In collaboration with:

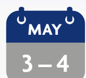
UOB

J.P.Morgan ASSET MANAGEMENT

UOB Investment Insights
Market PowerBar

MAY 2022

A LOOK AT THIS MONTH

Key developments to watch	What investors should know
1 **Persistently high inflation prompts central banks to keep further interest rate hikes on the horizon.**	**Stay invested amid inflation concerns** ▶ Inflation is likely to stay due to the ongoing Russia-Ukraine crisis and recent lockdowns in China but fall from current levels in H2 2022. ▶ Inflation and central bank policy moves will continue to contribute to market volatility. ▶ Avoid timing the market – stay invested with a diversified portfolio as the global growth outlook remains strong. Consider alternative income sources other than fixed income.
2 **The current yield curve inversion is weighing on market sentiments.**	**What is a yield curve inversion and does it signal a future recession?** ▶ A yield curve inversion refers to when short-term interest yields are higher than longer-term yields. This is out of the ordinary. And while it suggests that investors need to be prepared, it does not reflect an immediate recession. ▶ Global equities have previously delivered positive returns during periods between a yield curve inversion and a subsequent economic downturn. ▶ Stay invested in equities to benefit from a potential late-cycle rally and in fixed income to hedge against any equity sell off.
Upcoming Event	
 MAY 3 – 4 **US Federal Reserve (Fed) Meeting**	Look out for any cues on the Fed's Quantitative Tightening (QT) process and rate hike trajectory.

Speak to your UOB Advisor today to find out more.

Topic 1:

Stay invested amid inflation concerns

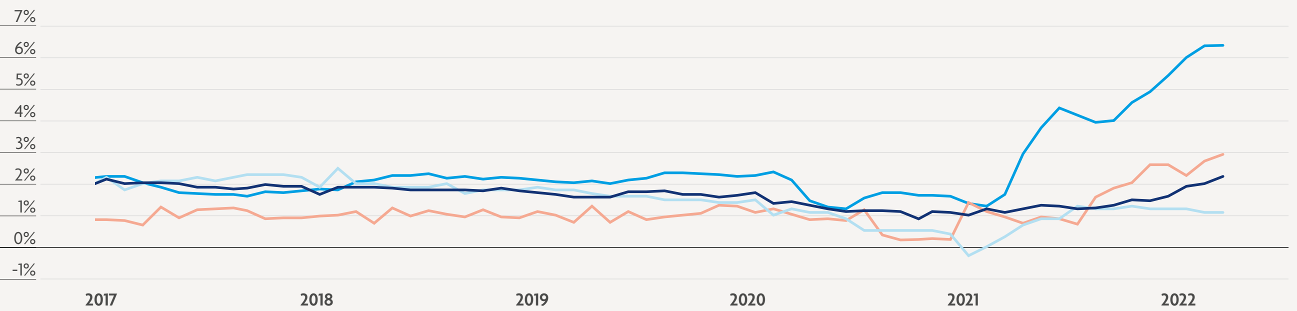
Inflation has been top of mind for markets and central banks, especially in the developed world. The Russia-Ukraine crisis has caused a spike in the United States' inflation levels, prompting the US Federal Reserve to stay hawkish and continue to signal future interest rate hikes.

Figure 1A:

Developed markets are facing inflationary pressure but this is still low in Asian markets

Year-over-year change in core inflation

Emerging Asia ex-China & ex-India* | China | US | Eurozone



Source: FactSet, J.P. Morgan Asset Management, (Left) Bloomberg LP, Oxford Economics.
* Emerging Asia ex-China & ex-India is constructed using a GDP weighted average of Indonesia, Malaysia, Philippines, South Korea, Taiwan and Thailand. Most recently available Core CPI data for Philippines is as of 31 December 2021. Data reflect most recently available as of 31 March 2022.

