In collaboration with:

J.P.Morgan Asset Management

UOB

UOB Investment Insights
Market PowerBar

MAY 2021

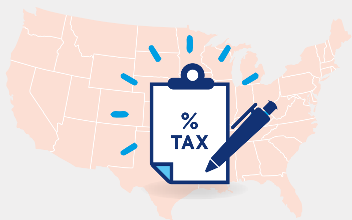
Key events at a glance

Market recap

Chinese offshore debt concerns weigh on investors

- Huarong Asset Management – a systematically important Chinese financial institution – sent investors into a panic in April 2021 after it missed a deadline for reporting its earnings.
- Chinese regulators later announced that Huarong was operating normally. However, it is likely that Huarong's debt will be restructured, given the importance placed on maintaining confidence at this current stage of economic recovery.
- Beijing's willingness in allowing inefficient state-owned enterprises to default is viewed to be part of China's long-term reforms to increase its competitiveness. We remain positive on China as a Megatrend.

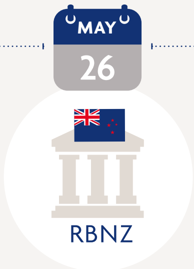
US floats global tax hike proposal



- In early-April 2021, US Treasury Secretary Janet Yellen proposed a global minimum corporate tax to international tax regulators.
- Developments are still in the early stages, and negotiations need to be set out between the other countries.
- Yellen emphasised that beyond the proposal, 'strong fiscal efforts' are still needed to support the global economy.
- However, with economic recovery still being a priority, it is unlikely that the tax hikes will commence anytime soon.

A look at this month

People's Bank of China (PBOC) Policy Meeting
Chinese policymakers are not expected to change benchmark lending rates.



Royal Bank of New Zealand (RBNZ) Policy Meeting
Markets will be watching to see if the RBNZ will further expand its stimulus measures.

Topic 1:

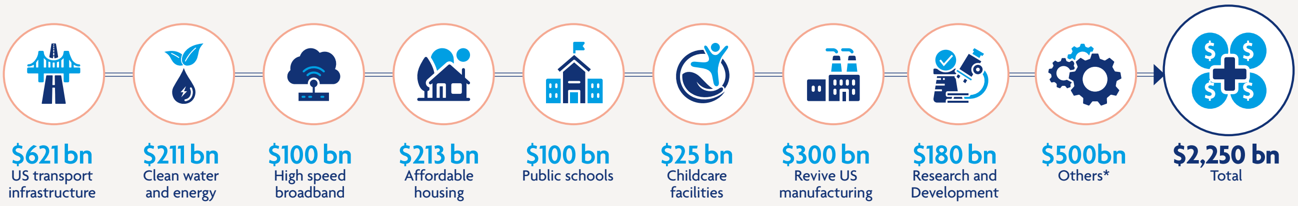
President Biden's plan to build up America

US President Biden recently announced a US$2.2 trillion infrastructure spending proposal which will span the next ten years as part of his "Build Back Better" campaign. In addition to traditional heavy infrastructure projects as well as research and development (R&D), there is also a strong focus on clean energy and electrification.

Figure 1:

President Biden's proposed infrastructure plan

USD billions (bn)



* "Others" refers to workforce development as well as support for the elderly and disabled.

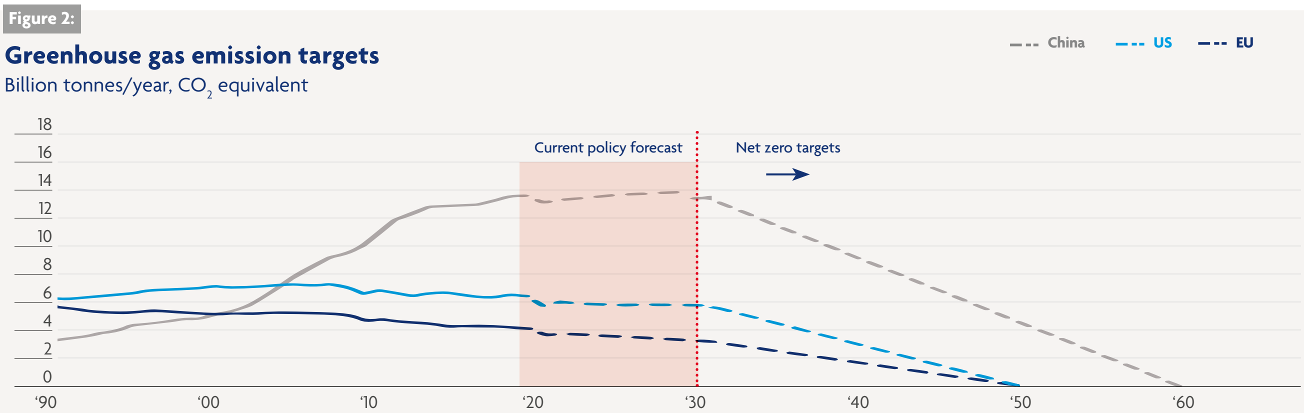
Source: J.P. Morgan Economic Research, J.P. Morgan Asset Management. Data as of 30 April 2021.

- The Biden administration has proposed to spend US$2.2 trillion over the next ten years on traditional infrastructure projects like highways and sewers, hi-tech areas such as high speed broadband, building and upgrades to housing and schools, as well as R&D and manufacturing incentives (as shown in Figure 1). These will mostly be funded by the tax increases from both corporate and top marginal income taxes.
- Notably, the Biden administration – unlike the previous administration – places a strong focus on climate change initiatives. These initiatives lean towards the areas of clean energy and electrification, and focus on bringing down greenhouse gas emissions (see Figure 2 below). As such, the proposed infrastructure plan will be allocating investments to support the US electric vehicle industry and power infrastructure.

