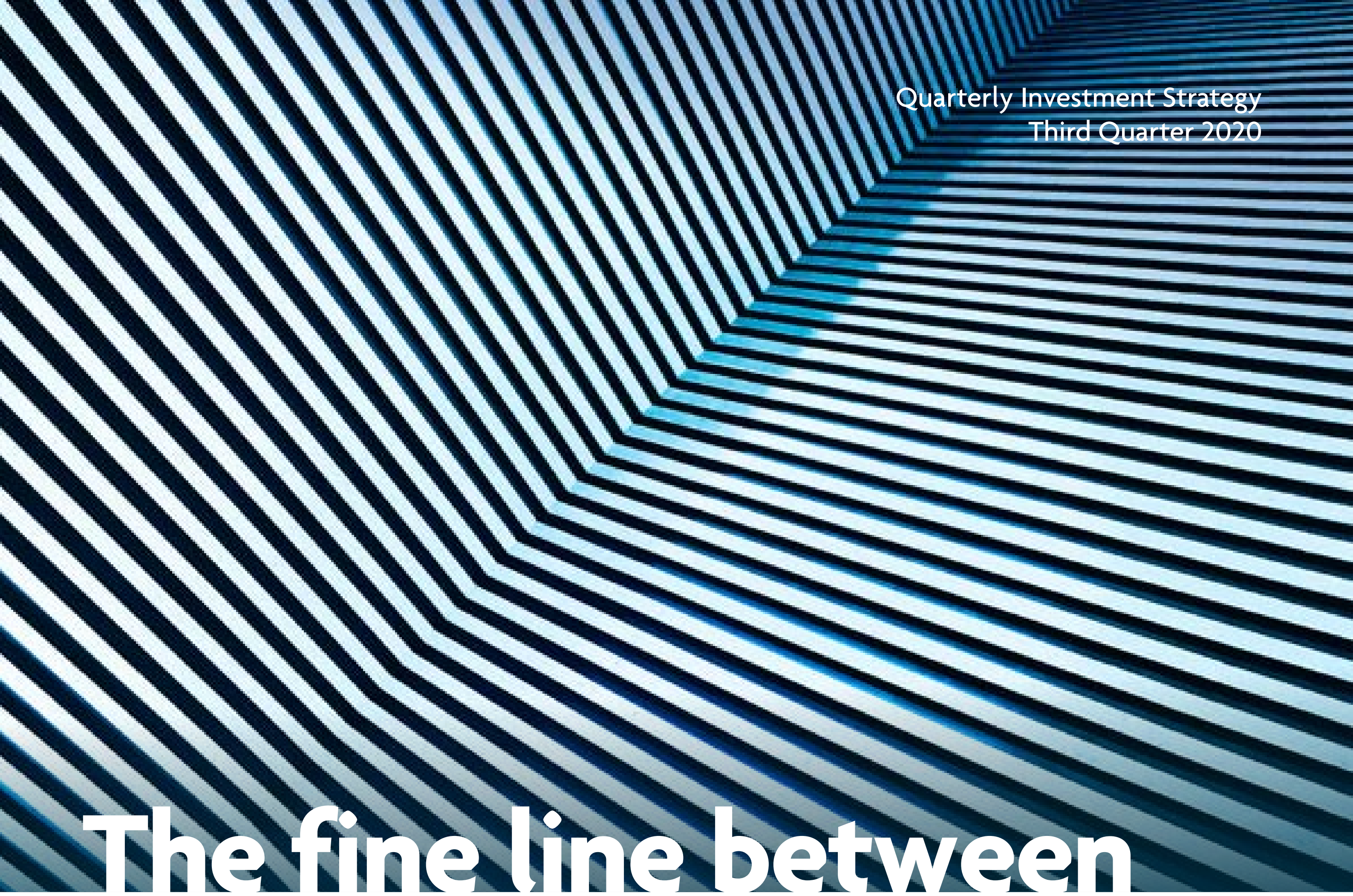

Quarterly Investment Strategy
Third Quarter 2020

The fine line between resilience and delusion

UOB Asset Management

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Investment Strategy

There is a fine line between resilience and delusion. Over the past quarter, global economic activities have plummeted to levels never experienced in any of our lifetime in the wake of the dislocations brought about by the coronavirus (COVID-19) pandemic. Despite this, global markets have rallied from the lows at the end of the first quarter. We noted in our 2Q20 strategy report that the decline from the US market peak to a -20% bear market was the fastest in history within a 3-week window. But since then, we have also witnessed one of the fastest recovery rallies on record that meets the +20% definition of a bull market. For the first time in history, we had a bear market (March) and a bull market (April) in back-to-back months.

The comeback rally came just as economic data was plunging with no clarity as to how far economic activities would fall. There is now a stunning divergence between global economic and market trajectories. Many global investors have good cause for suspecting that the market movements are nothing short of delusional.

While the past quarter has been unprecedented and challenges our understanding of markets, we believe that most of the movements have been fairly rational. We have stayed neutral weight in equities as we are of the view that the rally while rational has largely run its course. We have a clear preference for investment grade credits in which we see many opportunities over the coming quarter at reasonable levels of risk. We are neutral on commodities and alternatives and underweight in cash.

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Global Asset Allocation

Sector Allocation	View	Notes
Equities	■	**Rationale:** We believe the "delusional" rally in global equities despite the collapse in economic data is more rational than most investors realise. However, global equities are close to pre-crisis levels and there is a cap as to how far equities can continue to rally as the number of risk issues that may trigger a correction remains elevated. **Risks:** Second wave of virus outbreaks; emerging markets destabilised by resurgence of outbreaks; Eurozone instability and amplification of US-China tensions.
