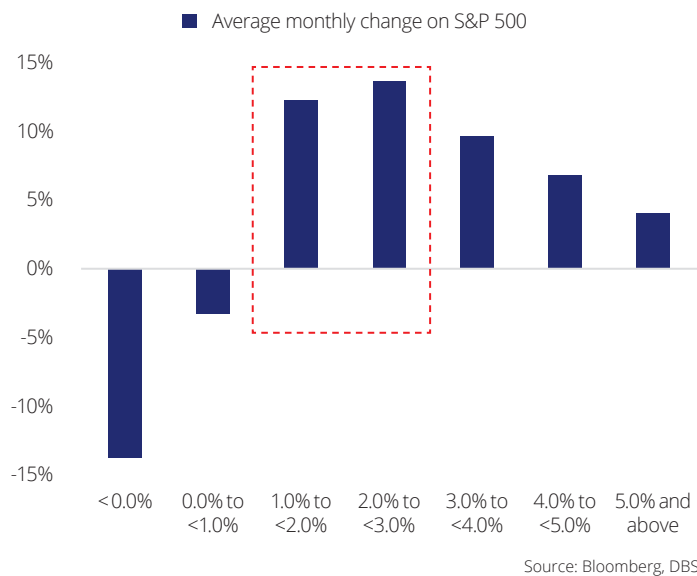
Figure 9: Sharp equity pullbacks are more commonly associated with negative inflation – not the other way around



So what level of inflation is most optimal for risk assets? To answer this question, we look at data stretching back to 1941 and listed below are the findings:

- Average monthly return on S&P 500 has historically been negative when inflation is below zero.
- Average return was positive at 12.2% when inflation was in the 1.0-2.0% range, while in the 2.0-3.0% range average return improved further to 13.7%.
- Beyond the 3.0% mark, monthly returns for S&P 500 would start to undergo consistent decline.

Figure 10: Average monthly return for S&P 500 is most optimal with inflation in the 1-3% range



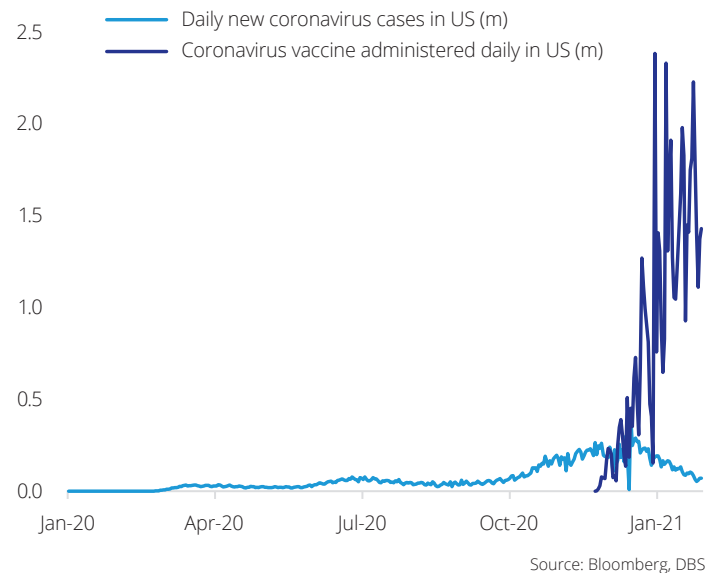
Based on the above, it is evident that the prevailing inflation level of 1.4% will be conducive for risk assets and market returns will likely only start to deteriorate when inflation exceeds the 3.0% mark.

Factors underpinning the equity rally

While the speed of the equity rally may see some moderation in the coming months, an extreme drawdown is, however, unlikely. We believe that markets will continue to be underpinned by the combination of (a) Faster vaccination rollout and (b) Strong corporate earnings rebound.

The initial rollout of COVID-19 vaccination in the US way undershot initial targets with only 0.6m doses administered daily between 1-15 January. But the speed of vaccination rollout gained significant momentum after the Biden administration came onboard and by 1-15 February, average daily doses shot up to 1.5m (Figure 11). Today, the rate of vaccination far supersedes new cases. Successful control of the pandemic situation in US augurs well for domestic consumption given the anticipated pent-up demand from last year.

Figure 11: Vaccine rollout in the US has increased markedly



Corporate America, meanwhile, is experiencing strong rebound after a dismal 2020. In the 1Q21 reporting season, c.77.9% of the companies reported positive earnings surprise and strong momentum was particularly evident in the Communication Services, Technology, and Financials space. The improving outlook has also prompted analysts to revise up their earnings forecasts for S&P 500 (Figure 12).

Figure 12: US earnings undergoing strong upward revisions

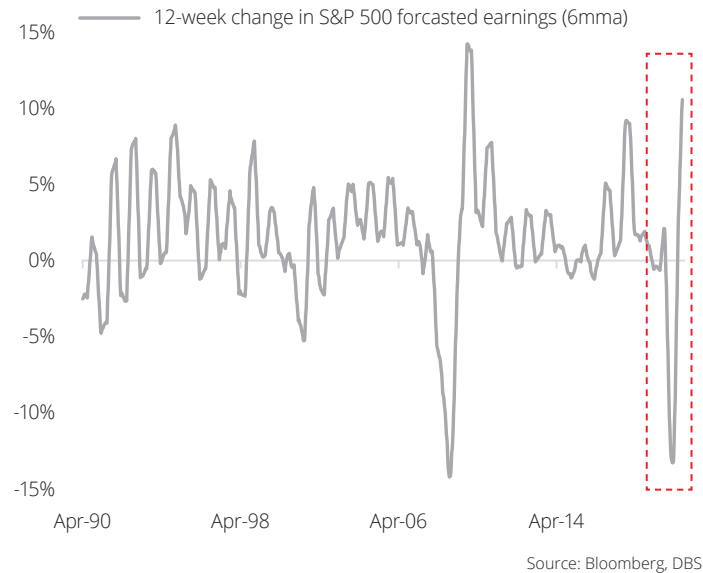
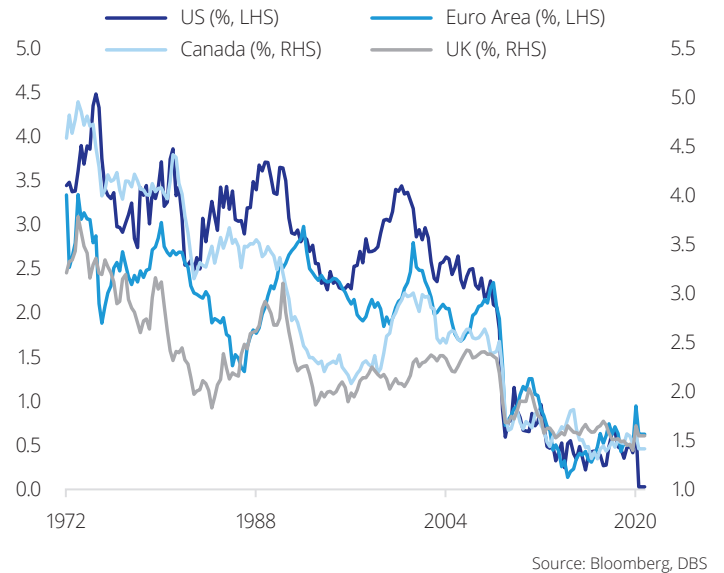


Figure 13: The neutral rate of interest (r^*) is on a persistent downtrend



Equity income strategies for a low yielding world

COVID-19 vaccination and the expectation of stronger fiscal easing have driven bond yields sharply higher this year. But history shows it is premature to assume yields will undergo sustained increase from here. Since the Great Recession of 2008, bond yields have previously undergone similar spikes, only to correct to lower lows in subsequent periods.

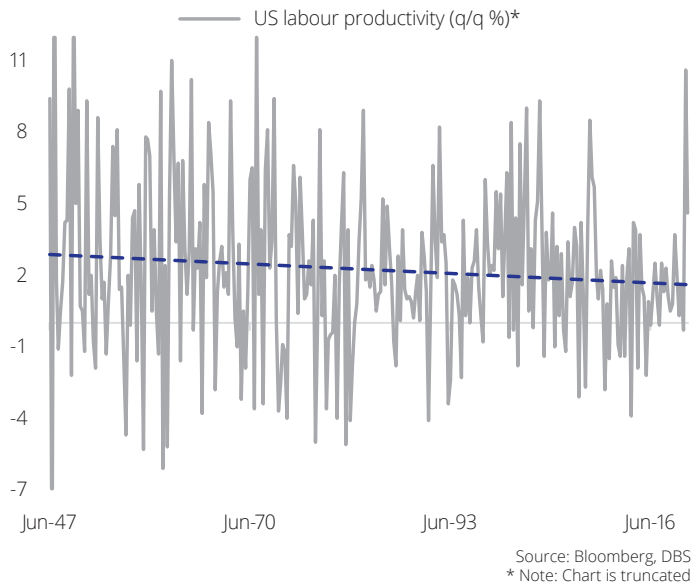
From a longer-term perspective, global bond yields have been trending south since the early 1980s and there are various reasons for this. Firstly, global macroeconomic momentum is moderating and this translates to weaker inflation expectations. Secondly, the neutral rate of interest (r^*) – which functions as a “benchmark” for the Fed’s decision-making process – is on a persistent downtrend.

Based on research by Fed economists Thomas Laubach and John Williams, the long-term neutral rate for the US has fallen from a high of 4.485% in September 1974 to 0.029% in December 2020. Much of this has to do with secular stagnation in the US, a situation where excessive savings (relative to investment capital) weigh on long-term rates.

Forces weighing on the demand for capital (productivity and digitalisation) as well as those boosting the supply of savings (demographics and risk aversion) are broadly structural in nature. The interplay of these factors is expected to exert sustained downward pressure on the neutral rate of interest in the long run.

In the current low yielding environment, enhancing a portfolio’s income stream via equity exposure will gain prominence in coming quarters. The traditional notion of “equity income strategy” is premised on dividend stocks. But this strategy will face increasing challenges as traditional companies are disrupted by the global digitalisation wave, which would impede companies’ ability to pay out dividends.

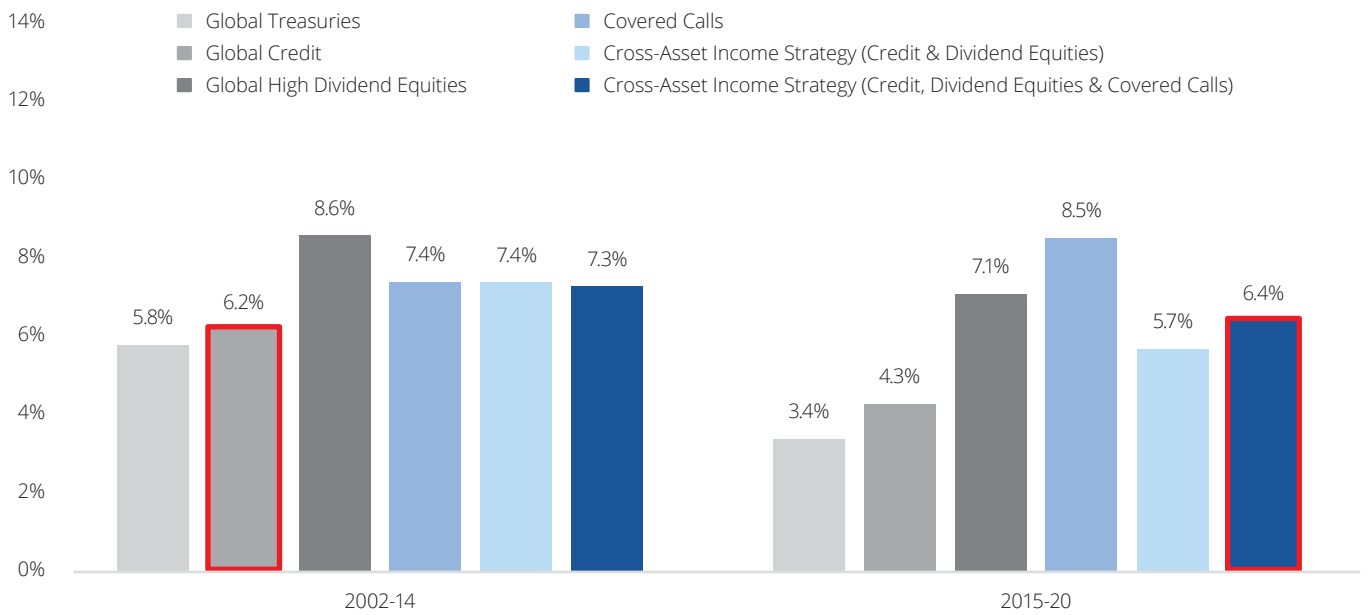
Figure 14: Long-term downtrend in US productivity



To circumvent this problem, a more robust income approach is necessary and this is where the “Buy-Write Strategy” can come into play. “Buy-Write” (also known as covered call) entails buying a security and simultaneously selling a call option against it. Option premium collected from the call option helps to enhance income generation as well as mitigate portfolio downside in times of market volatility.

Our analysis shows that between 2015-20, a portfolio consisting of global credit will only attain average annualised monthly returns of 4.3%. However, a hypothetical multi-asset income portfolio consisting of 40% credit, 30% dividend equities, and 30% covered calls will attain average returns of 6.4%. This illustrates how a multi-asset income strategy incorporating call writing will garner higher returns for investors in present environment.

Figure 15: Buy-Write strategy enhances equity income in multi-asset portfolios



Source: Bloomberg, DBS

2Q21 Asset Allocation: Equities over Bonds

Table 1: 2Q21 CIO Asset Allocation (CAA) Framework

Categories	Indicators	Score Range	Equities				Bonds		
			US	Europe	Japan	Axj	DM Govt	DM Corp	EM Bonds
Fundamentals	PMI	-1 to +1	0	0	0	0	0	0	0
	Economic surprise	-1 to +1	0	-1	0	0	0	0	0
	Inflation	-1 to +1	-1	0	0	0	-1	-1	0
	Monetary policies	-1 to +1	0	0	0	0	0	0	0
	Forecasted EPS growth	-2 to +2	2	1	1	1	-	0	0
	Earnings surprise	-2 to +2	2	0	0	1	-	0	0
Valuation	Forward P/E	-2 to +2	-1	-1	0	0	-	-	-
	P/B vs ROE	-2 to +2	0	-1	0	0	-	-	-
	Earnings yield - 10-yr yield	-2 to +2	1	0	0	0	-1	-1	0
	Free Cashflow yield	-2 to +2	1	-1	-1	0	-	-	-
	Credit spread	-2 to +2	-	-	-	-	-	-1	0
Momentum	Fund flows	-2 to +2	1	0	0	1	0	1	1
	Volatility	-1 to +1	0	0	0	0	0	-	-
	Catalysts	-2 to +2	0	0	0	0	0	0	0
Raw Score			5	-3	0	3	-2	-2	1
Adjusted Score*			0.24	-0.14	0.00	0.14	-0.18	-0.13	0.06

*Note: The "Adjusted Score" is calculated using the "Raw Score" divided by the maximum attainable score for each category.

Source: DBS

Cross Assets: Vaccination rollout and macroeconomic recovery will continue to drive outperformance of equities over bonds. From a cross-asset perspective, we keep our preference for equities over bonds. In our CAA Framework, equities garnered a higher composite score of 0.06 as compared to -0.08 for bonds.

Fundamentals: The recovery in global macroeconomic momentum continues as the JPMorgan Global Manufacturing PMI remained in expansionary mode at 53.5 in January while the Citi Economic Surprise Index (Global) has also stayed elevated at 79.0 (as of 15 March).

The trajectory of global momentum in the coming quarter hinges heavily on how successful countries are in rolling out their COVID-19 vaccination programmes. Successful control of the virus will lend significant boost to segments of the service industry that are heavily impacted by the pandemic.

2021 will be a year of recovery for corporate earnings and judging from the numbers coming from the US, the outlook is promising. We expect the positive momentum to persist in 2Q21.



Source: Unsplash

Figure 16: Recovery in global macroeconomic momentum continues

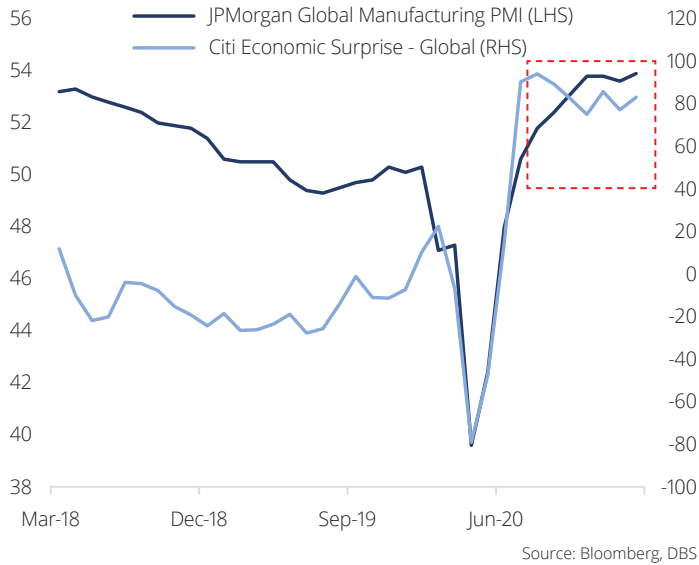
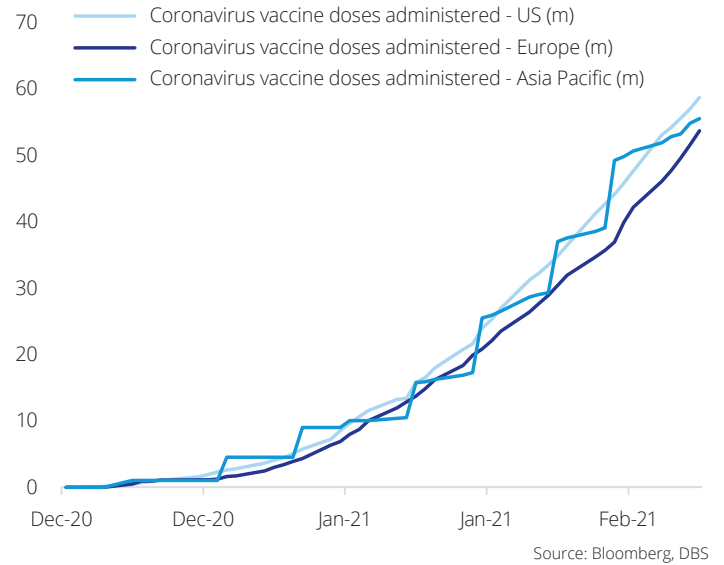


Figure 17: Successful vaccination rollout will buoy certain segments of the service industry



Valuation: On a cross-asset basis, the gap between earnings yields (for S&P 500) and Treasury yields has narrowed substantially since March last year. But at 1.8%, the yield gap nonetheless remains above the long-term average, and this suggests that equities remains more attractive as an asset class to bonds.

2020, equities registered total inflows of USD190b while bonds inflows were significantly larger at USD383b. However, on a YTD basis, equities has registered net inflows of USD151b while bond inflows were more muted at USD96b.

Momentum: On cross-asset flows, equities has clearly overtaken bonds as the preferred asset class this year. For

The robust flow of funds into equities is significant given that in less than two months, the inflows this year already account for 79% of last year's flows. Geographically, the US accounts for the lion's share of this year's inflows.

Figure 18: Equities seeing stronger funds inflow than bonds this year

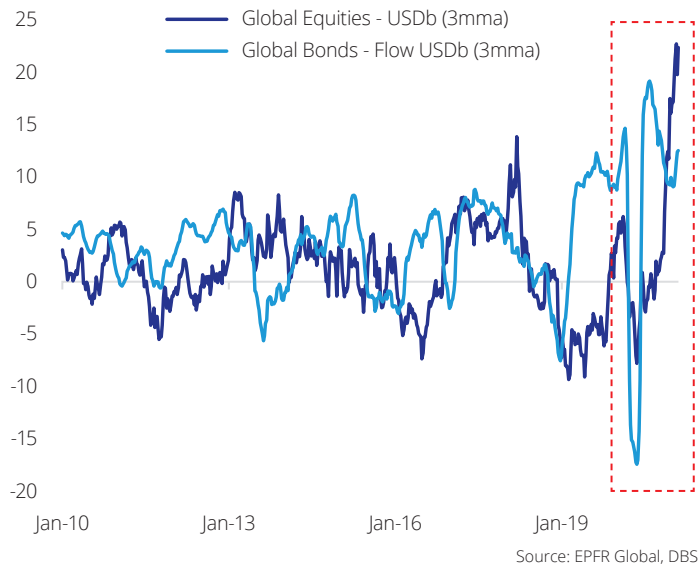
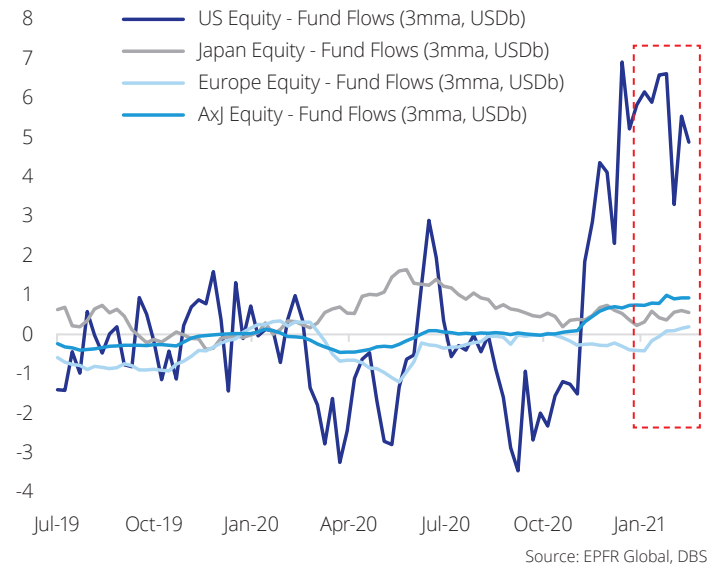


Figure 19: US equities accounted for the bulk of funds inflow

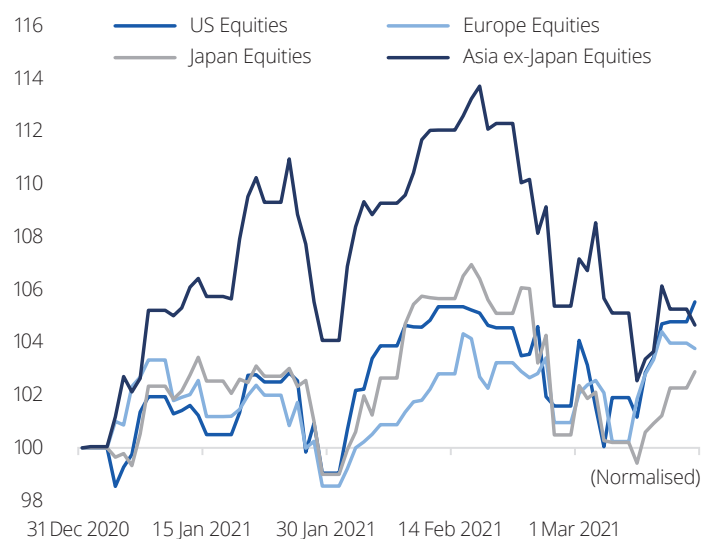


Equities: US and Asia ex-Japan equities leading the way.

Our conviction calls on US and Asia ex-Japan equities have reaped dividends as the regions were the best performers this year. On a year-to-date basis, US equities was up 5.5% (as of 15 March), outperforming Japan and Europe by 2.6% pts and 1.8%pts respectively. Meanwhile, Asia ex-Japan has also outperformed the latter with gains of 4.7%.

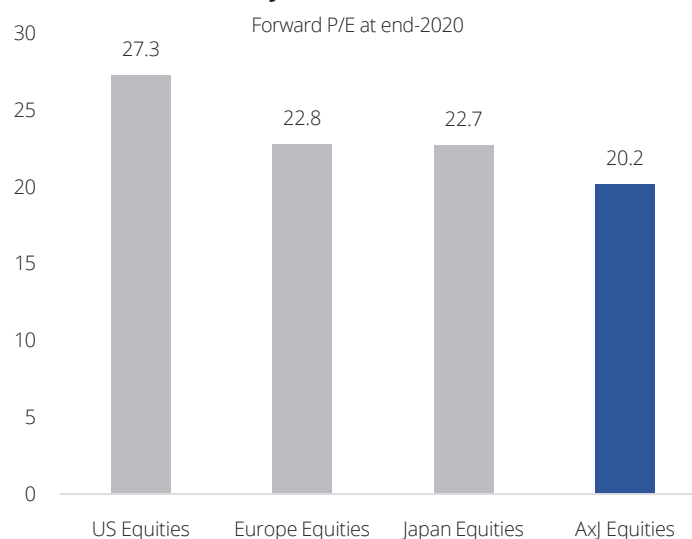
We expect the outperformance of US over Europe and Japan to persist in 2Q21 as strong vaccination rollout in the country augers well for the outlook of economic re-opening and corporate earnings. As the rally continues to broaden, the global search for value will also benefit Asia ex-Japan equities as well as sectors like Financials and Energy.

Figure 20: Axj equities leading the way in 2021



Source: Bloomberg, DBS

Figure 21: Axj equities trading at lower valuation to DM since the start of the year

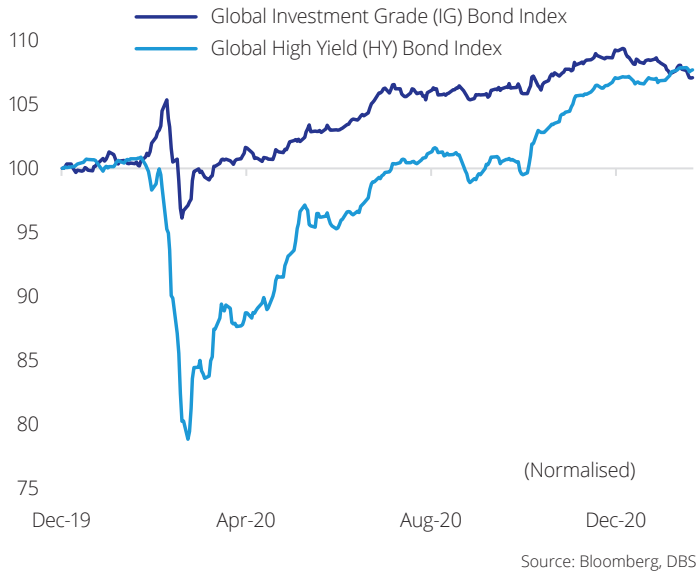


Source: Bloomberg, DBS



Source: Unsplash

Figure 22: HY set to outperform IG



Bonds: Rising yields not necessarily negative for credits; Maintain preference for HY over IG. The rising rates environment has revived concerns of spreads widening in corporate bonds. History shows rising yields need not necessarily translate to wider spreads. The period post Trump's presidential election victory in 2016 is a case in point.

Back then, despite rising rates, credit spreads tightened in anticipation of stronger economic momentum ahead. We believe the current situation is not dissimilar.

Within credit, we expect the outperformance of HY over IG bonds to persist. We believe Asia HY will be the main beneficiary on the back of this global hunt for yield that would lead to fund inflows.

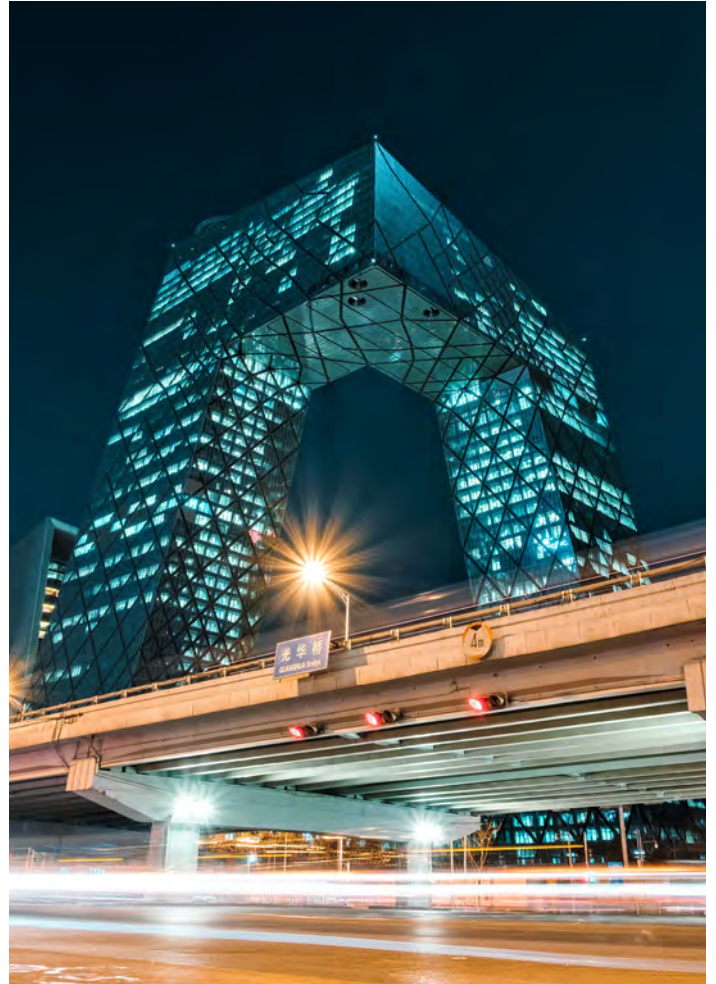
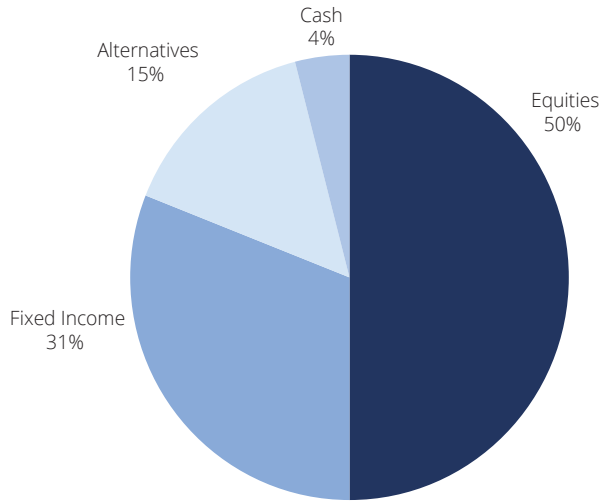
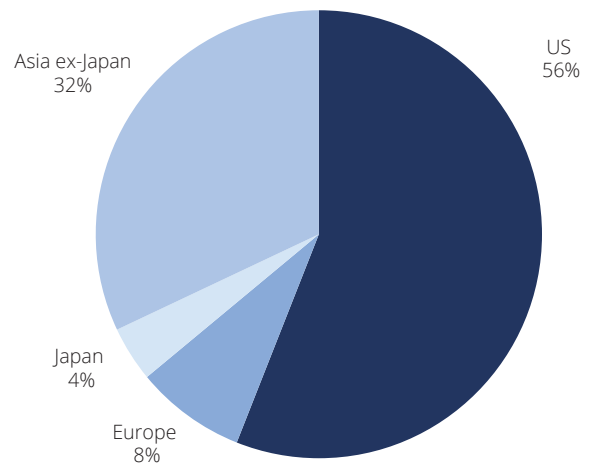


Figure 23: TAA breakdown by asset class (Balanced Profile)



Source: DBS

Figure 24: TAA breakdown by geography within equities (Balanced Profile)



Source: DBS

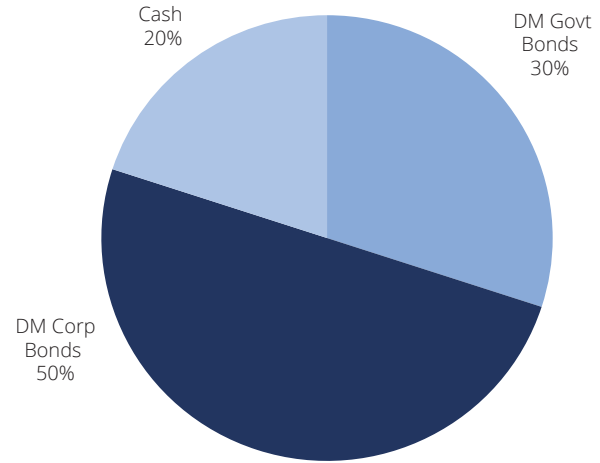
Table 2: 2Q21 Global Tactical Asset Allocation (TAA)

	Asset Class	
	3-Month Basis	12-Month Basis
Equities	Neutral	Neutral
US Equities	Overweight	Overweight
Europe Equities	Underweight	Underweight
Japan Equities	Underweight	Underweight
Asia ex-Japan Equities	Overweight	Overweight
Fixed Income	Underweight	Underweight
Developed Markets (DM) Government Bonds	Underweight	Underweight
Developed Markets (DM) Corporate Bonds	Neutral	Neutral
Emerging Markets (EM) Bonds	Overweight	Neutral
Alternatives	Overweight	Overweight
Gold	Overweight	Overweight
Hedge Funds	Overweight	Neutral
Cash	Underweight	Neutral

Source: DBS

Conservative

	TAA	SAA	Active
Equities	0.0%	0.0%	
US	0.0%	0.0%	
Europe	0.0%	0.0%	
Japan	0.0%	0.0%	
Asia ex-Japan	0.0%	0.0%	
Fixed Income	80.0%	80.0%	
Developed Markets (DM)	80.0%	80.0%	
DM Government Bonds	30.0%	30.0%	
DM Corporate Bonds	50.0%	50.0%	
Emerging Markets (EM)	0.0%	0.0%	
Alternatives	0.0%	0.0%	
Gold	0.0%	0.0%	
Hedge Funds*	0.0%	0.0%	
Cash	20.0%	20.0%	

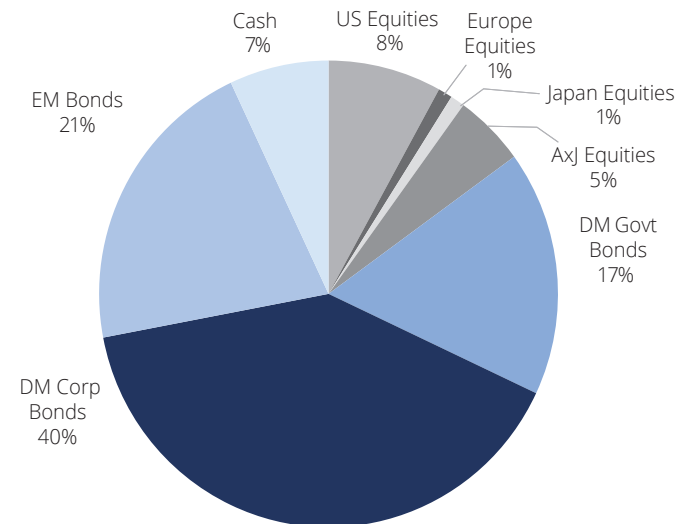


Source: DBS

*Only P4 risk rated UCITs Alternatives

Moderate

	TAA	SAA	Active
Equities	15.0%	15.0%	
US	8.0%	6.0%	2.0%
Europe	1.0%	4.0%	-3.0%
Japan	1.0%	2.0%	-1.0%
Asia ex-Japan	5.0%	3.0%	2.0%
Fixed Income	78.0%	80.0%	-2.0%
Developed Markets (DM)	57.0%	60.0%	-3.0%
DM Government Bonds	17.0%	20.0%	-3.0%
DM Corporate Bonds	40.0%	40.0%	
Emerging Markets (EM)	21.0%	20.0%	1.0%
Alternatives	0.0%	0.0%	
Gold	0.0%	0.0%	
Hedge Funds*	0.0%	0.0%	
Cash	7.0%	5.0%	2.0%

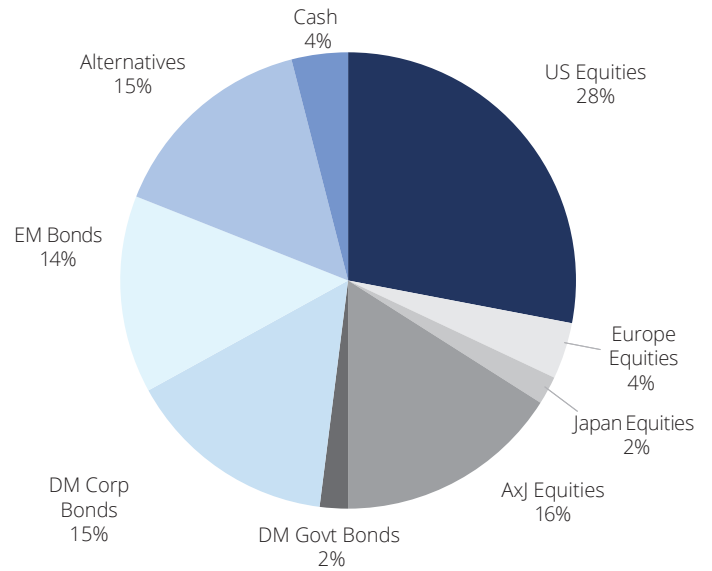


Source: DBS

*Only P4 risk rated UCITs Alternatives

Balanced

	TAA	SAA	Active
Equities	50.0%	50.0%	
US	28.0%	25.0%	3.0%
Europe	4.0%	10.0%	-6.0%
Japan	2.0%	5.0%	-3.0%
Asia ex-Japan	16.0%	10.0%	6.0%
Fixed Income	31.0%	35.0%	-4.0%
Developed Markets (DM)	17.0%	25.0%	-8.0%
DM Government Bonds	2.0%	10.0%	-8.0%
DM Corporate Bonds	15.0%	15.0%	
Emerging Markets (EM)	14.0%	10.0%	4.0%
Alternatives	15.0%	10.0%	5.0%
Gold	8.0%	5.0%	3.0%
Hedge Funds*	7.0%	5.0%	2.0%
Cash	4.0%	5.0%	-1.0%

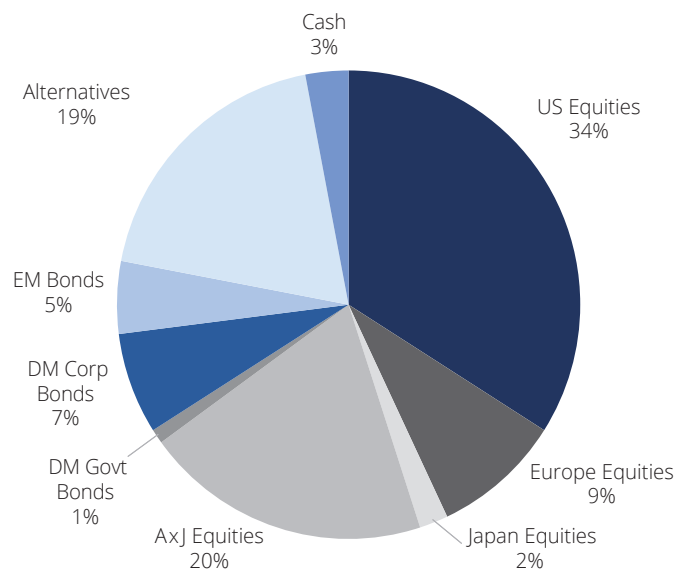


Source: DBS

*Only P4 risk rated UCITs Alternatives

Aggressive

	TAA	SAA	Active
Equities	65.0%	65.0%	
US	34.0%	30.0%	4.0%
Europe	9.0%	15.0%	-6.0%
Japan	2.0%	5.0%	-3.0%
Asia ex-Japan	20.0%	15.0%	5.0%
Fixed Income	13.0%	15.0%	-2.0%
Developed Markets (DM)	8.0%	11.0%	-3.0%
DM Government Bonds	1.0%	4.0%	-3.0%
DM Corporate Bonds	7.0%	7.0%	
Emerging Markets (EM)	5.0%	4.0%	1.0%
Alternatives	19.0%	15.0%	4.0%
Gold	7.0%	5.0%	2.0%
Hedge Funds*	12.0%	10.0%	2.0%
Cash	3.0%	5.0%	-2.0%



Source: DBS

Notes:

1. The above are based on three-month views.
2. Asset allocation does not ensure a profit or protect against market loss.
3. "TAA" refers to "Tactical Asset Allocation". "SAA" refers to "Strategic Asset Allocation".
4. Based on the SAA model, the Aggressive model has the highest risk, followed by Balanced, Moderate, and Conservative, with Conservative being the least risky.
5. The investor type classification for the portfolio has no direct relationship with the Financial Needs Analysis customer risk profile types and the portfolios are not assigned any product risk rating based on the bank's proprietary risk rating methodology.



Live more,
Bank less



Source: Unsplash

Macroeconomics | 2Q21

Economic boom
in sight

Global Macroeconomics

Taimur Baig, Ph.D. | Chief Economist

Radhika Rao | Economist

Ma Tieying | Economist

Suvro Sarkar | Analyst

US

Leaving behind a winter surge in coronavirus infections and deaths, the US is ending the first quarter of 2021 with some encouraging signs. First, as vaccinations have begun, the efficacy of the new vaccines is proving to be high and the side effects minimal. Second, the new leadership in the White House is leading by example in encouraging wearing masks and keeping social distance, which can only help with transmission mitigation. Third, political uncertainty has ebbed, and a large fiscal stimulus has been passed.

The USD1.9t stimulus will comprise generous support to households with low income, extension of lifeline to businesses in affected sectors, and substantial aid to states. A USD15/hour minimum wage target did not make it through this package, but the Biden administration will likely push in this area strongly, galvanising unions, and nudging the private sector to raise wages. Substantial allocation to green infrastructure and financial incentives for securing sensitive supply chains are also very likely.

Figure 1: Pent-up demand about to spike

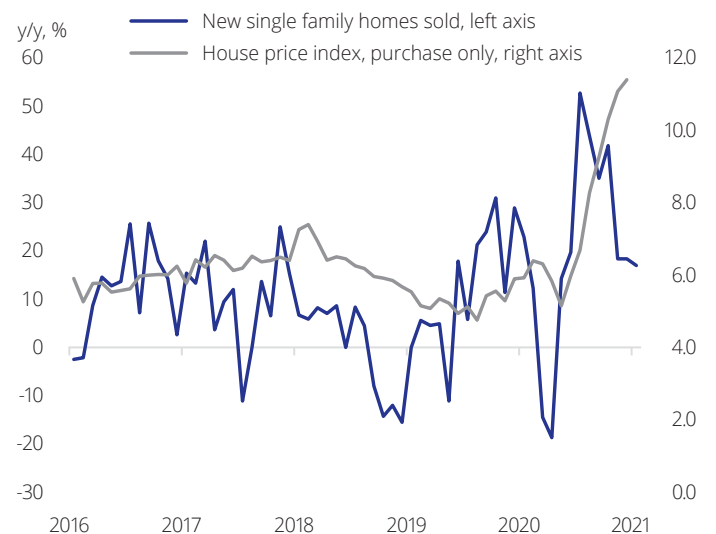


Source: CEIC, DBS

Measures like these are coming at a time when the output gap is narrowing, employment situation is improving, and some supply/demand mismatch is causing the price of certain goods to rise. In our view, that could pave the way for a strong economic boom in the second half of this year, which could also come up with incipient inflation pressures. We are now forecasting 6% GDP growth this year, with consumption on course to grow by over 7% as pent up demand is released around vaccination-driven normalisation of mobility.

