GIC Houseview Report

Investment Strategy & Market Outlook

April 2019

CTBC PRIVATE BANKING
中國信託私人銀行服務

中國信託銀行
CTBC BANK

Macro Trend Analysis

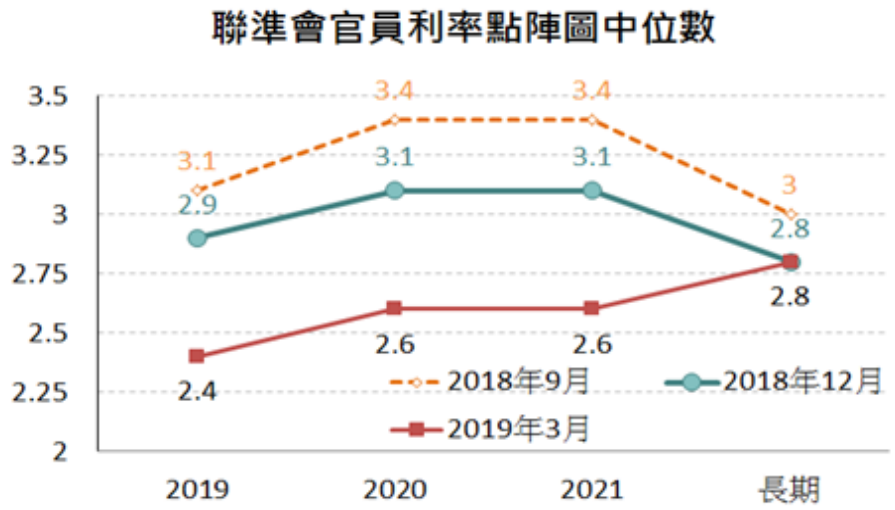
Some Leading Data Recovered, Adding On Monetary/Fiscal Policies

- **US Macro: Surprisingly Weak Nonfarm, Fed Officials Fully Dovish**
- **EU Marco: Reinforcing Euro Zone Bottoming Signal**
- **Asia Macro: Outlook Diverged But All Backed By Policies**

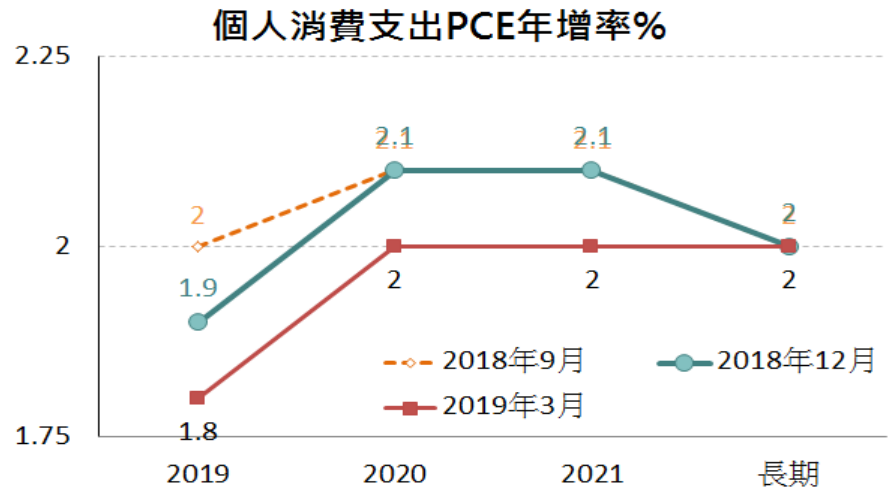
Fed Downgraded Rate, US Economy Accelerated Into Late Cycle

- **Officials Slashed Rate Forecast:** 9 of 17 officials slashed rate forecast of the year in quarterly outlook. Medium forecast fell from 2.9% to 2.4%, implying steady rate this year with QT slowdown in May and end in Sep. Fed is more pessimistic over economy with cuts of 2019 growth forecast medium from 2.3% to 2.1% and PCE inflation from 1.9% to 1.8%. Dovish Fed increased economic downturn concern so 10-yr treasury yield was at 14-month low while 6M1Y yields inverted. US monetary policy would maintain amid moderate inflation, expecting to be at 2.25%-2.5% for the year.
- **Macro Outlook N6M:** We expect inflation to reverse the downtrend from energy price base effect in 3Q. Moderate inflation enables Fed to hold and rule out tightening. In short-term, slowing China and Europe, Sino-US trade talk and Brexit brought uncertainties. Domestically, 1Q19 outlook slid due to temporary factors such as government shutdown and climate conditions. But financial condition has improved since 1Q19 equity rebound. We expect 1Q19 growth to be the worst of the year (consensus 1Q19=1.5%, 2Q19=2.6%), and overall outlook to rebound in 2Q19 with 3Q19 debt ceiling on focus.

Largest Dot Plot Slash Since 2012



Moderate Inflation Enables Fed To Hold



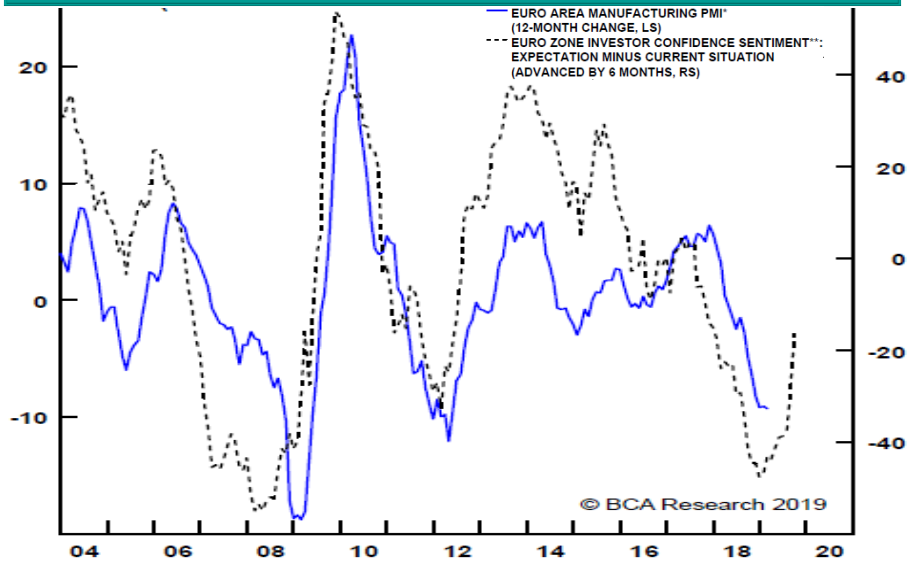
Source: Fed, 2019/3/21

Euro Zone Outlook Bottoming Signal Strengthened Further

- **Services Continued To Outperform, Leading Mfg Bottomed Out:** Though Euro Zone manufacturing was not optimistic, services continued to improve with Markit Services PMI rebounded to 3-month high. Germany, France, Italy and Ireland all performed well. Corporate confidence and employment sub-indices continued grow. Euro Zone growth driver – domestic demand consumption regained its leading force after the depressed 2018.
- **Leading Indicator Showed Signs Of Stop Deterioration And Reversal:** Feb ZEW Euro Zone economic confidence rose 4.3 from Jan to -16.6, highest in 4 months, reflecting Euro Zone economic activities and capital market outlook would not further deteriorate in N6M. In addition, Sentix Euro Zone Mar investor confidence rose from Fed -3.7 to -2.2, higher than consensus of -3.1. BCA took its expectation index to minus current situation to demonstrate that outlook indicator would bottom out, reflecting surveyed companies and investors believed the worst has passed with signs of recovery emerging, corresponding to the conclusion of Euro Zone outlook bottoming out gradually.

Leading Composite PMI Stopped Falling

6M-Leading Confidence Rebounded

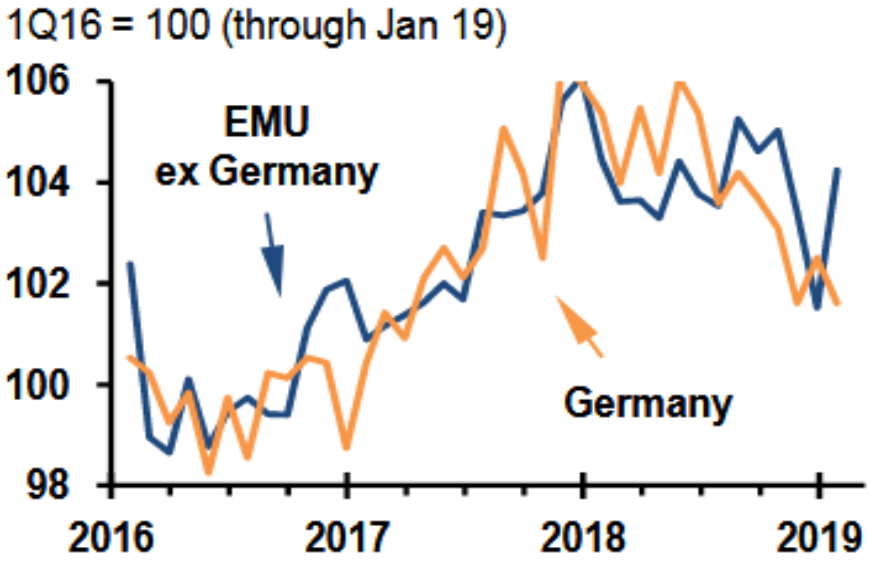


Source: (L)IHS Markit, 2019/3/5, (R)BCA, 2019/3/8

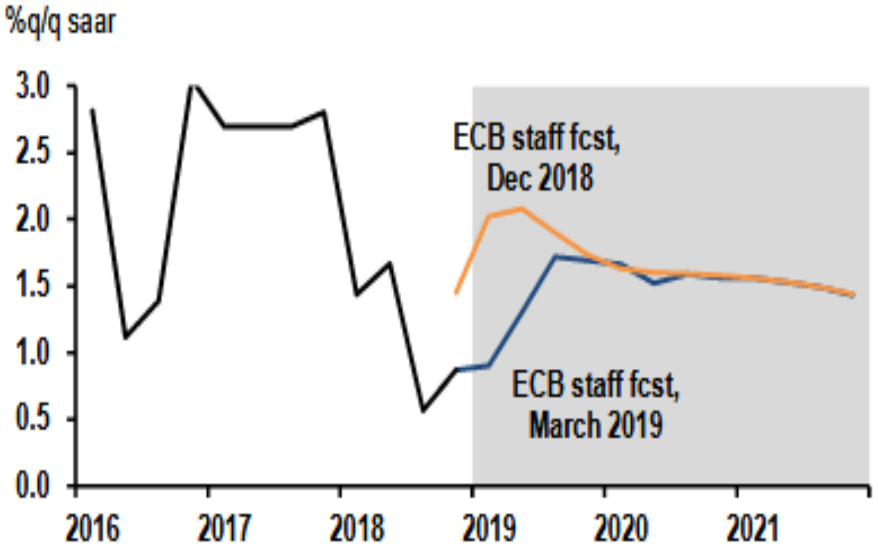
ECB Officials Forecast Indicated Confidence On Outlook Recovery

- **Indicators Showed The Worst Has Passed, Outlook Bottom-Out Signal Surfaced:** Jan industrial production though was still negative YOY, with the boost of rising energy sector production, gained 1.4% MOM. YOY growth rate improved the 2nd month, indicating the economy is stabilizing. The major drag of production last year – automotives also observed gradual recovery of orders from the bottom.
- **Officials Forecast Upgraded 2020~2021 Growth:** ECB though downgraded 2019 economic growth forecast in Mar meeting, while upgraded 2020~2021 forecast. In the meeting statement, description of outlook was still ‘ moderate expansion, inflation above 1%’. All committee members assessed the probability of recession to be extremely low. All these signals hinted future outlook could recover if uncertainties gradually disappeared.

