Quarterly Investment Strategy
First Quarter 2024

The hard part is over

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Global investment strategy

Summary of 1Q24 investment conclusions

Interest rates
Higher-for-longer will replace the Fed as a yield driver. We expect two rate cuts due to our better economic outlook and the US presidential cycle.

Recession
We do not see a recession in 2024 and we expect there to be a better breadth of economic trends beyond services as manufacturing and trade recover.

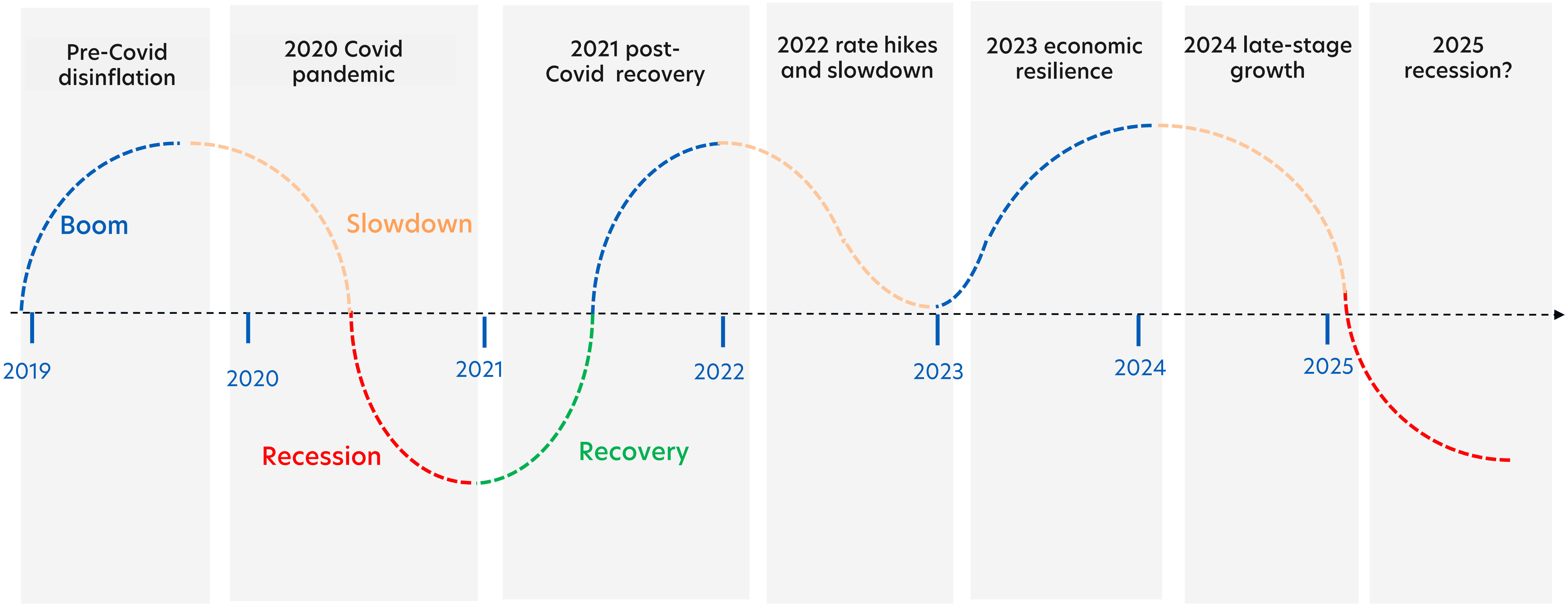
Markets
We think that “the hard part is over” and that 2024 will be a more comfortable year for investing.

Investment implications
We expect both equities and bonds to do well, driven by earnings growth and peak in interest rates. Credit, high yield, and commodities should perform well too.

Asia
We continue to expect Asia and Japan to outperform.

UOBAM Investment Wave

The US/global expansion looks set to continue in 2024



Source: UOBAM, September 2023

Asset Allocation Strategy

Global asset allocation	--	-	N	+	++
Equities	○	○	○	●	○
Fixed Income	○	○	●	○	○
Commodities	○	○	●	○	○
Alternatives (hedged strategies)	○	○	●	○	○
Cash	○	●	○	○	○

++ Strong overweight + Overweight N Neutral - Underweight -- Strong underweight

Source: UOBAM, 28 Nov 2023
Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

Regional Equity Strategy

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++ Strong overweight + Overweight N Neutral - Underweight -- Strong underweight

Source: UOBAM, 28 Nov 2023
Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

Fixed Income Sector Strategy

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	--	-	N	+	++
Fixed Income			●		
Developed			●		
US T-Bills			●	◀	
G7 Sovereigns		●			
Investment Grade				●	
High Yield			●		
Duration			●		
Yield Curve*			●		
Asia IG				●	
Asia HY		▶	●		
Asia Local Currency		▶	●		

++ Strong overweight + Overweight N Neutral - Underweight -- Strong underweight

Source: UOBAM, 28 Nov 2023. Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

Economic trends for 1Q 2024

Global GDP growth forecasts are slowly being revised upwards

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Real GDP growth consensus estimates (%)

	2019	2020	2021	2022F	2023F	2024F
Global	2.8	-2.8	6.3	3.5	**2.8**	2.6
United States	2.5	-2.2	5.8	1.9	**2.3**	1.0
Eurozone	1.6	-6.1	5.9	3.4	**0.5**	0.7
Japan	-0.4	-4.3	2.4	0.9	**1.8**	1.0
Asia ex. Japan	5.3	1.3	5.9	4.0	**4.6**	4.6
China	6.0	2.2	8.4	3.0	**5.2**	4.5

