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INSIGHTS
JAN 2021

Key Highlights

- **Expect stronger growth in 2021** as vaccines are distributed and fiscal policies continue to ensure the recovery is maintained.
- **US Growth** expected to be 3.6% in 2021 after a 3.6% contraction in 2020. Covid-19 cases continue to be a threat to US growth outlook.
- **Inflation** will be increasing from a low base. Dollar weakness may support Dollar-priced commodities – including oil which may see support from USD weakness.
- **Opportunities**. We continue to focus on **JP Morgan China A-Shares Opportunities Fund** for China, and **Schroder Asian Growth Fund** for the broader Asian market.
  Within the Fixed Income space, we reiterate **Fullerton Asian Bond Fund.**
  Investors seeking exposure to the tech sectors can consider **Blackrock World Technology Fund.**

Goodbye 2020, Hello 2021.

We expect stronger growth in 2021 as vaccines are distributed and fiscal policies continue to ensure the recovery is maintained, while watching out for speed bumps ahead. The US economic recovery will be led by a cyclical upturn in spending as the economy exits the depths of pandemic. President-elect Biden is expected to do more to boost the economy. The Biden win and (probable) Republican control of the Senate will mean no higher (corporate) taxes. This comes as a relief for the markets.

Janet Yellen, being appointed Treasury Secretary means that a 4th fiscal stimulus is more plausible - as she believes one is needed, and has the credibility to push one through.

Therefore, we opine that fiscal and monetary support will continue to be accommodative, especially if growth slows.

CIMB's Economist projects US growth to be +3.6% in 2021 after a contraction of 3.6% in 2020. The surge in Covid-19 cases has been built into this projection and underlines the continued risks to US growth outlook.

Fed Funds Rate (FFR) anchored low. Meanwhile, a continued push from monetary policy suggests that FFR is unlikely to lift from the 0-0.25% range within the next 2-3 years.

CIMB Economist's latest G4 economic forecast and changes from prior projections.

	Actual	Latest forecasts			
	2019	2020	2021	2022	2023
Real GDP growth (% yoy)					
US	2.2	-3.6	3.6	3.0	2.6
Eurozone	1.3	-7.3	4.3	4.8	2.3
China	6.1	2.0	7.8	5.0	4.9
Japan	0.7	-5.6	2.7	2.6	1.4
Policy Rates (%)					
US*	1.75	0.25	0.25	0.25	0.25
Eurozone	0.00	0.00	-0.00	0.00	0.01
China**	3.25	2.95	2.95	3.01	3.11
Japan	-0.07	-0.04	-0.04	-0.04	-0.04

* Fed Funds Target Rate Upper Limit
** PBOC 7d Interbank Repo Rate
Source: CIMB Economics & Market Analysis Group, Bloomberg, Oxford Economics, Haver Analytics, CIMB Treasury & Markets Research

The US recovery and global recovery in risk sentiment will likely move UST yields higher over time, and CIMB Treasury expects it rising past 1.00% by 1Q2021 and 1.20% by 2Q2021.

Inflation will be rising from a low base while supply concerns will overhang, hence the need for a steeper yield curve. With policies surrounding the Covid-19 pandemic having been the focus of fiscal spending, this has led to market concerns on rising inflation and USD weakness, thereby supporting demand for Dollar-priced commodities. For instance, oil prices may stage a further rebound, as OPEC+ decides to keep supply in check, coupled with swift global economic recovery - may mean a boost in fuel demand in 2021. Oil prices may also get some support from USD weakness.

Asian/ Asean currencies may be key beneficiaries. The export and trade recovery will likely be beneficial to trade-dependent and exporting nations, such as those in Asia, including Thailand, Malaysia and Singapore.

The growth impulse from fiscal policies at a global level would also create a more risk-on environment which is likely to benefit EM Asia FX, and cause a decline in the US dollar in the 1Q 2021.

The interest rate differential between EM Asia and the funding markets such as JPY and USD remains wide. This would also likely encourage further carry trade flows to EM Asia FX. While there is some scope for Asian countries to reduce rates even as developed nations back away from negative rates, the interest rate differential will continue to remain positive for Asian FX.

Friendlier diplomacy between the new US President and China would support trade growth, especially Asian countries. This should aid Asian countries and increase current account surplus accumulation. The reconfiguration of trade blocs such as the Regional Comprehensive Economic Partnership (RCEP) will provide Asian countries with a better bargaining platform to strengthen trade ties both within Asia, and with other global trade partners.

China outlook anchors the region. Stronger domestic demand and higher investments may lead to upside growth for China, while inflation may stay dovish. CIMB Treasury forecasts real China GDP at 7.8% in 2021. Meanwhile, US-China tensions are likely to ease under the Biden administration, while strong exports may reduce the need for larger stimulus. This will provide more ammunition which can be deployed in future if required. The RMB is expected to remain firm.

Asian region braced for cyclical growth acceleration. Aided by vaccine distribution, global growth rebound and reduced uncertainty, Asian growth is also underpinned by a resilient China**.**

According to CGS-CIMB economic research, an environment of synchronized global economic recovery, low yields, disinflation and ample liquidity support creates fertile conditions for the reflation trade to rotate into risk assets including EM FX. M.I.S.T (Malaysia, Indonesia, Singapore, Thailand) currencies to strengthen in 2021 against the USD, given widening growth, inflation, and balance of payments differentials.

CGS-CIMB Research expects the recovery to favor domestically-driven Malaysia and Indonesia, before transitioning to Singapore and Thailand as post-vaccine mobility improves.

On a relative basis, we recommend a pivot to Asia for more attractive valuations with better fundamentals. We have an Overweight stance on China/ Hong Kong. Within Developed Markets, US is our preferred market.

Given the above view on Equity, we recommend exposure to China and Asian equities. We suggest exposure via diversified active managed funds such as **JP Morgan China A-Shares Opportunities Fund.**

For Asian/ Asean equities, we advocate **Schroders Asian Growth Fund**.

For Fixed Income, we believe opportunities are found in Asian and China bond markets relative to the rest of the world.

We believe Asian fixed income market (both investment grade and high yield) offer yield pick-up opportunities, underpinned by supportive policies. Asian corporate dollar bonds offer higher real yields and, current spread for EM Asian dollar credits remains reasonable, relative to history. Risks are manageable for Asian dollar credits in terms of default risks- Asian High Yield default risks are lower than that in Developed Markets. We highlight **Fullerton Asian Bond Fund**. The fund mainly invests into Investment Grade Bonds.

In the near term, we believe markets will see a tug of war between the short-term reality of increasing new Covid-19 cases and the medium-term outlook for normalization thanks to vaccine deployment.

We believe any extended under-performance due to rotation out of Technology is likely temporary. The sector outlook is underpinned by longer term secular/ structural trends. The Covid-19 pandemic simply expedited digitalization process, so even when a vaccine-induced recovery should not upend or derail this progress. Moreover, a Biden win in the election reduces the risk of over-regulation on the tech sector and should be a positive for tech companies.

As such, for clients looking for tech exposures, we reiterate funds such as **Blackrock World Technology Fund**

For more details of the funds, please refer to the factsheets and consult your relationship managers.

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