INVESTMENT INSIGHT APRIL 2021

Investment Services Department

Altruist Financial Group Limited
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THE HOPE OF FASTER THAN EXPECTED ECONOMIC RECOVERY BRINGS SECTOR ROTATION AND THE TREND MAY GO ON FOR THE REST OF 2021

2021 Q1 market highlights

- *Enormous U.S. economic stimulus together with increasing COVID-19 vaccination rate may lead to a faster than expected global economic growth in 2021. Recently, the International Monetary Fund lifted its global growth forecast from 5.5% to 6% in 2021.*
- *Rising U.S. Treasury long-dated bond yields also caused investment sectors rotation in the past 3 months, cyclical stocks outperformed the market.*
- *Under Joe Biden's administration, the tensions between the U.S. and China have not been eased.*

As described by the Chairman of Federal Reserve, Jerome Powell, the U.S. economy is at an "inflection point". Because of the widespread vaccination, strong fiscal and monetary supports, it is expected that the U.S. economy is about to start growing much faster and job creation will be very strong in the coming months.

It seems that we start to see the light at the end of the tunnel, but the COVID-19 pandemic has not yet been over, it still brings a lot of uncertainties to the global economy. Even though the U.S. Fed has repeatedly reiterated that the ultra-loose monetary policy will be maintained until the economy shows "substantial further progress" toward the dual goals of full employment and around 2% inflation rate, the financial market reacted in a different way. In the last quarter, investors were worried about the return of inflation and afraid of monetary tightening, the U.S. Treasury yield curve steepened, and the long-dated yields have risen significantly. The 10-year Treasury yield has rallied by near 1.25% since August 2020, to around 1.75% at the end of March 2021, and was almost back to its pre-pandemic level in early 2020.

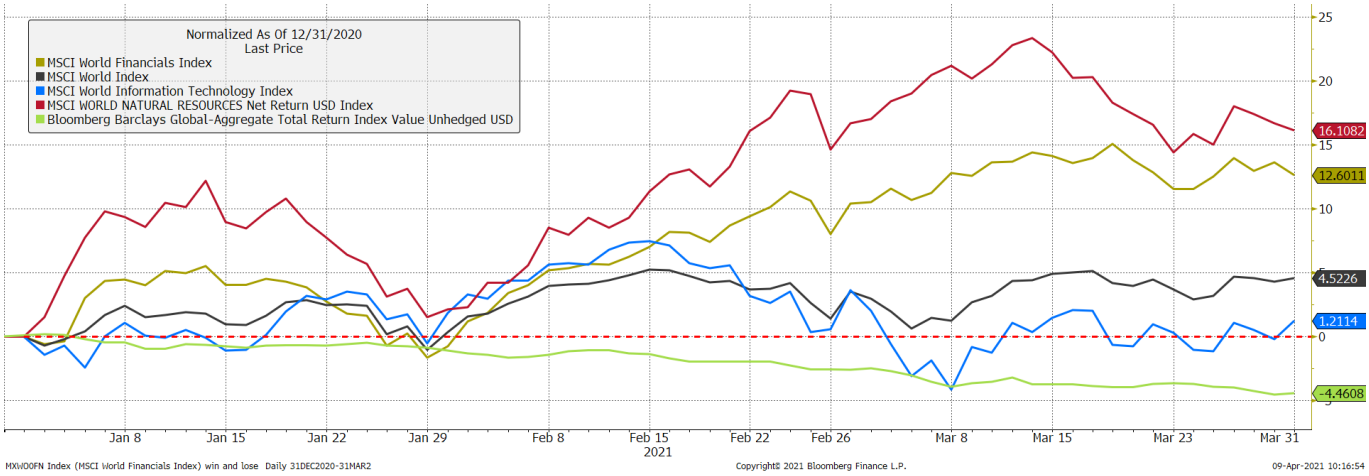
EXHIBIT 1: The 10-year Treasury yield has rallied to pre-pandemic level

Source: Bloomberg (as at 31/03/2021)

The sudden rise of the U.S. Treasury yields triggered the sell-off of investment grade sovereign and corporate bonds globally, the Bloomberg Barclays Global Aggregate Index fell about 4.5% in the first 3 months of 2021 which was one of the worst quarterly performance of the index in recent years. In addition, as the U.S. Treasury yields are always viewed as the risk-free rate or discount rate which are widely used to measure the valuation of different asset classes. Those high-flying technology and growth stocks also retreated sharply since investors value them based on their future earnings and the rising yields reduce the present value of their expected cash flow in the future.

