



CIO Weekly

29 June 2021

Equities: Enhance Growth segment of Barbell Strategy with exposure to EV theme

Key Points

- **Equities:** Ride the global electrification trend; Adopt EV as investment theme in Barbell Strategy
- **FX:** EUR choppy amid mixed messaging from ECB; Subdued recovery and inflation weighed on AUD
- **Rates:** Selloff in long-end UST reflects progress made on fiscal front; 10Y and 30Y yields still look low compared to fundamentals
- **Thematics:** Regional Tech – Catch the early rise
- **The Week Ahead:** Keep a lookout for US change in nonfarm payrolls; Japan industrial production numbers

A brave new world: Transformational shift to electrification. Since Tesla (TSLA US) kicked off the modern-day electric vehicle (EV) revolution with the roadster in 2009, the EV market has gradually shifted from the fringe of the automobile industry into the mainstream. 2020 was a pivotal year as global EV sales grew 40% even though overall car sales fell 14%.

Catalysts spurring mass adoption of EVs. The transportation space accounts for the largest share of emissions at 29%, followed by electricity at 25%. As carbon footprint reduction becomes a top global priority, internal combustion engine vehicle (ICEV) usage is expected to undergo substantial decline with EVs slated to be the main driver of vehicle sales. By 2040, EVs are expected to account for 58% of new car sales, up from the current 2.7%.

Recent developments suggest that the days of affordable EVs are near and the underpinning drivers are:

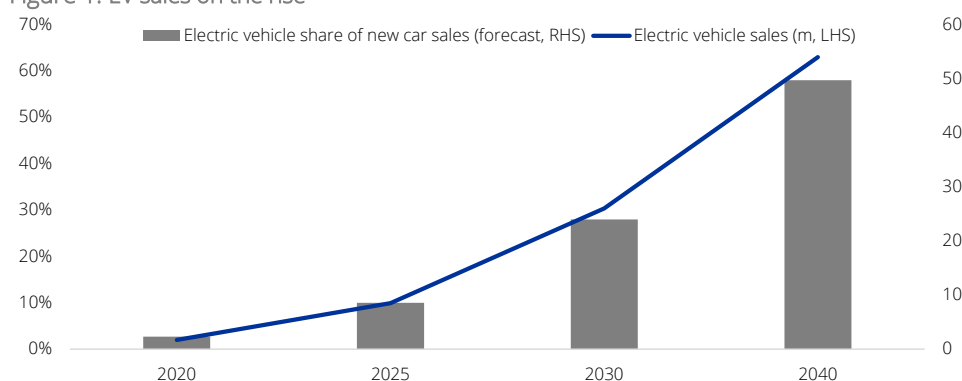
- 1) Falling production cost: The biggest challenge to widespread EV adoption is its higher costs, of which, the battery pack accounts for 30-40% of total production cost. Over the years, rising competition and capital investments in the space has resulted in falling EV battery production costs. Since 2010, battery pack prices have fallen 88% and we expect this trend to continue as EVs reach cost parity with ICEVs by the end of the decade.
- 2) Progressive government regulations and subsidies: Policymakers in 13 countries and 31 cities have announced plans to phase out the sale of ICEVs while the biggest economies have proposed legislation or passed laws to achieve net zero emissions.
- 3) Government incentives: Policymakers have implemented subsidies and tax rebates to incentivise sale of EVs. Nearly 30% of US consumers who bought EVs cited EV credits as an important factor in their purchase decisions.

Beneficiaries of electrification trend; Adopt EV as investment theme in Barbell Strategy. As the industry is expected to undergo phenomenal growth, the biggest beneficiaries of this wave are: (1) Automakers, (2) EV charging infrastructure providers, and (3) Raw material providers. Portfolio allocators are advised to adopt EV as an investment theme in the Growth segment of the Barbell Strategy.

