Quarterly Investment Strategy
Second Quarter 2016

GLOBAL GROWTH ANXIETY

ASSET ALLOCATION

Overweight Equities, Underweight Fixed Income, Neutral Commodities, Underweight Cash

EQUITY

Overweight Developed Markets versus Emerging Markets

FIXED INCOME

Underweight Developed Markets and Emerging Markets

COMMODITIES

Overweight Precious Metals and Underweight Bulk Commodities

UOB Asset Management 大華資產管理

As one of the thought leaders in asset management, UOBAM regularly produces topical investment research articles and publications to help our clients stay on top of financial market developments.

Webcast – Asset Allocation Strategy for Q2 2016

In our quarterly webcast, Mr Tony Raza, Head of Multi Asset Strategy Unit, will share our asset allocation strategy, as well as discuss key issues driving developments in global markets.

View the webcast on the homepage of our website at uobam.com.sg.

INVESTMENT STRATEGY SUMMARY

In 2015, we had some success in advising clients tactically about the global macro-economic conditions. We were overweight on equities through April 2015 and then de-risked and neutralised positions in April which turned out to be near the peak of the global equity market in 2015. After the sharp global correction in equities, we took advantage of better equity valuations and the reduction in the risks we were monitoring. We then upgraded our position in equities and other risk assets again. In 2016, unfortunately, risk assets in general and equities in particular suffered sharp declines in January before rebounding modestly in February.

Nevertheless, we maintain the view that the issues that the markets have been reacting to and the overall macro backdrop does not justify turning bearish. The markets have reacted to concerns about renminbi (RMB) depreciation, oil price declines, and risks of a global recession. Our view is that the case for these concerns is weak and that the case for lower risks and more stable global growth is strong.

Corrections happen frequently during economic expansions but markets can make new highs if an economic downturn does not materialise. We see evidence which supports the view that the global economy will continue to expand in 2016.

The global market risk-off moves in January 2016 have created opportunities in equities and credits in terms of better valuations and credit spreads respectively while risk-free assets such as gold and long-dated government securities have become more expensively priced. Our view is that as economic data continues to perform well, sentiment will become more favourable towards risk assets. We therefore maintain our recommendation to be overweight on equities, underweight on fixed income, neutral on commodities, and underweight on cash.

John Doyle
Chief Investment Officer
Equities & Multi-Assets

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CONTENTS

GLOBAL ASSET ALLOCATION SUMMARY

We are overweight on equities and underweight on fixed income for the second quarter of 2016. We expect global growth to continue, policy to be supportive around the world and for the US Federal Reserve (US Fed) to maintain a gradual path of interest rate hikes.

Investment markets have been volatile in 2016 as global investors grapple with issues of global growth and risks from lower oil prices, deflation and a China slowdown. We maintain the view that economic growth continues to be moderate but improving, without strong inflationary pressures. Lower oil prices are supportive of better global growth but also lead to lower energy investments and capital expenditure which can give the appearance that growth indicators are slowing. Our view is that volatility will decline as asset markets see more evidence that global growth is being maintained.

Global Asset Allocation*	--	-	N	+	++
Equities	○	○	○	●	○
Fixed Income	○	●	○	○	○
Commodities	○	○	●	○	○
Cash	○	●	○	○	○

Notes:
*Three to six months horizon
The weights are relative to the respective benchmark(s).
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

Equities – Overweight

Global equities started 2016 with one of the worst January months on record. Equities recovered across most markets in February and early March, but uncertainties persist. The main concerns are slowing global growth, risks from lower oil prices and the Chinese currency, and economic trends. Our economic view is more sanguine on global growth, and that the oil and renminbi issues will not prove to be real risks to equity markets. We maintain an overweight position.

Fixed Income – Underweight

We noted in the first quarter 2016 Quarterly Investment Strategy publication that fixed income markets would have to deal with the normalisation of interest rates. However, slower growth expectations and tighter financial conditions have lowered interest rate increase expectations. We still expect further US rate hikes in 2016 but the pace will be gradual and the headwinds to fixed income should be modest. We maintain an underweight position.

Commodities – Neutral

Commodities still face oversupply issues and headwinds from the strong US dollar, but commodities have been heavily oversold and thus rebounded in the first quarter of 2016. We expect the ongoing supply issues to persist and thus we think that the rebound will be modest – maintain neutral.

Cash – Underweight

We expect financial conditions to improve, and equity valuations and credit spreads to offer better returns than cash. We keep cash at an underweight position.

GLOBAL INVESTMENT STRATEGY
GLOBAL GROWTH ANXIETY

At the end of 2015, we had noted that several key risks from 2015 had dissipated. Greece did not go into default, China did not suffer a hard landing, and the US was finally able to start hiking interest rates. In line with the global consensus view of economists, we believed that global growth should improve in 2016 and that the key risk was for a period like in 1994 where inflation started to pick up and put more pressure on the US Fed to raise rates faster than expected.

However, the first quarter of 2016 turned out differently. Instead of a 1994-like fear of rising rates being the problem, it was the confidence in global growth that collapsed. The expectation of further interest rates hikes decreased and the ten-year US Treasury bond rate fell below 1.8%. These fears started to take hold even without significant data to support the view of weaker growth.

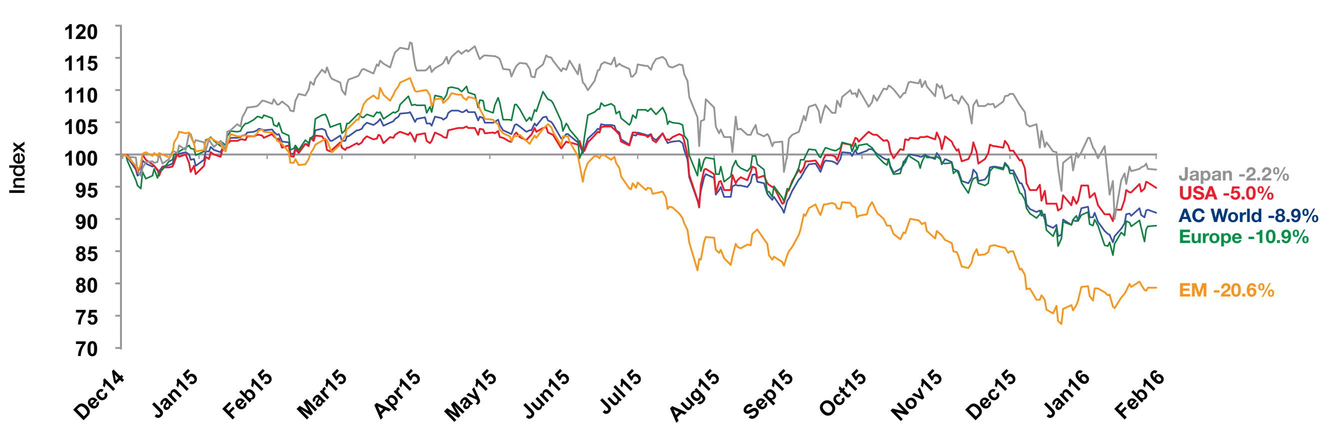
Our view is that the global growth risks are not very significant. We also believe that the other concerns over the RMB direction and falling oil prices have been misinterpreted by the market as bearish signals when they are in fact neutral to bullish signals.

Market volatility persists

We noted last quarter that volatility had picked up significantly in the fourth quarter of 2015. We anticipated that the volatility spike would moderate into 2016, but instead it has persisted. Most notably, equity markets suffered one of their worst starting months for the year in January before starting to recover in February.

Historically, markets have been week and volatile in the first several months after a US rate hike, and therefore it was not unusual to see market weakness in January 2016 after the rate hike in December 2015. However, in this case, the markets did not seem to be reacting to rate hike fears. Government bond yields declined over this period and equity market weakness looked to be much more tied to fears on growth rather than overheating markets.

Global equities performance trends

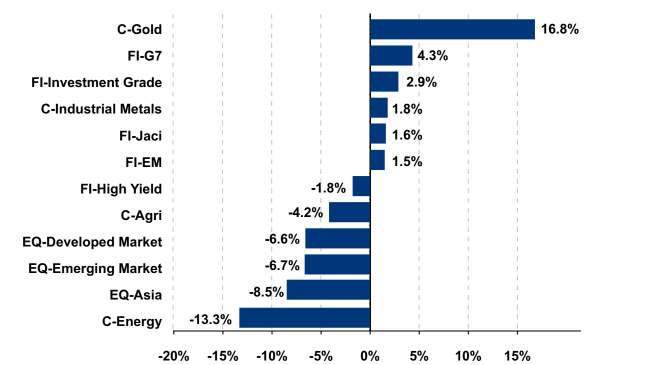


Source: UOBAM, Bloomberg, 1 March 2016

The year-to-date (YTD) performance across most asset classes shows a clear pattern of 'safe' asset classes outperforming the more risky asset classes. Global equities were down six to eight percent during the period.

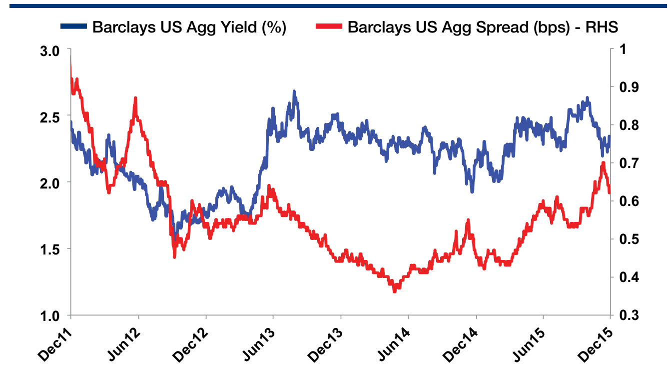
There was also volatility in the credit markets as credit spreads widened to year-high levels in the US as well as in Asia. High-yield spreads, in particular, widened to cycle highs in the US. In the US, credit spreads widened from 150 basis points (bps) at the start of 2015 to 200 bps in early 2016. In Asia, credit spreads widened from 250 bps at the start of 2015 to 325 bps in early 2016.

Year-to-date Asset Class Performance (USD)



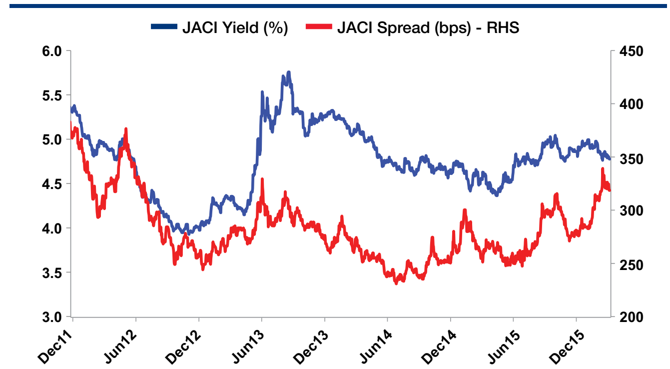
Source: UOBAM, Bloomberg, 1 March 2016

US credit yields and spreads



Source: UOBAM, Bloomberg, 1 March 2016

Asia credit yields and spreads



Source: UOBAM, Bloomberg, 1 March 2016

While our view is that the fundamental macroeconomic outlook for global growth remains steady and that growth investments such as equities and credits should rebound, we do note that volatility is likely to persist. In a world with historically low interest rates that makes it difficult for investors to meet their return objectives, investors become increasingly tempted to take on more risk than usual in order to achieve the required returns. When investors take on riskier asset classes than usual, they are also quicker to exit at the first signs of trouble and this would further contribute to market volatility.

