UOB

In collaboration with:

J.P.Morgan ASSET MANAGEMENT

UOB Investment Insights

Market PowerBar

SEPTEMBER 2023

A LOOK AT THIS MONTH

Key Topics	What Investors Should Know
1 The United States economy delivered upside surprises in 2Q	**After a string of surprisingly upbeat economic data reflecting resilient consumer sentiment and an improving business outlook, expectations of a soft landing are increasing.** ▶ However, there is still a risk that the US economy may weaken further if interest rates remain higher for longer. ▶ Investors should be prudent and remain diversified across different asset classes to prepare for a range of possible outcomes.
2 Take a closer look at income investing	**Income-generating investments remain important in this environment, providing income streams even when the market is volatile.** ▶ Investors without clear market conviction and those unwilling to take on high risk may prefer investments offering consistent income and cash flow. ▶ Historically, high-quality dividend stocks have outperformed other asset classes during times of high but falling US inflation.
3 Time in the market beats timing the market	**Investing can be challenging with conflicting signals, economic data and market views pointing in different directions at any given time.** ▶ Market volatility can trigger confusion, inaction or even panic, leading to investors taking their eyes off the broader picture and overlooking prevailing market opportunities. ▶ Investors should avoid timing the market and jumping in and out based on emotions. Staying invested leads to more stable returns and is a better way to meet long-term financial goals.

Upcoming Event	
SEP 19-20 **Federal Open Market Committee (FOMC) policy meeting**	Keep an eye on whether the Federal Reserve (Fed) holds interest rates at the current level. The Fed's updated rate projections will also be important.

Topic 1

The United States economy delivered upside surprises in 2Q

After a string of surprisingly upbeat economic data (Figure 1A) reflecting resilient consumer sentiment and an improving business outlook, recession fears are gradually subsiding and expectations of a soft landing are increasing.

1. Despite growth concerns in the US, the 2Q earnings season has surpassed expectations. As of 31 August, 71% of the companies in the S&P 500 index have outperformed earnings projections, the highest number in four quarters. This is partly due to the market lowering earnings projections based on prior concerns that the economy is gradually slowing, therefore setting the bar lower this time for earnings. It is interesting to note that a smaller number of firms have exceeded revenue expectations compared to the previous quarter (Figure 1B). What this also suggests is that companies are doing a better job in controlling costs as inflationary pressures ease.

2. Despite numerous positive factors such as slowing inflation, a potential pause in rate hikes and resilient economic data, it is not guaranteed that the economy will head for a soft landing. There is still a risk that the US economy may weaken further if the US Federal Reserve (Fed) keeps interest rates higher for longer. This is because the economic impact of prior aggressive rate hikes may not have materialised yet and may only be apparent over the coming months.

3. With the elevated valuations of US large-cap stocks (Figure 1C), market sentiment might be overly optimistic, leaving the stock market susceptible to a pullback. Investors should be prudent and remain diversified across different asset classes to prepare for a range of possible outcomes.

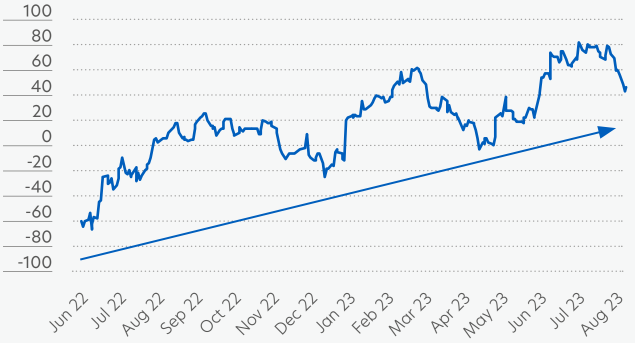
4. Yields have risen, but an increasingly positive outlook has led to a narrowing of corporate credit spreads*. For now, credit spreads for high-yield corporate bonds do not indicate an imminent recession, although we need to be mindful that defaults may rise ahead. Comparing current stock and bond valuations (Figure 1C), high-quality bonds such as Treasuries and US investment grade bonds, which currently have lower valuations, can be expected to fall less and provide a buffer against increased market volatility should economic growth slow further.

