

Key Points

- **Equities:** Falling US inflation not enough to keep markets buoyant as debt ceiling concerns and growth weakness see markets fall a second consecutive week
- **Credit:** With markets rife with volatility, we continue to favour high quality IG credit, advocating a Liquid+ Strategy for safety and stability of returns
- **FX:** DXY finds a firm footing with weekly 1.5% appreciation to 102.7; EUR/USD to take out the support at 1.08 (100-day MA) to extend its downside
- **Rates:** With Fed entering into pause mode (FF target range peaking at 5.00-5.25% range), UST yields to remain stable for now with 2Y UST in 3.80-4.20% range
- **The Week Ahead:** Keep a lookout for US Initial Jobless Claims; Japan Industrial Production Numbers

Equities: US debt ceiling negotiations weigh on markets

Inflation eases up but market weakness persists. Markets notched another week of losses on debt ceiling worries despite US inflation coming in lower than expected for the month of April (4.9% actual vs 5.0% consensus). Global equities were down 0.5% for the week, with Developed Markets and Emerging Markets falling 0.5% and 0.9% respectively.

US equities traded flat for the week; the tech-heavy NASDAQ responded well to the tamer-than-expected inflation report, gaining 0.4% while the S&P 500 and Dow Jones fell 0.3% and 1.1% respectively as concerns around regional banks persisted. Europe fell marginally as UK inflation remains above 10% and the services sector contracted 0.3% in March; the FTSE 100 lost 0.3% while the Stoxx 600 remained flat for the week. China equities also showed weakness during the week amid lackluster trade data (imports contracted while export growth slowed in April); the HSI & HSCEI fell 2.1% and 2.0% respectively.

Topic in focus: India – Resilient services sector amid global tightening. India's services sector has remained robust despite growth concerns and increasing incidence of risk events globally. The net service trade under the balance of payments has jumped from a monthly average of USD7.3b in late 2019 and is on course to hit USD13.5b in early 2023. On a full-year basis, service exports rose to a new high of USD320b. This service trade surplus is in large part due to resilience in the computer and IT services sector, which makes up nearly half (USD125b) of the country's services exports.

A large part of the success of the IT services sector lies in growing demand for Business Process Outsourcing (BPO) as companies in developed markets seek to rationalise cost structures amid global financial tightening. A strong dollar has also helped the sector's performance as c.60% of its revenue comes from the US. In the longer term, the sector will be buoyed by secular digitalisation trends, which will see companies, irrespective of region or sector, moving more of their business operations online. India is currently responsible for 40-45% of the global BPO market and this figure is only set to grow, aided by India's skilled workforce, technological know-how, improving infrastructure, and supportive regulatory backdrop.

