INVESTMENT NAVIGATOR

ASIA EDITION

AUGUST 2020

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BNP PARIBAS
WEALTH MANAGEMENT

The bank for a changing world

CONTENTS

FOCUS OF THE MONTH

Are Equity Markets Overvalued?

HIGHLIGHTS

- The MSCI AC World Index is only 2% below the February peak. With expectations of COVID vaccines in coming months, we may not see a meaningful correction in equity market until this good news is realized.
- A tech bubble *déjà vu*? The robust fundamentals explain US mega-cap tech stocks' superior returns and higher multiples. With growing evidence on COVID vaccine development and the rebound in economic activity, we could see a rotation from the expensive growth stocks to value stocks.
- Vaccine development, robust liquidity and improving earnings are the positive catalysts for the equity market. However, COVID, US elections, geopolitical tensions remain the key risks We continue to recommend a "barbell" strategy.

Global equities are only a tad below the February record high

The MSCI AC World Index is currently merely 2% below the peak reached in February this year before the Covid-19 crisis. There was a consolidation in June but it continued its rally in July. Many investors have started to worry about whether valuations have become stretched and stock markets are vulnerable. Here we try to address some frequently asked questions regarding the stock markets.

Potential upside surprise from the vaccine development?

Out of over 250 vaccine candidates globally, 25 of them have entered human clinical trials and 5 of them with promising results in Phase I and II trials have announced timelines for potential emergency use from September to December this year, according to a research report from McKinsey. **Experts agreed that COVID-19 vaccines is likely to be available for use in specific populations between 4Q 2020 and 1Q 2021.** Thanks to unprecedented access to funding and more advanced technology platforms, the robust vaccine pipeline reveals accelerated development efforts (historically it took at least 4 years to develop a vaccine). Historical attrition rates would also suggest that such a pipeline could yield more than 7 approved products in the next few years. Vaccine manufacturers have announced cumulative capacity that could produce as many as 1 billion doses by end-2020 and 9 billion doses by end-2021 (sufficient for the whole world with 7.8 billion population).

When there are more signs of a potential success in a COVID vaccine, analysts are likely to revise up further their economic growth and corporate earnings forecasts. **With hopes and expectations of COVID vaccines in coming months, equity market could remain resilient and we may not see a meaningful correction until this good news is realized** (i.e. vaccine is successfully developed – "buy the rumors, sell the news").

A tech bubble *déjà vu*?

The Big 5 (Apple, Microsoft, Amazon, Alphabet, Facebook*) in the S&P 500 (by index weighting) gained 58% versus only 1% return for the rest of the S&P 500 over the past 12 months. No doubt stock concentration of the Big 5 has driven up the index's overall forward PE valuation to 22x, almost reaching the peak of 25x in March 2000 before the burst of the tech bubble. Are high valuations justified? Shall we concern about a tech bubble *déjà vu*?

Compared to the top 5 companies during the tech bubble in 2000 (forward PE 47x), the Big 5 today, which are currently trading on 34x, are not overly stretched. Net margin of Big 5 is 18%, higher than the top 5 companies' 11% in 2000. Also, the Big 5 are in net cash position, versus the top 5 companies' 2% net debt-to-EBITDA during the period of tech bubble.

*For illustration only and not represent any investment recommendation.

The Big 5 today in comparison with the rest of S&P 500 are superior in different (trailing 12-month) financial metrics as shown in the table. The gap of sales growth between Big 5 and the broader market is large by historical standards. They also have healthy balance sheets with positive net cash positions (negative net debt-to-EBITDA).

Trailing 12-month (%)	Big 5	S&P 500 ex-Big 5
Sales growth	11.2	0.1
Earnings growth	6.1	-13.1
Net debt-to-EBITDA	-0.6	2.3
Net margins	17.5	10.2

Source: S&P's, Factset, Thomson Financial, Credit Suisse, BNP Paribas WM, as of 1 Aug 2020

For 2Q, earnings per share (EPS) for the Big 5 grew 19% vs -34% for the broad index. The mega caps have shown their capacity to deliver robust earnings growth at a time when the rest of the market is reeling from the negative impact of COVID-19. In terms of return on equity, US tech in general stands close to 30%, which is significantly higher than other regions in the world (23%).