*Credit spread refers to the difference in yields between a higher-risk bond and a lower-risk bond of similar maturity.

Figure 1A

Economic indicator surprises to the upside

Citi Economic Surprise Index – United States

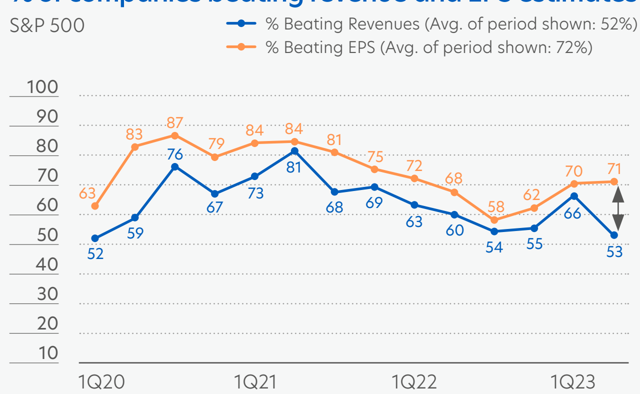


Source: FactSet, J.P. Morgan Asset Management.

Figure 1B

% of companies beating revenue and EPS estimates

S&P 500

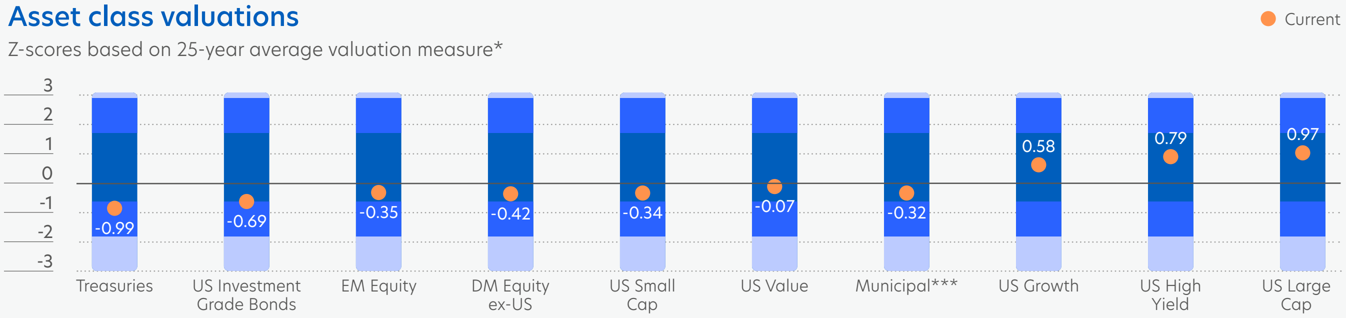


Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Data are as of 1 September 2023.

Figure 1C

Asset class valuations

Z-scores based on 25-year average valuation measure*



*Z-score is a statistical measurement that shows the relationship of a value to the mean of a group of values. It is measured in terms of standard deviations from the mean.

Source: Bloomberg, BLS, CME, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management.
US Large Cap: S&P 500, US Small Cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, US Value: Russell 1000 Value, US Growth: Russell 1000 Growth, US High Yield: J.P. Morgan Domestic High Yield Index, US Core Bond: Bloomberg US Aggregate, Treasuries: Bloomberg US Aggregate Government – Treasury, Munis: Bloomberg Municipal Bond. "Averages for US High Yield and US Small Cap are since January 1999 and November 1998, respectively, due to limited data availability. **Yield-to-worst and spread-to-worst are inversely related to fixed income prices. ***Munis yield-to-worst is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%.

