To: Our Valued Investors

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New virus cases have fallen sharply as developed countries ramp up vaccinations. More vaccine types are now in production and use. China is also making available its vaccines to countries in South-East Asia, the Middle East and South America. This should help to raise the rate of vaccination in emerging markets. Share prices of stocks and sectors that benefit from economic reopening are regaining momentum, paced by vaccine progress. But realistically, no country can return to normalcy until the world achieves herd immunity.

US 10-year Treasury yields reached 1.41%, up from 0.93% at end-December 2020. There has been concern that President Biden's US$1.9tr stimulus package will cause a surge in inflation and force the Fed to raise interest rates. We do not think so. The House has passed the US$1.9tr package but the bill now goes to the Senate, where it might still face opposition. The eventual amount could be less than US$1tr.

January's core CPI was weak at 1.4% yoy, compared with 1.6% in December 2020 and 2.26% in 2020. Jobless claims stayed elevated, up by 13,000 to 861,000. Continuing claims rose 36,000 to 4.494m. This would affect retail sales. Although supply constraints due to lockdowns could boost prices temporarily, things could change when mobility restrictions ease and production and services resume. US interest rates are likely to stay low, with the Fed promising to be patient until inflation crosses 2% and stay there for a period of time.

Higher yields reflect a stronger economic recovery and better corporate profitability. The gap between equity yields and bond yields remains wide, skewing the favour towards equities. There is a strong positive correlation between yields and cyclical sectors such as financials, minerals and energy. Growth sectors such as technology and communication services would look expensive, given their sensitivity to higher cost of funds.

China dished out record new loans of RMB3.58tr in January 2021, up RMB240bn from an already-robust January 2020. While corporate defaults and NPLs might rise, such record-high new bank loans indicate strong underlying credit demand. Regulators reportedly started reining in property loan issuance at the end of January. Interbank liquidity was tightened in the second half of the month, while market rates moved higher. We expect further tightening in 2021, along with the People's Bank of China's intention to guide rates higher. This should widen Chinese banks' spreads in 2021. Further taking into consideration the potential rollout of anti-trust regulations on online lending and payment platforms, we stay positive on Chinese banks.

In spite of US-China trade tensions, FDIs into China reached US$163bn in 2020, up 16.4% yoy, according to the United Nations Conference on Trade and Development. In contrast, US FDIs fell 46.6% to US$134bn. China is already a dominant consumer of global commodities, with its property and infrastructure sectors being the biggest gobblers. China's FDIs will drive demand for capital goods and commodities, in particular copper, nickel and cobalt. The latter two are also key components of electric-vehicle batteries. Indonesia and the Philippines supply 30% and 15% of the world's nickel. The Philippines also produces 3% of global cobalt output. Commodity-exporting countries such as Australia, Chile, Indonesia and the Philippines could bounce back faster in 2021.

More volatile commodity and food prices and a recent rise in oil prices could lift inflation in Singapore, Malaysia, Thailand and Indonesia. Central banks will likely be more tolerant and hesitant to raise interest rates, mindful of the dangers of higher interest rates on a still-fragile recovery from COVID-19. Indonesia's recent rate cut is an all-out attempt to jump-start its economy, at the risk of inflationary pressure as lower rates could induce asset price inflation. Bank Indonesia cut policy rates by 25bps and eased lending regulations for the auto and property sectors. It also encouraged banks to cut lending rates to spur credit growth. The country is making vaccinations compulsory, so that its economy can become normal earlier.

In Singapore, the authorities have voiced concerns about recent increases in property prices, engendered by low rates. A record 1,609 new private homes were sold in January, the highest monthly volume in the last eight years. This high volume could be traced to: 1) low interest rates with ample liquidity. M2 grew 13.2% in December 2020, compared with just 5% in December 2019; 2) developers cutting margins to clear inventories before the punitive 25% tax on land price for unsold units beyond five years of acquisition kicks in. En-bloc redevelopment projects that started in 2017, which attracted many foreign developers, will reach their 5-year deadline soon; 3) more confidence in the job market, amid a dip in Singapore's unemployment rate to 3.2% in December 2020 from September's 3.6% with the departure of non-resident workers.

Rumours of new rounds of cooling measures could actually spur more buying. We believe property agencies will benefit in the next few quarters as sales completions take about three months. Higher property transactions will also benefit banks via loan demand and improved credit provisioning with higher asset prices.

The energy sector was hit hard in 2020 when lockdowns melted demand. We see a broad recovery in 2021. Although the industry is not likely to return to pre-COVID levels soon, if vaccine rollout and GDP recovery lead to any better-than-expected scenario, this may even be enough to lift share prices in a beaten-down sector. Factors supporting the sector are: 1) non-OPEC oil capex remaining subdued; 2) refinery closures; 3) easing oversupply from offshore oil-rig retirements; and 4) natural gas remaining the favourite transition fuel in Asia. The 30-40% cuts in capex by oil majors in 2020 should also have improved cash flows and eased competitive pressure. We prefer upstream players, in particular the Chinese ones that ride the demand recovery in China.

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