In collaboration with:

J.P.Morgan Asset Management

UOB

UOB Investment Insights

Market PowerBar

OCTOBER 2021

A look at this month

KEY DEVELOPMENTS	What to expect	What this means for investors
Economic growth momentum cools	While economic growth moderates to a slower pace, businesses overall will likely continue to seek for new growth expansion, which helps to improve job prospects.	Invest in quality equities — companies with robust earnings growth and resilient balance sheets.
Companies striving to achieve organic and long-term structural growth	More companies are participating in structural trends such as digitalisation (e.g. e-Commerce, Internet-of-Things (IOT)) and innovating with artificial intelligence (AI) to enhance growth and profitability.	Companies that innovate successfully with AI to improve their businesses could see better profitability for shareholders.
Asian economies hampered by Delta variant concerns	Despite pandemic concerns, improving vaccination rates and robust demand for trade support Asia's economic outlook.	Current weakness in Asian markets may represent opportunity to invest at lower prices. Stay invested to participate in their eventual recovery.

UPCOMING EVENT		
OCT **US Fiscal Stimulus Negotiations**	US lawmakers will be finalising and voting on the aspects of the US$3.5 trillion social and environmental stimulus bill.	The finalised details may differ to what was originally proposed. Markets will be on the lookout for corporate and individual tax adjustments.

Topics at a glance

- **Quality equities may come back in vogue**
  Quality equities may perform well as economic growth momentum transitions from strong levels to a moderate pace.

- **A bright future for Artificial Intelligence (AI) & Innovation**
  Trend of digitalisation and technology-enabled consumption present growing investment opportunities in many sectors.

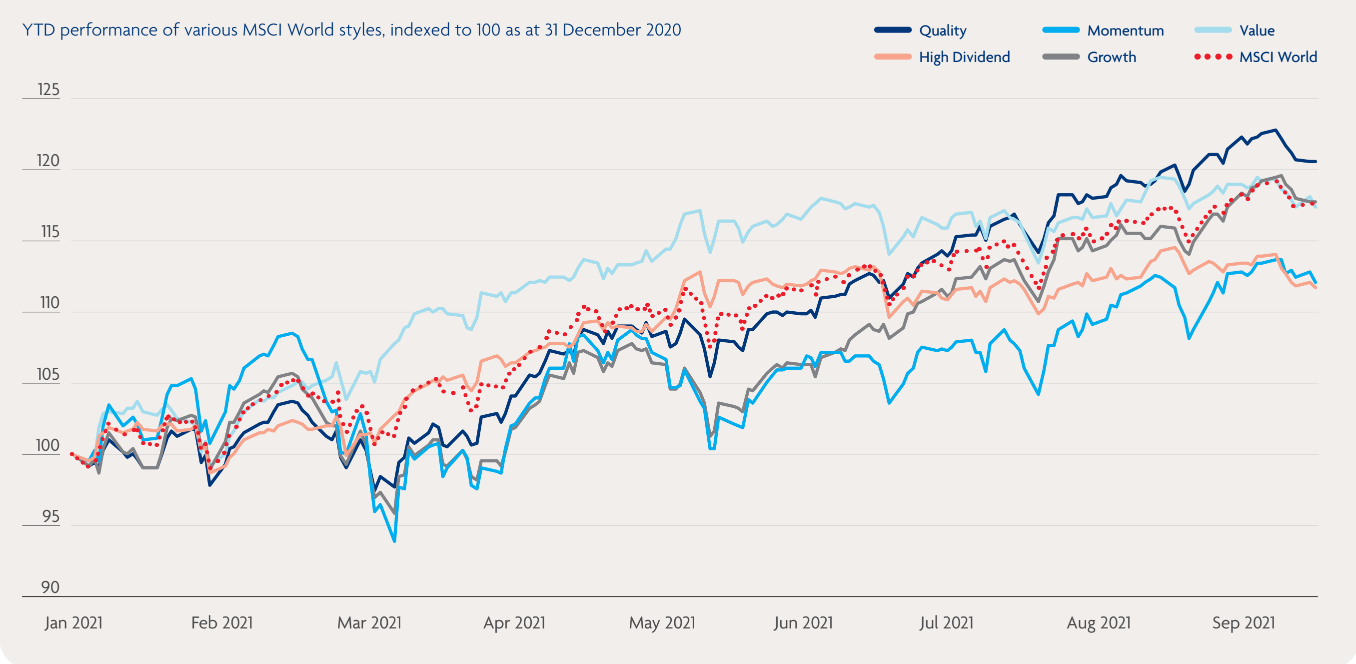
- **Keeping an eye on Asian markets**
  Despite current weakness, Asian equities may pick up again once underlying economic drivers gradually improve and vaccination rates pick up.

