CIMB preferred

17 July 2024 | **Equities**

U.S. Equities: Is it time to rotate from tech?

US equities had an impressive run with the S&P 500 (SPX) rallying 18.1% YTD whilst the Nasdaq rallied 23.1% YTD. Meanwhile, the equal-weighted S&P 500 (SPW) underperformed, returning 6.8%. To give sense, the top 10 stocks on SPX has a 35% weighting on the index and on average generated a return of 17.1% whilst the rest of the SPX companies (65% weighting) had an average return of just 5%.

Some key reasons we think investors should look to rotate into other corners of the market, beyond the technology stocks:

- **Fundamentals**: Positive EPS growth momentum for both FY24/FY25 at 8.7%/14.2% respectively. Stripping out the tech sector's growth, EPS growth stands 5.1% in FY24 but shows marked improvement in FY25 at 13.6%, implying improving earnings breadth.

- **Technicals**: Both SPX and Nasdaq are trading in the overbought territory based on the 14-day RSI. The VIX remains at a low, indicating risk complacency.

- **Valuations**: SPX is stretched at 23.1x FY24F PER vs 10 year mean PER of 19x. Meanwhile, the SPW is undervalued at 17.9x FY24 PER, below its 10-year mean PER of 18.7x.

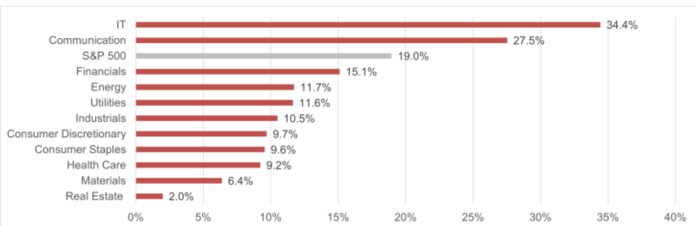
Top Questions on Clients' Minds

1. Is the concentration risk on tech/AI-related stocks heightened?

We would be risk aware given the momentum crowding, extreme concentration and heightened earnings expectations in the technology sector. **We believe share price upside in mega cap technology stocks could be capped in the near term; further positive price momentum will largely depend on further upward revision in corporate earnings.**

The insatiable demand for AI-related stocks has expanded market valuations given earnings growth expectations, improved earnings quality and solid fundamentals (healthier cash flows, better balance sheet). The S&P 500 IT sector, which has a 33% weight on the SPX, has done superbly well, +34.4% YTD. Its valuations soared to 35x FY24F PER from 2022's 20x PER on the back of the expectations of earnings recovery of the semiconductor downcycle coupled with early demand pull-in for AI chips (Net income growth in FY24 is 22% vs 2022's -0.7%). Into 2025, earnings growth is expected to moderate slightly to 19%.

Figure 1: SPX returns skewed by heavyweight IT & Communications sectors

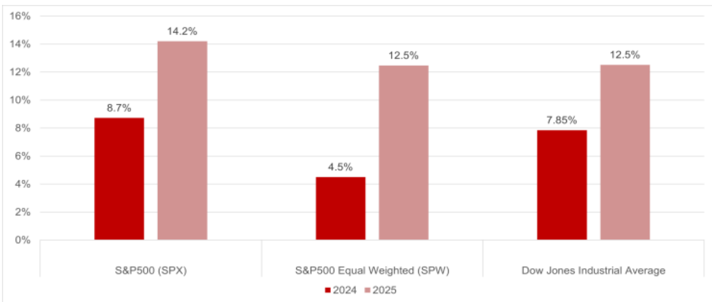


Source: Bloomberg

Figure 2: Widening divergence in valuations between SPX/SPW

Source: Bloomberg

Figure 3: Healthy EPS growth across indices



Source: Bloomberg

Figure 4: SPW/DJIA looks inexpensive relative to SPX

Source: Bloomberg

2. How should clients be positioned ahead of an eventual Fed rate cut?

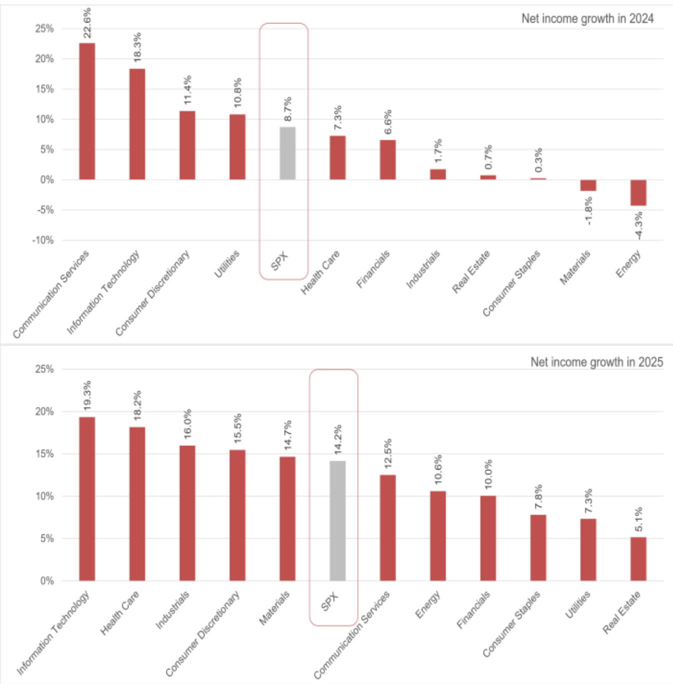
The anticipation of a Fed policy rate decision together with economic data has been a major market driver for a good part of this year. With the recent cooler-than-expected CPI print, the case of Fed easing monetary policy come September 2024 is growing stronger.

