CIMB

1Q2021 Macro Outlook & Advisory House View

Investing in times of COVID-19 outbreak

CONTENTS

ASSET CLASSES		SHORT TERM OUTLOOK (3 - 6 MONTHS)		LONG TERM OUTLOOK (6 - 12 MONTHS)		Change of view (Previous → Current)
		UW	OW	UW	OW	
FIXED INCOME			●	●	⇦	Better global economic recovery in 2021 amidst news of effective COVID-19 vaccines and supportive fiscal & monetary policies, hence, shall see the market gradually pricing in higher bond yield (eg, US government bond). Nonetheless, the still rising COVID-19 cases globally and central banks maintaining low policy rates for longer shall see the spike in bond yield to be gradual. CIMB expects 10-Year UST yield range in 0.95% to 1.2%, 10-year MGS range 2.65% to 2.9% in 2021.
EQUITIES	LOCAL		●		●	We raise our KLCI target for end-2020F to 1,628 (from 1,520) to reflect earnings upgrades post 3Q20 results season, and introduce our 2021F KLCI target of 1,759. The expectation of strong recovery in earnings in 1H21F due to availabilities of Covid-19 vaccines and higher liquidity due to rising government spending and low interest rates are likely to keep retail interests in the market. Potential catalysts are government's incentives in boosting the tourism sector post lockdown and normalization in consumer spending leading to strong rebound in consumer sector, hence lessen the COVID-19 pandemic impact on banks. Watch for the 12th Malaysia Plan (detailing Malaysia's five year development roadmap in January 2021). Recent resurgence of COVID 19 infections is a concern, but is not resulting in a synchronized lockdowns and restrictions are not as strict as was in March and April. Political uncertainty remains a concern.
	REGIONAL		●		●	We remain OVERWEIGHT as Regional Equity can provide investors exposure to a region poised to bounce back in 2021, as well as strategic long term positioning as Asia evolves as the world's key growth driver. A Biden victory potentially reduces the geopolitical risk on Regional equities. Also, a potentially weaker dollar (stronger Asian FX) could benefit the performance of equities in the region. China fundamentals remain resilient, and the activity backdrop shall remain robust in the region. ASEAN is composed of more "value" sectors that are geared towards domestic recovery post COVID-19, it stands a chance to outperform when an effective vaccine is discovered and distributed to the mass. The risk is the recovery does not play out and US-China tensions do not fade as expected.
	GLOBAL - U.S	⇨	●	⇨	●	We upgraded to overweight due to expectations of continued easy monetary policy and fiscal stimulus, COVID-19 vaccine distribution and easing of mobility restrictions fueling further earnings, labor market, and business cycle recovery. However, elevated equity valuation could constrain further gains.

Note: UW = UNDERWEIGHT, OW = OVERWEIGHT, BLACK DOT = NEUTRAL.
NEUTRAL allocation equals to the Model Portfolios Allocation for respective risk profiles.

	GLOBAL - EUROPE		●	●	We maintain NEUTRAL. European equity valuations is relatively attractive compared to the US, but still higher compared to Regional Equity. Any easing in trade uncertainty will also benefit Euro area.
	GLOBAL-JAPAN	⇨	●	●	We upgraded to NEUTRAL as Japan is a traditional play on the global cycle, and shall benefit from a Value turn. However, the recent strength in Yen could weigh on exporters' earnings.

ALTERNATIVE	GOLD	●	⇦	● ⇦	Potential short term increasing in yield and USD, positive news from COVID-19 vaccines, could weigh on the precious metal. Longer term, low interest rate environment reduce opportunity cost of holding gold while US Fed QEs give supports. Furthermore, US fiscal stimulus uncertainties, USD weakening and still rising COVID-19 cases help. CIMB forecast in the range of USD1850 to USD2000 in 2021. Key risks include faster than expected economic recovery of growth, which resulted in higher than expected inflation and interest rate environment.
	OIL		●	●	Crude oil is supported by demand recovery and commitment from OPEC+ to keep supply on check. OPEC+ has in early Dec 2020 agreed to reduce the oil production cut to 7.2 mbpd (previously cutting 7.7 mbpd), either, to increase 500k bpd starting Jan 2021 and to be reviewed monthly. Key risks includes rising COVID-19 cases resulted in stricter lockdowns in major oil consuming countries, slower than expected roll-out of COVID-19 vaccines, smaller than expected fiscal stimulus and/ or larger than expected OPEC+ productions.

Note: UW = UNDERWEIGHT, OW = OVERWEIGHT, BLACK DOT = NEUTRAL.
NEUTRAL allocation equals to the Model Portfolios Allocation for respective risk profiles.

RETURNING TO NORMALCY

KEY POINTS:

- V-shaped market recovery thanks to accommodative monetary & fiscal policies, favourable US election result, COVID-19 vaccine and corporate earnings recovery

CHART 1 : MSCI World equity index pointing to all time high

Reasons for V-shaped recovery:

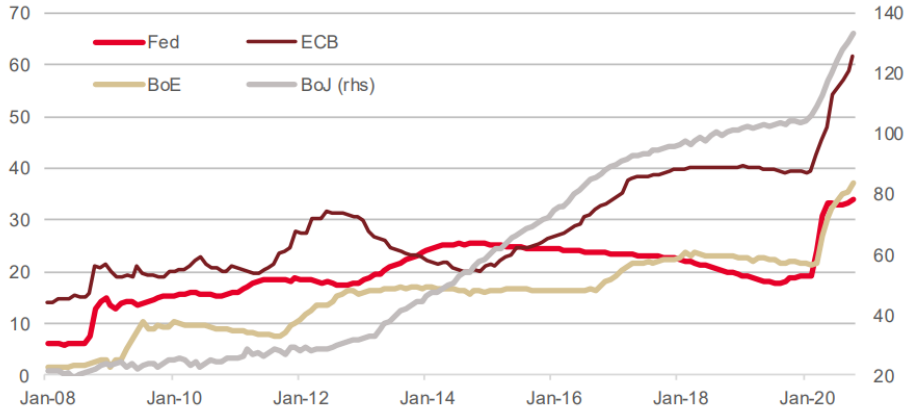
1) Ultra – Accommodative Central Banks

Thanks to the remarkable global central banks' ultra-accommodative monetary policies as well as speedy deployment of fiscal stimulus packages from the government across the globe. In the recent US Federal Reserve meeting. Chairman Jay Powell mentioned that the central bank will keep buying at least USD120 bn worth of debt per month (consisted of US government bond and mortgage backed securities) and projected to keep policy rate (fed fund rate) close to zero until the economy reaches full employment and inflation is on track to exceed the 2% target.

US central bank is not doing this alone as this pandemic crisis has prompted the central banks across the major countries who are negatively impacted to inject massive amount of liquidity into the financial system to cushion the economic fallout, as could be seen in the expansion of the central banks' balance sheets (eg, central bank purchased bonds bloating up their total assets in their balance sheet).

Source: Bloomberg – Dec 2020

CHART 2 : Major central banks have been expanding their balance sheet via purchasing bonds to inject huge amount of liquidity to support government and corporate funding

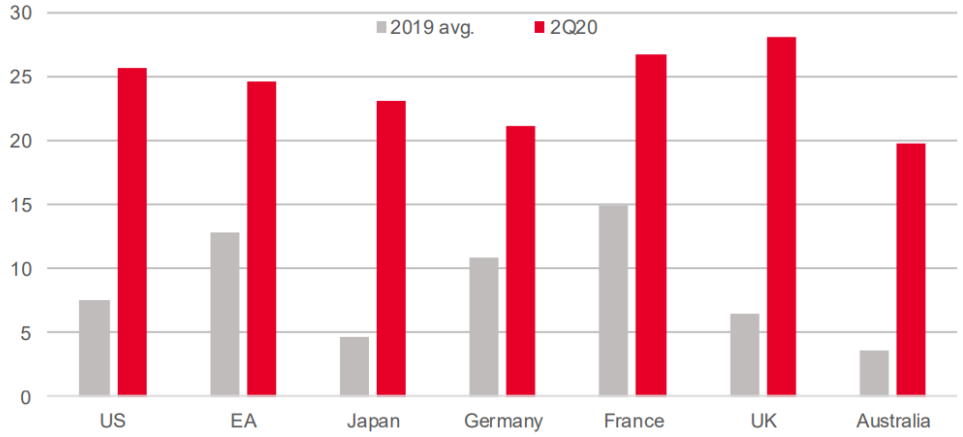


2) Generous Fiscal Stimulus Packages

As of writing, the US congressional leaders are still haggling over the final detail of nearly USD900 bil in coronavirus aid. While the details were not yet final, the top Republicans and Democrats on Capitol Hill appeared to be nearing a compromise that would include both another round of direct stimulus payments to Americans and additional unemployment benefits. In addition, the package was also expected to provide billions of dollars for vaccine distribution and support for schools and small businesses, but omit coronavirus liability protections long sought by Republicans and a dedicated funding stream for state and local governments insisted upon by Democrats — the two most contentious sticking points.

US households experienced a sharp boost in income when the CARES act and supplementary unemployment benefits came into force in April 2020. Personal income surged by 15% or USD205bn and although this was a peak, personal income levels have remained above their pre-crisis trend right up to September 2020. It means that households have built up a considerable cushion to buffer any negative income shock. But it also means that there is a very considerable level of pent-up demand.