Another contributor to continued volatility is that we see many investors who are prepared to try to avoid the next recession after having experienced the 2008 financial crisis. The global economy is in its seventh year of expansion since the last recession and global equity markets have already rebounded over one hundred per cent since 2009. Although most indicators are pointing to further economic expansion, investors are likely to be quick to pull back at the first sign of danger. Many investors appear determined not to suffer losses in a recession again like they did in 2008.

Fundamental macro outlook

We maintain a view similar to last quarter in that we have a positive view on the macroeconomic outlook. Employment, income, and consumption trends in the developed markets are trending well but manufacturing indices have been weak. However, the positive trends in consumption would benefit the consumer and services sectors which make up the bigger part of the economies in the developed markets. For example, in the US, the service sector accounts for eighty-five per cent of GDP. While there are mixed signals in a few key global macroeconomic indicators, we remain confident that the core of the economy remains on track.

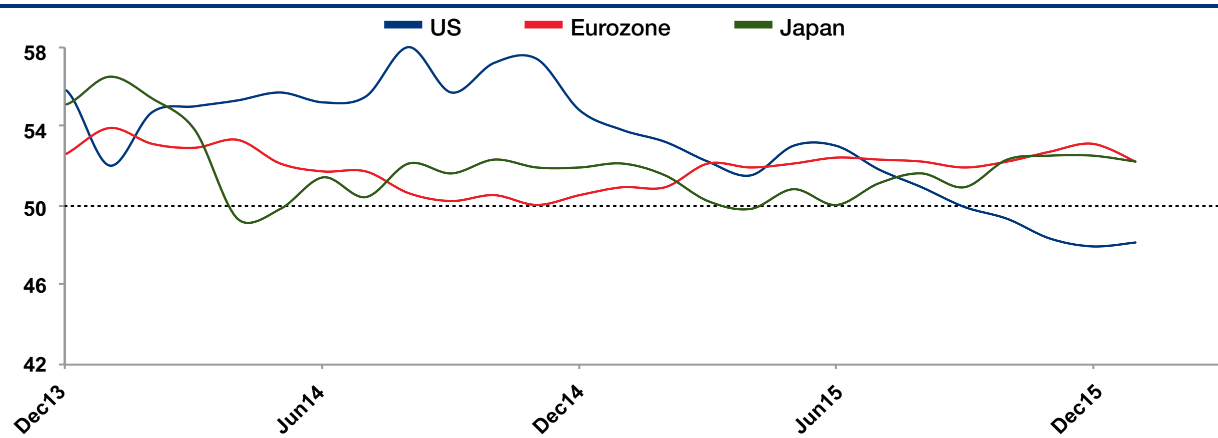
When we entered the first quarter, we noted that consensus forecasts were for global GDP growth to be maintained or improved going into 2016. There has been increased market nervousness about GDP growth, and consensus forecasts have been revised down moderately for 2016. However, overall forecasted growth in 2016 remains similar to 2015 (both projected to be 3.1 per cent for global GDP growth). While the US GDP growth has been revised downwards, most other regions are expected to see better growth in 2016 compared to 2015. These growth estimates are not consistent with the fears of a global recession that both equity and fixed income markets appear to be pricing in.

Major country consensus GDP growth forecasts

REAL GDP	ACTUAL		FORECASTS	
	2013	2014	2015	2016
World	3.3	3.4	3.1 (3.0)	3.1 (3.3)
United States	1.5	2.4	2.4 (2.5)	2.2 (2.5)
Eurozone	-0.3	0.9	1.5 (1.5)	1.6 (1.7)
Japan	1.4	0.0	0.6 (0.6)	1.0 (1.1)
UK	2.2	2.9	2.2 (2.4)	2.2 (2.3)
China	7.7	7.3	6.9 (6.9)	6.5 (6.5)
India*	4.7	6.9	7.3 (7.4)	7.4 (7.4)
Brazil	3.0	0.1	-3.7 (-3.5)	-3.0 (-2.5)
Russia	1.3	0.7	-3.7 (-3.8)	-0.9 (-0.2)

Figures in brackets are as of 31 December 2015.
*India GDP from 2013 is based on the Fiscal Year ended March.
Source: UOBAM, Bloomberg, 25 February 2016

Developed market manufacturing survey indices

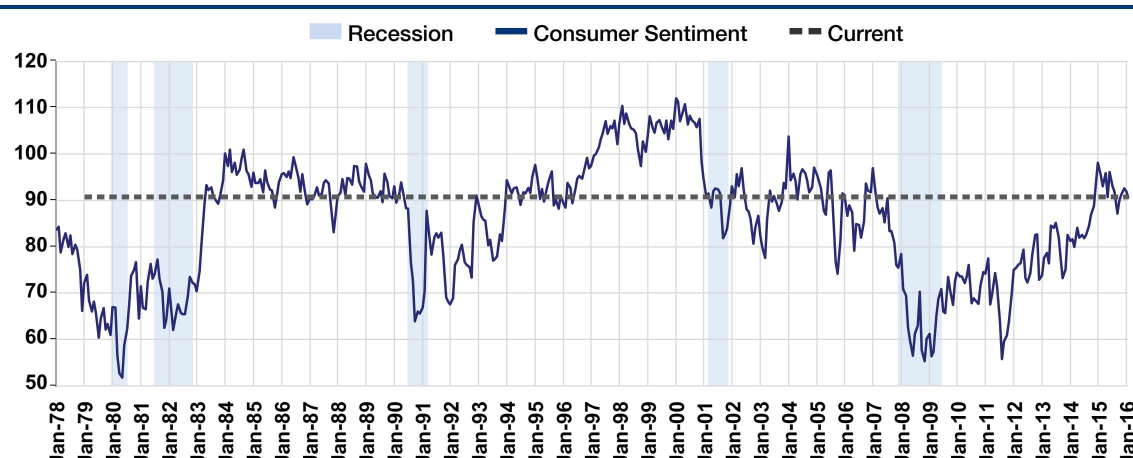


Source: UOBAM, Bloomberg, 1 March 2016

Manufacturing indices around the world are frequently good leading indicators of the economy and are currently pointing towards a cautious outlook. The US manufacturing index had been tracking at very healthy levels at the end of 2014 but then dropped to below expansionary levels as of early 2016. Other developed market indices have held up better but have started to decline in February 2016. However, we believe that the reason for these declines is the decline of energy-related industries. Although this would affect energy companies and some related manufacturers adversely, this is actually a boost to the economy and consumers. When oil prices started to fall at the end of 2014, it coincided with a sharp pickup in consumer confidence. Since that initial spike, consumer confidence has maintained being at healthy levels throughout 2015 and through periods of market volatility.

While there is a perception that the US consumer is suffering economically, we would point out that, in many ways, the US consumer appears to be in as good a state as we have seen in the past two decades. Job growth is high, unemployment is down, wages are rising, inflation is down, the savings rate is high, mortgage costs are at record lows and oil prices are at decade lows. We would argue that the data shows that the US consumer is more disgruntled by politics rather than economically suffering. With the US consumer having frequently been the backbone of global GDP growth, we should maintain our sanguine view of growth.

University of Michigan Consumer Sentiment



Source: UOBAM, Bloomberg, 1 March 2016

Assessment and outlook

While 2016 started off with sharp declines in risk assets and market volatility throughout most asset classes, we maintain the view that this is not the end of the cycle that many investors appear to be fearful of. Asset classes like equities frequently suffer volatility in the midst of an expansion and investors have appeared more nervous than usual through this expansion. We think many investors are quick to sell at the first sign of trouble so as not to be caught off guard as they were in 2008. Investor behaviour through this seven-year bull market has been more volatile than usual. Nevertheless, bull markets almost always never really end until the economic cycle ends, and we would assess that the economic trends are convincingly pointing to further expansion and not a looming recession.

Some indicators such as manufacturing indices have been weak but most of the jobs, housing, credit and confidence indicators that make up eighty-five per cent or more of the economy are showing healthy trends. Oil prices may be down and will affect energy-related companies adversely, but consumers around the world will be solid beneficiaries.

Thus, for the second quarter of 2016, we maintain our overweight weighting in equities. We think that fixed income markets continue to offer reasonable returns at low volatility levels and that investors do not need to be overly anxious about the impact of US Fed rate hikes. Nevertheless, the outlook for equities in the face of global growth and rate hikes is more attractive than fixed income and thus we are underweight on fixed income investments. However, we do maintain a slant toward corporate credits over government bonds. In addition, commodities performed very poorly in 2015 but we recommended a neutral weighting to commodities for the first quarter of 2016 as we thought the sector was oversold. While oil prices fell in the first quarter of 2016, commodities as a whole and commodity stocks generally rebounded. We maintain a neutral recommendation for commodities for the second quarter of 2016. We are underweight on cash in an environment of sustained global economic growth. We would only start to focus on cash holdings when there is increasing risk that we are at the end of a cycle.

EQUITY STRATEGY
GLOBAL EQUITY

SECTOR ALLOCATION	--	-	N	+	++
Consumer Discretionary			●	◀	
Consumer Staples			●		
Energy		●			
Financials				●	
Healthcare				▶	●
Industrials		●			
Materials		●			
Information Technology					●
Telecommunications Services	●				
Utilities	●				

Notes:
The weights are relative to the benchmark – MSCI AC World Index.
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

We have a positive outlook on global equities, underpinned by continued growth in the advanced economies, modest earnings growth outlook and strong corporate profitability.

Given the years of underinvestment following the global financial crisis, we believe that technology companies should benefit from rising corporate expenditure on technology hardware, software and business solutions. Hence, we are overweight on the information technology sector. We are also overweight on the healthcare sector given its strong cash generation and dividend yield. The sector continues to benefit from recent merger and acquisition activities and strong earnings growth momentum from the biotech sub-sector. We also have an overweight position in financials due to attractive valuations.

Our strategy continues to be underweight on the deep cyclical sectors such as materials and energy given the sub-par growth of the global economy. However, we hold the view that the energy sector is currently oversold and we look to move to a neutral position once the outlook on the oil price stabilises. We have also adopted a more cautious stance on interest rate-sensitive sectors such as utilities and telecommunication which could be impacted adversely by the US Fed tightening policies in the coming quarters.

