Upside risks outweigh downside risks

Quarterly Investment Strategy
Third Quarter 2023

Table of contents

What is UOBAM's global investment strategy?

Summary of investment conclusions

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Recession: Our base case is for an economic slowdown that does not see a significant rise in unemployment, thus averting a hard landing recession.

Inflation: This is moderating faster than most investors' expectations, but it remains uncertain when it will fall to the critical threshold levels of 3.0 percent needed for the Fed to comfortably cut rates.

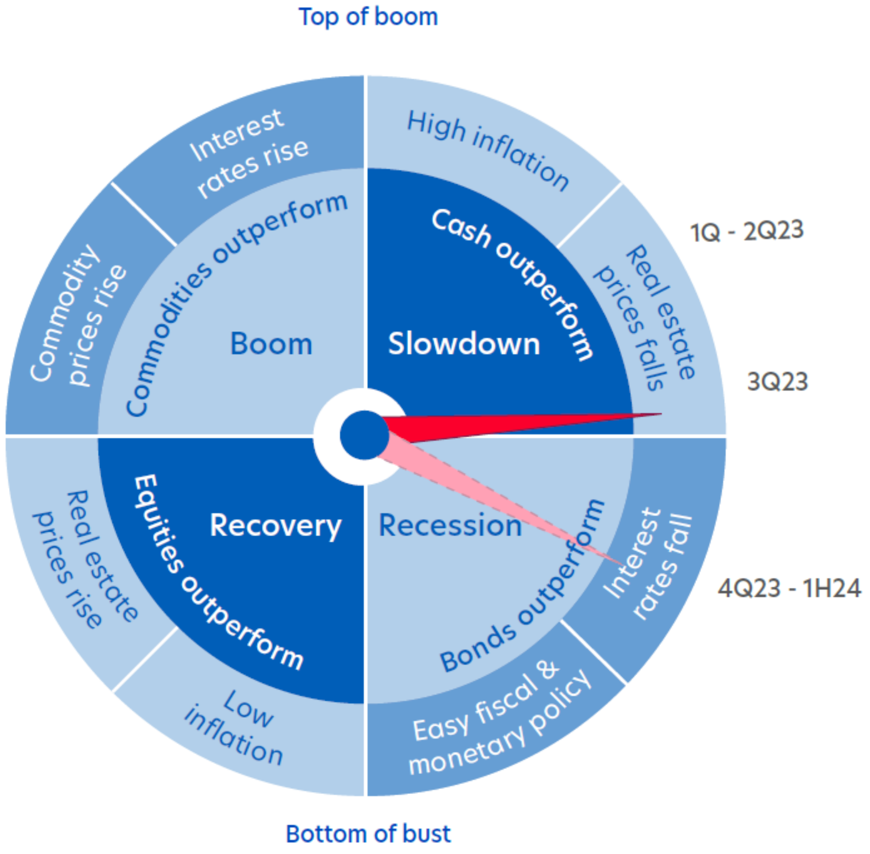
Fixed Income: However, with interest rates at or near their peak, fixed income losses now seem far less likely. We expect a 10-year US Treasury bond yield to range between 3.5 to 4.0 percent in 2H 2023.

Equities: We think there is room for upside surprises if the global economy proves more resilient than expected. We remain neutral this asset class, but see distinct stock picking opportunities.

Asia: We continue to favour this region relative to the developed markets as it appears more resilient, is more attractively valued and can potentially benefit from China's pro-growth policies.

UOBAM Investment View

UOBAM Investment Clock



The economy has followed a classic cycle so far.

We are anticipating a shift to a mild recession but so far we don't have clear evidence that it is happening yet.

Source: UOBAM, March 2023

UOBAM House View: stay invested cautiously

Global asset allocation	--	-	N	+	++
Equities	○	○	●	○	○
- US equities	○	○	●	○	○
- European equities	○	○	●	○	○
- Japan equities	○	▶	●	○	○
- Asian ex Japan equities	○	○	●	◀	○
Government bonds	○	○	○	●	○
Investment grade credits	○	○	○	●	○
High yield credits	○	●	○	○	○
Real estate investment trusts	○	○	●	○	○
Commodities	○	○	●	○	○
Alternatives (hedged strategies)	○	○	●	○	○
Alternatives (private equity)	○	○	●	○	○
Cash	○	●	○	○	○

++ Strong overweight + Overweight N Neutral - Underweight - Strong underweight

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

Source: UOBAM, June 2023

4 possible scenarios in 2023

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Base case remains Soft Landing as consensus has swung between No Landing and Hard Landing

Scenario	No Landing	Soft Landing	Hard Landing	Extreme Crisis/ Volatility
Description	• No recession • Continued late cycle expansion	• Economic slowdown/ Shallow recession (1990) • Increase in unemployment rate <2%	• Classic recession (1973, 2007-09) • Increase in unemployment rate >2%	• Great Depression type scenario OR • 1970s inflation type environment
Who's in this camp	• MRB • Goldman • Anatole (Gavekal)	• **UOBAM** • Paul Krugman • State Street Global	• Stanley Druckenmiller • Jamie Dimon • Strategas • UBS	• Michael Burry • Blackrock • Ray Dalio/ Greg Jensen
Implications	• Equity market supported by growth, but overhang of delayed recession • Bonds have good yields but face more rate hikes (though nothing like 2022)	• Equity markets will be choppy but investors will quickly look past shallow recession • Bonds to outperform due to reduced rates	• Equity markets will be down another 10-30% • Govt bonds to outperform, while high yield credits will see large amount of defaults	• Extreme volatility in equity and bond markets • Potential second wave of inflation

Market sentiment appears to be shifting back towards "no landing"

Source: UOBAM

Economic trends from 1H 2023

Recession indicators are improving, but we are not out of the woods yet

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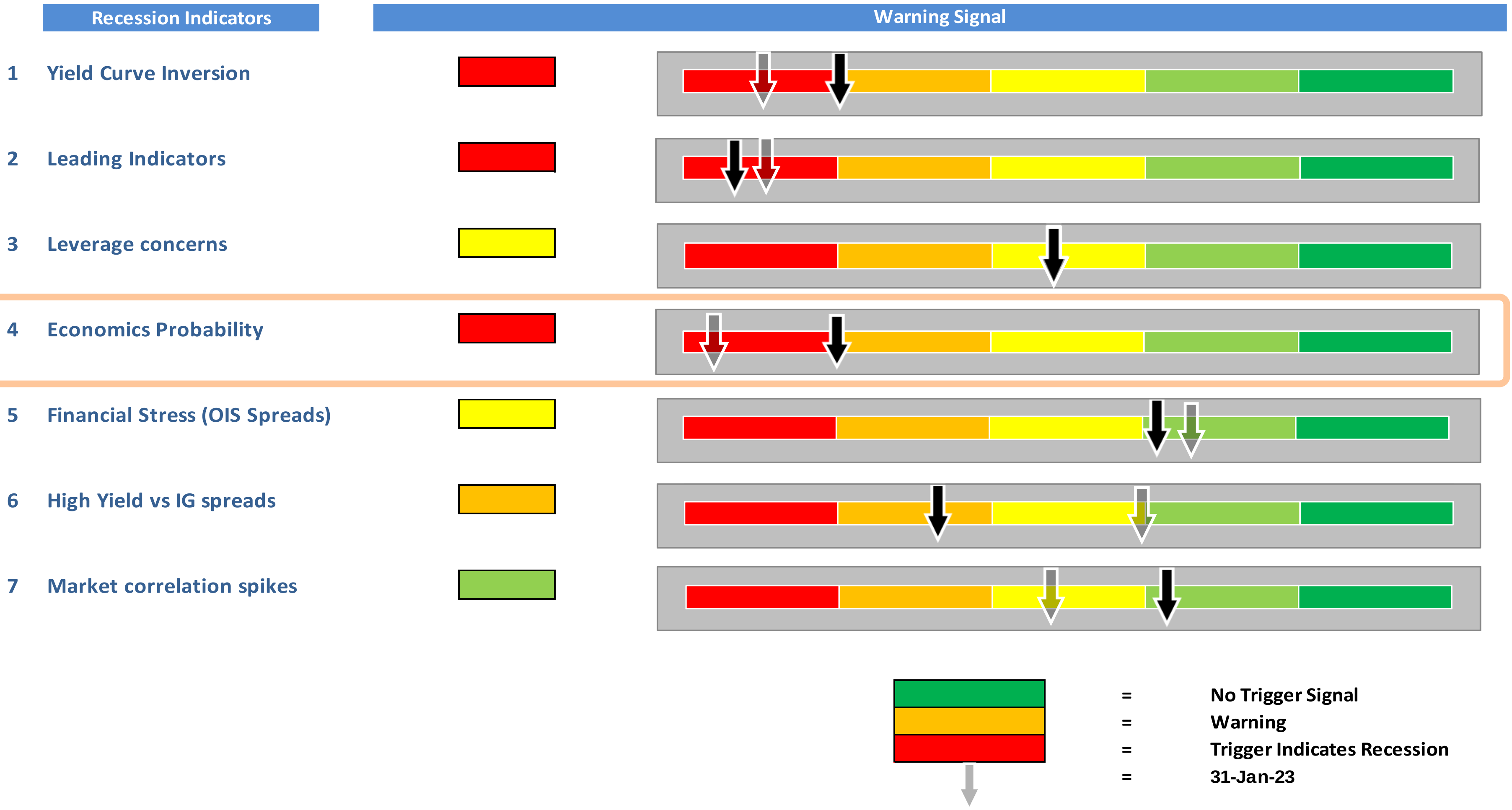
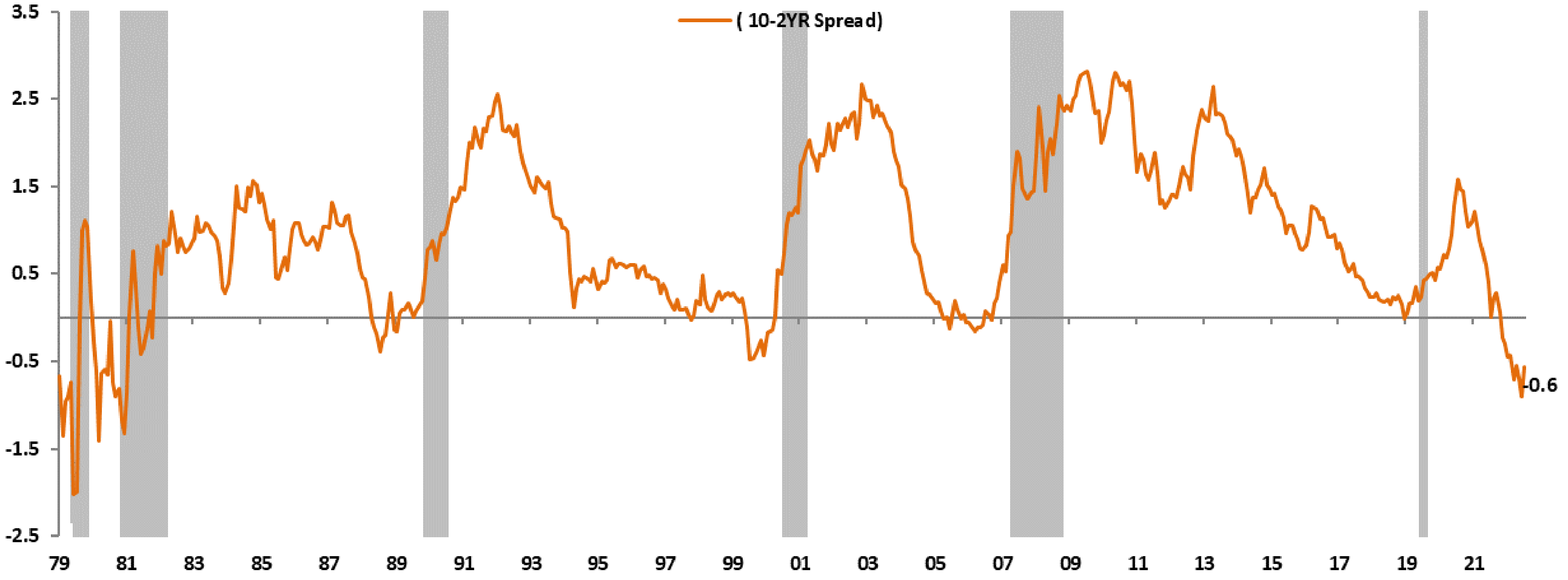
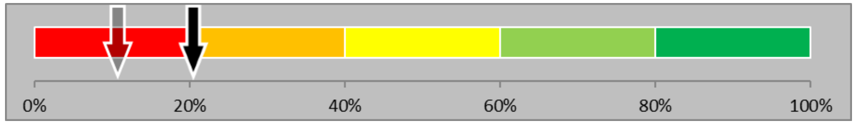


