

UOB Investment Insights Market Powerbar

August 2019 Highlights

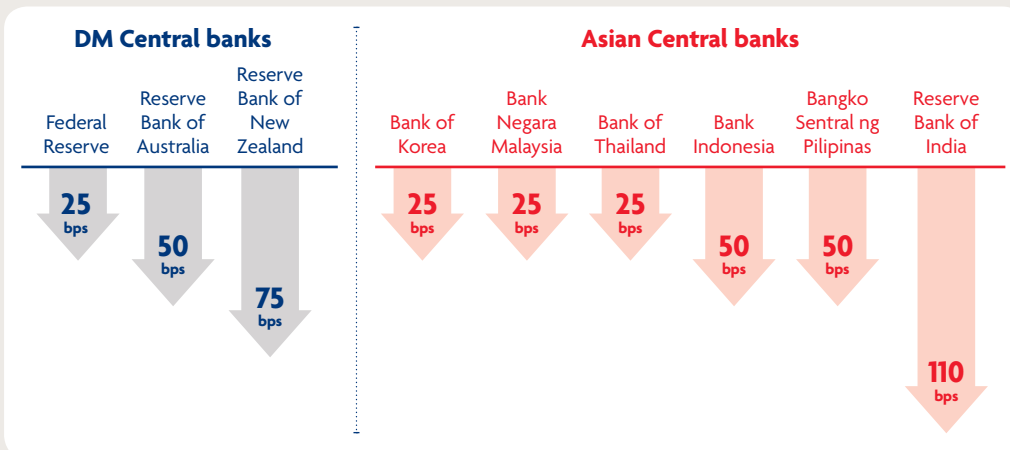
Topic 1: Global easing cycle has gained momentum year-to-date

Central banks that have cut rates (Jan to Aug 2019)



What happened?

Global central banks have embarked on rate cuts to counter slower global growth.



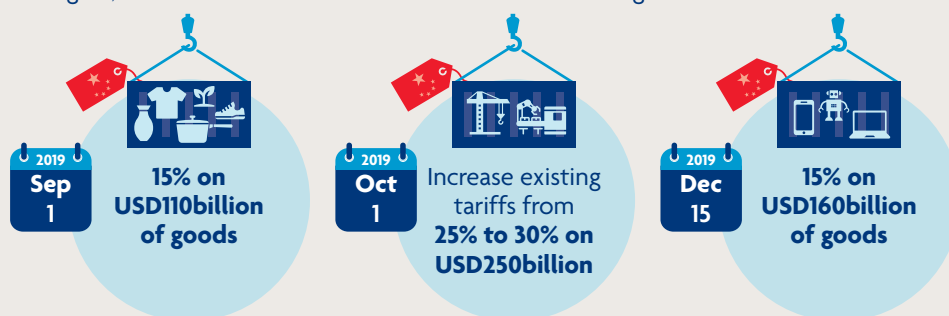
Views & implications

- We now expect the Fed to cut rates by **25bps each in September, October and December** to lower the upper bound of the Fed Funds Rate to 1.5%.
- Holding cash would be less attractive as the interest rates are trending lower.
- Investors could consider **Asian investment-grade bonds** to generate income and to lower overall portfolio risk, and **Global Multi-Asset/Balanced strategies**, which tend to mitigate downside risks when markets are volatile.

Topic 2: US-China trade conflicts become more unpredictable

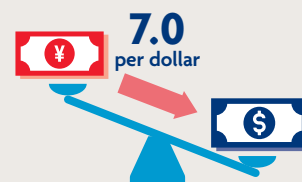
Trade:

In August, the US announced additional tariffs on Chinese goods.



Currency:

PBOC allowed yuan to weaken over the important psychological threshold of 7.0 per dollar.



Views & implications

- To mitigate the negative impacts of higher tariffs, we expect the Chinese government to ease monetary and fiscal policies further to support the economy.
- We still remain **positive on Chinese equities** over the long-term given the growing domestic consumption and manufacturing upgrade. In addition, after the sell-off, the valuation looks attractive.

UOB Investment Insights

Market Powerbar

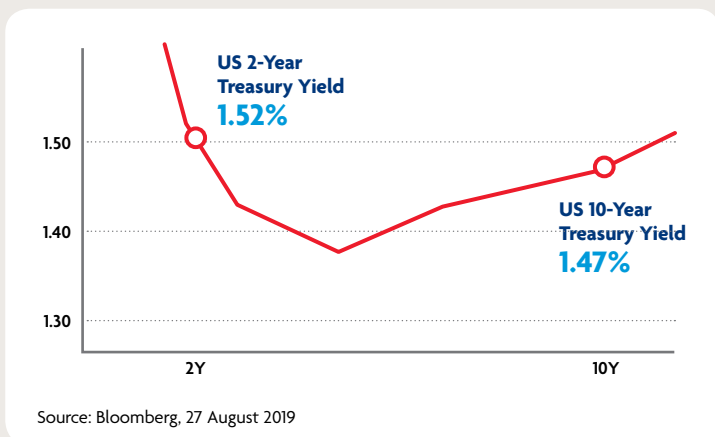
August 2019 Highlights

Topic 3: 2-Year Treasury yield and 10-Year Treasury yield inverted

- The spread between the 2-year and 10-year US Treasury bond turned negative, the first time since June 2007.

2019
Aug
27

A **yield curve inversion** occurs when the near-term bond pays a higher yield than a longer-term bond, and is commonly used as an **early indicator for recession**.



- Yield curve inversion **does not indicate an impending recession**.

Lead time before recession
(Past 50 years)

Average
22
months

- Equities tend to continue to **deliver positive returns** after the yield curve inversion.

Post-inversion S&P500 Index average returns
(over past 50 years)

+15.7%
over
18 months

Views & implications

- High-grade fixed income** will benefit if the Fed is eventually pressured to cut rates further. **Equities** could still see further upside but with higher volatility.
- Gold** is commonly used as "portfolio insurance". Yield curve inversion could continue to drive safe-haven demands and we expect the gold price to reach US\$ 1,650/oz by Q2 2020.

Key Events in September



2019
Sep
7

US to review the effectiveness of Mexico's immigration policies

If the US finds the results unsatisfactory, the US could impose 5% tariff on all imports from Mexico as planned.



2019
Sep
12

ECB meeting

The ECB is widely expected to cut deposit rate by 10 bps and announce its plan for another round of quantitative easing.



2019
Sep
19

FOMC meeting

The Fed funds futures are currently pricing in 100% odds of at least 25 bps of rate cut in the meeting.



BANK OF JAPAN

2019
Sep
19

BOJ meeting

The BOJ is expected to keep monetary policies unchanged.



RIGHT BY YOU

The information herein is given on a general basis without obligation and is strictly for information purposes only. It is not intended as an offer or solicitation with respect to the purchase or sale of any investment or insurance product mentioned herein. Nothing herein should be construed as a recommendation or advice to transact in any investment or insurance product mentioned herein.

Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank Limited (“the Company”) and its employees cannot be held liable for any errors, inaccuracies or omissions, howsoever caused, or for any decision or action taken based on the information or views expressed in this publication.

The Company does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any errors, inaccuracies or omissions. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. Investors may wish to seek advice from an independent financial advisor before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider whether the investment or insurance product in question is suitable for you.

United Overseas Bank Limited Co. Reg. No. 193500026Z