Quarterly Investment Strategy
Fourth Quarter 2020

A brave new world of investing

UOB Asset Management

Contents

This is an interactive PDF. For ease of reading, simply click on the navigation bar to go to the desired section.

Investment Strategy

The global recovery from the fallout of the coronavirus (COVID-19) pandemic has to date surpassed expectations. The economic recovery is significantly ahead of the consensus of economists a few months ago. The vaccine timeline has potentially been shortened to one that was previously unthinkable. Global policy support has meanwhile gone far beyond what many thought was possible and the US Federal Reserve has furthermore signalled a strong commitment towards keeping interest rates low for substantially longer in order to get the American economy back to its feet.

We continue to believe that the rapid recovery in the markets is justified despite the large divergence with the real economy. In fact, they will be comfortable leading the recovery by a year. If the economic recovery and vaccine timelines continue to beat expectations, we should be prepared for markets that may surpass pre-crisis levels. While it may appear that markets are being 'delusional' in its high-octane pace in recovery since the meltdown in March, we continue to recommend investors to stay invested in these markets in a broad diversified manner.

Contents

Global Asset Allocation

Sector Allocation	View	Notes
Equities	■	**Rationale:** We are constructive on equities and think the rally has been justified despite the large differential from the real economy. But while the market has fully recovered with possible further upside, it requires the economy, vaccines and supportive policies on both the fiscal and monetary fronts without any of these key elements going awry. **Risks:** The markets are pricing in an ideal scenario and assuming nothing will go amiss. The risks of vaccine delays or increasing stress on emerging markets still stand out as issues that could derail the recovery.
Fixed Income	+	**Rationale:** Rates are low but credit spreads are still wider than pre-crisis levels. It has been our view that equities and credit spreads will return close to pre-crisis levels. We think there is still more to go for spreads to approach pre-crisis levels. We have thus overweight credit and underweight government bonds. **Risks:** We have been concerned that an economic rebound together with loose monetary policy may trigger inflation. That remains a risk but has been somewhat mitigated by the US Fed shift to that of an average inflation target which delays the prospects of interest rates hikes.
Commodities	■	**Rationale:** Commodities are a mixed story. We think gold remains an attractive asset class and has become a preferred safe haven asset over government bonds. But energy/oil and industrial commodities will need a stronger recovery to be more attractive. **Risks:** Energy/oil and other industrial commodities are at risk of a disappointing recovery from rise in interest rates.
Alternatives	■	**Rationale:** The current markets have a high degree of dispersion between the winners and the losers. This makes it an ideal market for alternative strategies that depend less upon market beta and more on alpha generation from specific investment opportunities. **Risks:** The dispersion of top performers and bottom performers is large which creates opportunities but also subjects the market to outsized reversals which could hurt specific alternative strategies.
Cash	-	**Rationale:** Rates are so low and liquidity is so loose that cash has little value if not deployed to work for returns. **Risks:** If all asset classes overshoot and undergo corrections, investors may regret not maintaining some cash buffer.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

We remain constructive on the global recovery and believe the recovery in risk assets is justified despite the large divergence in equities and the real economy. We also think that further upsides should not be dismissed as the trajectories of economic recovery, vaccine schedules and central banks' support levels have all been running ahead of expectations. Our base case however is for modest returns from here onwards and thus maintain a Neutral outlook on equities, especially against a backdrop of elevated volatility. We are underweight in government bonds but overweight in investment-grade credits as we expect spreads to return to pre-crisis levels similar to the path taken by equities.

Contents

Global Investment Strategy

A brave new world of investing

The global rebound in markets has accelerated at a pace that exceeded our base case projections. We had highlighted in the last quarter that we expected a fast market rebound to close to pre-crisis levels despite the fact that the global economy was haemorrhaging from a large downturn. We had also highlighted in our "square root" theory which suggested that even though the economic recovery will not occur until next year, the market recovery will price that recovery sooner than later, and then returns would flatten as the world takes time to "heal". Thus, we argued that the large divergence between the real economy and the markets was more rational than it had appeared. The recovery from April through July appeared to be going according to script, but the further rally in August has taken global markets 1% above the pre-crisis levels in February. This goes beyond the square root recovery premise which only suggests markets should get close to but not exceed pre-crisis levels and proceed subsequently at a subdued or sub-par pace. That however has not materialised largely because of the massive liquidity sloshing in the global financial system, which implies that markets are either overshooting or a more bullish scenario is forming. Back in April we highlighted our base, bull and bear cases for the rest of 2020 with chances of occurrence placed at 60%, 20% and 20% respectively. We have raised the bull odds to 40% with those of the base and bear scenarios altered to 40% and 20% respectively. In other words, the chances of our former base and bull cases are roughly equal.

