

# CIO Weekly

30 November 2021

## Key Points

- **Equities:** Strong funds inflow into US equities amid rising investor enthusiasm; Technology and Health Care leading the pack in 3Q earnings season
- **Credit:** ESG issuances make new highs in 2021
- **FX:** DXY hit session high of 96.4 before returning to the day's open at 96.2; USD/JPY to trade between 113.30 and 114.10 before Powell's testimony
- **USD Rates:** Uncertainties on omicron variant weigh on yields as investors take out some insurance in case of bad economic outcomes
- **Thematics:** Cloud transformation a positive catalyst for China ERP sector
- **The Week Ahead:** Keep a lookout for US change in nonfarm payrolls; China manufacturing PMI

## GLOBAL CROSS ASSETS

### Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	35,135.94	0.7%	14.8%
S&P 500	4,655.27	1.3%	23.9%
NASDAQ	15,782.83	1.9%	22.5%
Stoxx Europe 600	467.24	0.7%	17.1%
DAX	15,280.86	0.2%	11.4%
CAC 40	6,776.25	0.5%	22.1%
FTSE 100	7,109.95	0.9%	10.1%
MSCI AxJ	787.26	-0.5%	-6.6%
Nikkei 225	28,283.92	-1.6%	3.1%
SHCOMP	3,562.70	0.0%	2.6%
Hang Seng	23,852.24	-0.9%	-12.4%
MSCI EM	1,218.99	-0.3%	-5.6%
UST 10-yr yield*	1.50	1.7%	58.6
JGB 10-yr yield*	0.07	-1.4%	5.3
Bund 10-yr yield*	-0.32	-5.6%	25.3
US HY spread*	3.30	-3.2%	-30.0
EM spread*	350.08	-1.0%	27.1
WTI (USD)	69.95	2.6%	44.2%
LMEX	4,368.20	0.9%	27.9%
Gold (USD)	1,784.60	-1.0%	-6.0%

Source: Bloomberg

\* Changes in basis points

## Equities: Strong funds inflow into US equities amid rising investor enthusiasm

**Fund flows into US equities exceeded other developed markets.** Based on data by EPFR Global, funds flow into US equities hit USD62b during 4Q21 (as of 17 November) and this is vastly higher than the inflows of USD3b and USD4b registered by Europe and Japan, respectively. Year-to-date, US equities similarly registered outsized funds inflow of USD347b, compared to USD29b for Europe and USD28b for Japan.

At the other end of the spectrum, Asia ex-Japan funds saw only subdued flows of USD8b. The flow data underpins our view that Developed Markets (DM) equities will be preferred over Emerging Markets (EM) equities in the year of the taper and beyond.

**3Q earnings season – Technology and Health Care leading the pack.** In the recent 3Q reporting season, the S&P 500 reported earnings surprise of 81.9% and on a sectoral basis, Technology and Health Care led the pack at 91.4% and 90.5%, respectively.

In terms of earnings growth, sectors with high percentage of companies reporting positive growth were Energy and Technology. Based on consensus forecast, EPS growth for US equities is expected at 7.7% in 2022; this is higher than the 6.5% forecast for global equities.

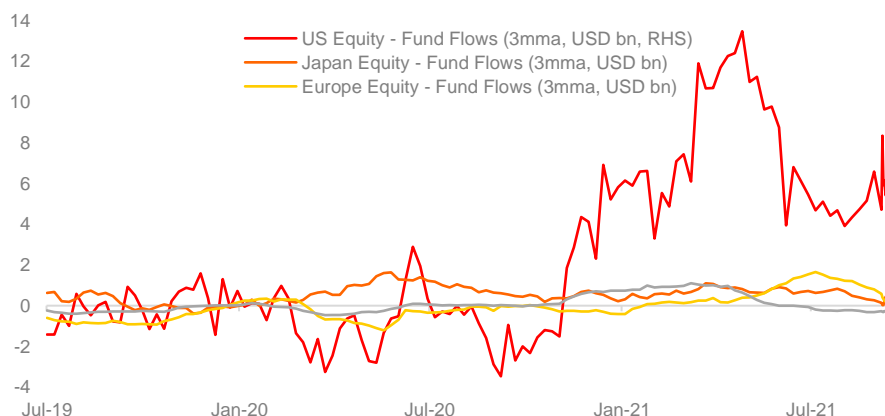
**Maintain Overweight stance on US equities given positive fundamentals.** The Citi Economic Surprise Index (US) suggests that macro momentum for the market has bottomed and it is now back to positive territory. This auger well for the outlook of corporate earnings and increases the prospects of upward earnings revisions in the coming months.