The optimism over **lower interest rates could induce the equity rally to broaden as investors shift into other corners of the market**. This is an **opportune time to have a more defensive positioning in the U.S.**

2. What are market implications of a Trump win?

If history is of any guide, equities would generally have a good run up ahead of elections and a Trump win is seen to be a market positive. However, we think **ultimate focus will be on economic conditions/data and monetary policy**. *More is discussed in our "U.S. Election Outcomes - Scenario Analysis" published on 11 July 2024.*

Figure 5: FY24 earnings growth anchored largely by IT & Communications; FY25 earnings growth broadens out



Source: Bloomberg, CIMB CIO Office

Key Investment Ideas

Equities

1. **Rotate to rate cut beneficiaries**. Consumer (staples, automotive, retailers), telecommunications and utilities. Real estate sector (increase in real estate transactions with lower mortage rates) would also benefit. Value stocks/small caps could be a good bet.
2. **Trump trade plays** include stocks within the oil & gas, defense, financials, healthcare and infrastructure sectors.
3. For prudence, **tactically lock in outsized gains in tech stocks** given exuberant optimism.

Structures

1. 100% Principal-Guaranteed Sharkfin FRNID (report dated 14 June 2024) - moderately bearish Sharkfin FRNID on SOXX and XLK
2. Sharkfin FRNID & Autocallable ELI on Disney

Funds

For clients who are more risk averse with a preference for a steady stream of income in a resilient portfolio:

AHAM World Series Global Income Fund

Given outperformance, clients can choose to tactically lock in gains in the funds below:

1. TA Global Technology Fund
2. Principal Global Technology Fund
3. Principal Islamic Global Technology Fund

CIMB *preferred*

Disclaimer

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB Bank Berhad and CIMB Investment Bank Berhad (collectively, "**CIMB Bank**").

CIMB Bank, its affiliates and related companies (collectively, "**CIMB Group**") and their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB Group may do and may seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB Bank prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

i. As of 17 July 2024, CIMB Investment Bank Berhad has a proprietary position in the following securities in this report:
AT&T, PepsiCo, Visa, Walt Disney

ii. As of 17 July 2024, the analyst, Moey Su-En, does not have an interest in the securities in the company or companies covered or recommended in this report.

This report has been produced for information purposes with the information contained in this report, believed to be correct at the time of issue and does not purport to contain all the information that a prospective investor may require. CIMB Group makes no express or implied warranty as to the accuracy or completeness of any such information and opinion contained in this report. Nothing in this report is intended to be, or should be construed as an invitation by any company within CIMB Group to buy or sell, or as an invitation to subscribe for, any securities. The price and value of any investments and indicative incomes herein contained may fluctuate either positively or negatively. All references to past performances is not a guide to any future performance. It should be noted that investments in emerging markets are subject to increased levels of volatility than more established markets. Some of the reasons for this volatility relates to the respective economy, political climate, credit worthiness, currency and general market within that country. When investing in investments denominated in a foreign currency these transactions are also subject to fluctuation in exchange rates.

The information in this report is subject to change without notice by CIMB Bank. Neither CIMB Bank nor any of its affiliates or related companies, advisers or representatives are obliged to update any such information subsequent to the date hereof. Because it is not possible for CIMB Bank to have regard to the investment objectives, financial situation and particular needs of each person who reads this report, the information contained in it may not be appropriate for all persons. CIMB Bank is not acting as an advisor or agent to any person to whom this report is directed in respect of its contents. You, the recipient of this report must make your own independent assessment of the contents of this document, and should not treat such content as advice relating to legal, accounting, taxation, technical or investment matters. Please contact your Private Banker, Relationship Manager or walk into your nearest CIMB Branch to discuss any information contained within or prior to acting in reliance of any information contained within this report.

Neither CIMB Group nor any of their directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) whether pecuniary or not from any statement, opinion, information or matter (express or implied) arising out of, contained in or derived from or any omission from the report, except liability under statute that cannot be excluded.