CIO Insights 3Q23

King, Queen & Castle.

Silver Lining

Low risk of a deep recession and a pause in the trajectory of rate hikes are constructive for financial risk assets, particularly growth oriented sectors.

Barbell Playbook

Risk assets are no longer overvalued, having adjusted to a surge in discount rate. Stay invested with growth equities on one end and income generators on the other.

Bonds in Focus

With a very low historical default rate, favour Investment Grade bonds over cash deposits as income generators in a portfolio.

Tech Trumps

Stay with Big Tech stocks despite recent strong rallies. Trajectory of strong earnings growth is intact, buoyed by AI trends.

DBS

Content

Foreword

Dear valued clients,

Rough seas make good sailors. This year, amid upheaval in financial markets, stubbornly high inflation, and uncertainties brought about by continued geopolitical tensions, it was all hands on deck at DBS. With a steady steer at the tiller, we've navigated these waters to see first-quarter net profit surging 43% to SGD2.57b and return on equity rising to 18.6%.

These are new highs owing to higher net interest margin, sustained business momentum, and resilient asset quality — all of which speak to our ability to make good on tumultuous waters.

While markets have not been rosy, we thank you for allowing us to navigate these headwinds as your trusted wealth partner. Our solid capital position, prudent risk management, and nimble execution lay the foundation for our approach to managing your wealth.

Above all, despite the 2023 banking crisis, we are proud to stand as one of the safest banks in the world; our "AA-" and "Aa1" credit ratings are among the highest globally.

In an increasingly unpredictable world, we continue to provide investment guidance throughout uncertain market conditions. Our 3Q23 CIO Insights does just that. We hope these insights help you to invest with confidence and spend time in the market instead of timing the market.

Shee Tse Koon

Group Head, Consumer Banking
& Wealth Management

Executive Summary

Dear valued clients,

Hou Wey Fook, CFA

Chief Investment Officer

It is tremendously encouraging to see risk assets staying resilient, even rallying, despite unnerving developments such as the banking tumult on both sides of the Atlantic, followed by fears of a U.S. default — averted in the nick of time when Biden signed the debt ceiling bill.

Our high conviction call to be invested in the “60/40 portfolio” from the start of this year has panned out well with a 10.7% return (as of 16 June).

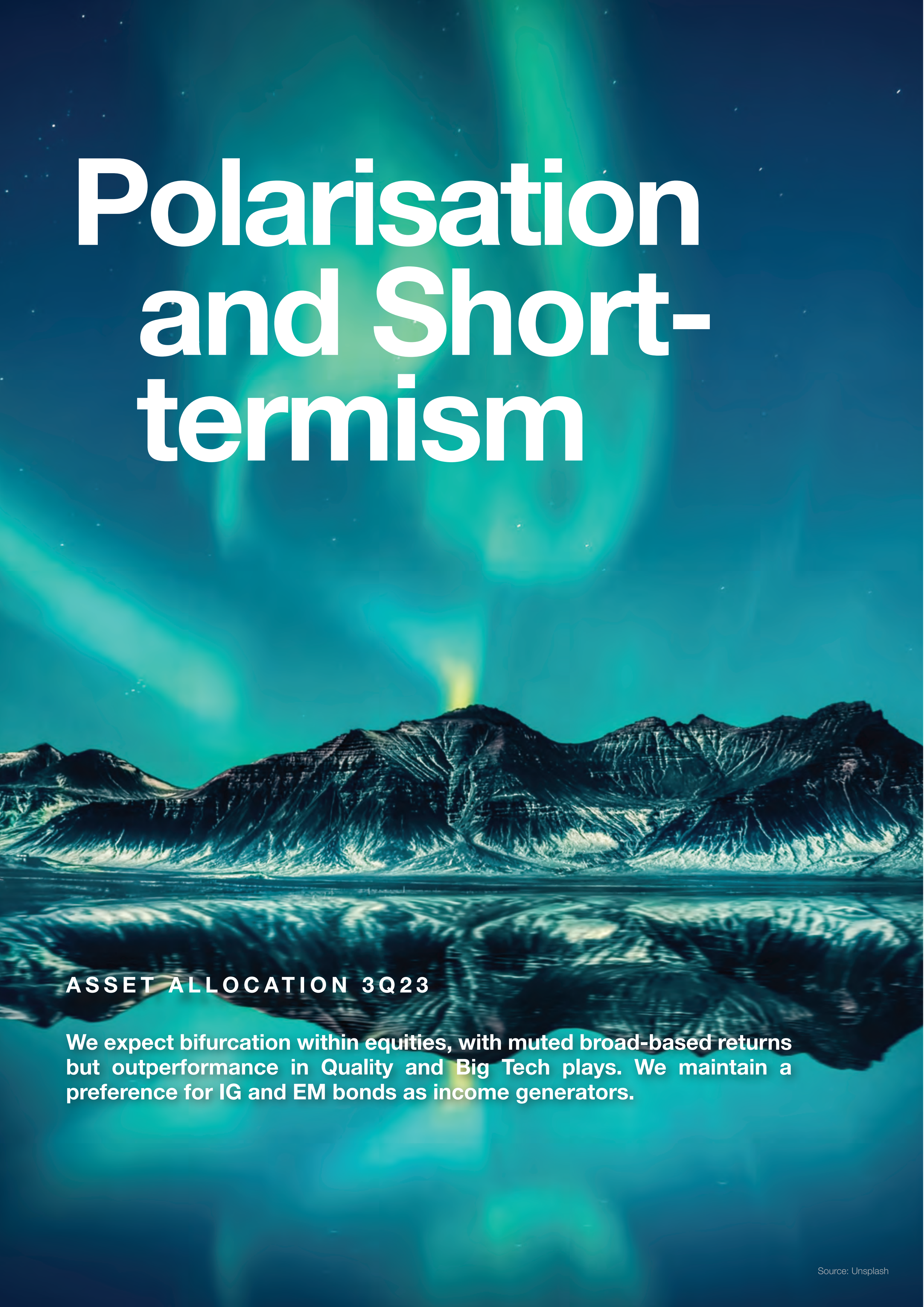
Leaning into a long-term view, we advocate the deployment of excess portfolio cash to investments. Today’s risk-free rate at 5.25%, up from near zero just 18 months ago, suggests valuations across financial assets have adjusted accordingly and is now no longer overvalued. After all, corporate bonds and equities are priced off the risk-free rate.

This quarter’s CIO Insights report is titled King, Queen & Castle, so named after key chess pieces whose functions reflect our portfolio strategy. In particular, the “Castle” represents income generating assets that protect the purchasing power of capital (“King”) against inflation. Then we have the “Queen” — a dynamic piece which can traverse the chessboard in multiple directions, reflecting our preference for growth boosters that drive capital gains.

In this publication, we also highlight Artificial Intelligence as a game changer for our bullish secular outlook on Big Tech stocks.

Do enjoy the read.

Polarisation and Short-termism



ASSET ALLOCATION 3Q23

We expect bifurcation within equities, with muted broad-based returns but outperformance in Quality and Big Tech plays. We maintain a preference for IG and EM bonds as income generators.

Source: Unsplash

Investment Summary 3Q23

Macro Policy

Fed to hold rates steady with 1 to 2 hikes remaining by year end. ECB, however, has one rate hike to go while BOJ is on data-watching mode.

Economic Outlook

Inflation moderating but remains elevated due to strong services demand. We see soft landing in US and Europe. Recovery in Asia supported by growing momentum in Japan and stimulus initiatives in China to counter slowing growth.

Equities

Growth equities to benefit from peaking interest rates. Maintain conviction call on Big Tech given compelling growth outlook. Look for select opportunities in Asia, including Japan.

Credit

Reiterate high quality bias in 3-5Y duration segment. Opportunities in quality EM credits amid peaking of yields and moderating US dollar strength.

Rates

Economic resilience and fading market stresses have prompted DM central banks to consider extending the hike cycle. If tightening is not overdone, there might still be reprieve as Goldilocks takes hold.

Currencies

DXY to consolidate on extended hikes into summer. In Asia, with inflation no longer running away, central banks paused hiking cycles on growth worries while favouring currency stability over rate cuts.

Alternatives

Gold continues to be supported by strong central bank buying. Tap into private markets for exposure to corporate growth.

Commodities

Near-term headwinds from slower-than-expected growth in China and "higher for longer" rates to dampen demand.

Thematics

AI is set to revolutionise industries and economies. We explore the beneficiaries of the long-term irreversible AI trend.

Theme: Artificial Intelligence

The momentous wave of advancements in AI continues to reshape the future across economic, political, social and investment spheres.

To navigate the fast-accelerating landscape of AI and harness its potential for a prosperous future, we explore long-term investment opportunities in (1) Big Tech, (2) Hardware Manufacturers, (3) Cloud Platforms, and (4) Cybersecurity.

Source: iStock

01. Asset Allocation.

Hou Wey Fook, CFA
Chief Investment Officer

Dylan Cheang
Strategist

The Haves vs The Have-Nots: Tech outperformance distorting market returns. Polarised returns, market distortions, and investor short-termism. These are the current dynamics at play. The S&P 500 has rallied 14.8% this year (as of 14 June). On surface, so far so good. But if you peel back the headlines, it is evident returns are extremely polarised across sectors. US Technology led the pack with a 40.9% rally while traditional sectors like Energy (-7.5%), Materials (+4.6%), and Industrials (+6.4%) lagged.

The polarised performance explains why the S&P 500 has outperformed S&P 500 (equal weight) by 10.0 %pts YTD while the outperformance of US Technology was even more stark at 36.1 %pts. Taking this one step further, if one would average out the performance of the top five companies based on market cap (Apple, Microsoft, Alphabet, Amazon, and Nvidia), the outperformance of this group over the S&P 500 (equal weight) would shoot to 68.8 %pts – propelled no less by the recent surge in enthusiasm on Generative AI.

The message is clear: US equities have been lacklustre and the only segment performing well is US Technology. This underpins our Neutral call on the broader market and Overweight on the latter. As we head into2H23, we expect this polarisation to stay as sectoral performance will continue to be driven by the following dynamics which fit broadly into two camps:

» <u>Technology related plays</u>: Momentum propelled by bond yields and Fed trajectory

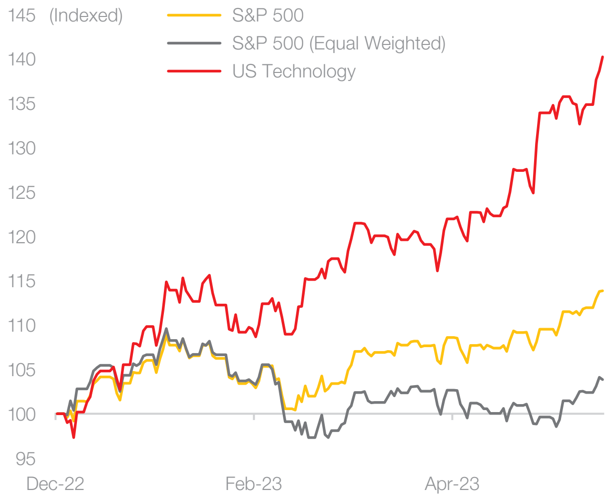
» <u>Non-Technology related plays</u>: Momentum weighed on by margin pressure and recession concerns

This brings us to our next point on investor short-termism. Based on the market's reaction after May's jobs data, there is rising market chatter that the "Goldilocks" trade is making a comeback. Indeed, despite strong jobs growth, equity markets rallied as salary growth was deemed weaker than expected. Investors are essentially embracing the notion that the US economy will keep chugging along without pushing inflation higher.

But the issue with such an assumption is the risk of short-termism – as this is based only on one month's worth of data and the narrative could flip should forthcoming numbers paint a different picture. We will monitor this space closely and for now, we believe a more balanced view is warranted for the second half. Our base case assumptions and strategies are:

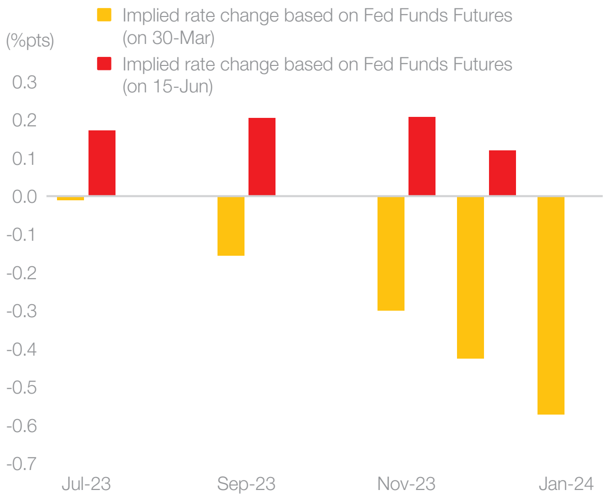
- Potentially more rate hikes in 2H23, followed by Fed pause in 2024
- But curb your enthusiasm; Historically, Fed pause amid yield curve inversion is no panacea for risk assets
- Muted broad-based equities returns, with Technology-related plays continuing to drive outperformance
- Stay overweight growth plays within equities with quality overlay
- Seek opportunities in quality EM bonds; Maintain preference for A/BBB credit in 3-5Y duration segment
- Hedge market volatility with gold exposure; Upgrade gold position

Polarisation of market returns



Source: Bloomberg, DBS

Huge swing in market expectations of Fed trajectory



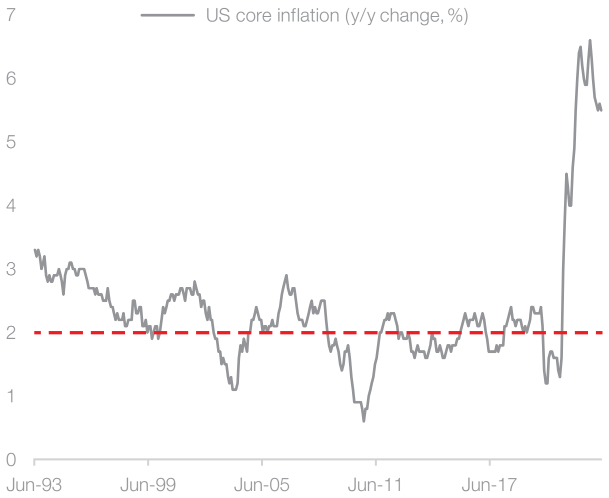
Source: Bloomberg, DBS

Hawkish pause; More rate hikes on the table in 2H23. The Fed has, in its June FOMC meeting, kept its policy rate unchanged at 5.25%. While the central bank expects tighter credit conditions ahead for households and businesses, Fed Chair Powell nonetheless stressed that more policy tightening might be appropriate in the second half. In fact, the July meeting is now deemed as a "live meeting" with a high plausibility of another rate hike on the table.

The hawkish pivot is due to two factors: One, core inflation remains sticky amid ongoing tightness in the labour market. Two, concerns over banking sector stress is starting to ease. This explains why in the Summary of Economic projections (SEP), the median dot for projected Fed Funds rate for 2023 was revised up from 5.1% to 5.6%, while 2024's projection was also raised from 4.3% to 4.6%.

In view of the latest development, we are now expecting a rate hike in July and possibly another one in 4Q23 should external demand undergo strong rebound. Fed Funds Futures are similarly pricing-in one hike in the second half – a marked departure from the initial late-March pricing of two rate cuts during this period.

US core inflation remains elevated despite aggressive Fed rate hikes



Source: Bloomberg, DBS

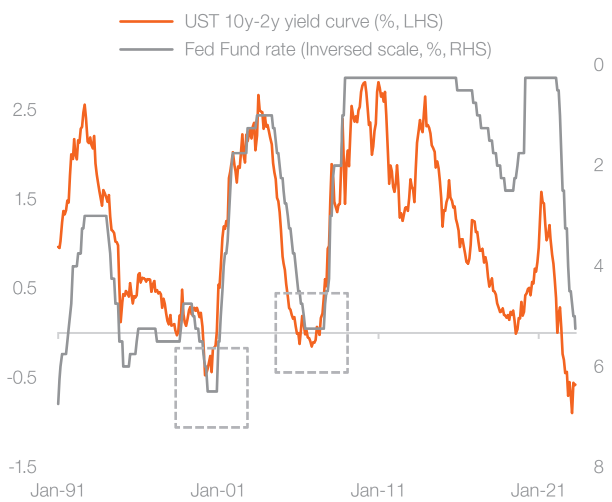
Beyond 2023: Fed pause amid yield curve inversion – No panacea for risk assets. We believe the Fed will pause its monetary tightening cycle next year after the final round of rate hikes in 2H23. The duration of the pause, however, will depend on the severity of the forthcoming economic contraction so much so that rate cuts are deemed warranted. The performance of risk assets during previous Fed pauses is a mixed bag.

Since 1990, there have been four occasions where the Fed paused its monetary tightening cycle. The subsequent 12-month performance for risk assets was generally positive, with equities and bonds gaining 16.8% and 7.0% respectively while a multi-asset portfolio consisting of 50% equities and 50% bonds was up 11.9%. However, the plot evolved when one brought into consideration the yield curve:

» When the yield curve was not inverted, equities and bonds registered average gains of 30.1% and 9.9% respectively while the multi-asset portfolio was up 20.0%.

» However, when the yield curve inverted, the average gains for equities and bonds became more modest at 3.4% and 4.2% respectively, while the performance for the multi-asset portfolio was similarly minute at 3.8%.

Since 1991, two Fed pauses coincided with yield curve inversion



Source: Bloomberg, DBS

As the table shows, the performance for equities and bonds is mixed when there is both a Fed pause and an inverted yield curve. In the May 2000 pause, equities was down 11.6% while in June 2006, the asset class was up 18.4%. However, the performance for bonds was more consistent, with both periods registering gains of 3.8% and 4.7% respectively.

From a multi-asset perspective (50% equities and 50% bonds), a Fed pause is generally positive for portfolio performance on a 12-month basis, with gains averaging 11.9% historically. However, during periods of yield curve inversion, we believe that performance will range from subdued to slightly negative as recession fears dominate.

Performance of risk assets during previous episodes of Fed pause

	Fed Funds rate	Yield Curve	Performance of equities* in subsequent 12-months	Performance of bonds in subsequent 12-months	Performance of 50% equites and 50% bonds multi-asset portfolio in subsequent 12-months
Feb-95	6.00	0.44	31.4%	12.9%	22.2%
May-00	6.50	-0.40	-11.6%	3.8%	-3.9%
Jun-06	5.25	-0.01	18.4%	4.7%	11.5%
Dec-18	2.50	0.20	28.9%	6.8%	17.9%
Average			**16.8%**	**7.0%**	**11.9%**
Average (with normal yield curve)			**30.1%**	**9.9%**	**20.0%**
Average (with inverted yield curve)			**3.4%**	**4.2%**	**3.8%**

*Proxied by S&P 500

Source: Bloomberg, DBS

Go Long Duration with Quality Overlay

The early bird catches the worm: Tactical strategies for 2H23 and beyond. Based on our assumption of the Fed ending its monetary tightening cycle by end-2023 before embarking on a pause, followed by rate cuts in 2024, our strategies are:

- Go long duration on equities with quality overlay: By definition, equity duration refers to the length of time an investor needs to receive dividends in order to justify the cost price of the stock. The shorter the duration, the faster an investor will be repaid for the investment. Conversely, the higher duration will mean that the investor will take a longer period to be repaid.

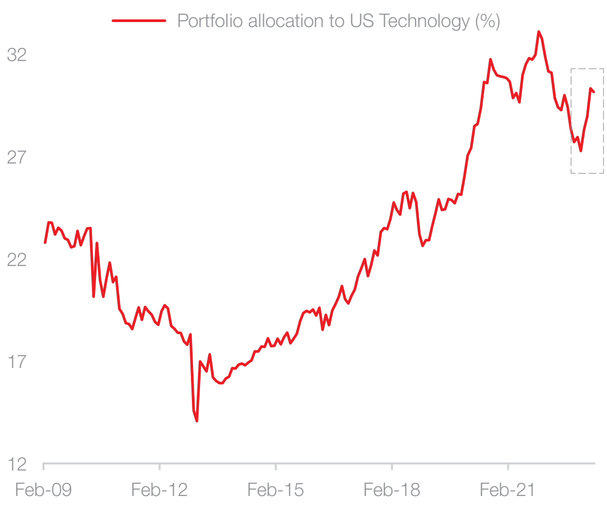
  Above all, equity duration is also a measure of share price sensitivity to the movement in interest rates. The shorter the duration, the less sensitive the share price will be to interest rates. Conversely, longer duration equity will be more sensitive to movement in interest rates. Typically, growth-oriented and not value-oriented equities demonstrate long duration characteristics.

  Our base case scenario is for the Fed to put monetary tightening on hold this year before embarking on rate cuts in 2024. With expectations of lower bond yields on the horizon, we believe long duration equities – particularly those in the high growth technology-related space – will see stronger momentum ahead.

  Looking at the performance of the S&P 500, this trend is already in play. As highlighted earlier, the market is up 14.8% YTD. But the strong performance is not broad-based. Instead, the robust performance is driven predominantly by Technology as investor interest on long duration equities gains momentum.

  Based on data from EPFR Global, US funds' portfolio exposure to the Technology space peaked at 33.1% in November 2021. But the rapid pace of aggressive Fed monetary tightening last year saw funds trimming their exposure and Tech allocation eventually troughed at 27.3% in December 2022. Since then, the shift towards long duration equities in anticipation of peak Fed has seen Tech allocation trending higher to 30.2% by April 2023 and we expect this trend to persist.

Funds' allocation to US Technology on the rise

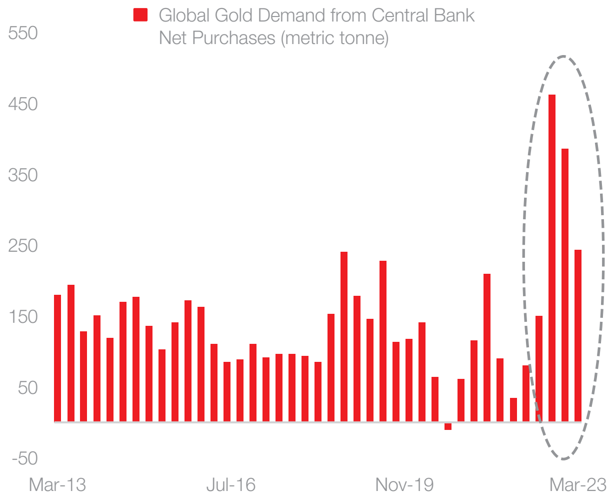


Source: EPFR Global, DBS

- Hedge market volatility with gold exposure: Gold has rallied 6.5% YTD and the robust positive momentum is on the back of two factors:
    - » One, the recent banking fiasco in the US has ratcheted up concerns on overall financial stability in the system, compelling investors to price-in a more benign interest rate environment starting from 2H23 and beyond. Gold, being a non-interest bearing asset, is broadly inversely correlated with the direction of interest rates.
    - » Two, the risk of recession is on the rise as elevated bond yields weigh on domestic consumption and economic activities. Gold is expected to perform well during periods of economic uncertainty.

Beyond the factors highlighted above, a less discussed point is the move by global central banks to diversify away from the dollar. Based on data by the World Gold Council, gold purchased by central banks hit a record high in 1Q23 as western sanctions on Russia took hold after the Ukraine invasion.

Gold demand from central banks on the rise



Source: Bloomberg, DBS

Countries with large amounts of dollar-based assets urgently sought to diversify their holdings and gold is one of the beneficiaries. We expect the momentum for gold to persist amid rising challenges to the dollar's hegemony.

Watch your blind spot: Navigating US commercial real estate headwinds

Double Whammy: Rising vacancy rates and bond yields. As investors head into 2H23, a clear and present headwind is rising, funding stress in the c.USD20.7t US commercial real estate (CRE) sector as office vacancies surge. Indeed, from a pre-pandemic level of 16.8% in December 2019, the vacancy rate has increased to 18.7% by December 2022. This has, in turn, coincided with widening option-adjusted spreads for US BBB commercial mortgage-backed securities.

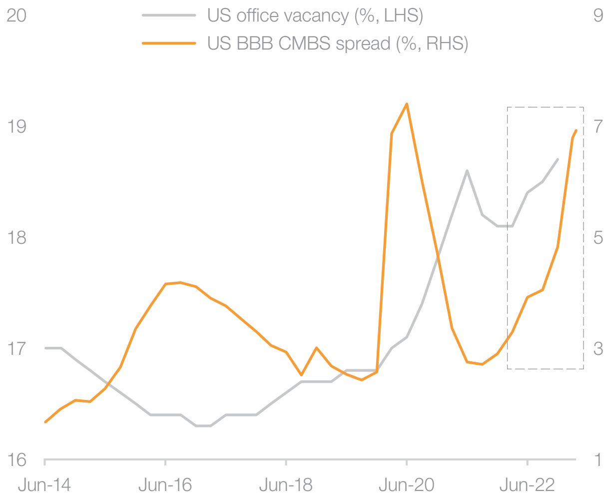
The challenges facing US commercial real estate are both structural and cyclical:

- Structural Challenge – Rising adoption of remote work: Since the Covid-19 pandemic, companies' adoption of remote work is on the rise and this translates to lower occupancy rates for US offices. Evidently, the trend is structural and is here to stay. According to McKinsey, Americans employees embrace remote work, with 87% of survey respondents taking up the offer when given the option.

- Cyclical Challenge – Rising refinancing risks: The rise in bond yields complicates the picture, both from a refinancing and valuation perspective.

An estimated USD1.5t worth of commercial real estate debts are set to mature by end-2025 and most of these debts were financed in an era where bond yields were close to zero. Companies will, therefore, find it challenging to refinance in

Rising office vacancies coinciding with rising CMBS spread



Source: Bloomberg, DBS

the current environment where the cost of capital is high. Above all, the rise in bond yields also broadly translates to higher cap rates which in turn suppresses commercial real estate valuation.

What will the economic impact be should the US CRE space fail? US regional banks will be the hardest hit if the CRE space fails as data from MSCI shows the former accounting for the largest share of CRE lending in 2022 at 27%, a marked increase from 17% in 2017 (government agencies' exposure, in contrast, fell from 26% to 18%). The broader economic impact will be substantial given that small bank loans to CRE constitute c.7% of US GDP. As stresses in CRE intensify, regional banks will incrementally tighten their overall loans exposure and add further funding stress to the system.

Will this be a repeat of 2008's Great Financial Crisis (GFC)? Comparing the situation today with 2008, we believe that the probability of a GFC redux is low given that banks today are much better capitalised. Indeed, in the run-up to the GFC of 2008, the tangible common equity to risk-weighted assets (TCE/RWA) ratio for US large banks (proxied by JPMorgan Chase, Citigroup, and Bank of America) deteriorated from 6.3% in December 2006 to 4.4% by June 2008 (right before the crisis).

But post-GFC, banks' equity position underwent a sea change. Average TCE/RWA ratio has improved markedly to 13.0% (as of March 2023), putting these banks in a better position to weather future shocks. Besides, US large banks no longer have the same outsized exposure to CRE and henceforth, they can continue to provide liquidity and funding to the economy should the latter implode.

Implosion of US CRE space: Winners and losers. Listed below are the potential winners and losers should the US CRE space implode:

Equities

Risk Areas

- US small banks with huge CRE exposure to face significant selling pressure on contagion fears
- US CRE plays with heavy exposure to lower tier offices will face acute selling pressure

Beneficiaries

- In Financials, the classic flight-to-quality will ensue with large banks outperforming regional banks
- Rising stresses will raise expectations of policy rate cuts which will be a tailwind for US Big Tech

Fixed Income

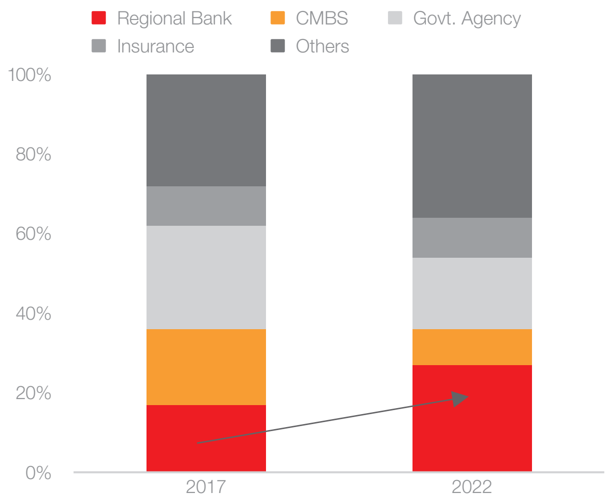
Risk Areas

- CMBS to undergo the most distress given direct exposure to the CRE sector
- Bank AT1s to face further contagion-related stress on expectations of higher NPLs and provisioning

Beneficiaries

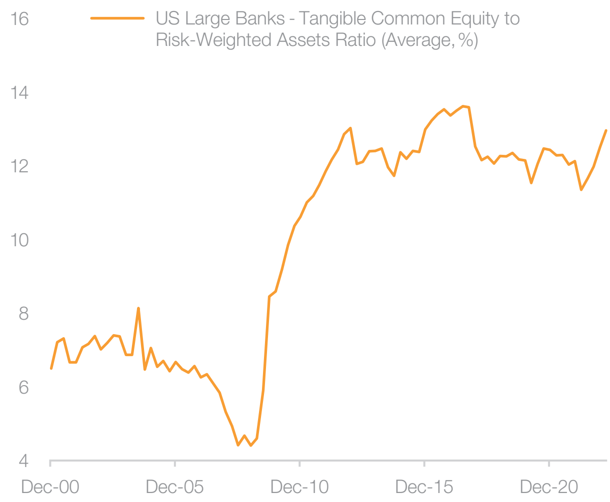
- Short-term US Treasuries to gain as yields fall on expectations of policy rate cuts
- High quality IG credit to remain stable given better debt serviceability

Regional banks account for largest share of CRE lending



Source: Bloomberg, DBS

Improving financial health of US large banks



Source: Bloomberg, DBS

3Q23 Asset Allocation – Stay Overweight on Alternatives

Categories	Indicators	Score Range	Equities				Bonds		
			US	Europe	Japan	AxJ	DM Govt	DM Corp	EM Bonds
Fundamentals	PMI	-1 to +1	0	0	0	1	0	0	0
	Economic surprise	-1 to +1	0	-1	0	0	0	0	0
	Inflation	-1 to +1	0	-1	0	0	0	0	0
	Monetary policies	-1 to +1	0	0	0	0	-1	0	0
	Forecasted EPS growth	-2 to +2	-1	-1	-1	0	-	-1	0
	Earnings surprise	-2 to +2	0	-1	0	1	-	0	0
Valuation	Forward P/E	-2 to +2	0	0	1	1	-	-	-
	P/B vs ROE	-2 to +2	0	-1	-1	1	-	-	-
	Earnings yield - 10Y yield	-2 to +2	0	-1	0	1	0	0	0
	Free Cashflow yield	-2 to +2	0	0	1	0	-	-	-
	Credit spread	-2 to +2	-	-	-	-	-	0	0
Momentum	Fund flows	-2 to +2	-1	0	0	0	1	1	0
	Volatility	-1 to +1	0	0	0	0	0	-	-
	Catalysts	-2 to +2	0	0	0	0	0	0	0
Raw Score			-2	-6	0	5	0	0	0
Adjusted Score*			**-0.10**	**-0.29**	**0.00**	**0.24**	**0.00**	**0.00**	**0.00**

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

Source: DBS

Cross Assets – Neutral Equities and Bonds; Overweight Alternatives. The latest scoring on our CAA framework suggests that our view on both equities and bonds is Neutral from a 3-month multi-asset perspective. Instead, our Overweight call is in the Alternatives space.

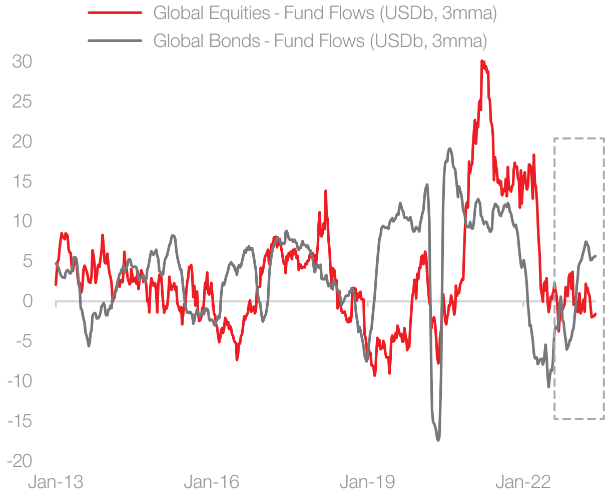
Fundamentals: Aggressive monetary tightening by the Fed will weigh on investments and consumption in the second half of the year. However, while we expect US macro momentum to decelerate, a major recession is not our base case scenario. Reason being that key indicators like consumption, employment, and housing demand are all pointing to broad-based resilience in the US economy. Besides, household balance sheets have remained healthy and this will help to cushion downside impact from the tightening of financial conditions.

On corporate earnings, the proportion of companies reporting positive earnings surprise in the US has improved from 69% to c.78% in the recent reporting season. However, the percentage of companies reporting actual earnings growth deteriorated from 63% to 58%; this ties with our view that margin headwinds will be a drag on corporate profitability. Sectors that registered percentage of earnings growth include Communications Services (c.29%) and Materials (c.34%).

Valuation: The gap between US earnings yield and US 10Y Treasury yield has contracted further to 1.0% in 2023 (as of 15 June) as bond yields saw substantial rebound during the quarter.

Momentum: The robust inflow of funds into global

Bond funds continue to see strong inflows



Source: EPFR Global, DBS

bonds persisted in 2Q23 as USD60.6b entered the segment, bringing total inflows in 2023 to USD152.2b. This contrasts markedly to the outflows of USD147.8b seen over similar periods last year. The downward momentum in equities persisted as the segment registered outflows of USD15.8b.

Equities: Look beyond near-term sentiments; Take a longer-term view. Our Underweight stance on Europe paid off in 2Q23 as the region underwhelmed with subdued gains of +3.1% during the quarter (as of 14 June), underperforming the Neutral-rated US and Japan markets (+6.8% and +10.5% respectively). The Overweight on AxJ, however, did not pan out as expected with the market largely flat amid rising negative sentiments on China. Indeed, within AxJ, China lost 6.8% during the quarter and this is due to:

- Simmering US-China geopolitical tension and investors' concerns on the potential rise of a new "digital iron curtain"
- Prevailing property developers' debt woes and the impact it has on the broader economy
- Fading economic momentum after initial surge in optimism on China's re-opening

We believe most of these concerns are valid and here to stay (in particular, on the geopolitics front). China equities are currently trading at 11.0x forward P/E - a 36% discount to global equities (close to the all-time low). This suggests China concerns have been substantially priced-in.

Apart from attractive valuations, the earnings outlook for Chinese companies has remained healthy. Based on consensus forecast, China's corporate earnings are expected to register CAGR of 15.3% during 2022-24 and this is substantially higher than DM like US (+4.0%), Europe (+2.5%), and Japan (+6.0%).

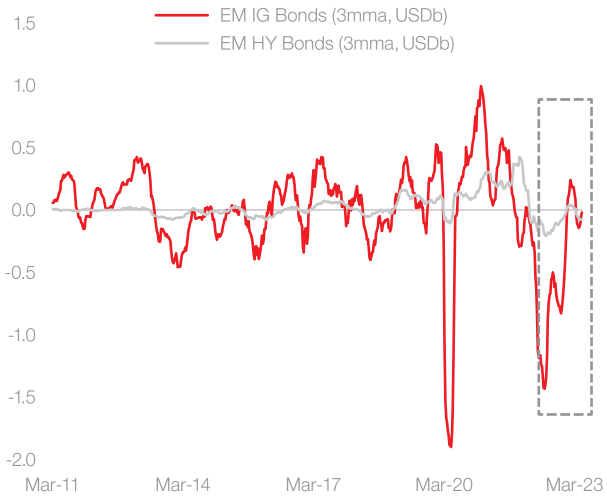
With China being a significant market within AxJ, the strong earnings momentum there underpins AxJ earnings as the latter is expected to register CAGR of 10.5%.

China trading at steep discount to global equities

Source: Bloomberg, DBS

<u>**Bonds**</u>**: Tapering our cautious stance on EM bonds; Seek opportunities in quality plays.** In the EM bonds space, we advise investors take a longer-term view. Look beyond the second half and position for: (a) The eventuality of a Fed pause in 2024, which will be accompanied by a dollar peak and tailwinds for EM currencies and (b) The eventuality of lower yields next year, compelling portfolio allocators to seek yield opportunities beyond the traditional DM. That said, in spite of our constructive view, we are also cognizant that valuations are only broadly fair and not in the "cheap" category.

Portfolio flows into EM IG funds on the rebound



Source: EPFR Global, DBS

Therefore, being selective is key and we recommend exposure only to quality IG plays in this segment from a risk-reward standpoint. Data from EPFR Global suggests investors adopt a similar train of thought. In 2022, EM IG bonds registered strong outflows of -USD33.2b while outflows for EM HY bonds were substantially lower at -USD5.3b. But the tables have turned this year. While EM IG bonds registered inflows of USD1.7b, the EM HY space registered outflows at -USD0.5b.

As the Fed navigates the cross currents of rising financial instability and yet sticky inflation, we believe that policies could eventually be put in place to steepen the yield curve and this underpins our preference for A/BBB credit in the 3-5 year duration bucket.

Alternatives: Market dislocations present opportunities in private assets; Upgrade gold exposure. US regional banking stress translates to further tightening in lending conditions. While this represents a headwind for the broader economy, it could however, be a tailwind for the private assets space. Indeed, tighter bank lending standards presents opportunities for direct lending funds to make loans to companies at higher interest rates and stringent provisions. Moreover, market dislocation is also a boon for special situations and distressed debt strategies as companies are faced with the double whammy of an economic slowdown and liquidity tightening.

