S.I.F.T. for Opportunities in a Transforming World

2016 UOB INVESTMENT OUTLOOK

UOB

» Build a strong core portfolio which is professionally managed with a keen emphasis on risk management. «

CONTENT

01. Editorial

FOREWORD

It is a privilege for me to provide a foreword for the inaugural Investment Outlook 2016. This year marks another milestone in our client engagement process.

We hope that this publication, which features our assessment of the risks and opportunities in the ever-changing world, will help you make investment decisions as you proceed into 2016. We also seek to pursue strategies that embody the UOB philosophy of investing.

We believe the most efficient way to invest is to build a strong core portfolio holding of multi-asset instruments which are professionally managed with a keen emphasis on risk management. This forms the solid foundation any investor should possess before exploring other tactical ideas to enhance the total return.

The investment world is never static. One of the fundamental value propositions to our customers is to help SIFT through the bombardment of news flow and information, so as to seek a clearer appreciation of investment risks and opportunities in this ever-changing world.

Our people and resources at United Overseas Bank are focused on providing timely and insightful advice for our clients. This inaugural publication is evidence of our dedication to helping you achieve your financial objectives in 2016 and beyond.

I wish you a successful and prosperous 2016.

Dennis Khoo
Managing Director
Head, Personal Financial Services (Singapore)

The Team

Dennis Khoo
Head
Personal Financial
Services, Singapore

Chung Shaw Bee
Head
Wealth Management

Abel Lim
Head
Advisory & Strategy

Kelvin Liew,
CFA, CAIA
Investment Strategist

Jolyn Tang
Investment Strategist

Aaron Chwee
Investment Strategist

02. Executive Summary

As we move into 2016, we observe a world undergoing transformations as dynamic forces reshape our global landscape. By understanding how these forces are coming together, we can then SIFT through the noise to uncover the major underlying investment themes. This should help put our customers and us in a better position to take advantage of these transformations.

Change, as cliché as it may sound, is the only constant. We advise investors to embrace and identify changes that are not only shaping the world in the coming year, but also for the longer horizon. We understand that some changes may bring on near-term uncertainties and risks. Yet more importantly, it is these changes that bring opportunities to be discovered by those who can see their value.

We hope this 2016 Investment Outlook explores these themes and helps guide your investment journey with us.

MAJOR TRANSFORMATIONS TAKING PLACE IN THE WORLD

- Global monetary policy divergence, as US Federal Reserve (Fed) tightens while other central banks (Europe, Japan and China) ease, will remain a key theme in 2016. The overall global monetary standpoint remains accommodative, but is likely to take a backseat to allow the real economy to play a larger role.
- Credit cycles, especially in non-Japan Asia, have ramped up tremendously since 2008 and this debt overhang will weigh on Asian growth. European corporates, however, can still take advantage of lower funding and re-leveraging to repair their balance sheets from prior years.
- China has been steadily transforming from a manufacturing economy to a consumption driven one. While there may be some policy hiccups and valid concerns over the state-owned enterprises, there is no doubt that transformation will happen in China, especially after affirmation from the latest Five-Year Plan (FYP).
- Global commodities like industrial metals have tumbled due to oversupply issues on a weak demand, stemming from China's transformation. This has ripple effects on other emerging markets which are dependent on China.

2016 STRATEGY: S.I.F.T.

S: Selective
I : Identify quality and value
F: Focus on risk management
T: Take note of consensus trades

We like Stocks over Bonds.

Equities: Most US stocks appear fully valued. We will be selective and focusing on stock-picking. We remain constructive on Europe and neutral on Japan (until compelling catalysts arise). Asian Equities: We like China, India and South Korea.

Bonds: In a rising interest rate environment, price appreciation of bonds is difficult. Instead we focus on selecting (relatively) higher quality assets within the high yield and investment grade space to avoid default risks and treat coupon yields as returns. Near-term, there are pockets of opportunity in Chinese offshore bond issues.

Foreign Exchange: We think there may be a short-term support for the US dollar as market is still skeptical on the pace of Fed interest rate hikes. But this rally should soon fade off. Historically, Asian currencies tend to appreciate into the tightening cycle. We feel Asian currencies have a potential to end the year firmer.

Income: We believe a risk-aware and globally diversified core portfolio with a yield component is ideal to cushion investors from periods of high volatility. This can be achieved through diversification across asset classes, geography and sectors, coupled with a regular stream of income via dividends or interest coupons.

RISKS TO OUR VIEWPOINTS – POTENTIAL RISKS IF THE FOLLOWING SITUATIONS ARE TO TAKE PLACE:

- If China is to have a hard landing
- If energy and commodity prices are to continue to fall
- If US economy is to overheat
- If geopolitical risks are to heighten

03. 2015 Strategy Performance Review

At the start of 2015, our key investment strategy was to first build a stable core portfolio to buffer volatility, followed by two tactical themes in European and Japanese equities. We were wary of the potential currency impacts from the easy monetary policies from ECB and BOJ and decided to hedge the currency exposure whilst maintaining the equity overweight call.

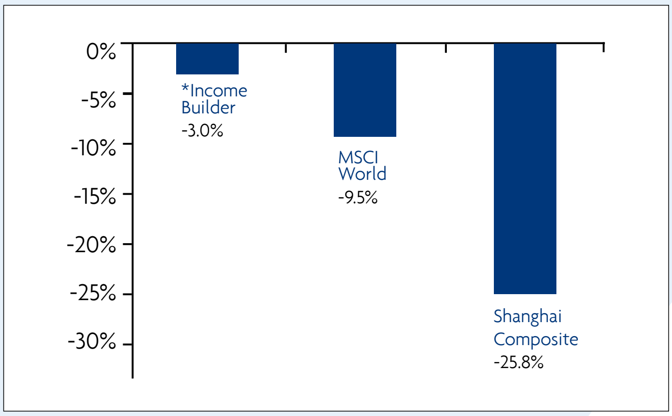
1. GLOBAL MULTI-ASSET STRATEGIES MITIGATED BIG DRAWDOWNS DURING TIMES OF VOLATILITY

Equity volatility was rather muted for the first half of 2015, with the volatility index (VIX), which is a market proxy for fear, receding to post-2008 financial crisis lows. But complacency can lead to shocks in the market. VIX rocketed up more than twice in August (Figure 1) after China sent shockwaves around the world with a surprise currency devaluation.

Figure 1: Fear index spiked in 2015

Data source: Bloomberg from 31 December 2014 to 11 December 2015

Figure 2: Biggest Drawdowns in 2015



*"Income Builder" performance is the average of the 3 Global Multi-Asset Income funds.

Data source: Bloomberg from 17 August 2015 to 25 August 2015, where the indices suffered the biggest drawdowns during 2015

Global equities tumbled in the week-long rout, some regions suffered more than others. The biggest drawdown (Figure 2) during that period was -25.8% for Shanghai Composite index, while the broader world equity index still lost 9.5% within a week. However, in a globally diversified Income Builder core portfolio, the funds were down by only a third of the global equities, at 3%. This illustrates our conviction that a diversified multi-asset income strategy is proven to smooth out the market volatility and help investors weather substantial drawdowns.

2. EUROPE AND JAPAN (ON A CURRENCY-HEDGED BASIS) HAVE PERFORMED WELL

European and Japanese equities, on a currency-hedged strategy fared well.

Index Performance (Year to Date till 14 December 2015)

	Unhedged (versus US dollar)	Hedged	Currency Impact
MSCI Japan	8.0%	33.1%	-25.1%
MSCI Europe	-2.5%	19.9%	-22.4%

Source: Bloomberg 31 December 2014 to 14 December 2015

The currency drag on the two indices is substantial; offsetting the potential returns (-25.1% for Japan and -22.4% for Europe). By adopting a currency-hedged strategy, investors will be able to protect their returns, on the back of loosening central bank policies.

04. Five Themes That Will Shape 2016

Global growth has consistently been revised lower throughout 2015. Based on latest IMF forecasts, global growth is set to come in at 3.1% in 2015 and improve to 3.6% in 2016. However, there are risks to this growth projection.

A large part of 2015 global GDP underperformance arose from lowered emerging markets growth which was hit by a series of waves: lower commodity prices, slowing China and domestic currency volatility. These issues will likely remain for 2016, though they may not pose a great impact due to base effects.

