Monthly Fixed Income Perspective –

May 21 review & June 21 outlook

US Bond market

- **In May**, US Treasuries (UST's) eked out a gain; as earlier upward pressure on yields during the first half of the month from strong April inflation readings was offset by weakness in retail sales data and consumer sentiment gauges. The curve shifted lower as benchmark **UST yields declined mostly between 0-5bps across the curve** with the short-end UST 2Y yield edging 2bps down at 0.14% whilst the 10Y closed 3bps lower at 1.60% (at the time of writing yields have fallen further to 1.54% levels) as the yield curve saw the 2s10s spread maintain almost at ~145bps; off the high seen early May. Nevertheless the 5s30s spreads were seen resuming its widening stance to ~148bps.

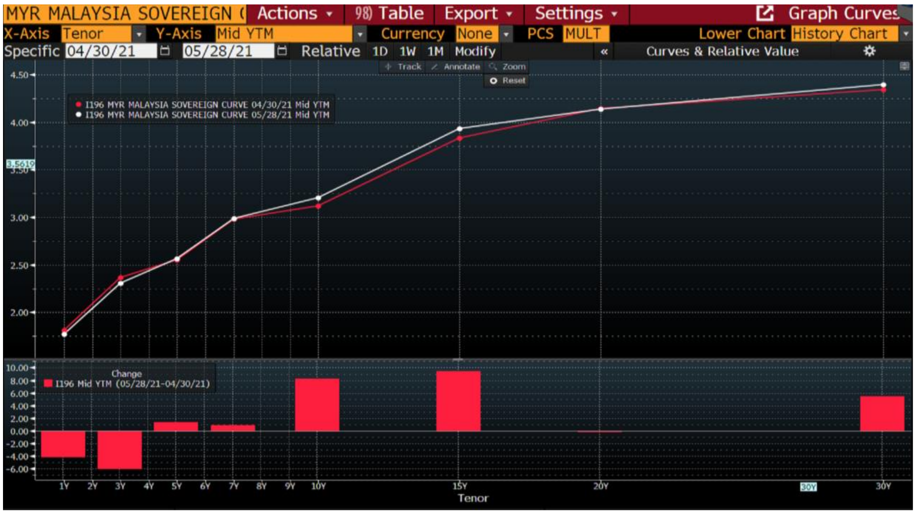
- **For June**, expect USTs to be supported as the Fed is expected to maintain its pace of asset purchases for the foreseeable future. Economic data releases are taking sharp turns lately, given extremes in y/y comparisons. Last month's jobs data which fell slightly short of expectations may lead investors to conclude that the Fed will stay on hold for the time being. Optimism about a post-pandemic economic recovery and fears that rising inflation could wipe out gains add to the chance for market volatilities. **The 10-year UST is expected to range slightly hover between 1.40-1.60%; finding support at key 1.60% levels for this month. Expect June IG issuances to be in the region of ~$100-110b. Our preferred IG bond issuances are in transportation, consumer cyclical, communication and energy sectors with roll-down benefits seen within 5-7Y duration.**

MYR Bond Market

- **In May**, MYR government bond curve shifted higher; extending out from the 3Y sector with both **MGS/GII yields rising between 0-12bps; with the short-ends being the exception in both categories.** The benchmark 5Y MGS 9/25 yield rose 6bps m/m at 2.59% whilst 10Y MGS 4/31 yield spiked 12bps to 3.23%. The foreign holdings of MYR government bonds (MGS + GII + SPK) rose to a new high in May; with net inflows circa RM1.7b to RM222.3b (representing 25.4% of total outstanding). All three (3) auctions saw participation push higher at an average BTC ratio of ~ 2.22x compared to prior month's 1.99 cover.