The robust fundamentals explain US mega-cap tech stocks' superior returns and higher multiples. The performance and valuation gap could widen further as they are among the major beneficiaries from a low yield environment with secular growth trend from a number of accelerating themes such as 5G, AI and Cloud usage. Nevertheless, the results of US election could affect their performance, especially a Democratic sweep would see risks of tax increase and technology regulation.

Abundant liquidity supports elevated valuations?

The ultra-loose monetary policy and vast excess liquidity do support higher valuations, but they also need to be justified by good earnings in the longer term. For 2Q's earnings results, US and European companies exceeded consensus EPS forecasts by +22.3% and +7.4% respectively. Hence, 2020 earnings estimates have been adjusted higher in most sectors in the US with forecasts having improved the most in the discretionary and health care sectors. Further opening of economies, continued dovish monetary policy, additional fiscal stimulus and more potential positive newsflows on COVID vaccines could see earnings forecasts for 2020 and 2021 revised up further, and potentially more reasonable PE multiples (with earnings - the denominator of P/E ratio - going up).

Can the stock market momentum sustain after a 48% rally in 5 months? The table shows the 1-month, 3-month, 6-month and 12-month performance of S&P 500 historically after the index had its largest 50-day rally. The results seem to suggest that past big rallies have led to continued strength in the US equity market.

With growing evidence on COVID vaccine development and the rebound in economic activity, we could see a rotation from the expensive growth stocks to value stocks. Value stocks outperformed in 2003 and 2009 during the recovery from their respective recessions. Rotation into value could see the rally to last longer.

S&P 500's largest 50-day rally (> 20%)		Subsequent S&P 500 returns after the 50-day rally			
Date of the end of 50-day rally	50-day change (%)	1-month	3-month	6-month	12-month
6-Mar-75	26.9	-4.0	10.8	3.0	**18.2**
22-Oct-82	35.6	-3.3	3.6	15.6	**20.3**
26-Mar-91	20.8	0.8	-1.5	3.0	**8.7**
24-Jun-97	20.5	4.9	6.2	6.4	**26.4**
18-Dec-98	23.8	4.0	6.2	12.4	**19.4**
19-May-09	34.2	1.1	9.0	22.2	**22.8**
16-Sep-09	21.3	2.6	3.7	9.1	**5.2**
3-Jun-20	39.6	0.2	?	?	**?**
	Average	0.8	5.4	10.2	**17.3**
	% of positive returns	75.0	85.7	100.0	**100.0**

Source: LPL Research, Factset, BNP Paribas WM, as of 31 July 2020

To conclude, vaccine development, robust liquidity and improving earnings are the positive catalysts for the equity market. However, at the same time, COVID, US elections, geopolitical tensions remain the key risks that investors can't simply ignore. Hence, we continue to recommend a "barbell" strategy – to stay invested with exposure to risk assets and buy on dips on one hand, and to hedge with defensive strategies such as gold, dividend stocks and quality corporate bonds on the other hand.

KEY ECONOMIC VIEWS

		GDP (YoY%)			CPI (YoY%)		
		2019	2020f	2021f	2019	2020f	2021f
Developed	US	2.3	-4.9	4.8	1.8	0.8	1.5
	Japan	0.7	-4.8	2.1	0.5	-0.3	-0.7
	Eurozone	1.2	-9.0	5.8	1.2	0.1	0.9
	UK	1.4	-9.1	5.3	1.8	0.8	1.3
	Developing Asia*	4.0	-3.8	7.4	3.4	1.5	2.5
North Asia	China	6.1	2.5	8.1	2.9	2.5	2.3
	Hong Kong*	-1.2	-4.8	3.9	2.9	2.0	2.5
	South Korea	2.0	-1.3	2.7	0.4	0.1	1.0
	Taiwan*	2.7	-4.0	3.5	0.5	0.5	1.5
South Asia	India	4.2	-4.7	9.5	4.8	2.5	3.5
	Indonesia	5.0	-1.0	5.4	2.7	1.5	2.0
	Malaysia	4.3	-3.0	6.0	0.7	-1.5	0.0
	Philippines*	5.7	0.6	7.6	2.5	1.7	2.9
	Singapore*	0.5	-3.5	3.0	0.6	-0.2	0.5
	Thailand	2.4	-9.0	5.3	0.7	-2.0	0.0

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 31 July 2020
* IMF data and forecasts as of 31 July 2020

Growth

- We have upgraded the 2020 GDP growth forecast for the US to -4.9% from -6.6%, reflecting the recent better-than-expected data. We cut growth forecasts for India and several Southeast Asian countries due to wider spread of Covid-19. For China, we continue to forecast 2.5% growth for this year.
- In Europe, the deal reached on the EU recovery fund represents a decisive step forward in the EU policy framework and means both monetary and fiscal policy are providing a tailwind to the economic recovery.

