# PromiseLand's Quarterly Market Outlook 3Q2021

Wealth Management Department

30 July 2021

# Contents



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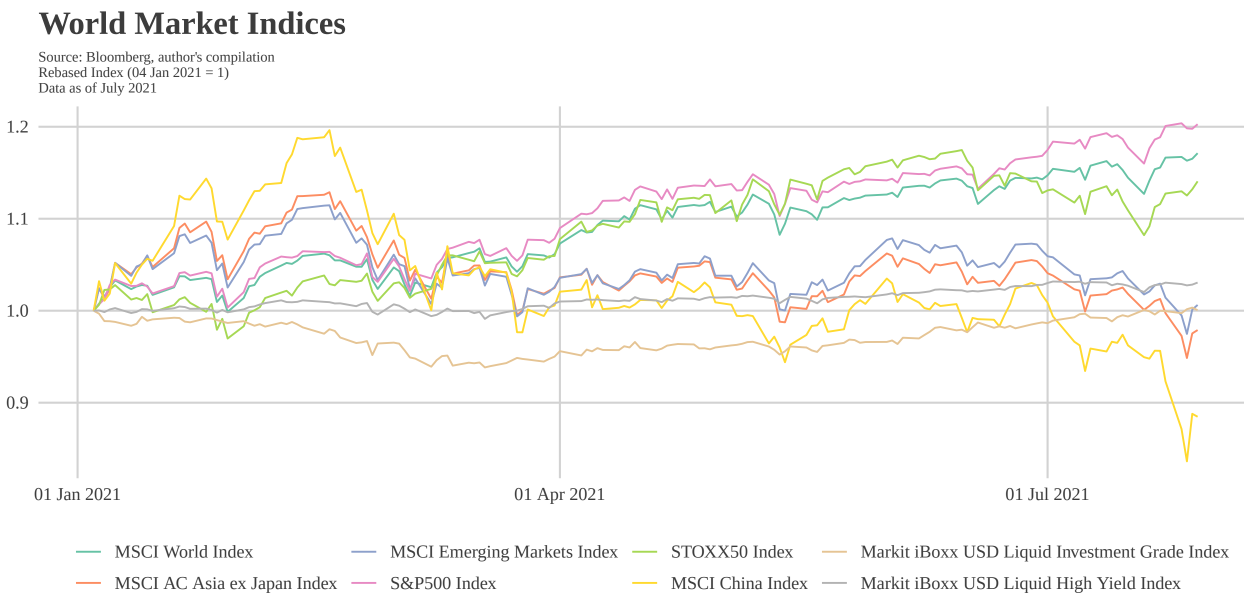
# 1 Quarterly Market Review




The winners at the halfway mark for year 2021 are the S&P500 Index, MSCI World Index, and STOXX50 Index. The S&P500 index has again defied market expectations, with price levels creeping upwards. Interestingly, there is now a wide disparity when compared to other indices. Most notably, China has been the worst performer, whereby its market has experienced significant volatility swings. The relatively poor performance of China for the last quarter can also be observed, for a one-quarter look-back period. High-Yield Bonds has provided an excellent form of diversification and returns.

The powerful restart of economic activity after the COVID-19 shock is broadening. A restart is not a traditional business cycle recovery. You can only turn the lights back on once, so to speak. Fiscal stimulus and easy monetary policy have provided a bridge through the pandemic. We estimated that the US has seen more than four times the stimulus of the Global Financial Crisis for less than one quarter the economic shock. Consequently, see a wide range of macro outcomes as a result.

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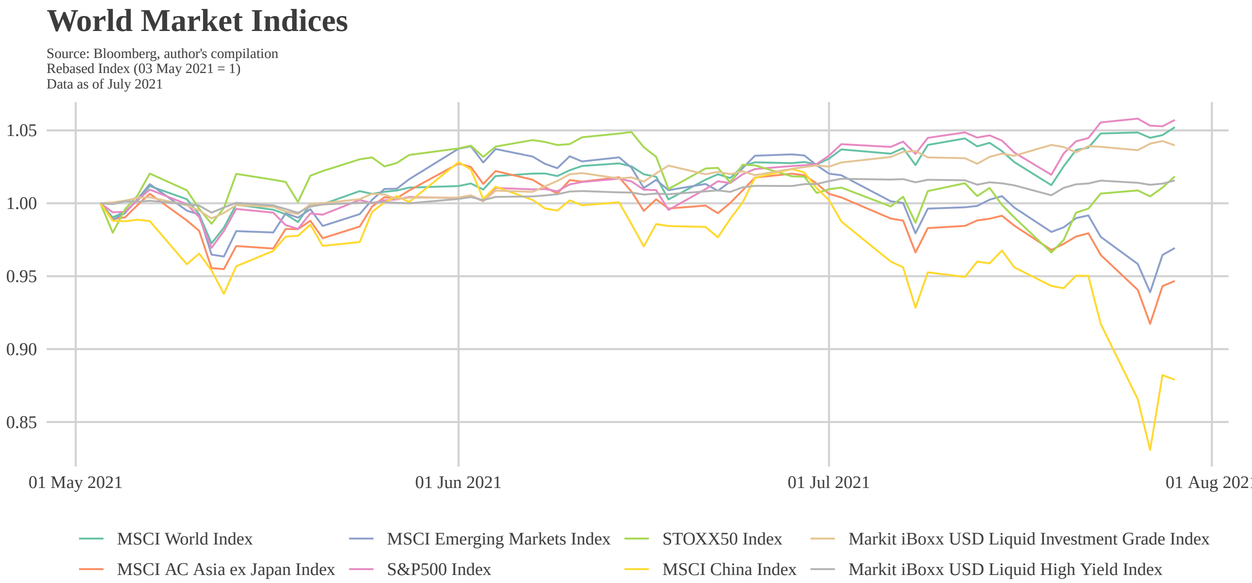


More relaxed attitudes toward debt and deficits are a major shift from the neoliberal consensus that ushered in a four-decade period of falling inflation and rates. New policy paradigms mean many central banks are now attempting to overshoot inflation.

The past three months have seen continued broad recovery with all but the MSCI China Index, MSCI Asia Ex. Japan, and the MSCI Emerging Market Index ending higher. This can be largely attributed to the China government's clampdown on the education, property and technology sectors. In our opinion, there is nothing fundamentally wrong and we remain optimistic long term on these sectors. Nevertheless, we will be trimming our allocation to Asia Ex. Japan for the upcoming quarter.

The broad economy continues its recovery on the backdrop of government stimulus that was supplied at an unprecedented rate last year. There is a clear divide in the performances here, with equities clearly the beneficiaries from the abundance of liquidity.

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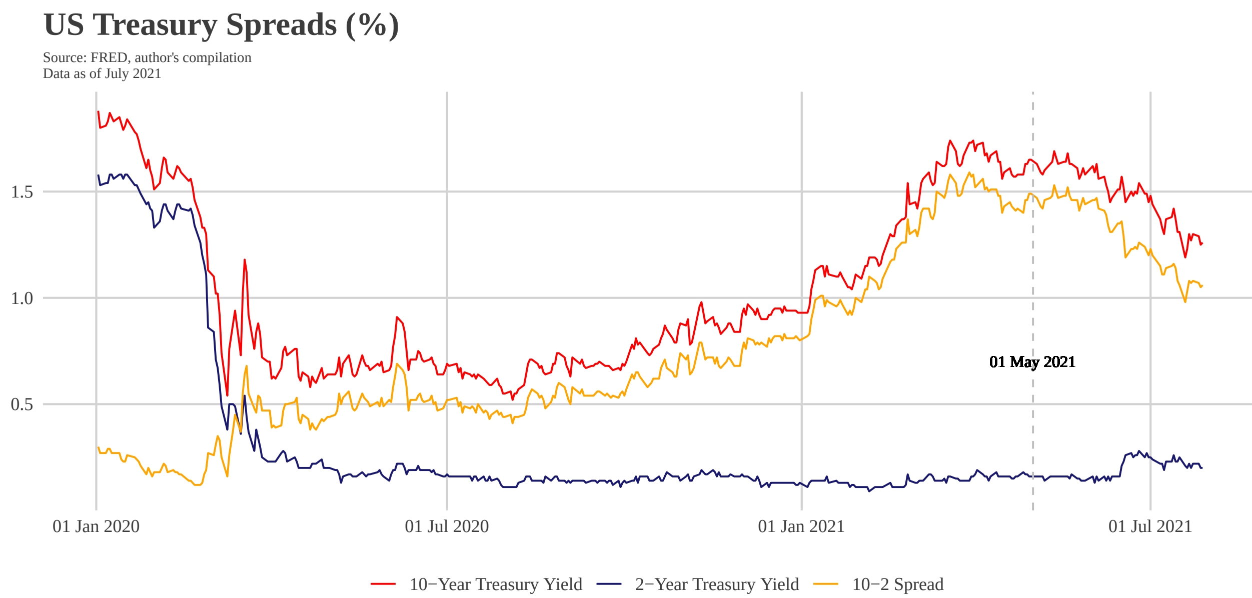


As of the date of publication of the previous quarterly report, markets have already priced in the expectations of a swift, recovering economy. US yields were already anticipated to rise, as investors seek to be compensated for long-term expectations of inflation risk, and general increases in price levels. However, the emergence of the more contagious Delta variant of the COVID-19 disease has sent jitters throughout the market, and stoked fears and uncertainties about the short and long term pace of economic recovery. This is evident from the bump upwards in the US 2 Year Treasury Yield, and the declining 10-2 spread.

There is no longer any doubt that the world economy has recovered since the March 2020 crash. It seems to be trodding on the long-term market expectations, but there are murmurs of inflation spoiling the party.

It is our view that inflationary pressures in certain parts of the economy are purely transitory in nature and that the US Fed will only adopt a hawkish stance, earliest at the end of 2022.

Below are the cumulative year-to-date performances of the indices.

Table 1: Cumulative Index Returns (%)

| Index | Return |
|---|---|
| MSCI World Index | 17.124 |
| MSCI AC Asia Ex. Japan Index | -2.101 |
| MSCI Emerging Markets Index | 0.627 |
| S&P500 Index | 20.275 |
| STOXX50 Index | 14.066 |
| MSCI China Index | -11.527 |
| Markit iBoxx USD Liquid Investment Grade Index | 0.053 |
| Markit iBoxx USD Liquid High Yield Index | 3.060 |