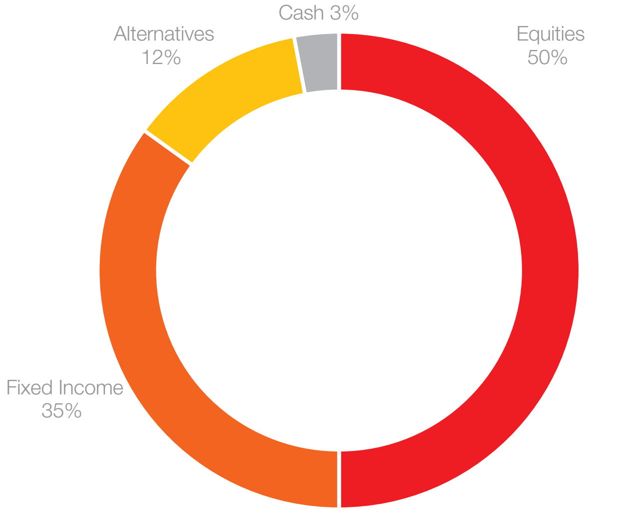
Separately, we are upgrading gold to 3-month Neutral on expectations that: (a) Interest rates will peak in the second half of this year before trending lower in 2024 and (b) The risk of recession has risen as high bond yields weigh on the broader economy. Maintain sufficient exposure to the precious metal as a portfolio hedge.

3Q23 Global Tactical Asset Allocation

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

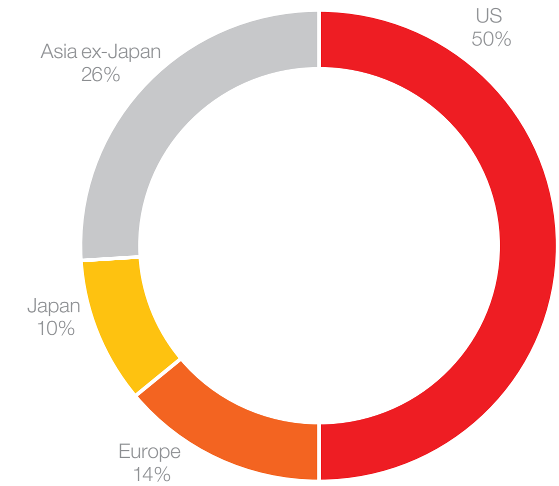
Source: DBS

TAA breakdown by asset class (Balanced Profile)



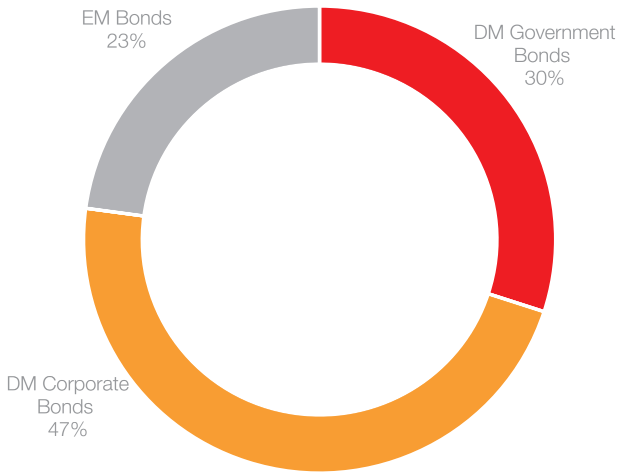
Source: DBS

TAA breakdown by geography within equities (Balanced Profile)



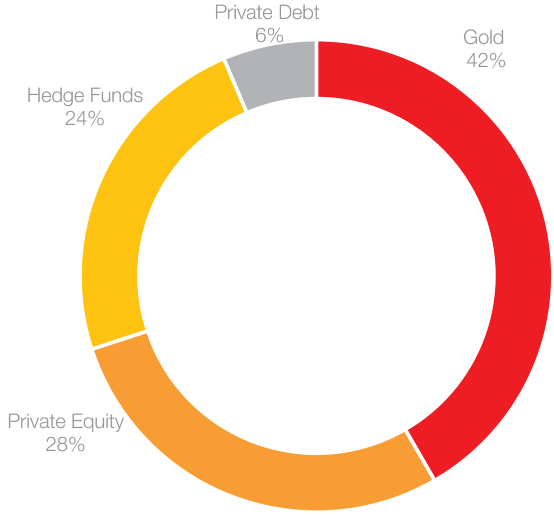
Source: DBS

TAA breakdown by bond types within fixed income (Balanced Profile)

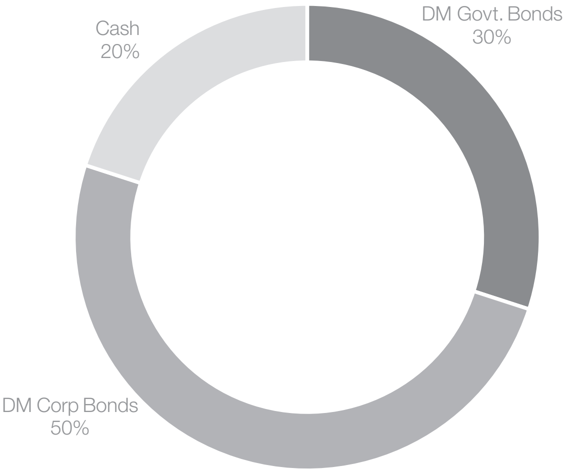


Source: DBS

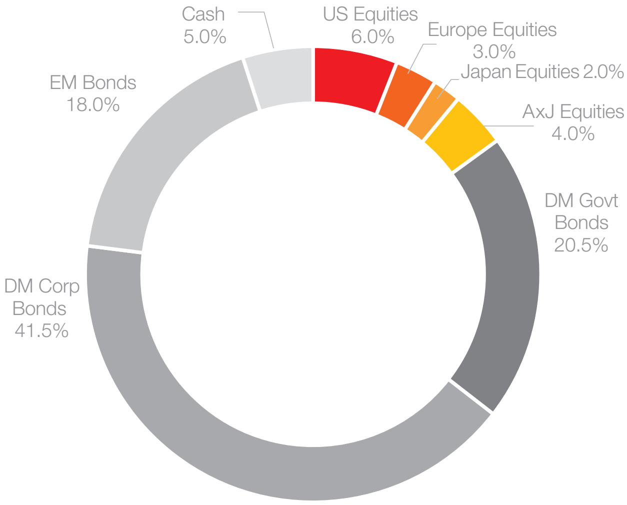
TAA breakdown by segments within Alternatives (Balanced Profile)



Source: DBS



Source: DBS



Source: DBS

CONSERVATIVE

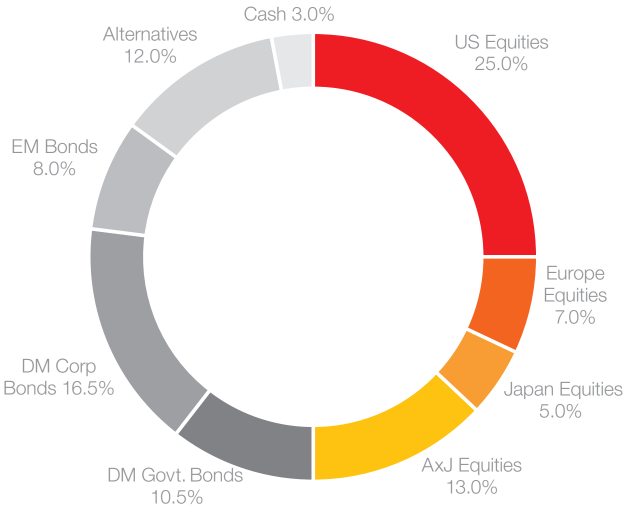
	TAA	SAA	Active
Equities	**0.0%**	**0.0%**	
US	0.0%	0.0%	
Europe	0.0%	0.0%	
Japan	0.0%	0.0%	
Asia ex-Japan	0.0%	0.0%	
Fixed Income	**80.0%**	**80.0%**	
Developed Markets - Government	30.0%	30.0%	
Developed Markets - Corporate	50.0%	50.0%	
Emerging Markets	0.0%	0.0%	
Alternatives	**0.0%**	**0.0%**	
Gold	0.0%	0.0%	
Private Assets & Hedge Funds*	0.0%	0.0%	
Private Equity	0.0%	0.0%	
Hedge Funds	0.0%	0.0%	
Private Debt	0.0%	0.0%	
Cash	**20.0%**	**20.0%**	

*Only P4 risk rated UCITs Alternatives

MODERATE

	TAA	SAA	Active
Equities	**15.0%**	**15.0%**	
US	6.0%	6.0%	
Europe	3.0%	4.0%	-1.0%
Japan	2.0%	2.0%	
Asia ex-Japan	4.0%	3.0%	1.0%
Fixed Income	**80.0%**	**80.0%**	
Developed Markets - Government	20.5%	20.0%	0.5%
Developed Markets - Corporate	41.5%	40.0%	1.5%
Emerging Markets	18.0%	20.0%	-2.0%
Alternatives	**0.0%**	**0.0%**	
Gold	0.0%	0.0%	
Private Assets & Hedge Funds*	0.0%	0.0%	
Private Equity	0.0%	0.0%	
Hedge Funds	0.0%	0.0%	
Private Debt	0.0%	0.0%	
Cash	**5.0%**	**5.0%**	

*Only P4 risk rated UCITs Alternatives



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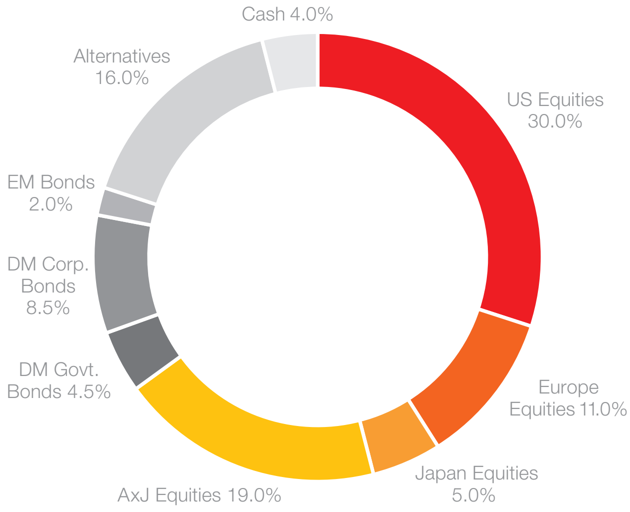


Source: DBS

BALANCED

	TAA	SAA	Active
Equities	**50.0%**	**50.0%**	
US	25.0%	25.0%	
Europe	7.0%	10.0%	-3.0%
Japan	5.0%	5.0%	
Asia ex-Japan	13.0%	10.0%	3.0%
Fixed Income	**35.0%**	**35.0%**	
Developed Markets - Government	10.5%	10.0%	0.5%
Developed Markets - Corporate	16.5%	15.0%	1.5%
Emerging Markets	8.0%	10.0%	-2.0%
Alternatives	**12.0%**	**10.0%**	**2.0%**
Gold	5.0%	5.0%	
Private Assets & Hedge Funds*	7.0%	5.0%	2.0%
Private Equity	3.4%	2.4%	1.0%
Hedge Funds	2.8%	2.0%	0.8%
Private Debt	0.8%	0.5%	0.2%
Cash	**3.0%**	**5.0%**	**-2.0%**

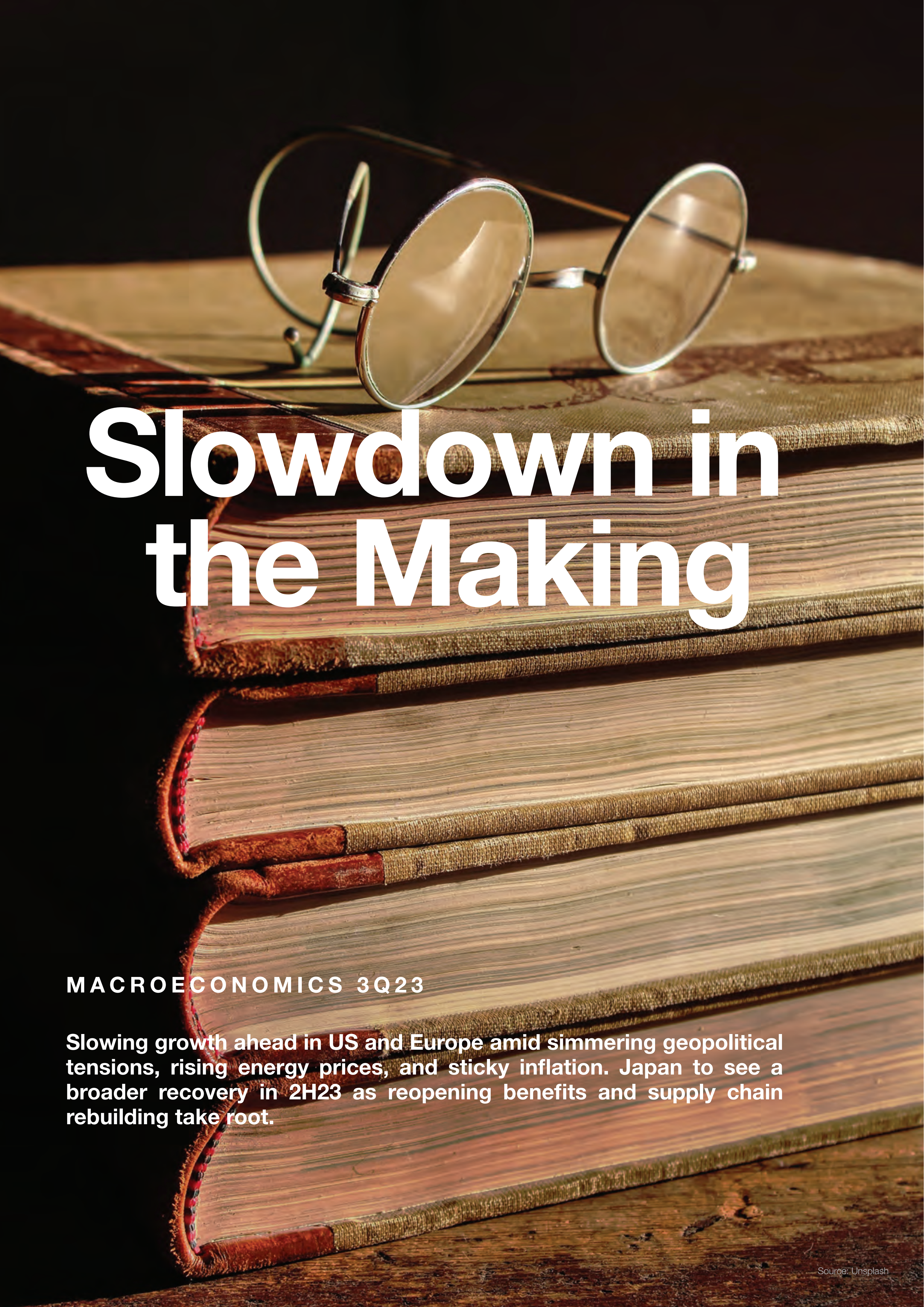
*Only P4 risk rated UCITs Alternatives

AGGRESSIVE

	TAA	SAA	Active
Equities	**65.0%**	**65.0%**	
US	30.0%	30.0%	
Europe	11.0%	15.0%	-4.0%
Japan	5.0%	5.0%	
Asia ex-Japan	19.0%	15.0%	4.0%
Fixed Income	**15.0%**	**15.0%**	
Developed Markets - Government	4.5%	4.0%	0.5%
Developed Markets - Corporate	8.5%	7.0%	1.5%
Emerging Markets	2.0%	4.0%	-2.0%
Alternatives	**16.0%**	**15.0%**	**1.0%**
Gold	5.0%	5.0%	
Private Assets & Hedge Funds*	11.0%	10.0%	1.0%
Private Equity	5.3%	4.9%	0.5%
Hedge Funds	4.5%	4.0%	0.4%
Private Debt	1.2%	1.1%	0.1%
Cash	**4.0%**	**5.0%**	**-1.0%**

*Only P4 risk rated UCITs Alternatives

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.



Slowdown in the Making

MACROECONOMICS 3Q23

Slowing growth ahead in US and Europe amid simmering geopolitical tensions, rising energy prices, and sticky inflation. Japan to see a broader recovery in 2H23 as reopening benefits and supply chain rebuilding take root.

Source: Unsplash

02. Macroeconomics.

Taimur Baig, Ph.D.
Chief Economist

Radhika Rao
Economist

Ma Tieying
Economist

Suvro Sarkar
Analyst

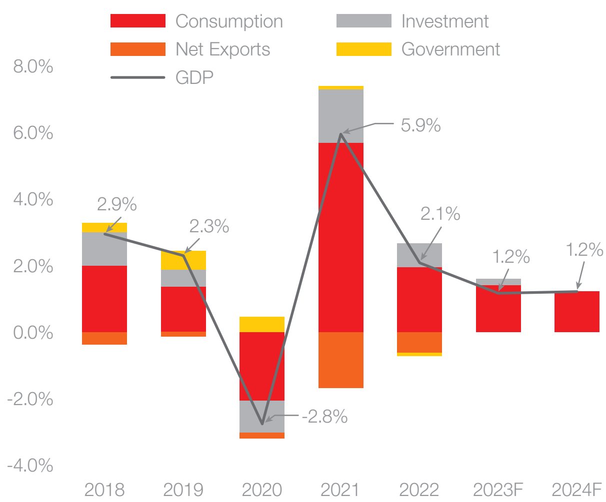
US

A slowdown in the making. The US economy took a big tumble in 2020 with the pandemic devastating lives and livelihoods. Major economic support measures and medical breakthroughs brought in a quick but uneven recovery in 2021/22. Now, a slowdown is on the horizon. Inflation picked up from 2021 onward, monetary policy tightening began in 2022, and as we look ahead to 2H23, chances are that a growth tumble is forthcoming. The impact of 500 bps of rate hikes in the US will surely slow consumption and investment. Demand weakness in G2 is bound to hurt Asia's export-dependent economies.

The fact that this slowdown will materialise amid a war in Europe, simmering tensions between the US and China, and a host of deglobalisation forces at play, makes the outlook appear even more challenging.

But no major recession in sight. It is, however, critical to underscore that US economic data is by no means pointing to a major recessionary scenario. Manufacturing may be on a weak footing, but the services PMI remains firmly on expansion territory. This divergence is critical to note as manufacturing makes up only a tenth of US GDP, while services make up more than three-fourths.

US GDP breakdown



Source: CEIC, DBS

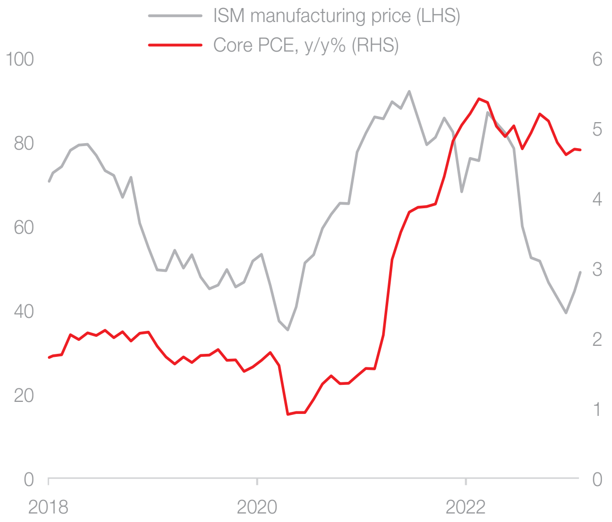
Data reflects a humming economy. The deeply inverted yield curve may be pointing to an imminent downshift, but the reading from consumption (up a healthy 2.8% in real terms in 1Q), jobs (unemployment rate lowest in over half a century at 3.5%), and the housing sector (still characterised by robust spending despite the sharp rise in rates and a flattening of prices), point to an economy still humming along. A key indicator of economic fragility – the balance sheet of households – points to substantial wealth accumulation in recent years, which ought to provide sufficient cushion to deal with rising interest rates.

Indeed, the economy has defied skeptics, tracking around 2% growth presently. Latest data on jobs, income, spending, and retail sales show consumers taking in high rates and tightening lending conditions in their stride.

Granted, the credit impulse has turned negative, money supply is shrinking, concerns linger about the debt ceiling induced fiscal tightening, and tremors have been felt in the banking sector in recent months. However, we remain of the view that these point to a slowdown, not a collapse of activities.

How does the rest of the world look? There is a wall of worry, but there are also some critical offsets. Europe does not look much different from the US, while China is on a very different trajectory, undergoing recovery from last year's pandemic stumble. Exporters, particularly those in the electronics sector, have experienced a pronounced slowdown in the past year and are beginning to see signs of a trough, while regional travel and tourism continue their upswing.

US core inflation inflation steady due to strong services demand



Source: CEIC, DBS

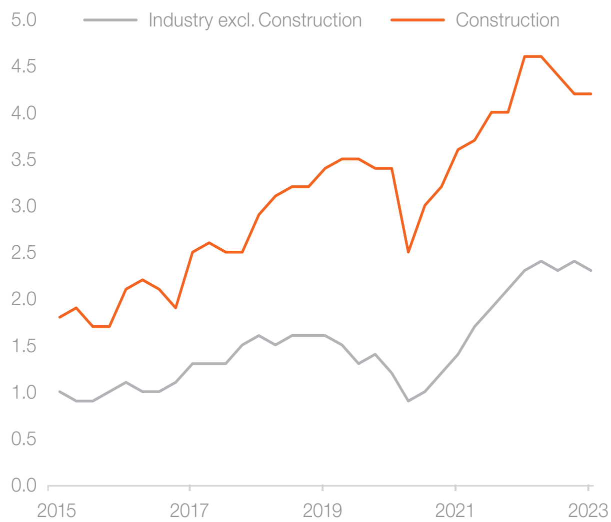
Eurozone

Revised GDP data for the Eurozone confirmed that high energy prices, uncertainty with simmering geopolitical tensions, and sticky inflation have taken an economic bite. Growth slipped into a technical recession in the early part of the year (1Q23 and 4Q22 -0.1% q/q), even as parts of last year's uncertainty have eased, including supply chain woes, correction in gas/ oil prices, a tight labour market, and positive terms of trade dynamics. Yet, these are offset by tighter financial conditions after aggressive rate hikes by the ECB (over 400 bps). These two-way forces are likely to skew the trend towards moderation in growth this year.

Consumer and business confidence indices held up in 1Q23 but are turning mixed into 2Q23, as signaled by the drop in May's Zew expectations. Labour conditions are still supportive, with the unemployment rate at a record low of 6.5%, and wage growth as well as negotiated wage growth remaining strong in 4Q22. Minimum wages are up in large member countries, with Spain's up by 3% in 1H23 vs the year before and Germany's up a fifth. Job vacancies are still elevated, even if off highs.

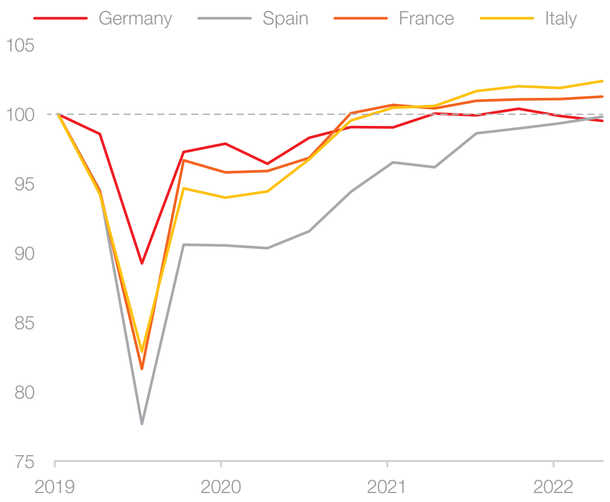
While these factors should underpin consumption spending, May PMIs reflect a shift in demand towards services rather than goods, also reflected by a drop in industrial output to 2H21 lows. Low energy costs are helping to contain input costs, but the aggregate capacity utilisation rate has slipped as inventory accumulation slows. Concurrently, intermediate and capital goods imports have also begun to decline, partly due to base effects. Overall, an interplay of firm consumption and services are likely to surface as key counterweights for sluggish industrial activity, keeping GDP growth at 0.6% y/y vs 3.5% in 2022. Output in most of the core four member countries are back at pre-pandemic levels.

Job vacancies



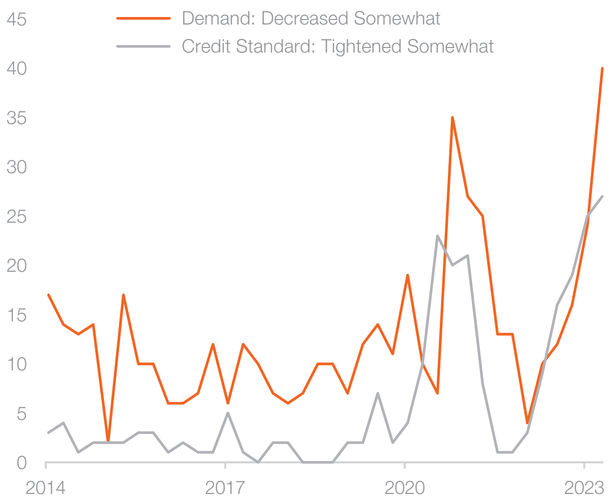
Source: CEIC, DBS

Core 4 member countries back at pre-pandemic levels



Source: Bloomberg, DBS

Banking conditions tighten



Source: CEIC, DBS

Meanwhile, inflation is proving to be sticky, alongside elevated markets-based expectations. At the last review, the ECB suggested that worries over inflation still had an upper hand on the rate path ahead, even as signs of tightening financial conditions surfaced in the latest bank lending survey. April-May CPI is off highs but above target; the path of energy inflation is distorted as measures to protect against high energy prices dissipate.

Furthermore, wage negotiations add to concerns over "underlying inflation". In Germany, the public sector recently secured a 5.5% rise for 2024 after agreeing to a few tranches of tax-free payments this year. This is on top of one-off increases last year to compensate for pressures on purchasing power. Even as supply-side pressures ebb, corporate profits were rising as higher costs were being passed to selling prices, increasing domestic price pressures. ECB chief Lagarde's insistence on the need for vigilance on inflation suggests the benchmark main refi rate might settle at 4.25-4.50%. Beyond that, data-dependency would be prioritised, increasing the scope of a pause with tight policy settings.

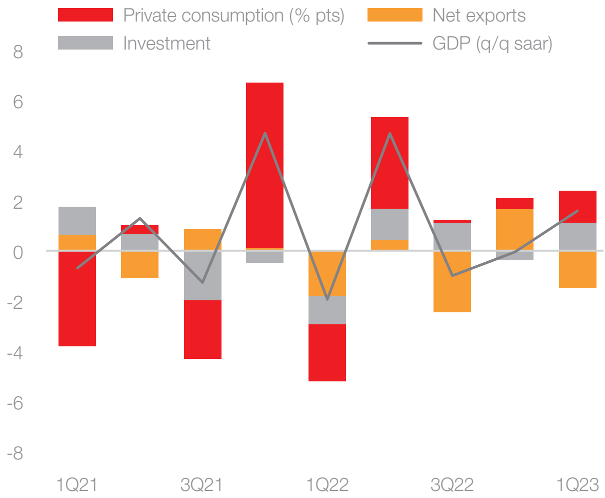
Lastly, Eurozone debt to GDP ratios continue to decline, heading to pre-Covid levels supported by a sharp increase in the GDP deflators. With inflation now on the decline, these ratios are likely to fall at a slower pace this year, while the European Commission urges member countries to pare spending (particularly towards energy support) and consider fresh sources of revenues, such as higher corporate tax and wealth taxes. Fiscal and debt thresholds have been relaxed but are likely to be reinstated by 2024-2025.

Japan

Reopening benefits to support growth. GDP growth is on track to achieve around 1% this year, after posting a 1.3% y/y or 1.6% q/q saar rise in 1Q (preliminary). Reopening benefits will likely continue to bolster private consumption expenditure and services exports in 2H. Japan formally downgraded Covid-19 to the same category as seasonal influenza on 8 May, removing self-quarantine requirements and mask-wearing recommendations. The government also lifted Covid-19 border control measures on 29 April. Domestic consumer confidence has started to pick up, and the number of foreign visitor arrivals has continued to surge. As of 1Q, private consumption expenditure remained 2% lower than the pre-Covid levels seen in 2019, while foreign visitor arrivals remained 30% lower than pre-Covid levels. A broader and fuller recovery is expected in 2H.

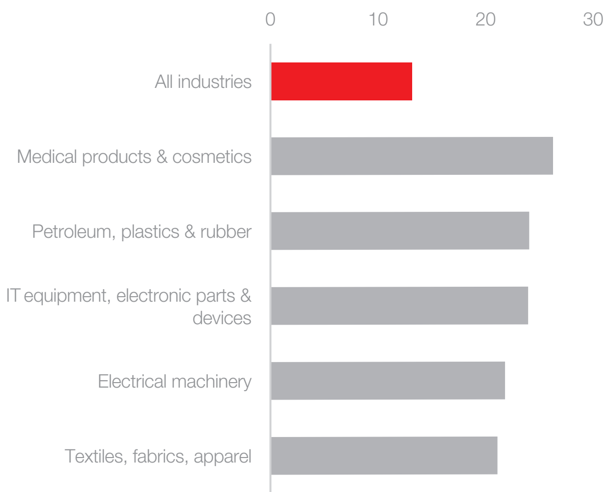
Supply chain rebuilding will likely continue to drive investment growth. The pandemic shock and geopolitical tensions over the past several years have compelled a rising number of Japanese MNCs to adjust their investment decisions to strengthen supply chain resilience. The government has also implemented industrial policies to boost investment in some of the strategially important sectors. A FY2022 survey by the Japan External Trade Organization (JETRO) showed that about 13% of Japanese firms were implementing or considering reshoring their overseas operations back to Japan. In April, the government approved additional JPY260b worth of subsidies for the new, state-backed semiconductor company Rapidus, aiming to build a cutting-edge 2-nanometer chip plant in Hokkaido and begin mass production in the later part of this decade.

GDP growth underpinned by domestic demand



Source: CEIC, DBS

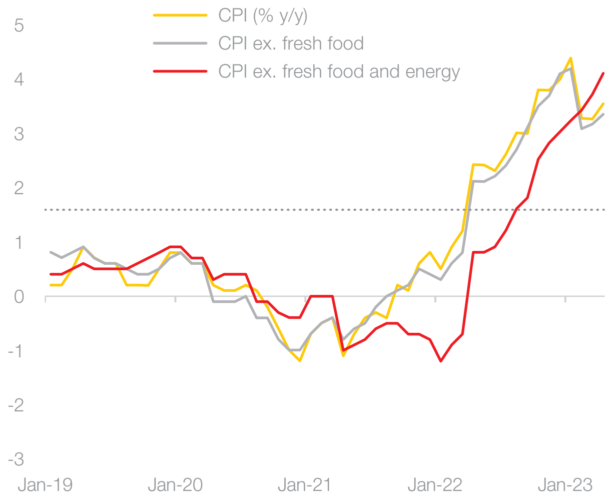
Japanese companies reshoring overseas operations (%)



Source: JETRO survey (March 2023), DBS

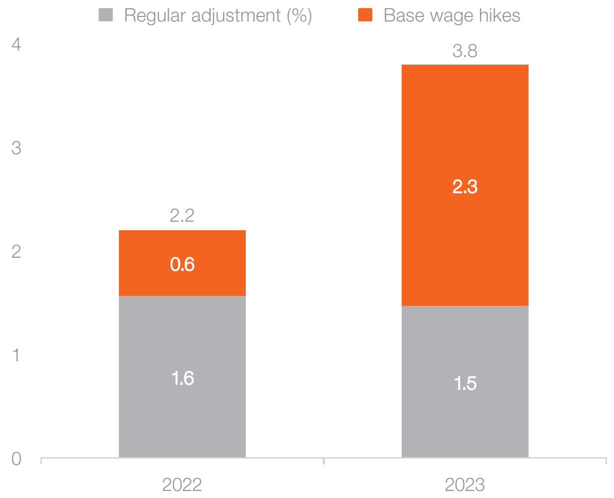
Source: Unsplash

Inflation overshoots the BOJ's 2% target



Source: CEIC, DBS

Shunto wage hikes are the biggest in 30 years



Source: RENGO estimate (April 2023), DBS

CPI inflation will likely continue to overshoot the BOJ's 2% target in 2H. The inflationary impact of increased energy prices and yen depreciation will likely dissipate along with the kick in of high base effects. On the other hand, demand-side price dynamics are showing some green shoots, as wage growth starts to pick up amid the rise in inflation expectations. During this year's Shunto negotiations, the Japanese Trade Union Confederation (RENGO) estimated an average 3.8% wage increase, higher than 2.2% in 2022 and the biggest in 30 years. This includes a 2.3% hike in base wages, also a notable rise compared to 0.6% in 2022.

The BOJ is expected to tweak monetary policy under the YCC framework in 2H. The BOJ said at the April meeting that it will conduct a broad perspective review of monetary policy with a planned time frame of 1-1.5 years, hinting that it is not in a hurry to abandon YCC in the near term. Policy modifications remain likely in 2H (e.g. widening the 10Y yield band, shifting the 0% target to 5Y yield), to reduce the side effects of extraordinary easing on the JGB market and banking sector.

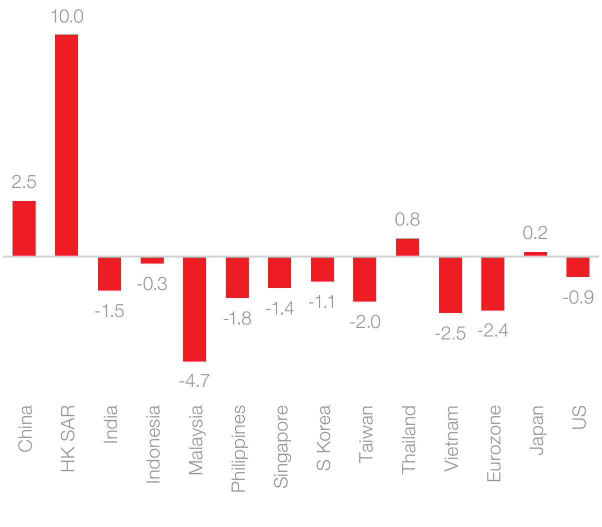
Asia

Headlines in the second quarter were largely dominated by debt ceiling issues in the US and somewhat underwhelming recovery in China. Nonetheless, 2Q23 will print market pleasing GDP numbers, disappointing the pessimists.

The much-awaited China rebound has turned out to be far less dramatic than expected. While both domestic and outbound travel are picking up, it is happening in a drawn out manner. Income growth has slowed and PMIs have slipped. Slowing corporate and mortgage lending indicate weak investment and property sectors. Global commodity prices have lost their buoyancy, reflecting soft demand from China. Still, thanks to strong and favourable base effects, 2Q real GDP growth for China will be around 7% y/y, as per our Nowcasting model.

But the base effect will fade in 2H23 and reported growth figures will decline; much needs to go right for our China 5.5% annual growth forecast to come true. Some factors that need to materialise include – additional policy easing to boost bank lending, increased business investment and private consumption, some pick up in external demand, no further escalation of strife with the US, and more regulatory crackdowns.

Expected GDP growth in 2023 minus actual growth in 2022

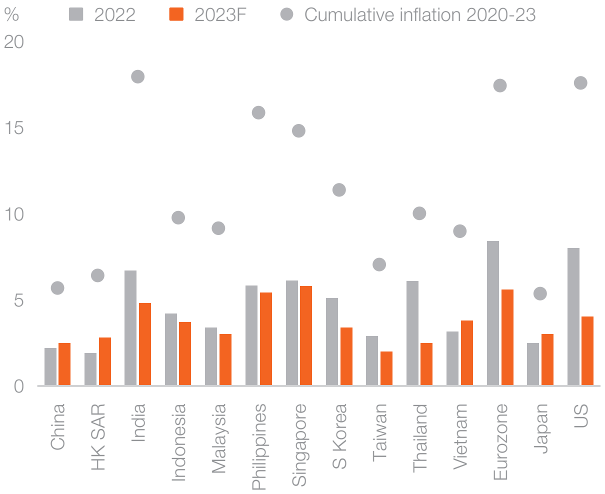


Source: CEIC, DBS

Beyond China, we reckon base effects will help a number of economies in the region. Between the first and second quarter, our Nowcasting models estimate real GDP growth to jump from 4.6% to 6.5% in India, from 5% to 5.2% in Indonesia, and from nearly flat to 2.2% in Singapore. Putting all these together, we see a good 200 bps+ upside for Asia growth in 2Q.

But then what? Just like China, regional economies will grapple with fading base effects in the second half of the year. Beyond the matter of arithmetic, substantial challenges are in the making — trade, property markets, geopolitics, and high interest rates. Given China's outsized footprint, Asia will end 2023 with a higher growth rate than 2022, but will step into 2024 with waning momentum and a few exceptions. We are unsure if there could be room for

Inflation outlook



Source: CEIC, DBS

substantial policy easing to combat the slowdown, as that would depend on US policy and the global risk environment.

Strong base effects are at play with inflation as well. A year ago, crude oil and wheat prices were up about 60% on a y/y basis, contrasted by the present rate of -20% and -45%, respectively. We doubt that there is much more downside left for critical commodity prices, short of a major global economic downturn. In the US, as the year progresses, inflation will likely fall below 4%, but that would be it as far as favourable base effects are concerned. What would it take to bring inflation down to below 3%? A substantial demand shock, in our view. Short of that, markets would have to come to terms with "high rates for long".

For Asia, the limited downside for rates, other than limiting policy easing room, may turn out to be a source of support for regional currencies. It may also force companies to strengthen their balancesheets, and take out some froth from the property sector in some markets. This path to normalcy would be welcome.

Oil: Beating recession blues

As economic worries persist, we scale back our overall projections for 2023 slightly, but 2H should be better than 1H. While the Russia-Ukraine crisis has dragged on for far longer than we anticipated, its bearing on the oil market has weakened over time and the geopolitical risk premium in oil prices has abated. Disruptions to Russian supplies have not materialised with alternative trade routes becoming available.

After a slow start to the year on the back of concerns around inflation, interest rate hikes, and a global slowdown, oil prices received a shot in the arm back in early April, when OPEC+ announced a surprise additional production cut on top of existing cuts in place since last year. However, the bullish bets did not last long, as market concerns surrounding the pace of China's recovery emerged, coupled with sticky inflation data. Bearish bets on oil have multiplied over the last month or so, with the US debt ceiling adding another layer of uncertainty, though it has since been resolved. Factoring in the lower-than-expected oil price environment in 2Q, we have lowered our full-year average Brent crude oil price forecast to USD82-87/bbl, down from USD85-90/bbl earlier. We have factored in the most recent OPEC+ cut in June, which we believe is mostly about signalling downside protection. However, the effects of OPEC+ cuts should come into full force during high demand season, which should lead to global inventory drawdowns. We look toward a better oil price trajectory in 2H23 on the back of faster demand-supply balancing and the possibility of a deficit market emerging.