Fixed Income	+	**Rationale:** Recent tightening in credit spread was a reflection of rebound in investor confidence and risk appetites. Current bond valuation continued to present an attractive proposition amid the current low interest rate environment. Credit selection remains paramount as corporates struggle with uncertainties amid a challenging period. **Risks:** Inability to contain COVID-19 and potential rekindling of trade frictions may dampen risk appetites in the coming months and next year.
Commodities	■	**Rationale:** Gold and precious metals continue to provide a healthy hedge and remain our preferred safe haven assets even more so than government bonds. Other commodities such as energy and industrial materials are normalising like other risk assets but the economic outlook remains cloudy in the coming months and next year. **Risks:** Travel related activities may be the last to rebound especially if bans and COVID-19 lockdown restrictions are prolonged which will delay recovery in energy and infrastructure related commodities.
Alternatives	■	**Rationale:** Alternatives can offer lower volatility when markets are in turmoil. **Risks:** Extreme market volatility and market movements outside of individual company performance.
Cash	–	**Rationale:** Cash no longer offers any positive returns. As other asset classes stabilise, it is looking less attractive. **Risks:** If any of the risk issues materialise, cash will be back in favour.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

Markets are normalising faster than expected. The divergence between the global economy and markets has never been greater but we think it is more rational than most realise. Our recommendation is to be neutrally weighted in most risk assets that are on the path to recovery but to overweight investment grade credits that offer a better balance between risks and rewards.

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Global Investment Strategy

The fine line between resilience and delusion

Investors around the world have never experienced anything like the COVID-19 crisis. Macro economists and market strategists are being challenged to figure out what are the possible paths to normalisation and economic recovery as well as how asset classes will respond to the new fundamental realities. Years of study in finance and experience are now longer as relevant as no one has seen the likes of this before. Suddenly, investors and analysts are also being challenged to become amateur epidemiologists.

Investors are likely to hear a wide range of opinions. Economists point to expected sharp declines in the global economy; epidemiologists have highlighted their concerns over pandemic trajectories while many market strategists voice their discomfort over valuations. And yet, global markets have gone on a historically strong rally since hitting the lows in late March.

