Key Highlights

- **Return to Growth** to restart in 2021 on the back of distribution the Covid-19 vaccine. However this may be hampered by countries seeing additional waves of the virus.
- **Risk Assets** likely to push higher stemming from 1. Relief from deep pessimism. 2. Economic and earnings recovery. 3. Fear of inflation.
- **Inflation.** UST yield forecast has been lifted by CIMB Treasury Research as well as market participants. Forecast now anticipates 10Y yields for 1Q21 at the 1.20% level.
- **Opportunities**. Fixed For Life Perpetual securities with high coupons. An example of this would be **Hysan Development Co. Ltd.: USD Senior "Fixed for Life" Perpetual Bond; Perp NC 3Y; Coupon: 4.85%.** Investors who wish to have a more diversified approach can consider the **Fidelity Asian High Yield Bond Fund.** For those interested in tech companies, stock ideas include **Adobe Inc (ADBE US), Facebook (FB US), and Micron Technology (MU US).**

Return to Growth. We believe the global economy to restart in 2021 and potentially leading to a new cycle. Four of the world's largest economies will recover in 2021 where the growth rates will be above trend in 2021-22. For China, it is expected to return to pre-pandemic output level by end 2021.

Having said that the timing of the developed market recovery will be impacted by timing of approval and mass distributions of Covid-19 vaccines. Currently, several nations are seeing a challenging winter as second/third wave of Covid-19 taking their toll.

Global exposure for portfolios. We further note that there have been strong rallies in several markets such as the Chinese A-shares, H-shares and the Hong Kong Market recently.

Given the outperformance, we suggest conducting a portfolio review and adjust the weighting so as not to have an excessive exposure to any one market/asset class. We advocate for a globally diversified portfolio so as to capture a larger opportunity set.

Accommodative policies. The progress of Covid-19 vaccination should likely underpin a recovery (albeit a bumpy and uneven one).

Therefore, ongoing policy support will remain important as economies navigate new infections as well as manage the economic recovery.

We expect both monetary and fiscal policy to remain highly accommodative in order to support employment and corporations until meaningful recovery is visible and underway.

Accommodative central banks likely means low nominal rates while policy rates are unlikely to react to short-term spikes in inflation. This may be positive for nominal GDP and may bode well for corporate margins and profits.

Risk Assets should do well. CGS-CIMB Research opines that global equities looks likely to push higher. With the rollout of Covid-19 vaccine, the end of the pandemic has moved from hope to high visibility prospect, hence reducing earnings risk.

CGS-CIMB Research sees three drivers for continued buying support for equities into 1Q21. The first driver is relief from deep pessimism. That is still working its way through the markets as vaccines become reality. The second is recovery – economic and earnings. Lastly is the fear of inflation, as investors ponder the likely impact of coordinated fiscal and monetary interventions around the world.

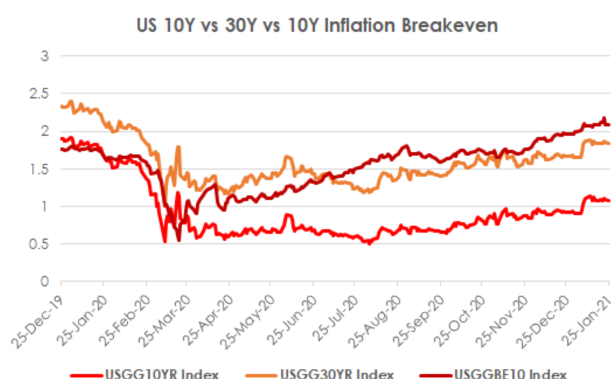
The prices of bonds and equities have rallied and look to have partially priced in the recovery.

Although equities have become more expensive, they should continue to remain attractive in the current environment, and also relative to other asset classes.

As economic recovery broadens out, we expect a more balanced allocation between value (cyclical) and growth (structural) stocks. We also like dividend yielders in this low interest rate environment.

Within Asia, we continue to favor HK/China as China's economic recovery continues to power ahead. China remains one of our preferred markets given its growth prospects. We favor long term winners such as technology leaders and domestic consumption plays, with some positioning in recovery names.

Inflation and yield curve. The recent rise in US Treasuries ("UST") have been partly due to the reflation story given the rise in commodity prices (in particular oil), and risk-on sentiment that has been driven by the unexpected win of both the house and senate by the democrats – thereby paving the way for higher fiscal stimulus.



Source: Bloomberg

Our Treasury Research has lifted its UST yields forecast (refer Market Musings report dated 12th Jan 21) as tabulated below:

Rates & Yields (%)	1Q2021	2Q2021	3Q2021	4Q2021
US – FFTR (Upper Bound)	**0.25**	**0.25**	**0.25**	**0.25**
Change from Dec forecast	*0*	*0*	*0*	*0*
2y Treasury	**0.25**	**0.30**	**0.35**	**0.40**
Change from Dec forecast	*+0.05*	*+0.05*	*+0.05*	*+0.05*
10y Treasury	**1.20**	**1.25**	**1.35**	**1.50**
Change from Dec forecast	*+0.25*	*+0.25*	*+0.25*	*+0.30*

Source: CIMB Treasury Research

This adjustment to the 10 year yields takes into account a democrat controlled US Congress, thus forging an easier path for President Joe Biden to formulate accommodative policy.

