UOB Investment Insights
Investment Outlook H2 2019

UOB

The theme for UOB's 2019 Mid-Year Outlook revolves around "Putting the Sparkle into Investment Gems" and builds on our Start-of-Year Outlook theme which was about "Uncovering Investment Gems".

The process to transform a raw gemstone into its final polished state is one that takes acumen and skill, involving an understanding of its physical properties in order to cut, polish and set it correctly.

In the same way, realising the potential of identified investment opportunities requires a considered approach that takes into account the macro landscape so that an appropriate investment strategy can be applied.

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Editorial

After the brutal correction in the last quarter of 2018, 2019 ushered in a more upbeat tone in the financial markets through progressive US-China trade negotiations and the increased probability of a pause in monetary policy tightening.

With the wearing off of the US tax cut stimulus effect, increased tariffs and continued trade tensions, global trade risks have risen. Looking back, the old adage of "Sell in May" was probably a good piece of advice to stay away from global markets. The month saw declines across the various equities markets, as a result of reescalated trade tensions which will impact global demand. The US yield curve has stayed inverted for 17 days (based on the most recent inversion). While it may be too early to conclude that a US recession is imminent, with tariffs becoming Trump's political weapons, there is a need for investors to prepare for a full-blown trade war and manage the potential investment risks arising from this.

Rest of 2019...

Global equities have delivered a positive 14.7% since the year started, reaching a peak of 16.7% in early May before heightened trade risks resulted in a correction. Broad emerging market equities have risen 6.2%, with Asia ex-Japan equities specifically still up by 5.7%. Global bonds have benefitted in this risk aversion, clocking a 4.2% gain.

The pace of global economic growth looks set to moderate. Trade tensions have led to the International Monetary Fund (IMF) trimming their global growth forecast from 3.5% to 3.3%. If 25% tariffs are applied to all of US-China trade, the Organisation for Economic Co-operation and Development (OECD) estimates that global growth can drop by another 0.3%, but this still leaves global growth on the positive side.

Despite the strong US protectionist stance, our base case assumption remains that the US will agree to a partial resolution this year while negotiations continue. With continued albeit lower growth, the dovish central banks will play an important role in sustaining economic expansion, likely reducing the chances of a recession this year.

Both the US and China remain key drivers of global growth. The world's two largest economies, totalling 40.8% of 2018 global GDP, have continued to post strong economic expansion in Q1 despite ongoing trade tensions. The labour market remains relatively robust, inflation remains tame while the US Federal Reserve (Fed) has hinted at possible rate cuts, keeping global interest rate expectations low.

Another key risk which we highlighted at the start of 2019 – European political uncertainties – remains benign. Although Brexit continued to cast a shadow on markets, investors have gotten used to the indecisiveness of the UK Parliament. Within the European Union (EU), the Italian budget deficit has not developed to be a significant issue thus far.

Managing your investments in this landscape

The volatility of financial markets, magnified by the news we read and hear, often weighs on our emotions. In such challenging times, anchoring ourselves on the reasons that we based our decisions to invest on becomes more important. This helps remove the emotional influence on our thought processes and decision-making. For example, our goal to be financially ready for retirement should not be deprioritised because of market volatility. Retirement is a certainty. One should take acceptable and necessary risks but not excessively.

Today, we are presented with the possibility of a full-blown trade war. It is therefore prudent to review the risks within your investment portfolio. Having investment-grade bonds can help reduce overall volatility in an equity-heavy portfolio, as lower US interest rate expectations will support bond prices. Staying in investment-grade quality means that while you enjoy a sustainable income stream, the risk of defaults is also reduced. Having gold can help to diversify the risk of a portfolio concentrated in the US dollar. If we have the benefit of hindsight and if the trade war stops before any further damage, the current volatility is, more often than not, an opportune time to gain exposure to investment assets which offer growth potential. Companies generating consistent earnings growth with low financial leverage will be good additions to your investment portfolio, by way of regular investing. These companies are likely to ride out the market volatility and continue to deliver growth to its investors.

While the world remains focused on the progress of US-China negotiations, the changing demographics and megatrends in healthcare and innovative technology shaping our lives continue to take place. China is the second-largest economy in the world, with a GDP of USD 13.5 trillion in 2018, and is growing at a faster rate than the US. It is now a key player on the world stage, both economically and politically. Its financial market has a global impact with its inclusion in global market indices. Such structural changes mean we should be in these markets in the long term, and episodes of such volatility accord investors opportunities to build on such investments.

To help our investors better understand and manage their investments with UOB, we have launched a purpose-built digital wealth advisory platform which draws upon more than 12 years of historical market data to simulate and stress test your investment portfolio against various economic scenarios, such as a bullish market cycle or an economic downturn or if the Fed cuts rates by 25 basis points.

Through this data visualisation, our investors can have a clearer appreciation of how their investment portfolio may perform in various financial market scenarios and over time, and therefore make better investment decisions. You may wish to find out more from your advisors.

Chung Shaw Bee
Singapore and Regional Head,
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Data source: Bloomberg, 14 June 2019

Review of H1 2019

We review the macro events that unfolded in H1 2019 and examine the impact these had on the performance of markets.

Gemstones in their raw form may not look all that different from regular pebbles – with some colour. To assess a gemstone's potential, a careful evaluation of its physical characteristics needs to be performed to determine its species and variety before it can be appropriately cut and polished.

Review of H1 2019

Equities started 2019 with a robust performance, and despite souring investor sentiment, have continued to deliver positive returns year-to-date.

Equities

Equities started the year on a subdued note after losing 13.4% in the last quarter of 2018, on worries that the US Federal Reserve's (Fed) interest rate hikes were over-aggressive and detrimental to growth.

Still, equity markets continued to climb, beginning with a rally that started on Christmas Eve 2018. The Fed's increasingly accommodative stance – in particular, its pause in rate hikes in March 2019 – led to corporate earnings exceeding analyst expectations in Q4 2018 and Q1 2019. Market optimism over a potential US-China trade deal lent further support to equity prices.

Despite events that have led to souring investor sentiments, such as the inversion of the yield curve in March 2019, the breakdown in US-China trade talks in May 2019, and fears of a US-China tech cold war with the banning of tech giant Huawei, equities have continued to deliver positive returns year-to-date.

Emerging Market (EM) equities, however, have continued to lag Developed Market (DM) equities as concerns over slowing global growth loom over markets. Geopolitical concerns have also tipped the scales in favour of DM equities, with investors choosing them over EM equities due to greater familiarity and more direct benefits from positive geopolitical developments.

Amid slowing global growth, demand for bonds has held strong with global fixed income delivering positive returns year-to-date.

Fixed income

Global fixed income has delivered positive returns of 3.3% year-to-date*. Concerns over slowing global growth have supported demand for bonds as a less risky investment option relative to equities for some investors. Central banks have also turned increasingly dovish, with the Fed, European Central Bank (ECB), Bank of Japan (BOJ) and Bank of England (BOE) signalling an end to rate hikes for the year.

US high-yield bonds have performed the best so far year-to-date with returns of 7.5%*, as the pause in interest rate hikes by the Fed led to a reduced likelihood of defaults.

The US dollar strengthened against most major currencies on strong economic data.

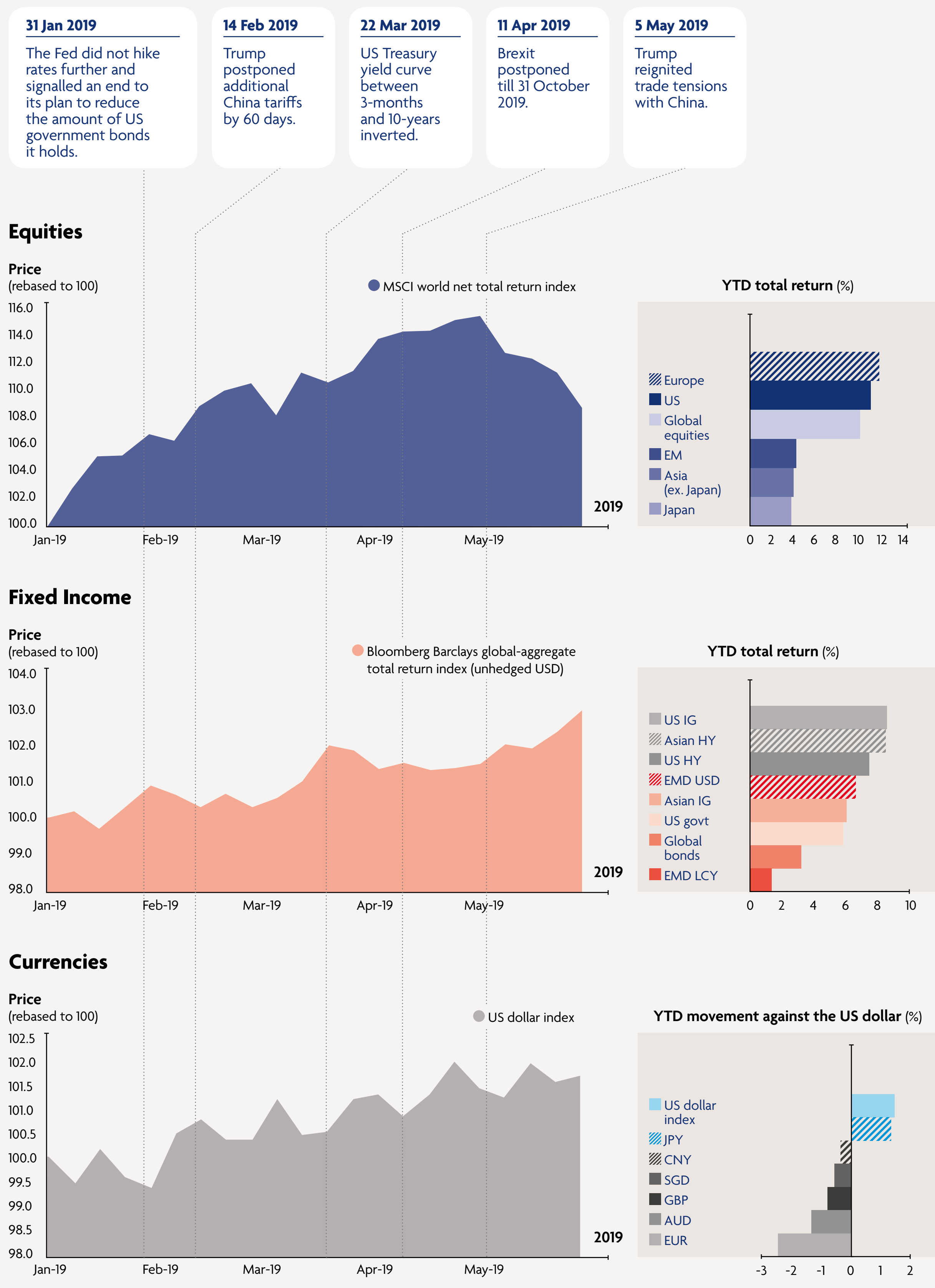
Currencies

Despite the Fed signalling a halt in interest rate hikes for 2019, the US dollar strengthened against most major currencies on the back of strong economic data. Risk aversion amid heightened market volatility had also led to greater demand for safe-haven currencies such as the US dollar and the Japanese yen.

