In collaboration with: J.P.Morgan Asset Management

UOB Investment Insights
Market PowerBar

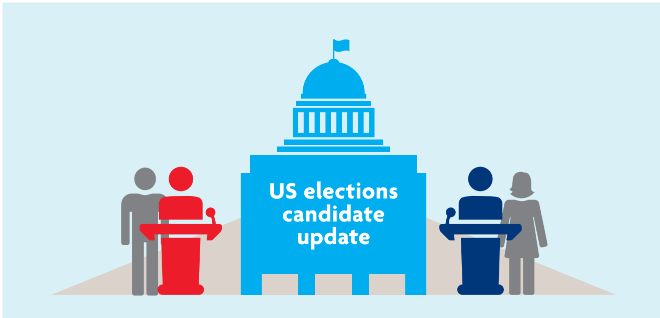
SEPTEMBER 2020

Key events at a glance

Market recap

Huawei, WeChat and TikTok impacted by mounting pressure from Trump

- With the latest directives by President Trump, these leading China technology companies have had their presence and ability to do business in the US and with US companies severely curtailed.
- Chinese companies have already been using third-parties to transact with US firms to circumvent US tariffs and regulations. This latest tightening has further escalated tensions and increased risk aversion in financial markets.



Stage set for the White House race

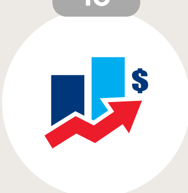
- Democrat presidential candidate Joe Biden has selected senator Kamala Harris as his Vice-President candidate for his campaign for the White House. Although she has an inconsistent policy track record, Harris' nomination increases ethnic minority support for Biden.
- Biden and Harris will be campaigning against incumbent Republican President Trump and Vice President Pence, who are fighting for a second term in office.
- Market volatility is expected as markets weigh the policy implications of the Democrats winning the presidential elections.

A look at this month

SEP 10

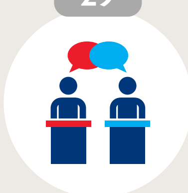
European Central Bank (ECB) Meeting
The ECB is expected to continue its loose monetary policy.

SEP 16



US FOMC Meeting
The Fed is expected to reiterate its average inflation targeting policy and update its GDP forecasts.

SEP 29



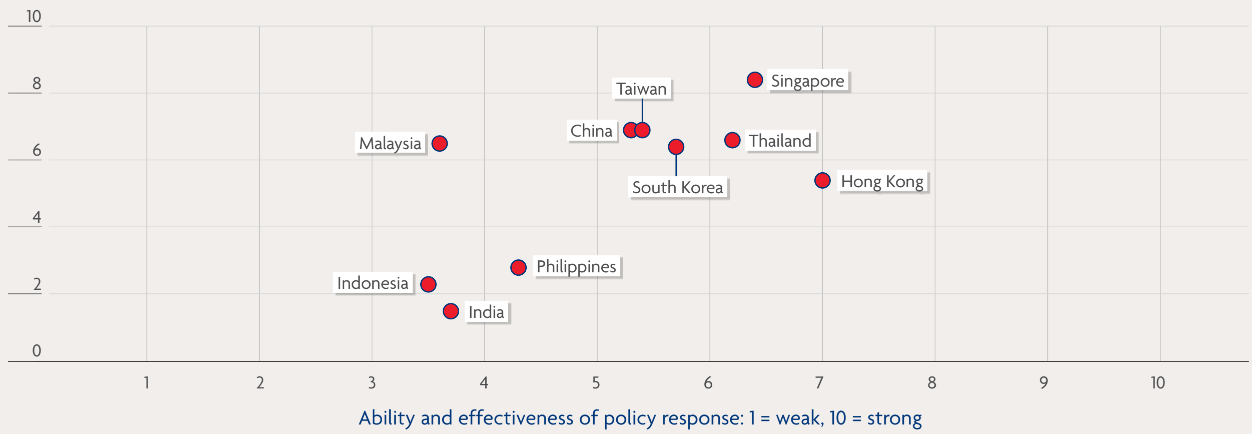
First US Presidential Debate
This is scheduled to take place in Cleveland, Ohio.

