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Key Highlights

- We take a look at some ideas within China and Asia Pacific region:
    - **Blackrock China Bond Fund**
    - **JP Morgan China A-Shares Opportunity Fund**
    - **JP Morgan Asia Pacific Income Fund**

[1] Led by the US and European stocks, global equities started the week hovering near record high as market sentiment continued to see-saw on macro growth and earnings optimism, and a wall of worries that include a new wave of rising coronavirus cases in Europe, China and inflation jitters, and talks of faster tapering by key central banks. The re-nomination of Fed chair Powell saw equities fell on worries of a faster pace of monetary policy tightening. That changed ahead of the Thanksgiving holidays and post Fed meeting minutes.

The November Fed meeting minutes showed Fed officials noting the US central bank should be prepared to adjust the pace of asset purchases and raise interest rates sooner than anticipated if inflation continued to run high, while acknowledging that the path of the economy continued to depend on the course of the virus. US policymakers indicated that uncertainty about the inflation outlook had increased and that significant price pressures should last for longer than previously expected due to persistent supply bottlenecks. At the same time, Fed officials agreed that progress on vaccinations and an easing of constraints should continue to support the economic recovery and employment as well as a reduction in inflation but risks to the growth outlook remained high.

On the US macro data front, market participants welcome upbeat data that included the latest weekly jobless claims, revised Q3 GDP growth and personal spending for October. The number of Americans filing new claims for unemployment benefits dropped to 199 thousand in the week ending November 20, from a revised 270K in the previous period and well below market expectations of 260 thousand. It was the lowest number since November 1969, amid strong demand for labour and ongoing economic rebound.

[1] Adapted from "Sentiments from the week before", Song Seng Wun, 29 Nov 2021

US personal spending jumped 1.3% MoM in October, higher than a 0.6% rise in September and beating market forecasts of 1%. It is the fifth consecutive gain and the biggest increase in seven months, as American consumers continue to spend more amid large pay increases, despite rising prices. Gains in October were led by both goods and services, including on motor vehicles and parts and international travel.

Meanwhile, prelim November Markit PMI readings showed economic activities picking up pace in the Eurozone, Japan and Australia, but slowing slightly in the UK and US. In the US, the prelim PMI surveys showed the rate of input price inflation reached a new series high in November.

Serious worries emerged on Black Friday when global equities fell with commodities including oil tumbling after news of a possibly vaccine-resistant heavily mutated Covid-19 variant sent market participants fleeing to the safety of bonds, Japanese yen and the Swiss franc even though it is unclear how big a threat it poses. The MSCI world equity index fell 2.2% Friday (November 26) and 2.8% on week. It was the third consecutive weekly fall after it rose to a fresh record high at the start of November. The Cboe Volatility Index or VIX, known as Wall Street's fear gauge, soared on Friday and options investors scrambled to hedge their portfolios against further market swings. The VIX jumped 54% to 28.6, the highest since end-February'21.

However, there are some market participants who said the latest coronavirus-related weakness could be a chance to buy stocks at comparatively lower levels, expecting markets to recover quickly from dips, a pattern that has marked the US and tech-centric MSCI global gauge's rise to multiple record highs this year.

Regarding the latest Covid-19 variant, little is known of the variant, detected in South Africa and growing number of countries around the world, but scientists say it has an unusual combination of mutations, may be able to evade immune responses and could be more transmissible. The World Health Organization (WHO) has declared this new coronavirus variant to be "of concern" and named it Omicron. It had a large number of mutations, and early evidence suggests an increased reinfection risk, the WHO said. It added that it would take a few weeks to understand the impact of the new variant, as scientists worked to determine how transmissible it was. "Until it's properly tested... we don't know whether or not it evades the antibodies that protect you against the virus", US infectious disease chief Dr Anthony Fauci told CNN. The new variant has 32 mutations in the spike protein, which may allow it to enter the body's cells more easily, according to Japan's National Institute of Infectious Diseases. Meanwhile, Professor James Naismith, a structural biologist from the University of Oxford in the UK, added "It is bad news but it's not doomsday." A number of countries have now decided to ban or restrict travel to and from Southern Africa.

