UOB

In collaboration with:

J.P.Morgan
ASSET MANAGEMENT

UOB Investment Insights

Market PowerBar

MARCH 2024

TOPIC 1:

Have we missed the boat?

Recent data suggests that the United States (US) economy may be headed for a soft landing scenario where economic growth slows but avoids a recession. As investors become more optimistic that a recession can be avoided, stocks, especially those in US markets, have recently reached record highs. Is it too late for investors to invest now?

→ The US economy has so far avoided a recession, with steady economic growth and employment. Meanwhile, inflation has come down from its peak. Although inflation has not reached the Federal Reserve's (Fed) target of 2%, it is heading in the right direction.

→ The Fed appears to have raised rates to control inflation without hurting growth. As inflation has declined, investors are now expecting rates to be lowered to a level where economic activity is supported while inflation is restrained.

→ Since everything seems just right, the S&P500 index has reached new peaks since the last quarter of 2023. Is it too late to invest now?

→ However, US stock markets often make record highs. There is no clear advantage, both in the short and long term, to invest at record highs versus waiting for markets to fall (Figure 1). Moreover, positive earnings growth as well as the possibility of central bank rate cuts when there is no recession suggest another year of stock market gains.

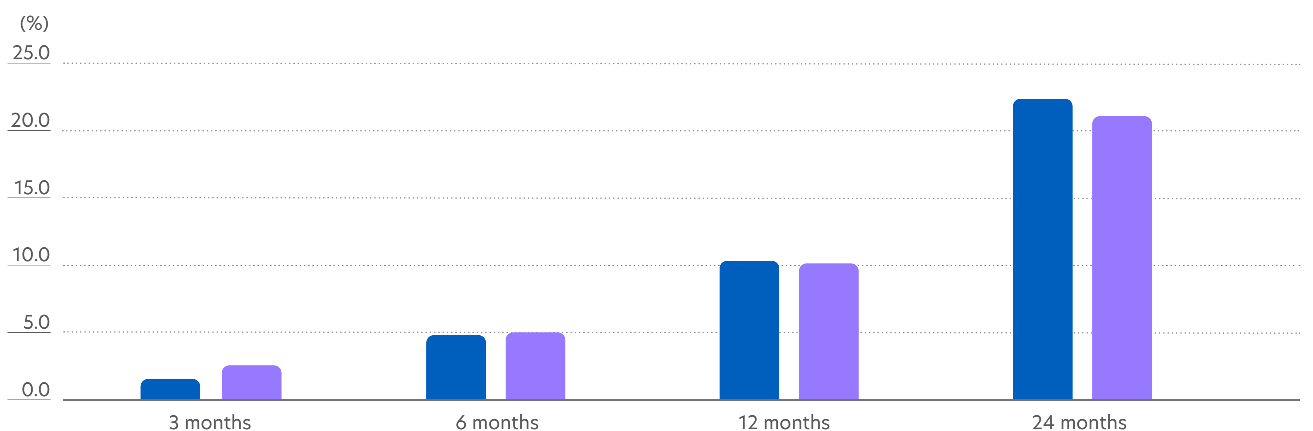
Figure 1:

Average returns of investing at record high days vs non record high days are not significantly different

Average S&P 500 price returns across time periods, 1980 - present

Average returns of investing at record high days

Average returns of investing on non record high days



Source: FactSet, Standard and Poor's, J.P. Morgan Asset Management.

TOPIC 2:

Is cash still king?

