In collaboration with:

J.P.Morgan ASSET MANAGEMENT

UOB Investment Insights

Market PowerBar

SEPTEMBER 2024

TOPIC 1:

United States Federal Reserve shifts focus to employment

Financial market volatility spiked in early August partly because of disappointing United States (US) economic data. While the US economy is gradually slowing, recession fears are premature. Stay invested and maintain a diversified portfolio to manage volatility while capturing market opportunities.

- In early August, there was a brief bout of market volatility due to the Bank of Japan's (BOJ) rate hike and concerns of a US recession, with investors reacting by anticipating aggressive rate cuts by the Federal Reserve (Fed).
- While some of the recent data points to a slowdown in the US economy, one month of data is insufficient to confirm a shift from a gradual slowdown to an outright contraction in economic activity. Importantly, broader data does not indicate the US economy is near a recession right now.
- As inflation has slowed over the past two years, the Fed's focus has shifted to its other mandate of employment. While gradually cooling, the US labour market is merely returning to the pre-pandemic demand-supply balance while other employment indicators remain stronger than previous pre-recession periods (Figure 1).
- Aggressive rate cuts by the Fed remain unlikely, though the timing and magnitude of policy easing will depend on upcoming economic data. We continue to expect the Fed to cut rates by 25 basis points (bps) at the September meeting, followed by another 25bps reduction in December.
- While potential rate cuts may boost market sentiment, short-term market volatility may persist, especially if incoming labour market data points to a further slowdown. However, we need to be mindful that jobs data is not the only indicator to assess the economy's health, so avoid placing too much emphasis on just one single indicator.

Figure 1:

Current employment indicators not worse off compared to previous pre-recession periods

	Unemployment Rate (%)	Job Openings[1] (in thousands)	ISM Manufacturing PMI, Employment[2]	ISM Services PMI, Employment[3]	Initial Jobless Claims (in thousands)	Employment - Jobs Plentiful[4]
Before 2001 recession	4.3	4,762	39.9	49.6	387.2	43.8
Before 2008 recession	5	4,545	51.1	51.6	349.3	23.6
Before 2020 recession	3.5	6,974	46.3	56.2	209.8	46.5
Current[5]	4.3	8,184	43.4	51.1	238.3	34.1

Numbers in highlighted cells indicate a better data point within the comparison period for their respective group.

Source: Factset, J.P. Morgan Asset Management

Notes:
1. Job openings refer to US job vacancies based on Job Openings and Labor Turnover Survey (JOLTS).
2. The employment component of the Institute of Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI) measures the employment trends in manufacturing sector.
3. The employment component of the Institute of Supply Management (ISM) Services Purchasing Managers' Index (PMI) measures employment trends within the service sector.
4. Employment - jobs plentiful measure within the Conference Board, the Consumer Confidence Survey assesses consumers' perceptions of the availability of jobs.
5. Data as of 31 July 2024.

What you can do

- Review your portfolio regularly to avoid concentration risks. Diversifying your investments is also important, as it will help to lower portfolio volatility while capture shifts in market opportunities.

Speak to your UOB Advisor today to find out more.

TOPIC 2:

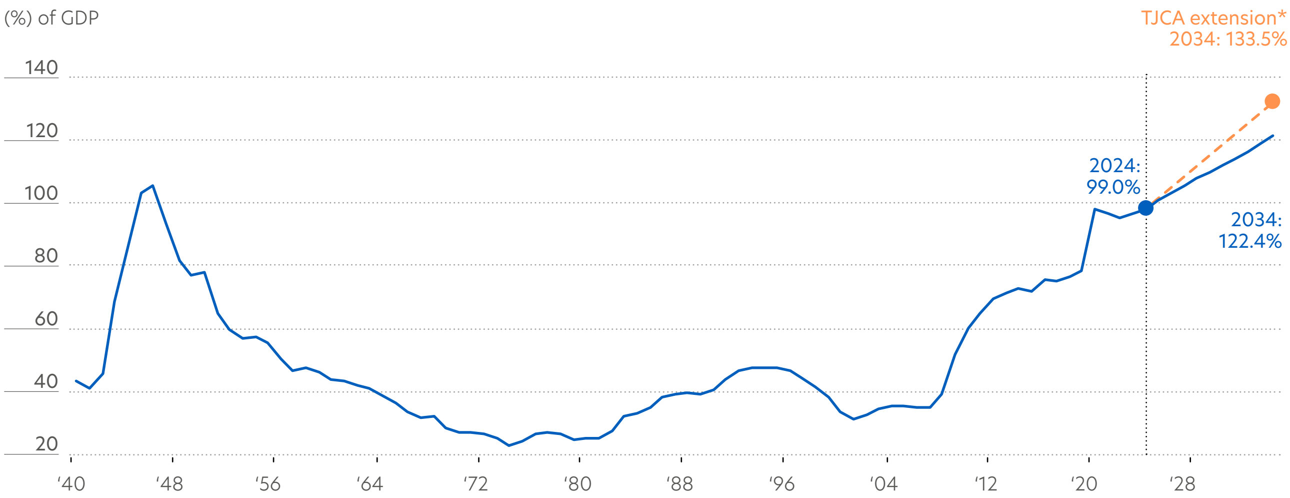
Is rising US government debt a concern?

While the US' increasing fiscal debt could lead to higher Treasury bond yields in the longer term and affect bondholders, bonds remain a crucial safety net when the economy slows and geopolitical tensions persist.

