

# Mid Q3 2024 Outlook

## Policies, Markets and Politics in Transition - What's Next?

Chief Investment Office, CIMB

09 August 2024

MOVING FORWARD WITH YOU

Proprietary to CIMB



# Market performance summary

EQUITY	Currency	1M	3M	YTD-9 AUG	FY23	FY22	FY21	FY20
MSCI AC WORLD	USD	-3.7%	1.5%	8.3%	20.1%	-19.8%	16.8%	14.3%
S&P 500 INDEX	USD	-4.0%	3.2%	12.0%	24.2%	-19.4%	26.9%	16.3%
NASDAQ COMPOSITE	USD	-8.8%	2.4%	11.6%	43.4%	-33.1%	21.4%	43.6%
STOXX 600 EUROPE	EUR	-3.4%	-1.8%	4.2%	12.7%	-12.9%	22.2%	-4.0%
JAPAN TOPIX INDEX	JPY	-13.9%	-9.6%	4.9%	25.1%	-5.1%	10.4%	4.8%
MSCI ASIA PACIFIC	USD	-4.9%	-1.3%	3.6%	8.8%	-19.4%	-3.4%	17.1%
MSCI ASIA PAC EX-JAPAN	USD	-4.1%	0.3%	4.6%	4.6%	-19.7%	-4.9%	19.8%
HANG SENG INDEX	HKD	-4.0%	-8.0%	0.3%	-13.8%	-15.5%	-14.1%	-3.4%
BLOOMBERG ASEAN INDEX	USD	0.8%	2.3%	1.5%	0.2%	-2.9%	0.2%	-9.2%
STRAITS TIMES INDEX	SGD	-4.4%	-1.3%	0.7%	-0.3%	4.1%	9.8%	-11.8%
FTSE BURSA MALAYSIA KLCI	MYR	-0.9%	-0.1%	9.7%	-2.7%	-4.6%	-3.7%	2.4%
THAI SET	THB	-1.1%	-5.8%	-8.4%	-15.2%	0.7%	14.4%	-8.3%
JAKARTA COMPOSITE INDEX	IDR	0.0%	1.7%	-0.2%	6.2%	4.1%	10.1%	-5.1%
MSCI EMERGING MARKETS	USD	-3.8%	-0.3%	3.9%	7.0%	-22.4%	-4.6%	15.8%
<b>FIXED INCOME</b>								
GLOBAL AGGREGATE BOND	USD	3.3%	4.1%	0.7%	5.7%	-16.2%	-4.7%	9.2%
JPM ASIA CREDIT INDEX	USD	1.7%	3.7%	4.8%	9.9%	-13.0%	-0.2%	5.9%
ASIA DOLLAR INDEX	USD	1.4%	0.7%	-1.8%	-1.5%	-6.9%	-1.1%	4.4%
MALAYSIA CORP BOND INDEX	USD	1.1%	2.8%	4.0%	13.0%	-12.1%	1.2%	6.3%
<b>COMMODITY</b>								
BRENT CRUDE OIL	USD	-8.0%	-4.4%	3.4%	-10.3%	10.5%	50.2%	-21.5%
GOLD	USD	1.6%	4.6%	17.9%	13.1%	-0.3%	-3.6%	25.1%
COPPER	USD	-14.2%	-13.7%	1.3%	4.0%	-12.1%	22.2%	22.6%

Source: Bloomberg, CIMB Chief Investment Office

As at 9 August 2024

# Macro Views and Assumptions



# Key Messages for the Quarter

**01**

US growth risks are rising - the FED will have to accelerate rate cuts

**02**

Reduce US equities; Bonds likely to out-perform

**03**

FX volatility has risen - JPY carry trade unwinding likely to continue

**04**

Geo-political risks have risen – Buy Gold

## BONDS

- Fed hints rate cut in Sept
- Barbell investment strategy: Buy short-duration HY for higher return and long-duration IG to benefit from rate cuts
- Buy USD, AUD, GBP: cheap currency and rate cut beneficiaries

## EQUITIES

- Underweight US equities - caution on US technology
- Tilt to defensives - Buy ASEAN = Malaysia + Singapore
- China – range-bound until policy or data improves

## CURRENCIES

- USD decline has begun- in line with Fed easing expectations
- Trade the range using GDCI for yield generation
- Buy Gold on dips between 2350 - 2390

*Note: HY - High Yield bonds rated below BBB-/Baa3 and unrated bonds.  
IG - Investment grade bonds rated at least BBB-/Baa3.*

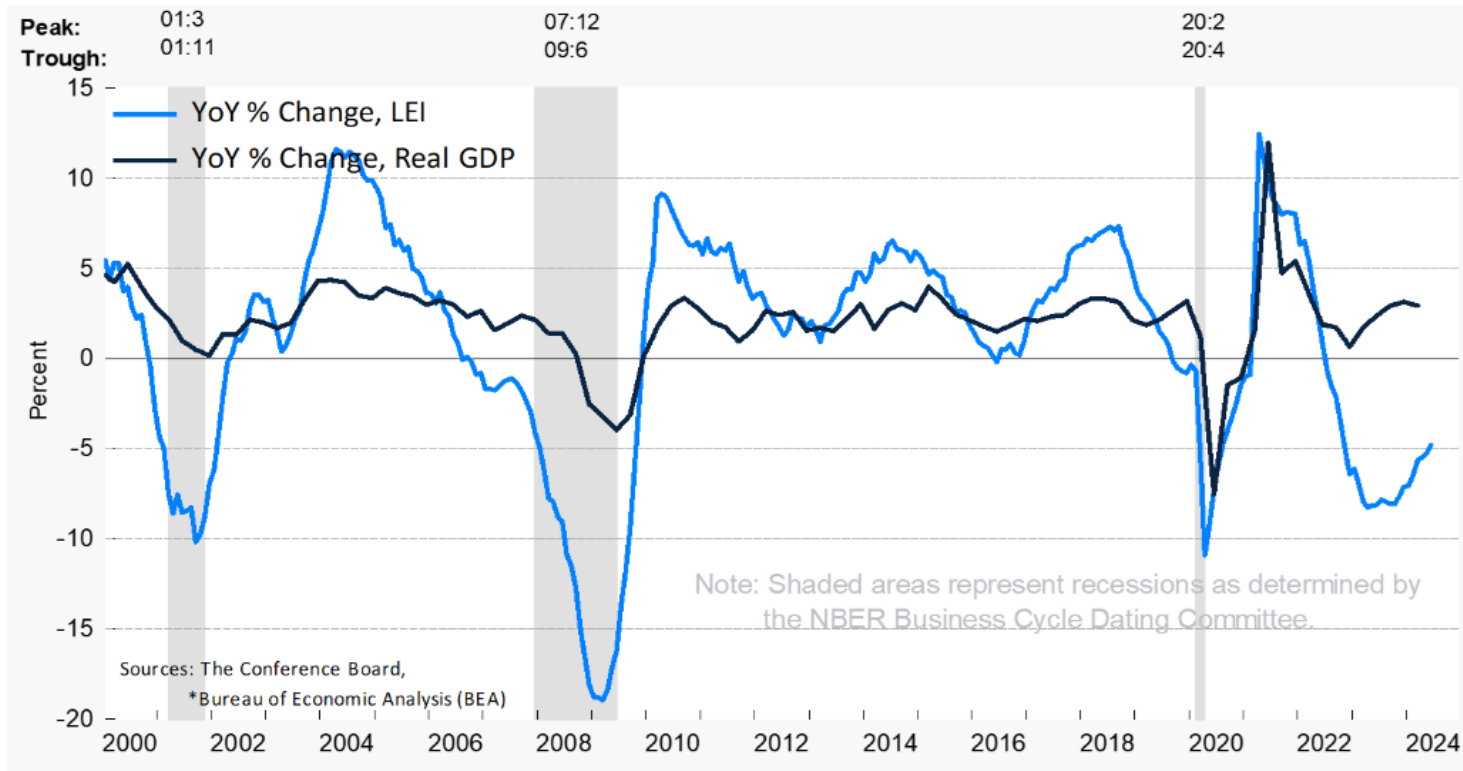
*Note: Dual Currency Investment (DCI), Gold DCI (GDCI), Currencies (FX)*

