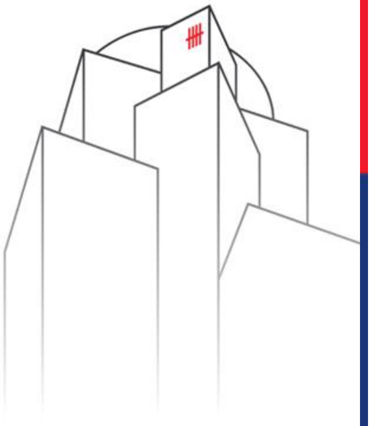

Investment Outlook for 2020 – The Year Ahead

Mr Anthony Raza, Head of Multi-Asset Strategy

16 January 2020

Survey question 1: Year 2020 marks the 11th year of the global expansion, making it the longest expansion ever. When will the next recession start?

1. This year – 2020

2. Next year – 2021

3. Not so distant future – 2022 or later

Survey question 2: What asset class will achieve the highest returns in 2020?

1. Equities
2. Fixed income
3. Commodities (metals/oil/agriculture)
4. Gold
5. Alternatives
6. Cryptocurrencies

Survey question 3: In the last 2 years, the US stock market (S&P500) had a total return of 32%, while Asia ex Japan had a total return of 1.8%. Will Asia outperform and start to catch up in 2020?

1. Yes
2. No
3. Too tough to call

Survey question 4: What is the greatest risk to global markets in 2020?

1. Geopolitical turmoil (Middle East, Europe or others)
2. Prolonged and worsened economic slowdown in 2020
3. US elections
4. Increasing inflation leading to rising interest rates

Survey question 5: Ignoring personal preferences, who is most likely to win the US Presidency in 2020?

1. US President Donald Trump
2. The Democratic Candidate
3. Other

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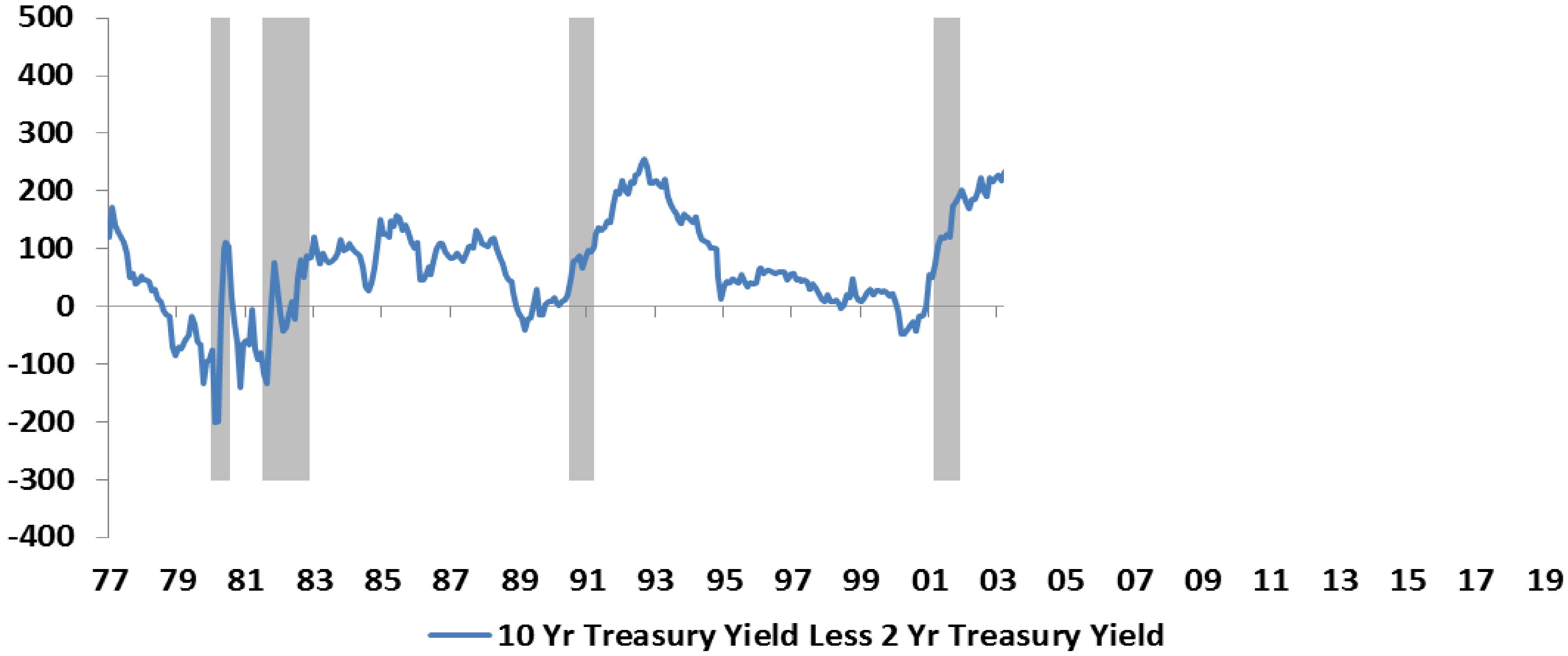
Transition video – Dodging a Bullet
(to be inserted by the AV Team. Shah refer to horizon video)

Recession warnings in 2019 – the Yield Curve

- The yield curve always inverts before a recession.
- In August 2019, alarm bells rang when the yield curve inverted.

