In collaboration with: J.P.Morgan Asset Management

UOB

## UOB Investment Insights
# Market PowerBar

**SEPTEMBER 2021**

## A look at this month

| KEY DEVELOPMENTS | What to expect | What this means for investors |
| --- | --- | --- |
| **US Federal Reserve (Fed) signalled taper at Jackson Hole Symposium** | US economic recovery may lead to a rebound in bond yields. Initial spike in yields may lead to volatile markets but equities will remain favourable. | Investors can manage duration risk and ride on opportunities:<br>• Consider short-duration bonds.<br>• Consider cyclical sectors such as Financials and Consumer Discretionary equities to participate in economic rebound. |
| **Intergovernmental Panel on Climate Change (IPCC) urges action on climate change** | Government and corporate initiatives will increasingly focus on reducing carbon emissions. | Invest in companies that do well in incorporating Environmental, Social and Governance (ESG) factors to grow their business. |
| **Chinese government issues long-term blue print to enforce regulation across economy** | Chinese regulations will continue to be fine-tuned to achieve political goals. This will affect the economy in the short term, but yields long-term benefits. | Chinese companies are adjusting to policy changes and will eventually emerge to be aligned with political priorities. |
| **UPCOMING EVENT** | | |
| SEPT 22<br>**September US FOMC Meeting** | The Fed is expected to provide cues on its asset tapering timeline and update on its economic and inflation forecasts. | Be prepared for market volatility as markets look for more clarity in the Fed's taper schedule. |

## Topics at a glance

**A greater urgency in sustainability**

- IPCC report puts increasing pressure on policymakers and corporations to reduce carbon emissions.
- More investment opportunities will emerge for investors investing in Sustainability.

**Raising the quality of China's growth**

New policy focused on social responsibility and national security to lay foundation for long-term goals.

**Recovery drives US Value-Cyclical Equities**

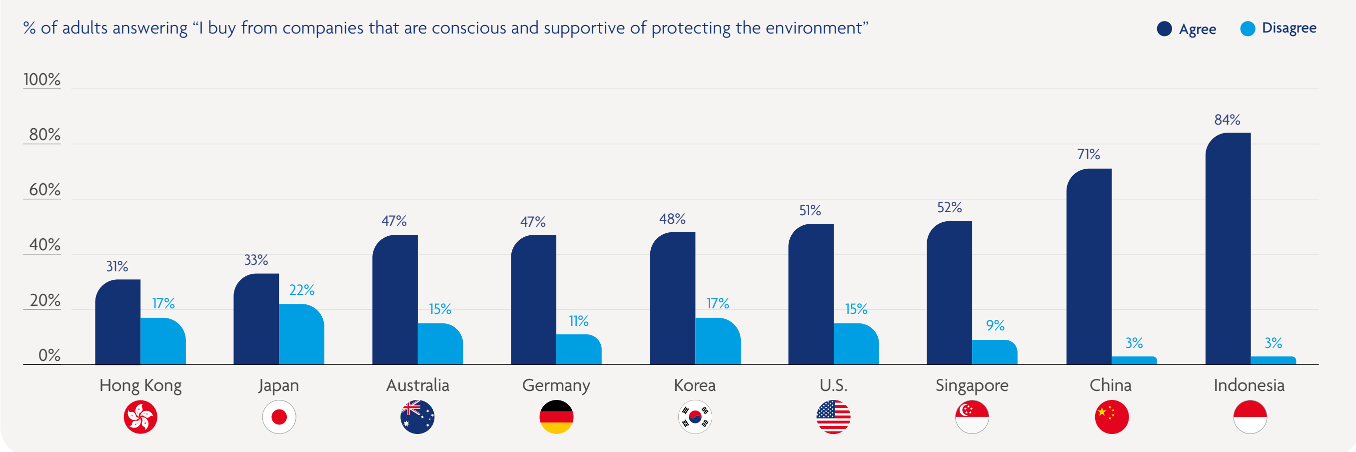
As economic recovery continues, broad US equities will be supported by robust earnings growth, but Financials and Consumer Discretionary equities will benefit more from cyclical recovery and improving consumer spending.

Speak to your UOB Advisor today to explore opportunities on how you can better position your investment portfolio.

