CIMB

2Q2021 Macro Outlook & Advisory House View

Bumpy path to recovery – investing in rising yield environment

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		● ⇦		⇨	●	We downgrade to UNDERWEIGHT in short term but upgrade to NEUTRAL in the longer term. The push for higher bond yields was due to the increasingly upbeat global macroeconomic outlook, driven by Biden's USD1.9t fiscal stimulus package, increasing inflationary expectation and higher government bond supply. However, centrals banks are committed to accommodative policies and "acted-when-necessary" stances should cap the yield increase in the longer term. Our expectation is for 10y UST yield to hover in the range above 1.50% before settling near 1.60% by end-2Q2021 and to 1.90% in 1Q2022.
EQUITIES	LOCAL		●		●	We remain NEUTRAL both short & longer term. Our end-2021F KLCI target remains at 1,759. The ongoing rollout of the vaccination programmes since late-Feb and a strong corporate earnings season so far are expected to remain supportive of the market. Low interest rates are likely to keep retail interests in the market. Government rolled out another RM20bn stimulus package in March (PEMERKASA), which brought total stimulus packages announced thus far to RM340bn to cushion the COVID-19 crisis. Higher oil price bodes well as Malaysia is a net oil and gas exporter, the ringgit typically strengthens. However, 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. 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 peaking of China credit impulse, recovery does not play out and US-China tensions do not fade as expected.
	GLOBAL - U.S	●	⇦		●	We downgrade short term to NEUTRAL, maintain OVERWEIGHT in the longer term. Strong US earnings delivery supported its outperformance. However, the growth differential between the US and rest of the world may start to narrow. We continue to see the tech sector offering exposure to long term structural growth trend, but elevated equity valuation could constraint near term upside.
	GLOBAL - EUROPE	●		●		We remain NEUTRAL as Europe is a global Cycle and Value play (with relative higher exposure to Financials & Industrials in its stock index). A style switch into Value is likely to help the region. Equity valuations is relatively

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

						attractive compared to the US, but still higher compared to Regional Equity.
	GLOBAL-JAPAN		●		●	We remain NEUTRAL as Japan equity is another traditional play on the global cycle. A stronger yen amid potential U.S. dollar weakness may weigh on Japanese exporters.
ALTERNATIVE	GOLD	●			●	We remain UNDERWEIGHT in the short term, NEUTRAL in the longer term. Gold weakness could continue as the recovery theme remains in play, and could be further weighed by rising nominal US Treasury yield. Despite the negative bias, gold should remain supported given its appeal as a hedge against inflation, ongoing pandemic risks and potential risks resulting from large fiscal spending. CIMB forecast is in the range of USD1750 to USD1850 by 1Q2022. Key risks include faster than expected economic recovery with manageable inflation rate, which resulted in higher “real interest rate” environment, hence, increasing the opportunity cost of holding the precious metal.
	OIL		●		●	We remain NEUTRAL both short & longer term. Crude oil is supported by demand recovery and commitment from OPEC+ to keep supply on check. While we continue to view OPEC+ efforts constructively, we believe prices will reach a ceiling and subsequently slide back to a lower range due to the potential for higher supplies in 2H2021. CIMB forecast for Brent is in the range of USD67 to USD70 per barrel by 1Q2022. Key risks includes rising COVID-19 cases resulted in stricter lockdown in major oil consuming countries, slower than expected roll-out of COVID-19 vaccines, smaller than expected fiscal stimulus and 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.

GLOBAL EQUITY - US EQUITY

Near term lowered to NEUTRAL (from OVERWEIGHT), while maintaining OVERWEIGHT in medium to long term.

KEY POINTS:

- Rising US government bond yield (UST), which is reflecting a better economic recovery moving forward have set a positive trajectory to risky assets – such as Equity and Commodity over the longer term.
- Nonetheless, the rapid rise in inflation expectation and the larger issuance of government bond to finance the massive fiscal stimulus packages in order to jump start the economies impacted by the pandemics, could cause sudden spike in UST yield, hence, poses a near term headwind and increase in volatility.
- Central bank monetary policy remains ultra-accommodative and likely to cap the rise in bond yield, should the recent yield spike threaten the achievement of the Fed's goals.
- US Congress has just passed the USD1.9tril stimulus package which could continue to buffer up the household excess savings and hence, spending power.
- The reported 4Q2020 corporate earnings have been mostly showing positive surprises.
- Higher corporate tax rate could negatively impact earnings growth. Nonetheless, this should still be manageable if the proposed tax reform is offset by the expected higher spending and multipliers created to the overall economic growth.
- Equity earnings yield is still relatively more attractive than the bond yield, despite recent spikes.
- Fund flow to equity asset class is not extensive relatively to other asset classes.
- Key headwinds – rising bond yield, new COVID variants spreads that causes extended lockdown and lower corporate earnings growth, higher inflation pressure that causes market speculation on central bank tightening, continue US-China tension and historically higher equity valuation during low interest rate environment could increase equity market volatility, however, these could also give long term investors opportunity to accumulate equity at better level.

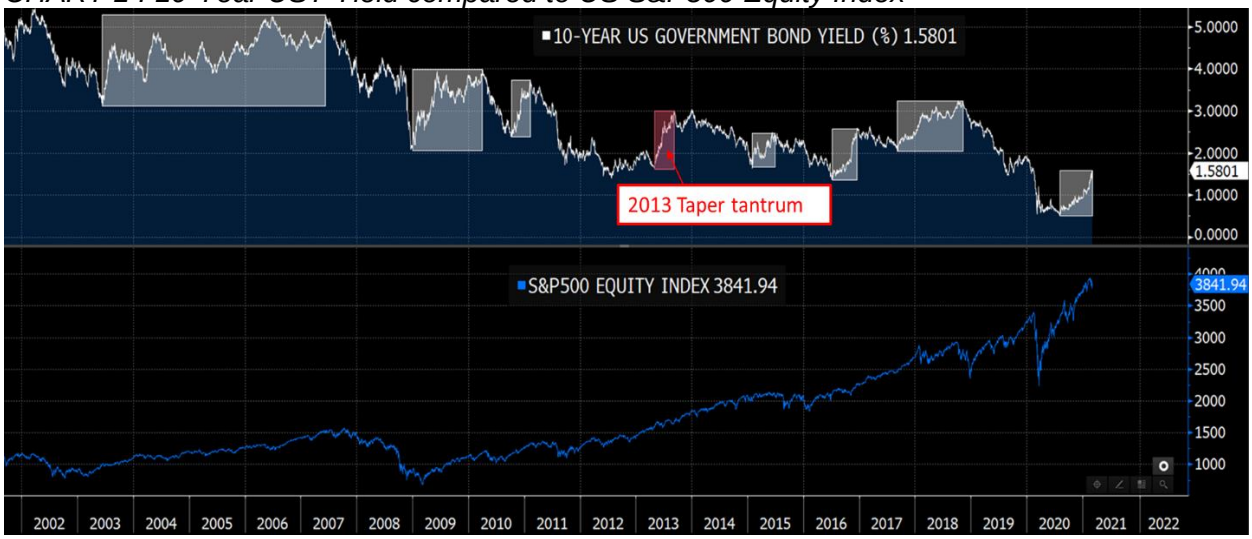
At the time of writing, there were more than 447 mil doses of COVID-19 vaccines administered across 133 countries. In the US, there have been 124 mil doses given. Anthony Fauci, the top infectious disease official in the US, has said that vaccinating 70% to 85% of the US population would enable a return to normalcy. Based on the current vaccination rate of around 2.5 mil doses per day, that will take another 5 months to achieve 75%. For European Union countries, that would take another 18 months.

While we believe that the high effectiveness of the vaccines and a global coordinated campaign to stop this once in a century pandemic would ultimately bring us back to normalcy one day, nonetheless, that doesn't mean a smooth ride along the path, when resurgence COVID-19 cases especially in the US and Europe (Eg, Italy and France) are still the key risk to the financial market in the near term.

In addition to that, the massive fiscal stimulus packages launched across the globe to jump start the economic re-opening and the ultra-accommodative central banks monetary policies that have injected huge amount of liquidity into the system have triggered higher future inflationary expectation and larger government bond issuances to finance the fiscal deficits position; hence, causing the US government bond yield rising sharply when the bond investors are getting "less willing" to hold on to the low-yielding risk-free government bond – such as the US Treasury (UST).

Historically speaking, though a gradual rise in the UST yield environment is reflected as better economic recovery moving forward and therefore, setting a positive trajectory to the Equity market; nonetheless, a "sharp" jump in the UST yield in a short period of time, could cause some knee-jerk reaction to the global equity market (Refer to Chart 1 and Table 1).

CHART 1 : 10-Year UST Yield compared to US S&P500 Equity Index



Source: Bloomberg – Mar 2021

TABLE 1 : While rising yield environment were supportive of the Equity market in the longer term, the sharp spikes in the UST yield in short period tend to cause the equity market to underperform in the short term.

Period	Number of Days	Yield Change (basis points, 100 bps is equivalent to 1 percentage point)	% S&P500 Change
12 June 2003 to 12 June 2007	316	218	63.54%
30 Dec 2008 to 5 April 2010	85	193	34.99%
7 Oct 2010 to 8 Feb 2011	281	135	27.40%
2 May 2013 to 5 Sept 2013	**87**	**137**	**1.57%**
30 Jan 2015 to 26 Jun 2015	102	83	6.41%
8 Jul 2016 to 15 Dec 2016	112	124	9.04%
7 Sept 2017 to 7 Nov 2018	295	120	12.71%
4 Aug 2020 to 8 Mar 2021	148	107	19.37%

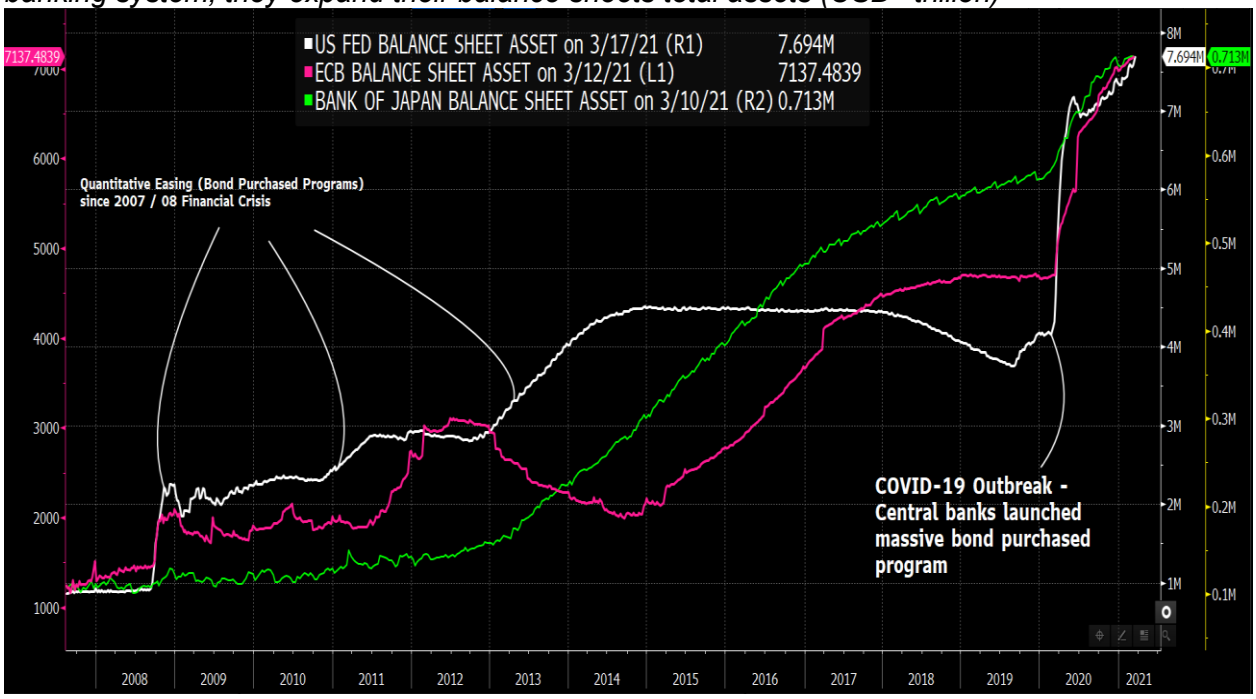
Source: Bloomberg, CIMB Consumer Products, Wealth & Preferred - Investment – Mar 2021

