Monthly Fixed Income Perspective –

Oct 20 review & Nov 20 outlook

US Bond market

- In October, US Treasuries (UST's) weakened compared to prior month's levels due to additional supply concerns arising from the potential economic stimulus bill being hotly debated between the divided Congress and the White House. The better-than-expected NFP report coupled with the continuing claims falling to 7million levels claims for week ended 29th and strong US PMI and ISM manufacturing data above 50 lent risk-assets a bid instead. The curve bear-steepened again as benchmark **UST yields ended higher between 2-20bps across the curve (prior month the curve bear-steepened MOM between -2 to +1bps).** The UST 2Y yield edged 2bps up at 0.15% whilst the much-watched 10Y yield spiked 9bps at 0.88% (at the time of writing yields have eased to 0.82% levels). The yield curve saw both the 2s10s and 5s30s spreads end steeper between 10 ~15bps month-end to 70bps and 127bps each.

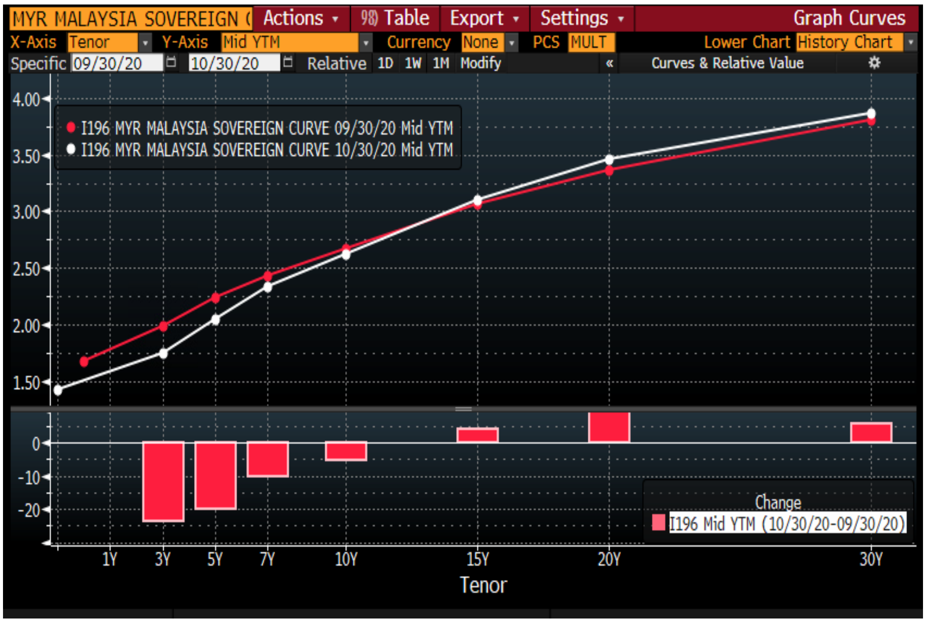
- **For November**, the Democratic win in the US elections may pave the way for more fiscal spending and increased debt sales which may lift yields higher. The rebound in GDP growth from -31.4% in 2Q2020 to 33.1% in 3Q2020 is expected to taper off in 4Q2020 whilst inflation remains tepid. The unemployment rate is envisaged to improve further but threats of a relapse in economic momentum amid resurgence in COVID-19 infections remain. Larger-than-expected auction sale sizes could maintain steepening pressure on the long-end. **10-year UST is expected to range between 0.80– 1.00%; finding support at key 1.00% levels for this month. Our preferred IG bond issuances remain in the 3-7Y tenures in recommended sectors i.e.** that support essential services such as **water, sewerage and telco and power.**

MYR Bond Market

- In October, MYR govvies curve also continued to steepen further with **MGS/GII bonds yields closing between 5-25bps lower; whilst the longer ends >20Y pressured, pushing yields 4-12bps higher instead.** The benchmark 5Y MGS 9/25 rallied the most by 11bps at a historical low of 2.00% whilst the 10Y MGS 8/29 yields fell 5bps at 2.62%. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw a 6th consecutive month of inflows @ RM6.35b net inflows to 4-year high of RM195.7b (i.e. 23.8% of net issuance outstanding). The auctions in October involving 3Y GII reopening saw strong BTC ratio whilst the 10Y MGS and 5Y GII notched decent BTC ratios at the 2.0x handle. Overall BTC ratios ranged between 1.99-3.09x.

