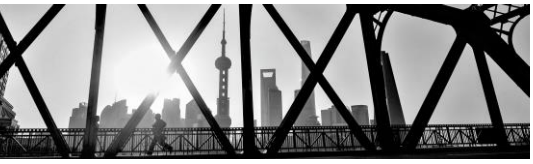


CIO Weekly GLOBAL MULTI-ASSET

9 January 2023

Key Points

- Equities: Falling inflation in Europe and slowing wage growth in the US see global equities rise for the week
- Credit: Yields galore in quality credit which now offers high income generation with certainty and stability of returns
- FX: Greenback caught between bears looking for smaller Fed hike (or Fed pause) and the Fed wanting monetary policy to stay restrictive this year
- Rates: Conditions aligned for another Fed downshift to 25 bps at next FOMC meeting; Terminal rate to be reached by end-1Q at 5% before a pause takes hold
- Thematics: Expect more supportive policies to bring structural opportunities to China's brokerage sector
- The Week Ahead: Keep a lookout for US change in Initial Jobless Claims; China Inflation Numbers

GLOBAL MULTI-ASSET RETURNS

Index	Close	Overnight	YTD
DJIA	33,631	2.1%	1.5%
S&P 500	3,895	2.3%	1.4%
NASDAQ	10,569	2.6%	1.0%
Stoxx Europe 600	444	1.2%	4.6%
DAX	14,610	1.2%	4.9%
CAC 40	6,861	1.5%	6.0%
FTSE 100	7,699	0.9%	3.3%
MSCI AxJ	642	0.0%	3.6%
Nikkei 225	25,974	0.6%	-0.5%
SHCOMP	3,158	0.1%	2.2%
Hang Seng	20,992	-0.3%	6.1%
MSCI EM	989	0.5%	3.4%
UST10-yr yield*	3.56	-16.0	-31.7
JGB 10-yr yield*	0.50	7.7	8.6
Bund 10-yr yield*	2.21	-10.5	-35.8
US HY spread*	4.37	-11.0	-32.0
EM spread*	392.66	4.3	18.5
WTI (USD)	73.77	0.1%	-8.1%
LMEX	3,979.10	1.9%	-0.1%
Gold (USD)	1,865.69	1.8%	2.3%

Source: Bloomberg

* Changes in basis points

Equities: Global equities off to strong start

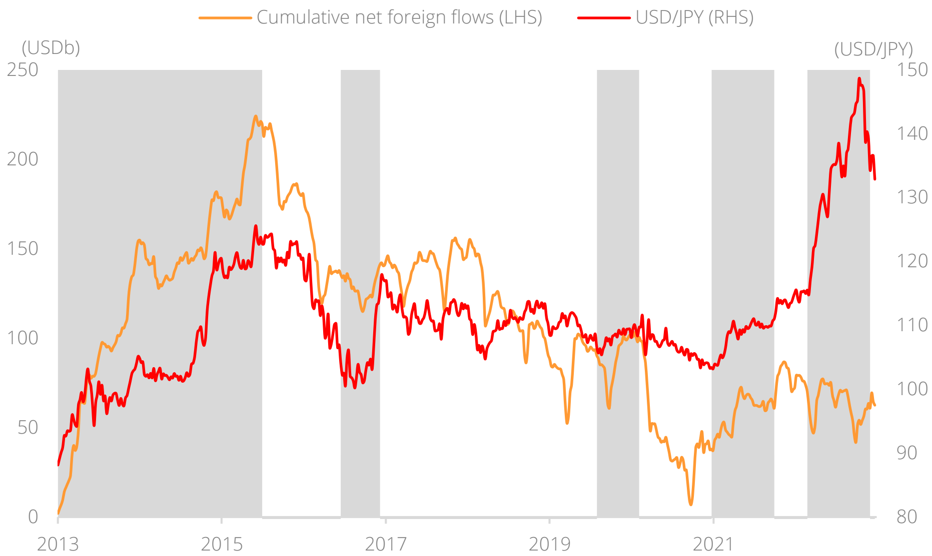
Global equities rise despite strong job market in US. Global equities rose in the first trading week of 2023 despite stronger-than-expected nonfarm payroll data for December. Global equities were up 2.0% for the week, with Developed Markets and Emerging Markets gaining 1.8% and 3.4% respectively.

