UOB Investment Insights

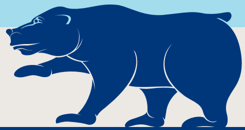
Economic Recovery: The Shape of Things to Come

We are in the midst of a technical recession caused by COVID-19, which has resulted in economic disruption worldwide. How deep is the recession going to be and what kind of economic recovery are we likely to expect?

The speed of recovery depends on:

- How soon the COVID-19 outbreak can be contained
- The extent of global economic disruption
- How governments respond to the disruption to limit the economic damage

Technical Recession – Traditionally defined as a period of two consecutive quarters of economic decline followed by a recovery. A deeper recession would be one where there are at least 3 or more consecutive quarters of economic decline before a recovery.



3 POSSIBLE SCENARIOS AND HOW THEY COULD PLAY OUT

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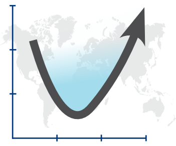
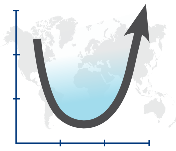
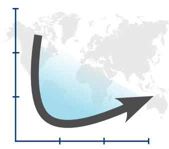
	 20% Probability	 55% Probability	 25% Probability
COVID-19 Containment Period	**By end Q2 2020**	**By Q4 2020**	**By H2 2021**
Global Economy	**Technical recession in H1 2020** with a sharp rebound in **H2 2020**. Restoration of business and consumer activities within a few months after a short term lockdown.	**Technical recession in H1 2020** due to the prolonged disruption, with potential lasting damage to certain sectors. Gradual recovery in H2 with global economic growth ending 2020 in the red.	**Deep recession** due to the extended disruption to most economic activities, with significant demand destruction and stresses to the financial system. Gradual recovery only from **2021**.
Equities	Bottom out around early **Q3 2020** before rallying to start a new bull market.	Possible further sell-offs before potentially bottoming out in H2 2020.	Possible further sell-offs throughout 2020, recovering only from 2021.
Bonds	Bond market liquidity improves around early **Q3 2020** followed by price recovery.	Bond market liquidity improves in **H2 2020** followed by price recovery.	Bond markets remain challenging, with prices recovering from 2021.
Rates	Near-term low and possible strong rebound if inflation returns.	Remain low heading into 2021 but unlikely to head significantly lower.	Developed market rates will stay pinned down at zero and in some cases stay negative.
Currencies	Commodities and energy related currencies like AUD may rebound strongly.	Once USD funding crunch dissipates, can expect some recovery in Asia FX, eg. RMB.	USD will stay strong against most EM and Asian currencies.

Investor Takeaways:

- Given the various stimulus measures by governments, markets may potentially find a bottom when the outbreak tapers off. Investment opportunities with attractive valuations will emerge.
- Avoid timing when the market will bottom – invest progressively in tranches. As a start, you may wish to consider **UOB Core Solutions** and **Tactical Calls** (page 2).
- For those already invested, we caution against selling out now as a market recovery may be sooner than expected.
- Please speak to your UOB Adviser, taking into account your personal circumstances and risk profile, before making any investment decisions.

UOB

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. • Sustainable earnings growth with strong balance sheets increase resilience in economic slowdowns or recessions such as the one we are facing. • 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. • A defensive sector with a higher yield than US Treasuries (2.9% vs <1.0% for 10Y US Treasuries). • 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. • 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. • Long-term outlook remains favourable especially with very favourable low valuations (current price-to-earnings ratio is around 11X).

MEGATRENDS

Convictions	Outlook
Global Healthcare	• A rising global silver population is a long-term trend providing structural demand for healthcare services and products. • The COVID-19 situation highlights the possibilities of using new technologies and methods in healthcare to rapidly develop ways to combat diseases. • 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 60% resumption) as the government pushes for economic activity to resume. • 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. • The rising middle-class income remains a structural growth driver of domestic consumption.
Artificial Intelligence (AI) & Innovation	• Use-case for AI remains strong and has been demonstrated in the current COVID-19 situation: – Deep learning techniques used in analysing CT scans and studying patterns from similar viruses for research. – Usage of AI to help to identify new cases by areas and types. • Demand rising as companies tap into AI and technological innovation to boost profitability. • Risk of greater oversight by governments may impact growth of some AI firms.

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