In collaboration with: J.P.Morgan ASSET MANAGEMENT

UOB Investment Insights

Market PowerBar

DECEMBER 2023

A LOOK AT THIS MONTH

Key Topics	What Investors Should Know
1 Low jobless claims show US economy remains resilient	**US labour market has been robust though wage growth is gradually easing.** ▶ The US Federal Reserve (Fed) will keep interest rates unchanged over the coming months before potential rate cuts begin in June 2024. ▶ Once short-term bond yields peak, investors who can take risk can move some cash into quality stocks and defensive sectors like global healthcare.
2 Tech sector outlook favours software companies	**Within the tech sector, software's growth prospects look more resilient than that of hardware, as companies look towards digitalisation and AI to enhance efficiency.** ▶ Tech sector earnings growth estimate for 2024 is among the highest of all sectors, while falling bond yields can support tech stocks. ▶ Be selective as global economy is slowing and prioritise large-cap companies with steady revenue streams. Avoid concentration risks and maintain a well-diversified portfolio.
3 Asia's consumers will be a bright spot	**Asia's economic growth driver is slowly evolving away from exports to domestic consumption.** ▶ Retail sales volume across Asia has surpassed pre-pandemic levels and resilient consumption will support regional growth. ▶ Defensive sectors like consumer staples in Asia as well as dividend stocks should provide relative stability and income.
Upcoming Event	
DEC 12 - 13 **Federal Open Market Committee (FOMC) policy meeting**	The US Federal Reserve (Fed) is widely expected to keep interest rates unchanged. The Fed's updated rate projections will be closely watched.

Speak to your UOB Advisor today to find out more.

Topic 1

Low jobless claims show US economy remains resilient

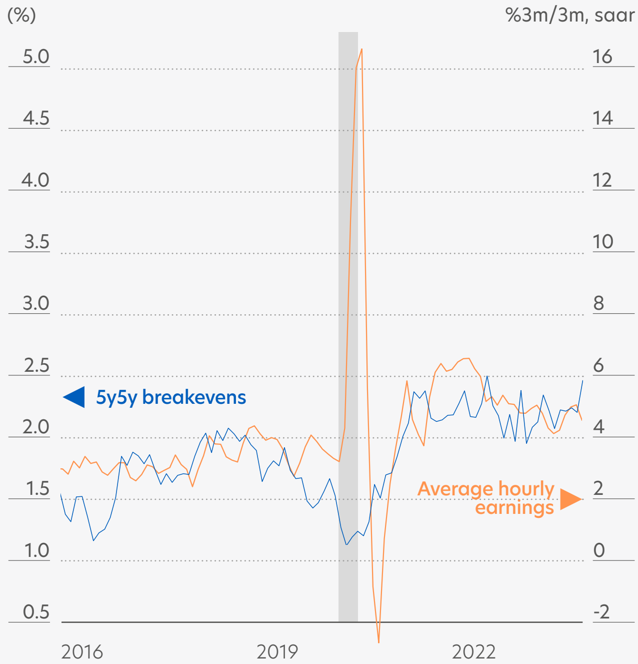
Unemployment is a closely monitored gauge of the health of the US economy.

1. Inflation as well as inflation expectations in the US will continue to influence the US Federal Reserve's (Fed) policy decisions. While goods inflation has come down in recent months, inflation in the services sector has been more persistent.
2. A strong labour market leads to higher salaries and higher spending, ultimately resulting in demand-led inflationary pressures (Figure 1A). This makes the jobs market a useful guide to why prices of goods and services go up.
3. A leading employment indicator is weekly initial jobless claims, which represent the number of workers applying for unemployment insurance benefits after losing their jobs.
4. Jobless claims typically surge during recessions (Figure 1B). The current low levels of jobless claims indicate that the US economy remains resilient. There is however a lag between changes in monetary policy and the corresponding economic impact as consumers and companies take time to adjust behaviour.
5. We are already seeing signs that wage growth is gradually easing, which will continue as the US economy slows next year. Our view is the Fed will keep interest rates unchanged from here with the possibility of a rate cut starting in June 2024. History shows that once short-term bond yields peak, investors who can take risk should move some cash into riskier assets. When this happens, you can focus on quality growth stocks, quality dividend-paying stocks and defensive sectors like global healthcare.

