Quarterly Investment Strategy
Second Quarter 2020

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UOB Malaysia

Is a global rebound on hold?

UOB Asset Management

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Investment Strategy

Rarely has a quarter been subjected to so many global risk issues as the first quarter of 2020. The year started with high tensions between the US and Iran which appeared on the brink of a war. The UK finalised Brexit, the US impeached its President, Australia was on fire, and North Korea said it would not denuclearise. But all of that was minor compared with the outbreak of the Covid-19 coronavirus that started to rock markets by the end of February.

The virus outbreak creates huge uncertainties for markets, economies and for the lives of people around the world. The uncertainty that hit global markets has created spikes in volatility rarely seen in history. The disruptions to the global economy have been enormous. Individuals around the world are scared for their health.

Our base case remains for a second half recovery after a weak second quarter, but uncertainties have increased. The response by western countries has thus far been much weaker than Asian countries and the risk of this pandemic surpassing the outbreak in China has increased. We expect the global economy to suffer sharp contractions in the second quarter of 2020 but then rebound by the fourth quarter of 2020.

Given that global markets have already suffered sharp drawdowns and that we expect economies to stabilise in the fourth quarter, we maintain a neutral weight on equities and stay overweight fixed income. Within equities, we focus on high quality and strong dividend stocks. Within fixed income, we focus on investment grade with short duration. We are also neutral in alternatives and commodities, and overweight cash.

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Global Asset Allocation

Sector Allocation	View	Notes
Equities	■	**Rationale:** The global growth trajectory was solid before the Covid-19 outbreak. Global fiscal and monetary stimuli appear large enough to bridge the economies to the second half of the year and allow for the potential to rebound to prior levels. **Risks:** The outbreak could last through the summer and the recovery could take longer and be more "U" shaped.
Fixed Income	+	**Rationale:** Markets are expecting interest rate cuts and central bank bond-buying, which makes the environment safer for fixed income investors. **Risks:** Bond yields may have "overshot" on the downside as investors have been concerned about the implications of Covid-19.
Commodities	-	**Rationale:** Gold and precious metals provide a healthy hedge. However, other commodities may suffer as it will take time for factories and travellers to fully get back to prior levels. **Risks:** Prolonged travel bans would hurt the commodity outlook, especially with energy so dependent on global transport.
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 outlook is stable in a questionable environment. In a liquidity crisis, cash is king. **Risks:** If the outbreak passes quickly, then other asset classes can rebound and cash will not participate.

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

Summary

The global outbreak of the Covid-19 virus and the preventive measures deployed by countries around the world will slow the global economy sharply in the second quarter of 2020. Asset classes are likely to see significant volatility. Given that equities and corporate credits have already deeply declined in value, we maintain a neutral position on equities with the view that over the medium term, the preventive measures will diminish and economies will rebound. We remain overweight fixed income as global rates have been slashed and bond yields are likely to remain low. We are neutral on alternatives, underweight commodities and overweight cash.

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Global Investment Strategy

Surviving the Virus

The first quarter started promisingly enough with continued evidence of a rebound in global growth, but ended with the sharpest correction in history. The correction that started at the end of February saw the quickest 20 per cent drop from market highs, surpassing the corrections of the Great Depression in 1929 and the Global Financial Crisis of 2008 (GFC). While the correction has been faster than any seen in history, it has thus far not been as deep.

We think it is important to distinguish between two key problems with global financial markets at the start of the second quarter of 2020. Firstly, and obviously, the Covid-19 coronavirus and the preventive measures to slow its transmission are threatening a sharp recession that will affect employment, profits and the solvency of many businesses. Secondly, there is a global liquidity squeeze that appears to be greater than even that seen in the Global Financial Crisis of 2008. Both of these problems appear to be equally contributing to the market drawdowns.

Economists are quick to try to assess economic downturns to differentiate between a solvency problem and a liquidity problem. A solvency problem is similar to the subprime loan problem in the GFC. Too many bad loans were made to individuals in poor credit situations. When the economy slowed, there were defaults and true losses suffered through the financial markets. Solvency problems are hard to avoid. Liquidity problems can happen due to irregularities in the financial markets. The common analogy is that of a bank run. A bank may be perfectly sound financially, but if depositors for some reason fear that the bank is not sound then they may flood the bank with requests to withdraw their deposits. Liquidity problems are complicated but can usually be addressed with appropriate policy.

