



# Investment Navigator

## Asia Edition

### Reflation vs Tantrum

#### Summary

- The rapid surge in US yields in late February unnerved financial markets, triggering a long overdue correction in risk assets.
- This was more a “taperless tantrum”, as there is little evidence to suggest that any central bank will be tapering any time soon.
- Rising real yields is evidence that global reflation and recovery are gaining more traction, which historically tends to be positive for risk assets. We particularly favour cyclicals and financials, and expect a commodity bull market in 2021

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#### A Tantrum Without Tapering

The rapid surge in US yields during late February saw the US 10-year Treasury yield rising above 1.5%. This unnerved financial markets, and in the process triggered a long overdue correction in risk assets. This is reminiscence of the “2013 taper tantrum”, where the prospect of the Fed winding down its bond purchase program nearly doubled the 10-year US Treasury yields over a period of 4 months while stock markets tumbled.

Nevertheless, we believe what happened in stock markets recently was more a “tiny tantrum”, as central banks does not seem to be tapering any time soon. In fact, what concerned the market was not the rise in nominal yields, but rather the potential disorderly rise in real yields, as breakeven inflation rates (inflation expectations) stabilized in recent weeks.

#### Is Rising Real Yields Worrying?

History suggests that an orderly rise in real and nominal yields, as well as inflation expectations tend to be positive for risk assets, as long as the rise is accompanied by strong nominal GDP growth i.e. “yield rises for a good reason”.

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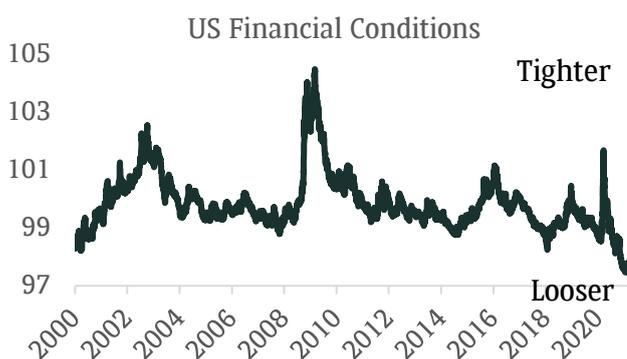
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However, market tends to risk-off when the rise in real yields is so rapid that it tightens financial conditions.

As shown from the chart below, US financial conditions remain loose at present. We believe that the Fed will not stand by and allow 10-year Treasury yields to rise too far. We also do not expect the Fed will reduce the pace of its monthly purchases this year.

**US FINANCIAL CONDITIONS REMAIN EASY**

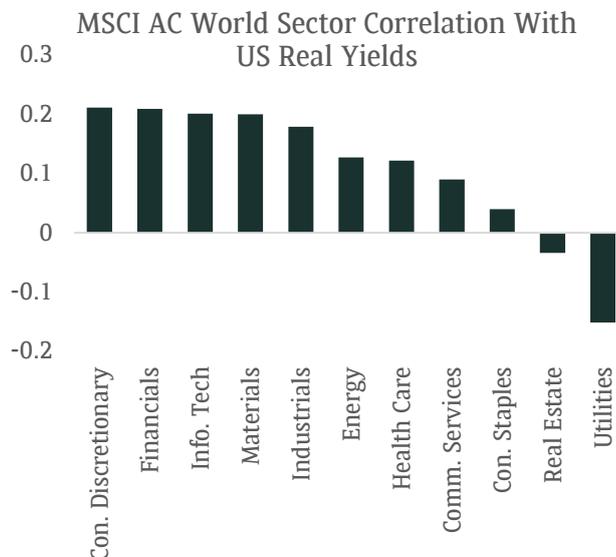


Source: Our World In Data, BNP Paribas (WM), 3 Mar 2021  
For illustration only and may subject to change.

**Potential Winners**

Despite the recent corrections, there are still some signs of complacency in the markets, in particular growth stocks (tech and healthcare sectors) with tight valuations, which deserve some short-term caution. On the contrary, cyclicals and financials (with still very reasonable PE multiples) have historically shown positive correlation with rising US Treasury 10-year real yields, and we continue to favour them.

