In collaboration with: J.P.Morgan ASSET MANAGEMENT

UOB

UOB Investment Insights

Market PowerBar

SEPTEMBER 2022

A LOOK AT THIS MONTH

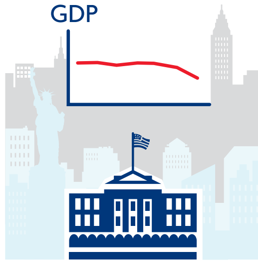
Key Topics	What investors should know
1 Aggressive central bank policies to fight high inflation have created challenges for global markets and investors.	**Investing for income can help investors withstand the volatile environment.** ▶ Historically, income-generating assets have delivered positive returns when growth was slowing and inflation was high. ▶ Investors seeking shelter in income assets can get compensated as they wait for uncertainty to subside.
2 Government bond yields have probably peaked, which means markets expect interest rates to taper off as the growth outlook continues to dim.	**Build resilient income portfolios with quality bonds.** ▶ Investment grade (IG) bonds are a defensive asset class investors should consider during an economic slowdown. ▶ Yields across quality corporate bonds look attractive at current levels, given that their credit fundamentals are resilient despite a weaker macroeconomic outlook.
3 During the late stages of the economic growth cycle, investing for income and staying defensive is a good option.	**Enhance your income returns by diversifying into dividend-yielding stocks.** ▶ Dividends offer an additional stream of income, adding to your total returns. ▶ Asia has a large number of quality high-dividend stocks currently trading at attractive valuations. Investors with the appropriate risk appetite can take advantage of sell-offs to buy into high-quality companies.

Upcoming Event	
SEP 20-21 US Federal Reserve (Fed) Meeting	Look out for any changes on the Fed's rate hike trajectory and updates on its economic and inflation forecasts.

Speak to your UOB Advisor today to find out more.

Topic 1:

Investing for income can help investors withstand the volatile environment

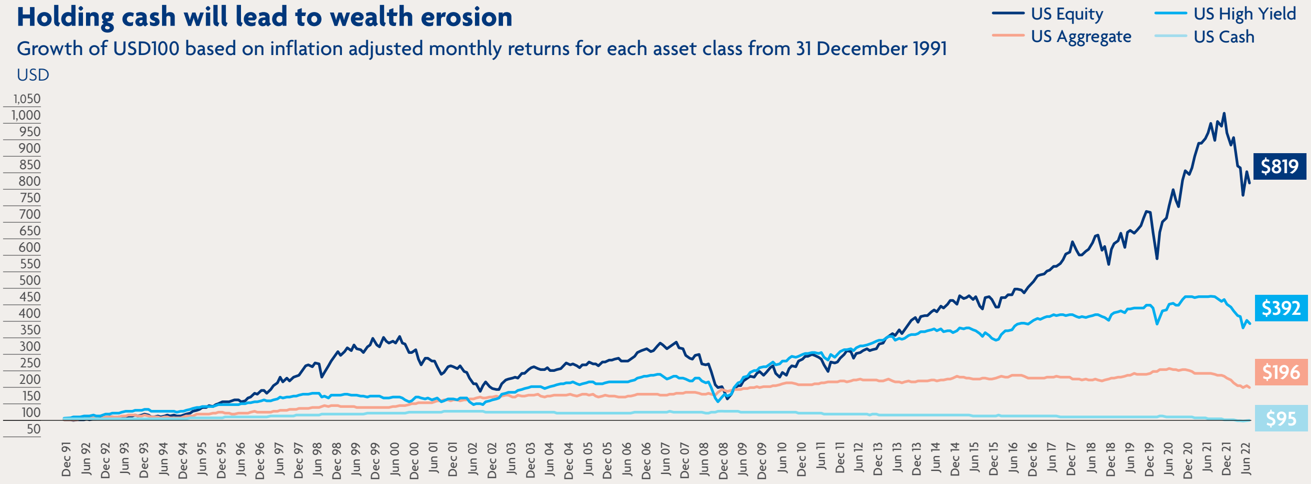


Inflation has been the buzzword of 2022. It has created a series of challenges for global markets, with central banks in many developed markets hiking interest rates aggressively to fight soaring prices. The US Federal Reserve (Fed) was one of the early movers. We have started to see the higher rates affect growth, as the US economy has now contracted for two consecutive quarters.