Source: UOBAM, 16 May 2023

Key warning sign – yield curve remains deeply inverted

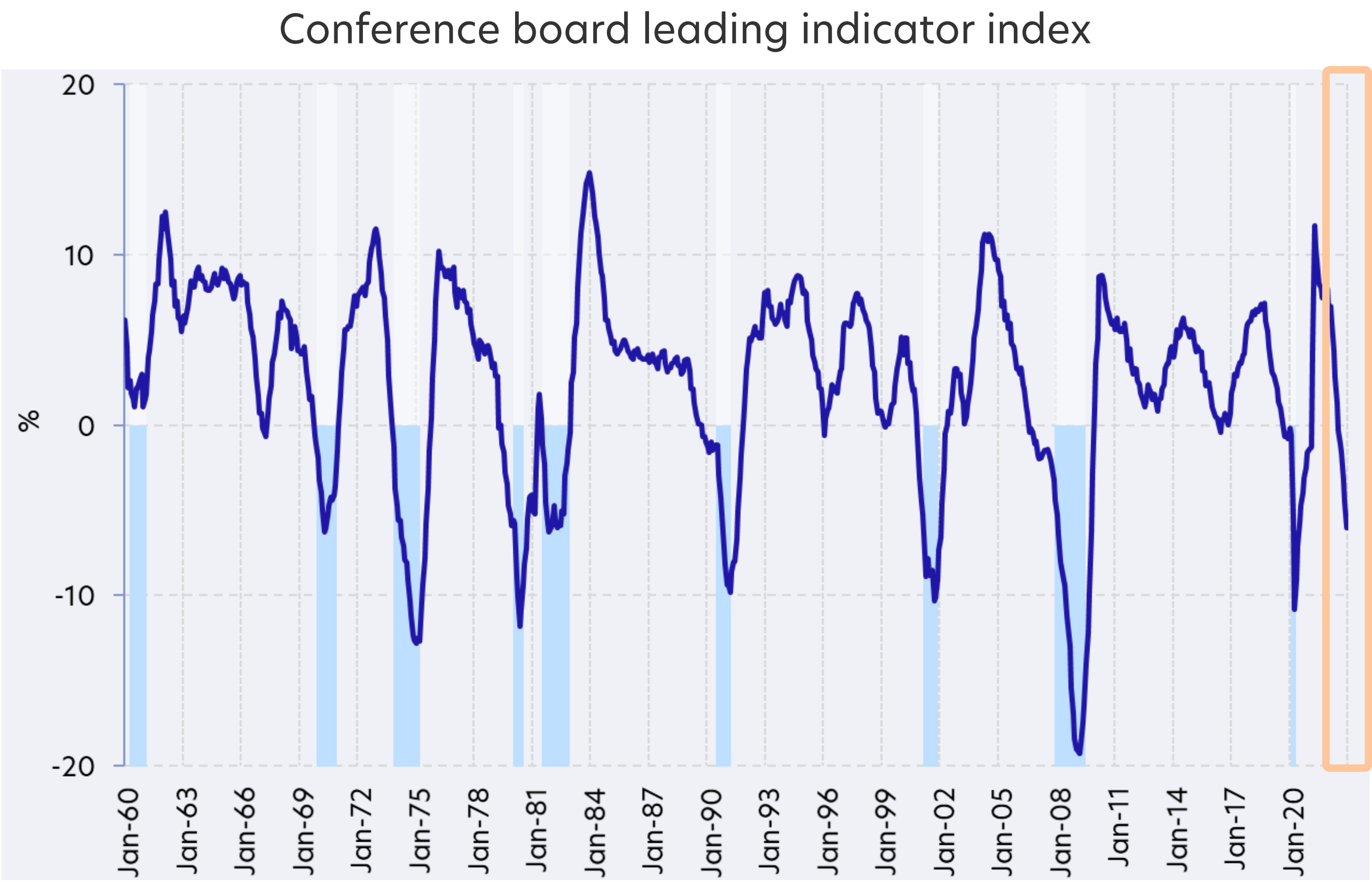
Yield curve before recessions





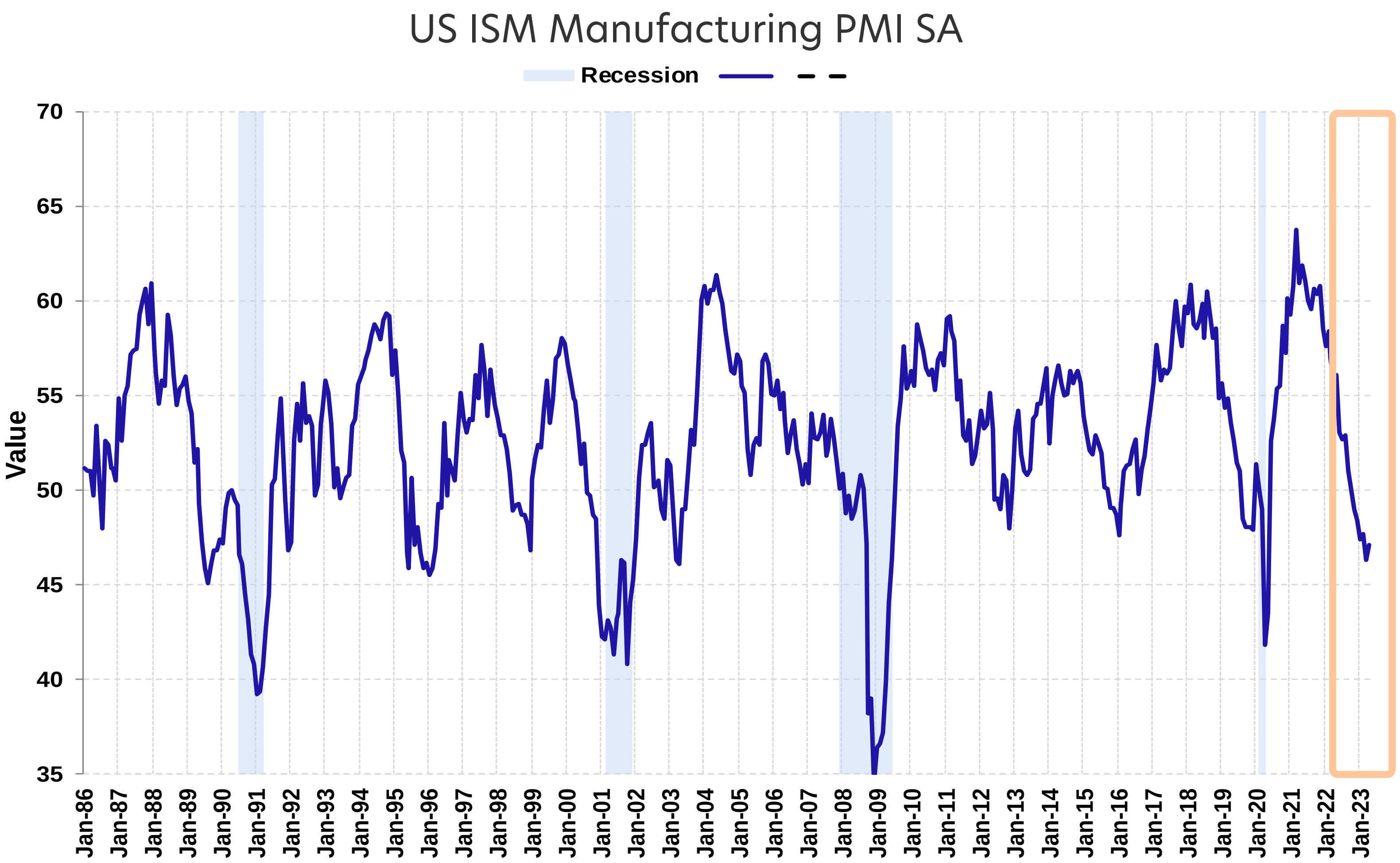
Source: UOBAM, 16 May 2023

Conference board LEI at levels typically followed by a recession



Source: Bloomberg, April 2023

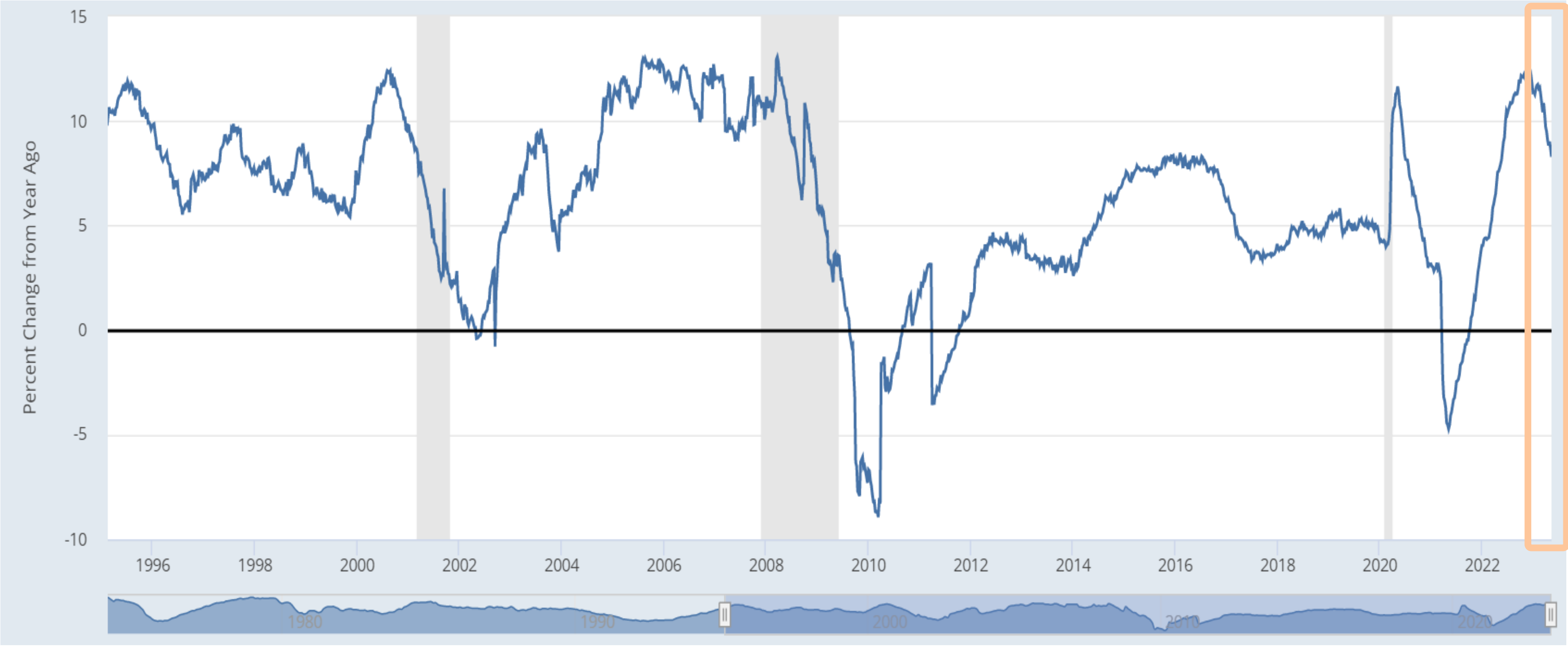
US ISM levels also imply a goods/manufacturing recession



Source: Bloomberg, May 2023

Bank loan growth strongest in over 15 years – but starting to face headwinds

Loans and leases in bank credit, all commercial banks

