CIMB PREFERRED INSIGHTS

Key Highlights

- **Higher Yields.** Current backdrop remains focused on higher bond yields.
- **Equities vs Fixed Income.** We are overweight equities vs Fixed Income, and in particular EM AsiaPac ex Japan.
- **Opportunities**. We explore some Unit Trust ideas that investors can consider for their portfolios:
  - **United Global Durable Equities fund**
  - **Nikko AM Shenton Global Opportunities SGD**
  - **Schroders Asian Growth, Schroders Asian Equity**
  - **JP Morgan China A-Shares Opportunities Fund**
  - **Aviva Global High Yield Bond Fund**
  - **Blackrock China Bond Fund**
  - **United SGD Fund**

Current backdrop remains focused on higher bond yields. The push for higher bond yields has been driven by the increasingly upbeat global macroeconomic outlook, which has largely been driven by President Biden's fiscal stimulus package.

CIMB's latest G4 economies forecasts

	Actual	Latest forecasts	
	2020	2021	2022
Real GDP growth (% yoy)			
US	-3.5	5.9	2.7
Eurozone	-6.8	4.1	4.8
China	2.3	8.9	5.4
Japan	-4.9	2.7	2.2
Policy Rates (%)			
US*	0.25	0.25	0.25
Eurozone	0.00	0.00	-0.00
China**	2.95	2.95	2.95
Japan	-0.03	-0.05	-0.05

* Fed Funds Target Rate Upper Limit
** PBOC 7d Interbank Repo Rate
Source: CIMB Economics & Market Analysis Group, Bloomberg, Oxford Economics, Haver Analytics, CIMB Treasury & Markets Research

According to CIMB Treasury & Market Research, the UST curve will likely continue to steepen, though the yield increases may taper off in the longer term. Their forecast is for 10Y UST to hover above 1.5% before settling near 1.6% by 2Q2021, 1.8% at end of the year and to see to 1.9% in 1Q2022.

Investors are likely to reduce duration, holding shorter tenure UST to limit losses and maintain spread against FFR (which is set to remain near zero), and pick up riskier assets as we progress through the rest of the year.

Forecasts

Rates & Yields (%)	2Q2021	3Q2021	4Q2021	1Q2022
US – FFTR (Upper Bound)	0.25	0.25	0.25	0.25
*Consensus**	*0.25*	*0.25*	*0.25*	*0.25*
2y Treasury	0.30	0.35	0.40	0.50
*Consensus**	*0.20*	*0.22*	*0.25*	*0.30*
10y Treasury	1.60	1.70	1.80	1.90
*Consensus**	*1.50*	*1.50*	*1.60*	*1.70*

Source: CIMB Treasury & Market Research

We are overweight on Equity as the economic recovery is steadier on supportive policy stimulus while global vaccination progresses to rebuild business & consumer confidence. This underpins a "risk on" tilt as corporate earnings improve further due to business resumption. Latest quarterly results have surprised on the upside and we believe earnings recovery shall bring valuations down to more reasonable ranges, a trend that is likely to continue.

Within Equities, we remain positive on EM AsiaPac ex Japan as its valuations are relatively more attractive than DM Equities, while its economic fundamentals remain fairly resilient. Currency outlook is also fairly stable and authorities have more policy levers, underpinned by a strong China pace of growth. Within the region, we have **an overweight on China equities**.

We remain neutral towards for Fixed Income due to an increased risk of short term correction on the back of significant additional fiscal stimulus and progress in Covid vaccinations, resulting in better risk appetite.

Against the current backdrop, we believe **Investment Grade corporate bonds** still can offer regular income superior to near/sub-zero cash yields (although we recognize that the yields have been rising of late). Nonetheless, a steadier outlook and lower-for-longer policy rates are conducive for corporates to tap the bond market. Credit default risks are generally lower given QE programmes, better liquidity and credit conditions.

