UOBAM Invest
Q4 Market 2021 Market Review

Over the fourth quarter (Q4) of 2021, global assets were behaving in line with mid-cycle expansion. Global economy continued to expand, inflation ticked up and bond yields rose. Real assets such as property and commodities, and growth assets like equities all showed strong gains. The risks from the pandemic, rising inflation and central banks' interest rate increases, all remained concerns over the quarter, but did not result in any significant drawdowns in risk assets.

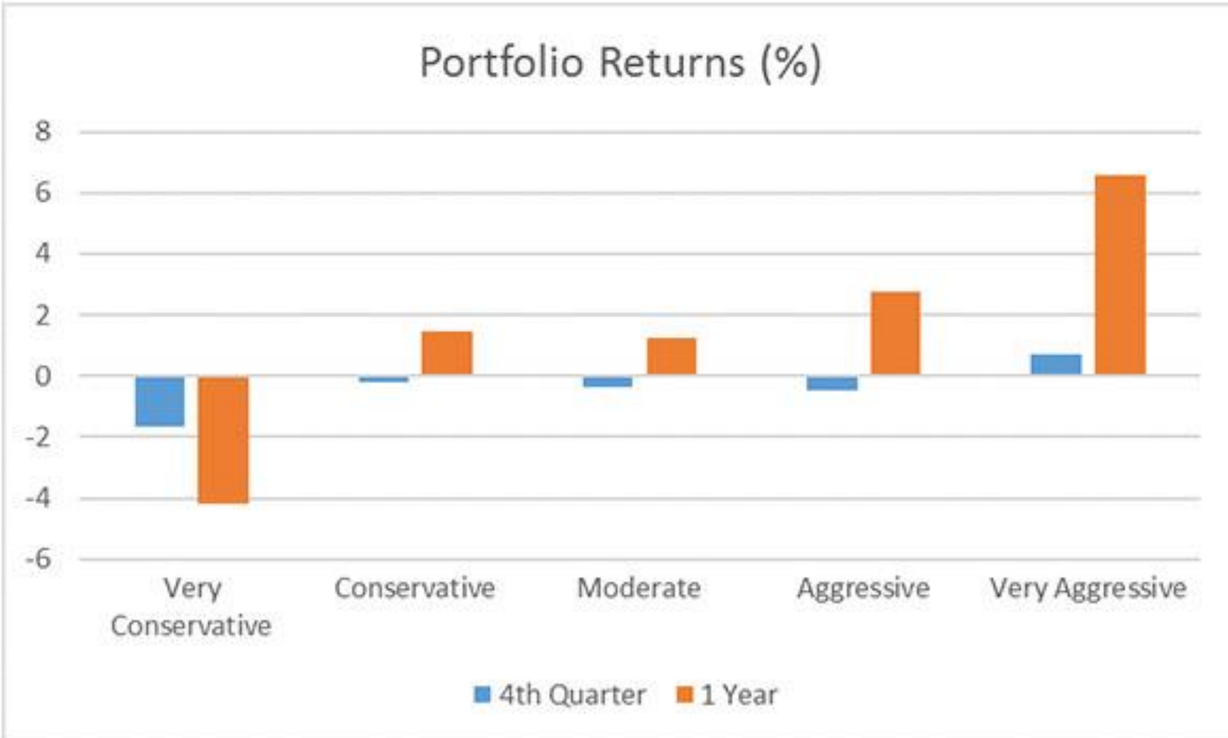
At the start of the quarter, moderating growth in China and the US worried investors. But by the second half of October, economic data across most regions stabilised and pointed to sustained growth. Global Gross Domestic Product (GDP) forecasts were revised down slightly in September and October but have stabilised at a growth rate of 5.9% for 2021 and 4.5% for 2022, both of which would be healthy above trend growth rates. Economic data also point to continued growth in coming quarters. Within an investment cycle, the mid-cycle expansion typically brings gains in growth and real assets like stocks, properties and commodities, but headwinds for fixed income markets as inflation and rates rise.