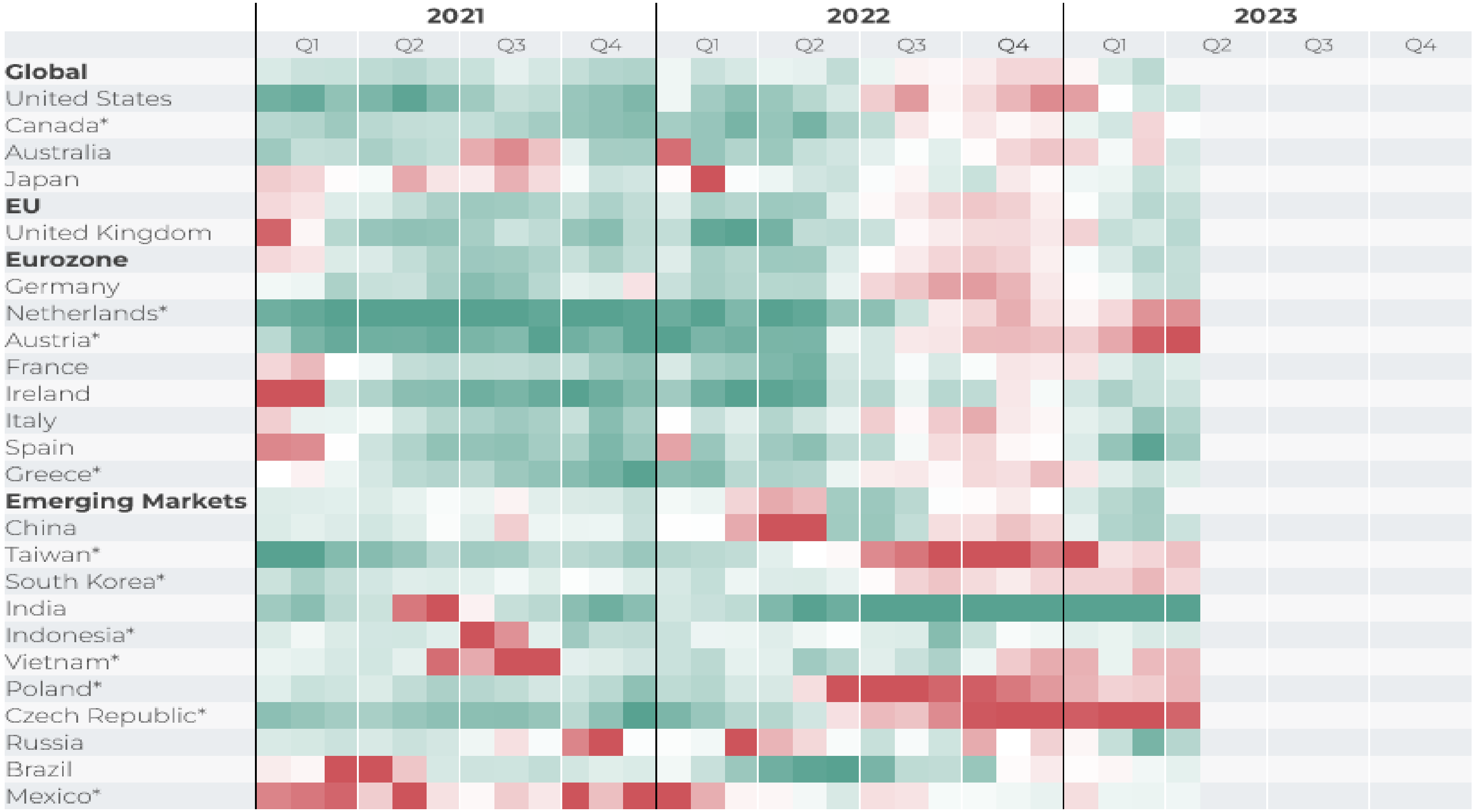


Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System

Global growth indicators - more “red” in 2H22 but turning more “green” in 1H23

Global leading indicators, where available composite PMI otherwise manufacturing PMI*

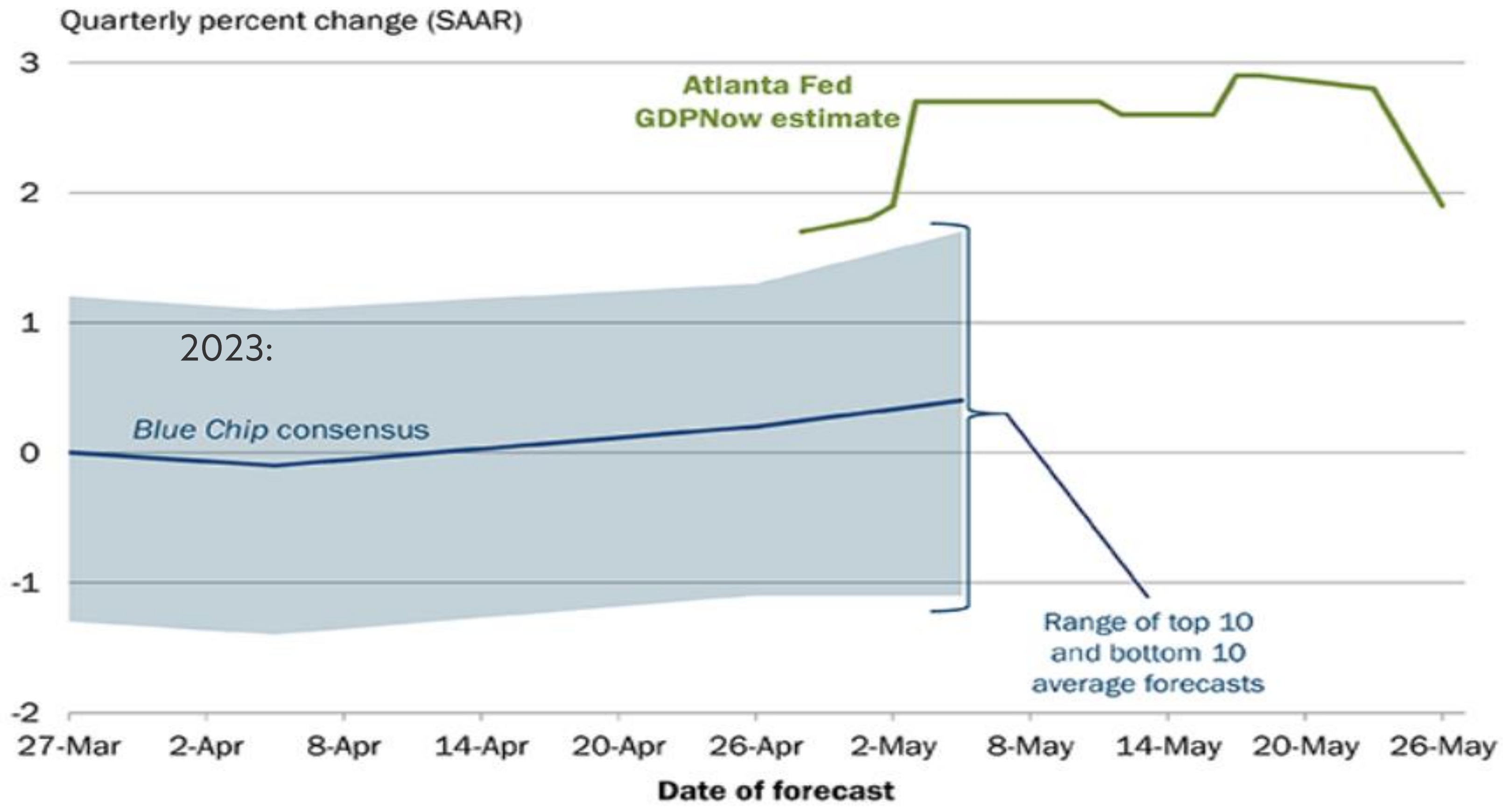


Color legend: White = values equal or are slightly above/below 50; Green = values are above 50; Red = values are below 50. A reading above 50 indicates an expansion of the economy in comparison to the previous month and below 50 represents a contraction, while 50 corresponds to no change.

