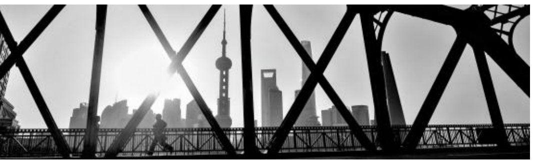


CIO Weekly GLOBAL MULTI-ASSET

27 March 2023

Key Points

- **Equities:** Markets rose slightly amid chaos in banking sector; Big Tech gained on moderating interest rate outlook
- **Credit:** Cash to suffer reinvestment risk after Fed pause while lower rates environment provides tailwinds for IG credit through capital gains
- **FX:** DXY to end first quarter inside 101-106 range; AUD and CAD trended south amid weakening commodity prices
- **Rates**: Rate cuts potentially needed to ease banking sector outflows; short end yields to stay depressed until a resolution for the banking crisis is found
- **Thematics**: We expect 2023 to be an inflexion point for the technology sector; automotive and industrial segments remain bright spots

GLOBAL MULTI-ASSET RETURNS

Index	Close	Overnight	YTD
DJIA	32,238	0.4%	-2.7%
S&P 500	3,971	0.6%	3.4%
NASDAQ	11,824	0.3%	13.0%
Stoxx Europe 600	440	-1.4%	3.6%
DAX	14,957	-1.7%	7.4%
CAC 40	7,015	-1.7%	8.4%
FTSE 100	7,405	-1.3%	-0.6%
MSCI AxJ	635	-0.6%	2.6%
Nikkei 225	27,385	-0.1%	4.9%
SHCOMP	3,266	-0.6%	5.7%
Hang Seng	19,916	-0.7%	0.7%
MSCI EM	972	-0.6%	1.7%
UST10-yr yield*	3.38	-5.0	-49.9
JGB 10-yr yield*	0.28	-1.9	-13.3
Bund 10-yr yield*	2.12	-6.8	-44.1
US HY spread*	5.16	9.0	47.0
EM spread*	416.08	2.2	41.9
WTI (USD)	69.26	-1.0%	-13.7%
LMEX	3,980.50	-0.2%	-0.1%
Gold (USD)	1,978.21	-0.8%	8.5%

Source: Bloomberg
* Changes in basis points

Equities: Markets gained amid bank sector woes

Global equities rose as US regulators commit to ring-fence banking system stress. Markets shrugged off global banking sector woes after comments from Treasury Secretary Janet Yellen that regulators are prepared to take more action if needed, to stabilise US banks. Global equities were up 1.5%, with Developed Markets and Emerging Markets rising 1.4% and 2.2% respectively.

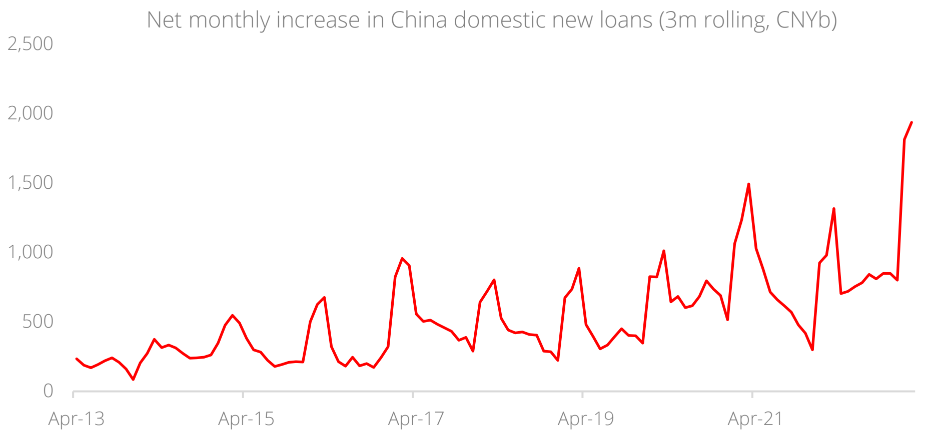
US equities rose for the week, led Big Tech names; Apple and Microsoft climbed 9% and 12% respectively this month. The S&P 500, NASDAQ, and Dow were up 1.4%, 1.7%, and 1.2% respectively. Europe closed marginally higher after positive comments from European Central Bank (ECB) President Christine Lagarde regarding euro area banking sector resilience; the FTSE 100 and Stoxx 600 gained 1.0% and 0.9%. Asian equities traded gingerly as China industrial output undershot the consensus forecast, the HSI and SHCMOP gained 2.0% and 0.5% for the week.

