

CIO Insights 2Q24

A Broadening Rally.

Lower US Rates

Our base case scenario of soft landing and gradual rate cuts is constructive for bonds and equities. Stay invested and deploy excess cash into multi-asset portfolios.

Bonds over Cash

At c.5% yield, bonds provide consistent cashflows to a portfolio. Stay with IG bonds, with average portfolio duration within 3-5 years. Expect total returns from bond coupons and capital gains to outperform cash deposits.

Equity Rally to Broaden

Unlike 2023's rally that was dominated by Big Tech, expect other sectors to join in the rally as rates trend down. Laggard sectors of energy and healthcare to benefit.

Tailwinds for Gold

Gold continues to offer favourable risk-reward. Tailwinds include persistent central bank buying, lower rates, and US dollar weakness.



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Executive Summary

Dear valued clients,

Our 2023 call for investors to put cash to work in investments continued to pay off in 1Q24.

Despite the shift in market expectations from seven rate cuts at the start of this year to just three cuts today, risk assets, particularly equities, continued to rally. Our thematic favourites of technology and AI, as well as quiet luxury, scored with hefty gains. Gold was also a strong performer for our portfolios.

As an interest-rate sensitive asset class, bonds did not register capital gains but continued to accrue interest income of more than 5% p.a. from investment grade corporates.

Barring an unexpected resurgence of inflation, a scenario of slow rate cuts amid a soft landing in the US economy bodes well for equities and credit. We advise investors to stay invested, and deploy any excess cash in well-balanced, diversified portfolios.

On equities, stay with profitable companies with deep economic moats. These may include sectors that are non-tech related, as we see the market broadening into other sectors, in particular, energy and healthcare.

On bonds, stay with A/BBB investment grade corporates with a measured exposure to BB+ rated credits. Given the inverted yield curve, the sweet spot for duration is in the 3-5Y region.

In this publication, we reiterate our call on quality Big Tech. Additionally, we dive into the various strategies within private markets, as well as the approach to fully capture the benefits of investing in private equity and debt within a well-diversified portfolio.

Enjoy the read and I wish you a steadfast quarter of investing.



Hou Wey Fook, CFA

Chief Investment Officer



Cruising Mode

Asset
Allocation
2Q24

A broadening of the current market rally is coming, fuelled by loose financial conditions and economic resilience. We retain a preference for bonds over income equities given its attractive risk-reward. Investors should gain exposure to private assets to enhance risk-adjusted returns.

Investment Summary 2Q24



Macro Policy

Fed's dotplot of 3 cuts through 2025 is in line with a soft landing. ECB could cut rates earlier on growth worries. Policy normalisation has begun at BOJ, China easing to continue.



Economic Outlook

Upbeat PMIs setting up for growth surprise globally amid stickier inflation. Visible uptick in Asia's exports. Additional stimulus needed to achieve 5% growth target for China.



Equities

US equity rally to broaden on strong earnings and share buybacks while pro-growth policies should support China equity comeback. Stay neutral Japan and underweight Europe.



Credit

Opportunities in IG credit, bank capital securities, and MBS. As fiscal dominance drives curve steepening, the sweet spot lies in A/BBB credit within 3-5Y duration.



Rates

Soft landing and gradual rate cuts to steepen yield curves in US and Europe. A policy shift in BOJ to lift JGB yields across the curve.



Currencies

Asian currencies to recover on turnaround in exports, a rising Yen, and a stable RMB amid a cycle of US and European rate cuts.



Alternatives

Capture enhanced returns from private assets through a well-paced, diversified programme across asset classes, strategies, and vintages.



Commodities

Oil price to stay firm on supply disruptions in Russia and Middle East. General commodity demand remains tepid as global economic momentum slows.



Thematics

We are in the early innings of an AI transformation. Semiconductors, cloud, cybersecurity, and automation to ride the wave.



Theme: Big Tech's New Paradigm

Big Tech's impressive performance is a manifestation of "Q-GARP" (Quality Growth-at-a-Reasonable-Price). Rising valuation in the Big Tech era necessitates a new narrative on what constitutes "reasonable". Ride the wave in Big Tech, AI, and Cybersecurity..



01. Asset Allocation.

Hou Wey Fook, CFA
Chief Investment Officer

Dylan Cheang
Strategist

The much-anticipated pullback in US economic momentum failed to transpire despite long-end Treasury yields ranging at 2008-10 levels. In fact, the combination of a red-hot US jobs market and robust wage growth has prompted the Fed to rule out policy rate cuts until May at least. And as expected, the central bank kept its decision-making process intentionally vague by insisting on the need to see “more good data” before acting.

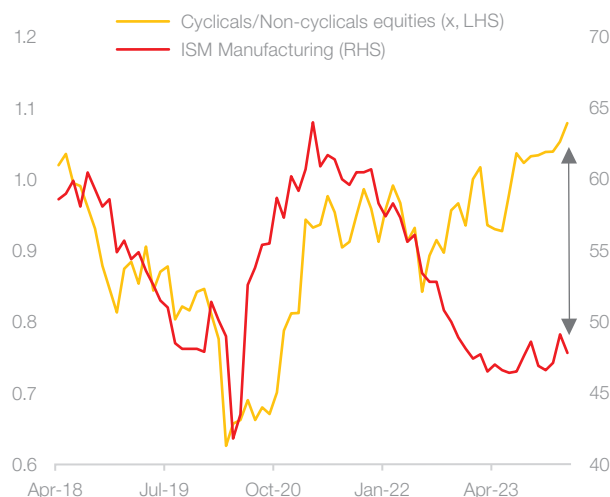
But without specifics on what “more good data” refers to, clearly, the bar for monetary easing has been set high and for good reason. As inflation falls towards the 2% target while unemployment remains low at 3.7% – the central bank has essentially fulfilled its dual mandate of maximum employment and price stability. In the words of Fed Chair Powell, this is indeed “a good economy” where there is little urgency in cutting rates.

But despite the Fed’s reluctance in declaring victory in its inflation fight while maintaining overall ambiguity on policy timeline, risk assets are already off to the races. Investors have swiftly priced-in the eventual Fed easing this year with the S&P 500 rallying 8% and US HY spread tightening 22 bps.

After such a strong rally, the pertinent question is: Have risk assets reached the “exuberance” stage?

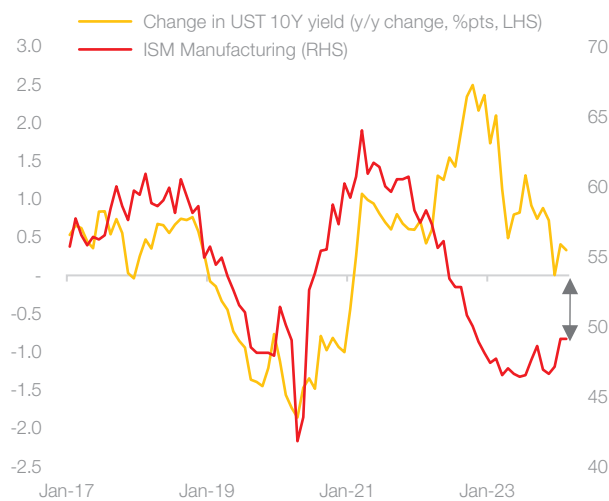
On the surface, market indicators do suggest some degree of froth in the market. The ratio for cyclical equities over non-cyclicals, for instance, is currently at a level which is more closely associated with ISM manufacturing of 64.5 (vs 47.8 currently). Similarly in bonds, yields are also at levels that are associated with stronger macro momentum. Evidently, there is a disconnect between the real economy and what markets are telling us.

Equity investors pricing-in ultra optimistic economic outlook



Source: Bloomberg, DBS

Fixed income investors similarly pricing-in more optimistic economic outlook



Source: Bloomberg, DBS

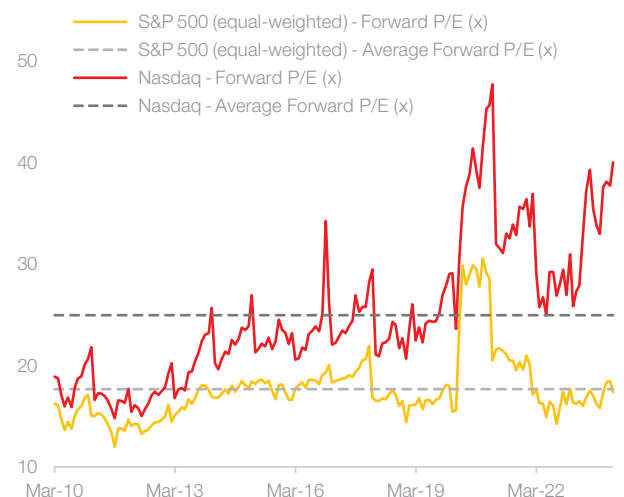
But nuances matter here. While equity markets appear exuberant if viewed from the lenses of broad indices, one has to be mindful that this year's rally is predominantly driven by a narrow group of technology-related stocks – the “Magnificent 7” (Apple, Alphabet, Amazon, Microsoft, Meta, Nvidia, and Tesla) which account for significant weights on the S&P 500. If the market is viewed from an equal-weighted basis, the picture is drastically different.

To set things in context, we analyse the prevailing valuations for Nasdaq and S&P 500 (on equal weighted basis). The Nasdaq is used to gauge the level of investors' exuberance on technology-related stocks while the S&P 500 (equal weighted) is positioned as a proxy for companies representing the real economy.

- Nasdaq – Valuation exceeding +2SD: The long-term average forward P/E for Nasdaq stands at 25.0x and the current level of 40.0x suggests that valuation has exceeded the two SD “expensive” mark
- S&P 500 (equal weighted) – Valuation below long-term average: Long-term average forward P/E for S&P 500 (equal weighted) stands at 17.7x and the current level of 17.4x is below its long-term average

The valuation numbers bring to light the huge bifurcations prevailing in markets. If one excludes the full impact from technology-related plays, valuation for non-technology companies in traditional industries are actually looking fair at this juncture.

Valuation for non-tech traditional companies looking fair at this juncture



Source: Bloomberg, DBS

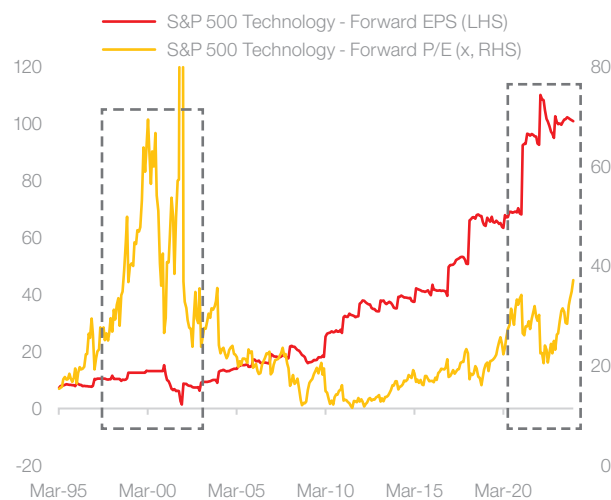
Now, if the broader equity market is not in exuberance stage, what about the tech space? Is a repeat of 2000's dot-com crash on the cards after the strong rally?

For baby boomers, in particular, the technology crash of 2000 was a painful episode. Understandably, it is only natural for one to question if the current AI-fuelled tech rally is a replay of the Internet bubble. But times have changed. Conditions today are vastly different from the late-90s, in particular on the corporate earnings front:

- To recap, using the S&P 500 Technology index as proxy for the technology-related space, the latter peaked in Mar 2000 during the dot-com bubble. On a 3-year time frame, the index has rallied 357% since Mar 1997 and this was underpinned by a 27% increase in forward earnings and 260% expansion in valuation multiple.
- In the current rally, the index has gained 63% on a similar 3-year timeframe to close at 3748.6 in Feb 2024. This up-move is underpinned by a 47% increase in forward earnings growth and 11% expansion in valuation multiple.

Taken together, data shows that the current bull run is supported by strong earnings fundamentals (as opposed to valuation multiples expansion) and hence, a repeat of 2000's tech crash is unlikely.

Dot-com bubble rally was predominantly valuation-driven while current tech rally is more earnings-driven



Source: Bloomberg, DBS

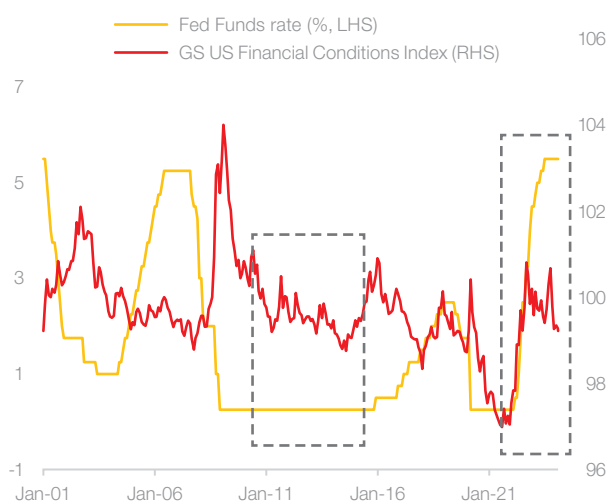
Given the absence of exuberance in “real economy” stocks, we believe that a broadening of the current rally is forthcoming and the drivers are:

- Loose financial conditions
- Low interest expense ratio
- Favourable portfolio positioning
- US economic resilience

Loose financial conditions augur well for corporate earnings trajectory. Financial conditions indices offer insights on the health of the financial system and by extension, the market's economic growth prospects. We adopt the Goldman Sachs US Financial Conditions Index (GSFCI) in our analysis and the key variables captured include Treasury yields, exchange rate, credit spreads, and equity valuation.

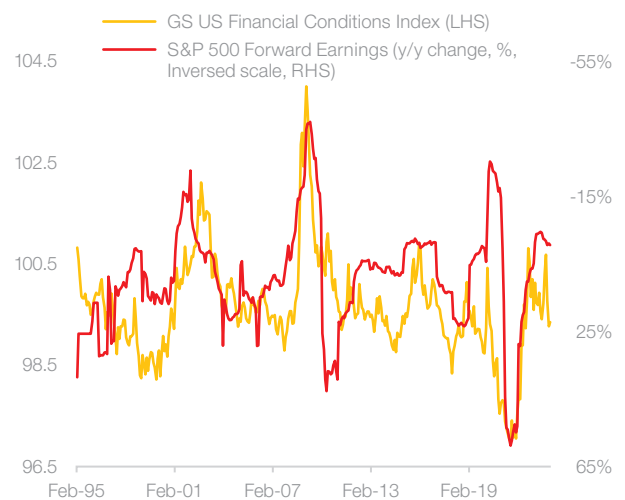
Despite bond yields staying elevated, US financial conditions have surprisingly remained loose. The prevailing level of 99.22 suggests that financial conditions today are similar to levels seen when the Fed Funds rate was languishing near the zero-bound. Clearly, the negative impact arising from elevated bond yields is offset by surging equity prices and narrowing US credit spreads.

Financial conditions today are similar to levels seen when policy rate was at the zero-bound



Source: Bloomberg, DBS

Broad inverse relationship between financial conditions and forward earnings growth



Source: Bloomberg, DBS

Historically, the degree of looseness in financial conditions exhibited a close inverse relationship with corporate earnings growth. Based on regression, prevailing financial conditions are broadly associated with earnings growth of 10% and this coincides with the consensus forecast of 10% growth for 2024 (vs average earnings growth of 7% during 2008-2023). This augurs well for the outlook of equities.

Low interest expense ratio underpins corporate profitability. A recap from our 4Q23 CIO Insights – a company's interest expense ratio is expected to increase as policy rate rises and historically, this has been the case. In the 1988-89 and 1999-2000 rate hiking cycles, the peaking of the Fed Funds rate coincided with similar peaking of interest expense ratio in the subsequent six quarters. More recently in the 2004-06 rate hiking cycle, the interest expense ratio peaked 12 quarters after the policy rate plateaued.

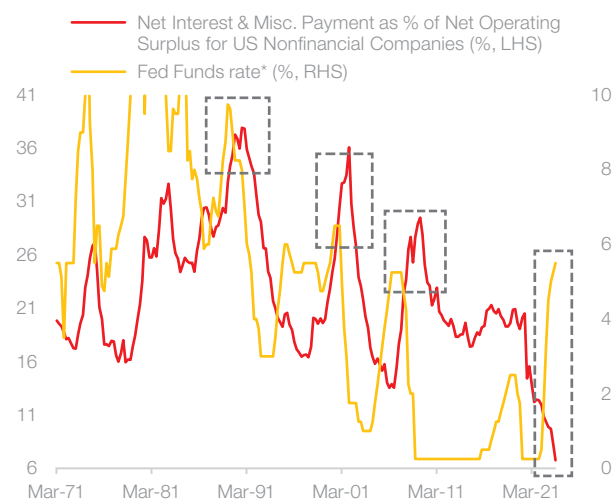
Historically, the interest expense ratio exhibits a broad inverse relationship with the profit margins of US companies:

- In the 1999-2000 hiking cycle, interest expense ratio peaked at 36.1% in Dec 2001 while US profit margin troughed at 6.10%
- In the subsequent 2004-06 rate hiking cycle, interest expense ratio peaked at 29.5% in Jun 2009 while profit margin hit a trough at 6.67%

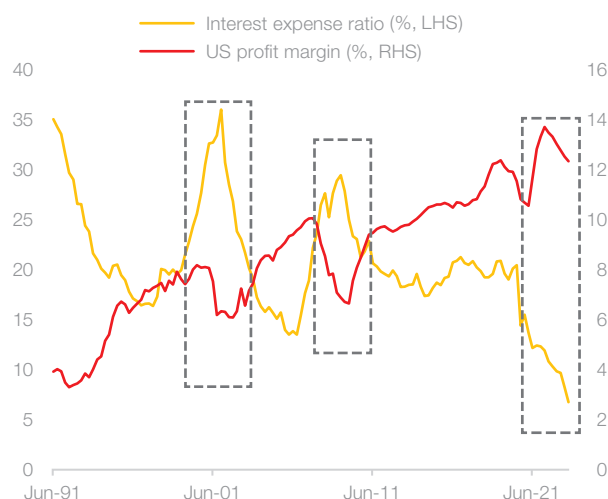
But the reverse is happening post-Subprime crisis. US companies seized on the opportunity to refinance their liabilities to long-term fixed debt at low interest rates as central banks around the world slashed policy rates to zero-bound. This explains why interest expense ratio has hit a low of 6.8% (vs long-term average of 22.3%) despite elevated bond yields.

The low interest expense ratio has, in turn, translated to higher profit margin for US companies. The latter currently stands at 12.36% (vs long-term average of 8.63%) and this underpins the resilience of corporate earnings.

Interest expense ratio is on the decline despite rising bond yields



Inverse relationship between interest expense ratio and US profit margin



Highest overweight positioning vs highest underweight positioning



Source: EPFR Global, DBS
* ETF weights used as proxy

Investors' portfolio positioning indicates room for rebalancing. Despite news headlines drumming up the overconcentration of major tech stocks in the current rally, industry allocation data from EPFR Global suggests otherwise.

Currently, the industries with the highest overweight positioning are Software Services (+2.6 %pts), Healthcare Equipment & Services (+1.6 %pts), and Diversified Financials (+1.1 %pts). At the other end of the spectrum, industries with the highest underweight positioning are Energy (-1.5 %pts), Technology Hardware & Equipment (-1.1 %pts), and Capital Goods (-1.0 %pts).

On an aggregated basis, the top three industries are 5.3 %pts overweight relative to benchmark while the bottom three industries are 3.6 %pts underweight. But instead of looking at these datapoints in isolation, we take a step back and observe how aggregate positionings have been trending since 2010. Here are the findings:

- **“Overweight” Basket:** The overweight positioning from this basket has actually been trending south since 2020, from +8.3 %pts to +5.3 %pts currently. The industries which saw a significant reduction in their overweight positioning are Software Services (-3.2 %pts) and Healthcare Equipment & Services (-0.6 %pts).
- **“Underweight” Basket:** The underweight positioning in this basket has worsened over time, down from a positive reading of +0.1 %pts in Dec 2018 to -3.6 %pts currently. On a segmental basis, all three industries registered declines during this period: Energy (-2.0 %pts), Technology Hardware & Equipment (-0.9 %pts), and Capital Goods (-0.8 %pts).

Based on the above data, we can infer that:

- Despite Software Services having the largest overweight positioning, the sector has actually been trending south since 2020. This suggests the level of “exuberance” in select tech-related plays is not as extreme as feared, reducing the risk of acute portfolio drawdowns in this segment.

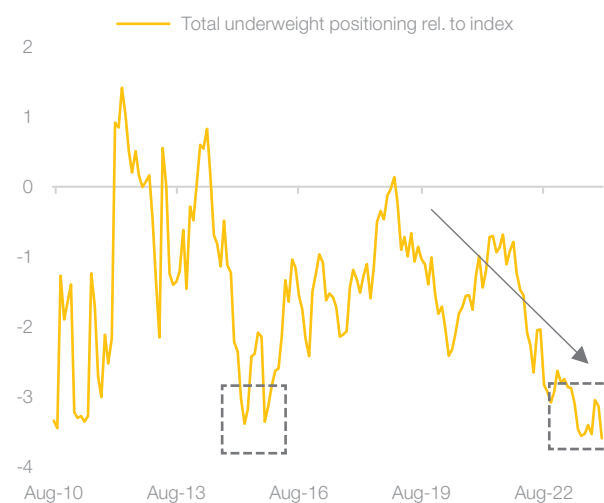
Total overweight positioning for top three industries on the decline



Source: EPFR Global, DBS

Note: Consisting of total overweight positioning for Software & Services, Healthcare Equipment & Services, and Diversified Financials

Total underweight positioning for bottom three industries on the rise



Source: EPFR Global, DBS

Note: Consisting of total underweight positioning for Energy, Technology Hardware & Equipment, and Capital Goods

b. Investors' positioning for the "Underweight" basket has, however, hit an extreme as the current level is similar to the ones registered back in 2015. This increases the likelihood of funds rotating to these segments (in particular the energy space) and broadening the rally.

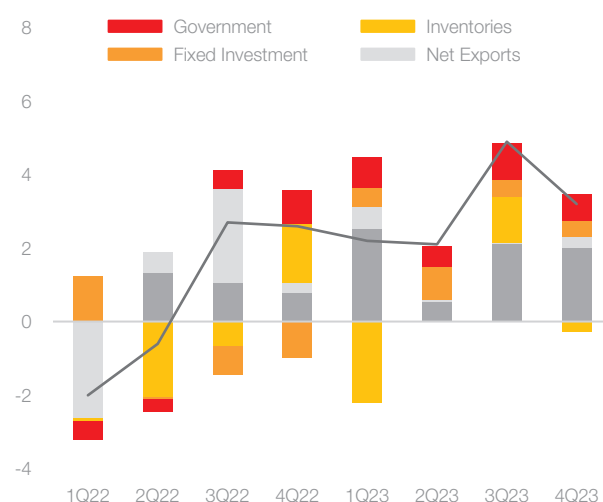
US economic resilience underpinned by robust consumption. The stubbornly resilient US economy has caught economists by surprise. Basic Economics

101 tells us that a high interest rate environment will be negative for consumption, investments, and overall economic activities. But judging from recent economic readings, this is certainly not the case. US GDP grew 3.3% q/q (annualised basis) in 4Q23, vastly exceeding the consensus forecast of 2.0% growth. The same happened in 3Q last year, with GDP growth of 4.9% exceeding market expectations of a 4.5% increase.

A breakdown of the GDP data shows that the key component underpinning US economic growth is domestic consumption. Indeed, personal consumption has been the single largest contributor of GDP in the past two quarters, accounting for 43% of growth in 3Q and 63% in 4Q. The robust consumer spending is, in turn, attributed to: (1) healthy jobs market and wage growth, (2) overall gains in assets prices leading to wealth effects, and (3) post-pandemic excess savings.

With the exception of post-pandemic excess savings (which will be depleted at some point), we believe that the first two drivers will stay in place to support domestic consumption and by extension, the broader economy. This supports our base-case assumption of a “soft landing” for the US economy.

Contributions to US GDP q/q% SAAR



Source: Bloomberg, DBS



2Q24 Asset Allocation – Preference for bonds remain

Categories	Indicators	Score Range	Equities				Bonds		
			US	Europe	Japan	AxJ	DM Govt	DM Corp	EM Bonds
Fundamentals	PMI	-1 to +1	0	0	0	1	0	0	0
	Economic surprise	-1 to +1	0	0	0	1	0	0	0
	Inflation	-1 to +1	-1	0	-1	0	-1	-1	0
	Monetary policies	-1 to +1	0	0	0	0	0	0	0
	Forecasted EPS growth	-2 to +2	1	-1	0	2	-	0	0
	Earnings surprise	-2 to +2	1	0	1	0	-	0	0
Valuation	Forward P/E	-2 to +2	0	0	0	1	-	-	-
	P/B vs ROE	-2 to +2	0	0	-1	0	-	-	-
	Earnings yield - 10Y yield	-2 to +2	-1	0	1	1	2	2	1
	Free Cashflow yield	-2 to +2	1	-1	1	0	-	-	-
	Credit spread	-2 to +2	-	-	-	-	-	-1	-1
Momentum	Fund flows	-2 to +2	0	-1	0	0	1	1	0
	Volatility	-1 to +1	0	0	0	0	0	-	-
	Catalysts	-2 to +2	0	0	0	0	0	0	0
Raw Score			1	-3	1	6	2	1	0
Adjusted Score*			0.05	-0.14	0.05	0.29	0.18	0.06	0.00

*Note: The "Adjusted Score" is calculated using the "Raw Score" divided by the maximum attainable score for each category.

Source: DBS

Cross Assets – Marginal preference for bonds over equities. The latest scoring on our CAA framework suggests a marginal preference for bonds over equities.

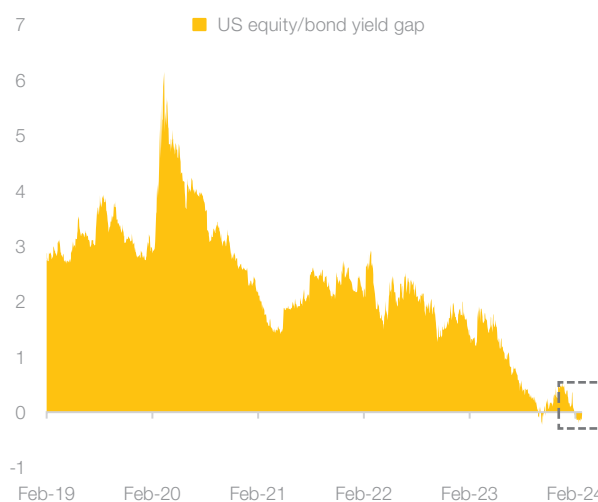
Fundamentals: It is clear from incoming US economic data that high interest rates and the removal of pandemic-era support have failed to impact US domestic consumption as the latter remains buoyed by a robust jobs market. Consumer and business sentiments are on an upswing and should the strong macro momentum persist, upside to our 2024 US GDP forecast is plausible.

In contrast, the picture in Europe is drastically different. Despite avoiding a technical recession late last year, the Eurozone economy has largely stagnated in recent quarters with particular weakness evident in Germany and France. In Japan, our GDP forecast saw downward revision as a result of moderating domestic consumption and export demand.

Valuation: The gap between US earnings yield and US 10Y Treasury yield stood at -0.0354% in 1Q24 (as of 5 Mar) and this underlines the relative attractiveness of bonds over equities at this juncture.

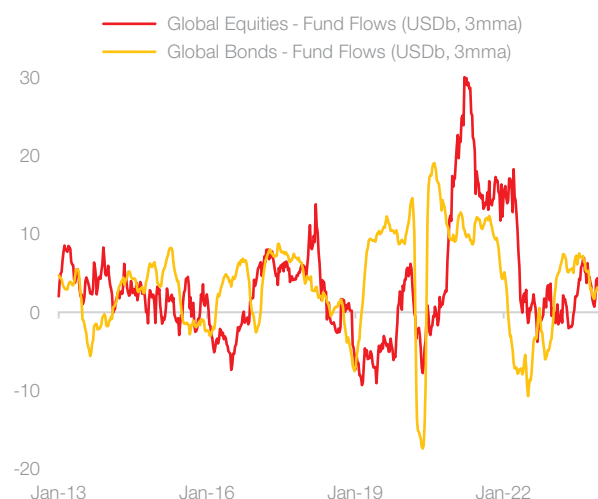
Momentum: Fund flows data from EPFR Global suggests broad-based preference for bonds on a cross asset class basis. In 2023, bond funds saw inflows of USD280.8b and this superseded the USD172.2b that entered equities. This year, we are seeing a continuation of the same trend with USD98.9b flowing to bonds (as of 21 Feb), as compared to USD74.0b for equities.

Bonds looking more attractive than equities at this juncture



Source: Bloomberg, DBS

Bonds still seeing marginally better fund flows momentum than equities



Source: EPFR Global, DBS

Equities: Asia ex-Japan equities roaring back to life; Maintain overweight view. As the saying goes “Every dog has its day”. This is certainly indeed the case for AxJ equities as the beleaguered market is starting to show signs of life after enduring a dreaded 2023 which saw the region underperforming global equities by 16.5 %pts. Since the beginning of February, AxJ equities led the rally with 8.2% gains, outperforming global equities by 2.3 %pts along the way (as of 18 Mar). The rebound in AxJ equities is led by China (+11.4%) as result of the following factors:

- Rising expectations of policy support: The PBOC has in its quarterly policy implementation report stated that it will maintain policy flexibility to support domestic consumption while also ensuring price stability. Separately, China’s Vice Finance Minister Wang Dongwei has also said that the government will implement proactive fiscal policies to drive economic growth.

Taken together, it is evident that the government is determined to sustain China’s growth momentum via robust policy support and this augurs well for the outlook of domestic risk assets.

- Attractive valuation support: At 10.8x forward P/E, China currently trades at 40.0% discount to global equities. While what’s cheap can remain cheap, the low valuation does suggest that a lot of downside has been priced-in and the bar set for an imminent rally is low.

China equities continues to trade at steep valuation discount to global equities



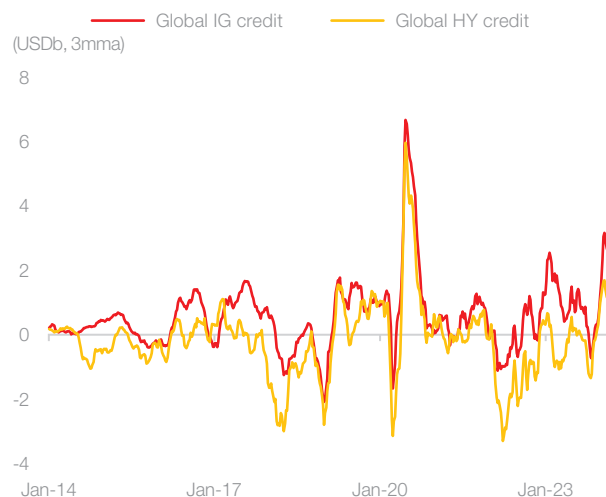
Source: Bloomberg, DBS

China equities remains massively unowned by portfolio allocators



Source: EPFR Global, DBS

IG credit seeing stronger inflows than HY



Source: EPFR Global, DBS

- **Extreme underweight portfolio positioning:** Based on EPFR Global data, global portfolio allocators are 0.83 %pts underweight on China (43% below benchmark) and this is close to the all-time low. The light portfolio positioning suggests that investors' expectations are low and this increases the probability of a substantial rebound when catalysts (especially policy clarity) return.

Bonds: Attractive risk-reward relative to equities; Maintain preference for IG credit in 3-5Y segment. The recent bout of disinflation has taken a pause as US inflation numbers came in above market expectations in December and January. Adding further fuel to bond yields is weaker-than-expected demand for US Treasury's debt issuance to fund the government's outsized fiscal needs. With the UST 10Y yield back to 4.3%, the combination of resurgent bond yields and rising equity valuations reinforces our preference for bonds from a cross-asset perspective.

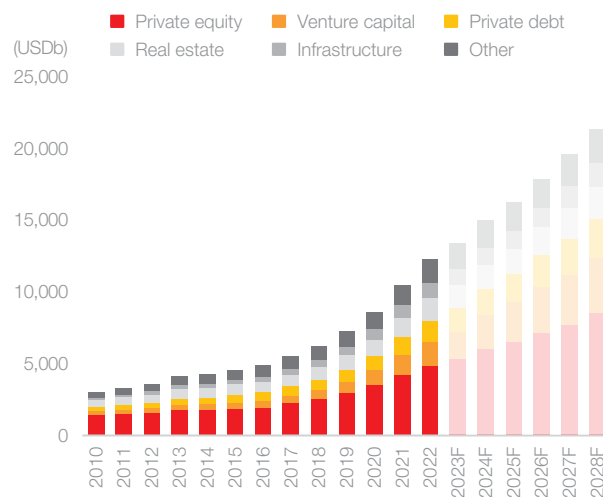
In the corporate credit space, we maintain our preference for IG credits and the 3-5Y duration bucket as the latter is best positioned to weather against market volatility should economic conditions deteriorate down the road. We see attractive risk-reward here. Our cautious view on HY bonds stays and this is reaffirmed by fund flows data. Since 2023, IG credit registered inflows of USD77.6b and this far superseded inflows of USD4.6b to HY credit.

Alternatives: Seek resilience in gold amid geopolitical uncertainties; Gain exposure to private assets for greater diversity in investment opportunities. We are living in uncertain times. The ongoing conflicts in Russia-Ukraine and the Middle East are showing no signs of ending. Adding to the proverbial wall of worries will be the US Presidential Election in which the outcome will have major bearing on global geopolitics. These are clear and present uncertainties that may derail risk assets over the course of the year. To protect portfolio downside, we believe a sizeable exposure to gold will be crucial in such an environment. This is particularly so if one subscribes to the view that bond yields have peaked and a Fed rate cut is matter of when, not if.

Investors' interest and participation in the private assets space, meanwhile, continue to see robust growth and we advise portfolio allocators to gain exposure given:

- **Wider spectrum of investments opportunities:** For investors that are willing to sacrifice some degree of liquidity, private markets investing provides the former with access to opportunities (particularly those in emerging innovations) that remain underrepresented in public markets.

Participation in private markets rising steadily



Source: Bloomberg, DBS

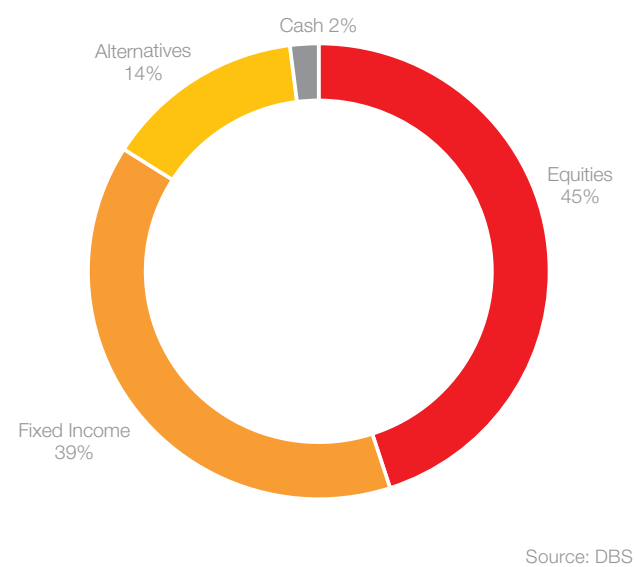
- Value creation via active management: The complexity involved in private assets transactions allows investors to identify opportunities in an opaque market and create value through active involvement in the operations of the underlying assets.
- Adoption of longer-term investment horizons: The illiquid nature of private assets encourages investors to adopt long-term investment views while reducing the natural human tendency of making impulsive investment decisions during periods of extreme market volatility.

2Q24 Global Tactical Asset Allocation

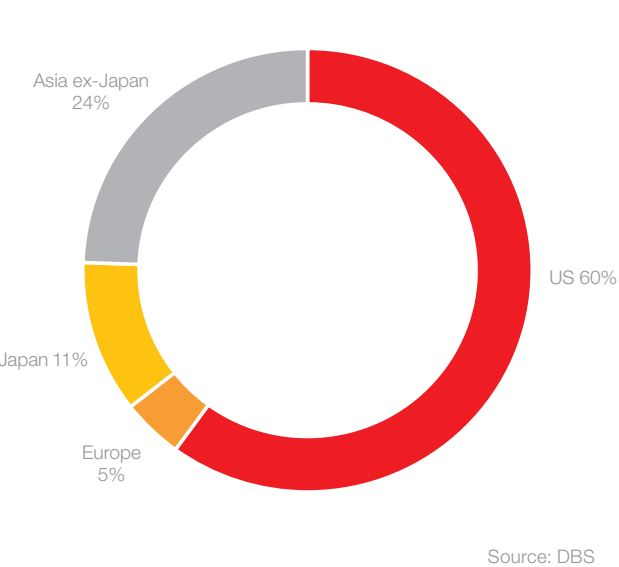
	3-Month Basis	12-Month Basis
Equities	Underweight	Neutral
US Equities	Overweight	Overweight
Europe Equities	Underweight	Underweight
Japan Equities	Neutral	Neutral
Asia ex-Japan Equities	Overweight	Overweight
Fixed Income	Overweight	Underweight
Developed Markets (DM) Government Bonds	Overweight	Underweight
Developed Markets (DM) Corporate Bonds	Overweight	Neutral
Emerging Markets (EM) Bonds	Underweight	Neutral
Alternatives	Overweight	Overweight
Gold	Overweight	Overweight
Private Assets & Hedge Funds	Overweight	Overweight
Cash	Underweight	Neutral

Source: DBS

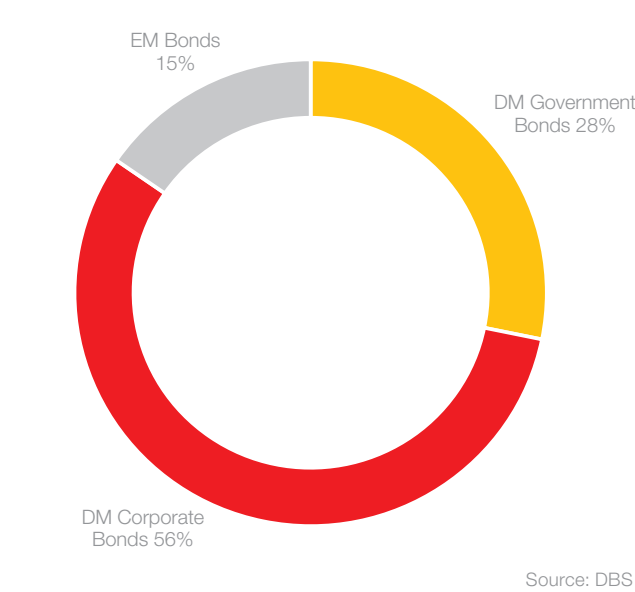
TAA breakdown by asset class (Medium Risk)



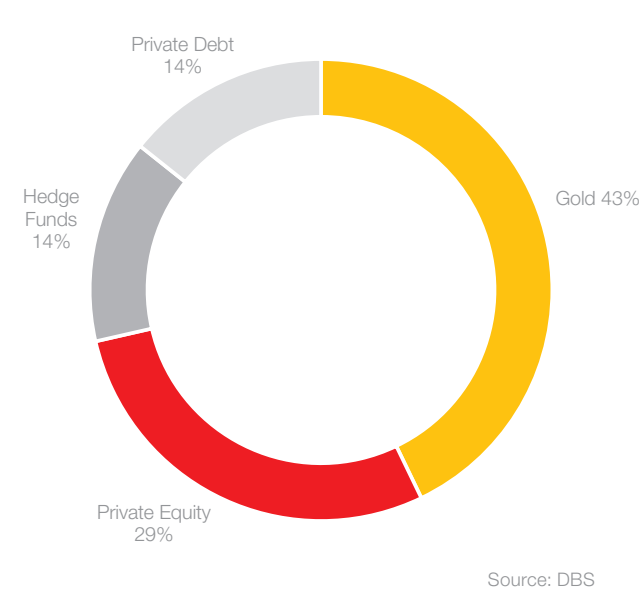
TAA breakdown by geography within equities (Medium Risk)

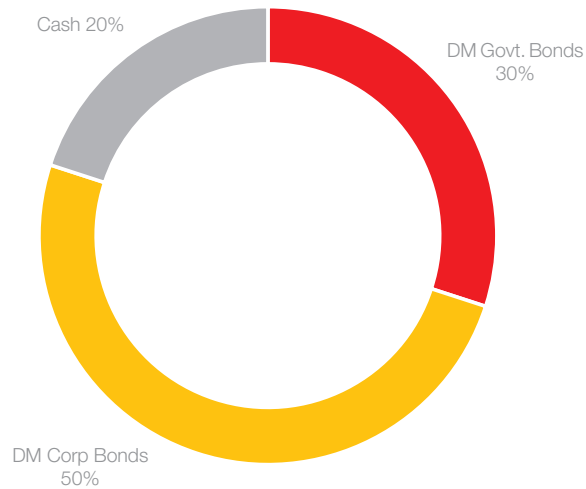


TAA breakdown by bond types within fixed income (Medium Risk)

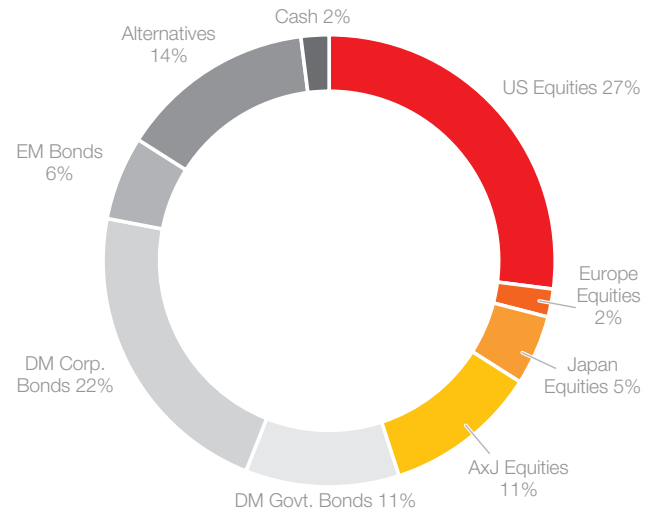


TAA breakdown by segments within alternatives (Medium Risk)





Source: DBS



Source: DBS

Low Risk

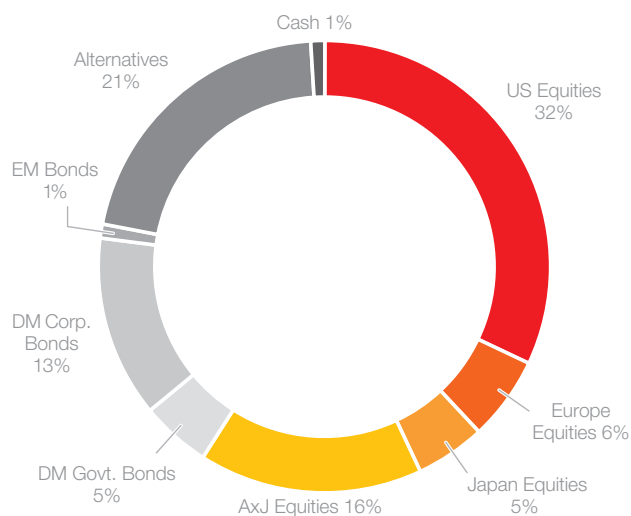
	TAA	SAA	Active
Equities	0.0%	0.0%	
US	0.0%	0.0%	
Europe	0.0%	0.0%	
Japan	0.0%	0.0%	
Asia ex-Japan	0.0%	0.0%	
Fixed Income	80.0%	80.0%	
Developed Markets - Government	30.0%	30.0%	
Developed Markets - Corporate	50.0%	50.0%	
Emerging Markets	0.0%	0.0%	
Alternatives	0.0%	0.0%	
Gold	0.0%	0.0%	
Private Assets & Hedge Funds*	0.0%	0.0%	
Private Equity	0.0%	0.0%	
Hedge Funds	0.0%	0.0%	
Private Debt	0.0%	0.0%	
Cash	20.0%	20.0%	

*Only P4 risk rated UCITs Alternatives

Medium Risk

	TAA	SAA	Active
Equities	45.0%	50.0%	-5.0%
US	27.0%	25.0%	2.0%
Europe	2.0%	10.0%	-8.0%
Japan	5.0%	5.0%	
Asia ex-Japan	11.0%	10.0%	1.0%
Fixed Income	39.0%	35.0%	4.0%
Developed Markets - Government	11.0%	10.0%	1.0%
Developed Markets - Corporate	22.0%	15.0%	7.0%
Emerging Markets	6.0%	10.0%	-4.0%
Alternatives	14.0%	10.0%	4.0%
Gold	6.0%	5.0%	1.0%
Private Assets & Hedge Funds*	8.0%	5.0%	3.0%
Private Equity	4.0%	2.4%	1.6%
Hedge Funds	2.0%	2.0%	
Private Debt	2.0%	0.5%	1.5%
Cash	2.0%	5.0%	-3.0%

*Only P4 risk rated UCITs Alternatives



Source: DBS

High Risk

	TAA	SAA	Active
Equities	59.0%	65.0%	-6.0%
US	32.0%	30.0%	2.0%
Europe	6.0%	15.0%	-9.0%
Japan	5.0%	5.0%	
Asia ex-Japan	16.0%	15.0%	1.0%
Fixed Income	19.0%	15.0%	4.0%
Developed Markets - Government	5.0%	4.0%	1.0%
Developed Markets - Corporate	13.0%	7.0%	6.0%
Emerging Markets	1.0%	4.0%	-3.0%
Alternatives	21.0%	15.0%	6.0%
Gold	7.0%	5.0%	2.0%
Private Assets & Hedge Funds*	14.0%	10.0%	4.0%
Private Equity	7.0%	4.9%	2.1%
Hedge Funds	4.0%	4.0%	
Private Debt	3.0%	1.1%	1.9%
Cash	1.0%	5.0%	-4.0%

*Only P4 risk rated UCITs Alternatives

Notes:

1. The above are based on three-month views.
2. Asset allocation does not ensure a profit or protect against market loss.
3. "TAA" refers to "Tactical Asset Allocation". "SAA" refers to "Strategic Asset Allocation".
4. The investor type classification for the portfolio has no direct relationship with the Financial Needs Analysis customer risk profile types and the portfolios are not assigned any product risk rating based on the bank's proprietary risk rating methodology.

