In collaboration with:

J.P.Morgan Asset Management

UOB Investment Insights
Market PowerBar

NOVEMBER 2021

A look at this month

KEY DEVELOPMENTS	What to expect	What this means for investors
Market volatility has persisted on the back of economic uncertainty	Concerns over persistently higher inflation, supply chain issues and slower economic growth have weighed on investor sentiments.	Diversify through multi-asset funds to navigate through times of uncertainty.
Bond yields continue to rise	Higher inflation expectations have caused bond yields to rise, putting pressure on central banks to tighten their monetary policies.	Reduce bond duration exposure to reduce vulnerability to rising interest rates.
Germany's election results likely to lead to a coalition government	Climate-friendly policies and European Union (EU) integration may be further pursued. Additionally, with pandemic headwinds possibly receding, European equities are poised to benefit from cyclical recovery.	Invest in Europe to benefit from cyclical recovery as consumer spending recovers.

UPCOMING EVENT		
NOV 3 **November FOMC Meeting**	The US Federal Reserve (Fed) is expected to commence its tapering programme.	Markets will be on the lookout for any updates to Fed's interest rate projections.

Topics at a glance

- **Diversify with multi-asset funds to navigate changing market conditions**
  During uncertain and volatile times, multi-asset funds can help investors by diversifying portfolio exposure across various asset classes.

- **Reduce bond duration exposure as central banks dial back on stimulus**
  Short-duration bonds are less sensitive to rising interest rates, whereas US Financial equities will likely benefit from it.

- **Europe — an attractive opportunity**
  With relatively attractive valuation and exposure to the global economy, European equities are viable opportunities for investors.

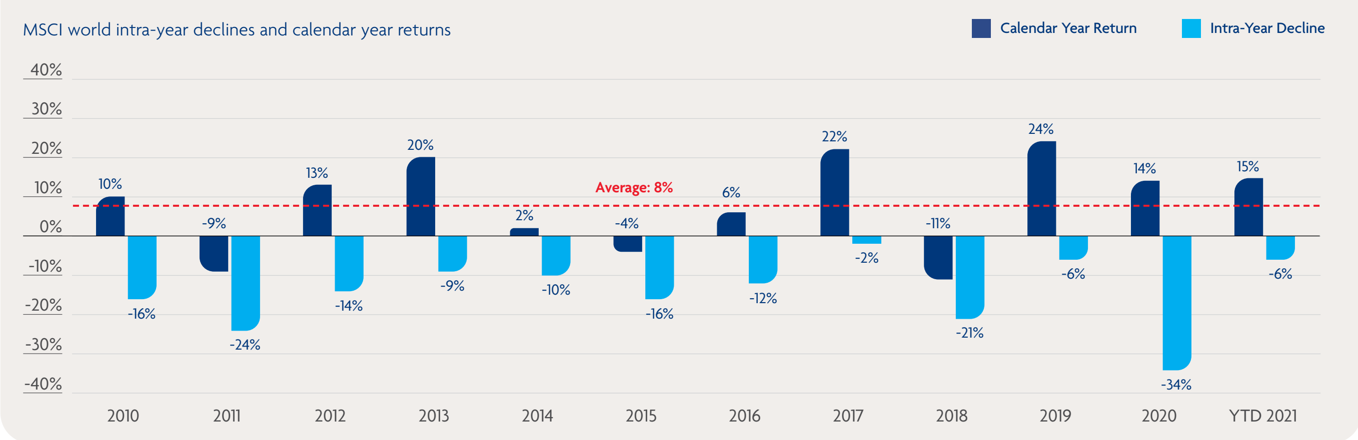
Speak to your UOB Advisor today to find out more.

Topic 1:

Diversify with multi-asset funds to navigate changing market conditions

Concerns of supply chain disruptions, energy prices, inflation and China's property market have weighed on recent market sentiments. However, not all of these concerns will persist, resulting in periods of time when volatility intensifies or recedes, as well as market rotations.

