2Q2022 Macro Outlook & Advisory House View

Prefer Equity over Fixed Income

FORWARD Your Wealth

CIMB

CIMB BANK BERHAD 197201001799 (13491-P) | CIMB ISLAMIC BANK BERHAD 200401032872 (671380-H)

Table of Contents

2Q2022 Asset Class Outlook

ASSET CLASSES		SHORT TERM OUTLOOK (3 - 6 MONTHS)		LONG TERM OUTLOOK (6 - 12 MONTHS)		Change of view
		UW	OW	UW	OW	Previous → Current
FIXED INCOME		⇨ ●		●		We upgrade short term to NEUTRAL, remain longer term UNDERWEIGHT. US monetary policy tightening remains a headwind for bond investors. We are short term NEUTRAL as markets have already priced in nearly six Fed hikes in 2022 (we expect 7 hikes in 2022 (with one 50 bps hike in 2Q22); 2 hikes in 2023). Hence, we expect 10-year US Treasury yields to only rise to a range of 2.00%-2.50% by end-2022. We are longer term UNDERWEIGHT because even with the Ukraine war, US still needs to raise rates, given the inflation pressure in the US economy; the pace, timing and method of Quantitative Tightening is still uncertain, and may surprise the market. For Malaysia, we continue to expect 2 OPR hikes in 2H2022 to reach 2.25% (from current 1.75%) as the economy recovers. Nonetheless, fixed income remains one of the asset classes to "cushion" portfolio return at times of growth disappointment.
EQUITIES	LOCAL EQUITY		●		●	We remain NEUTRAL both short & longer term. Our end-2022F KLCI target is 1622. Malaysia's macro outlook should be more positive for 2022, given the high vaccination rate and easing restrictions should support reopening. Higher commodity prices (crude oil, palm oil & natural gas) bodes well for Malaysia. Key potential catalysts: (1) Government's incentives to boost the tourism sector post lockdown (2) Normalization in consumer spending leading to strong rebound in consumer sector (3) KLCI valuation is relatively cheap (4) Markets are generally bullish on oil price forecast (5) Foreign equity shareholdings near decade low. Key risks: (1) Covid variant, waning effect of vaccines (2) negative earnings impact from Cukai Makmur (3) political uncertainty as general election GE15 could be called in 2022 (4) ongoing supply chain disruptions – from lockdowns, extreme weather, energy transition, worker shortage (5) Inflation – cost pressures (6) ESG related risk and opportunities (6) selling pressure due to another round of EPF withdrawal.
	REGIONAL EQUITY		⇨ ●		●	We remain OVERWEIGHT both short and longer term. Regional equity could perform better in 2022 as (1) worse is likely over for China equities on signs of policy easing, attractive valuation, potential earnings growth recovery, reopening and relatively insulated from Ukraine war, prefer Onshore over Offshore Chinese equities. (2) rising commodity prices is tailwind for Asian commodity exporters through rising terms of trade, stronger growth, and improvement in fiscal and current account balances (3) Asia especially China and ASEAN provide value opportunities. Key risks are (1) Covid-19 variant (2) aggressive FED rate hikes, resulting in very strong USD (3) higher government bond yields drive financing cost higher, negatively impacting earnings (4) sustained inflationary pressure (5) geopolitical tensions.

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

2Q2022 Asset Class Outlook

ASSET CLASSES		SHORT TERM OUTLOOK (3 - 6 MONTHS)		LONG TERM OUTLOOK (6 - 12 MONTHS)		Change of view (Previous → Current)
		UW	OW	UW	OW	
EQUITIES	US EQUITY		●		●	We remain short term NEUTRAL, longer term OVERWEIGHT. As rates rise, high exposure to Tech sector may be a headwind to the US market on a relative basis. But economically, US is at a stronger position than Europe. In a world where growth is scarce - where people worry about peaking growth momentum, and potential recession risk - US can be a relative safe haven.
	EUROPEAN EQUITY	● ⇦		●		We downgrade short term to UNDERWEIGHT as Europe is at risk of stagflation/recession as a complete shut-off of Russian commodities exports would be dramatic. We remain longer term NEUTRAL as (1) European equity is trading near the record discount to US (2) The Recovery Fund has begun to be implemented (3) the labour market is strong. The question is over the duration of the Russia-Ukraine conflict.
	JAPAN EQUITY		●		●	We remain NEUTRAL as outlook appears unexciting, especially if Japanese Government Bond yields remain static due to Bank of Japan constraints. Economists believe that the policies of the new administration will be less focused on growth, and more on wealth redistribution.
ALTERNATIVE	GOLD		●		●	Our gold forecast is trending lower due to rising real interest rates environment through 2022, with assumption of subsiding geopolitical risks and growth recovery post pandemic resumes. (Gold 4Q2022F: USD1750/oz). However, we have a NEUTRAL weight on Gold (both short and longer term) as it is as an effective portfolio diversifier during periods of equity volatility - given its appeal as a hedge against inflation, geopolitical risk, pandemic risks, increasing recession risk and potential risks resulting from large fiscal spending. Key potential catalysts: (1) upside surprises in US inflation (2) Fed reluctance to move ahead with rate hikes (3) unexpected weakness in global growth (4) potential flare-ups in geopolitical tensions. Key risks: (1) swift de-escalation of Russian-Ukraine crisis (2) faster than expected economic growth with manageable inflation, resulted in higher real interest rate, i.e increasing opportunity cost of holding gold.
	OIL		●		●	Our oil forecast is bearish due to due to assumption of Geopolitical risk de-escalating into year end, a less rosy global growth outlook and higher oil production / supply. (WTI 4Q22F: 75 USD/bbl). However, we have a NEUTRAL weight on Oil (both short and longer term) as it is increasingly playing a role of a portfolio diversifier, in particular an effective hedge against Russian-Ukraine crisis. Crude oil is supported by (1) Tight oil supply (even before the Russian oil supply shock) (2) stronger demand from economic recovery (3) geopolitical risk (4) the shift away from more polluting energy, and the lack of readily accessible renewable energy, is driving demand towards 'cleaner' hydrocarbon substitutes such as crude oil. Key risks are (1) swift de-escalation of Russian-Ukraine crisis (2) release of US oil reserve (3) increased US shale production (4) slower-than-expected recovery in demand (including air travel) (5) US-Iran nuclear deal that could return ~4mbpd of Iranian oil to the market.

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

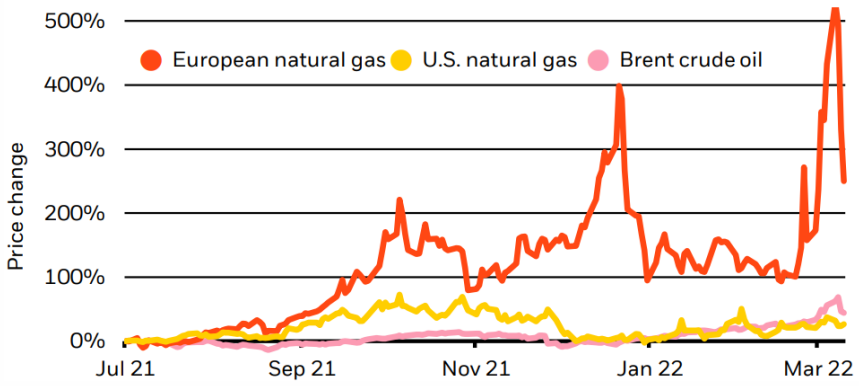
US FED actions amidst heightening geopolitical tension

On 16 Mar 2022, the US Federal Reserve members voted 8-1 to lift key rate to a target range of 0.25% to 0.5% after two years of holding borrowing cost near zero to insulate the economy from the pandemic. The Fed chief, Jerome Powell told reporters that inflation is too high, the labour market is over-heated and price stability is a "pre-condition" for the US central bank as it tackles the hottest price pressures in 40 years. The US central bank faces the arduous task of balancing the largest economic growth rate, as well as containing the inflationary pressure which is running high. Tighten too slowly and it risks allowing inflation to run out of control, requiring even tougher action. Shift too quickly and the central bank could roil markets and tip the economy into recession. Complicating the job further, the war between the Russian and Ukraine has sent the cost of fuel, food and metals racing even higher, raising fears of 1970s-style stagflation by posing threats to prices, growth and financial-market stability. Jerome Powell played down the risk of recession and repeatedly stressed that the U.S. economy is "very strong" while emphasizing the need for price stability. In addition, the US fed also signalled 6 more rate hikes for the rest of the year, which is in line with the market expectation.