Previous 2023 forecasts: Global 2.8, US 2.1, Asia 4.4, China 5.0

Source: Bloomberg, UOBAM, 21 Nov 2023

US consumers continue to anchor the global economy

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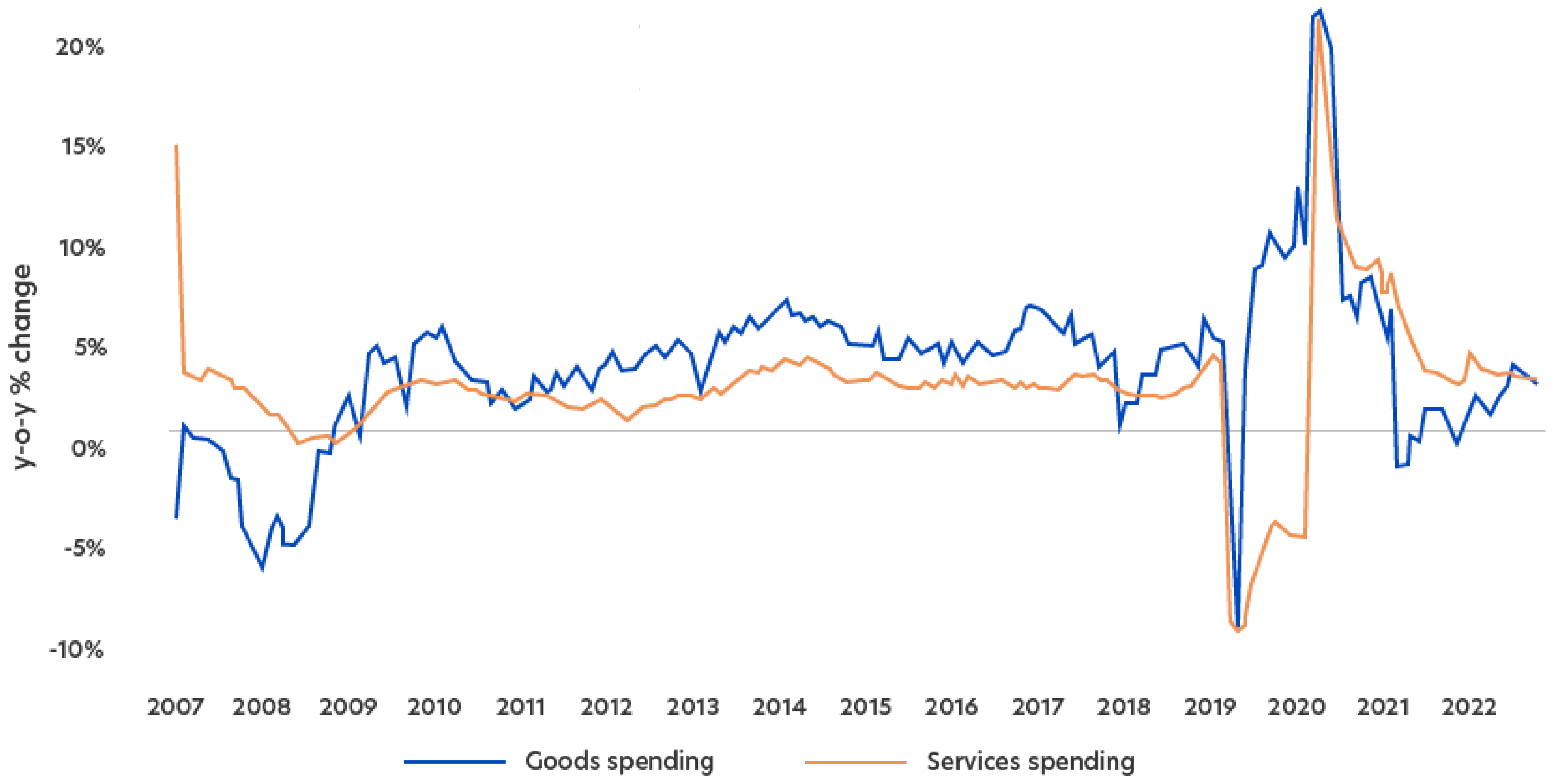
Services spending holding up as goods spending continues to recover



Source: UOBAM, November 2023 | PMI = Purchasing Managers Index

Initial signs suggest a tentative rebound in US Manufacturing PMI

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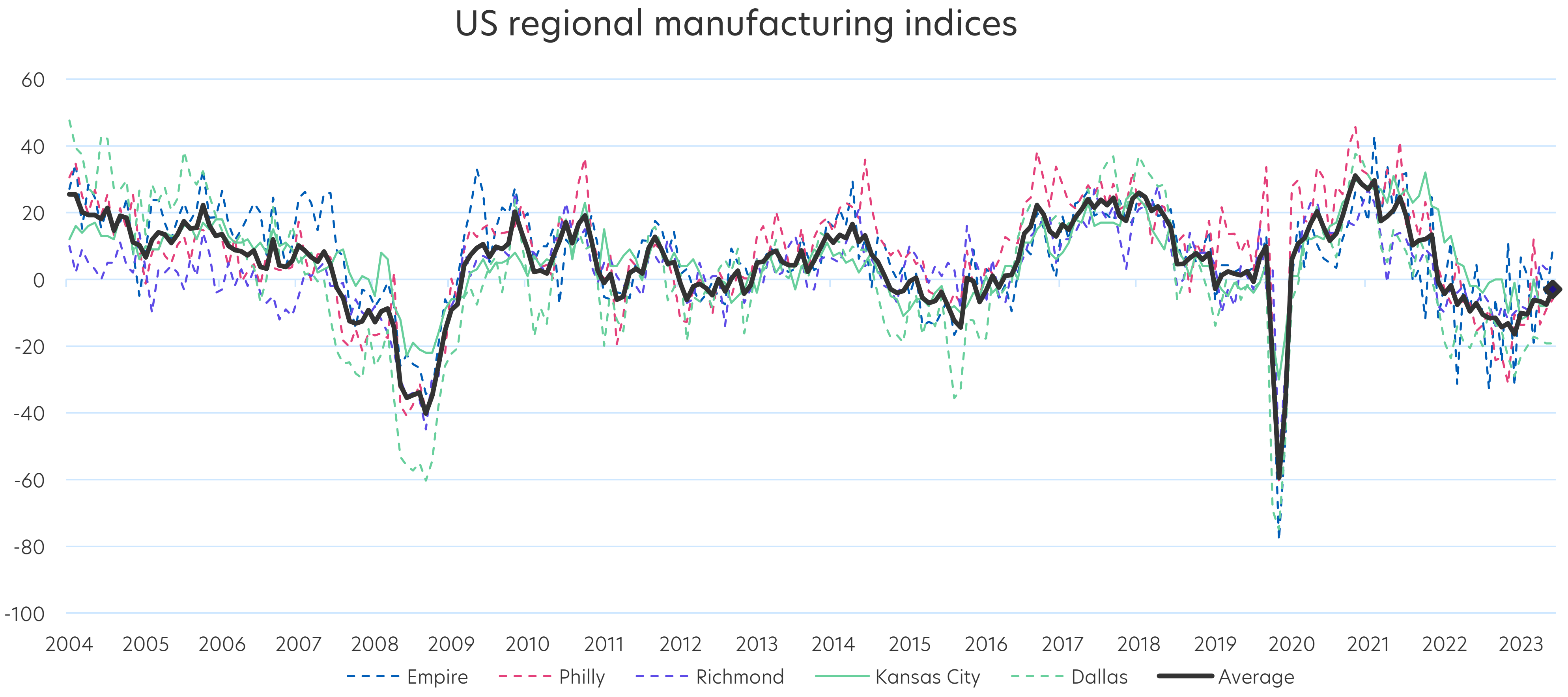


Data in Nov 2023 has seen improvement from manufacturing surveys in Empire, Philly and Kansas City, while the rest have yet to report

