

Economic imbalances are improving

Quarterly Investment Strategy
Second Quarter 2023

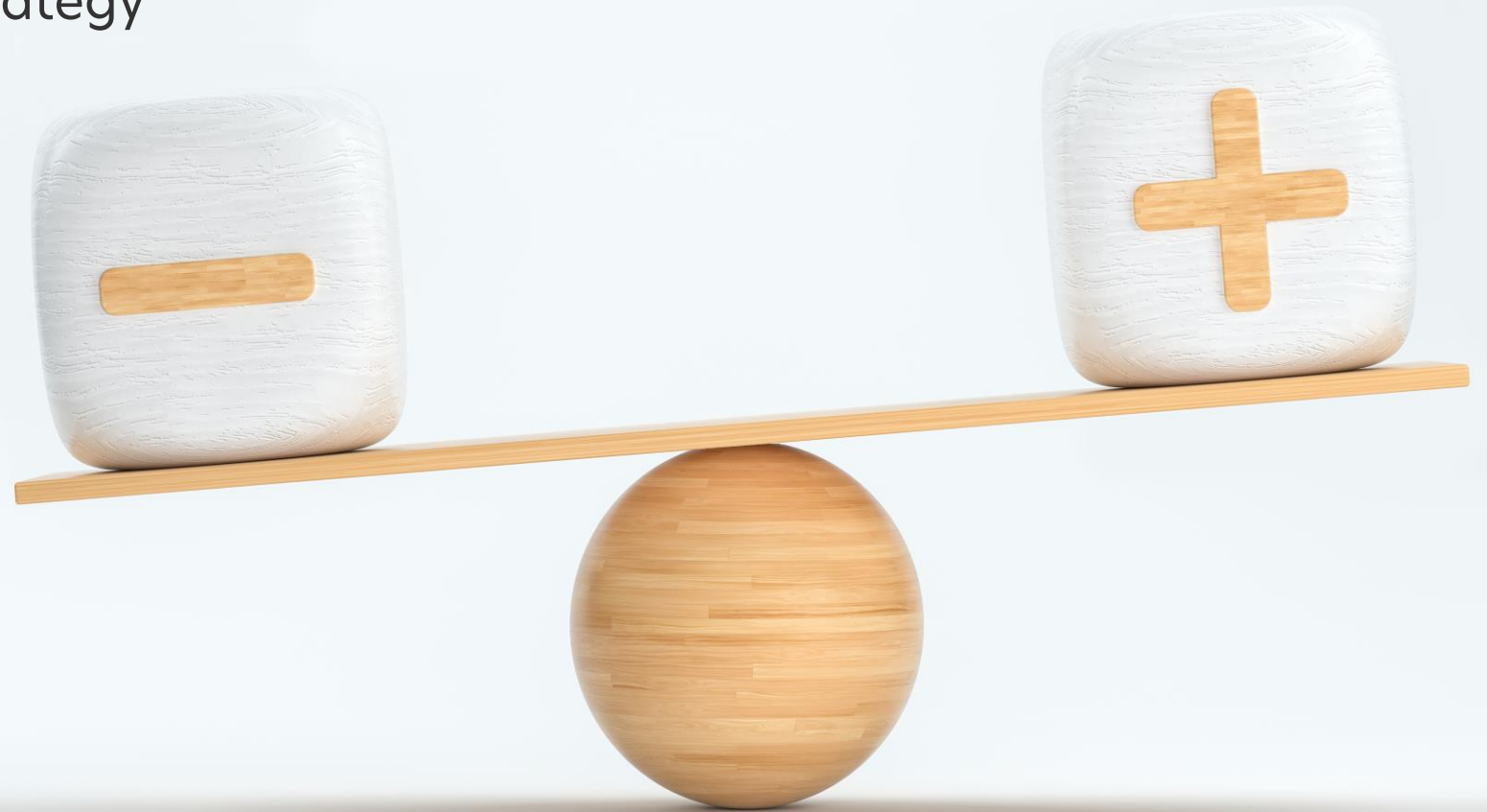


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What is UOBAM's global investment strategy?

Summary of investment conclusions

Inflation - to fall below 3% by the end of 2023, but it will be a slow process.

Global economy - to slow to a shallow, soft-landing recession by the end of 2023.

US rates - to reach 5.0 to 5.5% before pausing for the year.

Bond yields - to range between 3.75 to 4.25% in 2023.

USD - to be supported as the US Fed maintains its hawkishness.

Asset allocation - we are overweight fixed income and neutral on equities.

Opportunities - broad market trends may underperform.

Focus on specific megatrends:

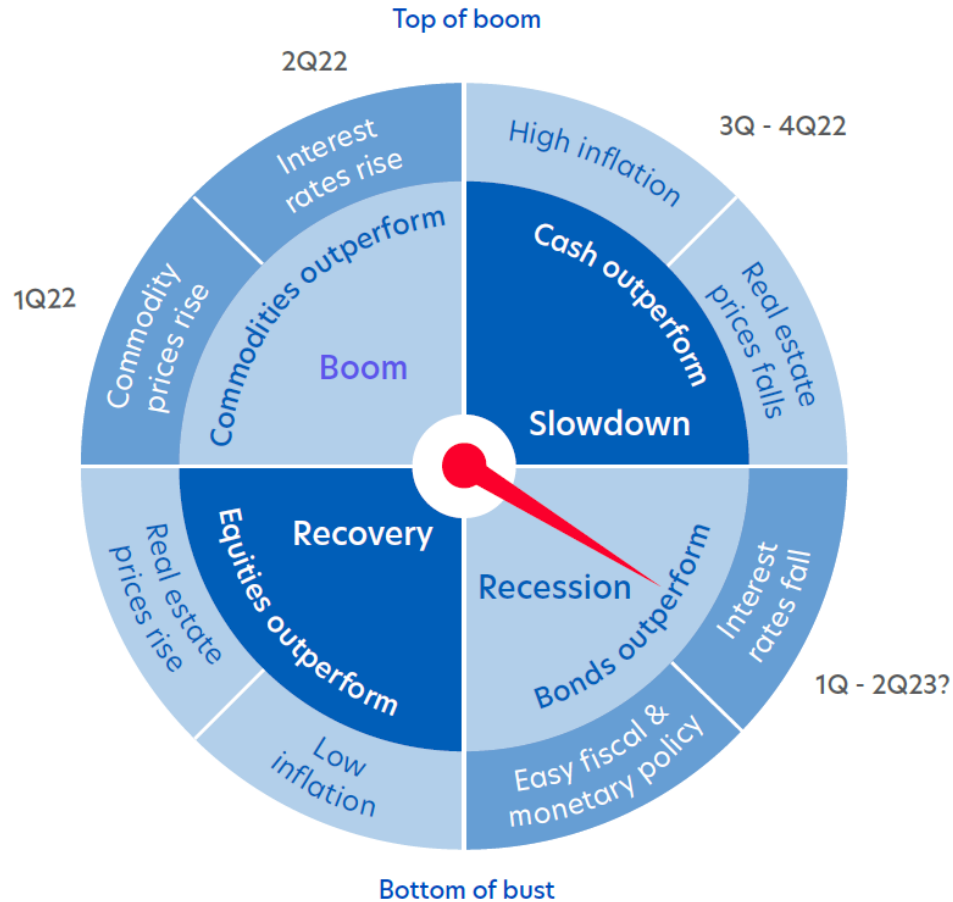
- Asian demographics
- Renewables
- AI & Innovation

We favour a soft landing scenario

Scenario	No Landing	Soft Landing	Hard Landing	Extreme Crisis/ Volatility
Description	<ul style="list-style-type: none"> No recession Continued late cycle expansion 	<ul style="list-style-type: none"> Economic slowdown/ Shallow recession (1990) Increase in unemployment rate <2% 	<ul style="list-style-type: none"> Classic recession (1973, 2007-09) Increase in unemployment rate >2% 	<ul style="list-style-type: none"> Great Depression type scenario OR 1970s inflation type environment
Who's in this camp	<ul style="list-style-type: none"> MRB Goldman Anatole (Gavekal) 	<ul style="list-style-type: none"> UOBAM Paul Krugman State Street Global 	<ul style="list-style-type: none"> Stanley Druckenmiller Jamie Dimon Strategas UBS 	<ul style="list-style-type: none"> Michael Burry Blackrock Ray Dalio/ Greg Jensen
Implications	<ul style="list-style-type: none"> Equity market supported by growth, but overhang of delayed recession Bonds have good yields but face more rate hikes (though nothing like 2022) 	<ul style="list-style-type: none"> Equity markets will be choppy but investors will quickly look past shallow recession Bonds to outperform due to reduced rates 	<ul style="list-style-type: none"> Equity markets will be down another 10-30% Govt bonds to outperform, while high yield credits will see large amount of defaults 	<ul style="list-style-type: none"> Extreme volatility in equity and bond markets Potential second wave of inflation