US equities rose on Friday after the release of slowing wage growth data for the month of December. The S&P 500, Nasdaq, and Dow Jones closed 1.4%, 1.0%, and 1.5% higher for the week despite hawkish comments from the Fed ahead earlier in the week. Europe markets rallied for the week as December headline inflation moderated to 9.2% from 10.1% in November; the Stoxx 600 and FTSE 100 registered gains of 4.6% and 5.9% for the week. Asian equities closed the week in green despite tepid trading on Friday following the China government's announcement of more supportive real estate sector measures; HSCEI and Hang Seng were up 6.5% and 6.1% respectively.

Topic in focus: A yen play. The Bank of Japan (BOJ) widened the 10Y Japanese Government Bonds (JGB) yield band at its 20 December meeting, causing a knee-jerk reaction to Japan equities. We had earlier highlighted the risk of BOJ monetary action on the yield curve control (YCC) measure. While widening the band to introduce more flexibility, we believe that the BOJ is unlikely to abandon the policy.

To be sure, Japan equities were defensive vs global peers in 2022, returning -6.3% in 2022 in yen terms, but still down -17.4% in dollar terms. Despite the weak yen, foreign investors have not been buying Japanese stocks due to weak risk appetite amid global looming recession concerns. Hence, the BOJ's move should not lead to an unwinding of foreign inflows. USD/JPY is expected to trade between 125-140 and should still be supportive of earnings recovery. Stocks which benefit from 1) private consumption growth due to a rise in wages and relief budget spending; 2) business expansion as the economy continues to reopen; 3) cheaper yen; 4) China reopening; and 5) strong pricing power should continue to register positive earnings momentum.

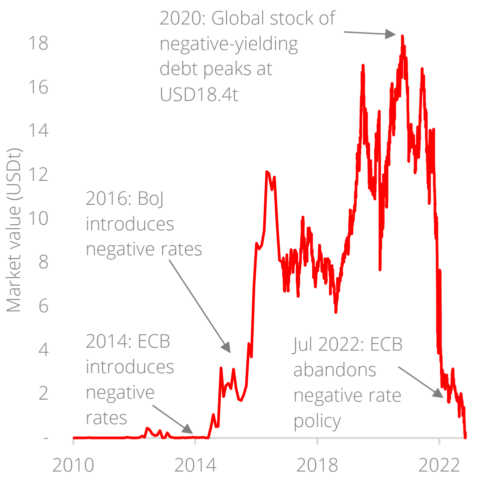
Figure 1: Foreign inflows yet to return despite weak yen



Source: Bloomberg, DBS

Credit: Yields galore in quality credit as world bids goodbye to negative rates

Figure 2: The world's negative-yielding debt has vanished



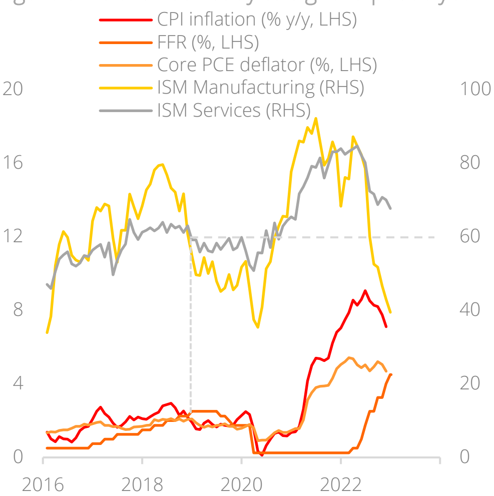
Source: Bloomberg, DBS

With the BOJ widening its yield cap for long-term bonds at the close of 2022, the last security in Bloomberg's index of negative-yielding debt exited negative-yield territory last week, signalling the end of bond markets' decade of yield starvation. Negative yields became commonplace in the wake of the Global Financial Crisis, when the European Central Bank and BOJ introduced negative policy rates to encourage economic recovery, and the global stock of negative-yielding bonds peaked in late 2020, when major central banks adopted ultra-low rates to support economies through the pandemic. However, last year's resurgence of inflation and consequent abandonment of ultra-accommodative monetary policies saw the world's stock of negative-yielding debt quickly vanishing (Figure 2).

Following 2022's rapid readjustment in rates led by the US Fed raising rates by a collective 4.25% across the course of the year, bond markets now offer a plethora of high-income generating alternatives to investors who were yield-starved once upon a time. As we have highlighted in our Global Credit 1Q23 Outlook, investors now no longer need to take on inordinate risks to hunt for yields – the adjustment in the risk-free component of yields means that higher yields are now available even to investors within quality IG credit. Low-risk global IG markets now yield a generous c.5%, giving bonds the benefit of high income generation, with certainty and stability of returns that mitigates portfolio volatility, necessitating the Liquid+ Strategy.

