



# A World In Metamorphosis: Entering the Next Normal

2022 Market Outlook



# CREDITS

## Managing Editor

### Chung Shaw Bee

Singapore and Regional Head,  
Deposits and Wealth Management  
Personal Financial Services

## Editorial Team

### Abel Lim

Singapore Head,  
Wealth Management  
Advisory and Strategy

### Loh Chiu Weng, CFA

Investment Strategist,  
Investment Strategy  
and Communications

### Kean Chan, CAIA

Investment Strategist,  
Investment Strategy  
and Communications

## Contributors

### Evelyn Loh

Singapore

### Ivy Tan

Singapore

## UOB Personal Financial Services Investment Committee

### Kean Chan, CAIA

Singapore

### Jonathan Conley

Singapore

### Diendy

Indonesia

### Dennis Foo, CFA, CAIA

Singapore

### Suwiwan Hoysakul

Thailand

### Lily Huang

China

### Christine Ku

Singapore

### Marcus Lee, CFTe, CMT

Singapore

### Jaime Liew

Singapore

### Loh Chiu Weng, CFA

Singapore

### Ernest Low

Singapore

### Jason Ong

Singapore

### Ryan Tan

Malaysia

### Shawn Tan

Singapore

### Winkie Wong

Singapore



# CONTENTS

---

<b>EDITORIAL</b>	<b>4</b>
<b>2022 OUTLOOK</b>	<b>5</b>
Economic Outlook	6
Interest Rates and Bond Yields	9
Currencies and Commodities	10
Corporate Earnings and Equities	11
2022 Asset Class Views	12
2022 Forecasts	15
<b>OUR STRATEGIES</b>	<b>16</b>
UOB Risk-First Approach	17
Core Investing	17
Tactical Investing	18
<b>MEGATRENDS</b>	<b>19</b>
Sustainability: Climate Change and the Circular Economy	21
Innovation, Millennial Consumption Patterns and Social Responsibility	23
The China-US Innovation Race	26
Asia ex-Japan Equities to Gain From Reopening	28
<b>HIGH CONVICTION CALLS</b>	<b>30</b>
<b>OUR REGIONAL FOCUS</b>	<b>36</b>
Singapore	36
Malaysia	36
Thailand	36
Indonesia	37
China	37
<b>APPENDIX</b>	<b>38</b>
Key Events Calendar	39
Using VTAR to Identify Ideas	40
VTAR Summary for Our Calls	41
Review of 2021	
Asset Class Review	43
Tactical Calls Review	45





In 2021, we saw a strong recovery in the global economy, and we are likely to enter a post-recovery phase in 2022 – this will be very different from the pre-COVID-19 landscape. This global metamorphosis brings new challenges for investors and requires some shifting of gears to adjust to the change in pace. As we share our views, we aim to provide you with insights and ideas to help you position your portfolio for change and capture the right opportunities.

2022 will likely be slower than 2021, but it will continue to get better. I hope you continue to stay safe as we look forward to an exciting year ahead.



**Abel Lim**

Head, Wealth Management Advisory  
and Strategy  
Deposits and Wealth Management  
Personal Financial Services

# Editorial







# 2022 Outlook







# 2022 OUTLOOK

## Economic Outlook

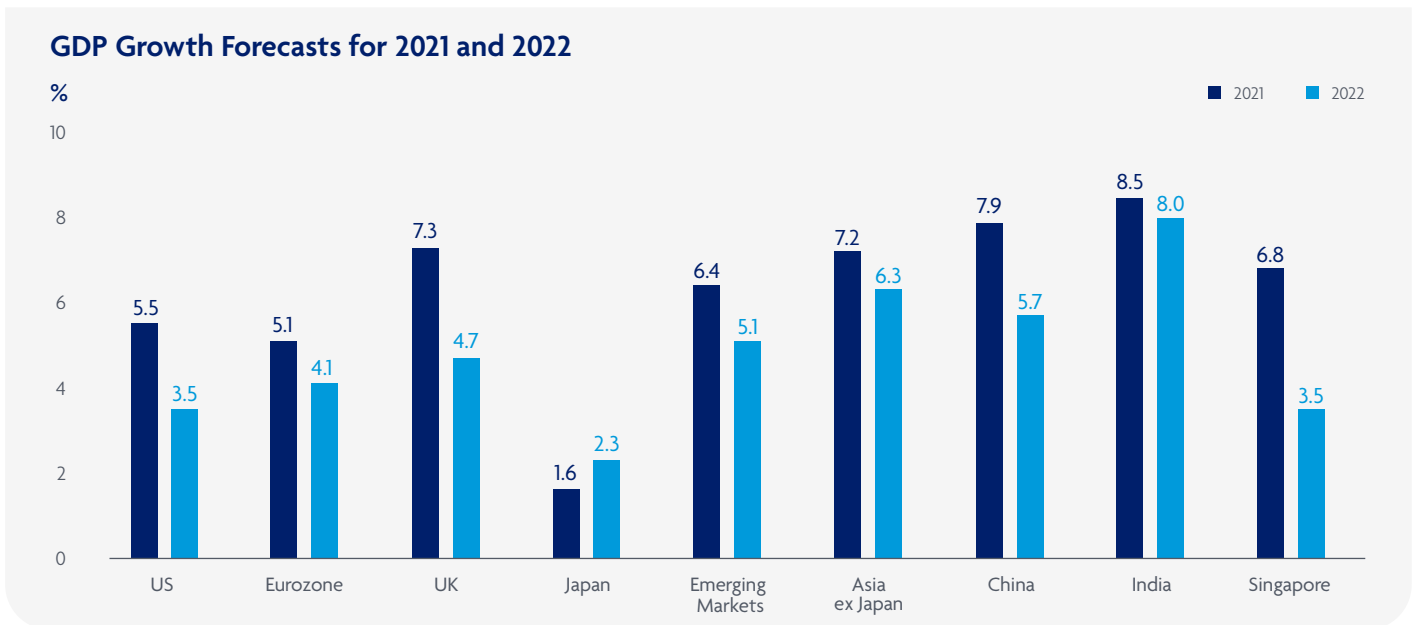
### Differentiated growth

Asia ex-Japan is expected to be the fastest-growing region in 2022, powered by China and India (Figure M2). Given China's more measured pace of expansion, Beijing could ease up on regulatory tightening to preserve growth. Elsewhere, Europe leads the growth charge amongst advanced economies. However, the risks of policy missteps remain — Political infighting in the United States (US) could affect infrastructure spending while overly-aggressive China reforms could trigger a slowdown and undermine social stability.

### Support from twin growth pillars

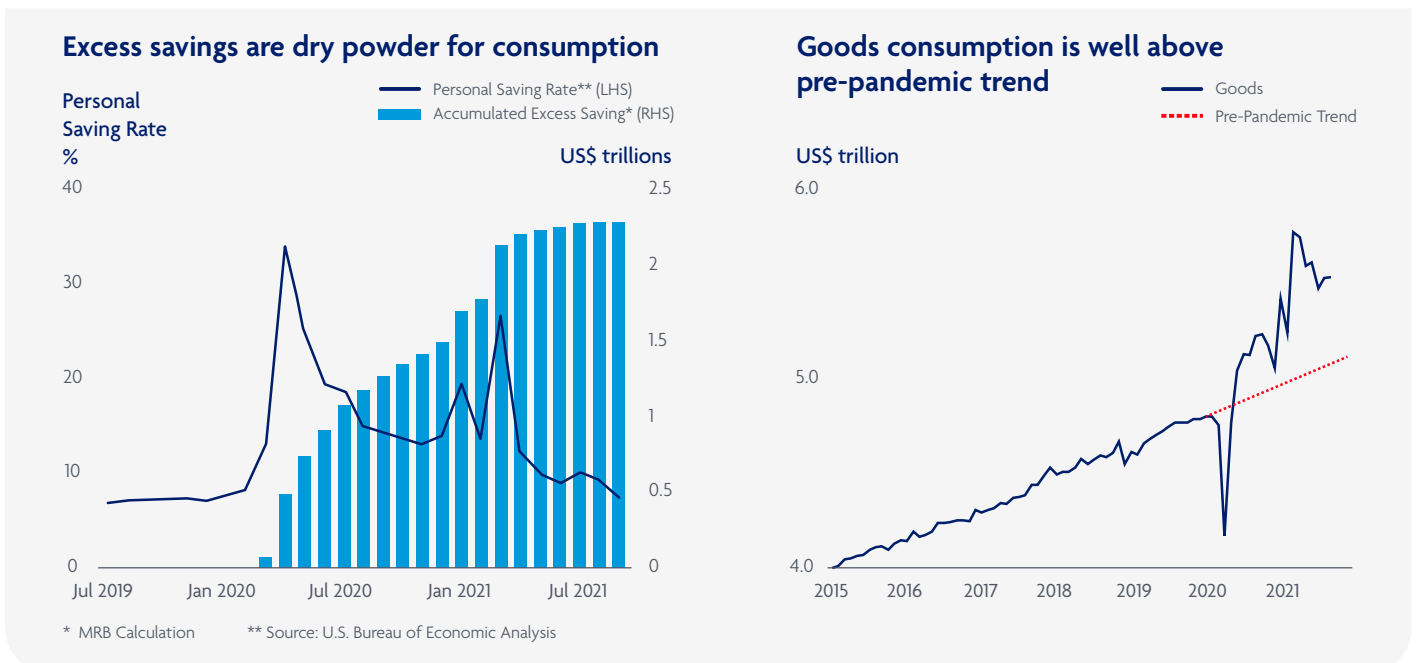
Heavy fiscal spending and strong consumption will boost global economic growth. The impact from fiscal stimulus roll-outs by the US, Europe, China and Japan will trickle down to the economy from the second half of 2022. Pent-up savings will fuel consumption and swing demand from goods to services as reopening gains momentum (Figure M3). This could buy some time to ease the supply chain backlog for goods.

Figure M2. Global economic growth is expected to slow in 2022 after a spectacular 2021 recovery.



Source: UOB Global Economics and Markets Research (December 2021), IMF World Economic Outlook (October 2021).

Figure M3. Accumulated savings in the US remain high (left), while goods consumption has begun to switch towards services as the country reopens (right).



Source: MRB Partners (October 2021)

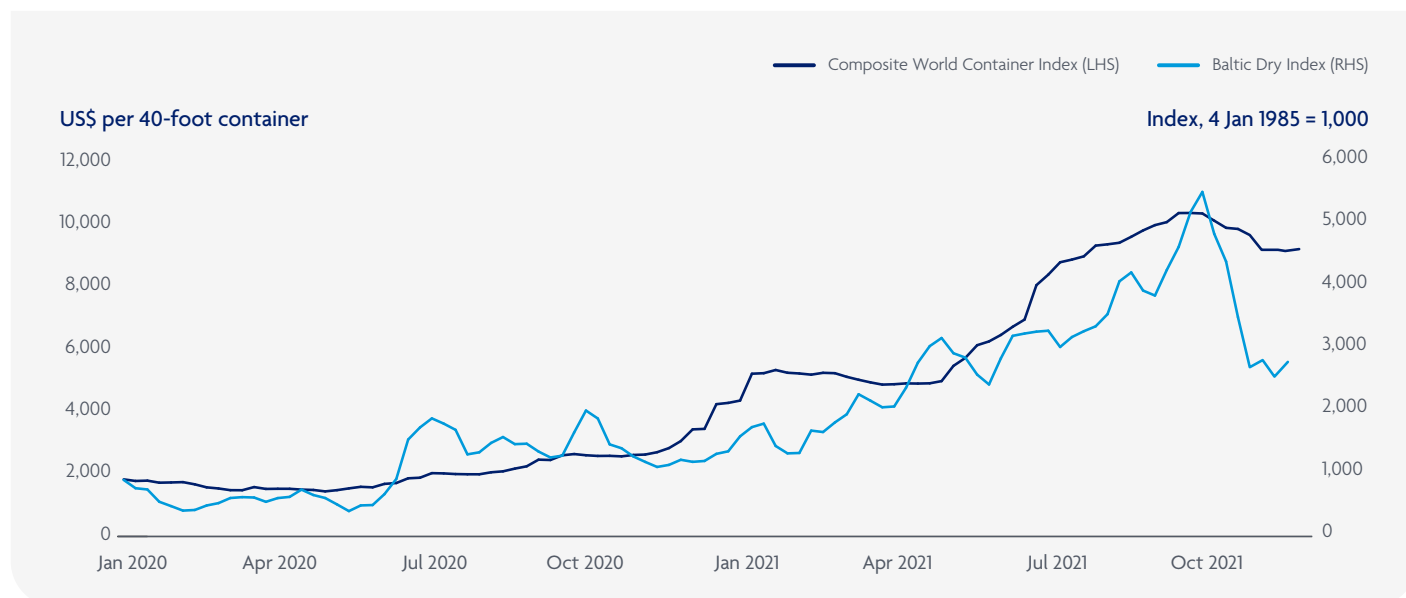
# 2022 OUTLOOK

## Economic Outlook

### Reopening is critical

More economies are expected to reopen in 2022 amid rising vaccination rates and a shift towards a “living with COVID” strategy. Forging ahead with reopening is a test of political resolve and countries which are more connected with the global economy will want to seize opportunities as trade recovers. The emergence of the Omicron variant may slow the pace of reopening, but many countries are choosing to curb its effects using vaccinations and booster shots instead of lockdowns. Supply chain bottlenecks should ease towards the second half of 2022 as trade links are restored (Figure M4).

**Figure M4.** Freight costs are starting to ease as trade links are restored, which should partially ease supply chain bottlenecks..



Source: Bloomberg (30 November 2021). The Composite World Container Index reports spot container freight rates for 8 major East West trade routes. The Baltic Dry Index is a price benchmark for transporting major raw materials (including coal and iron ore) by sea.



# 2022 OUTLOOK

## Interest Rates and Bond Yields

### Inflation to ease

The risk of persistent inflation remains in the backdrop given rising energy prices, strong wage gains and a global shortage of semiconductors. Supply chain bottlenecks should ease towards the second half of 2022, relieving inflationary pressures and allowing the effects of fiscal stimulus injections to trickle down to the economy without stoking inflation.

### Central banks tapering in store

Led by the US Federal Reserve (Fed), most central banks have clearly signalled that they have begun or will begin tapering measures in 2022. The advanced warnings are meant to avoid a repeat of the Fed's 2013 "taper tantrum", which can upset market sentiment. The scale-back of pandemic-era stimulus will lead to reduced asset purchases but positive economic growth momentum will make up for the reduction in liquidity.