- **For June,** we note the recent jump in April CPI was distorted by transport and utility prices due to base effect and policy-induced swings. However, we believe benign price pressure due to absence of demand-pull inflation will have minimal impact on bonds. Despite the implementation of MCO 3.0, Moody's affirmation of the nation's credit profile at A3 with a stable outlook will augur well whilst portfolio capital flows search for attractive yield-carry and liquidity characteristics in the bond asset class. This is expected to neutralize muted secondary market activities by EPF at least until end of this month. The recent announcement of RM5b fiscal injection due to the latest PEMERKASA + stimulus is not expected to have meaningful impact. **The 5Y, 15Y GII, and 7Y, 15Y MGS space reflect decent relative values along the curve. We expect the 10Y to range higher between 3.20-3.40%** with support pegged at 3.40% levels. **We also like the short 2Y, 10Y AAA-AA and longer-tenured 15Y GG space.**

MYR sovereign curve (MGS)



Source: Bloomberg

NFP for May missed consensus but still re-accelerated whilst employment remains ~7.6m below its pre-pandemic peak; the Fed is not expected to taper its asset purchases anytime soon…

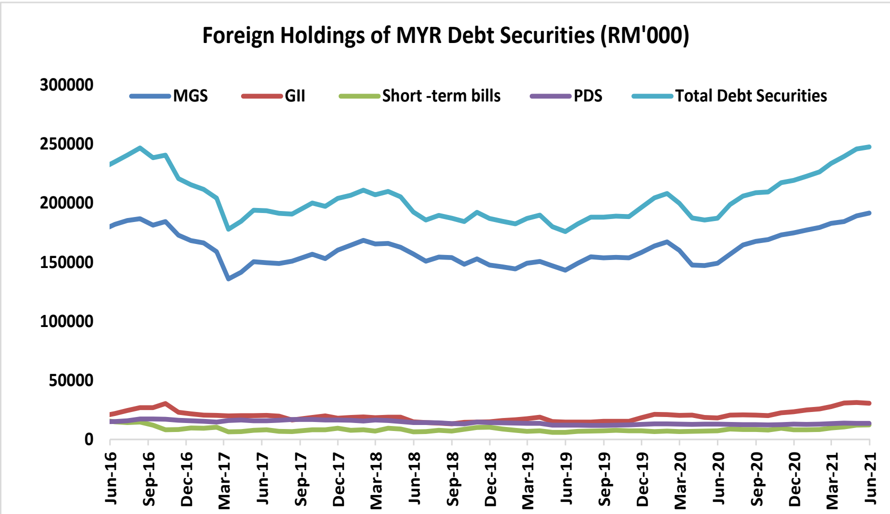
May Non-Farm Payrolls ("NFP") rose to 559k in May after climbing by an upwardly revised 278k jobs in April; but still fell short of economists' estimates of 650k. Employment activity was stronger in the leisure and hospitality sector whilst notable job growth was also seen in both the private and public education along with healthcare and social assistance. The unemployment rate dropped to its lowest level of 5.8% (April: 6.1%) during the pandemic era, but still way higher compared to 4.4% in March 2020. The participation rate ticked slightly lower at 61.6% whist the average hourly wages growth also saw a dip to 0.5% m/m (previous month: 0.7%) whilst the y/y figures spiked to 2.0% (previous month 0.3%) due to the lower base effect in the earlier cycle of the pandemic. President Biden's proposed $2.3 trillion infrastructure and economic recovery package plan in March coupled with the Families Plan stimulus of $1.8 trillion in April and also a boost in higher corporate taxes and wealthy Americans is expected to lift the US out of the economic fallout. US PMI and ISM manufacturing data for May was steady; inching higher compared to the previous month. Separately, the Fed's preferred inflation measure i.e. core PCE rose 0.7% m/m and 3.1% y/y in April which may begin to impact on UST yields due to inflationary concerns. Overall, in any other set of circumstances, monthly gains in excess of half a million for NFP would be admirable but, with a 7.6 million shortfall, it will be some time at that pace before the Fed's 'substantial further progress' will be met.

To re-cap, the Fed left the Fed Fund Rates unchanged between 0.00- 0.25% at its recent FOMC on 28th April with the effective rate at 7bps (a total rate cut of 150bps took place in 2020). The **Fed's current dot plot still pins rates unchanged at current level until 2023 with about 7 officials (prior month: 4) gunning for a hike. Data from the Fed Fund Futures now reflect traders' lower hypothetical expectations of 6.2% (prior month: 8.0%) odds of a hike in the next FOMC meeting on 17th June whilst CME FedWatch Tool projects a higher 97.0% (prior month: 91.0%) chance of a rate pause.** The Fed's ongoing purchase of bonds of $80b a month in Treasuries and $40b a month in agency MBS has now boosted its balance sheet to ~$7.94 trillion as at end 31st May 2021 ($7.78 trillion @ 28th Apr). The likelihood of further stimulus bills as mentioned above which could still weigh on the curve may be counter-balanced by the fact that the Fed is in no hurry to hike rates despite the recent Fedspeak highlighting upside risks to inflation as opposed to just focusing on labor markets.