From demand driven to supply driven inflation

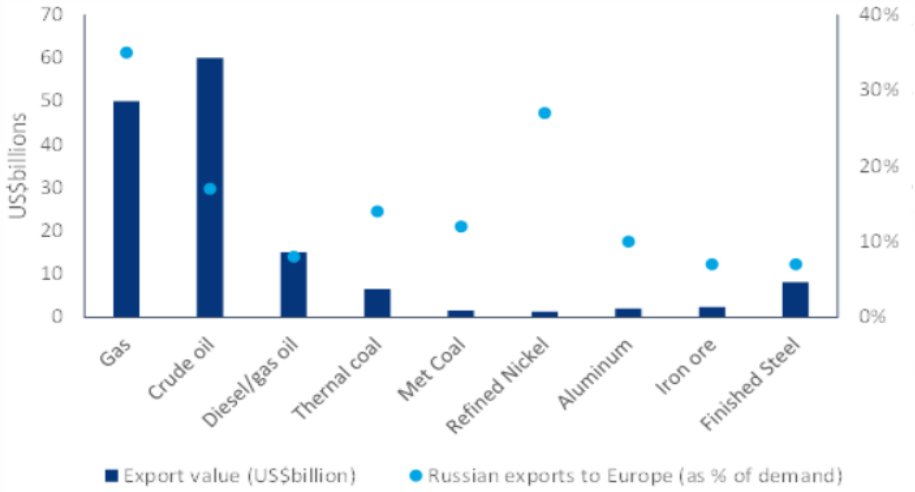
Contributed by the generous COVID-related fiscal stimulus, ultra-accommodative central bank monetary policy and the later re-opening of the economies, followed by labour shortages and supply-disruption post the pandemic lockdowns, the building up of inflationary pressures has begun. In 2007 the Federal Reserve balance sheet stood at less than USD 1 trillion. Today it is nearly USD 9 trillion. The money they created to purchase these securities has found its way into various markets and consumers' wallets. In 2021, the government stimulus ended up pumping nearly USD 6 trillion into the US. The inflation rate seems to be rising on the path towards meeting the central bank targeted range, though with some part contributed by the "transitory" supply-driven inflation. Then, there came the news on Russia invaded Ukraine on 24 Feb 2022, followed by slew of sanctions from the western allies countries imposing on Russia, hence, exacerbating the supply-driven inflation with foodstuffs soaring, metals setting records, and oil in the throes of the biggest crisis for decades. Europe is the most exposed, while the US is somehow less impacted, mainly due to the higher European reliance on commodity import from the Russian (refer to CHART 1).

CHART 1 – US and European energy price changes since 1 July 2021 to 11 Mar 2022



Source: BlackRock Investment Institute – 14 Mar 2022

CHART 2 - European exposure to Russian commodity imports as % of European demand and monetary value (2021)



How much higher can the borrowing cost (interest rate) go and what's the Fixed Income outlook?

High energy prices are now the cause of a downdraft in growth, with analysts ratcheting down their growth forecasts and upping their inflation projections. U.S. retail sales increased moderately at +0.3% month-on-month in February 2022 as more expensive gasoline and food forced households to cut back spending on other goods like furniture, electronics and appliances, which could restrain economic growth in 1st quarter. Overall, the US consumers are being cushioned by at least $2.5 trillion in excess savings accumulated during the COVID-19 pandemic.

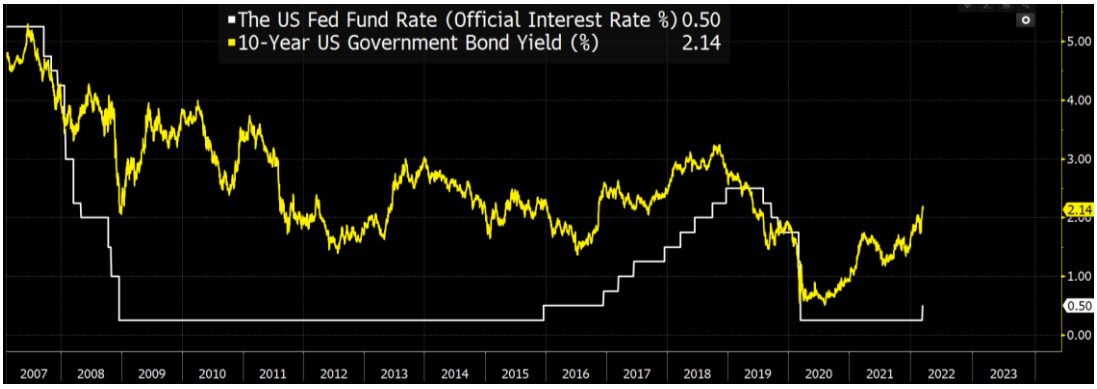
At the time of writing, the peace talk between the Russian and Ukraine is still on-going with oil price flips back to above USD100 per barrel, this reminded investors, war is still the key driver of global crude oil prices, therefore, global growth. To the US Federal Reserve, unless US job market is severely impacted, which in turn slow down its GDP growth substantially, US Fed is still likely to continue hiking its official interest rate (we expect for another 5 times) to contain the demand-driven inflation, albeit with the flexibility to hold on depending on the development from geopolitical event. Having said that, the Fed is likely to move more cautiously as they raise rates, while ECB, as compared to the US Fed, would be extra cautious due to high reliance of energy import from Russia. The bottom line is, the invasion has reduced the biggest risk to our investment thesis – policymakers start tightening too fast, too harsh or at least, the market is thinking they will.

The 10-year US government bond yield is currently trading at 2.17% (+66 basis points year-to-date, +100 basis point since the lowest level in August 2021), with market already pricing in close to 6 times of rate hike by the US Federal Reserve by year end, we expect it to be hovering in the range of 2.0% to 2.5% for the rest of the year. With that, we upgrade Fixed Income asset class near term view to **NEUTRAL** (from **UNDERWEIGHT**) while maintaining longer term **UNDERWEIGHT**.

For investors with investment portfolios allocation highly concentrated into Equity asset classes, they should consider adding some exposure to some fixed income asset to diversify their investment portfolio return volatility, preferably the fixed income/bonds with shorter duration (less than 5 years).

Source: Wood Mackenzie, Gazprom, GTT, mining.com – 25 Feb 2022

CHART 3 - US Fed fund rate vs the 10-year US Government bond yield



What can we learn from the past events?

While the past events or performances of the indices does not guarantee future results, it could be a good source of reference during times when equity market volatility increased at times of geopolitical incidence and investors sentiments turned increasingly impacting the stock market valuation.

Based on the past geopolitical events, the negative impact to the overall S&P500 index were mostly short-lived, as refer to CHART 4 (as measured by number of trading days for the index to recoup back to the level before the event).

CHART 4 – US S&P 500 Equity Index reaction to geopolitical events

Event	Dates of Market Reaction	Cumulative Decline During Reaction (%)	Performance, 1 Month After Reaction (%)	Performance, 1 Year After Reaction (%)	Trading Days to Recoup
US Operation in Cambodia	29 April–14 May 1970	-7.8	-1.40	+35.5	75
October War & Oil Embargo	6–26 October 1973	-1.4	-13.3	-37.1	1,576
Iranian Hostage Crisis	2–7 November 1979	-2.6	+7.7	+29.3	3
US Invasion of Panama	13–19 December 1989	-2.9	-1	-3.6	7
Iraq Invades Kuwait	2–23 August 1990	-13.6	-0.8	+28.4	115
US Embassy Bombings in Africa	7–14 August 1998	-2.5	-3.1	+25.2	2
9/11 Attacks	11–21 September 2001	-11.6	+12.8	-13.7	24
Arab Spring Reaches Libya	20 February–19 March 2011	-4.8	+2.0	+6.4	27
Annexation of Crimea by Russia	February–March 2014	negligible effect on markets			

We will look into the 1973 Arab embargo events and the impacts to the real economic activities, as well as the financial asset values. This Arab oil embargo crisis began in October 1973, that ceased the US oil imports from the Organization of Arab Petroleum Exporting Countries (OAPEC), and resulted in nearly quadrupled of oil prices moving into Jan 1974. The supply-driven inflation pressure were compiled with the earlier-on effect from the ending of Bretton Woods agreement in 1971 (e.g. US dollar was de-pegged from Gold, hence, causing USD devaluation) and the fiscal spending program in the 1960s.

Source: Bloomberg – 17 Mar 2022, Reuters – 17 Mar 2022, State Street – Aug 2018

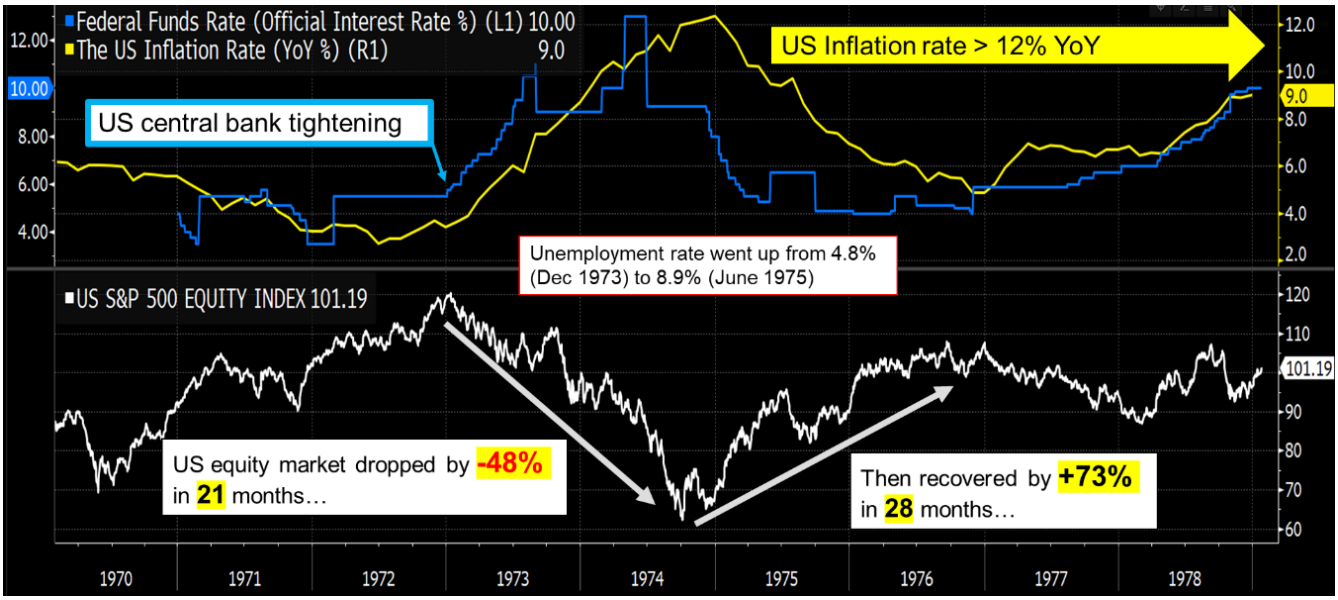
Impact to real economic activities

Note: Please refer to CHART 5. The headline inflation started to increase from 2.9% in July 1972, to the peak of 12.2% in July 1972, while the Federal Reserve, who were trying to contain the runaway inflation expectation, began its hiking rate cycle starting in Dec 1972 (Fed fund rate was 5.5%) until June 1974 (fed fund rate was 13%). Higher energy cost plus the increasingly tightening in monetary condition resulted into worsening in the business sentiments and then the job market in the US. The US unemployment rate started heading north from 4.7% in Dec 1973 to peak at 8.9% in June 1975. The US economy entered into recession from June 1974 to Sept 1975.