Yield Curve before Recessions



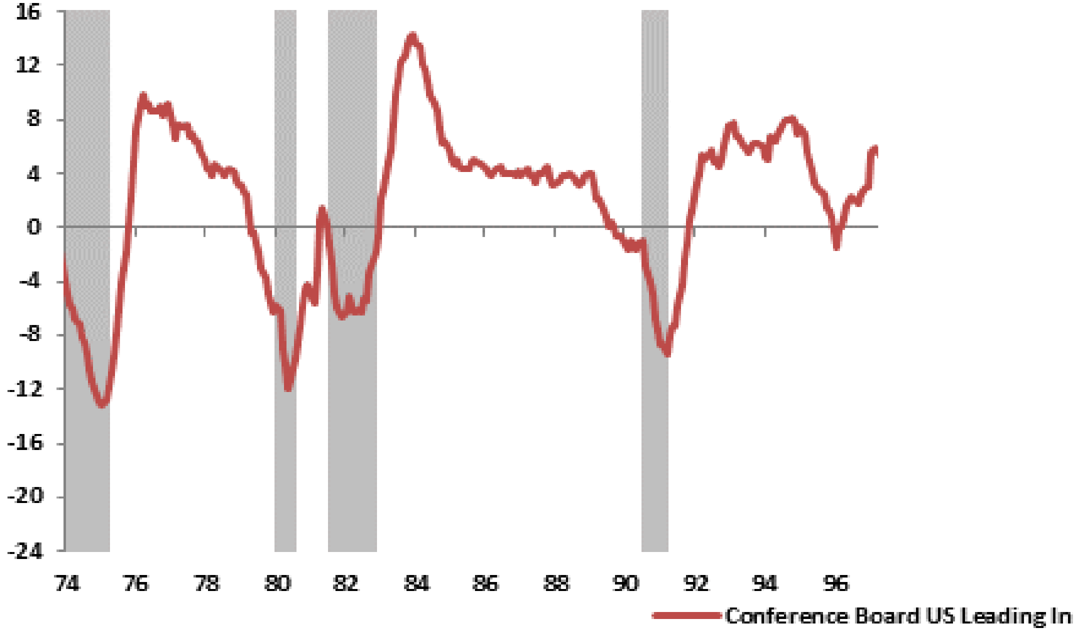
Grey bars denote periods of economic recession, greyed out arrows reflect the level of the indicator from the previous quarter.

Source: UOBAM, January 2020

Recession warnings in 2019 – Leading indicators

- Indicators were very positive at the start of the year .
- They slid all year before hitting negative territory at the end of the year.

Leading Indicators before Recessions

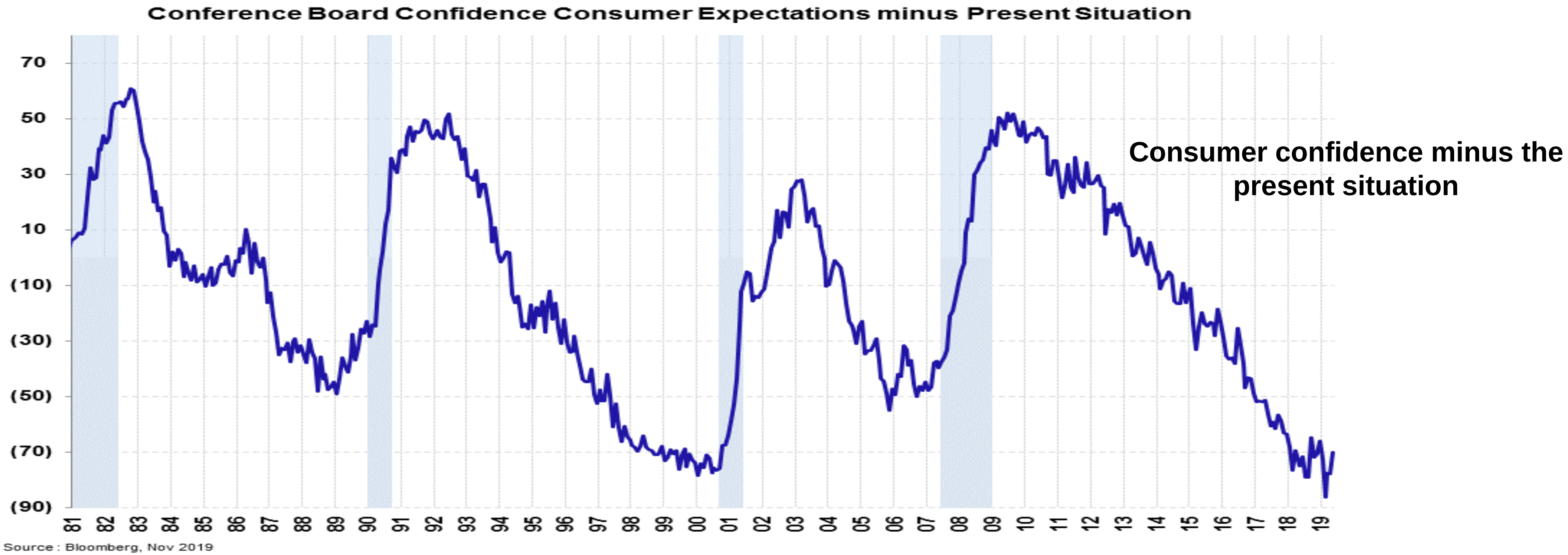


Grey bars denote periods of economic recession, Greyed out arrows reflect the level of the indicator from the previous quarter.

Source: UOBAM, January 2020

Recession warning signs in 2019 – The expansion has lasted 11 years, evidence the consumer is tired

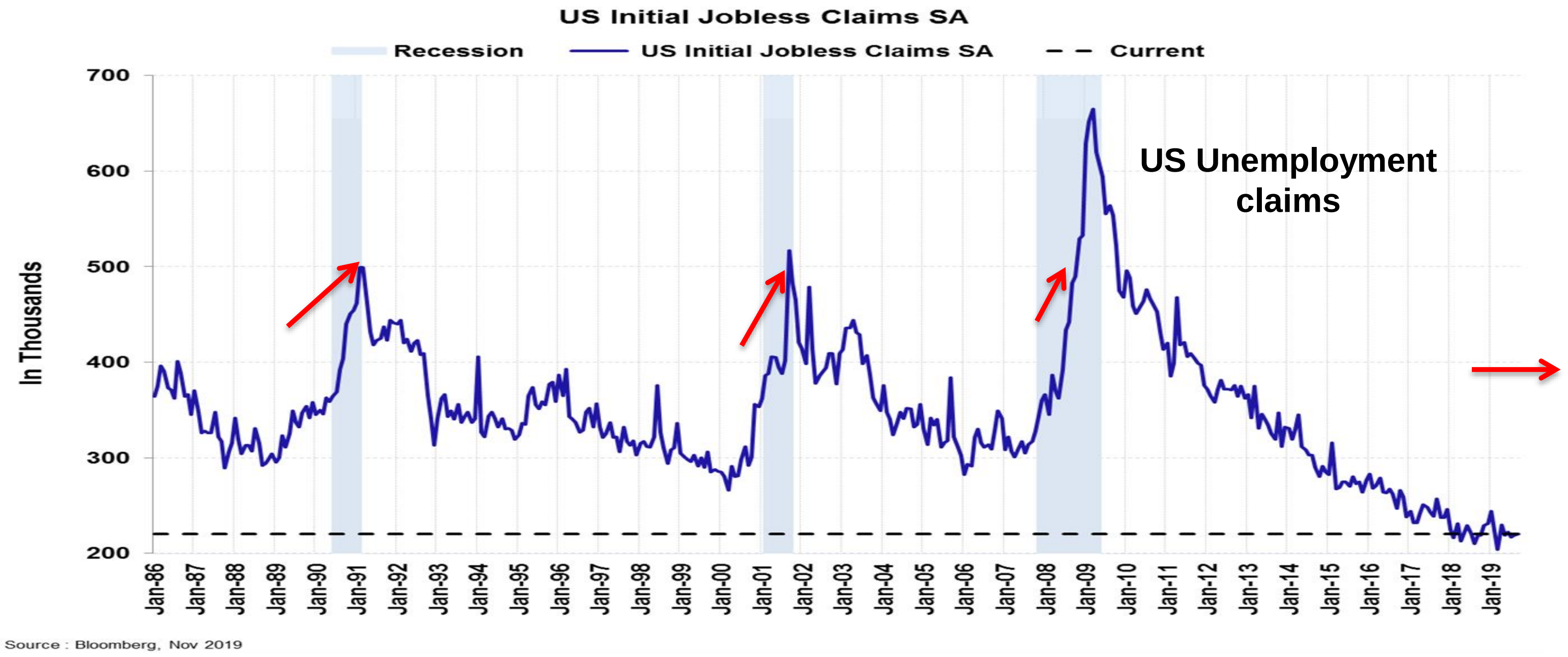
As the expansion continues, future consumer confidence declines relative to current conditions.