* Denotes year-to-date figures as of 31 May 2019

Figure 1

YTD market performance



Source: Bloomberg, 31 May 2019

Tactical Calls Review

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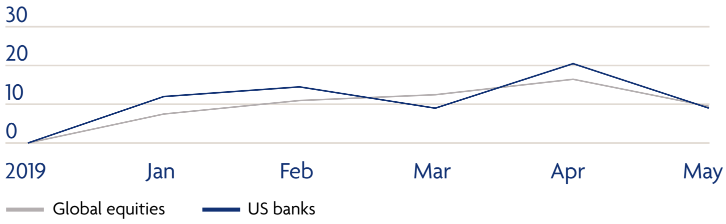
<tr><td rowspan="3">High-convictions</td><td>US banks</td><td>
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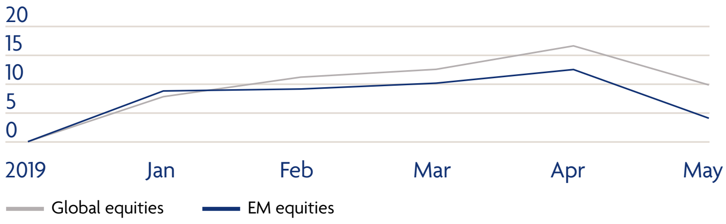
<tr><td>EM equities</td><td>
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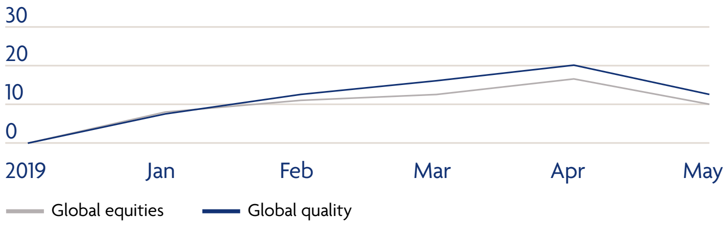
<tr><td>Global quality equities</td><td>
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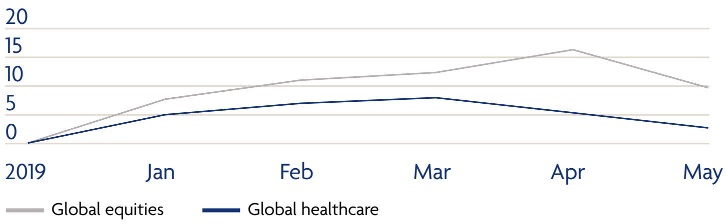
<tr><td rowspan="3">Megatrends</td><td>Global healthcare equities</td><td>
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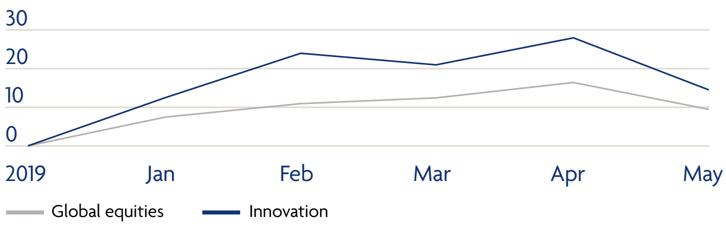
<tr><td>AI & innovation equities*</td><td>
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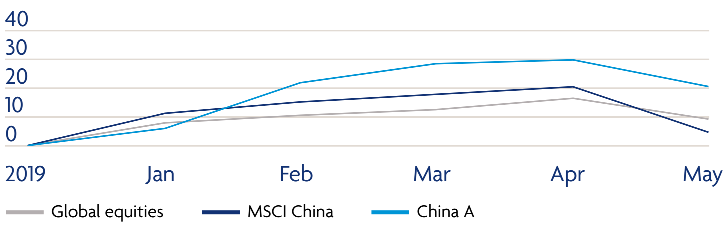
<tr><td>Chinese equities</td><td>
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* Performance of Allianz Global Artificial Intelligence Fund is used as the proxy for AI & innovation equities due to the unavailability of an innovation index.
Source: Bloomberg, 31 May 2019

Total return (1 Jan – 31 May 2019)	Review
+9.2%	• US banks rebounded strongly at the start of 2019, but slightly underperformed global equities by 0.5% year-to-date. • However, concerns over US bank performance arose in Q2 2019, with the Fed announcing a pause in rate hikes for 2019. This implies a cap on net interest margins (NIMs) which we had earlier expected to rise further. • Hence, we have closed our call on US banks in May 2019.
+4.2%	• EM equities rebounded following a sell-off in Q4 2018, but underperformed global equities by 5.6%, despite more attractive valuations. • EM equities underperformed DM peers because of escalating US-China trade tensions in May 2019. DM equities were favoured on the back of strong US economic data and optimism from the pause in rate hikes by the Fed.
+12.5%	• Global quality equities have outperformed global equities by 2.8% as global growth is expected to slow down. • In periods of uncertainty, investors prefer quality equities for their strong earnings, stable returns and low financial leverage.
+2.8%	• Global healthcare equities were sluggish in the first half of 2019, due to US Congress discussions on controlling drug prices. Global healthcare equities underperformed global equities by 6.9%. • Such risks will likely persist as the 2020 US elections draw closer. However, an ageing global population and attractive valuations provide long-term growth potential for healthcare equities.
+14.7%	• Global innovation equities received a boost by a strong overall performance of the US technology sector, with year-to-date returns of 14.7%, outperforming global equities by 5.0%. • For the first four months of 2019, market optimism over a US-China trade deal being reached supported equity prices of Global innovation companies – with China contributing 10% to 15% of their revenue. • In May 2019, heightening US-China trade tensions and a ban on tech giant Huawei stoked fears of a US-China tech cold war. Markets reversed some earlier gains, while the outlook for semiconductor manufacturers and equipment providers soured.
MSCI China +4.8% China A +21.1%	• Chinese equities outperformed global equities for the first four months of 2019, buoyed by early optimism that a US-China trade deal would be reached. • However, after US-China trade talks collapsed in May 2019, offshore Chinese equities – represented by the MSCI China Index – lagged behind global equities due to international fund outflows. • China A-shares showed less significant declines as the Chinese government was expected to prop up the economy amid rising trade tensions. • China A-shares outperformed global equities by 11.4% while MSCI China underperformed by 5.0%.

Macro Outlook for H2 2019

The macro environment forms the backdrop for our investment views. It is with an understanding of the driving forces shaping the investment landscape that we are able to formulate our strategies.

The varying physical properties of gemstones determine the conditions under which they are best cut and polished or, if needed, treated for colour and clarity. The hardness of the gemstone will determine the abrasive material that is used to cut it to its desired shape.

Macro Outlook for H2 2019

Our investment views are based on the premise that the global economy is at the beginning of late-stage economic expansion. An imminent recession is unlikely at this point.

Roadmap for H2 2019

Risks still remain

- Slowing global economic growth.
- Rising US protectionism.
- European political uncertainties. (Refer to Key Risk Drivers and Events, page 18)

Central banks lend support

- Major central banks remain supportive/dovish (i.e. Fed, ECB, BOJ).

The Chinese government remains supportive

- China can continue with stimulus policies to support economic growth.

Impending recession is unlikely

- Global economic growth is still sustainable.
- Recession probability thus remains low.

What can investors consider?

- Markets are likely to be volatile, but growth is supported. Investors are advised to remain invested and gradually move into quality assets.

Overview

Global markets started 2019 with a robust performance, with the S&P 500 posting a strong return of 7.9% in January, its best January showing since 1987. The bullish markets were driven by the good progress of US-China trade talks and the pause in monetary tightening by central banks. Global growth – though less than what was earlier projected – was still expected to expand 3.3% in 2019. In all, financial markets have generally been positive year-to-date, with both equities and fixed income enjoying reasonably good returns.

US protectionism and European political uncertainty weighed on investor sentiment in H1 2019, but global central bank policy missteps became less of a concern.

Key risks identified at the start of 2019

At the beginning of 2019, three key investment risks were foremost on our minds – rising US protectionism, European political uncertainty and the possibility of global central bank missteps. Two of the three risks identified earlier have played out. US-China trade tensions have escalated, while UK Prime Minister Theresa May resigned after failing to deliver a successful Brexit deal, muddying the outlook for the British economy.

Trump's protectionist measures, accompanied by growing concerns over slowing global growth, have dampened investor sentiment. The US and China have been embroiled in a trade war that has intensified in recent months, after talks fell apart in May. Presidents Trump and Xi are however expected to meet at the G20 summit from 28 to 29 June 2019, leaving open the possibility of a truce. Trade tensions between the US and other regions have however escalated, with the US threatening to increase tariffs on European autos and Indian products.

Adding to the uncertain global economic climate has been the ongoing political uncertainty looming over Europe. UK Prime Minister Theresa May announced that she would resign in June after failing to deliver a successful Brexit deal, leaving Brexit as a potential flashpoint for markets till 31 October 2019. The recently-concluded European parliamentary elections also saw populist parties gaining political clout, increasing their share of seats in the European parliament. This could hinder the passing of certain legislative agenda such as trade deals and the European Budget going forward.

The third risk – that of policy missteps by global central banks – became less of a concern as global central banks did not implement further quantitative tightening measures. In fact, they adopted a more accommodative stance in view of moderating growth and subdued inflation. Markets are currently comfortable with the pause in quantitative tightening, with some anticipating US rate cuts in the next six months.

Supportive central banks, able to respond swiftly to economic developments, are likely to work hard towards averting a global recession.

Room for optimism with supportive government actions

Despite these unsettling developments on the geopolitical front, global governments appear ready to step in with expansionary measures to mitigate the effects of a global slowdown, US-China trade war and geopolitical tensions, alleviating concerns that the world is heading into a recession.

Global central banks lend support

Global central banks, for their part, are swiftly implementing policy changes in response to heightened economic uncertainty. The US Federal Reserve (Fed), for example, has made several policy shifts since the beginning of 2019 – from a neutral outlook in February, to signalling a pause in interest rate hikes in March, to committing to "act as appropriate to sustain the expansion" in June.

Fed Chairman Jerome Powell went even further to say that the Fed would "act as necessary to sustain economic expansion" amid escalating US-China trade tensions, and be open to cutting interest rates. We expect the Fed to cut the Fed Funds Target Rate (FFTR) by 25 basis points in September 2019, followed by another 25 basis points in December 2019, bringing the upper bound of the FFTR to 2.0% by end-2019.

On the European front, governments are showing a similar resolve in supporting financial markets. The European Central Bank (ECB) has reintroduced quantitative easing measures (Targeted Longer-Term Refinancing Operations, or TLTRO for short) to ensure sufficient liquidity in the markets, and announced in June that key interest rates would remain at present levels at least through the first half of 2020.

Proactive support of this kind has been in place since 2008, where central banks including the Fed, ECB, Bank of Japan (BOJ) and Bank of England (BOE) have readily boosted liquidity in financial markets by significantly lowering interest rates and implementing outright quantitative easing. This is a clear sign that central banks are more sensitive than ever to economic and market developments, and can respond swiftly as needed.