Figure 1A:

Holding cash will lead to wealth erosion

Growth of USD100 based on inflation adjusted monthly returns for each asset class from 31 December 1991



Source: Bloomberg.
Data reflect most recently available as of 31 August 2022.

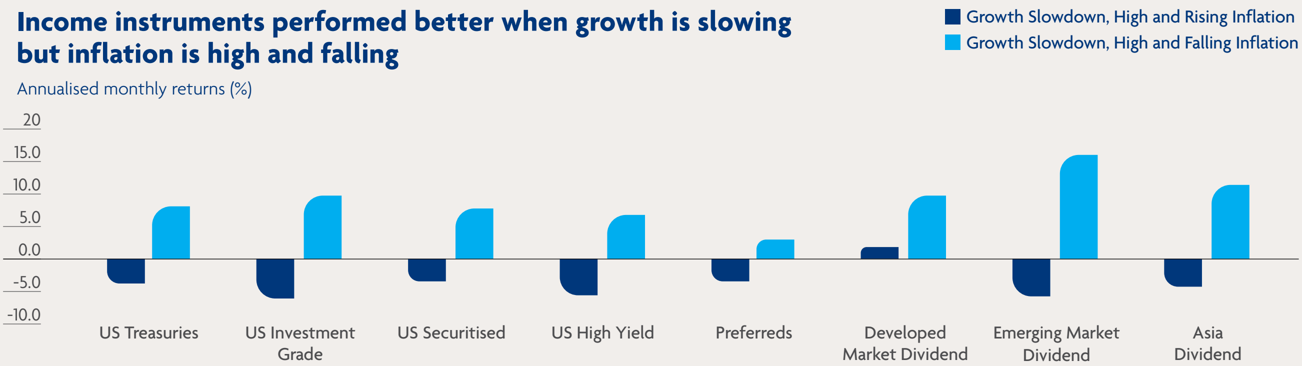
Key takeaways

1. Markets heaved a sigh of relief at the US Consumer Price Index (CPI) data for July, which seemed to suggest that overall headline inflation has peaked. However, core inflation, which excludes more volatile components, remains concerning especially with housing rental costs continuing to rise. As the Fed tries to rein in persistent inflation with additional rate hikes, we could see more market volatility if the world's largest economy experiences a further growth slowdown.
2. As it will take time for inflation to moderate from its current high levels, holding cash will result in the value of your money getting eroded. Data shows that cash has historically generated the poorest long-term returns and does not protect investors from inflation. Holders of cash experienced negative long-term returns even with higher cash yields in the 1990s and 2000s (Figure 1A).

Figure 1B:

Income instruments performed better when growth is slowing but inflation is high and falling

Annualised monthly returns (%)



Source: Bloomberg. Annualised monthly returns during time period 31 July 2012 – 29 July 2022 for all assets. Growth slowdown is defined by PMI > 50 but 3-months moving average is falling. High inflation indicates above median US CPI over the time period stated. Median US CPI yoy = 1.7%.

In summary

- A combination of income-generating instruments can be helpful in this environment where growth is slowing and inflation remains high. Various income-generating asset classes across a spectrum of risk levels have historically delivered positive returns in such an environment.
- Investors who receive a regular stream of income are essentially getting compensated as they wait for market uncertainty to subside.