Source: S&P Global, May 2023

2Q23 GDP forecasts are tracking well so far

Real GDP estimates for 2Q 2023



Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: Blue Chip Economic Indicators and Blue Chip Financial Forecasts, May 2023

Global GDP forecasts show moderately positive trend for 2023 and 2024.

GDP weighted composite: China, India, Korea, Indonesia and Taiwan

	2019	2020	2021	2022F	2023F	2024F
Global	3.0	-4.4	5.9	**3.2**	2.5	2.8
United States	2.3	-2.8	5.9	**2.1**	1.1	0.8
Eurozone	1.6	-6.1	5.3	**3.5**	0.6	1.0
Japan	-0.4	-4.3	2.3	**1.0**	1.0	1.1
Asia ex. Japan	5.3	1.3	5.9	**4.0**	5.3	4.9
China	6.0	2.2	8.4	**3.0**	5.7	5.0

Previous 2023 forecasts: Global 2.4, US 1.0, Asia 5.1, China 5.3

Source: UOBAM, Bloomberg, 16 May 2023

Mixed data trends point to a "Rolling Recession"

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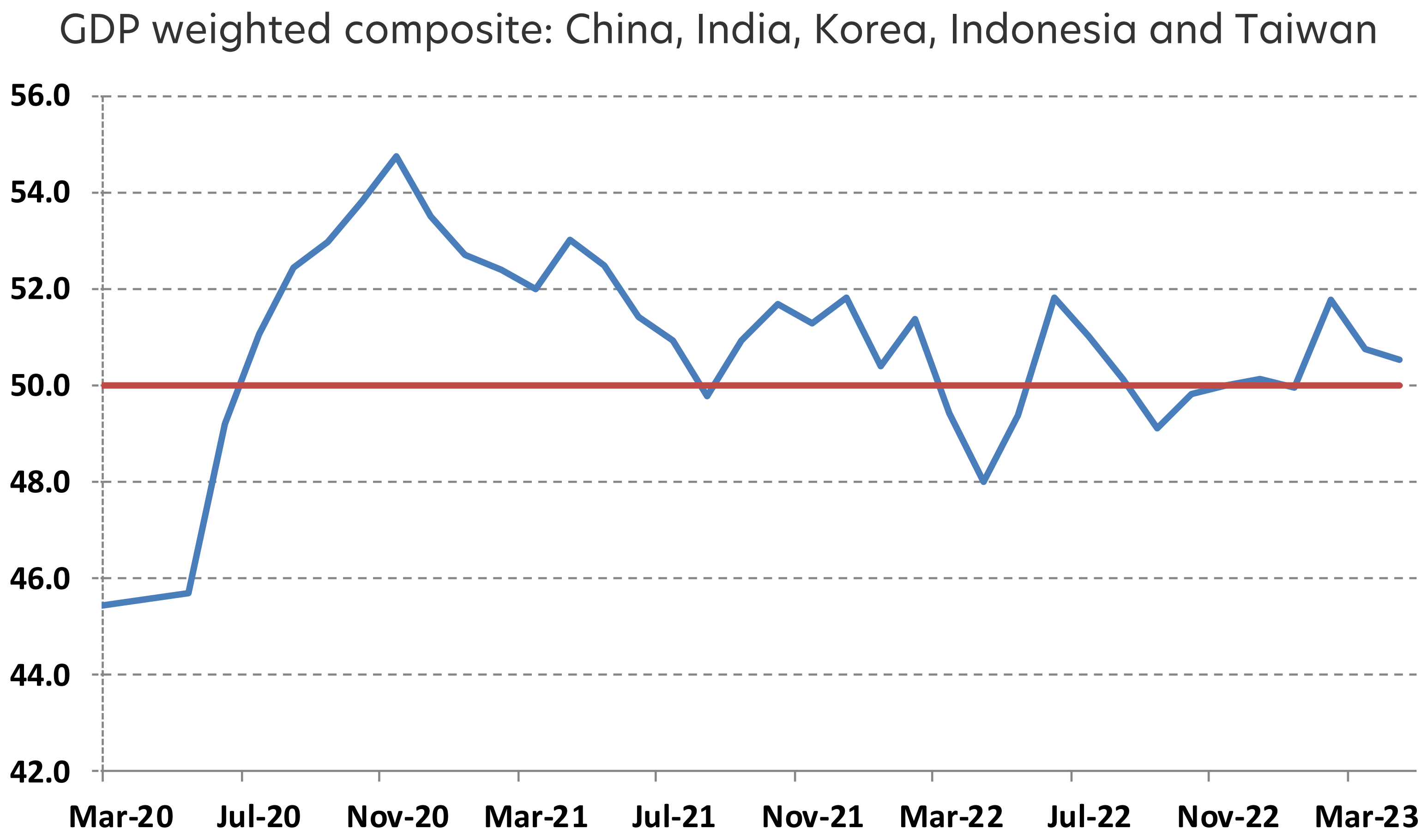
Recession in goods and housing sectors

- Deep contraction in manufacturing Purchasing Managers' Index (PMIs).
- Sharp contraction in housing starts.
- Weak and negative earnings in many retail industries.

Continued expansion in many service sectors

- Travel, leisure, and entertainment sectors all appear early cycle i.e. high demand and strong employment.
- Service sector PMIs have much more resilient for over a year.

