CIMB

4Q2021 Macro Outlook & Advisory House View

Investing in a post-COVID world – prefer Equity over Fixed Income

CONTENTS

4Q2021 Asset Class Outlook Summary pg. 3

4Q2021 Asset Class Outlook in Detail pg. 5

Green Transition pg. 25

Investment Strategy pg. 26

Currency Outlook pg. 27

2H2021 Model Portfolio pg. 30

Global & Regional Forecast pg. 31

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 upgrade short term to NEUTRAL, remain NEUTRAL longer term. We think US bond tapering will begin end of this year, the first US rate hike will come in 2023. Growth outlook is less upbeat as global pandemic risks remain, but we think investors will continue to pare down safe haven UST. UST yields shall continue to rise but in a more controlled fashion. In Malaysia we expect BNM to maintain OPR at 1.75% in 2021, before normalizing in 2H2022 as the economy recovers. We forecast an end-2022 OPR of 2.50%.
EQUITIES	LOCAL		●		●	We remain NEUTRAL both short & longer term. Our end-2021F KLCI target is 1629. New Covid-19 cases remain high but we project that the market is forward looking and will look to position in recovery stocks ahead of a full reopening of economy expected in Oct/Nov 2021. The ongoing rollout of the vaccination programs are expected to remain supportive of the market. Key potential catalysts are (1) Tabling of the 12th Malaysia Plan on 27 Sep (2) Normalization in consumer spending leading to strong rebound in consumer sector (3) Government's incentives to boost the tourism sector post lockdown.The potential implementation of additional taxes is a concern.
	REGIONAL	●	⇦		●	We downgrade short term to NEUTRAL due to continued regulatory uncertainty in China. We remain OVERWEIGHT longer term as (1) COVID cases are declining in most parts of the region (2) rising commodity prices is a tailwind for Asian commodity exporters through rising terms of trade, stronger growth, and improvement in fiscal and current account balances (3) favorable valuation relative to Global equity. Regional Equity can provide investors exposure to a region poised to bounce back, as well as strategic long term positioning as Asia evolves as the world's key growth driver. The risk is the over-execution in policy implementation resulted in a larger than expected drag on economic growth, recovery does not play out and an intensifying US-China tension.
	GLOBAL - U.S	●			●	We remain short term NEUTRAL, longer term OVERWEIGHT. Strong US earnings delivery supported its outperformance. We continue to see the tech sector offering exposure to structural growth trend, but elevated equity valuation could constrain further gains.
	GLOBAL - EUROPE	⇨	●		●	We upgrade short term to OVERWEIGHT, remain NEUTRAL longer term, as Eurozone is delivering strong earnings growth. The Recovery Fund will start to be implemented in the summer. Labour market is resilient. Europe is a global Cycle and Value play (with high exposure to Financials & Industrials in its stock

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

						index). A style switch into Value is likely to help the region. Equity valuations is relatively attractive compared to the US.
	GLOBAL-JAPAN		●		●	We remain NEUTRAL as Japan equity is another traditional play on the global cycle, with positive correlation to bond yields. However, Yen weakness could weigh on investors' return.
ALTERNATIVE	GOLD		● ⇦		●	We downgrade to NEUTRAL in the short term, maintain NEUTRAL in the longer term. Gold should remain supported given its appeal as a hedge against inflation, ongoing pandemic risks, slower than expected central bank's tapering policies and potential risks resulting from large fiscal spending. Key risks include faster than expected economic growth 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 in the short term; upgrade to NEUTRAL in the longer term. Crude oil is supported by stronger demand from economic recovery. OPEC oil production increase will be gradual. The big oil majors have been underinvesting in oil infrastructure for the past few years, lower supply means higher oil price. Longer term wise, should supply from Iran (depending on nuclear sanction) or other oil producers ramp up, this could weigh on oil price. 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.

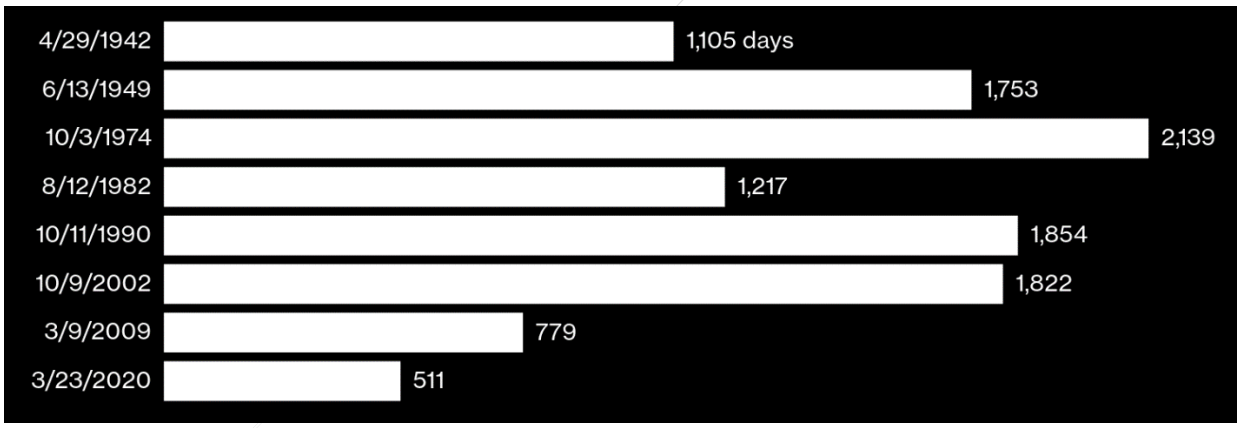
Note: UW = UNDERWEIGHT, OW = OVERWEIGHT, BLACK DOT = NEUTRAL.
NEUTRAL allocation equals to the Model Portfolios Allocation for respective risk profiles.

CIMB 4th Quarter 2021 Overall Asset Class Preference

KEY POINTS:

- The strong economic restart is broadening, with Europe and other major economies catching up with the US
- While central banks could start to slow down their bond purchase program and potentially causing equity market volatility to increase, we expect central banks to remain accommodative and maintain their official interest rate unchanged at current low level.
- Government spending plans (on infrastructure and green technology) and consumer excess savings should continue to support economic growth.
- Corporate earnings growth momentum was strong, but is expected to grow at a slower pace at +9.3% in 2022, based on Factset estimates.
- Net fund flow does not show excessive flow into Equity asset class, relative to Bond and Money Market.
- Prefer Equity over Fixed Income as equity earnings yield is more attractive to bond yield.
- Within Global Equity, in the short term, we upgraded Europe to Overweight on better recovery momentum, higher exposure to cyclical and "Value" sectors and relatively attractive equity valuation as compared to the US.
- Key headwinds – rising bond yield, new COVID variants, higher inflation pressure, continue US-China tension, increasing regulatory risk in China and slower corporate earnings. However, these could also give long-term investors opportunity to accumulate equity at better level.

CHART 1 – Number of days US S&P 500 equity index took to double from a low during the past recoveries…



Source: Bloomberg – 25 Aug 2021

Global equity market has rebounded swiftly since the pandemic in March 2020 and continued to reach all time high, underpinned by acceleration in COVID vaccination, normalization of economic activities and strong corporate earnings growth. Nonetheless, there is increasing concern on whether the arguably relatively "high" equity valuation is justifiable, or in other words, is the equity market overheating?

For 4Q2021, we turn more "NEUTRAL" on overall Equity asset class in the near term, with certain key headwinds arising that could trigger profit taking activities. Despite that, we recommend investors to stay invested while maintaining a well-diversified portfolio according to their risk profiles and to take the opportunity by gradually gaining exposure to Equity asset class should the Global equity market volatility increase. Over the medium to long term, we remain "OVERWEIGHT" in Equity over Fixed Income, which we will elaborate more in the later write-up.

Vaccination rate and Global economic growth accelerated but increasing Delta variant cases remain the major road bum

With the accelerated vaccination rate globally, the US White House announced on 20 Sept it will soon allow entry to most foreign air travellers as long as they are fully vaccinated against COVID-19. This would further support economic re-opening. Together with the ultra-loosening central banks' monetary policies and the huge governments' fiscal spending since the pandemic outbreak, the advanced economies have led the overall growth (CHART 3). However, the Asian peers were interrupted by the increasing Delta-variant cases and the temporary lockdowns that cause supply disruption in near term and hence, offset some of the strong recovery momentum since second quarter last year.