Impact to the financial markets

The S&P500 were being sold down from the peak in Jan 1973 (Fed first hike in Dec 1972) for the next 21 months until Oct 1974. The US Fed reversed its "tightening mode" by cutting the fed fund rate substantially when the US GDP growth entered into "negative territory" in June in 1974, though the headline inflation were still hovering at double digits. From Dec 1974 onwards, when the GDP growth continued to head south, the Fed embarked on the series of rate cuts, and the S&P500 started to recovered from the trough in Oct 1974 to Sept 1976 by +73% in 28 months.

CHART 5 – The US "Great Inflation" in 1973 oil embargo and its impact to the US economic activities and Federal Reserve reactions.



Source: Bloomberg Data. S&P500 peak to trough – 11 Jan 1973 to 3 Oct 1974, through to peak 3 Oct 1974 to 21 Sept 1976.

TABLE 1 - Comparison between 1973 Arab oil embargo and Russia-Ukraine war

	Oct 1973	Feb 2022
Events	**Saudi Oil Embargo**	**Russia invaded Ukraine**
Inflation (Peak)	12.3% (Demand + Supply pulled)	**7.5% (Demand + supply pulled)**
GDP Growth	**Negative from June 74 till Sept 75**	**+5.6% (Dec 2021)**
Unemployment Rate	**Rose from 4.7% (Dec 73) to 8.9% (June 75)**	**4.2% (Dec 2021)**
US Fed Reaction	**Hike rate** by +750 bps from Jan 73 to mid 74, then **cut rate** from June 74 to 76	**Market has priced in 6 times rate hike by end 2022**
Selected Financial Assets Reactions		
US S&P500 Equity Index	**-48%** in 21 months, then, **+71%** in **24** months	From peak on 3 Jan 2022 to 8 Mar 2022 **: -13%**
10-Year UST Yield	**Trending upward**	**Trending Upward** since Aug 2020, 2.15% on 18 Mar 2022, **CIMB forecast 10-year UST yield at 2.5%, Fed hikes 6 times by end 2022**
Gold	**+182%** in **24** months, then **-43%** for **20** months	USD1921 as of 18 Mar 2022. **CIMB forecast USD1950 1Q22, USD1750 4Q22**

Source: Bloomberg Data. S&P500 peak to trough – 11 Jan 1973 to 3 Oct 1974, through to peak 3 Oct 1974 to 21 Sept 1976, Gold positive performance from Jan 1973 to Dec 1974, negative performance from Dec 1974 to Aug 1976.

KEY POINTS:

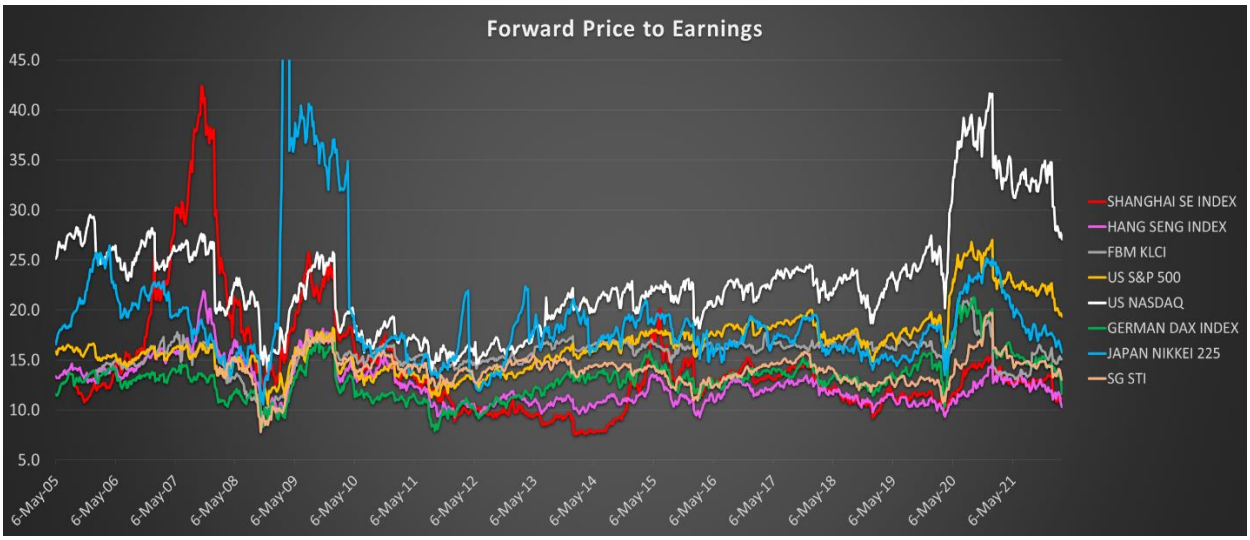
We reiterate our long term OVERWEIGHT in Equity over Fixed Income (UNDERWEIGHT).

- Valuation has come off to 5-year average, certain market valuation has seen valuation lower than 10-year average.
- the post pandemic recovery supported by huge fiscal stimulus spending (e.g., direct financial payment, infrastructure spending, green transition spending etc.)
- Central banks would continue to maintain ample liquidity in the market, though in 2022 would become "less" accommodative. Hence, could see bond yield trending upward.
- pent-up demand from consumer "continues" due to excess savings accumulated.
- still supportive corporate earnings growth though "growth rate" is not expected to be as strong as 2021
- Company earnings yields are relatively more attractive than bond yields
- relatively lower fund flow into equity asset class (vs Bond and Money Market) could be supportive of equity asset class when sentiment improve.
- Potential headwinds are:
  - ✓ Geopolitical risk (Russian – Ukraine) further disrupted the already strained supply chain, hence, causing inflationary pressure higher.
  - ✓ New COVID variant that may negatively impact sentiment in the short term
  - ✓ Earlier than expected monetary policy tightening causing bond yield spiking up, instead of gradually trending higher.
  - ✓ Potentially corporate earnings growth slowing.
  - ✓ China regulatory risks, but growth slow-down could prompt PBOC targeted loosening (eg Bank reserve ratio)
  - ✓ US-China trade & potential geopolitical tension

Stock valuation came off substantially to long term averages

Fast forward to current event, the forward price to earnings ratios across the equity markets has come off substantially, with the Asia stock market particularly impacted by the regulatory policies in which we will discuss more under the Regional Equity section.

CHART 6 – Selected equity indices forward price to earnings as of 9 Mar 2022



Source: Bloomberg – Mar 2022.

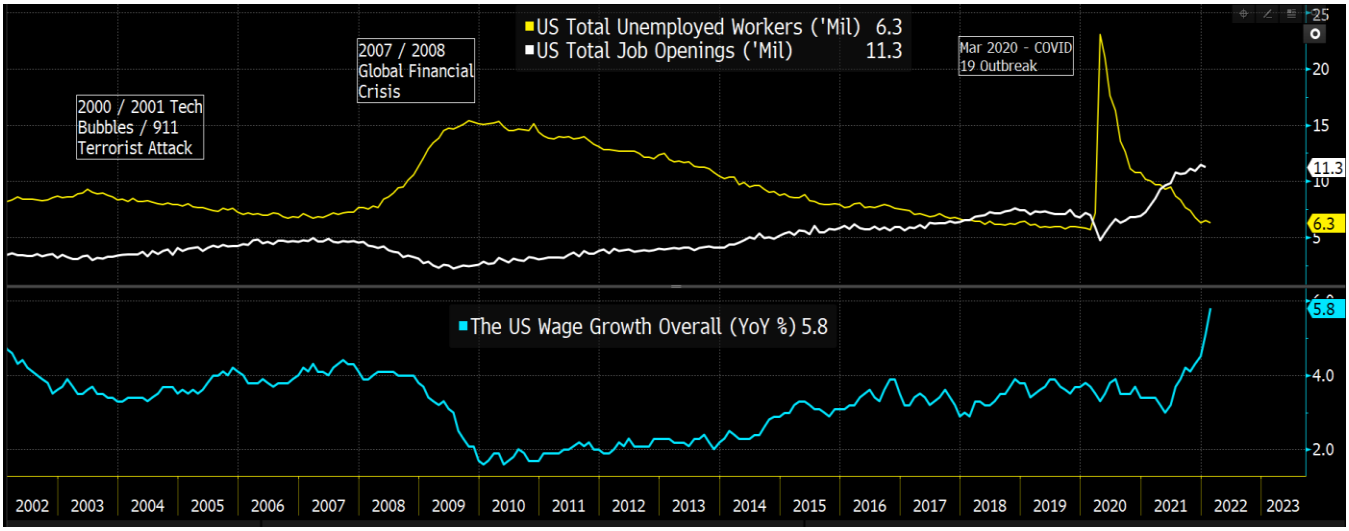
*TABLE 2 – Forward price to earnings ratios compared to respective 5-year and 10-year average**

Forward Price to Earnings Ratio	As of 9 Mar 2022	5-Year Average	10-Year Average
China Shanghai Composite	11.2	12.4	11.9
HK Hang Seng	10.3	11.8	11.4
MY FBM KLCI	15.1	16.3	16.2
US S&P500	19.4	19.9	18.0
US Nasdaq Composite	27.1	27.4	23.7
Germany Dax Index	11.6	14.7	13.7
Japan Nikkei 225	15.8	18.0	17.8
VIX (Volatility Index)	32.5	18.7	17.2

The US job market remain strong post pandemic

U.S. job openings in January held close to a record, suggesting employers continued to have difficulty luring workers. The number of openings, which exceeded estimates, reflect a strong labour market and demand for workers even at a time when the omicron variant was at its peak. Since then, COVID cases have declined and restrictions have loosened, which should help draw more Americans back into the labour force and ease shortages. In addition, the wage growth, especially the medium to bottom income groups have seen their salary grew much faster, putting together the overall USD2.5 trillion in excess savings accumulated during the COVID-19 pandemic, this helps underpinning a still strong pent-up consumer spending in the US. Therefore, barring from the sharp slowdown in the overall US job market, the US fed would likely to go ahead with rate hikes to contain the inflationary pressure, while the economic condition now seems to be able to withstand higher borrowing cost.

