UOB

In collaboration with:

J.P.Morgan ASSET MANAGEMENT

UOB Investment Insights

Market PowerBar

DECEMBER 2022

A LOOK AT THIS MONTH

Key Topics	What investors should know
1 Seasonal trends can sometimes be observed in stock markets, but investors should not make decisions based on them.	**Seasonal movements can be seen in stock markets at different times of the year, but past performance may not translate into future results.** ▶ Instead of trying to time the market based on previous trends, holding a long-term view will likely lower your risk of negative returns. ▶ We recommend adopting a global multi-asset investment strategy to build a Core portfolio consisting of investment grade bonds and quality dividend-paying stocks
2 After a tough year, there are signs the stock market may be reaching a bottom.	**Global stock prices have taken a beating this year, with central banks hiking interest rates aggressively to fight inflation.** ▶ The good news is that we may be getting closer to a stock market bottom, although we need to monitor several market indicators for confirmation. ▶ Investors can focus on accumulating beaten-down quality stocks and sectors, but they should avoid chasing temporary market rebounds.
3 Investors are on the lookout for sectors that typically outperform during an economic rebound.	**We study which sectors typically fare better when forward-looking economic indicators recover.** ▶ In a recovery phase, cyclically sensitive sectors such as Materials will benefit, while Technology and Consumer Discretionary also see strong performance. ▶ In the subsequent expansionary phase, the Financials, Real Estate and Technology sectors tend to outperform.

Upcoming Events	
DEC 14 — **Federal Open Market Committee (FOMC) policy meeting**	Keep an eye on whether the US Federal Reserve hikes interest rates by 0.75% (75 basis points) once again or shifts to a smaller 0.50% (50 basis point) hike. The Fed's updated interest rate projections will also be key to watch.

Speak to your UOB Advisor today to find out more.

Topic 1

Seasonal trends exist, but don't rely on them

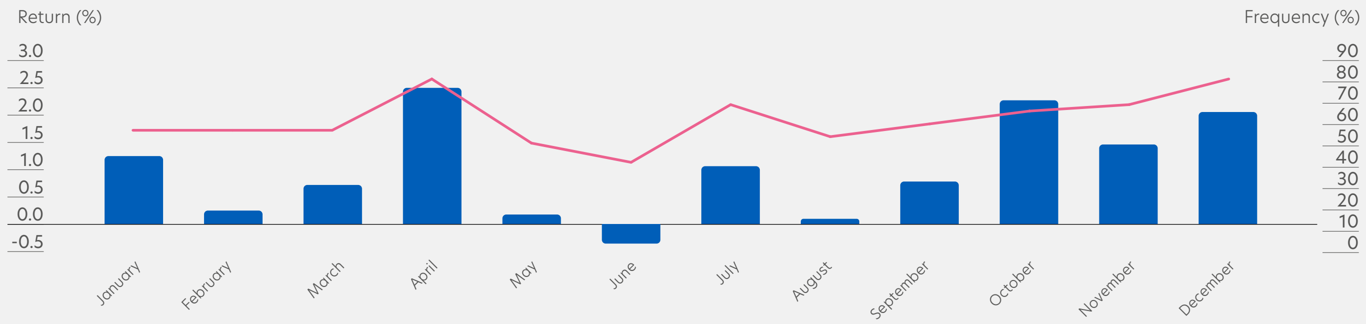
Like the cycles of winter, spring, summer and autumn, investors may sometimes notice seasonal patterns in stock market performance. Human behaviour contributes to this, for instance, with overseas travel leading to market lulls during the holiday season. Gift shopping at the end of the year leading to higher retail activity is another common example of seasonality.

Figure 1A

December typically shows positive stock market performance across the years

Averages over the last 34 years for MSCI AC World price index month-over-month in USD

Median Return (LHS)
Frequency of positive returns (RHS)



Source: FactSet, MSCI, J.P. Morgan Asset Management.
Data reflect most recently available as 14 November 2022.