Signs of Stabilisation

Macroeconomics
2Q24

Expectations are now for a modest policy easing cycle in US as inflation is not falling as fast. Eurozone and Japan growth look subdued while China's growth prospects await monetary and fiscal policy stimulus.



02. Macroeconomics.

Taimur Baig, Ph.D.
Chief Economist

Radhika Rao
Economist

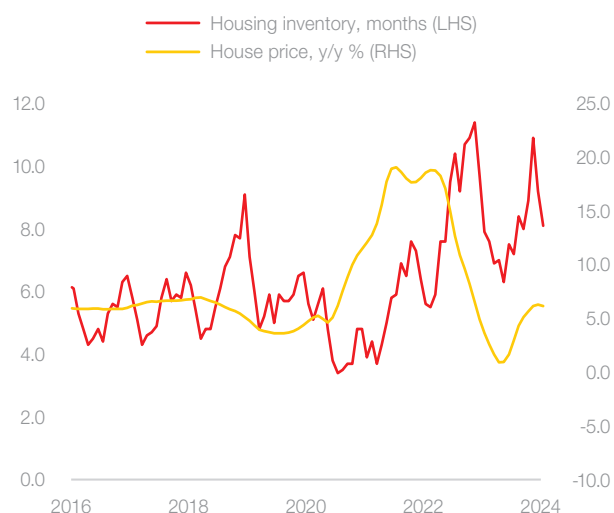
Ma Tieying
Economist

Suvro Sarkar
Analyst

US

Slowing disinflation and market pricing. Having priced in a 90% chance of a March rate cut by the US Federal Reserve (Fed) in late-Dec 2023, global fixed income markets shifted swiftly in the other direction in early 2024, in response to resilient data and not-so-dovish Fed communication. As the first quarter draws to an end, expectations are now for a rather modest monetary policy easing cycle, starting at mid-year and amounting to less than 200 bps through 2025.

US housing inventory and prices



Source: CEIC, DBS

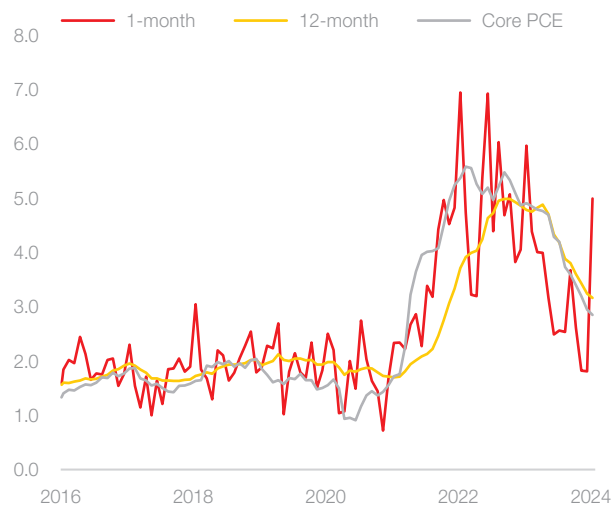
We think that forthcoming US dataflow will provide further room for gyrations around rate cut expectations in the coming months. The December optimism, after all, was not baseless. Between the impact of monetary policy tightening during 2022/23 and decelerating inflation (core PCE has fallen by 270 bps since its early-2022 peak), expectations have grown, somewhat understandably, that policy easing was around the corner.

Resilient data keeping market on edge. While comforted by the inflation data, we did not join the consensus over the past few months in calling for a rate cut. Instead, our eyes were set on the remarkably resilient data on consumer demand. High interest rates and the expiration of pandemic-era support measures have not managed to dent the confidence or balance sheet of US consumers. Retail sales, with or without autos, have been robust, housing has made a comeback, services are on an upswing, and sharp rallies in stock and bond markets have boosted household net worth. A 2-2.5% growth outcome for 1Q24 now seems to be on the cards.

Looking forward, in addition to consumer sentiment's steady climb, businesses are also reporting an improvement in their outlook. PMI and ISM surveys show that purchasing managers have perked up in recent months. These developments suggest growing upside to our 2024 US GDP growth forecast of 1.5%. If growth indeed heads toward 2%, that would only be consistent with 4+% long-term bond yield. In addition to real growth outlook, another related consideration is how such strong and resilient demand can be consistent with 2% inflation, especially if the labour market remains tight.

Easing inflation will not last long. Markets were sanguine with the January PCE inflation data. Both PCE (2.4% y/y) and core PCE (2.8% y/y) inflation readings were in line with expectations, helping support a mid-year rate cut scenario. But the Dallas Fed's trimmed mean PCE, an alternative measure of core, jumped by 5% y/y. This was driven by spikes in financial and hospital services, along with computer software and some beverage prices. Inflation has been easing, but it may not ease much more.

US PCE inflation rate, trimmed mean and core



Note: Data is seasonally adjusted, annualised.
Source: Federal Reserve Bank of Dallas, CEIC, DBS

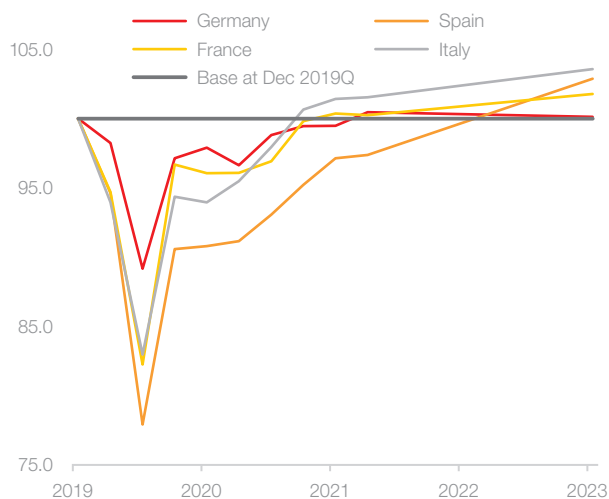
All of this is going to make a protracted Fed rate cut cycle an unlikely one, in our view. We think some rate cuts are possible in 2H24 if inflation remains well behaved, and also if construction and retail sales slow. Growth would have to slow materially, perhaps driven by instability in the financial sector. But there are no signs of such a scenario for now.

Eurozone

Member countries move to a different beat. The Eurozone economy narrowly avoided a technical recession in late-2023, with the seasonally adjusted GDP growth flat compared with the previous quarter and up 0.1% y/y (2023 average c.0.5% y/y). Despite avoiding a technical recession, the economy has largely stagnated in the past five quarters, when growth ranged between -0.1% to 0.1% q/q.

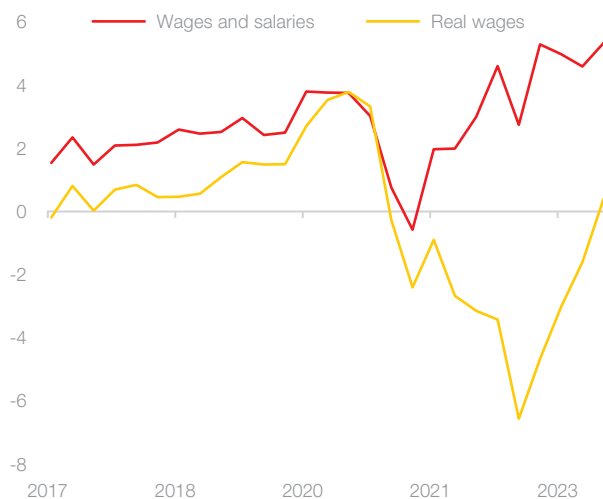
Not all member countries are moving at the same speed, with the southern countries faring better than their northern peers. Amongst the "Core Four," Spain expanded 0.6% q/q, followed by a 0.2% increase in Italy. Tailwinds by way of a stronger rebound in tourism, higher labour demand driving up participation rates, gains in manufacturing/export, and supportive fiscal levers, are behind this divergence. By contrast, German output contracted while France stagnated. Germany also narrowly averted a recession but has since flatlined in the past five-to-six quarters, given the cumulative impact of a slowing manufacturing sector, difficult geopolitical backdrop, high input costs, and softer growth in China.

Germany treading water



Source: CEIC, DBS

Real wages back on track



Source: CEIC, DBS

Stabilisation ahead. Prospects for the year look subdued, with activity expected to stabilise at weak levels. The EC's economic sentiment indicator saw the gauge for the industrial sector flat on the month at the start of 2024, while services confidence softened further. Encouragingly, selling price expectations eased slightly for services, more for goods, signalling limited material spillover impact from the Red Sea disruptions due to a negative output gap. With inflation on the retreat and wage growth still above inflation, income squeeze is likely to ease up. Positive real wage growth bodes well for household spending.

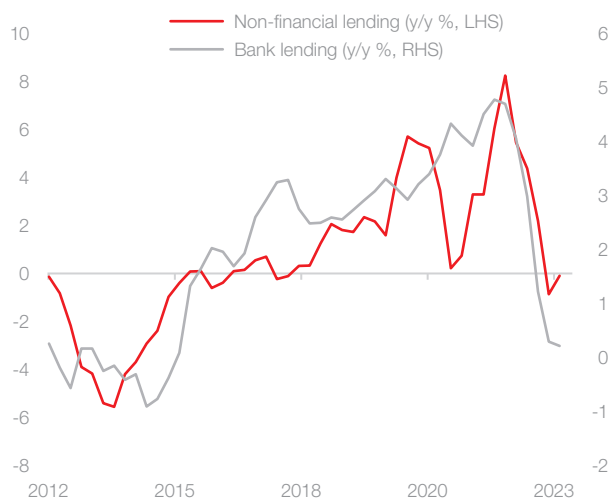
ECB leans towards a summer cut. Bank lending growth to households is in a small positive at the start of 2024, with lending growth of non-financial corporates also settling into a holding pattern at soft levels. Financial and lending conditions have loosened vs middle of last year. Broad money is above mid-2023 trough, but still to register an upturn in sequential terms. Energy prices have corrected sharply since the geopolitics-driven spike in 2022, allowing retail prices to fall further. Few of these positive signs are mitigated by country-specific issues (train strikes, farmers' protests, German austerity, and fallout of Red Sea disruptions). Even though the corporate sector weathered a sharp jump in energy, prices, rising labour costs, and investment growth – particularly in construction – remain weak. We maintain the 2024 growth forecast at 0.2% y/y.

All eyes on geopolitical situation. Lower food and energy costs since 2022 have helped push Eurozone inflation below the 3% mark by early 2024. Red Sea disruptions will be watched closely for any spillover risks, especially since that channel is important for Europe-Middle East-Asia shipments. Expectations

are that higher shipping costs are likely to push up the bloc's inflation by 20-30 bp, with a larger impact mitigated by overcapacity in containers and vessels absorbed by the extended travel time.

The ECB will seek conclusive evidence of strong disinflationary tendencies before acting on rates. Close attention will be paid to wage negotiations, which would dictate pipeline and generalised price risks over the coming year. In all, we expect authorities to keep a close eye on domestic (high frequency data, lending standards, wage growth, etc.) and external (FOMC, geopolitics) factors before considering an outright shift in policy direction. We lean towards rate cuts during or after summer. Among the key risks on the horizon is an escalation in geopolitical tensions, with the EU more vulnerable compared to other countries.

Bank lending stabilising at weak levels



Source: CEIC, DBS

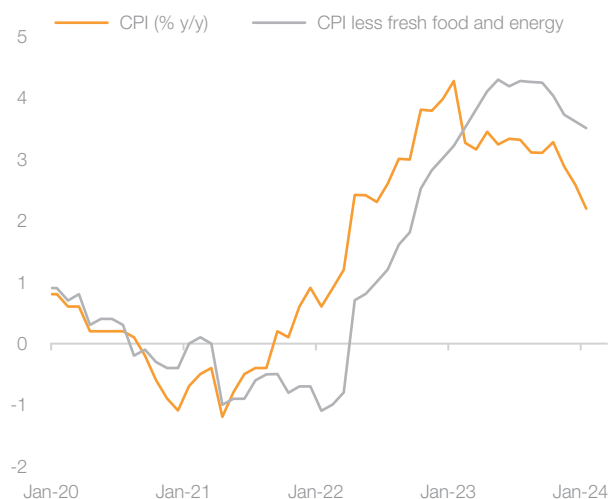
Japan

Semiconductor rebound to boost economy. GDP growth forecast for 2024 has been revised downwards to 0.8% from the previous estimate of 1.0%, and risks continue to lean towards the downside. This adjustment reflects the waning of reopening-related consumption demand and lower-than-expected export volumes. Nevertheless, several positive factors, including rising wage growth after the spring Shunto, decelerating inflation, and a more stable JPY, are expected to restore consumers' purchasing power. Additionally, the anticipated cyclical rebound in the global semiconductor/electronics sector is poised to bolster Japan's exports and drive investment in the upcoming quarters.

The initiatives to rebuild the semiconductor supply chain are yielding positive results. With robust support from the government, TSMC's 12/16nm and 22/28nm factory in Kumamoto is set to smoothly enter mass production in 4Q24. Ongoing negotiations for a second factory in Japan, potentially utilising 6/7nm technology, are also underway. Notably, research by the Center for Security and Emerging Technology revealed that the average duration for fab construction-start to production-start is 584 days in Japan (1990-2020), outperforming the 736 days in the Americas and 690 days in Europe and the Middle East.

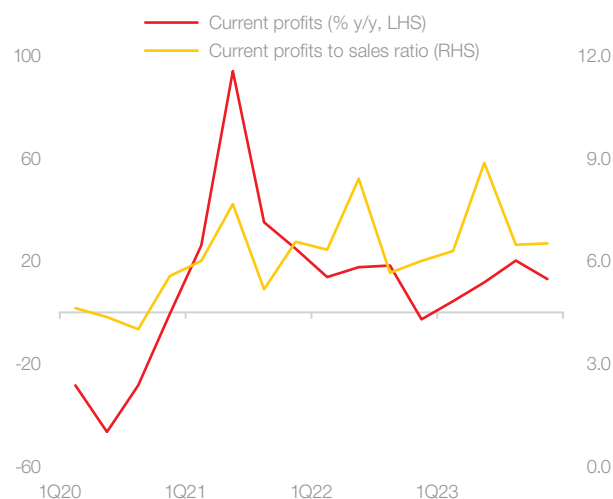
Inflation forecast for 2024 remains unchanged at 2.0%. Despite the deceleration in goods prices, services inflation remains steady above the 2% level. Inflation expectations in both the corporate and consumer sectors persist above 2%. Strong double-digit growth in corporate profits indicate the potential for wage increases during the spring Shunto, potentially boosting demand-side inflation.

Core inflation remains above 2%



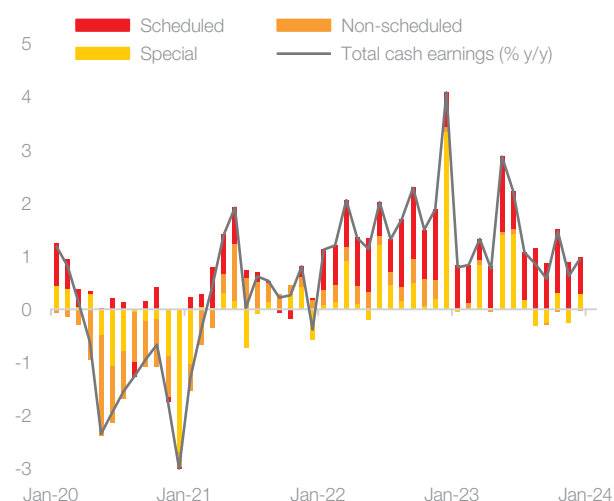
Source: CEIC, DBS

Corporate profits remain strong



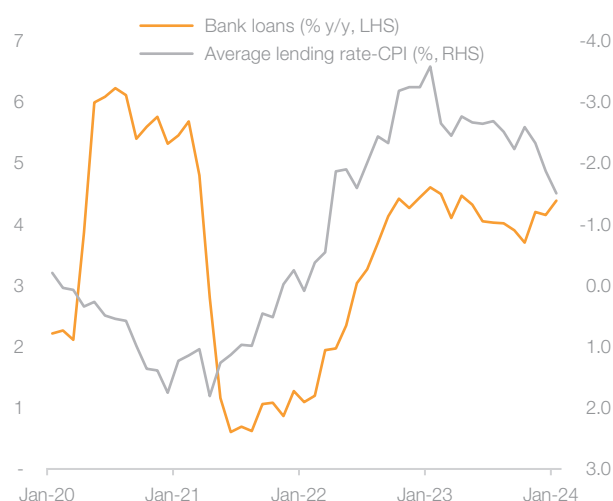
Source: CEIC, DBS

Wage growth has the potential to pick up



Source: CEIC, DBS

Real funding costs still negative



Source: CEIC, DBS

The end of NIRP and YCC. The BOJ announced a significant policy overhaul in its March meeting, terminating Quantitative and Qualitative Easing with YCC and the negative interest rate policy. It reverted to the short-term rate targeting mechanism, aiming to guide the uncollateralised overnight call rate within the range of 0-0.1%.

Looking ahead, the BOJ is likely to embark on further steps to normalise its monetary policy in the coming quarters. These actions include raising the overnight rate above 0.1% - gradually moving towards a level reflective of the inflation rate plus the natural rate of interest, and tapering/unwinding JGB purchases. The central bank is expected to proceed cautiously, ensuring the achievement of a sustained and stable 2% inflation rate, supported by 3% wage growth. We expect that the BOJ will keep its policy rate unchanged for the remainder of 2024 and raise it further to 0.25% in 2Q25.

Asia

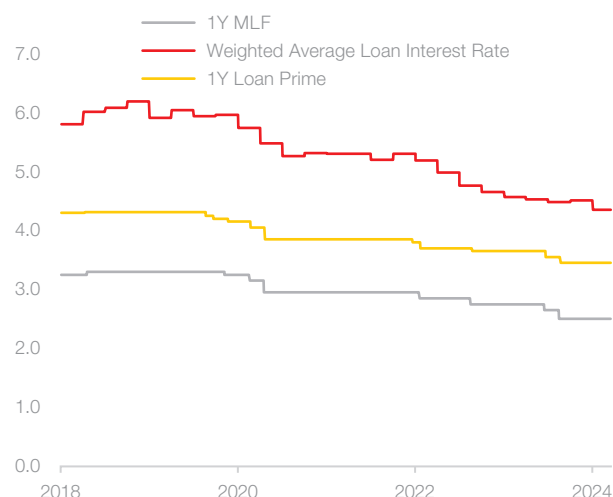
China continues to cast a shadow on the global economic outlook. Long the key source of global demand, China's economy has progressively slowed in recent years with mounting imbalances and associated vulnerabilities. Domestic sentiment has been dealt multiple blows, from regulatory, governance, and pandemic-related crackdowns, to a deep and continued sell-off in asset markets. The authorities have announced a slew of measures.

Interest rates have gone in the opposite direction from the rest of the world, progressively shifting down over the past four years. Fiscal stimulus has been injected to support beleaguered local governments, measures to support debt and equity markets have been announced, and the medium-term reform agenda, particularly on green transition, has been accelerated. And yet weak sentiment and financial market stress persist.

Property sector still a major headwind. Resolving further exacerbation of the property sector remains the top priority, as it is presenting assorted headwinds, from deflationary pressures on private demand and banking system balance sheet, to local government financing stress.

To that end, the recently concluded annual meetings of the National People's Congress provided some room for optimism. The meetings' announcements were broadly in the right direction, focusing on resolving imbalances, boosting investment, and supporting consumption. We believe the targets from the Government Work Report are a combination of a "relatively bold" GDP target, but "restrained" fiscal deficit, and prudential monetary policy. In our view, persistent downward economic pressure requires persistent easing from the Chinese policy makers. Therefore, we foresee both monetary and fiscal policies surprises to the upside in 2024 to achieve the goal of stabilisation and high-quality growth.

China's key interest rates



Source: Bloomberg, DBS

Geopolitical uncertainty lie ahead. Several factors outside of China's controls are also material to the outlook. They include external demand, global liquidity conditions, and geopolitics. We are not too concerned about external demand and global liquidity, whereas tensions with the US could only worsen if a second Trump term becomes apparent. Meanwhile, the Chinese authorities need to deploy forceful supportive measures to revive consumption and investment sentiment. Recent policy announcements are moves in the right direction, in our view. China has plenty of savings and buffers. It is time to put them to use.

Oil prices likely to remain in rangebound territory

Oil prices have held up somewhat better than expected so far in 2024. We have slightly revised up our 2024 average Brent crude oil forecasts to USD77-82/bbl from USD75-80/bbl, owing to the imputation of higher geopolitical risks prevailing in 1Q24, which will likely extend further into the year as the Red Sea situation continues. Meanwhile, demand has held up better than expected YTD in 2024 and the OPEC+ cuts have been extended by another three months, adding further support in the near term. Longer term, there is no drastic departure from our previous expectation of oil prices largely remaining rangebound at USD75-85/bbl in 2024 as our base case scenario. Oil price trajectory heading into 2H24 and 2025 will be largely dependent on how the US rate cut scenario plays out, how the Middle East crisis evolves, and how long OPEC+ can keep production discipline in place, in the face of higher US production trends.

Geopolitical risks will continue to be a major factor for oil prices. Red Sea hostilities, where Iranian-backed Houthi militia have been attacking commercial shipping vessels either headed to Israel or owned by the US and its allies, have now been ongoing for almost three months. The Red Sea is a critical chokepoint for global oil and gas flows. The US EIA estimates that around 10% of oil and petroleum products flow through the Bab el-Mandeb Strait, which is where the recent attacks on ships by Houthi rebels have been centred. However, unlike the Strait of Hormuz, the flows here can be redirected through the Cape of Good Hope. The disruption is hence not tantamount to a severe supply shock. Oil and products that flow through the Red Sea are not produced and exported at Red Sea ports, and comprise flows that originate elsewhere, unlike the

Quarterly average oil price forecast 2023/24 – DBS base case view

(USD per barrel)	1Q24F	2Q24F	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F
Average Brent crude oil price	81.0	81.0	83.5	82.0	78.5	77.5	81.5	81.0
Average WTI crude oil price	77.0	77.0	80.5	79.0	75.5	74.5	78.5	78.0

Source: DBS

Persian Gulf region, where the oil originates and flows through the Strait of Hormuz. Hence, a blockade of Bab el-Mandeb would not have the same impact at the Strait of Hormuz. So far, major powers like Iran have not been directly dragged into the conflict and a full-blown escalation of the conflict has been avoided. While oil markets remain on edge, oil prices are only factoring in limited geopolitical risk premium for now.

What is the worst-case scenario? Despite the escalation of hostilities in the Red Sea, Brent crude oil prices have largely remained rangebound. This could change in a worst-case scenario, namely, if the fighting spreads and directly affects the Strait of Hormuz or other critical oil production or export infrastructure in the Gulf. Going forward, the role of Iran, the US, and other players like Saudi Arabia and Russia will be critical, should they intervene in the region. If US-Iran tensions escalate on the back of the conflict with the Iran-backed Houthi rebels, stricter sanctions on Iran could be back. In the event of a full reinstatement of Iran sanctions, we think oil prices could test the USD90/bbl level, unless Saudi intervenes by restoring some supplies. In the worst-case scenario of trade routes in the Persian Gulf getting impacted owing to the intensification of a proxy war in the Middle East, oil prices could

Brent crude oil price remains rangebound with only slight escalation in 2024



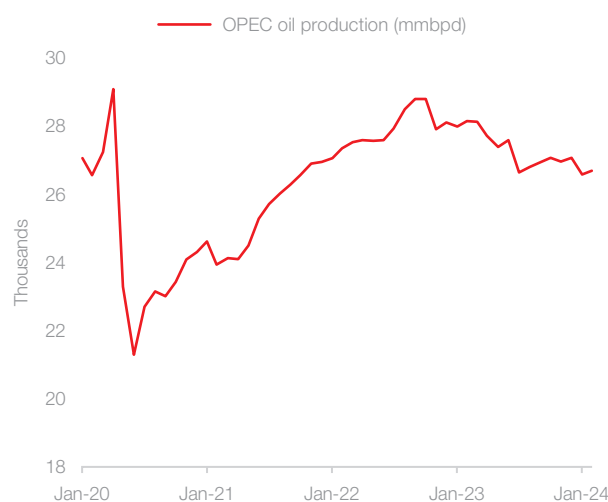
Source: Bloomberg, DBS

spike well above USD100/bbl, given that c.20% of the world's oil flows through the Strait of Hormuz. But, in our view, probabilities for these doomsday scenarios are low. Keeping oil prices in check will be an important election issue in the US, and hence we think the US will be keen to ensure oil keeps flowing, rather than take any steps that might affect stability in the Middle East region.

OPEC+ cuts extended by another three months, resumption of supplies beyond that will cap optimism.

The latest OPEC+ ministerial meeting held in early Mar 2024 saw an extension of previously announced voluntary production cuts led by Saudi and Russia. While the headline numbers announced earlier look impressive (2.2mmbpd), actual additional cuts seen in 2024 amount to only around a reduction of 0.2-0.3mmbpd so far from end-2023 levels. However, the extension of the cuts will help support the demand-supply balance in 2Q24, and hopefully result in a deficit market by 2H24, which will allow certain OPEC+ members to slowly roll back the production cuts without causing a severe dent to oil prices. Convincing OPEC+ members to keep cutting production as a group to maintain oil prices above a certain level is not going to be easy going forward, as surplus capacity keeps increasing and OPEC+ members keep losing market share to non-OPEC+ participants like the US. Despite the expectations of seasonally stronger demand trends in 2H24 and potential resumption in fund flows towards riskier assets once the Fed starts cutting rates, we think that oil prices will remain capped as OPEC+ restores oil supplies gradually.

OPEC supply cuts continue to lend support to oil prices, but for how long?



Source: Bloomberg, DBS

GDP growth and CPI inflation forecasts

	GDP growth, % y/y					CPI inflation, % y/y, ave				
	2021	2022	2023	2024F	2025F	2021	2022	2023	2024F	2025F
China	8.1	3.0	5.2	4.5	4.5	0.9	2.2	0.2	1.6	2.0
Hong Kong SAR	6.3	-3.5	3.5	2.0	2.5	1.6	1.9	2.0	2.0	2.2
India (FY basis)*	9.1	7.2	7.6	6.8	6.5	5.5	6.7	5.3	4.5	4.0
Indonesia	3.7	5.3	5.1	5.0	5.2	1.6	4.2	3.7	2.8	2.5
Malaysia	3.3	8.7	3.7	4.8	4.8	2.5	3.4	2.5	2.9	2.5
Philippines	5.7	7.6	5.6	5.3	5.4	3.9	5.8	6.0	3.3	3.0
Singapore	9.7	3.8	1.1	2.2	2.5	2.3	6.1	4.8	3.5	2.4
South Korea	4.1	2.6	1.4	2.4	2.2	2.5	5.1	3.6	2.4	2.3
Taiwan	6.6	2.6	1.3	3.5	2.6	2.0	2.9	2.5	2.2	1.9
Thailand	1.6	2.5	1.9	2.8	3.0	1.2	6.1	1.3	0.9	2.0
Vietnam	2.6	8.0	5.0	6.0	6.8	1.8	3.2	3.3	3.5	3.5
Eurozone	5.3	3.5	0.5	0.2	1.0	2.6	8.4	5.5	2.4	2.2
Japan	2.6	1.0	1.9	0.8	0.9	-0.2	2.5	3.3	2.0	1.3
United States	5.9	2.1	2.5	1.7	1.7	4.7	8.0	4.1	3.0	2.5

* refers to fiscal years, i.e. 2020 represents FY21 - year ending March 2021.

Source: CEIC, DBS

** new CPI series. *** eop for CPI inflation.

Policy interest rates forecasts, eop

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
Mainland China*	3.45	3.45	3.45	3.35	3.25	3.15	3.15	3.15
India	6.50	6.50	6.50	6.00	6.00	6.00	6.00	6.00
Indonesia	6.00	6.00	6.00	5.25	5.00	5.00	5.00	5.00
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	6.50	6.50	6.50	5.75	5.50	5.50	5.50	5.50
Singapore**	3.60	3.52	3.25	3.08	2.78	2.58	2.58	2.58
South Korea	3.50	3.25	3.00	2.75	2.50	2.50	2.50	2.50
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Thailand	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Vietnam***	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Eurozone	4.50	4.50	4.00	3.50	3.00	3.00	3.00	3.00
Japan	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
United States	5.50	5.50	5.00	4.50	4.00	3.50	3.50	3.50

* 1-yr Loan Prime Rate; ** 3M SOR ; *** prime rate.

Source: CEIC, DBS



Source: iStock

Luminous Horizons

US Equities
2Q24

Maintain high conviction overweight on technology due to robust earnings momentum and strong cash position. Turn positive on energy as beneficiary of a broadening rally.

03. US Equities.

Dylan Cheang
Strategist

A broadening rally for S&P 500 on the cards. In our asset allocation chapter, we opined that despite the strong rally this year, valuation for non-technology companies on the S&P 500 are looking fair from a historical standpoint. Therefore, a broadening rally for the US market is plausible and some of the drivers include:

- Loose financial conditions: US financial conditions have remained loose in spite of elevated bond yields. Based on regression, prevailing financial conditions suggest earnings growth of 10% for 2024, auguring well for the S&P 500 outlook.
- Low interest expense ratio: Post-Subprime crisis, US companies refinanced their liabilities at low interest rates as central banks embarked on aggressive monetary easing. Interest expense ratio has since hit a low of 6.8% (despite elevated bond yields) and this is positive for corporate profitability.
- US economic resilience: The US economy has remained resilient despite Fed monetary tightening. GDP grew 3.3% q/q (on annualised basis) in 4Q23 and vastly exceeded consensus forecast. The healthy jobs market and wealth effects arising from asset price gains is expected to underpin domestic consumption.

Beneficiaries of broadening trend – energy and materials. To help investors position for a potential broadening of the rally, we conducted a basic screening exercise for sectors on the S&P 500. The criteria comprised: (1) sectoral performance since the market trough on 27 Oct 2023, and (2) investors' sectoral allocation in US equity portfolios.

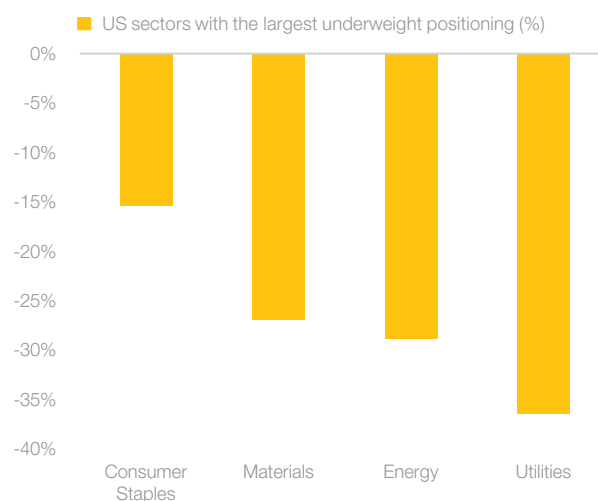
Listed below are our findings:

- Sectoral performance: Since the market trough in October last year, the S&P 500 has rallied 25.3% (as of 7 Mar). The four sectors that outperformed the broader market are technology (+34.7%), financials (+28.6%), communication services (+27.8%), and industrials (+26.9%).

At the other end of spectrum, the top five underperformers are energy (+2.7%), utilities (+7.5%), consumer staples (14.1%), healthcare (+19.0%), and materials (+19.7%).

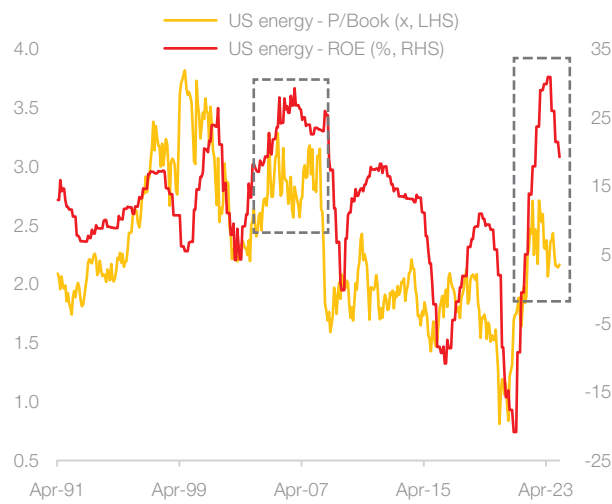
- Sectoral positioning: Within the basket of top five underperforming sectors, data from EPFR Global shows that those marked “underweight” by portfolio allocators relative to benchmark are: utilities (-36%), energy (-29%), materials (-27%), and consumer staples (-15%).

The most unloved sectors in the US



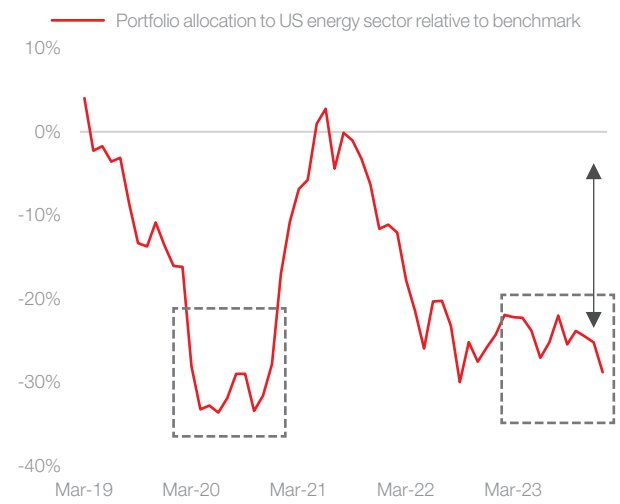
Source: EPFR Global, DBS

ROE on the rebound



Source: Bloomberg, DBS

Underweight positioning on energy has hit an extreme

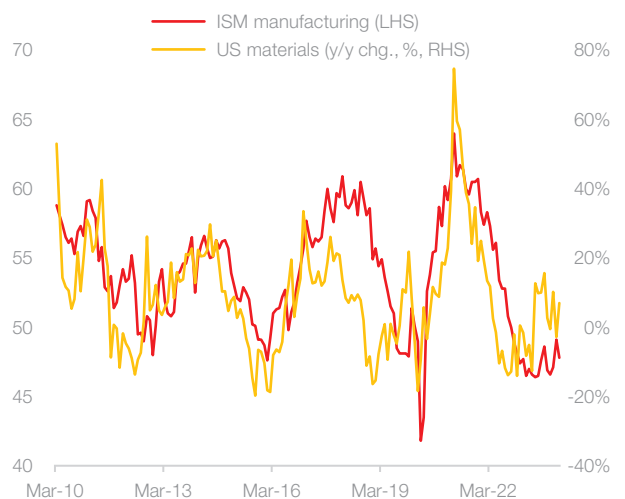


Source: EPFR Global, DBS
Proxied by ETF weights

In our US sector allocation, we are upgrading energy to overweight and in the event of a broadening rally, we believe the sector will be a geared beneficiary given:

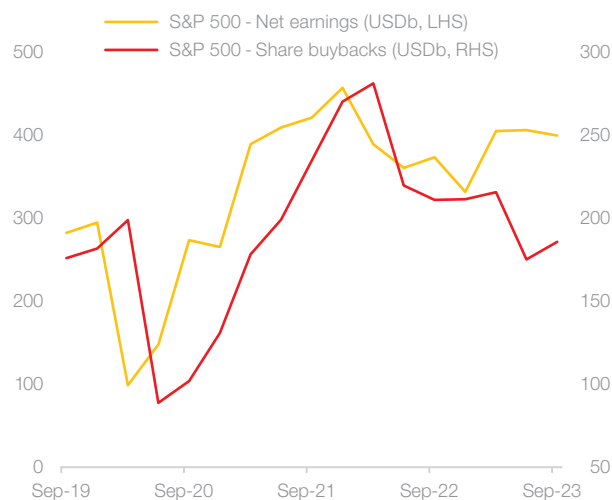
- 1) Improving ROE: The ROE for energy is on the rebound, up from -20.8% in Apr 2021 to 19.3% in Feb 2024. But despite the up move, the P/B ratio remained low at 2.2x (unlike levels seen in 2005-08).
- 2) Light portfolio positioning: Underweight positioning on the energy sector has hit a low of -28.8% amongst US portfolio allocators. This is broadly in-line with the extreme levels seen in 2020 and substantially worse than the long-term average of -17.8%. The massive underweight positioning on energy suggests that investors' expectations are low as substantial negative headwinds have already been priced in.

Rebound in economic momentum will benefit US materials



Source: Bloomberg, DBS

US share buybacks correlating with earning

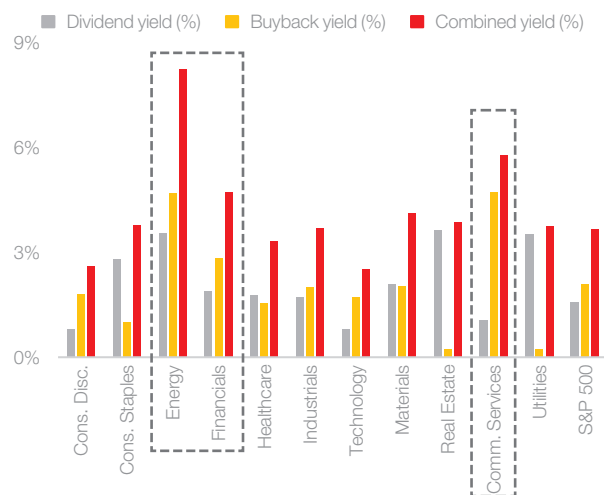


Source: S&P Global

Additionally, we are also upgrading materials to neutral as we believe the sector will be another geared beneficiary of a broadening rally and the drivers are:

- 1) Economic soft landing: Given the broad-based resilience of the US economy, probability of a soft landing is on the rise and should this scenario transpire, we believe materials will see upside momentum in the coming months. Sectoral performance has historically correlated with ISM Manufacturing and clearly, an uptick in economic activities will augur well for this space.
- 2) Light portfolio positioning: Underweight positioning on materials currently stands at -27.0% amongst US portfolios. This suggests investors' positioning is light and expectations are low.

