Monthly Fixed Income Perspective –

Apr 21 review & May 21 outlook

US Bond market

- **In April**, US Treasuries (UST's) ended stronger; a reversal from prior months seen since November 2020 as market-implied expectations for how soon the Fed rate increases might commence were dialed back despite strong economic data. The curve shifted lower as benchmark **UST yields declined mostly between 11-13bps across the curve** with the short-end UST 2Y yield edging only 1bps lower at 0.15% whilst the 10Y declined 11bps at 1.63% (at the time of writing yields have fallen back to 1.60% levels) as the yield curve saw the 2s10s spread tighten instead to ~144bps; off the peak levels seen recently in March 2021. Nevertheless the 5s30s spreads were seen resuming its widening stance at ~154bps.

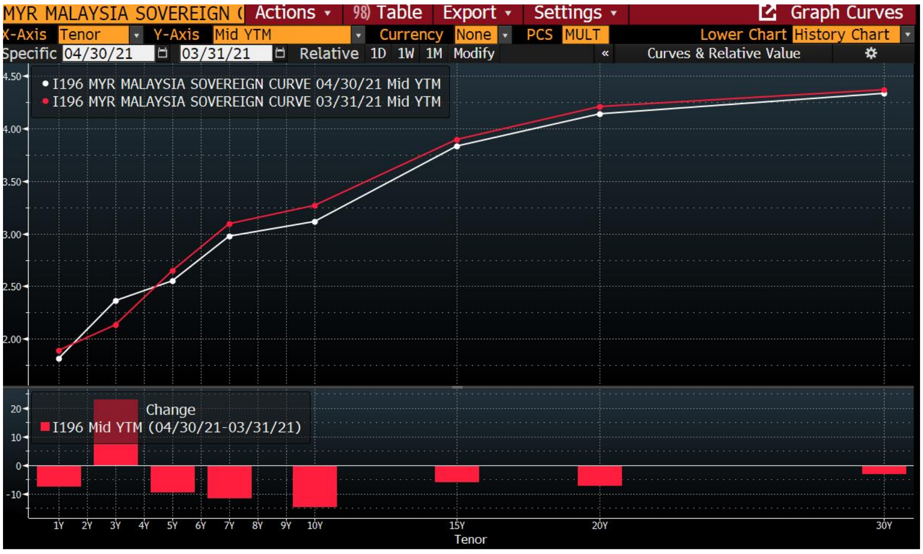
- **For May**, expect USTs to be well-supported despite the solid economic data emanating out of US as short-covering activities continue to run its course whilst bullish considerations include steadfast comment from the Fed to maintain its pace of asset purchases for as long as necessary. Anticipated renewed buying by large foreign investors i.e. Japan and China may be positive. The recent unveiling of $2.3 trillion infrastructure financing and American rescue plan plus additional $1.8 trillion American families plan may however exacerbate some pressure on bonds with steady supply coming onstream and fan inflationary concerns. **The 10-year UST is expected to range slightly lower between 1.60-1.80%; finding support at key 1.80% levels for this month. Our preferred IG bond issuances are within the lower duration 3-7Y tenures in financials, consumer cyclical, capital goods and energy sectors.**

MYR Bond Market

- **In April**, MYR government bond curve shifted lower; pivoted closely along the 5Y sector with both **MGS yields declining between 4-13bps whilst GII were better-bid with yields falling between 8-22bps; with the ultra-short ends being the exception in both categories.** BNM in its MPC statement reaffirmed its neutral tone reaffirming improving growth outlook despite lingering downside risks. This reinforces our house view of a stable OPR of 1.75% for the remaining of the year. Both the benchmark 5Y MGS 9/25 and the 10Y MGS 4/31 yields fell 13bps m/m to 2.53% and 3.11% each. Foreign holdings of MYR government bonds (MGS + GII + SPK) rose further in April; with net inflows circa RM5.2b to RM220.6b (representing 25.5% of total outstanding). All three (3) auctions saw participation maintain at an average BTC ratio of ~ 1.99x.

