



# CIO Weekly

4 January 2022

## Key Points

- **Equities:** Singapore banks and REITs are best proxies for a recovering economy
- **Credit:** Corporate credit not deterred by rate hikes
- **FX:** USD range-bound despite a strong start to 2022; Commodity currency weakness despite improved risk appetite
- **Thematics:** Ride on downstream recovery in ASEAN Tech
- **The Week Ahead:** Keep a lookout for US change in nonfarm payrolls; Japan inflation numbers

## GLOBAL CROSS ASSETS

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	36,585.06	0.7%	0.7%
S&P 500	4,796.56	0.6%	0.6%
NASDAQ	15,832.80	1.2%	1.2%
Stoxx Europe 600	489.99	0.4%	0.4%
DAX	16,020.73	0.9%	0.9%
CAC 40	7,217.22	0.9%	0.9%
FTSE 100	7,384.54	0.0%	0.0%
MSCI Axj	790.38	0.1%	0.1%
Nikkei 225	28,791.71	0.0%	0.0%
SHCOMP	3,639.78	0.0%	0.0%
Hang Seng	23,274.75	-0.5%	-0.5%
MSCI EM	1,233.50	0.1%	0.1%
UST 10-yr yield*	1.63	7.8%	11.8
JGB 10-yr yield*	0.07	0.0%	0.0
Bund 10-yr yield*	-0.12	-33.0%	6.0
US HY spread*	2.78	-1.8%	-5.0
EM spread*	321.54	-2.6%	-8.7
WTI (USD)	76.08	1.2%	1.2%
LMEX	4,502.00	0.0%	0.0%
Gold (USD)	1,801.45	-1.5%	-1.5%

Source: Bloomberg

\* Changes in basis points

## Equities: Singapore's endemic experiment uplifted GDP

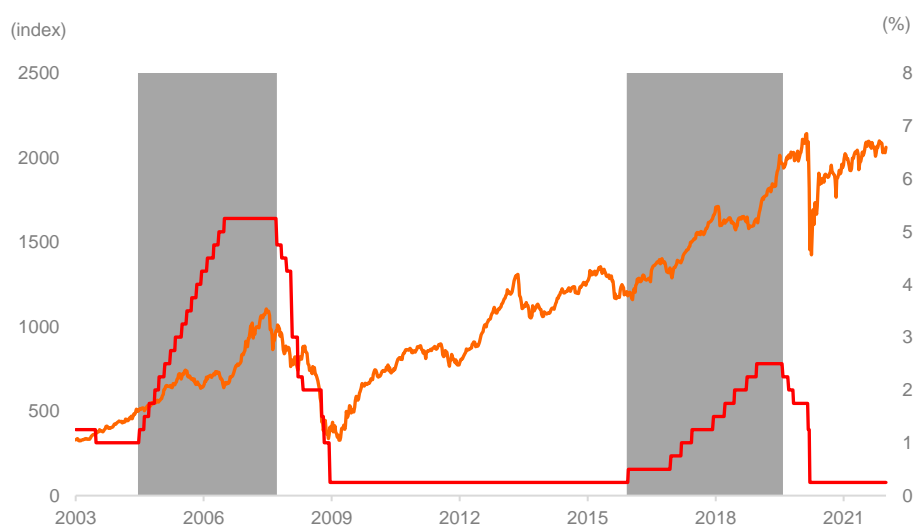
**Singapore's endemic experiment.** Singapore's "living with Covid" opening experienced a setback when the new omicron Covid strain was found. Looking at past periods when social tightening measures were implemented, the benchmark Straits Times Index had hovered above 3,000 levels. With higher vaccination rates today, we believe the market would find strong support. Indeed, the economic recovery from the pandemic is on track. The economy recorded a strong showing of 2.6% q/q in 4Q21, up from 1.2% in 3Q21, given the easing of domestic measures and the strong manufacturing sector. 2021 full year growth of 7.2% was the strongest in a decade.

Banks and REITs (real estate investment trusts) remain attractive at current levels. **Singapore banks are poised for re-rating as the global monetary tightening cycle will likely begin this year.** We expect the US to hike rates at least twice in 2H22. Our sensitivity analysis indicates that every 25 bps increase in interest rates would result in net interest margin increases of 3-7 bps with a corresponding 2-6% increase in net profit across Singapore banks. Ample loan loss provision implies potential writebacks that could provide earnings upside in FY22. We also expect further upside in dividend payouts in FY22F, due to strong capital levels. Banks are the best proxy to the recovering Singapore economy.

