## UOB Investment Insights

# Navigating a Bear Market

We are now in a bear market, after a rapid decline that took place within a short span of 3 weeks in March, catching many off-guard. The fall from the peak was 34% before rebounding in April to moderate losses.

Bear markets – defined as a decline of at least 20% from the market's highest point – are often accompanied by investor pessimism. However, investors who understand the characteristics of bear markets, can potentially leverage on them.

In this issue, we do a deep dive into these characteristics and the opportunities that may lie within them.

## What were the losses like in past bear markets?

| Range of Losses in USD | 20% – 30% | > 30% – 45% | > 45% – 60% | > 60% |
|---|---|---|---|---|
| Percentage of MSCI World Bear Markets* | **67%** | **11%** | 22% | 0% |
| Percentage of MSCI Emerging Markets Bear Markets^ | **12.5%** | **50%** | 25% | 12.5% |

**What this means:**

- **78%** of global equities and more than **62.5%** of emerging market equities experienced not more than 45% losses in bear markets. Thus far, we have seen peak-to-trough losses in the range of 30% – 45%.
- The current bear market was triggered by the COVID-19 pandemic and is unique due to how quickly it occurred. April's rally helped to moderate losses, and efforts by governments may have lowered the likelihood of markets seeing further extreme losses.

## How long do bear markets typically last?

(From peak to bottom in USD terms)

| Time to market bottom | 1 – 6 months | 7 – 12 months | 13 – 18 months | 19 – 24 months | > 24 months |
|---|---|---|---|---|---|
| Percentage of MSCI World Bear Markets* | **33%** | **22%** | **11%** | 22% | 11% |
| Percentage of MSCI Emerging Markets Bear Markets^ | 37.5% | 12.5% | 37.5% | 12.5% | 0% |

**What this means:**

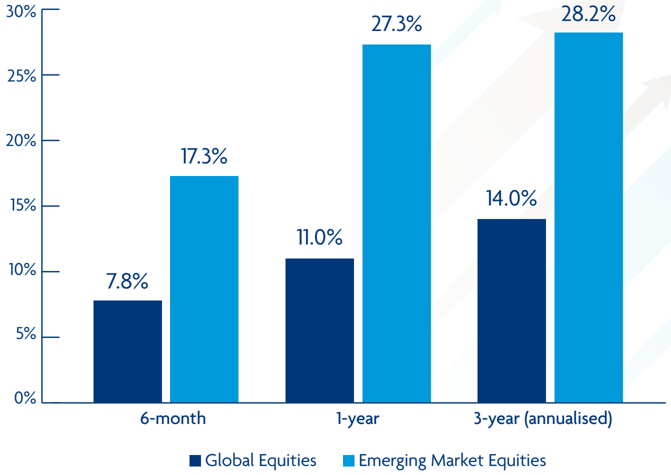
- **2 out of 3** bear markets tend to reach the bottom within 18 months, of which more than half (**55%**) tend to bottom out within 12 months.
- In today's scenario, coordinated measures between governments and central banks across the globe can possibly help to shorten the duration of this current bear market.
- As such, the opportunity to enter the market at attractive valuations could be limited to a relatively short period of time.

**Data source:** Bloomberg, * MSCI World from 1 January 1970 to 15 April 2020. ^MSCI EM from 1 January 1988 to 15 April 2020.

# What kind of returns are we looking at after a bear market?

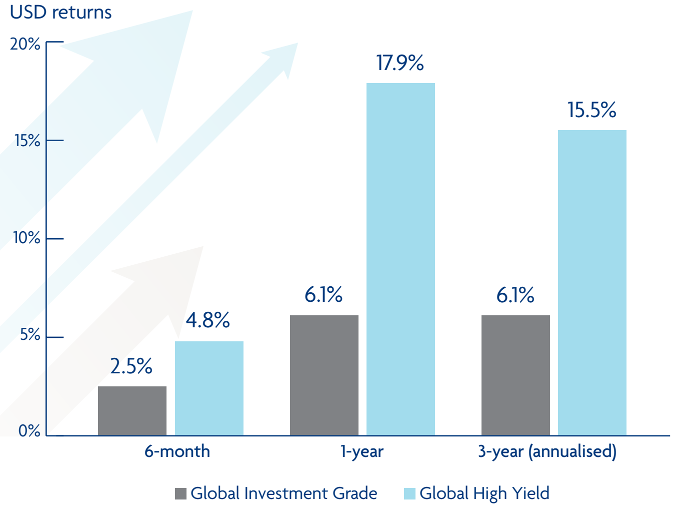
**Average 6-month, 1-year total and 3-year annualised returns after a bear market (Equities)***

USD returns




**Average 6-month, 1-year total and 3-year annualised returns after a bear market (Fixed Income)***

USD returns

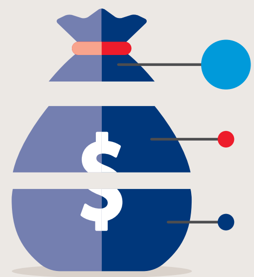



**Data source:** Barclays, Bloomberg, FactSet, MSCI, J.P. Morgan Asset Management. Bear market is defined as a period where the MSCI World index declined 20% or more from the previous market high for more than 2 consecutive months. The average return is taken for each asset class after the end of each bear market and compared over the same period, wherever data is available. Past performance is not indicative of current or future results.