Sector-wise, we maintain our positive view on Tech-related plays like Technology, Consumer Discretionary, and Communication Services. Year-to-date, these sectors saw average gains of 24.5% and this is marginally higher than the gains seen in the broader market.

The DBS Chief Investment Office has recently published CIO Vantage Point – The Metaverse (please refer to “The Metaverse: From fiction to fact”, 15 Nov 2021) which discusses the rise of the world led by virtual reality. We believe this theme will gain traction in the coming quarters. Geared beneficiaries are Tech-related companies in the social media, gaming, and semiconductors space.

Dylan Cheang | Strategist

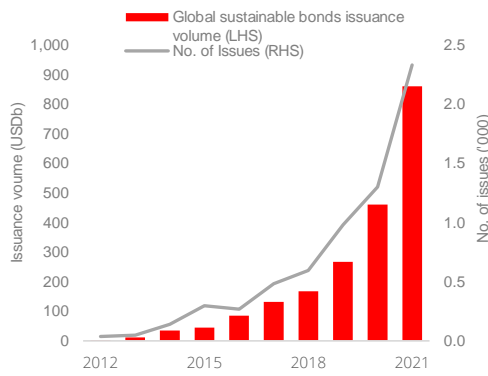
Figure 1: US equities see strong funds inflow



Source: EPFR Global, DBS

## Credit: ESG issuances make new highs in 2021

Figure 2: Credit issuers are “going green”



Source: Bloomberg, DBS

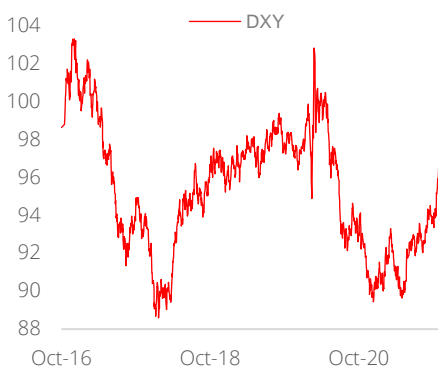
No longer a purely altruistic endeavour, environmental, social, and governance (ESG) integration continues to make headway into mainstream investing philosophy as asset managers see the benefit of an augmented risk analysis framework – especially for credit portfolios which favours a posture of loss avoidance over the picking of sectoral winners. ESG metrics by nature are designed to measure unconventional risk exposure in companies (environmental irresponsibility, unsafe workplace practices, product impact, social capital risk etc), which serve to mitigate exposure to the extreme left tail scenarios that can be detrimental to credit returns.

As demand continues to soar from sustainability-linked funds, credit issuers are also taking note, with sustainable bond issuance volumes continuing to make new highs every year – 2021 issuances surging above c.USD860b to date. These bonds are issued with the objective that the funds raised would be deployed in a manner that facilitates the achievement of pre-defined sustainability targets, ensuring that profitability does not come at the detriment of other “intangibles” such as environmental or social factors. We believe that the ESG framework would augment the risk-return profile of a credit portfolio due to its multi-dimensional approach to risk-analysis, allowing investors to do well while doing good for the world around us.

Daryl Ho | Strategist

## FX: Verdict is still out on omicron

Figure 3: Dollar strength



Source: Bloomberg, DBS

**DXY hit a session high of 96.4 before returning to the day's open at 96.2.** The greenback tracked the US 10Y treasury yield which failed to close above 1.50% after an intra-day high of 1.564% from 1.473% last Friday. Dow recovered 0.7% to 35,136 but closed beneath its 100-day moving average (dma) at 35,160 and its pre-Thanksgiving close of 35,804. Investors keen to buy on dips cheered US President Joe Biden's announcement that there would be no lockdowns or new travel restrictions in response to Omicron. However, the World Health Organization dampened risk appetite with its warning that the global risk from the omicron Covid variant was “very high”.