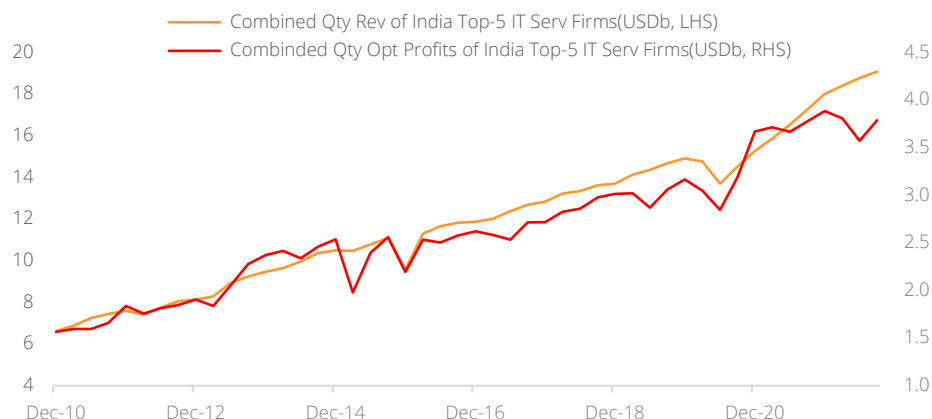
GLOBAL MULTI-ASSET RETURNS

Index	Close	Overnight	YTD
DJIA	33,301	0.0%	0.5%
S&P 500	4,124	-0.2%	7.4%
NASDAQ	12,285	-0.4%	17.4%
Stoxx Europe 600	465	0.4%	9.6%
DAX	15,914	0.5%	14.3%
CAC 40	7,415	0.4%	14.5%
FTSE 100	7,755	0.3%	4.1%
MSCI AxJ	625	-0.8%	0.9%
Nikkei 225	29,388	0.9%	12.6%
SHCOMP	3,272	-1.1%	5.9%
Hang Seng	19,627	-0.6%	-0.8%
MSCI EM	973	-0.5%	1.7%
UST10-yr yield*	3.46	7.8	-41.2
JGB 10-yr yield*	0.38	-0.8	-2.9
Bund 10-yr yield*	2.27	5.1	-29.1
US HY spread*	4.71	-2.0	2.0
EM spread*	401.25	-4.2	27.1
WTI (USD)	70.04	-1.2%	-12.7%
LMEX	3,720.70	0.8%	-6.6%
Gold (USD)	2,010.77	-0.2%	10.2%

Source: Bloomberg

* Changes in basis points

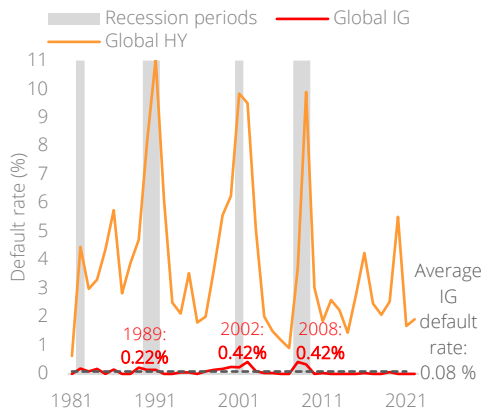
Figure 1: India's IT sector - Resilient revenue and profits for over a decade



Source: Bloomberg, DBS

Credit: High quality credit offers safety in an environment of rising default risks

Figure 2: IG corporate annual default rates have never exceeded 0.5%



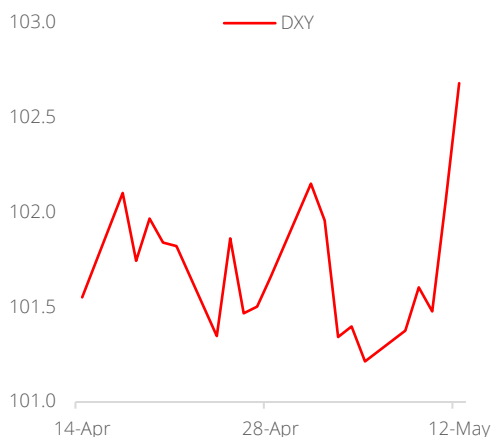
Source: S&P Global Ratings Research, S&P Global Market Intelligence's CreditPro, NBER Business Cycle dating, DBS (Data up to end of 2022)

IG credit offers investors the comfort of safety in today's uncertain environment. Against a backdrop of bank failures, tightened credit conditions, and financial stability concerns as the impact of elevated rates works its way through the system, investors would do well to seek the safety of high quality credit. As Figure 2 illustrates, historical data demonstrates global investment grade (IG) corporates' stellar record of an average annual default rate below 0.1%. Despite a challenging environment, IG corporates have maintained a clean sheet with no defaults since 2020. Even during peak corporate default periods such as during the GFC, IG credit defaults remained below 0.5%. In contrast, high yield (HY) defaults surged to nearly 10% in 2009, and have now begun to show a slight uptick since 2022. This suggests that should the economy weaken and default risks escalate, high quality IG credit would benefit from flight-to-quality sentiment.

