


UOB Investment Insights Market PowerBar

AUGUST 2020

Key events at a glance

Market recap



China's expected GDP for 2020
1.8%

China's 2Q GDP data beats estimate


- China's economy expanded by 3.2% year-on-year in 2Q20, up from a prior -6.8% contraction in 1Q 2020. Primary, secondary and tertiary industries saw rebounds.
- We expect China's full-year GDP for 2020 to come in at 1.8%, making China one of the few countries expected to clock positive growth this year.

Agreement on
EUR 750B
'Next Generation EU' Fund



Eurozone fiscal deal to implement

- European politicians have agreed on a EUR 750B 'Next Generation EU' fund, and a EUR 1.07T 7-year budget.
- 'Next Generation EU' fund will consist of a combination of loans and grants, with peripheral countries expected to benefit the most.
- Markets welcomed the deal as it is seen as a reduction in political risks. This is evident from the EUR rally and the decline in European bond yields.



WeChat and TikTok banned

Trump signs an order to ban WeChat and TikTok in the US

- Within 45 days of the executive order, US residents will be prohibited from doing business with Bytedance (TikTok's owner) and from using WeChat.
- Impact is limited at this current juncture, but market volatility is still expected given the uncertainty.
- The situation is fluid; tensions are expected to linger as the November Elections draw near.

A look at this month

AUG
17-27



Democratic & Republican National Conventions

Both parties will nominate their representatives for the US presidential election.

AUG
27-28



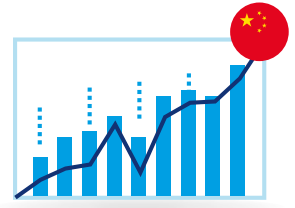
The Annual Jackson Hole Central Bank Summit

The summit will be conducted virtually.

Topic 1:

China A-shares march on

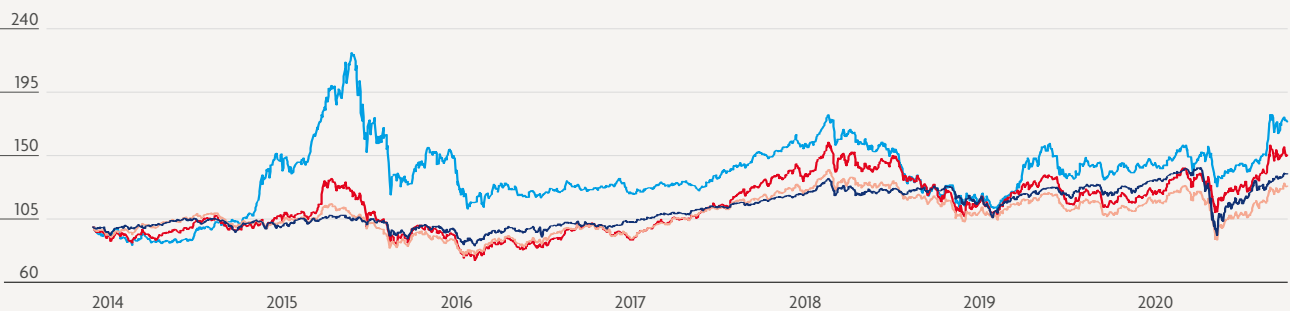
China A-shares, as represented by the CSI 300, has surged 11.9% over the past six weeks. A continued economic recovery can lead to a sustained equity market rally moving forward, particularly if corporate earnings recover.



Equity market price indices

Index level, 2014 = 100

● CSI 300 ● MSCI AC Asia ex-Japan
● MSCI China ● MSCI AC World



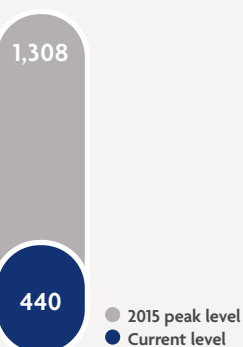
Source: China Securities Index, MSCI, J.P. Morgan Asset Management. Data as at 11 August 2020.

There are a number of reasons behind the recent rally, including a better-than-expected economic rebound in 2Q20 as well as the supportive fiscal and monetary policies rolled out by the government.

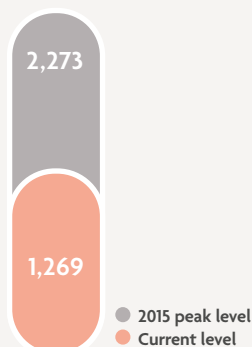
China's rising shares turnover – reminiscent of the 2015 occurrence – sparked concerns of a similar trading bubble and bust. However, unlike 2015, the Chinese retail investor sentiment appears to be significantly more subdued.