CHART 3 : US household saving rates (as % of disposable income) jumped in 2Q2020



Source: Bloomberg Economics – Sept 2020, EY – 11 June 2020

TABLE 1: Government across the globe launched unprecedented fiscal stimulus

	FISCAL STIMULUS AS OF JUNE 2020	% GDP (estimates)
US	USD2.9 tril	15%
JAPAN	JPY234 tril	42%
GERMANY	EUR220 bil	7%
FRANCE	EUR42 bil	2%
ITALY	EUR75 bil	4%
UK	GBP107 bil	5%
CHINA	based on Bloomberg estimates	11%
MALAYSIA	Cumulative RM295 bil	20%

3) Post US election

President-elect Joe Biden is expected to be adopting a foreign policy which relies more towards international cooperation and less hostile approach towards China, as compared to President Trump, hence, should create less unpredictable events and volatility to the financial market.

President-elect Joe Biden would also set the spending priorities in the quest to develop and deploy new, cleaner form of energy, in addition to other traditional infrastructure and social security enhancement.

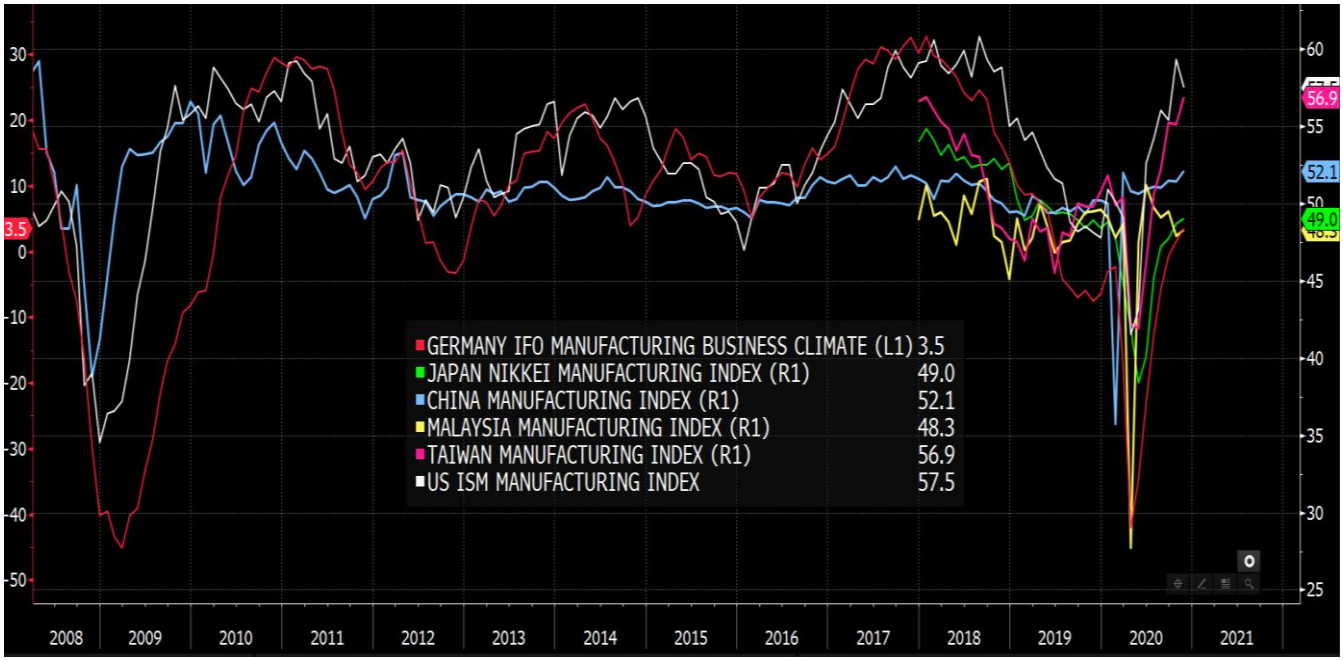
The divided US Congress (Senate is expected to be under Republican, House to be under Democrats), though could make passing a further larger scale stimulus package less likely (which is expected to be in the range of USD900 mil instead of over USD2 tril), this could also mean putting a higher barrier for Biden to carry forward his manifesto to hike corporate taxes, increase regulation in banks and big tech companies, and also regulation to limit drug price increases to inflation, which overall, could negatively impact the corporate profitability.

4) Effective COVID-19 Vaccines & Economic Growth Normalizing

The positive news on effective vaccines so far from Pfizer/BioNtech, Moderna and AstraZeneca / Oxford have indeed sparked more bullish sentiments that the global economies could return to normalcy when the vaccines are able to be deployed in mass to the rest of the world in year 2021 and onwards. CIMB chief economist is expecting the global GDP growth to recover in 2021 with China, Europe and the US GDP growth to grow at +7.8%, +4.3% and +3.6% respectively.

Source: Bloomberg – 17 Dec 2020; New York Times – 16 Dec 2020; National data, Refinitiv, SocGen – 23 Nov 202; Bloomberg Economics – Sept 2020; EY – 11 June 2020

CHART 4 : GLOBAL MANUFACTURING ACTIVITIES NORMALISING AT FASTER SPEED AS COMPARED TO 2008 / 09 GLOBAL FINANCIAL CRISIS



5) Corporate Earnings Recovery

Partly due to the low base set in 2020 during the economic lockdown, together with factors such as effective vaccines, re-opening of economies, continued accommodative central banks monetary policies and fiscal stimulus support as well as the V-shaped recovery in the economic activities, the market is pricing in higher companies earnings growth rate in 2021, which is partly reflected in the global equity indices and valuation. However, that could also mean should 2021 corporate earnings were to grow slower than expected, the current stock valuation may not be justifiable.

TABLE 2: MSCI companies consensus earnings per share growth by countries and sectors

	EPS Growth				EPS Growth		
	2020e	2021e	2022e		2020e	2021e	2022e
MSCI World	-18%	27%	16%	Energy	-85%	308%	54%
USA	-12%	20%	16%	Materials	-20%	31%	5%
Europe	-32%	37%	17%	Industrials	-43%	58%	19%
Eurozone	-38%	50%	19%	Tech	-6%	18%	16%
UK	-38%	36%	18%	Cons Disc	-70%	213%	27%
Germany	-27%	47%	18%	Comm Svcs	-16%	17%	13%
France	-47%	67%	21%	Cons Staples	-10%	9%	9%
Spain	-61%	96%	20%	Healthcare	-1%	10%	11%
Italy	-50%	62%	21%	Utilities	5%	11%	6%
Japan	-10%	43%	16%	Financials	-40%	39%	19%
China	0%	20%	17%	Banks	-59%	62%	30%
EM	-9%	34%	16%	Real Estate	-8%	2%	6%

Source: Bloomberg – Dec 2020; Refinitiv, MSCI, Barclays – 24 Nov 2020.

HIGH EQUITY VALUATION AND ROTATION FROM "GROWTH" TO "VALUE" SECTORS

KEY POINTS:

- Companies earnings yield remains relatively attractive compared to bond yield
- Longer term, Tech + sectors still lead the broad market
- Back to normalcy would close the gap between the "losers" and "winners" sectors

By referring to the forward price-to-earnings ratios, it's not difficult to spot the valuation, especially in the US is hovering at multi year high. However, Robert Shiller, the 2013 Noble laureate in economics and a professor of Economics at Yale University, argued that in his recent research, stating the level of interest rate is an increasingly important element to consider when valuing equities and says that the equities could continue to look attractive particularly when comparing with bond yields.

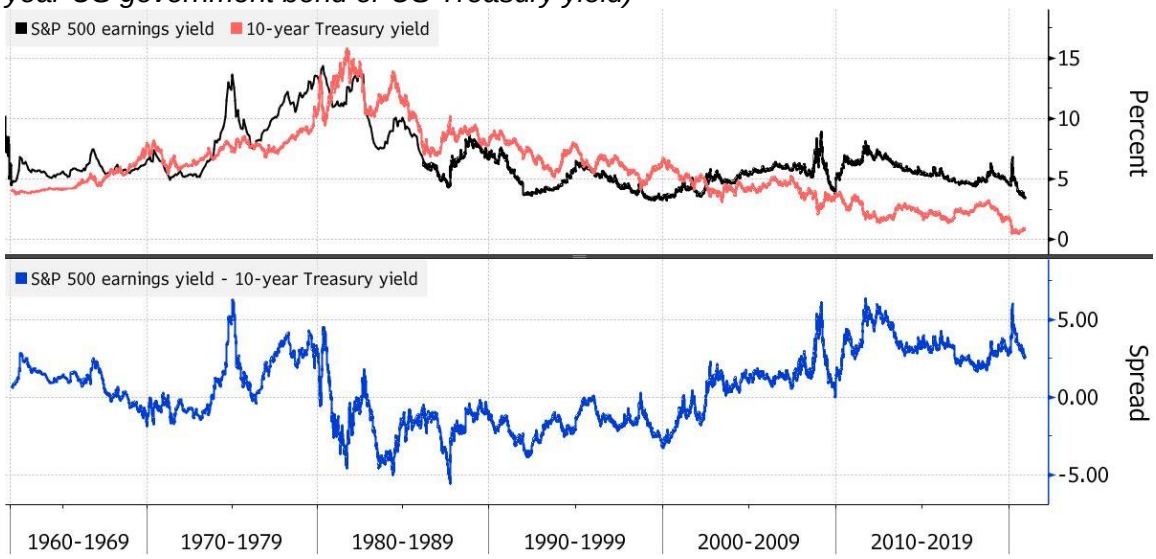
As we discussed in previous publication, the pandemic has benefitted greatly to the Information Technology (IT), communication, online retailers and other "stay-at-home" sectors. This could be seen the clear widening gap in the US Nasdaq index valuation, which is predominantly consisted of these sectors mentioned, against the rest of the broad market indices in the above chart. In longer term, we could continue to see the adoption of technology to continue to benefit these sectors, as reflected in the lead of these Tech + sector revenue growth and cash flow generation as compared to the overall broad industries over the longer periods (refer to CHART 5).