*CHART 7 – The US number of unemployed workers, new job openings and wage growth***



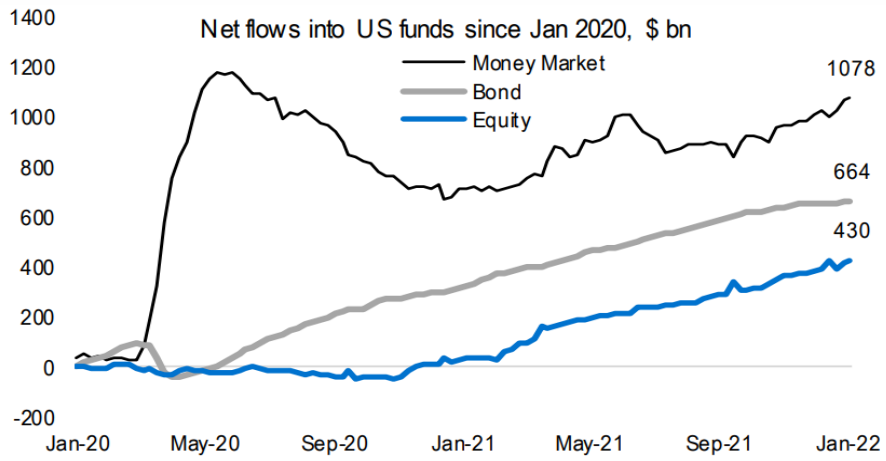
*Source: Bloomberg. Cell in Green indicates Forward PE ratio lower than 5-year and 10-year average. Yellow indicates lower than 5-year average, but above 10-year average.
**Source: Bloomberg – 28 Feb 2022, Fed Reserve Bank of Atlanta, based on 12-month moving average of wage growth. Reuters News – 17 Mar 2022.

Stock earning yield are relatively attractive vs the bond asset classes

Thanks to the massive liquidity injection (via Fed's bond purchase program), the financial market recovered in a "V" shape at rather quick manner post the pandemic in Mar 2020 (though that take considerably longer periods for the "real economy"). Although the Fed is expected to stop bond purchase program and also hike the fed fund rate (official interest rate) in the rest of 2022, there are still relatively huge amount of liquidity still remain in the market, and the cumulative fund flow since the pandemic still residing in the lower yielding asset classes. By referring to *CHART 8*, despite the government bond yield has gone up since last year, the recent correction in the equity market (based on S&P500) has resulted in the equity earnings yield more attractive, when compared to the risk-free rate (e.g., the 10-year US government bond yield).

CHART 8 – The US Federal Reserve expanded its balance sheet via the massive bond purchase program

CHART 9 – Investment cumulative fund flow as of Jan 2022 still resided mostly in lower yielding assets



Source: Bloomberg Data – 7 Mar 2022, EPFR, Credit Suisse – Jan 2022

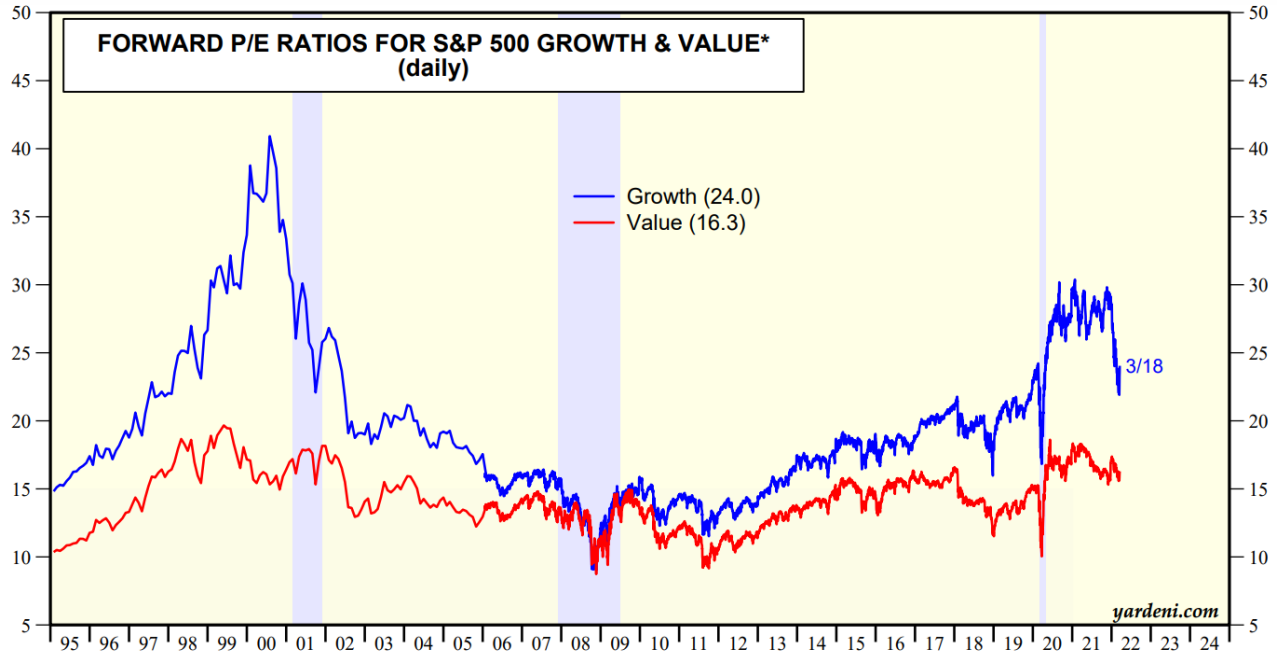
TABLE 3 – Bond yield compared to stock earnings yield

Stock Index	MARKET PEAK DATE	STOCK EARNINGS YIELD	10-YEAR US GOVERNMENT BOND YIELD
S&P500	Aug 14, 1981	11%	14.7%
	Aug 27, 1987	4.3%	8.9%
	Jul 18, 1990	6.3%	8.5%
	Aug 31, 2000	3.6%	5.8%
	Mar 11, 2022	**4.6%**	**1.98%**

"Value" vs "Growth" Sectors

"Value" sectors are stocks often categorized by their lower valuation (using Price to Earnings ratio or Price to Book ratio), which in this case, could be represented by sectors such as Financial, Industrial and Energy. Though these sectors have been bearing the brunt during lockdown and on-going worries on Omicron, as the world reopens eventually, these sectors should benefit more as compared to lockdown-beneficiaries, such as the "Growth" sectors like Information Technology, Consumer Discretionary and Communication Services.

CHART 10 – Stock valuation between "Growth" and "Value" sectors



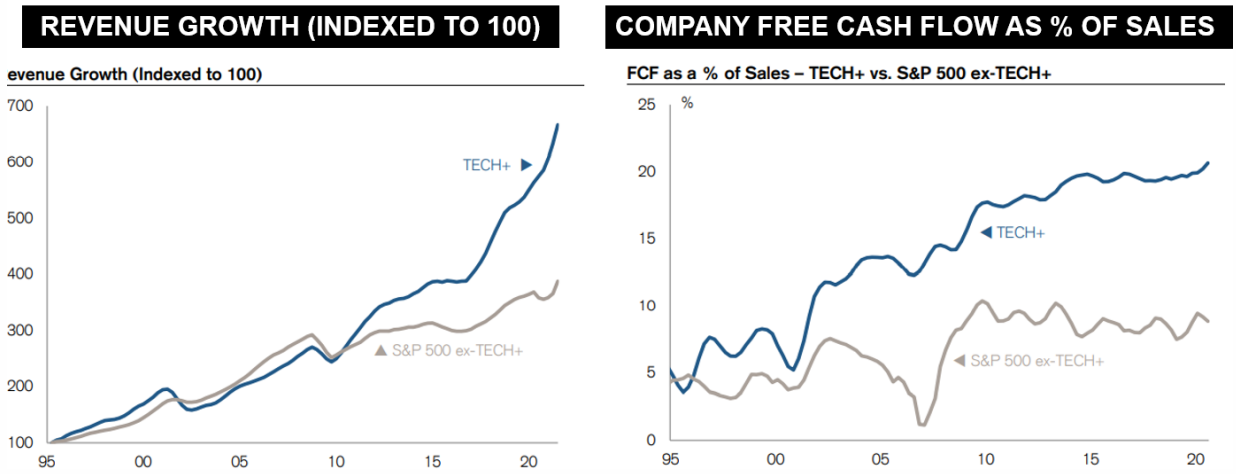
Note: Price divided by 12-month (52-week) forward consensus expected operating earnings per share. Monthly data through December 2005, then daily. Note: Shaded areas are recessions according to the National Bureau of Economic Research. Source: I/B/E/S data by Refinitiv.

