Quarterly Investment Strategy
Second Quarter 2024
Stronger for longer

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Global investment strategy

Summary of 2Q24 investment conclusions

Macro-environment
The global economy has proved incredibly resilient with inflation moderating steadily and growth holding up. 2024 will be a return to a more normal investing environment.

Markets
We are likely to see better economic and market breadth and expect a narrowing of sectoral and regional divergences.
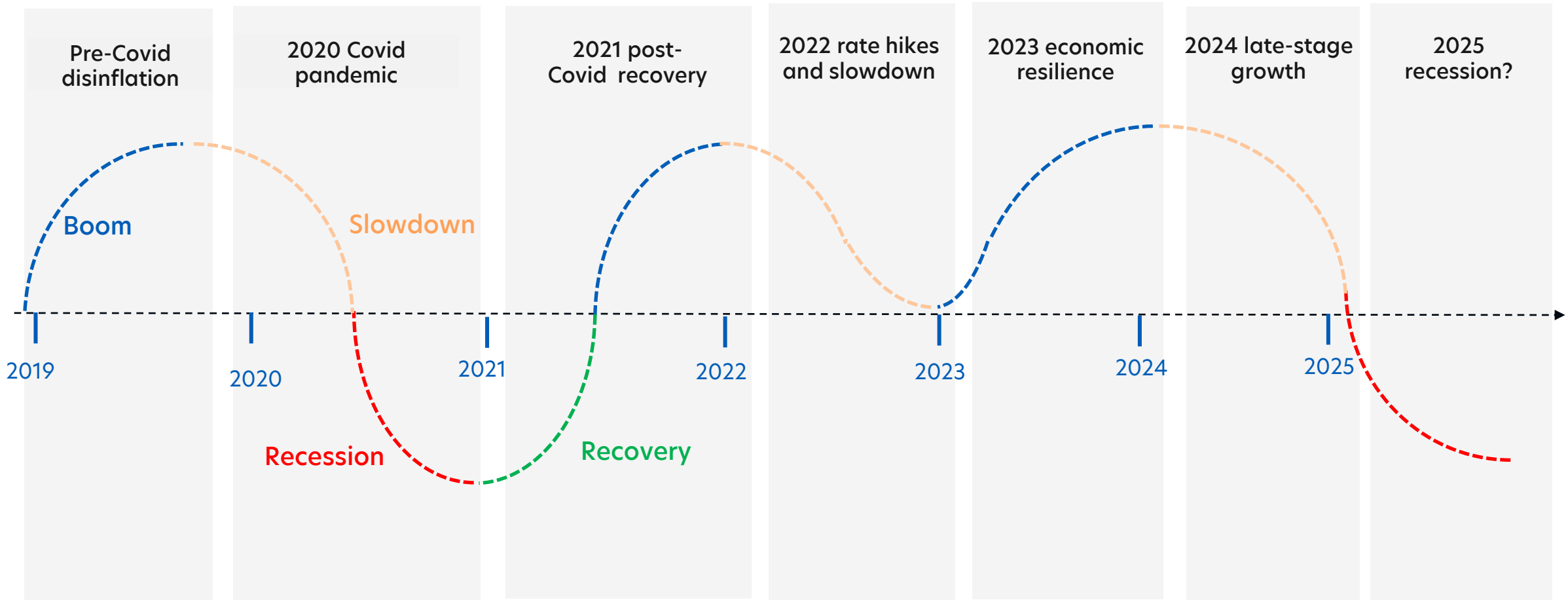
Investment implications
We expect both equities and bonds to do well. Investors will focus on earnings growth as a driver of markets.
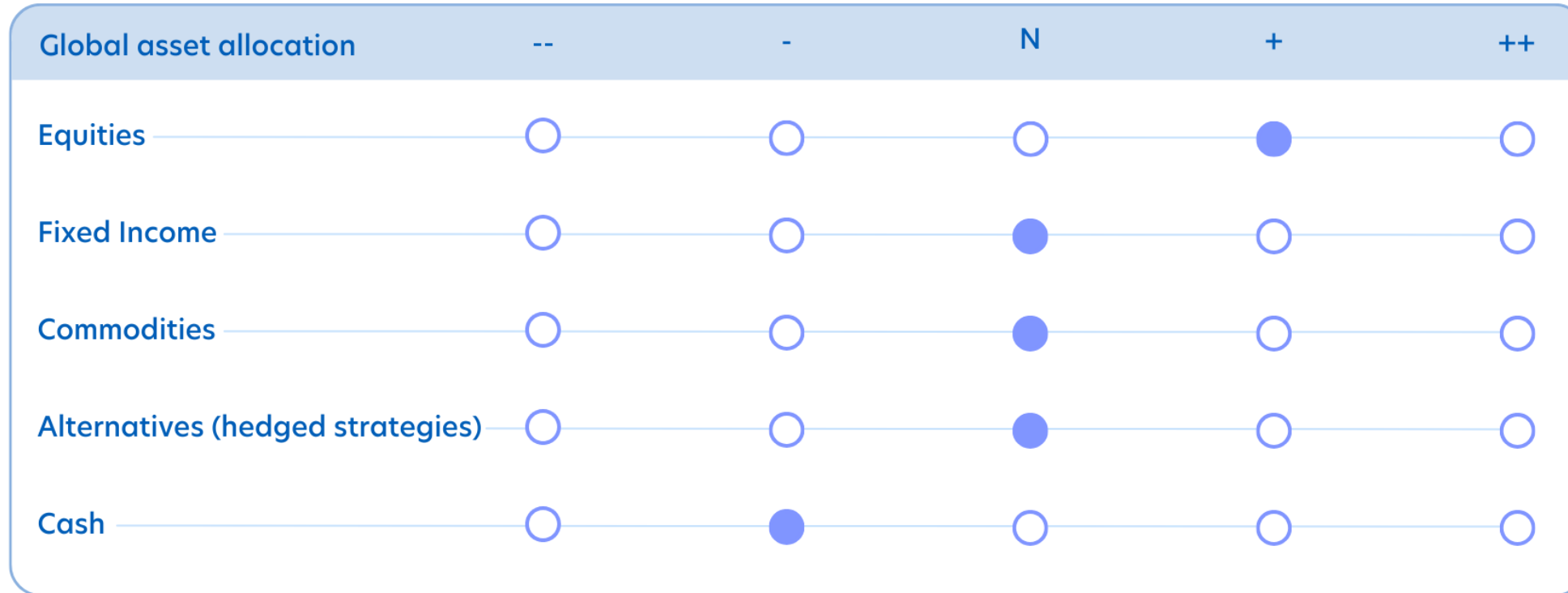
Higher-for-longer
Despite higher inflation and interest rates, the 2020s is likely to feel more like the 1990s than the 2010s, with a strong stock market that stayed strong for years.