CHART 2 – Share of people received COVID-19 vaccination as of 18 Sept 2021

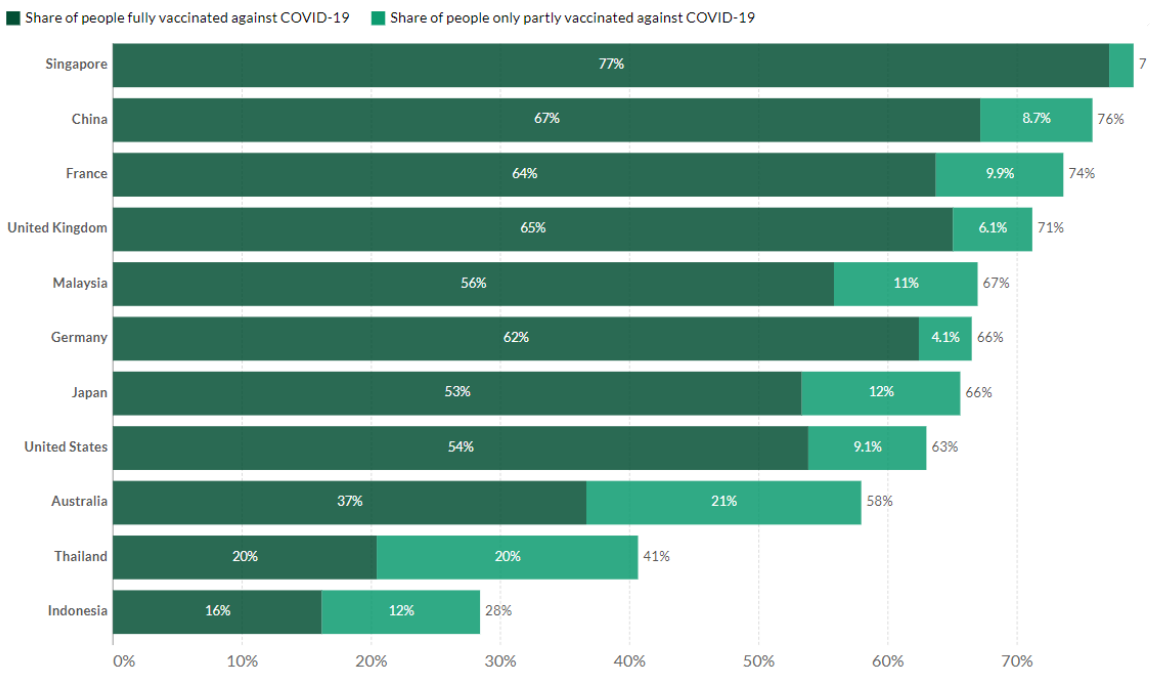
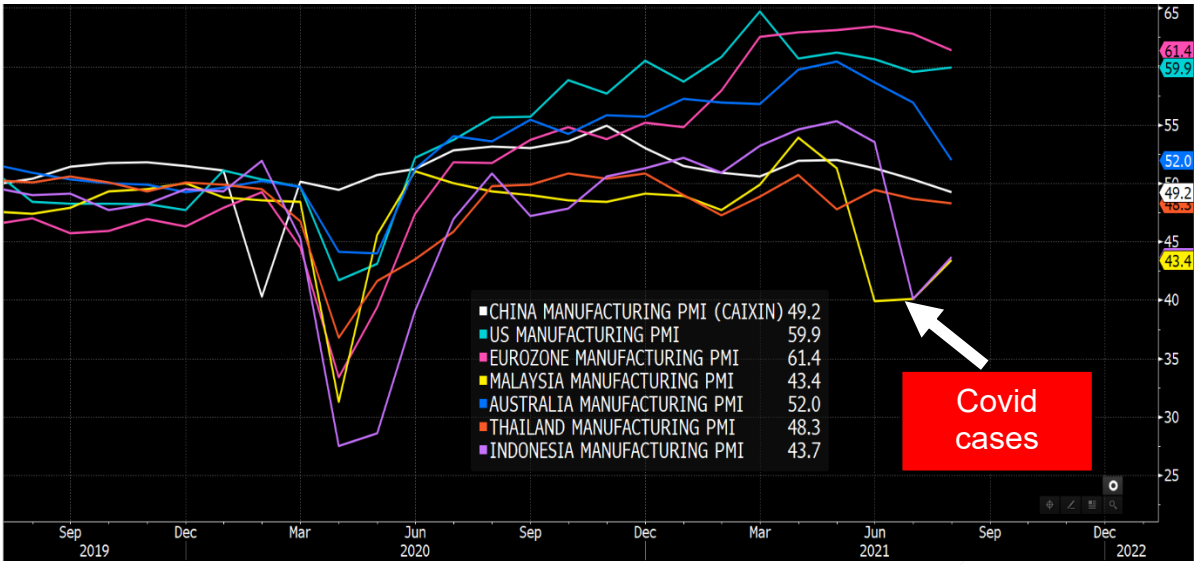


CHART 3 – Global manufacturing activities, with Eurozone and the US leading the strong recovery, but certain Asia Pacific countries were interrupted by increasing Delta-variant COVID cases:



Source: Bloomberg – 25 Aug 2021

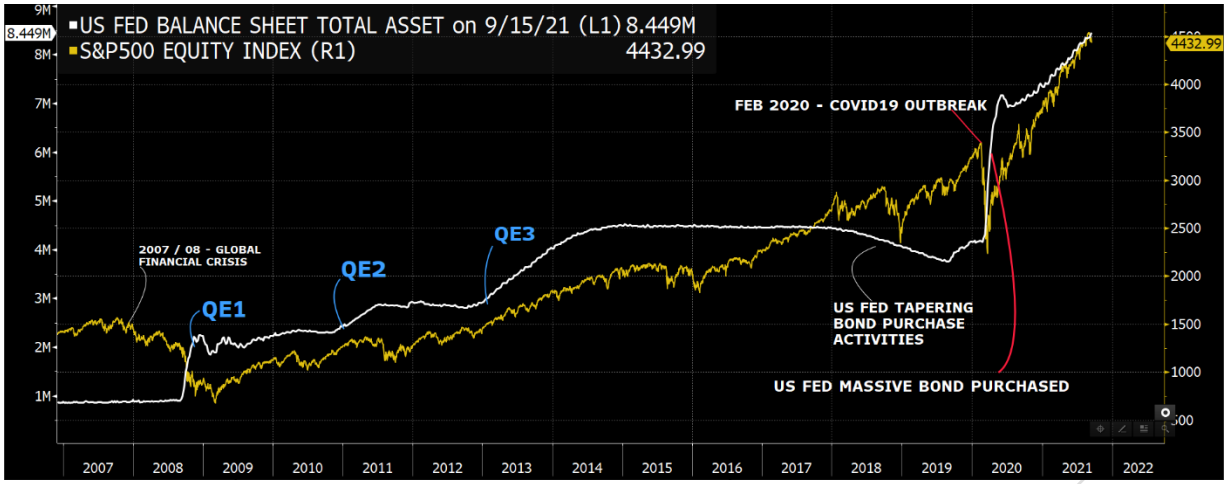
US Fed and European central banks maintain low interest rate for longer but could start tapering off bond purchase programs

The speedy recovery in the financial market as well as economic activities should be given credit to both the central banks prompt monetary loosening measures and the generous government fiscal spending plans.

Though we expect the US Fed and ECB would maintain their official interest rates low, nonetheless, both the US Fed and the ECB have signalled to start tapering off their bond purchase program moving into 2022 when the recovery is taking hold and inflationary pressures is structurally higher. We think US bond tapering will begin end of this year; the first US rate hike will come in 2023.

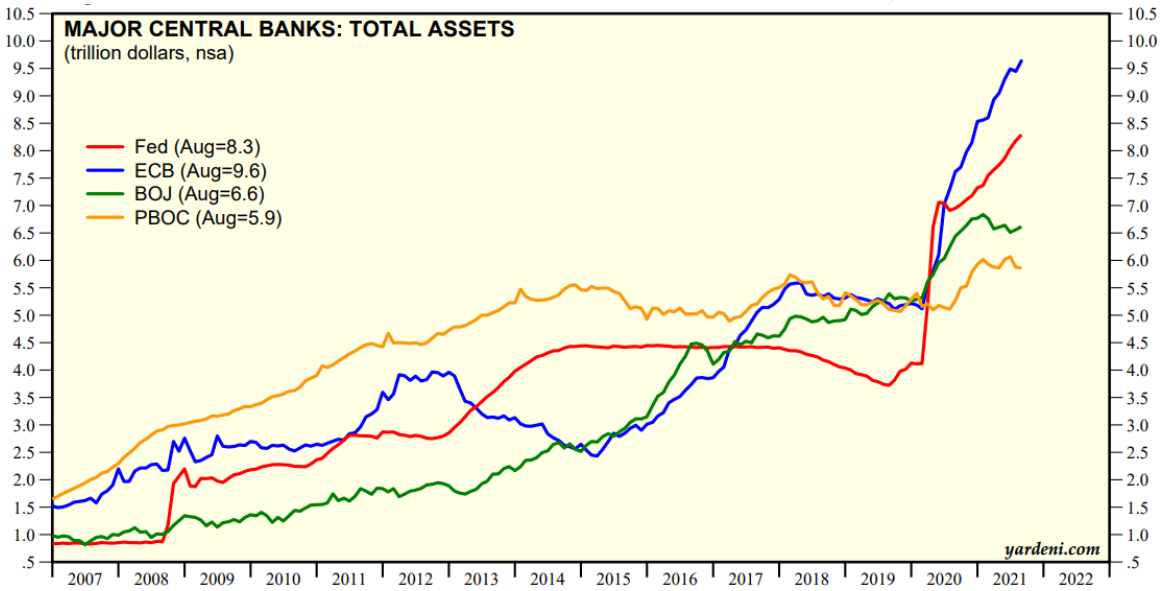
The US fed is currently purchasing USD120 bil worth of US government bond and mortgage back securities, effectively injecting huge amount of liquidity into banking system and keeping the borrowing cost low to support the recovery of the economy from pandemic outbreak. When the US Fed signalled that they would “slow” down the bond purchase program, although it is effectively “still” injecting liquidity, but in lesser amount, the market could perceive this as a “tightening” measure, which could increase equity market volatility (eg, Equity market sell-off).