Energy, communication services, and financials possess the highest combined yield



Source: S&P Global

S&P 500 share buybacks to rise in 2024 as earnings rebound. Based on data from S&P Global, share buybacks for S&P 500 totalled USD576.1b in 3Q23 and this constitutes a 19% y/y decline from 3Q22. This should not come as a surprise as share buybacks historically correlate with corporate earnings and the latter was down 0.9% last year (on a full year basis).

By the same token, given consensus expectation of 10% earnings growth this year, we would expect share buybacks to see meaningful rebound as well. Communications services and energy have the highest buyback yield of 4.7%, followed by financials at 2.8%. On a combined yield basis (consisting of dividends and buybacks), the highest are energy (8.2%), communications services (5.8%), and financials (4.7%).

2Q24 US Sector Strategy – Upgrading energy and materials; Downgrading financials and real estate

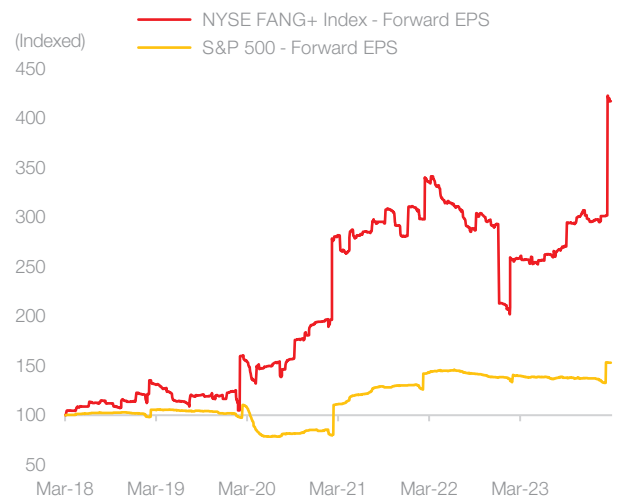
Strong performance of CIO's sectoral calls persisted in 1Q24. Our overweight calls registered average total returns of 9.3% in 1Q24 (as of 11 Mar), outperforming our neutral calls by 6.5 %pts and underweight calls by 4.5 %pts. Within our overweight basket, technology registered the largest gains of 10.9%, followed by communications services at 10.6%, and financials at 8.2%. Healthcare, traditionally a defensive sector, also garnered healthy gains of 7.4% during the quarter.

In our neutral basket, the biggest drag on performance was the real estate space (-0.2%) while within the underweight calls, the main underperformer was utilities (+1.1%).

Maintain conviction view on tech-related plays; Turning positive on energy. Our high conviction call on tech-related sectors has paid off handsomely and we maintain our positive view on this space. Despite the strong run-up since late last year, we believe the strong momentum will persist given:

- Robust earnings momentum: The technology sector is expected to deliver earnings growth of 21% this year and it far supersedes the 10% growth expected from the broader market. Using the NYSE FANG+ Index as proxy, the momentum for “Big Tech” is even stronger with earnings growth expected at 44% in 2024.

Tech possesses superior earnings momentum



Source: Bloomberg, DBS

- Strong cash holdings: “Big Tech” companies possess large cash holdings that will empower them to pursue M&A opportunities to deepen their product/service offerings as well as enhance their “moat” qualities. Today, the total cash holdings of the “Magnificent Seven” stand at USD240b (as of Dec 2023).

Separately, we are also upgrading energy to overweight given (1) improving ROE, (2) high dividend and buyback yield, and (3) light portfolio positioning and low expectations. This overweight positioning will be funded by our downgrade of financials to neutral. In addition, we are also upgrading materials to neutral on expectations of an economic soft landing and this shift will be funded by our downgrade of real estate to an underweight.

US Sector Allocation – 2Q24

US Sectors	Overweight	Neutral	Underweight
	Technology	Materials	Utilities
	Comm. Services	Financials	Cons. Staples
	Healthcare	Cons. Discretionary	Industrials
	Energy		Real Estate

Source: DBS

US sector key financial ratios

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
S&P 500 Index	21.3	4.7	14.0	18.1	3.9	13.7
S&P 500 Financials	15.9	2.1	-	12.7	1.4	18.8
S&P 500 Energy	12.4	2.2	6.3	19.3	9.4	14.6
S&P 500 Technology	37.5	12.3	21.0	29.9	12.5	24.4
S&P 500 Materials	21.8	3.1	13.7	9.6	4.1	10.8
S&P 500 Industrials	21.5	6.2	15.6	24.1	6.2	11.2
S&P 500 Con. Staples	20.2	6.1	14.9	25.5	7.8	8.1
S&P 500 Con. Discretionary	24.6	9.4	15.6	32.7	7.5	10.0
S&P 500 Comm. Services	18.7	4.2	11.9	17.0	6.7	19.9
S&P 500 Utilities	15.7	1.9	11.9	10.0	2.5	19.4
S&P 500 Real Estate	36.8	3.0	20.3	7.7	3.2	23.2
S&P 500 Health Care	19.5	5.1	17.5	16.5	5.8	7.1

Source: Bloomberg

*Data as at 11 March 2024



Source: iStock

Quality Matters

Europe Equities
2Q24

Eurozone is experiencing varying degrees of recovery from a weak growth phase. With ECB's potential easing policies, we favour luxury, healthcare, and tech sectors for their secular growth trajectory.

04. Europe Equities.

Joanne Goh
Strategist

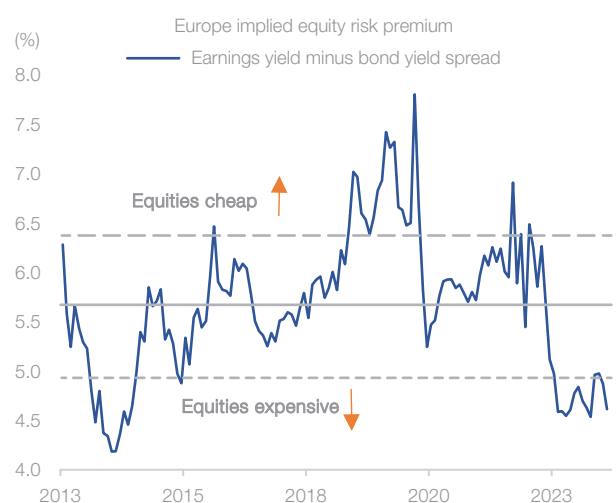
Resilience amid uncertainty. Europe equities have shown resilience in 1Q24, in line with the global improvement in risk appetite, diminishing concerns about inflation, and the increased momentum of the AI-driven tech sector. Leading the gains were European semiconductor, luxury, and healthcare stocks, buoyed by robust earnings performances. Despite this, macroeconomic indicators have weakened, with the region narrowly avoiding a recession in 4Q23.

Market sentiment has been influenced by hopes of economic stabilisation and signs of nascent recovery, compounded by the ECB's potential easing measures. Equity risk premium continues to be compressed, with the spread between earnings yield and bond yields nearing historic lows. Unless there is a significant decline in bond yields or a substantial

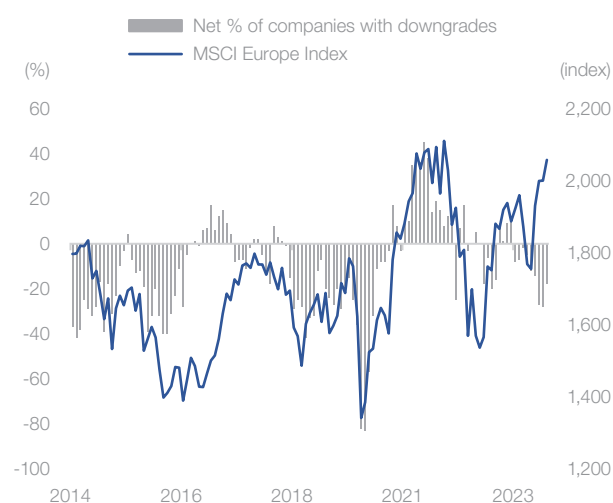
improvement in earnings, the sustainability of gains in Europe equities appears uncertain.

During the 4Q reporting season, absolute earnings declined by 12.2% y/y but overall results surpassed consensus earnings estimates by 3.9%. However, there is considerable variation among sectors. Technology and financials exhibited positive earnings growth and surpassed expectations, whereas communications and consumer staples experienced both negative growth and surprise. More companies witnessed downgrades rather than upgrades to their earnings forecasts, reflecting a lack of confidence for a sustained recovery. Consensus estimates 3% earnings growth in 2024, dragged down by the IT and energy sectors, which we believe could have upside surprise judging by the orderbook and stable oil price.

ERP (Earnings yield minus bond yield) compressed further



Earnings downgraded for consecutive six months



Economy stabilising at weak levels. The economy is showing signs of stabilising at weakened levels, with certain indicators suggesting that conditions are, at the very least, not deteriorating further. Key indicators include PMIs that are beginning to rise but remain below the threshold of 50, an uptick in credit demand, stable bank lending conditions, and energy prices holding steady at around USD80/bbl.

Varying recovery within Eurozone. However, member countries are experiencing varying degrees of recovery. Among the core-4, Spain expanded by 0.6% q/q, followed by a 0.2% increase in Italy. This divergence is propelled by tailwinds such as a robust rebound in tourism, increased labour demand boosting participation rates, growth in the manufacturing/export sectors, and supportive fiscal policies. In contrast, Germany's output contracted, narrowly avoiding a recession, while France experienced stagnation. Germany's economic performance has been hampered by a slowing manufacturing sector, geopolitical challenges, high input costs, and slower growth in China over the past five to six quarters.

Europe's geopolitical challenges

Geopolitical challenges are eroding investor confidence in European markets, impacting various facets of Europe's economic performance, including trade disruptions, energy security, and regional integration. These uncertainties and risks pose threats to growth and stability, as discussed below.

Trade: Trade relations in Europe are vulnerable to geopolitical tensions such as trade disputes or sanctions, leading to reduced exports and increased costs for European businesses, thus affecting economic growth. In recent years, affected exports

to US with Chinese parts, such as autos, apparel makers, and solar-energy manufacturers risk being held up in or sent back from US ports.

As the US elections approach, the possibility of a second Trump term introduces the potential for new tariffs targeting the EU. Reports indicate that Trump may impose a blanket 10% tariff and countermeasures against European digital services taxes aimed at US Technology companies. ECB President Lagarde has warned that a Trump re-election could pose a significant threat to the EU's interests, particularly in trade policies and climate change efforts.

Energy: Europe's heavy reliance on energy imports, especially natural gas and oil, exposes it to geopolitical tensions in supplier regions like the Middle East or Russia, leading to supply disruptions and price spikes. However, Europe is actively addressing energy security concerns through diversification of sources and investments in renewable energy and efficiency.

Regional Integration: Geopolitical tensions within Europe, including disagreements between member states or separatist movements, can impede regional integration efforts, hindering the implementation of cohesive policies to address common economic challenges. Initiatives like the European Commission's proposal for cross-border mergers in the telco sector aim to foster regional cohesion but may pose challenges for domestic companies.

While we are less positive on the European market because of macro economic weakness, certain sectors like luxury, tech, and healthcare present appealing opportunities. These industries boast global exposure, with earnings derived from

international markets, and are positioned to benefit from long-term secular trends.

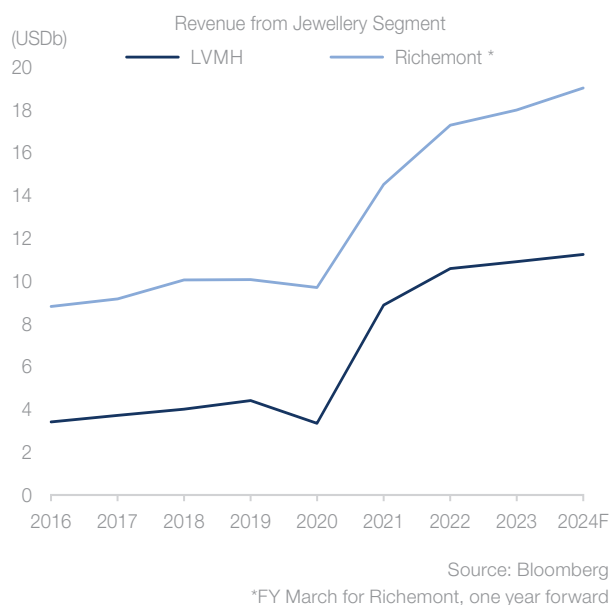
Sectors to watch

Luxury – bracing for recalibration. Shifting economic and political landscapes present nuanced challenges for the luxury sector, particularly affecting mid-tier buyers who have historically contributed significantly to luxury sales. We favour names that are aligned with the ‘Quiet Luxury’ theme, comprising brands that leverage shifting consumer mindsets to maintain superior profitability, as previously discussed in [CIO Vantage Point: Luxury, Redefined](#). With subtle displays of affluence continuing to gain popularity amid growing social divide, these brands appeal to the ultra-wealthy who are well-buffered against sticky inflation and an era of elevated bond yields.

Among luxury goods sales, jewellery has lagged leather goods to some degree until recently. Signs of change, as illustrated in the latest reporting season among luxury stocks such as Richemont and LVMH, indicate robust performance across various jewellery brands. This shift can be attributed to strategic efforts focused on product diversification, innovation, and a heightened focus on gold products and fine jewellery featuring contemporary and easily recognisable designs. Concurrently, there has been a concerted effort to enhance offerings at entry and mid-price points.

These initiatives are anticipated to foster a more inclusive perception of jewellery, aligning it better with contemporary lifestyles where jewellery is seen as an everyday accessory. Traditionally associated with high price points and a focus on diamonds and intricate designs, jewellery has often been perceived as less suitable for daily wear, especially

Jewellery sales as rising growth contributor

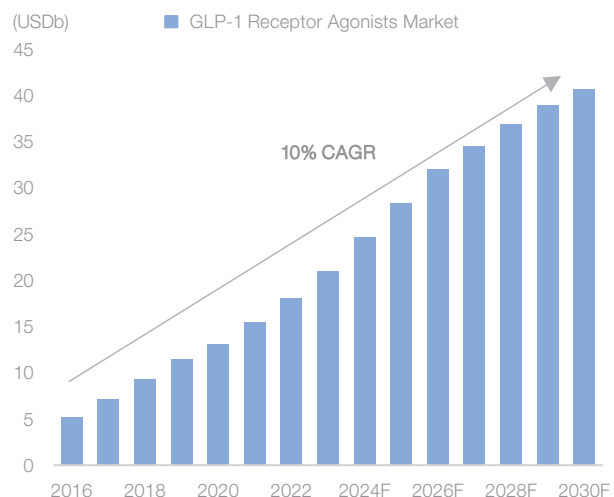


in professional settings. However, with the evolving product mix and emphasis on accessibility, there's a growing recognition of jewellery as a versatile and wearable choice for various occasions, including the workplace.

Healthcare – Gaining with GLP-1. There's considerable upside potential in the pharmaceutical realm. GLP-1 drugs, which target the protein glucagon-like peptide-1 (GLP-1) within the human body, garnered attention in 2021 when a specific GLP-1 medication demonstrated a remarkable ability to reduce body weight by 15% over 68 weeks. Initially designed to aid type-2 diabetes patients in managing blood glucose levels, these drugs gained widespread recognition, earning the moniker of a “blockbuster diet drug” across both mainstream and social media.



Growing global GLP-1 market



Source: Frost & Sullivan, DBS

However, the significance of GLP-1 drugs transcends weight loss alone. A pivotal moment for this drug class emerged in Aug 2023 when clinical data revealed their potential to decrease the occurrence of heart attacks, strokes, or fatalities from heart disease by 20%. Additionally, positive developments in clinical trials in Oct 2023 hinted at the possibility of utilising GLP-1 drugs in treating chronic kidney disease. These advancements forecast a potential 27% expansion in global user base to 1.2b by 2024, as per current 2024 statistics.

Pharmaceutical companies worldwide are actively involved in R&D endeavours, vying for dominance in the relatively untapped GLP-1 market. We anticipate that FDA approvals and favourable clinical trial outcomes could significantly bolster the share prices of companies focusing on GLP-1 drugs. These include anticipated FDA approvals for GLP-1 drugs in treating cardiovascular disease and positive clinical data releases for its use in chronic kidney disease treatment, both anticipated in 2024.

For European pharmaceutical firms that successfully develop and market GLP-1 drugs, there lies a significant opportunity. By doing so, they can fortify their position in the diabetes treatment sector, fostering increased market share, brand recognition, and trust among Healthcare professionals and patients. This strategic move can fuel revenue growth through the introduction of innovative therapies and the expansion of market reach.

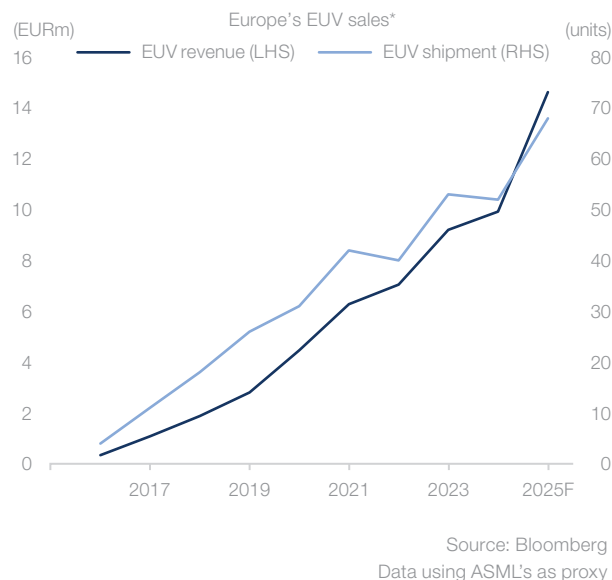
Tech - All eyes on EUV. One of the prized industries within the Europe Tech sector is the EUV (Extreme Ultraviolet) sector. Key for semiconductor industries due to its advanced technology for lithography, this remains a critical process in semiconductor manufacturing. EUV lithography enables the creation of smaller and more complex semiconductor components, which is essential for meeting the demands of modern technology such as AI. With EUV technology, semiconductor manufacturers can produce chips with higher transistor densities, improved performance, and reduced power consumption. This technology is pivotal for enabling the development of next-generation electronic devices, including advanced processors, memory chips, and other integrated circuits. Consequently, the success and advancement of the EUV sector will directly impact the competitiveness and innovation capabilities of semiconductor industries worldwide.

We anticipate that the sector will sustain robust earnings growth despite US sanctions affecting Europe's key customers. They have implemented a variety of strategic measures to circumvent these sanctions, drawing upon their global presence, diversifying partnerships, ensuring compliance, and engaging stakeholders to safeguard their interests. European tech firms are also proactive in engaging with European governments and regulatory bodies to advocate for policies that bolster their business

interests and shield them from the extraterritorial impacts of US sanctions. This often involves diplomatic efforts to address concerns related to trade and investment restrictions imposed by the US. Additionally, the companies prioritise the development and sale of technologies not subject to US sanctions, thereby averting potential conflicts with US regulations. By investing in R&D and innovation, they can innovate their products and services, potentially diminishing their dependence on technologies subject to US sanctions. This strategic approach enhances their competitiveness and resilience when confronting regulatory challenges.

Banks – Mixed fortunes. 60-70% of European stocks have reported 4Q earnings, with earnings being weak, EPS beats nearing all-time lows, and an average y/y decline of 11% in bank earnings. As rates stay elevated going into 2024, challenges include higher funding costs and sluggish loan growth, amid continued weakness in most European economies. Outlook thus remains cautious from a NIM standpoint. Cost provisions remain mixed with this quarter seeing provisions from litigation and commercial real estate exposure. We expect growing pressure on deposit margins and asset quality.

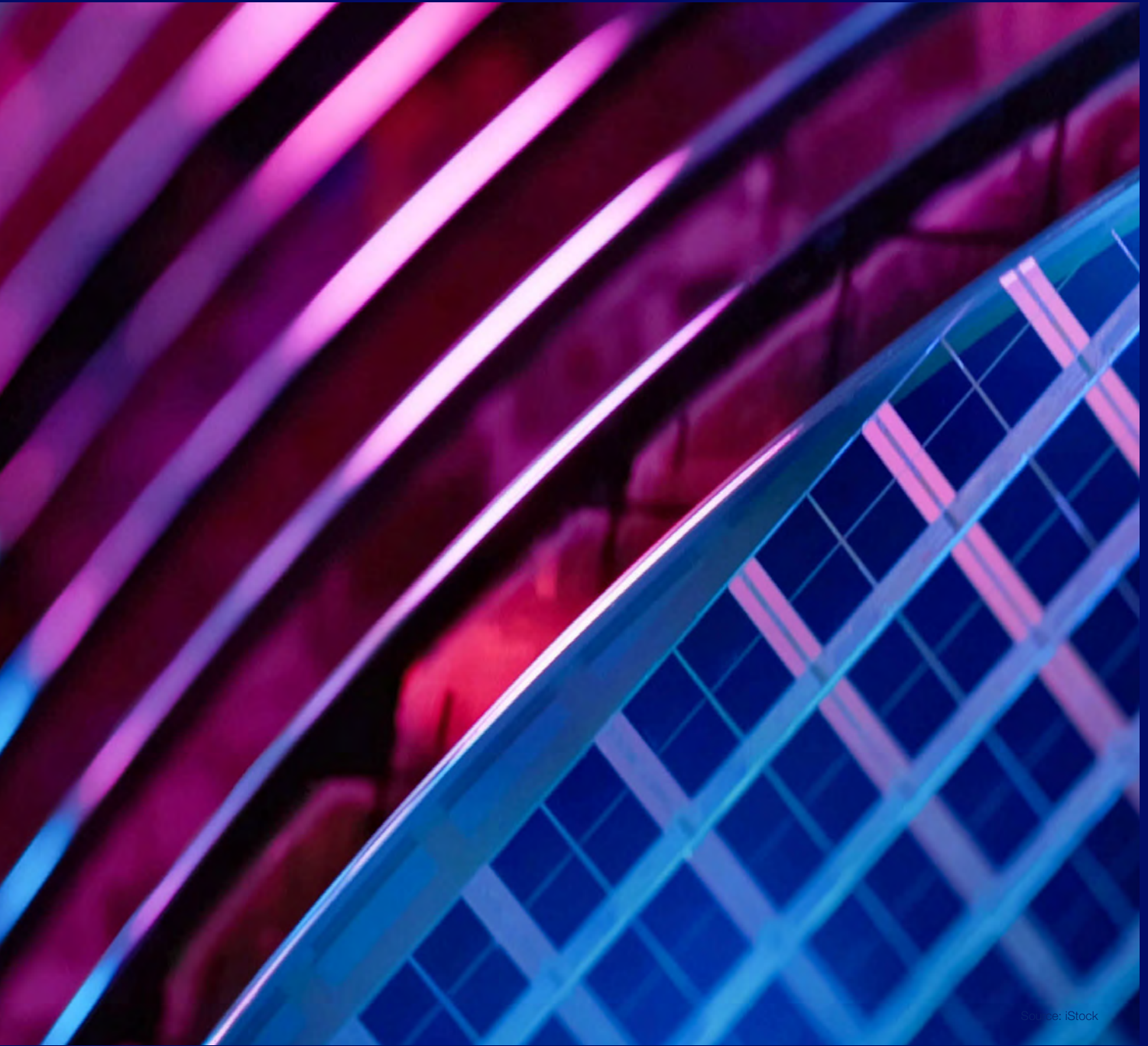
Strong order book till 2025



Japan's Chip Renaissance

Japan Equities
2024

Momentum has picked up in Japan and is expected to persist in 2Q. Japan banks to benefit from BOJ's rate normalisation while the semiconductor sector will see renewed dynamism from growing infrastructure and deepening manufacturing expertise.



05. Japan Equities.

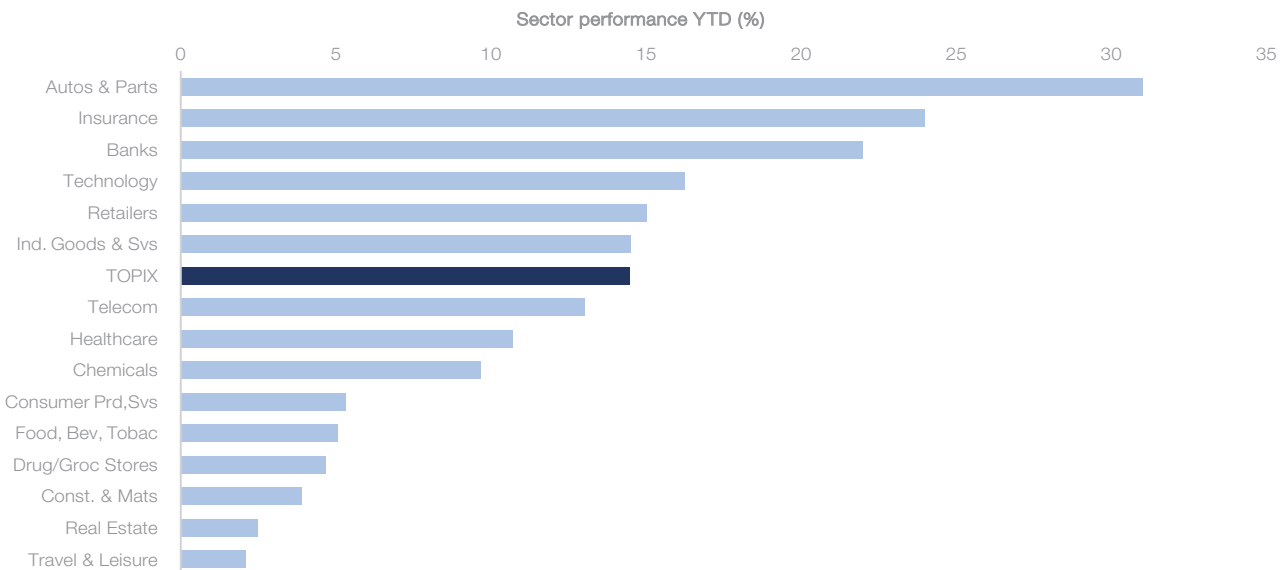
Joanne Goh
Strategist

Momentum picking up. In the first quarter of 2024, Japan's TOPIX index resumed its upward trajectory as global risk appetite increased, buoying Japanese stocks. The BOJ's decision in December 2023 to delay policy normalisation and the yen's depreciation provided a sense of relief to equity investors who had been concerned about the potential repercussions of a shift in monetary policy. Despite economic challenges, Prime Minister Fumio Kishida's structural reform initiatives garnered positive attention from investors, overshadowing concerns about the country's economic weakening. Foreign investors re-engaged with Japanese equities, particularly as uncertainties persisted in the outlook for Chinese equities. Additionally, a global rally in semiconductor stocks boosted related technology, industrial, and chemical sectors in Japan. Notably, Japan's TOPIX emerged as the top-performing index in the first

quarter, delivering a robust 18.9% return in local currency terms and 10.7% in USD.

Stocks with global exposure benefiting. In terms of individual sectors, those with significant exposure to global earnings exhibited stronger performance compared to domestically oriented sectors. Notably, sectors such as Automobiles, Electronics and Electricals, and Machinery, which are pivotal to Japan's economy, outshone others. While financials are anticipated to benefit from the shifting interest rate regime, major banks are currently reaping substantial profits from fee income amid buoyant financial markets. However, companies must adeptly navigate challenges, including rising material and labour costs, as well as subdued domestic and Chinese consumption, before demonstrating robust profitability to bolster share prices.

Globally exposed sectors are winners

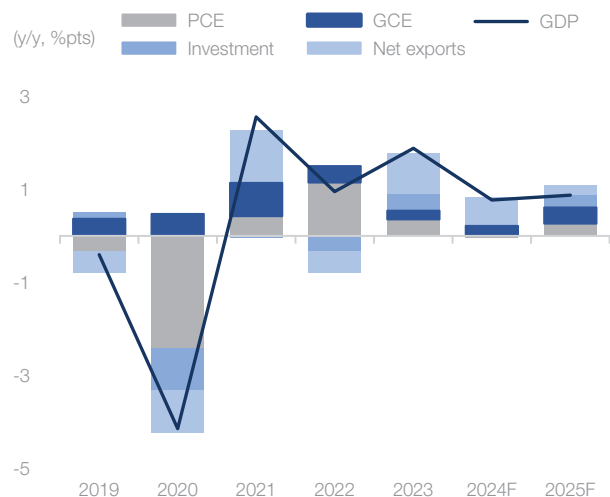


Source: LSEG Datastream, DBS

Technical recession in 4Q23, slower growth in 2024. In the October-December period, Japan's GDP unexpectedly fell by an annualised 0.4%, following a 3.3% decline in the previous quarter, pushing the country into recession and causing it to lose its position as the world's third-largest economy. Although the number was subsequently revised upwards and a technical recession narrowly avoided, private consumption, which accounts for over half of economic activity, contracted for two consecutive quarters. This decline in real wages, driven by higher inflation outpacing wage growth, has limited consumers' purchasing power and dampened overall consumption. Furthermore, Japan's ageing population presents long-term challenges to consumption patterns. Population decline worsened in 2023, with 759,000 new births compared to 1.59 million deaths, exacerbating Japan's demographic woes.

Signs of export recovery. Looking ahead, Japan's GDP growth is expected to remain subdued this year as the temporary benefits of tourism, derived from its borders reopening, fade. However, there are signs of potential export recovery, driven by increasing demand for AI-related technologies, particularly in electronic chips, components, and equipment. The weakening yen is anticipated to continue supporting export revenues, encompassing both goods and services. While the full impact of the establishment of the TSMC semiconductor plant may not be felt until the end of 2024, private investments are expected to pick up in anticipation of future growth opportunities.

Breakdown of Japan's GDP growth



Source: CEIC, DBS

We anticipate that the Japanese market will confront several challenges in the coming months, including:

1. A new dawn for BOJ policy

The BOJ has embarked on policy normalisation, ending its NIRP and abolishing YCC. The BOJ will also limit its maximum bond purchases across different yield tenors and end the buying of TOPIX ETFs and Japan REITs. We believe this serves as a stamp of confidence by the BOJ to mark the end of Japan's deflationary era, accompanied by the return of stable growth and inflation. Nonetheless, BOJ governors indicate that financial conditions will remain accommodative, and that this is not the beginning of a tightening cycle given a still fragile economic recovery.

We believe the end of negative rates is a positive for Japanese corporates given their low debt and high cash levels, since having cash will no longer be a drag on their income. However, with rising inflation and wages, corporates may have to work the cash harder. Two-fifths of companies polled in a Reuters Tankan survey said they are looking to boost capital spending in the financial year and they expect further rate hikes. In conjunction with wage hikes and government efforts to boost corporate ROEs, a virtuous reflation cycle may kick in, benefiting the banks as whole. Before that, however, non-financial corporates will have to grapple with rising costs amid dwindling domestic demand.

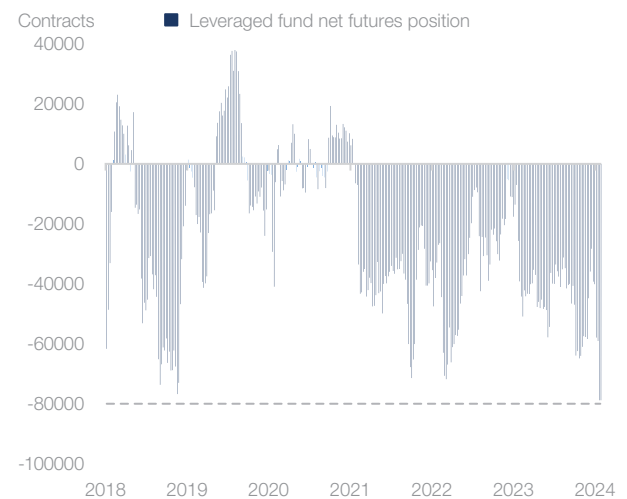
2. Strong positioning in yen carry trades

Investors in Japanese equities should closely monitor the potential impact of a strengthening yen, particularly considering the prevalence of yen carry trades — a popular strategy involving borrowing yen to invest for higher returns. The unwinding of these trades could be particularly volatile due to significant market positioning.

USD/JPY had stayed buoyant around 150 as few expect another rate hike from the BOJ following its decision on NIRP reversal during its policy meeting on 19 Mar. We see a risk for market assumptions of a dovish BOJ rate outlook to be challenged given sharp wage gains, equity market strength, rising productivity growth, and a multi-decade high in loan growth. If the BOJ delivers a less dovish outlook following its rate hike, expect a bump up in JGB yields and a rebound in the JPY.

Meanwhile, the Nikkei index has surpassed its previous peak from the 1989 bubble era, primarily driven by foreign investor inflows. The sudden exit of investors from their yen short positions could amplify market volatility during the unwinding process, especially in sectors that have benefitted from a weaker yen.

Significant yen shorts pose market pressure



Source: Bloomberg, CFTC, DBS

3. US Fed policies

The policies of the US Federal Reserve will undoubtedly influence movements in the yen, primarily due to the interest rate differential between US and Japanese bonds, which has historically bolstered the dollar and weakened the yen. Market expectations currently suggest the pricing in of 4-6 Fed rate cuts, which could potentially lead to yen fluctuations driven by a general anticipation of USD weakness resulting from the Fed's rate cuts. However, uncertainties surrounding BOJ policies, coupled with data indicating a resilient US economy contrasted with a weaker outlook for Japan, further complicate the situation. Despite these factors, it is essential to note that assuming a weak dollar and a strong yen as the base case may not be prudent.

4. US presidential election

The upcoming US presidential election in November is anticipated to be a closely contested rematch between the Democratic incumbent, Joe Biden, and the former Republican president, Donald Trump, who is currently favoured to win, according to polls.

In the event of Biden's re-election, we anticipate a continuation of broad policy consistency, with a focus on strengthening alliances and addressing global challenges through collaborative efforts.

Both Japan and the US are renowned leaders in technology and innovation. Increased collaboration between the two nations in areas such as AI, 5G technology, cybersecurity, and space exploration holds significant potential to drive innovation, spur economic growth, and bolster the competitiveness of Japanese firms in global markets.

Conversely, Trump's approach towards China is expected to be more unilateral and transactional, with less emphasis on garnering international support. This stance could adversely affect companies with exposure to China under his administration, as policies may lean towards a more confrontational approach.

5. China's economic recovery

Japan maintains robust economic ties with China, yet the prevailing sentiment among the majority of Japanese firms regarding China's outlook remains pessimistic. The primary concern revolves around the prospects of China's prolonged economic slowdown. In recent years, China has transitioned from a phase of rapid growth to a more tempered pace of expansion, prompting apprehension among Japanese firms. This deceleration poses challenges as it impacts the demand for Japanese products and services in the Chinese market.

In response to these challenges, Japanese businesses are changing their strategies to navigate the

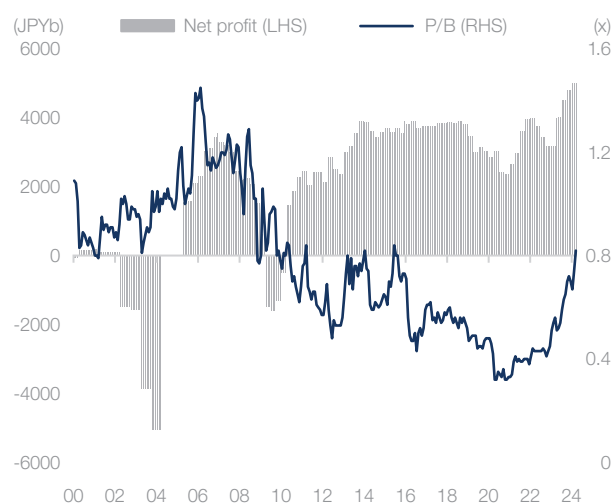
slowdown in China's economy. They are diversifying their markets, prioritising innovation, optimising supply chains, forging strategic partnerships, and leveraging government support. These measures collectively aim to mitigate risks and capitalise on opportunities for growth amid an evolving economic landscape.

Strategy

Maintaining a neutral stance. Amid ongoing uncertainties, we continue to maintain our neutral stance on Japan, recognising that these factors are likely to continue weighing on risk appetite and corporate investment decisions, thereby dampening any upside surprise in Japan's growth outlook.

While we acknowledge the challenge posed by potential BOJ policy change and a stronger yen, we do not anticipate it derailing the positive trend. However, given the heightened valuations, our attention is directed towards sectors bolstered by government stimulus and the long-term trend in AI. Notably, banks appear undervalued based on P/B ratios, and the semiconductor industry's resurgence benefits from robust government support.

Room to re-rate P/B as earnings rise



Source: LSEG Datastream, DBS

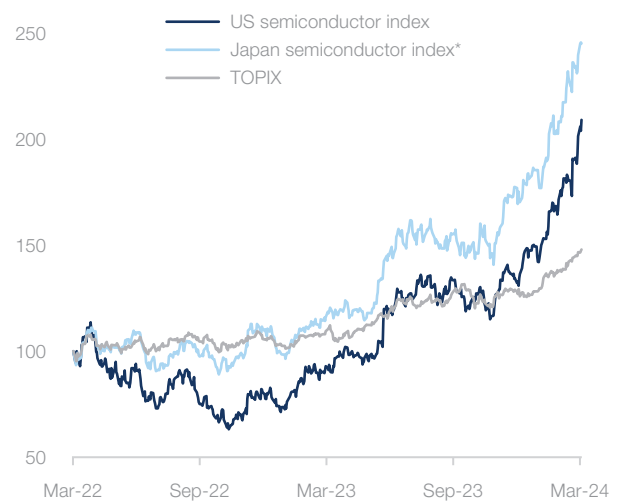
Favourable outlook for major banks. We maintain a favourable outlook on Japan's major banking sector. The three leading megabanks continue to exhibit undervaluation, trading at P/B ratios ranging from 0.7 to 0.9x. Combined net business profits before provisioning across the five major banks saw a robust 14% y/y increase. Fee and commission income continue to ascend, driven by transactions with large corporations both domestically and internationally.

Moreover, evidence of profit growth in fee income has emerged within the banking sector, even prior to any potential adjustment of the BOJ's NIRP. We anticipate ongoing support for banks' share prices stemming from the resilient business structures they have cultivated. These structures are poised to capitalise on positive shifts in the macroeconomic landscape, including potential increases in interest rates following BOJ actions.

Renewed dynamism in Japan semiconductor sector. The establishment of TSMC's inaugural Japanese plant in Kyushu signifies a pivotal moment in Japan's endeavour to rejuvenate its semiconductor manufacturing industry and assert itself as a significant global player in the field. TSMC's entry into Japan has catalysed investments across the sector, with expectations that it will elevate Japan's worldwide semiconductor manufacturing share to 3% by 2027. Collaborations between TSMC and Japanese giants like Sony and Toyota aim to fortify Japan's access to vital chips crucial for various sectors, including electronics, automotive, and defence.

Largest semiconductor material manufacturer. We anticipate a ripple effect on Japan's already robust chip infrastructure. Japan boasts exceptional capabilities in the tools and materials essential for cutting-edge chip production, with its suppliers often leading the industry in their specialised domains. Notably, Tokyo Electron (TEL) dominates the market for EUV lithography equipment, while Japanese firms JEOL and NuFlare command a significant share in

Japan's semiconductor sector outpaced US's



Source: LSEG Datastream, DBS
*Global X Japan Semiconductor Index

mask-making globally. Japan stands as the world's largest semiconductor material manufacturer, with over 50% share in critical materials such as photomasks, photoresist, and silicon wafers.

Nurturing domestic leadership in semiconductors. Japan is actively fostering the growth of its semiconductor sector, revitalising hubs in Kyushu, Tohoku, and establishing a new one in Hokkaido. Kyushu, often dubbed "Silicon Island," hosts major Japanese semiconductor manufacturing facilities. Tohoku, encompassing areas around Sendai and Fukushima, accommodates key vendors such as SUMCO and Shin-Etsu, along with Tohoku University, which is renowned for its semiconductor materials research and engineering prowess. Japan's broader vision includes nurturing domestic leadership through initiatives like Rapidus, led by industry veterans and in collaboration with global leaders like IBM and Europe's IMEC. This initiative aims to achieve large-scale production of cutting-edge chips on Hokkaido, commencing in 2027.



Slow & Steady

Asia ex-Japan
Equities
2Q24

Existing headwinds have largely been priced in. AxJ equities trade at steep valuation discount. We anticipate positive catalysts for a turnaround in sentiment.

06. Asia ex-Japan Equities.

Yeang Cheng Ling

Chief Investment Officer,
North Asia

Joanne Goh

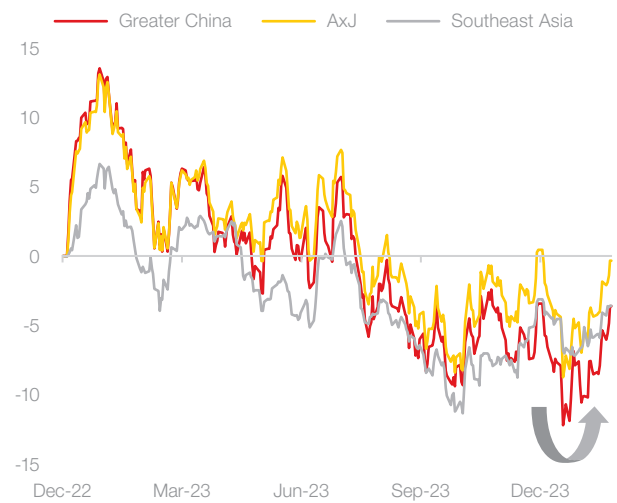
Strategist

Contrary to our expectations, AxJ equities started 2024 weak, as deflation, slowing consumption, excess supply of properties, and low allocations by global investors persisted.

China – Underperformance in the past decade.