- **For May,** the recent release of 1Q2021 GDP of +2.7% q/q is encouraging and BNM is expecting to meet earlier growth forecast of 6.0-7.5% for 2021. The liberalized foreign exchange policy benefitting mainly exporters effective 15th April will augur well for FDI whilst portfolio capital flows remain confident of the bond asset class in lieu of decent comparative yield-carry and liquidity characteristics. Nevertheless, the continued expectations of muted secondary market activities by EPF at least until end-June may influence the performance of MYR bonds. **The 3Y GII, 7-9Y and 15Y MGS/GII space reflect decent relative values along the curve. We expect the 10Y to range slightly between 3.00-3.20% as per our previous month's projection** with support pegged at 3.20% levels. **We also like the short 2Y AAA-AA, medium 10Y GG-AA and 20Y GG-AA space.**

MYR sovereign curve (MGS)



Source: Bloomberg

NFP data for April shattered bullish expectations; missing expectations by a huge margin; the Fed is vindicated in its assessment that the economy still has a long way to go….

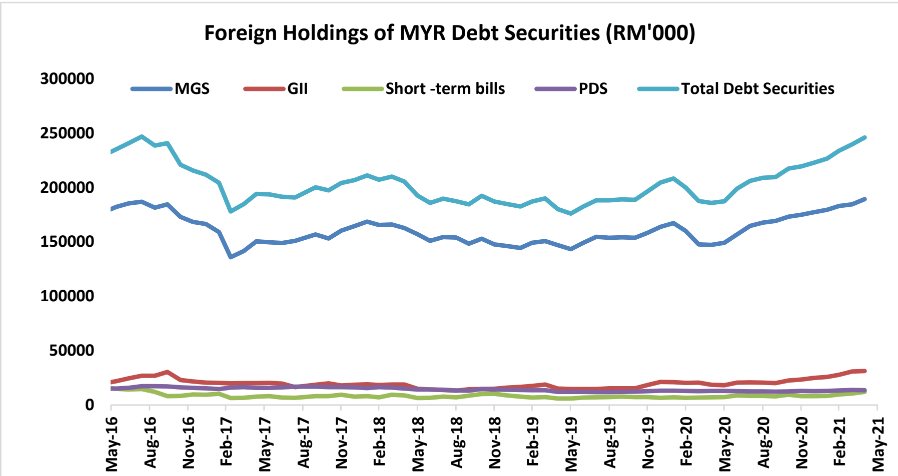
April Non-Farm Payrolls ("NFP") turned in poor numbers of a mere 266k against consensus estimates of almost 1.0m whilst March data was revised way lower from 916k to only 770k as the labor market was centered mainly on the increase in leisure and hospitality sector due to the easing of pandemic-related restrictions. Hiring was sparse with the unemployment rate inching up to 6.1% (March: 6.0%) potentially revealing that the US is not accelerating as fast as expected. The participation rate ticked slightly higher at 61.7% recovering to its highest since the onset of the COVID-19 pandemic last March. The average hourly wages growth also saw a jump to 0.7% m/m whilst the y/y figures fell sharply to 0.3% (previous month 4.2%). The boost to the US economy is expected as President Biden's new proposed $1.8 trillion American Families Plan stimulus is expected to follow close on the heels of the current $2.25 trillion infrastructure and economic recovery package plan and the much earlier $1.9 trillion stimulus. Nevertheless based on the monthly survey of households, lesser number of Americans i.e. 3.6m were unemployed as at early-May 2021 down from the peak of 23.1m in May 2020. US PMI and ISM manufacturing data for April was still steady; holding between 60-61 levels, compared to the previous month. Separately, the Fed's preferred inflation measure i.e. core PCE rose 0.4% m/m and 1.8% y/y in February which is beginning to fan inflationary concerns and impinge on UST yields.

