CIMB PREFERRED INSIGHTS

AUG 2021

Key Highlights

- We take a look at some ideas within the technology and consumer goods space, and also some funds for customers that wish for a more diversified approach:
  - **Facebook (FB US)**
  - **Nvidia (NVDA US), Advanced Micro Devices (AMD US), Applied Materials (AMAT US)**
  - **Procter and Gamble (PG US)**
  - **Manulife SGD Income Fund**

It was a risk-off Friday last week with major bourses in Asia mostly down to end a rough week for Asian equities. The MSCI Asia Pacific Index fell 1.2% on Friday and almost 2% on week. Stocks in Hong Kong fell 1.4% on Friday and 5% on week, the worst week since the end of January 2020. Meantime, the Shanghai Composite fell again for a weekly decline of 4.3%. Singapore STI managed to end 0.3% higher on week after the Singapore central bank, the Monetary Authority of Singapore lifted the dividend cap it imposed last year on local banks and Singapore-based finance firms, joining other central banks that have eased dividend restrictions recently.

US equities followed European and Asian stocks lower on Friday amid concerns about the economic recovery in the face of the spreading delta variant and lingering jitters over China's regulatory risks. Adding to a gloomier outlook, Amazon plunged more than 7% after it reported its first quarterly revenue miss in three years and gave weaker guidance, weighing down the broader market as investors worry about slowing growth at megacap tech companies. On the US macro data front, it was another week of mixed data. Nonetheless, the bottom line is that the health of the US economy is relatively good supported by firm consumption on reopening moves helping to support the improvement in labour market conditions.

The DJIA, S&P500 & NASDAQ fell 0.4%, 0.5% & 0.7% respectively on Friday. For the week, DJIA & S&P500 fell 0.4% while NASDAQ declined 1.1% in a week packed with big tech companies' Q2 earnings announcements. For the month of July, the DJIA and NASDAQ have added 1.2% and 1.1% respectively, and the S&P500 rose 2.3%. The MSCI World index fell

0.8% on Friday for a 0.4% weekly loss. But, it is still up 0.6% on month. Meanwhile, the latest policy statement from the US central bank has been read by market participants as a small step towards an eventual tapering of the massive bond purchases. But, the US central bank appears to be in no rush until there are further improvements in the economy. Fed chair Powell also acknowledged the continued risk to the recovery posed by coronavirus in light of the current uptick in cases resulting from the Delta variant. Inflationary pressures are still seen as temporary although the Fed appears divided over when to reduce monetary stimulus. Over the weekend, St. Louis Fed President James Bullard said markets are "very well prepared" for the US central bank to start paring back asset purchases in the fall, adding that he'd like to see the program end by "the first quarter of next year." His timetable is faster than has been suggested by other Fed officials.

Over in Europe, stocks recorded a 6th straight month of gains in July, its longest monthly winning run since 2013 even as the spread of the Delta variant weighed on travel-related stocks. On the economic data front, the Eurozone economy grew more strongly than expected in Q2 following the easing of coronavirus-induced restrictions. In the UK, the FTSE 100 ended July virtually flat, snapping a winning streak of five consecutive months, as losses in banks, oil stocks and personal goods' shares offset gains in insurance, real estate and homebuilder stocks.

On the Q2 earnings front, companies on the Stoxx 600 have reported earnings per share growth of 159% YoY, according to Citigroup. Those on the S&P500 have increased profits by 97%. So far, Q2 earnings season has been stronger than expected. About three-fifths of S&P500 companies have reported, and more than 80% have exceeded both sales and profit estimates, according to data compiled by Bloomberg.

Other developments to take note include the US SEC has stopped processing registrations of US IPOs and other sales of securities by China-based companies until they provide more disclosures about investment risks. This all comes after a wild week of market shocks that led to an almost-US$1 trillion selloff.

Earlier, Beijing said it'd improve the supervision of overseas share listings. In the meantime, the US ban on investing in 59 Chinese firms with ties to China's military or surveillance industries takes effect this Monday (Aug 2). Following the ban, US investors have one year to fully divest.