Moreover, investors are generously rewarded for taking on modest default risks, with global IG yields close to 5% (more than 2 s.d. above their 10Y average). However, with peak rates likely upon us, the window could soon be closing to lock in generous yields in IG credit. We continue to recommend that investors capitalise on this narrowing window for higher yields by shifting excess cash towards high quality credit in what we term the Liquid+ Strategy, to capture yields while stocks last.

FX: USD finds a firm footing

Figure 3: Firm footing



Source: Bloomberg, DBS

The DXY's 1.5% appreciation to 102.7 was the strongest weekly gain this year. However, DXY is wedged between 100.8 and 102.9, its 100- and 20-week moving averages, respectively. On 19 May, Fed Chair Jerome Powell and former chair Ben Bernanke will take part in a panel discussion on monetary policy. Last year, the Fed delivered back-to-back "jumbo" hikes because US rates needed to catch up with rising inflation. After headline inflation peaked and fell, the Fed reduced the size of hikes to "normal" 25 bps. Except for CPI inflation excluding food and energy prices, most US inflation gauges had fallen below the 5-5.25% Fed Funds rate. However, Powell and Bernanke will emphasise that the Fed has not taken its foot off the brakes because inflation remained high above its 2% target. They will push back the market's bets for rate cuts later this year, clarifying that any hawkish pause simply meant that the Fed need not hike at every meeting. For example, the Reserve Bank of Australia hiked this month after keeping rates unchanged in April. Markets continue to take in stride the US debt ceiling issue.

Having depreciated 1.5% to 1.0850 last week, EUR/USD must take out the support at 1.08 (100-day MA) to extend its downside. The European Central Bank's (ECB) hawk-dove divide should undermine the monetary policy divergence that supported the EUR vs USD. Governing Council member Joachim Nagel's (Germany) longstanding desire to keep tightening beyond summer is well documented. What's new was ECB Vice President Luis de Guindos' (Spain) comment about the "normal" 25 bps hike signalling the hiking cycle was in the final stretch. GC member Francois Villeroy de Galhau (France) sees "marginal" distance left to cover in raising rates while Ignazio Visco (Italy) saw the ECB closing in the peak of the hiking cycle. Like Fed, the ECB says future policy decisions will be meeting-by-meeting and data-dependent. Meanwhile, the European Parliament is worried the European Union (EU) Budget may run out of funds for EU programs that assumed interest rates in a 0.55-1.15% range over 2021-2027. Today (15 May), the EU Commission will deliver its economic forecasts. Tomorrow (16 May), consensus expects Eurozone's preliminary GDP growth in 1Q23 to stay at the flat 0.1% q/q sa pace as 4Q23.

GBP/USD could extend its fall to 1.2250 or 20-week MA. Last week (ended 12 May), GBP depreciated 1.4% to 1.2460 despite the Bank of England's (BOE) twelfth hike to 4.50% and more optimistic economic outlook. BOE Governor Andrew Bailey and Chief Economist Huw Pill hinted the BOE could pause soon on falling inflation from base

effects and higher interest rates hurting domestic demand. Pill speaks again on monetary policy today. Bailey, together with deputy governors Ben Broadbent and Dave Ramsden, will testify to the Treasury Select Committee on Quantitative Tightening on Thursday (18 May).

USD/CNY is near the year's high of 6.9774 (on 8 March) ahead of the G7 Summit on 19-21 May. G7 nations will likely issue a communique over China's "economic coercion". Last Friday, EU ministers backed a plan to reduce the Eurozone economy's dependence on China. In early May, US Trade Representative Katherine Tai reported progress on the proposed US-Taiwan Initiative on the 21st Century, a move seen to reduce US's reliance on China. USD/CNY could test 7 if the USD extends its appreciation against other currencies this week.

Rates: Rangebound 2Y and 10Y

With the Fed expected to have entered into pause mode (FF target range to have peaked at 5.00-5.25% range), UST yields are likely to be stable for now - 2Y UST in a 3.80-4.20% range and 10Y UST in a 3.30-3.60% range.