Figure 1A

Strong wage growth leads to higher inflation expectations

US wage growth and 5y5y inflation expectation rate[1]



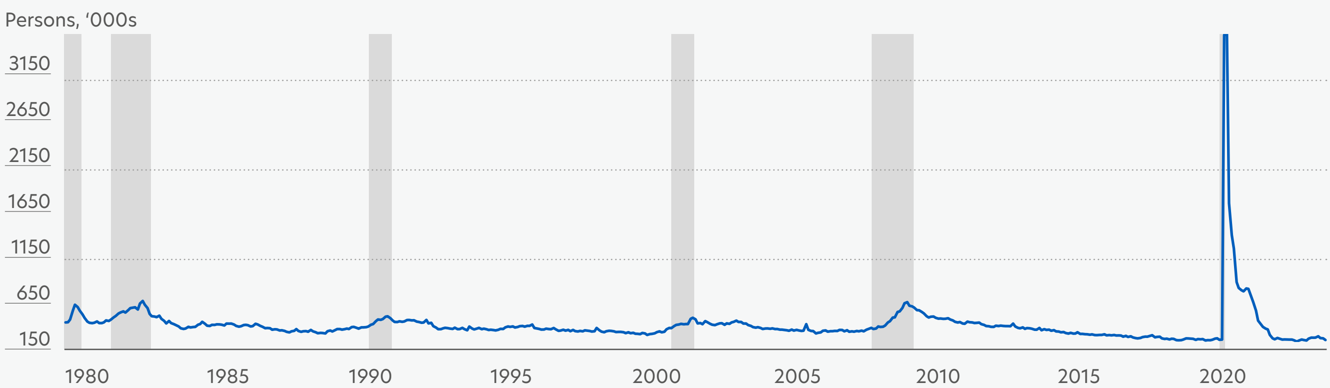
[1] 5y5y forward inflation expectation measures the expected average inflation rate over the five-year period that begins five years from now.

Source: Federal Reserve Board, BLS. Shaded region denotes recession period.

Figure 1B

Initial jobless claims show US is not yet in recession

US jobless claims 4-week moving average



Source: BLS. Shaded regions denote recessionary periods

Topic 2

Tech sector outlook favours software companies

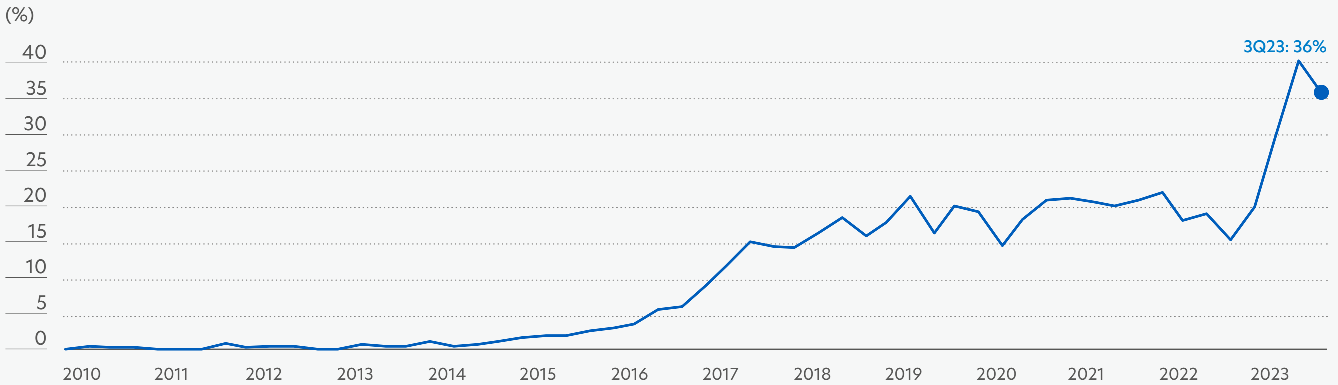
The US information technology (IT) sector continues to attract attention given excitement over the transformative impact of artificial intelligence (AI). US tech companies had another positive quarter of earnings growth in 3Q 2023.