Source: UOBAM, January 2020

When businesses struggle, they cut costs and workers

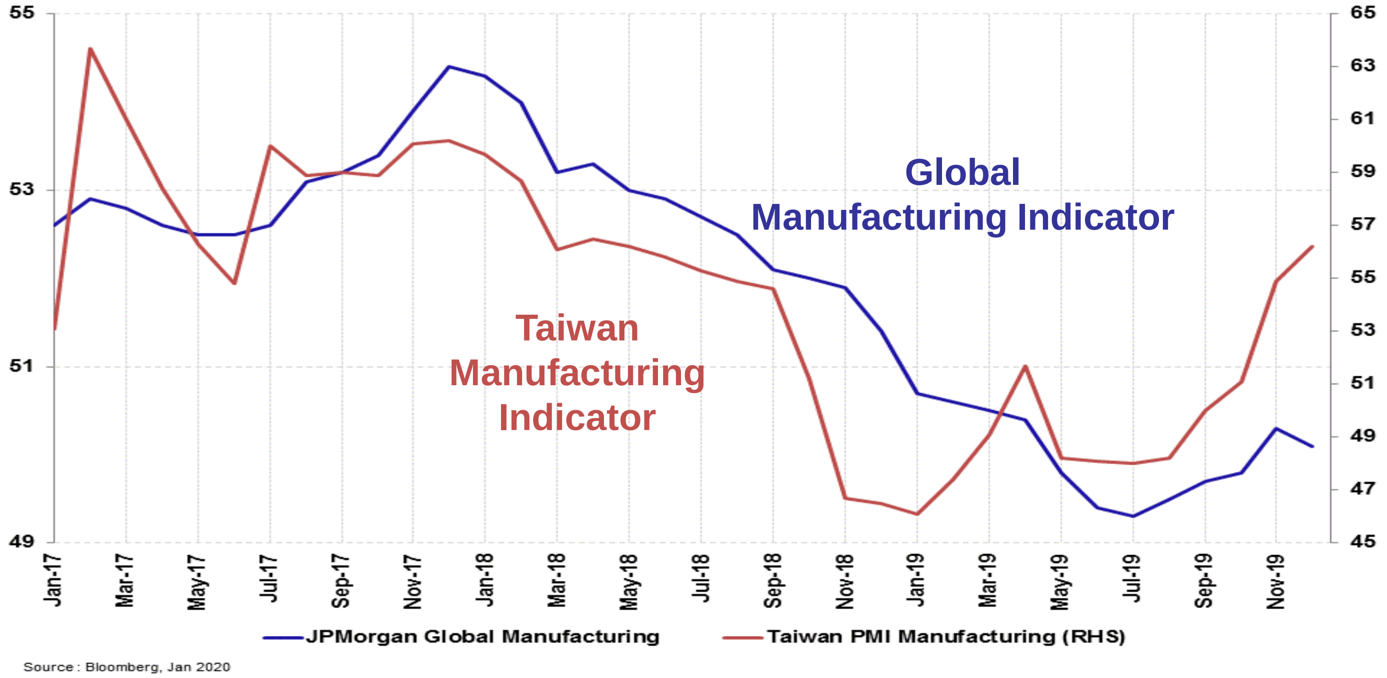
No evidence of significant retrenchments – unemployment claims remain at very low.



Source: UOBAM, January 2020

While manufacturing fell sharply, it appears to be stabilising at the start of 2020

Global manufacturing (in blue) fell to recessionary levels in 2019 – but is stabilising. Taiwan's PMI tends to lead the global PMI and is already bouncing.



Source: UOBAM, January 2020

Conclusion for 2019

1. Industrial production, business investment, manufacturing, and trade declined sharply in 2019 as they would before a recession.

2. But the weak business climate was supported by interest rate cuts and businesses never started to reduce labour supply.

3. Stable employment means stable consumption and consumption makes up 70% of developed market economies.

4. At the end of the year, leading indicators were stabilising and recovering.

Bottom line: It was a close call, but weak business conditions did not spread to the rest of the economy and appeared to be stabilizing at the end of 2019.