The Chinese government remains supportive

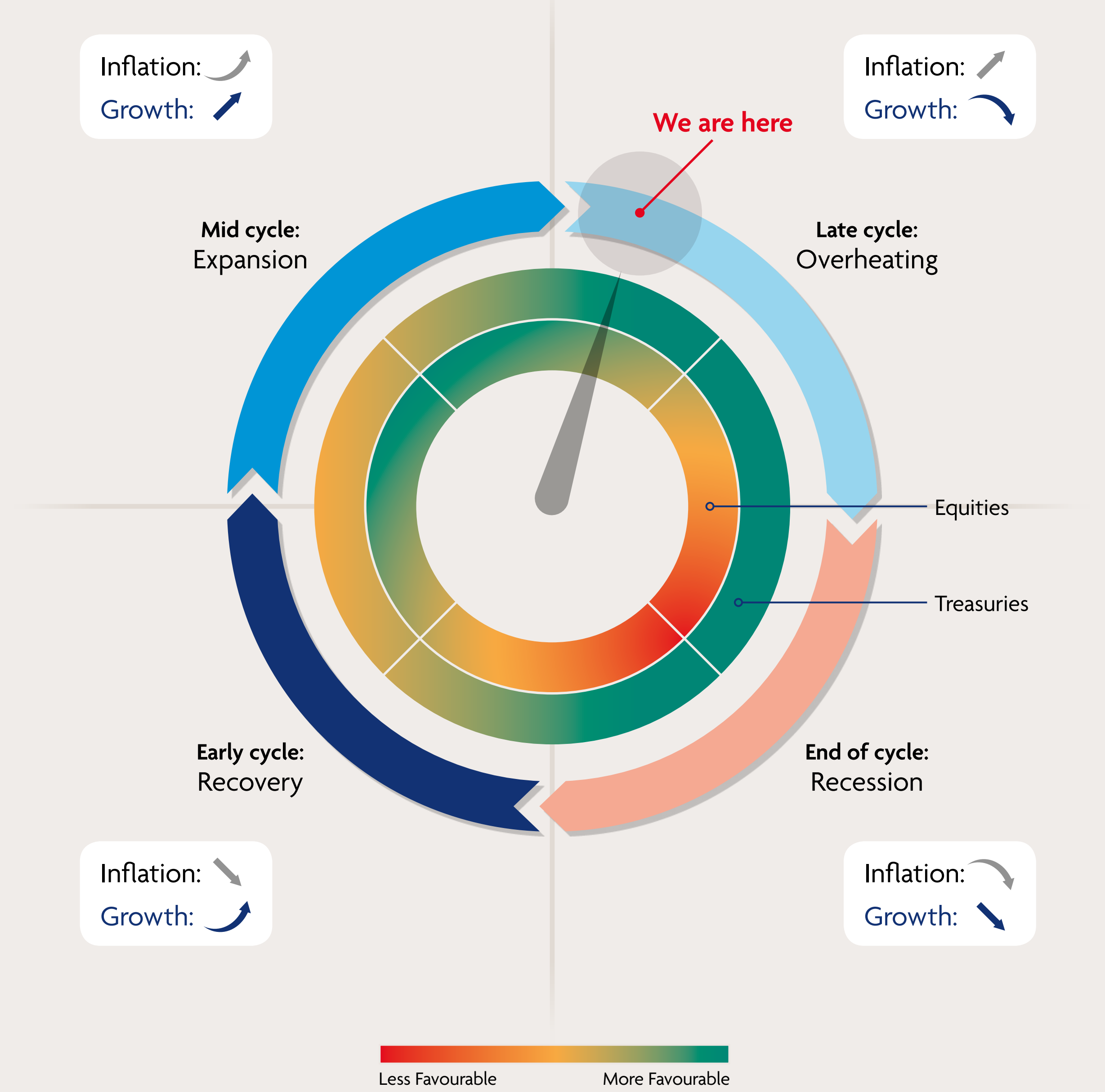
While China is likely to face further trade measures from the US, possibly until after the next US elections in 2020, it has the will and ability to shore up its domestic economy. The government has ample measures to stimulate growth in the short-term, such as further cuts in its bank reserve rate requirements to boost liquidity, tax cuts to stimulate spending, and fast-tracking of its infrastructure projects. China will likely remain a long-term driver of growth within Asia and the broader emerging market, buoyed by growing domestic consumption with the rise of its affluent middle class.

Impending recession unlikely with growth remaining positive

Such proactive support on the part of global governments is a key reason we expect that global growth will remain positive. We do not expect a recession any time soon as economic fundamentals are holding strong: Unemployment rates globally are at post-crisis lows, with the US, Europe and Japan unemployment rates standing at 3.6%, 6.4% and 2.6% respectively – while the J.P. Morgan Global Composite PMI stands at 51.2 as of May, indicating economic expansion. Global inflation continues to remain subdued, and there is therefore no need for liquidity tightening.

Based on these observations, it is likely that we are at the beginning of the late stage in the economic growth cycle, which is traditionally characterised by slowing growth and rising inflation. At this stage, global equities are likely to continue to deliver positive returns, albeit with higher volatility and lower short-term returns.

Economic Clock



Quality assets are more favourable amid an uncertain economic climate. Short-term volatility will provide opportunities to acquire assets at attractive valuations.

What approaches can investors consider?

Investors should remain mindful that as we enter into the late stage of the cycle, it is prudent to gradually move into quality assets. It could also be an opportune time to review your current investment holdings and make adjustments where necessary to take some profit and reduce your high-risk exposures.

Markets will likely remain volatile with Trump in the White House, and as geopolitical risks occasionally heat up. While short-term market volatility may be unsettling, investors could consider taking advantage of attractive valuations by buying good quality assets when markets dip. Investors could also consider asset classes that are less vulnerable to short-term market fluctuations, such as investment-grade bonds.

Key Risk Drivers and Events

Key risk drivers – US protectionism, European political uncertainty and slowing global growth – have been identified, which are critical to making informed investment decisions.

Key risk drivers

1

Rising US protectionism

US-China tensions escalated in May, after a trade deal failed to be reached in Washington. We expect trade negotiations to have some form of resolution by end-2019, but negotiations could be long-drawn, and fears are emerging that the trade war could evolve into a technology cold war, following the ban on Chinese tech giant Huawei. Furthermore, trade tensions on the European front could escalate with the Trump administration's plans to impose tariffs on European auto makers in the later part of the year.

Events calendar

2019 Jul

- **The US could implement a 25% tariff on USD 325 billion worth of Chinese goods.** The timeline for this is unclear and could be subject to a rolling deadline.
- **Japan upper house election.** Half of the 242 member seats of the House of Councillors will be up for election, for a term of six years.

2019 Aug

- The 45th **G7 summit** will be held from 25 to 27 August 2019 in Biarritz, Nouvelle-Aquitaine, France.
- **US Federal Reserve Jackson Hole Economic Policy Symposium** will take place.

2019 Sep

- ECB to launch the third round of quarterly **Targeted Longer-Term Refinancing Operations (TLTRO-III)**.

2

Political uncertainty in Europe

Political uncertainty continues to loom over Europe. UK Prime Minister Theresa May resigned in June after failing to deliver a successful Brexit deal, paving the way for a Conservative leadership race and potential general election. Populist parties have also increased their share of seats in the European parliament following the European parliamentary elections, gaining the political clout to oppose attempts to pass policies such as trade deals and the EU budget, which could hinder growth.

3

Global growth slowdown

A global growth slowdown could weigh on markets, which have already priced in economic stabilisation. Exporters in US and China are feeling the effects of the trade war, with businesses in trade-sensitive sectors such as agriculture and semiconductor manufacturing taking a particularly hard hit. Waning global growth could put downward pressure on global equity prices.

2019 Oct

- **The 43rd Canadian general election** is scheduled to take place on, or before 21 October 2019.
- **Japan to hike sales taxes from 8% to 10%.** Given soft growth data, it is increasingly questionable as to whether the sales tax hike will be implemented.
- **Mario Draghi ends his term as ECB President.** The risk is whether Draghi will be replaced with someone with a more hawkish stance.

2019 Nov

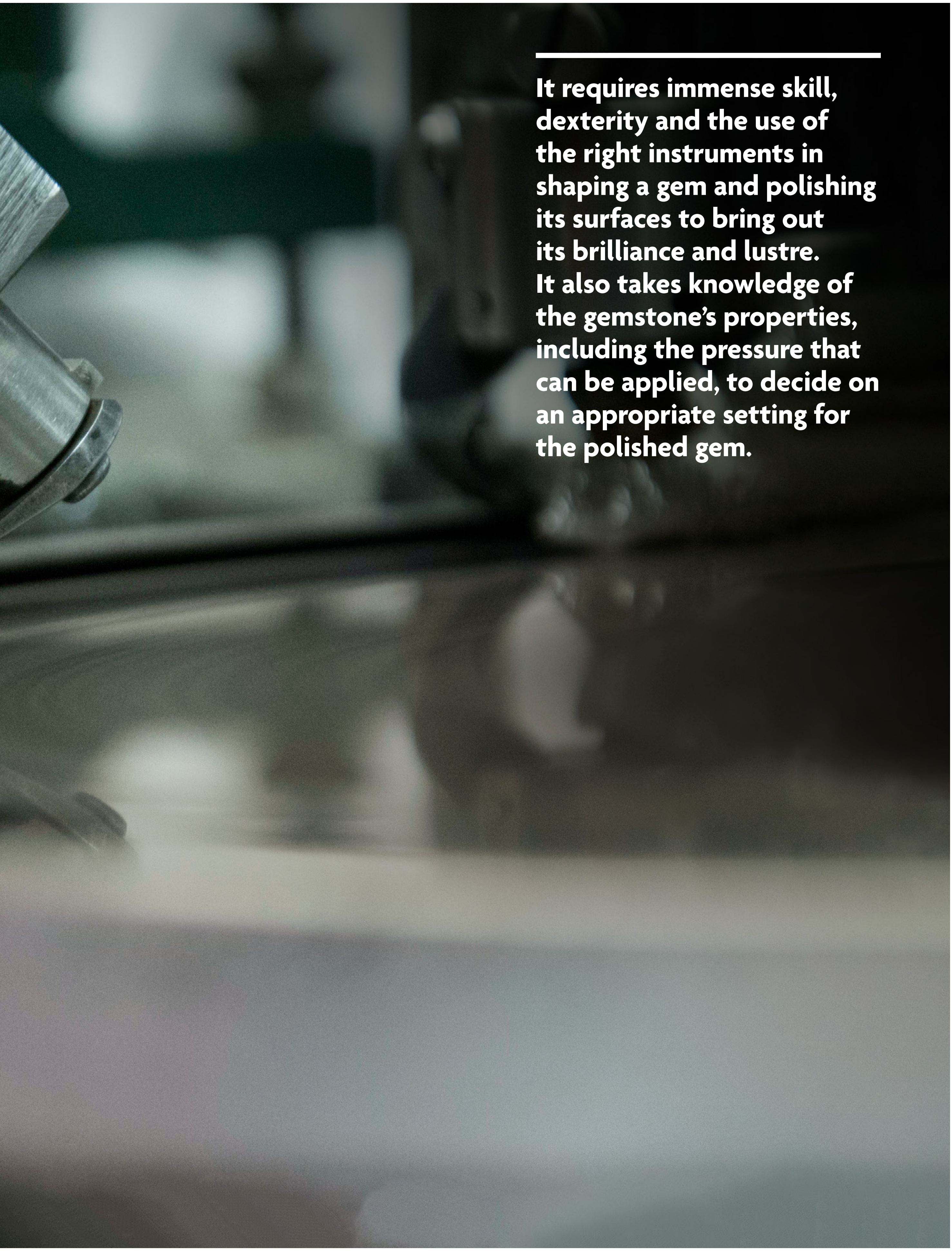
- **2019 Hong Kong local elections** are scheduled to take place.
- The **APEC Summit** is expected to take place in Santiago, Chile from 16 to 17 November 2019.

