UOB

2H 2023 Market Outlook

Forging Resilience:
Strength in Demanding Conditions

Right By You

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Investment Strategy
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Opening Note

Ronnie Lim
Managing Director & Country Head
Personal Financial Services

The first half of 2023 presented a combination of expected outcomes as well as unexpected events.

As anticipated, headline inflation worldwide has been gradually easing, although core inflation remains persistent. The global economy is also experiencing a slowdown. As such, there is a likelihood that the global monetary policy tightening cycle may be concluding. Nevertheless, policy rates are expected to stay higher for longer.

However, we encountered a crisis of confidence in the banking sector, resulting in the failure of three regional banks in the United States and the UBS takeover of Credit Suisse outside the US. Whether concerns about the banking sector will resurface in the event of a crisis in US commercial real estate remains uncertain, but the likelihood of a systemic risk is low.

Moreover, there has been disappointment regarding China's uneven post-COVID economic recovery. Many had relied on Chinese pent-up demand to bolster the global economy.

Looking ahead to the second half of 2023, global economic growth is expected to decelerate, potentially leading to weakened business and consumer sentiment. Further uncertainties include the unresolved Russia-Ukraine war, ongoing US-China tensions and the recovery path of business and consumer sentiment in China.

While economic and geopolitical risks may cast a shadow in the near-term, we aim to provide investment insights that will help you construct a robust and resilient portfolio to achieve your long-term financial goals.

2H 2023 Macro Outlook

With the first half of the year now in the rear-view mirror, two headwinds we highlighted at the beginning of 2023, monetary policy uncertainty and inflation, are likely to be behind us. The US Federal Reserve (Fed) and other central banks are nearing the end of their tightening cycle, and inflationary pressures are gradually easing in the face of a slowing economy. What confronts us now is uncertainty on the economic front, particularly how quickly the global economy slows.

While recent banking sector turmoil is unlikely to trigger systemic risk, we still need to monitor bank credit conditions and the impact on broader economic activity. We also need to be mindful of US commercial real estate risks, as that could affect the banking sector and broader economic sentiment. Other key areas to keep a close eye on are labour market indicators, consumer spending habits, and corporate earnings.

The economic cycle has four clear and inevitable stages. We are now past the peak of the cycle and are in the slowdown phase. It is hard to accurately pinpoint when a recession starts or predict how long it lasts. While economic growth has slowed, recent data suggests a recession is not imminent.

As for recent divergence across stock markets, US and Japan outperforming Emerging Markets and large-cap stocks outperforming small-caps, it is unclear whether these trends will continue or reverse in the coming months. Until it is apparent, hedging uncertainties as a portfolio strategy will be prudent.

Having passed the peak of the economic cycle, build a defensive and diversified portfolio to buffer against possible turbulence in the near-term. This is especially if tighter financial conditions cast a bigger-than-expected drag on economic growth. At the same time, there are still pockets of investment opportunities to be tapped on as the labour market and services sector remain strong.

Figure 1: Macro themes and investment roadmap

Source: UOB PFS Investment Strategists.

2H 2023 Outlook

2H 2023 Outlook

Economic Outlook

The economic cycle goes through four main phases of recovery, expansion, slowdown, and contraction. Of course, every economic cycle differs in terms of duration and scale and can be briefly distorted by unforeseen shocks. However, in general, the economic cycle follows a similar repeatable pattern of these four stages.

In the current economic cycle, we are now in the slowdown phase. Data over the past six months indicate a two-track global economy. On one hand, global manufacturing and trade have clearly slowed, while business sentiment has turned cautious. On the other hand, labour markets around the world remain strong. Coupled with a tourism surge, this has also benefitted the services sector.

These factors suggest that while economic growth is slowing, a recession is not yet imminent. Nonetheless, late-cycle weaknesses, such as concerns over the health of US regional banks, declining home sales and prices in many countries, as well as cracks in US commercial real estate, have become apparent.

Risks of a wider fallout from recent banking sector turmoil are expected to be contained by strong policy action after the failures of three US regional banks (Silicon Valley Bank, Signature Bank, and First Republic Bank) and the forced merger of UBS-Credit Suisse. However, it remains to be seen if financial conditions will tighten and dampen economic growth.

We also need to be mindful of the lagged effect of aggressive monetary policy tightening on the economy. New Zealand offers a cautionary tale, with their economy falling into a technical recession in 1Q 2023 after the Reserve Bank of New Zealand (RBNZ) delivered 525 basis points (bps) of policy tightening over the past 20 months. Bear in mind that the RBNZ was among the first central banks in the world to begin their rate hike cycle back in October 2021, while the US Federal Reserve (Fed) only started its rate hike cycle in March 2022. It is a matter of time that other economies will soon feel the lagged impact of policy tightening over the next six months. This could trigger potential issues such as a weakening of the labour market, deteriorating household balance sheets, and weaker consumption.

Another issue is the unresolved war in Ukraine which looks set to persist, and the potential for further conflict to spill onto the global economy in new ways.

While Developed Market (DM) economies are slated to gradually slow, Emerging Market (EM) economic growth is expected to outperform. We acknowledge that China's economic recovery has been uneven so far, with exports and manufacturing activity slowing due to weakening global demand, while domestic consumption is supported by tourism and services spending. In the short-term, China's economic growth may disappoint but the outlook is positive over a 24-month timeframe. One advantage China has is a sharp build-up of Chinese Yuan deposits. Once business and household sentiment improve, built-up Chinese Yuan deposits could result in a sharp ramp up in investment and spending.

The Chinese government is also clearly aware of growth risks and has started to support the economy with interest rate cuts. More targeted stimulus measures are also expected. We still see China's 2023 GDP growth coming in at 5.6%, well above the International Monetary Fund's (IMF) global growth forecast of 2.8% for this year.

Asia and ASEAN are expected to benefit once China's economy starts to gain strength and global demand recovers to boost regional exports, with many regional central banks already starting to pause their rate hike cycles to support economic growth.

2H 2023 Outlook

Economic Outlook

Inflation

2023 kicked off with inflation as one of the big headwinds and unknowns. We now have more clarity on this front, and the prognosis is positive. While core inflation remains elevated, headline inflation has come down from its peak, showing a clear trend of disinflation. This is partly a result of high base effects when comparing on a year-on-year basis with 2022.

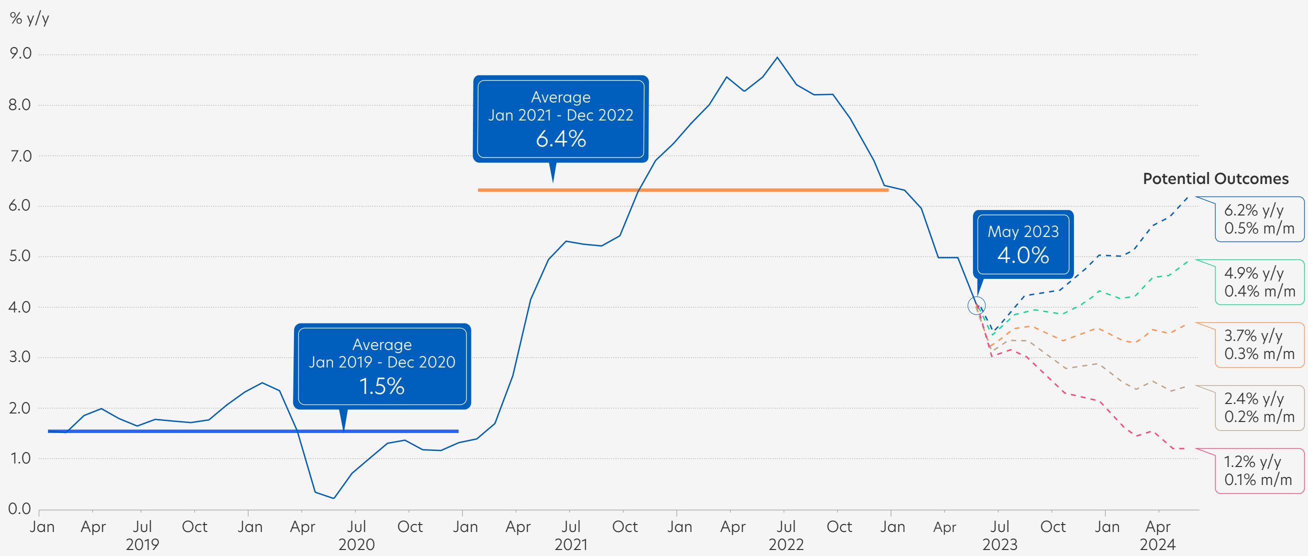
Looking at Figure 2, we map out the possible outcomes for year-on-year US headline consumer price index (CPI)[1] based on different month-on-month scenarios. If the month-on-month CPI figure stays at 0.2% consistently for the next 12 months, year-on-year headline CPI will fall to 2.4%. It is likely for disinflation[2] to continue into the middle of 2024.

While we need to keep a close eye on energy prices, fears have eased of a crude oil supply deficit for the rest of this year. Slowing economic growth also clouds the demand outlook, while transport-related inflation has begun to fall in many countries.

Goods prices have also trended lower though the path has been bumpy. While shelter costs, one of the key drivers of inflation, remain elevated, we are seeing encouraging signs that this is starting to ease.

With a slowing global economy set to curb consumption demand and ease labour market tightness, inflation is expected to come down.

Figure 2: US headline CPI shows a clear trend of disinflation



Source: UOB PFS Investment Strategists, Macrobond, and Bloomberg (30 June 2023).

Central Bank Policies

The slowdown phase of the economic cycle also means global monetary policy tightening is coming to an end. One good thing that came out of the recent banking sector turmoil is that any contraction in bank lending may partially negate the need for further monetary policy tightening.

On an optimistic note, the IMF feels that even though rates are high now from major central banks battling inflation, "when inflation is brought back under control, Developed Market central banks are likely to ease monetary policy and bring real interest rates back toward pre-pandemic levels".

The IMF's internal analysis also suggests that current high rates "are likely to be temporary", and advanced economies will see interest rates fall back within sight of the "zero lower bound".

A caveat needs to be added to the IMF outlook; no timeline on when interest rates revert to pre-COVID levels was provided. Rates may fall to lower levels in the coming years but a return to near-zero is unlikely on the immediate horizon.

Our view is that central bank policy rates will peak over the next six months but stay elevated. Rate cuts are likely only in 2024.

1 Consumer price index (CPI) is a measurement of the change in consumer prices over time based on a fixed basket of goods and services. This is normally represented as a month-on-month and year-on-year comparison.
2 Disinflation refers to a slower pace of price increases for goods and services over time.