In a recession, bonds tend to outperform

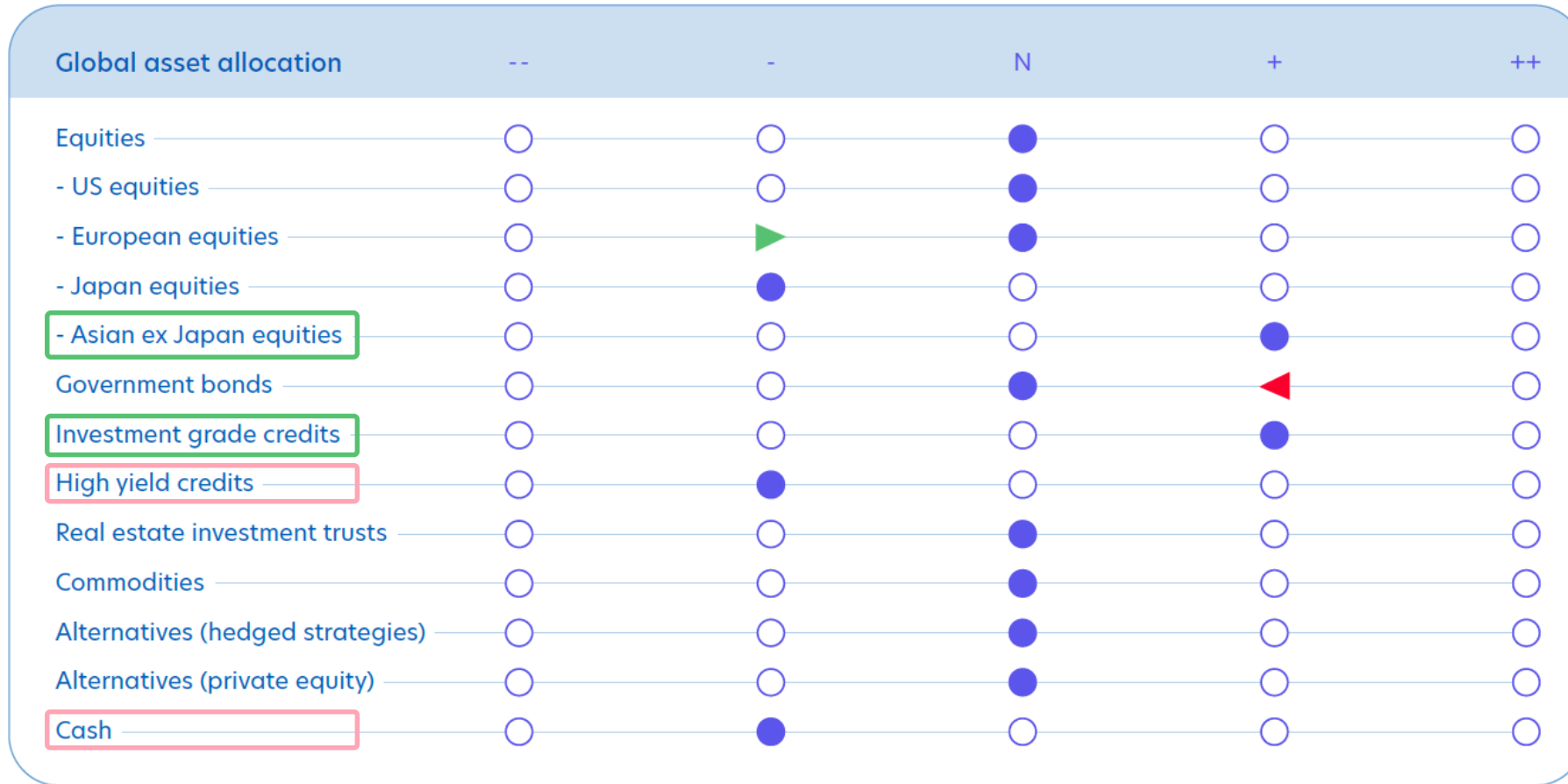
UOBAM Investment Clock



The economy has followed a classic cycle so far.

It remains to be seen if inflation and interest rates will moderate before the economic slowdown becomes too sharp.

UOBAM House View: Less risk-off in 2Q23



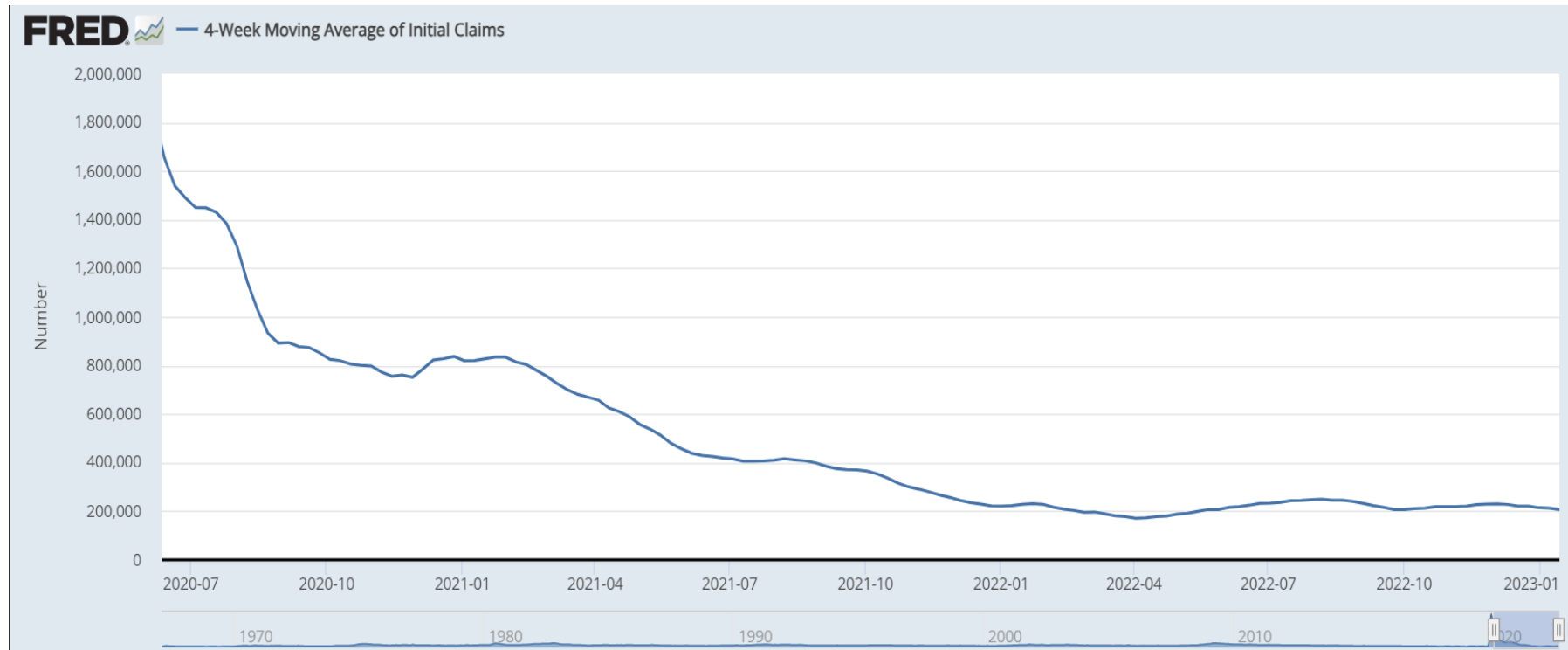
Note:
*3-6 months horizon
The weights are relative to the appropriate benchmark(s).

■ Expected to outperform
 ■ Expected to underperform

Why do we expect a
soft landing in 2023?

US unemployment claims are still low

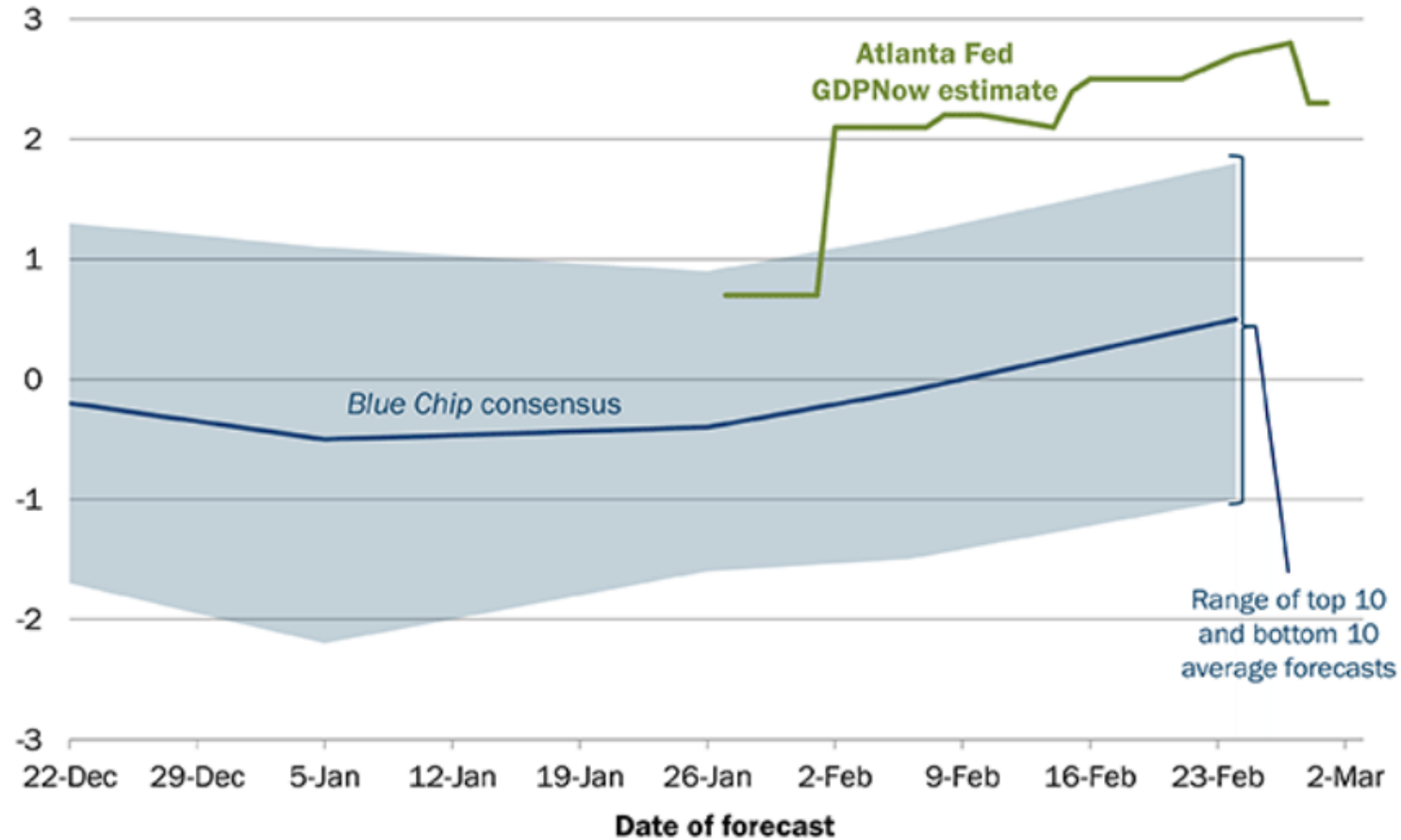
4-week moving average of initial claims



Shaded areas indicate U.S. recessions

Current forecasts do not point to a recession

Evolution of Atlanta Fed GDPNow estimate for 2023 (Quarterly % change)



Earnings growth prospects remain positive...

