Cultivating Resilience: Investing Amid Uncertainty

H2 2022 Market Outlook

UOB

RIGHT BY YOU 大華銀行

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Editorial

The worst of the pandemic may finally be behind us, and global equities rallied strongly coming into 2022 with the reopening of economies. As we move from the mid- to late-cycle stage of the economy, we are mindful of inflation and slower growth.

The inflation we see now, at multi-decade highs, is a combination of disruption due to the pandemic, worsened by events that happened in the first half of 2022. The Russia-Ukraine conflict and China's strict zero-COVID lockdowns have led to further supply issues and higher commodity prices.

The second half of 2022 is likely to remain volatile as markets navigate elevated prices and higher interest rates. Our insights and ideas are on hand to help you during these uncertain times.

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H2 2022 Outlook

H2 2022 OUTLOOK

Economic Outlook

Global recovery hampered by headwinds

The global economy, which rebounded strongly from pandemic-induced woes in the first half of 2020, has run into several roadblocks. While broad-based growth will continue, it will be slowed by persistent supply chain bottlenecks that have been exacerbated in part by China's zero-COVID approach, as well as the onset of the Russia-Ukraine conflict in February this year.

Policy support key to sustained growth

This combination of factors has led to spiralling increases in energy and food prices. It has also prompted major central banks, including the US Federal Reserve (Fed), to tighten monetary policy and raise interest rates in efforts to quell inflation concerns. Much of the growth trajectory ahead will depend on when inflation peaks and subsides, and the policy support implemented by the leading economies and governments to tackle these global challenges.

Fallout from Russia-Ukraine conflict and China's COVID-19 policy

As most countries shift into post-pandemic reopening mode, new pressing issues have emerged. These include the threat of global inflation from chokepoints in global supply chains, due to China's zero-COVID policies and disruptions in energy[1] and food supplies[2] because of the Russia-Ukraine conflict.

The two countries account for about 29% of the world's wheat supply. This disruption, combined with international sanctions on Russian oil and gas exports, have led to rising commodity prices and heightened awareness of the need for resilient supply chains and food security. These have prompted countries that rely heavily on Russian energy to seek alternative sources of fossil fuels, as well as renewable sources, such as solar and wind power.

H2 2022 OUTLOOK

Economic Outlook

US growth slower but still expanding

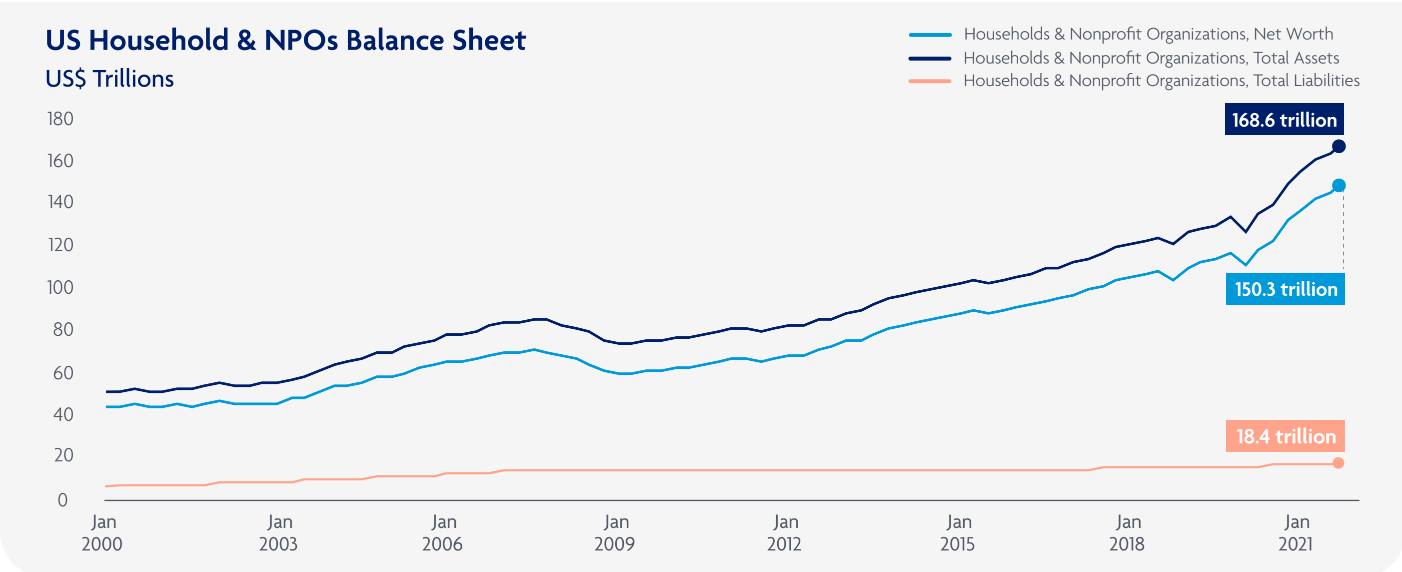
With higher transport, energy and food costs pushing global inflation levels to multi-year highs, global central banks led by the US Federal Reserve (Fed) have raised interest rates in efforts to combat inflation. The Fed has hiked its key interest rates by 50 basis points (bps) in May and 75 bps in June this year.

While the US reported a surprise 1.4% contraction (annualised rate) in Q1 2022 GDP[3], the American economy is still in an expansionary phase, underpinned by strong jobs and wage growth. US household assets remain high and can support a rise in private consumption (Figure M1). There are also sufficient buffers from significant household savings (Figure M2) and a pipeline of new investments in the energy sector.

Lockdowns threaten China's growth target

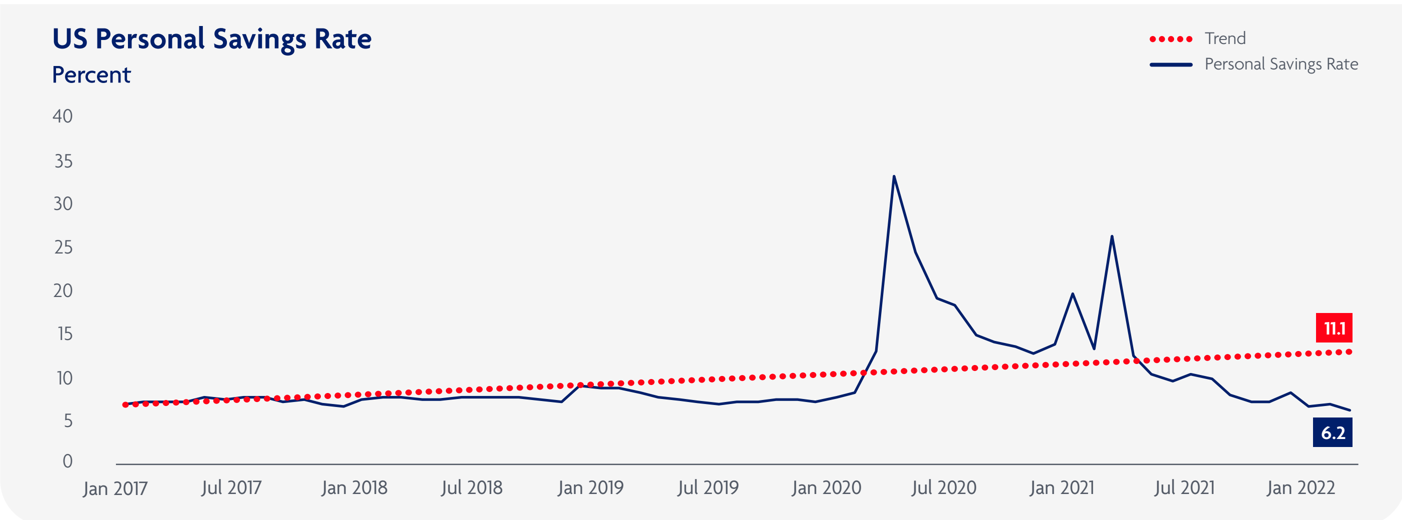
The Chinese economy grew 4.8% on an annualised basis in Q1 2022, on the back of a strong rebound during the first two months of the year. The state's zero-COVID policies, including strict lockdowns and mobility curbs, have since put growth at risk. Whether the government will be able to meet its 2022 growth target of 5.5%[4] will hinge on how the Omicron variant's spread will be brought under control, as well as the extent of its economic policy support. There is a possibility that the government may relax its zero-COVID stance towards Q4 2022 if the pace of growth stalls.

Figure M1. US household assets remain high and can support a rise in consumption.



Source: Macrobond, UOB Private Bank.

Figure M2. US savings rate has fallen below its long-term trend, showing increased spending.



Source: Macrobond, UOB Private Bank.

1 Accelerating the end of Europe's Russian gas habit, Financial Times 30 April 2022.
2 World food prices hit new record on impact from Ukraine war, 8 April 2022.
3 UOB Macro Note – US GDP: A Surprise 1.4% Contraction In 1Q Does Not Point To Recession, 29 April 2022.[4]UOB Macro Note – China: 1Q22 GDP Beat Expectation But Downside Risks Dominate, 18 April 2022.

H2 2022 OUTLOOK

Interest Rates and Bond Yields

Interest Rates and Bond Yields

US inflation is likely to stay high into Q3 2022 following the unexpected Russia-Ukraine conflict and its impact on energy and food prices.

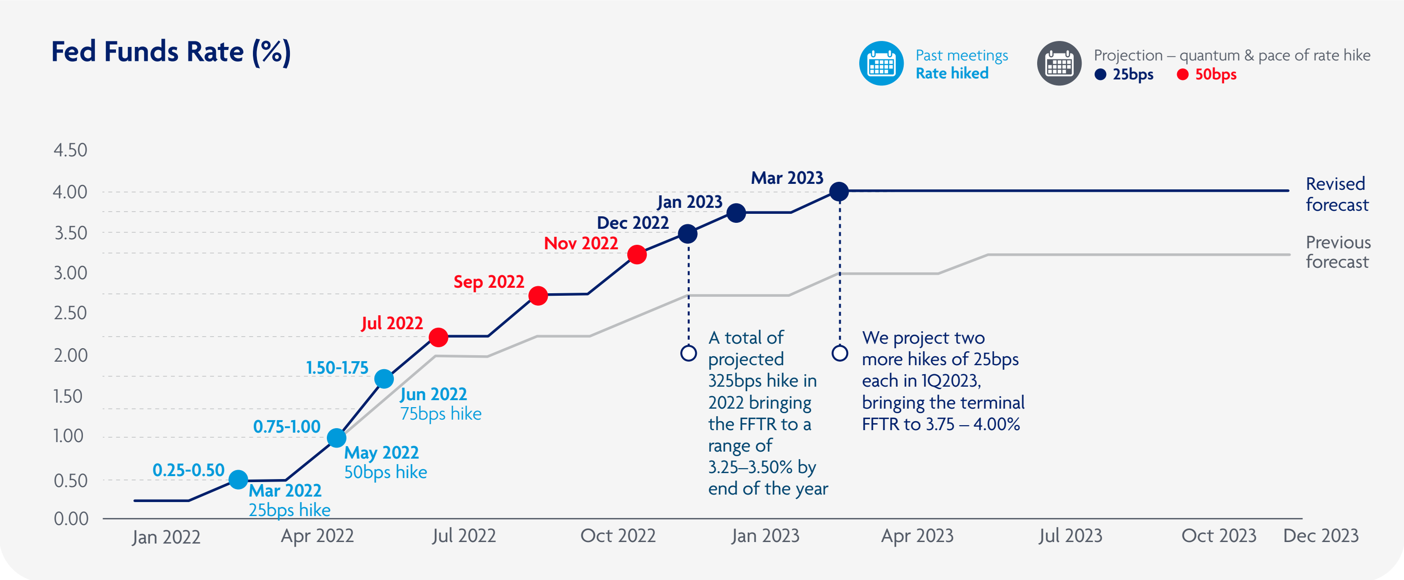
The Fed is likely to continue raising interest rates (Figure M3). We expect the Fed to hike by 0.50% in July, September and November before ending the year with a 0.25% hike in December.