The resulting inflationary pressures this brings should lift UST by as much as 25bps compared to previous forecasts. Our treasury research now anticipates 10Y UST for 1Q2021 at the 1.20% level.

Based on Bloomberg consensus UST forecast, other research houses are forecasting a rise in UST yields across the curve as well:

Rates Forecast (US)	Market YLD	1Q 21	2Q 21	3Q 21	4Q 21
US 30- Year	1.86	1.78	1.90	1.96	2.04
US 10- Year	1.10	1.06	1.19	1.26	1.34
US 5 - Year	0.45	0.49	0.59	0.62	0.70
US 2-Year	0.12	0.18	0.22	0.27	0.31
US 3-Month Libor	0.22	0.29	0.30	0.32	0.34
Fed Funds Rate - Upper Bound	0.25	0.25	0.25	0.25	0.30
Fed Funds Rate - Lower Bound	0.00	0.00	0.00	0.02	0.03

Source: Bloomberg

For most economies, there continues to be spare capacity throughout 2021 thus keeping inflationary pressures low (at least by historical standards). As that spare capacity is eliminated, and with monetary policy set to remain loose, we may then start to see inflationary pressures building, albeit from a low starting point, into 2022.

Despite rising rates expectation, we continue to have a NEUTRAL position on fixed income. However, clients can consider the following strategies to navigate through the current market conditions:

- **Fixed for Life ("FFL") perpetual securities with high coupon (>4.50%)** and corporate perpetual bonds with high step-up on reset date. A credit idea can be **Hysan Development Co. Ltd.: USD Senior "Fixed for Life" Perpetual Bond; Perp NC 3Y; Coupon: 4.85%**
- **AT1s with coming call dates in 2022– 2024 that have high reset spread.** (e.g. INTEND 6.75% Perp; call 24; reset spread of 4.204%)
- **Continue to favour Asia IG (investment Grade) over Developed Markets IG**, in particular China SOEs & Chinese tech space that continue to trade wider than US/ European counterparts. (e.g. HAOHUA 3.875% 29; TENCNT/BABA)
- **Selected positioning in Asia HY for spread compression play** and additional yield pick up over IG credits. (e.g. Fidelity Asian HY bond fund)
- **To trim duration risk**. We prefer to position in the belly section of the curve (i.e. 5 – 10 years).
- **Utilize leverage moderately**. Clients stand to benefit from positive carry amidst low funding cost.

For clients with the appropriate risk appetite, **we believe Asian High Yield (HY)** is worth a look but we advocate a diversified but actively managed approach via a fund. Investors can consider the **Fidelity Asian High Yield Bond Fund**:

- Yield premiums on Asian dollar bonds (in particular Asian HY space) still offer investors a higher spread/yield over DM HY. The region is also expected to benefit from China's stronger growth recovery.
- The vaccine for Covid-19 is expected to aid global economy as they are gradually introduced. Spread compression is also expected to be fueled by the continued rebound in global growth, improving corporate fundamentals and ultra-supportive monetary policy.
- The stronger growth outlook from the "Blue Wave" (expected increased fiscal spending will fuel growth) may drive spread compression for Asian dollar bonds.
- Analysts are targeting average total returns of high single digits from Asian HY space contributing from spread compression (especially from Chinese property players given their current spread) and coupon accrual over the course of 2021.
- The rebound in economy will also likely lift inflation expectations sooner, and thus driving a bear steepening in the U.S. Treasury curve. This in turn may partly erode returns in Asian dollar bonds.
- Notwithstanding the above, this is partly mitigated by the relatively short duration of the fund (3.1 years as of Nov factsheet).

For equities, we note that mega-tech companies have been out of favor since start of the year, due to: 1) rotation into cyclicals; 2) FANG as source of funds for 'newer' parts of tech including index re-weights (such as Tesla) and recent IPOs; 3) stepped-up regulatory pressure; and 4) controversy around the role of platforms in recent political events.

While we acknowledge and respect these factors, we believe selected names are attractive. We believe cyclical factors/ secular factors underpinning near term/ long term growth remain intact.

We also note the recent hot performance in selected parts of the market (such as Electric Vehicles). As the overall valuation for the market may be at a premium, we continue to be selective on a bottom-up basis.

We continue to favor companies with strong market positioning leading to competitive advantages that enables them to maintain or improve high margins, while continuing to generate growth. One example of this is **Adobe Inc (ADBE US)**.