2H 2023 Outlook

Asset Class Views

Equities

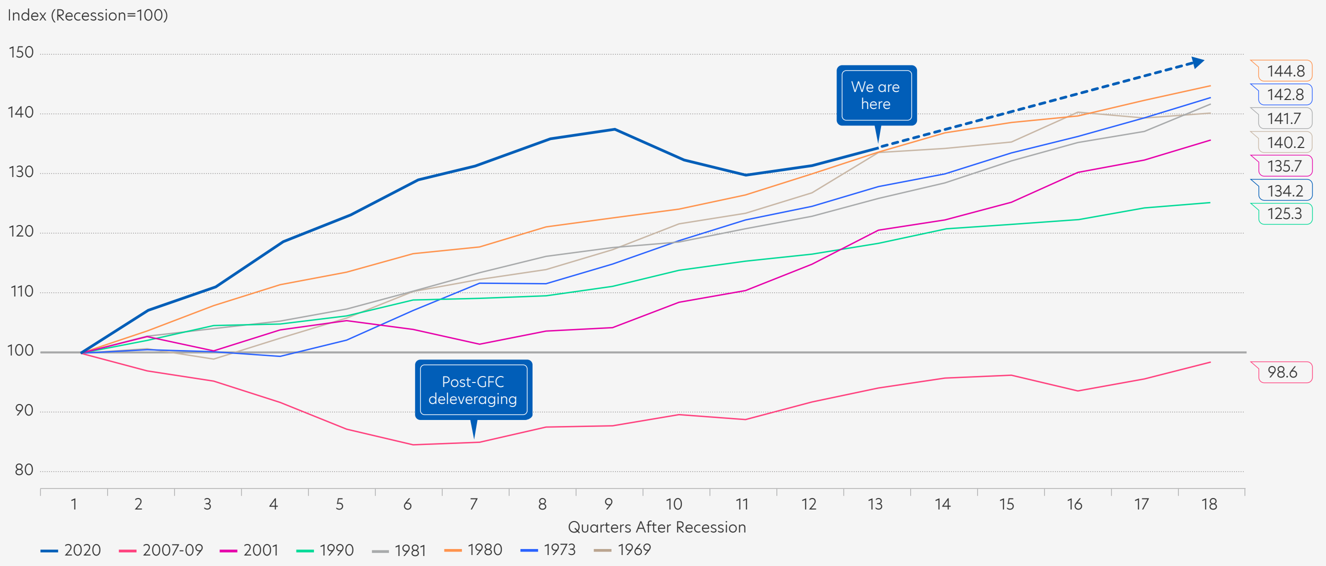
Global stock markets have largely performed better than expected over 1H 2023, defying downbeat expectations heading into the year. Better-than-expected economic data, robust labour markets, stronger-than-expected corporate earnings, along with AI-fever, created a "Goldilocks" situation where tech stocks rallied while volatility stayed low. The question now is whether this rally is sustainable, especially since the US Federal Reserve (Fed) is not expected to cut rates soon. With every economic cycle ending in a contraction phase, stocks will also be exposed to earnings risk.

Valid arguments support both bull and bear camps. Market fundamentals and dynamics show reason for global stock markets to move gradually higher in the short-term as a recession is delayed until 2024, but such a move could be choppy during this slowdown phase.

We retain a neutral outlook on US stocks. While corporate earnings have held up better than expected, slowing economic growth, lofty valuations, and the narrow breadth[3] of the recent stock market rally, are areas of concern. The market has also removed expectations of Fed rate cuts by year-end, and this may turn into a headwind for stocks when investors confront the reality of higher-for-longer interest rates. A renewed US banking shock, or a US commercial real estate crisis, could also trigger downside pressure for stocks.

On a positive note, if economic data surprises to the upside, this stock rally could continue. Another thing to highlight is that S&P 500 earnings per share (EPS) year-on-year growth, excluding the energy sector, has been declining since 2Q 2022, but the market thinks the earnings recession will end by 3Q this year and earnings growth will improve through 2Q 2024.

Figure 3: US household balance sheets show strong growth, limited need to sell stocks



Source: UOB Private Bank, Macrobond, and US Federal Reserve (30 June 2023).

3 Refer to Trending Topic of Interest "AI: Potentially transformative, but longer-term impact still unclear" below.

2H 2023 Outlook

Asset Class Views

Equities (continued)

Figure 3 shows that investors in the US have no need to sell stocks even when the economy slows as US household balance sheets have grown sharply since the 2020 COVID-induced recession.

Encouragingly, the S&P 500 Index posted gains of 9.2% over the first 100 trading days of this year. History has shown that gains of 8.0% or more during this period typically lead to significant upside for the rest of the year.

Considering the above factors, the S&P 500 could end the year higher than current levels. Nonetheless, such a move is likely to be a slow grind higher rather than a sharp spike up, and interrupted by a short-term correction in the middle. Given such a potential scenario, it is prudent to maintain a diversified portfolio, be selective in investment choices, avoid concentration risks, and avoid chasing market rallies.

We retain an underweight allocation in European stocks. Risk of further European Central Bank (ECB) policy tightening is evident with European central bankers signalling "more ground to cover" on inflation.

In Asia ex-Japan, the short-term outlook is cautious as slowing export orders will weigh on regional manufacturers. That said, we retain a positive medium-term outlook out to 24 months as stock valuations are attractive. Regional inflation is also more benign, and some Asian central banks are one step ahead in the rate pause move. Coupled with robust domestic consumption, these are positive structural drivers.

Japan's stock market has been a clear outperformer year-to-date. The TOPIX hit a 33-year high, driven by Warren Buffett increasing his stake in Japanese trading houses, foreign inflows, a slew of corporate share buybacks, low valuations, and a weakening Japanese Yen. Japan's stock market has the tendency to be momentum-driven, meaning more upside cannot be ruled out. However, any unexpected shift by the Bank of Japan (BOJ) to tighten monetary policy could complicate things. We also need to keep an eye on the Japanese Yen, as the Japanese government may step in to support the currency to rein in imported inflation. BOJ intervention could remove one of the tailwinds for Japanese stocks.

2H 2023 Outlook

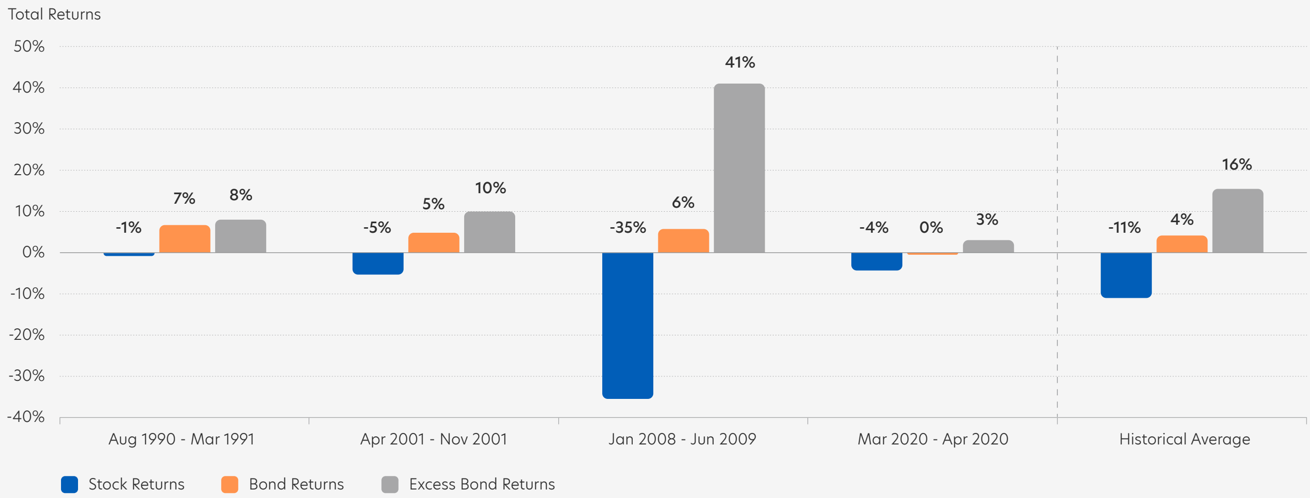
Asset Class Views

Fixed Income

Bonds are in favour with yields near cyclical highs, monetary policy tightening nearing the end, and a slowing global economy. As seen in Figure 4, bonds tend to outperform stocks in both the slowdown and contraction phases.

As the rate hike cycle nears the end and interest rates top out, locking in higher yields makes sense. We also want to emphasise that stronger asset quality will be important in an economic slowdown. We retain an overweight allocation in investment grade bonds, where investors can capture attractive yield without taking on unnecessary default risk.

Figure 4: Bonds tend to outperform stocks in slowdown and contraction phases



Source: JPMorgan Asset Management. Stock returns based on MSCI ACWI Total Return Index. Bond returns based on Bloomberg Global Aggregate Total Return Index (unhedged) (30 June 2023).

Foreign Exchange and Commodities

Any short-term upwards push by the US Dollar (USD), will likely be a short-term countertrend. Instead, we expect the USD to drift lower into 2Q 2024 with the Fed policy tightening cycle almost over.

We retain a positive outlook on Gold as real interest rates will continue to decline amid heightened recessionary fears while the USD will weaken into 2024. Any geopolitical flareups will also provide a safe haven boost.

As for crude oil, there are downside risks to global demand as economic growth slows. Nonetheless, we are wary of the supply backdrop due to global sanctions against Russian sea-borne crude oil. In addition, Saudi Arabia has warned short-selling speculators to “watch out”, suggesting the possibility of more OPEC+ supply cuts. We expect oil prices to move upwards due to robust demand from Emerging Market countries, supply reduction due to OPEC+’s proactive output management, and a lack of infrastructure investments.

2H 2023 Outlook

Country Focus

US 2023	
GDP (y/y %)	0.8%
CPI (y/y %)	3.0%

Equities: Potential earnings downgrades are a downside risk for the US stock market as the economy is slowing down and approaching the contraction phase. Focus on quality growth stocks and defensive sectors like Global Healthcare.

Fixed Income: 10-year US Treasury yields could fall to 3.20% by end-2023 amid slowing economic growth, the trend of gradual disinflation, and higher safe haven demand.

Currency: The US dollar index (DXY) will be supported in the near-term as the US Federal Reserve (Fed) could deliver another one to two 25bps rate hikes, before weakening to 99.9 by end-2023.

Eurozone 2023	
GDP (y/y %)	0.1%
CPI (y/y %)	5.5%

Equities: European stock markets could continue to face headline risks, while valuations are likely to stay below their growth-oriented US peers. Stay cautious as recent data suggest a further growth slowdown ahead while the European Central Bank (ECB) has more tightening to do.

Fixed Income: The ECB will likely undertake its last interest rate hike of 0.25% by July and maintain the refinancing rate at 4.25% for the rest of 2023. However, if inflation refuses to slow materially, the ECB may raise rates beyond July.

Currency: With potentially more policy tightening ahead by the ECB as compared to the Fed, this may allow the Euro (EUR) to strengthen to 1.12 against the USD by end-2023.

Japan 2023	
GDP (y/y %)	1.0%
CPI (y/y %)	3.5%

Equities: Japanese stocks might see further upside as the market remains under-owned by global investors. The industrial sector could benefit from an expected pick up in industrial production from a low base. In addition, consumer discretionary stocks will be supported by strong wage gains.