Topic 2

Take a closer look at income investing

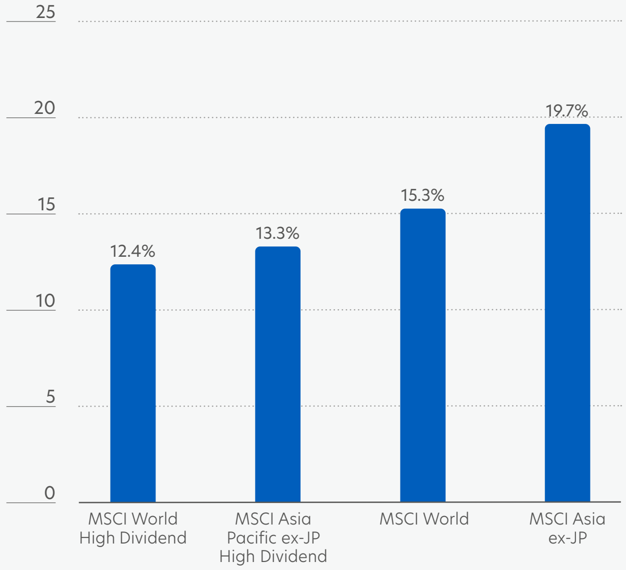
While downside risks are diminishing, it is too early to call for an "all clear" on the US economy. Income-generating investments remain important in this environment, providing income even when the market is volatile.

1. Investors without clear market conviction and those unwilling to take on high risk may prefer investments offering consistent income and cash flow. High-quality bonds and defensive stocks with high dividend payouts can be valuable additions to investment portfolios.
2. Income-generating investments contribute to total return through both price appreciation and yield. If bond and stock prices decline, negative price returns can potentially be offset by the yield from coupons or dividends, helping to support total returns. If bond and stock prices increase, yields from coupons or dividends will add to returns. As such, income-generating investments can serve as a critical buffer for portfolios.
3. More importantly, high-quality dividend stocks are less volatile compared to the broader market (Figure 2A), making them important ingredients in portfolios. Historically, high-quality dividend stocks have typically outperformed other asset classes during times of high but falling US inflation (Figure 2B).
4. Investors would benefit from having secured relatively higher yields if the Fed subsequently signals an end to the hiking cycle. Even if the Fed does not, bonds and dividend stocks can potentially still provide a steady stream of income at the current level.

