

**UOB PRIVILEGE CONVERSATIONS** 

Forging Resilience:
Strength in
Demanding Conditions

**Key Investor Takeaways** 





How do you steel your portfolio against the challenges ahead and capture today's market opportunities?



### **Core Allocations:**

Tend to be lower-risk in nature and help you work towards your long-term goals.

### **Multi-Asset Strategies**



Solid foundation for building portfolio resilience

Tide through different market cycles



Diversified nature reduces volatility

Invest in a wide range of asset classes



Long-term capital appreciation

Capture opportunities across different market cycles



Attractive riskadjusted yield

Investing globally across a variety of incomegenerating asset classes



### **Core Allocations:**

Tend to be lower-risk in nature and help you work towards your long-term goals.

Lock in Higher Yields with Investment Grade Bonds



Bonds tend to outperform stocks during the slowdown and recession phases.



Focus on quality in an environment of slowing economic growth.



Lock in high yields as the global monetary policy tightening cycle is near the end.



### **Tactical Allocations:**

Capture opportunities with a 24-month outlook

Top Ideas:





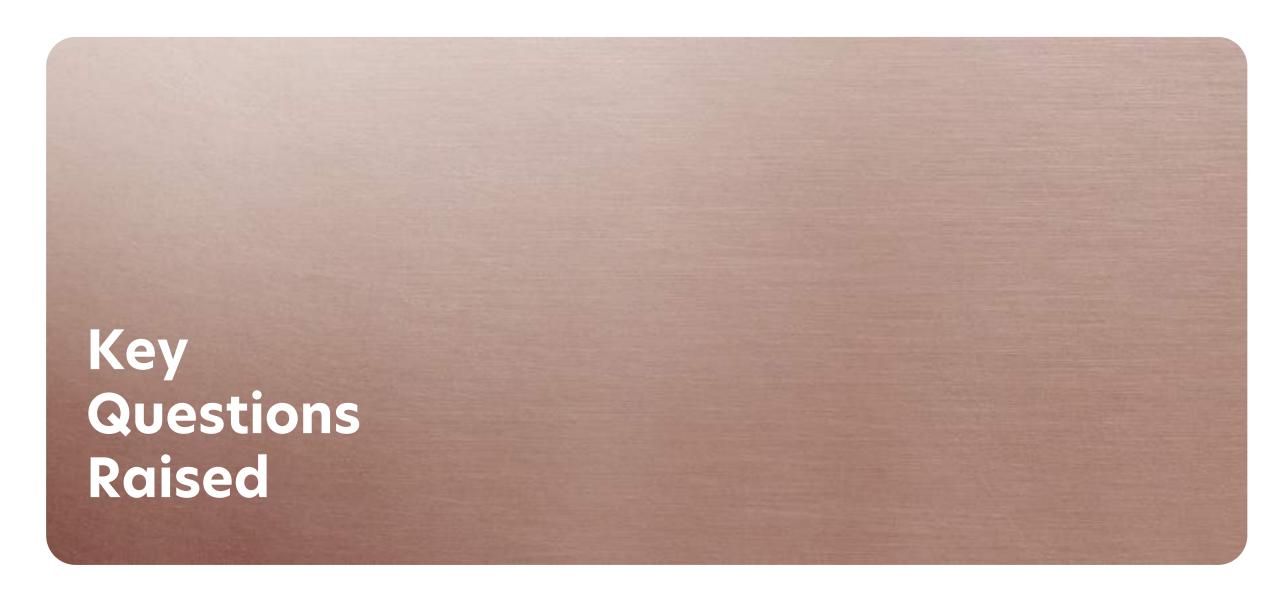




#### **ASEAN**

- Positive secular trends
- Consumption and supply chain attractiveness

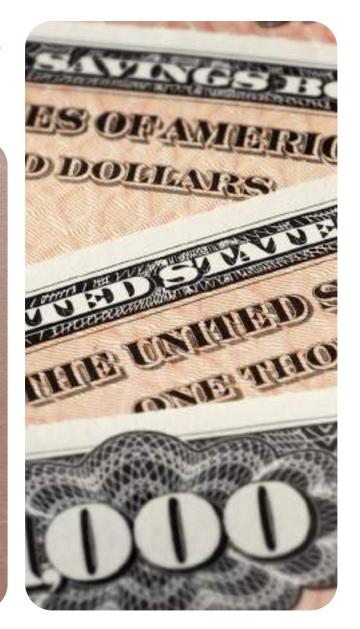






### 1. What do investors need to know about bonds in this interest rate environment?

- In the past, a significant portion of the investment grade bond market had negative yields, but yields have now risen to historically high levels.
- Bonds can serve two purposes in a portfolio: generating income and providing diversification against riskier allocations, as bonds tend to outperform stocks during periods of economic slowdown. Multi-asset investors can incorporate income and diversification into their portfolio with bonds.
- Long-term inflation expectations remain well contained, and the
  possibility of a few additional rate hikes by central banks has not driven
  bond yields higher. Investors therefore have the opportunity to lock in the
  attractive longer-term yields that are currently available, while utilising
  bonds as a means of protecting their portfolios in this environment of
  slowing economic growth.





