

Russia – Ukraine Situation

UOB Asset Management (Thailand) Company Limited (UOBAM)'s opinions on the Ukraine crisis are as follows:

UOBAM believes that investors will move their assets to lower risks assets (Risk Off Mode) and inflation is like to rise due to increase in the price of energy and consumer goods. If the NATO directly entered the conflict deploying military force and Russia retaliated by reducing the export of energy or if the economic sanction took effect, the currently high energy prices will surge further. However, if the NATO chose not to directly enter in the conflict, the conflict and fighting would be contained within the region. In the past, limited political conflicts between countries would result in temporary impact on the stock markets which would quickly recover.

The current situation, there are factors pressuring equities and high-risk assets such as the rise of inflation, tightening policies of Fed and the Russia-Ukraine conflict. Such factors usually affect investors' sentiment and induce high volatility in the market. However, from past experiences, the beginning of the tightening cycle would normally result in correction in the market and a bull market correction would be able to recover according to the slower rate of global economic growth

UOBAM recommends the following strategies for global investment

1. Increase cash holding, since the market is in the correction phase, increasing cash holding will reduce volatility and increase the chance of future investment.
2. Diversify your investments to different asset types such as debt instruments, equities, REITs and gold. Due to the increase of various risk factors, the market will be more volatile and certainty of return will be greatly reduced.
3. Avoid investing in high valuation stocks such technology stocks and growth stocks which are likely to be pressured when interest rates are rising.

4. Stocks that will be attractive once the market correction is over or volatility has normalized are cyclical stocks, stocks in countries or industries affected by COVID-19 will benefit from the recovery, stocks in the Asian region are more attractive than developed markets (like USA or Europe).
5. Debt instruments prices are expected to rise due to lower yields from the concern over war and this could be the time to adjust your investment portfolios.
6. Debt instruments are still subject to risks from inflation and higher prices of consumer goods, however, the war and inflation situation may improve and the economic growth which may slow down due to short-term interest rate rise in the latter half of the year could be a positive factor for the debt instruments.
7. UOBAM does not have any direct invest in equities or debt instruments in Russia or Ukraine.

Strategies for Investment in Onshore Debt Instruments

For onshore or local debt instruments that are not directly affected by and have no investment in issues related to Russian and Ukraine as well as Europe, they may have indirect impacts as follows:

1. Risk On/Risk Off: This risk may weaken the value of Baht in the short-term and foreign investors may rush to sell Thai debt instruments at the beginning, however, it is expected that foreign investors will return to invest in Baht and Thai bonds after the initial panic since Thailand and countries in the Asian region are not direct opponents in the conflict thus a safe market for investors.
2. Inflation: Inflation may continue to rise due to the rising oil prices, however, the Monetary Policy Committee of Thailand said that it will maintain the current level of interest rates in order to support the economic recovery rather than control inflation during this period until Thailand is able to fully open its tourism sector which is the most important sector for economic recovery after the COVID-19 situation.

3. Related Businesses: Other related businesses are not likely to be affected more than they have already been but the current situation may delay the opening of the country for tourism because the main groups of tourists are from European countries.

For the strategy for investment in offshore debt instruments, we are more cautious by having been preparing for liquidity for the Fund and focusing on investing in liquid assets. However, if the bond yield would rise, we may increase investment in the medium term bonds.

Strategies for Investment in Offshore Equities

There are a lot of concerns over Ukraine valuation and the risk from tightening policy of the Fed, therefore, we have increased caution for the portfolio since the beginning of the year by slightly reducing investment weight, moving from small stocks to large stocks and adjusting the portfolio towards a more value portfolio apparent by the reduced volatility rate of the portfolio.

After the incident, it was found that on average, Thai stocks have reduced by 1.6 – 2.8% but the average world indices have increased, For the 3-month period, the impact was negative 8.1%, when excluding the incident on the assassination of Iran's prominent general, it was found that the overall world indices were positive while the Thai market was negative due partly to domestic factors.

EVENT	DATE	1day return (%)				1month return (%)				3 month return (%)			
		MSCI World	MSCI DM	MSCI EM	SET	MSCI World	MSCI DM	MSCI EM	SET	MSCI World	MSCI DM	MSCI EM	SET
Assassination of Iran's Major General	3-Jan-20	0.1%	-0.1%	-1.0%	-1.7%	-0.5%	0.3%	-3.4%	-4.7%	-23.7%	-23.9%	-25.4%	-28.6%
Abqaiq-Khuras attack (Aramco)	14-Sep-19	-0.1%	-0.2%	-1.2%	-2.4%	-0.9%	-0.9%	-0.9%	-2.2%	5.6%	5.7%	5.8%	-5.4%
North Korea Crisis (missile test)	28-Jul-17	0.0%	0.1%	0.3%	0.0%	-0.7%	-0.4%	2.1%	0.6%	3.3%	3.4%	4.3%	8.9%
Shayrat missile strike in Syria	7-Apr-17	0.1%	0.0%	-0.4%	-0.1%	2.8%	2.8%	2.4%	-1.0%	3.4%	3.6%	4.6%	-0.9%
Crimean crisis	20-Feb-14	0.2%	0.3%	0.9%	0.0%	-0.6%	-0.5%	0.3%	3.5%	1.8%	2.5%	8.5%	7.6%
Boston Marathon Bombing	15-Apr-13	0.5%	0.5%	0.6%	0.5%	5.6%	5.4%	4.3%	7.1%	4.9%	3.7%	-5.1%	-4.3%
London Bombings	5-Jul-05	-0.2%	-0.1%	0.4%	-0.5%	4.0%	4.4%	9.9%	3.2%	6.0%	6.6%	17.5%	8.1%
Madrid Train Bombing	11-Mar-04	0.5%	0.4%	-0.5%	-1.8%	3.7%	3.8%	5.9%	-0.9%	1.4%	0.9%	-8.3%	-13.6%
USA 9/11 Attack	11-Sep-01	-0.5%	-0.6%	-2.6%	-6.7%	1.6%	1.3%	-5.0%	-13.3%	4.5%	4.9%	12.8%	-10.7%
Iraq's Invasion of Kuwait	2-Aug-90	-1.5%	-1.5%	-1.4%	-2.8%	-8.1%	-8.2%	-13.1%	-20.2%	-9.7%	-9.8%	-26.3%	-42.5%
AVERAGE -all		-0.1%	-0.1%	-0.5%	-1.6%	0.7%	0.8%	0.2%	-2.8%	-0.2%	-0.2%	-1.2%	-8.1%
Average ex Assassination of Iran & Iraq's invasion		0.1%	0.1%	-0.3%	-1.4%	1.9%	2.0%	2.4%	-0.4%	3.9%	3.9%	5.0%	-1.3%

Source: TNS

For investment ratio, the Fund may have some OW in upstream energy stocks but focuses on risk mitigation which it has UW stocks related to natural gas and oil prices by focusing on UW stocks in gas stations and electricity generation groups that have been affected by the cost of gas.

Investments involve risk, investors should study and understand the characteristics of the Fund, investment policy, conditions for returns, risks and performance of the Fund before making decisions to invest.

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