

Investment Navigator

Asia Edition

How should investors position amid uncertainty?

Key highlights

- The major impact of the geopolitical event through higher commodity prices could bring inflation higher for longer and drag global growth. Severe sanctions against Russia also raises concerns over funding stress. Central banks' path to normalisation has become more challenging.
- Diversification via alternative investments (commodities, hedge funds, real assets, private equity), inflation hedges (precious & "green" metals, commodity currencies), defensive plays (dividend stocks & structured product solutions) can be considered in this uncertain environment.
- China's National People's Congress (NPC) put emphasis on stabilising growth at around 5.5% this year with more fiscal and monetary easing. Some relaxation in the zero-Covid strategy to boost consumption is likely. Rebound in credit impulse historically is positive for China assets.

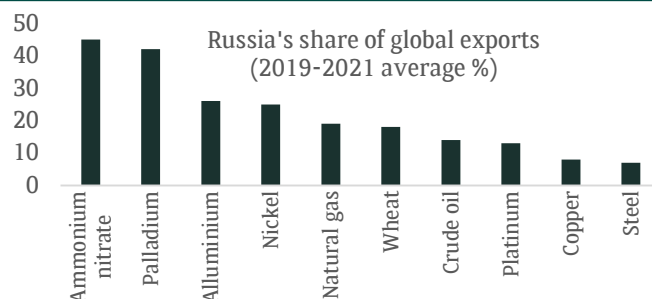
Heightened uncertainty amid geopolitical conflicts

Russia/Ukraine tensions have escalated sharply and severe global sanctions including removing selected Russia banks from the SWIFT system and imposing

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restrictive measures on the Russian Central Bank to disable its ability to use its forex reserves are unprecedented (though Russia's energy sector is exempted from the SWIFT ban for now).

RUSSIA: A KEY EXPORTER OF FUELS, GRAINS & METALS



Source: WTO, KPMG, Russian Trade Ministry, BNP Paribas, as of 2 Mar 2022. Past performance is not indicative of current or future performance.

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What are the economic and market implications?

- Limited direct impact on global growth** - Russian economy will no doubt be in recession, but the country only accounts for less than 2% of global GDP.
- Further inflation risks** - Russia is one of the world's key oil and gas exporters, producing 14% of and 19% of global oil and gas (supplying 40% of Europe's gas). Russia is also the top exporter of wheat, fertilizers and some metals. **Trade disruptions in these commodities lift prices higher, which is problematic for the global economy** when inflation is already elevated. This also complicates central banks' efforts to contain inflation.
- Monitoring funding conditions** - The toughened sanctions against Russia raises concerns over funding stress and contagion risk in the financial system, when financial conditions are already tightening amid central banks' policy normalisation. We also believe **major central banks will respond quickly in case of any sharp deterioration in market liquidity.**

KEEP MONITORING DOLLAR FUNDING CONDITIONS



Source: Bloomberg, BNP Paribas (WM), as of 2 Mar 2022.
Past performance is not indicative of current or future performance.

The Russia/Ukraine situation is very fluid and the end-game is obviously a big unknown, which will intensify market volatility in the near term. Nevertheless, **impact of geopolitical events on financial markets tend to be short-lived historically.** What really matters is the fundamentals of the global economy (which is still far from recession risk). **The sell-off would gradually present buying opportunities for long-term investors when there is more certainty over the outcome of the Ukraine crisis.**