- **For November, expect range-bound levels with bargain-hunting activities on price weakness**. Odds have vanished for another OPR cut but downside growth risks triggered by the resurgence of Covid-19 cases remain a concern. The risk-on appetite for EM Asia following the change in the US government leadership may see optimism in equities outclass govvies. The recent National Budget 2021 is seen to have muted impact on the local financial markets. **The 3Y, 15Y GII and 15-20Y MGS space reflect relative values along the curve for this month. We expect the 10Y to range slightly lower between 2.60-2.80%** with support pegged at 2.80% levels. **We also like the 7Yand 20Y GG-space, in addition to the shorter-end AAA and AA1-rated papers.**

MYR sovereign curve (MGS)



Source : Bloomberg

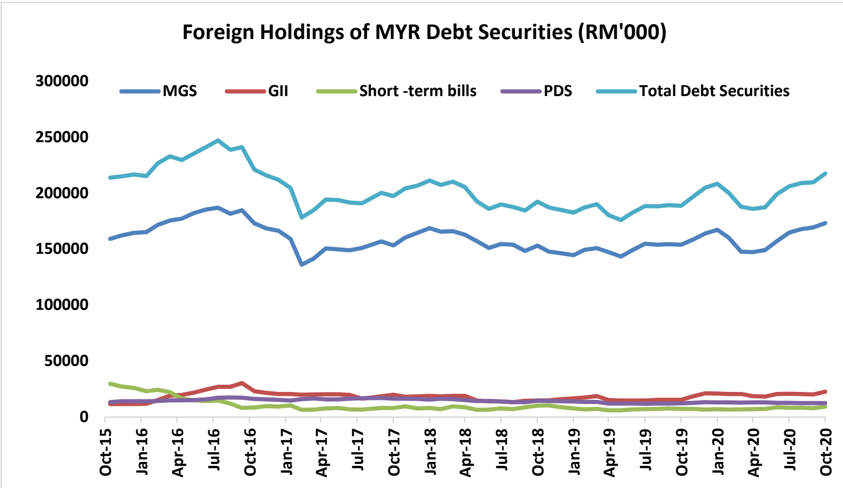
NFP data for October underlines ongoing US economic recovery from the impact of COVID-19 virus outbreak; causing UST yields to jump higher as expectations ramp up on change in US leadership….

October Non-Farm Payrolls ("NFP") ended stronger-than-expected with a larger increase at 638k (consensus 580k) having earlier notched a revised 672k in September. (To recap the economy lost almost 22 million jobs between March-April 2020). It is believed that this was propelled by private payrolls as government jobs fell by 268k, driven by a loss of 147k temporary census workers. The underlying situation remains somewhat contrasting with goods benefitting from the pandemic-driven surge in demand for durable goods whilst services hiring tapered off slightly. The unemployment rate brought further cheer; showing a vast improvement to 6.9% in October (prior month: 7.9%) along with the slightly higher participation rate of 61.7% vs prior month's 61.4% indicate that job-finding chugged along solidly for the month. The average hourly wages growth also picked up slightly to +0.1% MOM (previous month: 0.0%) but the YOY figures moderated from 4.7% to 4.5%. The overall labor market picture now reflects steady pace of improvement compared to previous month but bearing in mind that employment numbers remain well below pre-pandemic levels. Separately, the Fed's preferred inflation measure tapered off from +0.3% to +0.2% MOM for September; with personal consumption expenditure (PCE) core index which the Fed officially targets for 2.0% inching up to +1.5% YOY from previous +1.4%, which could put less upside pressure on UST yields.

There was no change in interest rates since our last monthly report with the Fed having last left rates unchanged at its **latest FOMC on 6th Nov at the time of writing.** (To recap, total YTD rate cuts amounted to 150bps with the Fed Funds Rate between 0.00- 0.25%). The next scheduled FOMC meeting is on 16th Dec. The **Fed's current dot plot still pins rates at zero through 2023. Nevertheless, data from the Fed Fund Futures now reflect traders' lower expectations of a higher 7.8% (previous month: 1.8%) hypothetical probability of a 25bps rate cut whilst CME FedWatch Tool continues to maintain a 100% chance of a rate pause in the upcoming FOMC on 16th December.** There has been no let-up in the **Fed's diligent purchase of bonds** across the curve by \$80b a month in Treasuries and \$40b a month in agency MBS at least until 13th Nov; thus maintaining its balance sheet at ~\$7.1 trillion levels since June 2020 (March: ~\$4.7 trillion).