We expect the benchmark 10-year US Treasury (UST) yield to cross and remain above 3.9% by Q1 2023. For H2 2022, we expect policy interest rates to trend upwards, lifting the shorter end of the yield curve[5]. Quantitative tightening measures by the Fed will boost longer-term yields.

Uneven shifts in short- and long-term bond yields may lead to occasional yield curve inversions[5] in H2 2022. This is a recession indicator that requires close monitoring, but we currently do not expect a US recession to occur in the next six to 12 months. Our forecast is that the US economy will expand by 2.0% in 2022.

Hence, selection will be key within the fixed income space due to expected rising yields. Our preference is for short-duration bonds that are more defensive and a basket of high-quality bonds that offer better portfolio resilience and margin of safety together with diversified income streams.

Figure M3. The Fed is expected to hike interest rates at every meeting for the remainder of 2022 to curb inflation.



Source: UOB Global Economics and Markets Research (June 2022).

5 The yield curve reflects the gap between short- and long-term bond rates. A steep upward curve when long-term rates are higher than short-term rates often appears during the expanding phase of an economy, while the inverse indicates growth contraction. An inverted yield curve, which is rare, occurs when yields for short-term bonds rise above long-term debts. That would spark concerns of sharply lower growth in the near term as higher interest rates crimp growth.

H2 2022 OUTLOOK
Currencies and Commodities

Currencies and Commodities

The US dollar (USD) is expected to strengthen further as the Fed hikes interest rates and shifts to quantitative tightening (QT) measures which raise borrowing costs. The euro (EUR) and Chinese yuan (CNY) will weaken against the USD amid concerns over slowing growth. The Australian dollar (AUD) may firm up on the back of higher commodity prices.

Stay positive on gold, which is expected to reach US$2,000/oz by end-2022 due to its safe-haven status amid commodity-driven inflation fears and geopolitical tensions, but near term upside is limited by a strong USD. Brent crude oil is expected to rise to US$130/bbl towards end-2022 amidst ongoing supply disruption and falling inventories.

H2 2022 OUTLOOK

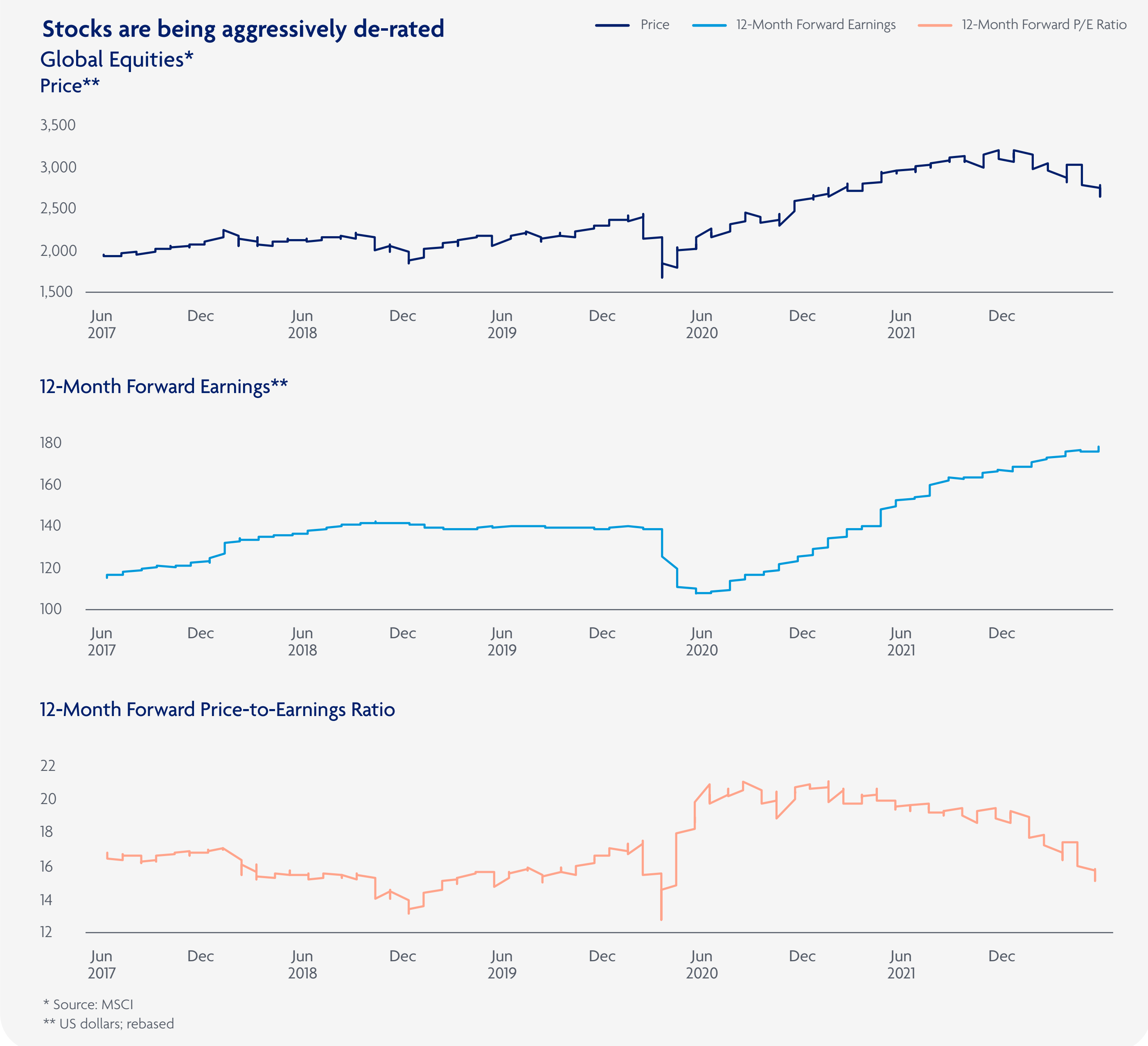
Corporate Earnings and Equities

Corporate Earnings and Equities

Overall, corporate earnings will remain positive (Figure M4) but grow at a more modest pace, as the momentum in global economic recovery slows after rebounding sharply in 2021.

US companies are expected to see steady earnings growth from underlying economic strength and a recovering labour market. European companies face challenges in consumption due to high inflation, but will still be able to pass on most cost increases to customers. Meanwhile, large energy companies on the continent will see higher profits in 2022 due to soaring oil prices. Over in Asia, Chinese companies will likely face headwinds due to zero-COVID policies but like their Asia ex-Japan peers, will still maintain their earnings growth.

Figure M4. Earnings remain strong, even as sentiments are less optimistic and more cautious in the near-term.



Source: Bloomberg (31 May 2022)

H2 2022 OUTLOOK

Corporate Earnings and Equities

Equity valuations, as measured by forward price-earnings (PE) ratio (Figure M5), are attractive in Europe, Japan, and Asia ex-Japan versus the US. Investors with a longer time horizon can consider building positions gradually at current valuations. Asian equities will likely get a boost from post-pandemic reopening. We remain cautious towards European equities in the near term due to the conflict in Ukraine.

Investors ought to stay prudent by maintaining an equities portfolio diversified across geographic regions, and investing in value sectors such as Financials which will benefit from the rising interest rate environment. Cheap valuations and dips from sell-offs may offer buying opportunities.

Figure M5. European and Asian corporate earnings are expected to remain positive, with cheaper valuations than the US'.

2022	US S&P 500	Europe EuroStoxx 600	Japan TOPIX	Asia ex-Japan MSCI Asia ex-Japan
Earnings Growth Forecast (EPS)	8.4%	16.0%	11.9%	0.7%
Forward Price-Earnings Ratio	18.0x	12.7x	12.4x	12.3x

Source: Bloomberg (31 May 2022)

Key Drivers and Risks for H2 2022

Key Drivers	Strong political will key to further economic reopening.
	High US household savings to boost consumer spending.
	Earnings growth to persist amid recovery in private consumption.
Key Risks	Continued lockdowns due to China's aggressive zero-COVID approach choking global supply chains and disrupting economic activity.
	Persistent inflation due to prolonged disruptions in global supply chains and escalating geopolitical tensions.
	Central banks forced to hike rates aggressively, raising the risk of triggering a recession.

H2 2022 OUTLOOK

Asset Class Views

Markets are expected to remain volatile for the rest of 2022. We are selective within equities and fixed income due to rising interest rates led by the US Federal Reserve (Fed) and slowing global growth.

Align your portfolio to your risk appetite using our Risk-First approach to avoid taking more risk than you are comfortable with, and consider holding some cash for future market opportunities. Opportunistic investors can consider investing in our selected high-conviction calls for Tactical investing.

Equities

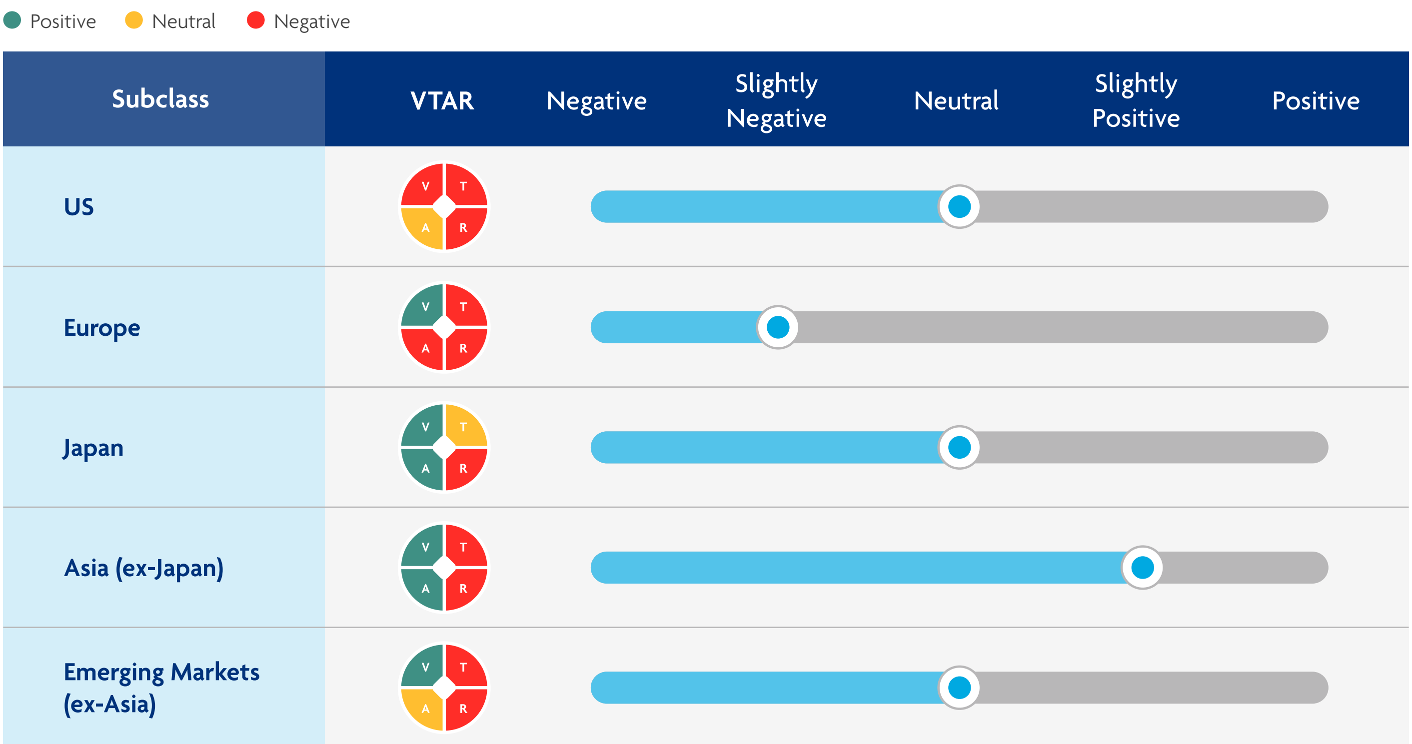
Remain positive on Asian equities ex-Japan and Japan equities – both have cheaper valuations of 12.0x and 11.9x PE vs US equities at 15.8x PE.