The Fed left the Fed Fund Rates unchanged between 0.00- 0.25% at its recent FOMC on 28th April (to re-cap 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 4 officials gunning for a hike. Nevertheless, data from the Fed Fund Futures now reflect traders' hypothetical expectations of 8.0% odds of a hike in the next FOMC meeting on 16th June whilst CME FedWatch Tool projecting a lower 91.0% (prior month: 98.3%) chance of a rate pause.** The Fed's robust ongoing purchase of bonds of $80b a month in Treasuries and $40b a month in agency MBS has now boosted its balance sheet to ~$7.81 trillion as at end 3rd May 2021 ($7.71 trillion 5th April). 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 with economic recovery pretty much still underway.

Foreign holdings of overall MYR bonds rose further by 2.7% or RM6.3b in April for the 12th consecutive month amid stronger USDMYR @ 4.0880

Foreign holdings of overall MYR bonds rose in April by RM6.3b or 2.7% to RM246.1b. Non-resident holdings of MGS rose substantially by RM4.7b from RM184.6b to RM189.3b (representing 41.0% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM5.2b to RM220.6b (representing 25.5% of total outstanding) amid lower net issuances of +RM1.0b for the month (Mar: net issuances of +RM7.0b). Earlier supply concerns arising from the higher fiscal deficit was not on the radar following the huge oversubscription of 6.4x on the GOM's successful issuance of the world's first sustainable global Sukuk totaling USD1.3b (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 appetite for yield-carry in Asian Rates asset class saw both inter-bank participants and real-money investors purchasing MYR government bonds in April. **Overall MYR govvies saw net inflows of RM5.2b for April 2021 whilst 12-month rolling inflows notched a higher cumulative amount of RM54.7b. Net equity outflows rose to RM1.13b in April 2021 compared to the cumulative 12-month rolling outflows of RM17.2b.** On the currency side, the MYR strengthen substantially against USD to 4.0880 as at end-April but slacking lately to 4.1050 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

OPR stayed pat at 1.75% at the MPC meeting on 6th May, reaffirming our view for an unchanged OPR this year...

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. In what was its 5th consecutive meeting since the last cut, the tone of monetary policy statement sounded hopeful yet positive on the global economy, whilst acknowledging that ongoing uncertainties surrounding the development of the pandemic and vaccine programme rollouts will remain the wild card posing downside risk to the recovery outlook. 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 today, the Malaysian economy surprised on the upside again, registering a smaller than expected contraction of 0.5% y/y in 1Q21. This marked its fourth straight quarter of contraction but was sharply smaller compared to the 3.4% y/y decline in 4Q20. We are maintaining our full year growth forecast of 5.0% for now taking cognizant of prevailing uncertainties surrounding the pandemic augmented by elevated infection rates and potential vaccine issues that could derail the recovery prospects. The most recently announced month-long nationwide MCO is expected to shed 0.6% off GDP growth, hence potentially wiping out the upside surprises from 1Q GDP performance.

Inflation forecast by BNM stands between 2.5-4.0% for 2021; more bullish than our house view of 2.6%. Headline CPI rebounded to its fastest pace of +1.7% y/y in March (Feb: +0.1%) largely within our expectations, driven by a turnaround in prices in the transport category due to the low base effect in March last year. However core CPI remained stable at 0.7% y/y in March for the 5th consecutive month. The sharp spike in headline CPI to above the mid-4.0% in the next two months will likely be followed by a pullback towards the 2.0-3.0% levels in the second half of the year. This would entail negative real interest rates through the rest of the year but we do not expect this to drive any policy tightening move by BNM given the still fragile and uneven state of the economic recovery.

BNM highlighted that the stance of monetary policy going forward will continue to be determined by new data and information and their implications on the overall outlook for inflation and domestic growth outlook. **Following the neutral policy statement**, **we reaffirm our house view that BNM would keep OPR unchanged at 1.75% this year.**

MYR government bond auctions continue to chalk average bidding metrics in April….