Source: UOBAM, Bloomberg

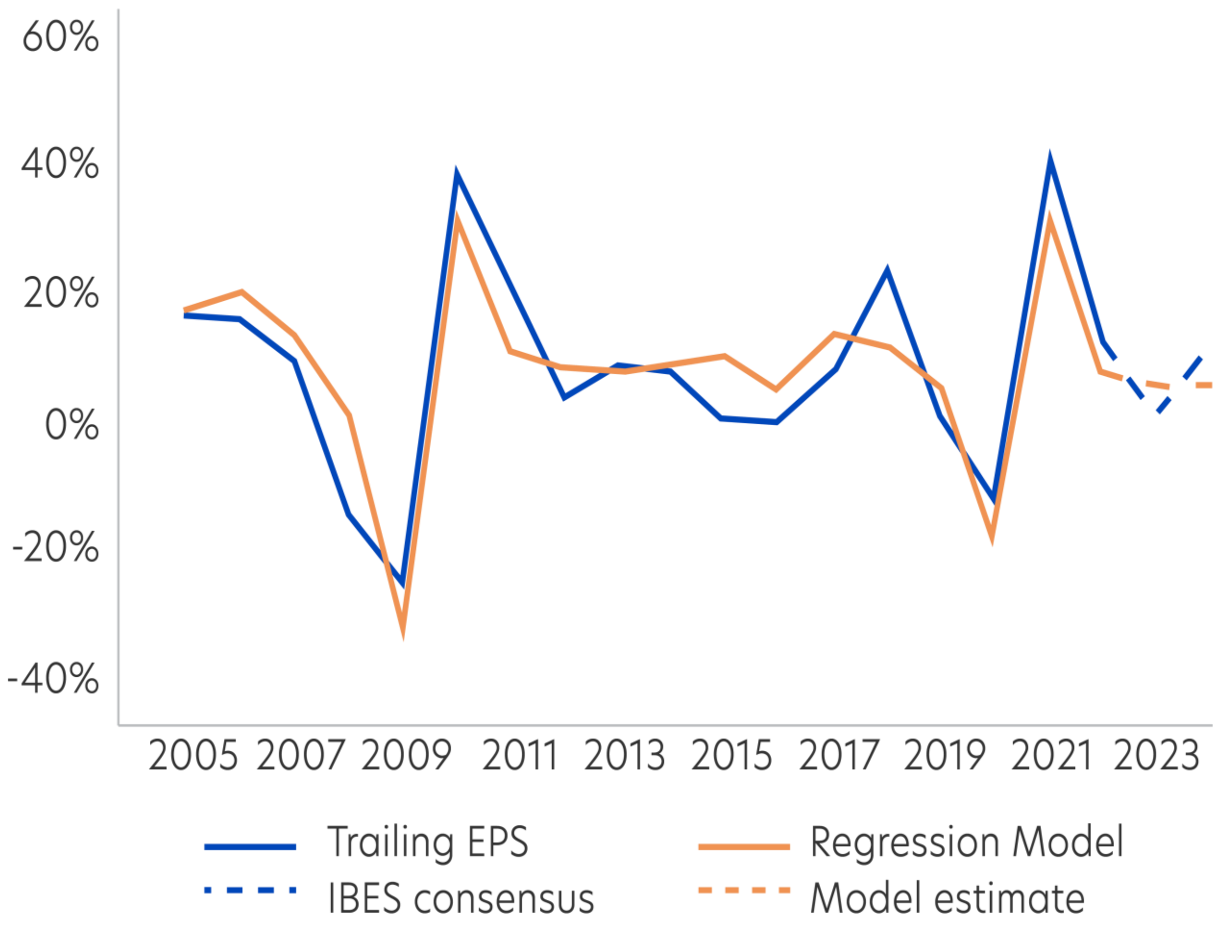
Earnings growth is significantly more positive for 2024

	EPS Growth (YoY%)		PER		DVD YLD	PBR		ROE	
Regions	2023E	2024E	2023E	2024E	2023E	2023E	2024E	2023E	2024E
US	1.0	11.3	20.8	18.6	1.5	4.2	3.8	20.1	20.3
Europe	3.2	5.9	12.8	12.1	3.6	1.8	1.7	14.2	14.1
Japan	6.8	8.1	15.6	14.4	2.2	1.4	1.3	9.2	9.2
Asia ex. Japan	-7.6	21.0	14.6	12.1	2.6	1.5	1.4	10.0	11.2
China	6.3	15.0	10.9	9.5	2.4	1.2	1.1	11.0	11.6

Based on Calendar Year

Source: Factset, UOBAM

2024 US earnings growth likely to reach high single digits



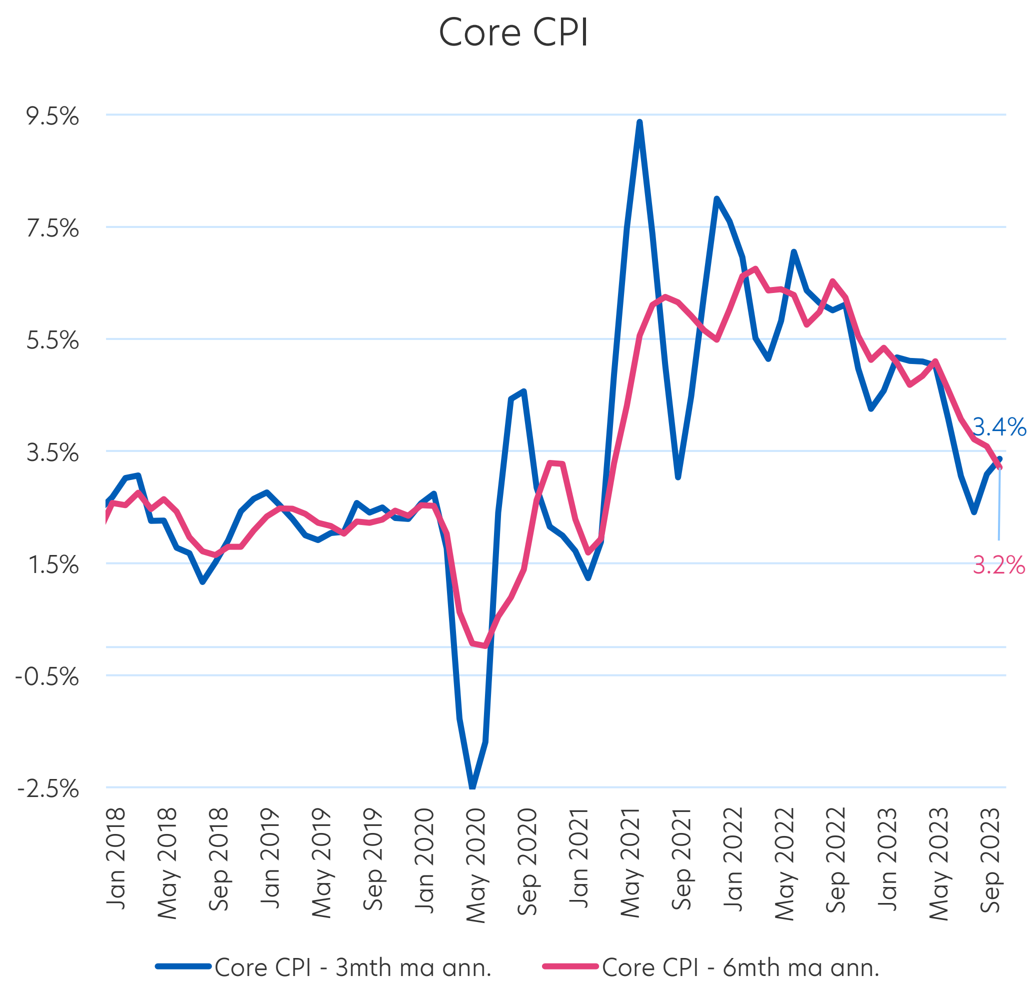
S&P EPS growth	2023	2024
Consensus	0.9%	10.6%
Model estimate	5.1%	5.9% *