Asia ex Japan's PMIs more stable than the developed markets

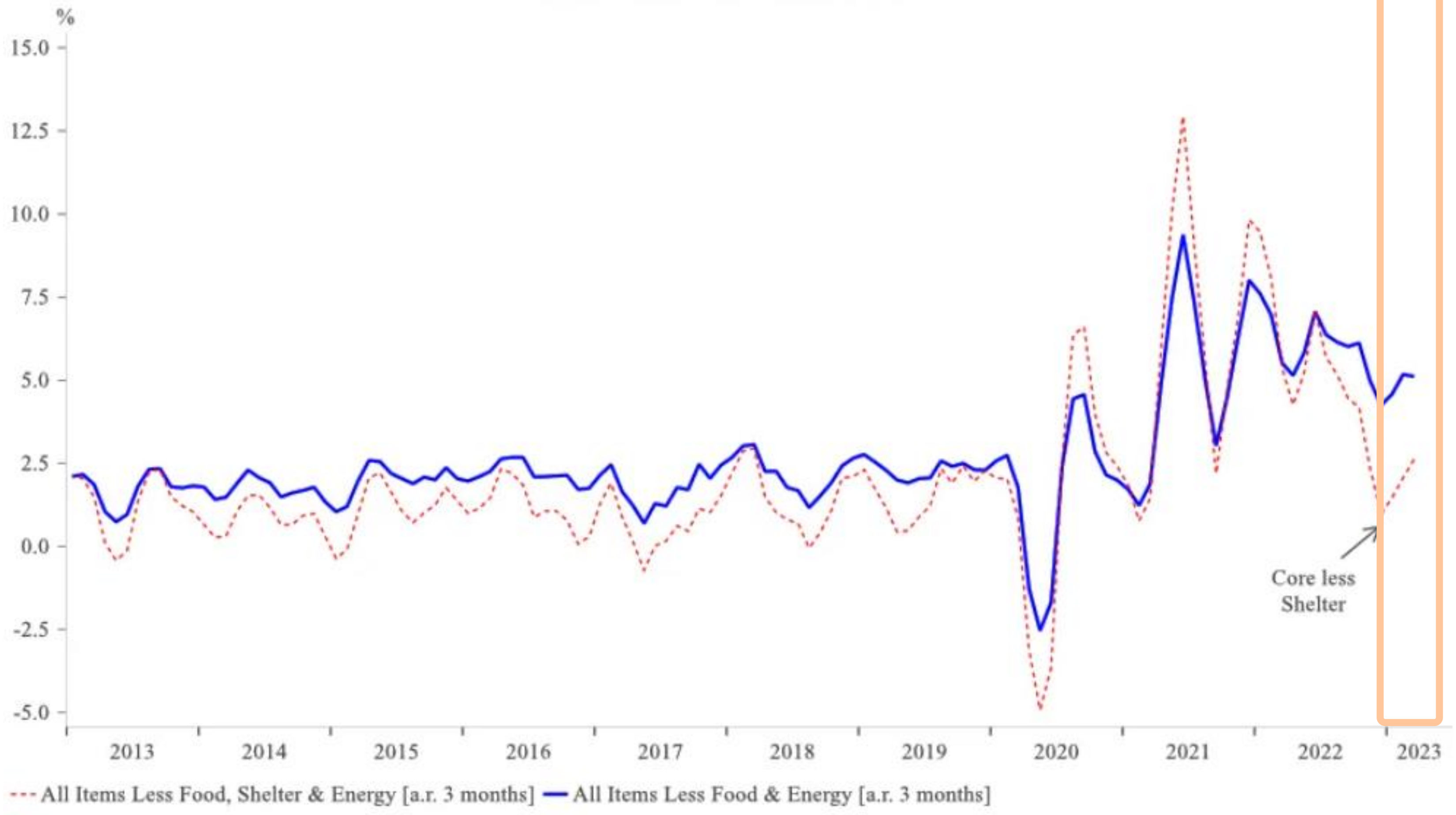


Source: UOBAM, Bloomberg, 16 May 2023

Inflation trends from 1H 2023

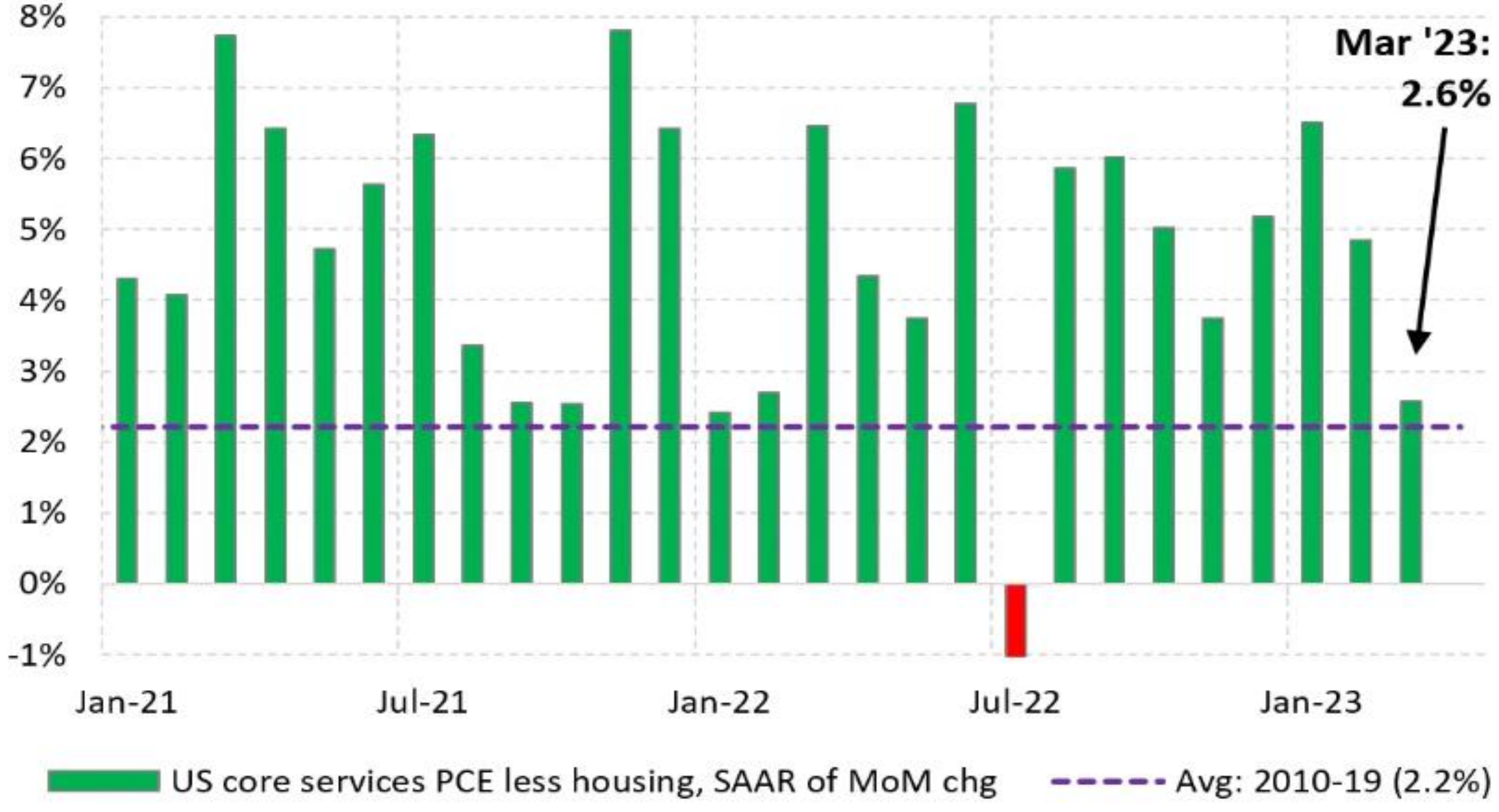
Core PCE ex shelter has already normalised

US Core CPI 3 mo. % A.R.



Source: Macrobond, Mar 2023

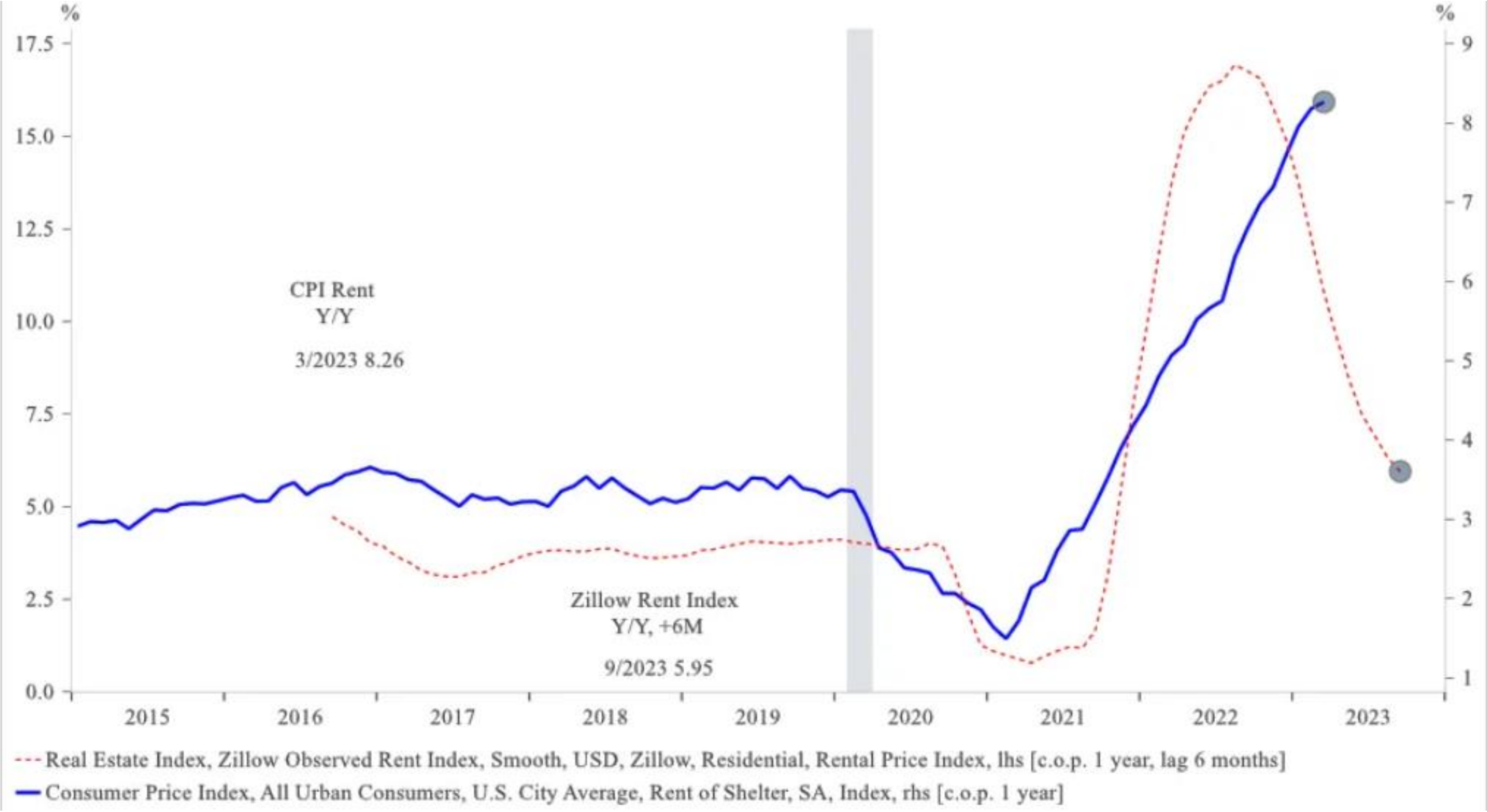
Super core inflation (i.e. ex housing) is down significantly



Source: BEA, Bloomberg, Vanda, Mar 2023

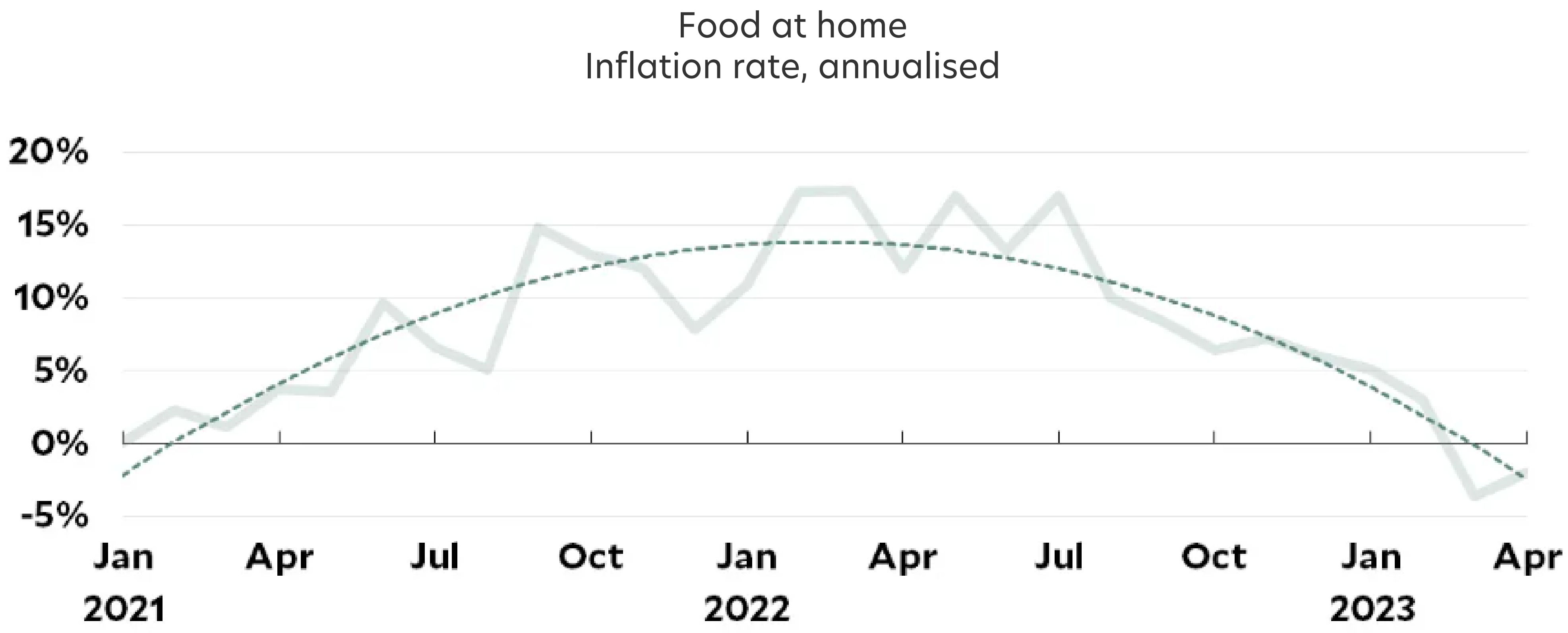
Shelter already falling rapidly, CPI data yet to catch up