Topic 1:

Asia ex-Japan economies perform well in terms of risk and policy response

Asia ex-Japan economies continue to score and rank well – this helps to support their stock market outperformance.

Impact of COVID-19 on Asia ex-Japan economies



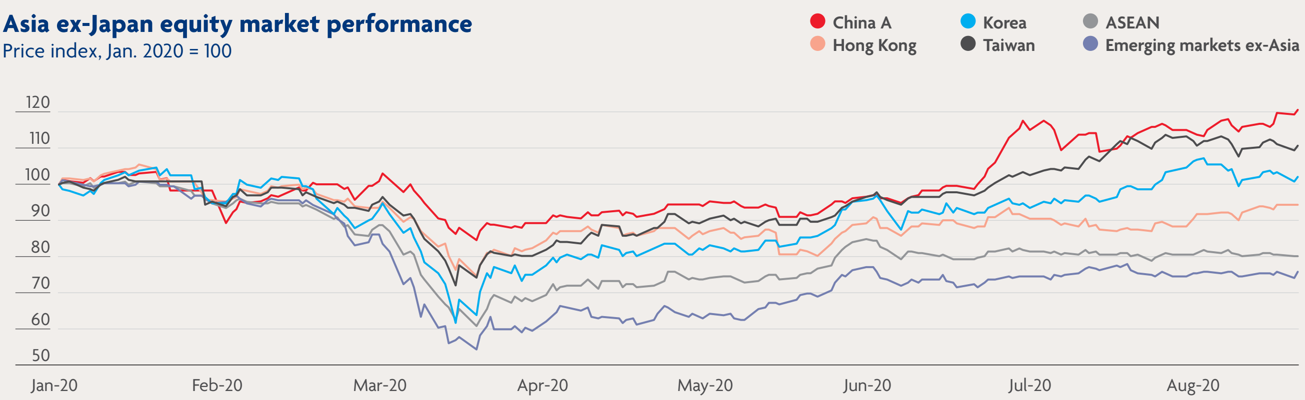
Source: FactSet, International Monetary Fund, Johns Hopkins University, Our World in Data, various central banks, J.P. Morgan Asset Management. Data as at 1 September 2020.

When Asia ex-Japan economies were ranked based on each country's risk (e.g. recent infection trends) and policy response (e.g. fiscal policy) to the COVID-19 pandemic, economies such as – China, Hong Kong, Taiwan, South Korea – on average, continued to score relatively well.

China's performance in this aspect bodes well for Asia's outlook given China's economic scale and influence in the region.

Asia ex-Japan equity market performance

Price index, Jan. 2020 = 100



Source: China Securities Index, MSCI, J.P. Morgan Asset Management. Indices are represented by MSCI indices, except China A (CSI 300). Data as at 1 September 2020.

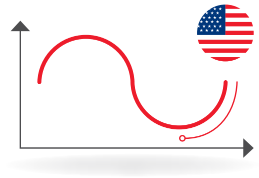
Views & Implications:

- The Asia ex-Japan COVID-19 tracker shows that many Asian economies are relatively well positioned amid the current COVID-19 pandemic, and we see this being reflected in their year-to-date equity market performance.
- This reinforces our preference for Asia ex-Japan equity markets, especially China equities, over EM ex-Asia equities.