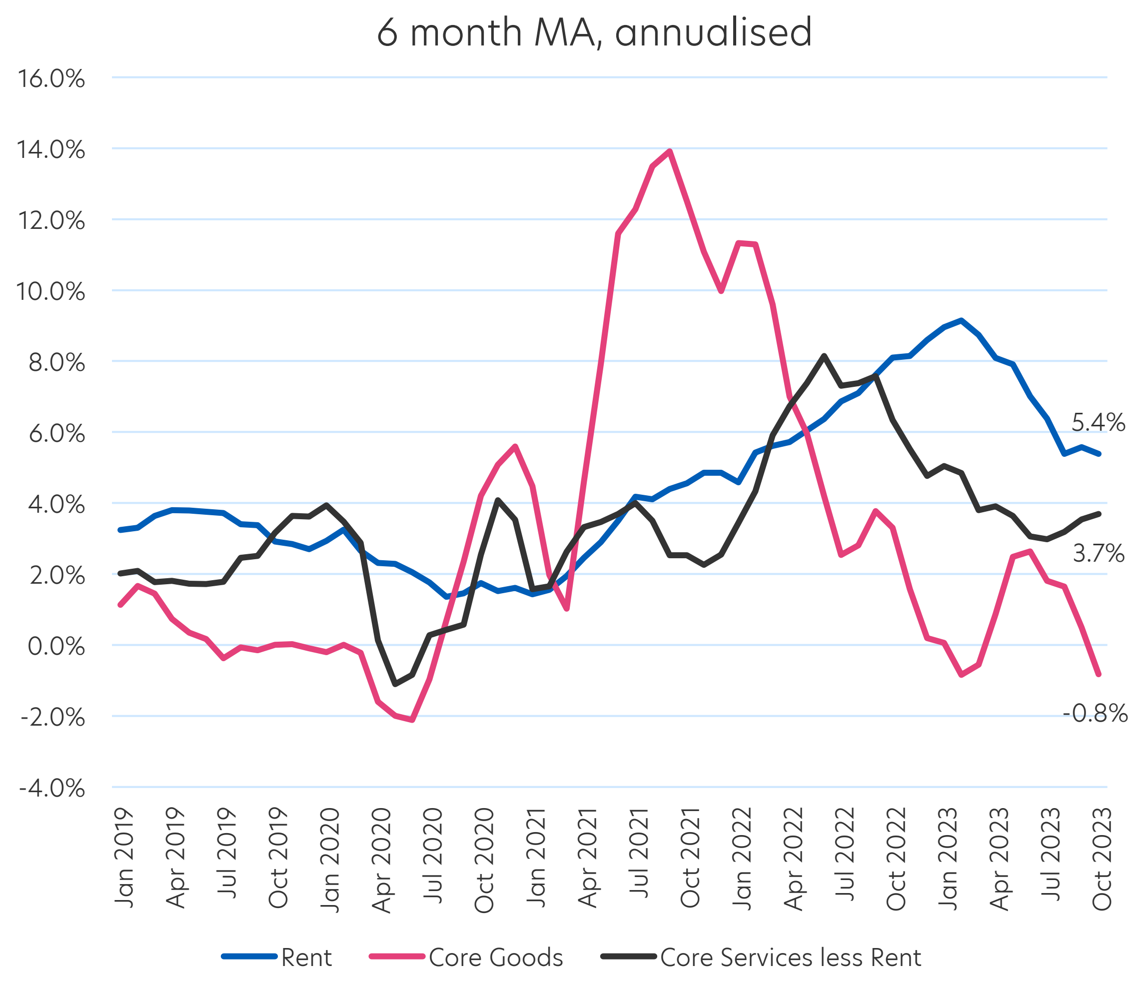
* Assumes US real GDP growth of 1%, and global trade growth of 3.3% in 2024