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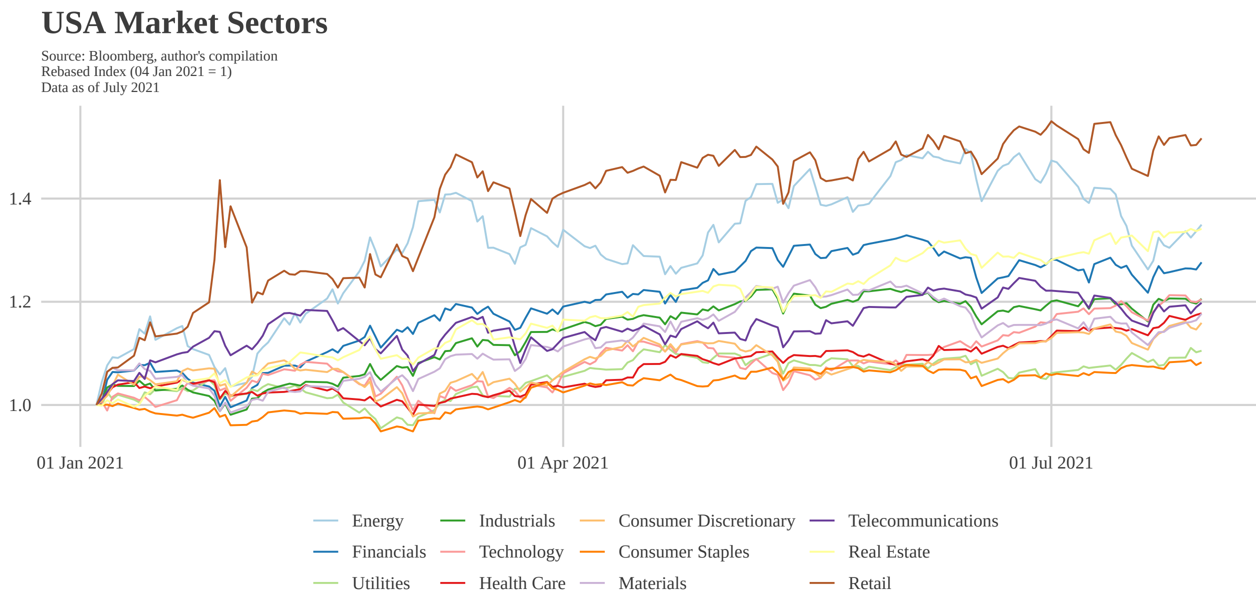
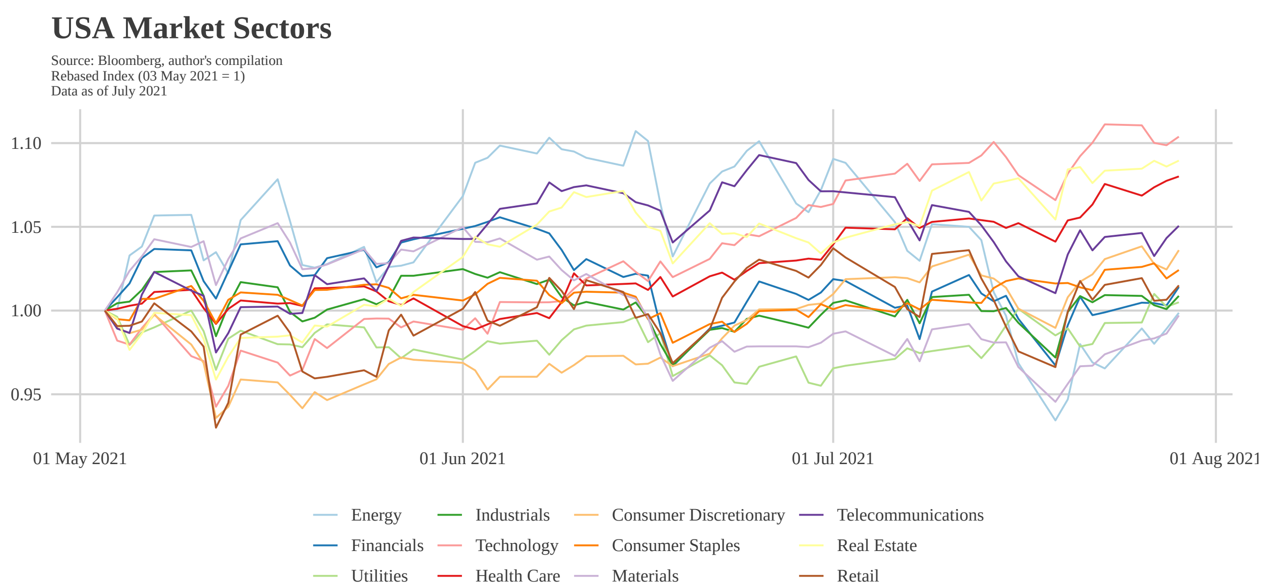
# 2 Market Outlook

## 2.1 USA




PromiseLand is proud of our overweight call on US Technology. The Technology Sector has been the been the best performing sector for the previous quarter, and our allocation to US technology is the greatest, compared to the other allocations.

Retail and Energy continue to lead the charge year-to-date for the US market, as the effects of the additional USD $1.9T stimulus, significant progress of the COVID-19 vaccine roll out, and elevated levels of pent up demand are integrated into the market. Real Estate has seen some impressive results lately from real estate manufacturers and industrial REITs.




The powerful economic restart is broadening, with Europe and other major economies catching up with the

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US. We expect a higher inflation regime in the medium term, with a more muted monetary response than in the past. What matters for risk assets is the expected path of policy rates. We believe that the market has been too eager to read hawkish intent into the Fed's statements, where there is none.

The market's lack of confidence in the Fed's commitment to its new framework poses a risk of tighter financial conditions in the near term. We anticipate this uncertainty to dissipate over time, assuming that the central bank regains control of its narrative.

After reaping the benefits of a stimulus windfall at the start of 2021, the US economy has entered a new, more mature recovery stage. Easing restrictions and mass vaccinations are allowing consumer spending to regain its long-held status as the key economic engine this year. A buildup of household savings and a sizable wealth effect translate to even more dry powder for spending. Demand-pull and cost-push inflationary pressures are nudging prices higher, though the spike will ultimately prove to be transient.

Below are the cumulative year-to-date performances of the sectors.

Table 2: USA Sector Cumulative Returns (%)

| Sector | Quarterly Return | Year-to-Date Return |
|---|---|---|
| Energy | -0.13 | 34.9 |
| Financials | 1.40 | 27.6 |
| Utilities | 0.50 | 10.5 |
| Industrials | 0.90 | 20.6 |
| Technology | 10.40 | 20.5 |
| Health Care | 8.00 | 17.7 |
| Consumer Discretionary | 3.60 | 15.9 |
| Consumer Staples | 2.40 | 8.3 |
| Materials | -0.29 | 17.7 |
| Telecommunications | 5.10 | 19.8 |
| Real Estate | 9.00 | 34.1 |
| Retail | 1.50 | 51.7 |

### 2.1.1 Expectations

The COVID-19 Delta variant has placed heightened attention to high-frequency indicators. Downside economic risks are yet to be evident, with consumer spending remaining relatively strong. Higher oil prices translate to ongoing recovery in drilling-related activity and steel production. We are of the view that the Delta variant will threaten to moderate the pace of recovery. However, it will not fundamentally change the trajectory of recovery. Vaccinating 70% to 85% of the US population should enable a return to normalcy.

Fiscal aid and accommodating monetary policy primed the economy to recover much of the ground lost in 2020 to the pandemic. In fact, GDP growth is returning to pre-pandemic levels, although the labor market recovery will take considerably longer, despite an already-started stretch of heady payroll gains.

PromiseLand still adopts a bullish stance on US Technology. However, it is important to be wary about the continued upward trend in momentum. PromiseLand believes that such trends should still be here to stay, albeit with a lower magnitude. With the potential for US Yields to creep upwards again, we advocate investing into large-cap Technology stocks that are resilient to rising interest rates, and rising interest rate volatility.

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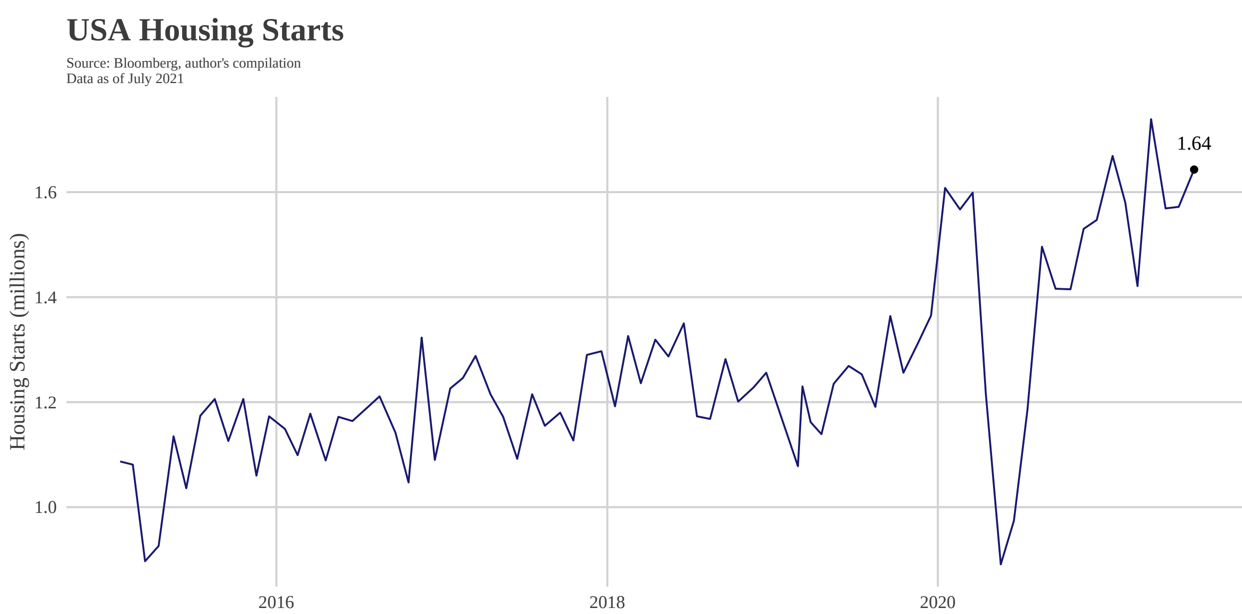
PromiseLand remains bullish on Financials. We believe that markets have overreacted to the emergence of the more contagious Delta strain of the COVID-19 virus. The currently depressed yield levels offers a good risk-reward ratio for US Financials, given that such yields are already close to their lower bounds. Given that there is a material correlation between US Financials and the 10-Year Treasury Yield, when yields rise, there should be improved profitability of financial institutions in the form of greater net interest margins.

With regards to Energy, PromiseLand believes that the upward trend for energy has moderated. This is especially evident in the performance of the most recent quarter.

Real Estate currently offers an attractive diversification opportunity. With such low mortgage rates in the US, there has been increasing demand for new homes and new housing constructions. The demand for rent has also been increasing. Real Estate should offer an attractive stream of income, given today's low-yielding environment.




The following tables exhibit the attribution of risks of each sector into its specific (inherent) risk and its systematic risk (market wide), when compared to the S&P500 market benchmark. It also shows the percentage contribution of specific risk and market risk to the total risk of each sector.

Year-to-date, Systematic Risk accounts for at least three quarters of the Total Risk for Technology. Coupled with one of the lowest absolute levels of Specific Risk, Technology therefore remains quite sensitive to the broader market movements. We advocate for investors to continue to keep in tune with the performance of US markets.

The main risk drivers of Real Estate continue to be Specific Risk. With a low beta, comparable Total Risk to the S&P500, and current economic conditions, it bolsters the for Real Estate as an attractive diversification opportunity.

