16 DECEMBER 2021

Thailand Market Strategy

No pyrrhic victory for SET from Fed's monetary policy

- We view the recent weakness resulting from Omicron as a buying opportunity. Our analysis suggests that the SET Index could range between 1,660-1,720 in 1Q22.
- Faster QE tapering is less likely to disrupt financial markets as it should not only calm inflation but also facilitate a rate rise.
- We prefer value over growth stocks under the interest rate uptrend. Our top picks are KBANK, IVL, SAT, EA, BCH and NEX.

Recent SET Index weakness offers a buying opportunity

The SET Index has recently corrected from its peak due to the resurgence of the new Omicron strain, triggering global concerns over the potential impact of a worsening Covid-19 crisis that could lead to increasing inflation. However, we think the selloff is unlikely to linger for long, as the chance of the economy entering into a recession remains remote, in our view. The Fed's policy interest rate hike and the acceleration of QE tapering should ease inflation and the impact of rising commodity prices at least until mid-2022, when we expect the Fed to complete QE tapering and start raising the policy interest rate. We believe that now is a good time to invest in the SET, based on our expectation of a strong economic recovery in Thailand in 2022 at c3-4% GDP growth, supported by Thailand's favourable fiscal and monetary policies as key backdrops for solid corporate earnings growth.

Three Omicron scenarios could lead to SET Index trading range-bound

We analysed three Omicron scenarios to assess how they might impact the SET's 2022E EPS growth of 23.4% y-y, should it spread nationwide in 1Q22. In our best-case scenario (35% probability) with a minimal impact, no lockdown, and new cases/day of 3,000-6,000 in 1Q22, the SET Index could range between 1,680-1,742 in 1Q22; our base case (45%), with a controllable Omicron impact, no lockdown and 10,000 cases/day, has a range of 1,660-1,720; in our worst case (20%), with Omicron becoming widespread and new cases/day of over 15,000 prompting a lockdown, the index could swing between 1,500-1,600.

Faster QE tapering less likely to disrupt financial markets

Even with the Fed's move to accelerate its QE tapering via the bond repurchase of USD30b per month to complete the total USD105b QE package in March 2022, we think that the taper is unlikely to be a disruptive event as 1) faster QE tapering should be an adequate weapon to calm inflation; 2) the first Fed's rate hike is likely to occur in June 2022; and 3) tapering isn't tightening, as QE tapering is the Fed's supplementary tool vs the interest rate policy as a main monetary policy tool to stabilise economic growth.

Prefer value over growth stocks under the interest rate uptrend

We think that value stocks (attractive valuations) are likely to outperform growth stocks to drive the SET Index higher in 1Q22 under the rising interest rate uptrend in 2022. For value stocks, we like KBANK, IVL, SAT, EA, BCH and NEX based on their attractive PEG ratios, which are lower than 1x 2021E PEG, and their 2021E ROEs which are higher than 10%.

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The SET Index's recent correction offers an attractive entry point

The SET Index has recently corrected from its peak due to the resurgence of the new Omicron strain, triggering global concerns over the potential impact of a worsening Covid-19 crisis that could lead to increasing inflation as a result of supply and logistics disruptions.

However, we think the selloff is unlikely to linger for long as the likelihood of the economy entering into a recession remains remote, in our view. The US Federal Reserve (Fed)'s looming policy interest rate hike and the acceleration of quantitative easing (QE) tapering to ease inflation, along with rising commodity prices, should have a limited impact in the short term, at least until mid-2022 when we expect the Fed to complete QE tapering and start raising the policy interest rate.

Thus, we believe that now is a good time to invest in the SET, based on our expectation of a strong economic recovery in Thailand in 2022 at c3-4% GDP growth, supported by Thailand's favourable fiscal and monetary policies as key backdrops for solid corporate earnings growth. Our 12-month SET Index target is 1,892, based on 17.2x 2022E P/E, its 10-year average, backed by our EPS growth forecast of 23.4% y-y in 2022 at THB110.

Marginal impact on SET Index from Omicron variant scenarios

To assess the potential downsides to our SET Index target, we analysed three Omicron scenarios and how they might impact our corporate earnings forecast and the SET Index, assuming that the Omicron variant will start to spread nationwide in 1Q22. In all three scenarios, we expect the SET Index to move sideways thanks to the strong 2022E EPS growth of 23.4% y-y that should drive up the index at different speeds depending on the impact of the Omicron outbreak and any lockdown periods. Our three defined scenarios for the Omicron impact are as follows:

Exhibit 1: Three scenarios for Omicron impact during 1Q22

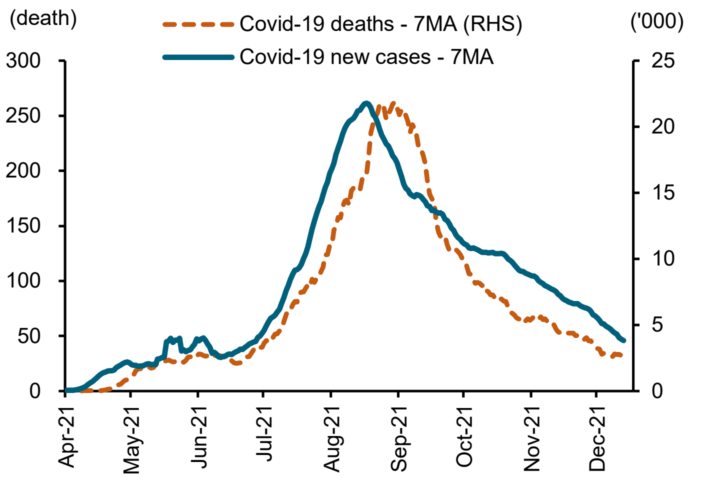
	---------------------------- Impact from Omicron variance ----------------------------		
	Best	Base	Worst
Probability	**35%**	**45%**	**20%**
Spreading	Minimal	Moderate / under control	Widely
Lockdown	No	No	Yes (1-2 months)
New Covid-19 cases	Immaterial	Moderate	Material
Estimated daily infection cases	3,000-6,000	< 10,000	> 15,000
SET Index movement	Sideways	Sideways	Sideways
SET Index range	1,680-1,742	1,660-1,720	1,500-1,600

Source: FSSIA estimates

Scenario #1: Best case (35%). The Omicron variant has a minimal spread (35% probability) and no lockdown, which is our best-case scenario. In this case, we expect that the number of Covid cases would not rise dramatically compared to the current situation, with Thailand's new cases per day numbering around 3,000-6,000 in 1Q22. We expect the SET Index would move sideways in the range of 1,680-1,742 in 1Q22.

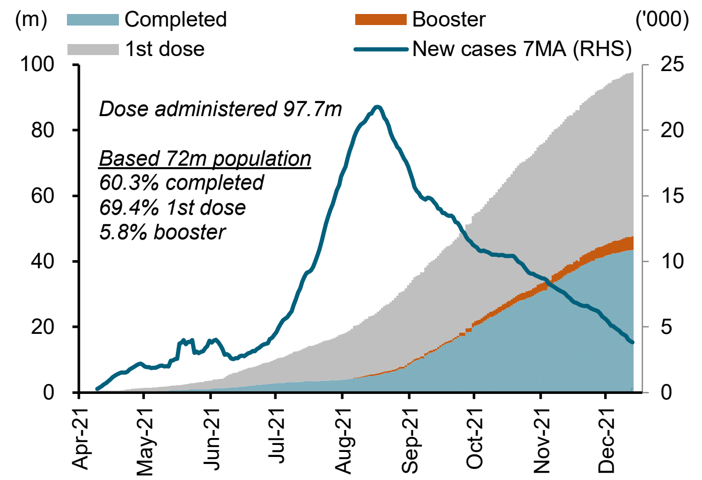
Scenario #2: Base case (45%). The Omicron variant spreads in Thailand but is still under control and no lockdown is required (45% probability). Based on this scenario, our base case, we expect that the number of new infections in Thailand would start rising again but not exceed 10,000 cases per day, and the government would not enforce a full lockdown similar to what happened in 3Q21. We expect the SET Index would move sideways in the range of 1,660-1,720 in 1Q22.

Exhibit 2: Thailand Covid-19 cases and deaths



As of 14 Dec 2021
Sources: worldometers.info; FSSIA's compilation

Exhibit 3: Thailand Covid-19 vaccinations



As of 14 Dec 2021
Sources: Ministry of Higher Education, Science, Research and Innovation (mhesi); FSSIA's compilation

Scenario #3: Worst case (20%). The Omicron variant spreads everywhere in Thailand similar to the Delta variant and a lockdown is required (20% probability). This is the worst-case scenario, in our view. The number of new Covid-19 cases may rise significantly to over 15,000 cases per day and the government may consider having at least one month of a full lockdown.

However, we think the lockdown period would likely last only two months, similar to the previous lockdown in 3Q21, as we expect the severity of the Omicron outbreak to lessen. As a result, we expect the SET Index would move sideways in the range of 1,500-1,600 in 1Q22.

We believe the second scenario, which is our base case, is the most likely to occur. This scenario has a 45% probability, in our estimation. Therefore, any selloff in the SET Index might be an opportunity for investors to accumulate stocks.

Shifting theme to value stocks amid Omicron pandemic and faster tapering

We think that 1Q22 will finally be the quarter when investors prefer investing in value stocks – consumer, banking, utility, ICT, industrial and healthcare companies. However, the SET Index will likely remain highly volatile, caused by:

1) The uncertainties surrounding the trend and degree of global inflation that could influence the path of the Fed's QE tapering, bond repurchases, and the hikes in short-term interest rates that are likely to occur sometime in 2022. In particular, the timing when the Fed will begin to hike its policy interest rate is crucial for market sentiment and the valuation of risky and fixed income assets.

2) The Omicron variant could intensify in the coming winter in 1Q22, in our view. However, we believe the severity is likely to be milder than the market expects as it is not yet definite that Omicron's high transmissibility comes with a high fatality rate, based on the evidence presented by the World Health Organization (WHO) since the Omicron outbreak in Nov-21.

Despite the risks of inflation and rising interest, we remain confident that improving corporate earnings on the SET should be able to drive the SET Index higher in the range of 1,660-1,720 in 1Q22.

We think the SET's EPS will rise to meet our THB110 estimate in 2022, as we believe that earnings from the service and hospitality, transportation, utilities, and commerce sectors should improve markedly in 2H22.