REGIONAL ALLOCATION	--	-	N	+	++
DEVELOPED	○	○	○	●	○
US	○	○	▸	●	○
EUROPE	○	○	●	◂	○
JAPAN	○	○	●	○	○
CANADA	○	○	●	○	○
AUSTRALIA	○	○	●	○	○
EMERGING	○	●	○	○	○
Asia Ex-Japan	○	○	●	○	○
LATAM	○	●	○	○	○
EMEA	○	●	○	○	○

Notes:
The weights are relative to the benchmark – MSCI AC World Index.
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

We have a preference for Developed Markets (DM) over Emerging Markets (EM). This is due to the divergence in growth trajectories, the effects of capital flows from EM, and perceived risks to earnings expectations from shifting revenue and cost trends. Within DM, we have upgraded US from neutral to an overweight position. Our view is that the dollar strength which was previously a headwind to overseas corporate profits will subside in the coming quarters due to base effect. Meanwhile, the tightening labour force will result in higher wage inflation but the higher disposable income along with lower gasoline prices will support the retail sector, which remains a larger part of the economy. We retain the view that the economy remains on a strong recovery trajectory, and the US remains attractive for selective value plays.

We have downgraded Europe to a neutral position despite the potential for further economic recovery. A weaker euro has helped to lift confidence, boost economic activities and propel the markets higher. The region also has significant operating leverage to an upturn in economic activities with the profit margins currently at trough levels. However, we are mindful of increasing risks with regard to the coming UK referendum to exit Europe which could provide an overhang on the region.

Concerns continue to linger over the long-term efficacy of Japan Prime Minister Abe's 'third arrow' economic policy. However, we see opportunities arising from beneficiaries of Japan's quantitative easing (QE). Economic data remains mixed but we believe that the Bank of Japan (BoJ) will remain accommodative, which would help to support the market. Despite disappointments on policy and the anaemic economic backdrop, there are some positive developments in corporate governance and corporate performance. Hence we retain our neutral position in Japan.

We retain our underweight position in EM. Challenges are expected to persist due to domestic imbalances and the build-up of excess credit in the period post the Global Financial Crisis. The slowdown in China continues to weigh heavily on the demand and prices of resources. The abrupt shift in the resources sector has dampened investments and growth in much of the developing world. The EM still represent good multi-year opportunities from a structural and macro standpoint but face challenges from a cyclical standpoint. Growth is falling short of expectations and corporate earnings could face further downward pressures unless productivity levels can continue to rise. There are interesting bottom-up opportunities, and stock selection is increasingly critical.

ASIA PACIFIC EQUITY

SECTOR ALLOCATION	--	-	N	+	++
Consumer Discretionary	○	○	○	●	○
Consumer Staples	○	○	●	○	○
Energy	○	○	●	○	○
Financials	○	○	▸	●	○
Healthcare	○	○	○	▸	●
Industrials	○	●	○	○	○
Materials	○	●	○	○	○
Information Technology	○	○	○	○	●
Telecommunications Services	●	○	○	○	○
Utilities	○	●	○	○	○

Notes:
The weights are relative to the benchmark – MSCI Asia Pacific Index.
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

Our strategy is currently overweight on the technology, healthcare, consumer discretionary and financials sectors. We have increased our weights in technology and financial sectors recently as some selective value plays emerged with the recent correction in the last quarter. We remain positive on the longer-term trend for the consumer and technology sectors as they provide exposure to the continued strong growth of domestic demand and e-commerce in the emerging economies.

The strategy is underweight on the materials sector due to concerns on China, which is experiencing slower growth. The country is also currently in the midst of implementing reforms. On the other hand, we retained a neutral position in energy given the strong demand response as a result of low oil prices and improving demand-supply balance globally.

REGIONAL ALLOCATION	--	-	N	+	++
Asia Ex-Japan	○	○	▸	●	○
Japan	○	●	○	○	○
Australia & NZ	○	○	●	◂	○

Notes:
The weights are relative to the benchmark – MSCI Asia Pacific Index.
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

The current positioning of the Asia Pacific strategy is to be overweight on Asia ex-Japan. The position is funded from an underweight position in Japan. We retain a neutral position on Australia and New Zealand. This is a result of bottom-up securities selection and does not necessarily reflect a view on the respective regions.

For example, the overweight position in Asia ex-Japan is due mainly to the relative attractiveness of Indonesia and India financials against the rest of the region. Similarly, the underweight position in Japan reflects our concern on the operating prospects of Japanese financial and materials companies.

ASIA EX-JAPAN EQUITY

SECTOR ALLOCATION	--	-	N	+	++
Consumer Discretionary	○	▶	●	○	○
Consumer Staples	○	○	●	○	○
Energy	○	●	○	○	○
Financials (Ex Re)	○	○	○	●	○
Real Estate	○	▶	●	○	○
Healthcare	○	▶	●	○	○
Industrials	○	●	◀	○	○
Information Technology	○	○	○	●	◀
Materials	○	○	●	○	○
Telecommunications Services	○	○	●	○	○
Utilities	○	○	▶	●	○

Notes:
The weights are relative to the benchmark – MSCI Asia ex-Japan Index.
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

COUNTRY ALLOCATION	--	-	N	+	++
China	○	○	○	●	◀
Hong Kong	○	●	◀	◀	○
India	○	○	●	○	○
Indonesia	○	○	▶	●	○
South Korea	○	▶	▶	●	○
Malaysia	○	●	○	○	○
Philippines	○	●	◀	○	○
Singapore	○	○	●	○	○
Taiwan	▶	●	○	○	○
Thailand	○	○	○	●	○

Notes:
The weights are relative to the benchmark – MSCI Asia ex-Japan Index.
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

Driven by oil price decline and China's macro challenges, the outlook for growth in Asia has deteriorated alongside global growth concerns.

In China, growth is decelerating with little evidence that we are near the bottom. While the services sector has been relatively stronger than the manufacturing and industrials sectors, there are concerns that economic weakness may broaden out. Expectations of RMB weakness have driven capital outflows and we expect pressure on RMB to persist, albeit at a moderate pace.

On a positive note, the strength of the US dollar (USD) has moderated as expectations for the pace of US rate increases have been lowered due to the subdued global growth outlook. This removes a headwind for Asian markets and allows central banks in Asia more room for monetary easing. There is also potential for more fiscal measures to support growth.

Notwithstanding short-term challenges, Asia's favourable demographic trends and rising incomes underpin the long-term fundamental growth potential of the region, making it an attractive investment destination.

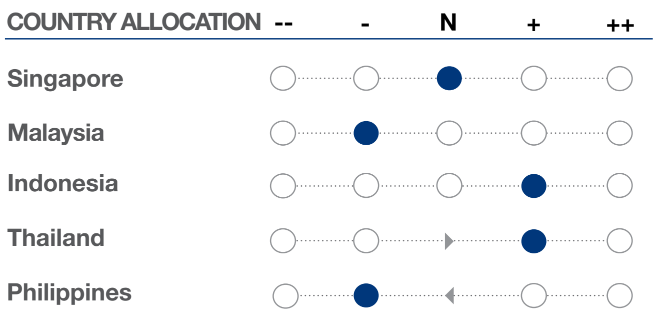
Asian markets have corrected in the lead up to the US interest rate lift-off and have corrected further at the start of the year. Asian equity valuations are now attractive at more than one standard deviation below the mean level on a price-to-book basis – a level that was last seen during the 2008 Global Financial Crisis.

The current positioning of the Asia strategy is to tactically reduce its overweight in China. We are also underweight on Hong Kong due to the challenging outlook for retail and residential property. We are more optimistic on Indonesia as we expect accelerating GDP growth and monetary easing to drive investor sentiment.

Even as overall growth remains modest, new economy sectors including internet, healthcare, education and tourism enjoy stronger growth prospects. Rising internet and smartphone penetration will accelerate technological disruption across sectors presenting bottom-up investment opportunities.

The key risks are a disorderly capital outflow, currency volatility and worse-than-expected slowdown in China.

ASEAN EQUITY



Notes:
The weights are relative to the benchmark – MSCI South East Asia Index.
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

In ASEAN, domestic demand is likely to be the primary driver for growth as we expect weak external demand for another year.

Fears of a repeat of the Asian Financial Crisis are likely overblown as fundamentals in the ASEAN economies have improved. ASEAN currencies have also adjusted by weakening since mid-2014.

The strength of the USD has moderated as expectations for the pace of US rate increase have been lowered due to the subdued global growth outlook. This removes a headwind for ASEAN currencies, allowing central banks more room for monetary easing such as in Indonesia where interest rates were cut by 50 bps in the first two months of the year. There is also potential for more fiscal measures to support growth.

The ASEAN strategy is overweight on Indonesia and Thailand where there is higher government spending and improved business confidence.

We remain underweight on Malaysia overall, but reduce the underweight position as we view that GDP growth will slow down but pressure on its currency and political concerns will ease. Similarly, we are underweight on the Philippines due to rising political and macro risks.

The strategy is neutral on Singapore as the economy faces headwinds from oil and gas, and China's macro weakness.

FIXED INCOME STRATEGY

GLOBAL FIXED INCOME

FIXED INCOME	--	-	N	+	++
DEVELOPED	○	●	○	○	○
DM Government	●	○	○	○	○
DM Credit	○	●	○	○	○
EMERGING	○	●	◄	○	○
EM Government	○	○	●	○	○
EM Corporate	○	●	◄	○	○
EM Local Currency	○	●	○	○	○
Duration	○	○	●	○	○
Yield Curve*	○	○	●	○	○
Asia	○	○	●	○	○
Latin America	○	○	●	○	○
CIS/EE	○	○	●	○	○
Middle East/Africa	○	○	●	○	○

Notes:
The weights are relative to the appropriate benchmark(s).
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.
*'+' denotes Steepener and '-' denotes Flattener.

In the developed regions, we remain underweight on government debt. We are generally positive on investment grade (IG) corporate credits for carry while keeping duration neutral compared with the benchmark. We remain cautious on high yield credits. We also remain defensive and selective in our credit selection.

In the EM, we have downgraded our call from neutral to slight underweight. We remain neutral on EM sovereigns while being underweight on corporate credits. We remain neutral on all EM regions, as the performance will be driven largely by country-specific sectors. We continue to favour USD-denominated EM credits and remain underweight on local currency credits.

DEVELOPED MARKETS

Review

The US Fed raised rates for the first time in years by 0.25 per cent in December 2015. On the other hand, the European Central Bank (ECB) and Bank of Japan (BOJ) loosened monetary policy. The ECB reduced deposit rates further to -0.30 per cent and the BOJ introduced quantitative and qualitative monetary easing with negative interest rates and a three-tier system was adopted. The monetary policy divergence of the US Fed and that of the ECB and BOJ is expected to continue. Nonetheless, the uncertainty in the macro outlook and negative risk sentiments pushed the yields of US Treasuries, core European and Japanese government bonds lower in the last few months.

Outlook and Strategy

In the past three months, the US Fed fund futures market has wound back expectations from approximately two to three interest rate increases to less than one increase this year. Some indicators of activities in manufacturing and services have moderated, while the US jobs market is looking strong and unemployment rate has dropped below five per cent. On the inflation front, lower energy prices are keeping the headline inflation rate under pressure. However, US core consumer price index (CPI) and personal consumption expenditure (PCE) are rising, with housing and medical care contributing to underlying inflation.