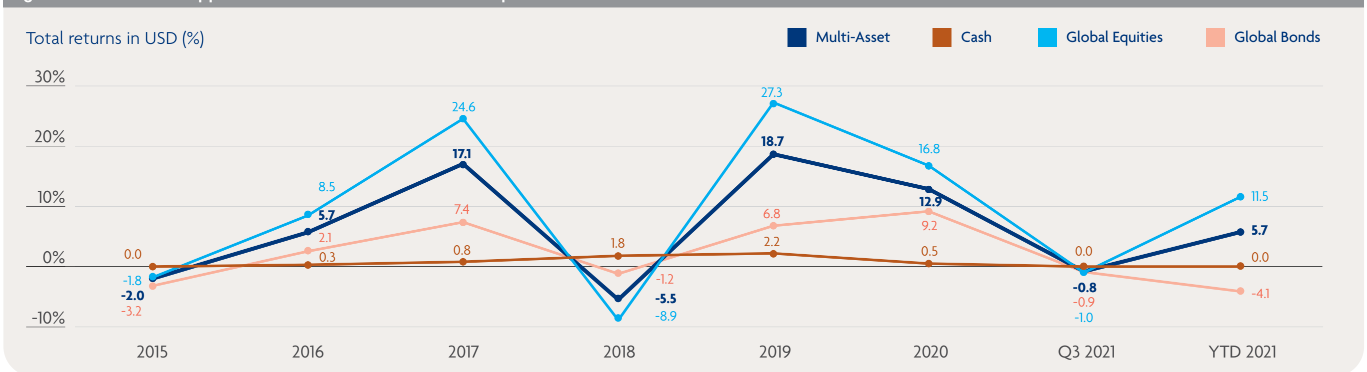
Figure 1A: Normal to experience volatility while achieving positive returns.



Source: Bloomberg Finance L.P., FactSet, J.P. Morgan Asset Management.
*The VIX-CBOE Volatility Index measures market expectations of near-term volatility conveyed by S&P 500 Index (SPX) option prices.

- Market prices tend to fluctuate more as they react to new information. Historically, market movements tend to alternate between volatile and low volatility periods. Declines within a year are normal, but overall returns for a full year will likely be be positive (Figure 1A).
- Investors can consider leveraging on multi-asset funds to navigate through times of uncertainty and potential rough patches. These funds are managed by asset managers who have strong research abilities and access to a wider set of strategies to help them build a portfolio that balances risk and return (Figure 1B).

Figure 1B: A diversified approach across various assets tends to provide stable returns.



Source: Bloomberg Finance L.P., Dow Jones, FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Hypothetical portfolios were created to illustrate different risk/return profiles and are not meant to represent actual asset allocation. U.S. dollar total return calculations are based on MSCI Total Return, Bloomberg Barclays and J.P. Morgan indices. AxJ stands for MSCI AC Asia ex-Japan and APxJ stands for MSCI AC Asia Pacific ex-Japan. Monthly total returns between 30/09/06 and 30/09/21 are used for all asset classes. Past performance is not a reliable indicator of current and future results.

Views & Implications:

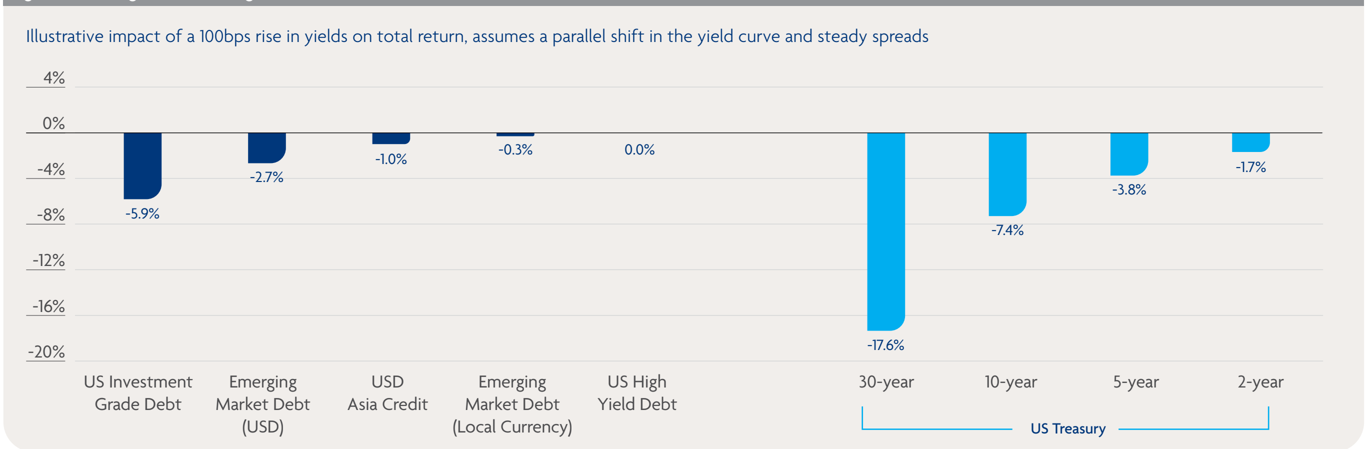
- Volatile periods in markets are part and parcel of investing. Multi-asset funds can help minimise some of these risks as fund managers will use their abilities to create a well-diversified portfolio. History has shown that both time and a little diversification can go a long way towards more stable returns.