MARKET SELL-OFF DURING GEOPOLITICAL EVENTS TENDS TO BE SHORT-LIVED HISTORICALLY

Event	Event date	Selloff start Date	Duration of selloff (Trading Days)	Duration to get back to prior peak (Trading Days)	Size of selloff (%)	1w from bottom (%)	3m from bottom (%)	12m from bottom (%)
WW-II Germany annexes Czechoslovakia	15-Mar-39	10-Mar-39	22	108	-20.5%	2.0%	8.5%	18.9%
WW-II Germany attacks France	9-May-40	9-May-40	22	745	-25.8%	10.6%	17.1%	9.2%
WW-II Pearl Harbor	7-Dec-41	4-Dec-41	17	201	-10.8%	6.2%	-3.8%	15.3%
N. Korea invades S. Korea	24-Jun-50	22-Jun-50	17	43	-12.9%	5.5%	19.2%	31.4%
Berlin Wall built	13-Aug-61	22-Aug-61	25	18	-3.9%	1.4%	8.0%	-14.6%
Cuban missile crisis	14-Oct-62	15-Oct-62	7	9	-6.6%	2.0%	22.7%	36.5%
Assassination of JFK	22-Nov-63	20-Nov-63	3	4	-4.1%	3.8%	11.5%	23.9%
Military operations in Vietnam	7-Aug-64	17-Jul-64	15	36	-3.2%	0.5%	4.8%	5.8%
Israel Arab war/Oil Embargo	16-Oct-73	29-Oct-73	27	1475	-17.1%	6.3%	5.6%	-28.2%
Impeachment of Richard Nixon	6-Feb-74	30-Jan-74	9	16	-6.6%	1.8%	0.9%	-13.3%
Iranian hostage crisis	4-Nov-79	5-Oct-79	24	51	-10.2%	3.6%	16.4%	29.3%
Soviet invasion of Afghanistan	24-Dec-79	17-Dec-79	12	6	-3.8%	3.5%	-2.9%	29.6%
First Gulf War	16-Jan-91	31-Dec-90	7	8	-5.7%	0.3%	19.9%	34.1%
Bill Clinton Impeachment proceedings	19-Dec-98	7-Dec-98	6	5	-3.9%	4.1%	13.4%	23.0%
9/11 attacks	11-Sep-01	10-Sep-01	6	805	-11.6%	4.3%	18.5%	-12.5%
Iraq War	20-Mar-03	21-Mar-03	7	16	-5.3%	3.6%	15.8%	32.8%
Arab Spring (Egypt)	25-Jan-11	27-Jan-11	2	3	-1.8%	2.2%	6.6%	3.1%
Ukraine conflict	14-Mar-14	7-Mar-14	6	13	-2.0%	1.1%	5.2%	11.5%
Intervention in Syria	22-Sep-14	18-Sep-14	21	12	-7.4%	4.2%	87.4%	9.1%
Brexit vote	23-Jun-16	8-Jun-16	14	9	-5.6%	5.1%	8.0%	20.9%
Airstrike on Syrian Airbase	7-Apr-17	1-Mar-17	32	16	-2.8%	0.6%	5.1%	4.2%
Median			15	16	-5.7%	3.3%	6.5%	13.0%

Source: Bloomberg, BNP Paribas (WM), as of 2 Mar 2022. Past performance is not indicative of current or future performance.



How to position in the current environment?

- 1. Diversification is the key** - This can be achieved via alternative investments including **commodities, low volatility hedge funds, infrastructure, real estate, private equity** etc. Investors can also consider **structured products** for hedging solutions.
- 2. The theme “Riding the inflation regime” remains intact** - Geopolitical tensions, high inflation, tight supplies and strong demand (post-Covid re-opening and carbon emissions targets) all contribute to a potential commodity supercycle. Investors can focus on **precious metals, “green” metals and commodity currencies** such as AUD, NZD and CAD (NZD is also a higher yielding play with RBNZ being the first mover in raising rates since October 2021). This theme can also be played through **selected financials, natural resources miners/producers and real assets**.

RISING COMMODITY DEMAND FOR ELECTRIC VEHICLES & ENERGY TRANSITION

	Wind	Solar Photo-voltaic	Solar Power	Carbon Capture & Storage	Nuclear Power	LED	Electric Vehicles	Energy Storage	Electric Motors
Aluminum	X	X	X	X		X		X	X
Chromium	X			X	X	X			
Cobalt				X	X		X	X	
Copper	X	X		X	X	X	X		X
Indium		X			X	X	X		
Iron(Cast)	X		X			X		X	
Iron(Magnet)	X								X
Lead	X	X			X	X			
Lithium							X	X	
Manganese	X			X			X	X	
Molybdenum	X	X		X	X	X			
Neodymium	X						X		
Nickel	X	X		X	X	X	X	X	
Silver		X	X		X	X	X		
Steel	X								

Source: World Bank, as of 2 Mar 2022. Past performance is not indicative of current or future performance

- 3. Cautious on global equity in the short term but remains positive in the medium term** - We tactically downgraded global equities to neutral in February 2022. By region, we downgraded the US to negative and Eurozone to neutral. By sector, we downgraded US tech and consumer discretionary to negative. Most recently, we also downgraded Eurozone energy and banks to

neutral, while upgraded aerospace and defence to neutral. We prefer **UK large caps, healthcare, mining oligopolies and high dividend stocks in the near term, while deep corrections provide good entry points for the ESG and Metaverse themes in the longer term.**