The ECB will review and reconsider its policy stance at the March 2016 meeting. Financial conditions in the Euro area are tightening while credit spreads of IG and high yield corporate bonds have been widening. The experience of other central banks such as those from Sweden, Denmark and Switzerland showed policy rates lower than the ECB's current rates. Also, there is the possibility of the ECB taking deposits further into negative territory with perhaps adjustments to the multi-tier system, which would reduce stress on the financial system. Other options include recalibration, expansion or extension of the asset purchase programme.

The United Kingdom (UK) will be holding a referendum in June this year to decide on whether to remain in the European Union. The uncertainty of the outcome is heightened by the presence of influential leaders from both camps. The currency is bearing the brunt of the 'Brexit' risk and UK gilts have lost most of the gains made this year. If the Brexit materialises, trade disruptions are expected and its twin deficits could worsen if foreign direct investment drops, pushing down the pound. The political implication is wider as a Brexit increases the risk of Scotland seeking independence and also fans separatist sentiments in the other European countries. Even if the depreciation of the currency passes through to higher inflation in the coming months, it is more likely than not that the Bank of England holds the policy rate steady in view of the potential impact that the major political event can have on the economy.

The Bank of Japan (BOJ) holds a dovish stance. The Japanese yen strengthened despite the announcement of negative interest rates as the details showed that the impact is likely to be less punitive than the headline suggests. The CPI less fresh food and energy is around the one per cent handle and affords the BOJ some breathing space in the near term while the money markets adjust. More efforts are expected on the fiscal front with investors observing whether the planned consumption tax increase could be delayed further.

In Canada, the country is weighed down by weak oil prices and limited transmission of growth from the US despite the benefit of proximity. The protracted reorientation towards non-resource activity is still undergoing and the central bank expects the output gap to close later than anticipated.

In Australia, the Reserve Bank of Australia still has scope to ease monetary policy. However, there are recent comments that the non-mining parts of Australia expanded during 2015 despite mining investments contraction. This is keeping the central bank on hold unless the labour markets deteriorate. We have a neutral duration slant for G7 government bonds.

EMERGING MARKETS

Review

Emerging markets continued its volatile trading in the three months ending February 2016, with yields rising from a low of 6.1 per cent to as high as 6.8 per cent before ending the period at 6.3 per cent. Despite a tide of negative news, EM did manage to stage a recovery. We believe that bad news was priced in excessively and the financial markets were oversold. As the tide subsided, bond prices, equities and foreign exchange (FX) rates recovered some of the losses.

Outlook and Strategy

It has been a volatile period for the EM, as well as for risk assets as a whole. Both EM governments as well as corporates face challenges. Firstly, indebtedness among EM governments and corporations have risen in the past five years as the global economy has been flushed with liquidity. As these debts mature, there is increasing pressure for bond yields to rise in order to reflect rising credit risks as well as the higher returns investors expect to be compensated with. In some cases, we believe this may have been overdone. We were positive on the markets in January and February when bond yields rose as we felt that the market may have been pricing in more risk than was warranted. Since then, bond yields have fallen and the value of our investments has risen.

However, EM economies, corporations and the global economy continue to face many headwinds. Growth dynamics are not strong and inflation continues to fall in most parts of the world. This year, there has been much debt refinancing at a much higher cost than when the debt was issued. The ability of EM economies to expand fiscal spending is more limited today than in 2009 and DM economies are already cutting interest rates to negative territory. China's transformation from a manufacturing exporter to a domestically-orientated services economy will take time and presents challenges. This will also bring new challenges to other EM economies, especially for commodity exporters. As we manoeuvre through these difficult waters, our strategy is to be cautious. We thought EM assets were oversold early this year and the strategy then was to add more risk. However, going forward, we look to sell into strength and reduce risk. Market liquidity remains patchy at best and we will continue to maintain a more liquid investment profile.

We believe that there are opportunities as sentiment changes, and continue to look for investments where we believe the rewards outweigh the risks. We continue to prefer staying invested in sovereign and quasi sovereign bonds over corporate bonds. Within corporate bonds, we remain very selective. It is likely that defaults, distressed bonds and fallen angels will increase this year, and these could present interesting opportunities. We think EM FX may stage a recovery in the near term but we remain cautious as the potential for a sustained rally could be capped by weak economic growth and falling inflation in EM. Furthermore, EM central banks, particularly in Asia, will likely use this FX strength to re-build international reserves that were used previously. Lastly, and importantly, we continue to believe that investors should take opportunities to add risk during periods when EM bonds sell off, as they present good entry points where investors may be adequately compensated for the risk within the asset class.

ASIA

Review

Asian hard currency bonds registered a positive return of 1.61 per cent in USD terms for the first two months of the first quarter of 2016 (1Q16) after rising 1.63 per cent in 4Q15. After a sharp rally in October 2015, spreads have been range-bound in November and December 2015. Asian credit spreads were about 31 bps narrower in 4Q15. However, for the first two months of this year, the sharp risk-off sentiment had driven credit spreads wider by about 36 bps.

Volatility has heightened since January 2016. Oil prices declined lower due to rising tensions between Saudi and Iran, and the threat of increased supply as sanctions on Iran was lifted. By 20 January 2016, WTI crude oil futures were at their record intra-day low of USD 27.6. China's weaker Purchasing Managers' Index (PMI) releases and the fast depletion of its foreign reserves have also put many investors on their guard. Subsequently, the BOJ's unexpected announcement of negative interest rates at the end of January in view of slower economic data added to market jitters. Away from Asia, the overblown fears of the Deutsche bank's Additional Tier 1 debt issue in early February and surprisingly weaker than expected data from the US and Europe drove investors to be even more cautious.

Most investors were not willing to extend their risk appetites with some even trying to trim risk further. International rating agencies were also seen intensifying the situation by downgrading many oil and commodities related names. For the first two months of 2016, the ten-year US treasury yield fell by 54 bps from 2.27 per cent to 1.73 per cent while the JP Morgan Asia credit composite spread widened by about 36 bps from 283 bps to 319 bps.

Outlook and Strategy

Moving ahead, we remain neutral and cautious. We are inclined to maintain cash levels at high single to low double digit levels. The impact of a Chinese hard landing or a potential US slowdown remains to be seen. Meanwhile, the rising idiosyncratic risk is inevitable and will bring more rating downgrades and defaults to the surface. On the valuation front, current credit spreads look more attractive after the recent widening. As at end February, the average Asian credit spread stood at about 319 bps which is about 33 bps wider than its five-year historical average of 286 bps. This attractiveness was especially evident in the non-IG segment where spreads stood at about 649 bps. This in turn is about 180 bps wider than its five-year historical average of 469 bps.

Hence, we are inclined to maintain our 'positive carry' theme. We believe that this, together with the strong technical demand for Asian assets as well as low valuations, will continue to attract investors. With some countries already experiencing a negative interest rate environment, the need for positive returns prevails.

SINGAPORE

Review

The Singapore economy expanded two per cent for the full year of 2015. Resilient services growth of 2.8 per cent and strong construction activity growth of 4.9 per cent helped to offset a severe manufacturing contraction of 6.7 per cent year-on-year (yoy). Headline inflation averaged out to -0.5 per cent, compared to 1.0 per cent in 2014. Core inflation eased to 0.5 per cent from 1.9 per cent in 2014. The Singapore dollar (SGD) ended February 2016 at 1.4066, having strengthened 1.2 per cent from end January on the back of unwinding of USD bull trades.

The SGD corporate bond primary market continued to be impacted by weak market sentiment with new supply yet to pick up. Most activity occurred in the last week of February with the bulk of deals done by IG issuers. In terms of secondary trading, signs of stability seem to be surfacing, with investors seeking higher quality issuers.

Outlook and Strategy

The Ministry of Trade and Industry (MTI) expects the Singapore economy to grow at a modest pace of 1.0 per cent to 3.0 per cent in 2016. The Monetary Authority of Singapore (MAS) has revised the forecast for headline inflation in 2016 down to a range of -1.0 to 0.0 per cent from -0.5 to 0.5 per cent. This is on the back of the significant step-down in global oil prices in recent months and the larger-than-expected decline in COE premiums at the start of the year. The forecast range for core inflation is unchanged at 0.5 to 1.5 per cent. The MAS expects core inflation to pick up gradually over the course of 2016.

On the currency front, we expect the SGD to remain in the lower half of the SGD nominal effective exchange rate (S$ NEER) policy band in view of the softer-than-anticipated GDP and inflation. As a result, short-end interest rates are expected to increase as investors demand higher interest rates in compensation for a weakening SGD. Therefore, we continue to be underweight on the short-end of the Singapore Government Securities (SGS) curve.

Issuance in the SGD corporate bond market will be supported by refinancing needs as well as the pursuit of growth strategies. Demand for high yield issues will be constrained by continuing investor selectivity until sentiment improves significantly. Supply conditions could be supportive for secondary trading, particularly for better established names with solid market positions, cash flow stability and ongoing access to liquidity.

COMMODITIES STRATEGY

COMMODITIES	--	-	N	+	++
Agriculture	○	○	●	○	○
Base Metals	○	○	○	●	○
Bulk Commodities	○	●	○	○	○
Energy	○	○	●	○	○
Gold	○	○	○	●	○

Notes:
The weights are relative to the appropriate benchmark(s).
'- -' denotes maximum underweight, '-' slight underweight, 'N' neutral, '+' slight overweight, '+ +' maximum overweight; arrows show change from last quarter.

Overview

We remain at a neutral weight for the overall commodities sector. We believe 2016 will be a transitional year for commodities, with a rebalancing of supply-demand fundamentals achieved for many leading commodities. This rebalancing would then allow for a sustainable recovery in prices over the medium term. Some near-term price volatility can still be expected as investors focus on demand concerns stemming from disappointing industrial production (IP) and manufacturing PMI data. However, we note that successful rebalancing is also driven by the ongoing curtailment of existing high-cost supply and sharply reduced investment in new production. Mixed US economic data has reduced expectations of higher US interest rates in 2016 and associated USD strength. This is positive for commodity prices, which in recent years have been negatively correlated to the USD. The USD may also be negatively impacted by uncertainty ahead with the upcoming US Presidential election.

Agriculture

We remain at a neutral weight on agriculture commodities. Grain prices have been relatively stable compared to other commodities and may be close to bottoming, even if there are a few near-term catalysts for a strong upward move in prices given relatively high global stock-to-use ratios. Analysts estimate that corn, wheat and soybean prices are now close to average production costs, even while considering lower energy costs and input cost reductions. There continues to be little weather-related disruption, with the Australian Bureau of Meteorology now reporting a clear moderation in the 2015-16 El Nino weather event. Fertiliser prices appear to be bottoming, although potash price stability remains dependent on continued production discipline from the leading producers.

Base Metals

We remain overweight on base metals given their position as 'late cycle' commodities that are more dependent on consumer demand than infrastructure spending. This is in line with three factors, namely, China's planned continuing shift towards a more consumer-based economy, expectations of improved US demand, and expanding European demand as ongoing QE measures support economic activity. Prices remain deep in the cost curve and are encouraging closure of existing capacity. This is combined with sharply lower investment in new production across most metals that will limit future supply growth. We note the continued reductions in base metals inventory levels, which is typically a precursor for an upward move in prices.