As their respective economies have lagged in post-pandemic reopening, Asian equities will generally benefit from a pick-up in economic activities. However, caution is advised for China, due to downside risks from possible sudden COVID-19 lockdowns and regulatory tightening. Investors are advised to spread risks across a diversified Asian basket while adopting a longer time investment horizon for mainland China.

European equities are cheap (11.6x PE) but the Ukraine conflict may dampen the economic outlook and corporate earnings growth due to the impact of higher energy and food prices on consumer spending. Hence, investors should exercise some caution.

Valuations in the US are high, which account for persistent fears of potential sharp drawdowns. Opportunities can be found in value sectors such as Financials, which will benefit from the rising interest rate environment. Be selective within growth sectors as they tend to be more susceptible to rising rates, and look out for quality assets that thrive on long-term trends to drive portfolio returns.

Remain neutral towards Emerging Markets ex-Asia. Other than Russia, oil-exporting economies stand to gain from higher commodity prices and a stronger USD. Challenges, however, remain from the need to tackle inflation with monetary tightening policies.



H2 2022 OUTLOOK

Asset Class Views

Fixed Income

The outlook for Developed Markets fixed income is clouded by expected interest rate hikes needed to calm inflation concerns.

Avoid government bonds as they are the most vulnerable to rate hikes, which also expose High Yield bonds to higher chances of defaults. Rates are expected to increase across the yield curve, which makes short-duration bonds a better defensive play.

Investment grade (IG) bonds offer a good balance of risk, return and income generation in the current uncertain environment. IG issuers should be able to maintain steady coupon payments as the global economic recovery continues to lift corporate earnings. Seek and hold quality IG bonds for long-term income.

Income investors can consider diversifying income streams outside of fixed income to real assets like property, as well as dividend equities.

● Positive ● Neutral ● Negative

Subclass	VTAR	Negative	Slightly Negative	Neutral	Slightly Positive	Positive
Developed Market (DM) government bonds	V T A R	●				
DM investment grade (IG) bonds	V T A R			●		
Global high yield (HY) bonds	V T A R			●		
US-dollar Emerging Market (EM) debt	V T A R			●		
Local-currency EM debt	V T A R			●		

H2 2022 OUTLOOK

Asset Class Views

Currencies and Commodities

The USD is expected to strengthen further as the Fed hikes interest rates and shifts to quantitative tightening measures which raise borrowing costs. The EUR and CNY will weaken against the USD amid concerns over slowing growth. The AUD may firm up on the back of higher commodity prices.

Stay positive on gold which is expected to reach US$2,000/oz by end-2022 due to its safe-haven status amid commodity-driven inflation fears and geopolitical tensions, but near term upside is limited by a strong USD. Brent crude oil is expected to rise to US$130/bbl towards end-2022 amidst ongoing supply disruption and falling inventories.

Asset class	Subclass	Negative	Slightly Negative	Neutral	Slightly Positive	Positive
Commodities	Gold				●	
	Oil					●
Currencies	US Dollar					●
	Singapore Dollar			●		

3 Key Takeaways for H2 2022.

Remain invested with financial goals in mind, amid a rising interest rate environment due to inflation

Increase portfolio resilience with **diversified income streams from quality bonds, dividend equities and real assets such as property**

Capitalise on long-term structural drivers by **investing in Megatrends and stay nimble to ride on tactical opportunities**

H2 2022 OUTLOOK

2022 Economic Forecasts

Q2 QGO	US	Eurozone	UK	Japan	Emerging Markets	Asia ex-Japan	China	India	Singapore
2022 GDP Growth Forecasts	+2.0%	+2.6%	+3.7%	+1.5%	+3.8%	+5.0%	+4.1%	+6.9%	+3.5%
2023 GDP Growth Forecasts	+1.5%	+2.3%	+1.2%	+1.4%	+4.2%	+5.4%	+5.5%	+6.6%	+2.0%
Unemployment Rate Projections by the End of 2022	3.7%	6.9%	3.9%	2.4%			5.3%		1.9%
2022 Fiscal Balance Projections Note: Negative implies deficit	-7.0%	-4.6%	-4.2%	-8.0%			-5.0%	-9.9%	-0.5%
2022 Inflation Forecasts	+7.5%	+7.0%	+8.1%	+3.5%	+3.5% (Emerging Asia) +27.1% (Emerging Europe) +11.2% (Latin America)		+2.5%	+6.6%	+5.0%
2022 Full-Year Earnings Growth Forecast (EPS)	S&P 500 +8.4%	MSCI Europe +14.4%	MSCI UK +19.3%	MSCI Japan +13.7%	MSCI Emerging Markets -3.4%	MSCI Asia ex-Japan +0.7%	MSCI China -1.5%	MSCI India +22.6%	MSCI Singapore -10.0%
	Russell 2000 +34.3%	EuroStoxx 600 +16.0%	FTSE 100 +22.2%	TOPIX +11.9%			CSI 300 +9.1%	Sensex +19.3%	Straits Times Index +16.1%
1-Year Forward Price-Earnings Ratio (P/E)	S&P 500 17.4x	MSCI Europe 12.5x	MSCI UK 10.5x	MSCI Japan 12.4x	MSCI Emerging Markets 11.4x	MSCI Asia ex-Japan 12.3x	MSCI China 11.1x	MSCI India 19.1x	MSCI Singapore 15.9x
	Russell 2000 18.0x	EuroStoxx 600 12.7x	FTSE 100 10.5x	TOPIX 12.4x			CSI 300 11.9x	Sensex 19.5x	Straits Times Index 12.2x

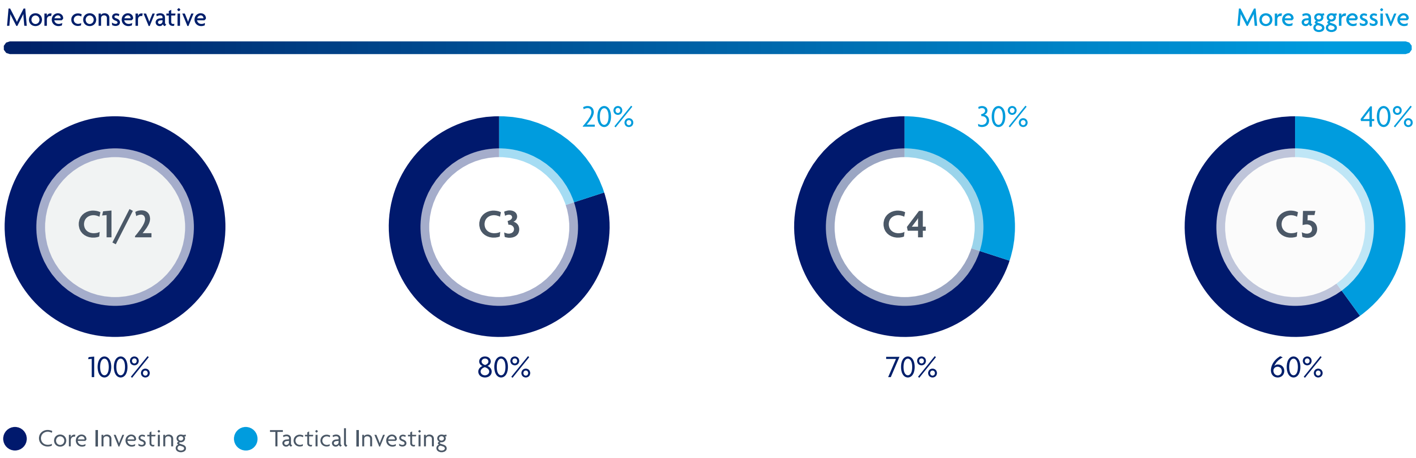
Sources: UOB Global Economics and Markets Research (June 2022), Bloomberg (31 May 2022), IMF World Economic Outlook (April 2022).

Our Strategies

OUR STRATEGIES

UOB Risk-First Approach

Investors will often face uncertainties in their investment journey. Our proprietary Risk-First approach can help smoothen the ride for you: Optimal portfolios are recommended according to 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, and can help you meet your longer-term financial goals. An allocation to Core Solutions can help to lower a portfolio's 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 borrowings and a diversified revenue stream. These companies tend to have stronger cash flow positions and the ability to repay debts. Holding them can help build portfolio resilience.

We prefer Global Bank and Industrial sector bonds that offer coupon rates above 3.5%. These are sectors that will benefit from the global recovery and have the ability to better withstand volatility arising from higher interest rates. Similarly, Asian Investment Grade (IG) bonds with shorter durations and yields of 3% to 4% are viewed as more defensive against a steepening yield curve. Investors need to be selective in an environment experiencing tighter monetary policies.

Floating Rate Bonds

For H2 2022, Floating Rate Bonds (FRBs) present an alternative investment option to mitigate risks from interest rate hikes. With the prospect of coupon rates rising each quarter as policymakers hike rates to combat inflation, FRBs can buffer against price volatility. The inclusion of FRBs from higher-quality financials and multinational corporations also helps improve a fixed income portfolio's credit rating profile.

Global Multi-Asset Funds

These offer a flexible and diversified asset allocation strategy, allowing you 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 can also form a solid foundation in building up portfolio resilience and meeting financial goals. To capture long-term growth, managers can also consider allocating more to growth-oriented equity strategies.