UOBAM Investment Wave

The US/global expansion looks set to continue for another 1 to 3 years

| Pre-Covid disinflation | 2020 Covid pandemic | 2021 post-Covid recovery | 2022 rate hikes and slowdown | 2023 economic resilience | 2024 late-stage growth | 2025 recession? |

Boom

Slowdown

Recovery

Recession

2019   2020   2021   2022   2023   2024   2025

Asset Allocation Strategy

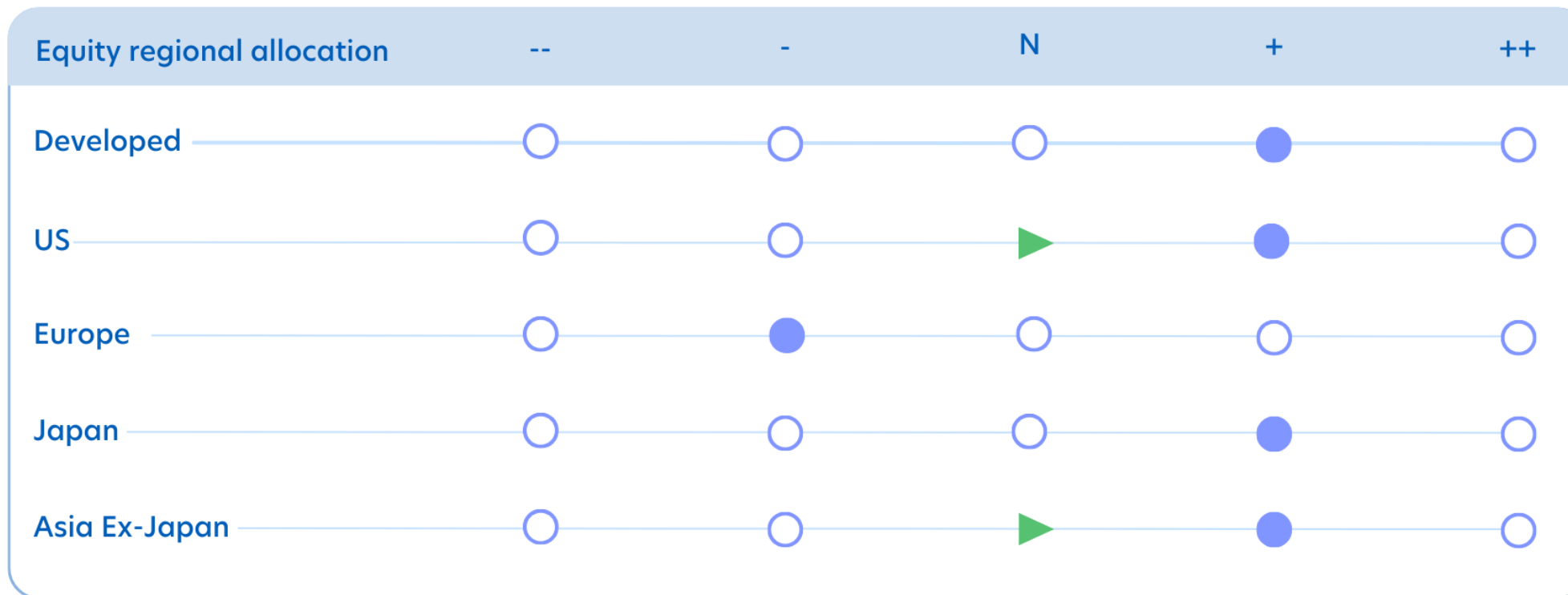| Global asset allocation	--	-	N	+	++
Equities	○	○	○	●	○
Fixed Income	○	○	●	○	○
Commodities	○	○	●	○	○
Alternatives (hedged strategies)	○	○	●	○	○
Cash	○	●	○	○	○

++ Strong overweight   + Overweight   N Neutral   - Underweight   -- Strong underweight
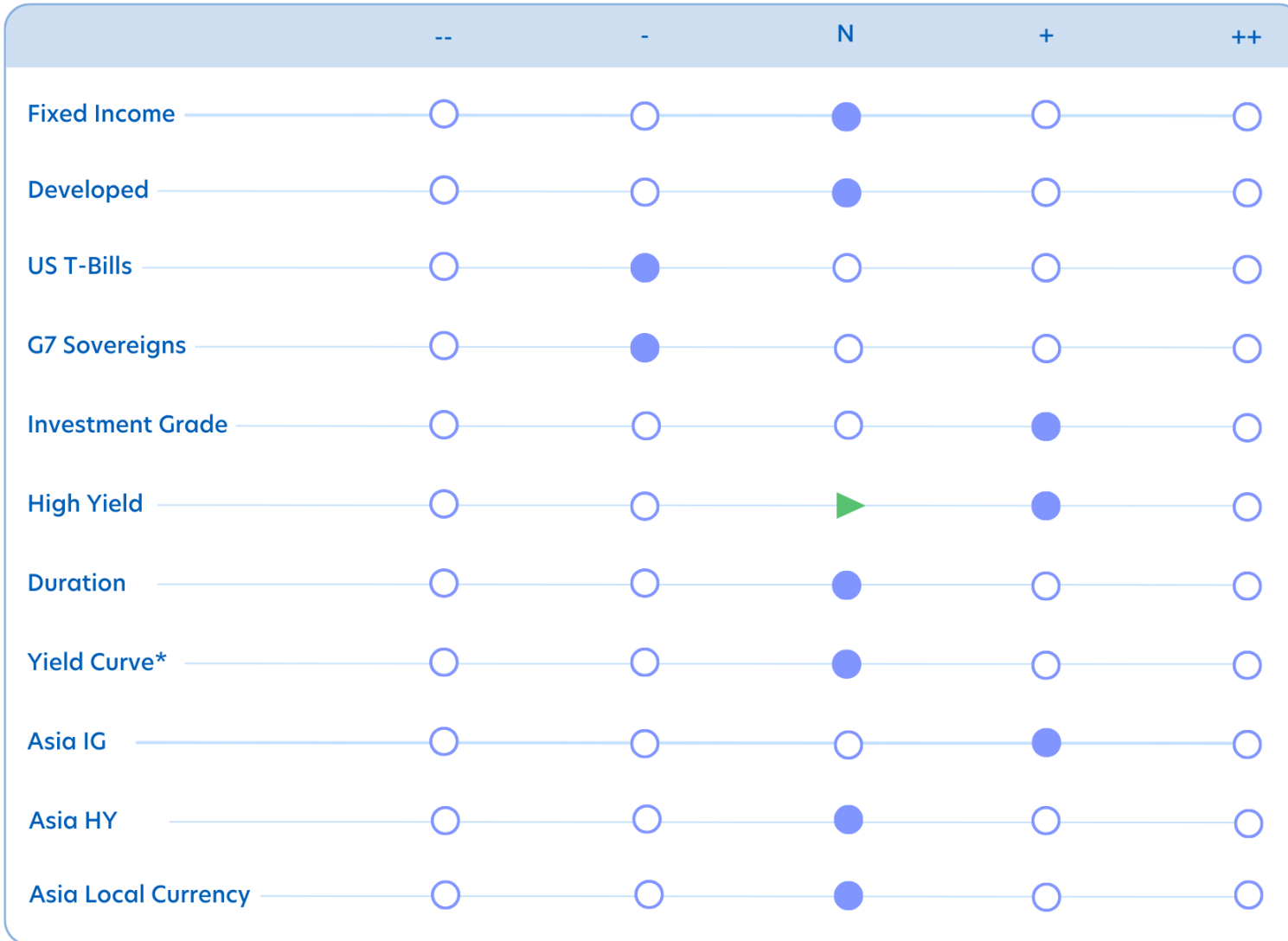
Source: UOBAM, 7 Mar 2024
Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