The makings of a boom are already evident in trade figures. 2020 ended with exports and imports picking up, especially with respect to China. Demand for electronics, consumer appliances, and home improvement products has surged, as patterns of work and living have gone through profound transformations. We expect such trends to persist through this year.

Figure 2: Low rates and work-from-home driving home demand



Source: CEIC, DBS

Prevailing low interest rates and rising demand for independent homes have converged to create a housing boom not seen since 2005. Both the number of single family homes sold and price paid per home have picked up. Home improvement has also surged, as work-from-home practice has driven consumers to buy home office and gym equipment, expand their living spaces, and renovate their kitchens. Thanks to exceptionally low mortgage interest rates, affordability has increased, as have the number of homes refinanced.

In addition to homes, demand for automobiles has begun to pick up, helped by low interest rates and improvement in employment prospects. After witnessing catastrophic declines in production and sales last year, the sector is turning around, although a worldwide shortage of parts has hampered auto production to some extent. As parts supplies normalise, we expect a surge in car shipment later this year. In our view, as Biden's stimulus kicks in, sales should also see record rebound this year.

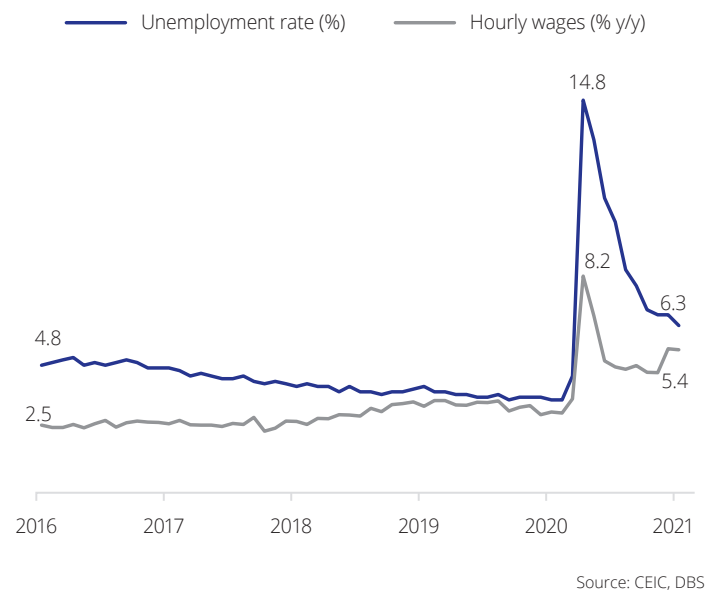
Figure 3: Auto sales and production on the mend



As mobility improves, so does employment. Both the rate of unemployment and wages paid to workers are beginning to look promising. Although many Americans are still jobless, and wage growth is still modest, both are moving in the right direction. The current administration is slated to take a series of measures to boost the outlook for employment and wage

though public spending and investment incentives. All of these developments point to a banner year for growth, which may lead to a healthy pick-up in inflation expectations.

Figure 4: Jobs are coming back, wages are picking up



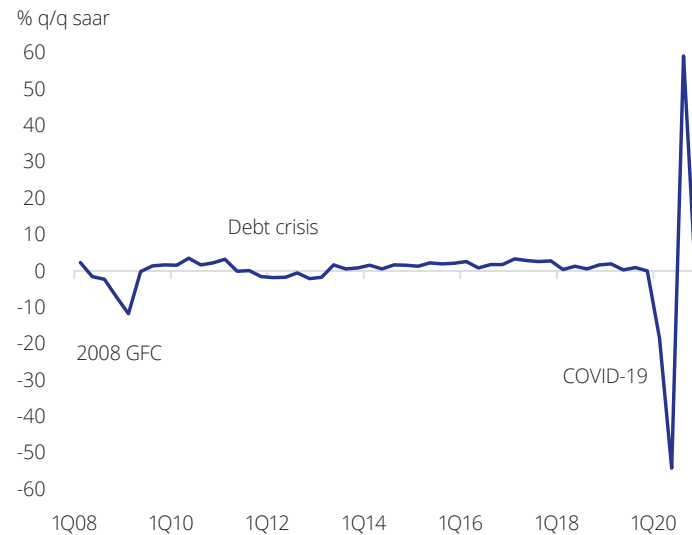
Eurozone

The Eurozone was among the most impacted from the pandemic in 2020. The pace of infections gathered pace in 4Q20, necessitating a reimposition of lockdowns across the region. Even as the economy slipped into a technical double-dip recession in 4Q20, the pace surprised on the upside, relative to expectations. Consumption was not as sluggish as feared, while investments grew, led partly by a better faring housing sector (particularly residential). Export reliant economies like Germany also found support from more resilient business expectations and order books. Among member countries, France and Spain registered smaller declines in output, adding to the upside surprise. Overall output, nonetheless, contracted by a record -6.8% y/y in 2020, lagging the US and Japan.

The bloc is expected to return to growth in 2021, but momentum might be hampered by extended movement restrictions, a slower vaccination rollout, and a smaller increase in fiscal stimulus vs 2020. These will hinder a quick rebound in consumption, as part of the spike in precautionary savings might be drawn upon in the midst of weak labour market conditions.



Figure 5: Sequential growth dipped in 4Q20



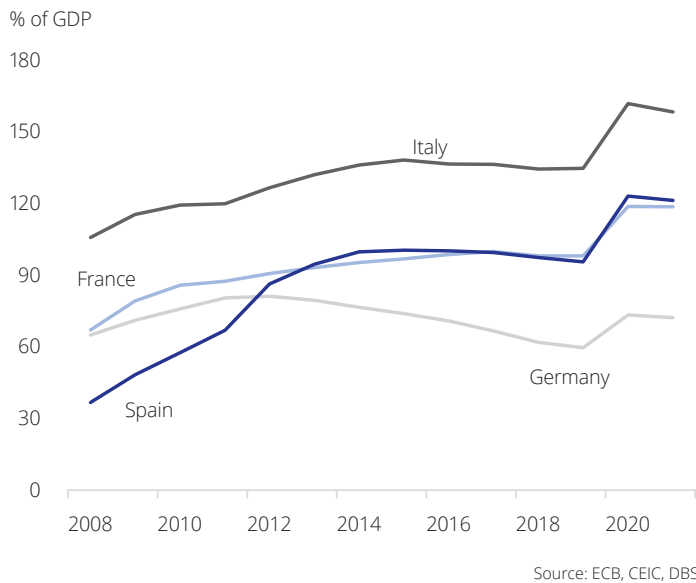
Source: Bloomberg, IMF, DBS

As a counterbalance, investments and external trade might hold up, also helped by base effects. The manufacturing sector's recovery is offsetting softness in services. GDP is, nonetheless, poised to contract sequentially in 1Q21, before turning positive for the rest of the year, provided the caseload remains in control. Growth is likely to average 3.5% y/y in 2021, vs our previous estimate of 4%.

Fiscal and debt levels have widened sharply due to a mix of national stimulus measures (6.8% and 7.7% of GDP in Italy and France respectively), higher outlays to the health sector, and zone-wide measures by way of the Recovery and Resilience Fund etc. Eurozone fiscal deficit widened sharply to -5.0% of GDP by 3Q20 vs -0.6% in end-2019. Public debt levels have jumped by 15 ppts since late-2019 to around 100% of GDP, which masks the varying extents of deterioration i.e. Italy's burden is up at 154%, France and Italy to 115%.

Beyond the near-term deterioration, reinstatement of the Stability and Growth Pact will be necessary but unlikely to happen quickly, given that the Eurozone's GDP is unlikely to return to pre-crisis levels before end-2022. This suggests that any premature tightening in budgetary stance is unlikely.

Figure 6: Debt levels are at record highs in few countries



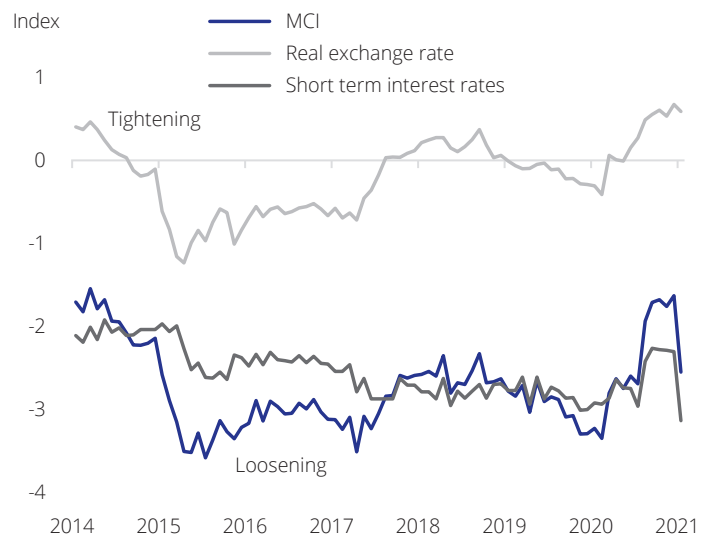
The ECB walks on a balance beam this year, as rising inflationary expectations have stoked bond yields, while the policy sticks with its overarching accommodative bias with the pandemic bond-buying program to last (at least) until March 2022. Guidance will be sought on two aspects: firstly, while the spike in January's inflation is likely to be viewed as an aberration, price pressures are poised to drift higher during the course of the year, on base effects, higher energy prices, passage of the VAT reduction (in 2H) and improving demand impulses, if the caseload stays under control. We expect inflation to average 0.9% y/y this year, with upside risks vs 0.3% in 2020.

Secondly, apart from strong verbal intervention, the Governing Council is expected to emphasize that there is room to expand pandemic emergency bond purchases (ECB's balance sheet has grown by 23% of GDP between late-2019 vs late-2020) or explore a cut in the depo facility rate to back up their dovish talk. Indications are that the planned PEPP purchases (remaining from the total EUR1.85t) might be frontloaded over the next few months to keep a lid on yields and borrowing costs. Movement restrictions in the EU are only likely to be lifted gradually amidst a still high caseload and slow vaccination rollout hampered by supply shortages, which will see GDP dampened at least until mid-2021.

The ECB's index (see chart) reveals that even as liquidity/rate conditions were accommodative, currency strength was tightening monetary conditions. Authorities are, thereby, likely to watch the EUR direction closely to ensue policy conditions stay conducive. Our FX Strategist expects EUR/USD to drift south during the course of 2021.



Figure 7: ECB Monetary conditions index



Sources: CEIC, DBS

Japan

After a temporary contraction in 1Q21, the economy is likely to return to the growth path in 2Q21, but the pace of growth would be moderate. We maintain the full year GDP forecast at 2.8% for 2021, vs the preliminary estimate of -4.8% for 2020. We expect exports to lead the recovery, as global demand picks up. Domestic sectors, such as F&B, hospitality, tourism, and entertainment are expected to take a long time to recover.

Firstly, Japan is still struggling with the outbreak of a third wave of the virus. The government has declared a state of emergency in ten prefectures including Tokyo and Osaka from 8 January to 7 March. The decline in mobility hit consumption badly in 1Q21.



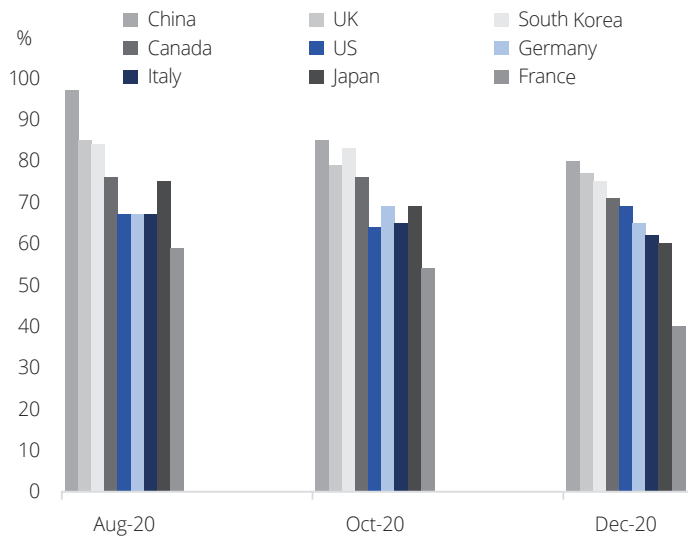
Source: Unsplash

Figure 8: Consumer confidence dipped again



Sources: CEIC, DBS

Figure 9: Vaccine willingness relatively low in Japan

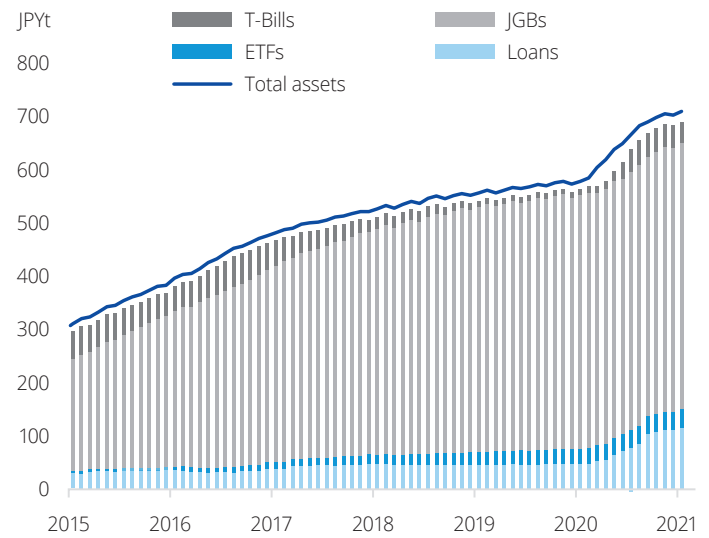


Sources: Ipsos, World Economic Forum, DBS

Meanwhile, Japan has lagged western countries in the rollout of vaccines. The government has secured enough vaccines with major suppliers including Pfizer and Moderna to cover the country's entire population. But there are significant uncertainties regarding how quickly vaccines will be delivered and administered. The Ipsos surveys show that the public's willingness to accept vaccinations in Japan is not high when compared to western countries.

Furthermore, the ongoing pandemic has raised questions about the fate of the Tokyo Olympics, which is slated to take place this summer. More than half of Japanese firms expect the Tokyo Olympics to be cancelled or postponed further, according to a recent survey from the local think tank Tokyo Shoko Research. A cancellation or postponement is likely to generate disappointment, dampening hope for the Olympics to boost tourism and consumption in 2H21.

Figure 10: BOJ continued to expand the balance sheet



Sources: CEIC, DBS

On the policy front, the government has rolled out three supplementary budgets worth 15% of GDP in total, since the pandemic outbreak last year. It is reasonable to expect Prime Minister Suga and his ruling Liberal Democratic Party to pursue more fiscal stimulus this year to revive the economy and gain public support ahead of the general election that must be held before October.

The BOJ has expanded its balance sheet by more than 20% since early-2020, while keeping the short-term and long-term interest rate targets unchanged at -0.1% and 0%, respectively. To make the current policy framework more sustainable, the BOJ is conducting a review and will release the findings in March. The possible outcome is some finetuning of the policy framework, such as the size of ETF purchases and the range of Japanese government bond yields. Policy exit via tapering and rate hikes remain very unlikely, given the challenging economic outlook and risk of deflation.

Asia

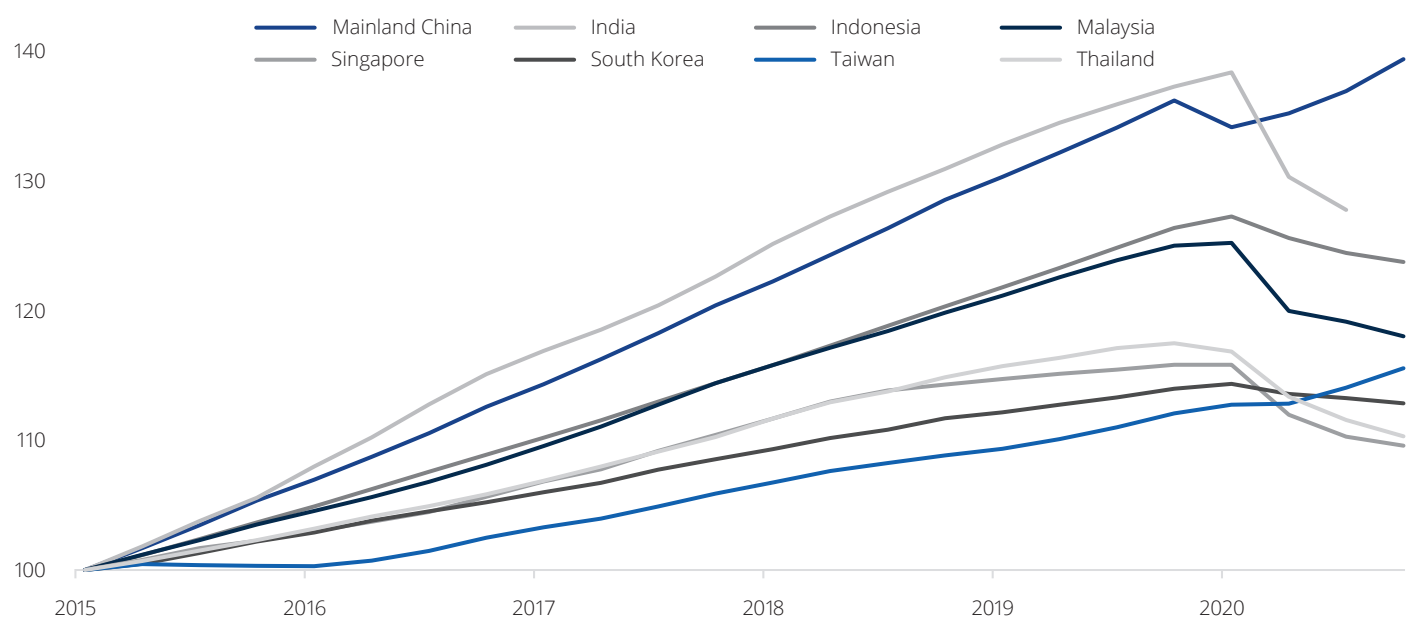
Singapore’s 2021 budget is a tricky balancing act. The economy needed record amounts of deficit spending last year as the pandemic-induced recession necessitated broad-based support. Some of those fiscal measures need to be continued this year despite a rebound in the making, as the road to full recovery is years away. This is illustrated by the path of consensus forecasts, which do not see the economy tracing back to the level of 2019’s GDP until 2022.

At the same time, the nation must look forward and build a stronger and more sustainable future. Indeed, in recent years, the authorities have articulated the need for Singapore to reduce emissions, build resiliency against climate change, and foster solutions towards a green economy. We are encouraged to see that this year’s budget takes some concrete steps in that direction.

The authorities have articulated the Singapore Green Plan 2030, from which three key pillars received notable support in the budget:

- Firstly, a SGD60m Agri-food Cluster Transformation Fund will be set up to support technology adoption in the agri-food sector.
- Secondly, to encourage the shift towards green mobility, SGD30m will be set aside over the next five years to support EV related initiatives. Registration fee for EVs will be eliminated in 2022-23, and their road tax will be lowered. The authorities plan to set up 60,000 electric charging points at public carparks and private premises by the end of this decade. Additionally, petrol duty will be raised and the carbon tax rate will also be reviewed, with a new threshold expected in 2023. We expect to see these measures have a major impact on the pace of EV adoption in the coming years.
- Thirdly, investment in green infrastructure will be a key part of the government’s sustainability efforts. As a start, up to SGD19b in public sector green bonds would be issued to support green projects. This push harkens back to the days when the Singapore government borrowed to build the first MRT lines and develop Changi Airport back in the 1980s. Considering historically low interest rates prevailing in the fixed income market, it makes considerable sense to issue paper to fund projects that are bound to give sustainable returns to society.

Figure 11: Path of real GDP (1Q15 = 100)

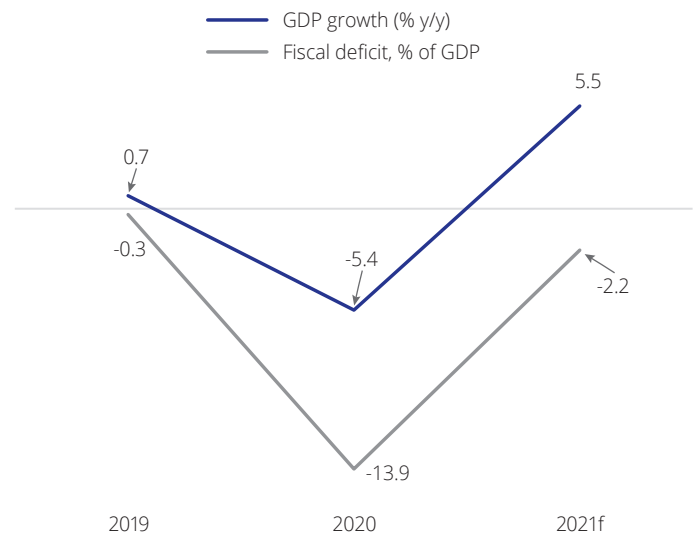




Source: Unsplash

The authorities are also making a major push towards increasing local food production (the target is to produce 30% of nutritional needs domestically by 2030), increase solar energy generation and clean energy imports, reduce energy usage, improve the sustainability standard of buildings, plant a million more trees, widen park spaces, triple cycling paths, reduce waste to landfill, increase water conservation, increase recycling, safeguard the coastline, and push for carbon neutrality in some activities. With the Ministry of Education, National Development, Trade and Industry, and Transport joining hands with the Ministry of Sustainability and the Environment in this long-term pursuit, we see a well-coordinated strategy for a greener Singapore in the making.

Figure 12: Singapore's growth and fiscal path



Sources: CEIC, DBS

Table 1: Quarterly average oil price forecast 2021/22 – DBS base case view

USD per barrel	1Q21F	2Q21F	3Q21F	4Q21F	1Q22F	2Q22F	3Q22F	4Q22F
Average Brent crude oil price	62.0	63.0	62.0	64.0	64.5	65.5	66.5	67.5
Average WTI crude oil price	59.0	60.0	59.0	61.0	61.5	62.5	63.5	64.5

Source: DBS

Oil prices come back stronger than expected

Oil off to a bullish start in 2021. Brent crude oil prices are touching USD70/bbl as we write, a much faster recovery than we expected. Having started the year at USD52/bbl, the rally has gone from strength to strength in the first two months of 2021. A series of beneficial news flows have provided significant momentum to oil bulls, the latest being the OPEC+ decision to defer production increases by another month in the March 2021 ministerial meeting. Saudi Arabia has proposed to continue its voluntarily production cut of 1.0mmbpd from January levels through to April. This follows the cold freeze in Texas since mid-February, which has taken off c.4.0mmbpd of Permian shale oil production for a couple of weeks at least and could take some time before normalcy is restored. The recent US FDA approval of Johnson & Johnson’s single shot COVID-19 vaccine has also boosted sentiment. US

crude oil inventories have showed supportive trends in early 2021, with higher-than-expected drawdowns of 24mmbbls over first six weeks, which is slightly counter-seasonal. Coupled with vaccine rollout optimism and hopes of further US fiscal stimulus measures, oil prices appear relatively well supported for the foreseeable future.

Further optimism in our forecasts. Brent crude oil prices averaged around USD43/bbl in 2020. We are likely to see a much better year for oil in 2021, as demand recovers (by around 5.5mmbbpd by our projections, after falling around 9.0mmbpd in 2020), while supply remains curtailed by OPEC+ production cut agreements (increasing by only around 2.0mmbpd by our projections, much less than the demand increase). This will lead to inventory drawdowns and stronger oil prices overall.

Figure 13: Demand pick up should outpace supply growth in the near term



Source: US EIA, DBS

Figure 14: Global oil inventory decline trend should continue into 2021/22



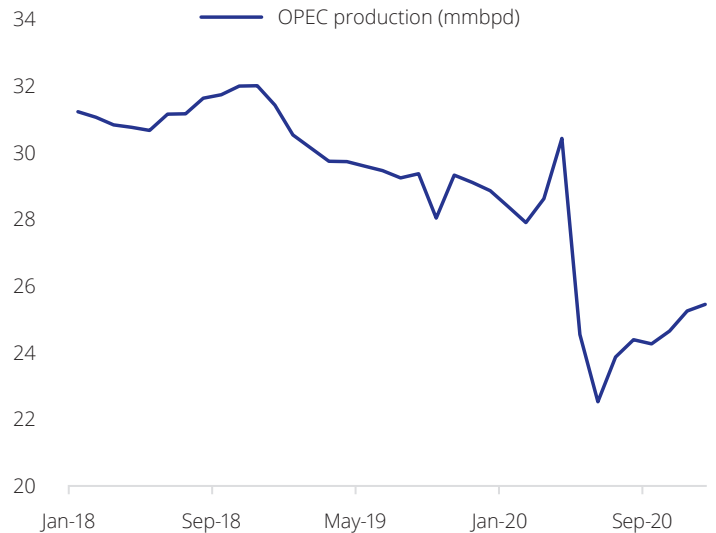
Source: Bloomberg, DBS

With a stronger start to the year in our forecasts now, we have raised our average 2021 Brent crude oil price forecast to USD62-64/bbl. Our 2022 average Brent crude oil forecast stands at USD64-67/bbl on the assumption that air travel recovers closer to normal levels in 2022, OPEC+ discipline stays, and US shale production growth is contained. Looking further ahead, we believe there could be potential risk of oil price spikes towards USD80/bbl or higher in late 2022 and beyond, once demand has recovered to pre-COVID levels and OPEC spare capacity is down to normalised levels, as severe systemic underinvestment on the upstream side in recent years could have an impact on non-OPEC supply growth.

Global stimulus spending and a benign USD environment are positive for oil prices. Global economies have unleashed trillions of dollars in stimulus packages to overcome pandemic-related slowdown. Combined with a low interest rate environment, this has boosted investor liquidity and appetite for risk on trades. The DXY has also declined from its recent peak of 103 in March 2020 to around 90 currently. With the amount of stimulus spending unleashed by the US to counter the virus, and with more to come, USD may be expected to remain under pressure for the foreseeable future.

The positive outlook is not without risks though. Maintaining supply-side discipline will be critical in supporting oil prices in the near term, especially considering prevailing higher oil prices which could tempt the OPEC+ alliance to exit from the production cuts faster than earlier planned in the coming months. There remains a few other key risks to our projections: i) increasing production from Libya, which is exempt from the OPEC+ agreement; ii) possibility of a less hawkish stance on Iran from the Biden administration, which could bring some Iranian barrels back to the market over time; and iii) of course, hiccups in global economic growth trajectory depending on the speed of vaccine rollouts offset by the emergence of new COVID variants.

Figure 15: OPEC production inching up due to comeback of Libyan barrels



Source: Bloomberg, DBS



Source: Unsplash

Table 2: GDP growth and CPI inflation forecasts

	GDP growth, % y/y				CPI inflation, % y/y			
	2019A	2020F	2021F	2022F	2019A	2020F	2021F	2022F
Mainland China	6.1	2.3	7.0	5.5	2.9	2.3	2.5	2.5
Hong Kong	-1.2	-6.1	4.0	2.3	2.9	0.3	2.0	2.5
India	4.7	-7.1	9.1	5.3	3.7	6.6	4.2	4.0
India (FY basis)*	4.0	-7.8	10.5	5.2	4.8	6.3	4.3	4.0
Indonesia	5.0	-2.1	4.0	4.5	2.8	2.0	2.2	2.8
Malaysia	4.3	-5.6	5.2	4.8	0.7	-1.1	1.4	2.0
Philippines**	5.9	-9.5	7.0	6.0	2.5	2.4	3.0	2.8
Singapore	0.7	-5.4	5.5	3.2	0.6	-0.2	0.9	1.5
South Korea	2.0	-1.0	2.9	2.8	0.4	0.5	0.5	1.0
Taiwan	3.0	3.1	4.2	2.8	0.6	-0.2	1.0	1.0
Thailand	2.4	-6.1	2.9	2.2	0.7	-1.0	1.0	1.3
Vietnam	7.0	2.9	6.7	6.8	2.8	3.2	3.3	3.6
Eurozone	0.9	-6.8	3.5	3.5	1.2	0.3	1.0	1.2
Japan	0.3	-4.8	2.8	1.5	0.5	0.0	0.0	0.5
United States***	2.2	-3.5	6.0	2.5	2.3	1.3	1.9	2.2

* refers to fiscal years, i.e. 2020 represents FY21 - year ending March 2021. ** new CPI series. *** eop for CPI inflation.

Source: CEIC, DBS

Table 3: Policy interest rates forecasts, eop

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Mainland China*	3.85	3.85	3.85	3.85	3.85	3.85	3.85	4.05
India	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Malaysia	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Philippines	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Singapore**	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
South Korea	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
Taiwan	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.25
Thailand	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Vietnam***	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
United States***	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

* 1-yr Loan Prime Rate; ** 3M SOR; *** prime rate.

Source: CEIC, DBS



Live more,
Bank less



Source: Unsplash

US Equities | 2Q21

Recovery gains
momentum

US Equities

Dylan Cheang | Strategist

Sector rotation as recovery gains momentum

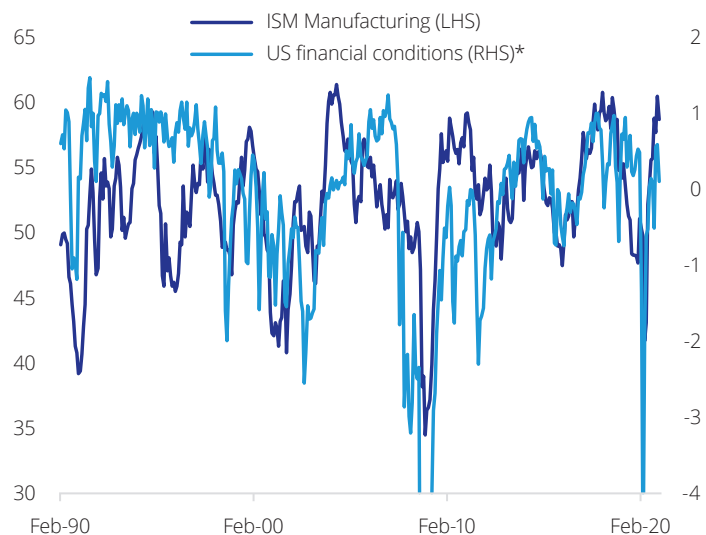
Back in 2020 when the pandemic was at its peak, we stated that (a) The COVID-19 crisis is transitory and non-economic in nature, and (b) The COVID-19 crisis has no bearing on the structural outlook of longer-term secular trends. True to form, the current state of the US economy reflects the view that we held early last year.

As Figure 1 shows, the US ISM Manufacturing Index has rebounded to pre-pandemic levels and at 58.7 in January, the index shows that manufacturing activities in US remain in an

expansionary mode. The recovery in manufacturing has also tied in nicely with the loosening of US financial conditions. In terms of economic surprises, despite its recent pullback, the index remains elevated at 65.3 in January.

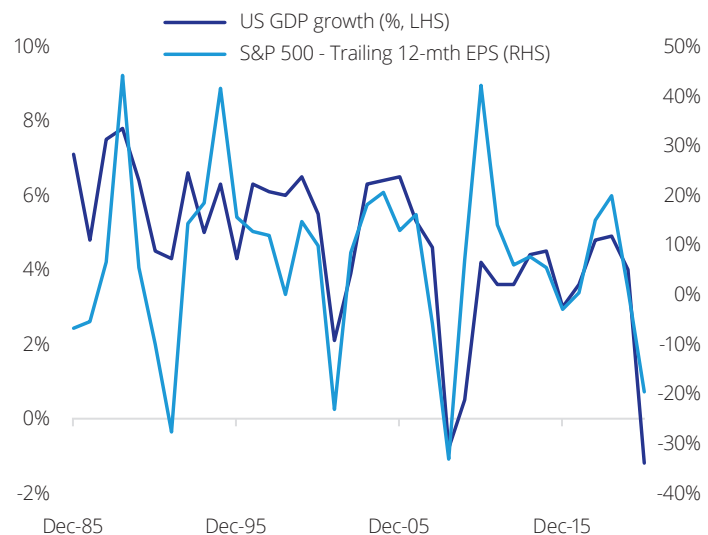
With vaccination rollout in the US gathering steam and the likelihood of huge fiscal easing by the Biden administration, we expect US GDP to grow 6% this year, backed by a strong rebound in investments and consumption. Figure 2 shows strong historical correlation between US GDP and corporate earnings growth. A strong rebound in US economic conditions augurs well for the outlook of Corporate America.

Figure 1: The rebound in US manufacturing ties in with easing financial conditions



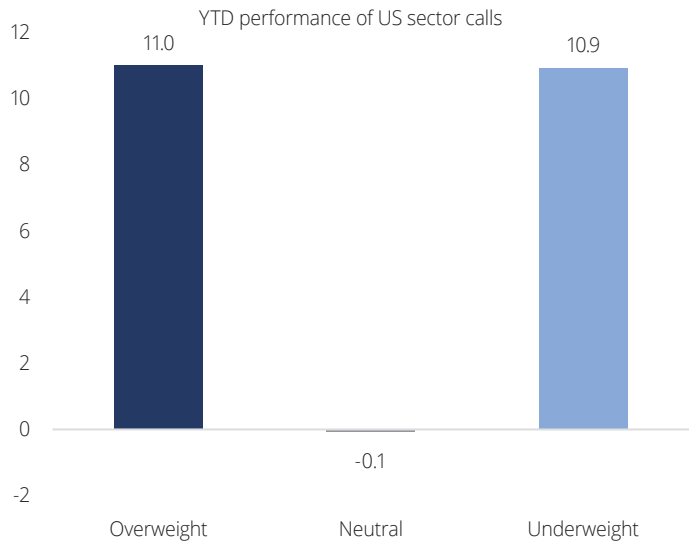
Source: Bloomberg, DBS
* Chart is truncated

Figure 2: Rising US GDP growth augurs well for the outlook of corporate earnings



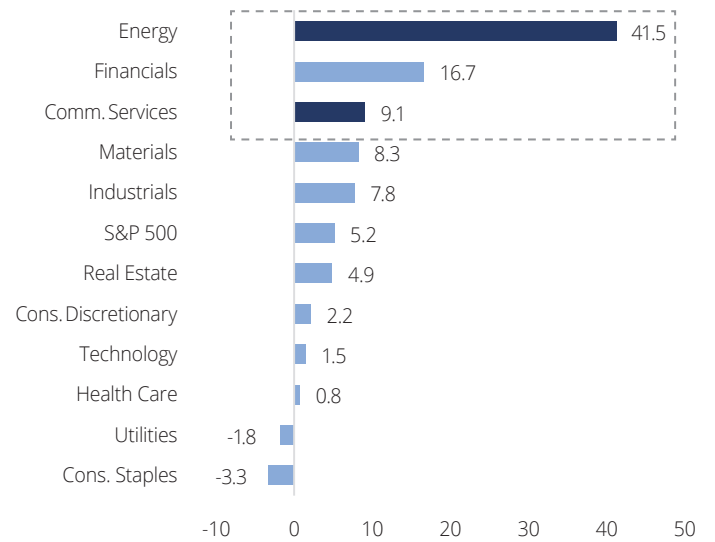
Source: Bloomberg, DBS

Figure 3: Our Overweight sectoral calls have outperformed the Neutral and Underweight calls



Source: Bloomberg, DBS
* YTD performance as at 11 March 2021

Figure 4: Energy, Financials, and Communication Services have led the S&P 500 this year



Source: Bloomberg, DBS
* YTD performance as at 11 March 2021

Asset reflation theme gaining momentum. On a YTD basis, our Overweight calls were up 11.0% on average, outperforming the Neutral and Underweight calls by 1,108 bps and 8 bps, respectively. The key sector driving the outperformance is the Energy space, which rallied by an outsized 41.5% this year. Financials, on the other hand, drove the strong performance of the Underweight basket with a 16.7% gain.

Clearly, the “asset reflation” theme is gaining strong momentum as the US economic recovery continues. The sectoral shift towards Value plays that are more exposed to the economic cycle will gather pace in the coming months.



Source: Unsplash

2Q21 US Sector Strategy: Upgrading Financials and Materials to Neutral amid rising growth optimism

The Overweight calls in our US sector allocation have remained largely unchanged through the quarters given our Barbell approach. On the Growth side of the Overweight basket, we maintain our conviction on Technology-related sectors to ride on long-term secular trends in digitalisation and rising Millennials consumption. On the Value/income side of the basket, our preferred exposure is via the Energy space. This strategy has garnered strong performance through the quarters and there will be no change for 2Q21.

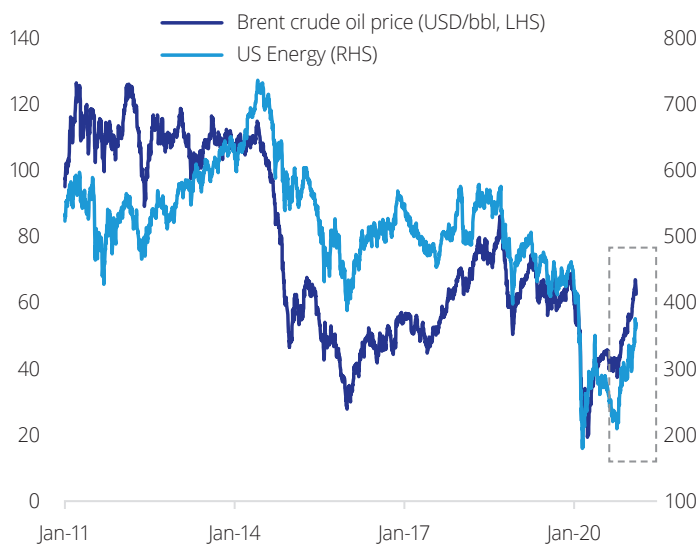
That said, given rising vaccination and growth optimism, we expect the enthusiasm for asset reflation plays to persist in the coming months. Hence, we are making the following adjustments in our Neutral and Underweight calls:

- Upgrading Financials and Materials to Neutral
- Downgrading Utilities and Consumer Staples to Underweight

Rising bond yields and a steepening yield curve is positive for the net interest margins of US Financials. Moreover, loan growth will also receive a significant boost as commercial activities rebound from the pandemic slump. The sharp rebound in China’s economy, meanwhile, has underpinned the rise in global commodity prices and this is positive for the outlook of US Materials.

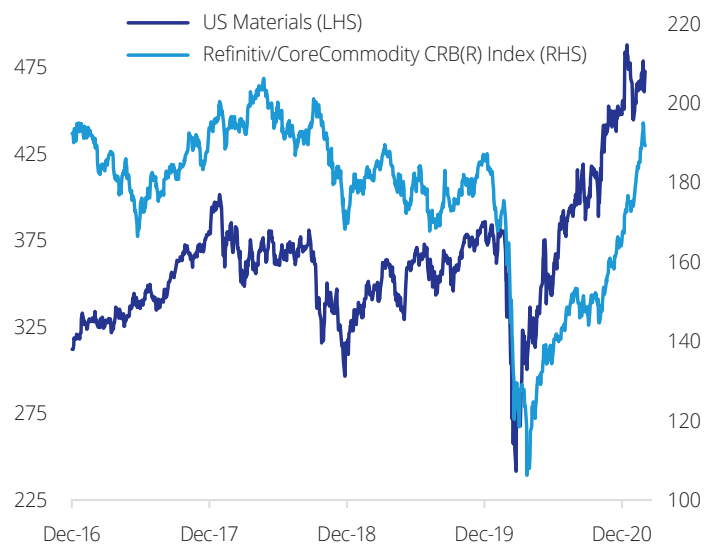
The upgrades in Financial and Materials will be funded by downgrades in Utilities and Consumer Staples – sectors that will likely underperform in an asset reflationary environment.

Figure 5: Sharp rebound in US Energy sector underpinned by rising oil prices



Source: Bloomberg, DBS

Figure 6: US Materials sector buoyed by rising commodity prices



Source: Bloomberg, DBS

Table 1: 2Q21 US sector allocation

US Sectors	Overweight	Neutral	Underweight
	Technology	Financials	Utilities
	Communication Services	Materials	Consumer Staples
	Consumer Discretionary	Real Estate	Industrials
	Health Care		
	Energy*		

* Note: This refers only to integrated oil majors.

Source: DBS

Table 2: US sector key financial ratios

	YTD Total Returns (%)	Forward P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
S&P 500 Index	5.2	22.8	4.3	19.5	11.3	2.1	10.0
S&P 500 Financials	16.7	15.7	1.5	-	10.3	0.9	17.5
S&P 500 Energy	41.5	26.6	1.9	-	-19.6	-8.3	-18.1
S&P 500 Technology	1.5	27.2	10.2	22.2	30.2	10.7	22.3
S&P 500 Materials	8.3	20.8	3.3	17.8	7.5	3.0	9.1
S&P 500 Industrials	7.8	26.9	5.6	24.0	7.9	1.9	5.7
S&P 500 Cons. Staples	-3.3	20.3	6.4	15.9	25.2	6.9	9.0
S&P 500 Cons. Discretionary	2.2	36.2	11.6	26.0	16.3	3.2	5.6
S&P 500 Comm. Services	9.1	23.4	4.4	16.0	10.7	4.1	16.1
S&P 500 Utilities	-1.8	17.5	2.0	13.5	8.1	2.1	19.3
S&P 500 Real Estate	4.9	49.8	3.6	24.1	7.4	2.8	19.7
S&P 500 Health Care	0.8	16.2	4.7	18.0	14.5	5.0	7.8

Source: Bloomberg

* Data as at 11 March 2021



Live more,
Bank less



Source: Unsplash

Europe Equities | 2Q21

Rising tide

Europe Equities

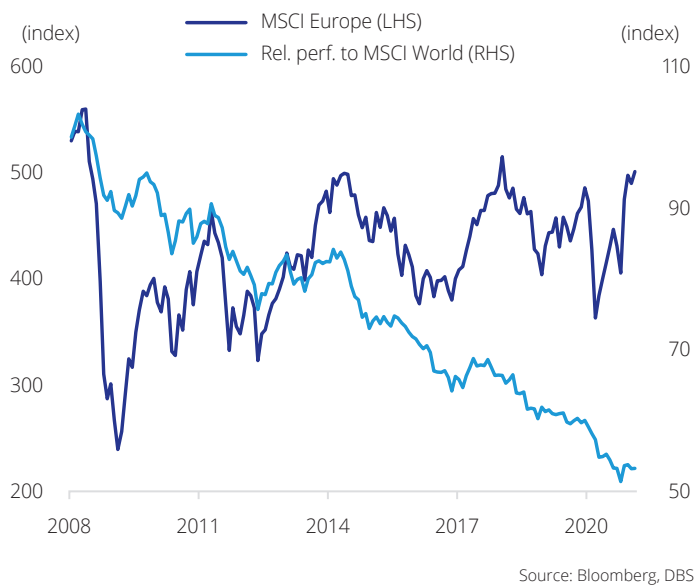
Joanne Goh | Strategist

Rising tide

Stocks have continued to advance around the world as the great global economic recovery scenario plays out, with PMIs improving and bond yields rising on reflation expectations. Europe equities are lifted in line with the rest of the world, gaining c.2% in 1Q-to-date in dollar terms.