Source: UOBAM, January 2020

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Transition video – Curiouser and Curiouser
(to be inserted by the AV Team)

The curious investment years of 2018/2019

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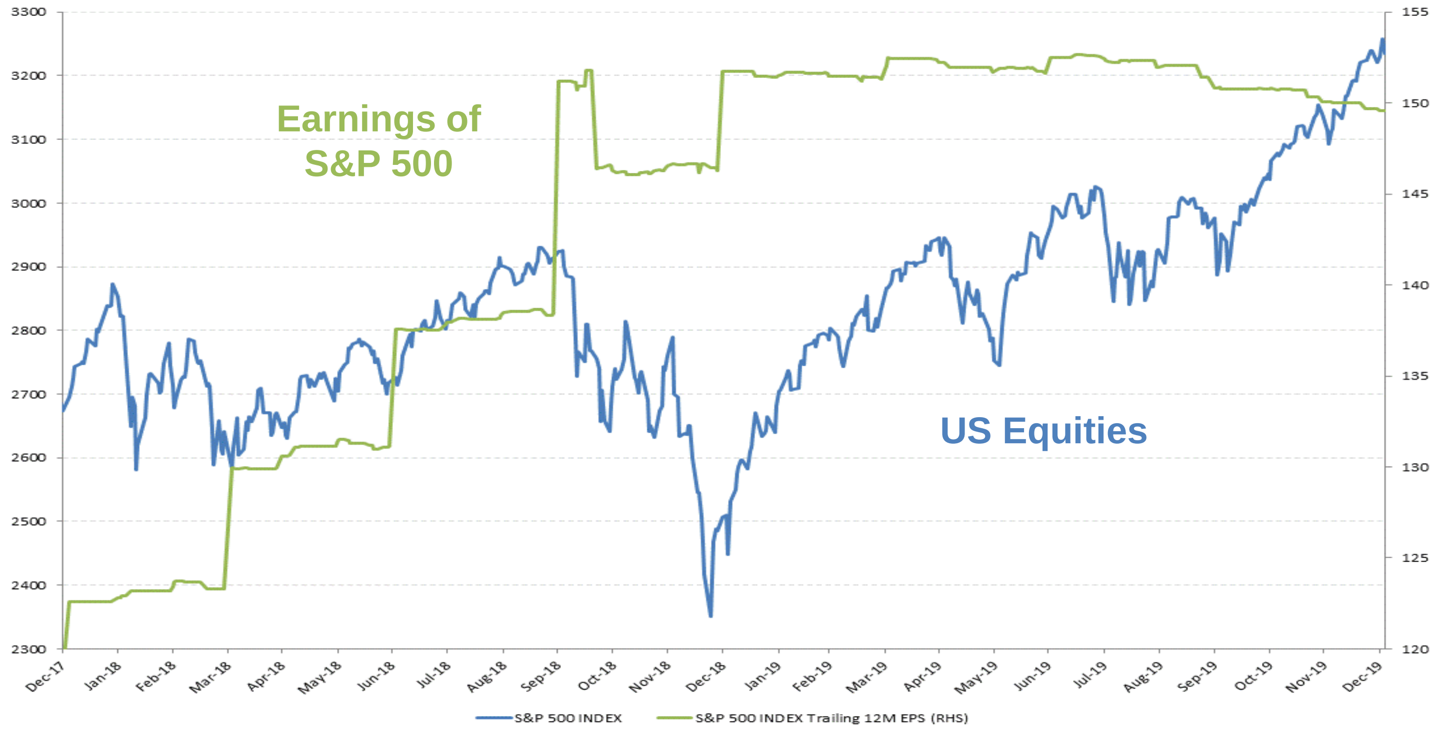
While growth relative to market performance does not make sense in 2018/2019, the average of the two years looks quite reasonable.

	2018	2019	Average
Global GDP	3.70%	3.00%	3.40%
Global Corporate Earnings Growth	15%	0%	6%
Leading Growth Indicators	Top 2%	Recessionary	Expansion Continues
Global Equity Returns	-9%	28%	10%

Source: UOBAM, January 2020

The curious investment years of 2018/2019

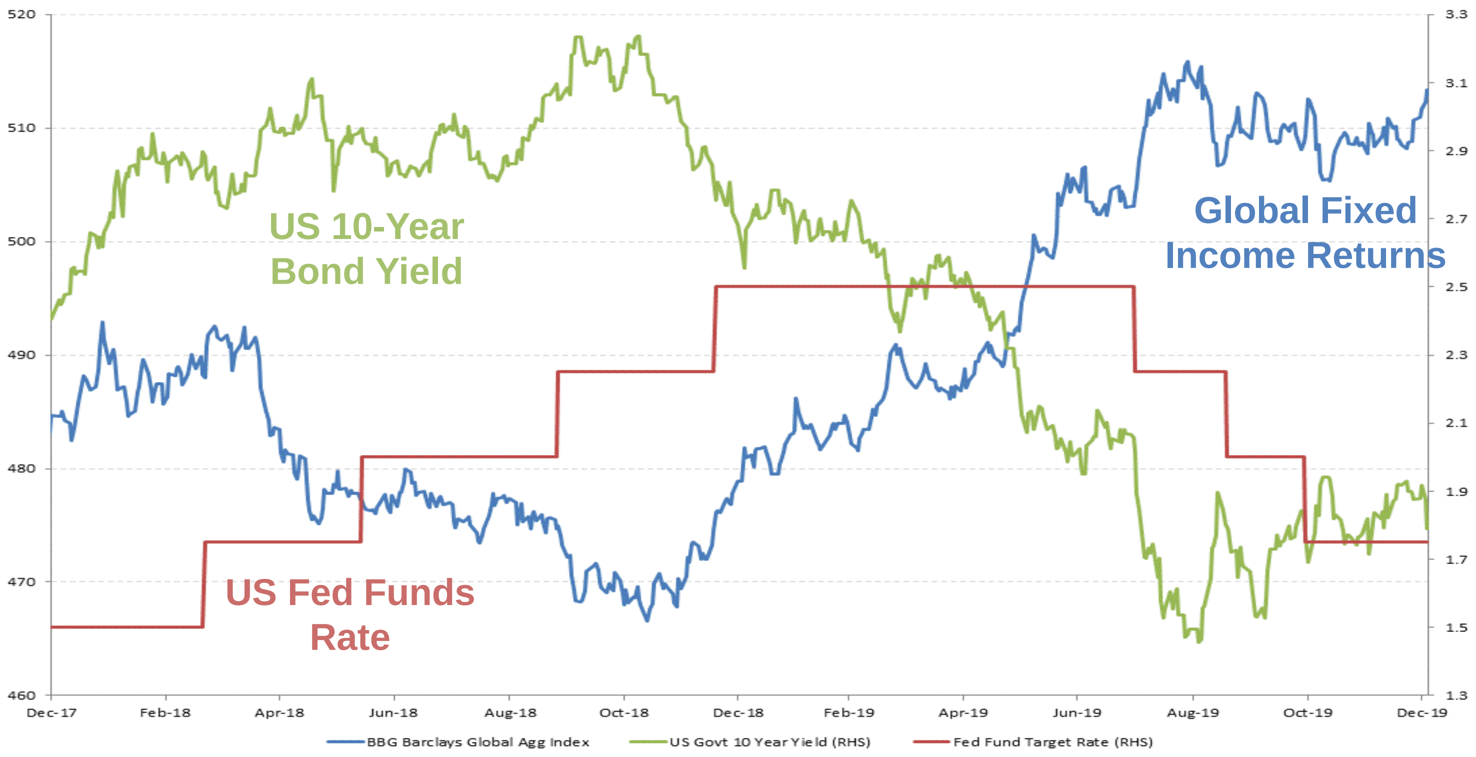
Earnings were great in 2018 –markets **declined 9%**
Earnings were flat in 2019 – markets were **up 28%**



Source: UOBAM, January 2020

The curious investment years of 2018/2019

Fixed income markets have been more logical.