Regional Equity Strategy

Equity regional allocation	--	-	N	+	++
Developed	○	○	○	●	○
US	○	○	▶	●	○
Europe	○	●	○	○	○
Japan	○	○	○	●	○
Asia Ex-Japan	○	○	▶	●	○

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

Source: UOBAM, 7 Mar 2024
Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

Fixed Income Sector Strategy

	--	-	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, 7 Mar 2024. Note: *3-6 months horizon. The weights are relative to theappropriate benchmark(s), arrows show change from last quarter

Investors may be underestimating the strength of the economy

Global GDP growth estimates are consistently being revised upwards with fewer calls for recession

Real GDP growth consensus estimates (%)

	2020	2021	2022	2023	2024F	2025F
Global	-2.8	6.3	3.5	3.1	2.7	3.0
United States	-2.2	5.8	1.9	2.5	1.6	1.7
Eurozone	-6.1	5.9	3.4	0.5	0.5	1.4
Japan	-4.3	2.4	0.9	2.0	0.8	1.0
Asia ex. Japan	1.3	5.9	4.0	5.2	4.7	4.5
China	2.2	8.4	3.0	5.2	4.6	4.4

Previous 2024 forecasts: Global 2.6, US 1.3, Asia 4.6, China 4.5

Source: Bloomberg, UOBAM, 15 Feb 2024

Earnings growth remains positive for 2024 and 2025

Regions	EPS Growth (YoY%)		PER		DVD YLD	PBR		ROE	
	2024E	2025E	2024E	2025E	2024E	2024E	2025E	2024E	2025E
US	10.5	13.5	21.0	18.5	1.4	4.2	3.8	20.1	20.3
Europe	3.7	9.9	13.3	12.1	3.6	1.8	1.7	13.9	14.2
Japan	10.2	8.3	15.2	14.0	2.3	1.4	1.3	9.4	9.5
Asia ex. Japan	21.4	16.6	12.6	10.8	2.7	1.4	1.3	11.0	11.8
China	15.3	14.6	8.8	7.7	3.0	1.0	0.9	11.4	11.8

Based on Calendar Year

Inflation trends are encouraging despite the January tick-up

PCE inflation (6 month annualised)

