CIO Weekly GLOBAL MULTI-ASSET

5 June 2023

Key Points

- Equities: Global equities were largely positive on the back of the debt ceiling resolution and moderating wage growth in the US
- Credit: With some new constraints on fiscal spending, we continue to favour high quality IG credit for yield and safety
- FX: USD supported by its relative strength against EUR and JPY
- Rates: Downside risks to the US economy have faded; Our 2Y yield forecast lifted higher
- 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	33,763	2.1%	1.9%
S&P 500	4,282	1.5%	11.5%
NASDAQ	13,241	1.1%	26.5%
Stoxx Europe 600	462	1.5%	8.8%
DAX	16,051	1.2%	15.3%
CAC 40	7,271	1.9%	12.3%
FTSE 100	7,607	1.6%	2.1%
MSCI AxJ	632	2.4%	2.1%
Nikkei 225	31,524	1.2%	20.8%
SHCOMP	3,230	0.8%	4.6%
Hang Seng	18,950	4.0%	-4.2%
MSCI EM	984	2.3%	2.9%
UST10-yr yield*	3.69	9.6	-18.4
JGB 10-yr yield*	0.41	-1.0	-0.5
Bund 10-yr yield*	2.31	6.5	-25.4
US HY spread*	4.24	-31.0	-45.0
EM spread*	387.68	-15.6	13.5
WTI (USD)	71.74	2.3%	-10.6%
LMEX	3,686.60	-0.1%	-7.5%
Gold (USD)	1,947.97	-1.5%	6.8%

Source: Bloomberg
* Changes in basis points

Equities: Markets rise on debt ceiling resolution

US markets led rally in global equities. Markets reversed some losses from past weeks as the compromise debt ceiling bill passed the Senate by a 63 – 36 margin last Thursday (1 June). Global equities rose 1.6% for the week, with DM and EM gaining 1.6% and 1.2%, respectively.

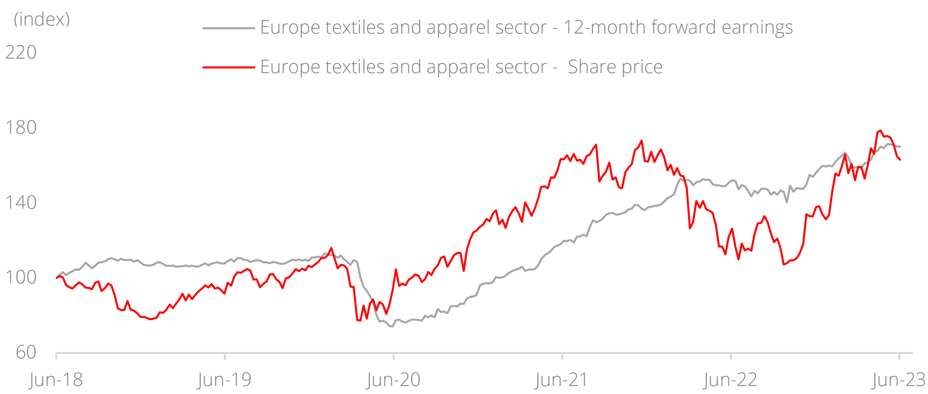
US equities closed higher last week as market sentiment improved with the successful raising of the US debt ceiling and a labour market report showing moderating wage growth in May. AI-themed stocks lead the rally. The S&P 500, Nasdaq, and Dow Jones notched weekly gains of 1.8%, 2.0%, and 2.0%, respectively. European stock markets were flat for the week; the FTSE 100 dropped 0.3% while the Stoxx 600 gained 0.2% with narrowing breadth of gains across sectors. Asian ex Japan equities climbed 1.2% and the Nikkei 225 rose 2.0% while the HSCEI & SHCOMP gained 1.5% and 0.5% for the week.

Topic in focus: Europe equities – Europe luxury brands in China still in focus. Concerns about a potential slowdown in US spending and the possibility of a China slowdown that could impact their profits later this year had negatively impacted the share prices of European luxury brands in recent weeks. However, we believe that profit taking and overbought technicals are the primary factors behind the market correction.