Singapore REITs (SREITs) continue to pay between 4-6% in dividends and we like them as income generators of our barbell portfolio. As opposed to conventional wisdom, our analysis shows that the sector had performed well historically in a rising rate environment as the ability to raise rates reflects the confidence on the economic recovery. SREITs should perform with all the respective sub-industries such as retail, office, and hospitality REITs normalising in tandem with the recovering economy. Positive rental revisions, stronger demand, and rising opportunities for acquisitions are positive drivers in line with a robust economy. Furthermore, these outcomes are from very low bases.

Joanne Goh | Strategist

Figure 1: SREITs still perform in a rising rate environment



Source: Bloomberg, DBS

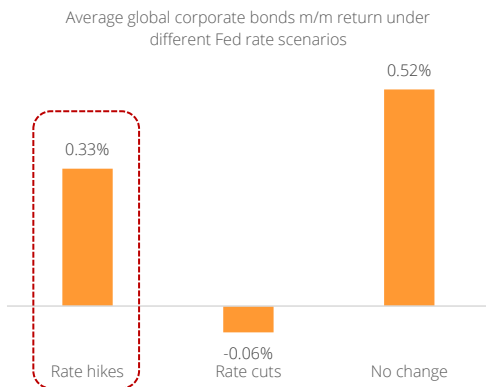
## Credit: Corporate credit not deterred by rate hikes

With the US Federal Reserve signalling a faster pace of taper than initially forecast amid rising inflation, it is now largely anticipated that rate hikes would also be brought forward to cool an economy that has rebounded strongly in 2021. The impending rate hike cycle may make fixed income investing seem unattractive, given the conventional inverse relationship between bond prices and rates. History, however, suggests that this is not the whole picture.

The chart illustrates the mean m/m global corporate bond index returns across rate hiking periods over the past two decades. Unintuitively, rate hikes were accompanied by positive returns on average, as the healthy economic environment that is supportive of rate hikes is also in turn supportive of credit spread compression. Conversely, rate cuts generally saw negative returns on balance, as such policy reactions usually occurred following a crisis event. That said, corporate credit returns saw the strongest average performance when base rates remained stable. Nonetheless, while the latest inflation numbers continue to surprise on the upside, with rate hikes well on the cards, we recommend that investors take heed of inflation-shielding credit strategies outlined in our 1Q22 CIO Quarterly Insights (please refer to "Global Credit 1Q22: Inflation-shielding strategies, 29 Dec 2021").

Daryl Ho | Strategist

Figure 2: Rate hikes do not deter credit returns



Source: Bloomberg, DBS

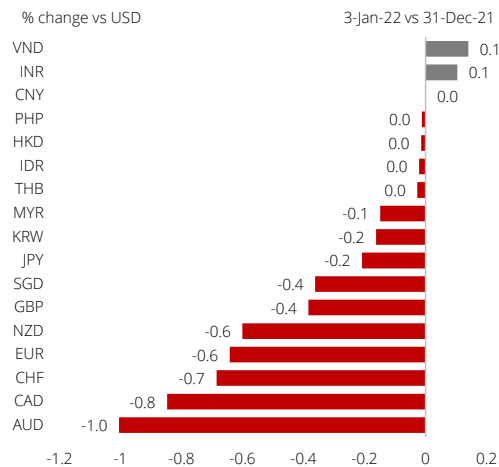
## FX: USD range-bound despite a strong start to 2022

**DXY appreciated 0.6% to 96.214 on the first trading day of 2022.** The US 10Y Treasury yield surged from 1.51% to 1.63%, its highest level since 25 November. Driven by Fed hike expectations ahead of tomorrow's (5 January) FOMC minutes, this was the sharpest spike for US bond yields since 2009. Dow and S&P 500 rose 0.7% and 0.6% respectively to start 2022 at new record highs. Nasdaq Composite rallied 1.2%. Investors reckoned record Omicron infections would drag out supply disruptions and keep inflation high. All said, DXY might have simply bounced off the floor of its 95.5-97.0 range set since mid-November. The US monthly jobs report this Friday is still considered the most significant event this week.