According to prepared remarks released yesterday, Fed Chair Jerome **Powell intends to tell the Senate Banking Committee today that Omicron and the recent rise in infections pose a threat to the US economy and its dual mandate.** Apart from discouraging people to return to work in person, Omicron could prolong supply-chain disruptions and keep inflation high for longer. Powell's remarks negated the optimism from Atlanta Fed President Raphael Bostic who played down the risk from Omicron last Friday (26 November). Bostic was probably encouraged by the Atlanta Fed GDPNow forecast model, which estimated US GDP to expand by an annualised 8.6% q/q in 4Q. On the data front, Dallas Fed manufacturing activities slowed to 11.8 in November; consensus had expected a rise to 15.0 from 14.6 in September. Today, the US Conference Board's consumer confidence index is expected to drop to 111.0 in November from 113.8 in October.

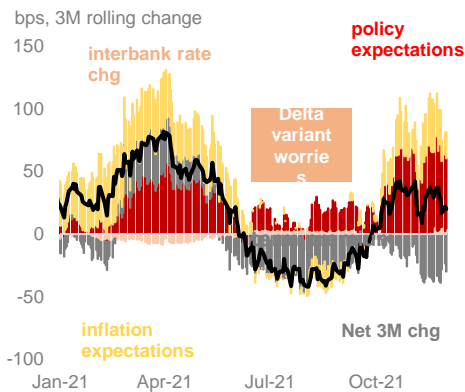
**USD/JPY to trade between 113.30 and 114.10 before Powell's testimony.** USD/JPY found support at 113 but remained weak well below the year's high of 115.43 last Wednesday. Nikkei 225 index fell 1.6% to 28,284 on Monday, below its 100-dma at 28,730. Japan joined Israel in barring all new foreign arrivals from 30 November.

**EUR is digesting last Friday's spike to 1.1320 from 1.12.** Today, Eurozone CPI inflation estimate is set to rise from 4.1% y/y in October and exceed the 4.5% y/y consensus for November. Yesterday, Germany's CPI inflation harmonised for the EU spiked to 6.0% y/y in November from 4.6% in October, well above 5.5% consensus and in line with the Bundesbank's expectations. ECB board member Isabel Schnabel reckoned that inflation might peak in November and trend back to 2% in 2022, and hence, no urgency for the ECB hike rates. The German Economy Ministry was less confident and indicated in mid-November that inflation was only expected to ease at the start of 2022. Like it or not, ECB needs to recognise that Germany's inflation has closed in with the US.

Philip Wee | FX Strategist

## Rates: USD Rates – factoring in omicron risks in a calmer fashion

Figure 4: Breakdown of changes in 10Y UST yield



**Fears over the omicron variant somewhat eased overnight.** This is more apparent in the equities space (especially the Nasdaq) but less so in US Treasuries. While the curve did steepen, longer-term yields ended the trading day only modestly higher than what they closed at last Friday. 10Y yields are trading close to 1.50% (off the intraday high of 1.56%), some 13 bps below the level seen before the variant news hit.

We think that market pricing is reasonable, albeit low compared to fundamentals. Uncertainties due to this variant would weigh on yields as **investors take out some insurance (compressing term premium and lowering Fed hike bets) in case of bad economic outcomes.** At the minimum, there already is additional economic damage taken as more stringent travel restrictions get put in place. Even if this turns out to be a false alarm, it would still be a few weeks before further reopening in international travel takes place. If the omicron variant turns out to be as potent as delta, global economic growth would be impacted for months (delaying the normalisation higher in US yields/rates).

**We think that dips in USD rates should be paid as we do not think that Fed normalisation would be derailed.** To be sure, the threat of lockdowns points to downside risks to growth and upside risks to inflation. If more weight is placed on growth (as is widely expected of the Fed), then there could be some delays in withdrawing loose monetary policy. Before the variant news hit late last week, market participants were gravitating towards accelerated taper in December as a base case. The probability of that taking place has diminished somewhat but these tightening bets could resurface quickly if positive news on omicron emerges. Sustained momentum in the US economy (watch payrolls this Friday) would also help.