Fixed Income: With the ongoing monetary policy review potentially lasting 12 to 18 months, the Bank of Japan (BOJ) could have a longer runway to unwind its ultra-loose monetary policy and is unlikely to abolish its yield curve control[4] (YCC) policy in the near-term.

Currency: With the BOJ unlikely to exit accommodative monetary policy for now, weakness in the Japanese Yen (JPY) may persist until 3Q before strengthening to 138 against the USD by end-2023.

[4] Japan's yield curve control is a strategy aimed at keeping interest rates low, in order to spur the economy and increase inflation to 2%. Specifically, it sets the short-term policy rate at -0.1% and seeks to pin the 10-year Japan Government Bond (JGB) at around 0% while limiting fluctuations to 0.50% either side of 0%.

2H 2023 Outlook

Country Focus

China 2023

GDP (y/y %)	5.6%
CPI (y/y %)	0.8%

Equities: Consumption-driven recovery in China should continue in 2H 2023, while earnings are expected to improve. The government is likely to keep a pro-growth stance given China's low inflation. Chinese stock markets may continue to underperform global peers in the short-term. Geopolitical uncertainty remains, while Chinese Yuan (CNY) weakness will need to abate. In the medium-term, we retain a positive outlook on China's economy and consumption.

Fixed Income: The People's Bank of China's (PBoC) accommodative policy stance remains supportive for Chinese bonds, but selection remains key. Investors should continue to favour quality investment grade bonds.

Currency: The recovery of the CNY is likely to be delayed until 4Q 2023 when China's economy regains momentum toward end-2023. Nonetheless, look for the CNY to rebound to 7.10 against the USD by end-2023.

Singapore 2023

GDP (y/y %)	0.7%
CPI (y/y %)	5.0%

Equities: The Singapore stock market is trading around fair valuation but watch for the risk of a significant slowdown in global trade and persistent inflationary pressures. Focus on stocks that could benefit from a recovery in China's economy and the peaking of interest rates.

Fixed Income: Singapore bond yields are likely to stay lower than US bond yields until a shift in the monetary policy cycle. The 10-year Singapore government bond yield is likely to decline towards 2.70% by end-2023.

Currency: The impact of CNY weakness on the Singapore Dollar (SGD) could be limited due to the perceived status of SGD as a regional safe haven currency. The SGD is expected to reach 1.35 against the USD by end-2023.

Malaysia 2023

GDP (y/y %)	4.4%
CPI (y/y %)	2.8%

Equities: The Malaysian stock market is likely to be supported by reasonable valuations as tourism-related sectors can recover further in 2H 2023. Risks persist from the global economic slowdown, tighter financial conditions, China's uneven recovery, and upcoming state elections uncertainty.

Fixed Income: Bank Negara Malaysia (BNM) is expected to maintain interest rates at 3.00% due to manageable inflation expectations and resilient domestic growth prospect, which is favourable for the bond market.

Currency: The Malaysia Ringgit (MYR) may regain its strength at a slower pace due to CNY weakness, depressed oil prices, and upcoming state elections. The MYR is expected to reach 4.60 against the USD by end-2023.

2H 2023 Outlook

Country Focus

Thailand 2023	
GDP (y/y %)	3.1%
CPI (y/y %)	2.7%

Equities: Valuations in the Thai stock market remain attractive, but ongoing downward earnings revisions will likely create a headwind for the market. Retail, healthcare, and tourism sectors could benefit once China's consumption recovery accelerates.

Fixed Income: Bank of Thailand will likely keep its terminal rate at 2.00% for the rest of the year. Therefore, a flattening yield curve is expected to persist across 2023.

Currency: The Thai Baht (THB) has recently been weighed down by CNY weakness and weaker-than-expected Chinese tourist arrivals but could strengthen to 34.0 against the USD by end-2023.

Indonesia 2023	
GDP (y/y %)	5.0%
CPI (y/y %)	3.8%

Equities: Earnings growth, excluding the coal sector, is expected to remain healthy. The banking sector should continue to benefit from the economic recovery and steady loan growth, while the consumer sector should benefit from election campaign activities.

Fixed Income: Bank Indonesia (BI) is expected to maintain its benchmark rate at 5.75% for the rest of this year. The pausing of interest rate hikes and moderating inflation could drive inflows to the local bonds market.

Currency: While the Indonesian Rupiah (IDR) is expected to take direction from the CNY, ongoing implementation of foreign exchange operations through the placement of export receivables in the onshore market will anchor stability in the IDR. The IDR is expected to weaken to 15,200 in 3Q 2023 before strengthening to 14,800 against the USD by end-2023.

2H 2023 Outlook

Economic Forecasts

Figure 5: Forecasts for 2023

	US	Eurozone	UK	Japan	Emerging Markets	Asia ex-Japan	China	India	Singapore
2023 GDP Growth Forecast	+0.8%	+0.1%	+0.3%	+1.0%	+3.9%	+5.2%	+5.6%	+6.5%	+0.7%
2024 GDP Growth Forecast	+1.2%	+1.0%	+0.9%	+1.5%	+4.0%	+4.8%	+4.8%	+6.8%	+3.0%
Unemployment Rate Projections by the end of 2023	4.3%	6.8%	4.1%	2.9%			5.2%		2.3%
2023 Fiscal Balance Projections *Note: Negative implies deficit*	-5.0%	-3.5%	-5.3%	-6.0%			-4.5%	-6.4%	-0.1%
2023 Inflation Forecasts	+3.0%	+5.5%	+7.0%	+3.5%	+3.4% (Emerging Asia) +19.7% (Emerging Europe) +13.3% (Latin America)		+0.8%	+5.3%	+5.0%
2023 Full-Year Earnings Growth Forecast (EPS)	S&P 500	MSCI Europe	MSCI UK	MSCI Japan	MSCI Emerging Markets	MSCI Asia ex-Japan	MSCI China	MSCI India	MSCI Singapore
	+10.4%	+5.0%	+1.6%	+5.1%	+18.6%	+21.5%	+15.2%	+17.3%	+3.9%
	Russell 2000	EuroStoxx 600	FTSE 100	TOPIX			CSI 300	Sensex	Straits Times Index
	+25.7%	+5.7%	+2.0%	+5.4%			+15.4%	+17.8%	+2.6%
1-Year Forward Price-Earnings Ratio (P/E)	S&P 500	MSCI Europe	MSCI UK	MSCI Japan	MSCI Emerging Markets	MSCI Asia ex-Japan	MSCI China	MSCI India	MSCI Singapore
	19.4x	12.8x	10.3x	14.9x	12.1x	12.8x	10.0x	20.7x	11.5x
	Russell 2000	EuroStoxx 600	FTSE 100	TOPIX			CSI 300	Sensex	Straits Times Index
	23.5x	12.6x	10.5x	14.6x			11.2x	19.5x	10.4x

Sources: UOB Global Economics and Markets Research (June 2023), Bloomberg (30 June 2023), and IMF World Economic Outlook (April 2023).

Trending Topics of Interest

Trending Topics of Interest

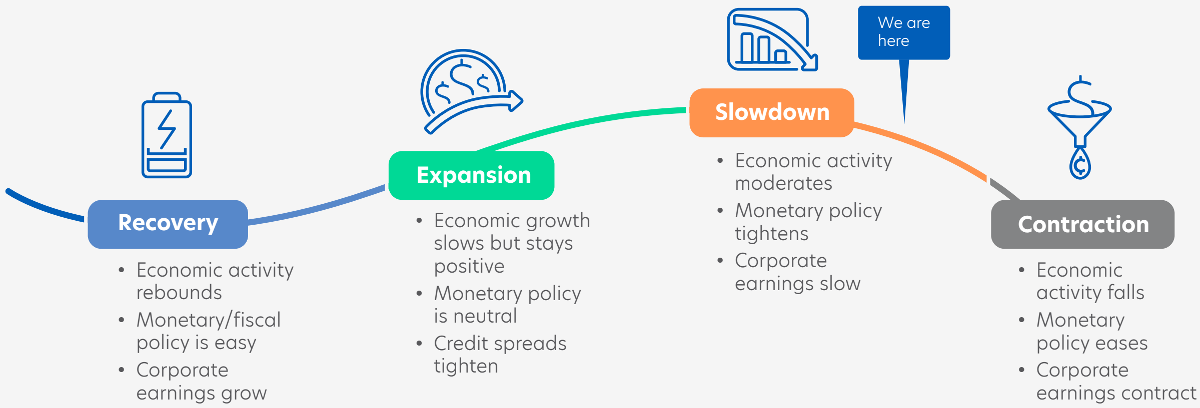
1. Economic slowdown, but not yet a recession

Each economic cycle goes through four broad phases and differs in terms of duration and scale.

We are currently in the slowdown phase, where economic activity and corporate earnings slow while monetary policy tightens to combat high inflation. We now expect a recession to be a high risk in 2024 as economic indicators have not deteriorated as quickly this year as expected. While global trade and manufacturing are showing signs of slowing, the labour market remains strong, and this has supported consumption demand and the services sector. These factors point to an extended slowdown phase.

Figure 6: Mapping the four stages of the economic cycle

Where we are in the economic cycle



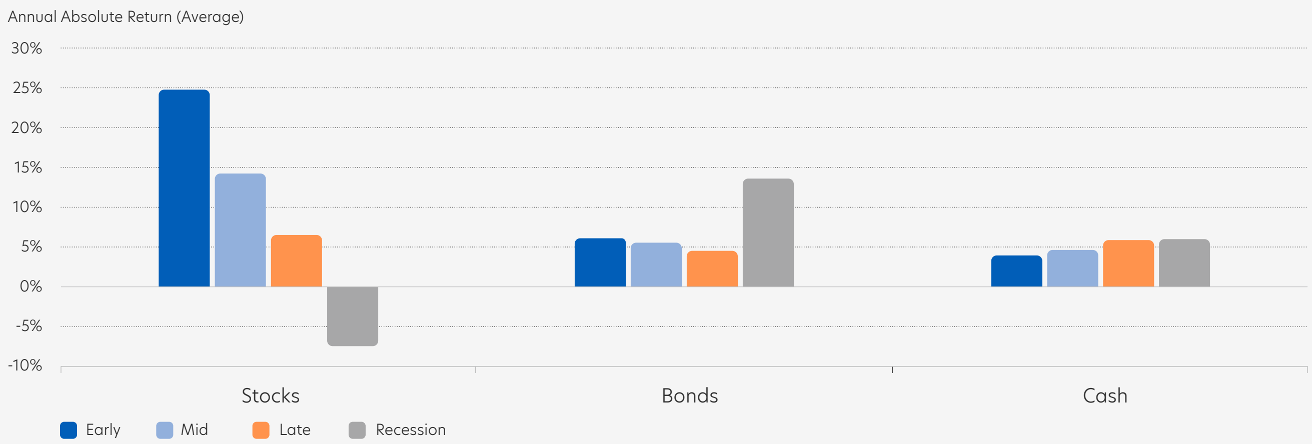
Phases	Early	Mid	Late	Recession
Strategy	Increase stock allocation. Reduce bonds/defensive positions.	Maintain higher stock allocation. Review portfolio regularly due to higher market volatility.	Focus on diversified portfolio. Lock in higher bond yields.	Defensive portfolio allocation preferred. Position for the next recovery cycle.
Duration*	Typically lasting around one year.	Longest part of the cycle, typically lasting nearly four years.	Averaging around one and a half years.	Shortest phase, averaging around nine months.