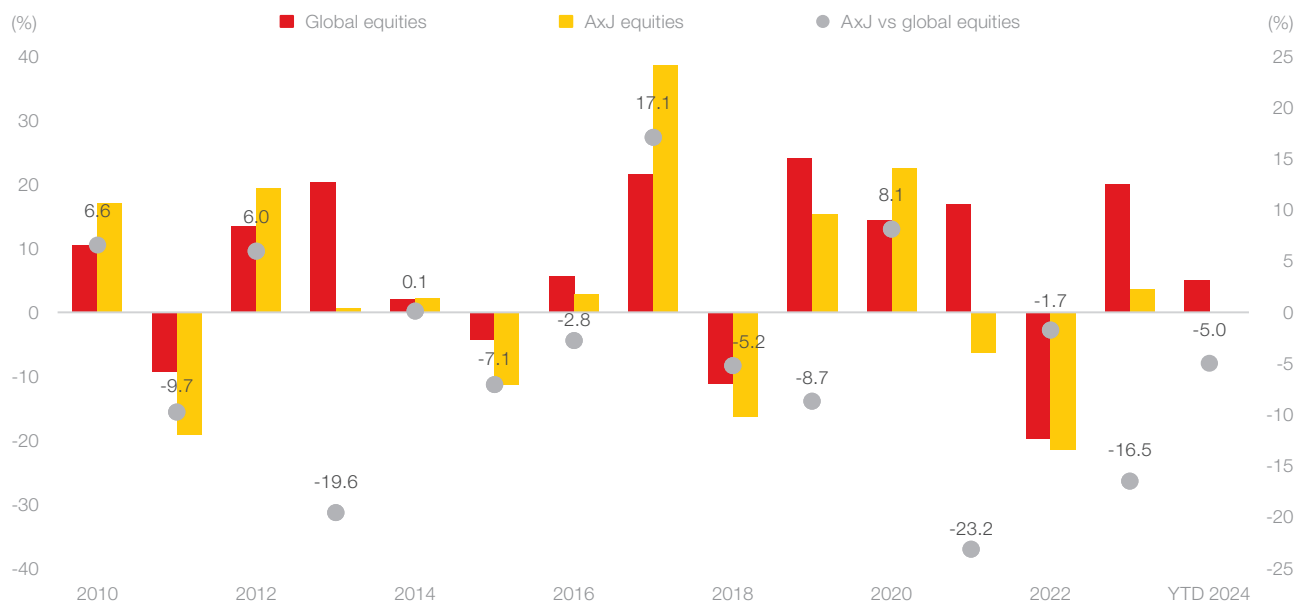
2012, 2017, and 2020 saw China's outperformance buoy the overall returns of AxJ equities. Apart from that, AxJ has underperformed global equities in most years over the past decade. Between 2021 and 2023, the region recorded three consecutive years of underperformance relative to global peers due to ongoing headwinds. These include concerns over China's economic recovery amid modest policy measures, persistently high US interest rates, supply chain disruptions, and ongoing tensions between the US and China.

Underperformance of AxJ equities in recent months



Source: Bloomberg, DBS

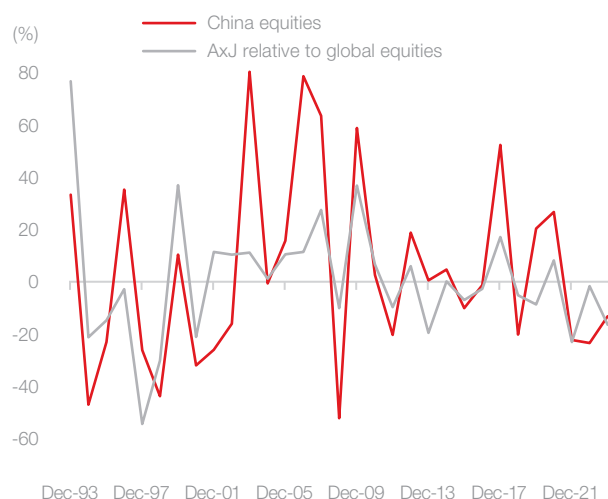
Comparing the returns of AxJ and global equities



Source: Bloomberg, DBS

The last time MSCI China declined for three consecutive years (2000-2002), it subsequently rebounded strongly by over 80%. The current sharp discount, extremely low valuation, and light positioning among investors set the stage for a rebound when increasing Chinese government policy support finally turns the economy around. The region's underperformance is anticipated to reverse then.

A rebound in China's market has buoyed AxJ performance in the past



Source: Bloomberg, DBS

SEA – Effects of fiscal stimulus. Southeast Asia (SEA) nations are expected to introduce fiscal stimulus in 2024, reversing the post-Covid fiscal austerity. Notably, according to historical data, government-driven supportive measures profoundly benefited corporate earnings over the mid-to-long

term. When implementing fiscal stimulus, however, SEA nations will need to juggle between reigniting growth, keeping a lid on inflation, and managing level of debts.

Since the pandemic began, SEA saw an unprecedented surge in public debt as the region initiated a series of fiscal stimulus to stabilise their domestic economy. Aggravating the situation, as interest rates rose over the past two years, these nations' financial burdens, in terms of debt repayment, grew heavier. With rates projected to ease from current levels, these governments will likely breathe a sigh of relief and will be able to channel their funds to more productive expenditure.

China

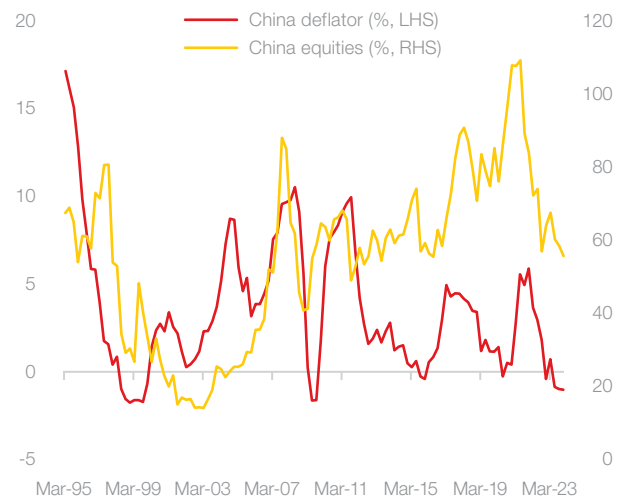
Pro-growth measures to combat deflationary pressures. China's deflationary pressures have held its market back, with the GDP deflator remaining in negative territory for three quarters in a row, the longest since 1999. This was mainly due to food and energy price weakness, along with sluggish aggregate demand during this post-Covid period. Deflation has not only weighed on corporate earnings, but also resulted in de-rating in the equity markets through rising real interest rates.

It is, however, not unprecedented to witness deflation in China. These instances occurred during the Asian Financial Crisis (1997-1998), China equity selloff (mid-2015), Global Financial Crisis (2008-2009), and Covid-19 (2020).

Historically, deflation persisted for an average length of three quarters, with the longest period lasting seven quarters. In previous occasions of deflation, China's growth eventually turned around as reflation efforts succeeded. The recent deceleration in price highlights the need for additional support from the government to revitalise the economy and restore consumer confidence. China's market performance has a close correlation with the deflator data. Hence, the GDP deflator acts as a leading indicator to determine when the market bottoms.

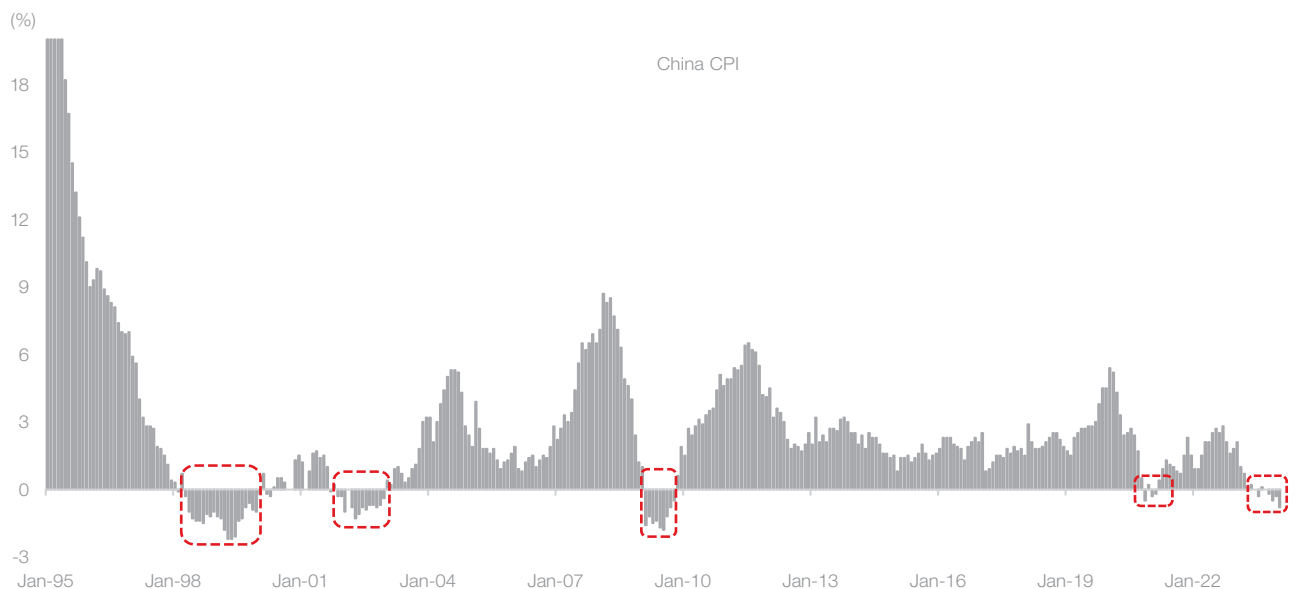
The implementation of pro-growth measures is anticipated to restore growth in the GDP deflator, which would help lift sentiment. With the market's low base last year, coupled with gradual domestic consumption recovery, we expect price indices to gradually climb out of deflation.

Stronger reflation efforts could support stock market performance



Source: Bloomberg, DBS

China deflation lasted an average of three quarters in the previous four cycles

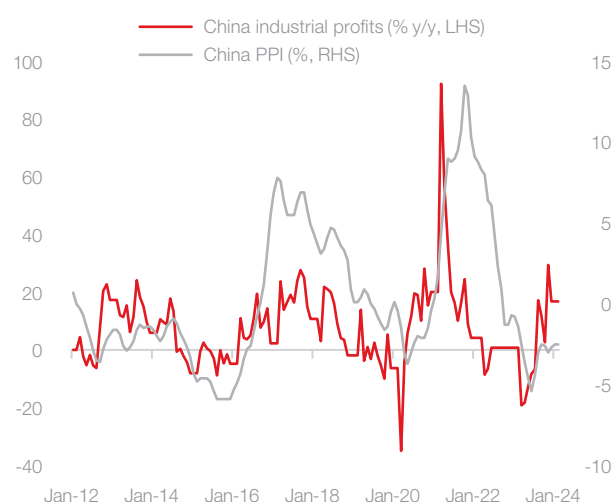


Source: Bloomberg, DBS

PPI inflation and industrial profits are closely correlated. Previous PPI data moved in tandem with the profit growth momentum. As PPI is expected to regain momentum towards 2H24, it should drive earnings revisions across China equities and support multiple expansions.

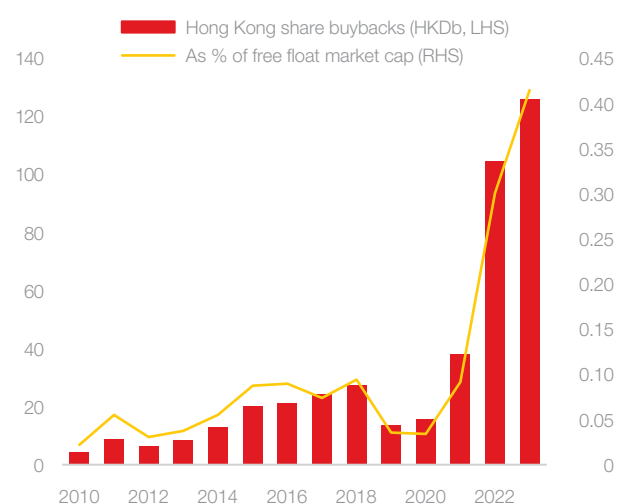
Increasing share buybacks in Hong Kong supportive of markets. The number of buyback announcements in Hong Kong has been rising and reached the highest level towards the end of 2023. It has been observed that whenever Hong Kong's index reaches a bottom, buyback announcements would increase. It can be surmised that companies are increasingly turning to share buybacks to support their stock prices. Indeed, they spent a record high HKD125b on buybacks in 2023.

Close correlation between PPI and corporate earnings

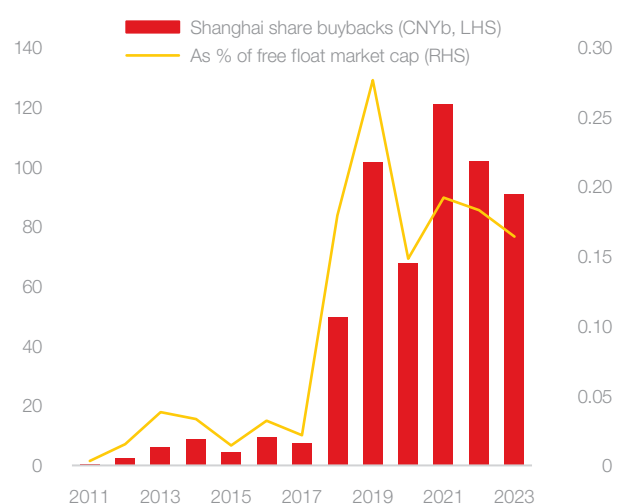


Source: Bloomberg, DBS

Share buybacks in Hong Kong and Shanghai Exchanges to support their markets



Source: Wind, DBS



Source: Wind, DBS

A high level of share buybacks may reflect an increasing number of companies believing their shares are undervalued, having balance sheet strength, and expecting meaningful revaluation in the future. This signals the companies' confidence in their prospects, which, in turn, helps bolster investor sentiment and builds a floor for stock prices.

In a bid to align its capital markets with global standards, and to better reflect the true value of listing entities, the government has introduced policy initiatives like tagging the market capitalisation of China state-owned enterprises as a key performance indicator for listed companies.

Government initiatives to provide upside for China. In China, slowing consumption and enduring issues facing the real estate sector continue to drag down sentiment. Furthermore, ongoing tensions with the West as well as slowing global growth exacerbate the bifurcated market returns between China equities and global peers.

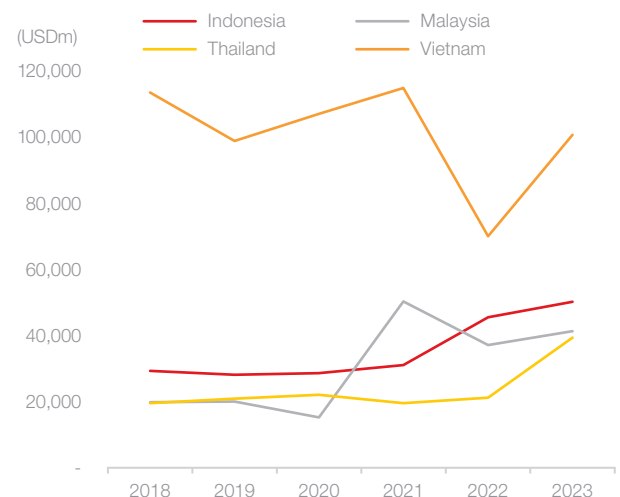
To shore up the flagging capital markets, revitalise investors' confidence in capital markets, and rekindle investors' participation, China's government has rolled out a series of policy initiatives. We expect the authorities to introduce additional measures to revive the real estate sector, especially to ensure the completion of halted projects and delivery of pre-sold new homes that are still under construction. This would help prevent further downward drag to the broader economy.

ASEAN and India

USD strength key determinant for ASEAN markets. The primary factor influencing ASEAN markets continues to be the USD, with foreign exchange playing a crucial role in equity performance. A decline in the USD is necessary for the region to see improved performance. There is potential for such conditions to materialise this year, especially as the US Federal Reserve considers rate cuts in the later half. Conversely, any resurgence in USD strength could pose challenges for ASEAN markets.

Having said that, sector-specific dynamics within domestic markets are expected to fuel alpha generation. There are promising opportunities in various sectors: Indonesian banks and telcos, Thailand's tourism and industrial property, Singapore's REITs and banks, as well as Malaysia's construction sector. Additionally, the Vietnamese market may experience a re-rating due to the possibility of its index being included in global benchmarks.

Rising FDI inflows to ASEAN in response to China+1 diversification



Source: CEIC, DBS



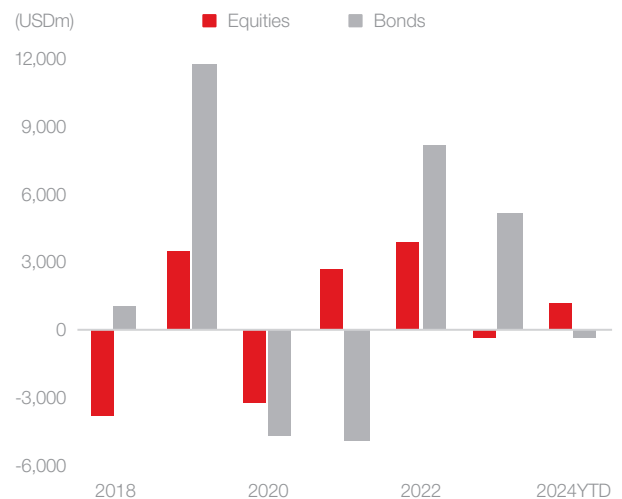
Bright spots in the region

Indonesia: Indonesia's market reacted positively after the presidential election in mid-February. Among the big caps, banks and telco performed well in February amid strong results and robust guidance. In terms of political leadership, until the inauguration in October, we believe President Joko Widodo will continue to execute existing policies to support the economy, including the Capital City project (IKN), social assistance programmes, and downstream policy on mineral resources. That said, even after the inauguration, we expect programmes initiated by Widodo to be maintained by the new president.

Singapore: S-REITs experienced a decline in sentiment amid the adjustment of Fed rate hike expectations and a pause in distributions per unit within the US office sector due to ongoing valuation challenges. We favour retail and hospitality REITs, which stand to gain from the "Swiftonomics" – a term describing pop star Taylor Swift's boost to the local economy as she performs in various countries – and the upcoming series of major MICE events. Meanwhile, Singapore banks continue to pay good dividends amid strong sets of earnings.

Malaysia: There was notable interest in Malaysia's prominent country-level themes, such as government stimulus efforts, the shift towards renewable energy, and the redevelopment of Johor's property and economic sectors, which were galvanised by the establishment of a special economic zone between Johor Bahru and Singapore. Construction stocks stand out as primary beneficiaries of these developments.

Annual flows to Indonesia



Source: Bloomberg, DBS

Thailand: Sentiment towards Thailand remains subdued due to challenges facing the new government amid a sluggish economy and delays in fiscal stimulus measures like the digital wallet scheme. However, we anticipate a resurgence in FDI applications and tourist arrivals, alongside a gradual resolution of political divisions, which should propel the country towards a more stable growth trajectory this year.

Vietnam: Vietnam has emerged as one of the fastest-growing markets in ASEAN over the past five years, benefiting significantly from supply chain shifts amid geopolitical tensions, as businesses adopt strategies like China+1. With a CAGR of 7.1% since 2017, per-capita GDP surpassed USD4,000 in 2022. Despite substantial growth, Vietnam remains in the early stages of urbanisation, with only 38% of the population residing in urban areas as of 2021.

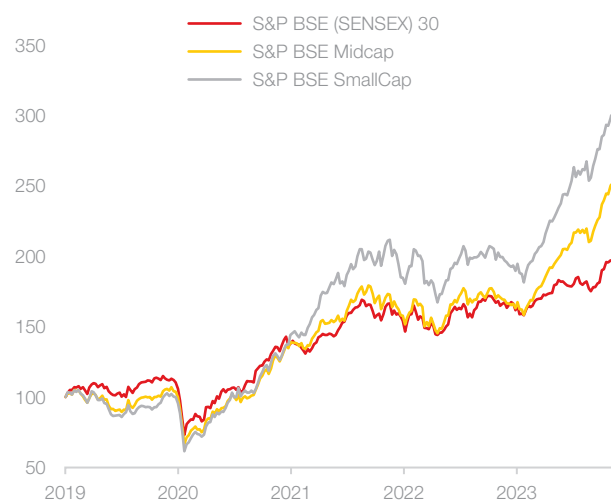
Thus, the government is committed to infrastructure investment to drive the urbanisation rate and GDP per capita. We anticipate a potential market re-rating, especially with considerations for Vietnam's index to be included in global benchmarks possibly within the current year.

India: India's economy has demonstrated remarkable resilience thus far and is poised to sustain its strong performance into the upcoming year. Moreover, earnings projections continue to exceed expectations, with anticipated growth of 14% over the next 12 months, a figure we deem realistic given India's robust GDP expansion of over 8%. To navigate the elevated valuations while capitalising on

attractive growth prospects, we suggest considering investment in small- or mid-cap funds. These funds are particularly appealing to domestic investors, who are experiencing ample liquidity. Moreover, recent regulatory cautions regarding such funds are expected to prompt enhanced risk management practices.

Overall, AxJ corporates are forecast to deliver earnings growth exceeding 15% in 2024, significantly outperforming global markets and marking a sharp recovery from the previous year. In North Asia, Taiwan, and South Korea, earnings are expected to grow between 15-25%, riding on a recovery in semiconductor demand. China firms, meanwhile, are projected to deliver earnings increase in the range of mid-teens.

Performance of small- and mid-caps in India



Source: LSEG Datastream, DBS

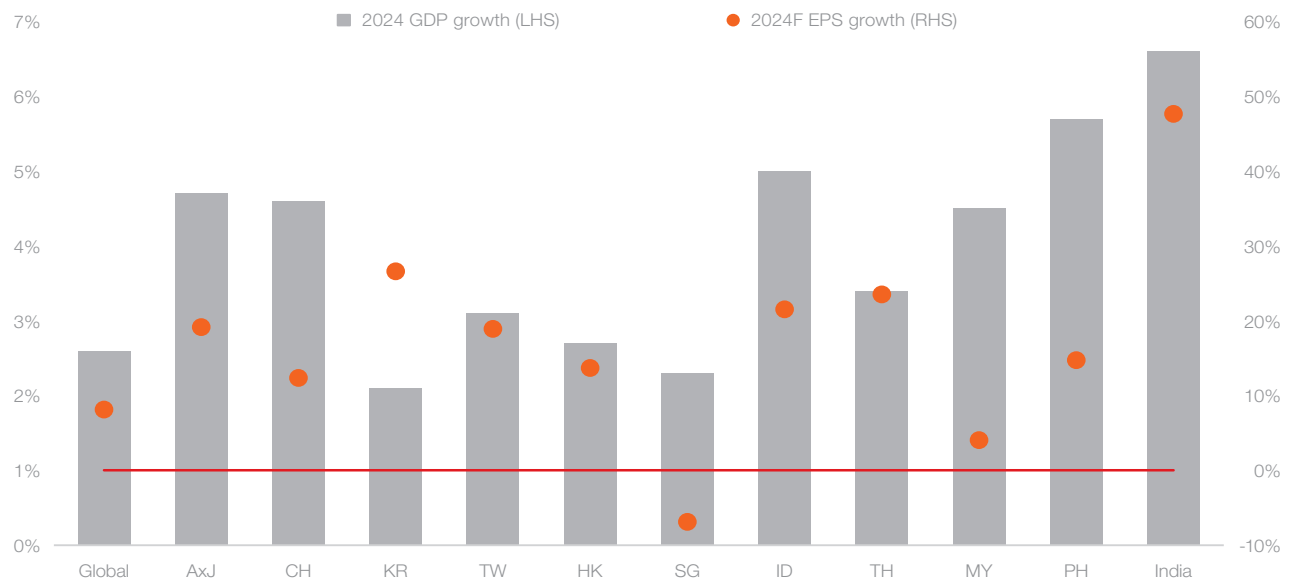
This expectation is supported by the region's robust GDP growth forecast of 4.7% and the bottoming of exports. Against this backdrop, Asia, led by India, the Philippines, Indonesia, and China, will maintain GDP growth rates considerably above global average. As earnings continue to improve and the path of recovery becomes clearer, this will prompt sustainable expansion in valuation multiples for AxJ companies.

The existing headwinds surrounding the region have been largely priced in by investors. At forward PE ratio of 11-12x, AxJ is trading at steep valuation discounts to historical average and global average. Thus, the emergence of any positive catalysts could support the downside and lead to a turnaround in sentiment.

Driven by investor preference for quality growth on the back of GDP deflator bottoming, rotation to AxJ equities is a trend to look out for this year. Catalysts include:

1. Share buybacks and the impact on market confidence
2. Fed rate cuts to drive down risk-free rates and revive investors' risk appetite
3. Steep valuation discount to global peers
4. Possibilities of fiscal stimulus to be front-loaded
5. Lower expectations after three consecutive years of underperformance

Decent GDP growth across Asia, sustainable EPS outlook

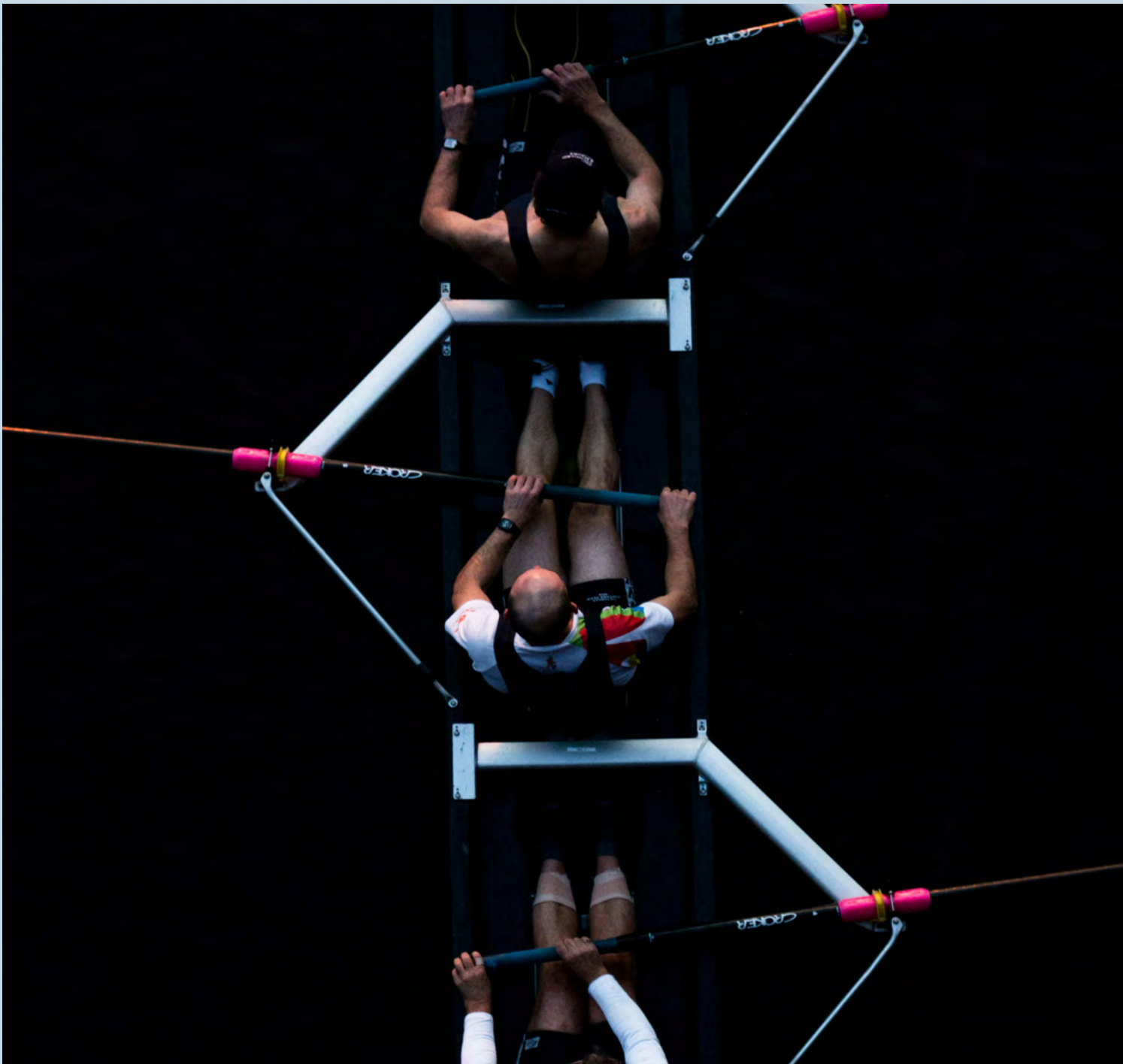


Source: Bloomberg, DBS

Nuanced Resilience

Global Rates
2Q24

A soft landing is in place. Slower growth and moderate inflation will see G3 rates drifting lower and yield curves steepening. Asia rates to remain steady as central banks await clearer signs from the Fed.



07. Global Rates.

Eugene Leow
Strategist

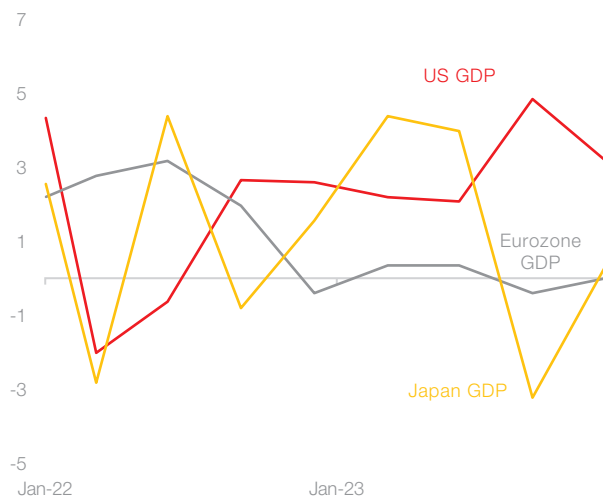
Nuanced resilience amongst the G3 economies has kept DM yields buoyant since the start of the year. In the US, market participants are struggling to price an appropriate Fed path. Between a perceived Fed pivot in December and a constant stream of data (payrolls as well as inflation) surprises on the upside, swings in 2Y yields can be significant. At the most dovish point in January, the market was pricing in more than six Fed cuts for the year. Amid firm data, easing bets have been pared with the market factoring about six cuts through 2025, in line with December's dot plot. In the Eurozone, growth worries are more apparent with the economy entering stall speed in 2H. With inflation seemingly less of a problem and growth anemic, market speculation of ECB cutting earlier than the Fed has surfaced. Lastly, Japan's economy barely skirted a recession in 2H23. However, we would not put that much weight on GDP figures and still see further BOJ normalisation as likely.

From an inflation standpoint, the US may be facing sticky price pressures. Headline y/y drifted towards 3%, with the core PCE deflator running around 2% on a three-month annualised basis towards the last few months of 2023. This fueled hopes that with

the price target hit, there would be room for the Fed to recalibrate rates lower even if the labour market stays strong. However, January's data print shifted the narrative. Services inflation appears to be picking up along with core inflation. Combined with a firm labour market, conditions appear more similar to a no-landing scenario. Meanwhile, Japan's breakevens indicate considerable worries about inflation even though the BOJ is clearly the most dovish central bank amongst the DM economies. Short-term term rates are still in negative territory while 10Y yields did not quite breach 1% even though the YCC cap was turned into a reference rate. With January's CPI surprising on the upside, worries may build that the BOJ is behind the curve.

The rise in G3 yields from depressed levels in end-2023/early 2024 renders pricing more appropriate as they are no longer too low. Going forward, the verdict on the global economy is still unclear. Market pricing has swung between extreme optimism and pessimism several times over the past two years. In the absence of clarity, we are sticking to our soft-landing (slower growth, more moderate inflation) view and **still see rates broadly drifting lower and DM curves steepening over the year.**

The US is the most resilient amongst the G3



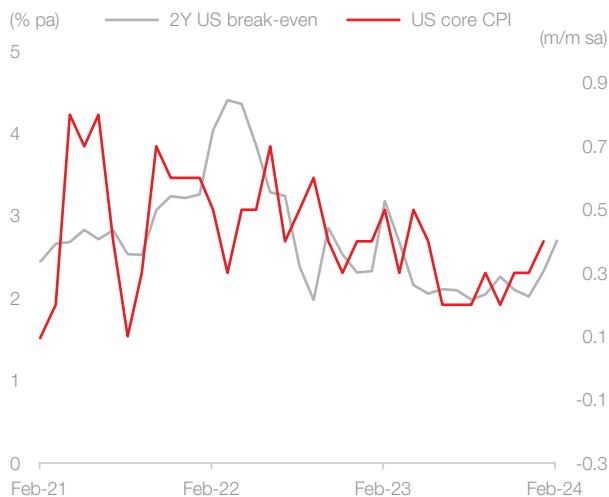
Source: Bloomberg, DBS

Lingering inflation worries in Japan



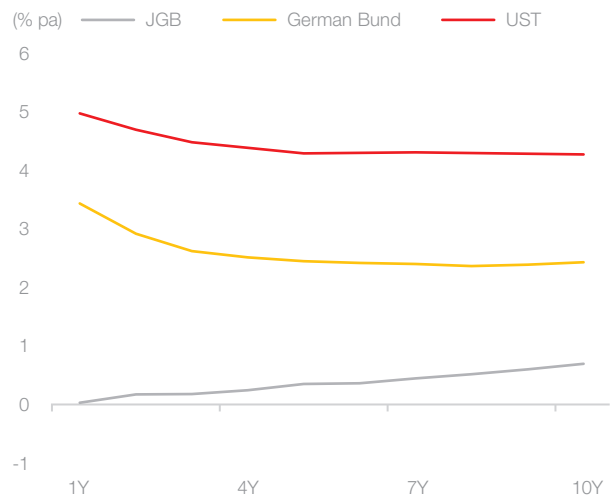
Source: Bloomberg, DBS

Sticky inflation in the US?



Source: Bloomberg, DBS

Flattish curves amid general economic resilience



Source: Bloomberg, DBS

Asia Rates

CNY rates: No cut ahead of the Fed

The sharp fall in 30Y CGB yields relative to 2Y and 10Y yields reflects the market pricing on urgent rate cuts. However, we think the authorities will likely keep the 1Y MLF rate at 3.45% in the 1H24 before the first cut from the Fed. Of foremost concern, the PBOC aims at maintaining a stable CNY exchange rate to forestall capital outflow. Meanwhile, policymakers are waiting to discover the combined economic impact of previous policies. Over the past three months, the authorities have injected CNY1,017b and CNY500b through MLF and PSL respectively. Additionally, the 50 bps RRR cut is expected to release another CNY1t of liquidity into the system to offset the squeeze from special government bond issuance. The timing of the next rate cut will hinge crucially on the playout of economic data. January-February data was favourable, allowing the PBOC to refrain from rate cuts. Strategy-wise, we think CGB yields will remain steady with downside bias.

Elevated 1Y China swap rates implies tight liquidity conditions

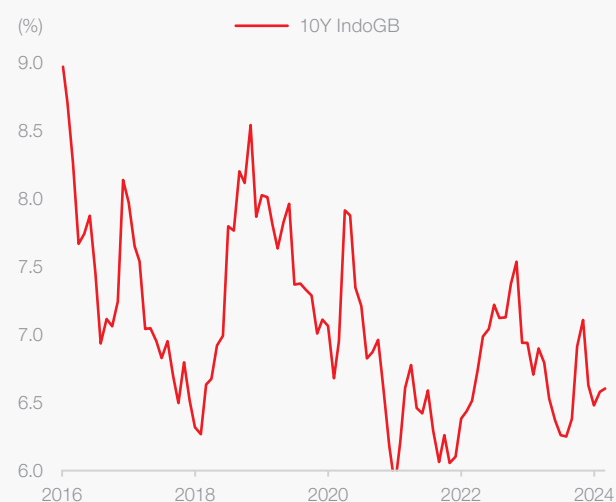


Source: Bloomberg, DBS

IDR rates: Stable yields on sound domestic economy

Bank Indonesia will likely keep the policy rate unchanged at 6.0% before cutting it to 5.25% in 4Q24. In other words, BI will not front-run the Fed cut due to a resilient domestic economy. The recent Presidential election laid the ground for stability and policy continuity. These include big-ticket infrastructure projects, moving up the commodity value chain, progress on the new capital, and continuation of social assistance programs, all of which point to a slightly wider fiscal deficit for the year. With inflation well within the central bank's 1.5-3.5% range for the year, BI will be balancing external funding worries and the need to moderate upward pressure on IndoGB yields through periodic purchases. We expect IndoGBs yields to be broadly steady in the quarters ahead.

10Y IndoGBs to remain steady

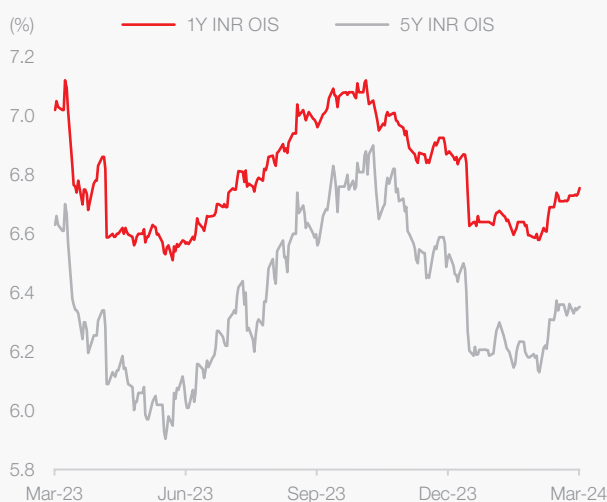


Source: Bloomberg, DBS

INR rates: Strong growth delays rate cuts

India's relatively strong economic fundamentals leave room for the Monetary Policy Committee (MPC) to delay the timing of rate cuts. We anticipate a 50 bps cut to be implemented during the rest of the year, compared to our previous projection of a 100 bps cut. The MPC has revised the FY25 growth forecast upward to 7% from the earlier projection of 6.5%, citing the centre's capex thrust, private sector witnessing second derivative benefits, and signs of pick up in rural demand on higher winter crop (rabi) sowing. On the external front, robust growth is evident in the narrowing current account deficit, primarily driven by rapidly expanding electronics shipments and services exports. Meanwhile, the authorities remain cautious about food inflation although core inflation is under control. Nonetheless, we continue to favour Indian government bonds (IGBs) due to noticeable capital inflows. Beyond rising foreign direct investment amid the "China+1" strategy, the inclusion of IGBs into the JP Morgan GBI-EM GD Index should keep INR rates at bay. The anticipated index inflows are substantial relative to India's bond issuance sizes and external financing needs.

INR rates are in tug of war between delayed rate cut and GBI-EM GD inclusion



Source: Bloomberg, DBS

KRW rates: Mid-year cut

We maintain our view that the BOK will pivot its policy stance ahead of the Fed and commence rate cuts in the middle of this year. Cuts totalling 75 bps are likely to take place this year. The softening economic fundamentals and receding inflation necessitate these rate cuts. Although the BOK met the 2024 GDP growth forecast of 2.1%, it revised downward the outlook for domestic demand, particularly private consumption. Consequently, the authorities adjusted the core CPI forecast down to 2.2% from the previous projection of 2.3%. In conjunction with other monetary stimulus measures, such as the expansion of SME lending support, short-end KRW rates are expected to see stronger downward pressure. Other bullish triggers include an increase in foreign inflows into tech stocks, and the prospect of KTB's inclusion in FTSE Russell's global bond index.

The next BOK cut cycle is around the corner

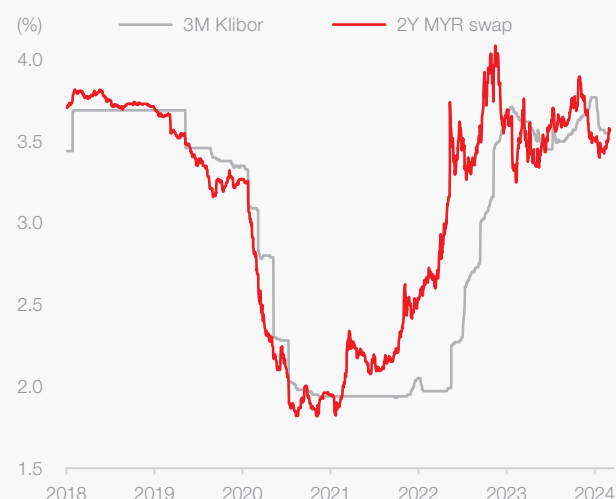


Source: Bloomberg, DBS

MYR rates: Rangebound for now

MYR rates and yields have been largely rangebound over the past few quarters as BNM went on an extended pause. With USD rates cooling off from highs, MYR swaps are also flattish, pricing in modest rate cuts over the next two years. From an inflation front, we think that the prices have stabilised and no longer pose a threat to stability. Notably, headline and core CPI are both below 2% y/y in Dec 2023 and Jan 2024. With growth still somewhat on the low side (even with the continued rebound in tourism), we think that the case to cut will build in the coming quarters. Aside from inflation dynamics, the extent of fiscal consolidation this year bears watching. However, much of the savings from subsidy rationalisation would only show in 2H24, BNM may be inclined to watch fiscal dynamics before assessing if cuts are necessary.

Modest BNM cuts are being priced

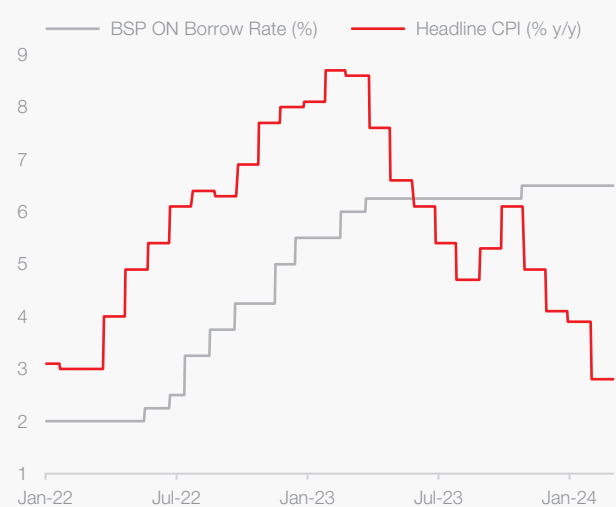


Source: Bloomberg, DBS

PHP rates: Aligning for less tight policy

Yields on Philippines Government Bonds (RPGB) have come off highs for the cycle and have been broadly rangebound over the past several quarters. The BSP has been one of the most aggressive central banks in Asia when it comes to tightening policy. Late last year, the BSP hiked after a prolonged pause amid pressure on the external front. Domestically, we think that conditions are aligning for less tight policy ahead. Headline and core CPI have dipped below 3% y/y and 4% y/y respectively in January. With the Reverse Repo Rate at 6.50%, real interest rates are now highly restrictive. With a tentative rebound in the trade balance and current account, there could be speculation of an earlier pivot from the BSP. Accordingly, we think that RPGB yields could well drift lower over the coming quarters.