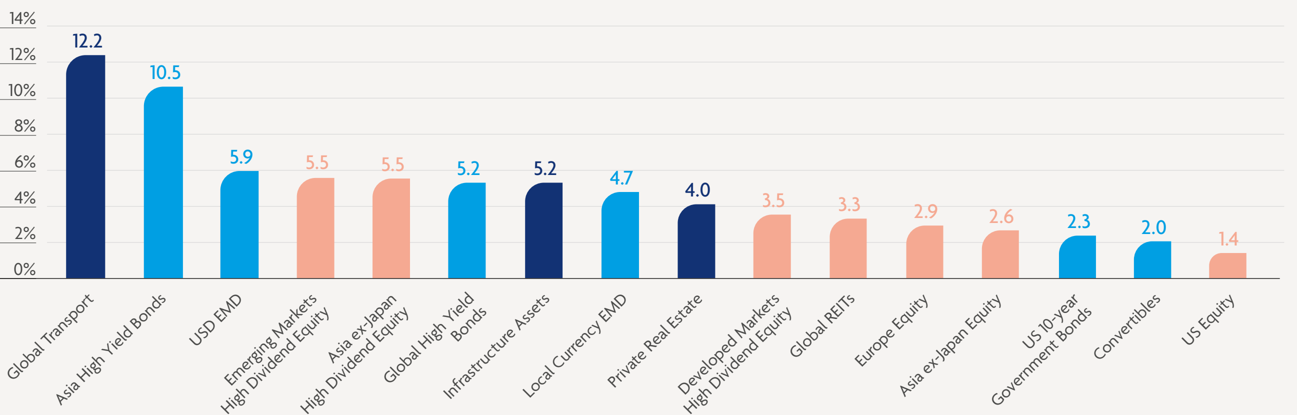
- Different regions are facing varying levels of inflation (Figure 1A). While the developed world is experiencing greater inflationary pressures, Asia's inflation remains at manageable levels. Stricter COVID management policies have allowed Asia to avoid significant economic disruption from high infection rates. Consumption patterns have also stayed more stable.
- Inflation in the US should fall from current levels in H2 2022, given that the key factor in this inflationary episode is a supply shock that is affecting the prices of energy and core goods.
- Recent COVID-related lockdowns in China have reignited concerns that supply chain disruptions will exacerbate inflation. While food inflation has picked up due to logistics disruptions, this has been offset by soft consumer demand preventing overall inflation from trending significantly higher.

Figure 1B:

Real assets and high-dividend equities provide alternative income sources

Asset class yields

Equity | Fixed income | Alternative Asset Classes



Source: Alerian, Bank of America, Bloomberg Finance L.P., Clarkson, Drewry Maritime Consultants, FactSet, Federal Reserve, FTSE,MSCI, Standard & Poor's, J.P. Morgan Asset Management. Data reflect most recently available as of 31 March 2022.

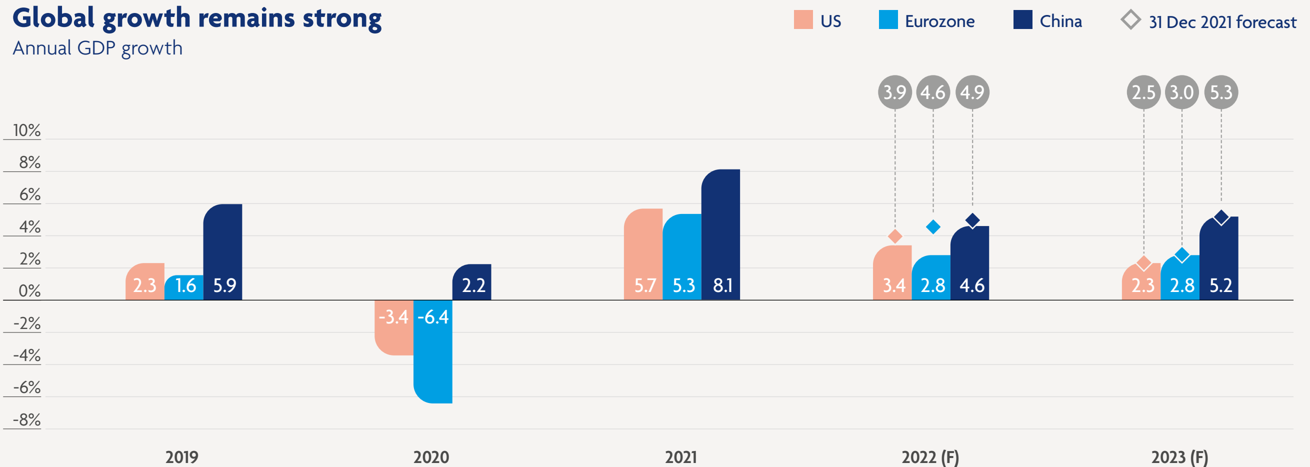
- Inflation and monetary policy action from central banks will continue to contribute to market volatility. Income investing can go a long way towards compounding returns for investors during volatile times. While investors traditionally look to fixed income assets for income, potential duration risks make government bonds less attractive. Alternative sources of income like high-dividend equities in emerging markets or Asia-Pacific and real assets are viable options (Figure 1B), since the global growth outlook remains relatively strong (Figure 1C).