Source: UOBAM, Factset

Inflation and interest rate trends for 1Q 2024

Core inflation eased in 2023, more to go for rents and core services in 2024





Source: UOBAM, Factset

We expect further disinflation in 2024, giving Fed more room to ease

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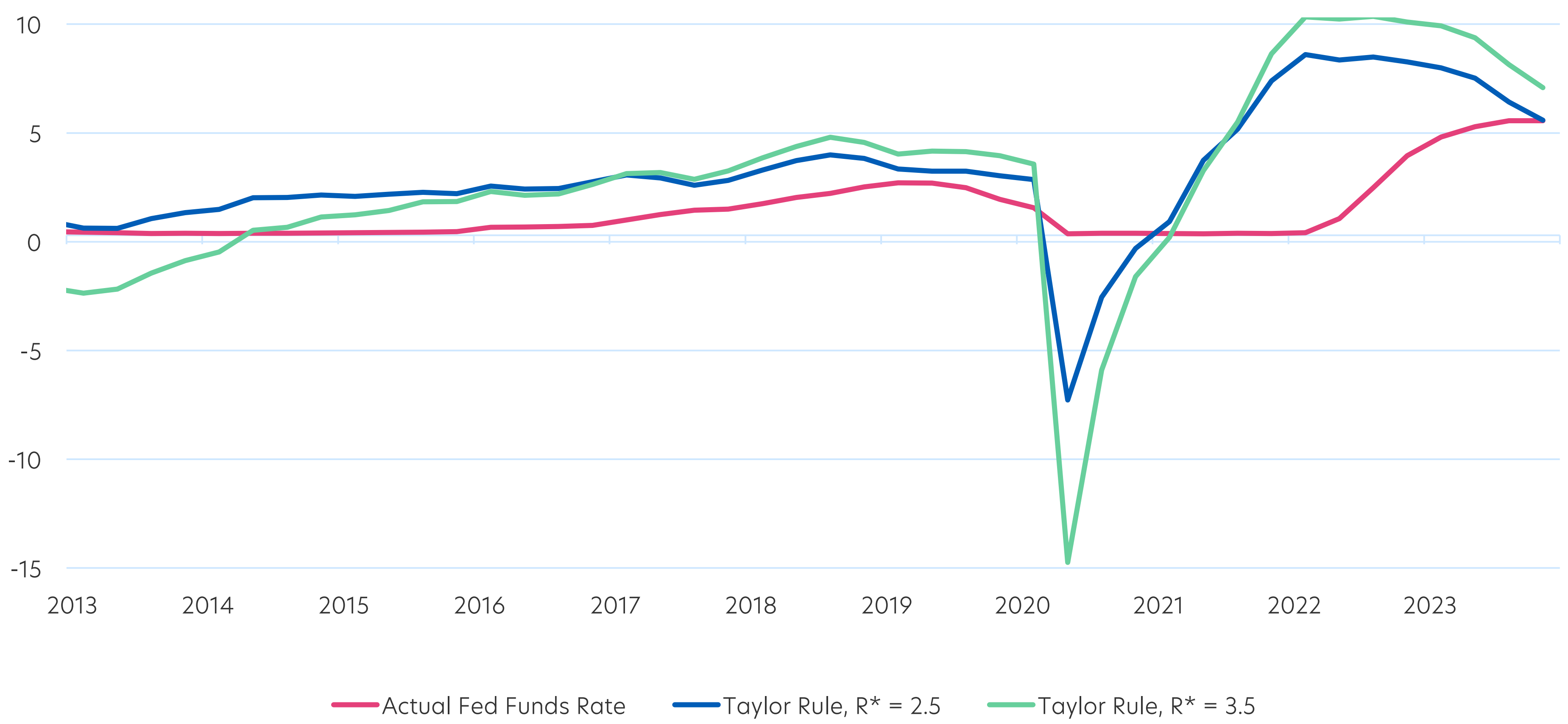
					End-2024 forecasts		
	Weightage	Sep 2023	1991-2006 avg	Overshoot/ Undershoot Contribution vs 1991-2006 avg	Low	High	Drivers
Core Goods	26%	0.1%	-0.1%	0.1%	-0.3%	0.3%	• Autos price continue to correct due to inventory normalisation and high interest rates • Apparel price normalise on lower cotton prices
Rent	17%	7.2%	3.0%	0.7%	3.8%	4.3%	• Alternative rent indices closer to 2% YoY, expect continue disinflation
Services excl. Rent	57%	4.3%	3.0%	0.7%	3.3%	3.8%	• Wage growth coming down, due to increased labour force participation. To further reduce in 2024 • Food prices to normalise • Travel-related companies had outsized pricing power, which should further normalise
Core PCE		3.7%	2.1%		2.4%	2.9%	

Source: UOBAM, Bloomberg

Taylor Rule suggests that the Fed has little need to hike, 2 - 3 cuts looks fair for end 2024

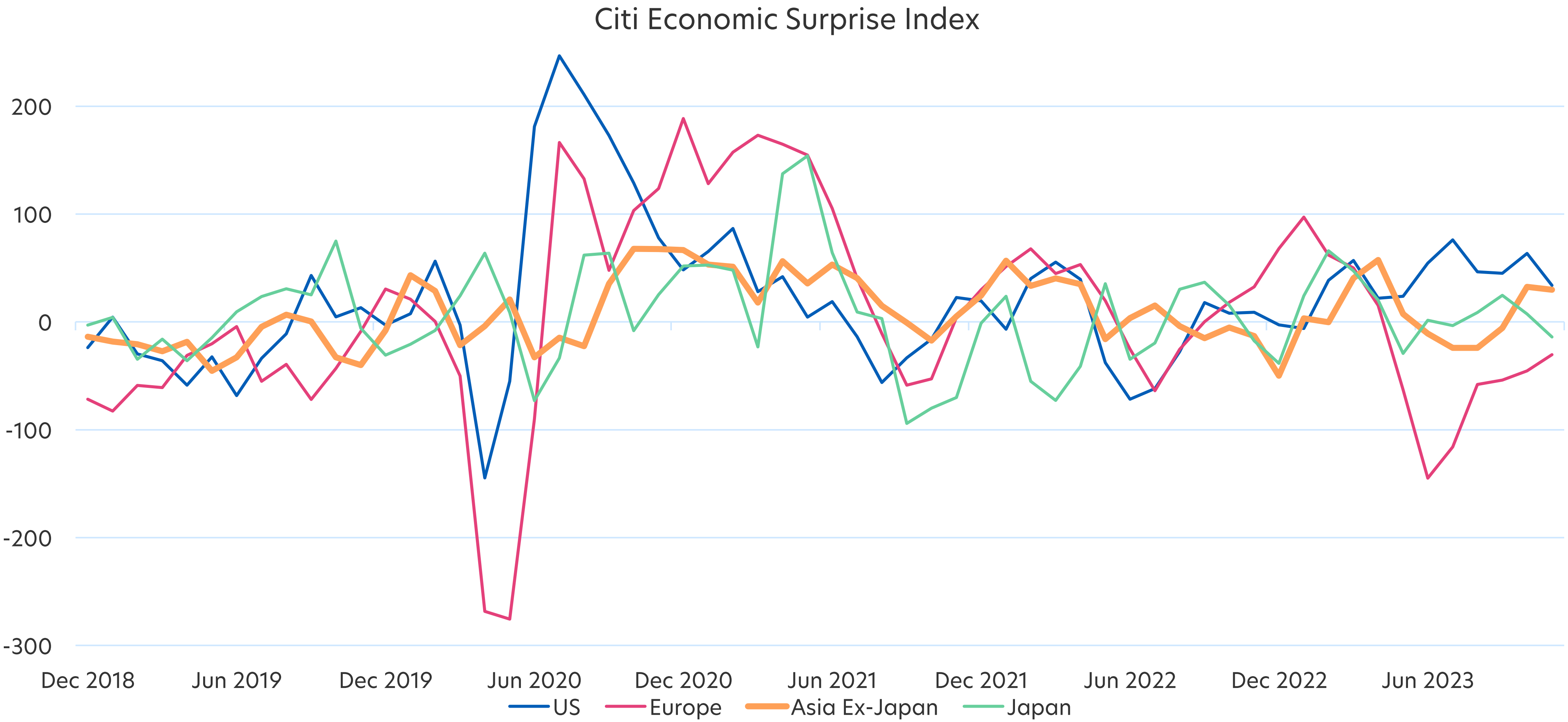
Actual federal funds rate and Taylor rule prescriptions percent, quarterly average