OPEC+ cuts should help achieve market balance in 2H23. OPEC+ took the market by surprise by announcing additional voluntary production cuts

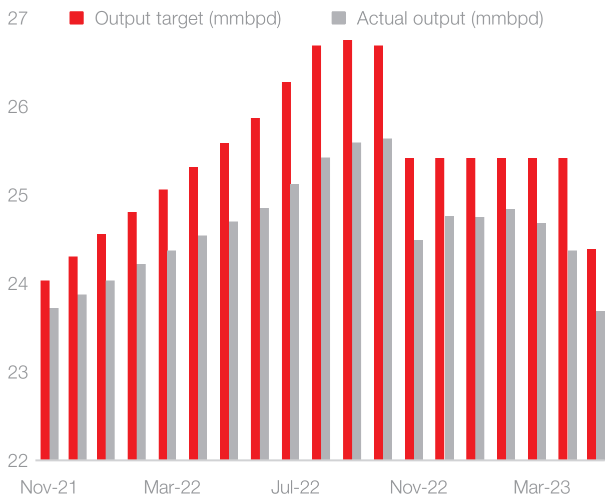
Brent crude oil price has been weaker than we expected in 2Q23

Source: Bloomberg, DBS

totalling 1.15mmbpd from May 2023 onwards, on top of the existing production cut agreements that were last revised in October 2022. This was followed by the most recent meeting in early June when Saudi Arabia issued a voluntary 1.0mmbpd additional cut in July to balance the market. These are strong signals that OPEC+ remains committed to keeping oil prices above USD80/bbl. Driven by the need to balance domestic budgets, we believe Saudi will probably continue doing whatever it takes to keep oil prices elevated around USD80/bbl, if not more. This includes taking calculated pre-emptive steps to ensure the macro concerns potentially affecting oil demand are negated by supply side measures.

China's reopening trajectory will be keenly watched. There are hopes of an oil demand boost, following China's move away from its zero-Covid policy in late 2022. Mobility trends and economic activity have shown signs of revival in the country. This comes after a disappointing 2022, when oil consumption and oil imports both fell in China.

OPEC's pre-emptive production cuts aimed at keeping oil prices above USD80/bbl



Source: Bloomberg, DBS

China's oil demand could grow more than 0.5mmbpd in 2023. Its latest batch of oil import quotas and fuel export quotas are already much higher than that of last year, suggestive of good oil demand growth numbers, even in 1H23. This is ahead of more growth in domestic demand that is likely in 2H23. Domestic demand could remain somewhat bumpy in 1H23, as a surge in infection numbers could present obstacles.

But the overall global economic slowdown will keep a lid on optimism this year. We had earlier revised down our global oil demand growth estimates for 2023 to 1.0mmbpd; we expect a material slowdown and possibly negative oil demand growth in mature economies like the US, EU, and Japan, which would be offset largely by China, India, and other Asian economies. Almost half or more than half the demand growth in 2023 should be driven by China. We expect growth in oil demand to bounce back in 2024, with inflation expected to moderate to more normalised levels by 2024/25.

No return of USD100 oil expected. There are certain upside risks to our forecasts, but if oil prices rise too high, there could be unintended effects as well, such as prolonged inflation and the interest hike cycle. There are multiple forces at play here that will keep prices under control. At this stage, we can safely say that the chances of seeing USD100/bbl oil again – as we did last year – look remote, despite the aggressive OPEC+ cuts. Looking into 2024, we expect the average Brent crude oil price to moderate over the course of the year, but on average, it will roughly be at similar levels compared to 2023.

Quarterly average oil price forecast 2023/24 – DBS base case view

(USD per barrel)	1Q23	2Q23F	3Q23F	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F
Average Brent crude oil price	82.0	81.5	86.5	90.5	88.0	87.0	85.5	79.0
Average WTI crude oil price	76.0	76.5	82.5	86.5	85.0	84.0	82.5	76.0

Source: DBS

GDP growth and CPI inflation forecasts

	GDP growth, % y/y				CPI inflation, % y/y, ave			
	2021	2022	2023F	2024F	2021	2022	2023F	2024F
China	8.1	3.0	5.5	5.0	0.9	2.2	2.5	2.2
Hong Kong SAR	6.3	-3.5	6.5	2.0	1.6	1.9	2.8	2.0
India	8.9	6.7	5.8	6.0	5.1	6.7	5.1	5.0
India (FY basis)*	9.1	7.2	6.0	5.8	5.5	6.7	4.8	5.0
Indonesia	3.7	5.3	5.0	5.0	1.6	4.2	3.7	3.2
Malaysia	3.1	8.7	4.0	4.8	2.5	3.4	3.0	2.5
Philippines	5.7	7.6	5.8	6.5	3.9	5.8	5.4	3.2
Singapore	7.6	3.6	1.7	2.8	2.3	6.1	5.8	4.3
South Korea	4.1	2.6	1.5	2.4	2.5	5.1	3.4	2.0
Taiwan	6.5	2.5	0.5	3.5	2.0	2.9	2.0	1.4
Thailand	1.5	2.6	3.4	3.8	1.2	6.1	2.5	2.0
Vietnam	2.6	8.0	5.5	6.5	1.8	3.2	3.8	3.5
Eurozone	5.3	3.5	0.6	1.0	2.6	8.4	5.6	2.5
Japan	2.2	1.0	1.2	1.0	-0.2	2.5	3.0	1.0
United States	5.9	2.1	1.2	1.2	4.7	8.0	4.0	3.0

* refers to fiscal years, i.e. 2020 represents FY21 - year ending March 2021.

** new CPI series. *** eop for CPI inflation.

Source: CEIC, DBS

Policy interest rates forecasts, eop

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
Mainland China*	3.65	3.55	3.45	3.45	3.45	3.45	3.55	3.65
India	6.50	6.50	6.50	6.50	6.25	5.75	5.50	5.50
Indonesia	5.75	5.75	5.25	5.00	4.75	4.75	4.75	4.75
Malaysia	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	6.25	6.25	6.25	6.25	5.75	5.25	5.25	5.25
Singapore**	3.53	3.62	3.75	3.75	3.75	3.62	3.35	3.08
South Korea	3.50	3.50	3.50	3.50	3.25	3.00	2.75	2.75
Taiwan	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88
Thailand	1.75	2.00	2.25	2.25	2.25	2.25	2.25	2.25
Vietnam***	6.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Eurozone	3.50	4.00	4.50	4.50	4.50	4.50	4.00	3.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
United States	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50

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

Source: CEIC, DBS

Margin Compression Beckons

US EQUITIES 3Q23

US corporate earnings continue to stay resilient despite Fed monetary tightening and wage stickiness. We remain Overweight on Technology – the rise of AI will fuel optimism for the tech rally.

Source: Unsplash

03. US Equities.

Dylan Cheang
Strategist

Resilient consumption and "Greedflation" underpin US corporate earnings. The US earnings season has drawn to a close and the highly expected pullback in corporate profitability did not transpire. Indeed, US earnings remained resilient despite the expected headwinds of (a) Fed monetary tightening weighing on consumption and (b) Wage stickiness leading to margin compression. While the actual numbers show some moderation compared to previous quarter, nonetheless, they continued to exceed market expectations:

» Earnings Surprise: 78% of the companies saw positive earnings surprise (vs 69% in the prior quarter). Aggregate percentage surprise (which refers to actual earnings vs estimate earnings) increased 6.40% and this is higher than the previous quarter's gain of 1.50%.

» Earnings Growth: 57% of the companies reported positive earnings growth while the aggregated percentage growth (which refers to current earnings vs previous earnings) stands at -2.75%. In the previous quarter, 62% of companies reported positive growth while the aggregated percentage growth was -2.65%.

We believe that the overall strong showing in US earnings, despite the obvious macro headwinds, is a function of two things:

» Resilient Domestic Consumption: Much to the dismay of the Federal Reserve, the US jobs market has remained robust with change in nonfarm payrolls coming in at 339,000 in May (vs consensus forecast of 195,000). And while the change in average hourly earnings was slightly above consensus forecast at +4.3% y/y, it is nonetheless markedly higher than the long-term average of +3.0% y/y (since March 2007). The strong jobs and wage growth help offset rising inflationary pressure and underpin the resilience of domestic consumption in the US.

Resilient US jobs market underpinning domestic consumption

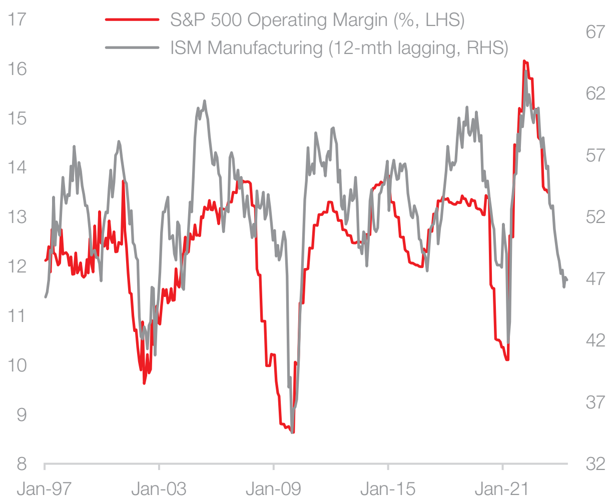
Source: Bloomberg, DBS

» Prevalence of "Greedflation": The phenomenon of "Greedflation" refers to businesses capitalising on the rising inflationary environment to mark up their prices far higher than the actual increase in input cost. Lael Brainard, the previous Vice Chair of the US Federal Reserve, also highlighted this phenomenon at the start of the year. Rising selling prices, coupled with firm end demand, are tailwinds for US earnings, particularly in the retail space.

Profit margins to take the path of least resistance and head south. The operating margin for the S&P 500 has moderated from a peak of 16.2% in Feb 2022 to the current level of 13.5%. Despite the contraction, the latter is still higher than the pre-Covid 19 pandemic level of 13.0% (as of December 2019) as well as the long-term average of 12.2% (since June 1993). This is not sustainable. As macro headwinds gather pace in the second half of the year (particularly on the jobs and consumption front), we expect margins to take the path of least resistance and head south.

To analyse the impact of moderating macro momentum on corporate margins, we look at the long-term relationship between ISM Manufacturing (with 12-month lag) and the operating margin for the S&P 500. Our regression study suggests that the prevailing 46.9 for ISM Manufacturing (which implies that manufacturing activities are in contraction mode) would be more commonly associated with an operating margin of 11.3% and this constitutes a contraction of 2.2 %pts from the current level. Our back of the envelope exercise suggests more downside beckons for US margins over the next 12-18 months and investors should moderate their earnings forecasts.

US margins to trend lower



Source: Bloomberg, DBS

3Q23 US Sector Strategy – Riding the Technology Tailwinds

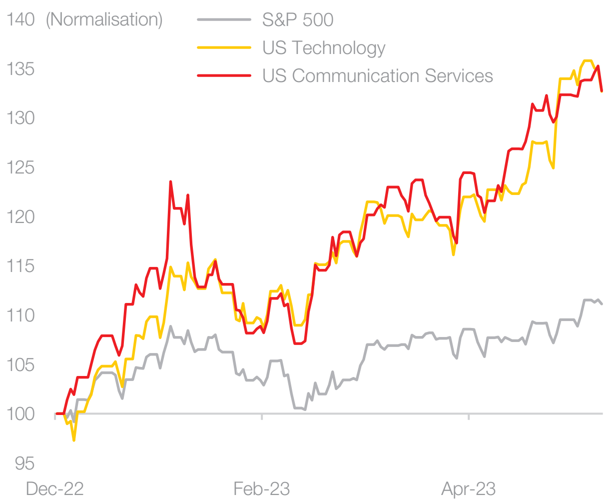
Strong performance in our Overweight calls. Our US sector calls panned out well in 2Q23. On a quarter-to-date basis (as of 19 June), our Overweight calls garnered average gains of 9.1%, outperforming the Neutral (+3.5%) and Underweight (-1.3%) calls by 5.5 %pts and 7.8 %pts respectively.

Within the Overweight space, Technology (+16.2%) and Communication Services (+13.5%) generated the largest outperformance while Healthcare and Financials stayed largely subdued during the quarter. Among the Underweight calls, the key laggards were Consumer Staples (+0.2%) and Utilities (-0.6%).

FOMO: Ride the Tech rally. As we head into the second half of 2023, we maintain our positive view on US Technology. Indeed, on a YTD basis, Technology-related plays like Technology and Communication Services have rallied 33% on average and we expect this momentum to persist given the following factors:

- Jumping on the AI bandwagon: The acute rally in Nvidia will force asset managers to play "catch up" and increase allocation to AI-related plays in general. This will provide a significant tailwind for the entire Technology space.
- Expectations of peak Fed: Rising market expectations of Fed pausing monetary tightening will encouraging greater allocation of funds into long duration plays like Technology.

Strong momentum for Technology-related plays



Source: Bloomberg, DBS

US Sector Allocation – 3Q23

	Overweight	Neutral	Underweight
US Sectors	Technology	Real Estate	Utilities
	Comm. Services	Energy	Cons. Staples
	Health Care	Cons. Dis.	Industrials
	Financials		Materials

Source: DBS

US sector key financial ratios

	YTD Total Returns (%)	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
S&P 500 Index	7.7	20.2	4.2	13.5	17.2	3.6	13.5
S&P 500 Financials	4.4	13.6	1.8	-	9.6	1.0	17.0
S&P 500 Energy	-2.1	10.7	2.2	4.9	30.9	14.9	18.7
S&P 500 Technology	16.2	30.4	10.2	19.9	27.9	12.1	23.6
S&P 500 Materials	1.3	17.8	2.9	11.2	15.8	6.6	13.3
S&P 500 Industrials	4.2	19.9	5.2	13.9	24.0	6.5	12.2
S&P 500 Con. Staples	0.2	20.7	6.1	17.4	22.3	6.6	7.2
S&P 500 Con. Discretionary	11.8	27.0	9.5	14.9	25.3	5.4	8.9
S&P 500 Comm. Services	13.5	18.2	3.5	12.6	11.0	4.3	14.4
S&P 500 Utilities	-0.6	17.8	2.1	14.0	8.4	2.2	15.0
S&P 500 Real Estate	0.8	35.3	2.9	19.7	8.9	3.6	22.7
S&P 500 Health Care	2.1	18.0	4.7	14.8	18.7	6.5	9.3

Source: Bloomberg
* Data as at 20 June 2023

Alpha, Not Beta

EUROPE EQUITIES 3Q23

We maintain an Underweight position in Europe given tighter financial conditions in the quarter ahead. However, bright spots remain in select sectors – namely Luxury, Energy, Technology, and Healthcare.

Source: Unsplash

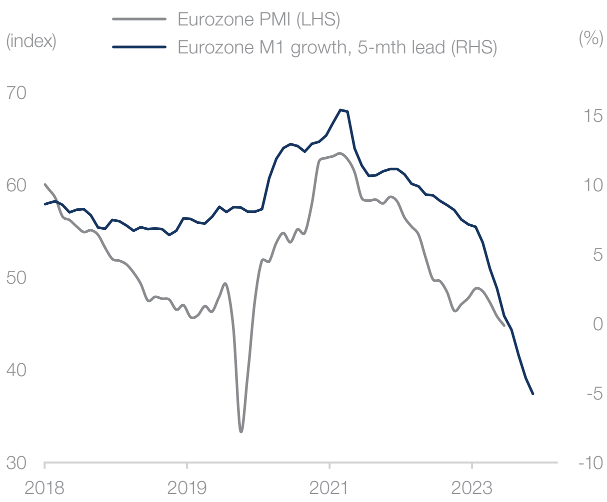
04.
Europe Equities.

Joanne Goh
Strategist

Defensive outlook for Europe. Following a promising start to the year, European equities remained stagnant in the second quarter due to the unfolding banking crises in the US and Europe which heightened concerns about a global recession. This aligns with our overall defensive outlook for the region. We anticipate that the increase in interest rates will lead to tighter monetary conditions and impact the broader economy. The tightening financial conditions are primarily driven by surging energy prices, market turbulence stemming from the Russia-Ukraine conflict, the ECB's rate hike cycle, and high inflation. Consequently, these factors are expected to have a negative effect on the spending, saving, and investment plans of businesses and households, thereby impeding the growth momentum and prospects for earnings.

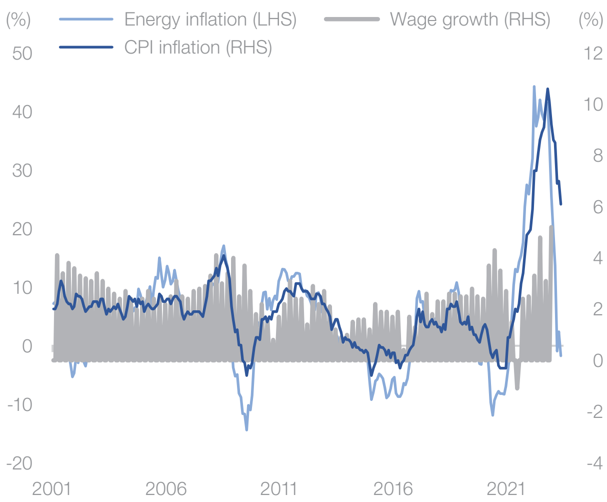
Recent macroeconomic data presents challenges for an optimistic outlook on the region. Germany, the largest economy in the Eurozone, experienced a technical recession early in the year. In May, the CPI rose to 6.1% y/y — down but still elevated; energy inflation could return as measures taken to protect against high energy prices begin to taper. Wage negotiations in Germany's public sector, reaching as high as 12% over a span of two years, are adding to "underlying inflation" concerns. The tightness of the labour market remains a double-edged sword, as it supports consumption but also contributes to the prolonged risk of higher inflation and reduces the output gap. Industrial activity also remains sluggish, as indicated by May's manufacturing PMI, which reached its lowest level since 2H21.

PMI to drift down following tightened monetary conditions



Source: Refinitiv, DBS

Inflationary pressure from wage growth and energy could persist



Source: Refinitiv, DBS

In comparison to the Federal Reserve, the ECB appears to be lagging in its fight against inflation, and as a result, we anticipate another 25 bps increase before the ECB's repo rate settles at 4%, up from its pre-pandemic level of 0%. Consequently, monetary conditions are expected to become even tighter as the ECB has commenced the process of unwinding pandemic relief programmes and has initiated QT. The situation is further complicated by the need for the European Commission to identify new sources of revenue, such as higher corporate and wealth taxes, to replenish its hard-hit budget. The European Commission is urging member countries to reduce public spending in order to combat inflation, adding to the complexity of the situation.

Valuations

The European equity market is currently trading at a P/E ratio of 13x, which is one standard deviation below the average. The sentiment regarding analyst EPS revisions has started to turn negative, indicating that the period of positive earnings surprises due to low expectations is likely behind us. Looking ahead, there is a possibility of margins being negatively affected in the medium term due to higher costs arising from supply chain diversification, regionalisation efforts, and the increased investment required for decarbonisation. Elevated labour and energy costs would also exert pressure on margins. Market performance could be significantly impacted if these factors coincide with tighter lending conditions from banks, leading to higher unemployment and increased recession risks.

Broad-based economic and earnings weakness

Source: Refinitiv, DBS

Equities less attractive vs bond yields

Source: Refinitiv, DBS

Bands are average and +/- one standard deviation

Considering the difficult macroeconomic environment, it is evident there are limited prospects for growth despite the inexpensive market. Our projections indicate that there will be no growth in EPS and a modest GDP growth of 0.9% in 2023. Moreover, the presence of high cash returns sets a demanding standard for equities. Over the past year, equity risk premiums have significantly decreased, indicating relatively lower expected returns compared to risk-free assets.

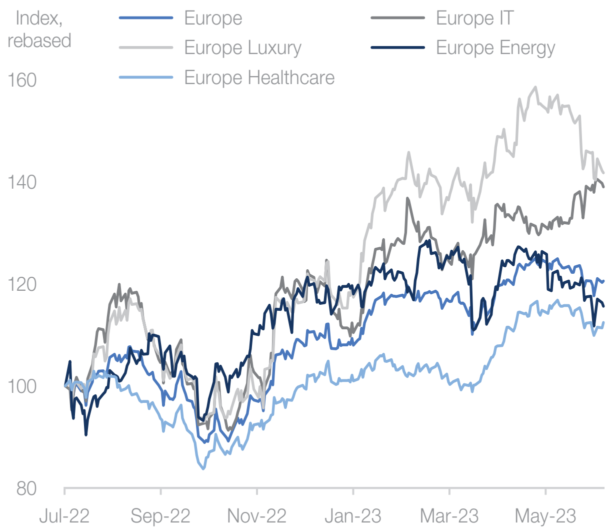
Emphasising Alpha generation. The relatively low volatility and attractive valuations in Europe obscure the region's susceptibility to the tail risk of a recession, particularly if monetary conditions continue to tighten and weigh on the markets. As a result, we advise investors to maintain an underweight position in Europe on a portfolio basis.

However, we advocate maintaining exposure to specific companies operating in the Luxury, IT, and Healthcare sectors, which are bolstered by long-term structural trends. Additionally, the Energy sector offers portfolio resilience through dividends and share buybacks.

Positive outlook for Luxury. European luxury brands' share prices were recently affected by concerns over a potential slowdown in US and China that could impact their profitability later in the year. However, we attribute the sector's correction primarily to profit-taking and a shift in allocation away from defensive European investments towards cyclical US Tech investments.

The visit of Bernard Arnault, the chairman and chief executive of LVMH, to China in June holds significant importance. This visit is crucial for LVMH's ambitious plans to expand its largest acquisition, US jeweller Tiffany & Co., in China. It also underscores China's receptiveness to business opportunities since lifting lockdown measures in December and reaffirms the country's pivotal role as a major growth driver for luxury brands. Affluent consumers in China have continued their spending habits, further cementing the nation's importance for the industry.

Growth and resilience in select sectors



Source: Refinitiv, DBS

Despite the existing challenges, our outlook on the European luxury sector remains positive, and we believe that earnings have the potential to surpass expectations.

Energy sector remains supported. Several factors have limited oil prices in 2023 thus far, including a weakening global economy, concerns surrounding the US banking crisis, and a slow recovery in China from Covid-19 restrictions. However, there has been some relief for oil prices with the implementation of further production cuts by OPEC+ equivalent to 4.6% of the global demand of 100m barrels per day. These cuts are expected to gradually deepen the global supply shortage, potentially driving prices higher.

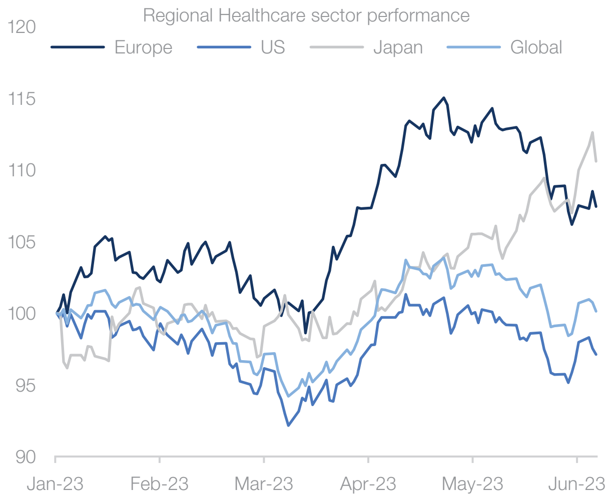
China's oil demand, while slow in the first quarter, is recovering and is anticipated to provide continued support for oil prices. Global airlines have also more than doubled their profit forecast for the industry in 2023, indicating a significant rebound from the pandemic.

Meanwhile, the US has yet to replenish its Strategic Petroleum Reserve (SPR), which is currently at a 37-year low. Brent crude oil prices should thus rebound off recent lows and remain well supported in the USD80-85/bbl range in 2H23. With these factors in mind, we maintain a positive outlook on European oil majors, as they continue to benefit from the elevated oil prices.

Healthcare sector buoyed by Artificial Intelligence (AI). The rush for AI-related stocks in recent weeks has overshadowed defensive sectors such as Healthcare. This trend has impacted Europe's Healthcare stocks, resulting in profit-taking, a shift towards growth-oriented industry stocks, and a movement of investments from Europe to the US.

Despite broader market sell-offs, Europe's Healthcare sector has managed to outperform US and global Healthcare sectors. This reflects the sector's strength and stability on the global stage. Europe is home to numerous world-leading pharmaceutical companies that specialise in developing treatments for chronic illnesses such as cancer, diabetes, and heart disease. The region excels in exporting non-generic medications and competes technologically with the US.

Europe Healthcare sector outperformance

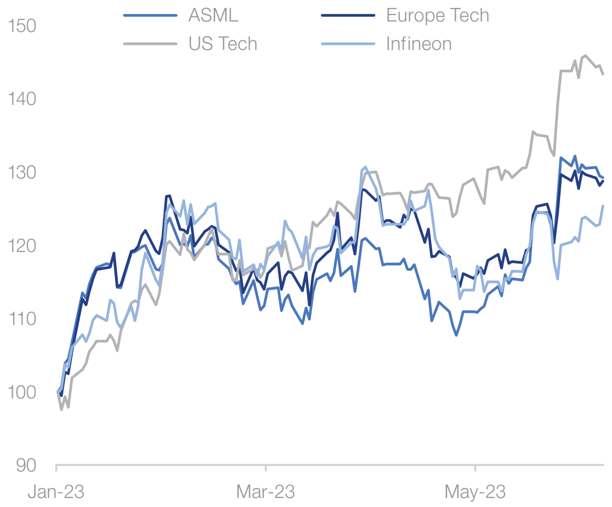


Source: Refinitiv, DBS

Biopharmaceutical companies are increasingly adopting AI to enhance various aspects of drug discovery and development. AI utilisation potential improves efficiency, shortens time to market, reduces cost, and enables better decision-making – all of which generate greater profits and competitive advantages.

Backed with solid financial strength, resources, technical expertise, and knowledge, large European biopharmaceutical companies are well placed to effectively utilise and derive substantial benefits from AI applications, ultimately enhancing their operations, research capabilities, and overall competitiveness in the healthcare sector.

Europe Tech is engaged in the industry's global price moves



Source: Refinitiv, DBS

European Chips Act spurs semiconductor industry. We believe AI will play a crucial role in driving increased long-term demand for semiconductors, particularly as the growing trend necessitates larger die sizes to accommodate AI's requirements. The Europe Tech sector joined the US Tech rally, driven by Dutch firm ASML which specialises in extreme ultraviolet lithography machines that intricately etch microscopic features onto silicon wafers. However, ASML does not produce its own chips.

In April, the European Union reached a milestone agreement to enhance its semiconductor industry with the European Chips Act (ECA), which aims to bolster the bloc's competitiveness in the field of technology vis-à-vis the United States and Asia, while also ensuring control over a crucial component of global electronics products and devices. Described as "revolutionary," the ECA encompasses an extensive investment package of EUR43b (USD47b) from both public and private sources. Primarily, the act safeguards supply chains, prevents future semiconductor shortages, and stimulates investment in the industry. By positioning Europe at the forefront of cutting-edge technologies essential for the green and digital transitions, these new regulations aspire to double the EU's global market share in semiconductors from 10% to 20% by 2030.

Rising Optimism

JAPAN EQUITIES 3Q23

Japan is gaining momentum, buoyed by China's reopening, BOJ's accommodative monetary policy, and market reforms. We see opportunities in economically important sectors - sumotoris and Japanese banks.

Source: Unsplash

05. Japan Equities.

Joanne Goh
Strategist

Rising sun. Japan stocks have surged to their highest level since 1990, sparking optimism that the upward trend in TOPIX can be sustained for the long term. China's reopening, accommodative monetary policies, and market reforms present opportunities for the Japanese market. Compared to the US, Japan is perceived as a more affordable option and could serve as a means to diversify risks stemming from a potential US slowdown and future disruptions in the supply chain, given the escalating US-China tensions.

"Abenomics" vs "Kishidanomics". In 2013, then PM Shinzo Abe, together with former BOJ governor Haruhiko Kuroda, worked to jolt the economy and revive Japan after two decades of deflation with the "three arrows" of fiscal expansion, monetary easing, and structural reform. "Abenomics" has indeed served the country well as GDP during Abe's tenure exceeded the years preceding him. Exports, employment, and productivity rose; in nominal terms, GDP saw uninterrupted growth from 2013 (the exception being 2020).

The stock market benefitted from Abenomics as TOPIX doubled from 2013 to 2018. The stability brought about by Abenomics arose from the presence of a plan, the accompanying depreciation in JPY, and the BOJ's buying of the stock market. These have helped to support sentiments and exports. Reviews for the success of Abenomics, however, have been mixed as the targeted inflation of 2% was not met until Kishida's time.

Kishida became PM in September 2021 and made reform a key area of focus. He proposed the concept of "new capitalism" to reduce income disparity and redistribute wealth, such as raising wages and providing more subsidies to the young and working families. Kishida is also following the former administration's key industrial policies such as strengthening the domestic supply chain for essential goods, enhancing technology capabilities, promoting free trade, and achieving carbon neutrality. Like "Abenomics", Kishida's new economic ideas have been dubbed as "Kishidanomics".

Abenomics vs Kishidanomics – structural reforms needed for rerating

Source: Refinitiv, DBS

Ex-BOJ governor Kuroda was succeeded by Kazuo Ueda, whose stance on monetary policy is not as clear as his predecessor's dovishness. He has not been associated with the ultra-loose monetary policy pursued by Kuroda and is believed to be relatively less constrained and more innovative in policymaking. However, Ueda has surprised the market since he took office in April this year with his dovish stance, resulting in a continually weakening yen.

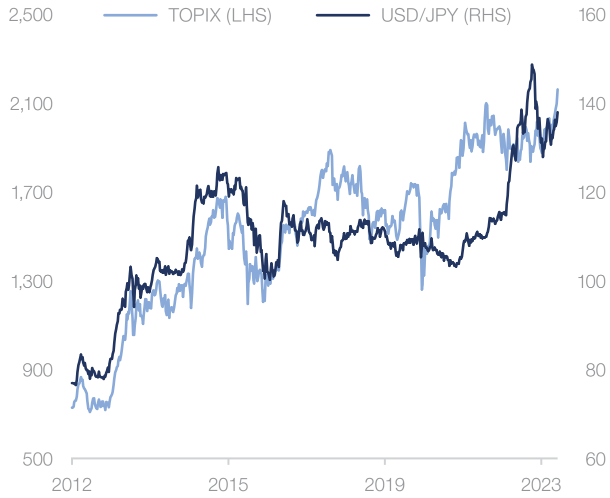
Whether the new duo will be successful in their reform and achieve the success of their predecessors' remains to be seen. The stark difference is in the yen which depreciated from 80 to 130 during Kuroda's era. All eyes are now on Ueda and timing of the YCC policy changes to determine how high USD/JPY can go.

Value unlocking in Japan corporates

Value yet to be unlocked. Investor flows have started to pour into Japan equities since April, led by Warren Buffet who raised his holding on five trading houses to 7.4% each, making his Japan holdings the biggest outside the US and Europe. With a P/B ratio of 1.1x and over half of the TOPIX stocks trading below 1x, Japan appeals as an inexpensive market with value unlocking potential.

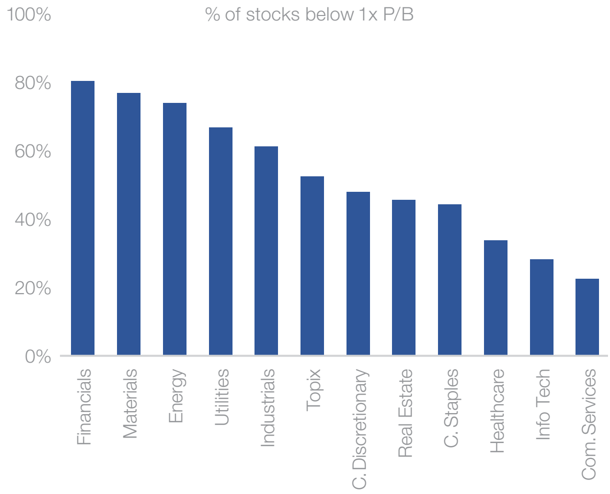
Historically, Japanese companies have been criticised for sitting on large cash reserves, which has limited investor returns and ROE. This year however, the Tokyo Stock Exchange (TSE) has taken steps to encourage capital efficiency among companies, including promoting a soft requirement of a P/B ratio above 1x. Companies have since responded by

TOPIX thrives in a weak yen environment



Source: Refinitiv, DBS

>50% of Japanese companies are due to unlock value



Source: Refinitiv, DBS

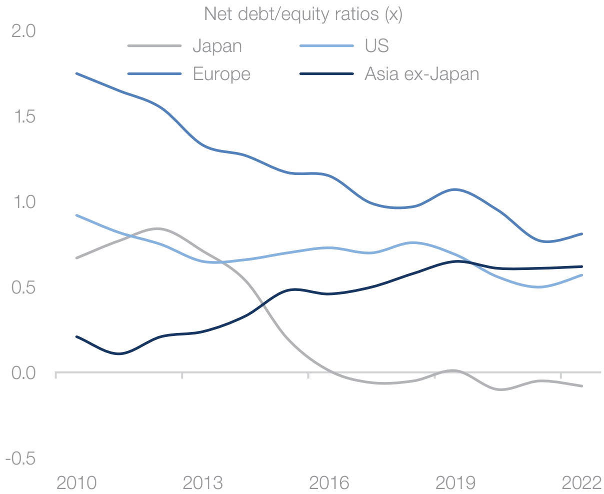
using dividends and share buybacks to improve their capital utilisation. This also aligns with PM Kishida's "new capitalism" reform agenda to reduce income disparity and redistribute wealth.

Maximising capital efficiency. Between 2010-2013, the average Net Debt to Equity of listed companies in TOPIX was range-bound between 0.6x - 0.9x. Since then, the ratio has consistently trended downwards owing to the rise in earnings, cash flow, and retained equity. Today the average number is negative. While there is some merit to balance sheet prudency, that trend has gone too far in Japan and is now depressing ROE and therefore, valuations. Improvements in corporate governance has been one fix to this problem, particularly in companies with inefficient balance sheets. Corporate actions such as raising buybacks and dividends, spin-offs, and sale of cross-shareholdings could serve as positive share price catalysts. Regulatory pressure from TSE should also expedite the process.

Keep watch on inflation hitting target levels. Japanese workers are expected to receive their largest wage increase in 26 years, as a result of this year's wage negotiations. Although the real wage increase is projected to remain negative, the significance of higher paychecks translates into increased discretionary spending power for many individuals. The fact that the government's repeated calls for wage hikes are finally being heeded should bolster consumer confidence in the economy.

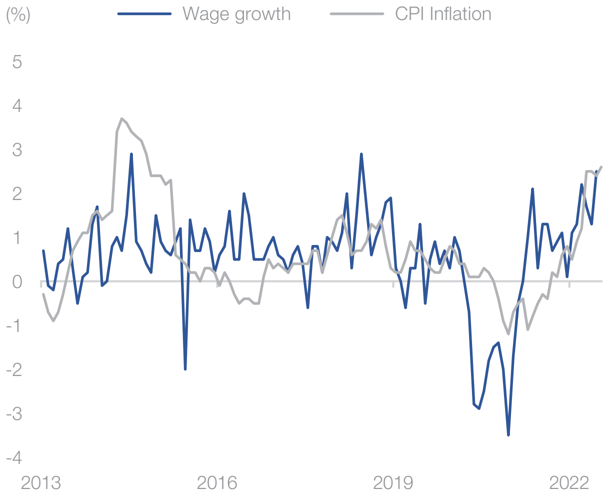
Japan's core-core (less fresh food and energy) inflation reached 4.1% in April 2023, another record 40-year high. Although Japan's inflation has lagged and is lower than other DM peers, inflation could be sticky judging from the experience of

Lowest and near zero leverage positions among Japanese corporates



Source: Refinitiv, DBS

Wage growth rising in line with inflation could sustain the expectant 2% target



Source: Refinitiv, DBS

other countries. Additionally, a sustained 3% wage growth could support a virtuous cycle of wages and price increases and defuse the deflationary mindset in Japan. Companies are likely to make changes to their pricing strategies due to strong domestic pricing power on the back of higher wage growth, and globally, because of the weak yen. Price hikes can cautiously proceed in F&B restaurants, pharmaceuticals, healthcare services, and high-end electronic parts where demand remains strong. Government approved price increases in utilities and transportation are supported by policy stimulus. Eventually, inflation in Japan could get entrenched from the vicious cycle, which could have a major impact on Japan's economy and stock market.

Positive outlook ahead. The Nikkei 225 Index flirted with 30,000 several times in the past year but could not sustain above it. Global headwinds will be stronger, reducing appetite for risk assets in general. However, these may have a smaller impact on Japan, given its valuation discount vis-à-vis US stocks, and the delayed reopening compared to other DM. Coupled with the implementation of reflationary policies and "Kishidanomics" structural reforms, we believe the Japanese market can rerate further.

We see opportunities in 1) value stocks which are likely to heed to the government's call to reform; 2) domestic demand stocks with strong pricing power, benefitting from rising wages and consumption; 3) "Sumotoris" – economically important sectors such as electronics, semiconductor, autos, and automation which are likely to benefit from government stimulus; and 4) banks which are reflation beneficiaries and potentially have rising yields.

We also believe that we are on the cusp of a prolonged AI investment period. This trend will see a strong focus on AI-related stocks while simultaneously expanding the opportunities to many of these companies. In Japan, the increasing popularity of generative AI has created significant momentum in 2023, benefitting stocks particularly in the fields of robotics and semiconductors. These sectors will likely emerge as primary winners in the initial phase of computational investments required to establish the infrastructure necessary for widespread utilisation of AI models.

Meanwhile, growth remains robust for industrial robotics, as evidenced by the consistent outperformance and expansion achieved by key players in the industry such as Keyence and Fanuc, among others. We anticipate that several factors in the near term will further enhance this trend:

- China's full reopening is expected to drive increased spending on industrial production systems, considering that they account for nearly 50% of global robotic installations in 2021
- Reshoring mandates globally and strong domestic capital expenditure will contribute to a rise in the adoption of automation setups

Stay with Quality

ASIA EX-JAPAN EQUITIES 3Q23

Asia ex-Japan to ride a growth trajectory in 2H23 as domestic consumption recovery gains traction. China financials to deliver sustainable dividend yields. In ASEAN, we favour Thailand, Indonesia, and Singapore.