Topic in focus: China financials are an oasis of calm. To support economic revival, Premier Li Qiang announced a 5% GDP growth target for 2023 during the National Party Congress. China financials have been resilient during last year's market rout as it concluded the year flat despite declines in global (-18%) and Asia ex-Japan equities (-21%).

Unscathed by banking debacle in developed markets. We maintain our constructive stance that China's large State-owned Enterprise (SOE) banks are insulated from the situations faced by banks in the developed markets, owing to the former's traditional business models such as domestic centric revenue and balance sheets, anchored by conventional deposits and loans. They are also known for strong local branding and branch networks with access to cheap Current Account Savings Account (CASA) funding, and the discipline to stay away from exotic deposits and loans.

These banks are well positioned as income generators in the CIO Barbell Strategy for their attractive and sustainable dividend yields of 7-8%, supported by the sector's compelling valuations on the back of stable earnings trend. As such, we continue to advocate China financials as part of a holistic portfolio strategy construct.

Figure 1: China banks' focused on growing domestic loans



Source: Bloomberg, DBS

Credit: Opportune time to shift cash to high quality credit

Lock in generous yields by moving cash to high quality IG credit. As recent financial sector-related stresses have resurfaced narratives of monetary policy tightening having run its course, the days of high yields on cash deposits could be numbered. This validates the case for bonds over deposits. Should a Fed pause be on the cards, it does not bode well for cash yields in future. On the other hand, those who have invested in high quality Investment Grade (IG) credit during this window for higher yields would have locked in generous yields for a longer duration.

Quality credit outperforms cash once hiking cycle is over. History illustrates the phenomenon of credit outperforming cash, in notable episodes of Fed pauses since 1987. In the six instances observed (Table 1), cash rates saw a mean peak-to-trough yield decline of 3.5% over 2.4 years on average following a pause in the rate hike cycle – usually due to the emergence of some form of economic stress – implying that reinvestment risk runs high once the hiking cycle is over. IG credit, on the other hand, sees tailwinds take over as it enjoys capital gains from the lower rates environment, averaging an annualised yield of 10.6% in the same period.

Opportunity is soon closing to lock in higher yields. With systemic stresses in financial markets now at the fore, the opportunity is soon closing to lock in higher yields. We continue to recommend that investors capitalise on this narrowing window for higher yields by shifting cash towards high quality credit – in what we termed the Liquid+ Strategy – to capture yields while stocks last.

Table 1: Quality credit outperforms cash after the Fed takes a pause

Rate hike pause	Emerging Concern	Subsequent peak to trough change in cash rates	Time till cash rate trough (years)	Annualised US IG Credit returns in same period
Feb-1989	Savings and loans crisis	-6.1%	2.9	12.6%
Feb-1995	Receding Inflation	-0.9%	1.0	14.3%
Mar-1997	Asian Currency Crisis	-0.8%	1.8	11.5%
May-2000	Dot-com Bust	-5.6%	2.8	11.4%
Jun-2006	Housing Market Slowdown	-4.9%	3.0	4.5%
Dec-2018	US-China Trade Tensions	-2.7%	2.6	9.4%
Average		**-3.5%**	**2.4**	**10.6%**

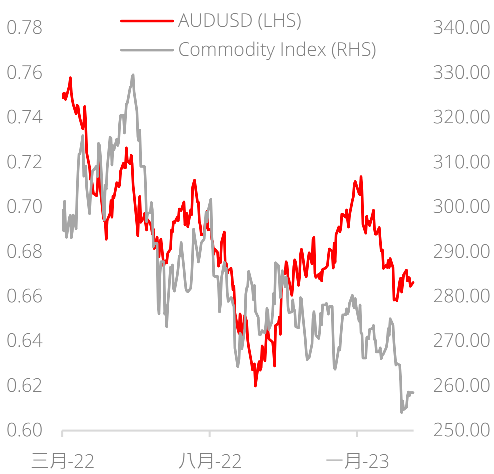
Source: Bloomberg, DBS

FX: Little room for complacency

Look for the DXY to end the first quarter inside its 101-106 range. DXY closed last week at 103.1, only 0.4% weaker than the 103.5 level at the end of 2022. The trading range was 5% wide in 1Q23, significantly narrower than the average 10%-wide ranges in the previous two quarters. The Fed's monetary policy outlook remained important. For example, DXY depreciated 1.4% in January into the Fed's smaller 25 bps hike on 1 February, rebounded 2.7% in February on the Fed's push for higher for longer rates in 2023, and depreciated 1.7% this month on the bank crisis triggered by Silicon Valley Bank.

