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J.P.Morgan ASSET MANAGEMENT

UOB

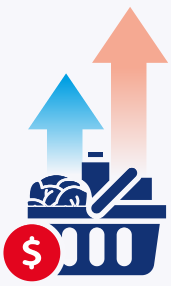
UOB Investment Insights

Market PowerBar

APRIL 2022

A LOOK AT THIS MONTH

Key developments to watch	What investors should know
1 The Russia-Ukraine crisis continues to weigh on investor sentiment.	**Stock markets tend to recover following geopolitical events** Volatility is here to stay as markets generally dislike uncertainty. But volatility, while uncomfortable, brings opportunities when markets recover.
2 Europe's push to reduce its reliance on Russian energy has brought critical Sustainability-related issues to attention.	**The emphasis on Sustainable Investing is accelerating** Sustainable Investing has been gaining traction for years, but the Russia-Ukraine crisis has further highlighted the need for energy self-sufficiency and investments in clean energy.
3 Inflation in Asia is more benign than in developed Western nations.	**Quality companies in Asia present attractive opportunities** Developed market central banks have leaned towards raising interest rates due to high inflation. However, most Asian central banks have adopted a more moderate stance. With a better growth backdrop and supportive policies, Asia ex-Japan equities present opportunities.



Upcoming Event	
APR 14 European Central Bank (ECB) meeting	Look out for any cues on policy tightening given that inflation is expected to be high.

Speak to your UOB Advisor today to find out more.

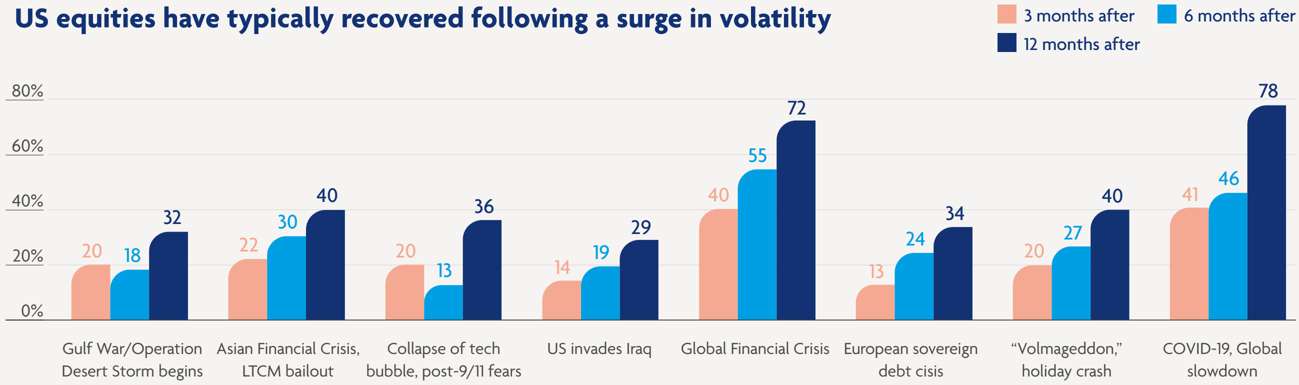
Topic 1:

Stock markets tend to recover following geopolitical events

The Russia-Ukraine crisis has caused market turbulence. Because markets generally dislike uncertainty, we expect volatility to stay as the situation develops. While volatility is uncomfortable, it also leads to opportunities when markets recover.

Figure 1A:

US equities have typically recovered following a surge in volatility



Source: FactSet, NBER, J.P. Morgan Asset Management.
For the Gulf War, Afghanistan War and Iraq War, the official date of the US invasion in each conflict was used as the starting point. Each of these dates coincides with a local maximum in the VIX index. For all other events, we used the the market trough dates from NBER's "Business Cycle Dating" publication. All data are as of 28 February 2022.