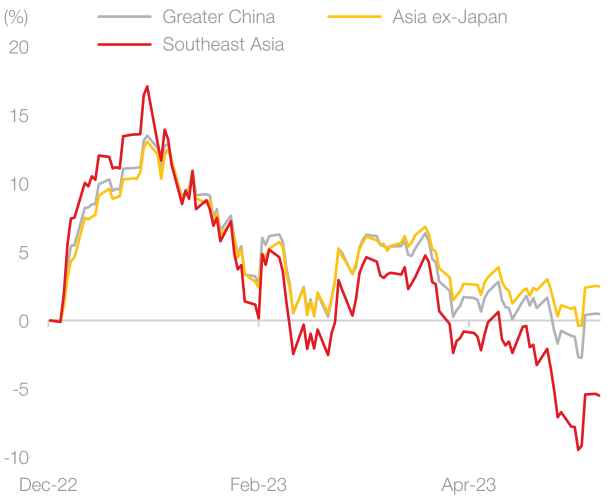
Source: iStock

06.
Asia ex-Japan Equities.

Yeang Cheng Ling
Strategist

Joanne Goh
Strategist

Asia ex-Japan equities surrendered YTD gains



Source: Bloomberg, DBS

Asia ex-Japan's GDP growth above global average

Source: Bloomberg, DBS

Quality will triumph volatility. Asia ex-Japan (AxJ) started the year on high ground only to surrender gains after being negatively impacted by external and internal headwinds. Externally, the collapse of regional banks in the US, unexpected merger of UBS and Credit Suisse, and ongoing US debt ceiling concerns cast a long shadow over sentiments in the region. Locally, tensions around North Asia, unexpected weakness in macro data, and the absence of stimulus measures further weighed on market performances.

As we enter the second half of the year, our base case is a slowdown in developed markets while AxJ rides a growth trajectory as the region emerges from Covid lockdowns and domestic consumption recovery.

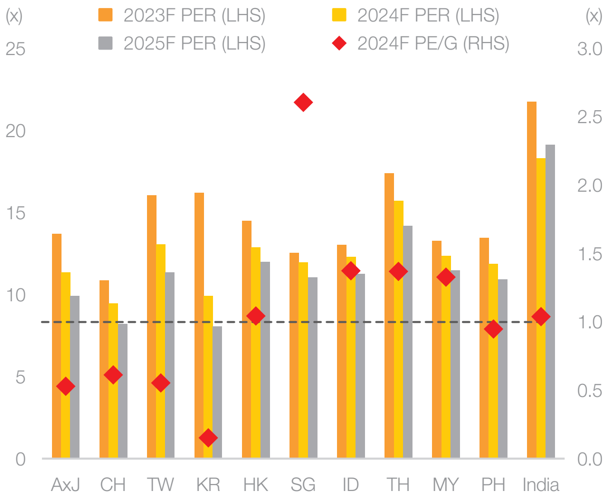
AxJ is anticipated to deliver stable growth over the next two to three years. GDP is projected to grow 5.2% this year before settling at 4.8% over the following two years, supporting corporate earnings momentum.

Corporate earnings in the region are projected to grow at 20% (2024) and 15% (2025) on forward PER of 11x and 10x respectively. Within the region, North Asia offers relatively more attractive earnings growth of 15% this year on forward earnings multiples of 10x compared with ASEAN's 7% EPS growth and PER of 12x. Notably, China's earnings multiples of 9.5x and 8.2x for 2024 and 2025 respectively are backed by compelling projected earnings growth rates of 15% for both years which works out to a PE-to-growth of between 0.6x and 0.5x. These are attractive levels by any standard.

Multiple catalysts support our positive investment stance on AxJ, including the steep valuation discount, tailwinds from reopening momentum, and robust earnings trends. A key beneficiary of China's reopening is ASEAN, which will also gain from rising trade ties. Trade value between ASEAN and China reached USD980b in 2022, doubling 2016's amount, making them the region's single largest trade partner.

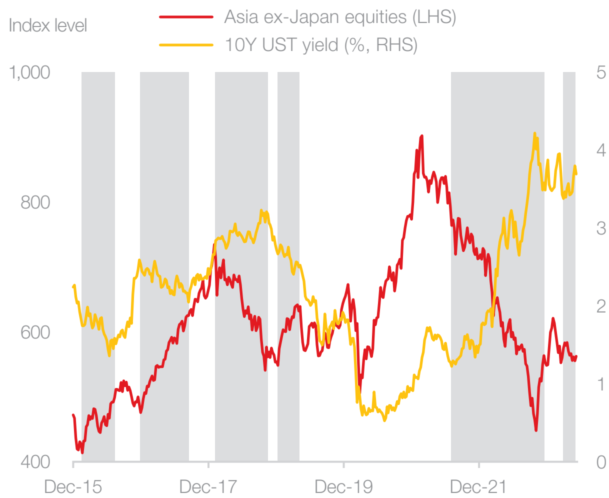
There is a tight and inverse correlation between AxJ equities and US interest rates. While the US Fed Funds rate may stay elevated for now, the ongoing rate hike cycle is projected to eventually halt. In light of this, the region's equities are expected to trough and begin to rerate. AxJ is currently trading at a wide valuation discount as compared to global equities.

Asia ex-Japan: Bifurcated valuations across markets



Source: Bloomberg, DBS
Band represents 1 s.d.

Inverse relationship with global rates



Source: Bloomberg, DBS

Valuation at historical mean …

Source: Bloomberg, DBS

… but still at a steep discount to global average

Source: Bloomberg, DBS

Rerating on the cards. After a muted 2022, the return to double-digit earnings growth in 2023/2024 should trigger a rerating of the region's equity markets. However, the recovery and rerating are not likely to be uniform across markets and industries.

Our overarching CIO Barbell Strategy construct focuses on secular themes. The region offers above average growth while trading below average valuations. Our constructive stance on AxJ equities is supported by the following:

1. Room to adopt looser monetary policy on more benign inflation compared with DM which exhibits high inflation
2. Corporate earnings growth is expected to outstrip global average. The region's earnings are projected to grow at 20% and 15% respectively over the next two years, compared with global EPS growth of 8% over the same period
3. 2-year forward PER at compelling level of 9x-10x and steep discount to global average of 15x
4. Low allocations among institutional funds, which are anticipated to reverse over time
5. Revival in corporate fundamentals riding on the region's reopening, strengthening of intra-regional trades, and uplift from China's recovery

China – quality leads the way

While China equities started the year strong, it was not able to sustain its performance. Despite better-than-expected 1Q GDP growth and corporate earnings, it trailed global equities.

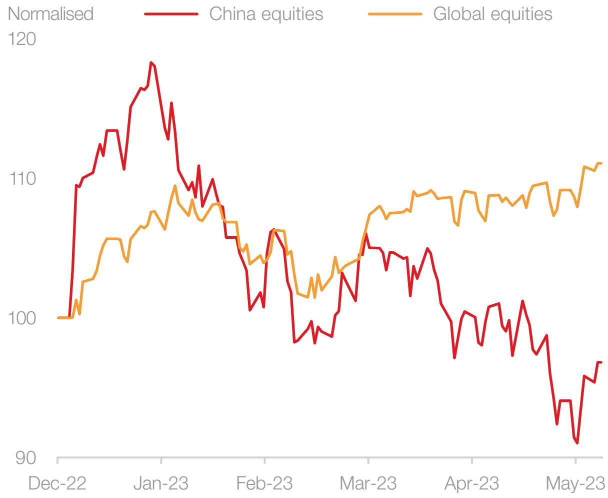
Due to looming headwinds, some catalysts are taking longer than expected to materialise. These include slowing export momentum, tensions in North Asia, tenuous relationships with the G7, absence of further government stimulus measures, and uneven macro data readings.

On the income side of the CIO Barbell Strategy framework, we prefer China large state banks which reward investors with sustainable and attractive yields. On the growth side, we continue to favour the insurance sector, large technology platform companies, and A-shares.

Favour large state-owned banks. China financials have delivered good share price performance since the conclusion of the 20th National Congress of the Chinese Communist Party last year, and further extended their gains YTD. China insurance and the broad financial sector returned 60% and 35% respectively since end of October 2022, with YTD gains of c.10% driven by:

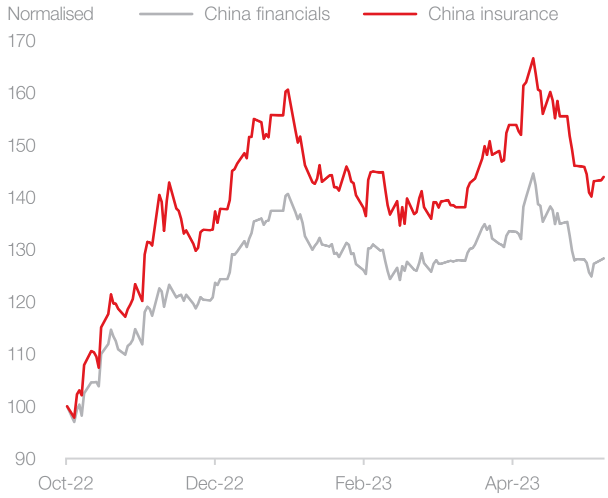
1. Expectations of US rate hikes coming to an end. This development should reverse the yield compression between China large banks and bonds
2. Narrowing of steep valuation discounts
3. Resumption in total social financing growth to 11.7%, back to the level last seen in January 2022
4. Sustainable dividend yields and the appeal of total returns

China equities underperformed global peers in 2023



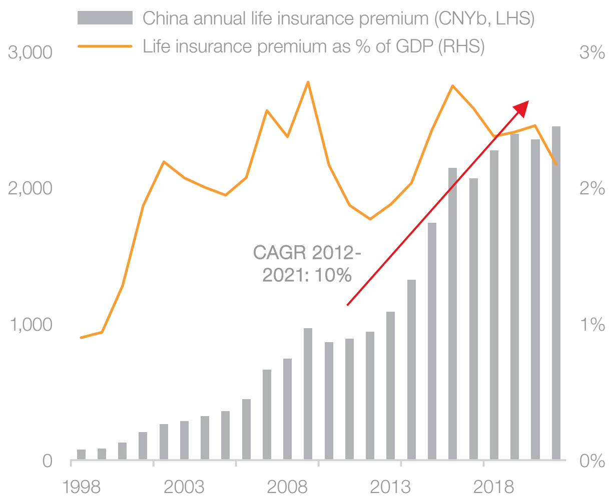
Source: Bloomberg, DBS

China banks and insurance offer supportive valuations



Source: Bloomberg, DBS

Upside in China life insurance premium



Source: Bloomberg, DBS

Constructive on insurance sector. We are constructive on China's insurance sector owing to its fundamental importance to the vast population, promising operating environment, and growth outlook. Life insurance annual premiums reached CNY2.5t at the end of 2021, delivering an impressive CAGR of 10% between 2012 and 2021.

Another growth driver is the increase in China's life insurance penetration rate, which was merely 2.2% of GDP as of 2021, considerably lower than those of other markets like Hong Kong (20.5%), America (12.4%), Singapore (11.4%), and OECD countries (9.4%). The upside potential for the sector's revenue and profits in the coming years remains encouraging as life insurance penetration in China accelerates.

Investors are looking past the muted 2022 earnings caused by policy crackdowns on China's platform

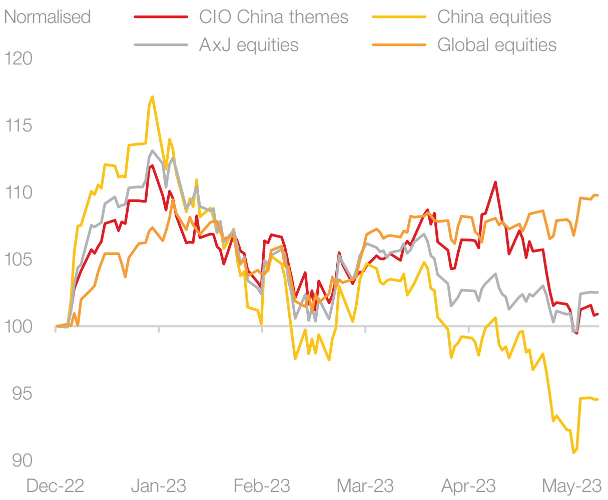
China banks and insurance offer supportive valuations

Source: Bloomberg, DBS

companies, mobility restrictions under strict Covid measures, and ongoing trade tensions between China and the US. With a view to the future, they are hopeful for improved earnings.

We maintain the view that CIO-selected China themes should continue to deliver attractive investment returns, as the momentum post reopening gains pace and market dislocation reverses.

Performance of CIO calls on China themes have fared better than broader China equity market



Source: Bloomberg, DBS

ASEAN gains on peak US rates and growth

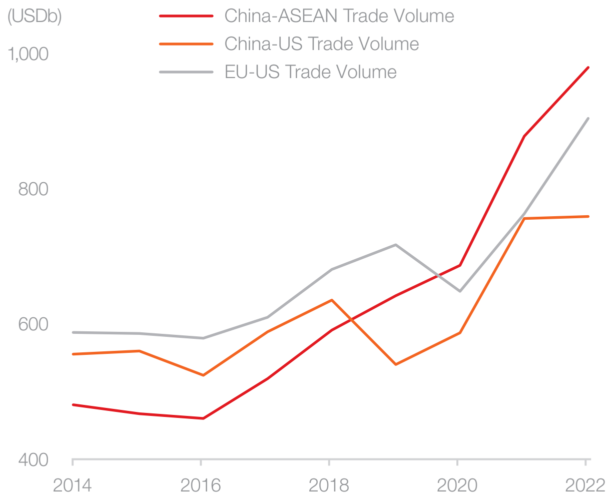
Slower growth trajectory. The growth trajectories of most ASEAN-6 countries (except Thailand) are expected to slow this year. This is primarily due to a decline in external trade caused by downturns in commodity and electronic sectors, a normalisation of demand following the reopening boost, and tighter financial conditions. Nevertheless, the offset provided by China and the resilience of private consumption growth within ASEAN could potentially lead to positive surprises.

The China offset is working in favour of ASEAN exporters, who share the world's largest trade pact agreement with China in the Regional Comprehensive Economic Partnership (RCEP). As China gradually opens up, ASEAN's exports are bottoming — signalling that supply chain constraints are easing, and import demand in China is recovering. Consequently, trade flows between China-ASEAN are now larger than between US-EU and US-China.

Beneficiary of diversification and relocation. ASEAN is also benefitting from supply chain diversification and the relocation of manufacturing bases to other countries, which is a growing trend in the global business landscape on the back of rising US-China trade tensions and Covid-related supply chain disruption. Importers are diversifying their supplier base by sourcing goods from multiple countries and reducing their reliance on a single market like China. This strategy helps mitigate risks associated with trade disputes, tariffs, and disruptions in the global supply chain.

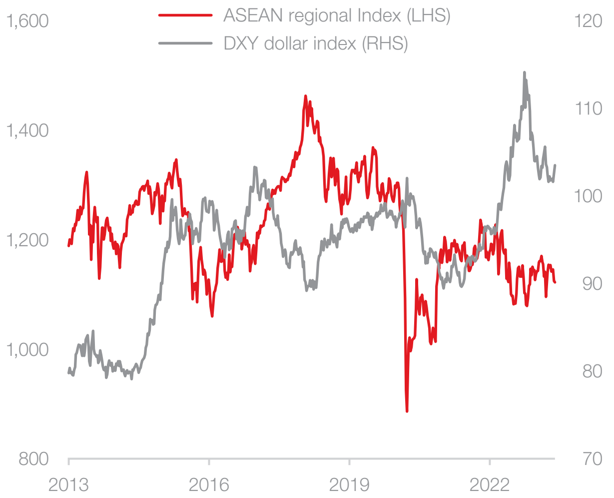
ASEAN countries such as Vietnam and Malaysia have emerged as attractive destinations for the relocation of manufacturing operations. These countries offer several advantages, including lower labour costs compared to China, a skilled workforce, improving infrastructure, and favourable government policies aimed at attracting foreign investment. Additionally, their geographical proximity to China provides logistical benefits and access to supply chains. This has led to many economic benefits for ASEAN countries and enhanced their resilience.

Trade volume between China-ASEAN is now the biggest in the world



Source: Refinitiv, DBS

ASEAN markets move inversely to the dollar



Source: Refinitiv, DBS

We believe ASEAN's PE rerating can be sustained as the attractiveness of the region's assets should increase following the end of US rate hikes. The US dollar has corrected this year, thus providing support to Asian currencies and bond markets, rendering flows to the region and supporting equity markets.

Meanwhile, moderation in both energy and food prices would bring significant relief to ASEAN consumers, as both are major components in the consumption basket. Private consumption should remain resilient against a backdrop of favourable demographics, growing middle class, rapid urbanisation, and availability of credit.

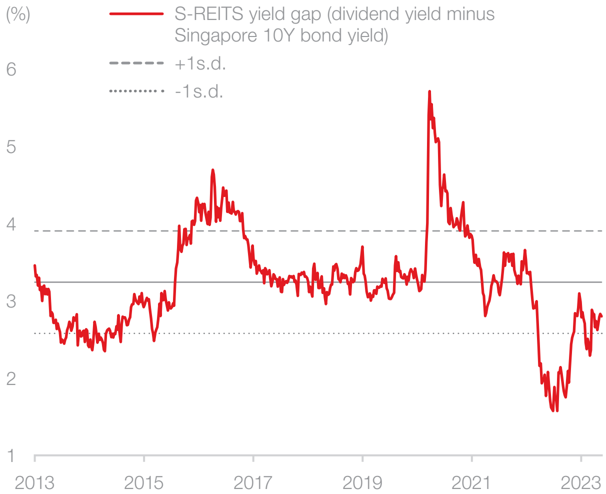
Strengthen portfolio resilience with ASEAN exposure. We believe that exposure to ASEAN themes can strengthen portfolio resilience against a slowing US economic backdrop. Below, we identify the region's treasures — sectors which possess competitive advantages and stand to benefit from long-term structural trends in their respective markets.

Thailand: Positive growth ahead. Thailand's growth rose to 2.7% y/y in 1Q23, rebounding from 1.4% in 4Q22, with real GDP finally returning to pre-pandemic levels in seasonal adjusted terms. Private consumption expansion was robust in 1Q23 and should continue to support domestic demand and overall real GDP growth in 2023. Investments and government spending have lagged. We believe the business environment should improve post elections upon the formation of a stable government while cyclical exports slowdown has shown signs of easing. Stocks riding on recovering consumption, tourism & medical tourism, rising interest rates, and return of FDI should perform well.

Indonesia: Stars have begun to align. Indonesia's domestic growth is likely to enjoy a stronger 1H23 before moderating in 2H on base effects, impending elections, and slower exports on easing commodity prices. Inflation is also poised to correct sharply from August and September levels, providing relief to household purchasing power. Indonesia's bond markets have begun to attract net foreign inflows on favourable rate differentials, with the rupiah standing out as the region's best performer on a YTD basis. In 2H, a confluence of the US Fed being on pause, stable rupiah, manageable inflation, and calmer global markets, are likely to provide a conducive backdrop for BI to pivot to an easing cycle. The JCI will benefit from a more favourable environment in 2H23. Sectors which are sensitive to economic performance, such as commodities and banks, should perform well.

Singapore: Favour S-REITs. S-REITs are experiencing a shifting landscape, resulting in increased valuations and prices as we progress through 2023. Investors should look for exposure to the sector as the Fed nears the end of its rate hike cycle, which could see dividend estimates raised due to results surpassing expectations and lower financing costs. Occupancy rates have remained robust, surpassing 95%. Notably, rental reversions in 1Q23 have pleasantly surprised on the upside, particularly in the industrial (over 10%) and retail (over 5%) sectors. The hospitality segment continues to display a positive trajectory, with revenue per available room (RevPAR) consistently exceeding pre-Covid levels. However, approach

S-REITS enjoy spreads over bonds



Source: Refinitiv, DBS

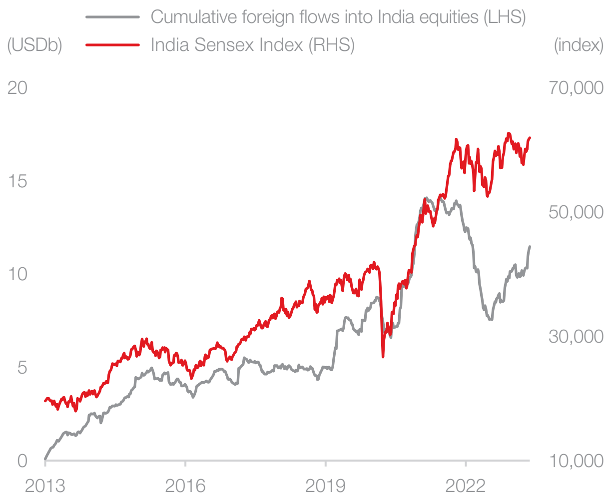
the office sector with caution as leasing momentum appears to be slowing down, potentially leading to a deceleration in its strength.

At the current yield of 5.5%, which indicates a yield spread of 2.8% (compared to the 10Y SG yield) at -1 s.d., it is enticing for investors to consider re-entering the sector. However, it is important to be selective and prioritise S-REITs that demonstrate the ability to maintain dividends even amid a relatively high interest rate environment.

India: Seek quality in sectoral jewels. Over in India, despite positive macro trends including moderated CPI, improved current account, and a pause in the rate hike cycle by the RBI, the Indian market has experienced YTD underperformance, declining by 5.2% in USD terms. Several factors may have contributed to this weakness: Ongoing developments relating to the Adani group and deceleration in earnings growth have spooked market participants while China's reopening has diverted some attention and capital from Indian equities. Foreign Institutional Investors (FIIs) have been net sellers in the Indian market so far this year, with outflows amounting to USD2.3b. **However, we note a slight recovery in FII activity over the past three months**.

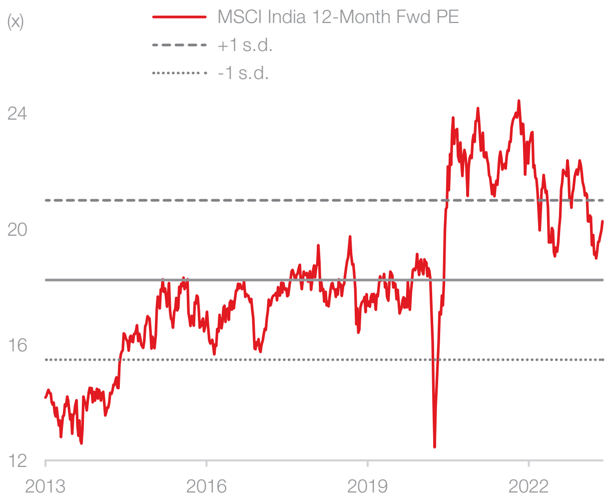
With valuations moderating and currently standing at less than 1 s.d. above historical averages, we see opportunity for long-term investments in structurally robust sectors in India. These sectors include pharmaceuticals, IT services, banking, and consumer staples. Unlike EM ASEAN markets which normally thrive on a weak dollar, the Indian market is closely related to global risk appetite and not the dollar. Consequently, a stronger performance in the US market, particularly following the volatility associated with the US debt-ceiling, is expected to positively influence the Indian market.

India: Cumulative FII flows since 2013



Source: Refinitiv, DBS

India valuation more palatable now



Source: Refinitiv, DBS

Moderating Policies

GLOBAL RATES 3Q23

Economic resilience and fading market stresses have prompted DM central banks to consider extending the hike cycle. If central banks do not overdo tightening, there might still be reprieve as Goldilocks takes hold.

Source: Unsplash

07. Global Rates.

Eugene Leow
Strategist

Duncan Tan
Strategist

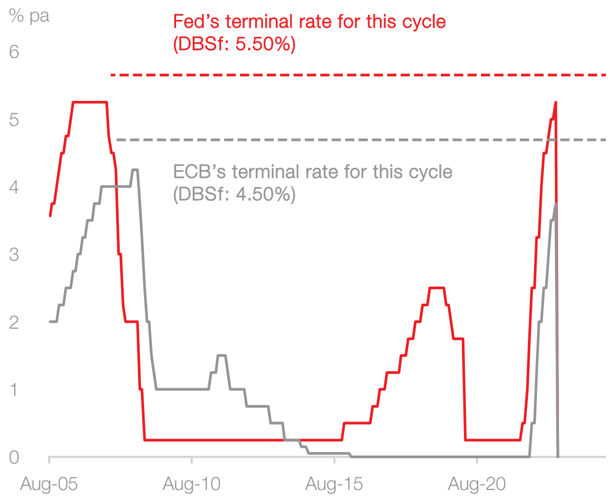
Much of the developed world is likely moving into the last leg of tightening. In the US, the Fed has already delivered 500 bps of hikes in just over a year and opted to pause in June while leaving some optionality for hikes later this year. We think policymakers are now more cognisant of downside risks. Even as imminent banking crisis risks appear to have abated, the string of bank failures over the past few months is a warning that there could be unintended consequences from too much tightening. Moreover, policy works with a lag. While current labour market data suggest that the economy is still holding up, there is a need for more caution as stresses start to appear in the commercial real estate space. Balancing between objectives is proving difficult, but at least inflation is moving in the right direction. We think the Fed should be able to hike once more before keeping rates steady through 2023. Short of an incident occurring, rate cuts should only materialise well into 2024. Meanwhile, we think QT will continue for at least another year.

The ECB is a few steps behind the Fed. It started tightening later than the Fed in this cycle and is also currently facing slightly higher price pressures. Accordingly, we see another 50 bps before the ECB reaches the terminal rate of 4.50%. Note that the ECB has also just kicked started QT from the Asset Purchase Programme. This will be followed up by asset runoffs from the Pandemic Emergency Purchase Programme in the coming quarters. Note that the ECB started shrinking its balance sheet earlier than the Fed by reducing loans it put out under the targeted longer-term refinancing options (LTRO) programme in late 2022. The upshot is that the ECB still has more to do before hitting peak tightness and current data supports this hawkishness.

The BOJ is still moving at a glacial pace compared to current price pressures. In contrast to the US and Eurozone, Japan's CPI has not come off. While supply side pressures may be to blame, higher wages and persistently high inflation could trigger higher inflation expectations. In any case, the BOJ may widen YCC in 3Q23. However, a full dismantling of YCC may well take place only around mid-2024 after conclusions are found from the ongoing monetary policy review. The market is coming to terms that the BOJ is going to stay behind the curve and inflation breakevens are rising accordingly.

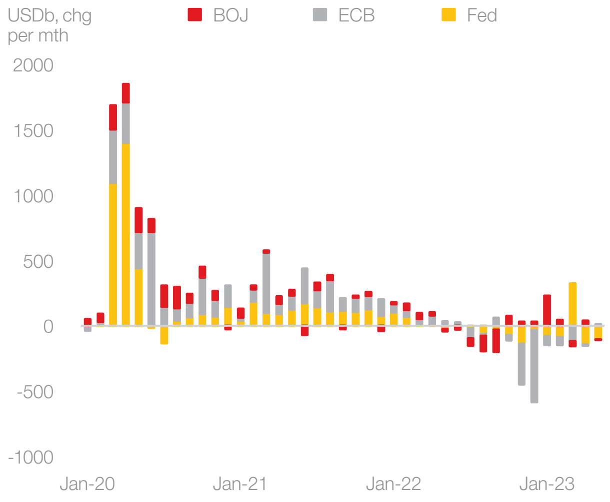
With monetary tightening coming to a close, DM curves are largely still inverted. This is likely to persist in the immediate few quarters as market participants still see neutral rates below current levels. There are also recession fears keeping a premium on government bonds. There is an asymmetrical risk towards bull steepening (taking 2Y/10Y curve to par or higher) if things go awry and policymakers pivot quickly, but that is not our base case. The JGB curve will be positively sloping for the foreseeable future. Even if YCC gets dismantled, it would still be a high hurdle before short-term rate increases get considered.

The Fed is likely done, with the ECB just behind



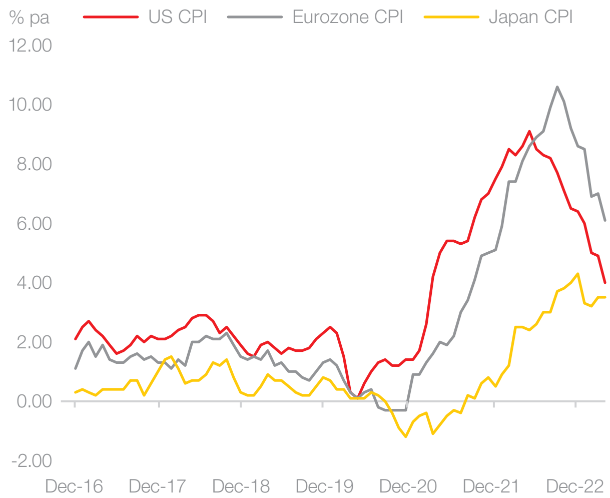
Source: Bloomberg, DBS

QT kicks in for the Fed and ECB



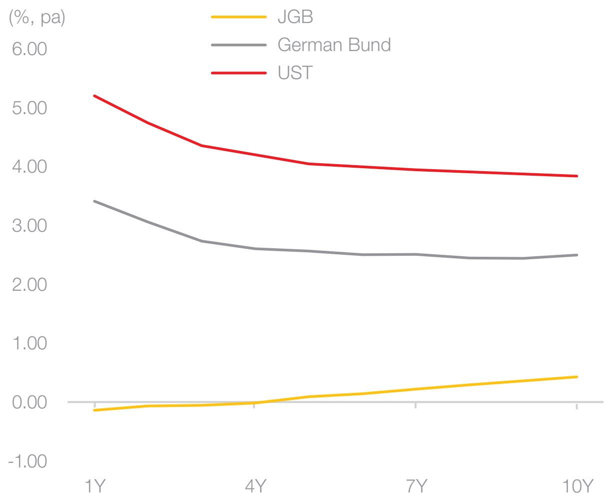
Source: Bloomberg, DBS

Divergence in G3 CPI



Source: Bloomberg ,DBS

JGB curve unlikely to join peers in inverting



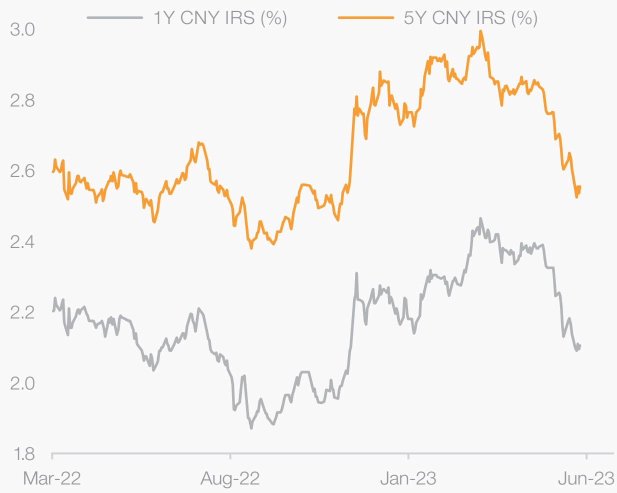
Source: Bloomberg ,DBS

Asia Rates

CNY rates: Markets are bearish on recovery outlook

2Q data has been soft across the board and weaker than expected, suggesting that growth recovery was strong in 1Q on reopening impulse, but is now moderating. Market rates are moving lower relative to policy rates, suggesting that markets now expect rate cuts and easier liquidity conditions ahead. Our forecast is for 10 bps cuts to 1Y Loan Prime Rate in 3Q, which implies likely cuts to 1Y Medium-Term Lending Facility rate as well. On liquidity, we think it will be kept balanced due to prudent monetary policy. That said, if credit demand is weak in the coming months, liquidity could turn out to be flusher. At the current level of IRS rates, markets are clearly very bearish on the growth outlook. Unless the data worsens significantly, IRS rates are more likely to consolidate than to fall further.

China swap rates are falling towards levels prior to reopening

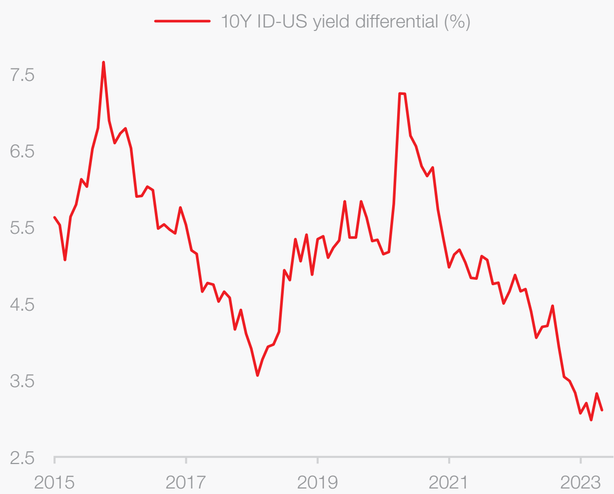


Source: Bloomberg, DBS

IDR rates: Could be first to cut rates

BI is in a neutral pause that is credible because inflation risks are relatively lower, and currency has been stable/outperforming. In fact, we expect BI to be one of the first to start cutting rates as soon as in August this year. Liquidity has been comfortable, as seen in money market rates, banking sector metrics, and BI Open Market Operations (OMO). The government's comfortable fiscal position and surplus cash balances provide the flexibility to reduce issuances in the event of market volatility driven by external risk events. IndoGBs offer quality carry and some exposure to core rates. i.e., While 10Y IndoGB-UST yield differentials are tight, IndoGB yields can still fall if US rates fall. On inflows, IndoGBs are still seeing foreign interest, but the pace of inflows has certainly slowed compared to the period from November 2022 to January 2023.

10Y IndoGB-UST yield differentials are very compressed

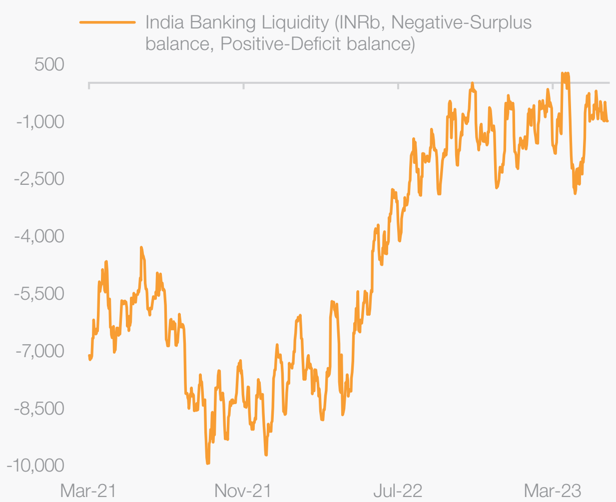


Source: Bloomberg, DBS

INR rates: Concerns of tight liquidity are easing

RBI has paused on further rate hikes, while maintaining its "withdrawal of accommodation" stance. Headline inflation has been easing. For 2Q, base effects are expected to be favourable, which should see monthly CPI prints come in comfortably below the 6% top end of target range. That would allow RBI to extend its pause, meaning that inflation prints are unlikely to be a source of upward pressures on OIS rates. Concerns of tight liquidity are easing, due to larger-than-budgeted RBI surplus transfer and expected increase in bank deposits (driven by withdrawal of 2,000-rupee banknotes from circulation). We expect RBI would use variable rate repo/reverse repo auctions to manage the liquidity position between neutral and small surplus. Heavy bond supply could already be well-priced by markets, as seen in wide bond-swap spreads.

Tighter liquidity in India

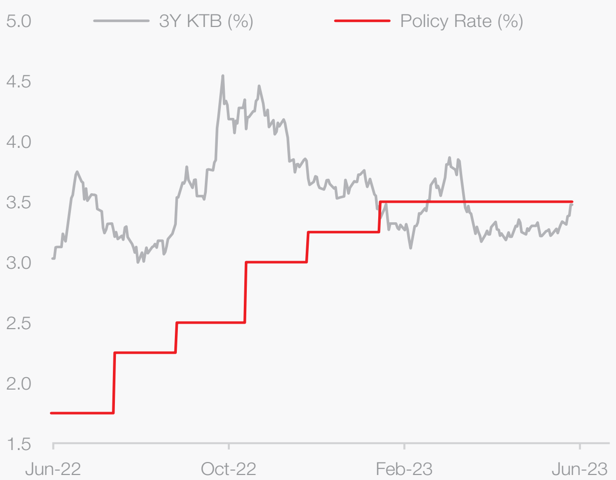


Source: Bloomberg, DBS

KRW rates: Central bank pushing back on cut expectations

Economic outlook remains weak - A recovery in electronics exports could be farther out while cumulative BOK hikes could weigh further on property prices and consumption. We expect the BOK to have hit peak rates, but they are likely to push back against rate cut expectations amid still-elevated core inflation. Market pricing for three rate cuts in 2024 appears to be reasonable, considering that we also expect US Fed to cut in 2024. As long as BOK continues to push back against rate cut expectations, it would be difficult for IRS rates to price for more rate cuts and to fall significantly from current levels. Lower KTB net supply is a technical positive and we prefer KTBs on an FX-hedged or ASW basis to avoid FX exposure.

Some rate cut expectations already priced-in for Korea

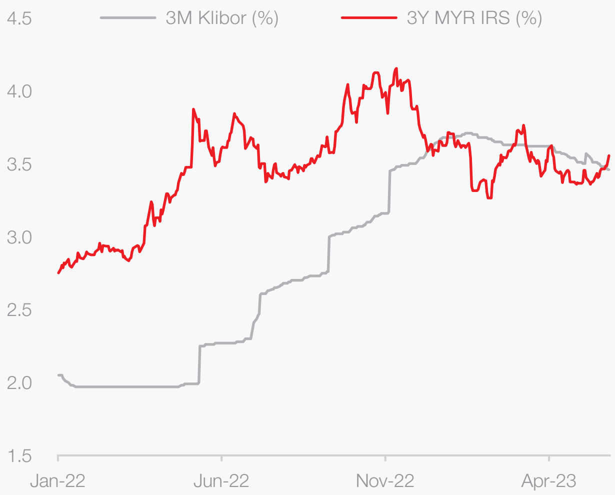


Source: Bloomberg, DBS

MYR rates: Fairly priced for hold at 3%

BNM surprised with a 25 bps hike in May - Likely to be one last pre-emptive hike to guard against risks of financial imbalances (household debt levels are one of the highest in Asia) and upside inflation risks (resilient domestic demand). KLIBOR-OPR to keep compressing post surprise BNM hike and continued easing of banking liquidity. Front-end MGS bond yields and MYR IRS rates look fairly priced for an on-hold BNM at 3.0%, though changes to more targeted subsidies and removal of some price controls pose an upside risk to inflation in 2H. Recent announcements to allow Employee Provident Fund (EPF) members to take out bank loans against their retirement savings could drive expectations of lower EPF demand for long-duration government bonds and result in a steeper curve.