Commodity currencies were the worst performers in 1Q23. As of last Friday, AUD, NZD, and CAD depreciated by 2.5% YTD, 2.3%, and 1.4%, respectively. AUD and CAD have depreciated from their January-February ranges of 0.67-0.72 and 1.33-1.37 per USD, respectively. The Bank of Canada was the first major central bank to pause its hiking cycle on 8 March, one day after the Reserve Bank of Australia delivered a dovish hike.

Figure 2: AUD weakness



Source: Bloomberg, DBS

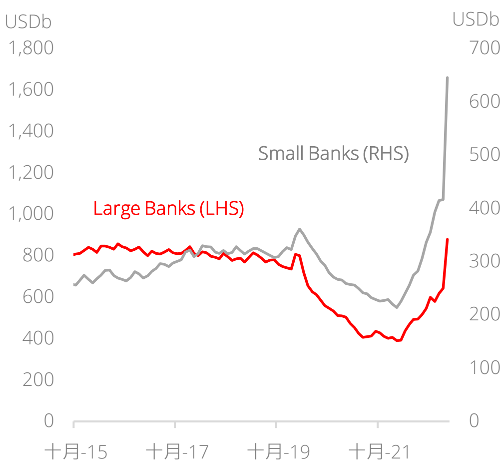
The Reserve Bank of New Zealand believes that rates are now high enough to have the desired contractionary effect on the economy but wants to do more to rein in inflation expectations. Commodity prices weakened in February-March. A deterioration in US-China relations from the spy balloon incident offset hopes for China's reopening to boost demand. The failed US/Swiss banks hammered risk appetite, a sign that the aggressive hikes over the past year were starting to work its way into the economy.

On 28 March, the US Senate Banking Committee will hold a public hearing on the collapse of Silicon Valley Bank and Signature Bank. The hearings will continue with the House Financial Services Committee on 29 March. Although bipartisan desire exists to restore confidence in the US banking system and markets, the hearings will likely be a political blame game. The Democrats, who control the Senate, have attributed the crisis to Trump's regulatory rollbacks and are pushing to strengthen banks through more regulation. Conversely, the Republicans who control the House want regulators and bank executives to be accountable. Understandably, US Treasury Secretary Janet Yellen told the Senate last week that she had not considered "blanket insurance or guarantee of deposits," a measure she was aware needed the approval of congress.

However, the EUR, the most significant DXY component, is not free of contagion risks. Last Friday's plunge in Deutsche Bank shares was the worst in three years. Although the ECB considered the Eurozone banking sector "resilient with strong capital and liquidity positions," it could not rule out that EU banks with poor business models might be vulnerable to higher rates. Given how US and EU bond yields fell after last week's rate hikes, markets cannot reconcile how central banks can keep addressing inflation amidst banking stress without breaking something.

Rates: More than a whiff of worry

Figure 3: Bank borrowings



Source: Bloomberg

Banking sector worries across both sides of the Atlantic is reverberating across the rates space. Despite swift actions from policymakers, we do not think that confidence has been restored. In the US, we see two solutions to banking sector woes. First, a wider deposit guarantee would be needed. However, the path to get there might be paved in volatility as Treasury Secretary Yellen might require Congress approval before widening the safety blanket. Without which, worries in the smaller banks would likely linger, keeping sentiment dicey. Deposits at small banks slumped by USD120b in a week, of which USD67b went to the larger banks. The unhealthy shift in deposit needs to be arrested. Second, rate cuts would probably be needed to ease the outflow from the banking sector in general and to reduce worries about the inverted curve. For the week, the banking sector lost close to USD100b while money market assets gained. Investors also sought safety in the Fed's reverse repo facility, triggering a liquidity shortage in banks. Lower risk-free rates would go a long way towards reversing these trends.