Inflation

- Our inflation forecasts have been revised down in general. **We continue to expect a gradual economic recovery as policy measures take effect**. Our base case is still for a 2H recovery for majority of the economies. Thus, we expect demand to return and inflation to pick up in the second half of the year and into 2021. Nonetheless, inflation will likely still remain weak for the whole 2020 given the drastic drop in demand due to the pandemic.
- For the US, we expect inflation to be 0.8% for 2020 before rebounding back to 1.5% for 2021, while for Japan, we expect deflation for both years (-0.3% for 2020 and -0.7 for 2021).

GLOBAL: POSITIVE

	POSITIVE	NEUTRAL	NEGATIVE
COUNTRY	US Eurozone EM	Japan UK	-
SECTOR	Healthcare Energy Materials	Communications Consumer Discret. Technology Utilities Real Estate Financials Industrials	Consumer Staples

ASIA: POSITIVE

	POSITIVE	NEUTRAL	NEGATIVE
COUNTRY	China Taiwan Singapore South Korea India	Thailand Malaysia Philippines Indonesia	-
SECTOR	Real Estates Communication Healthcare Technology Energy	Utilities Industrials Consumer Discret. Consumer Staples Materials	Financials

- Global equities have risen 48% since their March low, bringing them just 2% away from their February record high. EM/Asian equities outperformed in July, thanks to the USD weakness. **Valuations, in particular for US markets, are elevated but are supported by high level of excess liquidity and better-than-expected earnings results.**
- For 2Q's earnings results, US and European companies exceeded consensus EPS forecasts by +22.3% and +7.4% respectively. Hence, 2020 earnings estimates have been adjusted higher in most sectors in the US with forecasts having improved the most in the discretionary and health care sectors.
- Vaccine development, robust liquidity and improving earnings are the positive catalysts for the equity market. However, we expect volatility to increase over coming months due to concerns over key risk such as COVID, the US presidential election and geopolitical threats.

		1-month (%)	YTD (%)	2019 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2020f	EPS Growth (%) 2020f	EPS Growth (%) 2021f	ROE (%) 2020f
Developed	US	5.8	2.5	29.1	22.7	3.7	2.2	-18.2	26.0	15.2
	Japan	-3.6	-12.1	16.0	17.7	1.3	2.5	-29.3	-3.2	4.9
	Eurozone	-1.6	-14.8	22.4	18.0	1.5	2.7	-35.0	46.1	4.4
	UK	-4.7	-22.9	10.8	15.2	1.4	4.8	-36.6	32.6	2.7
	Asia Ex-Japan	8.0	1.8	15.4	15.6	1.7	2.7	-1.8	24.9	10.6
North Asia	China	8.7	11.4	20.6	14.8	2.0	2.6	1.4	19.7	10.6
	Hong Kong	-0.8	-12.7	6.6	15.2	1.1	3.5	-19.6	27.9	7.4
	South Korea	6.2	2.0	14.4	12.6	1.1	2.2	16.6	43.4	8.8
	Taiwan	14.1	9.5	28.3	18.0	2.2	3.1	8.2	14.9	14.6
South Asia	India	9.1	-4.7	8.5	23.9	3.0	1.4	-11.3	41.1	10.1
	Indonesia	6.6	-19.7	3.0	16.5	2.1	3.8	-24.2	29.0	12.1
	Malaysia	7.1	0.5	-6.1	18.9	1.6	3.2	-19.2	26.8	6.7
	Philippines	-4.2	-24.3	5.2	15.3	1.6	1.8	-24.3	29.9	7.2
	Singapore	-1.9	-21.7	8.5	14.0	1.0	4.9	-24.5	19.2	6.9
	Thailand	-2.0	-18.8	-1.9	18.7	1.7	3.5	-31.4	27.3	6.1

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas Wealth Management, as of 31 July 2020