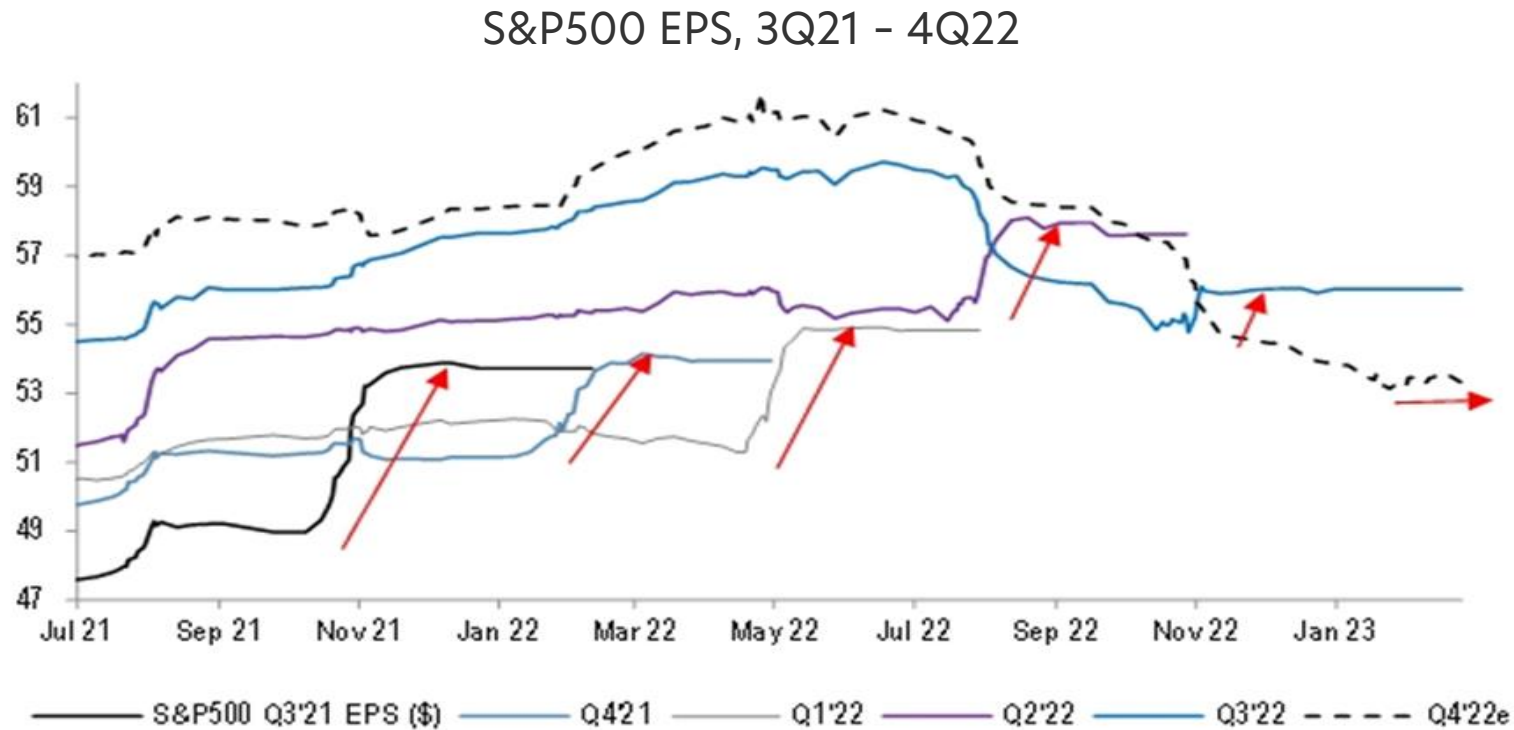
EPS Growth, PER and PBR estimates, 2023 - 2024

Regions	EPS Growth (YoY%)		PER		DVD YLD	PBR		ROE	
	2023E	2024E	2023E	2024E	2023E	2023E	2024E	2023E	2024E
US	2.3	11.7	18.7	16.7	1.7	3.7	3.4	20.0	20.3
Europe	0.5	6.9	12.9	12.1	3.4	1.8	1.7	13.9	13.9
Japan	3.7	7.3	13.1	12.2	2.6	1.2	1.1	9.1	9.1
Asia Ex Japan	0.7	19.0	14.0	11.8	2.6	1.5	1.3	10.4	11.4
China	15.3	14.8	11.5	10.1	2.3	1.3	1.2	11.4	11.9

Based on Calendar Year

...but may be softening

EPS outlook tends to inflect higher as the reporting season gets underway. That did not happen with 4Q results.

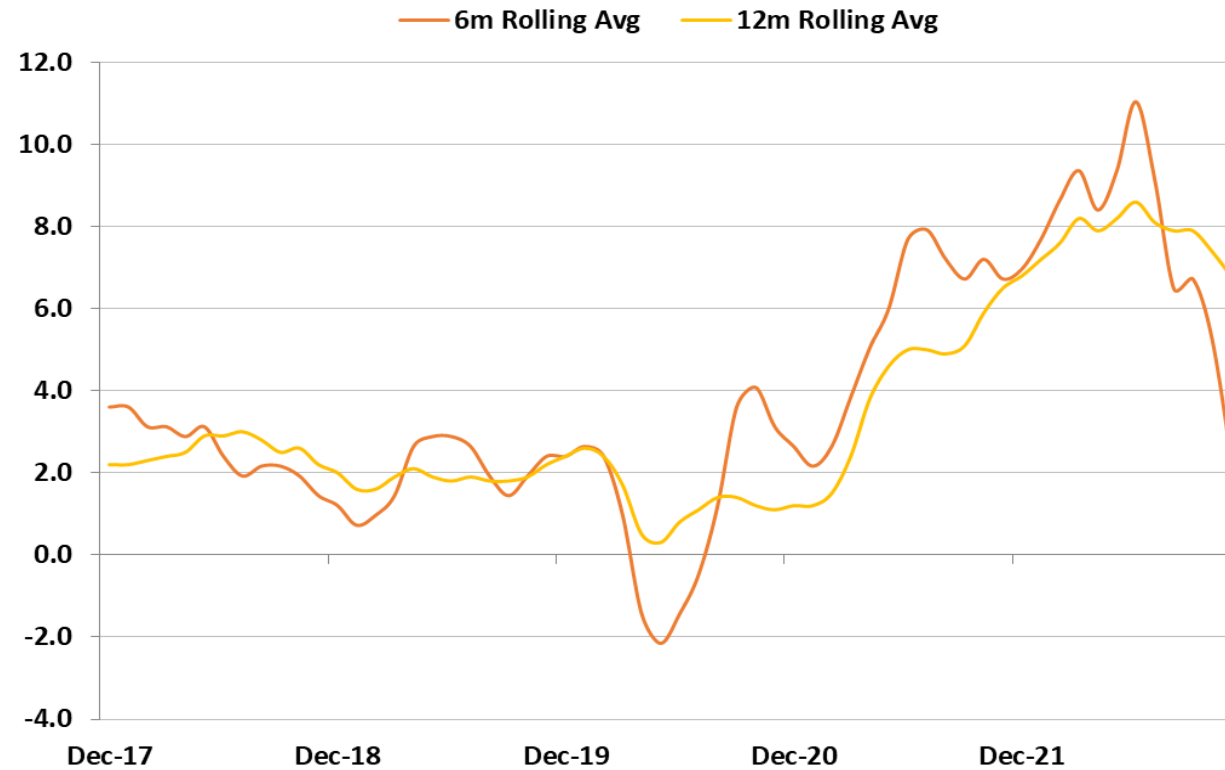


Why do we think
inflation is peaking?