Nonetheless, should the COVID-19 vaccines become more widely distributed and bring the global economies back to normalcy, we should expect the most impacted sectors such as the energy, financial, materials, industries, travelling & airlines would start close the gap with the "leaders", such as the IT and other sectors as mentioned.

CHART 5: Though the forward P/E ratios is relatively high, historically speaking…

Source: Bloomberg - 16 Dec 2020; Robert J. Shiller - Project Syndicate – 30 Nov 2020; CNN – 16 Dec 2020; S&P, Factset, Credit Suisse – 18 Nov 2020; Forbes – 16 Nov 2020

CHART 6 : However, stocks still looks "relatively" attractive when compared to bond yields (using 10-year US government bond or US Treasury yield)



Note: Stock earnings yield = Earnings per share divided by Share price

CHART 7: US Nasdaq Companies Revenue Growth Exceed the Overall Broad Market (Indexed to 100)

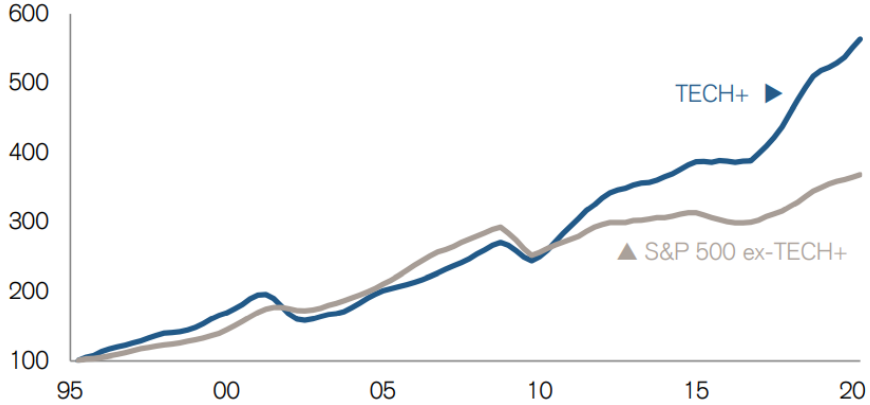
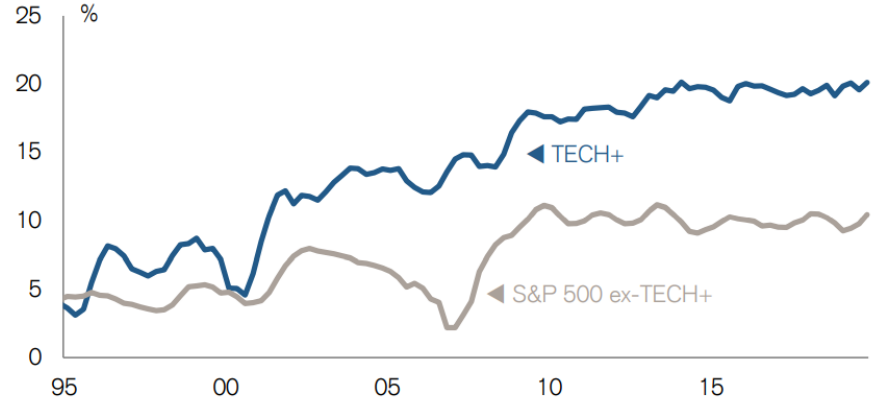


CHART 8: Companies Free Cash Flow as % of Sales Comparison



Note : Trailing 12-month data, Tech+ is the technology sector, Internet Retail within Discretionary, Interactive Media & Services, Interactive Home entertainment, Communication Services.

Source: Bloomberg - 16 Dec 2020; Robert J. Shiller - Project Syndicate – 30 Nov 2020; CNN – 16 Dec 2020; S&P, Factset, Credit Suisse – 18 Nov 2020; Forbes – 16 Nov 2020

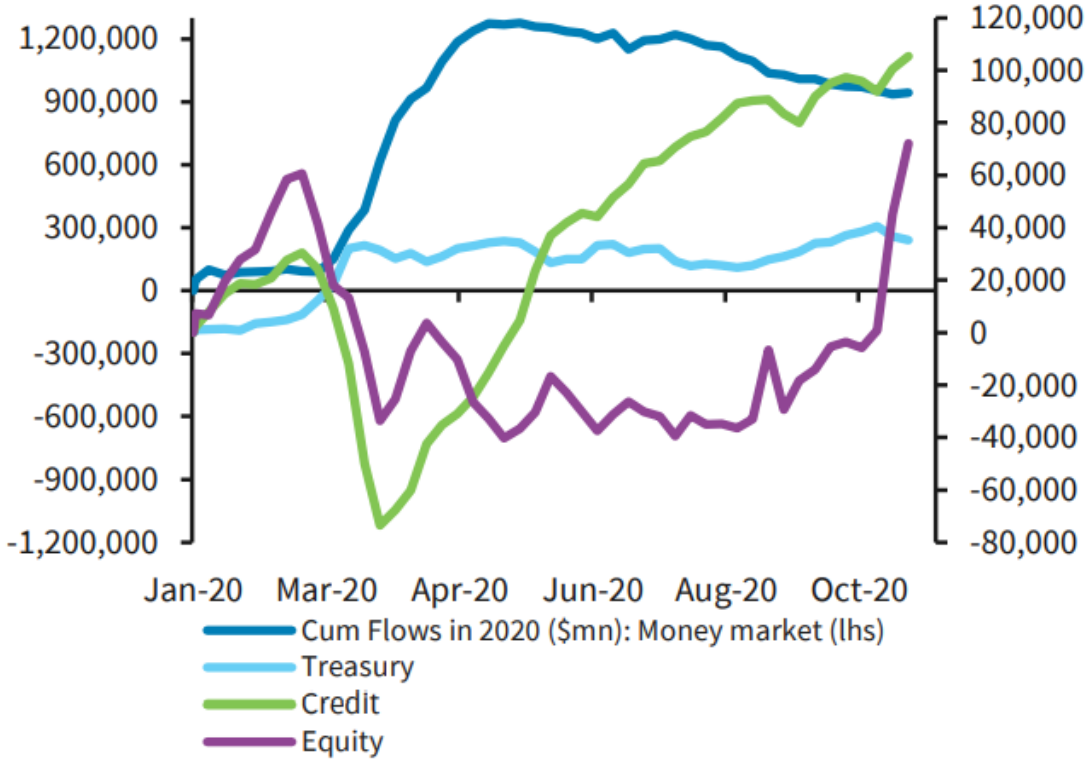
FUND FLOW

KEY POINTS:

- Fund flow into equity picking up due to risk-on sentiment

Over the past 3 months, we saw fund flowing into equity picking up due to risk-on sentiment after the re-opening of the economies and accelerated with more news flow on the COVID-19 vaccine development. As of end Oct, there is still sizable of fund residing in money market funds, indicating there is still ample liquidity to support the risky assets should risk-on sentiment continue.

CHART 9: Equity inflows exceeded other asset classes since last 3 months



Note: Treasury = US Government Bond, Credit = Corporate Bonds. Fund flows showing cumulative fund flow starting Jan 2020.

Source: EPFR, Barclays – 24 Nov 2020

KEY RISKS

KEY POINTS:

- Rising COVID-19 cases that leads to partial or full lockdown before the mass distribution of vaccines.
- US political and policies uncertainties due to divided congress.
- Europe / UK Brexit
- Central banks tapering / tightening.
- US ban on China policies.
- Slower than expected corporate earnings growth that does not justify current stock valuation

COVID-19 rising cases before it comes down that could trigger partial lockdown

As discussed earlier, there is high hope that the effective vaccines could bring the COVID-19 outbreak under control probably by 2nd half 2021. Nonetheless, as of writing, the resurgence of cases in the US and Europe could bring new rounds of partial or even stricter lockdowns, though the impact to growth is expected to be less severe than during the first wave in Feb/March 2020.

US politics and policies

We are still uncertain as to whether the Senate (upper house) will be controlled by a Republican or Democrat majority. The state of Georgia has 2 Senate seats up for special run-off elections on 5 January 2021 that could determine the majority in the Senate. The US senate were at 50-48 for both Republicans and Democrats respectively.

Should the Republican continues to hold control over US Senate, though that could mean the pro-business policies from Trump administration could remain, but that could also mean the larger scale fiscal stimulus package as proposed by the Democrats unlikely to be passed. Indeed, in the US, the level of unemployment support has already declined: the additional USD600 pw expired and were replaced by less generous payments of USD250-350, depending on State arrangements. In the US, the risk is that Democrats and Republicans cannot agree on another stimulus package, in which more than 13 million people enrolled in the current programs will see their incomes drop sharply on 1 January.

