

Key Points

- **Equities:** Global equities rise against positive macroeconomic backdrop; US CPI drops for first time since April 2020; China's December exports beat consensus estimates
- **Credit:** Prefer 3-5 year duration segment to reduce portfolio sensitivity to an upward shift in rates without compromising on yield due to flat curves
- **FX:** USD's sell-off running into technical hurdles as DXY approaches psychological support of 100; volatility ahead for JPY crosses amid speculation of further YCC tweaks
- **Rates:** Market pricing in another 50 bps of hikes followed by subsequent cuts of c.300bps, taking the Fed Funds rate to c.3%
- **Thematics:** Singapore's real estate sector to grow modestly as economy enters a soft patch
- **The Week Ahead:** Keep a lookout for US Change in Initial Jobless Claims; Japan Industrial Production Numbers

GLOBAL MULTI-ASSET RETURNS

Index	Close	Overnight	YTD
DJIA	34,303	0.3%	3.5%
S&P 500	3,999	0.4%	4.2%
NASDAQ	11,079	0.7%	5.9%
Stoxx Europe 600	453	0.5%	6.5%
DAX	15,087	0.2%	8.4%
CAC 40	7,024	0.7%	8.5%
FTSE 100	7,844	0.6%	5.3%
MSCI AxJ	668	1.2%	7.8%
Nikkei 225	26,120	-1.2%	0.1%
SHCOMP	3,195	1.0%	3.4%
Hang Seng	21,739	1.0%	9.9%
MSCI EM	1,030	1.1%	7.7%
UST10-yr yield*	3.50	6.3	-37.1
JGB 10-yr yield*	0.50	0.0	9.1
Bund 10-yr yield*	2.17	1.2	-40.0
US HY spread*	4.07	-12.0	-62.0
EM spread*	379.18	-10.4	5.0
WTI (USD)	79.86	1.9%	-0.5%
LMEX	4,272.60	0.8%	7.2%
Gold (USD)	1,920.23	1.2%	5.3%

Source: Bloomberg

* Changes in basis points

Equities: Global equities extend rally as US CPI fell in December

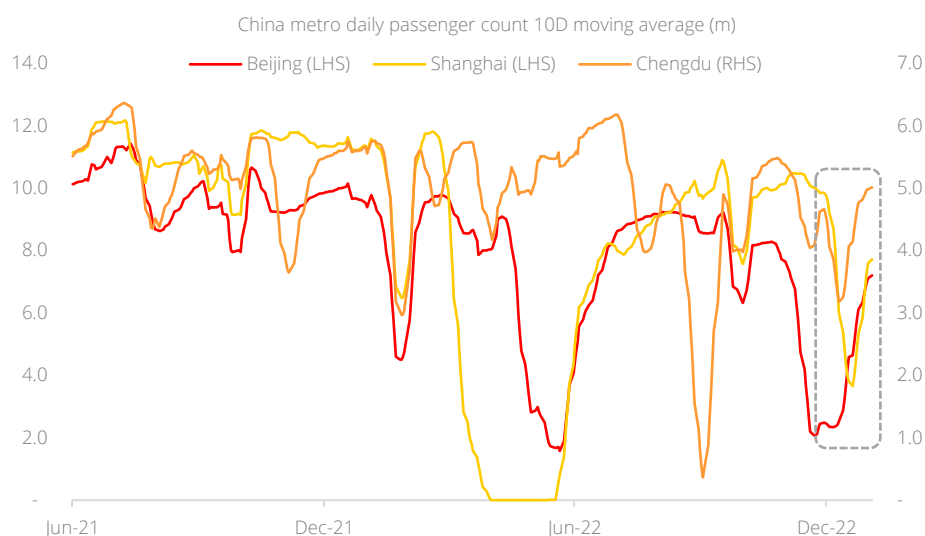
Global equities rise as US hits inflation milestone. Global equities rose for a second week in a row as inflation in the US continued to slow; CPI for December fell -0.1% (m/m), representing the largest price decrease since April 2020; headline inflation declined to 6.5% on a y/y basis. Global equities were up 3.3% for the week, with Developed Markets and Emerging Markets gaining 3.2% and 4.2% respectively.