Legend: PCE — Core PCE — Core PCE ex-housing — - - - Target
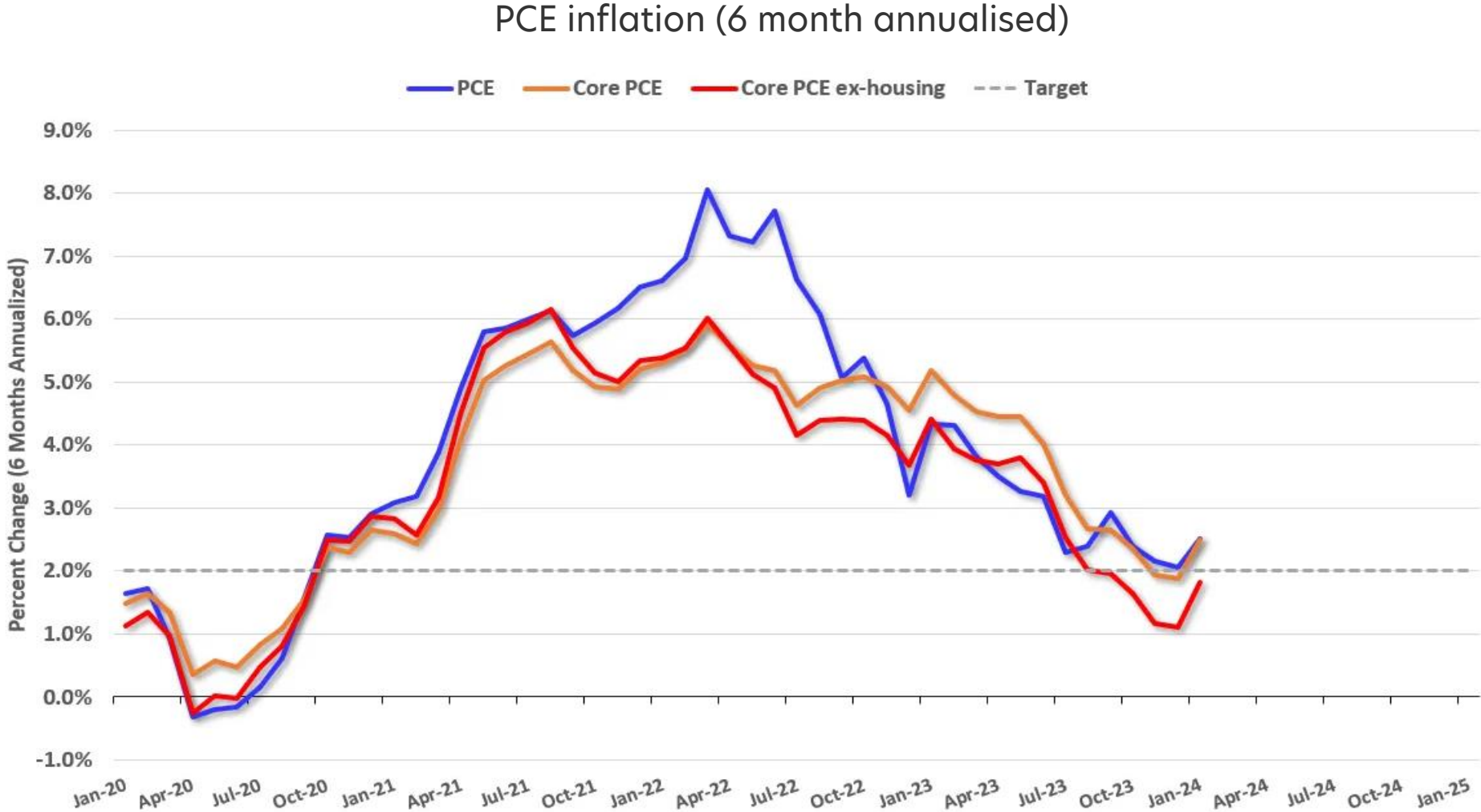
Source: UOBAM, Bloomberg, 1 March 2024

We expect inflation to moderate further in 2024, giving the Fed more room to ease

| | Weightage | Sep 2023 | 1991-2006 avg | Overshoot/ Undershoot Contribution vs 1991-2006 avg | End-2024 forecasts | | |
					Low	High	Drivers
Core Goods	26%	-0.1%	-0.1%	0.0%	-0.5%	0.5%	• Auto prices continue to correct due to inventory normalisation and high interest rates • Some pressure on higher shipping costs that might flow through to higher goods inflation that should be expected in 2Q24 onwards
Rent	17%	6.4%	3.0%	0.5%	3.5%	4.0%	• Alternative rent indices closer to 2% YoY, expect continued disinflation • High owners' equivalent rent in Jan likely an anomaly
Core Services excl. Rent	57%	4.0%	3.0%	0.5%	3.0%	3.5%	• Wage growth coming down, due to increased labour force participation. To further reduce in 2024 • Normalisation in auto insurance, an outsized contributor, expected given fall in auto prices
Core PCE		2.9%	2.1%		2.2%	2.8%	