Headline inflation has fallen in recent months

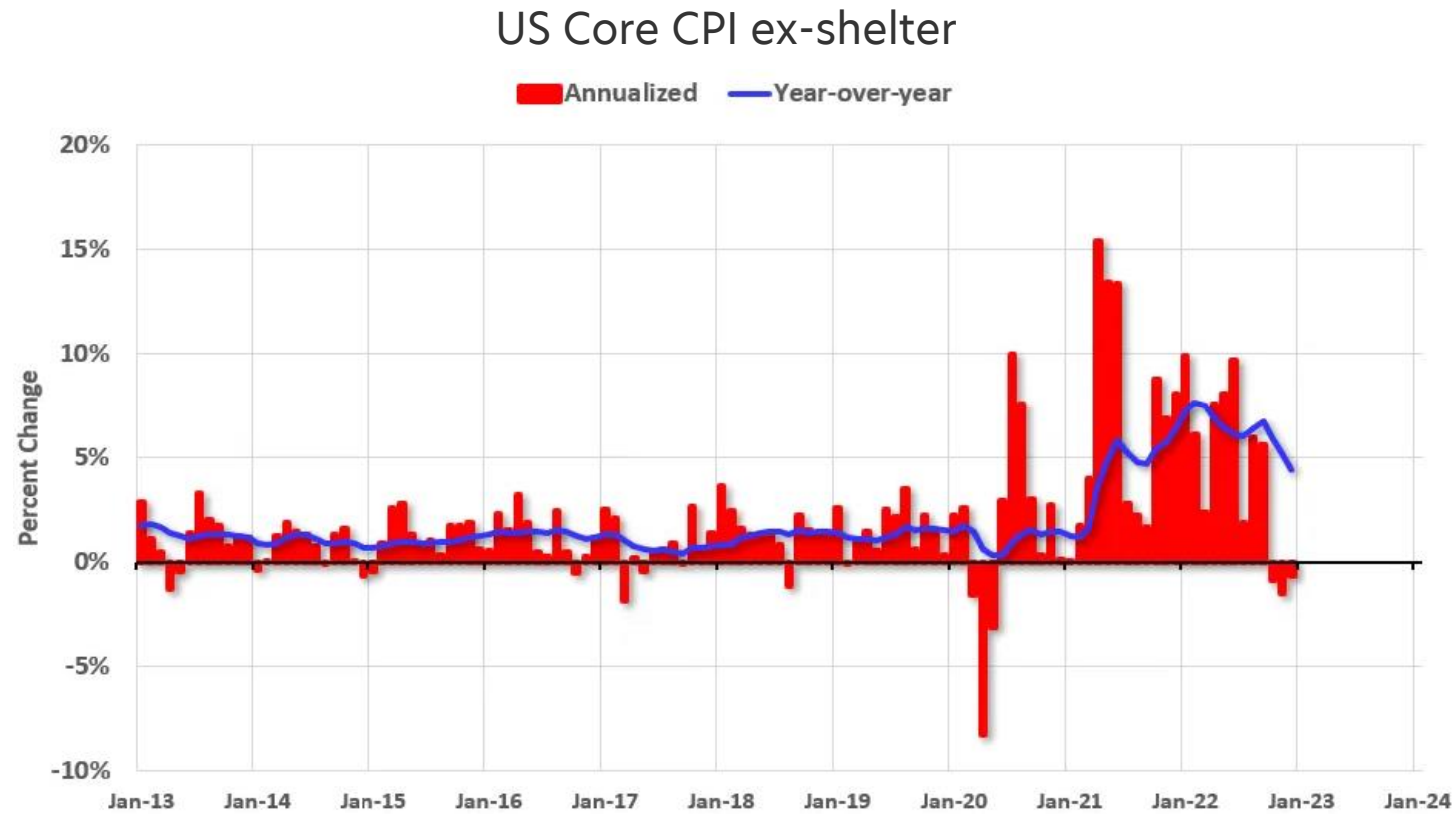
Headline inflation in 2H22 is already close to 2%.

US headline inflation, 6-month & 12-month rolling average



Shelter (rents) is keeping core inflation high

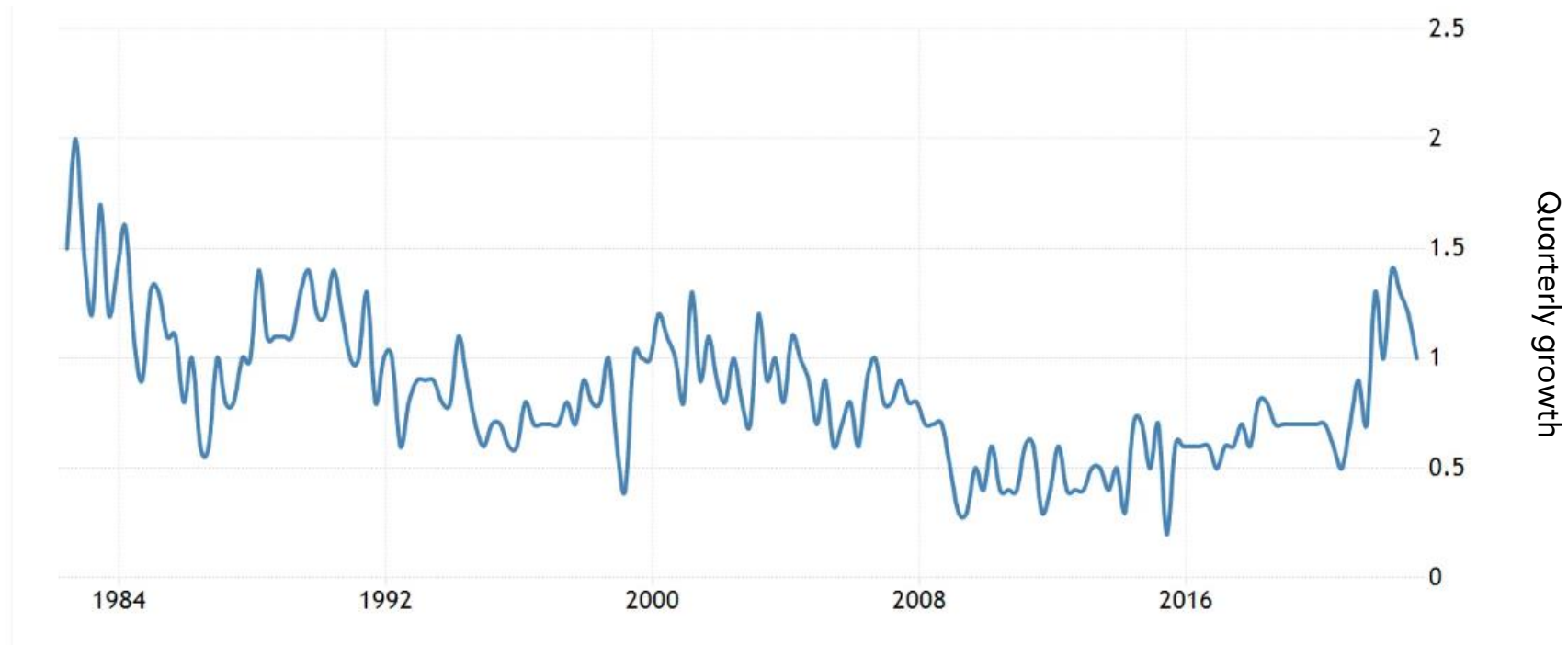
Ex-shelter, core CPI turned negative last quarter.



Wage pressures are falling, albeit slowly

Levels are back down to late 1990/2000 levels - considered “goldilocks” at the time.

Employment Cost Index, quarterly growth, 1980 - 2022



Why do we favour
Asian fixed income?

Stable outlook for 2023

Positives

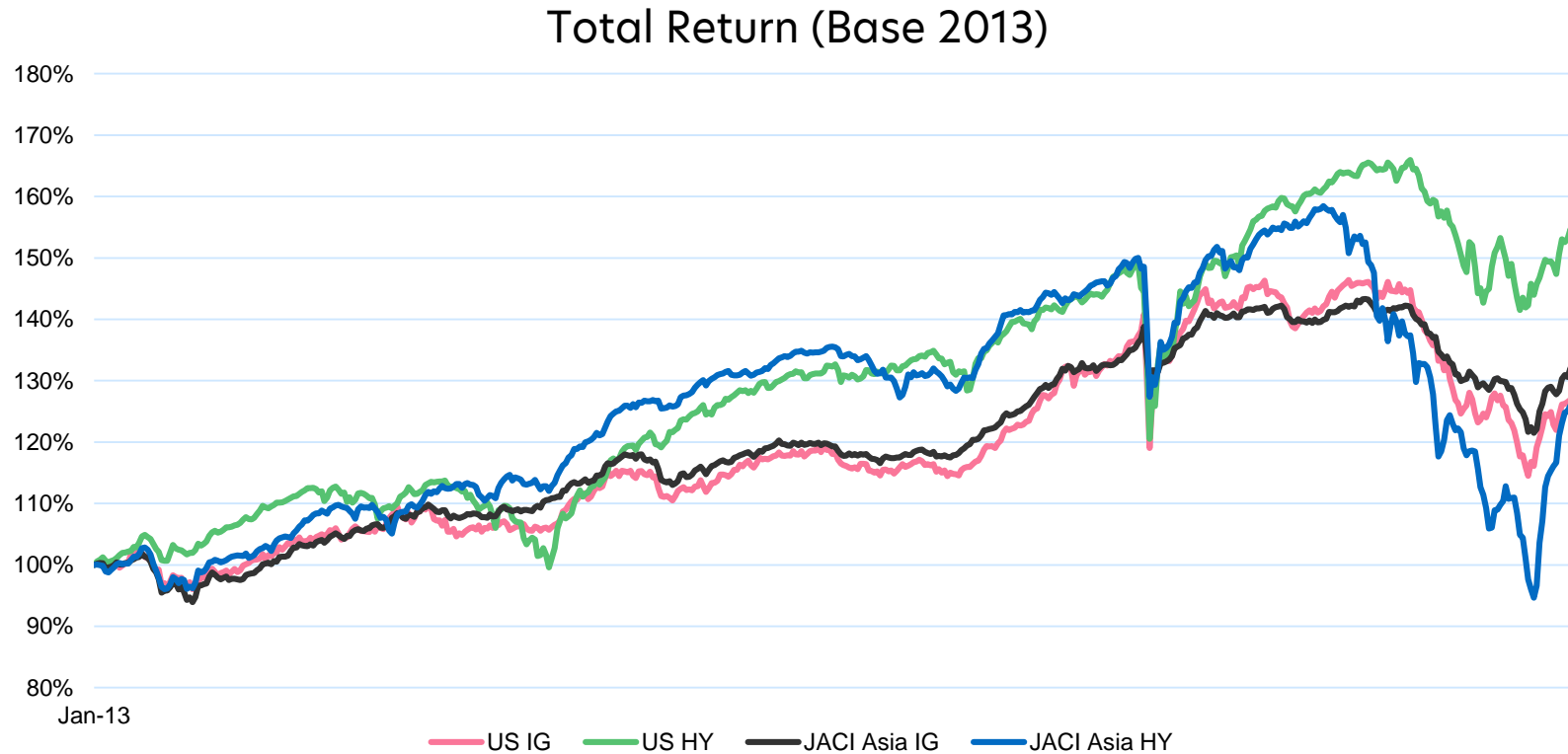
- A low base in 2022
- China's economic reopening and
- Slowly moderating inflation
- Asian investment grade (IG) bonds provide attractive yield / carry with lower risk

