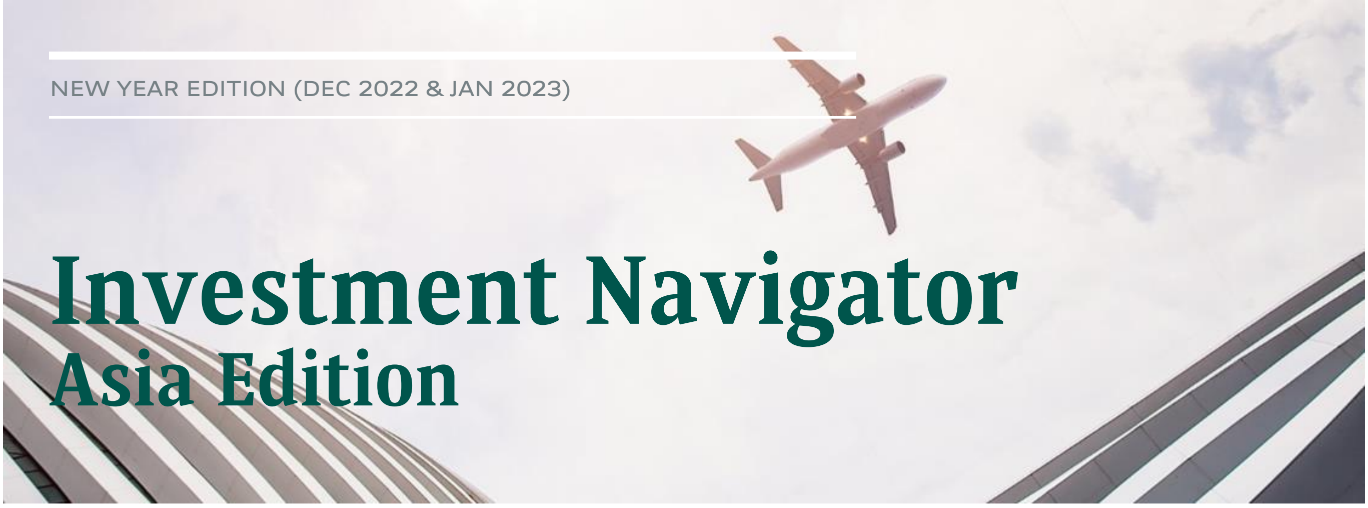

NEW YEAR EDITION (DEC 2022 & JAN 2023)

Investment Navigator
Asia Edition

2023 Outlook & Themes: From Bitter to Sweet

Summary

- Europe may already be in recession. We see a 65% chance of US entering recession in 2Q 2023. We forecast a rebound in China GDP growth to 4.5% amid post-Covid re-opening.
- Majority of rate hikes are behind us. We expect the Fed and ECB policy rates to peak in 1Q 2023. Investors should lock in attractive yields.
- Non-US equities could outperform as the dollar peaks. We turn more positive on broad China markets and upgrade European equities to positive on a 12-month view.
- In 2023, we expect to see a better 2H following a volatile 1H. Investors could start the year with a diversified portfolio focusing on quality and income, and gradually add to risk assets, especially non-US equities, on market weaknesses throughout the year.

DEVELOPED MARKETS ARE LIKELY IN A MODERATE RECESSION IN 2023

GDP growth	Annual (% yoy)	Quarterly (% qoq)				
Forecasts	2023	2022	2023			
		4Q	1Q	2Q	3Q	4Q
US	-0.1	0.3	0	-0.4	-0.4	-0.3
Eurozone	-0.5	-0.4	-0.5	-0.2	0.2	0.3
UK	-0.9	-0.3	-0.6	-0.2	0.2	0.2
Japan	0.9	0.7	0.2	0.1	-0.1	-0.1
China	4.5	1.1	0.8	1.0	1.2	1.0

Source: BNP Paribas (WM), as of 8 Dec 2022

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A moderate recession in developed economies

The Eurozone and UK may already be in recession. We see a 65% chance of US entering recession in 2Q 2023. Japan is also likely to be in recession in 2H 2023. On the contrary, we forecast a rebound in China GDP growth to 4.5% amid post-Covid re-opening.

Majority of the rate hikes are behind us

We expect inflation in the US and Eurozone to decline gradually to around 3-4% by end-2023. The Fed will likely raise rate by 50bp in December 2022 and another 50bp in February 2023 with terminal Fed funds rate at 5% by end-1Q 2023. For the ECB, we expect rate hike by 50bp in December 2022, and altogether 75bp in 1Q 2023 with terminal deposit rate at 2.75% and refi rate at 3.25% by end-1Q 2023. We expect both central banks to pause for the rest of 2023 and start to cut rate in 2024.