It is at this early stage, in an absence of scientific facts and when there is a danger of both overreacting and underreacting, that governments around the world have to act by closing or tightening border restrictions. Therefore, the upcoming calendar of macro releases this week may not matter as investors scramble to assess the implications for the global macro recovery and monetary policy as Covid-19 has resurfaced as a worry for market participants and a potential driver of big market moves. Nonetheless, it is that time of the month for the US jobs report and the release of worldwide manufacturing and services PMIs.

It will be the IHS Markit survey results of November business conditions. The prelim November readings showed economic activities picking up pace in the Eurozone, Japan and Australia, but slowing slightly in the UK and US. In the US, the prelim results showed the rate of input price inflation reached a new series high in November. Sharper increases in cost burdens at both manufacturers and service providers led to soaring prices, with a vast range of materials reported as having risen in cost.

The pace of selling price inflation matched October's series record high, as firms sought to pass on greater costs to their customers. All eyes will therefore be on the prelim November CPI readings from Eurozone, Germany, France and Italy which will be scrutinized for clues on the ECB monetary policy guidance. Annual inflation rate likely accelerated to 4.4%, the highest since 1991, adding to concerns over price pressure amid an uncertain economic outlook due to fresh Covid-induced restrictions across the region.

Federal Reserve Chairman Powell and Treasury Secretary Yellen will testify on the coronavirus and CARES Act before the US Congress on Tuesday (November 30) and Wednesday (December 1). This will be the first time markets will hear from Powell after President Joe Biden renominated him for a second term as the head of the central bank. The hearings are about the government response to the Covid crisis, but US lawmakers are expected to question Powell about his monetary policy intentions and the direction of US interest rates.

The new week and new month also brings the US jobs report which is always a key event risk for markets. Market participants expects the US labour market to gather pace with the jobless rate dropping further in November. In October, non-farm payrolls rose by a stronger-than-forecast 531 thousand and the unemployment rate easing to a post-pandemic low of 4.6%. Apart from the final Nov Markit PMIs, other notable macro releases are November ISM PMI surveys, final October factory orders, construction spending for October, November ADP employment change, October pending home sales, September Case-Shiller home prices and the latest Fed's Beige Book.

Across the Atlantic, apart from the preliminary estimate of the November consumer price report and the final November Markit PMI surveys for the Euro Area, other notable macro releases include Eurozone October jobless rate, retail sales, and final November business and consumer confidence and producer inflation for October.

Notable ASEAN macro news-

> **Singapore October CPI** rose by a stronger-than-forecast 3.2% YoY (CPI cons: 2.8% YoY). This was the highest figure since March 2013. MAS core CPI rose 1.5% YoY, the most in nearly three years, after a 1.2% gain in September, exceeding estimates of 1.3%. On a seasonally adjusted monthly basis, consumer prices rose 0.8% in October, the most since February'13 after a 0.4% gain in September.

> **Singapore Q3 GDP** expanded 1.3% QoQ and 7.1% YoY, according to revised data. The prelim estimates were 0.8% QoQ and 6.5% YoY. The manufacturing sector grew at a softer rate (7.2% vs 18% in Q1), with output continuing to grow in all clusters except for biomedical. Meanwhile, the Singaporean government forecasts a growth rate of 3% to 5% for 2022, predicting a continued rebound from the pandemic as global borders gradually reopen and domestic restrictions ease. The projected expansion, however, is slower than this year's forecast of "around 7%" -- a slight upgrade from the previous "6% to 7%" projection, after a 5.4% contraction in 2020.