2019 Dec

- **The threat of auto tariffs may come back in focus.** After Trump delayed his decision on auto tariffs for six months, the threat of auto tariffs could be back in focus. Germany is particularly at risk.
- **The China Central Economic Work Conference** will be held to plan for its 2020 economic agenda.

Assets and Strategy

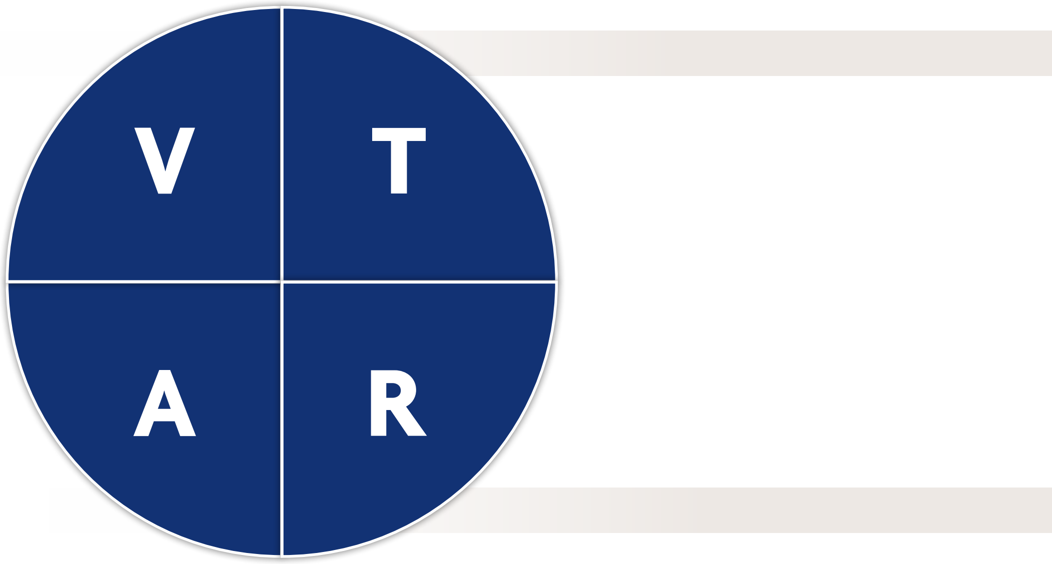
The interplay of various aspects of the investment climate influences the behaviour of different asset classes. Longer-term trends and development similarly shape the outlook for assets. It is by recognising these factors that we are able to identify high-conviction ideas and megatrends that underpin our investment strategies.



It requires immense skill, dexterity and the use of the right instruments in shaping a gem and polishing its surfaces to bring out its brilliance and lustre. It also takes knowledge of the gemstone's properties, including the pressure that can be applied, to decide on an appropriate setting for the polished gem.

VTAR Framework

The VTAR framework provides a holistic overview of financial markets across various time periods, with each component – Value, Trend, Activity and Risk – giving a different perspective on each investment idea.



Using VTAR to identify ideas

We use the VTAR (Value, Trend, Activity, Risk) framework to evaluate the performance of financial markets, and to identify specific investment ideas. VTAR complements our UOB House View, where we identify investment ideas within individual asset classes.

The VTAR framework provides a holistic overview of financial markets across various time periods, with each component – Value, Trend, Activity and Risk – providing a different perspective on each investment idea. In a nutshell, the framework enables us to analyse and make sense of large volumes of data, providing investors with valuable market insights.

The insights outlined in VTAR are further studied by the UOB PFS Investment Committee. The committee examines and deliberates over the available data, identifying key risks and coming to an eventual vote on the attractiveness of each potential investment idea.

Working within this structured framework and holding to our Risk-First philosophy, we identify and provide insight on key opportunities available in the market.

Value

Investor's question	Purpose	Common Indicators		
Is it cheap or expensive now?	Identifying investments with attractive valuations and earnings potential.	**Price-to-Earnings ratio (P-E ratio)**	**Earnings growth (EPS growth)**	**Option-Adjusted Spreads (OAS)**
		The amount you are paying for each dollar that a company earns. This indicates the value you get for the price you pay. Lower is cheaper.	A measure of how a company grows its profitability. This indicates the potential increase in value when you invest in a company. Higher is better.	The additional yield to be earned when buying a bond that is riskier than government bonds. This indicates how well you are compensated for taking on additional risk in bonds. Higher is riskier.

Trend

Investor's question	Purpose	Common Indicators		
Is it likely to rise in the future?	Understanding the trend of the investment.	**Simple Moving Averages (MAs)**	**Relative Strength Indicator (RSI)**	**Fund flows**
		MAs filter out noise from random short-term price fluctuations, providing an indication of the trend and momentum. The price level crossing above the moving average is positive.	A quantitative indication of whether the current price is either too high or too low, and the potential for a trend reversal.	The net cash flow in or out of a financial asset, which indicates the demand for a particular asset by major market participants. Higher fund flows indicate more demand.

Activity

Investor's question	Purpose	Common Indicators		
What is the market environment like, and what are the underlying drivers of performance?	Understanding the macro environment and business activities that may affect performance.	**Central bank policies**	**Composite Purchasing Managers Index (PMI)**	**Industrial Production (IP) and retail sales**
		An indication of expansionary or contractionary monetary policy, an important factor that has broad implications on the overall economy. Looser policies stimulate the economy, while tighter policies prevent the economy from overheating.	A leading indicator of economic health. This indicates the level of optimism in private sector economies. Above 50 is expansionary, below 50 is contractionary.	A measure of both production and consumption activity, which provides an indication of the overall economy. Higher is better.

Risk

Investor's question	Purpose	Common Indicators		
What are the risks that I need to be aware of?	Identifying key markets risks and potential mitigating factors.	**Geopolitical events**	**Industry- or region-specific events**	**News flows**
		The effect of politics and international relations on financial markets.	Assessment of regulatory change or policy change for industries/sectors.	Monitoring and understanding the importance of various news events and their potential impact on financial markets.

Our Strategy H2 2019

Geopolitical developments could continue to drive market sentiments, while global central banks are likely to turn increasingly dovish in H2 2019. We recommend adopting a prudent approach by moving to quality assets while staying invested.

Equities

Quality equities should stay resilient, while attractive valuations may be found in Emerging Market (EM) equities. Supportive global central banks are likely to lend support to equity markets.

High-conviction ideas

Global quality equities
We favour quality stocks with strong fundamentals, such as a high return on equity, stable year-on-year earnings growth and low financial leverage, which tend to be more resilient during a market downturn. Valuations are on the more expensive side because of their defensive factors.

EM equities
Broad EM equities should receive support as central banks in both developed markets and emerging markets relax their monetary policies. Stimulus measures by the Chinese government could also lift other Asian markets.

Megatrend ideas

Chinese equities
The long-term outlook for Chinese equities remains positive. Despite short-term effects of US-China trade tensions, the Chinese government's supportive policies could be a mitigating factor, providing opportunities to accumulate Chinese equities at attractive valuations.

Global healthcare equities
The global healthcare sector is poised for longer-term growth. Markets seem to have overreacted to the news of a "Medicare-for-all" plan proposed by US Democrats, creating an opportunity for investors to accumulate healthcare equities on dips.

AI & innovation equities
The Artificial Intelligence (AI) industry is expected to drive significant growth, with applications that are disrupting the way numerous industries work. There is further room for the sector to grow with the development of novel technologies.

Fixed income

Asian Investment-Grade (IG) bonds should continue to show resilience as regional monetary conditions ease, corporate fundamentals remain strong, technicals stay supportive and valuations are reasonable.

Asian IG bonds

We prefer Asian IG bonds as they are likely to stay resilient amid an uncertain global climate. Corporate credit fundamentals should remain strong, while the demand for Asian credit continues to be robust. Despite a rally in H1 2019, credit valuations still appear reasonable and are more attractively-valued relative to the US and other markets.

Currencies and commodities

Most G10 currencies should strengthen against the US dollar as the Fed begins rate cuts in H2 2019, while Asian currencies could weaken against the US dollar on continued US-China trade tensions.

Prefer the Euro

Despite a lowered forecast, the Euro is likely to be supported as the European Central Bank (ECB) has less room to cut rates, and investors are increasingly focusing on upcoming rate cuts by the US Federal Reserve (Fed) and the relative weak US dollar.

Prefer the Australian dollar

Despite a recent rate cut by the Reserve Bank of Australia amid a softening economic outlook, we prefer the Australian dollar as it appears oversold, suggesting that most negative market news has already been priced in.

Gold

Gold is our preferred commodity play in view of upcoming Fed rate cuts, China allocating more of its reserves into gold throughout H1 2019, and a softening US dollar.

Equities

- Positive
- Neutral
- Negative

Despite relatively high valuations, global quality equities are favoured amid a softening global economy for their strong fundamentals.

High-conviction idea – Global quality equities

Positive outlook for global quality equities

Softer global economic activity and the possibility of heightened US-China trade tensions could call for more defensive positioning in equities. We recommend being selective on equities, with a focus on quality stocks with strong fundamentals, characterised by having a high return on equity, stable year-on-year earnings growth and low financial leverage.

Economic activity: softening, but still expanding

Global economic activity strengthened in the first quarter, but showed signs of softening in the second quarter. The global composite PMI climbed from 52.1 in January to 52.8 in March, but declined to 51.2 in May. Despite trending lower, the composite PMIs in key regions such as the US, China, Europe and Japan are still above 50, indicating economic expansion.

Quality stocks: lower drawdowns and faster recovery

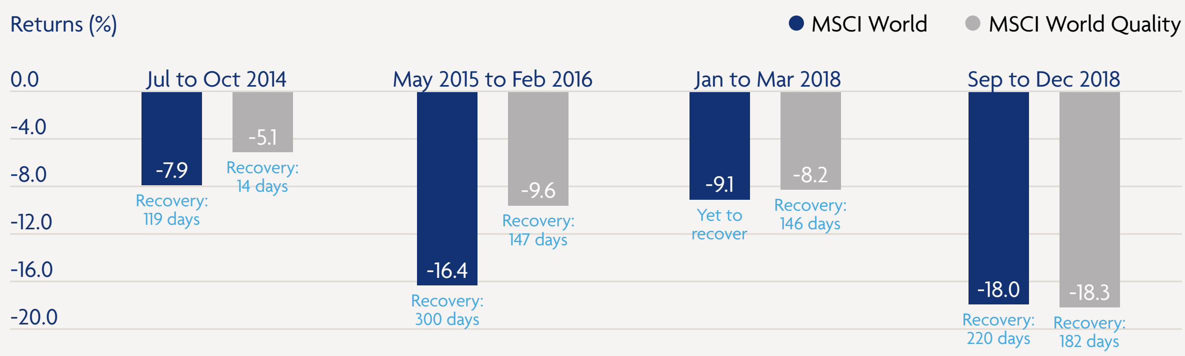
In soft economic conditions, quality stocks are preferred. Quality stocks generally have lower drawdowns, bouncing back more quickly from losses, as investors value companies which have demonstrated financial stability in turbulent times. From October to December 2018, while global quality stocks and broad equities both fell 18% from their peaks, global quality stocks recouped all their losses by end-March 2019, while global equities only recovered a month later. Taking the May sell-off into consideration, global quality stocks returned 12.5% year-to-date by end-May, while global equities returned 9.8% over the same period.