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Table 3: Year-to-date Risk Decomposition of USA Market Sectors (Annualized)

| Sector | Specific Risk | Systematic Risk | Total Risk | Beta | Specific Risk Contribution | Systematic Risk Contribution |
|---|---|---|---|---|---|---|
| S&P500 | 0.0000 | 0.1309 | 0.1309 | 1.0000 | 0.0000 | 1.0000 |
| Energy | 0.2883 | 0.1245 | 0.3140 | 0.9511 | 0.8430 | 0.1572 |
| Financials | 0.1528 | 0.1229 | 0.1960 | 0.9389 | 0.6078 | 0.3932 |
| Utilities | 0.1400 | 0.0675 | 0.1554 | 0.5157 | 0.8116 | 0.1887 |
| Industrial | 0.1070 | 0.1180 | 0.1593 | 0.9015 | 0.4512 | 0.5487 |
| Technology | 0.0967 | 0.1762 | 0.2010 | 1.3461 | 0.2315 | 0.7685 |
| Health Care | 0.0825 | 0.0831 | 0.1171 | 0.6348 | 0.4964 | 0.5036 |
| Consumer Discretionary | 0.0929 | 0.1583 | 0.1836 | 1.2093 | 0.2560 | 0.7434 |
| Consumer Staples | 0.0879 | 0.0654 | 0.1096 | 0.4996 | 0.6432 | 0.3561 |
| Materials | 0.1310 | 0.1291 | 0.1839 | 0.9862 | 0.5074 | 0.4928 |
| Telecommunications | 0.1548 | 0.1395 | 0.2083 | 1.0657 | 0.5523 | 0.4485 |
| Real Estate | 0.1255 | 0.0923 | 0.1558 | 0.7051 | 0.6489 | 0.3510 |
| Retail | 0.3826 | 0.0547 | 0.3865 | 0.4179 | 0.9799 | 0.0200 |

Table 4: Three Year Risk Decomposition of USA Market Sectors

| Sector | Specific Risk | Systematic Risk | Total Risk | Beta | Specific Risk Contribution | Systematic Risk Contribution |
|---|---|---|---|---|---|---|
| S&P500 | 0.0000 | 0.2267 | 0.2267 | 1.0000 | 0.0000 | 1.0000 |
| Energy | 0.2767 | 0.2962 | 0.4053 | 1.3066 | 0.4661 | 0.5341 |
| Financials | 0.1452 | 0.2629 | 0.3004 | 1.1597 | 0.2336 | 0.7659 |
| Utilities | 0.1777 | 0.1747 | 0.2492 | 0.7706 | 0.5085 | 0.4915 |
| Industrial | 0.1143 | 0.2429 | 0.2684 | 1.0715 | 0.1814 | 0.8190 |
| Technology | 0.0991 | 0.2715 | 0.2890 | 1.1976 | 0.1176 | 0.8826 |
| Health Care | 0.0963 | 0.1878 | 0.2111 | 0.8284 | 0.2081 | 0.7914 |
| Consumer Discretionary | 0.0841 | 0.2283 | 0.2433 | 1.0071 | 0.1195 | 0.8805 |
| Consumer Staples | 0.1081 | 0.1535 | 0.1877 | 0.6771 | 0.3317 | 0.6688 |
| Materials | 0.1256 | 0.2329 | 0.2646 | 1.0273 | 0.2253 | 0.7747 |
| Telecommunications | 0.1297 | 0.2184 | 0.2540 | 0.9634 | 0.2607 | 0.7393 |
| Real Estate | 0.1862 | 0.2251 | 0.2921 | 0.9929 | 0.4063 | 0.5939 |
| Retail | 0.2285 | 0.2282 | 0.3230 | 1.0066 | 0.5005 | 0.4991 |

Year-to-date annualized and three-year risk adjusted returns are shown in the table below. Year-to-date, the market index, Real Estate, and Health Care are the best performers when adjusted for risk.

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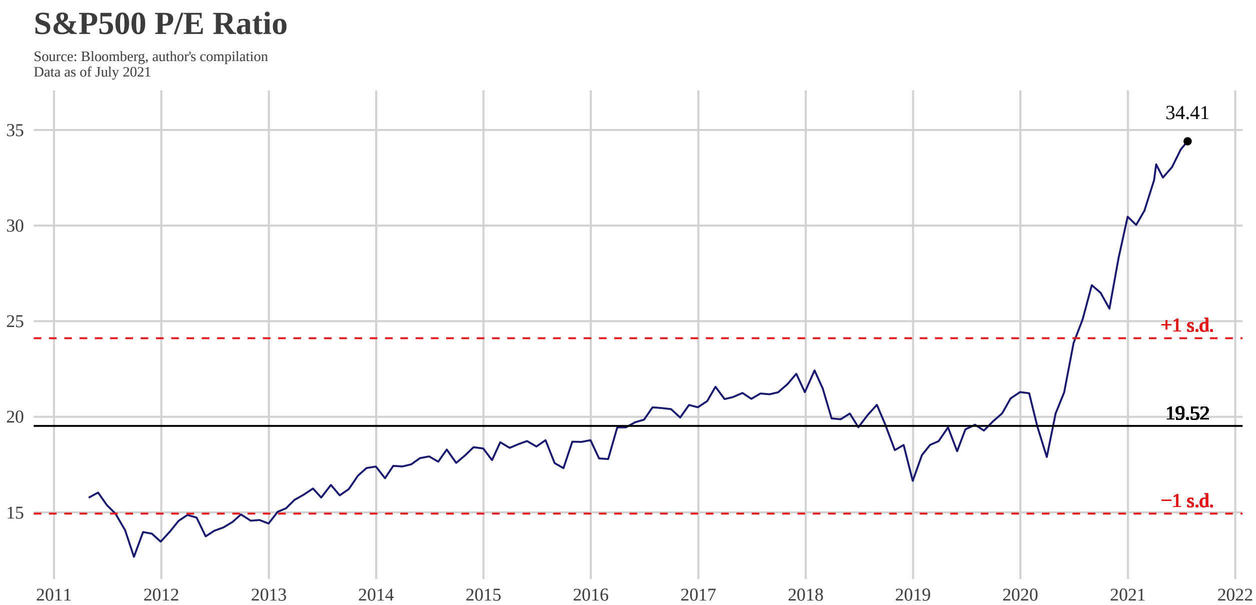
Table 5: USA Market Sectors Performance Measures (Annualized)

| | Year-to-date | | Three Year | |
|---|---|---|---|---|
| Sector | Sharpe | Treynor | Sharpe | Treynor |
| S&P500 | 2.587 | 85.33 | 0.556 | 31.75 |
| Energy | 1.822 | 152.02 | -0.441 | -34.46 |
| Financials | 2.396 | 126.35 | 0.139 | 9.07 |
| Utilities | 0.956 | 72.81 | 0.236 | 19.21 |
| Industrial | 2.127 | 94.85 | 0.249 | 15.72 |
| Technology | 1.627 | 61.26 | 0.783 | 47.60 |
| Health Care | 2.487 | 115.74 | 0.533 | 34.25 |
| Consumer Discretionary | 1.328 | 50.81 | 0.554 | 33.73 |
| Consumer Staples | 1.047 | 58.01 | 0.458 | 31.99 |
| Materials | 1.508 | 71.02 | 0.299 | 19.44 |
| Telecommunications | 1.494 | 73.76 | 0.282 | 18.74 |
| Real Estate | 3.943 | 220.03 | 0.101 | 7.51 |
| Retail | 2.281 | 533.71 | 0.528 | 42.69 |

With regards to US equity valuations, Price-to-Earnings ratios continue to remain at ten year highs. PromiseLand continues to believe that corporate earnings should catch up to bring relative valuations down.




Both CPI and PCE continued to overshoot past its target levels. Coupled with US President Biden's $3.5T infrastructure package, there are natural concerns for the most severe inflationary pressure in decades. However, such figures are measured during the beginning phases of the pandemic, which is a low base. There is still some slack in the economy, with labour force participation still remaining relatively low.

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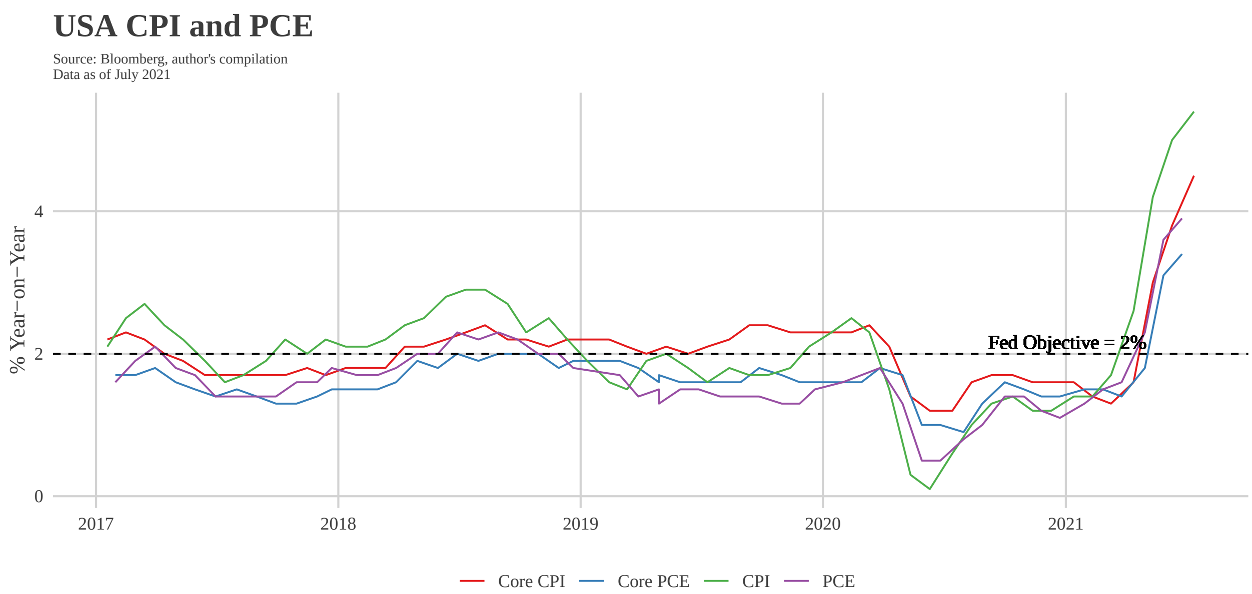
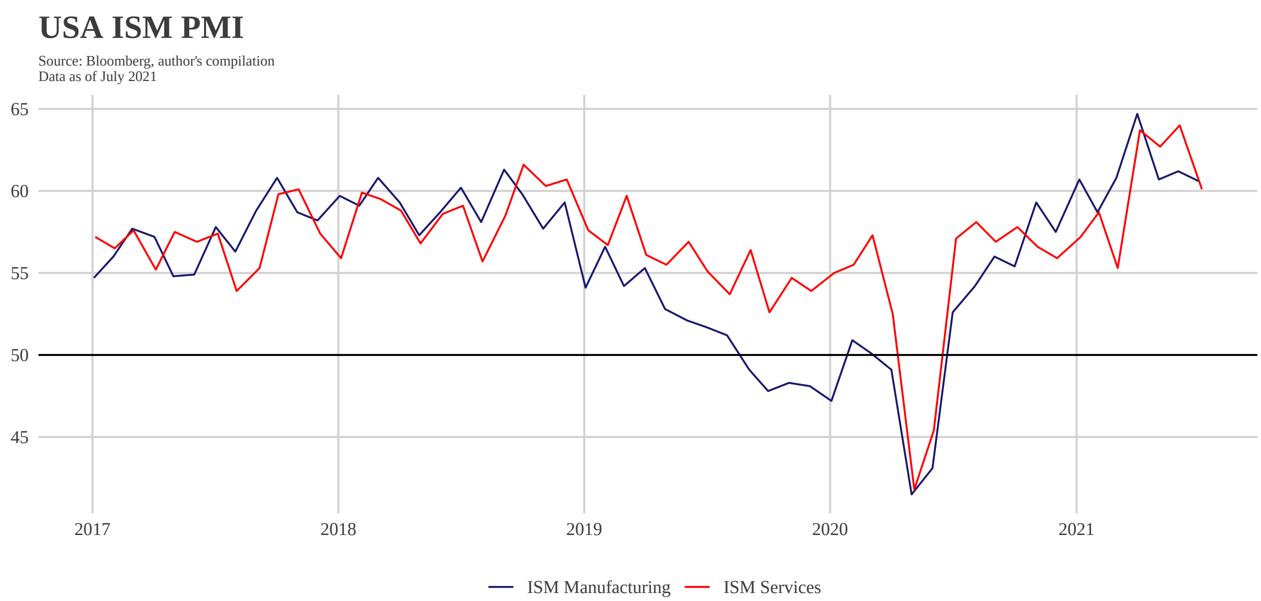



Latest US ISM Manufacturing and Services figures reflect a slight decrease. We believe that such trends are mainly attributable to worries over the new Delta strain of the COVID-19 virus. Such figures still remain at healthy levels, which tend to signal significant manufacturer and consumer optimism.