On the other hand, those cyclical stocks which are sensitive to economic momentum outperformed because of the hope of economic recovery. Financial stocks were benefitted from the rising yields since they can earn better yield spread income. The performance of natural resources stocks was also outstanding so far this year due to the reason of reflation and increasing expenditure infrastructure worldwide.

EXHIBIT 2: Cyclical stocks outperformed in 2021 Q1



Source: Bloomberg (as at 31/03/2021)

What should we look at in the 2nd Quarter?

U.S. Treasury yields

We believe that the Fed will ultimately pull back its easy policy and the interest rate will return to average, but it is quite certain that this will not happen in the near term as the Fed commits to keep the asset buying program and maintains the interest rate at the current level until the economy fully recovers and the market liquidity will still be abundant. However, we should still pay attention to the results of the coming FOMC meetings. It may provide hints at policy change which will affect the movement of the yield curve.

COVID-19 Pandemic

Though the vaccination rate is relative fast in some developed countries, it is still low in most parts of the world. Besides, the number of new infection cases in several developing countries is still at the peak, and even some countries in the Eurozone, like France and Germany, also resumed strict lockdown measures in late March. The COVID-19 pandemic is far from the end, the effectiveness and distribution of the vaccine and the risk from virus variants will still be the major market uncertainties.

Corporate earnings growth

The earnings forecasts of a lot U.S. and European companies are revised up and it is even expected that the earnings growth will be the highest in recent years in 2021 Q1. Strong corporate earnings will support the stock market valuation and bullish market momentum may go on. Besides, it is believed that those cyclical stocks may benefit the most since the pace of the global economy recovery accelerates.

China-U.S. Relationship

Under Biden's administration, the tensions between the U.S. and China have not been eased. In the near future, it is no surprise that more sanctions will be placed between both countries. Besides, the U.S. may also impose more tough policies towards those Chinese technology companies, including their listing status in the U.S. stock exchange, technology transfer and export restrictions, etc. which will definitely heighten their stock price volatility.

TABLE 1: Global Stock Markets Performance

	2021 Q1 Return		2020 YTD Return	
Indexes	**Local Currency**	**USD**	**Local Currency**	**USD**
S&P 500	6.17%	6.17%	18.39%	18.39%
Nasdaq Composite	2.95%	2.95%	45.06%	45.06%
STOXX Europe 600	8.45%	4.23%	-1.44%	7.86%
DAX	9.40%	4.60%	3.55%	13.50%
CAC 40	9.59%	5.33%	-4.96%	4.01%
Nikkei 225	6.93%	-0.18%	18.24%	24.70%
Hong Kong Hang Seng	4.55%	4.27%	-0.23%	0.24%
Hang Seng China Enterprises	2.18%	1.91%	-0.03%	0.44%
Shanghai Stock Exchange Composite	-0.89%	-1.28%	16.55%	24.41%
Shanghai Shenzhen CSI 300	-3.12%	-3.50%	29.89%	38.66%
Singapore Straits Times	11.75%	9.86%	-8.05%	-6.60%
Korea KOSPI	6.54%	2.90%	31.55%	39.77%
Taiwan TWSE	11.69%	10.10%	27.03%	35.18%
India SENSEX	3.85%	3.70%	17.15%	14.03%
Indonesia JCI	0.30%	-3.31%	-2.44%	-3.29%
Thailand SET	10.48%	5.94%	-5.26%	-5.28%
Russia RTS	6.61%	6.61%	-4.75%	-4.75%
Brazil IBOV	-2.00%	-10.83%	2.92%	-20.08%
S&P Pan Arab Composite	12.40%	12.40%	1.21%	1.21%
MSCI World	5.04%	5.04%	16.53%	16.53%

Source: Bloomberg (as at 31/03/2021)

TABLE 2: Major Currencies Performance (In terms of USD)