Key takeaways

1. It is common for US equities to deliver strong returns 3 to 12 months after spikes in volatility (Figure 1A).
2. Apart from the oil embargo in 1973 and the 9/11 attacks in 2001, global equities were also generally higher 6 to 12 months after the onset of major geopolitical events (Figure 1B). Barring any serious consequences on global growth, any geopolitically-linked sell-offs can be viewed as buying opportunities.
3. An analysis of previous geopolitical events that had a significant impact on commodity prices can also comfort investors. Markets tended to forget their fears quickly once there was more clarity. In these instances, negative reactions in global equities markets have not been a long-drawn-out process.

Figure 1B:

Global equity market performance after onset of geopolitical events (%)

MSCI World total return	Date	1W	1M	3M	6M	12M
Israel Arab war / oil embargo	29 Oct '73	–	1.1	-11.9	-12.6	-38.0
Soviet invasion of Afghanistan	17 Dec '79	–	2.8	-2.3	9.5	34.1
Iraq invasion of Kuwait	2 Aug '90	–	-9.3	-12.7	-10.9	-0.7
9/11 attacks	11 Sep '01	-3.8	1.8	5.8	7.9	-12.3
Iraq war	19 Mar '03	1.1	3.0	25.0	36.1	65.5
Arab spring (Egypt)	27 Jan '11	-0.4	-5.4	1.0	3.2	-8.9
Annexation of Crimea	27 Feb '14	0.7	1.3	8.0	14.0	12.0

Source: FactSet, MSCI Global, J.P. Morgan Asset Management.
Data used are daily unless stated otherwise. Past performance is not a reliable indicator of current and future results. Data most recently available as of 9 March 2022.

In summary

- The impact from the Russia-Ukraine war will vary in different geographical regions. Europe is much more dependent on Russia for energy and imports about 40% of its natural gas and 25% of crude oil from Russia. Rising energy prices can impact household spending and slow growth. However, consumers today spend a much smaller chunk of their income on energy.
- While Europe's cyclical growth story remains intact given the reopening of the economy, a long-drawn war may weigh on its equity market performance and lead to inflation pressures persisting.

Topic 2:

The emphasis on Sustainable Investing is accelerating

Sustainable Investing has been gaining traction over the past several years. The Russia-Ukraine crisis has further highlighted the need for energy self-sufficiency and investments in clean energy.

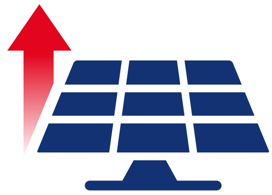
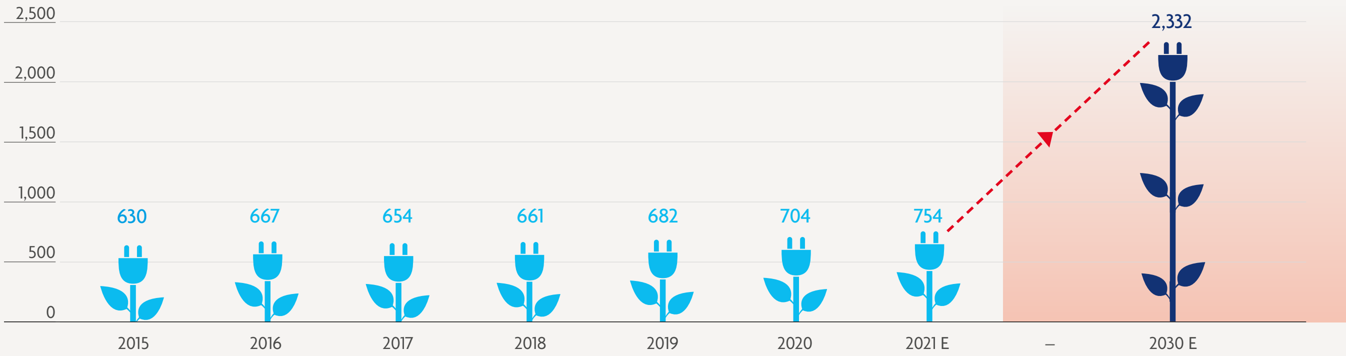


Figure 2A:

Global investment in clean energy expected to increase in this decade

USD Billions



Source: International Energy Agency (2021), World Energy Investment 2021, J.P. Morgan Asset Management.
2030 forecast based on annual average investment needs in the electricity sector for 2026-2030 in the International Energy Agency's "net zero emissions by 2050" scenario. For illustrative purposes only. Past performance is not a reliable indicator of current and future results. Data as of 31 December 2021.