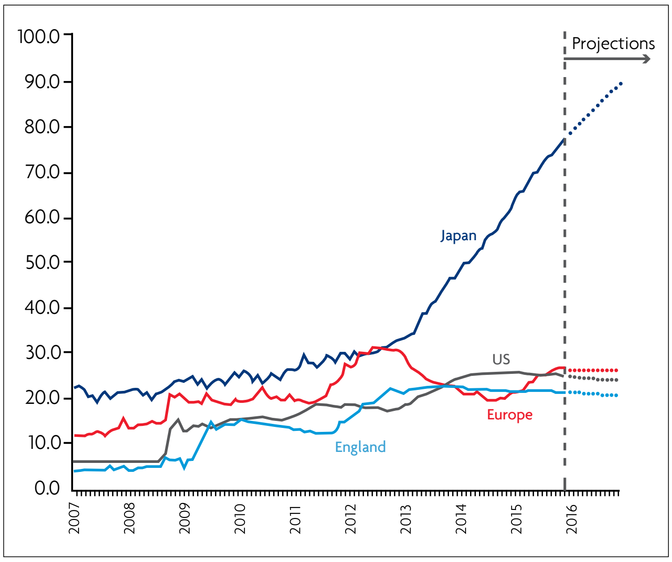
Slow trend growth is likely to remain for 2016.

1. MONETARY POLICY DIVERGENCE – LIKELY TO BE A MILD DIVIDE

Monetary policy divergence between US and other central banks continues into 2016.

- US Fed is set for rate normalisation as a continuation of the December 2015 lift-off. Our expectation is for a gradual rate hike, at half the historical pace.
- The other two major central banks, European Central Bank (ECB) and Bank of Japan (BOJ), will still continue their accommodative monetary policies.

Figure 3: Central Banks' balance sheets (% of GDP)



Source: MRB Research

However, emphasis of the shallow nature of the Fed's rate trajectory, coupled with limited further easing from ECB and BOJ should imply a milder divide.

- Investors should refrain from expecting too much easing from central bankers so as to avoid disappointment.

2. LONGEVITY OF THE USD STRENGTH

Key questions on investors' minds are whether USD would continue to rally and by how much, after the first hike?

Short-term US dollar strength is possible but rally to fade.

- In the last two Fed tightening cycles (1994 and 2004), US dollar rose in the six months before the first rate hike and subsequently fell six months after the first move. It turned out to be a typical textbook case of "buy the rumour and sell the fact."
- This time round, we observed a disparity between the FOMC members' dot-plot vs. the market's even more dovish expectations of US interest rate path. The potential upside surprise to the markets (even with well-intended Fed communication) should sustain US dollar strength in 1H2016.
- We anticipate the dollar rally to slow down by 2H2016 with markets repricing the interest rate path to be more aligned to the Fed's projection. This realisation process can be even faster if the Fed effectively communicates their interest rate strategy. Markets previously doubted Fed's projections on the interest rate path as they were seen as too optimistic (their credibility suffered due to the many downward revisions over the course of 2015).
- We are cautious on positioning for a strong US dollar (as this trade is quite crowded), especially after witnessing the massive unwinding of Euro shorts in the December 2015 (after ECB's disappointing monetary decision) – an intra-day rally from 1.05 to 1.10 in the EUR/USD pair.

3. CONCERNS OVER CHINA'S OUTLOOK

Concerns on China "hard landing" and RMB devaluation should persist in 2016.

As investors get more clarity on China's transformation, their focus will be on the changes from "Old economy" to "New economy".

- China remains a crucial pillar to the global economy and is critical to how financial markets will fare. We view China as a misunderstood economy due to:
  1. Lack of comprehensive, reliable and timely economic data.
     - To be resolved after China subscribed to IMF's Special Data Dissemination Standard (SDDS) in October 2015.
  2. Poor understanding of China's economic, social and political system.
     - Further liberalization and reforms should help international investors better understand China.
  3. Concerns over existing economic and financial imbalances.
     - Authorities have already recognised these problems and are taking steps to address these issues.
- We think that the probability of a China hard landing and a drastic RMB devaluation is low. Investors should look for opportunities in the growing sectors of world's second largest economy, while avoiding the non-performing areas of the economy.

4. FEW BRIGHT SPOTS FOR COMMODITY. WEAK METALS; FIRMER AGRICULTURE; DOWNSIDE RISKS TO OIL.

Oversupply, rather than lack of demand, determines the price of commodities. Managing supply by cutting future capital expenditure budget is a sure but slow way to ensure supply is moderated.

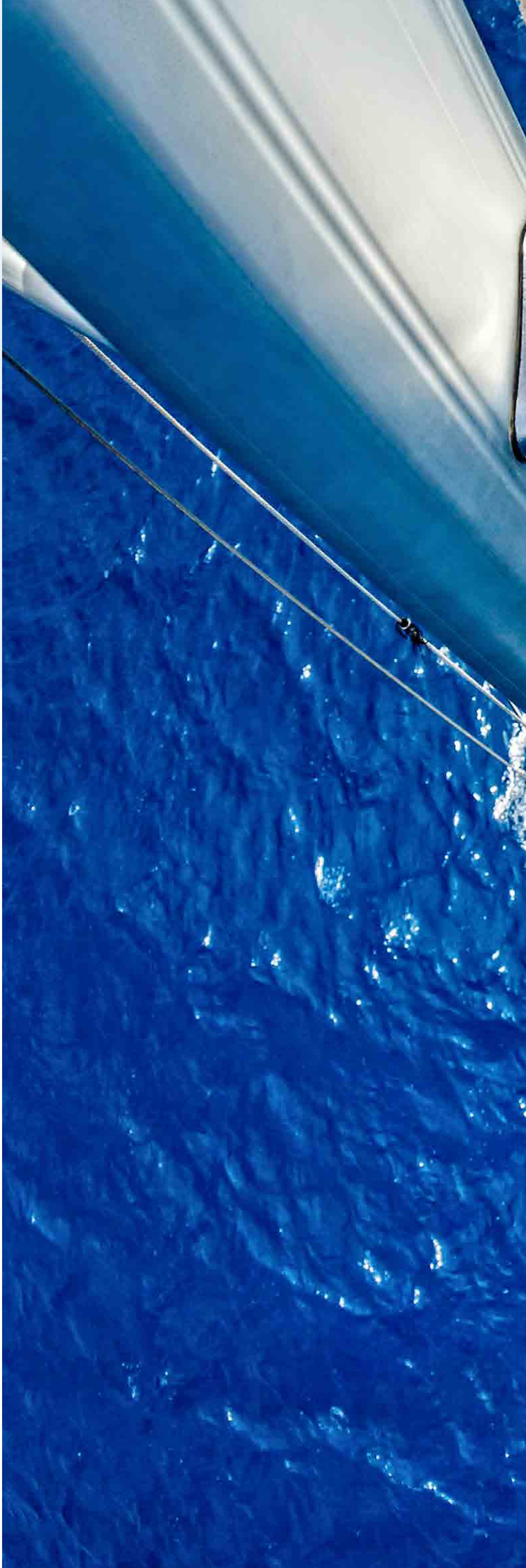
The only bright spot is Agriculture of which weather should work in its favour.

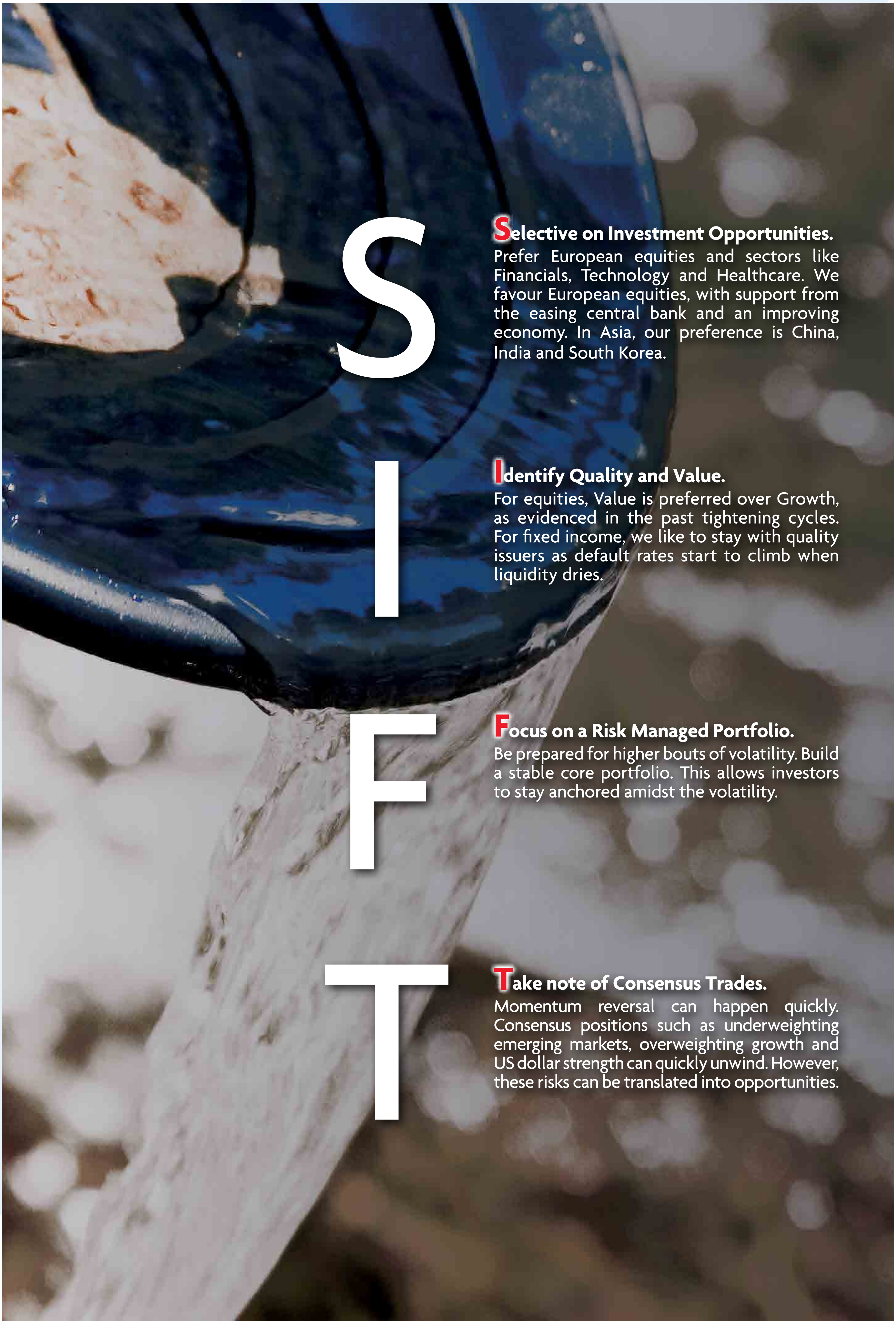
- Industrial metals may continue to suffer as demand from China remains lacklustre.
- Precious metals (e.g. Gold stays out-of-favour as an improving economy saps demand)
- Crude oil supply glut remains as OPEC and US shale oil maintain their high production.
- We expect US crude oil price to hover near the US$40/barrel but with downside risk.