# 2. Consumer inflation is hovering near zero in China, and the People's Bank of China (PBoC) has been cutting interest rates. Should investors be looking towards China and Asia?

- The PBoC, China's central bank, is in a different position compared to the United States Federal Reserve in terms of its capacity and willingness to stimulate the economy. Recent moves by the PBoC include cutting rates and lowering the reserve requirement ratio (RRR) for banks, with the latter aimed at increasing the flow of money through the financial system that could potentially spur economic growth.
- However, markets have overlooked these measures designed to restore business confidence. Instead, China has faced scrutiny for not directly providing vouchers or cash to consumers to boost consumption.
- Investors should not ignore the fact that the Chinese government is also focusing on stimulating and protecting small and medium enterprises (SMEs), which account for about 80% of the jobs in China. Anticipated measures include tax reductions, tax breaks for specific expenses, waivers on social insurance payments and exemptions from operating expenses such as utility bills or rentals.





### 3. What is the outlook for Artificial Intelligence (AI)-related stocks? Is this a bubble?

- While prices are still lofty, they have corrected somewhat compared to the recent run-up. The S&P 500 is currently trading at a Price-to-Earnings (P/E) ratio of about 25, which is significantly lower than the P/E ratio of 47 during the dot-com bubble.
- Expectations of rate cuts have contributed to the success of AI and technological stocks, which benefit from lower interest rates. However, the Federal Reserve is anticipated to maintain higher interest rates, which could lead to adjustments in AI stock prices.
- Investors looking to gain exposure to AI companies should stay diversified and consider high-quality companies with proven business models. After all, even if a technology becomes widely adopted, many individual companies within the industry can fail along the way.





# 4. Does gold still have a role to play in investors' portfolios? What percentage of one's portfolio should be allocated to gold, and what is the outlook for gold prices?

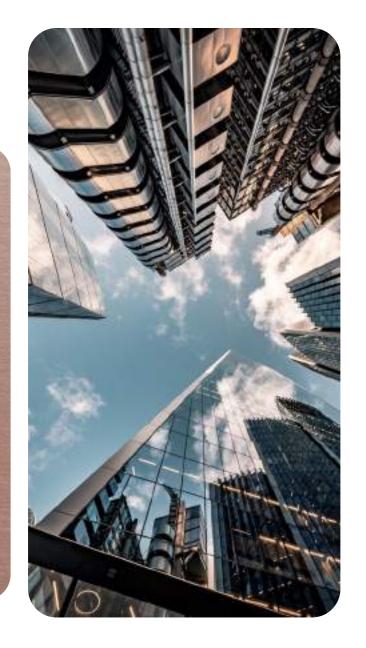
- Unlike other investments that offer a yield, gold does not generate income. Considering that there are alternative investments with higher yields, investors should be aware that there is an opportunity cost for investing in gold.
- On the other hand, gold is considered a safe-haven asset and tends to hold steady or even appreciate during times of economic or geopolitical upheaval. Gold could sustain a rally early next year, when both interest rates and the US dollar are expected to peak. Gold prices continue to be supported by global central banks which are buying and holding large amounts of gold in their long-term reserves.
- Over the long run, gold has proven valuable in helping to diversify one's portfolio and manage risks. Given its upside and the uncertainties surrounding global economic growth, investors can consider diversifying a small portion of their portfolios into gold.





## 5. What are the fundamental principles that investors should keep in mind?

- Being risk-aware is the foundation of UOB's Risk-First Approach to investing. Focus on managing the risk in your portfolio rather than trying to control or predict returns.
- Diversification and understanding your risk tolerance are key to managing risk effectively. In practice, this means first building your wealth with a portfolio of Core investments, before looking to enhance it with Tactical allocations. Core investments tend to be lower-risk in nature and are meant to be held through market cycles. They are usually diversified across asset classes, sectors and regions, and they can provide regular income. On the other hand, Tactical allocations focus on capturing targeted shortterm opportunities and gaining exposure to specific investment themes.
- Prioritise quality across all asset classes and understand what you are investing in.





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