FX: US CPI and Powell this week

Figure 3: Is the Fed ready to signal a pause yet?



Source: Bloomberg, DBS

DXY failed to break above its post-FOMC range between 103.4 and 105 in the first trading week of 2023. Last Friday, the US unemployment rate returned to its lifetime low of 3.5% and propelled the DXY to 105.6. However, the ISM services PMI plunged below the breakeven 50 level for the first time since May 2020 and sent the DXY down to 103.9. The data-dependent market reckoned a weaker US CPI on 13 January could lead the DXY to test the 103.4 support level. Bloomberg consensus sees headline inflation slowing to 6.5% y/y in December from 7.1% in November and core inflation to 5.7% from 6%.

This week, some Fed speakers should keep the door open for a smaller 25 bps hike to 4.5-4.75% at the FOMC meeting on 1 February, even as others look for a second 50 bps hike. Fed Chair Jerome Powell will probably be open to either move at a Riksbank event on Tuesday (10 January). With the US Treasury 2Y yield around 4.25% or the lower bound of the Fed Funds Rate (FFR) range, Powell will push back the market's bets for rate cuts later this year. Apart from upholding the latest Fed's projection for rates rising to 5.1% this year, Powell may emphasise a path of slow hikes to bring inflation down to its 2% target and stay vague about the pause.

At the last FOMC meeting, Powell highlighted the tight labour market as a challenge to bring down non-housing-related core services inflation, which accounts for 55% of the PCE core deflator. We noted the previous tightening cycle ended in December 2018 only after headline CPI inflation and the core PCE deflator fell below the FFR. Overall, the greenback is caught between bears looking for a smaller Fed hike and bargain hunters on the elusive Fed pause and the Fed wanting monetary policy to stay restrictive this year.

In Asia, the CNY is firming against the USD and EUR, with USD/CNH now sliding towards 6.80. Sentiment towards China is improving amid recent Chinese policy shifts towards shoring up growth. Policy support for the property sector is particularly notable and should help bolster equity and debt inflows to Chinese markets. Uncertainty remains for Chinese exports though, and any surprise weakness this week could dampen CNY appreciation.

The JPY could remain volatile as markets continue to press on the Yield Curve Control upper bound. With the BOJ forced to make large unscheduled bond purchases to defend its JGB 10Y target, the JPY may soften a tad, but any weakness should be restrained as markets fear another policy surprise after December's 10Y JGB band widening.

Rates: Data sufficient for another Fed downshift

Figure 4: Curve steepening on the cards

Source: Bloomberg, DBS

ISM services stole the limelight from payrolls last Friday (6 January). Expectations were high for a solid NFP print after ADP employment figures surprised on the upside. However, while NFP did beat (actual: 223k, consensus: 205k), markets were initially more focused on the miss in hourly earnings (actual: 4.6% y/y, consensus: 5.1%). Firm payroll growth in the face of an increase in participation rate and cooler wage pressures suggest that labour market tightness might be overstated from the unemployment rate, which fell to a low of 3.5%. This was sufficient to trigger the initial rally in US Treasuries. However, the ISM services miss (actual: 49.6, consensus 55.0) was glaring and triggered another round of bull-steepening. The components point to broad softening across prices paid, employment, and new orders. This marked a turn in the cycle where weakness was largely concentrated in the manufacturing and housing sectors. As market digests these implications, it became clear that conditions have aligned for another Fed downshift to 25 bps at the next FOMC meeting late January and we stick to our view that the terminal rate would be reached by end-1Q at 5% before a pause takes hold.

Our strategy for UST curve steepening (5Y/30Y, 2Y/10Y) and receive 2Y/5Y/10Y fly for the year stands. We think that the Fed is in the late cycle of tightening. While Fed officials have recently sounded hawkish and minutes suggest worries that financial conditions might be easing too fast, we are wary of putting too much stock in forward guidance in volatile times. The narrative of stagflation, which had been playing for large chunks of 2022, could well turn stale. The jury is still out on whether the US will enter a recession or would data prove resilient despite the tightening that already got delivered. In either case, we do not think that deeply inverted curves would be warranted as we head deeper into 2023. This week, markets will want confirmation that CPI (12 January) continues to ease (further reducing the urgency for jumbo hikes), cemented the case for a more cautious hike pace in the immediate few meetings.