Foreign holdings of MYR bonds spiked by a whopping 3.8% or RM7.98b for the 6th month-in-row in October whilst MYR strengthens to ~4.1100 levels at the time of writing…

Foreign holdings of overall MYR bonds rose in October by RM7.98bn or 3.8% to RM217.5b. Non-resident holdings of MGS jumped by RM3.9b from RM169.2b to RM173.2b (representing 40.3% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM6.35b to RM195.7b (representing 23.8% of total outstanding) amid a smaller net issuances of +RM2.76b for the month (Sep: net issuances of +RM12.0b). Concerns over the delicate political balance in favor of the ruling government and additional supply concerns were shrugged-off due to the risk-on appetite for Asian Rates asset class and yield-carry requirements by real money investors. Expectations of current low rates being anchored due to the economic threat by ongoing COVID-19 virus infections also lent a bid. **Overall MYR govvies saw cumulative 12-month rolling net foreign inflows rose sharply to RM26.6b from RM19.8b (YTD Oct: RM10.7b) whilst cumulative 12-month net equity outflows edged slightly higher at RM25.9b from RM25.5b (YTD Oct: RM23.1b).** On the currency side, the MYR sustained levels against USD at 4.1557 as at end-Oct and advanced further to 4.1100 levels at the time of writing.



Source: BNM, HLB Research

BNM maintains OPR at 1.75% in November for the 2nd straight meeting whilst moving away from its earlier dovish tilt...

BNM in its 6th and final monetary policy committee (MPC) meeting on 3rd of Nov, held the OPR unchanged at 1.75%. The tone of monetary policy statement was sanguine; moving gradually away from the previous more downbeat outlook. It turned slightly optimistic on growth assessment but did highlight that downside risks to growth continues to persist amid recent resurgence in COVID-19 cases which have resulted in major economies re-introducing containment measures although less restrictive compared to earlier measures. These downside risks to growth remain as further resurgence of infections could lead to weaker business, employment and income conditions.

On inflation outlook, BNM commented that headline inflation is likely to average negative this year given the substantially lower global oil prices. Going forward headline inflation in 2021 is projected to average higher but will significantly be affected by global oil and commodity prices. On balance, BNM may have room for further policy easing, with the degree of monetary policy response to remain data dependent. The upcoming 3Q GDP print for Malaysia is scheduled for release on 13 November, which is expected to show a lesser growth contraction following improvement in economic activities after a weak print of -17.1% YOY released for the 2Q.

Hence in short, with the MPC reaffirming that the stance of monetary policy is appropriate and accommodative, **we opine that another OPR cut by BNM is not forthcoming in the immediate future. We maintain our full year estimate for 2020 GDP growth at -4.9%** (2019A: +4.3%) but reckon there are downside risk to this forecast based on the imposition and continuation of Conditional MCO in selected states throughout the nation.

MYR government bond auctions however saw stronger bidding metrics for the three (3) auctions in October…..

Of the three (3) government bond tenders concluded for the month of October 2020 under the auction calendar; the 3Y GII reopening saw strong BTC ratio of 3.09x with total bids amounting to the 2nd highest @ RM13.9b. Overall average BTC ratio for the month notched 2.34x (Sep: 1.65x). Both the new issuance of 10Y MGS 4/31 and 5Y GII 11/49 reopening saw decent sum of bids received of almost RM10b each; premised on BTC ratios of 2.0x. We note that there were no private placements for these tenders. The short tails seen were reflective of steady participation from both onshore and offshore institutions.