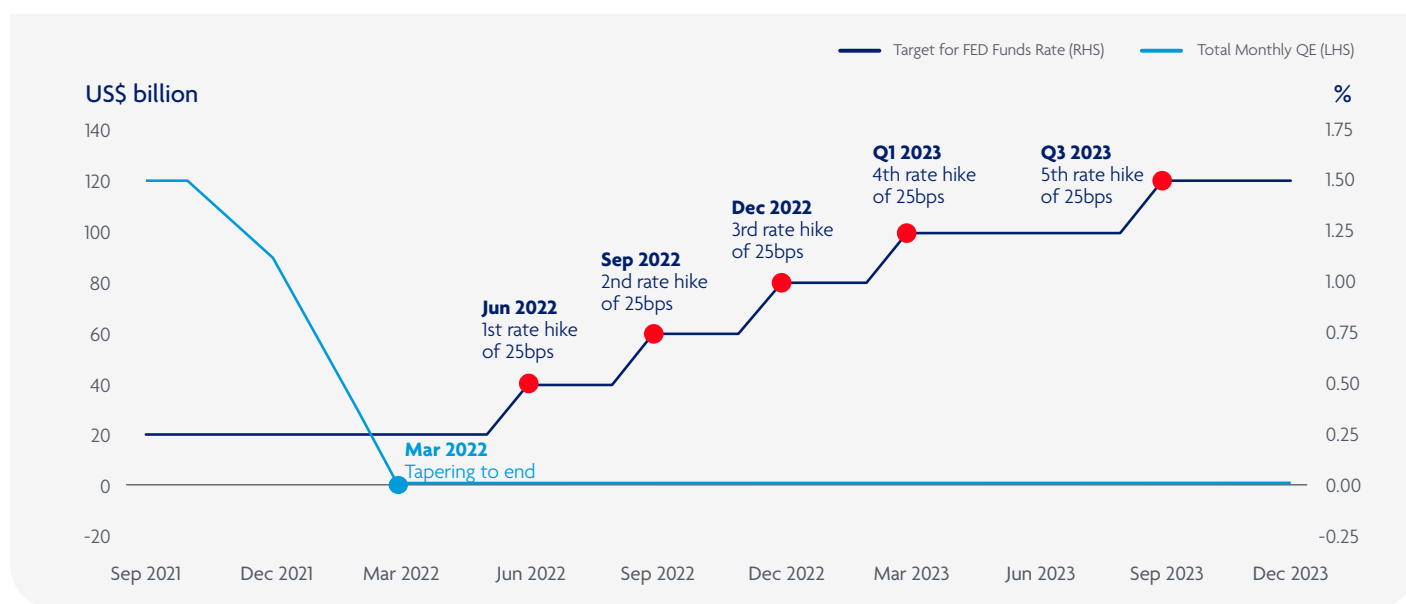
### Yield curve to shift upwards

The gradual withdrawal of monetary support from central banks will lead to a rise in interest rates, nudging both short-term and longer-term yields higher in 2022, with three 0.25% rate hikes on the short end and the 10-Year US Treasury yield expected to touch 2.15% by end-2022. Investors need to watch out for risks of over-tightening, which could cause a spike in yields.

### Prefer high-quality bonds

Within the fixed income segment, being selective is key. We prefer high-quality corporate bonds from Financial and Industrial issuers with coupons above 3%, Asian Investment Grade (IG) bonds for their shorter duration and higher margin of safety, as well as sustainability-linked bonds due to their high demand. These bonds will be more resilient in a rising interest-rate environment.

**Figure M5.** The Fed is expected to taper till March 2022 before raising rates in June 2022.



Source: UOB Global Economics and Markets Research (December 2021)



# 2022 OUTLOOK

## Currencies and Commodities

---

### USD to rise

The Fed's normalisation policy and expectations of US rate hikes in 2022 will drive further gains in the US dollar (USD). This will come at the expense of Asian currencies which are broadly expected to weaken relatively. Other major currencies such as the Canadian dollar (CAD) and New Zealand dollar (NZD) could outperform the USD as their central banks are expected to dial back on monetary stimulus and raise rates.

### Neutral on gold and oil prices

The Fed's tapering strategy is a negative development for gold prices. Higher yields and a stronger USD will dim the lustre of gold as a hedge against inflation. Strong demand for energy and the OPEC's restraint on supply could worsen the global energy shortage, but crude oil demand may be reduced if the Omicron variant slows the global recovery.

# 2022 OUTLOOK

## Corporate Earnings and Equities

### Positive but slowing earnings momentum

Corporate earnings will remain positive but register a more modest pace of growth, as the global economic recovery slows down. Stronger European and Asian economies will underpin corporate profits in their respective markets, while lower price-earnings multiples give their equity markets more upside potential than US equities.

### Earnings sustainability is key

In 2022, strong earnings surprises will take a backseat in driving market performance. Higher borrowing costs could impede access to capital. Rather than relying on cheap financing to drive growth, the focus will shift to earnings sustainability and return on equity (RoE). A resilient business model backed by strong management holds the key to a sustained profitable growth and provides a better indicator for long-term returns.

### Reopening favours equities

European equities will benefit most from global reopening and strong earnings growth. Asia ex-Japan equities should gain from high vaccination rates and Beijing's slower pace of regulatory tightening. Be more selective on US equities – go for value-cyclical sectors such as financials and consumer discretionary in the first half of 2022 but switch to high-quality growth equities in the second half of 2022 as growth moderates.

Figure M6. European and Japanese corporate earnings are expected to remain positive, with cheaper valuations than the US.

2022	US S&P 500	Europe EuroStoxx 600	Japan TOPIX	Emerging Markets MSCI EM	Asia ex-Japan MSCI Asia ex-Japan
Earnings Growth Forecast (EPS)	7.7%	5.9%	8.0%	5.6%	8.4%
Forward Price-Earnings Ratio	20.7x	15.1x	13.4x	12.3x	13.6x

Source: Bloomberg (30 November 2021)

Figure M7. Key Drivers and Risks for 2022.

Key Drivers	Key Risks
Economy continues expanding at an above-trend pace.	Overly-aggressive central bank tightening could suffocate the economic recovery, sparking stagflation concerns and a surge in bond yields.
Strong political will to be instrumental for economic reopening.	Policy missteps in the US and China could stifle growth.
Earnings growth to persist in a post-recovery world.	Supply chain bottlenecks or higher energy prices could push inflation to uncomfortable levels.





# 2022 OUTLOOK

## Asset Class Views

### Fixed Income

Most G10 central banks, except for the European Central Bank and the Bank of Japan, are expected to embark on monetary policy tightening in 2022 amid a recovering global economy and elevated inflationary pressures. The rising interest-rate backdrop will lead to higher government bond yields. The challenging macroeconomic landscape and the tightening central-bank stance mean investors need to be more selective within the fixed income market.

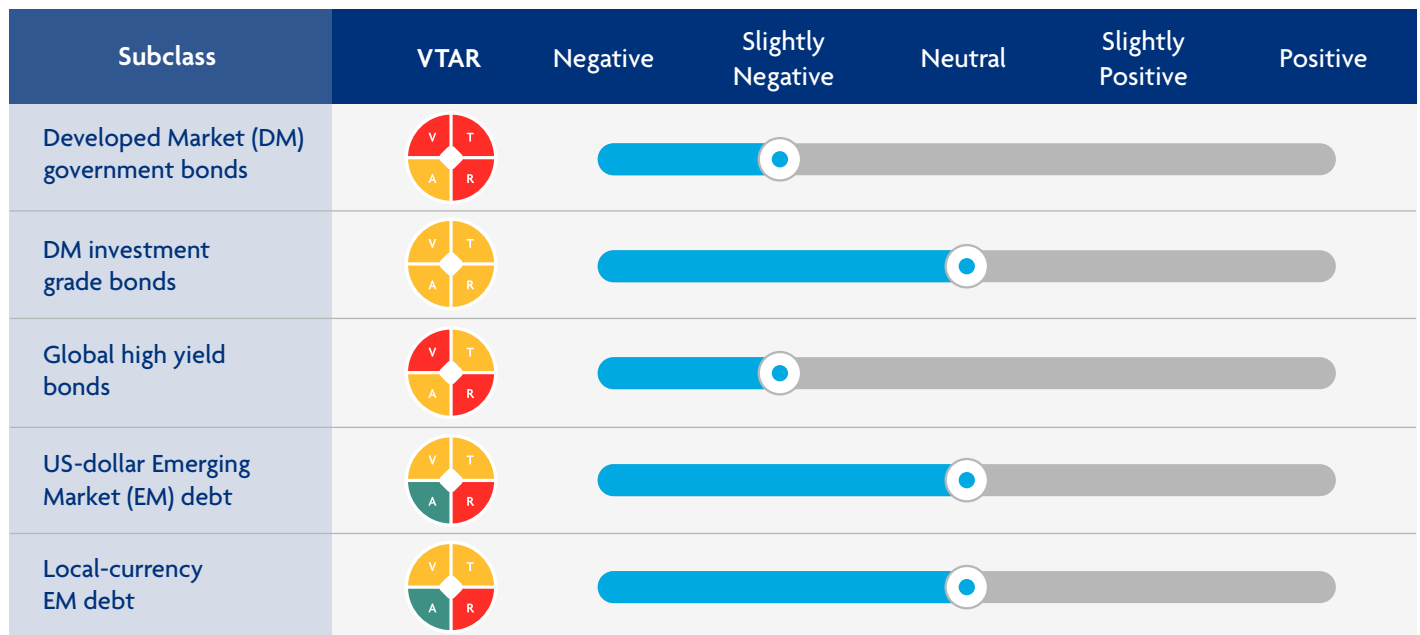
We are negative on high-yield bonds because they have become expensive and come with a higher risk premium. US and European high-yield bonds are pricey and the uncertain outlook on China's property sector has raised credit risks in the Asian high-yield bond market. This will keep both yields and spreads high. We believe opportunistic investors may be better served by considering equity investments.

Elsewhere, the uneven recovery in emerging markets (EM) will weigh on EM debt. Certain regions such as Asia have been able to reopen and recover faster, but others such as Latin America and Africa are still struggling to drive growth. The strengthening USD is also a headwind for local-currency EM debt. Given the unappealing outlook for EM debt, investors should consider other debt alternatives such as Investment Grade (IG) corporate bonds.

High-quality corporate bonds, such as those from the financial and industrial sectors, are a safer addition to portfolios. They are more defensive because their wider spreads can absorb rising yields. With the economic recovery, these issuers are also likely to be in a stronger cashflow position which lowers default risk.

Amongst the high-quality issuers, we also like Asian IG bonds as their wider spreads can cushion against rising yields. Issuance of green bonds is set to grow in 2022 and we believe investors can tap into the growing demand as sustainability-linked bonds are set to become one of the fastest-growing fixed income segments.

● Positive ● Neutral ● Negative


















# 2022 OUTLOOK

## 2022 Forecasts

	 US	 Eurozone	 UK	 Japan	 Emerging Markets	 Asia ex-Japan	 China	 India	 Singapore
2021 GDP Growth Forecasts	+5.5%	+5.1%	+7.3%	+1.6%	+6.4%	+7.2%	+7.9%	+8.5%	+6.8%
2022 GDP Growth Forecasts	+3.5%	+4.1%	+4.7%	+2.3%	+5.1%	+6.3%	+5.7%	+8.0%	+3.5%
Unemployment Rate Projections by the End of 2022	3.7%	7.5%	4.6%	2.6%			5.0%		2.3%
2022 Fiscal Balance Projections Note: Negative implies deficit	-10.0%	-4.1%	-4.1%	-4.0%			-4.5%	-5.8%	+0.4%
2022 Inflation Forecasts	+3.0%	+2.3%	+3.6%	+1.7%	+2.7% (Emerging Asia) +7.1% (Emerging Europe) +7.8% (Latin America)		+2.2%	+5.0%	+2.0%
2022 Full-Year Earnings Growth Forecast (EPS)	S&P 500 +7.7%	MSCI Europe +5.1%	MSCI UK +2%	MSCI Japan +8%	MSCI Emerging Markets +5.6%	MSCI Asia ex-Japan +8.4%	MSCI China +15.1%	MSCI India +18.3%	MSCI Singapore +13.1%
	Russell 2000 +27.5%	EuroStoxx 600 +5.9%	FTSE 100 +3.8%	TOPIX +8%			CSI 300 +16.5%	Sensex +17.8%	Straits Times Index +14.4%
1-Year Forward Price-Earnings Ratio (P/E)	S&P 500 20.7x	MSCI Europe 14.7x	MSCI UK 11.2x	MSCI Japan 13.9x	MSCI Emerging Markets 12.3x	MSCI Asia ex-Japan 13.6x	MSCI China 12.7x	MSCI India 21.7x	MSCI Singapore 14.7x
	Russell 2000 24.3x	EuroStoxx 600 15.1x	FTSE 100 11.2x	TOPIX 13.4x			CSI 300 13.6x	Sensex 21.7x	Straits Times Index 12.5x

Sources: UOB Global Economics and Markets Research (December 2021), Bloomberg (30 November 2021), IMF World Economic Outlook (October 2021).