# Macro and Market Outlook



# Policies in Transition - Is US recession coming ?

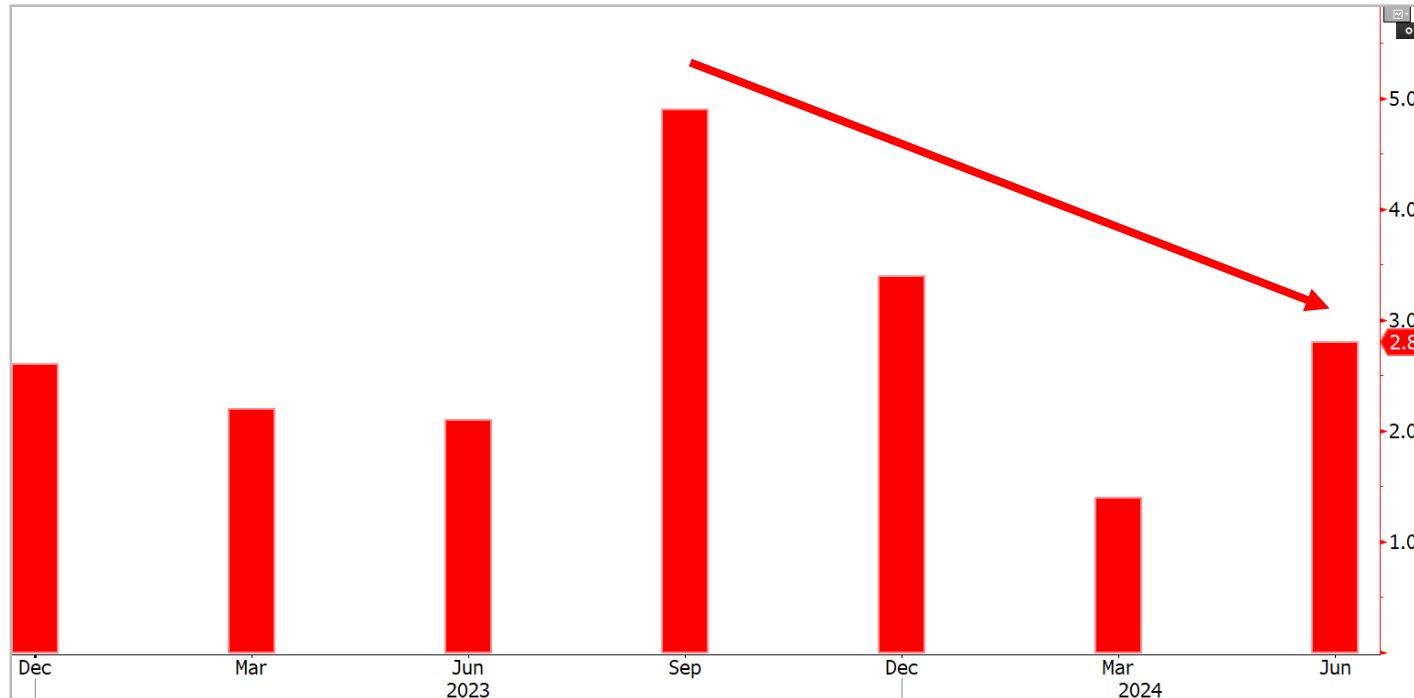
## US leading economic indicator (LEI) in June still contracting



- In June, the LEI fell slightly  $-0.2\%$ , due to gloomy consumer expectations, weak new orders, negative interest rate spread, and higher initial jobless claims.
- This indicates GDP growth will continue to slowdown; albeit at a slower pace.
- Market sentiment vulnerable to recession fear; mainly driven by signals from LEI, inverted UST yield curve and Sahm rule.

