

### Key Highlights

- **MAS takes action.** MAS has reduced the rate of appreciation of the S\$, and re-centred the policy band towards the prevailing level of the S\$NEER.
- **Economic Contraction.** MAS projects Singapore's economy to contract between 1-4% for 2020.
- **Support Packages.** The Singapore government has announced 2 support packages so far, which include relief measures for firms, wage subsidies and cash transfers. The packages amount to ~11% of Singapore GDP. **EDIT: 3 support packages.**
- **Fixed Income Strategy.** Avoid panic selling. Dollar cost average or wait for further buying opportunities
- **Equity Strategy.** Prefer Asian to US equities – especially HK/China equities. Recent data has suggested that Chinese workers and factories are returning to work.

## Investment Updates

### MAS Policy Review and Singapore Supplementary Budget

**MAS Monetary Policy Review.** The Monetary Authority of Singapore (MAS) reduced the rate of appreciation of the S\$ nominal effective exchange rate (S\$NEER) to 0%, and re-centred the policy band downwards to the prevailing level of the S\$NEER. The move sent a strong signal regarding the central bank's concern over Singapore's economic outlook. This was the first time the central bank has taken these two steps at the same meeting. The decision, which was brought forward from its usual schedule in Apr, was in line with CGS-CIMB's expectations.

**Currency Outlook.** CIMB Treasury opines that the Singapore Dollar will unlikely shift greatly going forward, given the importance of minimising volatility – due to current conditions. Following the MAS announcement, the SGD strengthened versus the USD, in line with relative USD weakness as the US pursued further QE. Markets also noted that the action was not as drastic as was initially expected. Going forward, the need for MAS to pursue further easing has reduced.

We reproduce the CIMB Treasury forecasts for SGS yields and the USDSGD below.

	2Q20	3Q20	4Q20	1Q21
2y SGS (%) - CIMB	0.7	0.7	0.8	0.9
Consensus (%)	1.13	1.12	1.15	1.16
10y SGS (%) - CIMB	1.3	1.4	1.6	1.7
Consensus (%)	1.35	1.42	1.53	1.6

USDSGD - CIMB	1.42	1.4	1.39	1.38
Consensus	1.38	1.38	1.37	1.37

Source: CIMB Bank Treasury & Markets research

**Economic Impact.** The central bank assessed that the ongoing wave of Covid-19 infections will continue to dampen global growth beyond 1H20. Fiscal, monetary and regulatory support can cushion but not prevent a sharp economic contraction. As such, MAS projects Singapore will record a GDP contraction of -1% to -4% this year, resulting in a substantial widening of the negative output gap.

MAS also expects headline and core inflation to average between -1.0% and 0% in 2020.

The monetary easing should be viewed as complementary to the S\$48bn Resilience Budget announced on 25 Mar to provide a degree of flexibility for the currency to make the necessary adjustments to cushion shocks from the recession.

**Singapore Supplementary Package.** The recently announced second relief package of S\$48bn by

DPM Heng Swee Kiat was a positive surprise but CGS-CIMB cautioned that this package is meant to cushion the impact from the Covid-19 pandemic, rather than engineer a turnaround.

The total first and second support packages in terms of relief measures for firms, wage subsidies and cash transfers are equivalent to ~11% of Singapore GDP.

**A total of S\$15.1bn will be spent on Jobs Support Scheme (JSS)** to co-fund wages and help companies keep 1.9m local employees employed. This is the biggest relief from the supplementary budget.

The salient features of the JSS include a 25% rebate for local employees with gross monthly wages of S\$4,600 and additional support of 75% co-payment for COVID-19 affected industries such as airlines, airport operators and ground handlers, hotels and tourism sectors. Food services will also receive 50% co-payment of wages.

### Credit Spreads - Gazing into the Crystal Ball.

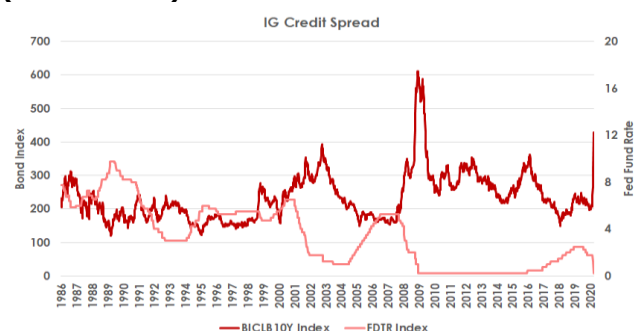
**Past market trends suggest that credit spreads may widen further when negative economic impact starts showing up in the economic data.** It may take another 3.5 months for credit spreads to hit their peaks based on past observations. The bond market typically turns around, in about 12-18 months after credit spreads peak.