*Source: Fidelity Institutional Insight, The Business Cycle Approach to Asset Allocation.
Source: UOB PFS Investment Strategists.

Trending Topics of Interest

1. Economic slowdown, but not yet in recession

Figure 7: Annualised returns of various asset classes in each stage of the economic cycle



Source: Fidelity Institutional Insight, The Business Cycle Approach to Asset Allocation.

Stock market volatility rises in the slowdown phase but returns remain positive on average as seen in Figure 7. Bonds see mixed performance while returns from cash become attractive.

During this time, focus on diversifying portfolios and locking in higher bond yields. There will be opportunities in undervalued quality growth stocks on corrections. Be selective and avoid concentration risks. Do not chase rallies as well.

Trending Topics of Interest

2. Decoupling of economies is a worrying trend

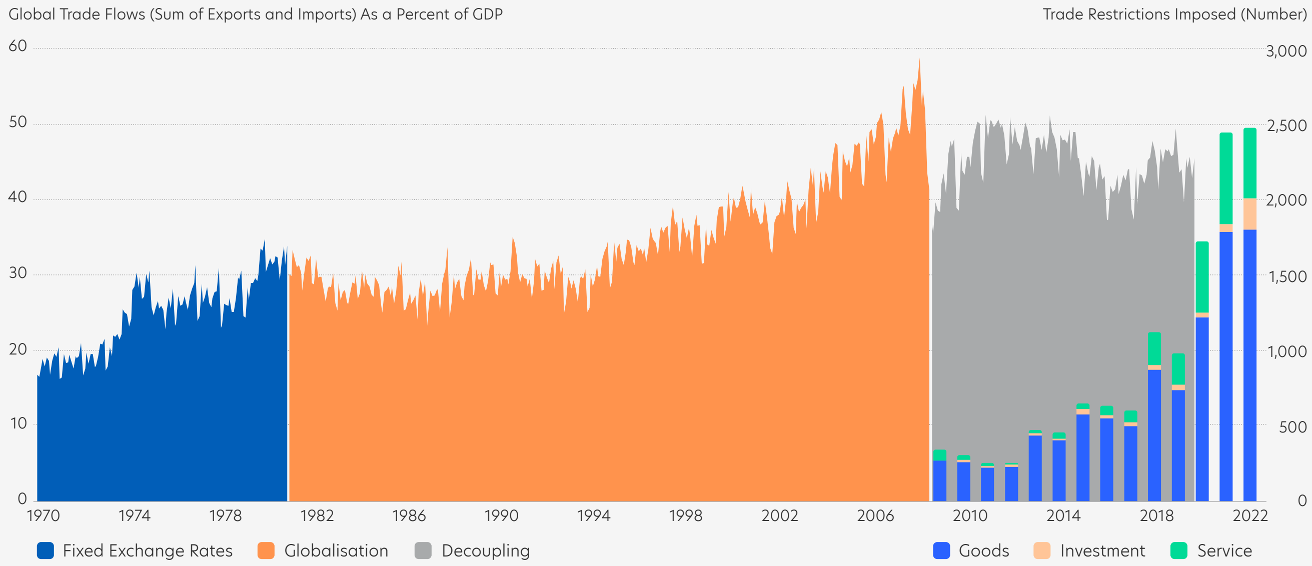
Decoupling of global economies and desynchronisation of global financial markets is a topic that is increasingly being discussed. This happens when economic conditions and market performance in different parts of the world move out of step with one another.

In recent years, we see more economies moving away from the multi-decade trend of globalisation towards decoupling because of growing economic inequality, social instability, and geopolitical tensions.

Examples of decoupling include trade protectionism between the US and China arising from geopolitical tensions, as well as sanctions placed on Russia because of the war in Ukraine. This is now an era where countries pursue economic security by imposing trade and investment restrictions on others. Figure 8 shows how global trade flows have peaked in the current era of decoupling.

Interestingly, recent events suggest that the US is now less of a free trade champion of the world as it was previously, using national security as the basis for trade restrictions and supply-chain "de-risking". This in turn has disrupted global supply chains, with the US encouraging companies to shift production operations back onshore or to allied countries. On the other hand, China has increasingly called for global inclusivity.

Figure 8: Global trade flows have peaked



Source: Goldman Sachs Asset Management and Macrobond (27 March 2023).

Trending Topics of Interest

2. Decoupling of economies is a worrying trend

Different economic policies also result in diverging economic cycles. In addition, rapid technological advancements also impact different industries and countries in different ways. We are also faced with the prospect of two different sets of technology standards, with the US and its allies excluding China from 5G technology and restricting access to high-tech semiconductors.

These trends and geopolitical rifts could result in a world divided into three distinct blocs; a western alliance headed by the US, a China-Russia bloc, and an assortment of neutral countries comprising Latin American countries and ASEAN nations.

Economic decoupling between the US and China could negatively impact growth in both the western alliance and the Chinese camp. On the other hand, neutral countries may benefit from being free to trade with either side.

Western alliance		
	Sectors	Reasons
Most impact	Food processing, agriculture sectors	Difficulty in substituting imports domestically.
Least impact	Clothing, electronics sectors	Domestic substitution for Chinese imports. Primary electronics producers are in the Western alliance.
China-Russia bloc		
	Sectors	Reasons
Most impact	Electronics, manufacturing, and automotive sectors	Limit in supply of high-tech semiconductors, and western onshoring of manufacturing activity.
Least impact	Services, mining, and agriculture sectors	Big domestic market, and ability to source from neutral countries.
Neutral countries		
May benefit from being free to trade with either side.		

Trending Topics of Interest

2. Decoupling of economies is a worrying trend

Divergence of economic growth between Developed Markets and Emerging Markets and impact on different sectors

Since the onset of the COVID pandemic and subsequent economic re-opening, real GDP across the US, Eurozone, Asia-Pacific, and Latin America have been closely correlated. However, this may not continue for reasons stated above. We could instead see economic growth revert to the desynchronisation trend seen between 2010-2020[5].

Latest International Monetary Fund (IMF) World Economic Outlook projections suggest a growth divergence between Developed Market (DM) economies and Emerging Market (EM) economies. Specifically, EM economies are expected to outperform over this year and next, as more benign inflationary pressures have allowed EM central banks to wind down policy tightening, while DM central banks still must keep rate hikes on the table given elevated inflation. A younger demographic and increasing urbanisation are additional tailwinds for EM.

IMF World Economic Outlook Projections

	2023	2024
Global	2.8%	3.0%
DM Economies	1.3%	1.4%
US	1.6%	1.1%
Euro Area	0.8%	1.4%
Japan	1.3%	1.0%
UK	-0.3%	1.0%
EM Economies	3.9%	4.2%
EM Asia	5.3%	5.1%
– China	5.2%	4.5%
– India	5.9%	6.3%
EM Europe	1.2%	2.5%
Latin America	1.6%	2.2%
Middle East	2.9%	3.5%
Africa	3.6%	4.2%

Source: IMF World Economic Outlook: A Rocky Recovery (April 2023).

[5] Source: Bloomberg.

Trending Topics of Interest

2. Decoupling of economies is a worrying trend

Divergence in inflation and monetary policies between Developed Markets and Emerging Markets

While inflation across DM and EM economies have mostly eased lower in tandem, price pressures in Asia are lower in comparison.

Lower inflation has allowed Asian central banks like the Monetary Authority of Singapore (MAS), Bank Indonesia (BI), Reserve Bank of India (RBI), Bank of Korea (BOK), Bank Negara Malaysia (BNM), and Bangko Sentral ng Pilipinas (BSP) to pause their rate hike cycles earlier. The Bank of Thailand (BOT) is expected to join the rate pause camp ahead.

Pausing the rate hike cycle reduces the risk of a policy mistake, and self-inflicted severe recession.

Stock market divergence between Developed Markets and Emerging Markets

Analysing 12-month forward price-to-earnings (P/E) ratios, EM valuations remain attractive compared to more richly valued DM markets.

With EM likely to see higher earnings per share (EPS) growth over the next 24 months, we should see a narrowing of the return on equity (ROE) gap between DM and EM, which in turn should allow EM valuations to rise.

In general, EM stocks tend to outperform those of DM during periods of slowing growth and high inflation, with 2000 and 2001 being good reference points. From 2000 to 2001, annual global growth fell from 4.5% to 2.0% while annual global inflation rose from 3.4% to 3.8%. During this period, annual returns of EM stocks outperformed those of DM peers by more than 12%[6] .

In the near-term, EM stocks could face headwinds, but the above factors suggest a positive mid-term outlook. In addition, EM bond valuations will also benefit from benign inflation and an earlier pause in the EM rate hike cycle.

	EPS growth 24mth	12mth forward P/E	12mth forward P/E
DM	7.0%	17.9x	14.8%
US	9.8%	20.8x	17.8%
EM	10.9%	13.3x	11.4%
EM Asia	16.7%	14.5x	10.3%

Source: MSCI World Index used as proxy for DM, MSCI USA Price Return USD Index used as proxy for US, MSCI Emerging Markets Index used as proxy for EM, MSCI EM Asia Index used as proxy for EM Asia.

6 Source: World Bank, Bloomberg.

Trending Topics of Interest

3. China's uneven economic recovery

There are reasons to be cautious about China's economic outlook in the short run, but the medium-term outlook remains positive.

Taking a step back, it should not be a surprise that China's recovery is uneven, and that manufacturing activity and outbound trade start to slow as external demand weakens. Domestic demand on the other hand, is primarily centred on tourism and services spending.

After nearly three years of COVID restrictions and on-off lockdowns, it has been difficult for businesses and households to heal from COVID "scars" and a meaningful recovery in business and consumer confidence will take time. Traditional economic support drivers such as infrastructure spending and property investments are also no longer picking up the slack. Provincial government finances are weakened by low land sales while private property developers face cash flow troubles. This is reflected by the waning momentum of China's economic recovery.

The negatives:

a. Slowing trade and manufacturing

After rebounding from the December low, China's official manufacturing purchasing managers' index (PMI) has now eased lower over March to May and returned to contractionary territory amid softening external demand.

The export recovery has also faded, while import demand has been weak. In 2023, we expect China's exports to decline 3.0% year-on-year and imports to only grow 2.0% year-on-year.

b. Record high youth unemployment

While China's overall jobless rate has edged down to 5.2%, youth unemployment has risen to a record high 20.8%. Fresh graduates not finding jobs is a concern. With an estimated 11.6 million graduates expected to enter the labour market in the coming months, youth unemployment will continue to climb.

