





UOB Investment Insights Market PowerBar

DECEMBER 2021

A look at this month

KEY DEVELOPMENTS	What to expect	What this means for investors
<p>The 26th United Nations Climate Change Conference (COP26) was held in Glasgow</p> 	<p>World leaders reached an agreement to fight climate change after long negotiations.</p>	<p>Policy focus on climate action creates opportunities such as environmental plays within the Sustainability Megatrend.</p>
<p>China agrees to co-operate with the United States to tackle climate change</p> 	<p>China is pushing to lower its carbon emissions and increase research & development (R&D) on environmental technology and infrastructure.</p>	<p>Businesses in China that are involved in renewable energy and decarbonisation of manufacturing will benefit in the long run.</p>
<p>Corporate earnings have remained resilient</p> 	<p>While supply chain issues and inflation fears weigh on markets, earnings growth remains supported by the current economic recovery.</p>	<p>Earnings growth is expected to be slower but positive in 2022. Asian equities likely to benefit from robust exports as supply chain issues are expected to ease.</p>
UPCOMING EVENT		
 <p>Bank of England (BOE) Policy Meeting</p>	<p>The BOE is expected to present plans on its policy tightening outlook.</p>	<p>Expect higher volatility in the British Pound (GBP) triggered by changes in market expectations.</p>

Topics at a glance

- ▶ **COP26: Carbon neutrality in focus**
Dealing with climate change means prioritising green investments and environmental solutions. Investors can capture opportunities by participating in the Sustainability Megatrend.
- ▶ **China lays down plans for a sustainable future**
As China implements plans for carbon neutrality, new investment opportunities will emerge for investors.
- ▶ **Earnings to slow but still positive**
Slower but still positive earnings growth is likely to support global equities. We remain positive on Asian markets as they benefit from robust exports and gradual reopening.

Topic 1:

COP26: Carbon neutrality in focus

The UN Climate Change Conference (COP26) saw governments coming together to tackle climate change. A key focal point in COP26 was on implementing measures to limit global warming to 1.5 degrees Celsius by reducing greenhouse gas (GHG) emissions. Investors should pay increasing attention to the actions taken by governments to address climate change and GHG emissions in the years to come.

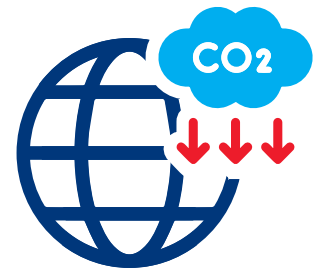
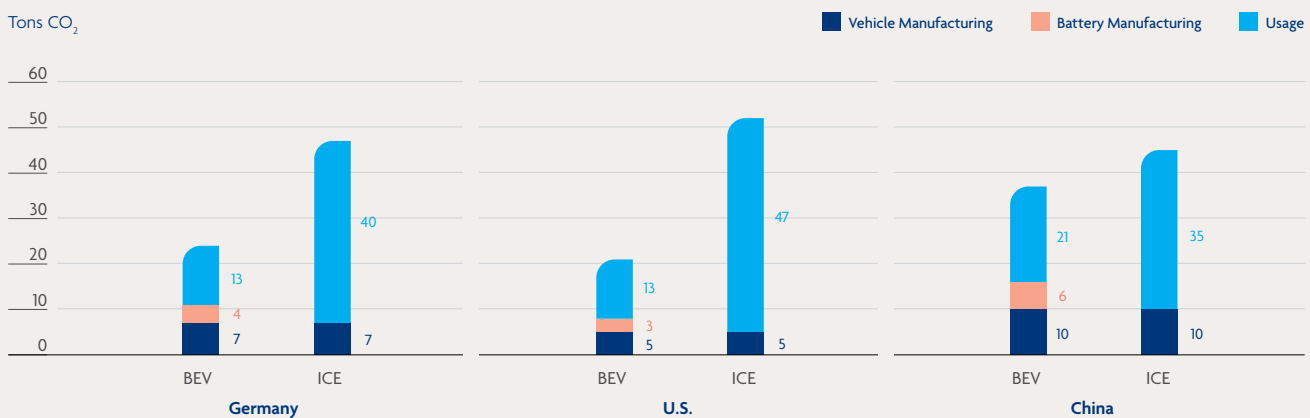