We should avoid panic selling, and try to ride through the volatility. The bond market may not be as fragile as we fear due to massive and coordinated central bank intervention. We should look out for buying opportunities now and we suggest dollar cost averaging, or waiting for the second wave of selloff as a signal to buy.

Credit spreads have widened to a fresh 3-year high, as investors continue to trim risk and close positions. Sharp declines in government bond yields have also exacerbated the widening of credit spreads. We believe credit spreads could offer us a glimpse into how bond investors would behave during uncertain times like this.

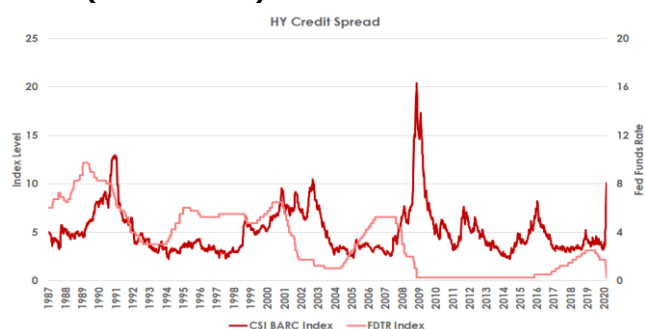
Using Bloomberg's BICLB10Y Index (the difference in yield between Moody's BAA Corporate Bonds and 10-year US Treasury) and CSI BARC Index (the difference in yield between Barclays Capital US Corporate High Yield Bonds and 10-year US Treasury) as our reference for BBB and High Yield credit spreads, we try to get a sense of where the market is right now and how long it might take to hit the bottom.

**Chart 1: Moody's BAA Corporate Bonds vs. 10-year US Treasury Spreads, compared against Fed Funds (1986 to 2020)**



Source: Bloomberg, as of 19/03/20

**Chart 2: Barclays US Corporate High Yield Bonds vs. 10-year US Treasury Spreads, compared against Fed Funds (1986 to 2020)**



Source: Bloomberg, as of 19/03/20

**So, have credit spreads peaked?** From the experience of the 1990, 2001, 2002 and 2015 sell-offs (2008 is excluded because it was a deep financial crisis with severe credit crunch, somewhat different from the one we face today), BBB credit spreads tend to peak at around 400 bps while High-yield credit spreads peak at around 1,000bps.

As at 18-Mar-2020, BBB and HY credit spreads were hovering near 385bps and 961bps respectively, suggesting that BBB and HY spreads may widen by at least 15bps and 39bps more, respectively.

#### **How long would credit spreads take to hit the peak?**

During previous sell-offs, credit spreads tend to consolidate after the initial wave of selling, before they head higher to their final peak levels. This is usually caused by a brief post-government intervention rally that is then followed by a selloff, when negative growth starts showing up in the economic data.

We believe the bond market has just completed its initial selloff. It is possible that we consolidate slightly before it heads towards the peak. Based on past observations, both BBB and HY credit spreads take about 3.5 months on average to hit the peak after the consolidation stage.

The bond market could recover sooner than 3.5 months due to advancements in information technology (faster information flows, quicker trade execution, and quicker market response) and massive central bank stimulus measures. However, we think the estimated 3.5 months' time is consistent with the amount of time epidemiology experts believe it would take for the coronavirus outbreak to peak and come under control.

**Would credit spreads turn around after hitting the peak?** We believe yes, as it always does but it would likely take 12 to 18 months for stimulus packages to take full effect and for markets to fully recover, according to past experience.

**Bond Strategy.** We should avoid panic selling as much as we can. Market bid/ ask spreads are very wide at the moment due to extreme risk aversion, so sellers would not be getting a fair price. We think many institutional market participants are less concerned about fundamentals now and more concerned about liquidity crunch.