Relatively expensive valuations

Quality stocks are trading at a premium to the broad market. The forward P-E ratio of quality stocks is at 17.5x, compared to the forward P-E of global equities at 15x. These higher valuations could lead to periods of underperformance.

Figure 2

Global quality stocks have lower drawdowns and shorter recovery period



Source: Bloomberg, 31 May 2019

Positive
Neutral
Negative

After a rally from the beginning of 2019, EM equities have seen declines which could provide investment opportunities at attractive valuations.

High-conviction idea – Emerging market equities

Finding value in Emerging Market (EM) equities

As central banks in both developed markets and emerging markets relax their monetary policies, EM companies are likely to get cheaper funding. Stimulus measures by the Chinese government to prop up the Chinese economy are also likely to give other Asian markets a boost.

Higher activity, cheaper debt

Several factors are likely to give earnings a boost, including cheaper debt as the EM central banks start to cut rates accompanied by positive GDP revisions. The financial sector, which accounts for a quarter of EM market capitalisation, is showing significant positive earnings revisions, which could offset negative earnings revisions in the cyclical technology sector, consisting mainly of semiconductors. EM equities are currently trading at a fair P-E ratio of 11.5x, and at about a 20% discount to global equities.

Central banks supportive

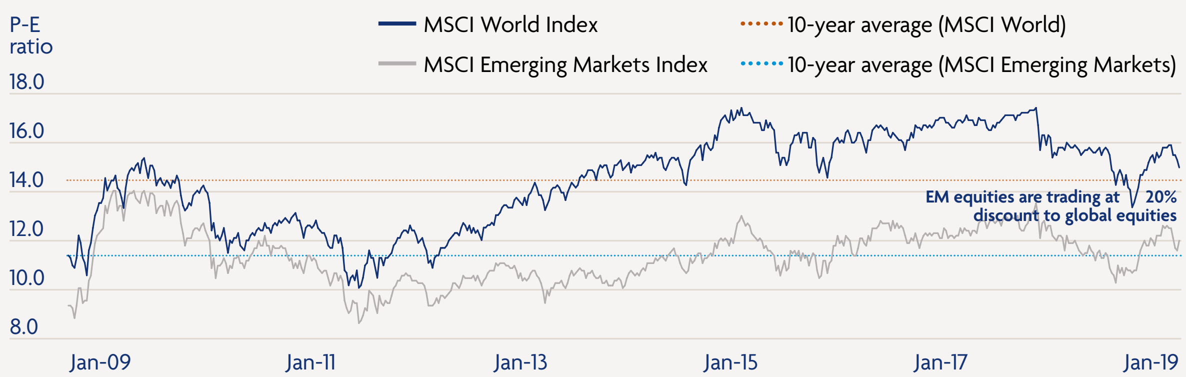
Global liquidity conditions remain supportive. The Fed's "Powell Put" – the point below which Fed Chairman Jerome Powell would not let the market fall before intervening – is in place, while the ECB's dovish stance should also offer reassurance. Against this backdrop, the risk of hot money exiting EM capital markets should now be lower. There is also limited risk of market-specific issues in vulnerable economies, such as Argentina and Turkey, affecting other markets – assuming global growth is not derailed by an escalating trade war.

Political risks loom

Political factors, however, remain a source of uncertainty. While we still believe the US and China are likely to reach a truce in order to protect their interests, open hostile exchanges between both sides could result in short-term market volatility. EM equities are also affected by their own country-specific issues – investors should therefore look closely at each specific market and be more selective with their investments.

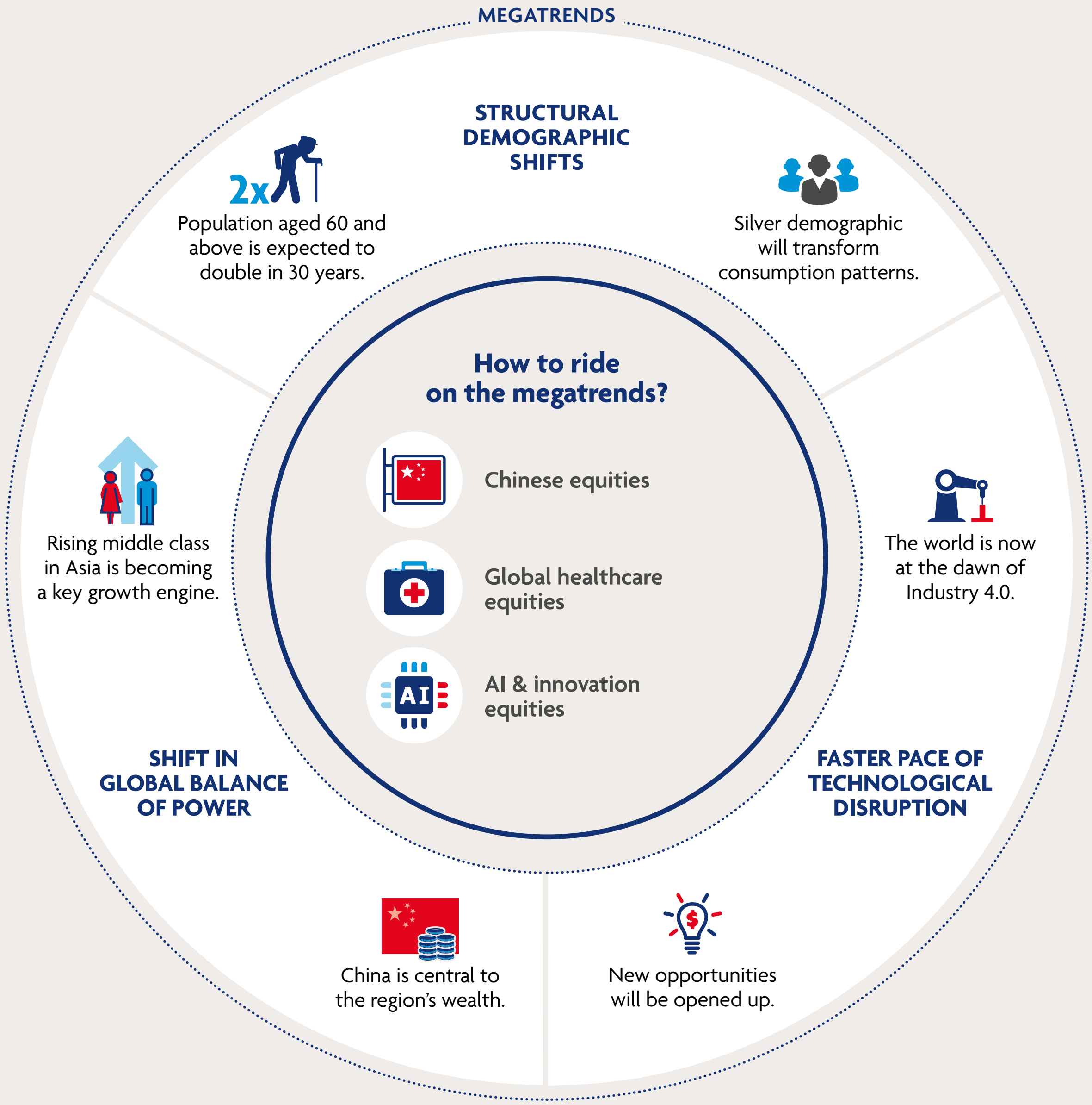
Figure 3

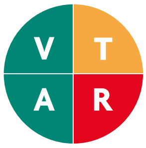
EM equities are trading at a discount to global equities



Source: Bloomberg, 31 May 2019

Megatrends are deep-rooted, transformative forces that reshape the future of the global economy.





- Positive
- Neutral
- Negative

Supportive measures by the Chinese government could bolster Chinese equities, mitigating the effects of US-China trade tensions.

Megatrend idea – Chinese equities

Chinese equities – an opportunity for good returns

Chinese equities started the year strong, but faced downward pressure as US-China trade tensions continued to escalate. Still, the long-term outlook for Chinese equities remains positive. The short-term effects of US-China trade tensions could be offset by the Chinese government's supportive policies, and investors should take advantage of attractive valuations following any major sell-offs of Chinese equities.

Consumption-driven growth

China is making the shift towards becoming a more consumption-driven economy that is less reliant on exports. In 2018, consumption accounted for almost 80% of China's GDP growth, and the trend is expected to continue with a slew of supportive measures such as income tax cuts late last year.

Global tech dominance

China has made strides in transforming its manufacturing sector, putting it on track to becoming a world leader in artificial intelligence (AI). China's vast domestic market generates large volumes of consumer data from online transactions, giving China the ability to further develop its AI capabilities. In 2018, China's AI industry led global rankings for funding, with 557 out of 745 AI enterprises worldwide, and raising a combined total of USD 55.4 billion[1], twice that of the previous year's figure.

China A-shares on track for further MSCI inclusion

As scheduled, MSCI increased China A-Shares' allocation from 0.9% to 1.8% in the MSCI Emerging Market Index at end-May, and will continue to increase the allocation to 3.3% (20% inclusion factor) by November. This figure is expected to rise even further in phases over the next few years, with the potential to reach up to 28% (100% inclusion factor) ultimately. There have been outflows of USD 10 billion recently following a strong rally and escalating trade tensions, but this amount has paled in comparison to inflows of USD 55 billion in 2018 and USD 19 billion in Q1 2019. Furthermore, with many investors still underweight on China A-shares, these outflows are likely to be short-lived.

Nimble policy responses

China's policy responses to economic developments have been flexible and adaptive, as the rebound in credit growth in the first quarter and bank reserve ratio cut in May 2019 have demonstrated. Renewed trade tensions are likely to prompt further supportive measures by the Chinese government – especially with the upcoming 70th anniversary of the founding of the People's Republic of China in October.

Undemanding valuations

Current valuations of Chinese equities remain undemanding, with a forward P-E multiple of 11x, close to the 10-year average. As Chinese fiscal stimulus measures take effect, corporate earnings are likely to pick up in the later part of the year.

Trade tensions and government policies remain key risks

US-China trade tensions continue to be a key risk, in light of recent escalations. As the Chinese government strives to strike a balance between structural change and economic stimulus, a policy misstep in the form of overtightening could put a dent in market confidence and economic performance as a whole.

1 China's AI industry poised to enter boom times, Global Times, a subsidiary of The People's Daily (19 May, 2019)

Positive
Neutral
Negative

Despite short-term volatility, global healthcare equities look poised for long-term growth as the global population ages and innovative technologies drive further growth.

Megatrend idea –
Global healthcare equities

Global healthcare sector is poised for long-term growth

The global healthcare sector has been dogged by policy concerns and uncertainty in recent years. Despite this, fundamentals show that the sector is poised for longer-term growth. Markets seem to have overreacted to the news of a "Medicare-for-all" plan proposed by US Democrats, creating a good opportunity for investors to accumulate healthcare equities on dips.

Structural growth in healthcare equities

The healthcare sector will likely continue to grow in the long term on the back of an ageing global population and continuing innovation. The World Health Organization forecasts that between 2015 and 2050, the proportion of people over 60 in the world's population will almost double from 12% to 22%[2]. Global healthcare expenditure is likely to expand to USD 24.5 trillion in 2040[3], up from USD 9.2 trillion in 2014.