OUR STRATEGIES

Tactical strategies are identified through 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

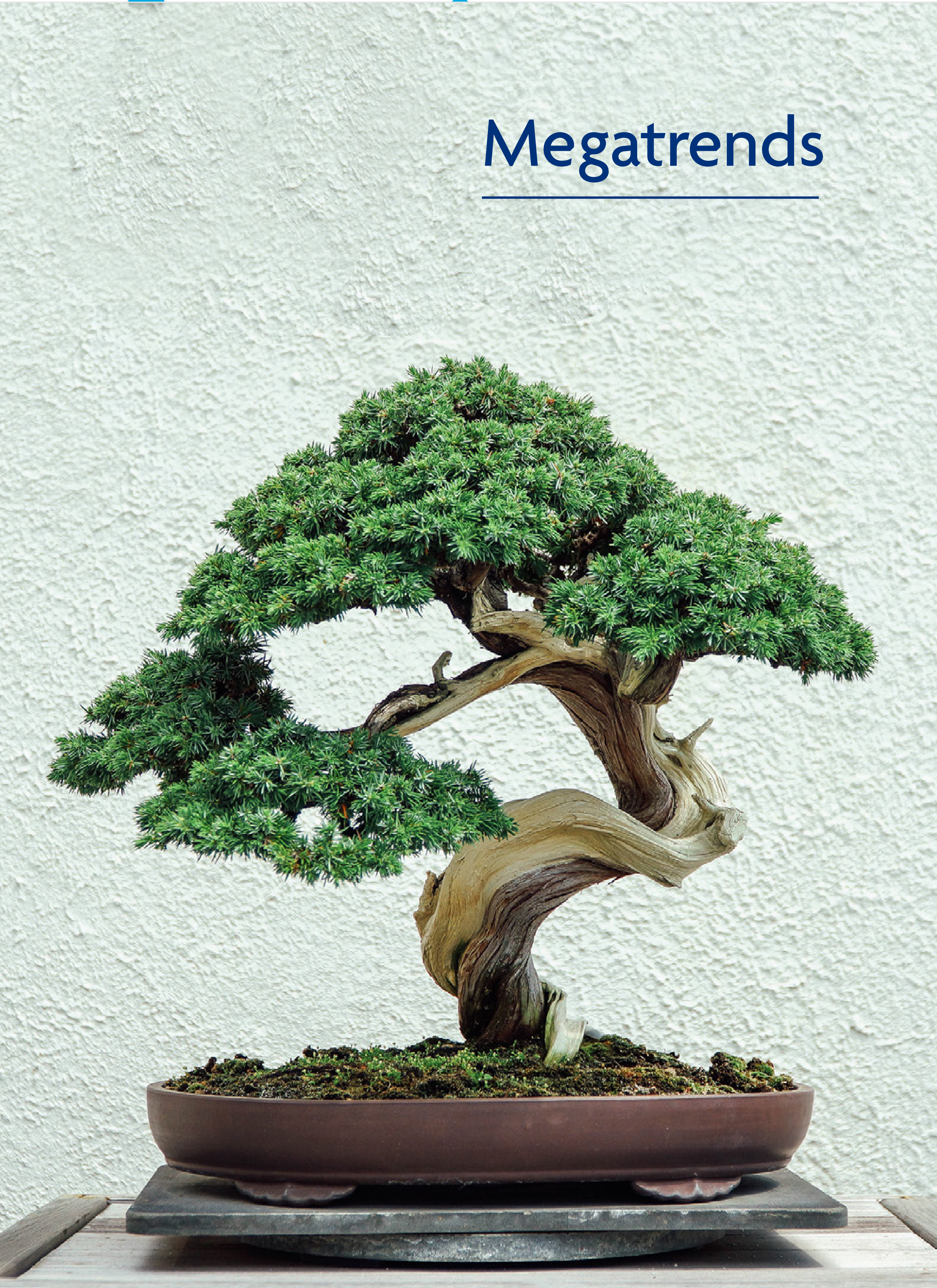
Megatrends

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

High Conviction Calls

As major central banks raise interest rates to cool inflation, US Financials equities are expected to benefit from higher interest rate margins and economic reopening — thus presenting attractive tactical opportunities for savvy investors.

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 revolutionary changes that 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 changes.

Engine of Tomorrow

Technology-enabled Transformations

Technological advancements and breakthroughs are driving accelerated growth and transformation across all sectors of the global economy. To survive disruptions, businesses will need to embrace innovation-driven growth or risk being left behind.

The deployment of smart solutions will also be instrumental in the world's journey towards a sustainable future. These would include the development of clean, renewable energy to tackle climate change and lower 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. The increasingly-affluent middle class in developing economies will spur 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 also have to reorient their strategies and priorities to cater to more digital-savvy millennials who also value sustainability and social responsibility.

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 over regulatory frameworks, economic policies and market dynamics in 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

Future of Healthcare

Investing in the future of healthcare

One in six people on this planet will be 60 and above by 2030[6] . This age bracket will account for almost a fifth (22%) or 2.1 billion of the world's population by 2050, while those 80 years and older are expected to triple to 426 million.

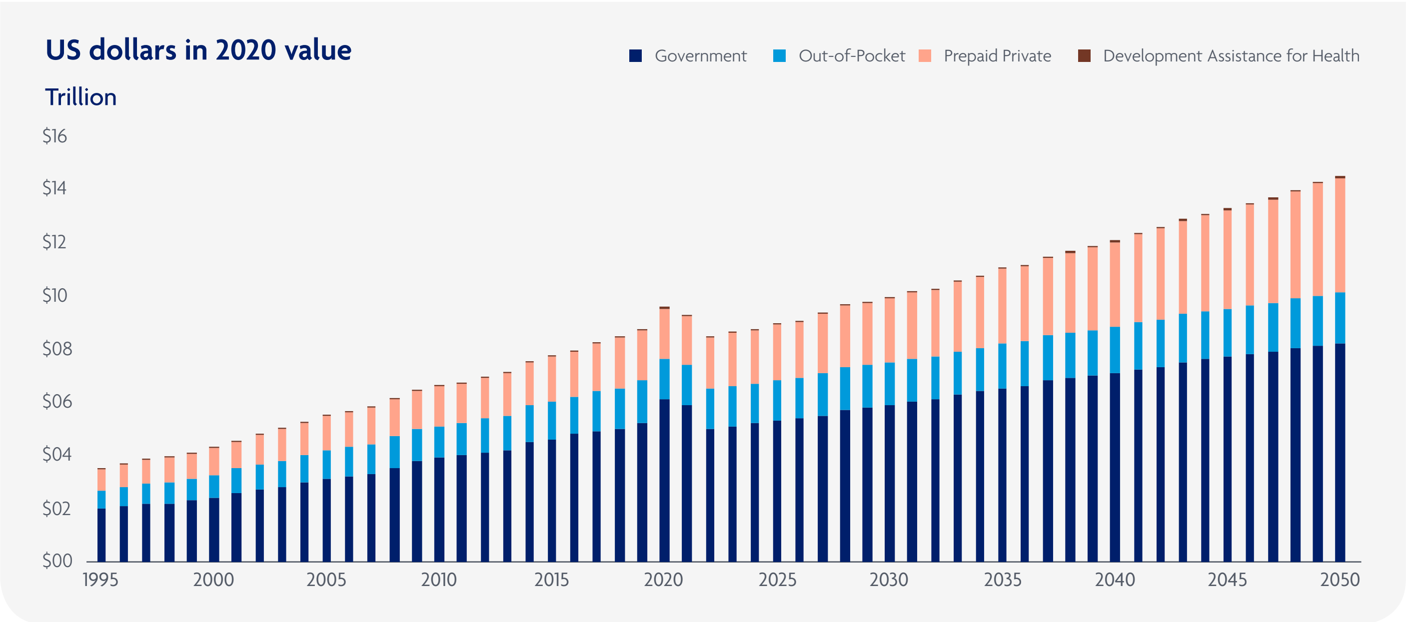
This demographic shift will not only be a dominant trend but also a highly sustainable one, given that healthcare consumption generally rises sharply with age. Global healthcare needs and costs per capita will rise across all borders (Figure C1), with emerging markets expected to see the most disproportionate increase due to rising income levels[7]. Meanwhile, structural changes in healthcare delivery, as well as innovations in medical fields, will hasten the transition already taking place.

For instance, there has been an unprecedented pick-up in the pace of both new drugs discovery and approvals that include anti-viral, antibody treatments and vaccines in response to the recent pandemic challenges[8]. Smaller and nimbler drug companies driving new discoveries have seen multiple-fold increases in their stock valuations.

Advances in medical technology and diagnostics tools – including the use of artificial intelligence (AI), robotic surgery and developments in telemedicine, point-of-care diagnostics, and new consumer apps and wearables that help to track blood pressure, heart and respiratory rates – have also been becoming more widespread[9]. New and novel treatments such as gene treatment in cancer therapies are also becoming available, while quality of life will be enhanced by new techniques, including implants of medical aids such as exoskeletons that enable elderly mobility[10].

Challenges for stakeholders will include the need for sustained efforts to manage healthcare costs to ensure access to good quality healthcare is appropriate and affordable[11]. Awareness of such demographic and innovation trends would be helpful for investors who wish to diversify their investment portfolios.

Figure C1. Global healthcare spending is expected to continue rising in the longer-term.



Source: University of Washington, September 2021. Data past 2018 are forecasted.

6 World Health Organisation (WHO) October 2021.
7 World Health Organisation (WHO) October 2021.
8 Approvals by US Federal Drug Administration (FDA) in 2021: Fierce Pharma News Jan 2022.
9 Insider Intelligence April 2022:
10 Neoscope Dec 2019.
11 Ministry of Health (Singapore) November 2020.

MEGATRENDS

Millennial Consumption

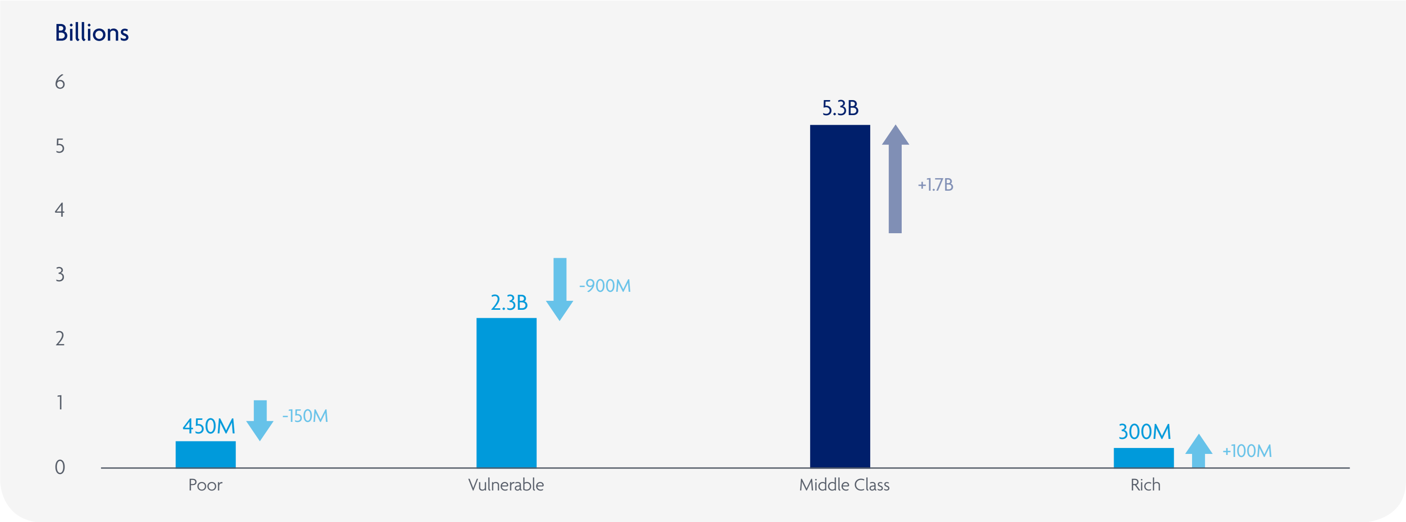
Asian millennials' rising purchasing power

About 50% of global demand comes from private consumption, with two-thirds of it from middle-class households – the fastest-growing segment in the global economy and projected to reach 5.3 billion by 2030[12] or about five consumers added per second[12] (Figure C2).

This trend is buoyed by the rapid growth in per capita income from emerging markets, expected to outpace that of developed nations over the next five to 10 years. The new middle class will be predominantly Asian (88%)[12] and spread across China, India and Southeast Asia (Figure C3). By 2027, China alone will likely account for a quarter of the global middle-class spending in high-quality consumables, as well as home and car purchases[13].