The bull case theory required many things to go right. Firstly, we needed a faster than expected recovery and one that is fairly close to a V-shaped recovery. Next, we needed fiscal policy support to bridge income levels until broad-based global activities can safely resume and be sustained. Furthermore, some of the fiscal policy support needed to be in the form of Keynesian investment spending on industrial or economic infrastructure that would allow the recovery to be sustained at stronger levels than prior to the pandemic-induced crisis. Then we needed medical breakthroughs in testing, treatments and vaccines that will make dealing with the coronavirus (COVID-19) more manageable in 2021 in order to enable a fuller recovery. Finally, we needed long-term commitments from central bankers to provide multiple-year policy support which would encourage investment and spur growth. If all these elements come to pass, not only can markets get close to pre-crisis levels as in our base case suggestions, it will surpass pre-crisis levels and may be overheat at certain junctions.

We believe that the key elements of the bull case have been coming together more rapidly than expected. At the same time, it seems prudent to warn that the bull case requires a lot to go right. Our approach is to recognise the potential upside, but not bet too heavily on the scenario that still has many ways to unravel and can be undermined by any series of events.

> "The key elements of the bull case scenario have come together more rapidly than expected."

Our assessment of the bull case "scorecard" is that a lot went right in August. Economic data trends have been significantly better than expected. Economic indices around the globe have largely exceeded forecasts instead of the bleak downturn figures feared due to the fallout from COVID-19. Sectors such as housing and retail sales in the US have already fully recovered and are looking V-shaped. Global fiscal policy has been far larger than expected. Treatments and vaccines are ahead of schedule. The US Fed had in August essentially committed to many more years of low interest rates. The scorecard looks like all the items of the bull case are coming together, and we think there are strong reasons to be positive on global markets.

Contents

On the other hand, many risks remain that may upset the bulls' apple cart. We worry that the treatments and vaccines may not kick in fast enough before fiscal support measures start to run out. In other words, a case of the fiscal "bridge" being not long enough to get the global economy to a period where vaccination programmes lead to more easing of restrictions such as social distancing measures and hence opening up of economic activities. Even so, there may be challenges of public trust in a viable vaccine, as well as the capability to sufficiently and rapidly produce for a global population with daunting hurdles in logistics and transportation, such as keeping the vaccine doses at specific low temperatures to ensure their efficacy. Risks in emerging markets appear to be growing as the pandemic spreads to countries that have fewer resources to cope with the virus spread, which raises the risks of an emerging market crisis.

Hence, we remain neutral on global equities and are slightly overweight in fixed income with a focus on investment-grade credits. Within equities, we are overweight in the US where we see attractive listed companies and a deep level of supportive policy ammunition. We are also overweight on Asian equities which have generally managed and weathered the crisis better and appear better poised for long-term growth while backed by better valuations. Within fixed income, we are underweight in government bonds, neutral on high yield credits but overweight in investment-grade credits as we expect spreads to continue to tighten.

Contents

US Equity

Country Allocation	View	Notes
US 	+	**Rationale:** We keep the US as overweight despite its strong year-to-date outperformance. We continue to think that the attractive growth companies listed in the US coupled with the deep reserves in policy firepower to support recovery efforts justify the US overweight. **Risks:** The US has fared badly in its virus containment efforts with one of the world's worst trends in both cases and fatalities. Our base case assumes a vaccine will be available by early 2021, but if that fails to materialise, there will be more downside. Additionally, the US elections in November threatens to add another layer of market uncertainties.

Summary

Our overweight to the US has now been maintained for the fifth year in a row and continues to be justified. The combination of having most of the most attractive companies to invest in and broad economic support and leadership continues to make the US the premier location for investments during current uncertain times.