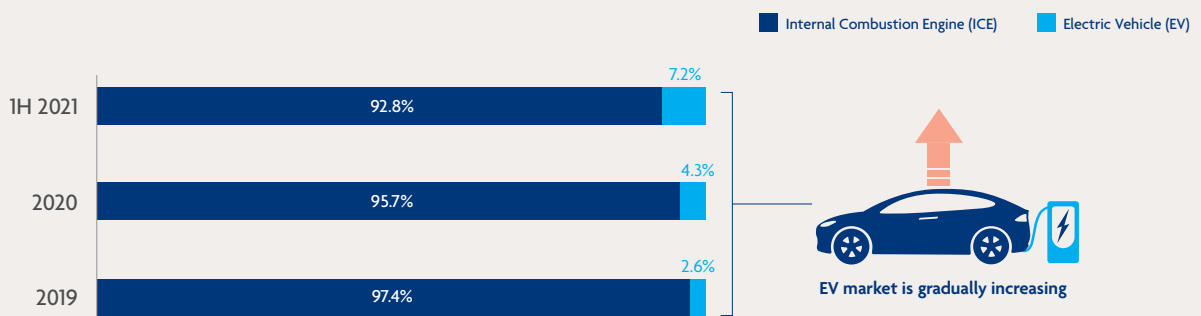
Figure 1A: Traditional Internal Combustion Engine (ICE) vehicles produce more CO₂ emissions compared to Battery-Powered Electric Vehicles (BEV).



Source: BloombergNEF, ICCT, J.P. Morgan Asset Management. We assume raw materials & battery cells are manufactured domestically. Data as of 31 December 2020.

- The tasks and policies needed to fight climate change are complicated, and their possible impact on economic development could make implementation challenging. New initiatives to hit environmental targets will arise, leading to new investment opportunities. For example, electric vehicles are expected to emit less carbon dioxide throughout their entire lifetimes compared to traditional ICE vehicles, which will help countries to reach emission reduction goals (Figure 1A).
- The electric vehicle market is still relatively small but is growing quickly (Figure 1B). Additionally, renewable energy generation and storage, new energy vehicles and relating infrastructure are expected to receive policy support, which could lead to new investment opportunities for investors.

Figure 1B: Global passenger vehicle sales: The market for electric vehicles is gradually increasing.



Source: BloombergNEF, J.P. Morgan Asset Management. Data reflect most recently available as of 10 November 2021.

Views & Implications:

- The importance of dealing with climate change will mean a shift in focus to more green industries, creating new opportunities for investors to ride on the Sustainability Megatrend. Meanwhile, other sectors such as fossil fuels, heavy industries and transportation could fall out of favour as they face rising costs due to the introduction of carbon taxes and other regulatory scrutiny.

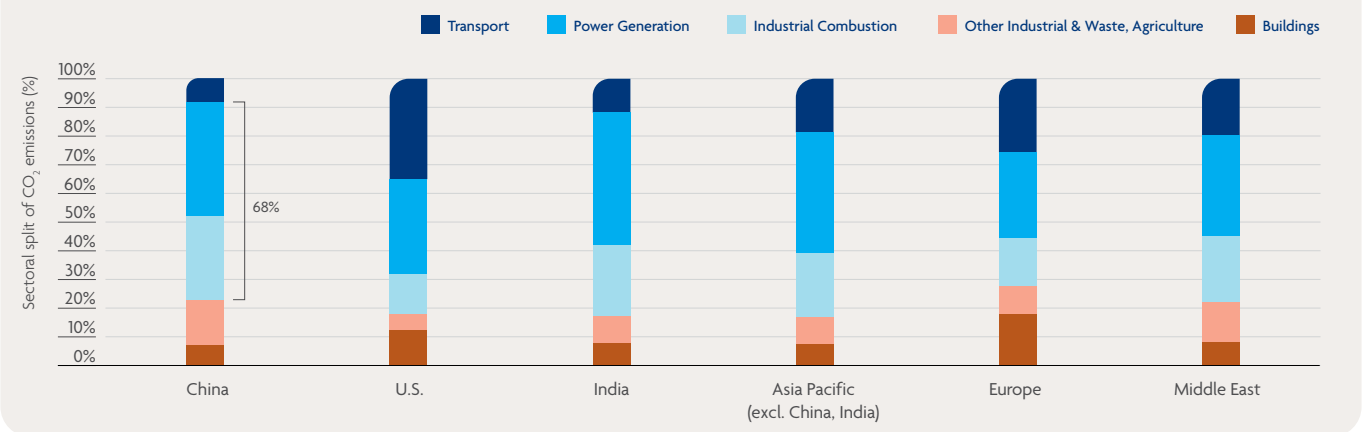
Topic 2:

China lays down plans for a sustainable future

The urgency for climate action has risen, as seen in the surprising agreement between the United States (US) and China at COP26 to combat climate change together. This will likely lead to more environmental-focused opportunities as China works toward a carbon-neutral future.