Foreign holdings of overall MYR bonds inched up by a further 0.8% or RM1.9b in May for the 13th consecutive month despite stronger USDMYR @ 4.1252

Foreign holdings of overall MYR bonds rose in May by RM1.9b or 0.8% to RM247.9b. Non-resident holdings of MGS rose substantially by RM2.4b from RM189.3b to RM191.7b (representing 41.1% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM1.7b to RM222.3b (representing 25.4% of total outstanding) amid a spike in net issuances of +RM13.0b for the month (Apr: net issuances of only +RM1.0b). Supply concerns arising from the higher fiscal deficit from PEMERKASA + did not dampen investors' appetite due to the smaller-than-expected fiscal injection of another RM5.0b which was believed to be able to be absorbed or offset by GOM's issuances of T-bills and excess proceeds from recent FCY bond issuance, oil gains and also additional reimbursements by parties involved in the 1MDB matter. To recap, the GOM had successfully issued the world's first sustainable global Sukuk totaling USD1.3b following a huge oversubscription of 6.4x on both the 10Y and 30Y tranches which were assigned an A3 and A- rating by both Moody's Investor Service and S&P Ratings respectively.

The continued appeal for yield-carry requirements in Asian Rates asset class saw offshore parties, inter-bank participants and also real-money investors (such as lifers) purchasing MYR government bonds in May. **Overall MYR govvies saw lower net inflows of RM1.7b for May 2021 (prior month: RM5.2b) whilst 12-month rolling inflows notched a slightly higher cumulative amount of RM55.0b (prior month: RM54.7b). Net equity outflows fell by a mere RM161m in May 2021 (prior month: RM1.13b) compared to the cumulative 12-month rolling outflows of RM14.3b (prior month: RM17.2b).** On the currency side, the MYR strengthened substantially against USD to 4.1252 as at end-May and was seen appreciating further to 4.1170 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

Next MPC meeting scheduled for 8th July with no change in our forecast of 1.75% for OPR...

To recap, BNM in its 3rd monetary policy committee (MPC) meeting for the year on 6th of May, left the OPR unchanged at 1.75%. Whilst continuing to echo the previous rhetoric assessment with a neutral tone, the statement reaffirmed improving growth outlook despite lingering downside risks. The latest MPC policy statement also continued to see BNM reiterate its projected GDP growth forecast at 6.0-7.5%.

In a separate report released lately, exports accelerated for a 3rd consecutive month in April, doubling its growth pace to 62.9% y/y, from the 31.0% y/y increase in March. We project exports to continue expanding at double-digit pace for the remaining of the year, but net contribution to overall GDP growth will likely be cushioned by improvement in imports. Meanwhile Industrial Production Index (IPI) leapfrogged to post a hefty increase of 50.1% y/y in April, beating market consensus forecast but below ours. All the three major categories (i.e. manufacturing, mining and electricity) sprang higher, with manufacturing continuing to lead.

Following BNM's earlier neutral policy statement, **we reaffirm our house view that BNM would keep OPR unchanged at 1.75% this year. Nevertheless, given increasing downside growth risks and limited fiscal space, we do see the case of further monetary policy easing going forward.**

MYR government bond auctions chalk decent bidding metrics in May….

The three (3) government bond tenders concluded for the month of May 2021 under the auction calendar saw average BTC ratios push above the 2.0x handle i.e. 2.22x (Apr: 1.99x). Despite the highest BTC among the three auctions being recorded by the 15Y reopening of MGS 5/35 @ 2.445x; the highest sum of bids received of RM9.01b was noted for the 5Y reopening of GII 3/26 which notched 2.003 cover instead. The 30Y GII 11/49 recorded an impressive BTC of 2.433x, supported mainly by pension funds. These three (3) auctions saw total bids amounting to between a wide range of RM4.87-9.01b. We note at the time of writing, the recently-concluded auction involving the re-opening of 10Y MGS 4/31 in early-June saw decent bidding metrics of 1.966x cover; tailing at 2.0bps with total bids submitted reaching RM8.85b, despite the large auction issuance size of RM4.5b. The table below summarizes the recent tenders as we maintain our projected issuance sizes for MGS/GII auctions in 2021 @ RM152.5b.