Historically as shown in the chart, decent returns are likely to follow after a bear market as the economy enters an economic expansion phase. Investors need to have a long-term view to benefit from the recovery. The current bear market is unique given the speed of its occurrence. It is possible that the duration of this bear market could potentially be shorter than the historical average as a result of active intervention by governments and central banks globally. For investors who have a longer investment horizon, it may be a good time to start to enter the market gradually.

## If you are looking to invest:

- Take advantage of quality investment options at attractive valuations, before the bear market is over.
- Look for investment opportunities that have strong fundamentals and attractive long term drivers (refer to Appendix A).
- Avoid timing the market and consider a tranche investment plan:
  - Split your intended investment sum into 3 equal tranches.
  - Decide on a preferred entry price point for your 1st tranche.
  - Invest the 2nd and 3rd tranches with 1 – 2 month intervals in between or anytime the market sees further dips.




## For investors who are already invested:

- Examine the assets you own:
  - Are they quality assets that will continue to hold value?
  - Are they likely to make a full recovery in the next few years?
- If the answer is yes to either of these questions, you should hold on to these assets.
  - Consider adding quality assets to your investment portfolio and take advantage of dollar cost averaging to put your portfolio in a better position.

**Consult your UOB Financial Advisor on how you can leverage on this bear market to meet your investment goals.**

*Equity performance based on MSCI AC World (Global Equities), MSCI Emerging Markets (Emerging Market Equities). Fixed income performance based on Bloomberg Barclays Global Aggregate (Global Investment Grade), Bloomberg Barclays Global High Yield (Global High Yield). Data are as of 4 May 2020.

Appendix A

# Core Solutions

**Our Core Solutions have a primary characteristic of being less volatile and do not require active rebalancing. You may find out more from your UOB Adviser about our Core Solution offerings:**

- Short- to medium-duration high-grade bonds
- Asian investment-grade bonds
- Global multi-asset strategies
- 100% Minimum redemption at maturity structures

# Tactical Calls

**Our Tactical Calls are aimed at driving capital appreciation through capturing market opportunities. This allocation is more dynamic in nature and intended to allow part of the portfolio to take advantage of market conditions.**

### HIGH-CONVICTION STRATEGIES

| Convictions | Points for Consideration |
|---|---|
| **Equities with High Quality Factors** | • Equities with high quality factors comprise of more service-orientated companies, which are asset-light and less sensitive to oil price shocks.<br>• Sustainable earnings growth with strong balance sheets increase resilience in economic slowdowns or recessions such as the one we are facing.<br>• The recent sell-off provides an opportunity to pick up good-quality stocks at cheaper valuations. |
| **US Consumer Staples** | • Stable demand for household necessities amid the current COVID-19 outbreak supports earnings outlook amid uncertain economy.<br>• A defensive sector with a higher yield than US Treasuries (3.0% vs <1.0% for 10Y US Treasuries).<br>• Potential price appreciation and fund inflows as investors enter this sector as an alternative to low bond yields. |
| **Emerging Market (EM) Equities** | • COVID-19 has a large negative impact on EM, but recovery after the disruption is expected with their respective government's support measures.<br>• Sentiment towards oil-producers (i.e. Brazil, Russia) remain poor due to low oil prices. But these countries only make up about 15% of overall EM equities, while other EM countries benefit from lower oil prices.<br>• Long-term outlook remains favourable especially with attractive valuations (current price-to-earnings ratio is around 12X as compared to developed markets' 16X). |

### MEGATRENDS

| Convictions | Outlook |
|---|---|
| **Global Healthcare** | • A rising global silver population is a long-term trend providing structural demand for healthcare services and products.<br>• The COVID-19 situation highlights the possibilities of using new technologies and methods in healthcare to rapidly develop ways to combat diseases.<br>• Policy uncertainty as Democrat candidate Joe Biden intends to expand the Affordable Care Act (ACA) if he wins the election. This could affect the healthcare industry depending on the details of the programme. |
| **Chinese Equities** | • Chinese factories are resuming production (about 70% resumption) as the government pushes for economic activity to resume.<br>• New fiscal stimulus measures are gradually deployed to support the economy in light of COVID-19 impact to growth, while ongoing reforms promotes higher quality growth over the long term.<br>• The rising middle-class income remains a structural growth driver of domestic consumption.<br>• Slower than expected growth or renewed trade tensions with the US could affect near-term prospects. |
| **Artificial Intelligence (AI) & Innovation** | • Use-case for AI remains strong and has been demonstrated in the current COVID-19 situation:<br>– Deep learning techniques used in analysing CT scans and studying patterns from similar viruses for research.<br>– Usage of AI to help to identify new cases by areas and types.<br>• Demand rising as companies tap into AI and technological innovation to boost profitability.<br>• Risk of greater oversight by governments may impact growth of some AI firms. |

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