> **Singapore's manufacturing production** rose by 16.9% YoY in October, beating market consensus of a 14.5% gain and shifting from a downwardly revised 2.2% fall in September. This was the strongest pace of growth in factory output since June. The production of biomedical manufacturing rebounded sharply (56.1% in October vs -35.9% in September), due to pharmaceuticals. Also, there was an upturn in general manufacturing (0.8% vs -1.3%).

In addition, output grew further for electronics (6.5% vs 7.2%), supported by computer peripherals & data storage, and consumer electronics; chemicals (15.3% vs 12.4%), lifted by petroleum, and petrochemicals, precision engineering (9.1% vs 31.1%), driven by machinery; and transport engineering (35.3% vs 13.8%), led by marine & offshore. On a monthly basis, manufacturing output grew by 2.4%, compared with consensus of a flat reading and after a 1.9% drop in September.

> **Malaysia October CPI** climbed to a four-month high of 2.9% YoY from 2.2% in September and above market estimates of 2.8%. Bank Negara Malaysia has projected 2021 headline inflation to average between 2.0 to 3.0 percent, amid high commodity prices and prolonged global supply disruption. On a monthly basis, consumer prices rose by 0.7% in October, the most since January, after a 0.2% gain in September.

> The latest **Salary Trends Report by ECA International** showed that workers in Indonesia and Malaysia are expected to see some of the biggest salary growth in Asia-Pacific in 2022 as economies start to return to normality after the pandemic. ECA, a provider of information, software, and expertise for the management and assignment of employees around the world, said that although some regions, such as the Americas, Africa, and the Middle East, have a higher nominal increase forecast, the APAC region is predicted to have much lower levels of inflation in 2022. ECA regional director for Asia, Lee Quane explained that once inflation is taken into account, workers in APAC will see a much higher real salary increase than anywhere else in the world.

The House of Representatives approved President Biden's USD1.2tn bipartisan infrastructure bill. The bill, which passed the Senate in August, will now be sent to President Biden to be signed into law.

The Fed kept its policy rate unchanged at 0-0.25%, and will gradually reduce its USD120bn monthly bond-purchases to USD105bn and USD90bn in November and December respectively, with likelihood of further reductions by USD15bn each month thereafter. If the Fed sticks to this plan, purchases will end around the middle of 2022, although the central bank is prepared to adjust the pace of tapering if warranted by changes in the economic outlook.

Meanwhile, the Fed chair downplayed market expectations of policy rate liftoff anytime soon, citing that unemployment remained high compared to pre-pandemic levels.

Pfizer's Covid pill is the second pill to show effectiveness against Covid-19, and it is the first purpose-built to attack the virus that causes the disease. Pfizer announced on Friday that its pill to treat Covid-19 had been found in a key clinical trial to be highly effective at preventing severe illness among at-risk people who received the drug soon after they exhibited symptoms, making it the second antiviral pill to demonstrate efficacy against Covid. Pfizer's pill, which will be sold under the brand name Paxlovid, cut the risk of hospitalization or death by 89 percent when given within three days after the start of symptoms

We expect the approval of President Joe Biden's USD1.2 trn infrastructure bill, above forecast employment data and a new anti-viral drug to treat Covid-19 **to be positive for equity markets in the coming weeks**.

Investment Opportunities: China Bonds. The Chinese USD HY Property Credit has been on the headlines in recent months due to the default of Evergrande and other smaller developers.

According to BoAML Dollar Bond Index, yields of the investment-grade (IG) OCDB (Offshore China Dollar Bond) by Chinese issuers only moderately rose from an average of 2.67% pa at end-June to 2.81% on 3 Nov.

In contrast, in high-yield (HY) space to which most developers' belong to, average yield surged from 10.56% at end-June to 24.36% on 3 Nov. As a result, credit spread between HY and IG OCDBs spiked to 2,155bp on 3 Nov from 789bp at end-June and 558bp at end-2020.