Euro Zone Industrial Production Rebound



Downgraded 2019 Growth But Upgraded 20/21

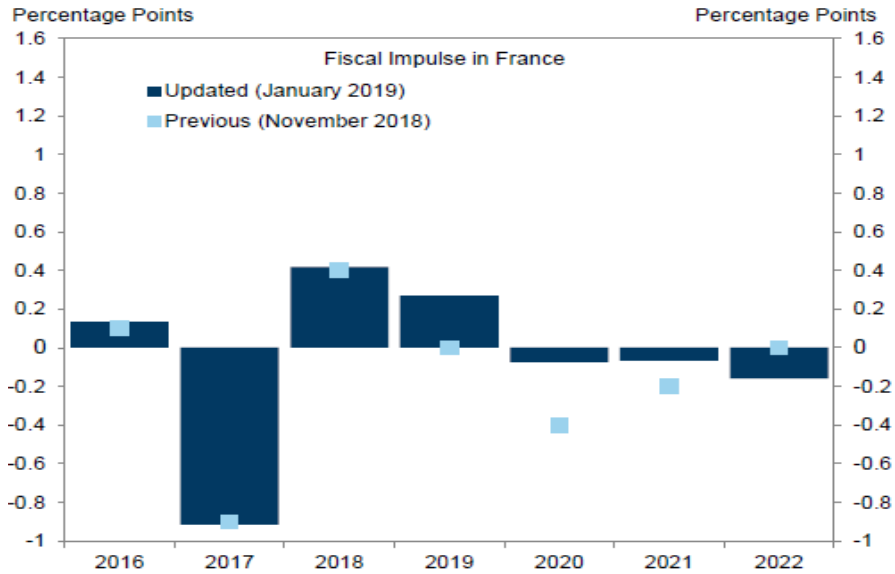


Source: JPM, 2019/3/15

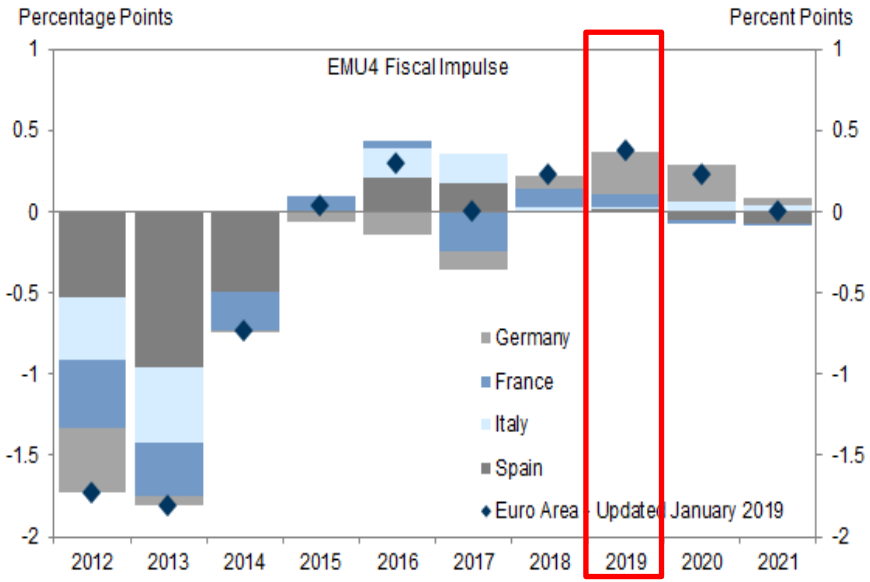
FY2019 Expansionary Fiscal Policy Fuels Growth Momentum

- **Major Countries Ended Austerity To Embrace Expansion:** Major European countries ended tight days of austerity after the European Debt Crisis in 2018. According to the proposed FY2019 budget to EU committee, all four major countries planned for fiscal expansion. Germany proposed 0.75% of GDP stimulus to EU committee last Nov. French president Macron was pressed by the Yellow Vest movement early this year to raise wage and remove additional tax. In its new FY2019 budget proposal, there was a 0.2% of GDP fiscal stimulus.
- **Fiscal Expansion Would Contribute 0.4% GDP Growth For Major Countries:** According to GS, 2019 fiscal policy of Germany, France, Italy and Spain could contribute 0.4% growth for the overall Euro Zone. Though Italy 2.4% budget deficit was downward revised to 2.04%, the reduction in growth would be mild due to its highly-indebted nature. GS believed balancing the fall in Italy and the rise in France, overall contribution to Euro Zone GDP would still be positive.

Yellow Vest Opened Up France Fiscals Expansion



GS: Expansionary Fiscals Boost 0.4% GDP Growth

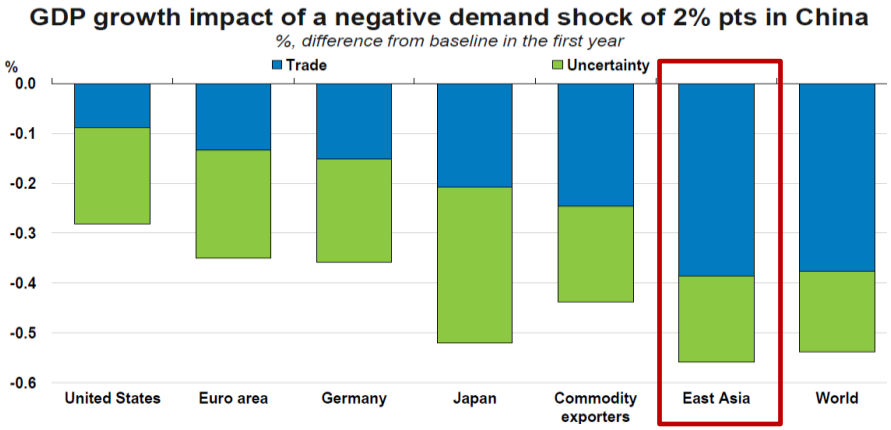


Source: Goldman Sachs, 2019/1/9

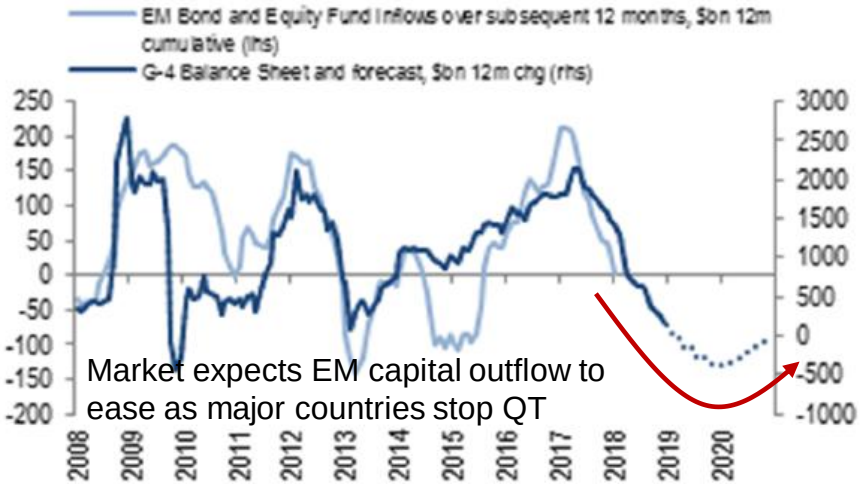
Outlook Diverged But All With Policies To Back Up

- **Slowing Global Outlook Shock Asia Exporters:** DM outlook slowed while leader of EM – China weakened due to financing difficulty and trade conflict. Export oriented EM Asian countries bore the brunt of global trade slowdown.
- **But 2019 External Condition Created Room For Fiscal/Monetary Policy:** China combined monetary easing with ¥2 trillion tax cut so market expects its outlook to bottom out in 2H19. Fed paused rate hike while inflation eased. Asia central banks with CA deficits, could ease to improve outlook.

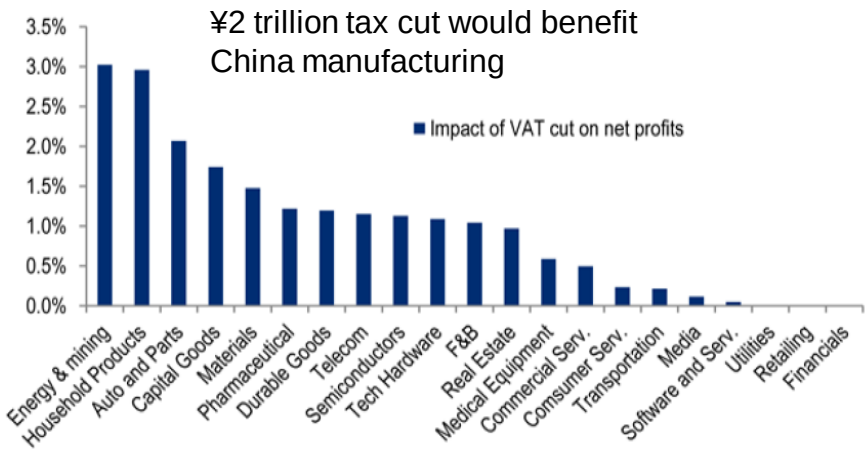
China Disease Would Make Asia Sick



Larger Asia Central Bank Policy Room



China Extensive New Tax Cut



Source: (Top Right)OECD, 2019/3, (Bottom Left)JPM, 2008~2020(F), (Bottom Right)Citi, 2019/3

Earnings Trend Analysis

2Q19 Awaits Bottoming Signal, 3Q19 Welcomes Earnings Recovery

- **Country: Earnings Downgrade Cycle Near The End, Cautious Optimistic About Equities**
- **Sector: 2Q19 Sector Activity Bottoming Signal To Appear, 3Q19 Welcome Return Of Sector Momentum**

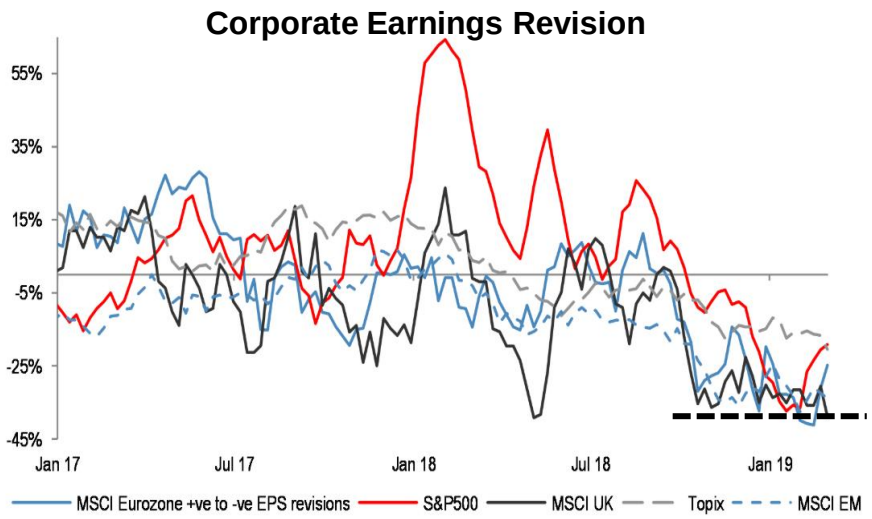
Earnings Downgrade Might End Soon, Equity Cautiously Optimistic

- **Earnings Downgrade Might End Soon:** Historically, it took average of 7 months for earnings switched from downgrade to upgrade after equity price bottoming out. In other words, some indices bottomed out last Oct, we might see some earnings upgrade earliest 2Q19. If commodity 1Q19 results switch to upgrade in Apr, we could be certain this global earning downgrade cycle has ended. Before that, we are cautiously optimistic on equities.

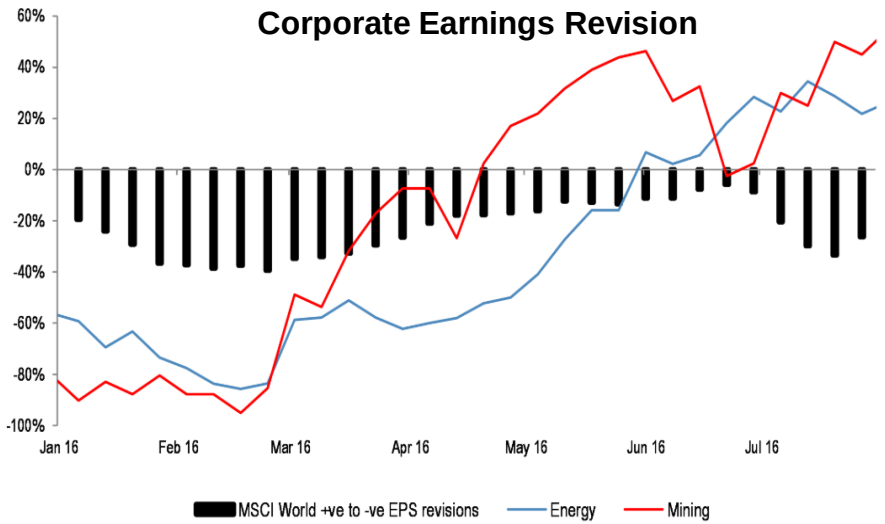
Earnings Upgrade 7 Months After Equity

Market trough	EPS revisions turn positive	# Months	Market Performance
1998/10/7	1999/5/26	8	33%
2003/3/10	2003/9/22	7	27%
2009/3/4	2009/8/12	5	38%
2016/2/11	2016/12/8	10	22%
Average		7	30%