Figure 2A

High quality dividend stocks typically have lower volatility

Annualised volatility (%), 2000-2023

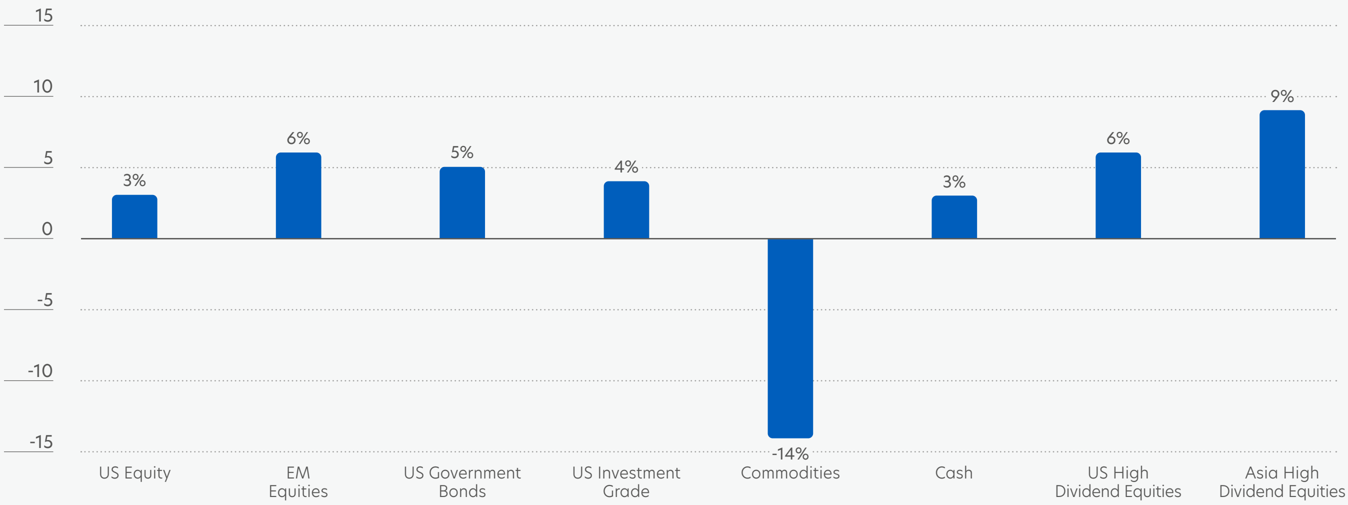


Source: J.P Morgan Economics Research, J.P. Morgan Asset Management.

Figure 2B

Asset class performance during periods of high but falling inflation

(%)



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

Time in the market beats timing the market

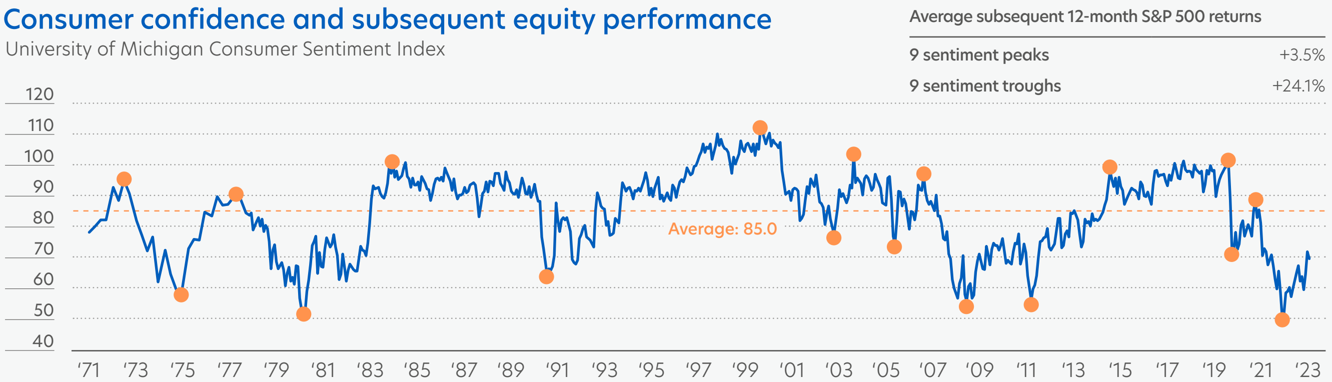
Investing can be challenging with conflicting signals, economic data and market views pointing in different directions at any given time. Although there is rising optimism around a potential soft landing, we are still confronted with high inflation, higher-for-longer interest rates and a slowing economy. This can leave investors uncertain about their investment decisions.

1. Human emotions and biases often drive our investment decisions. Market volatility can trigger confusion, inaction or even panic, leading to investors taking their eyes off the broader picture and overlooking prevailing market opportunities. Hence, it is crucial to maintain discipline and stick to one's investment objectives and goals.
2. History shows that market timing seldom leads to consistent returns. Over the past 50 years, the University of Michigan Consumer Sentiment Index has witnessed nine distinct peaks and troughs (Figure 3A). If investors had bought stocks when the Sentiment Index peaked, they would have seen an average 3.5% return in the subsequent 12 months. If they had invested when the Sentiment Index hit a low, they would have earned 24.1% on average over the following 12 months.
3. As stock market sell-offs are inevitable, historical trends show that investors are less likely to suffer large losses when they invest over longer periods of time and in diversified portfolios. Despite significant fluctuation in one-year stock returns since 1950 (from +47% to -39%), a diversified blend of stocks and bonds has not incurred negative returns over any five-year rolling period in the past 65 years (Figure 3B).
4. This shows that investors should avoid timing the market and jumping in and out based on emotions. Staying invested leads to more stable returns and is a better way to meet long-term financial goals.