Notably, after visits to China by prominent figures such as Elon Musk from Tesla and Jamie Dimon from JP Morgan, it has been reported that Bernard Arnault, the chairman and chief executive of LVMH, is also scheduled for a visit in June. This visit highlights China's openness for business since lifting lockdowns in December and reaffirms the country's importance as a key driver for luxury brands, as affluent consumers in the Mainland have continued their spending habits. LVMH's (MC FP) first-quarter sales saw a 17% growth, thanks in part to a recovery in China. Arnault's planned visit to China holds significant importance for LVMH's ambitious efforts to expand its largest acquisition ever, US jeweler Tiffany, in China.

Despite the current challenges, we maintain a positive outlook on the European luxury sector and believe that earnings could still exceed expectations.

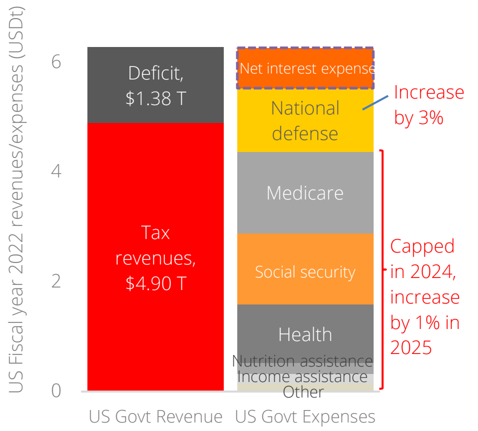
Figure 1: Europe luxury sector post-pandemic climb justified by strong earnings beat



Source: Refinitiv, IBES, DBS

Credit: Stay with quality credit as US debt ceiling concerns subside

Figure 2: A brief pause in US Fiscal spending



Source: Bloomberg, Datalab, USAspending.gov, DBS

Extend and pretend. Just as they had done **78 times before** the US congress passed a deal at the eleventh hour to suspend the USD31.4t debt ceiling for another two years, avoiding a messy default on its obligations . The bill involves a cap in non - defence discretionary spending for FY2024 and limits all discretionary spending to just 1% growth in FY2025. Defence spending , on the other hand, was permitted to rise 3%. The bill also restarts student loan repayments by the end of August , and claws back about USD30b in unspent money from a previous Covid relief bill.

Less fiscal, less monetary. With some new guardrails implemented to prevent unchecked fiscal spending, we believe that both fiscal and monetary policies in the US are now acting in tandem towards slowing the economy, mitigating the need for the Fed to continue its path of aggressive hikes to slow down inflation. This alleviates the headwinds of uncertainty that greatly opposed the bond markets in 2022 and presents an attractive entry point for investors to load up on high quality credit in their portfolios for income generation. Given also that suspending the debt ceiling gives the green light for increasing treasury issuance, we still prefer the 3-5 year duration segment to avoid any supply-driven sell-off in the long end on the back of debt sustainability concerns.

FX: USD is supported by its relative strength against the EUR and JPY

Figure 3: DXY (5Y)

Source: Bloomberg, DBS

On 3 June, two days before X-date, US President Joe Biden signed the bipartisan-supported Fiscal Responsibility Act to suspend the US federal debt ceiling until January 2025. Despite the relief of America averting a debt default, the market is wary of tightening liquidity conditions from the US Treasury issuing some USD1t of Treasury bills in 2H23 and the Fed keeping the door for a hike or two into summer.

In early May, the US Treasury 2Y yield bottomed at 3.80% when the Fed delivered what many expected was the last hike of the cycle. However, US CPI inflation jumped to 0.4% MoM in April from 0.1% in March. Last Friday (2 June), nonfarm payrolls surged to 339k in May, crushing the consensus for 195k jobs. The Bureau of Labour Statistics also revised April's 230k to 253k. Today, markets will look for upside surprises in prices paid and employment in the ISM Manufacturing PMI Survey. Over the past month, the 2Y yield rose to 4.50%, pulling the DXY to a two-month high of 104.

Although the Fed may pause at the FOMC meeting on 14 June, it could lift the 2023 Fed Funds Rate forecast in its dot plot. Interest rate futures have placed a higher bet for a Fed hike In July or September. However, they could revisit June hike prospects if the Reserve Bank of Australia tomorrow and the Bank of Canada on Wednesday surprise with rate hikes instead of pausing. Hence, any bounce in the CAD and AUD will likely be short-lived.