Central bank to remain accommodative

On 18 Mar 2021, US Federal Reserve chairman, Jerome Powell has raised US GDP growth forecast this year to 6.5%, dampen the speculation of reducing its bond purchase program and insists that the Fed committee do not expect to increase its official rate (eg, Fed fund rate) before the end of 2023 until the employment goals are reached and inflation rate is on track to rise above 2%. The current US unemployment rate stood at 6.2% (as compared to pre COVID-19 of 3.5%) and the latest core inflation rate stood at around 1.5%. Jerome Powell added that “I would note that a transitory rise in the inflation above 2%, as seems likely to occur this year, would not meet this standard” of tightening, indicating that the Fed is likely to contain the yield spikes should this is perceived to threaten the achievement of its employment and inflation goals.

Whereas for European Central Bank (ECB), the president Christine Lagarde said ECB is expected to ramp up its bond purchases “significantly”, after borrowing cost rose in the region.

CHART 2 : When central banks increased their bond purchase program and inject liquidity to the banking system, they expand their balance sheets total assets (USD ‘ trillion)



Source: Bloomberg data - 17 Mar 2021

CHART 3 : US Fed’s balance sheet total asset vs the US S&P500 Equity Index

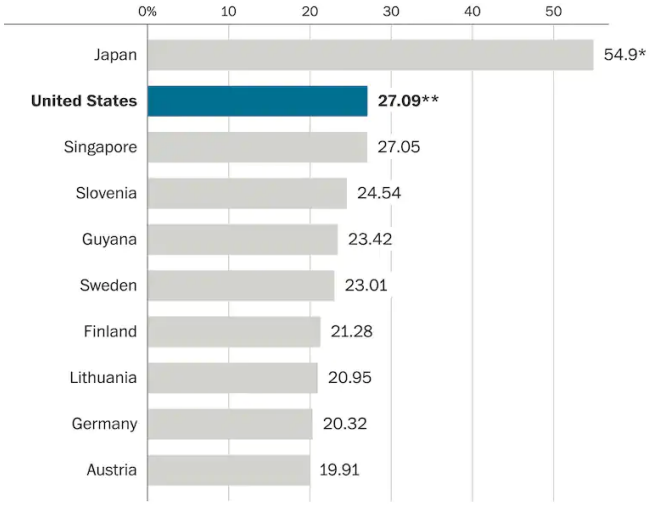
Source: Bloomberg data - 15 Mar 2021

Government continues to be generous

On 10 Mar 2021, President Joe Biden' American Rescue Plan (ARP) of USD1.9 tril COVID-19 relief bill was cleared by the Congress, and by end of March 2021, the USD1400 checks will add on to those eligible Americans. The bill also includes health-insurance subsidies, child-care tax credits, extension of supplemental unemployment benefits into September, and the USD360 bil for state and local government.

Just to see how big is this ARP in global scale?

CHART 4: Selected Covid-19 fiscal stimulus as % of GDP



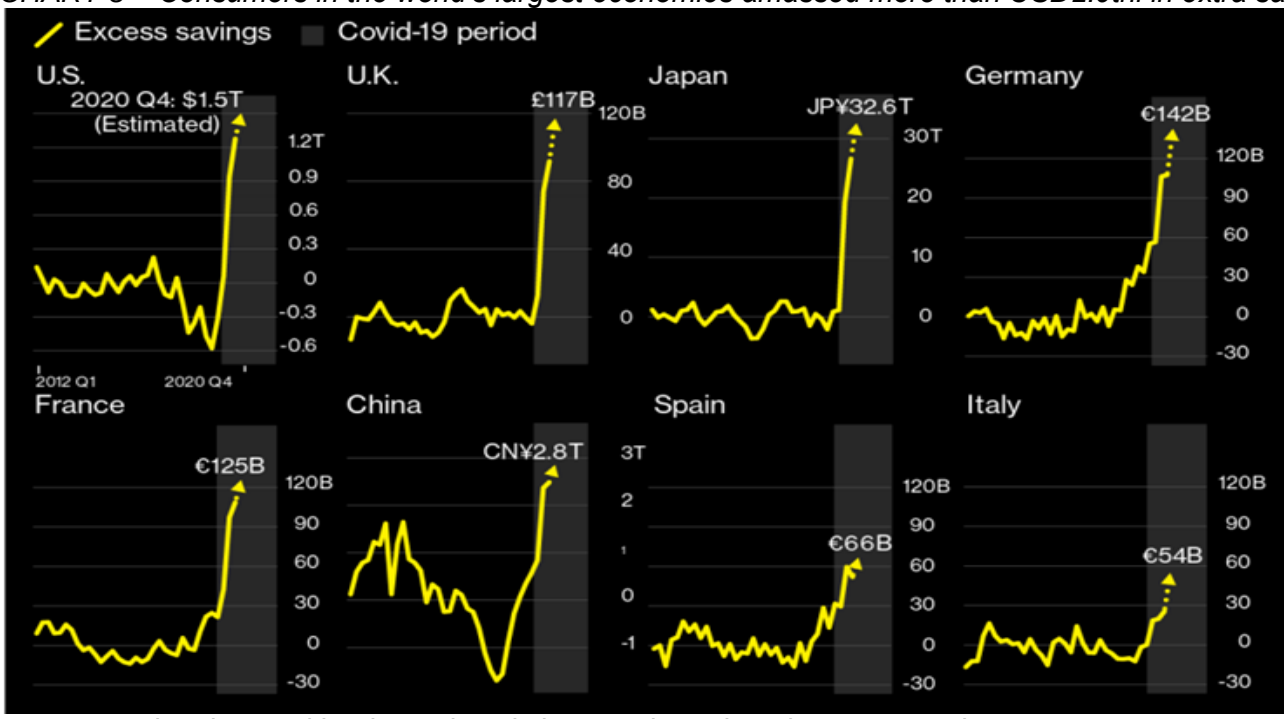
*Some economists dispute Japan's top-line fiscal response figures and estimate they make up only 29.8 percent of GDP. **U.S. number includes $1.9 trillion coronavirus relief package. Other figures are estimates from February.

Source: Washington Post – 11 Mar 2021

Better consumers' wealth condition and spending power

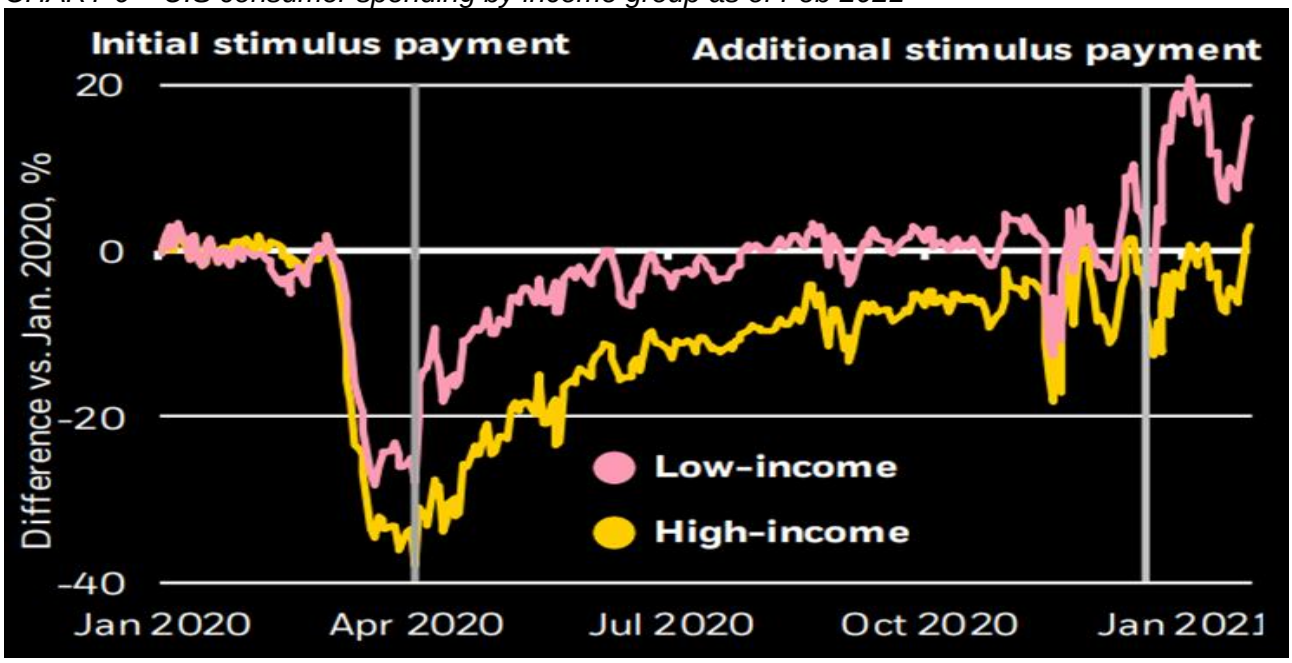
Since the April 2020, governments across the globe have pumped in about USD2.9 tril of excess savings into consumers' accounts. For the U.S alone, on top of the USD900bil relief bill passed in December 2020, and the more than USD2.5tril aid authorized during Ex-president Trump, that excess saving will boost up from USD1.5tril to USD2.1 tril. That will help speed up money injection into the economy, as those in the lowest bracket household would spend more of their budget on basic household needs, including health care, food and clothing. Therefore, providing pent-up demand from consumer and giving a boost to the economic growth which was severely impacted by the pandemic.