5. POLITICAL AND GEOPOLITICAL FACTORS COMING INTO PLAY

US Presidential Elections will take place on 8 November 2016. Islamic State in Iraq and Syria (ISIS) will continue to weigh upon security issues around the world.

- As Presidential Elections take place next year, the following events: threats of government shutdowns, debt ceiling negotiations and US government default risk, are unlikely as both Republican and Democratic parties seek to resolve near term differences by passing bills more effectively. This should take away some policy implementation uncertainties.
- Initial polls are underway but it remains unclear whether the next President is going to be a Republican or a Democrat.
- Security threats remain on high alert, especially with two big sporting events, UEFA EURO football tournament in France (10 June to 11 July) and 2016 Summer Olympics in Brazil (5 to 21 August).
- We expect to see heightened security concerns during these periods.





S I F T

Selective on Investment Opportunities.
Prefer European equities and sectors like Financials, Technology and Healthcare. We favour European equities, with support from the easing central bank and an improving economy. In Asia, our preference is China, India and South Korea.

Identify Quality and Value.
For equities, Value is preferred over Growth, as evidenced in the past tightening cycles. For fixed income, we like to stay with quality issuers as default rates start to climb when liquidity dries.

Focus on a Risk Managed Portfolio.
Be prepared for higher bouts of volatility. Build a stable core portfolio. This allows investors to stay anchored amidst the volatility.

Take note of Consensus Trades.
Momentum reversal can happen quickly. Consensus positions such as underweighting emerging markets, overweighting growth and US dollar strength can quickly unwind. However, these risks can be translated into opportunities.

05. 2016 Strategy – S.I.F.T. for Opportunities in a Transforming World

As we enter a transforming world, markets may experience more frequent bouts of heightened volatility (as in August 2015), creating waves of opportunities. With the right strategy, we believe investors will be able to SIFT out chances amidst the confusion and reap the rewards of their investments.

Selective Investment Opportunities in 2016	
Equities	Europe remains our only overweight in the developed market.
Income	Corporate bonds over sovereign. Dividend equities (ex-US) – focus on dividend growers, not only on yield.
Foreign Exchange	US dollar to fade after initial rally from rate hike; Asian currencies likely to end the year firmer.

Source: UOB Global Economist and Research Team 1Q2016 outlook

Regions

Geographical	Underweight	Neutral	Overweight
Developed Markets		US Japan	Europe
Asian Markets	Singapore Thailand Hong Kong Malaysia	Taiwan Indonesia Philippines	China India South Korea

Source: UOB Private Bank Global Outlook 2016

Sectors

Underweight	Neutral	Overweight
Consumer Staples Materials Telecom Utilities	Consumer Discretionary Energy Industrials	Financials Healthcare Technology

Source: UOB Private Bank Global Equities Coverage List as at December 2015

» For 2016, we recommend investors to S.I.F.T. through a year where global transformations shape our world. «

UOB Forecast

Real GDP Growth Outlook

YoY % Change	2014	2015F	2016F
Singapore	2.9	2.0*	2.7
US**	2.4	2.5	2.5
Eurozone	0.9	1.5	1.7
China	7.3	6.9	6.8
Japan	-0.1	0.5	1.0
Indonesia	5.0	4.8	5.4
Malaysia	6.0	4.9	4.8
Thailand	0.9	2.7	3.2

Source: UOB Global Economist and Research Team 1Q2016 outlook

*Actual Singapore GDP for 2015 is 2.1%, as released on 4 January 2016.

**QoQ SAAR

Interest Rate Trends

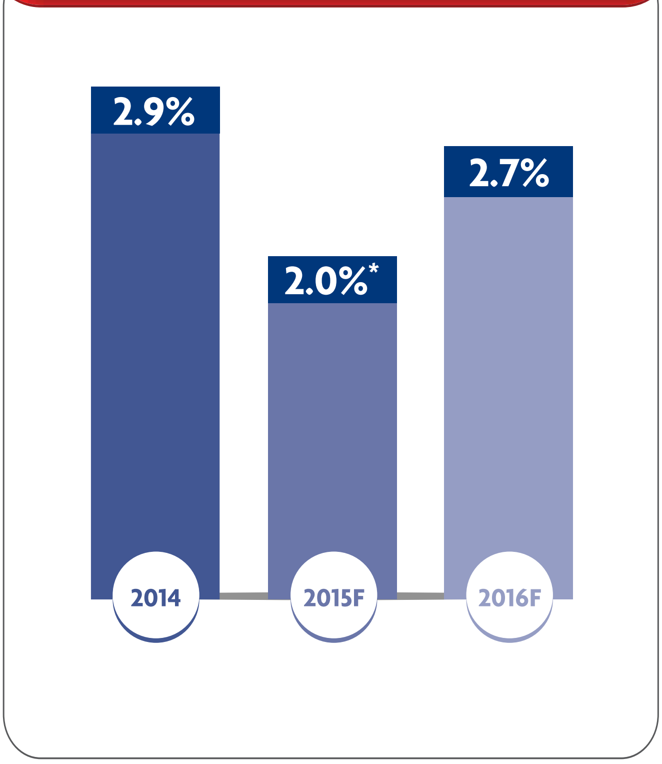
Interest Rate %	As at 4 Dec	3-month	12-month
Singapore**	1.07	1.20	1.50
United States	0 to 0.25	0.75	1.50
Eurozone	0.05	0.05	0.05
United Kingdom	0.50	0.50	1.00
Japan	0.10	0.10	0.10
Australia	2.00	2.00	2.25
New Zealand	2.75	2.50	2.50
China***	4.35	4.10	3.85
Indonesia	7.50	7.50	8.00
Malaysia	3.25	3.25	3.25
Thailand	1.50	1.50	1.50

Source: UOB Global Economist and Research Team 1Q2016 outlook

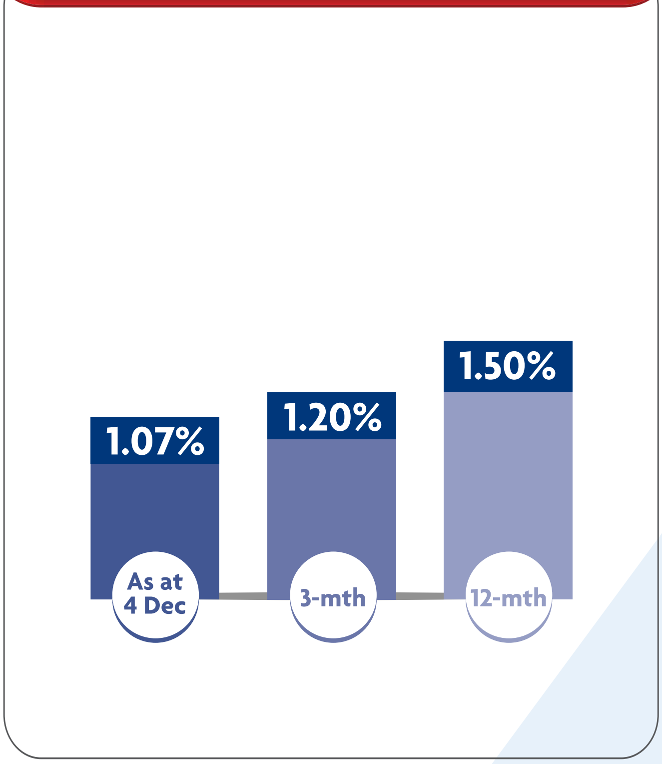
**(3-mth SIBOR)

