

The Reopening Trade: Entering the second half of 2021

DIGITAL ENGAGEMENT TEAM

07 JULY 2021

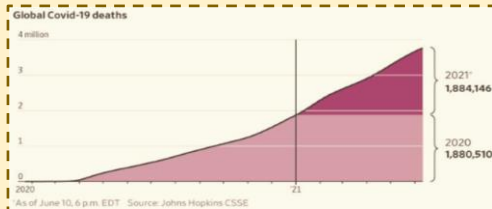
TRADING MATTERS SERIES: NEWS FOCUS

The summary and impact of a major news event

Summary of The Reopening Trade

The latest on COVID-19

- The COVID-19 pandemic continues to run rampant in 2021
- More people have died from Covid this year than in all of 2020¹
- New variants such as the Delta variant have emerged²



Delta Variant

- Spreading fast²
- More transmissible²
- Vaccines protect, but not perfectly^{2,4}

Summary of progress on vaccinations and economic reopening

Some countries have seen more success than others due to the uneven spread of the pandemic¹



US Covid cases have fallen far below the winter peak and the US is pushing ahead with its reopening and easing of restrictions, but many parts of the world are seeing a surge in cases and deaths¹



Vaccine rollouts previously lagging in many Asia-Pacific countries have accelerated in recent weeks^{5,7}



Increasing the chances of a sooner-than-expected easing of some pandemic restrictions^{6,7}



Igniting hopes that regional tourism, a key economic lifeline for many places, could bounce back⁷

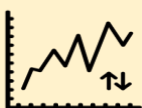
In terms of the financial markets

Macro Perspective



US 10Y Treasury Yields

- Previously spiked to a 14-month high as investors priced in expectations of higher inflation¹⁶ as the US economy recovers
- Since fallen to drift around in a range below 1.6%¹⁵



VIX Index

- Spiked briefly in June 2021 as Covid and Fed uncertainty hit sentiment¹⁷
- Has since fallen to a 73-week pandemic low¹⁸
- With the global economy set to re-open, less fear has entered the market as individuals allocate capital for longer-term strategies¹⁸

Sector Perspective



Financials

Steeper yield curves could brighten the outlook for the financials sector, in terms of profitability and net interest margins^{8,9}



Travel/Hospitality

Economic reopening should benefit from pent-up demand across sectors including leisure⁸



Consumer/F&B

Experts expect people may start feeling more comfortable traveling and purchasing leisure or consumer goods^{9,10}



Industrials/Logistics

Industrials stocks including transport and shipping companies often benefit from any increase in global trade⁹

What's the latest on the COVID-19 situation?

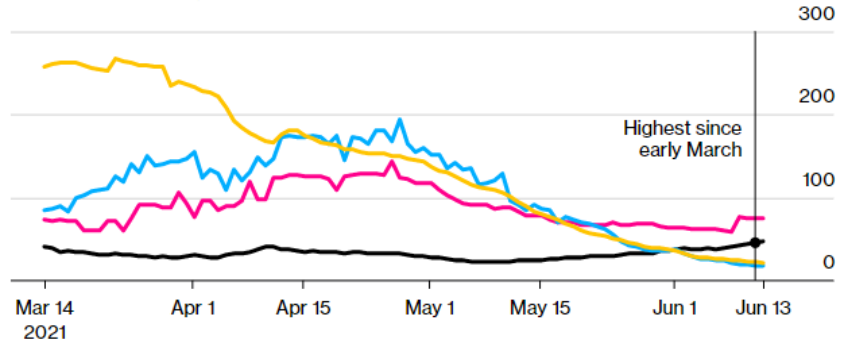
The COVID-19 pandemic continues to rage, even as we enter the second half of 2021. According to data compiled by the World Health Organisation, more people have died from Covid this year than in all of 2020 already.¹

Worryingly for officials around the world, new variants such as the Delta variant have emerged.² This fast-spreading variant stoked a dramatic wave of Covid cases in India that overwhelmed hospitals and crematoriums and has since been found in at least 96 countries.⁴

New Danger

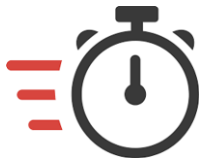
Europe is increasingly worried about the delta coronavirus strain

Weekly cases/100,000 in Portugal Spain Germany Italy



Source: Johns Hopkins, Eurostat
Figures adjusted for revisions where applicable

About the Delta variant:



It's spreading fast



It's more transmissible



Vaccines protect, but not perfectly

By mid-June, the Delta variant accounted for 99% of Covid-19 cases in the UK, and it is set to account for 90% of cases in Europe by the end of August. In the US, estimates are that the variant accounts for 26% of new Covid-19 cases.²