CHART 5 – Consumers in the world's largest economies amassed more than USD2.9tril in extra savings



Source: National central banks and statistic agencies, Bloomberg Economics – 11 Mar 2021

CHART 6 – U.S consumer spending by income group as of Feb 2021



Source: Blackrock Investment Institute, Opportunity Insights – Feb 2021

US President Biden's infrastructure plan

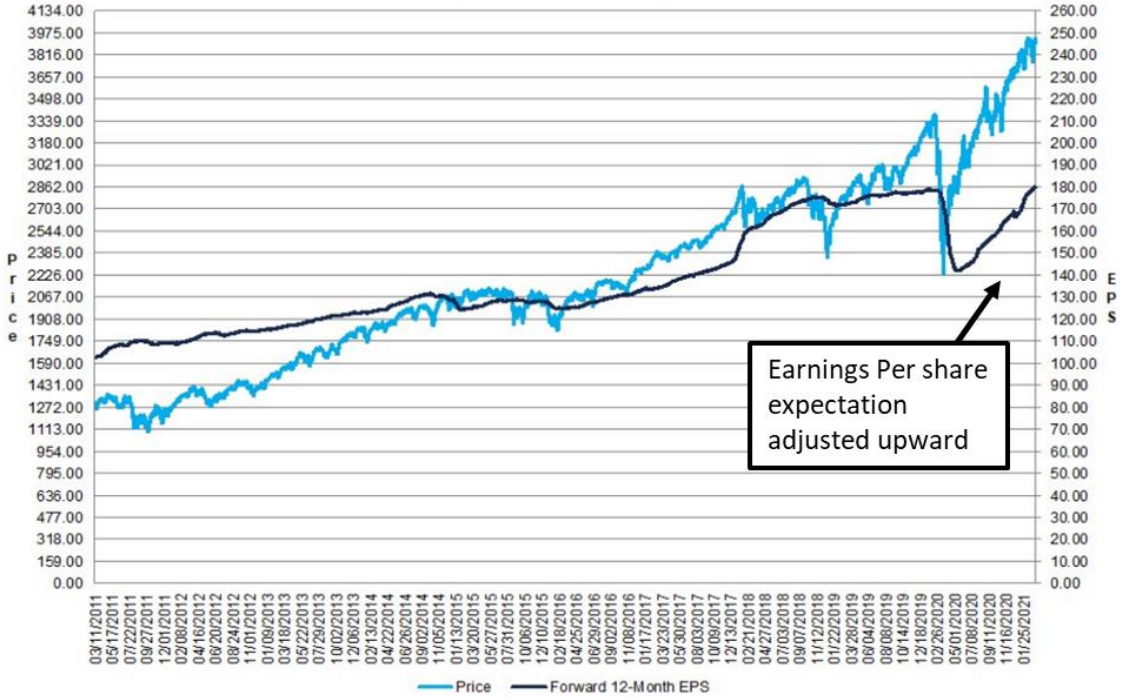
At the time of writing, the New York Times and Washington Post reported the Biden administration's discussions of a USD3 trillion program. Infrastructure and climate change have long been described as key efforts in the pending program, and the new details show the administration is eyeing some USD400 billion for so-called green spending. President Biden is expected to make his case for his so-called Build

Back Better program in a joint address to Congress in April 2021. Nonetheless, the opposition – Republican have already made clear they won't favor tax increases, and are unlikely to support major spending on renewable energy.

Corporate earnings mostly surprised on the upside

Within the S&P500 companies in the S&P 500 that reported 4Q2020 actual results : 79% of them have reported a positive Earnings Per Share (EPS) surprises and 76% have reported a positive revenue surprises. For 1Q2021, estimated earnings growth for S&P500 is 22.1%, based on Factset consensus.

CHART 7 : S&P 500 Equity Index vs corporate forward earnings per share



Source: Factset – 12 Mar 2021

Would US government corporate tax hike derail earnings growth?

President Joe Biden is planning the first major federal tax hike since 1993 to help to pay for the long term economic program. The planned changes are an opportunity not just to fund key initiatives like the expected USD2tril infrastructure spending, climate and expanded help for poorer Americans, but also to address what Democrats argue are inequities in the tax system itself. One of the proposal is - raising the corporate tax rate to 28% from 21%, which could reduce the US companies' earnings per share growth of by around 5% to 12%, based on the estimation from Goldman and Credit Suisse. Nonetheless, this should still be manageable should the proposed tax reform is offset by the expected higher spending and multipliers created to the overall economic growth.

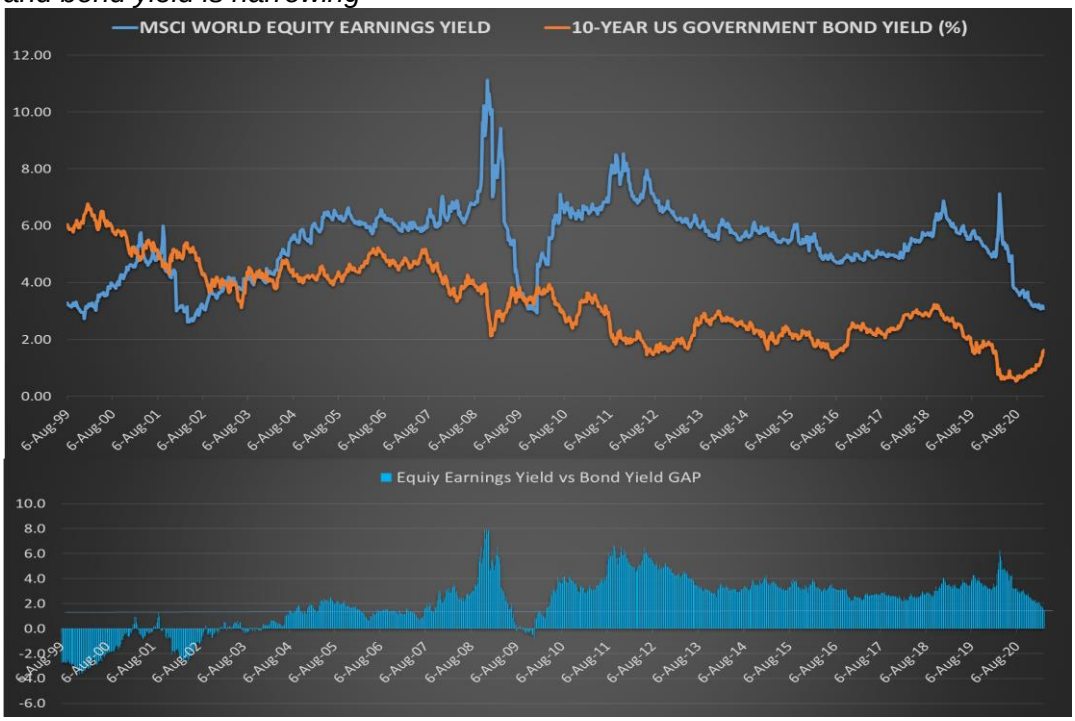
Equity valuation is arguable "not cheap", but still attractive relative to the bond yield

When investors are looking at equity forward price to earnings ratios, the levels shown would still hovering at the higher range despite some recent sell off when comparing to the historical trend. Nonetheless, when comparing between the company earnings yield (Earnings per share divided by share price) and the US Government bond yield, despite the recent spike in bond yield, equity asset class is still relatively more attractive.

Source: NY Times, Washington Post, Bloomberg – 23 Mar 2021.

We also attached the comparison between the overall stock dividend yield during the equity market peak as compared to the then risk-free rate (government bond yield). Historically, equity market peaked during times when the bond yields were at much higher levels, causing higher equity volatility when investment fund flow switch from equity to bond. For the current environment, due to the ultra-accommodative central bank monetary policies since 2007 / 2008 global financial crisis, the bond yield (although has risen recently) is still less attractive than the equity dividend yield.

CHART 8: Equity still offers better earnings yield, although the difference between equity earnings yield and bond yield is narrowing



Source: Bloomberg data – 12 Mar 2021

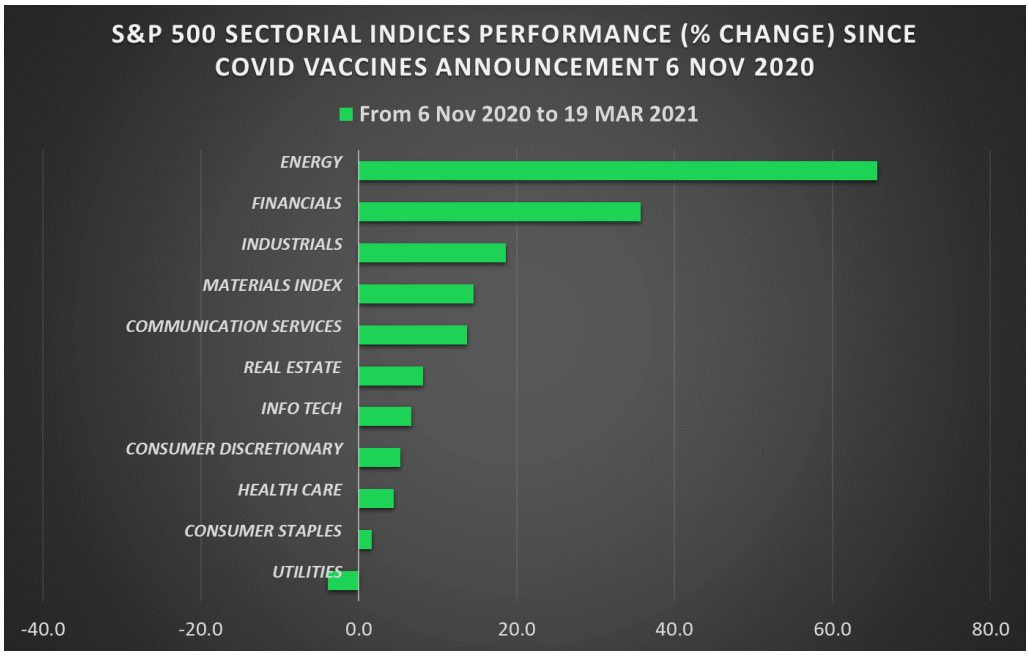
CHART 9: Equity dividend yield during market peak as compared to the bond yield

Stock Index	MARKET PEAK DATE	STOCK DIVIDEND YIELD	10-YEAR GOVERNMENT BOND YIELD
KOSPI	April 3, 1989	1.43%	**15.80%**
TOPIX	January 2, 1990	0.43%	**5.60%**
TAIEX	February 9, 1990	0.57%	**8.53%**
HANG SENG	January 4, 1994	1.97%	**5.98%**
BANGKOK SET	January 4, 1994	1.31%	**10.75%**
NASDAQ	March 9, 2000	0.16%	**6.35%**
MSCI AC WORLD	February 12, 2021	**1.81%**	1.30%