We also think the extreme price movements are mainly caused by (a) investors' insatiable appetite for USD liquidity, (b) the fear of certain major governments' slow response, denial, and their unorthodox outbreak containment strategy causing a complete shutdown of their respective economies, (c) the UK losing the safety of being linked to the big, closed economy of the EU, and (d) extremely low bond market liquidity – bond prices tend to move in exaggerated speeds & extreme volatility under such conditions.

However, we believe bond markets will rebound eventually due to the massive monetary and fiscal stimulus that are being continuously implemented right now to stabilize the market. An extended liquidity crunch in the corporate bond market may potentially force the US Federal Reserve to follow in Bank of England and European Central Bank's footsteps, to start buying investment grade corporate bond directly from the market. This move could restore confidence and jumpstart the debt capital market.

Governments and central banks seem determined to do whatever it takes to stabilize the markets. The unmatched speed and severity of spikes in corporate bond spreads in March 2020 have sent a strong signal that markets expect unprecedented & widespread corporate failures to occur.

We continue to recommend quality, resilient, investment-grade sub-debt and senior bonds. Some of these quality bonds have succumbed to indiscriminate selling and we think good value has emerged for investors to start buying in tranches (as we are unsure on whether prices have hit absolute bottom). Meanwhile, for clients who have higher risk tolerance, they may monitor Restricted Tier-1 and Additional Tier-1 bond pricing for an opportunity to pick them up cheaply. These perpetual bonds currently offer 10% or higher yields. Since it is probably impossible for anyone to catch the bottom, we should either tranche it in, or look out for the next wave of selloff as a signal to enter the market.

Equity – Legends of the Fall (in US Indices).

**Summary.** US equities are looking attractive, but we believe a bottom will not be found until markets have a better idea of the size and length of the economic damage to the economy from the virus pandemic. We prefer Hong Kong equities, which will also benefit from a US stimulus being planned. In any case, the S&P500's fall this year has broken records, (for speed and one day decline), but the index has fallen by more in 1987 and 2007 than it has so far in 2020.

**Analysis.** US equity markets are now attractively valued. S&P's level of 2,400 – 2,600 appears attractive based on dividend yield, which is less susceptible, but not insensitive to earnings forecast changes. Those index levels represent a dividend yield of 2.2% to 2.3%. Market indices are being whipsawed by participants' continual re-assessment of news-flow from emergency rate cuts to fiscal stimuli and emergency funding for various sectors, but still yielding an uncertain if not unknowable outlook.

**Are we there yet?** We suspect this is not the bottom for US equities, because fear among consumers has not peaked, but financial markets are panicking because the US is perceived to be slow to put its public health resources in place. Markets are inferring that infections will accelerate, consumption and economic activity will come to a shuddering halt.

Markets may bottom only when the size and length of the economic contraction is known, which is not before infections peak in the U.S. President Trump is now attempting to reverse his previous inaction, by crafting a fiscal stimulus to direct resources to fight the pandemic and alleviate economic pain from it. We are unsure whether a fiscal stimulus will imbue markets with confidence; it hasn't in the UK, Italy, Japan, Australia and Singapore. Markets are looking for a 'shock and awe' fiscal stimulus from Trump soon, amounting to \$850bn to \$1 trillion, according to news reports. The rest of the world will likely benefit from this too.

For some perspective, the recent fall in US equities is almost as severe as the legendary Black Monday in 1987, but nowhere near as deep as the fall during the GFC in 2007-8. But perspective is only important if history repeats itself. This financial crisis is different, it is foremost a HEALTH crisis triggering an ECONOMIC crisis (expected drop in domestic demand especially by consumers), which has taken markets by surprise, triggering a FINANCIAL sell-off.

This is not (yet) a FINANCIAL crisis, but can become one if credit markets cease to function and cannot provide credit to businesses. Hence central banks are offering lending windows, especially to small businesses via commercial banks.

History of S&P500 Falling – Recent Sell-Off now a Legendary

S&P 500 Performance	1987	2007	2020
Peak to Bottom decline	-33.2%	-57.0%	-29.5%
Months to recover to previous peak	21	65	-

Source: Bloomberg

We believe world GDP growth in Q1 could be negative. There is a bigger risk that Q2 global growth is negative (quarter on quarter) because Europe, Japan and the US are headed for a severe drop in consumption and investment spending (which would be difficult for government spending to replace in the quarter). How this pandemic will pan out in Europe and the US is an 'unknowable unknown' (to paraphrase Al Gore), whereas a gradual recovery in China's economy is a knowable unknown (we know it is coming, but unsure how strong, as Chinese factories meet falling demand from Europe and US).