We look for positive equity returns in Europe, driven by a strong rebound in earnings from a very depressed base. This comes amid strong ECB support for the various economies to continue to recover from the pandemic. In the global context, however, the Eurozone has underperformed the rest of the world.

Figure 1: Eurozone gains but underperformance to continue

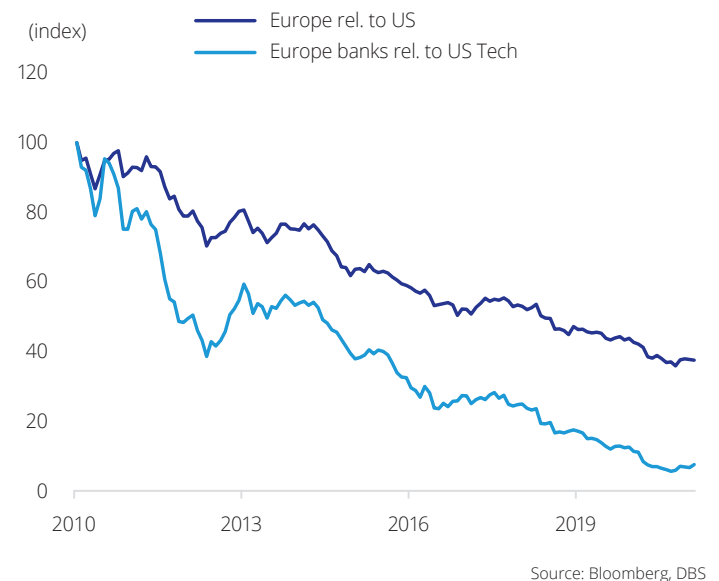


We believe the underperformance will continue for the following reasons:

1. The US economy is tipped to grow stronger at 6% this year vs Eurozone's 3.5%.
2. 34% of Europe equities weight by market cap is dominated by defensives, which are unlikely to perform in a reflationary environment, and this is only 32% in the US.
3. There is a lack of strong sector leadership within the region such as Technology, which is 30% of the US market but only 8% in Europe. The biggest sector in Europe is 16% in Financials.

Indeed, it is the lack of Tech which has led to Europe's underperformance in the past two years. Until the leadership shifts, Europe will continue to underperform in our view. We are still less sanguine about Europe Financials despite a possible improvement of appetite towards the sector from rising bond yields, and the sector possibly benefitting from the style switch into Value.

Figure 2: Eurozone's outlook hinges on its banks' outlook

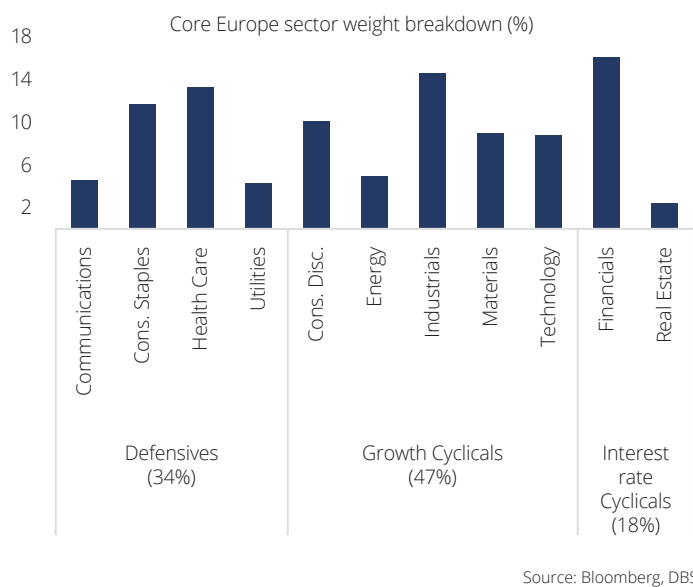


Key sector outlook

We believe opportunities are in the cyclicals which can leverage on the strong economic recovery. These stocks can be broadly categorised under:

1. Pandemic winners
2. Vaccine winners
3. Growth cyclicals
4. Value cyclicals

Figure 3: Sector composition points to opportunities in the cyclicals



Pandemic winners. The outperformance of “pandemic winners” last year has mostly been driven by China recovering ahead of the rest of the world as well as structural changes brought about by the pandemic, including WFH trends and accelerated digitalisation. We continue to advocate staying in these winners as these trends are secular, long term, and irreversible. These stocks are in the Automation and Semiconductor sectors.

Vaccine winners. As the vaccine rollout progresses, one key area which could benefit from the reopening is the Consumer Discretionary sector. However, sectors with non-European drivers, such as Luxury, have been relatively resilient.

Services and Autos are relatively cheap and should benefit from the reopening as the vaccine rollout progresses. The switch from services to goods and “revenge” trades could set up the possibility of a strong demand rebound in the travel-related services sector later in the year, given current depressed consumer sentiments and high excess savings.

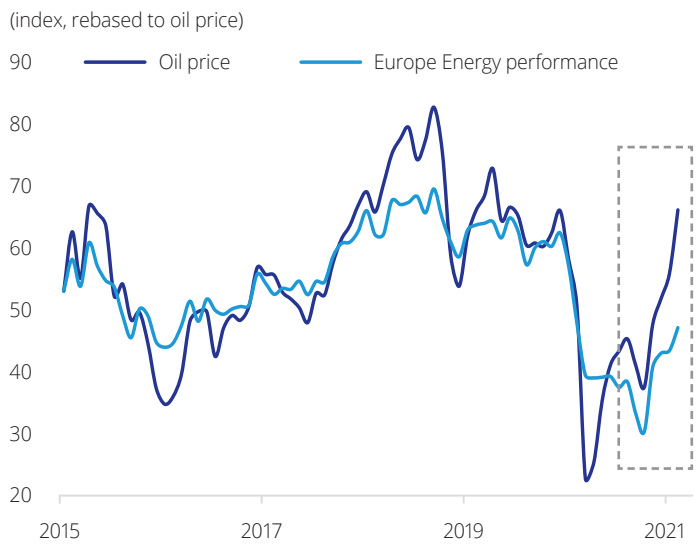
Autos are also likely to benefit as consumers start to spend again. The sector is also benefitting from government subsidies for EV purchases. Demand should be sustained with new model rollouts and “green” tags associated with EVs – commonly seen to be Europe’s area of expertise.

Figure 4: Europe Autos still trading on the cheap side



Growth cyclicals. Europe oil majors should ride on the global reflation trade and perform in line with oil prices. The sector has been lagging well behind the rebound in oil prices and we believe it will soon do a catch up, driven by the following factors:

Figure 5: Energy sector price performance is lagging oil price and EPS momentum



1. Demand outlook is improving as a result of the faster-than-expected vaccine rollout. With global travel restrictions still in place, we expect the opening of economies and cross-border travel to take place in phases, which would drive higher oil demand.
2. Meanwhile, earnings have recovered from the lows in 2Q20. However, downstream refinery margins have yet to catch up, and would not do so until we have a full recovery.
3. The supply outlook has become clearer after OPEC indicated it will be more tolerant of current low levels of production in order to support prices.
4. Dividend cuts and deleveraging have been a drag on the sector's cashflow and appetite towards the sector. Near-term earnings can help to deleverage balance sheets more quickly, while also providing cashflow for dividend hikes.
5. ESG concerns have also caused investors to leave the sector. Although the ESG issue for Energy will not disappear, the "greening" of the sector is underway as companies divest into clean energy projects and announce support for new climate initiatives.

We believe earnings will soon track higher oil prices and should re-rate the sector.



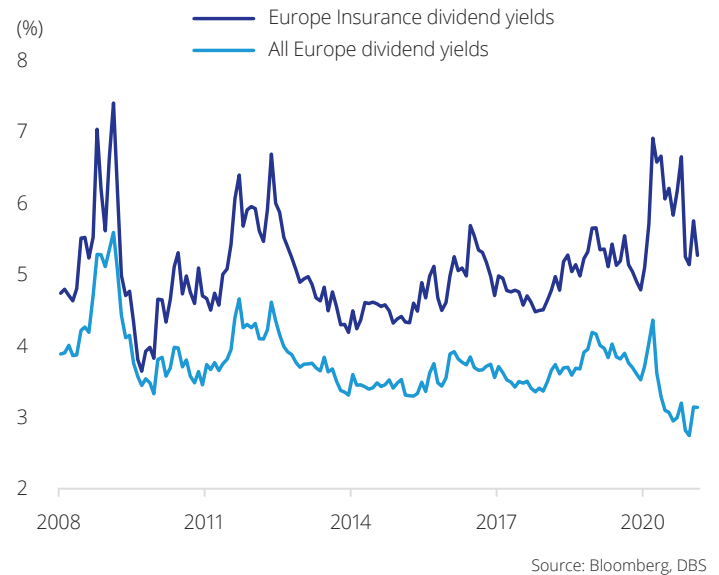
Value cyclicals. Europe banks are value plays which benefit from the global reflation trade that is driving bond yields higher. While not directly hit by COVID-19, higher credit cost as a result of the economic recession is a key risk for the sector.

As long as European yields remain deeply in the negative territory and the ECB remains committed to support the recovery with bond purchase programmes and low interest rates, any steepening in the yield curve is unsustainable.

We are selective in the sector by focusing on potential restructuring, new cost plans, M&A, or leadership changes pursued by the banks that could help breathe new life into them. European banks are still suffering from the aftermath of the Eurozone sovereign debt crisis in the last decade. Economic rescue plans during and post COVID-19 are likely to burden the same countries with high debt levels which they may find difficult to repay. Moreover, a doubling of excess liquidity by the ECB and a deposit rate at -0.5% are likely to squeeze the banks' margins further.

Europe Insurance preferred. Among Financials, we are positive on the Insurance sector as a post-COVID recovery play. Rising rates and better negotiated terms and conditions on potential risks are key to the return of improved profits. This is possible owing to the dislocation caused by the pandemic. Meanwhile, companies now have the capacity to pay back dividends which were suspended due to regulatory reasons. Select companies can pay yields of 4-6%.

Figure 6: Europe a fertile ground for dividend yield, including the Insurance sector





Live more,
Bank less



Source: Unsplash

Japan Equities | 2Q21

Renewed
confidence

Japan Equities

Joanne Goh | Strategist

Glenn Ng, CFA | Equities

Japan equities rose in 1Q21, with the Topix Index rising c.5% and the Nikkei 225 Index climbing c.8%. The strong performance came about despite concerns of a double-dip recession when the government announced a second state of emergency in the Greater Tokyo area following an increase in COVID-19 cases.

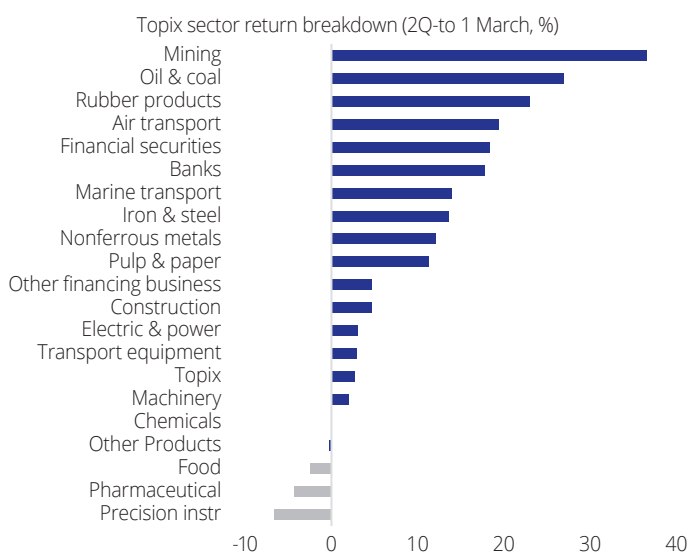
Clearly, stocks were supported by growing expectations of a strong global recovery aided by vaccination rollout, accommodative monetary policies, and large fiscal stimulus. In Japan, accommodative monetary policies such as bond and equity purchases, negative zero interest rates, and yield targeting remain supportive of the recovery.

Vaccinations have started and are targeted for the whole of Japan’s population, with plans to produce AstraZeneca

vaccines in Japan. Japan’s exports were rising due to China’s swift recovery. Meanwhile, accelerated digitalisation post-COVID is seen as sustainable due to Japan benefiting from the RCEP as well as its high tech production capabilities, such as those in the semiconductors and automation space. A major re-rating catalyst for the market would be the Olympics, which if held smoothly, could lead to a huge comeback not only for the tourism sector, but for Japan as well.

All 33 Tokyo Stock Exchange sectors rose except for four of them, suggesting a broad-based recovery. Top movers are commodity-related sectors such as Metals and Mining, Oil and Coal, Financials, as well as Electrical Appliances, attributing to the commodity super cycle, a steepening yield curve, and a switch from services to goods demand, all of which are characteristics of a post-pandemic recovery.

Figure 1: Top 10 movers are vaccine winners benefiting from the post-pandemic recovery



Source: DBS, Bloomberg



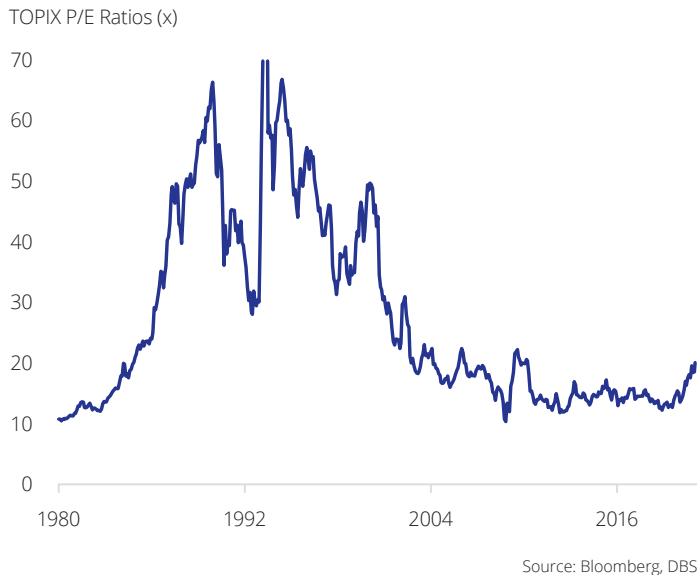
Source: Unsplash

Nostalgia for Nikkei at 30,000

The stock market has made a comeback and revisited 30,000 on the Nikkei after 20 years. We think things are a little different compared to back then. Back then in the late 1980s, the economy was in a bubbly state characterised by increases in property prices, stock market, and the yen after massive stimulus aimed to help the economy recover from recession in 1985. The BOJ is thus forced to raise interest rates from 2.5% to 6% and hike consumption taxes, which led to the burst of the bubble.

Now, the economy is just beginning to recover from the pandemic recession, and all global efforts are present to aid with post-pandemic recovery. Prior to this, the economy was in a deflationary state, still nursing from the “lost decades” with Abenomics and yield targeting measures to bring back inflation. We thus believe there is no bubble. Other evidence that things are not frothy in the Japan market despite being at a two-decade high is also evident in market valuations.

Figure 2: Topix P/E ratio well below bubble high



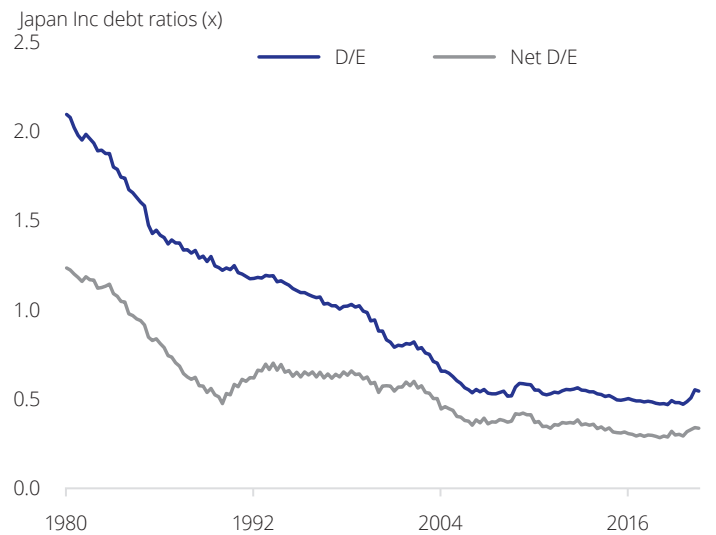
The current P/E valuations of 20x for the Topix is well below bubble era highs of 40-70x, although it is approaching the top of the trading range since the early 2000s.

Corporate Japan has deleveraged significantly following a period of boom and bust, which has left the management of companies very conservative in subsequent years. Despite

deleveraging, operating profit margins and net profit margins have trended upward, thanks to Abenomics-led structural reforms, tax cuts, as well as growth of higher margin sectors like the Internet sector.

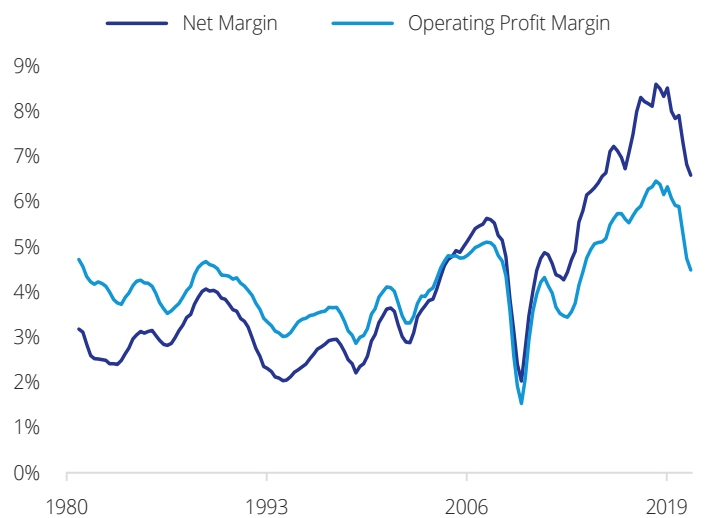
We thus stay constructive of the Japan market with a view that there is potential for the Nikkei to revisit its previous high.

Figure 3: Healthier balance sheets compared to the 1990s



Note: Charts represent financials of Japanese corporates grossing >JPY1b in sales annually
Source: Japan Ministry of Finance

Figure 4: Profitability not sacrificed with less leverage



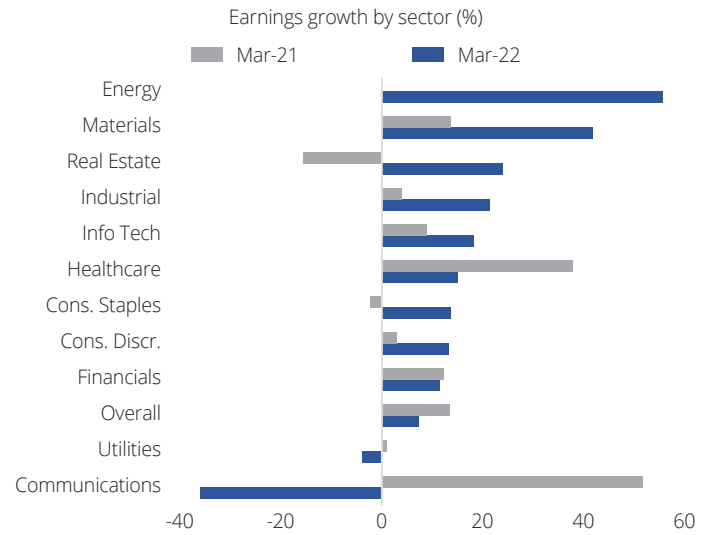
Note: Charts represent financials of Japanese corporates grossing >JPY1b in sales annually
Source: Japan Ministry of Finance

Sector outlook

Japan is a highly cyclical market with concentration on Industrials and Materials. These sectors ought to perform well with global economic recovery as the backdrop. Among these are semiconductors, EV and batteries, as well as automation, all of which are structural themes where Japanese corporates have a competitive edge globally. Industries such as electronics parts, machinery equipment, and materials supporting these ecosystems are likely to benefit.

A post-pandemic switch to demand for goods such as game sets, PCs, cameras, smartphones, and printers benefits the electrical appliances sector. In the retail sector for beauty and food products, winners will be those which can generate revenue growth from overseas markets, have strong product development capabilities, and are engaged in a solutions-based marketing shift toward further digitalisation. e-Commerce platforms are winners from rising online transactions.

Figure 5: Japan earnings growth dominated by cyclical and secular sectors



Source: Bloomberg



Source: Unsplash

Banks are benefitting from consolidation and a steepening yield curve. We are less positive in this sector as these trends are unlikely to be long-term winners until Japan aborts the 0% yield target policy.

Japan I.D.E.A.

Since the 20th century, the Japanese have made contributions across many scientific and technological fields. Japanese inventors and entrepreneurs introduced many modern revolutionary and widely used technologies in fields such as electronics and robotics, and are pioneers of digitalisation. For example, the Walkman, handheld game sets, karaoke, and the use of lithium-ion battery in the first robot in the world, were all pioneered by the Japanese. In this new Internet era, I.D.E.A. (Innovators, Disruptors, Enablers, and Adapters) stocks are also well represented in Japan.

The **video gaming sector falls under Adapters** because it has embraced the shift towards more effective monetisation methods such as free-to-play and in-game purchases, as well as digital purchases (CD sales are still relatively popular in Japan). While the outlook differs among developers/publishers depending on the game pipeline or hardware cycle, we have in general seen much of the strong demand from the peak COVID period in 2020 carry through to 2021.

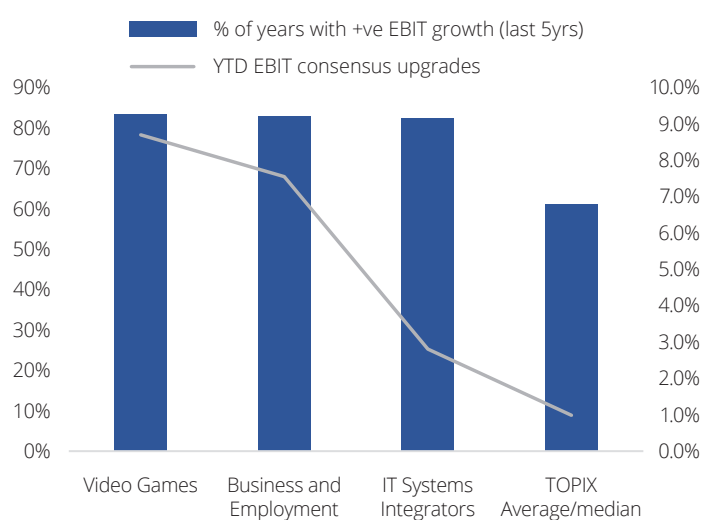
Strong enablers include the IT systems integrators sector, which helps to upgrade corporate Japan's digital capabilities. The demand for digitalisation is more acute and urgent in Japan given the labour shortage brought about by an ageing population. Opportunities arisen from Prime Minister Suga's more proactive stance toward accelerating digitalisation compared to his predecessor is positive for the sector.

Enablers such as the business and employment services sector helps to ease the chronic labour shortage in Japan. This sector largely comprises the recruitment/placement companies, which enables the efficient matching of employers to jobseekers – an important task given the labour shortage. Secular trends such as rising wage growth since the Abenomics era (barring the impact from COVID), Millennials who are job hopping more, and consolidation in the sector augur well for the larger players in the space.

For Japan, we continue to advocate investing in I.D.E.A. companies given their secular growth prospects. Having said that, the rise in valuation multiples for the Topix and Nikkei since 2H20, combined with rising inflation expectations and bond yields, means that positioning in companies that continue to meet consensus profit expectations and forward-looking guidance expectations has become increasingly crucial. This is especially the case for growth equities, given their higher valuation weightage towards longer-dated profits, where the impact of rising yields on the discount rates to be applied is larger.

To this extent, we have looked across various sectors to identify companies that have: i) a strong track record of consistent earnings growth over the last five years; and ii) companies that have seen consensus earnings upgrades through the recent earnings season, in relation to the estimates for the financial year ending in March 2022. We found that the video gaming sector, the business and employment services sector, and the IT systems integrators sector scored well on these metrics, displaying a combination of secular growth prospects as well as near-term earnings momentum. These are our preferred sectors.

Figure 6: Secular sectors showing consistent growth and momentum



Source: Bloomberg, FactSet. As of 19 February 2021



Live more,
Bank less



Source: Unsplash

Asia ex-Japan Equities | 2Q21

V-shaped recovery

Asia ex-Japan Equities

Yeang Cheng Ling | Strategist

Joanne Goh | Strategist

AxJ markets extended the momentum from the bottom in March 2020, staging a convincing recovery of 60%, boosted by more than 70% gains in Greater China markets (Figure 1).

Investors are looking past the social economic impact brought by COVID-19 and North Asia firms adjusted quickly to stay productive.

Figure 1: Performance of indices (2017 = 100)



Source: Bloomberg, DBS

Investors expect China to post encouraging GDP annual growth in 1Q21 and 2Q21, in part due to the low base effect in 2020. This rebound will come from wider recovery in corporate earnings, including growth sectors. The projected GDP growth of over 8% in 2021 is based on revival in corporate earnings, spurred by domestic private consumption and recovery in external demand.

China's private consumption could receive a new boost from the deployment of excess savings from 2020. Corporate sectors should resume their capex spending. China has been among the countries with the highest savings rates, at 45% to GDP since 2005, creating a buffer for spending propensity (Figure 2).

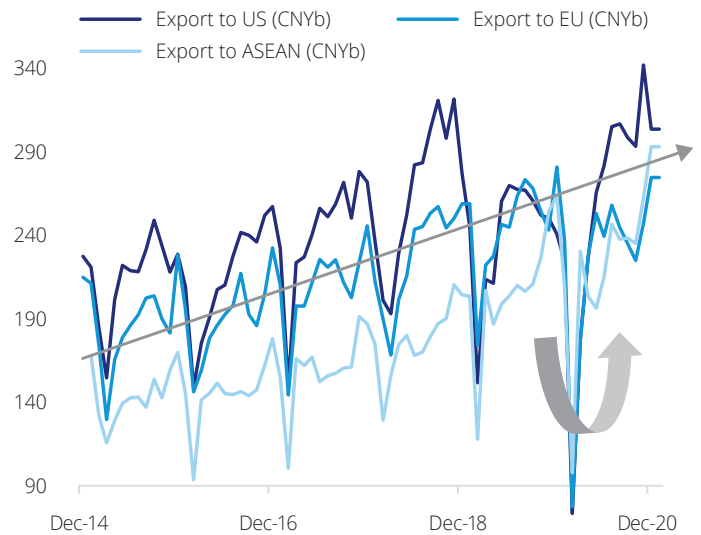
Figure 2: Room for the release of excess savings



Source: Bloomberg, DBS

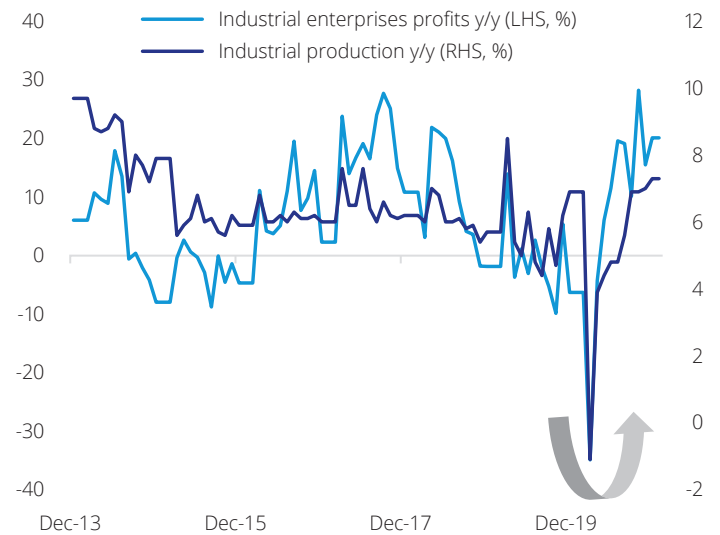
While the world was busy battling the pandemic, China's exports to major trade partners recovered strongly, enhancing its position as the world's leading manufacturer. The US remained its largest trade destination at CNY342b in December 2020, after reaching a new high in November. Exports to ASEAN and the EU also showed similar uptrends (Figure 3). China's industrial enterprises proved their resilience in the second half of 2020 (Figure 4).

Figure 3: Exports rebounding on all fronts



Source: Bloomberg, DBS

Figure 4: Recovery in industrial profits a positive sign



Source: Bloomberg, DBS

Recent lockdowns were mostly town or area specific, on selected buildings or neighbourhoods, instead of being city-wide. We do not anticipate any large-scale lockdown as the authorities have demonstrated their ability to contain the spread.

We continue to stay with industry leaders for their long-term ability to maintain growth. These are firms leading in innovation, brands, and platform ecosystems, for which investors are prepared to pay premium valuations.

Fertile ground for dividend yield

With ultra-low savings rates in some large Asian economies, dividend yield at around 5% is indeed very attractive. This is shown below (Table 1).

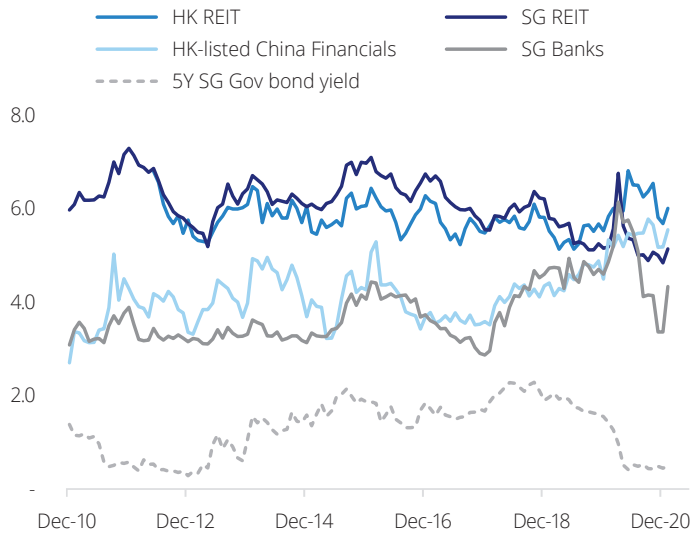
The cohort of high dividend sectors including Hong Kong and Singapore REITs, as well as China and Singapore Financials, provide investors with yields in excess of 4%. (Figure 5).

Table 1: Low savings rates to persist in Asia

	SG	HK	TW	KR	CH	JP
3M FD	0.05%	0.01%	0.39%	1.05%	1.35%	0.05%
1Y FD	0.05%	0.15%	0.76%	1.40%	1.75%	0.10%

Source: Companies, DBS

Figure 5: Sectors with attractive dividend yield



Source: Bloomberg, DBS

Figure 6: Low rates justify compression in earnings yield



Source: Bloomberg, DBS

Are these dividend yields sustainable? We believe so. An improving operating environment, strong balance sheets, and companies' focus to at least maintain dividends are among the reasons.

We believe there will continue to be an upward re-rating of China equities, leading to earnings yield compression (Figure 6) on the back of ongoing earnings recovery amid a low interest rate backdrop.



Source: Unsplash

To illustrate the contribution of dividends to total returns, we zero in on China’s large banks. At more than 6% in average dividend yields, they would accumulate to a sizeable return over time (Figure 7). Over the past six years, investors have achieved an attractive 40% in total return (Figure 8).

We stay constructive on North Asia markets as the region will be at the forefront of reaping the benefits of a vaccine rollout and a global economic recovery.

One concern on investors’ minds is the uncertainty from the trade tension between China and the new Biden administration. A prolonged policy gridlock could become a headwind to China as it is the world’s largest exporter and still relies heavily on export income.

Figure 7: Generous dividend from China banks

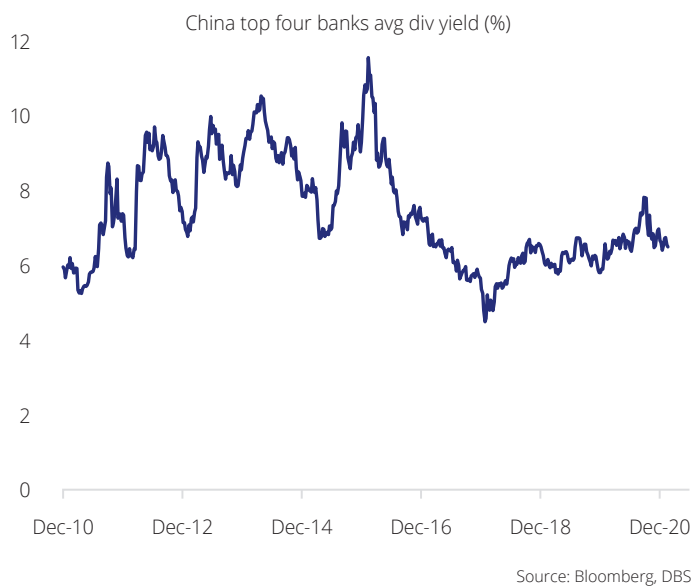


Figure 8: The power of dividend (Oct’14 = 100)



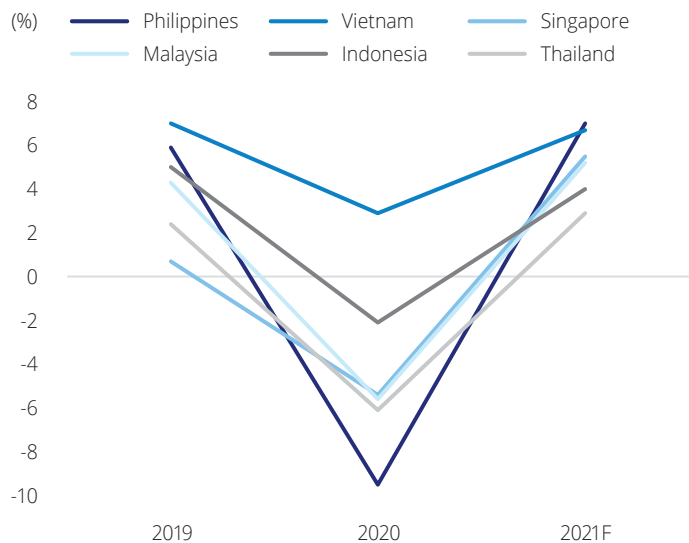
We maintain our view that policy rationality between the two largest economies should prevail, particularly when the priority now is to revive economic growth and resolve the pandemic spread. It is worth noting that China has been proactively increasing domestic consumption as well its plan towards self-sufficiency.

We stay positive on sectors that ride on the digitalisation trend such as upstream technology, wafer foundries, e-Commerce ecosystems, and e-Sports.

ASEAN - V-shaped recovery

Since the economies bottomed in March 2020, the ASEAN region has managed the pandemic risks in a responsive manner with a concoction of interest rate cuts and monetary expansion, as well as huge fiscal stimulus and unprecedented budget deficits. The resolve to aid with the nascent recovery will still be strong this year, with support measures likely to continue. Plans to rollout vaccinations and revive the hard-hit services sector will be the main focus, while steering the economies to adapt to the new normal are in the works.

Figure 9: ASEAN economies to experience V-shaped recoveries



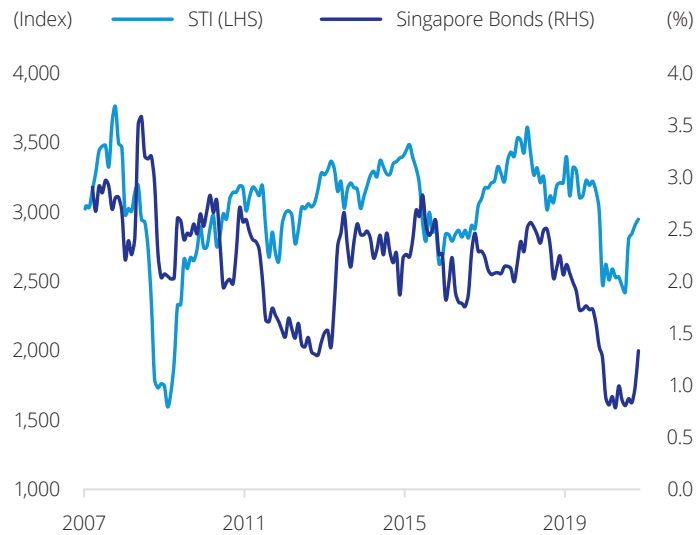
Source: DBS

ASEAN markets are tipped to benefit from strong global growth and risk appetite. However, as inflation fears have surfaced, a re-evaluation of higher interest rates could sap risk appetite for EM including ASEAN. Headwinds such as higher interest rates, resilient dollar, and political uncertainties are risks to be watchful in 2021. Our best picks in this environment are Singapore and Indonesia.



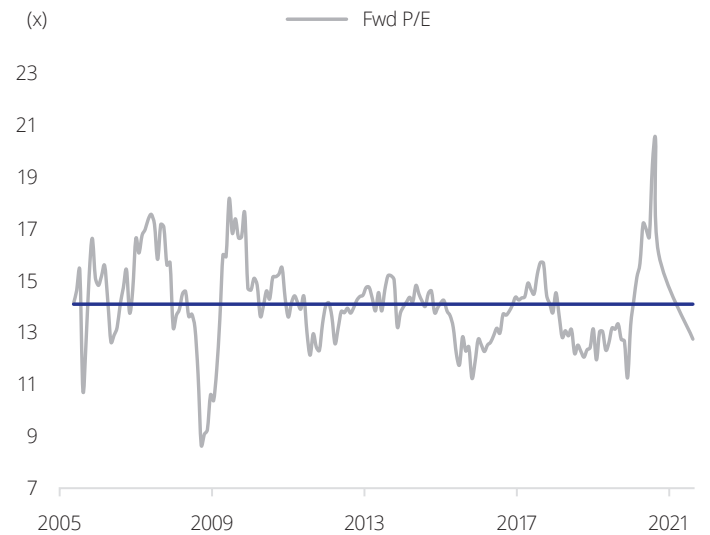
Source: Unsplash

Figure 10: Bond yields and Singapore market



Source: Bloomberg, DBS

Figure 11: Singapore market valuation is attractive



Source: Bloomberg, DBS

Singapore – more shots

As rising bond yields are a welcome indicator of recovery, growth market such as Singapore will not be perturbed by rising bond yields. The economy is expected to experience a V-shaped, 5.5% GDP growth from -6% reported the previous year. Exports are already recovering in line with the rest of the region as China powers on. Accelerated digitalisation is also driving demand for electronics – a key exports sector for Singapore. What stands out for Singapore is its unprecedented stimulus of SGD64.9b in FY20 while its efforts to attract new investment remains unrelentless. Singapore’s focus on green

energy, its status as a key financial centre, as well as its efforts in establishing trade agreements with major regions such as the UK go a long way for the country’s sustainability.

In a recovery scenario, Singapore’s stock market is attractive in every sector. Banks are poised to benefit from a steepening yield curve, while pandemic losers such as retail, hospitality, and transport sectors are rebounding from lows on vaccine hopes. Meanwhile pandemic winners such as logistics and data centres continue to expand for future growth. Smaller manufacturing tech stocks are also getting a lift from accelerated digitalisation trends.

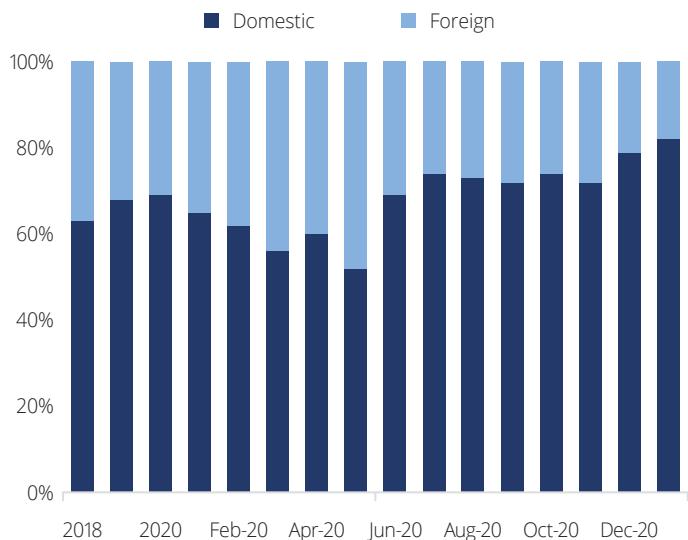
Indonesia

Indonesia seems vulnerable to higher US bond yields but that should not drive a bond exodus and weaken the currency sharply. Our forecasts for Indonesia bond yields and IDR are 6.70-6.95% and 14,440-14,600, respectively, for the rest of 2021.

Indonesia equities had a strong start to the year with net foreign equity inflows of USD775m YTD, after outflows of USD3.2b in 2020. Despite strong foreign inflows, domestic retail participation is at an all-time high of 82%. Retail investors, who are less affected by forex and US bond yields, now have a bigger influence on the stock market.

The Indonesian market will be driven primarily by five main themes this year:

Figure 12: Average daily trading value breakdown by domestic and foreign investors – locals now calling the shots



Source: IDX

1. Rise of the retail investor who is less sensitive to rupiah and yield movements.
2. Vaccination rollout. Indonesia is targeting to achieve herd immunity by early next year. So far it has been proactive in securing the vaccines and inoculation has started. This has helped lift the growth outlook for Indonesia.
3. FDI and EV battery supply chain. Indonesia saw USD28.7b of realised FDI in 2020. We expect FDI to continue to pick up this year especially in the area of EV battery, data centres, warehousing, and equity investments in the tech unicorns. For example, South Korea's LG Chem and China's CATL have started to discuss plans to build battery plants in Indonesia, making the most of its rich natural resources.

Global technology firms looking to get a slice of Indonesia's e-Commerce market are also investing in warehousing, logistics and datacentres, as well as startups.

The Omnibus Law, now awaiting approval by parliament, acts as a policy reform catalyst to boost FDI and transform Indonesia into Asia's next manufacturing hub.