Source: UOBAM, Bloomberg

Consumer sentiment has jumped to the highest level since 2021

University of Michigan Consumer Sentiment Index

Legend: Recession | University of Michigan Consumer Sentiment Index

Source: UOBAM, Bloomberg, Dec 2023
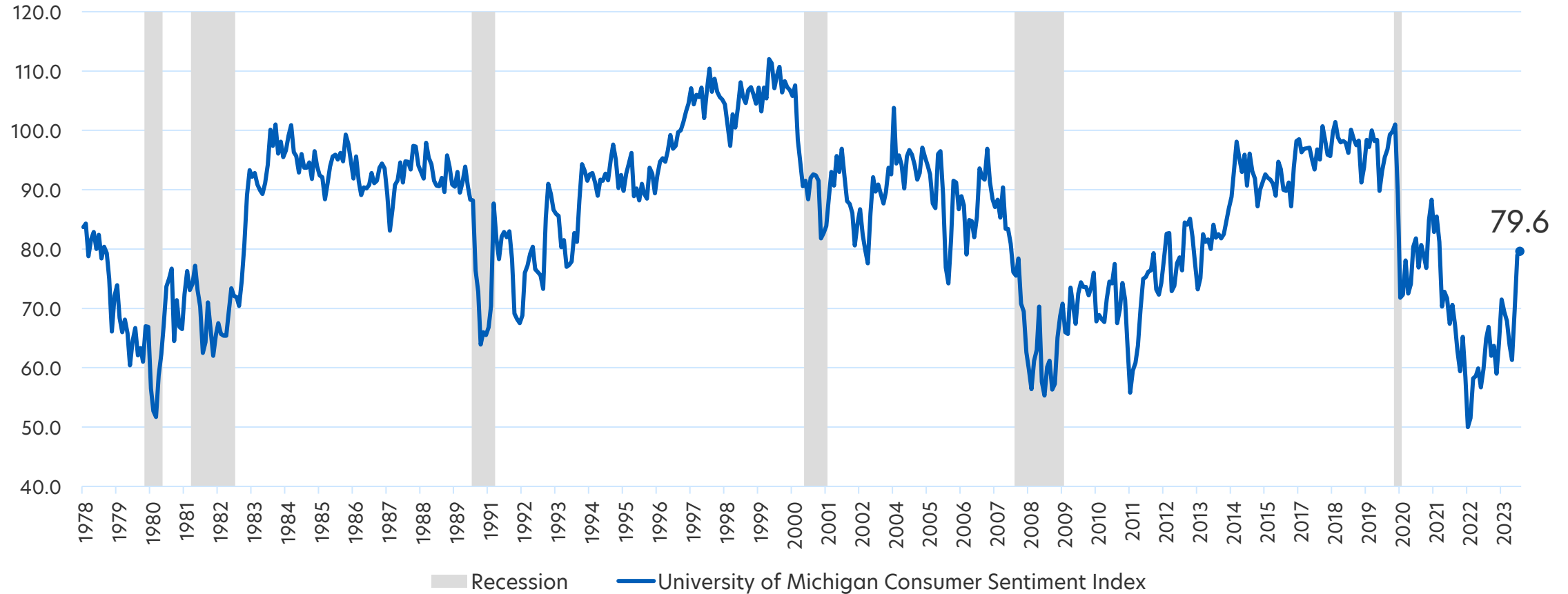
Consumers are spending more equally between goods and services, providing support for manufacturing