US CPI Rents Y/Y vs Zillow Rent Index Y/Y



Source: Zillow, Macrobond, Mar 2023

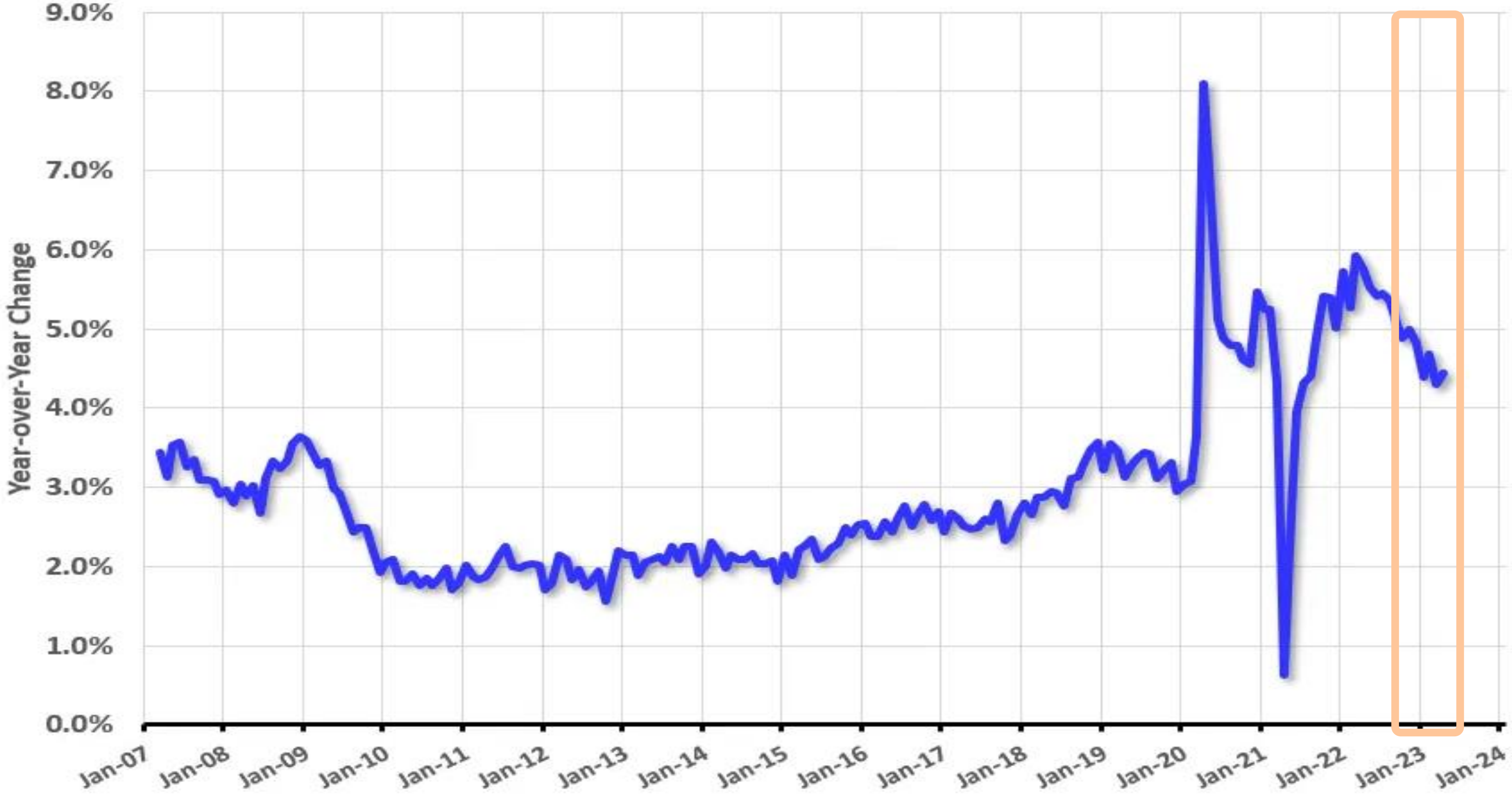
Food and petrol inflation - the most important drivers of consumer confidence – likely to see improvement in confidence in 2H23



Source: Bloomberg, UOBAM, 16 May 2023

Wage pressures are falling, albeit slowly

Average hourly earning of all employees, year-over-year change



Source: Calculatedriskblog.com, May 2023

Risks and headwinds to look out for in 2H 2023

The bear case for markets

Liquidity tightening

US M2 has turned negative and bank lending standards are tightening and slowing loan growth.

Equity Risk Premium at very low levels

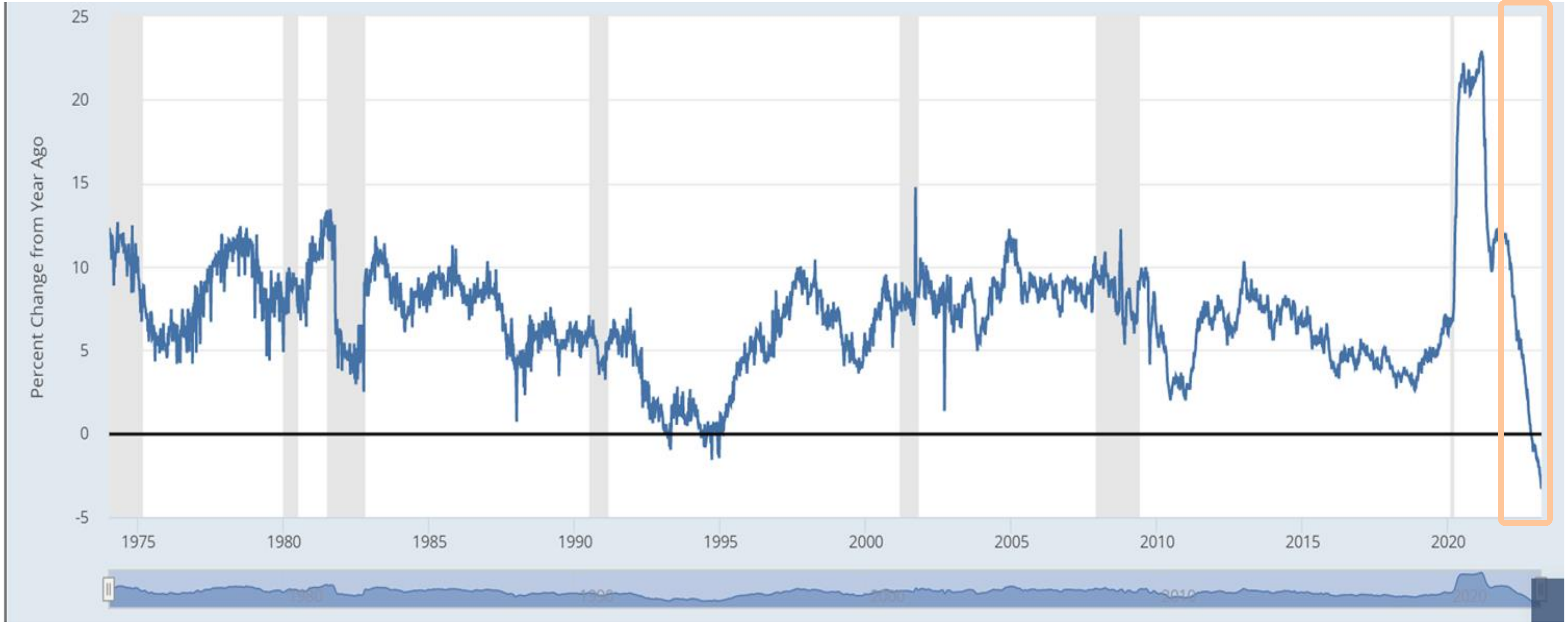
EPS multiples were higher last year but adjusted for the risk-free rate, valuations are now higher.

Breadth of the market is bad

- The top 10 counters account for 90% of S&P500 returns YTD.
- EPS growth across the world is near 0% for 2023.
- Hard Landing is still a risk and inflation can still prove to be a problem.
- 1940 postwar parallels look worrisome.

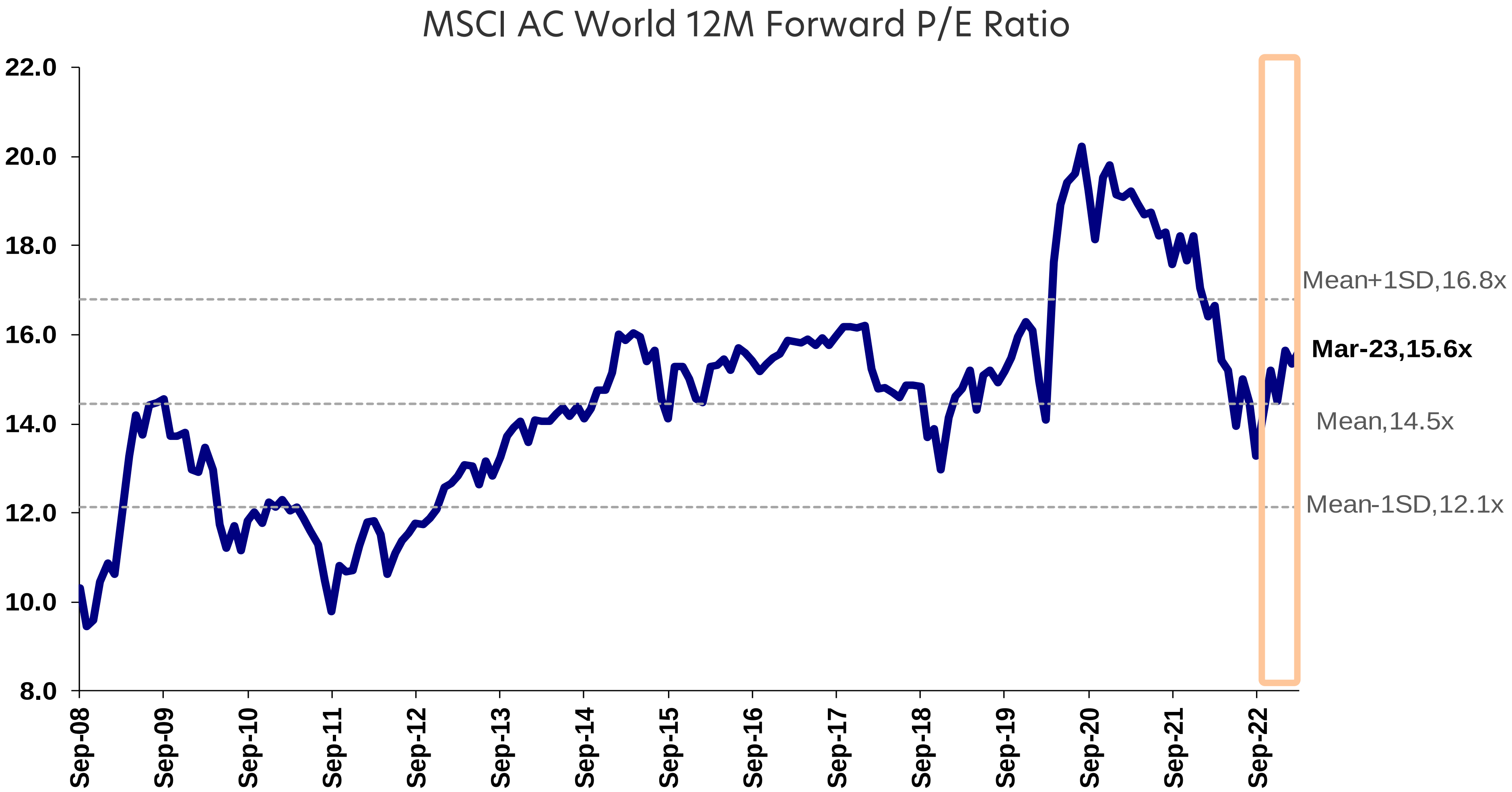
Declining liquidity – deposit flight is hurting the banking system