**Interestingly, commodity currencies did not recover from the improved risk appetite.** AUD, CAD, and NZD depreciated 1.0%, 0.9%, and 0.6%, respectively. AUD and NZD fell below 0.72 and 0.68 correspondingly for the first time since 21 December. CAD returned more than the 0.8% gain chalked on the last day of 2021. The Reserve Bank of Australia (RBA) is considered the most dovish of the three central banks. Although RBA could end its bond-buying programme at its meeting on 1 February, it has not deviated from its pledge to avoid rate hikes this year. The Bank of Canada (BOC) and the US Federal Reserve will hold their first meeting this year on 26 January. Given BOC's belief that the slack in the labour market has diminished substantially, Canada's job report this Friday could cement expectations for earlier rate hikes. Then again, NZD depreciated to 0.67-0.68, the lowest levels in 2021, despite the two rate hikes by the Reserve Bank of New Zealand (RBNZ) in October and November. RBNZ will hold its meeting on 23 February. On balance, AUD/USD and NZD/USD are likely to deviate far from 0.72 and 0.68 respectively while USD/CAD trades between 1.2630 and 1.2790.

**European currencies were not spared from a stronger greenback.** EUR and CHF depreciated 0.6% each while GBP fell 0.4%. Today, consensus expects Switzerland's CPI inflation to fall 0.1% MoM in December, its first negative reading since July. The Swiss National Bank expects inflation to average 1.0% this year before falling to 0.6% in 2023, which is low compared to its peers. Hence, it has pledged to keep monetary policy loose and intervene if needed to contain its "highly valued" CHF. Not surprisingly, USD/CHF has not been able to break below 0.91 in the past four months. On the other hand, the currency pair also had difficulties holding above 0.93. Meanwhile, the European Central Bank is also considered dovish and is seeking to keep its asset purchases programme running even as it pushes back bets to bring forward rate hike into 2022. EUR bears are

Figure 3: USD starts 2022 on a firm note



Source: Bloomberg, DBS

looking for CPI inflation on 7 January to soften to 4.8% YoY in December from 4.9% in November and bring EUR/USD down to the floor of its 1.12-1.14 range. Although the Bank of England's surprise rate hike on 16 December lifted GBP/USD from its lows around 1.32, Fed hike expectations could keep it between 1.34 and 1.36 in the near term.

Ccy pair, eop	3 Jan	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
USD/CNY	6.3561	6.47	6.54	6.60	6.56	6.52	6.48	6.44	6.40
USD/HKD	7.7977	7.81	7.82	7.83	7.82	7.81	7.80	7.79	7.78
USD/INR	74.260	75.0	76.0	77.0	76.5	76.0	75.5	75.0	74.5
USD/IDR	14266	14500	14600	14700	14600	14500	14400	14300	14200
USD/MYR	4.1727	4.25	4.30	4.35	4.32	4.29	4.26	4.23	4.20
USD/PHP	50.998	51.0	51.5	52.0	51.7	51.4	51.1	50.8	50.5
USD/SGD	1.3539	1.37	1.38	1.39	1.38	1.37	1.36	1.35	1.34
USD/KRW	1192	1190	1205	1220	1210	1200	1190	1180	1170
USD/THB	33.220	34.0	34.5	35.0	34.6	34.2	33.8	33.4	33.0
USD/VND	22794	22655	22605	22555	22500	22450	22400	22350	22300
AUD/USD	0.7190	0.71	0.70	0.69	0.70	0.71	0.72	0.73	0.74
USD/CAD	1.2745	1.28	1.29	1.30	1.30	1.29	1.28	1.27	1.26
EUR/USD	1.1297	1.11	1.10	1.09	1.10	1.11	1.12	1.13	1.14
USD/JPY	115.32	115	116	117	118	117	116	115	114
NZD/USD	0.6785	0.67	0.66	0.65	0.66	0.67	0.68	0.69	0.70
USD/CHF	0.9192	0.94	0.95	0.96	0.95	0.94	0.93	0.92	0.91
GBP/USD	1.3480	1.30	1.29	1.28	1.29	1.30	1.31	1.32	1.33
DXY Index	96.213	97.5	98.5	99.5	98.5	97.5	96.5	95.5	94.5

Philip Wee | FX Strategist

## Thematics: ASEAN Technology – Ride on downstream recovery

- Technology among the top performing sectors despite a volatile year plagued by supply chain disruptions
- Structural change and new technologies to serve as tailwinds to the technology industry in 2022 and beyond
- Switch to battered Singapore downstream, cheapest in PEG, and beneficiaries of recovery in supply chain
- Remain positive on semiconductor

**2021 a year of disruption.** Despite the many challenges to the supply chain, the Technology sector came out as one of the top performing sectors lifted by its many structural tailwinds, with global tech stocks returning more than 24% year-to-date.