***(1-Yr Working Capital)

SINGAPORE
Real GDP Growth Outlook



SINGAPORE
Interest Rate Trends



Inflation

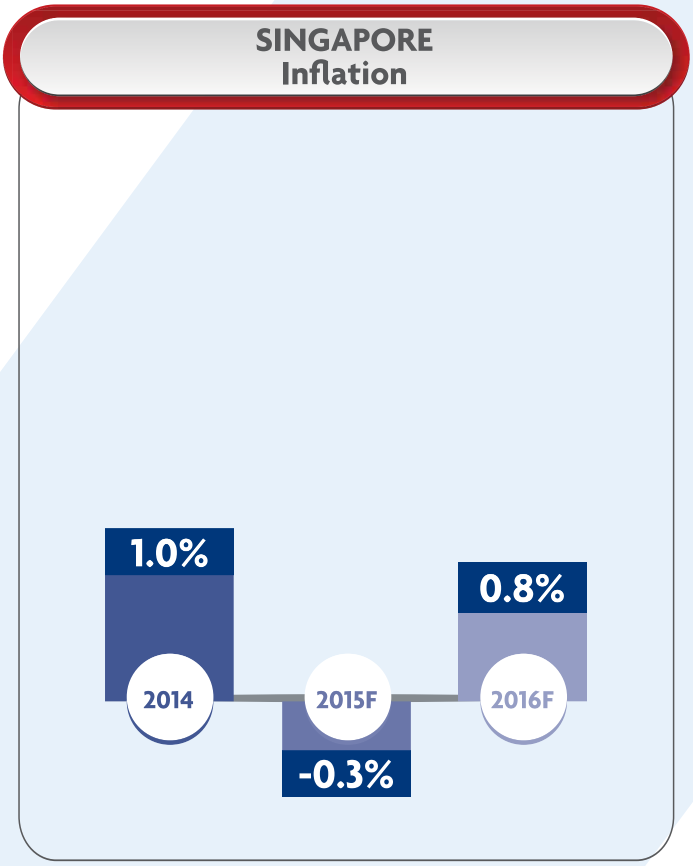
CPI % (YoY)	2014	2015F	2016F
Singapore	1.0	-0.3	0.8
United States	1.6	0.2	2.5
Eurozone	0.4	0.1	1.1
China	2.0	1.4	1.5
Japan	2.7	0.8	1.8
Australia	2.5	1.6	2.4
New Zealand	1.2	0.4	0.8
United Kingdom	1.5	0.1	1.3
Hong Kong	4.4	3.0	2.3
South Korea	1.3	0.7	1.6
Taiwan	1.2	-0.3	0.7
Indonesia	6.4	6.4	5.0
Malaysia	3.1	2.1	3.2
Thailand	1.9	-0.8	1.2
India	6.4	5.9	6.2

Source: UOB Global Economist and Research Team 1Q2016 outlook

Currencies Outlook

Currency pairs	As at 4 Dec	3-month	12-month
USD/SGD	1.40	1.45	1.42
USD/JPY	122.7	126	129
USD/CNY	6.40	6.45	6.45
EUR/USD	1.09	1.12	1.14
GBP/USD	1.51	1.50	1.56
AUD/USD	0.73	0.74	0.76
NZD/USD	0.67	0.65	0.67
USD/IDR	13,833	14,100	13,900
USD/MYR	4.22	4.18	3.96
USD/THB	35.8	36.2	37.0

Source: UOB Global Economist and Research Team 1Q2016 outlook



Macro Outlook

07. US – Rate Path and its Implications

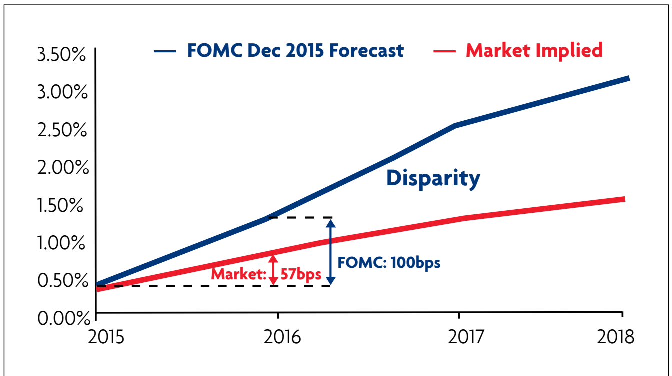
We have a neutral weight on US equities.

- **The Fed is expected to raise rates gradually over the next two years at a moderate pace as inflation stays benign.**
- **Anticipate modest US Dollar strength, but likely to dissipate once expectations are priced in.**
- **Amidst rising rates, we think Financials will benefit from improved Net Income Margins (NIM) & Technology from increasing capex spending.**

DISPARITY BETWEEN MARKET'S EXPECTATIONS AND FED'S PROJECTIONS

- The Fed is in the view that economic activity will continue to expand at moderate pace and labour market indicators continue to strengthen. This leads to Fed's projection of a gradual tightening stance in the monetary policy.
- On the contrary, markets have been overly pessimistic on the Fed's interest rate path, due to their concerns on the low inflation, and pockets of weakness in other parts of the economy such as manufacturing.
- **We expect the Fed to hike at a gradual pace of 25bps in each quarter to bring the Fed Funds Target Rate (FFTR) to 1.5% by end-2016. This is half the normal speed in previous rate hikes.**

Figure 4: Disparity between Fed's projections and market's expectations



Source: Bloomberg (as of Dec 2015 FOMC), UOB PFS Investment Strategist

- This difference in view between the market and Fed's projections has led to a disparity as shown in Figure 4, where the market is showing a milder projection (red line) compared to the Fed's (blue line).
- The Fed indicated only 100bps of rate hikes in 2016, while the more sceptical market only priced a trajectory of just 57bps increase.

MODEST DOLLAR STRENGTH, BUT EXPECTED TO FADE

- A gradual rate hike in every quarter is not a guarantee. Fed's monetary policy remains data-dependent.
- We think that the disparity between the Fed's positive views versus the more cautious market supports near-term US dollar strength.
- But once Fed has effectively communicated its rate path preference and the market crystallises these expectations, we anticipate the dollar rally to dissipate. This will reduce the drag on US corporate earnings.

WHAT IT MEANS FOR INVESTORS

- US equities appear richly valued, as earnings growth has not kept pace with price appreciation. Therefore stock picking and sector selection are critical.

EQUITY

WE ARE NEUTRAL ON US EQUITIES WITH A PREFERENCE FOR FINANCIALS AND TECHNOLOGY

- US Financials are likely to benefit from rising rates as it improves the NIMs. Loan demand may strengthen in response to firming economic landscape, driving the credit growth.
- Technology stocks benefit from the growth momentum, as business spending on technology upgrades and Research & Development increases.
- However, we remain cautious on over-hyped sectors where valuations are expensive, and prefer mature technology companies which are supported by lower valuations and sustainable earnings growth.

BONDS

NEUTRAL ON BONDS: PREFERENCE FOR CORPORATES AND HIGH YIELD

- US monetary policy normalisation is in the early stages, with the expectations of yields to continue to climb.
- We expect bonds to underperform equities amidst the rising interest rate environment. Our preference is corporates over sovereigns and high yield.

08. Europe – Make hay while the sun shines

We are overweight on European equities.

- **ECB to maintain their monetary policy stand.**
- **Pro-growth and structural reforms for a favourable political stance – Austerity takes a backseat.**
- **European corporates to play the catch-up game - Improve corporate margins.**

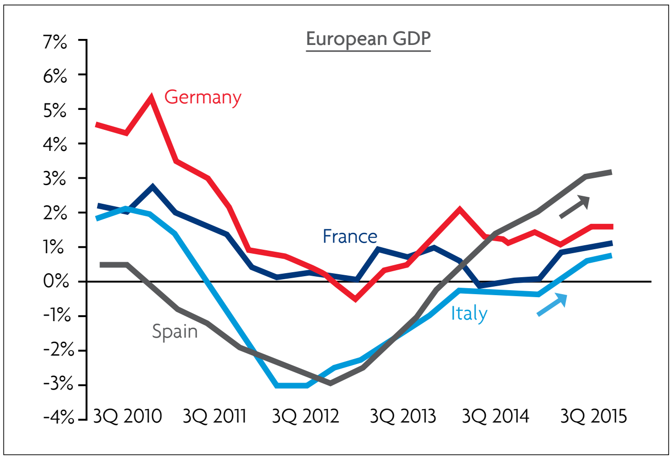
ECB LEFT MARKET DISAPPOINTED IN DECEMBER 2015; KEPT GUNPOWDER DRY

- ECB disappointed investors with a less-than-expected cut in deposit rate (further into the negative) and no expansion in the pace of Asset Purchase Programme (APP) in the December 2015 meeting.
- This decision might be the result of striking a balance between the hawks and doves within the ECB governing council. We expect ECB to maintain a status quo policy.
- Market participants focusing on actions from the ECB miss the bigger, brighter picture. There are other drivers in Europe that should take centre stage in 2016.