US equities rose last week on the back of easing inflation and positive bank earnings. The S&P 500, Nasdaq, and Dow Jones notched weekly gains of 2.7%, 4.8%, and 2.0% respectively. Europe stocks also edged higher on the back of lower energy prices and China's re-opening, both of which are expected to buffer the region's impending economic slowdown; the Stoxx 600 and FTSE 100 rose 1.8% and 1.9% for the week. Asian equities traded higher as China's December exports fell slightly less than expected (9.9% vs 10.0%); HSCEI and Hang Seng were up 3.5% and 3.6% respectively.

Topic in focus: China reopening picking up pace. Since the announcement on China's reopening and lifting city-wide lockdowns, there has been consistent improvement in economic activity not only among big cities, but also lower tier cities. This has in turn boosted the investment sentiment and confidence among local consumers. From the end October low, China equities listed in Hong Kong have risen some 50% driven by improvement in outlook and investment managers repositioning to capture the recovery.

One of the barometers of China's re-opening is mobility data in the form of daily metro passengers among the leading cities of Beijing, Shanghai, and Chengdu (Figure 1). Since the lifting of Covid-19 measures, passenger rides at city metro systems have shown encouraging signs of improvement. We expect the recovery to gain momentum as more business activities regain normalcy. Against this favourable policy backdrop, we maintain our conviction on sectors and themes like technology, domestic consumption, consumer brands, physical retail, and large banks.

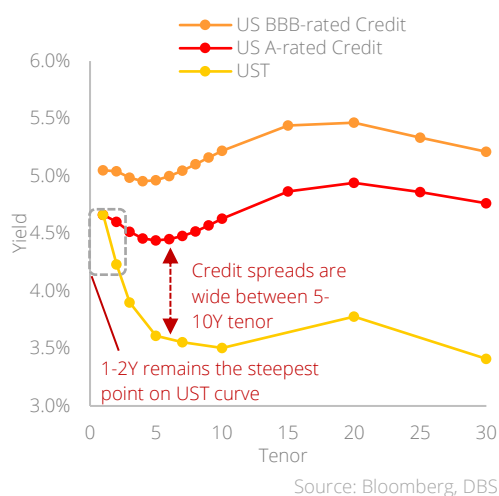
Figure 1: China metro usage showing signs of recovery



Source: Bloomberg, DBS

Credit: Opportunities remain with short-dated high-grade credit

Figure 2: Opportunities remain with short-dated credit



Inflation still supporting upward bias for interest rates. Last week's December's CPI data release reflected a slowdown in annual increase in CPI, sending bond yields lower in anticipation that policymakers would soon reduce the magnitude of hikes. However, headline CPI in the US still rising 6.5% y/y indicates that the Fed is not out of the woods in the battle against inflation, supporting an upward bias for rates, especially since the core services component remains sticky on the upside.

Against this backdrop, we continue to prefer the 3-5 year duration segment for A/BBB credit, to reduce portfolio sensitivity to an upward shift in rates, without compromising on yield due to flat curves. As Figure 2 illustrates, while the steepest part of the UST curve remains at the 1-2Y mark, credit spreads remain wide between the 5-10Y duration segment for A/BBB credit, suggesting that, on balance, the sweet spot remains within the 3-5Y duration segment. Furthermore, with rising risks of a recession, and markets rife with volatility, this warrants a preference for high-grade bonds, noting that a posture of loss avoidance is preferred with growth expected to slow in the coming months.

FX: Technical hurdles ahead

Figure 3: Strengthening Yen



The USD's sell-off is running into some technical hurdles. DXY depreciated 1.3% YTD to 102.2 last week, its weakest close since June 2022. The level was between the Fed's 50 bps hike on 4 May and its first 75 bps hike on 15 June. As per CFTC data, speculators have unwound their gross long USD positions by end of last year to the lowest levels since August 2021. DXY is near its psychological support level at 100, and its most significant component, the EUR, faces resistance at 1.10. Although GBP appreciated 1.1% to 1.2227 last week, it is still within the 1.1840-1.2450 range set in late November.