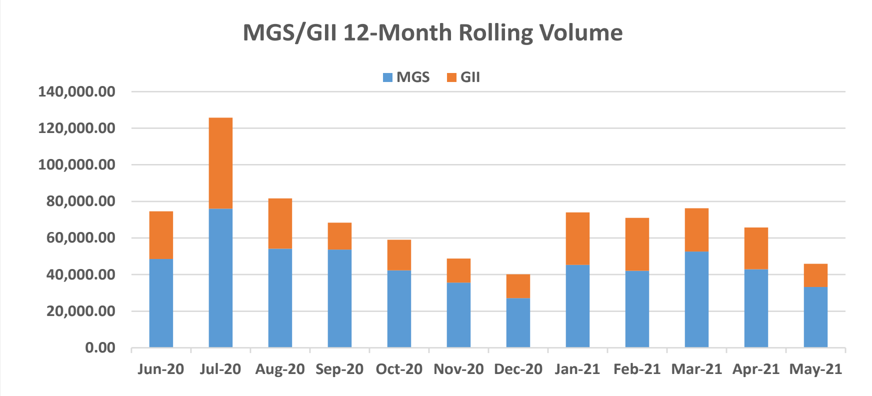
MGS/GII issuance pipeline in 2021

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Actual Private Placement	Total Issuance YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 06/28)	7	Jan	Q1	6/1/2021	3,500	3,500		3,500	2.026	2.406	2.449	2.463	50.0%
2	15.5-yr new Issuance of GII (Mat on 7/36)	15	Jan	Q1	14/1/2021	4,500	3,000	1,500	8,000	2.917	3.385	3.447	3.475	95.5%
3	10-yr Reopening of MGS (Mat on 04/31)	10	Jan	Q1	21/1/2021	4,000	4,000		12,000	1.992	2.684	2.714	2.730	91.7%
4	5-yr Reopening of GII (Mat on 03/26)	5	Feb	Q1	3/2/2021	4,500	4,500		16,500	2.067	2.230	2.252	2.260	63.2%
5	20-yr Reopening of MGS (Mat on 05/40)	20	Feb	Q1	17/2/2021	4,500	2,000	2,000	20,500	2.224	3.901	3.969	4.010	90.0%
6	7-yr Reopening of GII (Mat on 09/27)	7	Feb	Q1	24/2/2021	3,500	3,500		24,000	2.196	2.792	2.806	2.824	82.5%
7	30-yr Reopening of MGS (Mat on 06/50)	30	Mar	Q1	5/3/2021	4,000	2,000	2,000	28,000	2.023	4.443	4.486	4.549	20.0%
8	10-yr Reopening of GII (Mat on 10/30)	10	Mar	Q1	11/3/2021	4,000	4,000		32,000	1.799	3.500	3.561	3.589	15.0%
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	22/3/2021	4,500	4,500		36,500	1.789	2.751	2.764	2.783	30.0%
10	20.5-yr New Issue of GII (Mat on 09/41)	20	Mar	Q1	30/3/2021	4,500	2,000	2,000	40,500	2.575	4.390	4.417	4.435	85.7%
11	7-yr Reopening of MGS (Mat on 06/28)	7	Apr	Q2	7/4/2021	4,000	4,500		45,000	1.590	2.933	2.963	2.981	30.0%
12	15-yr Reopening of GII (Mat on 7/36)	15	Apr	Q2	14/4/2021	4,000	2,500	2,000	49,500	2.545	3.975	4.010	4.034	96.0%
13	3-yr Reopening of MGS (Mat on 06/24)	3	Apr	Q2	21/4/2021	4,000	4,500		54,000	2.086	2.346	2.363	2.373	62.4%
14	30-yr Reopening of GII (Mat on 11/49)	30	May	Q2	7/5/2021	4,000	2,000	2,000	58,000	2.433	4.540	4.568	4.581	30.0%
15	15-yr Reopening of MGS (Mat on 05/35)	15	May	Q2	19/5/2021	4,500	2,500	2,000	62,500	2.445	3.930	3.956	3.970	21.4%
16	5-yr Reopening of GII (Mat on 03/26)	5	May	Q2	28/5/2021	4,000	4,500		67,000	2.003	2.700	2.728	2.739	100.0%
17	10-yr Reopening of MGS (Mat on 04/31)	10	Jun	Q2	8/6/2021	4,500	4,500	500	72,000	1.966	3.287	3.313	3.333	87.0%
18	3-yr Reopening of GII (Mat on 10/24)	3	Jun	Q2		4,500								
19	20-yr Reopening MGS (Mat on 05/40)	20	Jun	Q2		4,000								
20	15-yr Reopening of GII (Mat on 07/36)	15	Jul	Q3		4,500								
21	5-yr Reopening of MGS (Mat on 11/26)	5	Jul	Q3		4,000								
22	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		4,000								
