

# UOB Investment Insights Market PowerBar

MARCH 2021

## Key events at a glance

### Market recap

#### Rise in long-term government bond yields



- Ongoing vaccination programmes around the world have brought optimism for a faster global economic recovery. This has resulted in a rise in inflation expectations as well as long-term government bond yields.
- The US 10-year Treasury yield has risen past 1.50% – the highest since February 2020.
- While long-term yields have risen, short-term yields remain low due to the Fed's low interest rate policy. This has resulted in the steepening of the yield curve over the past few weeks.
- A steeper yield curve can help to boost banks' profit margins, which will benefit our High-Conviction Call on US financial equities.

#### Positive US Corporate Earnings reported in Q4 2020



- Big Tech companies like Amazon, Alphabet and Apple have outperformed their quarterly earnings targets. Other corporations including Wall Street banks, Coca-Cola, Applied Materials, PayPal and Shopify have also exceeded their earnings estimates.
- As of 26 February 2021, 78% of S&P 500 companies have beaten their earnings targets and 70% of these have exceeded revenue expectations.
- Strong earnings recovery on the back of an improved economic outlook will lend support to overall market valuations and is likely to be a driver for equity returns this year.

### A look at this month



#### European Central Bank Policy Meeting

European policymakers are expected to keep monetary policy unchanged.



#### US Federal Reserve Meeting

US policymakers are likely to maintain current interest rates. However, markets will be on the lookout for guidance on changes in asset purchases or a yield curve policy.



#### Bank of England Policy Meeting

UK policymakers are expected to keep monetary policy unchanged.

## Topic 1:

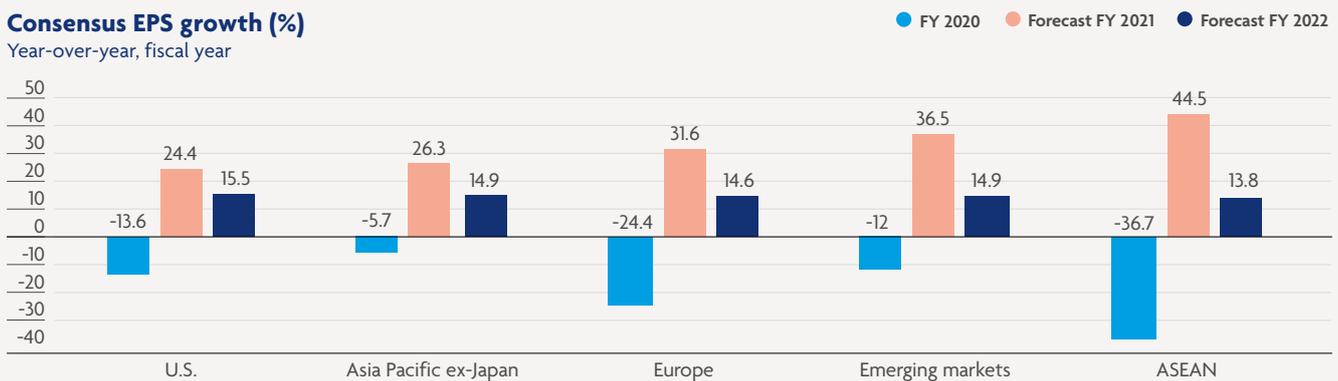
# Equities could climb higher despite lofty valuations

Global equity markets have rebounded strongly since their March 2020 lows. However, investors are questioning the sustainability of this rally given the current lofty valuations. Despite these, it is possible for equity markets to climb higher on the back of positive earnings growth this year.



### Consensus EPS growth (%)

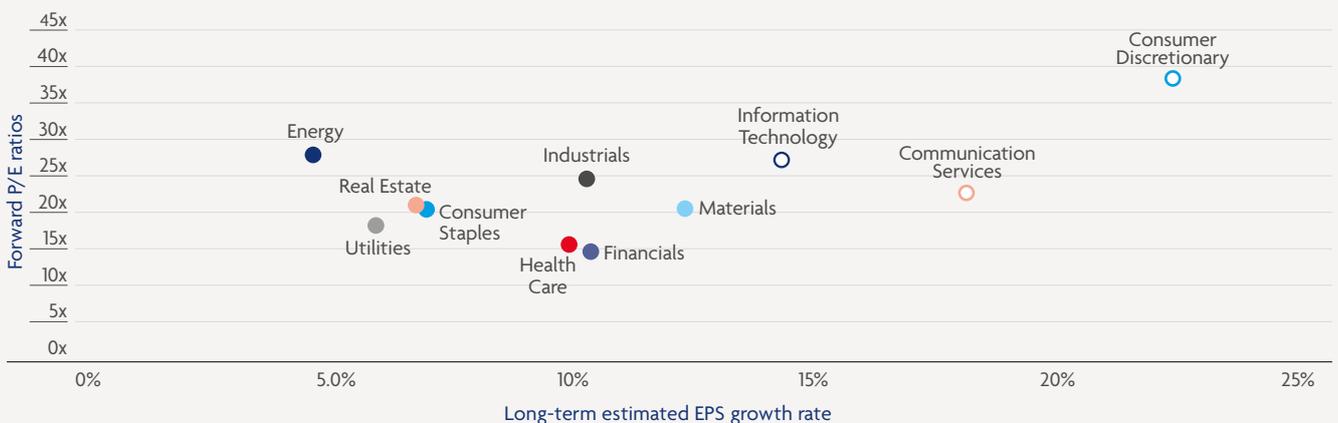
Year-over-year, fiscal year



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All estimates based on MSCI Indices, except the U.S. (S&P 500). Data as of 28 February 2021.