Our base case is for a second half recovery by the fourth quarter of 2020. This view is based on the assumptions that: 1) global central banks have the resources and the conviction to solve the liquidity crisis, and 2) the economic shock is due to a temporary exogenous event and thus fiscal policy support is able to help bridge the tough quarters ahead and help companies stay solvent for the second half of the year. But the risks around our base case have increased. The outbreak has far surpassed the daunting initial outbreak seen in Hubei Province, China, and developed into a global pandemic. In order to achieve a fourth quarter recovery, we think the major economies will require significant fiscal and monetary support to protect small business and workers through the contagion preventive measures, so that workers and businesses can jump back to operation once the virus and contagion measures recede.

The risks around this view are that the European and US leaders appear poorly coordinated and the outbreaks in these regions look less likely to be contained as quickly as they are in Asia. If it takes longer to contain, or if they have to learn to live with the rapid expansion of the virus through the countries, then the chances of a quick economic bounce back in the fourth quarter diminishes.

As of the end of the first quarter, global policy makers are preparing the greatest policy initiatives ever seen to address a downturn. Central banks around the world are unleashing rate cuts and bond buying programmes to provide liquidity to markets. The US Federal Reserve and the European Central Bank have committed to buying both government bonds and investment grade corporate bonds. The global bond markets had essentially seized up with no liquidity along with the commercial paper market, which are among the top corporate funding tools. Corporate bond prices have plunged, and investors who needed to de-risk had no choice but to sell equities into falling markets. As of the end of the first quarter there was some initial evidence that liquidity was coming back to key asset markets, but there remains a long way to go to restore confidence in markets. Overall, we continue to expect that global central banks have the resources and the commitment to provide liquidity to markets and have a good chance to end the bank run.

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> "Now more than ever, the case for large-scale monetary and fiscal policies is clear. These policies can be effective to combat a temporary exogenous economic shock. Aggressive monetary policy can address the liquidity crunch and aggressive fiscal policy can help keep businesses and workers solvent."

The fiscal responses by governments around the world have been equally enormous. The US' US$2 trillion package is designed to support businesses and workers that are hurt by the lockdowns. The package amounts to over 10 per cent of gross domestic product (GDP). It stands a good chance of helping businesses to stay solvent and not permanently fire workers during the lockdown periods. This gives the economy a good chance of being able to return to normal levels of activity when the virus recedes. We think markets might be surprised by how quickly the economy can bounce back in the second half of the year. Unlike recessions that are triggered by internal structural problems, this recession would be triggered by an external cause. Following the GFC, it took years to clear the oversupply of housing and for the banking system to clean up their balance sheets. But if the virus recedes in the second half of 2020 and the fiscal policies help keep businesses solvent, then the global economy can bounce back to its pre-crisis trends.

The next quarter is likely to be volatile. Investors have legitimate concerns over the economic outlook, market behaviour and for their own health. But the correction has already reached severe levels at the end of the first quarter with global equity drawdowns of 30 per cent or more. Valuations have fallen from being expensive to being cheap. Corporate bonds have seen their credit spreads widen to levels not seen since the financial crisis. Historically, when equity market valuations have been one standard deviation below their average valuations, the future multi-year returns have been their strongest. Thus despite the extreme volatility, we recommend keeping a neutral weight in equities. Markets remain too volatile for us to aggressively overweight equities, but valuations are attractive and the correction extreme enough that it warrants holding on and not selling at distressed levels. Thus we maintain a neutral weight in equities on the medium term outlook and through the second quarter of 2020.

Interest rates have been slashed and look set to remain low for the rest of the year. This makes the fixed income outlook relatively safe if liquidity conditions improve. Credit spreads are at very wide levels driven primarily by poor liquidity. As central banks pump in more liquidity, bond markets should start to trade better. We are slightly overweight fixed income markets with a focus on investment grade credits.

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US Equity

Country Allocation	View	Notes
US	+	**Rationale:** The US currently has the worst outbreak in the world, but ironically the US markets do the best when the world is in crisis. Similar to the GFC, the US economy may be the worst hit, but their markets performed the best. Additionally, when times are uncertain the US dollar tends to strengthen and thus further support US equities. **Risks:** The US leadership and co-ordination in responding to the virus has been poor and they now have the worst outbreak in the world despite having had extra months to prepare. It is possible the US is not able to contain the outbreak and this weighs on their economy through the end of 2020.

Summary

Despite the fact that the US, at the time of writing, appears that it will suffer the greatest number of cases and the largest outbreak of Covid-19, US companies tend to be the most resilient to global turmoil. The US has the fiscal and monetary resources to tide the economy over to the second half of the year and allow for a rapid recovery when the virus recedes.