There is also a skills mismatch in the short-term that will reduce labour force productivity. Specifically, China's re-opening is benefitting low-end services companies, with fewer job openings for higher educated graduates.

To combat this, China's State Council unveiled a plan to boost employment of new graduates by expanding recruitment in state-owned enterprises (SOEs) and providing hiring subsidies to small and medium-sized enterprises (SMEs). Given time, hiring numbers will rise when business sentiment improves, especially if China retains a pro-growth policy stance.

Looking more broadly, if the overall unemployment rate continues to fall and employment indicators within PMI surveys continue to recover, household income should rebound with a slight lag.

c. Geopolitical tensions, COVID infections, and tightening liquidity

US-China tensions have been elevated since the start of 2023, and it is unclear if bilateral relations will improve significantly now that high-level communications have been re-established following US Secretary of State Antony Blinken's visit to Beijing.

A resurgence of COVID infections may also impact economic growth negatively in the short-term as production activity declines due to increased employee absenteeism. However, this impact should quickly wane when the COVID wave subsides.

Tighter global liquidity could also depress China's domestic credit growth and put companies and corporate profits under even more pressure.

Trending Topics of Interest

3. China's uneven economic recovery

d. Potential repeat of summer power shortages

A potential drag on economic growth in the early part of 2H 2023 may come from a second straight summer of severe heat, threatening a repeat of last summer's power shortages. This could trigger power rationing, forcing factories to shutter production and disrupt supply chains.

In 2022, China's industrial production declined over July and August when power restrictions were imposed on various manufacturing hubs along the Yangtze River. The affected industries produced materials, such as electronic components, chemical products, aluminium, steel, non-ferrous metals, polyester, and textiles.

China's State Grid Energy Research Institute has already warned that central, eastern, and southwestern provinces in China are likely to experience electricity shortages during a heat wave, and power supply may be tight across the entire country.

The saving grace is that China has prepared by ramping up coal production, reducing the risk of a protracted nationwide power crisis. However, in the long-term, China will need to solve the structural problem of power investments lagging electricity consumption growth.

e. Property sector needs more support for confidence to return

Property sales across China had a strong start to 2023, and home prices rebounded slightly in most cities over the first four months of the year. The recovery, however, has slowed, with existing home prices in 100 Chinese cities falling from May due to concerns about the economic outlook and financing concerns.

Sentiment in the property sector may take longer to fully recover, and more support measures are expected.

Specifically, there is speculation that the Chinese government is considering reducing down-payments in some non-core neighbourhoods of major cities, lowering agent commissions on transactions, and relaxing restrictions for residential purchases.

Trending Topics of Interest

3. China's uneven economic recovery

The positives:

a. Domestic demand will be the shining light

China's domestic demand has seen a mixed rebound over the first few months of this year.

Consumption recovery was driven primarily by a strong rebound in services spending on tourism, leisure, and restaurants, as the Chinese public cheered post-lockdown freedom by getting outdoors and travelling. The lock-down this time last year in Shanghai and some other cities boosted the year-on-year comparison.

Interestingly, the Dragon Boat Festival holidays in June saw holiday spending come in below pre-pandemic levels even though domestic tourism revenue was strong over the May Day holidays this year. While revenge spending in domestic tourism will decrease slightly over the coming months, it is still expected to remain elevated. Notably, China's Tourism Academy predicts the number of domestic trips will hit approximately 4.6 billion this year, and domestic tourism revenue will hit around CNY4 trillion, representing a 95% year-on-year jump.

Overseas travel will take slightly longer to fully recover, as this requires more foreign flights to be added and visa application approvals to be ramped up.

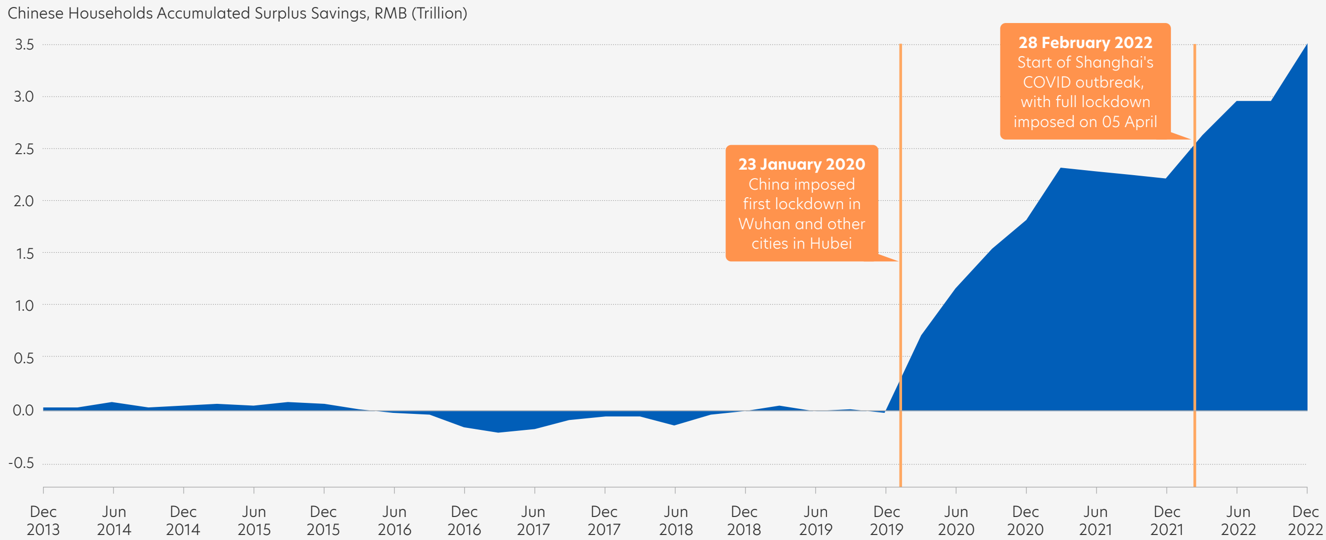
On the surface, demand growth for goods appears sluggish as an uncertain economic backdrop deters many Chinese from big-ticket purchases. What needs to be highlighted is that China's goods retail sales did not decline as much as services spending over 2022, hence the year-on-year growth does not seem as impressive.

We want to highlight one big advantage that China holds, and that is the record high Chinese Yuan deposits. As seen in Figure 9, China's household savings have surged since the onset of COVID.

China's total Chinese Yuan deposits have hit a record high of nearly CNY275 trillion. To put things into context, this is more than triple the CNY84 trillion market capitalisation of the Chinese stock market. It is also more than double China's 2022 nominal GDP of CNY121 trillion.

The build-up of Chinese Yuan deposits is positive in the longer run as businesses and households can unleash cash back into the economy via investments and spending. It is inevitable that those Chinese Yuan deposits will be deployed once people feel secure about the economic outlook, leading to a second phase of the domestic demand recovery.

Figure 9: China's household savings have surged post-COVID



Source: JPMorgan Asset Management (30 June 2023).

Trending Topics of Interest

3. China's uneven economic recovery

b. China leading the way in green initiatives and renewable energy

Another area often overlooked is China's active promotion of green initiatives and renewable energy over the past few years. China's 14th Five-Year Plan has a target of 33% of electricity consumption coming from renewables by 2025, which they are on track to meet. China also aims to phase out internal combustion engine vehicles by 2035 and achieve net zero carbon emissions by 2060.

Notably, China has been leading the push into renewable energy technologies like solar, wind, hydroelectricity, and batteries, with the country leading the world in renewable energy production and renewable investments. Six out of the 10 largest EV battery makers in the world come from China. The market leader, Contemporary Amperex Technology Co. Ltd (CATL), commands a market share of 34% as at 2022, while Chinese battery companies account for 56% of total market share.

This matters as global sustainability is a long-term trend, and being at the forefront of the green movement, China has a big head-start in such technologies and would benefit from exponential surge in demand over the coming decades.

In addition, China has been making large-scale investments in clean-energy transition as it sees immense potential in green energy innovation as the next pillar of economic growth. This is expected to continue and has positive implications for China via jobs creation and exports.

c. Supportive fiscal and monetary policies

China's political leaders have stuck to a pro-growth policy stance and vowed to keep monetary and fiscal policy supportive to combat economic headwinds.

An important takeaway is that unlike most other countries, China avoided large-scale fiscal or monetary stimulus during the COVID years and has the ability to unleash stimulus if economic recovery stalls.

This is made much easier by benign inflationary pressures. Consumer inflation is at a two-year low and producer prices have been in deflation for nine straight months.

Targeted monetary easing has already started. The first move was when Chinese authorities asked the country's biggest banks to lower deposit rates. When bank deposit rates become less attractive, capital can be redirected into the stock market.

The People's Bank of China (PBoC) has also cut its seven-day reverse repurchase rate[7] by 10bps to 1.9%, the first reduction since August 2022. In addition, the PBoC cut its 1-year medium-term lending facility (MLF) rate[8] as well as its 1-year and 5-year loan prime rates (LPR)[9] by 10bps each. This is an acknowledgement by the Chinese authorities that they need to do more to boost the faltering economic recovery.

Looking ahead, we expect the PBoC to reduce its reserve requirement ratio (RRR)[10] to expand the low cost long-term funding source for banks. The PBoC still has the option to guide mortgage rates lower via the 5-year LPR if the recovery in the property market stalls.

In addition, it has been reported that China will announce new support measures to boost domestic demand and the real estate sector.

[7] The seven-day reverse repo is a type of short-term loan the central bank uses to increase liquidity and influence other rates in the banking system.
[8] China's 1-year medium-term lending facility (MLF) rate is the main rate at which the central bank lends to big commercial banks.
[9] China's loan prime rates (LPR) are the key lending benchmark rates. The 1-year LPR is the medium-term lending facility used for corporate and household loans, while the 5-year LPR serves as the reference for mortgage loans. The LPR is based on a weighted average of lending rates from 18 commercial banks, with the 1-year MLF rate serving as the guide.
[10] Minimum ratio that commercial banks must hold in liquid assets, as set by the People's Bank of China.