Source: Bloomberg data, Refinitiv, Credit Suisse research – 8 Mar 2021

ROTATION FROM "GROWTH" SECTORS TO "VALUE" SECTORS CONTINUES

CHART 10 : Performance of the S&P500 Subsectors Index



Source: Bloomberg data – Mar 2021

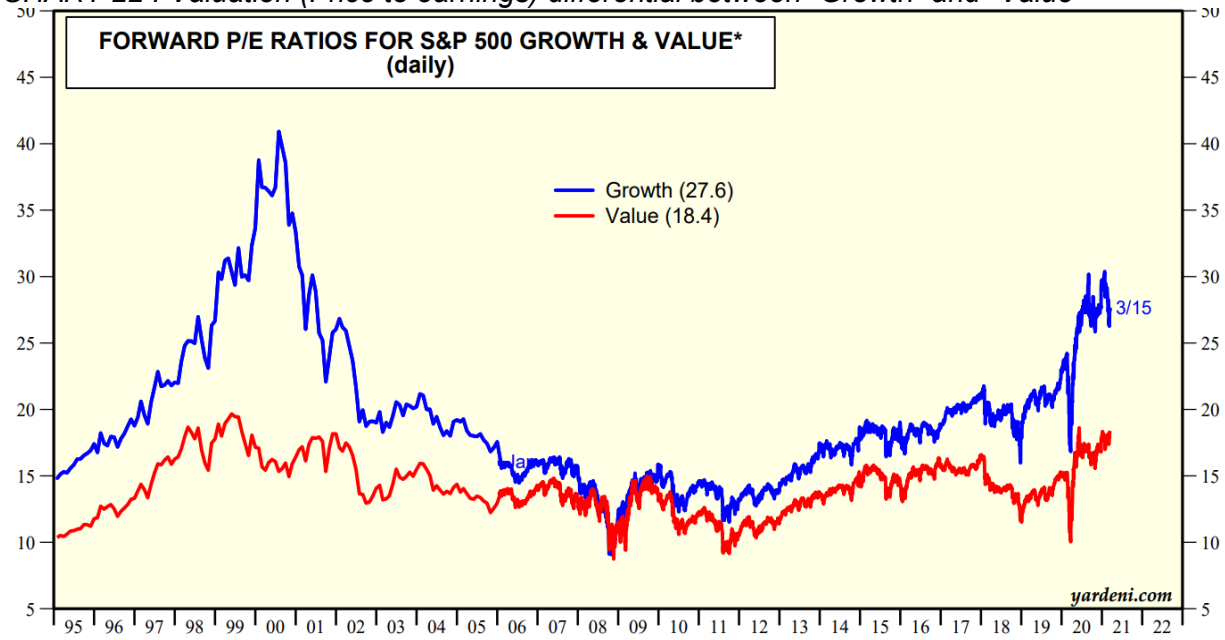
Since the first announcement of COVID vaccines on 6 Nov 2020, the performance for "Value" sectors have been leading the "Growth". "Value" sectors are sectors with stocks often categorized by their low price to earnings or price to book ratios, which in this case, could be represented by sectors such as Energy, Financial and Industrial, when they were bearing the brunt during the lockdowns caused by the pandemic.

The "Growth" sectors could be represented by the beneficiaries of the lockdowns, such as Info. Tech, Consumer Discretionary and Communication Services.

The outperformance is particularly more obvious when the US government bond yield started to rise on the back of global growth returning to normalcy. Growth sectors stocks are equity assets relying more on the longer-term future value of the company as compared to the near term growth. Therefore, when the US government bond yield rises, together with the high valuation differential, this triggers a shift in positioning from the "Growth" to the "Value" sector stocks, which were previously more impacted negatively during the COVID-19 lockdowns.

Source: Credit Suisse – 17 Feb 2021

CHART 11 : Valuation (Price to earnings) differential between "Growth" and "Value"



* Price divided by 12-month (52-week) forward consensus expected operating earnings per share. Monthly data through December 2005, then daily.
Source: I/B/E/S data by Refinitiv.

Source: Refinitiv, Yardeni Research – 15 Mar 2021.

LOCAL EQUITY

We maintain NEUTRAL for both short and longer term

KEY POINTS:

- Our end-2021F KLCI target remains at 1,759.
- The ongoing rollout of the vaccination programmes since late-Feb and a strong corporate earnings season so far are expected to remain supportive of the market.
- Low interest rates are likely to keep retail interests in the market.
- Government rolled out another RM20bn stimulus package in March (PEMERKASA), which brought total stimulus packages announced thus far to RM340bn to cushion the COVID-19 crisis.
- Higher oil price bodes well as Malaysia is a net oil and gas exporter, the ringgit typically strengthens.
- However, political uncertainty remains a concern.

PEMERKASA is another leg in 'Revitalize' strategy

Prime Minister Tan Sri Muhyiddin Yassin (PM) unveiled a fresh stimulus package, the second of 2021 and the eighth since the Covid-19 crisis began. The PEMERKASA stimulus totals RM20bn in measures, of which direct fiscal injection comprises RM11bn or 0.7% of GDP. The PM also indicated that the government will have a more targeted approach to implementing movement controls, focused on localised clusters, easing the strains on economic activity and limiting further downside risks to our GDP growth forecast of 5% in 2021.

Three positive takeaways for market sentiment

The three key positive takeaways from the speech that we believe will boost market sentiment are:
(1) the government plans to achieve herd immunity among the people by Dec 2021, instead of 1Q22;
(2) it will likely not impose nationwide and statewide movement control orders (MCO) any more to contain Covid-19. It plans to use a more targeted approach, based on locality, focusing on related clusters;
(3) it will consider allowing inter-state travel in stages and may establish a special green lane for border travel that involves air transport.
These, coupled with the steady decline in new Covid-19 cases in Malaysia from a peak of close to 5,700 new cases, are positive as it suggests that the country is on a recovery path and this will lower future potential corporate earnings risks due to Covid-19 disruptions.

Winners from the stimulus package

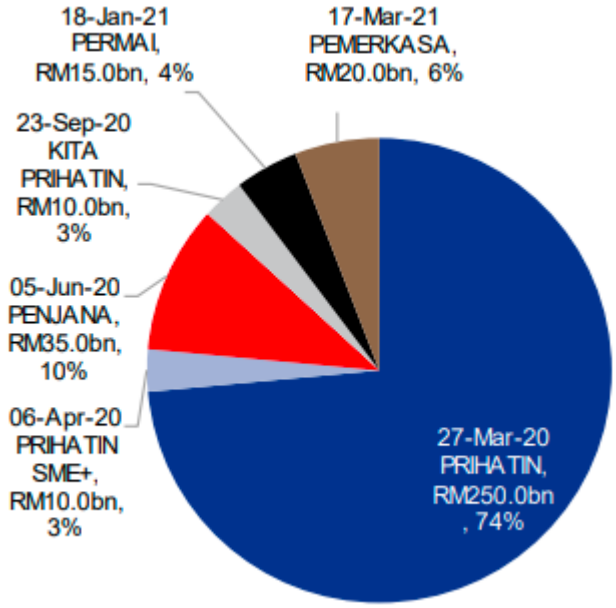
Based on our initial assessment, the stimulus package is broadly neutral for corporate earnings. The incentives provided for the tourism sector in the form of wage subsidy, exemption of tourism and service taxes and others will help lower operating costs for hotels and mall operators, benefitting REIT players and Genting group. The higher allocation for small-scale construction projects to RM5bn from RM2.5bn will benefit small contractors. The government plans to raise the allocation from RM150m to RM300m for e-wallet credit under the e-Belia programme, which will drive e-wallet penetration and total processing value (TPV) for e-wallet service providers.

Source: CGS-CIMB – Mar 2021

End-2021F KLCI target remains 1,759 points

We believe that a successful execution of the National Covid-19 Immunisation Programme will be key to lifting market sentiment. We keep our KLCI target of 1,759 pts (12M forward P/E of 16.2x).

CHART 12 : Cumulative stimulus packages of RM340bn since 2020



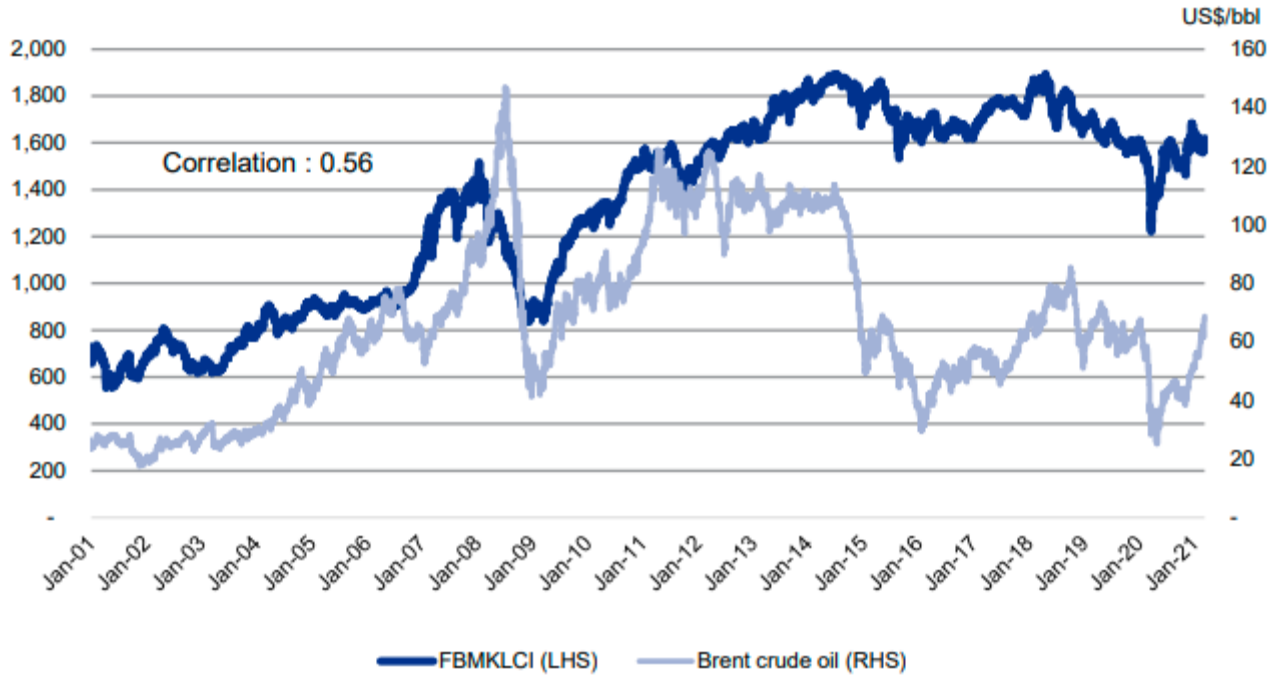
Source: CGS-CIMB – Mar 2021

CHART 13 : PEMERKASA: RM11bn fiscal injection

	RM bn
PEMERKASA	**20.0**
of which, fiscal injection	11.3
Fuel subsidies	3.0
Small-scale projects for G1 to G4 contractors	2.5
Covid-19 immunisation program	2.0
Cash transfers to B40	1.2
Prihatin Special Grant 3.0	1.0
Wage Subsidy 3.0	0.7
Perkeso hiring incentive	0.3
B40 phone subsidy and food necessities	0.4
e-Belia credit top-up	0.1
Electricity bill discount	0.1