This is why we prefer Asian, especially HK/China exposure, compared to US exposure now. And even after the fall in US indices, HK is still cheaper, 9.2x vs S&P 500's 15.0 at 2,529. Recent data has also suggested that Chinese workers and factories are returning to work.

The US Federal Reserve's two emergency rate cuts, in between FOMC meetings and just 2 weeks apart, was initially greeted by markets with alarm, and interpreted as the Fed panicking. With a second

round of emergency cuts last weekend, markets are coming round to the view that the Fed wants to take pre-emptive action 'to get ahead of the curve', because it will eventually be needed.

longer lifespans and increasingly universal reach of disease.

Stock Index Valuations, 2020E

	Hong Kong	Singapore	Malaysia	US
Index	Hang Seng	Straits Times	FBM/KLCI	S&P 500
Index levels on 17 Mar 2020	23,264	2,460	1,257	2,529
YTD index price performance	-17.5%	-23.7%	-20.9%	-21.7%
2020F P/E (x)	9.2	10.5	13.2	15.0
2020F EPS growth	3.0%	-9.4%	6.7%	9.9%
2020F ROE	11.4%	8.8%	9.2%	19.0%
2020F P/B (x)	0.93	0.81	1.18	2.62
2020F dividend yield	4.6%	5.5%	4.6%	2.5%

Source: Bloomberg

**Investment Ideas.** We are seeing values emerging in the equities given the fast and furious sell-off in a short period of time, but we advocate a careful trading strategy and will only be buying on dips very selectively.

Companies with good dividend track record and resilient business model are likely to be able to defend dividend payout better. One area which should benefit from lower rates and a key focus on distribution is the REITs sector. The recent downdraft has created opportunity in this sector, especially for those with foreign assets. Clients seeking a more globally diversified approach, may look at the **Manulife Global Fund - Asia Pacific REIT S Fund.**

As mentioned, we like HK/China equity exposure and our preferred route is via active funds such as **JPMorgan Funds - China A-Share Opportunities Fund.** We believe that volatility remains high and risks can be better managed by professional managers with a strong track record of outperforming the market in a large investment universe.

The healthcare sector has defensive growth qualities and this week we highlight the **Blackrock World HealthScience Fund.** The investment team has a wealth of knowledge and experience in the fields of medicine and investing. The sector has broad industry-level tailwinds such as aging population,



Manulife Global Fund - Asia Pacific REIT S (G) MDIST SGD-H

**Objective.** The Fund aims to provide long-term capital appreciation and income generation primarily through investment in real estate investment trusts ("REITs") in the Asia Pacific ex-Japan region.

Top10 Holdings	%
LINK REAL ESTATE INVESTMENT TRUST	8.76
CAPITALAND MALL TRUST	6.51
ASCENDAS REAL ESTATE INVESTMENT TRUST	5.37
MAPLETREE LOGISTICS TRUST	4.75
FRASERS CENTREPOINT TRUST	4.06
CAPITALAND COMMERCIAL TRUST	3.09
MAPLETREE COMMERCIAL TRUST	3.03
FRASERS LOGISTICS & INDUSTRIAL TRUST	2.98
MAPLETREE INDUSTRIAL TRUST	2.78
CAPITALAND RETAIL CHINA TRUST	2.22

Source: Fund Factsheet (Feb 2020)

The Fund may be suited for investors who seek long-term capital appreciation and income generation primarily through investment in REITs in Asia Pacific ex-Japan region; and are comfortable that the price and value of the Shares as well as any derived or accrued income may fall or rise, with potential loss of the original amount invested.

Geographic Breakdown	%
Singapore	53.05
Hong Kong	21.01
Australia	8.20
China	6.36
Malaysia	2.33
Philippines	2.13
Thailand	1.42
Indonesia	0.82
Cash & Cash Equivalent	4.68

Source: Fund Factsheet (Feb 2020)

Unit Trust Fund: JPM China A-Shares Opportunities Fund

**Objective.** To provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC).

**Philosophy.** The investment objective of the China A-Share Opportunities Fund is to provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC). The Fund uses an investment process based on a fundamental, bottom-up stock selection process. It uses a high conviction approach to finding the best investment ideas and seeks to identify high quality companies with superior and sustainable growth potential.

