In collaboration with:

UOB Investment Insights
Market PowerBar

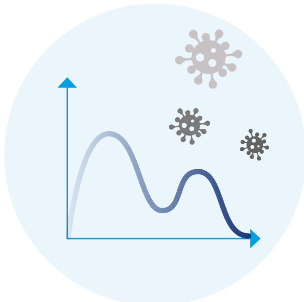
JULY 2020

Key events at a glance

Market recap

The US Federal Reserve (Fed) expects the US economy to contract by 6.5% in 2020.

- The Fed is expected to keep interest rates low till 2022 and pledged ongoing measures to prop up the economy where needed, such as buying directly into corporate bonds.



Equity markets pared earlier gains over concerns of a second wave of COVID-19 infections in the US and China.

- The number of new cases rose daily in the US states of Arizona, California, Florida and Texas, among others.
- A new cluster emerged in Beijing's Xin Fa Di market, which was swiftly contained by authorities.

Beijing offers an olive branch in a likely bid to relieve US-China tensions.

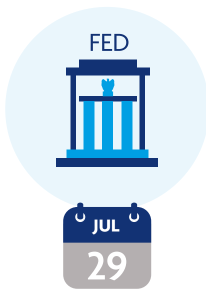
- Following a meeting between US Secretary of State Mike Pompeo and Chinese State Councillor Yang Jiechi in Hawaii, China reiterated its commitment to purchase USD 200 billion of US agricultural products as part of the Phase One Trade Deal.

A look at this month

The US-Mexico-Canada Agreement (USMCA) entered into force.

ECB Meeting – No new announcements are expected.

EU members will gather for an in-person meeting to negotiate further on the establishment of the EUR 750 billion recovery fund using European bonds.



US FOMC Meeting – No new announcements are expected.

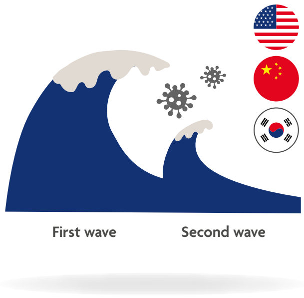
Liquidity boost softens second wave risk to equity markets

Although excess central bank liquidity can continue to prop up equity markets, equity returns may occasionally outpace underlying equity fundamentals.

Economies are gradually reopening, and improving economic data suggests that the risk of a second wave of COVID-19 infections may have less of an impact to the economy.

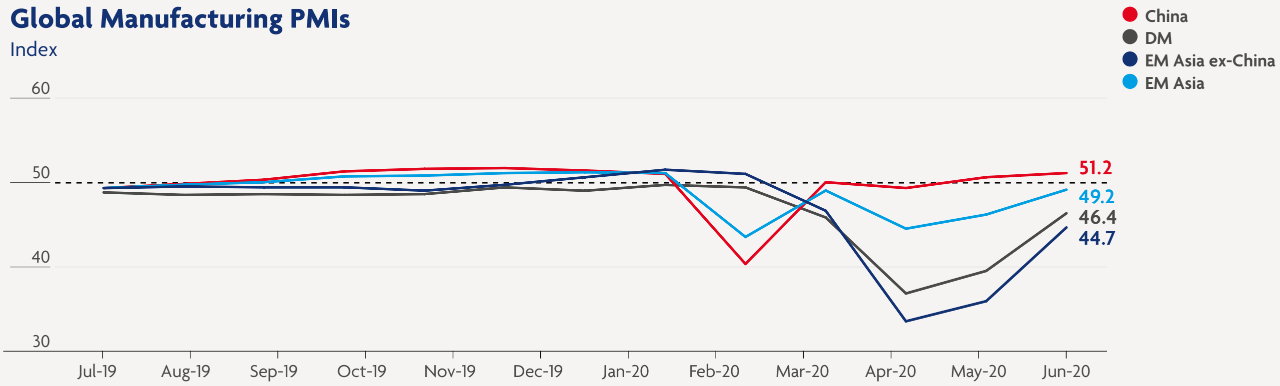
Some economies are also slowly phasing out social distancing restrictions, as green shoots emerge in the manufacturing sector. Economic activity appeared to have bottomed out in April 2020 and is now rising.