4. SWF execution. Indonesia is aiming to set up a USD20b sovereign wealth fund, led by Finance Minister Sri Mulyani. The main purpose will be for national building, and to raise funds for asset recycling by state-owned companies. We believe the Infrastructure sector will be an early beneficiary.
5. Tech unicorns listing and consolidation. According to reports, Indonesia's two most valuable startups, ride-hailing giant Gojek and e-Commerce provider PT Tokopedia, are finalising terms for their merger and will seek a dual listing in Indonesia and US. If this goes through, it will be a huge sentiment booster not only for Indonesia but for the rest of ASEAN that it finally has a big-enough tech stock, joining the ranks of e-Commerce stocks in China. Besides, the treatment of index inclusion of these ASEAN tech ADRs, including SEA Ltd, a Singapore company but listed in the US, in benchmark indices will be closely watched.

Vaccination to save Thai Tourism

Efforts are being drummed up to revive the tourism sector in Thailand as soon as possible, with measures such as issuing Special Tourism Visa (STV) and allowing short/long-term stay foreigners to enter Thailand. Solid recovery is expected from 4Q21 onwards following the progress of vaccine distribution. Beneficiaries of the Tourism recovery would include spas, hotels, airports, and hospitals.

Vietnam – benefitting from supply chain diversification

Headline macro numbers showed that the economy moved into 2021 in good shape. The country's GDP growth of +2.9% last year was among the world's highest, and this year it will join the ranks of India and China in recording >7% growth. Increases in exports, FDI, and domestic consumption remain "in place". Vietnam is also benefiting as the continued US-China trade war forces companies to diversify their supply chains out of its larger Asian neighbour.

Vietnam has managed previous waves of the outbreak very effectively and has kept situation under control, thus boosting both domestic and foreign sentiments. Earnings recovery can be expected this year.

Malaysia and Philippines – brace for longer recovery

Both countries will also partake in the global recovery but may have to take longer until there is a vaccination plan. The silver lining is in the central bank's continuous support in providing ample market liquidity and keeping interest rates at ultra-low levels.

Stronger exports, especially for Malaysia's electronics and commodity exports are also helping with the recovery. In the Philippines, ample liquidity is keeping market activities, such as M&As and listings, very buoyant.



Table 1: Summary of key Asia investment themes

Themes	Beneficiaries
Digitalisation, 5G	Semiconductors, IC Design, Cloud Computing
e-Sports	Online gaming platforms
Ageing population	China insurance
Dividend plays	Singapore REITs
	Singapore banks
	China large banks
Asia domestic consumption	China e-Commerce
Government stimulus	China large banks
	Indonesia consumption
Market reform	China A-shares
Vaccine rollout	Tourism
	Integrated resorts
	Indonesia consumption

Source: DBS



Live more,
Bank less



Source: Unsplash

Global Rates | 2Q21

Robust recovery

Global Rates

Eugene Leow | Strategist

Duncan Tan | Strategist

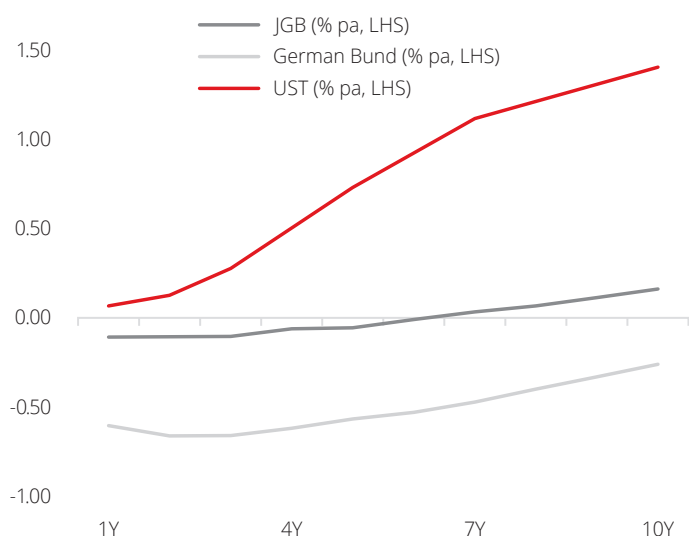
Optimism continues to build for the global economy to recover from the COVID-19 pandemic. In the US, the delayed Blue Wave has materialised, allowing another USD1.9t in fiscal stimulus to be pushed through. This should provide sufficient support for the real economy as vaccinations get underway, allowing the economic growth baton to be passed to the private sector later this year. On the vaccinations front, the US is one of the fastest countries, having delivered 35 shots per 100 people (as of 16 March). Europe and Japan are some ways behind. However, as a whole, we think that DM will be able to achieve herd immunity in 2H21, allowing their economies to normalise to a large extent.

DM curves have started to bear steeper amid brightening economic prospects. Steepening is arguably more apparent in the US curves as 10Y and 30Y yields head above 1.50% and 2.00%, respectively. For Europe, 10Y German yields finally closed above -0.40% while 10Y JGB yields are hovering just shy of 0.1%. Steepening is not restricted to the G-3 economies, with Australia and Canada curves also displaying similar developments. We think that interest rates are in general

catching up to the optimism seen in risky assets. While yields may seem to have climbed a large amount compared to the lows of last year (especially for the US), we are probably still some ways towards normal. A further unwinding of the COVID-19 fear premium embedded in DM curves should take place in the coming quarters, driving 10Y US yields towards 2.00%.

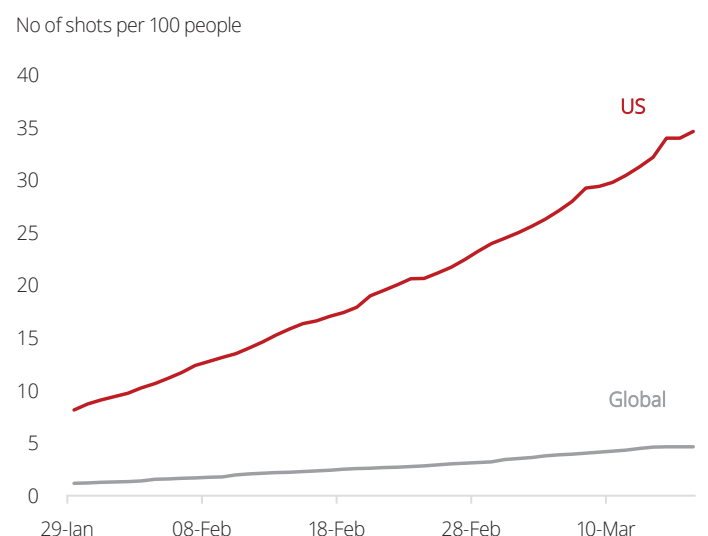
Stances of the authorities will turn less dovish when herd immunity is close. For now, the focus of major central banks will still be on the economy, but that could change to managing inflation risks in 2H21. Inflation expectations have risen across DM. For the US, 10Y breakevens have already risen to 2.2%, hovering around levels seen in 2018. The rest of DM is slightly behind. Price inflation is also apparent across assets and commodities. While consumer price inflation has yet to materialise, we think that CPI pressures will show in 2H21. Taper speculation would likely surface with the Federal Reserve potentially guiding for an eventual taper in end-2021 or early 2022. Taken together, these should drive G-3 curves another leg steeper.

Figure 1: G-3 curves to steepen further



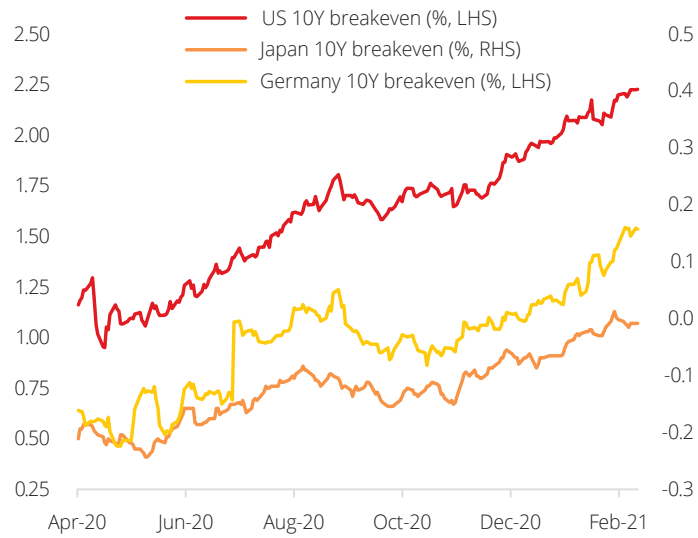
Source: Bloomberg, DBS

Figure 2: Vaccinations will speed up



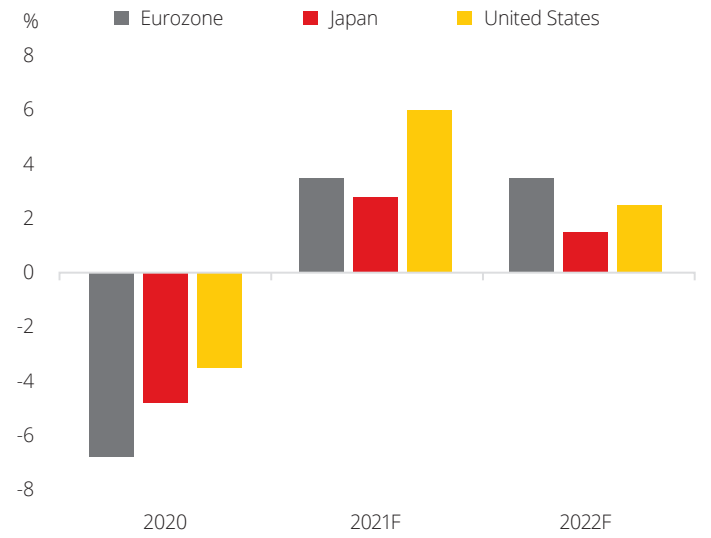
Source: Bloomberg, DBS

Figure 3: Inflation expectations have picked up



Source: Bloomberg, DBS

Figure 4: GDP growth will look much better in 2021



Source: Bloomberg, DBS



Source: Unsplash

Asia Rates

CNY rates: CGB is still attractive

The 10Y yield spread between CGB and UST has narrowed to around 200 bps, from a peak of 251 bps in November. This is driven by a combination of steadily rising US yields vs an influx of liquidity from the PBOC that drove CNY interest rates slightly lower. While we expect both 10Y UST and 10Y CGB yields to rise in the coming quarters, we still prefer CGB over UST. While the PBOC has already tilted to modestly tight monetary policy, we reckon that upside to CNY rates (which have normalised) may be limited. We think that 10Y CGB yields around 3.40% would be attractive and also note that the yield cushion over UST is still sizable. Comparatively, we think that there is greater risk to UST yield upside over the medium term with the threat of Fed taper likely to linger.

IDR rates: Cautious on duration

On Indonesia government bonds (IndoGB), we are cautious on duration in 2Q21, due to local drivers and global factors. From a seasonality perspective, 2Q21 tends to be a weaker quarter for IndoGB returns. Issuances have been heavy in 1Q21 (target IDR342t vs 4Q20's IDR213t) and supply pressures are expected to extend into 2Q21. BI has continued to buy IndoGBs in 2021, which is certainly a slight positive surprise for bond markets. But the pace of purchase has been much slower compared to 2H20. Globally, DM and EM yields are rising across the board, and IndoGB being high beta can be disproportionately more sensitive. From a valuation perspective, we think that a sub-1% spread of 10Y USD-denominated IndoGB yields against UST is too tight, and the risks are skewed towards widening. In our view, 10Y IDR-denominated IndoGB could begin to offer value if yields move beyond the 7% level.

Figure 5: CGB still more attractive than UST

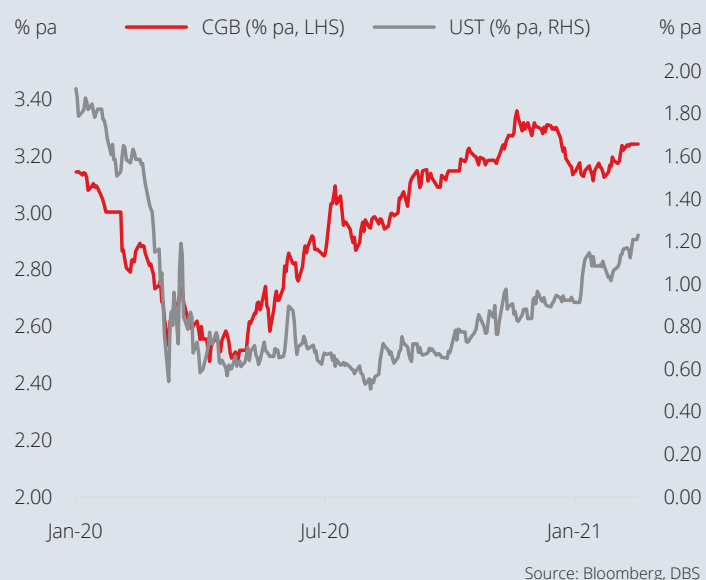
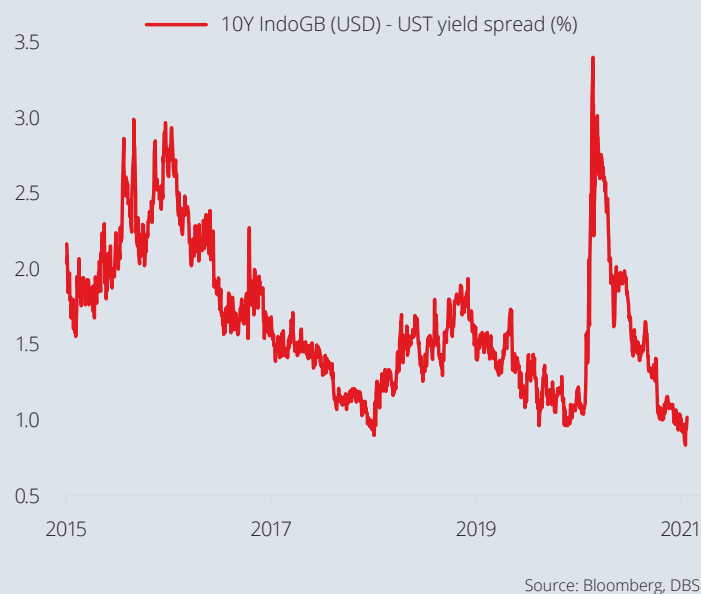


Figure 6: At around 1%, IndoGB's credit spread appears tight



INR rates: Different dynamics across curves and tenors

The Budget presented in early February, while pro-growth, was slightly bearish for INR rates because it implied a greater bond supply and higher debt trajectory in the near term. However, if some of the announced measures could be successful in driving growth higher, that would help to stabilise debt metrics over the medium to longer term. Across the various rates curves and tenors, there are different dynamics playing out. With Government Securities (GSecs), we expect the 10Y tenor to continue to receive strong support from RBI's outright purchase and twist operations, and thus be well anchored to the 6% yield level. Against the global backdrop of rising rates, we think that 10Y GSec's yield stability and lower sensitivity to global factors could be attractive for carry. With OIS and MIFOR swaps, we expect the 1Y to 5Y segment to continue to steepen under paying pressures, primarily driven by pricing of rate hikes and RBI's sterilisation of FX spot intervention.

KRW rates: Scope for bear steepening to extend

There is scope for the bear steepening in KRW curves to extend. **A stronger pace of growth recovery vs regional peers, coupled with expansionary fiscal budgets beyond the pandemic timeline, should drive market expectations for the BOK to be one of the first in the region to normalise policy.** The magnitude of rate hikes being priced in by onshore interest rates swaps does not look particularly elevated and can climb further. In 2021, the BOK could continue to largely stay on the side lines and provide limited intervention to cap the rise in KRW rates. From a total return perspective, we are not bullish on KTB. South Korea's balance of payments bears monitoring. Trade and Current Account balances may start to moderate as the global vaccine rollout gathers momentum and global manufacturing normalises further. Equity outflows have also been exceptionally large, both by locals and foreigners.

Figure 7: Steepening pressures on INR 1Y-5Y curve segment

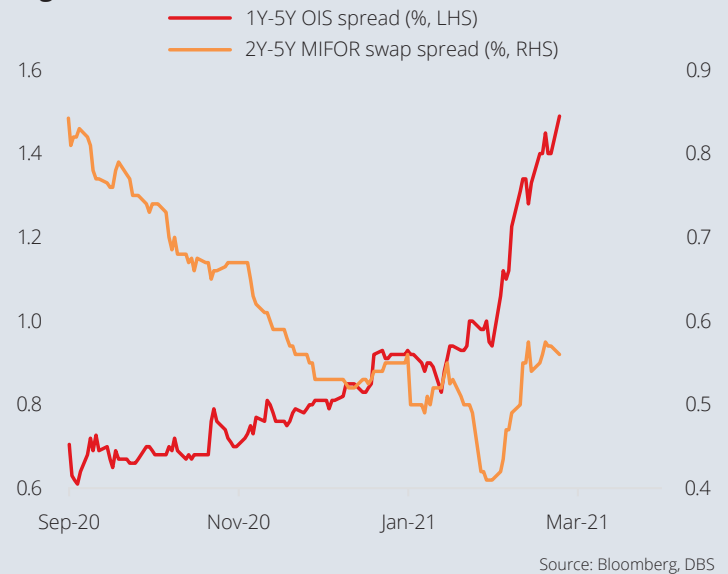
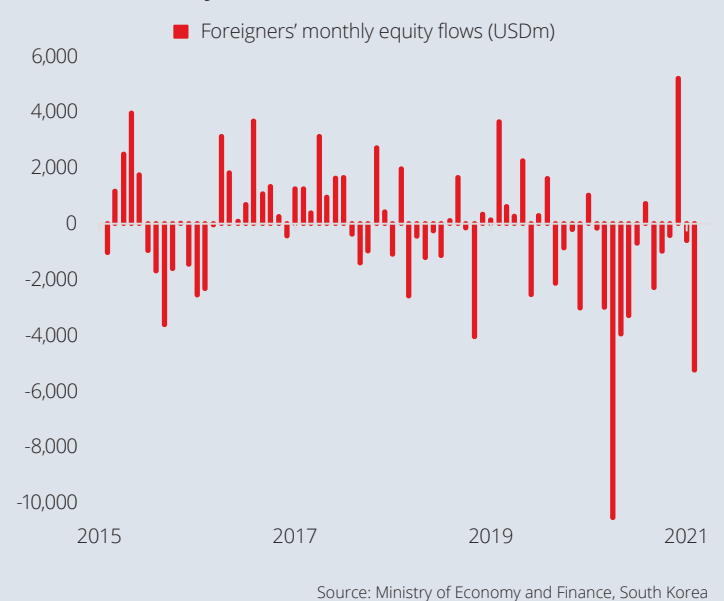


Figure 8: Foreigners' outflows from South Korea equities have been heavy



MYR rates: Strong foreign bond inflows

From a total return perspective, we think MGS ticks many boxes and thus should perform well in the current context of global reflation mixed with some risks of US exceptionalism. **MGS should disproportionately benefit more from the global vaccine rollout**, via one of the few positive betas to higher energy prices and one of the higher dependences on international tourism revenues within Asia. Malaysia remains firmly stuck in deflation (headline), and thus the real yield buffer is quite substantial there, which is likely sufficient to fend off rising US real yield. **Foreign bond flows have also been a bright spot** – inflows have been recorded for every month since May 2020. Front-end interest rate swaps could be volatile as market expectations fluctuate between pricing for one more rate cut and the end of the current easing cycle. In our view, 10Y MGS yields above 3% level are offer much value.

PHP rates: Increased correlation with global rates

Headline inflation has been on an upward trajectory since October 2020, and with real rates now negative, the scope for incremental monetary policy easing is probably limited and we expect BSP to keep policy rates on hold in the near term. In 2Q21, we think **RPGB yields would be more correlated to and climb in line with rising global rates**. This would contrast with much of 2019 and 2020 where the compression of inflation risk premium and the BSP's deep rate cuts had driven much of RPGB's outperformance. Therefore, 2Q21 RPGB returns would likely rank in the middle of the pack, and thus we prefer to stay neutral. We will also be monitoring BSP communications on the prospects of reserve requirement ratio cuts in the following months, which could shift our neutral stance on RPGB.

Figure 9: Ten straight months of foreign bond inflows recorded in Malaysia

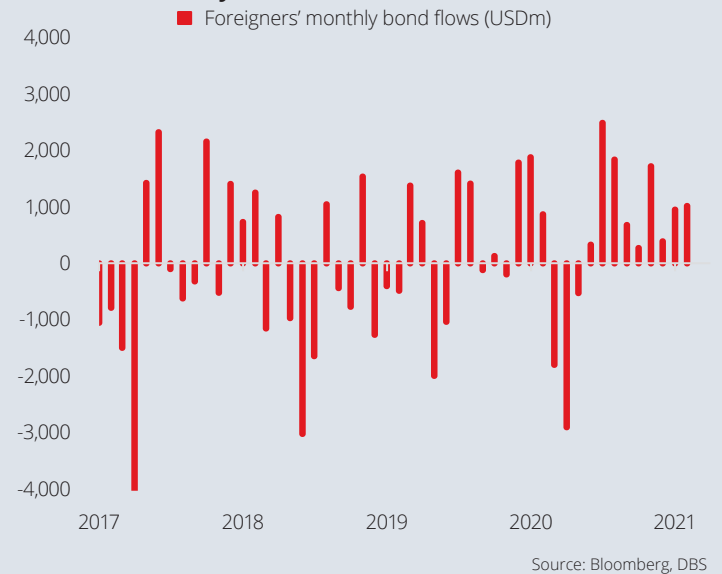
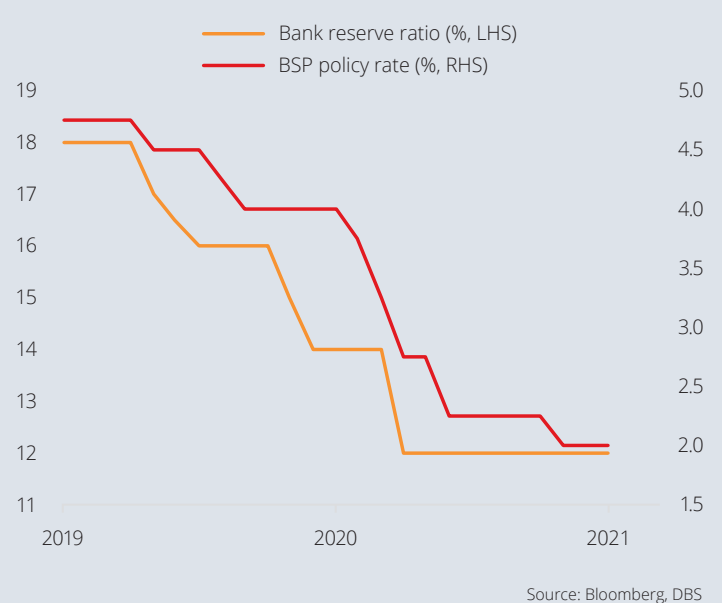


Figure 10: Policy rates likely to be stable in the Philippines. Some chance of RRR cut



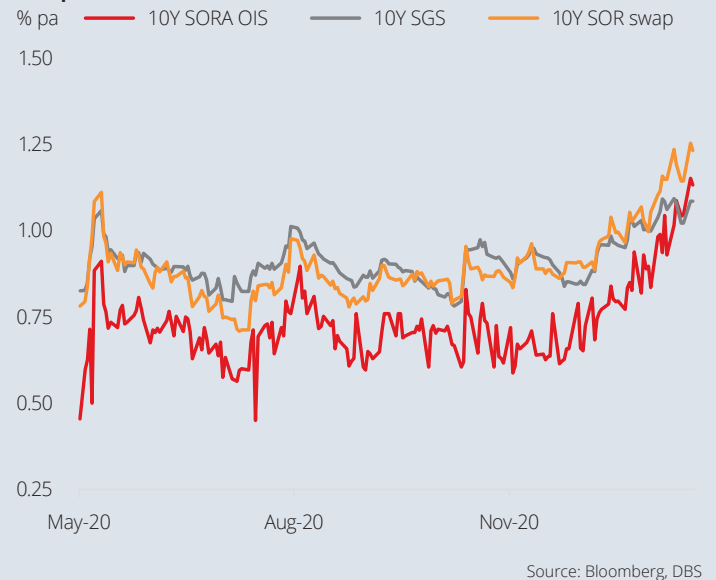
SGD Rates: Taper and issuance worries

Longer-term SGD interest rates have risen alongside those of the US. Steepening pressures are likely to persist through 2021 as the global economy recovers. While policymakers are still worried about the economy, that could change in 2H21 where the focus could turn to overheating risks. Fears of a Fed taper would likely keep longer-term US and SG rates buoyant. Meanwhile, short-term rates (out to the 2Y tenor) are likely to stay anchored for much of 2021. Fed hikes are unlikely through our forecast horizon (out to 2022). SORA and SOR swaps may have run too far ahead relative to SGS yields. We suspect that this is mainly driven by fears of a further rise in USD rates rather than a switch in FX expectations. When these fears eventually recede, we expect SORA and SOR swaps to outperform SGS from a receiving perspective. From an issuance perspective, longer-term SGS yields have also adjusted higher to reflect upcoming infrastructure bonds (up to SGD90b for the next 15 years).

THB rates: Coordination on issuances

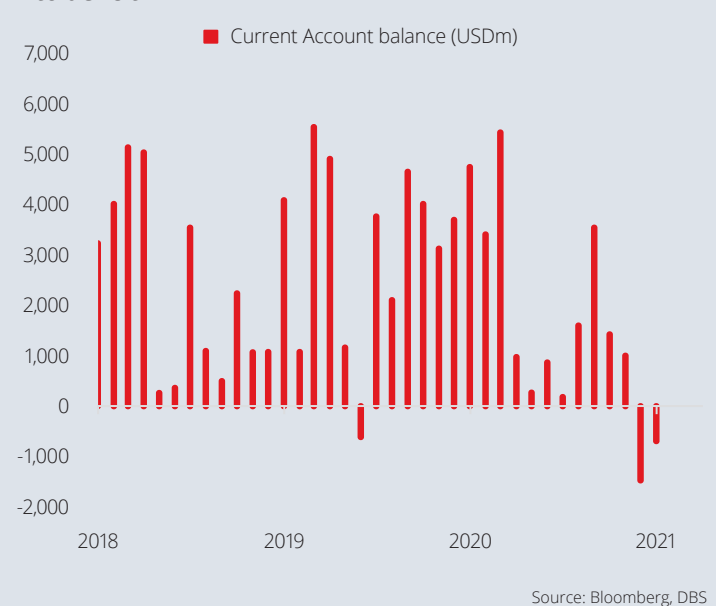
We are divided on the total returns prospects of Thailand government bonds (ThaiGB) and thus prefer to stay neutral. On the positive factors, **the ongoing coordination between the BOT and the Public Debt Management Office to manage the issuance of bills/bonds and duration, should help contain supply pressures on ThaiGB.** With the global vaccine rollout turning out to be slower than expected, the timeline for normalisation of international travel/tourism, and by extension Thailand's full growth recovery, has likely been pushed back. We think this will delay the pricing of rate hikes and monetary policy normalisation into the ThaiGB curve. However, there are also risks that are holding us back from being bullish on ThaiGB. Driven by higher capex and oil prices, as well as the delayed recovery of tourism-related receipts, Thailand's Current Account has slipped into and could stay in a deficit position.

Figure 11: SGS more resilient than SORA OIS and SOR swap



Source: Bloomberg, DBS

Figure 12: Thailand's Current Account balance has slipped into deficit



Source: Bloomberg, DBS

Table 1: Rates forecasts

		2021				2022			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
	2Y	0.20	0.20	0.23	0.25	0.30	0.35	0.50	0.65
	10Y	1.50	1.67	1.84	2.00	2.12	2.25	2.37	2.50
	10Y-2Y	130	147	161	175	182	190	187	185
Japan	3M TIBOR	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
	2Y	-0.13	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
	10Y	0.10	0.13	0.15	0.15	0.15	0.18	0.20	0.20
	10Y-2Y	23	23	25	25	25	28	30	30
Eurozone	3M EURIBOR	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	2Y	-0.75	-0.70	-0.65	-0.60	-0.60	-0.60	-0.60	-0.60
	10Y	-0.40	-0.30	-0.25	-0.20	-0.15	-0.10	-0.05	0.00
	10Y-2Y	35	40	40	40	45	50	55	60
Indonesia	3M JIBOR	3.70	3.70	3.70	3.70	3.80	3.80	3.80	3.80
	2Y	5.00	5.00	5.00	5.00	5.05	5.10	5.20	5.30
	10Y	6.75	6.92	7.10	7.00	6.85	6.70	6.55	6.40
	10Y-2Y	175	192	210	200	180	160	135	110
Malaysia	3M KLIBOR	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95
	3Y	2.15	2.15	2.15	2.15	2.15	2.20	2.30	2.40
	10Y	3.50	3.67	3.84	4.00	4.12	4.25	4.37	4.50
	10Y-3Y	135	152	169	185	197	205	207	210
Philippines	3M PHP ref rate	1.50	1.50	1.75	1.75	1.85	1.95	2.05	2.15
	2Y	2.50	2.50	2.60	2.60	2.65	2.70	2.75	2.80
	10Y	4.40	4.70	5.00	5.10	5.15	5.20	5.25	5.30
	10Y-2Y	190	220	240	250	250	250	250	250
Singapore	3M SORA OIS	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
	2Y	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.60
	10Y	1.50	1.52	1.59	1.65	1.72	1.80	1.87	2.00
	10Y-2Y	110	112	119	125	132	140	142	140
Thailand	3M BIBOR	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62
	2Y	0.50	0.50	0.50	0.50	0.55	0.55	0.65	0.70
	10Y	2.00	2.10	2.20	2.30	2.35	2.40	2.45	2.50
	10Y-2Y	150	160	170	180	180	185	180	180
Mainland China	1Y Lending rate	3.85	3.85	3.85	3.85	3.85	3.85	3.85	4.05
	3Y	3.05	3.10	3.15	3.20	3.20	3.20	3.20	3.20
	10Y	3.25	3.30	3.35	3.40	3.40	3.40	3.40	3.40
	10Y-3Y	20	20	20	20	20	20	20	20
Hong Kong	3M HIBOR	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
	2Y	0.20	0.20	0.23	0.25	0.30	0.35	0.50	0.65
	10Y	1.20	1.32	1.44	1.60	1.72	1.85	1.97	2.10
	10Y-2Y	100	112	121	135	142	150	147	145

% , eop, govt bond yield for 2-year and 10-year, spread bps.

Source: CEIC, Bloomberg, DBS

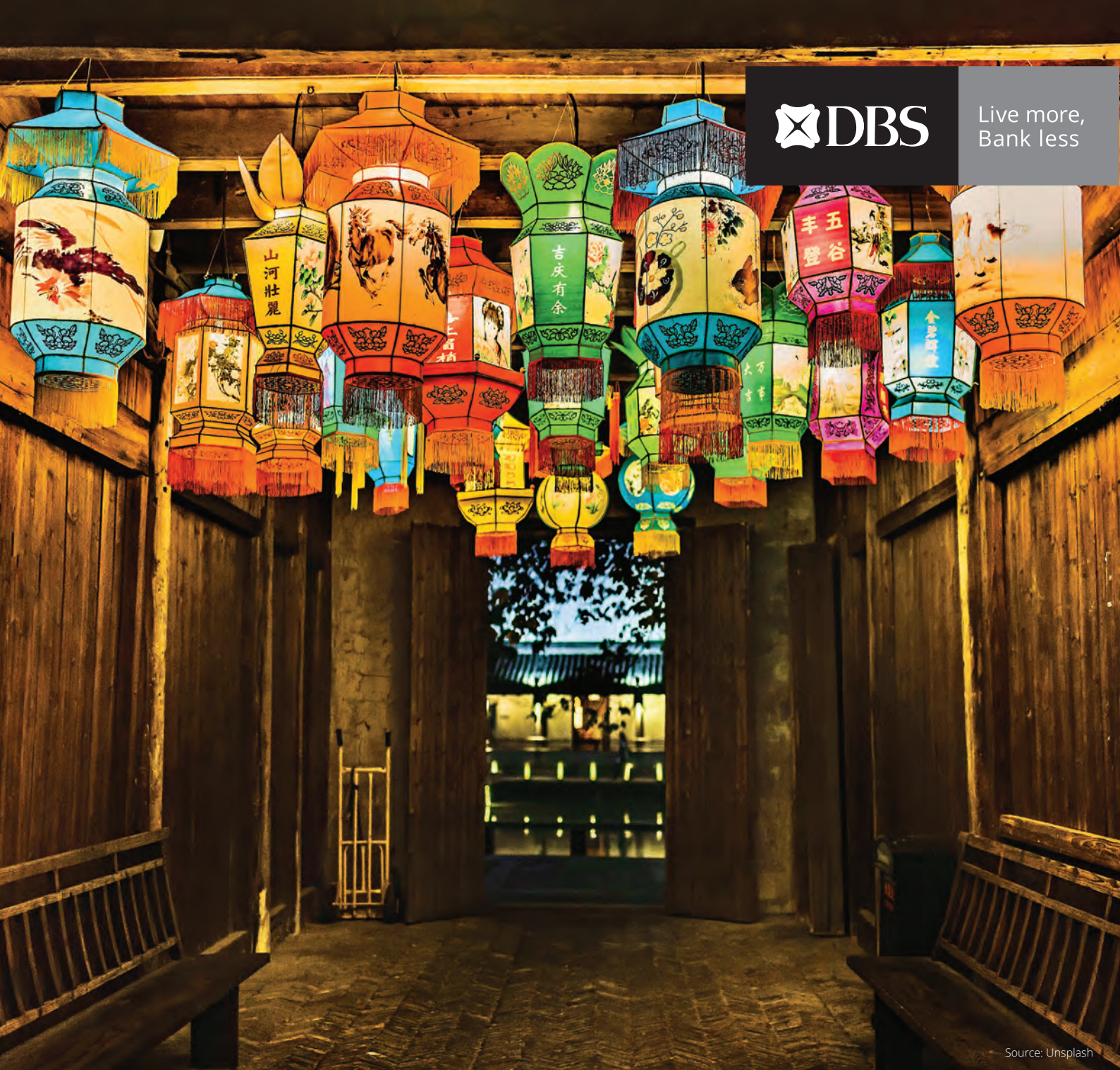
		2021				2022			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
South Korea	3M CD	0.75	0.65	0.65	0.65	0.65	0.65	0.90	0.90
	3Y	1.15	1.15	1.15	1.15	1.15	1.15	1.40	1.40
	10Y	2.15	2.17	2.34	2.50	2.55	2.60	2.65	2.70
	10Y-3Y	100	102	119	135	140	145	125	130
India	3M MIBOR	3.75	3.75	3.85	3.95	4.05	4.15	4.25	4.25
	2Y	4.80	4.80	4.85	4.85	4.90	4.95	5.05	5.05
	10Y	6.30	6.35	6.40	6.40	6.55	6.55	6.65	6.65
	10Y-2Y	150	155	155	155	165	160	160	160

% eop, govt bond yield for 2-year and 10-year, spread bps.

Source: CEIC, Bloomberg, DBS



Live more,
Bank less



Source: Unsplash

Global Credit | 2Q21

Yield and safety
in onshore China

Global Credit

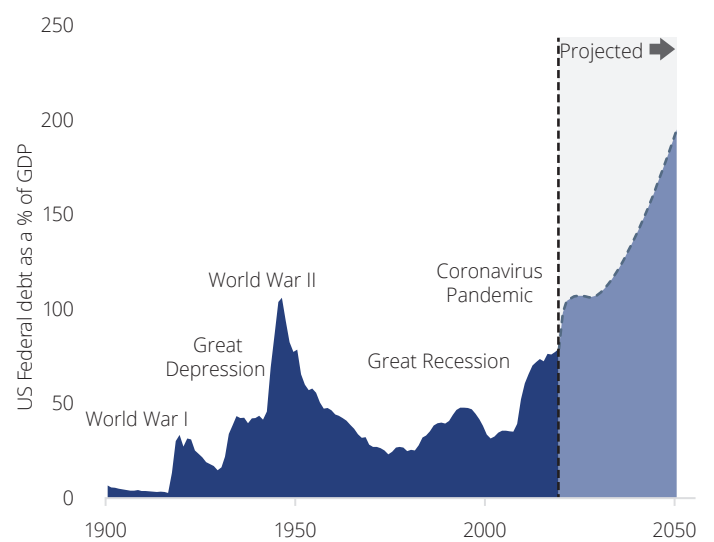
Daryl Ho, CFA | Strategist

Defying gravity. The sharp lift off in government bond yields at the turn of the year has continued to validate our posture of caution towards duration risk – a stance that we adopted since the latter half of 2020. While this move was within our expectations, we acknowledge that it comes against the gravity of viral mutation concerns, uneven progress on vaccine distribution, ongoing QE programmes, elevated global unemployment, and a host of other factors that should have kept rates tethered to their lower bounds.

The greatly feared “i” word for bond investors. Looking under the hood reveals that the higher yields were initially almost entirely driven by inflation expectations. This is not illogical, given that the persistent trends in rising commodity prices (food, energy, industrial metals), elevated international freight rates, and weakening USD are all inflationary stimuli certain to provoke such knee-jerk reactions from the bond markets. After all, unconstrained inflation is the one factor that would end the regime of extraordinarily dovish monetary policy, given that price stability is a key mandate of central banks all over the world.

The near-term risk of “risk-free” coming to light. When the de facto buyers of first resort in treasury bonds are expecting to think twice about their purchase programmes down the road, the market would need to start thinking thrice, in order not to end up being the “bag holder” when policy normalisation occurs. These concerns are magnified by the exponential rise in US federal debt (as a % of GDP) projected by the US Congressional Budget Office (CBO) – if the Fed might not be buying this debt, who else could?

Figure 1: Projected exponential rise in US federal debt till 2050



Source: US Congressional Budget Office, DBS

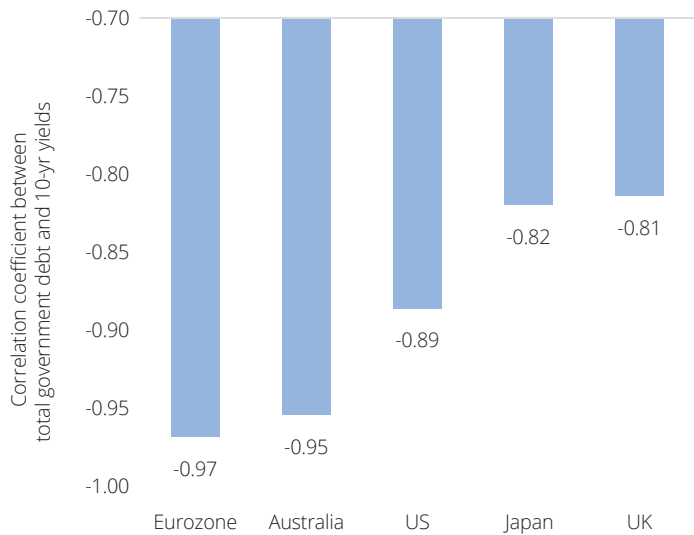
Higher yields would run against the resolve of the Fed.

But we should not get ahead of ourselves. This expected trend of higher debt is precisely why the Fed would need to remain proactive in policy communication and execution; at the very least to provide a controlled ascent of yields – not risking a repeat of the 2013 taper tantrum and undoing the groundwork that had paved the way for an incredibly rapid post-crisis recovery.

Ironically, higher debt begets lower yields.

Central bank intervention is perhaps the one reason why treasury bonds behave like Veblen goods – characterised by upward sloping demand curves – as the quantity demanded appears to increase with higher prices (or in the case of bonds, lower yields). Historical correlations between total government debt and 10-year rates across various DM economies appear to affirm this seemingly anomalous relationship.

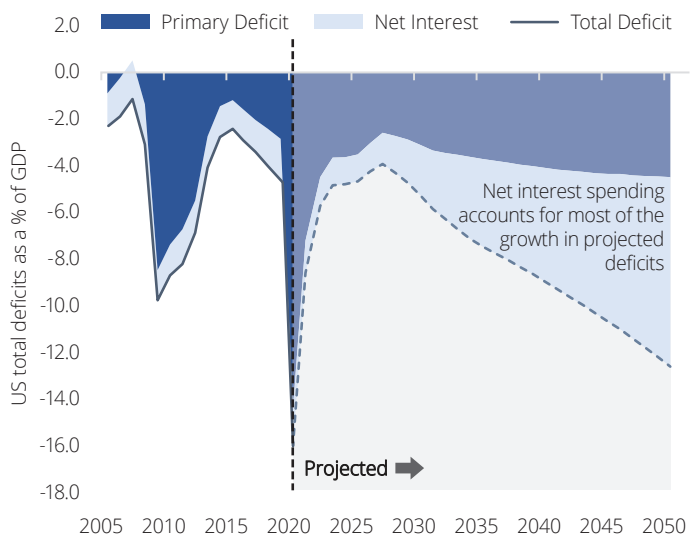
Figure 2: The larger the debt, the lower the yields



*Sample sizes over the last 20 years
 Source: Bloomberg, DBS. Based on sample sizes over the last 20 years

Debt sustainability comes to the fore. This unexpected correlation could be that in a post-QE environment with a world awash in debt, even a small upward shift in interest rates can be cause for systemic concern – something the markets experienced in the repo-meltdown during the 2018-2019 taper. Global indebtedness has only deteriorated since then. This link between interest rates and fiscal sustainability also appears in the CBO's deficit projections, where interest expenses seem to dominate predicted deficit growth in the later decades as debt expands to colossal proportions.

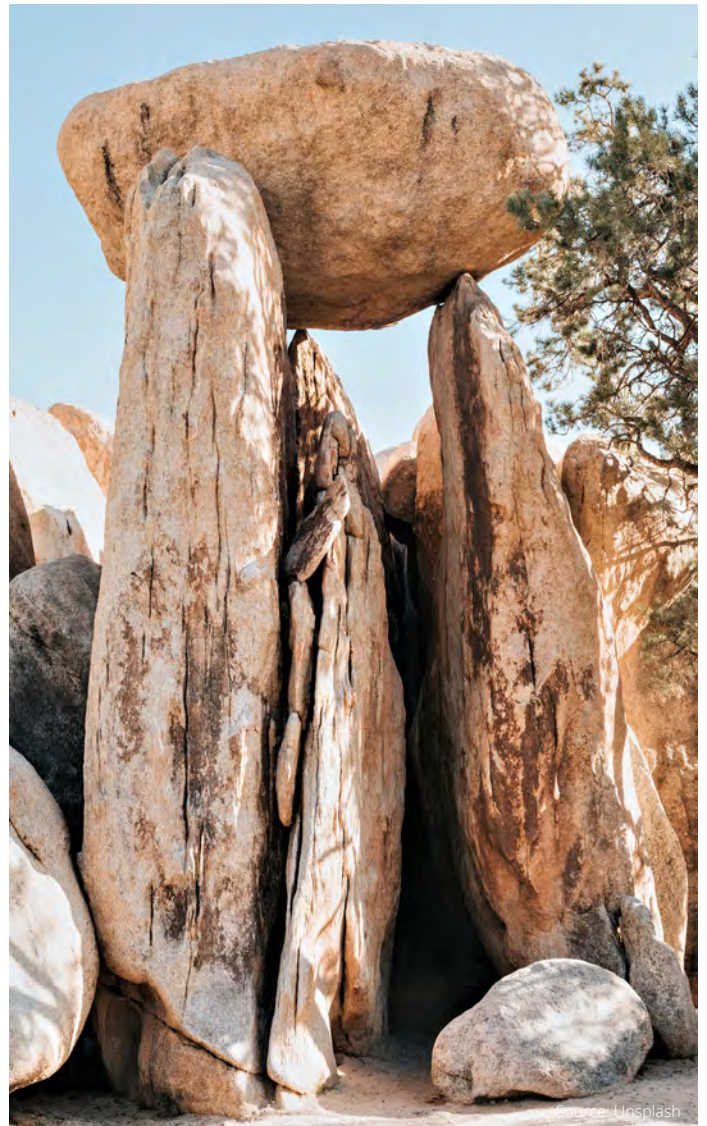
Figure 3: Difficult for interest rates to rise significantly due to the problem of debt sustainability



Source: US Congressional Budget Office, DBS

Caught between a rock and a hard place. This leaves fixed income investors in a difficult position, having to (1) guess how high bond yields can go with inflation concerns, but also to (2) wonder when central banks would intervene with yield suppression to avoid unsustainable debt burdens. Between such forces of tug-of-war lies levels of stomach-churning volatility; hardly a place that seekers of stable income generation and capital preservation should seek refuge. Yet historically, we cannot deny that sovereign debt has played a significant role in portfolio risk mitigation through the ages.