On the global macro front, the IMF warned in an update to its World Economic Output that developing economies' limited access to Covid-19 vaccines threatens to hinder the global economic recovery from the pandemic even as it upgraded its growth projections for advanced economies but lowered them for other parts of the world. The IMF still expects overall global growth of 6% this year, unchanged from its last projection in April. But, it warned that new waves of coronavirus infections since then, including the spread of the Delta variant, have made the outlook more uncertain and uneven. The IMF cut 0.4%-pts off its growth forecast for emerging and developing economies this year, to 6.3%. The gloomier outlook was worst in south-east Asia and south Asia, particularly India. India's growth forecast this year was cut by 3%-pts to 9.5%, while the ASEAN-5 group's growth projection was downgraded by 0.6%-pts to 4.3%. The IMF said emerging Asia will expand 7.5% this year, a drop of 1.1%-pts from its April projection. A slowdown in public investment and fiscal support led the IMF to cut China's 2021 forecast by 0.3%-pts to 8.1%.

By contrast, the IMF increased its forecast for advanced economies' output growth this year by 0.5%-pts to 5.6%, with notable upgrades for the US, UK, Canada and Italy. France and Germany were unchanged, while growth expectations for Spain and Japan were downgraded.

All eyes now turn to the worldwide July PMI surveys and the US jobs report which will likely show another month of strong hiring while the earnings season continues, with another 150 or so S&P500 companies reporting. Other notable earnings reports from around the region include HSBC, Alibaba, Toyota, Sony, Softbank and Chinese chip maker, SMIC.

The July PMI readings are expected to show further divergences in growth momentum – still strong for the advanced economies led by the US & Europe, but weaker for emerging and developing economies, especially in South-east Asia and South Asia due to new waves of coronavirus infections.

Monetary policy meetings will be held by the central banks in the UK, Australia, India, Thailand and Brazil.

Notable macro data releases include June trade data for the US & Canada, European & Germany June industrial production, and June cash earnings & household spending for Japan.

Here in Asia, the key macro data releases include Indonesia Q2 GDP, July CPI for South Korea, Thailand, & Philippines, Australia & HK June retail sales.

Over in Seoul, South Korea's top digital lender Kakao Bank has also started trading. Its IPO raised 2.6 trillion won (US$2.26bn) for the company, the biggest South Korean IPO so far this year.

Notable ASEAN macro news:

• Singapore factory output rose 27.5% YoY in June, beating market forecasts of 26.8%, and accelerating slightly from a downwardly revised 27% rise in May (30% previously). This was the eleventh straight month of growth in manufacturing output and the steepest pace since Nov'10.

• Singapore's prelim Q2 jobless rate eased to 2.7% in Q2 from 2.9% in Q1. This was the lowest jobless rate since Q1 2020, as a recovery in the economy from the pandemic gained steam.

• Malaysian trade surplus widened to a 3-month high MYR 22.2bn in June, and above market expectations of MYR 17.9bn even as restrictions were tightened as the country re-entered a full lockdown due to a surge in Covid-19 cases. Exports rose 27.2% YoY while imports jumped 32.1% YoY in June. The trade surplus for 1H21 totalled MYR 115.0bn compared with MYR 64.6bn in 1H20.

• Producer prices in Malaysia increased by 11.5% YoY in June, slowing from an 11.9% gain in May. On a monthly basis, producer prices rose 0.2% in June, easing from a 1.0% gain in May.

• Industrial production in Thailand rose 17.6% YoY in June, moderating from May's 25.7% .Still, this marked the 4th straight month of increase in industrial output, amid a low base effect in 2020 due to the ongoing Covid-19 pandemic.

• Vietnam July CPI rose by a higher than- forecast 2.6% YoY. Annual core inflation, which excludes volatile items, edged down to 1% in July from a seven-month high of 1.1% in June. On a monthly basis, July CPI rose 0.6%, the highest since February.