Thematics: China Brokerage Sector – Start of the next upcycle?

- Full adoption of registration-based listing regime, expected to be implemented in 1H23F, will be a multi-year growth driver
- Business fundamentals to possibly bottom out considering recent improving market sentiment, abundant liquidity
- Strong IPO pipeline and potential re-acceleration of public fund market could be FY23F's key earnings drivers

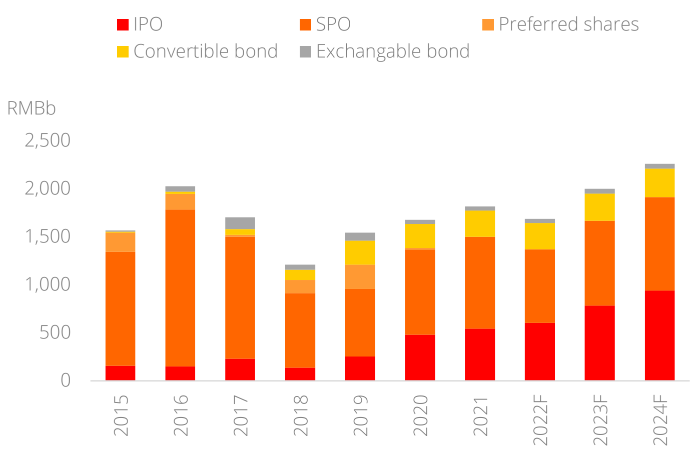
More policy support down the road. With China's 20th National Congress reiterating the strategy to lift the proportion of direct financing, we expect more supportive policies ahead to bring structural opportunities to brokers' investment banking, over-the-counter derivatives, and public fund businesses. In addition, the full adoption of registration-based listing, expected by 1H23, would be the most immediate boost to brokers' earnings by potentially doubling the main board IPO volume.

Brokerage activities bottoming out. The year-to-date downtrend of market turnover was primarily dragged by the fall in market cap while turnover rate remained largely stable. Considering the recent improving market sentiment, economic and corporate earnings outlook turning more positive, and liquidity remaining accommodative, we estimate FY23F average daily turnover and margin financing balance to grow mildly by 5% y/y.

IPO and public fund the key growth drivers. With the strong IPO pipeline and potential full adoption of registration-based listing by 1H23, we believe IPO fundraising could sustain the strong run shown in the past few years, supporting total equity financing growth of 18% y/y in FY23F. We also expect public fund assets under management to grow by 20% y/y, along with improving sentiment and a higher-blended fee rate with equity-related funds regaining share.

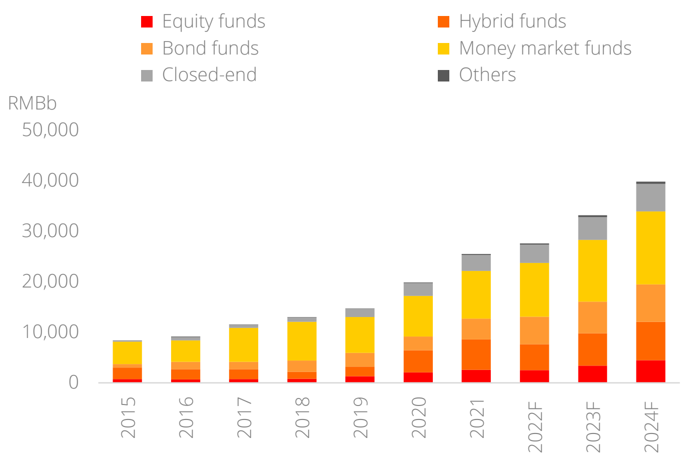
Attractive sector valuation at 0.55x FY23F price-to-book value. We revised down China brokers' FY22F/23F earnings by 8-26%/0-21% respectively to reflect weaker-than-expected market activities in 2H22F. Yet, with most negatives in the price and earnings momentum turning around, we remain positive on the sector overall.