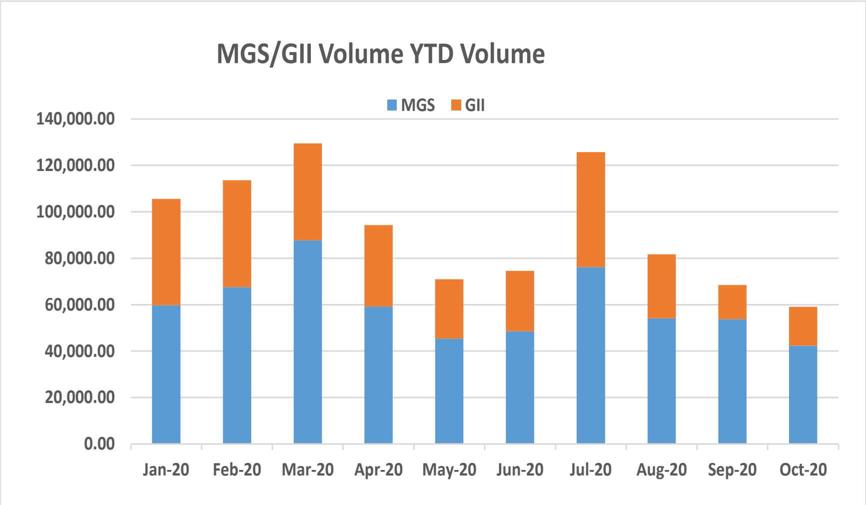
MGS/GII issuance pipeline in 2020

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement X	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 05/27)	7	Jan	Q1	8/1/2020	4,000	3,500		3,500	2.498	3.259	3.281	3.288	57.1%
2	15-yr Reopening of GII (Mat on 11/34)	15	Jan	Q1	14/1/2020	4,000	2,500	1,000	6,000	3.396	3.500	3.507	3.513	42.9%
3	3-yr Reopening of MGS (Mat on 3/23)	3	Jan	Q1	23/1/2020	3,000	3,000		9,000	2.183	2.837	2.858	2.875	80.0%
4	30-yr Reopening of GII (Mat on 11/49)	30	Feb	Q1	4/2/2020	3,000	2,500	1,500	11,500	2.328	3.747	3.780	3.792	66.7%
5	10-yr Reopening of MGS (Mat on 08/29)	10	Feb	Q1	13/2/2020	3,000	4,000		15,500	2.036	2.860	2.888	2.898	80.0%
6	5-yr Reopening of GII (Mat on 10/24)	5	Feb	Q1	20/2/2020	3,000	4,000		19,500	2.776	2.817	2.845	2.852	46.2%
7	15-yr Reopening of MGS (Mat on 07/34)	15	Mar	Q1	5/3/2020	4,000	3,500	500	23,000	2.247	3.008	3.027	3.036	80.0%
8	20-yr Reopening of GII (Mat on 09/39)	20	Mar	Q1	12/3/2020	4,000	2,800	1,500	25,800	2.182	3.295	3.344	3.373	91.7%
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	20/3/2020	3,000	4,000		29,800	2.080	3.372	3.450	3.494	80.0%
10	7.5-yr New Issue of GII (Mat on 09/27)	7	Mar	Q1	30/3/2020	4,000	3,500	1,000	33,300	2.874	3.391	3.422	3.454	100.0%
11	20-yr Reopening of MGS (Mat on 05/40)	20	Apr	Q2	6/4/2020	4,000	3,500	1,500	36,800	1.973	3.828	3.855	3.888	14.3%
12	10.5-yr New Issue of GII (Mat on 10/30)	10	Apr	Q2	14/4/2020	5,000	4,000	1,000	40,800	3.118	3.439	3.465	3.479	13.9%
13	7-yr Reopening of MGS (Mat on 05/27)	7	Apr	Q2	29/4/2020	4,500	4,000		44,800	2.239	2.668	2.679	2.689	61.9%
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2	14/5/2020	5,000	3,500	1,500	48,300	2.171	3.210	3.235	3.269	50.0%
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2	21/5/2020	4,500	4,500		52,800	1.732	2.777	2.799	2.820	43.5%
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2	3/6/2020	4,500	4,500		57,300	2.502	2.285	2.306	2.318	50.0%
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2	12/6/2020	5,000	3,000	2,500	60,300	2.167	4.013	4.065	4.098	78.0%
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2	29/6/2020	5,000	3,500	2,000	63,800	2.055	3.707	3.761	3.797	100.0%
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3	9/7/2020	5,000	5,000		68,800	2.512	1.987	2.002	2.010	15.7%
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3	16/7/2020	5,000	5,000		73,800	2.591	2.650	2.665	2.679	90.9%
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3	23/7/2020	5,000	5,000		78,800	2.105	2.950	2.970	2.985	13.7%
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3	1/8/2020	5,000	4,000		82,800	2.045	2.265	2.280	2.285	76.5%
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3	13/8/2020	5,500	4,000	1,500	86,800	1.469	3.200	3.240	3.273	20.0%
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3	26/8/2020	5,500	4,000	1,000	90,800	1.423	2.995	3.032	3.080	38.0%
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3	3/9/2020	5,000	3,500		94,300	1.538	2.254	2.291	2.340	63.3%
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3	17/9/2020	5,000	3,000	500	97,300	1.358	3.985	4.178	4.351	90.0%
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3	29/9/2020	4,000	5,000		102,300	2.803	2.360	2.389	2.405	33.0%
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4	5/10/2020	4,000	4,500		106,800	3.093	1.973	1.981	1.986	80.0%
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4	14/10/2020	5,000	5,000		111,800	1.994	2.600	2.632	2.652	40.9%
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4	27/10/2020	4,500	5,000		116,800	1.996	2.191	2.204	2.213	97.1%
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4		4,000		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		4,000								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		4,000								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		4,500		X						
Gross MGS/GII supply in 2020						150,300	116,800	17,000						