The pandemic continued and a new variant of COVID-19, Omicron, started to weigh on markets, but overall it was another strong quarter of performance for growth assets. Global equities gained 5.8% during the period, mostly supported by the US which was up 9.2%. Europe was up 5.1%, but other major region such as Japan and Asia ex-Japan were both down at -4.6% and -2.2% respectively. Inflation and bond yields rose during the period and put pressure on fixed income performance. The US Treasury (UST) 10 year yield rose very slightly from 1.48% at the start of the period to 1.51%, but shorter term yields such as the UST 5 year yield rose from 0.96% to 1.26% and the UST 2 year rose from 0.28% to 0.75%. These moves were largely in response to central bank comments after the jump in inflation. US inflation rose from a 4% year-on-year rate in September to 4.9% by December. European inflation rose from 1.9% in September to 2.6% by December. These moves caused bond benchmarks such as the Thomson Reuters/Singapore Exchange Singapore Fixed Income (TR/SGX SFI) Government index to decline by -0.8% and for the Barclays Global Aggregate index to eke out a small gain of 0.1%[1].

[1]Source: All statistics quoted are sourced from Bloomberg as at 31 December 2021 unless otherwise stated.

Q4 2021 Digital Adviser Performance

Overall, UOB Asset Management's (UOBAM) robo-adviser for corporates, UOBAM Invest Digital Adviser delivered 3-month returns of between -1.6% and 0.7%, and 1-year returns of between -4.2% and 6.6% ranging from the Very Conservative to the Very Aggressive portfolio as at 31 December 2021[2].



Source: UOBAM, 31 December 2021. 1 Year from 31 December 2020 to 31 December 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 -1.6% return for the quarter, worse than the Conservative portfolio. This portfolio is an all-bond portfolio, hence its meaningful allocation to Asian bonds, which weighed on performance for the period. On the other hand, the Conservative portfolio has some allocation to US equities whose gains helped offset some the losses. Those allocations also meant that the allocation to Asian bonds were significantly lower.

With the Moderate to the Very Aggressive portfolios, the exposures to Asian High Yield bonds weighed on performances. However, with the Very Aggressive portfolio, a higher allocation to US equities helped to offset some of the losses.

Over the 1-year period, the Very Aggressive portfolio delivered the highest return due to the meaningful allocation to US equity. On the other end, for the Very Conservative portfolio, the allocation to Asian bonds weighed on performance.

Source: UOBAM, 31 December 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.

Q1 2022 Market Outlook & Strategy

Our base case is that the global economy will continue on an expansion path in 2022. A mid-cycle expansion tends to support equities and will lead to rising bond yields that will be a headwind for fixed income. As we start the new year, we think Omicron is likely to cause concerns in the near term over rising hospital admissions, threatening the health care system. But after the initial wave, we think concerns over COVID-19 are likely to start to ease. COVID is unlikely to go away, but should diminish in its effects on markets, hence the likelihood of a major correction from COVID is declining.

Many characteristics of a mid-cycle expansion are evident in the current phase. Firstly, most major economies have seen overall economic activity recover from the recession in 2020 and have recovered to pre-crisis levels. As major economies continue their expansion at above trend growth rates, typical characteristics would include higher inflation, rising interest rates, and appreciation in prices of real assets like properties and commodities, which we are seeing in the developed economies of US and Europe. Global gross domestic product (GDP) forecasts for 2022 are for growth of 4.5%, which is a good level above what we would call trend growth levels of about 3.5%. Typically, in this mid-cycle stage, growth assets like equities outperform safe assets like bonds. Corporate earnings benefit from above trend growth levels supporting equity prices. But rising inflation leads to interest rate hikes which becomes a headwind for bonds.

The mid-cycle view also leads to questions about how long the cycle could last. In the past 50 years, the average cycle has been about seven years, and this recovery and expansion only started in the middle of 2020. This implies there should be at least several more years of expansionary environment. However, rising inflation could cause the cycle to end prematurely. Overall, we believe in investing in growth assets in 2022, but start to look for signs of a shorter than expected cycle by the end of 2023. The downturn triggered by the pandemic had different characteristics than other downturns and thus it is fair to watch for different patterns in the expansion as well.

[2]Source: UOBAM. Performance from 30 September 2021 to 31 December 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 us at UOBAMInvest@UOBGroup.com.

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