Europe Equity

Country Allocation	View	Notes
Europe 	–	**Rationale:** Europe has managed the crisis better than the US and it has used the crisis to make bold moves toward better European cohesion. But the economic trends are more muted than in the US and an ugly resolution to Brexit remains a high possibility in the fourth quarter. **Risks:** While Europe has made clear steps towards better European cohesion, European politics remain very complicated and slippage and missteps remain a possibility.

Summary

Europe usually performs badly in a crisis as it is usually handcuffed by policy limitations due to the nature of the European Union. So far Europe has recovered well and manage internal political differences as smoothly as can be expected, but we remain cautious during such volatile times especially in the face of an acrimonious Brexit.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Contents

Japan Equity

Country Allocation	View	Notes
Japan 	–	**Rationale:** Japan is a large export-orientated economy at a time when its exports have plummeted due to the fallout from COVID-19. It has cautiously managed the pandemic and kept its population relatively safe but the economy has lagged in the recovery phase via-a-vis other regions. **Risks:** On top of the current economic woes, Japan now faces the political uncertainties of the post-Abe era.

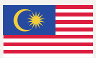
Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

Japan remains an underweight as we expect global exports to lag the overall recovery. As Japan is an export-orientated economy, the current rebound is weaker than most regions and we expect that it will take at least another quarter for its recovery to broaden. GDP growth is vulnerable to downside risks from slowing external demand and fallout from US-China tensions. A better than expected rebound in domestic demand and/or further fiscal support could partially offset the slowdown in exports.

Contents

Asia Ex-Japan Equity

Country Allocation	View	Notes
Mainland China 	+	**Rationale:** Best near-term economic growth outlook among most countries. Sizeable weight in internet economy companies with businesses that have proven resilient in the face of COVID-19 disruptions. Structural tailwinds for China 'A' shares from rising index representation and positive capital market reforms. **Risks:** US-China tensions impact on trade and supply chains.
Hong Kong 	-	**Rationale:** Continued economic headwinds from pro-democracy protests, decline in mainland tourism. National security law eroding status as a financial hub. **Risks:** HK democracy protests subside. Mainland tourism and demand recovers.
India 	■	**Rationale:** Corporate results have not been as bad as feared despite weak GDP. Strong cost control should support profit margins. **Risks:** Better-than-expected fiscal and/or monetary policy measures. Weak oil price leads to improvement in the balance of payments and strength in the Indian Rupee (INR). Delays in lifting of lockdown and/or slower-than-expected pace of normalisation.
Indonesia 	+	**Rationale:** 2Q20 GDP has likely troughed with scope for further monetary easing to support domestic growth. **Risks:** Inability to contain virus spread. Lower commodity prices. Rupiah weakness.
Malaysia 	■	**Rationale:** Valuation is unattractive against a relatively mediocre earnings outlook within the ASEAN region. **Risks:** Oil price rebound may strengthen MYR and boost the market. Political noises may dampen investor sentiments.
Philippines 	-	**Rationale:** Valuation is supportive, but uncertainty over extended lockdown likely to delay economic recovery. **Risks:** Earlier-than-expected containment of COVID-19 spread and/or ability to ease lockdown measures.
Singapore 	■	**Rationale:** Government support may have peaked against a lacklustre domestic recovery. Absence of a strong growth engine in the near future. **Risks:** Prolonged economic disruption from intermittent and/or extended COVID-19 restriction measures. Weaker-than-expected external demand due to US-China trade tensions.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Contents

Country Allocation	View	Notes
South Korea	■	**Rationale:** Economy has bottomed alongside a pick-up in exports. Domestic market's tech-heavy make-up is vulnerable to near-term risk of semiconductor inventories correction. **Risks:** Exports susceptible to US-China trade tensions especially the impact on the tech supply chain.
Taiwan	■	**Rationale:** Demand for tech hardware could see near-term weakness owing to restrictions imposed on Huawei which will impact Taiwanese tech firms. **Risks:** Disruption to tech hardware supply chain due to US-China trade tensions.
Thailand	■	**Rationale:** Slowdown in GDP growth has been largely discounted. The pace of corporate earnings downgrades have slowed. **Risks:** Oil prices rebound. Earlier-than-expected easing in international travel.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

We remain constructive in our views of Asian markets. There is an evident recovery in economic activities with a rebound in industrial output accompanied by a pick-up in services. The pace of recovery and subsequent growth trajectories though continues to be uneven. North Asia markets continue to be more resilient largely owing to strong policy support, better containment of virus outbreaks as well as higher exposure to the technology sector which has outperformed year-to-date.