The three (3) government bond tenders concluded for the month of April 2021 under the auction calendar saw a BTC ratios maintain below the 2.0x handle i.e. 1.99x (Mar: 1.95x). The reopening of 15Y GII 7/36 saw the strongest BTC ratio of 2.55x; whilst attracting a total sum of bids of RM6.36b due to the relatively small issuance of RM2.5b (with a Private Placement of RM2.0b). The other re-openings involved both the 7Y MGS 6/28 and 3Y MGS 6/24 which recorded BTC ratios of 1.59x and 2.09x. These three (3) auctions saw total bids amounting to between a wide range of RM6.4-9.4b. We note at the time of writing, the recently-concluded auction involving the re-opening of 30Y GII 11/49 in early-May saw strong bidding metrics i.e. BTC ratio of a solid 2.43x; tailing at a mere 1.3bps despite total bids submitted reaching RM4.87b, also due to the relatively small auction size. The table below summarizes the recent tenders as we maintain our projected issuance sizes for MGS/GII auctions in 2021.

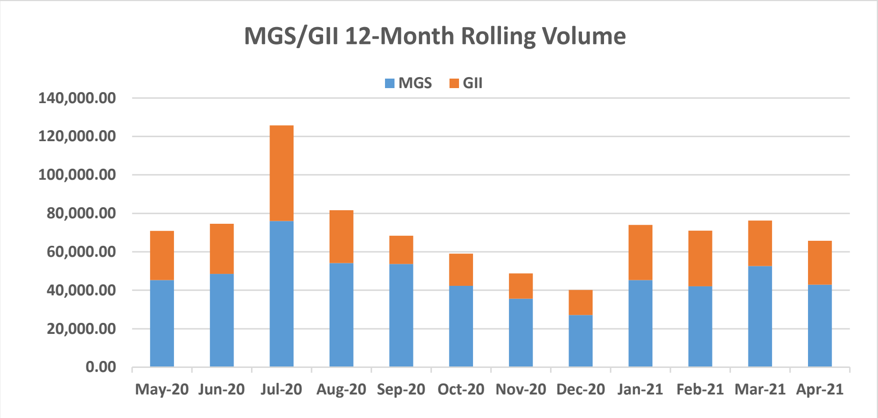
MGS/GII issuance pipeline in 2021

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		4,500								
16	5-yr Reopening of GII (Mat on 03/26)	5	May	Q2		4,000								
17	10-yr Reopening of MGS (Mat on 04/31)	10	Jun	Q2		4,500								
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	46,500	11,500	54,000	PROJECTED TOTAL ISSUANCE SIZE = 152,500				

Source: BNM, HLBB Global Markets Research

MGS/GII sees secondary market activity take a slight breather in April

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds saw a reversal with volumes retracing 16% m/m to ~RM66.0b in April compared to prior month's RM79.0b due to some investors being sidelined arising from the resurgence of virus infections especially in Greater Klang Valley area. Nevertheless we opine that velocity in the secondary market volume for local govvies in May will improve partly due to safe-appeal of bonds coupled with decent valuations. Volatility had risen for local govvies as the nation's bonds was also exposed to the global reflation trade, vaccine rollout initiatives and also economic data coming out from both Malaysia and the US. Besides relative yield-carry differentials in Malaysian govvies face competition from neighboring ASEAN countries and EM Asia; participation by investors will also be a factor of the liquidity function.