**Where are we in the recovery cycle?** We believe we are in the mid-to-late part of the bull stock market cycle and remain cautiously optimistic. Meanwhile, structural tailwinds should continue to drive the industry forward. Growth in technology products could moderate due to high base effect, cyclical, and shift in spending. Nevertheless, with the increased digital penetration of economies, these elevated levels of demand should continue.

**Switch to Singapore downstream.** We think semiconductor and component shortages should gradually ease from 2Q22 onwards and be resolved by 2023. The main beneficiaries will be the downstream players in the value chain, especially the SGX-listed plays that were badly affected by the supply chain woes in 2021. DBS Group Research expects Singapore downstream to show strong earnings recovery in FY22F. On a price/earnings to growth (PEG) basis, Singapore stocks, such as Venture (VMS SP), Aztech (AZTECH SP), Nanofilm (NANO SP), are the cheapest, compared to Malaysia and Thailand stocks in our coverage.

**Remain positive on semiconductor.** While the structural uptrend of the semiconductor industry should continue for years, the sector could ease slightly in 2023 as extra capacity begins to come on stream. We expect to see a slower CAGR of 5% in 2023-2025, vs the 2020-2025 growth of 8%, with the overall uptrend intact. Hence, we remain positive on upstream plays like AEM (AEM SP), UMS (UMSH SP), Frencken (FRKN SP), Micro-Mechanics Holdings (MMH SP), and Inari (INRI MK).

Lee Keng LING | Analyst  
Pei Hwa HO | Analyst  
Woo Kim TOH | Analyst

Wei Le CHUNG | Analyst  
Chanpen SIRITHANARATTANAKUL | Analyst

Figure 5: Global Technology outperforming the market

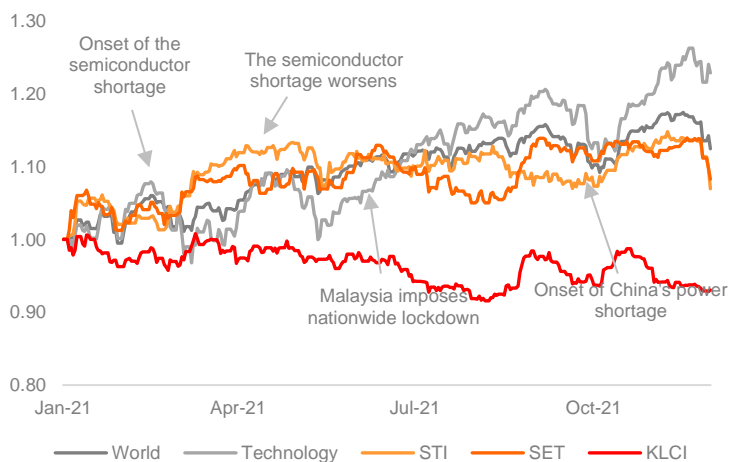
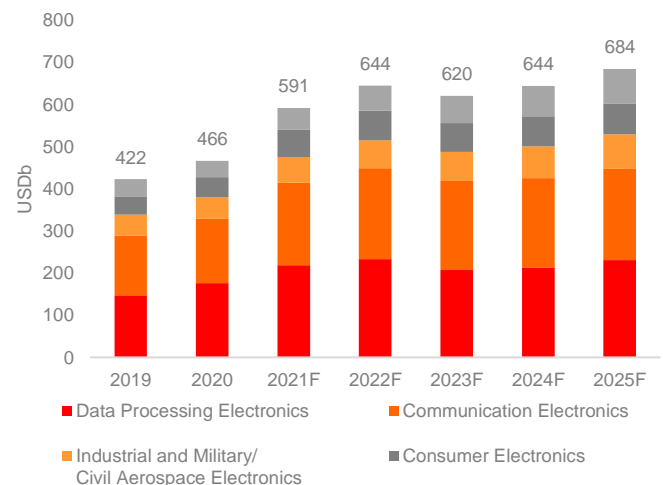