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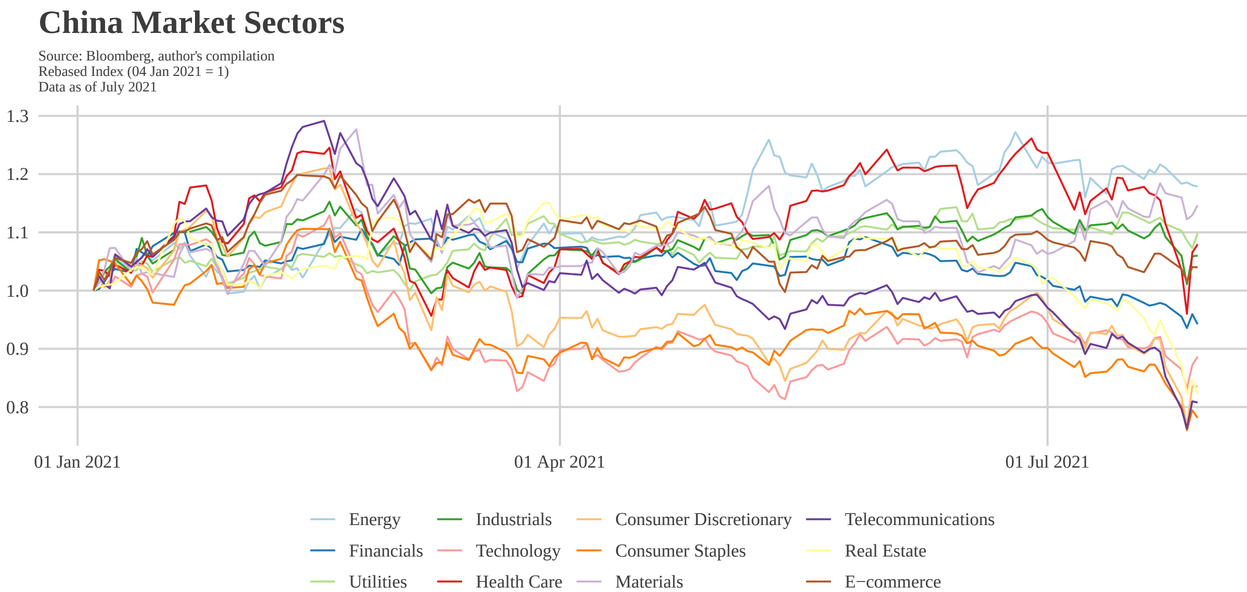
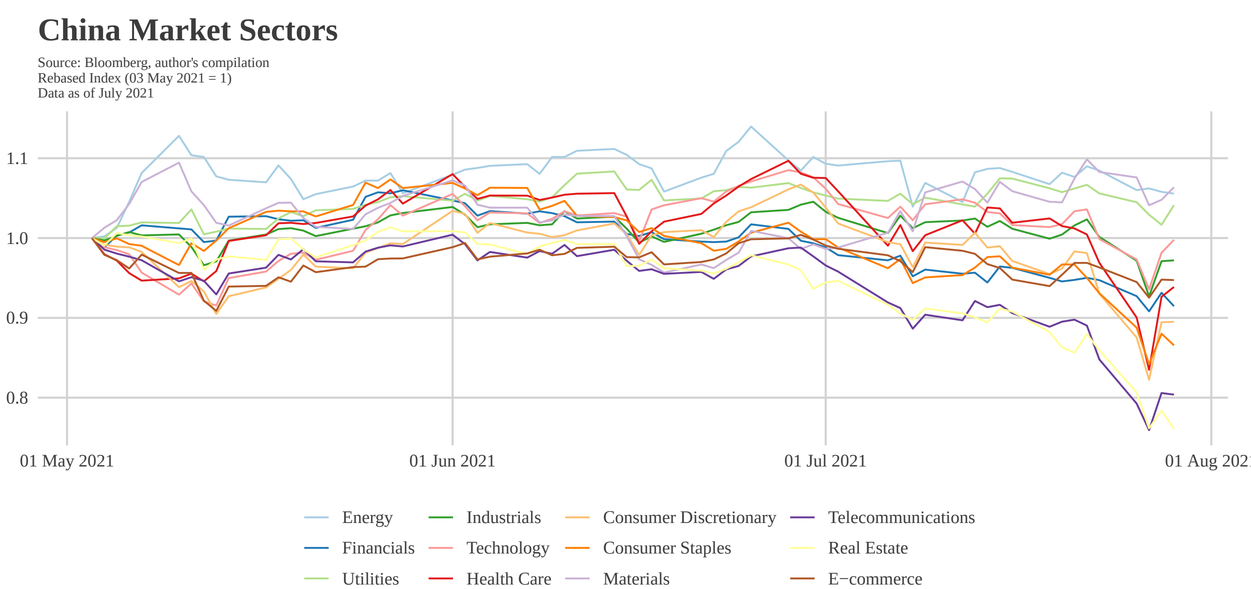
## 2.2 China




It is clearly evident that China markets across the board have been experiencing some rough volatility swings. Growth in China is starting to slow at the same time the policy stance is starting to get relatively tighter. The regulatory crackdown on dominant companies is ongoing. We see these as key aspects of China's efforts to improve the quality of growth. Relations between China and US still remain tense as of now.




China's economy has come through the COVID-19 shock stronger than global peers, just as it did after the Global Financial Crisis in 2008. China quickly bounced above its pre-pandemic growth trend, and policy-makers have shifted to policy tightening, and refocusing on stabilizing leverage, with growth now slowing. This stands in contrast to the DM policy revolution whereby historic fiscal and monetary policy has meant a surge in debt to record levels. China is pursuing a more orthodox policy, not only to partly reduce risks in the financial system, but also to make itself a more attractive investment destination. So far, it is working.

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China has seen a surge of inward investment that began last year, partly due to investors seeking positive real yields not available in the DM world. This is what we call China's quality revolution – prioritizing the quality of growth over quantity - and it ties in directly with its ambition to reach net-zero emissions by 2060.

Below are the cumulative year-to-date performances of the Sectors.

Table 6: China Sector Cumulative Returns (%)

| Sector | Quarterly Return | Year-to-Date Return |
|---|---|---|
| Energy | 5.60 | 17.90 |
| Financials | -8.54 | -5.78 |
| Utilities | 4.10 | 9.90 |
| Industrials | -2.80 | 6.00 |
| Technology | -0.22 | -11.34 |
| Health Care | -6.13 | 7.90 |
| Consumer Discretionary | -10.49 | -16.43 |
| Consumer Staples | -13.45 | -21.87 |
| Materials | 6.40 | 14.60 |
| Telecommunications | -19.62 | -19.22 |
| Real Estate | -23.90 | -17.79 |
| E-commerce | -5.27 | 4.00 |

### 2.2.1 Expectations

Year-to-date, Systematic Risk accounts for a significant portion of the Total Risk for Technology. Coupled with one of the lowest absolute levels of Specific Risk, Technology therefore remains quite sensitive to the broader market movements. We advocate for investors to continue to keep in tune with the performance of the China market.

China has been benefiting greatly from its careful management of the COVID-19 pandemic, which has allowed its economy to open up. China is also reaping the benefits from technological digitization, and integration of technology into the livelihoods of its citizens. We would also like to take this opportunity to acknowledge and remind investors of the current recent actions by the China Government, which has spooked investor sentiment. While the investment performance may not yet be reflected in current markets, we believe that Technology will be the theme for China moving forward, as China remains committed to its Five-Year Plan.

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Table 7: Year-to-date Risk Decomposition of China Market Sectors (Annualized)

| Sector | Specific Risk | Systematic Risk | Total Risk | Beta | Specific Risk Contribution | Systematic Risk Contribution |
|---|---|---|---|---|---|---|
| CSI300 | 0.0000 | 0.2441 | 0.2441 | 1.0000 | 0.0000 | 1.0000 |
| Energy | 0.2777 | 0.0650 | 0.2852 | 0.2663 | 0.9481 | 0.0519 |
| Financials | 0.1449 | 0.1174 | 0.1865 | 0.4810 | 0.6036 | 0.3963 |
| Utilities | 0.1600 | 0.0454 | 0.1664 | 0.1860 | 0.9246 | 0.0744 |
| Industrial | 0.1524 | 0.1929 | 0.2458 | 0.7902 | 0.3844 | 0.6159 |
| Technology | 0.2012 | 0.2597 | 0.3285 | 1.0639 | 0.3751 | 0.6250 |
| Health Care | 0.2471 | 0.2881 | 0.3796 | 1.1803 | 0.4237 | 0.5760 |
| Consumer Discretionary | 0.2487 | 0.2811 | 0.3753 | 1.1516 | 0.4391 | 0.5610 |
| Consumer Staples | 0.1603 | 0.2457 | 0.2934 | 1.0066 | 0.2985 | 0.7013 |
| Materials | 0.2591 | 0.1990 | 0.3267 | 0.8152 | 0.6290 | 0.3710 |
| Telecommunications | 0.2239 | 0.2216 | 0.3150 | 0.9078 | 0.5052 | 0.4949 |
| Real Estate | 0.2492 | 0.0963 | 0.2671 | 0.3945 | 0.8705 | 0.1300 |
| E-commerce | 0.2048 | 0.1499 | 0.2538 | 0.6141 | 0.6511 | 0.3488 |

Table 8: Two Year Risk Decomposition of China Market Sectors (Annualized)

| Sector | Specific Risk | Systematic Risk | Total Risk | Beta | Specific Risk Contribution | Systematic Risk Contribution |
|---|---|---|---|---|---|---|
| CSI300 | 0.0000 | 0.2738 | 0.2738 | 1.0000 | 0.0000 | 1.0000 |
| Energy | 0.2577 | 0.1745 | 0.3113 | 0.6373 | 0.6853 | 0.3142 |
| Financials | 0.1585 | 0.2204 | 0.2714 | 0.8050 | 0.3411 | 0.6595 |
| Utilities | 0.1585 | 0.1161 | 0.1965 | 0.4240 | 0.6506 | 0.3491 |
| Industrial | 0.1631 | 0.2045 | 0.2616 | 0.7469 | 0.3887 | 0.6111 |
| Technology | 0.2149 | 0.3050 | 0.3731 | 1.1140 | 0.3318 | 0.6683 |
| Health Care | 0.2230 | 0.2379 | 0.3261 | 0.8689 | 0.4676 | 0.5322 |
| Consumer Discretionary | 0.2168 | 0.2579 | 0.3369 | 0.9419 | 0.4141 | 0.5860 |
| Consumer Staples | 0.1584 | 0.2382 | 0.2860 | 0.8700 | 0.3067 | 0.6937 |
| Materials | 0.2160 | 0.2035 | 0.2968 | 0.7432 | 0.5296 | 0.4701 |
| Telecommunications | 0.2015 | 0.2004 | 0.2842 | 0.7319 | 0.5027 | 0.4972 |
| Real Estate | 0.2398 | 0.2030 | 0.3142 | 0.7414 | 0.5825 | 0.4174 |
| E-commerce | 0.2258 | 0.1904 | 0.2954 | 0.6954 | 0.5843 | 0.4154 |

Table 9: China Market Sectors Performance Measures (Annualized)

| | Year-to-date | | Two Year | |
|---|---|---|---|---|
| Sector | Sharpe | Treynor | Sharpe | Treynor |
| CSI300 | -0.698 | -42.96 | 0.355 | 24.48 |
| Energy | 0.876 | 237.36 | -0.252 | -31.03 |
| Financials | -0.732 | -71.75 | -0.324 | -27.54 |
| Utilities | 0.810 | 183.25 | 0.091 | 10.64 |
| Industrial | 0.198 | 15.51 | 0.211 | 18.63 |
| Technology | -0.768 | -59.85 | 0.645 | 54.45 |
| Health Care | 0.101 | 8.21 | 0.721 | 68.19 |
| Consumer Discretionary | -0.899 | -73.93 | 0.770 | 69.44 |
| Consumer Staples | -1.347 | -99.06 | 0.409 | 33.92 |
| Materials | 0.539 | 54.59 | 0.859 | 86.47 |
| Telecommunications | -1.150 | -100.81 | -0.251 | -24.56 |
| Real Estate | -1.246 | -213.36 | -0.567 | -60.55 |
| E-commerce | 0.046 | 4.78 | 0.839 | 89.90 |