At least 67% of assets invested in China A-Shares of companies that are domiciled, or carrying out the main part of their economic activity, in the PRC through the China-Hong Kong Stock Connect Programmes, the RQFII and QFII quotas. These investments may include small capitalisation companies. The Fund may be concentrated in a limited number of securities or sectors from time to time.

Top 10 Holdings	%
Ping An Insurance	8.3
Kweichow Moutai	5.5
China Merchants Bank	4.6
Jiangsu Hengrui Medicine	4.4
Luxshare Precision Industry	3.7
China Vanke	3.5
Wuliangye Yibin	2.8
Ping An Bank	2.7
Midea	2.7
Hangzhou Tigermed	2.6

Source: Fund Factsheet (Jan 2020)

Sector Breakdown	%
Financials	27.7
Information Technology	19.6
Consumer Staples	15.7
Health Care	14.5
Industrials	9.9
Consumer Discretionary	8.0
Utilities	2.2
Materials	1.0
Others	0.0
Cash	1.4

Source: Fund Factsheet (Jan 2020)

According to the factsheet, the Fund has a 1-Yr Beta of 0.89, and 1-Yr volatility of 19.26%

The Fund may be suited for investors who seek long-term capital gain, wish to find exposure to fixed income in Asian region, with the appetite for opportunities that come with the volatility and risks of a fund exposed to the Chinese equity market.

Equity Fund: BlackRock World Healthscience Fund

**Investment Objective.** The Fund seeks to maximise total return. The Fund invests globally at least 70% of its total assets in the equity securities of companies whose predominant economic activity is in healthcare, pharmaceuticals, medical technology and supplies and the development of biotechnology.

The Fund is internally managed by a team of five with an average of 20 years' experience in scientific research, medicine and investing. Given the technical nature of the sector, the Team spends a great deal of time understanding the science behind the products and conducting field checks with physicians.

The reference index is the MSCI World Healthcare Index. It should be noted however, that the Fund is benchmark agnostic.

**Strategy.** The team believes that inefficiencies in the market can be exploited, and the investment objective realized, through the consistent application of an active investment process that is highly disciplined, research-intensive, and risk-informed. More specifically, within a highly fragmented sector like healthcare, the team believes that intensive internal bottom-up research is the best way to understand prospects, forecast stock performance, and uncover pricing inefficiencies.

The team aims to build a portfolio that is diversified across all segments of the healthcare sector by investing in stocks of any size, anywhere in the world. This will allow the Team to pursue the best opportunities in a wide variety of healthcare equipment & supplies, healthcare technology, and life sciences tools & services. The Team believes this flexibility leads to more consistent performance over time than more narrowly defined/concentrated strategies.

Geographic Breakdown	%
United States	67.58
Switzerland	9.04
United Kingdom	7.19
France	4.09
Japan	3.96
Denmark	2.92
China	2.09
Germany	1.13
Cash and/or Derivatives	0.84
Netherlands	0.45

Source: Fund Factsheet (Jan 2020)

Top Holdings	%
UnitedHealth Group Inc	5.58
Roche Holding AG	4.61
Abbott Laboratories	4.25
Sanofi SA	4.07
Merck & Co Inc	4.03
Astrazeneca Plc	3.87
Thermo Fisher Scientific Inc	3.14
Medtronic Plc	2.68
Zoetis Inc	2.55
Stryker Corp	2.53

Source: Fund Factsheet (Jan 2020)

Sub-Sector Allocation	%
Pharmaceuticals	37.41
Health Care Equip. & Sup.	26.58
Health Care Providers & Services	15.63
Biotechnology	11.80
Life Sciences Tools & Services	6.83
Health Care Technology	0.90
Cash and/or Derivatives	0.84

Source: Fund Factsheet (Jan 2020)

According to Bloomberg, the 1-yr Sharpe Ratio and volatility is - 0.16 and 21.21 respectively.

The Fund is suitable for investors who are looking to leverage on the investment managers' knowledge and experience in this highly technical and specialized industry. The healthcare sector has several industry-level tailwinds such as aging population, longer lifespan and the increasingly global reach of diseases. The portfolio is also highly diversified with a holdings range of 70-120 securities. However, investors need to be acclimatised to the concentration risks associated with sectoral funds.



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