Key takeaways

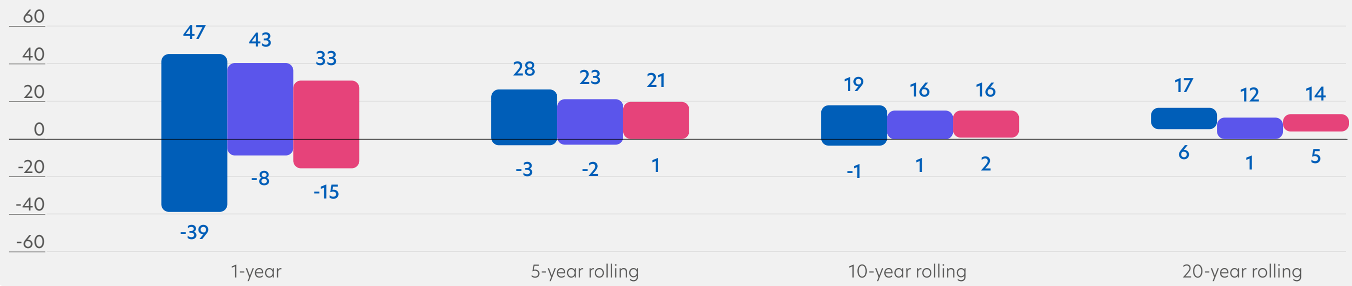
1. Seasonal movements can be seen in stock markets at different times of the year. For example, there is some truth to the saying "sell in May and go away". On average, the month of June sees noticeable weakness (Figure 1A). Reasons driving this behaviour include many traders going on holiday during the month. Seasons and weather can also affect investor behaviour, leading people to become less risk averse during certain times of the year.
2. We want to remind investors that these trends are observations of past behaviour and not a hard rule of investments. After seeing a chart like this, it might be tempting to only buy in October and hold until May. However, this would mean spending almost half a year out of the market and missing out on potential rallies. Investors should aim to hold their investments for the long term to avoid volatility and reduce their risk of negative returns (Figure 1B).

Figure 1B

Range of US equity, US bond and blended total returns

Annual total returns (%), 1950-2021

US equities
US bonds
50/50 equity bond and bond mix



Source: FactSet, Robert Shiller, Strategas/Ibbotson, U.S. Federal Reserve, J.P. Morgan Asset Management.

In summary

- Not even the most experienced investors can successfully time the market consistently, so you should follow the principle of being a long-term investor.
- Buying and selling frequently to try and take advantage of seasonality can result in missing out on rallies. Instead, holding your investments over a longer period gives you a higher probability of achieving positive returns and smoothening volatility.

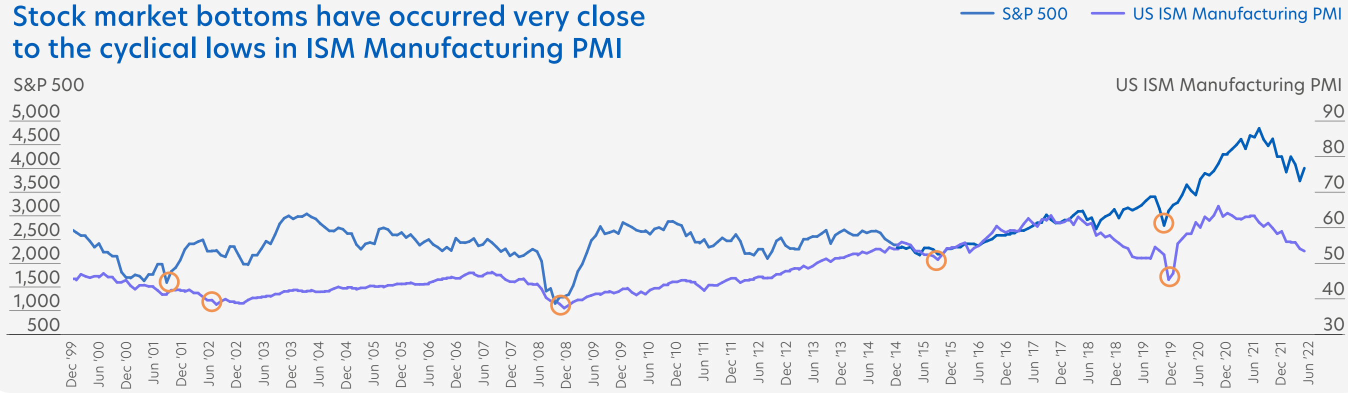
Topic 2

Signs of a stock market bottom

It has been one of the toughest years in recent memory for investors. The S&P 500 is down 14.4% year to date, even with weaker-than-expected inflation from the United States in October driving a sharp rebound recently. Besides inflation data, there are several other indicators that could give investors clues as to when the stock market might bottom out.