Real policy rates well into positive territory



Source: Bloomberg, DBS

SGD Rates: Sizable discount to USD rates for now

SORA OISs will continue to trade at a large discount relative to SOFR OISs in the near term. At this juncture, there should be minimal stresses in the rates space. Accordingly, the SORA-SOFR spread should reflect the estimated pace of appreciation in the SGD NEER. Arguably, this is clearest in the front of the curve where the market is still pricing in twin tightening (relatively high USD rates and a relatively steep SGD NEER slope). Further out the curve, as the Fed and the MAS normalises, it makes sense for the SORA discount to SOFR to reduce as the Fed cuts rates and the MAS reduces the slope at some point in future. Against a backdrop of rapidly shifting narratives, the 2Y SORA-SOFR spread has been volatile over the past few months. Amid firm US data and receding recession risks, we expect both the Fed and MAS to stay on hold through mid-2024, keeping the 2Y SORA-SOFR spread relatively wide.

Still conducive for front-end SORA OIS to outperform SOFR OIS

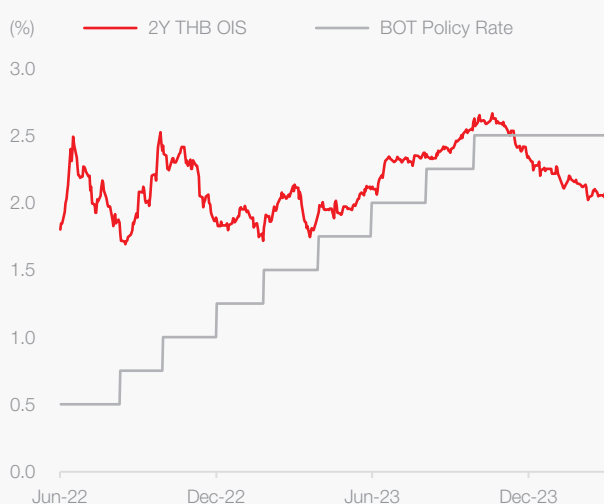


Source: Bloomberg, DBS

THB rates: Rate cut is imminent

We continue to see downward pressure on Thailand government bond yields. Although the BOT maintained its policy rate at 2.50% for the second consecutive decision, votes were not unanimous for the first time since 2022. Two out of seven Monetary Policy Committee (MPC) members favoured a 25 bps cut. This opens room for 50 bps cuts next quarter if economic data continue to disappoint. In fact, the BOT has already revised its 2024 growth and headline inflation forecasts downward to a range of 2.5-3.0% and close to 1%, respectively (from 3.2% and 2.0%). Constrained global demand and a delayed upturn in Thailand's electronics cycle are expected to dampen Thailand's export performance. Additionally, the multi-year-high real interest rate resulting from deflationary pressures justifies a rate cut ahead of the Federal Reserve's.

THB rates are pricing-in BOT rate cuts



Source: Bloomberg, DBS

Rates forecasts

		2024				2025			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	5.38	5.25	4.75	4.38	3.88	3.38	3.38	3.38
	2Y	4.85	4.68	4.50	4.20	3.70	3.60	3.60	3.60
	10Y	4.60	4.50	4.30	4.10	4.00	4.00	4.00	4.00
	10Y-2Y	-25	-18	-20	-10	30	40	40	40
Japan	3M TIBOR	0.12	0.20	0.20	0.20	0.20	0.20	0.30	0.30
	2Y	0.15	0.20	0.25	0.30	0.35	0.35	0.35	0.35
	10Y	1.10	1.10	1.10	1.10	1.00	1.00	1.00	1.00
	10Y-2Y	95	90	85	80	65	65	65	65
Eurozone	3M EURIBOR	4.00	3.85	3.35	2.90	2.50	2.50	2.50	2.50
	2Y	3.20	3.10	2.95	2.70	2.50	2.50	2.50	2.50
	10Y	2.60	2.55	2.55	2.50	2.50	2.50	2.50	2.50
	10Y-2Y	-60	-55	-40	-20	0	0	0	0
Indonesia	3M JIBOR	6.95	6.95	6.95	6.20	5.95	5.45	5.45	5.45
	2Y	6.20	6.15	6.15	6.05	5.95	5.90	5.90	5.90
	10Y	6.60	6.55	6.55	6.45	6.35	6.35	6.35	6.35
	10Y-2Y	40	40	40	40	40	45	45	45
Malaysia	3M KLIBOR	3.65	3.40	3.40	3.40	3.40	3.40	3.40	3.40
	3Y	3.50	3.40	3.35	3.35	3.35	3.35	3.35	3.35
	10Y	3.85	3.80	3.75	3.65	3.65	3.50	3.50	3.50
	10Y-3Y	35	40	40	30	30	15	15	15
Philippines	3M PHP ref rate	6.50	6.50	6.10	5.70	5.50	5.50	5.50	5.50
	2Y	6.20	6.00	5.85	5.50	5.20	5.20	5.20	5.20
	10Y	6.60	6.35	6.10	5.90	5.45	5.45	5.45	5.45
	10Y-2Y	40	35	25	40	25	25	25	25
Singapore	3M SORA OIS	3.60	3.52	3.25	3.08	2.78	2.58	2.58	2.58
	2Y	3.40	3.33	3.25	3.15	2.80	2.70	2.70	2.70
	10Y	3.20	3.05	2.90	2.70	2.70	2.70	2.70	2.70
	10Y-2Y	-20	-28	-35	-45	-10	0	0	0

%, eop, govt bond yield for 2-year and 10-year, spread bps

*swap rates

Source: CEIC, Bloomberg, DBS

		2024				2025			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Thailand	3M BIBOR	2.65	2.15	2.15	2.15	2.15	2.15	2.15	2.15
	2Y	2.10	1.75	1.75	1.75	1.75	1.75	1.75	1.75
	10Y	2.40	2.20	2.20	2.20	2.20	2.20	2.20	2.20
	10Y-2Y	30	45	45	45	45	45	45	45
Mainland China	1Y LPR	3.45	3.45	3.45	3.35	3.25	3.15	3.15	3.15
	2Y	2.00	1.95	1.95	1.90	1.85	1.85	1.85	1.85
	10Y	2.30	2.20	2.20	2.15	2.15	2.15	2.15	2.15
	10Y-2Y	30	25	25	25	30	30	30	30
Hong Kong, SAR	3M HIBOR	4.68	4.55	4.45	4.08	3.68	3.18	3.18	3.18
	2Y*	4.20	4.03	4.00	3.95	3.65	3.55	3.55	3.55
	10Y*	3.90	3.85	3.80	3.75	3.60	3.60	3.60	3.60
	10Y-2Y	-30	-18	-20	-20	-5	5	5	5
Korea	3M CD	3.65	3.45	3.20	2.95	2.70	2.70	2.70	2.70
	3Y	3.35	3.30	3.20	3.10	3.05	3.05	3.05	3.05
	10Y	3.43	3.33	3.23	3.23	3.23	3.23	3.23	3.23
	10Y-3Y	8	3	3	13	18	18	18	18
India	3M MIBOR	7.35	7.20	6.95	6.95	6.95	6.95	6.95	6.95
	2Y	7.00	6.90	6.75	6.70	6.70	6.70	6.70	6.70
	10Y	7.05	7.00	6.95	6.95	6.95	6.95	6.95	6.95
	10Y-2Y	5	10	20	25	25	25	25	25

%, eop, govt bond yield for 2Y and 10Y, spread bps
 *swap rates

Source: CEIC, Bloomberg, DBS



Source: Unsplash

Navigating the Descent

Global Credit
2Q24

Persistent strength in growth and sticky inflation signal that the path to lower rates may not be as straightforward. Stay positive on credit. The sweet spot remains with A/BBB credit in the 3-5Y duration bucket.

08. Global Credit.

Daryl Ho, CFA
Strategist

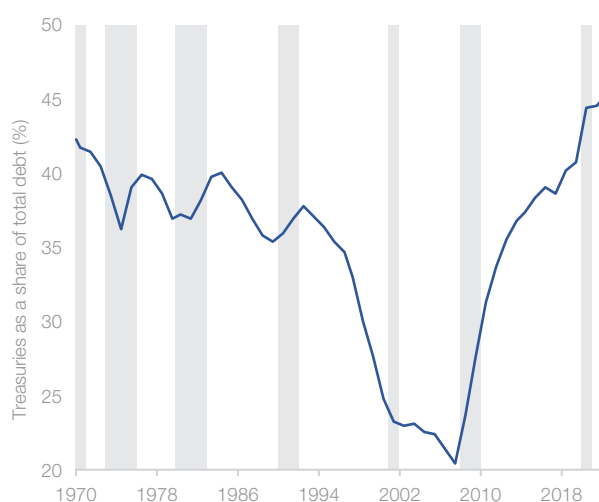
Beatrice Tan
Analyst

It's never this easy. It is especially tempting this year for bond investors to follow the simple prevailing narrative that one should just buy bonds when central banks cut rates. Yet the persistent strength in growth and sticky inflation should raise caution that the path to lower rates might not be as straightforward as initially imagined. This, we believe, is a complication worth untangling.

The era of big government (debt). Understanding it begins with an awareness of the shifting dynamics governing the supply-side of fixed income. Following the pandemic-era fiscal expansion, Treasuries have now reached a new record as a share of the fixed income market in the US – accounting for nearly half the total – despite the rapid development of the corporate credit markets since the turn of the millennium. As such, factors such as deficits, monetary policy, sovereign credit ratings, and central bank intervention have become as much, if not more crucial than corporate balance sheet strength and company earnings when devising fixed income strategy.

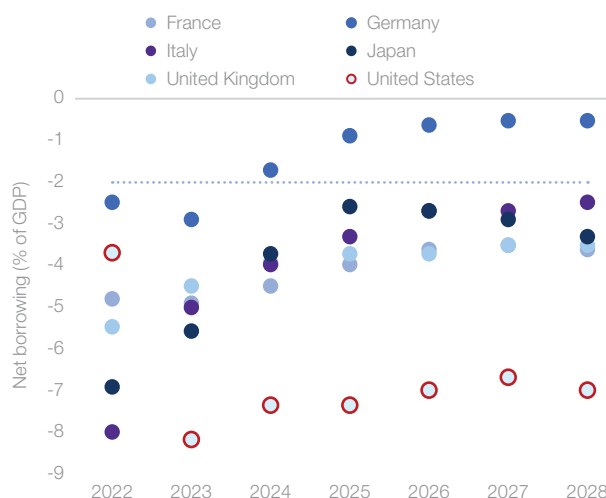
The great borrowing binge. This booming supply of US Treasuries is not surprising considering that US debt/GDP remains above 100%. What's more surprising, is how tight monetary policy interacts with high debt to produce counterintuitive outcomes, a phenomenon we highlighted in our 4Q 2023 Global Credit outlook. Traditionally, high rates deter borrowing and money creation due to inhibitive costs of funding; but when the borrower is a price insensitive but indebted government – with mandatory spending needs such as social security, healthcare, and defence – high rates would pile onto the debt burden by raising the costs of interest

Treasuries account for nearly half of US fixed income today



Source: Federal Reserve Bank of St Louis, NBER, DBS
Note: Shaded areas represent NBER recessions

No respite for US deficits



Source: IMF World Economic Outlook October 2023, DBS

Large deficit spending despite a strong economy in 2023



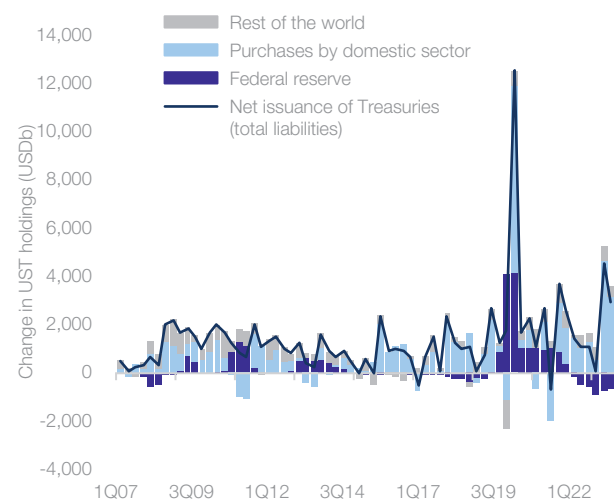
Source: Bloomberg, DBS

servicing, resulting in a runaway train of never-ending government deficits. As such, while most developed nations are expected to reduce net borrowings in the years ahead, the IMF believes that US deficits would remain in the vicinity of 7% of GDP for much of the remainder of this decade.

Spending beyond what is necessary. Consider how odd this situation is. Historically, the US had only embarked on deficit spending beyond 5% of GDP after a recession; logical, considering that countercyclical policy is needed to stimulate growth in a downturn. Yet in 2023 – a year characterised by strong growth and low unemployment – US deficits were 6.5% of GDP, an extravagance previously unheard of. We believe that this has played a large part in the persistent strength observed across economic indicators, complicating the path to slower growth and lower rates that was meant to catalyse the bond market recovery.

Who has been paying the bills? Such excessive deficits and Treasury issuances need equally excessive sponsors, but they aren't your usual suspects of foreign reserves and central banks. Foreign participation in the US Treasury market has been on a steady decline since 2010; while the more recent (a) strength of the USD, (b) US sovereign ratings downgrade, and (c) deglobalisation narrative has left FX reserve managers more averse to US debt. Neither are the "buyers of last resort" in the previous crisis picking up the tab; the Fed and other global central banks are, on the contrary, busying themselves with unwinding their excessive balance sheets through QT.

Domestic sector (pensions, insurance, households) footing the bill



Source: Federal Reserve Board, DBS

The cash rich get richer. Looking at the data, the post-pandemic surge in net Treasury issuances has in fact been almost fully absorbed by the domestic sector – consisting of pension and mutual funds, insurance companies, and other household/corporate savings. This once again lends credence to the strength of US businesses and households; after all, the deficits of the public sector previously discussed are ultimately a surplus for the private sector. Moreover, these private sector savings are earning interest at the highest rates since 2008, resulting in a virtuous cycle of biblical allusion – *“For whoever has will be given even more, and he will have an abundance”*. We believe this public deficit-private surplus dichotomy to be a good lens to formulate credit strategy..

The great public-private divergence



Source: Bloomberg, DBS

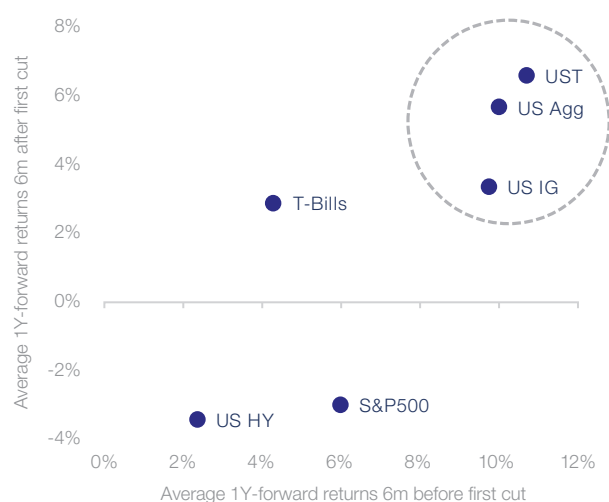
Dichotomies and divergences. In essence, this dichotomy of fiscal expansion (which is stimulative) and monetary contraction (which is inhibitive) would likely contribute to wider-than-normal divergences across economic sectors. Sectors that are direct or indirect recipients of fiscal handouts (e.g. businesses that rely on spending from the middle- and upper-class, or sectors with large surplus cash reserves such as Big Tech) would continue to thrive, while sectors that are most sensitive to high interest rates (e.g. commercial real estate, small banks) would continue to face further strain. From a credit standpoint, it is hence worth going through a thought exercise using this framework to highlight the potential winners/losers under such a divergence.

Some potential winners include:

A. High quality issuers in the BBB/BB bucket.

The corollary of a healthy business sector is the persistence of sanguine credit spreads. As such, we believe that fixed income investors are still better off with high-quality corporate credit due to (a) the spread premium over Treasuries, while also noting (b) more prudent financial discipline from corporates than governments in this cycle. Specific alpha opportunities could also exist for credit upgrades; a notable strategy being the picking of “fallen angels” (HY bonds in the BB+ category previously downgraded from IG) in anticipation of upside from spread compression. Investors need to be very selective, however, noting that it is only the highest quality fixed income that performs best in the vicinity of the first Fed cut after a hiking cycle.

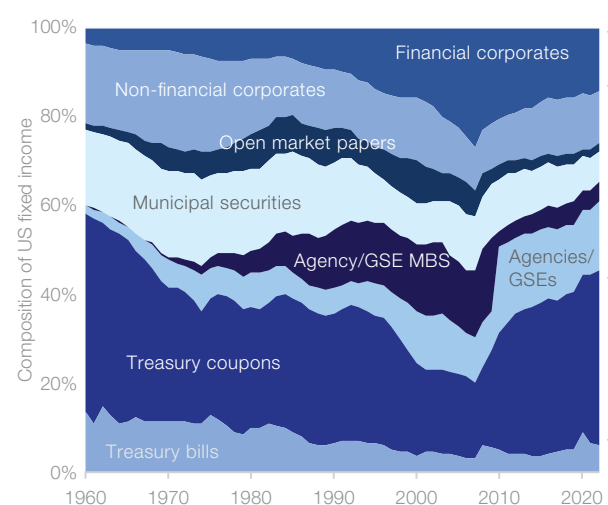
High quality fixed income performs well around the first Fed cut



Source: Bloomberg, DBS

Note: Based on monthly data. Chart shows average monthly total returns if one buys into the asset class at any time in the 6 months prior/after the first Fed rate cut of the past five easing cycles and holds the position for 12 months

Financial corporates have deleveraged post GFC



Source: Board of Governors of the Federal Reserve System, St Louis Fed, DBS

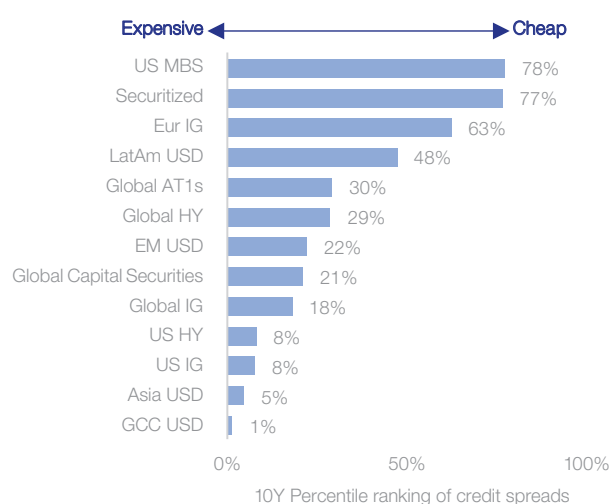
B. Bank capital securities (IG)

Seeing as spreads of financial capital instruments are still trading wide of their historical norms, it appears that the scars of the 2023 bank failures have not fully healed in the minds of investors. This we believe is an opportunity for savvy investors, noting that (a) surpluses in the corporate sector likely means fewer bad debt provisions are needed, while (b) the possibility of curve-steepening implies that high net interest margins can be maintained even in the face of rate cuts. Even so, many European banks maintain adequate capital buffers against regulatory requirements, which means that the sector remains in good health. However, we wish to highlight that more small bank failures could be ahead of us, given their concentrated exposure to the commercial real estate (CRE) sector. Investors should be selective, focusing on large banks that are solid IG names, with a preference for those with a diverse set of franchises across retail, institutional, and wealth businesses.

C. US Mortgage-backed Securities (MBS)

We would be remiss not to mention one of the largest asset classes in the US bond market – agency MBS. Strong households would not default on their mortgages. Moreover, prepayment risk has declined as most US homeowners refinanced their mortgages in the low rates years of 2020-2021. At present, more than three-quarters of the index has coupon rates below 3.5%; homeowners would unlikely prepay these mortgages given the prevailing rates of c.7%. Even so, MBS spreads are trading at some of their cheapest levels in history, likely due to (a) the Fed running off their MBS holdings under QT, and (b) peripheral concerns on commercial MBS given the weakness in the CRE sector. We believe agency MBS to be the sweet spot, given their government backing and precedence as a Fed policy toolkit in times of severe distress.

US MBS trading at cheap levels historically



Source: Bloomberg, DBS

Where we are cautious. Just as worthwhile is the endeavour to highlight where we see the most prominent credit risks in this dichotomy. As previously mentioned, sectors most sensitive to high rates would bear the brunt of monetary tightening. These include:

A. Junk-rated issuers

The strength of the private sector ultimately lies on a spectrum, and companies with weak balance sheets or interest coverage are unlikely to survive a higher-for-longer rates environment. HY issuers have much shorter-duration issuances, and the need to refinance over the next few years may present a stepwise shock to interest burdens, of which there are likely to be casualties.

B. Issuers in leverage-reliant sectors (Utilities, REITs)

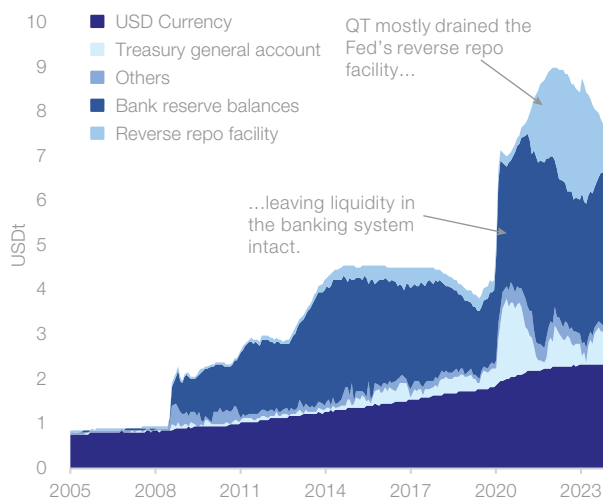
Similarly, issuers that have relied on higher leverage to improve equity returns under an era of lower interest rates would find their business models compromised in this new era. The structural weakness in the CRE space is symptomatic of this strain, where borrowers are more in the posture of asset disposal to shore up balance sheets than seeing debt-funded acquisitions.

C. Long duration bonds

The temptation, as always, is to take position in the bonds that have the highest beta to lower rates in a cutting cycle – long duration. Yet, bond investors need to be aware of certain technicalities regarding the financial plumbing around QT and Treasury issuances to make more informed decisions regarding this matter.

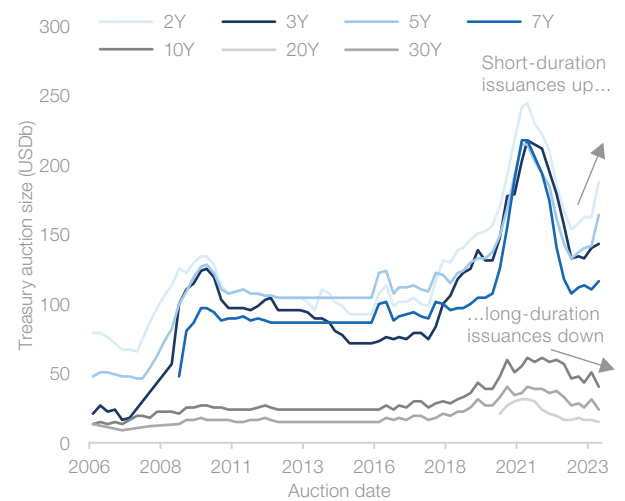
QT had a “shock absorber”. Banking system liquidity had remained unscathed since the start of QT in mid-2022 largely due to the presence of the Fed’s reverse repo facility (RRP), which shielded systemic liquidity from drawdown. This we believe has supported the functioning of Treasury markets thus far. This RRP facility is set to be drained by June 2024, and unless the Fed tapers QT, bank reserves could rapidly decline after, affecting systemic liquidity. We are cognizant that the 2019 repo crisis was caused by reserve balances dropping below viable levels in the previous QT cycle.

Banking system liquidity was shielded from QT by the RRP



Source: Bloomberg, DBS

The US Treasury had influenced duration risk

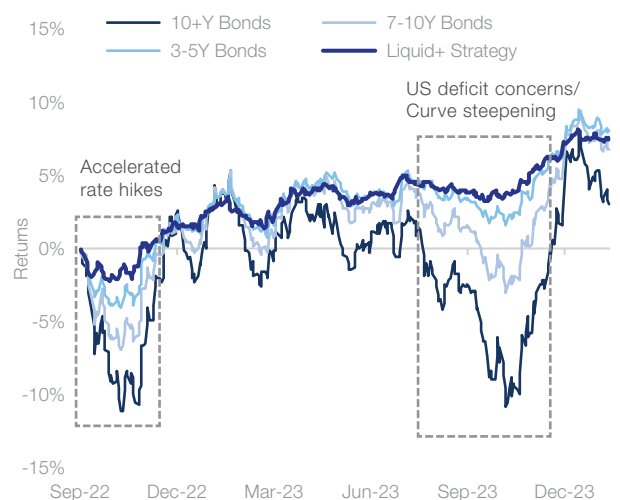


Source: Treasury Securities Auctions Data, DBS

The Treasury has indirectly influenced monetary policy. Traditionally, the US Treasury had funded its deficits through the issuance of less than 20% of treasury debt in short-duration bills and the balance in long-duration notes and bonds. Since 2023 however, total Treasury issuances for bills are beyond the norm – a strange outcome considering that an inverted yield curve means shorter-duration bills are more costly than longer-duration bonds and notes. As such, the increased duration risk that QT supplies has been nullified by the reduced duration risk through Treasury issuances. This is unlikely to proceed further, given that bills as a proportion of total debt are reaching their recommended upper limits.

Our short-duration strategy remains relevant today. We had recommended a 3-5Y sweet spot for duration since 2022 noting this dichotomy of fiscal expansion/monetary contraction. Investors

Short-duration has given the same returns with much less volatility

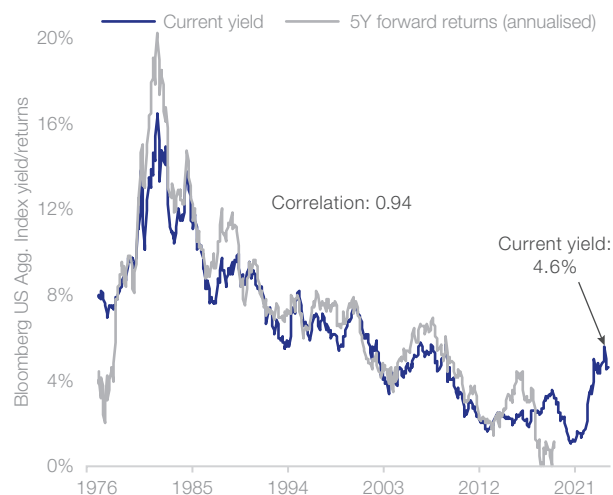


Source: Bloomberg, DBS

who have navigated the choppy waters of interest rate volatility since then would have recognised very similar returns with much less volatility. The Liquid+ strategy of even shorter-duration, high quality fixed income also fared relatively well in this regard. Given that this fiscal-monetary dichotomy remains at play, we find no compelling reason to take long-duration risk even at the brink of a cutting cycle.

In summary, bond investors should remain positive on the asset class, but be selective with risks. Make no mistake, the high starting yields in bonds today are indicative of strong future returns. However, investors should remain cautious with junk-rated debt and duration risk. Opportunities are aplenty with IG credit, financial capital instruments, and MBS. The sweet spot remains with A/BBB credit, although selective candidates in the BB+ segment could become rising stars given the strength in the private sector. The 3-5Y duration bucket remains the best position against yield volatility and curve steepening under a regime of fiscal dominance.

Current yields are a good indicator of future returns



Source: Bloomberg, DBS



Poised to Trigger

Global Currencies
2Q24

DM currencies have begun consolidating as inflation falls from its multi-decade peak in late 2022. Meanwhile, Asian currencies are better positioned to regain their composure, given expected Fed cuts and a Goldilocks US economy.

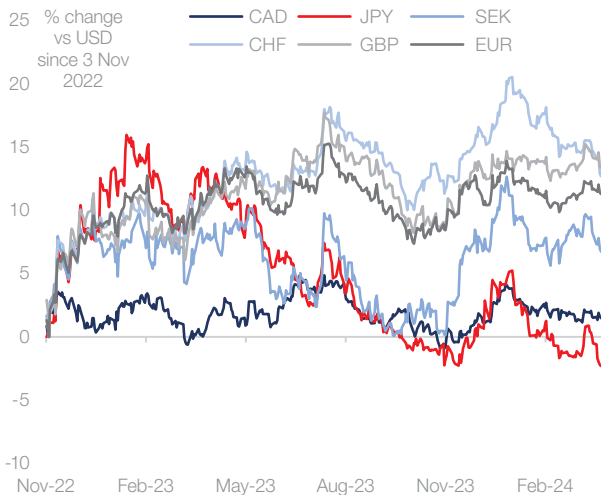
09. Global Currencies.

Philip Wee
Strategist

Chang Wei Liang
Strategist

DM currencies consolidating. After inflation started falling from a multi-decade peak in late 2022, DM currencies began to consolidate. Since then, central banks worldwide have taken turns dialling down jumbo rate hikes to traditional 25 bps rate increases before starting to pause in 2023. Their monetary policy narrative was more in sync in 2024, carefully weighing efforts to control inflation against the need to cushion against slower economic activity and potential financial stress, mainly commercial real estate debt. Many aim to lower rates from restrictive levels this summer once inflation moves sustainably towards the target. The past year has demonstrated how Fed cut expectations will eclipse those of other central banks and weaken the USD. Unlike last year, US growth will likely be less exceptional, and the Eurozone/UK will be less pessimistic in 2024. That said, we remain vigilant to risks that tend to surface during the US Presidential election years, like the GFC in 2008, the EU sovereign debt crisis in 2012, and the Brexit Referendum in 2016.

Most currencies in the same range after the Fed’s final hike in July 2023



Source: Bloomberg DBS

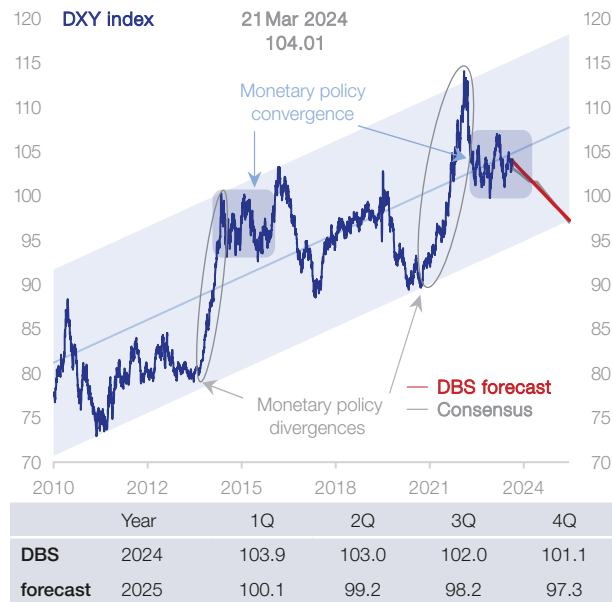
Asian currencies are better positioned to regain their composure later this year. First, the expected Fed cuts and a Goldilocks US economy will likely weigh on the USD later this year. This will allow Asian countries with monetary policies to prioritise currency stability and lower rates. Second, the end of Japan’s NIRP and the YCC framework will eventually reverse the JPY’s weak trajectory. Third, the CNY and China’s economy have scope to stabilise. US-China tensions should also take a breather into the US presidential elections. Fourth, investors should favour Asia’s relatively higher economic growth prospects over subdued growth in the DM economies. Companies seeking to diversify their manufacturing and sourcing operations from US-China tensions should continue to favour India and Southeast Asia.

Market expectations for central bank interest rates in 2024

2024	FED	ECB	BOE	SNB	BOJ	RBA	RBNZ	BOG
Jan	5.50	4.50		1.75	-0.10			5.00
Feb			5.25			4.35	5.50	
Mar	5.50	4.50	5.25	1.50	0.10	4.35		5.00
Apr		4.50			0.10		5.50	5.00
May	5.50		5.00			4.35	5.50	
Jun	5.25	4.25	5.00	1.50	0.10	4.35		4.75
Jul	5.25	4.00			0.10		5.50	4.75
Aug			4.75			4.10	5.25	
Sep	5.00	4.00	4.75	1.25	0.20	4.10		4.50
Oct		3.75			0.20		5.00	4.25
Nov	4.75		4.50			4.10	4.75	
Dec	4.75	3.50	4.50	1.25	0.30	3.85		4.25

Source: Bloomberg DBS
Note: rounded to 0.25%, as of 22 March 2024

USD Index lower from expected Fed cuts amid a US soft landing



Source: Bloomberg DBS

The USD Index (DXY) has a downside risk inside its 100-107 range. The near alignment of the monetary policy directions of the Fed and other global central banks contributed to this consolidation over the past year. However, the fluctuations within this range can also be traced to the disconnect between the Fed's intentions and the market's perceptions. For example, DXY fell from 107 to 101 in November-December from the markets aggressively discounting seven US rate cuts in 2024. The DXY's recovery to 105 in 1Q24 was attributed to the Fed realigning the market to the three cuts pencilled in its dot plot. We foresee the greenback depreciating when the Fed gets closer to lowering rates this summer on a soft landing in the US economy amid global growth optimism. Hence, the uncertainties from the Biden-Trump rematch at the US presidential elections are unlikely to detract investors from looking beyond the US for higher returns on the US's slower growth this year.

The Canadian dollar remains range-bound with an appreciation bias



Source: Bloomberg DBS

USD/CAD has been fluctuating in a 1.31-1.39 range since September 2022. Canada's outlook on monetary policy is comparable to that of the US. The central bank, the BOC, delivered its final hike in July 2023, the same month as the Fed. The BOC's overnight lending rate of 5% is slightly below the 5.25-5.50% Fed Funds rate. Both central banks were not ready to lower rates in March because core inflation remained above target. In January, Canada's CPI core inflation was 3.4% y/y vs its 1-3% target range, while the US PCE core deflator was 2.8% vs its 2% target. As of mid-March, interest rate futures see the BOC and the Fed delivering three rate cuts starting in the summer. Here, the consensus favours selling the USD on Fed cuts eclipsing those of other central banks. Hence, we have a bias for USD/CAD to return into a lower 1.31-1.35 range from the middle of this year.

From 2023 into 2024, EUR/USD has been oscillating between 1.05 and 1.12, significantly influenced by the Fed’s actions rather than those of the ECB. For instance, in 4Q23, the market’s bet for seven Fed cuts propelled EUR/USD from 1.05 to 1.11. However, this rally was short-lived because of the Fed’s efforts to temper these aggressive expectations, sending the currency pair down to 1.07 in January-February. In March, the governing council discussed dialling back its restrictive stance, while the ECB staff revised down its inflation forecast, predicting a return to the 2% target by 2025. These two developments tilted the narrative towards a potential ECB rate cut before the August summer break, stirring speculation that the ECB might reduce rates before the Fed. Given the market’s perception that eventual Fed cuts would undermine the USD, the door will likely open for more market volatility as we approach the first rate cuts by these two central banks.

The Euro has been fluctuating between ECB and Fed rate cut expectations



Source: Bloomberg, DBS

Expect GBP/USD to hold a 1.20-1.30 range until the Fed starts its anticipated rate-cutting cycle in summer, which is expected to undermine the greenback. Last July, a rising GBP came near 1.3150, the closing level of the first Fed hike in March 2022. Despite the UK economy entering a mild technical recession in 2H23, GBP was notably resilient in a 1.25-1.29 range since December. Nonetheless, GBP can expect some volatility from the central bank, the BOE, paving the ground for rate cuts. The BOE has started to balance its inflation priority with growth risks. In February-March, BOE Governor Andrew Bailey became less wary about second-round effects, i.e., the need for a higher unemployment rate to curb inflation. Bailey told the Treasury Select Committee that CPI inflation would hit the 2% target in spring before rising again for the rest of the year, emphasising that the BOE did not need headline inflation at 2% before cutting rates.

The British pound is holding up unless the BOE decides to cut rates before the Fed

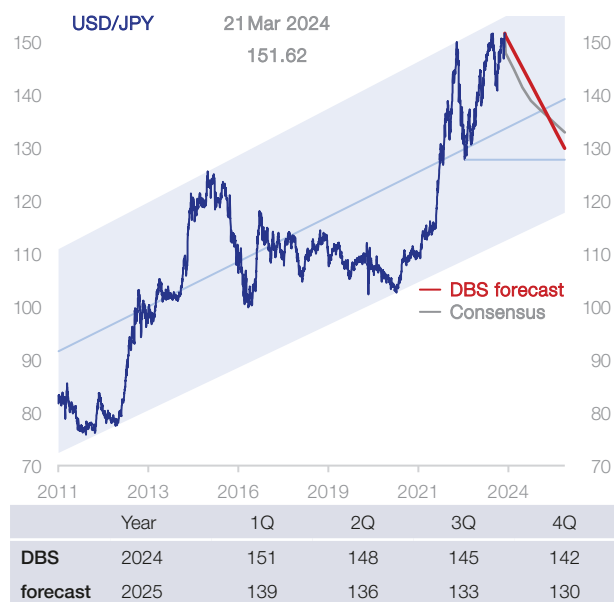


Source: Bloomberg, DBS

JPY should bottom out as rate differentials narrow. JPY rates have not risen much even after BOJ reversed its NIRP and ended its YCC, with the JGB 10Y yield still stuck at around 0.7%. Expectations of a dovish BOJ policy outlook, alongside ongoing JGB purchases, are still weighing on the JPY in the short term. However, we are holding on to our view that rate differentials against the JPY are already close to a cyclical peak with the BOJ set to raise rates marginally again, while the Fed and ECB are moving towards rate cuts. Non-commercial positioning in the JPY is very short, while the JPY is also deeply undervalued relative to fundamentals. As such, there is scope for a JPY recovery if Japan's growth is to surprise on the positive side, triggering another re-calibration of BOJ's still accommodative policy settings. We expect USD/JPY to ease back towards 140 by end 2024.

The overvalued CHF could depreciate to 0.92-0.94 per USD before stabilising on Fed cuts expected in 2H24. The CHF was the top-performing currency in 2023. It appreciated almost 10% against the USD, outpacing the other DXY components – GBP (5.4%), SEK (3.5%), EUR (3.1%), CAD (2.4%), and JPY (-7%). USD/CHF bottomed at 0.8333 in December after the Swiss National Bank (SNB) did not push for more CHF appreciation to address inflation, which had fallen inside its 0-2% target range since mid-2023. Throughout 1Q24, the central bank guided USD/CHF higher towards 0.90 by 1) taking note in January that the CHF's real appreciation was hurting domestic companies, 2) declaring in March that monetary policy stability has been reached, and 3) becoming the first global central bank to lower rates at its meeting on 21 March. Although SNB will likely lower rates twice more this year, the Fed cuts expected this summer should eclipse the rest of the world and lead the USD lower.

The Japanese yen's recovery needs the BOJ to signal more policy normalisation



Source: Bloomberg, DBS

The Swiss franc faltered into the SNB's surprise rate cut in 1Q24



Source: Bloomberg DBS

The Australian dollar is sideways short-term, cautiously optimistic medium-term



Source: Bloomberg, DBS

AUD/USD fluctuated in a 0.63-0.69 range since 2023. The AUD's appreciation prospect hinges mainly on a weaker USD from the Fed cutting interest rates this summer before the RBA does so in August. A firmer JPY from Japan rolling back its ultra-accommodative monetary policy, a more stable Chinese economy and currency, and a cyclical export recovery should underpin the currencies of East Asia, Australia's largest export market. However, we cannot rule out volatility from the balance of risks in the Australian economy shifting from inflation to growth. After the surprise RBA hike in November, CPI inflation fell from 4.3% y/y in November to 3.4% in January, near the RBA's 2-3% target and 3.3% forecast for 1H24. The unemployment rate increased to 4.1% in January, above the RBA's 4% projection for 1H24. GDP growth slowed to a three-year low of 1.5% y/y in 4Q23, resulting in a third q/q sa contraction in GDP per capita.

The New Zealand dollar needs a weaker USD and stronger Asian currencies to recover



Source: Bloomberg, DBS

NZD/USD has an upside bias within the 0.60-0.65 range. The Fed's policy outlook will continue to drive the NZD in 2024. Interest rate futures see the RBNZ lowering interest rates in August, two months after the Fed. Hence, the NZD is unlikely to revisit last October's 0.58 low from US rate cut expectations. However, over the past 1.5 y/y 4.7% in 4Q23 to the 1-3% target in 3Q24. Although tourism became the country's second-largest export earner, the property sector struggled with high borrowing costs and the largest housing stock in a decade. With revenue hurt by the slower economy, the Luxon government will find it challenging to put fiscal finances in order as a prerequisite to a strong economy.

Asia Currencies

CNY

CNY stability is being reinforced by policy, with a gradual recovery expected after the Fed begins to ease. Through setting strong onshore CNY fixings despite a USD rally in 2024, China has underscored its limited tolerance for further RMB weakness to markets. Also, Chinese state-owned funds had embarked on onshore ETF purchases, helping to stem negative investor sentiment and reverse stock outflows to inflows in Feb and Mar. These policy actions had thus contributed to RMB stability. On the economic front, fixed asset investment now appears to be bottoming out, despite an ongoing drag from the property sector. This bodes well for attaining the 5% growth target, and incipient signs of recovery could keep RMB sentiment supported. However, RMB strength is still set to be more measured than exuberant, unlike Asian peers. The PBOC may follow the Fed in cutting rates in 2H24, and interest rate differentials may not narrow as much. Geopolitical risk surrounding upcoming US elections is also expected to keep the RMB in check, with USD/CNY showing a measured easing towards 7.