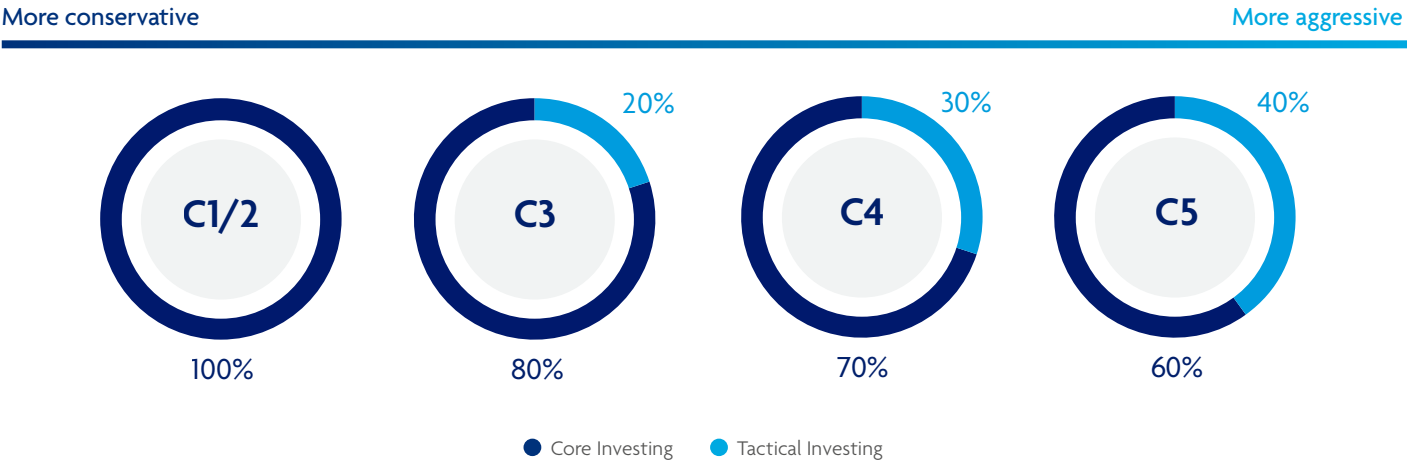
# Our Strategies



# OUR STRATEGIES

## UOB Risk-First Approach

Investors usually have to face uncertainties more than once during their investment journey. Our proprietary Risk-First approach can help smoothen the ride for you: Optimal portfolios are recommended in accordance with your risk profile, with a maximum of 20%, 30% or 40% allocated to Tactical investing (which has higher risk), and the remainder in Core investing.



Core Solutions are relatively lower risk in nature, yet able to generate reasonable returns. They tend to be less volatile than the broader market to help you meet your longer-term financial goals. An allocation to Core Solutions can help to lower a portfolio's downside volatility.

## Core Investing

The following are our preferred Core Solutions:

- ### High-Quality Corporate Bonds

High-quality bonds with at least a BBB rating are issued by companies with sound fundamentals, low borrowing and a diversified revenue stream. These companies tend to have a stronger cash flow position and repayment ability, which builds portfolio resilience.

We prefer the Global Banks and Industrials sectors with a coupon rate above 3% which will benefit from the global recovery and better withstand higher interest-rate volatility. Similarly, Asian Investment Grade (IG) bonds with a shorter duration and yields of 2% to 2.5% are more defensive against a steepening yield curve. Investors will need to be selective in an environment with increasingly tighter monetary policy.
- ### Sustainability-Linked Bonds

The net-zero carbon movement is set to boost demand for Green Bonds and Sustainability-linked fixed income instruments from both institutional and retail investors. One of the fastest-growing fixed income sectors, this asset class is worth US\$1.8 trillion, with issuance set to soar by 25% in 2022.

Green and Sustainability-linked bonds have the potential to deliver similar returns as traditional bonds and those with attractive coupons over 3% and healthy balance sheets are poised to make attractive gains in 2022. Look for leading companies active in these spaces: renewable energy, green real estate, transport, batteries, hydrogen, digitalisation, and energy efficiency.
- ### Global Multi-Asset Funds

Global Multi-Asset Funds offer a flexible and diversified asset allocation strategy, allowing investors to capture opportunities across various market conditions and asset classes including equities, bonds and alternatives.

With historical 12-month yields averaging 4% to 5%, they can provide a mix of both income and capital growth. They form part of a solid foundation in constructing a portfolio to meet financial goals. Investors can also consider more growth-oriented strategies to increase a portfolio's equity allocation to better-capture long-term growth.





# OUR STRATEGIES

Tactical strategies are identified using our award-winning VTAR framework, which focuses on analysing financial data in the four components of Value, Trend, Activity and Risk (VTAR). The framework aims to provide a holistic view of financial markets and identify investment opportunities across asset classes, sectors, geographical regions and time periods.

## Tactical Investing



### Megatrends

Megatrends are transformative forces that can shape the future of the global economy such as technology-enabled transformation, evolving demographic and consumption trends, and shifts in global economic power. They can redefine the investment landscape, offering compelling investment opportunities. Investors can position their portfolios to capture the long-term growth benefits from these structural changes.



### High Conviction Calls

The US economy has sped ahead in the economic cycle and US equities may have limited upside given its expensive valuations. In a high-conviction universe, European and Asia ex-Japan equities are more attractive as they are cheaper than US stocks. Being further behind in the economic cycle, they are at the start of the recovery path and have stronger catch-up potential.



# Megatrends



# MEGATRENDS

## Introduction

Megatrends are transformative forces that have a deep, profound impact on the future of the global economy. Taking years or even decades to take root, Megatrends often reshape the way societies live, work and play. They can bring about seismic changes that can birth new industries or disrupt existing ones.

Megatrends can offer compelling investment opportunities. Investors should get ahead of the curve by positioning their portfolios to capture the growth benefits offered by these long-term structural opportunities.

Through these following perspectives, we can view the dominant forces shifting the investment landscape and understand what will drive the world of tomorrow. The intersection of these dynamics can lead to the formation of Megatrends.



### Engine of Tomorrow

#### Technology-enabled Transformations

With Artificial Intelligence (AI), technological advancements and breakthroughs are driving accelerated growth and transformation across all sectors of the global economy. To survive disruption, businesses will need to embrace innovation-driven growth such as artificial intelligence or risk being left behind.

The deployment of smart solutions will also be instrumental in the world's journey towards a sustainable future. This includes the development of clean, renewable energy to tackle climate change and lower the carbon footprint. Leveraging on technology will help to drive the circular economy so we can reduce, repurpose and recycle as much as possible.



### Consumer of Tomorrow

#### Changing Demographics and Consumption Trends

Changing demographics are leading to shifts in societal values and consumer behaviour, impacting generational spending patterns. An increasingly-affluent middle class in developing economies will lead to demand for better-quality, aspirational goods and services.

Meanwhile, the growing silver generation will spend more on healthcare-related goods and services. As a generational shift takes place, companies will have to reorient their strategies and priorities to cater to millennials – digital natives who value sustainability and social responsibility – and beyond.



### Super Economies of Tomorrow

#### The Shift in Global Economic Power

The strategic rivalry between the leading super economies of this century – the US and China – will set the stage for a battle for technological supremacy, spurring innovation as both countries ramp up their technological capabilities.

Given their size and economic dominance, the US and China often exert influence and set global standards over the regulatory frameworks, economic policies and market dynamics of other countries. The breadth and depth of their financial markets provide an opportunity for investors to pursue returns on both sides of the spectrum as part of a diversified portfolio.



MEGATRENDS

Sustainability:

Climate Change

and the Circular Economy



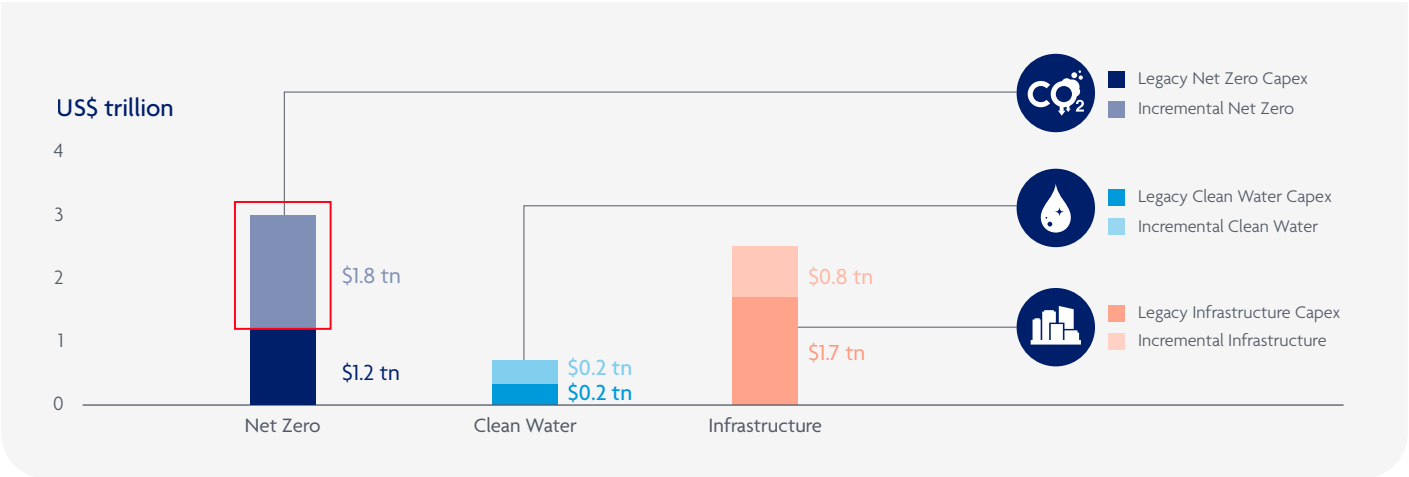
Combating climate change

Urgent action is needed to tackle climate change and reduce the carbon footprint. According to the United Nations, most countries have announced a peak-carbon target by 2030, while 130 countries have pledged to reach net-zero carbon emissions by 2050. Companies that do not reduce carbon emissions will have to buy carbon credits, which will eat into profitability.

An additional US\$1.8 trillion of investments a year (Figure C1) in renewable energy and other technological innovations is needed to transition to the envisioned low-carbon future. Furthermore, climate-related technological solutions have the potential to drive jobs creation and sustainable growth.

Climate change can be a threat, but also an opportunity. Investors can build a thematic portfolio around the green movement. Opportunities can be found in sectors related to energy transition and climate change, as well as the infrastructure and innovative technologies which support a low-carbon economy. These sectors include the building block sectors, research & development (R&D) and supply chain surrounding decarbonisation efforts.

Figure C1. An additional US\$1.8 trillion of investments per year is needed to reach net-zero carbon emissions.



Source: World Bank, International Energy Agency, McKinsey, OECD, Goldman Sachs Global Investment Research

# MEGATRENDS

## Sustainability: Climate Change and the Circular Economy

### “Closing the loop” with the circular economy

Countries need to mobilise more efforts to stay on track to meet the ambitious above-mentioned net-zero emission targets. The circular economy is a paradigm shift that offers a more sustainable alternative to combat climate change. It reengineers the way we produce and consume to limit environmental impact and reduce waste. “Closing the loop” (Figure C2) can be done by recycling, re-using, repairing, refurbishing or remanufacturing.

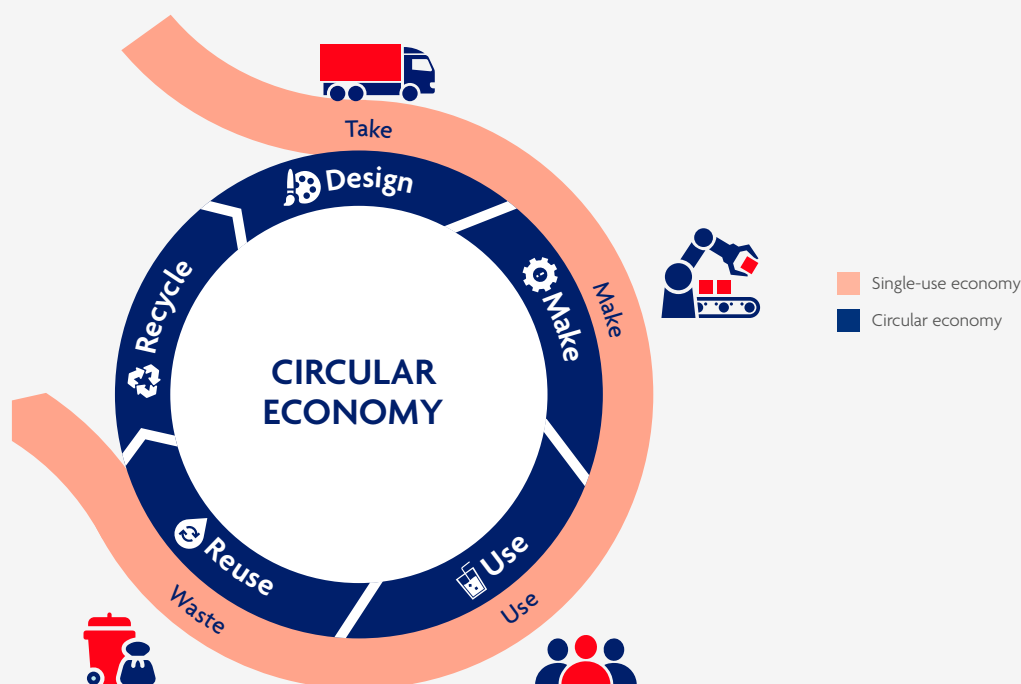
There is already a broad adoption of sustainable efforts in the circular economy. For example, aluminium from aircraft bodies can be stripped and reused as raw material for the construction of newer, fuel-efficient aircraft or upcycled into circuit board, computers and TVs.

The recycling of electronic waste is an example of the circular economy’s value. Lithium-ion batteries, usually found in mobile devices and electric cars, have been notoriously difficult to recycle. But the recovery of all metals from these batteries is now possible due to the advancements in technology, which reduce the need for metals mining and lower carbon emissions by five times per amount of metals recovered.

Creating loops in the food chain also helps to reduce greenhouse gas emissions associated with food waste that ends up in landfills. New technology has increased organic waste collection rates and found alternative uses for food scraps. The conversion of edible food waste and discarded food by-products such as fruit peels and shavings into organic fertilisers is an industry worth US\$700 billion.

The circular economy can lead to a more sustainable future. Companies that can build the technologies and infrastructure for this will be instrumental in the race to net-zero emissions.

**Figure C2.** New technologies “close the loop” in the circular economy by effectively extracting and reusing existing materials to reduce waste and carbon emissions.



# MEGATRENDS

## Innovation, Millennial Consumption Patterns and Social Responsibility



### Millennials are accelerating the digital way of life

The shift from baby boomers to millennials as a prominent spending force (Figure C3) will drive innovation and transform business models. Brands will have to rethink how they can appeal to this group of principles-based digital natives.

### Changing consumption patterns

As the largest demographic, millennials are pushing new frontiers in the consumption landscape. They are more likely to shop online, stream content and adopt digital payment methods. With rising incomes, they will also dominate demand for luxury goods compared with other generations.