The market is overly optimistic about disinflation and a soft landing in the US economy. According to a Wall Street Journal Survey of 71 economists conducted over 6-10 January, 61% predicted a US recession this year, with 51% expecting the Fed to cut rates this year. Bloomberg consensus sees the US economy entering a technical recession in 2Q23 and 3Q23. On Wednesday, the Fed's Beige Book should reject the market's bets for Fed cuts in late 2023 and highlight the Fed's determination to lift rates above 5% and keep it there for the rest of the year. On Thursday, Fed Vice Chair Lael Brainard will guard against complacency regarding the Fed's mission to return inflation to its 2% target. The Pavlovian market will be looking to dump the greenback if Brainard affirms the smaller 25 bps hike expected at the FOMC meeting on 1 February.

The World Economic Forum in Davos, Switzerland, on 16-20 January, should be a reminder of how the world has moved from inclusive globalisation towards a polycrisis. The Global Risks Report cited the cost-of-living crisis, natural disasters and extreme weather events, as well as geo-economic confrontation as the top three risks over the next two years. At the start of the year, the International Monetary Fund warned that a third of the world economy would be in recession this year. Consensus expects Singapore's non-oil domestic exports to contract by a deeper 16% y/y in December from 14.6% in November. Having fallen from 1.45 at the end of 3Q22, USD/SGD is back to its 1.32 support level seen in 1H22.

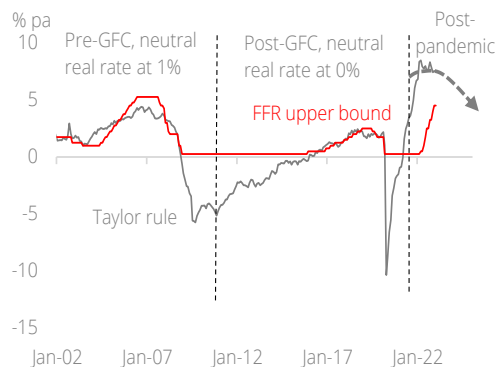
We expect more volatility for JPY crosses. Even if the Bank of Japan keeps policy on hold as it assesses the impact of its December move, any relief USD/JPY bounce could be short-lived as it is difficult to quell speculation of further Yield Curve Control (YCC) tweaks. BoJ's policy credibility is becoming increasingly strained as uncertainty around inflation rises, evident from the 10Y JGB yield continuously testing the upper bound of

the YCC band. The JPY could strengthen further if bets that YCC is reaching its end mount. USD/JPY broke below 1.30 but faces support around 126.30, its low in May.

CNY will likely shrug off any weaknesses in China's 4Q22 GDP and December activity indicators this week. Given the rising Covid wave, a drag on consumption should not be a surprise. Hopes of a strong rebound post China's reopening could sustain equity inflows and support the CNY. Next week, China's markets will be closed for the Lunar New Year holidays. Having fallen sharply from just below 7.00 in December, USD/CNY could consolidate around 6.70 first.

Rates: Revisiting the Taylor rule and mapping to implied rates

Figure 4: Taylor Rule and Fed Funds rate



Source: Bloomberg, DBS

*Assumptions made on regime shift and other variables

The market is pricing in another 50 bps of hikes and close to 300 bps of cuts subsequently, taking the Fed Funds rate close to 3%. There is a myriad of explanations behind why USD rates fell so quickly even as the Fed is still sounding very hawkish. In our view, the most important aspect can probably be explained by an adjusted version of the Taylor rule (which takes into account the unemployment rate and prices). Plugging in y/y CPI figures and assuming that the neutral unemployment rate is at 4.5% (meaningfully higher than the current 3.5%) point to a much higher Fed Funds rate (close to 7.5%). However, there are issues to consider.

First, we think 3M/3M annualised is a much better measure for CPI. We would also strip out volatile, lagging, and other less meaningful components. The Atlanta Fed's core sticky CPI less the shelter measure (our preferred gauge) is barely running at 2% on a 3M/3M annualised basis. In other words, inflation seems to have hit the Fed's target. 1Y and 2Y breakevens are also pointing to a very benign CPI print. Plugging in 2% inflation and an updrift to 4% in unemployment rate implies a FFR of 3%, about what is priced for end-2024. The market could be a tad too complacent on inflation in the longer term.