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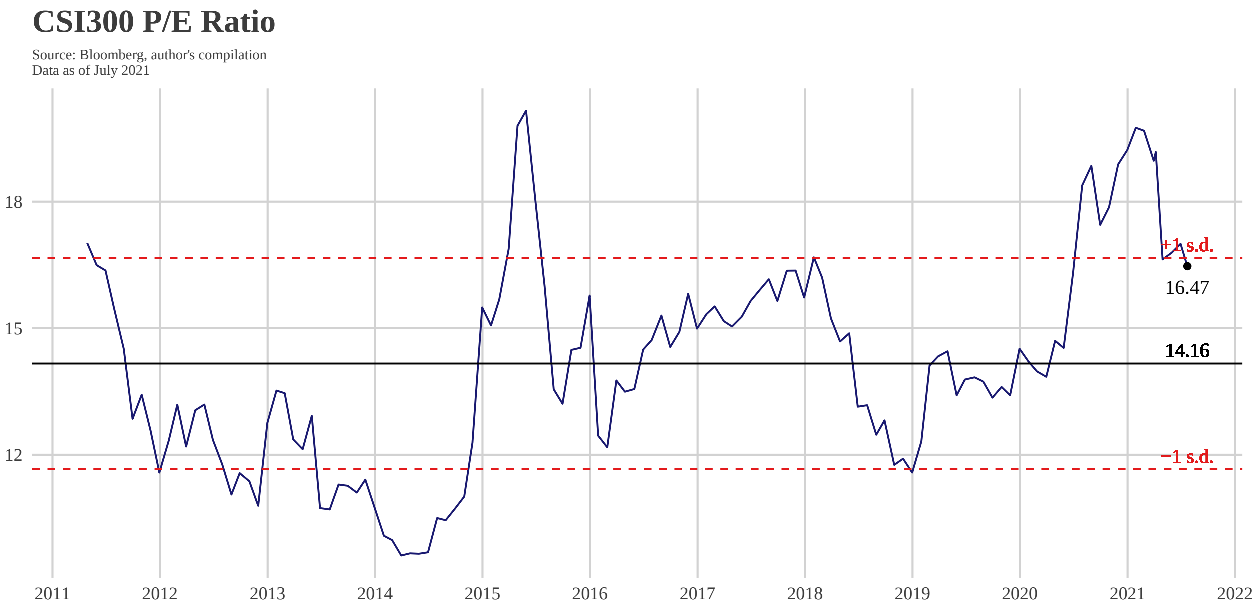
The CSI300 Price-to-Earnings ratio have been brought down to within its one standard deviation bands. We attribute this to uncertainties regarding China's recent regulatory crackdowns, which depressed prices lower. Valuations still appear to be at a premium.




However, there is optimism for China across the board, with Caixin Composite PMI, Caixin Manufacturing PMI, and Caixin Services PMI still remaining above 50, which generally indicate an expansion in business activities. Factory capacity utilization rates remain high, and local domestic consumption is still on the rebound. There is also a good improvement in consumer sentiment and business confidence, which should augur well for the economy in terms of heightened domestic spending, and increased corporate profits.

The People's Bank of China (PBOC) made a surprise cut to the required reserve ratio in mid-July. The cut was not triggered by a slump in growth. The cut is an insurance policy to help extend the recovery into the second half of 2021. Indeed, GDP expanded 7.9% in 2Q2021 from a year ago, and June data suggested production held up and consumption improved towards the end of the first half of 2021.

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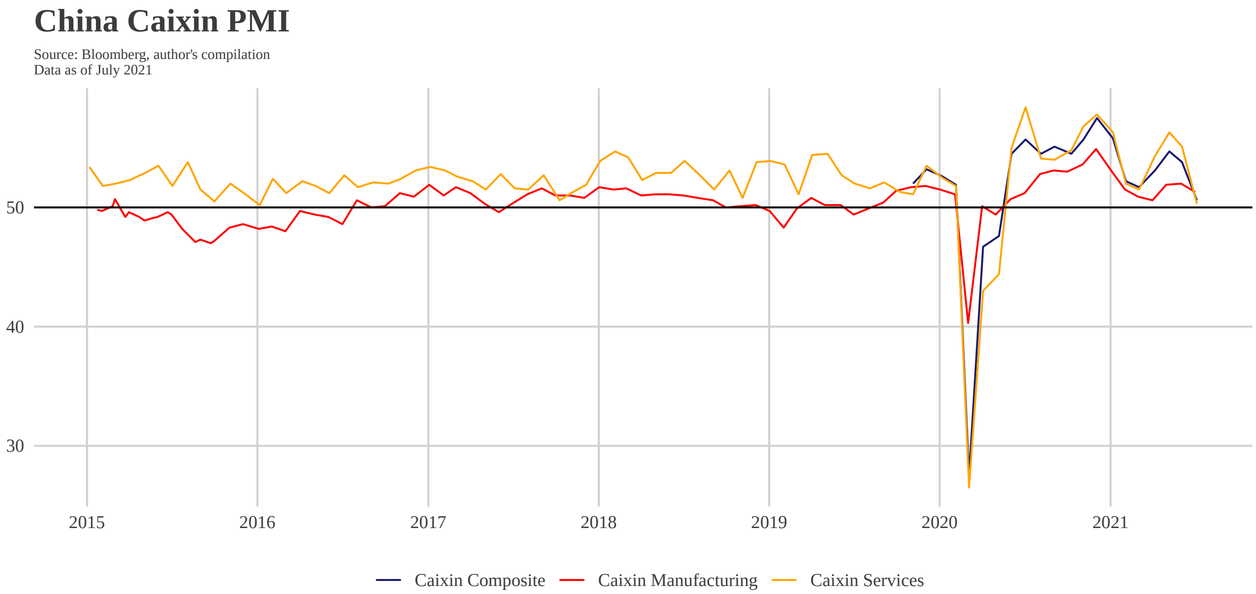


Looking through the challenging base effect, China's GDP growth broadly maintained its robust pace in the second quarter. Real GDP expanded 7.9% from a year earlier, narrowly undershooting forecasts, following a record 18.3% expansion in 1Q2021. On a quarterly basis, which is more important for understanding momentum, growth accelerated.

June activity data showed that momentum remained strong towards the end of the first half of 2021, with supply and demand indicators beating expectations. Industrial production rose 8.3% from a year earlier in June, less than May's 8.8% rise. Fixed-asset investment increased 12.6% in the first half of 2021, compared with an expansion of 15.4% in the first five months of the year. Retail sales climbed 12.1% year-on-year in June, after a 12.4% increase in May.

Inflation could keep rising amid muted GDP growth this year, with stronger expansion possible in 2022. Equities could deliver forward 12-month returns amid little threat from inflation, which we expect to stay below 4%. Value stocks may outperform growth plays in an inflationary environment. China's PPI may rise slowly in in the second half of 2021, which could ease US price pressures.

Prices of commodities may see limited upside after optimism gets priced in. Oil, copper and agriculture could lose out in a 4% inflation scenario. Asia's consumer and industrial sectors, led by construction machinery, may pass on rising costs to consumers, which limits profit impact. Rising inflation and rates may crimp valuations for the Tech and Telecommunications sector. Manufacturers of semiconductors, wafers and LCD panels could protect margins by passing on costs.

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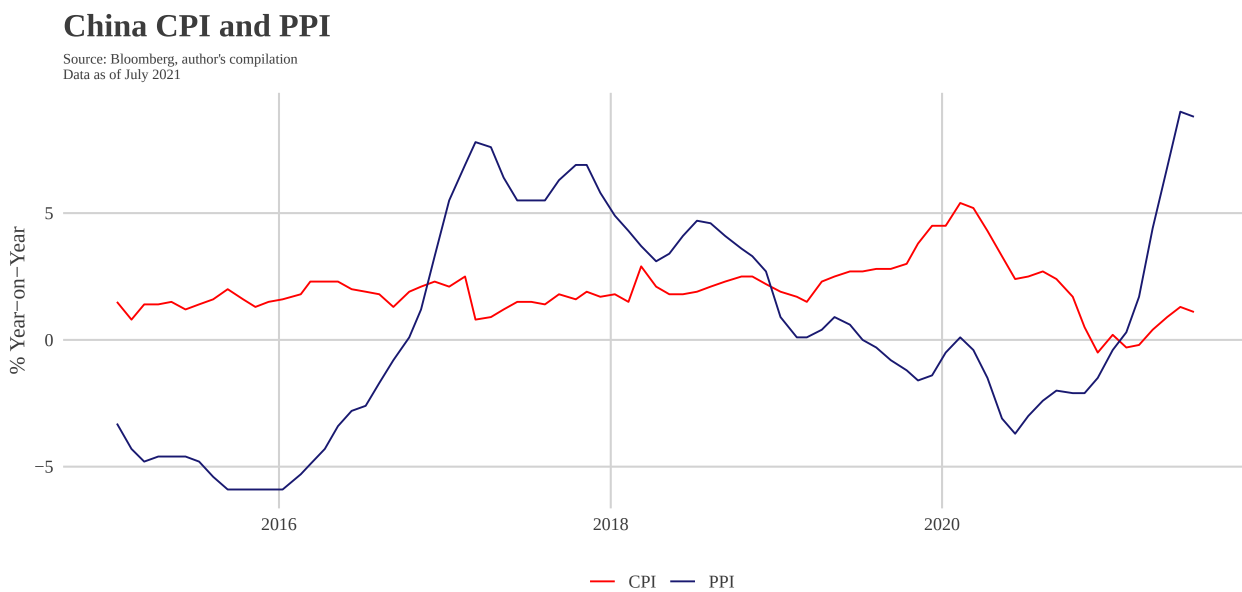


Rising CPI inflation alone hasn't been an impediment to stock-price inflation over the past two decades, as long as it was accompanied by regional GDP growth. The period between 2002-2008 saw both rising inflation and growth, and the MSCI Asia Ex. Japan index rose almost threefold during that time. However, slowing growth and higher inflation, or stagflation, are indeed a headwind for equities, with the period between 2018-2020 being a recent example. Regional inflation during that time was in part driven by shocks from the US-China trade war as well as rising food prices.

We are of the view that the recent Chinese clampdown has instilled uncertainty in the market. However, the fundamentals of Chinese companies generally remain strong. The PBOC's rate cut should extend the recovery. Nevertheless, due to the headwinds from the clampdown, we are adopting a neutral stance.