Looking ahead, the weaker US dollar will benefit Asia's export cyclical economies. Positive developments on the vaccine front, continued global monetary and fiscal stimulus and the absence of widespread waves of COVID-19 infections will be catalysts for expansionary capital expenditure that will drive a more positive corporate earnings outlook, while intensifying US-China tensions pose key risks ahead of the US presidential elections in November.

We continue to favour North Asia over ASEAN and India as the former is ahead in its economy re-opening and recovery path. We maintain our overweight stance on the China market. China has the best near-term economic growth prospects and representation in the type of companies with businesses that have proven to be resilient to the COVID-19 in areas such as e-commerce, social media, internet economy. In particular, we are positive on China 'A' shares which enjoy structure tailwinds such as increasing index representation and positive capital market reforms. The China market's valuations still look reasonable despite its outperformance.

We remain neutral on South Korea and Taiwan. Tech demand has been resilient throughout COVID-19. However, the tech cycle could potentially see a more subdued growth due to supply/demand disruptions from expanded restrictions on the Chinese tech sector amid rising US-China tensions. Both South Korea and Taiwan also lack sizeable domestic economic engines as buffers to fallouts from the disruption of global technology supply chains.

Contents

Hong Kong remains an underweight. The economy is still mired in recession due to the double whammy of social unrest and plunge in receipts from mainland tourism. The implementation of the national security law and subsequent suspension of US special trading status have further eroded its status as a financial hub. We have raised India to neutral as corporate results had been less bad than feared despite weak GDP growth outlook. Strong cost controls have and can continue to support profit margins.

Within ASEAN, we remain neutral on Malaysia as valuations are unattractive against poor earnings outlook within ASEAN. We remain underweight for the Philippines as uncertainties over extended lockdown will delay its economic recovery. We have downgraded Singapore to neutral as government support measures may have peaked against a lacklustre domestic economic recovery.

On the other hand, we are less bearish on Thailand and Indonesia. We have upgraded Indonesia to overweight as its 2Q20 GDP has likely troughed and the central bank has flexibility for further monetary easing. We raise Thailand to neutral as the slowdown in GDP growth had largely been discounted while the pace of corporate earnings downgrades has slowed.

Key downside risks to our constructive stance on Asia includes setbacks on the COVID-19 vaccine front and an escalation of ongoing US-China tensions that can have ripple economic impacts on trade due to restrictions and sanctions.

Contents

Global Fixed Income Strategy

Sector Allocation	View	Notes
Developed Markets (DM)	■	**Rationale:** While DM remains a safer place to park assets, the zero or negative rate environment means better opportunities will be sought elsewhere. **Risks:** There could be a seismic shift in positioning if the Fed decides to adopt negative rates.
DM Government	-	**Rationale:** While we do not expect prices of sovereign bonds to necessarily head lower, low yields are not attractive from a total return perspective. **Risks:** Most central banks appeared to have reached their terminal rate but there could be more price upsides if there are further cuts that infringe into negative territory.
DM Credit	+	**Rationale:** Investment grade (IG) credits provide better alpha than sovereign bonds, while high yield (HY) assets should be supported by abundant liquidity. **Risks:** Another strong risk-off episode could see flows return in favour of sovereign bonds.
Emerging Markets (EM)	-	**Rationale:** While EM hard currency bonds appear to be buoyed by the rising tide of liquidity, it remains to be seen if the market will be more discerning in 2021 vs 2020. **Risks:** Central bank balance sheets will continue to expand for some time and the bout of liquidity is not expected to dissipate anytime soon, leading to higher prices of EM assets everywhere.
EM Government	■	**Rationale:** Once again, the distinction between HY and IG is more important than sovereigns and non-sovereigns, especially if HY sovereign names flood the market with new issuances to fund continued deficits. **Risks:** Just like how a rising tide lifts all boats, a broad tsunami will sink all boats if all high population HY sovereigns come into the market at the same time to raise funds for the cost of vaccines.
EM Corporate	-	**Rationale:** With a K-shaped recovery in the works, corporates dependent on the real economy look set for continued distress, especially with government fiscal support running dry. **Risks:** Surge in spending could see corporates tied to discretionary spending receive a boost at the end of 2020 or the start of 2021 when a vaccine becomes available.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Contents