Our view is that all the concerns are right and fair, but there are also rational justifications for the market rally and not necessarily a case of irrational exuberance. The general consensus is that it will take some time to put all the pieces of the global economy together again and that the recovery will likely look "U" shaped. Our view is that while the economic trajectory may be "U" shaped, the market recovery will likely look more "square root" shaped – one that sees a quick rebound, only to be followed by a drawn out period of subpar growth similar to the flat top of a square root sign. This would be in line with typical futures pricing theory in that if markets believe that there will eventually be a recovery (even if it is "U" shaped), they will not wait for that future point to arrive. The rationale is that if the surf is eventually going to be up, let's swim towards it now and be make the early move! Futures pricing models say that the only difference between the future and spot prices lies in the time value of money. Thus as crazy as the markets may seem, the fact is that as long as the markets believe in a recovery, equities will start to climb even before the economic data turn.

> "We believe there is a rationale why the economic recovery will look more "U" shaped while the market recovery will look more "square root" in shape."

Most investors are used to see economic data, corporate earnings growth and equity markets largely tracking in similar directions. Markets will always try to price in the future outlook. However, in the current environment, the global economy is expected to fall drastically before recovering. That makes it complicated to value an unknown future triggered by a pathogen rather than any systemic financial or economic structural flaws. Most global investors expect the global markets to eventually recover and match the levels of economic activity at the end of 2019 prior to the onset of the viral outbreaks. In many ways, global investors are right to be confident of what market levels will look like when the economy rebounds because we have seen it before. Thus, even as deep as this global recession is, the market is moving to a future point it has seen before. Somewhat perversely, it does not even matter how deep the recession is and what trajectory it will take to recover. Futures pricing theory says all we need to know is the approximate time to recovery and the cost of equity when that time arrives.

Our assessment of the global pandemic is that the outbreaks appear to be receding in Europe and the US but spreading in Brazil, Russia and India. Thus, a large part of the global economy appears poised to kick off the recovery process. Conversely, large pockets in emerging markets are facing greater perils of backsliding. Additionally, there remains the uncertainty of whether the outbreak can be absolutely contained in Europe and the US. The US in particular appears to be taking a very uncoordinated and at times ill-disciplined approach in containing the virus with uneven measures across different states. We have tracked the progress in the developments of vaccines and think there is a good chance of a breakthrough in the first half of 2021. But that still leaves the significant risks of sustained hardships for

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the rest of 2020. For emerging markets, currency pressures and the spread of the contagion may add to the economic blows they are already taking. We also remain concerned about the Eurozone which policies are always tested during every crisis. Additionally, we view the new phase in US-China tensions as a lingering risk throughout the year.

Overall, we see the global equity rally as rational, but as equities edged closer or exceed pre-crisis levels, there will be less upside. In light of the "unknown unknowns" which may arise, we are neutrally weighted in equities. Nonetheless, we do see attractive investment opportunities despite the quickened pace of the markets. In particular, we are overweight in investment grade (IG) corporate credits. Global investment grade spreads had widened from 100 basis points (bps) pre-crisis to over 300bps at the peak of the crisis, and have stayed elevated at close to 200bps as of end May. We expect credit markets to normalise over the coming year like how equities are doing. The contraction in spreads will boost credit returns to the mid-single digits range. We remain confident that investment grade credits will largely avoid defaults in light of the policy support from major central banks around the world. On a risk/reward basis, we find investment grade credits to be one of the most attractive asset classes.

Within fixed income, we are more neutral or cautious towards other segments. We think global bond yields will remain low due to deflationary effects and hence government bonds are not likely to provide meaningful returns. While high yield credits offer attractive opportunities, we prefer to exercise caution in chasing such returns as it is difficult to assess their default risks during this global crisis.

While markets are rapidly normalising, the COVID-19 outbreak and the risks associated with economic deterioration remain elevated and the divergence between the global economy and markets has never been greater. As most risk assets have already rallied substantially, we have maintained a neutral weight in most assets but are overweight in investment grade credits that offer better reward/risk balance.