Negatives

- Macroeconomic uncertainties remain
- Fed's interest rate dilemma continues to keep rates volatile and elevated
- ASEAN countries are still hiking rates to lower inflation and protect their currency
- Less demand for high yields in a high interest rate environment

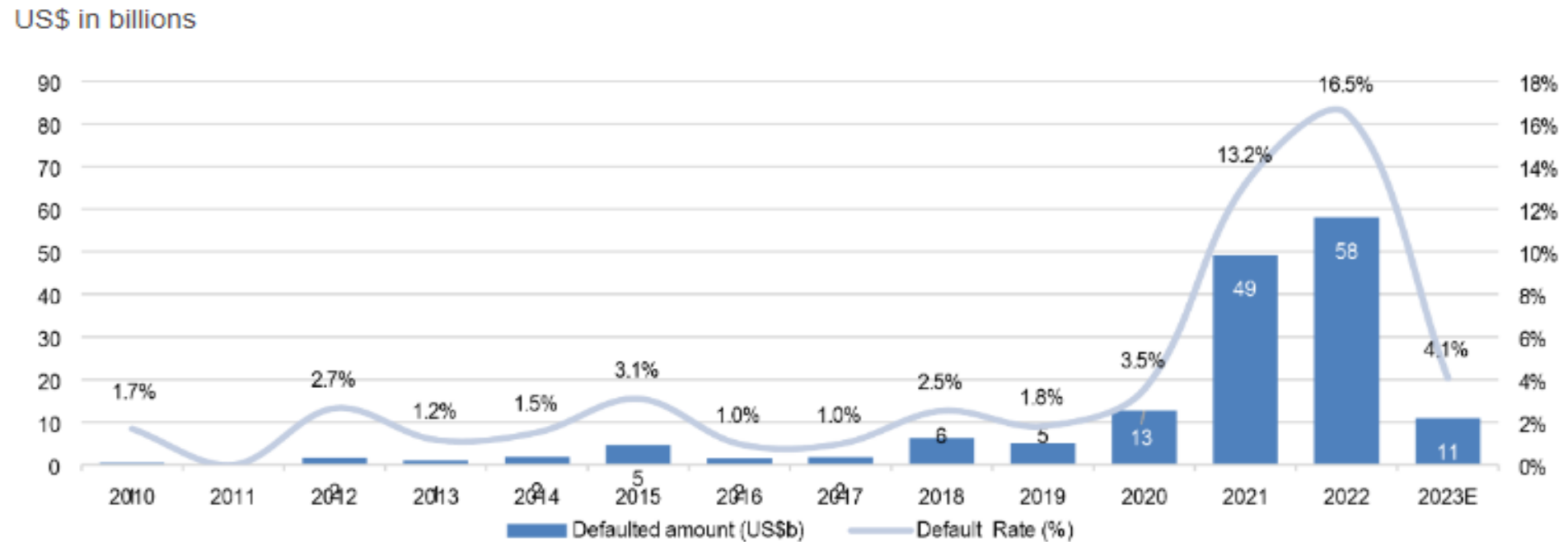
Boost from China's reopening

But effect has mostly played out.



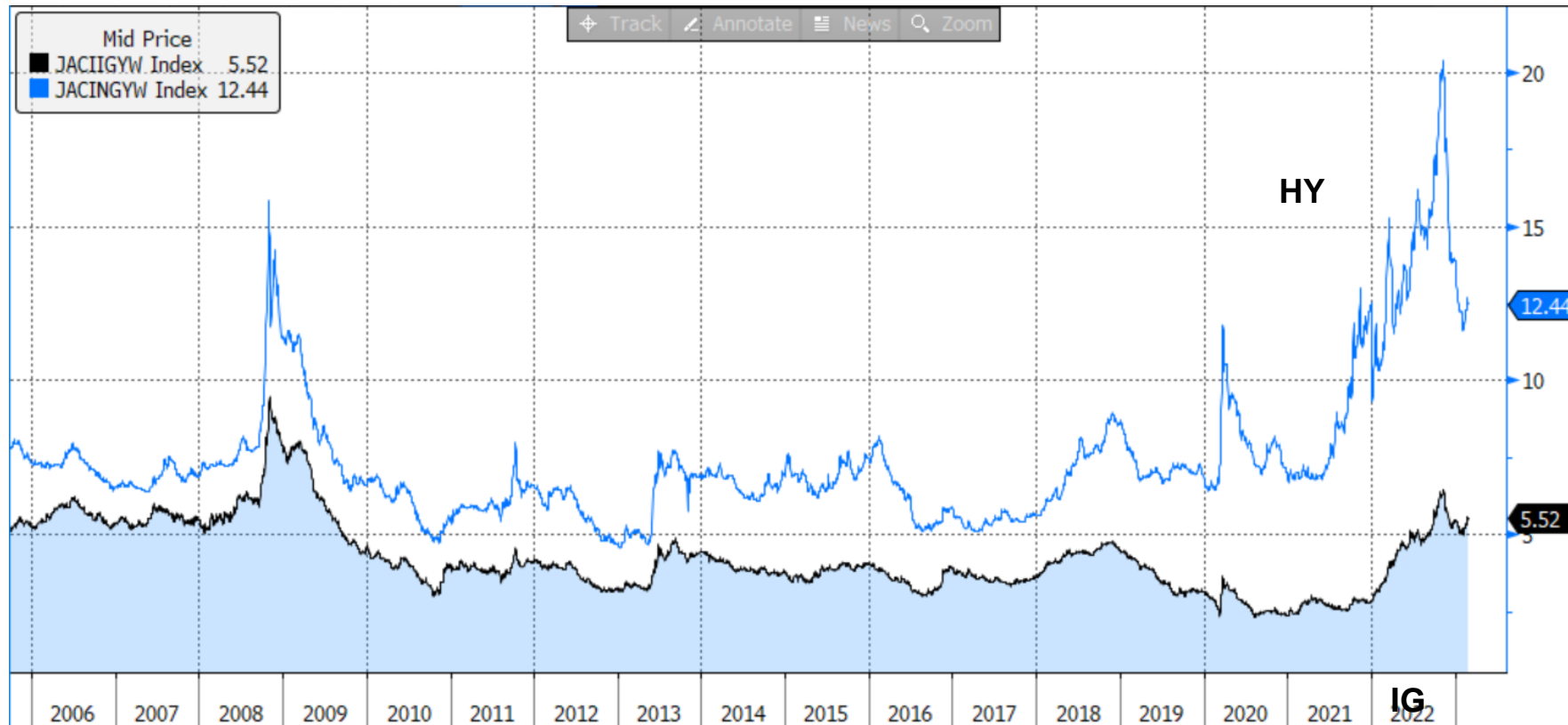
Default rate expected to decrease in 2023