• Retail sales in Vietnam fell 19.8% YoY in July, the third straight month of decline in retail trade and the steepest pace since April 2020, as consumption deteriorated due to a resurgence of local Covid-19 cases. For the January-July period, retail trade rose 0.7% YoY.

• Vietnam's industrial production rose 2.2% YoY in July, the weakest pace of expansion in industrial output since February. For the January-July period, industrial output expanded 7.9% YoY.

• Vietnam posted a larger-than expected trade deficit of US$1.7bn in July, a preliminary estimate showed. Exports grew 8.4% YoY imports jumped 29.9% YoY. For the January-July period, the trade deficit totalled US$2.70bn, as exports rose 25.5% to US$185.33bn while imports soared 35.3% to US$188.03bn.

Facebook (FB US). Facebook is world's largest social media network with roughly 2.5 bn monthly active users. Its "ecosystem" includes the Facebook app, Instagram, WhatsApp etc.

- We believe Facebook (and the broader online ad industry) should continue to benefit from overall advertising budget recovery for 2Q21.
- Facebook is beneficiary of e-commerce laggards looking to transition more businesses online riding on its product development initiatives. We expect conversion of its merchants/business profiles base into paying advertisers. At the time of its last disclosure, Facebook app had 200 mil business profiles and 10 mil advertisers, while Instagram had 4 mil advertisers. More advertisers may translate into longer-term higher potential ad pricing.
- In addition to the products such as Shops, Facebook also recently rolled out In -Stream Video Topics, which allow advertisers to run campaigns based on certain topics. The company also launched Instagram Reels ads globally. These ad units are similar to Stories ads.

Key risks to the stock include: FB said it will likely see a potential revenue hit from changes to Apple Inc.'s iOS 14 software on the iPhone, which will require that apps get explicit user permission to track their activity. FB is pursuing mitigation moves (including new APIs, new login mode etc) and is v better positioned than most on this industry-wide move.

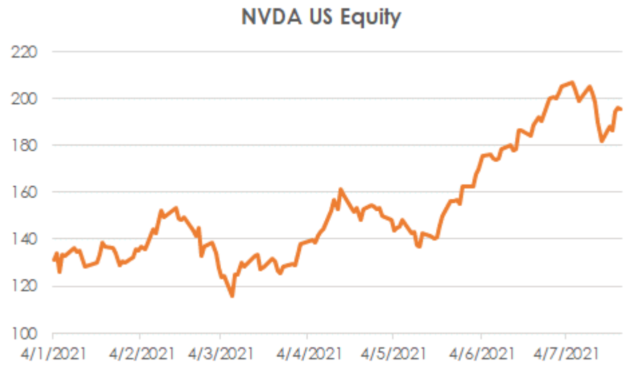
Source: Bloomberg

We highlight a basket callable Daily Knock-Out FCN idea around semiconductor-related companies. The basket can include **Nvidia (NVDA US)**, **Advanced Micro Devices (AMD US)** and **Applied Materials (AMAT US)**.

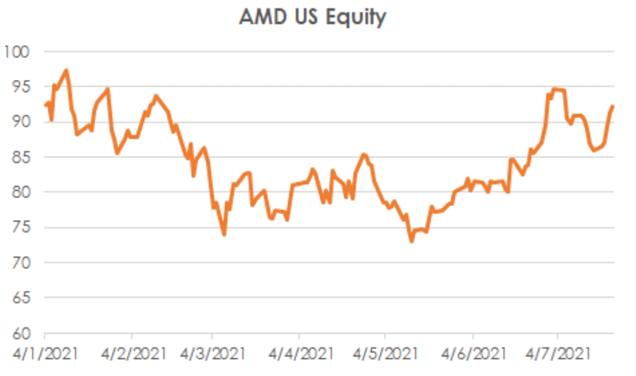
Nvidia (NVDA US). We like Nvidia for its leadership position in GPUs which are suited to tap growth opportunities in several markets, in Gaming as well as Datacenter (as hyperscale customers continue to embrace GPU-accelerated deep learning). Nvidia provides a targeted play on datacenters and AI. Autonomous driving presents a long term opportunity for Nvidia as its platform is a deep learning tool for autonomous-driving.