CHART 4: US S&P500 equity index vs US Fed balance sheet total assets



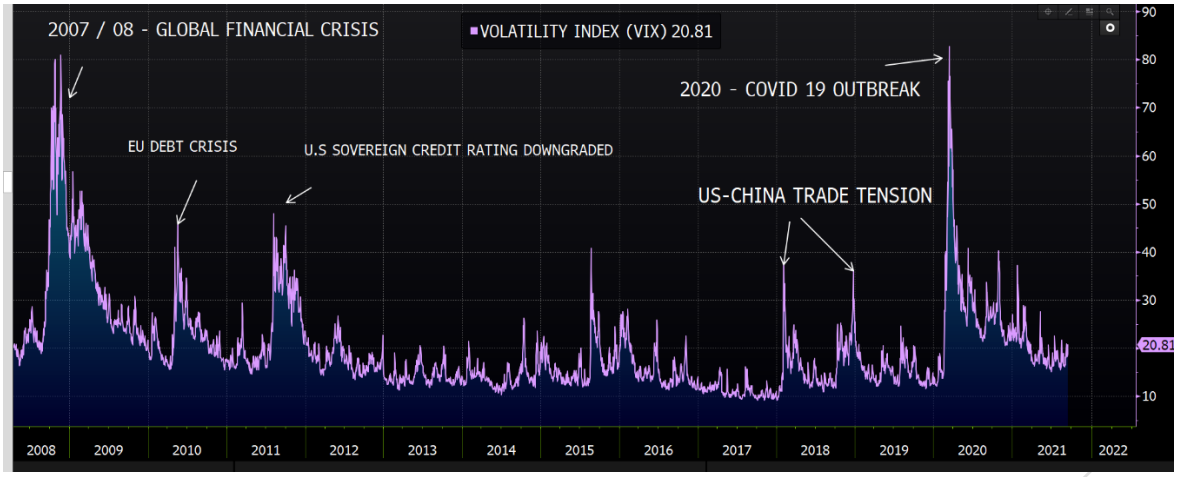
Source: Bloomberg – 19 Sept 2021

CHART 5 – Major central banks balance sheet, especially US Fed and European Central Banks (ECB) have been expanding since the COVID-19 outbreak



Source: Haver Analytics, Yardeni Research – 19 Sept 2021

CHART 6 : S&P500 Volatility Index has come off since Mar 2020



Source: Bloomberg – 19 Sept 2021

Government Fiscal Spending Plans Continue to Support Consumer Spending

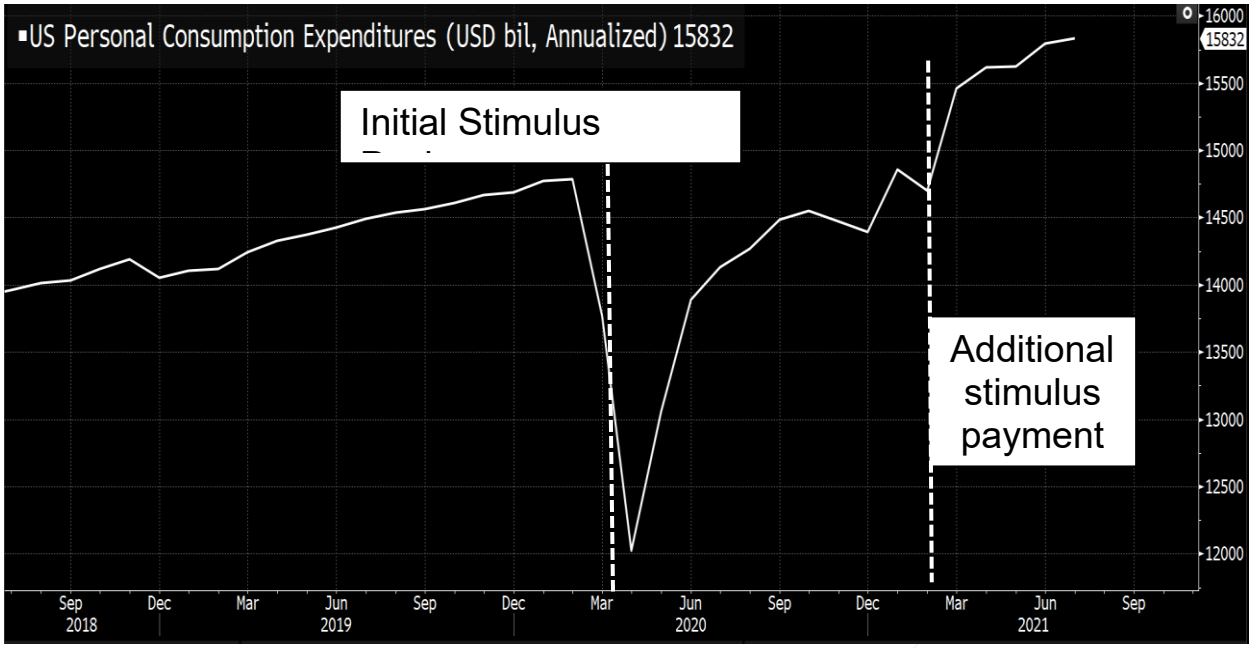
On 11 Mar 2021, President's Biden USD 1.9 tril American Rescue Plan (ARP) was approved by the US Congress, providing USD1,400 checks to eligible American. The bill also includes health-insurance subsidies, child-care tax credits, extension of supplemental unemployment benefits into September, and the USD 360 bil for state and local government.

On 31 Mar 2021, President Biden proposed the American Job Plan (AJP) worth USD 2.3 tril, covering 8-years of investment in building better transportation infrastructure, research & development, manufacturing and elderly care. In addition, the president has also proposed the American Families Plan of USD 1.8 tril, spanning across 10 years, covering universal pre-school, extension of childcare credit, free community college, medical leave etc. Though the Republican would likely counter the offer with smaller packages, should the above spending plan been approved, this could further help to sustain the economic growth.

Since the April 2020, governments across the globe have pumped in about USD 2.9 tril of excess savings into consumers' accounts. For the U.S. alone, on top of the USD 900bil relief bill passed in December 2020, and the more than USD 2.5 tril aid authorized during ex-president Trump, excess saving will boost from USD 1.5tril to USD 2.1 tril. That will help to 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 economic growth.

Source: Whitehouse.gov, CNN -27 Apr 2021, Investopedia. CNBC – 2 Sept 2021

CHART 7 : US consumer spending were boosted by fiscal stimulus



Source: Bloomberg Data – US Consumption data : SAAR in USD bil as of 30 July 2021.

Increasing fiscal spending plans to be balanced with increasing taxes

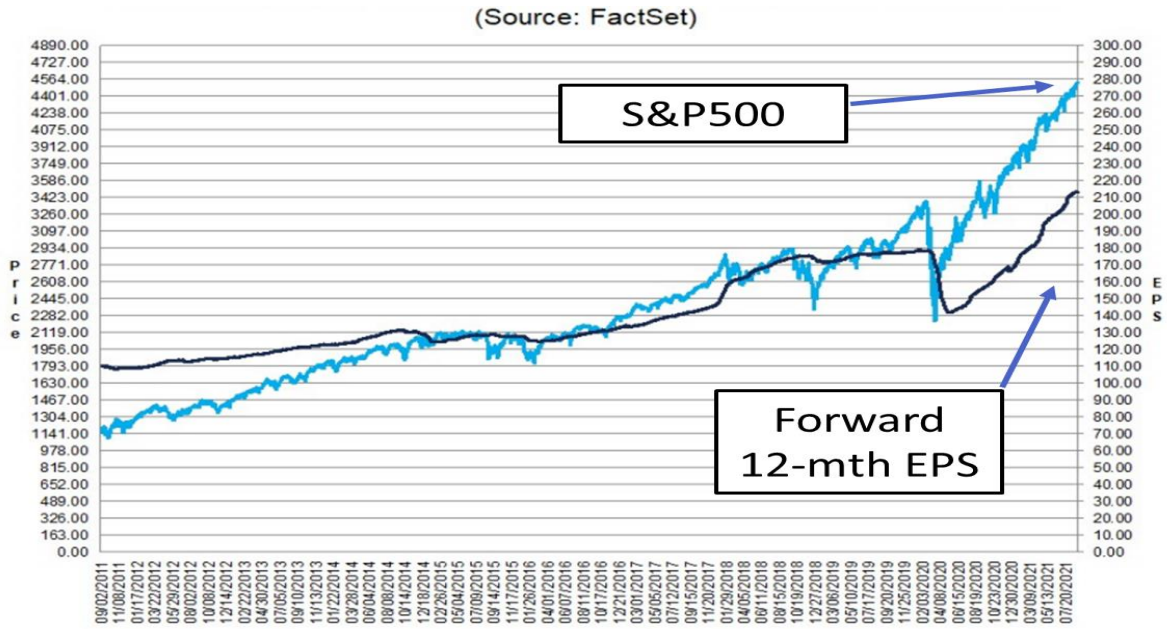
President Joe Biden has proposed to increase the corporate tax rate from currently 21% to 28% and also lifting the tax rate on foreign income (Global Intangible Low Taxed Income) to fund his nearly USD 4 trillion multi year fiscal spending proposal. While it's still uncertain his proposal could be passed by the US congress, the US corporate earnings growth could be reduced by around 5% to 9%, depending on the sectors, estimated by Goldman Sachs.

Reported 2Q2021 corporate earnings growth remained strong, but is expected to slow moving into 2022

Within the S&P500 companies that reported 2Q2021 actual results, 87% of them have reported a positive EPS surprise and 87% have reported a positive revenue surprise. The 2Q2021 earnings growth recorded at +90.9% (vs estimate of +61%), led by Energy, Industrial, Consumer Discretionary, Financial and Material sectors.

However, for 3Q2021, the overall estimated earnings growth, though remain high at +28.1%, but expected to slow down to +21.6% in 4Q2021 and on average +9.3% in year 2022.

CHART 8 : US S&P500 index level vs Forward 12-Month Earnings Per Share (EPS)



Source: Factset – 3 Sept 2021.