**SECTORS CORRELATION TO RISING US TREASURY 10-YEAR REAL YIELDS**



Source: Datastream, BNP Paribas (WM), 3 Mar 2021.  
Note: Past 10-year data; real yield is 10Y UST minus core CPI. Past performance is not indicative of current or future performance

**A New Commodity Supercycle?**

Economic recovery and the global green agenda will contribute to a significant increase in commodity demand this year. Coupled with the reflation story, where commodities are a good inflation hedge, we are positive on commodities. Longer-term, this will be a very different commodity super cycle compared to the last, particularly in selected essential commodities related to green agendas. Greener for Longer!

We also maintain our positive stance on gold (target range \$1800-2000) as we expect central banks to likely prevent long-term yields from rising too high too fast.

### RIISING COMMODITY DEMAND FOR ELECTRIC VEHICLES AND ENERGY TRANSITION

	Wind	Solar Photovoltaic	Concentrating Solar Power	Carbon Capture and Storage	Nuclear Power	Light-Emitting Diodes	Electric Vehicles	Energy Storage	Electric Motors
Aluminum	X	X	X	X		X		X	X
Chromium	X			X	X	X			
Cobalt				X	X		X	X	
Copper	X	X		X	X	X	X		X
Indium		X			X	X	X		
Iron (Cast)	X		X			X		X	
Iron (Magnet)	X								X
Lead	X	X			X	X			
Lithium							X	X	
Manganese	X			X			X	X	
Molybdenum	X	X		X	X	X			
Neodymium	X						X		
Nickel	X	X		X	X	X	X	X	
Silver		X	X		X	X	X		
Steel (Engineering)	X								
Zinc		X				X			

Source: World Bank  
Past performance is not indicative of current or future performance

## CONCLUSION

The recent surge in US (real) yields is not a “taper tantrum 2.0”. Fed Chair Powell reiterated recently in his testimony that the Fed will remain accommodative and continue its current pace of balance sheet expansion. The rise in real yields is an evident of global deflation and recovery gaining more traction, which historically tends to be positive for risk assets. We particularly favour cyclicals and financials. We also believe the Year of Ox is a bull market for commodities.

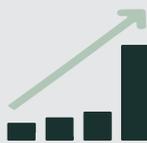


## GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2020	2021f	2022f	2020	2021f	2022f
	Global	-4.0	5.6	4.0	-	-	-
Developed	US	-3.5	4.2	4.1	1.2	1.9	1.9
	Japan	-5.3	1.1	3.0	0.0	-0.4	-0.3
	Eurozone	-6.8	3.8	5.5	0.2	0.8	1.3
	UK	-9.9	4.0	8.6	0.9	1.5	2.1
	Developing Asia	-7.7	8.7	4.5	3.6	2.8	2.8
North Asia	China	3.0	9.5	5.3	2.9	2.3	2.8
	Hong Kong*	-7.5	3.7	3.4	0.3	2.4	2.5
	South Korea	-1.0	3.1	2.9	0.6	1.1	1.2
	Taiwan*	0.0	3.2	2.1	-0.1	1.0	1.2
South Asia	India	-11.4	11.6	5.0	4.9	4.3	3.8
	Indonesia	-2.0	5.8	4.5	1.9	1.7	2.0
	Malaysia	-5.0	7.5	3.9	-1.2	-0.3	1.0
	Philippines*	-8.3	7.4	6.4	2.4	3.0	3.0
	Singapore*	-6.0	5.0	2.6	-0.4	0.3	1.1
	Thailand	-6.6	4.2	3.7	-1.3	-0.7	0.5

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 28 February 2021

\* IMF data and forecasts as of 28 February 2021



### GROWTH

- The vaccines distribution is accelerating, and death rate is falling as more vulnerable patients will get vaccinated in the next few months. New strains continue to remain a threat.
- GDP growth may be flat over Q1, although we expect a sharp acceleration of economic activity from the second semester 2021 onwards as we get closer to herd immunity.