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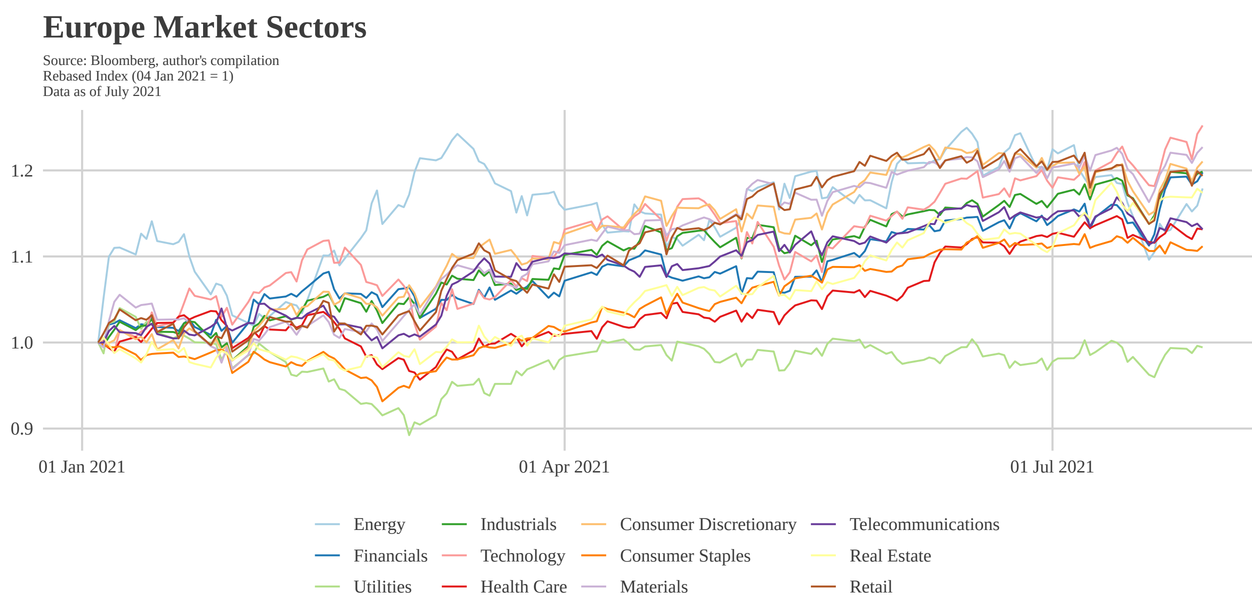
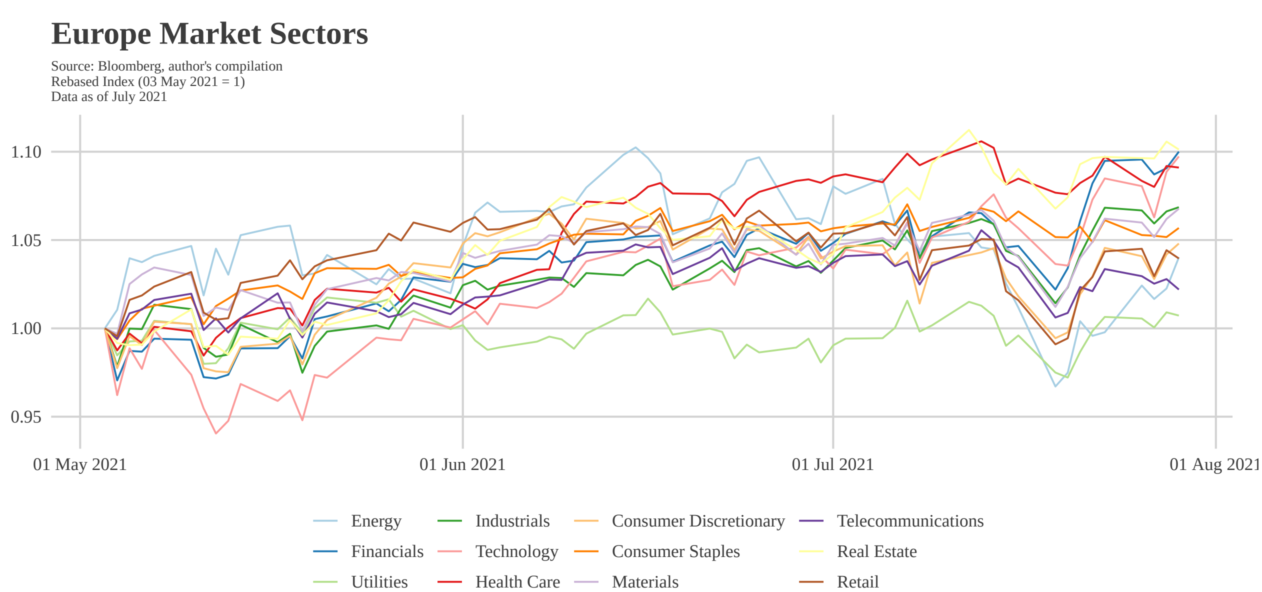
## 2.3 Europe




The Euro-area economy is finally rebounding, with progress on vaccinations encouraging consumers to spend. Concurrently, overseas demand for industrial goods is picking up. Year-to-date, almost all sectors in Europe has shown a remarkable performance. The only exception is Utilities. Considering the performance for the previous quarter, Europe has done extremely well. We believe that this is due to increased efforts by European Governments to get more people vaccinated against COVID-19. The recovery will also be greased by the roll out of a hefty fiscal stimulus package from Brussels. As a result, we expect a stronger expected activity in southern Europe to lift the growth of Eurozone.




Still, the region remains vulnerable to the course of the pandemic. The potential for the COVID-19 Delta variant to spread appears currently to be the most immediate threat, and continues to add downside risks to our forecasts. We expect the European Central Bank (ECB) to proceed very cautiously when it starts tapering

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its support.

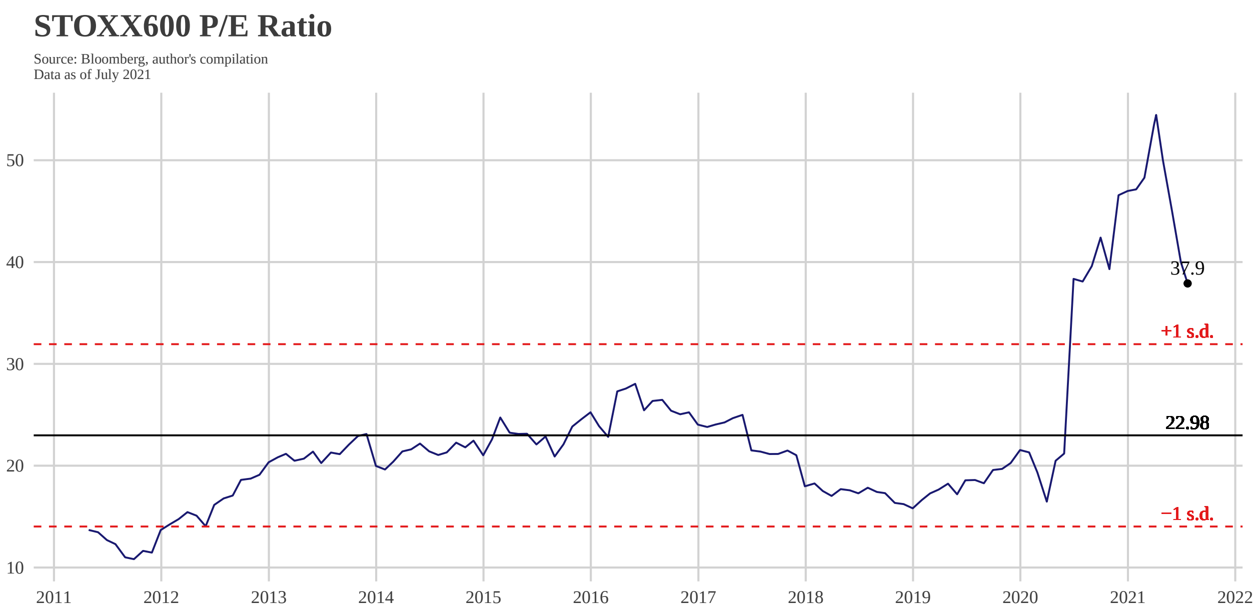
Below are the cumulative year-to-date performances of the Sectors.

Table 10: Europe Sector Cumulative Returns (%)

| Sector | Quarterly Return | Year-to-Date Return |
|---|---|---|
| Energy | 4.0 | 17.90 |
| Financials | 10.0 | 19.80 |
| Utilities | 0.7 | -0.56 |
| Industrials | 6.9 | 19.90 |
| Technology | 9.7 | 25.20 |
| Health Care | 9.1 | 13.20 |
| Consumer Discretionary | 4.8 | 21.00 |
| Consumer Staples | 5.7 | 11.20 |
| Materials | 6.8 | 22.70 |
| Telecommunications | 2.2 | 13.20 |
| Real Estate | 10.1 | 17.40 |
| Retail | 4.0 | 19.40 |

### 2.3.1 Expectations

European Governments and the ECB have pledged emergency funds and bond purchases to help prop up the economy. As the rest of the year unfolds, we expect that such measures should help boost the economy. Such funds will be be used for ESG purposes, such as promoting sustainable technology, and building environmentally-friendly infrastructure.




PMI surveys indicate that the economy was on track for a strong rebound in 2Q2021. The rebound was increasingly fueled by the services sector. The PMI composite figure rose to 59.5 in June from 57.1 in May, which signaled that GDP was expanding for the fourth consecutive month. The latest reading was boosted by

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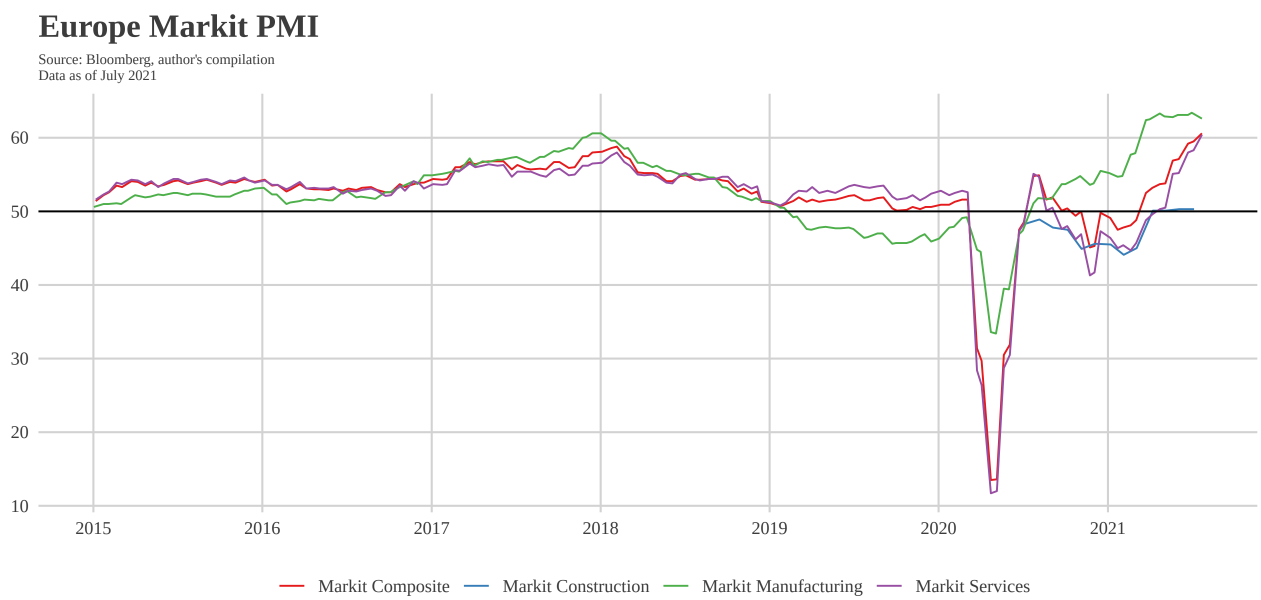
the easing of government restrictions that came too late in May to be captured in the last reporting period and, by the further decline in new COVID-19 infections. The sector breakdown reveals the recovery of services was catching up fast with manufacturing.




With the deployment of vaccines picking up, we expect a gradual reopening of businesses. This will probably be led by hospitality and non-essential retail stores, which helped the Euro-area GDP expand by 1.2% in 2Q2021. With COVID-19 infection rates declining and vaccination campaigns accelerating, economies across the euro area are rapidly reopening, and a swift rebound in services activity seems well underway. Export orders are also rolling into the bloc's factories as the global economy improves, and the industrial sector should provide added support to growth through this year and next year. In addition, countries should soon start receiving the first of EU recovery funds, boosting growth in the second half of 2021 and the start of 2022.