Source: UOBAM, January 2020

Earnings growth will be critical in 2020

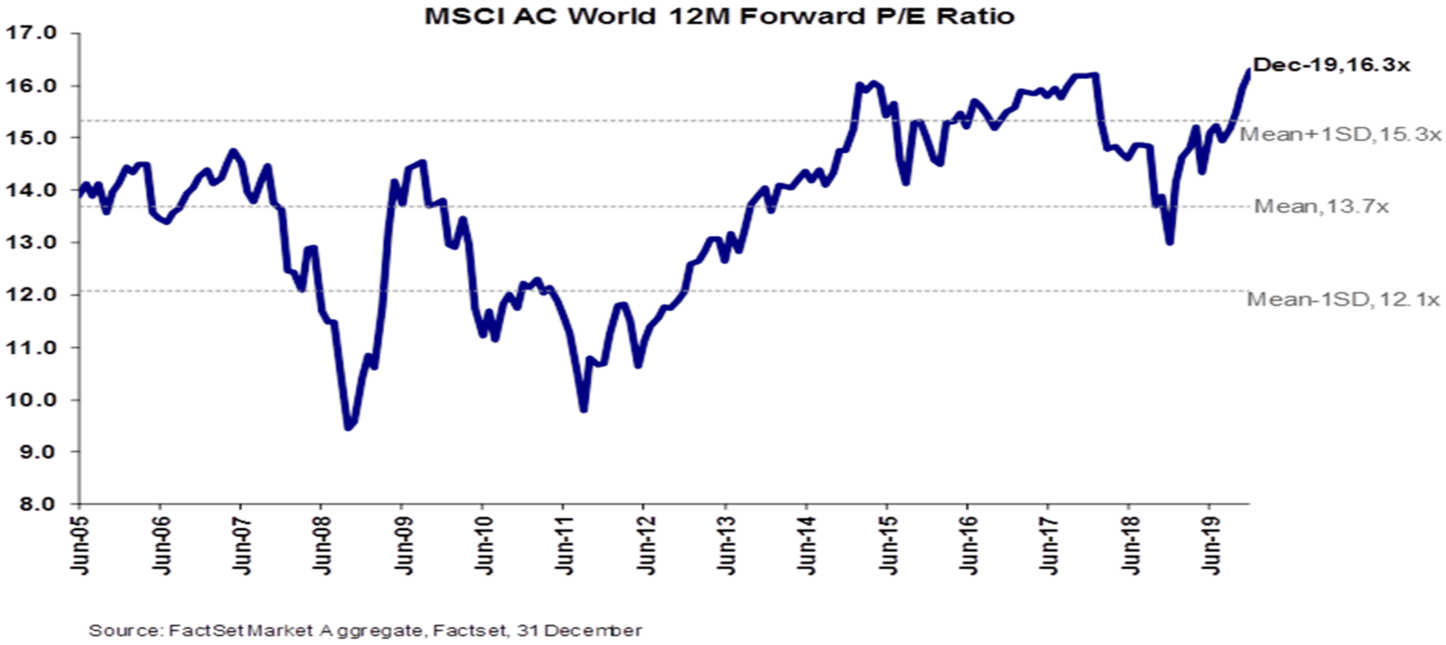
While markets rallied in 2019 without earnings growth, valuations are too stretched now. Performance in 2020 will be driven by earnings growth.

	EPS growth 2019E	EPS growth 2020F	ROE 2020F	PER 2020F	P/BV 2020F	Dividend Yield 2019F
US	-0.7%	10.4%	18.1%	17.8x	3.2x	1.8%
Europe	-0.7%	7.7%	12.1%	14.2x	1.7x	3.7%
Japan	-10.5%	5.2%	8.5%	14.3x	1.2x	2.4%
Asia (ex. Japan)	-8.8%	13.8%	11.0%	13.0x	1.4x	2.6%
China	5.0%	12.0%	12.9%	11.4x	1.5x	2.3%