Sector Allocation	View	Notes
EM Local Currency	--	**Rationale:** EM local currency faces numerous headwinds from potentially weaker currencies and loss of investor confidence going forward, especially if fiscal deficits persist. **Risks:** A sharp V-shape recovery could see an increased risk appetite for EM assets.
Duration	■	**Rationale:** Although long-end yields have moved higher after Fed Chair Powell advocated average inflation targeting as a shift in monetary policy towards inflation targets, our view is that yields should stay low for a long time. **Risks:** A sharp spike in inflation could see inflation bulls start to worry again, which may see a sell-off in long duration bonds.
Yield Curve	■	**Rationale:** Monetary policy should be a non-event for a very long time and it would be hard to imagine the yield curve steepening too much. **Risks:** Fears of inflation (not actual inflation) could yet see the long-end of the yield curve steepen if kept unchecked.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

Central bank accommodation has been so abundant that the market is willing to look past record deficits and dodgy finances. While fundamentals are still shaky in some areas, it would be futile to resist the tide of liquidity. Hence, we have turned somewhat neutral on assets in the higher-risk spectrum. For sovereign bonds, we expect monetary policy to be a non-event for the foreseeable future in the absence of inflation and prices should continue in a sideways manner unless another negative shock emerges before the end of 2020.

Contents

Regional Allocation	View	Notes
Latin America	–	**Rationale:** Despite a decent performance in asset prices post-market sell-off, Latin America remains mired in a series of government missteps and unresolved fundamental issues over its economic recovery. Increased pandemic related expenditure is expected to materially increase government deficits and limit fiscal headroom to address any further shocks to its economy. We maintain our view that growth contraction in 2020 will be stronger than expected, and the outlook beyond 2021 remains challenging. For exposure to the region, we prefer lower beta sovereigns such as Uruguay, Paraguay, Colombia and Chile, which are better rated and exhibit lower volatility to exogenous shocks. We stay negative on Mexico, Brazil, Argentina and Ecuador. **Risks:** Recovery in oil and commodity prices, normalisation of the political environment and/or excessive investor risk appetite.
CIS/EE*	■	**Rationale:** We have revised our allocation to neutral on valuation grounds following a firm recovery in asset prices post-market sell-off. Firm external buffers and fiscal discipline frame the region alongside relatively lower vulnerability to geopolitical risks which reinforce attraction as a relatively safe EM haven. However, valuations have turned rich and capped the risk/reward trade-offs within this space. **Risks:** Weaker than expected Euro area growth, deteriorating US-Russia relation ahead of US elections marked by additional US sanctions on Russia.
Middle East	+	**Rationale:** Issuances from the investment-grade sovereigns have performed well even against an (earlier) backdrop of weak oil prices due to still-strong balance sheets. **Risks:** With the weaker Gulf Cooperation Council (GCC) countries likely to face bailouts in the foreseeable future, the whole GCC complex could fall like a stack of dominoes if negative sentiments are not kept in check.
Africa	–	**Rationale:** For Africa, we stay fundamentally underweight in the oil-sensitive sub-Sahara African sovereigns such as Angola, Ghana and Nigeria. Upcoming debt maturities, fiscal stimulus measures and declining government revenues will weigh on the fiscal balance sheets of these countries, and exacerbate thin liquidity buffers. However, in the interim, debt restructuring/relief will play a larger determinant in the direction of asset prices so opportunistic investment themes may present themselves to us. **Risks:** Sustained oil price recovery and larger than expected bilateral/multilateral debt relief without the participation of private debt holders.
Asia	■	**Rationale:** Better than expected macroeconomic data and corporate financial results coupled with the unwavering commitment of global central banks to provide stimulus will likely keep this rally sustainable. That said, focus on credit differentiation is vital in managing idiosyncratic risks. **Risks:** Inability to contain COVID-19, drastic worsening US-China relations and a sharp spike in inflationary pressures may dampen any risk appetite.
Singapore	■	**Rationale:** While still outperforming its regional peers, the low returns on sovereign paper means it would be more prudent to look elsewhere for higher return. **Risks:** If Singapore is listed as a currency manipulator by the US Treasury, SGD could suffer a loss of investor confidence.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