### INFLATION

- Our inflation forecasts remain broadly unchanged for 2020 and 2021, as inflationary pressures should remain generally weak over 2021-22 across both advanced and emerging economies.
- Inflation should rise very gradually to levels consistent with central banks' targets, and we see little reason for both Fed & ECB to change their accommodative policy stance.



## Equity

 POSITIVE
  NEUTRAL
  NEGATIVE

## OVERALL GLOBAL: POSITIVE



## COUNTRY

Eurozone  
Emerging Mkt  
Japan  
UK

US

-

## SECTOR

Materials  
Industrials  
Real Estate  
Financials

▲

▼

Consu. Discre.  
Healthcare  
Technology  
Energy  
Communications  
(Comms)

Consumer  
Staples  
(Consu. Sta.)  
Utilities

▼

## OVERALL ASIA: POSITIVE



## COUNTRY

China, Taiwan  
Singapore  
South Korea  
India, Indonesia

Thailand  
Malaysia  
Philippines

-

## SECTOR

Materials  
Industrials  
Consu. Discre.  
Real Estate

▲

▼

Comms  
Consu. Sta.  
Healthcare  
Energy  
Technology

▼

Financials  
Utilities

- **February saw a major correction in the stock market.** Investors' concerns over valuations and inflation grew as treasury yields soared over expectations of a strong economic recovery and further stimulus.
- **Rising bond yields should not phase equities:** As long as rising bond yields are accompanied by strong nominal growth, the strong growth wins out and equities gain.
- **Upgrading Banks, downgrading Utilities:** The steeper yield curve and the prospect of the return of dividends boost Banks, while Utilities suffer from their high bond sensitivity.
- **Upgrading Asian Consumer Discretionary & Real Estates:** Real estates are one of the still undervalued re-opening play especially on the retail side, while dividend yield is getting more attractive.

		1-month (%)	YTD (%)	2020 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2021f	EPS Growth (%) 2021f	EPS Growth (%) 2022f	ROE (%) 2021f
Developed	US	2.5	1.4	19.2	22.9	4.4	1.9	22.7	14.3	34.1
	Japan	3.3	3.7	6.6	18.6	1.6	1.8	-1.6	36.4	6.2
	Eurozone	3.5	2.1	-2.7	17.6	1.8	2.3	39.1	18.3	7.1
	UK	1.3	0.6	-16.1	14.1	1.7	3.7	47.4	13.6	6.4
	Asia Ex-Japan	1.2	5.3	22.5	17.9	2.2	2.1	26.6	16.8	10.4
North Asia	China	-0.9	6.2	25.9	18.3	2.6	1.8	16.9	17.3	10.1
	Hong Kong	4.7	6.8	2.1	18.1	1.4	2.5	34.2	9.7	8.8
	South Korea	0.6	4.2	34.0	14.5	1.4	2.2	51.1	22.8	12.2
	Taiwan	4.0	10.4	28.6	18.8	2.9	2.4	16.5	12.2	17.0
South Asia	India	5.9	3.2	16.8	23.3	3.6	1.2	33.3	18.1	9.8
	Indonesia	3.0	0.0	-9.5	16.7	2.5	3.0	31.1	20.8	14.5
	Malaysia	0.2	-3.5	-1.7	14.2	1.6	3.0	70.0	-7.3	11.3
	Philippines	2.8	-5.3	-9.7	18.0	1.8	1.6	43.7	23.1	8.5
	Singapore	2.8	4.1	-12.8	14.4	1.2	3.6	46.1	17.0	6.6
	Thailand	2.3	2.2	-13.9	19.1	1.8	2.6	37.9	20.5	8.4

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 28 February 2021



## Fixed Income

 POSITIVE
  NEUTRAL
  NEGATIVE

OVERALL GLOBAL: NEGATIVE

OVERALL ASIA (USD): NEUTRAL


 Short-term UST  
 Invest. Grade  
 EMD (LC)  
 EMD (HC)

