In collaboration with: J.P.Morgan ASSET MANAGEMENT

UOB Investment Insights
Market PowerBar

MARCH 2022

A LOOK AT THIS MONTH

Key Developments	What to expect	What this means for investors
US inflation data continues to show price increases.	Investors expect the US Federal Reserve (Fed) to begin hiking rates in March to tackle rising inflation.	Be cognisant of potential volatility, but stay invested and be selective with both your bond and equity exposure as the rate hike cycle begins.
China loosened its monetary policy by reducing its benchmark lending rates to support its economy.	The growth outlook for China is likely to improve should the demand for loans pick up, which will support earnings growth and investor sentiment.	Stay invested as valuations for China equities are attractive. Opportunistic investors can also consider offshore equities. But it is important for investors to stay patient when investing in this region.
European equities have sold off in the midst of the Russia-Ukraine crisis.	The conflict may not have a lasting market impact. Europe's economic reopening momentum will support its equity markets' performance as well.	We remain cautiously optimistic on Europe. Opportunistic investors can consider buying in tranches on market pullbacks.
Upcoming Event		
MAR 16 **US Federal Reserve (Fed) Meeting**	We expect the Fed to kickstart its hiking cycle with a 50 basis point (bps) rate hike. Economic and inflation forecasts will also be updated.	Look for further cues about the Fed's rate hike trajectory and timeline.

TOPICS AT A GLANCE

1 Equity markets can deliver positive returns through rate hikes

- Historically, equities overall have performed decently through hiking cycles. Investors should stay invested but be selective with their bond and equity exposure.

2 China on the easing path

- Unlike the Western economies, China is tilting towards easing its monetary policy to support its economy. Stay patient and invested as valuations in this market remain attractive.

3 Opportunities in European and Japanese equities

- Aside from value-cyclical sectors, Europe and Japan, with their relatively high exposure to value stocks, are likely to perform well going forward.

Speak to your UOB Advisor today to find out more.

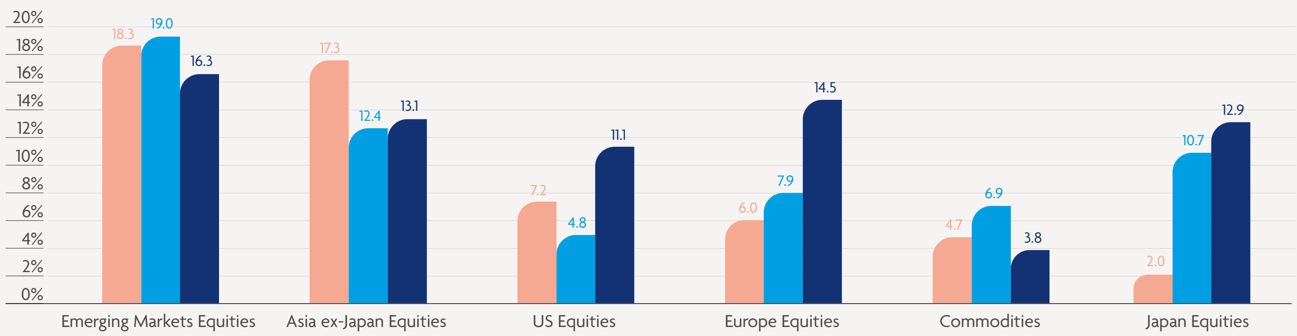
Topic 1:

Equity markets can deliver positive returns through rate hikes

The recent market volatility due to the United States Federal Reserve's (Fed) hawkish stance has led to widespread worries about how risk assets would perform. Historically, risk assets have tended to deliver positive returns through numerous rate hiking cycles since the 1970s.

Figure 1A:

Equity markets have delivered positive gains during central bank hiking cycles
Average annual return (%)



Source: Bloomberg, average annualised returns in local currency terms. JPMorgan Asset Management.
Note that for Emerging Markets and Asia ex-Japan equities, we are using data as far back as available.

Key takeaways

1. Macro conditions have a big part to play. Across all three decades of hiking cycles, the Fed has hiked during strong economic conditions. Data such as the US New Orders PMI have stayed in growth territory (above 50) on average during the hikes (Figure 1B).
2. The few instances when equity returns were negative were episodes when headline inflation exceeded 10% and the Fed had to aggressively intervene. Growth contracted as a result of a Fed-engineered recession to combat inflation. We expect current inflation to moderate through 2022.

Figure 1B:

Current economic conditions are relatively strong compared to previous hiking cycles.

Relevant Indicators	1970s	1980s	1990s +	Since 70s	Current
Curve Shape Change	-0.9%	0.4%	-2.0%	-0.5%	1.7%
Growth (US New Orders PMI)	58.4	52.8	57.5	55.2	57.9
Inflation (PCE YoY)	6.1%	7.0%	1.9%	5.2%	4.9%
Inflation (Headline YoY)	7.2%	7.0%	2.5%	6.0%	7.0%
Implied Hike Pace Per Quarter (bps)	4	(86)	18	(38)	25*
Avg Length of Hiking Cycle (months)	13	6	28	13	–

Source: Bloomberg, Haver, J.P. Morgan Asset Management.
* Reflects expected level of rate hikes this cycle.

