In collaboration with:

J.P.Morgan Asset Management

UOB

UOB Investment Insights
Market PowerBar

AUGUST 2021

A look at this month

KEY DEVELOPMENTS	What to expect	What does this mean for investors
Delta variant cases on the rise	Equities that benefit from reopening will remain volatile	Volatility brings about potential opportunities to enter tactical reopening trades at better valuations. Opportunities include: • US Financial equities • European equities
Regulatory uncertainty in Chinese equities	Chinese internet and education companies under pressure	Expect further volatility in Chinese equities as policy uncertainty continues, but domestic consumption remains a key driver of the China Megatrend

UPCOMING EVENT		
AUG 26-28 **Jackson Hole Symposium**	Watch for hints on the US Federal Reserve's quantitative easing tapering plan	Tapering may lead to higher bond yields. • Reduce duration on fixed income • Consider US Financial equities as a tactical opportunity

Topics at a glance

US Financials well-positioned for more cyclical upside

A pullback in longer-dated US Treasury yields may have been overdone, presenting an opportunity for US Financial equities.

Invest in Europe to ride on global economic recovery

The higher vaccination rates in Europe reduce the risk of severe lockdowns. European equities are more value/cyclical oriented and can continue to benefit from the global economic reopening.

Navigating Chinese equities as regulatory risks remain

China's ongoing regulatory tightening remains a short-term pain for longer-term gain. Investors can continue to tap on the China Megatrend via domestic-focused onshore A-shares rather than the offshore market.

Speak to your UOB Advisor today to explore opportunities on how you can better position your investment portfolio.

US Financials well-positioned for more cyclical upside

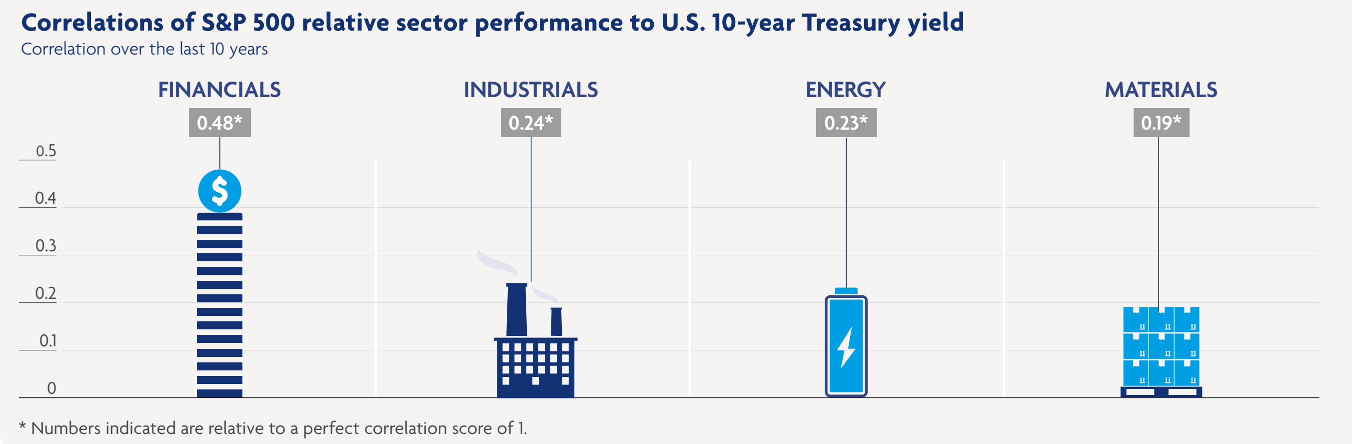
Longer-term US Treasury (UST) bond yields have pulled back from their highs and investors' interest in value and cyclical equities – including US Financials – has been fluctuating. However, this pullback also presents an opportunity to increase exposure to US Financials, which will likely benefit from the ongoing economic reopening.

Figure 1A: A narrowing US Treasury yield curve spread point to a flatter yield curve.

Source: FactSet, U.S. Federal Reserve, J.P. Morgan Asset Management. Data reflect most recently available as of 30 July 2021.

- The overall yield curve has flattened (Figure 1A) and the 10-year UST bond yield has declined from a high of 1.72% to 1.22%. This was largely driven by UST short-coverings, pension funds buying USTs as well as concerns over the recent rise in the Delta variant cases.
- Going forward, we expect to see higher bond yields and gradual steepening of the yield curve as global economy recovers.
- We expect US Financials, in particular US Banks, to benefit from this reflationary recovery (Figure 1B). This is on the back of loan growth rebounding and a steepening of the yield curve that can help to boost net interest margins. In addition, bank stocks are also offering dividend yields of up to 2.57%.