GLOBAL BOND: NEGATIVE

POSITIVE	NEUTRAL	NEGATIVE
Short-term UST Invest. Grade EMD (LC)	High Yield EMD (HC)	Long-term UST German govies

ASIA (USD) CREDIT: NEUTRAL

POSITIVE	NEUTRAL	NEGATIVE
Hong Kong Singapore	India Philippines South Korea Indonesia China	-

		Total Return (%)			Yield-to-Worst (%)
		1-Month	YTD	2019	
Asia	Asia USD Bond	2.1	5.5	11.0	2.7
	Asia Local Currency Bond	1.5	2.2	12.1	2.6
	China	1.8	5.2	10.3	3.1
	Hong Kong	1.5	5.5	8.9	2.5
	India	1.8	0.9	12.0	4.1
	Indonesia	4.6	7.1	18.2	2.9
	Singapore	1.7	5.0	10.1	2.0
	South Korea	0.9	5.6	7.7	1.3
	Philippines	3.7	6.6	14.4	2.2
Other Regions	US 10-year Treasuries	0.6	9.7	6.3	0.5
	US Investment Grades (IG)	1.4	7.7	8.7	1.1
	US High Yield (HY)	4.5	0.5	14.3	5.4
	Emerging Market USD Bond	2.3	4.7	11.5	3.6

Source: Barclays indices, Bloomberg, BNP Paribas Wealth Management as of 31 July 2020

- The Fed's July meeting seems to pave way for the potential changes in the September meeting. We expect to see their shift to average inflation targeting, which would allow for higher than 2% inflation (overshoot) for a period of time to compensate for past misses (undershoot). They are also likely to change forward guidance from forecast-based (inflation forecasts) to outcome-based (realized inflation). All this would imply that the Fed would be committed to refrain from raising rates until realized average inflation is at target.

- Credit market in general did well in July with US high yield, Asia and EM USD bonds outperforming. **We keep our positive stance on Hong Kong and Singapore credit.** For China credit, valuations are not cheap, but liquidity is abundant and supply is manageable. As fundamentals have weakened, we would advocate to be selective and to stick with short to medium duration from quality names and laggards for Chinese High Yield property.

- The commitment of the Fed to keep rates low and the weakness in USD are both beneficial for the EM/Asia asset classes. Despite positive medium-term outlook amid continued economic recovery, we prefer to stay neutral on EM HC bonds as some consolidation may be expected in the short-term after the strong rebound.

12-MONTH FOREX VIEW

POSITIVE		NEUTRAL			NEGATIVE
GBP	CNH	USD	JPY	EUR	
KRW	IDR	AUD	CAD	HKD	
		TWD	INR	MYR	
		PHP	SGD	THB	

FOREX FORECASTS

		Spot	3-month		12-month	
		As of 31 Jul 2020	View	Target	View	Target
Developed	USD Index	93.35	+	96.1	=	94.5
	Japan	105.7	=	106	=	106
	Eurozone	1.183	-	1.14	=	1.16
	UK	1.313	=	1.27	+	1.32
	Australia	0.717	-	0.68	=	0.71
	Canada	1.340	=	1.36	=	1.34
Asia Ex-Japan	China	6.980	=	7.00	+	6.80
	Hong Kong*	7.750	=	7.75	=	7.75
	South Korea	1,191.4	=	1,200	+	1,170
	Taiwan*	29.29	=	29.5	=	28.2
	India	74.81	=	75.0	=	75.0
	Indonesia*	14,600	=	14,500	+	13,700
	Malaysia	4.240	=	4.28	=	4.25
	Philippines*	49.14	=	49.8	=	49.2
	Singapore	1.371	=	1.39	=	1.37
	Thailand*	31.18	=	30.40	=	30.10

Source: BNP Paribas Wealth Management as of 31 July 2020
*BNP Paribas Global Markets forecast as of 31 July 2020

Note: + Positve / = Neutral / - Negative

USD

- The broad dollar index (DXY) fell significantly from 97 to 93 in July, due to a spike of infections cases in the US and the European agreement on the Recovery Fund (EUR accounts for 57% of the USD Index). We expect the USD Index to see some consolidation in the short term before resuming its downward trend.