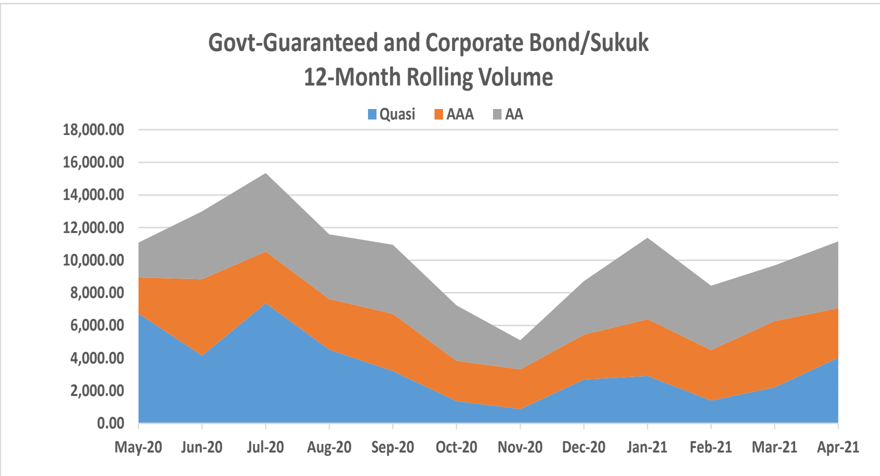


Source: BPAM, Bloomberg, HLBB Global Markets Research

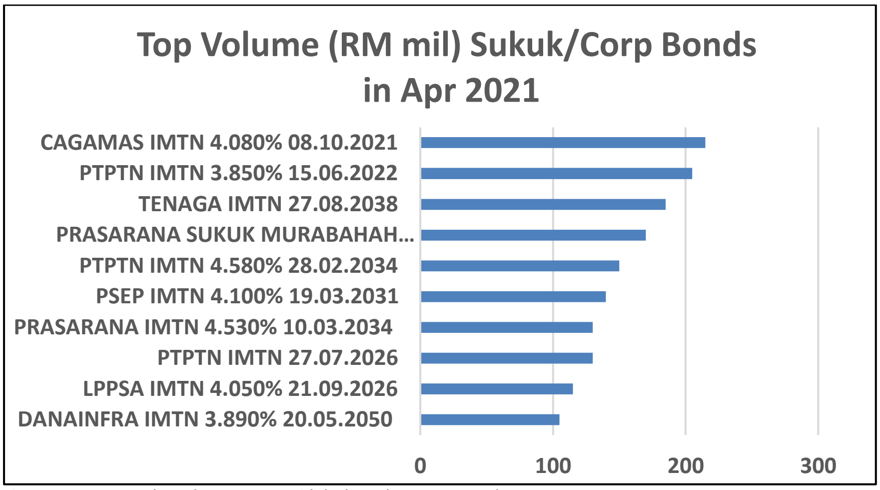
Corporate Bonds/Sukuk activity in April was surprisingly robust diverging from sedate government bond trading activity…

Similar to local govvies, overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) saw secondary market trading volume increase by 11.4% to ~RM11.32b in April (March: RM10.16b). The stronger momentum was partly due to strong yield-carry requirements from buy-side institutions and also inter-bank participants. The decent portfolio turnover by many institutional buyers, inter-bank players, lifers and asset management companies was deemed to have overcome the perceived temporary passive role by EPF in the secondary market. Yields tightened between 3-27bps for the GG-segment with yield spreads to MGS settling generally at ~ 24-42bps with most value found in the 10Y and 30Y sectors. The AAA-rated bonds saw spreads also narrow @~52-85bps whilst the AA2-segment similarly saw tighter spreads of 50-86bps (save for the 10Y tenures which exhibited spreads of a whopping 116bps). We note that foreign holdings for both GG and pure Credits eased slightly by a mere RM290m at ~ RM13.56b.