There had been a significant de-risking across the space that has depressed prices across the board in the China HY Real Estate sector. Market prices remain depressed implying default rates > 40% which may seem as an unlikely outcome, at current juncture.

Given the heavy role real estate directly and indirectly plays for China's GDP, it is unlikely that the Chinese policymakers intend to induce a disorderly property sector deleveraging with substantial contagion to the rest of the economy, and recent events indicate that some action is being taken by the authorities.

For instance, market sentiment improved mid-Oct following news reports regarding mortgage easing at some of China's largest banks, guidance from regulators to banks to accelerate approval of mortgages, and lenders being allowed to apply to issue mortgage backed securities to free up loan quotas.

The People's Bank of China (PBOC) also mentioned in a news briefing that they see financial risks from Evergrande's default as controllable and unlikely to spread. Observing volatility in the USD bond market, they called for developers to follow market rules and fulfil debt obligations. PBOC also provided guidance to banks to maintain orderly lending to the sector so as to ensure its stable and healthy development.

Despite these recent developments, idiosyncratic risks with fundamentally weaker names in the Chinese HY still exist but clarification of policy intent should help limit contagion risk. For now, a cyclical bottom may look to have passed although a stronger policy tone is needed before a broader recovery is to be seen in the sector.

Thus far, the onshore RMB liquidity remains ample as the PBoC has addressed previous rounds of liquidity concerns through liquidity injections. In the event there is a broader contagion onshore, PBoC is expected to deliver liquidity to curb contagion risks onshore. The easing policies should be a catalyst in the onshore bond market, especially in high quality credits.

For existing investors of **Blackrock China Bond Fund,** clients may opportunistically take advantage of any current dislocation.

This is an unconstrained China Bond fund seeking investments across the Renminbi bond market and the USD Chinese Credit market. It can invest tactically across ALL China bond markets, including the onshore CNH bond market, the offshore CNH market and the offshore hard currency market.

The fund thus has the flexibility to capture opportunistic returns from any dislocations in either the onshore or offshore market. As of end Sep 2021, about 60% of its portfolio is in the Onshore market while 40$ is in the offshore market. The fund is well diversified across >400 issuers and >700 holdings.

The overall credit rating of the portfolio is BBB- (Investment Grade) with an attractive 7% yield (in RMB with FX hedging, as of end Sep 2021).

China Equity. After hitting record highs in Feb 2021, the MSCI China index has lost 14% so far this year, buffeted by headwinds from regulatory clampdowns, policy overhauls, a property debt crisis, a broader economic slowdown, stop-start lockdowns, supply chain disruptions, and an energy crunch. Last quarter, Chinese equities suffered their worst three-month period since 2015 as the MSCI China slumped over 18%. But the index has recovered in Oct on signs that Beijing is attempting to strike a balance between stabilizing growth and pursuing structural adjustments.

Investors who wish to invest into China equities may consider the **JP Morgan China A-Shares Opportunity Fund**.

We believe the "Common Prosperity" goal/aims to have a more even distribution of wealth. Regulatory risks may remain an overhang but current levels should provide buying opportunities for the long term investors. China's capital markets bring different risks and greater unpredictability, but investors have historically been rewarded with long-term outperformance.

Asian Equities. Anchoring on a stabilizing China, we reiterate that Asian/Asean equities has room to do better in terms of recovery and valuation. We should pivot to Asia/Asean given the reopening in the region as Covid-19 cases trend lower.

Asia growth had been supported by strong export performance though it had lagged Developed Market's as Asian's consumption was held back by its Coved management approach. However, this is due to change as most Asia countries are expected to reach 70% vaccination or more by end -2021, which will lay the groundworks for a more sustained re-opening and help boost domestic consumption.

For broader exposure into the Asian region, we take a look at the **JP Morgan Asia Pacific Income Fund.** The fund focuses on long term capital growth by investing into income paying securities in the Asia Pacific region.

Please speak to your Relationship Manager for more details.

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