Europe Equity

Country Allocation	View	Notes
Europe Equity	-	**Rationale:** Compared to the US, Europe struggles to co-ordinate policies in times of crisis. The virus outbreak is severe in Europe and more than ever, fiscal policies are required to keep the economies solvent in the midst of preventive measures. But due to the nature of the Eurozone, it is more difficult for them to roll out co-ordinated fiscal policies compared to monetary policies. **Risks:** The outbreaks in Italy, Spain, the UK and Germany are concerning. Risks remain that the region is not able to contain the spread and the outbreak lingers through the second half of the year and makes it more difficult to recover in the second half.

Summary

The European Central Bank reacted rapidly to support the region with monetary policies and to help address the liquidity squeeze in almost all asset classes. However, Europe does not have a centralised tax and budget process and thus it will be up to the individual countries to work out supportive fiscal policies. We expect the countries to respond, but the region as a whole always struggles to co-ordinate in a crisis unlike the way countries such as the US can.

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

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Japan

Country Allocation	View	Notes
Japan Equity	–	**Rationale:** Valuations are attractive (at a discount to developed market peers US, UK) but economic activity is at below-trend GDP growth. Vulnerable to further downside risks from Covid-19 disruptions, postponement of the 2020 Tokyo Olympics, and renewed flare-up from global trade policy uncertainties given the economy's high dependence on global industrial production. **Risks:** Expansionary fiscal policy, improvement in US/Japan, US/China and/or Japan/Korea trade relations.

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

Summary

Valuations are attractive but with economic activity at below-trend GDP growth, the market is vulnerable to further downside risks from Covid-19 disruptions, postponement of the 2020 Tokyo Olympics, and renewed flare-up from global trade policy uncertainties (US/China, Japan/Korea) given the economy's high dependence on global industrial production. Continued strength in domestic demand could partially offset sluggish overseas exports. The government's fiscal stimulus package (JPY 10 trillion or about 1.8% of GDP) could boost GDP growth.

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Asia Ex-Japan Equity

Country Allocation	View	Notes
China	+	**Rationale:** The Covid-19 situation looks to be under control and economic activity is getting back to normal again. Attractive valuations. China has the most monetary and fiscal policy flexibility among most major economies to cushion downside. Structural tailwinds for China 'A' shares from rising index representation, monetary easing and potential asset re-allocation. **Risks:** Global economic pressure from Covid-19 disruptions cause revival of trade wars.
Hong Kong	-	**Rationale:** Intense pro-democracy protests and riots have undermined Hong Kong's status as a financial hub. Recession further deepens with shut down of tourism from mainland China. **Risks:** Hong Kong democracy protests die down and borders open again for mainland tourism.
India	-	**Rationale:** Overall domestic demand remains sluggish despite tax cuts. Vulnerable to foreign outflows on US dollar strength. Valuations remain expensive. **Risks:** Larger-than-expected fiscal and/or monetary policy measures. Weak oil price improves balance of payments and strengthens Indian rupee (INR).
Indonesia	■	**Rationale:** Valuation is more attractive after the market correction. Fiscal and monetary easing in place but consumption still remains weak due to Covid-19 fears. **Risks:** Emerging market outflows due to global uncertainties. Further rupiah (IDR) weakness.
Malaysia	-	**Rationale:** Political uncertainty returns with the sudden change in Prime Minister. Tough economic backdrop (slowing exports, weak investment sentiment). Weak private investment weighed down by political uncertainty and low oil prices. **Risks:** Oil price rebound could strengthen Malaysian ringgit (MYR) and boost the market.
Philippines	+	**Rationale:** GDP and earnings growth for 2020 is one of the strongest within ASEAN. Central bank still has scope for further monetary easing. **Risks:** Vulnerable to emerging market sell-off.
Singapore	+	**Rationale:** Singapore, like China, looks to have brought Covid-19 under control and activity is gradually returning to normal. Slowdown in GDP growth has been largely discounted and valuations are attractive. Government has fiscal flexibility to support growth. **Risks:** Singapore drifts into recession as the global economy struggles with Covid-19 disruptions.