3Y Malaysia swaps appear fairly priced for an on-hold Bank Negara

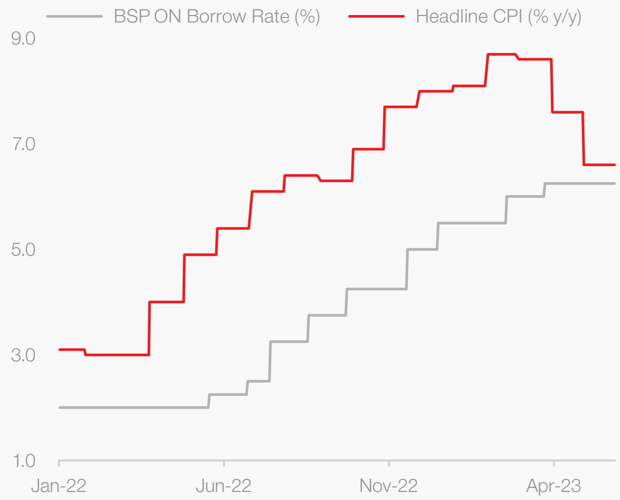


Source: Bloomberg, DBS

PHP rates: Stretched valuations

BSP has entered a hawkish pause in May, after aggressively hiking rates by a total of 425 bps over the prior twelve months to combat elevated inflation. Even with headline inflation now moderating, we think that the ongoing rally in 10Y PHP bonds (since November 2022) have gotten too far, and valuations have become stretched. 10Y bond yields are historically low relative to the policy rate, which could imply little buffers against upside inflation risks and the possibility that the next rate cut cycle could be farther out. Drivers of upside inflation risks include food supply constraints, uncertainty on the impact of El Niño on food prices and electricity rates, and potential adjustments to transportation fees and wages.

Upside risks to inflation means Philippines' policy rates have to stay high

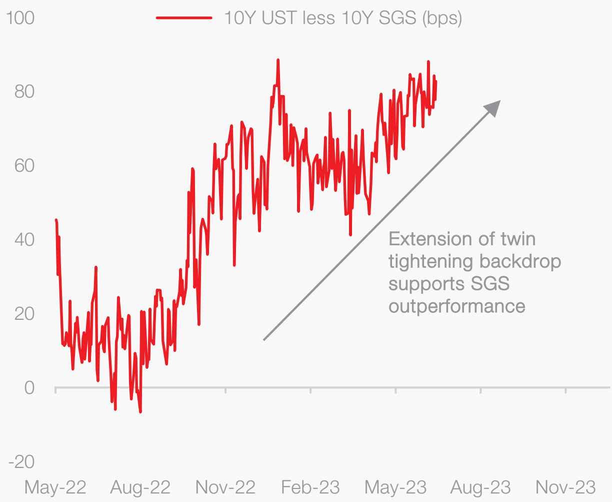


Source: Bloomberg, DBS

SGD Rates: Extending SGD Rates outperformance

MAS opted to stand pat in April, signalling that sufficient tightening has been done. The MAS was one of the earliest to tighten policy this cycle and it is unsurprising that the MAS has paused. With a cautious outlook ahead, we would reasonably expect the MAS to hold policy again in October. At this point in the cycle, risks are balanced given that several DM central banks have opted to extend their tightening cycle slightly. Notably, we think that the Fed might hike once more to a terminal rate of 5.50%. Similarly, there has been some speculation that the MAS might restart its tightening cycle. Accordingly, the twin tightening backdrop (Fed and the MAS) has been extended by a few months, suggesting that outperformance in SGD rates vs USD rates from a receive perspective might still work out in the short term. However, beyond that, if a downturn does take place, necessitating policy easing from both central banks, we would reasonably expect USD rates to fall by a larger magnitude than SGD rates.

SGS outperformance can last awhile more

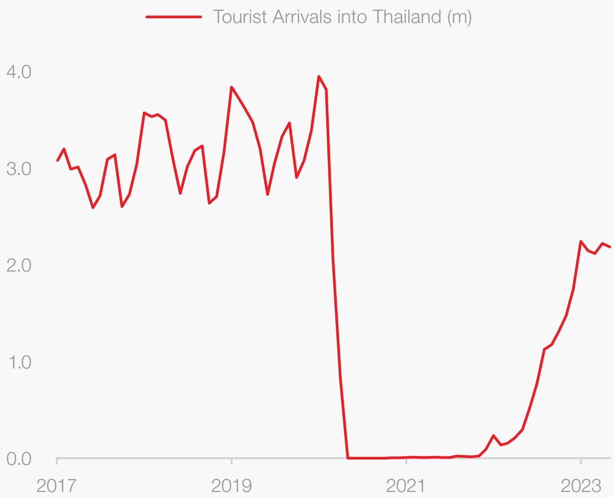


Source: Bloomberg, DBS

THB rates: Inflation risks could be under-priced

Inflation has eased into and is expected to stay within BOT's target range in the coming months, helped by favourable base effects. The BOT remains hawkish though cautious around the potential for delayed cost passthroughs and demand-led price pressures. Inflation risks could grow in 2H when the tourism sector would recover more fully and some of the populist election promises (e.g., cash handouts, wage increases) could be implemented, leading to higher incomes and consumption. Market pricing is for the policy rate to peak at 2.00%, which we think could be under-pricing the inflation risks ahead.

Thailand's tourism recovery poses some risks to domestic inflation



Source: Bloomberg, DBS

Rates forecasts

		2023				2024			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	4.91	5.13	5.38	5.38	5.38	5.25	4.75	4.38
	2Y	4.03	5.00	5.00	5.00	4.85	4.70	4.50	4.30
	10Y	3.47	4.10	4.10	4.10	4.00	4.00	4.00	4.00
	10Y-2Y	-56	-90	-90	-90	-85	-70	-50	-30
Japan	3M TIBOR	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
	2Y	-0.06	0.00	0.00	0.00	-0.02	-0.02	-0.02	-0.02
	10Y	0.35	0.50	0.70	0.70	0.68	0.68	0.65	0.65
	10Y-2Y	41	50	70	70	70	70	67	67
Eurozone	3M EURIBOR	3.05	3.55	4.05	4.05	3.90	3.80	3.30	2.90
	2Y	2.68	3.35	3.45	3.45	3.30	3.10	2.90	2.70
	10Y	2.29	2.85	2.85	2.85	2.70	2.60	2.50	2.40
	10Y-2Y	-39	-50	-60	-60	-60	-50	-40	-30
Indonesia	3M JIBOR	6.76	6.75	6.25	5.95	5.70	5.65	5.65	5.65
	2Y	6.29	5.90	5.80	5.75	5.70	5.70	5.55	5.45
	10Y	6.79	6.40	6.50	6.65	6.70	6.70	6.55	6.45
	10Y-2Y	50	50	70	90	100	100	100	100
Malaysia	3M KLIBOR	3.62	3.45	3.40	3.40	3.40	3.40	3.40	3.40
	3Y	3.38	3.35	3.30	3.30	3.30	3.30	3.30	3.30
	10Y	3.91	3.80	3.70	3.65	3.70	3.75	3.75	3.80
	10Y-3Y	53	45	40	35	40	45	45	50
Philippines	3M PHP ref rate	6.09	6.25	6.25	6.10	5.60	5.10	5.10	5.10
	2Y	5.73	5.85	5.85	5.70	5.20	4.85	4.85	4.85
	10Y	6.18	5.90	5.90	5.85	5.35	5.10	5.10	5.20
	10Y-2Y	45	5	5	15	15	25	25	35
Singapore	3M SORA OIS	3.53	3.62	3.75	3.75	3.75	3.62	3.35	3.08
	2Y	3.11	3.55	3.55	3.55	3.40	3.35	3.25	3.15
	10Y	2.94	3.15	3.15	3.15	3.05	3.05	3.05	3.05
	10Y-2Y	-17	-40	-40	-40	-35	-30	-20	-10

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

Source: CEIC, Bloomberg, DBS

		2023				2024			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Thailand	3M BIBOR	1.89	2.25	2.50	2.50	2.45	2.40	2.35	2.35
	2Y	1.79	2.25	2.45	2.45	2.45	2.45	2.45	2.45
	10Y	2.43	2.80	3.20	3.25	3.35	3.35	3.30	3.30
	10Y-2Y	64	55	75	80	90	90	85	85
Mainland China	1Y LPR	3.65	3.55	3.45	3.45	3.45	3.45	3.55	3.65
	2Y	2.38	2.30	2.45	2.60	2.65	2.70	2.70	2.70
	10Y	2.86	2.80	2.95	3.10	3.15	3.20	3.25	3.25
	10Y-2Y	48	50	50	50	50	50	55	55
Hong Kong, SAR	3M HIBOR	3.71	4.73	5.08	5.08	5.08	5.00	4.55	4.38
	2Y*	3.78	4.90	4.90	4.90	4.75	4.60	4.40	4.20
	10Y*	3.53	4.00	4.00	4.00	3.90	3.90	3.90	3.90
	10Y-2Y	-25	-90	-90	-90	-85	-70	-50	-30
Korea	3M CD	3.59	3.70	3.65	3.65	3.40	3.15	2.90	2.90
	3Y	3.29	3.80	3.80	3.65	3.35	3.35	3.30	3.25
	10Y	3.36	3.90	3.90	3.75	3.50	3.50	3.50	3.50
	10Y-3Y	7	10	10	10	15	15	20	25
India	3M MIBOR	7.44	7.25	7.25	7.20	6.95	6.40	6.15	6.15
	2Y	7.05	6.95	7.05	6.90	6.45	5.80	5.65	5.65
	10Y	7.31	7.25	7.30	7.30	7.15	7.10	7.00	6.95
	10Y-2Y	27	30	25	40	70	130	135	130

%, eop, govt bond yield for 2Y and 10Y, spread bps. *swap rates.

Source: CEIC, Bloomberg, DBS

Emerging Opportunities

GLOBAL CREDIT 3Q23

In anticipation of peaking yields and a moderation of the dollar, the components are in place for high quality EM bonds to perform well. The sweet spot remains with A/BBB credit in the 3-5Y duration segment.

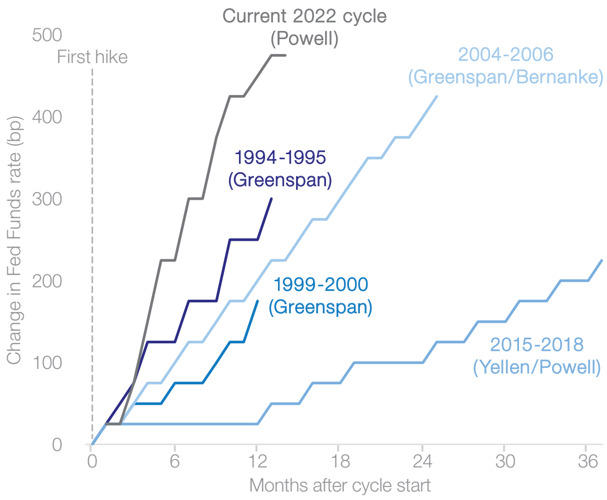
Source: Unsplash

08.
Global Credit.

Daryl Ho, CFA
Strategist

Fast, furious, and final? In what must have seemed like the longest 16 months ever for investors in the financial markets, the end of the aggressive 2022 hiking cycle is finally in sight, with (a) signs of inflation around the world forming a tentative plateau, (b) systemic strains emerging in the US banking sector, and (c) global central bankers conceding less hawkishness and more caution in their forward guidance. Regardless of how much further rates must go, this hiking cycle is already one for the history books, judging by both speed and magnitude of policy rate hikes by the Powell-led Fed.

2022 hiking cycle dominates in speed and magnitude

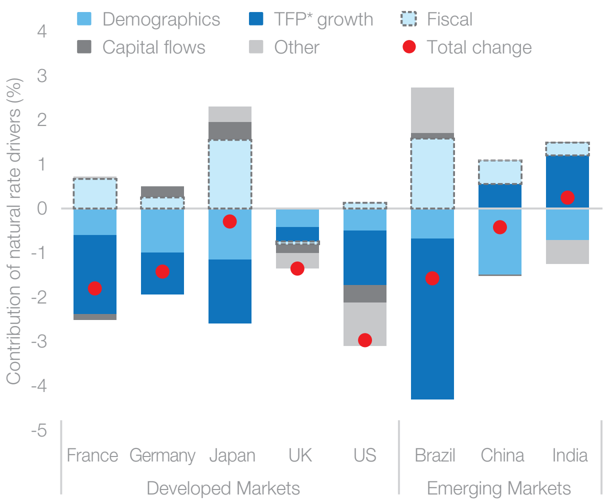


Source: Bloomberg, DBS

How high is high enough? However, as tempting as it is to think that "the job is done" simply because rates are the highest they have been in 16 years, the market-savvy know that it is never enough to speak of nominal rates in isolation. In 1979, the Fed hiked rates to an eye-watering 14%, yet the view at the time – and rightfully so – was that it was not enough to tame rising inflation. Three decades later, in the aftermath of the GFC, the same Fed slashed rates to zero, yet concerns were the opposite – that it was insufficient to boost demand and inflation. This contrast raises an obvious question: How could an interest rate of 14% sometimes be too low, and at other times a rate of 0% be too high to regulate inflation?

The point is that nominal rates must always be measured against some reference level to determine its macroeconomic impact – a yardstick known as the natural rate of interest. This is the interest rate that is neither stimulatory nor contractionary and is consistent with output at potential and inflation stable. Theoretically, lowering the policy rate below this natural rate is akin to stepping on the economic accelerator, while raising it above is like hitting the brake. To the degree that inflation had remained stubbornly high even in the face of the most hawkish Fed in decades, it begs the question on whether structural changes (such as geopolitical realignments, deglobalisation, reduced demand for Treasuries etc.) have in fact led to a higher natural rate, resulting in central bankers having to increase rates further than before to tighten financial conditions to the same degree.

Natural rates have declined over the last 40 years



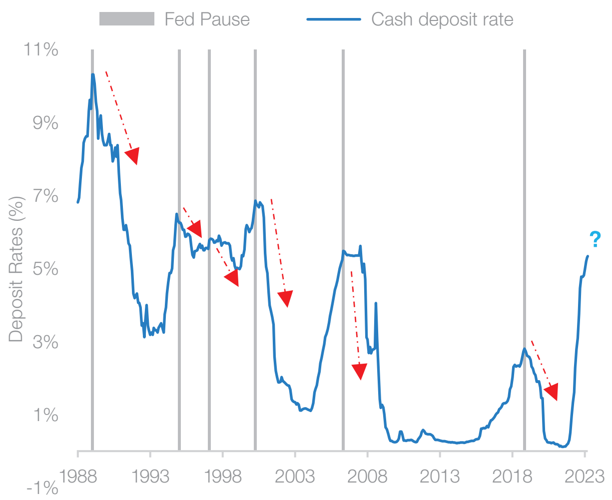
Source: Platzer and Peruffo (2022), IMF, DBS
Note: Chart shows natural rate changes from 1975-79 to 2015-19
*TFP: Total factor productivity

Lower for longer redux. To that discussion, we feel that a recent study by the IMF is instructive. It found that in the 40-year period between the late 1970s and late 2010s, specific common forces have caused the natural rate of interest to decline across most countries – such as (a) ageing demographics and (b) declines in total factor productivity (TFP) attributable to legacy effects of the GFC, waning gains from the IT revolution, fading global trade and rising political uncertainty. These longstanding forces are not easily neutralised; given that "demographics is destiny", and that sudden productivity gains are tough to predict (AI technology, though promising, is still an evolving space), the world is ultimately still expected to return to the path of lower natural rates after this bout of inflation. In the same period, the biggest factor that offsets these declines was fiscal spending. Unfortunately, the UK Gilt market crisis in late 2022 and the US debt ceiling fiasco just months ago inform us that fiscal extravagance is near its limits, and is unlikely to provide the same counterbalancing force in the years ahead.

This is perhaps why consensus expectations are for the Fed to be able to rein in inflation just by keeping policy rates steady between 5-6%, given that the Fed themselves still project that the US long-term sustainable equilibrium rate is just 2.5% (according to their dot plot). The brakes are on, and it will only be a matter of time before inflation – and the economy – slows down.

What happens to cash after a rate pause. If we are indeed in the vicinity of a rate pause, it is worth noting how safe instruments – namely cash and bonds – tend to perform after. The first thing to note is that cash deposit yields immediately fall on shaky ground, with a tendency to decline rapidly not long after the final hike. This implies that investors who are overweight cash would face high "reinvestment" risks – the likelihood of rolling over fixed deposits into higher yielding instruments from here on rapidly declines with time.

Cash goes to trash



Source: Bloomberg, DBS

What happens to bonds after a rate pause. On the flipside, the combination of high starting coupon yields and a declining interest rate environment is a strong tailwind to bond returns, with a combination of (a) strong recurring income and (b) capital gains from higher bond prices. Nonetheless, it is worth noting that not all bond markets perform alike. A declining rate environment is often coincident with an emerging crisis, which does not bode well for riskier markets. This is perhaps why it is the quality bonds – IG credit and Treasuries – that outperform HY credit after a rate pause; spreads on lower-rated credit can still widen quite significantly in the event of a crisis. It is with this perspective that our preference remains with quality bonds as the economy teeters about an inflection point.

Bonds gain traction after a Fed pause

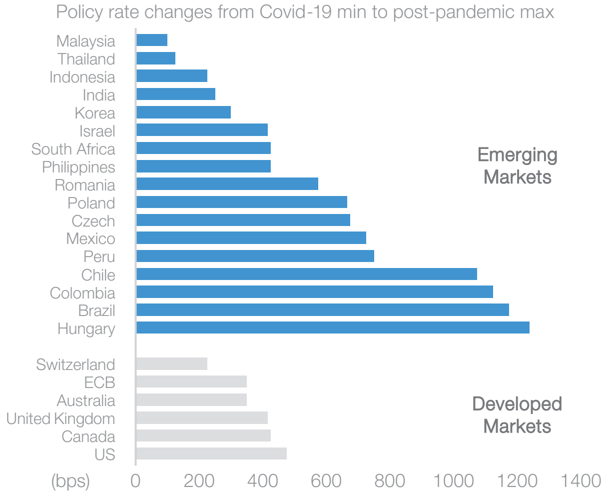
Rate hike pause	Emerging Concern	Subsequent 6m Returns			
		US IG	US HY	10Y UST	EM USD
Feb-1995	Receding Inflation	9.6%	8.9%	10.0%	21.0%
Mar-1997	Asian Currency Crisis	8.2%	9.4%	9.2%	15.2%
May-2000	Dot-com Bust	6.9%	-4.6%	8.2%	6.8%
Jun-2006	Housing Market Slowdown	6.0%	8.4%	5.7%	10.5%
Dec-2018	US-China Trade Tensions	9.9%	9.9%	7.3%	9.4%
Average		**8.1%**	**6.4%**	**8.1%**	**12.6%**

Source: Bloomberg, DBS

EM the exception. The only exception to make in consideration of the "lower" risk spectrum is EM credit – which has traditionally been associated with higher risks. Yet this space is a clear outperformer after the Fed pauses its hiking cycle, attributing to (a) the peaking of dollar strength after a Fed pause being favourable for EM FX, and (b) a lower rates environment encouraging general yield-seeking opportunities abroad. We think that this time is no different; that quality EM debt is worth considering for fixed income portfolios, with several stars coming aligned in the months ahead.

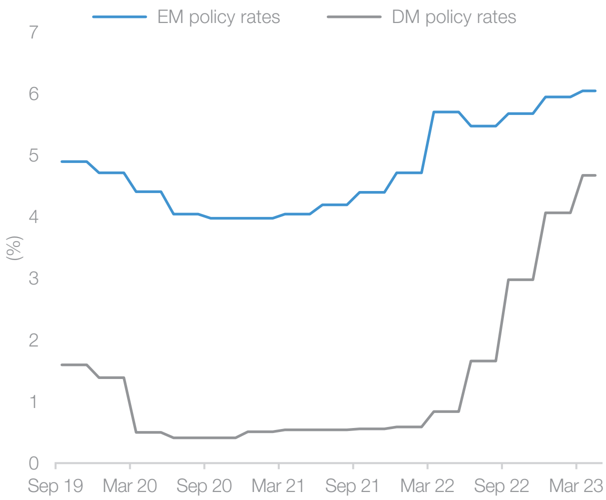
Emerging markets with developed characteristics. Firstly, the afore-mentioned report from the IMF also mentioned in the same breath that unlike developed economies that would see natural rates settle close to pre-pandemic levels, emerging markets are set up for a more significant decline in natural rates because of ageing demographics and slower productivity that should accelerate in the decades ahead. In China, for example, the natural rate is projected to steadily decline by about 1.5 %pts within the next 30 years, bringing it to about zero in 2050.

EM raised rates quickly and aggressively to deal with inflation…



Source: Bank of International Settlements, DBS
Data up to 31 March 2023 (extracted 9 May 2023)

…resulting in much higher average nominal and real rates

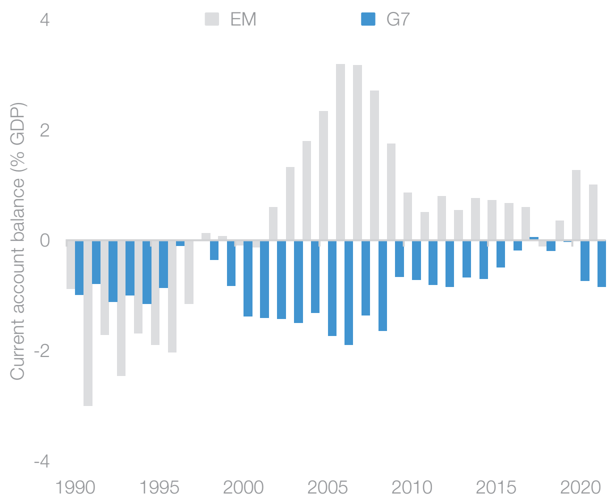


Source: Bloomberg, DBS

EM policymakers are familiar with inflation problems. Nevertheless, in contrast to the expected decline in natural rates, it was in fact EM central banks that were more aggressive in hiking rates to deal with inflation since the pandemic crisis bottom, resulting in much higher average policy rates. Noting that the inflation was (a) in some part commodity supply-side driven, and that (b) many EM countries are net exporters, the reality was that inflation was not as much of a menace compared to their DM counterparts. As such, EM real rates are also much higher than those in DM, setting EM debt up for a much larger tailwind should the world revert to the "lower for longer" paradigm.

EM countries have become net savers. Secondly, it is commendable that the massive dollar strengthening in 2022 saw little fractures emerge from the major EM economies, in contrast to the "lessons learnt" from the LatAm debt crisis in 1982 and the Asian Financial crisis in 1997. EM nations crossed the millennium carrying the scars of various debt crises, leading to them accumulating a hoard of FX reserves that could now easily stymy currency decline. As expectations of more inward-focused US industrial policy is still years in the making, we think that EM reserves would still remain adequate to buffer against systemic shocks in the medium term.

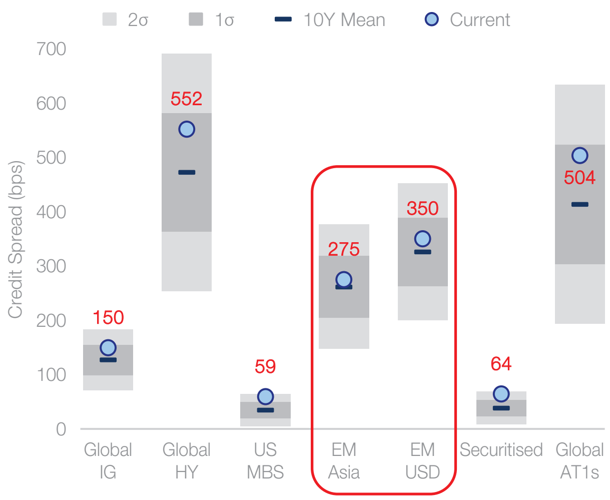
EM saved their way out of USD strength



Source: WorldBank, DBS
Data up to 2021. G7 data before 1996 excludes Japan.

Your debt is not my asset. Lastly, a longer-term consideration is the expansion of BRICS+ nations in geopolitical alignment and its associated objectives to settle more bilateral trade in domestic currency (as we had observed with the China-Saudi musings for Yuan-priced oil contracts). While still very much in its early days, this effort of major exporters to de-dollarise would plausibly lead to more balanced, trade-weighted levels of FX reserves across nations, in contrast to the USD-dominant system that the world has become accustomed to.

No EM bargains yet



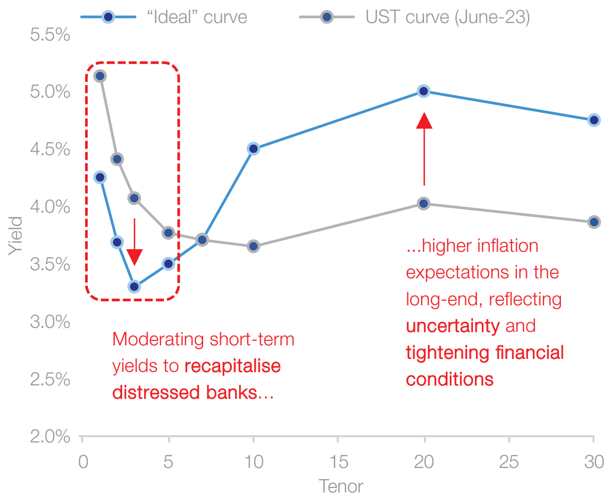
Source: Bloomberg, DBS

Naturally, this would fuel inflows into local currency debt of trade partners, which would be a structural tailwind. At present however, while investor familiarity, liquidity, and market depth of EM local currency bonds still pales in comparison with debt of G3 economies, these represent a road less travelled for investors wishing to capitalise on the favourable trends listed above. Nonetheless, we believe that bond investors should keep a pulse on these local currency bond markets for future consideration in alpha generation.

Valuations, however, are only fair. The only limitation is that much of the positive trends may have already been priced into EM USD credit markets, noting that current spreads are only fair to their long-term levels. While this diminishes the odds for extraordinary returns, it does not negate the fact that an allocation to EM bonds is still worth investors' consideration in the medium term, noting that the headwinds of high rates and strong dollar are likely to abate over the next year. For EM local currency, appreciating FX could also be another source of alpha down the road.

Where we could go wrong. Clearly the prospect of reaccelerating inflation, and the associated need to raise rates further to curb demand is a non-consensus but still plausible outcome that would likely nullify the positive EM credit call. Noting that some forces are geopolitical and difficult to anticipate (e.g., intentional tightening of commodity market supply to raise prices), our base strategy would not be formulated on outliers. We also consider that policymakers are in the unenviable conundrum of maintaining (a) financial stability (in the face of bank failures) and (b) containing inflation, and hence cannot push rates much further for fear of a deeper recession materialising. Our positive EM call also does not extend to at-risk frontier markets that face heightened refinancing risk, nor leveraged and opaque segments like the China LGFV space that is at risk of a growth slowdown.

Steeper curves the "ideal" outcome



Source: Bloomberg, DBS

The solution – steeper yield curves. Thinking through this, the likely outcome is to (i) maintain/allow moderate decline in short-term UST rates – noting that this is the segment that banks largely hold in their books (up to 5Y Treasuries) – so as to maintain adequate bank capitalisation should a recession ensue, and (ii) allow the long end to rise to reflect inflation uncertainty and tighten financial conditions. Given that the Fed had conducted "Operation Twist" to flatten the yield curve to stimulate demand back in 2011, it is not unusual to think about an "Operation Untwist" to reverse the intended outcome, issuing long-term bonds to purchase short-term paper to steepen the curve. This is why we remain in favour of the 3-5 year duration bucket as the sweet spot for a bond portfolio.

In summary, we continue to reiterate a high-quality bias for credit investors. However, in anticipation of the peaking of yields and a moderation of the strong dollar environment, high quality EM names should not be overlooked in a diversified portfolio. We like high quality EM bonds in Asia, as well as commodity exporters in the Middle East/LatAm that have IG ratings and can benefit from structurally higher goods/commodity prices. Despite being a road less travelled, bond investors should also keep a pulse on EM local currency bond markets for future alpha generation, noting the present high real rates compared to DM. While yield curves remain inverted and structural demand for long end Treasuries are abating with the largest central banks and the Fed stepping back, we are cautious on duration. The sweet spot remains with A/BBB credit in the 3-5Y duration segment.

Monetary Policy Normalises, Volatility Evaporates

GLOBAL CURRENCIES 3Q23

DXY to keep consolidating on extended hikes into summer. In Asia, with inflation no longer running away, many central banks paused their hiking cycles on growth worries while favouring currency stability over rate cuts.

Source: Unsplash

09. Global Currencies.

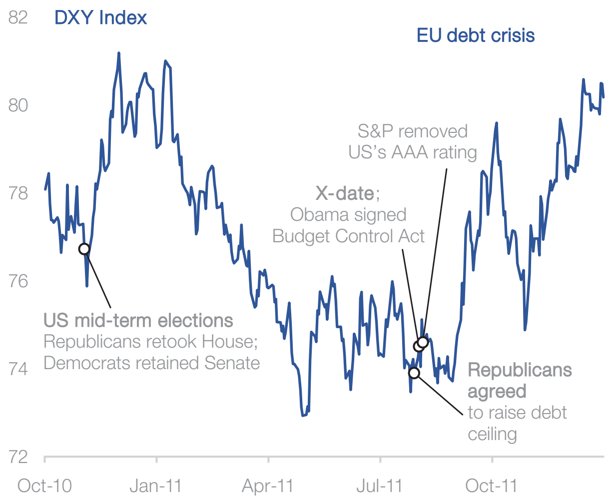
Philip Wee
Strategist

Chang Wei Liang
Strategist

In the first five months of 2023, the DXY and its components consolidated in tight ranges, from central banks taking turns to normalise monetary policy. USD regained its composure whenever the Fed paved the way for hikes and eclipsed rate hike biases of other central banks, and vice versa. Headline inflation peaked and retreated, but core inflation remained sticky, with price gauges still above target amidst tight labour markets. Although central banks could not declare victory against inflation, they started trimming jumbo hikes to a traditional 25 bps pace and adopted data-dependent forward guidance to end the past year's practice of hiking at every meeting. Central banks were clear that interest rates remained the primary tool to control inflation. The US debt ceiling crisis also turned out to be a storm in a teacup. Although we see currencies consolidating, we are wary of DXY breaking above this year's 101-106 range. One lesson from 2011 was the EU sovereign debt crisis following the US debt ceiling crisis in the later part of the year.

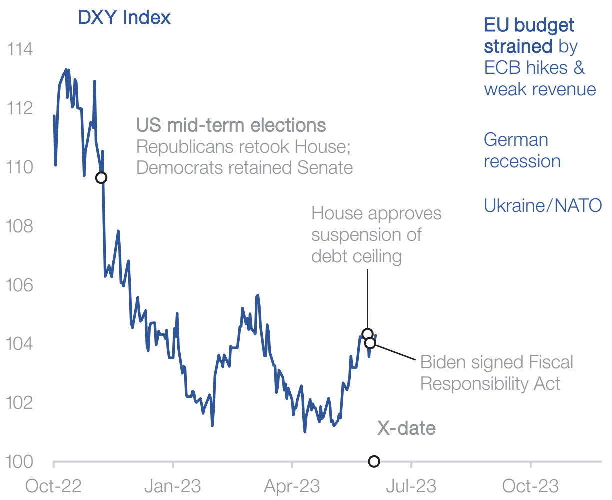
Asian currencies felt the drag from the depreciation in Asia's two largest currencies. CNY depreciated past 7 per USD on China's disappointing recovery and geopolitical tension. The BOJ's patience in tweaking monetary policy made JPY less resilient to bets onmore Fed hikes. With inflation no longer running away, many central banks paused their hiking cycles on growth worries while favouring currency stability over rate cuts. Singapore kept its SGD policy unchanged in April, and will likely do so again in October. China surprised by cutting banks' reserve requirement ratios and Vietnam by lowering rates. VND stabilised after recovering about 60% of 2022's depreciation. IDR performed best as a laggard in the region's currency recovery. INR did not join and kept to a weak 81-83 range. THB could lose its appreciation after its May general elections. Barring shocks in Europe, Asian currencies could regain their footing after the global hiking cycle peaks in summer, with markets positioning for Fed cuts next year.

Weak USD gave way to weak EUR after the US debt ceiling crisis in 2011



Source: Bloomberg DBS

Monitoring weakened Eurozone after the US debt ceiling crisis this year



Source: Bloomberg DBS

USD Index keeps to a tight 101-106 range on Fed's hawkish pause

	Year	1Q	2Q	3Q	4Q
DBS	2023	102.5	104.5	106.0	105.0
forecast	2024	104.0	103.0	102.0	101.0

Source: Bloomberg DBS

DXY did not break out of the 101-106 range established after its November-January plunge. The US banking crisis triggered by Silicon Valley Bank's collapse in March-April and the federal debt ceiling crisis in May-June turned out to be storms in teacups. Overall, the DXY fluctuated with US bond yields and did not decouple with Fed rate expectations this year. On 3 May, the Fed Funds rate rose a tenth time to 5-5.25%, above most US inflation gauges. The Fed characterised its policy as restrictive and opened the door for a pause in June. Hence, markets could get wrong-footed in betting on the end of Fed hikes pushing DXY below 101. The US labour market is not cooling fast enough for still-high inflation to return to the 2% target anytime soon. At the FOMC meeting in June, the Fed lifted the dot plot, adding two hikes for the rest of year. USD bears must acknowledge a stronger greenback is possible if the EUR, DXY's most significant component, is soft. However, Europe's fundamentals have weakened from tighter financial conditions, with the ECB telegraphing that it has entered the final stage of its rate hike cycle.

The Canadian dollar entered a weaker 1.33-1.39 range in September

	Year	1Q	2Q	3Q	4Q
DBS	2023	1.35	1.35	1.38	1.37
forecast	2024	1.36	1.36	1.35	1.34

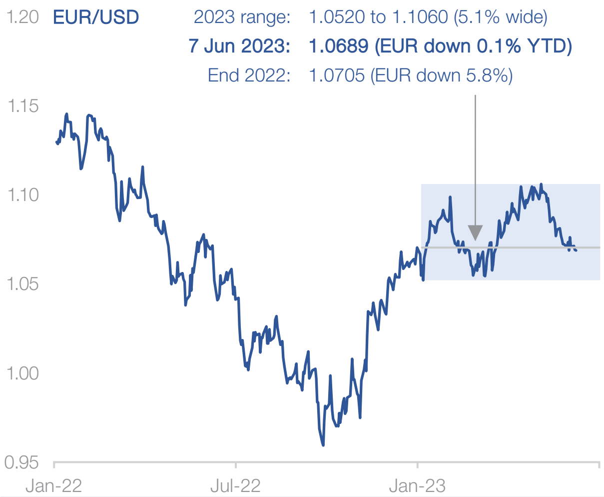
Source: Bloomberg DBS

USD/CAD to keep to the higher 1.32-1.40 range established last September on a globally stronger USD. A wider negative policy rate differential will also underpin the currency pair. After converging at 4.5% in January, the central bank (BOC) paused in March and April, while the Fed Funds rate rose to 5-5.25% in May. Not surprisingly, USD/CAD fluctuated more with Fed expectations this year. BOC has no plans to lower rates in 2023 because it sees inflation returning to the 2% target in late 2024 and wants rates above the 1-2% neutral rate. Lower commodity prices also reversed Canada's current account surplus in 1H into a deficit in the second half of 2022. On a positive note, lower energy prices and aggressive rate hikes brought inflation below the policy rate. CPI inflation peaked at 8.1% y/y in June and fell to 4.4% in June, while core inflation declined from 5.6% to 4.2%. Controlling inflation is essential to insulate the economy from more rate hikes that could shock mortgages, which account for 75% of household debt. At 107% of GDP in 2021, Canada's household debt has become the highest in the G7.

EUR's edge over the greenback has narrowed. EUR consolidated in a 1.05-1.11 range this year after rebounding from 0.95 in 4Q22. In February and May, EUR gave back its appreciation whenever Fed hike bets returned and eclipsed those of the central bank (ECB). In March-April, EUR appreciated to 1.11 on a US banking crisis that receded as quickly as it emerged. Next, Germany's technical recession in 1Q23 eroded the recovery optimism propping up EUR. CPI headline and core inflation also retreated from their peaks. Believing that monetary policy had become restrictive after 375 bps hikes since July, the ECB joined the Fed in slowing hikes to a traditional 25 bps pace in May and signalled that the tightening cycle was in the final stretch, i.e., a pause after two more hikes in June and July. Although inflation remained above the 2% target, the ECB wants to broaden the fight beyond rates by asking governments to refrain from fiscal spending and companies and workers to avoid a wage-price spiral. Member states also pushed the EU Commission to reduce EU Budget 2024, pressured by costlier programmes/projects from inflation and past hikes lifting borrowing costs.

GBP could relinquish its title as this year's best-performing Developed Market currency. GBP appreciated 4.9% YTD to 1.2680 on 10 May, the likely peak for the year. By 26 May, GBP depreciated to 1.2344, back inside the first quarter's 1.18-1.2450 range. Although the IMF stopped predicting a UK recession, the economy could still stumble into one. CPI inflation finally declined to 8.7% y/y in April after seven months of double-digit readings, allowing the BOE to join the Fed in downsizing hikes to "normal" 25 bps in March and May. Unfortunately, inflation is still well above the 2% target, made worse by core inflation hitting a 31-year high of 6.8% in April. With food prices at 41-year highs, the Tory government plans to cap basic food prices at supermarkets. Chancellor of the Exchequer Jeremy Hunt supported more hikes to lower inflation even at the expense of a recession. However, higher borrowing costs add to the government's debt interest bill and consumers' mortgage payments.