Should the Democrat control the US senate, the concern is Biden could bring in his proposal to hike the corporate taxes. As discussed in previous publication, the unwinding of the corporate tax rate, if implemented, could reduce the US companies' earnings per share growth of by around 5% to 12%, based on the estimation from Goldman and Credit Suisse. Therefore, could trigger higher market volatility.

Europe with COVID-19 and Brexit

Brexit will inevitably hit the UK and the EU economies with a negative shock, though its extent will depend on whether a last-minute deal between the UK and the EU can be struck, and what sort of deal it is. However, even if a deal is struck ahead of 1 January 2021, disruption in EU-UK trade is almost certain to occur, for example because goods have to have the required amount of local content to qualify for tariff-free border-crossing.

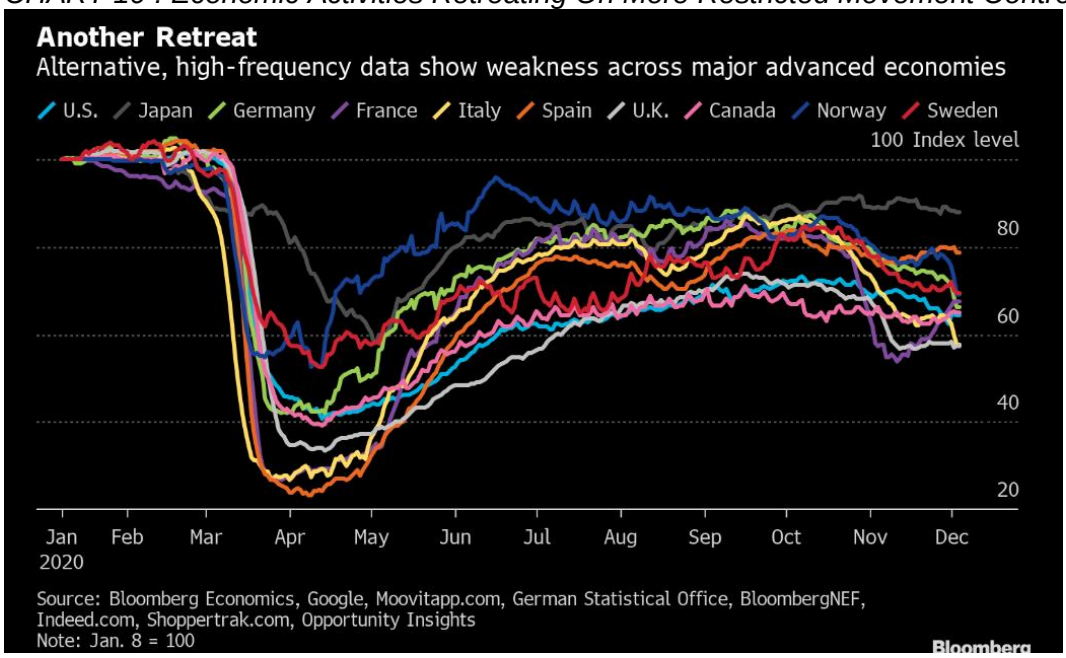
China People's Bank of China (central bank) tapering

Since early this year when the COVID-19 outbreak surged, the PBOC has reduced the bank's reserve ratio (allowing bank more liquidity to lend out), lowered lending rates and provide ample liquidity to the financial markets. However, the PBOC has avoided aggressive stimulus as deployed by the US fed and ECB. Driven by the better controlling of COVID-19 pandemic and quicker economic recovery, the PBOC vice governor said in early Nov 2020 that an exit is likely to be sooner, though it's expected to be in gradual pace. With the recent default cases by state-owned enterprises not spreading to other market, the financial risk would remain manageable.

US ban on China

Executive order from US president Trump banning American investors holding shares in companies with suspected ties to China military and potential more sanctions on Chinese officials, though remains stock specific, could have some implication on the broad Chinese market should this tension be escalated.

CHART 10 : Economic Activities Retreating On More Restricted Movement Control



Note: Using integrated data such as mobility, energy consumption and public transport usage.

Source: Bloomberg – 20 Nov 2020, 8 Dec 2020; Credit Suisse, Goldman Sachs, Washington Post – 22 May 2020; SocGen – 23 Nov 2020

CHART 11: Volatility could increase due to risk-off events

Source: Bloomberg – 20 Nov 2020, 8 Dec 2020

FIXED INCOME

We maintain NEUTRAL for short and longer term

KEY POINTS:

- Major central banks are expected to maintain policy rate low for longer.
- Market is likely to price in recovery and reflation, causing bond yield to gradually increase.
- However, there remains a persistent need for policymakers to maintain accommodative monetary and fiscal policy, therefore, expecting the increase in bond yields to be constraint.

In 2021, markets will likely remain cautious as the recovery remains fragile amid fears of a virus resurgence, concerns over the efficacy and distribution of vaccines, policy missteps between a new and partisan-driven US government and geopolitical competitors such as China, while economic decline from the pandemic raise risks of social instability.

Regardless of COVID-19 or future permutations of COVID, there is much for fiscal policy to compensate. As the pandemic has demonstrated, the role of governments in managing negative externalities has heightened. Hence, borrowing needs of governments may need to remain above trend given underperforming GDP growth.

The recovery in the prices of risky assets do not indicate an equivalent recovery in consumer and business sentiment, and it would be imprudent to price in significantly better conditions for a mere return to normalcy. As such, while bond yield may rise, the increase would be constrained by persistent growth concerns which will keep inflation low.

Against this backdrop, there remains a persistent need for policymakers to maintain accommodative monetary and fiscal policy. CIMB economist is expecting the US federal reserve to maintain it policy rate (Fed Fund rate) unchanged at 0% - 0.25% range.

In 2021, the fixed income markets are likely to price in the ongoing recovery and reflation. As such, while yields may rise, the increase would be constrained by persistent growth concerns which will keep inflation low.

Malaysia Fixed Income

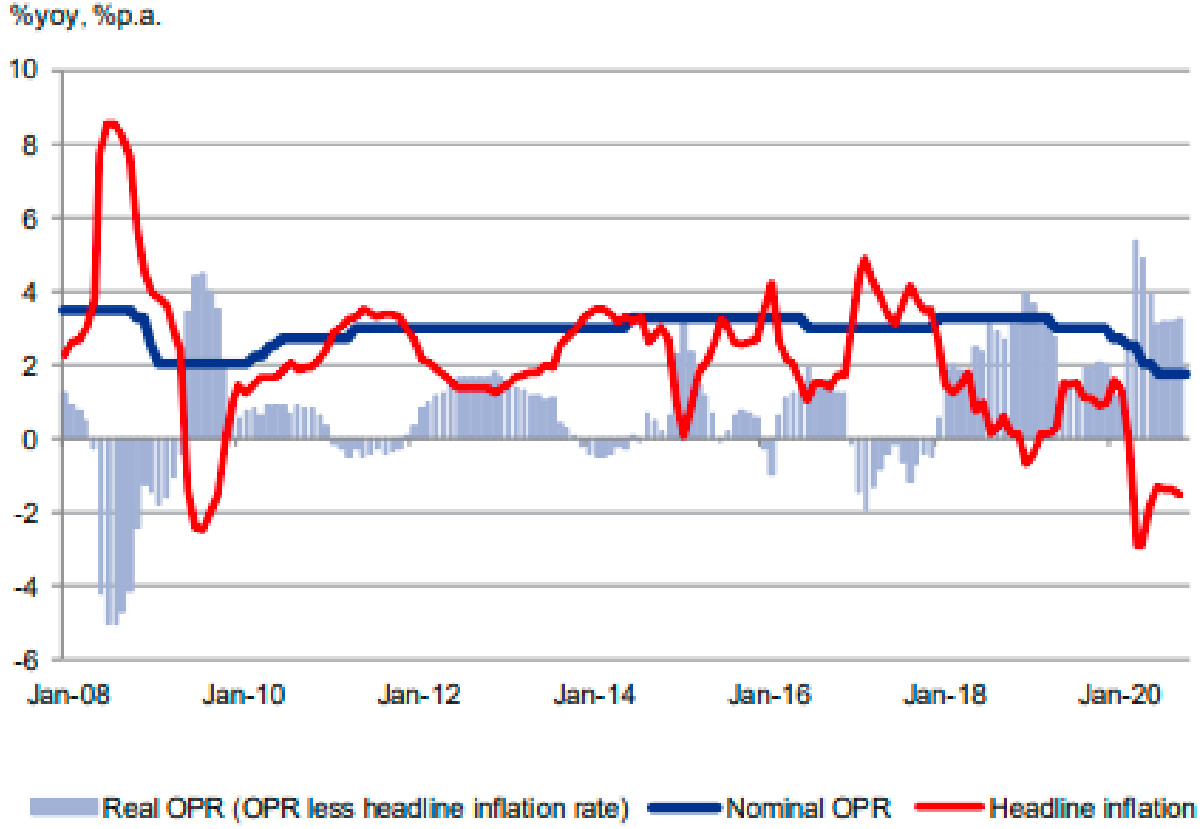
Malaysia parliament has voted pass the federal government budget for year 2021. Malaysia's fiscal deficit target for 2021 is at -5.4% of GDP, where the official GDP growth target for the year remains at 6.5-7.5% range.