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US Equity

Country Allocation	View	Notes
US 	+	**Rationale:** The US has managed the COVID-19 outbreak poorly and its efforts to slow the viral spread lag other regions. However, it has delivered some of the strongest policy responses and has in its arsenal the fiscal and monetary tools to address additional problems. It also has some of the strongest and most resilient corporate sectors in the world. **Risks:** The US leadership and co-ordination in pandemic response have been poor and the risks of second-wave outbreaks appear greater than other regions.

Summary

We continue to overweight the US as it is home to the most dynamic listed companies in the world who will come out of the crisis on the strongest footing. Additionally, compared to previous crises, the leaders of most countries appear much more focused internally and are only looking out for themselves. If this is the new world order, the US would have the deepest resources to support its own economy that most other economies lack.

Europe Equity

Country Allocation	View	Notes
Europe Equity 	–	**Rationale:** Europe appears to have been able to contain the spread of the virus. However, it has always faced difficult tests in times of crisis due to its limited fiscal and monetary policy options. **Risks:** Sometimes a crisis can force a region to fix its long-term structural problems. The Macron/Merkel agreement to kick start a European fiscal framework may spark an outperformance if it materialises against all odds.

Summary

The European Central Bank (ECB) had reacted swiftly to support the region with monetary policies and address the liquidity crunch that had hit virtually all asset classes. The lack of a centralised tax and budgetary process however leaves it mostly to the individual members to work out their own fiscal remedies. As a whole, the region tends to struggle when it comes to co-ordination during times of contingency, unlike the US.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

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Japan

Country Allocation	View	Notes
Japan Equity 	–	**Rationale:** Valuations are attractive but economic activity is below historical trends. Vulnerable to downside risks from resurfacing US-China trade tensions given the economy's high dependence on global industrial production. **Risks:** Better-than-expected domestic demand, further fiscal support, improvement in US-China and/or Japan-Korea trade relations.

Maximum Overweight: ++   Slight Overweight: +   Neutral: ■   Slight Underweight: -   Maximum Underweight: --

Summary

Valuations are attractive but economic activities are generally below historical trends. Japan is vulnerable to downside risks from resurgent US-China trade tensions given the economy's high dependence on global industrial production. A better than expected rebound in domestic demand and/or further fiscal support would partially offset sluggish overseas exports.

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Asia Ex-Japan Equity

Country Allocation	View	Notes
Mainland China	+	**Rationale:** The only major economy likely to avert a recession this year, having controlled the COVID-19 pandemic fairly quickly. Attractive valuations and scope for further monetary and fiscal policy support. China has a large domestic economy that acts as a buffer against declines in external demand from the rest of the world due to COVID-19 lockdowns. Structural tailwinds for China 'A' shares from rising inclusion in global indices and potential asset reallocation, both domestic and foreign. **Risks:** External demand fallout from COVID-19. Elevated US-China tensions adding pressure to trade and supply chain issues.
Hong Kong market	-	**Rationale:** The social chaos in Hong Kong and the China security bill with further undermine HK's independent status as a financial hub. Withdrawal of HK's special trading status by the US will increase further pressure on the domestic economy. **Risks:** HK democracy protests recede prompting recovery in demand and return of mainland tourist receipts.
India	-	**Rationale:** Domestic consumption remains sluggish and valuations are lofty. Focus of fiscal stimulus towards rural spending likely to cap economic recovery given the lower multiplier effect. Vulnerable to foreign outflows due to emerging market risk. **Risks:** Better-than-expected fiscal and/or monetary policy measures. Weak oil price leads to improved balance of payments and a strengthening Rupee.
Indonesia	■	**Rationale:** Valuation is attractive. Fiscal and monetary easing in place but domestic private consumption remains weak due to COVID-19 concerns. **Risks:** Emerging market (EM) outflows due to global uncertainties. Further Rupiah weakness.
Malaysia	■	**Rationale:** Revival in infrastructure projects set to gain momentum, while domestic political overhang has diminished. **Risks:** Oil price rebound could strengthen MYR and boost the market.
Philippines	-	**Rationale:** Valuation is supportive, but uncertainty over extended lockdown likely to delay economic recovery. **Risks:** Earlier-than-expected COVID-19 containment.
Singapore	+	**Rationale:** Slowdown in GDP growth has been largely discounted and valuations remain attractive. Government has fiscal flexibility and ample reserves to support growth. **Risks:** Prolonged economic disruption from extended COVID-19 restriction measures. Weaker-than-expected external demand due to renewed US-China trade tensions.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