Second, it is difficult to gauge the neutral level of unemployment. If wage growth is slowing/stabilising, then there is nothing wrong with an unemployment rate of 3.5%. In any case, the participation rate might increase over the coming quarters again, automatically driving up the unemployment rate even as firings stay low.

At this point, we are a tad wary of the aggressive Fed cut pricing out to 2024, relative to the peak this year. We are also wondering if the rally in UST is driven by a positioning squeeze (many participants are short for the most part of last year).



DBS CIO LIQUID+ STRATEGY

How can you get a balance of yield and liquidity in today's uncertain market environment?



Scan the QR code to find out more.

Thematics: Singapore REITs – The time is now

- Singapore's real estate sector to grow modestly as economy enters a soft patch
- S-REITs have ample defences against sustained interest rates hikes till the tide turns in late 2023
- Re-opening story “not dead”, many beneficiaries from reopening of China's economy and borders
- S-REIT yield spread of around 3.0% has priced in interest rates risk

Singapore economy to enter a soft patch; real estate sector to see slowing growth momentum. Singapore's economy is expected to slow to around 2.2% in 2023, averting a recession, while inflation is expected to remain sticky at around 6.3%. Against this backdrop, DBS Group Research expects more cautious business and consumer sentiment. Thus, we believe Singapore's real estate cycle will enter a more modest growth phase, but we still project most sectors to see market rents remaining on an uptrend in 2023.

S-REITs to navigate interest rates and currency headwinds well. While we project overall net property income (NPI) growth of about 5.0% over FY22-24F, we see more flattish distribution per unit (DPU) growth rates of around 3.0%, mainly due to the impact of higher refinancing rates and forex losses for selected S-REITs. That said, we see ample defences from S-REITs' high fixed-rate debt ratio and forward currency hedges until interest rates turn in S-REITs favour, which could be sometime in late 2023-2024.

Re-opening story is “not dead”. The potential reopening of China is an overall positive for investor sentiment and has many pluses for S-REITs. The reopening should help to improve disruptions to supply chains and potential increase in consumer spending. That said, the “holy grail” will come from the eventual outbound travel of China tourists which will provide a further boost to the hospitality sector in the medium term.

Fed ends hikes by 1Q23, major overhang to be lifted. We see a more conducive environment for S-REITs as the Fed potentially slows and ends its hikes by 1Q23. The 10-year US and SG yields have declined from their respective peaks in anticipation of cooling inflation and economic outlook, and these are projected to be about 3.5% and 3.0% in 2023 respectively. S-REIT yield of 6.1% or a spread of 3.1% is fair and has substantially priced in the interest rate risks, in our view. We believe that the focus will then be on the impact of a recession, and as such, suburban retail and industrial names offer better DPU resiliency with capacity for upside surprises.

Figure 5: DPU Growth CAGR (FY22F-24F)