In view of higher government debt issuance to fund the deficits, CIMB reiterates that the 2021 supply concerns are relatively modest. CIMB maintains the forecast for Malaysia Government Securities (MGS - Conventional) and Government Investment Issue (GII – Sukuk) issuance for 2021 at MYR153bil comprising fiscal financing of MYR84.8b and refinancing of maturing MGS/GII of MYR67.7b.

Regarding concern on the Employee Provident Fund potential net outflow due to the government stimulus packages of i-Lestari and i-Sinar, which allow the eligible members to withdraw and these amounted to RM70 bil, as mentioned by Minister of Finance. CIMB proprietary projections from the EPF measures suggest there will still be inflows which will lead to a positive net investment position for bonds. Furthermore, take up rates of such social assistance programmes have not been in full in the past. This will mitigate the extent of withdrawals from EPF.

BNM is expected to remain accommodative and maintain the Overnight Policy Rate (OPR) unchanged at 1.75%. Having said, we see for BNM to further cutting the OPR should there be necessary.

CHART 12: We expect the OPR to remain on hold at 1.75% in 2021



Source: CGS-CIMB – Dec 2020

LOCAL EQUITY

We maintain NEUTRAL for both short and longer term

KEY POINTS:

- We raise our KLCI target for end 2020F to 1,628 (from 1,520) to reflect earnings upgrades post 3Q20 results season, and introduce our 2021F KLCI target of 1,759.
- Our preferred sectors are banks, gaming, oil and gas, media, packaging, electronic manufacturing services (EMS), rubber gloves and healthcare.

Improving earnings and ample liquidity set to converge in 1H21F

We expect the market to do well in 1H21F before facing challenges in 2H21F. The key positives we anticipate include strong corporate earnings, additional liquidity available to retail investors, improved sentiment due to the availability of Covid-19 vaccines and potential foreign fund flows back to emerging markets (EM). We are likely to start 2021 on a stronger footing as Malaysian corporates are expected to enjoy strong earnings growth in 1H21F partly from the low-base effect due to the movement control order (MCO), as well as record earnings from glove makers and technology players. On top of this, additional liquidity from the government stimulus announced in Budget 2021 could help boost retail interest in the market and cultivate stronger animal spirits.

Potential challenges in 2H21F

Our less positive outlook on the market for 2H21F is premised on concerns that 1) corporate earnings growth rate could peak by 2Q21F or disappoint in 2H21F, 2) stimulus measures to support businesses and individuals will progressively end in 2021F, 3) incremental liquidity available to retailers will likely decline against a year ago, and 4) the temporary suspension of short-selling which began on 24 Mar could end by 31 Dec 2020. Another potential change in 2021F is the annual net fund inflows into the Employees Provident Fund (EPF) could be impacted by the new withdrawal scheme. Also, the probability of GE15 being held could increase once Covid-19 is under control.

Eight trading themes for 2021F

We offer eight trading themes but advise investors to be nimble in their investing strategy as the market is likely to stay volatile depending on the availability of vaccines, ability to contain the Covid-19 spread, political developments, and stimulus plans. We predict that the investors may be willing to take more risks in 1H21F when earnings recovery could peak. Our eight investment trading themes for 2021F are: 1) laggard plays; 2) beneficiaries of foreign fund inflows; 3) growth stocks; 4) retail picks; 5) dividend yielders; 6) GLC picks; 7) tourism recovery plays; and 8) shariah picks.

End-2021F KLCI target raised to 1,759 points

We maintain our KLCI target of 1,628 for end-2020 but raise our end-2021 KLCI target to 1,759 points, to reflect changes in KLCI constituents. Our preferred sectors are banks, gaming, oil and gas, media, packaging, electronic manufacturing services (EMS), rubber gloves and healthcare. We project KLCI earnings to decline 10% in 2020F before rebounding by 38% in 2021F. Key risks to our call include slower global growth, setbacks to vaccination timelines, rising trade risks and political uncertainties.

Source: CGS-CIMB – Dec 2020

CHART 13 : Malaysia GDP - Sharp post-CMCO GDP recovery in 3Q20 boosted by re-opening and stimulus

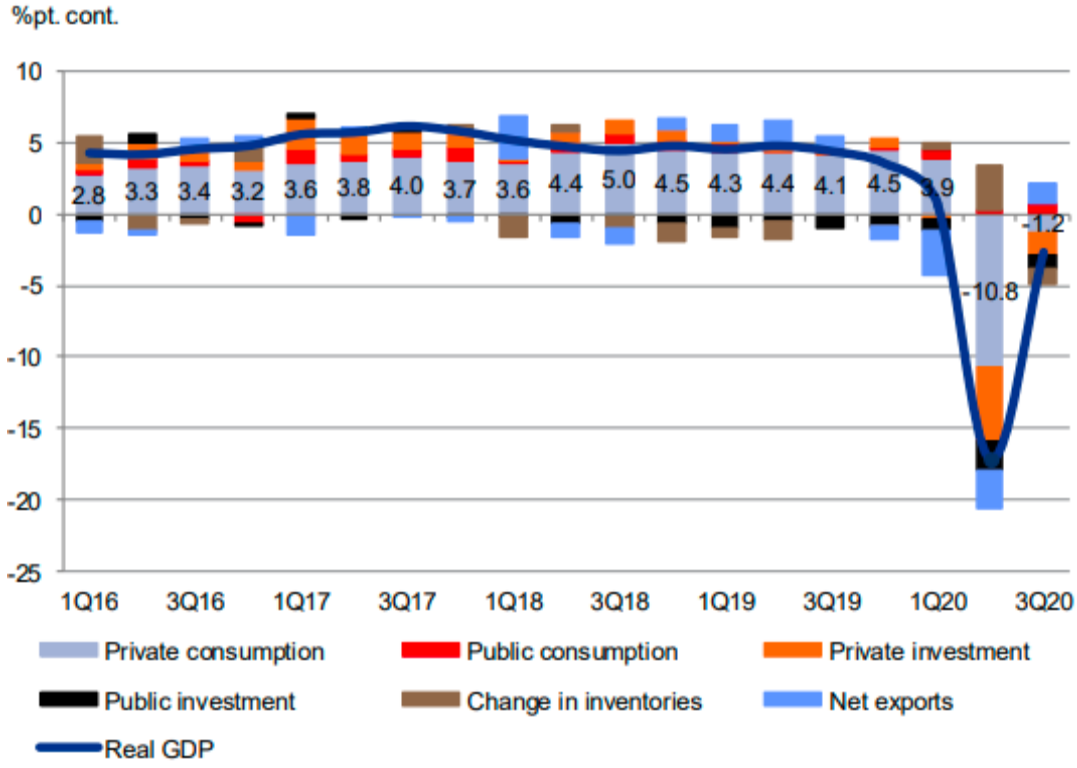
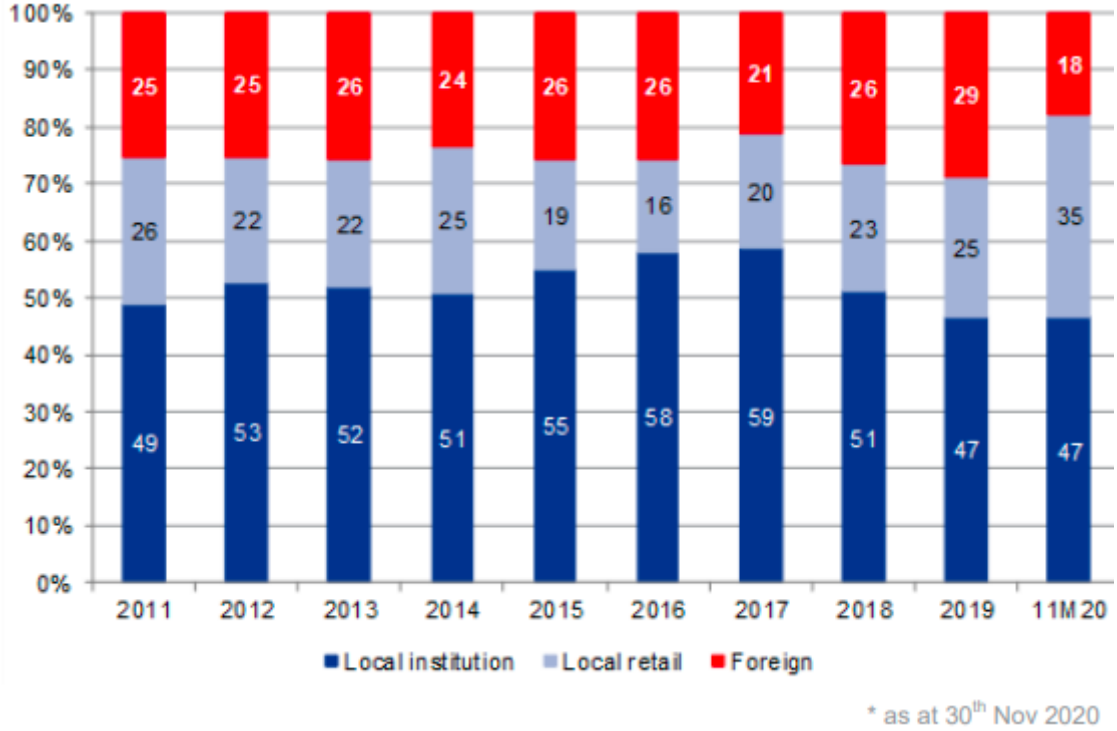


CHART 14 : Malaysia - sharp increase in retail investors share of trade participation in 11m20



Source: CGS-CIMB, CEIC, Bursa – Dec 2020

REGIONAL EQUITY

We maintain OVERWEIGHT for both short and longer term

KEY POINTS:

- China dual circulation to focus more on domestic consumption, tech self-sufficient economy and opening up of capital market to foreigners.
- Change of US leaders should provide China an opportunity to stabilize the relationship with the US.

