UOB Asset Management

UOBAM Invest Corporate

UOBAM Invest Q1 Market 2022 Market Review

A perfect storm

It has been a difficult start to 2022. Covid lockdowns disrupted supply chains, which in turn fed into inflation. As a result, central banks around the world were forced to consider raising interest rates, causing concern in both equity and bond markets. This concern quickly turned into a crisis when Russia invaded Ukraine in late February, a development that markets did not think would materialise.

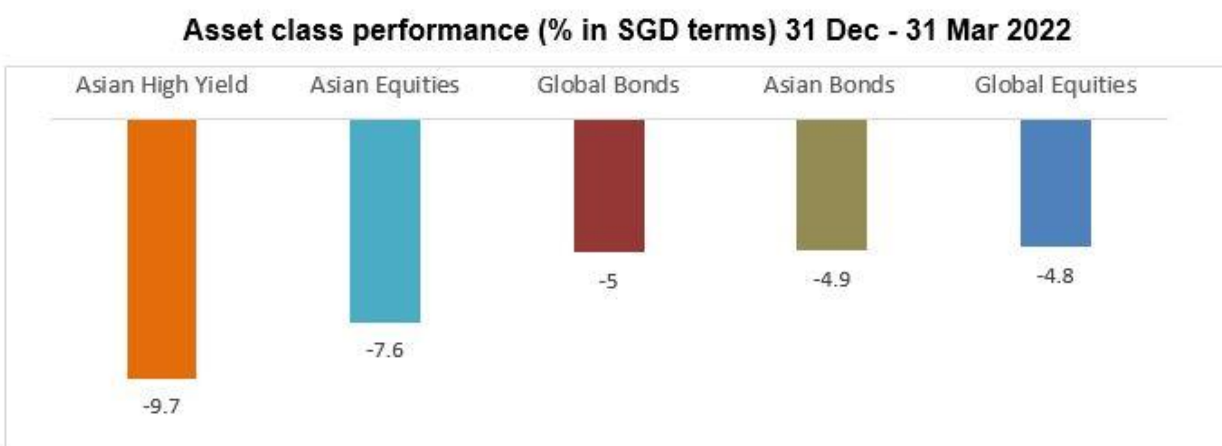
One major consequence of the Russian-Ukraine conflict, and the sanctions that ensued, is the jump in commodities prices. Russia is a major exporter not only of oil & gas, but also industrial metals like nickel, and agricultural commodities such as wheat and sunflower oil. The price of Brent Crude Oil surged and continues to stay above US$100 per barrel.

Markets in turmoil

The combination of geo-political uncertainties, surging inflation to multi-decade highs, and aggressive central bank tightening, have given rise to unusual market conditions. Both equity and bond markets experienced selldowns, but the prospect of rising interest rates caused bond markets to be more severely impacted.

Despite this, some equity sectors showed a degree of resilience, with energy and commodities producers able to benefit from rising prices. Banks were also favoured given their potential for better earnings amid higher interest rates. In terms of regions, Europe was deemed likely to bear the brunt of the Russia-Ukraine war, and markets fell accordingly.

As a result, global equities fell 4.8 percent during the quarter, with Europe leading the loss at 7.6 percent. US Treasury (UST) 2-year yields ended the quarter at 2.34 percent compared to 1.51 percent at the start of the period. The 10-year UST also yielded 2.34 percent, signaling a lack of investor confidence in longer term global growth. Meanwhile, yield spreads widened between government bonds and other bond sectors, an indication of widespread uncertainty across the bond investment universe. (All performances in SGD terms).