Market Expects Earnings Downgrade To End Soon



Commodity Earnings As Leading Indicator

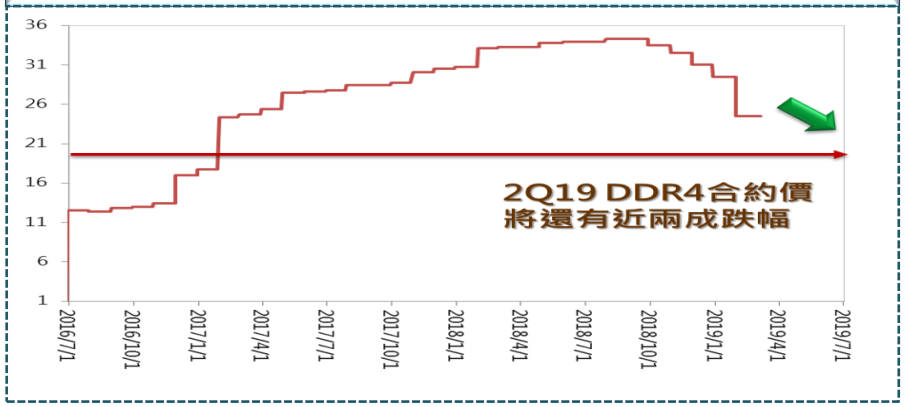


Source: JPM, Bloomberg, IBES, 2019/3/10

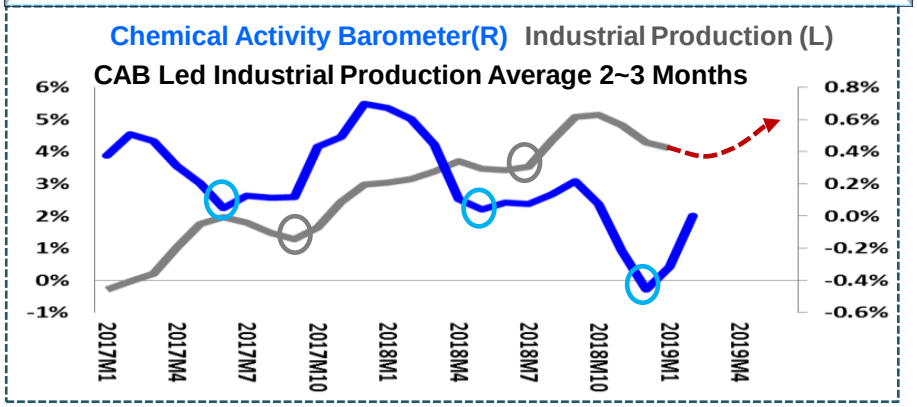
2Q19 Sector Activities Bottoming Out Signal Clearer

Though industrial production slowed as semiconductor is in downtrend and terminal application is in transition period, the leading Chemical Activity Barometer recovered, forecasting production activities to bottom out in 2Q19. As whether is getting warmer with basic consumption demand recovering, consumer staple would welcome its peak season.

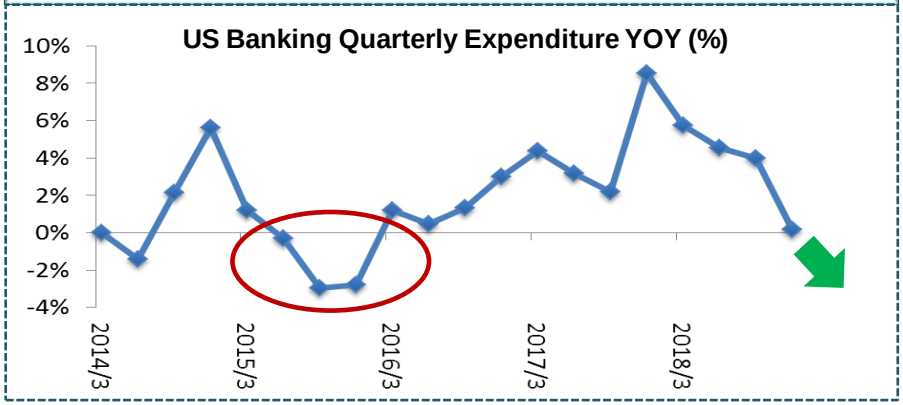
Growth: Semiconductor 2Q Still In Downtrend



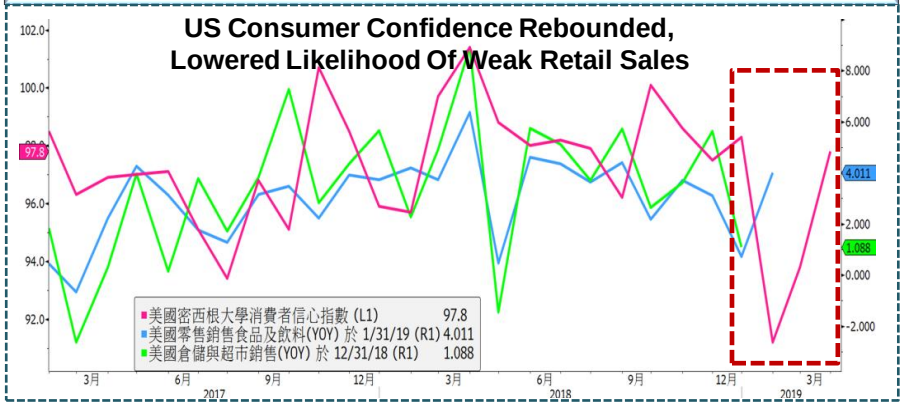
Resource: Production To Bottom Out After CAB



Rate: Financials Conservative To Cut Costs



Defensive: Cons. Staple Peak Season Ahead

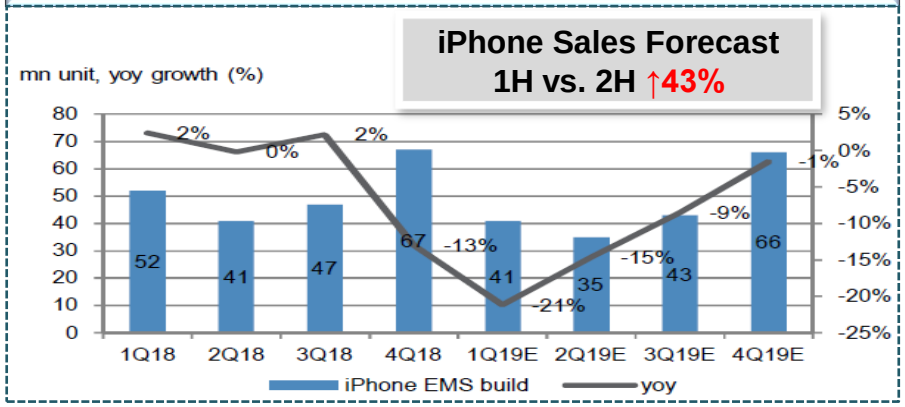


Source: (Top Right)American Chemistry Council, 2019/2, (Bottom)Bloomberg, 2019/3/14, (Top Left)DRAMeXchange, 2019/2, Compiled by CTBC Bank, 2019/3/19

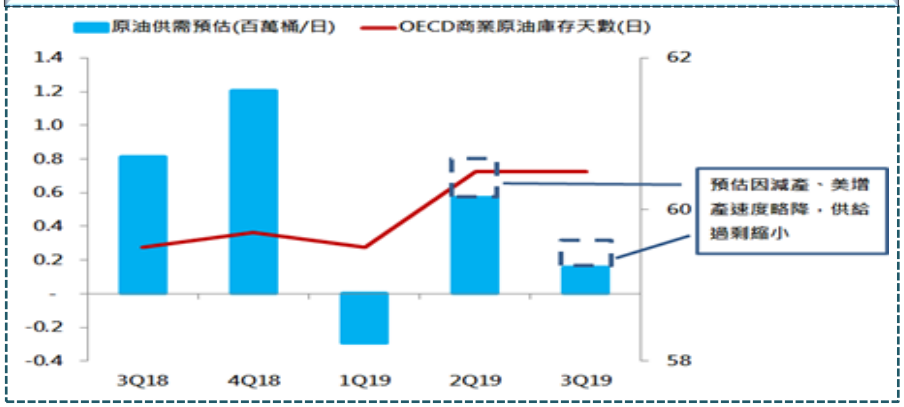
3Q19 Welcomes Returning Sector Momentum

Terminal products would enter peak season, stabilizing the growth sector such as tech. Energy sector might observe milder oversupply shock on oil price with output cut and slowing US expansion. Healthcare growth momentum continues. With new drug and medical annual conference themes in 2H19, it would be further boosted.

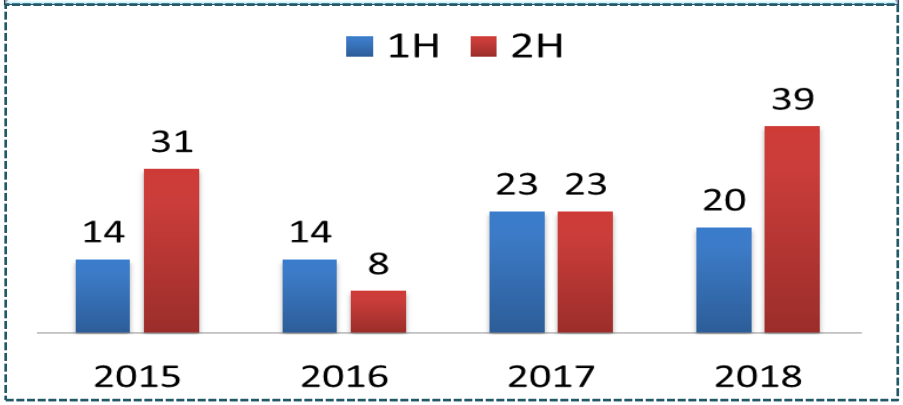
Growth: 3Q19 Electronic Terminal Peak Season



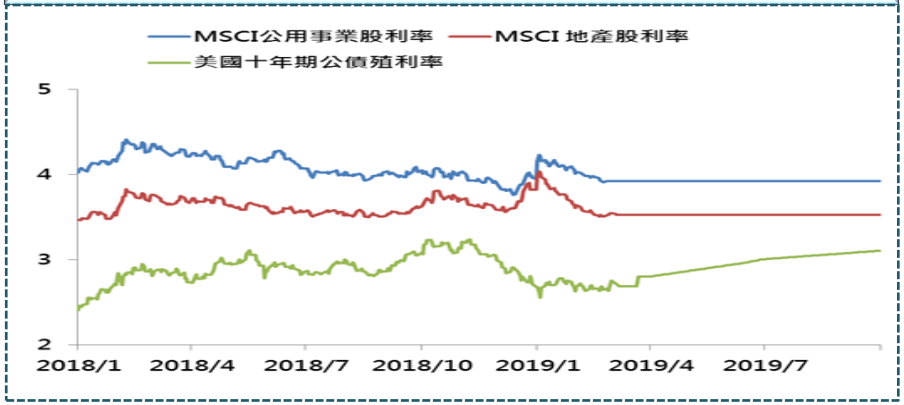
Resource: Crude Oil Oversupply To Shrink



Defensive: More New Drug Approval In 2H



HDY: HDY Less Appealing In Outlook Recovery



Source: (Top Left)JPM, 2019/3, (Bottom)Bloomberg, 2019/3/14, (Top Right)EIA, 2019/3, Compiled by CTBC Bank, 2019/3/19

Topic Trend Analysis

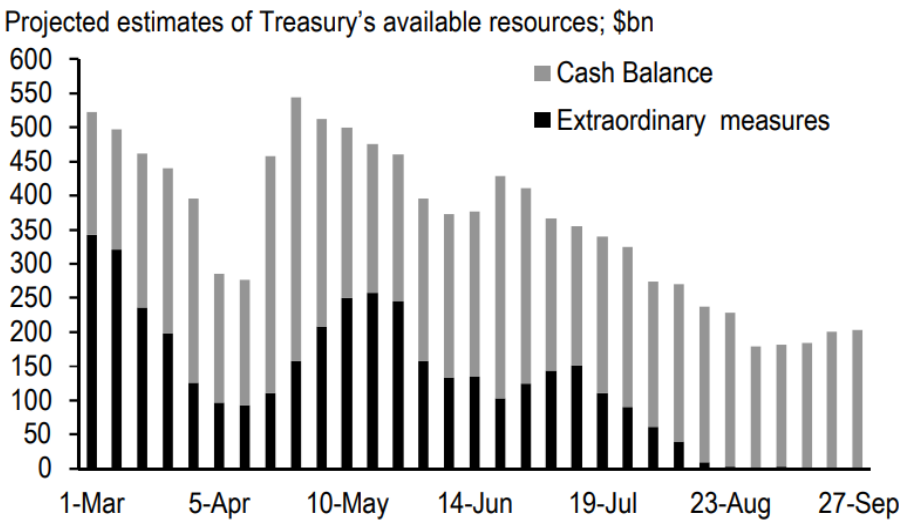
Politics Uncertainty Eased, EU Election And US Debt Limit At Watch

- US Debt Limit Problem Resurfaces As 3Q19 Political Risk
- Populist Party Seats To Gain In EU Parliament Election, But Market Has Priced It In
- Even Hawkish Candidate Elected As Governor, ECB Would See Rate Hike Earliest In 2020