	Change in 2021 Q1	Change in 2020
Currencies	**In terms of USD**	
Euro	-3.98%	9.68%
British Pound	0.83%	2.78%
Japanese Yen	-6.75%	5.25%
Hong Kong Dollar	-0.27%	0.50%
Chinese Renminbi (CNY)	-0.39%	6.68%
Australian Dollar	-1.25%	9.47%
New Zealand Dollar	-2.77%	6.87%
Singapore Dollar	-1.69%	1.70%
South Korean Won	-4.02%	6.43%
Taiwanese Dollar	-0.80%	6.12%
Indian Rupee	-0.06%	-2.63%
Indonesian Rupiah	-3.27%	-1.31%
Thai Baht	-4.19%	0.06%
Russian Ruble	-1.68%	-16.70%
Brazilian Real	-7.72%	-22.47%

Source: Bloomberg (as at 31/03/2021)

Review Highlights and outlook around the globe

United States

- President Joe Biden signed the USD 1.9 trillion coronavirus relief package on 11th March 2021. The plan which was Biden's top priority as President, would send direct payments of up to USD 1,400 to most Americans. The bill would also extend a USD 300 per week unemployment insurance boost until 6th September and expand the child tax credit for a year. It will also put nearly USD 20 billion into Covid-19 vaccinations, USD 25 billion into rental and utility assistance and USD 350 billion into state and local government relief.

- Few weeks after signing the USD 1.9 trillion relief package, President Joe Biden also introduced his USD 2 trillion, being described as "once-in-a-generation investment in America", infrastructure plan at the end of March. The plan aims to revitalize the country's aging roads, bridges, rail lines and utilities. To fund the plan, one of the major sources proposed is to increase the corporate tax rate

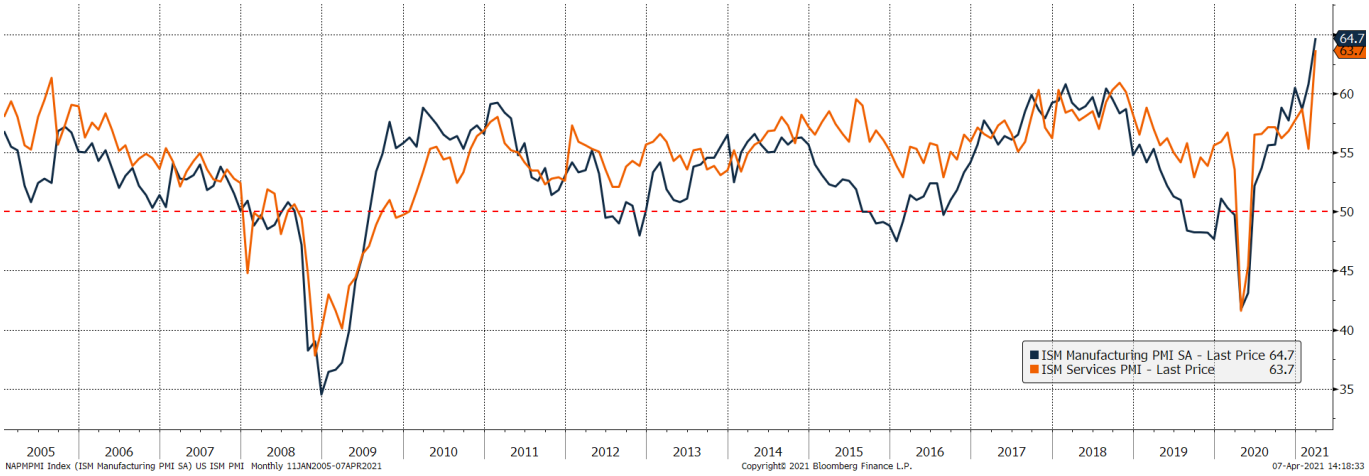
from 21% to 28%, the reversal of tax cut during Donald Trump's administration and it is believed that the plan will be widely opposed by the Republicans.

- According to the U.S. Commerce Department, the U.S. economy grew at an annual rate of 4.3% in the 4th quarter of 2020. The economic recovery during the period slowed down due to the surge of COVID-19 cases and lengthy delay in fiscal support. For the full year of 2020, the U.S. economy contracted 3.5%, the largest annual GDP decline since 1946.

- However, with falling COVID-19 infection rate, easing business restriction, a fast vaccine rollout and continuous economic support from the government in 2021 Q1, the U.S. economy has a big improvement. In the job market, the March nonfarm payrolls rose by 916,000 which was well ahead of the market estimate and was at the fastest pace since August 2020. At the same time, the unemployment rate also fell to 6%, the lowest in a year. Nevertheless, the economy is about 8.4 million jobs short of the peak in February of 2020, and it seems that the job market still has a long way to fully recover.