China is easing, in contrast to the rest of the world

Key highlights and expectations from the NPC

- The government reiterated the priority of stabilising growth and call for stronger policy support to achieve a growth target of around 5.5% for 2022.
- Fiscal support would take the lead, fueling a rebound in infrastructure investment, while monetary policy would maintain an easing bias, with further key rates and RRR cuts in coming months. We may also see a gradual and more transparent regulatory environment going forward.
- The government would continue the "no speculation" property policy framework, while further fine-tuning the property policies such as allowing differentiated local easing and accelerating public rental housing construction.
- We also expect the central government to gradually urge local governments to abolish excessive Covid restrictions to mitigate its negative impact on consumption, service activities and small and medium-sized enterprises. It is reported that Beijing is exploring exit strategy from zero-Covid policy and is likely to see experimental opening measures in selected cities as early as this summer.
- Lastly, they re-emphasise a pragmatic push for decarbonisation while reiterating its long-term commitment to net zero carbon emissions remains unchanged.

Rebound in the credit impulse tends to be favorable for China markets historically. We prefer China A-shares which could directly benefit from the easing measures. We expect a rebound in distressed internet stocks but a sustainable rally requires catalysts. We also see selective bottom-fishing opportunities in China credit.



Overview of our CIO Asset Allocation for March 2022

	Views		Constituents	We like	We avoid	Comments
	Current	Prior				
EQUITIES	=	=	Markets	UK, Japan		<ul style="list-style-type: none"> Downgraded overall equities to neutral. Downgraded US to negative and Europe to neutral.
			Sectors	Healthcare, Semiconductors, Construction, Gold miners	Transportation	<ul style="list-style-type: none"> Downgraded the US tech and consumer discretionary sectors to negative. Downgrade EU energy to neutral. Favour the commodity exposure in UK large-caps which is driving bullish EPS growth forecasts.
			Styles/ Themes	Megatrend themes		Good potential remains for secular themes such as Metaverse, 5G, AI, cloud, cybersecurity, smart consumers, health tech, water, waste & infrastructure.
BONDS	-	-	Govies	US short-end Treasuries	US long-end Treasuries	<ul style="list-style-type: none"> We revised up our 10-year US bond yield target to 2.25% and keep 2-year at 1.5%. We see value in the US short-term government bonds given the geopolitical context.
			Segments	Emerging Markets Bonds (USD + local currency) Fallen Angels & Rising Stars		<ul style="list-style-type: none"> We are neutral on US investment grade (IG) & high yield (HY). We prefer Fallen Angels & Rising Stars. We are positive on EM bonds, in both hard and local currency.
CASH	=	=				
COMMO-DITIES	+	+		Gold & Base Metals		<ul style="list-style-type: none"> Gold - positive: We expect gold to trade in the \$1800-2000 range Oil - neutral: Brent prices jumped to 105\$. Prices may move higher but risk premium is high Base metals -positive: outlook remains bright
FOREX				EURUSD		Our 12-month target remains 1.12.
ALTERNATIVE				Real Estate; Private Equity Macro, Event-driven Hedge Funds		We are neutral on Relative Value & Long/Short Equity, with a preference for Macro & Event Driven strategies.

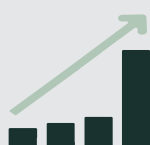
Note: + Positive / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2021f	2022f	2023f	2021f	2022f	2023f
Global		5.6	4.8	3.8	-	-	-
Developed	US	5.5	4.1	2.4	4.7	5.4	2.5
	Japan	1.7	2.6	1.8	-0.2	1.0	0.8
	Eurozone	5.0	3.6	2.5	2.5	5.0	2.1
	UK	7.1	4.1	2.1	2.5	5.8	2.6
Developing Asia		5.9	8.2	5.2	3.8	4.0	3.6
North Asia	China	7.9	4.9	5.5	0.9	2.1	2.5
	Hong Kong*	6.4	3.5	3.1	1.9	2.1	2.3
	South Korea	3.9	2.7	2.2	2.3	2.3	1.7
	Taiwan*	5.9	3.3	2.6	1.6	1.5	1.4
South Asia	India	8.0	11.0	6.0	5.4	5.7	5.0
	Indonesia	3.6	5.8	5.1	1.5	1.9	2.2
	Malaysia	2.6	4.7	5.1	2.3	1.7	1.9
	Philippines*	4.3	3.0	3.0	4.3	6.3	7.0
	Singapore*	6.0	3.2	2.7	1.6	1.5	1.5
	Thailand	1.2	3.6	4.0	1.1	1.1	1.1