We remain hopeful that its acquisition of ARM will still go through but the path is uncertain. If the deal is to close, it could boost Nvidia's leadership in areas, such as datacenters and the potential expansion of the market.

Key risks include 1) Gaming strong growth rates may slow due to saturation and greater competition; 2) Nvidia's gaming GPUs used in cryptocurrency mining can be volatile; 3) ARM deal may not be approved.



Source: Bloomberg



Source: Bloomberg

Advanced Micro Devices (AMD US). AMD's turnaround in recent times had been impressive especially with regards to product solutions offerings. It has exhibited strong execution in innovative chip designs which help strength its position in markets (PC/ Laptops/ Gaming).

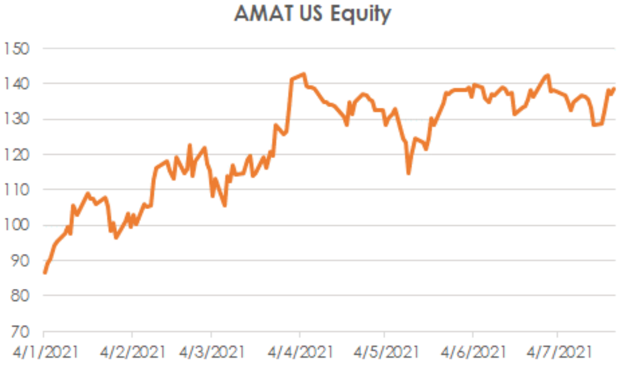
Its medium-to-longer term driver should come from tapping the growth in server/ datacentre. We expect AMD will enjoy its most sustainable growth trajectory in server CPUs. AMD has been gaining market share in the server CPU segments, and with recent EPYC server CPUs launched in 2021, and upcoming 4th-gen (expected 2022), AMD can further expand its market share. Furthermore, AMD's pending acquisition for Xilinx will enlarge its addressable market.

Key risk include: 1) Uncertainty from ongoing COVID-19 pandemic. 2) Strong competition among the players in the semiconductor industry 3) poor execution and integration of acquisitions of Xilinx 4) competitive pressures from the ARM architecture and its licensees.

Applied Materials (AMAT US). Applied Materials is a supplier of semiconductor manufacturing equipment providing materials engineering solutions to integrated device manufactures and foundries.

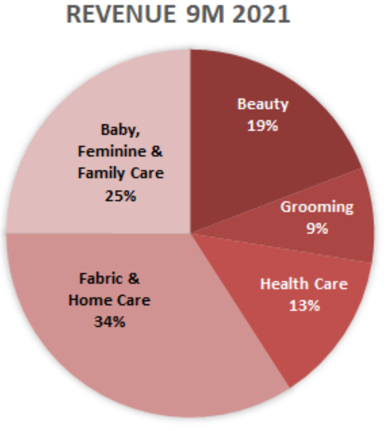
As China drives for chip self-sufficiency, higher capex from China may provide additional boost. We believe AMAT should be well-positioned to benefit from growth in China Capex, given its exposure to new capacity additions. Due to ongoing trade tensions, there are several major programs in progress and China will spend on developing a domestic semiconductor industry.

Key risks include 1) AMAT is subject to business cycles, the timing, seasonality, length, and; 2) political risks consider critical now 3) concentration risks as it has higher exposure to a few key customers.



Source: Bloomberg

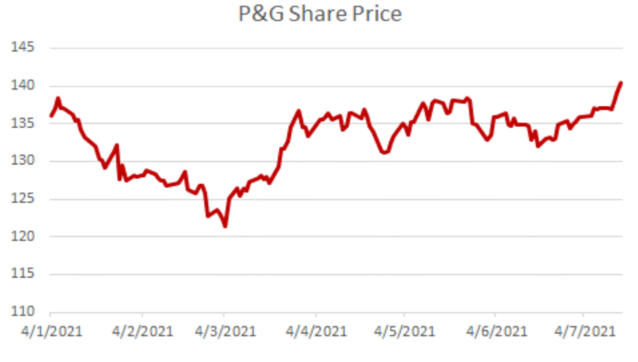
Procter & Gamble (PG US). The Procter & Gamble (P&G) Company is a multinational consumer goods company. PG's Global Business Units (GBUs) are organized into 10 product categories, and aggregated into 5 reportable segments: 1) Beauty; 2) Grooming; 3) Healthcare; 4) Fabric & Home Care; 5) Baby, Feminine & Family Care.