Trending Topics of Interest

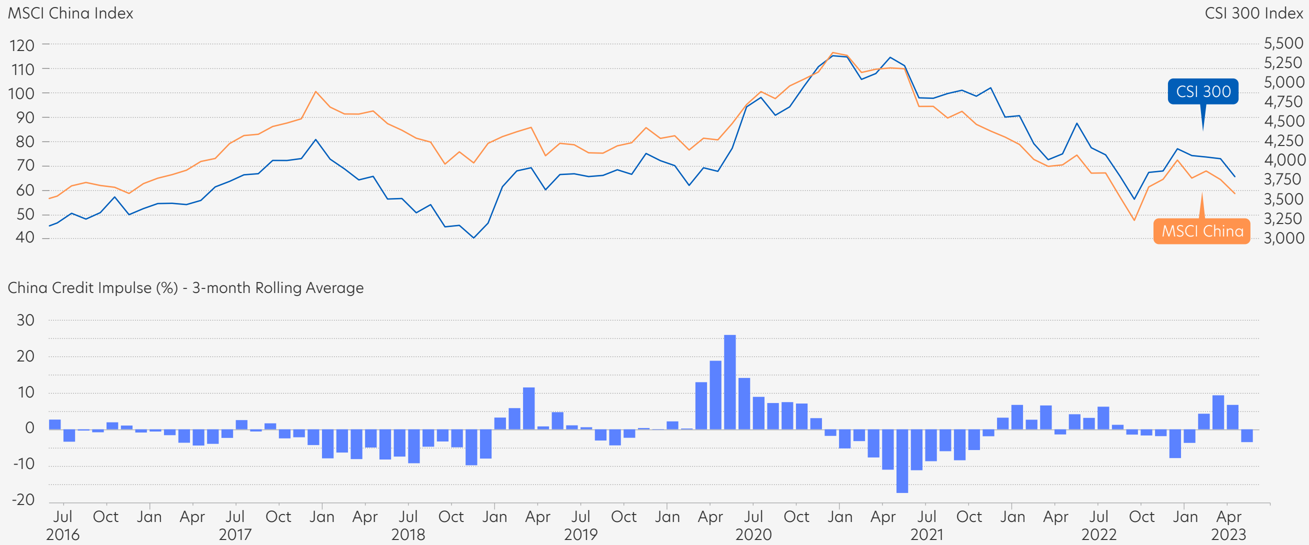
3. China's uneven economic recovery

d. Private sector credit should deliver a positive boost

China's credit growth started to reaccelerate at the start of this year, with bank loans leading the rebound. While this has turned negative in May, we expect this to be a brief blip. In general, overall credit growth should continue to expand over the coming months as the economy and housing market recovers. Credit growth is expected to peak in 4Q 2023 from low base effects.

Periods of accelerating credit growth have historically coincided with sustained rallies in Chinese stocks.

Figure 10: China's credit impulse[11] typically leads the stock market



Source: UOB PFS Investment Strategists, Macrobond (30 June 2023).

[11] The credit impulse index measures the change in new credit/bank lending as a percentage of GDP.

Trending Topics of Interest

3. China's uneven economic recovery

Despite sluggish recovery, China remains our Top Idea

While China's economic growth may disappoint in the short-term, we retain a positive outlook for the medium-term. China remains one of our Top Ideas as its economy should continue to outperform that of global peers.

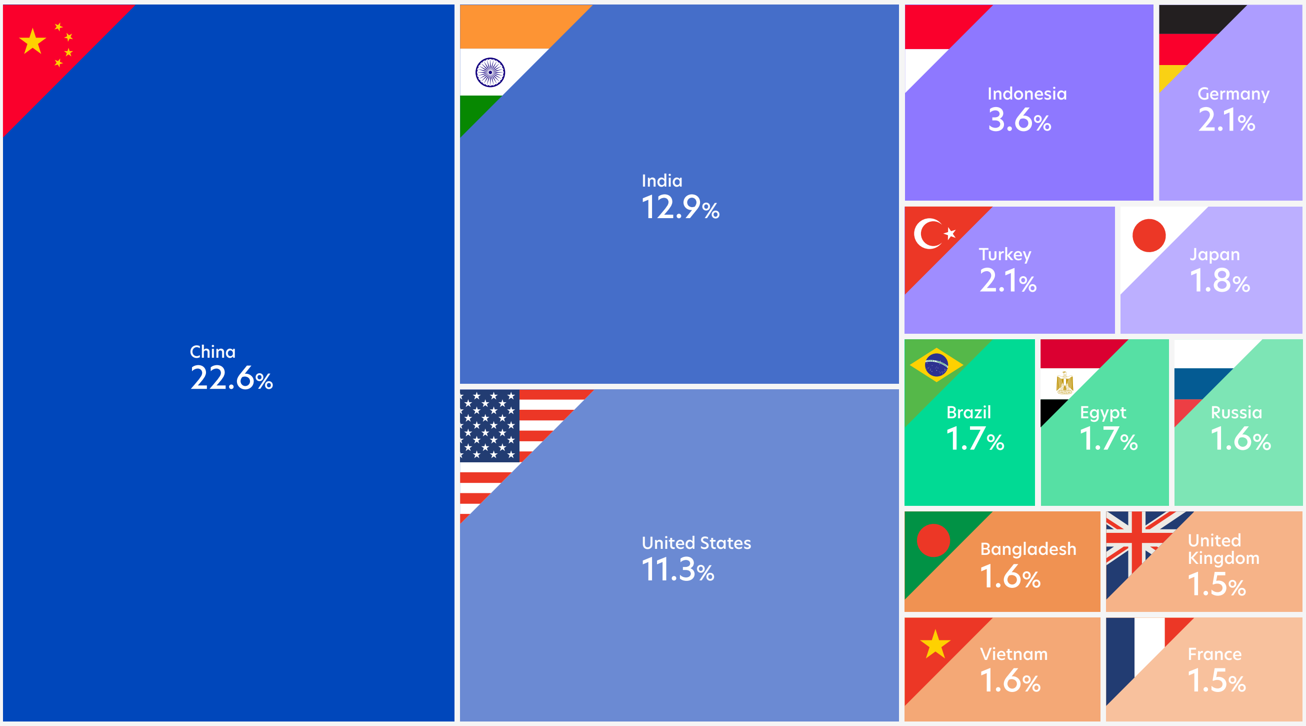
Looking at the IMF's projections in Figure 11, China will be the top contributor to global growth over the next five years, with its share likely double that of the US. We maintain our China 2023 GDP forecast at 5.6%, above China's official target of "around 5%", taking into consideration 1Q 2023 GDP and low base of comparison.

In summary, more support measures for the property sector are expected, while high household savings mean domestic demand will be the key growth driver to offset external headwinds. A rebound in private sector credit is also expected to continue, and this will be positive for both the economy and Chinese stock markets. Lastly, China's pro-growth policy stance provides a safety net, and the government can utilise targeted fiscal and monetary stimulus if required.

Chinese stock markets may underperform in the near-term and cause investors to lose faith. However, holding positions with a medium-term timeline can reap rewards given attractive valuations, supportive fiscal and monetary policies, and an eventual upturn in business and consumer sentiment.

Figure 11: China will be the top contributor to global GDP over the next five years

2023-2028 World Economy Growth Contribution



Source: IMF, Bloomberg (30 June 2023).

Trending Topics of Interest

4. AI: Potentially transformative, but longer-term impact still unclear

ChatGPT unleashed a frenzy over generative artificial intelligence (AI) when it was released to the public in November 2022.

With generative AI, users can perform tasks such as compose texts, graphics, art, and computer codes from scratch in a matter of seconds. Going forward, the technology could also help develop products, redesign business processes, and transform supply chains.

The myriad uses of generative AI have been discussed to be a game-changer for the global economy, even potentially fuelling a surge in labour productivity over the coming years. For example, the legal industry could use generative AI to design contracts and analyse evidence. Manufacturers could use the technology to identify defective parts and redesign processes. The medical industry can leverage on the technology to effectively identify promising drug candidates.

Goldman Sachs estimates generative AI could raise annual labour productivity growth by around 1.5% over a 10-year period following widescale adoption, with the possibility of increasing annual global GDP by 7.0% if the technology delivers[12].

It is, however, unclear how this new technology will be implemented or evolve, and what regulations will be imposed to curb the risk of cybersecurity attacks, misinformation, and fake images or videos. How generative AI will be monetised in the future is also not yet defined.

We will also need to monitor how generative AI affects global labour markets, as Goldman Sachs estimates that roughly two-thirds of current jobs are exposed to some degree of AI automation. One quarter of jobs could also be eventually replaced, affecting around 300 million workers.

This may have a short-term impact of pushing up unemployment rates. However, displaced jobs could eventually be offset by new occupations that leverage on next generation technology, providing an economic boost from higher labour productivity and improved cost savings. For example, software programmers, webpage designers, and other tech roles have emerged since information technology innovations gathered pace in the 1980s, while 85% of employment growth since the 1940s have been driven by technology-driven new jobs.

[12] Source: Goldman Sachs, “Generative AI could raise global GDP by 7%”, 05 Apr 2023.

Trending Topics of Interest

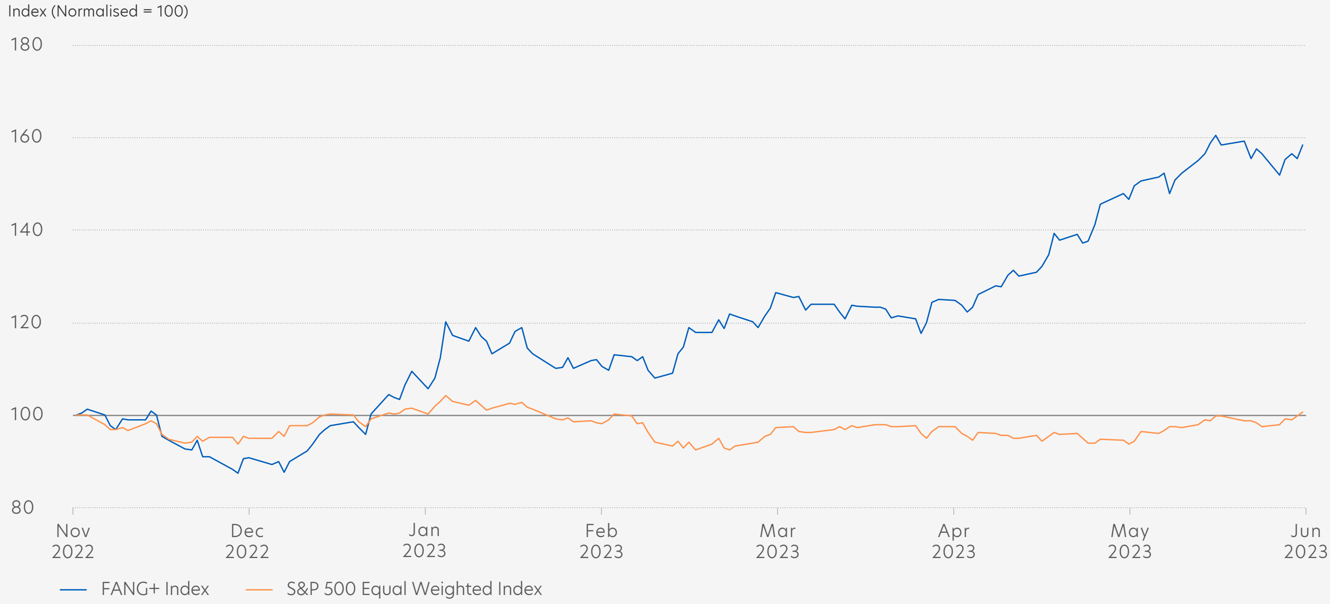
4. AI: Potentially transformative, but longer-term impact still unclear

Narrow breadth in AI stock rally, valuations are a concern

Financial market impact has been substantial. Recent hype drove a sharp rally for AI-related stocks on hopes of new revenue opportunities. The S&P 500 index gained 15.9% this year while the NASDAQ rallied an impressive 31.7%. However, the rally was driven by just a small number of big-tech stocks, with a large part of the rally triggered by the AI frenzy.