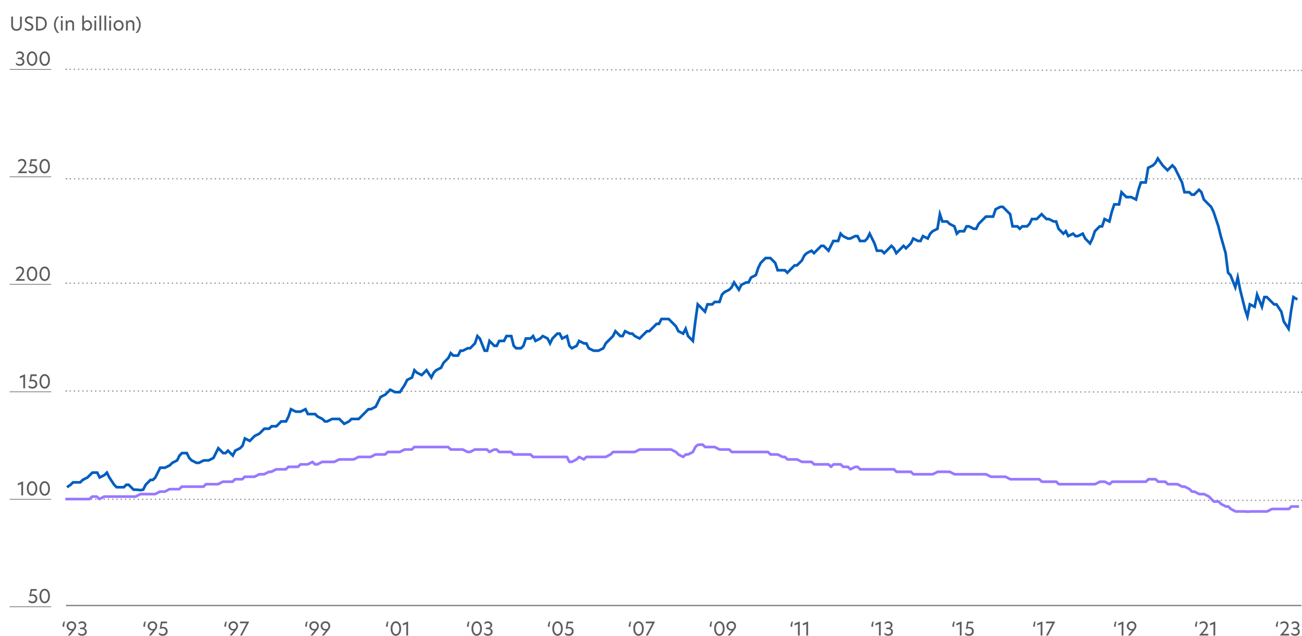
In a soft landing scenario, bond yields are likely to fall, implying higher price return. This offers investors opportunities to move from cash to bonds.

- Investors are closely watching incoming data for clues on Fed rate cuts. If inflation falls further, the probability of rate cuts will increase, driving bonds returns this year.
- In the near term, bond markets can be volatile from overly optimistic rate cuts expectations. For example, higher than expected inflation in January led to a bond sell-off in February.
- In the medium term, we expect rates to fall as the Fed gradually cuts interest rates. This means that bonds, including those with short maturity, can deliver higher returns than cash. While cash returns were over 5% last year, other asset classes have outperformed cash in most years, with the exception for 2018 and 2022 when markets experienced broad downturns.
- Looking back, holding even short duration bonds has resulted in higher returns than holding cash (Figure 2). An investor holding cash also faces reinvestment risk, where you may have to reinvest cash at lower rates in future.
- While bonds typically have lower returns than stocks, lower volatility makes bonds attractive, especially in a year likely filled with uncertainty.
- Therefore, bonds, especially high-quality ones like investment grade bonds, play an important part in your investment portfolios.

Figure 2:

Long-term returns of cash vs bonds

Growth of a USD 100 investment
Based on inflation-adjusted monthly return from 31 December 1991



Source: Bloomberg, J.P. Morgan Asset Management. US Agg: US Aggregate bonds is based on Bloomberg US aggregate Index, US Cash: US short term Treasuries based on Bloomberg Short-term Treasury Total Return Index.

Speak to your UOB Advisor today to find out more.

UOB

TOPIC 3:

Will inflation make a comeback?

Our main scenario is that the economy will slow down gradually without crashing. One of the main challenges to this scenario is inflation. Look out for these three potential risks.

- The first risk is related to wage costs, probably the result of a strong US labour market. If companies pass high wage costs onto their products instead of absorbing them, prices of goods will go up.
- The second risk comes from sticky shelter costs. Looking at a breakdown of the drivers of inflation, a big component is made up of shelter costs. These should drop in the coming months as they are lagging indicators (Figure 3a). For core services prices (excluding shelter costs) to fall, wage growth also needs to come down (Figure 3b).
- The third risk could come from a commodity shock from geopolitical tensions. Not only could this push energy prices up, as we have seen with events in the Middle East, a commodity shock can also disrupt shipping and cause new problems for supply chains.
- Considering these risks, the last mile for inflation to fall to 2% is not a smooth one, and reminds us of the importance of portfolio diversification. A diversified portfolio can capture opportunities across different market cycles and deliver consistent returns over time with lower volatility.