DXY is supported by EUR, its most significant component. Over the past month, EUR fell from 1.11 to 1.07. Despite the European Central Bank's (ECB) plan for more hikes in June and July, its narrative focused on a potential pause in September. EUR was also weighed by Germany, the EU's largest economy, entering a technical recession. EUR bulls will not welcome another slide in today's EU Sentix Investor Confidence Index to -15.1 in June from -13.1 in May.

Last week, the ECB assessed that financial stability vulnerabilities in the euro area remained elevated. Interestingly, the ECB was more concerned about threats to the financial system from future policy normalization by the Bank of Japan than the recent bank turmoil in the US and Switzerland. Technically, EUR is currently pressured by the 100-day moving average (MA) cutting above the 20-day MA. In the last week of May, the 50d cut above the 20d MA sent EUR below 1.08.

Japanese officials have restarted verbal interventions with Fed hike expectations keeping USD/JPY near a six-month low of 140. Last week, Bank of Japan (BOJ) Governor Kazuo Ueda said it was premature to discuss the details of an exit strategy from its ultra-loose monetary policy. Ueda expects CPI inflation to slow towards the middle of this FY. Many also expect the BOJ to hold policy amidst speculation for Prime Minister Fumio Kishida to call a snap election. Apart from a surge in public approval after successfully hosting the G7 Summit in May, Kishida's party won four of the five by-elections in April. Unlike last year, a higher USD/JPY is not keeping the Nikkei 225 index flat but propelling it to its highest level since 1990.

Rates: Removing the imminent downside risk premium

Figure 4: UST 2Y yield (5Y)

Source: Bloomberg, DBS

US Treasury yields ended the week buoyant as several key events get digested. Firstly, the debt ceiling got lifted. Without this threat overhang, sentiment got better though we would argue that much of this was already in the price by early last week. Secondly, Fed speakers (especially Fed governor Jefferson who is slated to be vice chair) appear to be paving the way for a pause. The takeaway is that sufficient policy tightening has been done to allow the Fed some leeway to observe how data performs. This was instrumental in capping how high yields go in the immediate term. Lastly, non-farm payrolls came in at 339k, against consensus of estimates of 195k. Moreover, there was an upward revision of 93k over the past two months. We had been wary of payrolls data, noting that they have beat consensus consistently for many months. Other labour market indicators (jobless claims and Job Openings and Labour Turnover Survey (JOLTS) job openings) generally point to labour market resilience despite the 500 bps of hikes delivered this cycle. The silver lining is that average hourly earnings are cooling. This suggests that the Fed might not need to worry too much about wages spilling into CPI.

Meanwhile, the spike in unemployment rate to 3.7% (3.4% previously) despite the unchanged labour force participation rate and firm NFP makes the complete set of data difficult to interpret in a consistent manner. Overall, we think that the labour market definitely has momentum and there may well be more labour market slack that is allowing companies to hire at the current pace. Lastly, we should also consider that NFP is compiled from establishments while the unemployment rate is compiled from the household survey. Nuances between the two could have led to divergences in how the overall set of data signals.

We reckon that downside risks to the US economy (banking sector stresses as well as resilience in the labour market) appears to have faded and have lifted our 2Y yield forecast higher. This change does not stem from a change in our Fed stance. We still see the Fed cutting in 2024. However, with multiple risk hurdles cleared for now, there may no longer be a need to maintain a sizable price premium on front-end Treasuries. The market's assessment that the Fed may hike in the immediate few meetings even if a pause takes place in June is about fair. Further out, we note that rate cuts are being faded as a semblance of higher for longer takes hold. This week might prove quieter with investors likely to watch ISM services data on 5 June. CPI is due only on 13 June, just ahead of the FOMC meeting (15 June, 2am SGT).