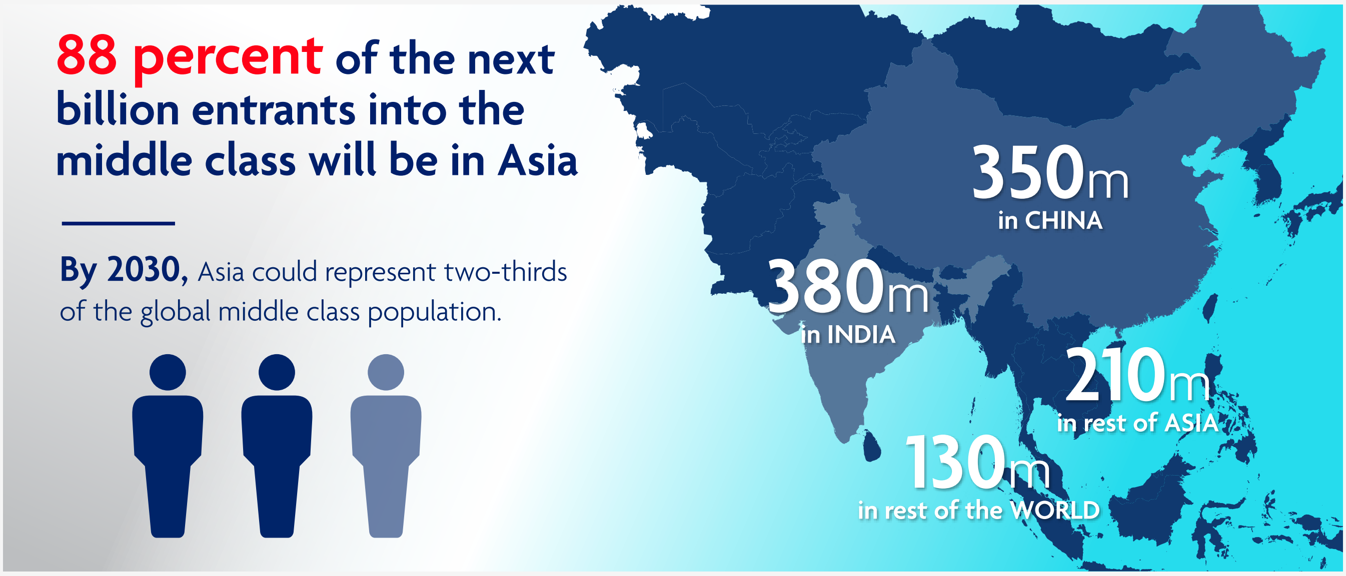
Millennials currently make up the lion's share of the middle class (60%)[13], with China expected to surpass the US by the early 2030s. This reflects the immense shift in spending power from West to East over this period. For example, online sales for Singles Day in China exceeded $58 billion in 2019, higher than the combined sales of Black Friday and Cyber Monday in the US[14].

Figure C2. Middle-class households will dominate consumption in 2030.



Source: Projections by World Data Lab.

Figure C3. 88% of the next billion entrants into the middle class will be in Asia.

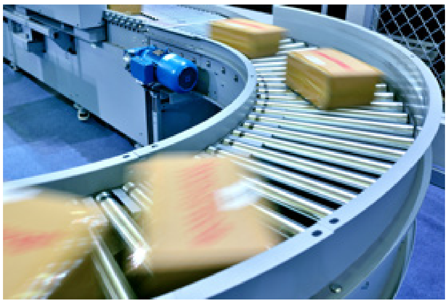


Source: The Brookings Institution.

12 Brookings Institution 27 July 2017: A golden age for business? Every second five people are entering the global middle class.
13 China's Influence on the global middle class: Global China October 2020.
14 McKinsey & Co: China consumer report 2020: The many faces of the Chinese consumer.

MEGATRENDS

Millennial Consumption



Consumption trend intact despite rising inflation

Concerns that inflationary pressure will dent private consumption have risen, with the Ukraine-Russian conflict causing global energy and food prices to go up. Despite the fears of higher inflation, US retail consumption has remained robust in furniture, sporting goods, automobiles, general merchandise and online sales, in part due to the huge excess savings accumulated over the pandemic[15].

Inflation rates in Asia have historically lagged the US with less discernible impact on middle-class growth. In China, the impact of inflation from imported goods and services is softened by state policies focusing on domestic consumption and China's Common Prosperity strategy. These will continue to swell the ranks of the country's young and tech-savvy middle class—a formidable driving force behind future middle-class consumption patterns—as China leads in the e-commerce space.

15 MRB Report 21 April 2022.

MEGATRENDS

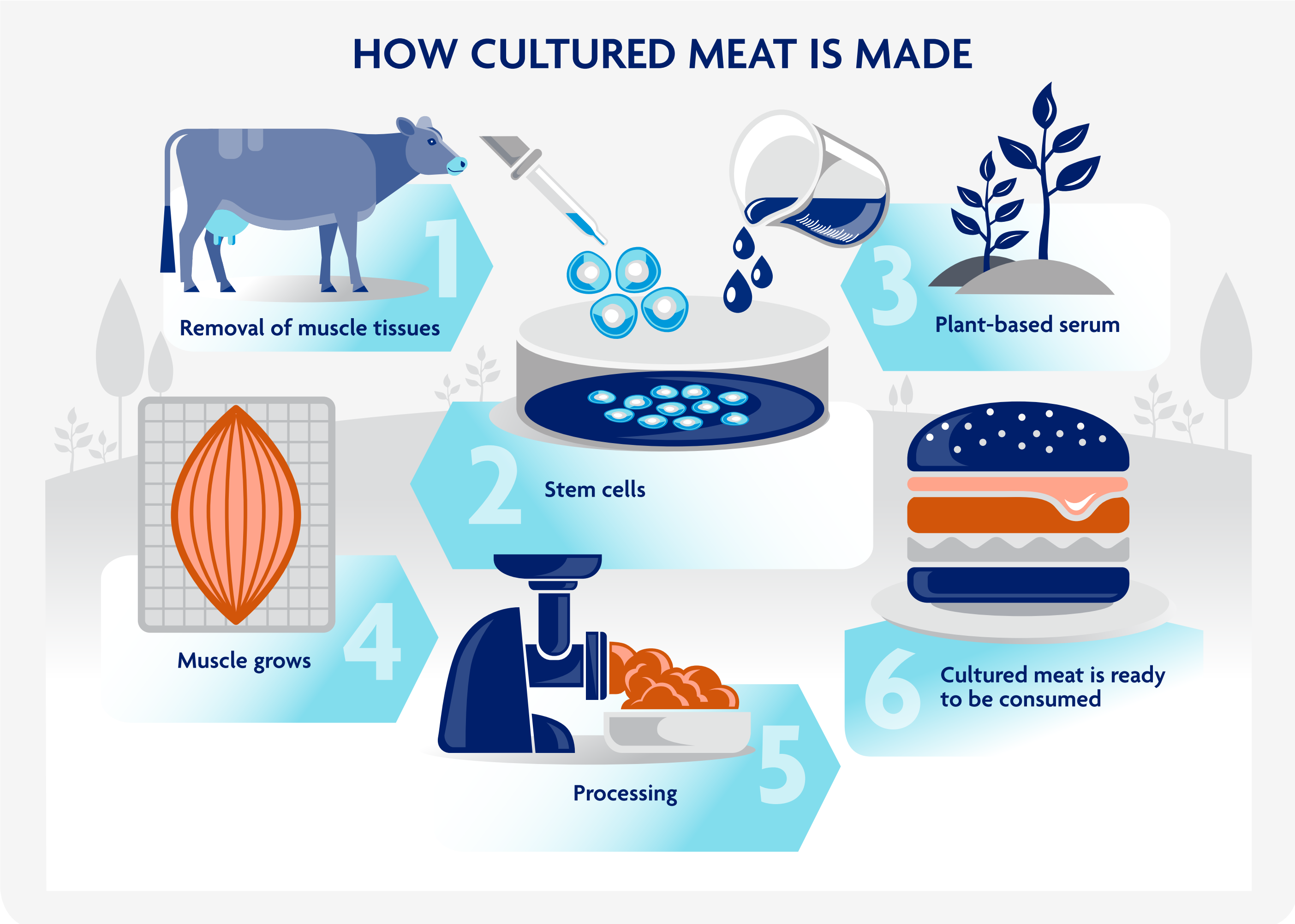
Sustainability: Food and Energy Supply

Towards a more resilient and "moo-vable" feast

The world's population has more than doubled from 3.5 billion to about 7.6 billion over the last five decades and is projected to rise to 9.7 billion by 2050[16]. Food production will need to be much more efficient. Food supply chains are also vulnerable to disruption, as seen during the Ukraine-Russian conflict with the two countries accounting for about 29% of global wheat exports[17].

Adding lab-grown or cultivated meat to the global menu is one way to enable more efficient and less wasteful food production. This is because it is less affected by seasonal and economic cycles. It also addresses multiple environmental and ethical issues, ranging from greenhouse gas emissions and deforestation, to the use of animal antibiotics in traditional farming methods. While seemingly costly today, prices will eventually fall with the scaling up of production based on Moo's Law[18].

Figure C4. Cultivated meat has fewer environmental and ethical issues than farmed meat, and prices will eventually fall when production is scaled up.



Source: Four Paws International. WHAT IS 'CULTIVATED MEAT'? (2020).

16 United Nations: World Population Prospects (WPP) December 2019.
17 Wheat hits 14-year highs as Russia-Ukraine conflict curbs supply. Reuters 7 March 2022.
18 Moo's Law: An Investor's Guide to the New Agrarian Revolution by Jim Mellon.

MEGATRENDS
Sustainability: Food and Energy Supply

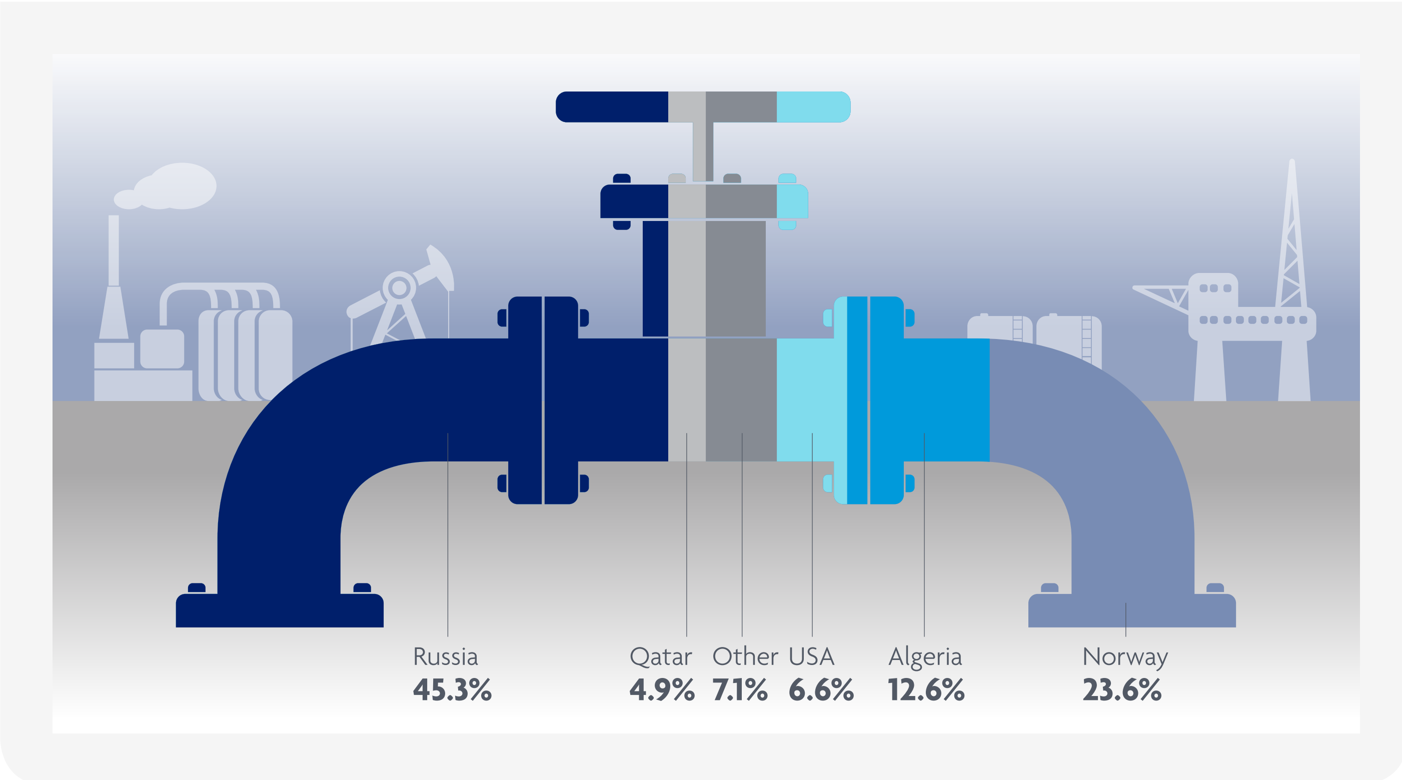
Alternatives to greater sustainability in energy and transportation

Similarly, the Ukraine-Russia conflict has exposed weaknesses in global fuel supply. Sanctions imposed on Russia have resulted in elevated oil prices that will likely stay high for the rest of 2022.