Source: CGS-CIMB – Mar 2021

CHART 14 : Positive correlation between FBMKLCI Index and Brent crude oil



Source: CGS-CIMB – Mar 2021

REGIONAL EQUITY

We maintain OVERWEIGHT for both short and longer term

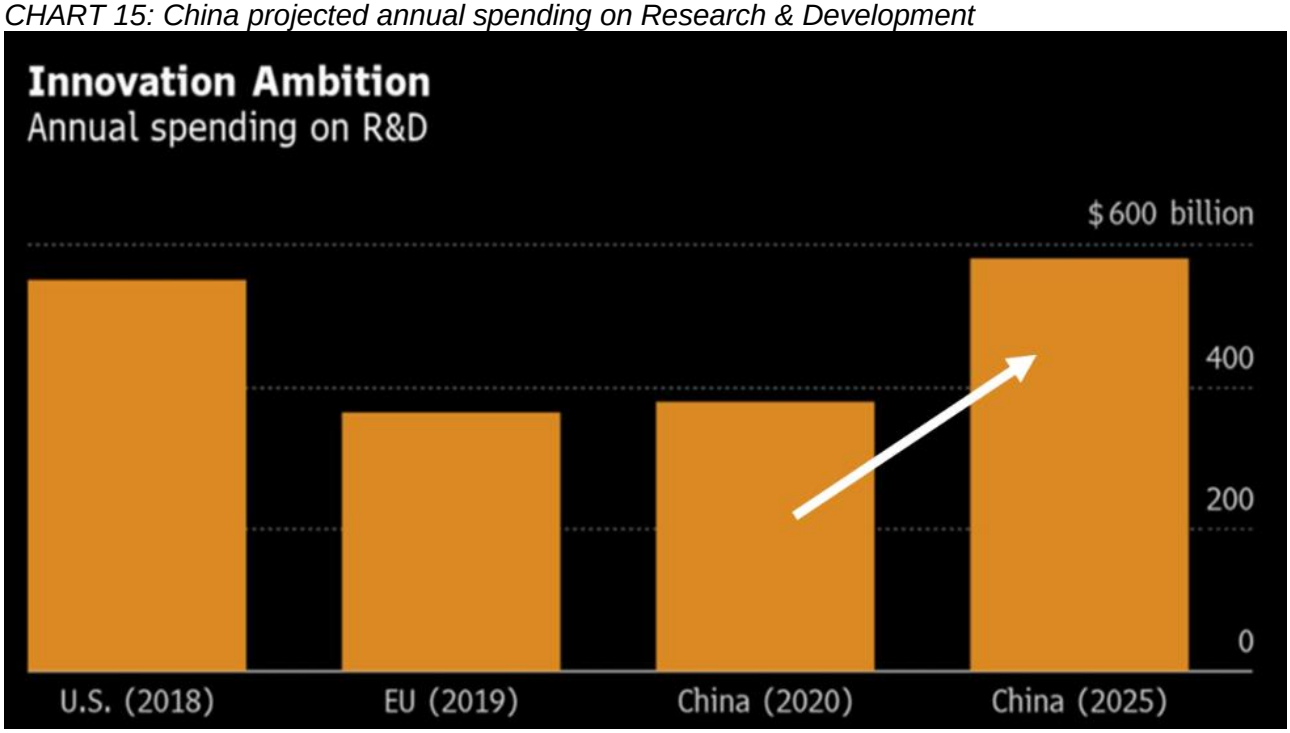
KEY POINTS:

- We maintain our OVERWEIGHT recommendation on Regional Equity despite the on-going regulators' tightening and tension with the US & Western countries on its humanitarian issues, partly due to the longer term regional structural growth, continued financial opening up and relatively undemanding valuation.
- China equity market now is less leveraged than in 2015
- Asian exports benefited from the US economic recovery, however, the resurgence in COVID cases and new variant spread that trigger the lockdown could slow international trade activities in the near term.

During the recent China National Peoples Congress (NPC) ended on 11 Mar, China reiterated its commitment to reduce dependence on US key technology. As also mentioned in the previous quarterly publication, the government will further direct resources to focus on semiconductors, artificial intelligence, quantum computing, neuroscience, and biotech.

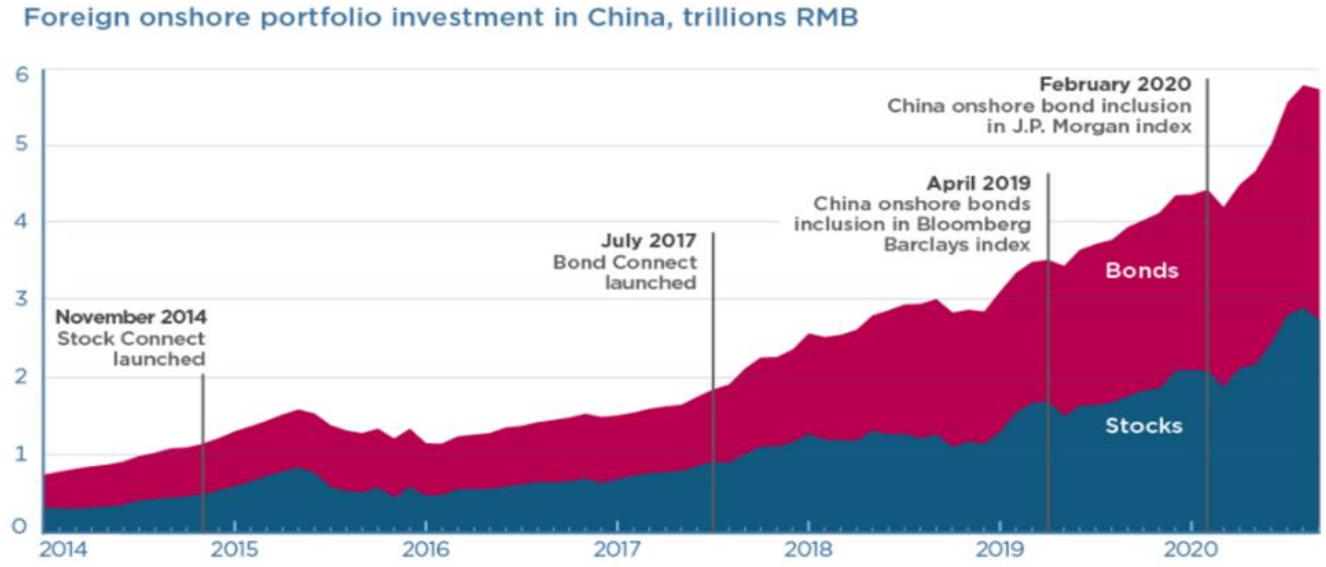
Public and private sector spending on research and development of new products is projected to rise to $580 billion a year by 2025 -- more than what U.S. spent in 2018. China would continue to open up to foreign investment and liberalize its capital market, which is crucial to better support its private sector financing. When domestic demand expands, China's role of being a net exporter could turn to become net importers.

CHART 15: China projected annual spending on Research & Development



Source: China National Development & Reform Commission, Bloomberg – 12 Mar 2021

CHART 16 : Foreign holding in China's onshore stocks and bonds shows accelerating financial intergration



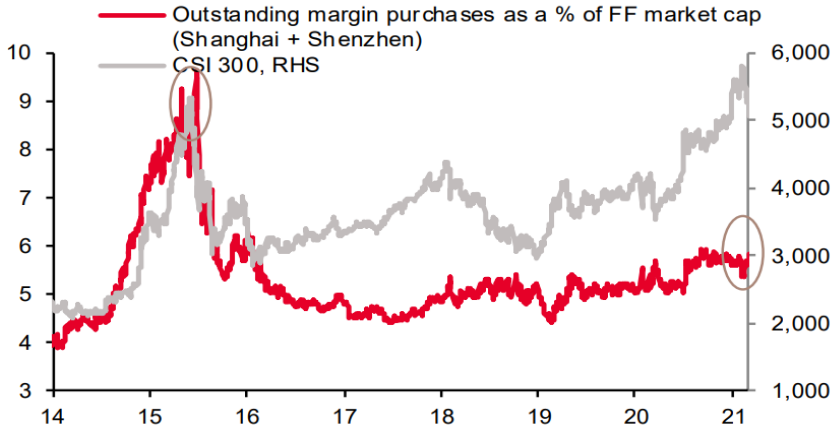
Source: PBOC, WIND Financial, PIIE – 4 Jan 2021

China equity market is less "leveraged" than 2015

The run-up in the stock market since last year has raised some concern on whether the stock market are too frothy and could trigger another sell-down as severe as the one occurred in 2015 / 2016, which caused the Shanghai A Equity Index declined more than 48% from the peak to the through in around 6 months and resulted in half of the listed companies filed for a trading halt in an attempt to the prevent further losses. That market turbulent were partly due to the enthusiastic individual investors inflated the stock market through mass amount of investment using borrowed money – share margin, therefore, the index decline was then exacerbated when these investors faced margin calls and forced selling activities ensued.

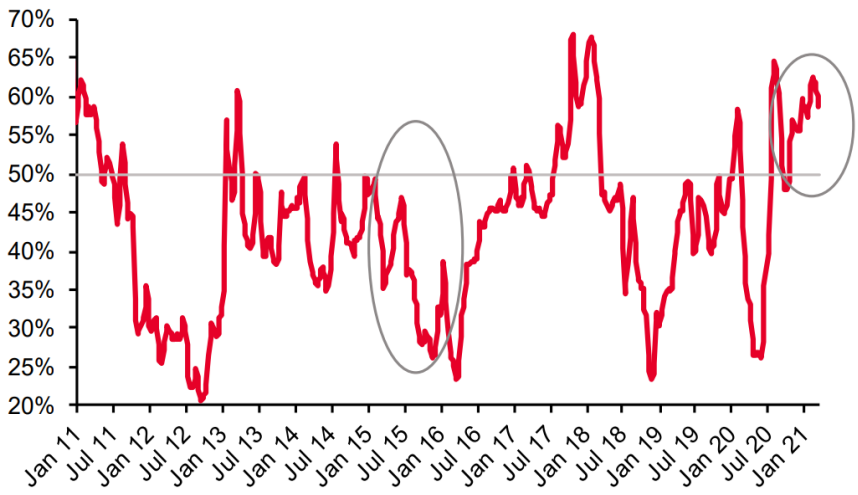
The following charts, measured by overall margin finance, as a percentage of total free float market cap, is 5-6% today compared to almost 10% in 2015, together with better earnings growth momentum and gradual opening up of financial market to foreigners that encourage more transparency, which could help to reduce the market risk factors over the longer term.

CHART 17: Outstanding margin purchases



Source: Bloomberg, SocGen – 18 Mar 2021

CHART 18: China CSI 300 corporates Earnings Per Share Growth (YoY %)



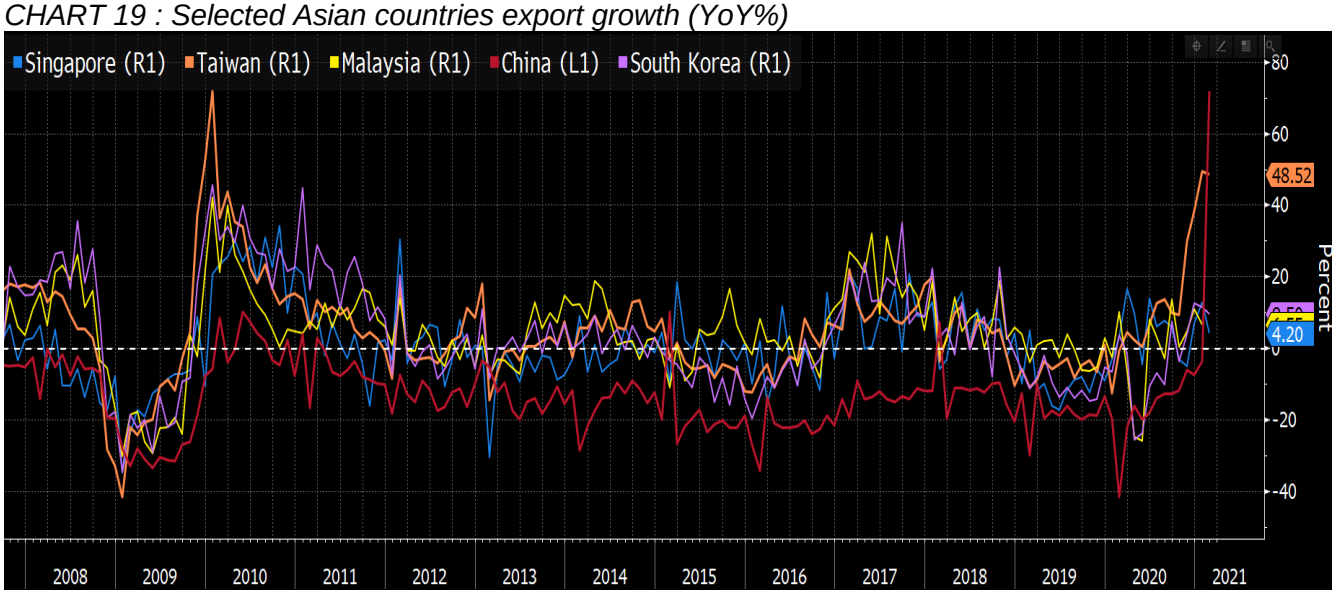
Source: Bloomberg, SocGen – 18 Mar 2021

Stronger US GDP continues to benefit Asian export

The US remains critical for Asian export. As a percentage of overall export, Asian export to the US has risen since 2010, to the level roughly at pre-2007/2008 global financial crisis levels. (Refer to *CHART 19*)