Eugene Leow | Rates Strategist

## Thematics: Cloud transformation a positive catalyst for China ERP sector

- ERP migration to cloud is underway in China
- Cloud transformation brings higher growth and creates opportunity for domestic substitution in large-enterprise market
- More positive on subscription model in long term despite short-term setback in transition

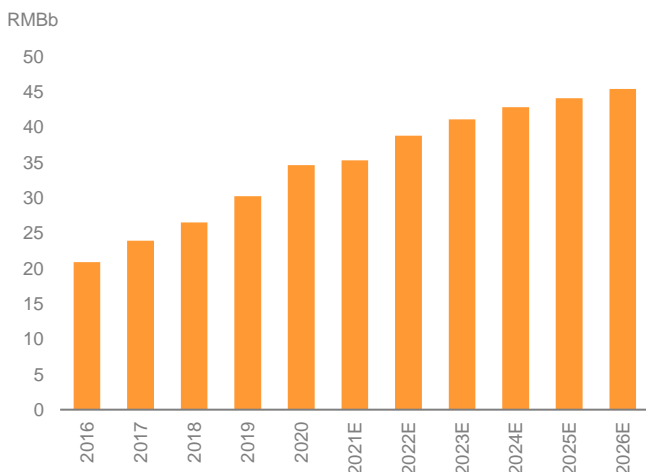
Enterprise resource planning (ERP) migration to cloud is an irresistible trend. Compared to traditional (on-premises) ERP, cloud ERP has advantage in deployment time, cost, accessibility, scalability, data security, etc. An increasing number of Chinese enterprises are adopting cloud technology, while the government also explicitly supports enterprises' migration to cloud. Thanks to cloud transformation in China, cloud service revenue for Kingdee (268 HK) and Yonyou (600588 CH) has expanded rapidly in recent years, accounting for 57% and 40% of total revenue in FY20, respectively.

Cloud transformation accelerates domestic substitution. The subscription model for cloud ERP lowers the threshold of usage. The lower annual subscription fee compared to a one-time license fee could attract price-sensitive customers to convert into paying users, expanding the overall market size. Furthermore, a narrowed technology gap and weakened migration barriers from cloud transformation could create a domestic substitution opportunity in the large-enterprise market, which is still dominated by foreign ERP vendors such as SAP (SAP US) and Oracle (ORCL US).

Subscription model creates higher customer value. The cloud subscription model provides recurring revenue and higher contract value (assuming an average life span of five years) versus the traditional license model. The near-term cashflow and earnings will be negative at the fast-growing initial stage, as a contract usually takes three years to achieve cashflow breakeven. However, DBS Group Research is positive on the long-term value brought by the subscription model. Overall, cloud transformation is a positive catalyst for China ERP players like Kingdee and Yonyou.

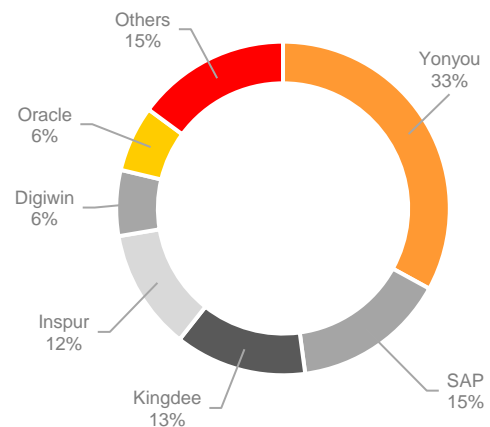
Tsz-Wang TAM | Analyst  
Harry Zhuang | Analyst

Figure 5: China ERP market size



Source: Qianzhan Industry Institute

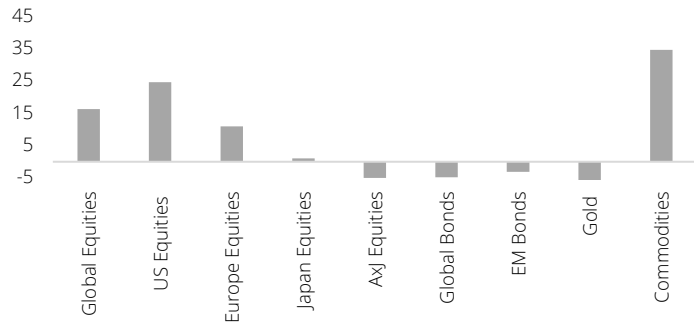
Figure 6: China ERP market share in 2020