BRIGHT SPOT 1: EUROZONE ECONOMY RECOVERY

- ECB assessment of Eurozone (4 December 2015): The underlying story is still a gradual recovery with downside risks to growth and inflation.
- Peripheral countries like Spain and Italy are on the path of recovery - No longer a drag (Figure 5).

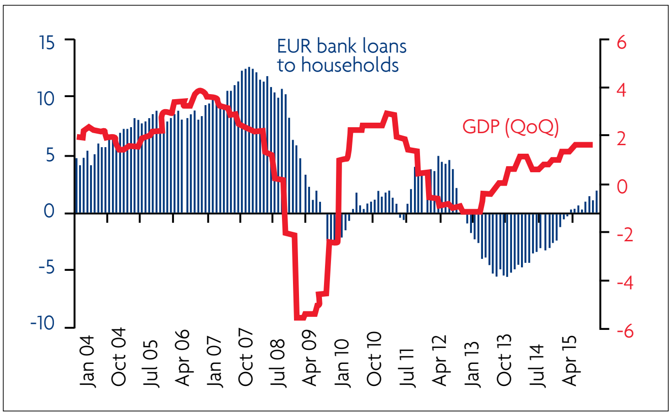
Figure 5: Peripheral countries are improving



Source: OECD.org; UOB PFS Investment Strategist

- Expansion of credit from corporates and households (Figure 6) usually lead to growth in real GDP. The current ECB policy tools help to keep credit conditions easy and reboot the credit expansion cycle that is growth accretive.

Figure 6: Eurozone bank lending is improving



Source: ECB, UOB PFS Investment Strategist

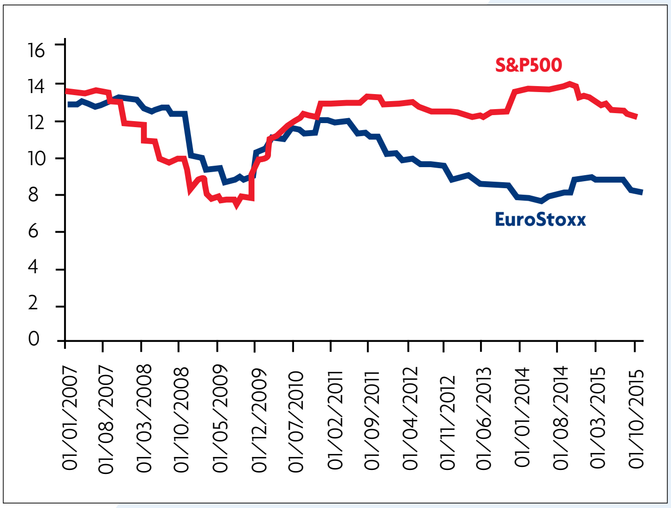
"PRO-GROWTH STANCE AND STRUCTURAL REFORMS ARE IN FAVOUR"

- Austerity pressure is less dominant (Stability and Growth Pact) in the current context. The highlight of austerity in the past has put pressure on Euro area GDP growth.
- Countries that went through structural reforms (e.g. Spain and Ireland) have made themselves competitive again. Reforms are underway in France and Italy.
- We expect the European Commission to roll out the Infrastructure Investment Initiative, known as Juncker Plan. The goal is to mobilise at least EUR 315 billion in three years to support investments in the real economy.

BRIGHT SPOT 2: EUROPEAN CORPORATE MARGINS TO BOTTOM OUT

- A significant gap exists between the US and European operating profit margins (OPM). While the US corporates have surpassed pre-2008 OPM levels via improved top-line growth and aggressive cost-cutting, European firms' OPM have been bouncing off their lows. We expect this gap to narrow.

Figure 7: European Companies' operating margins look to recover



Source: UOB Asset Management

• Cheap euro currency improves European companies' competitive edge and makes their exports more attractive. This will boost their top-line revenue.

• Corporates are likely to leverage up, with loosening credit conditions and ultra-low corporate borrowing rates. This will boost the companies' profit margins and ultimately lead to higher earnings.

WHAT IT MEANS FOR INVESTORS

• Potential re-rating of Europe equities could arise from:

  - Improved earnings margin on higher domestic and international demand.

  - Lower credit corporate borrowing costs.

EQUITY

PREFER VALUE OVER GROWTH

• We prefer value over growth as historical trends suggest this style of outperformance during the US rate hike cycle.

• The sectors we like are Consumer Discretionary, Healthcare and Technology.

09. Japan – Transformation of Abenomics

We are neutral on Japanese equities.

- **Bank of Japan ("BOJ") is likely to stay put on their monetary policy, awaiting effects of Fed hike.**
- **Prime Minister Abe moving to the next phase of Abenomics through three economic goals.**
- **Increasingly, corporates are emphasising on improving return on equity (ROE).**

BOJ – UNCHANGED POLICY; NO LONGER MAIN DRIVER

We view that BOJ is likely to keep monetary policy unchanged for 1H 2016. A policy divergence where Fed embarks on its rate normalisation and BOJ stays put with its Asset Purchase Programme should make the yen weaker.

2016 KEY DRIVER 1: ABENOMICS TRANSFORMATION

Prime Minister Abe is famous for coining his three arrows (in 2012) to revive Japan's two decades of stagnating economy:

1. Aggressive monetary policy
2. Flexible fiscal policy
3. Structural reforms

However in September 2015, Abe announced three new economic policy goals which include:

- **Promotion of strong economic growth** - lifting Japan's GDP by 20% to ¥600 trillion (from current ¥500 trillion as of Q3, 2015) through expanded capital spending and wage increases.
- **Child-rearing assistance to raise birth rate** from 1.4 to about 1.8 and maintain a population above 100 million in 50 years.
- **Social Security measures** to increase nursing facilities for the elderly – reduce number of people quitting jobs to take care of elderly.

These three new objectives are not changes in Abe's previous three arrows. We view this as a continuation of Abenomics, but with clearer and more precise areas of focus to altering the working class demographics. This will ultimately lead to higher economic participation and growth.

2016 KEY DRIVER 2: CORPORATE PROFITABILITY TO RISE

- Japan companies are relatively underleveraged, with cash nearly twice as high as their US counterparts.
- ROE has been in the low 5% range for the past two decades due to deflation. We expect the change in corporate governance to be shareholder-friendly and to emphasise ROE as an important management objective.
- Abe's third arrow includes reducing corporate tax to below 30% by 2018. This will improve companies' net profit after tax. Another tax incentive is a 50% tax break for three years for small and midsize businesses on purchases of production equipment, in a bid to stimulate capital investment.

WHAT IT MEANS FOR INVESTORS

- With MSCI Japan's forward price-to-earnings at around 15x, it is still an attractive relative valuation compared to its historical average.

EQUITY

JAPAN – PREFER VALUE OVER GROWTH

- Investors should focus on sifting out companies and sectors that have strong cash reserves and low leverage ratios so that they can benefit from the potential earnings re-leveraging cycle.
- Domestic industries like tourism should benefit with the uptick in tourism due to weaker JPY.

JPY

WEAK IN 1H16, WEAKER IN 2H16

- JPY is likely to stay on a weakening trend with more easing likely in 2H, driving USD/JPY to 129 by end-2016.
- Investors should consider hedging currency exposure when investing in Japanese equities.

10. China - Version 2.0

We are overweight on China equities.

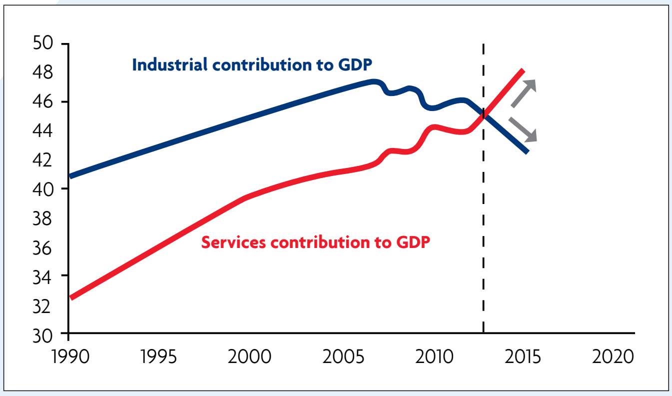
The 13th Five-Year Plan (FYP) laid down directions for China's "New Economy":

- **Transition from Industrial-led ("Old economy") to Consumption-led ("New economy") will continue in year 2016.**
- **Financial system will be transforming into a market-driven one.**
- **China is establishing political and economic leadership on a global and regional standing.**

TRANSFORMATION 1: "OLD ECONOMY" TO "NEW ECONOMY"

- At the 13th FYP, Chinese officials have reiterated their goal of moderate growth and will focus on a more consumption-led "new economy". Fundamentals of China are improving as shown by "new economy" data:
  - **Service contribution to GDP** overtook Industrial contribution at more than 51% (Figure 8)
  - **Retail sales numbers have been improving.** It remains above GDP growth rate. October 2015's retail sales posted an 11% growth over the previous year, which almost doubled that of GDP.