Figure 2A

Stock market bottoms have occurred very close to the cyclical lows in ISM Manufacturing PMI



Source: Bloomberg, NBER.
Data reflects most recently available as of 31 October 2022.

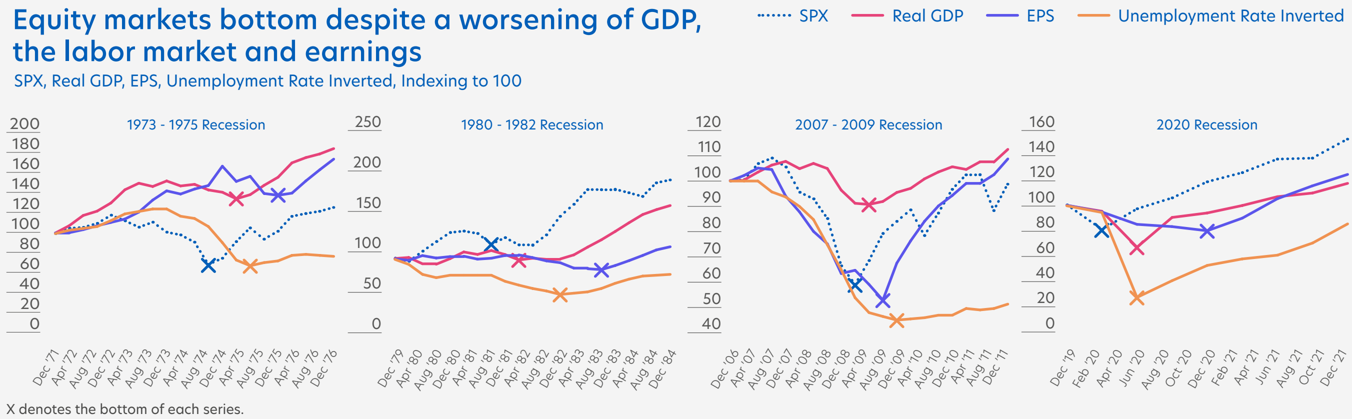
Key takeaways

1. One month of lower inflation does not make a trend. We will be watching whether Consumer Price Index (CPI) data continues moderating before having more conviction about stock markets.
2. There are other indicators worth tracking closely. Stock markets typically coincide closely with forward-looking indicators of economic activity, such as the US ISM manufacturing Purchasing Managers' Index (PMI), a key indicator of the US economy's health (Figure 2A). Looking back at post-World War 2 recession periods, the US ISM manufacturing index has bottomed out at around 36.4 on average. The current reading has deteriorated significantly from a high of 58.8 at the end of 2021 to 50.2 in October 2022.
3. While current ISM manufacturing activity can potentially fall further, we are now closer to a stock market bottom than before. It is also important to note that on average, the ISM PMI may bottom out at the same time as the S&P 500 or may lag the S&P 500 by about a month.

Figure 2B

Equity markets bottom despite a worsening of GDP, the labor market and earnings

SPX, Real GDP, EPS, Unemployment Rate Inverted, Indexing to 100



Source: NBER, Bloomberg, J.P. Morgan Asset Management.

In summary

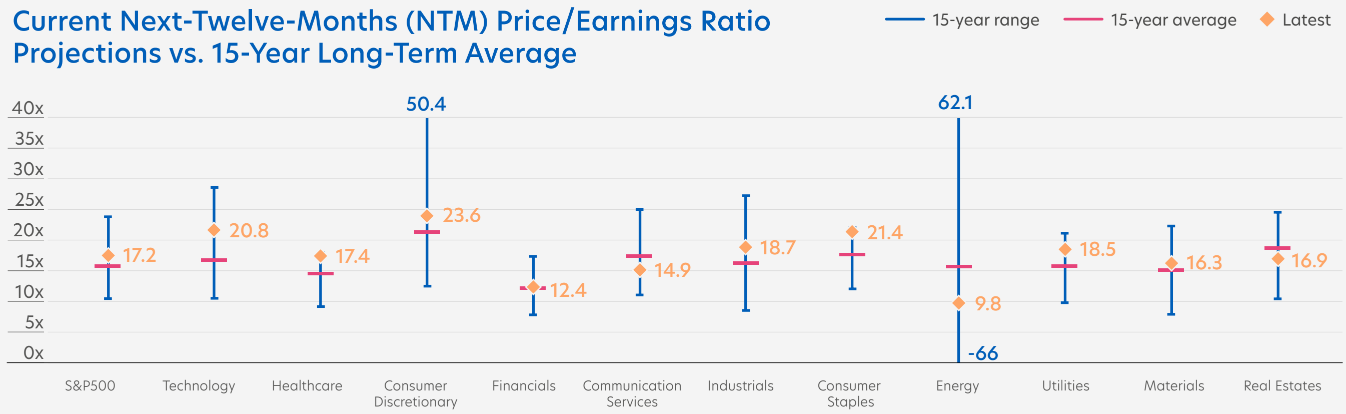
- Keeping a close eye on manufacturing data will give us a good idea of when the stock market could experience a sustained rebound.
- It is possible for stock markets to reach a bottom and start rallying despite GDP, earnings and the labour market continuing to worsen, because stock markets are efficient and forward looking. Figure 2B shows four examples of recessions in the 1970s, 1980s and 2000s. In each instance, the S&P 500 reaches its bottom before actual earnings growth, real GDP growth and the labour market reach their weakest levels.