Figure 12 shows how the FANG+ Index of the top 10 traded tech stocks has outperformed the S&P 500 equal-weighted index since ChatGPT's public launch on 30 November 2022.

Figure 12: FANG+ Index has rallied strongly since ChatGPT's public launch



Source: Bloomberg (30 June 2023).

Tech shares are infamous for overstretched rallies that defy fundamentals, and we do not rule out the possibility that positive momentum can drive AI-related stocks higher in the near-term.

It is debatable if this is a bubble, and there are valid arguments on both sides of the fence. Be cautious chasing the hype, as such a strategy may not deliver positive returns should markets turn.

While generative AI could be transformative over the coming years and decades, this rally looks overstretched in the short-term. Current valuations are lofty, with the NASDAQ 100, representing big-cap Tech stocks, trading at nearly 29 times forward earnings estimates compared to its historical average of 19.3 times, according to Bloomberg data.

Another area of concern is that the tech sector currently makes up 28.2% of the S&P 500 index. This is near levels seen in the 2021 COVID-era rally and not far from the 2000 tech bubble level of 33%. A steep sell-off cannot be ruled out should markets correct.

Notwithstanding short-term valuation concerns, the longer-term picture is positive for high-quality tech companies with proven technology that can benefit from AI. Such companies include those with stable revenues and cash flows, together with robust balance sheets. They are also less susceptible to interest rate risks and credit conditions, and their stocks are more resilient during market downturns.

As such, you could enjoy better risk-reward participating in this sector during corrections.

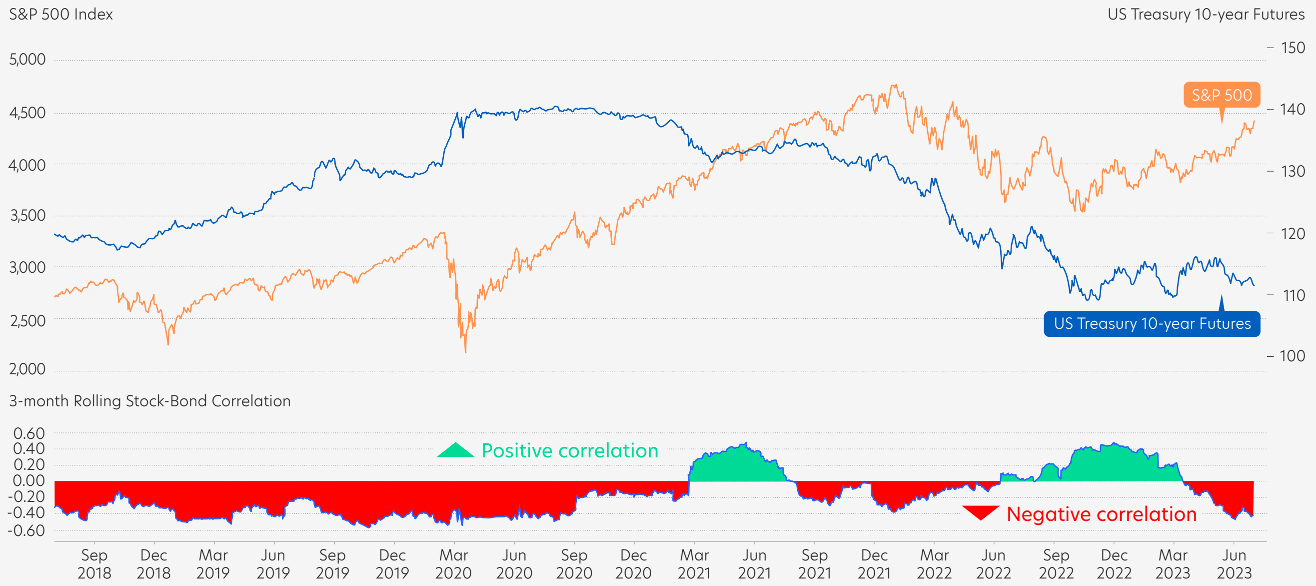
Trending Topics of Interest

5. 60/40 portfolio remains relevant but requires a tweak

The stock bond correlation turned positive for a large part of 2022 when the Fed raised interest rates aggressively. Over the past few months, the correlation has turned negative as shown in Figure 13.

Whether the 60/40 portfolio remains relevant or should this concept be consigned to the bin comes up frequently, especially after the strategy suffered a -15.3% loss last year for its worst performance since 2008.

Figure 13: Stock-bond correlation turned negative recently



Source: Bloomberg (30 June 2023).

On one hand, some argue that 2022 was an aberration and that the 60/40 portfolio remains valid.

On the other hand, others have pronounced the 60/40 strategy outdated and irrelevant in an environment of high inflation and high interest rates.

The answer may well lie somewhere in the middle.

Fundamentally, the 60/40 portfolio remains relevant as diversification has shown to cushion portfolio losses. Bonds typically act as ballast within portfolios to offset potential losses in stock holdings when economic growth slows. Bond investors also potentially benefit from a pause in monetary tightening, something to be expected down the road as we are past peak inflation. Higher bond yields now also provide you with higher income.

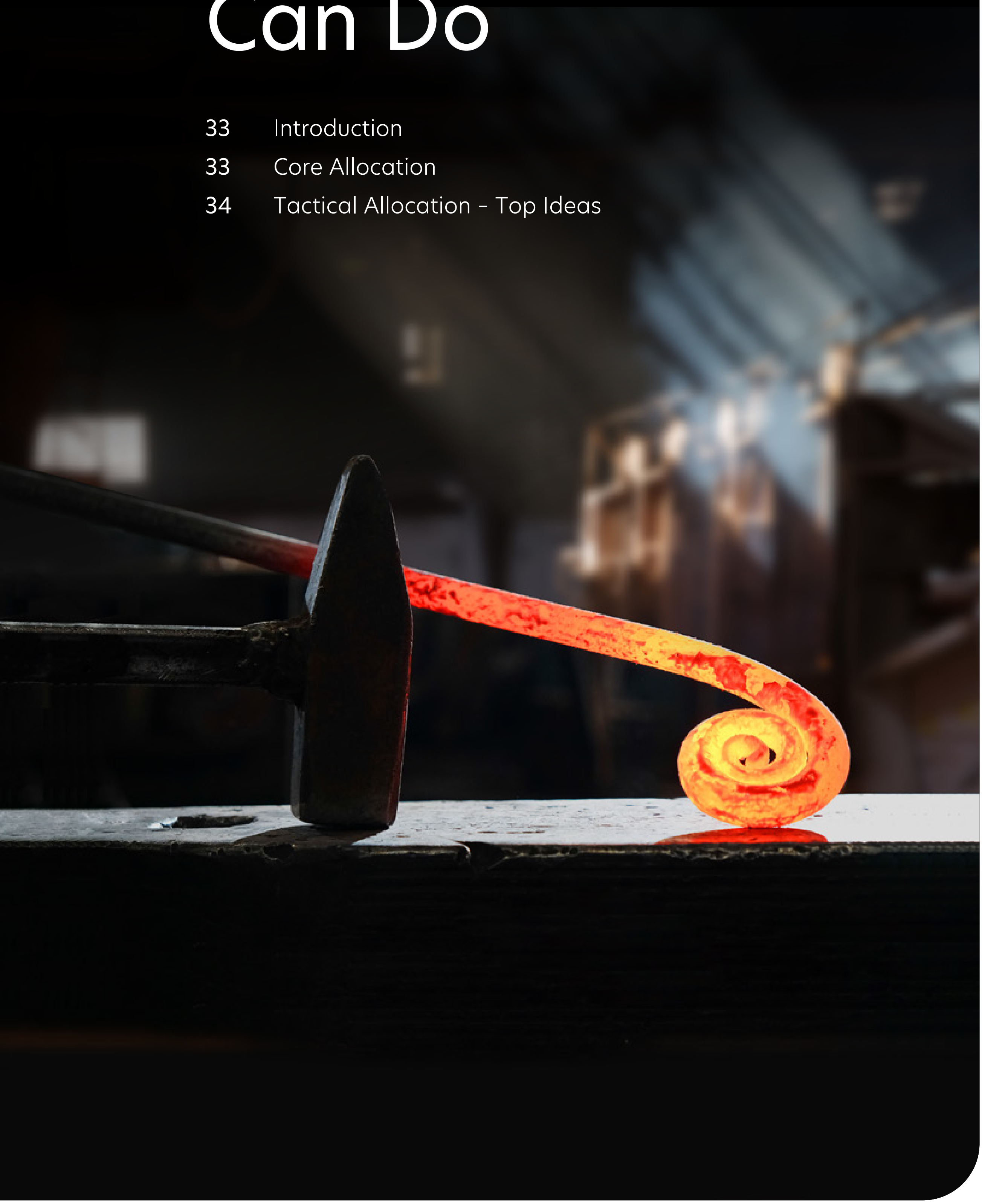
Even if the stock-bond correlation turns positive down the road, this may not be a bad thing for you as stocks could be supported by a stronger economic outlook while bonds could be supported by a gradual disinflationary trend.

However, the 60/40 portfolio may need to be slightly tweaked to include inflation-hedged assets such as Gold, commodities, and inflation-linked bonds to account for a new era of higher price pressures.

Looking back at the 1970s and 2000s, these inflation-hedged assets significantly outperformed both stocks and bonds. Analysing Bloomberg data, Gold saw annualised real returns of 22% during the 1970s while stocks and bonds logged losses. Bloomberg data reveals that inflation-hedged bonds, Gold, and commodities outperformed significantly during the 2000s.

Hence, while a 60/40 portfolio remains relevant, you may want to explore taking a further step towards diversifying your investment portfolio.

What You Can Do



What You Can Do

Introduction

At UOB, our Risk-First Approach serves as the foundation of wealth planning.

Protect your wealth with adequate cash buffers and appropriate insurance solutions. Then build wealth with a resilient portfolio of lower risk Core investments to meet long-term financial needs, before enhancing wealth with Tactical investments to capture market opportunities as they arise.

Market uncertainty and volatility could return as the global economy slows. As a recession is not yet imminent, global stock markets could move higher gradually albeit with bouts of volatility instead of in a straight line.

In such an environment, defensive portfolio allocation is advisable. Core investments can provide long-term income building opportunities that can weather different market cycles and volatility. They can also provide stable long-term returns and tend to be less volatile compared to more aggressive growth-oriented investments, providing a cushion during market downturns. Dollar-cost averaging can be a good way to build your Core investments to meet long-term financial goals.

