In collaboration with:

J.P.Morgan
ASSET MANAGEMENT

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UOB Investment Insights

Market PowerBar

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TOPIC 1:

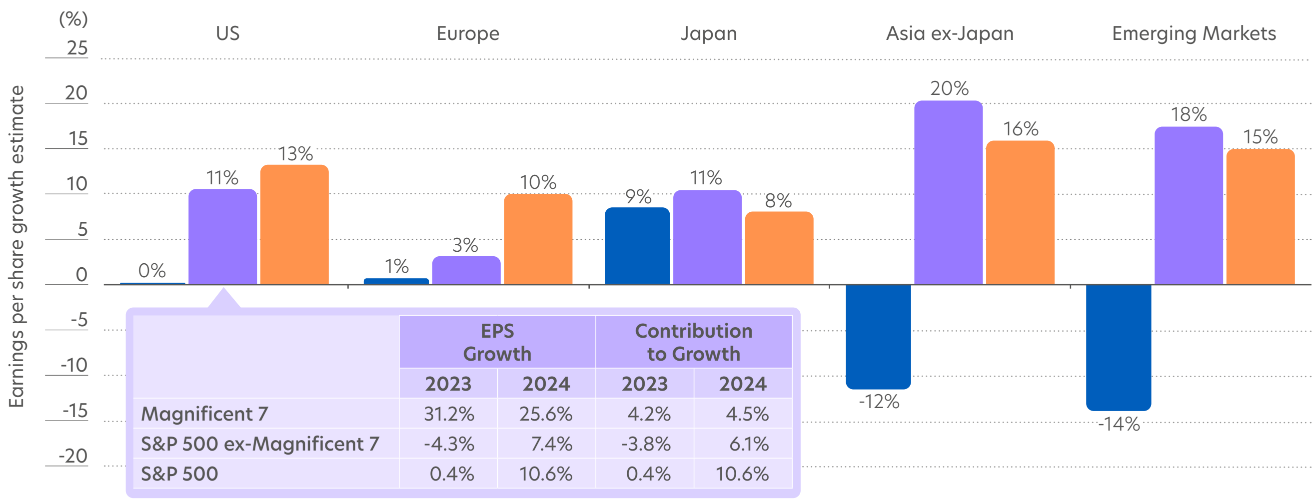
Is it time to look beyond the Magnificent Seven?

Magnificent Seven mega-stocks which include Nvidia, Meta Platforms, Apple, Amazon, Microsoft, Alphabet and Tesla, drove the bulk of S&P 500 returns and profits last year. This year, earnings growth may improve for the other 493 stocks as well as for Asian stocks. Is it time to diversify your portfolio?

- Driven by their leadership in Artificial Intelligence (AI), earnings per share (EPS) of Magnificent Seven companies grew by an estimated 31.2% last year. Meanwhile, the rest of the S&P 500 stocks saw a 4.3% contraction in EPS growth.
- It may be a different story this year. The Magnificent Seven is expected to only contribute an estimated 4.5% of the overall 10.6% profit growth for the S&P 500 index in 2024, with the other 493 stocks accounting for the remaining 6.1% (Figure 1).
- AI will continue to be a key driver of corporate performance for the Magnificent Seven, but it is uncertain if they can keep up high double-digit earnings growth as the global economy slows.

Figure 1:

Asia ex-Japan has the highest earnings per share growth estimate



	EPS Growth		Contribution to Growth	
	2023	2024	2023	2024
Magnificent 7	31.2%	25.6%	4.2%	4.5%
S&P 500 ex-Magnificent 7	-4.3%	7.4%	-3.8%	6.1%
S&P 500	0.4%	10.6%	0.4%	10.6%

Source: FactSet, J.P. Morgan Asset Management. Data are as of 1 February 2024.
Numbers are rounded off in the chart.

What you can do

- Consider diversifying into other quality large-cap stocks with resilient cash flows and strong balance sheets to benefit from better earnings growth expected from the broader stock market.
- Diversifying into Asia ex-Japan is another option as the region is likely to have higher economic growth this year due to recovery in exports and resilient domestic consumption. This provides tactical opportunities as Asia ex-Japan EPS growth is projected at 20% and 16% for 2024 and 2025 respectively (Figure 1). The region also offers appealing stock valuations and dividend yields.

Speak to your UOB Advisor today to find out more.

TOPIC 2:

Will a no landing scenario happen?

A no landing scenario where economic growth remains strong, inflation slows less, and central banks are forced to keep interest rates high has been increasingly discussed. What are the chances of this happening and how will it affect global markets?

→ We expect a soft landing in the United States (US) where slowing economic growth and inflation allow the US Federal Reserve (Fed) to cut interest rates. However, investors should be mindful of a no landing scenario.

→ It can be argued that a no landing scenario is just an extension of the current business cycle, and that the economy will eventually slow at some point. However, no landing affects monetary policy differently from soft landing.

→ In a soft landing scenario, interest rates are cut to support a slowing economy. On the other hand, when no landing happens, there would be fewer or even no rate cuts since the labour market stays resilient and inflation slows less than expected.