# Policies in Transition - Why is the Fed Finally Pivoting ?

## Real GDP has Peaked Since 3Q23

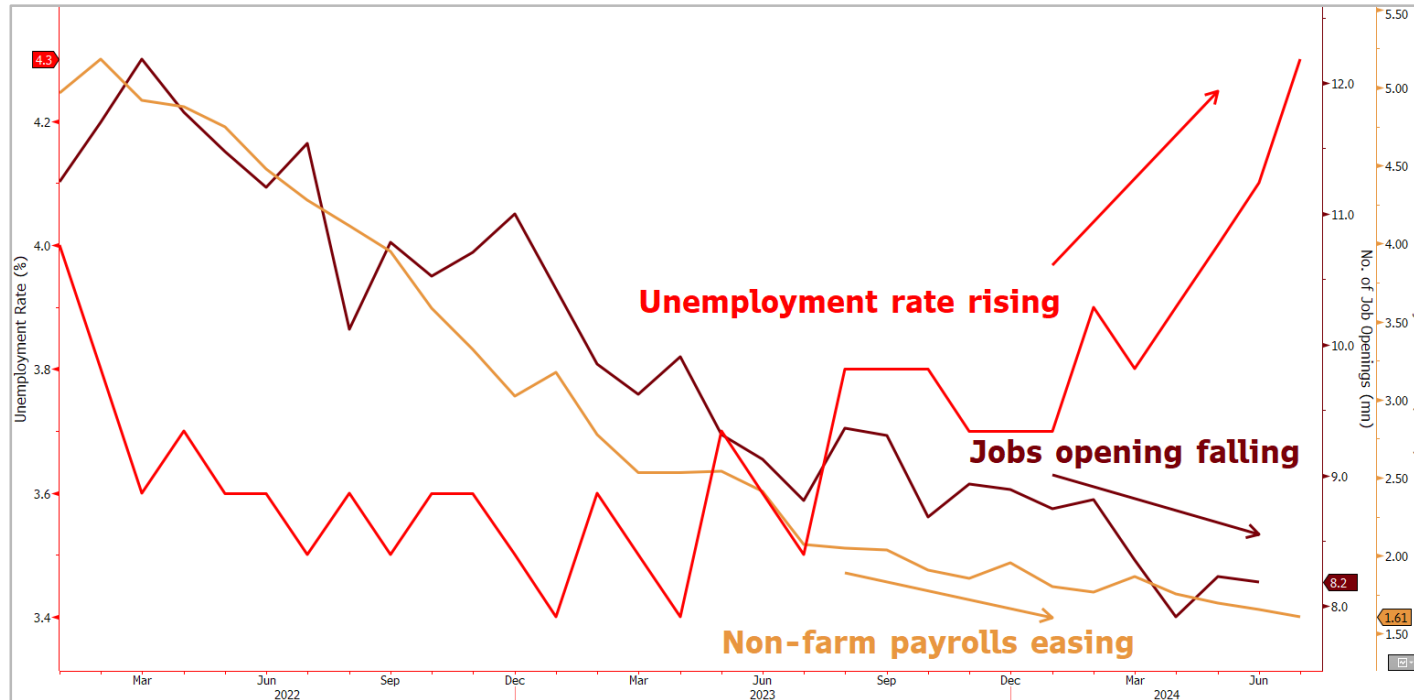


Source: Bloomberg, US Bureau of Economic Analysis, CIMB Chief Investment Office

- In Q2, US real GDP rose by 2.8% qoq annualized, leading to a 2.1% annualized growth rate in 1H2024, matching the Fed's 2024 estimate.
- Despite this, economic challenges are mounting. Consumer spending grew by 2.3% compared to 1.5% in Q1 but remains below the average 3% rate of 2H2023.
- It is expected to slow further in 2H2024 due to weakening real disposable income, dwindling pandemic-era savings, and rising loan delinquencies driven by high borrowing costs.

# Policies in Transition - Why is the Fed Finally Pivoting ?

## Clearer Signs of US Labour Market Weakness



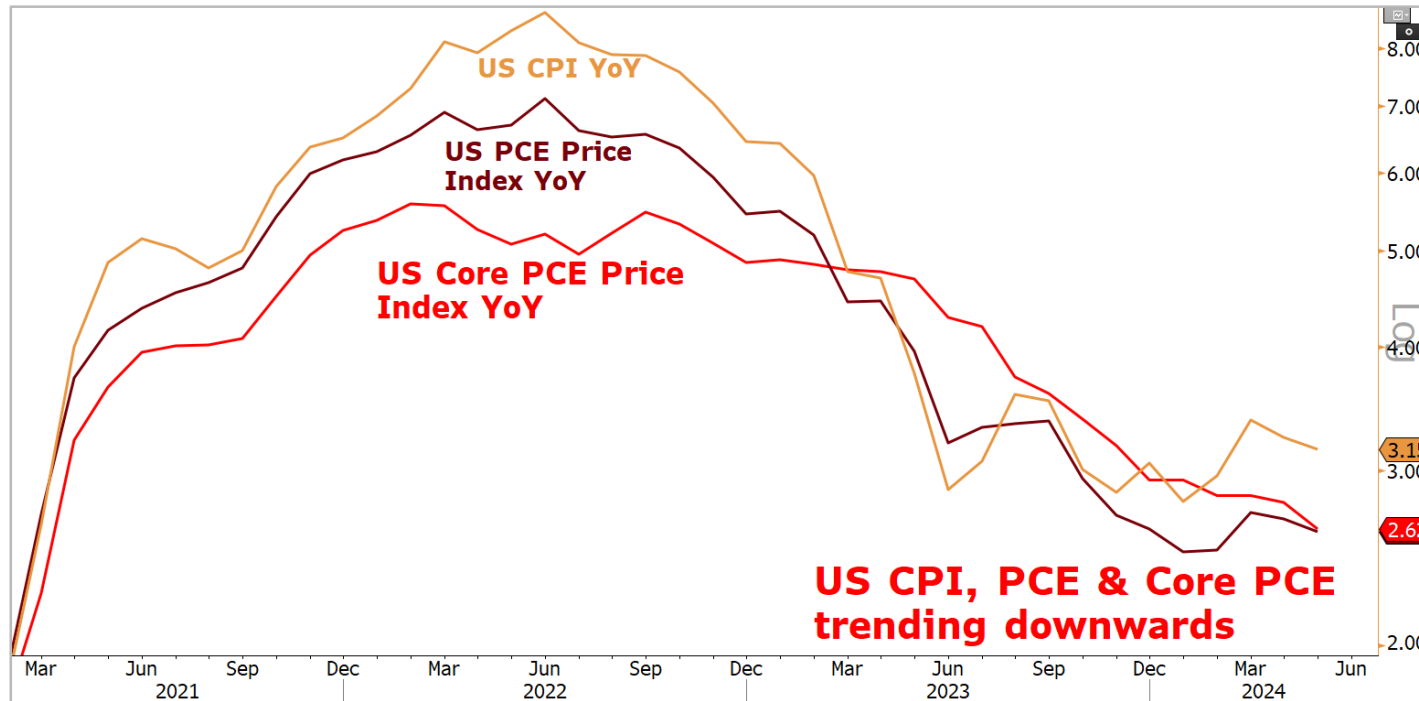
Source: Bloomberg, CIMB Chief Investment Office

- US companies are hiring fewer workers, with job openings near a 3-year low at 8.18 million.
- Nonfarm job creation has significantly slowed compared to the 12-month average.
- The July unemployment rate increased to 4.3%, the highest since late 2021, signaling a notable slowdown in the job market.