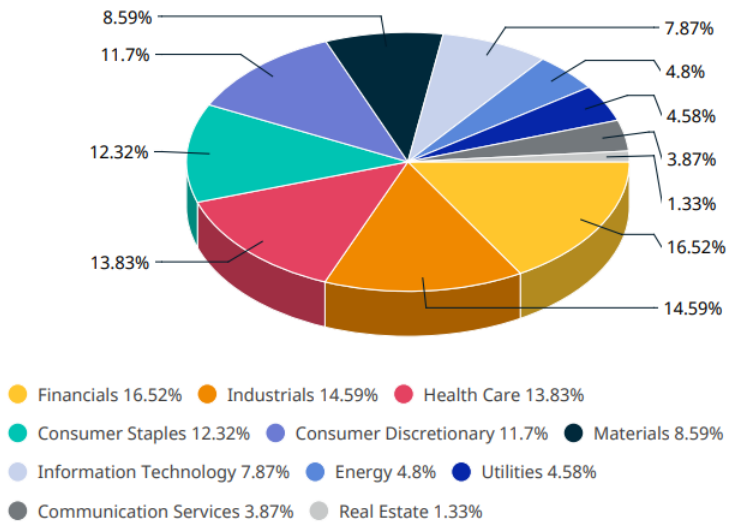
Within Global Equity, we upgraded Europe to short term "OVERWEIGHT", while maintain longer term "NEUTRAL".

In Europe, rapid vaccination rate, re-opening of economy and loosening monetary policies continue to be supportive of its manufacturing and economic activities. In addition, based on the MSCI sectorial exposure, Europe has the most exposure to the cyclical sectors with relatively more attractive equity valuation, such as Financial, Industrial, Material and Energy, collectively called the "Value" sectors.

Should the re-opening of the global economy and the vaccination rate continue to expand, these "Value" sectors should be better supported as compared to the relatively more expensive "Growth" sectors, which were benefited the most during the pandemic lockdown in 2020, and are represented by Information Technology, Communication Services and Consumer Discretionary (for example – Online retail, Amazon).

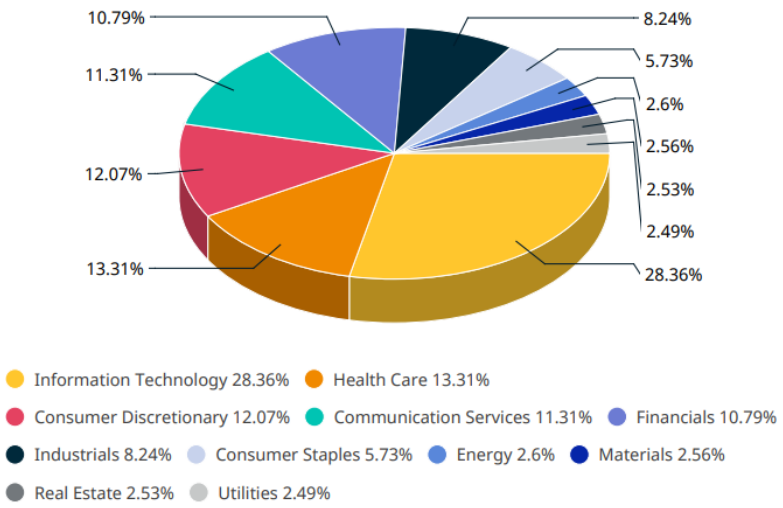
Although "Growth" sector stocks commanded relatively higher earnings multiples (higher valuation in term of forward Price to Earnings ratio), however, over the longer term, these sectors did show superiority in generating better revenue growth, margin and cash flow generation. Therefore, we maintain long term "OVERWEIGHT" for US Equity.

CHART 9 – MSCI Europe Equity Index Sectorial Exposure



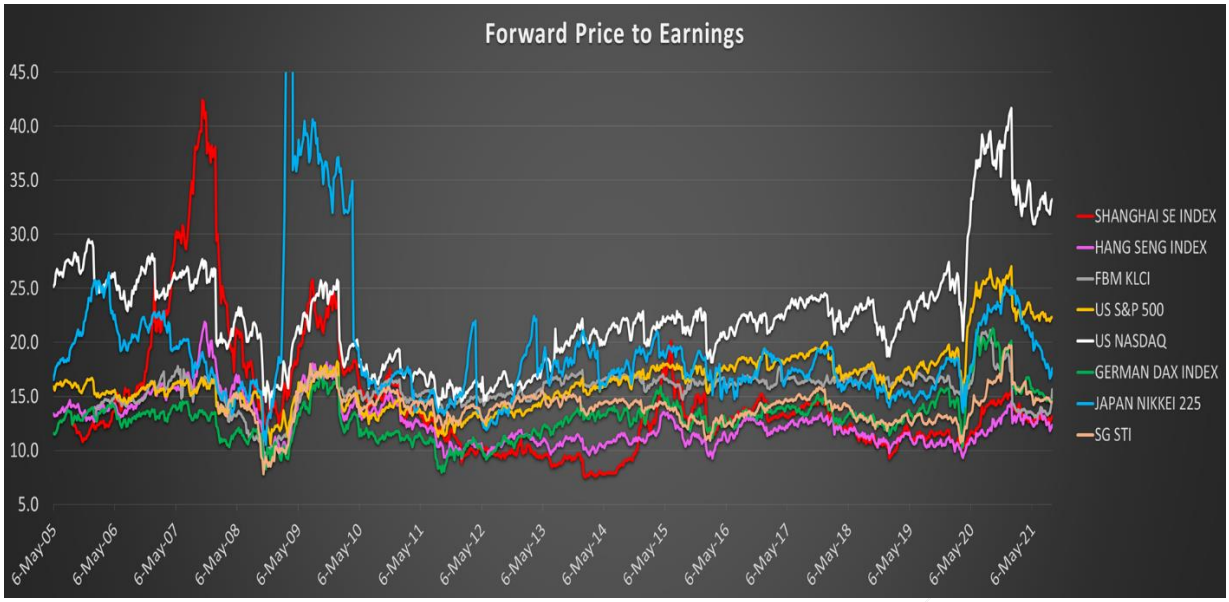
Source: MSCI indices Factsheet – July 2021

CHART 10 – MSCI USA Equity Index Sectorial Exposure



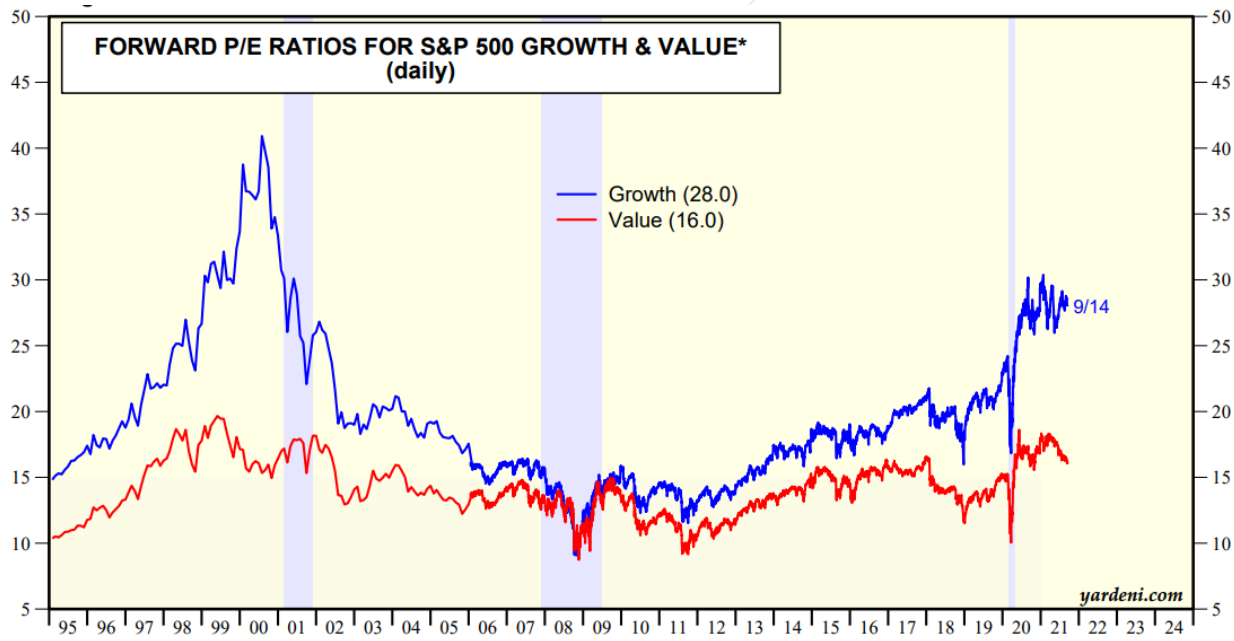
Source: MSCI indices Factsheet – July 2021

CHART 11 – Equity Valuation : Forward Price to Earnings Ratio for Germany Dax Equity Indices has come off



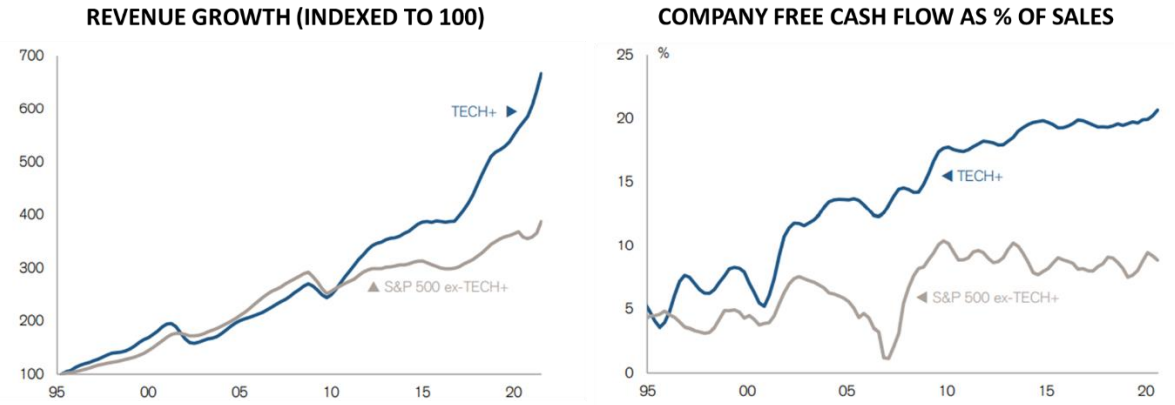
Source: Bloomberg – 19 Sept 2021

CHART 12 – "Value" sectors are trading at a discount to the "Growth" sectors



Source: yardeni.com – Sept 2021

CHART 13 - 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

Equity asset class is still relatively more attractive when compared to Fixed Income yields

With the unprecedented ultra-accommodative central banks monetary policies and government stimulus packages being deployed since the pandemic in 1st quarter last year, that partly justify the higher valuation of equities. So, in terms of yield between overall bond yield and equity earning yield, which one is relatively more attractive?