We think that value stocks, given their attractive valuations, are likely to outperform growth stocks to drive the SET Index higher in 1Q22 under the rising interest rate environment in 2022. Our preferred value stocks for 1Q22 are KBANK, IVL, SAT, EA, BCH, and NEX.

Exhibit 4: FSSIA's top value stocks for 1Q22 investment

Company	BBG code	Rationale
Kasikornbank (TP THB 172.00)	KBANK TB	We believe that KBANK's business is almost running parallel with Siam Commercial Bank's. First, KBANK is one of the leading banks in terms of digital platforms and technologies. Accordingly, we believe that it is one of the best positioned banks to benefit from the country's digital age. Second, KBANK's retail lending market share is always ranked among the top three spots. Retail lending in Thailand has a high growth potential, with the most attractive risk-reward vs other segments, in our view.
Indorama Ventures (TP THB 62.00)	IVL TB	We expect IVL's net profit to rise in 4Q21-2022 on stronger product margins and higher utilisation rates for the IOD, PET-PTA, and fibre groups, with q-q improving MTBE and MEG margins. Key potential drivers are: 1) a stronger PET-PTA margin due to China's lower export volumes and solid demand; 2) a polyester fibre margin recovery for the automotive and lifestyle segments; and 3) the start-up of its ethane cracker in Nov-21 after the lightning strike in 2H20.
Somboon Advance Tech (TP THB 29.00)	SAT TB	We like SAT considering that 1) its 2021 earnings could hit a new record high; 2) its 2022 outlook remains strong thanks to the expectation of a continuous recovery in the car production level; 3) new orders; and 4) it has an attractive dividend yield at above 7% p.a. Although the company still has few relationships with EV manufacturers, we believe that in the future, as a tier 1 manufacturer, SAT should be able to get some EV orders, if there are more EVs produced domestically.
Energy Absolute (TP THB 122.00)	EA TB	We think EA's net profit growth will accelerate starting in 4Q21 to boost its 2022E net profit growth by 19% y-y and 2023E by 14% y-y, driven by the start-ups of its multiple S-curve growth projects, which include the expected deliveries of 200-300 e-buses in 4Q21 and the 1GWh battery phase 1 plant in Dec-21, along with the delivery of 2,000-3,000 EVs in 2022.
Bangkok Chain Hospital (TP THB 28.50)	BCH TB	We believe that if there is a new wave of Omicron variant infections in Thailand, the healthcare sector would benefit the most from Covid-related services, including Covid screening tests, treatments in hospitals and hospitels and more alternative vaccination revenue. BCH would be our pick as it had the largest revenue contribution from Covid-related revenue during the Delta variant third wave, accounting for 56% of total revenue in 2Q21 and 71% in 3Q21. Its EBITDA margin also jumped to 42-52% over that period, compared to 27-29% during the pre-Covid level due to the high utilisation rate.
Nex Point (TP THB 25.00)	NEX TB	Despite a 2x share price rally since 23 Jun-21, we believe NEX's net profit growth momentum remains strong, and we expect a marked rise in its earnings in 2022-23, backed by 1) more visible and higher sales volumes for e-bus orders of up to 3,000-4,000 in 2022, while we think the start of e-truck sales, likely in 2022, could provide even higher upsides to NEX's net profit; and 2) potential upsides from a windfall demand for commercial fleet vehicles (buses and trucks) thanks to the government's soon-to-announce incentive packages to promote the EV industry's development.

Source: FSSIA estimates

Exhibit 5: Valuation summary of FSSIA's top picks as of 15 Dec 2021

Company	BBG Code	----Share price --- Current (THB)	Target (THB)	Up side (%)	Market Cap (USD m)	--------- Recur profit ----------- 20A (THB m)	21E (THB m)	22E (THB m)	Profit growth 21E (%)	22E (%)	P/E 22E (x)	DivYld 22E (%)	ROE 22E (%)	P/BV 22E (x)
Kasikornbank	KBANK TB	138.50	172.00	24	9,818	29,487	35,028	38,568	18.8	10.1	8.5	2.5	7.7	0.6
Indorama Ventures	IVL TB	43.00	62.00	44	7,224	6,430	22,909	26,019	256.3	13.6	9.3	5.4	16.4	1.4
Somboon Advance Tech	SAT TB	22.00	29.00	32	280	385	964	1,117	150.1	15.9	8.4	8.5	14.0	1.1
Energy Absolute	EA TB	85.00	122.00	44	9,486	5,155	8,511	10,204	65.1	19.9	31.1	0.3	25.6	7.1
Bangkok Chain Hospital	BCH TB	19.40	28.50	47	1,448	1,229	5,594	1,843	355.0	(67.0)	26.2	6.1	16.2	4.5
Nex Point	NEX TB	18.80	25.00	33	942	(214)	439	1,952	305.6	344.5	16.1	2.7	45.9	6.2

Sources: Bloomberg; FSSIA estimates

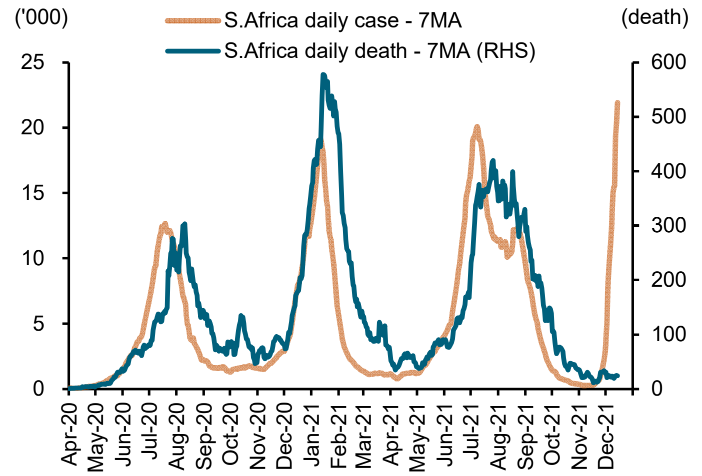
Omicron risk assessment is key

We think that the uncertainty over the Omicron impact will linger for one or two months, pending further developments to draw a complete picture of Omicron's risk profile. There are some fundamental questions about the new Omicron strain that scientists will need reasonable answers for before they can reasonably assess the risk from Omicron. Three key questions underline the downside risk from Omicron.

1) How fast is Omicron's transmissibility vs previous variants?

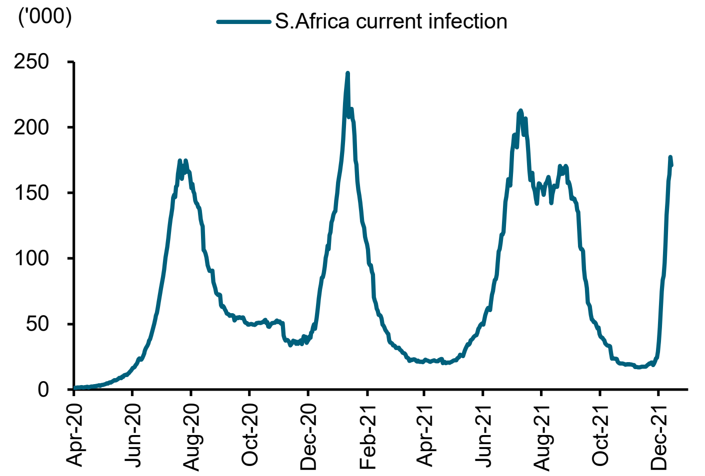
Among the variants of the Covid-19 virus, Omicron has the highest mutations at over 50, including over 30 mutations that affect its signature spike protein. Omicron has now been identified in more than 50 countries since the WHO declared the variant as B.1.1.529, or Omicron, on 25 November 2021.

Exhibit 6: South Africa – 80% of new cases since late Nov 2021 have been caused by the Omicron variant



Source: worldometers.info

Exhibit 7: South Africa's current infected cases as of 14 Dec 2021



Source: worldometers.info

While Omicron has already proven to carry higher risks of transmissibility vs other coronavirus strains, as of 14 December 2021, the fatality rate for Omicron is much lower than its predecessors' Covid-19 strains, which could potentially lead to Covid-19 becoming a local disease, similar to the commonplace influenza.

Exhibit 8: Comparison of R0 of Covid-19's VOC vs mumps and measles

WHO label	R0*	Earliest sample	Designated VOC
Original	2.4-2.6	Wuhan, Dec-19	
Alpha	4-5	United Kingdom, Sep-20	18-Dec-20
Beta		South Africa, May-20	14-Jan-21
Gamma		Brazil, Nov-20	15-Jan-21
Delta	5-8	India, Oct-20	6-May-21
Omicron	n/a	Multiple countries, Nov-21	26-Nov-21
Mumps	12		
Measles	18		

* R0 (R-nought) is the unimpeded replication rate of the disease pathogen in a naive (not immune). R0 for influenza typically lies in the range below 1.5. The R0 for Coronavirus is not definitively known, but appears to be quite high (above 2), accounting for its rapid spread.

Variants of Concern (VOC) - Working definition: A SARS-CoV-2 variant demonstrated to be associated with the following changes globally:
- Increase in transmissibility or detrimental change in Covid-19 epidemiology; OR
- Increase in virulence or change in clinical disease presentation; OR
- Decrease in effectiveness of public health and social measures or available diagnostics, vaccines, therapeutics.

Source: World Health Organization (WHO)

Exhibit 9: Omicron has the most mutations and is more transmissible but causes less severe symptoms

The Omicron variant has over 30 mutations - including substitutions, deletions, and an insertion in the Spike protein - which is higher than the mutations in any previously reported variant. In comparison, the previous VOCs such as Alpha, Beta, Gamma, and Delta had 9, 10, 12, and 10 mutations, respectively.