# Policies in Transition - Why is the Fed Finally Pivoting ?

## US Inflation is Getting Nearer to Fed's Target of 2%

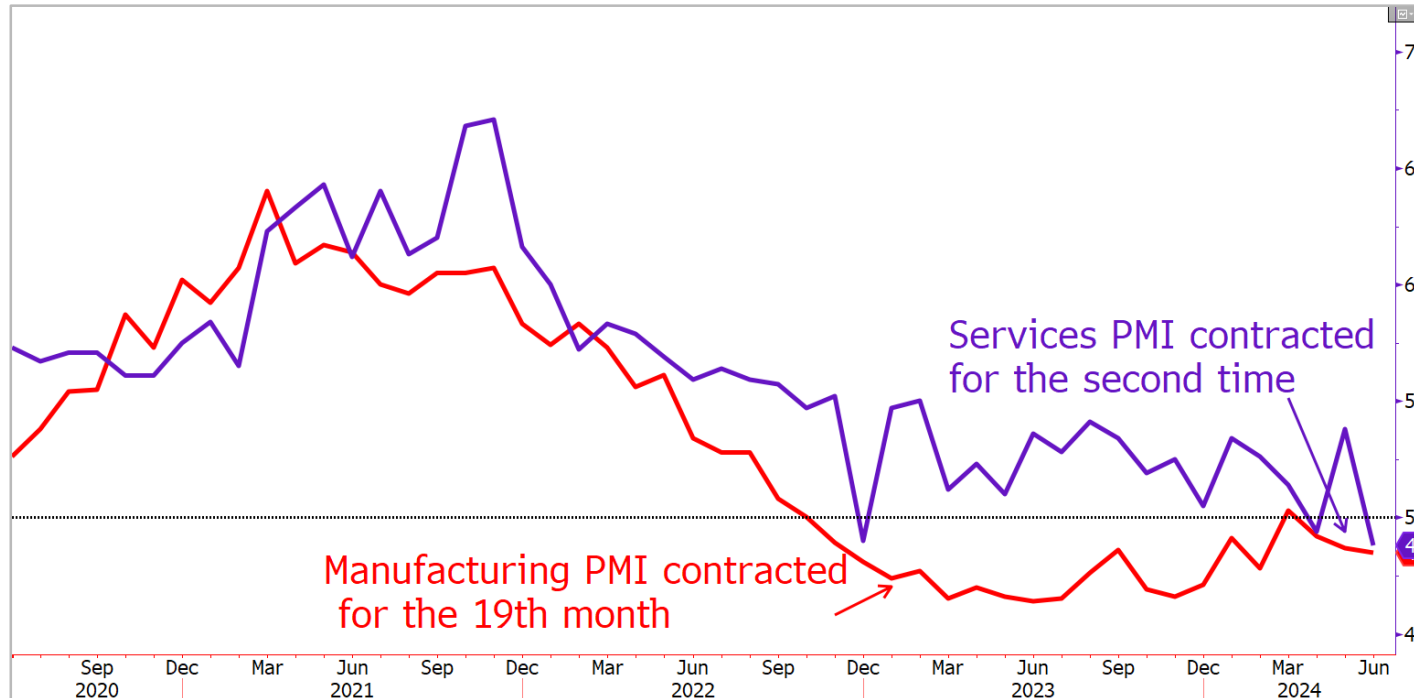


Source: Bloomberg, CIMB Chief Investment Office

- Inflation is steadily progressing towards the Fed's 2% target. The US core PCE index decreased to 2.6% yoy in May 2024 and remained unchanged in June 2024, down from a peak of 5.58% in February 2022.
- Rent and service inflation, significant obstacles to disinflation, decelerated more rapidly in May and June 2024. These components account for 65% of the PCE index and 32% of the CPI, respectively.

# Policies in Transition - Why is the Fed Finally Pivoting ?

## US Manufacturing and Service Sectors Contracted in June

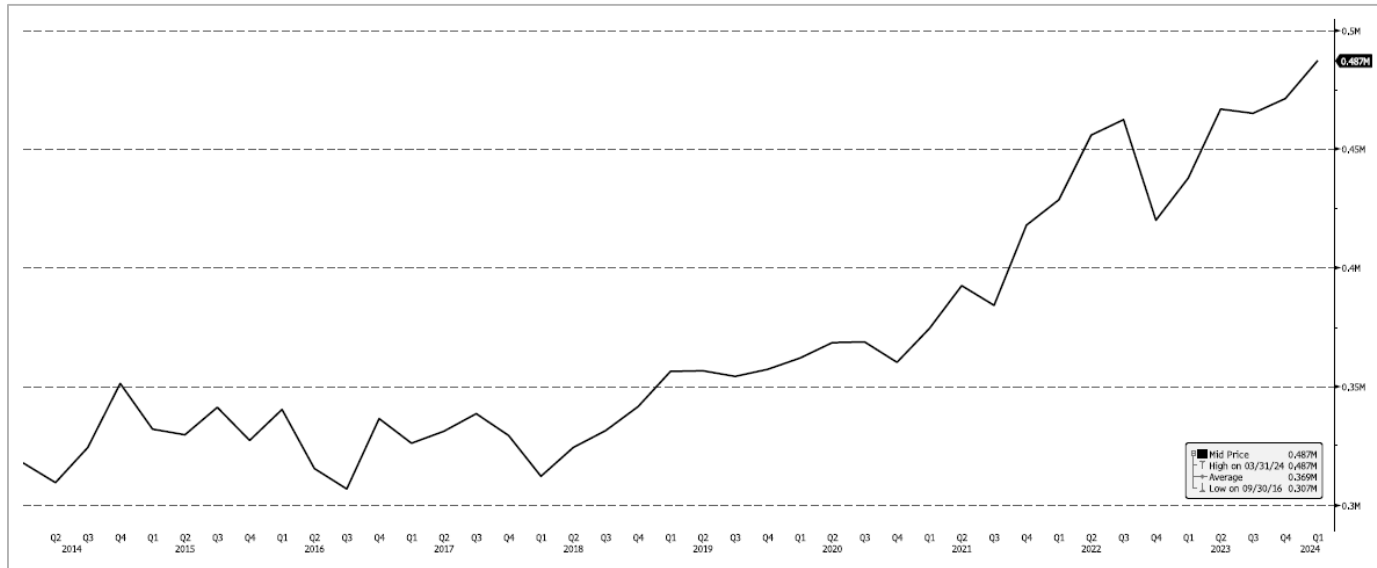


Source: Institute for Supply Management, Bloomberg, CIMB Chief Investment Office

- In June, the US manufacturing sector experienced its third consecutive month of contraction, marking the 19th decline in the past 20 months.
- Similarly, the US services sector contracted for the second time in the last three months.