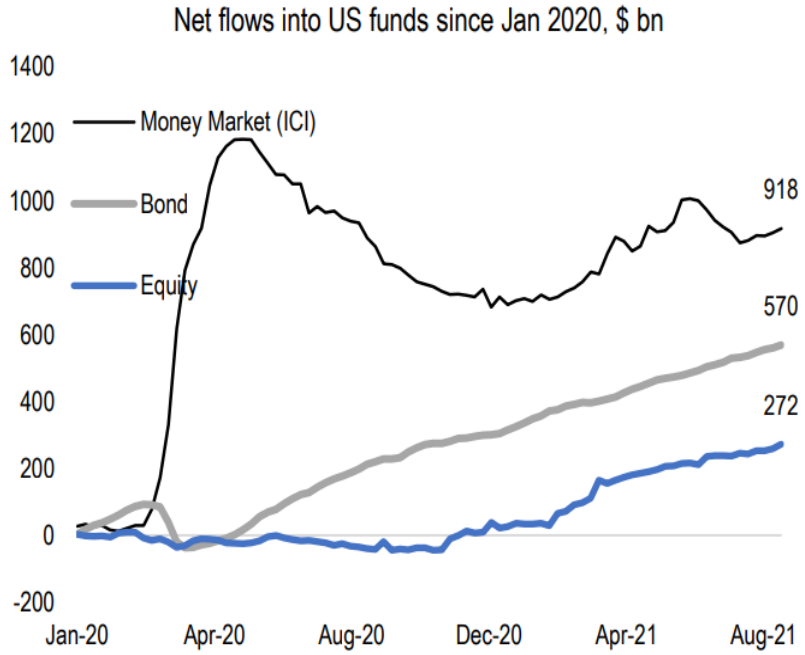
Comparing between the company earnings yield (Earnings per share divided by share price) and the US Government bond yield, despite the recent spike in bond yield, equity asset class is still relatively more attractive. In addition to that, historically speaking, when equity market peaked during times when the bond yields were at much higher levels, that could cause higher equity volatility when investment fund flow switch from equity to bond. However, the current 10-year US government bond yield is trading at around 1.3%, as compared to the stock dividend yield of 1.74% under MSCI World Equity Indices.
In terms of the overall net fund flow into equity, the EPFR data does not show that the net fund flow into Equity was excessively high.

TABLE 1 - Equity dividend yield vs bond yield

Stock Index	MARKET PEAK DATE	STOCK DIVIDEND YIELD	10-YEAR US 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	**Sept 9, 2021**	**1.74%**	**1.31%**

Source: Bloomberg data –Sept 2021

CHART 14 : Net fund flow into Equity not excessive



Source: EPFR, Credit Suisse research – 25 Aug 2021

REGIONAL EQUITY –

We downgrade short term to NEUTRAL, remain OVERWEIGHT longer term

KEY POINTS:

- We downgrade short term to NEUTRAL due to continued regulatory uncertainty in China.
- We remain OVERWEIGHT longer term as (1) COVID cases are declining in most parts of the region (2) rising commodity prices is a tailwind for Asian commodity exporters through rising terms of trade, stronger growth, and improvement in fiscal and current account balances (3) favourable valuation relative to Global equity.

Increasing regulatory risk in China

China's economy has come through the Covid-19 shock stronger than global peers, just as it did after the global financial crisis. China is prioritizing the quality of growth over quantity, by pushing through reforms that could weigh on growth in the near term but potentially improve the quality in the long run.

China equities have underperformed global peers, mainly due to the increasing regulation related to crackdown on big tech companies' monopolistic and abusive behaviors (antitrust), data protection, labour rights & well fair by ordering the ride-hailing company to pay the workers better salary and content controls that mainly impacting the internet/software sectors.

On the government deleveraging efforts to guide capital allocation away from less productive sectors, the regulator has imposed measures such as the "3 Red lines" to place limits on the extent to which the developers can grow their debts. The 3 thresholds are : 1) Total liabilities to Asset ratio of lower than 70%, 2) Net debt to equity of lower than 100%, and 3) cash to short term debt ratio of at least 1 time. The further curbing on housing speculation have also negatively impacting the sectors to rein the red hot real estate market.

To reduce the cost of raising a kid amidst relaxing rules to encourage the Chinese couples to have the third child, the regulator has also crackdown on the highly profitable after school tutoring (AST) sectors by converting these AST companies into non-profit entities by end 2021, announced by the Ministry of Education.

China Securities Regulatory Commission Vice Chairman Fang Xinghai said recent actions were to strengthen regulations for companies with consumer-facing platforms, and improve data privacy and national security. He further defended the moves such as those aimed at the education and gaming industries as meant to reduce social anxiety. Fang also reassured the stricter rules are not aimed at stifling technology companies or private sectors.

The uncertainties arising from the increasing regulation and causing slower economic growth near term are the main reasons we lowered the short term Regional Equity to NEUTRAL. Over the longer term, we maintained Regional Equity's OVERWEIGHT recommendation. 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.

Differentiating between the priority and non-priority

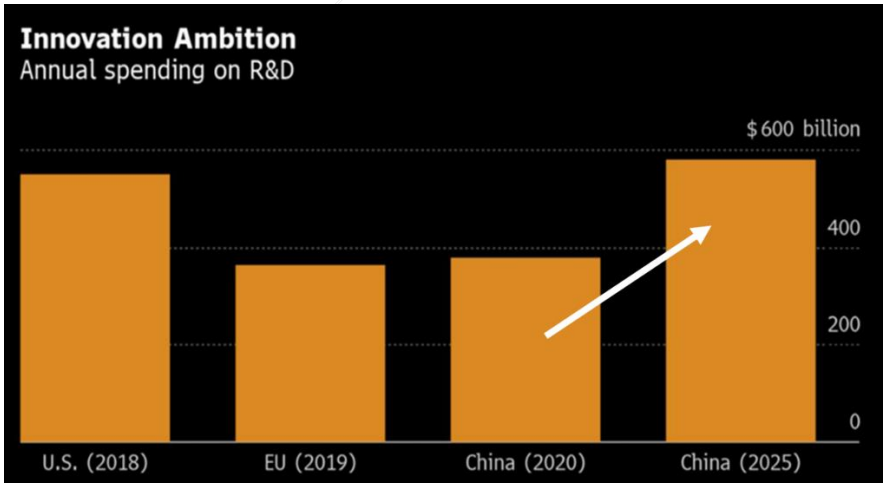
With that, investors would need to rethink the sector allocation which are differentiating the sectors with "Policy Priority", "Low" or "High Policy Risk", and also consider about the sectors' prospect over the longer term (refer to TABLE 2).

TABLE 2 : 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: Bloomberg – Sept 2021, Societe Generale – 3 Sept 2021

CHART 15: China 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 the U.S. spent in 2018



Source: Bloomberg – 12 Mar 2021

TABLE 3 : China incentivized domestic corporate to develop its semiconductor industry

Carrots, not sticks

Aggressive incentive schemes encourage growth in China's chip industry.