- The pace of growth in U.S. manufacturing and non-manufacturing activity accelerated by much more than anticipated, the March ISM Manufacturing PMI jumped to 64.7 from 60.8 in February, well above market forecasts of 61.3 which was the highest reading since December of 1983. At the same time, the ISM non-manufacturing index surged to 63.7 in March which was the highest level since the index began.

EXIBIT 3: Both manufacturing and non-manufacturing activities accelerated



Source: Bloomberg (as at 31/03/2021)

- The consumer price in March rose for the 4th month in a row and the pace of inflation hit the highest since the fall of 2018. Comparing to last month, the consumer price jumped 0.6% while it surged 2.6% on yearly basis. The sharp increase in the annual inflation rate may be explained by the "base effect" since when the COVID-19 pandemic began last year, the U.S. economy was forced to shut down and

almost all consumer price plunged at that time. As we are now comparing with a lower base, the current phenomenon may be temporary, nevertheless, we still need to closely monitor the situation in the coming months.

- According to the minutes of the last Federal Reserve meeting in March, the Fed would continue its asset purchase program at least at the current pace until the economy shows "substantial further progress" toward the dual goals of full employment and around 2% inflation rate. The Fed left the target range for its federal funds rate unchanged at 0-0.25% during the meeting and signaled a strong likelihood that there may be no rate hikes through 2023.

EXHIBIT 4: Comparing to last year, the CPI surged 2.6% in March

Source: Bloomberg (as at 31/03/2021)

- The S&P 500 ended the first quarter of 2021 at a fresh record high, it delivered 6.17% return, and which was the 4th straight quarter of gain. Fast economic growth and improvement in corporate earnings provide a concrete fundamental for the equities market. It is believed that those cyclical sectors, like financial, natural resources, industrial will benefit the most and continue to outperform, and sector rotation is expected to go on in 2021.

Europe

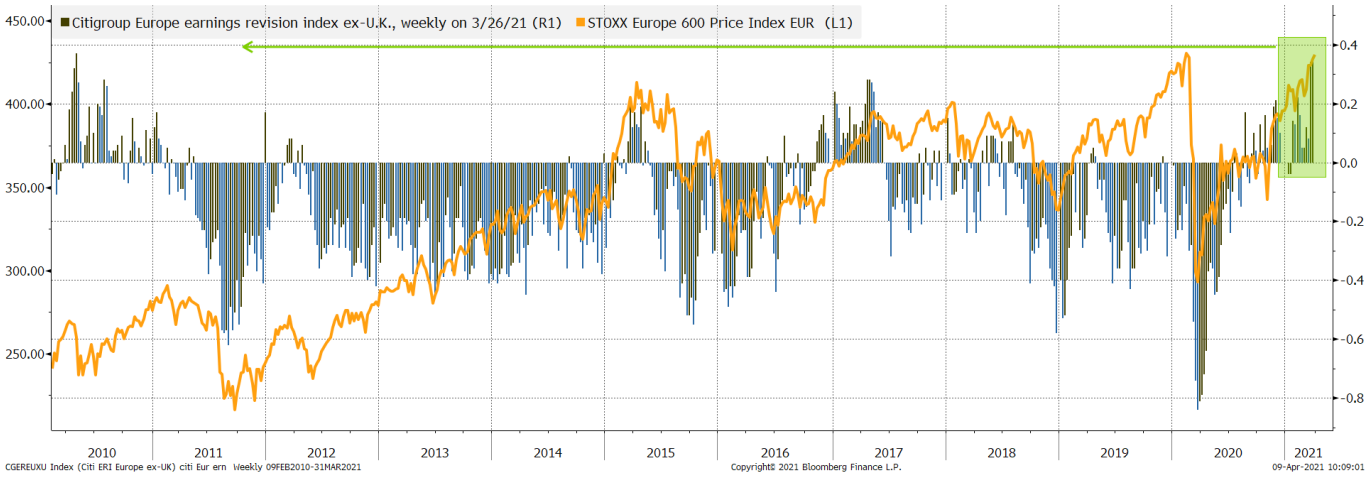
- The Eurozone economy shrank by 0.7% in the 4th quarter of 2020, following a record 12.5% expansion in the previous three-month period and an unprecedent 11.6% contraction in the 2nd quarter due to the COVID-19 crisis. For the full year of 2020, the GDP in the Eurozone fell by 6.6%, following a 1.3% expansion in 2019.