Source: BNM, HLB Research

MGS/GII sees secondary market activity lessen slightly…

Trading volume for MYR govvies i.e. MGS + GII bonds fell by 13.8% MOM to ~RM59.3b in October compared to prior month's RM68.8b due to the anticipated delicate political situation and also govvies supply concerns arising from the various economic stimulus packages required to combat the ill-effects of the COVID-19 pandemic on the economy. Interest was seen across the short-end of the bellies with substantial and frequent trades done predominantly in MGS off-the-run 21-22's (altogether RM16.1b or 27% of overall volume; similar to previous month), 24's and 26's. This was followed by tremendous interest in the 3Y (RM7.5b) and also the 5Y and 15Y benchmarks which churned a solid secondary market volume of RM6.5b and RM3.0b respectively which altogether maintained a similar 29% of overall volume for the month. Investors were active in both the belly and the longer ends; pivoted between the 10-15Y part of the curve; amid differing views in the interest rate outlook. We opine that the secondary market volume for local govvies may continue to maintain at current levels in November following the digestion of the impact of recent results of Biden and the Democrat team wrestling back the Presidency and Senate in the just-concluded US elections and BNM's decision to stay pat on the interest rates at least for another quarter.

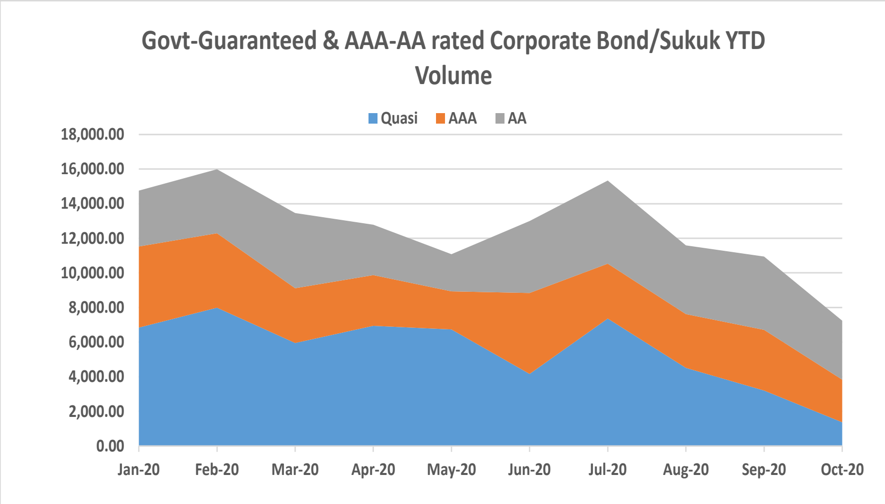


Source : BPAM, Bloomberg, HLB Research

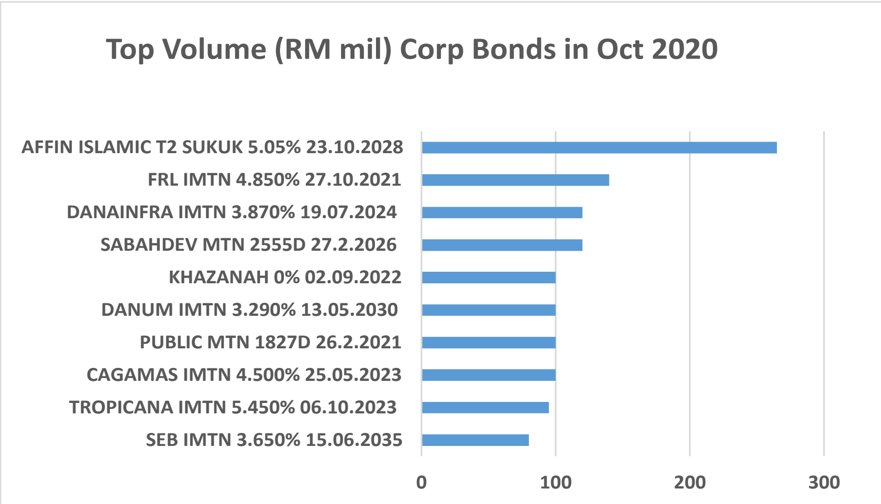
Corporate Bonds/Sukuk activity eased to its lowest for the year

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) similarly notched lower secondary market trading volume of ~RM8.5b in Oct (albeit a sharper 24.1% drop vs 13.8% for govvies) compared to RM11.2b in Sep. The weaker momentum was partly due to the influence from govvies as fund managers were inclined to be sidelined following some "political