Some US states, China and Korea are currently experiencing a second wave of COVID-19 outbreaks. While this may affect investor sentiment, it will not likely be a significant drag on the economic recovery.



Global Manufacturing PMIs

Index



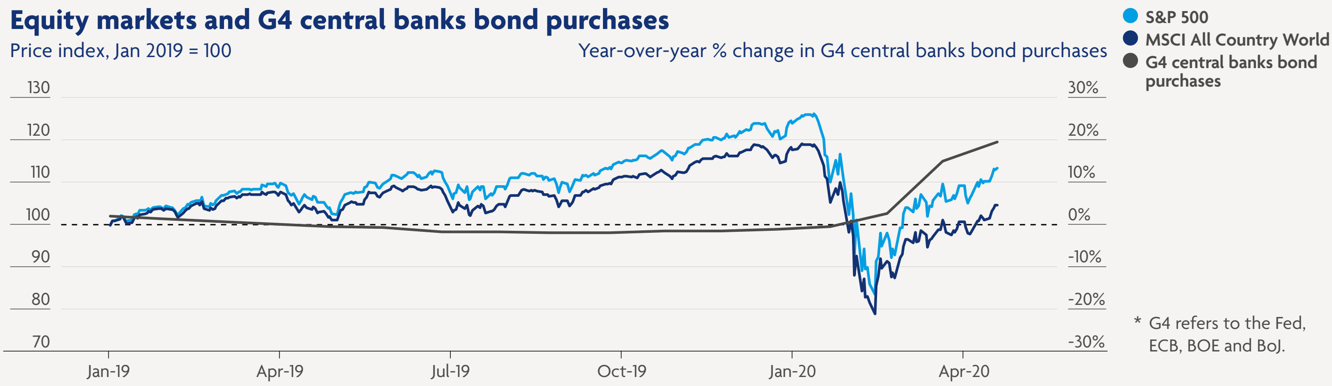
Source: IHS Markit, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Data as at 3 July 2020.

Equity markets have rallied since the 23-March low due to continued quantitative easing support by major central banks and expectations of earnings recovery in 2021. However, valuations are now more expensive and investors should tread with caution.

Equity markets and G4 central banks bond purchases

Price index, Jan 2019 = 100

Year-over-year % change in G4 central banks bond purchases



* G4 refers to the Fed, ECB, BOE and BoJ.

Source: Bloomberg Finance L.P., Factset, J.P. Morgan Asset Management. Data as at 16 June 2020.

Views & Implications:

- The global economy – supported by central bank-fuelled liquidity – will gradually recover, and can help to soften the economic impact of a second wave of infections.
- Investors should still prepare for possible market volatility by maintaining a diversified portfolio of equities and bonds to build resilience.
- Any equity market selloff can present an opportunity to pick up good quality assets at reasonable valuations.

Topic 2:

US Presidential election polls are showing a close race

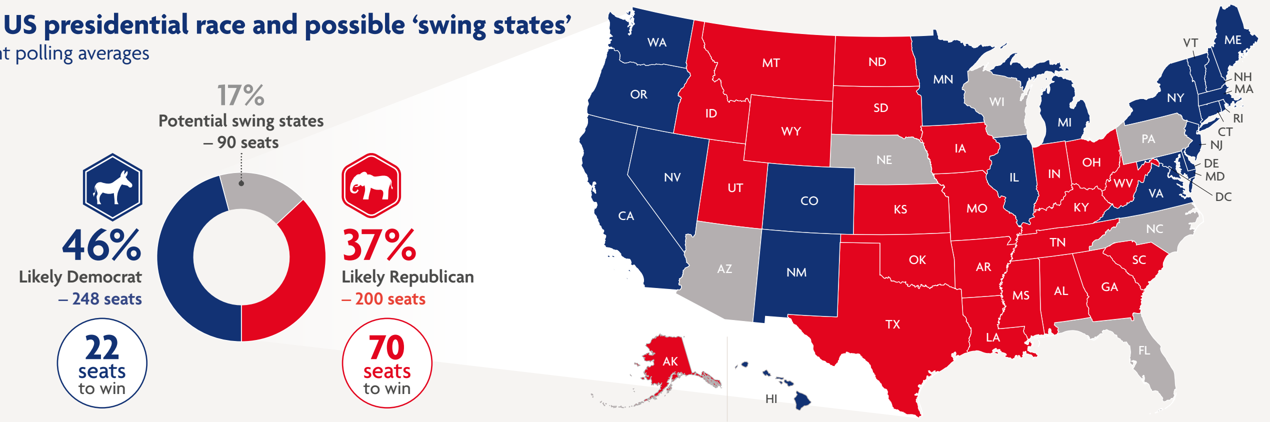
Investors are shifting focus to the US Presidential election on 3 November 2020, which is surrounded by much uncertainty.