Dylan Cheang | Strategist

Benjamin Goh | Analyst

Figure 1: EV sales on the rise



Source: BloombergNEF, DBS

Global cross assets

Returns of cross assets around the world

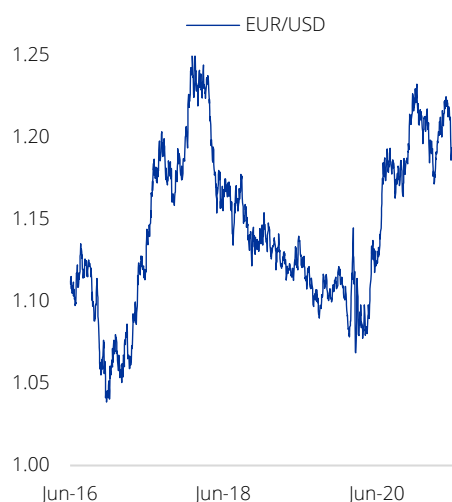
Index	Close	Overnight	YTD
DJIA	34,283.27	-0.4%	12.0%
S&P 500	4,290.61	0.2%	14.2%
NASDAQ	14,500.51	1.0%	12.5%
Stoxx Europe 600	454.94	-0.6%	14.0%
DAX	15,554.18	-0.3%	13.4%
CAC 40	6,558.02	-1.0%	18.1%
FTSE 100	7,072.97	-0.9%	9.5%
MSCI AxJ	893.09	0.1%	6.0%
Nikkei 225	29,048.02	-0.1%	5.8%
SHCOMP	3,606.37	0.0%	3.8%
Hang Seng	29,268.30	-0.1%	7.5%
MSCI EM	1,380.90	0.1%	6.9%
UST 10-yr yield*	1.48	-3.1%	56.3
JGB 10-yr yield*	0.05	26.8%	3.5
Bund 10-yr yield*	-0.19	22.4%	38.1
US HY spread*	2.72	-1.1%	-88.0
EM spread*	310.46	1.5%	-12.5
WTI (USD)	72.91	-1.5%	50.3%
LMEX	4,133.60	-0.1%	21.1%
Gold (USD)	1,778.48	-0.2%	-6.3%

Source: Bloomberg

* Changes in basis points

FX: Choppy EUR, vulnerable AUD, and vigilant SGD

Figure 2: Choppy



Source: Bloomberg, DBS

EUR was choppy in a lower 1.1900-1.1950 on mixed messages out of the ECB. The hawks, Germany's Jens Weidmann and Austria's Robert Holzmann, have come out to talk about unwinding the pandemic emergency purchase programme (PEPP). On the other hand, the doves, Italy's Fabio Panetta and France's Villeroy de Galhau, have called for additional flexibilities in bond buying after the crisis. European Central Bank (ECB) Vice President Luis de Guindos reiterated the base case scenario for inflation to hold below the 2% target this year but will monitor for second-round inflation. The above divisions could upset the ECB's plan to agree on a new inflation strategy in September before moving on to a debate on the PEPP. It also demonstrates the challenge of conducting monetary policy in a bloc where different nations recover from the pandemic at their own pace.

AUD retreated below 0.7570 after it failed a second time to trade above 0.76. Speculative net AUD positions, as per Commodity Futures Trading Commission data, have turned short in June. Australia's recovery and inflation are running behind the US. The Federal Reserve is closer to a decision on tapering asset purchases this autumn. The Reserve Bank of Australia (RBA) has not closed the door on extending bond purchases beyond September 2021. The Fed has closed the gap with the RBA by bringing forward its projection for its rate hike into 2023. The recovery from the pandemic is at risk from a new wave of infections linked to the more contagious and deadlier Delta variant. The spikes have led to lockdowns in Sydney and Darwin, with outbreaks in the Northern Territory, Queensland, and Western Australia. Downside risks in AUD will increase when it fails to hold its formidable support level around 0.75.

SGD has been consolidating between 1.3390 and 1.3480 per USD since 18 June. Our SGD NEER has averaged 1% above the mid-point of its policy band in the past month. The drag from Asian currencies has offset support for the SGD from the commodity-led and European currencies. Notably, KRW has not been able to capitalise on rate hike expectations in South Korea despite higher US tech stocks and a flattish US 10Y bond yield below 1.50%. Record highs in the S&P 500 Index and Nasdaq Composite Index have not helped much. The Straits Times Index took cue more from the relatively weaker Dow Jones Industrial Average, which fell 0.4% overnight. Investors cannot brush Fed taper worries and the new wave of Covid-19 infections led by the Delta variant. Stay vigilant.