Lock in attractive yields

We have turned more positive on bonds after significant re-repricing of rates this year with a lot of quality and defensive assets now paying attractive yields. Yields from US Treasuries and investment grade bonds are now higher than US equity dividend yields in general, the first time since 2004.

We upgraded US Treasuries and Investment Grade bonds from neutral to positive in October, which coincided with the recent peak in yields post better-than-expected US CPI numbers.

With policy rates probably peaking in 1Q 2023, investors could look to extend duration and lock in the attractive yields.

Peaking dollar favours non-US equities

With the Fed's peak hawkishness probably already behind us, this would possibly imply that the peak dollar may also be seen. Historically, peaking dollar tends to coincide with outperformance in World ex-US equity markets.

European equities: We upgrade Europe equity market from neutral to positive. Sharp decline in oil and gas prices recently helps ease inflationary pressure in Europe, a market which is under-owned by investors due to the concerns of Ukraine/Russia war. European economies are likely already be in recession now and a lot of negatives on geopolitical tensions and stagflation are priced in amid significant outflows from the region's equity markets this year.

China's pivot in Covid policy: We turn more positive on the broad China markets. Beijing has been relaxing a lot of Covid restrictions recently despite rising number of Covid cases, a game changer for the domestic economy. We expect to see a cyclical rebound in economic data and corporate earnings next year, thanks to the pent-up domestic demand. Hence, investors should consider to buy on dips.

CONSENSUS EPS ESTIMATES LOOK TOO OPTIMISTIC FOR THE US, BUT MORE REALISTIC FOR EUROPE, EM & CHINA

Index	2022E	2023E
S&P 500	5.4	6.5
Nasdaq 100	-4.1	11.3
Russell 2000	13.5	16.6
EuroStoxx 600	20.3	2.1
EuroStoxx 50	27.1	0.8
MSCI Germany	-2.4	1.7
MSCI France	23.7	-1.7
MSCI Italy	27.9	-1.7
MSCI Spain	14.0	0.6
MSCI UK	22.9	-2.2
Nikkei 225	14.2	-1.4
MSCI EM	-11.1	1.5
MSCI China	-13.0	13.4

Source: Macrobond, Bloomberg, BNP Paribas, as of 8 Dec 2022. Past performance is not indicative of current or future performance.

Cautious on US large caps: Despite significant sell-off in US equity markets YTD, we remain cautious, especially on large caps, due to the following reasons:

1) Earnings risk: Earnings estimates still look too optimistic in the context of recession with 2023 consensus EPS growth at +6.5% for S&P 500 and +11.3% for Nasdaq. Further downward revisions in earnings are headwinds to equity performance.

2) Credit risk: Credit spreads have widened this year, but are not close to levels usually consistent with a recession. Growing concerns on credit default or credit event would trigger further widening of credit spreads especially in high yield bonds if economic fundamentals continue to deteriorate.

3) Liquidity risk: Despite majority of rate hikes probably behind us, the Fed's quantitative tightening is on-going which would continue to tighten financial conditions. Furthermore, in spite of the bearish sentiment on US equities this year, US ETFs still registered significant inflows. Hence, US large caps are vulnerable if investors unwind their years of inflows amid worsening economic prospect in the US.

From bitter to sweet

Risk assets in general could remain volatile in 1H 2023 given the uncertainty of US recession. A deeper-than-expected recession should see more downside, while a soft-landing would be a positive surprise. Hence, we recommend investors starting the year with a diversified portfolio including alternatives (private assets, hedge funds, etc.) and focus on quality and income.

We may be able to see a better 2H for risk assets when the recession is realized/priced in and market starting to look for rate cuts from major central banks. Hence, any significant market weaknesses are opportunities to gradually increase equity exposure, especially to non-US equities, throughout the year.

2023 Investment Themes

We have altogether 5 investment themes for 2023. **Theme 1 "Looking through the inflation and rates peak"** is a macro theme that focuses on exposure to quality credit and non-US assets to play the peak yield and dollar narrative.

As we expect the market to remain volatile in coming months, **Theme 2 "Seizing new income opportunities: from TINA (there is no alternatives) to TARA (there are reasonable alternatives)"** and **Theme 3 "Embracing market volatility"** focus on lower portfolio volatility through investment grade bonds, hedge funds and other income-focused equities, structured products and private assets.