Figure 1B: US Financials will benefit more from a rising 10-year Treasury yield due to their higher correlation.



Source: FactSet, U.S. Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Past performance is not a reliable indicator of current and future results. Data reflect most recently available as of 30 July 2021.

Views & Implications:

- We remain positive on US Financials as they are well-positioned to benefit from the global reflationary backdrop and higher bond yields in H2 2021.
- This is further reinforced by major banks passing the Federal Reserve's stress tests, paving the way for the resumption of dividends and share buybacks. Recent Q2 earnings results for US Financials also continue to outperform analysts' expectations.

Topic 2:

Invest in Europe to ride on global economic recovery

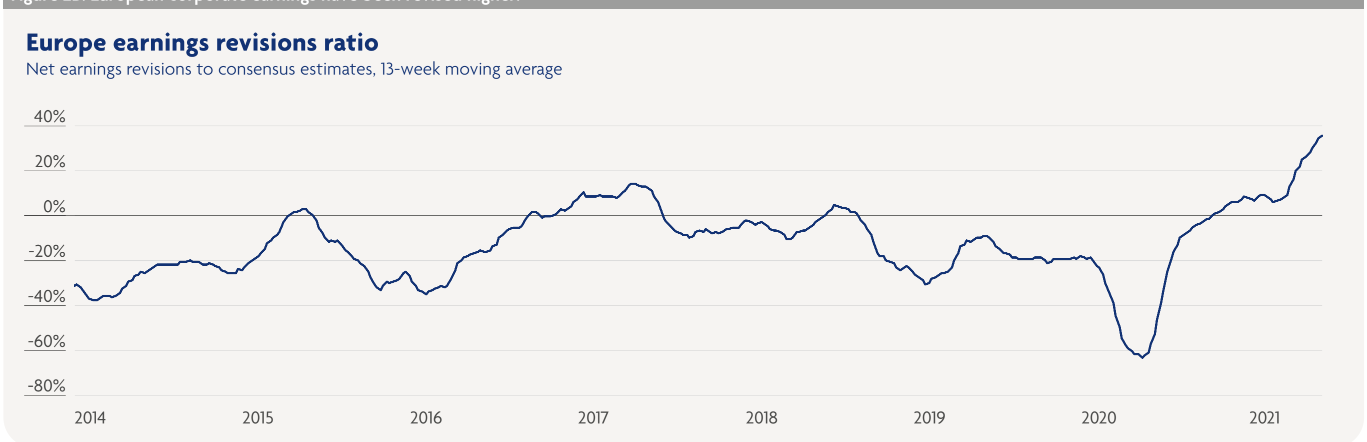
The spread of the Covid-19 Delta variant has been a potential drag on the European recovery story, but it is not likely to significantly slow economic reopening. An increase in economic activity and earnings growth in H2 2021 will likely support the performance of European equities moving forward.

Figure 2A: The recent rise in European infections did not result in a higher hospitalisation rate.

Source: Johns Hopkins University, Our World in Data, World Bank – World Development Indicators, J.P. Morgan Asset Management. Data as of 1 August 2021. Europe includes France, Germany, Italy, Spain, UK. Population numbers are based on World Bank data as of 31 December 2019.

- Investors fear that Europe's economic reopening will be threatened by the rise in COVID-19 Delta variant infections. However, unlike previous waves of infections, the link between new infection cases and hospitalisation numbers is weaker (Figure 2A) – this suggests that the ongoing vaccination campaigns are helping to gradually lower the number of serious infections in Europe.
- We remain optimistic on European economic growth and earnings recovery (Figure 2B), as well as see the potential for European equities to outperform the US. Notably, European equities are more leveraged to the global recovery as a large portion of the equity index are driven by value and cyclical sectors. European equities are also trading at cheaper valuations relative to the US.

Figure 2B: European corporate earnings have been revised higher.



Source: Thomson Reuters Datastream, MSCI, J.P. Morgan Asset Management. Data as of 27 July 2021.

Views & Implications:

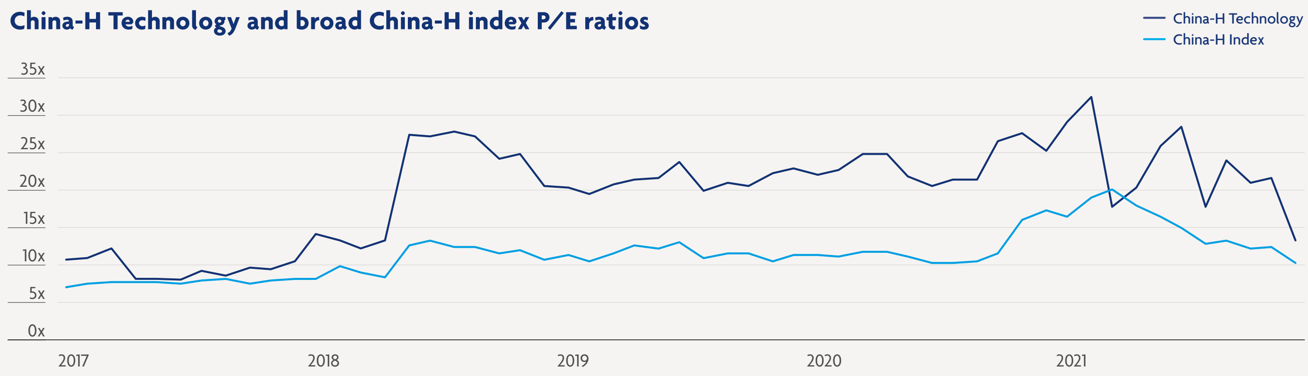
- We remain optimistic on European equities despite the risk of the ongoing Delta variant spread. The national vaccination programmes will continue to support economic reopening and recovery, with a lower risk of severe lockdowns than before.
- With a larger proportion of the European equity market being value and cyclical-oriented, European equities are poised to benefit more from the global recovery than the US, creating a tactical investment opportunity.

Topic 3:

Navigating Chinese equities as regulatory risks remain

China equity markets have been underperforming this year. Investors' concerns have largely been focused on China's slowing growth momentum, policy normalisation and regulatory tightening on the internet and online education sectors. Further regulatory tightening remains a risk and may weigh on Chinese equities, especially offshore equities, in the near-term. Nonetheless, we remain structurally positive on Chinese equities in view of the rising domestic consumption trend.

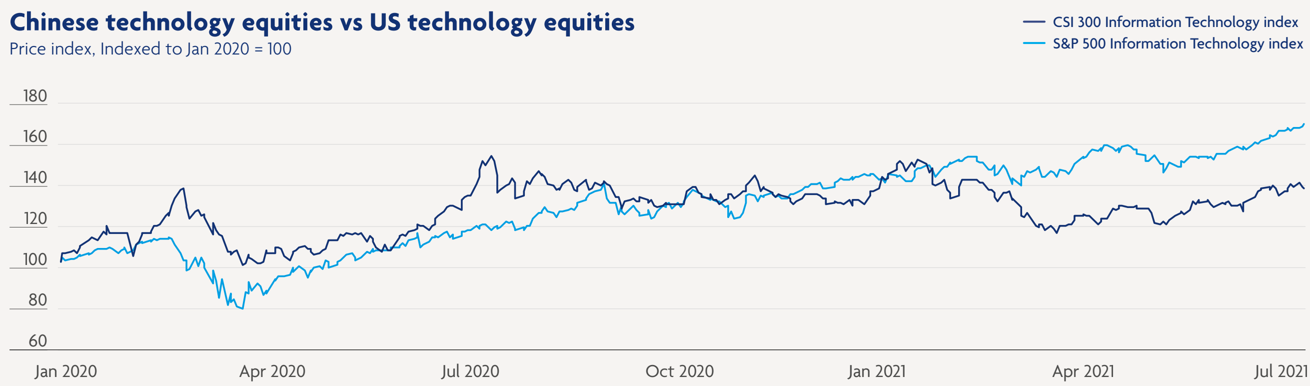
Figure 3A: The decline in Chinese technology H-shares' valuations is larger than the decline in valuations of the broader China H-share market.



Source: Caixin/Markit, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Data as of 26 July 2021.

- Despite a slower recovery in China due to weaker consumption and services activity, China's growth picture remains healthy with Q2 2021 GDP growing at 7.9% year-on-year.
- However, lingering regulatory risks remain as Beijing pursues high-quality growth with social fairness and lower systemic risks. This will likely weigh on offshore Chinese equities in the near-term (Figures 3A and 3B), as affected companies grapple with anti-trust and data security issues.
- While companies will be increasingly pressured to toe the line, it is unlikely that Beijing will regulate these companies to "death" as they remain crucial to China's digital ecosystem and create jobs for millions of Chinese.

Figure 3B: Chinese technology equities have underperformed their US counterparts amid uncertainty.



Source: FactSet, J.P. Morgan Asset Management. Data as of 30 July 2021.

Views & Implications:

- Regulatory tightening remains the biggest overhang for China equities in the near-term. On the other hand, Beijing aims for companies to adhere to more market-friendly business practices through regulatory tightening, which can deliver more sustainable economic growth over the longer-term.
- Investors can consider tapping on the China Megatrend via domestic-focused onshore A-shares, where there is less regulatory uncertainty, rather than the offshore market.

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