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

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Country Allocation	View	Notes
South Korea	–	**Rationale:** Covid-19 related disruption to supply chain and expected slump in receipts from Chinese tourists are near-term drags on GDP growth. **Risks:** Current low P/B valuation appears to have discounted the earnings downgrades. Bank of Korea maintains an accommodative monetary policy and may ease further if growth falters.
Taiwan	■	**Rationale:** Reducing weight to fund China overweight. There could be prolonged disruption to the tech supply chain due to Covid-19 crisis or sanctions on Huawei by the US. **Risks:** The market's strong cashflow and high dividend yield could lend support if global uncertainties persist.
Thailand	–	**Rationale:** Economic growth slowdown and earnings downgrades continue to worsen with further hit from Covid-19. Continued delays in public investment projects and domestic stimulus. **Risks:** Covid-19 fears die down. Oil prices rebound.

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

Summary

As we began 2020, Covid-19 has been the most dominant event driving markets and volatility, and is certain to cause huge economic disruptions globally. We have already seen how the latest February purchasing managers' indices (PMIs) in China plummet to historic lows in both manufacturing and services. There will certainly be a huge impact on other Asian economies and corporate earnings, which depend on China. The impact of the virus on global markets reached a new phase as cases spiked outside China in Korea, Iran, Italy, and more recently the US and Europe, with the World Health Organisation (WHO) declaring it a global pandemic.

Our base case is that this virus outbreak will eventually pass like many such instances in the past, but it will take a few months to play out and markets will be volatile meanwhile. We do acknowledge that the Covid-19 outbreak is a serious global risk that is already more significant than the severe acute respiratory syndrome (SARS) outbreak in 2003. In SARS and other virus outbreaks, markets returned to normal and recovered all losses once the outbreak convincingly subsided. But in the current Covid-19 outbreak, we think it is still too early to be confident about when it will peak and how significant the economic declines will be. Encouragingly, the preventive measures employed in mainland China and elsewhere such as Singapore appear to be able to suppress the outbreak and may be a model for countries with new outbreaks.

Within Asia, there has been a huge disparity in performance among markets. China has held up relatively well despite it being the origin and initial epicenter of the Covid-19 virus. China took the first hit among global markets and has recovered strongly since as they look to have controlled the spread of the virus and announced a slew of measures to support the economy and market. On the other hand, most ASEAN markets have suffered a much sharper drawdown from the Covid-19 fallout as the markets have reacted sharply to a fall in tourism from mainland China and the impending global economic slowdown as Covid-19 spreads globally.

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Our current strategy is to overweight countries that have proven to be able to successfully contain the virus spread and then gradually return to normal activity levels. In this respect, China and Singapore stand out. On the other hand, we underweight countries where Covid-19 is still spreading quickly or do not appear to have effective measures to contain its spread, and which suffer relatively more from the fallout on the global economy arising from Covid-19.

On these considerations, we upgrade China from neutral to overweight in the order of first in first out. China was the first to take a significant hit from Covid-19, but also the first to effectively contain its spread and gradually return to normal economic activity. They also have the policy flexibility and effective execution capability to cushion the blow compared to most other major economies. In particular, we are positive on China domestic 'A' shares, which are sensitive to China easing policy and also enjoy structure tailwinds such as an increase in index representation over several years and capital market reforms. We also overweight Singapore, as they also look to be effectively containing the spread of Covid-19. We overweight the Philippines as their economy seems less sensitive to the ongoing global economic disruption and the central bank still has ample scope for further monetary easing to cushion its economy.

On the other hand, we reduce Korea to underweight given that the spread of Covid-19 has been accelerating within the country and they are being hit by the double whammy of a fall in mainland tourism and domestic activity disruptions. We also reduce Taiwan from overweight to neutral as US smartphone maker Apple's downbeat guidance will weigh on the Apple supply chain in Taiwan. We still remain positive on Taiwan's prospects over the medium to long term given our positive outlook on the semi-conductor industry and the market's attractive attributes of strong cashflow and high dividend yield. We remain underweight in Hong Kong as they are in deep recession given the double whammy of social unrest and a plunge in mainland tourism receipts. We also underweight Indonesia, Thailand and Malaysia as they face multiple negative headwinds of economic slowdown, Covid-19 fallout, political uncertainty and ineffective policy.