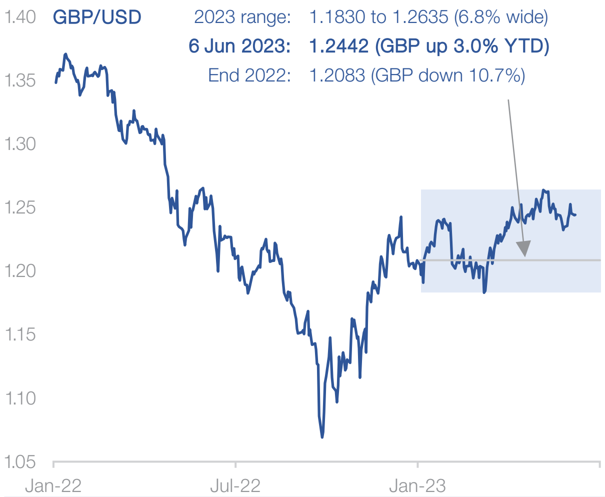
The Euro has been in a 1.05-1.11 range since December



	Year	1Q	2Q	3Q	4Q
DBS	2023	1.08	1.07	1.05	1.06
forecast	2024	1.07	1.09	1.10	1.11

Source: Bloomberg, DBS

The British pound recovered into a higher 1.18-1.27 range after the mini-budget crisis



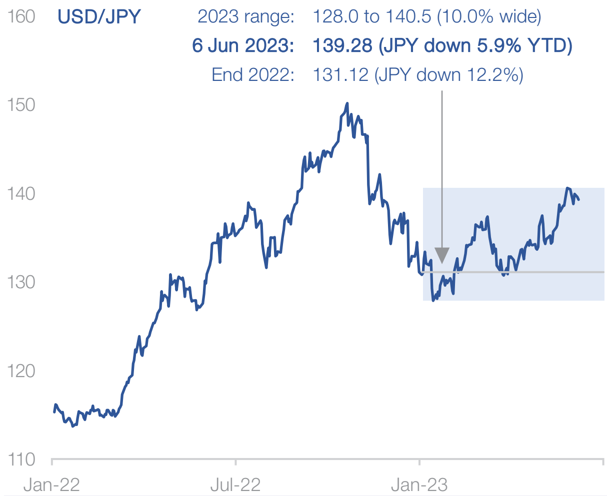
	Year	1Q	2Q	3Q	4Q
DBS	2023	1.23	1.24	1.21	1.22
forecast	2024	1.23	1.24	1.25	1.26

Source: Bloomberg, DBS

JPY uncertainty widens even as BOJ stresses patience. New BOJ Governor Ueda kept policy unchanged for his first meeting, underscoring the need for patience in assessing if inflation is sustainable above 2%. Though the BOJ had raised its inflation forecasts for FY23 and FY24 by 0.1%-0.7% in its April outlook, new inflation forecasts for FY25 stayed under 2% – a sign that the Bank remains less than convinced of inflation meeting the 2% target over the long term. Nevertheless, Japan's underlying price pressures have risen sharply, with core inflation running at a pace of 4-5% sequentially. A rebound in tourism after pandemic-era requirements for travellers were dropped could keep the services sector running hot, with Japan's services PMI soaring to a three-year high in May. A 5% drop in JPY since March does not help with import prices, triggering MOF's top FX official Kanda to warn that excessive moves are undesirable. Intervention risks could rise if USD/JPY bounces above 140 with broad USD strength, given that MOF's previous USD/JPY sales occurred around 140-150 in Sep-Oct 2022. We expect a durable JPY recovery to come further out once BOJ turns away from its crisis-era settings.

USD/CHF to consolidate in a higher 0.90-0.94 range. USD/CHF dipped below 0.90 in April-May after the Swiss government approved the rescue of Credit Suisse with the central bank (SNB) ready to sell foreign currencies. Around the time USD/CHF bottomed at 0.8820 (January 2021 lows) on 4 May, SNB said the currency was not the main policy tool. When USD/CHF returned above 0.90 in 2021, it consolidated in a 0.90-0.94 range over the next 12 months. USD/CHF will be weighed by a wide rate differential, not helped by the Fed keeping the door open for more hikes. The expected hike to 1.75% by the central bank (SNB) on 22 June will likely be the last of the tightening cycle. SNB will also join the Fed, ECB, and BOE, in downsizing hikes to a traditional 25 bps pace. After declining from 3.4% y/y in February to 2.6% y/y (a 12-month low) in April, CPI inflation will likely return to the 0-2% target in early 2024. Political uncertainties may increase in the lead up to the federal elections on 22 October.

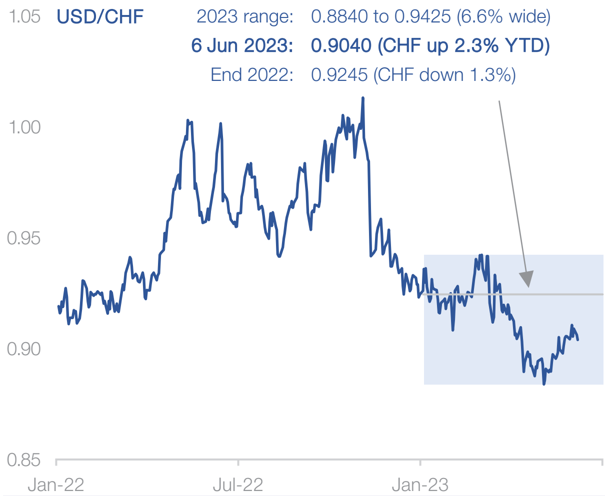
The Japanese yen cannot break 130 without the BOJ tweaking monetary policy



	Year	1Q	2Q	3Q	4Q
DBS	2023	133	140	143	140
forecast	2024	137	133	130	127

Source: Bloomberg, DBS

The Swiss franc has a poor track record of staying below 0.90 per USD



	Year	1Q	2Q	3Q	4Q
DBS	2023	0.92	0.91	0.94	0.93
forecast	2024	0.92	0.92	0.91	0.90

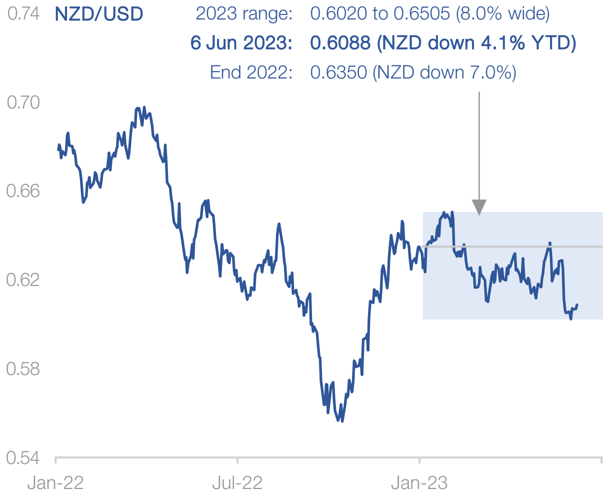
Source: Bloomberg DBS

The Australian dollar will likely be weaker for the year

	Year	1Q	2Q	3Q	4Q
DBS	2023	0.67	0.66	0.64	0.65
forecast	2024	0.67	0.68	0.70	0.71

Source: Bloomberg, DBS

The New Zealand dollar could see a new year's low below 0.60



	Year	1Q	2Q	3Q	4Q
DBS	2023	0.63	0.60	0.58	0.59
forecast	2024	0.61	0.62	0.63	0.64

Source: Bloomberg, DBS

Technically, AUD could fall further below 0.65 before rebounding. After rising 4.8% YTD in February, AUD ended up 4.6% weaker for the year in May. AUD did not benefit from a lower USD from the US banking crisis in March-April. First, the RBA paused its hiking cycle at 3.60% in April. Although the RBA raised rates again in May and June, AUD could not fend off the negative rate differential vs the USD amidst renewed Fed hike bets. Second, the CNY depreciated on China's lacklustre recovery after its reopening, marred by rapidly deteriorating US-China relations. Neither could AUD buck the depreciation across East Asia, its largest export destination. On a positive note, Treasurer Jim Chalmers announced Australia's first budget surplus in 15 years for the FY ending June 2023. However, Chalmers also admitted that future surpluses would be difficult because of economic pressures. After the independent review of RBA in May, RBA Governor Philip Lowe's seven-year term may end in September if RBA misses its forecast for inflation to slow this year. Apart from the housing supply not catching up with population growth, productivity gains fell short of wage gains.

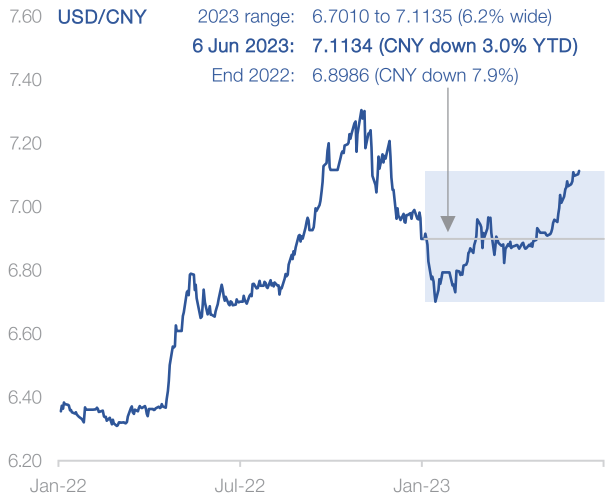
NZD could depreciate below 0.60 on a weaker outlook. After appreciating to the year's high of 0.6506 on 1 February, NZD consolidated in a lower 0.61-0.64 range for three months into May. On 26 May, NZD depreciated to a new year's low of 0.6033. First, the NZD is vulnerable from the end of its hiking cycle. On 24 May, RBZ hiked rates by 25 bps to its peak forecast of 5.50% for 2023. CPI inflation fell to 6.7% y/y in 1Q23 after holding at 7.2-7.3% for three quarters. The Treasury sees inflation slowing to 3.3% by mid-2024, nearer the 1-3% target band. Second, Standard and Poor's warned that a wider-than-expected current account deficit could pressure New Zealand's AA+ foreign currency debt rating. Third, the Treasury announced a budget deficit of NZD6.97b for FY2022-23 (July-June), one significantly wider than the NZD3.63b projected in December. The government delayed the return to a budget surplus by a year to FY2025-26. Finally, the odds are high for the general elections on 14 October to result in a hung parliament. The polls showed the ruling Labour Party running neck-to-neck with the opposition National Party.

Asia Currencies

CNY

Softening growth momentum weighs on CNY. The surge in Chinese activity post-reopening has fizzled somewhat, with manufacturing PMI dipping to 48.8 in May, industrial production contracting on a sequential m/m basis in April, and retail sales growth softening after a strong burst in Q1. Furthermore, US-China tensions have not improved, with the latest salvo occurring over restrictions on semiconductor trade. Investor sentiment had been affected, and China's record equity inflows in Q1 have now reversed into small outflows. CNY appreciation momentum is thus stalled for now. Furthermore, easing CGB yields on softer Chinese momentum and lower inflation had widened US-China yield differentials in May, diminishing the allure of CNY assets. Recent state guidance for Chinese banks to reduce their deposit rates could further stoke resident outflows. Despite capital outflows, trade had been a bright spot as exports had grown strongly while import growth remained modest. China's trade surplus is expanding and on track to hit a record USD1t this year. The strong current account position should restrain USD/CNY, even as a stronger USD looks likely to propel it to 7.16 in Q3.

The Chinese yuan should be capped at 7.20-30 against the USD



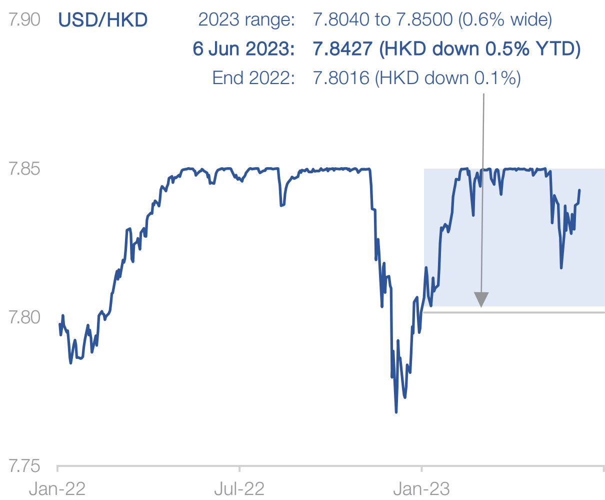
	Year	1Q	2Q	3Q	4Q
DBS	2023	6.87	7.12	7.16	7.08
forecast	2024	7.02	6.94	6.88	6.80

Source: Bloomberg, DBS

HKD

USD/HKD eases from the top of its trading band. USD/HKD had slipped a little from the upper bound of 7.85, as HKD liquidity tightened across April-May. Hong Kong's aggregate balance has already declined substantially from HKD77b in March to just HKD 45b as of May. 1M HIBOR rates has in turn risen towards 5%, resulting in the USD-HKD rate differential narrowing substantially from its peak in Feb. This had reduced the attractiveness of long USD/HKD carry trades and led to some relief in USD/HKD upward pressures. Still, the positive rate differential remains and should continue to keep USD/HKD supported within the upper half of its 7.75-7.85 range. Meanwhile, continued QT by the Fed and a period of restrictive policy, mean that USD rates could remain high for some time. We expect the gap between HKD rates and USD rates to gradually narrow, which should facilitate USD/HKD easing back towards 7.80 in late 2023. Meanwhile, speculation over the fate of the USD/HKD peg amid tensions persist.

The Hong Kong dollar fluctuates more within its convertibility band



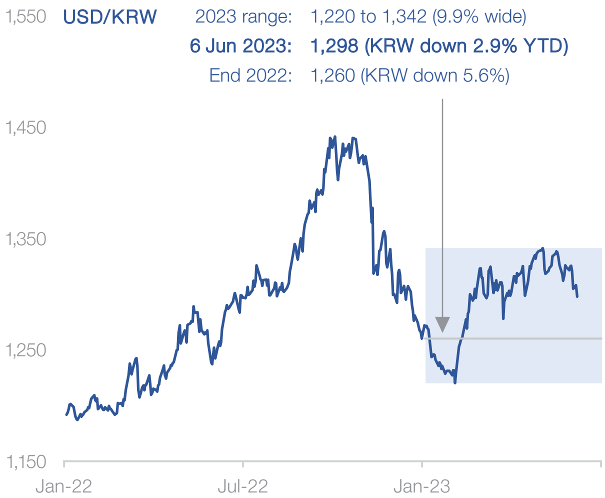
	Year	1Q	2Q	3Q	4Q
DBS	2023	7.85	7.84	7.84	7.83
forecast	2024	7.82	7.80	7.79	7.78

Source: Bloomberg, DBS

KRW

KRW remains stable despite CNY and JPY depreciation. While Korea's regional peers have all seen currencies selling off after March, KRW has proven quite resilient, consolidating in a 1270-1350 range. Why so? For one, South Korea's long streak of export weakness looks to have ended, with 1Q23 exports likely to show sequential growth for the first time since 2Q22. Furthermore, imports have also compressed, and the trade deficit could narrow substantially from 1Q. Adding to a supportive trade picture, foreign bond inflows surged to almost USD12b in May, notching the largest monthly bond inflow since June 2021. These factors have contributed to relative outperformance by the KRW, even if bond flows are partially currency-hedged. An ongoing boom in AI-related spending bodes well for South Korea's tech exports and could buffer against the slowdown in global demand. South Korea's housing market is also gradually bottoming out, with the pace of price decline slowing in May. While USD/KRW may trade towards 1350 on a stronger USD, we see prospects of a soft landing for the economy amid stabilisation in both exports and the housing market to bolster the won further out.

The South Korean won is defensive above 1,300 per USD



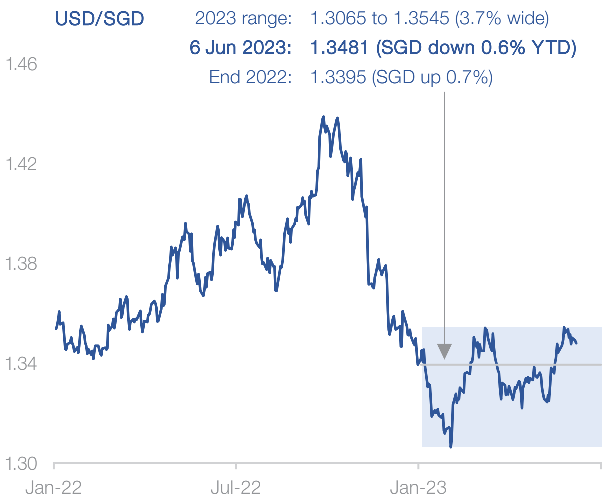
	Year	1Q	2Q	3Q	4Q
DBS	2023	1,302	1,310	1,330	1,310
forecast	2024	1,290	1,270	1,250	1,230

Source: Bloomberg, DBS

SGD

USD/SGD bottomed at 1.3032 on 2 February and traded into a higher 1.32-1.36 range into May. SGD depreciated 1.5% to 1.35 vs USD in April-May. The central bank (MAS) paused its tightening cycle in April. Barring further inflation, we see the policy staying unchanged in October. On a 3-month moving average basis, CPI inflation peaked at 7.3% y/y in September and fell to 5.9% in April, inside the official 5.5-6.5% forecast for 2023. However, core inflation peaked later in February at 5.4% and slowed to 5.2% in April, still outside the 3.5-4.5% forecast. Enterprise Singapore downgraded its forecast for non-oil domestic exports to shrink by 8-10% in 2023, down from the -2% to 0% previously estimated. The external sector is weighed by a prolonged electronics downcycle, higher rates weighing on consumer demand in the US and Europe, and slow demand from China's services-led recovery. However, the Ministry of Trade and Industry (MTI) does not expect a technical recession due to the resilient services sector underpinned by the recovery in tourism.

The Singapore dollar is supported by its strong currency policy



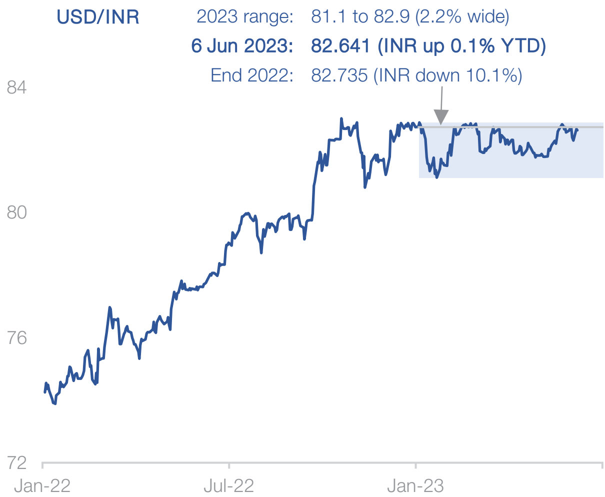
	Year	1Q	2Q	3Q	4Q
DBS	2023	1.33	1.35	1.37	1.36
forecast	2024	1.35	1.34	1.33	1.32

Source: Bloomberg, DBS

INR

Since October, India has managed to keep USD/INR stable in a 81-83 range. The central bank (RBI) capitalised on weak USD periods to replenish the foreign reserves utilised to keep the INR relatively stable during last year's greenback surge. Real GDP growth rebounded to 6.1% y/y in 1Q23 after the slowdown to 4.6% in 4Q22. Despite negative export growth since 4Q22, the trade deficit halved from USD30b in July to USD15b in April. More importantly, CPI inflation fell from 6.5% y/y in January to 4.7% in April, back within the 2-6% target. Risk appetite improved after the RBI paused in April. Given the RBI's tilt towards a neutral monetary policy stance, rates likely peaked at 6.50% after the last hike in January. Over April-May, the Bombay Sensex Index retraced the losses incurred in December-March. India is also one of the preferred destinations for multinational companies looking to de-risk supply chains from China.

The Indian rupee is extremely stable after the USD peaked last year



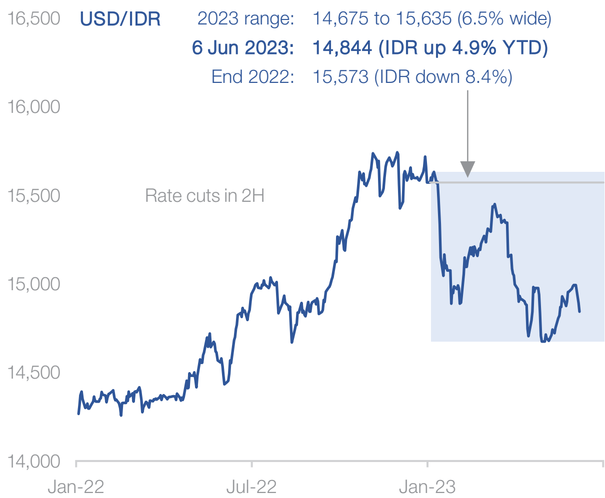
	Year	1Q	2Q	3Q	4Q
DBS	2023	82.2	82.2	82.2	81.8
forecast	2024	81.3	80.9	80.4	80.0

Source: Bloomberg, DBS

IDR

USD/IDR to consolidate in a 14,800-15,300 range for the rest of 2023. IDR appreciated 3.8% YTD 14,994 per USD by end-May, the most of Asian currencies. IDR recovered late in January, two months after its Asian peers. On 30 May, the central bank (BI) projected USD/IDR falling from an average 14,800-15,200 in 2023 to 14,600-15,100 in 2024. Although BI sees CPI inflation returning to this year's 2-4% target in 3Q23 and a lower 1-3% target in 2024, it plans to refrain from rate cuts after keeping them unchanged over February-May. Instead, it wants to keep yields high through Operation Twist to attract foreign inflows. To counter the double-digit contraction in export growth in March-April, the government lifted a 20-year ban on the export of dredged sea sand in May. On a positive note, the Finance Ministry reported a IDR128.5t budget surplus in 1Q23, from a 29% surge in revenue and a smaller 5.7% rise in spending. All said, investors will closely follow the political developments in the upcoming presidential and general elections in February 2024.

The Indonesian rupiah plays catch up to the region's appreciation



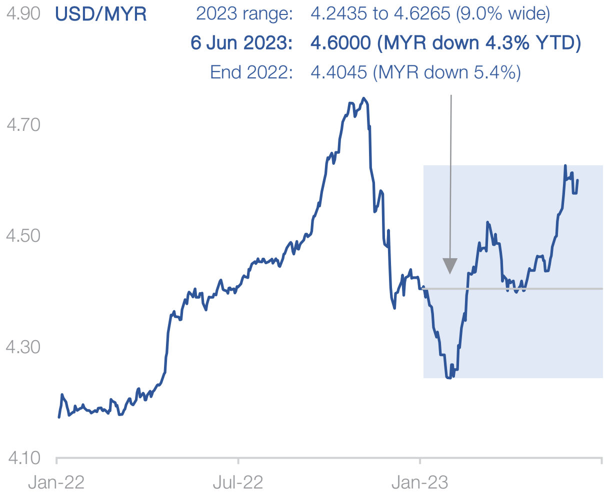
	Year	1Q	2Q	3Q	4Q
DBS	2023	14,996	14,930	15,200	15,080
forecast	2024	14,960	14,840	14,720	14,600

Source: Bloomberg, DBS

MYR

USD/MYR to hold in the upper half of this year's 4.20-4.40 range. MYR rallied 4% YTD in late January, only to weaken 4.5% YTD in May, consistent with trends observed in other Asia currencies. For example, CNY appreciated 3% YTD in January and ended May 3% YTD weaker. The central bank's (BM) pause in January collided with the Fed's push for "higher for longer" rates in February. BM paused again in March after the Malaysian economy contracted in 4Q22 for the first time in five quarters. The government subsequently widened its 2023 GDP growth forecast to a 4-5% range from 4.5% to reflect a challenging outlook fraught with global uncertainties. Malaysia's stock market declined 7.3% YTD in May, which exceeded the 4.6% loss for all of 2022. Although CPI inflation fell to an 11-month low of 3.4% Y/y in April, BM surprised with a 25 bps hike to 3% in May. BM forecasts inflation averaging 2.8-3.8% in 2023, above its 2% target, factoring in the government's plans to cut fuel and electricity subsidies. Economic growth expanded again by 0.9% q/q sa in 1Q23, fuelled by robust domestic demand. Finally, the World Bank reckons Malaysia needs new sources of revenue to achieve fiscal consolidation.

The Malaysian ringgit was more volatile compared to most Asian currencies



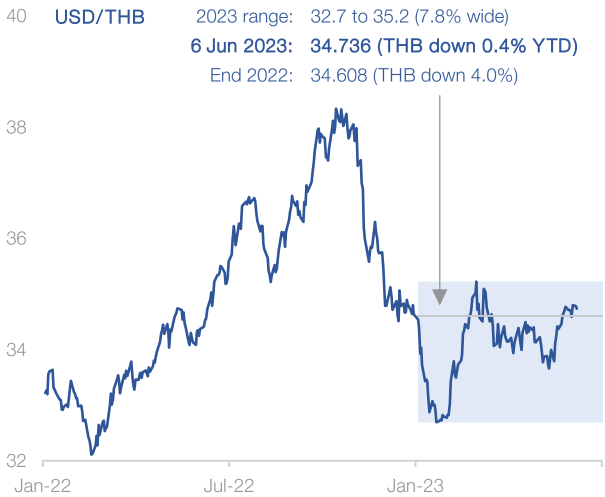
	Year	1Q	2Q	3Q	4Q
DBS	2023	4.42	4.60	4.70	4.60
forecast	2024	4.55	4.45	4.40	4.30

Source: Bloomberg, DBS

THB

Unlike in 2022, THB has shown more resilience and less volatility than many Asian currencies. After peaking at 38.5 in October, USD/THB fell and bottomed at 32.6 in January before consolidating in a 33.5-35.5 range into May. Apart from GDP growth improving this year from Thailand's reopening, CPI inflation fell back into the official 1-3% target. Despite negative export growth since October, we see a current account surplus in 2023 after two years of deficits. On 31 May, the central bank (BOT) signalled more hikes to keep real rates positive after six 25 bps increases to 2%, also its core inflation forecasts for 2023 and 2024. BOT sees headline inflation averaging 2.5% in 2023 and 2.4% in 2024. The post-election stock market selloff reflected a murky political landscape after voters rejected the monarchy/military junta in favour of pro-democracy parties. But one thing is clear – Thailand's economic outlook depends on whether the new government can govern successfully and peacefully.

The Thai baht was cushioned by Thailand's reopening



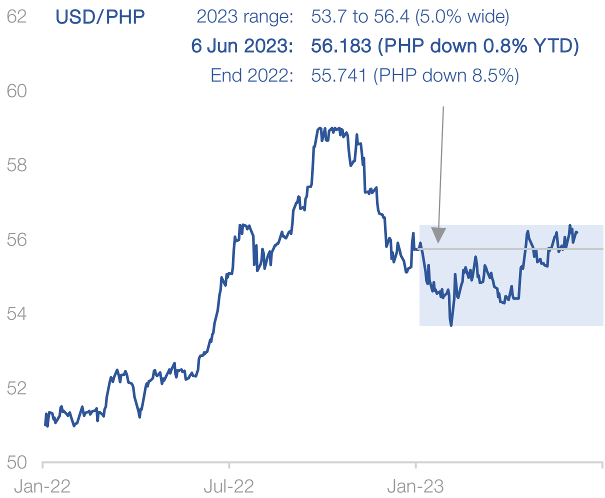
	Year	1Q	2Q	3Q	4Q
DBS	2023	34.1	34.9	35.5	34.9
forecast	2024	34.4	33.8	33.3	32.7

Source: Bloomberg, DBS

PHP

USD/PHP could trade into a higher 55-58 range from 53.5-56.5 in the first five months. After peaking at 59.3 in October, USD/PHP fell and bottomed at 53.6 in February before rising above 56 in May. In April, the central bank (BSP) enhanced the currency rate risk protection program to allow clients of large banks to hedge their eligible foreign currency obligations. The Development Budget Coordination Committee also lowered this year's USD/PHP forecast to 53-57 from the 55-59 projected last December. This year, the Philippine economy is cooling to 5.8% growth from 7.6% last year and inflation to 5.4% from 5.8%. With inflation above the 2-4% target amidst a desire for a wide rate differential against the US, we expect BSP to hold rates at 6.25% after pausing in May. BSP's plan to lower the banks' reserve requirement ratio hinges on inflation returning to target by 4Q23. This year, the current account and budget deficits will narrow but stay wide at 4w% and 6% of GDP, respectively, vs 4.4% and 7.3% in the previous year. In 1Q23, negative export growth widened the trade deficit to USD14.6b from USD13.1b a year ago.

The Philippine peso can keep to the official 53-57 range



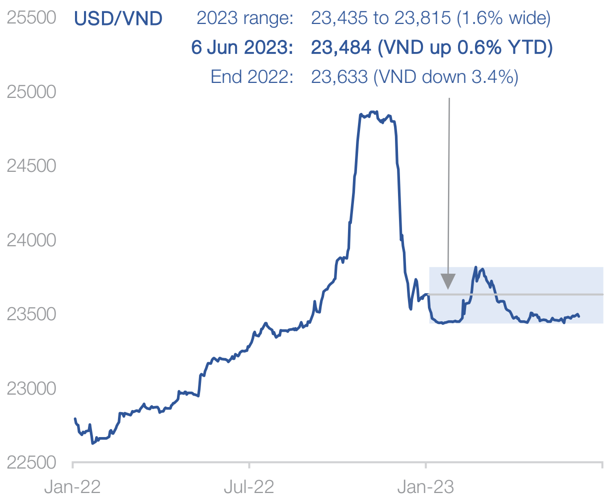
	Year	1Q	2Q	3Q	4Q
DBS	2023	54.4	56.4	57.0	56.6
forecast	2024	56.2	55.8	55.4	55.0

Source: Bloomberg, DBS

VND

USD/VND faces upside risks within its stable 23,410-23,860 range this year. Although we see Vietnam's current account deficit turning into a surplus this year, this reversal reflected the headwinds confronting the externally dependent economy. High interest rates in the US and Europe have resulted in sluggish demand, contributing to the 11% y/y export decline in the first five months. A subsequent pullback in manufacturing activities also resulted in a 17% decline in imports. The General Statistic Office reported a 7.3% drop in total registered foreign direct investment as of 20 May this year. Following the deceleration in real GDP growth to 3.3% y/y in 1Q23 from 13.7% in 3Q22, the central bank (SBV) cut its refi rate twice in April-May by a total 100 bps to 5%, in addition to March's 100 bps reduction in the discount rate. CPI inflation averaged 3.6% in the first five months, below SBV's 4.5% goal. The monetary easing was also targeted at cushioning the indebted property sector, where builders have suspended more than 1200 projects due to funding woes. Despite the cyclical headwinds, many foreign investors, view Vietnam as a supply chain alternative to China.

The Vietnamese dong is stable around its 50-60% retracement range



	Year	1Q	2Q	3Q	4Q
DBS	2023	23,471	23,500	23,530	23,460
forecast	2024	23,390	23,310	23,240	23,170

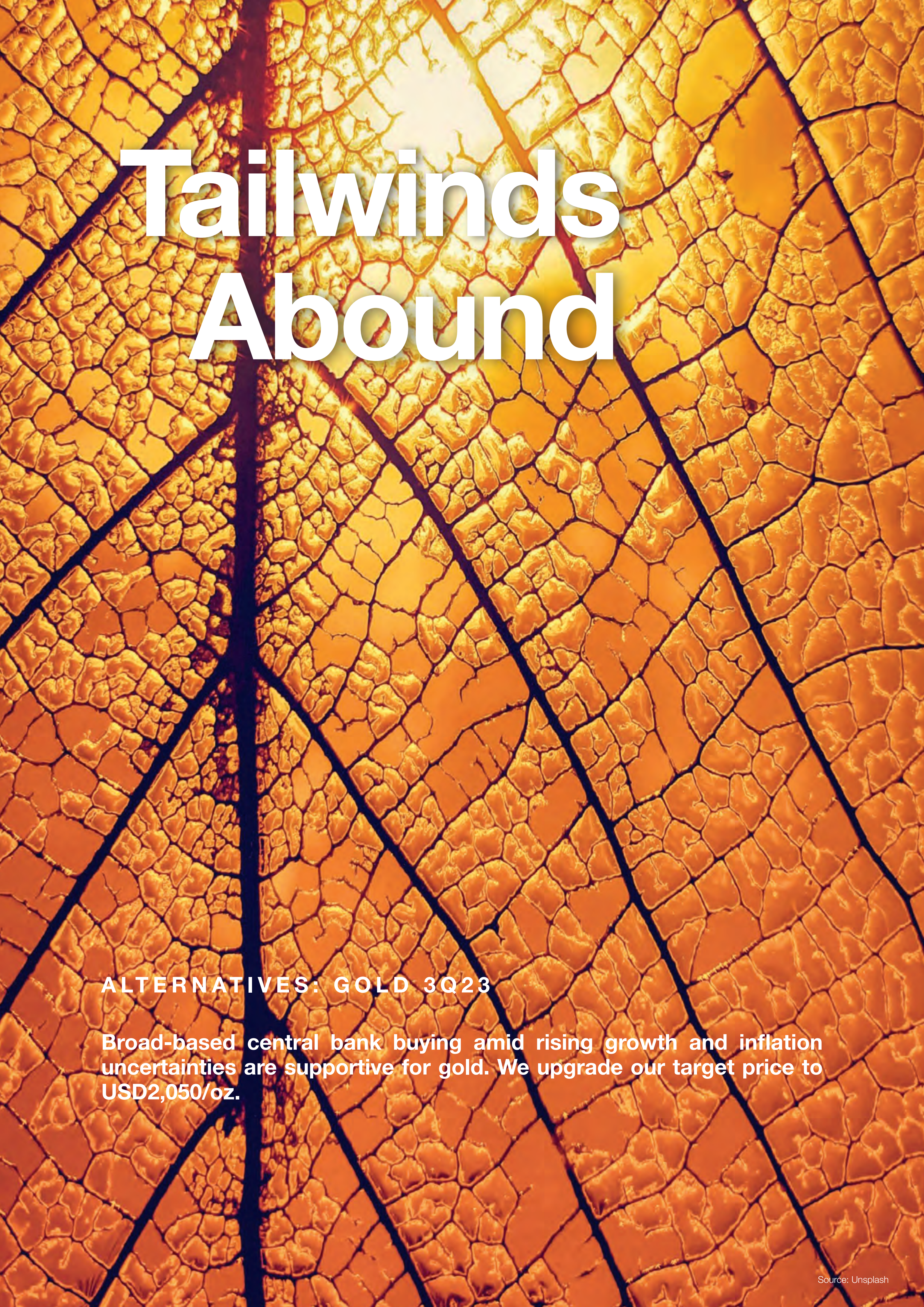
Source: Bloomberg, DBS

DBS currency forecasts

Exchange rates, eop	5 Jun	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
China	7.1023	7.12	7.16	7.08	7.02	6.94	6.88	6.80
Hong Kong	7.8383	7.84	7.84	7.83	7.82	7.80	7.79	7.78
India	82.678	82.2	82.2	81.8	81.3	80.9	80.4	80.0
Indonesia	14,891	14,930	15,200	15,080	14,960	14,840	14,720	14,600
Malaysia	4.5765	4.60	4.70	4.60	4.55	4.45	4.40	4.30
Philippines	56.204	56.4	57.0	56.6	56.2	55.8	55.4	55.0
Singapore	1.3493	1.35	1.37	1.36	1.35	1.34	1.33	1.32
South Korea	1,308	1,310	1,330	1,310	1,290	1,270	1,250	1,230
Thailand	34.786	34.9	35.5	34.9	34.4	33.8	33.3	32.7
Vietnam	23,500	23,500	23,530	23,460	23,390	23,310	23,240	23,170
Australia	0.6617	0.66	0.64	0.65	0.67	0.68	0.70	0.71
Canada	1.3445	1.35	1.38	1.37	1.36	1.36	1.35	1.34
Eurozone	1.0713	1.07	1.05	1.06	1.07	1.09	1.10	1.11
Japan	139.58	140	143	140	137	133	130	127
New Zealand	0.6070	0.60	0.58	0.59	0.61	0.62	0.63	0.64
Switzerland	0.9063	0.91	0.94	0.93	0.92	0.92	0.91	0.90
United Kingdom	1.2438	1.24	1.21	1.22	1.23	1.24	1.25	1.26
United States	104.002	104.5	106.0	105.0	104.0	103.0	102.0	101.0

Australia, Eurozone, New Zealand and United Kingdom are direct quotes.

Source: Bloomberg, DBS



Tailwinds Abound

ALTERNATIVES: GOLD 3Q23

Broad-based central bank buying amid rising growth and inflation uncertainties are supportive for gold. We upgrade our target price to USD2,050/oz.

Source: Unsplash

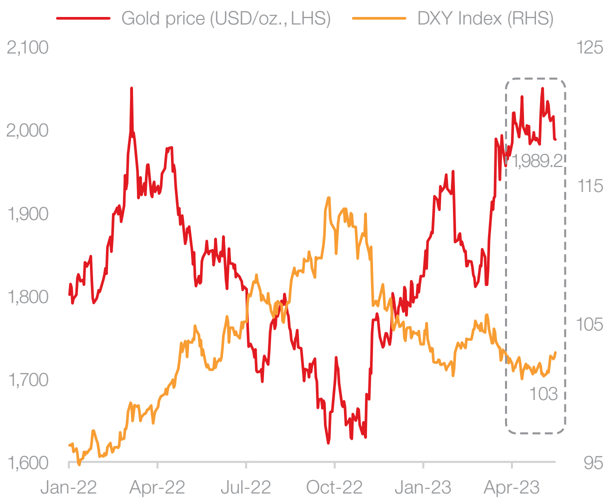
10. Alternatives: Gold.

Goh Jun Yong
Analyst

Riding on increasing fear in the market. Gold breached the key USD2,000/oz. price in April and May, driven by a flight to safety due to a flurry of global risk events: i) bank collapses in the West (First Republic being the latest casualty); ii) surprise production cuts by OPEC+; and iii) negotiations around the US debt ceiling. But beyond a fear-driven spike in demand, we believe that these events have also impacted gold demand in a more fundamental and lasting way. The ongoing banking sector stress for example, offers compelling reason for the Fed to keep rate cuts, which are widely seen as a major tailwind for gold, in their proverbial back pocket should things go south. On the other hand, the surprise cuts by OPEC+ further cemented the likelihood of future scenarios dominated by either sticky inflation or mounting recession risks, both of which are favourable for gold, which is seen as both a safe haven asset and inflation hedge. Put simply, these developments during the past quarter have had a double-barrelled positive impact on gold, skewing its return to the upside; heightened fear stoked short-medium term inflows while rising growth risks and sticky inflation bolstered the long-term demand outlook for the precious metal. Against this backdrop, we lift the target price from USD1,950/oz. to USD2,050/oz.