Figure 3A:

Shelter is a large part of US inflation

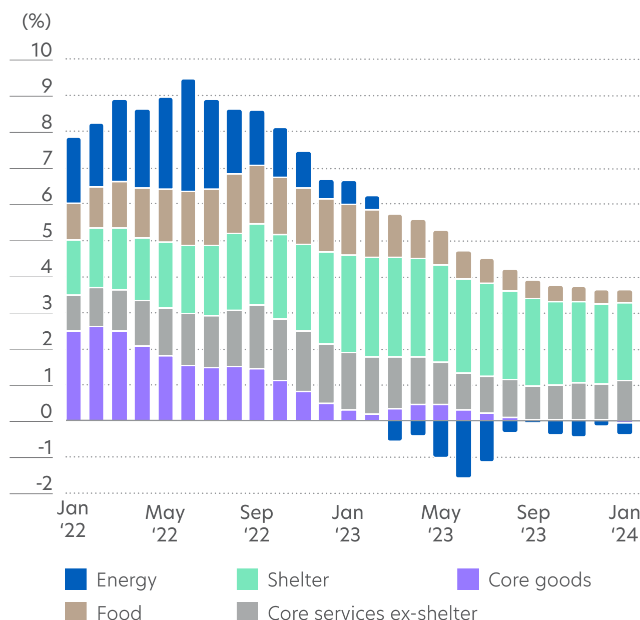
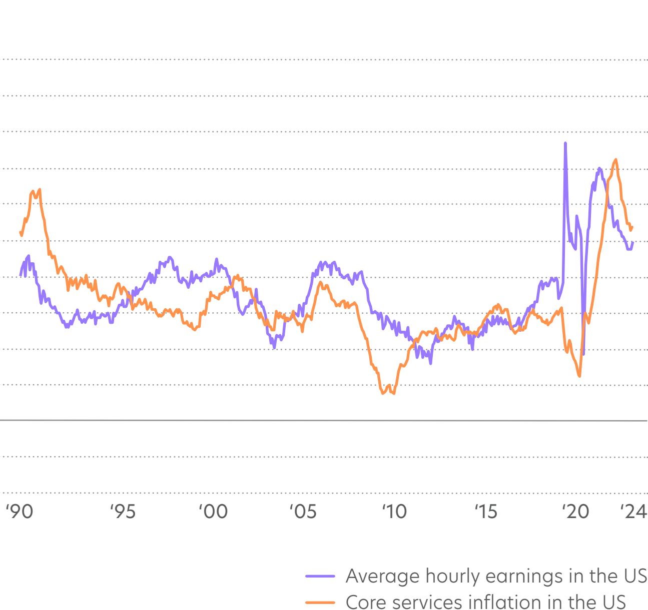


Figure 3B:

Strong wage growth keeps core services inflation high



Source: FactSet, US Departement of Labor Statistics, J.P. Morgan Asset Management.

Speak to your UOB Advisor today to find out more.

Right By You

IMPORTANT NOTICE AND DISCLAIMERS:

The information contained in this publication is given on a general basis without obligation and is strictly for information purposes only. This publication is not intended to be, and should not be regarded as, an offer, recommendation, solicitation or advice to buy or sell any investment or insurance product and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose. Any description of investment or insurance products, if any, is qualified in its entirety by the terms and conditions of the investment or insurance product and if applicable, the prospectus or constituting document of the investment or insurance product. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. If in doubt, you should consult your own professional advisers about issues discussed herein.

The information contained in this publication, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of the publication, all of which are subject to change at any time without notice. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank (Malaysia) Bhd ("UOB Malaysia") and its employees make no representation or warranty of any kind, express, implied or statutory, and shall not be responsible or liable for its completeness or accuracy. As such, UOB Malaysia and its employees accept no liability for any error, inaccuracy, omission or any consequence or any loss/damage howsoever suffered by any person, arising from any reliance by any person on the views expressed or information contained in this publication.

Any opinions, projections and other forward looking statements contained in this publication regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. Investors may wish to seek advice from an independent financial advisor before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider whether the investment or insurance product in question is suitable for you.

This material issued by United Overseas Bank (Malaysia) Bhd may be based in full or part on information sourced from J.P. Morgan Asset Management and may not represent views of the source in its entirety. Such information is educational in nature, should not be construed as research or advice and is not tailored for any specific recipient's objectives.

Copyright © 2024 United Overseas Bank (Malaysia) Bhd. All Rights Reserved.
United Overseas Bank (Malaysia) Bhd (199301017069 (271809-K))