- The Eurozone private sector returned to growth in March, the IHS Markit Eurozone PMI Composite Output Index jumped to 53.2 from 48.8 in February which was the highest level since last July and also the second-fastest increase in two-and-a-half years due to the surge in manufacturing production. In contrast, services sector remained in the contraction zone but the rate of contraction was the smallest since September 2020.

- The recent released economic data showed that the Eurozone economy was recovering, however, it is believed that the outlook is still unpredictable since the new wave of COVID-19 infections and vaccination delays spur tighter restrictions in several countries including France, Italy and Germany. Many economists warned that if restrictions continue for several more months, it would cause "another lost summer" and weaken the region's GDP growth in the near term.

- The Stoxx Europe 600 Index climbed to record-high levels at the end of March 2021, and the bullish momentum may continue since the corporate earnings are improving. According to the Citigroup earnings revision index for the region excluding the U.K., corporates' profit upgrades are outpacing downgrades by the most since 2010, ahead of the coming earnings reporting season.

EXHIBIT 5: The Stoxx Europe 600 Index climbed to record-high levels due to better corporate earnings



Source: Bloomberg (as at 31/03/2021)

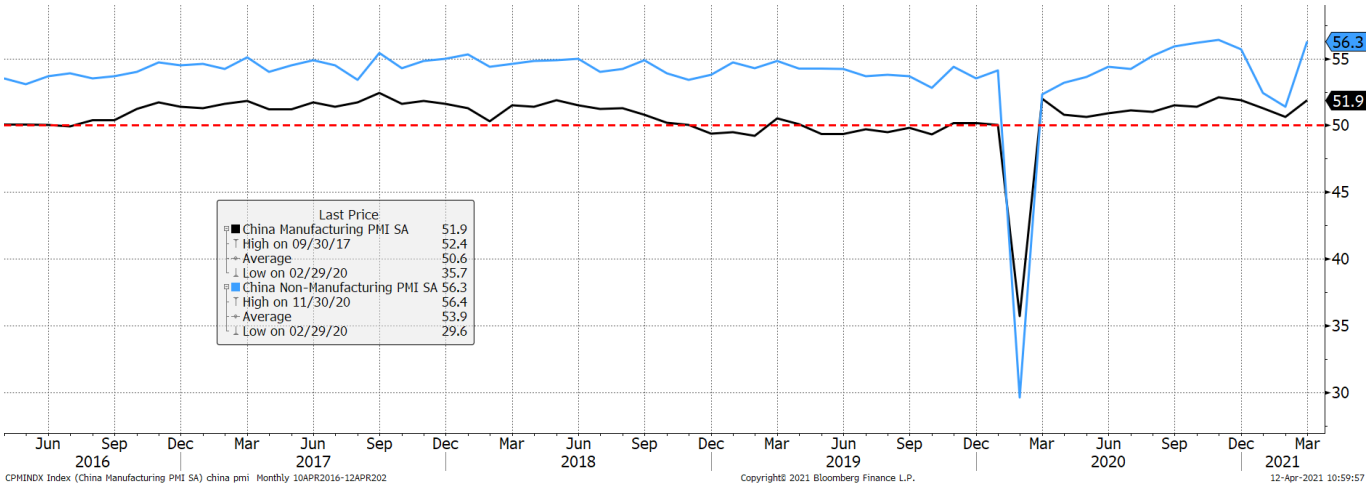
Asia

- During the Chinese Annual Parliament Meeting in early March, Premier Li Keqiang announced that the GDP growth target would be set at above 6% for 2021 and pledged to maintain economic stability. Creating more jobs and ensuring living standard would be the top priority. In addition, Premier Li also aimed to spur domestic consumption and innovation, as part of a plan to reduce reliance on overseas markets and technology for long-term development.

- In 2020, China dropped GDP growth target from the Premier's work report for the first time since 2002 after the pandemic devastated its economy. China's GDP expanded 2.3% last year, the weakest in 44 years but making it the only major economy to report growth.

- The economic recovery momentum is strong in China, the official manufacturing PMI rose to 51.9 in March from 50.6 in February, topping forecasts. The non-manufacturing PMI registered an even bigger upward surprise, shooting up to a strong expansionary reading of 56.3. The improvement in services sector was particularly eyes-catching since it is quite rare to rise in the wake of long holiday which reflected a comeback in consumption.