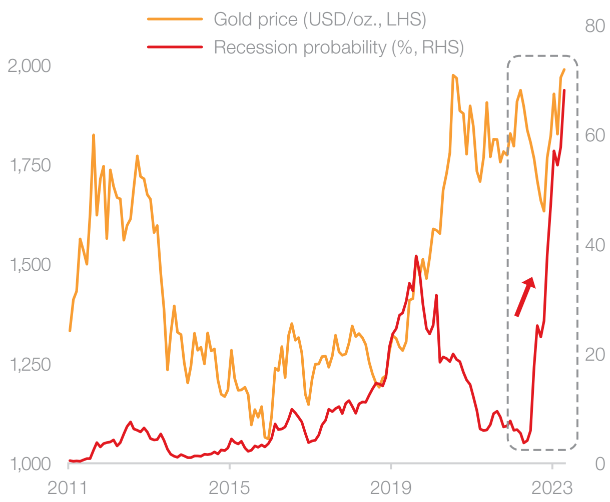
Dollar correlation holds. We mentioned in our second quarter outlook that gold is very much dollar driven, and this has not changed. In January, the prospects of a US soft-landing led to a softening dollar, which fuelled a month of strong performance for gold. In February, however, a spate of robust US macroeconomic data quickly changed the rate narrative to "higher for longer" and reversed much of the gains from the previous month. This trend continues to hold true as any inflation-fighting rhetoric by the Fed in recent months has dampened gold prices (at least momentarily), while slowing macroeconomic data - which increases the probability of rate cuts, thus providing a boost for the precious metal. With macroeconomic indicators such as inflation, unemployment, wage growth, and consumer sentiment trending in the right direction, but not falling quickly enough, we believe rates may remain elevated for some time to come, which will hold gold back to some extent. In the longer term, we expect an eventual easing of rates and the dollar, which will catalyse a rerating for gold.

Revival in Fed hawkishness has seen gold retrace gains in May



Source: Bloomberg, DBS

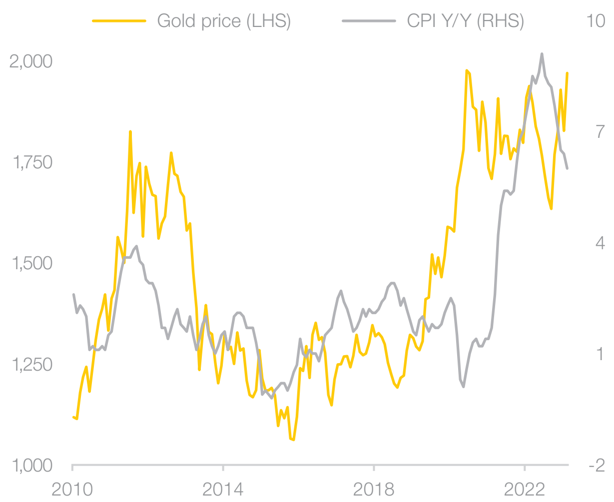
Recession risk has risen to a 20-year high



Source: Federal Reserve Bank of New York, Bloomberg, DBS

Recession or inflation? Gold wins either way. Bond yield spreads, manufacturing PMI data, and inflation all indicate that the probability of a US recession is rising. According to the New York Federal Reserve estimates, the probability of recession (measured by the term spread between 10Y and 3M Treasury rates) has since risen from less than 10% in June 2022 to 68% as at the end of April 2023. Hence, it is almost a foregone conclusion at this point that the US economy will enter a recession; the uncertainty lies in the timing of the recession and its magnitude. As the price of other risk assets fall during a recession, gold as a safe haven asset stands to gain. If the US economy manages to stave off recession, which is not our base case, the inference is an inflation rate that stays elevated. Gold will still be a beneficiary in such a scenario as historical trends have pointed to gold as a good inflation hedge.

Gold has a strong correlation with inflation…



Source: Bloomberg, DBS

… and inflation expectations

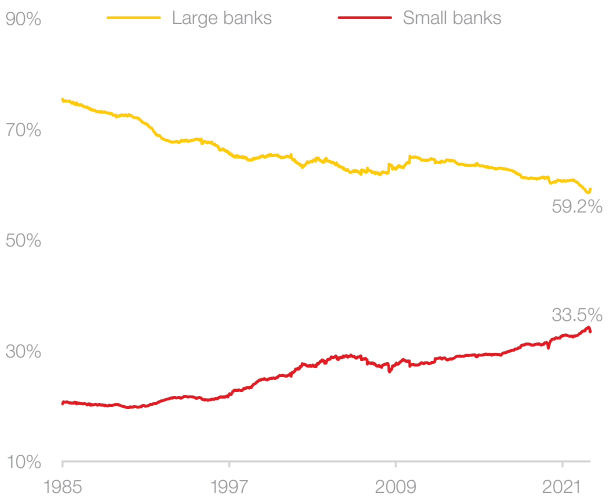
Source: Bloomberg, DBS

Other tailwinds wait in the hangar. Notwithstanding the latest bout of volatility in gold prices, we believe that there are further tailwinds for gold that have yet to be priced in. Among those are:

i. Challenges in the US Commercial Real Estate (CRE) sector
ii. Flows from gold ETFs and futures; and
iii. Growing central bank buying on the back of geopolitical tensions

Possible CRE crash could benefit gold. Gold shines during periods of crisis and volatility, and the next shoe that could potentially fall is the compression of CRE valuations. In a nutshell, a combination of structural changes in work habits (i.e. rise of remote work) and rising interest rates have impacted visibility of CRE valuations. This is creating additional stress on the US banking sector, particularly in small-medium regional banks as CRE loans represent c.70% of their loan books. In the event a 'doom loop' materialises, where obscured valuations lead to tighter lending conditions and delinquencies, we could see a systemic liquidity risk event in the US banking sector. According to the St. Louis Federal Reserve, the percentage of total bank credit attributable to small domestically chartered banks (defined as all domestically chartered banks outside the top 25 by asset size) has grown over time, from c.20.4% in 1985 to 33.5% as at April 2023. With small banks accounting for a third of total bank credit in the country, a potential liquidity freeze from these banks would likely have significant impact on the wider US economy. While such a scenario is far from guaranteed, it is easy to see how stress in the CRE sector can be construed by markets as a major risk event, which will drive a flight to safety and ostensibly benefit gold demand.

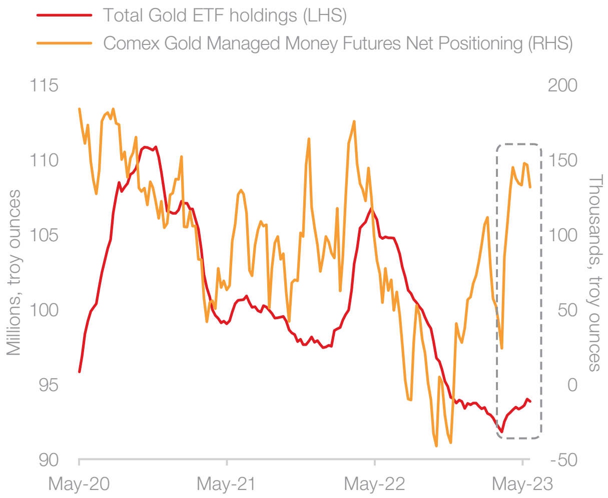
Small banks as % of total US bank credit is on the rise



Source: Federal Reserve Bank of St. Louis, DBS

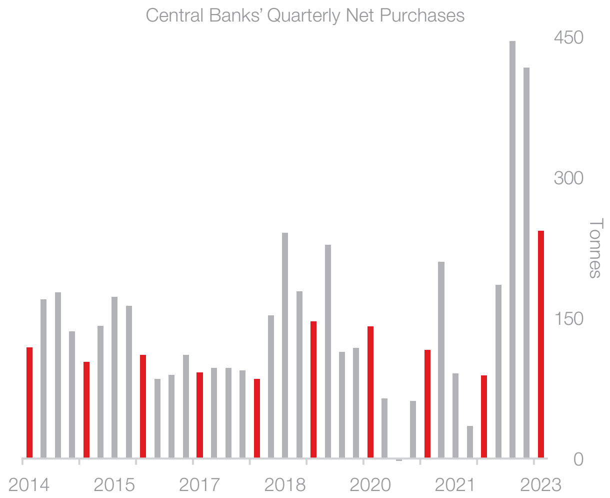
Gold ETFs have come off multi-year lows. Save the spike in February 2022 due to the Russia-Ukraine war, gold ETF flows have remained depressed for a good part of the past two years. However, with a mini banking crisis, a tense geopolitical backdrop, growth concerns, a weakening dollar, and elevated inflation at play, we have seen gold breach USD2,000/oz. multiple times in 2023 and a revival in ETF flows. And although gold has taken a temporary respite due to a slight revival in hawkishness of the Fed, we believe that there has been a fundamental risk-off shift due to mounting stresses in the developed economies as well as growing tensions between US and China (with the long-term underlying theme of dedollarisation) that strengthen the case for

April saw increase in gold ETF inflows and net longs in gold futures



Source: Bloomberg, DBS

1Q23 central bank buying at 10-year high



Source: Bloomberg, DBS

holding gold in the long run. While gold fluctuates around the key resistance of USD2,000/oz., there is growing urgency among investors that time may be running out to accumulate the yellow metal below that price point. This urgency is reinforced by the fact that central banks around the world have been continuing their gold buying streak.

Central bank buying becoming broad-based. 2022 was a record year for central bank demand for gold; according to the world gold council, total demand hit 1,078 tonnes with majority of it coming in the last two quarters of the year. And while 1Q23 saw q/q decrease to 228 tonnes, this was still significant as it represented a y/y increase of 176% and broke the previous first quarter record of 171 tonnes in 1Q13. But perhaps a more important trend to note is that while EM central banks dominated purchases in the past two quarters, buying this quarter has extended to DM central banks too. Four central banks accounted for the bulk of purchases: The Monetary Authority of Singapore (MAS), the People's Bank of China, Central Bank of the Republic of Turkey and the Reserve Bank of India. Among the four, MAS was the biggest buyer, purchasing 69 tonnes during the quarter and increasing total holdings to 222 tonnes, which is 45% higher than in 2022. We have long expounded on the trend of central banks buying gold to de-risk itself against the dollar and dollar assets, and while it used to be the dominion of China and other EM central banks, we're seeing their DM counterparts joining this movement as well. This is part of the larger and longer-term theme of dedollarisation, and a move away from the petrodollar. It is against this backdrop that we believe central bank net buying will remain positive.

Silver to be impacted by global tightening. Although silver had a positive run of 30% this from mid-March to early May, we believe global financial tightening will impact demand for it moving forward, especially since the Fed has indicated rates will remain elevated. Additionally, with tensions between US and China escalating, demand for Chinese solar panels, which use silver as a production input will likely be impacted. Notwithstanding that silver is a pseudo precious metal, it is less of a safe haven asset compared to gold, so it will not benefit from as much speculative or fear-driven demand as gold. As such, while we upgraded gold, we maintain our TP of silver at USD27.9/oz and we expect the gold/silver ratio to trade above its historical average for now.

Upgrade target price to USD2,050/oz. Primary tailwinds for this upgrade are the sharp rise in recession probability; in our model we have used 80% chance of US recession as a key assumption to arrive at our target price. We also expect: i) headline CPI at 5.0% (which has been reached); ii) DXY Index to weaken further to the 95-100 range, and 10Y US Treasury yields to be between 3.0 – 3.5% for our target price to materialise. As mentioned, further upside price risks exist should the Fed decide to implement rate cuts in 2H (this is not our base case). In such a scenario, a further revision of our target price will be warranted. For gold prices to push sustainably above USD2,050/oz., an unexpected and significant change in outlook for either inflation, Treasury yields, the dollar, or recession probability will have to take place.

Sensitivity of gold price to the dollar and 10Y US Treasury yield

	US 10Y Yield (%)	85	90	95	100	105	110
CPI @ 5%, 80% chance recession scenario	2.5	2,439	2,334	2,228	2,123	2,018	1,912
	3.0	2,353	2,247	2,142	2,036	1,931	1,826
	3.5	2,266	2,161	2,055	1,950	1,844	1,739
	4.0	2,179	2,074	1,969	1,863	1,758	1,652

Source: DBS

Possible range

Private Markets: Where the Growth Happens

ALTERNATIVES: PRIVATE ASSETS 3Q23

Companies are increasingly relying on private markets to sustain their growth. Traditional barriers to entry are being lowered to give access to private wealth AUM and answer mounting demand from wealthy individuals. It is an opportune time for investors to tap into private markets for exposure to corporate growth.

Source: Unsplash

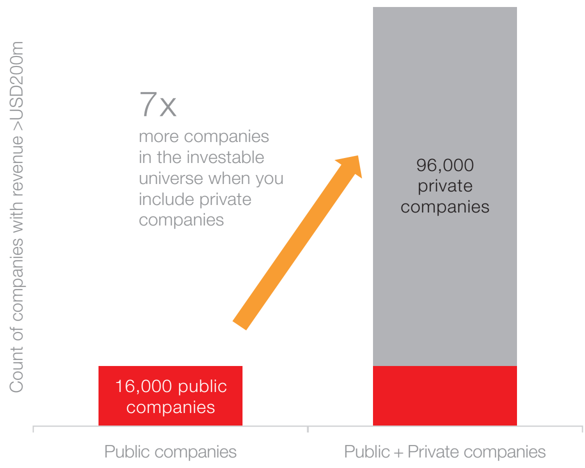
11. Alternatives: Private Assets.

Beatrice Tan
Analyst

The past two decades have seen private markets rise in prominence. Businesses and investors alike are increasingly appreciating the benefits of remaining outside the public eye, and this has supported private market growth – in terms of (1) the increasing value of private companies, and (2) rising investor participation in the private markets. Today, many of the largest and most influential companies are privately owned. With private markets presenting a significant investable opportunity set and boasting the epicentre of corporate growth and value creation, it is no wonder that investor interest and participation in the private markets are steadily growing.

The private market opportunity set is too significant to turn a blind eye. One of the most compelling reasons for investors to look to private market opportunities is just how substantial the opportunity set is, vis-à-vis the size of public markets. Globally there are around 96,000 private companies with annual revenues above USD200m, compared to just c.16,000 public companies. Moreover, the number of publicly listed companies has been on a steady decline since the turn of the millennium, evidence of a structural shift in focus towards the private markets. Investors who still invest only in publicly listed securities today would be missing out on as many as 85% of investable companies, a magnitude too significant to ignore.

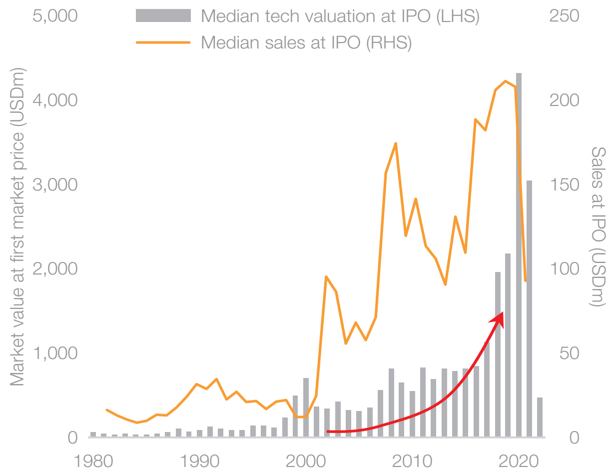
Those who invest only in public markets miss out on >80% of companies



Source: S&P Capital IQ, DBS
Note: Revenue refers to latest annual revenue >USD200m as at 23 May 2023

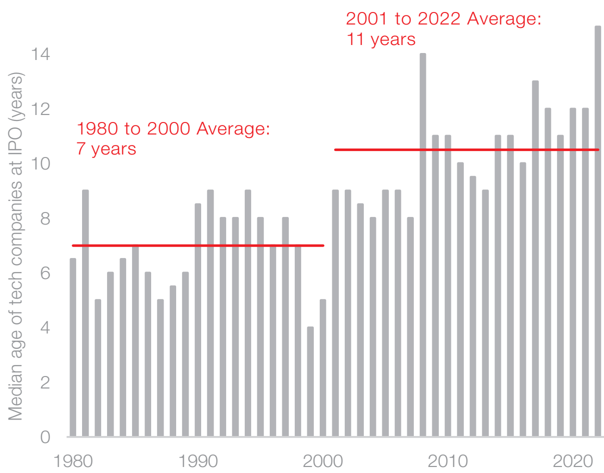
More companies are choosing to grow in private. Companies are relying more on private markets to sustain their growth. This is evidenced by global IPO data demonstrating companies: (1) Remaining private for longer, and (2) Reaching a larger size and gaining more value while they are private. For example, when Amazon had its IPO in its early stages back in 1997 (just three years after its incorporation), it raised USD54m and reached a market value of USD438m.

Private companies getting larger and more valuable



Source: Jay Ritter, DBS
Note: Data up to 2022

Companies staying private for longer

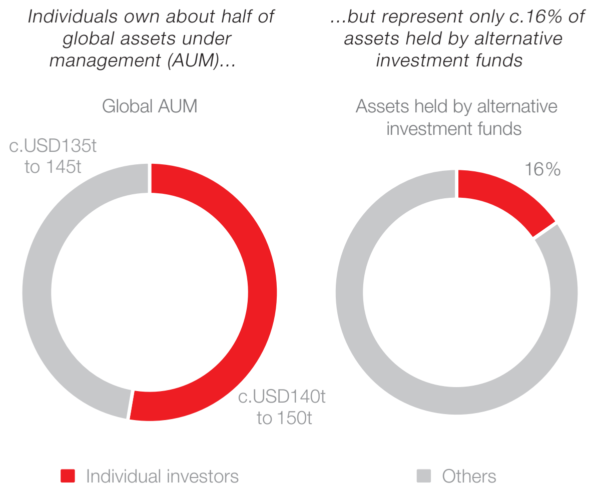


Source: Jay Ritter, DBS
Note: Data up to 2022

Although outstanding among its IPO class, a listing of such a scale would be considered meagre today, given billion-dollar listings observed since the late 2010s. Take Coupang's 2021 IPO as a contrast. The company was already valued at USD9b in its last private fundraising in 2018. When it finally went public, Coupang's market value surged to USD60b. Analysts attributed the demand for its IPO to its strong market position, having established itself as South Korea's largest e-commerce platform in the company's 11 years since its inception. Companies staying private well into advanced stages of their lifecycle, and reaching eyewatering valuations on the private markets, demonstrate the opportunities and exposure to high corporate growth that investors who overlook private market investing forgo.

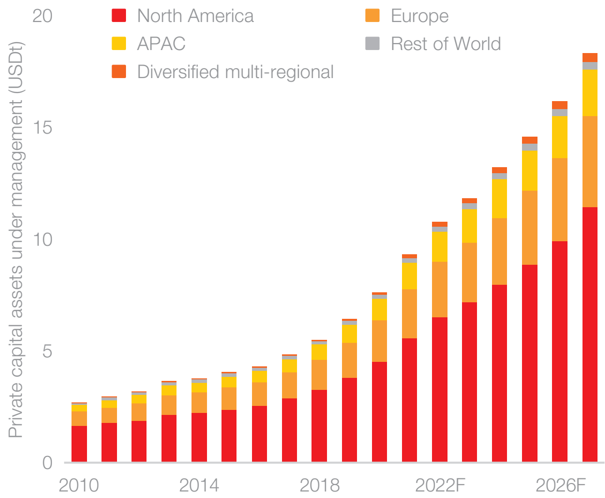
Private market investing has mostly been the domain of institutional money, but this is set to change. With these trends in how companies are raising capital and the benefits of investing beyond the public sphere, it is no wonder that sophisticated investors have been shifting their allocations in favour of private markets. As a result, companies have raised more money in private markets than in public markets each year since 2009. However, despite the importance of allocating to the private markets, the benefits of private market investing have been mainly enjoyed by the likes of institutional investors and the ultra-wealthy. According to consulting company Bain & Company, although private wealth (i.e. high and ultra-high net worth individuals) constitutes more than half of global assets, this segment owns only 16% of alternative investment funds (the bulk of which is in private market investments).

Private wealth underrepresented in private market investing



Source: Bain PE Report 2023, DBS

A rising amount of private investment capital



Source: Preqin, DBS
Note: Forecasts as at end-2022

Private markets have never been as accessible as they are today. This underrepresentation of wealthy individuals in private assets could be attributed to various factors limiting individuals' access, including inaccessible minimum investment commitment levels, concerns over long holding periods of assets that are not easily tradeable, and lack of awareness of the asset class. However, the industry is now recognising an imperative to embrace the private wealth segment. This comes on the back of growing appreciation of the sheer scale of private wealth AUM, as well as mounting demand from wealthy individuals to access opportunities that public capital cannot. As a result, private asset investment firms have now begun lowering some of the traditional barriers to individuals, for example, through the following:

- *Accepting lower minimum commitments* – Minimum commitments for private asset funds are generally higher than a typical fund, traditionally upward of USD1m per fund. This has made allocating to private assets unfeasible for many wealthy individuals, considering that multiple different holdings would be needed for a diversified private asset allocation within a portfolio. However, with recent developments, private asset firms have now reduced their minimum commitments to as low as below USD100,000, making a smaller, yet well-diversified allocation to private assets more accessible.

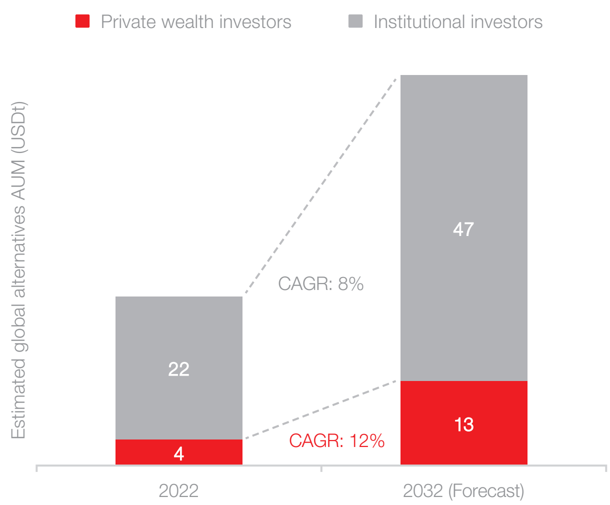
- *Providing partial liquidity* – By definition, private assets are less widely held than their public counterparts, making them illiquid (i.e. investors cannot switch in and out of positions frequently). Understandably, some individual investors have shunned private investing to avoid the risk of being stuck with investments they no longer want but are unable to sell. Addressing this concern, private asset firms have launched innovative structures purporting to give investors an avenue to liquidate their holdings early.

  Even with such structures, new investors exploring this space must nonetheless (1) appreciate that the extent of liquidity provided is likely limited, and (2) be willing to commit for the long term, recognising that the long-term nature is an innate feature of investing in private companies, and brings benefits to a diversified portfolio to complement other, more liquid assets. For one, the lack of frequent public trading insulates the investments from the volatility of wildly fluctuating market sentiment and allows investments to be valued based on fundamentals. Private asset investors also tend to hold investments for relatively long periods. In private equity, this could range from at least three to four years to more than a decade, which gives time for the underlying company to grow, gain value, and generate returns.

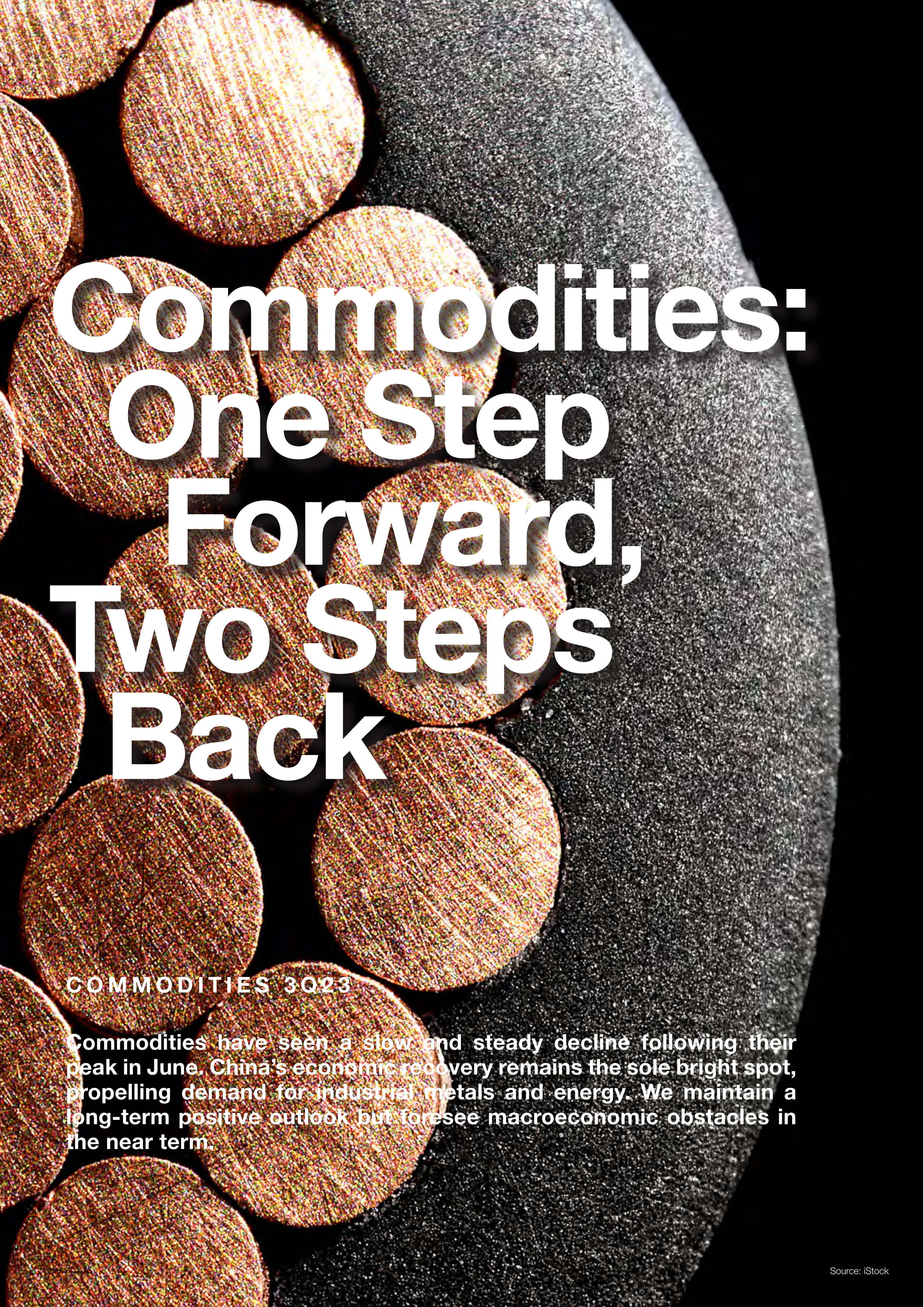
We are at a crossroads for investors tapping into a growing set of private opportunities. Individual investors are increasingly understanding and appreciating the benefits of private market investing, while more channels open to encourage individuals to access private markets. Given these developments, Bain's analysis estimates the global alternatives AUM held by private wealth investors to increase c.12% annually over the next decade, much of which will be driven by private assets. Meanwhile, private market data provider Preqin projects that individual investors will increase their allocations to private equity at an average annual growth rate of c.19% to 2025.

Conclusion. With the bulk of corporate growth now taking place in the private sphere, and more companies electing to remain private, accessing the private markets has become essential for sophisticated investors seeking new diversification options. Recognising the importance of the private wealth sector, top private asset firms are leading the charge to avail private market access to wealthy individuals. While there is now a clear trend of private wealth increasingly starting to access private markets, individuals new to the private markets must first appreciate the differences between investing in illiquid private companies and other assets they may be more familiar with, in order to benefit from holding private assets as a complement to a portfolio consisting a variety of asset classes.

Private wealth expected to increasingly allocate to private markets



Source: Bain PE Report 2023, DBS



Commodities: One Step Forward, Two Steps Back

COMMODITIES 3Q23

Commodities have seen a slow and steady decline following their peak in June. China's economic recovery remains the sole bright spot, propelling demand for industrial metals and energy. We maintain a long-term positive outlook but foresee macroeconomic obstacles in the near term.

Source: iStock

12. Commodities.

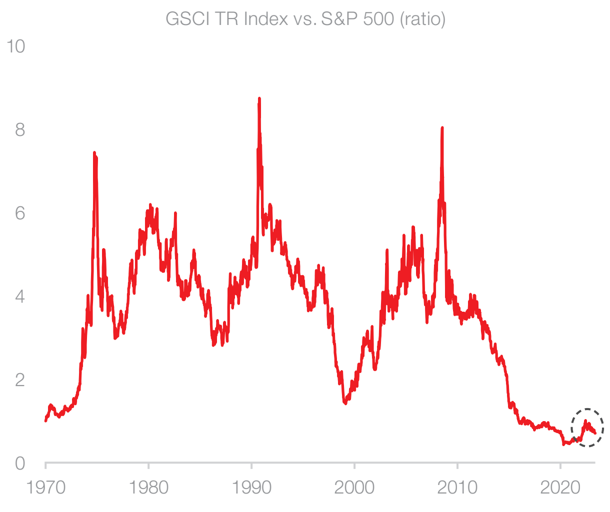
Goh Jun Yong
Analyst

Change has been the only constant. 2023 has thus far been characterised by a see-sawing macro outlook, and commodities have been caught in the crossfire. 2H22 saw commodities in an uncertain spot; after peaking in June following the Russia-Ukraine war, commodities saw a slow and steady decline for the rest of the year. Fast-forward to 1Q23, conditions looked vastly improved as China finally abandoned its Covid-zero stance, and the West looked like it was on course for an economic soft landing. This positive backdrop, however, did not last as a mood of caution took over in 2Q23. Bank collapses in the West, falling commercial real estate valuations in the US, and US debt ceiling negotiations took turns denting risk sentiment. At the time of writing, a data-driven Fed had also declared rates will likely remain elevated for the remainder of the year, once again placing a dampener on demand and putting recession risks firmly back on the cards.

China recovery intact but delayed and not as significant. Last quarter, we predicted that China's reopening would drive the outperformance of commodities. And while there has been an uptick in Chinese demand for commodities, the extent of it has been somewhat lacklustre. China macro data points have been mixed this year; although 1Q23 GDP growth of 4.5% surprised on the upside and services PMI came in at a robust 56.4, manufacturing PMI fell to 49.5 in April, indicating a contraction in manufacturing activity. PPI (y/y) has also been negative since the beginning of the year, indicating that average selling prices for producers have receded. Moving forward, we expect China's economic recovery to be less broad-based and more sector specific; EV manufacturing and energy storage for instance will outperform construction and non-energy infrastructure. Timewise, we expect some cyclical headwinds to abate later in the year, pushing momentum for recovery to the later part of 2H23.

Valuations favourable but bulls need to be patient. China's economy is seeing a semblance of recovery, but it is being offset by elevated rates in the West and a generally fearful market. Supply, although plagued by chronic underinvestment, has thus far been able to keep pace with demand; tightness in inventories intermittently drive upward price movement, but not in a sustainable fashion. On a cyclical front, it needs positive catalysts. The long-term thesis for commodities, however, remains unchanged: the next wave of economic growth cannot be powered without commodities, and the evolving global geopolitical landscape heavily favours self-sufficiency with regards to materials, energy, and precious metals. With commodity prices reaching a

Commodities vs equities at 50-year low



Source: Bloomberg, DBS

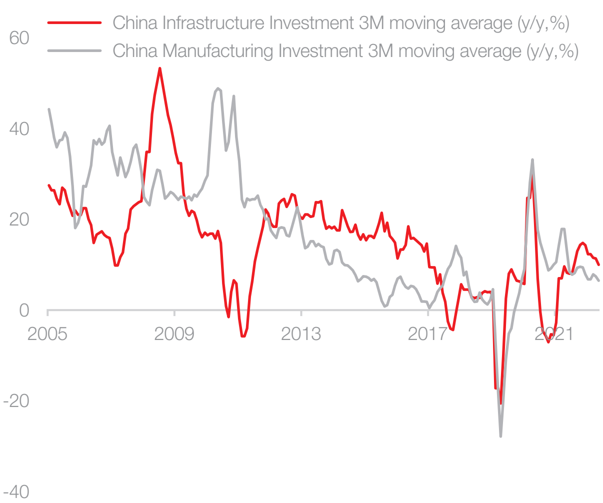
50-year low relative to equity valuations, the case for the next commodity super cycle is compelling. However, cyclical factors such as a more benign rate regime need to be in place as a pre-condition. Until then, it is unlikely that commodity prices will experience sustained appreciation.

Industrial metals

Bifurcation of manufacturing and construction demand. We have long maintained our preference for "green metals", owing to their crucial role in the clean energy transition and electrification trend. In addition, green metals (specifically copper and aluminium) are also poised to outperform their ferrous counterparts (i.e. iron ore and steel) in the near term. This is due to a brighter outlook for China's manufacturing sector as compared to its construction sector. While manufacturing activity started slow in January, it has picked up marginally in subsequent months, suggesting that challenges in this area are more cyclical. On the other hand, construction and non-energy infrastructure are experiencing more structural headwinds in the form of financing bottlenecks as a result of inherently poor returns on projects.

Copper to benefit from China EV-destocking and energy grid growth. Due to a surge in Covid post reopening, the production of key inputs of EVs, including copper cathode and batteries, was negatively impacted. This led to poor EV sales in January. However, there has since been a rebound as Covid cases subsided and reopening picked up momentum; Chinese EV producer BYD saw sales grow m/m in April while Li Auto logged record sales during the same month, no doubt boosted by Tesla's decision to hike its prices in China. Notwithstanding this increase in EV sales, copper prices have remained muted largely due to a build-up of EV inventory over the past 9 months. Stocks-to-sales ratios for the EV industry currently sit between 1.2 – 1.6x, compared to the average level of 1.0x. While the industry continues to de-stock, we expect copper demand from EVs to filter through in 2H23. Additionally, copper demand should remain supported by state energy infrastructure investment. China's new energy storage capacity is slated to grow beyond 50GW by 2025 from 8.7GW at the end of 2022, and this is expected to increase Chinese demand for copper by c.2.4% in 2023, which will be back-loaded mostly towards the end of the year. These seasonal factors present potential upside for copper prices moving forward.

China infrastructure investment maintains positive trend in 2023



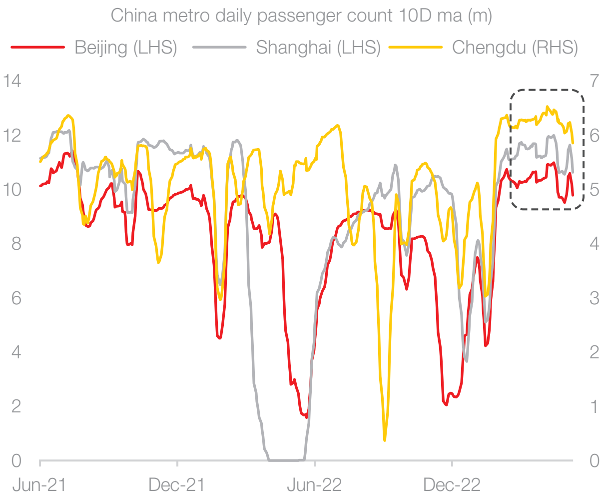
Source: Bloomberg, DBS

Aluminium to see tailwinds despite construction challenges. The near-term outlook for aluminium is less compelling than copper as c.25% of its end demand comes from construction. In any case, the transport sector, which also accounts for approximately a quarter of aluminium demand, should provide some support. With China EV sales set to pick up and domestic mobility back in full swing, aluminium demand in both automobiles as well as public transport vehicles like trains and buses should increase correspondingly. This, coupled with the fact that aluminium inventories have peaked and are approaching the trough of the de-stocking cycle, places tailwinds behind the metal despite challenges on the construction front. Supply should also be meaningfully limited due to hydro-power shortages in Yunnan as a result of drought, which will in turn constrain aluminium smelting and refining. Should aluminium inventories fall further, this constraint on aluminium refining will likely translate to higher prices.