- US sovereign debt has been rising over the past two decades, and the US has not been able to reduce its fiscal deficit even during periods of economic expansion. This has recently sparked concerns among long-term investors, as projections suggest that debt growth may exceed the pace of US economic expansion.
- The Congressional Budget Office (CBO) projects that US government debt could reach a historical high of 122.4% of GDP by 2034, up from 99% currently. This forecast could rise even further to 133.5% if the Tax Cuts and Jobs Act (TCJA) of 2017 is extended beyond its expiration at the end of next year (Figure 2). The deteriorating fiscal outlook is unlikely to change significantly in the near-term, regardless of who wins the upcoming US presidential election.
- Both presidential candidates are targeting increased fiscal spending which will require the issuance of more government bonds, which could negatively impact bond prices. As a result, investors may demand higher yields to purchase government bonds when the US debt level rises.
- This trend may create a less favourable environment for bond investors in the long term. Nonetheless, in the short to medium term, bonds continue to provide an important safety net in the event of a growth downturn or geopolitical uncertainties.

Figure 2:

US government debt may rise further if the Tax Cuts and Jobs Act is extended in 2025



Source: BEA, CBO, Treasury Department, J.P Morgan Asset Management.

What you can do

- A portfolio consisting of high-quality bonds remain important, as it offers attractive yields and potential capital appreciation when the Fed cuts interest rates. It will also serve as a portfolio stabiliser and provide stable returns in the long-term.

Speak to your UOB Advisor today to find out more.

TOPIC 3:

Should you favour big-cap or small-cap stocks now?

Mid- and small-cap stocks attracted some attention recently. However, quality risk assets remain favoured in a slowing growth environment.

- Investors have shifted their attention to mid- and small-cap stocks following the recent sell-off in mega-cap stocks. This shift was driven by less impressive earnings from some mega caps, as well as expectations of slowing inflation and upcoming rate cuts.
- Valuations of US small-caps, represented by the Russell 2000 Index, are attractive and currently at their cheapest in several decades compared to the S&P 500 (Figure 3a). Expected rate cuts could also provide some financing relief for smaller companies, creating investment opportunities.
- However, large-cap companies are still in a stronger position when it comes to profitability and financing. This is because many small-cap companies remain unprofitable and have more floating rate debt, making it harder for them to manage interest payments as compared to mid- and large-cap companies.
- While smaller companies benefit when interest rates are cut, this is not the only factor driving their earnings and stock prices. In fact, the growth outlook plays a more important role, and small-cap companies tend to be less profitable in a slowing growth environment.
- Currently, over 40% of small-cap companies are unprofitable (Figure 3b), and this percentage could increase if economic growth slows significantly. This suggests that any broadening of stock markets to small-caps may be premature until there is evidence of improving profitability.

Figure 3a:

Valuations of US small-cap stocks are cheap compared to US large cap

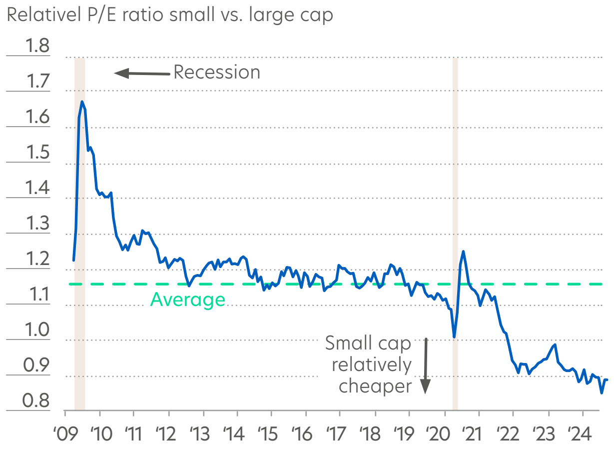
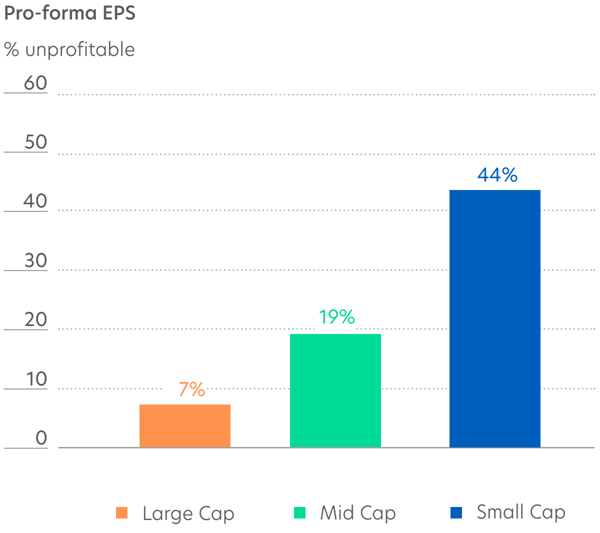


Figure 3b:

More than 40% of small-cap companies are unprofitable now



Source: Factset, FTSERussell, S&P, J.P. Morgan Asset Management. The S&P 500 is used for large cap. The Russell mid cap is used for mid cap. The Russell 2000 is used for small cap. Data for the percent of unprofitable companies in each index are from 1Q24.

What you can do

- While the attractive valuations in small-cap stocks may attract investors to add some allocation into their portfolios, quality risk assets remain favourable in the current environment.

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 Limited ("UOB") 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 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 Limited 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.