23	30-yr Reopening of MGS (Mat on 06/50)	30	Aug	Q3		4,500								
24	7-yr Reopening of GII (Mat on 08/28)	7	Aug	Q3		4,500								
25	3-yr Reopening of MGS (Mat on 06/24)	3	Aug	Q3		4,000								
26	20-yr Reopening of GII (Mat on 09/41)	20	Sep	Q3		4,500								
27	10-yr Reopening of MGS (Mat on 04/31)	10	Sep	Q3		4,500								
28	5-yr Reopening of GII (Mat on 03/26)	5	Sep	Q3		4,000								
29	7-yr Reopening of MGS (Mat on 06/28)	7	Oct	Q4		4,000								
30	30-yr Reopening of GII (Mat on 11/49)	30	Oct	Q4		4,000								
31	5-yr Reopening of MGS (Mat on 11/26)	5	Oct	Q4		4,000								
32	10-yr Reopening of GII (Mat on 10/30)	10	Oct	Q4		4,000								
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4		4,500								
34	3-yr Reopening of GII (Mat on 10/24)	3	Nov	Q4		4,000								
35	20-yr Reopening of MGS (Mat on 05/40)	20	Nov	Q4		4,000								
36	7-yr Reopening of GII (Mat on 08/28)	7	Dec	Q4		3,500								
37	3-yr Reopening of MGS (Mat on 06/24)	3	Dec	Q4		3,000								
	Gross MGS/GII supply in 2021					152,500	58,000	14,000	72,000	PROJECTED TOTAL ISSUANCE SIZE = 152,500				

Source: BNM, HLBB Global Markets Research

MGS/GII sees secondary market activity continues to lighten in May

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds saw a reversal with volumes retracing 16% m/m to ~RM46.1b in May compared to prior month's RM66.0b due to earlier concerns over various factors that include the reimposition of movement restrictions due to the resurgence of COVID-19 infections, slow vaccination rollouts, fiscal deficit arising from further fiscal injections and also the passive secondary market activities believed to be employed by the largest pension fund in the country at least until end-June. Nevertheless we opine that support and velocity in the secondary market volume for local govvies will improve in June partly due to safe-appeal of bonds and deep pockets plus depth of the local investing institutions. Local govvies may continue to witness volatility as the nation's bonds are exposed to the global reflation trade, economic data coming out from both Malaysia and the US and also delicate political outlook. The relative yield-carry differentials in Malaysian govvies face competition from neighboring ASEAN countries and EM Asia especially Indonesia, whilst investor participation continues to rely heavily on liquidity factor.