If the G-3 economies, then, no longer issue bonds with good risk-reward for fixed income investors, where else might one find sovereign debt that (a) still yields above 3%, (b) possesses high IG ratings, (c) is issued sustainably proportionate to growth, and (d) provides adequate currency stability?



Source: Unsplash

Enter China. With an economy expected to rival that of the US within the decade, yet without the baggage of fiscal imprudence, China Government Bonds (CGBs) – and by close relation, onshore credit of high quality and/or systemically important government-backed entities – are increasingly viable expressions for the above needs of fixed income investors.

Low base of sovereign indebtedness, plus lower anticipated government-driven credit growth. Among the 10 largest world economies, China ranks as one of the lowest in sovereign indebtedness as measured by debt/GDP (Figure 4); yet the country is still anticipated to slow the rate of credit growth through the post-pandemic recovery. Analysing the broad measure of funding available to China’s non-financial sector known as Total Social Financing (TSF), we note that the key driver of growth in TSF in 2020 was government borrowings – not surprisingly due to the need to provide a large fiscal stimulus in response to the pandemic.

Once the viral caseloads and death rates had attained manageable levels, however, China exemplified fiscal prudence by being one of the first economies to hold back further prodigal spending and embarked on deleveraging efforts to curtail systemic debt accumulation. This position is expected to carry all through 2021 as the economy recovers further, in stark contrast to countries that must continue with profligate spending due to inferior viral management outcomes.

Not just fiscal, but monetary prudence. China’s policymakers also seemingly went against the grain of dovish policies around the globe by draining net liquidity via open market operations ahead of the Lunar New Year in 2021, fearing that excess liquidity could lead to asset bubble formation. This has led to onshore front-end rates drifting higher – two-year CGB yields now lie closer to BBB/BBB- rated EM yields in Indonesia/India than DM yields in US/Eurozone/Japan (Figure 5).

Figure 4: China’s sovereign indebtedness ranks among the lowest in the world’s 10 largest economies

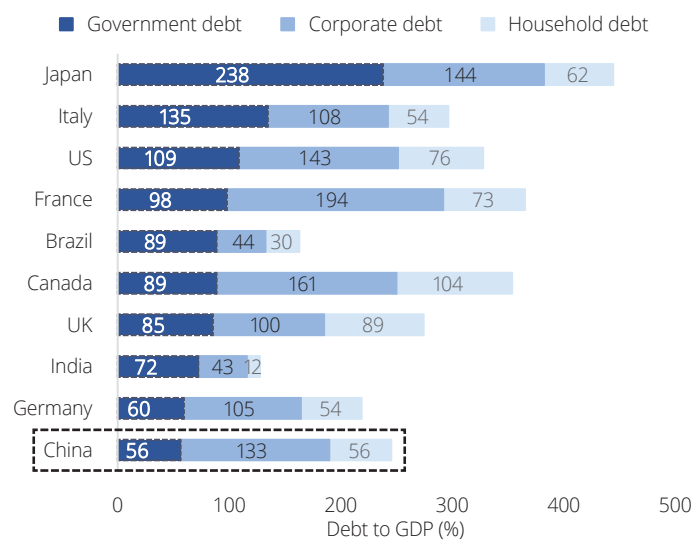
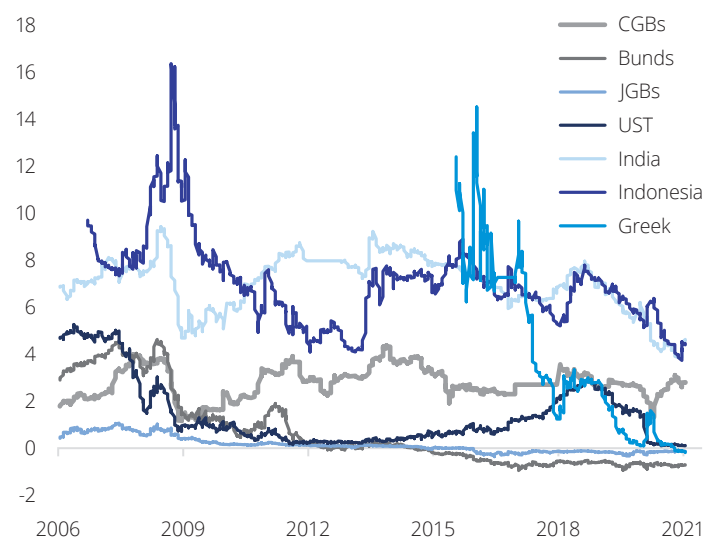
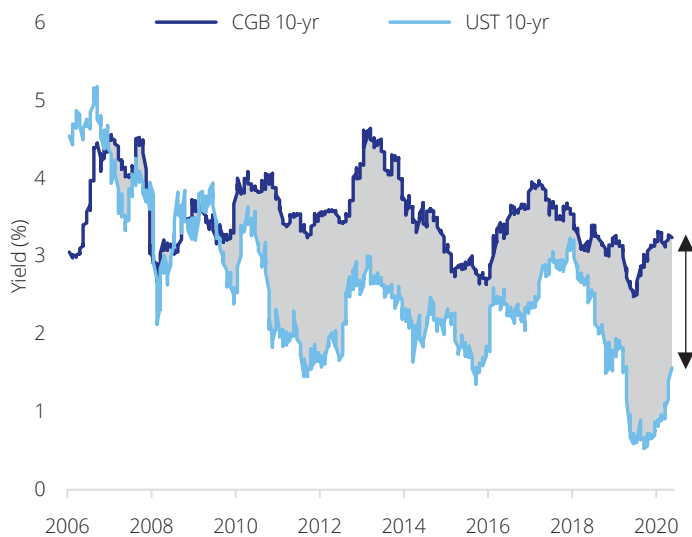


Figure 5: CGBs have comparatively high two-year yields due to tighter monetary policy



10-year CGB-UST differential near all-time wide. The hawkish-dovish policy divide between China and the US might also be a factor as to why the yield differential between their respective 10-year sovereign debt is also historically expansive. At a current spread of more than 160 bps, this represents more than two standard deviations wide of the three-year mean.

Figure 6: 10-year CGB yields are near all-time wides compared to their UST counterparts

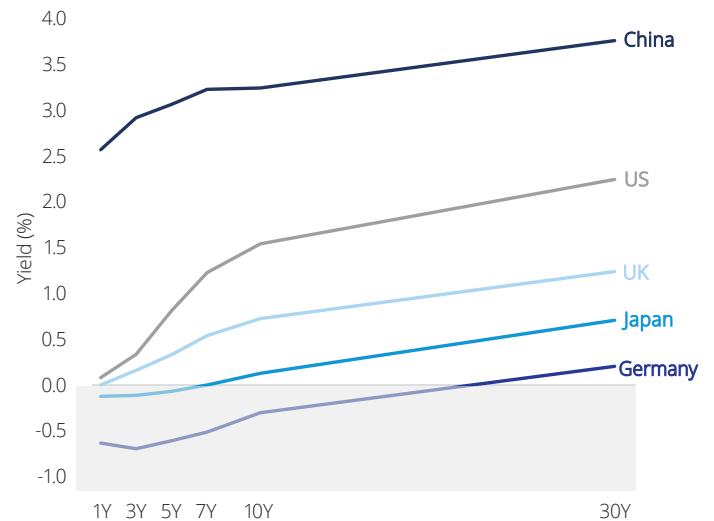


Source: Bloomberg, DBS.

CGBs yield curves are higher and flatter than other reserve currency issuers' debt. While the CGB-UST yield differential is evident, it is also worth noting that the whole CGB curve trades at markedly higher yields when compared to debt denominated in the other currencies making up the basket of the IMF's Special Drawing Rights (SDR) – an international reserve asset (Figure 7).

Not only are yields higher, but the entire curve is flatter; the implication being that investors need not extend duration risk for a meaningfully larger yield – a key benefit given that inflation concerns continue to dominate the narrative for the 2021 recovery.

Figure 7: CGBs yield curves significantly higher and flatter than other SDR issuers



Source: Bloomberg, DBS



Source: Unsplash

CGB returns have negative correlations with major asset classes. Coming to a portfolio construction perspective, CGBs appear to possess a remarkable attribute of having negative correlations to global equities, credit, and even other treasury bonds (Figure 8) – assets at the core of investment portfolios worldwide. Modern Portfolio Theory (MPT) informs investors that such assets are key in assembling a robust portfolio where expected returns can be maximised for a given level of risk.

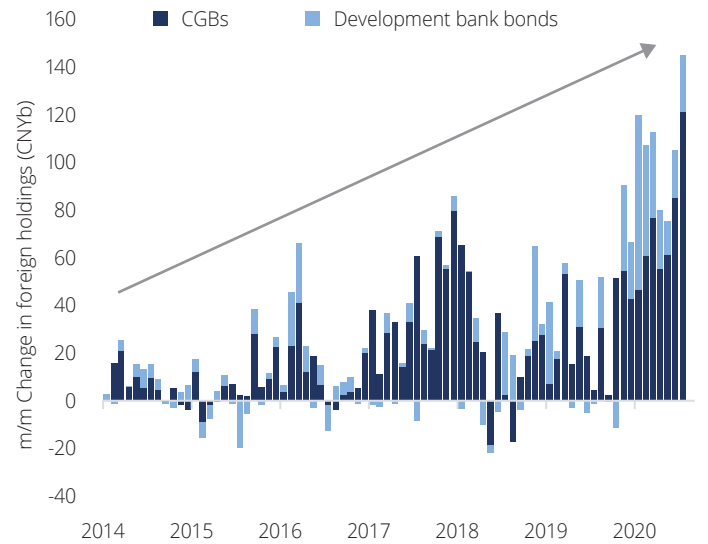
Figure 8: CGBs offer strong diversification benefits due to low correlations with other major asset classes

	Global Treasuries	Global IG	Global HY	World equities	CGBs
Global Treasuries	1.00				
Global IG	0.65	1.00			
Global HY	0.25	0.83	1.00		
World equities	0.06	0.66	0.78	1.00	
CGBs	-0.22	-0.37	-0.34	-0.48	1.00

Note: Correlation of monthly rolling y/y returns since January 2005. Source: Bloomberg, DBS

Going with the flow. Where the above positive attributes of yield and diversification benefits provide the kindling, global investor access is perhaps the match that would light the fire for CGBs to blaze from niche to mainstream. China’s opening up of their onshore markets is coinciding with an extreme surge in global liquidity; while furthermore at a time when there is a lack of expressions that meet investor expectations of income and capital stability. This could be a crucial reason why foreign flows into China onshore bonds continue to make new highs in 2021 (Figure 9).

Figure 9: Foreign flows into China onshore bonds making new highs in 2021

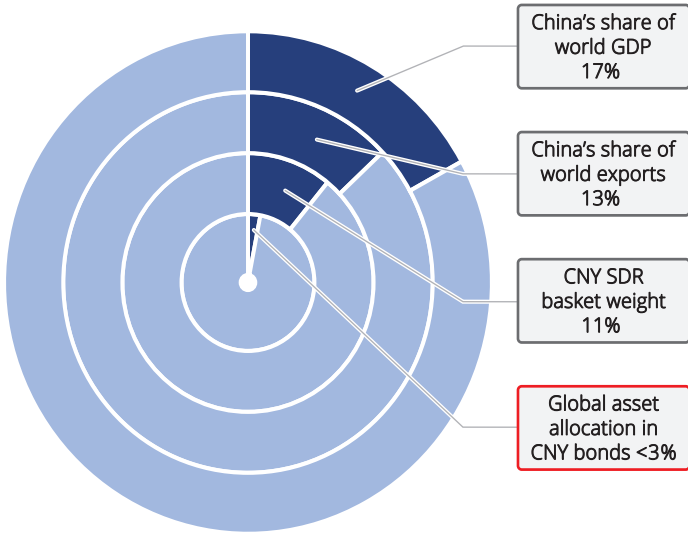


Source: Bloomberg, DBS

Anecdotally, most inflows are of a structural nature, with increasing allocations from central banks, pension funds, and insurance companies – institutional monies that are generally consistent and long-term in nature.

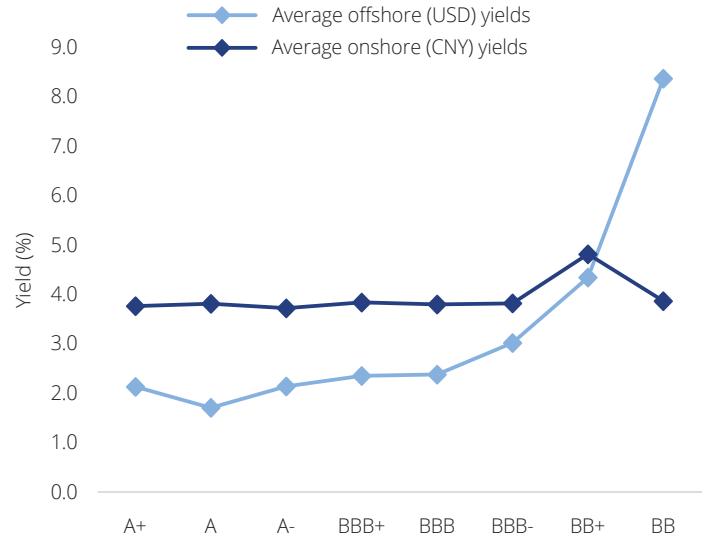
In addition, passive flows are expected to remain on the rise with a third global bond index – the World Government Bond Index (WGBI) – expected to start CGB inclusion in 2021. This follows shortly after the inclusions by both the Bloomberg Barclays Global Aggregate Index and the JPMorgan Government Bond-Emerging Market Index at the end of 2020. Aside from index inclusion-related inflows, rising AUM in China-dedicated bond funds suggests other strong avenues of demand. For example, total assets of the iShares China CNY Bond ETF have grown to c.USD9b, from less than USD1.0b just about half a year ago at the end of July 2020.

Figure 10: Current CGB allocations understate the extent of China’s prominence on the world stage



Source: International Monetary Fund, DBS

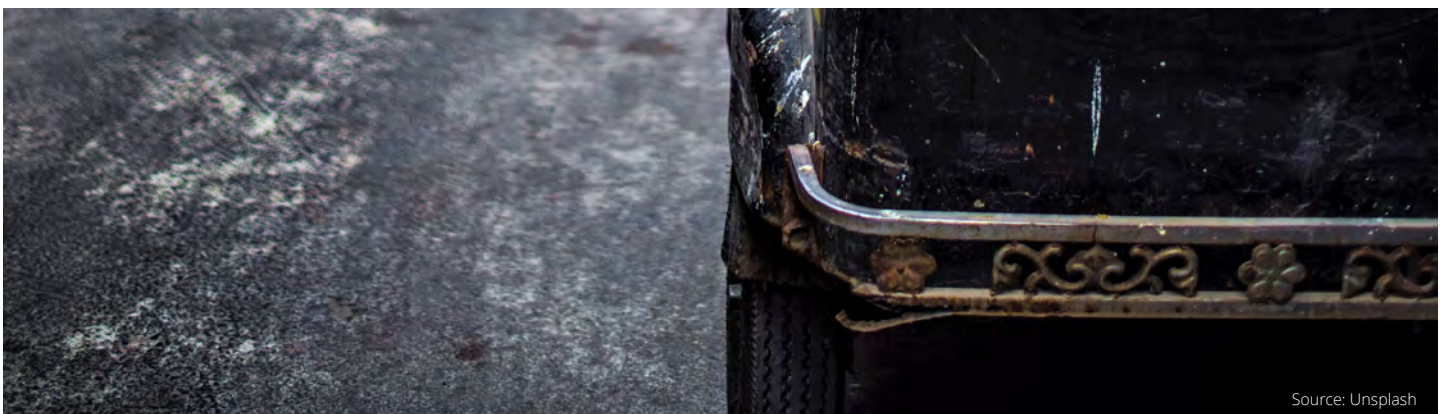
Figure 11: Onshore credit spreads show higher yields than offshore equivalents, with low credit differentiation



Source: Bloomberg, DBS

Inflows appear to only be in their early innings. In considering the trajectory of this run of flows, we note that global asset allocations to CNY-denominated bonds are still presently below 3%; very low considering China’s share of world GDP, exports and the CNY’s weighting in the SDR basket (Figure 10) – weightings that are expected to rise with China’s expanding presence on the global stage. As such, despite the already stellar run, we believe that there continues to be room for a structural increase in global asset allocation to China onshore bonds, and inflows will likely accelerate due to the current attractive valuations of China bonds against their global peers.

Onshore corporate credits present opportunities, but foreign appetite should grow slower than sovereign-related bonds. Turning to onshore corporate credit, we note that the market – although higher yielding – does not exhibit material yield disparity commensurate with ratings disparity; a mark of low credit differentiation in a still-developing local currency credit market. This is however expected to improve as flows increase and both onshore issuers and investors adapt to the evolution of defaults and outcomes in improving market efficiency. Importantly, however, default rates are still low – onshore corporate non-financial default rate was c.0.6% in 2020 – and is expected to remain low for 2021 with the economic recovery intact.



Source: Unsplash

At present, we believe opportunities are twofold:

- **High quality onshore credits due to their wide pickup over USD counterparts.** With low credit differentiation in onshore markets, going up in quality positions investors well for upside as the market matures. This is most evident in the “A” sub-ratings category, where unhedged yields can be close to 200 bps wide of their offshore USD counterparts with select issuers.

One note of caution – investors should take heed of standalone credit risks and not rely solely on a sovereign support uplift to assess ratings quality. With a posture of deleveraging leading to larger incidents of SOE default in 2020, the market has learnt that not all state-linked entities would ultimately be state-backed entities.

- **Panda bonds (CNY denominated bonds from non-Chinese issuers).** One key drawback of lesser developed credit markets is the quality and availability of financial reporting. Panda bonds have the benefit of an adherence to reporting standards of more developed jurisdictions, yet with yields that are more in line with the China onshore credit market.

In summary, we conclude that the time is nigh for the rising importance of China onshore bonds for fixed income investors. Onshore bonds stand out for their attractive levels of yield, increasing global familiarity, long-term nature of structural inflows, and still low aggregate default rates. Additionally, China remains the world’s largest official creditor and home to the highest yielding major bond market. The post-virus policy divergence between the US (easier) and China (tighter) also points towards an appreciation bias for CNY; safeguarding the higher yields from erosion through currency volatility. In a potentially reflationary world still rife with deglobalisation uncertainty, investors would be hard pressed to find diversity in higher-yielding, better-rated government debt with admissible currency volatility.

Fortunately, one would find that China onshore bonds tick all the boxes.



Live more,
Bank less



Source: Unsplash

Global Currencies | 2Q21

USD regains global clout

Global Currencies

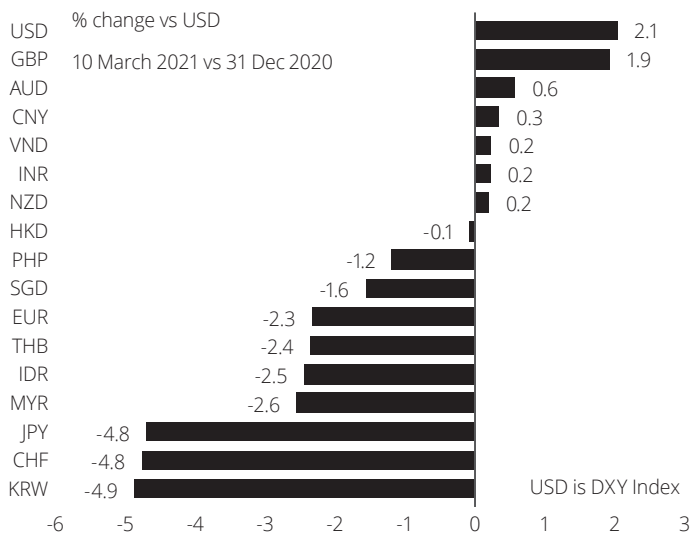
Philip Wee | Strategist

Widespread consensus for USD to extend its depreciation into 2021 turned out to be a wrong one. The post-US election reflation story is no longer a simple story of stimulus and vaccines leading to a second half economic rebound but also one accompanied by higher inflation. Currencies, especially JPY and CHF, underestimated the steepening in the UST yield curve from President Joe Biden’s USD1.9t stimulus bill. GBP and AUD have retreated after they peaked above 1.40 and at 0.80, respectively.

Earlier around end-2020, THB, IDR, and PHP already started to consolidate with CNY following suit since early-January. Assumptions for US-China tensions to ease under the Biden administration turned out to be premature. EM also needed to deal with the US “going big” on stimulus as opposed to a more sustainable growth path under China’s 14th Five-Year Plan. USD debasement fears were offset by a two-month 13.7% fall in gold prices in the first quarter.

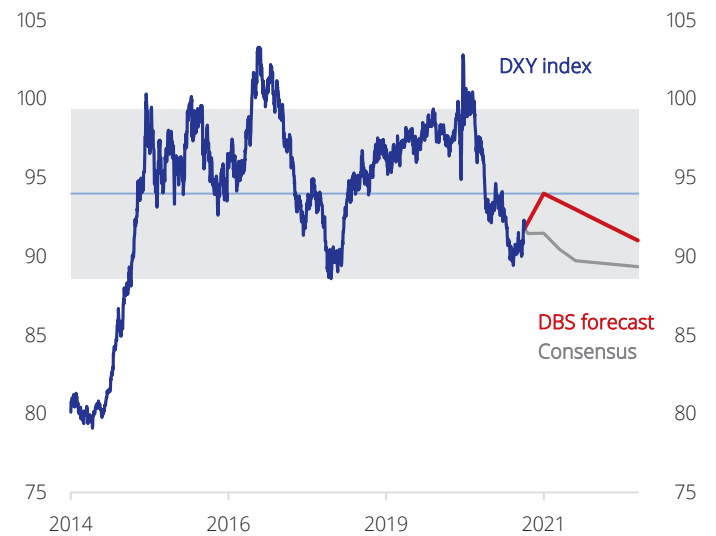
The DXY Index has reasons to consolidate in 2021 after its sharp selloff last year. The US outlook has improved significantly after the Democrats gained control of the White House, Senate, and House of Representatives. US equities have continued to post new record highs alongside a surprisingly steeper UST curve. President Joe Biden’s USD1.9t stimulus package coupled with the USD900b relief fund passed before Christmas could boost US growth towards China’s level and further above the Eurozone’s. The Federal Reserve is dovish but expects inflation to hold above 2% which consensus agree would start from 2Q into the rest of the year. Although its stance to hold rates through 2023 has not changed, the Fed is open to internal debate regarding tapering asset purchases. Treasury Secretary Janet Yellen will judge the success of Biden’s stimulus by how fast it returns the unemployment rate back to pre-pandemic levels i.e. below 4%.

Figure 1: USD surprised on the upside in the first quarter of 2021



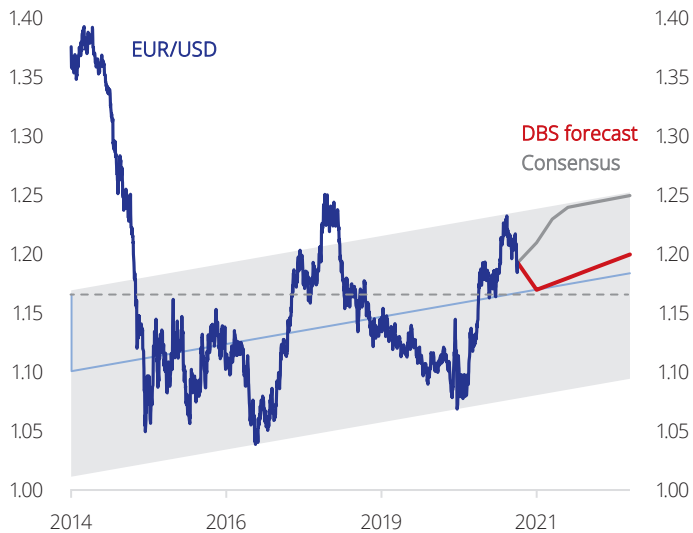
Source: Bloomberg, DBS

Figure 2: The US dollar surprised on the upside on a stronger US outlook



Source: Bloomberg, DBS

Figure 3: The euro has returned below 1.20 on a resurgent USD



Source: Bloomberg, DBS

Figure 4: The British pound is overbought relative to UK's relatively weaker fundamentals

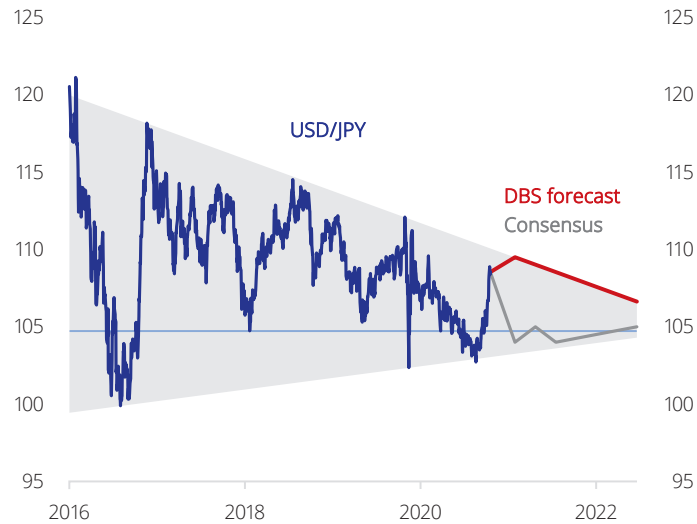


Source: Bloomberg, DBS

EUR/USD has returned lower into 1.15-1.20. The factors that bolstered EUR in 2020 have weakened. The US is well ahead of the EU in delivering stimulus and vaccines. The EU recovery is weighed by a record high EUR NEER. A European Commission (EC) study estimated that a sustained 5% NEER appreciation would cut GDP growth by 0.9-1.1% and lower inflation by 0.5-0.8%. In February, the EC downgraded its 2021 growth forecast to 3.8% from 4.2%. Higher inflation poses a greater challenge to the ECB than the Fed in keeping monetary policy loose. Bundesbank President Jens Weidmann warned that Germany's inflation, which surged to 1.6% y/y in January after five months of negative readings, could exceed 3% by end-2021 and require monetary policy to tighten. Finally, Chancellor Angela Merkel will not be standing at the German election this September. The vacuum she leaves behind will be felt not only in her country but also across the EU.

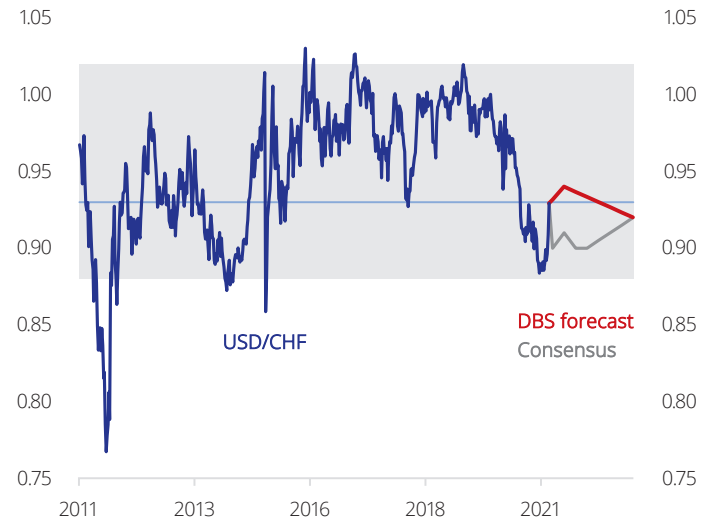
GBP to consolidate within 1.30-1.40 after its exceptional post-US election rally. Since February, consensus no longer expected the UK's growth to outperform the US's in 2021. Think tank NIESR has downgraded its 2021 growth forecast to 3.4% from 5.9%; it expects the UK to be the worst performing G-7 economy in 1Q21 from the lockdowns to curb the new infections. Prime Minister Boris Johnson has announced that lockdown restrictions will be gradually eased over five stages from 8 March to 21 June. Longer term, NIESR believes that the recovery will be hampered by high joblessness and weaker business investment. The budget announcement on 3 March has scheduled a corporate tax hike to 25% from 19% in 2023 to restore public finances. Life after the end of the Brexit transition has not been a bed of roses. Apart from a more restricted trading relationship with the EU, Brussels has threatened to suspend the Brexit Agreement if the UK pushes to deregulate financial services, pesticides, and working hours.

Figure 5: The Japanese yen has been vulnerable to a steeper UST yield curve



Source: Bloomberg, DBS

Figure 6: The Swiss franc did not appreciate past its multi-year resistance

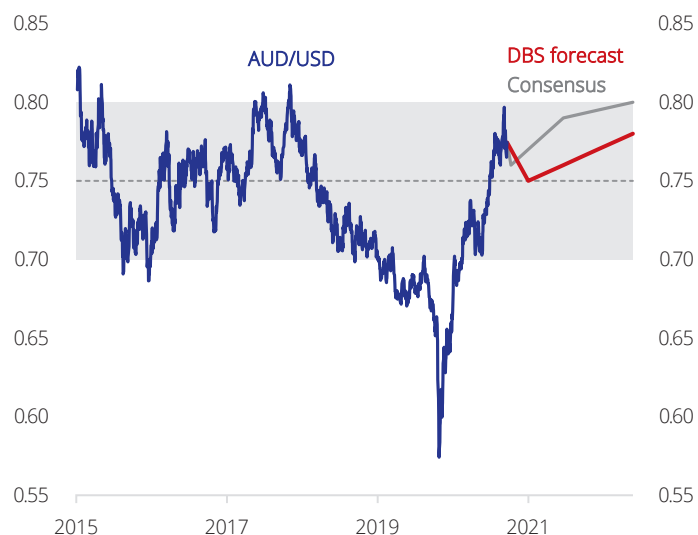


Source: Bloomberg, DBS

USD/JPY has returned into a higher 105-110 range. JPY has been vulnerable after the UST 10-year yield rose above 1.00% in early January to above 1.50% in March. The central bank (BOJ) is expected to tweak its ETF purchases and yield curve control at its review in March. Earlier in late December, Prime Minister Yoshihide Suga told the Ministry of Finance to prevent JPY from appreciating below 100 per USD. Tokyo-listed exporters, as per a Cabinet Office survey in January, needed JPY to be weaker than 100 to stay profitable. Politics will matter in 3Q21 because Mr Suga’s approval ratings have fallen over his handling of the new wave of coronavirus infections. Postponing the Tokyo Olympics could lead the Liberal Democratic Party to replace Mr Suga as party leader in September to improve its chances at the October general elections and return Japan to another era of “revolving door” leadership.

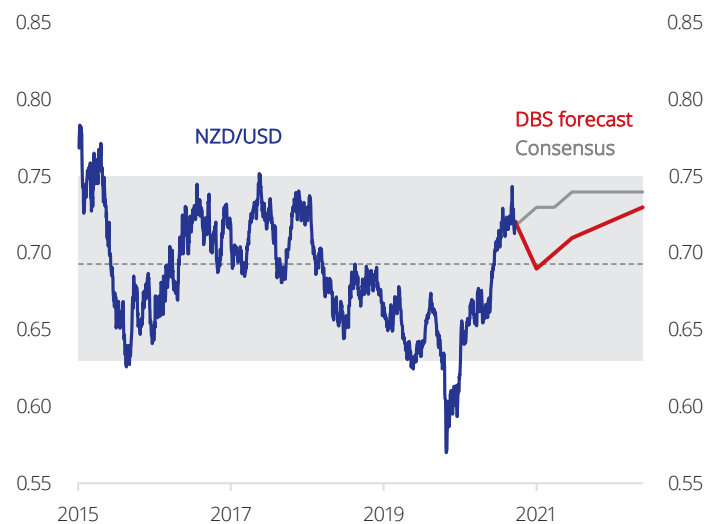
Look for USD/CHF to hold a 0.92-0.95 range. The US Treasury Department’s decision on 16 December to label Switzerland a currency manipulator will have no influence on its monetary policy. The central bank (SNB) remains committed to negative interest rates and currency interventions to prevent a sharp appreciation from worsening recovery prospects from the pandemic. The Swiss government has projected a contraction in 1Q21 due to the lockdown and restrictions to address a second wave of infections. The SNB’s policies have tempered the increase in the Swiss 10-year bond (negative) yield at a slower pace to its US counterpart. This has renewed the attraction of CHF as a funding currency for carry trades positioning for a second half global rebound. Hence, USD/CHF returned above 0.90 in February for the first time since November. Since the EU crisis in 2011-12, USD/CHF has rebounded after each failed attempt to break below 0.88.

Figure 7: The Australian dollar is expensive within its old 0.70-0.80 range



Source: Bloomberg, DBS

Figure 8: The New Zealand dollar is also not cheap within its old 0.68-0.75 range



Source: Bloomberg, DBS

AUD/USD could start to consolidate in its 2015-18 range between 0.70 and 0.80 after its stellar 45% surge from the pandemic. The central bank (RBA) has no intention to roll back the easing measures taken last November to counter AUD's strength. In fact, the asset purchases programme was, in February, doubled to AUD200b and extended to September despite Australia's improved outlook. The RBA will probably resort to macroprudential measures to address the worry of an unsustainable housing bubble built on debt. Prime Minister Scott Morrison is eyeing a fourth term at the next election on his handling of the pandemic. A snap election is unlikely this year because the vaccination programme only started on 22 February. The JobKeeper scheme will not be extended beyond 28 March. Instead, the government may deliver two budgets before the May 2022 deadline to call elections. Without a medium-term plan to rein in its public debt, Fitch has not taken the country's AAA credit debt rating off its negative watchlist.

NZD/USD to consolidate within 0.69-0.75 after its 36% rebound from the pandemic. The kiwi has been resilient to higher US bond yields in January-February, thanks to a faster rise in its yield. New Zealand's COVID-19 responses have been considered one of the best in the world. S&P Global rewarded the government on 21 February with a single notch upgrade in its sovereign debt rating to AA+. The year-long vaccination programme started on 20 February and will keep the country's borders closed to the world in 2021. The upcoming Budget 2021 will seek to rebuild the economy while restoring fiscal finances. While there is no more talk of negative interest rates, the central bank (RBNZ) will keep the official cash rate at a record low 0.25% which it has started to balance with macroprudential measures to cool the red-hot property market.

Asia Currencies

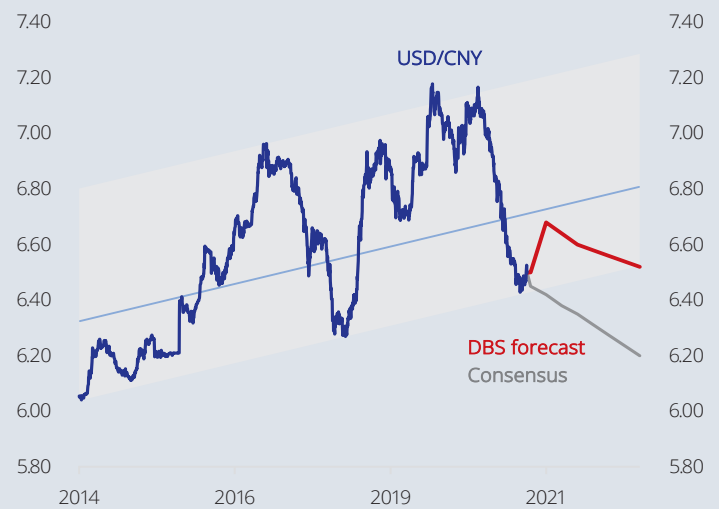
CNY

USD/CNY to stabilise around 6.40-6.60. The factors that drove CNY's 11.7% appreciation vs USD in May-January have waned. First, US stimulus and vaccinations could lift US growth closer to China's in 2021. In March, the National People's Congress set a growth target at above 6% in 2021. No growth target was set (yet) for the economy under the dual circulation strategy for the 14th Five-Year Plan 2021-25. Second, a long road lies ahead to mend the US-China relations damaged by the Trump administration. The Biden administration will keep to the bipartisan line of viewing China as a strategic competitor and rival while leaving the door open for partnership and cooperation on issues in the interest of the American middle class and workers. Initial efforts will focus on rebuilding America's supply chain and restoring strained ties with US allies. Given Biden's goal to restore America's global moral leadership, relations will remain strained over issues pertaining to Hong Kong, Taiwan, and the Uighurs.

HKD

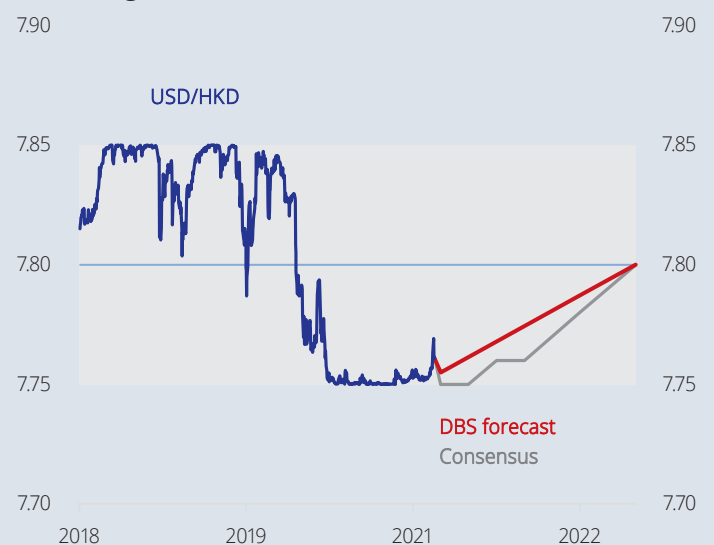
USD/HKD has started to lift off from the floor of its convertibility band amid rising US bond yields. According to the HKMA in early February, the HKD market has remained stable and orderly in accordance with the Currency Board. The financial secretary has rejected suggestions to issue bonds to fund the record budget deficits on grounds of preserving the integrity of the HKD peg. Foreign reserves totalled USD492b or 134% of GDP in 2020, up from 126% in the previous year. Consensus expects the current surplus to exceed 4% of GDP this year and the next. The government has forecast an economic rebound of 3.5-5.5% in 2021 after a 6.1% contraction last year. Activities will be supported by HKD100b in infrastructure spending in this year's budget. However, the mass vaccination drive launched in February may not achieve herd immunity; six in 10 people have been reportedly unwilling to be inoculated. Hong Kong is scheduled to hold its legislative elections in September.

Figure 9: The Chinese yuan is due for correction within its price channel



Source: Bloomberg, DBS

Figure 10: The Hong Kong dollar has started to ease from the stronger limit of its band



Source: Bloomberg, DBS

KRW

KRW started 2021 on a weak note after its 20% appreciation vs USD in March-December last year.

The 127% rise in the Kospi Index in March-January has discounted the resilience of the South Korean economy during the pandemic and its expected rebound this year. Growth is expected to be export-driven again but will also become more broad-based and underpinned by another front loading in record fiscal spending and a historically low policy rate at 0.50%. The central bank (BOK) has, however, started to note the rise in financial risks from red-hot stock/property markets amid weak household income and a high jobless rate not seen since 1999. IMF and debt rating agencies are also monitoring the rapid increase in the government debt-to-GDP ratio which the government has projected would reach 47.3% this year and rise to just below 60% in 2024.

SGD

USD/SGD has started to return into its old 1.34-1.39 range consistent with our expectations for a higher USD against its basket of currencies. SGD has appreciated by more than 11.3% vs USD during the reflation rally from COVID-19, equivalent to the reflation trade of 2017-18. There is no urgency for the SGD NEER policy band to return to an appreciating path at the monetary policy reviews in April and October. This was best reflected by a stable SGD NEER around the mid-point of its policy band after its last easing in March 2020. Although the government has forecast a growth rebound to 4-6% in 2021, the central bank (MAS) sees core inflation stable and low at 0-1%. Although lower at 3.2% in 4Q20 from its 3.6% peak in 3Q20, the unemployment rate was still a long way from returning below its pre-pandemic levels below 2.3%. Budget 2021 was clear that much remains to be done for Singapore to emerge stronger from the crisis of a generation.