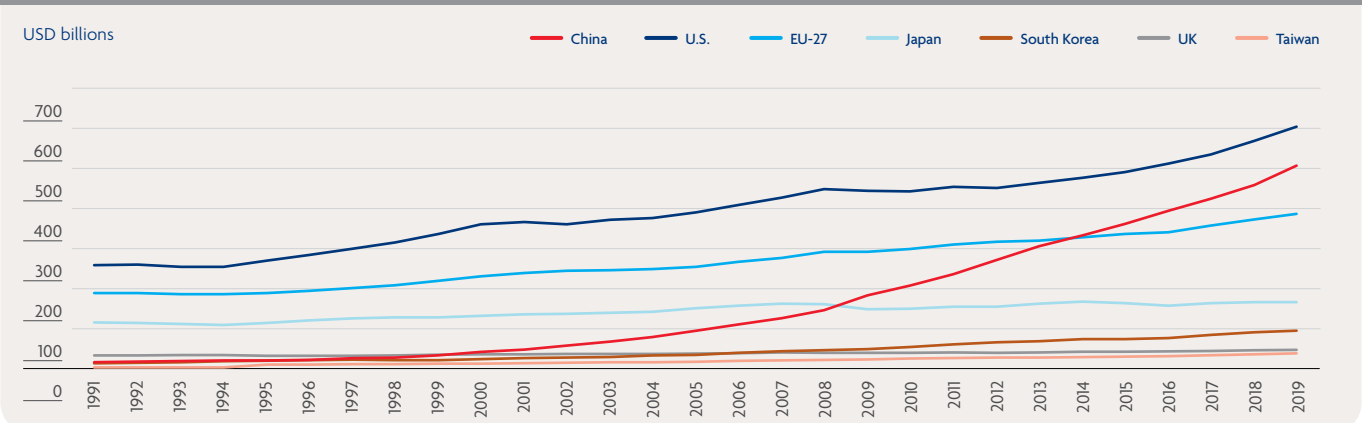
Figure 2A: China's carbon emissions are mainly contributed by power generation and industrial combustion.



Source: European Commission Joint Research Centre (JRC). Emission Database for Global Atmospheric Research (EDGAR) release version 5.0, Goldman Sachs Global Investment Research.

- China's plans to reach specific climate goals, namely peak carbon emissions in 2030 and carbon neutrality in 2060, could lead to significant investment opportunities for renewable energy implementation. China is the largest source of global CO₂ emissions, with close to 70% of its CO₂ emissions coming from power generation and industrial production (Figure 2A).
- We will likely see further capital expenditure as China moves to develop more sophisticated green energy capabilities. China's push for greater technological independence and further digitalisation trends could also channel further capital towards its local technology sector, which has grown rapidly and caught up with the rest of the world over the past decade (Figure 2B).

Figure 2B: Research and development (R&D) expenditure in China has grown rapidly over the past decade.



Source: OECD, J.P. Morgan Asset Management.

Views & Implications:

- China's climate action plans and push for R&D could lead to more investment opportunities in industries related to clean power generation, carbon store and capture, batteries, and electric vehicles.
- Businesses involved in renewable energy and sustainable environmental policies will benefit in the long run as China works towards carbon-neutrality.