Default rate and defaulted amount, 2010 - 2023E



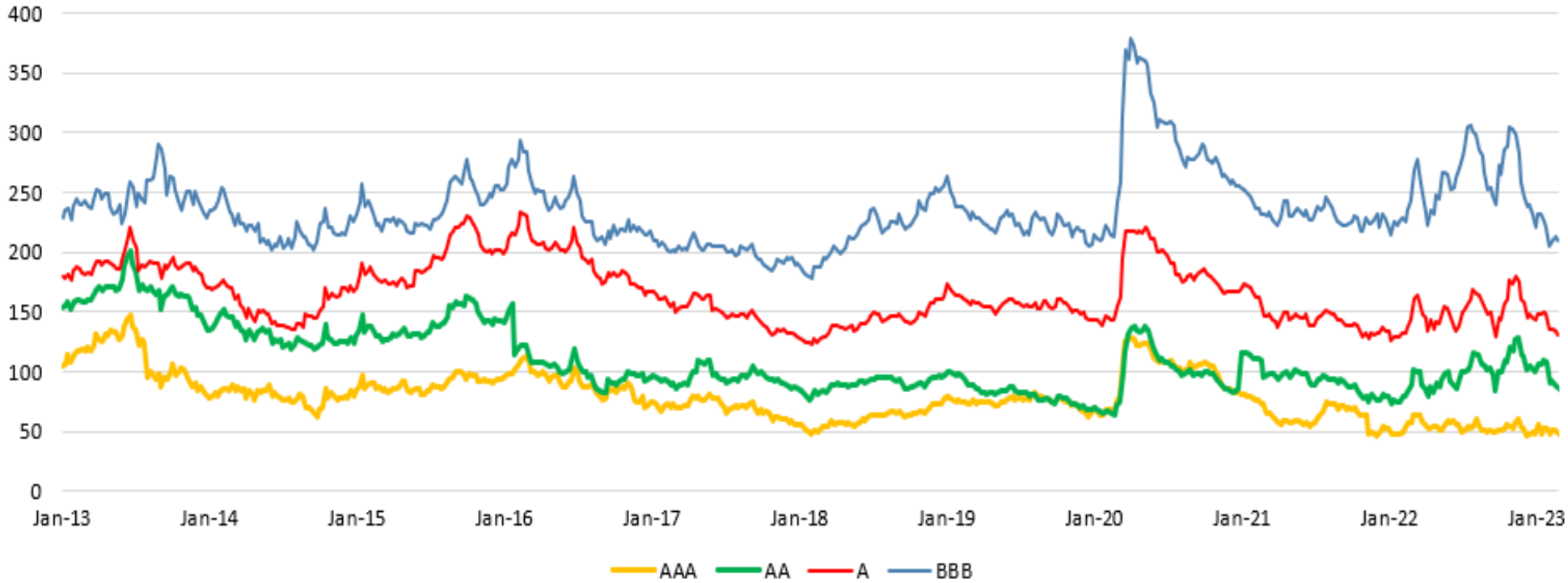
IG yields at levels not seen since 2009

JACI Investment Grade (IG) vs High Yield (HY) index. 2006 - 2022



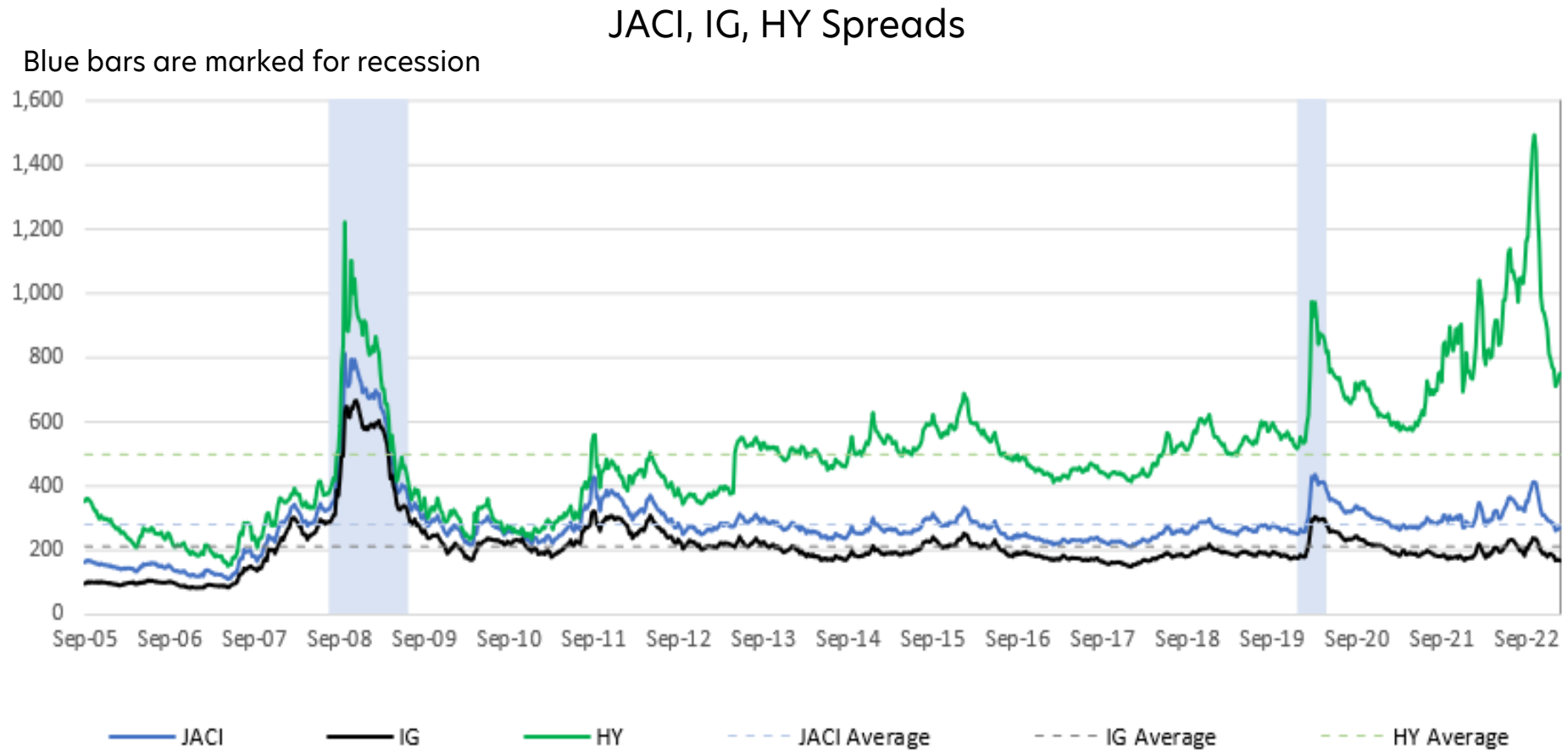
BBB spreads tighter but still provides value

Investment Grade yields: AAA/ AA / A/ BBB



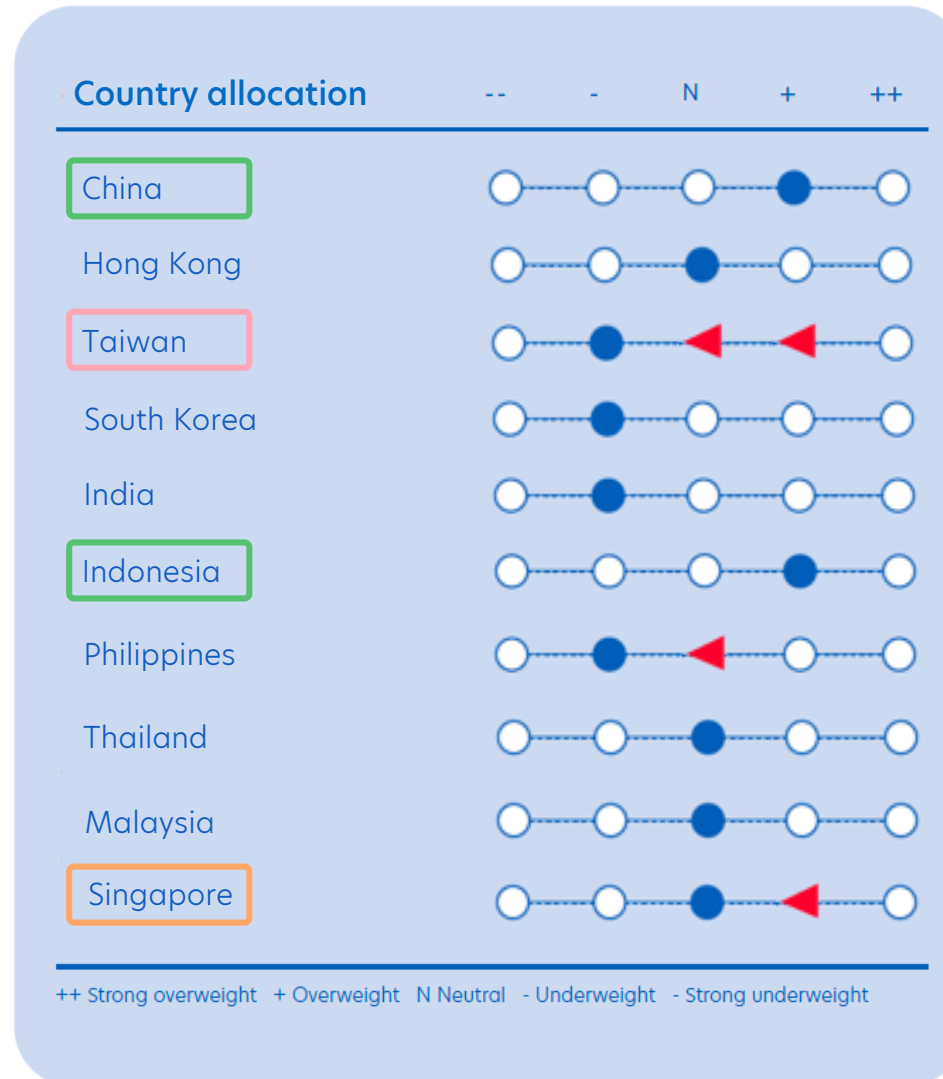
Source: UOBAM, Bloomberg

HY spreads have tightened but risks remain



Why do we favour Asian equities?

Asia looks well placed to outperform



Note:
 *3-6 months horizon
 The weights are relative to the appropriate benchmark(s).

- Expected to outperform
- Expected to underperform
- Expected to be neutral

China to lead Asia's growth rebound

COUNTRY FORECAST	Real GDP (YoY %)			CPI (YoY %)	
	FY2022 (ACTUAL)	FY2023 (FORECAST)	FY2024 (FORECAST)	FY2023 (FORECAST)	FY2024 (FORECAST)
ASIA x JAPAN	3.8	5.1	4.9	3.1	2.7
CHINA	3.0	5.3	5.0	2.4	2.3
HONG KONG	-3.5	3.2	3.5	2.3	2.3
* INDIA	9.1	6.9	6.0	6.6	5.1
INDONESIA	5.3	4.9	5.0	4.0	3.0
KOREA	2.6	1.5	2.3	3.4	1.9
MALAYSIA	8.7	4.0	4.5	3.0	2.3
PHILIPPINES	7.6	5.5	5.8	5.4	3.3
SINGAPORE	3.7	2.0	2.7	4.6	2.7
TAIWAN	2.5	2.1	2.5	1.8	1.6
THAILAND	2.6	3.7	3.8	2.8	1.9

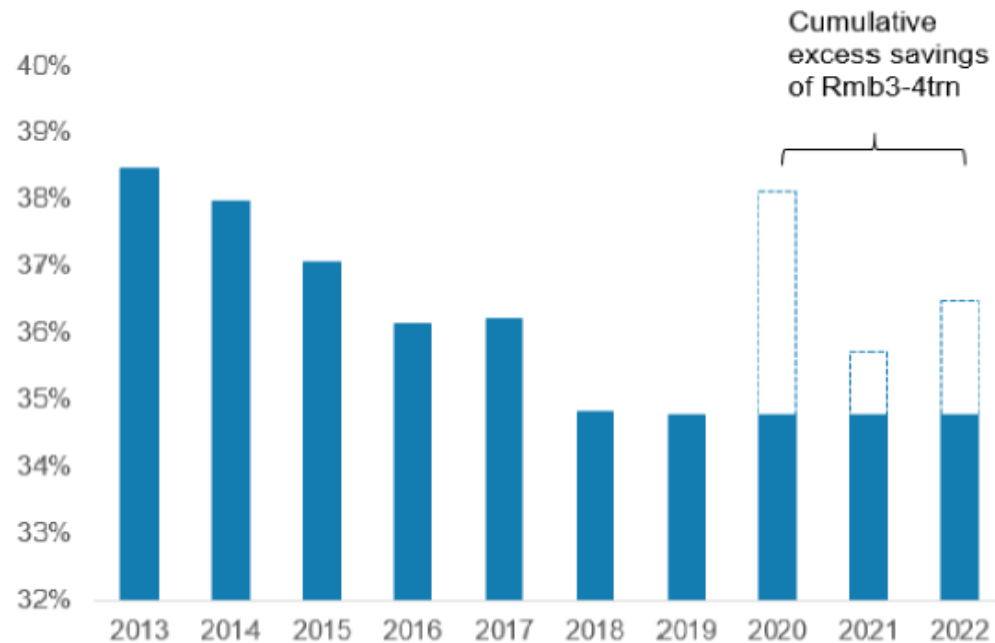
* India GDP from 2013 based on Fiscal Year ended March. Old series from 2008-2012 based on Calendar Year.