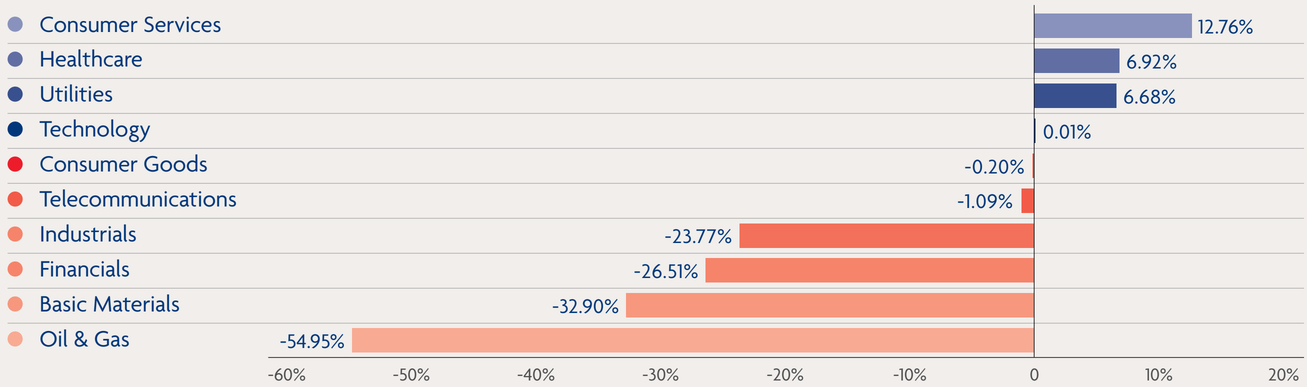
Topic 2:

2Q2020 earnings likely to be the bottom of the earnings cycle

Many S&P 500 companies have reported negative earnings in 2Q2020. Cyclical sectors such as oil and gas, and basic materials reported weak earnings numbers, while defensive sectors like Healthcare and Technology delivered a relatively stronger set of numbers.



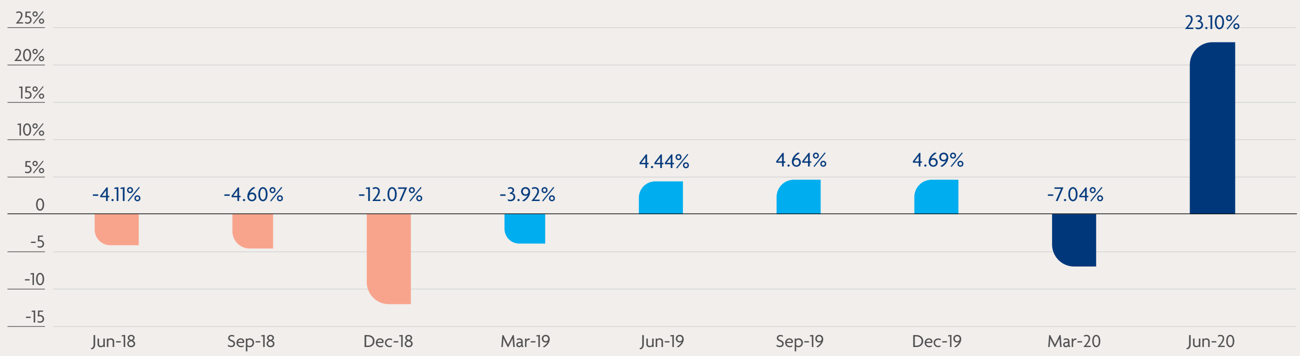
S&P 500 sector 2Q2020 Earnings Per Share growth
Year-over-year



Source: Bloomberg L.P. Finance, J.P. Morgan Asset Management. Data as at 1 September 2020.

However, four out of five S&P 500 companies have reported results that exceeded their 2Q2020 earnings per share estimates. As a whole, companies have reported the highest levels of earnings surprise – figures that are drastically different from estimates – (23.1%) on aggregate. This is attributed to the pessimistic analyst projections prior to the earnings season.

S&P 500 2Q2020 earnings surprise



Source: Bloomberg L.P. Finance, J.P. Morgan Asset Management. Data as at 1 September 2020.

Views & Implications:

- Strong 2Q2020 earnings have helped to propel US equity indices to record highs in August.
- If 2Q2020 earnings signaled the bottom of the US earnings cycle, then earnings will likely be a smaller headwind to US equity returns going forward.
- With corporate earnings looking more optimistic, investors can consider allocating more to sectors such as Healthcare, which have long-term growth drivers and more attractive valuations, and less to sectors such as Technology, which have done well but are expensive in terms of valuation.

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