noise" from the opposition and also BNM's decision on the OPR. Some of the larger institutional buyers were also reluctant sellers in view of the yield-carry requirements for their investment portfolios. Yield spreads ended wider between 20-40bps in the GG-segment (save for the longer ends > 25Y), and also wider between 35-57bps for AAA-rated bonds but tighter between 65-78bps in the AA2-segment which altogether saw the steep declines in the shorter 1-3Y tenures. We note that foreign holdings for both GG and pure Credits inched up marginally by RM130m to RM12.4b.

Total transactions for GG bonds fell by 10% to form a mere ~19% of overall volume compared to AA-rated ones which jumped to form ~47% of overall secondary market volume. Bulk of investor interest in the GG-space was again mainly centered on DANAINFRA, PRASARANA, PTPTN bonds along with quasi-govt i.e. CAGAMAS bonds. **Bonds that garnered top volume for the month were AFFIN Islamic 28NC23 and the short-end FRL 10/21, followed by govt-guaranteed DANAIFRA 7/24.** Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. YTL Corp 23-36's, KLK 22-34's, PKPP 24-28's, DANUM 25-35's, GENM Capital 22-23's TCMH 21's, and infrastructure-cum construction/property (i.e. WCT 21-22's, AMAN 21-27's, WESTPORT 21-28's, Penang Port 29-31's UEM Sunrise 21-23's), utilities encompassing power/energy/water (i.e. AAA-rated TENAGA 30-40's, PASB 24-35's, EDRA 24-31's, SEB 22-36's, JEP 22-32's, Solar Management 21-38's, Southern Power 22-33's), toll-operator (i.e. PLUS 21-33's), telco i.e. AA-rated BGSM 21-26's, PRESS METAL 25's and Fortune Premier 22-23's and CYPARK 34-40's. The banking sector saw AFFIN-Bank and Islamic-related names, ALLIANCE, SABAHDEV and MBSB bonds traded. Odd-lot denominated trades involving unrated Mah Sing perps, YNH PROPERTIES perps, ECO World International 21-23's, Eco Capital 24's, Tropicana 23-25's, perps, IJM land perps, TG excellence and CIMB perps were also prevalent.