→ Asset classes like stocks and bonds also perform differently in both scenarios (Figure 2). In a no landing scenario, resilient economic growth would boost corporate profits, and in turn, stock markets. However, risks could appear towards the end of the year if high interest rates lead to an eventual economic downturn.

→ The bond market will probably see limited short-term impact in a no landing scenario. If rate cuts are subsequently delayed, bonds will then underperform.

Figure 2:

Short-term impact of different economic scenarios on stocks and bonds

Scenario	Inflation	GDP Growth	10Y US Treasury yields	S&P 500 or Developed Market stocks	Asia ex-Japan stocks
Hard landing	↓↓	↓↓	↓↓	↓↓	↓↓↓
Soft landing*	↓	↓	—	—	—
No landing	↓	—	—	↑	↑

— Flat trend

↑ Rising trend (more arrows denote stronger uptrend)

↓ Falling trend (more arrows denote stronger downtrend)

* Soft landing outlook is based on levels of stocks and bonds as at end March 2024 and three interest rate cuts investors expect in 2024, and the possible impact on direction and magnitude of stock and bond movements ahead.

What you can do

→ Whether the economy heads towards a soft landing or no landing, diversify your portfolio with multi-asset strategies to capture opportunities across different market cycles and asset classes, and lower portfolio risk.

Speak to your UOB Advisor today to find out more.

TOPIC 3:

How has investing in China changed?

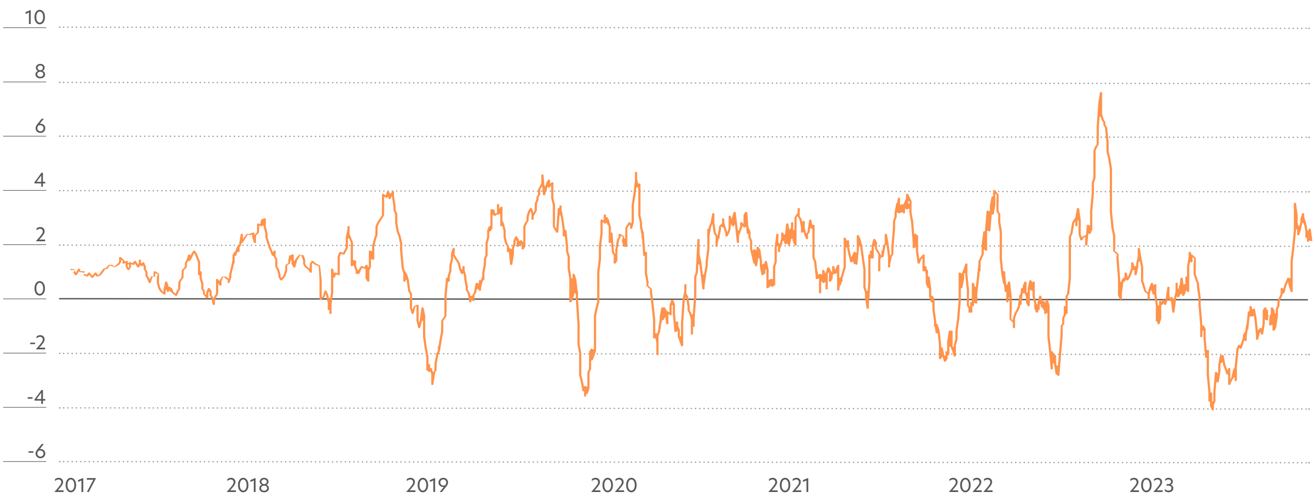
Pessimism had hung over China's economy and stock markets over the past few months before the current recovery. After rebounding from its low in early February, is the slump in the Chinese stock market over?

- China's latest economic data remains mixed. Consumer inflation (CPI) in February moved up to positive territory due to last year's low base of comparison. However, producer prices (PPI) remained negative. Exports have picked up since 3Q 2023 even as the manufacturing purchasing managers' index (PMI) is inconclusive.
- Policy targets and economic plans announced during the recent National People's Congress (NPC) met market expectations. The ambitious GDP growth target of around 5% indicates the Chinese government will support the economy. However, significant monetary and fiscal policies are required to achieve this growth target.
- State intervention and national fund purchases have helped the Chinese stock market rebound from its low on 5 February, reversing the trend of capital outflows (Figure 3). Investors are now focusing on other drivers, such as the pace, magnitude and effectiveness of ongoing policy support, to boost both the real estate sector as well as private sector investments. However, aggressive bazooka style stimulus is unlikely as China is trying to strike a fine balance between economic growth and financial system risks.

Figure 3:

Capital flows from Hong Kong to China have recently turned positive

Billions RMB, 28-day moving average



Source: FactSet, J.P. Morgan Asset Management.

What you can do

- Taking a broader view, there are still selective investment opportunities in China. First, anchor your portfolio with Core investments like multi-asset strategies. If you are willing and able to take risk, and are thinking of investing in China, consider doing so through a diversified Asia ex-Japan approach or via selected opportunities in China tech, electric vehicles, renewable energy and healthcare stocks.

Speak to your UOB Advisor today to find out more.

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