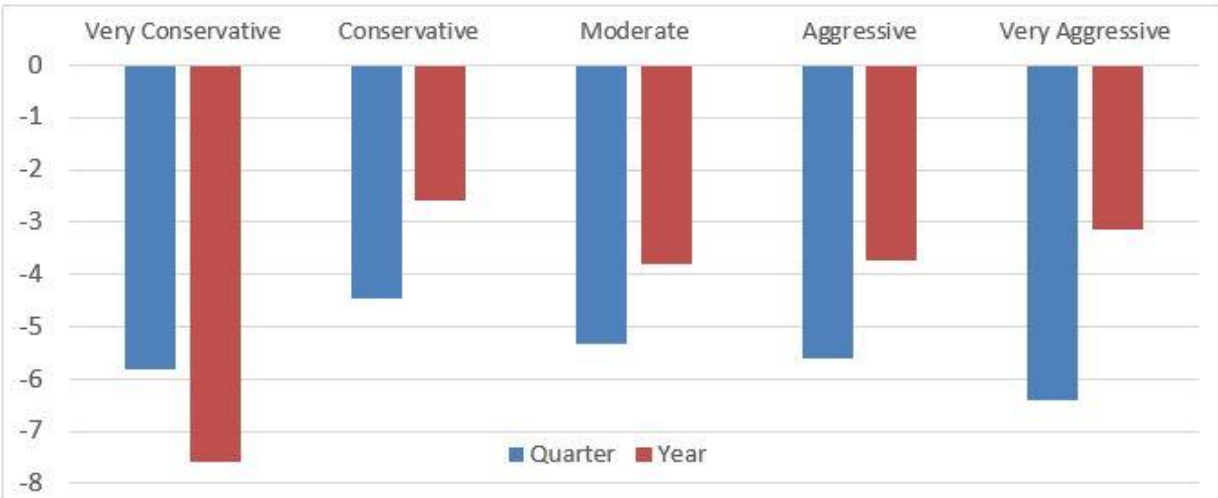


Source: UOBAM/Bloomberg. Indices used as follows: Asian High Yield – J.P.Morgan JACI Non-Investment Grade, Asian Equities – MSCI AC Asia ex Japan, Global Bonds – Bloomberg Global Aggregate Credit, Asian Bonds – J.P.Morgan JACI Investment Grade, Global Equities – MSCI All Country World

Q1 2022 Digital Adviser Performance

As at 31 March 2022, UOB Asset Management's (UOBAM) robo-adviser for corporates delivered 3-month negative returns of between -5.8 percent and -4.5 percent, from the Very Conservative to the Very Aggressive portfolios. One year returns ranged from -7.6 percent to -2.6 percent.

Portfolio performance (% in SGD terms)



Source: UOBAM, Quarter from Dec 31 2021 to 31 March 2022. Year from 31 March 2021 to 31 March 2022. Performance on a Net Asset Value basis, before subscription fees. Past performance of the portfolio or UOBAM and any past performance, prediction, projection or forecast on the economy or markets are not necessarily indicative of the future or likely performance of the portfolio or UOBAM. Returns are calculated on a single pricing basis.

- The *Very Conservative* portfolio, comprising entirely of bond investments, posted the weakest performance for the quarter. The allocation to Asian and Global Investment Grade bonds in particular weighed on performance.
- The *Conservative* portfolio includes an allocation to US equities. This helped to offset some of the losses from the portfolio's bond exposure.
- The *Moderate* portfolio has exposure to Asian High Yield bonds that weighed on 1Q performance.
- The *Aggressive* portfolio also saw its 1Q performance weighed down by its holdings in Asian High Yield bonds.

- The *Very Aggressive* portfolio was impacted by its allocation to Asian and Global equities, although equities generally fared better than bonds over the quarter.

Q2 2022 Market Outlook & Strategy

Federal Funds Futures are predicting as many as nine rate hikes by the US Federal Reserve (Fed) this year. This is the most aggressive tightening by the agency since 1994, and such expectations will likely keep the bond market under pressure.

However, some of this may already have been priced into the market. And while the Fed is committed to tame inflation, it will be mindful of the growth risk. High borrowing costs tend to slow consumer demand and corporate investments. The Russia-Ukraine conflict, sanctions and higher energy prices may also start taking a heavier toll on global and US economies.

As such, the Fed may choose to pause after a few rate hikes and wait for confirmation from economic data. If this plays out, and current fears of an overly aggressive Fed fail to materialise, we may see a relief rally in the bond market.

In the longer term, while 1Q 2022 was an anomaly where global bonds proved more volatile than equities, we do not see this to be the new norm. We would expect asset class performance to revert to their historic trends. As such, we continue to maintain our asset allocation framework, including our exposure to developed and emerging market government bonds, as a potential source of above-deposit returns and for diversification purposes.

We encourage you to take this opportunity to review your investment objective and portfolio. Should you require any assistance, please do not hesitate to contact us at UOBAMInvest@UOBGroup.com.

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