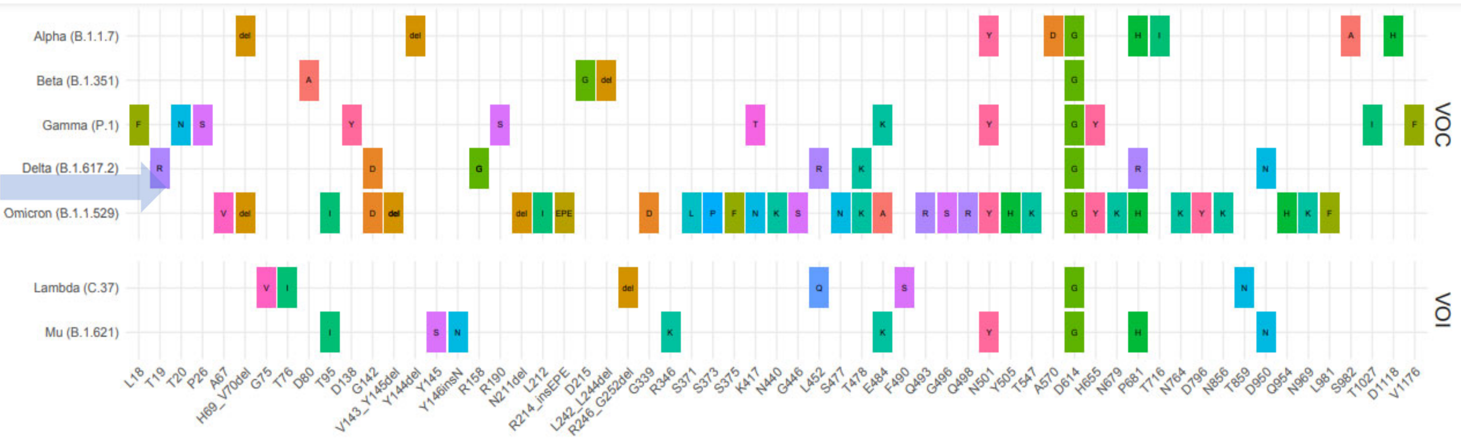
The World Health Organization said Sun 12 Dec 2021: The Omicron coronavirus variant is more transmissible than the Delta strain and reduces vaccine efficacy but causes less severe symptoms. according to early data. Early evidence suggests Omicron causes "a reduction in vaccine efficacy against infection and transmission", the WHO said in a technical brief. Omicron infections have so far caused "mild" illness or asymptomatic cases, but the WHO said the data was insufficient to establish the variant's clinical severity.

Sources: News-Medical Life Sciences; Arab News

The preliminary answer to the first question of how fast Omicron transmits vs other strains is that the spread is likely faster, though a definitive conclusion will need more work. However, it remains unclear how fast Omicron can be transmitted from one person to numerous people or its incubation period. The Delta strain can spread from one person to six people (transmissibility) and has an incubation period of only four days.

The WHO, during a Covid update in Geneva on 15 December 2021, warned that Omicron is spreading faster than any other Covid variant, but, "Though omicron is more contagious, it is not yet clear whether the strain causes more mild or severe disease than past variants of the virus", and, "It's not vaccines instead of masks. It's not vaccines instead of distancing. It's not vaccines instead of ventilation or hand hygiene. Do it all. Do it consistently. Do it well."

Exhibit 10: Comparing mutation profiles between Omicron and other variants; Omicron has the most mutations



Mutation Profiles of VOC/VOIs: For each variant except Omicron, the profile of amino acid changes in the Spike protein was created based on the first 1,000 genomes available in GISAID (genomes with less than 29,000 nucleotides and >5% Ns were excluded). For Omicron, all genomes available in GISAID as of 6 December 2021 were used. Amino acid changes that are present in ≥ 85% of the sequences are shown. Of note, relevant amino acid changes may be present in other regions of the SARS-CoV-2 genome, and not all amino acid changes in the spike protein are associated with potential changes in the characteristics of the virus variant.
Source: WHO

2) How severe is Omicron compared to previous variants?

The answer is unclear, and it is too soon to be answered – whether Omicron is more virulent within a short period after its outbreak. Meanwhile, Omicron's severity will take more time to assess, in our view.

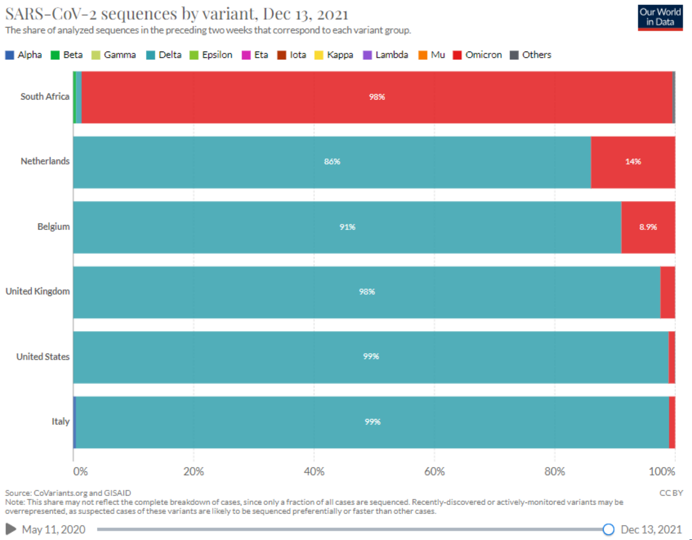
However, there are early reports from doctors treating patients at the centre of South Africa's outbreak of the variant which suggest that cases are presenting less severe versions of the disease despite the small number of cases and early-stage monitoring.

Meanwhile, the US Center for Disease Control and Prevention (CDC) expects that anyone with an Omicron infection can spread the virus to others, even if they are vaccinated or don't have symptoms.

Exhibit 11: South Africa's transmission from each variant

Source: Siamrath

Exhibit 12: Infection by country, % of Delta and Omicron



Source: ourworldindata.org as of 13 Dec 2021

3) How effective are current Covid vaccines and treatments against Omicron?

The answer is unclear. According to scientists at the Africa Health Research Institute in South Africa, they tested the blood of 12 people vaccinated with the shot developed by Pfizer Inc. against the Omicron variant to determine how effectively it neutralised the virus.

They found that the vaccine generated one-fortieth of the infection-fighting antibodies against Omicron compared with its performance against the original version of the virus. That is a big reduction but does not mean the variant can escape vaccines completely. The research has been submitted to medRxiv (click for an advance copy of the manuscript).

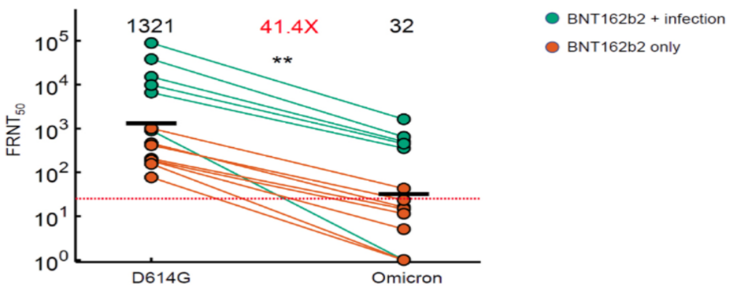
In addition, based on the current knowledge about the mechanisms behind the vaccines and the biology of the variants, Dr. Sahin said that the vaccine, which he and his team invented in January 2020 and then developed together with Pfizer, has been proven to protect from severe disease from other variants. Vaccines also provide a second layer of protection: immune agents called T-cells, some of which mobilise to destroy infected cells after an infection has occurred.

We expect that a complete risk profile for Omicron could be announced in the next two weeks, as the testing to determine whether the new variant can evade current vaccines and medicines is continuing.

On 8 December 2021, Pfizer and BioNTech stated that a third dose of their Covid-19 vaccine neutralised Omicron in lab tests, but that a two-dose regimen was much less effective.

Moreover, drugmakers such as Moderna along with Pfizer and BioNTech are already moving to develop Omicron-targeted shots and treatments, and expect to start rolling them out in 1Q22.

Exhibit 13: Omicron incompletely escapes immunity induced by the Pfizer vaccine



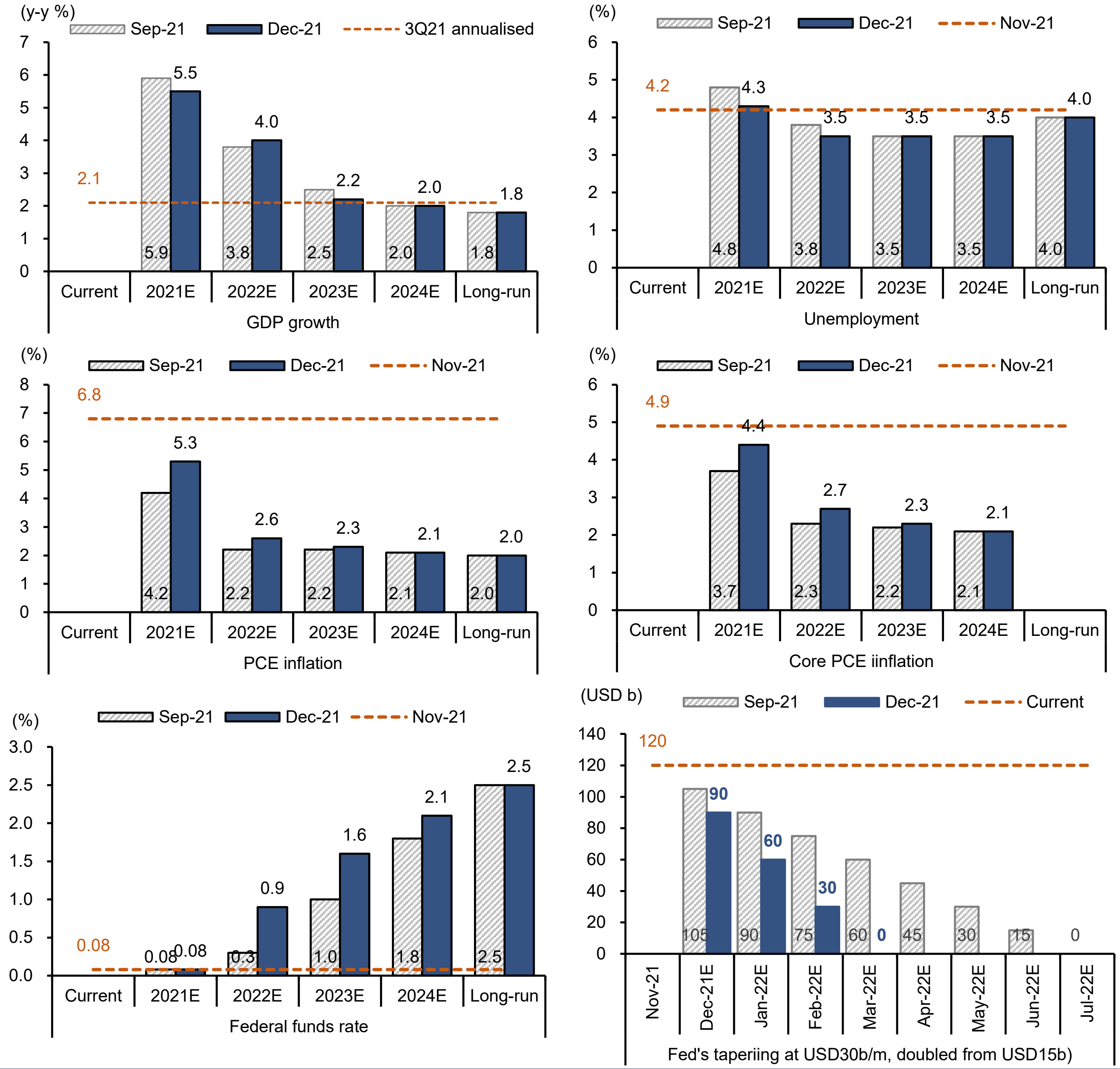
Neutralisation of the Omicron virus compared to D614G ancestral virus participants vaccinated with BNT162b2 and infected by ancestral SARSCoV-2 (green) or vaccinated only. 14 samples from 12 participants were tested. Red horizontal line denotes most concentrated plasma tested. Numbers in black above each virus strain are geometric mean titers (GMT) of the reciprocal plasma dilution (FRNT50) causing 50% reduction in the number of infection foci. Number in red denotes fold-change in GMT between virus strain on the left and the virus strain on the right of each panel. p=0.0018 as determined by the Wilcoxon rank sum test.