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 28 February 2022

* IMF data and forecasts as of 28 February 2022



GROWTH

- Economic growth prospects have been revised downwards for 2022 and 2023. The effects linked to the upcoming sanctions and retaliation remain uncertain. However, it will remain above the levels pre-Covid.
- Several other factors also contribute to weaker growth expectation for 2022: (1) the weaker consumer confidence due to inflation, (2) the central bank's hawkish shift leading to tighter financial conditions and (3) weaker fiscal stimulus in the US.



INFLATION

- We continue to see resilience in price pressures coming from the supply chains. The ongoing geopolitical crisis may also result in further inflation risk, which complicates central banks' efforts to contain inflation.
- We still expect prices to peak this year, thanks to weaker base effects and the easing of supply bottlenecks, albeit the normalisation could take longer than expected.



Equity

 POSITIVE
  NEUTRAL
  NEGATIVE

OVERALL GLOBAL: NEUTRAL ▼

OVERALL ASIA: POSITIVE



COUNTRY

COUNTRY

UK
Japan ▼ Eurozone ▼ US

China
Singapore
South Korea
Indonesia

Taiwan
India, Thailand
Malaysia
Philippines

-

SECTOR

SECTOR

Healthcare
Financials

Energy, Comms
Materials
Industrials
Consu. Sta.
Utilities
Real Estate

▼ Technology
▼ Consumer
Discre.

Technology
Healthcare
Consumer
Discre.
Consu. Sta.
Utilities

Comms
Energy
Materials
Real Estate
Industrials

Financials

- Due to persisting uncertainties (Ukraine, energy crisis, high inflation) hitting consumer confidence, we are getting more prudent but not pessimistic. We recommend risk management, which is driving the equities downgrade, but we remain positive on the medium to longer term.
- By region, we downgraded US to negative and Eurozone to neutral.
- By sector, we downgraded US tech and consumer discretionary to negative. Most recently, we also downgraded Eurozone energy to neutral, and upgraded aerospace and defence to neutral.

		1-month (%)	YTD (%)	2021 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2022f	EPS Growth (%) 2022f	EPS Growth (%) 2023f	ROE (%) 2022f
Developed	US	-3.1	-8.6	25.2	19.0	4.3	2.0	8.3	9.9	22.5
	Japan	-1.2	-6.2	11.4	13.1	1.4	2.2	40.0	6.5	9.3
	Eurozone	-5.3	-8.6	20.1	13.8	1.8	2.7	8.1	8.6	10.5
	UK	0.3	2.2	15.0	12.0	1.8	3.6	4.8	3.2	10.1
	Asia Ex-Japan	-2.4	-5.4	-6.4	13.0	1.7	2.4	9.4	12.9	11.5
North Asia	China	-3.9	-6.7	-22.7	11.4	1.5	2.6	14.3	15.8	11.1
	China A-shares	0.0	-7.6	-5.2	15.4	2.6	1.7	16.0	14.4	11.3
	Hong Kong	-2.6	-1.6	-5.9	15.2	1.2	3.0	16.0	14.5	8.6
	South Korea	0.3	-8.7	-1.6	9.7	1.1	2.1	-0.5	11.7	13.6
	Taiwan	-1.8	-3.2	21.6	14.3	2.7	2.5	3.2	4.6	19.6
South Asia	India	-3.2	-4.1	27.3	21.4	3.6	1.2	20.7	14.5	14.0
	Indonesia	5.4	6.8	1.5	15.6	2.5	2.3	14.6	12.0	15.4
	Malaysia	5.7	2.3	-7.3	15.3	1.6	4.1	-9.5	13.0	10.3
	Philippines	0.6	4.7	0.9	18.4	2.0	1.2	25.8	22.0	8.7
	Singapore	-0.9	-1.7	4.4	15.2	1.4	3.5	14.7	17.0	8.3
	Thailand	3.0	2.8	7.1	18.5	2.1	2.7	10.7	13.4	9.2