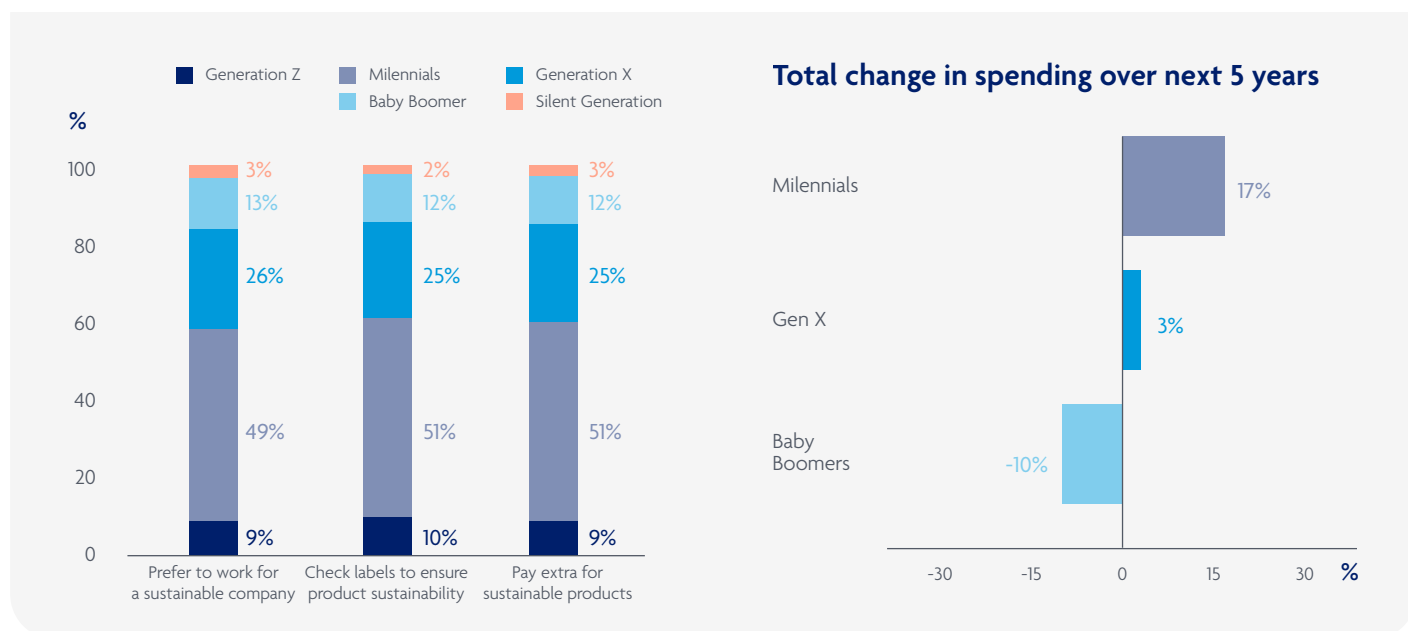
That said, millennials also value experiences over material goods and are more likely to spend on entertainment, travel and dining than earlier generations. They are also more likely to embrace healthy living and eating. As digital natives, it comes as no surprise that they are leading the adoption of wearable technology to track and monitor health.

Millennials are the driving force behind the shared and collaborative economy. On-demand live-streamed fitness workouts, co-living communities, ride-sharing platforms and peer-to-peer exchange of goods are just some examples of how they have embraced the sharing of assets and services.

Considered the most technologically-savvy generation, millennials are also influencing the attitudes of earlier generations towards technology, where an increased use of smartphones and social media has been observed among Baby Boomers.

To thrive in this changing consumer landscape, companies will have to transform their business models to cater to the shifting values and preferences of millennials.

**Figure C3.** Millennials are expected to spend 17% more by 2025 and more likely to pay more for sustainability than earlier generations.



Source: Goldman Sachs Asset Management, Left: BofA Merrill Lynch, Javelin Research (2015). Right: Financial Times (October 2018)





# MEGATRENDS

## Innovation, Millennial Consumption Patterns and Social Responsibility

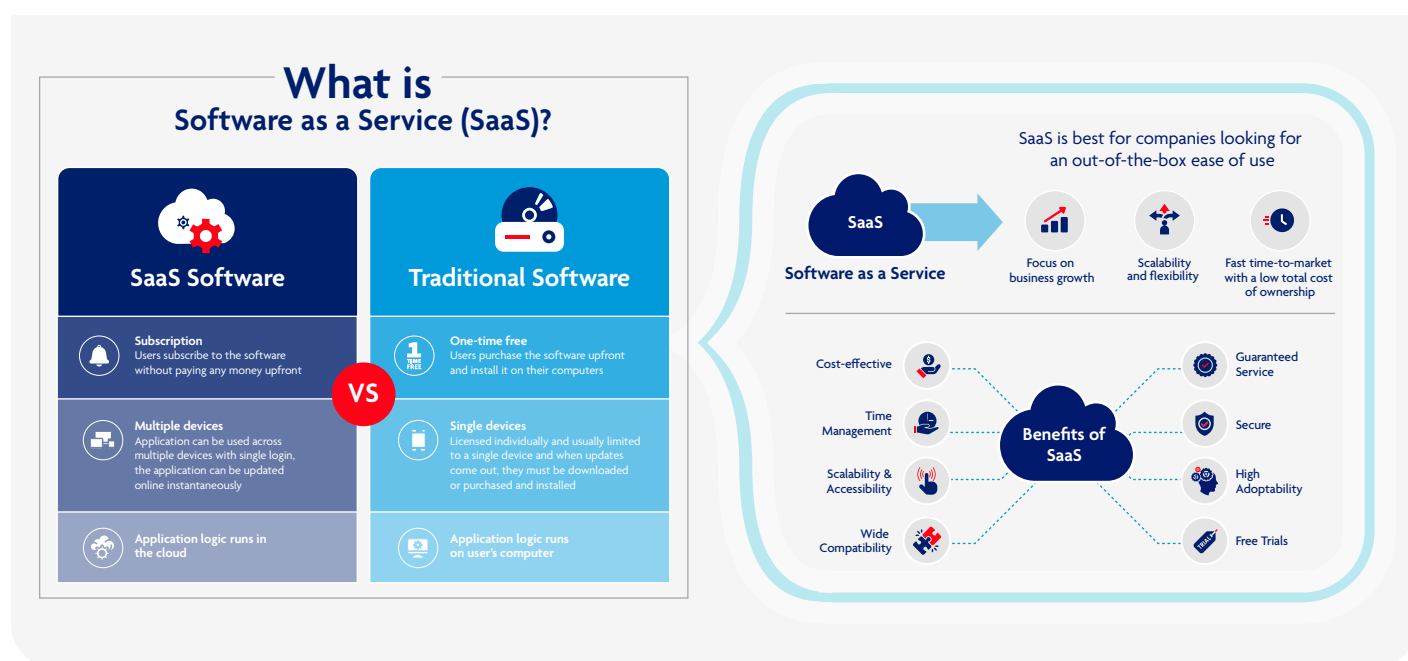
### Innovation a necessity and an opportunity

As millennials hit their prime spending years, more markets will be disrupted to serve new needs. Companies must innovate and capitalise on technology to offer a redefined consumer experience to win over them.

To achieve scale, companies will need to invest in hardware such as servers and data centres, as well as more efficient operating systems and applications. A shift towards subscription-based software models can help companies build more sustainable revenue streams.

In particular, software or infrastructure as a service (SaaS and IaaS) allows businesses to expand easily with more flexibility and lower capital outlay. Investors can look out for opportunities to invest in these cloud-service businesses.

Figure C5. “What is SaaS?”



# MEGATRENDS

## The China-US Innovation Race



### Redefining the technological landscape

As the super economies of tomorrow, China and the US are both competing for technological supremacy.

China is pushing forward with enormous political will to build capabilities in strategic sectors, which include developing self-sufficiency in semiconductors, accelerating artificial intelligence (AI) capabilities, building 5G connectivity and constructing smart cities.

Meanwhile, despite political disharmony in the US, it is not likely to derail the country's technological ambitions as US corporates are taking the lead in developing green infrastructure.

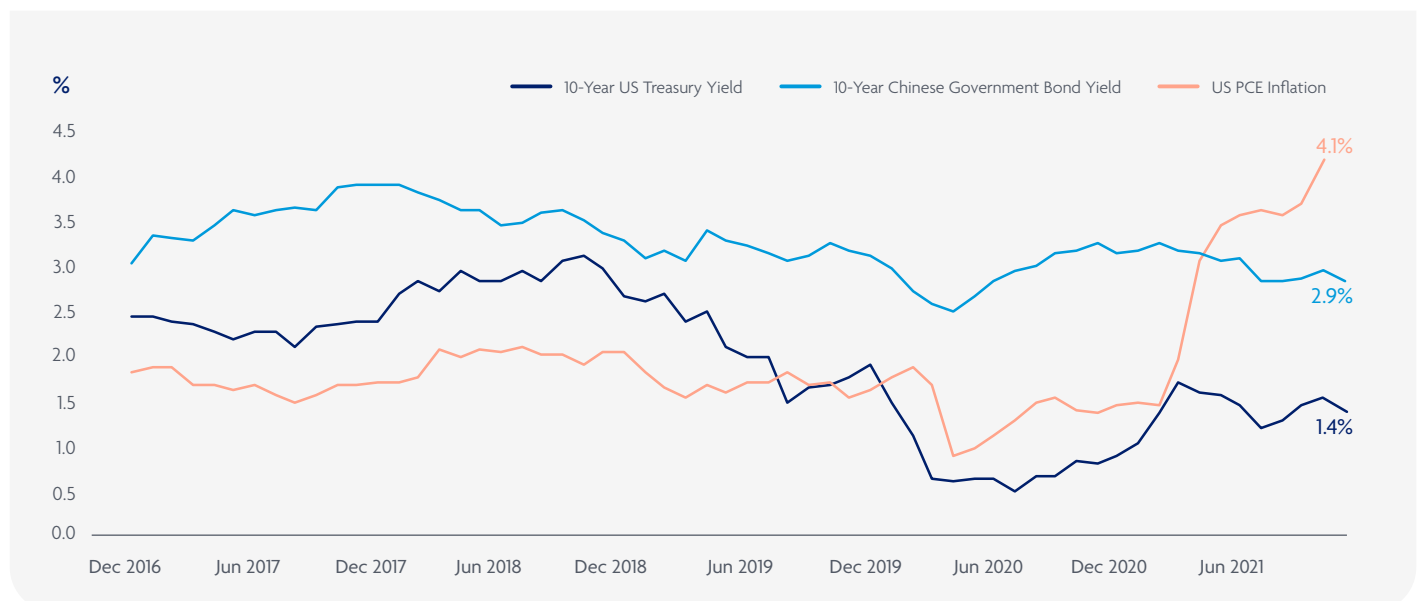
### China is adopting a strategy of short-term pain, long-term gain

In 2021, China unleashed regulatory reforms as part of its “common prosperity” model to reorient growth towards strategic national goals and build up self-sufficiency in key sectors. Tightening regulations to weed out bad corporate behaviour will also help China companies to better compete with their US counterparts in the long run.

Many of the changes are aimed at addressing China's three main economic vulnerabilities: the dependence on (1) semiconductor imports, (2) energy imports and (3) the USD as a global trade currency.

1. China plans to strengthen its technological capabilities and pursue greater autonomy in semiconductor production. Spending US\$30 billion on semiconductor imports a month, China has realised the need to reduce its dependence on foreign imports following painful lessons from US sanctions to restrict chip supply.
2. China spends US\$290 billion on oil imports each year and is also keen to move away from its dependence on foreign energy. It has announced a peak-carbon pledge by 2030 and is supporting the use of electric vehicles as less carbon-intensive mode of transport. At the same time, it is doubling down on energy security by investing in pipelines to Pakistan, Russia and Kazakhstan and developing a blue-water navy to keep sea lanes open for energy imports.
3. Taking steps to counter the USD's dominance as a global trade currency, China is shoring up the Chinese Yuan (CNY) and building up its bond market. A stronger CNY will support commodity prices as China uses a lot of raw materials but could also lead to exported inflation due to China's position as the world's factory. Investing in Chinese government bonds is an alternative portfolio hedge against US inflation (Figure C6).

**Figure C6.** Chinese government bonds offer higher and more stable yields than comparable US Treasury bonds, making them a better hedge against US inflation.



Source: Bloomberg (30 November 2021)

# MEGATRENDS

## The China-US Innovation Race

As China continues to fine-tune its policies and companies adapt to the new environment, there are reasons to be optimistic on China's equities (Figure C7).

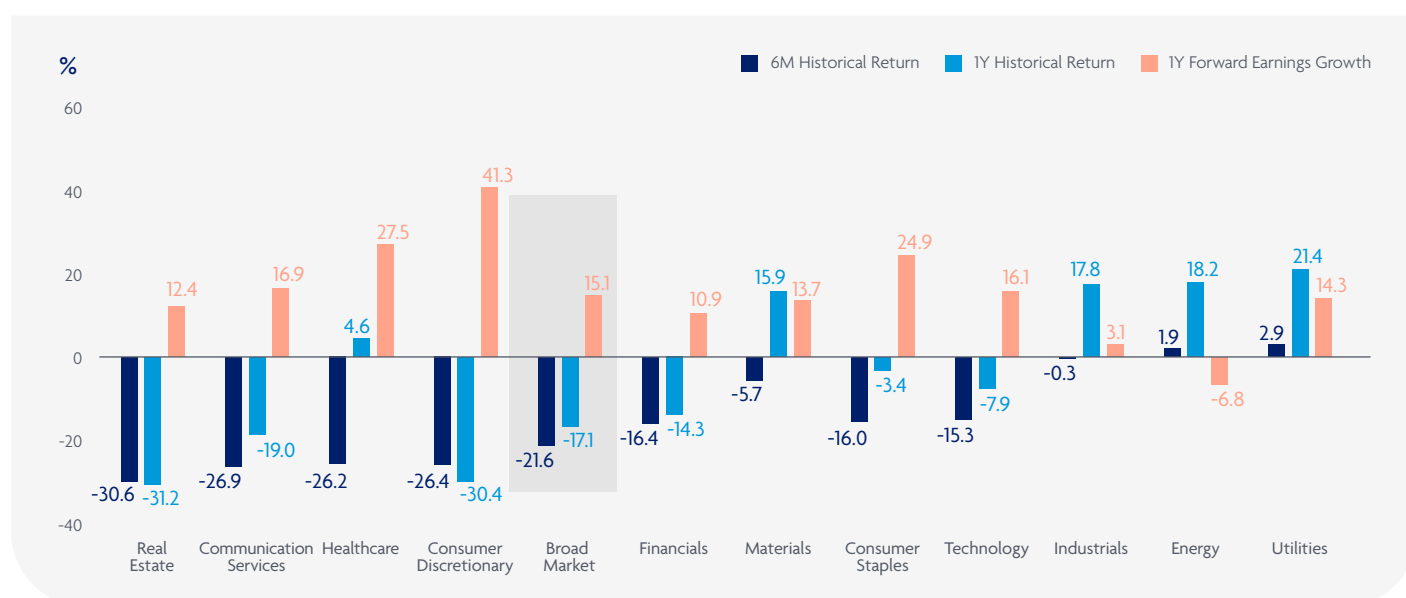
### Opportunities in the US remain

Despite the US' moderating economic growth, there are still investing gems to be found. Investors should seek out companies with sustainable revenue growth, strong return on equity, low leverage and innovation-driven characteristics which have greater potential to deliver outperformance.