Figure 3A

Consumer confidence and subsequent equity performance

University of Michigan Consumer Sentiment Index

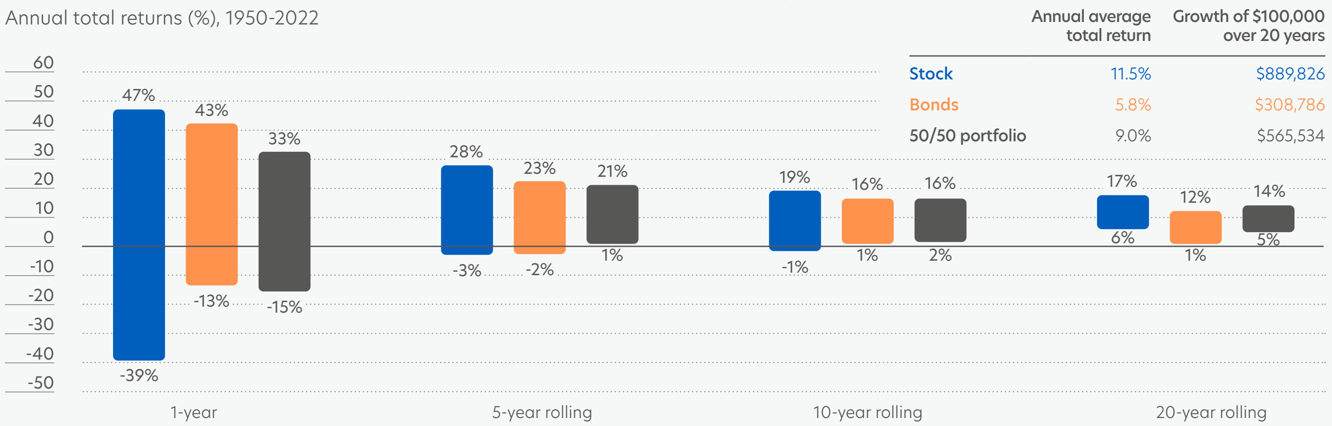


Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.

Figure 3B

Performance range over a period of 1-year to 20-year rolling the past 65 years

Annual total returns (%), 1950-2022



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

Right By You

IMPORTANT NOTICE AND DISCLAIMERS:

The information contained in this publication is given on a general basis without obligation and is strictly for information purposes only. This publication is not intended to be, and should not be regarded as, an offer, recommendation, solicitation or advice to buy or sell any investment or insurance product and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose. Any description of investment or insurance products, if any, is qualified in its entirety by the terms and conditions of the investment or insurance product and if applicable, the prospectus or constituting document of the investment or insurance product. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. If in doubt, you should consult your own professional advisers about issues discussed herein.

The information contained in this publication, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of the publication, all of which are subject to change at any time without notice. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank (Malaysia) Bhd ("UOB Malaysia") and its employees make no representation or warranty of any kind, express, implied or statutory, and shall not be responsible or liable for its completeness or accuracy. As such, UOB Malaysia and its employees accept no liability for any error, inaccuracy, omission or any consequence or any loss/damage howsoever suffered by any person, arising from any reliance by any person on the views expressed or information contained in this publication.

Any opinions, projections and other forward looking statements contained in this publication regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. Investors may wish to seek advice from an independent financial advisor before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider whether the investment or insurance product in question is suitable for you.

This material issued by United Overseas Bank (Malaysia) Bhd may be based in full or part on information sourced from J.P. Morgan Asset Management and may not represent views of the source in its entirety. Such information is educational in nature, should not be construed as research or advice and is not tailored for any specific recipient's objectives.