In collaboration with:

UOB Investment Insights

Market PowerBar

MAY 2024

TOPIC 1:

Interest rate cuts may happen later than expected

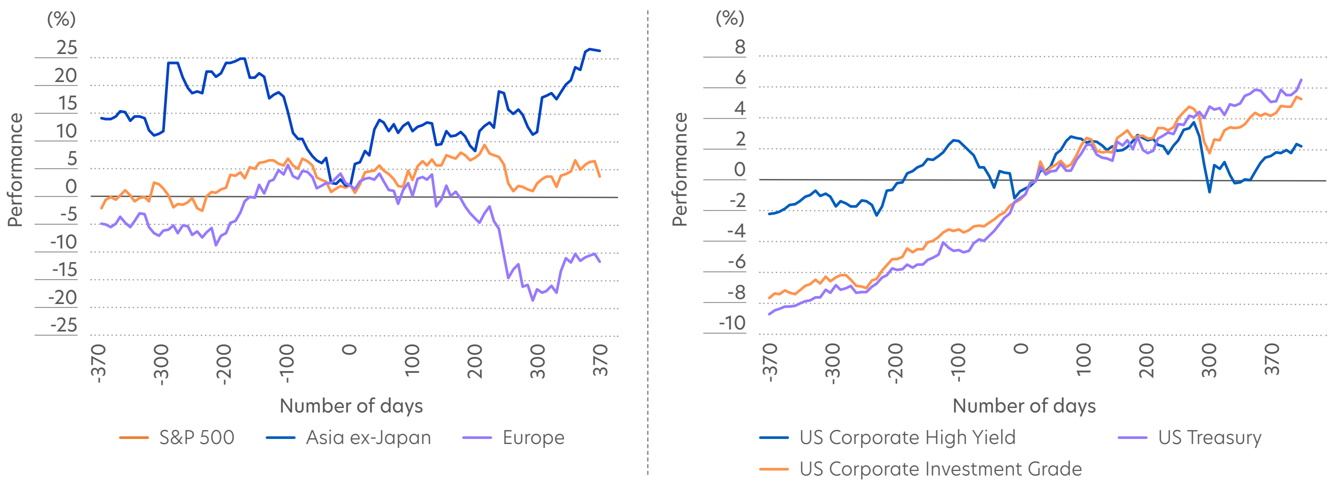
The United States Federal Reserve (Fed) could start lowering interest rates this year. Inflation is expected to stabilise but its decline will not be smooth.

- During the May US Federal Open Market Committee (FOMC) meeting that just concluded, Fed Chairman Jerome Powell signalled concerns over higher-than-expected inflation in the first quarter of 2024. This suggests that the Fed can take more time to cut rates, especially with a resilient economy.
- While the Fed does not expect rates to come down until it has gained greater confidence that inflation is moving sustainably toward the 2% target, a resumption of rate hikes in the current cycle is highly unlikely.
- At UOB, we expect the Fed to cut rates twice this year with two 25 basis points (bps) cuts in September and December, down from our previous projection of 75 bps from June.
- We think that inflation is likely to stabilise but its decline will not be smooth. Higher energy prices from the Middle East conflict as well as sticky shelter costs have kept inflation high in recent months.
- Historically, stocks and bonds have largely performed positively during the periods before and after rates are lowered (Figure 1). Notwithstanding short-term bouts of volatility from geopolitical conflict, resilient economic growth and eventually lower interest rates are reasons to stay invested.

Figure 1:

Stocks and bonds have largely performed well before and after previous rate cuts

USD, average total returns over last 4 rate cutting cycles, indexed to zero at the first Fed cut, days before and after first rate cut



Source: Bank of America, Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

What you can do

- Stay invested in a well-diversified portfolio. Lock in bond yields while they are still high. Investment grade bonds also act as effective portfolio stabilisers. If you are willing and able to take risk, accumulate quality growth and dividend-paying stocks on dips. Read on for more details on dividend-paying stocks in Asia.