### Hedge your portfolio by not picking sides

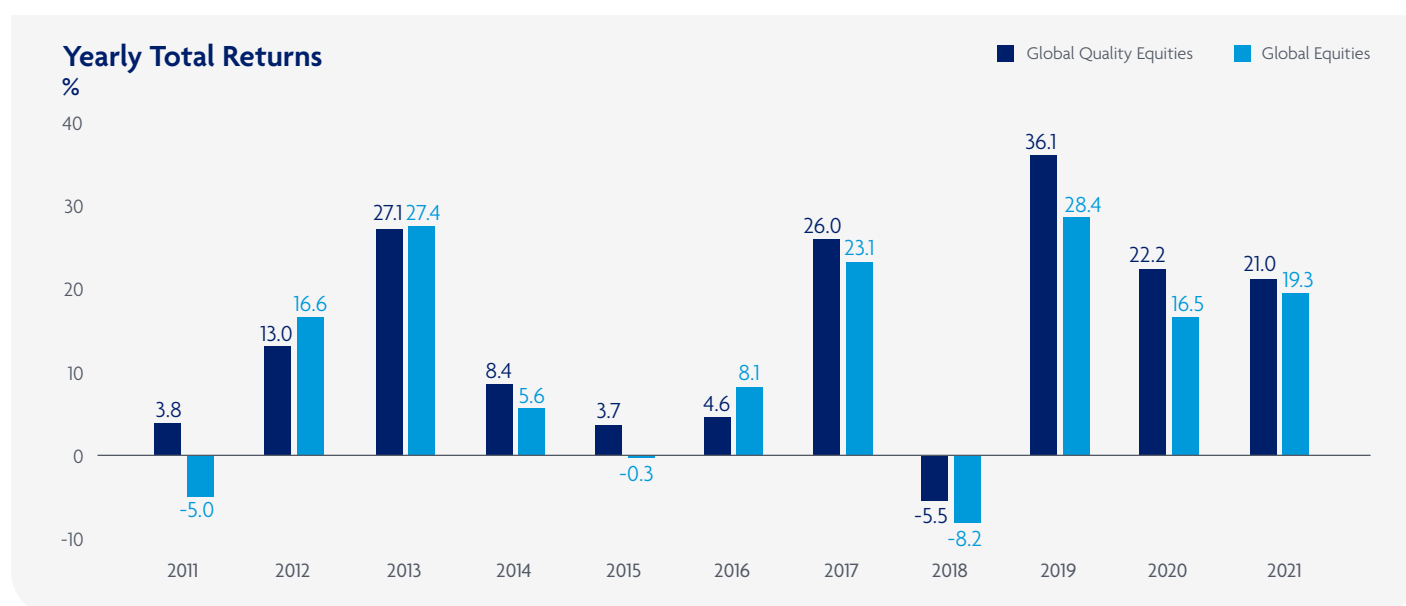
While the US and China face their own challenges, both will lead the world economically for the foreseeable future. With the intensifying competition, investors should take a pragmatic approach by tapping into opportunities on both sides.

**Figure C7.** Regulatory uncertainty has been a drag on Chinese equity performance, but earnings growth remains strong.



Source: Bloomberg (30 November 2021)

**Figure C8.** Equities with high quality factors such as sustainable revenue growth and strong return on equity have outperformed global equities in seven out of the past ten years.



Source: Bloomberg (30 November 2021)

# MEGATRENDS

## Asia ex-Japan Equities to Gain From Reopening



## Vaccinations facilitate reopening and the return of consumption

Asia is poised to be the world's fastest-growing economic region in 2022, driven by growth in China and India. In the medium term, the economic reopening will help low-income households to work towards the middle class and bring middle-income consumption back to the region.

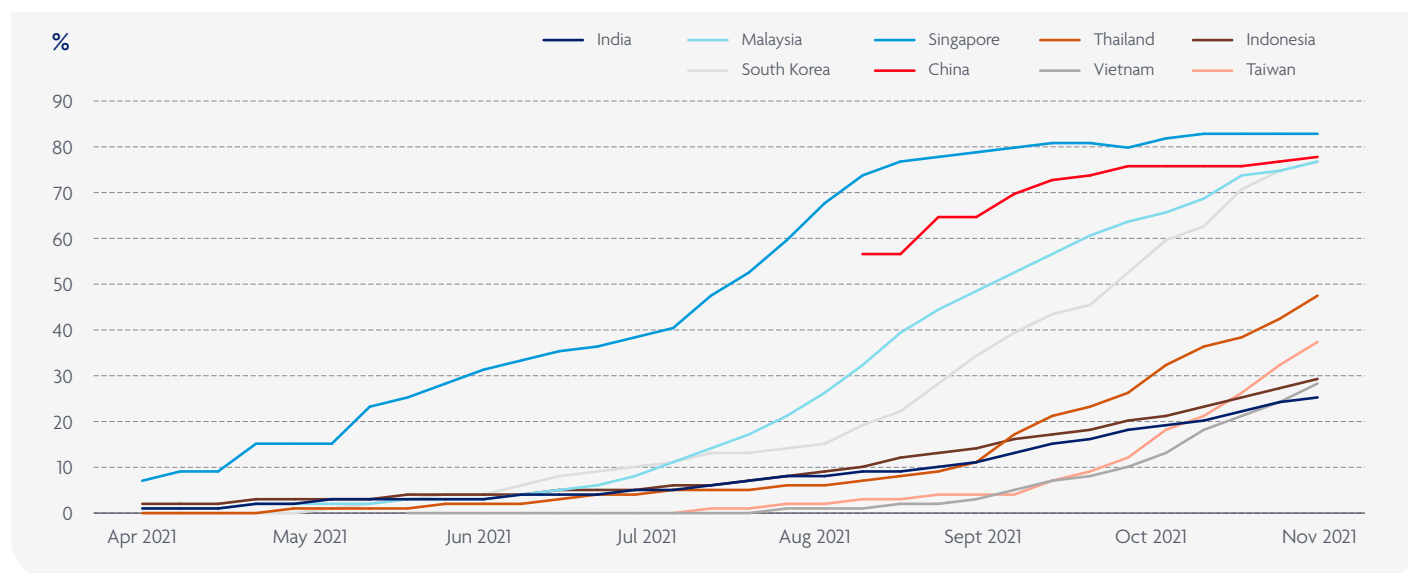
The Asian structural growth story hit some speedbumps during the COVID-19 pandemic. However, the region's vaccination rates are fast catching up (Figure C9) which will enable further economic reopening, particularly in Southeast Asia. A strong recovery in demand will keep India on the growth path, even as its vaccination rates lag other Asian economies. However, China and Hong Kong are the outliers. China can afford to keep its borders shut because of its resilient domestic growth and dual-circulation economic model. It is enjoying a boom in domestic tourism as Chinese consumers turn inward amid tight travel restrictions. With less impetus for China to reopen its economy, Hong Kong's position as the gateway to China is under considerable strain, hence there is priority for Hong Kong to reopen its borders to the mainland.

## Taiwan and South Korea vital to global chip industry

We see continued opportunity in semiconductors in 2022, which have remained in short supply as demand has surged due to greater global economic activity. The semiconductor shortage underscores Taiwan and South Korea's critical roles in meeting supply (Figure C10) and both economies will likely remain cornerstones of the global semiconductor industry for the next 10 to 15 years. Continued buoyant demand will benefit these two leading global chipmakers.

While the media has played up cross-strait tensions between China and Taiwan, an armed conflict is not expected as the Taiwanese dollar, equity and fixed income markets remain unruffled. Although South Korea has struggled to contain COVID-19 infections, it has fully vaccinated more than 70% of its population and is seeking a gradual return to normalcy by February 2022.

**Figure C9.** The pace of vaccinations has increased rapidly in Asia, allowing countries to reopen.



Source: Bloomberg News, Johns Hopkins University (latest as at 30 November 2021).



# MEGATRENDS

## Asia ex-Japan Equities to Gain From Reopening

### Gradual recovery in Southeast Asia

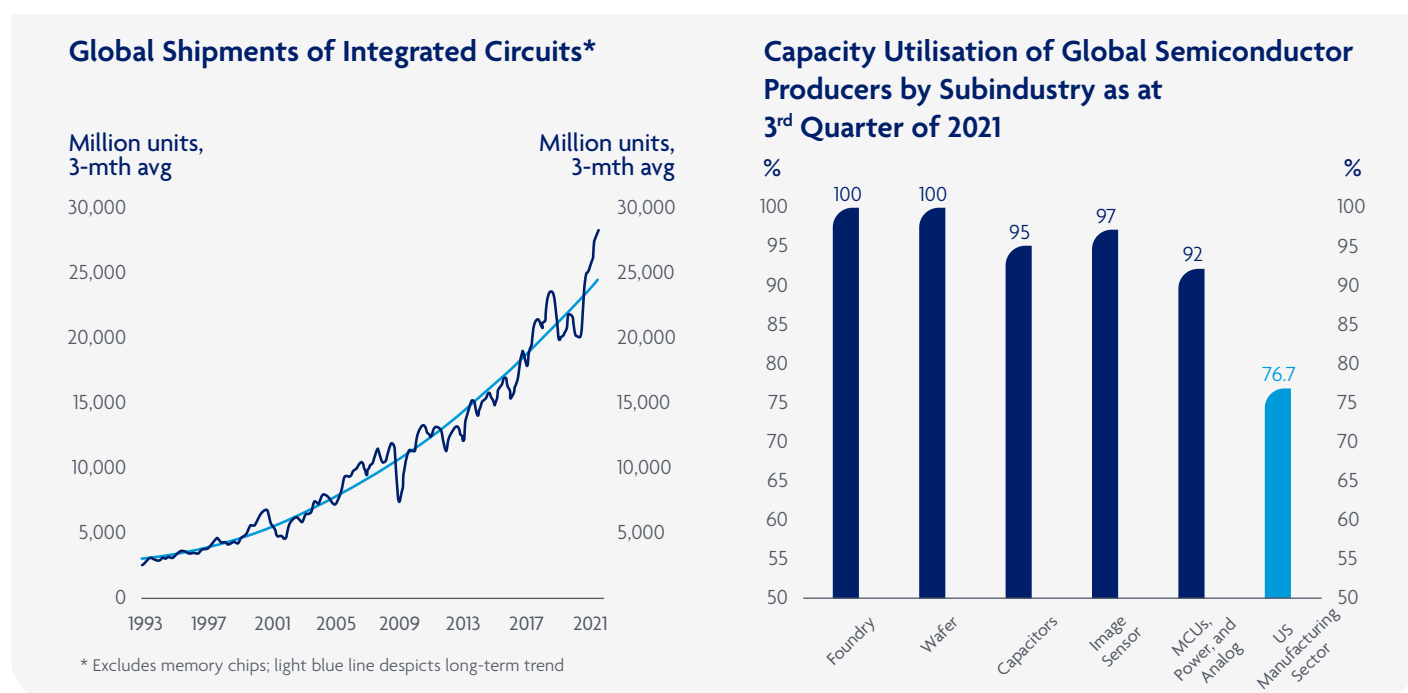
The Delta variant has hit Southeast Asia hard and the region continues to face challenges. But improving consumption and manufacturing activity will be positive for Malaysia and Indonesia while returning tourists will benefit Thailand. You can read more about the outlook of these countries in Our Regional Focus section.

### Valuations to improve

Southeast Asia's elusive earnings recovery and challenging reopening conditions have made valuations appear expensive in 2021. Improving vaccination rates hold the key to reopening and post-pandemic growth.

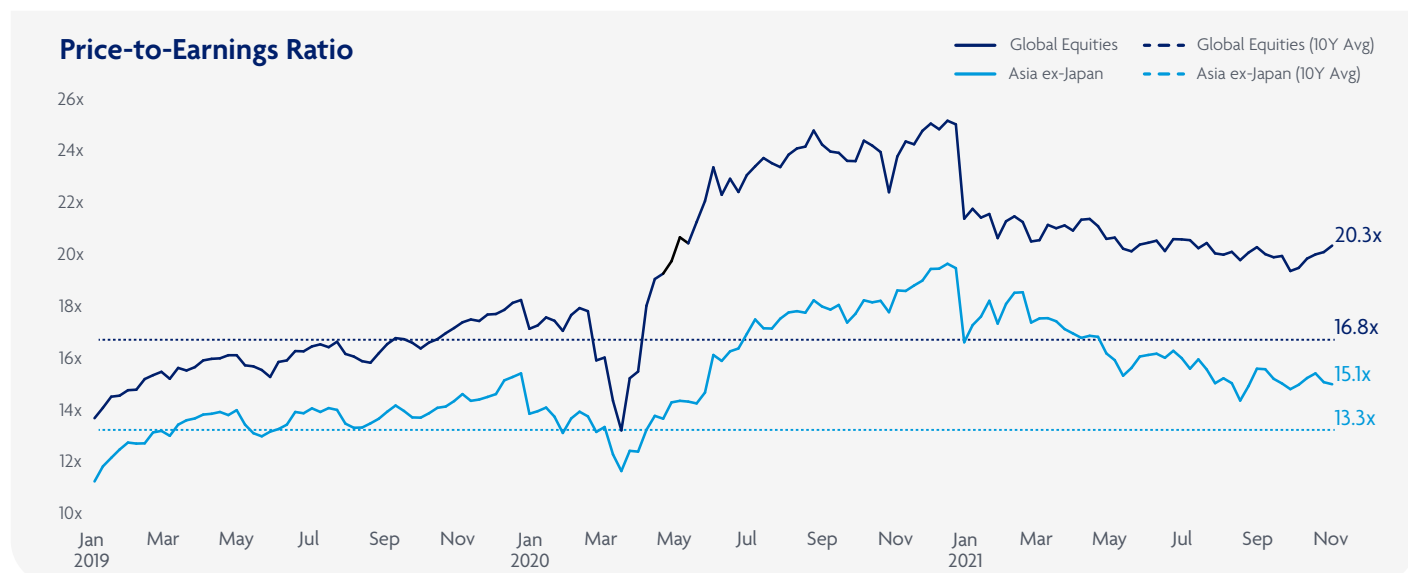
Valuations elsewhere in Asia have become less expensive following China's regulatory crackdowns (Figure C11). Business sentiment should improve once the positive, longer-term impact of China's reforms can be seen. The growth outlook for Asia remains strong and investors should take advantage of this catch-up opportunity.