Figure 8: Services have overtaken Industrials since 2012



Source: Worldbank.org; PFS Investment Strategist Team as of 16 December 2015

TRANSFORMATION 2: FINANCIAL SYSTEM WILL BE MORE MARKET-DRIVEN

- China's Renminbi (RMB) will be more market-driven as the Chinese government relaxes controls on the trading band. The fix rate will be based on 3 factors: previous market close, demand and supply conditions and the movement of major currencies.
- Besides the currency front, the Chinese government is also changing its monetary policy into a more market-driven one.
- In 2016, these transformations will be in their teething period, thus volatility is expected in the near-term.

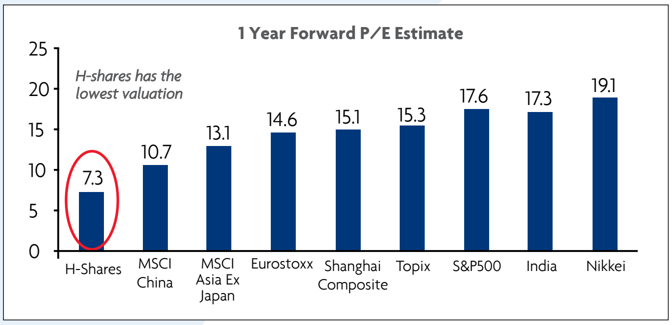
TRANSFORMATION 3: CHANGING FROM "FACTORY OF THE WORLD" TO "GLOBAL POWERHOUSE"

- Inclusion of RMB in Special Drawing Right (SDR) basket shows the International Monetary Fund (IMF)'s recognition of China's economic influence, as it puts RMB on similar status as the US dollar and the euro
- China initiated Asian Infrastructure Investment Bank (AIIB), which symbolizes their political leadership, as they play a bigger role in Asian region.

WHAT IT MEANS FOR INVESTORS

- We are positive about China on a **longer-term** perspective, as reforms will benefit them in the longer-term. Investors should be selective and identify the sectors that will benefit as a result of being in line with the Chinese government's initiatives and directions. At the same time, near-term volatility is also expected, as China goes through the teething period to become a consumption-led economy. Thus, investors also should focus on risk management to smooth out the volatility, by building a good core portfolio.
- Investors can look to gain exposure via H-shares, which are at attractive valuation levels (Figure 9). In addition, H-shares also have better transparency and corporate governance.

Figure 9: H-shares valuation is one of the lowest



Source: Bloomberg as of 16 December 2015

EQUITY

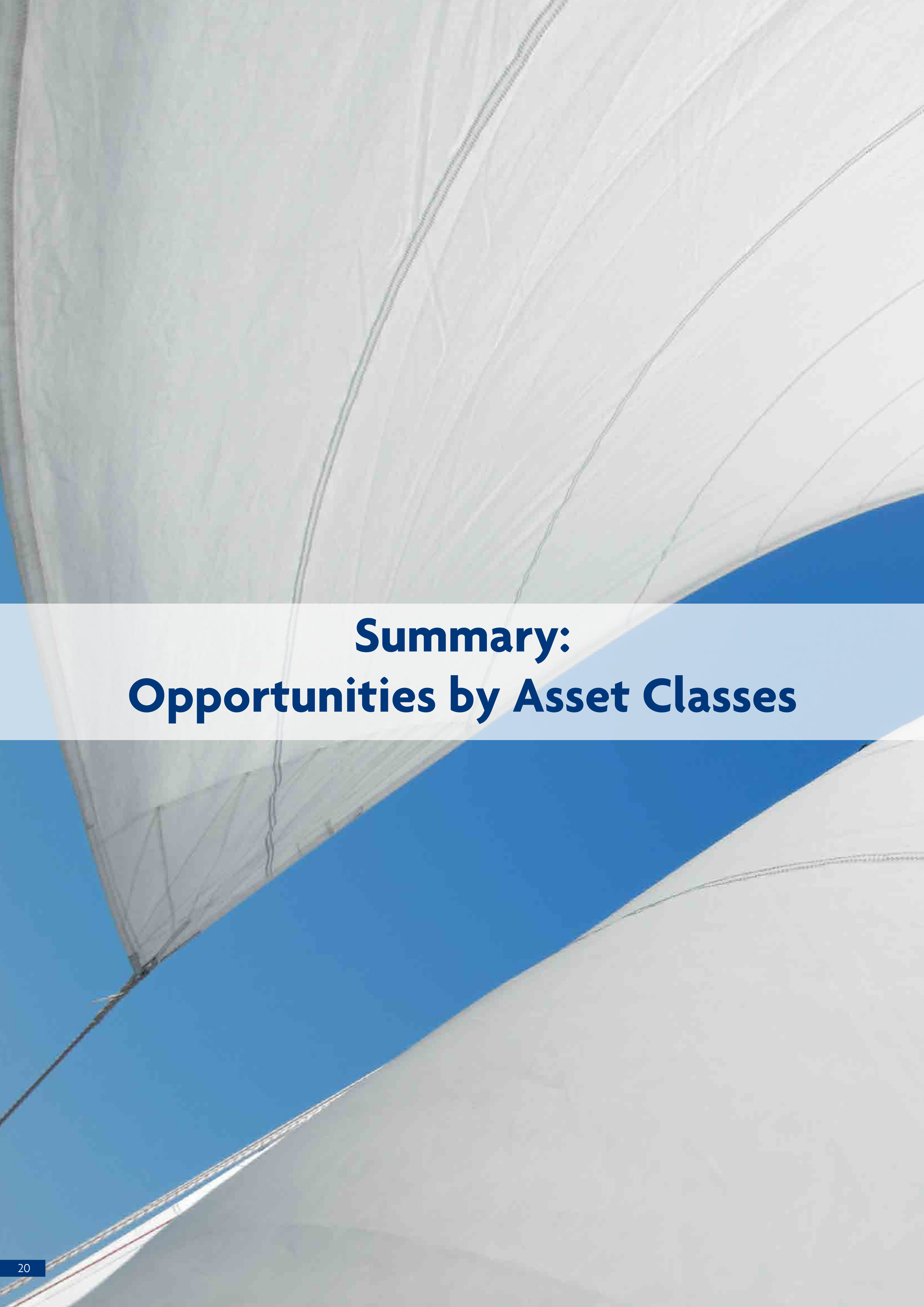
PREFER CONSUMER-RELATED EQUITIES

- The 13th FYP will guide consumption-led initiatives and growth prospects, which will likely benefit the consumer-related sector.
- Relaxation of the one-child policy was also announced in the FYP meeting. This will likely benefit the following categories: Infant milk, diapers, baby care products, healthcare, and education. The most immediate impact will be on milk powder, diapers and baby care products.

BONDS

RESTRUCTURING OF THE LOCAL BOND MARKET

- Past: Corporates either borrowed from banks or tapped on the offshore bond market, paying higher interest rates.
- Current: Corporates can now tap into local bond market for funding, where the interest rates are lower.



Summary: Opportunities by Asset Classes

Equity

KEY THEME

Equities are still the key driver of returns over the longer-term.

During this period of sluggish global growth, identifying good stocks with attractive valuation – a function of stock selection – is critical.

Higher volatility in equities is expected in a world undergoing transformation. Optimum diversification across regions, sectors and investment styles allows investors to achieve more steady results.

EUROPE IS THE MOST ATTRACTIVE WITHIN DEVELOPED MARKETS

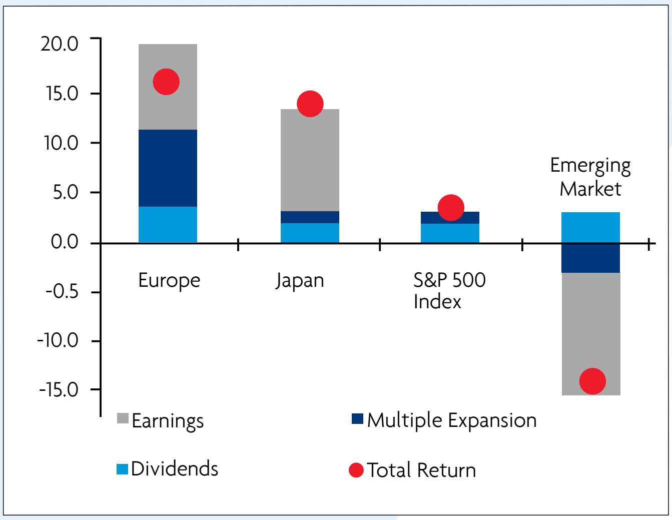
Equity drivers of returns are usually summed up into three components, Dividends, Earnings and Multiple-Expansion. The first two are company driven while multiple-expansion/contraction is the other explanation as to why equity markets rise or fall beyond what is reflected on the companies' financial statements.