Deposits, all commercial banks



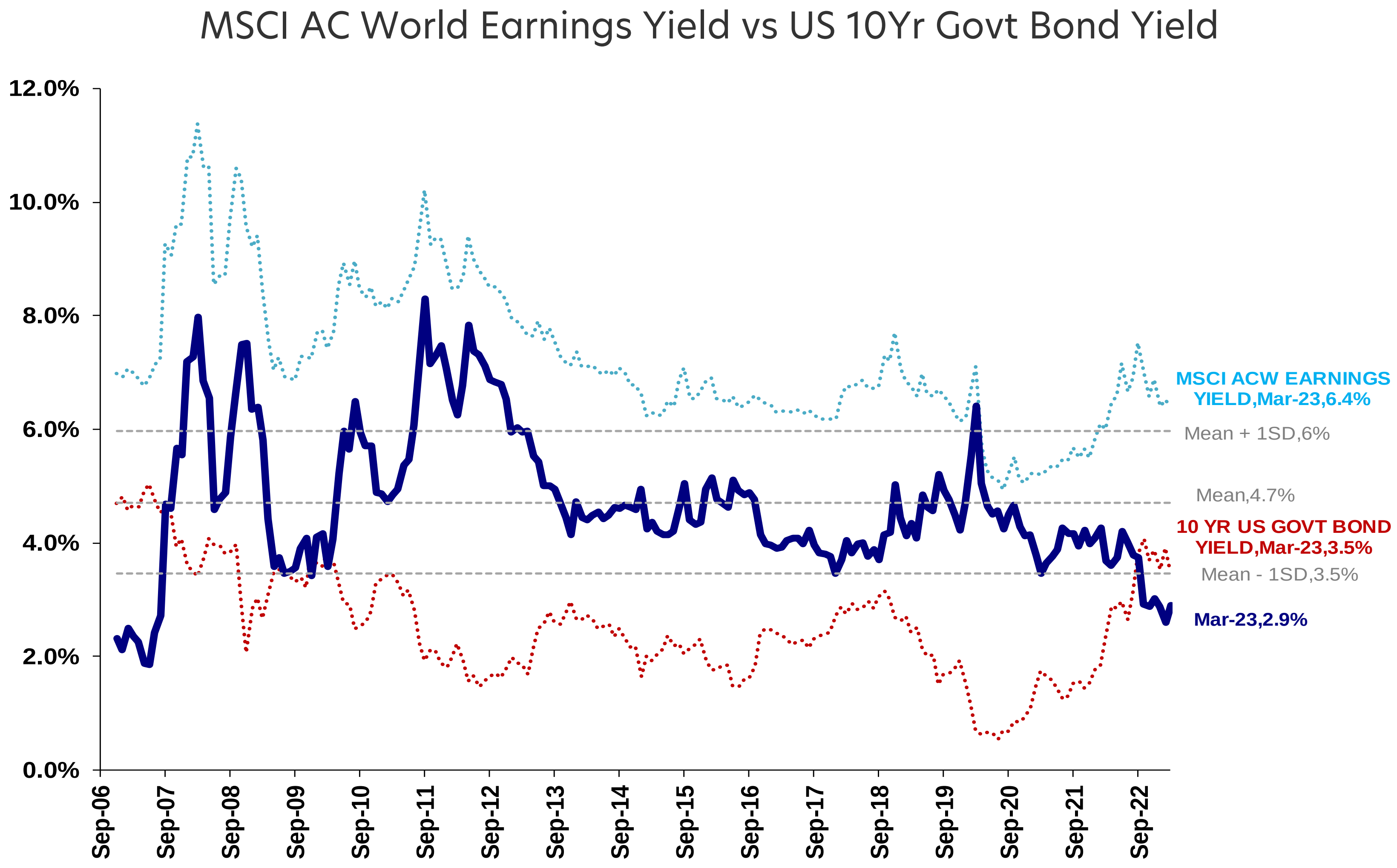
Source: Board of Governors of the Federal Reserve System

MSCI AC world price-to-earnings ratio looks ok



Source: Factset Market Aggregate, Factset, 31 March 2023

MSCI AC world equity risk premiums look expensive



Source: MSCI, Factset, 31 March 2023

S&P500's top 10 stocks are driving all the returns

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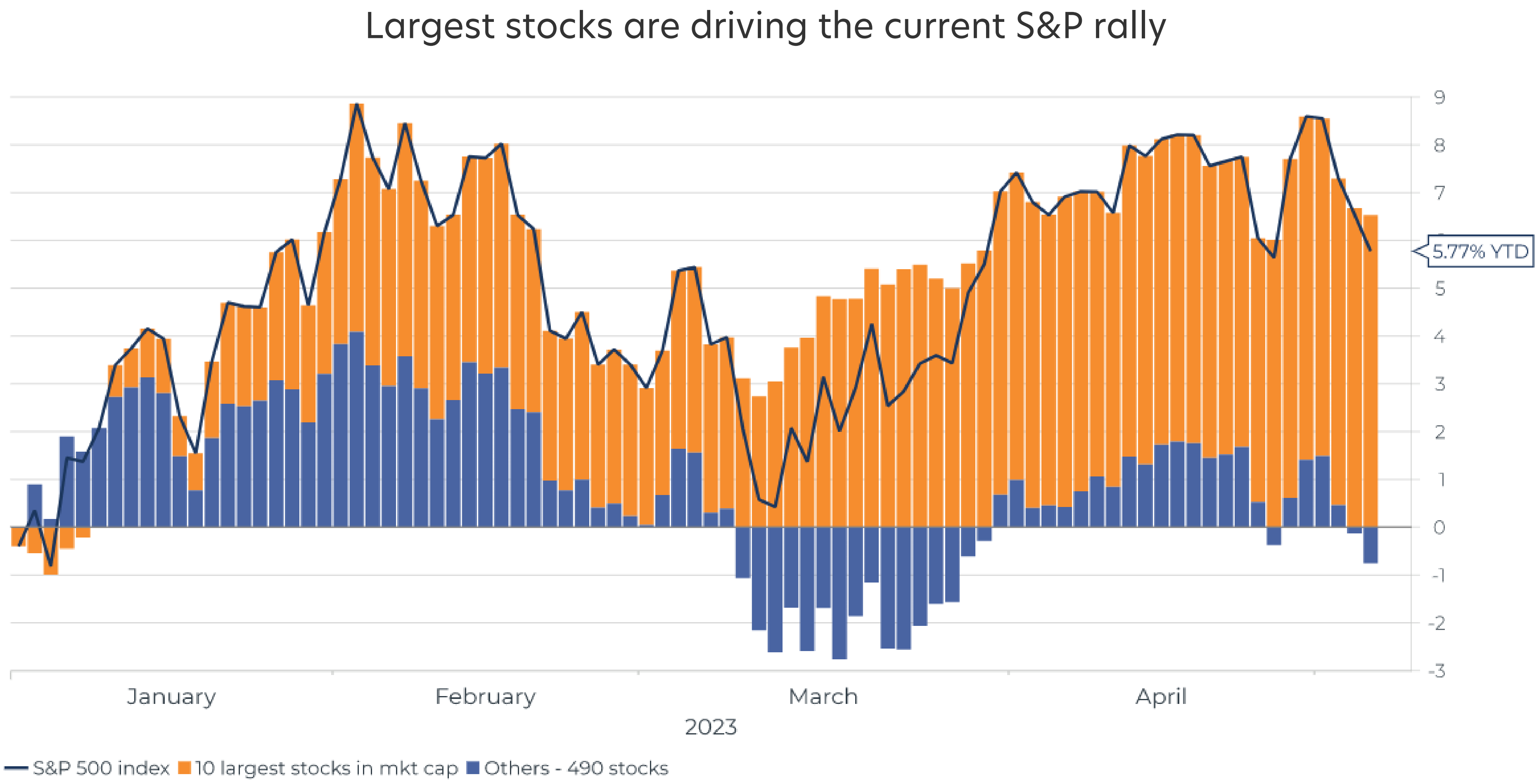


Source: S&P Global, Macrobond, April 2023

Implications: rangebound trading

S&P 500
Indexed to 100 at respective highs, May 1946 & January 2022

Source: S&P Global, May 2023

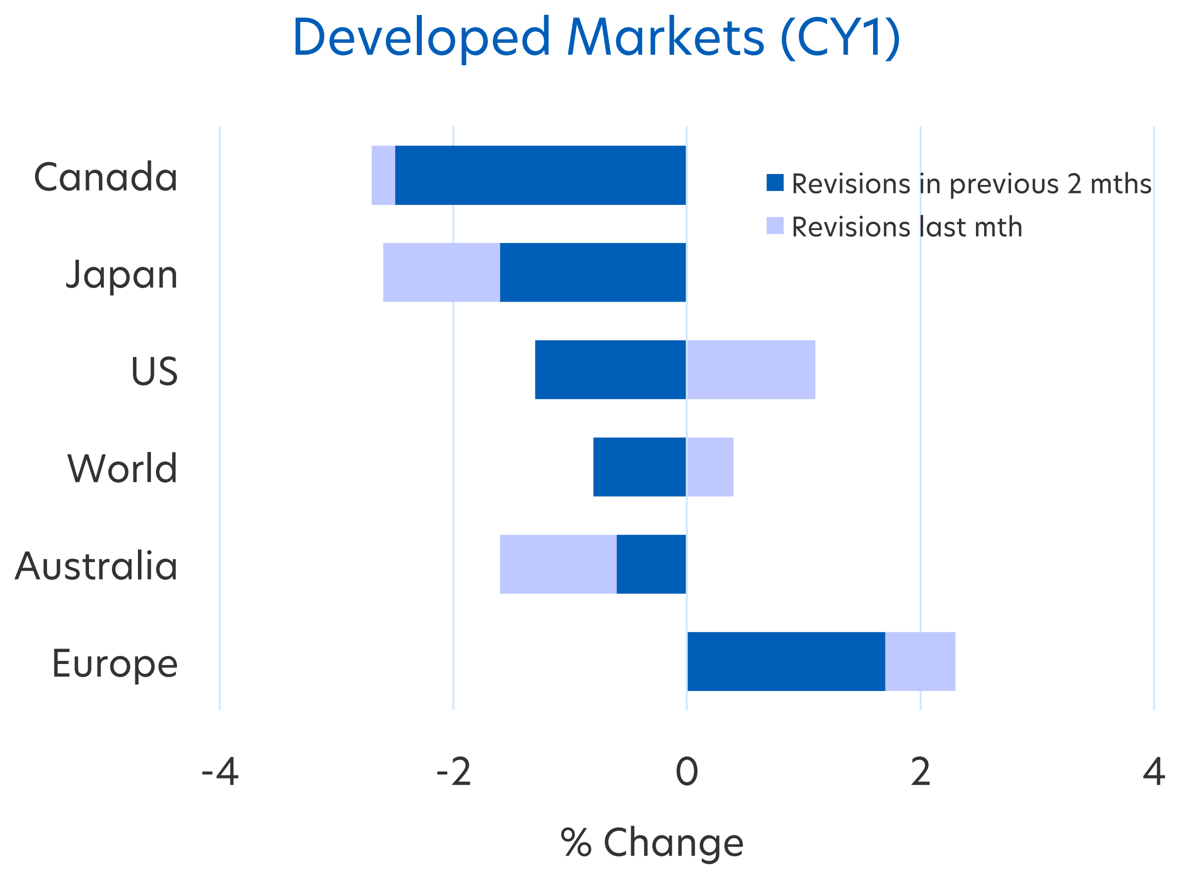
Earnings growth is low but remains positive