Bulk Commodities

We continue to hold an underweight position in bulk commodities. The markets for iron ore and coking coal are over-supplied, and are likely to remain so given the announced plans for an overall decrease in Chinese steel production. Downward pricing pressure on iron ore and coking coal is likely to persist until only the lowest cost producers remain in the market. Strong thermal coal production is also depressing that market, although there are still attractive opportunities for low-cost thermal coal producers who have a strong competitive advantage in their domestic market.

Energy

We maintain our neutral position in energy. Crude oil prices fell sharply over the winter months, partly due to mild weather, but the overall supply-demand trends supported the second half of 2015 (2H15) recovery in prices. Global demand continues to grow, with Chinese demand buoyed by increasing vehicle sales, and with the US now moving into its seasonally strong months for gasoline consumption. Supply data is becoming more supportive as US onshore domestic oil production continues to fall. The fact that Russia and Saudi Arabia were able to reach an agreement in the first quarter of 2015 (1Q15) should also be viewed positively, and indicates that the Organisation of the Petroleum Exporting Countries (OPEC) may be moving towards coordinated production cuts in order to support crude oil prices. In the event that the geopolitical environment worsens, any supply disruption in the Middle East would produce a sharp upward movement in crude oil prices.

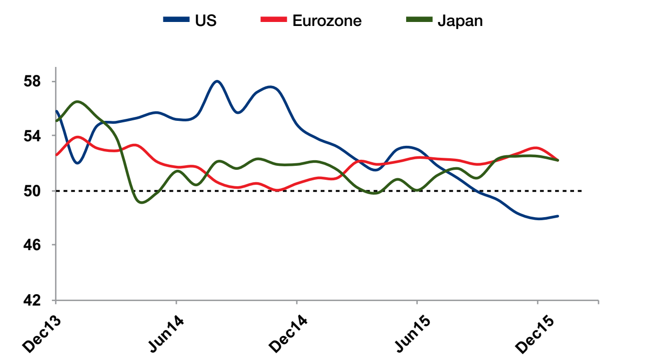
Gold

We remain in an overweight position in gold given that mixed global economic data has reduced expectations of higher US interest rates, and increased the demand for safe haven assets. This demand is seen in the current strong levels of gold ETF buying, with aggregate gold ETF holdings now at their highest level in two years. Central banks remain the aggregate net buyers, with the People's Bank of China (PBoC) and Russia's central bank making sizeable official gold purchases for eight consecutive months. Retail demand from China and India is at record levels. Although a strong USD remains a potential headwind, the USD Index has actually weakened YTD, and could be vulnerable to political uncertainty in the run-up to the US presidential election this year.

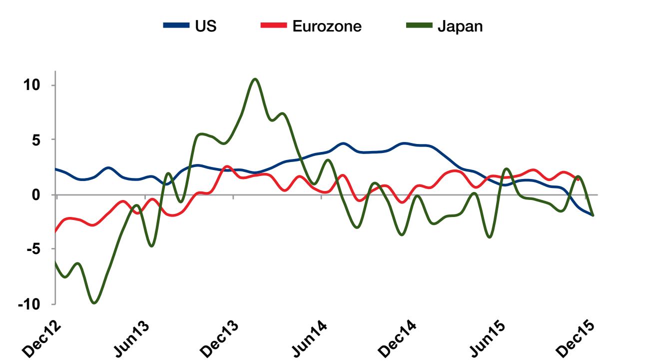
APPENDIX
ECONOMIC INDICATORS

DEVELOPED ECONOMIES

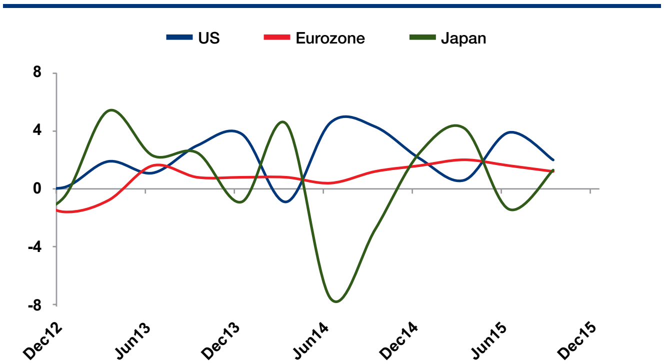
Purchasing Managers' Index



Industrial Production Growth (YoY%)

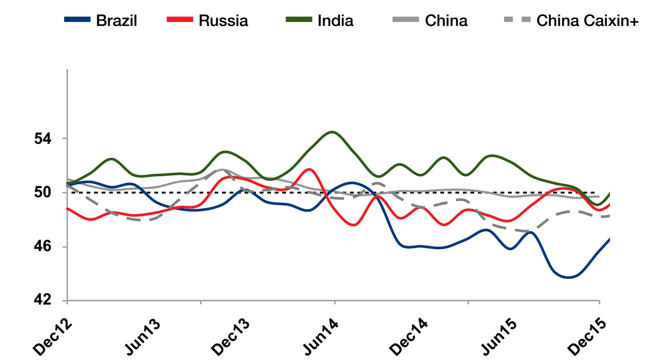


Real GDP growth (QoQ%, saar)*

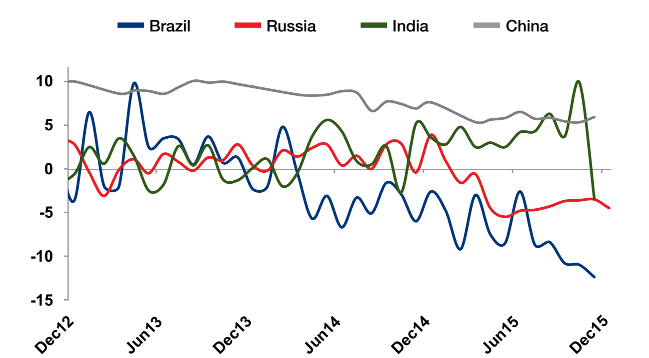


EMERGING ECONOMIES

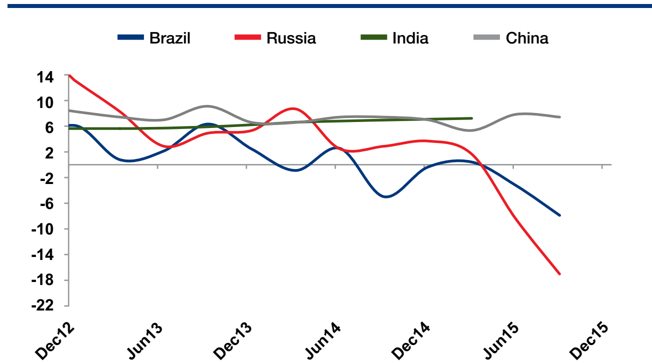
Purchasing Managers' Index



Industrial Production Growth (YoY%)



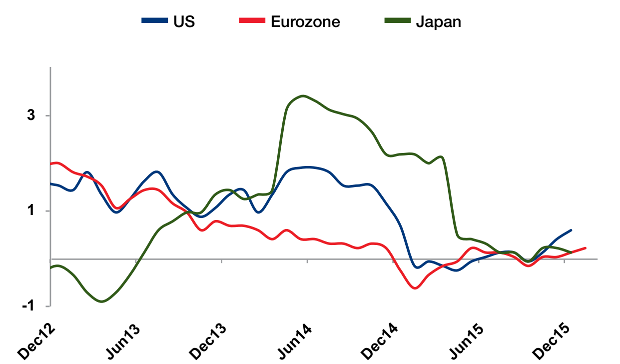
Real GDP growth (QoQ%, saar)*



*For some economies, annualised GDP data are estimates by UOBAM. For India, data are in year-on-year percentages (YoY%).
+ China Caixin PMI was previously known as HSBC PMI (effective July 2015).
Note: All data are sourced from Bloomberg, Datastream and UOBAM unless otherwise stated, as at 1 March 2016.

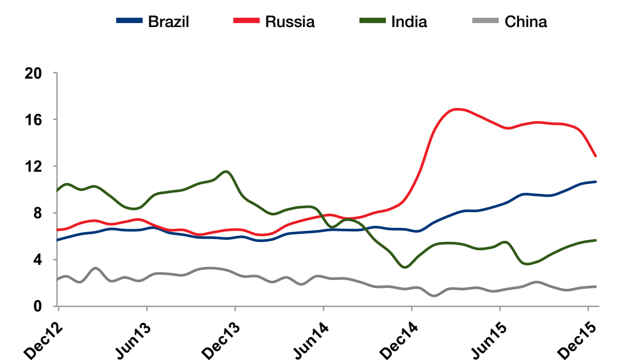
DEVELOPED ECONOMIES

Inflation - CPI (YoY%)



EMERGING ECONOMIES

Inflation - CPI (YoY%)



Note: All data are sourced from Bloomberg, Datastream and UOBAM unless otherwise stated, as at 1 March 2016.

Central Banks Interest Rates

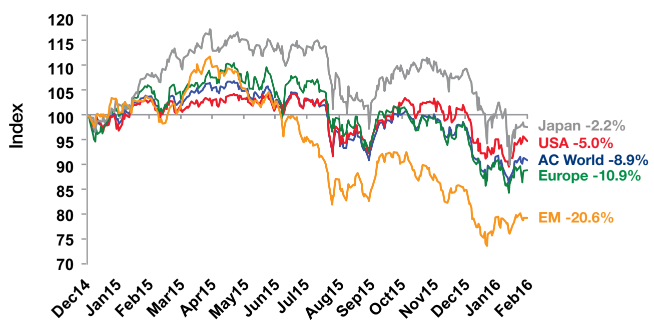
Country	Interest Rate	Current Rate (%pa)	Latest Meeting	Change at Latest Mtg (bp)	Last Change	Next Meeting
		2-Mar-16				
United States	Fed Funds Target Rate US	0.500	27 Jan 2016	—	16 Dec 15 (+25bp)	17 Mar 2016
Eurozone	Refinance Rate	0.050	21 Jan 2016	—	4 Sep 14 (-10bp)	10 Mar 2016
Japan	BOJ Overnight Call Rate	-0.001	—	—	29 Feb 16 (+0.1bp)	—
United Kingdom	UK Official Bank Rate	0.500	1 Mar 2016	—	5 Mar 09 (-50bp)	17 Mar 2016
Brazil	Brazil Selic Target Rate	14.250	20 Jan 2016	—	29 Jul 15 (+50bp)	2 Mar 2016
Russia	Russia Refinancing Rate Announcement	8.250	13 Sep 2013	—	13 Sep 12 (+25bp)	—
India	Repurchase Rate	6.750	20 Feb 2016	—	30 Sep 15 (-50bp)	—
China	1 Year Benchmark Lending	4.350	1 Mar 2016	—	26 Oct 15 (-25bp)	—
South Africa	South Africa Repo Avg Rate	6.750	1 Mar 2016	—	28 Jan 16 (+50bp)	17 Mar 2016