High Yield

 Long-term UST  
 German govies

 Hong Kong  
 Singapore

 India  
 Philippines  
 South Korea  
 Indonesia  
 China

-

		Total Return (%)			Yield-to-Worst (%)
		1-Month	2020	2019	
Asia	Asia USD Bond	-0.7	6.3	7.3	2.6
	Asia Local Currency Bond	-2.9	4.7	9.2	3.1
	China	-0.1	5.9	6.1	3.1
	Hong Kong	-0.4	7.6	8.0	2.2
	India	0.4	7.5	6.7	3.2
	Indonesia	-2.9	6.3	9.8	2.8
	Singapore	-0.8	5.9	6.9	1.9
	South Korea	-0.7	6.4	6.9	1.1
	Philippines	-2.2	4.7	7.4	2.4
Other Regions	US 10-year Treasuries	-2.3	5.3	8.7	1.4
	US Investment Grades (IG)	-1.4	5.2	7.5	1.4
	US High Yield (HY)	0.4	7.9	7.1	4.3
	Emerging Market USD Bond	-0.6	6.1	6.8	3.3

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 28 February 2021

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	0.25	0.50	1.40	1.90

- We believe the sharp rise in risk-free rates will lose some steam. We also believe it is unlikely that the Fed will implement an explicit control of the yield curve or reduce the pace of its monthly purchases this year.
- Positive on US Investment Grade (IG) and fallen angels corporate bonds: IG bonds should see higher relative demand due to low expected issuances and support from easy monetary conditions. We remain neutral for High Yield (HY) bonds and prefer fallen angels, given the more attractive risk profile despite tight valuations
- Remain positive on Asia/EM hard and local currency bonds: EM bonds benefit from a positive global backdrop with ample USD liquidity and better growth prospects. We stay positive on EM bonds, assuming US real yields will not rise too fast too high.
- We are turning more "cautious" on selective small Chinese property developers (most of them not under our coverage) as onshore liquidity is tighter.



## Forex &amp; Commodities

 POSITIVE
  NEUTRAL
  NEGATIVE

## 12-MONTH FOREX VIEW



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

## COMMODITIES

Gold,  
Base metal

▼ Oil

-

As expected, the gains made by the **USD earlier this year were short-lived as most currencies have rallied in February**. Most recently, rising US inflation and optimism around the US stimulus package have sustained the rise in US treasury yields. Nevertheless, **the Fed is expected to keep short-term yields low for a long time and that should be a negative factor for the dollar**. We continue to expect the Fed to keep its policy rate unchanged through 2023 and to maintain the current pace of asset purchases through 2022, with no warning of tapering before 2022.

**GOLD:** Higher US bond yields and rotation into risky assets on the back of repricing global growth explain gold underperformance so far. We believe real yields will remain negative for a some period. **Together with inflation fears and USD weakness, we expect gold to trade in the \$1800-2000 range in the next 12 months.**

**OIL:** Brent price reached levels before the Covid-19 pandemic, boosted by a strong OPEC+ supply discipline and rising demand. **We turn neutral on oil in the short term, but remain positive on the medium term.** Excess capacities are huge and should come back progressively on the market. **We expect Brent to trade in the \$55-65 range in 2021 and higher after.**

## Forex Forecasts

	Spot As of 28 Feb 2021	3-month		12-month		
		View	Target	View	Target	
Developed	USD Index*	90.88	=	91.1	-	87.8
	Japan	106.5	+	104	+	102
	Eurozone	1.214	=	1.20	+	1.25
	UK	1.398	-	1.36	+	1.45
	Australia	0.774	-	0.76	+	0.80
	New Zealand	0.735	-	0.72	+	0.75
	Canada	1.266	=	1.27	+	1.25
Asia Ex-Japan	China	6.460	=	6.50	=	6.40
	Hong Kong*	7.757	=	7.75	=	7.75
	South Korea*	1,124	=	1,085	+	1,065
	Taiwan*	27.85	=	28.2	=	27.7
	India	73.49	-	75.0	-	75.0
	Indonesia*	14,240	=	13,800	=	13,800
	Malaysia*	4.048	=	3.98	+	3.87
	Philippines*	48.52	=	47.4	=	47.5
	Singapore*	1.330	=	1.30	+	1.27
Thailand*	30.14	=	30.60	=	30.30	