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 28 February 2022


BNP PARIBAS
WEALTH MANAGEMENT

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Fixed Income

 POSITIVE
  NEUTRAL
  NEGATIVE

OVERALL GLOBAL: NEGATIVE

OVERALL ASIA (USD): NEUTRAL



EMD (LC)
EMD (HC)
▲ Short-term UST

US IG
High Yield

Long-term UST

Hong Kong
Indonesia

India
Philippines
South Korea
China

-

		Total Return (%)			Yield-to-Worst (%)
		1-Month	YTD	2021	
Asia	Asia USD Bond	-1.7	-1.7	7.3	3.8
	Asia Local Currency Bond	0.0	-7.0	9.7	3.6
	China	-2.0	-4.6	6.1	4.5
	Hong Kong	-1.3	0.8	8.0	3.1
	India	-1.4	3.2	6.7	4.5
	Indonesia	-1.8	0.8	9.8	3.8
	Singapore	-1.0	0.5	6.9	2.8
	South Korea	-0.7	-0.3	6.9	2.3
	Philippines	-3.0	-0.1	7.4	3.6
Other Regions	US 10-year Treasuries	-0.3	-3.0	8.7	1.8
	US Investment Grades (IG)	-1.1	-1.5	7.5	2.3
	US High Yield (HY)	-1.0	5.3	7.1	5.6
	Emerging Market USD Bond	-2.1	-2.8	6.8	5.0

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 28 February 2022

US Treasury 12-month Yield Targets (%) ²	2Y	5Y	10Y	30Y
	1.5	1.75	2.25	2.6

- The global flight-to-quality move was massive in the wake of the Russian invasion of Ukraine. Bond yields dipped but will likely resume their upward trend when the focus comes back to inflation. **We increase our 10-year yields targets by 25bps to 2.25% in the US and 0.50% in Germany in one year to reflect higher inflation for longer. We also see value in the US short-term government bonds given the geopolitical context.**
- The market was initially pricing in a 50 bps hike for the upcoming March FOMC. That expectation has since vanished, with the Fed likely to adopt a gradual approach given the new geopolitical environment.
- We keep our assumption for a **25bps rate hike in March, 4 hikes in 2022 and 4 next year.** We expect the balance reduction to start in July. As for the ECB, we expect the end of the net QE purchases in Q3 and a 25bps rate hike in December. We envisage 3 more rate hikes in 2023.
- We are **positive on Indonesia** credit as Indonesian economy gains momentum on further reopening; we still **see value in Hong Kong names** where most of them have demonstrated resilience in bond price despite concerns on China policy risk and rate hikes. This is primarily mitigated by their largely non-China asset portfolios and relatively short duration.

Forex & Commodities

😊 POSITIVE 😐 NEUTRAL 😞 NEGATIVE

12-MONTH FOREX VIEW

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

COMMODITIES

😊			😐			😞		
Gold	Oil	-	Base metal					

DXY Index: The dollar should remain strong in the face of geopolitical uncertainties. The expected Fed rate hikes and the high interest rate differential are structural factors supporting the dollar.

We still expect some upside for commodity currencies (AUD, NZD, CAD): These currencies are likely to **benefit from the strong commodity cycle**, especially in the context of geopolitical tensions and the expected high growth/inflation mix. **For our 3- and 12month horizon, our targets are 0.73 for the AUD, 0.7 for the NZD and 1.25 for the CAD.**

GOLD: Gold remains our preferred hedge against geopolitical economic and financial tail risks. Persistent inflation and the high level of public debt should keep real bond yields in negative territory. **Gold should trade in the range of \$1800-2000/oz**

OIL: Brent prices jumped to 105\$ as the war broke out. Further increase may happen, but we think that **the risk premium is considerable**. Lifting of the Iranian sanctions could ease supply concerns. Nevertheless prices could remain above \$100 should any unforeseen supply disruptions occur.

BASE METALS: The outlook for base metals remains bright due to the needs of the energy transition, the restocking needs and a more accommodative policy stance in China. Metal inventories are very low and supply is inelastic, with risk exceptionally skewed for aluminum and nickel.