In summary

▶ As risk assets can deliver positive returns through rate hiking cycles, we retain our preference for equities over fixed income. Within equities, be selective in your tactical exposure and lean towards value-cyclicals (such as the Financial and Industrial sectors) as growth equities (such as those in the Tech sector) may be vulnerable to rising interest rates.

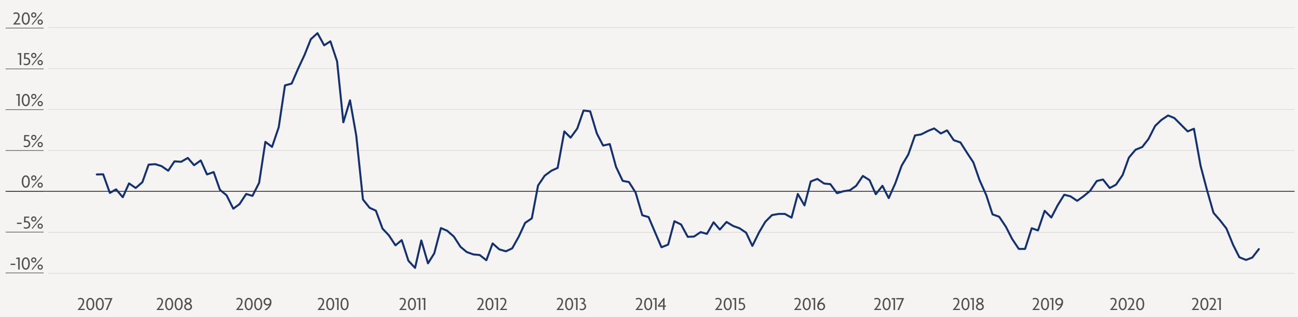
Topic 2:

China on the easing path

As growth momentum cooled last year, China recently signalled a shift to accommodative policies to support the economy. At a time when most major economies are considering more restrictive policies due to inflation, China has instead decided to go down the path of easing.

Figure 2A:

Chinese credit conditions have turned a corner
China credit impulse*, % of nominal GDP, year-over-year change



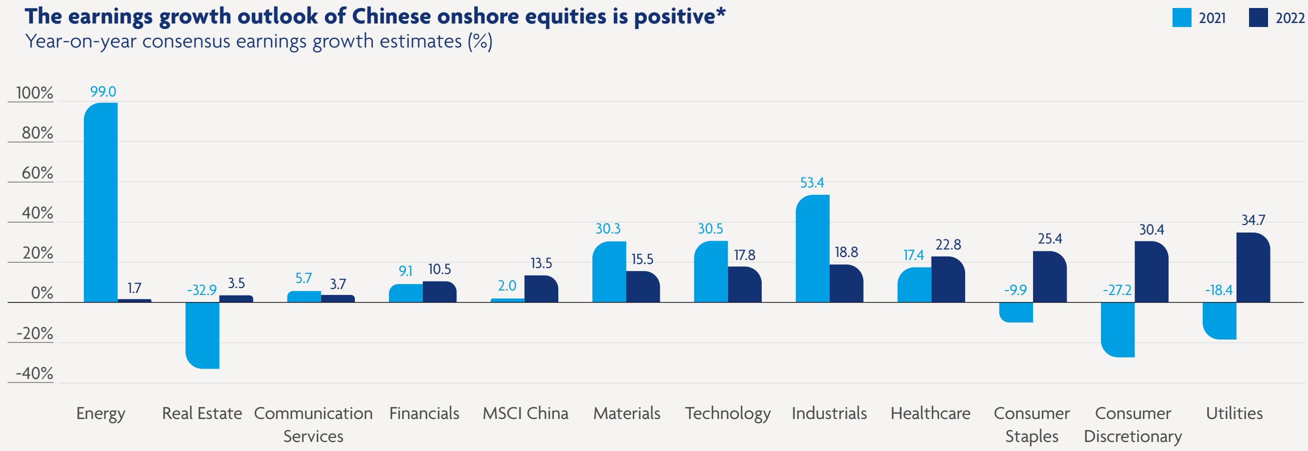
Source: CEIC, People's Bank of China (PBoC), Ministry of Finance of China, J.P. Morgan Asset Management.
* Credit impulse measures the year-over-year change of credit flow (net aggregate social financing) as a percentage of nominal GDP. Rolling 12-month nominal GDP and credit stock are used in the calculation.

Key takeaways

1. After a period of clamping down on lending (Figure 2A), China is to beginning to ease measures by reducing borrowing costs. We expect more supportive measures to come.
2. With more accommodative policies, the growth outlook and investor sentiment is likely to improve. The earnings outlook for next year remains positive (Figure 2B). The sectors that may benefit from the shift in policy would be cyclical sectors (e.g. Industrials, Consumer Discretionary), where domestic investment is supported by government projects.

