To: Our Valued Investors

From: Peggy Mak, Phillip Managed Accounts

Date: January 2021

Vaccines potentially herald the beginning of the end for COVID and equity markets were cheered. Hit by renewed virus outbreaks and lockdowns, many countries seized on the vaccines to help bring down new cases. Based on Pfizer's and Moderna's estimated production capacity, there should be sufficient doses to cover 15% of the world's population by end-2021.

Assuming that 60-70% of the world's population needs to be exposed to the virus for herd immunity, 80% of the population would need to have vaccine coverage at an efficacy rate of 90%. With 15% coverage from the Pfizer and Moderna doses, more vaccine candidates are needed. Vaccine production needs to be raised 4x. Going by current progress, the earliest herd immunity can be achieved appears to be end-2021.

The US and most parts of Europe are once again facing soaring virus cases. Renewed lockdowns will delay a return to normalcy, affecting consumption. In the US, the Congress approved a new US$900bn stimulus bill at end-December to support income and spending. Household income should be boosted in Q1 from the US$600 handed out to each American. Unemployment insurance has also been extended for three months. Hopefully, these could arrest part of the decline in retail sales - November sales down 1.1% mom - and boost consumer sentiment. By Q2, we expect the vaccines and slowing COVID cases to restore the economy back to pre-COVID levels.

An event to watch is the Senate run-off election on Jan 5. A Senate sweep for the Democrats might pave the way for higher tax bills and lower drug prices. This would be a short-term negative for equities, particularly Internet / communication service companies and the pharmaceutical sector. Longer term, the US economy will benefit from funds for infrastructure spending and GDP expansion. A status quo following the election could intercept Mr Biden's efforts to reset and normalise foreign and climate policies. This would not bode well for Asia and the EU, the two regions whose relations with the U.S. have deteriorated in the past four years.

China and the EU have struck an agreement to make it easier for companies to invest in each other's territory. China is Europe's largest trading partner, with total trade of US$590bn from January to October 2020. The EU's auto sector benefits the most from this relationship, as China is the world's biggest auto market. The global auto market, however, has been in a downturn since 2018. Meanwhile, China has extended subsidies for electric cars due to expire at end-2020 to end-2022. It aims to have 20% of its car population running on electricity by 2025. With this agreement, European carmakers will be able to set up wholly-owned companies and enjoy subsidies for electric vehicles produced in China, much like Tesla.

With low interest rates and bond yields, investors are likely to lean towards yield expectations in 2021. REITs lagged markets in 2020, on concerns over lower rent collection and asset prices. They are likely to return to the limelight. Also, after the Fed's second round of stress tests, US banks can resume share buybacks and dividend payments in Q1 2021. The total quantum is capped at the average of their net profits in the preceding four quarters. Restrictions on Australian banks' payouts have equally been eased. Low rates and higher equity risk premiums have been diverting private equity funds to the hunt for value buys.

We are bullish on the earnings outlook in 2021. Alongside a rebound in economies and consumption, we expect higher capital investments. These had been mothballed during COVID. Most of the investments are likely to be funnelled to ASEAN, to hedge against US-China trade risks and capitalise on low costs and young working populations. Having said that, much of the optimism might have been priced in.

In terms of valuations relative to earnings growth, Singapore, Indonesia and the Philippines still look attractive. We believe consensus earnings estimates for Singapore have room for upward revisions. Commodity price rallies are positive for Indonesia's current account. Overseas remittances to the Philippines have recovered strongly; they are a lynchpin of its GDP.

In the final three weeks of Trump's term, his administration has expelled three Chinese telcos from ADR listings on the New York Stock Exchange. Index providers MSCI, FTSE Russell and S&P Dow Jones have also deleted some Chinese stocks from their benchmarks after the Trump administration banned US investments in companies with links to the Chinese military. This followed the inclusion of about 60 Chinese companies in the entity list of the US Commerce Department, which restricts their access to key US technologies. The moves have sparked a selloff of the equities, in particular by passive funds that are benchmarked to these indices.

Delistings and deletions from indices do not hurt the earnings of the Chinese companies much, since they generate little to no revenue from the US. Rather, the restrictions from access to US technologies will lead to a loss of revenue and exclusion from the Chinese market for US manufacturers. They will also cause US manufacturers to lose non-Chinese customers who are worried that they might not be able to sell their products to China with US-made equipment. On top of that, FDIs into the US might dry up, since the US ban will mean the investors will not be able to sell to the vast Chinese market.

Compounding the above for the Chinese internet services / fintech companies are China's recent proposed drafts on anti-trust and Internet microloan legislation, which have weakened equity prices. In spite of these, China is still projected to achieve average 8% yoy GDP growth in 2021, amid slowing credit growth. We remain overweight on Chinese equities.

Important Information

This newsletter is provided to you for general information only and does not constitute a recommendation or an offer or solicitation for any investment. The information contained in the newsletter has been obtained from public sources which Phillip Securities Pte. Ltd. ("PSPL") has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions contained in this newsletter are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. PSPL makes no representation or warranty, express or implied, that such information is accurate, complete, appropriate or verified or should be relied upon as such. Past performance of any investment product or company referred to in this newsletter is not indicative of future results.

Any such information or opinion contained in this newsletter is subject to change, and PSPL shall not have any responsibility to maintain or update the information or opinions made available or to supply any corrections, updates or releases in connection therewith. In no event will PSPL or persons associated with or connected to PSPL, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this newsletter, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this newsletter or (ii) accept any legal responsibility from any person who receives this newsletter, even if it has been advised of the possibility of such damages. Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This newsletter does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This newsletter should not be relied upon exclusively or as authoritative without further being subject to the recipient's own independent verification and exercise of judgment.

Recipients should be aware that many of the investment products which may be described in this newsletter involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such investment products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any investment product should not be considered to be a disclosure of all risks or a complete discussion of such risks. You should seek advice from a qualified financial advisor before relying on the information, analyses and opinions for any investment decisions.

Our representatives appointed under the Financial Advisers Act ("FAA") may be authorised to engage in non-FAA activities of marketing, client acquisition and client servicing of managed accounts services. Our representatives who are appointed under the Securities and Futures Act to conduct fund management activity ("FM Reps"), i.e. the Portfolio/Fund Managers, will be managing clients' money and investments, in addition to marketing, client acquisition and client servicing of managed accounts services.

PSPL is a member of the PhillipCapital Group of Companies. The PhillipCapital Group of Companies, their affiliates and/or their officers, directors and employees may own or have positions in any shares, units and other investments mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. Any member of the PhillipCapital Group of Companies may have acted upon or used the information, analyses and opinions herein before they have been published.

This newsletter has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. PSPL shall not be liable for any direct or consequential loss arising from any use of material contained in this newsletter.

This newsletter is only for the purpose of distribution in Singapore. The information and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, availability or use would be contrary to the applicable law or regulation or which would subject PSPL to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Brought to you by Phillip Securities Pte Ltd (A member of PhillipCapital) Co. Reg No. 197501035Z

250 North Bridge Road
#06-00 Raffles City Tower
Singapore 179101
www.phillip.com.sg

PhillipCapital
Your Partner In Finance