Forex Forecasts

		Spot	3-month		12-month	
		As of 28 Feb 2022	View	Target	View	Target
Developed	USD Index*	96.54	=	96.5	=	96.6
	Japan	115.2	=	114	=	114
	Eurozone	1.121	=	1.12	=	1.12
	UK	1.342	+	1.37	+	1.37
	Australia	0.705	+	0.73	+	0.73
	New Zealand	0.658	+	0.70	+	0.70
	Canada	1.272	+	1.25	+	1.25
Asia Ex-Japan	China	6.365	-	6.50	-	6.50
	Hong Kong*	7.798	=	7.78	=	7.79
	South Korea*	1,206	=	1,195	=	1,220
	Taiwan*	27.81	=	28.2	=	28.5
	India	74.62	=	76.0	-	78.0
	Indonesia*	14,382	=	14,300	=	14,450
	Malaysia*	4.186	=	4.17	=	4.19
	Philippines*	50.98	=	51.3	=	53.1
	Singapore*	1.352	=	1.36	=	1.37
	Thailand*	33.30	=	33.10	=	33.35

Source: BNP Paribas (WM) as of 28 February 2022

*BNP Paribas Global Markets forecast as of 28 February 2022

Note: + Positive / = Neutral / - Negative



BNP PARIBAS
WEALTH MANAGEMENT

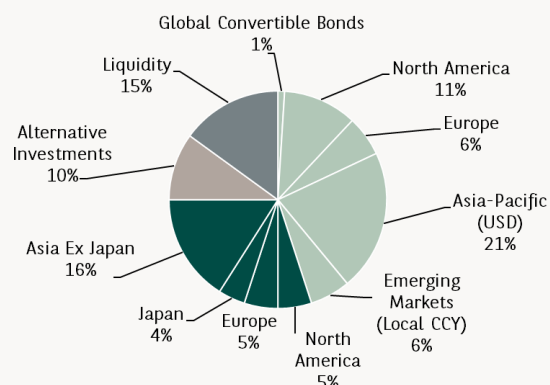
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Strategic & Tactical Asset Allocation

OUR TACTICAL ASSET ALLOCATION IS BASED ON OUR CIO'S ASSET ALLOCATION VIEWS. CHANGES ARE REFLECTED IN THIS MONTH'S TACTICAL ALLOCATION.

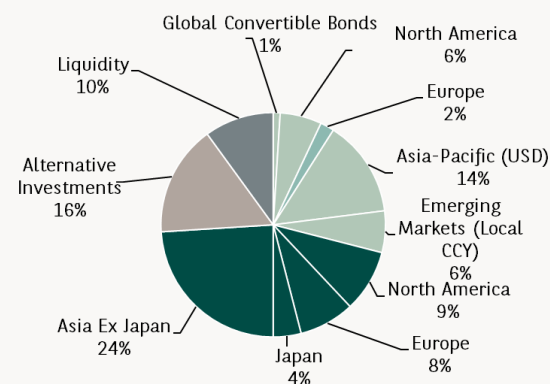
INVESTMENT PROFILE: BALANCED

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	50%	-5%	45%
EQUITIES	30%	-	30%
ALTERNATIVES	10%	-	10%
LIQUIDITY	10%	5%	15%



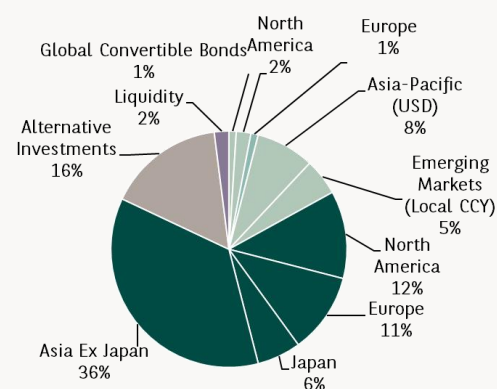
INVESTMENT PROFILE: DYNAMIC

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	35%	-6%	29%
EQUITIES	45%	-	45%
ALTERNATIVES	15%	1%	16%
LIQUIDITY	5%	5%	10%



INVESTMENT PROFILE: VERY DYNAMIC

	STRATEGIC ASSET ALLOCATION	TACTICAL POSITIONING	THIS MONTH'S TACTICAL ASSET ALLOCATION
FIXED INCOME	20%	-3%	17%
EQUITIES	65%	-	65%
ALTERNATIVES	15%	1%	16%
LIQUIDITY	0%	2%	2%



Source: MyAdvisory, as of 1 March 2022

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