Category	Key measures
Chip manufacturing	• Exempt from up to 10 years of corporate income tax *(For chipmakers operating for more than 15 years, working on 28-nm chips or smaller)* • Zero import tax for materials and consumable spare parts used in chip production equipment, and construction materials for clean rooms
Chip design	• Exempt from corporate income tax for two years after turning profitable
Chip-design tools	• Exempt from corporate income tax for two years after turning profitable
Education	• Government has elevated the study of semiconductors and related engineering to a "first-class" degree • Now more than 25 national-model microelectronics colleges across the country, from only nine in 2015 • Tax incentives offered to semiconductor companies collaborating with those colleges and channeling industry people to teach there, growing China's talent pool

Chip production process	Chinese players	Foreign incumbents
Design tools *(Electronic design automation tools, or EDA)* Software tools for chip designers to map out their ideas into blueprints	Empyrean, Xpeedic, X-Epic, Shanghai Hejian Industrial Software, Advanced Manufacturing EDA	Synopsys *(U.S.)*, Cadence Design Systems *(U.S.)*, Siemens EDA *(Germany)*, Ansys *(U.S.)*
Design *(Including IP blueprints)* Use EDA tools to design integrated circuits	Huawei's HiSilicon Technologies*, Will Semiconductor, UNISOC, Goodix	Apple's chip design arm, Nvidia *(U.S.)*, Qualcomm *(U.S.)*, MediaTek *(Taiwan)*, Arm *(U.K.)*
Manufacturing Produce chips based on chip designers' blueprints	SMIC*, Hua Hong, Yangtze Memory Technologies, ChangXin Memory Technologies, and more	TSMC *(Taiwan)*, Intel *(U.S.)*, Globalfoundries *(U.S.)*, Samsung *(South Korea)*, SK Hynix *(South Korea)*, Micron *(U.S.)*, Kioxia *(Japan)*, and more
Packaging and testing Final assembly and testing functionality	JCET, Tongfu Microelectronics, Tianshui Huatian Technology	ASE Tech Holding *(Taiwan)*, Amkor *(U.S.)*

*Added to U.S. Entity List

Source: Nikkei Asia, Bernstein Research, Government Announcement – 5 May 2021

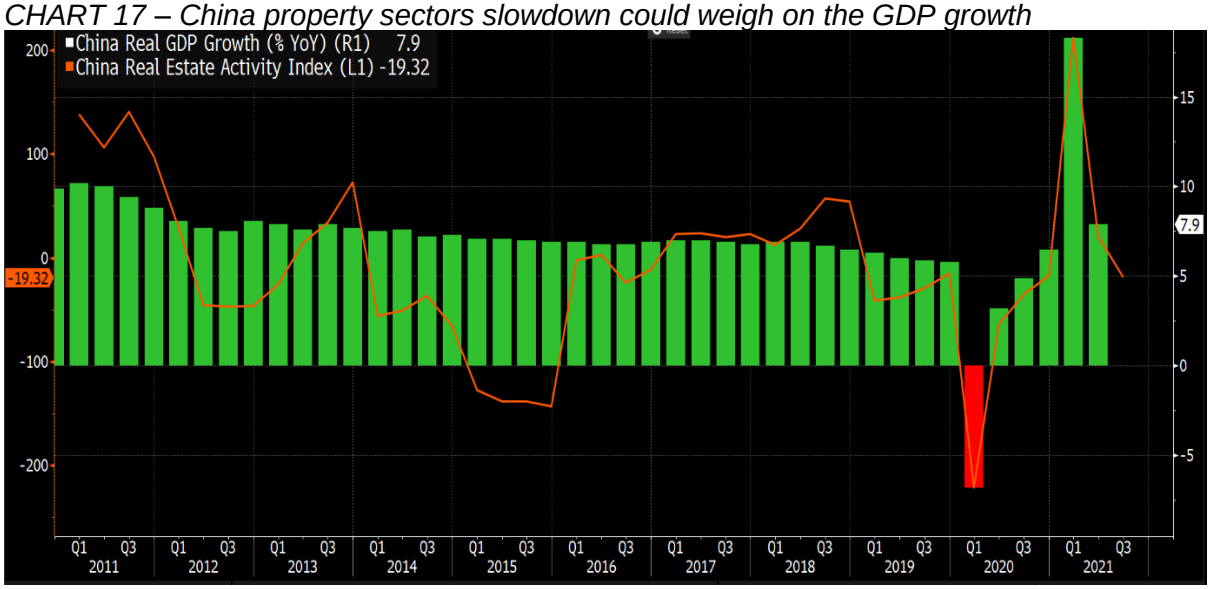
China Evergrande contagion concern and the People's Bank of China (PBOC) monetary policy bias to loosening

With the onslaught of regulation such as the Three Red Lines as mentioned, Evergrande, one of China's largest and most leveraged developers, is on the verge of a painful debt restructuring and the worries on the contagion effect has hurt investor sentiments across the equity markets.

As of end June 2021, Evergrande had total liabilities of RMB 1,966 bil (USD 302 bil), with about one third of them in interest bearing borrowings (around 0.2% of the total China banking assets), and the rest owed to the contract liabilities (such as the apartment to be delivered to more than 1.5 mil homebuyers) and the trade payables & others (such as banks, contractors, trust products..etc). In terms of economic linkages, Evergrande is estimated to have RMB 1.2 tn worth of projects under development in over 200 cities, employ 3m people and work with over 8,000 companies.

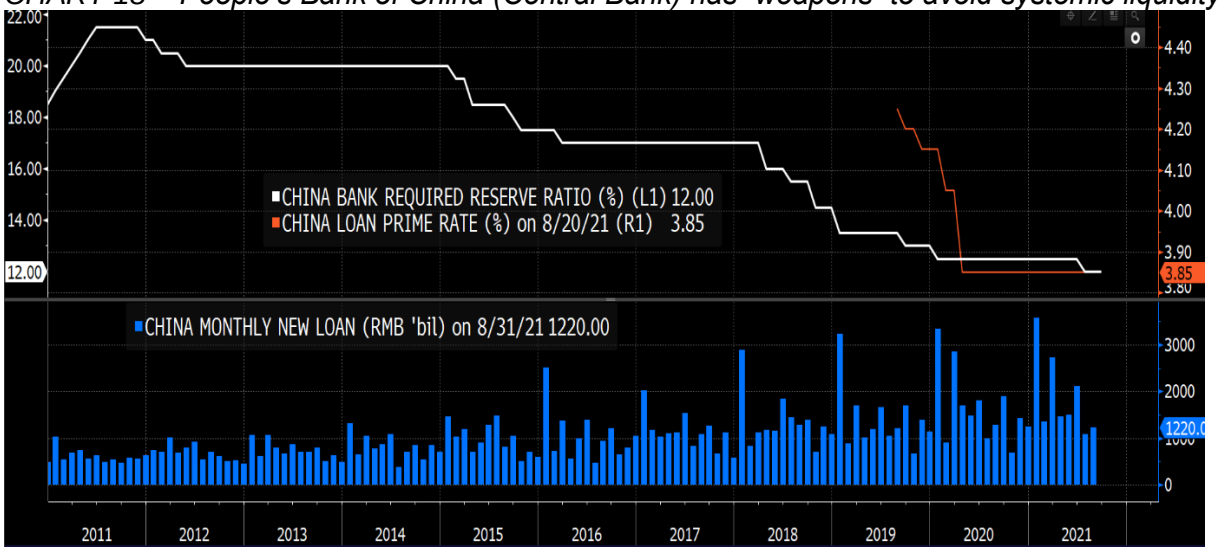
The slowdown in property sectors, which contributed around 30% of China GDP, including upstream and downstream, according to National Bureau of Economic Research working paper, could therefore, weigh on the GDP growth. Assuming a default by Evergrande had ended up triggering broader contagion, we believe PBOC would swiftly inject sufficient liquidity and push large banks to pass liquidity to smaller developers to cushion the contagion risks and GDP growth. As of writing, the contagion effects are mostly contained to the highly geared / high yield property developer bond issuers (refer to CHART 19).

CHART 17 – China property sectors slowdown could weigh on the GDP growth



Source: Bloomberg – 19 Sept 2021

CHART 18 – People's Bank of China (Central Bank) has "weapons" to avoid systemic liquidity risks



Source: Bloomberg – 19 Sept 2021

CHART 19 – The contagion risk of potential Evergrande real estate group debt default has so far been contained to the highly indebted property bond issuers.

Source: Bloomberg – 19 Sept 2021

LOCAL EQUITY

We maintain NEUTRAL for both short and longer term

KEY POINTS:

- We remain NEUTRAL both short & longer term.
- Our end-2021F KLCI target is 1629.
- New Covid-19 cases remain high but we project that the market is forward looking and will look to position in recovery stocks ahead of a full reopening of economy expected in Oct/Nov 2021.
- The ongoing rollout of the vaccination programs are expected to remain supportive of the market.
- Key potential catalysts are
    1. Tabling of the 12th Malaysia Plan on 27 Sep
    2. Normalization in consumer spending leading to strong rebound in consumer sector
    3. Government's incentives to boost the tourism sector post lockdown
- The potential implementation of additional taxes is a concern.

Government and Pakatan Harapan signed historic bipartisan MOU

On 13 Sep 2021, Prime Minister Ismail Sabri Yaakob's government and Pakatan Harapan (the largest Opposition bloc) inked a historic Memorandum of Understanding on Transformation and Political Stability. We are positive on the signing of MOU as it could lead to political stability, and if carried out will allow for parliamentary and institutional reforms which will be positive for the country in the medium to long term. It is also a sign that the 15th General Elections would unlikely to be held before 31 Jul 2022.

CHART 20 : Memorandum of Understanding on Transformation and Political Stability

Source: CGS-CIMB – Sept 2021

Potential capital gains tax on shares and windfall tax

The government is looking at a few ways in which it can increase its revenue, including implementing the taxing of capital gains on shares and also imposing a one-off higher tax rate on companies that have obtained extraordinary profits during the pandemic. We are of the view that should the government decide to impose a capital gains tax on the trading of shares in the Malaysian stock exchange by retail and institutional investors, this will be negative for the Malaysian equity market. This is because Malaysia will become less competitive due to the additional taxes, which could lead to further outflow of foreign funds. In addition, the one-off tax if implemented, investors are likely to identify gloves, petrochemicals, and commodity sectors as potential sectors that could be affected by the windfall tax. We estimate roughly that every 1%-pt increase in the tax rate for companies in the KLCI could shave around 1% off our earnings estimate for KLCI for 2022F and 15 points from our end-2021F KLCI target of 1,629 points. These concerns could dampen near-term sentiment on the market till Budget 2022 is announced on 29 Oct 2021.