More countries will look to reduce their reliance on Russian energy. According to the International Energy Agency (IEA), European Union (EU) countries imported about 155 billion cubic metres (bcm) of Russian gas in 2021, accounting for about 45% of EU gas imports that year[19] (Figure C5). Some 60 bcm may be replaced by the year's end from other countries, including the US and Qatar[20].

New kinds of transportation, such as electric vehicles, can also lower energy needs and costs, especially when production costs fall because of rapidly improving technology and rising demand. Such shifts towards greater resilience and sustainability in food, energy and transport will likely result in changes in the investment landscape and opportunities for investors – especially if these trends overlap or converge in the future.

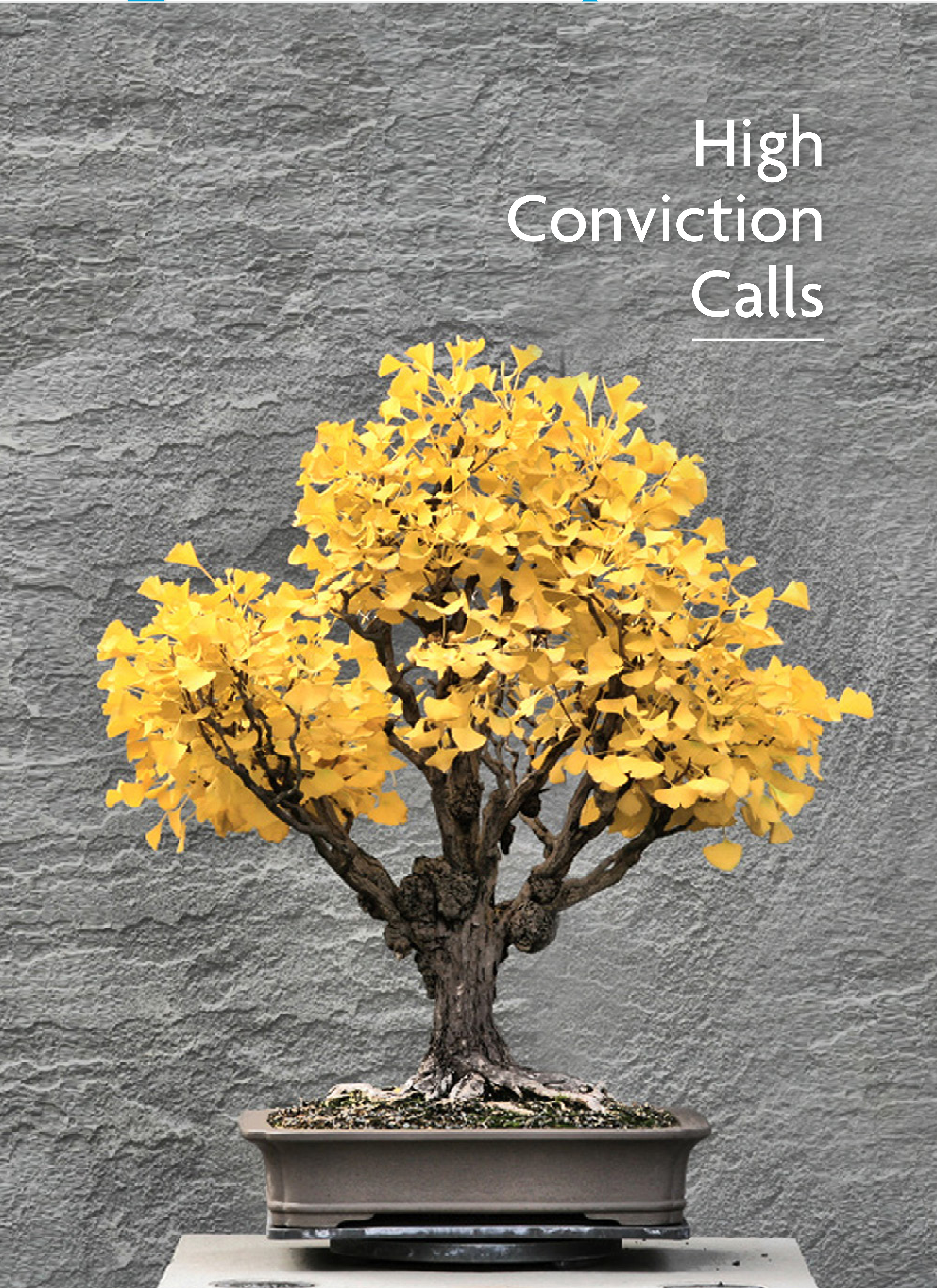
Figure C5. Russia: largest natural gas supplier to the European Union (EU).



Source: European Commission.

19 A 10-Point Plan to Reduce the European Union's Reliance on Russian Natural Gas, IEA, March 2022.
20 Joint European action for more affordable, secure and sustainable energy: 8 March 2022.

High Conviction Calls



HIGH CONVICTION CALLS

Banking on better loan margins from interest rate hikes

US interest rates were reduced to near zero during the onset of the pandemic in March 2020 to fend off a sharp recession. With the economic recovery currently well on track towards normalisation, the US Federal Reserve (Fed) has signalled that it will continue to hike rates to keep inflation within its healthy target of 2%.

For US banks operating from positions of strength, higher rates will boost their income from both consumer and corporate lending as the American economy gets a lift from a post-pandemic resurgence in economic activities. This is already evident in higher levels of employment rates, job vacancies and strong corporate earnings.

The ongoing economic recovery will support banks' income from higher levels of consumer loans and credit spending, while also lowering risks from non-performing business loans. Many banks have indicated strong loan demand and a healthy influx of enquiries from potential corporate borrowers. The conditions will improve with further expansion of the post-pandemic economy and a gradual easing of supply chain bottlenecks.

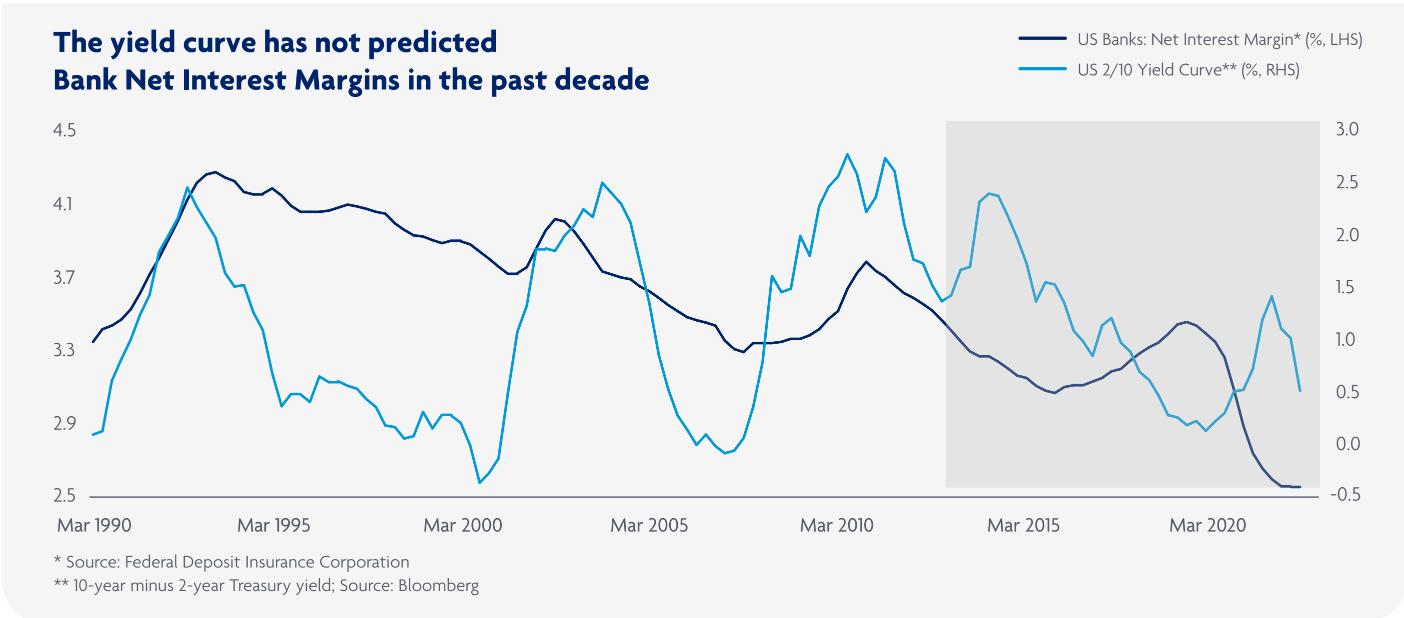
Overall, these will lead to improved net interest margins (NIMs) for US banks, despite the flattening or narrowing spreads between the 2-year and 10-year US Treasury yields (typically a past indicator of slower growth) (Figure C6).

Near-term challenges from Western sanctions against Russia will be limited due to minimal direct exposure to the Russian economy[21] (which was already cut back drastically following Russia's previous annexation of Crimea in 2014).

Valuations of bank stocks generally trade at large discounts to the overall market. Current price-earnings (PE) ratios of US Financials stocks are at an attractive 12.8x, lagging the broader market's 15.7x and representing a 20% discount which is in line with the average discount over the past decade.[21]

We remain upbeat on US bank stocks over the next 6 to 12 months, with the view that US economic growth, while moderating, will stay at a strong expansionary level for the year ahead. These salient factors point to opportunities for investors looking to ride on rising interest rates.

Figure C6. The flattening US Treasury yield curve is unlikely to affect banks' net interest margins and will be driven by loan growth in the months ahead.



Source: MRB Partners, March 2022.

21 MRB Partners 29 March 2022.

Our Regional Focus

OUR REGIONAL FOCUS

Equities

Regional markets are expected to be boosted by economic reopening, with valuations looking attractive for sectors that benefit from post-pandemic recovery, despite concerns over the impact of inflation on private consumption.

Fixed Income

Asian debt is attractive as bond yields are less steep in some countries due to lower inflationary pressures. Investors need to be selective when choosing bonds within the region and seek diversification within fixed income.

Currencies

Many Asian currencies will likely weaken against the US dollar (USD), due to differences with the US Fed in their degree of monetary policy easing.

Singapore

Equities

Singapore is closely tied to the global economy. Equities that benefit from the reopening of borders, rising interest rates and restructuring potential are preferred. Focus on Financials, Utilities and Industrials.

Fixed Income

The yield gap between US and Singapore bonds will narrow as the USD firms. The 10-year Singapore government bond yield is expected to reach 3.40% by end-2022.

Currency

The Singapore Dollar (SGD) is expected to remain stable against its basket of currencies but will gradually weaken to 1.41 against a stronger USD by end-2022.