* Commonwealth of Independent States and Central and Eastern Europe

Contents

Currencies

FX Allocation	View	Notes
US Dollar **US$**	■	**Rationale:** While we are underweighting the USD against several DM currencies, continuing headwinds in the real economy mean that it would be more prudent to overweight the USD against the EM complex. **Risks:** USD weakness had been apparent over the past few months as market participants focus on debasement dynamics and we may see further signs of weakness going forward.
Euro **€**	+	**Rationale:** While the outline of the EU Recovery Fund has already been released, the amount of EUR being pumped into the wider economy as measured by the money supply is much lower than in the US. **Risks:** We saw some ECB officials voice these concerns with a high EUR/USD when it broke 1.2000 and more jawboning could see EUR falter.
Japanese Yen **¥**	+	**Rationale:** Like EUR, the debasement in JPY is not as severe as the USD. Furthermore, JPY could be buoyed by its status as a safe haven. **Risks:** If deflation persists, BoJ may yet come out with more monetary innovations which could see JPY fall.
Singapore Dollar **S$**	■	**Rationale:** Singapore is in the midst of its worst-ever recession but it would be hard to ease further as the slope of the NEER is already neutral and it would be hard to justify a negative slope. **Risks:** A second wave in Singapore could see growth forecasts downgraded again, and there could yet be expectations for more easing at the October MAS monetary policy committee (MPC) meeting.
China Renminbi **CNY**	+	**Rationale:** China is the first country to recover from COVID-19 and is the only economy projected to still register positive economic growth this year. **Risks:** Virus management has improved by leaps and bounds but if China made vaccines fail, we may see selloff in the CNY.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

In line with the prevailing risk-on sentiments in global financial markets, the US dollar (USD) has been correspondingly sold off, buffeted both by selling of funding assets and the theme of USD debasement. However, in the next quarter at least, it would be hard to imagine the USD suffering in equal measures, particularly as most majors have run ahead of itself against the USD. Also, the USD is usually correlated with global trade and with vaccines exports likely to create one of the biggest singular trade components in recent memory once it emerges. Thus, we expect real demand for the USD going forward, which means that we are unlikely to see an extended depreciation in the fourth quarter of 2020.

Contents

Commodities

Sector Allocation	View	Notes
Commodities	■	**Rationale:** The overall commodity outlook is very mixed with that for precious metal very firm but the demand for energy and oil still rather weak. China's rebound is supportive of some of the industrial metals such as silver and copper. **Risks:** Gold is at risk in that the US Fed could reverse course and raise rates. Other commodities are at risk from the pandemic worsening which will dent global growth rates.
Gold	+	**Rationale:** The US Fed has strongly implied that it will not consider raising rates for several years and will permit inflation to overshoot to sustain recovery growth which makes gold an ideal safe haven/hedge asset with little downside risk in the next few years. **Risks:** The US Fed can reverse course and not keep rates low. In the last cycle gold underperformed after the Fed started tapering its accommodative quantitative easing policies.
Base Metals	–	**Rationale:** China's demand has started to recover which lends support to base metals. The trajectory is however dependent on the overall economic recovery which is expected to be choppy. **Risks:** Growth can fall back if the pandemic worsens; while upside risk would come from proving stronger than expected China recovery.
Energy	■	**Rationale:** While assets like equities can "forecast" an eventual recovery, oil inventories are already very high. Oil needs a fuller recovery in travel which still appears to be at least a year away. **Risks:** Another leg of the pandemic and disappointment on the vaccine front could further decrease the outlook for travel and thus energy.
Others	■	**Rationale:** The outlook for other commodities like agriculture remains more neutral. Demand is more stable and less cyclical, but there are few compelling positive structural themes. **Risks:** US weather and climate change issues are becoming more common.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

The commodity outlook is fairly mixed. Precious metals have a stronger outlook as a safe haven asset class in a world where government bonds have little yield and have diminished in appeal as alternative safe havens. Energy and industrial commodities on the other hand need to experience more global growth to perform better. Overall we maintain a neutral outlook for commodities with an overweight in gold.