Topic 2:

Reduce bond duration exposure as central banks dial back on stimulus

Central banks around the world have started to shift their policy stance. While they are generally accommodative, more are looking to dial back on stimulus, by cutting down on their bond purchases and hiking interest rates gradually. Inflation has also been picking up, putting more pressure on policy makers to keep prices in check.

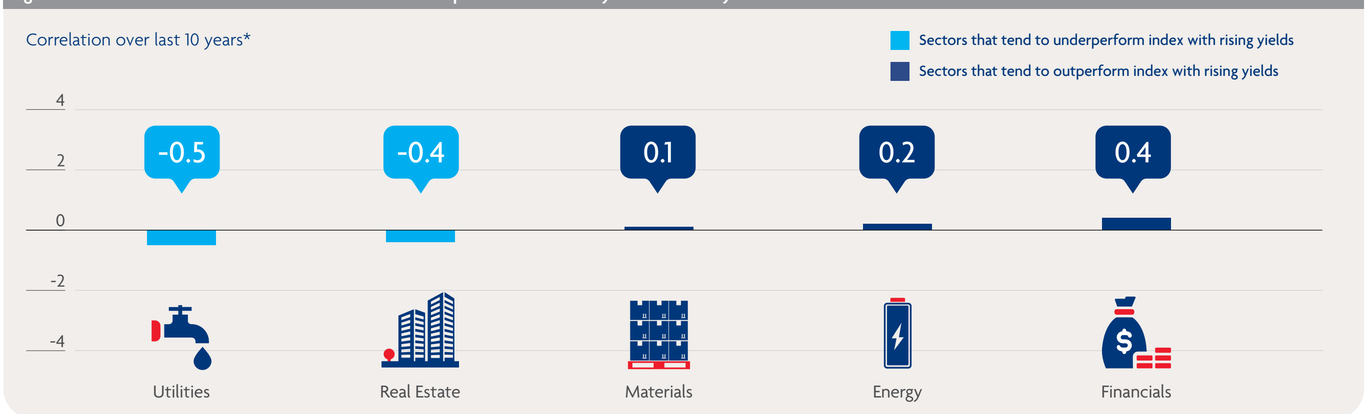
Figure 2A: Rising rates are a negative for fixed income.



Source: Barclays, Bloomberg Finance L.P., FactSet, J.P. Morgan Economics Research, J.P. Morgan Asset Management.

- Rising interest rates potentially make the outlook for fixed income challenging. When interest rates rise, the price of fixed income instruments fall. Another way of looking at this is duration. Duration is a measure of the sensitivity of the price of a fixed income investment to a change in interest rates. The higher the duration, the greater the effect on the price (Figure 2A).
- Conversely, higher interest rates can benefit some equity market sectors such as Financials, which will see higher profit margins as they take advantage of rising rates (Figure 2B).

Figure 2B: Correlations of MSCI AC World relative sector performance to 10-year US Treasury Yield.



Source: FactSet, MSCI, J.P. Morgan Asset Management.
*Data for the correlation in the real estate sector begins 09/09/16.
Returns are based on price index only and do not include dividends. Past performance is not a reliable indicator of current and future results.