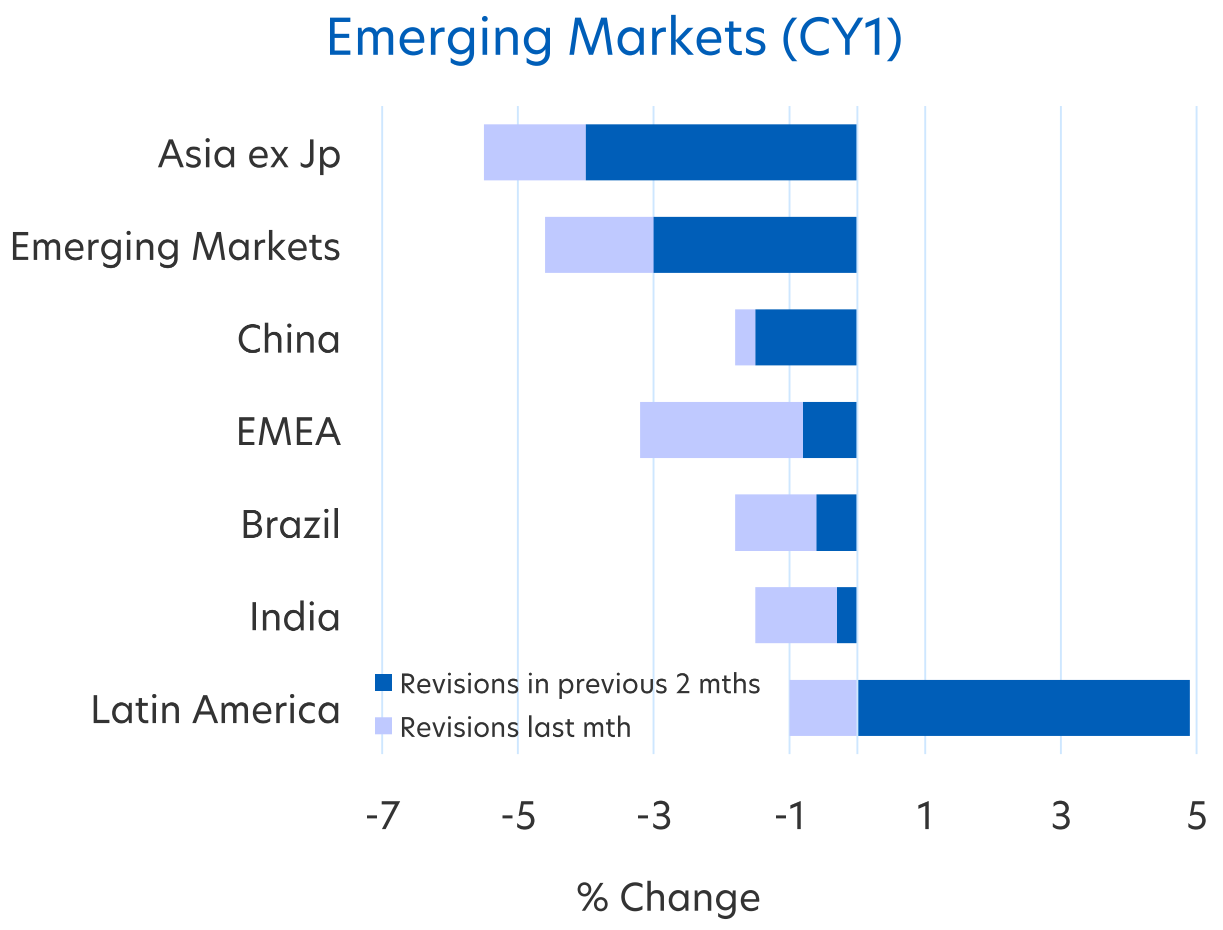
	EPS Growth (YoY%)		PER		DVD YLD	PBR		ROE	
Regions	2023E	2024E	2023E	2024E	2023E	2023E	2024E	2023E	2024E
US	1.1	11.6	18.9	17.0	1.7	3.7	3.4	19.8	20.1
Europe	4.1	7.2	13.0	12.1	3.5	1.8	1.7	14.1	14.1
Japan	2.3	7.9	14.1	13.1	2.5	1.3	1.2	8.9	9.0
Asia ex. Japan	-2.2	21.1	14.0	11.6	2.7	1.4	1.3	10.2	11.4
China	13.0	15.0	10.8	9.4	2.5	1.2	1.1	11.4	11.9

Based on Calendar Year

Source: Factset, UOBAM, 11 May 2023

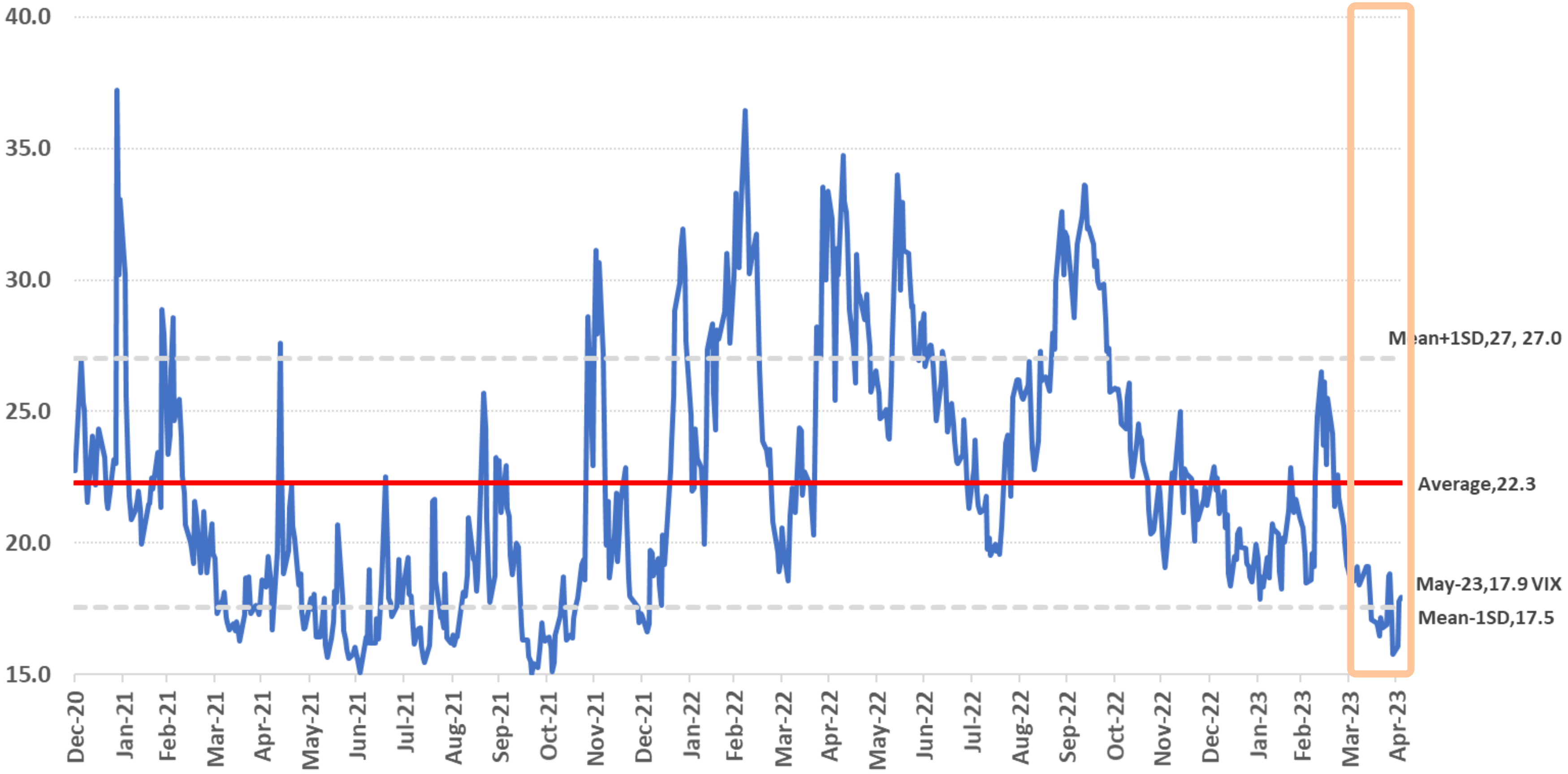
Earnings revisions have been weak





Source: Factset, UOBAM, 16 May 2023

VIX may be too complacent as we head towards an economic slowdown, even a mild one



Source: Bloomberg, UOBAM, 3 May 2023

FAQs

Key Questions

Everyone is calling for a recession, has it started yet?

No, growth has been fairly resilient and calls for a recession have been pushed back to 4Q23.

What is a rolling recession that is increasingly talked about and are we in one?

A rolling recession is a downturn in which different sectors experience a downturn at different times. Overall GDP may not turn negative. A rolling recession may be good description of the desynchronisation between the goods sector and the service sector after the pandemic.

What is our recession view?

We think there is clear evidence of slowing growth that may turn out to be just a slowdown or a shallow recession. We think the market reaction to just a slowdown or a mild recession will be similar in that markets will be quick to look past the slowdown to future growth.

Key Questions

Why is Asia disappointing again?

We continue to think the growth outlook is better, valuations are better, and inflation is more contained than in Asia than the developed markets. But Asia has disappointed. China's recovery has been slower than expected but we think it will improve. We still think the potential is there is there for Asia, but we stay neutral Asian equities until we see better signs of economic growth in China gaining better traction.

Will the Fed continue to hike or will it pivot

We continue to think the Fed is done hiking or nearly done hiking rates, but we don't expect a pivot anytime in 2023. Employment is still robust and until it softens, the Fed is unlikely to pivot even if inflation moderates.

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