China recently laid out its 14th five and 15-year plans for the economy, outlining an ambition to double the size of gross domestic product by 2035 (an average growth of more than 4.5% p.a in next 15 years), per capita GDP of about US$30,000, nearly three times the 2020 level., with a focus on self-reliance in technology and boosting domestic consumption. In addition, the plan also has aggressive goals on sustainable energy in order to reach China's announced goals of carbon neutrality by no later than 2060.

To achieve the long-term goal, the leader has proposed a long list of reforms under Dual Circulation strategy, which refer to domestic circulation and international circulation. On domestic circulation, partly due to the deteriorating relationship with the US and rising protectionism sentiment globally, there is an urgency for China to reduce its reliance on external demand, foreign technology and US capital markets. On the other hand, China is ever more pivoted towards domestic consumption and enhancing productivity to cushion the structural slowdown.

That follows on with international circulation, in which China would continue to open up to foreign investment and liberalize its capital market, which is crucial to better support its private sector financing. When domestic demand expands, China's role of being a net exporter could turn to become net importers.

As mentioned in previous publication, China will further enhances its "new" infrastructure investment, such as 5G, Artificial Intelligence, Inter of Things and Data Centres. By ensuring self-sufficiency in technology, China will unveil more measures to support the development of semiconductor industry.

Regional Comprehensive Economic Partnership (RCEP) Signed

More recently, 15 countries including China, Australia, Japan, South Korea as well as Southeast Asian nations, signed the Regional Comprehensive Economic Partnership (RCEP): It is the largest trading bloc globally, covering a market of 2.2 billion people and $26.2 trillion of global output — about 30% of world GDP.

US Change of Leadership

US President Elect Joe Biden is expected to return to more multilateral approaches by working with like-minded allies to tackle issues on trade, intellectual properties, foreign affairs, pandemic control, climate change etc. While this strategic competition between the two powers continues,

Source: Bloomberg – Nov 2020; CNBC – 24 Nov 2020; Nikkei Asia – 8 Nov 2020.

Biden should provide China an opportunity to stabilize the relationship between the countries, which has deteriorated since President Trump came in 2016.

CHART 15: Foreign holdings in China bond and equity have been increasing

CHART 16 : Asia export growth (yoy %) normalizing

Source: Bloomberg – Nov 2020; CNBC – 24 Nov 2020; Nikkei Asia – 8 Nov 2020.

ALTERNATIVE – GOLD

Lower short term outlook to UNDERWEIGHT, long term to NEUTRAL

KEY POINTS:

- Risk-on tone over vaccines development weigh on gold in the near term.
- Longer term, still low interest rate environment, weakening USD and prospect of additional US stimulus that could cause rising expectation of future inflation could provide support to gold.

Vaccines breakthrough have shifted investors out of safe-havens and into risker assets, such as global equities. Having said that, until the vaccine is widely distributed, we think the uncertainty surrounding the pandemic will keep the demand for gold supported. In addition, central banks are still committed to maintain their policy rates low for longer, a weakening USD trajectory and the likelihood of additional fiscal stimulus in the US would cause rising expectation of future inflation rate, hence, supporting the precious metal over the longer term.

President-elect Joe Biden has endorsed a US$908 billion bipartisan stimulus bill as it would provide a starting point for negotiations and as an immediate relief to the US economy. Biden reportedly said the endorsement is a “down payment” on a more comprehensive bill once he takes office, implying he will call for more robust aid in the near future.

Though the risk-on mood over the positive vaccine development will continue to weigh on the safe-haven, gold, based on the above, we reiterate that gold would remain supported over the next 12 months.

CHART 17: Gold vs. Real yield (bond yield minus inflation rate)

Source: Bloomberg – 14 Dec 2020

ALTERNATIVE – CRUDE OIL

Maintain NEUTRAL both short and longer term

KEY POINTS:

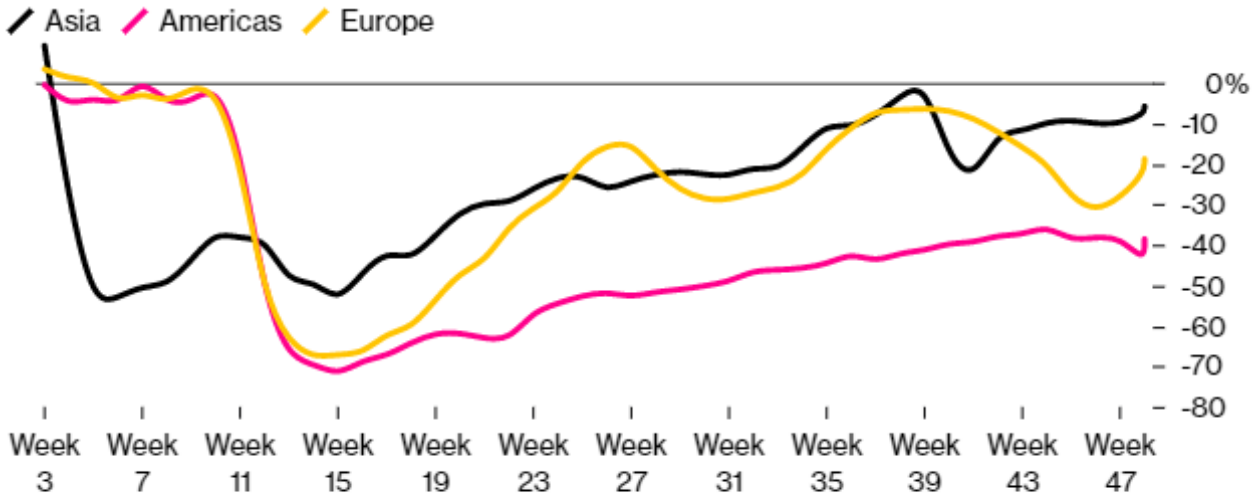
- Global economic recovery and positive development of COVID-19 vaccines supported crude oil demand.
- Gradual supply hike from the OPEC+ to ensure the oil demand and supply balance
- Keys risk such as rising COVID-19 case and potential more movement restriction could cause short term volatility.

The recovery of global economic activity after the re-opening and the prospect of effective COVID-19 vaccines have bolstered oil market.

On the supply side, the OPEC+ group of oil producers will add 500,000 barrels a day (bpd) to oil supply in Jan 2021. That is less than initially planned of 1.9 mbpd increase, a more gradual way to release oil supply without pushing it to a supply glut during an uncertain recovery from the pandemic. CIMB views this initiative constructively and this could continue to ensure balance and stability in the oil market.

Nonetheless, the key risks lies on the continued rising COVID-19 cases and deaths as well as the newly enacted restriction in several parts of the world are expected to weigh on the demand in the near term before the vaccine is widely available. Meanwhile, the recovery in international travel, which is a key demand sector for oil, remains heavily restricted.

CHART 18: Road usage has been recovering but still below the pre-covid19 level



Source: Bloomberg News based on traffic congestion and road usage data

Source: Bloomberg – 13 Dec 2020

CHART 19: Commercial flights are stuck at around 60% of last year level

Note: Includes commercial passenger's flight, cargo flights, charter flights and some business jet flights.

Source: Fligthtrader23, Bloomberg – 13 Dec 2020

GREEN TRANSITION

KEY POINTS:

- Governments across the globe are committed to reduce carbon emission.
- Fund flow to Environment, Social and Corporate Governance (ESG) related investment continue to grow despite pandemic.

United State of America rejoins Paris Agreement

US President-elect Joe Biden pledged for a clean energy revolution through recommitting the US to the Paris agreement on climate change, proposing US electricity production carbon-free by 2035 and the country achieve net zero emission by 2050 by spending USD2 trillion on upgrading 4 million buildings to make them more energy efficient, upgrading public transport by investing in electric vehicle manufacturing and charging points

Europe Green Deal

In September, the European Commission raised its greenhouse gas emission reduction target from at least 40% by 2030 to at least 55% based on 1990 levels. The ultimate objective of making Europe a carbon-neutral continent by 2050 remains unchanged. Upfront investments will be needed to switch energy, industry and transport to clean tech, which is an additional €82 billion to €147 billion in spending every year, or about 0.5% og EU's GDP. The Green Deal, which includes a €1tn investment plan over ten years (2020-30), is the backbone of the EU environmental policy.