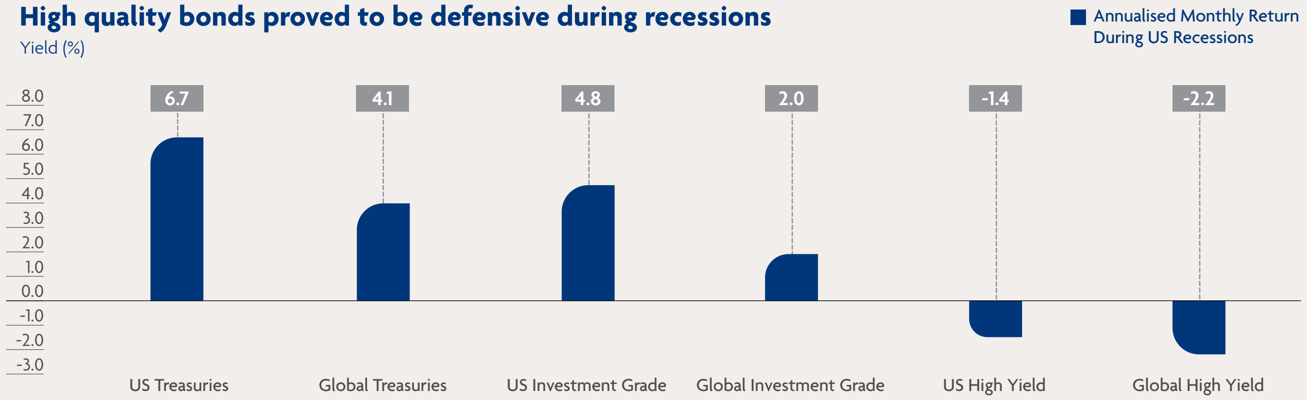
Topic 2:

Build resilient income portfolios with quality bonds

We believe that building resilient income portfolios with high-quality investment grade (IG) bonds is key to navigating this period of slower growth and high inflation.

Figure 2A:

High quality bonds proved to be defensive during recessions



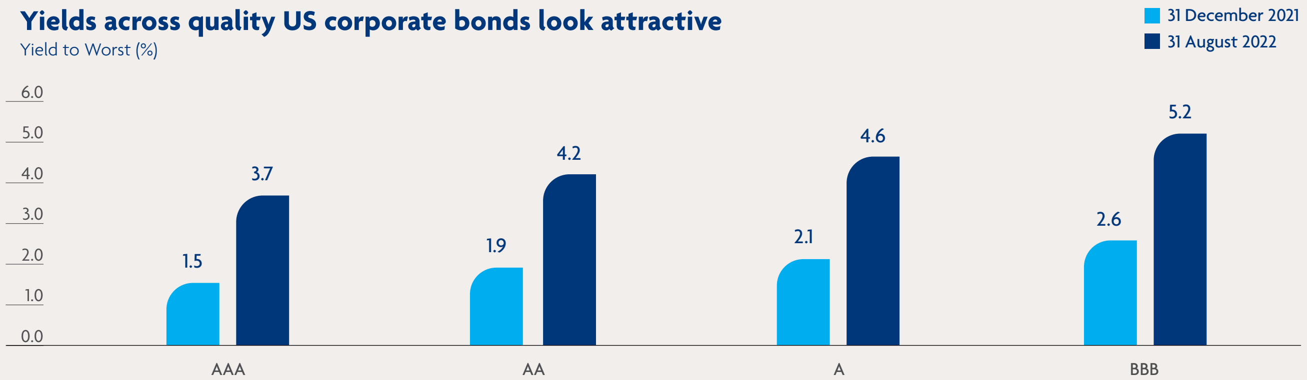
Source: Bloomberg.
Annualised monthly returns during time period: 31 October 2000 - 31 August 2022
US Recession defined by the National Bureau of Economic Research
US Treasuries: Bloomberg US Treasury Index, Global Treasuries: Bloomberg Global Treasury Index, US Investment Grade: Bloomberg US Corporate Index, Global Investment Grade: Bloomberg Global Corporate Index Unhedged USD, US High Yield: Bloomberg US High Yield Index, Global High Yield: Bloomberg Global High Yield Index Unhedged USD

Key takeaways

1. With markets having priced in the Federal Reserve benchmark interest rate reaching 3.5% at the end of 2022, government bond yields have probably peaked. As the economic growth outlook continues to dim, interest rates are likely to taper off and yields will likely return to previous normal levels. Investors should therefore consider adding longer-duration assets to capitalise on the current yield levels.
2. Within corporate bonds, investment grade bonds are our top pick as they have generated positive returns during previous recessions (Figure 2A).

Figure 2B:

Yields across quality US corporate bonds look attractive



Source: Bloomberg. Credit quality breakdown using the Bloomberg US Corporate Index.