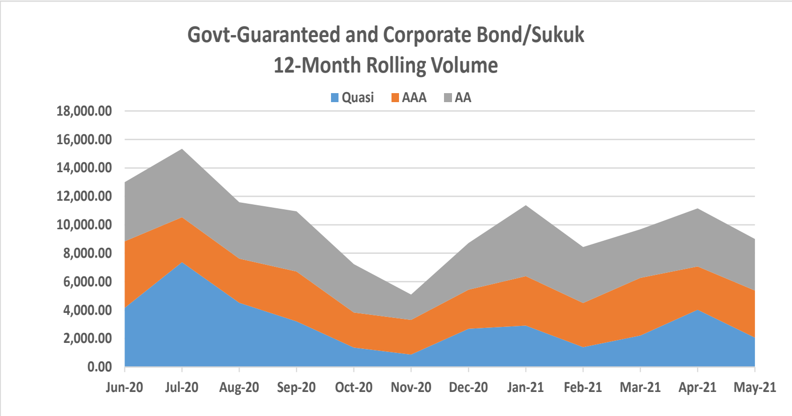


Source: BPAM, Bloomberg, HLBB Global Markets Research

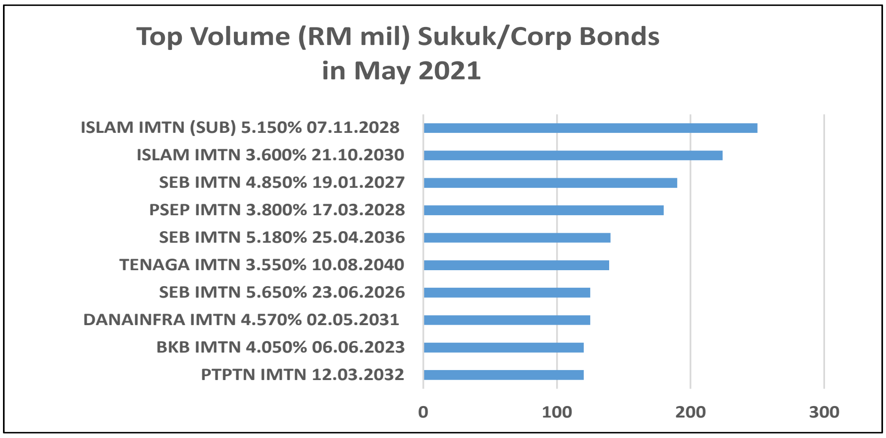
Corporate Bonds/Sukuk activity in May continued to surprise on the upside; opposite from muted government bond trading activity…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market trading volume decreasing by 11.5% to ~RM10.02b in May (April: RM11.32b); but average daily transactions actually rose from RM539m to RM557m due to additional holidays in the month of May. The improved momentum was due to strong yield-carry requirements from portfolio managers and also inter-bank participants. Portfolio turnover was seen carried out by multitude of institutional buyers, inter-bank players, lifers and asset management companies which overcame the perceived temporary passive role by EPF in the secondary market due to various withdrawal initiatives such as i-Lestari and i-Sinar programmes. Yields tightened between 1-13bps for the 1-20Y space for GG-segment with yield spreads to MGS settling generally at ~ 21-44bps with most value found in between the 10-20Y sectors. The AAA-rated bonds saw spreads also narrow between 1-6bps to settle at spreads of ~15-65bps whilst the AA2-segment similarly saw tighter spreads of 11-74bps We note that foreign holdings for both GG and pure Credits inched lower by RM84m at RM13.48b.

Total transactions for GG bonds fell m/m to form ~22.8% (April: 36.0%) of overall volume. AAA-rated papers however saw a 9.3% increase in volume m/m resulting ultimately in 36.9% of overall trades whilst AA-rated ones saw activity drop by 11.2%; forming 40.2% of overall investor interest. The GG-space was again mainly centered on DANAINFRA, PRASARANA, LPPSA, PTPTN bonds followed by quasi-govt entity i.e. CAGAMAS Bhd. **Bonds that garnered top volume for the month were Bank ISLAM 28NC23 (A1) that declined 8bps at 3.33% followed by its 30NC25 tranche (A1) which rose 4bps at 3.58%. Third was energy-related bonds SEB 1/27 (AAA) which rallied 24bps at 3.33%.** Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DRB-Hicom 24-29's, DANUM 23-34's, DANGA 24-33's, GENM Cap 23-28's, GENTING RMTN 34's, UMW Holdings 21-26's, MMC 25-28's and infrastructure-cum construction/property (i.e. AMAN 23's, UEM SUNRISE 21-26's, IJM Land perps), property/toll i.e. WCE 28-36's, utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 21-30's, TENAGA 32-40's, TNB WE 24-31's, TELEKOM 24-28's, Sarawak Hidro 23-31's, AA-rated EDRA 23-37's, Southern Power 23-33's, SEB 21-36's, YTP Power 21-27's and also others like QSPS green 24-31's and INFRACAP resources 24-36's. The banking sector saw increase in trading activity on names involving Bank ISLAM 2028NC23 and 2030NC25, MBSB 21's, 2029NC24 and 2031NC26, IMTIAZ 21-28's and Alliance Bank 2035NC25, 2035NC30 and 2030NC25 papers. Other frequent odd-lot denominated trades involving banking names like ALLIANCE, Sabah DEV 23-24's, HLFG perps and also A1-rated JATI 23's, DIALOG perps, unrated ECO World 21, 23's, Eco Capital 22, 24's, YNH Property perps, Tropicana 23, 25's & perps were also prevalent.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in May driven by the following:

Notable issuances in May-21	Rating	Amount Issued (RM mil)
AC First Genesis Berhad	NR	785
BGMC BRAS Power Sdn Berhad	NR	3
Cagamas Berhad	AAA	1,500
Country Garden Real Estate Sdn Berhad	AA3	50
DanaInfra Nasional Berhad	GG	2,000
Damansara Uptown Retail Centre Sdn Berhad	NR	25
Hektar Black Sdn Berhad	NR	35
Idiwan Solar Sdn Berhad	NR	3
KYS Assets Sdn Berhad	NR	5
Kenanga Investment Bank Berhad	NR	64
Kulim Technology Park Corporation Sdn Berhad	NR	150
Maxis Broadband Sdn Berhad	NR	900
Perbadanan Kemajuan Negeri Selangor	AA3	100
Perdana ParkCity Sdn Berhad	NR	111
Putrajaya Holdings Sdn Berhad	AAA	50
Radimax Group Sdn Berhad	NR	29
reNIKOLA Solar Sdn Berhad	AA3	390
RH Consortium Sdn Berhad (fka Progressus Group Sdn Berhad)	NR	16
Sabah Development Bank Berhad	AA1	196
Sin Heng Chan (Malaya) Berhad	NR	60
Tumpuan Azam Sdn Berhad	NR	8
Techna-X Berhad (fka Sino Hua-An International Berhad)	NR	3
The Holstein Milk Company Sdn Berhad	NR	200
Toyota Capital Malaysia Sdn Berhad	AAA	50
Tanjung Pinang Development Sdn Berhad	NR	117
UEM Sunrise Berhad	AA3	300
		7,150

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk fell to RM 7.15b; off the March-April peak issuances (Apr 2021: RM12.7b, Mar 2021: 23.5b) with DANAINFRA Bhd and CAGAMAS Bhd being the more prominent ones. DANAINFRA issued 7-30Y bonds (GG) totaling RM2.0b with coupons between 3.25-4.64% whilst CAGAMAS successfully arranged 2-3Y papers (AAA) amounting to RM1.9b at coupons ranging between 2.50-2.78%.

Outlook for June 2021

Expect bonds to be well-supported as their safe-haven status remains during the uncertainty over lifting of movement restriction impacting several economic sectors ...

The MYR bond market saw strong bidding metrics for all three (3) of its auction exercises in May whilst the latest one in early-June consisting of the reopening of 10Y MGS 4/31 notched a decent BTC ratio of 1.966x; tailing 2.0bps, with total bids amounting to an impressive RM8.85b. Expect continued decent support for the remainder auctions involving 3Y GII and 20Y MGS auctions in June.

We expect S&P Ratings to follow Moody's in its recent affirmation on the credit rating for Malaysia at A3 with a stable outlook. (To re-cap, Moody's affirmed the GOM's local and foreign currency long-term issue and local currency senior unsecured debt ratings at A3 in March 2021 whereas Fitch Ratings downgraded the country's long-term issuer default rating from A- to BBB+/Stable in December 2020).