"Delta is the most transmissible of the variants identified so far," Tedros Adhanom Ghebreyesus, director-general of the World Health Organization has said.²

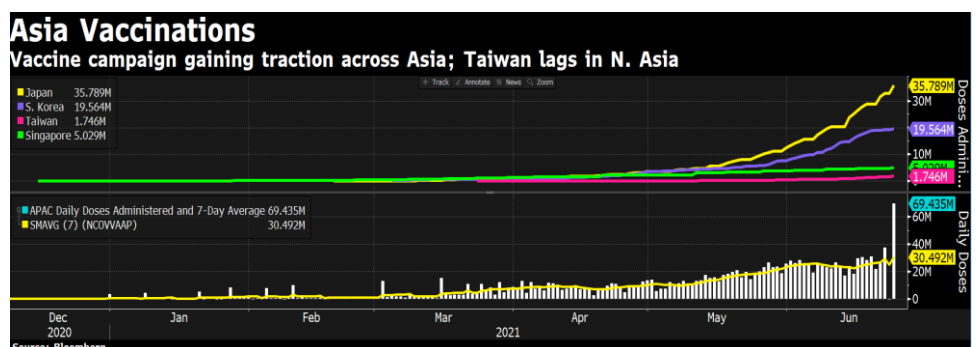
Some data suggests vaccines are less effective at preventing symptomatic disease, especially after only one dose.⁴ Other evidence suggests that fully vaccinated people are protected against the Delta variant, and that two vaccine doses may still protect against severe Covid.^{2,4}

How about in terms of progress on vaccinations and economic reopening?

Some countries have seen more success than others. While the US Covid cases have fallen far below their winter peak and the US pushes ahead with its reopening and easing of restrictions, much of the rest of the world saw an alarming surge in the number of Covid-19 infections and deaths, underscoring how unevenly the pandemic has spread.¹

Vaccine rollouts previously lagging in many Asia-Pacific countries have accelerated in recent weeks, overtaking the pace of doses being administered in the US and other Western nations. China now accounts for roughly half of the world's 33 million Covid-19 shots administered every day, and about one in five people in Asia have received a single vaccine dose, doubling since early May, but still behind the 37% in Europe and 40% in North America.^{5,7}

The accelerating vaccinations are increasing the chances of a sooner-than-expected easing of some pandemic restrictions, lifting economically damaging social-distancing restrictions that will likely bring some relief to Asian economies.^{6,7} This wider availability of vaccines across the Asia-Pacific is also boosting hopes that regional tourism could bounce back—a key economic lifeline for many places.⁷



What about in terms of the financial markets?

From a macro perspective:

Opinions on the reopening trade are mixed, with some suggesting it to be a “crowded” trade,¹¹ already over,¹³ or that the time is right to begin transitioning away from the popular cyclical trade.¹⁵ Others believe it will resume and remain bullish on continued gains.^{12,14}



Source: Bloomberg, as of 22 June 2021

The US 10-year treasury yield, which moves opposite price, has fallen from its high of the year of about 1.75% to drift around in a range below 1.6%.¹⁵ Yields previously spiked to a 14-month high as bonds sold off, as investors priced in expectations of higher inflation as the US economy recovers from the COVID-19 crisis.¹⁶ At that level, technology and growth shares were under pressure, as the increase in borrowing costs stoked selling in growth stocks.^{15,16}

The Cboe Volatility Index (VIX Index), a measure of volatility in the market, spiked briefly in June 2021 as Covid and Fed uncertainty hit sentiment,¹⁷ but has since fallen to a 73-week pandemic low, back to levels last seen in February 2020.¹⁸ With the global economy set to re-open, less fear has entered the market as individuals allocate capital for longer-term strategies.¹⁸



Source: Bloomberg, as of 22 June 2021

From a sector & stock-specific perspective:

Some sectors are more cyclical and sensitive to the reopening trade than others. Here's what some in the market are saying regarding different sectors and the reopening trade:



Financials

Steeper yield curves could brighten the outlook for the financials sector, in terms of profitability and net interest margins.^{8,9} Reduced loan-loss provisions and credit and loan growth are other areas banks such as UBS and JPMorgan are focusing on for the sector.^{8,9}



Travel/Hospitality

UBS highlights potential of a catch-up trade among stocks exposed to economic reopening across the US, Asia, and Europe, such as companies that should benefit from pent-up demand across sectors including leisure.⁸