Thematics: Semiconductor – Singapore as beneficiary of China+1 Strategy

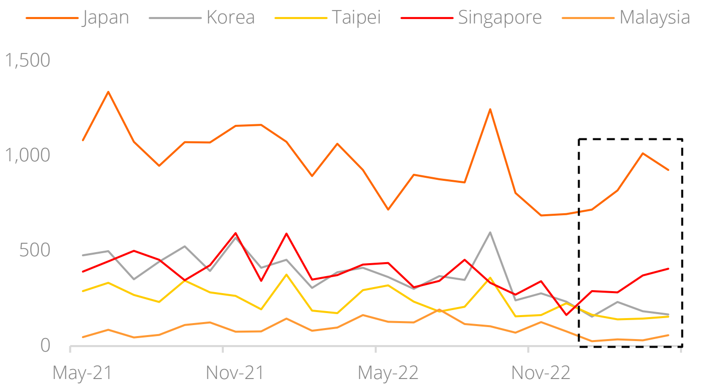
- Geopolitical uncertainties and supply chain resilience necessitate a China+1 strategy
- Singapore is well positioned to leverage on a China+1 strategy
- Higher value-add activities should be the focus for Singapore, with IDMs being the sweet spot

Geopolitical uncertainties and supply chain resilience necessitate a China+1 strategy. Tensions between the two major powers – the US and China – continue from the trade war in 2018-2019 that further intensified in 2022 with the recent export controls. Currently, the US retains the lion's share of the global semiconductor market, although China is coming up fast. The Covid pandemic, which resulted in severe supply chain disruptions has also made businesses rethink their supply chain resilience strategy. DBS Group Research believes the changing dynamics of the semiconductor market necessitates a China+1 strategy, evidenced by companies increasingly relocating production from China to other countries.

Singapore is well positioned to leverage on China+1. With limited exposure to geopolitical crossfires, supportive regulations and a favourable tax regime, Singapore is the preferred location for companies seeking diversification. Though labour costs are higher, the labour force has diverse capabilities underpinned by higher productivity. Singapore also has extensive free trade agreements in place to broaden the demand pool and an established semiconductor ecosystem attracting players across the semiconductor value chain.

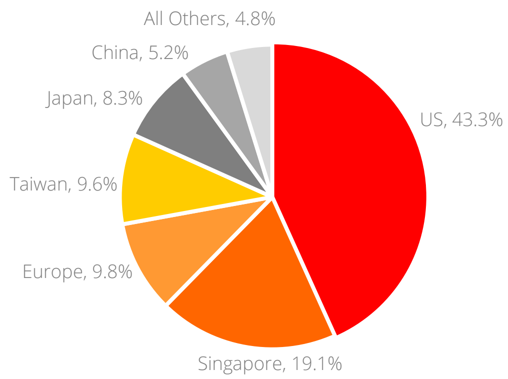
Higher value-add activities should be the focus for Singapore with IDMs being the sweet spot. Singapore is well positioned to leverage on higher value adds, i.e., more advanced activities that are more capital intensive and relatively less labour intensive. The sweet spot lies in Integrated Device Manufacturers (IDMs), as its activities span across the value chain while its margins are largely comparable to that of the fabless firms. It is also possible to cast the net wider to include the higher end of Outsourced Semiconductor Assembly and Test (OSAT) as Singapore could be appealing to it.

Figure 5: Monthly import of semicon equipment to China (in USD m)



Source: ITC, General Administration of Customs, DBS

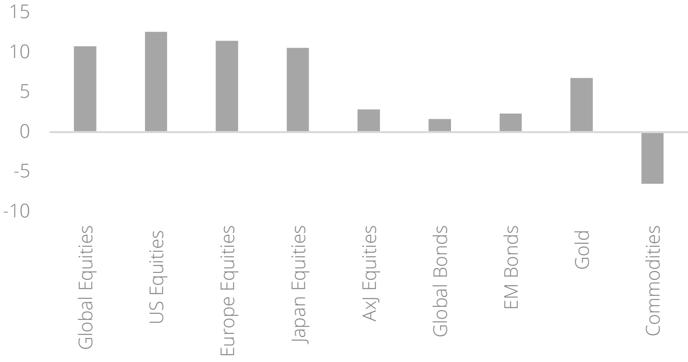
Figure 6: % of US-headquartered firms' semiconductor wafer capacity location