Topic 1 (Cont'd):

Figure 1C:

Global growth remains strong

Annual GDP growth



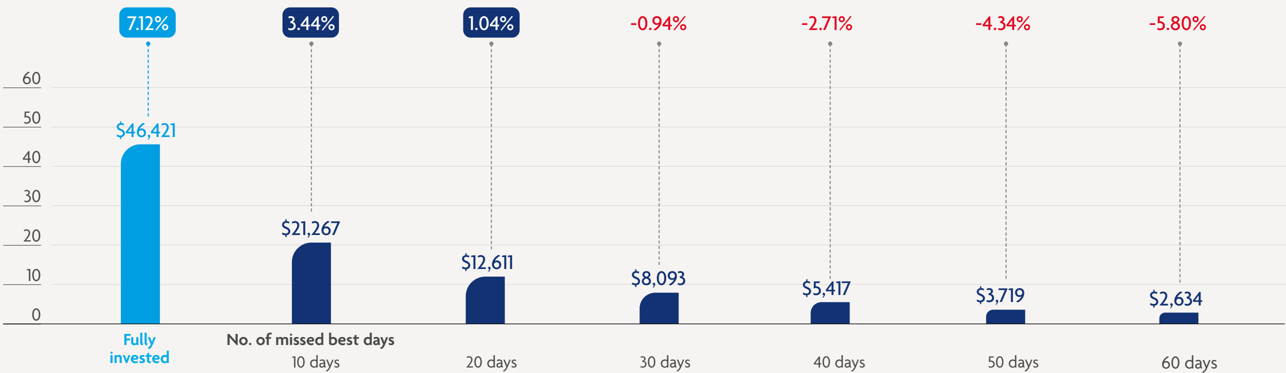
Source: J.P. Morgan Asset Management.

- Staying invested is important in an inflationary environment. A look back at the past 20 years shows that trying to time the market and missing the best days, results in significantly lower annualised returns (Figure 1D). Hence, the best defence is not timing the market but staying invested with a diversified portfolio.

Figure 1D:

Staying invested provides better returns

Value of $10,000 invested



Source: Returns are based on the S&P 500 Total Return Index. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Past performance is not indicative of future returns. Data as of 31 December 2021.

Topic 2:

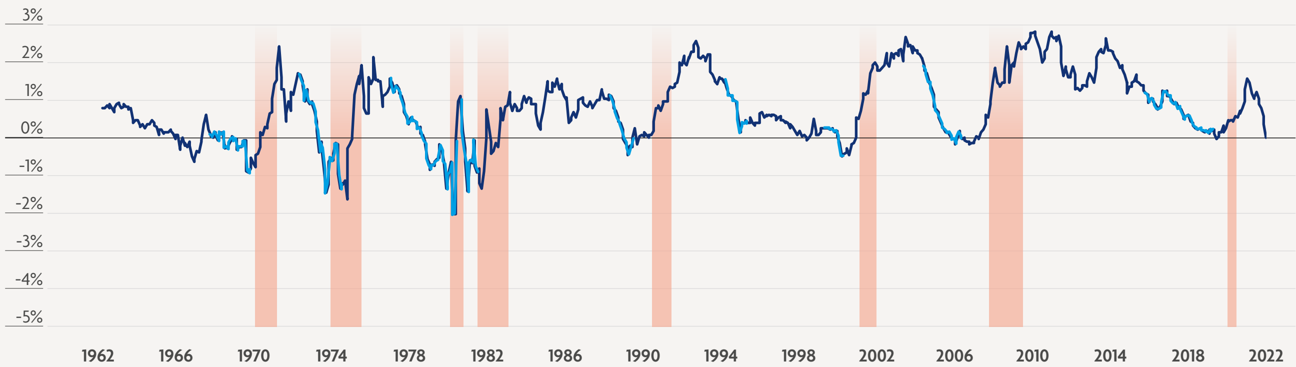
What is a yield curve inversion and does it signal a future recession?

What is known as a yield curve inversion happens when short-term interest yields are higher than longer-term yields. This is out of the ordinary and investors need to be prepared.