Source: Factset, UOBAM, December 2019

Equities are expensive by almost all measures

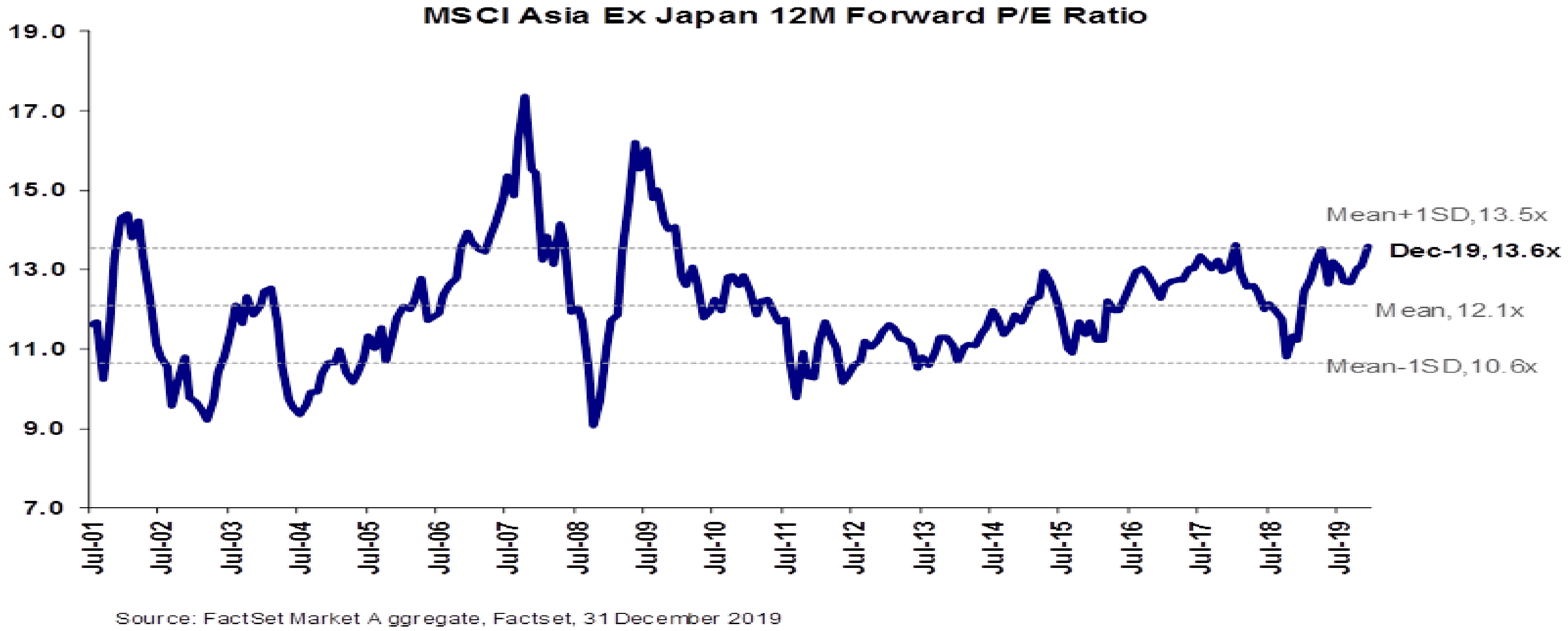
Markets were able to rally without earnings in 2019 as valuations went from cheap to expensive.



Source: Factset, UOBAM, December 2019

Asian Equities are not quite as expensive

Asian equities are at the upper range of valuations but not as expensive as global equities. Furthermore, earnings growth is looking more attractive for Asia in 2020 than for global stocks.



Source: Factset, UOBAM, December 2019

Rates are low but credit spreads are reasonable

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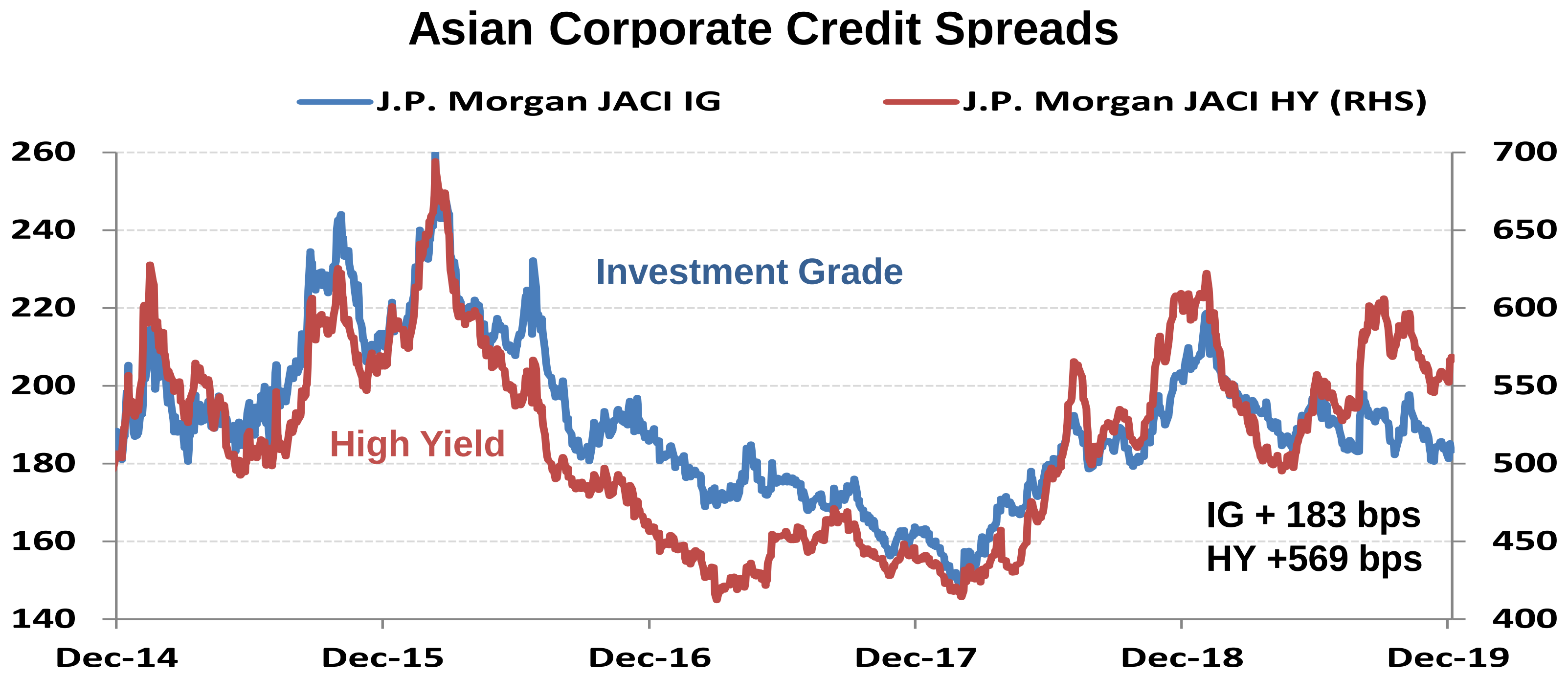
Corporate bonds in general and Asian credits in particular look reasonably priced



Source : UOB Asset Management, Bloomberg, January 2020

Conclusion – Expansion continues but return outlook is mediocre

1. While slightly premature, we think the consensus that we have avoided a global recession is correct.

2. But, a base case “muddle through” environment might not be very exciting.

3. Equity returns will be driven by earnings growth as valuations are already full. We expect earnings growth to be around 7%, which in turn is a reasonable estimate on global equities in 2020.

4. Fixed income returns will be muted as rates are already very low. We don’t expect more rate cuts nor rate hikes in 2020. Fixed income return expectations should be anchored around 3-4%.