The Tech Sector – Premium Growth Comes with Premium Price

By referring to *CHART 6*, based on the forward price to earnings ratio, Tech sector (using Nasdaq index as proxy) relative valuations are currently higher than other peers, but has come off near to its 5-year average. Tech sector stocks are generally equity assets relaying more towards the longer-term future value of the company as compared to the near term growth, should the investors' worries arise on the Federal Reserve tightening its monetary policies earlier than expected and cause the borrowing cost (e.g. US Government Bond yield) rising up sharply, with the already relatively high sector's valuation, could trigger higher volatility near term when compare to the sectors with lower valuation.

However, we believe the sector deserves a premium multiple versus the broader market due to its more superior growth prospect and return on equity. Big data, artificial intelligence, data analytics and cybersecurity are all now seen as essential tools to help overcome the complex economic, demographic and societal problems that many sectors face. The digital transformation has become inevitable across society, and nations need to act to prevent the digital divide in their populations from widening. As with each iteration of the digital evolution, 5G tech is set to transform how we use technology. Its superior speed and scale is expected to open up the market for smart connectivity in homes and businesses further, as well as involve the greater use of big data, AI and the automation of vehicles.

CHART 11 - Tech+ sector revenue growth, margin and cash flow generation has led the broad market over the longer term



Note: Tech + is the Tech Sector, Internet Retail within Discretionary, Interactive Media & Services, Interactive Home Entertainment, Communication Services.

Source: S&P Global.com, Factset, Credit Suisse – 2 August 2021

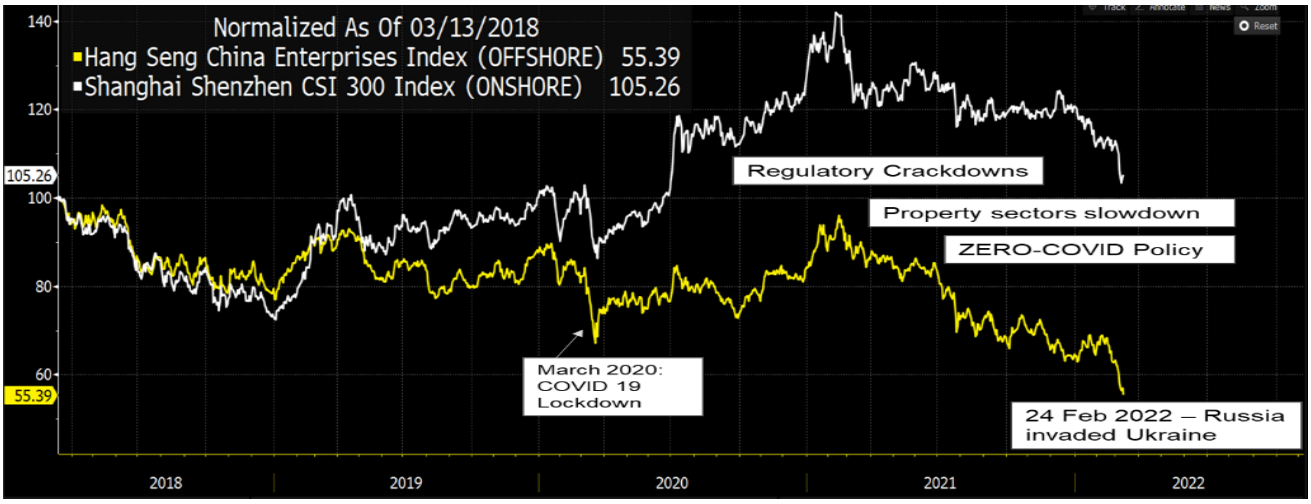
KEY POINTS:

- We maintain short and long term **OVERWEIGHT**, as there are more signs of policy easing, expansionary fiscal policies, easing of regulatory crackdowns, attractive valuation, potential earnings growth recovery and economic reopening.
- Prefer Chinese "Onshore" listed companies over Offshore Chinese equities on lesser exposure to official common prosperity risk
- China will continue to focus on developing new infrastructure such as 5G, AI, IoT and data center as well as the strategic sectors such as semiconductor, quantum computing and biotech.
- Continued opening up of China capital market to foreigners should attract more liquidity moving forward.
- Key risks are (1) Covid-19 variant (2) aggressive FED rate hikes, resulting in very strong USD (3) higher government bond yields drive financing cost higher, negatively impacting earnings (4) sustained inflationary pressure (5) geopolitical tensions.

Macro backdrop – The headwinds

The Chinese equity market was battered by Beijing's yearlong regulatory crackdown, zero-COVID policy that could further slow the economic growth, a looming Federal Reserve rate hike, weak sentiment toward China's technology sector on concern about possible de-listings from U.S. exchanges and, added to that is the market worries of the US imposing secondary sanctions should China offer aid to Russia for the war in Ukraine.

CHART 12 – Chinese equity market impact from the headwinds (Onshore listed stock index vs the offshore)



China is likely to made stability a priority

Concerns are growing among investors that Chinese companies may face US sanctions after US officials said Russia requested military and financial assistance from Beijing. From a political standpoint, President Xi Jinping also has little to gain from a protracted war that continues to roil financial and commodity markets. His government has made stability a priority ahead of a twice-a-decade party congress later this year at which he's expected to secure a precedent-breaking third term in office.

Source: Bloomberg – 10 Mar 2022, SCMP – 1 Mar 2022

China also needs good relations with the US and its partners to meet its economic goals, particularly as growth slows to the slowest pace in in more than three decades. The US and European Union combined accounted for more than a quarter (>25%) of China's total trade in 2020, compared with 2.5% for Russia.

Light at the end of tunnel?

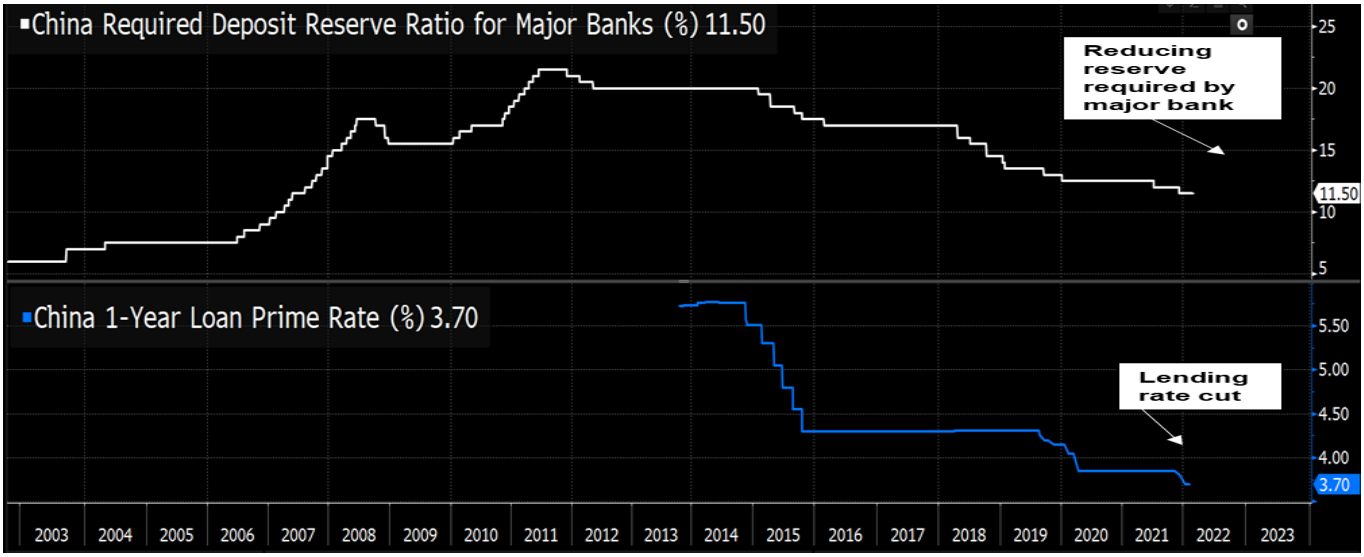
According to Xinhua report on 16 Mar 2022, China vowed policies to boost financial markets and increase economic growth as it attempted to ease investor fears on risks from the property market, overseas listings and internet companies. Regulators in China and the US have achieved positive progress on the issue to resolve their differences over the auditing of Chinese companies whose shares trade in the U.S markets, and are working to formulate a detailed cooperation plan, according to a Xinhua report on 16 Mar 2022.

Regarding its property sectors, the central government has rolled out some easing measures, including lower mortgage rates, down-payment and faster home loan procedures, to help improve sentiment. On February 18, Heze became the first city in China's northern Shandong province to introduce easing measures, with four major banks lowering the minimum deposits for home purchases to 20% from 30%. Within the next two weeks, eight more cities, including Nantong in the eastern Jiangsu province, Greater Bay Area city Foshan and Chongqing, one of four centrally administered municipalities in the country, lowered their down payment requirements.

Loosening monetary policies

The People's Bank of China has cut interest rates, reduced the amount of cash banks must hold in reserve, and boosted credit expansion in the economy. With official GDP growth target of 5.5% for 2022, this could indicate the central bank would likely to continue its loosening stances to help officials achieving the growth targets.

CHART 13 – People's Bank of China loosening its monetary policies



Source: Bloomberg, Reuters, CNN, SCMP – Mar 2022

Expansionary fiscal policies

On 5th Mar 2022, during the annual speech to the National People's Congress, Premier Le Keqiang announced an unusually large cut in taxes and fees for smaller firms and manufacturing enterprises. Corporate income tax for smaller firms will be lowered to just 5% and value-added tax will be eased for many. In total, these cuts may amount to RMB 2.5 trillion (USD 397 bil) or about 2% of China's expected GDP in 2021.