Theme 4 "Investing in a new era" and **Theme 5 "Accelerating energy efficiency"** are longer-term structural themes that focus on energy, food and tech security in the new era, and carbon reduction theme. Investors can consider to get exposure through structure solutions that limit the downside while capturing the upside.

What are your investment concerns / needs?

Rising USD loan cost

Stable income

Inflation

Recession-proofing

"Safe haven" investments

Market volatility

Recession risk

Diversifying from long-only exposure

Adding equity exposure given valuations

Underwater positions

Switching ideas

Our 2023 Investment Themes

				
Looking through the inflation and rates peak	Seizing new income opportunities: from TINA to TARA	Embracing market volatility	Investing in a new era	Accelerating energy efficiency

Click here for more details on our website!

Overview of our CIO Asset Allocation for Dec 2022 & Jan 2023

	Views: Current	Views: Prior	Constituents	We like	We avoid	Comments
EQUITIES	+	=	Markets	Europe, UK, Japan, Latin America, China, South Korea, Singapore and Indonesia		■ **We upgrade overall equities to positive.** Key drivers for the upgrade include falling US inflation, lower long term interest rates, improving macro liquidity, and easing energy prices.
			Sectors	Oil & Gas, Financials, Healthcare, Materials, Semiconductors, Precious/"battery" Metals		■ Momentum, earnings and valuations are still very supportive to Energy, some Metals & Mining, Health Care and Financials. **We upgrade the Materials and Banks sector to Positive**.
			Styles/ Themes	Megatrend themes		■ **Security, circular economy, and income growth themes**
BONDS	=	=	Govies	US Treasuries		■ **We expect 10-year yields to reach 3.5% in the US** ■ We are Positive on US government bonds
			Segments	US Investment Grade, Emerging Markets Bonds (USD + local currency)		■ **We are Positive on US IG corporate bonds, and EM bonds in hard and local currency.**
CASH	-	-				
COMMO-DITIES	+	+		Gold & Oil		■ **Gold - positive**: gold to trade in the $1750-1900 range. ■ **Oil - positive**: Brent to climb back to $90-105 range. ■ **Base metals –neutral:** due to delay in China recovery & recession threat in Europe, but medium-term outlook remains positive.
FOREX			EURUSD			■ **Our 3-month target remains 1.00**
ALTER-NATIVE	+	+		Real Estate (warehouses, healthcare, UK commercial); Global Macro, Relative Value & trend-following Hedge Funds		■ **We prefer global macro and relative value strategies, as well as trend-following** CTAs given then strong trends this year ■ **We are neutral on Event Driven, Relative Value and Long/Short Equity.**

Note: + Positve / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2022f	2023f	2024f	2022f	2023f	2024f
Developed	US	1.9	-0.1	-0.2	8.1	4.4	2.4
	Japan	1.5	0.9	0.3	2.4	1.9	1.3
	Eurozone	3.2	-0.5	1.3	8.5	5.7	2.3
	UK	4.4	-0.9	0.8	9.0	7.4	2.1
North Asia	China	3.2	4.5	4.8	2.1	2.7	2.5
	Hong Kong*	-0.8	3.9	3.0	1.9	2.4	2.5
	South Korea	2.6	1.2	1.7	5.1	3.5	2.1
	Taiwan*	3.3	2.8	2.1	3.1	2.2	1.4
South Asia	India	8.3	6.2	6.5	7.9	5.9	5.5
	Indonesia*	5.3	5.0	5.4	4.6	5.5	3.2
	Malaysia*	5.4	4.4	4.9	3.2	2.8	2.4
	Philippines*	6.5	5.0	6.0	5.3	4.3	3.1
	Singapore*	3.0	2.3	2.6	5.5	3.0	2.0
	Thailand*	2.8	3.7	3.6	6.3	2.8	1.5

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 30 November 2022
* IMF data and forecasts as of 30 November 2022

GROWTH

- Both the US and the Eurozone showed better-than-expected economic data, with a positive growth figure in Q3. US GDP growth rebounded strongly during Q3 (+2.6%), after negative growth figures in the first half of this year, while Q3 GDP growth in Eurozone weakened but was still surprisingly positive.
- We are still expecting some quarters with negative growth in 2023 and 2024. Looking at the recent business surveys, a recession seems quite likely. However, it should remain mild. For 2023, we see annual GDP growth in the US to decline to -0.1%, and for the Eurozone to decline to -0.5%.