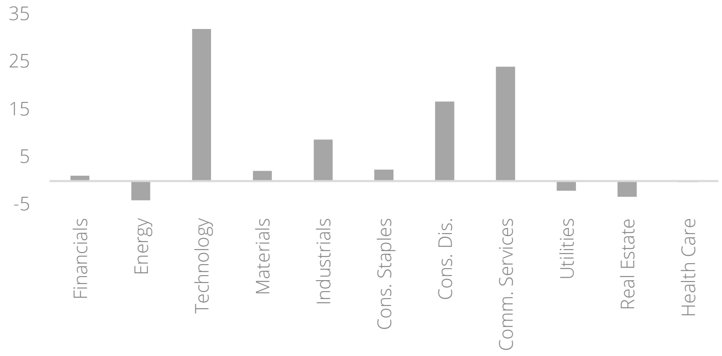
Source: IC Insights Global Fab Database and SIA estimates

CIO Markets Watch

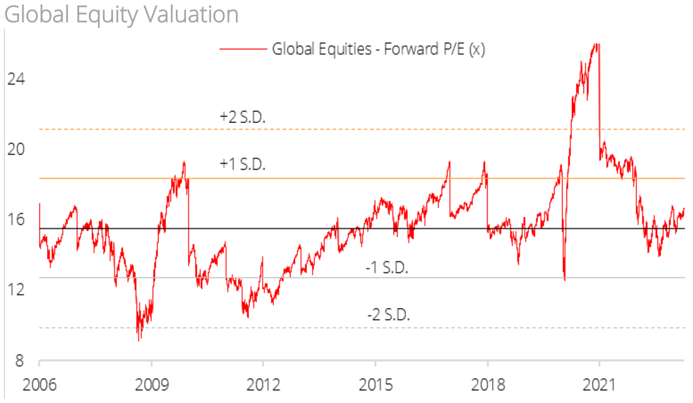
Global Cross Assets YTD Returns



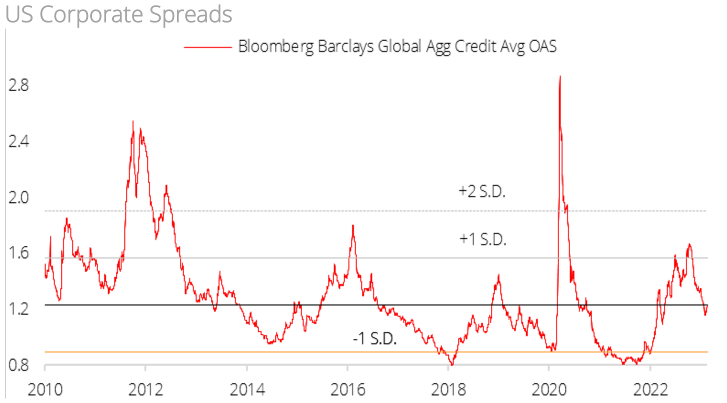
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Source: Bloomberg, DBS

INDEX RETURNS

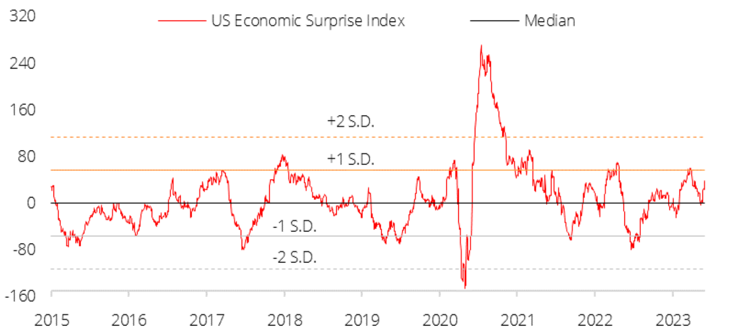
	1 week	MTD	QTD	YTD
Equities				
S&P 500	1.8%	2.5%	4.2%	11.5%
NASDAQ	2.0%	2.4%	8.3%	26.5%
Russell 2000	3.3%	4.6%	1.6%	4.0%
Euro Stoxx 600	0.2%	2.3%	0.9%	8.8%
Nikkei-225	2.0%	2.1%	12.4%	20.8%
MSCI WORLD	1.6%	2.6%	2.9%	10.4%
MSCI ACWI	1.6%	2.6%	2.5%	9.6%
MSCI Asia ex-Japan	1.2%	2.5%	-1.9%	2.1%
MSCI EM	1.2%	2.7%	-0.6%	2.9%
HSCEI	1.5%	4.3%	-7.8%	-4.1%
SHCOMP	0.5%	0.8%	-1.3%	4.6%
Hang Seng	1.1%	3.9%	-7.1%	-4.2%
STI Index	-1.3%	0.2%	-2.8%	-2.6%
Fixed Income				
Barclays Global Aggregate	1.1%	0.2%	-1.3%	1.6%
Barclays US Aggregate	1.0%	-0.3%	-0.8%	2.2%
Barclays US High Yield	1.1%	0.9%	0.9%	4.5%
Barclays Euro Aggregate	1.6%	-0.1%	0.4%	2.5%
Barclays Euro High Yield	0.6%	0.2%	1.6%	4.6%
JPM EMBI Global	1.3%	0.5%	0.1%	2.3%
JPM EMBI Global Diversified	1.2%	0.4%	0.4%	2.4%

