The third quarter (Q3) of 2021 has been a challenging one, especially for Asian market investors. On the equity front, the regulatory tightening by the Chinese government on various industries, including internet platforms, online games, private education and property companies, have led to a sell-off in China and Hong Kong, and depressed investors' sentiment for the rest of the region. The surge of Covid-19 cases in the South East Asian countries with the spread of the more virulent Delta variant also weigh down on economic activities in the region. This was in contrast to the continued re-opening of economies in Europe and the US, where Covid-19 restrictions were gradually lifted.

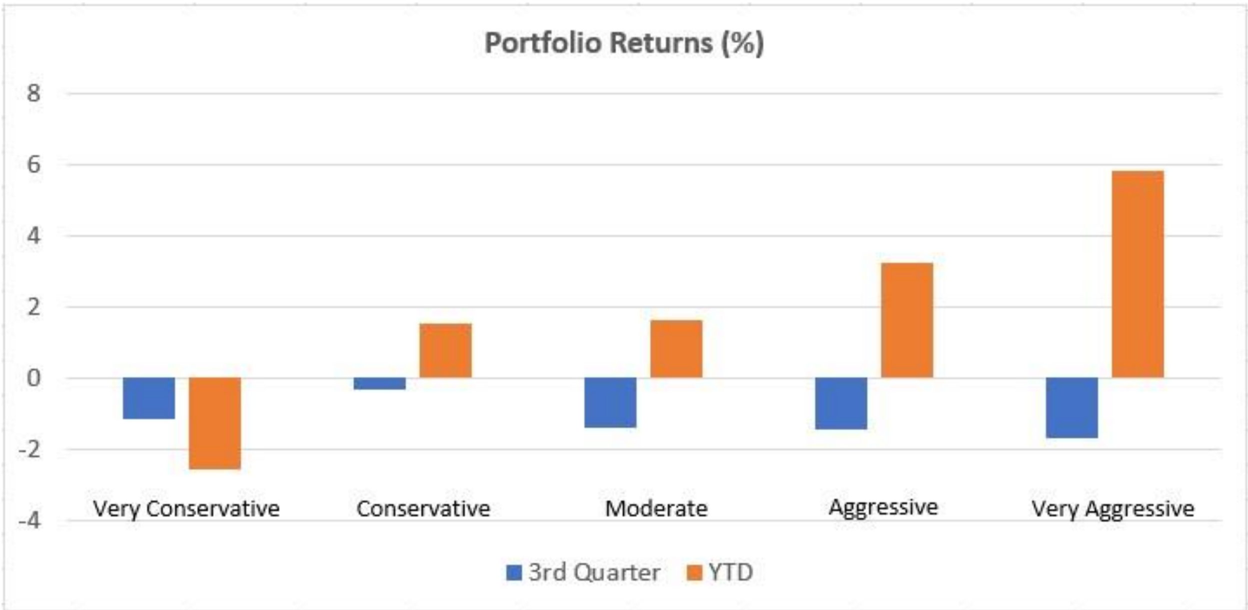
Within bond markets, US treasury yield initially fell during the quarter on the back of concerns over the Delta variant, mixed economic data and possible China slowdown. However, yield started rising in the later part of the quarter as uncertainties started abating, and the US Federal Reserve (Fed) communicated its plans to reduce bond purchases (also commonly known as "tapering".)

Asian bond market, on the other hand, saw greater volatility, as Chinese bond issuers such as Evergrande Group, Fantasia Holdings and China Huarong Asset Management, either defaulted or threatened to default as a result of the government tightening financial conditions in the country to reduce borrowings. Evergrande was one of the largest property developers in China, and its default raised fear of the risk spreading to other property developers, or even possibly to the banking system. Huarong, a large Chinese government-owned asset management corporation who had over-extended itself, ultimately needed to be bailed out. In the meantime, credit spreads in Asia widened with the higher uncertainty and perceived credit risks. The JP Morgan Asia (JACI) Non-Investment Grade index fell 4.8% in Singapore Dollar term for the quarter, marking its worst performance post the Covid-19 pandemic.[1]