Services spending holding up as goods spending continues to recover
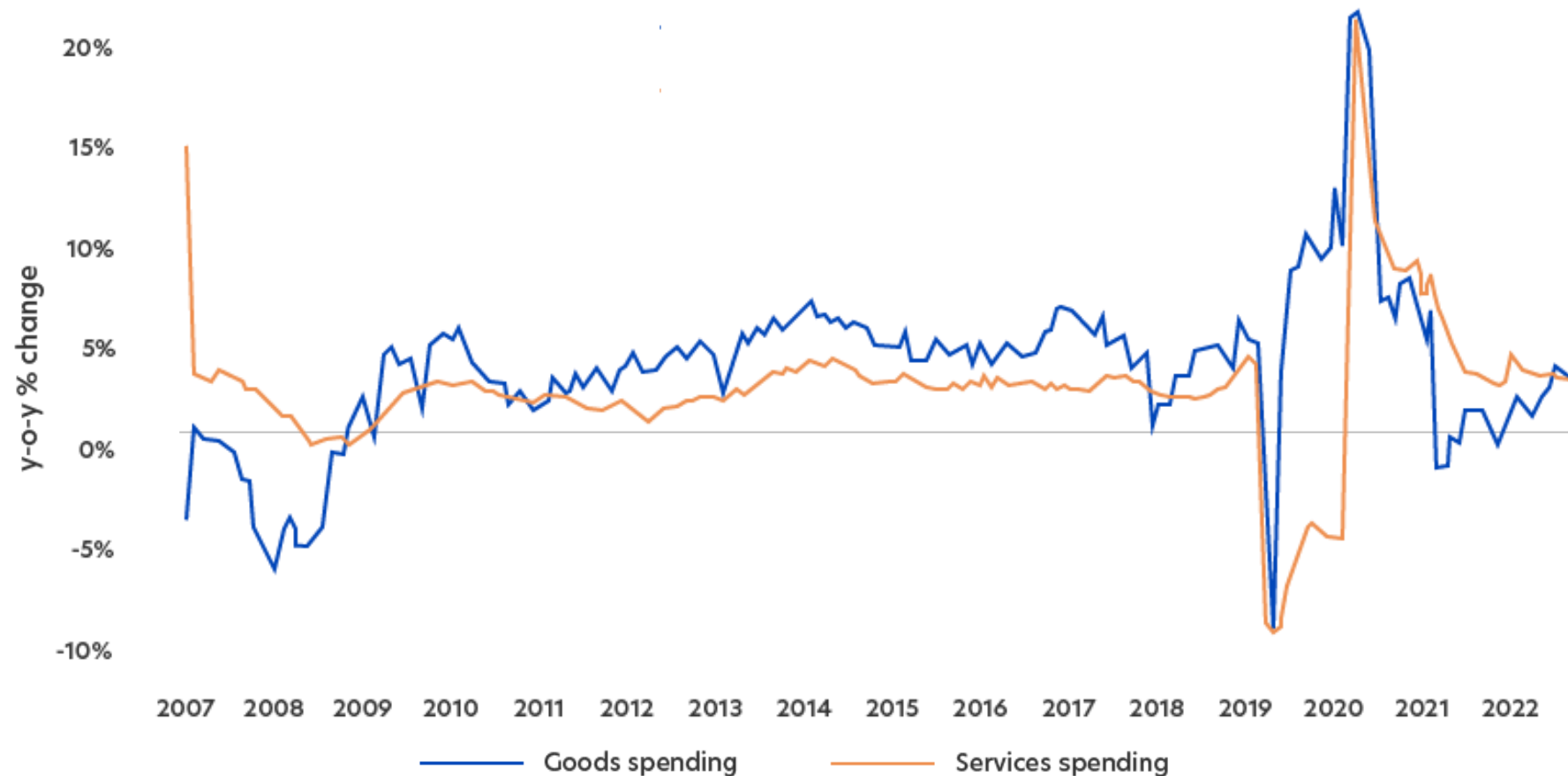