Source: UOBAM, Bloomberg

Asia's star is rising

Asia Ex-Japan growth showing positive surprises

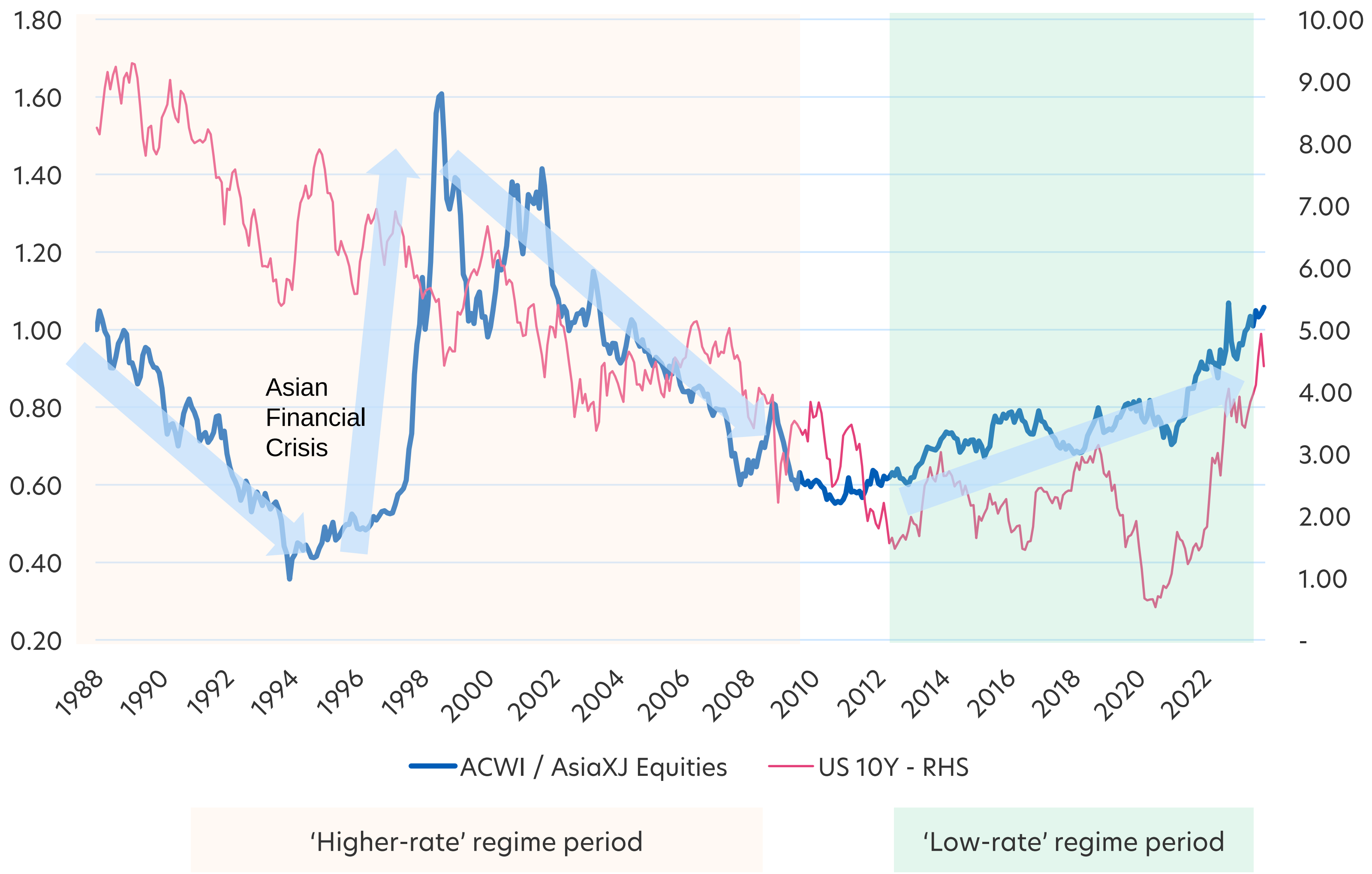


Expected global trade rebound, rates stabilisation and USD weakness suggests 2024 is finally Asia's year to outperform

Source: UOBAM, Bloomberg

Asia Ex-Japan has outperformed previously in higher-for-longer periods

Relative return of Global vs Asia Ex-Japan equities in different rate regimes



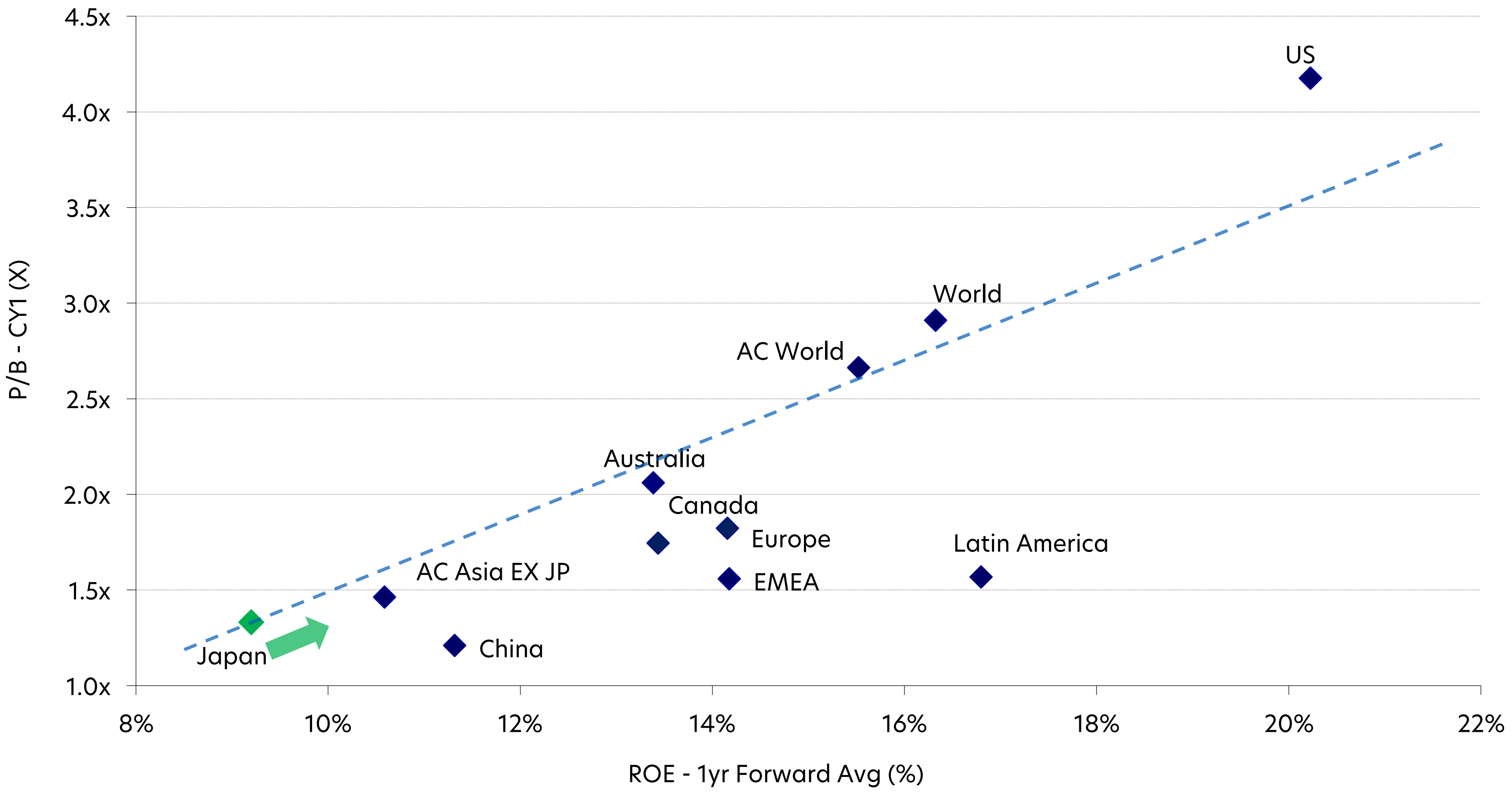
	2024F
Global	2.6
United States	1.0
Eurozone	0.7
Japan	1.0
Asia ex. Japan	4.6
China	4.5