INFLATION

- Inflation has probably reached a peak in the US and may also do in the Eurozone early next year. We see a gradual decline in inflation rates during 2023. The level of inflation will however remain elevated in 2023 and above central banks' targets.
- We expect US inflation to lead the decline. US inflation could fall rapidly in the coming months, on the back of moderating demand, easing supply chain pressures, a weaker housing market and lower fuel prices. We also see easing labour market pressures, as the corporate focus turns to reducing staff rather than adding.

Equities

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: POSITIVE

Positive	Neutral	Negative
COUNTRY		
UK Japan Emerging Mkt ▲ Eurozone	US	-
SECTOR		
Energy Healthcare Financials ▲ Materials	Comms. Industrials Consu. Sta. Utilities Real Estate Technology Consu. Discre.	

OVERALL ASIA: POSITIVE

Positive	Neutral	Negative
COUNTRY		
China Singapore South Korea Indonesia	Taiwan India, Thailand Malaysia Philippines	-
SECTOR		
Comms. Consu. Discre. Consu. Sta. Healthcare Technology Industrials	Energy Materials Real Estate Financials	Utilities

- **We upgrade global equities to positive from neutral**, with a preference for Emerging markets, Europe, Japan, US mid-caps. **Key drivers for the upgrade include falling US inflation, lower long term interest rates, improving macro liquidity, and easing energy prices.**
- Considering that the global economy could eventually not face the deep recession that some were afraid of, whereas China is due to recover, and companies production costs seem under control, **we upgrade the Materials sector to Positive.**

- **We are turning more positive on the broad Chinese market**, as we believe most negatives have been priced in and further significant downside may be limited. **Shifts in policy stance (Covid & property) are very encouraging, while progress in vaccination will be crucial for the latest rally to translate into a full recovery.** Despite the recent rally, valuations remains very attractive. **There could still be near term volatility, but any of such volatility can be viewed as an opportunity, particularly for policy beneficiaries.**

		1-month (%)	YTD (%)	2021 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2022f	EPS Growth (%) 2022f	EPS Growth (%) 2023f	ROE (%) 2022f
Developed	US	5.2	-15.7	25.2	18.0	4.0	2.1	6.1	4.7	21.7
	Japan	2.9	-1.4	11.4	12.8	1.4	2.5	42.5	12.8	9.0
	Eurozone	8.3	-11.3	20.1	11.8	1.6	3.4	18.2	2.4	12.9
	UK	6.7	4.6	15.0	9.7	1.7	4.0	23.7	-2.6	13.5
	Asia Ex-Japan	18.7	-21.2	-6.4	12.0	1.5	3.3	3.9	7.0	11.7
North Asia	China	28.3	-25.9	-22.7	9.6	1.2	3.8	7.8	15.0	11.2
	China A-shares	9.8	-22.0	-5.2	12.6	2.3	2.2	16.0	15.5	11.1
	Hong Kong	23.4	-14.7	-5.9	12.8	1.0	3.9	-9.4	28.2	6.5
	South Korea	6.4	-18.2	-1.6	10.9	1.0	2.5	-12.7	-10.2	11.6
	Taiwan	17.2	-19.7	21.6	12.1	2.1	4.5	6.4	-9.5	24.1
South Asia	India	3.4	5.8	27.3	21.9	3.9	1.4	8.7	20.2	13.9
	Indonesia	1.4	16.9	1.5	13.8	2.8	2.9	36.6	5.4	17.7
	Malaysia	2.1	-4.8	-7.3	13.0	1.5	4.3	-8.5	12.6	10.3
	Philippines	10.5	-3.9	0.9	14.0	1.8	1.8	18.4	17.8	8.4
	Singapore	9.2	4.2	9.8	13.6	1.3	4.1	81.5	23.3	9.2
	Thailand	2.4	4.3	7.1	17.3	2.2	2.5	17.5	9.7	9.5

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 30 November 2022

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL		
Positive	Neutral	Negative
EMD (LC) EMD (HC) Short-term UST Long-term UST US IG	High Yield	-

OVERALL ASIA (USD): NEUTRAL		
Positive	Neutral	Negative
-	India, China Philippines South Korea Hong Kong Indonesia	-