3.5
GDP (y/y %)

5.0
CPI (y/y %)

Malaysia

Equities

Malaysian equities remain attractively priced and set to benefit from stronger commodity prices in the Energy and Palm Oil sectors. However, some market volatility is anticipated due to investor uncertainties ahead of a possible general election.

Fixed Income

Market volatility will likely persist amid tightening monetary policies. Yields are generally attractive relative to historic levels, and the tight credit spreads favour selective corporate bonds.

Currency

The Malaysian Ringgit (MYR) is expected to stay weak against the USD at around 4.48 by end-2022, in light of US Federal Reserve tightening monetary and the shrinking interest rate differential due to Bank Negara Malaysia's more dovish stance.

5.5
GDP (y/y %)

3.0
CPI (y/y %)

Thailand

Equities

Performance has gotten a lift from economic reopening, although further upside for H2 2022 may be capped by lofty stock valuations. Opportunities remain in Retail, Healthcare, Energy, Banking and Tourism-related sectors from further reopening amid a rising interest rate environment.

Fixed Income

The Bank of Thailand (BOT) is expected to raise its policy rate by 0.25% to fend off inflation as the economy continues to open up. The hike will lead to a flattening yield curve in H2 2022.

Currency

The Thai baht (THB) will remain volatile and weak. It is expected to weaken to 35.8 against the USD by Q4 2022 due to gaps in global monetary policies and concerns over further fallout from the Russia-Ukraine conflict.

3.2
GDP (y/y %)

6.0
CPI (y/y %)

OUR REGIONAL FOCUS

Indonesia

Equities

Market sentiments will likely be propped up by continued robust foreign inflows due to attractive valuations and earnings. Banking, telco-related Infrastructure, Consumers and Mining sectors are expected to be the main beneficiaries, although higher-than-expected inflation may dampen domestic consumption.

4.8
GDP (y/y %)

3.3
CPI (y/y %)

Fixed Income

With Bank Indonesia expected to raise its key interest rate in H2 2022 to cap inflation, 10-year Indonesian bond yields are expected to rise to 8.3% by end-2022.

Currency

High energy commodity prices have provided a better-than-expected balance of payment. This should limit any weakness of the Indonesian Rupiah, which is expected to reach 15,100 against the USD by end-2022.

China

Equities

Zero-COVID measures and geopolitical uncertainties will weigh on equities, although further support is expected from state policies to keep growth from stalling, which will benefit the Materials sector for its exposure to Infrastructure upgrades.

4.1
GDP (y/y %)

2.5
CPI (y/y %)

Fixed Income

Performance will likely be underpinned by policy easing aimed at avoiding an economic slowdown. Highly-indebted Property companies, however, remain vulnerable to defaults and hence, selection is key when investing in Chinese bonds.

Currency

The CNY is expected to weaken to around 6.85 against the USD by end-2022, due to a slowdown in Chinese economic activity from zero-COVID measures and policy divergence between China's central bank and the Fed.

Appendix

H2 2022
KEY EVENTS CALENDAR

Political · Central Banks · Major Events

JULY	**21 July** ECB Monetary Policy Meeting	**26 – 27 July** US FOMC Meeting	**28 July – 8 August** 2022 Commonwealth Games in Birmingham, England
SEPTEMBER	**8 September** ECB Monetary Policy Meeting	**11 September** Sweden: General Election	**20 – 21 September** US FOMC Meeting*
OCTOBER	**TBC for Q4** China: 20th Party Congress	**2 October** Brazil: General Election	**27 October** ECB Monetary Policy Meeting
NOVEMBER	**1 – 2 November** US FOMC Meeting	**8 November** US: Mid-Term Elections	
	15 – 16 November 2022 G20 Summit in Bali, Indonesia	**21 November – 18 December** 2022 FIFA World Cup in Qatar	
DECEMBER	**13 – 14 December** US FOMC Meeting*	**15 December** ECB Monetary Policy Meeting	

* with Summary of Economic Projections

USING VTAR TO IDENTIFY IDEAS

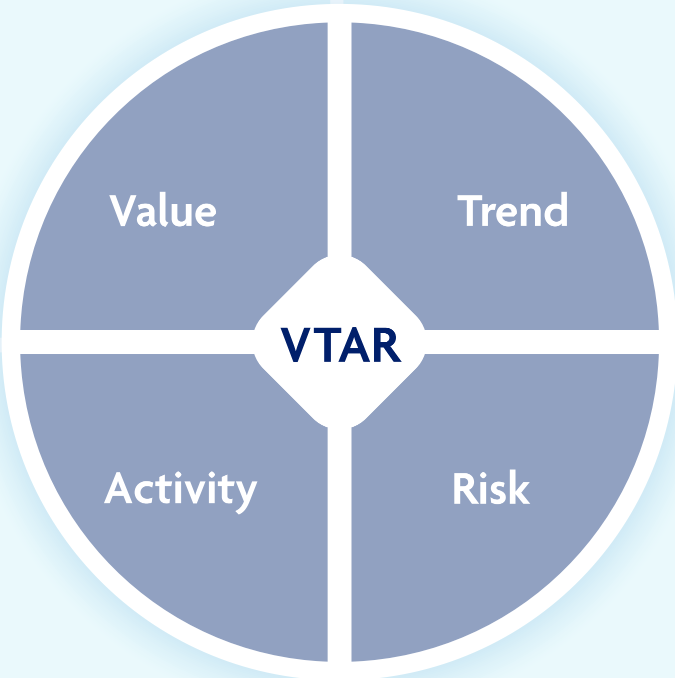
Our award-winning VTAR framework focuses on analysing large volumes of financial data in the four components of Value, Trend, Activity and Risk (VTAR). This framework provides a holistic view of financial markets and identifies investment opportunities across asset classes, sectors, geographical regions 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.

Purpose
Identifying investments with attractive valuations and earnings potential.

Common Indicators
- Price-to-Earnings Ratio (P/E Ratio)
- Earnings Growth (EPS Growth)
- Option-Adjusted Spreads (OAS)

Purpose
Understanding the trend of the investment.

Common Indicators
- Simple Moving Averages (MAs)
- Relative Strength Indicator (RSI)
- Fund flows



Purpose
Understanding the macro environment and business activities that may affect performance.

Common Indicators
- Central bank policies
- Composite Purchasing Managers Index (PMI)
- Industrial Production (IP) and Retail Sales

Purpose
Identifying key market risks and potential mitigating factors.

Common Indicators
- Geopolitical events
- Industry- or region-specific events
- News flows

VTAR SUMMARY FOR OUR CALLS

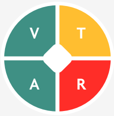
Megatrends VTAR & Commentary

Positive   Neutral   Negative   N/A

Sustainability

Equity valuations are cheaper compared to six months ago. Fund flows remain resilient despite momentum slowing down sharply in broader equity markets. Higher energy prices and the need for energy self-sufficiency have renewed positive interest for Sustainability investing. Be aware of the acute risk of greenwashing.

Global Healthcare

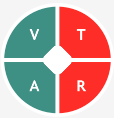


Global Healthcare valuations are at a discount compared to broader global equities while earnings growth prospects remain strong. This sector is less sensitive to rising bond yields than other defensive sectors.

China

Valuations for both onshore and offshore equities are attractive. China's zero-COVID policy continues to present headwinds in the near term. However, more easing measures are expected in H2 to support economic growth. The Chinese government may relax its zero-COVID stance towards Q4 2022.

Asia ex-Japan Equities



Valuations are attractive relative to historical averages while leading economic indicators reflect resilience in economic activity. China's reopening will be positive for the region's recovery. On the flipside, China's slowdown may present downside risks to the recovery momentum.

AI and Innovation

Digitalisation and innovation are 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. Valuations remain high despite the recent correction, and the introduction of a global minimum tax regime will lead to revised earnings estimates.

US

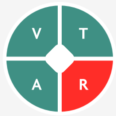
More Fed rate hikes may lead to less spending and investment, weighing on sentiment and growth. Valuations are higher than the historical average but have come down with concerns over slowing growth. Be selective and focus on more defensive plays or sectors that benefit from higher rates.

VTAR SUMMARY FOR OUR CALLS

High Conviction Calls VTAR & Commentary

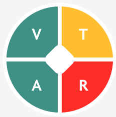
- Positive
- Neutral
- Negative
- N/A

US Financial Equities



Following concerns over the Russia-Ukraine crisis and slowing growth, valuations continue to improve and remain reasonable relative to the broader S&P 500 Index. However, the sector will continue to benefit from Fed rate hikes and loan growth recovery. Rising competition from alternative payment platforms and cryptocurrencies could pressure traditional banking revenues.

Japan Equities



Valuations are attractive relative to historical averages and earnings are at pre-pandemic peaks. A weaker JPY is generally positive for the market, and businesses are likely to benefit from re-opening.

REVIEW OF H1 2022

Asset Class Review

Equities

Equities sold off in H1 2022 after major central banks, in efforts to tackle inflation, acted in concert to tighten monetary policies and hence reduce liquidity in financial markets. Geopolitical tensions exacerbated rising inflation following the Russian-Ukraine conflict, which disrupted the supplies of major commodities including crude oil, natural gas, wheat and other agricultural staples.

Growth-style equities, especially those in the US Technology sector, led losses due to their susceptibility to higher interest rates, whereas markets in Europe and Japan, with heavier weightings in Value-style sectors were more resilient. Energy was the best-performing equity sector due to soaring energy prices.

China's zero-COVID policy and the subsequent stringent lockdowns in several major and port cities had a severe disruptive impact which shook investor confidence. As caution is still warranted when investing in Chinese equities, consider diversifying via a broader basket of Asia ex-Japan equities.

Fixed Income

The US Federal Reserve's (Fed) reversal of quantitative easing (QE) and move to hike interest rates have lifted fixed income yields higher across the board. Inflation concerns have pushed longer-term bond yields higher. As such, shorter-duration Asian Investment Grade (IG) bonds and US High Yield bonds have outperformed US IG bonds.

While local currency emerging market debts have also been the better performers, the USD's strength has dented returns on a net total basis and lessened their investor appeal.

Currencies and Commodities

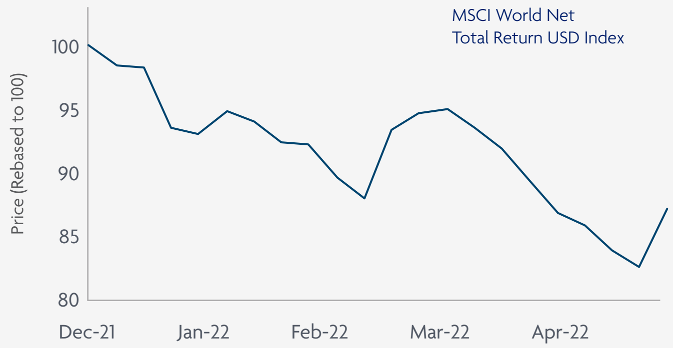
The US Fed's aggressive monetary policy tightening to tackle inflation has strengthened the USD against all major currencies. The SGD's relatively better performance was due to the MAS' gradual appreciation approach to avoid importing inflation into Singapore, while the AUD was a beneficiary of higher commodity prices.

Unsurprisingly, Crude Oil was the best-performing commodity due to the squeeze in global supply following the widening ban on Russian exports, while Gold was relatively flat despite concerns over rising inflation.