Growth differential for Asia vs US expected to be the widest in 5 years

Source: UOBAM, Bloomberg

Re-rating potential for Japan equities

Expected ROE expansion for Japan equities amid ongoing structural reforms



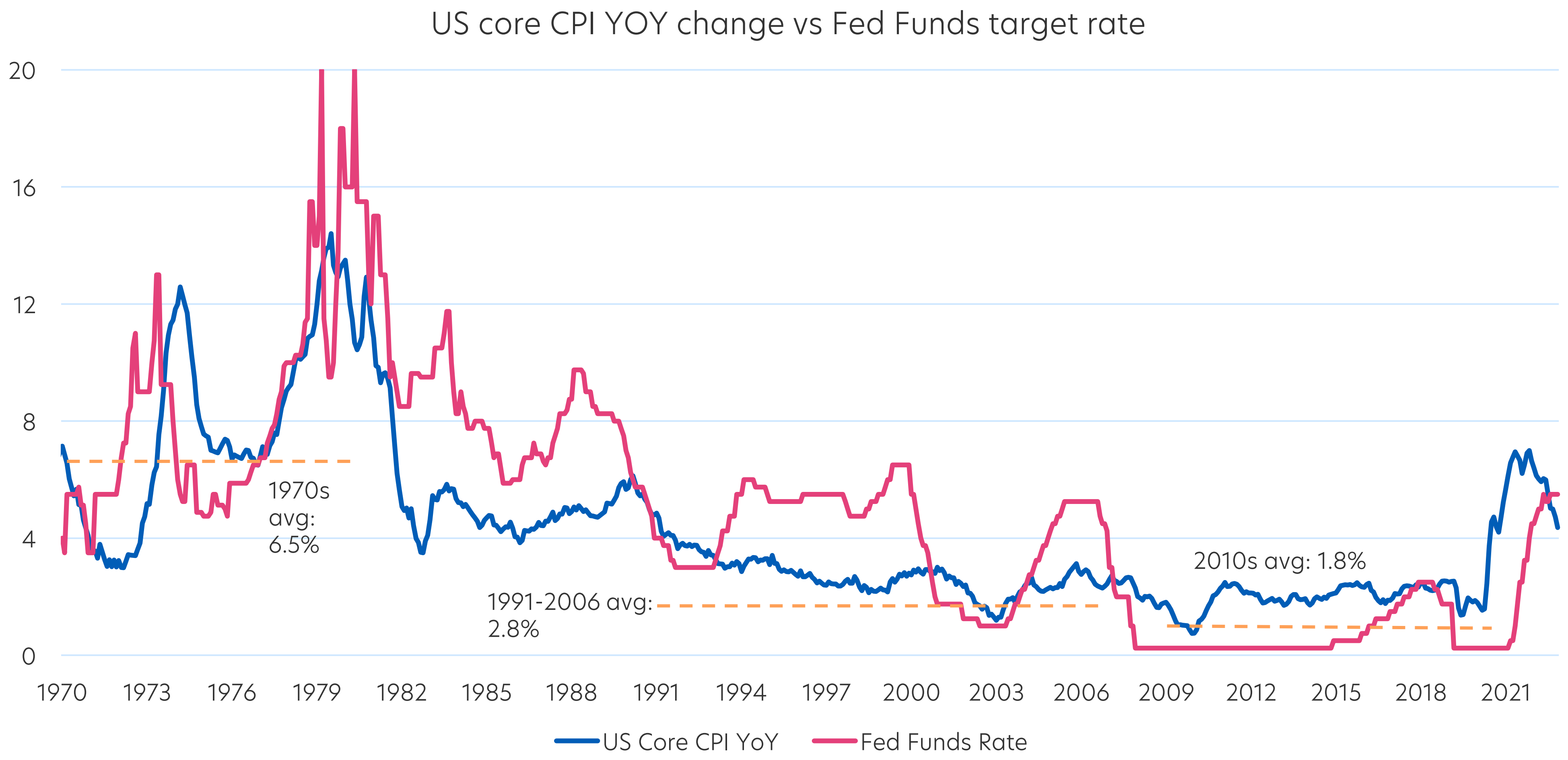
Source: UOBAM, Bloomberg

The structural theme of higher-for-longer

What is higher-for-longer?

- Used interchangeably by market commentators: either that the current period of high inflation will persist OR that the Fed will maintain elevated interest rates.
- For us, it means that inflation and interest rates are entering a new regime that will have broad market implications.
- The low inflation regime of the past decade is over, and markets will need to adjust to higher inflation and interest rates.
- Market implication is that “TINA” (There Is No Alternative (To Equities)) is over and “TARA” (There Are Reasonable Alternatives) is back.
- **Ultimately, it implies higher interest rates**, and inflation may or may not be above target levels.