		Total Return (%) 1-Month	Total Return (%) YTD	Total Return (%) 2021	Yield-to-Worst (%)
Asia	Asia USD Bond	5.1	-12.5	-1.7	6.5
Asia	Asia Local Currency Bond	8.0	-11.6	-7.0	4.6
Asia	China	5.8	-12.5	-4.6	7.3
Asia	Hong Kong	4.4	-11.2	0.8	6.0
Asia	India	6.7	-10.0	3.2	7.9
Asia	Indonesia	7.5	-13.3	0.8	5.6
Asia	Singapore	2.9	-11.2	0.5	5.6
Asia	South Korea	1.8	-8.8	-0.3	5.3
Asia	Philippines	5.7	-15.0	-0.1	6.0
Other Regions	US 10-year Treasuries	2.7	-11.5	-3.0	3.6
Other Regions	US Investment Grades (IG)	3.7	-12.6	-1.5	4.6
Other Regions	US High Yield (HY)	2.2	-10.6	5.3	8.6
Other Regions	Emerging Market USD Bond	5.8	-13.4	-2.8	7.7

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 30 November 2022

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	4.00	3.75	3.50	3.50

- The US Federal Reserve unsurprisingly raised interest rates by 75bp as expected during the November FOMC, bringing the Fed funds rate to 4.00%. Minutes of the last FOMC meeting suggested that policymakers think it will soon be time to reduce the size of rate hikes. This has also been reinforced more recently via speeches from Fed Chair Jerome Powell as well as other Fed members.
- In previous cycles, Fed rate peaks before inflation comes down. We expect the Fed to start reducing the size of its rate hikes, with a 50bps rate hike in December, followed by another 50bps in February 2023, leading to a terminal rate of 5% in Q1 2023.
- The ECB continues to maintain a hawkish tone arguing it's premature to reduce the size of rate hikes when inflation has probably not peaked yet. Policymakers' hawkish rhetoric could be more about signalling the ECB's determination to keep inflation expectations under control rather than pleading for a third 75bps rate hike in a row.
- We expect the ECB to hike rates by 50bps in December, 50bps in February 2023 and 25bps in March. We thus see the terminal rate for the deposit rate at 2.75%.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

12-MONTH FOREX VIEW

Positive		Neutral		Negative
EUR	GBP	JPY	HKD	USD
AUD	CAD	TWD	IDR	NZD
CNY	KRW	MYR	PHP	
INR	THB	SGD		

COMMODITIES

Positive	Neutral	Negative
Gold Oil	Base metal	-

DXY: The dollar index depreciated by almost 4.5% over November, driven by the expected pivot by the Fed (rate hikes in smaller steps). Nonetheless, the dollar is expected to remain strong in the short term and could come back closer to parity.

CNY: The yuan appreciated in November but remained vulnerable. China recently reported a new 7-month high in Covid-19 infections. Massive testing has resumed in major cities like Shanghai and Beijing. Mobility restrictions will affect business activity. In 2023, the resumption of growth in China and the expected fall in US short interest rates at the end of next year will be supportive factors for the Chinese currency. We maintain our 3-month target at 7.3 and 12-month target at 7.1.

GOLD: The precious metal rallied in November from \$1633 to \$1770/oz on the back of a weaker dollar and lower bond yields. Gold also tends to outperform in stagflation periods. **It remains our preferred hedge against tail risks. 12m target range: \$1750-1900.**

OIL: Brent prices dropped in November, but weaknesses due to recession fears and weak Chinese demand should prove temporary. **We maintain a positive bias on oil as disruption risks remain high. We expect Brent prices to trade between \$90-105 in the coming months.**

BASE METALS: Recession fears should continue to weigh on prices, but demand is expected to strengthen progressively in 2023 thanks to the Chinese economic stimuli and the post-covid recovery. Battery metals should outperform. **Our medium-term outlook remains bullish (supply constraints & huge needs for the energy transition).**

Forex Forecasts

		Spot	3-month		12-month	
		As of 30 Nov 2022	View	Target	View	Target
Developed	USD Index*	105.95	+	110.3	-	102.4
	Japan	139.5	-	145	=	135
	Eurozone	1.030	-	1.00	+	1.08
	UK	1.191	-	1.14	+	1.26
	Australia	0.670	-	0.66	+	0.70
	New Zealand	0.621	-	0.62	-	0.62
	Canada	1.356	=	1.35	+	1.30
Asia Ex-Japan	China	7.143	=	7.30	+	7.10
	Hong Kong*	7.806	=	7.85	=	7.85
	South Korea*	1,319	-	1,380	+	1,250
	Taiwan*	30.91	-	32.3	=	30.7
	India	81.44	=	83.2	+	82.8
	Indonesia*	15,732	=	16,000	=	15,600
	Malaysia*	4.448	-	4.75	=	4.40
	Philippines*	56.56	=	58.5	=	58.6
	Singapore*	1.370	=	1.38	=	1.33
	Thailand*	35.27	=	35.50	+	33.50

Note: + Positve / = Neutral / - Negative

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