In collaboration with:

UOB Investment Insights

Market PowerBar

JUNE 2024

TOPIC 1:

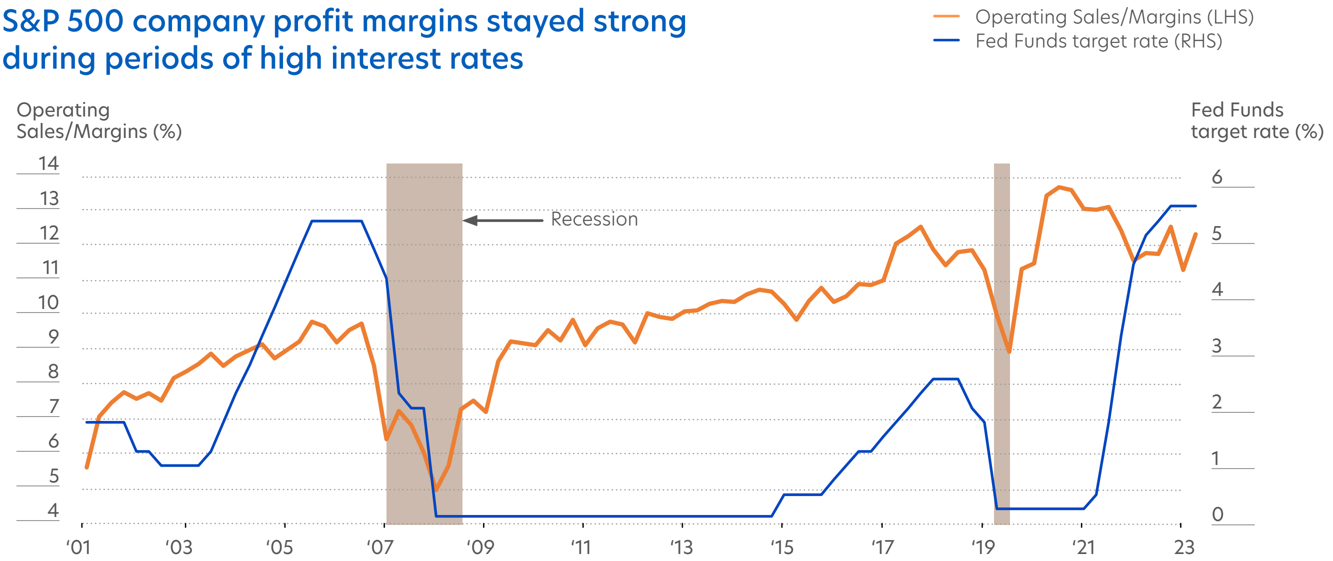
Improved company profit margins support stock performance

The United States (US) economy has shown to be strong enough to cope with high-for-longer interest rates, helping businesses increase profit margins, and boosting the earnings outlook. Choose quality companies with strong fundamentals.

- As discussed in our May PowerBar, we expect the US Federal Reserve (Fed) to cut rates twice this year. However, the Fed can take more time to cut rates with resilient economic growth, solid consumer spending, and gradually declining inflation.
- Despite high interest rates and ongoing geopolitical challenges, company profit margins grew in the first quarter of 2024 (Figure 1), driven by healthy consumer margins due to strong pricing power.
- Looking ahead, as inflation and consumer demand are expected to slow down in the coming quarters, corporate earnings growth will depend mainly on profit margins.
- As the costs of capital and labour decrease, corporate profit margins are expected to continue to improve. Additionally, the increased use of artificial intelligence (AI) in business processes across various sectors should reduce costs and improve productivity.

Figure 1:

S&P 500 company profit margins stayed strong during periods of high interest rates



Source: Factset, J.P. Morgan Asset Management

What you can do

- Given high valuations and slowing economic activity, investors should seek a balance between US and global stocks, with a preference for quality. This means focusing on companies with strong fundamentals to support current stock prices.

Speak to your UOB Advisor today to find out more.

TOPIC 2:

Corporate reforms in Asia may benefit long-term investors

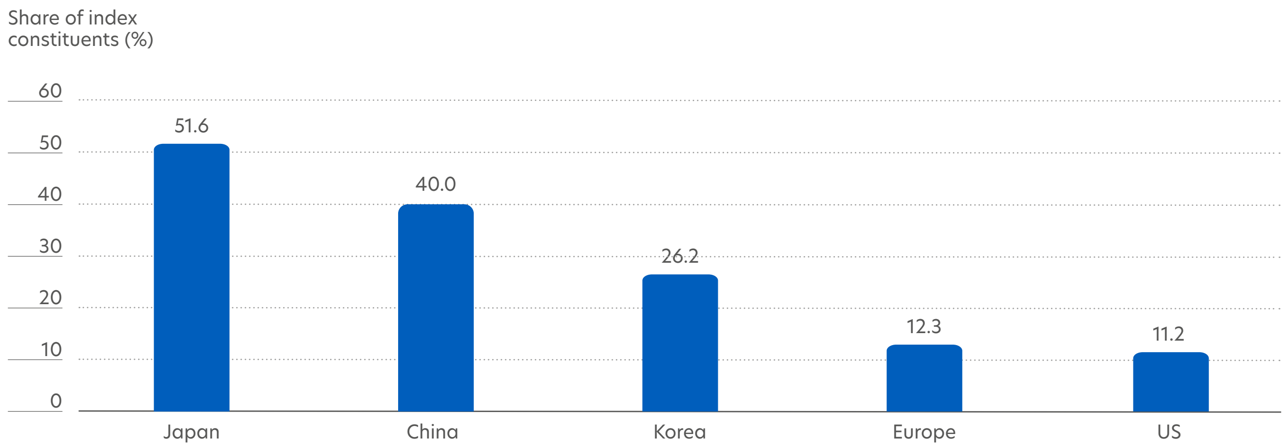
Corporate reforms* in key Asian markets can boost shareholders return and market value, benefiting long-term investors.