With regards to inflation, we continue to believe that upward pressure on consumer goods prices and a likely recovery in prices for travel-related services should continue to push up inflation. However, as slack in the economy weighs on prices and wages, we expect the increase to be temporary.

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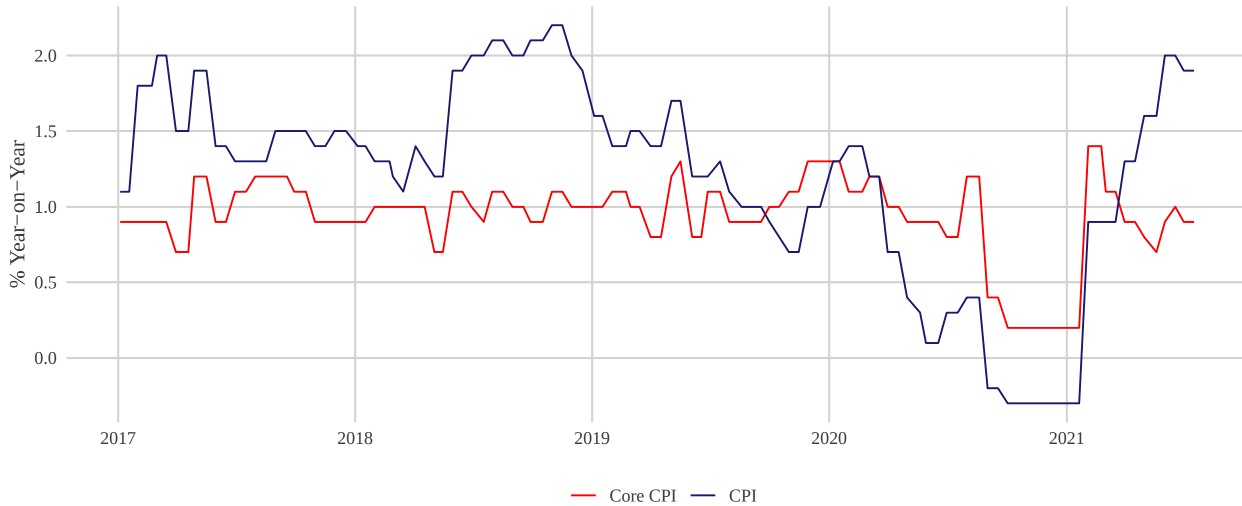
**Europe CPI and Core CPI**

Source: Bloomberg, author's compilation
Data as of July 2021

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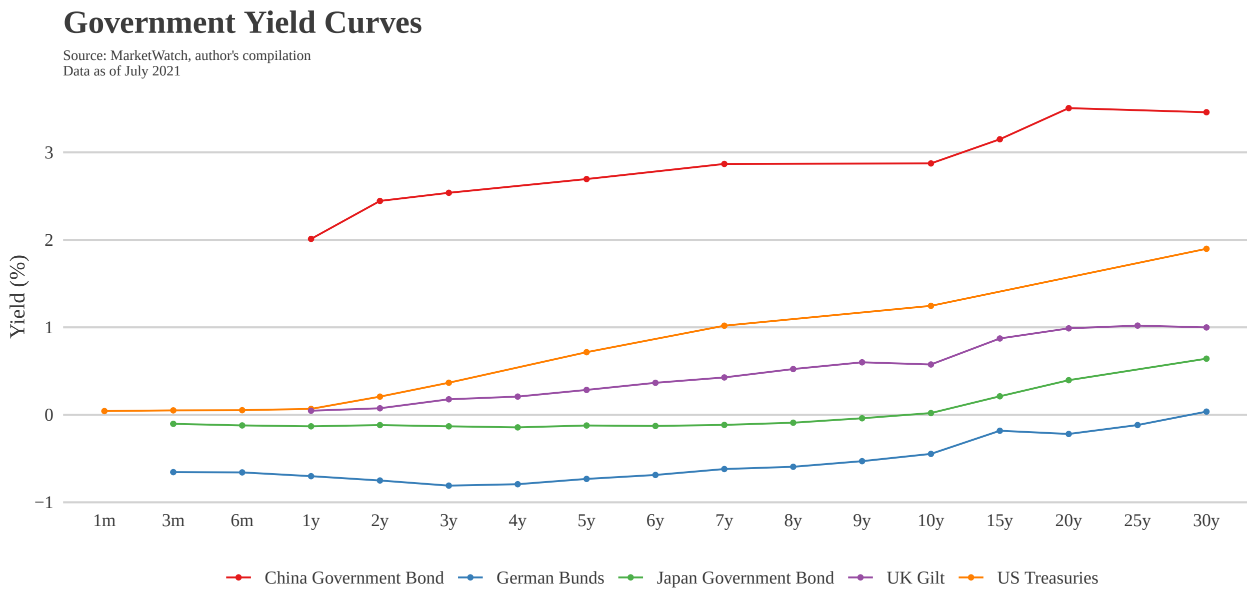
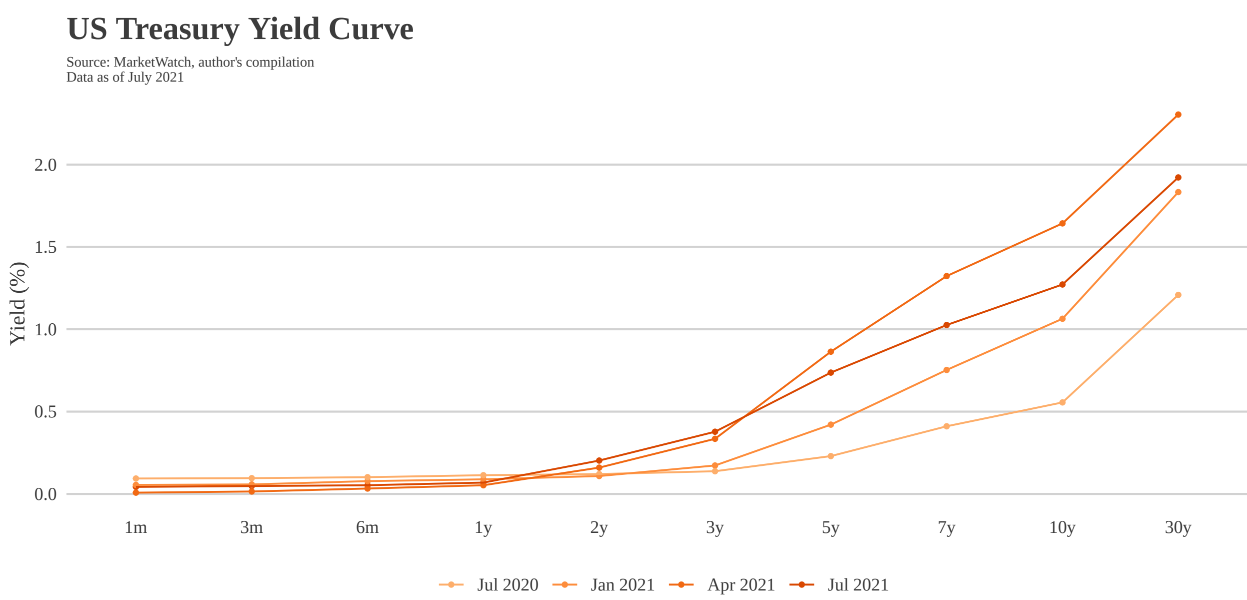
## 2.4 Credit Markets




Global government bond yields are continue to be persistently low. As per the June 2021 FOMC meeting, the Fed is now expected to start rate hikes in 2023. This provided some form of respite for the market, as market participants can now expect the rate hikes to come a year earlier, as opposed to starting rate hikes in 2024. With regards to Europe, the ECB has signaled its intention to stop its bond purchase program, with an expected deadline of March 2022. We may soon see a gradual increase in such rates from now till then.




We still contend that rates are still low by historical standards. There is more room for yields to maneuver upwards, rather than downwards, Considerable duration risk is still on the table for fixed income instruments when such yields creep up, and when the yield curve steepens or shift upwards. In light of this, we generally do not find US bonds to be very attractive, as this means that investors have to bear relatively high duration risk with low yields.

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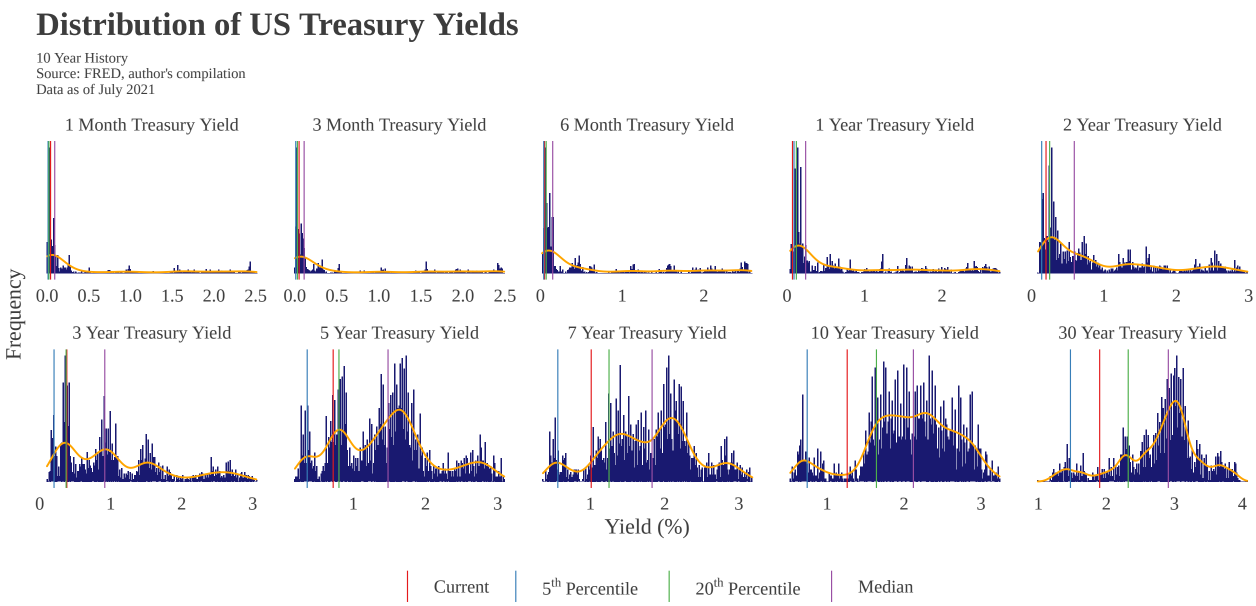
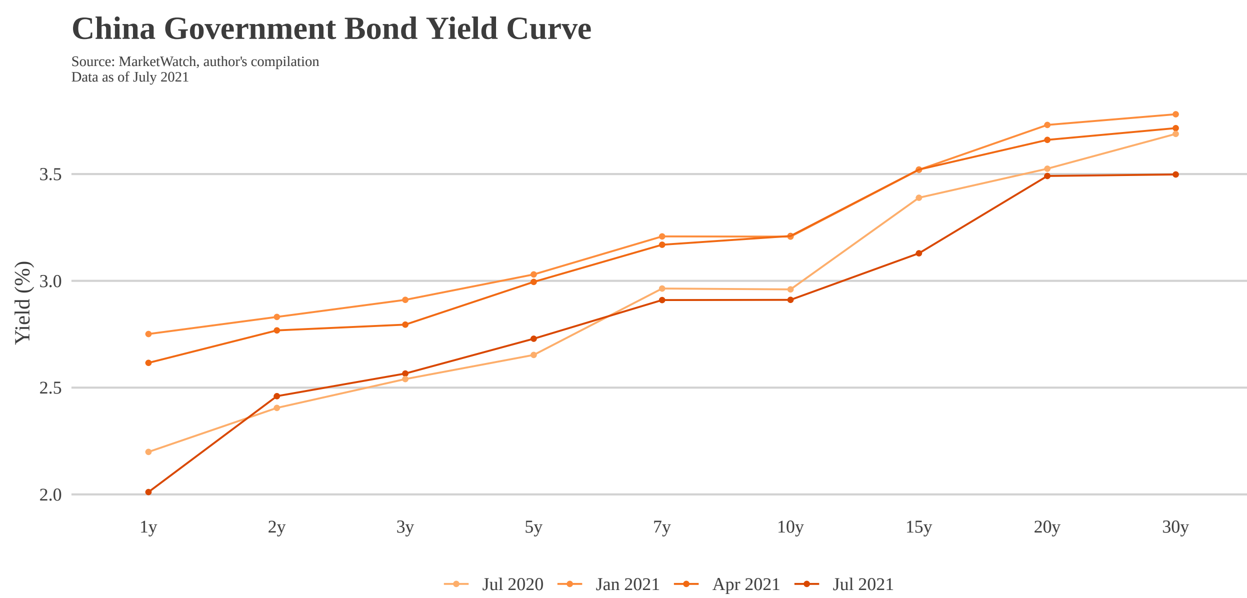



There are currently fears that China may further tighten its monetary policies, in light of elevated China PPI figures. While understandable, we believe that such fears are unwarranted.