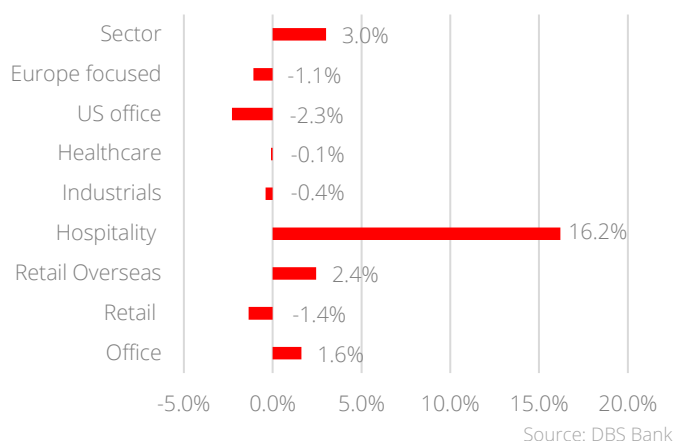
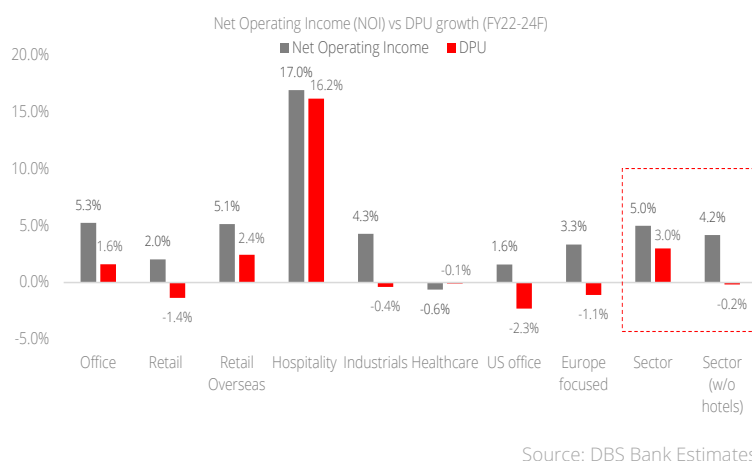
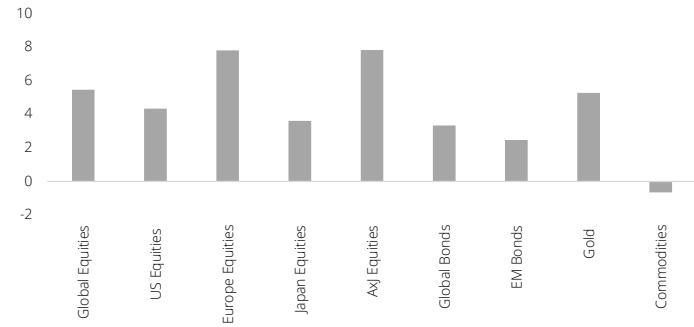


Figure 6: S-REITs by subsector

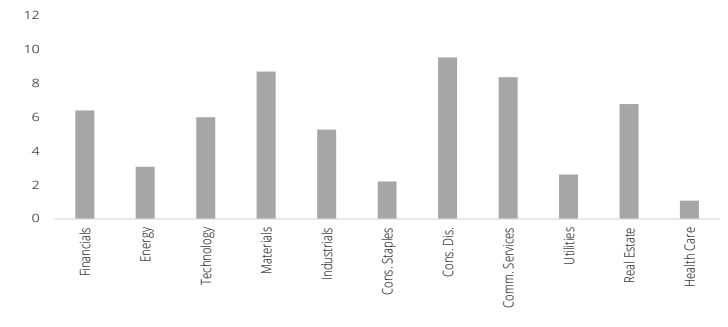


CIO Markets Watch

Global Cross Assets YTD Returns



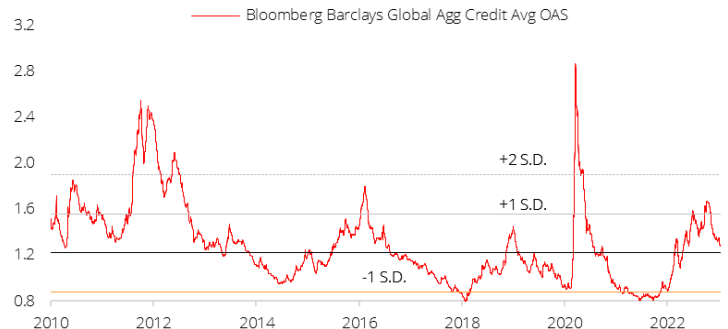
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Source: Bloomberg, DBS