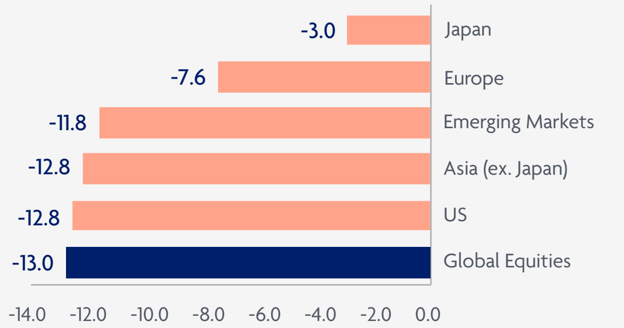
REVIEW OF H1 2022

Asset Class Review

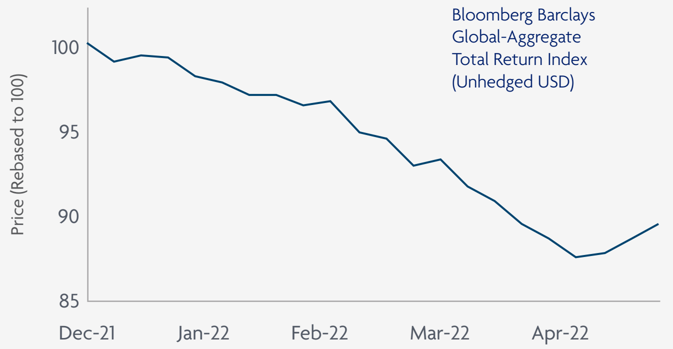
Equities



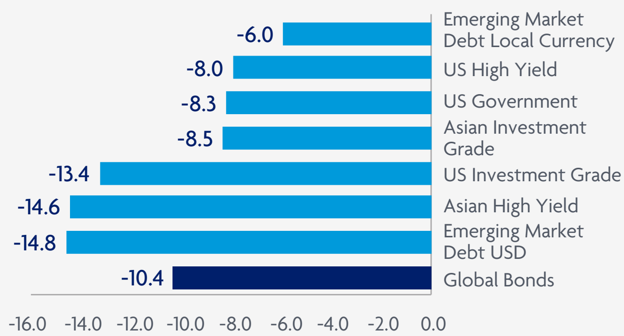
YTD Total Return (%)



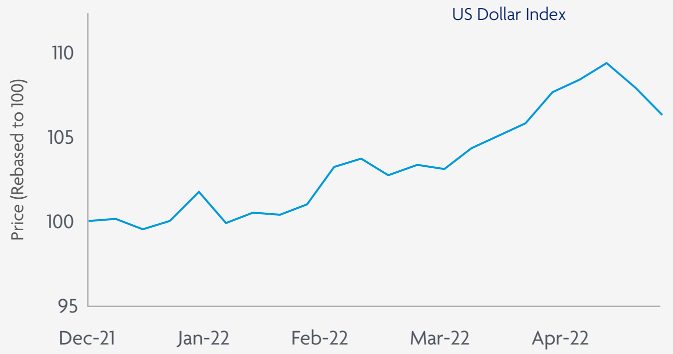
Fixed Income



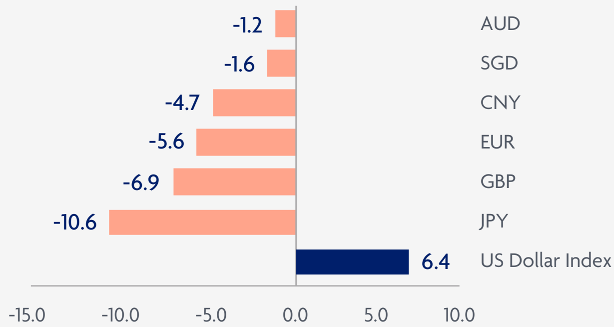
YTD Total Return (%)

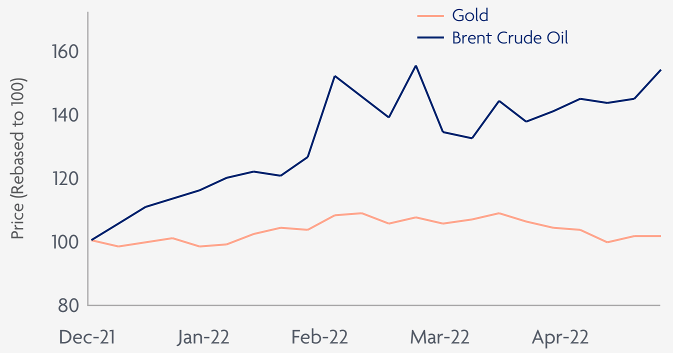


Currencies and Commodities

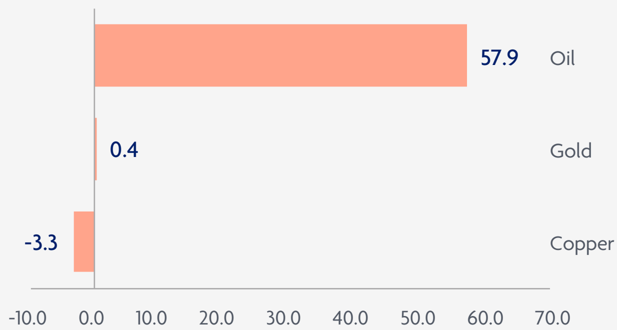


YTD Movement Against the US Dollar





YTD Total Return (%)



Source: Bloomberg. All percentages shown are expressed in their respective local currency terms and reflect the total returns between 1 January and 31 May 2022.

REVIEW OF H1 2022

Tactical Calls Review

Open Calls

Equities have suffered broad declines after major global central banks embarked on monetary tightening that led to reduced liquidity. The performance of our high-conviction call on US Financials was negative but fared slightly better than the broad MSCI World Index. We also initiated a call on Japan equities as valuations are attractive. However, investors will need to extend their holding period to realise the potential of Japan equities amid the current macroeconomic backdrop.

Among our Megatrend ideas, Healthcare, the US market and Sustainability were our better-performing themes. Traditionally a defensive sector, Healthcare held up better in H1 2022. In contrast, AI and Innovation and Chinese equities were the worst performers due to the diminishing appeal of growth-oriented Tech equities due to rising interest rates. Meanwhile, the tightening of regulatory measures and disruption of economic activities due to China's COVID lockdowns had a severe negative impact on the Chinese equity markets.

Closed Calls

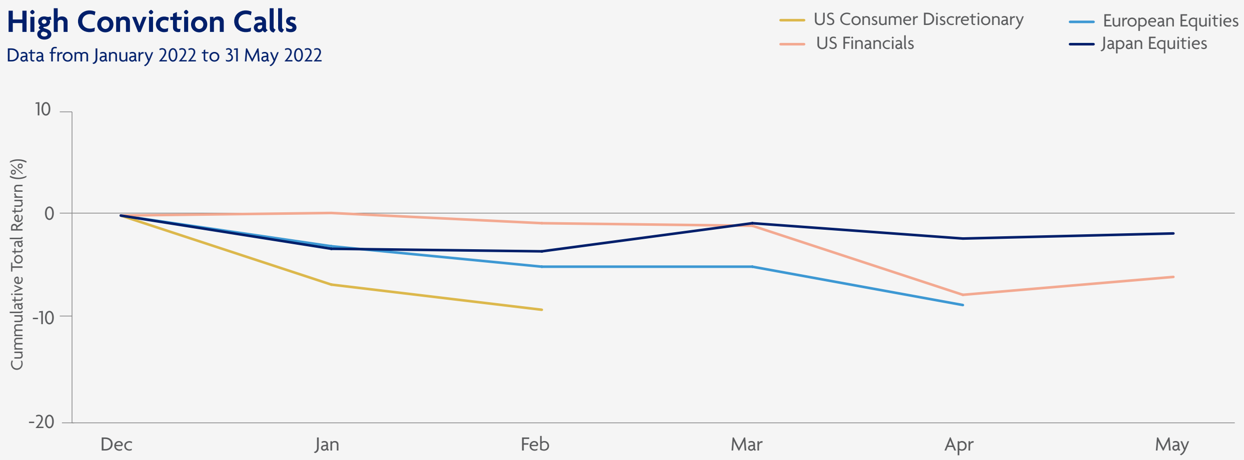
We closed our high conviction calls on US Consumer Discretionary and European equities in February 2022 and May 2022, respectively, due to higher inflationary pressures which have a disruptive impact on the recovery in discretionary spending, especially amid ongoing uncertainties stemming from the conflict in Ukraine.

REVIEW OF H1 2022

Tactical Calls Review

High Conviction Calls

Data from January 2022 to 31 May 2022

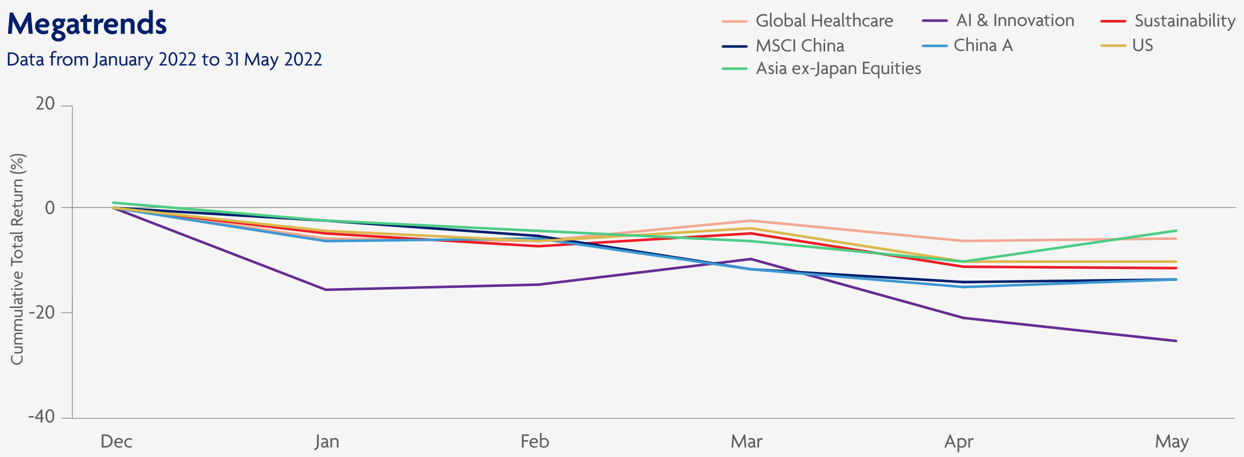


• Since Start^ • Total Return YTD+

Call	Since Start^	Total Return YTD+
US Consumer Discretionary Call Start: 9-Jan-2021 End Date: 28-Feb-22	3.9%	-13.3%
US Financials Call Start: 8-Jan-2021 End Date: Ongoing	17.5%	-8.8%
European Equities Call Start: 10-Oct-2020 End Date: 08-May-22	9.2%	-16.1%
Japan Equities Call Start: 1-Mar-2022 End Date: Ongoing	2.6%	2.6%

Megatrends

Data from January 2022 to 31 May 2022



• Since Start^ • Total Return YTD+

Call	Since Start^	Total Return YTD+
Global Healthcare Call Start: 1-Jan-2017 End Date: Ongoing	90.6%	-7.4%
Sustainability Call Start: 1-Oct-2020 End Date: Ongoing	20.8%	-14.2%
China Equities (Offshore) Call Start: 1-Jan-2019 End Date: Ongoing	4.2%	-16.7%
Asia ex-Japan Equities Call Start: 1-Jan-2022 End Date: Ongoing	-12.3%	-12.3%
AI & Innovation* Call Start: 1-Jan-2019 End Date: Ongoing	91.3%	-31.4%
US Call Start: 8-Jan-2021 End Date: Ongoing	10.8%	-12.8%
China Equities (Onshore) Call Start: 1-Oct-2018 End Date: Ongoing	26.9%	-17.0%

* 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.
^ Source: Bloomberg. All percentages shown are expressed in their respective local currency terms, and reflect the total returns from call start date to 31 May 2022 or call end date, whichever is earlier.
+ 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 31 May 2022.

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