Multiple-expansion is usually forward-looking as investors flow into markets they see growth potential in anticipation of the rise in future earnings.

In summary, what drives equity market performance boils down to earnings.

In 2015, Europe and Japan's stock market total return performances were driven by positive earnings growth (Figure 10). US was flat, despite the slight negative growth as investors hoped that earnings growth would recover after some resolution on the impact of energy drag and US dollar strength. Emerging Markets (EM) suffered the most as earnings plunged. Sentiments also soured and led to investor outflow (Multiples-Contraction).

Figure 10: Earnings matter in stock markets



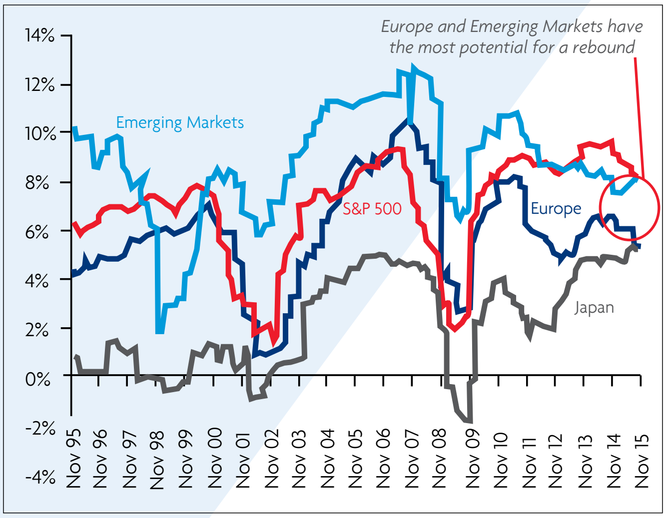
Source: Morningstar and UOBAM as of 30 November 2015

Looking into 2016, we drill one more level down to the earnings drivers and concentrate on the potential for net corporate margin improvements.

Europe and EM have the most potential for a rebound back to norms. We prefer Europe due to the cheap credit provided by easy ECB monetary policy and the capacity for re-leveraging after companies repaired their balance sheet previously.

Emerging markets are our wild cards. We are still cautious in this sector but certain parts are looking attractively valued, given the three years of underperformance. We are watchful on the turnaround story triggered by catalysts such as China stabilising - giving support to EM earnings and reversal of fund flows to initiate coverage for this battered sector.

Figure 11: Margin Matters



Source: Morningstar and UOBAM as of 30 November 2015

EQUITY – SUMMARY VIEW

Regions

Geographical	Underweight	Neutral	Overweight
Developed Markets		US Japan	Europe
Asian Markets	Singapore Thailand Hong Kong Malaysia	Taiwan Indonesia Philippines	China India South Korea

Source: UOB Private Bank Global Outlook 2016

Sectors

Underweight	Neutral	Overweight
Consumer Staples Materials Telecom Utilities	Consumer Discretionary Energy Industrials	Financials Healthcare Technology

Source: UOB Private Bank Global Equities Coverage List as at December 2015

SECTORS	RATIONALE
Financials	• Recapitalised global banks have stronger balance sheets. • Net interest income and revenue growth should emerge from an interest rate hike cycle. • Consumer credit processing is a key beneficiary from the exponential growth of eCommerce.
Healthcare	• Long-term demand of healthcare products and services boosted by: ▶ Ageing population in developed countries ▶ Growing affluent emerging markets ▶ Structural changes to healthcare delivery system globally (e.g. Obamacare)
Technology	• Strong balance sheets, with large cash reserves for potential to be paid out in dividends or accretive acquisitions. • Capital expansion in recent times is more technology driven (e.g. big data analytics, on demand infrastructure). • Transformational dynamic forces like Internet of Things (IOT), Artificial Intelligence such as driverless vehicles will potentially change the world we live in.

Expressing your convictions

- More sophisticated investors can consider using Structured Products that best execute their market views and expectations.
- Structured products usually take the form of derivatives/options that reference traditional financial assets (e.g. stocks and bonds) which shape the risk/return characteristics.
- Structured Products offer investors the benefit of optimising returns, even if markets are moving sideways or even falling. But investors would need to balance the potential returns with the level of risk he/she is willing to undertake.

12. Bonds

KEY THEME

Bonds can act as a portfolio stabiliser during a rate hike cycle. Investors can try a "Two-Pronged" approach to seek a more balanced risk return.

The "first prong" is to sift out quality corporate bonds that are financially strong to meet their obligations.

The "second prong" is to enhance yield by allocating a proportion to a diversified portfolio of higher yielding bonds.

BONDS FACE MACRO-HEADWIND OF RISING INTEREST RATES FOR THE NEXT WAVE

Interest rates have stayed at virtually zero since the ultra-easy monetary policies implemented post-financial crisis of 2008. This has pushed bond prices up and kept corporate credit spreads low.

In 2016, all these will change as bond investors have to rise to the new awakening. Bond prices will come under pressure in a rising interest rate cycle.

However the bond market is a big playing field. It spans across a wide range of geographies, industries, maturities, credit qualities and bond types. Each individual security has its own risk-return profile that has to be differentiated from the generalisation for the broad asset class. We see some opportunities, through sifting through this massive bond space.

Potential: As the Chinese onshore bond market gains popularity, we find selected Chinese offshore secondary bonds (that pay higher coupons) an attractive short-term tactical proposition. These companies would likely take advantage of buying up previously issued offshore bonds and retire these debts, and subsequently issue new onshore bonds at lower interest coupons. We still prefer higher quality companies who have strong balance sheets to minimise default risk.

1. FOCUS ON CREDIT QUALITY, NOT JUST YIELD

With the rising cost of borrowing, investors need to understand the company's financial standing, prospects of the business in relation to the industry and many other factors to assess default risk (that is the risk that the company chooses not to pay back either the interest or the final principal).

In most instances, a higher yield usually represents a lower financial standing than another bond of a lower yield (No free lunch).

We view the Return of Capital* rather than Return on Capital** as more important in adding individual bonds to an investor portfolio.

High-grade bonds help to stabilise the portfolio and offer investors a regular income stream in the form of coupon payment.

2. SEEK YIELD ENHANCEMENT THROUGH DIVERSIFICATION OF HIGHER YIELDING BONDS IN A PROFESSIONALLY MANAGED PORTFOLIO

While higher yielding bonds offer investors higher coupon rates, they also come with higher risks of default. This means investors may not be able to receive the full coupon payments and/or the principal amount.

Investors can seek to diversify this risk by holding a diverse portfolio of bonds from different industries, maturities and issuers. However, this portfolio should be professionally managed to take advantage of in-depth research and portfolio construction capabilities.

A diverse portfolio of global high yield bonds helps to generate yield enhancement.

Note:
*Return of Capital, is the ability of getting the money invested back. Example, invested $1000. The focus is to get this $1000 back.
**Return on Capital is the amount you get on top of the capital invested. Using the same example, invested $1000 and earned $100 on top of it. The return on capital in this case is 10% [($100/$1000) * 100%]

Foreign Exchange

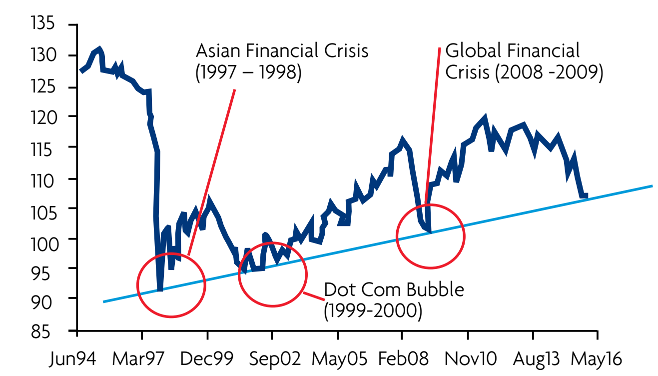
KEY THEME

As mentioned in the US outlook, there will be limited USD strength, due to the disparity between Fed's view and the market's more cautious stance. This will likely support the regional currencies as they have try to find a bottom.