Consumer/F&B

As the economy reopens, experts expect people may start feeling more comfortable traveling and purchasing leisure or consumer goods.^{9,10} Spending has already started to increase, with retail and food services sales for April totaling US\$619.9 billion, up 51.2% from April 2020, according to the Census Bureau.⁹



Industrials/Logistics

JPMorgan highlights Industrials stocks including transport and shipping companies, as well as airlines and aerospace & defense.⁹ They often benefit from an uptick in economic activity due to their cyclical nature, as they are sensitive to any increase in global trade as the economy continues to reopen.⁹

Companies in the Financials Sector

Below are the top companies based on Market Cap in their respective industries and geographical locations

China Construction Bank (939 HK)

Market Cap:
USD \$199.27b

DBS (DBS SP)

Market Cap:
USD \$57.28b

Berkshire Hathaway Class B (BRK.B US)

Market Cap:
USD \$638.73b

JPMorgan (JPM US)

Market Cap:
USD \$472.32b



Berkshire Hathaway Inc. Class B (BRK.B US)

Source: Bloomberg, as of 05 July 2021 closing



- Largest firm in the U.S. insurance industry by market cap (Bloomberg)
- It owns subsidiaries in a diverse range of business sectors, with insurance business representing the largest pieces of the firm (Investopedia)
- It also holds significant stakes in major financials companies like Bank of America, Moody's, US Bancorp and Bank of New York Mellon (CNBC)
- Recently invested US\$500 million in a Brazilian fintech start-up Nubank, the largest digital bank in the world based on number of customers (Motley Fool)



JPMorgan (JPM US)



- Largest firm in the U.S. banking industry by market cap (Bloomberg)
- Reported on 29 June 2021 to have agreed to buy OpenInvest, a San Francisco-based start-up, which will help JPMorgan's financial advisers customize clients' portfolios in ESG. This acquisition marks the third fintech acquisition by the bank since December 2020 (CNBC)
- Earnings announcement for period ending Q2 2021: 13 July 2021 (Bloomberg)



China Construction Bank (939 HK)



- Largest firm in the HK financials sector by market cap (Bloomberg)
- One of China's four state-owned banks (Bloomberg)
- China's central bank recently ordered banks, including four state-owned commercial banks to cut off all transactions linked to bitcoin, stepping up its clamp-down on cryptocurrencies in the country, reported on 21 June 2021 (SCMP)



DBS (DBS SP)



- Largest firm in the SG financials sector by market cap (Bloomberg)
- Largest bank in Southeast Asia (Bloomberg)
- China's securities regulator has given the go-ahead to Shenzhen Rural Commercial Bank's private placement, in which DBS will take a major stake of 13% (Nikkei Asia)
- DBS launched a fully digital and automated fixed income execution platform where issuers can directly connect with investors without the involvement of a bank on 23 June 2021 (The Straits Times)

Companies in the Travel & Hospitality Sector

Below are the top companies based on Market Cap in their respective industries and geographical locations

Marriott International (MAR US)

Market Cap:
USD \$46b

Singapore Airlines (SIA SP)

Market Cap:
USD \$11.03b

Southwest Airlines (LUV US)

Market Cap:
USD \$31.73b

Huazhu Group Ltd (2943 HK)

Market Cap:
USD \$16.72b



Southwest Airlines (LUV US)

Source: Bloomberg, as of 05 July 2021 closing



- One of the major airlines of the U.S. and the world's largest low-cost carrier airline (Nasdaq)
- Southwest Airlines CEO Gary Kelly will step down next year. Bob Jordan, executive vice president of corporate services and company veteran, will take over (CNBC)
- Earnings announcement for period ending Q2 2021: 23 July 2021 (Bloomberg)



Marriott International (MAR US)



- Largest hotel company in the world by market cap (Companies Market Cap)
- It operates its properties under brand names such as the JW Marriott, The Ritz-Carlton, W Hotels, St. Regis, Sheraton and Westin (SeekingAlpha)
- Earnings announcement for period ending Q2 2021: 28 July 2021 (Bloomberg)



Huazhu Group Ltd (2943 HK)



- Largest hotel company in Asia by market cap (Companies Market Cap)
- Founded by one of the co-founders of Nasdaq-listed travel site Trip.com (Nasdaq)
- The company operates hotels under its own brands, such as Ibis Hotel, Ji Hotel, Novotel Hotel and Grand Mercure (SeekingAlpha)



Singapore Airlines (SIA SP)



- Largest company in Singapore's travel and hospitality sector based on market cap (Bloomberg)
- SIA is no longer working towards a timeline for the Singapore-Australia travel bubble, said SIA's regional vice-president for Australia and the south-west Pacific Louis Arul on 24 June 2021 (CNA)
- Earnings announcement for period ending Q1 2021: 21 July 2021 (Bloomberg)