INDEX RETURNS

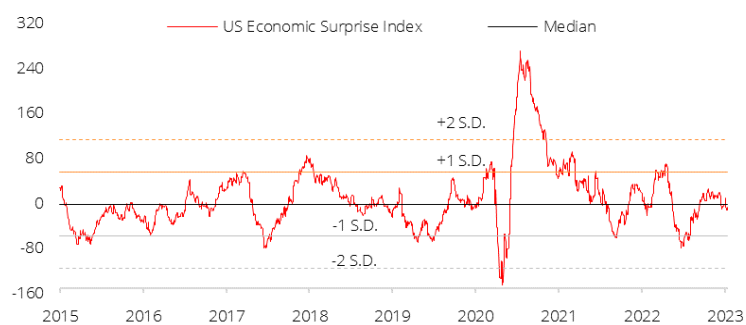
	1 week	MTD	QTD	YTD
Equities				
S&P 500	2.7%	4.2%	4.2%	4.2%
NASDAQ	4.8%	5.9%	5.9%	5.9%
Russell 2000	5.3%	7.1%	7.1%	7.1%
Euro Stoxx 600	1.8%	6.5%	6.5%	6.5%
Nikkei-225	0.6%	0.1%	0.1%	0.1%
MSCI WORLD	3.2%	5.1%	5.1%	5.1%
MSCI ACWI	3.3%	5.4%	5.4%	5.4%
MSCI Asia ex-Japan	4.0%	7.8%	7.8%	7.8%
MSCI EM	4.2%	7.7%	7.7%	7.7%
HSCEI	3.5%	10.2%	10.2%	10.2%
SHCOMP	1.2%	3.4%	3.4%	3.4%
Hang Seng	3.6%	9.9%	9.9%	9.9%
STI Index	0.5%	1.3%	1.3%	1.3%
Fixed Income				
Barclays Global Aggregate	1.9%	3.3%	3.3%	3.3%
Barclays US Aggregate	0.9%	2.7%	2.7%	2.7%
Barclays US High Yield	1.6%	3.8%	3.8%	3.8%
Barclays Euro Aggregate	0.6%	2.8%	2.8%	2.8%
Barclays Euro High Yield	1.4%	2.5%	2.5%	2.5%
JPM EMBI Global	1.6%	2.5%	2.5%	2.5%
JPM EMBI Global Diversified	1.6%	2.4%	2.4%	2.4%

PRICES & SPREADS

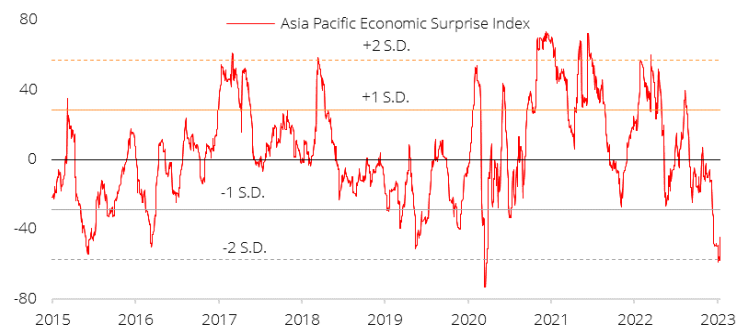
	Spot	4Q22	3Q22	2Q22
Rates				
Fed Funds Target	4.50	4.50	3.25	1.75
ECB Main Refinancing Rate	2.50	2.50	1.25	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	3.51	3.88	3.83	3.02
Japanese Govt. Bond 10-yr	0.50	0.41	0.24	0.23
German Bunds 10-yr	2.17	2.57	2.11	1.33
Spreads				
US Agg Corporate Spread	1.24	1.30	1.59	1.55
US Corporate HY Spread	4.07	4.69	5.52	5.69
Euro Agg Corporate Spread	1.62	1.70	2.25	2.15
EM USD Agg Spread	3.33	3.32	4.03	4.04
Currencies				
US Dollar Index (DXY)	102.2	103.5	112.1	104.7
EUR/USD	1.08	1.07	0.98	1.05
USD/JPY	127.9	131.1	144.7	135.7
USD/CNY	6.7	6.9	7.1	6.7
Commodities				
WTI Oil	80	80	79	106
London Metal Exchange (LMEX)	4273	3984	3541	3879
TR/CC CRB Commodity	276	278	268	291
Gold	1920	1824	1661	1807