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PromiseLand advocates that investors be mindful of the following three 'I's when investing.

**Inertia –** Clients must overcome inertia and take actual steps to start an investment portfolio or to enhance an existing investment portfolio. Clients can seek the help of Financial Adviser Representatives from PromiseLand to kick-start their journey, or to enhance their investment portfolios.

**Inefficiency** – Clients must beware of inefficiency lurking within their investment portfolio. If the addition of an investment instrument is unable to reduce the investment risk of the portfolio or to increase the mean return of the portfolio, then that particular investment instrument is inefficient. If a particular investment idea/portfolio is unable to justify the investment risks associated with it or if it is unable to derive higher returns than its opportunity cost, that investment idea/portfolio is inefficient. Clients can speak with Financial Adviser Representatives from PromiseLand to find out how PromiseLand's Portfolio Allocation Model (PPAM) can be an efficient and effective investment tool for them.

**Incongruity** – Clients must ensure their investment portfolios remain congruent to their risk profiles and aligned with the existing economic climate to reap maximum rewards. Clients can seek the help of Financial Adviser Representatives from PromiseLand to give them unbiased and professional advice with regards to Investment or Insurance Planning to ensure congruency.

Please contact your friendly PromiseLand Financial Adviser Representative to find out more about the PPAM. If you do not already have a dedicated PromiseLand Financial Adviser Representative serving your financial needs, please contact PromiseLand at +65 6505 4100 or email us at enquiries@promiseland.com.sg and we will arrange for a PromiseLand Financial Adviser Representative to attend to your unique investment needs.

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# 3 Allocation Model

## 3.1 Strategic Asset Allocation (SAA)

There are ten existing SAA models, with five each for Cash and CPF-OA/SRS to suit different risk appetite of our clients.

Table 11: Strategic Asset Allocation for Cash (%)

| Region | Conservative | Moderately Conservative | Balanced | Moderately Aggressive | Aggressive |
|---|---|---|---|---|---|
| USA | 20 | 26 | 32 | 38 | 43 |
| Europe | 7 | 9 | 10 | 12 | 14 |
| Asia Ex. Japan | 8 | 10 | 13 | 15 | 18 |
| High Quality Bonds | 36 | 28 | 20 | 13 | 8 |
| High Yield Bond | 24 | 22 | 20 | 17 | 12 |
| Yield Enhancer | 5 | 5 | 5 | 5 | 5 |

Table 12: Strategic Asset Allocation for CPFOA/SRS (%)

| Region | Conservative | Moderately Conservative | Balanced | Moderately Aggressive | Aggressive |
|---|---|---|---|---|---|
| USA | 20 | 26 | 32 | 38 | 43 |
| Europe | 7 | 9 | 10 | 12 | 14 |
| Asia Ex. Japan | 8 | 10 | 13 | 15 | 18 |
| High Quality Bonds | 36 | 28 | 20 | 13 | 8 |
| High Yield Bond | 24 | 22 | 20 | 17 | 12 |
| Yield Enhancer | 5 | 5 | 5 | 5 | 5 |

A Yield Enhancer Fund is a fund that seeks to take advantage of short-term pricing inefficiencies in the market in order to generate a higher expected return.

In the event that the selected fund is **not available** on a certain platform, PromiseLand reserves the right to replace the Fund with any other similar fund.

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## 3.2 Tactical Asset Allocation (TAA)

Table 13: Asset Class Views

| | Short Term | Long Term |
|---|---|---|
| Equities | Overweight | Overweight |
| Fixed Income | Underweight | Underweight |
| Cash | Underweight | Underweight |

Table 14: Equity Views

| | Short Term | Long Term |
|---|---|---|
| USA | Neutral | Neutral |
| China | Neutral | Neutral |
| Europe | Overweight | Overweight |
| Asia Ex.Japan | Neutral | Neutral |

Table 15: Fixed Income Views

| | Short Term | Long Term |
|---|---|---|
| Developed Markets Government Bonds | Underweight | Underweight |
| Developed Markets Corporate Bonds | Neutral | Neutral |
| Emerging Markets Government Bonds | Overweight | Overweight |
| Investment Grade | Underweight | Underweight |
| High Yield | Overweight | Overweight |

Table 16: Sector Views

| | Short Term | Long Term |
|---|---|---|
| Energy | Neutral | Neutral |
| Financials | Overweight | Overweight |
| Utilities | Underweight | Underweight |
| Industrials | Underweight | Underweight |
| Technology | Overweight | Overweight |
| Health Care | Overweight | Overweight |
| Consumer Discretionary | Underweight | Underweight |
| Consumer Staples | Underweight | Underweight |
| Materials | Underweight | Underweight |
| Telecommunications | Neutral | Neutral |
| Real Estate | Neutral | Neutral |
| Retail | Neutral | Neutral |

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### 3.3 Past Performances

The tables below show the past performances (in SGD) of the model portfolios, for the various risk levels and fund sources.

Table 17: Past Performances for Cash (%)

| Risk Level | 3 Months | 6 Months | Year to Date | 1 Year | Since Inception (pa) |
|---|---|---|---|---|---|
| Conservative | 2.46 | 3.18 | 5.19 | 17.51 | 10.30 |
| Moderately Conservative | 2.77 | 3.65 | 5.92 | 20.67 | 11.37 |
| Moderately Aggressive | 3.62 | 5.52 | 8.39 | 28.45 | 14.01 |
| Aggressive | 4.16 | 6.50 | 9.63 | 32.35 | 15.20 |

Table 18: Past Performances for CPFOA (%)

| Risk Level | 3 Months | 6 Months | Year to Date | 1 Year | Since Inception (pa) |
|---|---|---|---|---|---|
| Conservative | 2.72 | 5.15 | 4.81 | 11.10 | 6.80 |
| Moderately Conservative | 2.96 | 5.31 | 5.08 | 12.67 | 7.61 |
| Moderately Aggressive | 3.63 | 7.66 | 7.50 | 17.92 | 9.28 |
| Aggressive | 2.65 | 7.49 | 7.57 | 19.12 | 10.64 |

Table 19: Past Performances for SRS (%)

| Risk Level | 3 Months | 6 Months | Year to Date | 1 Year | Since Inception (pa) |
|---|---|---|---|---|---|
| Conservative | 2.14 | 4.57 | 4.24 | 10.34 | 6.17 |
| Moderately Conservative | 2.96 | 6.65 | 6.43 | 13.95 | 7.33 |
| Moderately Aggressive | 3.63 | 7.66 | 7.57 | 17.92 | 8.65 |
| Aggressive | 3.92 | 8.83 | 8.83 | 20.59 | 9.61 |

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# 4 Appendix

## 4.1 Fund Selection (Cash)

Table 20: Percentage Allocations for Cash (%)

| Region | Fund Name | ISIN |
|---|---|---|
| USA | Franklin - Technology A H1 Acc SGD | LU1803068979 |
| Europe | Threadneedle - (Lux) Pan European ESG Equities ASH SGD | LU0640478417 |
| Asia Ex. Japan* | UOB - United China A-Shares Innovation A Acc SGD | SGXZ49509284 |
| High Quality Bonds | NB China Bond AM Unhedged Dis SGD | IE00BHXGRN56 |
| High Yield Bonds | BlackRock GF Asian High Yield Bond A2 Acc USD | LU1564328067 |
| Yield Enhancer** | Mirova Global Sustainable Equity Fund H-R-NPF/A SGD | LU1712237335 |

Table 21: Percentage Allocations for Cash (%)

| Region | Conservative | Moderately Conservative | Balanced | Moderately Aggressive | Aggressive |
|---|---|---|---|---|---|
| USA | 20 | 26 | 32 | 38 | 43 |
| Europe | 9 | 11 | 12 | 14 | 16 |
| Asia Ex. Japan | 8 | 10 | 13 | 15 | 18 |
| High Quality Bonds | 35 | 27 | 19 | 12 | 7 |
| High Yield Bonds | 23 | 21 | 19 | 16 | 11 |
| Yield Enhancer | 5 | 5 | 5 | 5 | 5 |

* Please note that for Navigator Clients, the fund will be Allianz China A Shares AT USD.
** Please note that for FAME Clients, the fund will be Fidelity Funds - Sustainable Asia Equity Fund A-DIST-SGD.

More information regarding the funds can be found at the following links.

USA: Franklin - Technology A H1 Acc SGD
Europe: Threadneedle - (Lux) Pan European ESG Equities ASH SGD
Asia Ex. Japan: UOB - United China A-Shares Innovation A Acc SGD
High Quality Bonds: NB China Bond AM Unhedged Dis SGD
High Yield Bonds: BlackRock GF Asian High Yield Bond A2 Acc USD
Yield Enhancer: Mirova Global Sustainable Equity Fund H-R-NPF/A SGD

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### 4.2 Fund Selection (CPFOA/SRS)

Table 22: Percentage Allocations for CPFOA/SRS (%)

| Region | Fund Name | ISIN |
|---|---|---|
| USA | Franklin - U.S. Opportunities AS Acc SGD | LU1267930730 |
| Europe | Eastspring Pan European | SG9999002786 |
| Asia Ex. Japan | FSSA Dividend Advantage A Q SGD Dist | SG9999002083 |
| Bonds | Manulife Asia Pacific Investment Grade Bond A | SG9999011134 |
| Yield Enhancer* | Schroder ISF Global Sustainable Growth F Acc SGD | LU2158556196 |

Table 23: Percentage Allocations for CPFOA/SRS (%)

| Region | Conservative | Moderately Conservative | Balanced | Moderately Aggressive | Aggressive |
|---|---|---|---|---|---|
| USA | 20 | 26 | 32 | 38 | 43 |
| Europe | 9 | 11 | 12 | 14 | 16 |
| Asia Ex. Japan | 8 | 10 | 13 | 15 | 18 |
| Bonds | 58 | 48 | 38 | 28 | 18 |
| Yield Enhancer | 5 | 5 | 5 | 5 | 5 |

* Please note that for SRS funds, the fund will be Fidelity Funds - Sustainable Asia Equity Fund A-DIST-SGD.

More information regarding the funds can be found at the following links.

USA: Franklin - U.S. Opportunities AS Acc SGD
Europe: Eastspring Pan European
Asia Ex. Japan: FSSA Dividend Advantage A Q SGD Dist
Bonds: Manulife Asia Pacific Investment Grade Bond A
Yield Enhancer: Schroder ISF Global Sustainable Growth F Acc SGD

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