In summary

- Among investment grade bonds, we prefer those with intermediate durations (between 3 to 7 years). Yields across quality corporate bonds look attractive at current levels given that their credit fundamentals are resilient despite a weaker macroeconomic outlook. Figure 2B above shows the yields for US bonds, as an illustration.
- The better-than-expected second-quarter earnings season is testament to the strength across US corporates. If headline inflation readings come down, the Fed will have reason to slow the pace of interest rate hikes, and the improved macroeconomic environment will lower overall risk among investment grade bonds, including attractively-valued BBB rated bonds.

Topic 3:

Enhance your income returns by diversifying into dividend-yielding stocks

Slower growth and higher volatility are characteristics of the late stages of the economic growth cycle. At this juncture, investing for income and staying defensive is a good option. Dividend yields from stocks can enhance investors' income returns and diversify their holdings beyond bonds for a more resilient portfolio.

Figure 3A:

Lower volatility and attractive valuations in Asia ex-Japan high dividend index over the last 15 years

(31 July 2007 – 31 August 2022)

	Dividend Yield	Volatility	Current P/E	Average P/E
MSCI World	2.1%	16.0%	18.5	18.6
MSCI World High Dividend	3.7%	13.3%	13.3	14.5
MSCI Asia Pacific ex-Japan	3.1%	20.4%	14.3	15.3
MSCI Asia Pacific ex-Japan High Dividend	**6.6%**	**13.9%**	**7.7**	**11.3**

Source: FactSet, MSCI, J.P. Morgan Asset Management.
Data reflects most recently available as of 31 August 2022.

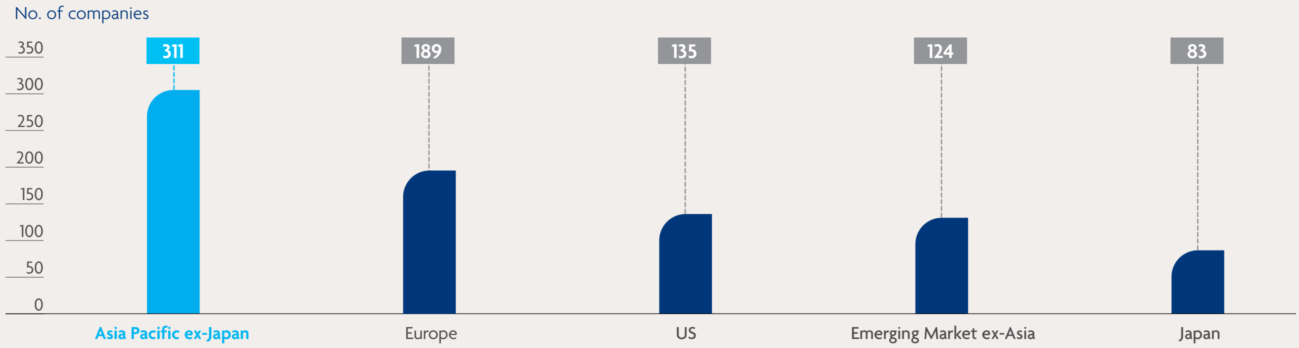
Key takeaways

1. Dividends from stocks are an attractive feature for investors, as they offer an additional stream of dependable income and add to total returns.
2. Over the last 15 years, higher-dividend-yielding stocks have generally been less volatile. While there is no guarantee this will always continue, it is worth noting that the high-dividend subset of the market index (particularly in Asia) has typically experienced less volatility and currently has more attractive valuations than the broader index (Figure 3A).
3. The Asia region presents many attractive dividend opportunities for investors. Compared to other major markets, it has the highest number of companies offering a dividend yield of 3% or more (Figure 3B). Investing into Asia therefore offers a wide range of options to buy into high-dividend companies trading at attractive valuations.

Figure 3B:

Asia has the most companies offering dividend yields higher than 3%

Constituents of MSCI AC World Index



Source: FactSet, MSCI, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – Asia. Data reflect most recently available as of 31 August 2022.

In summary

- With a possible global economic slowdown and more market volatility ahead, generating income returns would help you establish a more defensive position. Stock dividends can contribute to your returns and provide a steady stream of cash when overall market performance might otherwise be challenging.
- An income strategy with quality high-dividend stocks could play an especially useful role in buffering against an economic downturn. Asia, with its large number of high-dividend stocks across several markets in different countries, presents a good avenue for diversification. Those with the appropriate risk appetite can take advantage of sell-offs to buy into high-quality companies.

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