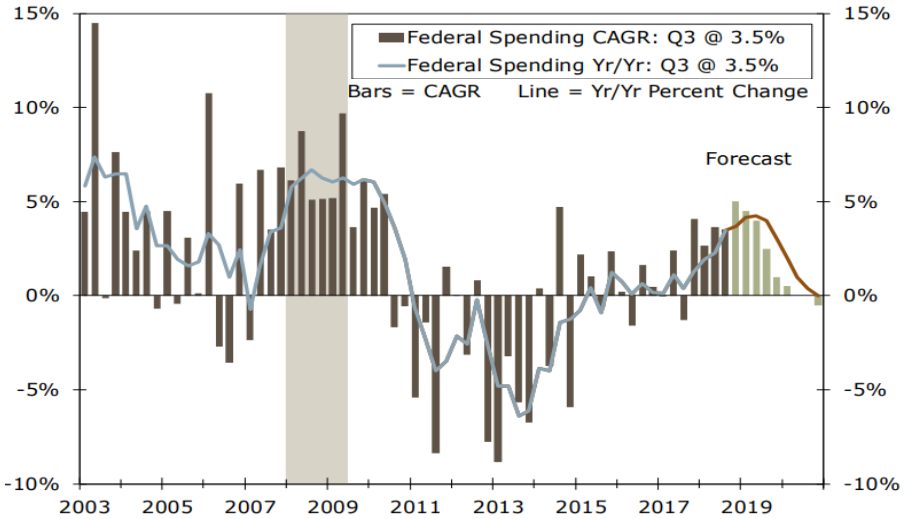
US Debt Ceiling Resurfaces, 3Q19 Political Risk Exists

- **Previously On US Debt Ceiling:** Since 1960, US debt ceiling has been raised 78 times with two technical defaults historically in 1979 and 1933. On 2018/2/9, Trump signed bill to suspend the ceiling until 2019/3/1. US debt ceiling is restated now with Secretary of Treasury Mnuchin ordering extraordinary measures to avoid government debt default and urging Congress to raise the ceiling. Besides SLGS issuance, US Treasury Department also suspended reinvestment of treasury securities held by G fund and TSP and injection into CSRDF and PSRHBF and exchange stabilization fund.
- **Future Development:** Without bipartisan consensus, federal debt ceiling would be restated on 3/2. Market expects April tax collection season could relieve some debt issuance pressure. Extraordinary measures and annual tax collection would avoid technical default of US treasury until end of Aug(CBO forecasted end of Sep) with slowing government spending. Technical default would hit confidence as that in 2011, risking a downgrade. **As no actual default in past 78 times, base case is higher or suspension of ceiling in 3Q19 until 2020 US election. 3Q19 US political risk rises.**

JPM Estimated Exhaustion In Aug



Federal Spending To Slow In 2019, Fall In 2020

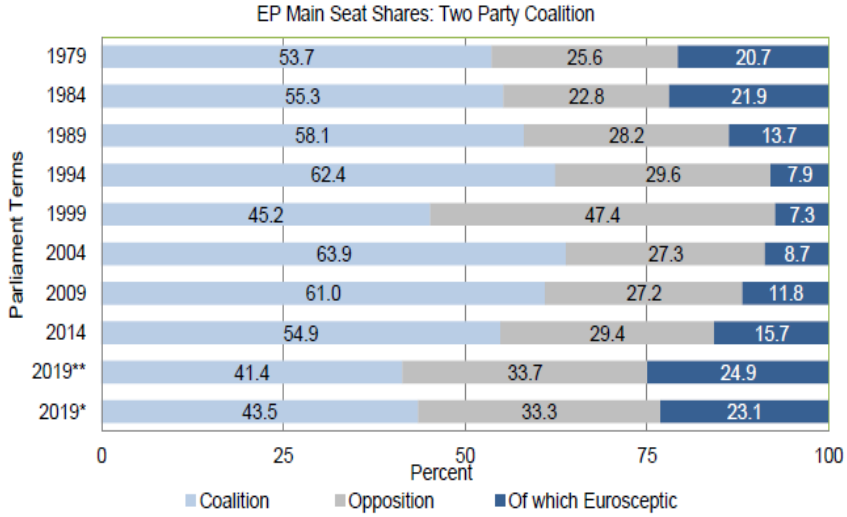


Source: (L)JPM, US Treasury, 2019/2/27, (R)Wells Fargo, 2019/1/2

Populist Parties Have More Seats But Expected By Market

- **Populist Seats To Rise:** New round of EU parliament election would hold on 5/23~5/26. Since last election(2004), the major change would be rising support of populist parties in each country regardless of Germany, France, Spain or Italy. According to recent poll, EU opposition populist parties support reached 23.1%, surged from 15.7% of last election.
- **Limited Impact On Populists:** Though populist party seats might rise, their impact on EU parliament would be limited. Reasons are 1. Populist parties have gradually transformed from EU exit to pragmatism of gaining more internal EU power through greater political participation. 2. Populist parties usually favor statism or nationalism. Though overall seats rise, due to differences among parties, they are difficult to form a coalition. 3. EU parliament has no right to propose bill. The power is with EU committee so populists are unlikely to change major EU agreements. In terms of market, fund outflow from Europe continued, partially reflecting risks of rising populism in Europe. Though populists might take more seats this time, market reaction would be limited unless their seats could pass 50% benchmark.

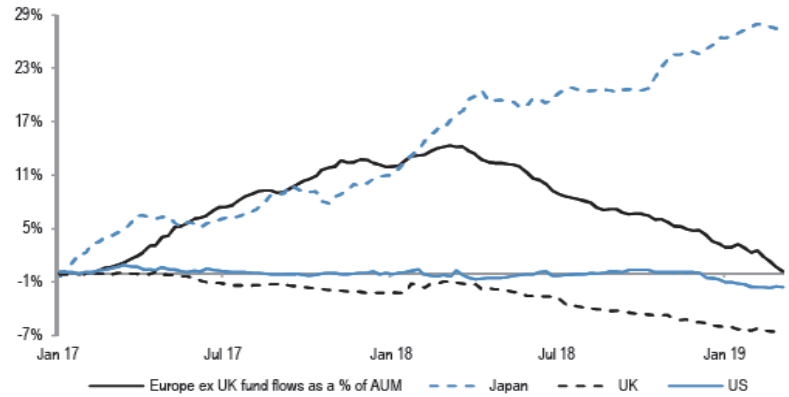
Poll Revealed EU Opposition To Take 23.1%



Note: 2019 based on latest opinion polls; 2019** based on H2 2018 opinion polls*

Equity Fund Outflow Amid Concern Over Populists

Figure 46: Cumulative fund flows into regional funds as a percentage of AUM



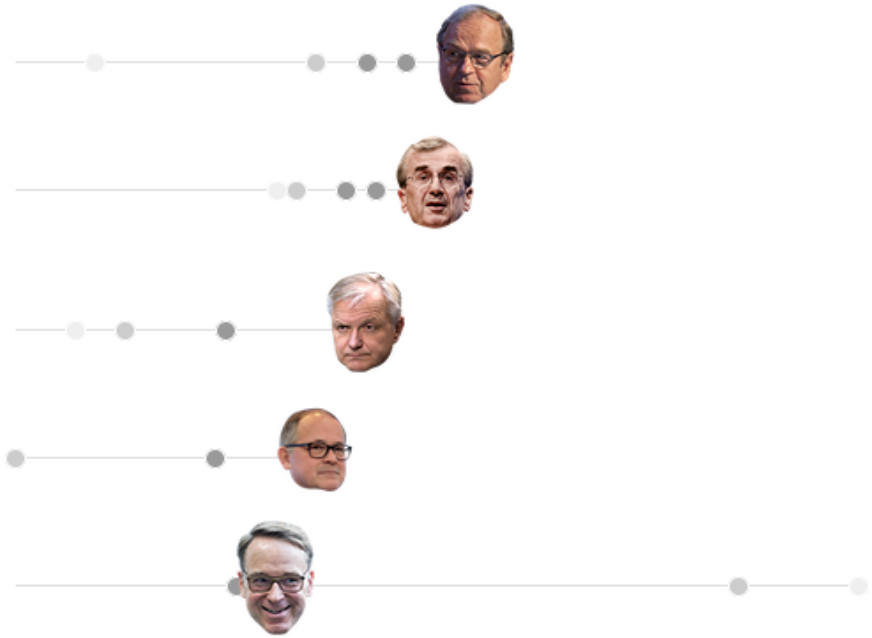
Source: EPFR, as of 6th Mar, 2019

Source: (L)Goldman Sachs, (R)JPM, Compiled by CTBC Bank, 2019/3/14

Next ECB Governor – France vs. Germany, South vs. North

- **How To Elect Next ECB Governor:** Current governor Draghi's term would ~~terminate~~ end in 2019/10. Prior to that, all countries could propose candidates for the position. But proposal would be discussed by finance ministers and MPs when it reaches EU. Finally, leaders of countries would vote for the next governor.
- **Current Candidates:** Bloomberg survey in the past year revealed two candidates from Finland which might be the compromise for smaller player to have its voice heard. France had 2 of the top 5 and 3 of the top 10 candidates, indicating its elite education has led to abundant talents. But Coeure committee term would end on 12/31, unlikely to contest for the next governor. There was also rumor that Bundesbank governor might also compete for the more powerful EU committee chairman so Weidmann had its ranking sliding in the board.

Top Five Candidates For Next ECB Governor In Bloomberg Poll



Erkki Liikanen Former ECB Governing Council member (FI)	46	Former Bank of Finland governor – founding member of EU. He supports unconventional stimulus and is perceived as moderate and pragmatic.
Francois Villeroy de Galhau ECB Governing Council member (FR)	42	Banque de France governor – neutral, following Draghi in monetary stimulus in a pragmatic style.
Olli Rehn ECB Governing Council member (FI)	35	Bank of Finland governor – former EU committee member, demanding fiscal displine.
Benoit Coeure ECB Executive board member (FR)	30	French. Current ECB executive board member – 7-yr colleague with Draghi
Jens Weidmann ECB Governing Council member (DE)	26	Bundesbank governor – super hawkish

Source: Bloomberg, 2018/2/17~2019/2/28

Even If The Hawk Takes The Office, ECB Rate Hike Is Earliest In 2020

- **Weidmann Is Crucial To Determine Whether ECB Would Inherit Draghi Dove:** Most probable candidates are still of dovish or moderate style now with only Weidmann hawk standing out. But Euro Zone economic weakness is a fact. Even if the hawk takes the office, it would still be uncertain whether he has the basis for Quantitative Tapering or rate hike.

Moderate Candidate

If Draghi colleague or supporters win the governor role, dovish easing could continue to support struggling economic growth rate. Yield would consolidate at low in 0.05%~0.35% in N6M.

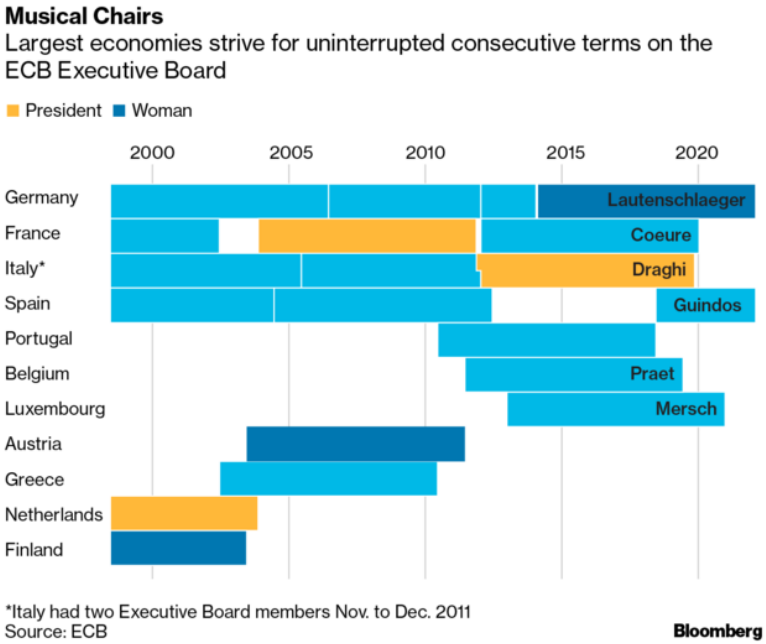
Hawkish Candidate, Slowing Economy

If Weidmann takes office, his hawkish style could not be implemented amid weak Germany. ECB current policy might be extended to mid-2020 with yield consolidating back to the low of 1Q19, 3Q19 to 1Q20 forecast region is 0.2%~0.4%.

Hawkish Candidate, Economy Pickup

If Weidmann takes office and Euro Zone growth recovers, he might act based on ECB promise of refinancing rate 'remain at their present levels at least through the end of 2019' at the start of 2020. Fixed income reflects rate hike expectation with surging Germany 10-yr treasury yield.