**Figure C10.** Global chip production is 15% above trend; chipmakers for Autos and Consumer Electronics are operating near full capacity, showing strong demand for semiconductors.



Source: Goldman Sachs Global Investment Research, Company data, IHS Global Insight, Department of Commerce, Bloomberg LP.

**Figure C11.** Asia ex-Japan equities are trading at a significant discount compared to global equities.



Source: Bloomberg (30 November 2021).



# High Conviction Calls



# HIGH CONVICTION CALLS

## The Overarching Narrative

### US reopening already priced in

Various regions are at different points of the economic cycle, with the US economy ahead of others. While there are still opportunities in US equities, upside may be limited given expensive valuations. Amid high downside risks, investors will need to be extremely selective as optimism over US reopening has likely been fully priced in.

### Time for Europe and Asia ex-Japan equities to shine

European and Asia ex-Japan equities have a longer runway to ride on the recovery theme. This is because they have less expensive valuations than their US peers (Figure C12) and are just starting to recover and are further behind in the economic cycle. Therefore, they offer a strong catch-up play for investors. In this section, we will focus more on European equities.

Figure C12. Europe and Asia ex-Japan equities are trading at lower valuations than US equities.



Source: Bloomberg (30 November 2021).

# HIGH CONVICTION CALLS

## European Equities to Ride on Better Growth Prospects



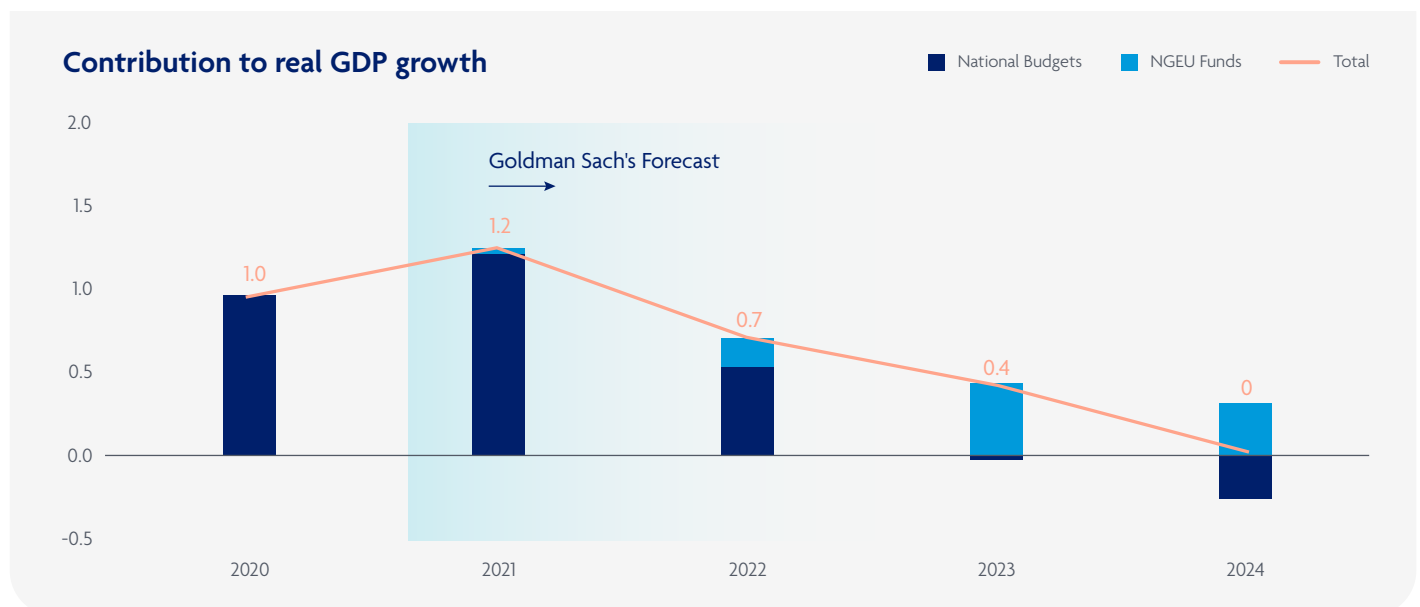
### Growth to speed up

Although Europe has relatively-high vaccination rates, it has remained behind the curve in reopening. This will change in 2022 as it is poised to maintain its above-trend growth rate. Pent-up demand and easing supply chain constraints should drive a recovery in industrial output, one of the region's largest growth contributors. The disbursement of the EUR750 billion Next Generation European Union (NGEU) Fund and the European Union's long-term budgets will support the region's overall growth (Figure C13).

### EU-backed recovery to drive sustainability

Backloaded disbursements from the NGEU Fund will finally be handed out in 2022. This will finance sustainable projects and better prepare EU economies for global green and digital transitions. The large fiscal package will be funded by the issuance of EU bonds, with risks collectively shared amongst all EU members to keep the borrowing cost low.

Figure C13. The EU's long-term budget and NGEU funds will continue to support European GDP growth over the next 2 years.



Source: Eurostat, Goldman Sachs Global Investment Research.



# HIGH CONVICTION CALLS

## European Equities to Ride on Better Growth Prospects

### Spotlight on growth-oriented sectors

The equity market is no longer concentrated on low-growth, old-economy sectors such as energy and banking. Europe's benchmark index makeover now captures a greater representation from sectors including Luxury Goods, Financial Technology (Fintech), Medical Technology (MedTech) and Renewable Energy.

European companies are now more exposed to global growth opportunities, with STOXX Europe 600 companies deriving a greater percentage of revenue from Asia amid a declining contribution from Europe (Figure C14).

Therefore, look for growth-oriented companies and sectors such as Technology, Healthcare and Renewable Energy. Financials are also well-placed to make gains given good capital ratios and reasonable valuations.

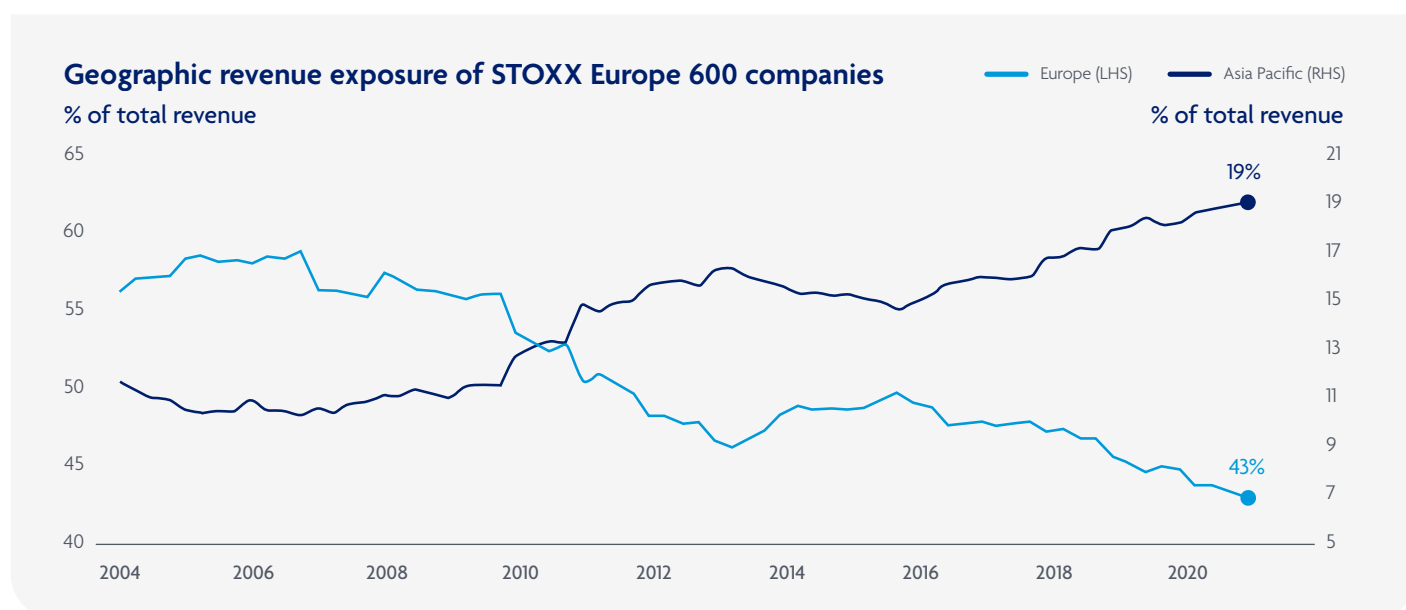
### Monetary policy remains supportive

Interest rates should remain low as the European Central Bank diverges from the Fed by sticking to quantitative easing. The pandemic emergency purchase program (PEPP) is likely to remain in place at least until March 2022, keeping liquidity abundant.

### Inflation kept in check

Parts of inflation risks may be contained as supply chain bottlenecks ease, which will support growth. Prices are likely to rise at a "just right" pace that is neither too hot nor cold.

**Figure C14.** European companies are deriving more revenue from growth regions like Asia Pacific and lesser from Europe.



Source: FactSet, Goldman Sachs Global Investment Research.

# HIGH CONVICTION CALLS

## European Equities to Ride on Better Growth Prospects

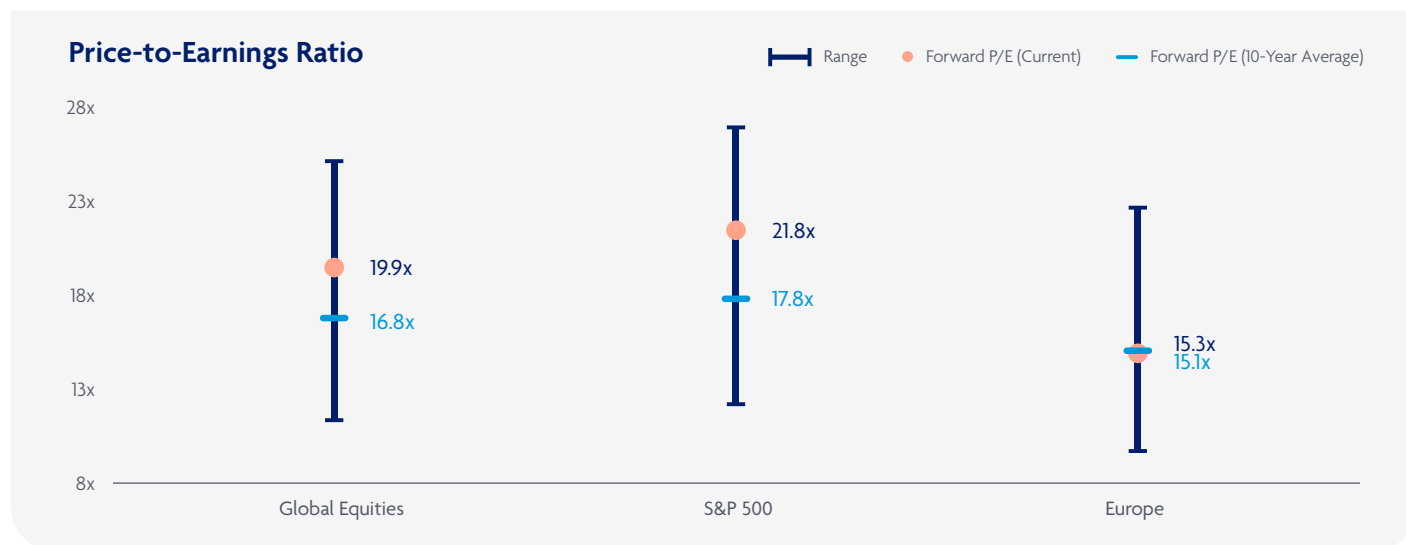
### Attractive valuations

With cheaper valuations (Figure C15), European equities are more attractive than their US counterparts. In a global portfolio, this offers a diversification opportunity for investors where they can boost their allocation of European equities and reduce exposure to US equities.

### Risks of an energy crisis

European equities are exposed to energy shortages. Expansionary fiscal policies which boost energy demand, coupled with green initiatives that constrain supply, will keep energy prices sticky and elevated. This can potentially disrupt economic activity.

**Figure C15.** European equities are at cheaper valuations than US equities.



Source: Bloomberg (30 November 2021).





# Our Regional Focus





# OUR REGIONAL FOCUS

## Equities

Attractive valuations offer a good entry point, particularly in sectors that are connected to the global economy and will benefit from economic reopening and a global trade recovery.

## Fixed Income

Accommodative policies to stimulate economic growth will provide support to regional bond markets.

## Currencies

Asian currencies are expected to weaken against the USD, as the US Federal Reserve (Fed) begins its tapering journey.

### Singapore



#### Equities

The resumption of trade links and reopening of its borders will benefit Singapore equities which are closely tied to the global economy. Airline and Banking stocks will reap gains, with the latter also supported by attractive dividend yields.

#### Fixed Income

An appreciating USD will narrow the gap between US and Singapore bond yields, with the 10-year Singapore government bond yield expected to reach 2.10% by end-2022.

#### Currency

The Singapore Dollar (SGD) is expected to remain stable against its basket of currencies but will gradually weaken to 1.40 against the USD by end-2022 as the USD strengthens.

# 3.5

GDP (y/y %)

# 2.0

CPI (y/y %)

### Malaysia



#### Equities

Despite an expansionary budget, election jitters could lead to greater equity market volatility. Malaysia's transition towards an endemic phase is positive for the economy. The global economic recovery will benefit the Oil & Gas and Financial sectors.

#### Fixed Income

We expect Bank Negara to maintain an accommodative monetary policy until mid-2022, maintaining the Overnight Policy Rate (OPR) at 1.75%. Further government bond supply to finance budget deficits pose an upside risk to yields.