Higher-for-longer does not necessarily mean inflation will stay high

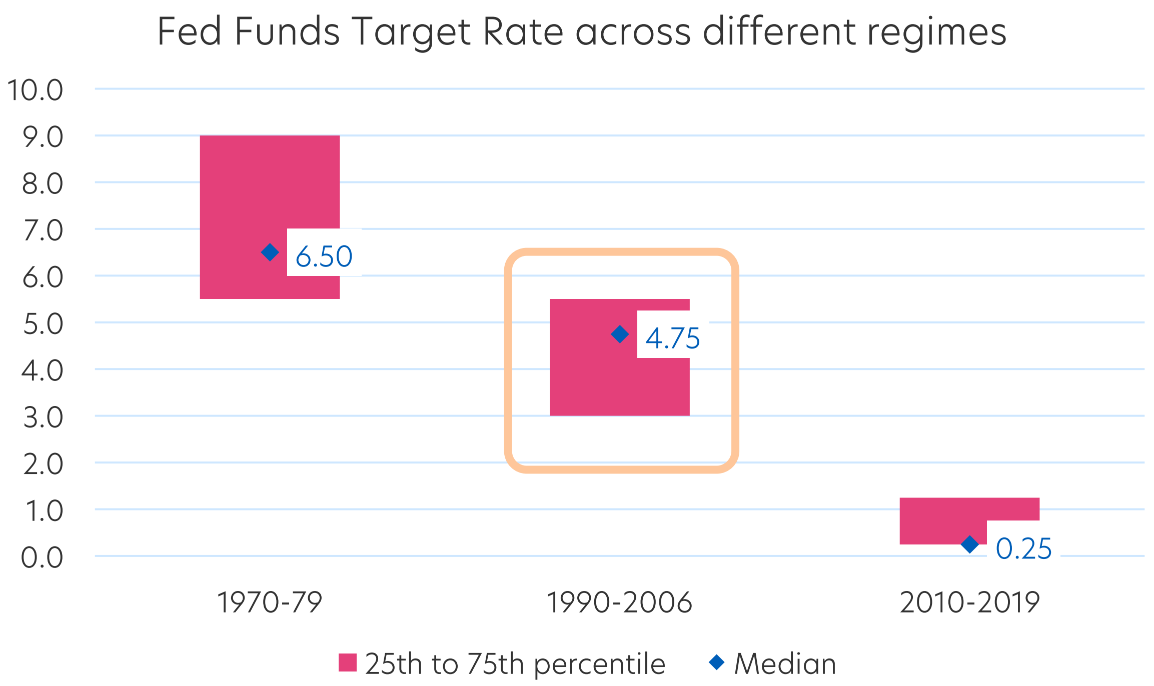


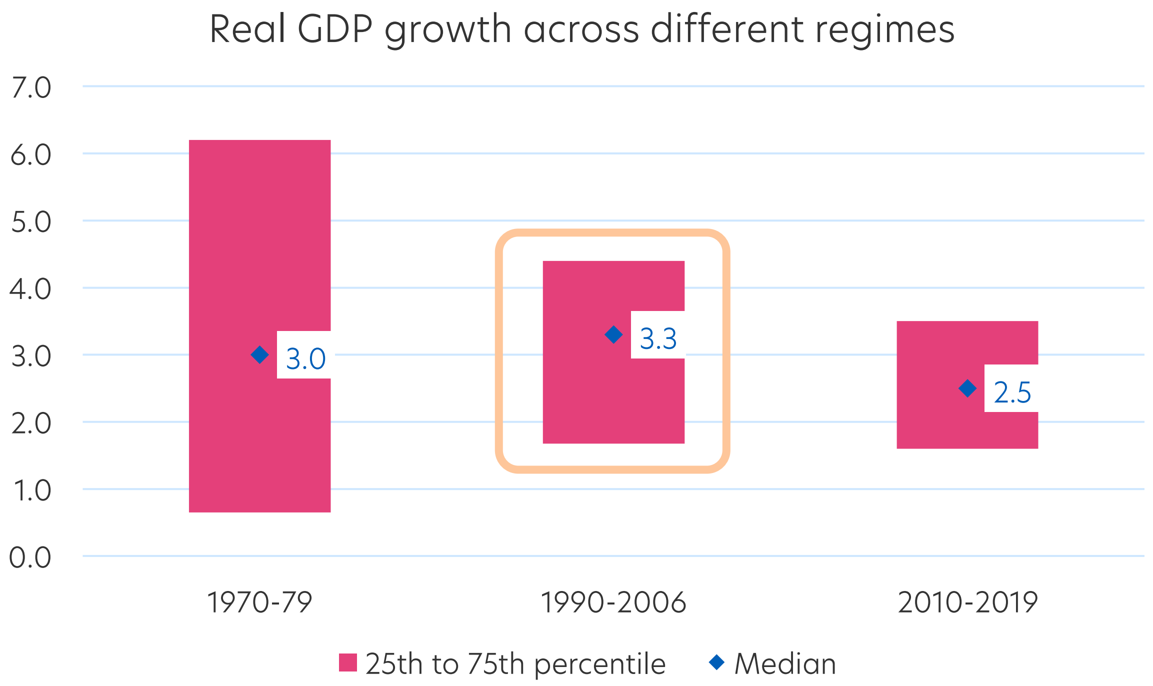
Higher-for-longer is primarily about the shift of the red line getting back above the blue line

Source: UOBAM, Bloomberg

We think over the next decade, the inflation regime will be similar to the 1990s

Three distinct inflation regimes: 1970s, 1990s, 2010s





Source: Bloomberg, UOBAM, Sept 2023

Structural inflation hedges did better in the 1970s and 1990s compared to the 2010s

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Asset Class	1970-79 Stagflation (%)	1990-2006 High Inflation (%)	2010-2019 Disinflation (%)	Data History
US Treasuries	6.3	6.3	2.5	Since 1972
US IG	4.9	7.2	3.7	Since 1976
S&P 500	-1	10.9	13.6	Since 1972
Commodities	35.3	7.9	-4.7	Since 1972
Global REITs	32.0 (1978-1980 data)	13.2	11.6	Since 1978
Gold	34.7	2.8	3.3	Since 1972
US TIPS	N/A	N/A	3.4	Since 1997
US Cash	8.9 (1977-1980 data)	4.2	0.5	Since 1977

Source: Bloomberg, UOBAM, Sept 2023

Our strategic inflation investment recommendations

- **Real estate** – REITs and other real estate investments
- **Commodities** – industrial metals, energy and agriculture
- **TIPs** and floating rate bonds
- **Equities** – especially energy, healthcare, and consumer staples
- **Gold** and other precious metals
- **Short-term credits**

In 2023, most stock and bond returns beat cash

2023 returns		
	Jan - Nov	Nov
Cash	3.48%	0.32%
Global IG	4.18%	4.18%
Global HY	8.79%	4.64%
Asia IG	3.58%	2.57%
Global Equities	16.74%	9.20%
US Equities	20.50%	9.59%
Asia Equities	2.23%	5.42%

Source: Bloomberg, UOBAM, Nov 2023

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