Source: Africa Health Research Institute (AHRI)

Faster pace of QE tapering less likely to disrupt financial markets

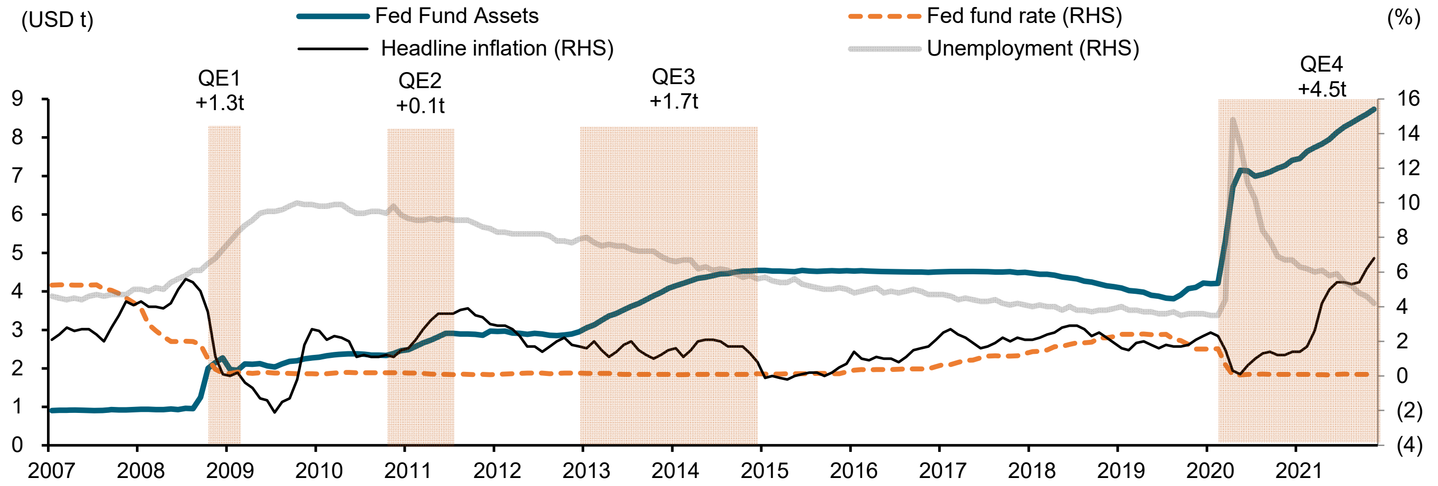
Based on the Federal Open Market Committee (FOMC) meeting during 14-15 December 2021, the Fed will speed up its QE tapering and starting to repurchase bonds at USD30b per month, which will complete the total QE package in March 2022, in line with market's expectation. In particular, the Fed's rate projections show all 18 Fed officials expect that rates will need to rise next year. After projecting three-quarter percentage point rate rises next year, most officials pencilled in at least three more rate increases in 2023 and two more in 2024.

Exhibit 14: FOMC's indications from the final meeting in 2021 on 14-15 Dec vs previous resolution in Sep 2021 – implications for Thai stock market



Source: Dec-21 FOMC meeting

Exhibit 15: QE, Fed fund rate, inflation and unemployment since 2007



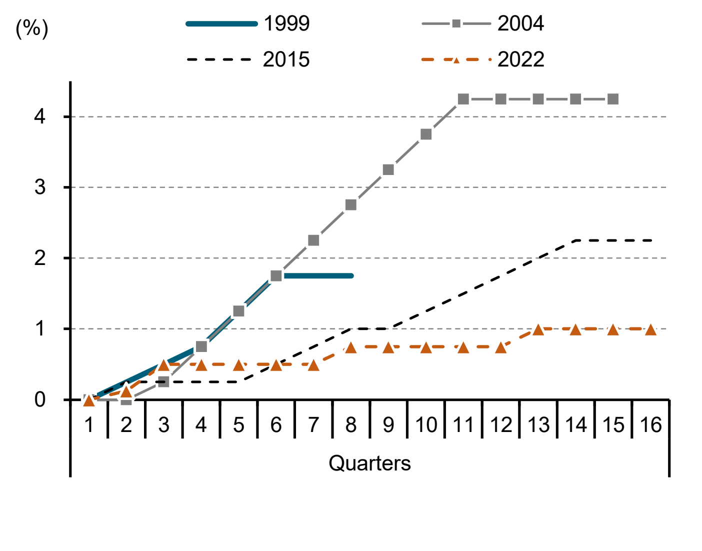
Sources: Bloomberg; FSSIA's compilation

However, we think that the taper is unlikely to be a disruptive event for global financial markets due to three key reasons as follow:

Reason #1: Faster QE tapering may be an adequate weapon to calm inflation

The complete asset repurchases (QE tapering) in 1Q22 should give the Fed the flexibility to raise interest rates next year if necessary. With the taper weapon in hand, we think the Fed is likely to keep its policy interest rate low for even longer, keeping it as the last weapon for the monetary policy to fight inflation in 2022.

Exhibit 16: Fed rate rises in the past

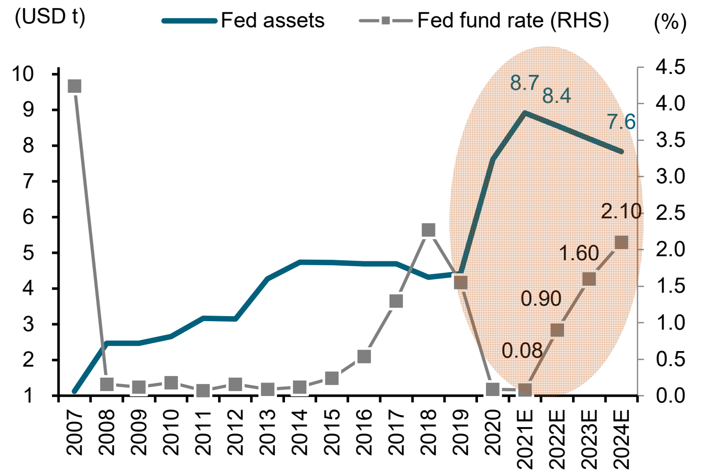


Sources: Bloomberg; Sep-21 FOMC meeting results; FSSIA's compilation

Exhibit 17: The dot plot for the Dec 2021 FOMC meeting

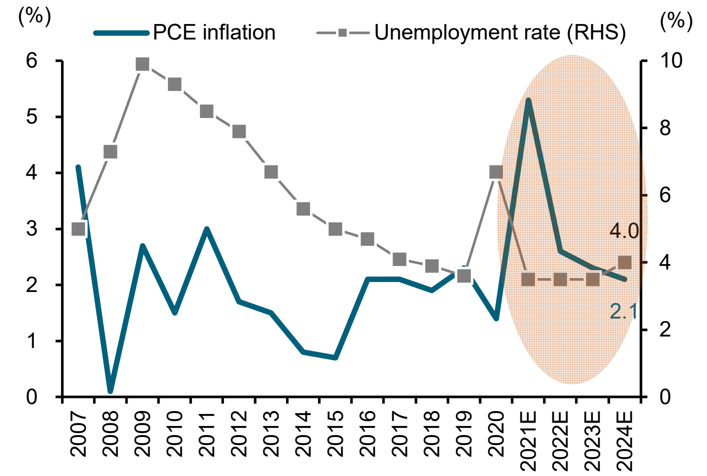
Sources: Sep-21 FOMC meeting; Dec-21 FOMC meeting

Exhibit 18: Fed assets based on FOMC's tapering and rate projections from 14-15 Dec 2021 meeting



Sources: Dec-21 FOMC meeting; FSSIA's compilation

Exhibit 19: FOMC's inflation and unemployment rate projections based on expected policies from 14-15 Dec 2021 meeting



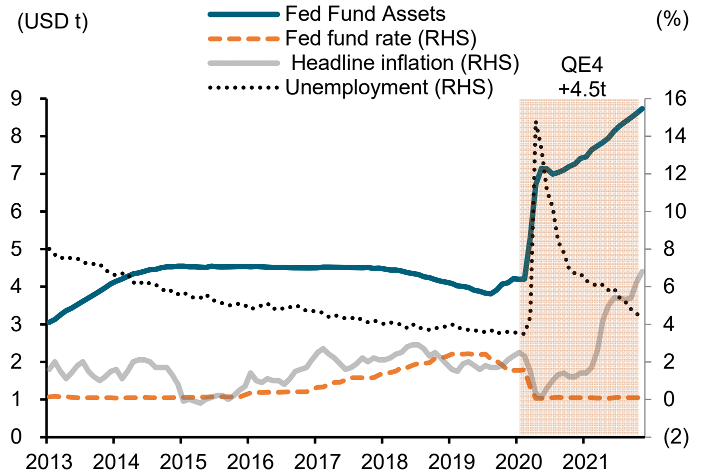
Sources: Dec-21 FOMC meeting; FSSIA's compilation

Reason #2: Timing of Fed's rate hike remains uncertain

We expect the Fed's first rate hike to occur in June 2022, depending on the Omicron variant's transmissibility, virulence and resistance to vaccine efficacy. The Fed chairman's hawkish comments on a more persistent, not a fleeting, inflation environment which could lead the Fed to speed up QE tapering, are somewhat negatively surprising for investors.