Figure 2A:

An inversion of the 2-year/10-year US Treasury yield curve

Treasury yield curve spread
Spread during hiking cycles
Periods of recession



Source: FactSet, Standard and Poor's, J.P. Morgan Asset Management. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to the recession and the onset of the recession.

- The US Treasury's 2-year/10-year yield curve has inverted, suggesting a possible economic downturn in the near future. An inverted yield curve has preceded almost every United States recession since 1960 and is a popular indicator used by observers to form an outlook for the economy and markets (Figure 2A).

Figure 2B:

A US Treasury 2-year/10-year yield curve inversion does not reflect an immediate recession

	Months		
Yield curve inversion date	**From curve inversion to S&P 500 peak**	**From S&P 500 peak to start of recession**	**From curve inversion to recession**
Jan 1969	4	8	12
Mar 1973	0	9	9
Oct 1978	15	0	15
Oct 1980	1	8	9
Jan 1989	19	1	19
Feb 2000	2	12	14
Jun 2006	16	3	19
Aug 2019	6	0	6
Average	**8**	**5**	**13**

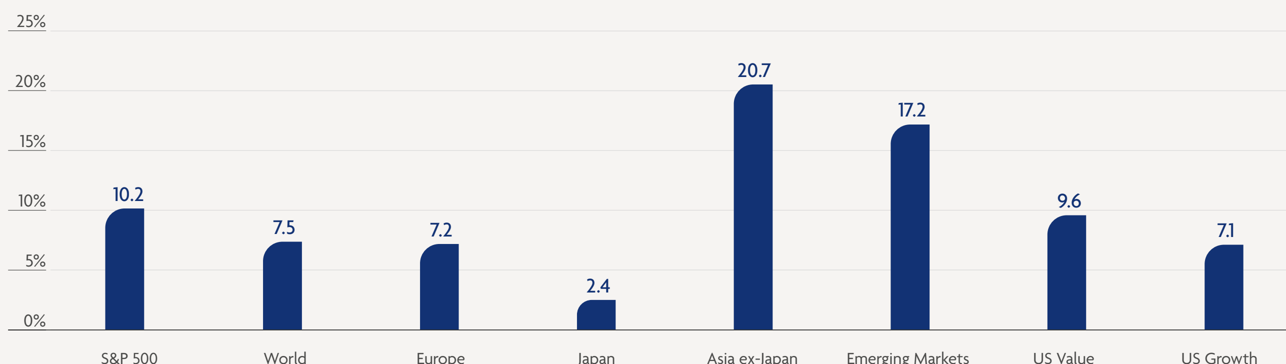
Source: FactSet, Standard and Poor's, J.P. Morgan Asset Management. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to the recession and the onset of the recession.

- However, we should keep in mind a number of points before we take this as a negative signal. The ebbs and flows of an economic business cycle suggest a recession is always coming. On average, a recession doesn't occur until 13 months after a yield-curve inversion and the market peaks 8 months after one (Figure 2B).

Figure 2C:

Global equity markets have historically delivered, on average, positive returns between yield curve inversions and recessions

Annualised median monthly equity total return between inversion and recession since Aug 1978 to Mar 2020



Source: Bloomberg Finance L.P., NBER, J.P. Morgan Asset Management. Data reflect most recently available as of 30 April 2022. Median annualised returns computed across 6 inversion to recession cycles starting on 31 August 1978 unless otherwise stated. Asia ex Japan and EM median annualized returns computed over 2 inversion to recession cycles starting on 28 Feburary 2006.

- Investors could miss out on meaningful returns if they sell their holdings immediately just because the yield curve has inverted. Between yield curve inversions and recessions, global equity markets have historically delivered positive returns on average (Figure 2C). US Value equities have outperformed US Growth equities during these periods.
- Even though a yield curve inversion is a popular indicator, other forward-looking indicators like the Fed's preferred 10-year/3-month term spread are still not suggesting an upcoming recession.
- Even if many months away, an economic slowdown could be approaching as the Fed attempts to reign in inflation. We think investors should remain invested with broadly diversified portfolios. Equities and other risk assets could benefit from a potential strong late-cycle rally, while fixed income assets still serve as a useful hedge against any equity sell-off.

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.

Copyright © 2022 United Overseas Bank Limited. All Rights Reserved.
United Overseas Bank Limited Co. Reg. No. 193500026Z