1. There are contrasting prospects within the IT sector. Software's growth prospects continue to be more resilient than that of hardware. For software, demand remains high even amid rising prices, as companies look toward digitalisation and AI to enhance efficiency and reduce costs. Furthermore, demand for cloud and AI-related services remains strong. Companies are clearly focused on the benefits of AI, as seen by the sharp jump in the number of companies mentioning AI during their earnings calls (Figure 2A).
2. In contrast, hardware is more vulnerable to a weaker growth environment where companies become reluctant to upgrade physical systems and consumers spend less.
3. Despite AI exuberance, we do not believe the outperformance of AI-related stocks constitutes a "bubble" given the technology's potential transformative impact on society. Looking at the IT sector as a whole, its year-on-year operating EPS growth estimate for 2024 is among the highest of all sectors (Figure 2B). If bond yields continue to fall, both these factors can help support tech stocks.
4. Nonetheless, the global economy remains in the slowdown phase so be selective and prioritise large-cap names with steady revenue streams. Most importantly, avoid concentration risks and maintain a well-diversified portfolio.

Figure 2A

Companies are focusing on AI benefits

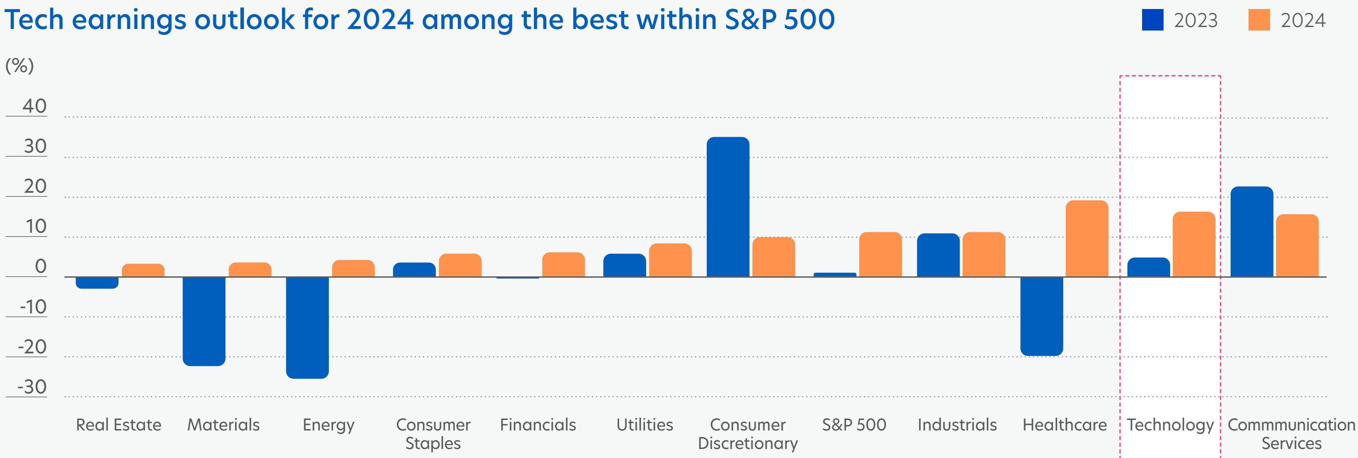
Share of S&P 500 companies mentioning AI in earnings calls



Source: J.P. Morgan Asset Management. Mentions of AI include the keywords: artificial intelligence (AI), deep learning, machine learning, chatbots and natural language processing. Data are quarter-to-date for 3Q23 as of November 1, 2023.