The timing and extent of rate cuts are debatable. It will ultimately depend on how fast Yellen is able to act and restore confidence. The longer this issue drags, the higher the odds of a hard landing and the more likely Fed Chair Powell would have to cut rates. Note that this line of thinking does not include macro considerations, which have become secondary when the banking sector is under threat. Yields (especially the short end) would likely be depressed (and pricing in a lot of rate cuts) until a resolution is found. We are also wary that the 2Y/10Y segment of the curve closed above -40 bps for the first time since October. A rapid pace of steepening (from more than -100 bps) barely weeks ago can be a harbinger of imminent recession.

Thematics: ASEAN Technology – Positioning ahead of anticipated recovery in 2H23

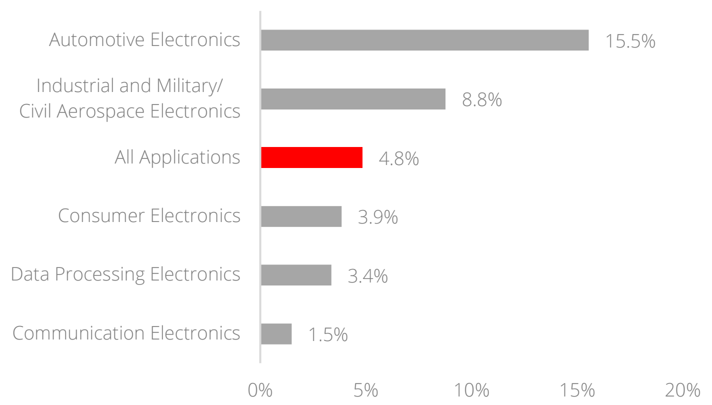
- 2023 an inflexion point for the industry; expect gradual recovery from 2H23
- High inventory and weak demand remain key concerns now; high inventory to peak in 2Q23
- The automotive and industrial segments remain the bright spots
- Consumer electronics could still be weak; shipment growth only expected in 2024

Macro and industry environment remain weak, but stock market is forward-looking. After a battered 2022, we expect 2023 to be an inflexion point for the technology sector. Companies could still report a weak 1Q23, based on the guidance provided by global names. However, the stock market is forward-looking. Year-to-date, the PHLX Semiconductor Index (SOX) outperformed despite the still-gloomy macro backdrop, in line with the historical trend.

An uneven recovery ahead. Barring any big spike in rate hikes and external shocks such as the resurgence of the pandemic, the technology sector is expected to be on the path to recovery. The automotive and industrial segments remain the bright spots; consumer electronics could still be weak, as shipments are only expected to recover in 2024. The current high inventory level could start to ease from 2H23 onwards. DBS believes companies with broader market focus and exposure to less cyclical segments such as data centres, life sciences, medical, and new energy, are expected to fare better.

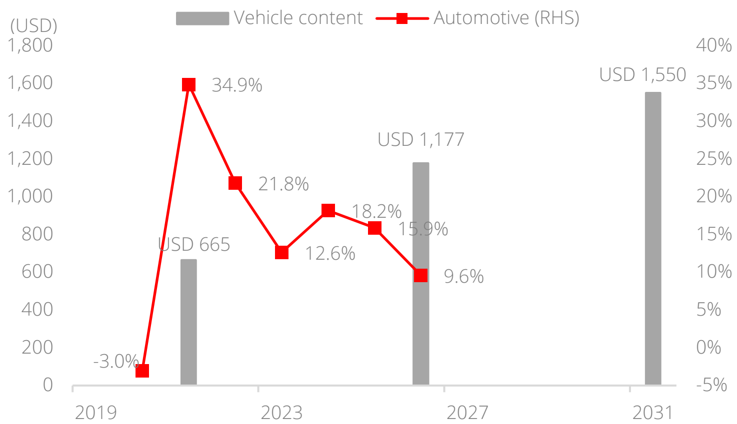
Valuation for the Singapore technology sector is now at an attractive level. The forward price-to-earnings of 9.5x is near the -2SD from its five-year average and is also near the previous trough in early 2020 due to the Covid pandemic.