End-2021F KLCI target is 1,629 points

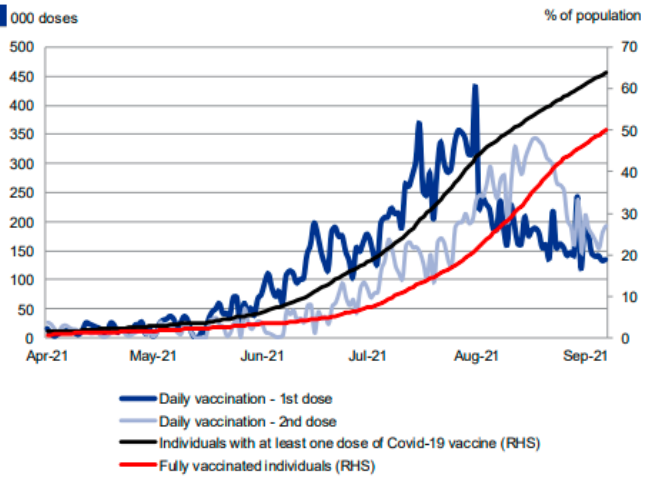
We recently raised our end-2021F KLCI target from 1,604 pts to 1,629 pts (based on 14.5x P/E), to reflect positive earnings revision post 2Q21 earnings season. As at 13 Sep, 65.4% of Malaysia's total population had received at least the first dose of the Covid-19 vaccine, and 53.5% had received two doses. On top of this, Malaysia's new Covid-19 cases are trending down. There are also plans to reduce the number of standard operating procedures (SOPs) in the National Recovery Plan (NRP) from 181 to only 10 soon as the country transitions to the endemic phase. This will likely revive business activities and corporate earnings in 4Q21F, in turn potentially boosting sentiment on recovery stocks.

CHART 21 : More states are transitioning into Phases 2-4 amid rapid progress of vaccination

NRP Phase 1	NRP Phase 2	NRP Phase 3	NRP Phase 4
KL*	Melaka	Negeri Sembilan	Labuan
Putrajaya*	Pahang	Perlis	
Selangor*	Kelantan	Sarawak	
Johor	Perak		
Kedah	Penang		
	Terengganu		
	Sabah		

**KL, Putrajaya and Selangor will enter Phase 2 of the National Recovery Plan (NRP) effective 10 Sep 2021*

SOURCES: CGS-CIMB RESEARCH



SOURCES: MOF, PMO, CGS-CIMB RESEARCH

Source: CGS-CIMB – Sep 2021

ALTERNATIVE – GOLD

We downgrade to NEUTRAL in the short term, maintain NEUTRAL in the longer term.

KEY POINTS:

- Gold should remain supported given its appeal as a hedge against inflation, ongoing pandemic risks, slower than expected central bank's tapering policies and potential risks resulting from large fiscal spending.
- Key risks include faster than expected economic growth with manageable inflation rate, which resulted in higher "real interest rate" environment, hence, increasing the opportunity cost of holding the precious metal.

It's not always a good news for gold when US Federal Reserve is on the path of tightening, or even just "signaling" it's going to do so sometime in the future, if history is of any guidance. By referring to Table 4, historically speaking, when the US FED started to signal tightening, or tapering, the Bond market would react by selling off the government bond, causing the yield to increase (bond price to decrease). Assuming inflation remain constant, the increasing real yield would therefore, increase the opportunity cost of holding the zero-interest earning Gold.

We have lowered the short term recommendation to NEUTRAL, while maintaining the medium to longer term recommendation as NEUTRAL. With the stubbornly high commodity prices such as energy, metals and soft commodity, should inflation fail to fade, the lower real yield should give support to gold (refer to CHART 22). In addition, Gold could also act as safe haven (refer to TABLE 5) should there be risk-off events that cause major sell-off in the global equity market.

TABLE 4 – Historically, when US government bond yield rose sharply, precious metals were negatively impacted

Period	Number of Days	US Government Bond Yield Change (basis points)	% Gold (XAUUSD) Change
12 June 2003 to 12 June 2007	1461	+218	83.12%
30 Dec 2008 to 5 April 2010	460	+193	29.54%
7 Oct 2010 to 8 Feb 2011	124	+135	2.28%
2 May 2013 to 5 Sept 2013	**126**	**+137**	**-6.79%**
30 Jan 2015 to 26 Jun 2015	147	+83	**-8.43%**
8 Jul 2016 to 15 Dec 2016	160	+124	**-17.40%**
7 Sept 2017 to 7 Nov 2018	426	+120	**-9.83%**
4 Aug 2020 to 11 June 2021	312	+95	**-7.02%**

CHART 22 – When inflation is high while bond yield remain low, low "real yield" could be supportive of the precious metal

Source: Bloomberg – Sep 2021

TABLE 5 – GOLD could act as safe haven and perform well during sharp equity market sell-off

Dates of S&P500 Biggest Declines	S&P500	GOLD
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 – Sept 2021

GREEN TRANSITION

KEY POINTS:

- ESG will continue to gain global investor attention

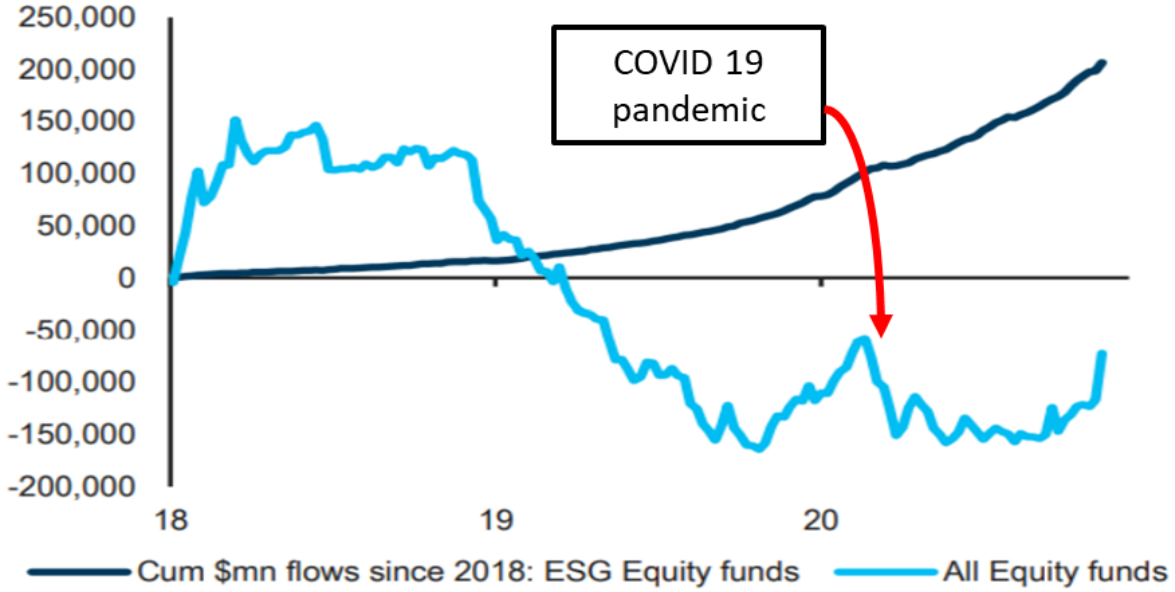
Based on Bloomberg New Energy Finance, approved funding from national and subnational governments to spur a green economic recovery has reached $966 billion as of 15 Mar 2021.
In the U.S, President Joe Biden pledged for a clean energy revolution through recommitting the US to the Paris agreement on climate change, proposing US *electricity* production carbon-free by 2035 and the country to achieve net zero emission by 2050 by spending USD2 trillion on upgrading 4 million buildings to improve energy efficiency, upgrading public transport by investing in electric vehicle manufacturing and charging points.

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. The Green Deal includes a € 1tn investment plan over ten years (2020-30).

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).

Therefore, Environmental, Social and Governance (ESG) related funds are likely to continue attracting investors' attention moving forward.

CHART 23: ESG fund flow since 2018



Source: EPFR, Barclays. bbc.com - 10 Nov 2020, CGTN – 24 Sept 2020; Soc Gen – 23 Nov 2020; Politico.eu – 20 Oct 2020, BNEF – 15 Mar 2021

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 24 : 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.