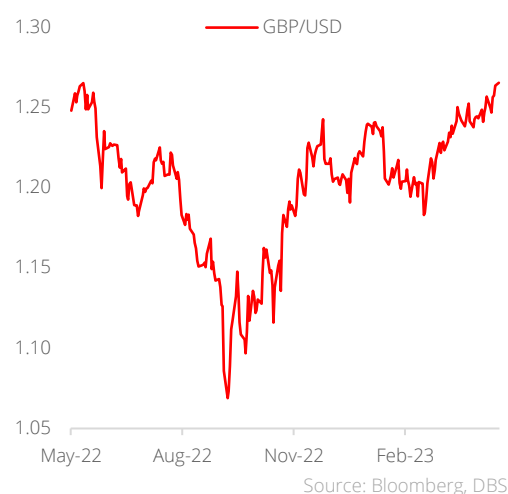
There are three scenarios that are most likely to drive a breakout from current ranges. One, in the near-term, a possible US default could see 2Y and 10Y USTs rally as safe haven demand flows to USTs (T-bills should sell off though due to uncertainty over repayment).

Two, US economic data (especially inflation) could turn out to be more resilient and markets would have to recalibrate (reduce) the timing and extent of priced Fed rate cuts. We would thus see 2Y and 10Y USTs sell off in a curve-flattening move.

Three, if US banking sector conditions worsen or other unknown-unknown risks surface, the Fed would be expected to cut rates earlier. We would hence see 2Y and 10Y USTs rally in a curve-steepening move.

In terms of timing, the possible US default scenario is the closest that markets have to confront with, while the other two scenarios are likely further out in 2H.

Figure 4: Rangebound



Thematics: Singapore REITs – Ready for the next leap

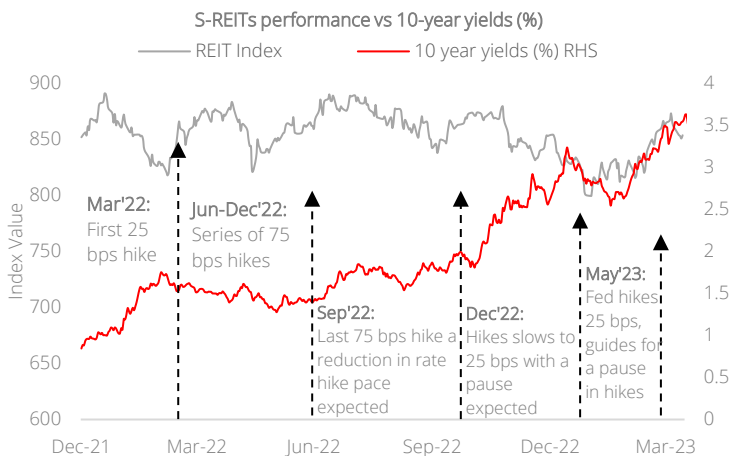
- Poised for net inflows as investors look to add exposures
- Street DPU growth forecasts are too conservative, operational strength surprises, acquisitions offer upside
- Abating interest cost risk not priced in, a 100 bps drop m/m in 3Y/5Y swap rates could drive consensus upgrades to DPU

S-REITs at an inflection point. With the rate hike in May 2023 potentially marking the end of the current rate hike cycle, we enter a period of “rate pause” through 2023. There are expectations of rate cuts to stimulate growth (if required from 2024 onwards), which is conducive for interest rate sensitive sectors like S-REITs in the immediate term. With recent conversations turning more constructive as investors increasingly seek opportunities to invest into the sector, DBS sees S-REITs outperforming the Straits Times Index (STI) in the coming months. FY23F yield of 6.0% implies a yield spread of 4.3%, an attractive incentive for investors to consider re-entering the sector, albeit selectively, with a focus on S-REITs with the ability to sustain dividends in a continued high interest rate environment. We prefer the retail, industrial, and hospitality subsectors, as well as offices to some extent.