Figure 2:

Greenhouse gas emission targets

Billion tonnes/year, CO_2 equivalent



Source: Climate Action Tracker, J.P. Morgan Asset Management. Current policy forecast is the post-COVID forecast provided by Climate Action Tracker. Data as of 30 April 2021.

Views & Implications:

- While President Biden's proposal for infrastructure spending may not garner bipartisan support, the proposal can still be passed through the reconciliation bill.
- It will likely take a few years for this infrastructure plan to ramp up. When that happens, it can potentially provide a strong boost to longer-term US GDP growth, contribute to carbon neutrality by 2050, and lead to the US economy becoming more competitive, supporting our call on the US Megatrend.
- The environmental focus of Biden's infrastructure plan will create opportunities across the value chain that supports the prospects of green investments, and the Sustainability Megatrend as a whole.

Topic 2:

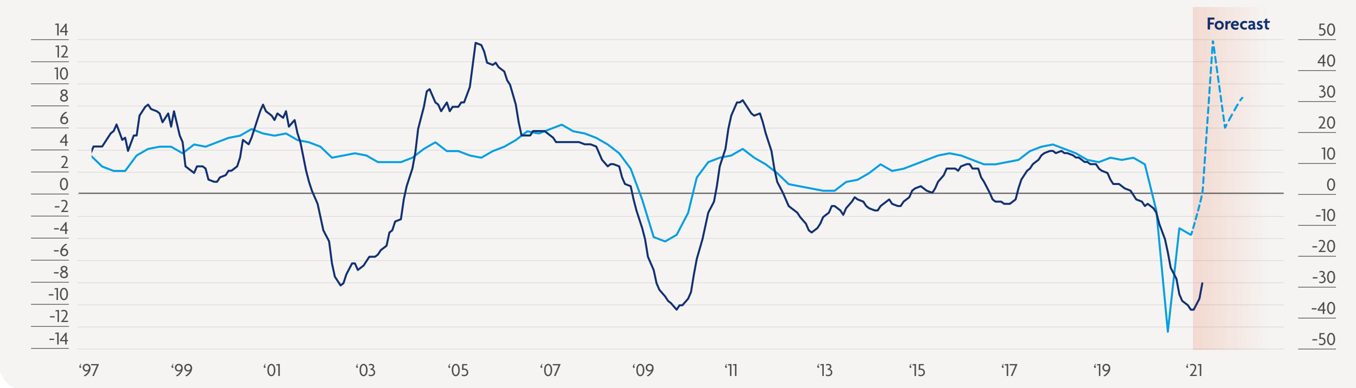
European equities to potentially play catch up

While the Eurozone may be battling a new wave of COVID-19 cases, incoming macro data continues to remain resilient. We see the Eurozone recovery as being delayed, not derailed. Investors can consider looking at European equities as a laggard play, given their high cyclicality and lower sensitivity to rising bond yields.

Figure 3:

Eurozone nominal GDP growth and earnings growth

% change year-on-year



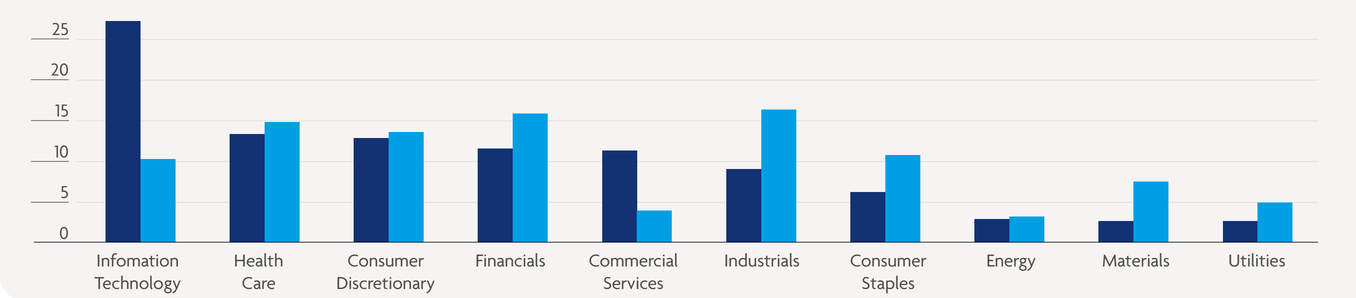
Source: Eurostat, IBES, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Nominal GDP forecasts from J.P. Morgan Securities Research. Data as of 30 April 2021.

- The increasing supply of vaccines and accelerated pace of vaccine rollouts have helped the Eurozone deal with its new wave of COVID-19 infections. Incoming economic data has also been holding up relatively well.
- We expect Eurozone's nominal GDP to improve significantly towards end-2021. This will likely support the growth to recovery for corporate earnings, in line with the upward forecast for GDP (as shown in Figure 3).
- European equities tend to be more cyclical in nature (i.e European companies do better as the global economy rebounds) and are less sensitive to rises in bond yields. This is because, as compared to US equities, European equities have less companies in Information Technology (IT) and communication services and more companies in Industrials, Materials and Financials sectors, as shown in Figure 4 below.

Figure 4:

Europe ex-UK vs. US equity sector weights

% of total market cap



Source: MSCI, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. Indices are all MSCI, except for US, which is S&P 500. Data as of 30 April 2021.

Views & Implications:

- The Eurozone may be lagging behind the US in its economic recovery, but it is quickly catching up with a faster vaccine rollout.
- We remain positive on European equities, which can be a potentially attractive laggard play for investors buying into the global economic recovery.

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