Total transactions for GG bonds jumped m/m to form ~36.0% (March: 22.8%) of overall volume. AAA-rated papers saw a 14.6% decrease in volume m/m resulting ultimately in 27.2% of overall trades whilst AA-rated ones saw activity inch up by 1.2%; forming 36.6% 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 CAGAMAS 10/21 (AAA) that rose 17bps at 2.10% followed by PTPTN 6/22 (GG) which jumped a whopping 31bps at 2.26%. Third was TNB 8/38 (AA) which spiked 52bps at 4.57%.** Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DRB-Hicom 22-29's, DANUM 23-35's, DANGA 24-27's, Genting-related entities 23-39's, UMW Holdings 21-35's, MMC 23-28's and infrastructure-cum construction/property/toll (i.e. PLUS 22-34's, ANIH 22-29's, DUKE 26-32's, KIMANIS 25-27's, , UEM SUNRISE 22-25's), utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 22-29's, TENAGA 30-38's, TELEKOM 22-38's, TNB WE 29-33's, MANJUNG 21-31's, AA-rated JEP 22-32's, EDRA 22-38's, Southern Power 24-35's, SEB 21-33's, BGSM 23-28's and also others like PRESS METAL 24-25's, TCMH 21's and TG Excellence. The banking sector saw increase in trading activity on names involving MBSB 2029NC24 and 2031NC26, IMTIAZ 21-28's, CIMB perps and Alliance Bank 2035NC30 and 2030NC25 papers. Odd-lot denominated trades involving banking names like HLFG perps and also unrated ECO World 21-23's, Eco Capital 24's, YNH PROPERTIES perps, Tropicana 23-28's & perps were also prevalent.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in April driven by the following:

Notable issuances in Apr-21	Rating	Amount Issued (RM mil)
MKD Kencana Sdn Berhad	GG	1,000
Infracap Resources Sdn Berhad	AAA	5,750
Danum Capital Berhad	AAA	500
Pengurusan Air SPV Berhad	AAA	500
Midciti Sukuk Berhad	AAA	400
Mercedes-Benz Services Malaysia Sdn Berhad	AAA	200
Toyota Capital Malaysia Sdn Berhad	AAA	45
Sabah Credit Corporation	AA1	450
Imtiaz Sukuk II Berhad	AA2	1,000
OSK Rated Bond Sdn Berhad	AA2	578
RHB Bank Berhad	AA3	500
Malaysian Resources Corporation Berhad	AA3	200
Pelabuhan Tanjung Pelepas Sdn Berhad	AA3	200
Country Garden Real Estate Sdn Berhad	AA3	100
Konsortium KAJV Sdn Bhd	AA3	90
Tropicana Corporation Berhad	A1	183
SunREIT Unrated Bond Berhad	NR	600
Sunway Treasury Sukuk Sdn Berhad	NR	125
OSK I CM Sdn Berhad	NR	100
Tanjung Pinang Development Sdn Berhad	NR	99
UZMA Berhad	NR	42
West Coast Expressway Sdn Berhad	NR	20
Tumpuan Azam Sdn Berhad	NR	18
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	13
Cypark Renewable Energy Sdn Berhad	NR	8
Techna-X Berhad (fka Sino Hua-An International Berhad)	NR	5
BGMC BRAS Power Sdn Berhad	NR	4
BGRB Venture Sdn Berhad	NR	4
Idiwan Solar Sdn Berhad	NR	2
		12,737

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk fell to RM 12.74b; its highest since May 2019 (Feb 21: RM23.5b) with Lembaga Pembiayaan Perumahan Sektor Awam i.e. MKD Kencana and Infracap Resources Sdn Bhd (Infracap) being the more prominent ones. MKD Kencana issued 10-20Y bonds (GG) totaling RM1.0b with coupons between 3.61-4.53% whilst Infracap successfully arranged 1-11Y papers (AA3) amounting to RM5.75b at coupons ranging between 2.83-4.90%.

Outlook for May 2021

Expect bonds to be well-supported with yields drifting lower as their safe-haven appeal becoming prominent due to resurgence in COVID-19 infections ...

The MYR bond market saw weaker-than-expected bidding metrics for one (1) out of three (3) of its auction exercises in April whilst the latest one in early-May consisting of the reopening of 30Y GII 11/49 notched a solid BTC ratio of 2.43x; tailing a mere 1.3bps but with a sum of bids amounting to RM4.87b. Expect decent participation for auctions in May.

We expect S&P Ratings to follow Moody's in its rating affirmation on the sovereign status of Malaysia. 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 RM57.5b is on track with YTD actual issuances of RM58.0b; which consist of both auctions and private placements. (Note: Our overall projected issuances for 2021 of RM152.5b remains unchanged for now barring any announcement on further stimulus packages).