Source : BPAM, Bloomberg, HLB Research



Source : BPAM, Bloomberg, HLB Research

Primary issuance print in October driven by the following:

Notable issuances in Oct-20	Rating	Amount Issued (RM mil)
Prasarana Malaysia Berhad	GG	1,000
Perbadanan Tabung Pendidikan Tinggi Nasional	GG	1,300
Bank Pembangunan Malaysia Berhad	AAA	1,000
Pengerang LNG (Two) Sdn Berhad	AAA	1,700
Toyota Capital Malaysia Sdn Berhad	AAA	50
Malayan Banking Berhad	AA1	3,000
Imtiaz Sukuk II Berhad	AA2	700
RHB Bank Berhad	AA2	300
BGSM Management Sdn Berhad	AA3	120
Konsortium KAJV Sdn Bhd	AA3	55
Perbadanan Kemajuan Pertanian Negeri Pahang	AA3	650
Solar Management (Seremban) Sdn Berhad	AA3	260
WCT Holdings Berhad	AA3	100
Bank Islam Malaysia Berhad	A1	700
Tropicana Corporation Berhad	A1	318
Alliance Bank Malaysia Berhad	A2	1,200
Atrium REIT Capital Sdn Berhad	NR	35
Padiberas Nasional Berhad	NR	900
BGRB Venture Sdn Berhad	NR	6
Cagamas Berhad	NR	550
Cypark Renewable Energy Sdn Berhad	NR	22
Damansara Uptown Retail Centre Sdn Berhad	NR	25
Hektar Green Sdn Berhad	NR	8
LYC Mall Sdn Berhad	NR	258
MAG Holdings Berhad (fka Xinghe Holdings Berhad)	NR	3
Liziz Standaco Sdn Berhad	NR	8
PESTECH International Berhad	NR	37
Potensi Angkasa Sdn Berhad	NR	17
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	3,55
Sino Hua-An International Berhad	NR	2
SunREIT Unrated Bond Berhad	NR	400
Tradewinds Hotels & Resorts Sdn Berhad	NR	2
True Ascend Sdn Berhad	NR	50
Maxis Broadband Sdn Berhad	NR	500
		15,275

Source : BPAM, Bloomberg, HLB Research

Total fresh issuances of Corp Bonds/Sukuk spiked to a YTD high of ~RM15.3b (Sep: RM9.0b) with Govt-guaranteed PRASARANA Berhad and MAYBANK Bhd being the more prominent ones. PRASA issued 8-12Y bonds totaling RM1.0b at coupons between 2.78-3.10% whilst MAYBANK successfully arranged 10NC5nd 12NC7 bonds amounting to RM3.0b at coupons between 2.90-3.10%.

Outlook for Nov 2020

Expect yields to remain range-bound and supported by real-money investors i.e. pension funds, lifers and also inter-bank players…..

The MYR bond market which saw better bidding metrics (BTC ratio: 2.34x) in October 2020 with the decent auction interest for both the new issuance of 10Y MGS 4/31 and re-opening of 5Y GII 3/26 being overwhelmed by the 3YGII 5/23 reopening. This was due to investors shrugging off earlier concerns of delicate political situation and some disappointment in BNM maintaining the present low rate of 1.75%. Nevertheless traders and investors will be digesting the government's recent presentation of the National Budget 2021 that is projected to reveal a larger budget deficit of RM86.5b (6.0% of GDP as per our earlier forecast of between 5.9-6.4%) whilst taking cognizance of the five (5) various economic stimulus packages (ESP's) totaling RM305b or ~21% of GDP.

Hence we project total issuances in 2020 to the tune of close to RM150b based on the above deficit arising from the various ESP's. The USDMYR pair which fell to 4.1580 month-end has however strengthened to 4.1100 levels at the time of writing as a result of slight improvement in foreign holdings of MYR debt securities, steady oil prices and also weaker greenback.