ECB Executive Board Seats



- Besides ECB governor, the other tow Executive Board members (Corure, Praet) would also end their terms. Governing Council (Governors of Euro Zone central banks) would have 8 countries having newly elected governors to take over. The change is relatively massive.

Source: (Top Right)Bloomberg News

2Q19-3Q19 Equity/FI/FX Strategy

2Q19-3Q19 Equity/FI/FX Strategy

Equity (Country)		**US Earnings To Bottom Out First, Faster Than EU/Asia** **Considering US earnings would bottom out faster than EU/Asia and the worst of Sino-US trade war has passed, US equity would still outperform EU/Asia. 3Q19 US debt ceiling resurface might increase the attractiveness of EU/Asia.**
Equity (Sector)		**Growth Sector (Tech) To Confirm Bottoming Signal, Consumer Staple Demand To Recover** **After the transition period of terminal application in 2Q19, growth sector such as tech would be more stable. Consumer Staple would be the first to welcome warmer weather and recovery of basic consumption demand. 3Q19 healthcare might rally with themes.**
FI		**DM Bonds US Better Than EU, EM Sovereign More Stable Than Local Currency Bonds** **Considering growth pace and earnings bottoming signal, DM corporate bonds would prefer US over EU. In 2Q19, EM bonds faces high debt maturing pressure and political risk, so sovereign bonds are relatively stable after balancing yield spread and FX risks.**
FX		**FX Market Consolidation Continues, Leverage On Dollar Yield Advantage** **Dovish Fed shifted the DXY consolidation range down but relative yield advantage puts dollar as the market focus preferred investment target. In non-US, with fiscal /monetary stimulus, economies have not recovered. CNY and commodity currencies lack momentum to strengthen.**

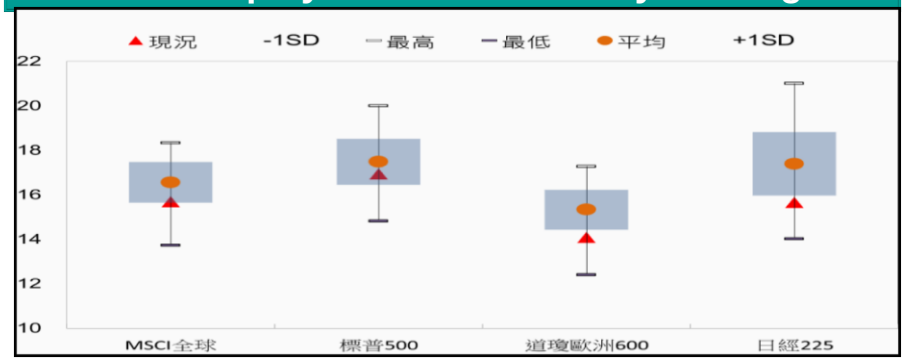
Source: Compiled by CTBC Bank, 2019/3/15

Global Equity Valuation Restored, Rally After Outlook/Earnings Catch-up

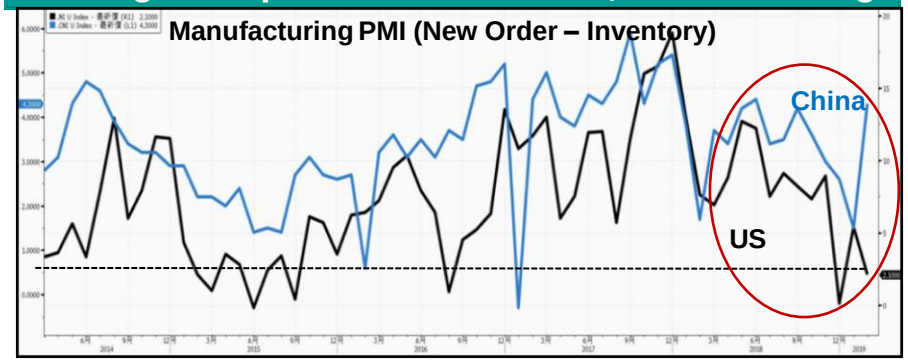
- **Global Equity Investment Strategy:** After 2 months of rally, global equity valuation has restored to 5-yr average without clear direction, waiting for outlook and earnings to catch up. Sino-US trade war has passed the worst time while Brexit reaction became milder, overall investment sentiment turned more risk-on. We expect G2(China, US) manufacturing demand to improve. US earnings growth is to bottom out in 1Q19. Global equity would be led be US equity in 2Q19, rallying after consolidation. However, the valuation would be expensive so the rise in N6M might not be as strong as 1Q10. 3Q19 EU earnings would recover while US fiscal problem surfaces, making EU investment more attractive.

Investors Indifferent On Brexit And Trade Talk

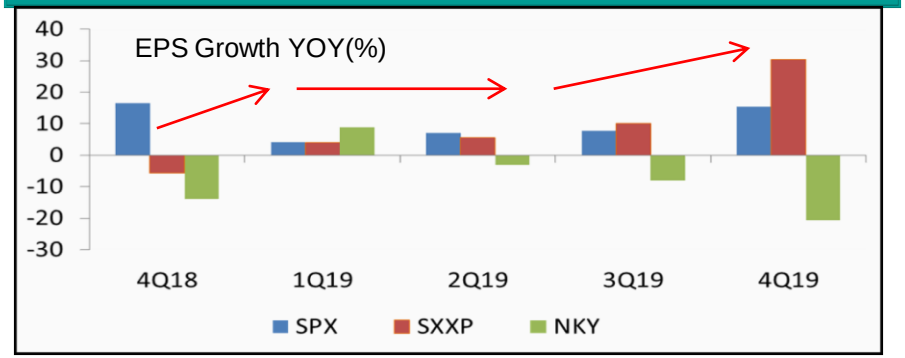
Global Equity Valuation Near 5-yr Average



G2 Mfg To Improve: CN Rebound, US Bottoming



US/EU Earnings Recover In 2H19, JN Negative

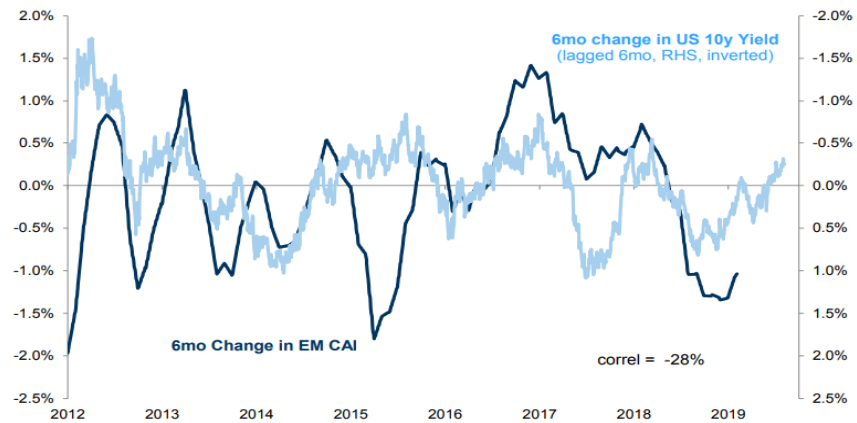


Source: Bloomberg, Compiled by CTBC Bank, 2019/3/13

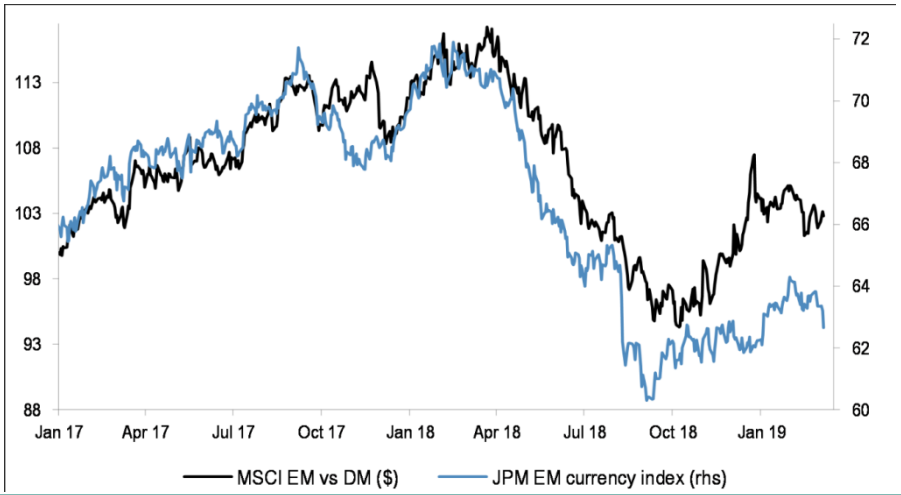
Earnings Aside, Dollar/Treasury Yield Would Determine EM Performance

- **Earnings Aside, Dollar/Treasury Yield At Focus:** EM 1Q19 results are very unlikely to beat market consensus. Market concerns more about whether the worst has passed in 1Q19 results. Earnings aside, market focused more on dollar and US treasury yield. DXY has been consolidating in 96-97 since last Oct while US 10-yr treasury yield seeking support at 2.6%. Without a new direction emerging, EM equity indices are expected to continue consolidation.

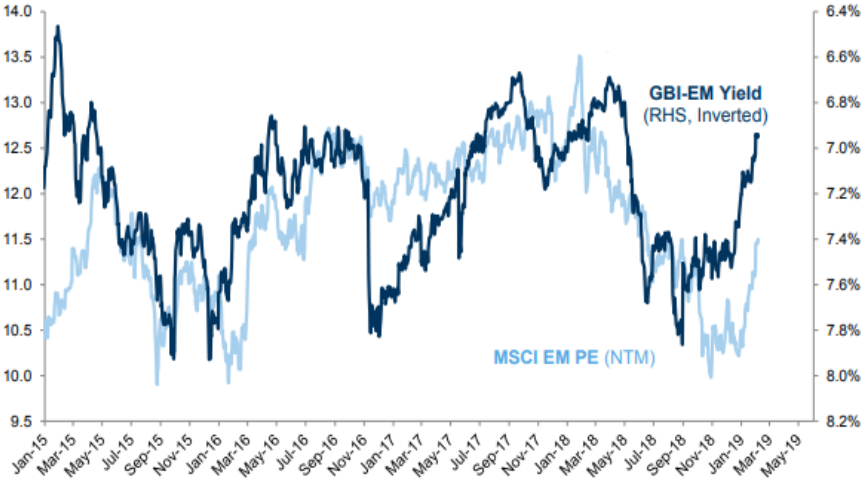
Falling US Yield Eases EM Credit For Growth



EM Equity Performance Highly Correlated To FX



Falling Yield Boosts EM Equity valuation



Source: (L)JPM, 2019/3/10, (R)Goldman Sachs, 2019/2/8
Note: EM(Emerging Market), CAI (Current Activity Index)

2Q19-3Q19 Equity/FI/FX Strategy

Equity (Country		**US Earnings To Bottom Out First, Faster Than EU/Asia** Considering US earnings would bottom out faster than EU/Asia and the worst of Sino-US trade war has passed, US equity would still outperform EU/Asia. 3Q19 US debt ceiling resurface might increase the attractiveness of EU/Asia.
Equity (Sector)		**Growth Sector (Tech) To Confirm Bottoming Signal, Consumer Staple Demand To Recover** After the transition period of terminal application in 2Q19, growth sector such as tech would be more stable. Consumer Staple would be the first to welcome warmer weather and recovery of basic consumption demand. 3Q19 healthcare might rally with themes.
FI		**DM Bonds US Better Than EU, EM Sovereign More Stable Than Local Currency Bonds** Considering growth pace and earnings bottoming signal, DM corporate bonds would prefer US over EU. In 2Q19, EM bonds faces high debt maturing pressure and political risk, so sovereign bonds are relatively stable after balancing yield spread and FX risks.
FX		**FX Market Consolidation Continues, Leverage On Dollar Yield Advantage** Dovish Fed shifted the DXY consolidation range down but relative yield advantage puts dollar as the market focus preferred investment target. In non-US, with fiscal /monetary stimulus, economies have not recovered. CNY and commodity currencies lack momentum to strengthen.