Furthermore, innovation and the development of new methods of diagnosis and treatment will continue to drive the long-term growth of the healthcare sector. Exciting progress has been made on several fronts, with advancements in the treatment of conditions such as tough-to-treat cancers and Alzheimer's disease. Alzheimer's disease can now be detected in brain scans six years before a clinical diagnosis with a new method which combines neuroimaging with machine learning.

Short-term volatility

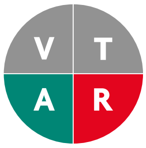
Despite the promise of long-term growth in the healthcare sector, short-term volatility is to be expected when investing in this sector. As the need for healthcare grows and healthcare costs escalate, governments are increasingly proposing healthcare reforms to keep healthcare affordable. Such policies will affect drug prices and treatment costs.

The Medicare-for-all plan proposed by US presidential hopeful Bernie Sanders in April 2019 is one example of such a policy that has led to concerns over downward pressure on the prices of healthcare products and services. However, investors might be reacting too much, too early – political and fiscal challenges suggest that the likelihood of full implementation is still relatively small.

Attractive valuations with strong earnings growth

Valuations are now attractive as a result of short-term volatility, with the P-E ratio at 16x, well below the highest level of 31x in 2000. Forecasts by FactSet estimate healthcare revenues to grow by 12% this year – the highest among all sectors, well above the 5% growth forecast for the S&P 500. Furthermore, healthcare equities are now relatively oversold, indicating a possible rebound in the years to come.

2 Aging and Health, World Health Organization (5 February, 2018)
3 Future and potential spending on health, 2015–2040, The Lancet (19 April, 2017)



- Positive
- Neutral
- Negative
- Not Applicable

AI has become a key driving force in today's globalised world, and is likely to be a significant source of growth in the years to come.

Megatrend idea – Artificial Intelligence (AI) & innovation equities

Opportunities in AI & innovation equities

The fourth industrial revolution – an era of rapid technological advancement – is upon us. In recent years, AI has been a driving force behind how companies conduct businesses, becoming an increasingly important part of everyday life. Companies that are best able to use innovation to their advantage are likely to capture a larger portion of industry profits than their competitors.

More growth to come

The uses of AI extend beyond the tech sector. AI is driving innovation across industries: In finance, for example, AI is revolutionising lending with the use of machine learning to evaluate potential borrowers. In retail, AI assistants can now answer questions about products and availability in physical stores. Deep learning is being used to help retailers deliver a superior customer experience by helping them better understand customer preferences and choices.

This widespread disruption is why more people and companies are investing into AI. Venture capital funding for US-based AI start-ups has surged 350% between 2013 and 2017, and doubled for the rest of the world over the same period. Still, there is more room for this sector to grow, with the development of new technologies like smart assistants, autonomous vehicles and AI medical diagnostics, among others. AI is projected to drive global GDP gains of USD 15.7 trillion by 2030[4], making it one of the most significant drivers of global growth in the foreseeable future.

Good investment potential

The long-term promise of the AI and innovation sector offers opportunities to reap future returns as businesses benefit from greater productivity and the ability to offer more customised services. According to research by the McKinsey Global Institute in July 2017, companies with proactive AI strategies have achieved higher operating profit margins than their industry peers. On average, companies which embraced AI saw a 7% margin improvement relative to the industry average, while companies which did not saw a 2% margin decline.

Privacy concerns a risk to growth

Despite the promising industry outlook, privacy concerns related to these new technologies could put a dampener on the sector's growth. The US and Europe are increasingly regulating tech giants such as Google and Facebook with regulations such as the General Data Protection Act (GDPA) and the California Consumer Protection Act (CCPA), slapping hefty fines on them for non-compliance with privacy rules.

Such laws and regulations governing AI and other related technologies are, however, not well-established – it could be possible for regulators to implement policies curbing the use of AI, while different standards across countries could also hinder widespread adoption of certain technologies.

[4] PWC Global Artificial Intelligence Study, Sizing the Prize (27 June, 2017)

Fixed Income

- Positive
- Neutral
- Negative

Asian IG bonds should receive support from easing regional monetary conditions and strong demand amid an uncertain global economic environment.

Asian Investment-Grade (IG) bonds to remain resilient

Asian IG bonds are likely to stay resilient as regional monetary conditions ease, corporate fundamentals stay strong, and valuations are reasonable.

Dovish central banks limit rate hikes

The Fed has signalled an end to its interest rate hikes for 2019, amid heightened US-China trade tensions that threaten to put a drag on growth. Asian central banks – including Bank Negara Malaysia (BNM), Bank Indonesia (BI), and the Reserve Bank of India (RBI) – are also adopting a more accommodative stance, switching to rate cuts to address slower growth.

Sound corporate fundamentals

We expect Asian corporate credit fundamentals to hold stable. With just a fraction of the IG corporate sector in Asia having meaningful direct exposure to the US, US-China trade tensions will probably have a limited impact on credit fundamentals. Asian IG corporates have deleveraged over the last few years, and look well-prepared to weather the tougher times ahead. The net debt/earnings before interest, tax, depreciation and amortisation (EBITDA) ratio, which indicates a company's ability to pay its debt, fell from 1.8x in 2014 to 1.3x in 2018 – indicating that companies are taking on less debt relative to their earnings, and are in stronger positions to service their debt. Another measure, cash to total debt, mirrored this – improving from 25% in 2014 to 34% in 2018.

Reasonable credit valuations

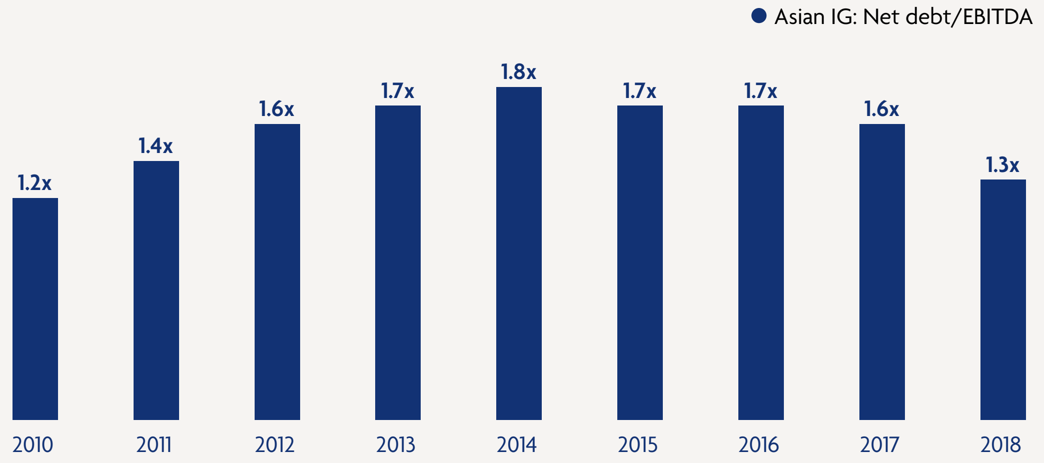
Credit valuations are still reasonable despite a rally in the first half of 2019. Asian IG bonds offer a yield-to-maturity of 4.3%, above the historical average over the last five years. On a risk-adjusted basis, Asian corporate credit is still trading fair, relative to the US and other emerging markets.

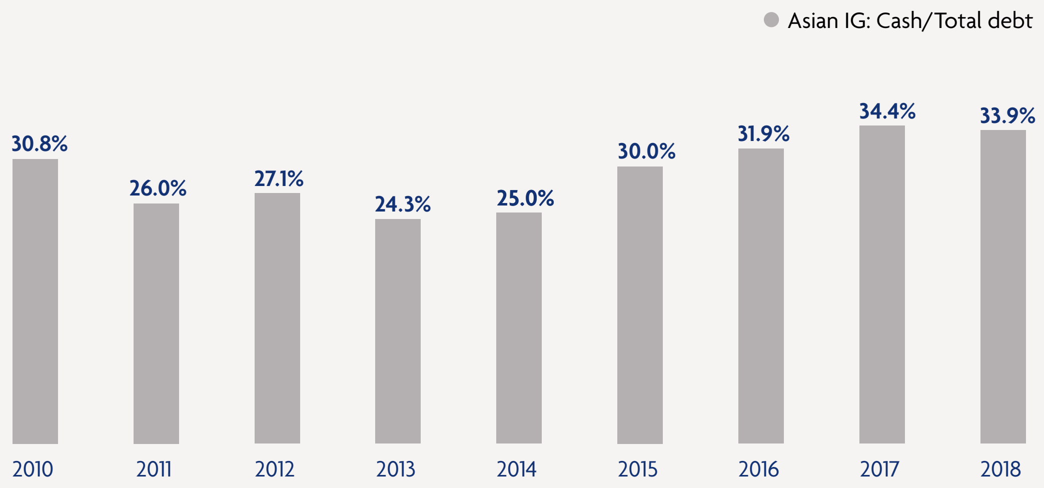
Technicals remain supportive

The supply and demand dynamics for Asian credit is likely to stay supportive. Despite swings in investor sentiment in emerging markets due to heightened US-China trade tensions, the demand for Asian credit is likely to stay strong, driven by a healthy onshore demand from China. On the supply side, Chinese companies are issuing more onshore bonds, following the relaxing of bond issuance rules for top-rated Chinese firms late last year. This should alleviate pressure on the offshore secondary bond market.

Figure 4

Asian IG's credit fundamentals have improved





Source: J.P. Morgan Research, 30 April 2019

Currencies and Commodities

Most G10 currencies are expected to strengthen against the US dollar as the Fed is expected to begin interest rate cuts in the second half of the year.

Most G10 currencies expected to strengthen against the US dollar

The US dollar index strengthened from 96.2 at the beginning of 2019 to 97.8 at the end of May, on the back of strong US economic data and heightened US-China trade tensions. However, the strength of the US dollar against its G10 counterparts could peak as markets expect the Fed to begin interest rate cuts in H2 2019. We therefore expect the US dollar index to return to the 94 range.

Even though our forecasts for the Euro and the Australian dollar have been lowered, we maintain our preference for these currencies. We expect relative weakness in the US dollar, due largely to investors shifting their focus to possible Fed rate cuts in H2 2019.

The Euro will likely be buoyed despite an accommodative European Central Bank (ECB). In contrast to the 50bps of rate cuts expected from the Fed, the ECB may cut rates by only 10bps if economic data in Europe continues to deteriorate. Therefore the interest rate gap between Europe and the US should continue to narrow. The Reserve Bank of Australia (RBA) has recently cut its cash rate to 1.25% amid a softening economic outlook. The Australian dollar however appears oversold, suggesting that most negative news has already been priced in. Our forecast for AUD/USD is 0.69 by the end of 2019.

The Japanese yen could benefit from ongoing market volatility. As US Treasury yields continue to fall and risk aversion persists, the Japanese yen could continue to strengthen. USD/JPY is expected to move to 106 by Q4 2019.

On the other hand, we advise caution on the British pound as the fate of Brexit remains uncertain. The incoming British PM will exert considerable influence in the nomination of a new Bank of England (BOE) governor, adding to the already uncertain policy environment. Until a successful Brexit deal is reached, GBP/USD will likely stay depressed below 1.30.