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Country Allocation	View	Notes
South Korea	■	**Rationale:** 1Q20 GDP likely to have troughed. Economy has reopened. Manufacturing still weak, but domestic consumption and services are recovering. **Risks:** Exports vulnerable to US-China trade tensions especially tech supply chains.
Taiwan	■	**Rationale:** Resilient end-user demand for tech hardware. Strong cashflow and high dividend yield could lend support if global uncertainties persist. **Risks:** Disruption to tech hardware supply chain due to US-China trade tension.
Thailand	–	**Rationale:** Valuation is expensive against a deteriorating earnings outlook. Domestic consumption likely to worsen near-term. Over-reliance on tourism and weak domestic disposable income due to drought. **Risks:** Oil prices rebound. Earlier-than-expected easing in international travel borders.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

The near-term outlook for Asia economies is mixed with the dispersion of performance among markets likely to continue. North Asia equities have been more resilient compared to ASEAN and India, thanks to more effective containment of COVID-19 outbreaks, domestic activity support as well as monetary and fiscal policy flexibility. However, North Asia still faces export headwinds, while the rest of Asia's fight against COVID-19 remains ongoing, even as lockdown restrictions are being loosened.

Resumption in economic activities suggests a modest rebound in growth is underway for 2H 2020. However, the path to normalisation will be gradual and uneven among countries. Resurfacing US-China trade tensions may also weigh on weakened global trade and remains a key downside risk for Asian economies. Positive vaccine trials, further monetary and fiscal stimulus and an absence of a second wave of COVID-19 cases may help turn the tide with prospects of positive corporate earnings outlook towards the yearend.

We continue to favour North Asia over both ASEAN and India, as the former has reopened their economies and is ahead on the path to recovery. We maintain our overweight stance on the China market as selected segments of domestic consumption such as auto and property sales have shown signs of strong recovery. The country has a large domestic market to cushion the shortfall in external demand. Mainland China also has significant policy ammunition to tackle future crises including positive real interest rates, strong reserves and only a modest fiscal deficit. In particular, we are positive on China 'A' shares which benefit from easing policies and capital market reforms as well as structure tailwinds such as expected inclusion in index representation in the coming years.

We remain neutral on Korea and Taiwan as tech demand which is a major driver of exports is vulnerable to slowdowns in external demand. The tech cycle could potentially see more subdued growth due to supply and demand disruptions from deteriorating US-China trade tensions. Both Korea and Taiwan also lack sizeable domestic economic engines to act as buffers to any fallout in global trade.

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Hong Kong remains an underweight. The economy is in deep recession given the double whammy of social unrest and plunge in mainland tourism. The imposition of China's security bill and the subsequent removal of US special trading status has added further hindrance to a growth rebound. We are also underweighting India given the lofty valuations and headwinds from extended nationwide lockdown. Fiscal stimulus tilted towards rural spending is likely to cap economic recovery given the lower multiplier effect.

Within ASEAN, we remain neutral in Indonesia and have turned less bearish on Malaysia. Indonesia's valuations are attractive while policy changes to restart the economy amid reduced domestic political overhang bodes well for Malaysia. On the other hand, we have downgraded Philippines to an underweight as uncertainties over extended lockdowns will hamper economic recovery. We are sticking to our underweight on Thailand as valuation is expensive with multiple negative headwinds such as a deteriorating economic outlook due to ineffectual policies and slow execution with regards to economic stimulus and infrastructure projects.