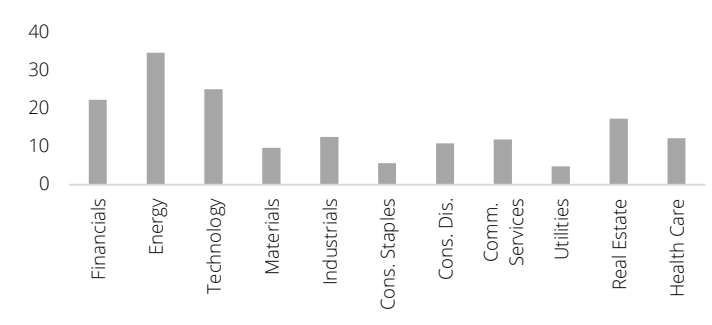
Source: Qianzhan Industry Institute

# CIO Markets Watch

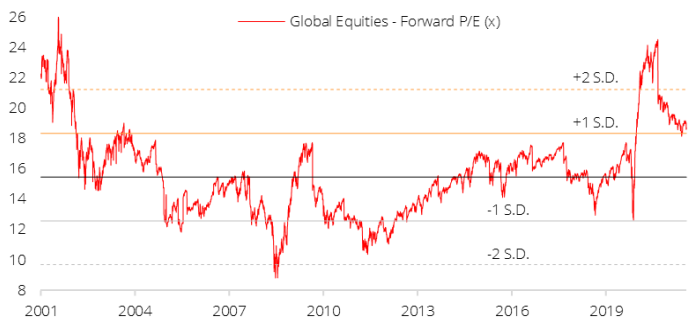
Global Cross Assets YTD Returns



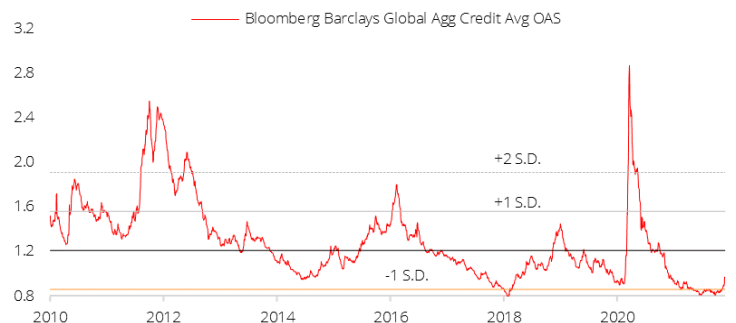
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



## INDEX RETURNS

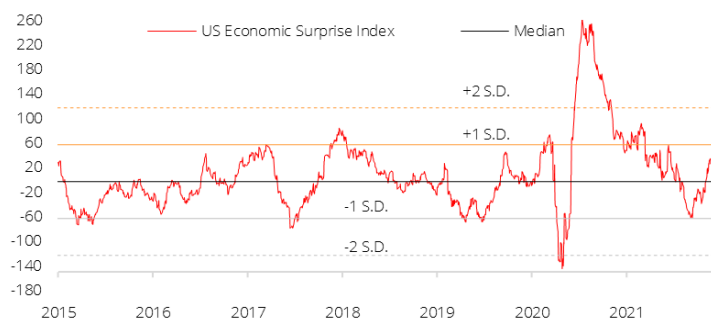
	1 week	MTD	QTD	YTD
<b>Equities</b>				
S&P 500	-0.6%	1.1%	8.1%	23.9%
NASDAQ	-0.5%	1.8%	9.2%	22.5%
Russell 2000	-3.8%	-2.4%	1.7%	13.5%
Stoxx Europe 600	-3.8%	-1.7%	2.7%	17.1%
Nikkei-225	-5.0%	-2.1%	-4.0%	3.1%
MSCI WORLD	-1.4%	-0.6%	5.0%	17.3%
MSCI ACWI	-1.7%	-0.9%	4.0%	14.2%
MSCI Asia ex-Japan	-3.6%	-3.0%	-1.7%	-6.6%
MSCI EM	-3.4%	-3.6%	-2.7%	-5.6%
HSCEI	-4.8%	-5.2%	-2.6%	-20.9%
SHCOMP	-0.5%	0.4%	-0.2%	2.6%
Hang Seng	-4.4%	-6.0%	-2.9%	-12.4%
STI Index	-3.6%	-2.4%	1.1%	9.7%
<b>Fixed Income</b>				
Barclays Global Aggregate	0.3%	-0.5%	-0.7%	-4.8%
Barclays US Aggregate	0.5%	0.0%	0.0%	-1.6%
Barclays US High Yield	-0.7%	-0.9%	-1.0%	3.5%
Barclays Euro Aggregate	-0.2%	1.0%	0.4%	-1.9%
Barclays Euro High Yield	-0.9%	-0.5%	-0.9%	3.3%
JPM EMBI Global	-1.3%	-1.7%	-1.6%	-3.1%
JPM EMBI Global Diversified	-1.7%	-1.9%	-1.9%	-3.8%