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



Source: Bloomberg, DBS

MACRO CALENDAR

	Date	Period	Survey	Prior
United States & Eurozone				
Initial Jobless Claims (US)	19-Jan	14-Jan	214k	205k
CPI y/y (EU)	18-Jan	Dec	9.20%	9.20%
Retail Sales Advance m/m (US)	18-Jan	Dec	-0.90%	-0.60%
MBA Mortgage Applications (US)	18-Jan	13-Jan	--	1.20%
Housing Starts (US)	19-Jan	Dec	1357k	1427k
Industrial Production m/m (US)	18-Jan	Dec	-0.10%	-0.20%
PPI Final Demand m/m (US)	18-Jan	Dec	-0.10%	0.30%
Existing Home Sales (US)	20-Jan	Dec	3.95m	4.09m

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
Industrial Production m/m (JP)	17-Jan	Nov	--	-0.10%
GDP y/y (CN)	16-Jan	4Q	1.60%	3.90%
Core Machine Orders m/m (JP)	17-Jan	Nov	-1.00%	5.40%
Non-oil Domestic Exports y/y (SG)	16-Jan	Dec	-16.00%	-14.60%
Tertiary Industry Index m/m (JP)	16-Jan	Nov	0.20%	0.20%
Industrial Production y/y (CN)	16-Jan	Dec	0.20%	2.20%
Natl CPI y/y (JP)	19-Jan	Dec	4.00%	3.80%
Retail Sales y/y (CN)	16-Jan	Dec	-9.00%	-5.90%

Disclaimers and Important Notes

This information herein is published by DBS Bank Ltd. ("DBS Bank") and is for information only. This publication is intended for DBS Bank and its subsidiaries or affiliates (collectively "DBS") and clients to whom it has been delivered and may not be reproduced, transmitted or communicated to any other person without the prior written permission of DBS Bank.

This publication is not and does not constitute or form part of any offer, recommendation, invitation or solicitation to you to subscribe to or to enter into any transaction as described, nor is it calculated to invite or permit the making of offers to the public to subscribe to or enter into any transaction for cash or other consideration and should not be viewed as such.

The information herein may be incomplete or condensed and it may not include a number of terms and provisions nor does it identify or define all or any of the risks associated to any actual transaction. Any terms, conditions and opinions contained herein may have been obtained from various sources and neither DBS nor any of their respective directors or employees (collectively the "DBS Group") make any warranty, expressed or implied, as to its accuracy or completeness and thus assume no responsibility of it. The information herein may be subject to further revision, verification and updating and DBS Group undertakes no responsibility thereof.

All figures and amounts stated are for illustration purposes only and shall not bind DBS Group. This publication does not have regard to the specific investment objectives, financial situation or particular needs of any specific person. Before entering into any transaction to purchase any product mentioned in this publication, you should take steps to ensure that you understand the transaction and has made an independent assessment of the appropriateness of the transaction in light of your own objectives and circumstances. In particular, you should read all the relevant documentation pertaining to the product and may wish to seek advice from a financial or other professional adviser or make such independent investigations as you consider necessary or appropriate for such purposes. If you choose not to do so, you should consider carefully whether any product mentioned in this publication is suitable for you. DBS Group does not act as an adviser and assumes no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from any arrangement or entrance into any transaction in reliance on the information contained herein. In order to build your own independent analysis of any transaction and its consequences, you should consult your own independent financial, accounting, tax, legal or other competent professional advisors as you deem appropriate to ensure that any assessment you make is suitable for you in light of your own financial, accounting, tax, and legal constraints and objectives without relying in any way on DBS Group or any position which DBS Group might have expressed in this document or orally to you in the discussion.

Any information relating to past performance, or any future forecast based on past performance or other assumptions, is not necessarily a reliable indicator of future results.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of the Information, which may arise as a result of electronic transmission. If verification is required, please request for a hard-copy version.

This publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

If you have received this communication by email, please do not distribute or copy this email. If you believe that you have received this e-mail in error, please inform the sender or contact us immediately. DBS Group reserves the right to monitor and record electronic and telephone communications made by or to its personnel for regulatory or operational purposes. The security, accuracy and timeliness of electronic communications cannot be assured.