Source: Bloomberg, updated as of 2 March 2016

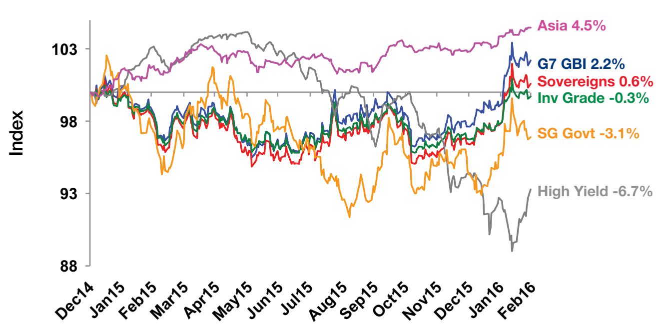
MARKET PERFORMANCE

DEVELOPED MARKETS

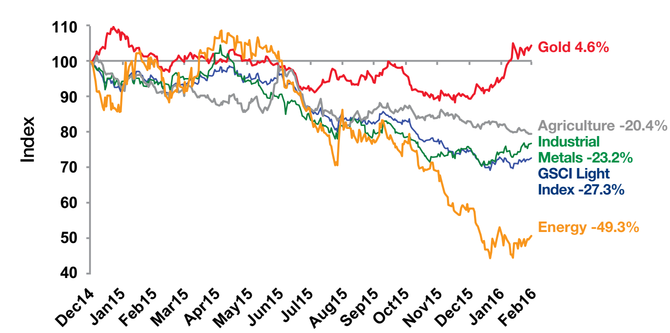
Equity Indices
(Rebased 100 on 31 December 2014)



Fixed Income Indices
(Rebased 100 on 31 December 2014)

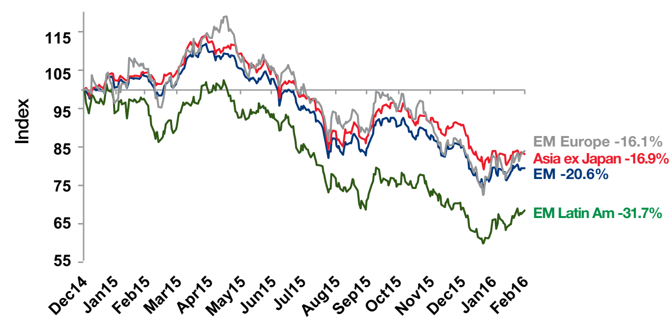


Commodity Indices
(Rebased 100 on 31 December 2014)

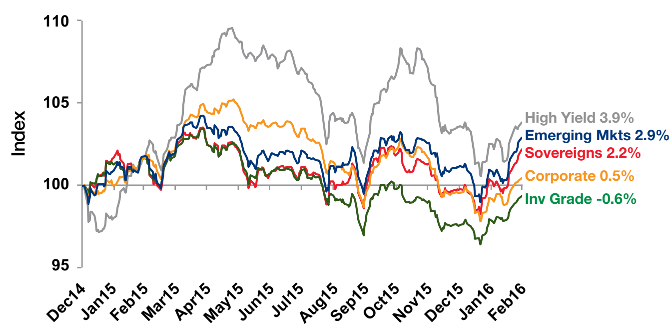


EMERGING MARKETS

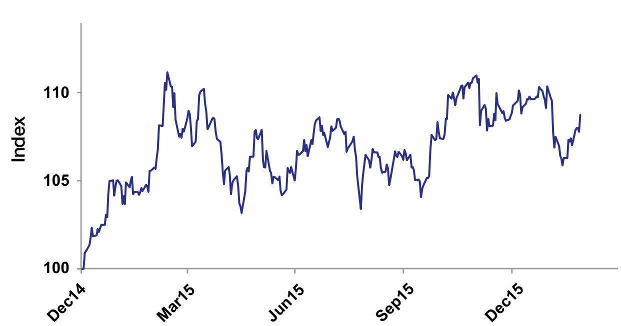
Equity Indices
(Rebased 100 on 31 December 2014)



Fixed Income Indices
(Rebased 100 on 31 December 2014)



Dollar Index Spot
(Rebased 100 on 31 December 2014)

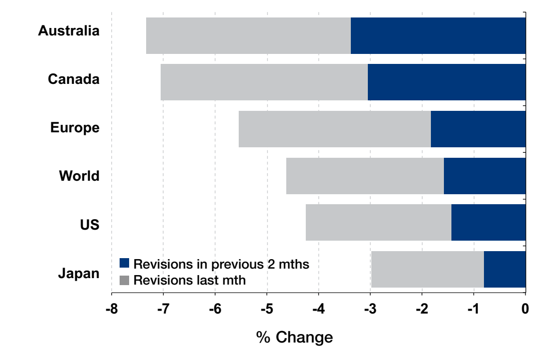


Note: All data are sourced from Bloomberg, Datastream and UOBAM unless otherwise stated, as at 1 March 2016.

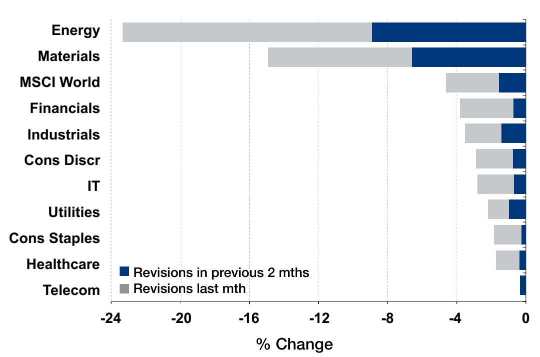
EQUITY MARKET INDICATORS

DEVELOPED MARKETS

Earnings Revision by Regions for FY2

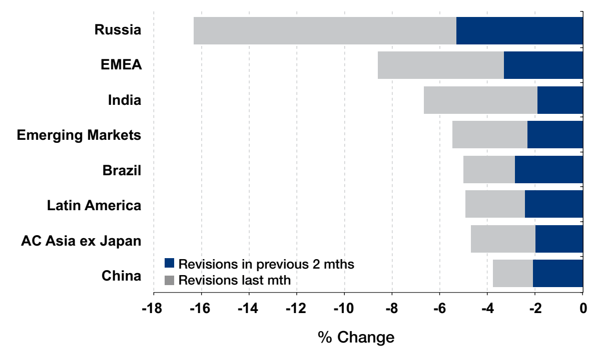


Earnings Revision by Sectors for FY2

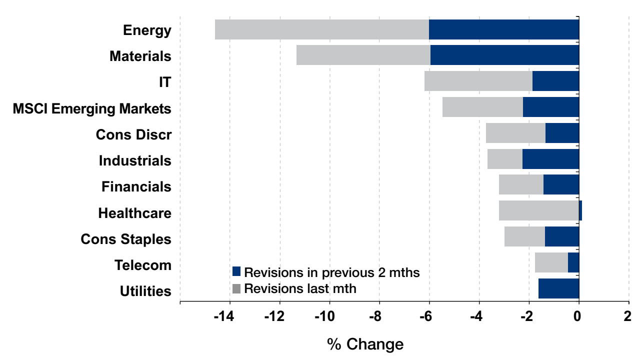


EMERGING MARKETS

Earnings Revision by Regions for FY2



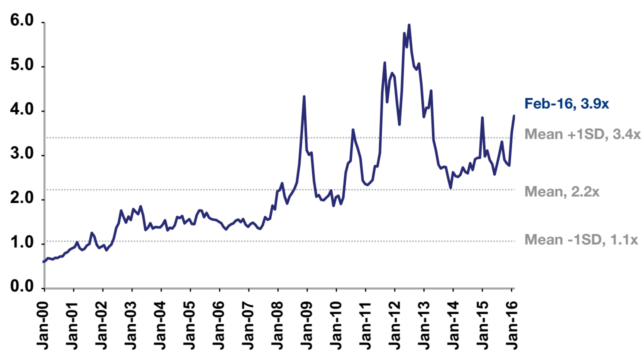
Earnings Revision by Sectors for FY2



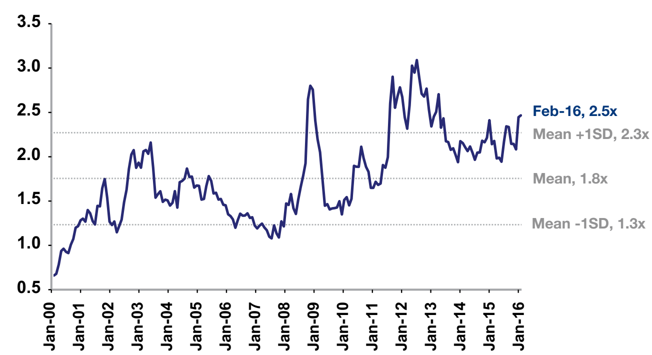
Note: All data are sourced from Bloomberg, Datastream and UOBAM unless otherwise stated, as at 1 March 2016.

VALUATION

Developed Markets Earnings Yield Ratio*

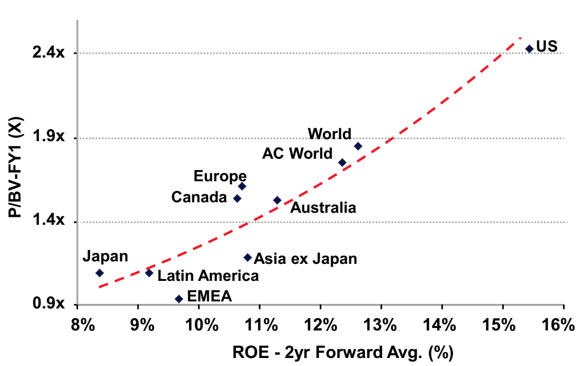


Emerging Markets Earnings Yield Ratio*

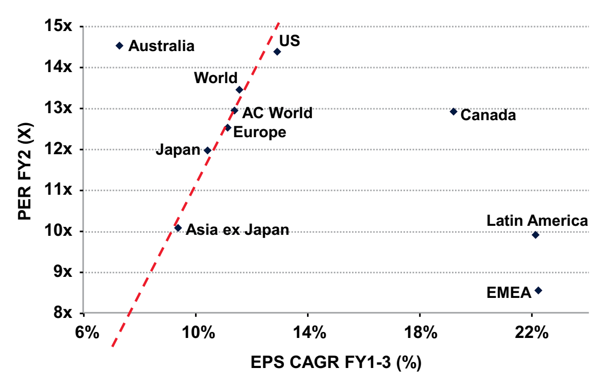


*Mean and SD are based on data from 1999.