We reiterate our view for OPR to stay pat at 1.75% as global growth risks have slightly abated whilst domestic growth is expected to improve from 2Q2021. We believe uncertainties and scarring effects from the pandemic will continue to pose downside risks to the recovery momentum, especially when the favorable base effect dissipates. We therefore expect a softer growth outlook in 2H2021 compared to 1H2021 going forward. **Expect continued inter-bank and institutional support on weakness if pressure exerts on the curve.** BNM's encouraging 2021 GDP forecast of 6.0-7.5% is encouraging whilst it continues to maintain its stance of monetary policy being "appropriate and accommodative" (It stated that the monetary policy stance going forward will continue to be determined by new data and information and their implications on the overall outlook for inflation and domestic growth outlook. The recent liberalized foreign exchange policy benefitting mainly exporters as mentioned above is also expected to augur well for FDI into the country. Nevertheless, the resurgence of US reflation theme and rising yields coupled with **anticipated muted secondary market activities by EPF** at least until end-June are expected influence the movements of MYR bonds. Nevertheless, this may be mitigated by other well-capitalized local investment institutions. We note that there are no govvies maturities in May potentially putting pressure on yields due to our estimation of ~ RM12.5b of MGS/GII issuances for this month as per the auction calendar for the year. **The 3Y GII, 7-9Y and 15Y MGS/GII space reflect decent relative values along the curve. We expect the 10Y to range slightly between 3.00-3.20% as per our previous month's projection** with support pegged at 3.20% levels. We also continue to expect robust activity and interest in the shorter-end i.e. 21-22's and also benchmark 5Y, 10Y bonds for liquidity purposes along with the off-the-run 24's, 28's and 33's.

We also like the short 2Y AAA-AA, medium 10Y GG-AA and 20Y GG-AA space. The recent spike on GG bond names like LPPSA, PTPTN, PRASARANA and DANAINFRA, are expected to spillover to PTPTN and lower down the yield curve with investors seeking decent spreads, liquidity whilst wiling to forego some portfolio slippage. We still prefer names consisting of the larger conglomerates with a well-diversified business structure along with sectors within the utilities (sewerage, electricity, water, telco etc), port and toll-operators.

Expect USTs to be well-supported despite the solid economic data as short-covering activities prevail whilst the Fed maintains its pace of asset purchases….

The Federal Reserve will be having its next FOMC meeting on the 16th 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 declined to @ 60.7 in April (March: 64.7) and Markit's US Manufacturing PMI which inched lower at 60.5 (March: 60.6) still reflect positive momentum whilst unemployment rate edged slightly higher at 6.1%. (March: 6.0%). The lifting of containment measures across the US continues to boost economic activities and reignite inflationary concerns due to the massive previous spending bills the proposed $2.25 trillion bill along with the latest $1.8 trillion package. Nevertheless, steadfast commitment from the Fed to maintain its pace of asset purchases for as long as necessary coupled with anticipated renewed buying by large foreign investors i.e. Japan and China will be plus factor.

The Fed's neutral view on the rate outlook suggests that rates may be stagnant for the remainder of the year. 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**. T**he UST 10-20Y 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 1.10% in April (March: -1.70%) but OAS spreads nevertheless traded in a narrow range of 88-92bps. April saw jumbo-led issuances mainly by bank names such as BofA, JP Morgan Chase, Morgan Stanley, Goldman Sachs, Citibank along with others like Tencent. Gross issuances in May are expected to top $100b versus maturities of $64b. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) managed 1.30% return for April?? with spreads compressing a mere 6bps to ~286bps. **The 10-year UST is expected to range slightly lower between 1.60-1.80%; finding support at key 1.80% levels for this month. Our preferred IG bond issuances are within the lower duration 3-7Y tenures in financials, consumer cyclical, capital goods and energy sectors.** Despite the positive performance of the High Yield sector, we advocate a cautious stance due to expected faltering of recent outperformance due to rich valuations and potentially overstretched balance sheets.

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