# A Greater Urgency in Sustainability

**The Intergovernmental Panel on Climate Change (IPCC) has recently released a report warning of a "code red for humanity" due to human-influenced climate change. The call for urgent action to avert catastrophe from extreme weather has renewed attention on driving this through Sustainable Investing.**

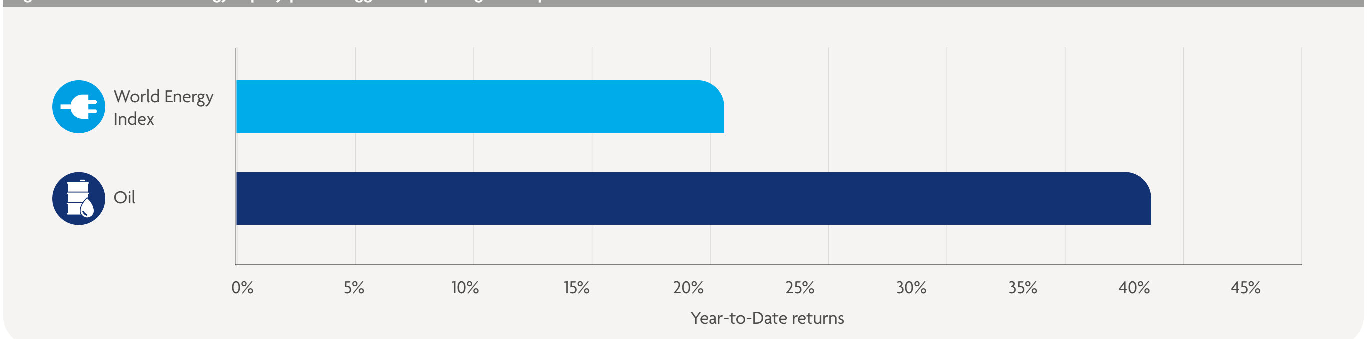
**Figure 1A: Consumers weighed towards supporting environmental-conscious companies.**




**Source:** FactSet, U.S. Federal Reserve, J.P. Morgan Asset Management. Data reflect most recently available as of 16 July 2021.

- Sustainable Investing – where investors incorporate environmental, social and governance (ESG) factors into investment decisions – has become increasingly popular. If the world is facing environmental catastrophe, society at large is more likely to invest in sectors or businesses that will champion environmental conservation – and even pay more to invest in these areas – rather than continuing to invest in companies which contribute to these problems (Figure 1A).
- A more obvious example of the increased awareness is found in the energy industry. The use of greenhouse gas emitting fossil fuels is coming under scrutiny against more sustainable methods. Energy share prices are starting to lag behind crude oil prices as they are seen as being too reliant on unfavoured commodities like fossil fuels (Figure 1B).

**Figure 1B: Traditional energy equity prices lagged despite higher oil prices.**




**Source:** FactSet, J.P. Morgan Asset Management (as at 26 August 2021).

### Views & Implications:

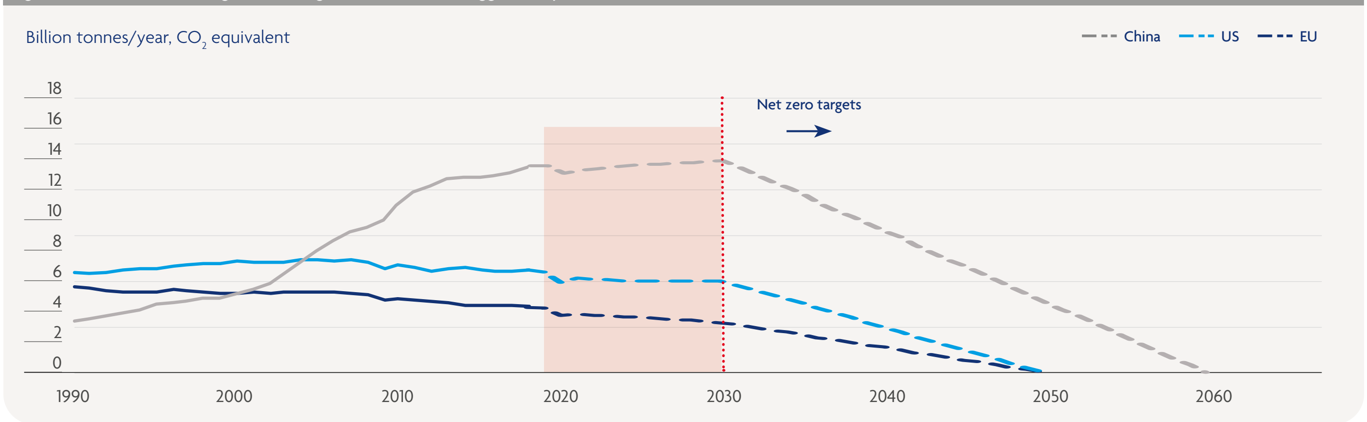
- The focus on sustainable factors will only increase and gain more influence on company performance, investors' interest and government stance in enforcing stricter regulations. Sectors and businesses that manage issues such as carbon emissions, employee well-being, safety and corporate governance poorly may underperform compared to others that manage them better.

