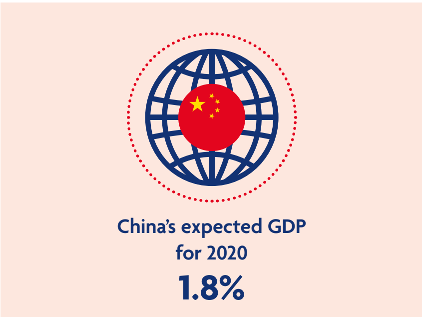
In collaboration with:

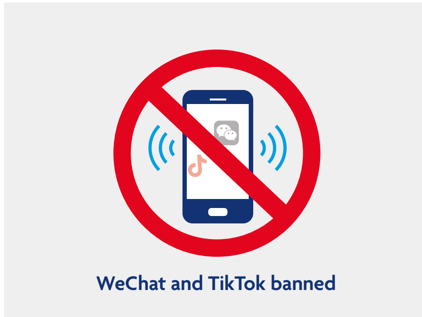
UOB Investment Insights
Market PowerBar

AUGUST 2020

Key events at a glance

Market recap





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.

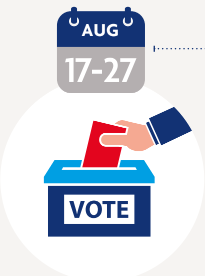
Eurozone fiscal deal to implement

- 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.

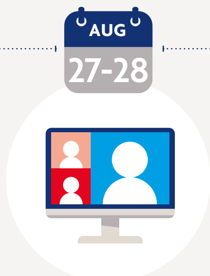
Trump signs an order to ban WeChat and TikTok in the US

- 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



Democratic & Republican National Conventions
Both parties will nominate their representatives for the US presidential election.

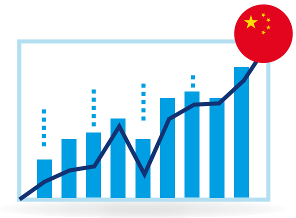


The Annual Jackson Hole Central Bank Summit
The summit will be conducted virtually.

Topic 1:

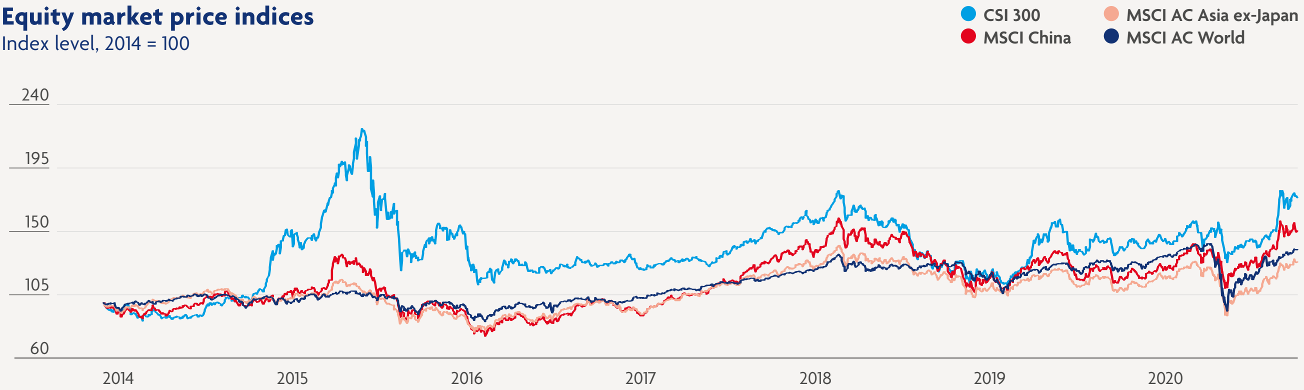
China A-shares march on

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

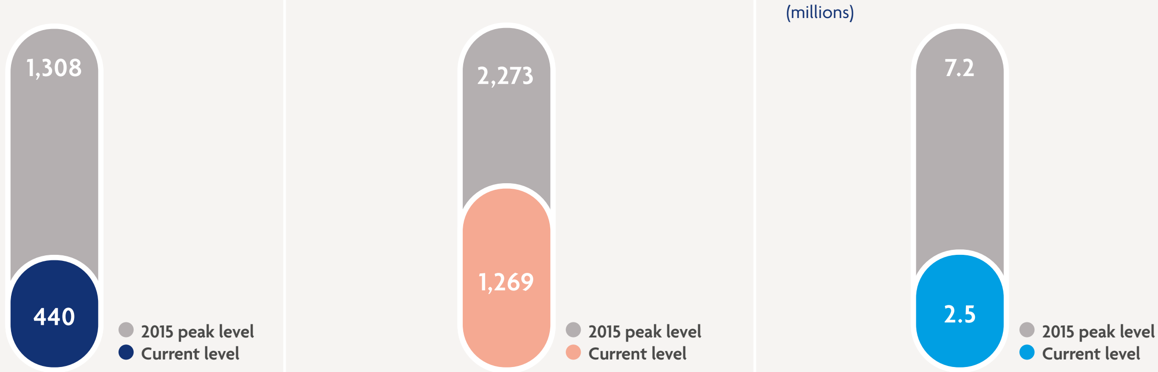


Source: China Securities Index, MSCI, J.P. Morgan Asset Management. Data as at 11 August 2020.