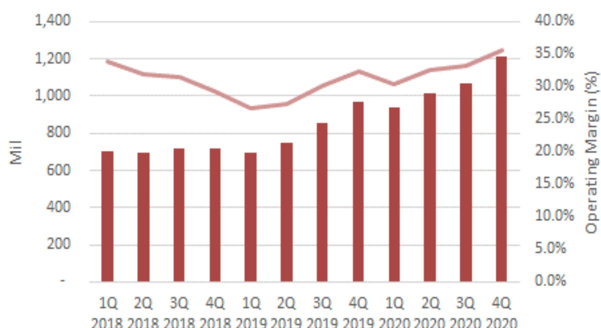
Adobe is a digital media software vendor that offers users (artists or companies) solutions to design and delivers high quality digital experiences. It offers its products via a Software-as-a-Service ("SaaS") model and is primarily a subscription model where more

than 90% of FY20 revenue is subscription based – which improves sales predictability and stability.

Adobe dominates the Creative Cloud - the content creation software and file editing segment.

Management updated their TAM (Total Addressable Market) for 2023, bumping up Digital Media/ Experience Clouds to $62B/ $85 Bil in FY23 from $44B/ $74 Bil, respectively in 2022. The increase in TAM was attributed to organic drivers such as category creation and expansion, innovation, and increasing the customer universe Adobe targets. Within that, Adobe is gaining market share (and expects to continue to do so).

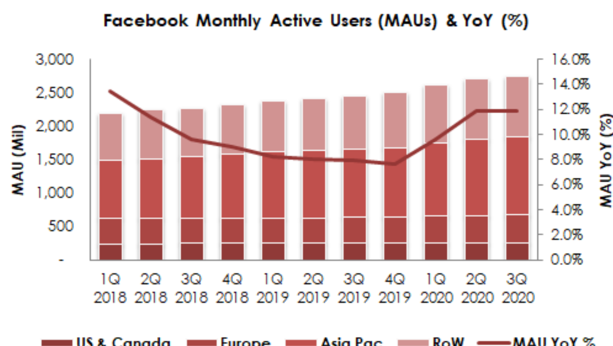
Adobe had shown its ability to grow its topline, and grow its profits while improving its margins (See quarterly performance below). They had also navigated the Covid-19 pandemic much better (as they able to demonstrate growth).



Source: Compiled from company release

Besides Adobe, some of the tech names we like and recently provided an update on include **Facebook (FB US)**, and **Micron Technology (MU US)** was added to the Equity Model Portfolio ("EMP") on 22 Jan 2020.

For Facebook, despite some negative headlines news on their WhatsApp recent privacy act update, we believe Facebook's fundamentals remain intact. We expect advertising spend to re-accelerate in 2021 given its entrenched scale & its ability to deliver high ROI for advertisers. Longer term, it is diversifying its product range with new areas to monetize including Reels and FB Shops/c IG Checkout, both of which are high revenue opportunities over time.

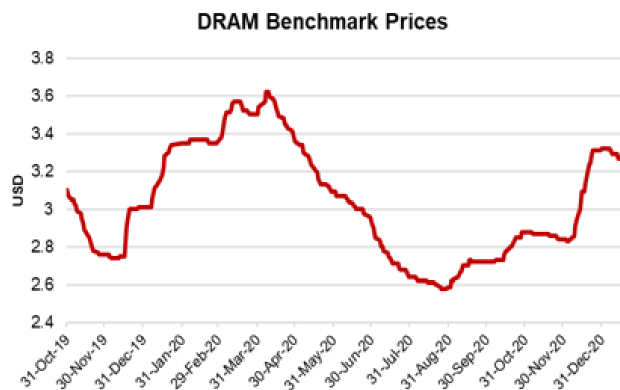


Source: Compiled from company release

Micron Technology is one of the world's leading producers of DRAM and NAND memory chips and the 4th largest semicon company globally. In 1QFY21, Micron derived 70% of revenue from DRAM technology and 30% from NAND related products.

We believe Micron is a beneficiary of rising DRAM ASPs, driven by secular demand for memory chips and disciplined capex.

The expected rise in DRAM ASPs may significantly boost pure-DRAM players' (such as Micron's) earnings moving forward.



Source: Bloomberg (Spot price of benchmark DRAM: 8GB DDR4 DRAM)

Given the highly commoditized nature of this sector, we believe this can be a stock idea for

growth-oriented clients with above average risk appetite.

Some risk considerations. A recent rise in US real rates have led to concerns of a taper tantrum 2.0. Investors also wonder about the ripple effects on Asia from China's policy normalisation. At this juncture, we do not expect these to jeopardise our Asian outlook, and the overall policy stance is likely to stay accommodative.

How disruptive Fed policy normalisation further depends on the pace and magnitude of the rise in US real rates. We currently believe both are likely to be less stark vs 2013. This is because the Fed now has a preference for longer lead times between communicating tapering intentions vs actual tapering, and between actual tapering vs policy rate hikes. The new average inflation targeting framework is also more dovish than before.

Moreover, Asia's key macrostability indicators have mostly improved vs 2013. For instance, Inflation is mostly lower, real rates and real rates differentials relative to US are mostly higher, current account deficits are less stretched than before while and foreign reserves cover more comfortable.

Please speak to your relationship manager for more details.

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