Figure 11: The South Korean won has been the worst performing Asian currency

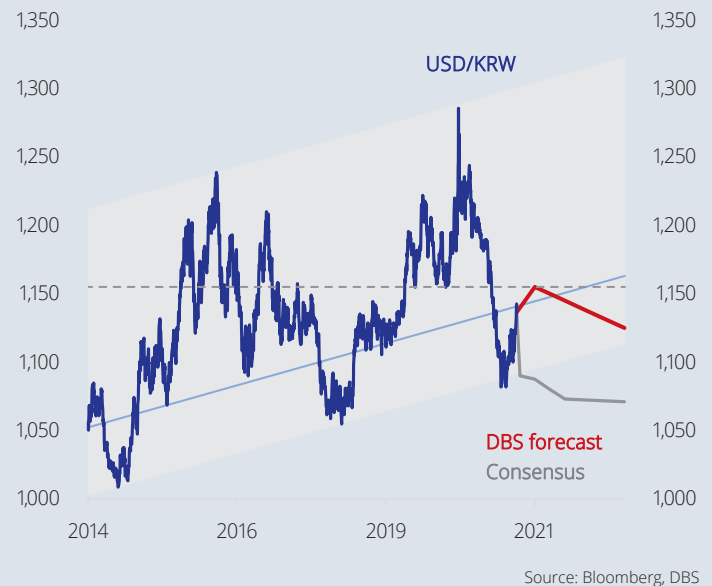
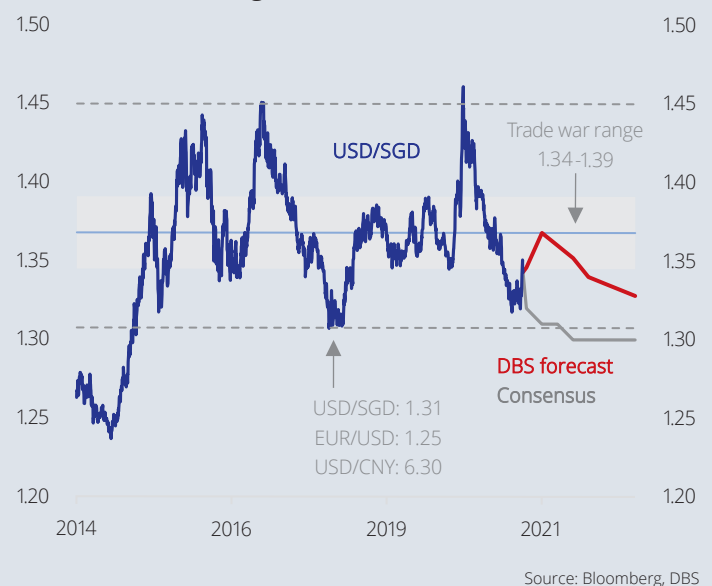


Figure 12: The Singapore dollar is expected to return into its old 1.34-1.39 range

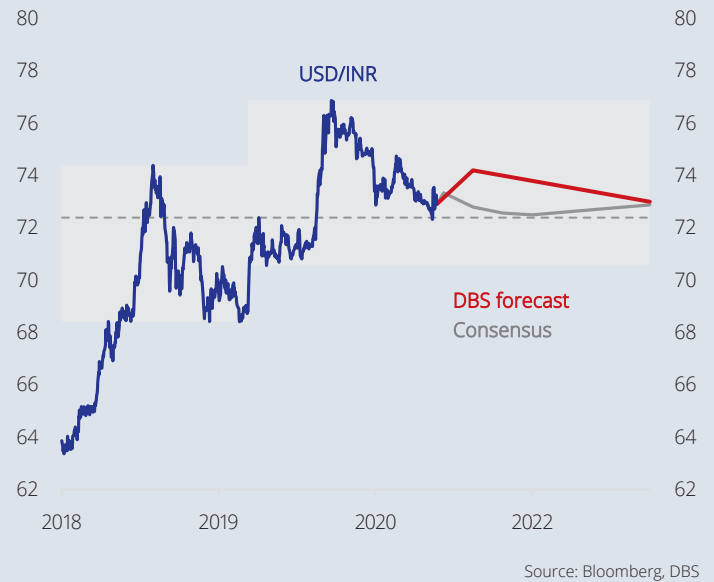


INR

Moving from optimistic to neutral on the INR now seen in a 72-75 range against USD.

The Sensex Index has already more-than-doubled to above 50,000 from its pandemic low. Investors have discounted the bullish official forecast a growth rebound above 10% in FY22. COVID-19 infection rates have fallen sharply but the vaccination rollout has been slow. Inflation has also returned into its official 2-6% target range. INR also drew support from a Current Account surplus and large foreign reserves of USD590b. On the other hand, the Indian bond market has been rattled by higher US bonds yields. India’s fiscal slippages could, along with higher global oil prices, undermine its debt ratings. While the RBI is seen keeping rates unchanged, it has started to drain liquidity by rolling back the cuts in the cash reserve ratio last year. The ratio will return to 3.00% from 27 March and again to 4.00% from 22 May.

Figure 13: The Indian rupee is not immune but resilient to rising US bond yields



IDR

The rise in USD/IDR is seen capped below 15,000 in 2021.

A steeper US bond yield curve and a stronger USD has lifted USD/IDR above its post-election range between 13,900 and 14,200. In the short term, Indonesia’s growth is expected to be flat in 1Q21 from the new restrictions to curb the new coronavirus infections. The central bank (BI) has downgraded this year’s growth forecast to 4.3-5.3% from its previous 4.8-5.8% projection. The central bank will probably be on hold after its last rate cut in February. Longer term, Indonesia is confident that growth will return to 5% on pent-up demand from its compulsory vaccination programme launched in January to inoculate 181.5m people, and regulatory reforms to attract more foreign direct investment from South Korean and Chinese companies as well as MNCs looking to relocate from Malaysia.

Figure 14: The Indonesian rupiah is also not immune but resilient to higher US bond yields



MYR

USD/MYR is projected to trade above 4.15. We have tagged our MYR forecast to SGD. Both exchange rates have been moving closely with each other on an indexed basis since 4Q20. The Malaysian Finance Ministry expects 2021 growth to rebound to 6.5-7.5% from -5.6% in 2020. On 19 February, Prime Minister Muhyiddin Yassin launched the Digital Economy Blueprint to transform the country by 2030. To flatten the coronavirus from new infections, Malaysia was placed under a second round of movement control order or MCO 2.0 for most of 1Q21. The one-year long National Immunisation Programme is scheduled to start on 26 February. The Current Account surplus hit a nine-year high of MYR62.1b in 2020. Moody's expects the fiscal deficit to narrow to 5.5% of GDP in 2021 from 6.0% last year. With Malaysia exiting deflation this year, BNM is expected to maintain the status quo on monetary policy.

THB

USD/THB to test its resistance at 31. The outlook for Thailand has weakened since the last quarterly report. The Finance Ministry has downgraded its 2021 growth forecast to 2.8% from its previous 4.5% estimate. Although export growth has turned positive again, the tourism sector is bracing for a worse year than 2020. The National Economic and Social Development Council expects international tourist arrivals to halve to 3.2m (vs its earlier 5.0m estimate) from 6.7m last year. The central bank (BOT) will resist lowering interest rates. Apart from inflation turning positive at the low end of its official 1-3% target range, household debt is high at 86.6% of GDP as of September. Debt rating agencies are also monitoring the deterioration on banks' asset quality when debt moratoriums expire. The room for more fiscal spending is limited by the public debt approaching its 60% of GDP ceiling later this year.

Figure 15: The Malaysian ringgit will not buck the trend of its Asian peers



Figure 16: Thai baht need not worry about strengthening past 30 for a while



PHP

PHP weakens after two years of appreciation.

PHP has, as of 19 February, depreciated by 0.9% YTD. The Philippine economy is set to miss its official 7.85-8.5% growth target for 2021 after its worst ever 9.5% contraction last year. The second most infected Southeast Asian country has yet to start mass vaccinations. NEDA expects GDP growth to turn negative (q/q) again in 1Q21 after two positive quarters. With inflation above its official 2-4% target range in January and likely to head higher, the central bank (BSP) will refrain from easing interest rates. More fiscal spending is unlikely after the record PHP4.5t budget approved last December lifted this year's budget deficit ceiling to 8.9% of GDP from 7.6% last year. Consensus expects the Current Account surplus last year to return into deficit in 2021. Overseas foreign worker remittances, which accounted for 9.0% of GDP, have decreased by 9.5% in 2020. Externally, rising US bond yields have also underpinned USD.

VND

VND surprised with a faster appreciation at the start of 2021 but this was stalled by USD's resurgence on rising US bond yields.

In 2020, Vietnam was quick to contain the coronavirus and averted an economic recession. Apart from the ongoing US-China trade tensions, the pandemic has also increased the need for businesses to diversify their supply chains from China into Vietnam, where the economy is expected to double in size by 2030. The shift has widened the US-Vietnam trade deficit by 15.7% to USD89.6b in 2020. The US Treasury Department under the former Trump administration on 16 December labelled Vietnam a currency manipulator. US Treasury Secretary Janet Yellen in the present Biden administration is opposed "to any and all attempts by foreign countries to artificially manipulate currency values to gain an unfair advantage in trade". Overall, VND is seen posting a small full-year appreciation despite its weaker Asian peers.

Figure 17: The Philippine peso's three-year appreciation is due for some correction

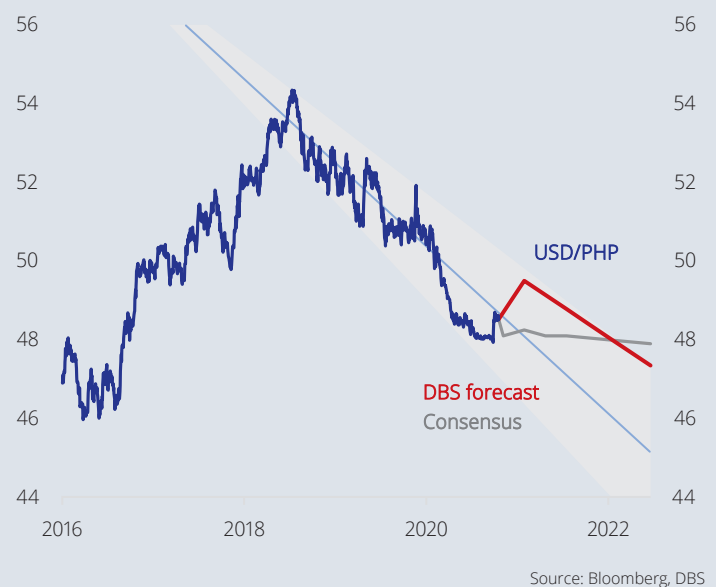


Figure 18: The Vietnamese dong is on a very modest appreciation path



Table 1: DBS currency forecasts

Exchange rates, eop									
	16-Mar	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Mainland China	6.5060	6.50	6.68	6.64	6.60	6.58	6.56	6.54	6.52
Hong Kong	7.7649	7.76	7.76	7.77	7.77	7.78	7.79	7.79	7.80
India	72.550	73.2	74.2	74.0	73.8	73.6	73.4	73.2	73.0
Indonesia	14,410	14,500	14,600	14,500	14,400	14,350	14,300	14,250	14,200
Malaysia	4.1140	4.12	4.16	4.14	4.12	4.11	4.10	4.09	4.08
The Philippines	48.644	48.7	49.5	49.1	48.8	48.4	48.1	47.7	47.3
Singapore	1.3456	1.35	1.37	1.36	1.35	1.34	1.34	1.33	1.33
South Korea	1,130	1,140	1,155	1,150	1,145	1,140	1,135	1,130	1,125
Thailand	30.760	30.7	31.2	31.0	30.8	30.7	30.6	30.5	30.4
Vietnam	23,079	23,090	23,060	23,030	23,010	22,970	22,940	22,900	22,870
Australia	0.7746	0.77	0.75	0.76	0.76	0.77	0.77	0.78	0.78
Eurozone	1.1903	1.19	1.17	1.18	1.18	1.19	1.19	1.20	1.20
Japan	109.00	109	110	109	109	108	108	107	107
New Zealand	0.7188	0.72	0.69	0.70	0.71	0.72	0.72	0.73	0.73
Switzerland	0.9247	0.93	0.94	0.94	0.93	0.93	0.93	0.92	0.92
United Kingdom	1.3891	1.39	1.35	1.36	1.36	1.37	1.37	1.38	1.38
DXY	91.865	92.2	94.0	93.5	93.0	92.5	92.0	91.5	91.0

Australia, Eurozone, and United Kingdom are direct quotes.

Source: Bloomberg, DBS



Live more,
Bank less



Source: Unsplash

Alternatives: Gold | 2Q21

Investing for insurance

Alternatives: Gold

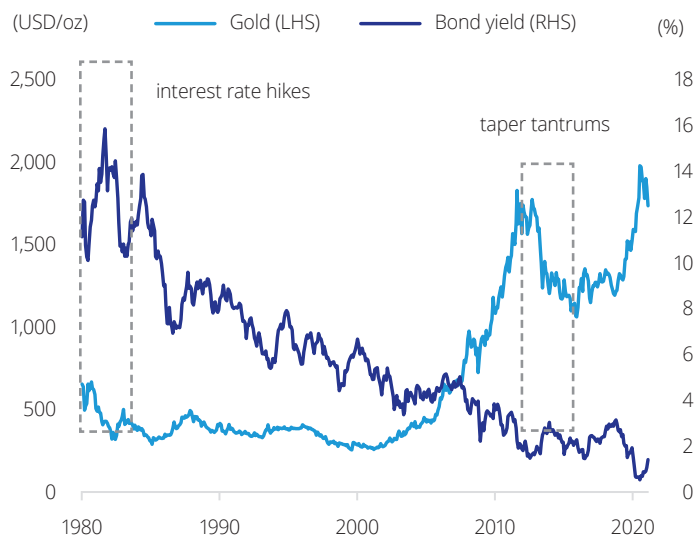
Joanne Goh | Strategist

Gold prices had a rough quarter as higher bond yields and stronger dollar prevailed. While short term gyrations are there, this does not change our medium-to-long-term constructive stance on gold. The reasons for having gold in investors' portfolios as an insurance hedge are even more compelling now.

Not the beginning of a bear market for gold

A comparison of past bear markets for gold with the current environment suggests we are not at the beginning of a bear market. During the 1980s, gold price collapsed when there was high inflation due to high oil prices followed by aggressive interest rate hikes of up to 20%. In 2012, talks of the end of QE (which eventually ended in 2015) had left gold investors nervous and drove prices down. We believe interest rate hikes and QE tapering would take some years before they happen, and the Fed's easing monetary policies would continue to support gold prices.

Figure 1: Policy mistakes in the past which drove down gold prices unlikely to repeat



Source: Bloomberg, DBS

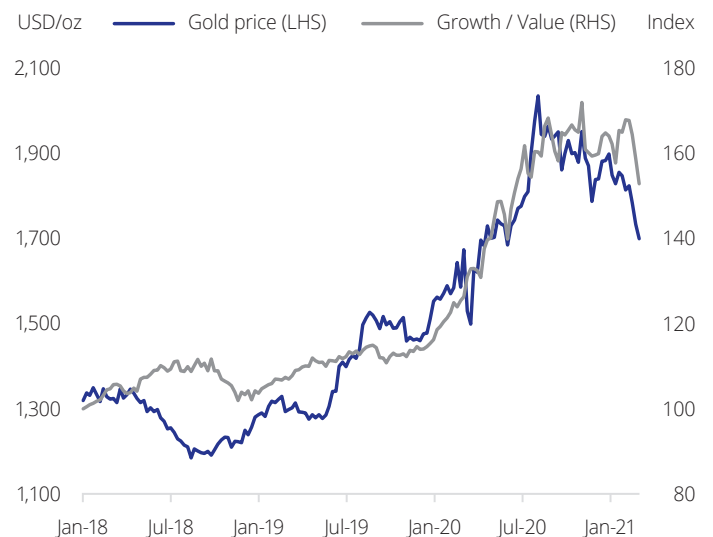
The Fed and markets not in sync

Current talks of inflation have indeed hurt gold prices, with the markets pushing forward interest rate hike expectations and QE tapering by a year. This comes despite Fed chair Powell reaffirming a "looser for longer stance" and that markets need to be in sync with the Fed to attain the central bank's objectives of maximum employment and 2% inflation under its framework. The Fed has also reiterated its tolerance for higher inflation in the near term. We think talks of excessive inflation – its signs include rises in wages and prices – are misplaced given we are about 10m jobs away from maximum employment. Moreover, the Fed has been trying to generate inflation for over a decade unsuccessfully.

Risk-on selloff

We believe that the recent selloff of gold is related to a rotation from Growth-to-Value trade, rather than dismissing gold as a hedging tool, as seen in the correlation between gold and the relative performance of Growth vs Value (Figure 2). Gold has

Figure 2: Gold succumbed to Growth-to-Value rotation and should rebound after



Source: Bloomberg, DBS

been acting like a “Growth” stock, which is unsurprising given its ability to perform in an uptrend equity market.

As investors rebalance their portfolios, Growth should make a comeback quickly as rising bond yields indicates confidence of an economic recovery, thus favouring Growth stocks. Meanwhile, gold’s strategic structural drivers remain intact. Therefore, we expect investors to rebuild their gold portfolio, especially at current prices.

Consumer demand to pick up in 2021

Despite a year which saw gold prices hitting a new high, demand of gold in 2020 was the lowest since 2009. Consumer demand for gold jewellery, bars and coins, and



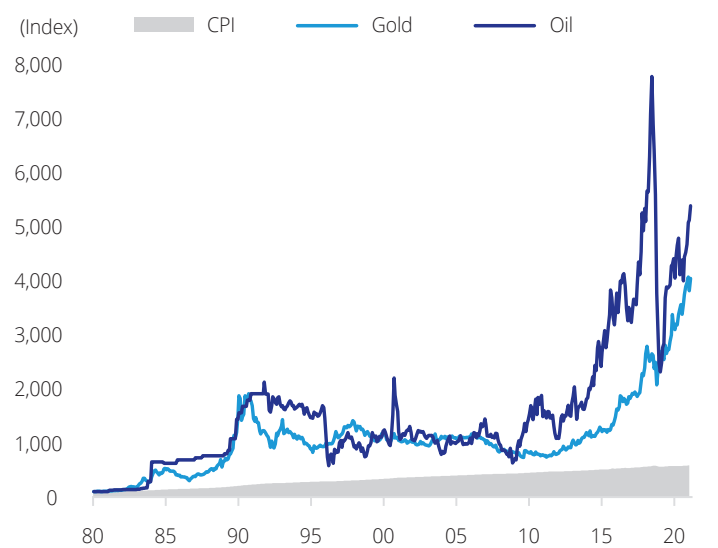
usage by the technology sector fell in 2020 as a result of COVID-related disruption from economic weakness and lockdowns. Meanwhile, central bank buying slowed sharply in 2020, particularly in the second half. We expect demand from these three segments to pick up in 2021 given the economic recovery and rising income which is often associated with higher demand for jewellery, technology, and long-term savings. These three segments combined represent more than 90% of total gold demand.

Gold vs oil

The economic recovery has also led to a wide-spread recovery in oil and base metal prices, while gold retreats as inflation expectations build up. So, is oil a better hedge for inflation than gold?

As a hard asset, gold has long been considered as a hedge for inflation. However, oil should serve as a better inflation hedge than gold, in our view. Rising oil prices should give rise to inflation, as oil and its secondary impact on other goods such as transport, are in most CPIs’ basket. Gold, however, does not belong to the CPI basket.

Figure 3: Oil is a better inflation hedge than gold



Source: DBS, Bloomberg

Gold vs Bitcoin

Gold also recently lost its lustre to Bitcoin in terms of investment demand. However, we believe gold is a hard asset, which has been tested against history and times of war as a good hedge against uncertainties, while Bitcoin's high volatility and low liquidity is equivalent to it being a penny stock play. There may be growing institutional adoption, but accounting and regulatory compliance still pose challenges before Bitcoin becomes a mainstream investment. Gold on the other hand, has diversified holders including central banks and sovereign funds, and its use as jewellery accessories makes it a more stable asset to hold.

Insurance for uncertain times

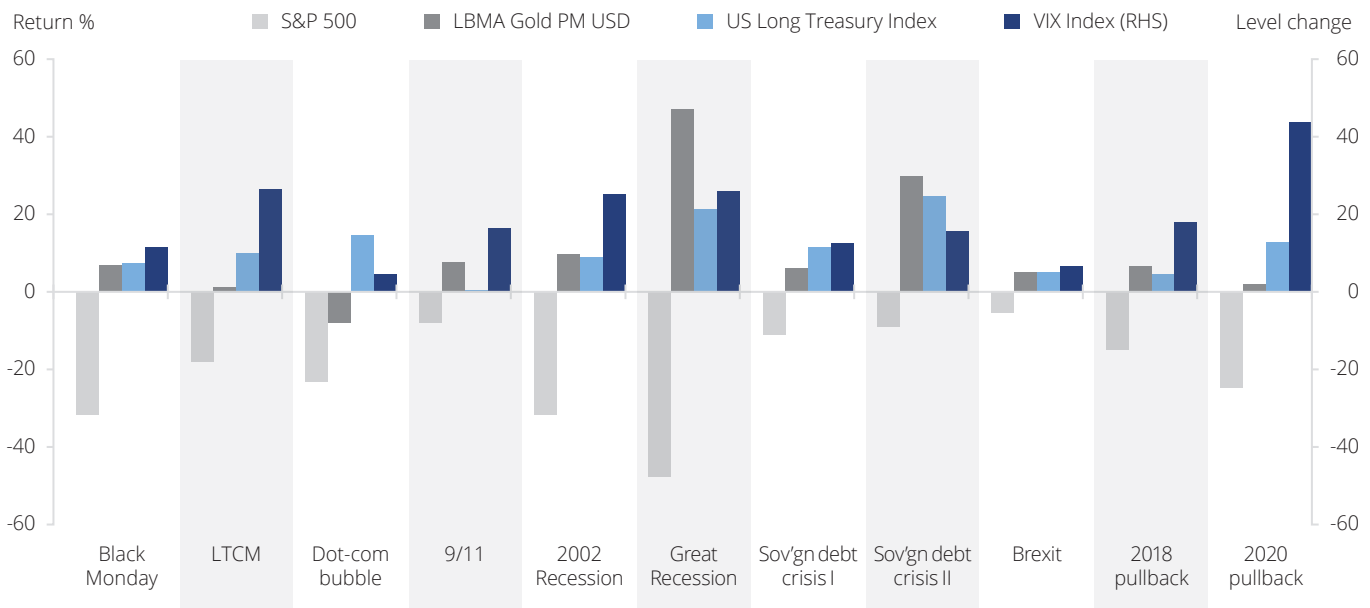
We believe the place for gold as a hedge in uncertain times still stands. Past crises, including the one as recent as the pandemic crisis last year, prompted a renewed focus on risk management and an appreciation of uncorrelated, highly liquid assets such as gold.

Today, trade tensions, vaccine wars, geopolitical risks, domestic political upheavals, worries over runaway inflation, equity markets breaking new highs, high debt levels, liquidity driven systemic risk, and concerns over currency debasement as a result of money printing are all good reasons to hold gold as an insurance in these uncertain times.

Gold price forecast downgraded

We remain constructive on the medium-to-long-term outlook for gold. In view of our higher bond yield forecast, and the fact that we have delayed the timing for the peaking of USD by one quarter, we revise down our year-end 2021 gold forecast to USD2,000/oz. Accordingly, our silver price target is revised to USD30/oz, based on a gold/silver ratio of 65. There should be more upside once gold crosses the two immediate hurdles of rising bond yields and a rising dollar.

Figure 4: A period of heightened volatility should lead to gold outperforming major asset classes

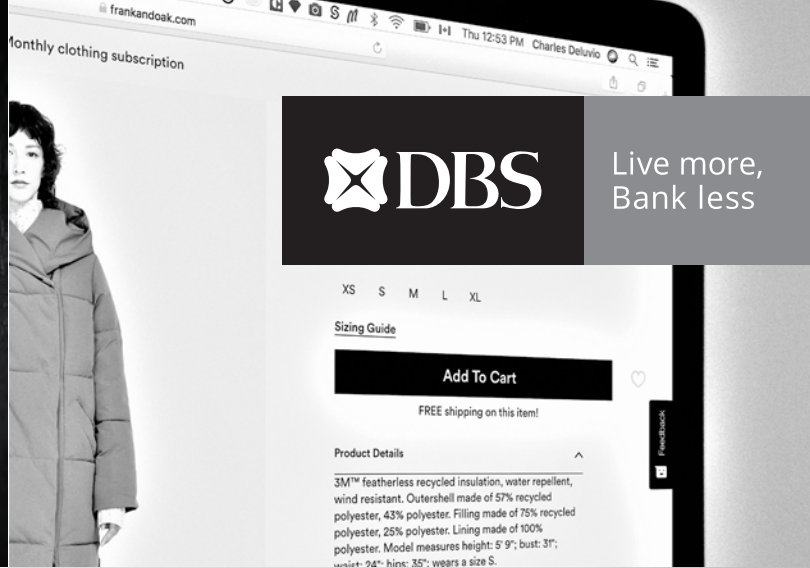


Source: DBS, Bloomberg, World Gold Council

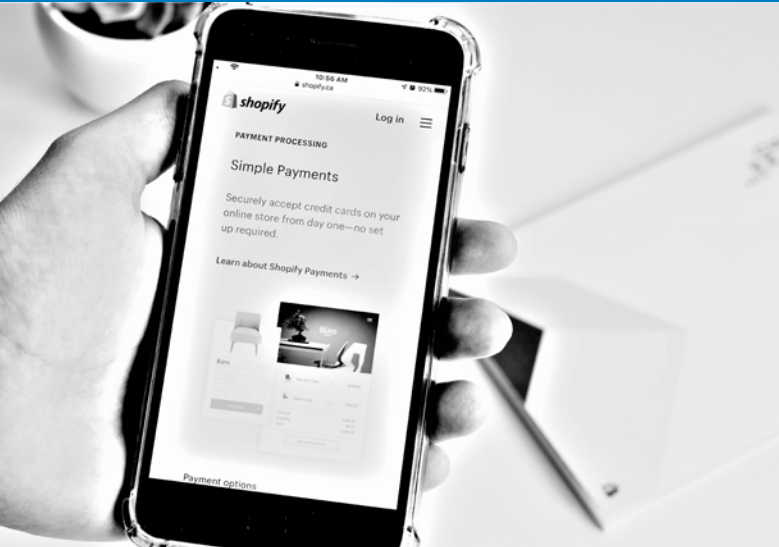
Table 1: Gold price forecast range

UST 10-year bond yield (%)	DXY			
	85	90	95	100
1.0	2,185	2,093	2,001	1,909
1.2	2,163	2,071	1,978	1,886
1.4	2,140	2,048	1,956	1,864
1.6	2,117	2,025	1,933	1,841
1.8	2,095	2,002	1,910	1,818
2.0	2,072	1,980	1,887	1,795

Source: DBS



Thematic Strategy | 2Q21
Global e-Commerce



Theme: e-Commerce

Yeang Cheng Ling | Strategist

Global e-Commerce: Only just beginning

We're in the early stages of the world transitioning into a digital economy. There remains a long runway ahead for this long-term, irreversible growth trend.

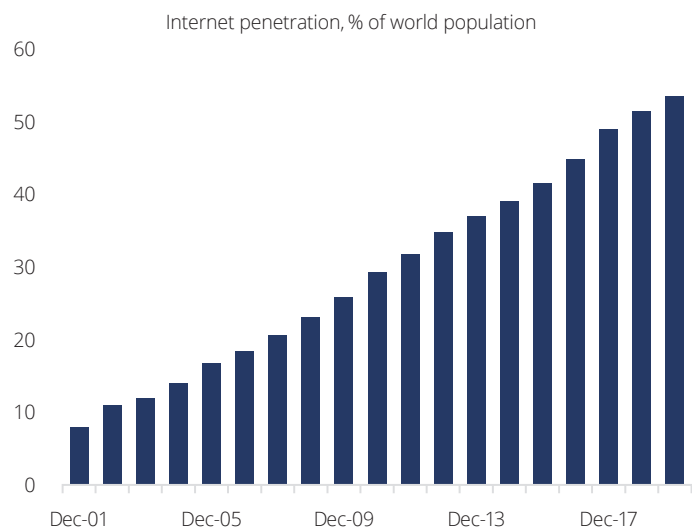
e-Commerce sits at the core of this transition. Suppliers, buyers, and traders in the middle will increasingly conduct business online across the world, around the clock – be it from B2B, B2C, C2C, C2B, or P2P. We see brick-and-mortar companies setting up online platforms, crossing borders and boundaries to reach a larger TAM.

e-Commerce has become key for an organisation's success, for it never sleeps and knows no geographical boundaries.

Where we are today

Internet penetration has been on a steady climb, and the outbreak of COVID-19 has in fact hastened this growth path (Figure 1).

Figure 1: Global Internet penetration, % of population



Source: Bloomberg, DBS



Source: Unsplash

Abundant online commerce platforms. COVID-19 and lockdowns accelerated the migration to online consumption as buyers avoided physical storefront shopping. We expect such online spending behaviours to remain post COVID-19 on the back of companies being compelled to accelerate digital adoption.

The continued innovation in smart devices, IOT, broadening of mobile connectivity, and the rise of Millennials' spending power are among the tailwinds driving online retail.

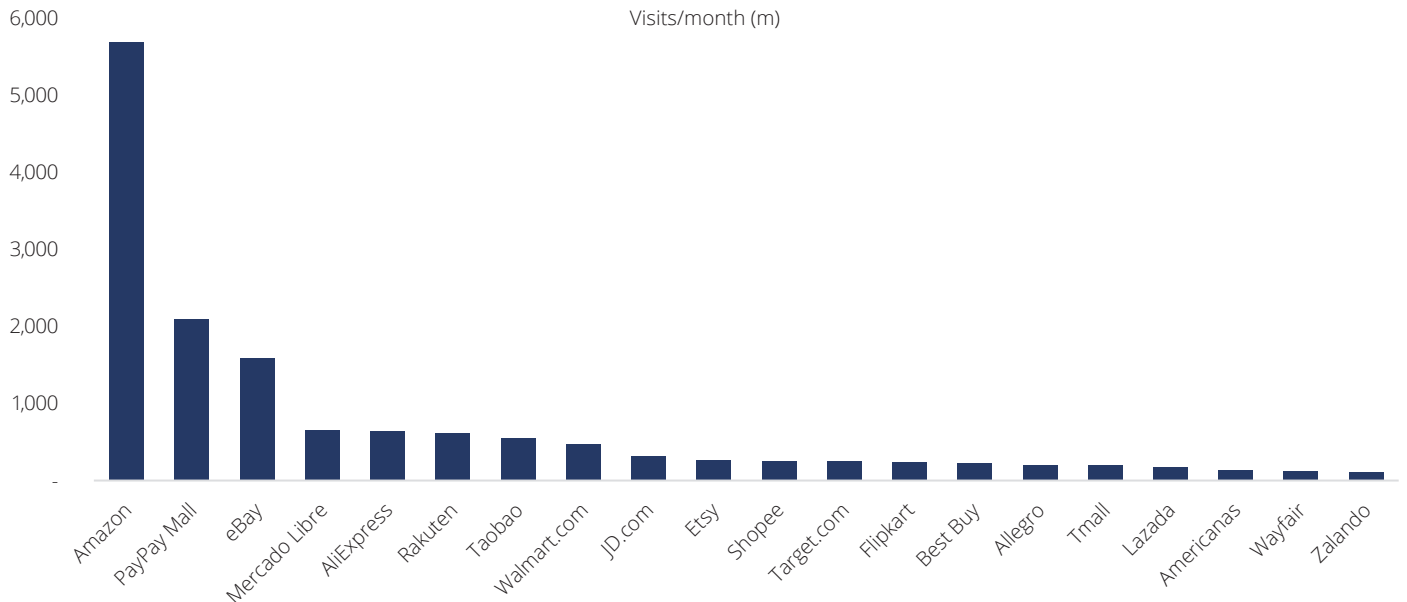
The popularity of e-Commerce spending and surging penetration owe much of their success to the large universe of marketplaces. For example, the top 20 online marketplaces attracted some 15b monthly visits in February 2020 (Figure 2), rising higher in subsequent months against the backdrop of COVID-19. Amazon alone chalked up close to 6b visitations in the same month.

The prerequisite for a successful e-Commerce operation is a strong and sustainable ecosystem that serves as a formidable moat built around core online marketplaces. The larger and deeper the interlinkage among the supporting services, the more impregnable the ecosystem.

After many years, some leading global e-Commerce operators, such as Amazon, Alibaba, JD, and Shopify, have built up convenient and credible ecosystems, making their platforms highly sticky for users.

Digitalisation has provided the right conditions for large scale e-Commerce to flourish as more and more sellers and buyers can efficiently conduct businesses via the omnipresent digital networks.

Figure 2: World's 20 most visited online marketplaces (February 2020)



Source: Webretailer.com, DBS

New retail



Marketplace



e-Sports



Speed delivery/
Ride hailing



Content/
streaming



Fintech/
payments



Cloud
Computing



Data
analytics



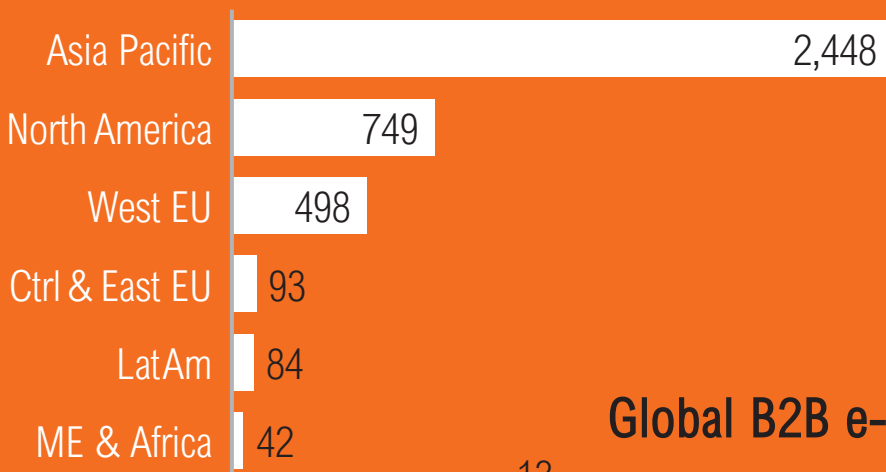
Digital
Learning



Artificial
Intelligence



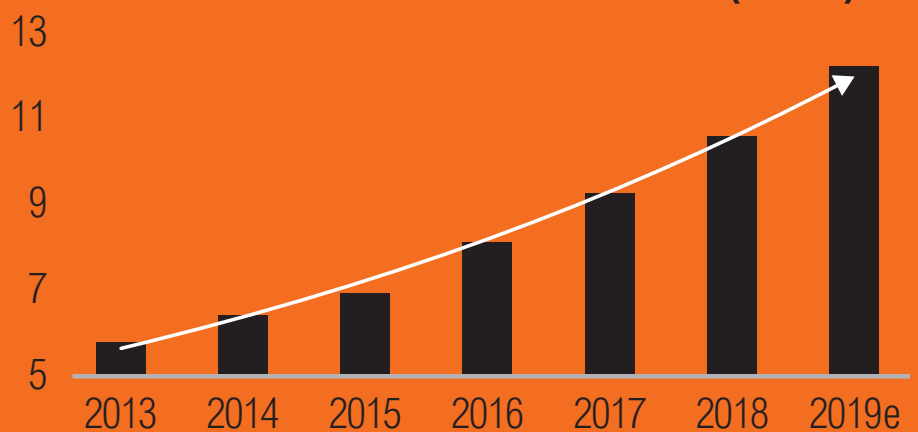
Worldwide retail e-Commerce sales 2020F (USD**b**)



APAC
continues to
dominate retail
e-Commerce
sales

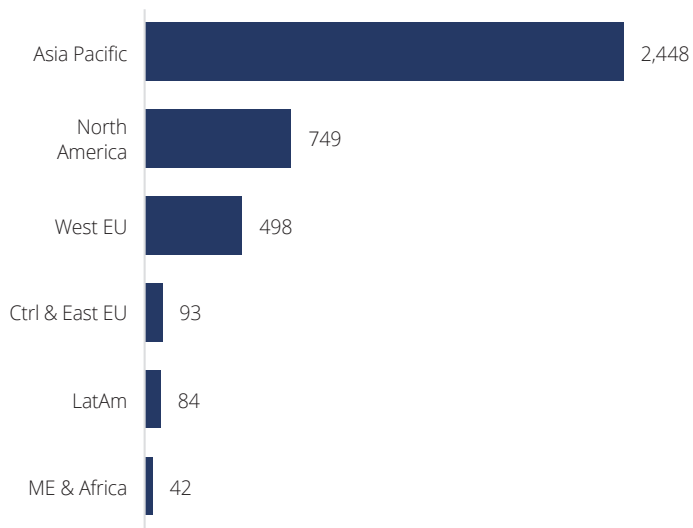
**Global
B2B e-Commerce
continues its
upward trajectory**

Global B2B e-Commerce GMV (USD**t**)



Broad based e-Commerce growth. Asia Pacific and North America are the two largest regions for e-Commerce sales (Figure 3) with an estimated value of USD2.4t and USD0.7t, respectively, in 2020. Within Asia Pacific, China dominates with more than three-quarters of market share, propelled by its enormous middle income class and high digital adoption in its vast population.

Figure 3: 2020F worldwide retail e-Commerce sales by region (USDt)

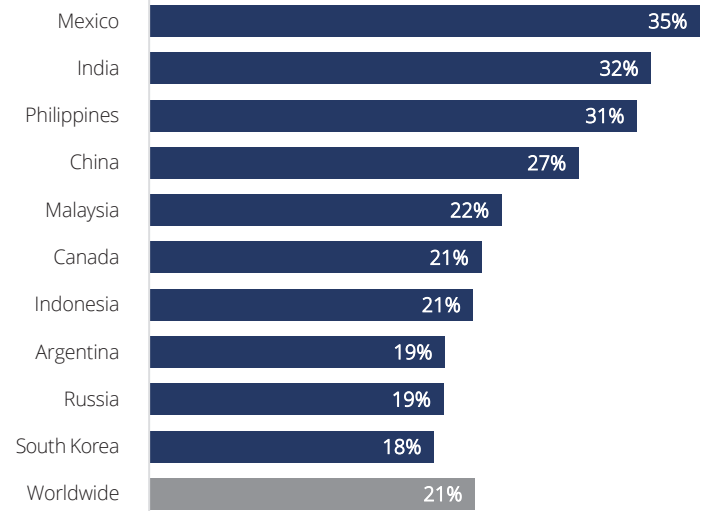


Source: eMarketer, DBS

In 2019, six out of the 10 countries with fastest growth in e-Commerce were from the Asia Pacific region: India, the Philippines, China, Malaysia, Indonesia, and South Korea (Figure 4). The size of their populations, combined with a relatively younger average age, rising spending power, and propensity to shop online are key factors powering the uptrend.

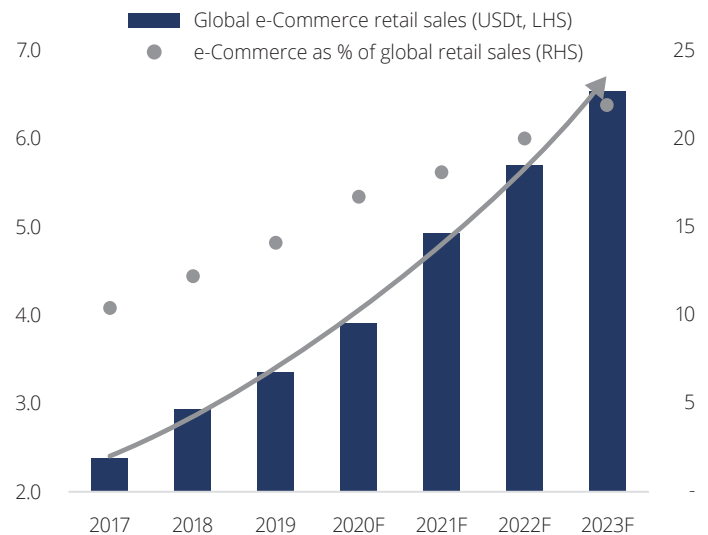
B2C: Rising sales via digital platforms. Online commerce growth has proven to be resilient. Global retail e-Commerce sales are projected to reach USD6.5t by 2023 (Figure 5) – double the value in 2019 – boosted by increasing mobile penetration rate. In 2020, about 45% of online purchases were placed through mobile phones and we expect this figure to rise going forward. By 2023, B2C e-Commerce is expected to account for 22% of global retail sales.

Figure 4: Retail e-Commerce sales growth by country 2019 (% y/y)



Source: eMarketer, DBS

Figure 5: Online retail sales



Source: eMarketer, Oberlo, DBS

Wave of disruption to brick-and-mortar retail. Evidently, some long established physical store retail brands have been affected by the tsunami of e-Commerce and have had to either shrink or close their operations (Table 1). Surviving brands are those which have successfully adapted to this new normal with online transformations.

Table 1: Examples of brands and retail chains with store closures

	In business since
A'GACI	2001
BARNEYS NEWYORK	1923
CHARLOTTE RUSSE	1975
CHARMING CHARLIE	2004
DIESEL	1978
FOREVER21	1984
GORDMANS	1915
JC PENNY	1902
NORDSTROM	1901
PAYLESS SHOESOURCE	1956
QUIKSILVER	1969
RADIOSHACK	1921
ROBERTO CAVALLI	1975
ROCKPORT	1971
SEARS	1892
Toys "R" Us	1948

Source: Company announcements, DBS



Source: Unsplash

Luxury brands joining e-Commerce bandwagon. In order to ride the digital wave, luxury brands have adapted their offerings onto digital platforms to serve the new era of affluent consumers (Table 2).

B2B: The new pillar of growth. e-Commerce is not just about B2C. In fact, the total addressable market (TAM) and potential of B2B platforms far exceed that of B2C. Technology has catalysed companies to operate, expand their supply chains and distribution avenues, and more importantly, find new ways to reach a larger universe of customers.

B2B online marketplaces are digital platforms where business organisations buy and sell goods and services with other organisations. Factors that make B2B platforms unique and indispensable include the enormous range of offerings and access to vast global supply chains. The massive improvement in the reliability and robustness of B2B e-Commerce boosted participation among businesses such

that the volume and value of trades far outstrip those of retail consumers. Increasing B2B adoption is the impetus for long-term secular growth in the broader e-Commerce industry over the new decade.

There are many compelling benefits for businesses to use online platforms. Among them are:

1. Price optimisation
2. Transparency in price configuration and comparison
3. Direct access to supplier inventory
4. Direct bulk delivery
5. Tracking of order flows

B2B e-Commerce has the advantage of tapping multi-tier distribution channels where stakeholders of different levels are connected: business partners, distributors, wholesalers, dealers, retailers, resellers, and aftersales service providers; all on a single platform. Omnichannel e-Commerce platforms will increase the effectiveness and reach of B2B channels.

Table 2: Examples of e-Commerce platforms for luxury products

Amuze	Forzieri	MyTheresa	Rue Lala	StyleBop
Barneys	Gilt	Neiman Marcus	Saks Fifth Avenue	The Corner
Bergdorf Goodman	Luisaviaroma	Net-a-Porter	Selfridges	The Outnet
Bloomingdales	Matches Fashion	Nordstrom	Sephora	World's Best
BrookLinen	Moda Operandi	Rent the Runway	Shopbop	Yoox
Farfetch	Mr. Porter	Revolve	Ssense	Zappos Luxury

Source: Mediaboom, DBS

Remarkably, global B2B GMV reached USD12t in 2019 (Figure 6), more than double the GMV of B2C, making it a crucial segment of e-Commerce with attractive growth potential.