## PRICES & SPREADS

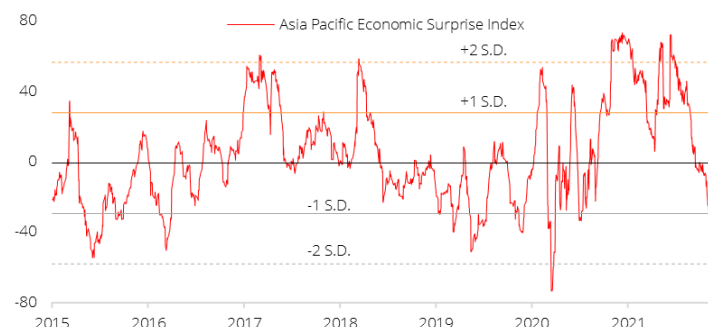
	Spot	2Q21	1Q21	4Q20
<b>Rates</b>				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.50	1.49	1.47	0.92
Japanese Govt Bond 10-yr	0.07	0.07	0.05	0.02
German Bunds 10-yr	-0.32	-0.20	-0.21	-0.57
<b>Spreads</b>				
US Agg Corporate Spread	0.99	0.84	0.80	0.96
US Corporate HY Spread	3.30	2.89	2.68	3.60
Euro Agg Corporate Spread	1.10	0.87	0.86	0.95
EM USD Agg Spread	3.17	2.87	2.57	2.68
<b>Currencies</b>				
US Dollar Index (DXY)	96.3	94.2	92.4	89.9
EUR/USD	1.13	1.16	1.19	1.22
USD/JPY	113.5	111.3	111.1	103.3
USD/CNY	6.4	6.4	6.5	6.5
<b>Commodities</b>				
WTI Oil	70	75	73	49
London Metal Exchange (LMEX)	4368	4161	4152	3415
TR/CC CRB Commodity	226	229	213	168
Gold	1785	1757	1770	1898

# CIO Economics Watch

## US Economic Surprise Index



## Asia Pacific Economic Surprise Index



## MACRO CALENDAR

	Date	Period	Survey	Prior
<b>United States &amp; Eurozone</b>				
Change in Nonfarm Payrolls (US)	03-Dec	Nov	550k	531k
Initial Jobless Claims (US)	02-Dec	27-Nov	240k	199k
ISM Manufacturing (US)	01-Dec	Nov	61.2	60.8
Conf. Board Consumer Confidence (US)	30-Nov	Nov	111	113.8
MBA Mortgage Applications (US)	01-Dec	26-Nov	--	1.80%
Durable Goods Orders (US)	03-Dec	Oct	-0.50%	-0.50%
Markit US Manufacturing PMI (US)	01-Dec	Nov	59.1	59.1
Markit Eurozone Manufacturing PMI (EU)	01-Dec	Nov	58.6	58.6

## MACRO CALENDAR

	Date	Period	Survey	Prior
<b>Asia</b>				
Caixin China PMI Mfg (CN)	30-Nov	Nov	50.6	50.6
Jibun Bank Japan PMI Mfg (JP)	30-Nov	Nov	--	54.2
Retail Sales y/y (SG)	03-Dec	Oct	6.00%	6.60%
Capital Spending y/y (JP)	30-Nov	3Q	1.50%	5.30%
Purchasing Managers Index (SG)	02-Dec	Nov	51	50.8
Monetary Base y/y (JP)	01-Dec	Nov	--	9.90%
Caixin China PMI Services (CN)	02-Dec	Nov	52.5	53.8
Jibun Bank Japan PMI Services (JP)	02-Dec	Nov	--	52.1

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