EUR

- The past month was supportive for the euro with EURUSD rising to 1.19. Macro releases confirmed the resumption in activity and the better consumer sentiment. More importantly, the breakthrough on the European joint fiscal action strongly supported the euro which broke our 12-month target of 1.17. However, the recent appreciation of the euro seems overdone in the near term. The technical indicators also suggest an overbought situation for the euro. We expect a temporary consolidation in the short term.

COMMODITIES

POSITIVE	NEUTRAL	NEGATIVE
Gold **Oil** **Base metal**	-	-

EXPECTED RANGE

Oil	**USD 45 – 55**
Gold	▲ **USD 1900 - 2100**

ALTERNATIVES

POSITIVE	NEUTRAL	NEGATIVE
Global Macro **Long/short equity** **Relative-value**	**REITs** **Event Driven**	

COMMODITIES

GOLD

- Gold surged to the fresh record high of $2071 in early August and then later dropped to the low of $1867. **After gold hitting our upper target of $2050, we have raised the target range to USD 1900 – 2100. We remain positive on gold, and any pullbacks are buying opportunities.** The current ultra-accommodative monetary policy is expected to last for a while, and real bond yields should remain negative or very low for longer. Massive quantitative easing is also scaring some investors, increasing the attractiveness of gold as a hedge.

OIL

- Oil prices have stabilized as lockdown measures and travel restrictions worldwide are slowly being lifted. Supply side is also looking better with lower US inventories and efforts by OPEC+ to continue its production cut. **The combination of a rebound in global demand and a fall in supply should help the price of Brent recover towards $45-55/b in the second half of 2020.**

ALTERNATIVES

LONG-SHORT EQUITIES

- **We are positive on long-short equities.** The indiscriminate sell-off gave managers a chance to buy high quality businesses at a discount, with strong recovery potential. The crisis will no doubt create survivors and losers, offering attractive long/short opportunities for fundamental stock pickers. Short restrictions in continental Europe have been lifted. We remain cautious on quantitative market neutral managers, as they are less likely to correctly adapt to the new post crisis market paradigm, even if a lot of assets have now left those strategies.