Philip Wee | FX Strategist

Rates: Unwinding excessive flattening

Figure 3: Further upside



Source: Bloomberg, DBS

US Treasury (UST) 10Y yields closed above 1.5% last week (ended 25 June) as market participants digest the hawkish Federal Reserve pivot and **unwound some of the excessive flattening** seen in the curve. 30Y yields also climbed to 2.15% and are now well within the 2-2.4% pre-pandemic range. US yields are probably settling into a range as post-FOMC gyrations calm. Instead, the focus will be on the US economic recovery pace (which we think is still robust), the upcoming debt ceiling (due by end-July) and the status of additional spending plans (about USD4t of spending for the Infrastructure Bill and American Families Plan) that President Joe Biden unveiled earlier this year.

Biden had a breakthrough last week when a bipartisan USD579b infrastructure deal was struck. While this deal is nowhere near the USD1.7t touted, it does mark a small step of progress. **However, there are considerable challenges** as this bill would require unanimity amongst the Democrats and at least 10 Republicans to vote for it. Moreover, the Democrats intend to use the budget reconciliation procedure to push through a multi-trillion bill to fund "human infrastructure". Biden has stated that he wants would not sign one bill without the other.

We think that the **selloff in long-end UST is probably an acknowledgement of some progress on the fiscal front.** If more gets delivered over the coming couple of months, we expect further upside to 10Y and 30Y yields, which still look low compared to fundamentals.

Eugene Leow | Rates Strategist

Duncan Tan | Rates Strategist

Thematics: Regional Tech – Catch the early rise

- Tailwinds remain strong, driven by structural growth; expect manageable rising inflation/interest rate
- Multiple growth engines from strong adoption of 5G, EV, IOT devices; telecommuting new norm
- Remain positive on semiconductor, which is less cyclical now

Strong tailwinds; still in early recovery stage. We continue to expect more room for Asia's technology stocks to run as we are still in the early days of the economic recovery. Technology stocks typically outperform in the early stages of recovery. Rate hikes, which could start from early 2023, according to our interest rate strategists, are expected to be still manageable for the technology sector.

Multiple growth engines. The growing demand for new technologies in areas such as 5G wireless network, cloud computing, artificial intelligence (AI), Internet of Things (IOT), electric vehicle (EV), and autonomous driving, has been a catalyst for the sector. 5G mobile adoption is expected to grow at a five-year compound annual growth rate (CAGR) of 66% while the IOT market is projected to grow at a three-year CAGR of 13.7%. EV sales are gaining traction globally. Furthermore, telecommuting will continue to drive demand for servers and computing. Global spending on IT infrastructure could grow at a four-year CAGR of 10.5% while PC shipment is projected to grow 18.2% y/y in 2021, despite a strong 2020.

Stay upstream. With the structural trends driving technology, the long-term uptrend is intact for the upstream semiconductor industry. As various new demand drivers are in place, including the acceleration of the digital adoption pace driven by the Covid-19 pandemic and the recent chip shortage issues, DBS Group Research expects this industry to be less cyclical going forward. Asian names like AEM (AEM SP), UMS (UMSH SP), Renesas (FRKN SP), and Inari Amertron (0166:MK) are well placed to ride on this growth and recovery story.