We have raised our Underweight stance for High Yield to Neutral. The weights came from reducing from Neutral stance in Sovereigns to an Underweight position. This is in view of the current macro environment (improving on the back of vaccination progress) and the implications of a rising yields and inflation expectations.

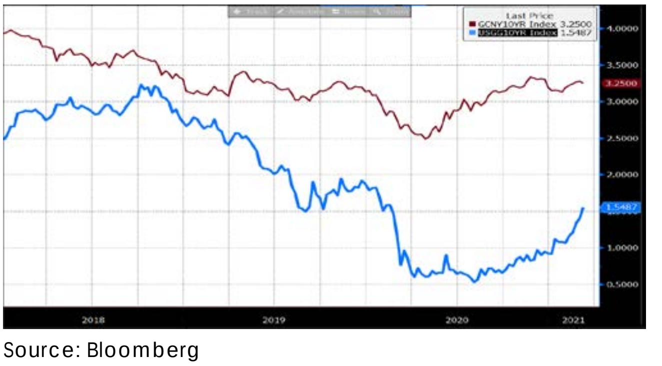
Portfolio Strategy & Ideas.

Mutual Funds. Given our overweight stance on Equities, we believe actively managed global equity funds such as the **United Global Durable Equities fund** or **Nikko AM Shenton Global Opportunities SGD** can be considered in portfolio construction.

For clients interested in an Asian focused theme, funds such as the **Schroders Asian Growth, Schroders Asian Equity** or the **JP Morgan China A-Shares Opportunities Fund** can also be considered.

For Fixed Income, we understand investors continued need for income. For those with the appropriate risk appetite and risk profile, we believe specific areas of the fixed income space do offer some yield pick-up opportunities. We highlight funds that invest in DM HY securities to complement existing DM bonds.

China Government Bond Yield vs US Government Bond Yield (in blue) Movements



Source: Bloomberg

During the global fixed income selloff during Mar 21, yields on China 10-year bond yields were flat at 3.25%, compared with the 15 bps jump in 10Y US

Treasury (approx. 1.55%). This in part reflects China's status as the leading indicator of global economy as it was the 1st to emerge from the pandemic.

We believe China's fixed income market (both onshore and offshore) offers interesting long-term diversification opportunities. We focus on strategies that have the flexibility to position either onshore or offshore, and is therefore able to capture opportunities from any dislocations in either market. We look at funds that offer attractive yields with an average investment grade credit rating, low correlation between onshore and offshore credit markets allows the fund to generate alpha through asset allocation and issuer arbitrage.

Finally, there are also options for those seeking SGD short duration bond exposure. Some strategies that investors can consider include **Aviva Global High Yield Bond Fund,** the **Blackrock China Bond Fund** and **United SGD Fund.**

Remember to consider these risk factors before investing into your asset class of choice.

Risk factors for Mutual Funds include 1) the fund manager may deviate from the stated investment policy/ guidelines; 2) resulting in style drift and underperforming the respective benchmarks. 3) Certain funds seek opportunities in areas which may be deemed higher risks (e.g country risks; in small or illiquid stocks; or in niche capital structures (contingent liabilities) or in riskier credit segments (i.e. in high yield)

Risk factors for Single stocks include 1) company specific risk factors such as balance sheet strength, business outlook risks, earnings risks with the worst case likely being bankruptcy or delisting; 2) sector risks as the sector the company operate in may suffer from industry specific concerns like regulatory changes, policy changes, and sometimes catastrophe related; 3) market risks such as interest rates, inflation and politics may impact the valuation premium/ discount according to the equity market.

Risk factors for individual bonds include 1) interest rate and inflation risk; 2) regulatory changes may impact the company's outlook or affect the specific capital structures; 3) rating downgrade or worst case bankruptcy risks as issuer's credit standing may deteriorate due to worsening of gearing and debt servicing abilities.

Please speak to your relationship manager for more details.

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