EXHIBIT 6: Strong momentum in manufacturing and non-manufacturing activities in China



Source: Bloomberg (as at 31/03/2021)

- In South Korea, the country's export growth, which is always viewed as the bellwether of global trade health, accelerated to the fastest pace in 29 months in March due to strong demand on memory chips and cars. Outbound shipments rose 16.6% from a year earlier to $53.83 billion, following the prior month's 9.5% gain.

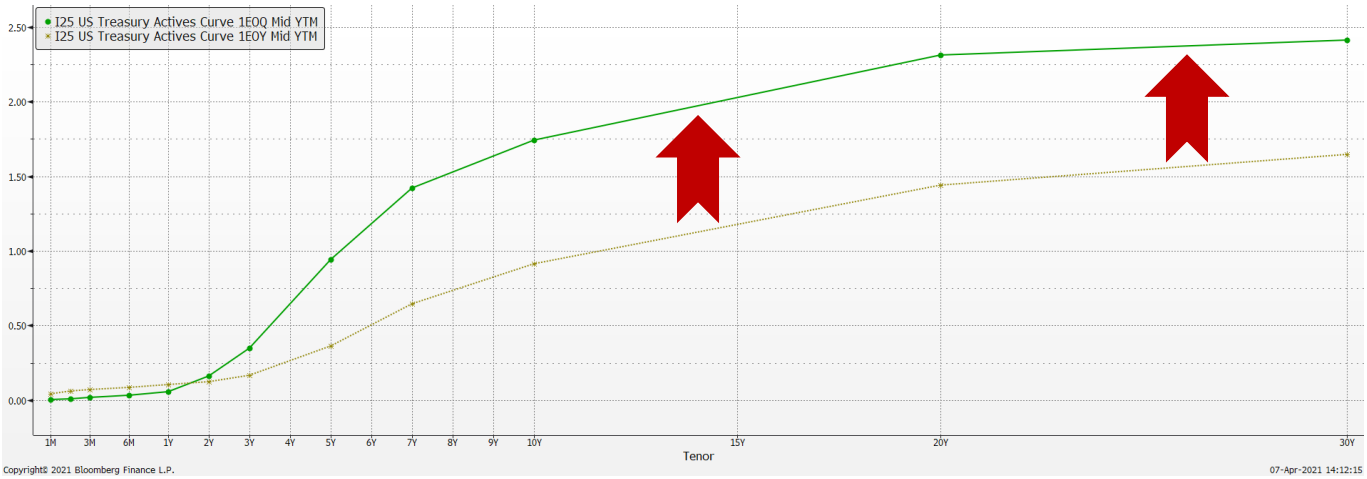
- The stock markets of Asean region underperformed other Asian markets in 2020. However, the trend seems to have a reversal since mid of February as money flow started to shift from new economy to old economy asset classes. In addition, as the tension between the U.S. and China heightens in recent

years, more and more multinational enterprises start to diversify their supply chains and reduce their reliance on China. It is believed that South East Asia countries may be benefitted from the restructuring of the global supply chains and attract more and more foreign investments in the near future especially for those labor-intensive industries since the region can still be able to provide cheap labor force. For the above reasons, aggressive investors may consider adding their exposure in Asean market to capture the potential investment opportunities.

Fixed Income

- Due to the fear of the come-back of inflation, the U.S. Treasuries yield curve steepened. Although the near-term bond yields have little change, the long-dated yields have risen significantly. The 10-year Treasury yield has rallied by 1.25% since August 2020, to around 1.75% at the end of March 2021, and was almost back to its pre-pandemic level in early 2020. The rising U.S. yields reflected falling demand on the investment grade debts and the Bloomberg Barclays Global Aggregate Index dropped 4.46% in the 1st quarter of 2021.