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Global Fixed Income Strategy

Sector Allocation	View	Notes
Developed Market (DM)	+	**Rationale:** Even though Covid-19 has reached the shores of developed markets, we expect DM assets to be a safer place to park funds as opposed to EM. **Risks:** EM risk appetite could return if the virus cases recede or if cases in DM show no sign of abating.
DM Government	+	**Rationale:** Even if Covid-19-related fears turn out to be overblown, it would be hard to imagine a round of rate hikes when the economy recovers. Furthermore, most DM central banks have not reached their terminal rate yet. **Risks:** Central banks could yet hold off on rate cuts if the spread of Covid-19 proves to be less aggressive than initially thought.
DM Credit	■	**Rationale:** Credit spreads will tighten given the strong demand for investment grade credits (IG). We recommend staying invested in investment grade focusing on defensive sectors as global central banks are likely to provide looser monetary policy support which will help to offset some of the negative sentiment on trade tensions. **Risks:** US-China trade tensions remain a key risk to global growth with negative impact on sectors that are exposed to tariff hikes.
Emerging Market (EM)	–	**Rationale:** While EM IG is still holding up relatively well amidst the risk sell-off, we remain cautious on high yield (HY) especially in the oil and consumer-related sectors. **Risks:** If Covid-19 fears turn out to be overblown and appetite for yield returns, we might see the EM complex start to rally again, especially with US Treasury (UST) yields at all-time lows.
EM Government	■	**Rationale:** On a relative basis, EM sovereigns are still outperforming corporates but at a time of uncertainty, we believe that there might be better value to be had elsewhere. **Risks:** Globally, it remains to be seen how all-time low yields in DM sovereigns would play out in financial markets, and there could be a chance that investors would still go for higher-rated EM sovereigns to boost their yield return.
EM Corporate	––	**Rationale:** We are very cautious in this space considering that EM corporates in the HY space are usually highly leveraged and high beta. We are especially cautious on the oil and discretionary spending sectors. **Risks:** A rebound in risk could yet see EM HY 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 EM local rates are still outperforming due to the prospect of more easing, the foreign currency (FX) component would mean that any gains would be strongly eroded. **Risks:** Should the USD start to decline in line with UST yields, EM currencies could see a reprieve and appreciate along with local rates.
Duration	-	**Rationale:** The typical reaction towards episodes of risk aversion should be curve flattening, but the nature of the Covid-19 episode this time round would mean that more is taken out of current growth rather than future growth and the correct response should be bullish steepening, which means that it pays to favour the short end. **Risks:** If the market starts to believe that future growth prospects will be hurt by the virus spread, we could see curve flattening rather than curve steepening.
Yield Curve	■	**Rationale:** Although we think that curve steepening should be the correct response, we see a limit to how much the curve can steepen henceforth considering we are still in the late stage of the economic cycle and therefore we are neutral on the yield curve. **Risks:** With yield returns lessening by the day, investors could yet choose to go into the long end to boost returns.

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

Summary

Covid-19 caught markets on the back foot, with policy-makers worldwide scrambling to react to perceived downside risks, which can potentially create an asymmetric market where sovereign bond gains can be sustained even if the economy recovers from said risks. We favour the short end of DM sovereigns, followed by IG names should a yield pick-up be needed. Unlike past episodes of risk aversion where yield curve flattening was seen on lower prospect of economic growth, we believe the correct response this time round would be steepening in the yield curve as the nature of this current virus episode would mean that current growth is more affected than future growth.

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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, politics and velocity of Chinese growth slowdown.
CIS/EE*	+	**Rationale:** Firm external buffers and budget balances lower vulnerability to geopolitical risks, and increase its attractiveness as a relatively safe EM haven where it exhibits 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 euro area 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 weather a potential global growth slowdown well. **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 programme support via 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 an increased attractiveness of bonds' valuation. Strong committed easing efforts by global central banks will help support the economy. Credits should continue to do well as yield gathering remains in such 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 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 that is tangled in prolonged uncertainty.

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$**	++	**Rationale:** Although the US is currently suffering due to the onshore spread of Covid-19, we believe that the US remains the safe haven of choice, particularly as no country seems to have escaped the spread of the virus. **Risks:** The Fed is currently cutting rates very aggressively and the eroded carry against other DMs would mean that the USD is not totally immune to spread differentials.
Euro **€**	-	**Rationale:** Poor economic data out of the EU means that even without coronavirus-related risks, the ECB would find it hard not to ease in the near future. **Risks:** The ECB is actually closer to the reversal in rates than the US, and could find a floor in yields faster than other DMs. EUR is currently a funding currency which means that it is viewed as a safe haven.
Japanese Yen **¥**	+	**Rationale:** Although the Bank of Japan is expected to indulge in some form of easing along with other central banks, the JPY's long-held status as a safe haven should protect it from further losses. **Risks:** With the postponement of the Tokyo Olympics, we can potentially expect JPY to stay weak.
Singapore Dollar **S$**	--	**Rationale:** Both growth and inflation are expected to be low. With the Monetary Authority of Singapore (MAS) further easing monetary policy in April to adopt a zero per cent appreciation of the Singdollar policy band, we expect the SGD nominal effective exchange rate (NEER) to stay weak. **Risks:** The MAS could hold off further easing measures.
China Renminbi **CNY**	-	**Rationale:** Although China appears to be coping well with new cases of Covid-19, economic data over the coming months should start to show how dire things are. **Risks:** China stocks were actually outperforming through this episode and there could be a chance that the economy would recover faster than we thought.