Energy

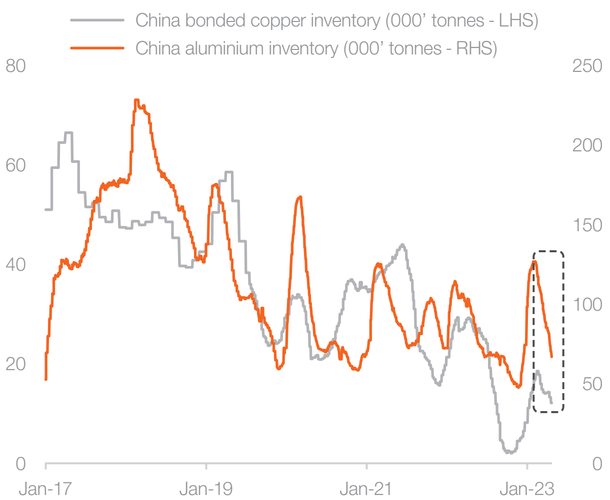
Fundamentals remain positive despite price volatility. The energy sector took some heavy hits during the past quarter; banking collapses in the west, renewed Fed hawkishness, recession risks, as well as doubts surrounding China's recovery saw a sharp rise in risk-off sentiments, causing crude prices to tumble during this period. Nonetheless, if we look past the immediate price volatility, the fundamentals for the energy sector remain healthy. China's demand, while slow in the first quarter, is on a recovery path, and supply should be kept rational due to OPEC+ production cuts and stagnant shale production in the US. The largest headwind for

China subway mobility back at peak levels



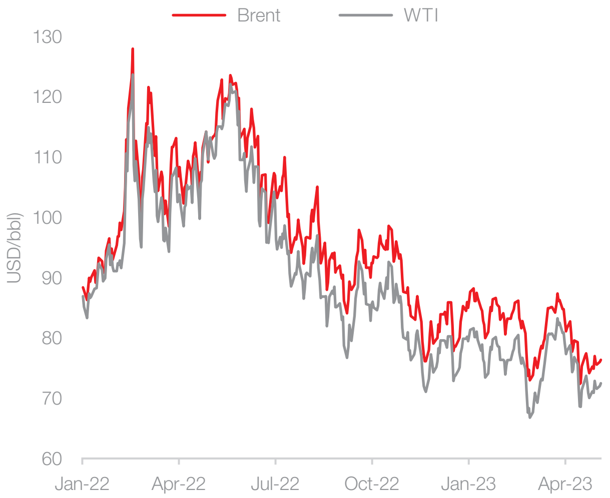
Source: Bloomberg, DBS

De-stocking in progress for China aluminium and copper inventories



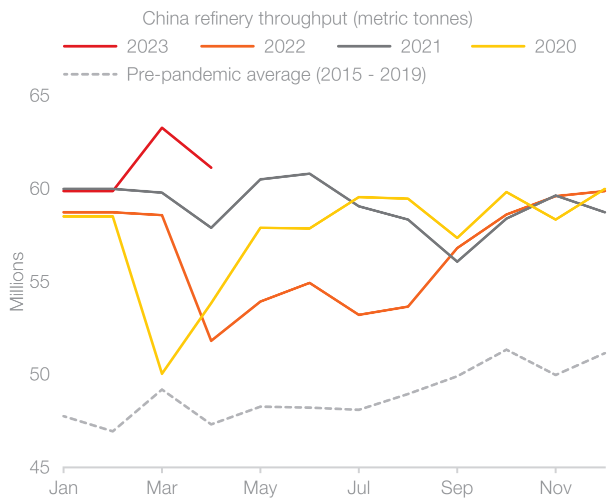
Source: Bloomberg, DBS

Bank failures dented oil prices in 2Q23



Source: Bloomberg, DBS

China refining activity in 1Q23 above historical trend



Source: Bloomberg, DBS

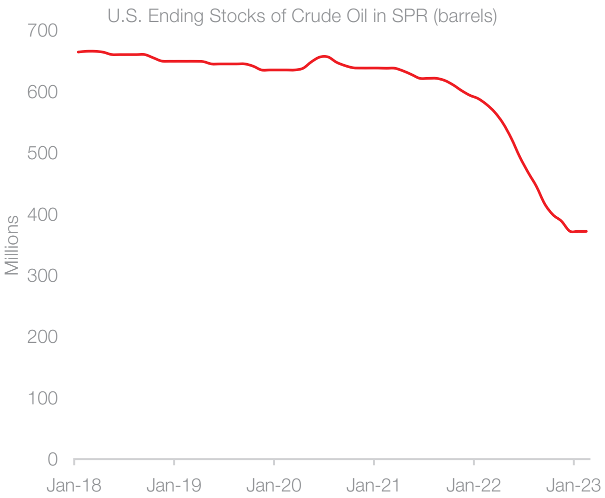
energy this year will be the ongoing global financial tightening as central banks, particularly those in DM, continue to maintain a strong focus on fighting inflation. This will keep a lid on both aggregate demand and risk sentiments. On balance, we expect Brent to be rangebound, trading between USD85 – 90/bbl for 2023.

China recovery to propel demand. While 1Q23 saw mixed data points for China's economy, it is trending in the right direction. 1Q23 GDP growth of 4.5% was higher than consensus estimates, and we expect 2023's GDP growth to recover to 5.0 – 5.5%. This will be key in driving energy demand. China oil demand could grow up to 1.0mmbpd in 2023 after shrinking by 0.4mmbpd in 2022, supported by strong mobility trends domestically as well as gradually increasing international travel to and from the country. This growth in demand is reflected in refinery throughput, which came in above trend for 1Q23. Furthermore, it should be noted that China has cut a second batch of oil export quotas for 2023, focusing instead on domestic demand, which indicates that consumption is picking up.

Slowing US demand but SPR re-stocking provides upside. US oil consumption has remained flat since 2Q22, driven by higher gasoline prices and a slowdown in consumption due to the rapid rise in interest rates over the past year. This trend is carrying over into 1Q23 as total consumption fell 7% y/y and remains 4% lower compared to pre-Covid levels. On the products side, gasoline has followed suit, trending flat on a y/y basis and 5% below pre-Covid levels. However, there remains a bright spot for US oil demand in the form of its strategic petroleum reserves (SPR). After releasing c.0.9mmbpd since May 2022 to year end, the US SPR balance stands at 366.9m barrels, which is the lowest it has been in 37 years and 42% below its 5-year average levels. The need to replenish its reserves will see US oil demand pick up. In fact, the US Department of Energy has announced as at 15 May, that it will purchase 3m barrels for delivery in August. With the Republicans expressing displeasure at the current administration with regard to how thin the supply buffer has become, we expect further purchases to restock the SPR towards the end of the year. Furthermore, the case for urgent buying is even stronger with US crude trending in the low USD70/bbl range, as that is significantly lower than the price at which reserves were sold at last year.

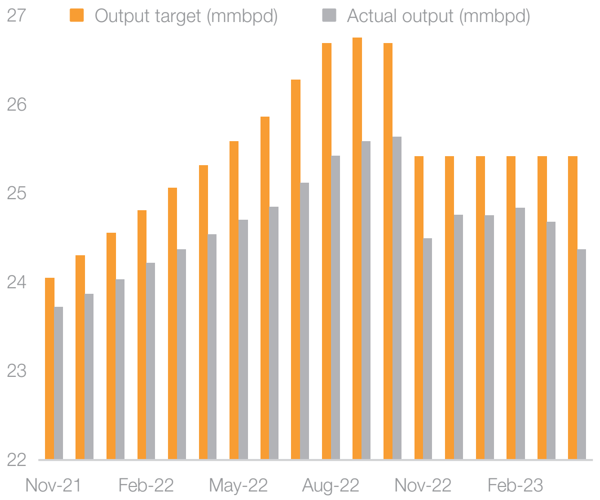
Further OPEC+ cuts and stagnant US shale production. Global crude supply is set for further tightening, with OPEC+ announcing surprise production cuts of 1.15mmbpd in April. This is on

US SPR levels are at 37-year lows



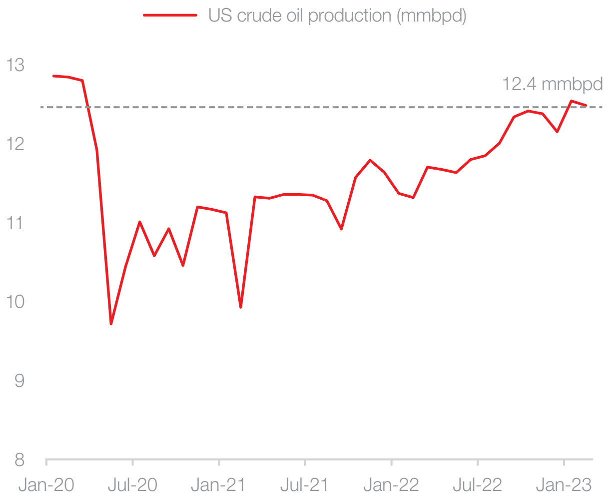
Source: US energy information administration, DBS

OPEC+ cut headline output by 2.0 mmbpd in October last year



Source: Bloomberg, DBS

US shale production hovering around 12.4mmbpd

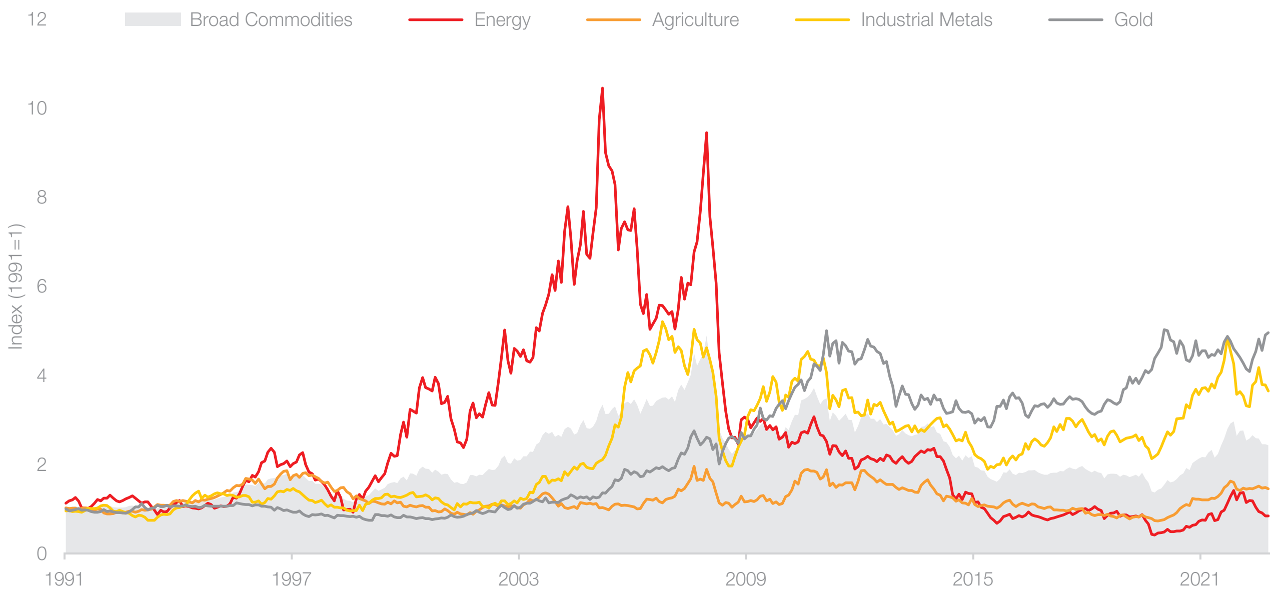


Source: Bloomberg, DBS

top of the 2.0mmbpd headline reduction in October last year. With some OPEC+ members continuing to underproduce relative to targets, the cuts should have a supportive effect on crude prices and keep them at or near USD80/bbl. US shale production also looks to be stagnating at c.12.4mmbpd, posing little upside risk to supply. We expect production to hover around this range as there has been no material increase in Capex budgets despite strong cashflow generation in 2022. For 2023, we expect a modest growth of 0.6mmbpd, which poses little downside risk for oil prices.

One step forward, two steps back. With US recession risks at 20-year highs and no respite from monetary tightening in the West, China remains the sole bright spot for commodities from a demand perspective. And even then, China's economic recovery will likely not be as broad-based as originally anticipated. On the supply side, underinvestment in capex and tightening balances remains a consistent theme although that alone is insufficient to support higher prices sustainably. On that basis, we recommend staying cautious on commodities in the near term; until there are material changes to the interest rate and growth outlook globally, commodities will likely underperform other major asset classes. Despite this, we maintain a positive long-term outlook for commodities; the electrification of everything will see a rapid growth in demand for green metals in the coming years, while climate change will challenge the supply side for food and agricultural commodities. In the medium term, the energy sector will stay well supported as the world continues to be very much dependent on fossil fuels for applications such as transport.

Performance of commodity sub-indices over the past 30 years



Source: Bloomberg, DBS

Into the AI Frontier

THEMATIC STRATEGY - ARTIFICIAL INTELLIGENCE

What was once science fiction is now a tangible force shaping our world. The transformative power of Artificial Intelligence (AI) will upend business models, leaving winners and losers in its wake. In this chapter, we examine how Big Tech, Hardware Manufacturers, Cloud Platforms, and Cybersecurity players stand to emerge as beneficiaries of the AI revolution.

Source: iStock

13. Artificial Intelligence.

DBS Chief Investment Office

AI's coming of age. In 1950, Alan Turing – the founding father of modern cognitive science – devised the "Turing test" to evaluate a machine's ability to exhibit intelligent behaviour. For more than 70 years, this remained within the realm of science fiction. Today, Artificial Intelligence (AI) has finally made its definitive transition into reality. 2022 would be remembered as the year that machines successfully conquered Turing's imitation game – with (i) allegations of Google's AI chatbot LaMDA attaining sentience, and (ii) OpenAI's ChatGPT taking the world by storm with its human-like natural language outputs.

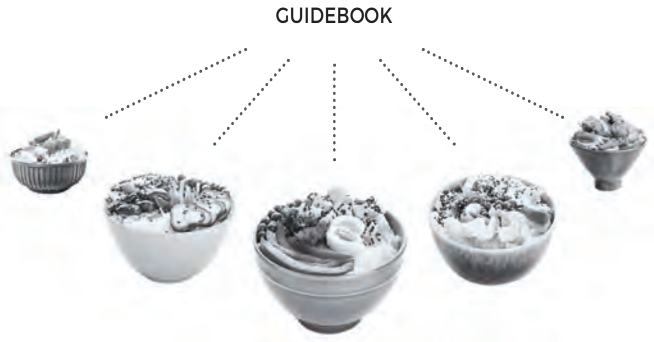
THE NEXT WAVE OF AI: FOUNDATION MODELS TRANSCENDING TASK-SPECIFIC AI

Traditional AI undergoes supervised learning

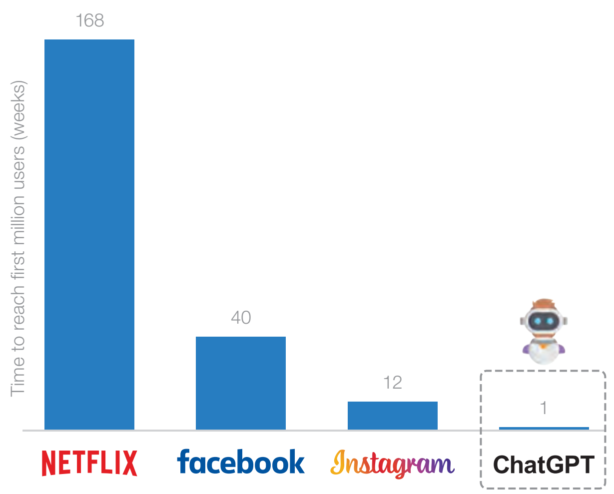
It is trained using specific data for specific tasks and needs to be re-trained for each new task, much like needing a new recipe every time you cook a new dish.

Foundation models present a breakthrough

A single model undergoes unsupervised/self-supervised learning – It is trained using broad unstructured data to perform multiple tasks beyond what it was trained to do. This can be likened to how a trained cook can use his or her skills to prepare different dishes beyond just following instructions on a recipe.

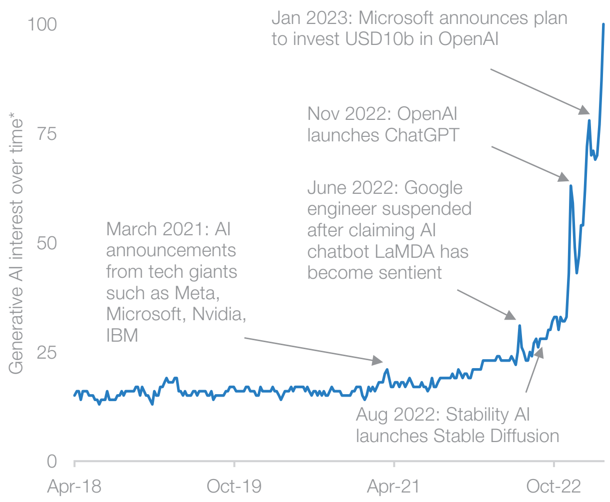


Facebook took nearly a year to do what ChatGPT achieved in one week



Source: Netflix, Meta, OpenAI, DBS

Interest in generative AI has skyrocketed



Source: Google Trends, DBS
* Interest over time represents search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term.

A new wave of AI. Past AI models have only been good at performing just the specific tasks they were trained to do. They hardly exhibited the "intelligence" needed to compete with humans, especially in the creative realm.The latest progress in AI development, however, looks set to bring AI beyond the task-specific models that have dominated the landscape to date. For example, using foundation models that are trained on a broad set of unstructured data, generative AI models can perform multiple tasks beyond what they are explicitly trained to do, and even seemingly exhibit their own creativity – marking a great leap forward in AI advancement. To gauge how momentous this development is, one has to look no further than the speed at which ChatGPT took the world by storm, reaching a landmark one million users just five days after its launch. ChatGPT, alongside other generative AI prototypes, has gotten the world abuzz with the endless possibilities of how this technology can reshape human enterprise.

A future charged by superhuman outsourcing. Such sudden prominence would have bemused technological insiders familiar with the incremental evolution of AI over the years, but one cannot discount the force of virality when such innovation is suddenly made available to a large swathe of non-technical users. It tickles the imagination, illustrating for us a world where tasks ranging from the cognitively simple – crafting an email, editing a photo, writing a speech – to the technically complex – directing a video, composing original music, or drafting a legal contract – will all be executed by non-human agents in the future at lightning speed. This might sound like science fiction, but such a hyper-efficient world is fast becoming a reality – with implications that span the economic, political, social, and financial spheres. With such ground-breaking disruption coming at us at breakneck speed, we believe there is no better time than now to start preparing for the future of AI.

Milestones in AI

1950

ORIGINS OF AI

Alan Turing recognised the potential for machines to exhibit intelligence and proposed "The Turing Test"

1956

JOHN McCARTHY COINS THE TERM "AI"

Dartmouth Conference launced AI as a multidisciplinary field of study

1970 -1980

FIRST AI WINTER

Development efforts yielded limited results, leading to a decrease in funding and stagnation for AI

1980

EMERGENCE OF EXPERT SYSTEMS

Resurgence in popularity of AI with the advent of expert systems which enabled machinces to make decisions

1997

IBM'S DEEP BLUE DEFEATS GARY KASPAROV IN CHESS

2011

APPLE INTRODUCES SIRI

Breakthrough in advanced speech recognition software with one of the first AI-based virtual assistants

2017

ALPHAGO BEATS TOP RANKED GO PLAYER

Using machine learning technology, AI was able to develop intricate strategies and defeat professional Go player, Ke Jie

2018

EU ESTABLISHES AI ETHICAL GUIDELINES

NOW

RISE OF GENERATIVE AI

ChatGPT takes the world by storm portraying the unlimited possibilities of AI

Source : John McCarthy, an American computer scientist, Mark I Perceptron, Symbolics 3640 via Flickr, Stan Honda/AFP via Getty Images, DBS

Source : ChatGPT, European Commission, Go Player Ke Jie via Getty Images, Unsplash, DBS

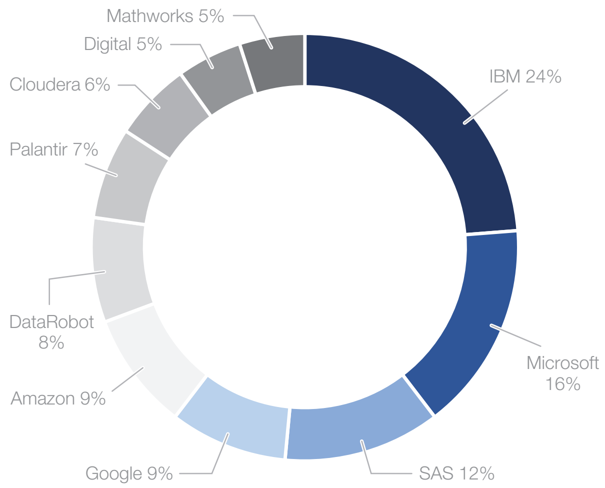
Investment expressions

In search of the next big thing. With the wheels of the AI revolution set in motion, it is understandable that investors, always on the lookout for the next iPhone or the next Tesla, hope to catch the next wave of innovation that astronomically propels returns. However, the key difficulty isn't discerning the winners emerging from disruptive technology; rather, they are the (a) scarcity of investable avenues that can truly capture the upside of the new technology given that such companies might still be privately owned (or not even incorporated yet), or (b) the complexity of knowing how much of this upside is already priced into existing opportunities. Nonetheless, we believe there are four major themes that would emerge as long-term beneficiaries of AI adoption.

1. Big tech

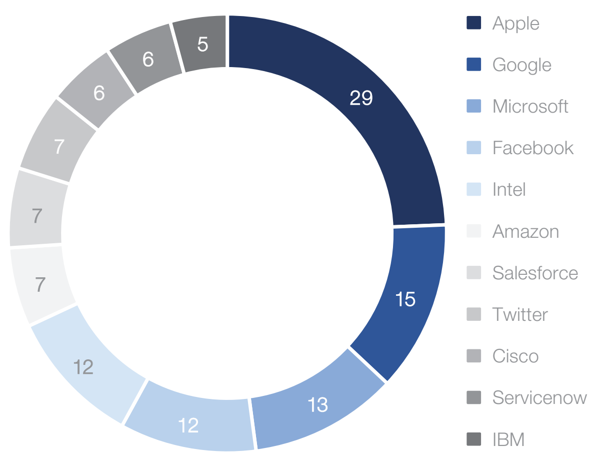
The strong get stronger. It's no secret that Big Tech companies (FAAMG - Facebook, Apple, Amazon, Microsoft, and Google) have emerged as structural winners under the irreversible secular trends of technological disruption and digitalisation. With (a) billions in cash reserves, (b) ready access to tech-

Top-6 firms commanded c.75% market share within AI software leaders



Source: Statista, DBS

Select AI-related acquisitions from 2010 to 2021

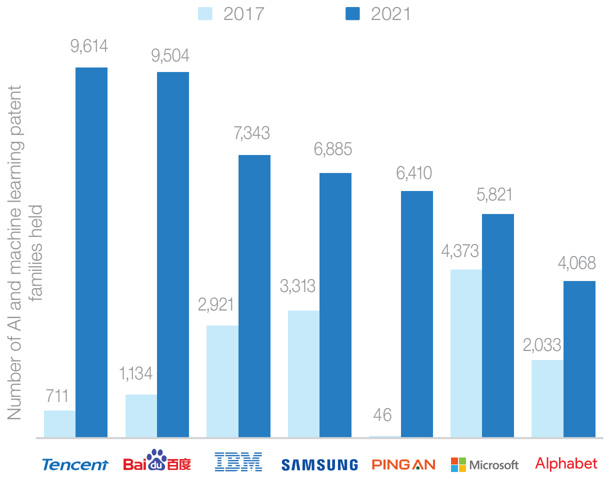


Source: CBinsights, DBS

talent, and (c) a huge repository of user data to train AI models, structural tailwinds can only flow more forcefully under the AI revolution.

Big tech, big wallets. Moreover, such training of AI models requires extensive computing power and high running costs, costs that only the most profitable companies have the bandwidth to incur. For example, a single training run for GPT-3 reportedly costs Open AI c.USD12m. Outside of Big Tech, few companies would be able to sustain such mammoth expenses.

Companies owning the most AI/machine learning patents



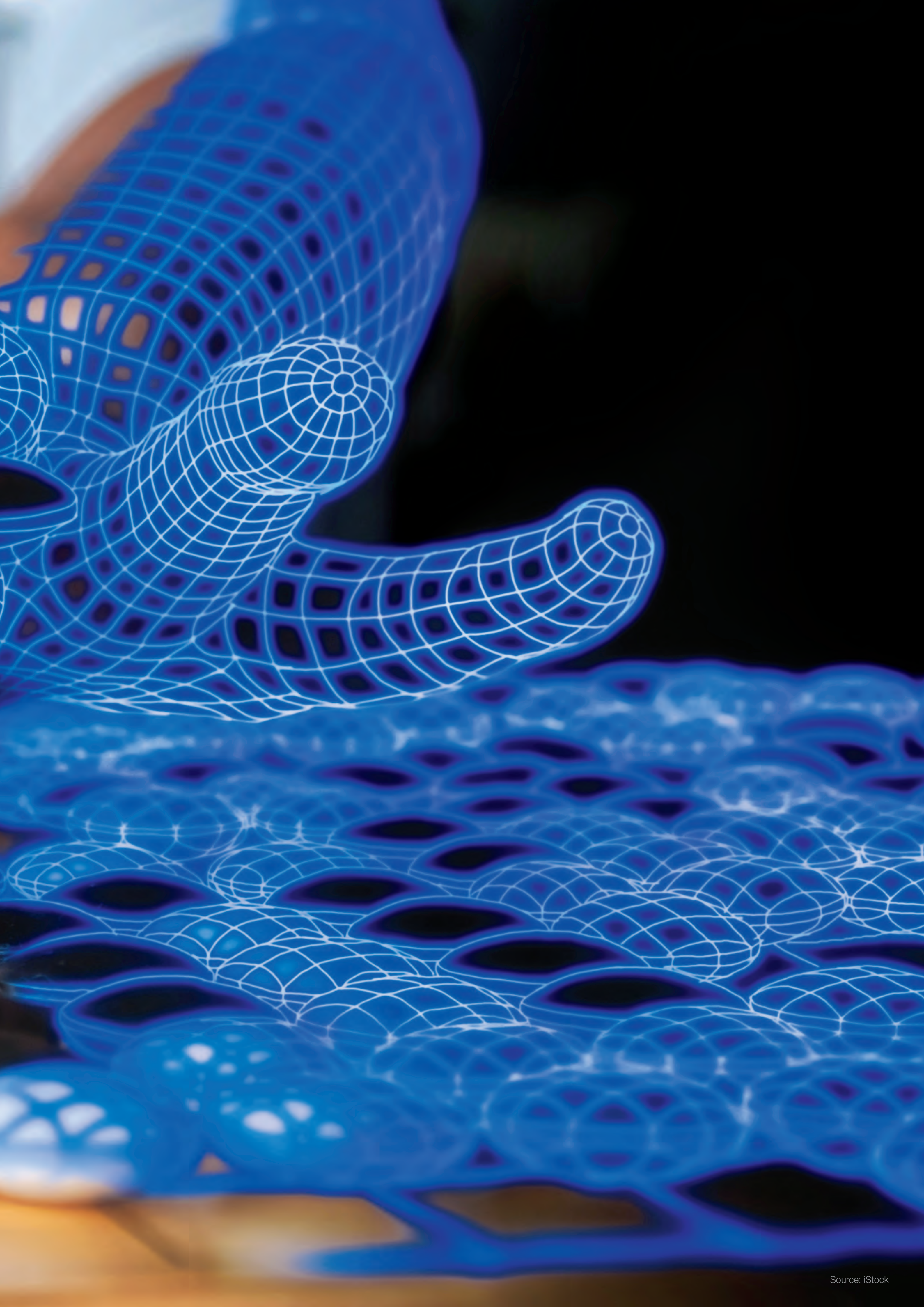
Source: Statista, LexisNexis PatentSight, DBS

Examples of generative AI applications by type and company

	OpenAI	stability.ai	DeepMind	Meta	NVIDIA
Images	Dall-E2	Stable Diffusion	Imagen Image	Make-a-scene	eDiff-I
Language	ChatGPT	StableLM	PaLM	LlaMa	MT-NLG
Code	ChatGPT CoPilot		Pitchfork	Aroma	
Audio	JukeBox	Dance Diffusion	MusicLM	Audio Gen	
Bio-chemistry	BioGPT/ MoLer	Libre Fold	Alpha Fold2	ESMFold/ Galactica	MegaMol Bart

Source: Company websites, DBS

Source: iStock



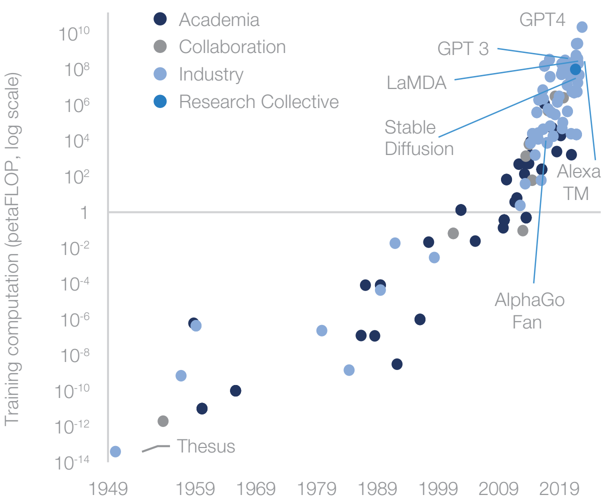
Source: iStock

2. Integrated circuit - Chip designers + semiconductor foundries

Semiconductors are the foundational bricks of the digital world. AI models require advanced chipsets, both in training and in production. For instance, ChatGPT is able to generate responses in split seconds due to Microsoft Azure datacentres that are powered by tens of thousands of Nvidia GPUs. Market research agency TrendForce estimates that the GPT model needed about 20,000 GPUs to process training data in 2020, and moving forward, running ChatGPT is expected to require at least 30,000 GPUs.

Further development and uptake of AI across industries would only increase demand for GPUs, microprocessors, power management ICs etc, especially as commercial development takes over which requires the speed and sophistication of AI models to grow.

Computing power used to train AI systems



Source: Sevilla et al., OurWorldInData, DBS

3. Cloud platforms

Model data needs a home. Once AI models have been sufficiently trained for commercial purposes, they are likely to be deployed on cloud platforms for ease of access by a general user base through an API. A proliferation of AI models would give rise to demand for cloud companies to host them.

A "Cambrian explosion" of AI-generated content. Given that Generative AI is particularly adept at generating large amounts of content, businesses that produce voluminous amounts of material (news websites, e-commerce platforms, online videos) would also likely require ever-increasing hosting space from cloud providers.

4. Cybersecurity

> **“What all of us have to do is to make sure we are using AI in a way that is for the benefit of humanity, not to the detriment of humanity.”**
>
> Tim Cook, Apple CEO

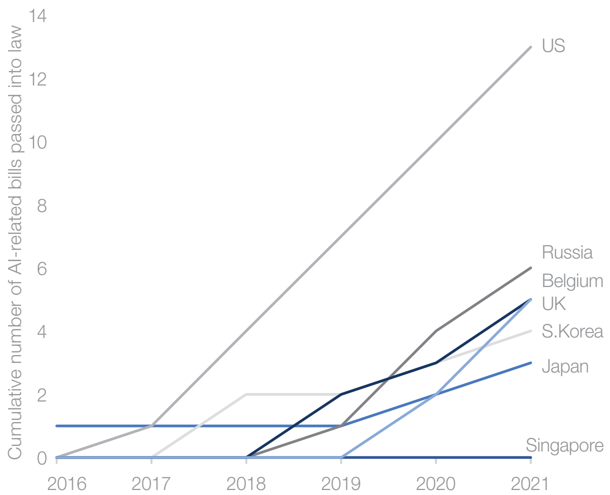
The dark side of AI. The Information Age has unfortunately brought with it growing misinformation, empowered by AI. Generative AI is especially gifted in “Deepfakes” – synthetic media that assimilates the likeness of a person in realistic fashion – which can be used to spread misinformation at scale.

For example, an experiment conducted by Singapore’s GovTech found that phishing emails composed and customised using generative AI had significantly higher clickthrough rates compared to human-generated emails, highlighting potential use by cyber criminals. Moreover, Binance executive Patrick Hillmann reported that scammers had created an AI hologram version of him to trick people into meetings. On top of spreading misinformation and scams, AI models are also adept at identifying vulnerabilities in digital networks, giving hackers new avenues to carry out cybercrime. Such developments underline that real threats from malicious misuse of generative AI already exist today.

Slumdog Millionaire: Images generated using MidJourney

Artist Gokul Pillai created a series of portraits of billionaires – including (clockwise from left) former US President Donald Trump, business magnates Mark Zuckerberg and Bill Gates, and entrepreneur Elon Musk – that depicted them as living in slums.
Source: Gokul Pillai / Instagram

Regulations slowly catching up with AI development



Source: AI Index Report (2022), OurWorldinData, DBS
Count of bills passed into law by national legislative bodies with the keywords “artificial intelligence” in the title or body of the bill.

Opportunities abound amid evolving landscape. As the AI landscape develops, we encourage investors to continue exercising intellectual humility in assessing other potential winners, keeping in mind that Apple's iPhone revolution spawned entirely new ecosystems of apps and content that saw tremendous growth over more than a decade. The biggest opportunities may not yet exist today.

The world ahead is not like the one before. It is very likely that humans would all be caught off-guard by the speed of change the AI revolution brings to the world around us. Cognitive labourers would need a new sense of humility about their own "expertise" and learn to tap on AI technology as an extension of their own cerebral aptitudes in their daily pursuits.

Owners of capital would also do well to become early adopters of such technology, being mindful that this is likely a winners-take-all scenario that rewards first movers disproportionately. An era of instability is likely to ensue as labour markets transition, firms compete for talent and technological advantages, policymakers strive to enact the relevant legislation, and global powers jostle for AI supremacy.

However, the eventual productivity gains and new job creation could give mankind the benefits of quality growth, novel solutions to chronic problems (medical conditions, climate issues, food, and resource scarcity etc.), and the greatest human asset of all – time.

The best, as they say, is yet to be; and certainly more aptly so as humanity stands at the brink of the epoch of AI.

Examples of AI industry participants

AI Software & Platforms	AI Chip Designers	Semiconductor Foundries
• **Google** Deepmind TensorFlow • **Amazon** Bedrock • **Microsoft** OpenAI • **H2O.ai** • **IBM** Watson • **Salesforce** Einstein	• **Nvidia** Volta, Xavier, H100 • **IBM** AIU • **Xilinx** Versal, Everest • **AMD** Ryzen, Radeon • **Apple** ANE • **Intel** Xeon, Nervana • **Broadcom** Jericho3-AI • **Qualcomm** Cloud AI 100 • **Dassault** • **Alibaba** Hanguang 800, Xuantie • **Baidu** Kunlun • **NXP** NXP eIQ • **Amazon** AWS Inferentia • **ARM** Trillium, ARM neural	• **TSMC** • **Samsung** • **SMIC** • **Global Foundries** • **HH Grace** • **DB Hitek**

Source: DBS, various sources

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Glossary.

Acronym	Definition
AI	artificial intelligence
ASEAN	Association of Southeast Asian Nations
ASP	average selling price
ASW	ASEAN Single Window
AUM	Assets under management
AxJ	Asia ex-Japan
bbl	barrel
BI	Bank Indonesia
BIS	Bank for International Sentiments
BNM	Bank Negara Malaysia
BOC	Bank of Canada
BOE	Bank of England
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BRICS	Brazil, China, India, Russia, and South Africa
BSP	Bangko Sentral ng Pilipinas
bpd	barrels per day
bps	basis points
CAGR	compound annual growth rate
CGB	China Government Bonds
CPI	consumer price index
CRE	commercial real estate
DM	Developed Markets
dma	day moving average
DPU	distribution per unit
DXY	US Dollar Index
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, tax, depreciation, and amortisation
EC	European Commission
ECA	European Chips Act
ECB	European Central Bank
EM	Emerging Markets

Acronym	Definition
eop	end of period
EPF	Employee Provident Fund
EPFR	Emerging Portfolio Fund Research
EPS	earnings per share
ERP	equity risk premium
ESG	Environmental, Social, and Governance
ETF	exchange-traded fund
EU	European Union
EV	electric vehicle
FOMC	Federal Open Market Committee
FDI	foreign direct investment
FII	Foreign Institutional Investor
FX	foreign exchange
G2	Group of Two
G3	Group of Three
G7	Group of Seven
GDP	gross domestic product
GFC	Global Financial Crisis
GPU	graphics processing unit
GW	gigawatt
HIBOR	Hong Kong Interbank Offered Rate
HKMA	Hong Kong Monetary Authority
HY	high yield
IC design	integrated circuit design
IndoGB	Indonesian Government Bonds
IG	investment grade
IGB	India Government Bonds
IMF	International Monetary Fund
IOT	Internet of Things
IPO	initial public offering
IRS	interest rate swap
ISM	Institute for Supply Management
IT	Information Technology

Acronym	Definition
JCI	Indonesia Stock Market
JETRO	Japan External Trade Organization
JGB	Japanese Government Bond
KLIBOR	Kuala Lumpur Interbank Offered Rate
KTB	Korea Treasury Bonds
LaMDA	Language Model for Dialogue Applications
LATAM	Latin America
LGFV	local government financing vehicle
LME	London Metal Exchange
LVMH	Moët Hennessy Louis Vuitton
LTRO	longer-term refinancing options
M&A	Mergers and acquisitions
MAS	Monetary Authority of Singapore
MBS	Mortgage-backed securities
MGS	Malaysian Government Securities
mmbpd	million barrels per day
MNC	multinational corporation
MOF	Ministry of Finance, Japan
MTI	Ministry of Trade and Industry, Singapore
NAV	net asset value
NEER	nominal effective exchange rate
NFIB	National Federation of Independent Business
NGL	Natural gas liquids
NIM	net interest margin
NPC	National People's Congress
NPL	non performing loan
OECD	Organisation for Economic Co-operation and Development
OIS	overnight indexed swap
OMO	Open Market Operations
OPEC+	Organization of the Petroleum Exporting Countries Plus
OPM	operating profit margin

Acronym	Definition
P/B	price-to-book
P/E	price-to-earnings
PBOC	People's Bank of China
PCE	personal consumption expenditure
PE	Private Equity
PER	price-to-earnings ratio
PM	portfolio manager
PMI	purchasing managers' index
PPI	producer price index
PRR	price-to-research ratio
QE	quantitative easing
QT	quantitative tightening
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
REER	real effective exchange rates
REIT	real estate investment trust
RENGO	Japanese Trade Union Confederation
RevPAR	revenue per available room
RM	relationship manager
ROA	return on asset
ROE	return on equity
RRR	reserve requirement ratio
RWA	risk weighted assets
S-REITs	Singapore real estate investment trust
SAA	Strategic Asset Allocation
SBV	State Bank of Vietnam
SD	standard deviation
SGP	Stability and Growth Pact

Acronym	Definition	Acronym	Definition
SME	small medium enterprises	ThaiGBs	Thailand Government Bonds
SNB	Swiss National Bank	TOPIX	Tokyo Stock Price Index
SOE	state-owned enterprises	TP	target price
SOFR	Secured Overnight Financing Rate	TPI	tax and price index
SORA	Singapore Overnight Rate Average	TSE	Tokyo Stock Exchange
SPR	strategic petroleum reserves	UCITS	Undertakings for Collective Investment in Transferable Securities
SVB	Silicon Valley Bank	UST	US Treasury
SWIFT	Society for Worldwide Interbank Financial Telecommunication	WTI	West Texas Intermediate
TAA	Tactical Asset Allocation	WTO	World Trade Organisation
TAM	total addressable market	YCC	Yield control curve
TCE	Tangible Common Equity	YTD	year-to-date
TFP	total factor productivity	YTW	yield to worst

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