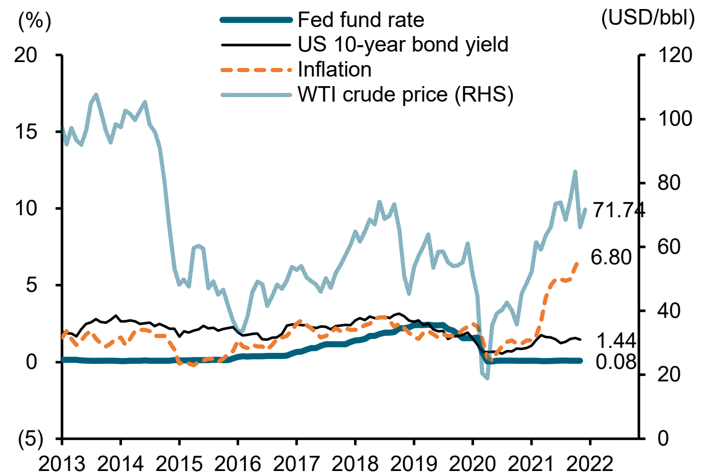
We expect that the Fed will provide its new interest rate trend forecast after its meeting on 14-15 December 2021, and it could turn out to be sooner or later than the mid-2022 ending period for QE tapering that is currently anticipated by most investors, based on Bloomberg's survey.

Exhibit 20: Fed rate rise to curve inflation and support labour market starting in Dec 2015



Sources: Bloomberg; FSSIA's compilation

Exhibit 21: Current condition of inflation, bond yields and crude prices



As end of Nov 2021, except crude price on 13 Dec 2021
Sources: Bloomberg; FSSIA's compilation

Reason #3: Tapering isn't tightening

QE tapering is the Fed's supplementary tool vs the interest rate policy as a main monetary policy tool to stabilise economic growth. The Fed's QE tapering program may not stimulate economic growth but rather increase the inflation rate in the form of asset price inflation with low-cost funding, as the amount of money from QE tapering could be over-injected and excessive liquidity would create an asset price bubble.

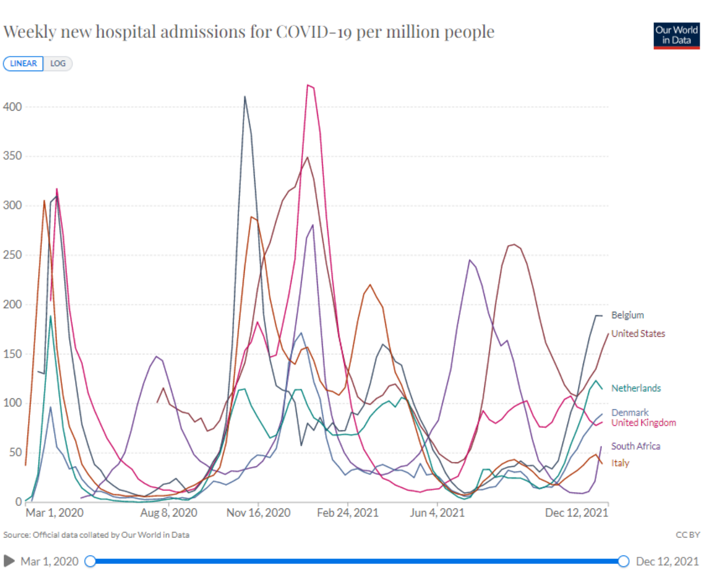
On the other hand, QE tapering can fail to spur demand if banks remain reluctant to lend money to businesses and households. Thus, we think that the coming QE tapering may ironically bring inflation down. However, if the Fed pulls back the liquidity too quickly or fails to manage market expectations, it could cause income to fall and unemployment to rise further.

Reason #4: Omicron – a boon or bane to global economic growth?

The Fed worries that the Omicron variant impact could exacerbate companies' supply chains and lead to hiring problems, thereby pushing up prices and eventually leading to higher inflation. However, we think the actual outcome could be different, as the pandemic could exacerbate imbalances between supply and demand that have been persistent since the beginning of the pandemic in 1Q20.

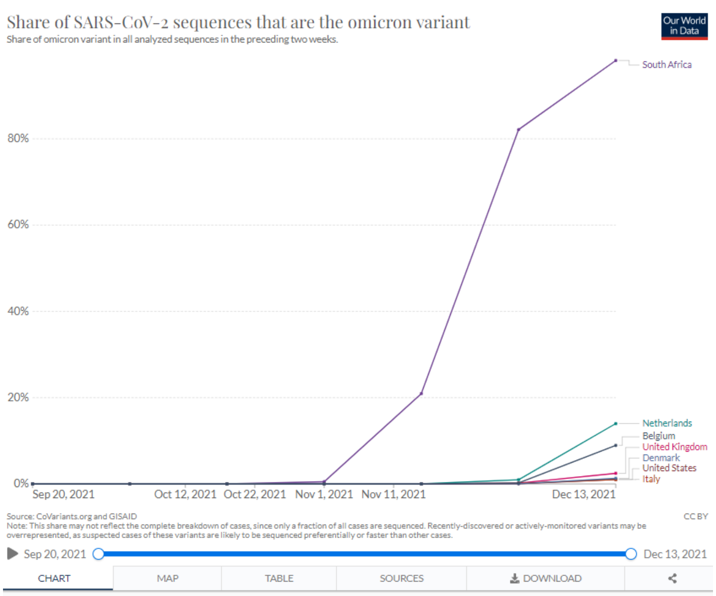
At the same time, the pandemic sparked a jump in the demand for goods that was boosted by several rounds of government relief measures globally. Hence, the key question of "How severe will the Omicron wave turn out to be for global GDP?" remains unclear, even though Fed officials are increasingly worried that the pandemic might lead to a new round of disruptions that send prices even higher.

Exhibit 22: Hospitalisations for some countries affected by Omicron variant as of 12 Dec 2021



Note: weekly new hospital admissions for Covid-19 per million people
Source: ourworldindata.org

Exhibit 23: Omicron variant since Nov to 13 Dec 2021



Source: ourworldindata.org

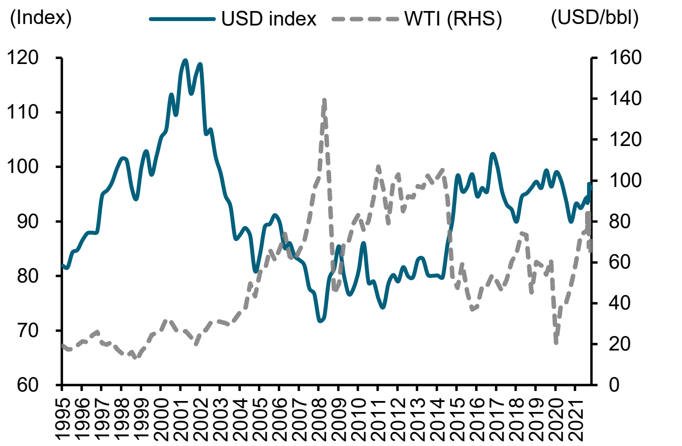
2022 vs 2015 inflation dilemma

The current situation is much different from 2015 and even in the past 30-year history of the US' economy since the US last faced hyperinflation during 1970-90. The key discrepancies include the 1) oil price; 2) US 10-year bond yield; 3) unemployment rate; and 4) asset price bubble on the long and low cost-of-fund liquidity.

Difference #1: Much higher commodity prices of oil, gas, and coal. While the high coal price has had a very limited impact on US inflation due to the country's low consumption of coal for power generation, the price spikes for gas and particularly oil have significantly driven up US inflation.

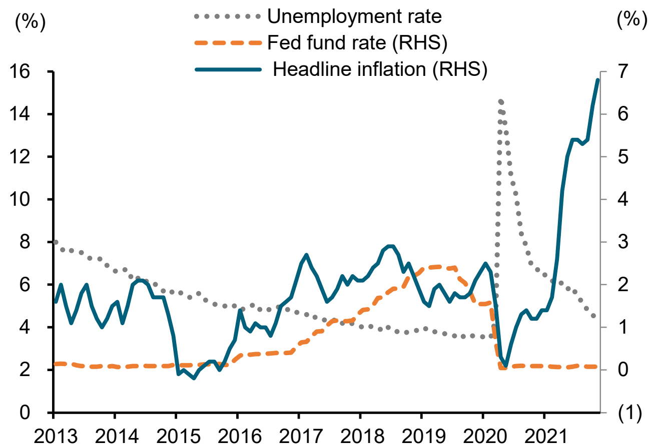
In 2022, our projected average crude oil price (WTI) of USD65-75/bbl, boosted by globally high demand post economic reopenings and the tight supply controlled by OPEC+, is much higher than the USD48/bbl average in 2015-18. This is thanks to the rising production efficiency gains in US shale oil during 2010-18 and the oil price war between OPEC, led by Saudi Arabia, and US shale oil producers that led to the oil price collapsing from its USD100/bbl average during 2010-14 to USD48/bbl in 2015.

Exhibit 24: USD index vs WTI



Sources: Bloomberg; FSSIA's compilation

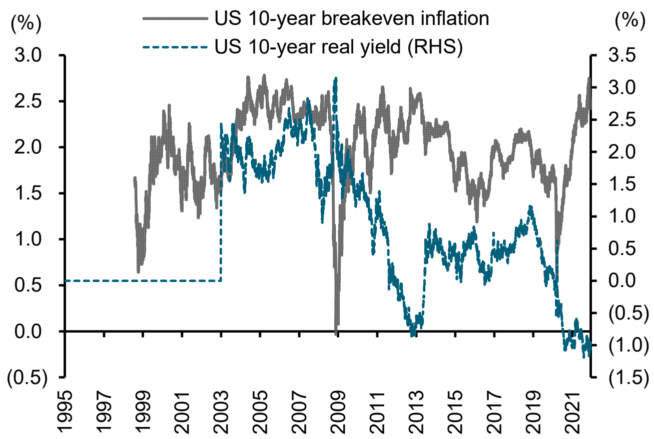
Exhibit 25: Unemployment rate, Fed fund rate and inflation



Sources: Bloomberg; FSSIA's compilation

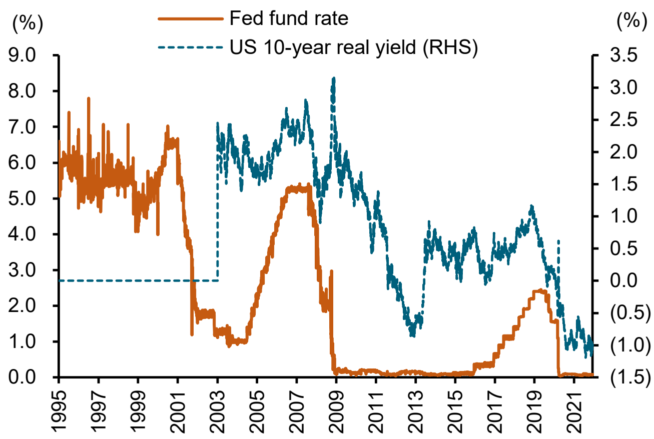
Difference #2: US 10-year bond yield. Since 2015, the US 10-year bond yield has remained low, hovering below 2%, due to the Fed's low policy interest rate for a long period, with QE to inject liquidity into the economic and financial system. As a result, global corporates have long enjoyed "cheap funding" to expand their businesses and invest in risky assets to generate high returns.