Operational stats robust; retail and industrial subsectors the bright spots. Operational metrics have remained robust through 1Q23, despite the uncertainty surrounding sustainability as the economic outlook dims. We see strength in retail and industrial, supported by multi-year high occupancy rates, and accelerating q/q trend in rental reversions of around 8%-14%, pointing to a steady organic growth profile. Office rental reversions and occupancy levels remain strong, aided by vacancy rates at record low levels of <3%, although we sense that leasing spreads are weakening on the back of an economic slowdown. Hospitality S-REITs continue to impress with sustained revenue per available room growth, with more strength anticipated on the back of China's travel reopening.

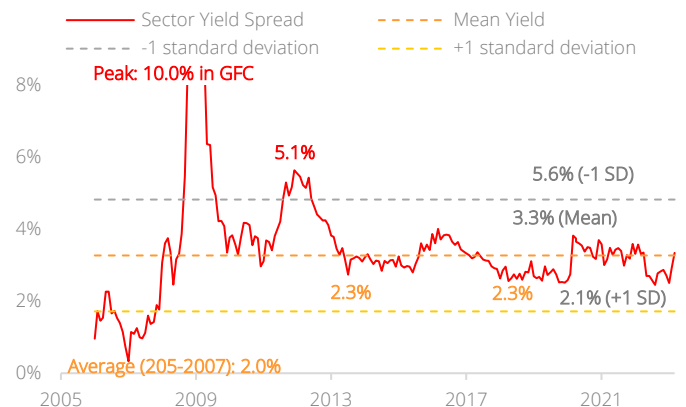
Are interest rates past their peak? Balance sheet metrics remain stable, and while portfolio interest rates hiked up 40 bps q/q to 3.4%, the trajectory is in line with expectations. That said, we note that the 3Y/5Y swap rates have declined by c.100 - 110 bps q/q, implying that at current levels, further refinancing and increments will likely be more modest. Thus, interest rates have peaked, in our view.