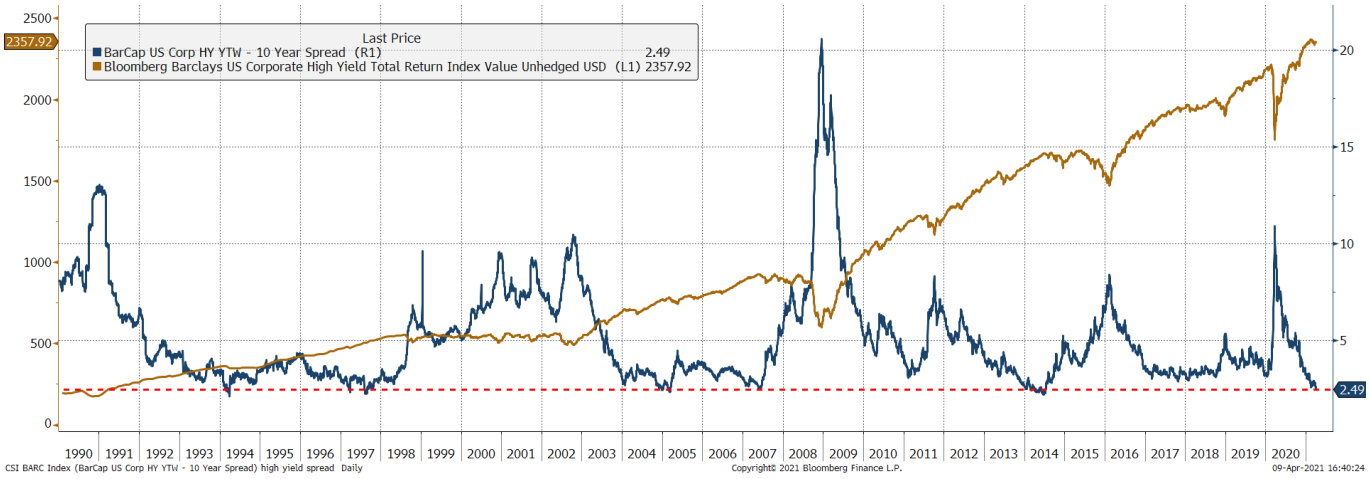
EXHIBIT 7: The U.S. Treasuries yield curve steepened sharply in 2021 Q1



Source: Bloomberg (as at 31/03/2021)

- On the other hand, the yield spread between the U.S. high yield corporate bonds and U.S. 10-year Treasury bonds continued to tighten in the past 3 months and it was almost at the narrowest level in more than 30 years. This phenomenon indicated the risk premium of holding those non-investment grade bonds is very thin. Obviously, the high yield bond is pricey now and brings little risk-adjusted return.

EXHIBIT 8: The yield spread between U.S. high yield corporate bonds and U.S. 10-year Treasury bonds at the narrowest level in more than 30 years



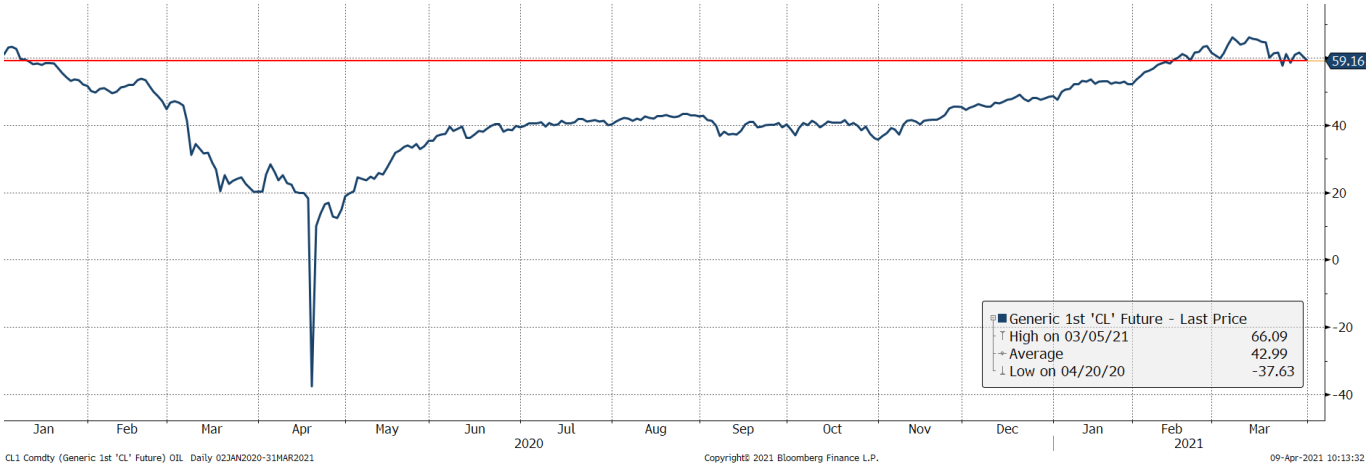
Source: Bloomberg (as at 31/03/2021)