In addition to cutting taxes, the government will increase spending, broadly measured, by 12.8%. It will embark on some of the "mega-projects". It will also spend more on unglamorous but necessary social infrastructure, such as daycare centres. About 9.8 trn yuan will be transferred to cash-strapped local governments, 18% more than last year. They will need all the help they can get to cope with China's property downturn, which has deprived them of revenue from land sales.

Focusing on Long Term Strategic Growth

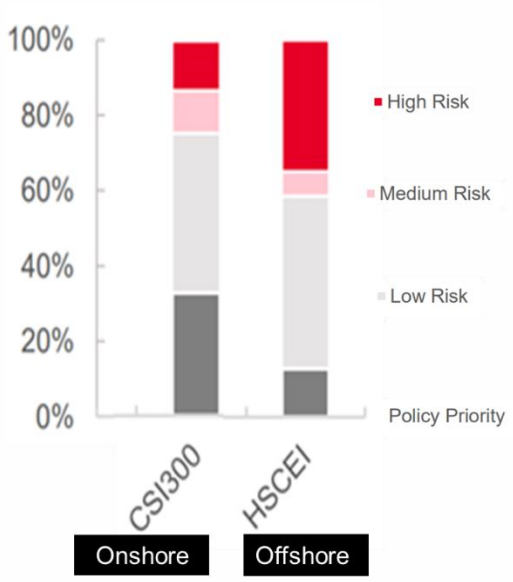
China reiterated its commitment to reduce dependence on US key technology. As also mentioned in the previous quarterly publication, the government will further direct resources to focus on semiconductors, artificial intelligence, quantum computing, neuroscience, and biotech. Public and private sector spending on research and development of new products are projected to rise to $580 billion a year by 2025 – more than what US spent in 2018. While China would still need to rely on foreign technology, the aggressive moves such as tax exemption and incentives could help to encourage future growth in the China semiconductor or IT-related industries. With that, investors would need to rethink the sector allocation which are differentiating the sectors with "Policy Priority", "Low" or "High Policy Risk", and also consider about the sectors' prospect over the longer term (refer to *TABLE 4*). Taking into account the relatively more attractive valuation especially post the sell-down in early part of the year, we maintain Regional Equity short term and longer term **OVERWEIGHT**.

TABLE 4 - China sectorial policy risk and long term prospect

Sectors	Sub-sectors	Policy Risk	Prospects	Rationales
Tech	Software, Internet	HIGH	STRONG	In near term, uncertainties from regulation related to antitrust, data protection, labour rights & content control. However, in long term, sectors which are crucial with high potential growth are cloud computing, big datam IoT, cybersecurity etc.
	Hardware (eg, semicon)	PRIORITY	STRONG	To reduce dependence on important tech to strengthn local manufacturing skills and capacity.
Real Estate		HIGH	WEAK	Housing is for living, not for speculation. Demand likely impacted by further introduction of housing related regulations.
Consumer	NEV, electronics	PRIORITY	STRONG	Rise of middle-income group, revitalization of rural consumers under "COMMON PROSPERITY" policy. NEV, home appliances, and electrolic should receive support given goal of manufaturing upgrade & green energy transition.
	Education	HIGH	WEAK	To reduce cost of education and ensure equal access.
Industrial	NewInfra - 5g, IoT, data centres, ev charger, defence	PRIORITY	STRONG	China ambition to become manufacturing powerrhouse, such as tech equipment, intelligent manufacturing and robotics, agricultural machinary, industrial internet & aero engines.
Masterial	New materials for battery & integrated circuits related	PRIORITY	STRONG	New materials are crucial for batteries, chips, aerospace, electronics
Energy	Renewables, storage	PRIORITY	STRONG	China committed to achieve carbon neutrality by 2060
Healthcare	Biotech	LOW	STRONG	Policymakers aim to strengthen high-end medical equipment manufacturing and promote innovative medicines, gene tech and biotech. However, policy risk remains

Source: SCMP – 1 Mar 2022, Bloomberg - Feb 2022, The Economist – 12 Mar 2022.

CHART 14 – China Equity indices exposure (% index) according to the degree of Common Prosperity policy risks



Note: CSI300 = 300 A share stocks listed on Shanghai and Shenzen stock exchange, HSCEI = Hang Seng China Enterprises Index – 50 H Share of China incorporated company traded outside of mainland China.

Source: Societe Generale – 3 Sept 2021

KEY POINTS:

- We remain **NEUTRAL** both short & longer term.
- Our end-2022F KLCI target is 1622.
- Malaysia's macro outlook should be more positive for 2022, given the high vaccination rate and easing restrictions should support reopening. Higher commodity prices (crude oil, palm oil & natural gas) bodes well for Malaysia.
- Key potential catalysts: (1) Government's incentives to boost the tourism sector post lockdown (2) Normalization in consumer spending leading to strong rebound in consumer sector (3) KLCI valuation is relatively cheap (4) Markets are generally bullish on oil price forecast (5) Foreign equity shareholdings near decade low
- Key risks: (1) Covid variant, waning effect of vaccines (2) negative earnings impact from Cukai Makmur (3) political uncertainty as general election GE15 could be called in 2022 (4) ongoing supply chain disruptions – from lockdowns, extreme weather, energy transition, worker shortage (5) Inflation – cost pressures (6) ESG related risk and opportunities.

Malaysia's borders to reopen on 1 Apr

We are positive on this news as this will spur economic activities and boost the tourism industry. The decision to no longer limit operation hours for businesses will also help to generate higher sales. Sectors that will benefit from higher foreign tourist arrivals are hotels and retail (via REIT sectors), consumer, gaming, transport, brewery and healthcare.

Potential impact of special EPF withdrawal

Historical EPF withdrawal schemes had seen take-up rates of 52-82%, based on our estimates. As such, based on MOF estimates to parliament of RM63bn and assuming a 50% take-up rate, we project the potential withdrawal value to be RM31.5bn, based on this scenario. This could impact fund flows for Malaysia where we see potentially higher net selling from local institutional funds due to the requirement for EPF to raise liquidity for potential withdrawals by its members. The special EPF withdrawal scheme will nevertheless help boost consumer spending power ahead of the upcoming Hari Raya festival on 2-3 May 2022, even as product prices rise amid higher commodity, labour and freight costs. Potential beneficiaries are consumer, travel and healthcare sectors as they will benefit from higher domestic consumer spending ahead of the festive season and the reopening of Malaysia's borders on 1 Apr 2021.

New minimum wage

Details of the mechanism of the new minimum w age of RM1,500/month (US$357/month) will be announced later. There are approximately 2.3m minimum wage workers in Malaysia, based on media reports. Sectors that are likely to be affected by the 25% increase in minimum wage are plantation, manufacturing (gloves and others), construction and services (travel, F&B, hotel, retail and others). The higher minimum wage will lead to increased cost of goods and services for companies, which are likely to partially pass this on to consumers in 2H22F. However, for companies who are not able to pass on the costs due to weak demand, profit margins and earnings could tumble. On the bright side, the higher minimum wage will boost purchasing power of the low income group and help them cope with the rising costs of living, which is slightly positive for the consumer sector. The higher minimum wage will also allow Malaysia to attract workers and in some instances speed up the decision to automate processes. The mid-level minimum wage in Indonesia, the Philippines, Thailand and Vietnam ranges from US$157 to US$270/mth.

Potential Malaysia's 15th General Election (GE15)

The likely earliest timing for GE15 is Aug, in our view. Should an election be called, we see heightened stock market volatility in the period after parliament is dissolved, particularly during the campaigning period. If selling pressure is intense in the 2-3 weeks before the polls, it would mean that most of the potential bad news is likely already priced in. Also, the market is likely to stage a relief rally if the new government holds a stronger majority in parliament. Our tracking of the past nine GEs reveals that the KLCI tends to deliver higher average returns up to 12 months post elections, compared to the 12 preceding months.

CHART 15 - Foreign shareholding in Malaysian equity market near decade low

CHART 16 - Unemployment trending lower in Jan 2022

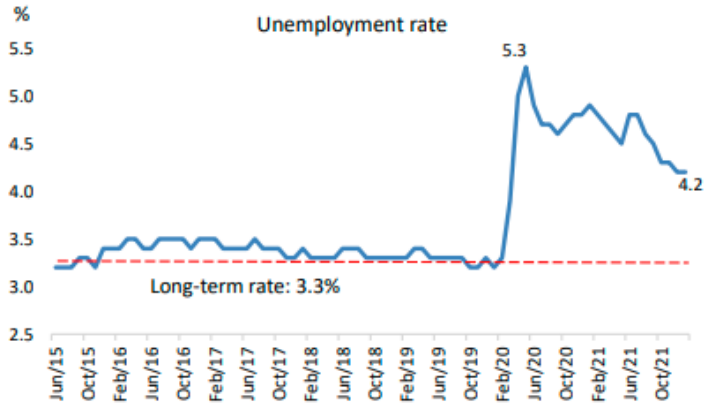
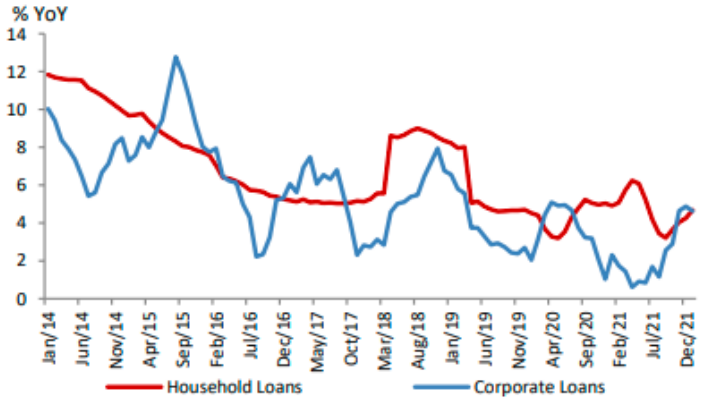


CHART 17 - Loan growth rebounding



Source: CGS-CIMB – Mar 2022

ALTERNATIVE – GOLD

CIMB

KEY POINTS:

- We remain **NEUTRAL** both short term and longer term.
- We think Gold is as an effective portfolio diversifier during periods of equity volatility - given its appeal as a hedge against high inflation environment, heightening geopolitical risk that drag on global economic growth, pandemic risks and increasing recession risk.
- However, key downside risk includes swift de-escalation of Russian-Ukraine war, faster than expected economic growth with manageable inflation and hence, resulted in higher real interest rate.