Figure 4: 2022-2026 CAGR (%) for end industry



Source: Gartner, Inc., Semiconductors and Electronics Forecast Database, Worldwide, 4Q22 Update, Ben Lee, et al., 19 Dec 2022

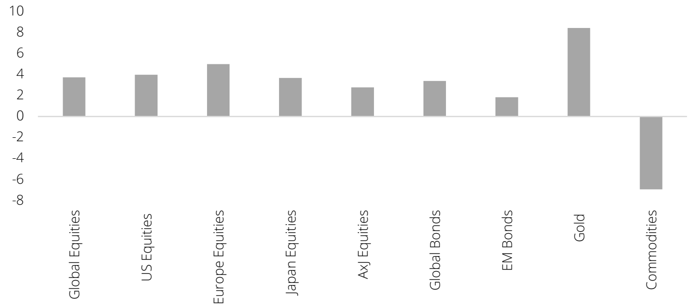
Figure 5: Automotive growth and vehicle content



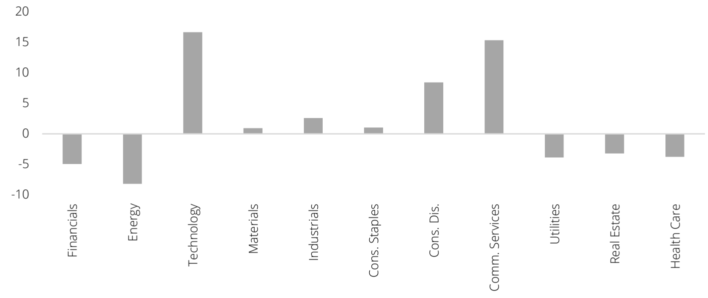
Source: Gartner, Inc., Invest Implications: Forecast Analysis: Automotive Semiconductors, Worldwide, 2021-2031, Tim Mahon, et al., 2 Feb 2023; Semiconductors and Electronics Forecast Database, Worldwide, 4Q22 Update (gartner.com)

CIO Markets Watch

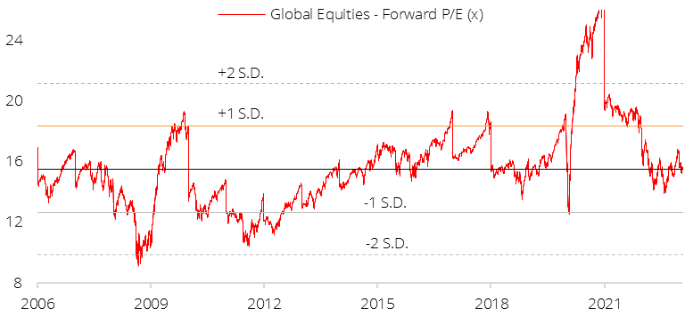
Global Cross Assets YTD Returns



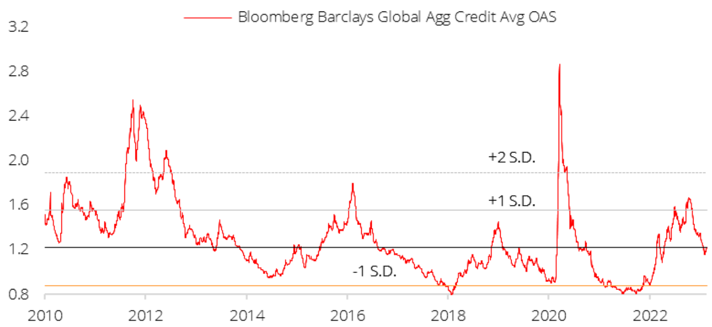
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Source: Bloomberg, DBS

INDEX RETURNS

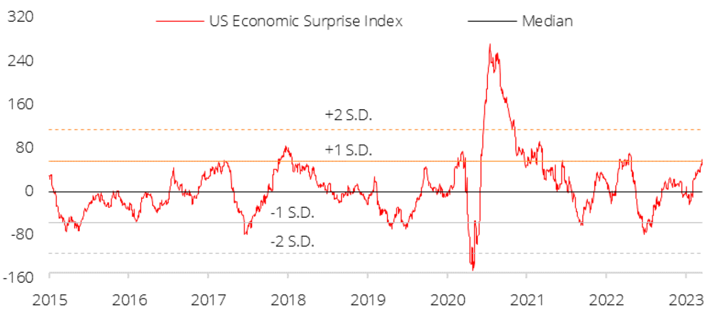
	1 week	MTD	QTD	YTD
Equities				
S&P 500	1.4%	-2.6%	3.4%	3.4%
NASDAQ	1.7%	2.1%	13.0%	13.0%
Russell 2000	0.5%	-10.2%	-1.5%	-1.5%
Euro Stoxx 600	0.9%	-2.9%	3.6%	3.6%
Nikkei-225	0.2%	0.2%	4.9%	4.9%
MSCI WORLD	1.4%	-3.3%	3.5%	3.5%
MSCI ACWI	1.5%	-3.6%	3.3%	3.3%
MSCI Asia ex-Japan	2.1%	-5.2%	2.6%	2.6%
MSCI EM	2.2%	-5.8%	1.7%	1.7%
HSCEI	2.7%	-8.5%	1.3%	1.3%
SHCOMP	0.5%	0.3%	5.7%	5.7%
Hang Seng	2.0%	-8.8%	0.7%	0.7%
STI Index	0.9%	-4.5%	-1.2%	-1.2%
Fixed Income				
Barclays Global Aggregate	0.8%	0.1%	3.4%	3.4%
Barclays US Aggregate	0.5%	0.3%	3.4%	3.4%
Barclays US High Yield	0.3%	-1.9%	1.8%	1.8%
Barclays Euro Aggregate	0.1%	0.8%	3.0%	3.0%
Barclays Euro High Yield	0.0%	-1.1%	2.1%	2.1%
JPM EMBI Global	0.7%	-1.2%	1.8%	1.8%
JPM EMBI Global Diversified	0.7%	-1.4%	1.7%	1.7%