Speak to your UOB Advisor today to find out more.

Quality equities may come back in vogue

Recent concerns over the possibility of 'peak growth' has weighed on investors' minds. An anticipated gradual tapering by the Federal Reserve did not help as well. While we remain positive on economic recovery, overall growth momentum is expected to moderate lower, and quality equities may outperform in such an environment going into 2022.

Figure 1A: Investing in quality equities has outperformed all other styles of equity investing in 2021.



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

- Expectations of a moderating economic growth has started to support the performance of quality equities (Figure 1A). These companies sport resilient balance sheets and robust earnings capability, which can help companies tide through periods of uncertainty.
- This does not mean that other equity strategies will not perform well. However, as the markets move into the mid-cycle phase of the recovery, quality equities do tend to perform better during these periods. (Figure 1B).

Figure 1B: Quality equities tend to outperform during the mid-cycle phase of the economic recovery.

Source: J.P. Morgan Asset Management.

Views & Implications:

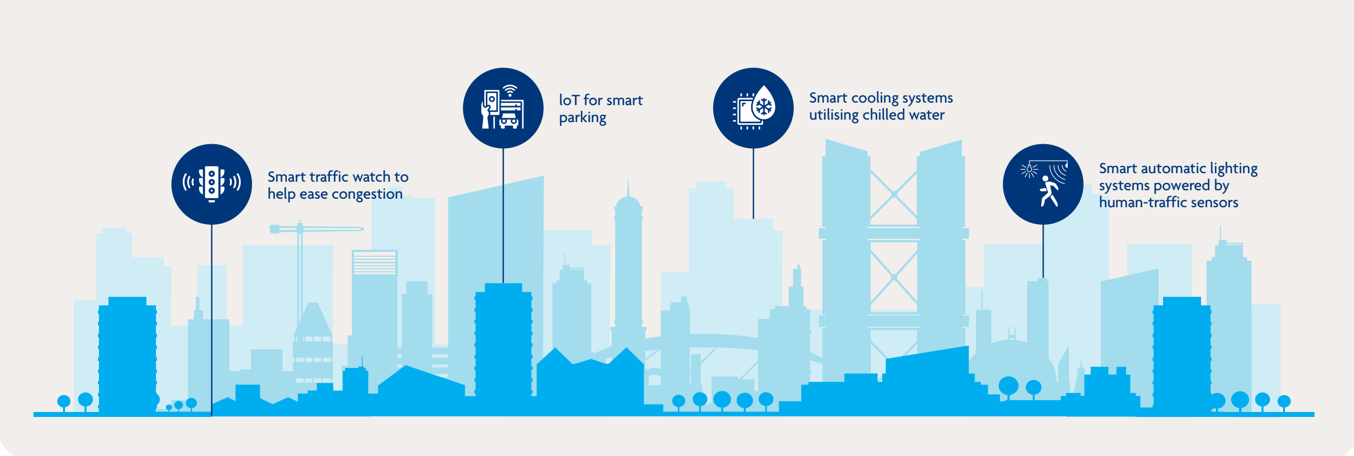
- As we move into 2022 and growth momentum cools from higher levels, quality equities (companies with robust earnings, strong balance sheets and good corporate governance) may perform better than other equity types.

Topic 2:

A bright future for AI and innovation

As the pace of economic growth normalises, investors may seek out companies that can achieve long-term structural and organic growth. New developments and innovations using artificial intelligence (AI) technology will help companies become more efficient and even unlock new revenue opportunities. We are positive on the space for the long term and advocate investors to adopt a long-term perspective when investing.