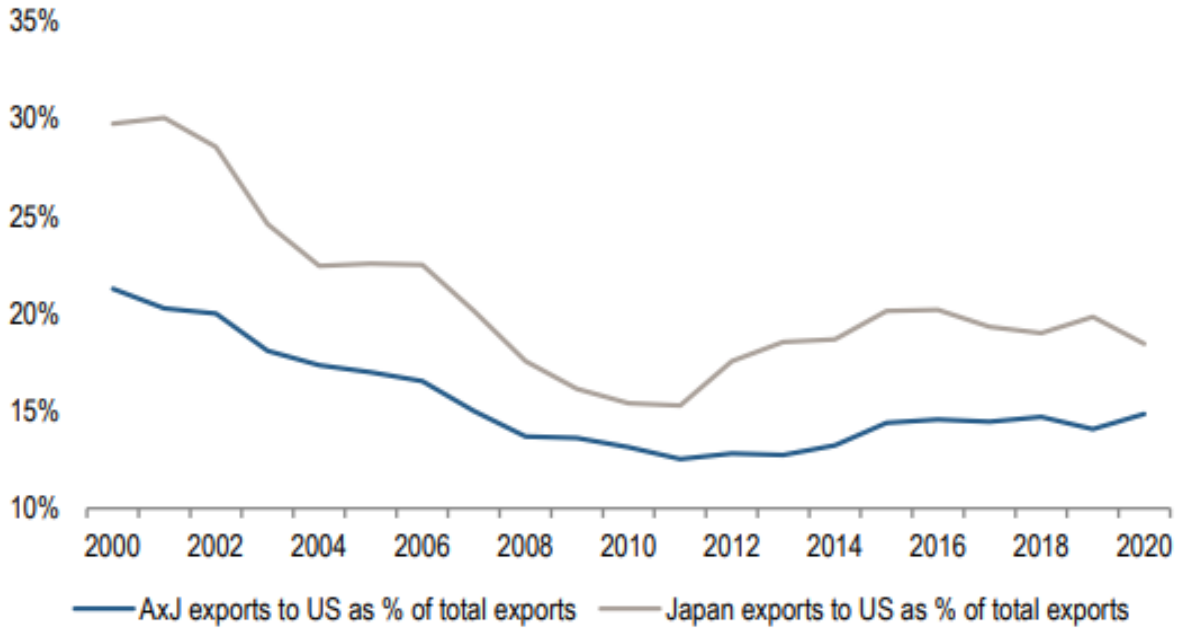
By sectors, auto exporters were the biggest winner of a V-shaped US recovery, followed by tech sector. The recent report on US President USD3 trillion infrastructure bill, which includes the USD400 bil in green infrastructure, could potentially benefit the Asian Electrical Vehicles and renewable chains.

CHART 19 : Selected Asian countries export growth (YoY%)



Source: Bloomberg – Feb 2021

CHART 20 : US is taking larger share of Asian exports since 2010



Source: CEIC, Credit Suisse – 24 Mar 2021

ALTERNATIVE – GOLD

Maintain short term UNDERWEIGHT, long term NEUTRAL

KEY POINTS:

- Over the short term (3 to 6 months), we reiterate our "UNDERWEIGHT" recommendation for Gold, but maintain "NEUTRAL" over the longer term.
- Improving global economic backdrop, higher expected US government bond issuance and increasing inflationary expectation has resulted in rising real interest rate environment (in part due to the rising nominal US Government bond yield over the inflation rate) and this has negatively impacted gold price.
- However, US Fed has reiterated its commitment to maintain ultra low interest rate environment and continued hefty asset purchases. Should the inflation rate start to increase, while nominal government bond yield stabilizing, gold should be supported as it could be perceived as an inflation hedged asset.
- Historically speaking, Gold could potentially act as "safe haven" during Equity market sell down (refer to *CHART 21*)
- CIMB forecast Gold price from USD1750 to USD1850 between 2Q2021 to 1Q2022

Since the announcement of COVID-19 vaccines last year in November, more than 440 mil shots have been administered. The global economic growth continues to recover, thanks to the massive government fiscal stimulus, and also continued supportive monetary policies from the central bank, such as the US Federal Reserve. The recent development on US Senate passing another round of USD1.9 tril, which contains money for direct checks would ensure that the US consumers to continue enjoying good financial health.

In addition, news on President Joe Biden push for the USD3 tril infrastructure plan and the higher demand from China has also seen pushing up commodity prices, from oil, steel to copper.

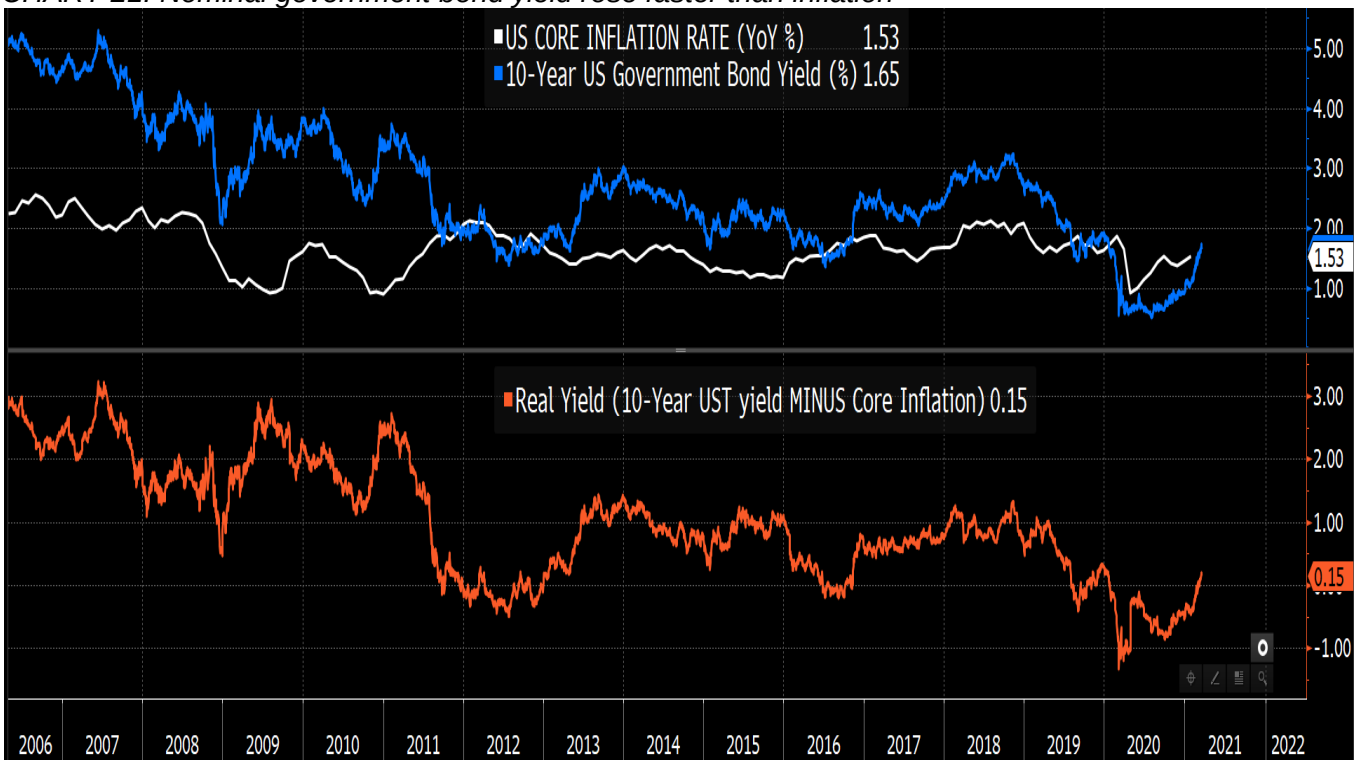
Therefore, the market expects the US government treasuries (UST) issuances to be larger and together with the increasing "inflation expectation", it caused some sell-down in the government bonds, hence, the nominal UST yield rising up (When bond yield goes up, bond price goes down)

Despite rising inflation expectation, the headline core inflation remains muted. As a result, the rising real yield (difference between the nominal UST and inflation) has increased the opportunity cost of holding the gold, which has negatively impacted the precious metals value.

Having said that, the US Fed chief Jerome Powell said the fed will maintain ultra-low interest rate until its employment and inflation goals have been met and will continue hefty asset purchases until a substantial further progress has been made. That indicated the Fed would still be committed to taper the UST yield from rising up too fast. In addition, should the U.S core inflation rate were to increase, this would taper off the rising "real yield" and hence, giving support to the Gold over the longer term as an inflation-hedged asset.