[1]Source: Bloomberg, 15 October 2021

Q3 2021 Digital Adviser Performance

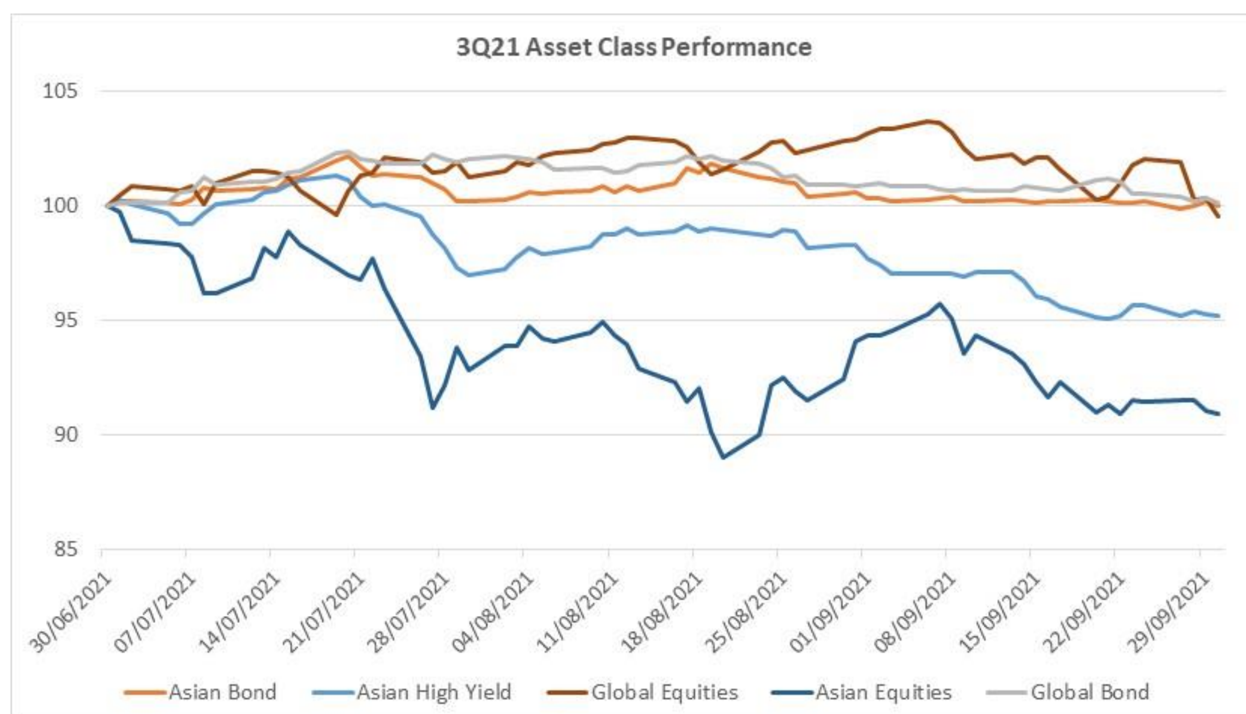
Overall, UOB Asset Management's (UOBAM) robo-adviser for corporates, UOBAM Invest Digital Adviser, has performed largely in line with the market. The Digital Adviser delivered 3-month returns of between -0.3% and -1.7% ranging from the Very Conservative to the Very Aggressive portfolio at 30 September 2021[2].



Source: UOBAM, 30 September 2021. Year-to-date (YTD) from 31 December 2020 to 30 September 2021. 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.

The Very Conservative portfolio posted -1.3% return for the quarter, worse than the Conservative portfolio. This portfolio is an all-bond portfolio, hence its meaningful allocation to our Asian bond fund, which returned -3.4% for the period.[2] On the other hand, the Conservative portfolio has some allocation to US equity exchange-traded funds (ETFs) whose gains helped offset some the losses. Those allocation also meant that the allocation to Asian bonds were significantly lower.

With the Moderate to the Aggressive portfolios, the exposures to Asia High Yield Bond Fund began to weigh on performances, while with the Very Aggressive portfolio, a small allocation to Asian equities was a further drag.



Source: UOBAM, 30 September 2021. 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.

Q4 2021 Market Outlook & Strategy

The fourth quarter (Q4) has traditionally been positive for equity markets as consumers in US and Europe increase their spending during the year-end holiday season. However, the situation may be more convoluted this year as we see sharp jump in prices of many things, including natural gas, coal, semiconductors and shipping rates, as supply side bottlenecks led to shortages. In some countries, labour market is also tightening as some workers shun frontline service jobs for fear of the Covid-19. These lead to fears that inflation may be higher and persist longer than most people were expecting. US government bond yields have begun to react with the 10-year yield rising from 1.2% in early August to more than 1.6% by mid-October.[1] In the past, rapid rise in bond yields tend to trigger equity market volatility.

We believe that the global economic cycle is still in its early phase. Historically, cycles last for between 5 and 10 years, with the average being approximately 8 years. We are only in the second year of the current post-Covid recovery. There would be anxiety at this stage as growth begins to slow from its initial spurt and investors take check on valuation after the strong market rally. We believe in long-term investment goals and staying the course by remaining invested to ride through the short-term market jitteriness.

[1]Source: Bloomberg, 15 Oct 2021.

[2]Source: UOBAM. Performance from 1 July 2021 to 30 September 2021 in SGD terms, on a Net Asset Value basis, before fees.

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 usatUOBAMInvest@UOBGroup.com.

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