Figure 2B

Tech earnings outlook for 2024 among the best within S&P 500



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

Topic 3

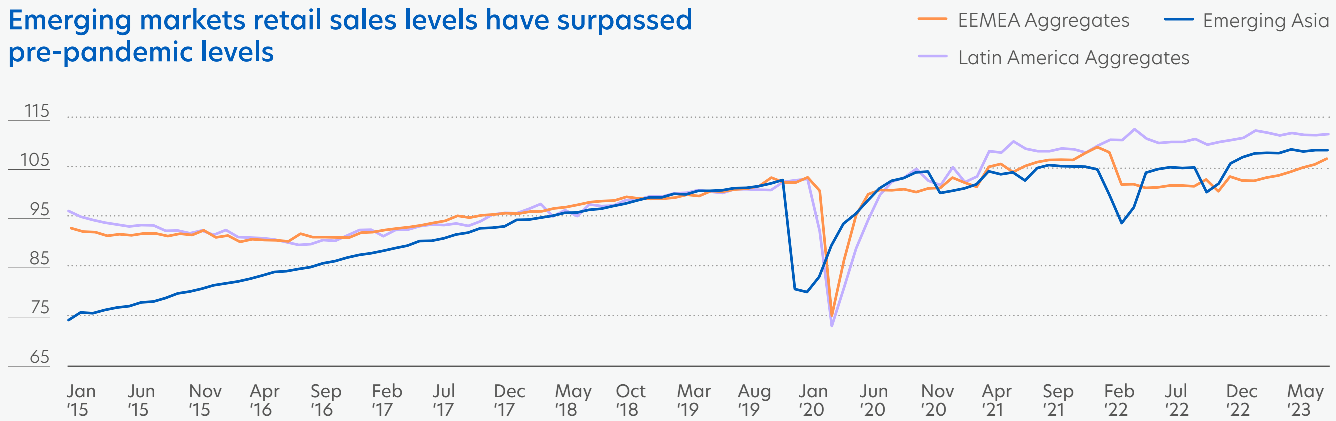
Asia's consumers will be a bright spot

Higher-for-longer interest rates also apply to Asia. While high interest rates can put Asian economies under pressure, resilient consumption will continue to be a bright spot supporting regional growth.

1. Asian central banks may have to follow central banks in larger economies like the US in keeping rates higher for longer not only to combat inflation, but also to support local currencies and prevent disorderly capital outflows. Asia has also been affected by China's sluggish economy. Trade numbers out of Asia were disappointing in 2023 but there is hope that trade is bottoming out.
2. Nonetheless, we think Asia's economic growth drivers and corporate earnings are slowly evolving away from exports and moving towards the region's own consumers. Retail sales in Asia and other EM regions have surpassed pre-pandemic levels (Figure 3A). As domestic consumption remains a bright spot, Asia has positive growth momentum going into 2024.
3. While US economic growth has been resilient, we expect growth activity to weaken ahead, more so than in Asia. This means that Asia's economic growth will outperform that of the US and other major economies, which historically corresponds to stronger relative performance for Asian stocks compared to developed market peers (Figure 3B).
4. As a result, we prefer Asian stocks. With an economic slowdown still expected ahead while interest rates stay high, defensive sectors like consumer staples, along with dividend stocks, should provide relative stability and income for investors.

Figure 3A

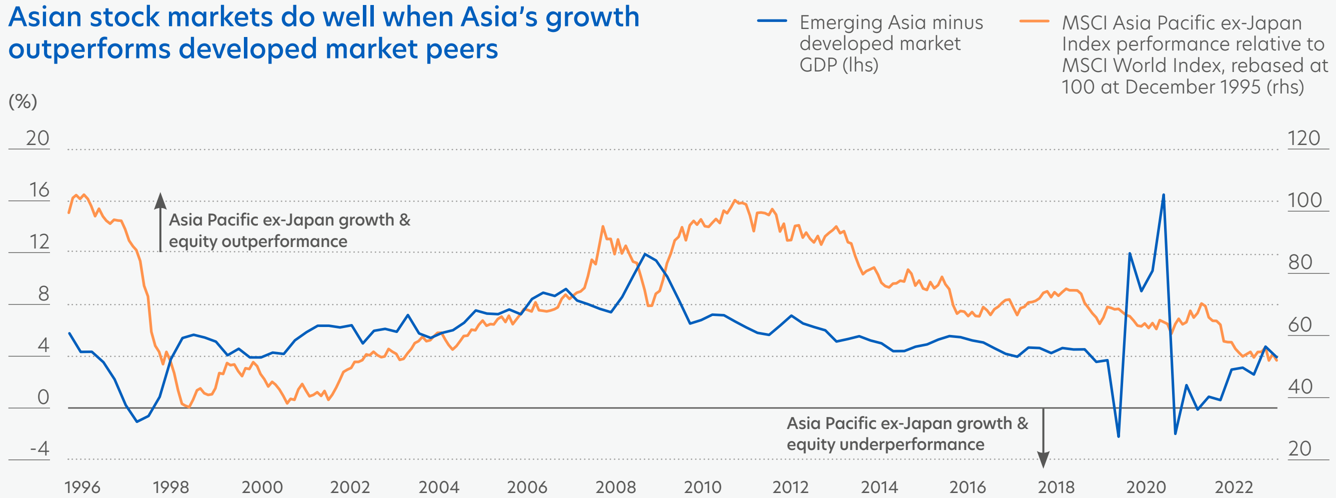
Emerging markets retail sales levels have surpassed pre-pandemic levels



Source: FactSet, US Federal Reserve. Emerging markets retail sales levels were indexed to 100 at 2019.

Figure 3B

Asian stock markets do well when Asia's growth outperforms developed market peers



Source: FactSet, MSCI, J.P. Morgan Economics.

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