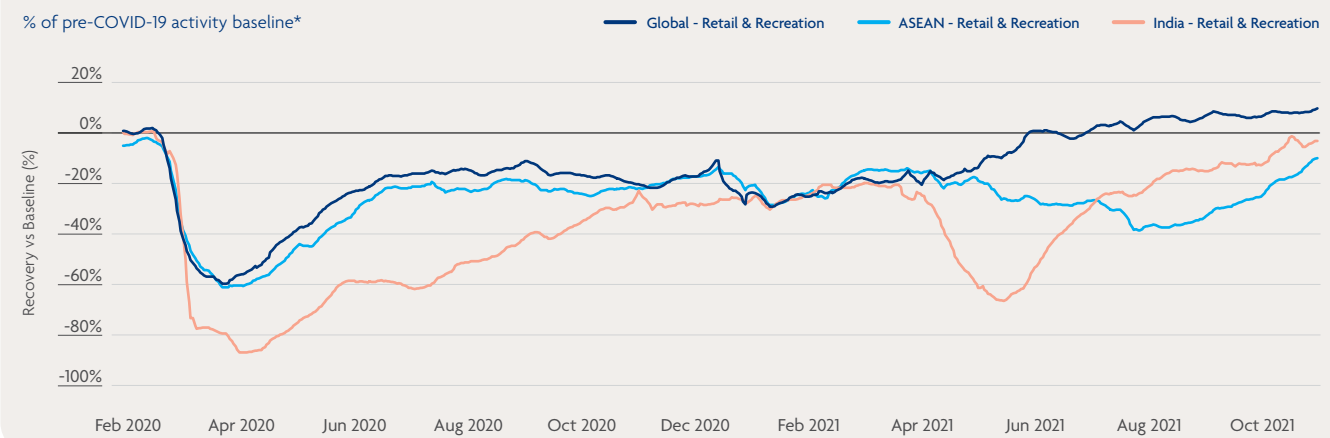
Topic 3:

Earnings will slow, but still grow

Equity market performance broadly tends to follow earnings and earnings expectations. Despite supply chain disruptions and slower growth weighing down on economic growth during the third quarter, earnings have remained resilient. Global corporate earnings have likely reached a peak in growth momentum but will likely continue to expand at a slower pace.



Figure 3A: Retail and recreation activity levels have been gradually recovering.

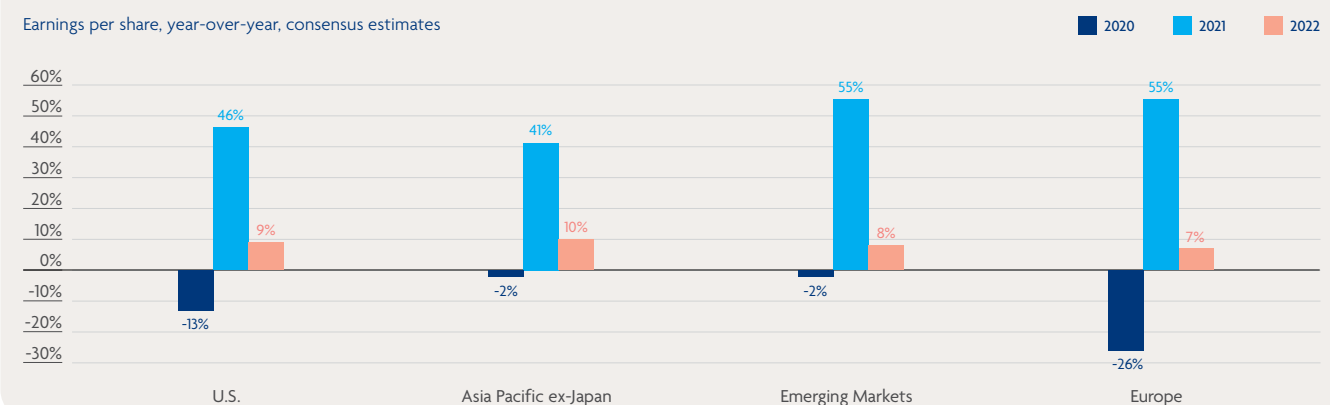


Source: Source: Google, J.P. Morgan Asset Management.

* Baseline refers to the pre-pandemic period of 03 January 2020 – 06 February 2020. Mobility data is based on anonymized geolocation data from Google. Data reflect most recently available as of 10 November 2021.

- Global activity may be returning to close to pre-pandemic levels, but some economies are still lagging behind (Figure 3A). A shift away from “zero-Covid” strategies and news of promising anti-viral treatments could lead to opportunities in the Consumer Discretionary sector — particularly hospitality and restaurants — and support earnings outlook.
- In 2022, earnings will likely continue to grow at a slower pace as compared to 2021 (Figure 3B). In particular, Asia is expected to see earnings growth by 10% in 2022.

Figure 3B: Compared to other markets, Asia is expected to experience the highest earnings per share growth in 2022.



Source: IBES, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Asia Pacific ex-Japan, emerging markets (EM), Europe and U.S. equity indices used are the MSCI Asia Pacific ex-Japan, MSCI Emerging Markets, MSCI Europe and S&P 500, respectively. Consensus estimates used are calendar year estimates from IBES.

Views & Implications:

- Slower but still positive earnings growth is likely to support global equities. We remain positive on Asian markets as they benefit from robust exports and gradual reopening.



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