# Policies in Transition - The Unwinding of Global Carry Trades

Net international investment of Japanese investors: JPY487tr as of 1Q24

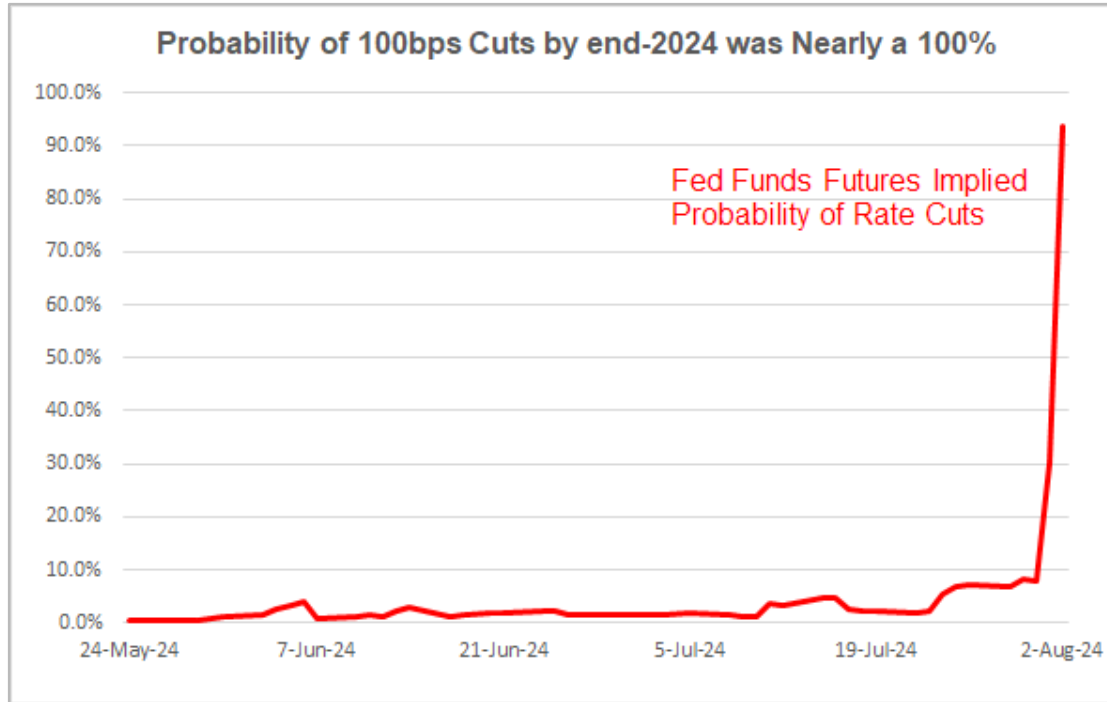


Source: Bloomberg, CIMB Chief Investment Office

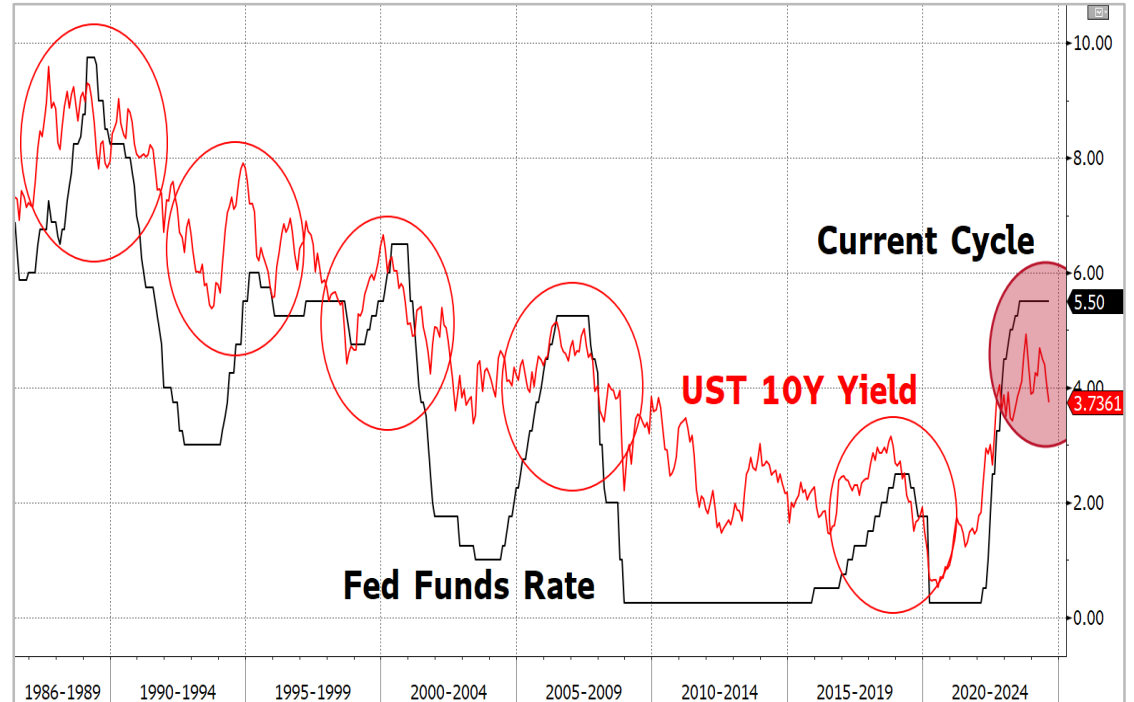
- ▶ The Bank of Japan's decision to raise interest rates is prompting an unwinding of yen-funded carry trades.
- ▶ Japanese investors' net international investment amounted to JPY487tr (USD3.4tr) as of 1Q24, a 17% increase from three years ago.
- ▶ Will these investors sell their foreign assets and repatriate back into the yen as the BOJ continues to raise rates?

# Markets in Transition - Fixed Income

Historically, peak US policy rates have been associated with significant declines in bond yields.



Source: CME Fedwatch, CIMB Chief Investment Office



Source: Bloomberg, CIMB Chief Investment Office

# Markets in Transition - Fixed Income

US bond market volatility has started to decline.