Singapore remains our top pick within ASEAN. The slowdown in GDP is largely discounted and valuations are attractive. Its relatively high dividend yield among Asia ex-Japan countries should provide some support in the current uncertain environment. The Singapore dollar has been relatively more stable compared to other ASEAN countries throughout the COVID-19 pandemic while the government has ample room and fiscal flexibility to support economic and employment growth.

Key downside risks to our continued constructive stance on Asia includes weakened external demand stemming from fraught US-China trade relationship and the possibility of prolonged economic recovery due to intermittent social distancing measures employed to contain viral outbreaks.

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Global Fixed Income Strategy

Sector Allocation	View	Notes
Developed Market (DM)	+	**Rationale:** A synchronized global recession is likely to fuel the divide between EM and DM and capital should be better protected in the latter. **Risks:** EM risk appetite could return if a sharp V-shaped recovery is seen.
DM Government	■	**Rationale:** While monetary policy support should continue until the economic recovery is well underway, there is not much room on the upside unless policymakers resort to further unconventional monetary policy. **Risks:** Inflation could spike massively higher if historic monetary stimulus filters through to the wider economy and policymakers may be forced to normalise interest rates.
DM Credit	++	**Rationale:** IG credits are increasingly attractive with policy support from DM central banks, and offer better carry than sovereign bonds. **Risks:** Should economies be weaned off policy support, credit purchases will likely be one of the first to go.
Emerging Market (EM)	-	**Rationale:** The overall EM complex remains susceptible to strong sell-offs should another risk-off episode occur. Potential downside catalysts include severe economic losses from COVID-19 mismanagement and a surge in reported cases, further oil supply shocks, and rise in geopolitical tensions. **Risks:** Appetite for yield returns override COVID-19 concerns and associated downsides, which lead to EM complex rallies, especially with US Treasury (UST) yields at all-time lows.
EM Government	■	**Rationale:** We maintain neutral on EM sovereigns though we differentiate between EM investment grade (IG) and EM high yield (HY). Our preference lies with IG over HY assets given the better credit profiles and asset buffers of the former due to fiscal policy support and better cushion against possible exogenous shocks. **Risks:** Depressed EM HY prices and excessive risk taking result in investors trading down the credit curve to boost yield returns.
EM Corporate	-	**Rationale:** Although we lift our underweight to slightly from maximum for technical valuation reasons, we remain cautious in this space considering that EM corporates in the HY space are usually highly leveraged and are highly exposed to the global economy (i.e. higher beta). With the economic malaise from COVID-19 lockdowns and steep employment losses, we are especially cautious on the oil and discretionary spending sectors. **Risks:** A rebound in risk could yet see EM Corporates start to outperform.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

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Sector Allocation	View	Notes
EM Local Currency	--	**Rationale:** While the market has largely looked past unprecedented money printing from the DMs, EMs are unlikely to get the same amount of forbearance especially when it comes to local currency. **Risks:** A sharp V-shape recovery could see increased risk appetite for EM assets.
Duration	■	**Rationale:** We do not expect policymakers to normalise policy until the economic recovery is well underway, and there should not be too much differentials between short and long duration assets. **Risks:** Any indication that DM central banks are back on a hiking cycle could see long duration assets sold off.
Yield Curve	■	**Rationale:** While the typical reaction would normally be curve steepening when rates are cut to the zero bound, the possibility of DMs resorting to further unconventional monetary policy should see yield curve differentials kept within recent ranges. **Risks:** Any indication that DM central banks are back on a hiking cycle could see yields on the long end of the yield curve spike higher.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

We have seen within the space of 1-2 months how central banks in the developed economies have unleashed unprecedented monetary stimulus to bring key rates down to zero and beyond in order to inject massive liquidity in the global financial system. Further upside for sovereign bonds are hence limited and will be dependent on unconventional monetary policies such as deployment of negative rates. Hence, even as we are overweight in developed markets, we prefer investment grade (IG) credits as they offer better carry and policy support. For emerging markets, we remain cautious of fiscal laxity in government accounts. While these are extraordinary circumstances, market participants are unlikely to be as forgiving towards the EMs compared to DMs.