Figure 5: Total equity fundraising volume



Source: Wind, DBS

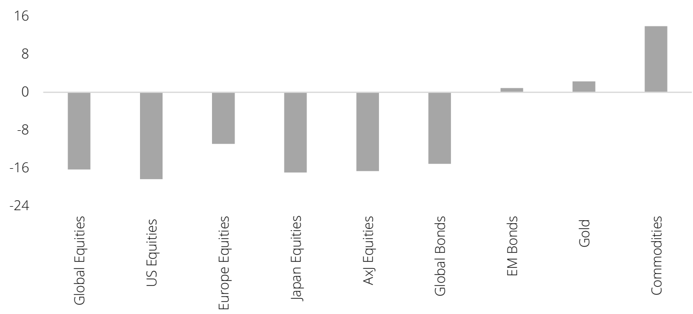
Figure 6: Public funds to re-accelerate 2023F onwards



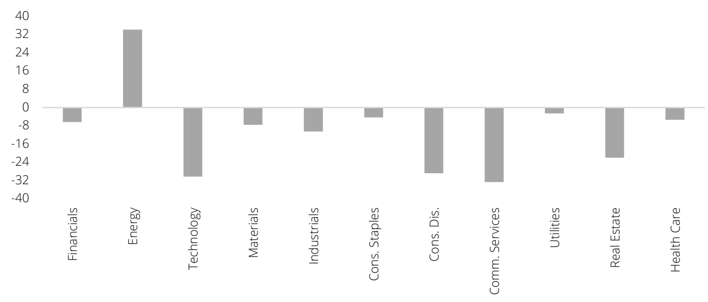
Source: Wind, DBS

CIO Markets Watch

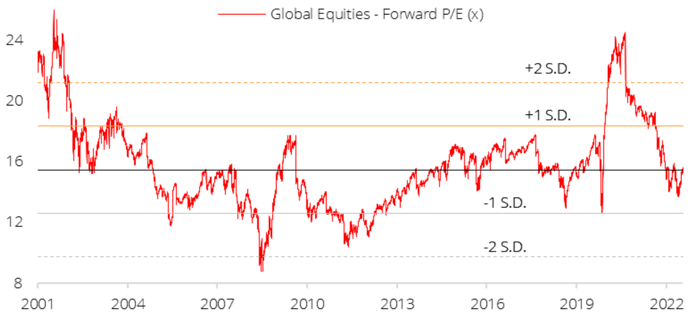
Global Cross Assets YTD Returns



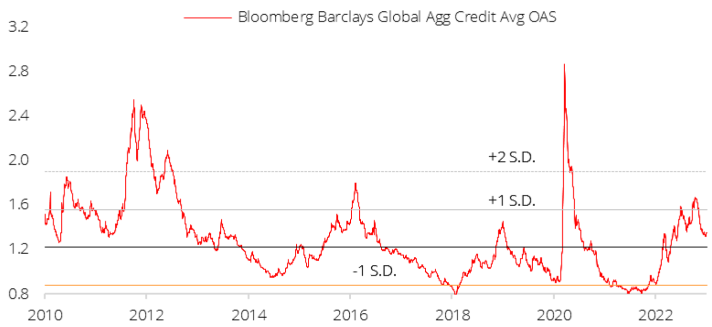
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



INDEX RETURNS

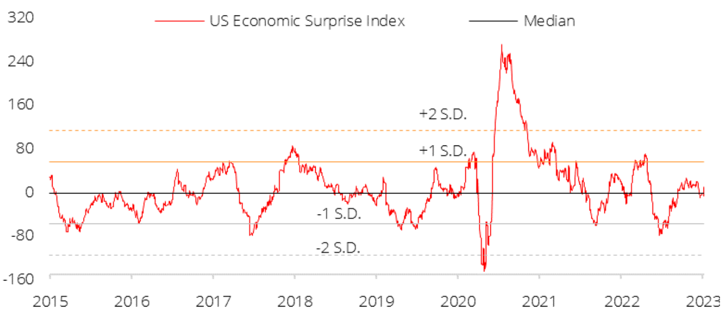
	1 week	MTD	QTD	YTD
Equities				
S&P 500	1.4%	1.4%	1.4%	1.4%
NASDAQ	1.0%	1.0%	1.0%	1.0%
Russell 2000	1.8%	1.8%	1.8%	1.8%
Euro Stoxx 600	4.6%	4.6%	4.6%	4.6%
Nikkei-225	-0.5%	-0.5%	-0.5%	-0.5%
MSCI WORLD	1.8%	1.8%	1.8%	1.8%
MSCI ACWI	2.0%	2.0%	2.0%	2.0%
MSCI Asia ex-Japan	3.6%	3.6%	3.6%	3.6%
MSCI EM	3.4%	3.4%	3.4%	3.4%
HSCEI	6.5%	6.5%	6.5%	6.5%
SHCOMP	2.2%	2.2%	2.2%	2.2%
Hang Seng	6.1%	6.1%	6.1%	6.1%
STI Index	0.8%	0.8%	0.8%	0.8%
Fixed Income				
Barclays Global Aggregate	1.4%	1.4%	1.4%	1.4%
Barclays US Aggregate	1.8%	1.8%	1.8%	1.8%
Barclays US High Yield	2.2%	2.2%	2.2%	2.2%
Barclays Euro Aggregate	2.2%	2.2%	2.2%	2.2%
Barclays Euro High Yield	1.1%	1.1%	1.1%	1.1%
JPM EMBI Global	0.9%	0.9%	0.9%	0.9%
JPM EMBI Global Diversified	0.9%	0.9%	0.9%	0.9%