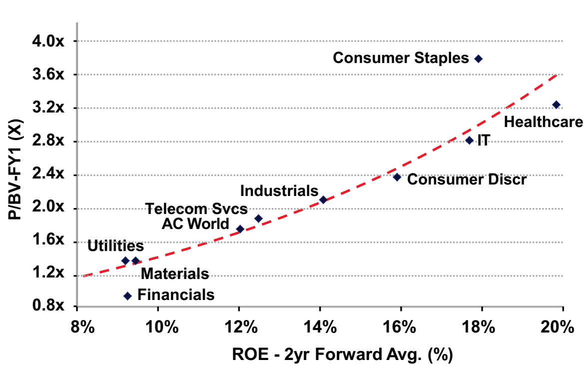
P/BV vs ROE by Region



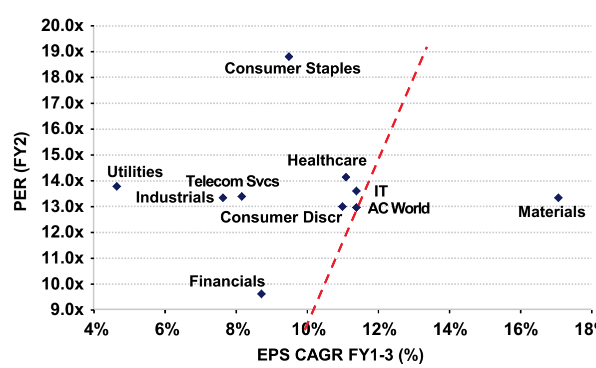
P/E vs Growth by Region



P/BV vs ROE by Sector



P/E vs Growth by Sector^



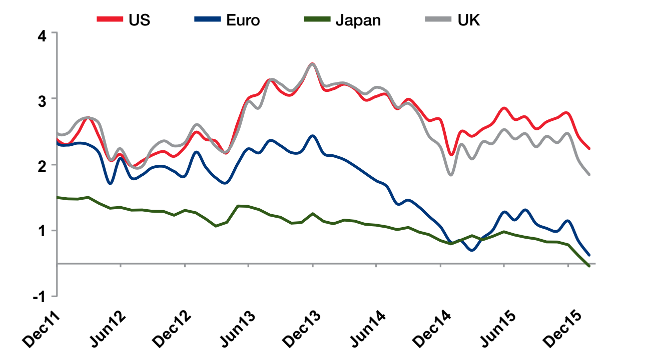
^Energy sector is not shown in the chart.

Note: All data are sourced from Bloomberg, Datastream and UOBAM unless otherwise stated, as at 1 March 2016.

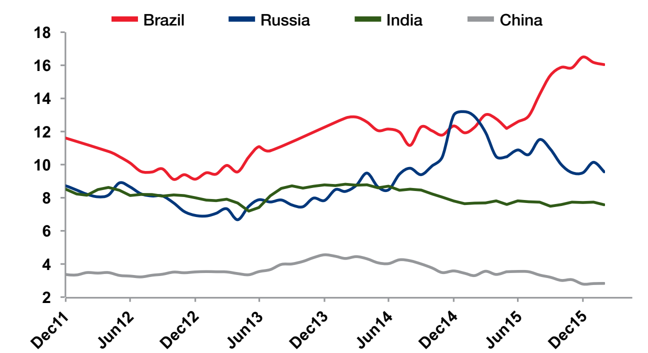
FIXED INCOME MARKET INDICATORS

SOVEREIGN

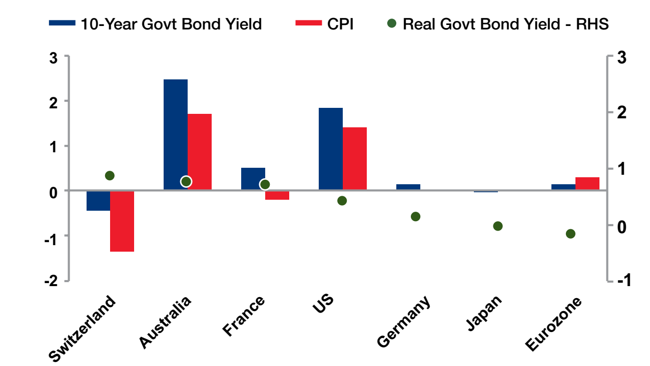
Developed Markets 10-Year Government Yield (%)



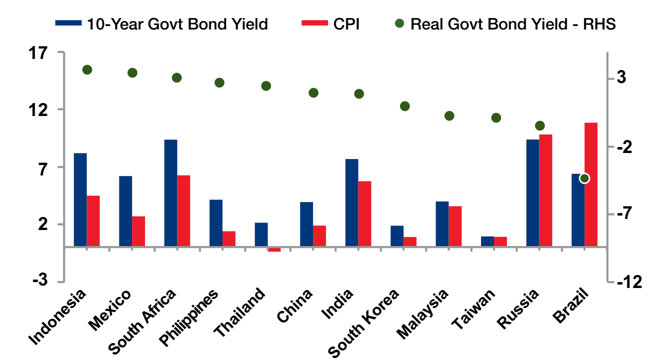
Emerging Markets 10-Year Government Yield (%)



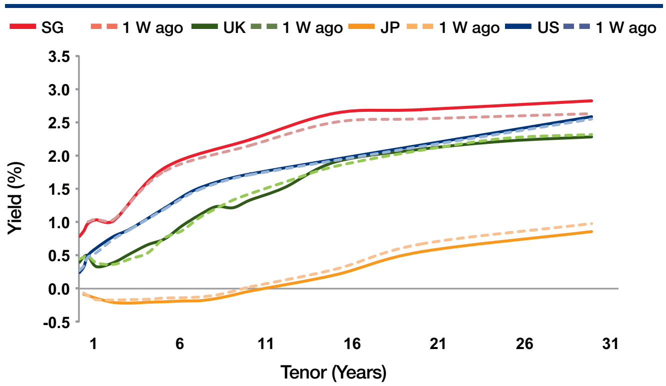
Developed Markets Real Government Yield (%)



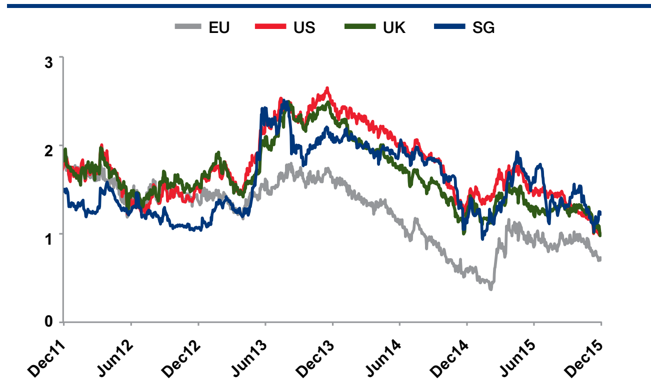
Emerging Markets Real Government Yield (%)



Nominal Yield Curve (%)



Yield Curve Steepness (10Y – 2Y) (%)

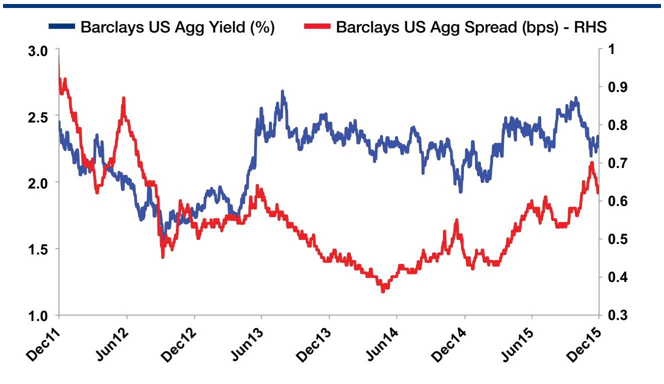


Note: All data are sourced from Bloomberg, Datastream and UOBAM unless otherwise stated, as at 1 March 2016.

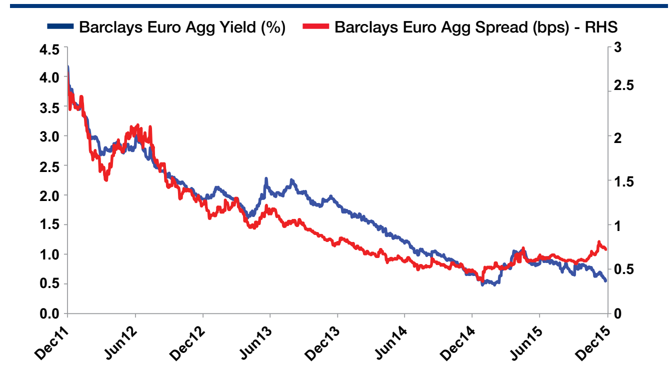
FIXED INCOME MARKET INDICATORS

CREDITS

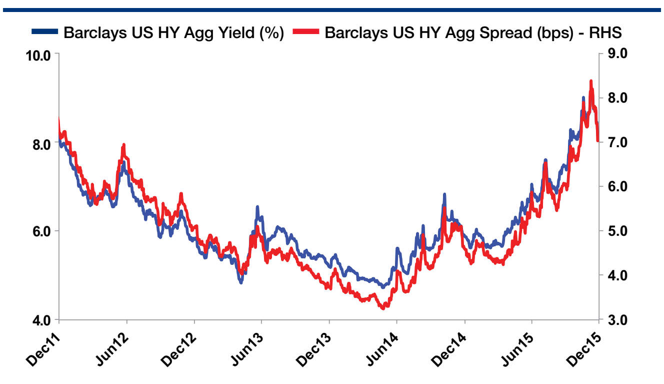
US Markets (USD) Yield and Credit Spread



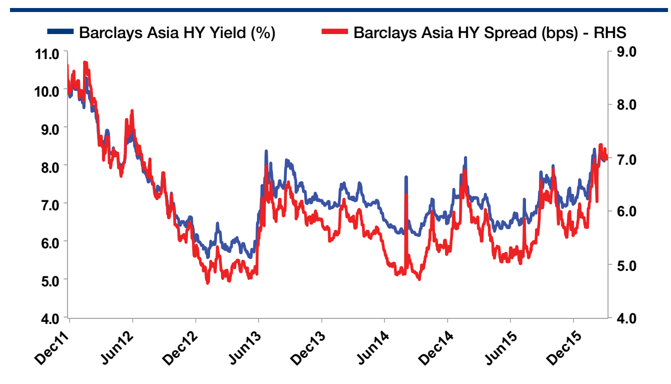
Euro Markets (USD) Yield and Credit Spread



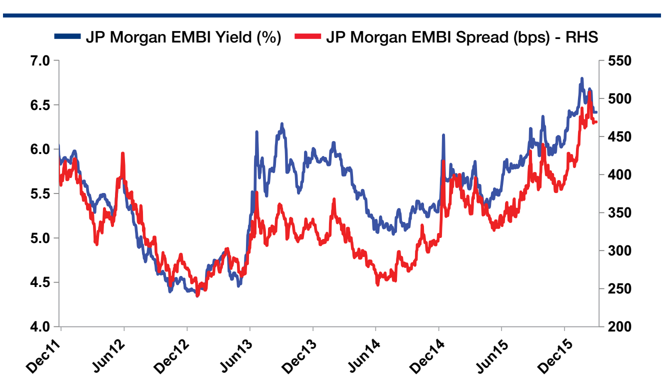
US Markets (USD) HY Yield and Credit Spread