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)



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

Views & Implications:

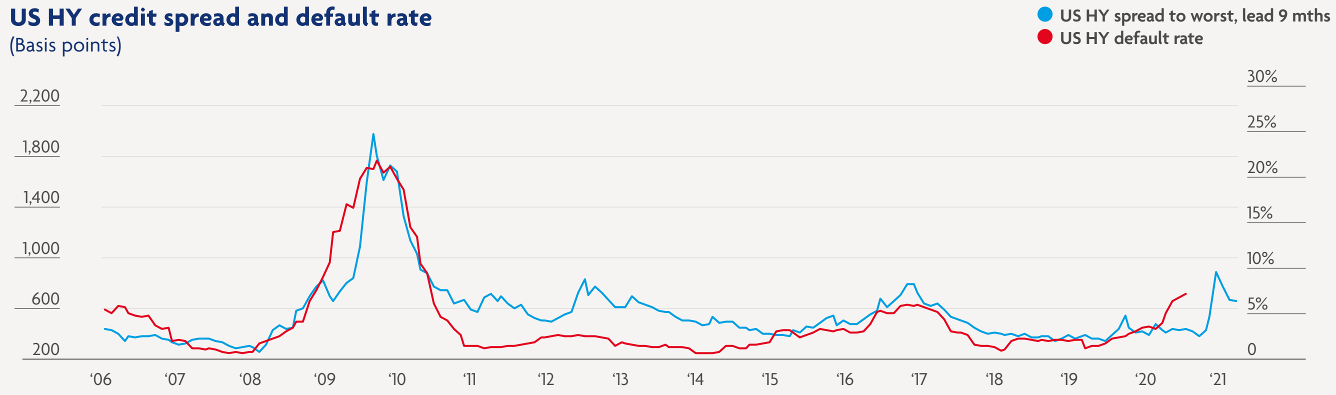
- While there are some indications of a potential bubble, the equity rally could be sustainable if investor sentiment improves when corporate earnings and the economy gradually recover.
- When investing in China A-shares, investors should be more prudent given the volatility involved as a result of higher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

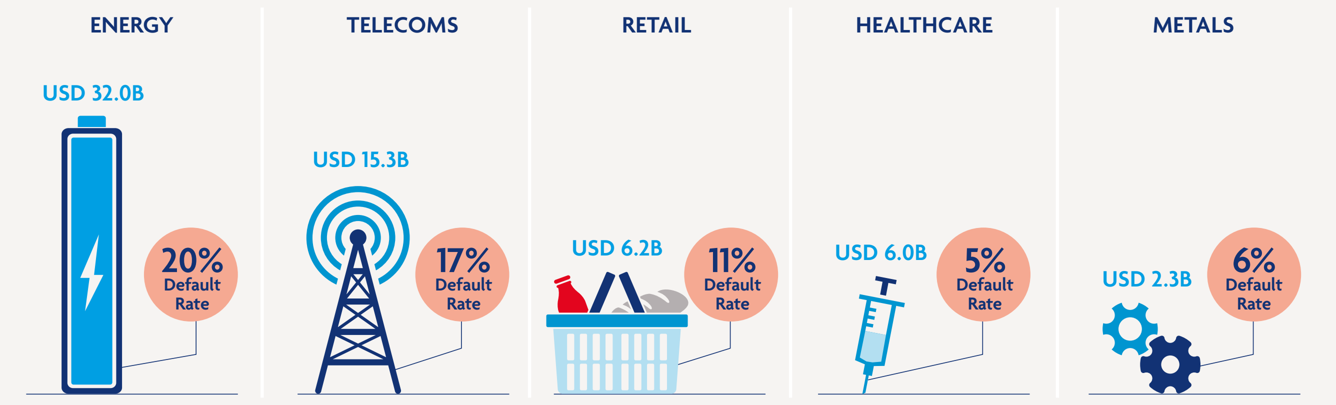


Source: BofAML, J.P. Morgan Asset Management. Data as at 31 July 2020.

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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