Speak to your UOB Advisor today to find out more.

TOPIC 2:

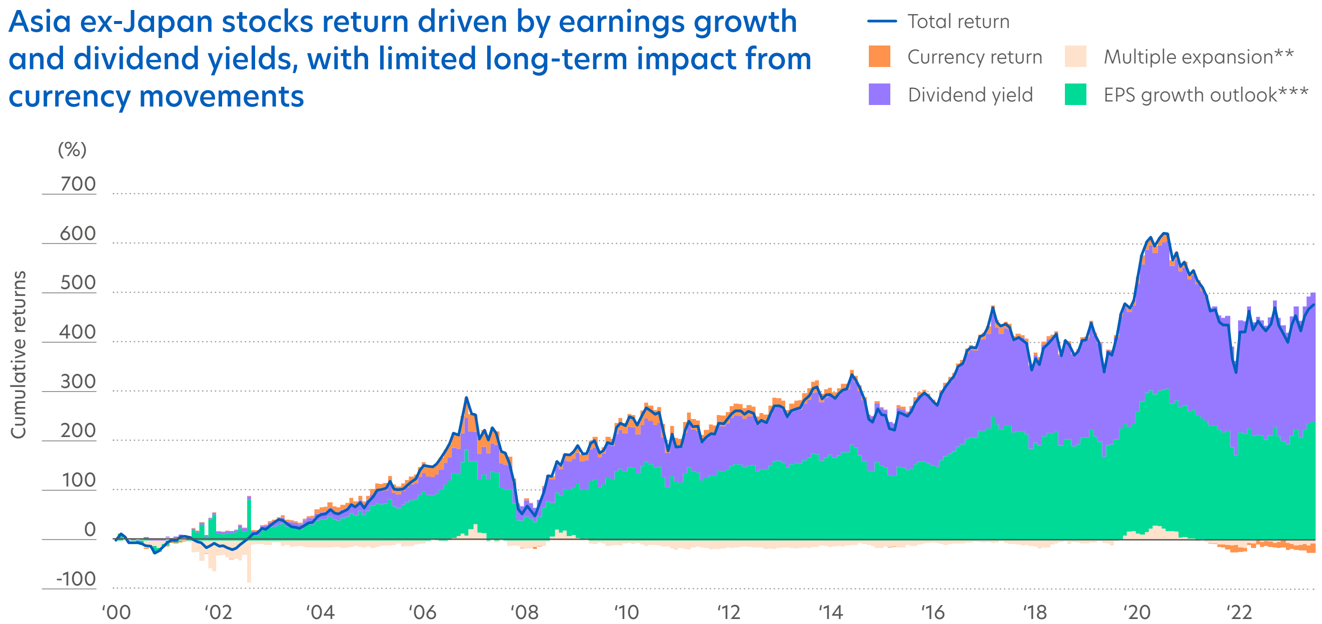
Boost dividends in Asia

The possibility of delayed Fed rate cuts may pose challenges for Asian markets, but stocks in the region are supported by attractive valuations, stable dividends and a positive earnings outlook.

- While inflation has returned to target across many Asian economies, most central banks in the region will likely wait for the Fed to cut interest rates before doing so themselves. Asian central banks are keen to avoid instability in their local currencies which may lead to capital outflows destabilising the financial system.
- Even if rate cuts are delayed, Asian stocks still stand to benefit from the global Artificial Intelligence (AI) drive[1], high dividend payouts[2], strong earnings growth[3] and a growing middle class in the region.
- History shows returns from Asia ex-Japan stocks can be largely attributed to strong earnings growth and dividend yields, with limited long-term impact from currency movements (Figure 2). Dividends can enhance portfolio returns through compounding if reinvested.
- Many large Asian companies are financially strong with low debt as compared to previous business cycles. This means that companies are likely to be able to continue paying dividends even if the economy slows.