Topic 2:

# Raising the Quality of China's Growth

**China is also heavily involved in the importance of sustainability standards locally. As one of the largest countries in the world in both terms of economic and population size, China's impact in this area is significant. Commitment is key to the future development of sustainable investment and a major driver of trends.**

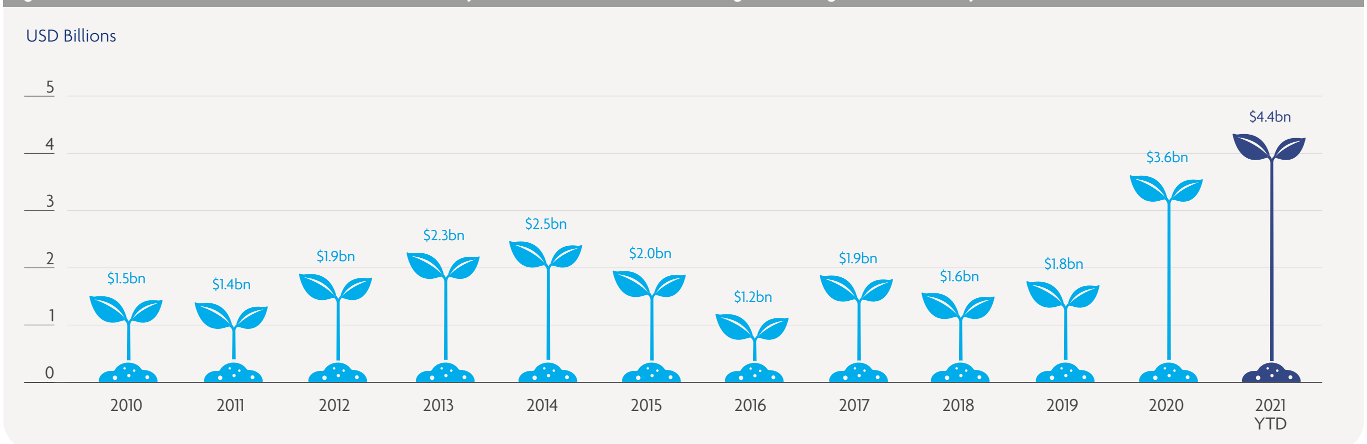
Figure 2A: China will lower greenhouse gas emissions more aggressively from 2030 onwards.




**Source:** Climate Action Tracker, J.P. Morgan Asset Management. Current policy forecast is the post-Covid forecast provided by Climate Action Tracker.

- The country's aim for carbon neutrality in 2060 is relatively ambitious. Unlike most other developed countries, China does not immediately plan to cut emissions, but will embark on an aggressive path toward its net-zero pledge after 2030 (Figure 2A). The Chinese government has already proposed carbon reduction measures through carbon taxes and an emission trading scheme.
- China has seen a big regulatory push over the last few weeks targeting both environmental and social issues. Cybersecurity, privacy and working hours, are a few areas where companies will now need to show that they are tackling to assuage investors and the government.

Figure 2B: Interest in Greater China-domiciled Sustainability-themed fund assets under management has grown considerably since 2020.