* India CPI from 2013 based on Fiscal Year ended March.

China seeing excess savings, activity rebound

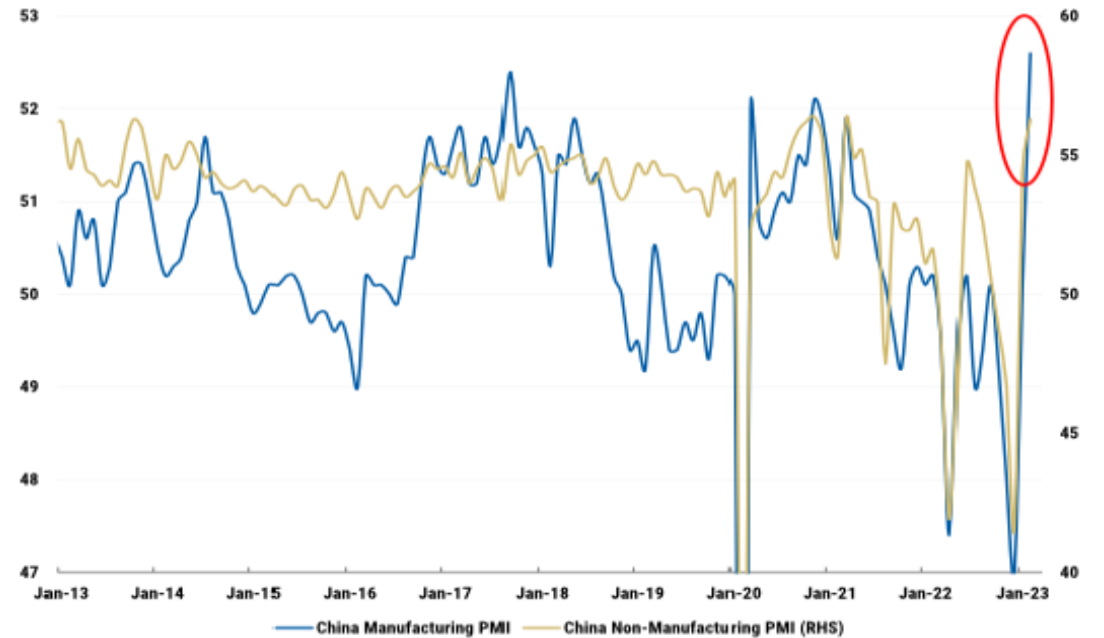
Household Savings Rate

Excess savings averaging 14% of annual consumption



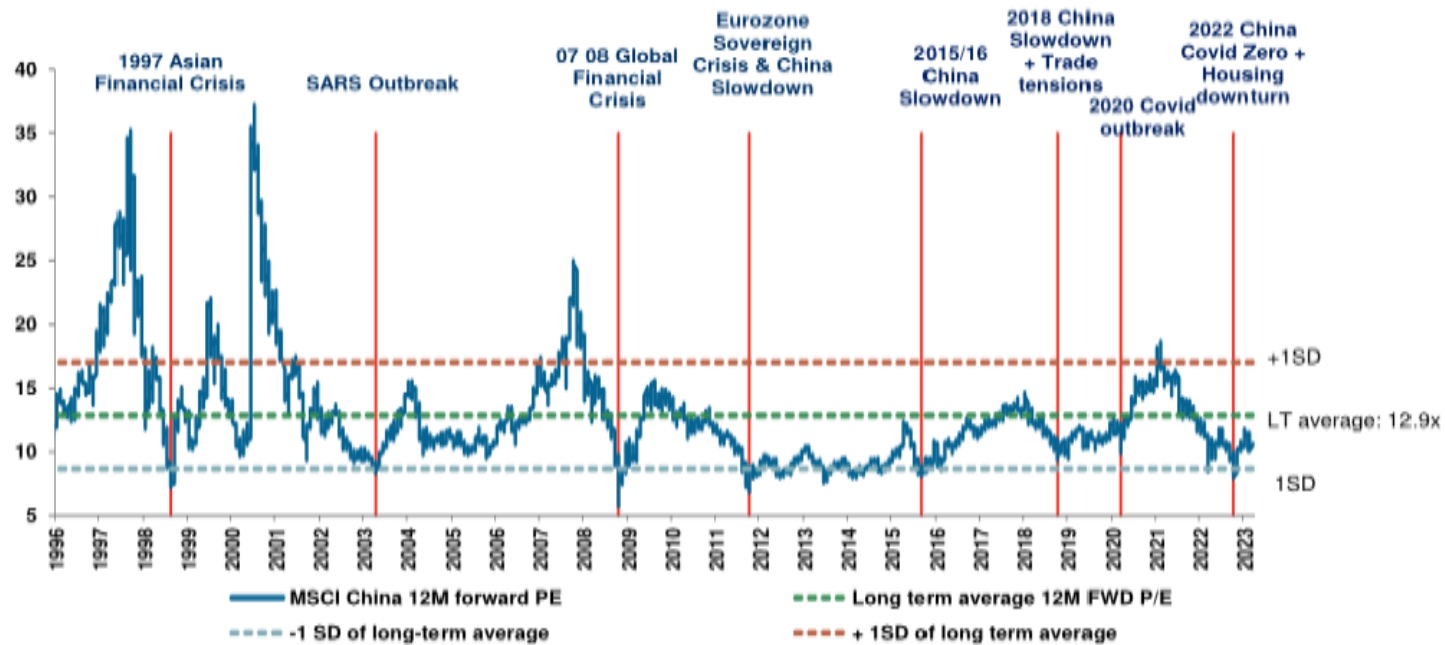
China - Purchasing Managers Index (PMI)

Feb 2023 PMIs at 10y highs



China's valuations are attractive

MSCI China 12mth forward P/E



Overweight

- Internet
- Consumer Discretionary
- Industrials

Neutral

- Energy
- Materials

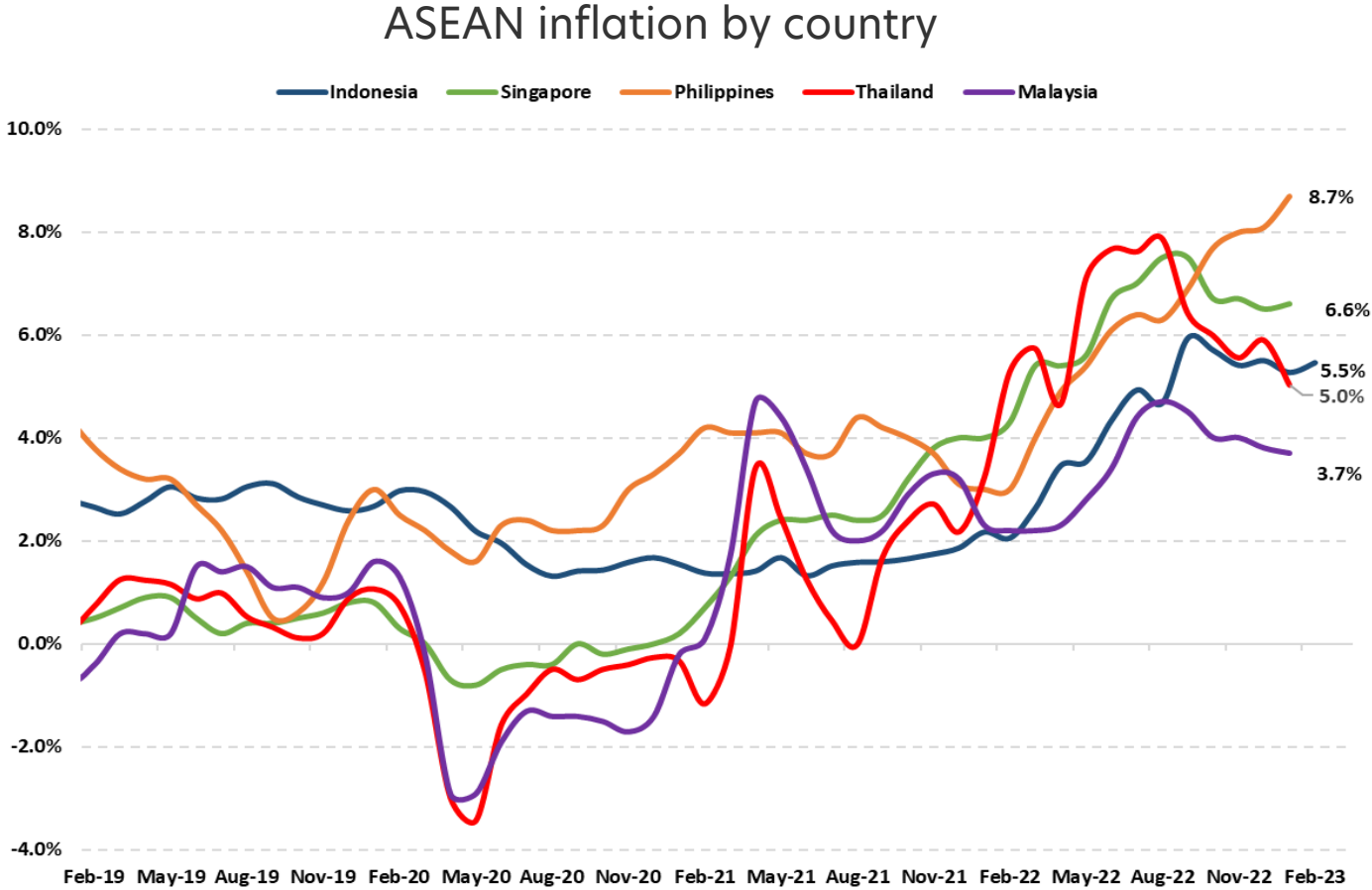
Underweight

- Financials
- Property
- Autos

ASEAN's growth outlook remains healthy

COUNTRY FORECAST	Real GDP (YoY %)			CPI (YoY %)	
	FY2022 (ACTUAL)	FY2023 (FORECAST)	FY2024 (FORECAST)	FY2023 (FORECAST)	FY2024 (FORECAST)
ASIA x JAPAN	3.8	5.1	4.9	3.1	2.7
INDONESIA	5.3	4.9	5.0	4.0	3.0
MALAYSIA	8.7	4.0	4.5	3.0	2.3
PHILIPPINES	7.6	5.5	5.8	5.4	3.3
SINGAPORE	3.7	2.0	2.7	4.6	2.7
THAILAND	2.6	3.7	3.8	2.8	1.9