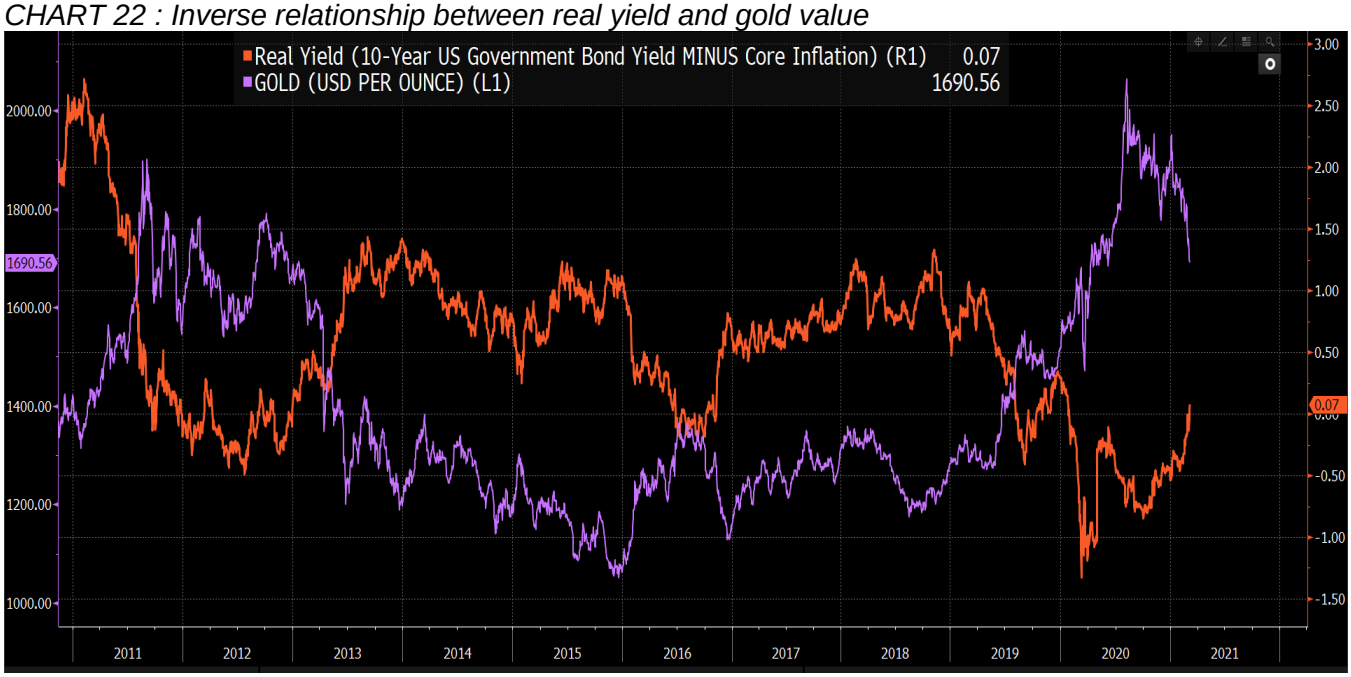
Source: Bloomberg – Mar 2021, CIMB Treasury & Market Research – Mar 2021

CHART 21: Nominal government bond yield rose faster than inflation



Source: Bloomberg – 23 Mar 2021

CHART 22 : Inverse relationship between real yield and gold value



Source: Bloomberg – 23 Mar 2021

CHART 23 : Historically speaking, Gold could potentially act as safe haven during market sell off

Dates of S&P500 Biggest Declines	S&P500 % Change	GOLD % Change
21 Sept 1976 - 6 Mar 1978	-19.40%	59.79%
28 Nov 1980 - 12 Aug 1982	-27.11%	-46.18%
25 Aug 1987 - 4 Dec 1987	-33.51%	8.35%
16 Jul 1990 - 11 Oct 1990	-19.92%	6.81%
17 Jul 1998 - 31 Aug 1998	-19.34%	-6.43%
27 Mar 2000 - 9 Oct 2002	-49.03%	14.18%
9 Oct 2007 - 9 Mar 2009	-56.78%	25.00%
10 May 2011 - 3 Oct 2011	-19.01%	9.37%
20 July 2015 - 11 Feb 2016	-14.06%	13.70%
2 Oct 2018 - 24 Dec 2018	-19.58%	5.48%
19 Feb 2020 - 23 Mar 2020	-33.92%	-3.63%

Source: Bloomberg data – 1976 to 2020.

ALTERNATIVE – CRUDE OIL

Maintain NEUTRAL both short and longer term

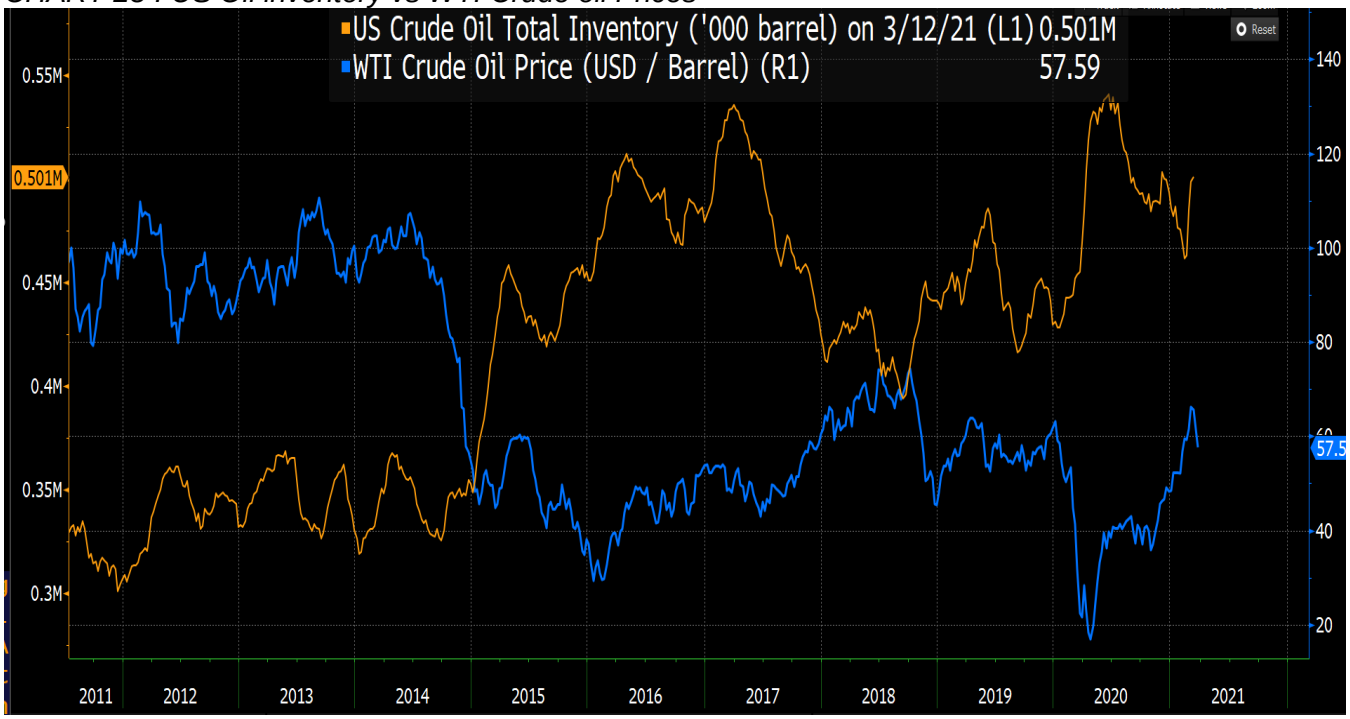
KEY POINTS:

- COVID vaccination roll-out and re-opening of global economies boosted the demand for oil, however, the recent resurgence of COVID-19 cases triggering lockdowns could hamper the upside in near term.
- Amid expectation that OPEC+ will continue to support the oil market, we expect prices to gain further in the near term before subsequently moving lower in the 2H2021 as improved pricing may foster producers to roll back their supplies into the market.
- CIMB forecast WTI crude oil range from USD60 to USD66 per barrel till 1Q2022.

CHART 24: Increasing oil price on the back of global economy recovery could attract higher production

Source: Bloomberg – Mar 2021

CHART 25 : US Oil inventory vs WTI Crude oil Prices



Source: Bloomberg – Mar 2021, CIMB Treasury & Market Research – Mar 2021

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.

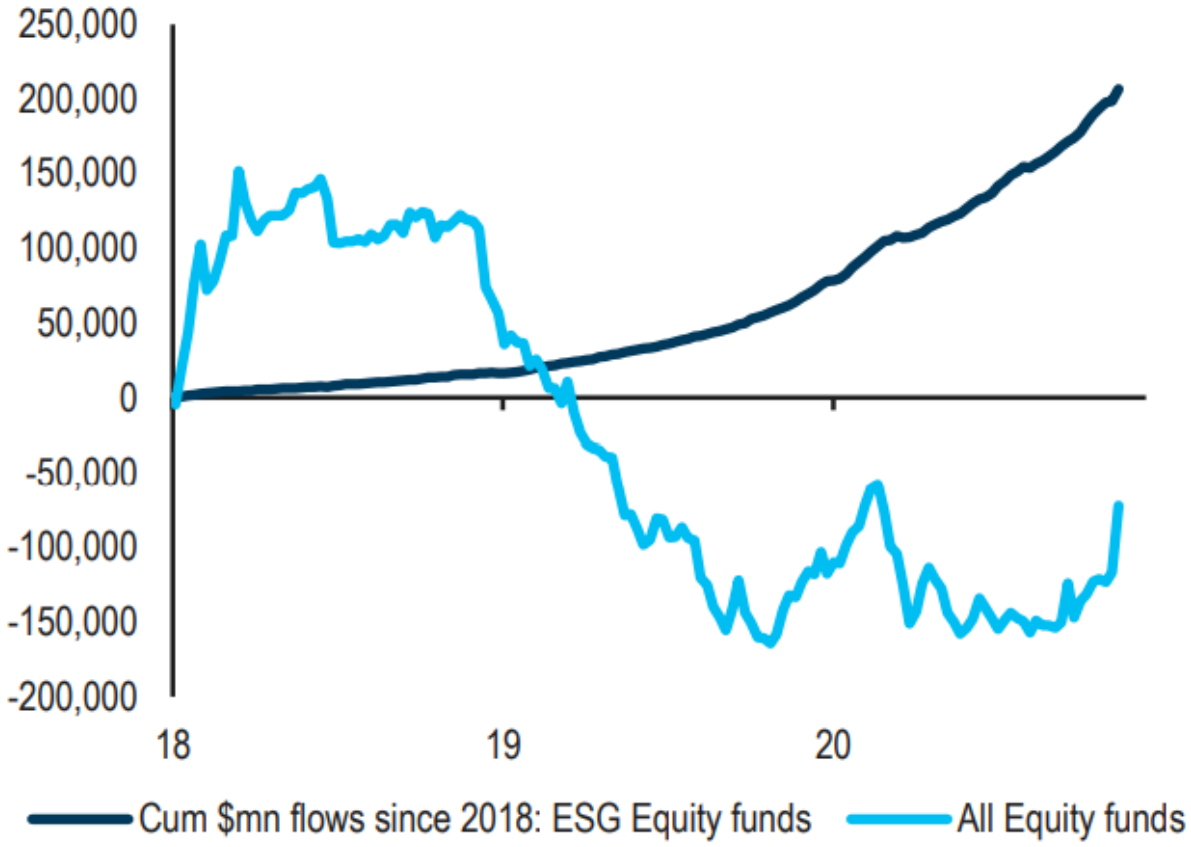
China Carbon Neutrality

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 26 : 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 27 : 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 ⬌	*Fed and markets at battle - Dollar was largely rangebound with an upward bias during the first quarter. Previously, the Dollar had declined due to rising growth expectations from economies reopening, vaccine announcements and post-election uncertainties. Recent upward bias can be largely attributed to US growth exceeding expectations along with the pace of vaccination and more stimulus. This, in addition to rising yields on Federal Reserve policy speculation pulling down risk sentiments. The Dollar is likely to continue being buffeted by these two competing forces – rising on better growth outcomes leading to further Fed speculation and lower on external growth rising while central bankers continue to battle expectations and keep policy easy so as to not derail the recovery. Having seen sharp declines and with US conditions favorable, we expect the Dollar to steadily gain with episodes of declines an opportunity to add positions. Our forecasts are higher than consensus.*	*The Dollar will see volatility as optimism rises leading to speculation over the Federal Reserve's policy stance followed by the central bank clamping down those expectations. We remain positive on the Dollar over time given the following factors:* • *US growth remains positive, outperforming its developed peers and possibly beating expectations on the upside given the addition stimulus in the pipeline, high household savings and favorable financial conditions;* • *Technical trend shift breaking through resistance levels combined with elevated positioning against the Dollar that can cause sharp moves higher;* • *Growth exceeding expectations will lead to increasing speculation on the Fed reducing its bond purchases driving yields higher.* *Risks to this view are as follows:* • *World growth accelerates and surprises on the upside leading to another boost to risk sentiment;* • *European growth picks up significantly causing the ECB to shift its language, which will adversely impact the Dollar Index.*
EURUSD ⬌	*Euro-area expectations positive but not bright - EUR has been on an uptrend over the year, benefitting from an upturn in growth expectations from easing of lockdown measures and vaccine announcements followed by its distribution. Periods of weakness was due to US growth surprising on the upside and speculation over Fed adjusting its policy in the face of higher inflation and growth expectations. Vaccines along with additional stimulus has kept sentiments up leaving EUR to remain around recent highs. Higher yields although unlikely to derail growth, will lead to worries about the magnitude*	*EUR is losing upside momentum and testing on the downside. EUR has been moving gradually higher since the 2nd quarter of 2020. Burst of gains occurring on breaks above key resistance levels at 1.1475 and 1.1960. recent turn lower has resulted in a trend shift. Momentum swings to the upside could dissipate to a rangebound market with lower highs and troughs. Recent breaks below 1.1960 and an extension below 1.1830 can trigger the head and shoulders formation to target the 50% retracement or 1.1610. Any gains as such are a good opportunity to shed EUR positions.*