Once the Core allocation has been built, you can consider Tactical investments to participate in any market upside. If you have sufficient risk appetite, consider our Top Ideas of Asia ex-Japan/China/ASEAN to play on the brighter medium-term economic outlook for the region, and Global Healthcare that is supported by a secular theme. In general, avoid chasing market rallies for Tactical investments and participate on corrections for the medium-term.

By balancing riskier investments with Core holdings, you can reduce downside risk to your portfolio and generate stable long-term returns.

To take advantage of higher rates, lock in higher yields now in investment grade bonds that can also protect during bouts of volatility.

Most importantly, build a diversified portfolio with an emphasis on risk management, and review it periodically with your goals in sight.

Core Allocation

Multi-asset Strategies

Being diversified and lower risk by nature, multi-asset strategies form a solid foundation in Core investments to help you build portfolio resilience and meet long-term financial goals.

With diversified asset allocation, multi-asset strategies can capture opportunities across different market cycles and asset classes such as stocks, bonds, and alternatives. Staying diversified can also reduce market volatility while providing long-term capital appreciation. Multi-asset strategies can also provide stable returns by investing globally across a variety of asset classes, potentially offering regular income in the form of monthly dividends.

While 2022 was a challenging year for multi-asset strategies, the situation appears brighter this year. The stock-bond correlation has turned negative. Even if this correlation turns positive again, the scenario could likely be one of rising stock and bond prices.

Therefore, accumulate multi-asset investments on dips for the long term.

Investment Grade Bonds

Lock in high yields from here as we are past peak inflation and the global monetary policy tightening cycle is nearing its end. Even more so, in longer duration bonds as there may not be an opportunity to grab such attractive coupons one or two years from here.

Bonds also tend to outperform stocks during the slowdown and recession phases, so you can take advantage of both higher yields and potential capital gains.

However, in an environment of slowing economic growth, asset quality is important, and we hold an overweight allocation in investment grade bonds for both Developed Markets (DM) and Emerging Markets (EM).

What You Can Do

Tactical Allocation – Top Ideas

Top Ideas are investment opportunities, with a 24-month outlook, that the UOB Personal Financial Services Investment Committee identifies through a rigorous process of research and deliberation using our VTAR framework. This framework provides a holistic view of financial markets and identifies investment opportunities across asset classes, sectors, geographical regions, and time periods.

- Asia ex-Japan/China/ASEAN
- Global Healthcare

Asia ex-Japan/China/ASEAN

While we acknowledge short-term headwinds, we are positive on Asia ex-Japan/China/ASEAN for the longer run.

One common denominator in this Top Idea is China. While China's economic recovery has been uneven so far, we retain a positive outlook over the medium-term. China's growth is likely to outpace that of most other economies and should also support economic activity, via tourism or consumption, in the region.

Even though we are not seeing an explosive rebound in revenge spending that other DM economies saw post-COVID reopening, there is, nevertheless, a recovery trend. This gradual consumption recovery also bodes well as it is less likely to trigger an inflation shock, or export inflation to the rest of the world.

While Asian economies will not escape the reality of declining exports, they can still count on resilient regional consumption as a backstop.

VTAR (China)

VTAR (Asia ex-Japan)

What You Can Do

Tactical Allocation – Top Ideas

ASEAN has three positive secular trends. First, as of February 2023, the UN estimates total ASEAN population at nearly 686 million, equivalent to around 8.6% of the global population. This is expected to grow to around 750 million by 2030.

Second, the region's demographic is, at a median age of 30.2 years, relatively young. And lastly, ASEAN is also the sixth largest economic bloc in the world, with nominal GDP totalling USD3.9 trillion and projected to grow to USD6.6 trillion by 2030.

ASEAN's inflation is far more benign than that of DM economies, and some ASEAN central banks have already started to pause their tightening cycle to focus on downside economic risks, far earlier than their DM counterparts.

Stocks in Asia ex-Japan and ASEAN also offer better value than those of DM peers, as seen by lower forward P/E ratios.

Despite short-term uncertainties, the medium-term outlook for Asia ex-Japan/China/ASEAN remains positive for those with risk appetite to tolerate near-term volatility.

VTAR (ASEAN)

Forward P/E Ratios

	Current	Historical High	Historical Low
ASEAN	13.8x	23.1x	12.8x
Asia ex-Japan	14.3x	19.0x	9.5x
EM	13.3x	18.6x	8.5x
DM	17.9x	27.1x	10.9x

Source: Bloomberg (30 June 2023).

What You Can Do

Tactical Allocation – Top Ideas

Global Healthcare

Global Healthcare continues to be a compelling story.

Despite COVID-related health risks fading to the background, other infectious diseases still require healthcare resources. Furthermore, back in 2018, the World Health Organisation (WHO) warned of a future epidemic codenamed "Disease X", and many government health agencies around the world are preparing by investing in healthcare research and infrastructure.

The global population continues to grow, particularly in developing countries. Population growth will place significant strain on healthcare systems, fuelling increasing demand for healthcare infrastructure and services.

Besides a growing population, the world also faces the secular trend of an ageing population. Amid an ageing demographic, healthcare needs increase, be it for long-term care, management of chronic ailments, or specialised geriatric care. This will require additional healthcare resources and innovation, which will deliver robust long-term earnings growth for the healthcare sector.

A rising middle class also brings along new patterns in non-communicable diseases, necessitating new healthcare solutions. An expanding middle class also leads to higher healthcare expectations and consumption.

Technological advancements have also started to transform the healthcare sector, and this trend will continue amid rapid innovations in artificial intelligence (AI), digital health, telemedicine, and genomics. The integration of new technology will help to not only improve quality of care, but also deliver higher efficiency and productivity for the healthcare sector.

During an economic slowdown and as we approach recession, those with risk appetite for exposure to stocks can consider participating in Global Healthcare given the industry's defensive characteristics.

VTAR (Global Healthcare)

Our Strategies

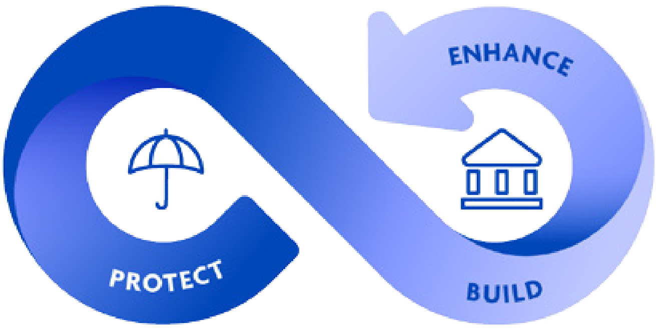
Our Strategies

Our Unique Risk-First Approach

Investors may face uncertainties in their investment journey, as financial markets will likely stay volatile as global growth slows.

Our proprietary Risk-First Approach ensures that you understand your risk appetite as the starting point in your wealth journey, before considering the returns you would like to achieve. This way, you avoid taking excessive risk in the journey towards your financial goals.

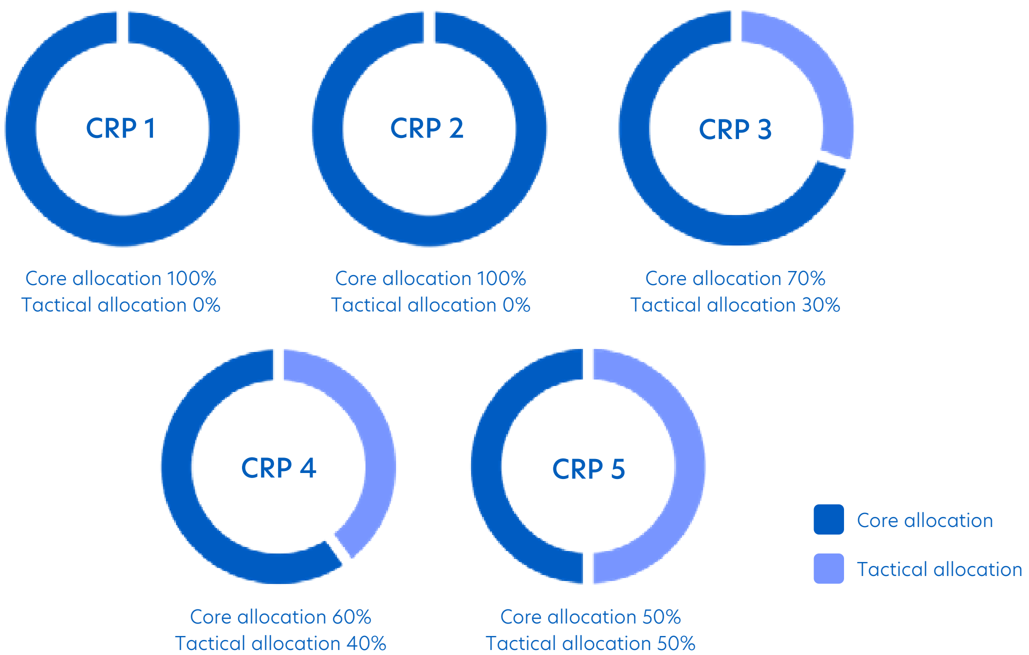
In practice, our Risk-First Approach helps you protect the wealth you have worked hard to accumulate, then Build and Enhance your wealth with the appropriate asset allocation.



Optimal portfolios are recommended according to your Client Risk Profile (CRP). Depending on your risk profile, a maximum of 30%, 40%, or 50% is allocated to Tactical investing while the rest is anchored in Core investing.

Core allocations tend to be of lower risk and are designed to help you progress towards your long-term goals. By nature, they are held through market cycles and can provide regular income. They tend to be diversified across asset classes, sectors, and regions.

Tactical allocations focus on capturing targeted short-term opportunities. These aim for capital growth but can also incorporate income strategies.



Our Strategies

Our VTAR Methodology

Our VTAR framework focuses on analysing large volumes of financial data in the four components of Value, Trend, Activity, and Risk (VTAR). This framework provides a holistic view of financial markets and identifies investment opportunities across asset classes, sectors, geographical regions, and time periods.

The UOB Personal Financial Services Investment Committee examines these insights based on market and asset class views from our Chief Investment Officer, in tandem with key risks, and comes to a consensus to determine the attractiveness of each potential investment idea.

	Purpose	Common Indicators
Value	Identifying investments with attractive valuations and earnings potential.	• Price-to-Earnings Ratio (P/E Ratio) • Earnings Growth (EPS Growth) • Option-Adjusted Spreads (OAS)
Trend	Understanding the trend of the investment.	• Simple Moving Averages (MAs) • Relative Strength Indicator (RSI) • Fund flows
Activity	Understanding the macro environment and business activities that may affect performance.	• Central bank policies • Composite Purchasing Managers Index (PMI) • Industrial Production (IP) and Retail Sales
Risk	Identifying key market risks and potential mitigating factors.	• Geopolitical events • Industry- or region-specific events • News flows

Right By You

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