Figure 6: Semiconductor revenue by end-use industry

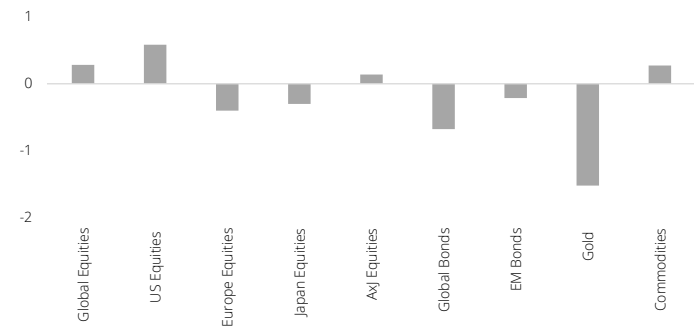


Source: Bloomberg, DBS  
Data as of 30 November 2021

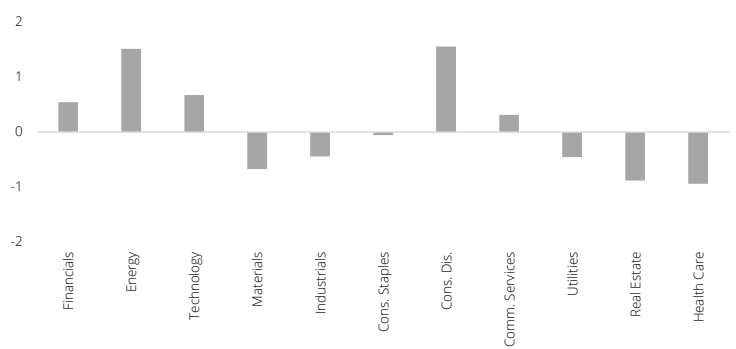
Source: Charts/graphics created by DBS based on Gartner research  
Source: Gartner Inc, Semiconductor Forecast Database, Worldwide, 3Q21 Update, Ben Lee, et al, 4 October 2021

# CIO Markets Watch

Global Cross Assets YTD Returns



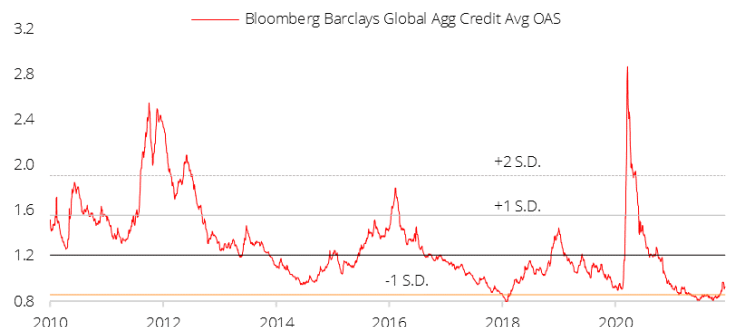
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



## INDEX RETURNS

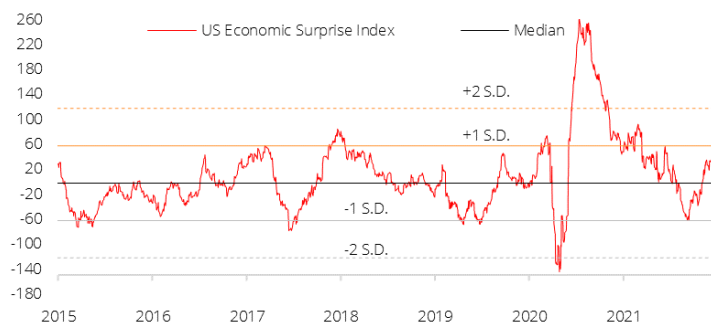
	1 week	MTD	QTD	YTD
<b>Equities</b>				
S&P 500	0.1%	0.6%	0.6%	0.6%
NASDAQ	-0.2%	1.2%	1.2%	1.2%
Russell 2000	0.5%	1.2%	1.2%	1.2%
Stoxx Europe 600	0.9%	0.4%	0.4%	0.4%
Nikkei 225	0.4%	0.0%	0.0%	0.0%
MSCI WORLD	0.1%	0.3%	0.3%	0.3%
MSCI ACWI	0.2%	0.3%	0.3%	0.3%
MSCI Asia ex-Japan	1.1%	0.1%	0.1%	0.1%
MSCI EM	1.0%	0.1%	0.1%	0.1%
HSCEI	-0.2%	-0.6%	-0.6%	-0.6%
SHCOMP	0.7%	0.0%	0.0%	0.0%
Hang Seng	0.2%	-0.5%	-0.5%	-0.5%
STI Index	1.0%	0.3%	0.3%	0.3%
<b>Fixed Income</b>				
Barclays Global Aggregate	-0.6%	-0.7%	-0.7%	-0.7%
Barclays US Aggregate	-0.8%	-0.8%	-0.8%	-0.8%
Barclays US High Yield	-0.1%	-0.1%	-0.1%	-0.1%
Barclays Euro Aggregate	-0.6%	-0.2%	-0.2%	-0.2%
Barclays Euro High Yield	0.1%	0.0%	0.0%	0.0%
JPM EMBI Global	0.0%	-0.2%	-0.2%	-0.2%
JPM EMBI Global Diversified	0.3%	0.0%	0.0%	0.0%