Figure 6: Global B2B e-Commerce GMV (USDt)

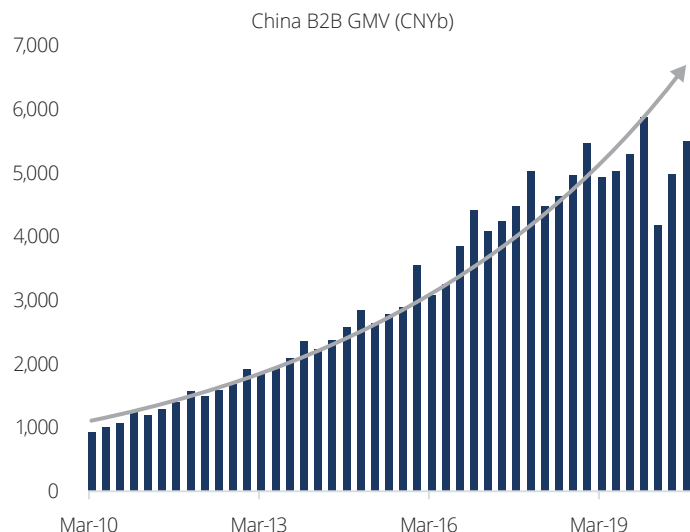


Source: Statista, DBS

China is a large breeding ground for the B2B marketplace. Owing to its sheer weight in the manufacturing and global supply chain, an ongoing shift to B2B commerce among mainland firms will induce their many overseas trade partners to adopt similar models in their business dealings.

Mainland B2B gross merchandise value (GMV) has experienced exponential growth over the decade (Figure 7). GMV for the combined four quarters up to 3Q20 reached a whopping CNY21t, or USD3.1t, equivalent to one-fifth of China's GDP. We expect the upward momentum to remain, mirroring and even exceeding the uptrend of B2C.

Figure 7: China - hotbed for B2B e-Commerce



Source: Bloomberg, DBS

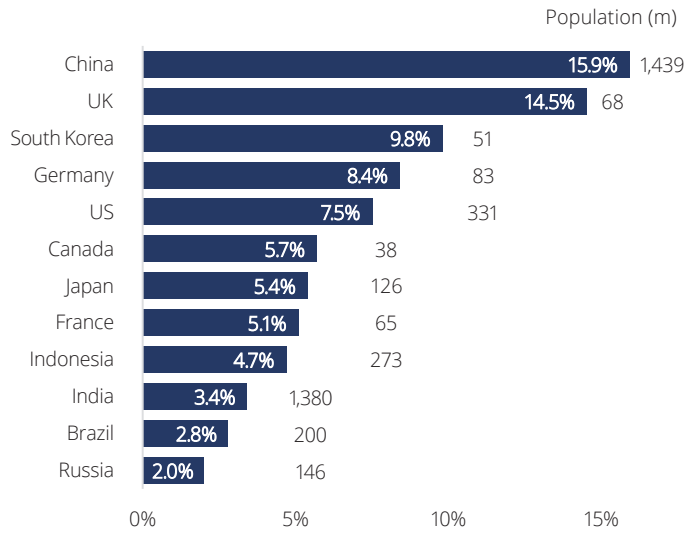
Looking ahead

The TAM for e-Commerce platforms is global. There is a long runway ahead of us, driven by rising user penetration.

The populous emerging economies remain underpenetrated compared to China and the US. This simply shows there remains huge upside potential for overall e-Commerce penetration.

This is shown in the percentage of e-Commerce within the retail sector at low-mid single digits (Figure 8), such as in India, Indonesia, Brazil, Japan, and Russia. In comparison, China has an online commerce penetration in the mid-teens region.

Figure 8: e-Commerce as percentage of retail sales at a glance (2018-19)



Source: eMarketer, Business.com, Advisor Perspectives, livemint.com, DBS

Figure 10: Rising penetration of online shopping

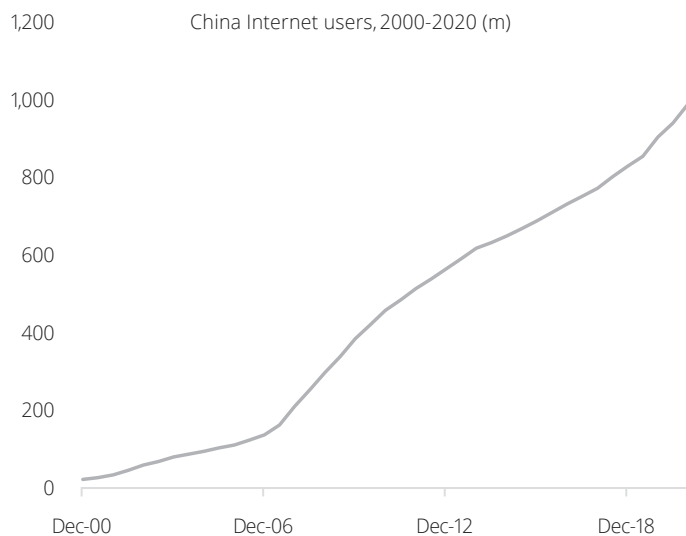


Source: Bloomberg, DBS

China: the role model. There is a close correlation between Internet access and e-Commerce penetration. To date, China boasts 1b online users (Figure 9), an important impetus in supporting e-Commerce growth.

At present, online consumption accounts for only 10% of China’s mammoth GDP and we expect the penetration rate to expand further (Figure 10) on a growing pie.

Figure 9: China’s massive Internet population

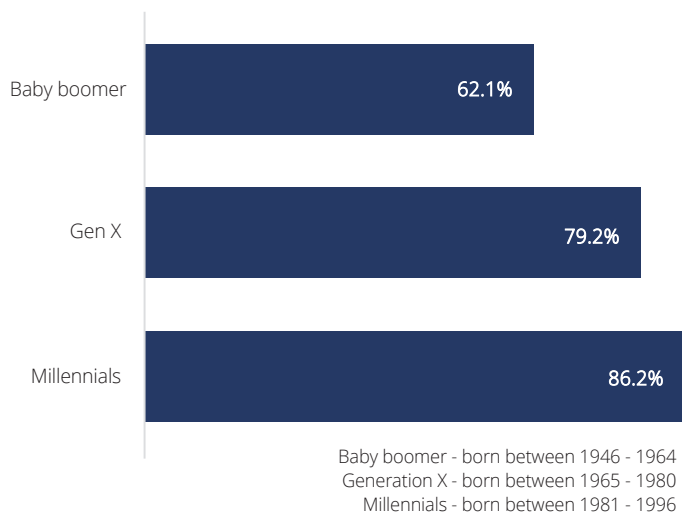


Source: Bloomberg, DBS

US: penetration to catch up. Although ranked second by GMV behind China, the US’s penetration rate remains below 10% and that is even after e-Commerce sales saw a six fold increase since the end of the GFC. Likewise, the penetration of e-Commerce can only rise further in the world’s largest economy.

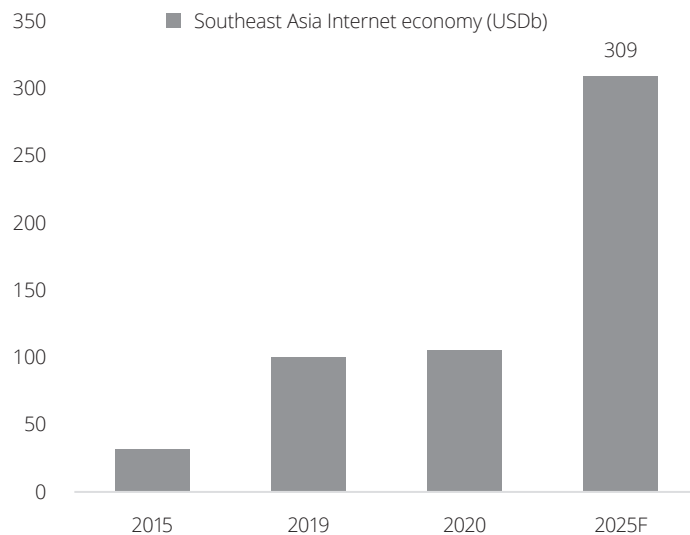
Online spending penetration rate was 86% for tech-savvy Millennials and 62% for the Baby Boomer generation (Figure 11). These are factors which reinforce the secular uptrend in online spending.

Figure 11: US adult digital buyers by different age groups (May 2020)



Source: eMarketer, DBS

Figure 12: Digital economy in Southeast Asia



Source: Google, Temasek, Bain & Co, DBS

Southeast Asia: the new frontier of digital commerce.

After China and the US, Southeast Asian nations will eventually enjoy their fair share of digitalisation, and the value of their Internet economies will surge in coming years. The ongoing urbanisation trend in populous Southeast Asian countries like Indonesia, Thailand, the Philippines, and Vietnam will result in the creation of a large, affluent middle income class with rising spending power.

These nations are also fast catching up in Internet penetration to form a solid base for their digital economies, as the total Internet user base in the region rose to 400m as at the end of 2020. The total value of Southeast Asia's online economy is projected to rise to more than USD300b by 2025, from USD100b in 2019, accounting for 8.5% of these countries' combined GDP (Figure 12). Taking the past 10 years of development in China as a guide, we expect the online economy to account for a rising share of the region's economy.



Source: Unsplash

e-Commerce providers among the world's largest companies. Of the 10 largest companies by market value globally, three are linked to e-Commerce businesses: Amazon, Alibaba, and Tencent. Collectively, they command a market value in excess of USD3t as of March 2021.

Over the past decade, online commerce has developed into a multi-billion-dollar industry. The 15 leading e-Commerce companies have a combined quarterly revenue of USD170b as of 3Q20 (Figure 13), an increase of 10 times over the decade as their revenue streams have benefited from the continuous shift in spending to online from offline.

The sector commands robust profitability (Figure 14). Since 2010, leading e-Commerce players have enjoyed average gross profit margins of 40%.

Digital commerce, an irreversible trend. KPMG conducted a survey on why consumers shop online. The most common reasons were time flexibility and cost savings (Figure 15). These reasons should remain valid over the coming years.

And the overall momentum does not just end here. The verticals surrounding e-Commerce ecosystems are transforming to enhance the fulfilment of orders and stickiness of end users. Bigcommerce, a software company that provides cross-channel and cloud-based e-Commerce solutions, predicts the future of the industry will be further inspired by new secular trends:

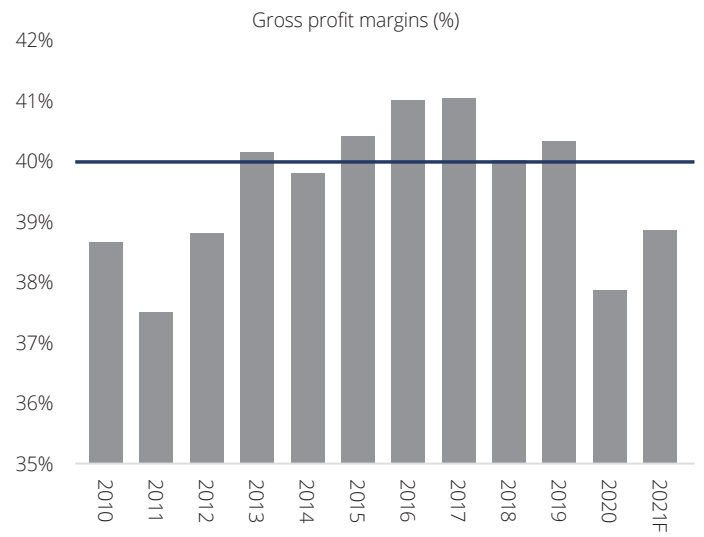
1. **Augmented reality** enhances the online shopping experience
2. Growing usage of **voice** search
3. Sellers use **artificial intelligence** to understand shoppers' behaviours

Figure 13: Combined revenue of e-Commerce stocks, 2010 – 3Q20 (USDb), a 10 times increase



Source: Bloomberg, DBS

Figure 14: The sector's profitability remains sustainable



Source: Bloomberg, DBS

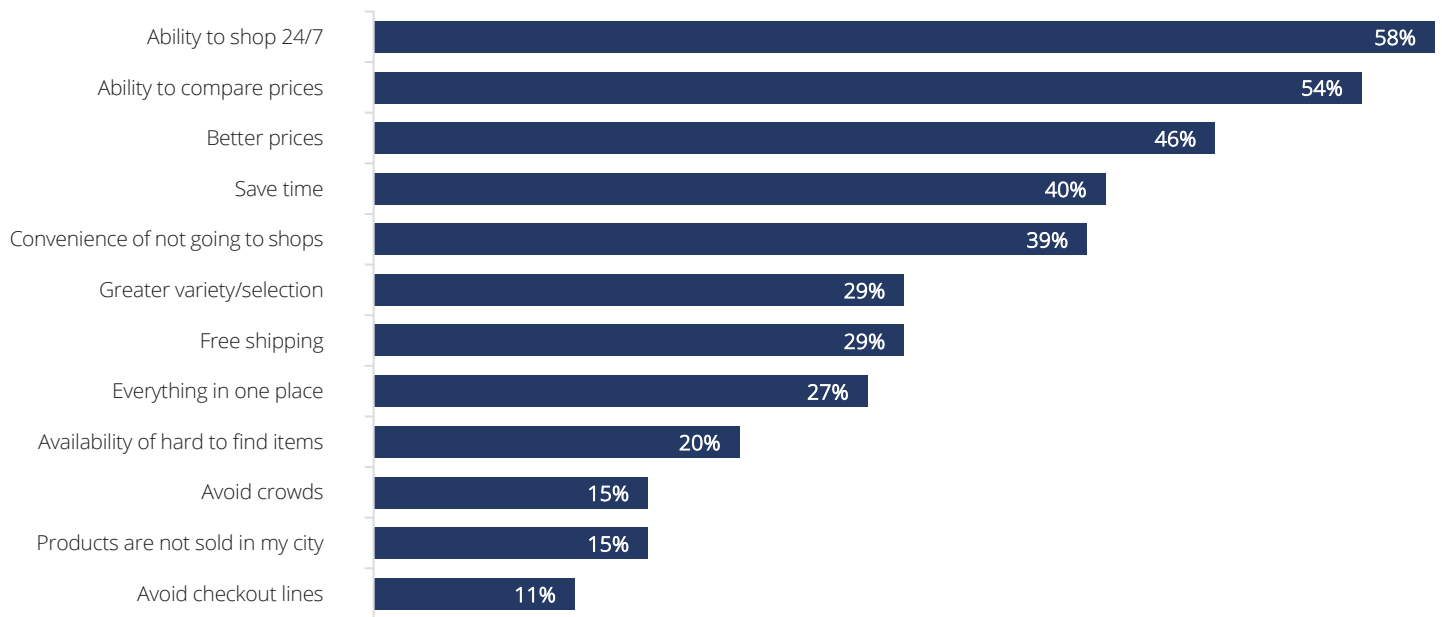
- 4. Creating individualised experiences via on-site **personalisation**
- 5. Use of **big data** analytics
- 6. Shopping experience enhanced by **chatbots**
- 7. Rise in **mobile** shopping
- 8. More **payment** methods
- 9. Headless, application programming interfaces (**API**) driven e-Commerce
- 10. **Video** driven interaction
- 11. **Subscriptions** to increase stickiness
- 12. Rising **sustainability** focus

- 13. Businesses to engage **digital conversion**
- 14. Growing **B2B** transactions

Investment Takeaways

We advocate that your portfolios stay fully invested in the e-Commerce theme. This includes investment opportunities in its surrounding ecosystems such as payment systems, logistics and speed delivery services, cloud computing, IOT, wireless communications, content streaming, data analytics, social media, and ride hailing services.

Figure 15: Reasons for consumers to shop online



Source: KPMG, DBS

2021 investment themes

	Growth	Income
Ongoing themes	<ul style="list-style-type: none"> I.D.E.A. Work from Home 5G Cloud Computing Industrial Automation Semiconductor, IC Design e-Commerce Millennials: e-Sports Millennials: Athleisure Ageing: Health Care, Insurance China A-shares Vaccine Winners 	<ul style="list-style-type: none"> Global Infrastructure BBB/BB-USD Corporate Bonds Singapore REITs China Large Banks Europe Integrated Oil Majors Europe Bank Additional Tier-1 Capital



Live more,
Bank less



CIO Expert Series | 2Q21

Energy Transition

CIO Expert Series: The energy transition

BNP Paribas Asset Management

The energy transition: why 2020 was only the beginning

2020 was a phenomenal year for companies involved in the global energy transition, but we are only at the start of a multi-decade journey. The energy transition is a USD90t opportunity from 2019 to 2050¹, where with every year of further technology innovation and policy support, the investment opportunity set continues to improve as some growth opportunities are de-risked, and new growth stories emerge.

What is the energy transition?

In our view, the energy transition consists of 3 pillars¹:

- Renewable energy production
- Energy efficiency, technology, and materials
- Energy transportation and infrastructure

Each pillar forms a crucial part of the answer when trying to solve the following question: how do we meet the world's growing energy needs whilst reducing global carbon dioxide emissions?

¹ IRENA, Global Renewables Outlook, Energy Transformation 2050, April 2020

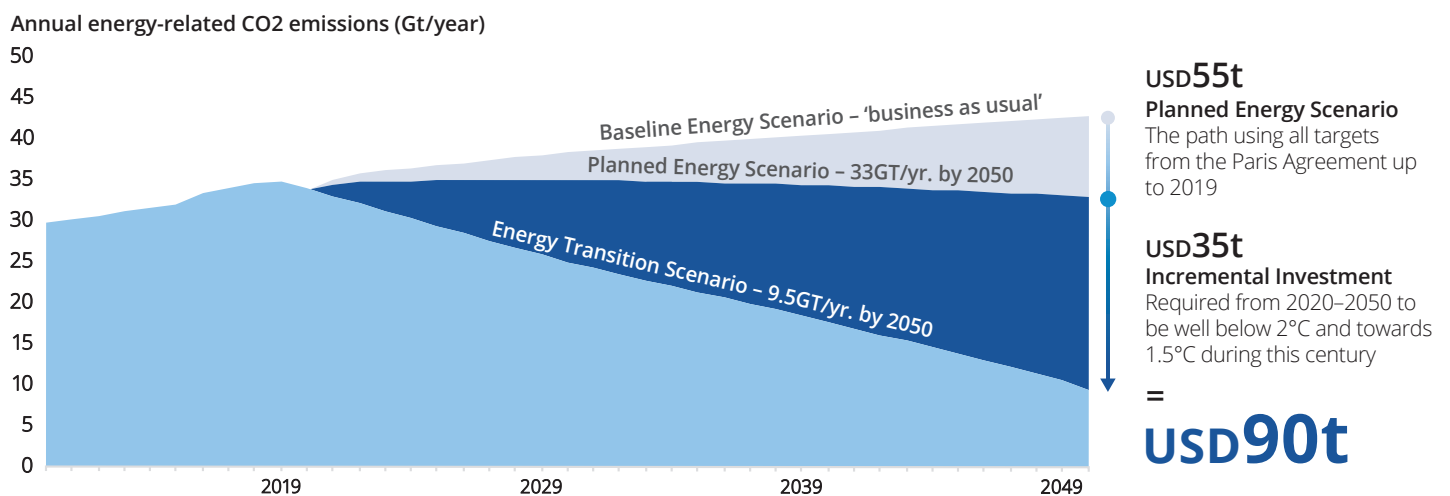
Why now, and why will it continue?

The short answer to why the energy transition is happening now is that carbon emissions are additive. We ultimately have a maximum total carbon budget to spend in order to limit global temperatures to the Paris Agreement targets of at most 2°C and therefore need to start acting today. With carbon dioxide emissions from energy use today representing nearly 70% of the global total, new solutions to reduce the carbon intensity of energy production are imperative if we wish to achieve or exceed the Paris Agreement targets. To put this in perspective, we need to reduce global energy related CO2 emissions from nearly 35 Gt/year today to less than 10 Gt/year by 2050 to target a temperature rise of closer to 1.5°C.

This challenge is made harder by energy demand growing significantly over coming decades due to population growth and rising per capita energy consumption.

- The global population is expected to increase by more than 2b by 2035, reaching 9b
- China and India reaching the same per capita energy consumption levels as Germany would add 40% to global energy demand

Figure 1: Transitioning the Global Energy System is a USD90t opportunity



Cumulative investment allocation by theme (2016 – 2050)



Source: IRENA, Global Renewables Outlook, Energy Transformation 2050, April 2020

The pillars of the energy transition

Although trying to achieve the same aim, each of the three pillars have different macro, regulatory, and industry drivers. As such, within each pillar, there are many different and varied investment opportunities. There are a plethora of sub-themes and technologies which have already reached, or are fast approaching inflection points to exponential growth, and there are others which remain far more nascent. It is this variety and breadth of opportunity set which makes the energy transition so exciting.

Energy transportation and infrastructure: only the beginning of the electric vehicle revolution

The high-profile ascent of companies such as BYD and Tesla have garnered global attention in 2020. EVs hit an inflection point last year as costs continued to decline and OEMs released new models. Sales were up 43% y/y despite the pandemic and EVs made up 4.2% of new global car sales, up

from 2.5% in 2019². These penetration rates ultimately remain very low, so we believe we are still only at the beginning of the EV take-off story. Bloomberg New Energy Finance (BNEF) sees EV sales more than tripling by 2025, with penetration rising to 50% of new sales by 2037³.

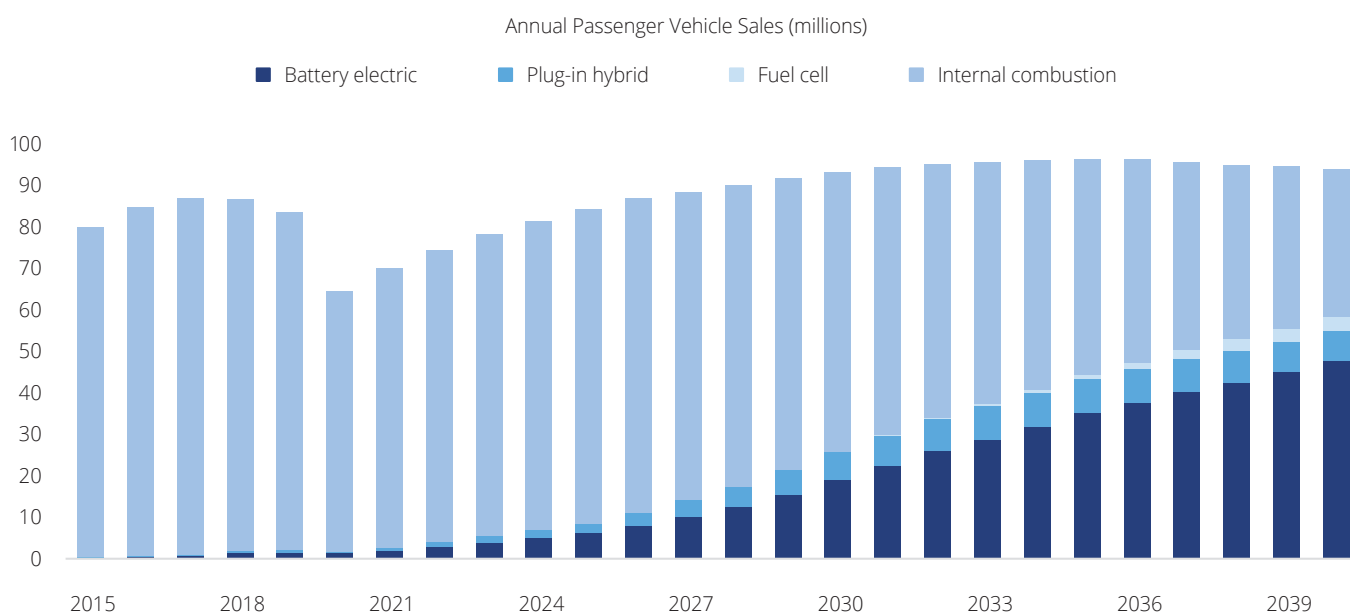
Case study: BYD Co Ltd, USD87b market cap, China

BYD is transitioning itself into a fully integrated e-Mobility provider. The firm conducts backward integration into the supply chain, producing lithium-ion batteries and semiconductors. They are present across the e-Mobility spectrum; producing e-Buses, e-Scooters, and passenger vehicles, as well as selling batteries and semiconductors.

² EV-volumes.com and The Guardian, Global sales of electric cars accelerate fast in 2020 despite pandemic, January 2021

³ BNEF Electric Vehicle Outlook, May 2020

Figure 2: We are only at the start of the electric vehicle journey



Source: BNEF Electric Vehicle Outlook, May 2020

Renewable energy production: the lowest cost form of new electricity capacity

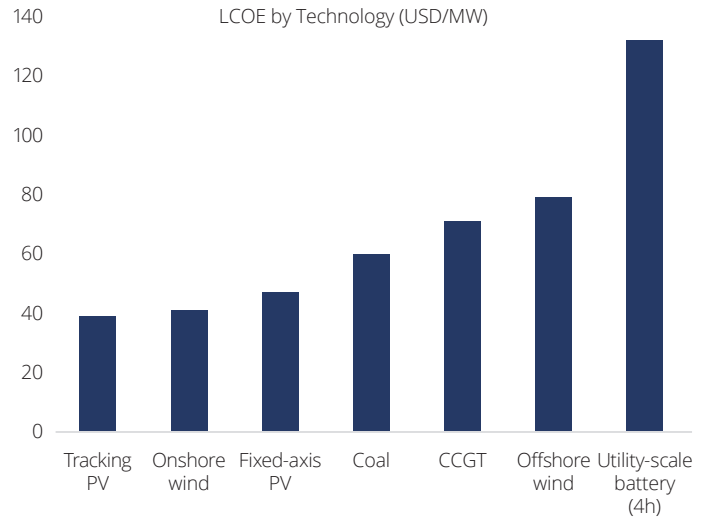
The continued decline in wind and solar costs accelerated the disruption of traditional infrastructure in 2020, and this trend shows no sign of stopping. Solar Photovoltaic (PV) module prices have fallen 90% since 2009, and wind turbine prices by 55-60% since 2010⁴ with the result that the LCOE (Levelised Cost of Electricity) for renewable projects in many parts of the world is now below traditional electricity sources. Renewable capacity additions are expected to have accounted for almost 90% of the increase in total power capacity globally last year⁵, and the International Energy Agency (IEA) forecasts a further 10% capacity expansion for renewables in 2021 driven by Europe and India⁵.

Case study: Enphase, USD22b market cap, US

Enphase is an international solar power solutions provider. With the recent blackouts in Texas, the focus on distributed power solutions in the US will likely intensify. Enphase’s fully integrated solar and energy storage solutions offer a means to reduce a household’s reliance on electricity grids. Their technology solutions help installers reduce install times, and hence costs to the consumer.

⁴ IRENA Renewable Power Generation Costs 2019
⁵ IEA Renewables 2020

Figure 3: Solar and wind are now the global low-cost sources of electricity generation

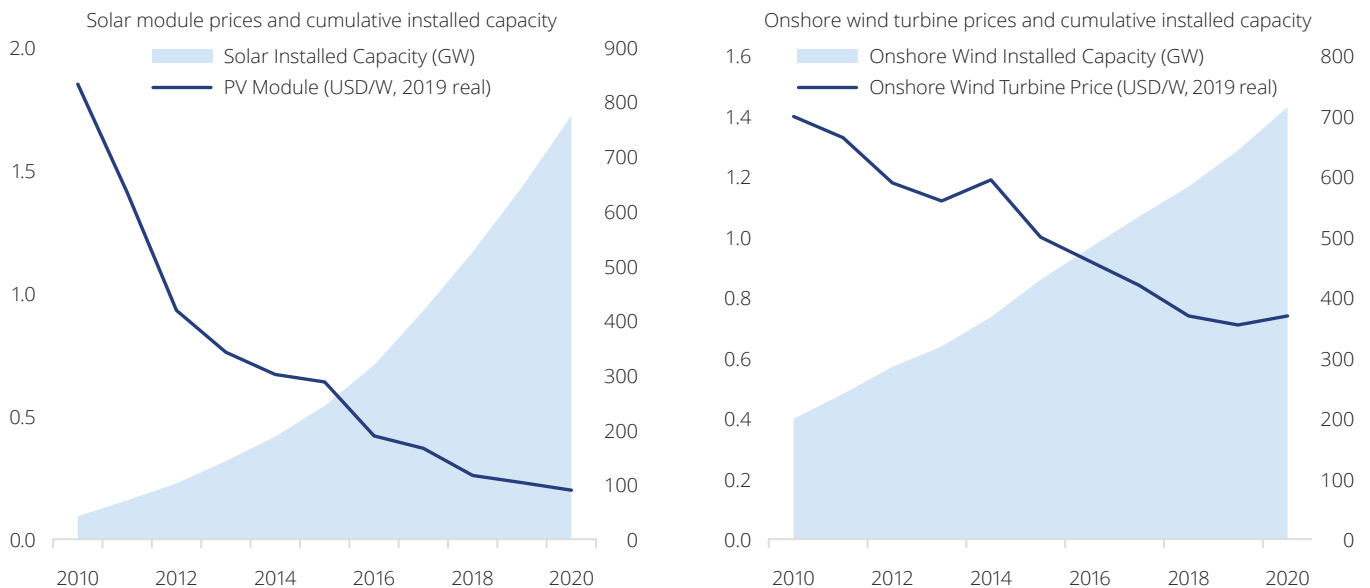


Source: BNEF, 2H 2020 LCOE Update, December 2020

Energy efficiency, technology, and materials: enabling the transition

With any transition comes new challenges and opportunities. There have been a lot of interesting developments in 2020 which could shape the course of technology and investment for years to come. For EVs, 2020 was the first year to see

Figure 4: Declining renewable costs



*PV = Photovoltaic
 Source: BNEF New Energy Outlook 2020, October 2020

some battery pack prices drop below USD100/kWh, the price generally viewed as offering cost parity for EVs with their internal combustion engine counterparts⁶. Whilst incremental cost declines will continue, 2020 saw some important advances in solid-state battery technology which could offer a step change in battery costs. Solid-state batteries could deliver 500km range, recharging completely in under ten minutes, at a lower cost due to their much higher energy density. Chinese automaker, NIO, has said it will put a 1,000km range 150kWh solid-state battery into its 2022 ET7 sedan⁷, whilst QuantumScape, a US firm backed by Volkswagen and Bill Gates, has said it is targeting 2024 production⁸.

Increasing policy support

The energy transition is a multi-decade transformation, and long-term capital deployment requires at least stable, if not supportive, policy environments, particularly where new technologies are involved. 2020 saw an underpinning and strengthening of some of the key regulatory and policy drivers of the energy transition. The election of Joe Biden as US President and his “Clean Energy Revolution” could see the US embark on a legislative path to achieving net-zero emissions by 2050⁹. In Europe, the European Green Deal, has underpinned the EU’s desire to be the first climate-neutral continent. China has pledged to become carbon neutral by 2060. These long term aspirations are being supported by more targeted policy initiatives which are helping to enable the rollout of new technologies.

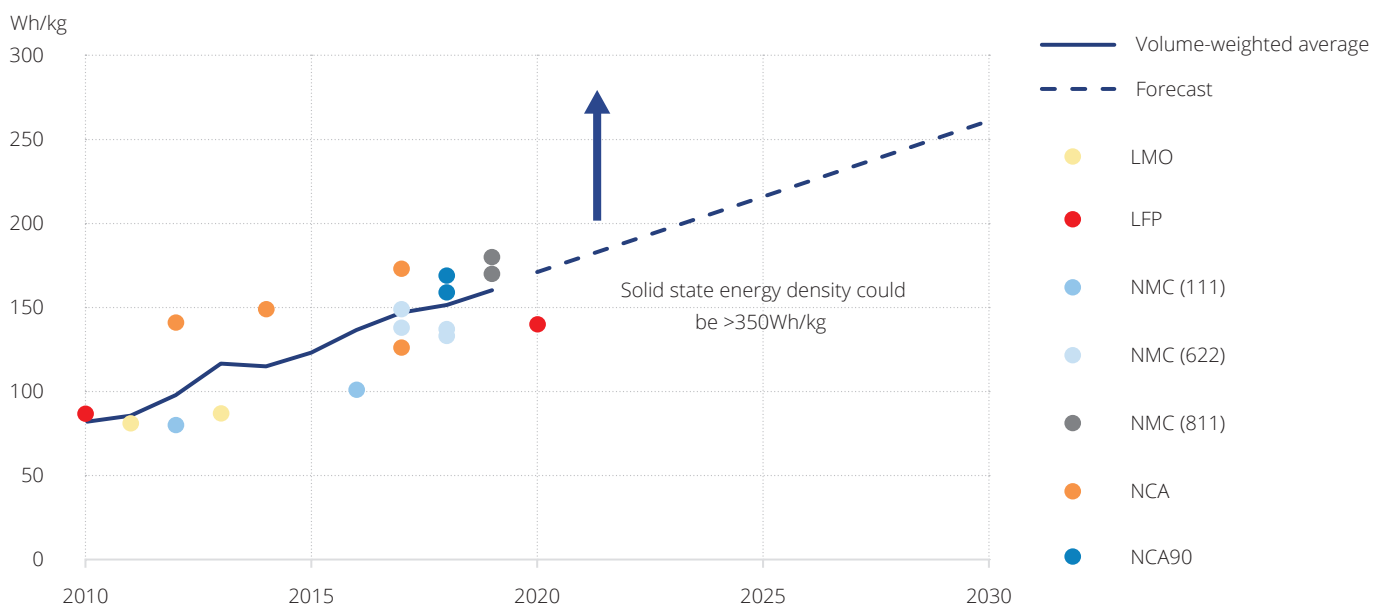
⁶ CLSA, Global Electric Vehicles 2021 outlook

⁷ South China Morning Post, China EV battery race: Tesla’s rivals join NIO in efforts to achieve 1,000km driving range on single charge target, January 2021

⁸ The Verge, VW-backed QuantumScape says its solid-state batteries will enable EVs to travel farther and charge faster, December 2020

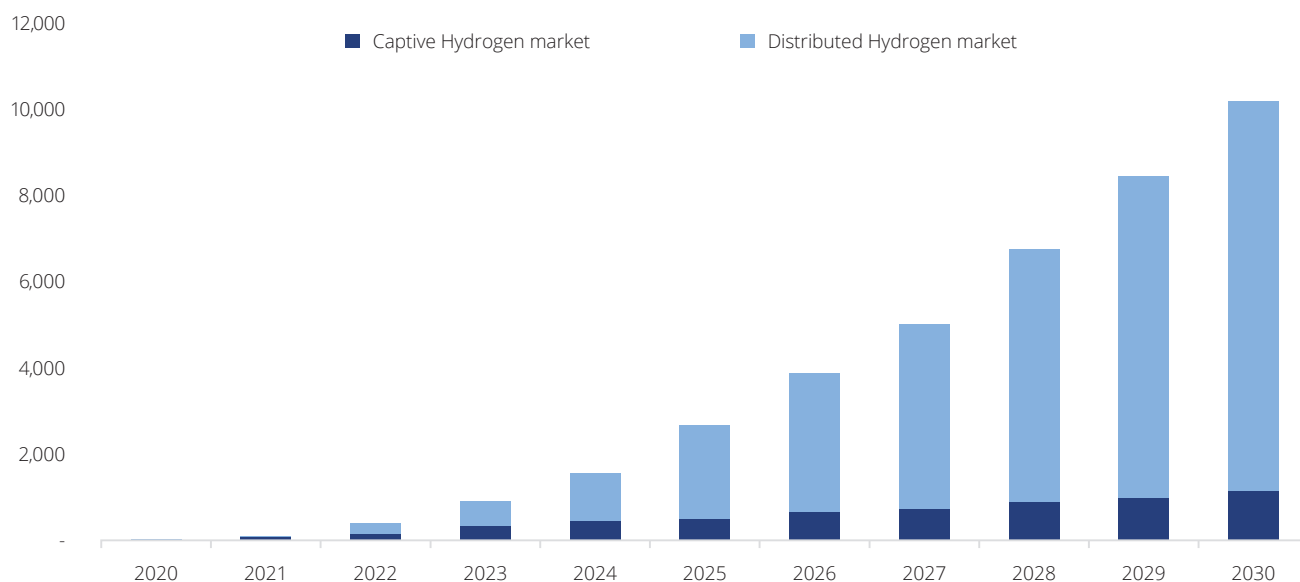
⁹ Joe Biden.com, The Biden plan for a clean energy revolution and environmental justice, January 2021

Figure 5: Solid state could represent a step change in energy density for lithium-ion batteries



Note: NCA is lithium nickel cobalt aluminum oxide, NMC is lithium nickel manganese cobalt oxide, LFP is lithium iron phosphate, LMO is lithium manganese oxide and LNO is lithium nickel oxide.

Source: BNEF, public reports.

Figure 6: EU annual Hydrogen Electrolyser Capacity addition roadmap (MW)

*Source: Green Hydrogen for a European Green Deal, a 2x40 GW Initiative, March 2020

Case study: the EU's Green Hydrogen Plan, growing installed electrolyser capacity by 8000% by 2030*

The European Green Deal contains a strong commitment to Green Hydrogen, and specifically a roadmap to achieving 80GW of electrolyser capacity in the EU and Northern Africa by 2030. These plans will help avoid CO₂ emissions of 82m tons per year¹⁰. Hydrogen, and specifically Green Hydrogen, offers a way to decarbonise parts of the world which electrification cannot reach. In particular, some parts of industry (cement, steel) and heavy-duty transportation (Class 8 trucks, trains, marine).

Policy visibility and the underlying growth story still support valuations

Although valuations rose in 2020, the fundamentals underpinning the energy transition have not changed – and if anything, the regulatory and policy backdrop globally has improved, whilst technology improvements and cost reductions have continued apace in spite of COVID-19. As such, it could certainly be argued that a multiple expansion for companies involved was warranted. Some pockets have certainly seen valuations become more extended than others, for example some fuel cell manufacturers, but the broad potential universe of companies involved in the energy transition has a PEG ratio of just 0.81 with an earnings CAGR

of >43% over the next 3 years¹⁰. This compares favourably to the broad NASDAQ index, which trades at a PEG of 1.5x¹¹.

Focusing on fundamentals in 2021

The opportunity set in 2021 will be more nuanced, as earnings should increasingly become the main driver of share price appreciation. Therefore, understanding the key macro, regulatory, and industry drivers, alongside a company's fundamental positioning therein, will become ever more important. In particular, we see differentiation between technologies and companies within supply chains becoming more apparent in the year ahead. Those with a truly differentiated and value-adding product offering will be rewarded, whilst those offering increasingly commoditised products and services will also become more visible as pricing pressure accelerates.

Identifying potential winners and losers: Wind

As the highly competitive latest UK wind auction has shown, where a consortium of BP and EnBW outbid other major oil companies and more traditional bidders such as utilities, investment in the energy transition by corporations is not only accelerating but becoming more competitive. Whilst the

¹⁰ Methodology: market cap weighted assessment of BNPP AM view of broad cross-sector Energy Transition universe where we can find evidence of environmental solutions, 22 February 2021.

¹¹ Market cap weighted assessment of CCMP Index, looking at NTM PE ratio vs 3-year EPS CAGR

acceleration in gross overall investment is positive for renewable supply chains, the competitive nature of the bidding could be a headwind for infrastructure firms. As a result, we are cautious on solar farms and wind farms heading into 2021 as aggressive bidding combined with supply chain inflation, as well as potentially higher 10-year yields, could see a significant erosion of returns (IRRs).

Within the wind supply chain, however, there will be significant opportunities for companies manufacturing wind turbines. Globally, wind turbine manufacturing is a six-firm oligopoly made up of Vestas, Siemens Gamesa, Goldwind, GE, Envision, and Ming Yang. These six firms represent 73% of installed Megawatts (MWs) in a market that is expected to see installed

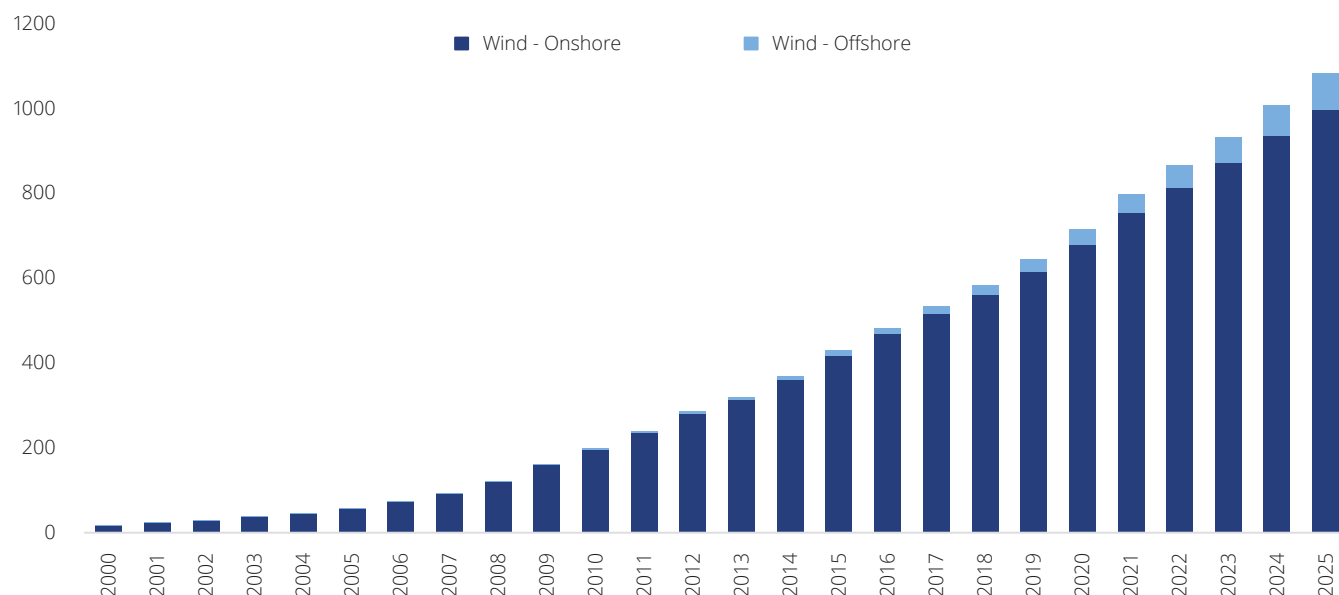
capacity grow 50% to 2025¹², and as such, the market structure is far more conducive to companies being able to maintain pricing power and margins.

Summary

In short, while 2020 was a fantastic year for the energy transition, it is only the beginning. We think 2021 will be a year which rewards those companies best placed to benefit from the underlying regulatory, macro, and industry drivers, putting an increasing emphasis on top-down thematic knowledge, technical know-how, and stock selection.

¹² BNEF, February 2020

Figure 7: Global Wind Cumulative Capacity (GW)



Source: BNEF, January 2021

The securities mentioned in this article are for illustration only and shall not constitute any investment advice.