	of recovery and rising speculation over central bank policy. The ECB looks set to maintain its easy policy over the long run while speculation over the Fed is expected to move towards tightening, leading to divergence in policy expectations and EUR weakness. Periods of strength from the Fed addressing tightening speculation will lead to episodes of EUR strength which will be a good opportunity to shed EUR positions. Our forecasts remain lower than consensus.	
USDJPY ↔	*Dollar and global yields to set the tone - Most major factors influencing Yen movements is pointing towards weakness in the coming year. Better global outlook is pulling the safe haven bid while higher yields on the back of these expectations is also pulling USDJPY higher. our expectations for Dollar gains over the year will also add to USDJPY's upside move. Japan's economy is expected to improve but not fast enough to counter Yen weakness. Inflation meanwhile is expected to remain subdued leaving the BOJ comfortable with the current stance again of little support to the Yen. Our USDJPY forecast is higher than consensus and forwards.*	*USDJPY trend has shifted breaking above the downward channel. USDJPY has been moving lower along a downward channel with bias to the downside on multiple tests of the channel bottom. Recently, USDJPY price dynamics has shifted, moving along higher within the steep upside channel. Breaking above the downside channel will see the pair targeting 110.00. Any pullback will have to remain above brown support line or 105.30 for the shift in trend to remain positive. For the current positive momentum to persist, the support at 106.00 will have to hold.*
GBPUSD ↔	*Things going right for a change - GBP has outperformed its peers and gained against the Dollar given the receding of Brexit worries, growth continuing to remain firm despite the lockdowns and healthy growth expectations given the quick pace of vaccine deployment. Dollar weakness has also contributed to the underlying GBP strength and as such with anticipation of the Dollar turning, GBP gains will become more challenging. However, its strong domestic fundamentals can help the Pound to continue outperforming its peers while weakening against the Dollar. GBP is likely to remain widely rangebound with support at 1.3250 and resistance at 1.4400 with downside bias over the longer term as domestic factors encounter the Dollar's move higher. Our forecasts are lower than consensus due to Dollar gains.*	*GBP's positive bias is apparent as it moved up within a relatively steep channel and positive price momentum leading it to test and briefly break the channel top on its way higher. The recent attempt to break higher has met with, as previously, a sharp move lower. The positive momentum can continue despite a significant pullback, as long as prices remain within the channel and above 1.3600. A firm move above the channel can see it targeting 1.5000 while a move below the channel will lead to it aiming for the 50% retracement at 1.2950. Currently there is little to suggest a departure away from the upside channel leading it on a gradual move higher with significant moves either way within the overall trend.*

AUDUSD	*Ebb and flow with risk - AUD has benefitted from an upturn in growth expectations and a bounce from the depth of the COVID crisis, reaching a cumulative return of 38%. The initial exit from lockdowns in the middle of last year followed by vaccine announcements and recently higher commodity prices and US stimulus has pushed AUD to reach its highest level since early 2018. While factors are positive for further AUD gains, the substantial advance has built in a significant portion of positive expectations. For further gains, we will have to see more stimulus from either the US or other major nations, central banks remaining easy, improvement in trade relations with China or further improvement in commodity prices. Without additional impetus, we can expect AUD to pullback from its highs especially with the Dollar and US yields moving higher. Our forecasts are lower than consensus and forwards due to our expectations for Dollar gains.*	*AUD's positive momentum has been strong given its persistent testing of the channel's top end and rarely visiting the bottom on any pullbacks. This suggests underlying strength and with moving averages reinforcing the upside trend, we can expect AUD to continue gaining. Any shift in momentum will have to be after a significant adjustment lower and breaking below the channel. Given its recent moves, AUD will have to remain above the 76.4% retracement for the momentum to remain strong. A move below that level will lead to a bleeding of momentum resulting in a more modest advance. Technically, AUD is pointing upwards and as such any pullbacks is a good opportunity to add positions.*
USDMYR	*Downside Deferred - Malaysia's first quarter started out badly as the country had to contend with a second round of mobility restrictions after COVID-19 infections spiked, alongside the announcement of the first Emergency since 1977. Since then, infections have slowed and restrictions have eased. Additionally, oil prices have rebounded strongly. Some of these positives are offset by the ongoing bond yield volatility led by the expected (temporary) rise in inflation, an issue that could plague Malaysia due to its extended period of deflation and as a result, investors' focus on real yield. There are also other reasons that make a stable to slightly weaker MYR desirable as the economy recovers. As such, our forecast for the USDMYR is between consensus and forwards.*	*A breakthrough deferred. While the USDMYR has approached the 4.00 handle as discussed in the last report, the developments seen since then has put a brake on the move, with the pair now expected to keep its pivot around the 4.05 handle for the most part, which also happens to be the low seen pre-pandemic. Further volatility is likely to be contained by the next Fibonacci retracements near 4.14 on the upside and 3.96 on the downside. Approach of key levels starting from 4.00 / 4.10 indicate opportunity to take the opposite side to position for reversion towards 4.05 in the immediate term.*
USDSGD	*A Conversation About Normalization?- Singapore's rebound is expected to be more gradual than regional peers, with GDP growth in 2021 forecast to be 4-6% following a contraction of 5.4% in 2020. This is in line with our expectation from the last quarter with the outlook*	*In the immediate term, the uncertainty in global yield and inflation may negatively affect the SGD, especially as the growth outlook remains muted. However, this could be an opportunity to position for a stronger SGD as the expectation that this conversation will*

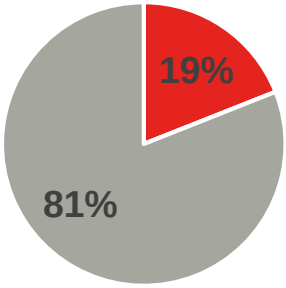
	supporting our call for prolonged softness in the SGD. However, recent developments including the announcement of a new category of Singapore Government Bonds which will be used for infrastructure spending, as well as the global advancement of the reflation trade leads us to wonder if the conversation about monetary policy normalization at the MAS should not be taking place sooner rather than later. As this is a departure from expectations from a few months back, where more easing was speculated to support the economy, it may portend a potential change in the tone of the SGD. For now, we maintain our USDSGD forecast at levels higher than median forecast and a touch below forwards.	*eventually take place should help the SGD outperform its peers. This conversation will also be easier if it is congruently accompanied by Yuan strength, which could be aided by its developing bias to reel in accommodation as its domestic recovery gets further established.*

For currency forecast, please refer to page 34.

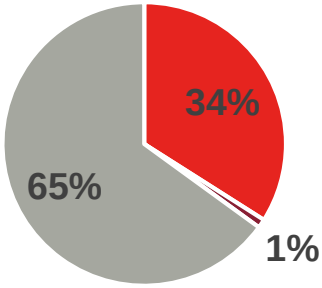
Source: CIMB Treasury & Market Research – Mar 2021

1H2021 MODEL PORTFOLIO

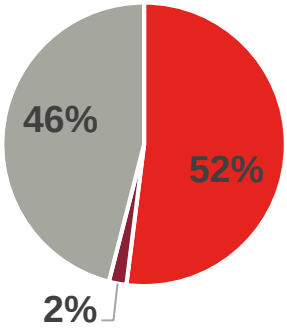
Defensive



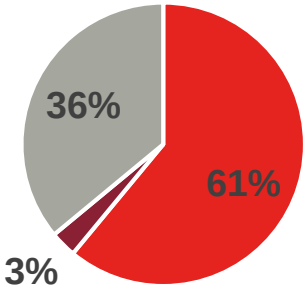
Conservative



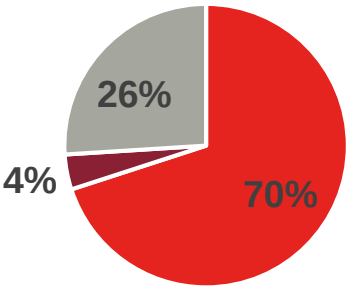
Balanced



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	-3.5	5.9
Eurozone	1.3	-6.8	4.1
Japan	0.7	-4.9	2.7
China	6.1	2.3	8.9
Malaysia	4.3	-5.0	5.0
Indonesia	5.0	-2.0	5.4
Singapore	0.7	-5.7	5.3
Thailand	2.4	-6.9	2.6

Inflation Outlook

	2019A	2020F	2021F
US	1.8	1.2	2.5
Eurozone	1.2	0.3	1.4
Japan	0.5	0.0	-0.4
China	2.9	2.5	1.7
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	0.25	0.25
Eurozone	0.00	0.00	0.00
Japan	-0.07	-0.03	-0.05
China^	3.25	2.95	3.00
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

	2Q2021	3Q2021	4Q2021	1Q2022
DXY	93.5	96.5	93.5	95.0
GBPUSD	1.38	1.35	1.36	1.35
EURUSD	1.16	1.14	1.16	1.17
USDJPY	111	114	110	112
USDCNH	6.45	6.45	6.40	6.35
USDMYR	4.08	4.05	4.02	4.05
USDIDR	14350	14300	14200	14350
USDSGD	1.34	1.34	1.33	1.32
USDTHB	30.75	30.90	31.30	31.10
AUDUSD	0.78	0.75	0.74	0.75

Stock Indices

	End-2021
Malaysia KLCI	1759
Singapore FSSTI	3140
Thailand SET	1640

Commodities Outlook

	2Q2021	3Q2021	4Q2021	1Q2022
Brent	70.00	68.00	65.00	63.00
WTI	66.00	64.00	62.00	60.00
Gold	1750	1850	1820	1800
CPO	3700	3400	3200	3000

Source: CGS-CIMB Research, CIMB Treasury & Markets Research, CIMB Group Economic & Market Analysis – Mar 2021.
^PBoC 7-Day Interbank Repo Rate

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