#### Currency

The Malaysian Ringgit (MYR) is expected to weaken to 4.30 against the USD by end-2022 as it faces headwinds from US rate hikes and a looming election.

# 5.5

GDP (y/y %)

# 3.0

CPI (y/y %)

### Thailand



#### Equities

Fiscal spending, progress on vaccinations and a gradual reopening will support the retail, banking and tourism-related sectors. However, high valuations may cap the benchmark SET Index's upside at 1,700 to 1,750.

#### Fixed Income

The Bank of Thailand has held the key rate steady at 0.5%, preferring more targeted measures to support the recovery. Bonds remain attractive, with a high 2-to-10 year yield spread.

#### Currency

The Thai Baht (THB) will remain volatile and weak due to the uncertain outlook for interest rates and economic reopening. The THB could weaken to 34.5 against the USD by end-2022.

# 3.5

GDP (y/y %)

# 1.2

CPI (y/y %)

## OUR REGIONAL FOCUS

### Indonesia



#### Equities

Valuations remain attractive and better-performing share prices are in store as the economy takes steps towards normalisation. A recovery in domestic consumption will support a corporate earnings rebound, with the Banking, Infrastructure, Mining and Property sectors poised to gain.

**5.0**  
GDP (y/y %)

#### Fixed Income

The approval of the third instalment of the Burden Sharing Program should calm the fixed income market and reduce volatility caused by the Fed's tapering agenda.

**2.4**  
CPI (y/y %)

#### Currency

Rising commodity prices may lead to a smaller-than-expected budget deficit, which will limit the Indonesian Rupiah's (IDR) weakness. The IDR could hit 14,900 against the USD by end-2022.

### China



#### Equities

Equity valuations are more attractive after a bout of consolidation. Growth-stabilisation measures could be introduced but regulatory uncertainty has already been priced in. Long-term structural investment opportunities remain, particularly in the Consumer, Information Technology and Semiconductor sectors.

**5.7**  
GDP (y/y %)

#### Fixed Income

The easing of restrictive policies to hedge against economic slowdown will support bond performance. Avoid highly-leveraged property companies as policy controls will continue to bring downward pressure.

**2.2**  
CPI (y/y %)

#### Currency

The Fed's normalisation policy, coupled with China's accommodative central bank stance amid slower economic activity could see the Chinese Yuan (CNY) weaken to around 6.55 against the USD by end-2022.

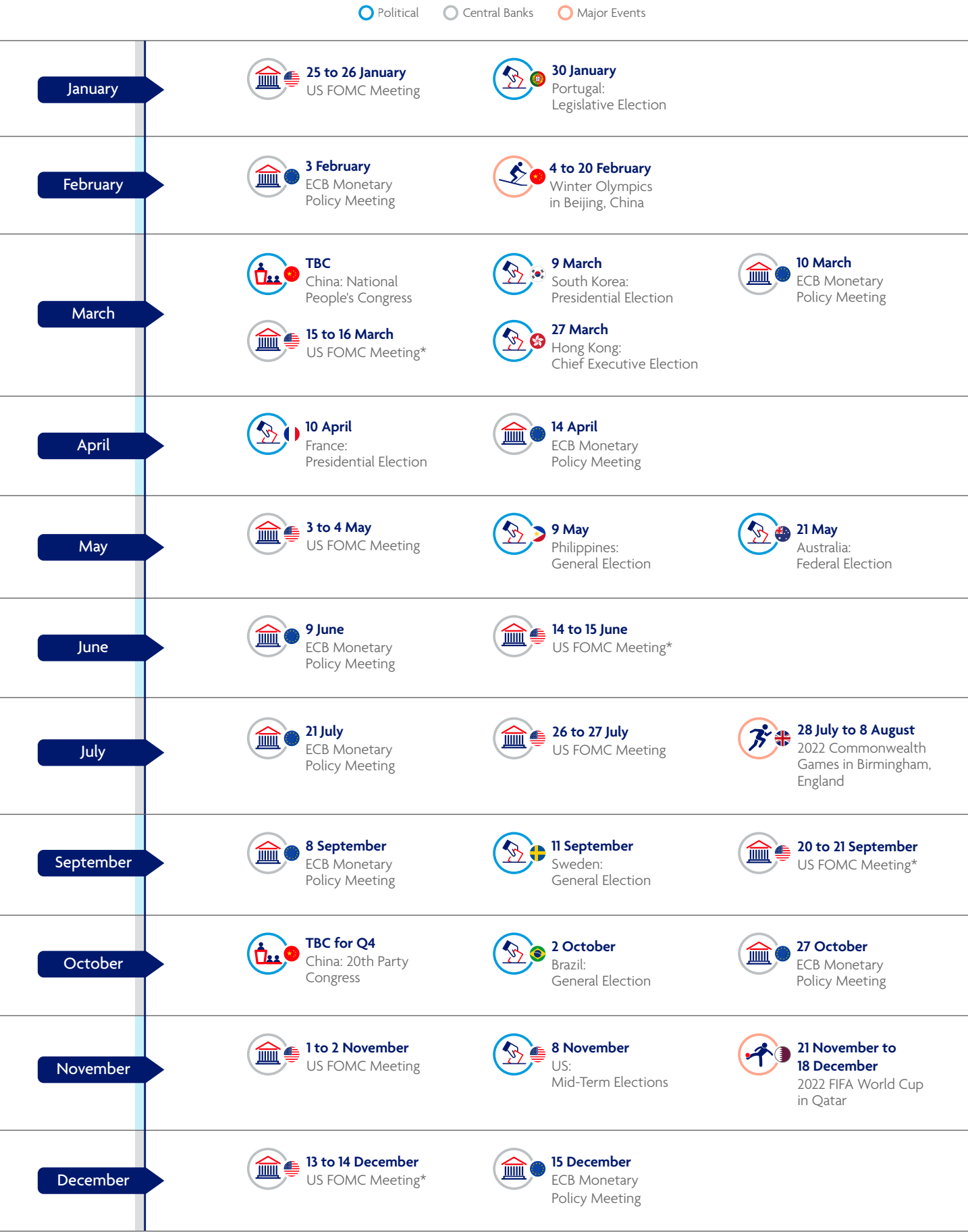




# Appendix



KEY EVENTS CALENDAR

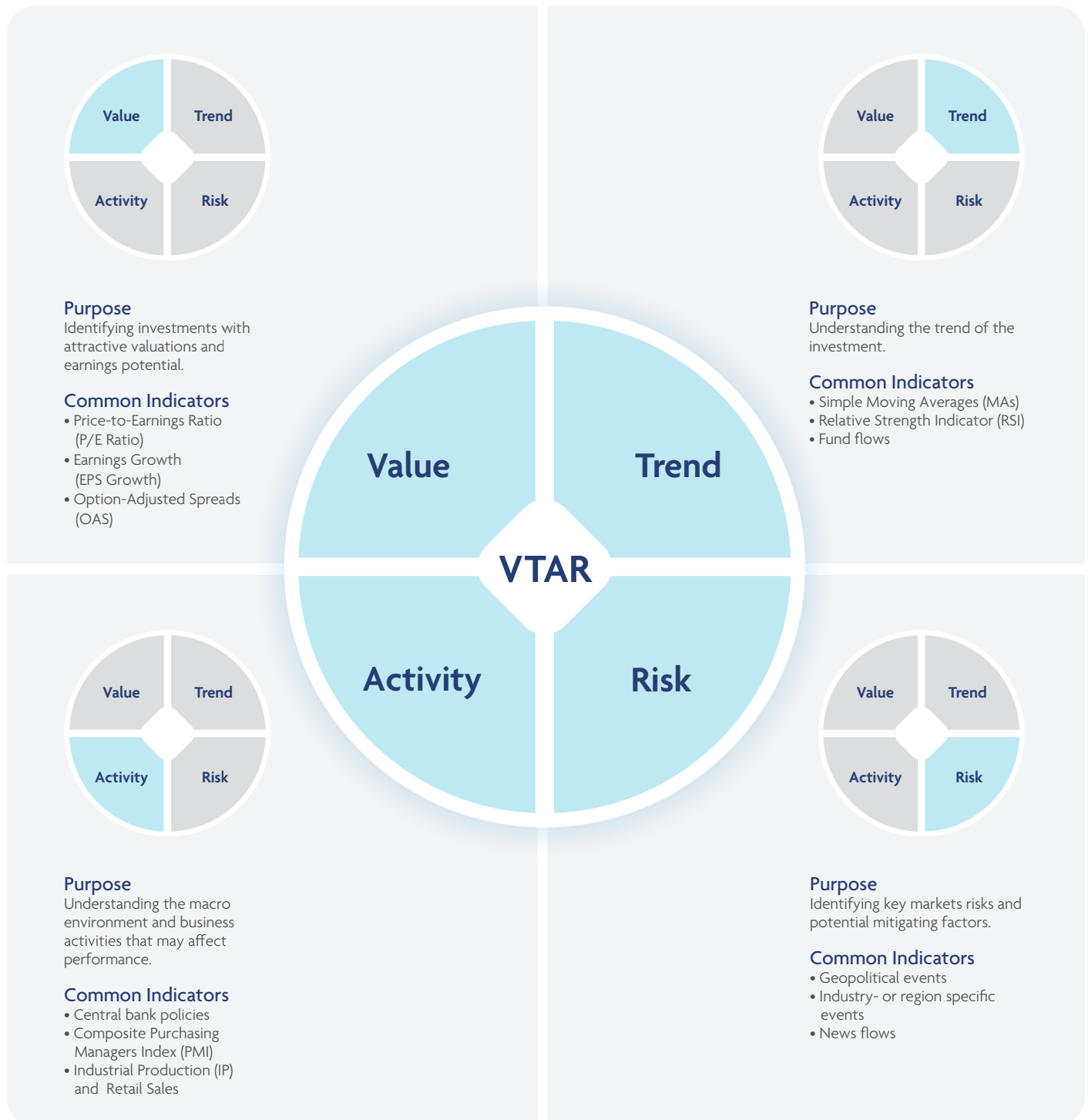


\* with Summary of Economic Projections



# USING VTAR TO IDENTIFY IDEAS

Our award-winning VTAR framework focuses on analysing large volumes of financial data in the four components of Value, Trend, Activity and Risk (VTAR). This framework provides a holistic view of financial markets and identifies investment opportunities across asset classes, sectors, geographical regions, and time periods. The UOB Personal Financial Services Investment Committee examines these insights, in tandem with key risks, and comes to a consensus to determine the attractiveness of each potential investment idea.



# VTAR SUMMARY FOR OUR CALLS

## Megatrends VTAR & Commentary

● Positive   ● Neutral   ● Negative   ● N/A

	<h3>Sustainability</h3>
	<p>Equity valuations are slightly expensive but a robust earnings outlook, strong government action and a renewed sense of urgency from COP26 will fuel further investments in sustainability. Investors need to be mindful that positive changes require increased regulation and corporate reporting transparency, which could bring about short-term uncertainty.</p>
	<h3>Global Healthcare</h3>
	<p>Global Healthcare valuations are at a discount compared to broader global equities, while earnings growth prospects remain strong. Increased fund inflows and continued investments by big technology firms and banks will mitigate the dampening effect of rising bond yields.</p>
	<h3>China</h3>
	<p>Onshore equity valuations are slightly higher than offshore equities but are overall more attractive as it faces less regulatory headwinds. Markets still expect Beijing to maintain a target GDP growth rate of 5% in 2022. Softer regulations, as well as fiscal and monetary stimulus will support growth.</p>
	<h3>AI and Innovation</h3>
	<p>Digitalisation and innovation are the key pillars in the new economy and a key focus of US-China tensions. Both countries are expected to invest heavily in these strategic sectors. However, valuations remain very high and the introduction of a global minimum tax regime will lead to revised earnings estimates.</p>
	<h3>US</h3>
	<p>The US economy led the world's reopening efforts but is expected to slow down as other regions catch up. Corporate earnings growth should remain strong, but high equity valuations may cap gains. Be selective by increasing exposure to sectors that will benefit from global, rather than domestic, reopening.</p>

# VTAR SUMMARY FOR OUR CALLS

## High Conviction Calls VTAR & Commentary

● Positive ● Neutral ● Negative ● N/A



### European Equities



Initially a recovery laggard with cheaper valuations compared to US peers, European equities now present a good catch-up opportunity. Inflation and credit growth have turned positive, indicating recovering economic growth. Be wary of supply chain disruptions and a premature tightening of fiscal and monetary policy which could dampen Europe's growth outlook.



### US Financial Equities



With the Fed's tightening trajectory in 2022 and robust economic activity, the sector will benefit from rising interest rates, greater loan demand and higher trading and fee income. Valuations remain reasonable relative to the broader S&P 500 Index. But rising competition from alternative payment platforms and cryptocurrencies could pressure traditional banking revenues.



### Asia ex-Japan Equities



Valuations have been higher than the historical average but have come down after China's regulatory tightening. Improving vaccination rates across the region will facilitate reopening efforts. Supply chain disruptions are still affecting the manufacturing and logistics industries, but could ease as countries reopen.



### Global Equities with High Quality Factors



Companies with superior business models will thrive in the post-pandemic recovery in 2022 and higher earnings expectations will make up for stretched valuations. Unexpected spikes in bond yields could trigger a temporary sell-off. However, these companies' superior quality characteristics, as well as the positive economic backdrop, will keep them on track for long-run returns.



### US Consumer Discretionary Equities



Supply chain disruptions have prevented US consumer discretionary companies from realising the earnings potential from strong consumer demand. This has resulted in valuations appearing expensive. However, these companies have managed to pass on cost increases to consumers and supply constraints should ease by mid-2022.



# REVIEW OF 2021

## Asset Class Review

### Equities

Although inflation concerns led to higher volatility, the global economic recovery drove strong returns in equities with Developed Markets leading the surge. The US equity market's broad-based gains will help to increase its resilience going forward. The Energy (+34.9%) and Utilities (+1.4%) sectors were the outliers. While the strong economic recovery and resource constraints were positive for Energy, they were detrimental to Utilities.

European equities lagged behind US equities, but eventually ended the year on a strong note. With a higher exposure to value companies, European equities remain a good opportunity for investors. Despite struggles to contain COVID-19, export-oriented Japanese equities were supported by a cheaper Japanese Yen (JPY), higher anticipated demand from the reopening of Western markets and progress on vaccinations.