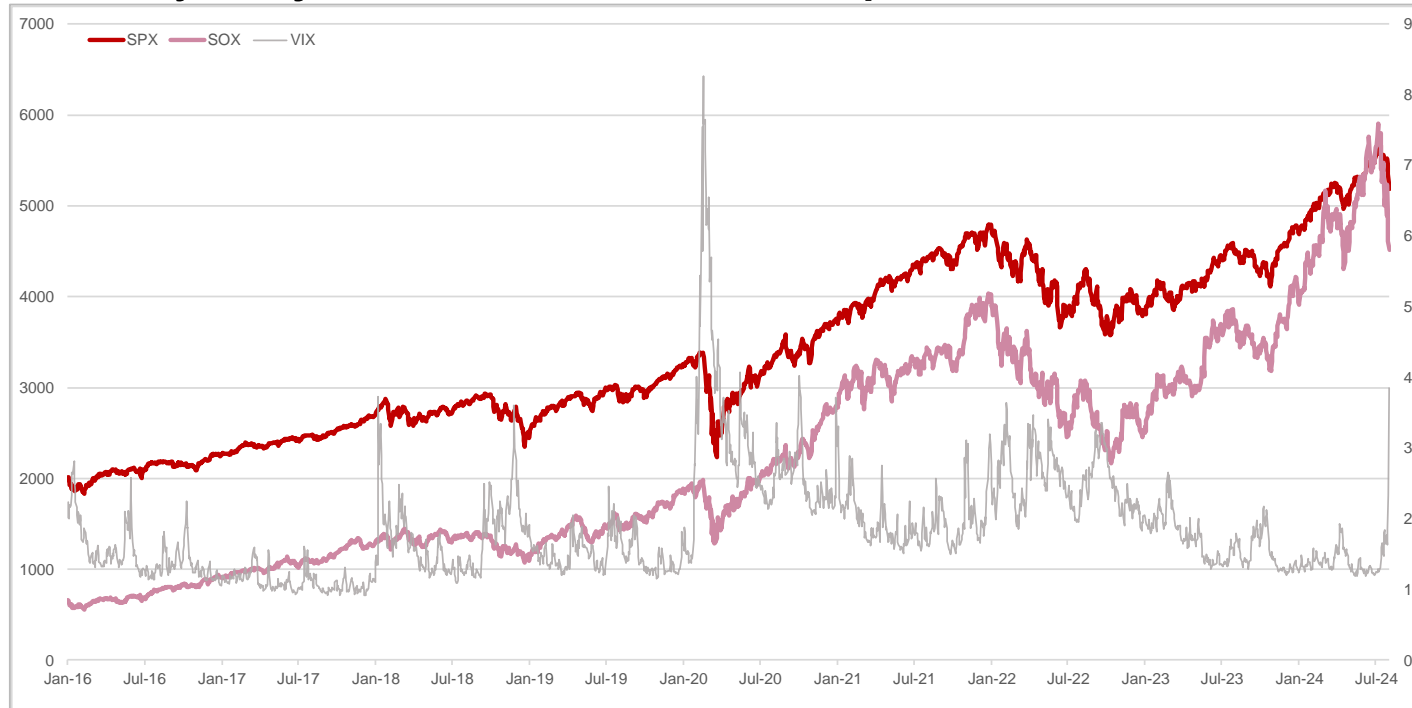
Source: ICE BofA, Bloomberg, CIMB Chief Investment Office

Note: The MOVE index measures US bond market volatility by tracking a basket of OTC options on US interest rate swaps.

- US bond market volatility, though still high by historical standards, has decreased over recent months.
- This aligns with expectations that the Fed may start the next easing cycle at the September FOMC meeting, greatly favouring passive fixed income investors.

# Markets in Transition - Equities

## Volatility has just started to rise in US equities



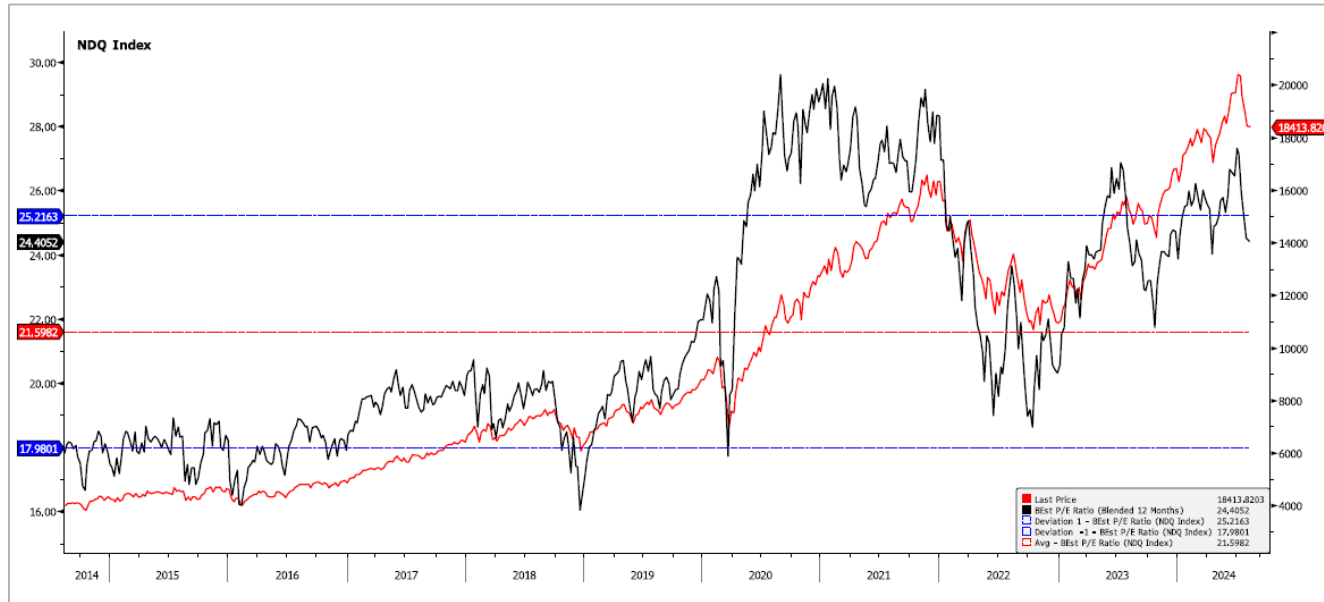
Source: Bloomberg

- The VIX Index indicates a spike in the expected volatility of the US stock market
- The S&P500 (SPX) has corrected to mean valuations but the Semiconductor index (SOX) remains at +1 std. dev. above mean

# Markets in Transition - Equities

## US: Tech sell-off, what's next?

Nasdaq remains above historical mean



Source: Bloomberg, CIMB Chief Investment Office  
As at 5 August 2024

- Underweight US equities on rising growth risks
- The recent selloff in US technology sector has removed some froth, but valuations are still at or above historical averages
- Prefer defensives and rate cut beneficiaries – Consumer, Utilities and Real Estate sectors

# Markets in Transition - Equities

## China: Has the Dragon lost its lustre?

Valuations are close to trough levels



Source: Bloomberg, CIMB Chief Investment Office  
As at 5 August 2024

- Neutral China on long term structural concerns and escalating geopolitical tensions
- Third Plenum delivered no surprises; market to remain lacklustre until clearer signs of policy implementation, economic recovery and/or improvement in property sales
- Trading opportunities for higher risk investors (16,400 – 19,000 range)
- Trim exposure to stocks with weak fundamentals; diversify to ASEAN