- Despite concerns of stretched equity valuations, equity markets are largely supported by major central banks' low interest rate policy and abundant market liquidity.
- We expect positive earnings growth – not valuation expansion – to be the key driver of equity returns this year, as shown by the pink bars in the chart above.
- A global recovery typically translates to strong earnings growth. Earnings revisions have rebounded strongly and Q420 earnings results are showing many positive surprises.
- The chart below breaks down the S&P 500 Index by sectors and lists their respective valuations and earnings growth rate. The Financials and Healthcare sectors – which have the lowest Price to Earnings (P/E) ratios – are relatively attractive as compared to other sectors given their earnings growth prospects.

### Valuations of S&P 500 Market Sectors vs long-term estimated earnings growth rate



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Data as of 28 February 2021.

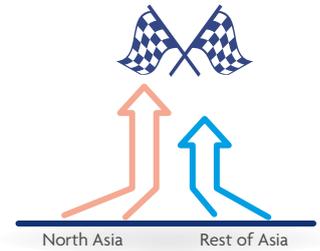
### Views & Implications:

- Amid overall high equity valuations in the market, we can see that some sectors will fare better than others in terms of earnings growth rate. Investors can speak to a UOB Advisor on how to capture sector-specific opportunities.
- With the global economy expected to rebound, positive earnings growth will help to support equity valuations and generate further upside for the year.

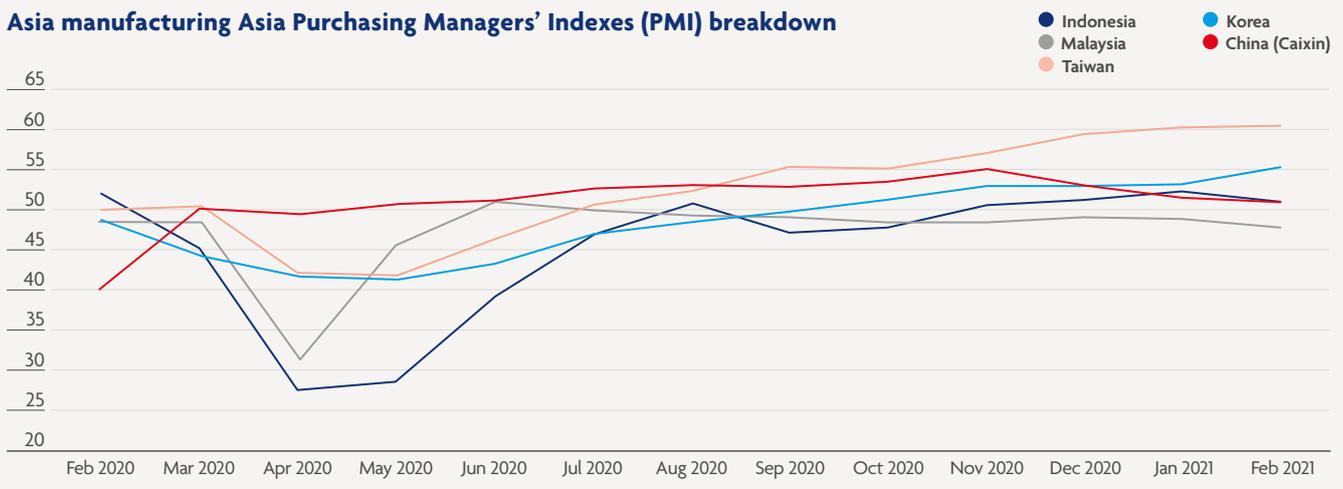
**Topic 2:**

## Asian equities continue to do well

North Asia has been leading the way in both the speed of economic growth recovery as well as equity market performance. While North Asia is likely to keep its lead for growth, other Asian equity markets may start catching up.



**Asia manufacturing Asia Purchasing Managers' Indexes (PMI) breakdown**



Source: National Bureau of Statistics of China, Markit, Bloomberg data as of 28 February 2021.

- Asia Purchasing Managers' Indexes (PMI) have bounced back strongly in recent months. In particular, North Asian manufacturing activity has been expanding, supported by the strong demand for Taiwan and Korean electronic exports.
- Some ASEAN countries like Malaysia and Indonesia are facing slight headwinds given their recent COVID-19 restrictions. However, these restrictions are short-term and will gradually ease. As global recovery continues, both Malaysia and Indonesia are expected to catch up with their peers in the next few quarters.
- Asia's earnings are expected to continue to rebound in Q121. The chart below reflects an uptrend in positive earnings revision – meaning that the consensus estimates are pointing to an increasing number of companies posting stronger results. This bodes well for Asian markets.

**MSCI Asia Pacific ex-Japan earnings revisions ratio (%)**

Net earnings revisions to consensus estimates, 13-week moving average



Source: MSCI, Thomson Reuters Datastream, J.P. Morgan Asset Management. Net earnings revisions is (number of companies with upward earnings revisions – number of companies with downward earnings revisions)/number of total companies. Data as of 28 February 2021.

**Views & Implications:**

- Improving economic prospects driven by vaccine rollouts will help to support Asian exports and corporate earnings recovery.
- Taking these into account, we remain positive on Asia ex-Japan equities as a whole.



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