PRICES & SPREADS

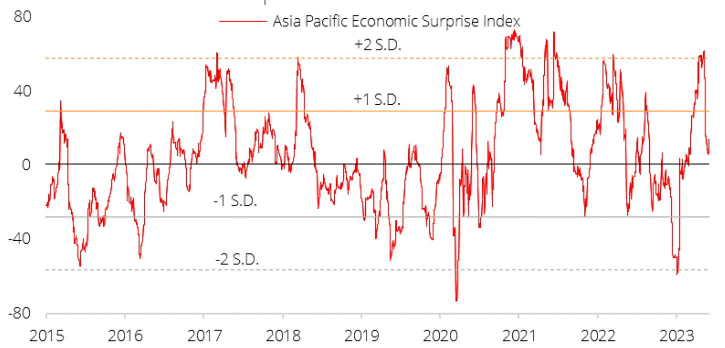
	Spot	1Q23	4Q22	3Q22
Rates				
Fed Funds Target	5.25	5.00	4.50	3.25
ECB Main Refinancing Rate	3.75	3.50	2.50	1.25
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10Y	3.70	3.47	3.88	3.83
Japanese Govt. Bond 10Y	0.41	0.33	0.41	0.24
German Bunds 10Y	2.31	2.29	2.57	2.11
Spreads				
US Agg Corporate Spread	1.34	1.38	1.30	1.59
US Corporate HY Spread	4.24	4.55	4.69	5.52
Euro Agg Corporate Spread	1.69	1.72	1.70	2.25
EM USD Agg Spread	3.40	3.52	3.32	4.03
Currencies				
US Dollar Index (DXY)	104.0	102.5	103.5	112.1
EUR/USD	1.07	1.08	1.07	0.98
USD/JPY	139.9	132.9	131.1	144.7
USD/CNY	7.1	6.9	6.9	7.1
Commodities				
WTI Oil	72	76	80	79
London Metal Exchange (LMEX)	3687	4038	3984	3541
TR/CC CRB Commodity	260	268	278	268
Gold	1948	1969	1824	1661

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)	08-Jun	03-Jun	237k	232k
GDP SA q/q (EU)	08-Jun	1Q	0.00%	0.10%
Durable Goods Orders (US)	05-Jun	Apr	1.10%	1.10%
MBA Mortgage Applications (US)	07-Jun	02-Jun	--	-3.70%
Factory Orders (US)	05-Jun	Apr	0.80%	0.90%
Trade Balance (US)	07-Jun	Apr	-$75.5b	-$64.2b
Wholesale Inventories m/m(US)	08-Jun	Apr	-0.20%	-0.20%
ISM Services Index (US)	05-Jun	May	52.4	51.9

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
CPI y/y (CN)	08-Jun	May	0.20%	0.10%
GDP SA q/q (JP)	07-Jun	1Q	0.50%	0.40%
BoP Current Account Balance (JP)	07-Jun	Apr	¥1650.0b	¥2278.1b
PPI y/y (CN)	08-Jun	May	-4.40%	-3.60%
GDP Deflator y/y (JP)	07-Jun	1Q	2.00%	2.00%
Money Supply M2 y/y (CN)	08-Jun	May	12.00%	12.40%
Retail Sales y/y (SG)	05-Jun	Apr	-1.90%	4.50%
Trade Balance (CN)	06-Jun	May	$95.10b	$90.21b

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