Our YTD projected total gross issuances for 2021 of about RM70.5b is slightly below on actual issuances of RM72.0b; which consist of both auctions and private placements. Our overall projected issuances for 2021 of RM152.5b remains unchanged for now despite the recent additional RM5.0b fiscal injection arising from the PEMERKASA + stimulus package as we opine that reallocation of excess funds from prior-allocated areas is available along with the RM5.0b KWAN fund operated by BNM. Elevated oil prices are also expected to be a boon for the government's coffers whilst miscellaneous fines and repayments pertaining to 1MDB debacle will assist in further cashflows. **Expect continued inter-bank and institutional support on weakness if pressure exerts on the curve**

BNM's 2021 GDP forecast of 6.0-7.5% is encouraging whilst it continues to maintain its stance of monetary policy being "appropriate and accommodative" as global growth risks have slightly abated. **The Malaysian economy will likely see a bumpy ride given the latest lockdown measures to nip the recent spike in infections.** Although our current house view is for OPR to stay pat at 1.75%, the **increasing downside growth risks and limited fiscal space may allow for the case of further monetary policy easing going forward.** However, the US reflation theme and potential rising yields due to inflationary pressures and lower jobless claims, coupled with **muted secondary market activities by EPF** until this month-end may influence the movements of MYR bonds. On the flip-side, this may be fortunately be mitigated by the prevalent depth and mature investment institutions within the country. We note that there are no govvies maturities in June which could potentially put pressure on yields due to our estimation of ~ RM13.0b of MGS/GII issuances for this month as per the auction calendar for the year.

The 5Y, 15Y GII, and 7Y, 15Y MGS space reflect decent relative values along the curve. We expect the 10Y to range higher between 3.20-3.40% with support pegged at 3.40% levels We also continue to expect robust activity and interest in the shorter-end off-the-runs i.e. 21-22's, the 28's and also benchmark 5Y, 10Y bonds for both liquidity and relative value purposes.

We also like the short 2Y, 10Y AAA-AA and longer-tenured 15Y GG space. The recent tightening of GG bond names like LPPSA, PRASARANA and DANAINFRA, are expected to spillover to lesser-liquid names like Turus Pesawat Sdn Bhd and lower credits along the yield curve with investors weighing between yield-carry and liquidity requirements. We still prefer names consisting of the larger and well-diversified conglomerates across sectors within the utilities (power generation, telco, sewerage, electricity, water, telco etc) and tolled highway operators.

Expect USTs to be supported in June as the Fed is expected to maintain its pace of asset purchases for the foreseeable future ….

The Federal Reserve will be having its next FOMC meeting on **17th of June** to decide on its current policy rate which has been pegged between 0.00 - 0.25% since March 2020. Both the US ISM Manufacturing PMI which rose to @ 61.2 in May (April: 60.7) and Markit's US Manufacturing PMI which moved higher at 62.1 (April: 61.5) are positive indicators whilst unemployment rate dropped to 5.8% (April: 6.1%). All FOMC members agreed to keep the target range for the federal funds rate at 0-0.25%, and they expected that it would be appropriate to maintain this target range until labor market conditions had reached levels consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time. The continued process of containment measures being lifted across the US will boost economic activities together with the various stimulus initiatives from further spending bills. Nevertheless, steadfast commitment from the Fed to maintain its pace of asset purchases until substantial further progress has been made toward the Committee's maximum employment and price stability goals for as long as necessary, coupled with anticipated renewed buying by large foreign investors i.e. Japan and China, will be plus factors.

The Fed's neutral view on the rate outlook suggests that rates may be stationary for the remainder of the year until such time that its labor market conditions reach levels consistent with its objectives along with its goal to allow inflation to average 2.0% over time. We expect the **Fed to utilize forward guidance on the target and future path for the Fed Fund rate coupled with yield curve control to cap yields on significant maturities**. **The UST 5-7Y sectors are deemed to offer relative value at this juncture.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a monthly gain of 0.8% in May (April: 1.10%) with OAS spreads tighter and traded at ~ 85bps. The month of May saw financials top issuances with JP Morgan Chase, HSBC followed by others like Amazon, AstraZeneca and UnitedHealth. Gross issuances in June are expected to top $100b versus maturities of $37b. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) managed a mere 0.3% return in May with spreads however wider by 5bps to ~286bps.

The 10-year UST is expected to range hover between 1.40-1.60%; finding support at key 1.60% levels for this month. Our preferred IG bond issuances are in transportation, consumer cyclical, communication and energy sectors with roll-down benefits seen within 5-7Y duration. We continue to advocate a cautious stance in the High Yield sector largely due richer valuations stretched balance sheets.

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