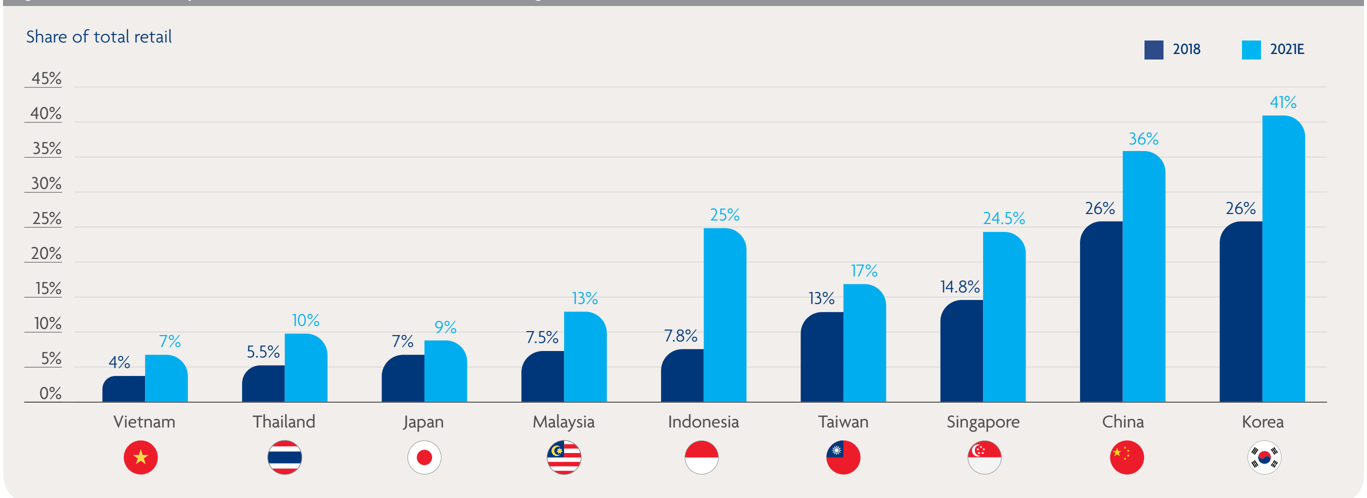
Figure 2A: New developments involved in living a better life.



Source: J.P. Morgan Asset Management.

- Technology advancements have brought about many structural growth opportunities. Automation and advances in robotics are gaining rapid adoption across both Manufacturing and Services sectors. Advances in AI technology such as AI and the internet are paving the way for improving everyday life (Figure 2A).
- The pandemic has further accelerated trends such as digitalisation, which in turn bring about a wider set of growth opportunities. The e-Commerce penetration is leading the structural shift in areas of online shopping, entertainment and payment systems (Figure 2B). This will fuel demand in cloud infrastructure and cybersecurity along with many supporting industries.

Figure 2B: eCommerce penetration – More and more retail is shifting online.



Source: Goldman Sachs Research, Bain-Google-Temasek (2019), Euromonitor, January 2020.

Views & Implications:

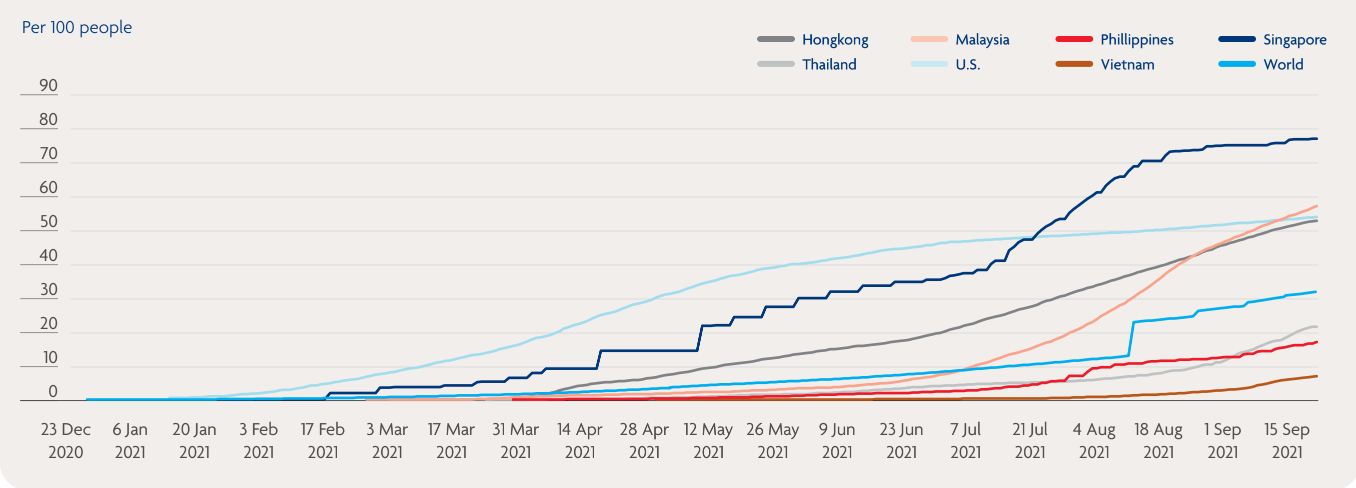
- The investment opportunities from AI and innovation are widespread and may emerge across varying industries. Investors need to adopt a long-term perspective when investing in this space and use any market dips as opportunities to gradually accumulate exposure.