Exhibit 26: Fed fund rate vs 10-year real yield



Sources: Bloomberg; FSSIA's compilation

Exhibit 27: Fed fund rate vs 10-year breakeven inflation

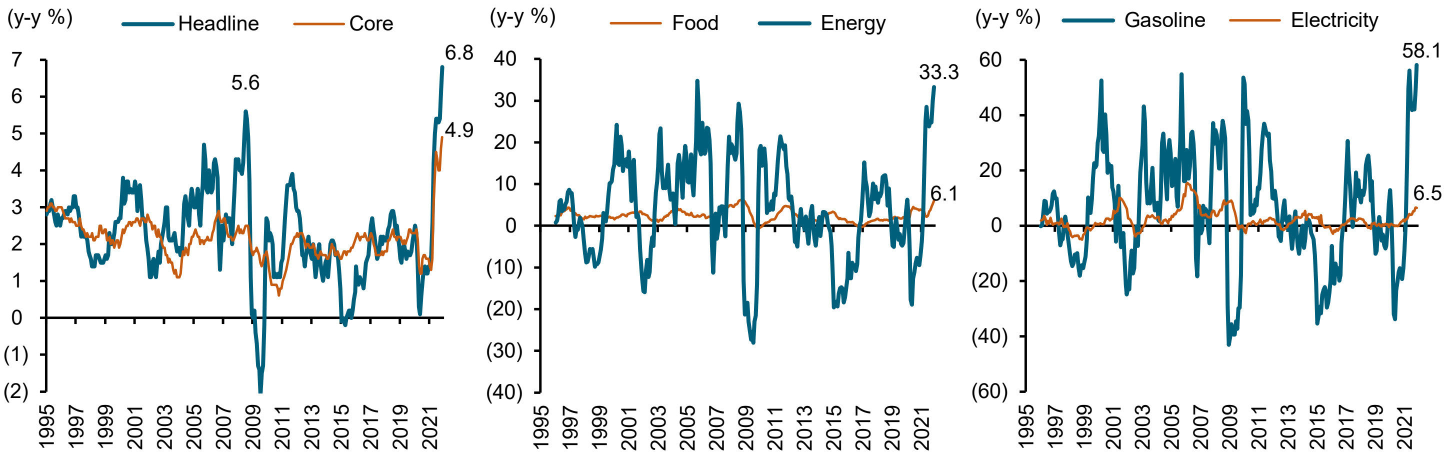


Sources: Bloomberg; FSSIA's compilation

We believe that once the Fed begins to raise its policy interest rate, likely by mid-2022 or later, the bond market could face a significant credit crunch, as the higher cost of funds for outstanding debts and the difficulty in seeking funding could lead to a crash in bond prices as a result of the higher interest rate.

Difference #3: Asset price bubble. Armed with abundant cheap liquidity, investors have poured it into risky assets, particularly the equity market. While we think in 2022 the QE tapering to withdraw the liquidity from the global financial system could trigger a selloff in the short term, we believe that the projected strong EPS growth for global economies after their economic reopenings should support the fundamentals of risky assets and potentially push the prices and valuations back to high levels. Hence, the globally lower liquidity from QE tapering and the Fed's fund rate hike should have a limited impact on financial market prices and valuations, in our view.

Exhibit 28: US inflation

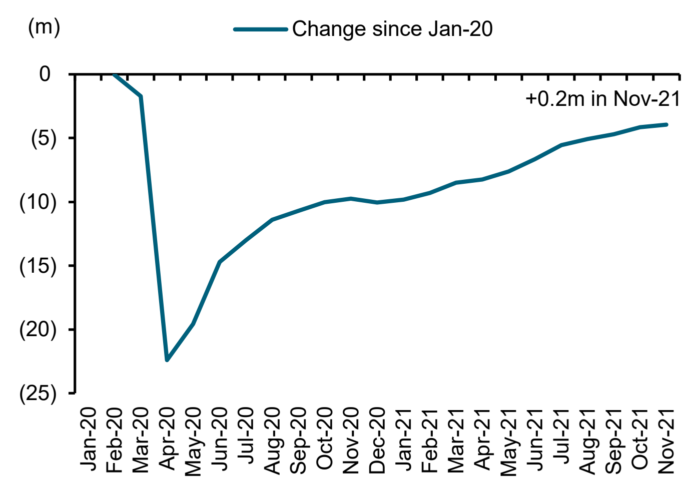


Source: Bloomberg

Difference #4: Unemployment rate. In 2022, we think the US inflation dilemma will be worse than in 2010-14, as the current inflation of 6.2%, the highest in the last 30 years, is driven mainly by the high average WTI crude oil price of USD75/bbl, vs only 3% in 2015-18. While the US unemployment rate of 4.2% in October 2021 was the lowest in 52 years, US nonfarm payrolls, another key indicator of economic activity, remains lower than the pre-Covid level, worrying the Fed over the potentially stubborn inflation in 2022.

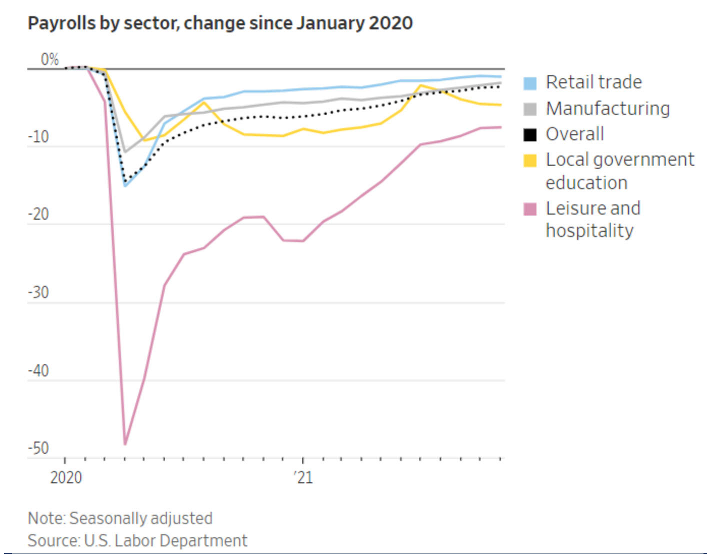
Indeed, all key payrolls in the US – retail trade, manufacturing, local government, education, and leisure and hospitality – have remained below their pre-Covid-19 levels, indicating that the low unemployment rate could result in lower wages and salaries earned by working employees, resulting in low nonfarm payrolls.

Exhibit 29: US payrolls, change since Jan 2020



Sources: charts.com; FSSIA's compilation

Exhibit 30: US payrolls by sector, change since Jan 2020



Source: US Labor Department

Appendix - A lesson from Fed's rate hike in 2015 and the "Great Inflation" in 1965-82

The Fed announced a raise in its policy rate on 16 December 2015 after seven years of keeping its low policy interest rate near zero, effectively curbing inflation from its 2.5% peak down to below 2% in 2021 and supporting labour market conditions, with the unemployment rate dropping from 5% in November 2015 down to below 4% by 2020.

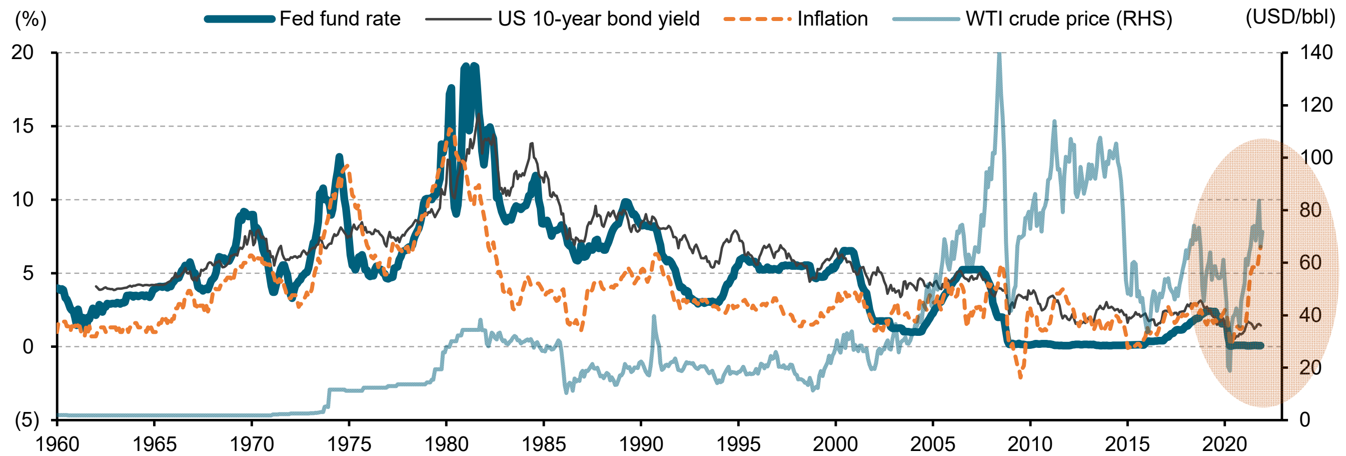
The Great Inflation in 1965-82. The US saw its last inflation economy back in 1965-82, rising from a mere 1% in 1964 to over 14% in 1980, and eventually declining to an average of only 3.5% in the latter half of 1980.