The Chinese yuan's recovery will be measured vs its Asian peers



Source: Bloomberg, DBS

HKD

USD/HKD may tread slightly above the mid-point of its convertibility band for now, with short-term HKD rates still somewhat below USD rates. Hong Kong's aggregate balance has stopped declining and is now expanding again, after bottoming out in Nov 2023. Relatively flush HKD liquidity conditions had led USD/HKD swap points to become the most negative since Jun 2023. Meanwhile, FX reserves have also stabilised at around USD425b since Oct 2023, as HKMA is no longer actively intervening at the upper bound of the convertibility band. Meanwhile, the Hong Kong 2024-25 Budget unveiled significant policy changes to support the property market, such as the complete removal of additional stamp duties for property purchases. This may attract more capital inflows into HK property and equity markets, by tempering concerns over the property sector amid high real rates. Furthermore, sentiment in mainland China is also improving amid policy support, which could bolster mainland visitors. Going forward, these developments could weigh on USD/HKD, on top of an expected decline in US rates.

The Hong Kong dollar is awaiting Fed cuts to push below the mid-point



Source: Bloomberg, DBS

KRW

KRW is likely to strengthen amid an ongoing exports recovery and high foreign portfolio inflows, driven by rising AI-related semiconductor demand. Foreign investor sentiment towards Korea has been buoyant in 2024, with YTD foreign equity and bond inflows coming in at USD11.2b. This marks the largest Jan-Feb foreign portfolio inflow into Korea since 2012. Thus far, any positive impact on KRW has been tempered by equally large resident equity outflows. Still, equity inflows are likely to be more sustained than outflows, not least because Korean equity market valuations are more attractive on a P/B basis. Indeed, the Korean government is working to address the Korean “discount” by announcing a “Corporate Value-up Programme”, targeted at improving governance and boosting shareholder returns for listed companies. While detailed guidelines are yet to be released, they have the potential to further boost equity inflows and support the KRW. External demand led growth, positive stock market developments, and a bottoming out of house prices could help USD/KRW ease towards 1,300.

The South Korean won should retreat from the top of its price channel

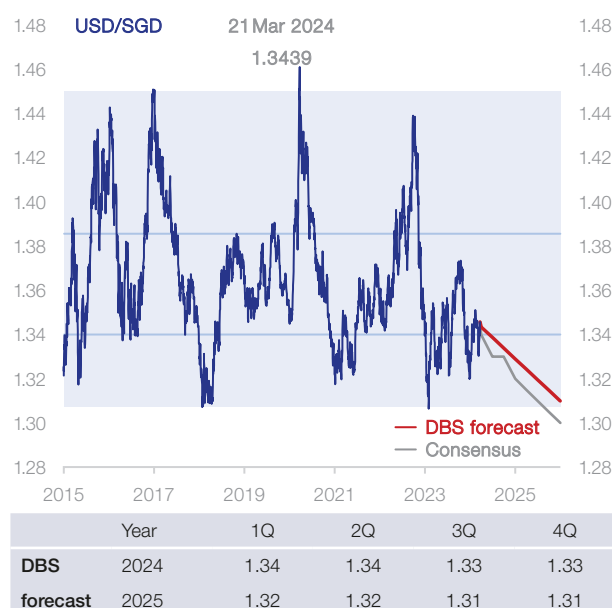


Source: Bloomberg, DBS

SGD

We see the central bank (MAS) keeping the SGD policy unchanged in April. However, we are calling for a slight reduction in the slope of the SGD NEER policy band in July, which is in line with our call for the Fed and other central banks to lower interest rates in the summer. We do not see any rationale to lower the mid-point of the policy band, a measure last deployed during the Covid-19 recession and the GFC. According to the MAS Survey of Professional Forecasters in March, most respondents forecast the Singapore economy to expand 2.0-2.9% this year, at the higher end of the Ministry of Trade and Industry's 1-3% forecast. Most of the optimism is external, i.e., a US economic soft landing, hopes of a tech sector comeback, and a more stable Chinese economic outlook. Hence, USD/SGD can hold the same 1.31-1.37 range as 2023, with a downside bias this year.

The Singapore dollar has a milder appreciation bias

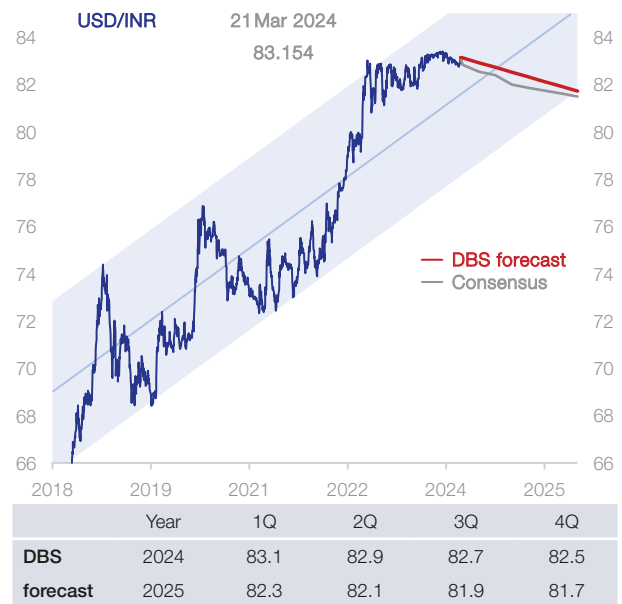


Source: Bloomberg, DBS

INR

INR has the potential to appreciate against the USD after holding a tight 81.5-83.5 range since 2023. In its latest Article IV consultation report, the IMF reclassified India's exchange rate regime as a "stabilised arrangement" instead of floating. The decision implied a stronger INR should policymakers decide to relax their grip to keep the exchange rate in a narrow trading range. India's stock markets continued to hit record highs on high economic growth rates of more than 8% y/y for the third quarter ending December 2023. J.P. Morgan is scheduled to include Indian government bonds into its bond index between June 2024 and March 2025 under the country's full accessible route, followed by Bloomberg over January-October 2025. Polls see Prime Minister Narendra Modi securing a third five-year term in the Lok Sabha elections in April-May. Modi has pledged to make India a USD5t economy by 2027-2028 and a developed nation by 2047.

The Indian rupee may start fluctuating with the currency market again



Source: Bloomberg, DBS

IDR

USD/IDR has stabilised mainly in a 15,400-15,800 range after the surprise interest rate hike last October. The central bank, BI, has kept the policy rate unchanged at 6% to ensure exchange rate stability and to keep inflation in check. BI has a baseline scenario to lower rates in the second half of the year when the greenback gets weighed by US rate cuts. To reduce the IDR's exposure to the USD's volatility, BI and its Indian counterpart signed a Memorandum of Understanding in March to promote the bilateral use of the IDR and INR for cross-border transactions. At the general elections in February, voters elected Prabowo Subianto as Indonesia's eighth president. Although investors welcomed Prabowo's pledge to continue Jokowi's policies, they will seek clarity on how he intends to achieve his ambitious 8% economic growth target and populist measures while maintaining fiscal credibility. His choice of finance minister will be important when he assumes office in October.

The Indonesian rupiah is looking forward to less volatility from coming Fed cuts



Source: Bloomberg, DBS

MYR

We see positive developments supporting the MYR's path to stabilisation and recovery.

First, the central bank, BNM, and the Malaysian government coordinated efforts to support the MYR by encouraging government-linked companies to repatriate foreign earnings and verbal intervention. Economists polled by the Business Times estimated the MYR's fundamental value at 3.90-4.40 per USD vs the worst level of 4.80 hit in February. Second, we see better economic growth prospects of 4.8% in 2024 vs. 3.7% in 2023. Malaysia is gaining recognition as a crucial link in the global semiconductor supply chain due to the US-China tech war. In January, Malaysia and Singapore signed a Memorandum of Understanding to jointly develop a Special Economic Zone to attract investment. Finally, Malaysia can expect more political stability after its new King, Sultan Ibrahim Iskandar of Johor, strongly backed Prime Minister Anwar Ibrahim and the unity government into the next general elections due in February 2028.

The Malaysian ringgit is getting support from policymakers



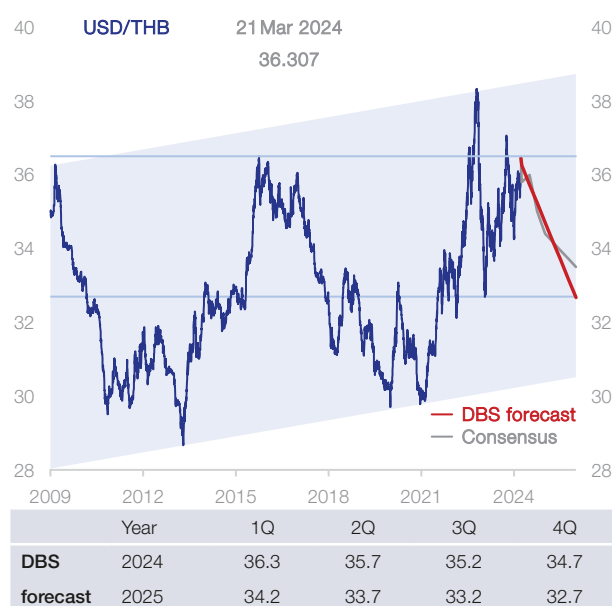
Source: Bloomberg, DBS

THB

We are staying constructive on the THB. The THB

was not spared from the USD's recovery in January-February from the US Federal Reserve pushing back aggressive rate-cut bets. However, the THB was resilient and did not join the MYR and JPY in returning to the weakest levels seen in 2022-2023. Despite a surprise quarterly economic contraction in 4Q23 and headline consumer deflation from October, the central bank, the BOT, resisted the government's pressure to cut interest rates. In January, consumer confidence reached the highest level in 47 months from a significant rebound in foreign tourist arrivals. Export growth turned positive in September and accelerated to 7.2% y/y in January. In 2024, we forecast the economy to expand by 2.8% from 1.9% in 2023 and a wider current account surplus of 2.5% of GDP from 1.4%. Given the strong correlation with the DXY Index, USD/THB should fall when the Fed cut rates by 100 bps in 2H24.

The Thai baht keeps a 32.7-36.3 range unless the Asian currencies disappoint

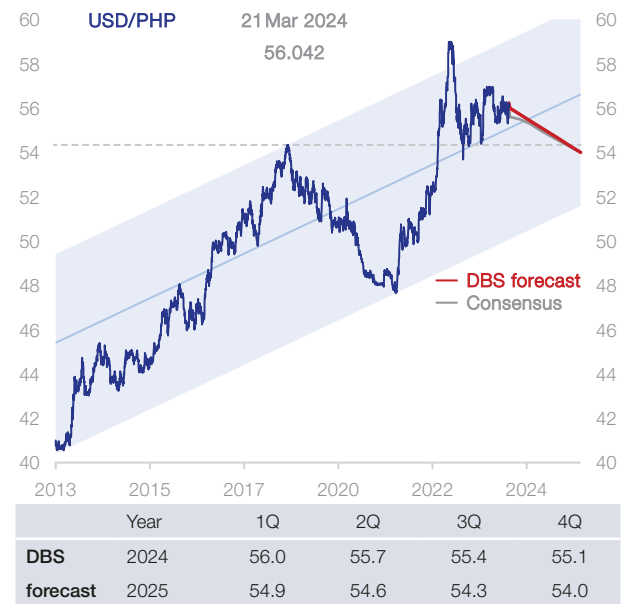


Source: Bloomberg, DBS

PHP

The official assumption for USD/PHP to average 55-58 in 2024 is reasonable. The currency pair started consolidating in a 54-57 range in early 2023 after it fell from 59 in October 2022. Exchange rate stability will stay a priority of the central bank, BSP, this year. Besides aligning its rate cuts with the Fed later this year, BSP plans to develop a foreign exchange intervention framework and revive the swaps market. In March, Moody's maintained a stable outlook for Philippine banks on gradual rate cuts on easing inflation to support domestic consumption and economic growth. This year, the resilient economy will remain one of Asia's fastest-growing economies after outperforming its ASEAN peers in 2023. However, the country faces political challenges from a Marcos-Duterte feud weakening the coalition at the 2025 mid-term elections and the prospect of a Trump presidency after the US presidential elections in November.

The Philippine peso kept to a 54.5-67.0 range since 2023

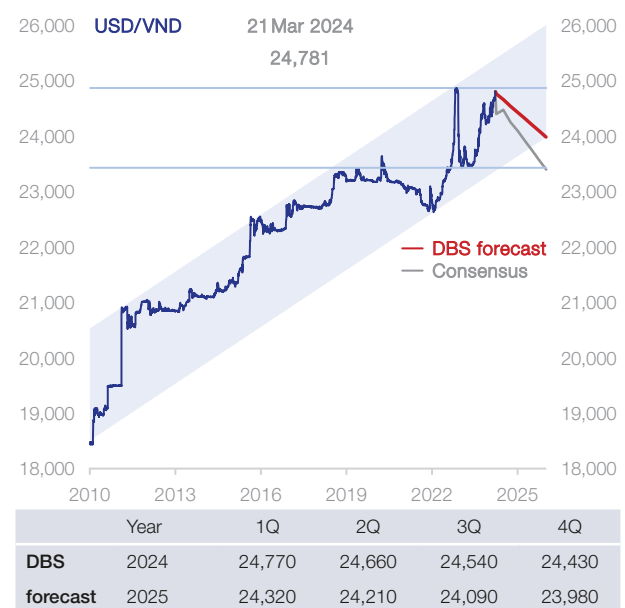


Source: Bloomberg, DBS

VND

Prospects for the VND should improve as the year progresses. We expect Vietnam to meet its official GDP growth target of 6-6.5% in 2024 after slowing to 5.1% in 2023. An export recovery should result in a wider current account surplus of 3% of GDP. That said, the VND's appreciation will likely lag its Asian counterparts when the Fed eventually cuts rates and weaken the USD. One reason is the increased competition Vietnam faces from other Asian countries positioning themselves in the "China Plus One" strategy. Between September and March, Vietnam elevated its diplomatic ties to the highest levels with the US, Japan, and Australia by forming comprehensive strategic partnerships with them. Another reason is the government's desire for the central bank, the SBV, to keep interest rates low and ensure that businesses can access financing. SBV has responded by targeting a 15% credit growth target this year, up from 14% in 2023.

The Vietnamese dong could recover after its retracement



Source: Bloomberg, DBS

DBS currency forecasts

Exchange rates, eop								
	21 Mar	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
China	7.1995	7.14	7.08	7.02	6.96	6.92	6.86	6.80
Hong Kong	7.8214	7.81	7.81	7.80	7.79	7.78	7.78	7.77
India	83.154	82.9	82.7	82.5	82.3	82.1	81.9	81.7
Indonesia	15669	15510	15370	15230	15100	14960	14820	14680
Malaysia	4.7155	4.65	4.60	4.55	4.50	4.40	4.35	4.30
Philippines	56.042	55.7	55.4	55.1	54.9	54.6	54.3	54.0
Singapore	1.3439	1.34	1.33	1.33	1.32	1.32	1.31	1.31
South Korea	1322	1310	1300	1290	1280	1270	1260	1250
Thailand	36.307	35.7	35.2	34.6	34.1	33.6	33.0	32.5
Vietnam	24781	24660	24540	24430	24320	24210	24090	23980
Australia	0.6570	0.67	0.67	0.68	0.69	0.69	0.70	0.71
Canada	1.3531	1.35	1.34	1.33	1.33	1.32	1.32	1.31
Eurozone	1.0860	1.10	1.11	1.11	1.12	1.13	1.14	1.15
Japan	151.62	148	145	142	139	136	133	130
New Zealand	0.6044	0.61	0.61	0.62	0.62	0.63	0.63	0.64
Switzerland	0.8975	0.90	0.90	0.91	0.91	0.92	0.92	0.92
United Kingdom	1.2658	1.28	1.28	1.29	1.30	1.31	1.32	1.33
United States	104.007	103.0	102.0	101.1	100.1	99.2	98.2	97.3

Australia, Eurozone, New Zealand and United Kingdom are direct quotes.

Still On Edge

Commodities
2Q24

Stay cautious on commodities as an asset class and await clear signs of a global economic recovery. Energy transition, global warming, and decarbonisation are key focus areas to watch for the long term.



10. Commodities.

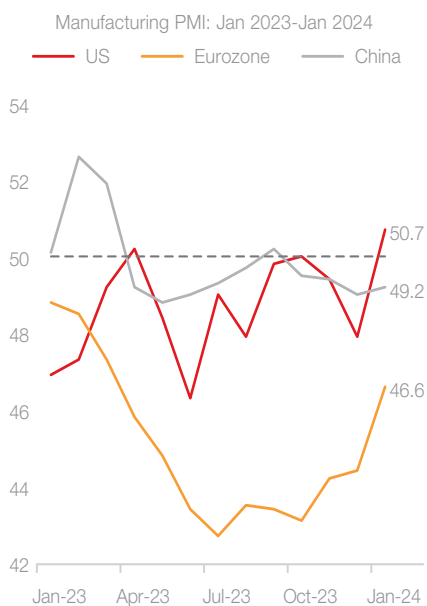
Goh Jun Yong
Analyst

Waiting for rate cuts. Moving into 2Q24, it is clear that many central banks, including the US Federal Reserve, have ceased their hiking endeavours. However, no central bank has yet to implement any rate cuts, which means rates are still in restrictive territory and weighing on commodity demand. This challenging state of affairs could persist as hopes of early rate cuts faded on the back of an exceptionally resilient US economy and labour market.

The global economic engine is chugging but sluggish. Outside of the US however, economic momentum appears to have slowed markedly; Jan 2024 PMI data showcased marginal improvements from Dec 2023 but lingered within anaemic territory

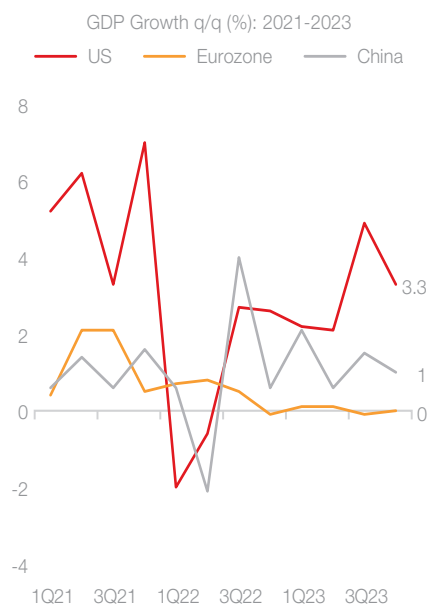
for both China and the Eurozone. GDP growth painted a similar picture, with the US posting robust growth rates of 4.9% and 3.3% in 3Q23 and 4Q23 respectively. In contrast, the Eurozone narrowly avoided a technical recession, and China saw modest expansion during the same period. Turning to inflation, while headlines have touted a resurgence in US core inflation, the more pertinent headline inflation measure for commodities (which encompasses energy and food prices), experienced a decline from 3.4% y/y in Dec 2023 to 3.1% y/y in Jan 2024. Eurozone inflation also continued its marginal descent (+2.8% y/y in Jan 2024 vs +2.9% y/y in Dec 2023), while China saw an escalation in deflation, with prices dropping by -0.8% y/y in Jan 2024 compared to -0.3% in Dec 2023.

Subdued PMI



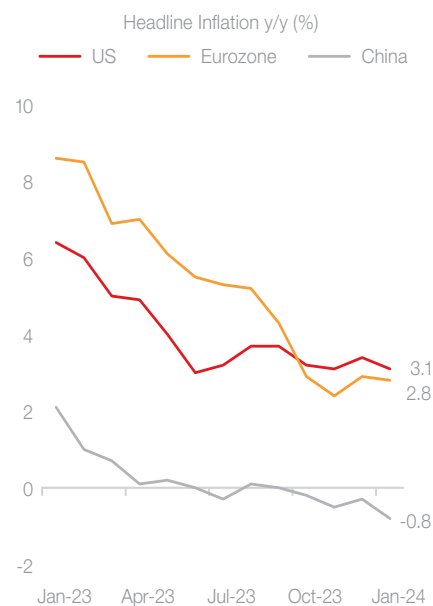
Source: Bloomberg, DBS

Muted GDP growth



Source: Bloomberg, DBS

Rising disinflation



Source: Bloomberg, DBS

Overall, indicators suggest a trend towards sluggish and moderating economic activity, with scant visibility regarding potential rate cuts and other significant macroeconomic catalysts.

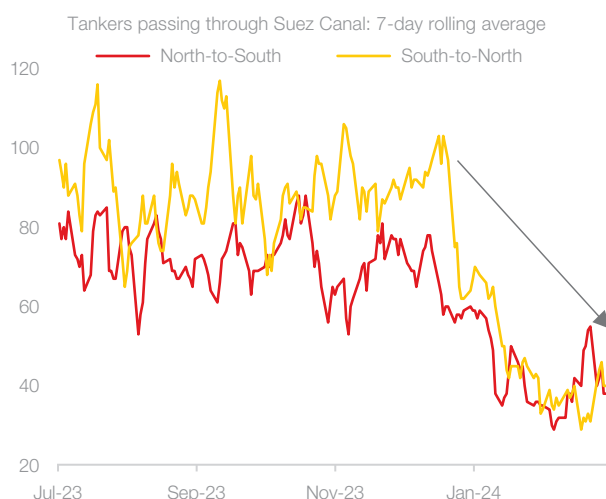
Energy

Flared tensions in the Middle East. The Israel-Hamas conflict continues to impact commodities through supply chain disruption risk. Houthi militants, acting as proxies for Iran and supporters of Hamas, have been conducting attacks on ships in the Red Sea from Nov 2023 to Jan 2024. In November, they seized the *Galaxy Leader*, a vehicle carrier, and brought it to a Yemeni port. In late January, they targeted and damaged the *Marlin Luanda*, an oil

tanker operated by commodities trader Trafigura. These incidents have impacted global supply chains, not only through the seized and damaged ships but also through the avoidance of trade routes passing through the Red Sea.

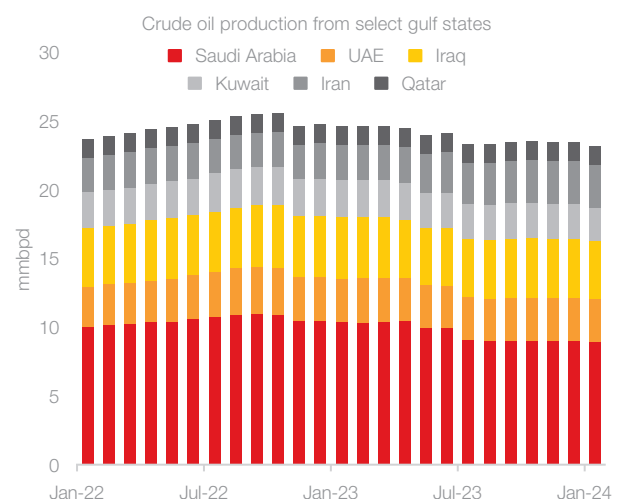
Trade disruption provides upside for oil. The most pronounced impact of these disruptions has been observed in global oil prices, which rose by c.8% from mid-Nov 2023 to end-Feb this year. This increase is unsurprising given that approximately a quarter of global crude oil production and a third of its related trade passes through the Straits of Hormuz. As such, any escalation of conflict in the region is expected to result in a spike in commodity prices, especially crude oil, albeit on a short-term basis as we have witnessed on multiple occasions in 2023.

Tanker traffic in the Suez fell



Source: Bloomberg, DBS

A large proportion of global crude production passes through the Straits of Hormuz



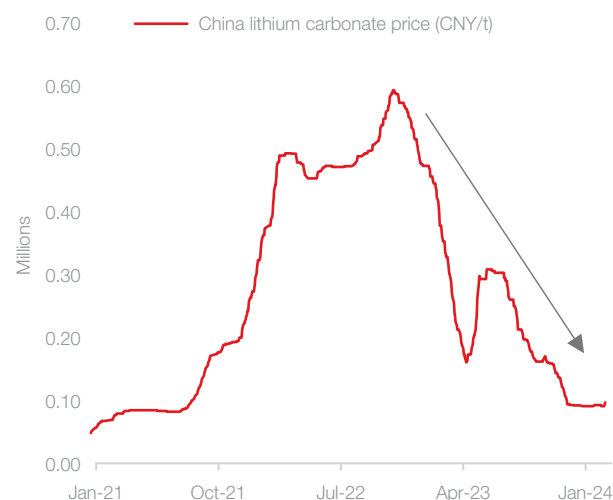
Source: Bloomberg, DBS

Industrial Metals

(Temporarily) stalling EV demand. In 2024, a decline in demand and sales for EVs is anticipated. US-based EV giant Tesla reported 4Q23 revenue of USD25.2b, falling short of analyst estimates of USD25.6b and marking a meagre 3% y/y increase, its slowest growth pace in over three years. Additionally, the company issued warnings of “notably lower” sales growth for the upcoming year. Similarly, BYD, the world’s largest EV maker by sales, projected a much lower growth in net profit for 2023 – ranging between 74.5% and 86.5%, significantly below the remarkable 446% surge recorded in 2022. This overall trend indicates a stalling momentum in global EV adoption, at least in the short term.

Lithium prices currently in lull. This slowdown has had a tangible impact on commodity producers and prices, particularly in the lithium market. Albemarle, the world’s largest producer of lithium, a key material in EV batteries, announced job cuts and reduced capital spending in response to slowing EV growth and declining EV selling prices. Reports indicate that these job cuts may affect around 4% of its workforce. Prices of lithium carbonate, a refined product used in batteries, have plummeted to nearly one-sixth of their peak levels observed in late 2022. Although long-term expectations suggest a growth in lithium prices due to a fundamental demand-supply gap, market dynamics do not appear to favour the battery metal for the remainder of 2024. The current lull in lithium prices reflects the non-linear progression expected in the EV transition.

Lithium prices fall on supply surplus and slowing EV demand



Source: Asian Metal Inc.

China real estate woes continue. Construction activity in China remains significantly below the expected level, with no clear solution in sight for the debt issues plaguing property developers. However, investment in infrastructure and manufacturing is expected to provide some stability to metal demand. Overall, we do not anticipate a significant change in industrial metal demand from China over the next two quarters, particularly for high-use metals like copper and aluminium. YTD, aluminium prices have fallen by 6.5%, while copper has seen a slight decrease of 0.8% as of 1 Mar 2024. Copper has performed relatively better than aluminium due to supply side factors, notably the temporary halt in operations at one of the metal’s largest recent greenfield developments, the Cobre mine in Panama.

China property investment has yet to recover



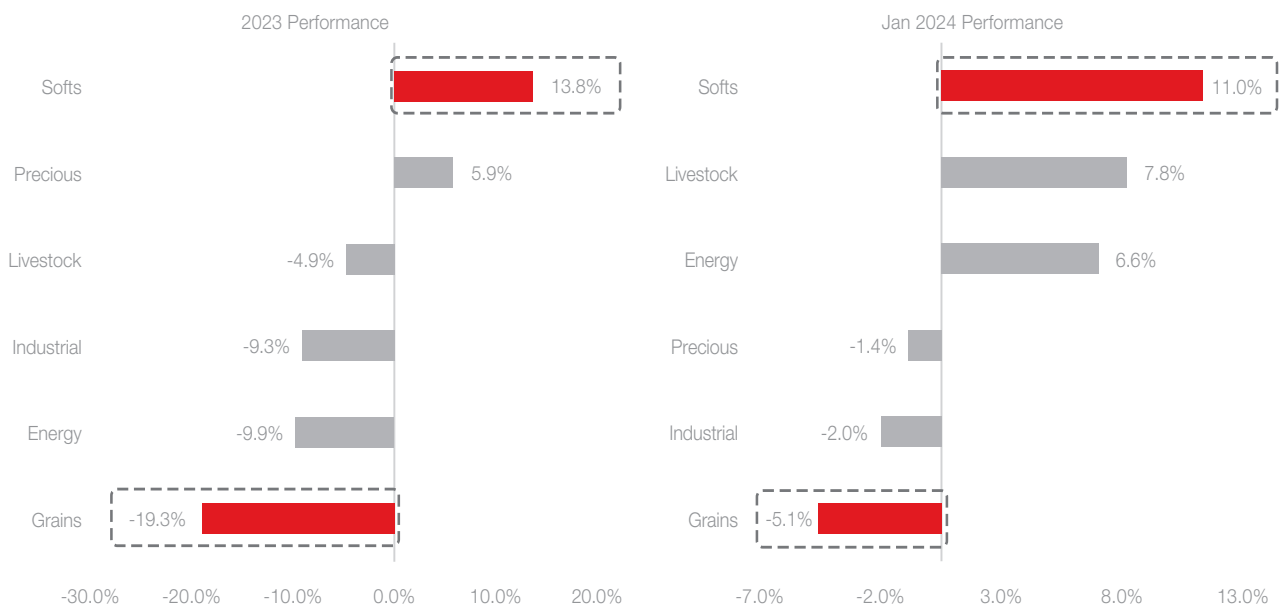
Source: Bloomberg, DBS

Agricultural commodities

Softs outperformed while Grains lagged in 2023. Agricultural commodities have had some of the most bifurcated performance in 2023 with Grains recording the worst performance within the commodities complex (-19.3%) and Softs recording the best (+13.8%). 2024 has seen a continuation of this trend as Grains shed a further 5.1% in Jan 2024 while Softs gained 11.0% during the same period.

Grains weighed down by strong supply. The poor performance of agricultural commodities can be largely attributed to robust supplies. US corn production is expected to reach 389.8 million metric tonnes (mmt) for marketing year (MY) 2023-24, marking a significant y/y increase of 38.6mmt and setting a new record. Similarly, soybean production

Bifurcated performance within agricultural commodities



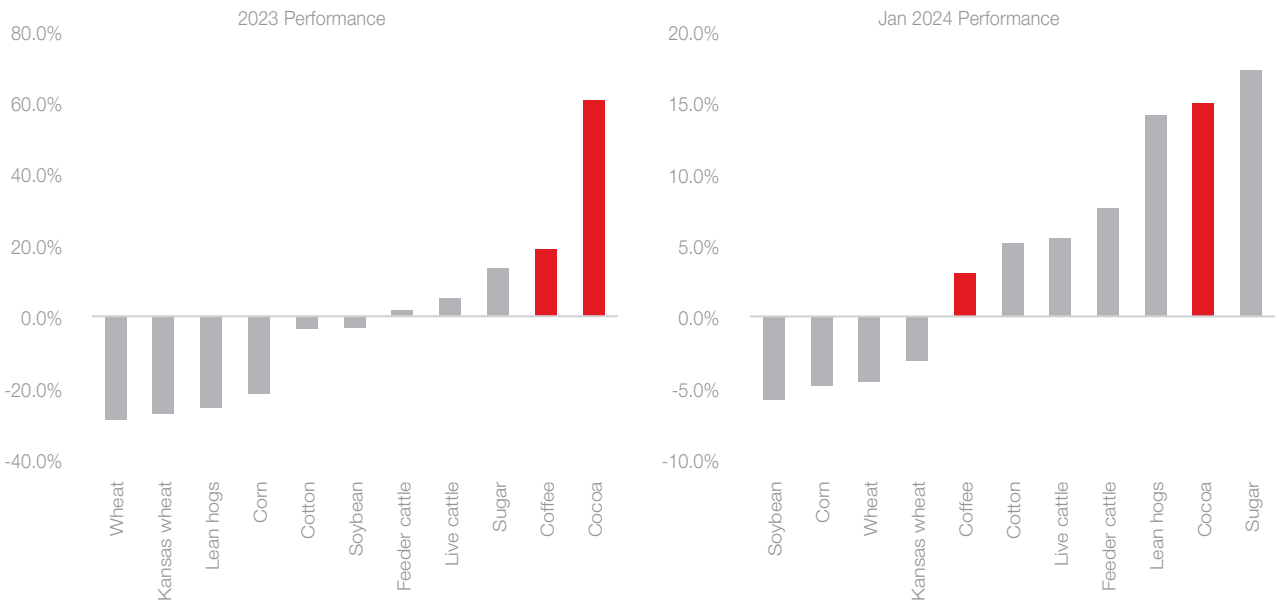
Source: Bloomberg, DBS

in Brazil and Argentina, the largest and third-largest global producers respectively, is projected to yield strong outputs for the 2023-24 season. In Dec 2023, the USDA raised its estimates for Brazil's soybean export projection MY 2023-24 to 103.0 million mmt, reaching an all-time high. Although Russia's withdrawal from the Black Sea Grain Initiative could pose upside risks to global food prices, particularly for wheat, the impact on prices has been muted so far. This is due to Ukraine's ability to continue exporting grain and oilseeds through alternative means such as barge, road, and rail across the country's western borders.

Cocoa and coffee were top performers among Softs. The main driver of Softs' outperformance was cocoa, which gained 60.8% in 2023, and a further 14.9% in Jan 2024. This significant increase

in prices reflects the ongoing deficit in the global cocoa market, which is expected to persist for the third consecutive year in 2024. The deficit is due to a combination of resilient demand for cocoa and cocoa products, and supply shocks from El Nino, fertiliser shortages, and outbreak of swollen-shoot disease in Ivory Coast and Ghana, which collectively account for two-thirds of global production. Coffee was also a strong contributor to the Softs sub-segment, registering gains of +20% for 2023 and a further +3.1% in Jan 2024. The outperformance for coffee was similarly driven by stable demand and a reduction in supply and stocks due to adverse weather. It is also worth noting that coffee prices were likely a beneficiary of the aforementioned Red Sea disruption as coffee is typically shipped in containers (instead of bulk carriers), and more container ships were diverted from the Suez Canal than bulk carriers.

Cocoa and coffee all-stars



Source: Bloomberg, DBS

Conclusion

Commodities continue to face headwinds from the tight monetary environment, and this is reflected in a myriad of macroeconomic datapoints, from PMI to GDP growth and inflation. While the performance of broad commodities has picked up marginally this year, majority of the outperformance could be attributed to idiosyncratic factors (e.g. geopolitical conflict, weather conditions, mine closures etc.) and cyclical factors rather than structural ones. Energy, in particular, was a beneficiary of rising tensions in the Middle East. As a result, we can see a clear outperformance of the S&P GSCI total return (GSCI TR) index vis-à-vis the Bloomberg Commodities total return (BCOM TR) index since the former has significantly higher allocation to Energy. All in all, we continue to stay cautious on this asset class, awaiting clearer signs of easing monetary conditions and a firmer global economic recovery. In the longer term, we believe that thematic focus areas such as the energy transition, global warming, and de-carbonisation are still at play and will facilitate a shift in commodity demand.

GSCI TR Index has outperformed YTD due to higher energy exposure



Source: Bloomberg, DBS

GSCI and BCOM Index sector weights

(%)	BCOM TR Index	GSCI TR Index
Energy	29.9	61.5
Agriculture	29.5	18.0
Livestock	6.0	5.8
Industrial Metals	15.6	10.6
Precious Metals	19.0	4.1

Source: Bloomberg, S&P Dow Jones Indices



New Equilibrium

Alternatives
2Q24:
Gold and
Private Assets

Maintain target price of USD2,250/oz. for gold amid geopolitical tensions and central bank buying. Harness benefits of private market investing by building exposure through a well-paced, diversified programme.

11. Alternatives: Gold.

Goh Jun Yong

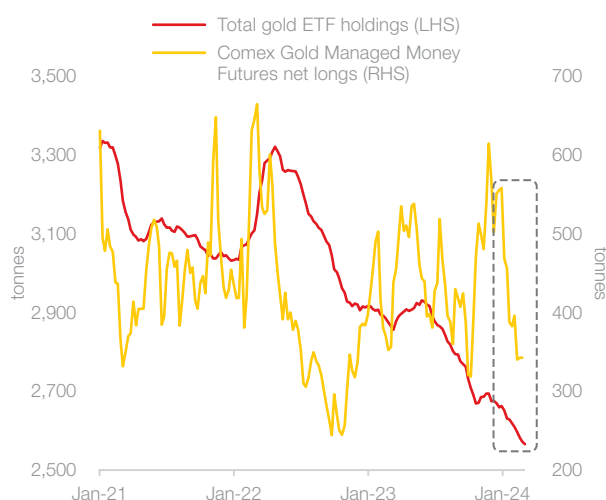
Analyst

Retracing some of December's gains. Gold was off to a shaky start in 2024, giving back some gains (- 0.9% YTD as at 29 Feb) after a stellar performance in December last year. This was somewhat expected given: i) profit-taking after such a substantial rally and ii) further developments on the rates front that tempered optimism for gold. On point (ii), there was a resurgence in inflation as well as continued labour market resilience in the US in the first month of 2024, which all but dashed hopes of early Fed rate cuts, resulting in a strengthening dollar and Treasury yields. This persistent US economic strength had an impact on short-term investment positioning for gold, with global gold ETFs seeing an outflow of 51 tonnes in January, and COMEX Gold Managed Money Futures seeing a reduction in net longs (-206 tonnes) in January.

Resilience still a key theme for gold.

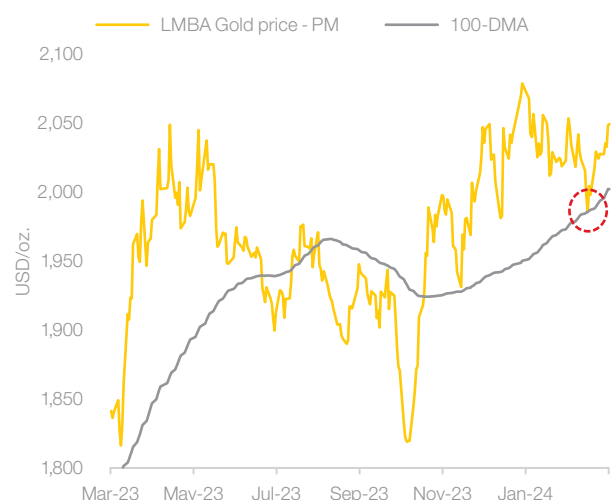
Notwithstanding these retracements, it could be argued that gold remained relatively resilient. YTD, it tested its 100-Day Moving Average (100-DMA) just once, on 14 Feb. During the afternoon gold price-setting session, the LBMA price fell to USD1,985/oz. — the same level as its 100-DMA. However, it rebounded shortly after. Since then, prices have remained comfortably above USD2,000/oz., which is similar to where levels were in late November last year, and this is despite the fact that the dollar and rates have strengthened marginally since then. This resilience suggests that the consensus view for gold is still fundamentally positive, and that expectations for future rate cuts are still alive and well, notwithstanding that the timing of these cuts might be later than initially expected due to the resilience of the US economy.

January's return was driven by ETF and gold futures outflows



Source: Bloomberg, DBS

Gold remains supported above its 100-DMA

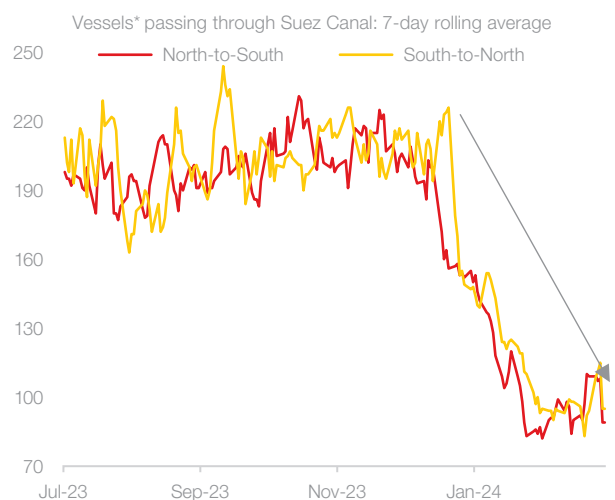


Source: Bloomberg, DBS

Geopolitical risk could be a double-edged sword.

Part of gold's resilience in the first two months of 2024 could also be attributed to the persistence of geopolitical risk. It has been more than two years since the inception of the Russia-Ukraine war, with no end in sight. What is more pertinent is the conflict in the Middle East between Israel and Hamas, which escalated last November in the form of proxy wars in the Red Sea conducted by pro-Hamas Houthi militants. As a safe-haven asset, gold would no doubt have benefited from the prevailing geopolitical climate. However, the flipside of geopolitical risk is that it can be a potential source of supply chain pressure and inflation risk. Case in point, vessel traffic through the Suez Canal has fallen substantially since the Houthi attacks in the Red Sea began, and that has impacted freight cost and energy prices among other things. If inflation rises as a result, we could see yields back up further, which would be negative for gold.

Suez vessel traffic has fallen since Red Sea attacks began



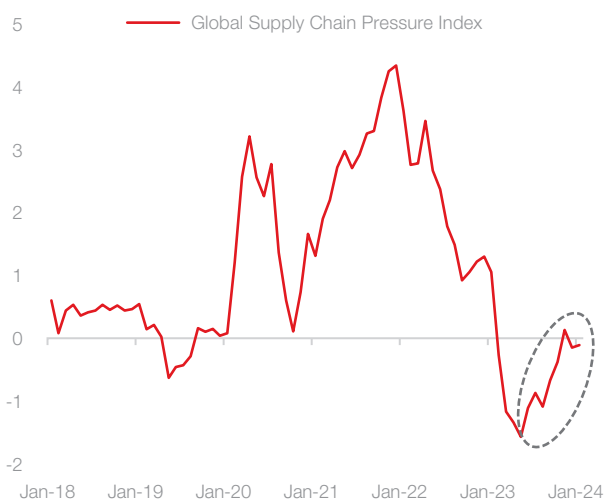
*Vessels include bulk carriers, container ships, and tankers

Source: Bloomberg, DBS

Central banks to the rescue.