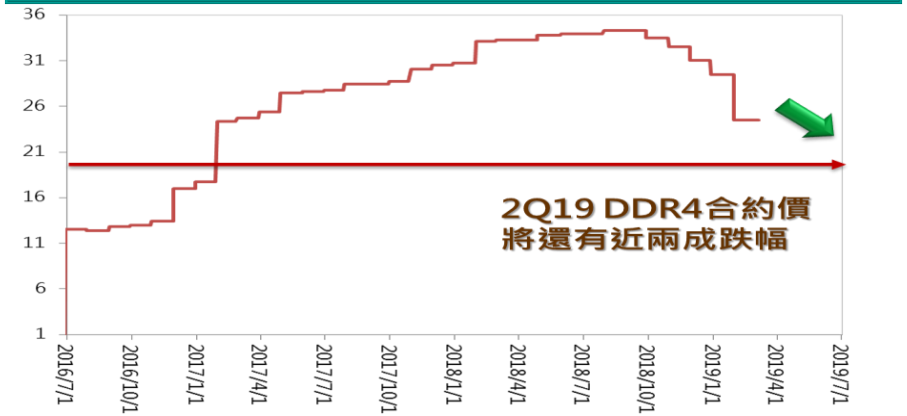
Source: Compiled by CTBC Bank, 2019/3/15

Growth Sector Fundamentals To Bottom Out In Peak Season

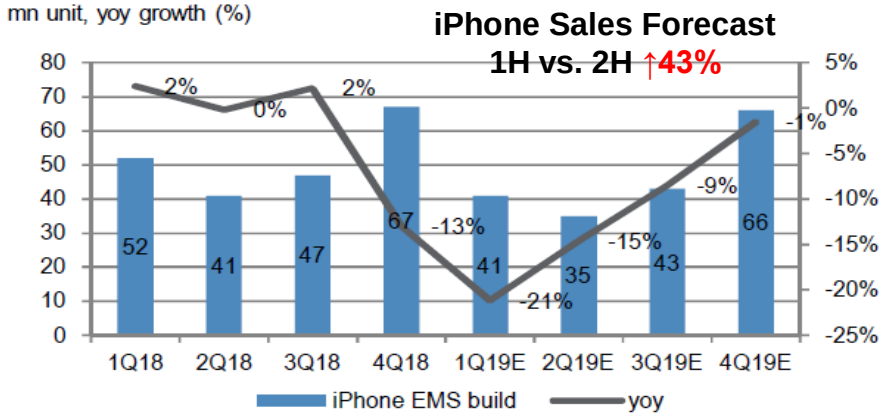
- **Equity Price Diverged From Fundamentals YTD:** 4Q18 was the worst time of semiconductor fundamental with factors such as spot price, inventory and orders remaining weak in 1Q19. But equity price has rallied. Though sector fundamentals were weak, it was still better than other sectors, with positive external policies, **semiconductor downtrend could bottom out in 2Q19 but equity price has front run.**
- **2Q19 Sector Returns To Peak Season:** Weak fundamentals could disturb in 1Q19 results release. But we believe the largest shock was over and remain positive in the long-term, noting short-term correction risks. 2Q19 peak season welcomes more steady rallies.

Weak Growth Subsectors (excl. Auto) Rebounded

2Q19 Semiconductor Continues Falling



3Q19 Terminal Products Enter Peak Season

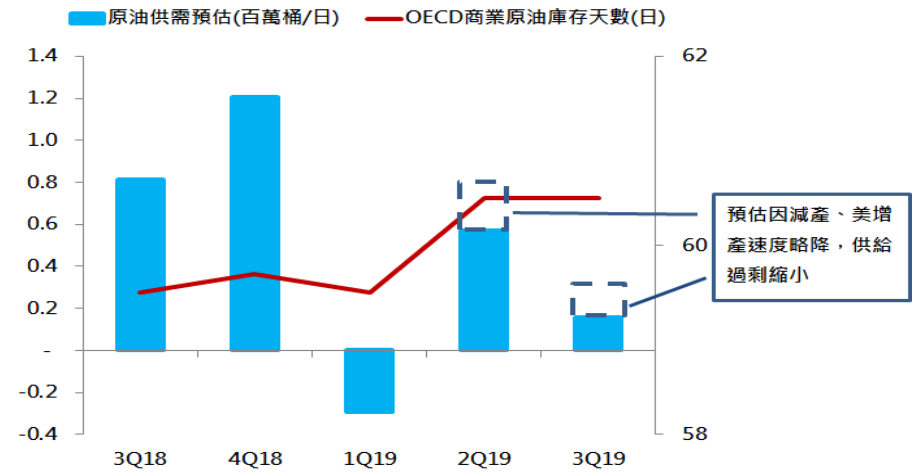


Source: (Top Right)Bloomberg, 2018/3/19-2019/3/19, Compiled by CTBC Bank, 2019/3/20, (Bottom Left)DRAMeXchange, 2019/2, (Bottom Right)JPM, 2019/3, Compiled by CTBC Bank, 2019/3/20
Note: Sector indices based on Morgan Stanley Capital International (MSCI) global 11 sectors.

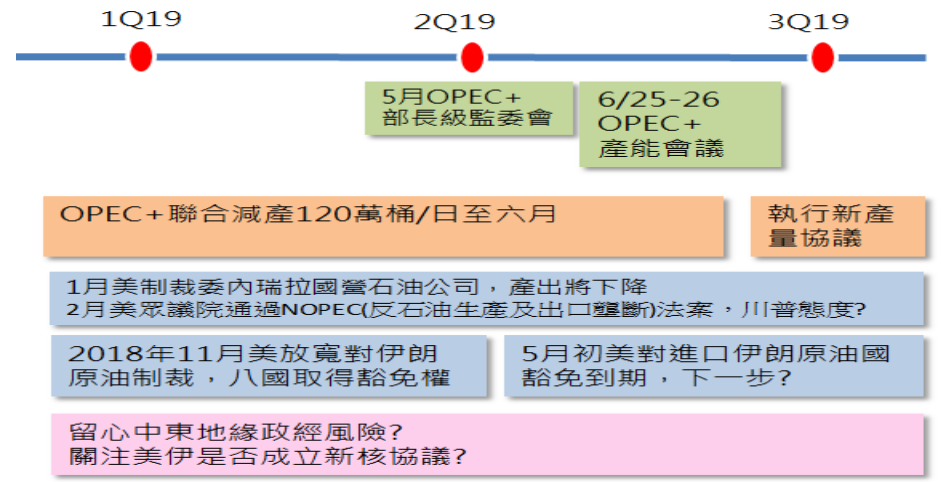
Policy Uncertainty Still Disturb Resource Sector In N6M

- **2Q19 Policy Uncertainties, 3Q19 Demand Rises:** We Expect Saudi to continue cuts while US production slows down, shrinking 2Q19 oversupply. If US reduces importers of Iranian oil in May, we expect 2Q19 Brent at $62~70/barrel. OPEC+ meeting might reduce cuts in Jun meeting due to rising demand in 3Q19 so we target Brent in $64~72/barrel.
- **Demand For Commodity Rises In 2Q19, But Priced In:** According to CAB, industrial production would bottom out in 2Q19 but with slow growth. We expect Chinese copper demand to rise in Q2 but it has been priced in so upside is limited. Iron ore would consolidate at high in 2Q but fall in 2H. Trade talk affects downstream demand. We are neutral on 2Q.

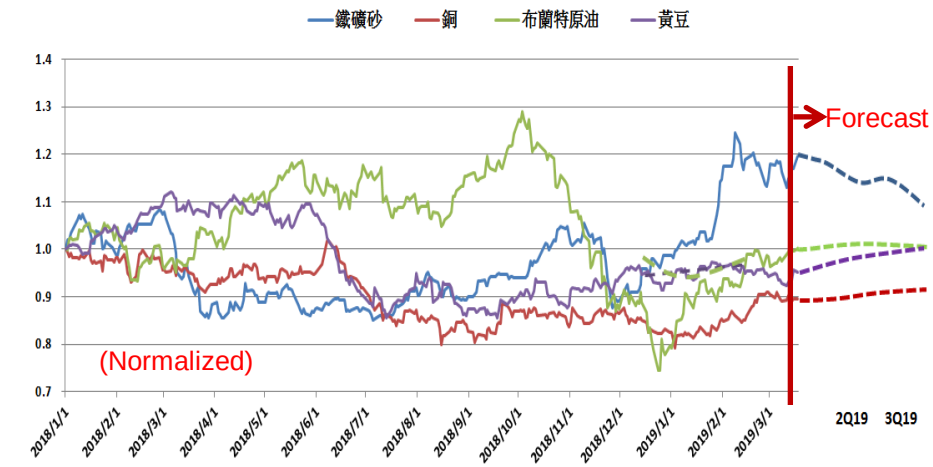
Crude Oil Oversupply Shrank In 2Q19/3Q19



Trump And OPEC+ Oil Policies Uncertainty In N6M



2Q/3Q Forecast: Oil Flat, Cu Up, Fe Down



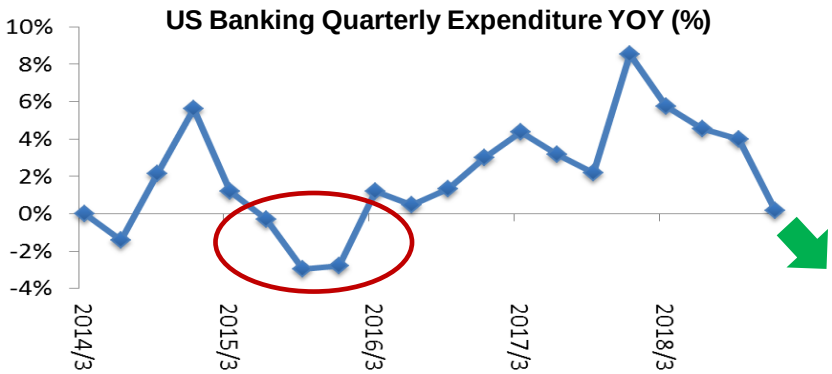
Source: (Top Right)EIA, 2019/3, (Bottom)Bloomberg, 2019/3/19, Compiled by CTBC Bank, 2019/3/19

Rate-Sensitive Sector Earnings To Slow

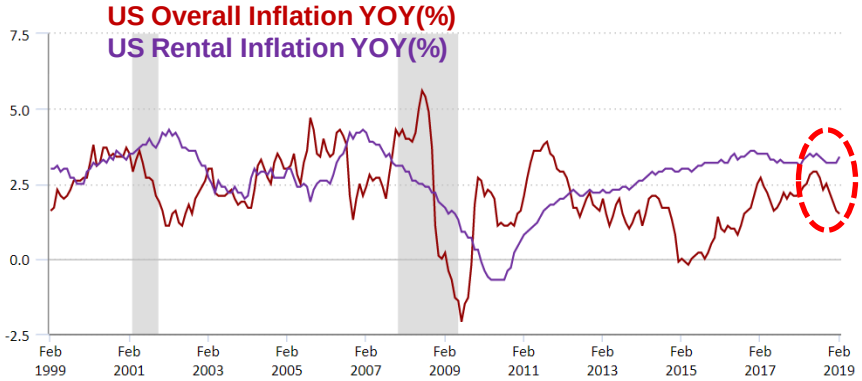
- **MSCI Financials Diverged From Fundamentals, Cautious On Shocks:** Banks continued to cut cost. The last time it occurred was during 2015 outlook downturn. US/EU outlook is in downtrend now and market analysts are not optimistic over MSCI Financials earnings growth. They still expect both revenue and profit growth to slow. The current earnings were positive due to cost cutting so we believe the current rally has diverged from its fundamentals, cautious on future shocks.
- **MSCI Real Estate Fundamental Stable But Expensive:** US housing price and rental income were still stable but hard to improve. With weak housing demand and consensus growth in 2Q19, valuation at 5-yr average and little room for falling treasury yield, real estate is likely to consolidate.

Rate-Sensitive: Financial/Real Estate Both To Slow

Conservative Operation, Financials Cut Costs



Real Estate: Rental Growth At High



Source: (Bottom Left, Top Right)Bloomberg, 2019/3/15, (Bottom Right)US BLS, 2019/3/15 , Compiled by CTBC Bank, 2019/3/15

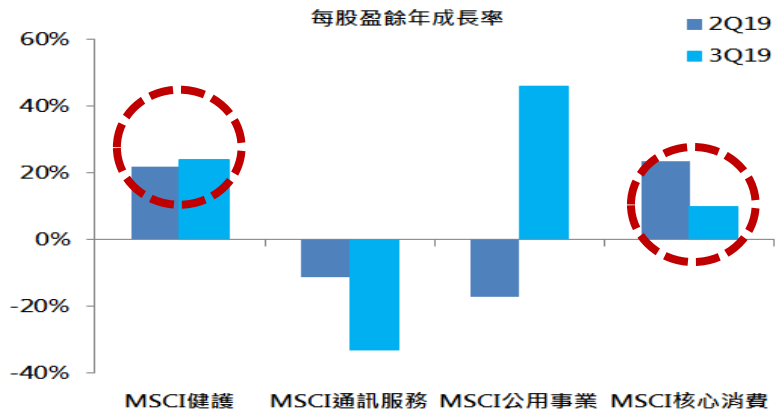
2Q19 Cons. Staple Peak Season Recovery, Healthcare Consolidates Higher

- **Defensive Sectors Favor Consumer Staple/Healthcare:** From earnings growth forecast, 2Q19 healthcare sector would continue its positive growth in 1Q19. Another bright spot of 2Q19 would be consumer staple. From changes in revenue of consumer staple in past 5 years (excl. 2018), consumer staple revenue usually rose in 2Q with US consumer confidence increased. We expect consumer staple would still have peak season rally ahead.