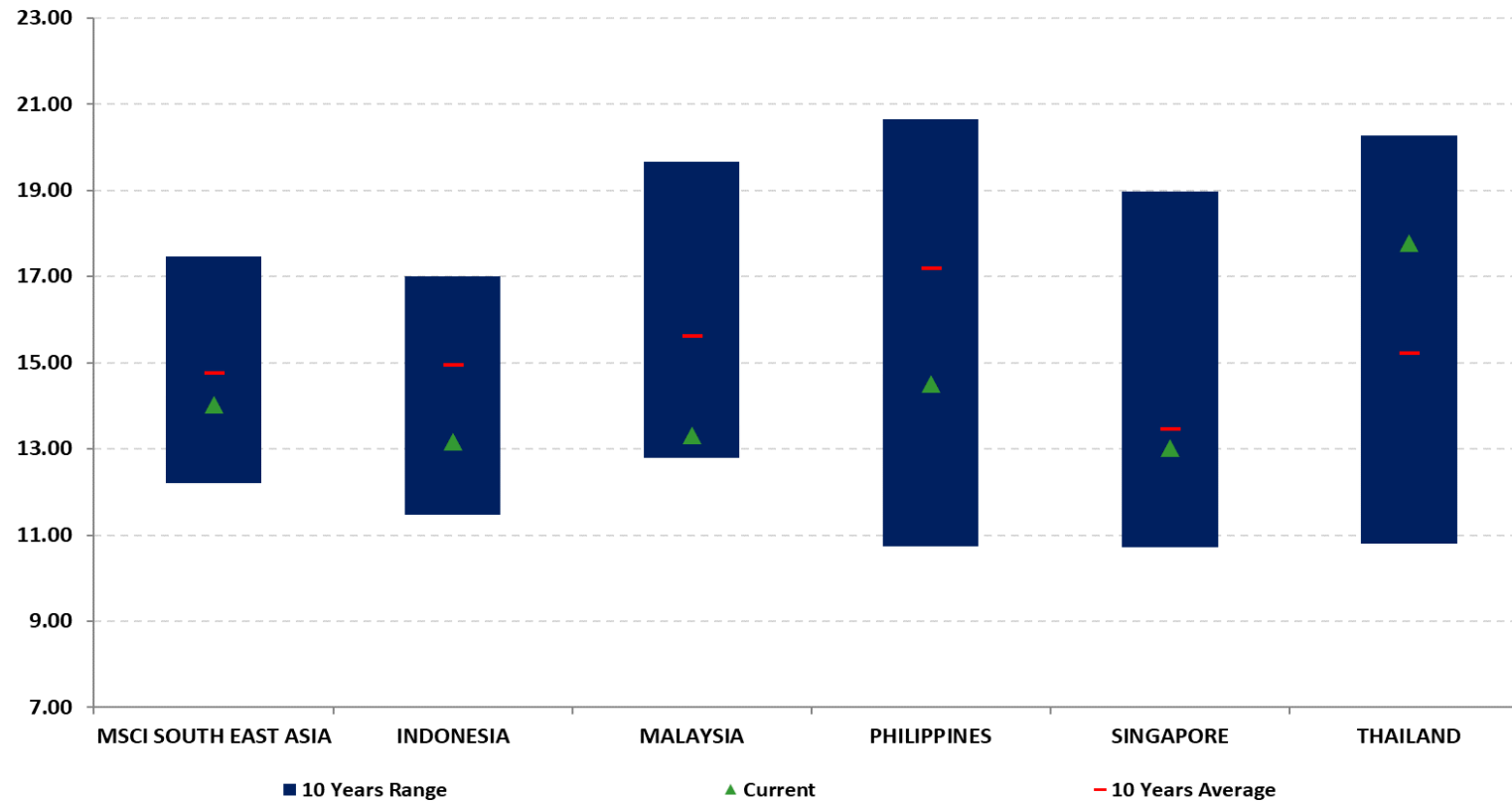
Inflation has peaked in most ASEAN markets



Source: UOBAM, Bloomberg, 1 March 2023

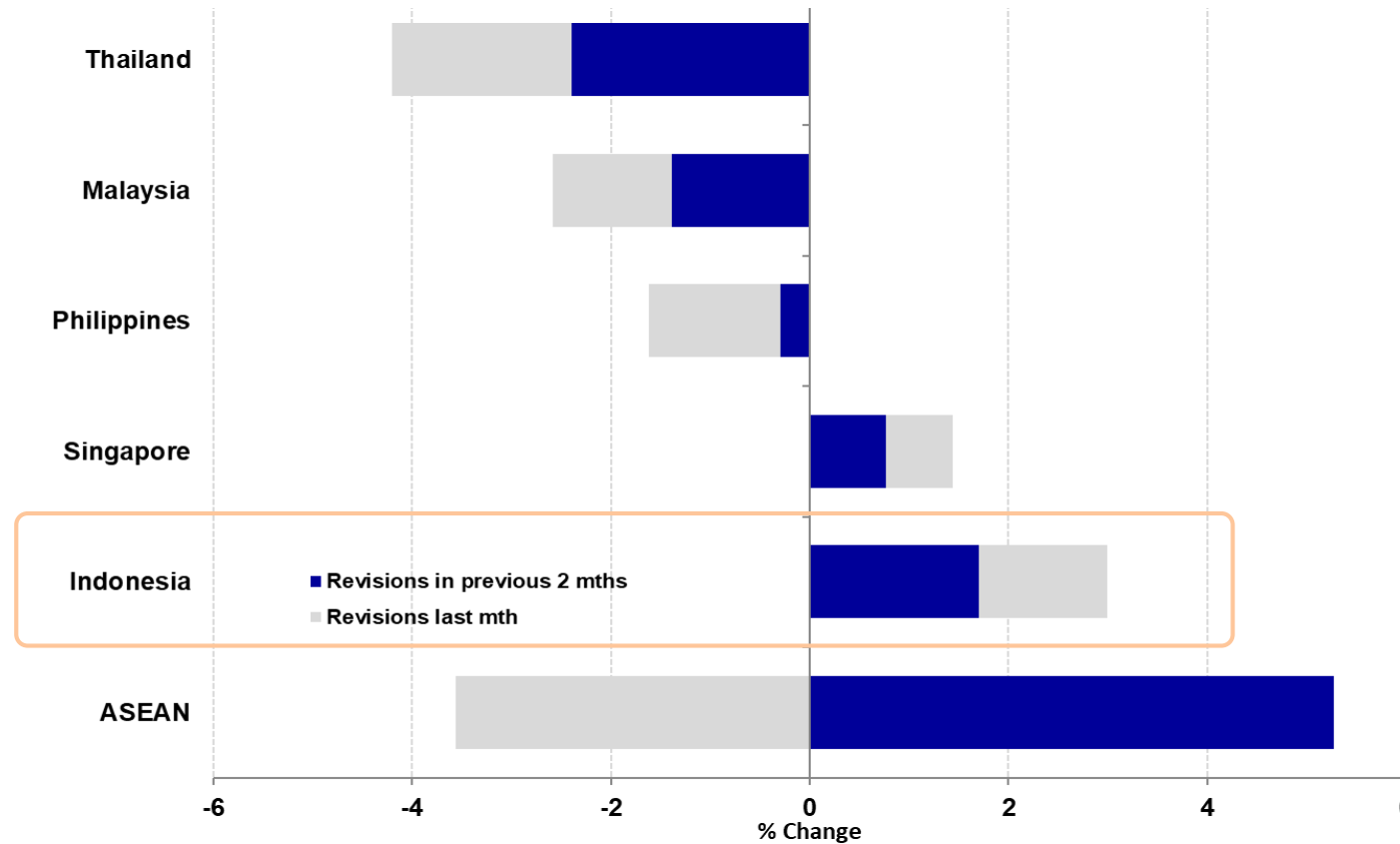
ASEAN valuations attractive except for Thailand

MSCI ASEAN 12-month Forward P/E



Indonesia's earnings showing resilience

MSCI ASEAN Earnings Revisions, March 2023



FAQs

Key Questions

What has changed in the first months of 2023?

The consensus view for a recession came into doubt as growth data has remained resilient.

What is our inflation view?

We are in line with consensus that inflation should fall below 3% by the end of 2023.

What is our recession view?

We think economic growth is likely to slow, but the downturn should be shallow as labour markets remain resilient.

Key Questions

What is the outlook for Asia?

We are overweight Asia equities and Asia credits.

Should we park money in FDs and give up on stocks and fixed income?

The US Fed projects rates to fall to 2.5% over the longer term. With fixed income, investors can lock in current high rates.

Is the worst over for fixed income?

Yes, yields are attractive, and it is unlikely that fixed income will face negative returns in 2023.

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