# Markets in Transition - Equities

Malaysia: Rerating just started- banks are next

## KLCI valuation band



Source: Bloomberg, CIMB Chief Investment Office  
As at 5 August 2024

- Malaysia is a natural beneficiary of rising US-China tensions as MNCs adopt China+1 strategy
- Economic strength points to upside for banks' ROE and dividends
- We also favour data centre enablers, selected semiconductor stocks, and beneficiaries of the Johor-Singapore special economic zone
- MYR strength is an added tailwind

# Markets in Transition - Equities

## Singapore: Ready for REITurns?

### STI's dividend yield



Source: Bloomberg, CIMB Chief Investment Office

As at 5 August 2024

- Singapore to benefit from stable policies and safe haven flows in this period of higher volatility
- Accumulate REITs and dividend yielders ahead of impending rate cuts

# Markets in Transition - Currencies

## Does Gold have room to appreciate?

Gold surges as risk sentiments deteriorate



Source: Bloomberg, CIMB Chief Investment Office

- Gold has broken 2Q24 peak supported by risk adverse trades and periods of weaker USD and UST yields
- Recent Gold upside limited by USD strength
- Anticipation of lower global yields and risk events (US election, geopolitical tensions) supports stronger Gold
- Buy Gold on dips between 2350 – 2390
- Venture into GDCl's for better entry levels

# Investment Implications



# Recommended Asset Allocation

**55% Fixed Income : 40% Equity : 5% Gold**

*(Key Change: 5% allocation is shifted from Equity to Fixed Income)*

## Fixed Income ▲ Overweight

Position for rate cuts in 2H2024 and 2025. A pivot towards USD, AUD and GBP bonds is advised, for respective anticipated rate reductions and diversification.

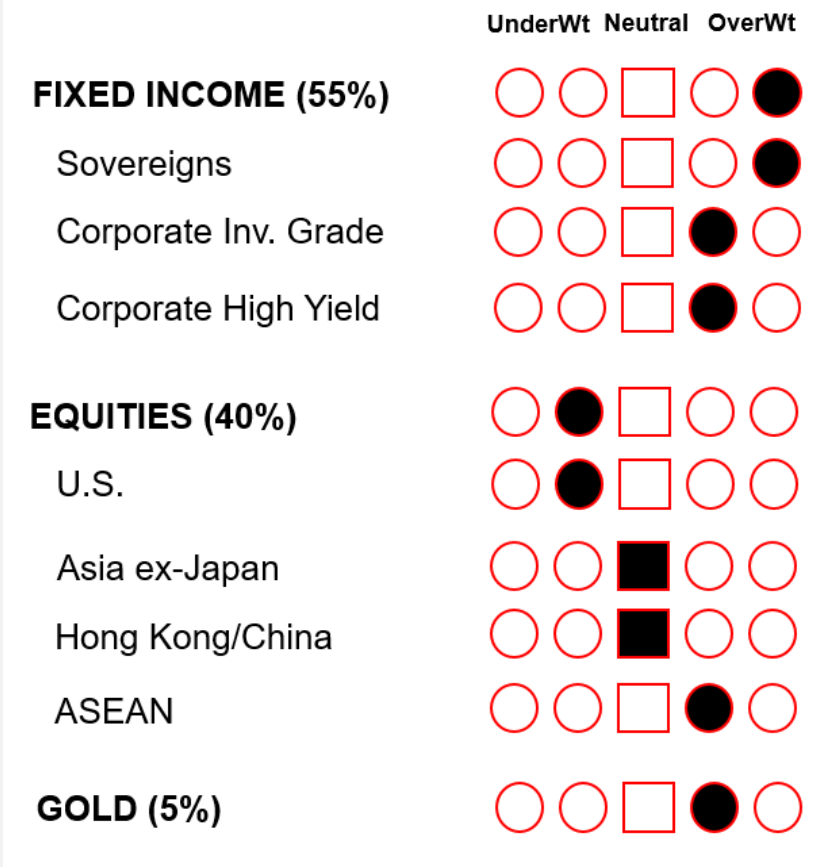
## Equities ▼ Underweight

ASEAN is inexpensive, and China will be range-bound. In ASEAN, we are OW Malaysia and Singapore. US looks pricey (21.2x PER for 8.6% growth) at the index level.

## Cash and Alternatives

We have allocated 5% to Gold. A hedge against geo-political risks (likely to worsen), and eventual decline in policy rate and bond yields into 2025. Buy via DCI during temporary weakness offers better entry levels.

## Asset Allocation



Source: CIMB Chief Investment Office

# Implication for Fixed income

## KEY INVESTMENT STRATEGIES

- Allocate **55%** of portfolio to fixed income;
- Hold-to-maturity for regular income, ride out of market volatility.
- Utilize up to **50% leverage** to enhance return. Carry to improve on rate cuts.

### No Landing

- Elevated inflation, US economy remains strong.
- Rate rises by 25-50 bps, credit spreads tighten.
- Own: TIPS, T-bills, short-duration HY bonds.
- Avoid: STRIPS, long-duration UST & IG bonds.

### Base Case: Rising Recession Risk

- Fed to meet its 2024-25 employment and inflation goals.
- Fed may accelerate rate cuts; tight credit spreads to persist until credit cycle ends.
- Own: STRIPS, long-duration UST & IG bonds, short-duration HY bonds.
- Preferred markets: **USD, GBP, AUD, EUR and MYR.**

### Hard Landing

- Strong policy response ensues.
- Rate eases over 300 bps by end-2025, credit spreads jump.
- Own: STRIPS, long-duration UST and IG corporate bonds.
- Avoid: HY Corporate bonds.