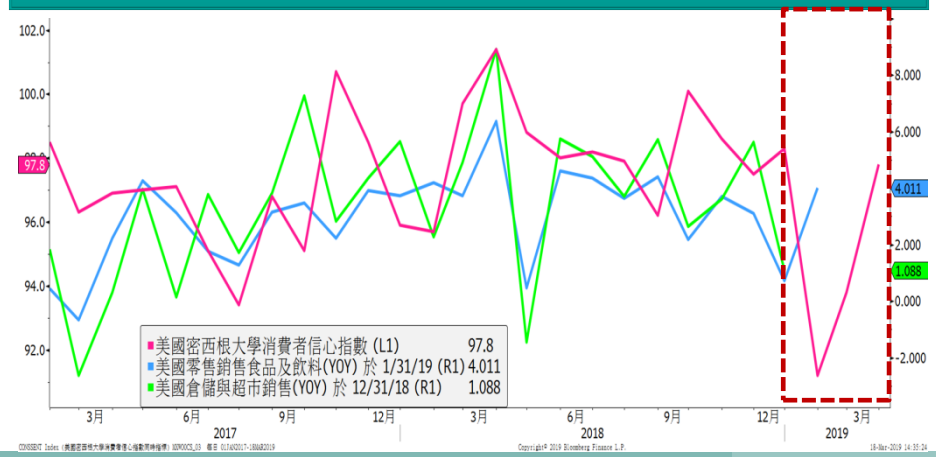
- **Defensive Sectors In 2Q19, 3Q19 Outlook Explanation:**

- MSCI Healthcare earnings growth continues (2Q19 less theme but sector growth continues. To consolidate higher in N6M)
- MSCI Telecom earnings growth to slow (media/entertainment, Bloomberg expects 2019 global ad expense to grow 5% but slower than 7% in 2018. Though Telecom has 5G construction theme, market concerns early expenditure to hit profit.)
- MSCI Utilities operation from off to peak (2Q19 is traditional off season with demand expected to be lower YOY, hitting earnings. But 3Q summer cooling demand surges to yearly peak of earnings)
- MSCI Consumer Staple operation enters peak season (2Q19 beverage/tobacco to recover. New products would boost overall earnings recovery. 3Q19 storage fees re-contract could continue growth momentum)

2Q19 Healthcare/Cons. Staple Positive Growth



2Q19 US Consumption To Grow With Confidence



Source: Bloomberg, 2019/3/18, Compiled by CTBC Bank, 2019/3/18

2Q19-3Q19 Equity/FI/FX Strategy

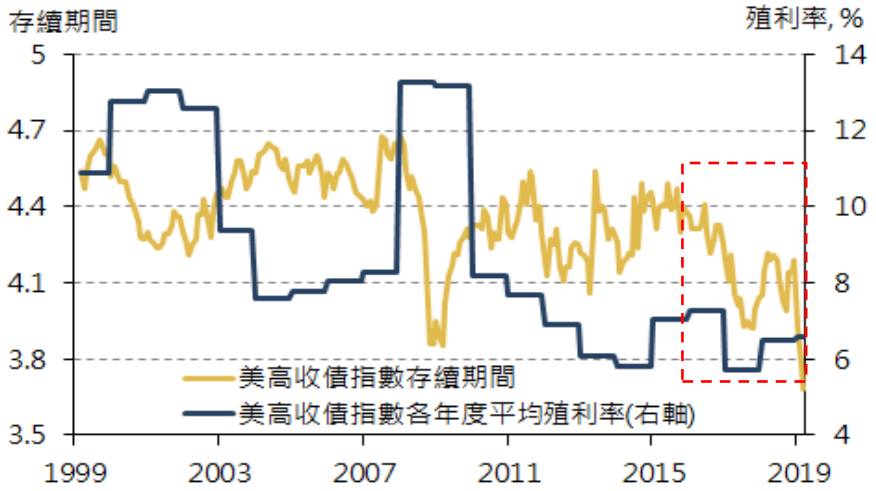
Equity (Country)		**US Earnings To Bottom Out First, Faster Than EU/Asia** Considering US earnings would bottom out faster than EU/Asia and the worst of Sino-US trade war has passed, US equity would still outperform EU/Asia. 3Q19 US debt ceiling resurface might increase the attractiveness of EU/Asia.
Equity (Sector)		**Growth Sector (Tech) To Confirm Bottoming Signal, Consumer Staple Demand To Recover** After the transition period of terminal application in 2Q19, growth sector such as tech would be more stable. Consumer Staple would be the first to welcome warmer weather and recovery of basic consumption demand. 3Q19 healthcare might rally with themes.
FI		**DM Bonds US Better Than EU, EM Sovereign More Stable Than Local Currency Bonds** Considering growth pace and earnings bottoming signal, DM corporate bonds would prefer US over EU. In 2Q19, EM bonds faces high debt maturing pressure and political risk, so sovereign bonds are relatively stable after balancing yield spread and FX risks.
FX		**FX Market Consolidation Continues, Leverage On Dollar Yield Advantage** Dovish Fed shifted the DXY consolidation range down but relative yield advantage puts dollar as the market focus preferred investment target. In non-US, with fiscal /monetary stimulus, economies have not recovered. CNY and commodity currencies lack momentum to strengthen.

Source: Compiled by CTBC Bank, 2019/3/15

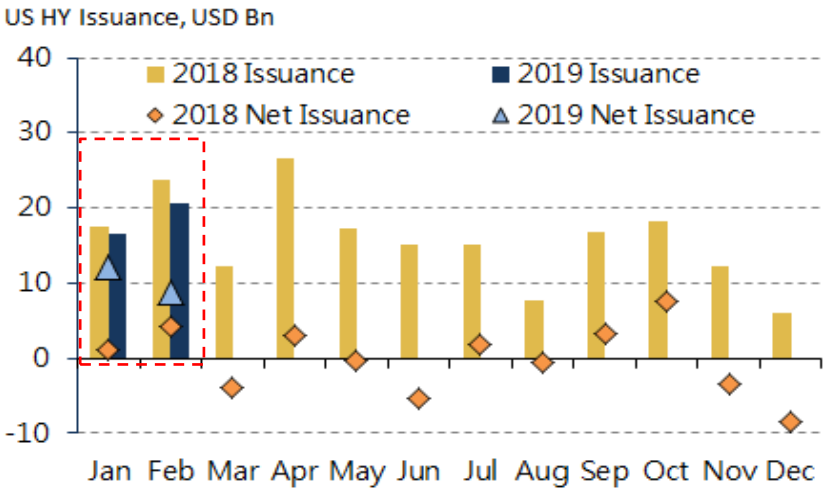
US HYB Duration At Historical Low, Add High Rating To Balance Risks

- **US HYB Duration Slid To Historical Low:** In terms of DM bonds duration, US HYB might consider higher long duration funding cost and investors favored short duration so proportion of 10-yr or longer fell in US HYB issuance and the overall duration slid to 3.68 years, lowest since 2000. Considering US HYB duration is shorter than 7 years of US IGBs, it would have lower rate sensitivity. On the other hand, reduced duration of HYBs could push up HYB issuers refinancing demand. We prefer a portfolio of short duration IGBs and high rating HYBs to balance interest rate and credit risks.
- **US HYB Net Issuance Might Rise:** US HYB issuance rose to $20.7B in Feb, reaching $8.9B after subtracting principle and interest repayments. This increase YTD was 4X YOY. As US HYB yield fell earlier this year, most low rating issuers have switched from leveraged loans to corporate bonds for financing. If US HYB issuance continues to rise, corporate leverage might deteriorate. We would recommend to avoid CCC or lower rating issuers or energy issuers with high refinancing needs to lower asset volatility.

US HYB Duration At Historical Low



US HYB YTD Net Issuance Rose

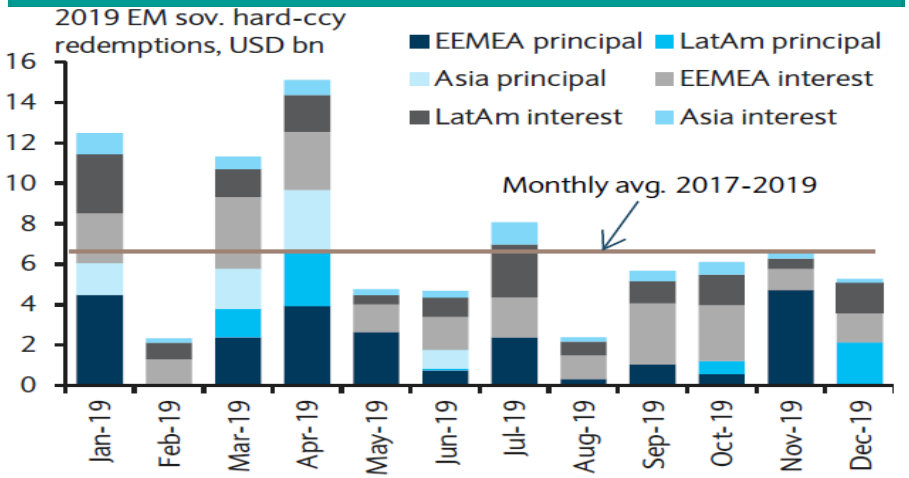


Source: (L)ICE Data Indices, 2019/3/15, (R)Barclays, 2019/3/4, Compiled by CTBC Bank

Cautious On 2Q19 Uncertainties, Favors Major Currency Sovereign Bonds

- **2Q19 EM Bonds Faced High Repayment Pressure:** 2019 EM sovereign bonds maturing largely in 1H19 with $15B in Apr. Overall 2Q maturing dollar corporate bonds reached $92B, mainly of Asia and EM Europe companies. Though EM bond market received capital inflow YTD, but size of inflow declined. If it could not support the massive issuance, EM bonds yield spread might widen.
- **Uncertainty Is Still High, Major Currency Sovereign Bonds Are More Stable:** Several EM countries face election in 2Q19. Though it might not create surprising shocks, foreign capital might choose to hold. Uncertainties also include Trump – Kim meeting delayed to Jun, delayed release of US 232 automotive report and global trade conflicts. As EM economies are highly correlated to global trades, without clear improvement in trading volume, their economies might be under pressure. The 5% YTD rally of EM bonds might also trigger profit taking selling. Luckily Fed is patient about rate hike now. With stable US yield, EM major currency sovereign bonds volatility would be relatively low.

2019/3~4 Sovereign Debt Repayment Peak



2Q19 Many EM Countries Have Elections

Date	Countries
3/31, 4/21	Ukraine Presidential Election
4/9	Israel Knesset Election
4/11~5/23	India Election
4/17	Indonesia Presidential/ People's Representative Council Election
5/8	South Africa Parliament Election
May	Philippines Mid-term Election

Source: (L)Barclays, 2019/3/7, (R)Compiled by CTBC Bank, 2019/3/19

2Q19-3Q19 Equity/FI/FX Strategy

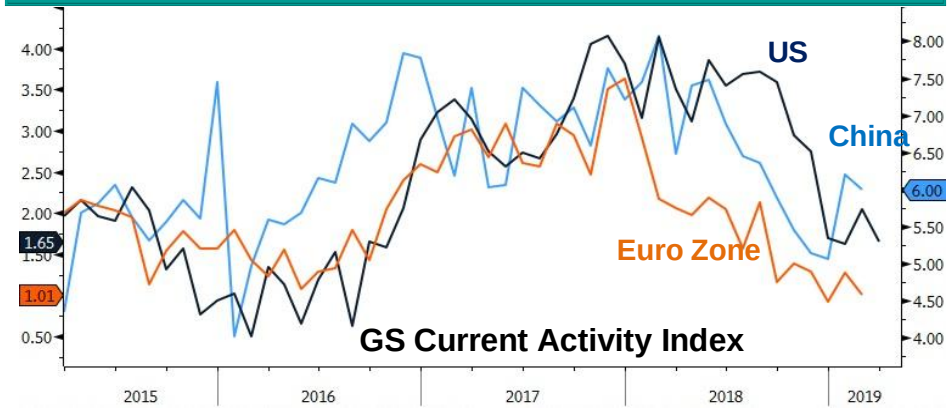
Equity (Country)		**US Earnings To Bottom Out First, Faster Than EU/Asia** Considering US earnings would bottom out faster than EU/Asia and the worst of Sino-US trade war has passed, US equity would still outperform EU/Asia. 3Q19 US debt ceiling resurface might increase the attractiveness of EU/Asia.
Equity (Sector)		**Growth Sector (Tech) To Confirm Bottoming Signal, Consumer Staple Demand To Recover** After the transition period of terminal application in 2Q19, growth sector such as tech would be more stable. Consumer Staple would be the first to welcome warmer weather and recovery of basic consumption demand. 3Q19 healthcare might rally with themes.
FI		**DM Bonds US Better Than EU, EM Sovereign More Stable Than Local Currency Bonds** Considering growth pace and earnings bottoming signal, DM corporate bonds would prefer US over EU. In 2Q19, EM bonds faces high debt maturing pressure and political risk, so sovereign bonds are relatively stable after balancing yield spread and FX risks.
FX		**FX Market Consolidation Continues, Leverage On Dollar Yield Advantage** **Dovish Fed shifted the DXY consolidation range down but relative yield advantage puts dollar as the market focus preferred investment target. In non-US, with fiscal /monetary stimulus, economies have not recovered. CNY and commodity currencies lack momentum to strengthen.**