Source: BNP Paribas (WM) as of 28 February 2021

\*BNP Paribas Global Markets forecast as of 28 February 2021

Note: + Positive / = Neutral / - Negative


**BNP PARIBAS**  
 WEALTH MANAGEMENT

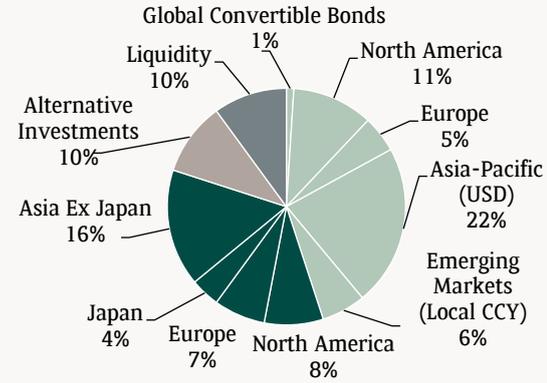
 The bank  
 for a changing  
 world

## Strategic & Tactical Asset Allocation

OUR TACTICAL ASSET ALLOCATION IS BASED ON OUR CIO'S ASSET ALLOCATION VIEWS.

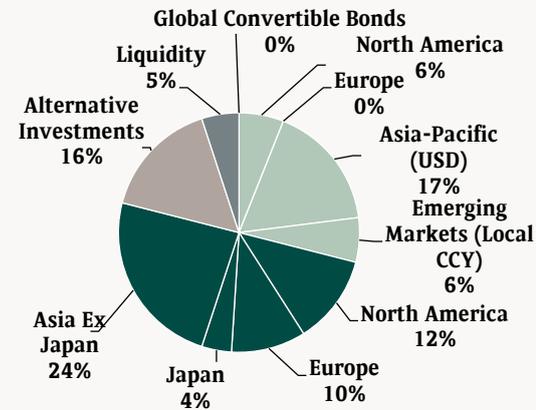
### INVESTMENT PROFILE: BALANCED

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	50%	-5%	45%
EQUITIES	30%	+5%	35%
ALTERNATIVES	10%	-	10%
LIQUIDITY	10%	-	10%



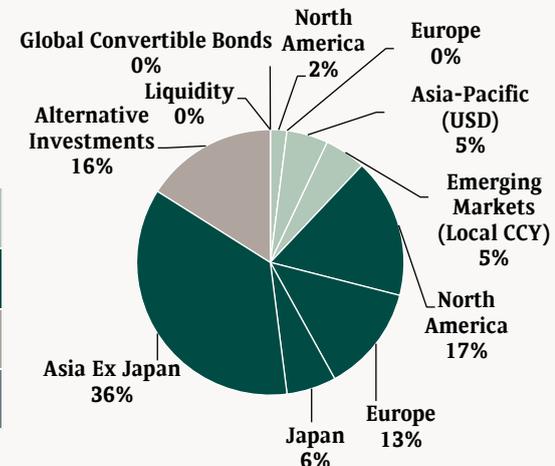
### INVESTMENT PROFILE: DYNAMIC

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	35%	-6%	29%
EQUITIES	45%	+5%	50%
ALTERNATIVES	15%	+1%	16%
LIQUIDITY	5%	-	5%



### INVESTMENT PROFILE: VERY DYNAMIC

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	20%	-8%	12%
EQUITIES	65%	+7%	72%
ALTERNATIVES	15%	+1%	16%
LIQUIDITY	0%	-	0%



Source: MyAdvisory, as of 4 March 2021

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