Asian ex-Japan equities were held back by uncertainty over China's reforms. Beijing increased regulatory pressure on sectors such as Technology, Online Education and E-commerce while China's central bank reduced liquidity despite the strong economy. In Emerging Markets, challenges in securing vaccine supplies posed a roadblock to economic reopening.

### Fixed Income

Stronger economic growth drove a risk-on sentiment in markets. Fears over inflation and expectations of a hike in interest rates pushed up longer-term US Treasury yields, which sent bond prices lower across the board. However, narrowing spreads that provided a buffer against rising yields and a stronger economic recovery that lowered default risks, supported US High-Yield bond prices.

Asian Investment Grade (IG) bonds held steady and remain attractive for their defensive characteristics and higher yield. Asian and certain Emerging Market local-currency debt came under pressure, but was compensated by the CNY's strength against the USD. Asian High-Yield bonds were badly hit by credit concerns in China's Property sector as a large portion of high-yield corporate issuers come from that industry.

### Currencies and Commodities

The USD added gains in 2021 due to rising bond yields, but cyclical and risk currencies like the CNY strengthened even more as a result of a positive growth outlook. This is likely to reverse in 2022 as the Fed's monetary policy tightening should lead to renewed USD strength, relative to Asian currencies like the CNY.

Strong economic growth and supply chain shortages fuelled strong demand for Oil and Copper, which recorded solid double-digit gains. However, gold prices fell as the USD strengthened on expectations that the Fed would start tapering asset purchases.



# REVIEW OF 2021

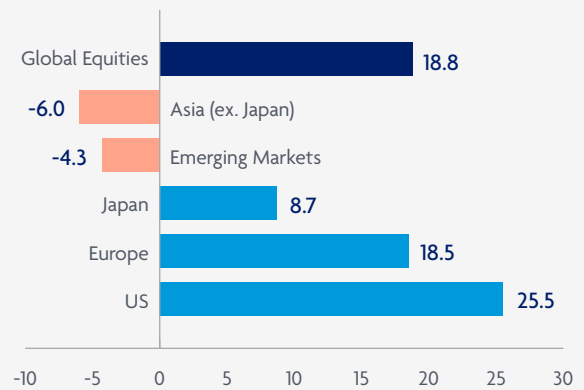
## Asset Class Review

### Equities

MSCI World Net  
Total Return USD Index

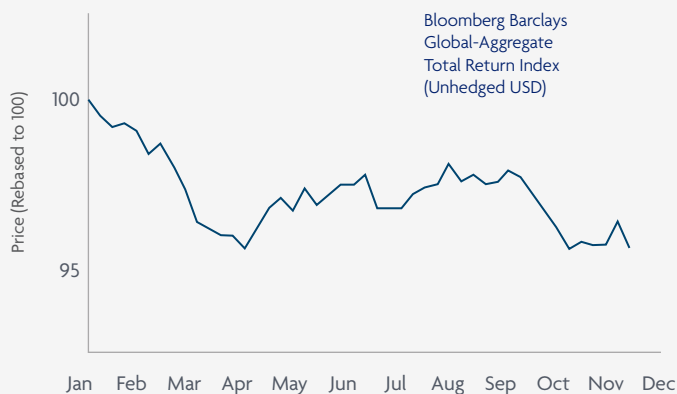


### YTD Total Return (%)

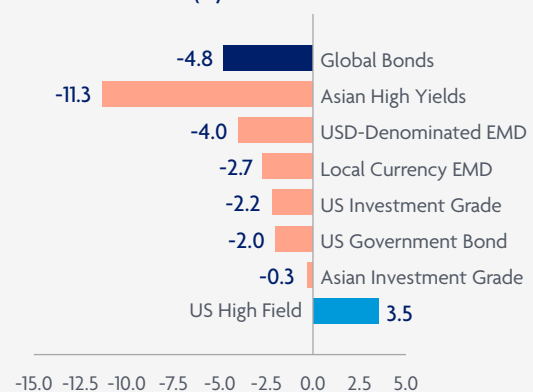


### Fixed Income

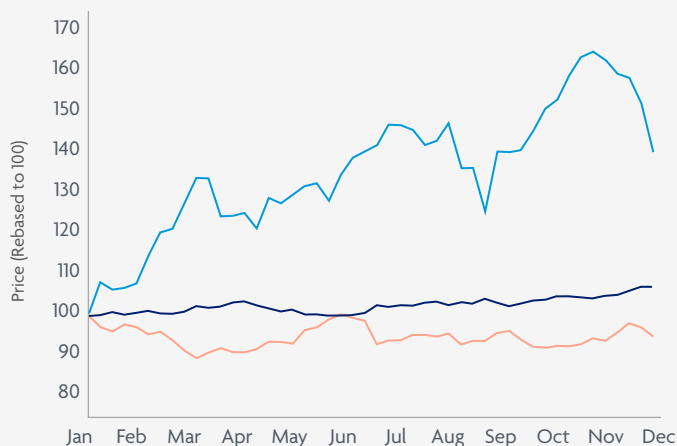
Bloomberg Barclays  
Global-Aggregate  
Total Return Index  
(Unhedged USD)



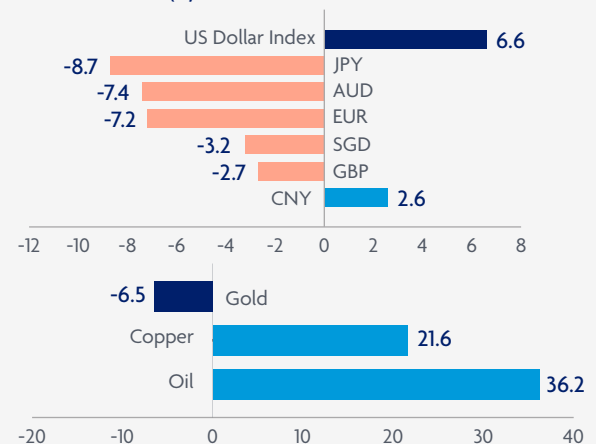
### YTD Total Return (%)



### Currencies and Commodities



### YTD Total Return (%)





# REVIEW OF 2021

## Tactical Calls Review

### Open Calls

As the year closed, our best-performing high conviction call was US Financials. The tailwinds pushing US Financials higher were a recovering global economy, rising longer-term interest rates and lower bad loan provisions from 2020. High-quality global growth equities and US Consumer Discretionary equities also gained from the strong economic recovery and reopening.

European equities continued to lag in the recovery, but this will reverse in 2022 as the EU begins dispensing aid from its recovery fund. Asia ex-Japan equities were held back by policy uncertainty in China.

Among our Megatrend ideas, Sustainability and the US market were our top themes. Riding on strong momentum, they performed well despite high valuations. This was followed by Global Artificial Intelligence (AI) & Innovation and Healthcare as vaccine development and digitalisation remained key drivers in 2021.

Being one of the first major economies to recover from COVID-19, China started to tighten liquidity measures and impose greater regulation on its technology sector. These measures rattled China's equity markets in 2021, but companies that adapt quickly to the new environment as greater clarity on policy objectives emerge will benefit in 2022.

### Closed Calls

We closed our high conviction call on US Consumer Staples in January 2021 and switched to US Consumer Discretionary equities as the global economic recovery began to pick up pace.

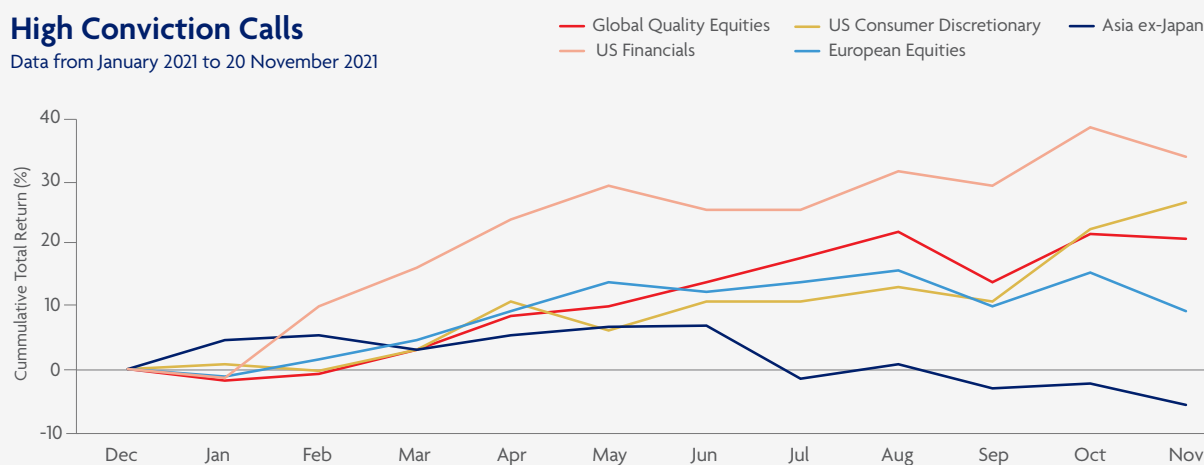


# REVIEW OF 2021

## Tactical Calls Review

### High Conviction Calls

Data from January 2021 to 20 November 2021



● Since Start<sup>^</sup> ● Year To Date<sup>+</sup>

#### Call

##### US Financials

Call Start: 8-Jan-2021 End Date: Ongoing

■ 27.7%  
■ 27.7%

##### US Consumer Discretionary

Call Start: 9-Jan-2021 End Date: Ongoing

■ 21.8%  
■ 21.8%

##### Global Quality Equities

Call Start: 1-Apr-2017 End Date: Ongoing

■ 121.9%  
■ 21.0%

#### Call

##### European Equities

Call Start: 10-Oct-2020 End Date: Ongoing

■ 22.0%  
■ 9.1%

##### Asia ex-Japan Equities

Call Start: 4-Jun-2020 End Date: Ongoing

■ 26.3%  
■ -6.0%

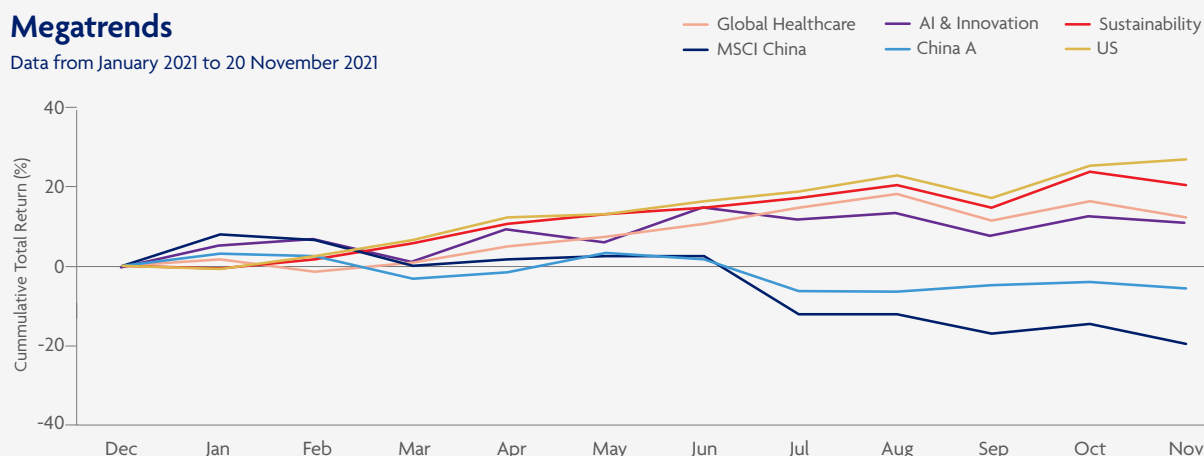
##### US Consumer Staples

Call Start: 01-Sep-2019 End Date: 08-Jan-21

■ 47.0%  
■ 1.4%

### Megatrends

Data from January 2021 to 20 November 2021



● Since Start<sup>^</sup> ● Year To Date<sup>+</sup>

#### Call

##### US

Call Start: 8-Jan-2021 End Date: Ongoing

■ 23.9%  
■ 23.9%

##### Sustainability

Call Start: 1-Oct-2020 End Date: Ongoing

■ 34.8%  
■ 19.3%

##### Global Healthcare

Call Start: 1-Jan-2017 End Date: Ongoing

■ 91.7%  
■ 11.6%

#### Call

##### AI & Innovation

Call Start: 1-Jan-2019 End Date: Ongoing

■ 186.9%  
■ 11.0%

##### China Equities (Onshore)

Call Start: 1-Oct-2018 End Date: Ongoing

■ 49.4%  
■ -5.6%

##### China Equities (Offshore)

Call Start: 01-Jan-2019 End Date: Ongoing

■ 29.2%  
■ -19.2%

\* Performance of Allianz Global Artificial Intelligence Fund is used as the proxy for artificial intelligence and innovation equities due to the unavailability of a suitable benchmark index.

<sup>^</sup>Source: Bloomberg. All percentages shown are expressed in their respective local currency terms, and reflect the total returns from call start date to 30 November 2021 or call end date, whichever is earlier.

<sup>+</sup>Source: Bloomberg. All percentages shown are expressed in their respective local currency terms, and reflect the total returns from 1 January or call start date, whichever is later, to 30 November 2021.



**RIGHT BY YOU**

**IMPORTANT NOTICE AND DISCLAIMERS:**

The information contained in this publication is given on a general basis without obligation and is strictly for information purposes only. This publication is not intended to be, and should not be regarded as, an offer, recommendation, solicitation or advice to buy or sell any investment or insurance product and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose. Any description of investment or insurance products, if any, is qualified in its entirety by the terms and conditions of the investment or insurance product and if applicable, the prospectus or constituting document of the investment or insurance product. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. If in doubt, you should consult your own professional advisers about issues discussed herein.

The information contained in this publication, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of the publication, all of which are subject to change at any time without notice. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank Limited ("UOB") and its employees make no representation or warranty of any kind, express, implied or statutory, and shall not be responsible or liable for its completeness or accuracy. As such, UOB and its employees accept no liability for any error, inaccuracy, omission or any consequence or any loss/ damage howsoever suffered by any person, arising from any reliance by any person on the views expressed or information contained in this publication.

Any opinions, projections and other forward looking statements contained in this publication regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. Investors may wish to seek advice from an independent financial advisor before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider whether the investment or insurance product in question is suitable for you.