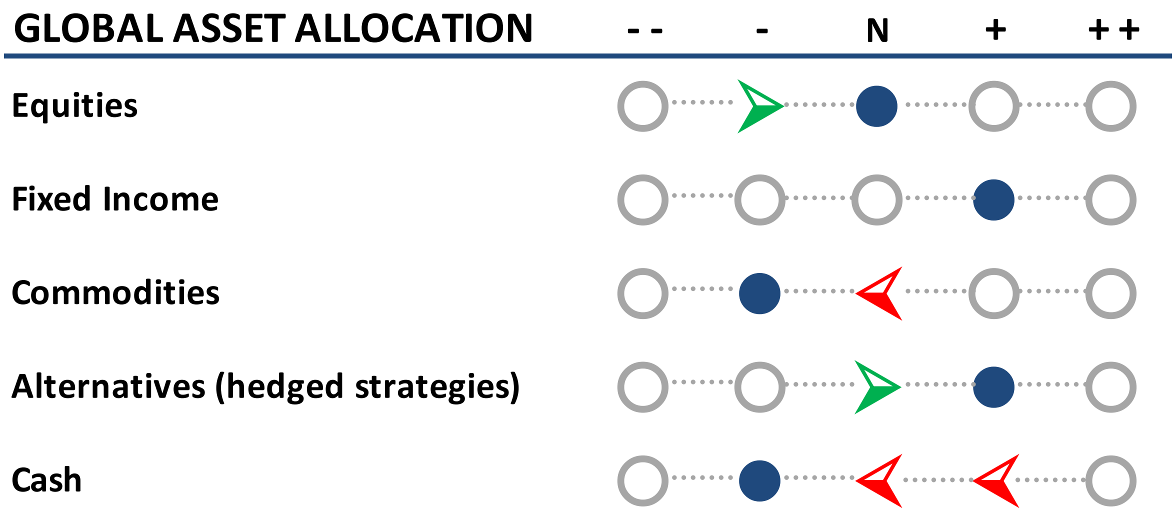
5. We start the year neutral on Asia but it is attractive if trade stabilises.

6. Global growth would likely lead to a mildly softer USD.

7. Alternatives are more attractive with little upside and significant dispersion between stock returns.

Source: UOBAM, January 2020

2020 asset allocation view – The expansion should continue with modest growth



Source: UOBAM, January 2019
Note:
*3-6 months horizon
The weights are relative to the appropriate benchmark(s).
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

1Q20 positioning

GLOBAL ASSET ALLOCATION	- -	-	N	+	+ +
Equities	○	▶	●	○	○
Fixed Income	○	○	○	●	○
Commodities	○	●	◀	○	○
Alternatives (hedged strategies)	○	○	▶	●	○
Cash	○	●	◀	◀	○

	- -	-	N	+	+ +
FIXED INCOME	○	○	○	●	○
DEVELOPED	○	○	○	●	○
US T-Bills	○	○	○	●	◀
G7 Sovereigns	○	○	○	●	○
Investment Grade	○	○	○	●	○
High Yield	○	●	○	○	○
Leverage Loans	○	●	◀	○	○
Cocos	○	○	●	○	○
Duration	○	▶	●	○	○
Yield Curve*	○	○	●	○	○
EMERGING MARKETS	○	●	○	○	○
EM IG	○	○	○	●	○
EM HY	○	●	○	○	○
EM Local Currency	○	●	○	○	○
Asia IG	○	○	○	●	○
Asia HY	○	▶	●	○	○
Asia Local Currency	○	▶	●	○	○

EQUITY REGIONAL ALLOCATION	- -	-	N	+	+ +
DEVELOPED	○	○	●	◀	○
US	○	○	○	●	○
EUROPE	○	▶	●	○	○
JAPAN	○	●	◀	○	○
CANADA	○	○	●	○	○
AUSTRALIA	○	○	●	○	○
EMERGING	○	▶	●	○	○
Asia Ex-Japan	○	▶	●	○	○
LATAM	○	▶	●	○	○
EMEA	○	○	●	○	○

	- -	-	N	+	+ +
COMMODITIES	○	●	◀	○	○
Gold	○	○	○	●	◀
Base Metals	○	●	○	○	○
Bulk Commodities	○	●	○	○	○
Energy	○	○	●	○	○
Agriculture	○	●	○	○	○

Source: UOBAM, January 2020

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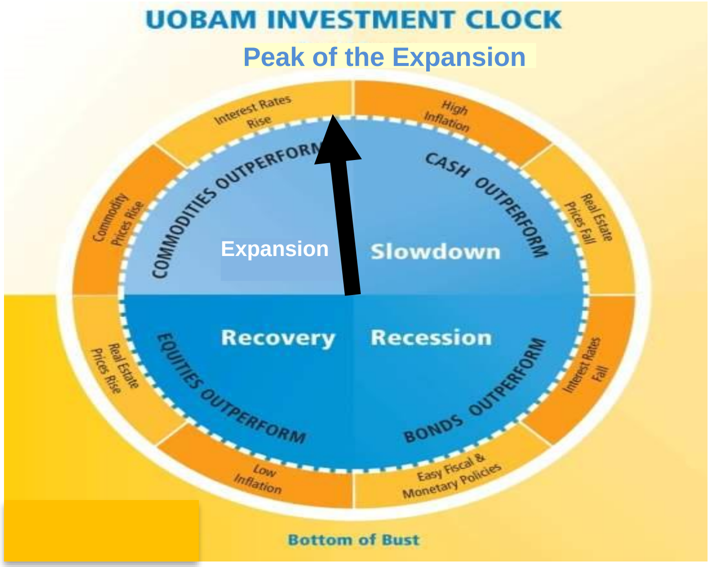
Burning questions for 2020:
In this 11th year of expansion, how do we think about cycles?

1. Is the clock stuck at 11:59?
2. Do we have any precedent on how markets will behave?
3. What will be the signs of the next recession?



The new UOBAM investment clock

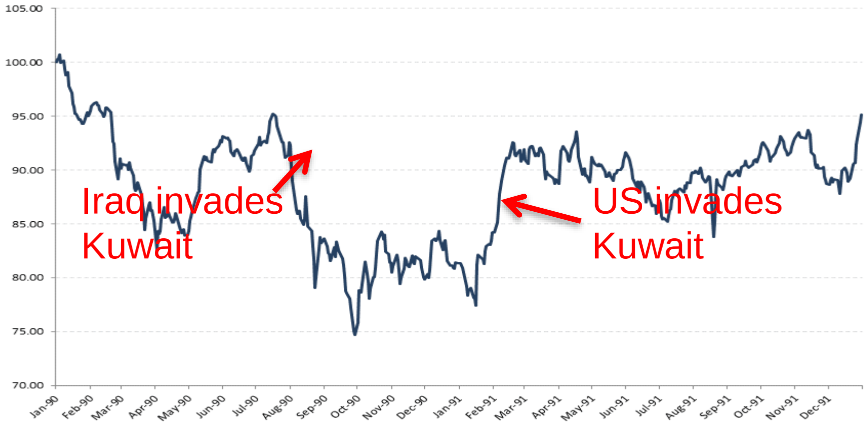
Source: UOBAM, January 2020

Burning questions for 2020:
Will Geopolitics destabilise markets in 2020?