- We understand that fixed income plays an important role in a healthy and balance investment portfolio. However, the high yield bond market is a bit expensive right now while most of the investment grade bonds in the U.S. and Europe are also under pressure due to the rising U.S. Treasury yields. In the current scenario, Asian fixed income may be one of the alternatives to diversify the portfolio as Asian bonds always offer a more attractive bond yields and the positive overall outlook of Asia economy also provide the fundamental support as well.

Commodities

- Oil price staged a remarkable rally in the 1st quarter of 2021, it surged as much as 40% in early March and the price was even higher than pre-pandemic level since the OPEC and its alliance agreed to keep the production steady during their last meeting on 4th March. In addition, the pick-up of economic and trade activities is also the supportive factor on demand side.

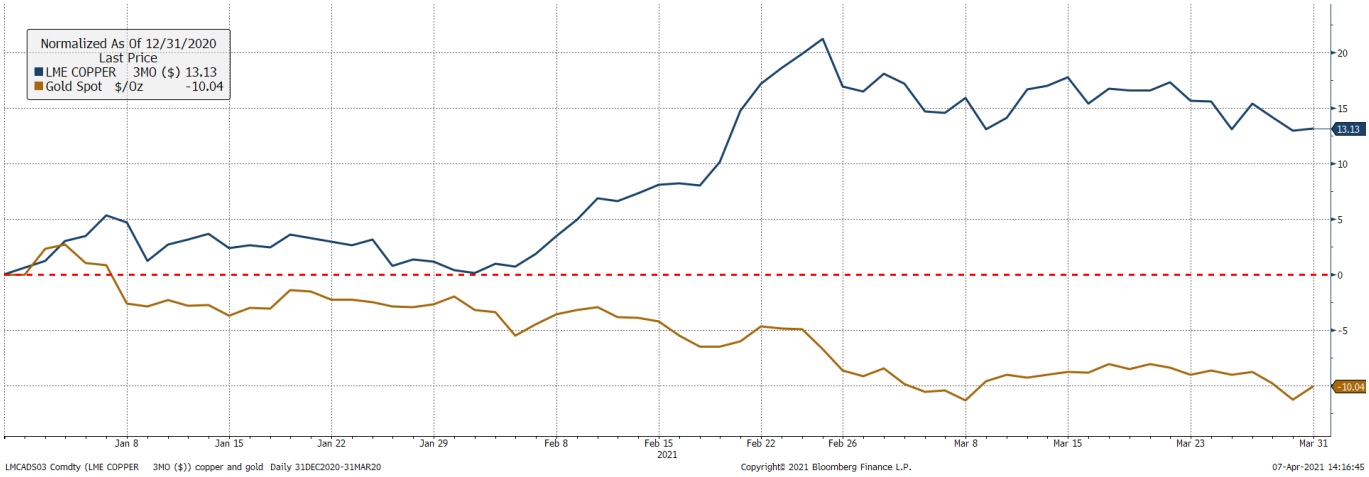
EXHIBIT 9: Oil price was higher than the pre-pandemic level



Source: Bloomberg (as at 31/03/2021)

- Gold and copper price moved in an opposite direction in 2021 Q1, the copper price advanced more than 13% while the gold price fell over 10%. The price of copper was almost doubled since its low in March last year and the bullish momentum may continue since the demand for copper was soaring due to the reason of the expecation of increasing infrastrusture spending in the U.S. and the growing interest in renewable enrgy and electronic vechicles. Meanawhile, the supply of copper remained tight since the production of many key copper exporting countries was discrupted by the restriction measures caused by the COVID-19.

EXHIBIT 10: The price of copper and gold diverged in 2021 Q1



Source: Bloomberg (as at 31/03/2021)

- The rising U.S. Treasury yields are bearish for the gold price since investors can earn an almost guaranteed return from the Treasury yields unlike holding the "Yellow Metal". The spot gold price has fallen more than 17% from its peak in August 2020 and was almost back to the pre-pandemic level. After the recent selloff, gold may be oversold, however, it seems that gold price is lacking strong rising catalyst in the near term unless there are any unexpected negative events.