Amid the volatility of the past two years, the one thing that has remained consistent is strong central bank gold-buying. Looking at the long-term trend, we can see a marked differentiation between buying activity from pre-2Q22, and 2Q22 onwards; there has been a clear acceleration in purchases during the latter period. To provide an idea of how much buying has grown, 2022 was a record year for central bank gold-buying, with demand totalling 1,081.9 tonnes, with 2023 following closely behind (1,037.4 tonnes). We expect this trend to continue for two reasons: i) rising instances of international sanctions; and ii) increasing momentum in the long-term de-dollarisation trend. On point (i), the world is more cognizant than ever of sanctions risk, especially following Russia's invasion of Ukraine, and gold presents a way for countries to build resilience and possibly circumvent sanctions. On point (ii), the slow but steady shift towards a multi-

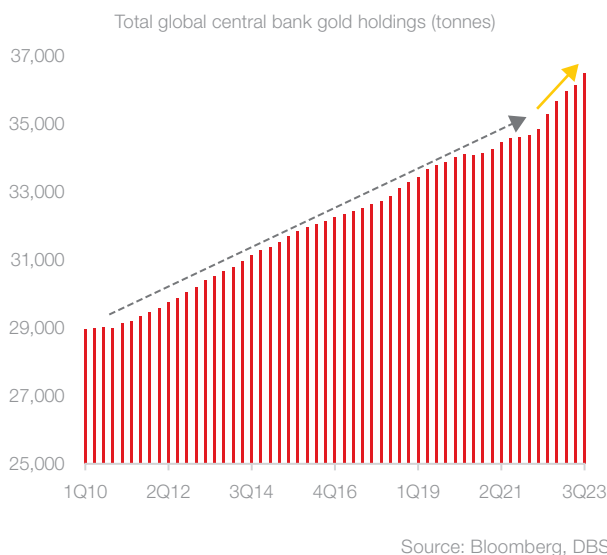
Easing global supply chain pressure could see reversal



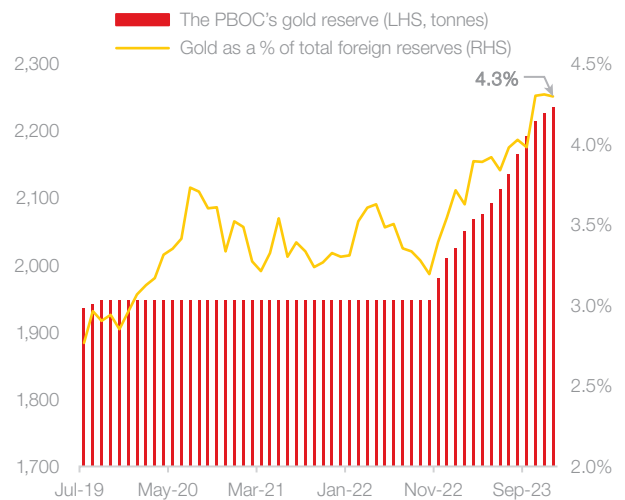
Source: Bloomberg, DBS

polar world is increasing the appeal of gold to many countries. Even though there is no immediate threat to the dollar's reserve currency status, countries both emerging and developed are increasingly looking to diversify their foreign exchange reserves to include neutral hard assets such as gold. The central banks of China, Poland, and Singapore were among the largest buyers in recent years. Notably, resilient central bank buying not only provides long-term support for gold, but also acts as a price stabiliser for the precious metal. Central banks are price-sensitive to some extent, and as such, when gold experiences sell-downs, it is not uncommon for some of them to partake in opportunistic buying.

Central bank buying has accelerated since 2H22



PBOC buying streak continues, headroom aplenty



Conclusion

Destination remains but road ahead could be rocky. On the back of central bank buying, the shift towards a multi-polar world order, and strong demand from China and India, the long-term tailwinds for gold remain intact. In the short term, uncertainty in the form of conflict as well as a deluge of elections around the globe should also be a net positive for gold. However, all that will most likely play second fiddle to developments on the rate and dollar front. If inflation growth and employment data continue to surprise on the upside, we could see gold slide. However, even if macro data does come in hot and further rate hikes are implemented, there are silver linings for the precious metal; further rate hikes will increase the probability of recession overtime, and when recession does occur, rate cuts will most certainly take place. All in all, while we expect rate cuts to eventually come into play, the biggest uncertainty lies in its timing. We maintain our 12-month target price of USD2,250 on the back of these factors.

Sensitivity of gold price to the dollar and 10-year US Treasury yield

CPI @ 3%, 60% chance of recession	DXY					
	UST 10 Yield (%)	90	95	100	105	110
	2.00	2,552	2,448	2,344	2,240	2,136
	2.50	2,509	2,405	2,301	2,197	2,093
	3.00	2,466	2,362	2,258	2,154	2,050
	3.50	2,423	2,319	2,215	2,111	2,008
	4.00	2,380	2,277	2,173	2,069	1,965
	4.50	2,338	2,234	2,130	2,026	1,922
	5.00	2,295	2,191	2,087	1,983	1,879
Current range		Source: DBS				
Possible range						



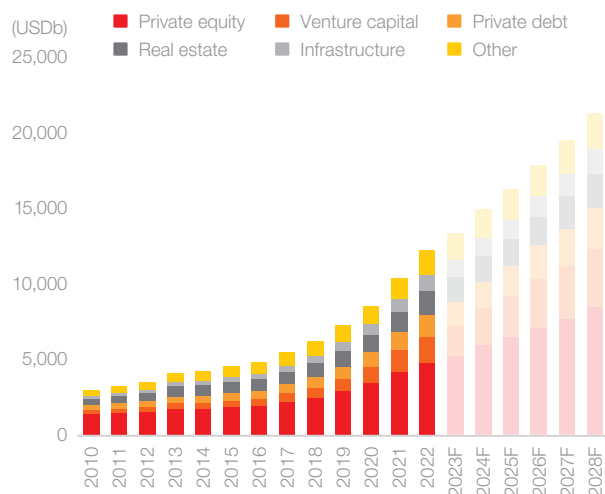
Alternatives: Private Assets.

Beatrice Tan

Analyst

Private markets have rapidly risen in prominence over the past two decades. Businesses and investors alike are increasingly appreciating the benefits of remaining outside the public eye, both in terms of more value being created, and rising investor participation in the private markets. Today, many of the largest and most influential companies are privately owned. With private markets presenting a significant investable opportunity set, boasting the epicentre of corporate growth and value creation, and offering outsized returns, it is no wonder that investor interest and participation in the private markets remains steadily growing. As investor awareness and interest in the private markets builds, this article provides an introduction for investors looking to build an allocation to this space within their core portfolio.

Interest and participation in private markets have been steadily growing

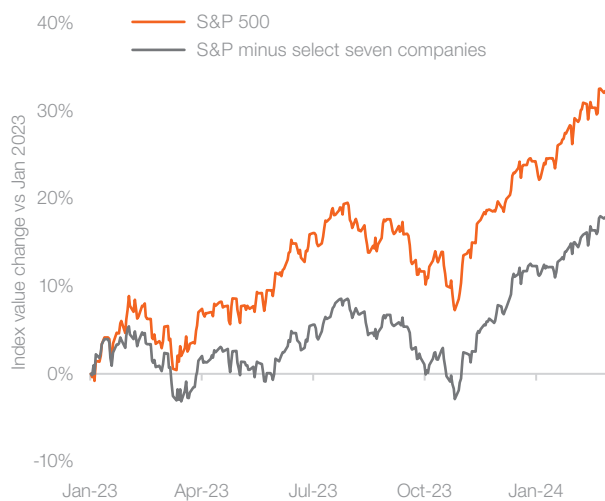


Source: Preqin, DBS

Why invest in private markets? Benefits of investing in private markets include:

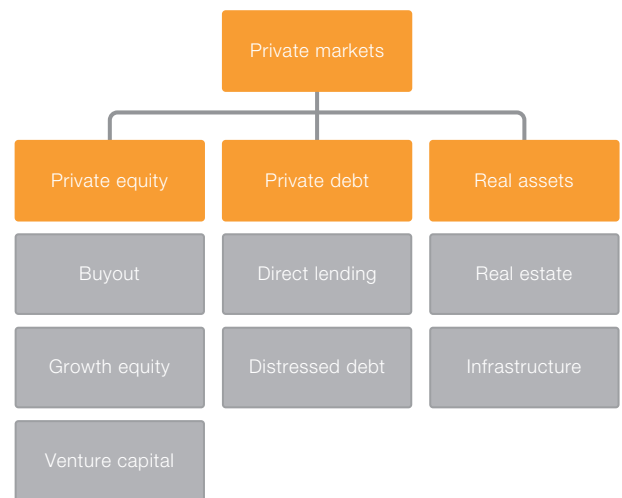
- 1. A wider investment universe available on private markets.** Many expressions of emerging innovations remain underrepresented in public markets, but investors can gain access to such opportunities widening their universe into private markets. Furthermore, rising concentration of performance on public markets also underscores a need to look to private markets as an important source of diversification.
- 2. Value creation through active management.** Due to substantial stakes and generally illiquid positions, private market firms tend to emphasise a long-term investment horizon. This, combined with their level of involvement in managing the investments, aligns their interest closely with those of limited partners, fostering a shared commitment to creating value through sustainable growth and success of portfolio companies, rather than focusing on immediate stock price fluctuations.
- 3. Harnessing behavioural benefits of illiquidity.** Although illiquid private asset holdings could make it challenging for investors to react to unforeseen changes or opportunities, this illiquidity also protects against impulsive selling tendencies that may arise during volatile market conditions, shielding the portfolio from inherent behavioural biases.

The S&P500's gains are largely due to the success of seven companies



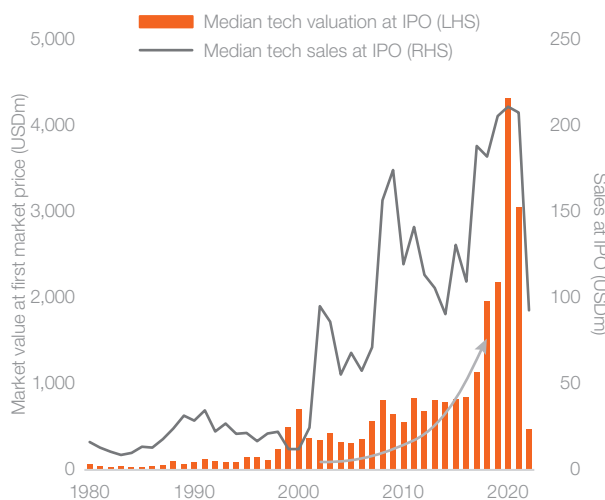
Source: Bloomberg, S&P Global, DBS

Key private market asset classes and strategies



Source: DBS

Companies gaining more value before IPO, private markets pocket the returns



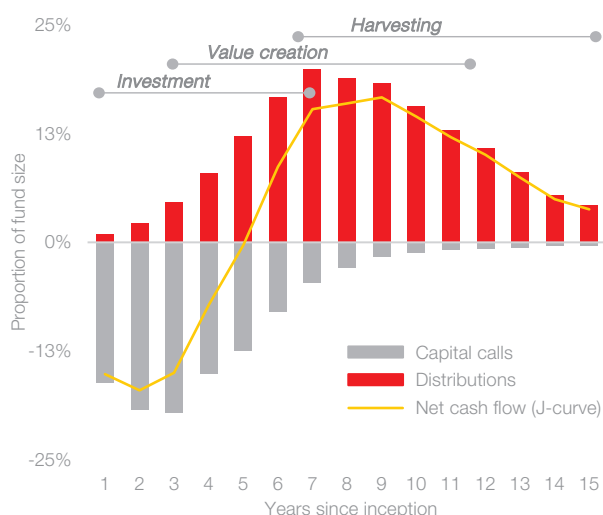
Source: Jay Ritter, Warrington College of Business, University of Florida, DBS
Note: Data up to 2022

Features of private market investing. While the prospect of improved risk-adjusted returns and an expanded opportunity set on private markets may be enticing, practical issues in introducing private market exposure to a portfolio often prove a barrier to entry for even sophisticated investors. Complexities include:

- How much, and when, should we commit to reach allocation targets?
- What should we do with committed, uncalled capital?
- How do we maintain our allocations, as funds return capital to us?

Investing in a typical private equity fund. Investing in private assets through a typical private equity fund works as follows: An investor commits as an LP to a new primary fund. This is a close-ended vehicle with a limited lifetime, that invests directly into private companies or assets. The fund does not typically call committed capital all at once. Instead, this is done gradually over a predetermined period as the fund makes investments in portfolio companies. The general partner would generally work with the portfolio investments' management teams to enhance their value, until the investments are ripe for harvesting. In the later years of the fund's lifetime, the fund sells its investments and this generates cash that is distributed back to its LPs. This overall cash flow pattern is referred to as the "J-curve", represented below:

Average cash flow profile of a Private Equity fund



Source: Pitchbook, DBS

Reaching target allocations in private assets. This J-curve cash flow pattern typical of private market funds implies that, unlike public market investing, investors new to private markets would not be able to achieve their target exposure to any private market asset class with a single fund at one go. Instead, building and maintaining a private market programme is a multi-year process that entails cash flow planning, and pacing commitments to new funds in various asset classes.

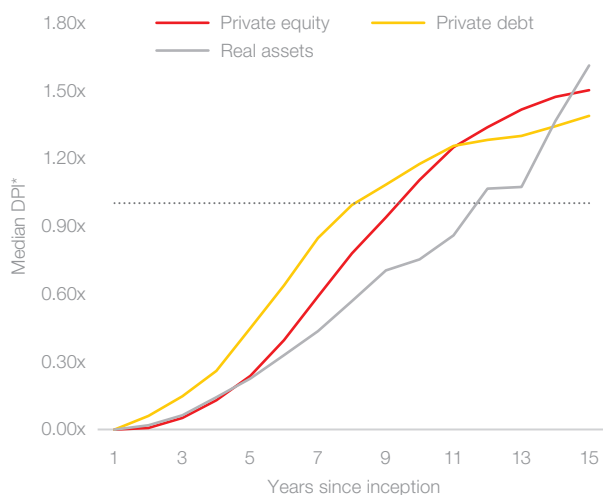
Cash flow planning. Capital calls and distributions are uncertain and beyond an LP's control. Hence investors must carefully plan for capital calls and distributions as they budget for cash flow needs at each stage of private markets investing.

- **Capital calls.** A commitment to a close-ended fund may take several years to be called, and LPs must ensure sufficient liquidity to meet these obligations. To avoid a cash drag on returns, investors may maintain capital earmarked for private market capital calls invested in liquid public instruments until it is needed – to capture beta of the market along the way, or held in cash or cash-equivalents for liquidity.
- **Distributions and performance.** As a fund's portfolio of investments matures, underlying investment performance, and distributions during the investment period (which are uncertain at time of initial commitment) work against an investor's allocation target. Consequently, maintaining a stable allocation to private assets entails consistently pacing allocations to fresh investments. Ultimately, by constructing a rolling programme of investing into private market

funds, an investor's portfolio will effectively become self-funding, as distributions from funds of earlier vintages would generally offset contributions to new funds, reducing additional cash outlay required from investors.

Diversification across strategies, vintages, and managers. Investors allocating to private markets must further note that private market strategies are not homogenous. For example, based on Pitchbook's analysis, private debt funds on average call and distribute capital faster than private equity or real assets, while venture capital's boom and bust cycle presents more volatile returns. Each different vintage year (starting year of a fund) has historically also seen differences in the dispersion of fund performance and median performance.

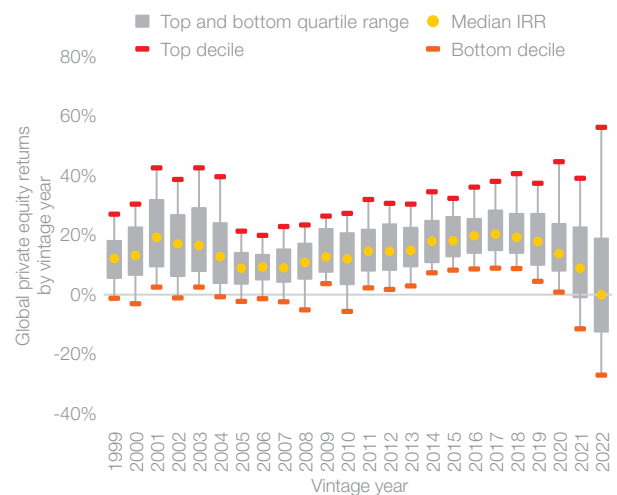
Median DPI of various private market asset classes



Source: Pitchbook, DBS

*DPI: Distributions to paid-in capital, which measures the total capital that a fund has returned to its investors, relative to its paid-in capital

Performance and dispersion varies across vintages

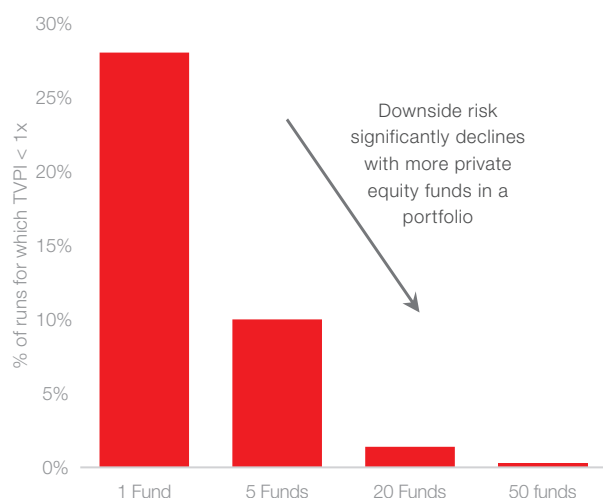


Source: Pitchbook, DBS

Returns in IRR terms

Varied cash flow and return profiles within private markets underscore the importance of diversification within private market allocations. Spreading commitments across geographies, managers, strategies, and vintage years, has been found to have a positive effect on the risk exposure of a private asset portfolio, by reducing reliance on any economic environment or manager. A study by Diller and Jackel found that risks of losing capital in a portfolio of randomly selected funds declines significantly as more funds are added. This reiterates that committing regularly to multiple new funds is necessary, not only to maintain a stable allocation over time, but also construct a diversified and resilient portfolio.

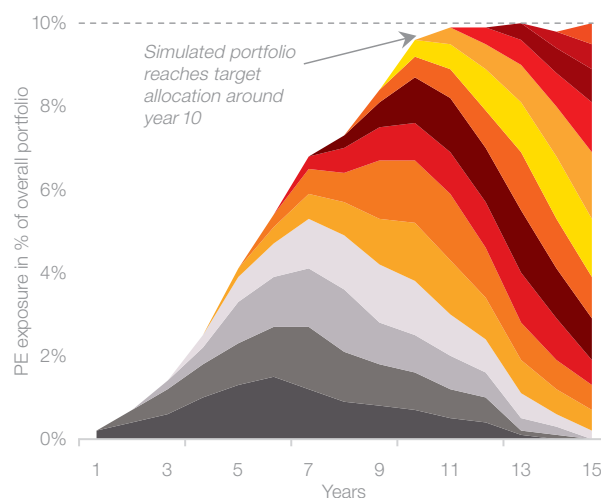
Well-diversified private equity portfolios most insulated against downside risks



Source: "Risk in Private Equity" by Dr Christian Diller, Dr Christoph Jackel, and Montana Capital Partners, accessed through British Private Equity & Venture Capital Association

Note: Cases for which TVPI for simulated portfolios of private equity funds was below 1x after 10 years. Number of runs: 5000
 *TVPI is a ratio measuring the value of investments within a fund, plus the total distributions to date, relative to the total capital paid into the fund to date.

Example of commitment plan for allocation to private equity over multiple years

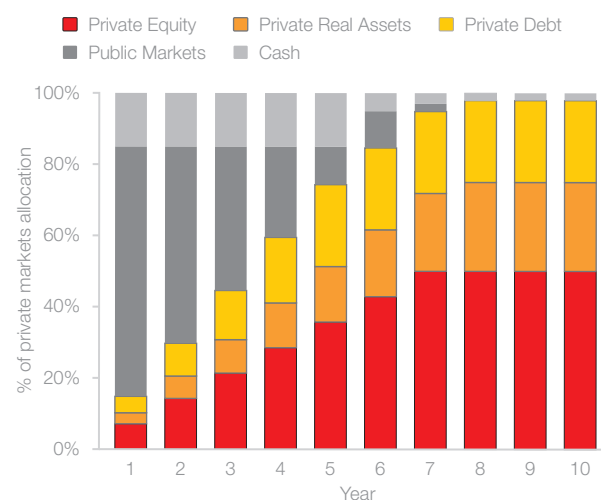


Source: DBS (For illustrative purposes only)
 Simulated portfolio investing in one fund per vintage. Each colour band represents exposure to one private equity fund.

General guidelines for developing a private markets investment programme:

- Investors new to private assets may build their target exposure to each asset class over a number of years, working backwards from the length of time they expect to be fully allocated to private markets.
- By pacing allocations across different vintages, the private market programme eventually becomes "self-funding" as funds of earlier vintages eventually begin distributing capital, and this cash may be re-deployed to new funds.

Illustrative example of building up a new private markets allocation



Source: DBS (For illustrative purposes only)

How do I invest in the private markets? Given the relative complexity of investing in private market funds, exposure through primary funds is best pursued by investors with the necessary resources. Alternatively, individuals may choose to delegate these responsibilities to a discretionary program. Under such a programme, an investment advisor would not only provide the services needed to manage a funds programme, but also facilitate access to highly sought after, best-in-class fund managers. It is also worth noting that, in addition to primary funds, there are a range of different options available to investors seeking private markets exposure. The suitability of each approach depends on factors including an investor's allocation size, level of expertise and preferred degree of involvement.

- **Direct or co-investments.** Investments can be made directly into private companies or assets. This typically involves a high level of resources and expertise to source, evaluate, and manage investments. It also requires scale, which makes it unsuitable for some investors seeking diversified exposure to private markets. Investors may also co-invest alongside a general partner (usually a private asset firm) which will undertake management responsibility, for a chance to invest alongside specific private asset fund managers.
- **Secondary funds.** Secondary funds purchase existing primary fund stakes from LPs. By purchasing interests in primary funds further down their performance cycle, secondary funds mitigate J-curve effects and reduce the duration of illiquidity for investors. Other than a shorter/shallower J-curve, exposure to secondary funds may also be useful at inception of a primary market programme to provide quicker exposure and diversification across strategies, geographies, and vintage years.

- **Fund of funds.** Fund of funds pool investors capital to create a diversified portfolio of private market funds. Investors give up control over their investment, in exchange for a convenient means for first-time private markets investors to gain diversified exposure to hard-to-access top tier managers. Fund of funds are often selected by investors seeking diversified private market exposure, but for whom implementing a primary funds program may not be feasible.
- **Semi-liquid funds.** These are open-ended structures offering investors the option to subscribe and redeem shares on a regular basis. Liquidity in semi-liquid structures is often engineered through part of the portfolio being invested in liquid assets, which may dilute the exposure to private markets. Although there is typically no J-curve, lock up periods and fund-level gating may still apply. Consequently, while investors may fall back on liquidity mechanisms if individual circumstances require them to withdraw capital, this feature should not be relied on in market drawdowns or duress.

Balancing liquidity and capital needs. Ultimately, investors must consider the following in establishing how they choose to access the private markets: administration, portfolio diversification, cost, and the long-term commitment required to participate in a private markets program. For example, smaller scale individual investors may consider fund of funds or semi-liquid private assets as a portfolio construction tool, given the illiquid nature of private market investments and their limited amount of capital to deploy. Ultimately, to construct a successful private market program, investors should explore and understand the various facets to building a program that allows them to enjoy the benefits of investing in the private markets for years to come.



Big Tech's New Paradigm

Thematic
Strategy
2Q24

Big Tech's impressive performance is a manifestation of "Q-GARP" (Quality Growth-at-a-Reasonable-Price). Rising valuation in the Big Tech era necessitates a new narrative on what constitutes "reasonable". Ride the wave in Big Tech, AI, and Cybersecurity.

12. Paradigm Shift.

Yeang Cheng Ling

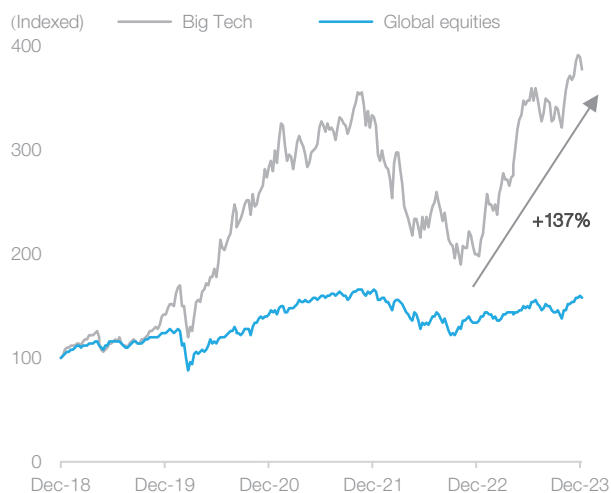
Chief Investment Officer,
North Asia

Goh Jun Yong

Analyst

No stopping this technology train. The CIO Office has long been constructive on Big Tech. Despite shaky investor sentiment during the relentless Fed rate-hiking cycle in 2022 and 2023, we maintained the view that the technology sector would make a comeback on the basis of robust earnings growth, balance sheet strength, structural criticality, and strong net cash positions. We also contested the notion that higher rates will suppress end demand, citing the emergence of artificial intelligence (AI) as a growth catalyst that would usher in a new growth paradigm for Big Tech companies, many of which form the structural backbone of this nascent technology. Additionally, Big Tech companies have further cemented their leadership in the past two years, establishing their authority in a growing number of tech-related verticals through innovation and inorganic growth. This series of contrarian calls has panned out well, with Big Tech delivering a striking performance of c.+137% from Nov 2022 to Feb 2024.

Big Tech has beaten the market and looks poised to continue its outperformance



Source: Bloomberg, DBS

Latest earnings season affirms momentum. 4Q23 was another strong quarter for Big Tech, with many industry stalwarts posting beats on both the revenue and earnings fronts. Their strong fundamentals position them well to continue delivering promising performance in the coming year. Even for companies that were less sanguine in their guidance, share price performance remained resilient; this suggests that investors are looking beyond near-term factors and are in fact aligning themselves with long-term catalysts.

4Q23 select Big Tech company results

Company	CY 4Q23 Revenue	CY 4Q23 Earnings	Guidance	YTD Performance as at 22 Feb (%)
Apple	In line	In line	Slight positive	-5.3%
Microsoft	In line	Beat	Slight positive	7.0%
Alphabet	In line	Beat	Positive	2.1%
Amazon	Beat	Big beat	Positive	11.0%
Nvidia	Beat	Beat	Strong positive	36.3%
Tesla	In line	In line	Cautious	-21.6%
Meta Platforms	Beat	Beat	Positive	32.2%
Netflix	In line	Beat	Slight positive	17.8%
AMD	Beat	In line	Negative	11.5%
TSMC	Beat	Beat	Positive	20.5%

Source: Bloomberg, DBS

Embracing Q-GARP. Big Tech’s impressive performance is a manifestation of “Q-GARP”, which stands for Quality Growth-at-a-Reasonable-Price. Traditionally, the Growth-at-a-Reasonable-Price strategy involved picking companies that produced strong earnings without excessive valuations. However, in the current era of Big Tech, valuation multiples have grown, necessitating a new benchmark for what is “reasonable” when taking into account growth, quality, pricing power, and presence of economic moats. Q-GARP focuses on companies with best-in-class qualities and the highest growth potential in their respective sectors. With growth in the markets currently dominated by technology, the areas which we believe align best with this strategy are: **i) Big Tech; ii) Artificial Intelligence (AI); and iii) Cybersecurity.**

“

AI gives us an opportunity on the organic side and monetisation side [of Alphabet’s search business], and we are in the early days of it.

”

Sundar Pichai, Alphabet CEO

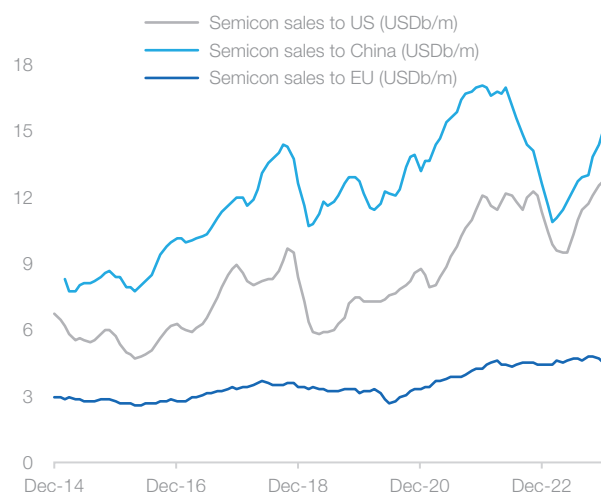
Big Tech

We believe Big Tech will continue to be a bright spot within the equity space, buoyed by the following catalysts:

Catalyst 1: Semiconductor recovery in sight.

Semiconductor chipsets form the core foundation of most technology today and is a good barometer of the upstream technology sector. After a year-long slowdown, semiconductor sales to China and the US have passed the trough in mid-2023 on the back of a stable recovery driven by new demand from AI and related services. We believe this represents a turning point for the sector and suggests that inventory issues are gradually being resolved. Coupled with signs that demand is bottoming, we will likely see a further recovery across the semiconductor sector moving forward.

Global semiconductor sales rebounding



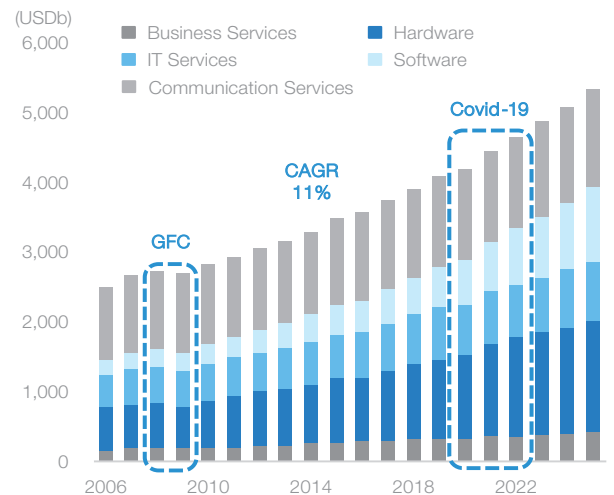
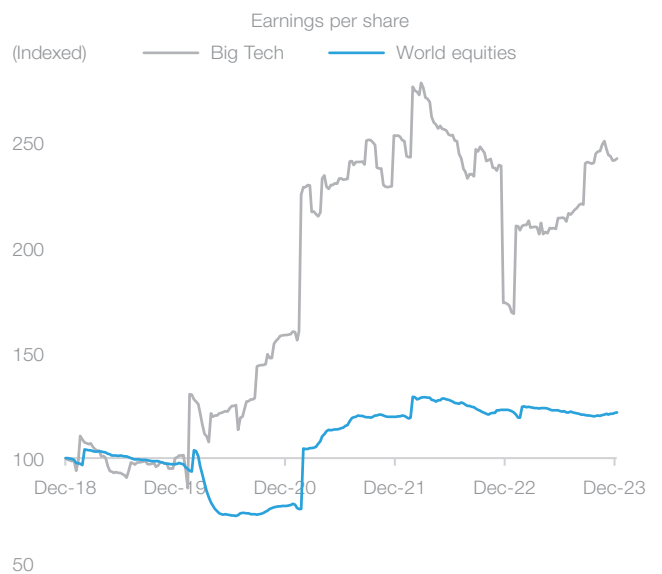
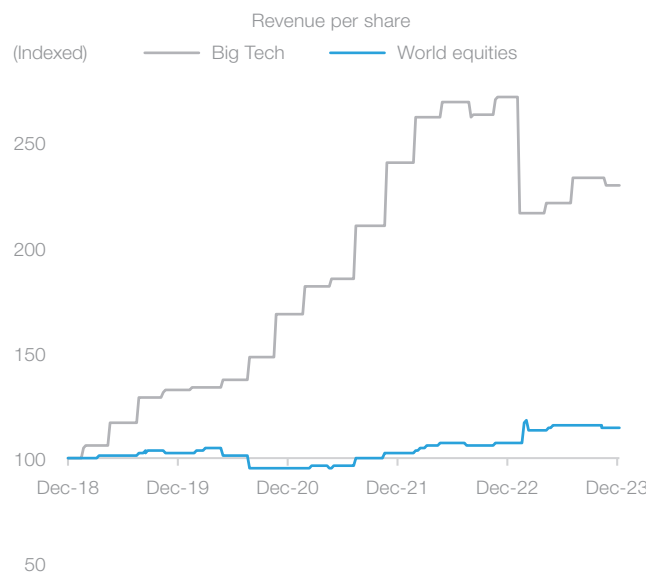
Source: Bloomberg, DBS

Catalyst 2: Resilient global IT spending uptrend.

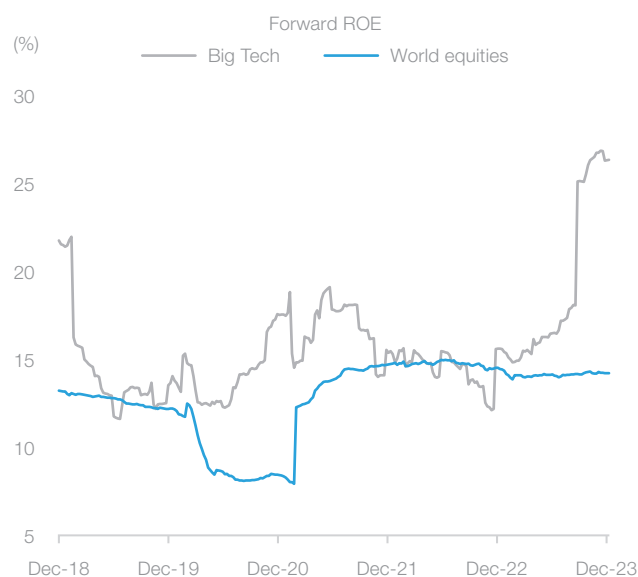
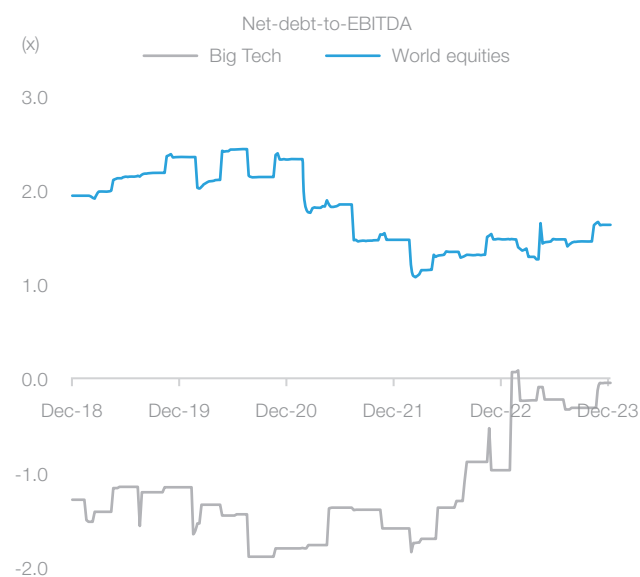
Global IT expenditure is expected to remain robust and broad-based, spanning across services, hardware, software, and communications, and reaching a total addressable market size of USD5.3t by 2025. This uptrend has remained intact over the past two decades, persisting even during the peak of Covid lockdowns. The only exception was a minor blip during the GFC in 2009. As the adoption of cloud computing and AI-embedded applications expand, we believe Big Tech companies and sector leaders are poised to secure a slice of this growing pie.

Catalyst 3: Strong revenue and earnings backdrop.

The sector's performance was in large part driven by its strong revenue and earnings growth, which outstrip the broader market. The enduring end demand for tech-related products and the admirable pricing power of Big Tech companies should continue to support this trend moving forward.

Multi-trillion-dollar total addressable market**Big Tech's outperformance is rooted in superior revenue and earnings growth**

Low dependence on leverage and outstanding shareholder returns



Source: Bloomberg, DBS

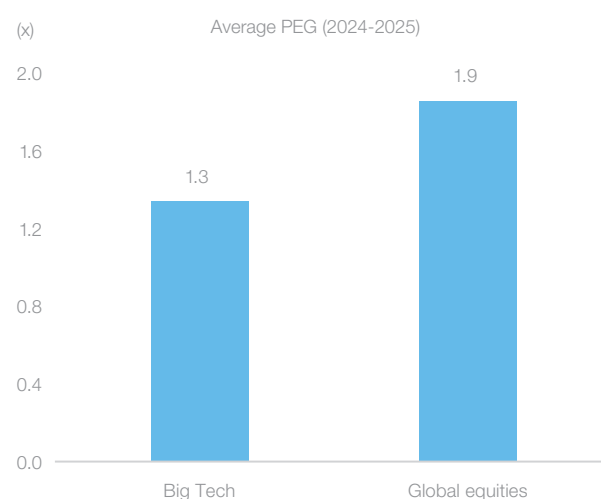
Catalyst 4: Solid balance sheet and shareholder return.

The majority of Big Tech companies have negative net debt, and therefore have a higher degree of liquidity and financial stability compared to more highly leveraged companies. Additionally, a large cash pile gives them the financial muscle to make opportunistic acquisitions. This low dependence on leverage, coupled with growth from M&A activity, has seen Big Tech consistently deliver shareholder returns above that of global equities.

Catalyst 5: Growth-adjusted valuation has room for expansion.

While naysayers may argue that Big Tech trades at a huge premium (c.30x and c.26x 2024/25 earnings respectively), we believe the premium is justified given the quality of the companies in question; the combination of growth and true safety that these companies offer is rare in equity investing. On a growth-adjusted basis, the average 2024/25 PE-to-growth (PE/G) is not at all demanding. Big Tech's 2-year average PE/G of 1.3x is at a stark discount compared to 1.9x of global equities.

Growth and quality justify premium valuations

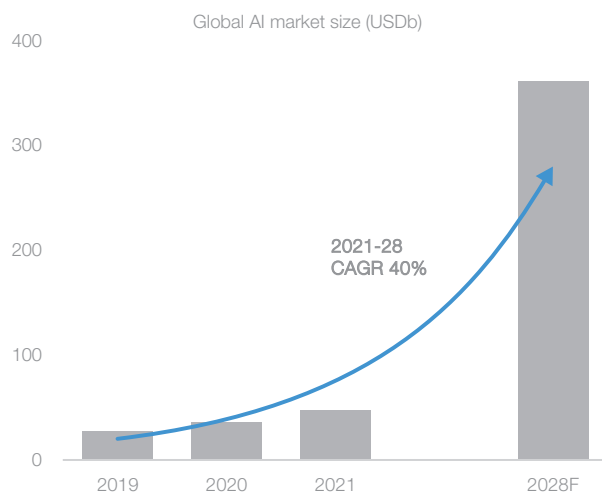


Source: Bloomberg, DBS

Artificial Intelligence

AI leading the charge. Interest in AI has exploded following the release of ChatGPT and its rapid uptake. Generative AI applications, like ChatGPT, Bard, and Dall-E can be used to generate a myriad of outputs, ranging from text and images to more specialised output such as code and audio. This provides tremendous benefits for both businesses and individual users alike, underscoring the potential for a massive total addressable market for AI-related sectors.

Global AI market size



Source: Fortune Business Insights, DBS

With AI's revenue potential projected to grow rapidly over the next decade, we believe the following pillars will benefit greatly from this trend.

Pillar 1: Integrated circuit – chip designers and semiconductor foundries. Semiconductors are the foundational bricks of the digital world. AI models typically require advanced chipsets, both in training and in production. Market research agency TrendForce estimates that the GPT model needed about 20,000 GPUs to process training data in 2020, and moving forward, running ChatGPT is expected to require at least 30,000 GPUs. Further development and uptake of AI across industries would only increase demand for GPUs, microprocessors, power management ICs etc, especially as commercial development – which demands for the speed and sophistication of AI models to grow – takes over.

Pillar 2: Cloud platforms. Once AI models have been sufficiently trained and deemed fit for commercial purposes, they are likely to be deployed on cloud platforms for ease of access by a general user base. A proliferation of models for language, image, video, music, etc. would naturally give rise to demand for cloud companies to host them. Given that Generative AI is particularly adept at generating large amounts of content, businesses that produce voluminous amounts of material (news websites, e-commerce platforms, online videos) would also likely require ever-increasing hosting space from cloud providers.

Pillar 3: Cybersecurity. Generative AI is especially gifted in “deepfakes” – synthetic media that assimilates the likeness of a person in realistic fashion – which can be used to spread misinformation at scale. For example, an experiment conducted by Singapore's GovTech found that phishing emails composed and customised using generative AI had significantly higher clickthrough rates compared to human-generated emails. This creates a greater need for cybersecurity across all platforms.

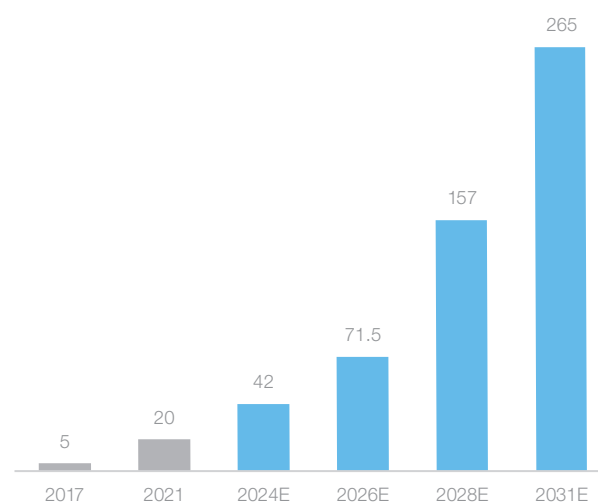
“

Accelerated computing and generative AI have hit the tipping point. Demand is surging worldwide across companies, industries, and nations.

”

Jensen Huang, Nvidia CEO

Estimated global damage of ransomware (USDb)



Source: Cybersecurity Ventures, DBS

Cybersecurity

The growing need for cybersecurity. The world has benefitted greatly in the Age of Information – democratising access to data and permeating knowledge to millions across the world. But that has now given way to the Age of Misinformation, empowered by AI. Companies now, more than ever, must devote resources to protecting their digital processes and platforms. Besides the threat posed by AI, businesses are currently under pressure to increase cybersecurity due to:

- **Rising cost of data breaches and ransomware** – an increasing amount of resources have to be devoted to detecting cyberattacks and implementing compliance measures after falling victim to one.
- **Increasing sophistication of cyberattacks** – Technology like AI is being used to create

cyberattacks that can better evade detection, and at a much higher frequency than before.