Chinese retail investor sentiment indicator (Current Vs Year 2015)

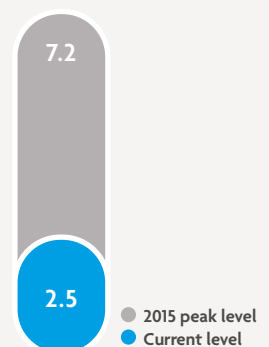
Chinese A-shares turnover
(RMB billions)



Chinese margin financing balance
(RMB billions)



New individual investor accounts in China
(millions)



Source: Bloomberg, CEIC, SSE, WIND, J.P. Morgan Asset Management. Data as at 21 July 2020.

Views & Implications:

- While there are some indications of a potential bubble, the equity rally could be sustainable if investor sentiment improves when corporate earnings and the economy gradually recover.
- When investing in China A-shares, investors should be more prudent given the volatility involved as a result of higher levels of retail investor participation.

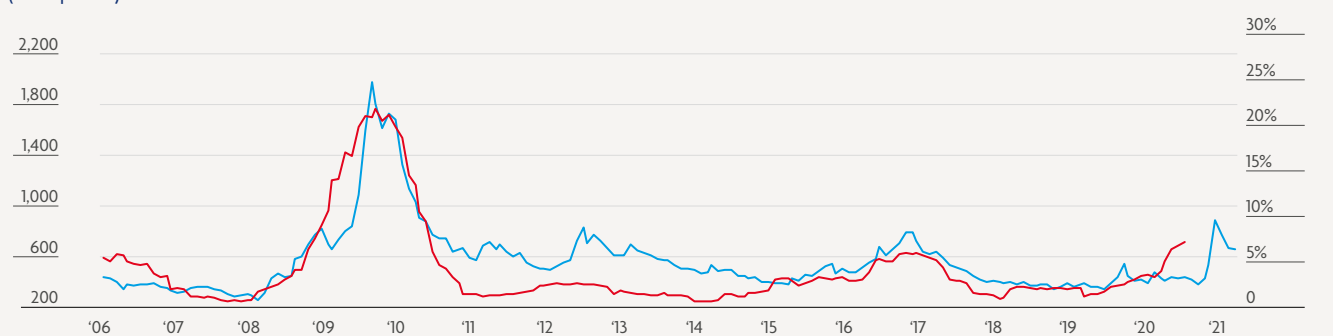
Topic 2:

Rebound in US high yield despite uptick in defaults

The US high yield (HY) bond market has recovered most of its losses since the global sell-off in March 2020. However, there could still be more defaults, particularly if economic conditions deteriorate.



US HY credit spread and default rate
(Basis points)



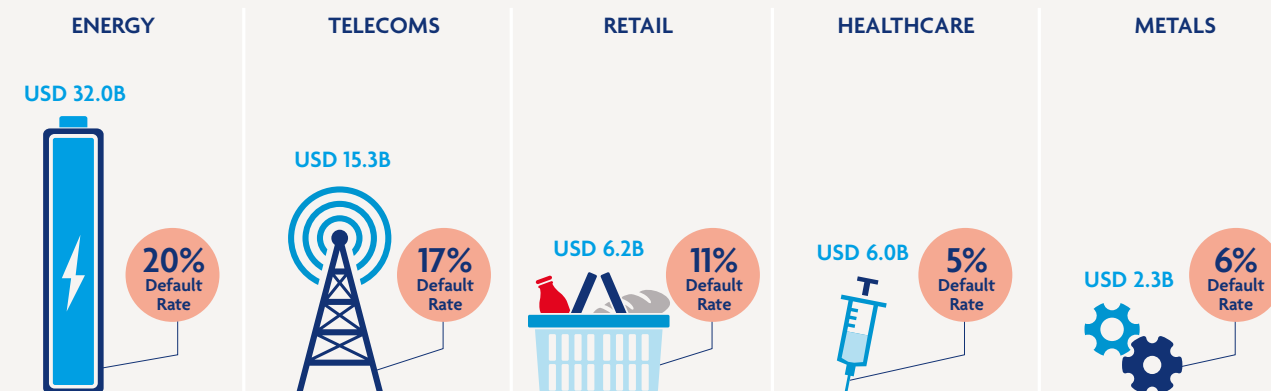
Source: BofAML, J.P. Morgan Asset Management. Data as at 31 July 2020.

High yield spreads have tightened and high yield bond prices have moved higher since the Fed's intervention in late-March 2020.

Lower quality-rated credits could be more vulnerable to COVID-19 uncertainties, and any deterioration in the US economy could lead to more defaults.

US high yield corporate defaults by sector

Face value, last 12 months



Source: BofAML, J.P. Morgan Asset Management. Data as at 31 July 2020.

Views & Implications:

- Although more defaults could occur, the Fed's purchases and liquidity programmes are supporting the US high yield market, limiting the potential number of defaults.
- In light of this, we prefer the higher quality segments (BB) of the high yield market that are potentially more resilient in an uncertain growth backdrop.



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