**Source:** Morningstar, J.P. Morgan Asset Management.

### Views & Implications:

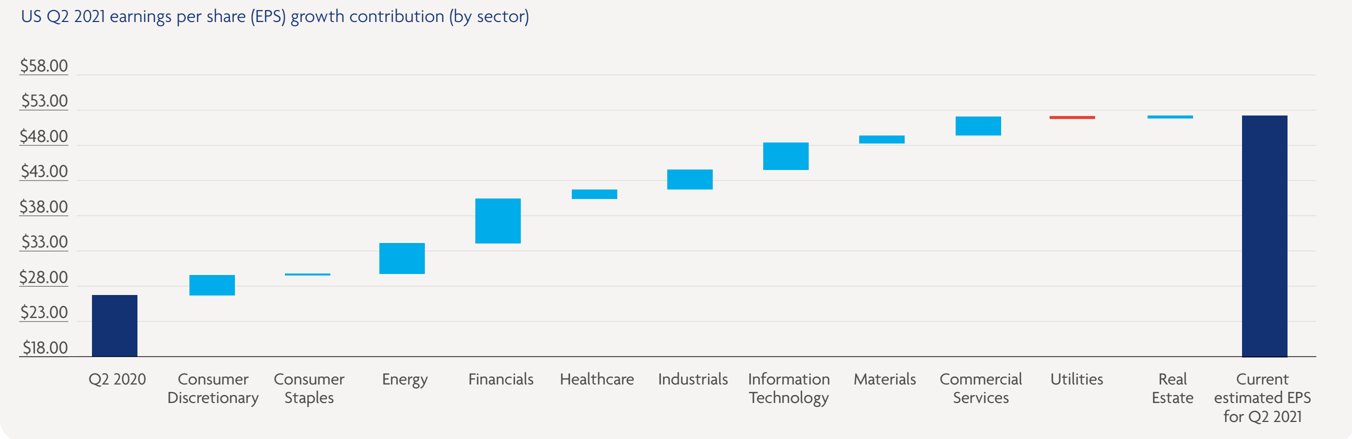
- China's Sustainability focus and shift away from fossil fuels make renewable energy look interesting in the medium and long term. Businesses involved in wind power, solar power and new energy infrastructure are possible beneficiaries.
- Regulatory tightening will promote better-quality economic growth in China and encourage investors to focus more on companies that embrace Sustainability, which will attract further interest in Sustainability-themed assets (Figure 2B).

Topic 3:

# Recovery Drives US Value-Cyclical Equities

**The more contagious Delta variant is causing a surge in virus cases in the US, but its economy is keeping itself on the steady path of recovery. Even market sentiment appears to have been impacted minimally from recent mixed data releases. The outlook for US equities remains favourable given supportive fiscal and monetary policy, along with strong earnings results.**

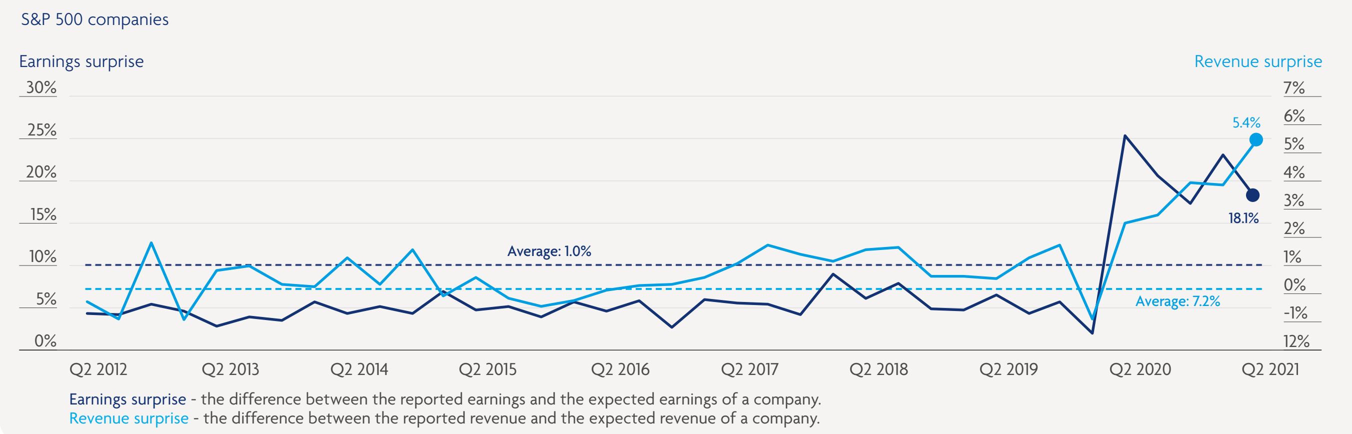
**Figure 3A: All except one US equity sectors have contributed positive growth over the past year.**




**Source:** FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management.

- Fiscal stimulus will continue to fuel consumer demand. President Biden's infrastructure bill is only a part of the overall contribution to demand. Support also comes from improving consumer borrowing. The Fed is aware that the current level of monetary stimulus is inappropriate and guidance on the timetable to taper and hike interest rates over the coming months will be expected.
- US earnings remain resilient with Q2 2021's impressive results (Figures 3A and 3B). The strong results are partially due to a low comparison from last year's poor results during the COVID-19 lockdowns. Going forward, we expect earnings growth to slow down, but not to stall.

**Figure 3B: US companies have beaten revenue and earnings expectations even after a strong recovery was expected.**




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

### Views & Implications:

- The most recent earnings season has been impressive and solid profit growth should help support US equity prices and current valuation levels.
- The economic recovery – driven by fiscal stimulus and improving consumer spending – is likely to boost performance of value-cyclical sectors like Financials and Consumer Discretionary equities.

銀行 大華

RIGHT BY YOU