The Chinese yuan could see weakness on US-China trade tensions and soft economic data, while the outlook for other Asian currencies is likely to be muted.

Asian currencies could face pressure

Unlike their G10 counterparts, Asian currencies could face headwinds in the days ahead. Trade tensions and soft economic data could weigh on the Chinese yuan in April, monthly industrial output fell from 8.5% to 5.4% year-on-year, while retail sales fell from 8.7% to 7.2% year-on-year. China has also seen its current account surplus dwindle in line with structural changes in the economy. Given these developments, while we see near-term stability in USD/CNY under 7.0 across H2 2019 – stopping short of a trade resolution and scaled-back tariffs – the risk of further Chinese yuan weakness past 7.0 early next year remains.

The Singapore dollar also faces pressure from a challenging global economic environment, pushing USD/SGD towards 1.40. The outlook for growth and inflation has worsened over the past quarter. The Singapore government revised its 2019 GDP target down to between 1.5-2.5%, from 1.5-3.5%. At the same time, the Monetary Authority of Singapore has downgraded its core inflation forecast to 1-2%, down from earlier estimates of 1.5-2.5%.

Other Asian currencies face a similarly muted outlook, and are likely to continue trading in tandem with the Chinese yuan. While we expect Asian currencies to hold close to current levels for the rest of the year, they are likely to slide in the first half of 2020 as regional central banks such as Bank Negara Malaysia (BNM) and Bank Indonesia (BI) adopt a more accommodative monetary policy stance.

Gold should show continued strength in H2 2019, with the Fed's upcoming potential rate cuts, a softening US dollar, and China allocating more reserves into gold.

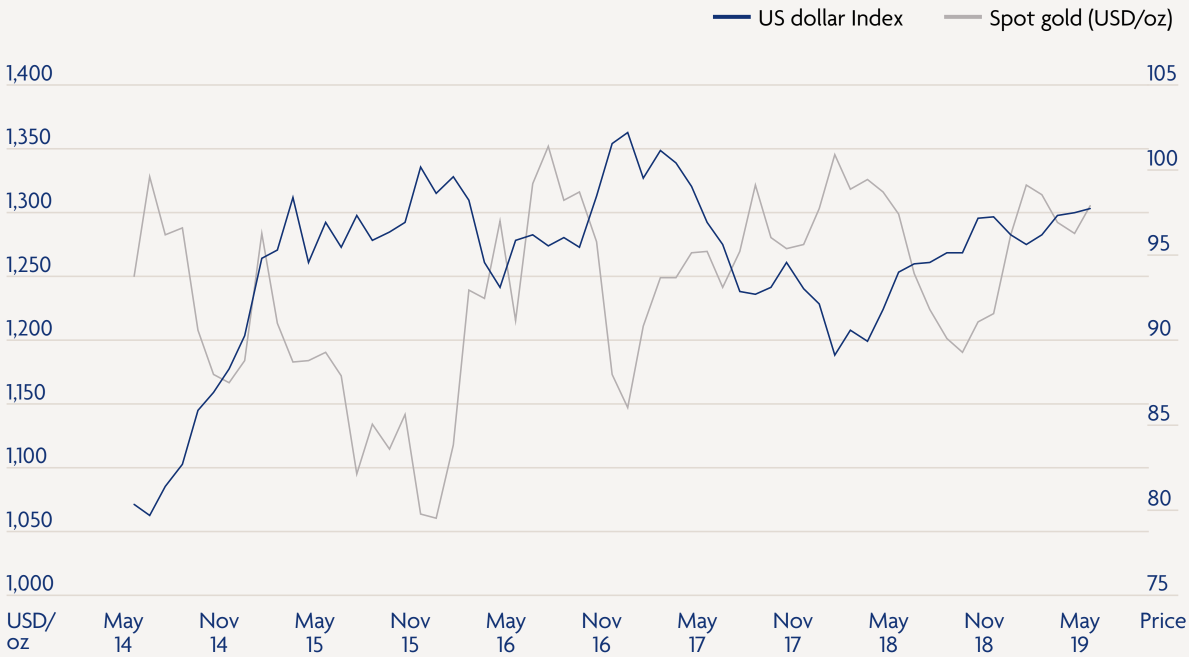
Gold: the preferred commodity play

The outlook for gold is likely to be positive moving into the second half of the year, on the back of several key developments. Upcoming potential rate cuts by the Fed in September and December, coupled with a softening US dollar, are likely to bode well for gold. In addition, China's gold reserves have climbed throughout Q1 2019, hitting 61.6 million ounce (oz) at end-May 2019. This renewed climb in China's gold reserves comes at a sensitive time – amid US-China trade tensions – and though Chinese officials have not specifically spoken of it, China could be embarking on a renewed allocation of reserves into gold.

Against this favourable backdrop, we expect gold to show continued strength. We project that gold will rise further to USD 1,450/oz by Q4 2019, and USD 1,480/oz by Q1 2020.

Figure 5

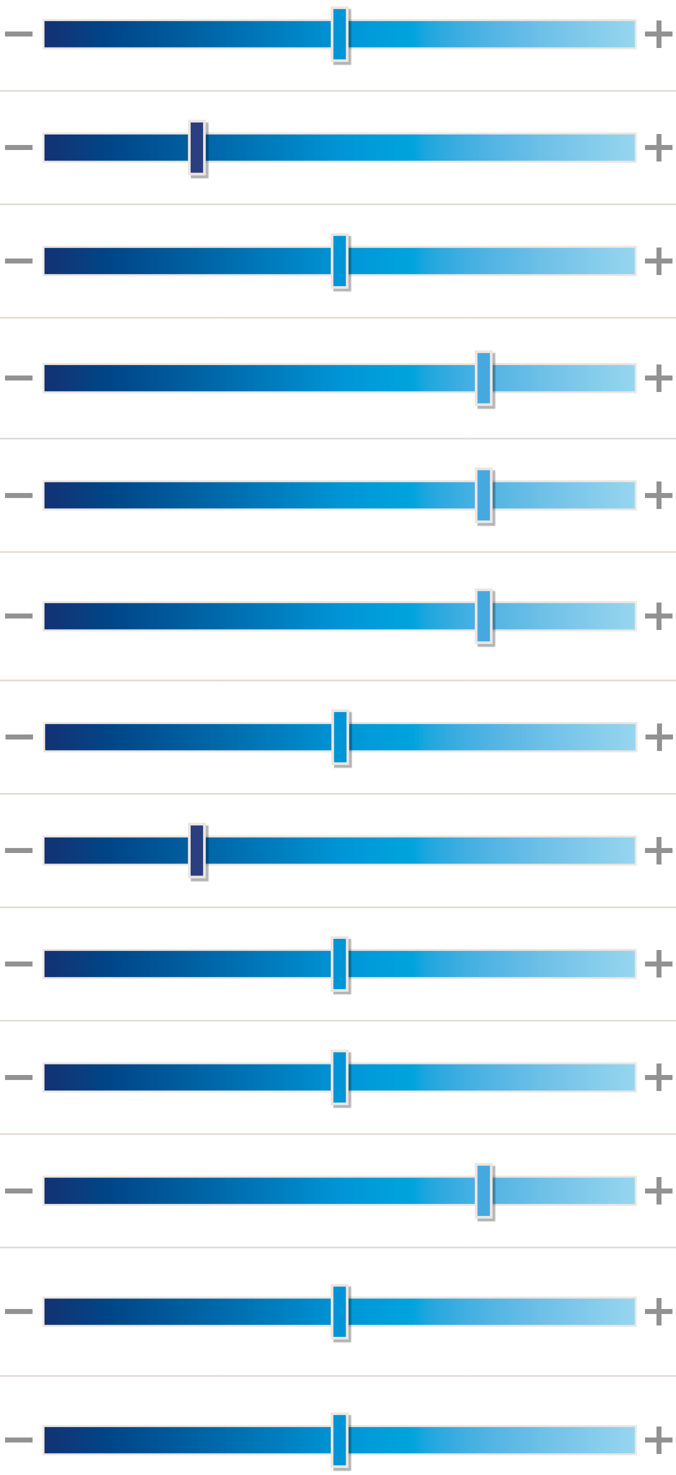
Gold tends to perform well when the US dollar weakens



Source: Bloomberg, 31 May 2019

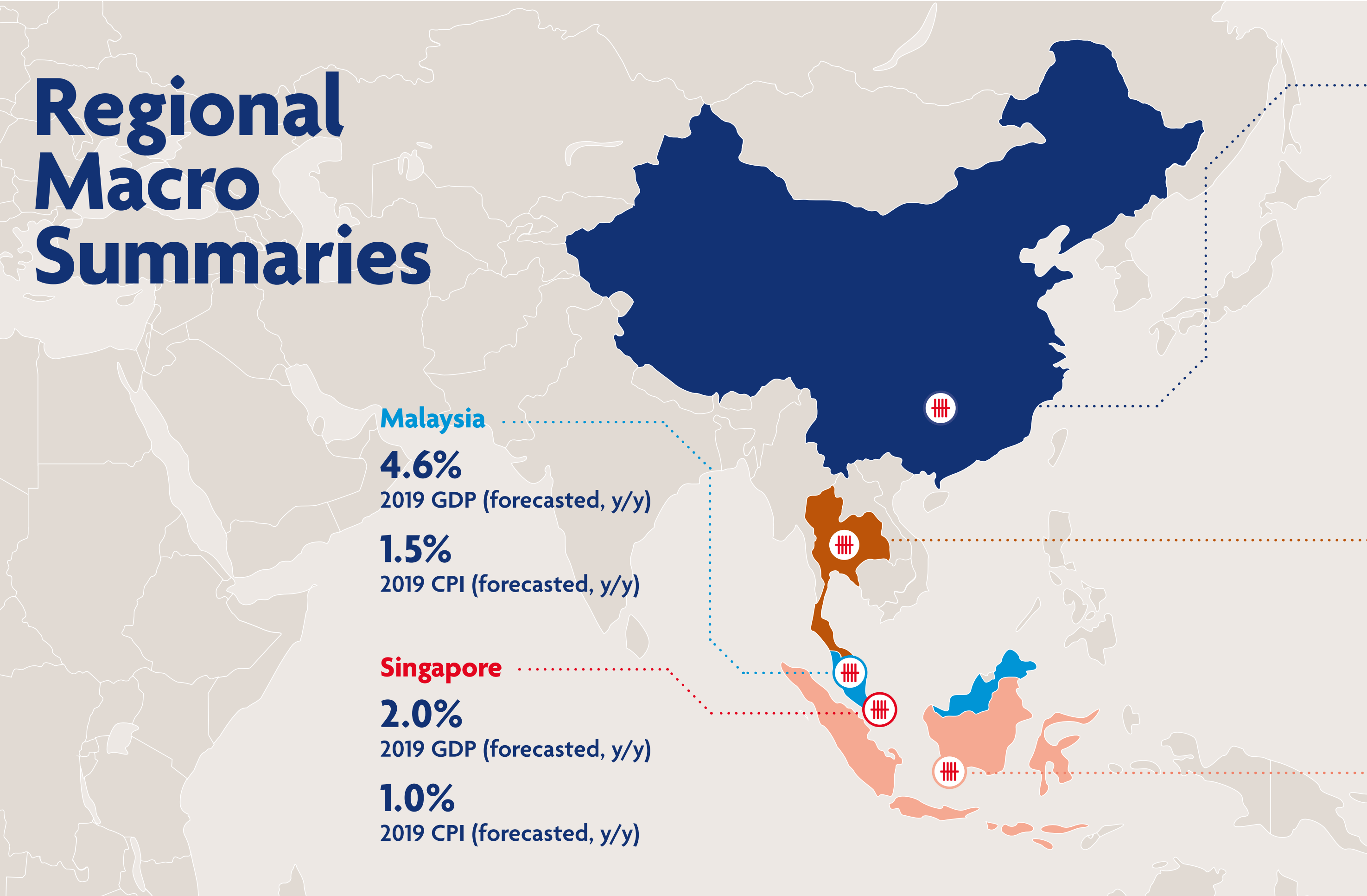
Asset Class Views

Asset class	Subclass	Views
		Negative / Neutral / Positive
Equities	US	
	Europe	
	Japan	
	Asia (ex-Japan)	
	EM (ex-Asia)	
Fixed income	DM government bonds	
	DM investment-grade bonds	
	DM high-yield bonds	
	EM US dollar debt	
	EM local-currency debt	
Commodities	Gold	
	Oil	
Currencies	The US dollar	