Views & Implications:

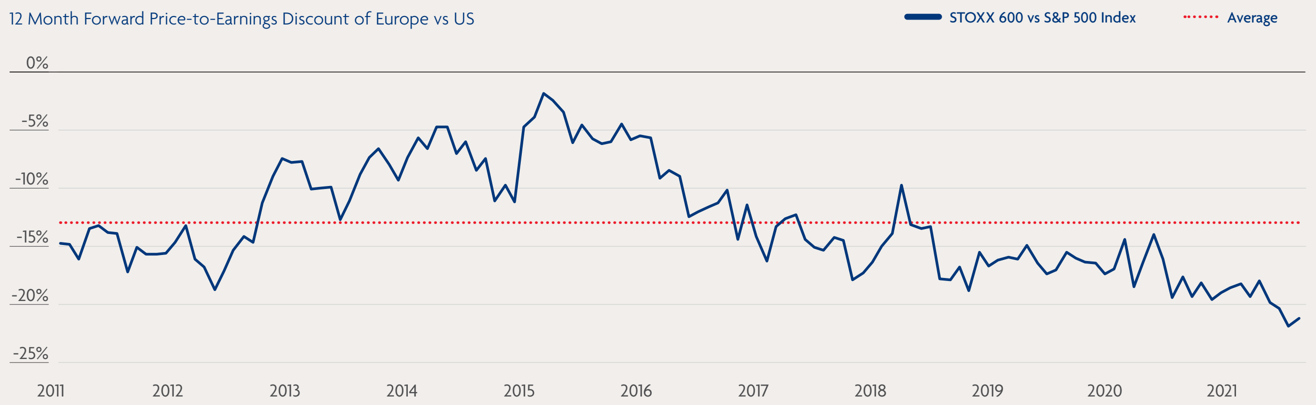
- Go for short-duration bonds as they are less sensitive to a rise in interest rates.
- As for equity markets, certain sectors that will benefit from higher rates include US Financials and cyclicals such as US Consumer Discretionary equities.

Topic 3:

Europe — an attractive opportunity

With the recent German elections likely to lead to a coalition government, climate-friendly policies and EU integration may be further pursued. Additionally, virus headwinds are waning and there are positive factors supporting the European story, which will be boosted by consumer, corporate and government spending.

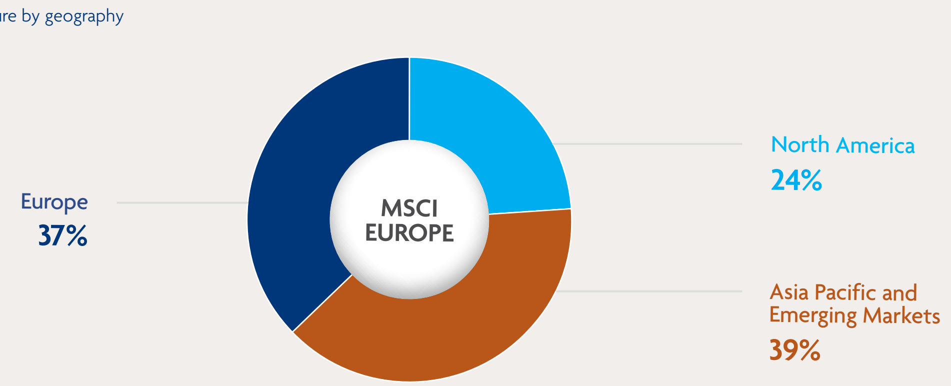
Figure 3A: Europe is trading at a significant discount.



Source: FactSet, J.P. Morgan Asset Management.

- Europe is seeing very strong earnings expectations for this year. Its equity valuations (Price-to-earnings ratio) are also at a significant discount when compared to the US (Figure 3A). However, the current valuation discount may be unwarranted as we do not expect Europe to face a similar crisis that was observed in 2012, where equity valuations fell due to a debt crisis and possible double dip recession.
- European equities will also benefit from the global recovery as they have a higher revenue exposure (Figure 3B). Many will see gains from the rebound, which we expect to continue, despite concerns over higher inflation and slower economic growth.

Figure 3B: European markets have high global exposure.



Source: FactSet, J.P. Morgan Asset Management.

Views & Implications:

- European equities are well-positioned for the global recovery. They are trading at lower valuations compared to the US, and will benefit from the return of global consumer activity.
- Moving into 2022, investors can consider European equities as a viable opportunity.

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