## PRICES & SPREADS

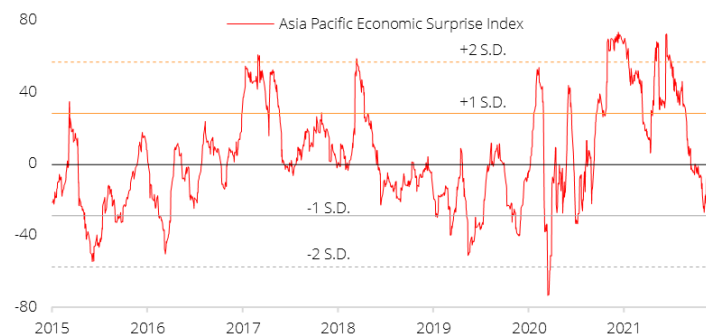
	Spot	4Q21	3Q21	2Q21
<b>Rates</b>				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.63	1.51	1.49	1.47
Japanese Govt Bond 10-yr	0.07	0.07	0.07	0.05
German Bunds 10-yr	-0.12	-0.18	-0.20	-0.21
<b>Spreads</b>				
US Agg Corporate Spread	0.93	0.92	0.84	0.80
US Corporate HY Spread	2.78	2.83	2.89	2.68
Euro Agg Corporate Spread	0.98	0.97	0.87	0.86
EM USD Agg Spread	2.78	2.85	2.87	2.57
<b>Currencies</b>				
US Dollar Index (DXY)	96.2	95.7	94.2	92.4
EUR/USD	1.13	1.14	1.16	1.19
USD/JPY	115.3	115.1	111.3	111.1
USD/CNY	6.4	6.4	6.4	6.5
<b>Commodities</b>				
WTI Oil	76	75	75	73
London Metal Exchange (LMEX)	4502	4502	4161	4152
TR/CC CRB Commodity	233	232	229	213
Gold	1801	1829	1757	1770

# 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)	07-Jan	Dec	424k	210k
Initial Jobless Claims (US)	06-Jan	01-Jan	195k	198k
ISM Manufacturing (US)	04-Jan	Dec	60	61.1
Durable Goods Orders (US)	06-Jan	Nov	2.50%	2.50%
MBA Mortgage Applications (US)	05-Jan	31-Dec	--	-0.60%
Unemployment Rate (US)	07-Jan	Dec	4.10%	4.20%
ADP Employment Change (US)	05-Jan	Dec	420k	534k
Factory Orders (US)	06-Jan	Nov	1.50%	1.00%

## MACRO CALENDAR

	Date	Period	Survey	Prior
<b>Asia</b>				
Tokyo CPI Ex-Fresh Food y/y	06-Jan	Dec	0.50%	0.30%
Money Supply M2 y/y	08-Jan	Dec	8.60%	8.50%
Retail Sales y/y	05-Jan	Nov	0.70%	7.50%
Purchasing Managers Index	04-Jan	Dec	--	50.6
Monetary Base y/y	04-Jan	Dec	--	9.30%
New Yuan Loans CNY	08-Jan	Dec	1250.0b	1270.0b
Tokyo CPI y/y	06-Jan	Dec	0.70%	0.50%
Caixin China PMI Services	05-Jan	Dec	51.9	52.1

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