The recent flare-up in geopolitical risk between the Russian and Ukraine has caused the equity market volatility increased and supported the precious metal as safe haven play. Nonetheless, as mentioned in previous section, the Federal Reserve Chief Jerome Powell played down the risk of recession and repeatedly stressed that the U.S. economy is "very strong" while emphasizing the need for price stability. Therefore, the fed signalled 6 more rate hikes for the rest of the year, which is in line with the market expectation.

Despite the tug of war between the higher interest rate and geopolitical risk could continue to see Gold prices fluctuate in the range bound between USD 1850 to USD 1950 per ounce in the 1H2022, we think that gold could act as a hedge (safe haven play) for investors' portfolios in times of crisis and / or as at when the overall equity market encountering a sharp sell-off, as refer to *TABLE 5*.

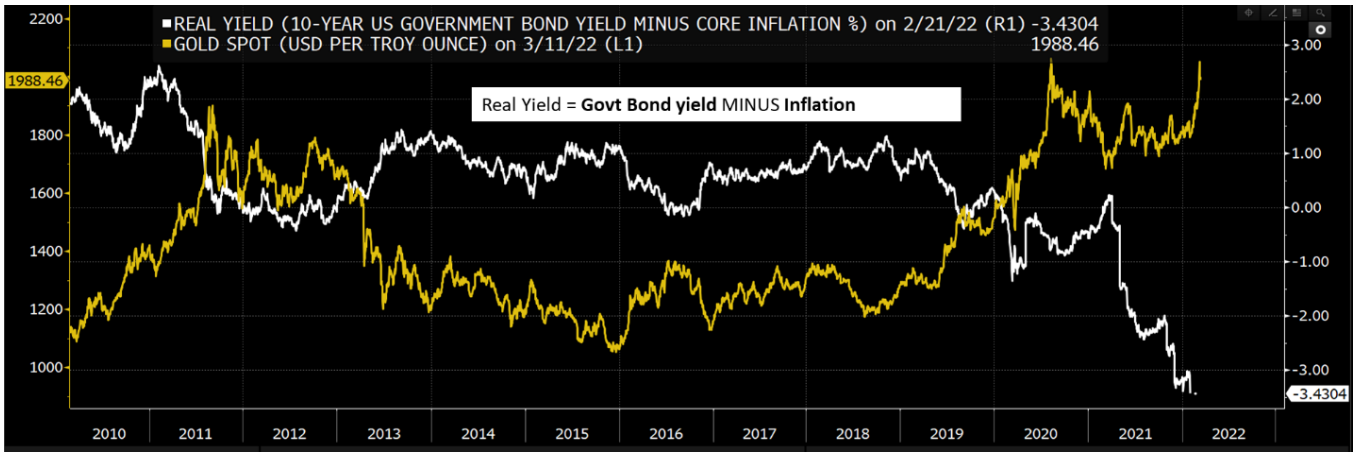
At the time of writing, the negotiation between Russia and Ukraine is still on-going. Major energy and other commodity prices continue to remain at elevated levels. Should inflation rate continue to spike due to worsening geopolitical event, this indicates the already high inflation rate of 7.9% in the US could continue to climb north, in which, the real interest rate (nominal government bond yield minus inflation rate) could remain low and could further support Gold price (refer to *CHART 18*).

TABLE 5 - Historically speaking, Gold likely to become safe haven during major Equity market sell-off

Dates of S&P500 Biggest Declines	S&P500	GOLD
11 Jan 2973 – 3 Oct 1974	-48.20%	137.50%
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 – Mar 2022

CHART 18 - When real yield is low, the opportunity cost of holding Gold is less, hence, supporting Gold price, vice versa.



Source: Bloomberg – 11 Mar 2022

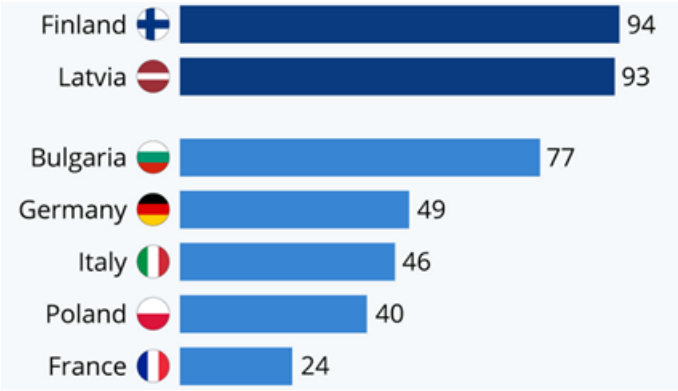
KEY POINTS:

- The Russia-Ukraine war would accelerate the roll-out of renewable energy investment
- Hence, ESG investment theme will continue to gain global investors attention

While COVID-19 accelerated the adoption of technology among industries and sectors, the war between Russia-Ukraine would likely accelerate the roll-out of renewable energy investment, especially in the European Union countries. After the invasion of Ukraine by Russian forces, Europe is at risk of sliding into an energy crisis triggered by much of the continent's reliance on Russian gas, which arrives via pipelines. Among Europe's major economies, Germany imports around half of its gas from Russia, Italy would also be among the most impacted at a 46%. The European Union announced on 8 Mar 2022 it will reduce its purchases of Russian gas by two-thirds before the end of the year, in response to the country's invasion of Ukraine. Here's the selected ways how they could achieve it.

- ✓ Accelerating the rollout of renewables, both wind and solar, and heat pumps. For solar, the EU should accelerating the rollout of rooftop solar systems up to 15 terawatt-hours this year, which would save 2.5 billion cubic meters of gas. The European Commission promised a more full communication on the EU's solar strategy in June. The EU also proposes rolling out 10 million heat pumps in the next five years.
- ✓ Accelerating the rollout of renewables, both wind and solar, and heat pumps. For solar, the EU should accelerating the rollout of rooftop solar systems up to 15 terawatt-hours this year, which would save 2.5 billion cubic meters of gas. The European Commission promised a more full communication on the EU's solar strategy in June. The EU also proposes rolling out 10 million heat pumps in the next five years.
- ✓ Accelerating the rollout of renewables, both wind and solar, and heat pumps. For solar, the EU should accelerating the rollout of rooftop solar systems up to 15 terawatt-hours this year, which would save 2.5 billion cubic meters of gas. The European Commission promised a more full communication on the EU's solar strategy in June. The EU also proposes rolling out 10 million heat pumps in the next five years.
- ✓ Accelerating the rollout of renewables, both wind and solar, and heat pumps. For solar, the EU should accelerating the rollout of rooftop solar systems up to 15 terawatt-hours this year, which would save 2.5 billion cubic meters of gas. The European Commission promised a more full communication on the EU's solar strategy in June. The EU also proposes rolling out 10 million heat pumps in the next five years.

CHART 19 – % Share of the European countries gas supply from Russia (2020)



Note: Ukraine buys its gas from the EU since 2015.

Source: Statista, European Union Agency for Cooperation of Energy Regulators – 2020.

The Recent UN Climate Change Conference

The UN Climate Change Conference COP26 has taken encouraging steps towards additional major climate pledges and policy agreements to further the development and deployment of technologies that can help deliver a significant reduction in CO2 and methane emissions, as well as restore and protect the world's natural capital. The principal areas of focus at COP26 includes:

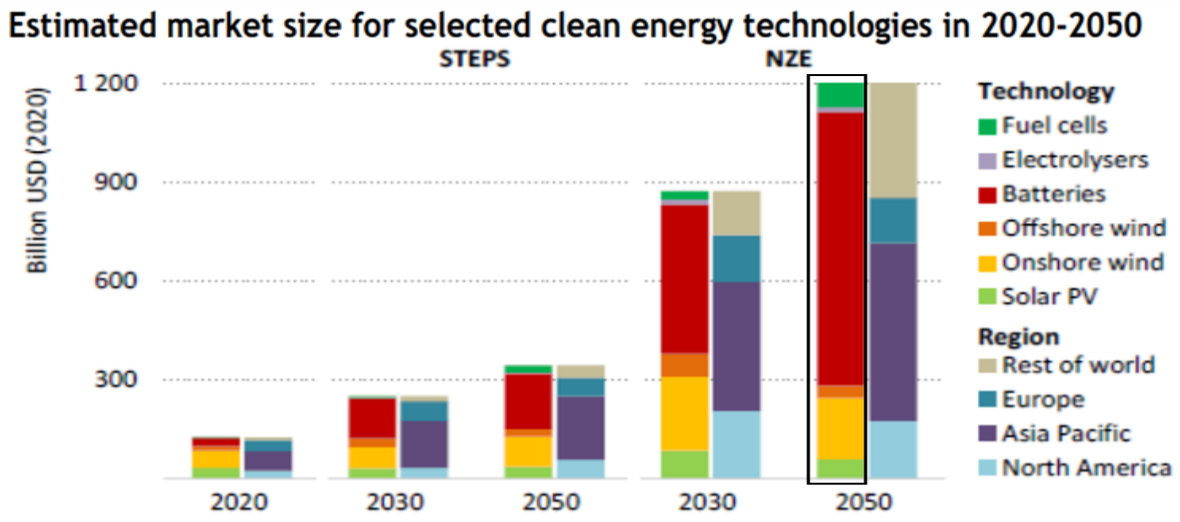
- Green hydrogen
- Residential solar energy
- Offshore wind energy development
- Energy storage to reduce carbon emissions
- Practical packaging solutions to reduce plastic pollution
- Land-based fish farming to address fish depletion
- Sustainable farming methods to protect the world's soils.