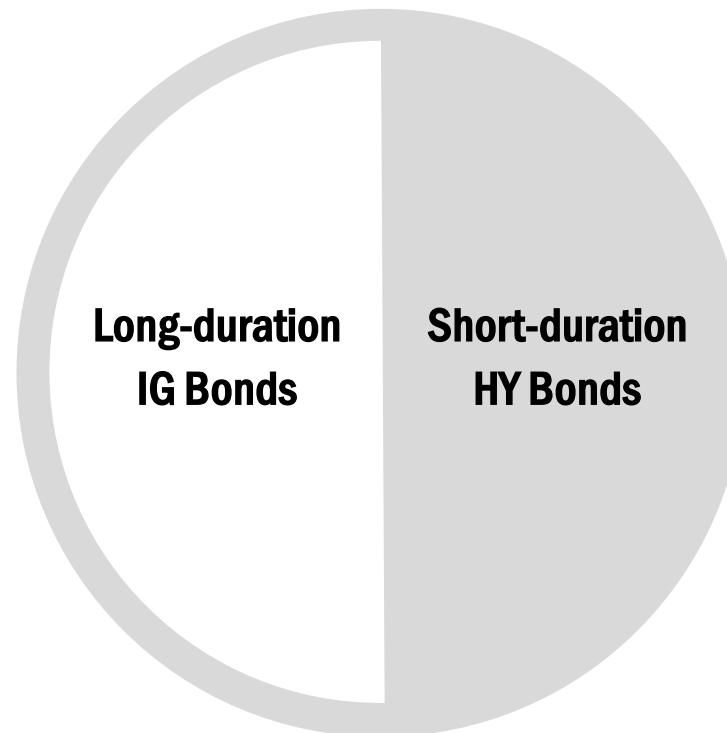
# Barbell Fixed Income Strategy to Maximize Returns

**The conundrum: Near term risks vs. Rate cut opportunities – how to maximize profits?**

- A **Barbell Strategy** is the ideal solution.
- Buy long-duration (10+ year) IG USD bonds, alongside short-duration (1-3 year) HY USD corporate bonds.
- Alternatively, diversify into AUD and GBP corporate bonds, focusing on short-duration HY bonds. IG long-duration AUD and GBP bonds offer additional benefits when the RBA and BOE cut rates

## Long-duration IG Bonds

- Substantial potential gains during rate cut cycle.
- Has historically performed well.
- This includes US Treasury bonds.



## Short-duration HY Bonds

- Offer a cushion through high recurring income.
- Less sensitive to event risks and lower volatility.
- Short-duration yields are currently elevated in inverted yield curve, where short-tenor yields exceed medium-tenor yields.

# Implications for Equities

- S&P 500 appears vulnerable to further correction
- HSI could be range-bound unless policy improves
- STI offers a compelling dividend yield
- FBMKLCI is attractively priced for growth

	US	HK/China	Singapore	Malaysia
Index	S&P 500	Hang Seng	Straits Times	FBMKLCI
Index levels on 5 August 2024	5,186	16,698	3,244	1,536
Year to Date (YTD) performance	8.7%	-2.0%	0.1%	5.6%
<b>2024F Price to Earnings ratio (PER) (x)</b>	<b>21.2</b>	<b>8.2</b>	<b>10.3</b>	<b>14.1</b>
5-year Mean PER (x)	19.5	10.1	12.3	14.4
<b>2024F Earnings Per Share (EPS) growth</b>	<b>8.6%</b>	<b>7.7%</b>	<b>6.7%</b>	<b>6.8%</b>
2025F EPS growth	14.1%	6.9%	2.7%	8.8%
2024F Return on Equity (ROE)	18.5%	10.5%	9.9%	9.3%
2023 Price to Book (P/B) (x)	4.33	0.91	1.06	1.31
<b>2024F Dividend Yield</b>	<b>1.6%</b>	<b>4.7%</b>	<b>5.9%</b>	<b>4.5%</b>

Source: Bloomberg, CIMB Chief Investment Office  
As at 5 August 2024







# Implications for FX





	Outlook	USD	Developed Markets	Emerging Markets
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## 3Q24

- Near-term USD support if risk sentiments deteriorates
- Limited USD upside on anticipation of rate cuts
- Sustainability of China stimulus rollouts will impact ASEAN FX accordingly







- AUD 
- EUR 
- GBP 
- JPY 





- MYR 
- IDR 
- SGD 
- THB 

## Next 9 months

- Magnitude of rate cuts to dictate FX direction
- China recovery tailwinds (if any) supportive of ASEAN FX
- Narrowing rate differentials supportive of higher yielding FX



- AUD 
- EUR 
- GBP 
- JPY 

- MYR 
- IDR 
- SGD 
- THB 

Note: US Dollar Index (DXY), Currencies (FX)

# Summary of Key Risks

## Global Macro

- Fed is behind the curve in cutting rates

## Fixed Income

- No-landing scenario or fiscal indiscipline in the US may result in substantially higher yields

## Equities

- Big 6 tech earnings continue to disappoint- negative implication to global equities

## FX

- USD weakens faster than expected

# Conclusion

## Be risk aware on equities

- Underweight US equities - cautious on US technology; Overweight ASEAN and selective in Asia

## US economy- going through a soft patch

- The Fed has pivoted and rate cuts are imminent. US economy is clearly slowing. The investment case for fixed income has finally arrived

## Asset allocation

- Adjust asset allocation to 55% fixed income, 40% equity and 5% gold
- Buy Gold on weakness and sell USD into strength

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# WARNING

## FLOATING RATE NEGOTIABLE INSTRUMENTS OF DEPOSIT (FRNID) WARNING

THIS PRODUCT IS PRINCIPAL GUARANTEED BY THE ISSUING BANK UPON MATURITY ONLY. IF THE PRODUCT IS REDEEMED OR SOLD PRIOR TO MATURITY, THE CUSTOMER MAY LOSE PART OF THE INITIAL DEPOSIT AMOUNT. THE RETURNS ON THIS PRODUCT ARE UNCERTAIN AND THE CUSTOMER RISKS EARNING NO RETURNS AT ALL. THE CUSTOMER IS REMINDED THAT THIS PRODUCT IS NOT INSURED BY PERBADANAN INSURANS DEPOSIT MALAYSIA.

## NON-PRINCIPAL PROTECTED AUTOCALLABLE EQUITY LINKED STRUCTURED PRODUCT WARNING

THE RETURNS ON YOUR STRUCTURED PRODUCT INVESTMENT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSET/REFERENCE, AND THE RECOVERY OF YOUR PRINCIPAL INVESTMENT MAY BE JEOPORDISED IF YOU MAKE AN EARLY REDEMPTION. THIS STRUCTURED PRODUCT INVESTMENT IS NOT INSURED BY PERBADANAN INSURANS DEPOSIT MALAYSIA.

## DUAL CURRENCY INVESTMENT (DCI) / GOLD CONVERTIBLE / REVERSE GOLD CONVERTIBLE STRUCTURED PRODUCT (GCI) WARNING

THE RETURNS ON YOUR STRUCTURED PRODUCT INVESTMENT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSET/REFERENCE, AND THE RECOVERY OF YOUR PRINCIPAL INVESTMENT MAY BE JEOPARDISED IF YOU MAKE AN EARLY REDEMPTION. THIS STRUCTURED PRODUCT INVESTMENT IS NOT INSURED BY PERBADANAN INSURANS DEPOSIT MALAYSIA.

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