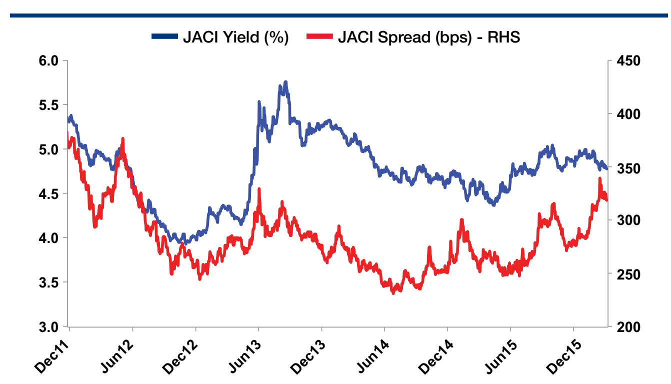
Asia Markets (USD) HY Yield and Credit Spread



Emerging Markets (USD) Yield and Credit Spread



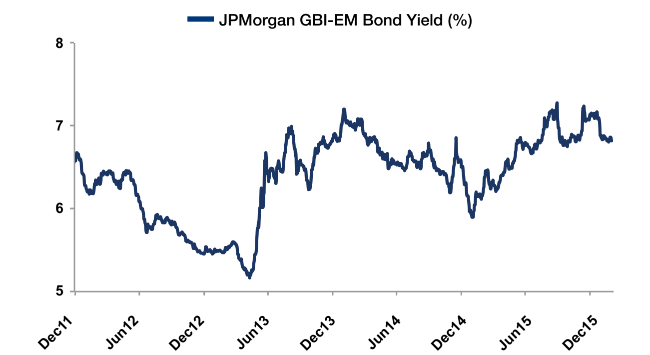
Asia Markets (USD) Yield and Credit Spread



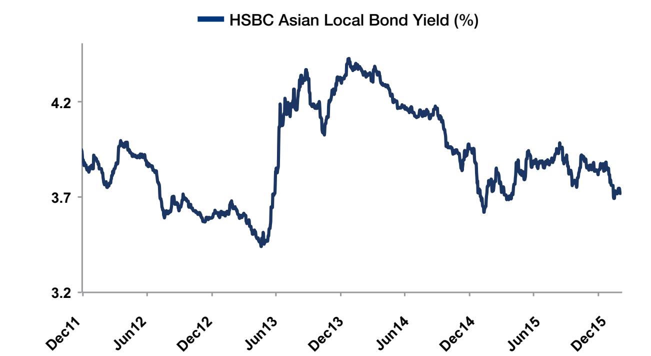
Note: All data are sourced from Bloomberg, Datastream and UOBAM unless otherwise stated, as at 1 March 2016.

CREDITS

Emerging Markets (Local Currency) Bond Yield

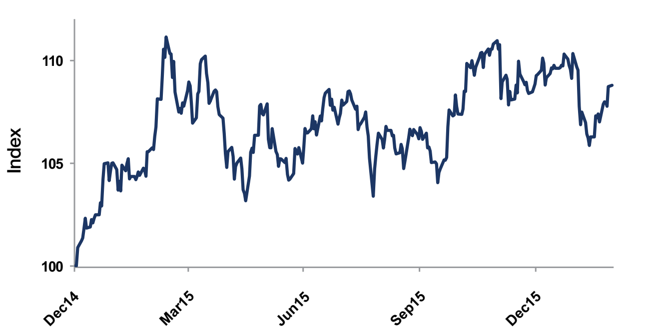


Asia (Local Currency) Bond Yield

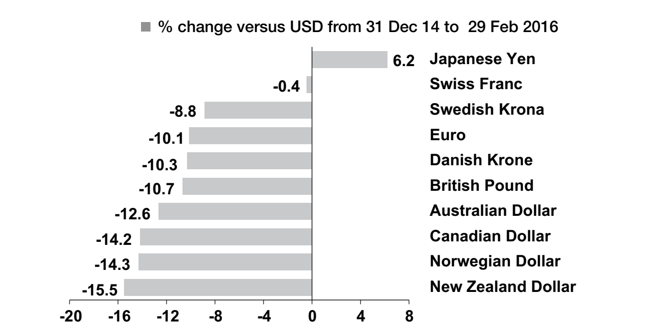


CURRENCIES

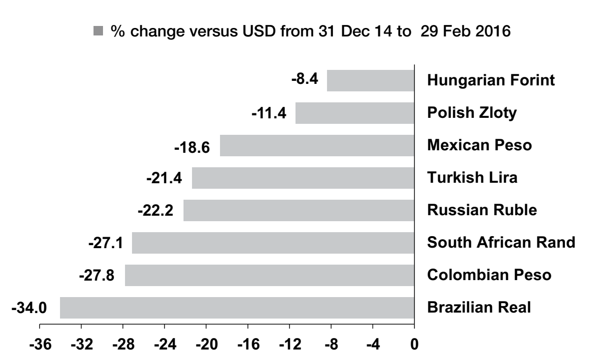
Dollar Index Spot (Rebased 100 on 31 December 2014)



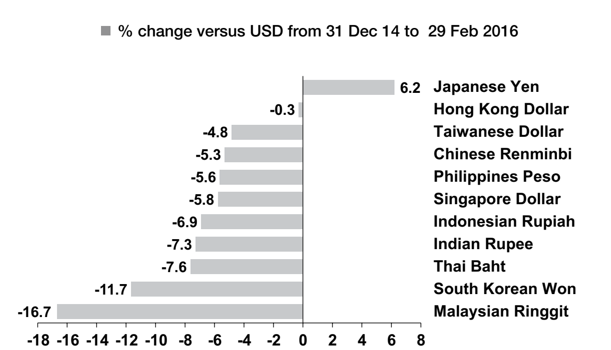
G-10 FX against US Dollar



Emerging Markets FX against US Dollar



Asia FX against US Dollar



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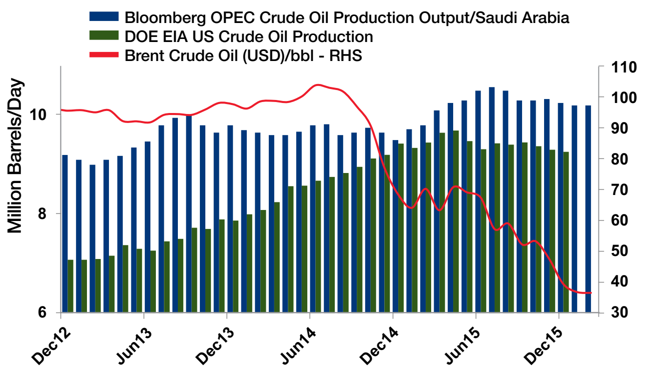
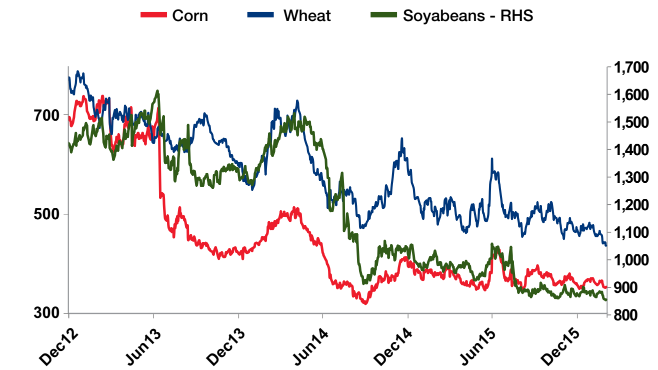
COMMODITY MARKET INDICATORS

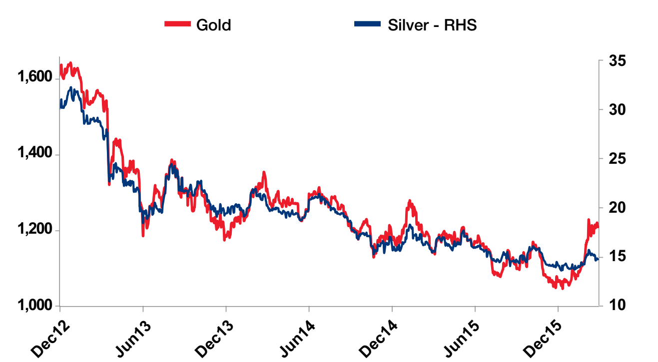
Brent Crude Oil Price and Production



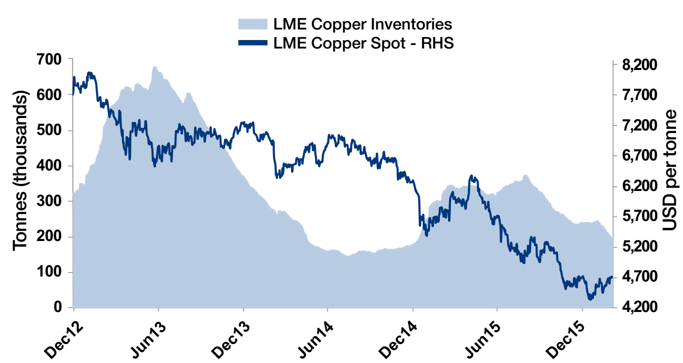
Agriculture Price (USD)



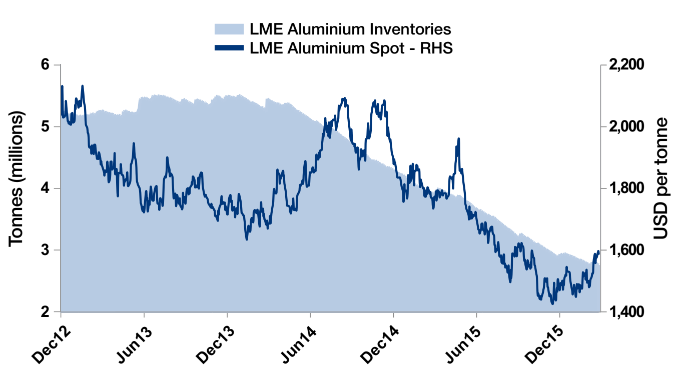
Precious Metal Price (USD)



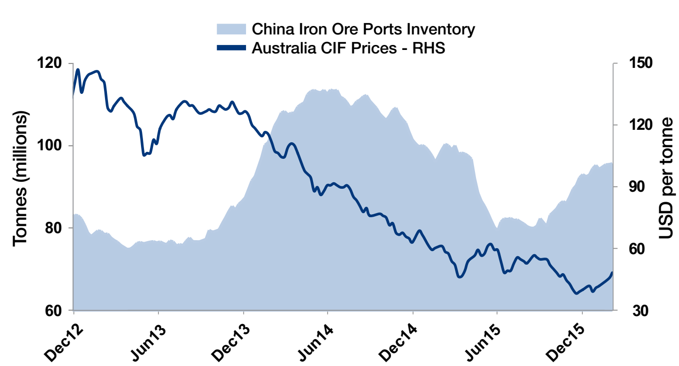
Copper Price (USD)



Aluminum Price (USD)



Iron Ore Price (USD)



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Important Notice & Disclaimer

The contents in this report were updated as at March 2016.

UOB Asset Management Ltd Co. Reg. No. 198600120Z