- Ongoing corporate reforms by the Tokyo Stock Exchange (TSE) have boosted Japanese stocks. The reforms aim to have companies disclose improvement measures to drive greater profitability. In 2023, the total amount of buybacks announced by Japanese companies surpassed the previous record set the year before.
- Japan is not the only Asian country seeking to improve stock valuations through better management practices. China and Korea have also been pushing for improved governance among listed companies, which can potentially increase shareholder returns and unlock the value of their markets.
- For instance, Korea unveiled a “corporate value-up” programme in February 2024, urging companies to evaluate their low valuations and take steps to address them.
- In China, the State Council issued nine rules to tighten regulation and boost capital market quality this year. The key points from these rules are to enhance corporate governance and increase dividend payments to investors.
- Given the high net cash^ position of Korean and Chinese companies relative to the US and Europe (Figure 2), there is arguably further scope to implement these reforms. This could include increasing returns through dividends, with share buybacks and enhancing operating performance.
- Positive prospects of corporate reforms, a solid earnings growth outlook and attractive valuations should benefit investors looking for long-term opportunities in Asia.

* Corporate reforms refer to improvements made to a company’s structure, policy, and practices to enhance overall business performance.
^ Net cash is calculated by subtracting total liabilities from total cash holdings of a company. Europe, Japan, Korea and US equity indices used are the MSCI Europe, TOPIX, KOSPI and S&P 500, respectively.

Figure 2:

Japan, Korea, and China have relatively higher ratio of companies with net cash positions



Source: FactSet, Korea Exchange, MSCI Global, Tokyo Exchange, China Exchange, J.P. Morgan Asset Management..

What you can do

- The positive prospects of these reforms, solid earnings growth outlook, and attractive valuations, present opportunities for long-term investors seeking exposure to the Asian market.

Speak to your UOB Advisor today to find out more.

TOPIC 3:

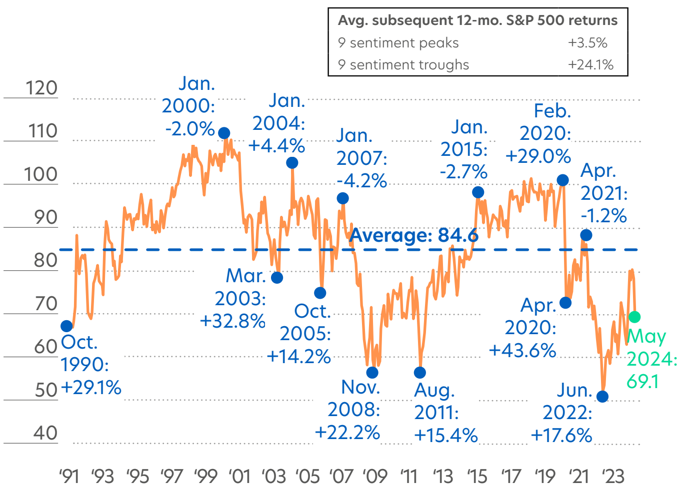
Stay focused on investing fundamentals

With market news so easily available and at greater speeds, it is easy to be overwhelmed by an overload of information. Focus on investing fundamentals to make more informed decisions.

- In the era of internet and social media, it is easy to be overwhelmed by an overload of information on why stock markets rise or fall, or where the markets will go in the near term. Media and news headlines will present stories in a bid to increase readership.
- Some market stories can strongly influence investors psychologically, leading them to believe they can predict short-term market movements and make decisions they later regret.
- When we look at history, we often see that S&P 500 returns over the next year are strong when sentiment is low (Figure 3a). This trend also holds when there is a lot of online chatter about recession, yet the market still performs well (Figure 3b).

Figure 3a:

Consumer sentiment and subsequent 12-month S&P 500 return

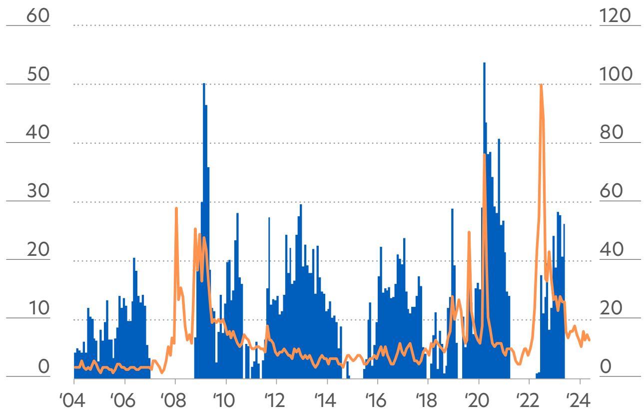


- subsequent 12-month S&P 500 return
- University of Michigan Consumer Sentiment Index

Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management. Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.

Figure 3b:

Online mentions of "recession" based on Google trend and subsequent 12-month S&P 500 return



- subsequent 12-month S&P 500 return
- Online mentions of "recession". Index (RHS)

Source: FactSet, Google Trends and Standard & Poor's
Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.

What you can do

- Before letting emotions guide your decisions, it is important to first research and understand the market. Often, market prices are influenced by factors we might not immediately recognise. So, it could be better to focus on fundamentals and stay invested, instead of selling as soon as bad news arises.

Speak to your UOB Advisor today to find out more.

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