Figure 5: S-REIT prices have shown strength of late



Source: Bloomberg, DBS

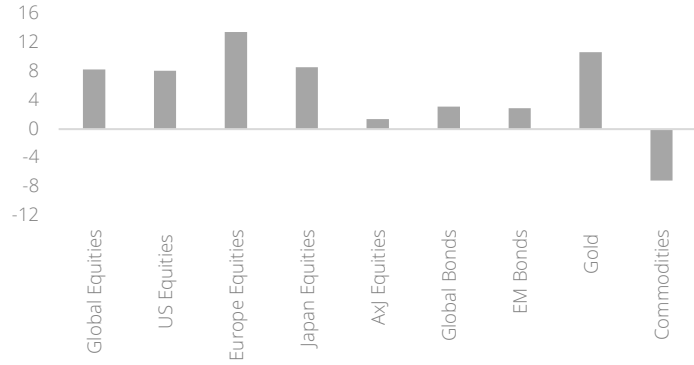
Figure 6: Yield spread vs 10Y bond



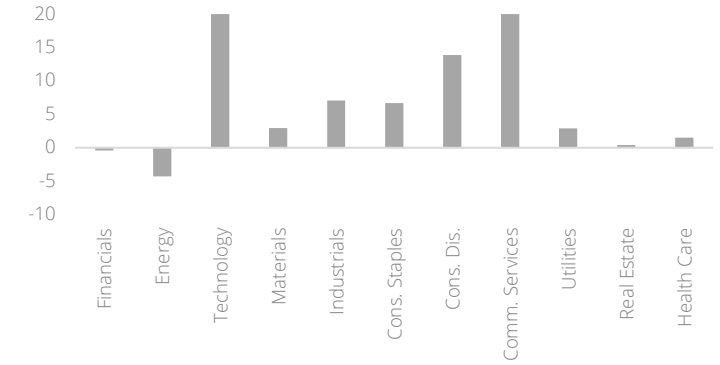
Source: Bloomberg, DBS
*chart truncated

CIO Markets Watch

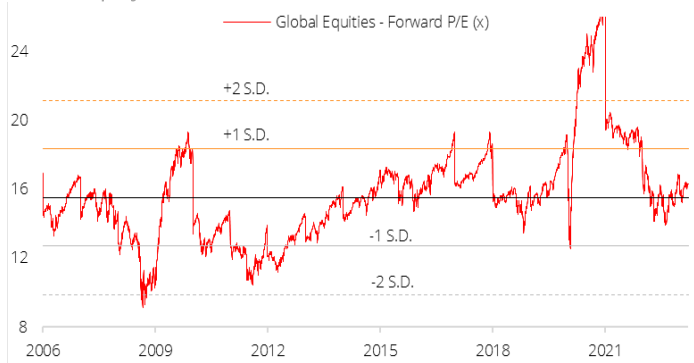
Global Cross Assets YTD Returns



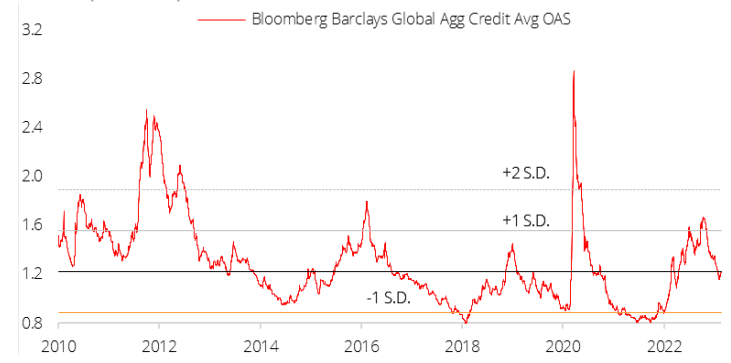
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Source: Bloomberg, DBS

INDEX RETURNS

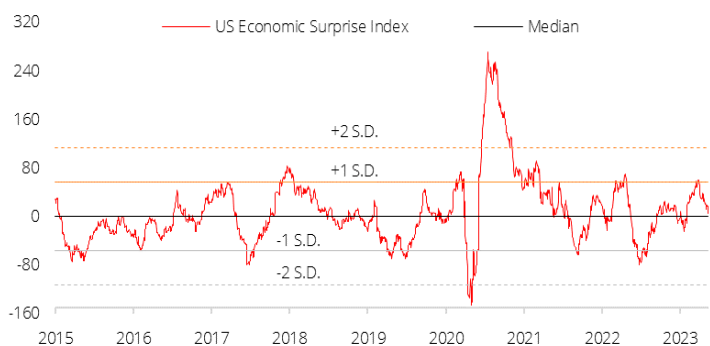
	1 week	MTD	QTD	YTD
Equities				
S&P 500	-0.3%	-1.1%	0.4%	7.4%
NASDAQ	0.4%	0.5%	0.5%	17.4%
Russell 2000	-1.1%	-1.6%	-3.4%	-1.2%
Euro Stoxx 600	0.0%	-0.2%	1.7%	9.6%
Nikkei-225	0.8%	1.8%	4.8%	12.6%
MSCI WORLD	-0.4%	-0.9%	0.6%	7.9%
MSCI ACWI	-0.5%	-0.9%	0.4%	7.2%
MSCI Asia ex-Japan	-1.4%	-0.9%	-3.1%	0.9%
MSCI EM	-0.9%	-0.4%	-1.7%	1.7%
HSCEI	-2.0%	-0.6%	-4.4%	-0.6%
SHCOMP	-1.9%	-1.5%	0.0%	5.9%
Hang Seng	-2.1%	-1.3%	-3.8%	-0.8%
STI Index	-1.8%	-1.9%	-1.5%	-1.3%
Fixed Income				
Barclays Global Aggregate	-0.5%	-0.3%	0.1%	3.1%
Barclays US Aggregate	-0.2%	-0.3%	0.3%	3.3%
Barclays US High Yield	-0.1%	-0.4%	0.6%	4.2%
Barclays Euro Aggregate	0.1%	0.3%	0.4%	2.5%
Barclays Euro High Yield	0.2%	0.4%	0.9%	3.8%
JPM EMBI Global	0.2%	0.1%	0.6%	2.9%
JPM EMBI Global Diversified	0.2%	0.2%	1.0%	3.0%