The key culprit for the Great Inflation was the Fed's monetary policies which excessively increased the money supply to drive the excessive economic growth and, more importantly, to serve the federal government's spending for the Vietnam War, weapon accumulations during the Cold War with the now-defunct Soviet Union, and a number of populist policies implemented by the government under a series of presidents.

Phase 1 (1930-1960): Motive – The Phillips curve and the pursuit of full employment. After the Great Depression and World War II, the US enacted the Employment Act 1946, essentially empowering the Fed to "promote maximum employment, production, and purchasing power", triggering the Fed's current "dual mandate" to maintain the long-run growth of monetary and credit aggregates to achieve maximum employment, stable prices and moderate long-term interest rates, based on Aaron Steelman's "The Federal Reserve's 'dual mandate': the evolution of an idea," Richmond Fed Economic Brief, Federal Reserve Bank of Richmond, Dec 2011 issue.

The idea of the "Phillips Curve" represents a long-term trade-off between unemployment and inflation, but the idea of maximum, not optimum, employment was damaging, creating the low unemployment rate at the expense of a structurally rising inflation rate.

Exhibit 31: US fed fund rate, US 1-year bond yield, inflation, and WTI crude oil price



Source: Bloomberg

Phase 2 (1960-1970): Means – The collapse of Bretton Woods. Chasing the Phillips Curve in pursuit of a lower unemployment rate could not have occurred if the dollar was still anchored to gold through the Bretton Woods agreement, which was abandoned under President Richard Nixon in 1971, effectively separating the US dollar from gold, a global monetary system created post World War II, aimed at bringing greater economic stability and peace by promoting global trade.

As the world's reserve currency, the US dollar had seen its demand surge at a faster rate than its gold reserve, creating a mismatch between the supply of US dollars linked with the gold reserve and the demand for the US dollar currency used for the country's reserve and later "petro dollars", a global currency used for crude oil trading.

As inflation drifted higher in the 1960s, US dollars were increasingly converted to gold, and, in 1971, President Nixon halted the exchange of dollars for gold by foreign central banks.

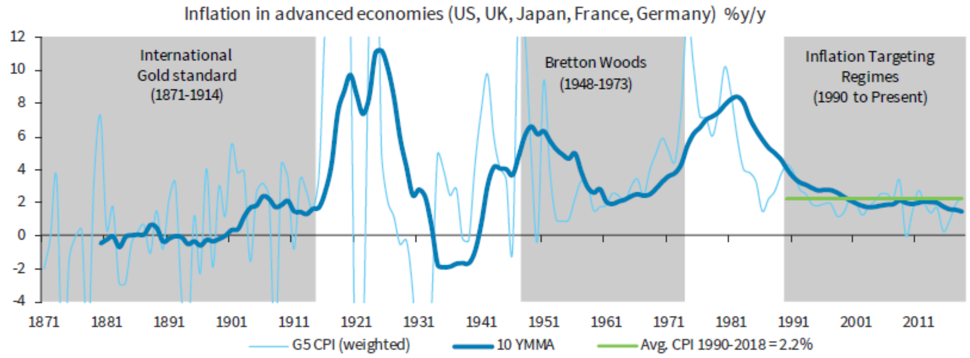
With the last link to gold severed, most of the world's currencies, including the US dollar, were now completely unanchored, making most industrialised countries' currencies "irredeemable paper money standard" for the first time in the world's history.

Phase 3 (1970-1985): The fiscal imbalance and energy shortages. The end of the 1960s and early 1970s were turbulent times for the US economy. President Johnson's Great Society registration, which brought about major spending programs aimed at improving social welfare and living on top of the large budget for the Vietnam War resulted in the wider imbalance of fiscal and monetary policies.

The 4x spike in crude oil price during the two oil crises, first during the Arab oil embargo in October 1973 to February 1974, lasted until the second oil crisis arising from the Iranian revolution in 1979, which further worsened US economic growth and inflation. This created inflation pressures from both supply-push (Fed's higher money supply, supply disruptions and cost inflation) and demand-pull (higher food spending and energy prices).

Motivated by a mandate to create maximum employment under the unanchored currency and rising oil price environment, the Fed accommodated the large and rising fiscal imbalances, eventually accelerating the expansion of the money supply and raising overall prices without reducing unemployment.

Exhibit 32: Inflation history of US and other key developed countries



Source: Federal Reserve

From high inflation to inflation targeting – The conquest of US inflation. Realising that attempts to maintain the stable trade-off between inflation and unemployment proved unstable over time, the US economy entered a period of "stagflation", with slow economic growth but high inflation, witnessing the concurrent rise in inflation and the unemployment rate (low economic growth). US inflation and the unemployment rate had risen from 1% and 5% in 1960, to 12% and 7% in 1970 and 14.5% and 7.5% in 1980.

Seeing uncontrollable inflation, Congress eventually amended the original "Employment Act of 1946" to the "Full Employment and Balanced Growth Act" (Humphrey-Hawkins Act) of 1978, which effectively changed the Fed's role to pursue full employment and price stability, rather than the "maximum employment" goal, requiring the Fed to establish targets for the growth of monetary aggregates.

A final solution

Once realising that situation of unacceptably high inflation and high unemployment, the Fed faced a dilemma – fighting high unemployment would almost certainly drive inflation higher still, while fighting inflation would just as certainly cause unemployment to spike even higher.

A white knight? Paul Volcker, formerly the president of the Federal Reserve Bank of New York, became chairman of the Fed in August 1979 with US inflation at over 11%, and an unemployment rate slightly under 6%. By this time, the FOMC had already begun establishing targets for monetary aggregates as required by the Humphrey-Hawkins Act.

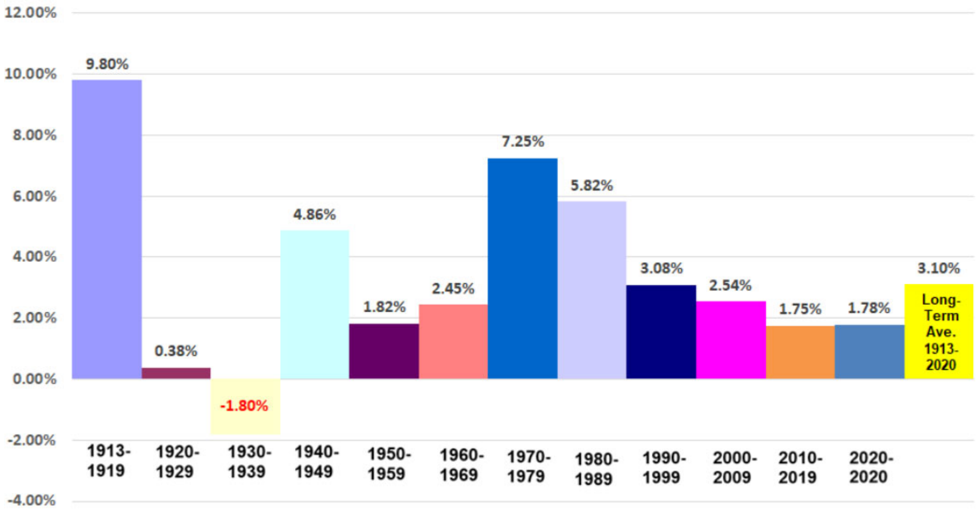
But it was clear that sentiment was shifting with the new chairman and that stronger measures to control the growth of the money supply were required. In October 1979, the FOMC announced its intention to target reserve growth rather than the Fed fund rate as its policy instrument.

Fed's pyrrhic victory to curb inflation in the 1980s. Over time, greater control of the reserve and money growth, while less than perfect, produced the desired slowdown in inflation. This tighter reserve management was augmented by the introduction of credit controls in early 1980 and with the Monetary Control Act. Over the course of 1980, interest rates spiked, fell briefly, and then spiked again. Lending activity fell, unemployment rose, and the economy entered a brief recession between January and July. Inflation fell but was still high even as the economy recovered in the second half of 1980.

But the Volcker Fed continued to press the fight against high inflation with a combination of higher interest rates and even slower reserve growth. The economy entered recession again in July 1981, and this proved to be more severe and protracted, lasting until November 1982.

Unemployment peaked at nearly 11%, but inflation continued to move lower, and by recession's end, y-y inflation was back under 5%. In time, as the Fed's commitment to low inflation gained credibility, unemployment retreated and the economy entered a period of sustained growth and stability. The Great Inflation was over.

Exhibit 33: US average annual inflation by decade



Source: Inflationdata.com

Today, central banks understand that a commitment to price stability is essential for good monetary policy and most, including the Fed, have adopted specific numerical objectives for inflation. To the extent they are credible, these numerical inflation targets have reintroduced an anchor to monetary policy. In doing so, they have enhanced the transparency of monetary policy decisions and reduced uncertainty, now also understood to be necessary antecedents to the achievement of long-term growth and maximum employment.

Corporate Governance report of Thai listed companies 2020

EXCELLENT LEVEL										
AAV	ADVANC	AF	AIRA	AKP	AKR	ALT	AMA	AMATA	AMATAV	ANAN
AOT	AP	ARIP	ARROW	ASP	BAFS	BANPU	BAY	BCP	BCPG	BDMS
BEC	BEM	BGRIM	BIZ	BKI	BLA	BOL	BPP	BRR	BTS	BWG
CENTEL	CFRESH	CHEWA	CHO	CIMBT	CK	CKP	CM	CNT	COL	COMAN
COTTO	CPALL	CPF	CPI	CPN	CSS	DELTA	DEMCO	DRT	DTAC	DTC
DV8	EA	EASTW	ECF	ECL	EGCO	EPG	ETE	FNS	FPI	FPT
FSMART	GBX	GC	GCAP	GEL	GFPT	GGC	GPSC	GRAMMY	GUNKUL	HANA
HARN	HMPRO	ICC	ICHI	III	ILINK	INTUCH	IRPC	IVL	JKN	JSP
JWD	K	KBANK	KCE	KKP	KSL	KTB	KTC	LANNA	LH	LHFG
LIT	LPN	MAKRO	MALEE	MBK	MBKET	MC	MCOT	METCO	MFEC	MINT
MONO	MOONG	MSC	MTC	NCH	NCL	NEP	NKI	NOBLE	NSI	NVD
NYT	OISHI	ORI	OTO	PAP	PCSGH	PDJ	PG	PHOL	PLANB	PLANET
PLAT	PORT	PPS	PR9	PREB	PRG	PRM	PSH	PSL	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QTC	RATCH	RS	S	S & J	SAAM
SABINA	SAMART	SAMTEL	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SDC
SEAFCO	SEAOIL	SE-ED	SELIC	SENA	SIRI	SIS	SITHAI	SMK	SMPC	SNC
SONIC	SORKON	SPALI	SPI	SPRC	SPVI	SSSC	SST	STA	SUSCO	SUTHA
SVI	SYMC	SYNTEC	TACC	TASCO	TCAP	TFMAMA	THANA	THANI	THCOM	THG
THIP	THRE	THREL	TIP	TIPCO	TISCO	TK	TKT	TTB	TMILL	TNDT
TNL	TOA	TOP	TPBI	TQM	TRC	TSC	TSR	TSTE	TSTH	TTA
TTCL	TTW	TU	TVD	TVI	TVO	TWPC	U	UAC	UBIS	UV
VGI	VIH	WACOAL	WAVE	WHA	WHAUP	WICE	WINNER	TRUE		