Disclaimer

This material has been prepared and issued by BNP PARIBAS ASSET MANAGEMENT Asia Limited with its registered office at 17/F Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong and BNP PARIBAS ASSET MANAGEMENT Singapore Limited with its registered office at 20 Collyer Quay, #01-01, 20 Collyer Quay, Singapore 049319 - Company Registration No. 199308471D (the "Companies"). This material has not been reviewed by the Hong Kong Securities and Futures Commission or the Monetary Authority of Singapore. This material is produced for information purposes only and does not constitute:

1. An offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or 2. investment advice.

Opinions included in this material constitute the judgement of the Companies at the time specified and may be subject to change without notice. The Companies are not obliged to update or alter the information or opinions contained within this material. While all efforts are taken to ensure the accuracy of the information and data included in this

material, no warranty is given and no liability shall be accepted in the event of any error, inaccuracy or discrepancy of such information and data. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the financial instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for an investor's investment portfolio.

Investments involve risks. Given the economic and market risks, there can be no assurance that the financial instrument(s) will achieve its/their investment objectives. Returns may be affected by investment strategies or objectives, markets and economic conditions. The different strategies applied to the financial instruments may have a significant effect on the results portrayed in this material.

Past performance and any economic and market trends/forecasts are not a guide to current or future performance and the value of an investment may go down as well as up. Investors may not get back the amount they originally invested.

All information referred to in the present document is available on www.bnpparibas-am.com.



Live more,
Bank less

Special Feature | 2Q21

Buy-Write Strategy for
income enhancement

Special Feature: Buy-Write strategy

Hou Wey Fook, CFA | Chief Investment Officer

Dylan Cheang | Strategist

Note: This write-up was first featured as a CIO Perspective piece on 8 February 2021.

Enhancing equity income through Buy-Write strategy.

“Buy-Write” (also known as covered call) is an investment strategy that entails buying a security and simultaneously selling a call option against it. Investors who engage in this strategy believe that: (a) The security will not fluctuate widely in either direction; and (b) Income can be enhanced by capturing premiums on the option. But like all things in life, investment strategies come with their own unique advantages and disadvantages.

In the case of a Buy-Write strategy, an investor has to forfeit the full potential of a security's price gain and sell it to a buyer if the option is exercised. In other words, the upside is capped. However, the upshot of this strategy is that the option premium helps to enhance income generation as well as mitigate the downside in times of market volatility.

So clearly, this strategy does well in a neutral to moderately bullish market environment.

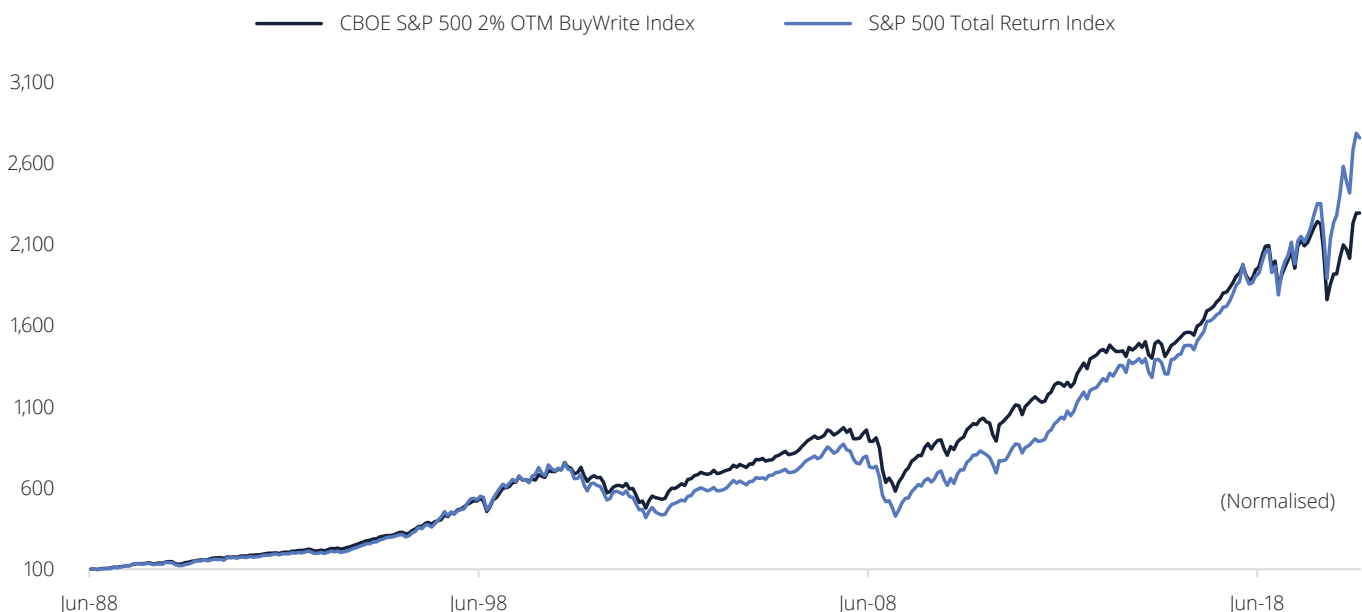
Changing strategies for a changing world: Why Buy-Write is a timely complement to traditional dividend strategies.

The traditional notion of an “equity income strategy” is premised on dividend stocks. This strategy has worked well in an era where things were “business as usual” and traditional companies maintain their ability to generate cashflow for dividend payouts. But times have changed.

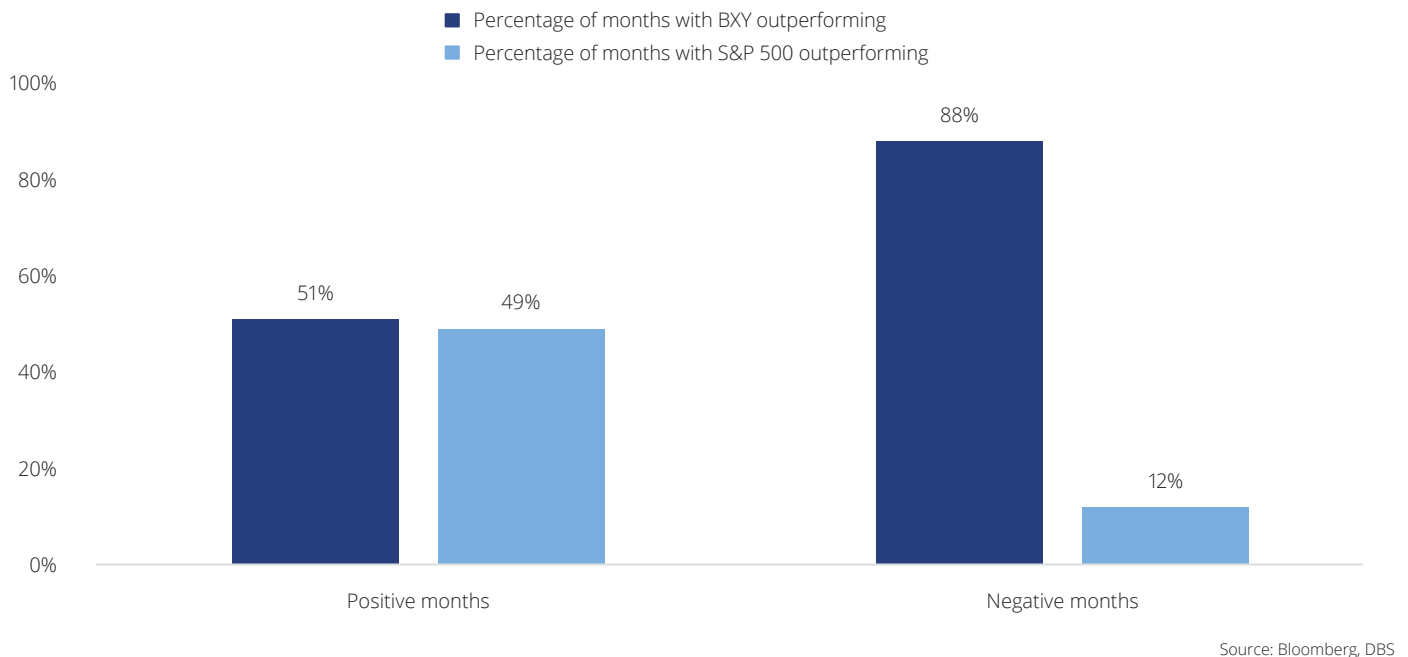
Firing the opening salvo was the global disruption of traditional industries caused by the rise of Big Tech. Today, technology is gradually taking over every aspect of the business world and companies which fail to adapt to the new environment face existential threats. Next came the COVID-19 pandemic which saw economic lockdowns leading to the collapse in demand for several industries.

A common denominator for these two events is rising investors' concerns surrounding dividend payments as traditional industries succumb to these headwinds. And these concerns

Figure 1: Buy-Write strategy performing broadly in line with the market while encapsulating lower volatility



Source: Bloomberg, DBS

Figure 2: Buy-Write strategy tends to perform better in bear and moderately bull markets

are valid. In an era where departmental stores are overtaken by e-Commerce and live stadium events are gradually substituted with e-Sports, the expectation of uninterrupted dividend payments can no longer be taken for granted.

To generate the same income stream as yesteryears, a more robust approach is required, and this is where the Buy-Write strategy can come into play.

Buy-Write vs Long Only strategies – The facts and the myths. Given the constraint on upside potential, it is commonly presumed that a Buy-Write strategy will underperform traditional Long Only strategies over a long market cycle. But data suggests otherwise.

We compared the long-term performance of the S&P 500 Total Return Index and the CBOE S&P 500 2% OTM BuyWrite Index (BXY). Since July 1988, the BXY has registered average annualised monthly return of 10.4% and this is only marginally lower than the 11.3% return registered by the S&P 500 Index on a total returns basis. Given that the volatility for

BXY is lower at 10.4% (vs 14.6% for the S&P 500), the former therefore encapsulates a higher Sharpe ratio (or returns over risk ratio) than the S&P 500.

Another interesting presupposition of the Buy-Write strategy is that it tends to perform better in a bear market but perform worse in a bull market. But again, data suggests otherwise:

- Since June 1998, the S&P 500 has registered 249 months of positive returns. During those months, average gains for S&P 500 and BXY were 3.2% and 2.7%, respectively, and this is in line with the presupposition. But analysing the performance data on a monthly basis tells a different story.

Of the 249 months of positive returns, BXY has garnered higher monthly returns 51% of the time. In other words, while the S&P 500 registered higher returns during positive months, BXY has a higher frequency of outperforming the former.

But it should be highlighted that BXY's outperformance tends to take place during months when market returns are moderate (with S&P 500 notching average monthly gains of 2.3%). Whereas S&P 500's outperformance tends to take place during months when market returns are stronger (with S&P 500 gaining 4.1% on average).

- The number of months with negative returns for the S&P 500 is 142 since June 1998. During those months, average losses for S&P 500 and BXY is 3.5% and 2.4%, respectively, and this is again in line with the presupposition.

Of the 142 months of negative returns, BXY has outperformed the S&P 500 88% of the time. These findings show that the BXY not only suffered less losses during bear markets, it also has significantly higher frequency of outperforming the S&P 500 when sentiments are negative.

The above findings show that a Buy-Write strategy demonstrates an attractive risk-reward for investors over a long market cycle.

Enhancing cross-asset income strategy with covered calls. We have in our [CIO Perspectives: Persistence of low bond yields and the need for a robust cross-asset income strategy](#) (dated 15 January 2021) highlighted that the

prevalence of low bond yields necessitates the adoption of a multi-asset portfolio strategy involving both corporate bonds and high dividend equities in order to generate returns that are more in line with credit portfolios of prior years.

Carrying our analysis one step further, we look at how a multi-asset income portfolio will perform when covered calls are introduced and the result is as follows:

- 2002-14: Global credit generated average annualized monthly returns of 6.2% during this period, outperforming global treasuries by 0.4 %pts.
- 2015-20: Global credit only managed to attain average annualised monthly return of 4.3% during this period. In order for investors to attain portfolio returns that are similar to prior years, we constructed two hypothetical multi-asset portfolios consisting of (a) 50% credit and 50% dividend equities, (b) 40% credit, 30% dividend equities, and 30% covered calls.

Our analysis shows that the former returned 5.7%. However, when covered calls were included, the return increased to 6.4%. This clearly illustrates that a multi-asset income strategy incorporating call writing will garner higher returns for investors in the present environment.

Table 1: Asset class returns over different time periods

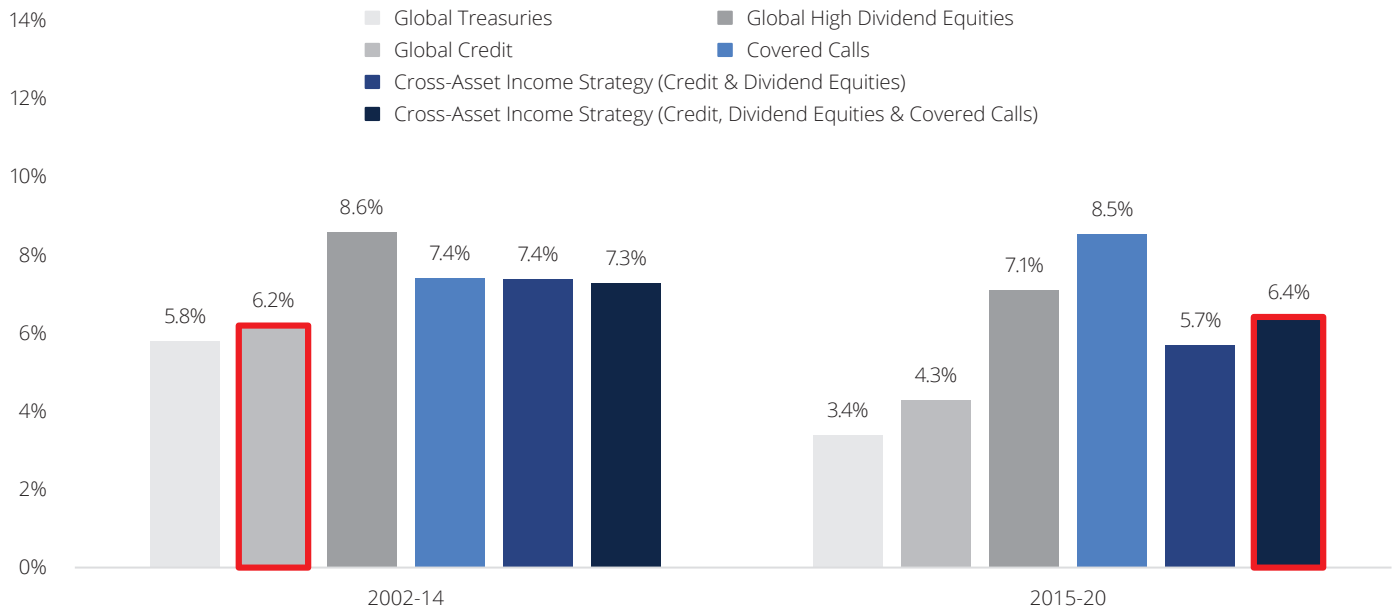
	Global Treasuries	Global Credit	Global High Dividend Equities	Covered Calls	Cross-Asset Income Strategy (Credit & Dividend Equities)	Cross-Asset Income Strategy (Credit, Dividend Equities & Covered Calls)
2002-14	5.8%	6.2%	8.6%	7.4%	7.4%	7.3%
2015-20	3.4%	4.3%	7.1%	8.5%	5.7%	6.4%

Source: Bloomberg, DBS

*Based on 50% Global Credit and 50% Global High Dividend Equities

**Based on 40% Global Credit, 30% Global High Dividend Equities, and 30% Covered Calls

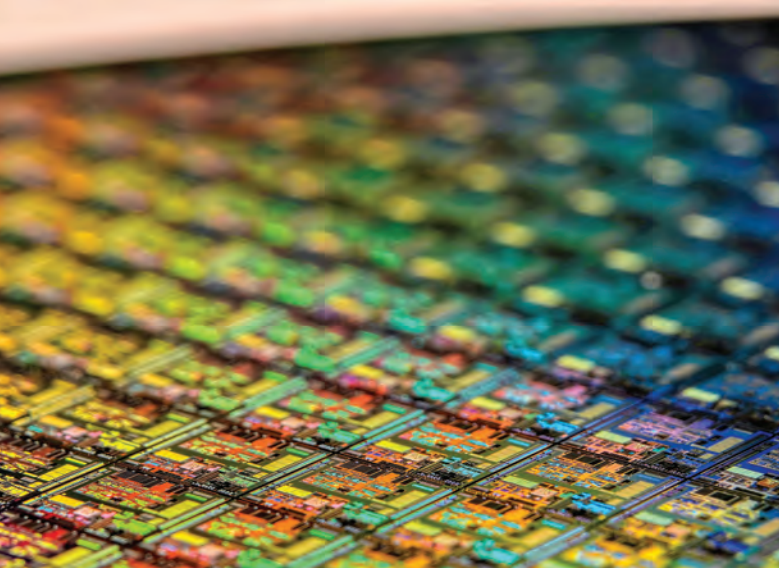
Figure 3: Buy-Write strategy enhances equity income returns in a cross-asset portfolio



Source: Bloomberg, DBS



Source: iStockphoto



Special Feature II | 2Q21

Global Semiconductors



NEW
IDEAS
FOR

Source: Unsplash

Special Feature: Global semiconductors

Yeang Cheng Ling | Strategist

Recent media reports have exaggerated the shortages of semiconductor integrated circuit (IC) chips and chipsets. According to our channel checks, the undersupply is mainly limited to the auto components, power management chips, and data centre server sectors and is caused by resumption of orders withheld during the pandemic. The situation highlights the robust demand for IC chips, which will be addressed with new capacity. It is an opportune time to invest in this long-term secular growth sector.

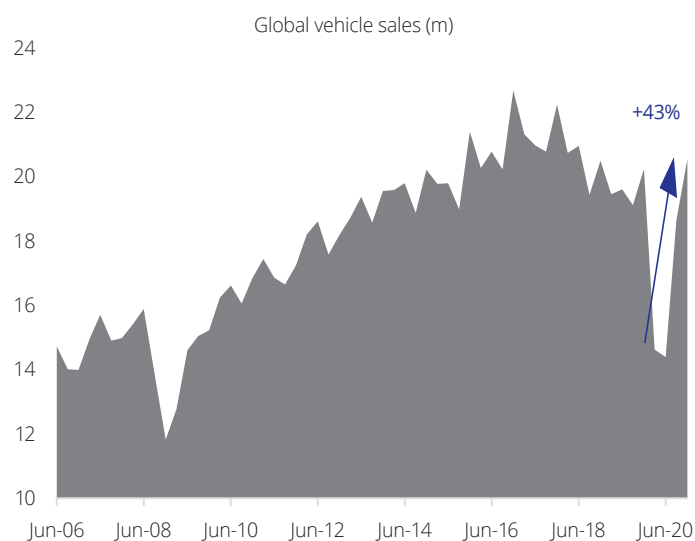
Short-term undersupply in a few sectors which have under ordered during the pandemic. The temporary paucity of supply is due to the stronger than expected surge in demand for chipsets as many companies resume production. The shortfall is especially acute in the automotive industry globally; manufacturers cancelled orders during the pandemic but vehicle demand has rebounded strongly (Figure 1). Global vehicle unit monthly sales in 4Q20 was the highest since 1Q18. The practice of just-in-time manufacturing has exacerbated the situation. It will take time to fulfill the order backlogs for IC chips and chipsets as orders from these auto companies rejoin the queue for supply.

Pricing power enhanced. The one-off, short-lived shortage from uneven order flows enhances the ability of wafer foundries to raise prices which bodes well for earnings.

Long-term supply increase to meet tremendous demand. On a positive note, the demand and lead time are now extended over a longer cycle. IC chip and chipset suppliers are investing in new facilities to raise production capacity throughout 2021 and 2022.

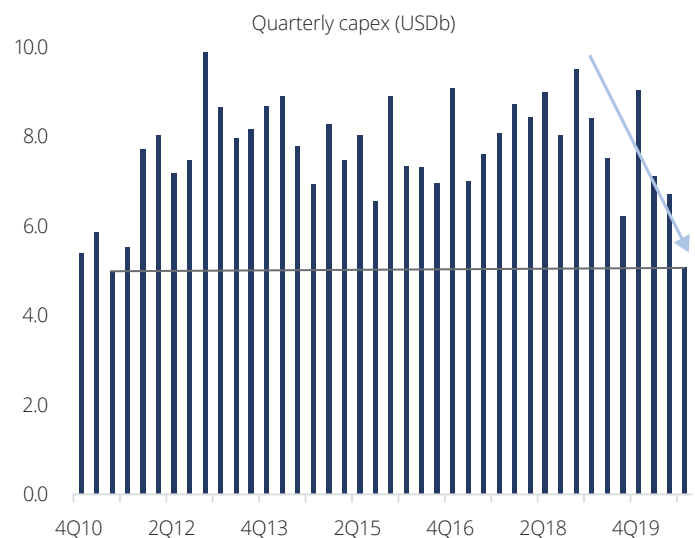
Auto sector capex shortfall made obvious by demand surge – The four largest automakers’ combined capex fell to the lowest level last seen in 2Q11 in part due to conservative production planning during the COVID-19 pandemic in 2020 (Figure 2). This is the root cause of the recent acute shortage in chips as the end demand for automobiles turned out much stronger than expected but the automakers did not

Figure 1: Global vehicle sales rebounded strongly



Source: Bloomberg, DBS

Figure 2: Drop in capex among leading automakers



Source: Bloomberg, DBS

have sufficient inventory. As of 3Q20, the combined capex of the four industry leaders was almost 50% below the peak in 4Q18. Without contingency chipset inventory backup, some of these automakers may need to temporarily stop production in some of their factories as they wait for their IC chip orders to be fulfilled.

The current shortage in chips is therefore short-to-mid-term in nature and one-off. The situation highlights and supports our constructive view on global digitalisation themes.

Technology sector has maintained consistently high levels of capex – Since the GFC, capex among the broader global semiconductor equipment and components companies tripled while research and development expenses expanded 1.5x. These frontrunners of the secular digitalisation wave were invested for growth and leadership. (Figure 3).

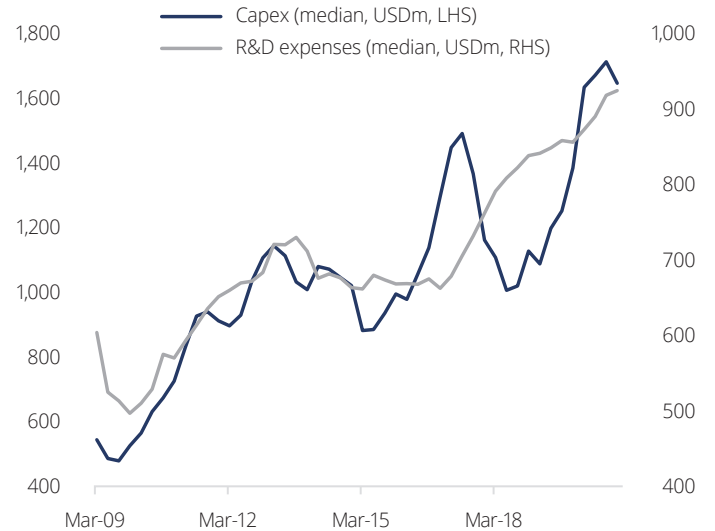
The trend in inventory is similar among the global IC design firms. The average inventory value of the world's 13 leading IC design firms rose to USD1.2b at the end of 2020, double the level of 10 years ago, while inventory days stayed elevated at 95-100 days (Figure 4).

This confirms our view that the shortage in chips are not as dire as reported. Overall, chipset inventory remains at the high end of historical averages, and we believe the shortages are more related to selected application specific integrated circuit chips (ASIC), such as those used for power management, electrifications, automotive microprocessors, dashboard display controllers, and the ecosystems of microchips that operate in car infotainment systems.

Extreme weather and geological changes caused part of the supply disruptions:

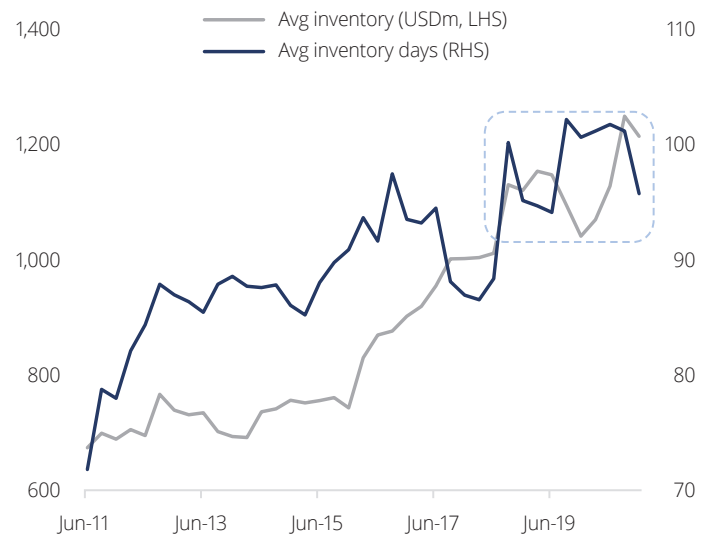
1. The production in Samsung's semiconductor plant in Austin, Texas was affected by the power outage caused by winter storm.
2. Foundries in central and southern Taiwan suffered water supply issues since the start of 2021 due to drought, where water supply fell by 7-10%.

Figure 3: Capex and R&D spending remained strong (March 2009 – December 2020)



Source: Bloomberg, DBS

Figure 4: Global IC Design firms have healthy levels of inventories (June 2011 – December 2020)



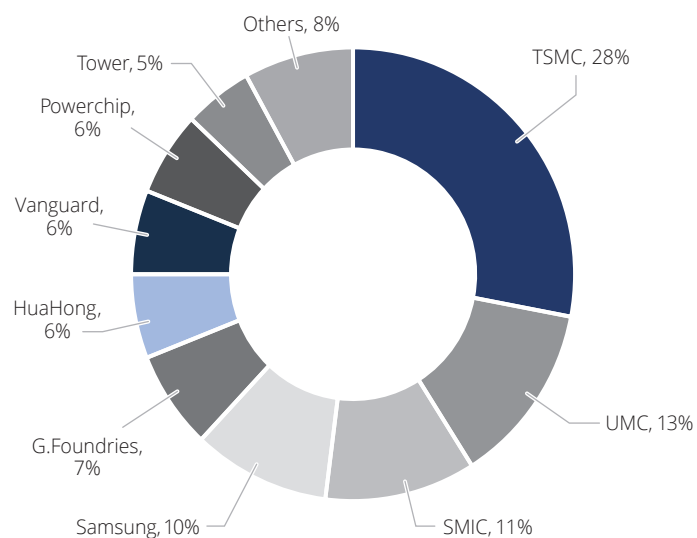
Source: Bloomberg, DBS

3. A 7.3 magnitude earthquake in Japan's northeast Ibaraki prefecture temporarily halted operations of semiconductor factories.

While these events may aggravate the short-term undersupply, we expect these conditions to be resolved as the weather conditions return to normal and utilities supply stabilises. In Japan, production has resumed at Renesas Electronics' advanced plant within two days and should return to full production in a week. The authorities in Taiwan have taken measures to supply water to vital industries during this drought period, such as deploying mobile water trucks.

Semiconductor capacity is Asia centric – 80% of the world's wafer and chip contract manufacturing capacity (logic and memory) is owned by Asian firms (Figure 5), with Taiwan accounting for more than half, China at 17%, and Korea at more than 10%. The majority of their capacity are located in their respective countries. The risk of force majeure due to power outage to production disruption is lower as wafer fabrication plants typically have their own independent power generation facilities for uninterrupted power supply to ensure reliable production processes.

Figure 5: Global logic semiconductor foundry market share (%)



Source: Wccftech, Counterpoint, DBS



Source: Unsplash

Sufficient supply in the system – The world’s top five wafer contract manufacturers combined account for 54% of global capacity (Table 1). They have collectively increased capacity by 7% in 2020, in spite of the pandemic. There is sufficient wafer making capacity on a broader industry basis to fulfill the rising demand. In fact, it was the uneven chipset order flows that have sparked the interruption to overall industry output.

To further verify inventory conditions, we tracked the inventory at different parts of the supply chain. The combined inventory of foundries, notebook original design manufacturers (ODM), and components makers has rebounded to around USD25b

(Figure 6) as of 3Q20, more than double the level since the start of the decade. They are adequately stocked on a broader supply chain basis.

Another supportive indicator is the inventory level among Japanese and Taiwanese passive IC component makers which supply to global customers. Their combined inventory at hand was near USD10b, again, nearly double over the same period (Figure 7). All these indicators prove that the current shortage of chips in the global supply chains is limited to certain applications or sub-segments.

Table 1: Monthly installed wafer capacity of five largest memory and logic wafer foundries (200mm-equivalent)

	Dec 2019	Dec 2020	y/y (%)
Samsung	2,935	3,060	4%
TSMC	2,505	2,719	9%
Micron	1,841	1,931	5%
SK Hynix	1,743	1,878	8%
Kioxia/WD	1,406	1,598	14%
Top-5 capacity	10,430	11,186	7%
Top-5 as % of global capacity	53%	54%	

Source: Companies, IC Insights, DBS

Figure 6: Wafer and NB components supply chains are well-stocked (Dec 2010 - Sep 2020, USDb) ...



Source: Bloomberg, DBS

Figure 7: ... so are the passive component makers (Dec 2010 - Sep 2020, USDb)



Source: Bloomberg, DBS

The current situation of chip shortage is one-off and does not derail the long-term growth trajectory and constructive outlook of the overall global information technology sector over the next few years. Rather, the full capacity demand for both advanced and matured nodes, coupled with rush orders from automotive customers enhance the pricing power of the industry leaders, and enable them to deliver better-than-expected earnings over the extended cycle for the next two years.

Equipment makers to benefit – The semiconductor equipment sector is entering a new phase of the growth cycle amidst the rush orders driven by surging capex among industry leaders. The constructive revenue outlook for global semiconductor companies is supported by the orderbook outlook (Figure 8). For example, Taiwan Semiconductor Manufacturing Company (TSMC) is spending USD28b this year, while Samsung Electronics will spend USD120b over the next 10 years purely for semiconductor related development.

Other wafer foundries will no doubt invest heavily as well. This will expedite the capacity rollout and ease the constraint for automotive customers. We believe the large spending in capex is just the beginning of the new wave. The robust earnings outlook will continue to reinforce the compelling investment outlook on global technology (Figure 9).

Well-positioned for the secular wave of digitalisation

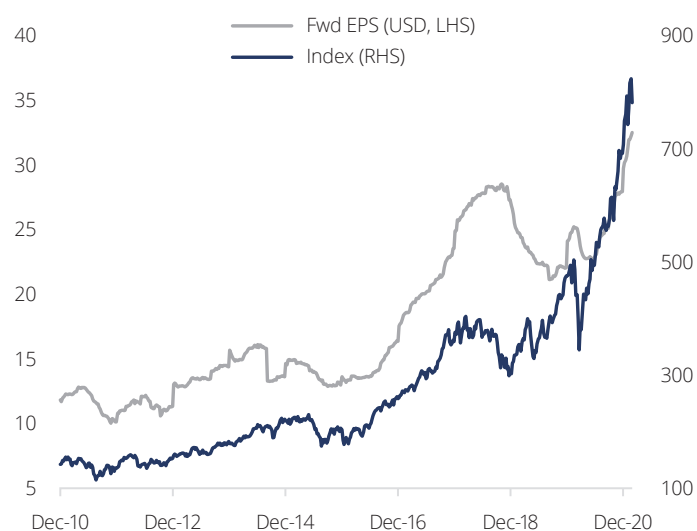
– In DBS Chief Investment Office’s Barbell Strategy, we hold positions in IC design, logic, and memory foundries, and equipment makers which are long-term beneficiaries of the structural development in 5G, high performance computing, data servers, cloud, artificial intelligence, electric vehicles, gaming, machine learning, industrial automation, power management, and sensors.

Figure 8: Sector’s revenue trend to stay firm



Source: Bloomberg, DBS

Figure 9: Compelling earnings outlook to support the investment returns



Source: Bloomberg, DBS

Disclaimers and Important Notes

This information herein is published by DBS Bank Ltd. ("DBS Bank") and is for information only. This publication is intended for DBS Bank and its subsidiaries or affiliates (collectively "DBS") and clients to whom it has been delivered and may not be reproduced, transmitted or communicated to any other person without the prior written permission of DBS Bank.

This publication is not and does not constitute or form part of any offer, recommendation, invitation or solicitation to you to subscribe to or to enter into any transaction as described, nor is it calculated to invite or permit the making of offers to the public to subscribe to or enter into any transaction for cash or other consideration and should not be viewed as such.

The information herein may be incomplete or condensed and it may not include a number of terms and provisions nor does it identify or define all or any of the risks associated to any actual transaction. Any terms, conditions and opinions contained herein may have been obtained from various sources and neither DBS nor any of their respective directors or employees (collectively the "DBS Group") make any warranty, expressed or implied, as to its accuracy or completeness and thus assume no responsibility of it. The information herein may be subject to further revision, verification and updating and DBS Group undertakes no responsibility thereof.

All figures and amounts stated are for illustration purposes only and shall not bind DBS Group. This publication does not have regard to the specific investment objectives, financial situation or particular needs of any specific person. Before entering into any transaction to purchase any product mentioned in this publication, you should take steps to ensure that you understand the transaction and has made an independent assessment of the appropriateness of the transaction in light of your own objectives and circumstances. In particular, you should read all the relevant documentation pertaining to the product and may wish to seek advice from a financial or other professional adviser or make such independent investigations as you consider necessary or appropriate for such purposes. If you choose not to do so, you should consider carefully whether any product mentioned in this publication is suitable for you. DBS Group does not act as an adviser and assumes no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from any arrangement or entrance into any transaction in reliance on the information contained herein. In order to build your own independent analysis of any transaction and its consequences, you should consult your own independent financial, accounting, tax, legal or other competent professional advisors as you deem appropriate to ensure that any assessment you make is suitable for you in light of your own financial, accounting, tax, and legal constraints and objectives without relying in any way on DBS Group or any position which DBS Group might have expressed in this document or orally to you in the discussion.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of the Information, which may arise as a result of electronic transmission. If verification is required, please request for a hard-copy version.

This publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

If you have received this communication by email, please do not distribute or copy this email. If you believe that you have received this e-mail in error, please inform the sender or contact us immediately. DBS Group reserves the right to monitor and record electronic and telephone communications made by or to its personnel for regulatory or operational purposes. The security, accuracy and timeliness of electronic communications cannot be assured.

Dubai Financial International Centre: This publication is distributed by the branch of DBS Bank Ltd operating in the Dubai International Financial Centre (the "DIFC") under the trading name "DBS Vickers Securities (DIFC Branch)" ("DBS DIFC"), registered with the DIFC Registrar of Companies under number 156 and having its registered office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates. DBS DIFC is regulated by the Dubai Financial Services Authority (the "DFSA") with a DFSA reference number F000164. For more information on DBS DIFC and its affiliates, please see <http://www.dbs.com/ae/our-network/default.page>.

This publication is provided to you as a Professional Client or Market Counterparty as defined in the DFSA Rulebook Conduct of Business Module (the "COB Module"), and should not be relied upon by any client which does not meet the criteria to be classified as a Professional Client or Market Counterparty under the DFSA rules.

Hong Kong: This publication is distributed by DBS Bank (Hong Kong) Limited (CE Number: AAL664) ("DBSHK") which is regulated by the Hong Kong Monetary Authority (the "HKMA") and the Securities and Futures Commission. In Hong Kong, DBS Private Bank is the private banking division of DBS Bank (Hong Kong) Limited.

DBSHK is not the issuer of the research report unless otherwise stated therein. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBSHK.

Singapore: This publication is distributed by DBS Bank Ltd (Company Regn. No. 196800306E) ("DBS") which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore (the "MAS").

Thailand: This publication is distributed by DBS Vickers Securities (Thailand) Co., Ltd. ("DBSVT").

United Kingdom: This publication is distributed by DBS Vickers Securities (UK) Ltd of Paternoster House, 4th Floor, 65 St Paul's Churchyard, London EC4M 8AB. ("DBS Vickers UK") which is authorised and regulated by the Financial Conduct Authority (the "FCA").

Glossary of Terms:

Acronym	Definition	Acronym	Definition
ASEAN	Association of Southeast Asian Nations	EU	European Union
AUM	assets under management	EV	electric vehicle
AxJ	Asia ex-Japan	FCF	free cashflow
B2B	business to business	FDA	Food and Drug Administration
B2C	business to consumer	FDI	foreign direct investment
bbl	barrel	FX	foreign exchange
BI	Bank Indonesia	GDP	gross domestic product
BNEF	BloombergNEF	GFC	Global Financial Crisis
BNM	Bank Negara Malaysia	GMV	gross merchandise value
BOE	Bank of England	HIBOR	Hong Kong Interbank Offered Rate
BOJ	Bank of Japan	HKMA	Hong Kong Monetary Authority
BOK	Bank of Korea	HY	High Yield
BOT	Bank of Thailand	IC	integrated circuit
bpd	barrels per day	IG	Investment Grade
BSP	Bangko Sentral ng Pilipinas	IMF	International Monetary Fund
C2B	consumer to business	IOT	Internet of Things
C2C	consumer to consumer	IPO	initial public offering
CAGR	compound annual growth rate	ISM	Institute for Supply Management
CFTC	Commodity Futures Trading Commission	IT	Information Technology
CGB	China Government Bonds	JGB	Japanese Government Bond
CPI	consumer price index	KTB	Korea Treasury Bonds
DM	Developed Markets	LATAM	Latin America
dma	day moving average	M&A	merger and acquisition
DXY	US Dollar Index	MAS	Monetary Authority of Singapore
EBITDA	earnings before interest, tax, depreciation, and amortisation	MGS	Malaysia Government Securities
EC	European Commission	MIFOR	Mumbai Interbank Forward Offer Rate
ECB	European Central Bank	mmbpd	million barrels per day
EM	Emerging Markets	NEER	nominal effective exchange rate
eop	end of period	NIESR	National Institute of Economic and Social Research
EPFR	Emerging Portfolio Fund Research	OECD	Organisation for Economic Co-operation and Development
EPS	earnings per share	OEM	Original Equipment Manufacturer
ESG	Environmental, Social, and Governance	OIS	overnight indexed swap
e-Sports	electronic sports	OPEC	Organization of the Petroleum Exporting Countries
ETF	exchange-traded fund	OPM	operating margin

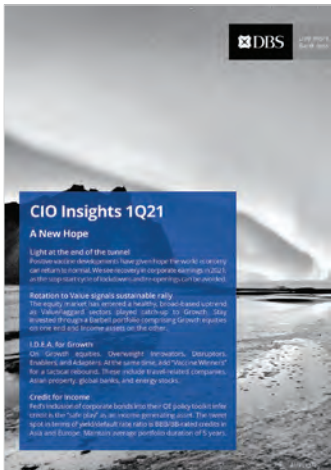
Acronym Definition

P/B	price-to-book
P/E	price-to-earnings
P/Sales	price-to-sales
P2P	peer to peer
PBOC	People's Bank of China
PEG	price/earnings-to-growth
PM	portfolio manager
PMI	purchasing managers' index
QE	quantitative easing
R&D	research and development
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBNZ	Reserve Bank of New Zealand
RCEP	Regional Comprehensive Economic Partnership
REIT	real estate investment trust
RM	relationship manager
ROA	return on asset
ROE	return on equity
RPGB	Philippine Treasury Bonds

Acronym Definition

SAA	Strategic Asset Allocation
saar	seasonally adjusted annual rate
SD	standard deviation
SDR	Special Drawing Rights
SGS	Singapore Government Securities
SIBOR	Singapore Interbank Offered Rate
SNB	Swiss National Bank
SOE	state-owned enterprise
SOR	swap offer rate
SORA	Singapore Overnight Rate Average
TAA	Tactical Asset Allocation
TAM	total addressable market
UCITS	Undertakings for Collective Investment in Transferable Securities
UST	US Treasury
WFH	work from home
WGBI	World Government Bond Index
WTI	West Texas Intermediate
YTD	year-to-date
YTW	yield to worst

CIO Collection



1Q21 CIO INSIGHTS
A New Hope
December 2020



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

2018
CIO Insights

The Bull Ain't Done

Positive Asia, Global Financials, and Technology
The "bullish" sentiment of late 2017 has shifted into a more cautious, emerging growth and value focus for global markets. Our research in Asia, Europe, Global Financials and Technology is what you need.

Favour EM Corporate Bonds
The global and domestic recovery of late 2017 has been a boon for emerging market corporate bonds. Our research in Emerging Markets is what you need.

Recovery in the US Dollar
The US dollar has been a beneficiary of the recovery in emerging markets. Our research in Emerging Markets is what you need.

APPI Only

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

2018
CIO Insights

Mind the Bends

Stay with risk assets despite higher volatility
Markets continue to show volatility. To fund investors' concerns of being overvalued and higher rates. Stay engaged in equities and corporate bonds.

Seek income-generating assets for resilience
Domestic US bonds and corporate bonds and Asia Bonds & Structured Portfolios for income portfolio solution from volatility in equity markets.

Global Technology, Financials, and Asia to pay off
Specialized global growth and global macro US Treasury yields will support capital allocation and strong market volatility.

APPI Only

2Q18 CIO INSIGHTS
Mind the Bends
March 2018

3Q18
CIO Insights

Steer Through Rough Seas

Expect elevated volatility
Macroeconomic, European politics, and trade war lines to keep markets in check.

Move equities to Neutral; cash to Overweight
Market is overvalued, volatile, and under capital. Stay engaged in equity investment opportunities. Diversify equities, continue to prefer US over Europe. Move Asian market to Overweight.

Engage bonds for superior income
Focus on high-quality, long-term bonds through a portfolio of diversified, high-quality, low-risk bonds. Stay engaged in high-quality, low-risk bonds.

Invest in beneficiaries of structural trends
Participate in the long-term growth trends of Asian Markets and Applied Technology. Stay engaged in structural trends of the investment universe.

APPI Only

3Q18 CIO INSIGHTS
Steer Through Rough Seas
June 2018

4Q18
CIO Insights

Window of Opportunity

Macroeconomics and Fed policy supportive of risk assets
Global growth, modest inflation, and tight financial rate policy are conducive for credit and equities.

Longest bull run in history; stay Overweight US equities
Despite the longest bull market in history, we still favor global equity & risk assets. Focus on US, not just on an overvalued market in US stocks. Market Overweight US, Underweight Europe.

Positive on China
Structural reforms, ongoing growth in Asian. China's growth in services, well-developed, policy will be supportive of China Financials and technology sectors.

Credit to outperform government bonds
High-quality, low-risk, particularly Asia credits, offer attractive risk-adjusted returns and a high default rate. Keep portfolio duration at between 2 to 3 years, given a flat yield curve.

APPI Only

4Q18 CIO INSIGHTS
Window of Opportunity
September 2018

Produced by:
DBS Chief Investment Office

 go.dbs.com/sg-cio

 facebook.com/dbscio

Yu Guo	Head, Investment Communications
Cheryl Han	Investment Communications
Sabrina Lim	Investment Communications
Jerlin Huang	Investment Communications
Sharlene Goh	Investment Communications