PRICES & SPREADS

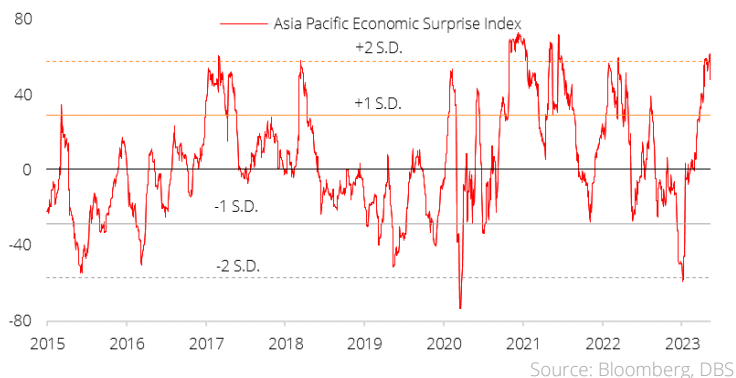
	Spot	1Q23	4Q22	3Q22
Rates				
Fed Funds Target	5.25	5.00	4.50	3.25
ECB Main Refinancing Rate	3.75	3.50	2.50	1.25
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10Y	3.47	3.47	3.88	3.83
Japanese Govt. Bond 10Y	0.38	0.33	0.41	0.24
German Bunds 10Y	2.27	2.29	2.57	2.11
Spreads				
US Agg Corporate Spread	1.45	1.38	1.30	1.59
US Corporate HY Spread	4.71	4.55	4.69	5.52
Euro Agg Corporate Spread	1.68	1.72	1.70	2.25
EM USD Agg Spread	3.53	3.52	3.32	4.03
Currencies				
US Dollar Index (DXY)	102.7	102.5	103.5	112.1
EUR/USD	1.08	1.08	1.07	0.98
USD/JPY	135.7	132.9	131.1	144.7
USD/CNY	7.0	6.9	6.9	7.1
Commodities				
WTI Oil	70	76	80	79
London Metal Exchange (LMEX)	3721	4038	3984	3541
TR/CC CRB Commodity	258	268	278	268
Gold	2011	1969	1824	1661

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)	18-May	13-May	252k	264k
CPI y/y (EU)	17-May	Apr	0.07	0.069
Retail Sales Advance m/m (US)	16-May	Apr	0.80%	-1.00%
MBA Mortgage Applications (US)	17-May	12-May	--	6.30%
GDP SA y/y (EU)	16-May	1Q	1.30%	1.30%
Housing Starts (US)	17-May	Apr	1400k	1420k
Industrial Production m/m (US)	16-May	Apr	0.00%	0.40%
Existing Home Sales (US)	18-May	Apr	4.30m	4.44m

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
Industrial Production m/m (JP)	17-May	Mar F	--	0.80%
GDP SA q/q (JP)	17-May	1Q P	0.002	0
PPI y/y (JP)	15-May	Apr	5.60%	7.20%
Non-oil Domestic Exports y/y (SG)	17-May	Apr	-9.60%	-8.30%
Industrial Production y/y (CN)	16-May	Apr	0.108	0.039
Tertiary Industry Index m/m (JP)	19-May	Mar	0.30%	0.70%
Retail Sales y/y (CN)	16-May	Apr	22.00%	10.60%
Industrial Production y/y (JP)	17-May	Mar F	--	-0.007

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 Shar'i'a compliant), neither we nor the DFSA has determined whether they are Shar'i'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