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

Summary

Strong two-way movements were seen in the USD since the start of the year. Initial strength was seen on risk aversion due to the Covid-19 spread in Asia, but when the virus reached the shores of the US, the USD did not escape from the initial fate of Asia currencies and plummeted towards the end of February. The aggressive rate-cutting from the Fed did not help matters. However, we believe that the USD will eventually come good given its preeminent status as a safe haven. Paradoxically, the sharp move towards zero interest rates should bolster USD's case as a funding currency and therefore its safe haven status.

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Commodities

Sector Allocation	View	Notes
Commodities	■	**Rationale:** Commodities suffered in the first quarter of 2020 and thus we raise the outlook back up to neutral. Gold will remain a safe haven and energy and metals are likely to stabilise as global economies get through the worst of the global economic downturn in the second quarter of 2020. **Risks:** The global economies have frozen and the near-term need for most commodities has halted. While most commodities have already sharply corrected, volatility is likely to remain high.
Gold	+	**Rationale:** Global central bank policy to slash interest rates has improved the attractiveness of gold. Global uncertainty and volatility improve the attractiveness of gold as a safe haven. **Risks:** The rise in the US dollar diminishes some of the strength of gold as a safe haven during periods of volatility.
Base Metals	-	**Rationale:** Industrial metals dropped significantly in the first quarter as global factories were shut down due to global lockdowns. **Risks:** Trade wars could significantly disrupt supply chains and weaken demand for metals that are tied to industrial growth.
Energy	■	**Rationale:** Energy suffered a double negative shock in the first quarter form the weak global transport outlook and the breakdown of OPEC and Russia supply coordination. We expect both to improve in the coming quarters and energy to stabilise by the end of the year. **Risks:** Even if the virus outbreak is contained, travel and transport are likely to be the last sectors to fully rebound and transport remains an important part of energy demand.
Others	■	**Rationale:** China has been the first country to control the Covid-19 outbreak and has started to resume economic activity and remains a top source of demand for bulk or agricultural products. **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

We were underweight commodities in the first quarter and as prices of metal and energy have sharply declined, we shift the commodity outlook to neutral. Gold should remain attractive as a safe haven while metals and energy stabilise from oversold levels. We recommend a defensive strategy with a focus on precious metals and look out for opportunistic levels to enter energy and metals.

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Alternatives

Sector Allocation	View	Notes
Hedge Funds	++	**Rationale:** Market volatility is expected to remain elevated given the Covid-19 outbreak and recent oil shock. Hedged strategies tend to perform in such an environment due to the flexibility to adjust exposures by taking short positions. **Risks:** Easing monetary policies and further introduction of fiscal stimulus may improve risk sentiments and lead to a global market rally.
Private Equity (PE)	+	**Rationale:** In a low growth, low inflation environment, investors are looking to diversify into private equity to enhance returns. Private equity funds seek to generate superior returns by investing in businesses in high growth industries, businesses seeking to disrupt incumbents in attractive industries through the use of technology, and businesses leveraging the low cost of debt to drive inorganic growth. These are not necessarily related to stock market movements, which provide diversification benefits to investors. Increasing investor focus on profitability has resulted in tighter liquidity conditions and moderating valuations generally. The volatile market condition is also providing more deal-flow opportunities for the experienced investor. **Risks:** Loose liquidity conditions mean that it will require more effort to find attractively-priced opportunities.

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

Summary

We are positive on hedge funds as they have the ability to hedge exposures and typically display low correlation to traditional asset classes. This may enable the asset class to deliver alpha returns regardless of market direction. This is relevant as market uncertainties remain elevated against a backdrop of slowing economic growth and lower policy rates.

Private equity has proven to be able to generate good returns with low volatility to investors in the current low interest rate environment. They can also provide investors with access to some of the world's fastest growing and most innovative companies which will be complementary to many investor portfolios. Valuations are not particularly cheap but are moderating and there continue to be opportunities for investors who are patient and selective.

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