Figure 2:

Asia ex-Japan stocks return driven by earnings growth and dividend yields, with limited long-term impact from currency movements



Source: FactSet, J.P. Morgan Asset Management.
** Multiple expansion is based on the forward price-to-earnings ratio.
*** Earnings pershare (EPS) growth outlook is based on next 12-month aggregate (NTMA) earnings estimated.
Past performance is not indicative of current or future results.

What you can do

- Consider the potential benefits of Asia ex-Japan dividend stocks such as attractive valuations, stable dividends and a positive earnings outlook.

[1]Source: UOB Investment Insights Market PowerBar, February 2024
[2]Source: UOB 2024 Market Outlook, Beyond the Surface: Discovering Opportunities, Trending Topics 3
[3]Source: UOB Investment Insights Market PowerBar, April 2024

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TOPIC 3:

Europe presents some opportunities

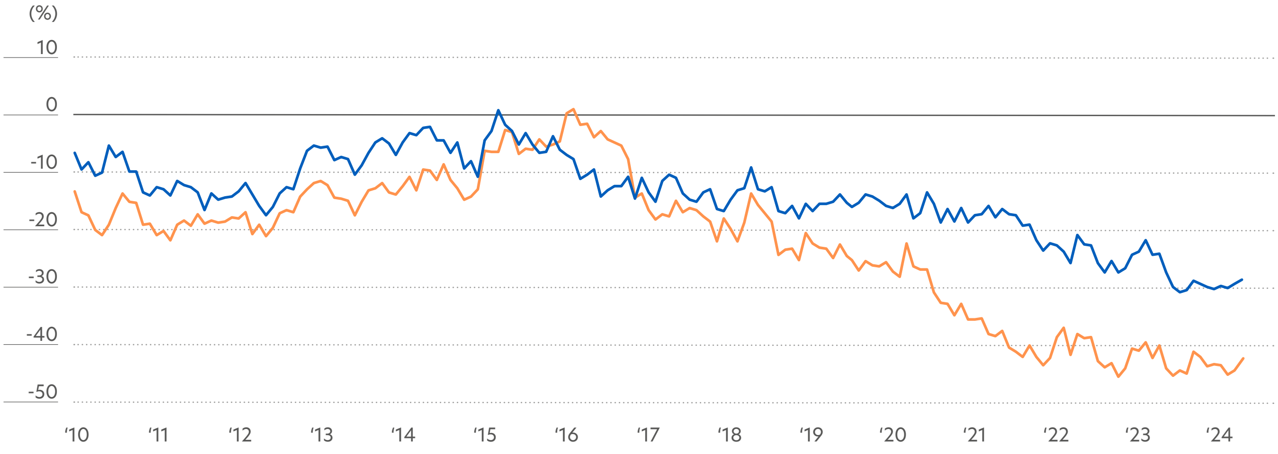
Europe presents investment opportunities from appealing stock valuations, broader participation in the recent market rally and signs that economic growth in the region has stabilised. Focus on quality stocks and gain exposure to Europe through diversified multi-asset strategies.

- The recent stock market rally in Europe is fairly broad-based and not limited to technology stocks that contributed largely to US stock market returns. In Europe, growth stocks in the luxury, semiconductor and healthcare sectors led the way.
- European stock valuations are currently at the cheapest for the past decade compared to that of US stocks (Figure 3), offering investment opportunities for investors looking for cheaper stocks outside of the US.
- Moreover, European firms earn more than half of their income from overseas. European stocks could benefit from stabilising economic activity in China and resilient growth in the US.
- Lastly, while the Fed could delay or reduce the number of rate cuts, the European Central Bank (ECB) has indicated that lower inflation means they could cut rates from June this year. Lower borrowing costs would support European companies and economic growth.

Figure 3:

European stock valuations are currently at the cheapest level compared to that of US stocks

Relative discount/premium based on 12-month forward P/E ratios



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

What you can do

- While Europe offers pockets of investment opportunity, the earnings outlook and current economic growth momentum is not as strong as in the US. Focus on quality stocks and gain exposure to Europe through diversified multi-asset strategies.

Speak to your UOB Advisor today to find out more.

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