Major Commitment from the Major Players

In the US, President 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 to achieve net zero emission by 2050 by spending USD 2 trillion on upgrading 4 million buildings to improve energy efficiency, upgrading public transport by investing in electric vehicle manufacturing and charging points.

In China, President Xi has also announced commitment to achieve carbon neutrality by 2060. 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).

CHART 20 - Investments are increasingly being directed towards clean energy rather than traditional fossil fuels, under the Stated Policies Scenario (STEPS) and Net Zero Emissions by 2050 (NZE)



Source: IEA World Energy Outlook 2021, UN foundation.org

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

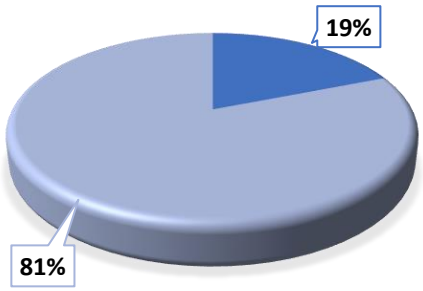
	Cumulative Return Since Inception (%)	Annualized Return since inception (p.a %)	Maximum Drawdown During 2007 to 2009 (%)
100% in Equity Asset	+333.6%	+6.4%	-57.1%
100% in Bond Asset	+185.4%	+4.5%	-25.6%
100% in Commodity Asset	-37.7%	-2.0%	-56.7%
BALANCED Model Portfolio	+258.0%	+5.6%	-39.2%

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

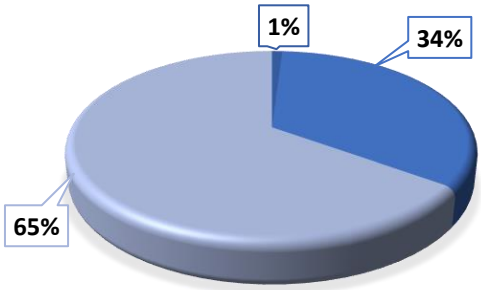
Note:
1. Equity value based on MSCI World Equity Index, Global Bond value based on Barclays Global Aggregate Bond Total Return Index and Commodity based on Bloomberg Commodity Index
2. Investment Portfolio composition based on CIMB Wealth Management Balanced Risk Profile Model Portfolio (46% Bond, 2%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

1H2022 Model Portfolio

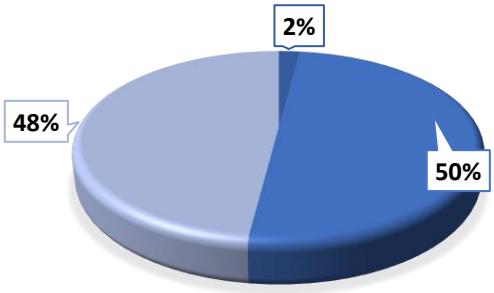
DEFENSIVE



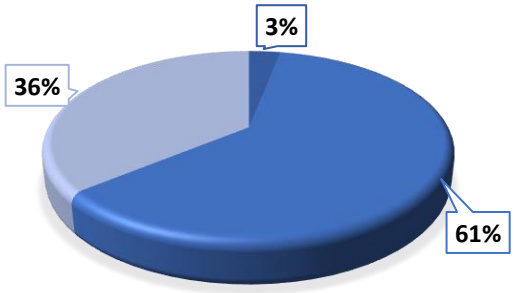
CONSERVATIVE



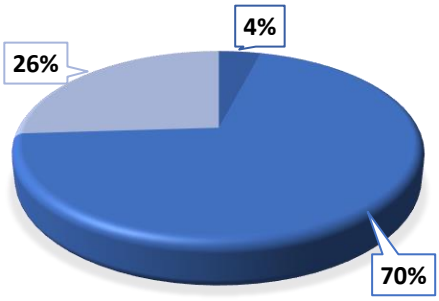
BALANCED



GROWTH



AGGRESSIVE



ASSET CLASSES:

- Equity
- Fixed Income & Money Market
- Alternative

CIMB

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

GLOBAL & REGIONAL FORECAST

CIMB

GDP	2019	2020	2021	2022	2023
Malaysia	4.3	-5.6	3.1	6.2	4.5
Indonesia	5.0	-2.1	2.0	5.1	5.0
Singapore	1.3	-5.4	7.6	3.9	2.8
Thailand	2.3	-6.1	1.6	4.1	2.5
Policy rate	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**
US	0.50	1.25	1.75	2.25	2.75
Malaysia	1.75	1.75	2.00	2.25	2.50
Indonesia	3.50	3.50	3.75	4.00	4.25
Thailand	0.50	0.50	0.50	0.50	0.75
Commodity prices	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**
WTI (US$/bbl)	94	90	82	80	75
Brent (US$/bbl)	91	86	77	75	70
Copper (US$/ton)	10,150	9,850	9,700	9,700	9,500
Gold (US$/oz)	1,950	1,850	1,780	1,750	1,730
CPO (RM/ton)	5.750	4.750	4.200	4.400	3.900
Rates	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**
UST 2Y	1.50	1.60	1.70	1.85	1.90
UST10Y	2.00	2.20	2.40	2.50	2.50
MY 3Y	2.65	2.75	3.00	2.90	2.80
MY 10Y	3.60	3.75	4.00	3.95	3.75
ID 2Y	4.25	4.55	4.75	4.95	5.05
ID 10Y	6.60	6.80	6.95	7.00	7.05
TH 2Y	0.70	0.90	1.00	1.00	1.10
TH 10Y	2.20	2.40	2.40	2.20	2.30
Currency	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**
DXY	98	97	96	95	95
EURUSD	1.08	1.11	1.13	1.15	1.16
GBPUSD	1.31	1.34	1.34	1.36	1.35
AUDUSD	0.74	0.74	0.72	0.73	0.73
USDJPY	116	118	117	115	114
USDCNH	6.37	6.35	6.46	6.50	6.55
USDMYR	4.15	4.13	4.18	4.15	4.10
USDIDR	14,300	14,350	14,550	14,550	14,600
USDSGD	1.37	1.35	1.34	1.34	1.33
USDTHB	33.80	34.50	34.20	33.60	33.30

Stock Indices – Year end Target

	2022
Malaysia KLCI	1,622
Indonesia JCI	7,950
Singapore FSSTI	3,506
Thailand SET	1,850

Source: CIMB Treasury & Markets Research, CGS-CIMB Research – 23 Mar 2022.

DISCLAIMER

CIMB BANK BERHAD DISCLAIMER

The contents in this document are reasonably believed to be correct at the time of issue and are subject to change.

CIMB Bank Berhad ("CIMB") makes no express or implied representation, recommendation or warranty as to the accuracy, desirability, reliability, or completeness of any information and opinion relating to any matter contained in this document.

The information in this document is subject to change and correct at the time of issue. Neither does this document purport to contain all the information that a prospective investor may require. Because it is not possible for CIMB to have regard to the specific investment objectives, financial situation and particular needs of each person who reads this document, the information contained in it may not be appropriate for all persons.

CIMB is not acting as advisor or agent to any person whom this document is directed. You, the recipient of this document must consult your own professional financial, legal, accounting, taxation and all other advisers and make your own independent assessment of the contents of this document. Under no circumstances should you treat or rely on any of the contents of this document as advice in relation to any of your financial, legal, accounting, taxation, technical, investment or any other matters.

CIMB , CIMB's subsidiaries , CIMB's holding company , the holding company and subsidiaries of CIMB's holding company and all companies which are in any way or howsoever related , associated or affiliated with CIMB and or CIMB's holding company (the "CIMB Group") or any one or more of them may act as a principal or agent in any transaction contemplated by this document, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income .

Nothing in this document is intended to be, or should be construed as an invitation, offer or recommendation to you to buy or sell, or subscribe for any, of the subject securities, related investments or other financial instruments thereof. In the ordinary course of our businesses, any member of the CIMB Group may at any time hold long or short positions, and may trade or otherwise effect transactions, for its own account or the account of its customers, in debt or equity securities or senior loans of any company that may be involved in this transaction.

By accepting and relying on this document, the recipient hereof represents and warrants that he is entitled to receive this document subject strictly however to the restrictions and limitations set forth below and the recipient agrees to be bound by these restrictions and limitations contained herein. Any failure to comply with any of these restrictions and limitations may constitute a violation of law. This document is being supplied strictly on the basis that it will remain confidential. No part of this document may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (iii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB and or CIMB Group.

Neither the CIMB Group nor any of their officers, agents, directors, employees or representatives ("the CIMB Group and Staff") shall be held responsible or liable in respect of any omission, statement, opinion, information or matter (express or implied) relating to or arising out of, contained in or derived from this document, except liability under statute that cannot be excluded. Not in derogation of the generality of the foregoing or any other provisions herein no claims or demands or actions shall be made or taken by the recipient or any person in relation to this document and any matters herein against any companies within the CIMB Group whether such companies are carrying on business or incorporated within or outside the jurisdictions in which this document is distributed.