Lee Keng LING | Analyst

Wei Le CHUNG | Analyst

Figure 4: Global semiconductor market size

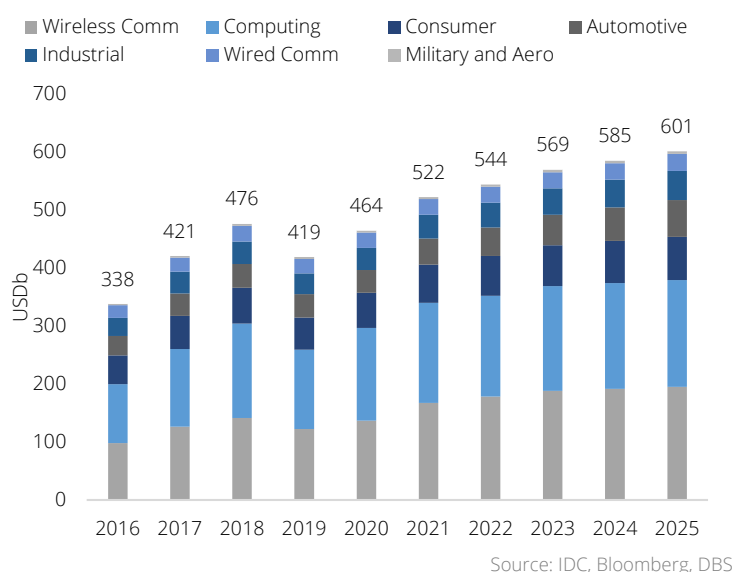
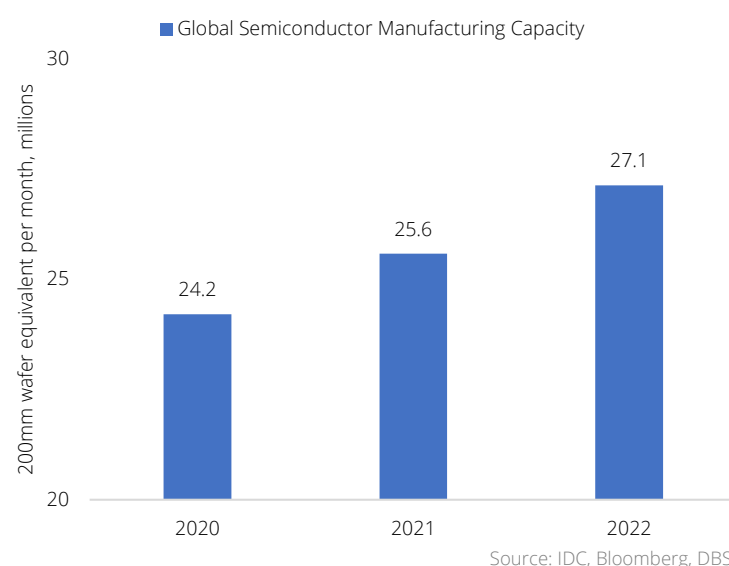
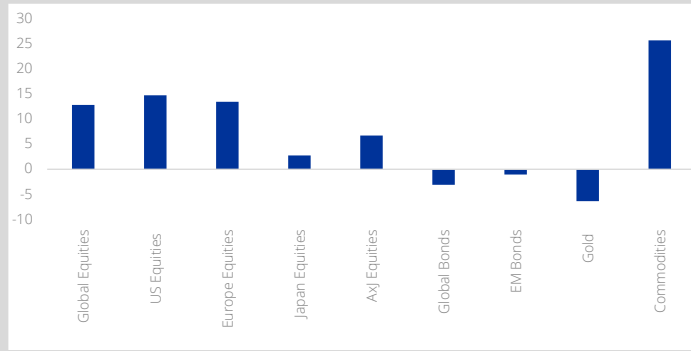


Figure 5: Global semiconductor manufacturing capacity

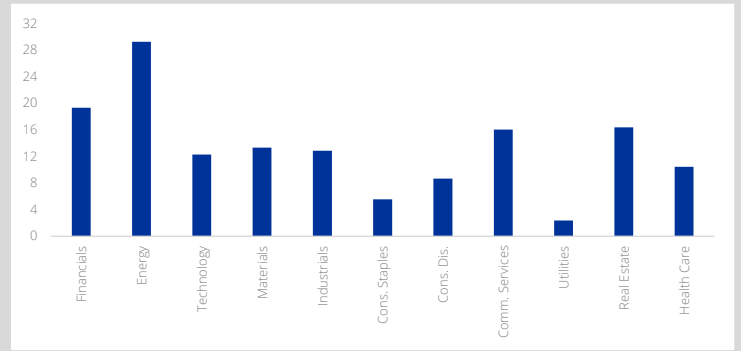


CIO Markets Watch

Global Cross Assets YTD Returns



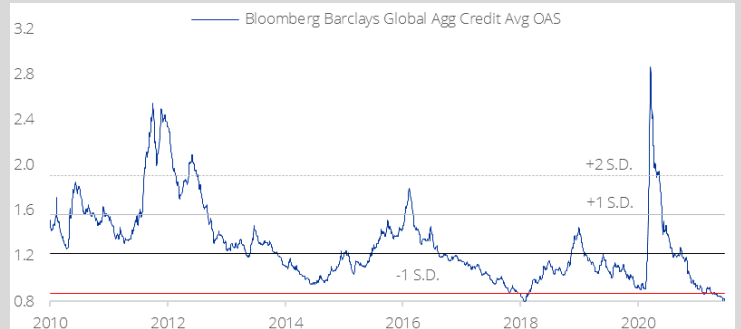
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Index Returns