VERY GOOD LEVEL										
2S	ABM	ACE	ACG	ADB	AEC	AEONTS	AGE	AH	AHC	AIT
ALLA	AMANAH	AMARIN	APCO	APCS	APURE	AQUA	ASAP	ASEFA	ASIA	ASIAN
ASIMAR	ASK	ASN	ATP30	AUCT	AWC	AYUD	B	BA	BAM	BBL
BFIT	BGC	BJC	BJCHI	BROOK	BTW	CBG	CEN	CGH	CHARAN	CHAYO
CHG	CHOTI	CHOW	CI	CIG	CMC	COLOR	COM7	CPL	CRC	CRD
CSC	CSP	CWT	DCC	DCON	DDD	DOD	DOHOME	EASON	EE	ERW
ESTAR	FE	FLOYD	FN	FORTH	FSS	FTE	FVC	GENCO	GJS	GL
GLAND	GLOBAL	GLOCON	GPI	GULF	GYT	HPT	HTC	ICN	IFS	ILM
IMH	INET	INSURE	IRC	IRCP	IT	ITD	ITEL	J	JAS	JCK
JCKH	JMART	JMT	KBS	KCAR	KGI	KIAT	KOOL	KTIS	KWC	KWM
L&E	LALIN	LDC	LHK	LOXLEY	LPH	LRH	LST	M	MACO	MAJOR
MBAX	MEGA	META	MFC	MGT	MILL	MITSIB	MK	MODERN	MTI	MVP
NETBAY	NEX	NINE	NTV	NWR	OCC	OGC	OSP	PATO	PB	PDG
PDI	PICO	PIMO	PJW	PL	PM	PPP	PRIN	PRINC	PSTC	PT
QLT	RCL	RICHY	RML	RPC	RWI	S11	SALEE	SAMCO	SANKO	SAPPE
SAWAD	SCI	SCP	SE	SEG	SFP	SGF	SHR	SIAM	SINGER	SKE
SKR	SKY	SMIT	SMT	SNP	SPA	SPC	SPCG	SR	SRICHA	SSC
SSF	STANLY	STI	STPI	SUC	SUN	SYNEX	T	TAE	TAKUNI	TBSP
TCC	TCMC	TEAM	TEAMG	TFG	TIGER	TITLE	TKN	TKS	TM	TMC
TMD	TMI	TMT	TNITY	TNP	TNR	TOG	TPA	TPAC	TPCORP	TPOLY
TPS	TRITN	TRT	TRU	TSE	TVT	TWP	UEC	UMI	UOBKH	UP
UPF	UPOIC	UT	UTP	UWC	VL	VNT	VPO	WIIK	WP	XO
YUASA	ZEN	ZIGA	ZMICO							

GOOD LEVEL										
7UP	A	ABICO	AJ	ALL	ALUCON	AMC	APP	ARIN	AS	AU
B52	BC	BCH	BEAUTY	BGT	BH	BIG	BKD	BLAND	BM	BR
BROCK	BSBM	BSM	BTNC	CAZ	CCP	CGD	CITY	CMAN	CMO	CMR
CPT	CPW	CRANE	CSR	D	EKH	EP	ESSO	FMT	GIFT	GREEN
GSC	GTB	HTECH	HUMAN	IHL	INOX	INSET	IP	JTS	JUBILE	KASET
KCM	KKC	KUMWEL	KUN	KWG	KYE	LEE	MATCH	MATI	M-CHAI	MCS
MDX	MJD	MM	MORE	NC	NDR	NER	NFC	NNCL	NPK	NUSA
OCEAN	PAF	PF	PK	PLE	PMTA	POST	PPM	PRAKIT	PRECHA	PRIME
PROUD	PTL	RBF	RCI	RJH	ROJNA	RP	RPH	RSP	SF	SFLEX
SGP	SISB	SKN	SLP	SMART	SOLAR	SPG	SQ	SSP	STARK	STC
SUPER	SVOA	TC	TCCC	THMUI	TIW	TNH	TOPP	TPCH	TPIPP	TPLAS
TTI	TYCN	UKEM	UMS	VCOM	VRANDA	WIN	WORK	WPH		

Description	Score Range
Excellent	90-100
Very Good	80-89
Good	70-79

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey results may be changed after that date. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such survey results.
* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive; ** delisted

Source: Thai Institute of Directors Association (IOD); FSSIA's compilation

Anti-corruption Progress Indicator 2020

CERTIFIED										
2S	ADVANC	AI	AIE	AIRA	AKP	AMA	AMANAH	AP	AQUA	ARROW
ASK	ASP	AYUD	B	BAFS	BANPU	BAY	BBL	BCH	BCP	BCPG
BGC	BGRIM	BJCHI	BKI	BLA	BPP	BROOK	BRR	BSBM	BTS	BWG
CEN	CENTEL	CFRESH	CGH	CHEWA	CHOTI	CHOW	CIG	CIMBT	CM	CMC
COL	COM7	CPALL	CPF	CPI	CPN	CSC	DCC	DELTA	DEMCO	DIMET
DRT	DTAC	DTC	EASTW	ECL	EGCO	FE	FNS	FPI	FPT	FSS
FTE	GBX	GC	GCAP	GEL	GFPT	GGC	GJS	GPSC	GSTEEL	GUNKUL
HANA	HARN	HMPRO	HTC	ICC	ICHI	IFS	INET	INSURE	INTUCH	IRPC
ITEL	IVL	K	KASET	KBANK	KBS	KCAR	KCE	KGI	KKP	KSL
KTB	KTC	KWC	L&E	LANNA	LHFG	LHK	LPN	LRH	M	MAKRO
MALEE	MBAX	MBK	MBKET	MC	MCOT	MFC	MFEC	MINT	MONO	MOONG
MPG	MSC	MTC	MTI	NBC	NEP	NINE	NKI	NMG	NNCL	NSI
NWR	OCC	OCEAN	OGC	ORI	PAP	PATO	PB	PCSGH	PDG	PDI
PDJ	PE	PG	PHOL	PL	PLANB	PLANET	PLAT	PM	PPP	PPPM
PPS	PREB	PRG	PRINC	PRM	PSH	PSL	PSTC	PT	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QLT	QTC	RATCH	RML	RWI	S & J
SABINA	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SEAOIL	SE-ED	SELIC
SENA	SGP	SIRI	SITHAI	SMIT	SMK	SMPC	SNC	SNP	SORKON	SPACK
SPC	SPI	SPRC	SRICHA	SSF	SSSC	SST	STA	SUSCO	SVI	SYNTEC
TAE	TAKUNI	TASCO	TBSP	TCAP	TCMC	TFG	TFI	TFMAMA	THANI	THCOM
THIP	THRE	THREL	TIP	TIPCO	TISCO	TKT	TTB	TMD	TMILL	TMT
TNITY	TNL	TNP	TNR	TOG	TOP	TPA	TPCORP	TPP	TRU	TSC
TSTH	TTCL	TU	TVD	TVI	TVO	TWPC	U	UBIS	UEC	UKEM
UOBKH	UWC	VGI	VIH	VNT	WACOAL	WHA	WHAUP	WICE	WIIK	XO
ZEN	TRUE									
DECLARED										
7UP	ABICO	AF	ALT	AMARIN	AMATA	AMATAV	ANAN	APURE	B52	BKD
BM	BROCK	BUI	CHO	CI	COTTO	DDD	EA	EFORL	EP	ERW
ESTAR	ETE	EVER	FSMART	GPI	ILINK	IRC	J	JKN	JMART	JMT
JSP	JTS	KWG	LDC	MAJOR	META	NCL	NOBLE	NOK	PK	PLE
ROJNA	SAAM	SAPPE	SCI	SE	SHANG	SINGER	SKR	SPALI	SSP	STANLY
SUPER	SYNEX	THAI	TKS	TOPP	TRITN	TTA	UPF	UV	WIN	ZIGA

Level	
Certified	This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties.
Declared	This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

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Source: The Securities and Exchange Commission, Thailand; * FSSIA's compilation

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Songklod Wongchai FSS International Investment Advisory Securities Co., Ltd

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 Investment in securities has risks. Investors are advised to consider carefully before making investment decisions.

Company	Ticker	Price	Rating	Valuation & Risks
Kasikornbank	KBANK TB	THB 138.50	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs.
Indorama Ventures	IVL TB	THB 43.00	BUY	The key downside risks to our EV/EBITDA-based TP are weaker-than-expected margins for PX-PTA and PET-PTA, lower demand for polyester, and delays in IVL's projects.
Somboon Advance Technology	SAT TB	THB 22.00	BUY	The key downside risks to our P/E-based TP are the domestic car manufacturing industry recovering more slowly than expected, a slower-than-expected adoption rate for electric vehicles in Thailand, and worse global demand for pickup trucks.
Energy Absolute	EA TB	THB 85.00	BUY	Downside risks to our SoTP-based TP include: 1) lower-than-expected demand for electricity in Thailand; 2) lower crude prices; and 3) lower-than-expected demand for batteries.
Bangkok Chain Hospital	BCH TB	THB 19.40	BUY	Downside risks to our DCF-based target price include 1) a slowdown in international patients due to economic concerns, political protests or floods; 2) regulatory risks from drug prices and medical bill controls; and 3) SSO provision expenses following a limited SSO budget.
Nex Point	NEX TB	THB 18.80	BUY	Downside risks to our SOTP-based TP include: 1) a lower-than-expected bus sales volume; 2) delays in bus deliveries; and 3) risk from regulatory changes.

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 15-Dec-2021 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.
HOLD (H). The upside or downside is less than 10%.
REDUCE (R). The downside is 10% or more.
Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.
Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.
Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.