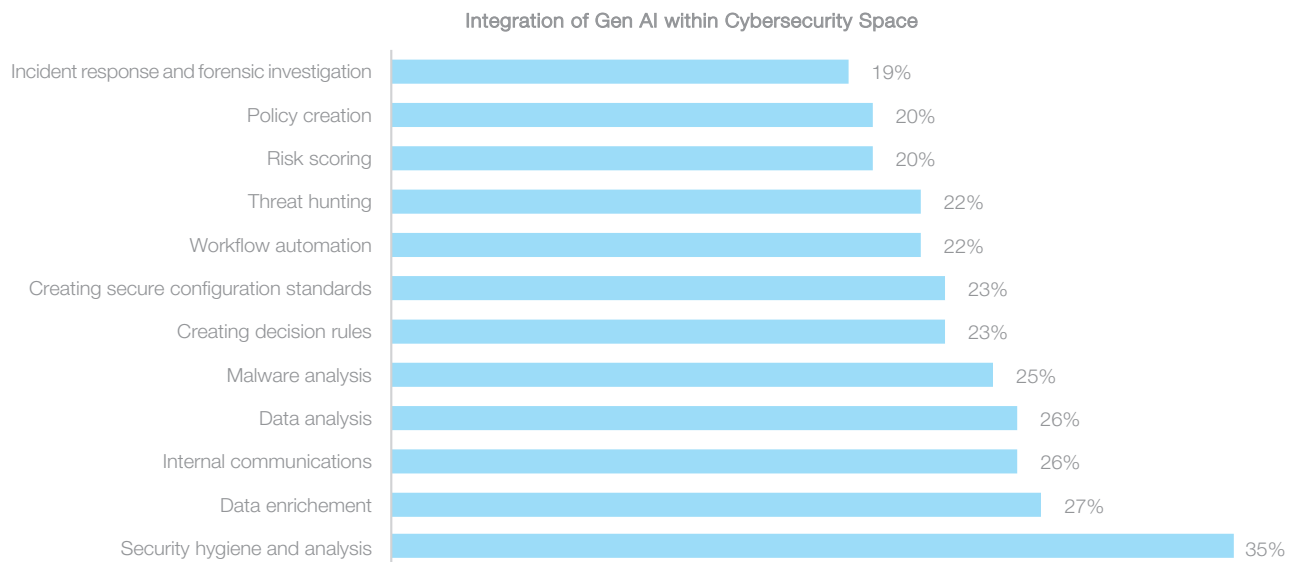
- **Hybrid working as the new norm** – remote working increases the vulnerability of company data and digital platforms, particularly through endpoint devices.

AI – both shield and sword. While the threat of cyberattacks is aggravated by AI, this technology can also be leveraged to enhance cybersecurity solutions. The development and integration of AI in cybersecurity can be used to detect and even counteract cyberattacks. For example, AI can analyse databases of existing malware and discern patterns to identify new malicious code. 35% of Chief Information Security Officers are already employing AI for positive security measures, and 61% are expected to adopt it within the next 12 months.

Winners in the cybersecurity space. As the realm of cybersecurity constantly evolves with the adoption of new technologies, the biggest players in the industry will be best positioned to stay at the forefront of new developments and attract customers who prioritise high quality and secure solutions. Another area of focus is endpoint security as the remote working trend continues; there is a constant need for companies to safeguard corporate IT network endpoints, including computers, laptops, and IoT devices against cyber threats. Because of this, demand for endpoint security is projected to rise at a stellar CAGR of 9.2% from 2024 to 2034.

Capture the value of Big Tech with the DBS CIO I.D.E.A. framework. The pipeline of innovation and new technology reshaping our world bolsters the attractiveness of tech investing. Big Tech and its surrounding ecosystem plays fit the characteristics of Q-GARP. On the growth side of the CIO Barbell strategy, we advocate for investors to employ the Q-GARP philosophy to capture long-term secular growth themes through the DBS CIO I.D.E.A. (Innovators, Disruptors, Enablers, and Adapters) framework in the following verticals: cloud computing, semiconductor, energy transition, AI, data analytics, software applications, and cybersecurity.

Integration of Gen AI in the cybersecurity space



Source: World Economic Forum

DBS Global Equities Coverage



DBS Global Equities Coverage

GLOBAL EQUITY LIST – BY GEOGRAPHY

UNITED STATES								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Alphabet	Communication Services	Buy	175.00	1786.7	20.3	-	6.3	Sachin Mittal
Electronic Arts	Communication Services	Buy	165.00	36.1	18.9	0.6	4.8	Tsz Wang Tam
Meta Platforms	Communication Services	Buy	550.00	1254.3	24.1	0.1	8.2	Sachin Mittal
Netflix	Communication Services	Buy	700.00	265.3	35.6	-	12.9	Sachin Mittal
Take-Two Interactive Software	Communication Services	Buy	175.00	24.5	62.8	-	2.9	Tsz Wang Tam
Airbnb	Consumer Discretionary	Hold	145.00	107.7	35.6	-	13	Amanda Tan
Amazon.com	Consumer Discretionary	Buy	205.00	1856.7	35.2	-	9.2	Nashrullah Putra Sulaeman
Booking Holdings	Consumer Discretionary	Buy	4030.00	120	20.2	0.2	-	Amanda Tan
Expedia Group	Consumer Discretionary	Hold	150.00	18.5	11.3	-	12.1	Amanda Tan
Ford Motor	Consumer Discretionary	Hold	13.00	48	6.6	5	1.1	Elizabeth Pang
General Motors	Consumer Discretionary	Hold	36.50	45.5	4.5	1	0.7	Elizabeth Pang
Mcdonald's	Consumer Discretionary	Buy	339.00	203.4	22.7	2.3	-	Alison Fok
Mercadolibre	Consumer Discretionary	Hold	1450.00	79.2	45.5	-	25.8	Nashrullah Putra Sulaeman
Nike	Consumer Discretionary	Hold	90.00	151.9	27.8	1.4	10.8	Alison Fok
Starbucks	Consumer Discretionary	Hold	98.00	103.8	22.5	2.4	-	Alison Fok
Tesla	Consumer Discretionary	Hold	215.00	517.5	53.7	-	8.3	Rachel Miu
TJX Companies	Consumer Discretionary	Buy	113.80	112.4	23.9	1.3	15.4	Alison Fok
Yum! Brands	Consumer Discretionary	Hold	144.00	38.6	23.7	1.8	-	Alison Fok
Coca Cola	Consumer Staples	Hold	64.00	260.9	21.5	3.1	10	Zheng Feng Chee
Colgate-Palmolive	Consumer Staples	Buy	93.00	72.7	25.3	2.2	119.4	Cheria Widjaja
Costco Wholesale	Consumer Staples	Buy	791.00	324.6	45.8	2.6	15.6	Mavis Hui
Estee Lauder	Consumer Staples	Hold	180.00	54.8	68	1.7	9.6	Mavis Hui
Kimberly-Clark	Consumer Staples	Hold	124.00	42.1	18.1	3.8	44.7	Cheria Widjaja
Kraft Heinz	Consumer Staples	Hold	35.00	41.6	11.3	4.7	0.8	Zheng Feng Chee
Pepsi	Consumer Staples	Buy	202.00	226.5	20.2	3.1	12.2	Zheng Feng Chee
Procter & Gamble	Consumer Staples	Buy	175.00	380	25.1	2.3	8	Cheria Widjaja
Target	Consumer Staples	Buy	178.00	75.9	17.5	2.7	5.6	Mavis Hui
Walmart	Consumer Staples	Buy	64.70	491.4	25.8	1.3	5.9	Mavis Hui
Chevron	Energy	Buy	174.00	289.2	12.3	4	1.8	Suvro Sarkar
Conocophillips	Energy	Buy	140.00	140.9	14	2.6	2.9	Suvro Sarkar
EOG Resources	Energy	Buy	155.00	71.8	10.9	4.8	2.6	Suvro Sarkar
Exxon Mobil	Energy	Buy	125.00	442.3	12.5	3.3	2.2	Suvro Sarkar
Marathon Petroleum	Energy	Buy	172.00	68.1	12	1.7	2.8	Duladeth Bik
Philips 66	Energy	Hold	122.00	66	11.1	2.7	2.2	Duladeth Bik
Pioneer Natural Resources	Energy	Hold	245.00	58.5	12.2	4.4	2.5	Suvro Sarkar
Valero Energy	Energy	Buy	150.00	53	9.9	2.6	2	Duladeth Bik
Affirm Holdings	Financials	Hold	45.00	10.3	-	-	3.9	Manyi Lu
Bank of America	Financials	Hold	31.00	281.6	11.3	2.6	1.1	Rui Wen Lim

UNITED STATES (cont'd)								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Berkshire Hathaway	Financials	Hold	405.00	880.2	22.6	-	-	Ken Shih
BlackRock	Financials	Buy	900.00	121.2	20.2	2.5	3.1	Ken Shih
Charles Schwab	Financials	Buy	72.50	121.5	19.8	1.5	3.8	Ken Shih
Citi Group	Financials	Hold	46.00	109.1	9.8	3.7	0.6	Rui Wen Lim
Coinbase	Financials	Hold	170.00	56.6	153.3	-	9	Ken Shih
Goldman Sach	Financials	Buy	440.00	131	11.5	2.8	1.2	Ken Shih
JP Morgan	Financials	Buy	195.00	541.4	11.8	2.2	1.8	Rui Wen Lim
Mastercard	Financials	Buy	540.00	447.3	33.3	0.5	64.6	Manyi Lu
Morgan Stanley	Financials	Buy	95.00	145.7	13.9	3.7	1.6	Ken Shih
PayPal	Financials	Hold	62.00	67.5	12.2	-	3.2	Amanda Tan
Robinhood	Financials	Hold	14.50	15.8	76.8	-	2.4	Ken Shih
SoFi Tech	Financials	Buy	10.00	6.9	105.2	-	1.3	Manyi Lu
Upstart Holdings	Financials	Hold	24.00	2	-	-	3.2	Manyi Lu
Visa	Financials	Buy	320.00	590.3	28.8	0.7	13.8	Manyi Lu
Wells Fargo	Financials	Hold	47.00	205.2	11.9	2.4	1.2	Rui Wen Lim
Abbvie	Healthcare	Hold	138.00	320.1	16.2	3.3	-	Mark Kong
Amgen	Healthcare	Buy	310.00	145.5	13.9	3.2	23.3	Nico Chen
Becton Dickinson and Co	Healthcare	Buy	300.00	68.5	18.3	1.6	2.7	Nico Chen
Bristol-Myers Squibb	Healthcare	Hold	64.90	106.1	7.6	4.4	3.6	Mark Kong
Charles River Laboratories	Healthcare	Hold	188.70	13.4	23.6	-	3.7	Nico Chen
Eli Lilly and Co	Healthcare	Buy	855.00	722.8	60.9	0.6	67	Nico Chen
Gilead Sciences	Healthcare	Buy	87.00	92.4	10.4	4.1	4	Mark Kong
Johnson & Johnson	Healthcare	Hold	170.29	383.7	14.9	3	5.6	Nico Chen
Merck & Co	Healthcare	Buy	130.00	305.2	14	2.5	8.1	Mark Kong
Moderna	Healthcare	Buy	130.00	39.6	-	-	2.9	Mark Kong
Pfizer	Healthcare	Buy	39.00	158.8	12.8	5.9	1.8	Mark Kong
Regeneron Pharmaceuticals	Healthcare	Buy	885.00	105.3	21.3	-	4	Mark Kong
Sanofi	Healthcare	Buy	67.00	121.6	11.5	3.2	-	Mark Kong
Vertex Pharmaceuticals	Healthcare	Hold	359.00	105.6	24.5	-	6	Mark Kong
Automatic Data Processing	Industrials	Hold	243.00	99.9	26.7	2.2	23.1	Tsz Wang Tam
Delta Air Lines	Industrials	Buy	50.00	27.7	6.7	0.7	2.5	Tabitha Foo
Lyft	Industrials	Hold	16.00	7.1	35.6	-	13.1	Sachin Mittal
Uber Technologies	Industrials	Buy	85.00	161.2	46.9	-	14.3	Nashrullah Putra Sulaeman
United Airlines	Industrials	Hold	40.00	14.1	4.4	-	1.5	Tabitha Foo
Accenture	Technology	Hold	342.00	252.3	30.9	1.3	8.9	Sachin Mittal
Adobe	Technology	Buy	703.00	257.8	31.8	-	15.7	Tsz Wang Tam
Advanced Micro Devices	Technology	Buy	227.20	302.2	51.6	-	5.4	Amanda Tan

UNITED STATES (cont'd)								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Analog Devices	Technology	Buy	237.30	96.4	32.6	1.8	2.7	Jim Hin Kwong Au
Apple	Technology	Buy	208.70	2671.4	26.2	0.6	36.1	Jim Hin Kwong Au
Applied Materials	Technology	Buy	209.70	166.8	24.2	0.6	9.6	Jim Hin Kwong Au
Broadcom	Technology	Buy	1384.10	585	26.8	1.5	8.3	Fang Boon Foo
Cognizant Technology Solutions	Technology	Buy	90.00	38	16.5	1.5	2.9	Sachin Mittal
Globalfoundries	Technology	Buy	79.70	29.1	39	-	2.6	Jim Hin Kwong Au
Intel	Technology	Hold	45.30	180.7	32.1	1.2	1.7	Amanda Tan
International Business Machines	Technology	Hold	212.00	177.3	19.2	3.4	7.9	Sachin Mittal
Intuit	Technology	Buy	760.00	182	39.6	0.5	10.8	Tsz Wang Tam
KLA	Technology	Buy	657.00	93.6	30	0.8	30.8	Jim Hin Kwong Au
Lam Research	Technology	Buy	1026.00	121.4	31.7	0.8	14.8	Jim Hin Kwong Au
Marvell Technology	Technology	Buy	71.20	57.2	46.1	0.4	3.9	Fang Boon Foo
Micron Technology	Technology	Buy	97.80	100.9	-	0.5	2.3	Jim Hin Kwong Au
Microsoft	Technology	Buy	465.00	3159.6	36.5	0.7	13.3	Sachin Mittal
Nvidia	Technology	Buy	1006.40	2198.6	35.9	0	50.4	Fang Boon Foo
Oracle	Technology	Buy	150.00	345	22.5	1.3	61.3	Tsz Wang Tam
Qualcomm	Technology	Hold	145.30	188	17.4	1.9	8.2	Fang Boon Foo
Salesforce	Technology	Buy	352.00	294.2	31.1	0.1	4.9	Tsz Wang Tam
Teradyne	Technology	Buy	131.90	15.9	35.6	0.4	6.4	Jim Hin Kwong Au
Texas Instruments	Technology	Buy	204.20	155.6	32	3	9.2	Lee Keng Ling
Workday	Technology	Buy	352.00	71.8	40.7	-	8.9	Tsz Wang Tam
Zoom Video Communications	Technology	Hold	62.00	20.7	13.8	-	2.6	Tsz Wang Tam
Albemarle	Materials	Buy	200.00	14.1	28.2	1.3	1.5	Duncan Chan
Alcoa	Materials	Buy	41.00	5.4	106.8	1.3	1.3	Duncan Chan
Aptargroup	Materials	Hold	132.00	9.3	27.2	1.1	4	Nico Chen
Freeport-McMoRan	Materials	Buy	50.00	62.1	27.7	1.4	3.7	Eun Young Lee
Digital Realty Trust	Real Estate	Buy	170.00	45.4	114.2	3.4	2.4	Tsz Wang Tam
Equinix	Real Estate	Buy	955.00	81.8	71.1	1.8	6.5	Tsz Wang Tam
Atlantica Sustainable Infrastructure	Utilities	Hold	18.00	2.1	38.2	10.1	1.4	Elizabeth Pang
Avangrid	Utilities	Hold	34.00	13.7	15.8	4.9	0.7	Elizabeth Pang
Brookfield Renewable	Utilities	Buy	30.00	15	-	6	-	Elizabeth Pang
Clearway Energy	Utilities	Buy	25.00	4.1	17.6	7.5	-	Elizabeth Pang
Nextera Energy	Utilities	Buy	70.00	120.5	17.5	3.2	2.6	Elizabeth Pang

EUROPE								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Adidas	Consumer Discretionary	Buy	EUR227.00	40.1	80.7	0.3	8	Alison Fok
Bayerische Motoren Werke	Consumer Discretionary	Buy	EUR130.00	72.8	5.7	8.1	0.8	Elizabeth Pang
Ferrari	Consumer Discretionary	Buy	EUR440.00	75.8	50.1	0.5	5.7	Rachel Miu
Mercedes-Benz Group	Consumer Discretionary	Buy	EUR85.00	83.3	6.2	7.2	5.7	Elizabeth Pang
Volkswagen	Consumer Discretionary	Buy	EUR175.00	67	4.3	6.7	5.7	Elizabeth Pang
Heineken	Consumer Staples	Buy	EUR99.00	53.9	17.7	2.2	5.7	Zheng Feng Chee
Pernod Ricard	Consumer Staples	Buy	EUR203.00	42.4	18.2	3.1	5.7	Zheng Feng Chee
BP	Energy	Buy	GBP5.80	105.6	7.6	4.6	1.5	Suvro Sarkar
Eni	Energy	Buy	EUR17.70	53.3	6.4	6.3	2	Suvro Sarkar
Shell	Energy	Buy	GBP35.00	208.3	8.1	4.1	5.7	Suvro Sarkar
TotalEnergies	Energy	Buy	EUR71.00	162.8	7.7	4.6	5.7	Suvro Sarkar
Allianz	Financials	Buy	EUR286.00	112.7	10.7	4.3	15.7	Ken Shih
AXA	Financials	Buy	EUR35.00	84	9.6	5	2	Ken Shih
ING Bank	Healthcare	Hold	EUR13.00	53.3	7.8	5.3	5.7	Nico Chen
Gerresheimer	Healthcare	Buy	EUR120.00	3.8	20.8	1.2	5.7	Nico Chen
Lonza	Healthcare	Buy	CHF600.00	40.7	39.5	0.7	5.7	Nico Chen
Deutsche Lufthansa	Industrials	Buy	EUR9.00	8.8	4.6	-	5.7	Tabitha Foo
International Consolidated Airlines	Industrials	Buy	GBP2.20	9.3	4.3	-	5.7	Tabitha Foo
Ryanair Holdings	Industrials	Buy	EUR25.00	24.6	11.7	0.9	2.9	Tabitha Foo
ASML Holding	Technology	Buy	USD830.00	383.5	46.5	0.6	-	Jim Hin Kwong Au
SAP	Technology	Buy	EUR202.00	232.2	35.2	1.2	5.7	Tsz Wang Tam
Orsted	Utilities	Hold	DKK430.00	21.7	15	-	5.7	Elizabeth Pang
RWE	Utilities	Buy	EUR51.00	25	10.8	2.9	5.7	Elizabeth Pang
JAPAN								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Honda Motor	Consumer Discretionary	Buy	JPY1,800	58,788	7.7	3.1	0.6	Elizabeth Pang
Suzuki Motor	Consumer Discretionary	Buy	JPY7,000	21,577	11.4	1.6	1.3	Elizabeth Pang
Toyota Motor	Consumer Discretionary	Hold	JPY3,000	319,999	9.1	2.3	1.2	Elizabeth Pang
Ajinomoto	Consumer Staples	Hold	JPY5,665	20,944	30.7	1.3	3.7	Zheng Feng Chee
Kirin	Consumer Staples	Hold	JPY2,250	13,395	14.6	3.2	1.6	Zheng Feng Chee
Mitsubishi UFJ Financial Group	Financials	Buy	JPY1,407	108,997	10.9	2.8	0.8	Rui Wen Lim
Mizuho Financial Group	Financials	Buy	JPY2,790	44,676	9.9	3.6	0.7	Rui Wen Lim

JAPAN (cont'd)								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Sumitomo Mitsui Financial Group	Financials	Buy	JPY8,100	66,761	10.5	3.6	0.7	Rui Wen Lim
Tokio Marine Holdings	Financials	Hold	JPY3,800	60465	13.9	2.5	2	Ken Shih
Nipro	Healthcare	Hold	JPY1,000	1379	11.1	1.6	0.8	Nico Chen
Terumo	Healthcare	Hold	JPY4,000	25679	34.6	0.9	2.9	Nico Chen
Daiwa House Industry	Real Estate	Buy	JPY4,800	19176	10.2	3.1	1.2	Dale Lai
Mitsui Fudosan	Real Estate	Buy	JPY3,986	26686	17.7	1.6	1.3	Derek Tan

HONG KONG / MAINLAND CHINA								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
China Mobile	Communication Services	Buy	HKD93.00	182.3	10	5.6	1	Tsz Wang Tam
China Telecom	Communication Services	Buy	HKD6.10	46.2	12	4.7	0.8	Tsz Wang Tam
Tencent	Communication Services	Buy	HKD507	355.4	13.5	0.6	3.2	Tsz Wang Tam
Alibaba	Consumer Discretionary	Buy	HKD133	203.6	23.5	0	1.6	Tsz Wang Tam
BYD	Consumer Discretionary	Buy	HKD347	79.1	34.2	0.1	5.9	Rachel Miu
Geely Automobile	Consumer Discretionary	Buy	HKD10.80	11.3	15.9	2.1	1.2	Rachel Miu
JD.com	Consumer Discretionary	Buy	HKD145	42.5	29.5	0	1.5	Tsz Wang Tam
Li Auto	Consumer Discretionary	Buy	HKD214	-	-	0	6.2	Rachel Miu
Li Ning	Consumer Discretionary	Buy	HKD37.00	7.2	12.8	2.3	2.5	Alison Fok
Meituan	Consumer Discretionary	Buy	HKD139	73.4	-	0	4.2	Tsz Wang Tam
NIO	Consumer Discretionary	Buy	HKD62.00	-	-	0	1.7	Rachel Miu
PDD	Consumer Discretionary	Buy	USD226	155.8	35.4	0	14.8	Tsz Wang Tam
Sands China	Consumer Discretionary	Buy	HKD43.00	22.6	-	0	25.5	Mavis Hui
XPeng	Consumer Discretionary	Buy	HKD66.00	-	-	0	1.4	Rachel Miu
China Resources Beer	Consumer Staples	Buy	HKD73.70	15.1	25.1	1.7	4.5	Clement Zhaoji Xu
Tsingtao Brewery	Consumer Staples	Buy	HKD97.30	4.6	18.5	2.2	3	Clement Zhaoji Xu
China Petroleum & Chem -Sinopec	Energy	Buy	HKD5.30	71.3	7.8	11.1	0.7	Pei Hwa Ho
CNOOC	Energy	Buy	HKD16.00	107.9	5.1	7.6	1.5	Pei Hwa Ho
PetroChina	Energy	Buy	HKD6.30	148.8	7.2	3.9	0.8	Pei Hwa Ho
Agricultural Bank of China	Financials	Buy	HKD3.40	145	4.3	6.9	0.5	Manyi Lu
AIA	Financials	Buy	HKD118	95.5	28	2.4	1.6	Ken Shih
Bank of China	Financials	Buy	HKD3.70	121.2	4.1	7.5	0.5	Manyi Lu
Bank of China (Hong Kong)	Financials	Buy	HKD29.70	28.9	8.4	5.3	0.8	Manyi Lu
Bank of Communications	Financials	Buy	HKD5.30	49.6	4	7.4	0.5	Manyi Lu
China Construction Bank	Financials	Buy	HKD6.20	155	3.5	8.2	0.4	Manyi Lu
China Life Insurance	Financials	Buy	HKD16.00	35.4	-	7.2	0.4	Ken Shih
China Merchants Bank	Financials	Buy	HKD42.70	99.5	5.4	5.4	1.1	Manyi Lu
CITIC Securities	Financials	Buy	HKD19.00	-	9.4	4.1	0.9	Ken Shih
Guotai Junan Securities	Financials	Buy	HKD10.50	-	6.7	6.8	0.5	Ken Shih
Hang Seng Bank	Financials	Hold	HKD97.00	21.6	16.2	5.7	0.9	Manyi Lu

HONG KONG / MAINLAND CHINA (cont'd)								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
HK Exchanges & Clearing	Financials	Hold	HKD272	40.2	31	2.7	6.3	Vanessa Sze Chun Lee
ICBC	Financials	Buy	HKD5.30	183.2	3.8	7.9	0.5	Ken Shih
Ping An Insurance	Financials	Buy	HKD66.00	84.9	5.3	7.1	0.8	Manyi Lu
PSBC	Financials	Buy	HKD5.60	-	FAIL	6.5	0.6	Manyi Lu
Zhongan Online P&C Insurance	Financials	Buy	HKD27.00	0.7	-	0	1	Ken Shih
BOC Aviation	Industrials	Buy	HKD76.00	5.1	252.8	3.9	1	Paul Yong
Cathay Pacific	Industrials	Buy	HKD12.00	4.5	-	0	1.1	Paul Yong
Country Garden Services	Industrials	Hold	HKD5.50	2.5	9.3	6	0.5	Jason Lam
Greentown Service	Industrials	Hold	HKD3.80	1.1	15.1	6.4	1.2	Dexter Kin Sung Chun
JD Logistics	Industrials	Buy	HKD23.00	7	-	0	1	Zoe Bei Bei Zhang
Baidu (HK)	Technology	Buy	HKD181	36.6	35.1	0	1.2	Tsz Wang Tam
Lenovo	Technology	Hold	HKD8.40	13.6	7.9	2.9	4.1	Jim Hin Kwong Au
NetEase	Technology	Buy	HKD267	-	25.2	1	5.4	Tsz Wang Tam
Xiaomi	Technology	Buy	HKD21.00	47.1	136.2	0	2.5	Jim Hin Kwong Au
ZTE	Technology	Buy	HKD19.80	10.5	9.4	1.3	1.4	Tsz Wang Tam
Anhui Conch Cement	Materials	Buy	HKD28.00	12.1	5.5	14.5	0.5	Duncan Chan
Aluminum Corp of China	Materials	Buy	HKD4.70	7.6	16.5	0.8	1.1	Duncan Chan
Tianqi Lithium	Materials	Buy	HKD57.00	-	2.4	0	4.2	Duncan Chan
Champion REIT	Real Estate	Hold	HKD2.15	1.2	-	0	0.2	Percy Leung
China Overseas Land	Real Estate	Buy	HKD18.20	15.9	4.1	9.4	0.3	Jason Lam
China Resources Land	Real Estate	Buy	HKD40.60	23.2	5.9	5.9	0.7	Jason Lam
China Vanke	Real Estate	Buy	HKD10.00	9.2	2.9	17.1	0.3	Jason Lam
CK Asset	Real Estate	Buy	HKD47.30	17.6	6.3	5.8	0.4	Jeff Yau
Country Garden	Real Estate	Sell	HKD0.55	1.7	-	60.2	0.1	Jason Lam
Fortune REIT	Real Estate	Buy	HKD6.31	1.1	17.1	0	0.3	Percy Leung
Hang Lung Properties	Real Estate	Buy	HKD12.40	5.1	9.5	8.8	0.3	Jeff Yau
Henderson Land	Real Estate	Buy	HKD24.70	14.5	11.8	7.7	0.3	Jeff Yau
Hysan Development	Real Estate	Buy	HKD17.16	1.7	7.7	11.4	0.2	Jeff Yau
Kerry Properties	Real Estate	Buy	HKD20.00	2.5	4.3	27.1	0.2	Jeff Yau
Link REIT	Real Estate	Buy	HKD49.80	10	11.4	0	0.5	Percy Leung
MTR	Real Estate	Buy	HKD34.70	20.3	15	4.9	0.9	Jeff Yau
New World Development	Real Estate	Buy	HKD14.22	12.4	19.2	21.6	0.1	Jeff Yau
Sino Land	Real Estate	Buy	HKD10.78	7	9.6	10	0.4	Jeff Yau
Sun Hung Kai Properties	Real Estate	Buy	HKD111.6	29.2	7.9	6.3	0.4	Jeff Yau
Wharf	Real Estate	Hold	HKD25.50	10.7	-	1.5	0.5	Jeff Yau

TAIWAN								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Taiwan Semiconductor Manufacturing Co	Technology	Buy	USD150.00	724.2	23	1	5.7	Jim Hin Kwong Au
United Microelectronics	Technology	Buy	USD10.00	20.6	12.4	5.4	5.7	Jim Hin Kwong Au
SINGAPORE								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
NetLink NBN Trust	Communication Services	Buy	SGD0.98	2.5	36.5	5.9	1.2	Sachin Mittal
SEA	Communication Services	Buy	USD75.00	34.1	-	0	4.4	Sachin Mittal
StarHub	Communication Services	Buy	SGD1.25	1.5	32.6	4.3	5.2	Sachin Mittal
Singtel	Communication Services	Buy	SGD3.27	30.6	21.1	3	1.5	Sachin Mittal
Genting Singapore	Consumer Discretionary	Buy	SGD1.15	8.1	32	1.1	1.4	Jason Sum
Bumitama Agri	Consumer Staples	Buy	SGD0.90	0.8	4.7	5.1	1.3	William Simadiputra
DFI Retail Group	Consumer Staples	Buy	SGD2.70	3.0	-	4.3	2.3	Zheng Feng Chee
Sheng Siong Group	Consumer Staples	Hold	SGD1.62	1.7	17	4.1	5.5	Zheng Feng Chee
Thai Beverage Public	Consumer Staples	Buy	SGD0.72	9.5	11.3	3.7	2	Zheng Feng Chee
Wilmar International	Consumer Staples	Buy	SGD4.30	15.8	6.8	4.5	0.8	William Simadiputra
OCBC Bank	Financials	Hold	SGD14.00	44.9	10.8	4	1.1	Rui Wen Lim
UOB	Financials	Hold	SGD30.30	36.3	10.7	4.1	1.1	Rui Wen Lim
IHH Healthcare	Healthcare	Buy	MYR7.60	11.5	34.7	1	2.4	Rachel Tan
ComfortDelGro	Industrials	Buy	SGD1.80	2.2	17.2	3.1	1.1	Andy Sim
Grab Holdings	Industrials	Buy	USD4.08	12.4	-	0	1.7	Sachin Mittal
Keppel Limited	Industrials	Buy	SGD9.00	9.6	14.6	4.5	1.1	Rachel Tan
SATS	Industrials	Buy	SGD3.40	2.8	140.4	0	1.9	Jason Sum
Sembcorp Industries	Industrials	Buy	SGD7.15	6.8	10.7	1	2.4	Pei Hwa Ho
Seatrium	Industrials	Buy	SGD0.15	4.7	-	0	0.7	Pei Hwa Ho
SIA Engineering	Industrials	Buy	SGD2.80	1.9	37.7	0	1.7	Suvro Sarkar
ST Engineering	Industrials	Buy	SGD4.80	9.3	23.2	3.8	5.2	Suvro Sarkar
Yangzijiang Shipbuilding	Industrials	Buy	SGD2.10	5.2	13.3	2.8	1	Pei Hwa Ho
AEM Holdings	Technology	Hold	SGD2.26	0.5	5.5	3.4	1.6	Amanda Tan
Venture Corporation	Technology	Buy	SGD16.90	3.1	11.1	5.3	1.5	Lee Keng Ling
Nanofilm Technologies International	Materials	Fully Valued	SGD0.63	0.4	11.1	2.7	1.1	Lee Keng Ling
APAC Realty	Real Estate	Hold	SGD0.48	0.1	5.8	17.2	1	Lee Keng Ling
Capitaland Ascendas REIT	Real Estate	Buy	SGD3.25	8.5	16.7	5.7	1.1	Dale Lai
Capitaland Ascott Trust	Real Estate	Buy	SGD1.30	2.2	16.7	4.8	0.8	Geraldine Wong
CapitalLand Integrated Commercial Trust	Real Estate	Buy	SGD2.30	9.7	17.1	5.3	0.9	Rachel Tan
CDL Hospitality Trusts	Real Estate	Buy	SGD1.45	0.9	16.9	4.3	0.7	Geraldine Wong

SINGAPORE (cont'd)

Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
City Developments	Real Estate	Buy	SGD10.50	4.1	4.3	2	0.7	Rachel Tan
CapitaLand China Trust	Real Estate	Buy	SGD1.05	0.9	23.8	11.8	0.5	Geraldine Wong
Daiwa House Logistics Trust	Real Estate	Buy	SGD0.75	0.3	21.5	8.5	0.6	Dale Lai
Digital Core REIT	Real Estate	Buy	SGD0.75	0.6	23.2	7.3	0.7	Derek Tan
ESR-LOGOS REIT	Real Estate	Buy	SGD0.34	1.6	10.9	10.1	0.8	Dale Lai
Frasers Centrepoint Trust	Real Estate	Buy	SGD2.70	2.8	18.1	5.5	0.9	Geraldine Wong
Frasers Hospitality Trust	Real Estate	Buy	SGD0.62	0.7	53.6	2.1	0.7	Geraldine Wong
Frasers Property	Real Estate	Buy	SGD1.20	2.5	3.8	2.4	0.3	Rachel Tan
GuocoLand	Real Estate	Buy	SGD2.30	1.3	4.4	4.1	0.4	Tabitha Foo
Ho Bee Land	Real Estate	Buy	SGD3.80	0.8	4.6	6.1	0.3	Dale Lai
Hongkong Land	Real Estate	Buy	USD3.98	7.5	9.4	6.8	0.2	Jeff Yau
Keppel DC REIT	Real Estate	Buy	SGD2.20	2.2	18	5.8	1.3	Dale Lai
Lend Lease Global Commercial REIT	Real Estate	Buy	SGD0.90	1.0	12.6	8.3	0.8	Geraldine Wong
Mapletree Industrial Trust	Real Estate	Buy	SGD2.60	4.7	13.8	5.5	1.4	Derek Tan
Mapletree Logistics Trust	Real Estate	Buy	SGD1.88	5.3	35.5	5.8	1	Derek Tan
QUE Commercial REIT	Real Estate	Buy	SGD0.35	1.1	10.9	9.6	0.5	Rachel Tan
Parkway Life REIT	Real Estate	Buy	SGD4.50	1.6	20.9	4.1	1.5	Rachel Tan
Suntec REIT	Real Estate	Hold	SGD1.15	2.3	11.9	8.3	0.5	Rachel Tan
UOL Group	Real Estate	Buy	SGD8.40	3.6	9.8	3.1	0.5	Rachel Tan
Keppel Infrastructure Trust	Utilities	Buy	SGD0.57	1.8	2817.9	7.7	2.2	Suvro Sarkar

INDONESIA

Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Telekomunikasi Indonesia	Communication Services	Buy	IDR4,650	25.2	18.9	3.8	3.2	Sachin Mittal
Charoen Pokphand Indonesia	Consumer Staples	Buy	IDR5,400	5.5	29.4	2.1	3.4	Nashrullah Putra Sulaeman
Indofood CBP Sukses Makmur	Consumer Staples	Buy	IDR14,500	8.2	27.7	2	3.7	Cheria Widjaja
Indofood Sukses Makmur	Consumer Staples	Buy	IDR9,200	3.6	8.9	4.3	1.2	Cheria Widjaja
Unilever Indonesia	Consumer Staples	Hold	IDR3,000	6.6	19.1	5.7	23.7	Cheria Widjaja
Bank Central Asia	Financials	Buy	IDR10,875	81.7	31.2	1.1	6.3	Rui Wen Lim
Bank Mandiri	Financials	Buy	IDR8,300	44.3	16.8	1.5	3.4	Rui Wen Lim
Bank Rakyat Indonesia	Financials	Buy	IDR6,700	59.8	18.1	3.8	3.2	Rui Wen Lim
Perusahaan Gas Negara	Utilities	Hold	IDR1,050	1.9	5.3	2.7	0.7	William Simadiputra

THAILAND								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
Airports of Thailand	Industrials	Buy	THB80.00	26.6	-	0	8.5	Chanpen Sirithanarattanakul
Bangkok Bank	Financials	Buy	THB189	7.5	9.1	2.5	0.5	Thaninee Satirareungchai
Bangkok Dusit Medical Services	Healthcare	Buy	THB35.00	12.9	36.6	1.6	5.5	Sasikarn Udomvej
Bangkok Expressway and Metro	Industrials	Buy	THB10.40	3.5	52.1	1	3.4	Sasikarn Udomvej
Bumrungrad Hospital	Healthcare	Buy	THB269	5.1	37	1.4	10.6	Sasikarn Udomvej
CP ALL	Consumer Staples	Buy	THB72.00	14.4	38.7	1	4.9	Chanpen Sirithanarattanakul
Charoen Pokphand Foods	Consumer Staples	Hold	THB20.40	4.4	11	3.4	0.7	Chanpen Sirithanarattanakul
Kasikornbank	Financials	Hold	THB129	8.3	8.3	2.6	0.6	Thaninee Satirareungchai
Krung Thai Bank	Financials	Buy	THB21.00	6.2	6.6	2.6	0.6	Thaninee Satirareungchai
PTT	Energy	Buy	THB40.00	27.7	10.9	5.8	1	Duladeth Bik
PTT Exploration & Production	Energy	Buy	THB198	17	8.6	3.3	1.5	Duladeth Bik
PTT Global Chemical	Materials	Hold	THB33.00	5.1	-	9.3	0.6	Duladeth Bik
SCB X PCL	Financials	Hold	THB107	10.8	10.3	3.5	0.9	Thaninee Satirareungchai
Siam Cement	Materials	Buy	THB326	9.1	15.2	6.9	0.9	Duladeth Bik
Thai Union Group	Consumer Staples	Hold	THB14.40	1.8	9.6	6.6	1.2	Chanpen Sirithanarattanakul

INDIA								
Company	Sector	DBS Rating	DBS Target	Market cap (USDb)	Fwd. P/E (x)	Div. yield (%)	P/B (x)	Analyst
HDFC Bank	Financials	Buy	USD82.00	140.3	21.6	1.1	8.0	Rui Wen Lim
ICICI Bank	Financials	Buy	USD27.00	90.7	18.5	0.7	6.2	Rui Wen Lim
WNS	Industrials	Buy	USD80.00	2.5	12.4	-	3.1	Sachin Mittal
Infosys	Technology	Buy	USD22.70	81.6	27.5	1.8	8.4	Sachin Mittal
Wipro	Technology	Fully Valued	USD5.60	31.9	24.3	0.2	3.6	Sachin Mittal

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 BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
 HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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 SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Glossary.

Acronym	Definition	Acronym	Definition
AI	artificial intelligence	EU	European Union
ASEAN	Association of Southeast Asian Nations	EUV	extreme ultraviolet
AT1	additional tier 1	EV	electric vehicle
AxJ	Asia ex-Japan	FDA	US Food and Drug Administration
bbl	barrel	FDI	foreign direct investment
BI	Bank Indonesia	FOMC	Federal Open Market Committee
BNM	Bank Negara Malaysia	FX	foreign exchange
BOC	Bank of Canada	G2	Group of Two
BOE	Bank of England	G3	Group of Three
BOJ	Bank of Japan	G7	Group of Seven
BOK	Bank of Korea	G10	Group of Ten
BOT	Bank of Thailand	GDP	gross domestic product
BSP	Bangko Sentral ng Pilipinas	GFC	Global Financial Crisis
bpd	barrels per day	GLP-1	glucagon-like peptide 1
bps	basis points	GPU	graphics processing unit
CAA	CIO Asset Allocation	GPT	Generative Pre-trained Transformer
CAGR	compound annual growth rate	GSFCI	Goldman Sachs US Financial Conditions Index
CGB	China Government Bonds	GST	goods & services tax
CPI	consumer price index	HIBOR	Hong Kong Interbank Offered Rate
CRE	commercial real estate	HKMA	Hong Kong Monetary Authority
DM	Developed Markets	HY	high yield
dma	day moving average	IEA	International Energy Agency
DXY	US Dollar Index	IndoGB	Indonesian Government Bonds
EBIT	earnings before interest and taxes	IG	investment grade
EBITDA	earnings before interest, tax, depreciation, and amortisation	IGB	India Government Bonds
EC	European Commission	IMF	International Monetary Fund
ECB	European Central Bank	IPO	initial public offering
EGB	European Government Bonds	IRS	interest rate swap
EIA	Energy Information Administration	ISM	Institute for Supply Management
EM	Emerging Markets	IT	Information Technology
eop	end of period	JGB	Japanese Government Bond
EPFR	Emerging Portfolio Fund Research	KLIBOR	Kuala Lumpur Interbank Offered Rate
EPS	earnings per share	KTB	Korea Treasury Bonds
ESG	Environmental, Social, and Governance	LBMA	London Bullion Market Association
ETF	exchange-traded fund		

Acronym	Definition	Acronym	Definition
LP	limited partner	QE	quantitative easing
LPR	loan prime rate	QT	quantitative tightening
LVMH	Moët Hennessy Louis Vuitton	R&D	research and development
M&A	mergers and acquisitions	RBA	Reserve Bank of Australia
MAS	Monetary Authority of Singapore	RBI	Reserve Bank of India
MBS	Mortgage-backed securities	RBNZ	Reserve Bank of New Zealand
MLF	medium-term lending facility	REIT	real estate investment trust
MICE	Meetings, Incentives, Conferences, and Exhibitions	RPGB	Philippine Government Bonds
mmbpd	million barrels per day	ROA	return on asset
mmt	million metric tons	ROE	return on equity
MNC	multinational corporation	RRP	reverse repo facility
MPC	Monetary Policy Committee (India, Thailand)	RRR	required rate of return
MSCI	Morgan Stanley Capital International	SAA	Strategic Asset Allocation
NATO	North Atlantic Treaty Organisation	SBV	State Bank of Vietnam
NEER	nominal effective exchange rate	SD	standard deviation
NIM	net interest margin	SEA	Southeast Asia
NIRP	negative interest rate policy	SGS	Singapore Government Securities
NPL	nonperforming loan	SME	Small and medium-sized enterprises
NYSE	New York Stock Exchange	SNB	Swiss National Bank
OECD	Organisation for Economic Co-operation and Development	SOE	state owned enterprise
OIS	overnight indexed swap	SOFR	Secured Overnight Financing Rate
OPEC+	Organisation of the Petroleum Exporting Countries	SORA	Singapore Overnight Rate Average
OPM	operating profit margin	TAA	Tactical Asset Allocation
P/B	price-to-book	ThaiGBs	Thailand Government Bonds
P/E	price-to-earnings	TOPIX	Tokyo Stock Price Index
PBOC	People's Bank of China	TP	target price
PC	personal computer	TPI	tax and price index
PCE	personal consumption expenditure	TSE	Tokyo Stock Exchange
PE	Private Equity	TSMC	Taiwan Semiconductor Manufacturing Company
PER	price-to-earnings ratio	UCITS	Undertakings for Collective Investment in Transferable Securities
PMI	purchasing managers' index	UST	US Treasury
PPI	producer price index	WTI	West Texas Intermediate
PSL	pledged supplementary lending	YCC	Yield control curve
Q-GARP	Quality Growth-at-a-Reasonable-Price	YTD	year-to-date
		ZIRP	Zero Interest-Rate Policy

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The Bull Ain't Done
December 2017

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