PRICES & SPREADS

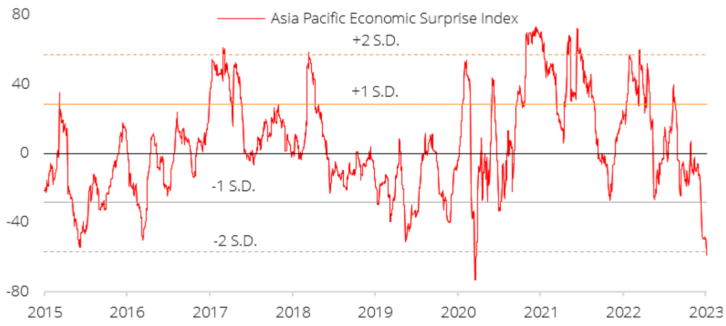
	Spot	4Q22	3Q22	2Q22
Rates				
Fed Funds Target	4.50	4.50	3.25	1.75
ECB Main Refinancing Rate	2.50	2.50	1.25	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	3.56	3.88	3.83	3.02
Japanese Govt. Bond 10-yr	0.50	0.41	0.24	0.23
German Bunds 10-yr	2.21	2.57	2.11	1.33
Spreads				
US Agg Corporate Spread	1.32	1.30	1.59	1.55
US Corporate HY Spead	4.37	4.69	5.52	5.69
Euro Agg Corporate Spread	1.70	1.70	2.25	2.15
EM USD Agg Spread	3.41	3.32	4.03	4.04
Currencies				
US Dollar Index (DXY)	103.9	103.5	112.1	104.7
EUR/USD	1.06	1.07	0.98	1.05
USD/JPY	132.1	131.1	144.7	135.7
USD/CNY	6.8	6.9	7.1	6.7
Commodities				
WTI Oil	74	80	79	106
London Metal Exchange (LMEX)	3979	3984	3541	3879
TR/CC CRB Commodity	265	278	268	291
Gold	1866	1824	1661	1807

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



MACRO CALENDAR

	Date	Period	Survey	Prior
United States & Eurozone				
Initial Jobless Claims (US)	12-Jan	07-Jan	215k	204k
CPI m/m (US)	12-Jan	Dec	0.00%	0.10%
U. of Mich. Sentiment (US)	13-Jan	Jan	60.5	59.7
MBA Mortgage Applications (US)	11-Jan	06-Jan	--	-10.30%
CPI y/y (US)	12-Jan	Dec	6.50%	7.10%
Wholesale Inventories m/m (US)	10-Jan	Nov	1.00%	1.00%
CPI Ex Food and Energy m/m (US)	12-Jan	Dec	0.30%	0.20%
Import Price Index m/m (US)	13-Jan	Dec	-0.90%	-0.60%

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
CPI y/y (CN)	11-Jan	Dec	1.80%	1.60%
BoP Current Account Balance (JP)	11-Jan	Nov	¥481.0b	-¥64.1b
Tokyo CPI Ex-Fresh Food y/y (JP)	09-Jan	Dec	3.80%	3.60%
PPI y/y (CN)	11-Jan	Dec	-0.10%	-1.30%
Money Supply M2 y/y (CN)	09-Jan	Dec	12.30%	12.40%
Trade Balance (CN)	12-Jan	Dec	$77.90b	$69.84b
Exports y/y (CN)	12-Jan	Dec	-12.00%	-8.70%
Imports y/y (CN)	12-Jan	Dec	-9.80%	-10.60%

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