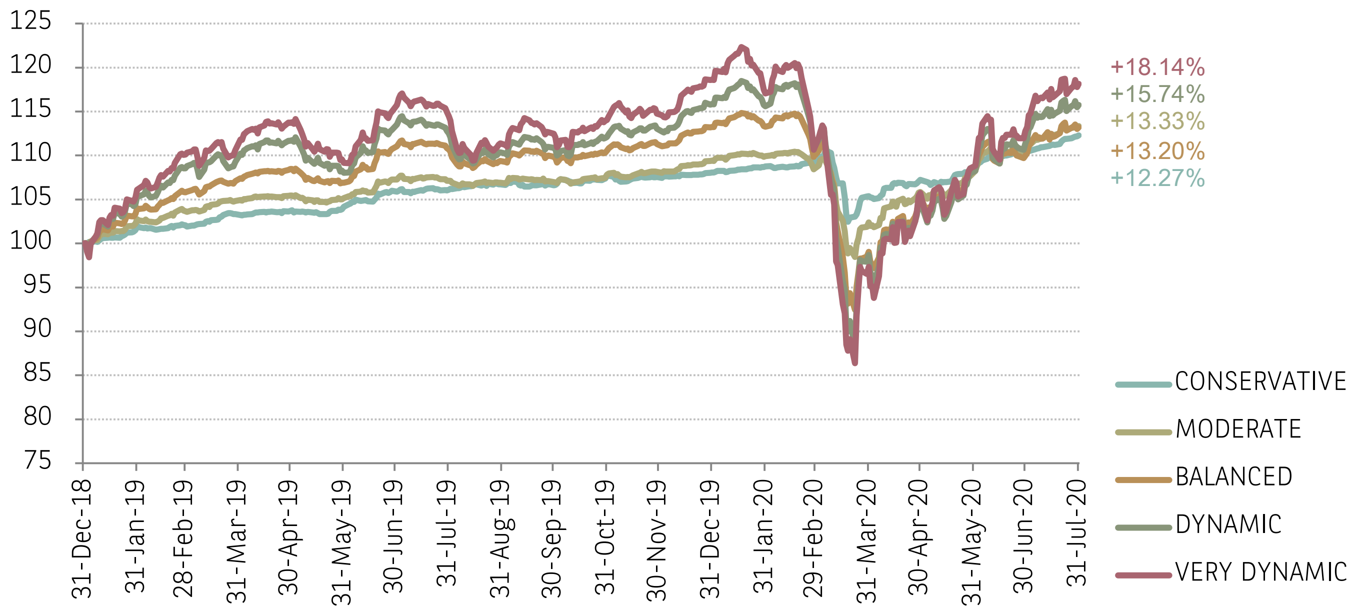
GLOBAL MACRO

- **We are positive on macro managers.** After Central Banks and governments have injected the most liquidity ever in exchange for hugely increased debt, FX and fixed income markets are bound to offer trading opportunities. Increasing deglobalization and differentiated country fiscal policy should offer more relative value opportunities. CTAs have a role to play in portfolios, as tail hedge in case of a lasting bear market. But they are also subject to reversals in the current fast changing environment.

Source: BNP Paribas Wealth Management as of 14 August 2020

- BNP Paribas Portfolio Optimizer is an internally developed methodology used by the Bank to advise clients.
- The underlying technology is built on the arbitrage pricing theory. Our model supposes that economic and financial factors (i.e. unanticipated rate of inflation, changes in risk premiums, P/E ratios, etc.) can help explain changes in risks and expected returns associated with financial assets, and can provide an estimation of assets' theoretical fair prices.
- BNP Paribas Portfolio Optimizer methodology will first apply our strategic asset allocation views and secondly identify proposed investments within the Bank's investment universe which is a larger universe than instruments shown in this document. The objective of this two-step approach is to propose a portfolio in line with a targeted value at risk. It considers both historical data and the Bank's forecasts.
- We regularly monitor and update a set of financial instruments, which covers most asset classes. Those instruments are regrouped within the Bank's investment universe which is regularly updated corresponding to our tactical and the strategic views on major financial assets.
- The proposed portfolio, obtained using the BNP Paribas Portfolio Optimizer methodology, is the portfolio which is aligned with our market views in accordance with a specific investment profile. More concretely, the proposed portfolio takes into account the Bank's investment universe instruments, and combining historical risk data and combines risk correlations between instruments to provide a proposed portfolio that meets a target risk metric, therefore targeting maximum potential diversification. The risk metric of the proposed portfolio falls within a certain value at risk range, which is set based on a specific investment profile. This risk metric range depends on market conditions (i.e. it is not fixed), and is revised from time to time by the Bank when necessary.

SIMULATED PERFORMANCE
OF OPTIMISED MODEL PORTFOLIOS
per risk profile



Source: BNP Paribas, as of 4 August 2020
Optimised Model Portfolio simulated returns are in USD terms, including dividends, coupons, and currency impact, rebalanced at end of each month.

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Our priority is to help you realise your investment goals through long-term compounding of returns

RISK CONTROL IS PART OF OUR DNA

Our marketing materials provides a summary of key risks - we will go through it together and answer any questions you may have so that you fully understand the risk profile of your mandate

Our risk control processes are clearly defined and scrupulously applied, and we adhere to prudent investment management rules

YOUR INVESTMENT PARTNER

Our team of experienced portfolio managers has an average investment experience of ~18 years, with extensive experience in Global and Asia investing.

We work tirelessly managing your investment portfolio, following clearly defined investment philosophies and processes that cover asset allocation and instrument selection

INVEST WITH US FOR PEACE OF MIND

DPM is transparent: you can see all underlying instruments and every transaction

We can keep you updated with regular discussions and detailed reports on your mandate

WHAT ARE OUR KEY STRENGTHS?

KEY STRENGTH: MANAGEMENT OF TAILOR-MADE MANDATES CATERED FOR KEY CLIENTS

- >50% of our Assets under Management (AuM) are in Tailor-Made mandates
- We have a strong niche in the institutional arena - Almost 20% of DPM's AUM are from charitable endowments, charitable societies, religious organisations, country clubs, cooperative societies and clan associations

GLOBAL CAPABILITY WITH DEEP LOCAL EXPERTISE

- While we are part of the global investment capability, the local portfolio team is empowered with full ownership of their portfolios.
- The investment team is focused on pursuing high quality investment performance, and it compares very favorably against the most highly respected fund managers.

THE EXPERTISE OF THE DISCRETIONARY PORTOFLIO MANAGEMENT TEAM
COULD HELP YOU REALISE YOUR INVESTMENT OBJECTIVES

Source: BNP Paribas

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