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Regional Allocation	View	Notes
Latin America	-	**Rationale:** We favour investment grade sovereigns with firmer external balance sheets such as Panama, Bermuda and Chile. We also like reform stories such as Brazil following progress on pension reform, which would significantly improve fiscal balances although continued positive developments are required. We remain significantly underweight on Argentina where its return to populism has increased the sovereign's likelihood of restructuring its international obligations. Ecuador is another name that we underweight given unfavourable political developments and high sensitivity to oil prices. Lastly, we are neutral on Mexico, where a slow erosion of credit quality and policy uncertainty are mitigated by valuations. **Risks:** Oil and natural resource prices, disruptive politics and fallout from China's economic slowdown.
CIS/EE*	+	**Rationale:** Firm external buffers and budget balances lower the vulnerability to geopolitical risks, and increase its attractiveness as a relatively safe EM haven with lower volatility in times of global risk aversion. Among the largest regional sovereigns, Russia's external vulnerability remains low given its fiscal improvements in the form of a conservative central bank, fiscal rule and twin surpluses. In Poland, growth is projected to increase while fiscal outlook will remain positive, buoyed by robust economic growth and a tighter tax system. **Risks:** Weaker than expected Eurozone growth, potential further US sanctions on Russia, Turkey's high reliance on USD funding, low FX reserves and tensions with US over various geopolitical issues.
Middle East	+	**Rationale:** We are constructive on investment grade sovereigns given their pegged currencies and strong external balance sheets, which insulate and allow the higher-rated sovereigns to better weather potential global growth slowdown. **Risks:** Idiosyncratic geopolitical developments from US-Iran tensions and weakening oil prices would adversely impact fiscal budgets.
Africa	-	**Rationale:** For Africa, we remain neutral as we favour selective risk-taking through West African countries such as Gabon that enjoy IMF support due to their commitments to fiscal reforms. We remain underweight on countries such as South Africa with weakening fiscal positions, and growing political uncertainties. **Risks:** Overall higher vulnerability to a potentially more adverse external environment due to weaker budget balances, oil price fluctuations, natural resource dependence and reliance on USD funding.
Asia	■	**Rationale:** Recent massive spread widening led by the COVID-19 outbreak has resulted in the increasingly attractive bond valuations. Strong easing efforts by global central banks will help prop up economies. Credits should continue to do well due to yield gathering in a low global interest rate environment. **Risks:** Inability to contain COVID-19 and potential rekindling of trade tussles may dampen any risk appetite.
Singapore	■	**Rationale:** Singapore saw two sharp downward revisions to growth within the year and negative growth is currently a strong possibility. **Risks:** Singapore's long-time status as a safe haven in Asia could see inflows at the expense of other countries such as Hong Kong which face prolonged uncertainties.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