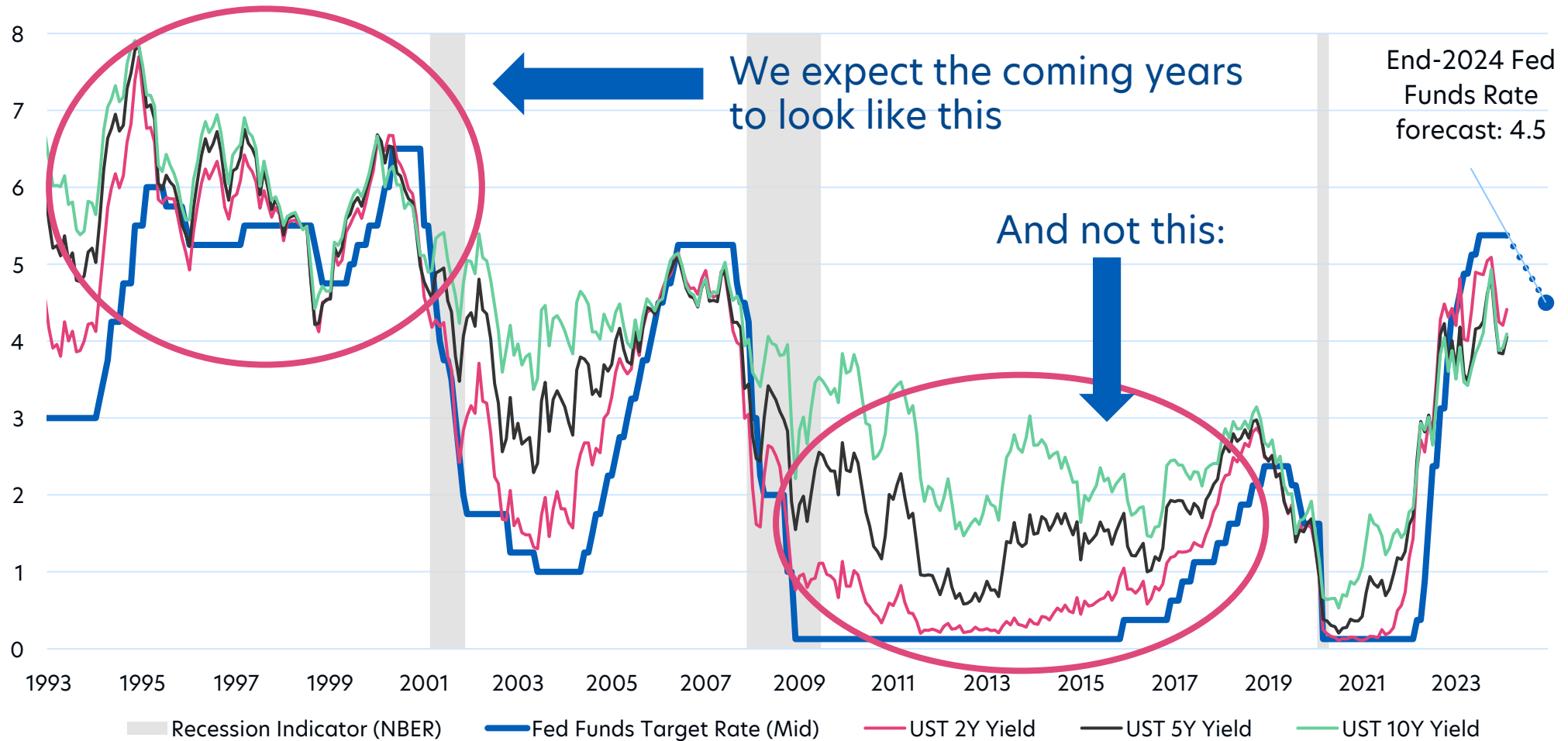# Global manufacturing recovery supports our view of better economic and regional breadth in 2024