Source: Compiled by CTBC Bank, 2019/3/15

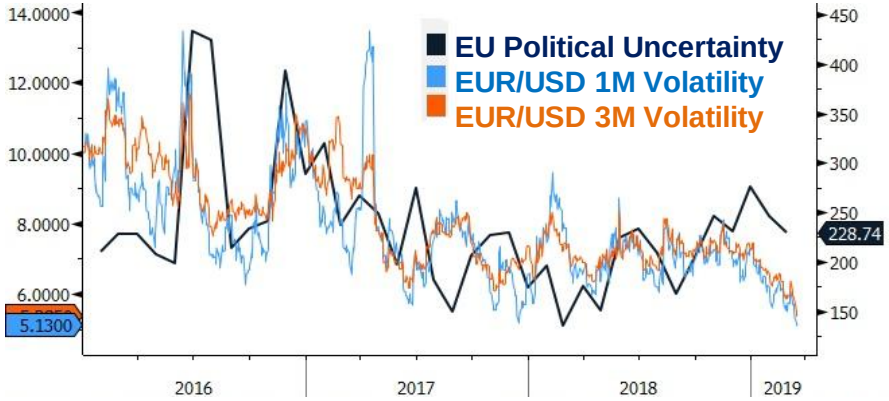
DXY Momentum Slowed But Yield Advantage Put Dollar At Focus

- **DXY Momentum Slowed:** Mar ECB meeting was more dovish than market expected, plunging EUR and boosting DXY. But Fed slashed rate outlook. Disappointed US nonfarm payroll and moderate inflation reinforced the rational of Fed prior dovish stand so DXY lacks the momentum for further rally.
- **Non-US Currencies Stable But Lack Appreciation Momentum:** Market highly expects outlook to start recovering in 2H19 after monetary and fiscal stimulus. At the momentum, though some Chinese data improved slightly, the overall Chinese economy is still weak. Euro Zone economic data did not show real recovery, indicating it was still in waiting period for fundamentals to follow up. Non-US currencies could not generate enough momentum to strengthen with only short-term rebounds possible. Before new trend established, yield advantage would put dollar as market focus and investment target. We believe DXY would keep both upward resistance and downward support to consolidate slightly lower in 1H19.
- **Cautious On Political Risk EOQ:** EUR volatility keeps falling while GBP short-term negativity reduced after Brexit extension. European currencies might rebound in short-term. But if Brexit deadline is only extended to end of Jun, no deal risk is still high. But if it is extended beyond Jun, EU has to decide whether to allow UK to participate in EU parliament election. Current EU proposal extends it to May/Apr. Political uncertainty might increase volatility of European currencies.

Policies In Place But Fundamental Lagging Behind



EUR Volatility Is Low, Cautious On EOQ

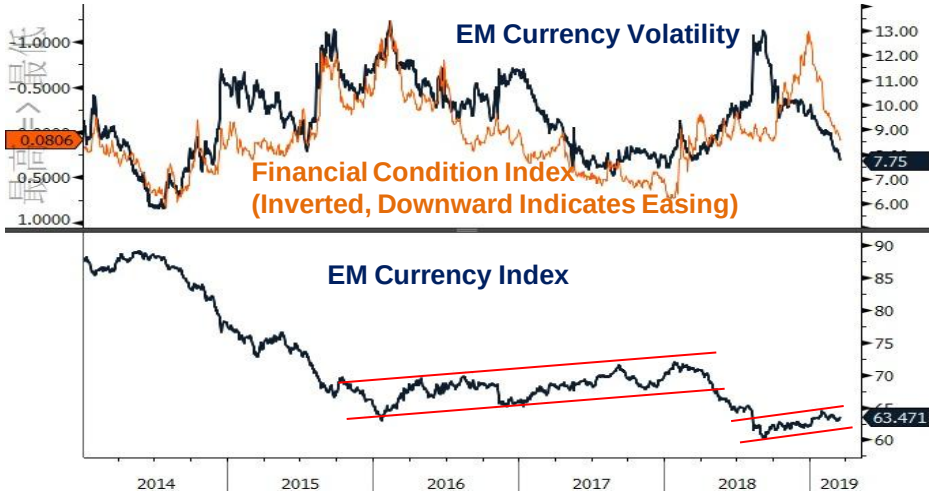


Source: (L)Goldman Sachs, Bloomberg, 2019/3/19, (R)Bloomberg, 2019/3/19

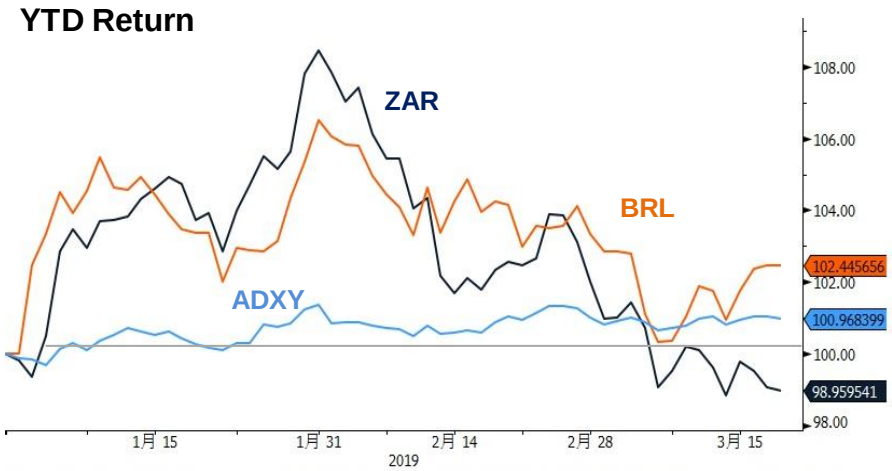
Strength Of EM Currencies Not Expected But Downside Risk Manageable

- **Easing Financial Condition Fuels EM Currencies Stability:** Dovish global central banks, Fed slashing rate outlook and easing liquidity in Financial Condition Index all reduced the volatility of EM currencies. EM Currency Index also gradually recovered from the low of last Aug. EM capital inflow slowed since Feb. Currently capital flow was largely balanced. In general, after several rounds of EM currency crises in 2018, investors were cautiously optimistic about EM currencies. Though we do not expect EM currencies to rally much during DXY consolidation period, their downside risk is manageable. CNY stability also serves as some support for Asian currencies.
- **Cautious On High Yield, High Volatility EM Currencies:** High yield EM currencies such as ZAR and BRL gained earlier this year but retraced recently with ZAR gave back all the gains. BRL slightly rebounded after correction but it did not match the strength in its equity market. Asian currencies were relatively stable YTD. We think credit rating downgrade of South Africa would be unlikely given absence of panic selling on its government bond market. However we are still cautious on high yield, high volatility EM currencies.

Easing Financial Condition Fuels FX Stability



EM High Yield Currencies (ZAR/BRL) At Risk



Source: Bloomberg, 2019/3/20

CNY Short-term Strength Limited, Commodity Currencies Yet To Appreciate

- **Expect CNY To Correct Slightly Before Recovery:** As Sino-US trade war cooled down and Chinese policy stimulus aimed to boost outlook, Chinese equity confidence recovered with net capital inflow into both equities and bonds. CNY also shred off heavy depreciation pressure since last year with some appreciation YTD. But as CNY appreciated more than other non-US currencies, CFETS RMB Index was relatively high and CNY started to consolidate as it approached 6.70. As Chinese economic data were still bottoming but not recovering yet, short-term appreciation would be limited. We expect CNY to correct slightly before recovery.
- **Commodity Price Rebound Did Not Boost AUD:** AUD was usually correlated with market sentiment, commodity price and China outlook. But amid optimistic financial market sentiment, rebounding commodity price and Chinese equity/FI/FX outperformance, AUD still consolidated at the low. It was because the economic impact of falling real estate prices in Australia increased while RBA rate hike probability was extremely low. Australia domestic factors overweighed the positive factors of commodity price in AUD pricing.

RMB Index At High, Short-term Strength Limited

Commodity Price Rebound Did Not Boost AUD

Source: Bloomberg, 2019/3/19

GENERAL DISCLAIMERS:

1. This document and the investments and/or products referred to herein are for information only and do not have regard to your specific investment objectives, financial situation or particular needs.
2. This document and the investments and/or products referred to herein should not be construed as any recommendation for you to enter into the investment briefly described above and this document must be read with CTBC's General Terms and Conditions including without limitation Risks Disclosure Statements, Supplemental Terms and Conditions and such terms and conditions specified by CTBC from time to time.
3. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice from a licensed or exempt financial adviser before making your commitment to invest in the investments and/or products referred to herein.
4. If you choose not to seek advice from a licensed or exempt financial adviser or such other independent professional, you should carefully consider whether investment in the investments and/or products referred to herein is suitable and appropriate for you taking into consideration the risks and associated risks.
5. The final terms and conditions of the proposed investment in the investments and/or products referred to herein will have to be set out in full in the definitive trade confirmation between CTBC and you.
6. CTBC does not guarantee the accuracy or completeness of any information contained herein or otherwise provided by CTBC at any time. All of the information here may change at any time without notice.
7. CTBC is not responsible for any loss or damage suffered arising from this document.
8. CTBC may act as principal or agent in similar transactions or in transactions with respect to the instruments underlying the transaction.
9. Until such time you appoint CTBC, CTBC is not acting in the capacity of your financial adviser or fiduciary.
10. Investments involve risks. Past performance figures, predictions or projections are not necessarily indicative of future or likely performance. Actual performance may differ from the projections in this document.
11. Any references to a company, financial product etc is used for illustrative purpose and does not represent our recommendation in any way.
12. Any scenario analysis is provided for illustrative purpose only and is no indication as to future performance and it does not reflect a complete analysis of all possible scenarios that may arise under an actual transaction. All opinions and estimates given in the scenarios are illustrative and do not represent actual transactions.
13. The information in this document must not be reproduced or shared without our written agreement.
14. This document does not identify all the risks or material considerations that may be associated with you entering into of the transaction and the transaction period you wish to consider.
15. This document does not and is not intended to predict actual results and no assurances whatsoever are given with respect thereto. It does not present all possible outcomes or takes into consideration all factors that may affect or influence the transaction.
16. This document is based on CTBC's understanding that you have inter alia sufficient knowledge, experience and access to professional advice to make your own evaluation and choices of the merits and risks of such investments and you are not relying on the CTBC nor any of our representatives or affiliates for information, advice or recommendations of any sort whatsoever.
17. You should have determined without relying on CTBC or any of our representatives or affiliates for information, advice or recommendations of any sort whatsoever, the economic risks and merits as well as the legal tax and accounting aspects and consequences of the transaction and that you are able to fully assume such risks.
18. CTBC accepts no responsibility or liability whatsoever for any loss of whatsoever nature suffered by you arising from the use of this document or reliance on the information contained herein.
19. CTBC may have alliances with product providers for which CTBC may receive a fee and product providers may also receive fees from your investments.
20. The following exemptions under the Financial Advisers Regulations apply to the CTBC and its representatives:
    (1) Regulation 33(1) – Exemption from complying with section 25 of the Financial Advisers Act ("FAA") when making a recommendation in respect of (a) any designated investment product (within the meaning of section 25(6) of the FAA) to an accredited investor; (b) any designated investment product (within the meaning of section 25(6) of the FAA) that is a capital market product, to an expert investor;
    (2) Regulation 34(1) – Exemption from complying with section 27 of the FAA when making a recommendation in respect of (a) any investment product to an accredited investor; (b) any capital markets product to an expert investor or (c) any Government securities;
    (3) Regulations 36(1) and (2) – Exemption from complying with sections 25, 26, 27, 28, 29, 32, 34 and 36 of the FAA when providing any financial advisory service to any person outside of Singapore who is (a) an individual and (i) not a citizen of Singapore; (ii) not a permanent resident of Singapore; and (iii) not wholly or partly dependant on a citizen or permanent resident of Singapore; or (b) in any other case , a person with no commercial or physical presence in Singapore.