VTAR framework	Rationales/drivers
● Positive ● Neutral ● Negative	
V (Neutral) T (Neutral) A (Neutral) R (Negative)	Slightly expensive valuation, and US-China trade tensions could hurt consumer and business sentiments.
V (Neutral) T (Neutral) A (Negative) R (Negative)	Valuations are attractive relative to the US. However, growth is slowing and volatility is expected to remain high due to EU political instability.
V (Positive) T (Neutral) A (Neutral) R (Neutral)	Attractively valued, although global trade tensions are weighing on business sentiment. The consumption tax hike scheduled in October remains a risk.
V (Positive) T (Neutral) A (Neutral) R (Negative)	Valuations are attractive relative to DM peers. Escalation in US-China trade tensions could negatively impact growth, but this could be mitigated by easing monetary policies by regional central banks and fiscal stimulus by Chinese government (Prefer China).
V (Positive) T (Neutral) A (Neutral) R (Neutral)	Valuations are attractive relative to DM peers. A Fed pause in rate hikes and stable oil prices could support equity returns in 2019.
V (Negative) T (Positive) A (Positive) R (Positive)	The Fed, the ECB and the Bank of Japan (BOJ) are expected to remain dovish with no rate hikes expected for 2019. US Treasuries offer better value than government bonds in other developed markets.
V (Neutral) T (Neutral) A (Neutral) R (Positive)	Still provides an attractive yield pick-up versus Sovereigns. However, US corporate credit fundamentals in the BBB space are starting to deteriorate.
V (Neutral) T (Neutral) A (Neutral) R (Negative)	High-yield bonds offer some income buffer, but default rates are projected to climb higher as the economy enters late-cycle expansion amid an uncertain economic climate.
V (Neutral) T (Neutral) A (Neutral) R (Neutral)	Spreads have narrowed after the year-to-date rally. Easing in global central banks provides support to the EM US dollar debt. Prefer Asian investment-grade bonds.
V (Neutral) T (Neutral) A (Neutral) R (Negative)	EM sentiment soured as US-China trade talks broke down. EM currencies could weaken against the US dollar, weighed down by a weaker Chinese yuan.
	A halt in the Fed's rate hikes is positive for gold. China's reallocation of reserves into gold will provide a support level. Target USD 1,450/oz by end-2019.
	Production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and loss of production in Iran and Venezuela should keep prices stable. However, the upside is capped by an increase in production in the US and concerns over slower global growth.
	A dovish Fed will result in the US dollar weakening against the G10 currencies. The Singapore dollar is expected to depreciate slightly against the US dollar, weighed down by a weaker Chinese yuan. Prefer the Euro and Australian dollar.

Regional Macro Summaries



Equities:
The outlook for regional equities is mostly neutral, with the exception of China equities which are seeing attractive valuations after a sell-off in May.

Fixed income:
Regional bond markets are unlikely to see much volatility in the coming months, supported by supportive monetary policies and limited bond supply.

Currencies:
Most regional currencies are expected to weaken against the US dollar in the coming months.

Singapore

Equities

We are neutral on equities. Though the valuation of the Straits Times Index is close to a 10-year low, Singapore's open economy means it is vulnerable to heightened trade tensions. Earnings have been revised lower year-to-date, on sluggish consumer and real estate sectors. Some upgrades have been seen in the financial and industrial sectors.

Fixed income

Local rates could fluctuate at current levels as the discount to US Treasury rates starts to narrow due to renewed trade tensions. Singapore dollar-denominated bonds should be supported as supply remains soft.

Currency

The Singapore dollar is expected to weaken against the US dollar in H2 2019. Amid escalating US-China trade tensions, the outlook for growth and inflation could worsen. USD/SGD is likely to gradually move higher to **1.40** by the end of 2019.

Malaysia

Equities

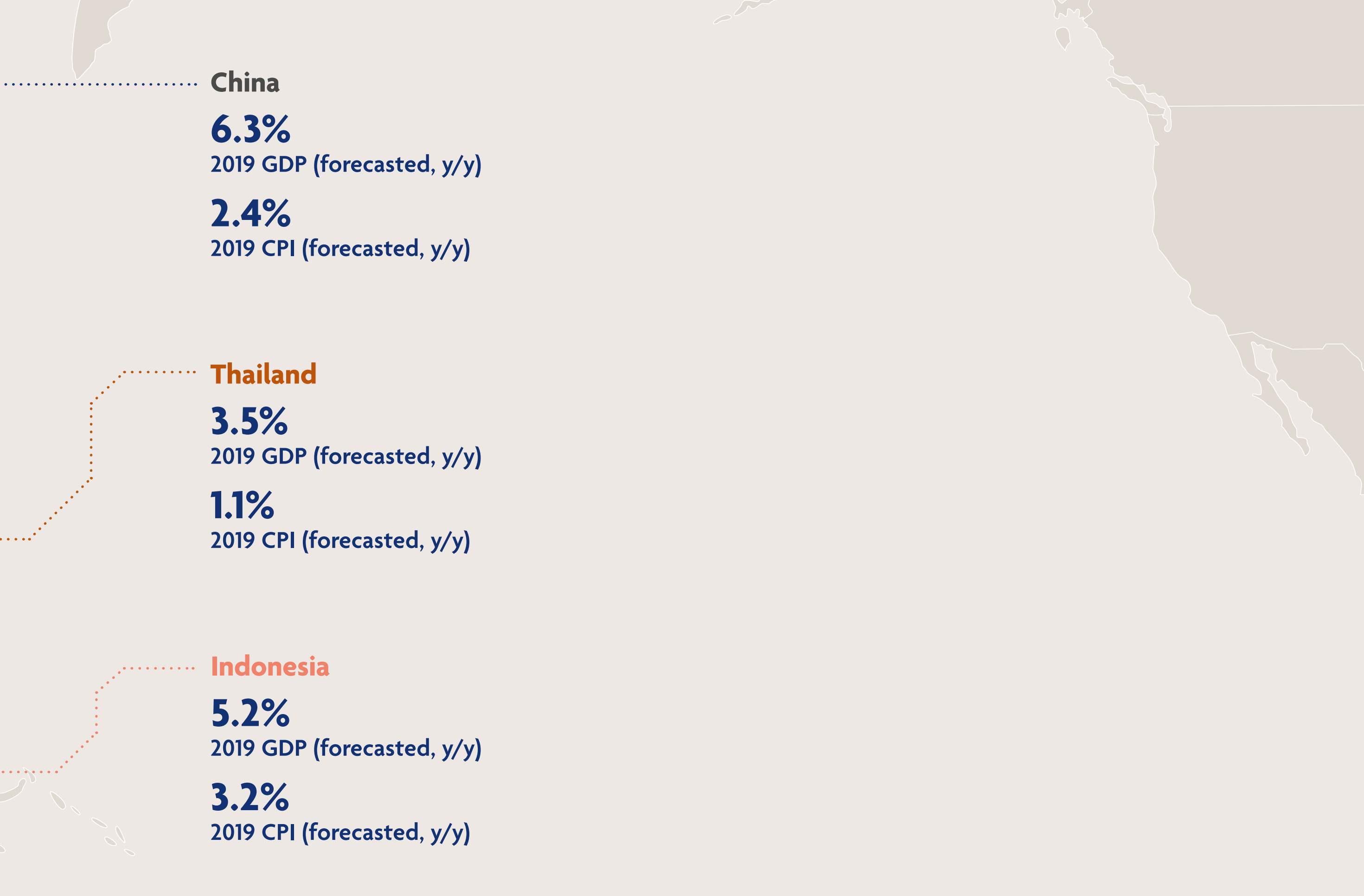
We advise being selective with Malaysian equities with fair valuations following the Q1 correction. Policy uncertainties from the new Malaysian government have undermined business confidence. The revival of mega projects would give a boost to the construction sector.

Fixed income

With a muted growth and inflation outlook, there is room for more monetary easing. The Malaysian bond market may face headwinds from potential exclusion from the FTSE Russell WGBI Index. However, stable macro fundamentals could support domestic bonds in the long run.

Currency

The Malaysian ringgit may face some weakness as US-China trade tensions escalate. However, a current account surplus is expected to limit weakness of the Malaysian ringgit. USD/MYR is forecasted to reach **4.25** by the end of 2019.



Indonesia

Equities

Plans to relocate the capital city from Jakarta would require the development of 40,000 hectares of land, at a cost of over IDR 466 trillion in development funds. This should benefit the construction, real estate development, commodities and banking sectors. These stocks should rally if the government's plans materialise.

Fixed income

If the Fed starts cutting rates, Bank Indonesia (BI) is expected to unwind some rate increases from last year, cutting policy rates from 6% to 5.5%. The bond market should be supported due to limited supply.

Currency

Indonesia has both a fiscal and current account deficit. Amid heightened external uncertainty and possible rate cuts from BI, the Indonesian rupiah is vulnerable to weakness. We expect the Indonesian rupiah to weaken to **14,600** against the US dollar by the end of 2019.

Thailand

Equities

We remain neutral on equities. Stronger growth in private consumption and private investment could mitigate slowing external demand, while expectations of clearer economic policies after Thailand's general election should build investor confidence. We prefer the construction materials and tourism sectors.

Fixed income

The Bank of Thailand (BOT) is expected to maintain the policy rate at 1.75%. We continue to see a slight steepening of the yield curve as Thai inflation rises gradually, albeit from low levels. However, with less than 10% in foreign holdings, we do not expect severe volatility in the bond market.

Currency

The Thai baht is unlikely to strengthen further against the US dollar as Thailand would still be impacted by slowing global demand. The Thai baht is likely to be range-bound towards **32.20** against the US dollar by the end of 2019.

Chinese

Equities

We are positive on Chinese equities. Valuations are attractive after a sell-off in May. Positive fundamental data indicates that the Chinese economy has bottomed out after a sluggish 2018. Still-supportive monetary and fiscal policies may continue to buoy the stock market.

Fixed income

Renewed trade tensions and soft economic data could prompt the People's Bank of China (PBOC) to cut bank reserve requirements and rates to support the economy in H2 2019. This should support the bond market.

Currency

An economic slowdown and renewed US-China trade tensions could put pressure on the Chinese yuan.

The Chinese yuan is expected to gradually depreciate to **6.99** against the US dollar by the end of 2019.

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