* Commonwealth of Independent States and Central and Eastern Europe

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Currencies

FX Allocation	View	Notes
US Dollar **US$**	■	**Rationale:** While the USD should outperform against the backdrop of a global recession, the current rebound in risk sentiments meant that USD strength has been thwarted at every turn. **Risks:** Should a strong V-shaped recovery unfold, USD could fall to pre COVID-19 levels.
Euro **€**	■	**Rationale:** The prospect of the Eurozone recovery fund has given fresh impetus to EUR longs, but growth prospects remain weak in the medium term. **Risks:** The Eurozone Recovery Fund may yet run into hiccups given concerns among several EU members regarding its viability.
Japanese Yen **¥**	+	**Rationale:** The Bank of Japan (BoJ) has pledged unlimited monetary stimulus but that was essentially what they have been doing with the yield curve control pre-Covid. JPY safe haven appeal should still come to the fore. **Risks:** The spectre of deflation is upon Japan once again. It remains to be seen if it can avoid a disinflation/deflation cycle post COVID-19.
Singapore Dollar **S$**	■	**Rationale:** While the SGD is part of the EM complex and thus subject to higher volatility, it is traditionally regarded as a safe haven within that complex and is unlikely to suffer extended falls. **Risks:** A second wave in Singapore could see growth forecasts downgraded again, and there could be expectations for more easing at the October MAS monetary policy committee (MPC) meeting.
China Renminbi **CNY**	-	**Rationale:** Rhetoric against China is likely to intensify going into the US elections with risk of trade deals being unwound. **Risks:** Increased risk sentiment regardless of politics could see USD/CNY trade below 7.00.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

2020 will see the first synchronised global recession since the second World War. With elevated uncertainties in the months ahead, including risks of a second wave of COVID-19 cases, renewed US-China tensions, chances of a hard Brexit, and continued protests in HK, the US dollar should be the currency of choice. However, the reality is a little different as market participants seemed to have priced in a V-shape recovery which has sapped the strength of the greenback. Hence, we remain neutral on the USD against G7 currencies, but are selectively underweight in EM currencies against the USD, especially in countries with higher risks of second wave outbreaks with limited fiscal cover.

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Commodities

Sector Allocation	View	Notes
Commodities	■	**Rationale:** We remain neutral on commodities as gold remains an anchor in current environment and most other commodities oversold. **Risks:** The global economic recovery path remains uncertain and many commodities will not improve fundamentally until a fuller recovery.
Gold	+	**Rationale:** Global central bank policy slashing interest rates and expansion of money supply has improved the attractiveness of gold. While the initial impact of the crisis appears deflationary, the recovery may be inflationary and further improve the attractiveness of gold. **Risks:** If the recovery is well managed, safe havens like gold will falter in value.
Base Metals	–	**Rationale:** Demand for industrial metals has fallen amid the decline in global production. It will take a fuller recovery for demand to stabilise. **Risks:** Trade wars may disrupt supply chains and weaken demand for metals that are tied to industrial growth.
Energy	■	**Rationale:** Energy suffered double negative shocks during the first quarter from weak global transport outlook and a breakdown in OPEC-Russia supply coordination. We expect both to improve in the coming quarters and energy to stabilise by the year's end. **Risks:** Even if the viral outbreak is contained, travel and transport are likely to be among the last sectors to fully rebound as transport remains an important part of energy demand.
Others	■	**Rationale:** China is a big consumer of broad commodities and its economy is stabilising the fastest. **Risks:** The outlook for bulk and agricultural products will likely remain subdued and volatile in coming quarters.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

Overall commodities are anchored by the attractiveness of gold which we continue to prefer as the main safe have asset. The outlook for other commodities will continue to improve as the global economy recovers. Most commodities will however not truly benefit until a full recovery is underway with the resumption of global travel. Overall, we recommend a neutral weighting in commodities with a focus on defensive commodities such as precious metals.

Alternatives

Sector Allocation	View	Notes
Hedge Funds	+	**Rationale:** Hedge funds have the ability to take both long and short positions which will allow them to capture alpha and actively manage downside risk in volatile markets. **Risks:** Extremely volatility and market disruptions caused by non-fundamental factors.
Private Equity (PE)	■	**Rationale:** Ability to access companies with superior growth and benefit from disruptions in areas such as technology and healthcare. **Risks:** Valuations are less attractive.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

Alternatives continue to be an attractive asset class for investors looking to diversify beyond traditional investible classes which exhibit high correlation during times of market stress. Hedge funds can provide protection during market downturns as they have the flexibility to take both long and short positions while private equity can provide excess returns amid a low interest rate environment with less volatility.

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