Companies in the Industrials & Logistics Sector

Below are the top companies based on Market Cap in their respective industries and geographical locations

**Cosco
Shipping
(1919 HK)**

Market Cap:
USD \$52.28b

**ST
Engineering
(STE SP)**

Market Cap:
USD \$9.04b

**United Parcel
Services
(UPS US)**

Market Cap:
USD \$184.14b

**Honeywell
International
(HON US)**

Market Cap:
USD \$153.72b

Source: Bloomberg, as of 05 July 2021 closing



Honeywell International (HON US)

- Largest firm in the U.S. Industrial Conglomerate industry by market cap (TradingView)
- It is a diversified manufacturing and technology company that operates in the aerospace, building technologies, performance materials and technologies, and safety and productivity solutions segment (Investopedia)
- Honeywell Quantum Solutions and Cambridge Quantum Computing announced on 8 June 2021 that they are merging into a standalone quantum computing company majority-owned by Honeywell (ZDNet)
- Earnings announcement for period ending Q2 2021: 23 July 2021 (Bloomberg)

Honeywell



United Parcel Services (UPS US)

- World's largest air freight/courier company by market cap (TradingView)
- United Parcel Service is exploring a same-day option, a delivery model that has been employed by gig-economy players, as the pandemic has accelerated the shift to e-commerce (The Wall Street Journal)
- Earnings announcement for period ending Q2 2021: 27 July 2021 (Bloomberg)



Cosco Shipping Holdings (1919 HK)

- Largest firm in the HK logistics sector by market cap (Bloomberg)
- Cosco's shares jumped to their highest level in more than a decade on 10 June 2021, extending steep gains this year on expectations of high container-shipping rates amid strong demand and a lingering ship bottleneck in southern China (MarketWatch)



ST Engineering (STE SP)

- Largest firm in the SG industrial sector by market cap (Bloomberg)
- The company operates as a technology, defense, and engineering company in Asia, Europe, the Middle East, and the U.S (SeekingAlpha)
- ST Engineering led the shares buyback consideration tally from 25 June 2021 to 1 July 2021, buying back 500,000 shares at an average price of S\$3.85 per share. This took the cumulative number of shares purchased by ST Engineering on the current mandate to 2.3 million shares or 0.07% of its issued shares excluding treasury shares (The Business Times)

ST Engineering

Companies in the Consumer Discretionary Sector

Below are the top companies based on Market Cap in their respective industries and geographical locations

Amazon
(AMZN US)

Market Cap:
USD \$1.77t

Genting
Singapore
(GENS SP)

Market Cap:
USD \$7.53b

Alibaba
(9988 HK)

Market Cap:
USD \$575.18b

Tesla
(TSLA US)

Market Cap:
USD \$654.01b

Source: Bloomberg, as of 05 July 2021 closing



Amazon (AMZN US)



- Largest company in the U.S. Consumer Discretionary sector by market cap (Bloomberg)
- Amazon remained the world's most valuable brand with an estimated value of US\$684 billion, according to a global ranking by Kantar's BrandZ (Reuters)
- Starting 05 July 2021, Bezos will transition to executive chair of Amazon's board, handing the CEO title over to cloud-computing boss Andy Jassy (CNBC)
- Earnings announcement for period ending Q2 2021: 30 July 2021 (Bloomberg)



Tesla (TSLA US)



- Largest EV automaker in the world based on market cap (Bloomberg)
- CATL, China's largest producer of automobile battery packs, said on 28 June 2021 that it has reached an agreement with Tesla to provide lithium batteries Tesla's China production plants for an additional 30 months (SCMP)
- Earnings announcement for period ending Q2 2021: 22 July 2021 (Bloomberg)



Alibaba (9988 HK)



- Largest e-commerce company in China by market cap (Companies Market Cap)
- Alibaba's diverse group of tech business lines includes Taobao, Tmall, Lazada, Cainao and Alibaba Cloud
- A consortium led by Alibaba and the Jiangsu provincial government are nearing a deal to buy a stake in the retail arm of Chinese billionaire Zhang Jindong's Suning empire (Bloomberg)



Genting Singapore (GENS SP)



- Largest company in the Singapore Consumer Discretionary sector by market cap (Bloomberg)
- The company owns businesses like Resorts World Sentosa, Universal Studios and S.E.A. Aquarium (SeekingAlpha)
- Genting Singapore, leading a consortium of Japanese corporates, has submitted a bid on 11 June 2021 to build an Integrated Resort in Japan's Yokohama City (The Business Times)

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