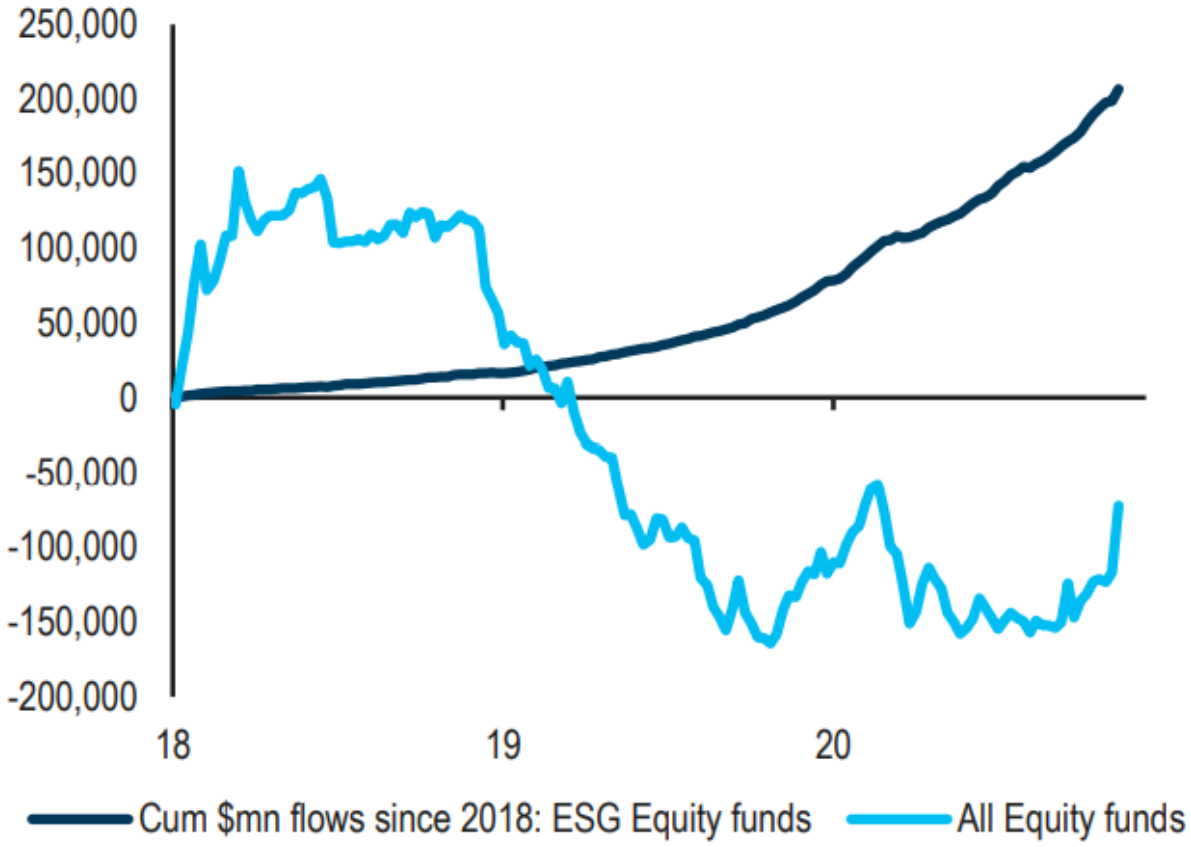
China Carbon Neutrality

China president Xi has also announced during the UN speech on 22 September that the country is committed to achieve carbon neutrality by 2060. The green transition also requires heavy investments in many sectors, creating new business opportunities and jobs. More specifically, there are 3 clusters: power, essentially focused on solar and wind, mobility, (the electrical vehicles ecosystem) and environmental industries (including carbon capture and storage, waste management and engineering firms active in boosting energy efficiency).

In summary, most of today's greenhouse gases come from power production and transportation, but there are also significant contributions from industry, commercial and residential fuel combustion and agriculture. All of those emissions have to be reduced in the coming next 3 decades, therefore, the 'Green" transition and further investment in these areas will run for some time.

Source: bbc.com - 10 Nov 2020; EPFR, Barclays – 24 Nov 2020; CGTN – 24 Sept 2020; Soc Gen – 23 Nov 2020; Politico.eu – 20 Oct 2020

CHART 20 : ESG funds flows have not been impacted by the pandemic, unlike the broad market equity funds



Source: EPFR, Barclays – 24 Nov 2020

INVESTMENT STRATEGY: PORTFOLIO DIVERSIFICATION

KEY POINTS:

Benefits of portfolio diversification:

- Minimizing the risk of loss
- Provides return stability
- Peace of mind

During periods of high volatility, investors are encouraged to stay invested through Investment Portfolio diversification that commensurate with investors' risk profiles. Why?

Investment portfolio diversification helps:
1) Minimizing the risk of loss - A diversified portfolio could help to reduce potential huge losses at times of uncertainty. If one asset class perform poorly during the investment periods, other asset classes may perform better. The chart / table shows the annualized return and maximum drawdown (from the highest to the lowest points) of the respective investment approach in single asset class as compared to a Balanced investment portfolio.
2) Provides Returns Stability - investment does not always perform as expected, a diversified investment portfolio avoids relying upon one source of asset class for return.
3) Peace of Mind - investors tend to "time" the market and get emotional during high volatility periods. A diversified investment portfolio helps to reduce the time spent to study the market and going through emotional stress, yet, achieving a realistic investment return over a longer period.

In conclusion, a well-diversified investment portfolio could help to reduce the return volatility and helps investors to achieve a more stable expected return over a long run.
The following chart and table shows if investors invested in single asset class as compared to a diversified investment portfolio – let's take a "Balanced" risk profile model portfolio that consists of 46% in Bond, 52% in equity and 2% in alternative asset classes.

CHART 21 : Historical portfolio return

	Cumulative Return Since Inception (%)	Annualized Return since inception (p.a %)	Maximum Drawdown During 2007 to 2009 (%)
100% in Equity Asset	+333.6%	+6.4%	-57.1%
100% in Bond Asset	+185.4%	+4.5%	-25.6%
100% in Commodity Asset	-37.7%	-2.0%	-56.7%
BALANCED Model Portfolio	+258.0%	+5.6%	-39.2%

Source: Bloomberg Data - Indexes and Portfolio Returns are re-based at 100 since Aug 1996.

Note:
1. Equity value based on MSCI World Equity Index, Global Bond value based on Barclays Global Aggregate Bond Total Return Index and Commodity based on Bloomberg Commodity Index
2. Investment Portfolio composition based on CIMB Wealth Management Balanced Risk Profile Model Portfolio (46% Bond, 2% Alternative, 52% Equity).
3. Maximum drawdown measures the highest level to the lowest level between 2007 and 2009 period.

Source: Bloomberg – Mar 2020
Past performance is not an indication of future return.

	Outlook	Technical
US Dollar	*Better economic outcomes - Dollar continued to trend lower on rising global growth confidence, election disputes and vaccine announcements. Worries over the sheer size of US COVID-19 infections also served to depress the Dollar. Periods of strength had been driven by data beating on the upside indicating that the economy remains firm. The Federal Reserve's economic assessment and projection remains positive, while further stimulus efforts will depend on the new President's policies and cooperation from Congress. European economies in comparison have seen data pointing lower while Asian assets have posted significant gains in anticipation of an end to the crisis. Barring another round of stimulus in the short term, we can expect the Dollar to find a floor and see upside pressure should economy continue to perform and the speculation over Fed policy mounts. Our forecasts start low and are gradually higher than consensus.*	*Technically the Dollar has been trading at its year lows The Dollar moved down sharply to break below its 74.6% retracement and is in risk of momentum carrying it lower down to test its next line of resistance at 90.60. Prices moving into oversold conditions can see a pullback but with momentum again turning lower reflected by moving averages pointing down anew we can expect a resumption lower with the potential to overshoot the support and move into the congestion region. For the trend to shift higher we would have to see Dollar breaking above both the 76.4% retracement and the blue support resistance line.*
EURUSD	*Conditions not conducive - Euro had a good quarter rising throughout, driven by sentiments improving as initial COVID-19 lockdowns in Europe and the rest of the globe eased, in addition to support by the ECB. EUR took a further step higher in the second half of July after the European Union agreed on a stimulus package with joint debt obligations. EUR gains looks to have partly taken into account an improving Euro-area growth aided by successful virus mitigation measures, stimulus spending and anticipation of global growth improving. EUR strength could be derived from preference for other reserve currencies and risk adoption should growth cause a USD decline. Our EUR forecasts are close to consensus and forwards.*	*EUR looking technically positive in the short term. EUR has recently broke out of a rectangle formation setting it up to target 1.2300. The target will remain valid as long as prices remain above 1.2000. However, owing to the RSI in overbought conditions, it can precipitate in a pullback into the formation unless prices consolidate here to bring momentum indicators to more neutral levels. A move below 1.2000 will see a short-term support at the 61.8% retracement or 1.1775 with a move below that precipitating in a sharper decline to test the black support line at 1.1275. Shorter term moving averages have crossed recently and can point towards a resumption of an upward trend but a move lower can see them extending the cross and begin indicating an inception of a downward move. Prices currently seem to be a technical juncture and can move either way.*
USDJPY	*Outside pressure countered by inside support - The Yen has been steadily strengthening throughout the year driven by domestic economic improvement,*	*A pullback to the bottom of channel before continuing lower. USDJPY took a sharp step lower after trading briefly around the large downward channel's*