Dubai International Financial Centre: This communication is provided to you as a Professional Client or Market Counterparty as defined in the DFSA Rulebook Conduct of Business Module (the "COB Module"), and should not be relied upon or acted on by any person which does not meet the criteria to be classified as a Professional Client or Market Counterparty under the DFSA rules.

This communication is from the branch of DBS Bank Ltd operating in the Dubai International Financial Centre (the "DIFC") under the trading name "DBS Bank Ltd. (DIFC Branch)" ("DBS DIFC"), registered with the DIFC Registrar of Companies under number 156 and having its registered office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates.

DBS DIFC is regulated by the Dubai Financial Services Authority (the "DFSA") with a DFSA reference number F000164. For more information on DBS DIFC and its affiliates, please see <http://www.dbs.com/ae/our-network/default.page>.

Where this communication contains a research report, this research report is prepared by the entity referred to therein, which may be DBS Bank Ltd or a third party, and is provided to you by DBS DIFC. The research report has not been reviewed or authorised by the DFSA. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBS DIFC.

Unless otherwise indicated, this communication does not constitute an "Offer of Securities to the Public" as defined under Article 12 of the Markets Law (DIFC Law No.1 of 2012) or an "Offer of a Unit of a Fund" as defined under Article 19(2) of the Collective Investment Law (DIFC Law No.2 of 2010).

The DFSA has no responsibility for reviewing or verifying this communication or any associated documents in connection with this investment and it is not subject to any form of regulation or approval by the DFSA. Accordingly, the DFSA has not approved this communication or any other associated documents in connection with this investment nor taken any steps to verify the information set out in this communication or any associated documents, and has no responsibility for them. The DFSA has not assessed the suitability of any investments to which the communication relates and, in respect of any Islamic investments (or other investments identified to be Shari'a compliant), neither we nor the DFSA has determined whether they are Shari'a compliant in any way.

Any investments which this communication relates to may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on any investments. If you do not understand the contents of this document you should consult an authorised financial adviser.

Hong Kong: This publication is distributed by DBS Bank (Hong Kong) Limited (CE Number: AAL664) ("DBSHK") which is regulated by the Hong Kong Monetary Authority (the "HKMA") and the Securities and Futures Commission. In Hong Kong, DBS Private Bank is the private banking division of DBS Bank (Hong Kong) Limited.

DBSHK is not the issuer of the research report unless otherwise stated therein. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBSHK.

DBSHK is not the issuer of the research report unless otherwise stated therein. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBSHK.

Indonesia: This publication is distributed by PT Bank DBS Indonesia (DBSI). DBSI is licensed and supervised by the Indonesia Financial Services Authority (OJK) and a member of the Indonesia Deposit Insurance Corporation (LPS). This publication is not and does not constitute or form part of any offer, recommendation, invitation or solicitation to you to subscribe to or to enter into any transaction as described, nor is it calculated to invite or permit the making of offers to the public to subscribe to or enter into any transaction for cash or other consideration and should not be viewed as such.

India: This publication is distributed by DBS Bank India Ltd. ("DBIL") and is on "as is" basis and for information only. This publication is not intended to be source of advice in respect of the material presented or information published, and shall not be construed to be legal, tax, financial or investment advisory. This document is not, and should not be construed as, an offer, invitation, recommendation or solicitation to enter into any transaction in relation to any of the products and services mentioned herein. DBIL does not make any warranty of any kind, express or implied, including but not limited to warranties of completeness, accuracy of information, merchantability or fitness for a particular purpose.

Singapore: This publication is distributed by DBS Bank Ltd (Company Regn. No. 196800306E) ("DBS") which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore (the "MAS").

Thailand: This publication is distributed by DBS Vickers Securities (Thailand) Co., Ltd. ("DBSVT").

United Kingdom: This communication is from DBS Bank Ltd., London Branch located at 9th Floor, One London Wall, London EC2Y 5EA. DBS Bank Ltd. is regulated by the Monetary Authority of Singapore and is authorised and regulated by the Prudential Regulation Authority. DBS Bank Ltd. is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of DBS Bank Ltd., London Branch's regulation by the Prudential Regulation Authority are available upon request.