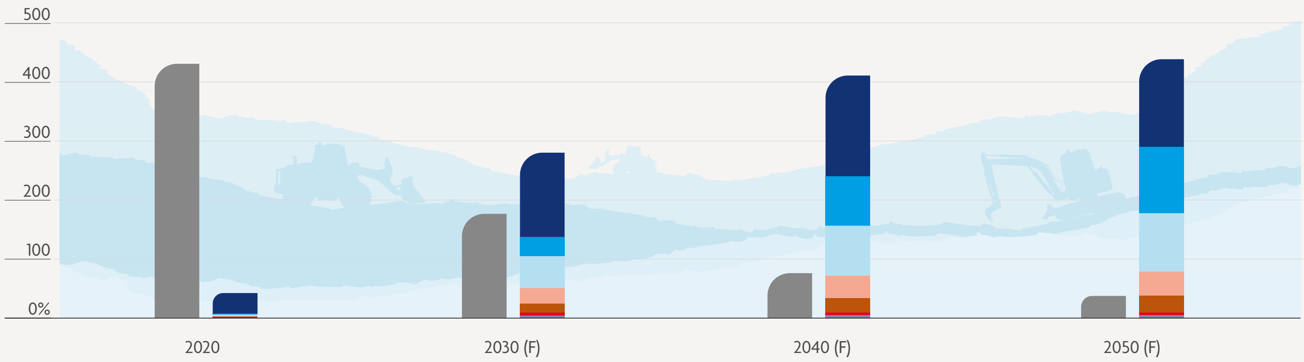
Key takeaways

1. Despite the incredible growth in the sustainability arena, we expect even more investment as we transition to carbon neutrality. To get there, the world's energy mix has to change significantly. Close to USD2.5 trillion has to be invested in clean energy and energy efficiency by 2030 just to align with the Paris climate agreement's goals, and these investments need to accelerate to USD140-160 trillion by 2050 to help countries reach net-zero emission goals.
2. Resource requirements of a renewable energy system are very different from those of a fossil fuel system. Power generation will shift from a fuel-intensive process to a mineral-intensive one. Depending on the speed of the clean technology transition, demand for critical minerals could rise by 70-110% by 2030 (Figure 2B).

Figure 2B:

Demand for critical minerals will increase as energy transition takes place

USD Billions



Source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris.

In summary

▶ The transition to a new energy mix will result in tremendous investments and spur growth in these industries. Active management will be a true differentiator in distinguishing between winners from losers. The demand for critical commodities will support their prices in the coming years, especially since supply can remain tight as mining these materials requires years of development.

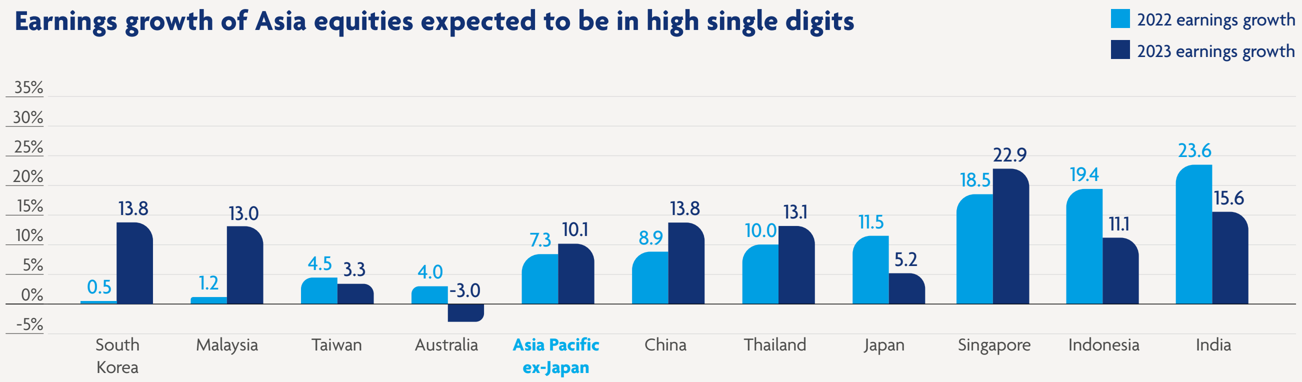
Topic 3:

Quality companies in Asia present attractive opportunities

Central banks in developed markets have mostly leaned towards raising interest rates in response to high inflation. However, most central banks in Asia have been able to adopt a more moderate stance as inflation has been more benign. After a year of regulatory clampdowns, China has been advocating for stability this year, making it one of the very few places where the policy stance is tilted towards easing rather than tightening.

Figure 3A:

Earnings growth of Asia equities expected to be in high single digits



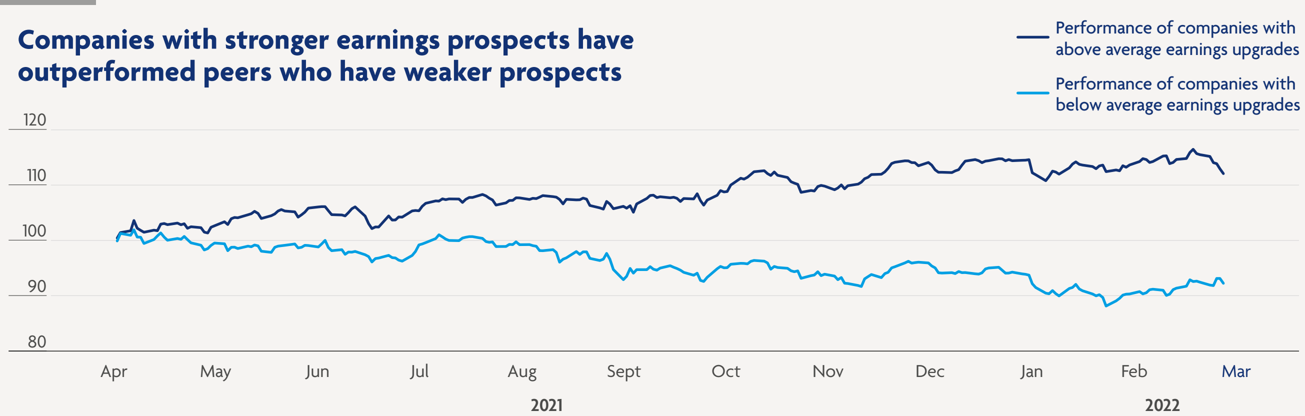
Source: MSCI, Factset, and J.P. Morgan Asset Management. Data reflects most recently available as of 25 March 2022.

Key takeaways

1. Corporate earnings for Asia ex-Japan markets are expected to grow at a pace of 8.5% and 10.3% for 2022 and 2023, respectively (Figure 3A). This compares favorably with developed markets (7.8% and 8.2% respectively). China, the biggest component of Asia ex-Japan equities, is poised to deliver close to double-digit earnings growth across 2022 and 2023, as its policy stance shifts to becoming more accommodative. ASEAN is also positioned to deliver stronger growth this year as economies continue to reopen.
2. Amidst the uncertainty of the Russia-Ukraine crisis, we think Asia ex-Japan will be less affected as inflation rates remain relatively low and growth prospects are brighter. Nevertheless, focusing on **quality companies** that can deliver strong earnings growth is a good way to achieve better risk-adjusted returns (Figure 3B).

Figure 3B:

Companies with stronger earnings prospects have outperformed peers who have weaker prospects



Source: MSCI, Factset, and J.P. Morgan Asset Management. Data reflects most recently available as of 25 March 2022.

In summary

- With relatively more attractive valuations than developed markets, a better growth backdrop and supportive policies, we think that Asia ex-Japan equities present an interesting opportunity.
- A focus on quality companies that have superior earnings revisions or return on equity can help mitigate some of the near-term uncertainty in the global landscape.

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