Figure 2B:

The earnings growth outlook of Chinese onshore equities is positive*
Year-on-year consensus earnings growth estimates (%)



Source: FactSet, MSCI, J.P. Morgan Asset Management.
* Sector indices used are from the MSCI China Index. Consensus estimates used are calendar year estimates from FactSet. Past performance is not a reliable indicator of current and future results.

In summary

- China has switched tracks to a slightly more accommodative policy. Stay patient and invested as the market gradually recovers and while valuations are attractive.
- Attractive long-term investment themes that we are positive on include green technologies, semi-conductor manufacturing and Artificial Intelligence (AI).

Topic 3:

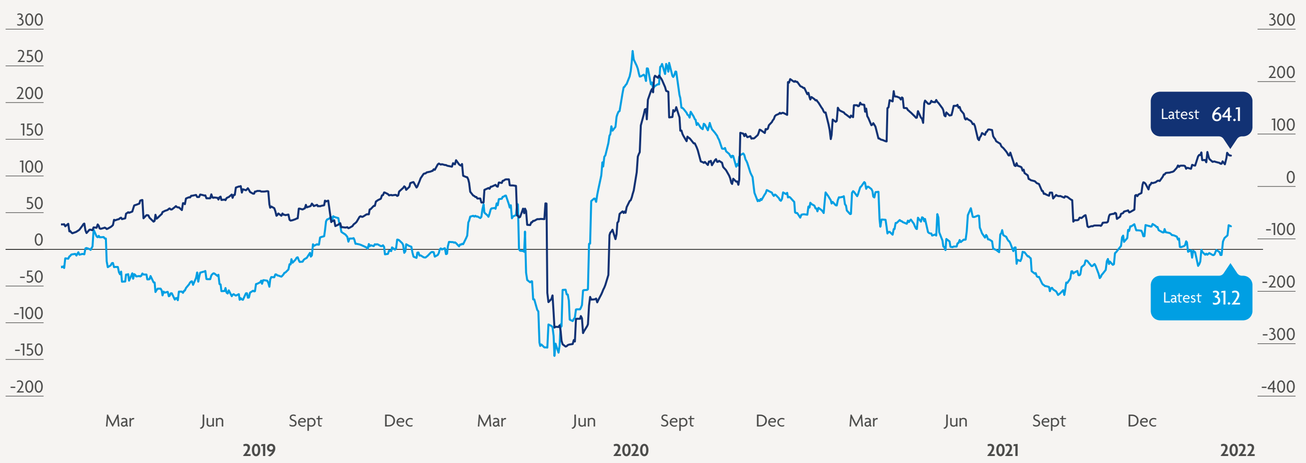
Opportunities in Europe and Japan

A lot of attention is still on the US markets as the Fed hints at imminent rate hikes. Rising rates tend to weigh on growth stocks while value stocks are typically expected to outperform. In light of this, we see opportunities in European and Japanese equity markets.

Figure 3A:

European macroeconomic data improving beyond expectations

Macro surprise indices



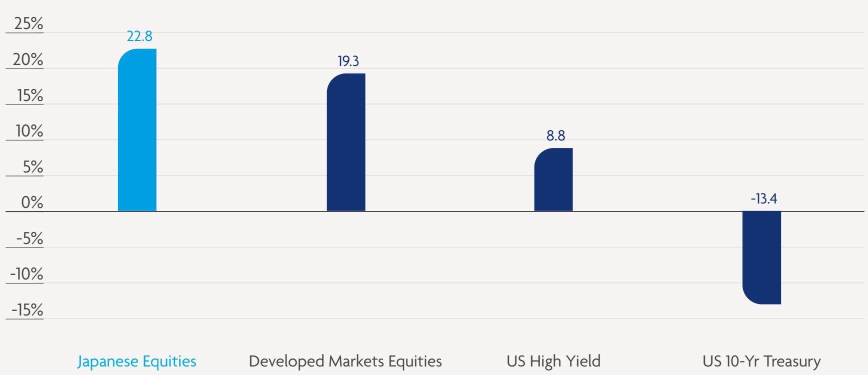
Source: Bloomberg, Citibank.

Key takeaways

1. Despite the conflict in Ukraine, most geopolitical event risks tend to pass without a lasting economic impact. We remain positive on European equities, as its data continues to beat expectations and the economic backdrop is improving given the COVID-19 reopening momentum (Figure 3A). Valuations are also relatively more attractive compared to the US markets.
2. Additionally, opportunistic investors can also consider Japanese equities as a tactical opportunity. Historically, the relative returns of Japanese equities tend to be positively linked to rising US Treasury yields (Figure 3B). If 10-year US Treasury yields continue to rise as we expect, Japanese equities may start to shine.

Figure 3B:

Japanese equities tend to outperform when bond yields rise



Source: JPMorgan Asset Management.
Data represents the annualised average rolling 3-month total return when US 10-Year Treasury bond yields rise by 25 basis points 3-month prior. Data spanned from 1994 - 2022.

In summary

- With cheaper valuations, European and Japanese equities present attractive tactical opportunities. Both regions have more value equities, which are likely to perform well in a period of rising rates, and their economies are likely to enjoy reopening momentum as governments move to endemic management of the pandemic.

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