Source: Compiled from company release

Consumer defensive had generally lagged the broader market. Despite posting a nearly 3.9% gain in the second quarter, the consumer defensive sector again lagged the market's appreciation (till end Jun 2021).

This lagged performance may not be warranted as we believe Quality/ Defensive should still stay (even after pandemic). Consumers have generally continued their preference for branded products in the household & personal care space, due to higher perceived levels of product quality, efficacy and dependability. Retailers have also prioritized manufacturers that have strong supply chains such as P&G.



Source: Bloomberg

We like P&G for its clear strategy and focus on execution, translating to steady performance.

- PG's strategy focuses on achieving superiority across all elements of their consumer proposition – products, packaging, brand communication, retail execution, and consumer & customer value.
- **PG is focused on innovation**. With a portfolio of popular brands across product categories, P&G relies on expanding and innovating within these brands to drive growth. Strong innovation have successfully established their position in various consumer markets.
- **Operational Optimization and Productivity**. PG is focused on operational optimization and cost-savings plans to boost margins and maximise efficiency. Rising efficiency help boost P&G's profitability and funds reinvestments.

Key risks: 1) Promotional Spending. 2) About 60% of P&G's sales is foreign based, subjecting P&G to foreign exchange risk and 3) stiff competition from categories.

Finally we take a look at a Fixed Income Fund: **Manulife SGD Income Fund**

Investment Objective. The Fund aims to provide investors with long-term capital appreciation and/or income in SGD terms through investing primarily in Asian investment grade fixed income or debt securities.

The manager. Manulife Investment Management is the global asset management arm of Manulife Financial Corporation, tracing their roots and investment management experience back to the 1800s. Manulife Investment Management and their affiliates provide comprehensive asset management solutions for investors. This investment expertise extends across a broad range of public and private asset classes, as well as asset allocation solutions. As of 31 Mar 2021, they have a total of USD470b assets under management.

Reference Index. This Fund does not have a benchmark.

Investment Universe. The fund is invested in both SGD denominated and non-SGD denominated bonds. Investments in non-SGD denominated bonds are hedged back to SGD, minimizing foreign currency exposure.

The typical derivatives it will use are FX forwards, bond futures and credit derivatives. These are all used for hedging and/or efficient portfolio management only. They are not used for leverage.

It provides higher yield while staying diversified by investing at least 70% into IG bonds for stability. A maximum of 30% can be invested in HY bonds. The fund will never go below an average credit quality of BBB-.

It has an adaptable duration range of 0-5 years, allowing the managers to adjust according to different interest rate environments.

Why this fund?

- The fund has an unconstrained investment approach which is helpful when seeking alpha as it gives the managers freedom during securities-selection for the portfolio
- Large AUM will help diversification and reducing drawdowns
- Long track record
- Proprietary ESG capabilities which aligns with CIMB Group's direction

Investor Considerations.

The key risk of this fund is its exposure to emerging markets. Investors should be comfortable with such markets as well as the volatility that comes with it.

As the Fund tends to focus on dividend-focused companies that offer more sustainable dividend payment under general conditions; the Fund should be more suited to clients who wish to gain core exposure to Asian and Asean equities as part of their diversified portfolio, with regular income distribution as key consideration.

Investors looking for a truly diversified approach to generating returns, without taking concentrated bets in alternatives, should consider this fund. This fund adds value by rotating the asset allocation, not tied to a benchmark mix of assets, and should provide downside protection in times of stress.

Please refer to the fund factsheet for more detailed information.

Please speak to your Relationship Manager for more details.

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