Middle East Conflicts (Iran/US, Saudi/Iran, Israel, etc)
North Korea refuses to denuclearise
Trade tension flare-ups
European politics after Brexit

Historically, geopolitical conflicts caused sharp corrections – but the effects were temporary.

Global Equities – Gulf War



Source: UOBAM, January 2020

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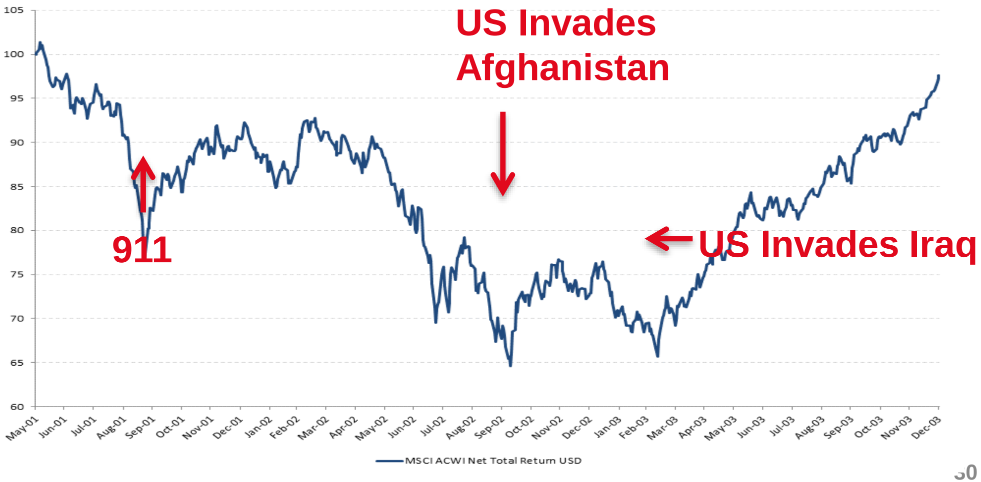
Global Equities – Iraq War



Source: UOBAM, January 2020

Burning questions for 2020:
Will Asian equities outperform in 2020?

Asia Outperformance Check List:

1. USD neutral or weak ✘
2. Trade conflict risks are declining? ✘
3. Global trade is expanding ✘
4. Global growth is accelerating (even mildly is ok) ✓
5. Asian valuations are relatively attractive ✓
6. Developed markets suffer from high valuations or weak growth ✓

We start the year **neutral** on Asia, but have a careful eye on its prospects as it has potential to be a top performer.

Source: UOBAM, January 2020

Burning questions for 2020:
How will US elections affect markets in 2020?

1. Incumbents have a big advantage

2. US and UK elections tend to rhyme:
   - Reagan/Thatcher
   - Clinton/Blair
   - Johnson/Trump

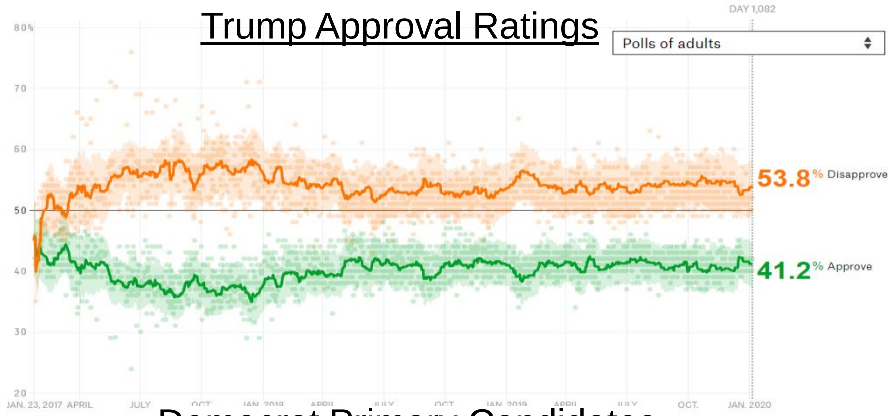
2. Warren/Sanders are liberals – somewhat similar to Corbyn

3. No president has been re-elected with approval ratings below 45%

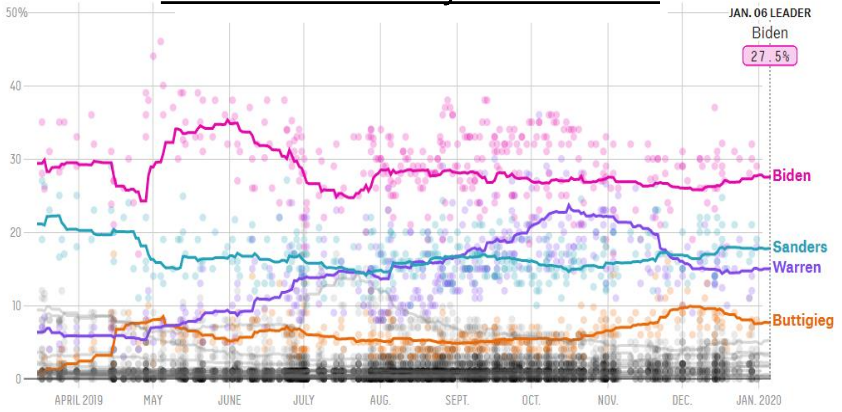
4. Joe Biden is more moderate, and similar to Obama and Clinton

5. Polling has been steady – Biden is leading the primaries and Trump has low approval ratings

Trump Approval Ratings



Democrat Primary Candidates



Source: UOBAM, January 2020

Burning questions for 2020:
How will US elections affect markets in 2020?

Most investors seem to believe that Trump is more market-friendly, but Biden will likely be seen as an extension of Obama (and markets did as well or better under Obama).

Conclusion: The election is likely to be close, but both candidates are likely to be market friendly.

Equity Market Performance Under Obama and Trump

Source: UOBAM, January 2020

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