ASIAN CURRENCIES ARE LIKELY TO FIND SUPPORT

- Empirical data has shown that Asian currencies were supported on a longer-term trend line even during the last three major crises. (Figure 12)

Figure 12: Asian Currencies were supported during major crises

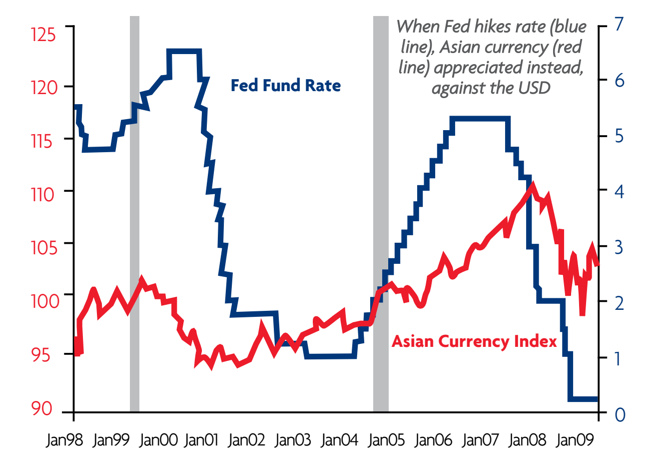


Source: UOB Global Economist and Research Team as of 15 December 2015

ASIAN CURRENCIES ARE LIKELY TO BE SUPPORTED DESPITE FED RATE HIKE

- In the earlier two US tightening cycles, Asian currencies appreciated (USD depreciated) after the first rate hike (Figure 13, grey shaded area), and continued to appreciate into the tightening cycle. This is in contrast to conventional wisdom, where a rate hike is believed to cause USD to appreciate.

Figure 13: Asian Currencies appreciated in the last two US tightening cycles

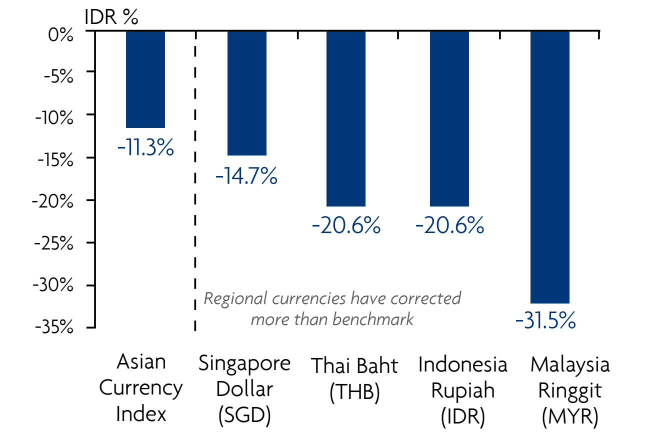


Source: UOB Global Economist and Research Team as of 12 December 2015

POTENTIAL FOR REGIONAL CURRENCIES TO RECOVER

- The regional currencies have declined for the last five years, in the range of -14.7% to -31.5% (Figure 14). Thus, there is potential for funds to buy into these undervalued currencies, creating a support.
- In addition, US Fed is likely to embark on its most dovish rate hike since its inception in 1913, which means that dollar strength is likely to be relatively muted.

Figure 14: Asian Currencies corrected more than benchmark



Data source: Bloomberg, last five year's peak to 16 December 2015

REGIONAL CURRENCIES STILL SUSCEPTIBLE TO MARKET RISKS, THUS SHOULD PRACTICE DIVERSIFICATION

- Regional Asian currencies are still susceptible to market risks where money may flow back to safe-haven, US dollar, which was the case in the recent PBOC's RMB devaluation episode that led to a sell-off in MYR.
- In addition, investors should take note of concentration risk in Asian currency. For instance, SGD depreciated around 6% against the USD, in 2015. If an investor's exposure is solely on SGD, they would have suffered the 6% loss. However, this can be mitigated if investors are to diversify their exposure in the regional currencies, in order to spread out their risk.
- While this is possible, the correlations to the downside have receded.

14. Global Multi-Asset Income

KEY THEME

Globally diversified, risk managed portfolios investing in a broad range of asset classes to deliver stable returns and provide regular income amid market ups and downs.

Policy divergence between the US and other central banks, structural changes in emerging markets, and high profile geopolitical events are all expected to add volatility to financial markets in 2016. We believe that the potential for higher volatility calls for a more prudent approach towards building a core portfolio.

UOB Income Builder is an investment solution that takes a risk-first approach[1] towards delivering stable returns and providing regular income amid market ups and downs. It includes a selection of global multi-asset income funds that actively manage risks with the flexibility to allocate monies across a broad range of assets and geography where the fund managers see opportunities.

1. Risk Managed
- We prefer Multi-Asset managers that rigorously uncover new risks on a regular basis to attempt to minimise investors' downside.
- This contrasts against putting returns as the key driver as the fund managers may take on excessive risks to achieve that goal.
- This is what sets UOB Income Builder apart.

2. Globally Diversified
- A globally diversified portfolio provides exposure to different asset classes so that no single component is able to significantly affect the portfolio performance.
- When one asset class or region underperforms, other asset classes or regions can buffer the portfolio.

3. Flexible Approach
- No single strategy can consistently stay at the top of performance. 2016 will not be an exception.
- A flexible investment approach allows fund managers to seek the best opportunities globally. This helps the portfolio to adapt to ever-changing market conditions and weather different market cycles.

4. Income Investing
- Income investing helps to reduce drawdowns in periods of extreme volatility.
- Investors who desire a passive stream of additional income for their retirement can enjoy monthly payouts[2]. Alternatively, one may choose to reinvest and benefit from the effects of compounding for greater potential returns over the longer term.

[1] Risk-first approach refers to the fund manager having to stress test their investments daily in search for new and hidden risks, to potentially protect against any sharp capital loss. (Source: BlackRock)

[2] For distribution share classes only.

Risks to Our Viewpoints

IF CHINA IS TO HAVE A HARD LANDING

- China's economy is transitioning from an industrial-dependent to a services-led economy.
- However, if both service and manufacturing industries miss expectations, that might increase the probability of a China hard landing.
- China, the world's second largest economy, is an important pillar to global growth. If China were to slow to 3%, the other developed economies will not be spared. Fitch estimates the US and Eurozone growth to fall to as low as 1.7% and 0.8% in 2016.
- Emerging economies and countries that rely on China for trade would also suffer. Asian economies including Hong Kong, South Korea and Japan, as well as commodity producers, such as Brazil and Russia, would be worst hit by a hard landing.

IF ENERGY AND COMMODITY PRICES ARE TO CONTINUE TO FALL

- As raw commodities prices decline and continue to remain low, many of these companies will not be profitable. This decreases their financial standing and increases their bonds' default risk (as these companies usually finance through the high yield bond market).
- On the macro front, commodity-producing countries such as Brazil, Australia and Russia were struggling to rebalance their economies in recent years.
- Even wealthy countries in the Middle East are feeling the impact of low oil prices affecting government revenues, creating huge budget deficits. Some have already started to draw down on their foreign reserves.
- As a result of low commodity and energy prices, the World Trade Organization (WTO) has downgraded its global trade forecast from 3.3% to 2.8% for 2015, half the annual average of 1990-2008.
- If the situation worsens, it could bring about an increase in geopolitical and social unrest in these regions.

IF US ECONOMY IS TO OVERHEAT

- The US economy overheating could bring continued dollar strength and higher-than-expected interest rates.
- A higher wage-led inflation caused by a tighter job market, might lead the Fed to unexpectedly raise rates at a steeper pace, amidst weak global growth.
  - Equities will be under pressure, as an increase in business cost will lower companies' profitability.
  - Bonds will also be impacted from the steeper rate hike.
- The resulting US dollar strength may weigh on oil and commodity prices, which will worsen the commodity dependent economies.
- In addition, the steeper Fed rate hike will cause capital outflow from the foreign debt-laden emerging market.

IF GEOPOLITICAL RISKS ARE TO HEIGHTEN

- The increased frequency of terrorist attacks by the Islamic State of Iraq and Syria (ISIS) in 2015, remains a major concern for investors.
- In addition, the civil war in Syria has caused refugees to flood into Southern and Eastern Europe. This might put a downward pressure on Europe's GDP.
- Existing tensions regarding claims over the South China Sea Islands, which include parties like China and Japan, may escalate onto a greater scale.

Important Information

The information herein is given on a general basis without obligation and is strictly for information purposes only. It is not intended as an offer or solicitation with respect to the purchase or sale of any investment or insurance product mentioned herein. Nothing herein should be construed as a recommendation or advice to transact in any investment or insurance product mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank Limited ("the Company") and its employees cannot be held liable for any errors, inaccuracies or omissions, howsoever caused, or for any decision or action taken based on the information or views expressed in this publication. The Company does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any errors, inaccuracies or omissions. Any opinions, projections and other forward-looking statements 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.

RIGHT BY YOU