	1 week	MTD	QTD	YTD
Equities				
S&P 500	1.6%	2.1%	8.0%	14.2%
NASDAQ	2.5%	5.5%	9.5%	12.5%
Russell 2000	1.6%	2.4%	4.6%	17.6%
Stoxx Europe 600	-0.1%	1.3%	5.9%	14.0%
Nikkei-225	3.7%	-0.3%	-0.4%	5.8%
MSCI WORLD	1.4%	1.5%	7.6%	12.5%
MSCI ACWI	1.5%	1.5%	7.2%	11.7%
MSCI Asia ex-Japan	2.5%	1.0%	3.4%	6.0%
MSCI EM	2.2%	1.5%	4.9%	6.9%
HSCEI	3.0%	0.6%	-1.0%	1.2%
SHCOMP	2.2%	0.2%	4.8%	3.8%
Hang Seng	2.7%	0.5%	3.1%	7.5%
STI Index	0.3%	-1.6%	-1.2%	10.0%
Fixed Income				
Barclays Global Aggregate	0.1%	-0.6%	1.4%	-3.1%
Barclays US Aggregate	0.1%	0.6%	1.7%	-1.7%
Barclays US High Yield	0.4%	1.2%	2.6%	3.4%
Barclays Euro Aggregate	0.0%	0.2%	-0.6%	-2.5%
Barclays Euro High Yield	0.1%	0.7%	1.4%	3.6%
JPM EMBI Global	-0.1%	0.8%	3.9%	-1.0%
JPM EMBI Global Diversified	-0.1%	0.7%	4.0%	-1.2%

Prices & Spreads

	Spot	1Q21	4Q20	3Q20
Rates				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.48	1.74	0.92	0.69
Japanese Govt Bond 10-yr	0.05	0.09	0.02	0.01
German Bunds 10-yr	-0.19	-0.29	-0.57	-0.52
Spreads				
US Agg Corporate Spread	0.81	0.91	0.96	1.36
US Corporate HY Spread	2.72	3.10	3.60	5.17
Euro Agg Corporate Spread	0.86	0.94	0.95	1.23
EM USD Agg Spread	2.55	2.67	2.68	3.34
Currencies				
US Dollar Index (DXY)	91.9	93.2	89.9	93.9
EUR/USD	1.19	1.17	1.22	1.17
USD/JPY	110.6	110.7	103.3	105.5
USD/CNY	6.5	6.6	6.5	6.8
Commodities				
WTI Oil	73	59	49	40
London Metal Exchange (LMEX)	4134	3787	3415	2968
TR/CC CRB Commodity	211	185	168	149
Gold	1778	1708	1898	1886

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



Macro Calendar

	Date	Period	Survey	Prior
United States & Eurozone				
Change in Nonfarm Payrolls (US)	02-Jul	Jun	700k	559k
Initial Jobless Claims (US)	01-Jul	26-Jun	389k	411k
ISM Manufacturing (US)	01-Jul	Jun	61	61.2
Conf. Board Consumer Confidence (US)	29-Jun	Jun	119	117.2
MBA Mortgage Applications (US)	30-Jun	25-Jun	--	2.10%
Durable Goods Orders (US)	02-Jul	May	--	2.30%
Markit Eurozone Manufacturing PMI (EU)	01-Jul	Jun	63.1	63.1
Markit US Manufacturing PMI (US)	01-Jul	Jun	62.6	62.6

Macro Calendar

	Date	Period	Survey	Prior
Asia				
Industrial Production MoM (JP)	29-Jun	May	-2.10%	2.90%
Manufacturing PMI (CN)	29-Jun	Jun	50.8	51
Caixin China PMI Mfg (CN)	30-Jun	Jun	51.9	52
Jibun Bank Japan PMI Mfg (JP)	30-Jun	Jun	--	51.5
Tankan Large Mfg Index (JP)	30-Jun	2Q	16	5
Retail Sales y/y (SG)	05-Jul	May	--	54.00%
Tankan Large All Industry Capex (JP)	30-Jun	2Q	7.20%	3.00%
Tankan Large Non-Mfg Index (JP)	30-Jun	2Q	3	-1

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