	worries over COVID-19 and a weaker Dollar. While the Dollar remains weak, global economic prospects continue to improve and better economic prints in the coming year can induce upside pressure on global yields, which would push USDJPY higher. The pair can see further upside momentum should the Dollar improve as per our expectations. The Yen's weakness however, will be countered by better domestic economic prospects driven by significant stimulus spending, accommodative monetary policy and rising external demand. On balance we expect the trend to shift with USDJPY gradually moving higher throughout the coming year. Our forecast is above consensus.	*top and breaking below its support at the brown line around 105.30. Considering recent price trends and sharp moves lower is a good opportunity to buy USDJPY for quick gains. Any rebound higher has met with resistance at the trend channel top. Prices are set to continue trending lower, mirroring movements since the turn of the year and as such any spikes either way is a good opportunity to move in the opposite direction. Downside momentum can shift if prices move above the channel and remain consolidate there.*
GBPUSD	*Fundamentals holding firm despite challenges - GBP posted steady gains since its March lows driven by improving risk sentiments, Dollar weakness, initial success in curbing COVID-19 and positive Brexit expectations. Brexit worries generally saw it underperform its peers and prices have reached recent highs as Dollar fell anew. Further gains can be had on positive Brexit development and improving global economic expectations. Any weakness however is a good opportunity to add GBP positions against its peers as the UK economy is expected to improve faster with more flexibility post-Brexit. Our forecasts are lower than consensus over time given our view for a firmer Dollar.*	*Upward trend channel. GBP in its recent move above the 1.3000 handle has activated a reverse head and shoulders and the target had been met followed by an extension higher to exceed September highs, reaching a full retracement. Prices moving back below the red line can see a GBP targeting the 23.6% retracement or 1.3150 in the short term. Longer-term prospects will depend if GBP remains within the channel. Breaking below it will spark a trend shift lower.*
AUDUSD	*In line with rising risk sentiment - AUD has had a cumulative gain of 29% from the depths of the COVID-19 crisis. It was down for most of the third quarter before moving back up to exceed its recent highs. Gains had been driven by steady optimism over global growth and recently on vaccine news and Dollar weakness from election uncertainties. AUD has maintained its gains despite the RBA adding more accommodation and mitigation measures taken to combat the second wave. Australian equities have also seen sharp gains recently and there is upside if China-Australian relations thaw. Strength on the crosses can be derived as the Australian economy*	*AUD moves up along channel. AUD after its initial turn higher proceeded up along the lower end of an upward sloping channel. Upside momentum looks firm and a significant pullback is unlikely given the price action. However, should a pullback extend beyond 0.7320, the next downside target will be the 61.8% retracement or 0.7120 and further onto the red support line should the retracement not hold firm. A break below the retracement will reverse the positive trend.*

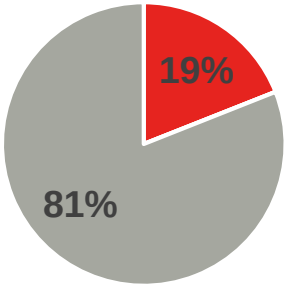
	remains firm and would benefit from the global upturn.	
USDMYR	*Poised for Advance - Malaysia's GDP rebounded in Q3 following a sharp contraction in Q2 as was expected. While Q4 outlook remains clouded by a recent spate of COVID-19 infections, the news surrounding the availability of vaccines should temper the negative effect from this development. On balance, with the promise of a global rebound in consumer demand, the positives appear to outweigh the negatives for Malaysia in the coming quarters, even with the ratings downgrade by Fitch to contend with. This indicates that the USDMYR which is nearing a key support may find a new wind to tackle the downside. As such, our forecast for the USDMYR is lower than median forecasts and forwards in 1H2020.*	*A breakthrough remains on the cards. USDMYR has given back almost all of its pandemic-related gains as we head towards a key support near 4.05 that has limited the pair since early 2019. As the USDMYR creeps closer to this level, a break may be forthcoming. This would open up a challenge of the 4.00 handle itself. Corporate and investor hedging for these scenarios is likely to add to momentum and exacerbate moves.*
USDSGD	*An Expectant Interlude - Singapore remains on the path to eventually emerge from the recession caused by the pandemic. However, the path promises to be longer than initially expected. Additionally, the ability for major segments of the economy to recover is diverging as tourism and its related sectors like retail and aviation are only expected to recover in 2023 or later. This risks the rise of a dual-speed society that could endanger domestic consumption, indicating that officials will have to keep their foot on the pedal of fiscal and monetary policies, and thus keep the SGD on the defensive. As such, our forecast is slightly firmer than median expectation and close to forwards.*	*The SGD continued to gain ground against the USD due to the latter's weakness in the last quarter. The propensity for the US to unleash large fiscal stimulus that would water down the USD was a major concern, especially contrasted with Singapore's deficit funding from accumulated reserves. The attainment of vaccines for COVID-19 could reduce the urgency for large stimulus as the Fed's tone on the matter had already changed from 'essential' to 'good to have'. Republicans keeping control of the Senate at the Georgia runoffs will also limit the ambitions of a Biden presidency and narrowly-held Democrats' House. As such, the USDSGD having just extended through the lower end of our expected range may attempt a consolidation after declining 8.7% from levels seen in March. Should the prospect of a large US fiscal stimulus reemerge, the USDSGD would find renewed downside towards 1.3050.*

For currency forecast, please refer to page 31.

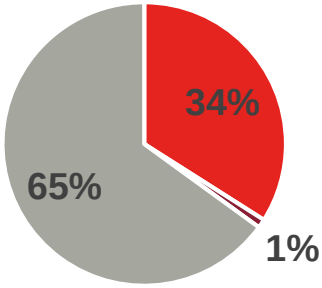
Source: CIMB Treasury & Market Research – Dec 2020

1H2021 MODEL PORTFOLIO

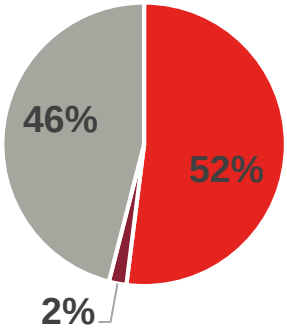
Defensive



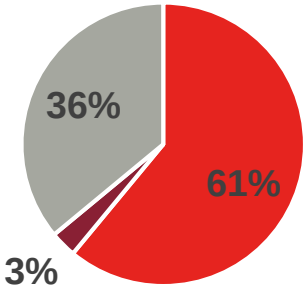
Conservative



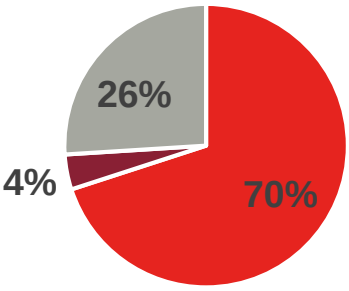
Balanced



Growth



Aggressive



ASSET CLASSES:

- Equity
- Fixed Income & Money Market
- Alternative

Source: CIMB Consumer Products, Wealth & Preferred - Investment. Note: Equity includes Local Equity, Regional Equity & Global Equity. Alternative includes Gold & Crude Oil.

Growth Outlook

	2019A	2020F	2021F
US	2.2	-3.6	3.6
Eurozone	1.3	-7.3	4.3
Japan	0.7	-5.6	2.7
China	6.1	2.0	7.8
Malaysia	4.3	-5.0	7.5
Indonesia	5.0	-2.0	5.4
Singapore	0.7	-5.7	5.3
Thailand	2.4	-6.9	6.4

Inflation Outlook

	2019A	2020F	2021F
US	1.8	1.2	1.8
Eurozone	1.2	0.3	1.2
Japan	0.5	0.0	-0.3
China	2.9	2.9	2.4
Malaysia	0.7	-1.1	1.6
Indonesia	3.1	2.0	2.6
Singapore	0.6	-0.5	1.1
Thailand	0.7	-0.9	1.1

Policy Rates

	2019A	2020F	2021F
US	1.75	0.00	0.00
Eurozone	0.00	0.00	0.00
Japan	-0.07	-0.04	-0.05
China^	3.25	2.95	2.95
Malaysia	3.00	1.75	1.75
Indonesia	5.00	3.75	3.50
Singapore	n/a	n/a	n/a
Thailand	1.25	0.50	0.50

Currency Outlook

	1Q2021	2Q2021	3Q2021	4Q2021
DXY	90	92	93.5	94.5
GBPUSD	1.34	1.29	1.32	1.29
EURUSD	1.22	1.20	1.18	1.17
USDJPY	110	110	112	112
USDCNH	6.40	6.45	6.45	6.50
USDMYR	4.08	4.05	4.03	4.05
USDIDR	14000	14100	14150	14200
USDSGD	1.31	1.33	1.32	1.33
USDTHB	29.70	29.90	30.00	30.10
AUDUSD	0.75	0.73	0.72	0.70

Stock Indices

	End-2021
Malaysia KLCI	1759
Singapore FSSTI	3068
Thailand SET	1520

Commodities Outlook

	1Q2021	2Q2021	3Q2021	4Q2021
Brent	55.00	53.00	52.00	50.00
WTI	53.00	51.00	50.00	48.00
Gold	1850	1950	2000	1900
CPO	3500	3400	3200	3000

Source: CGS-CIMB Research, CIMB Treasury & Markets Research, CIMB Group Economic & Market Analysis – Dec 2020.
^PBoC 7-Day Interbank Repo Rate

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