Contents

Alternatives

Sector Allocation	View	Notes
Hedge Funds	+	**Rationale:** Notwithstanding the recent strong performance of asset markets, macro and fundamental risks remain including the US elections, ongoing US-China tensions and a weaker than expected economic recovery due to COVID-19. Hedge funds provide controlled exposure to the upside while mitigating any potential downside. **Risks:** Markets continuing to rally strongly despite the macro risks.
Private Equity (PE)	■	**Rationale:** Ability to access companies with superior growth and benefit from disruptions in areas such as technology and healthcare to enable returns in the 'lower for longer' interest rates environment. **Risks:** Valuations are less attractive.

Maximum Overweight: ++ Slight Overweight: + Neutral: ■ Slight Underweight: - Maximum Underweight: --

Summary

Alternatives continue to be an attractive asset class for investors looking to diversify beyond traditional investible classes that exhibit high correlation during times of market stress. Hedge funds can provide protection during market downturns as they have the flexibility to take both long and short positions while private equity can provide excess returns amid a low-interest rate environment with less volatility.

Contents

Contact Details

Brunei

UOB Asset Management (B) Sdn Bhd
Address FF03 to FF05, The Centrepoint Hotel, Gadong
Bandar Seri Begawan BE 3519, Brunei Darussalam
Tel (673) 2424806

China

Ping An Fund Management Company Ltd
Address 34F, Ping An Financial Center, No 5033, Yitian Road,
Futian District, Shenzhen 518033
Tel (86) 755-2262-3179

Indonesia

PT UOB Asset Management Indonesia
Address Jalan M.H. Thamrin, No. 10, UOB Plaza, 42nd Floor, Unit 2,
Jakarta Pusat 10230, Indonesia
Tel (62) (021) 2929 0889

Japan

UOB Asset Management (Japan) Ltd
Address 13F Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku,
Tokyo 100-6113 Japan
Tel (813) 3500-5981

Malaysia

UOB Asset Management (Malaysia) Berhad
Address Level 22, Vista Tower, The Intermark
No. 348 Jalan Tun Razak,
50400 Kuala Lumpur
Tel (60) (03) 2732 1181
Website uobam.com.my

UOB Islamic Asset Management Sdn Bhd
Address Level 22 Vista Tower, The Intermark
No. 348 Jalan Tun Razak,
50400 Kuala Lumpur
Tel (60) (03) 2732 1181
Email UOBAMCustomerCareMY@UOBgroup.com

Singapore

UOB Asset Management Ltd
Address 80 Raffles Place
UOB Plaza 2 Level 3
Singapore 048624
Tel 1800 222 2228 (Local)
(65) 6222 2228 (International)
Email uobam@uobgroup.com
Website uobam.com.sg

Taiwan

UOB Asset Management (Taiwan) Co., Ltd
Address Union Enterprise Plaza, 16th Floor,
109 Minsheng East Road, Section 3, Taipei 10544
Tel (886) (2) 2719 7005

Thailand

UOB Asset Management (Thailand) Co., Ltd
Address 23A, 25 Floor, Asia Centre Building, 173/27-30, 32-33
South Sathon Road, Thungmahamek, Sathon, Bangkok 10120, Thailand
Tel (66) 2786 2000
Website uobam.co.th

Contents

Important Notice and Disclaimer

This publication shall not be copied or disseminated, or relied upon by any person for whatever purpose. The information herein recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, UOB Asset Management Ltd ("UOBAM") and its employees shall not be held liable for any error, inaccuracy and/or omission, howsoever caused, or for any decision or action taken based on views expressed or information in this publication. The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication, all of which are subject to change at any time without notice. Please note that the graphs, charts, formulae or other devices set out or referred to in this document cannot, in and of itself, be used to determine and will not assist any person in deciding which investment product to buy or sell, or when to buy or sell an investment product. UOBAM does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose and expressly disclaims liability for any error, inaccuracy or omission. Any opinion, projection and other forward-looking statement regarding future events or performance of, including but not limited to, countries, markets accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. **You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider carefully whether the investment or insurance product in question is suitable for you.** In the event of any discrepancy between the English and Mandarin versions of this publication, the English version shall prevail.

UOB Asset Management Ltd Co. Reg. No. 198600120Z

大華銀行

RIGHT BY YOU