Topic 3

A closer look at sectors that outperform during economic recovery

Growth sectors were hit particularly hard by the Federal Reserve's aggressive rate hikes this year. Despite price-to-earnings (P/E) ratios falling for most sectors this year, it is interesting to note that defensive sectors like Healthcare and Consumer Staples still trade above their long-term averages (Figure 3A).

Figure 3A



Source: Factset, J.P. Morgan Asset Management.
Data reflects most recently available as of 30 November 2022.

Key takeaways

1. While US manufacturing data can provide clues about when the stock market may bottom out and when the economy could recover, it is also important to note which sectors typically outperform during an economic recovery, that is, when the US ISM Purchasing Managers' Index (PMI) rises from contraction (<50) to expansion (>=50) territory.
2. Cyclically sensitive sectors like Materials have tended to benefit in a recovery phase (where PMI is below 50 but has risen over the past month). The Technology and Consumer Discretionary sectors have also seen strong performance, possibly due to expectations of less aggressive monetary policy going forward (Figure 3B).

Figure 3B

Average annualised returns

	S&P500	Technology	Healthcare	Consumer Discretionary	Financials	Communication Services	Industrials	Consumer Staples	Energy	Utilities	Materials	Real Estate
<50 and Rising	10.0%	21.5%	5.9%	19.2%	7.8%	7.2%	10.1%	10.8%	6.8%	1.7%	21.0%	4.6%
>=50 and Rising	13.9%	19.9%	11.0%	16.0%	18.1%	8.9%	14.8%	9.7%	15.6%	9.2%	12.3%	16.5%

Source: Bloomberg.
Data analysis period from 30 November 1989 – 31 October 2022. Note that for Real Estate sector the returns start from 31 December 2001.

In summary

- Historically, as manufacturing activity continues to recover above the contraction level to an expansionary phase (>=50), Technology continues to benefit while Financials and Real Estate also fare well on the back of strong activity and recovering sentiment.
- However, now that we are in a different environment of rising interest rates, Financials may outperform starting from a recovery phase, given high net-interest-margins and strong fundamentals.
- These are useful economic indicators to watch even if the current environment does not completely replicate history.

Right By You

IMPORTANT NOTICE AND DISCLAIMERS:

The information contained in this publication is given on a general basis without obligation and is strictly for information purposes only. This publication is not intended to be, and should not be regarded as, an offer, recommendation, solicitation or advice to buy or sell any investment or insurance product and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose. Any description of investment or insurance products, if any, is qualified in its entirety by the terms and conditions of the investment or insurance product and if applicable, the prospectus or constituting document of the investment or insurance product. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. If in doubt, you should consult your own professional advisers about issues discussed herein.

The information contained in this publication, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of the publication, all of which are subject to change at any time without notice. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank Limited ("UOB") and its employees make no representation or warranty of any kind, express, implied or statutory, and shall not be responsible or liable for its completeness or accuracy. As such, UOB and its employees accept no liability for any error, inaccuracy, omission or any consequence or any loss/damage howsoever suffered by any person, arising from any reliance by any person on the views expressed or information contained in this publication.

Any opinions, projections and other forward looking statements contained in this publication 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.

This material issued by United Overseas Bank Limited may be based in full or part on information sourced from J.P. Morgan Asset Management and may not represent views of the source in its entirety. Such information is educational in nature, should not be construed as research or advice and is not tailored for any specific recipient's objectives.