It will take at least 270 electoral votes for a presidential candidate to win the upcoming US elections. Recent polls suggest a close race, even in the 'swing states', with presumptive Democratic presidential nominee Joe Biden having a small lead over President Trump. Consequently, investors are closely monitoring the possibility of a 'blue wave'. (i.e. Democratic Party sweep of both the US Senate and House of Representatives)

Issues that matter most to US voters are healthcare/COVID-19 and jobs/the economy. Public perception on how President Trump has managed the pandemic, together with the speed and magnitude of the US economic recovery, will likely be key to the election outcome.

The US presidential race and possible 'swing states'

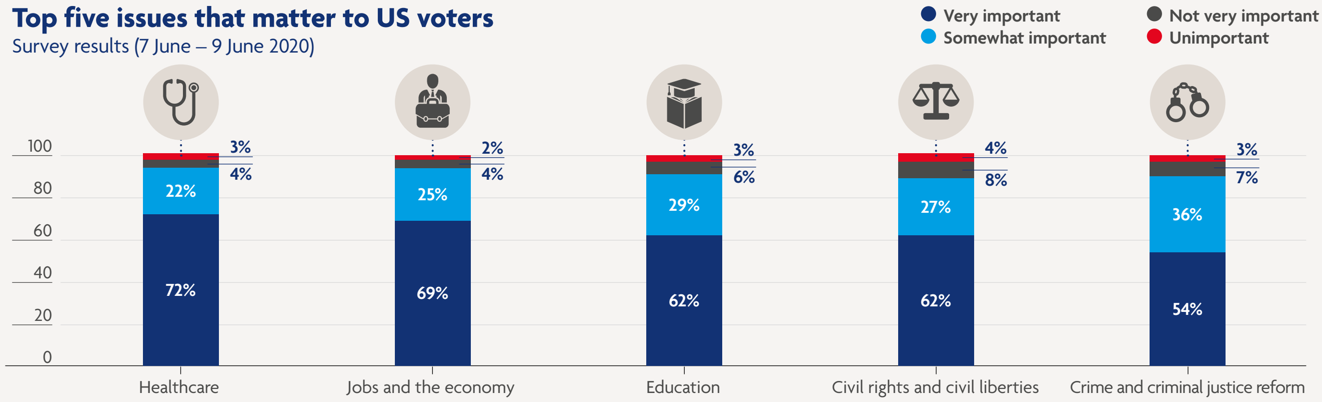
Recent polling averages



Source: 270 to Win, J.P. Morgan Asset Management, as at 30 June 2020.

Top five issues that matter to US voters

Survey results (7 June – 9 June 2020)



Source: The Economist/YouGov Poll, J.P. Morgan Asset Management, as at 8 June 2020.

Views & Implications:

- Democrats tend to favour higher corporate taxes and increased technology and financial regulation, which poses a risk to corporate earnings. However, equity markets and the US economy have also done well under moderate Democrat presidents, such as Obama and Clinton. A Biden presidency is expected to be a continuation of the Obama era.
- As we approach the US election date, a slower and weaker US recovery and/or waning popularity at the polls may prompt President Trump to escalate US-China tensions further.
- Investors should avoid speculating on the election outcome, but navigate the short-term uncertainty by focusing on opportunities with long-term drivers like healthcare, or equities with high quality factors.

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