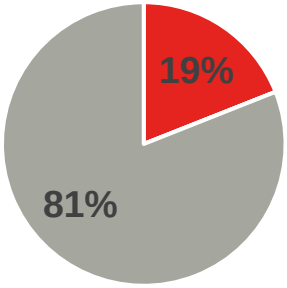
US Dollar	*Push and pull of Fed Speculation - Dollar has been a beneficiary of global growth concerns stemming from virus worries and speculation over the Fed. Declines were mainly driven by Fed speculation readjusting on comment that inflation is transitory and better global growth expectations. The usual relationship of risk on, bad Dollar and risk off, good Dollar remains. In the near term, should concerns over virus dissipate, Dollar will decline, but can be limited as speculation over the Fed can shift forward given bright growth expectations which can be boosted by further infrastructure spending.*	*Technical charts show Dollar trending higher within a rather near horizontal channel. Longer term trend points towards Dollar rising gradually with episodes of declines within the channel. Currently prices are narrowing towards the topside and should multiple tests of the top occur during the coming quarter, a channel break will result in Dollar targeting 98.00*
EURUSD	*Brighter outlook amidst worries - EUR movement cycle suggests an upward turn in the coming quarter and coincides with near term positive growth expectations. EUR gains will be limited by concerns over the virus resurging over the winter months amidst speculation over the ECB's December review of their pandemic purchase programme. Over the longer-term EUR is expected to move lower as US growth ramps up powered further by infrastructure spending while Europe reverts back to trend leaving on balance a tighter Fed and higher yields to erode EUR strength.*	*EUR looks set to continue lower, moving both ways within the channel. EUR overall trend is lower within the channel. A move to exceed either side of the channel has seen a quick reversion back to trend and affords an opportunity to shift positions in the opposite direction should it occur again. Near term trend is positive with the trough higher than the previous cycles and can lead to a test of the channel upside. A break above the channel can move as far as the 76.4% retracement or 1.2110 before reverting back down. Resistance at 1.1960 is also strong on the upside. This in combination with the overall downward trend reflected by moving averages would suggest that a move higher even one that exceeds the channel top will soon revert back lower.*
USDJPY	*Driven by external forces - Both the Dollar and US yields have been a major influence on USDJPY and so have better sentiments from economies shifting their strategies towards COVID given increasing vaccination rates. We expect the Dollar and US yields to rise over the coming year and along with a robust global economic environment will result in upside pressure on USDJPY. Risks of a virus resurgence during the winter months should keep a lid on any significant Yen weakness. While growth is expected to move higher, inflation is expected to remain low keeping the*	*Prices narrowing within a right-angle triangle, trigger to target higher. USDJPY has been narrowing towards the apex of a right-angle triangle. The move below the triangle remains within the confines of its recent trading range and will revert back up. A move above 111.00 will trigger the triangle resulting in a target of 114.00 along with the underlying trend pointing higher.*

	BOJ's policy steady for the foreseeable future.	
GBPUSD	*Reflecting positive outcomes - GBP has been relatively stronger against its peers this year due to the fading of Brexit risks and a successful outcome to the government's approach against COVID-19. The economy continues to grow at a healthy clip and the BOE is expected to end its bond purchases followed by raising rates next year. Improving global growth expectations on economies reopening can also give it a boost in the near-term. Longer-term expectations are lower however, given that GBP gains since last year have reflected better economic outcomes and the Dollar tracks higher on the Fed progressively removing accommodation and speculation over a rate hike ramps up.*	*Downward channel target remains valid concurrent with possible upside triangle target. The upside channel break has a target of 1.3240 which is also the 61.8% retracement. At the same time prices are narrowing into a triangle formation with a bias towards the upside should a bounce occur from the current base. The upside target is as far as 1.4200 but will continue to remain below the channel. Both way technical indicators point towards GBP ranging largely between 1.3500 and 1.4000 in the intermediate term before reverting lower towards the channel break target thereafter*
AUDUSD	*Firming on cautious optimism - AUD has benefited significantly during episodes when global and domestic growth expectations turned higher. Similarly, when these expectations turned lower so did AUD. The currency also saw shifts either way reflecting shifts in Fed taper speculation. Overall weakness from March was largely a result of profit Fed speculation progressing while the rise of COVID-Delta forced a return of restrictions both locally and in Asian trading partners. Commodity price declines have also played their part. Virus concerns dissipating in the coming quarter can reassert AUD's move higher but then to revert lower throughout next year as US Fed tightening expectations heats up to boost the Dollar. AUD is expected to be relatively strong against its peers given the positive global economic outlooks and strong external demand stemming from US infrastructure spending.*	*Two-way movements before turning lower. AUD has adjusted back lower following a strong upside trend. The move to break the upside channel has already met its target and was followed by sharp pullback higher. AUD has since turned lower to find support at 0.7250. A shift higher from here will see AUD revisiting its recent higher near the 76.4% retracement or 0.7500 and breaking above it will see it moving to only as far as 0.7600 owing to strong resistance there. Given the moves within the support and resistance levels, we can see AUD being rangebound before resuming lower as long as the upside resistance holds. The resumption lower along will see it resuming lower to target the 0.7000 handle.*
USDMYR	*Domestic factors battle external pressure - Ringgit has benefited significantly from global growth expectations rising from reopening and vaccine announcements. Ringgit trend moves remain tied to the Dollar and its ebb and flow has been the source of the Ringgit's two-way movement. Recently sharp weakness was due to concerns over economic*	*Pullback likely from channel bottom towards channel target, longer term upside bias remains. USDMYR has turned sharply higher on a firm move above the 38.2% retracement and moved to as high as the channel bottom before pulling back. The turn higher is similar to the pair's move to break below the channel. The downside*

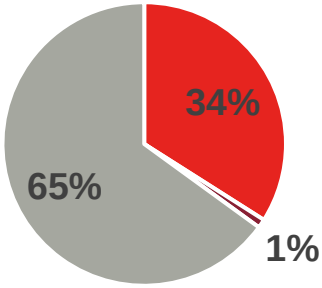
	growth as the country reentered lockdowns and consequently gained thereafter on reopening expectations amidst rising vaccination rates. Overall USDMYR has been elevated as the Dollar remains trending higher on expectation of the Fed reducing asset purchases along with strong growth performance. Ringgit can see gains in the near-term given the positive economic outlook and the Ringgit trading near its weakest levels in a year while longer term expectations are negative on Dollar gains and higher yields next year.	*channel target of 4.0880 remains valid so long as prices remain below the channel and resumes back down to target 4.1510 and breaks below it. The sharpness of the move also suggests a pullback to target the 38.2% retracement breaking which will send it down to test its support at 4.1510. Moving averages remain pointing higher and can only turn on a sustained move towards 4.1220 absent that, USDMYR finding support at 4.1510 will see it again resuming back up to target the channel bottom again.*
USDSGD	*Dollar to lead the way - The Singapore Dollar has largely tracked the Dollar movements this year while benefiting last year from an upturn in global growth expectations as countries emerged from lockdowns and followed by vaccine announcement. A weaker Dollar along with US growth turning higher and expectations of a Fed asset purchase adjustment drove Q1 Dollar gains and pulling USDSGD higher. Similarly shifting Fed policy expectation both towards maintaining policy with inflation expected to be transitory followed by anticipation of a reduction on persistently high inflation and positive growth outcomes caused two-way movements. USDSGD also saw upside pressure on a return of restriction measures and consequently moved lower as measures were eased and vaccination rates rose. Near term positive growth expectations can underpin Singapore Dollar gains this quarter while Dollar gains next year on the Fed progressively removing accommodation will drive its weakness.*	*Trend is higher with episodes of pullbacks. USDSGD remains on a low gradient upward trend which can result in episodes of moves lower towards the upward sloping red-support line. The recent move higher has invalidated the double top formation and near-term momentum can carry prices up to test the 38.2% retracement before pulling back. Should prices however revert back below the 23.6% retracement, we can see the momentum shifting lower towards its aforementioned support. Given the positive momentum amidst potential to move lower, any turn down towards the support would be a good opportunity to add USDSGD positions*

2H2021 MODEL PORTFOLIO

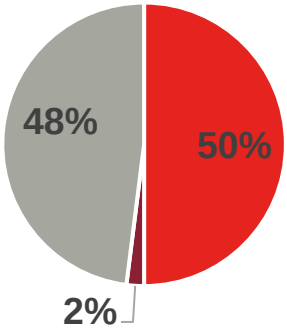
Defensive



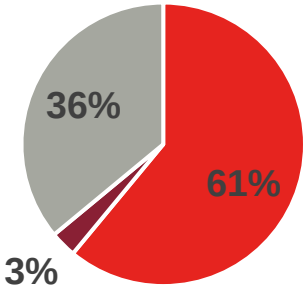
Conservative



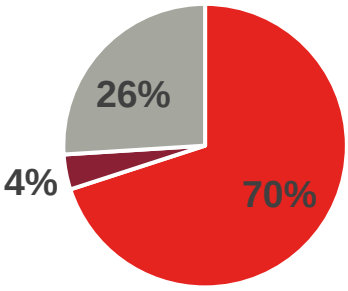
Balanced



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

	2020A	2021F	2022F
US	-3.5	6.4	4.9
Eurozone	-6.7	4.5	4.5
Japan	-4.7	2.4	3.0
China	2.3	8.4	5.7
Malaysia	-5.0	3.9	4.7
Indonesia	-2.0	3.5	5.1
Singapore	-5.7	6.6	4.3
Thailand	-6.9	1.6	3.2

Inflation Outlook

	2020A	2021F	2022F
US	1.2	3.8	2.5
Eurozone	0.3	1.9	1.4
Japan	0.0	0.1	0.4
China	2.5	1.5	2.5
Malaysia	-1.1	3.1	2.0
Indonesia	2.0	1.6	2.6
Singapore	-0.5	1.4	1.7
Thailand	-0.9	1.6	1.9

Policy Rates

	2020A	2021F	2022F
US	0.25	0.25	0.25
Eurozone	0.00	0.00	0.00
Japan	-0.03	-0.07	-0.09
China^	2.95	2.94	2.98
Malaysia	1.75	1.75	2.50
Indonesia	3.75	3.50	4.00
Singapore	n/a	n/a	n/a
Thailand	0.50	0.50	0.50

Currency Outlook

	4Q2021	1Q2022	2Q2022	3Q2022
DXY	92.00	93.00	94.00	96.00
GBPUSD	1.40	1.39	1.38	1.35
EURUSD	1.19	1.18	1.15	1.14
USDJPY	112	112	114	115
USDCNH	6.40	6.50	6.55	6.60
USDMYR	4.10	4.12	4.15	4.15
USDIDR	14200	14300	14350	14500
USDSGD	1.32	1.33	1.34	1.35
USDTHB	32.00	32.70	33.50	34.00
AUDUSD	0.76	0.75	0.74	0.72

Stock Indices

	End-2021
Malaysia KLCI	1629
Singapore FSSTI	3496
Thailand SET	1690

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

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.