No change to our view for OPR to stay unchanged at 1.75% in the foreseeable future. Hence, we continue to expect range-trading levels for this month with institutional support on price weakness. Nevertheless, the positive interest-rate differentials are expected to maintain offshore real money investor interest like pension funds, central banks, global asset managers and lifers into the local sovereign debt space. **The 3Y, 15Y GII and 15-20Y MGS space reflect relative values along the curve for this month. We expect the 10Y to range slightly lower between 2.60-2.80%** with support pegged at 2.80% levels. We note that there is only RM3.0b of govvies maturities falling in November that is unlikely to weigh on yields with opportunities for rollover into our projected RM12.0b of new MGS/GII issuances for the month. We continue to expect the shorter-end i.e. 21-22's and benchmark 5Y, 10Y bonds to be the center of attention for traders

We continue to **like the 7Yand 20Y GG-space** due to both liquidity and stronger credit metrics (current yield spreads over MGS are +23bps and 27bps respectively). The GG bond names like DANAINFRA, PRASARANA and LPPSA are expected to be well-sought after on smaller portfolio slippage by investors. **We generally prefer the shorter-end AAA and AA1-rated papers i.e. mainly in the 1-3Y tenures** for yield pick-up features (current yield spreads over MGS are ~ 50-70bps). We continue to advocate caution in sectors involving automobiles, retail, leisure and property-backed issuers but prefer those in power, utilities, tolling operations conglomerates with a diversified business profile.

The recent upbeat interest in unrated bonds and perps are able to provide alternative options; especially for retail investors but one has to be mindful of the property-related issuances despite the juicier yields**.**

US rates markets in Nov may be impacted by the leadership change post-US elections and will navigate around additional fiscal stimulus bill and a potential rise in risk appetite….

The Federal Reserve will be having its next FOMC meeting on the 16thth of Dec to decide on its current policy rate which has been pegged between 0.00 - 0.25% since March. The US economy added 638k jobs in October (Sep: +672k), more than analysts' expectation of 580k gains. The US ISM Manufacturing PMI jumped higher to 59.3 in October (Sep: 55.4) whilst Markit US Manufacturing PMI maintained strength at 53.4 (Sep"53.3) as new orders showed continued growth. Nevertheless, Investors are seen nervous over the resurgence of new wave of COVID-19 infections in the US that may necessitate containment measures again. The tepid inflationary conditions along with the improvement in unemployment rate to 6.9% from 7.9%; is expected to support the rates asset class with safe-haven bids. The risk-on appetite for EM Asia following the change in the US government leadership may see optimism in equities outclass govvies with US-China relations potentially seeing better times ahead. We expect a smaller contraction in growth in the coming months, as the massive $2.9 trillion work-in-progress policy stimulus is projected to create impact through to the real economy. The Fed's neutral view on the rate outlook suggests further rate cuts are unlikely until 2023. **We are akin to seeing the Fed embark on yield curve control to cap yields on certain maturities and also stronger forward guidance on its target and future path for the Fed Fund rate**.

10-year UST is still expected to range between 0.80-1. 00% whilst finding support at key 1.00% levels for this month. T**he 7Y and 20Y tenures are seen to offer better risk-reward posture at this juncture.** The flipside to our forecast include:

- vaccine discovery for COVID-19 virus
- improved global trade resulting from better US-China ties
- An abrupt change in the Fed's interest rate outlook.

The medium-term durations potentially offer better risk-reward metrics. Nevertheless uncertainty on a few fronts that include the proposed fiscal stimulus bill and public health trajectory are expected to weigh on yields**.**

In the Credit/Corporate space, US Investment grade (IG) saw YTD robust net debt issuances reaching almost $1.0 trillion whilst new issuances hitting close to $1.7 trillion; on lower and attractive funding costs. About $$44.4b in dollar IG Corporate Bonds are due in November (Dec: $28.8b) with the bulk i.e. 44% from the financial sector. The Bloomberg Barclays US Corporate Total Return Value (for IG), which has a market value $6.75 trillion has seen option-adjusted spreads tighten to 116bps on the back of strong investor demand for safer credits and yield. We expect a slightly higher average returns for November compared to the recent -0.2% MOM and +6.4% YTD returns. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) however produced a MOM return of +0.5% and also a 1.1% YTD respectively for 2020. We continue to advocate caution on HY bonds that may have volatile earnings capacity and stretched balance sheets as these entities navigate their way around the pandemic-struck economic climate. **Our preferred IG bond issuances remain in the 3-7Y tenures in recommended sectors i.e.** that support essential services such as **water, sewerage and telco and power** that ought to maintain steady demand amid decent credit standing. We still prefer to avoid the High Yield sector due to record issuances and concerns over stretched balance sheets under the current economic scenario.

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