PRICES & SPREADS

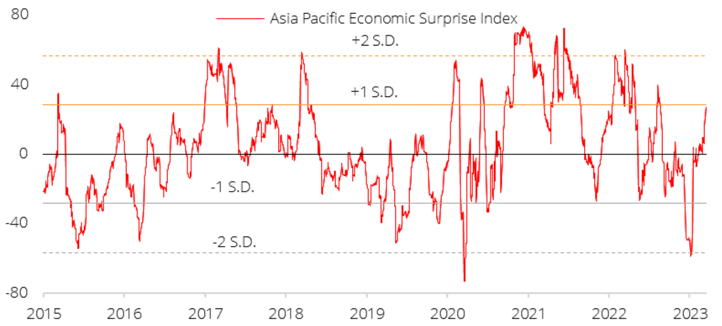
	Spot	4Q22	3Q22	2Q22
Rates				
Fed Funds Target	5.00	4.50	3.25	1.75
ECB Main Refinancing Rate	3.50	2.50	1.25	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10Y	3.38	3.88	3.83	3.02
Japanese Govt. Bond 10Y	0.28	0.41	0.24	0.23
German Bunds 10Y	2.12	2.57	2.11	1.33
Spreads				
US Agg Corporate Spread	1.49	1.30	1.59	1.55
US Corporate HY Spread	5.16	4.69	5.52	5.69
Euro Agg Corporate Spread	1.85	1.70	2.25	2.15
EM USD Agg Spread	3.70	3.32	4.03	4.04
Currencies				
US Dollar Index (DXY)	103.1	103.5	112.1	104.7
EUR/USD	1.08	1.07	0.98	1.05
USD/JPY	130.7	131.1	144.7	135.7
USD/CNY	6.9	6.9	7.1	6.7
Commodities				
WTI Oil	69	80	79	106
London Metal Exchange (LMEX)	3981	3984	3541	3879
TR/CC CRB Commodity	258	278	268	291
Gold	1978	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)	30-Mar	25-Mar	196k	191k
GDP Annualized q/q (US)	30-Mar	4Q	2.70%	2.70%
U. of Mich. Sentiment (US)	31-Mar	Mar	63.4	63.4
Conf. Board Cons. Confidence (US)	28-Mar	Mar	101	102.9
MBA Mortgage Applications (US)	29-Mar	24-Mar	--	3.00%
Personal Income (US)	31-Mar	Feb	0.20%	0.60%
Personal Spending (US)	31-Mar	Feb	0.30%	1.80%
MNI Chicago PMI (US)	31-Mar	Mar	43	43.6

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
Industrial Production m/m (JP)	30-Mar	Feb	2.70%	-5.30%
Jobless Rate (JP)	30-Mar	Feb	2.40%	2.40%
Manufacturing PMI (CN)	30-Mar	Mar	51.7	52.6
Tokyo CPI Ex-Fresh Food y/y (JP)	30-Mar	Mar	3.10%	3.30%
Job-To-Applicant Ratio (JP)	30-Mar	Feb	136.00%	135.00%
Non-manufacturing PMI (CN)	30-Mar	Mar	54.90	56.30
Retail Sales y/y (JP)	30-Mar	Feb	5.80%	6.30%
Housing Starts y/y (JP)	31-Mar	Feb	-0.50%	6.60%

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