Topic 3:

Keeping an eye on Asian Markets

Asia and emerging markets have lagged behind developed markets performance wise this year. However, less disruptions could be expected as several countries have begun to shift away from harsh "zero COVID-19" policies.

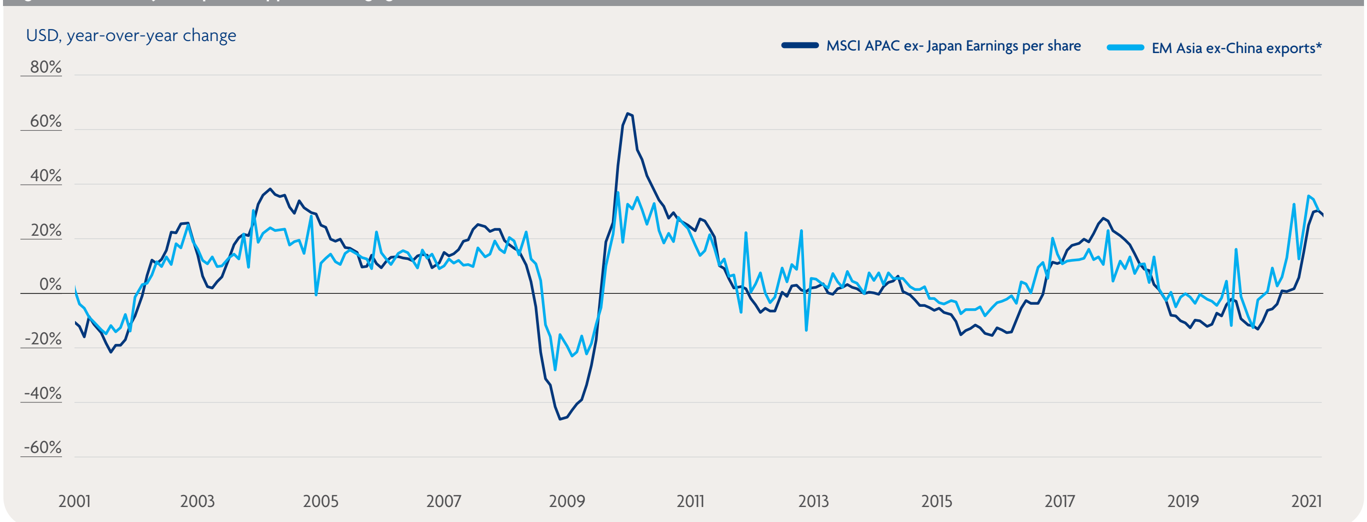
Figure 3A: Singapore leading vaccination rates.



Source: Our World in Data, J.P. Morgan Asset Management.

- COVID-19 still weighs on recovery prospects in many Asian economies. Asia's path continues to evolve, with varying recovery pace across countries as the speed of vaccination rollouts differ (Figure 3A). It may not be until next year before herd immunity could be achieved and reopening plans progress.
- The rapid increase in vaccinations within Asia supports economic reopening plans. As seen in Figure 3B, partial re-opening has caused a pick-up in trade and earnings are improving. As global demand picks up, markets with strong economic fundamentals and good virus handling, such as Singapore, Taiwan and Indonesia, could outperform their neighbours.

Figure 3B: Recovery in exports support earnings growth.



Source: CEIC, National statistics agencies, J.P. Morgan Asset Management. *EM Asia ex-China includes Hong Kong, Korea, Malaysia, Singapore, Taiwan, Thailand and Vietnam. Overall exports aggregate is gross domestic product (GDP)-weighted.

Views & Implications:

- As economic fundamentals gradually improve and vaccination rates pick up, Asian markets may start to catch up and enjoy renewed interest from global investors. Stay invested in Asian equities to participate in the recovery.

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