	January 2024 Global PMI matrix			
	Current & Change		Current reading vs	
Regions	Current reading	M/M change	3 mth average	12 mth average
US	49.1	1.7	1.4	1.9
Canada	48.3	2.9	1.2	-0.3
Eurozone	46.6	2.3	1.6	1.8
UK	47.0	0.8	0.2	0.6
Japan	48.0	0.1	-0.1	-0.9
China (Caixin)	50.8	0.0	0.0	0.3
South Korea	51.2	1.3	0.9	2.1

Source: UOBAM, Bloomberg, Feb 2024 | PMI = Purchasing Managers Index

This Higher-for-Longer period looks like the 1990s

Ways the 2020s may be similar to the 1990s

➤ AI, Biotech, and the auto revolution all carry a similar degree of hype and promise as the dotcom era

➤ Strong consumer-led growth after a decade of deleveraging can be a big driver of global growth again

➤ We have ended a decade of zero percent interest rates and quantitative easing. The current economy can hold its own even with higher rates and quantitative tightening

➤ The economy is in a state of continuous expansion despite predictions of a recession in 2023. It is likely this cycle will extend for a couple of more years

➤ We see parallels between now and the 1994-1995 inflation fight that ended with some easing that led to continued expansion

➤ Greenspan called the stock market in 1996 irrationally exuberant, but the rally would go on for 4 more years, reflecting how long strong markets can last

We are expecting a similar pattern to interest rates as 1994/95

UOB Asset Management

We expect the coming years to look like this

And not this:

End-2024 Fed Funds Rate forecast: 4.5

Recession Indicator (NBER) — Fed Funds Target Rate (Mid) — UST 2Y Yield — UST 5Y Yield — UST 10Y Yield

Source: Bloomberg, UOBAM

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Wage growth is at late 1990s levels

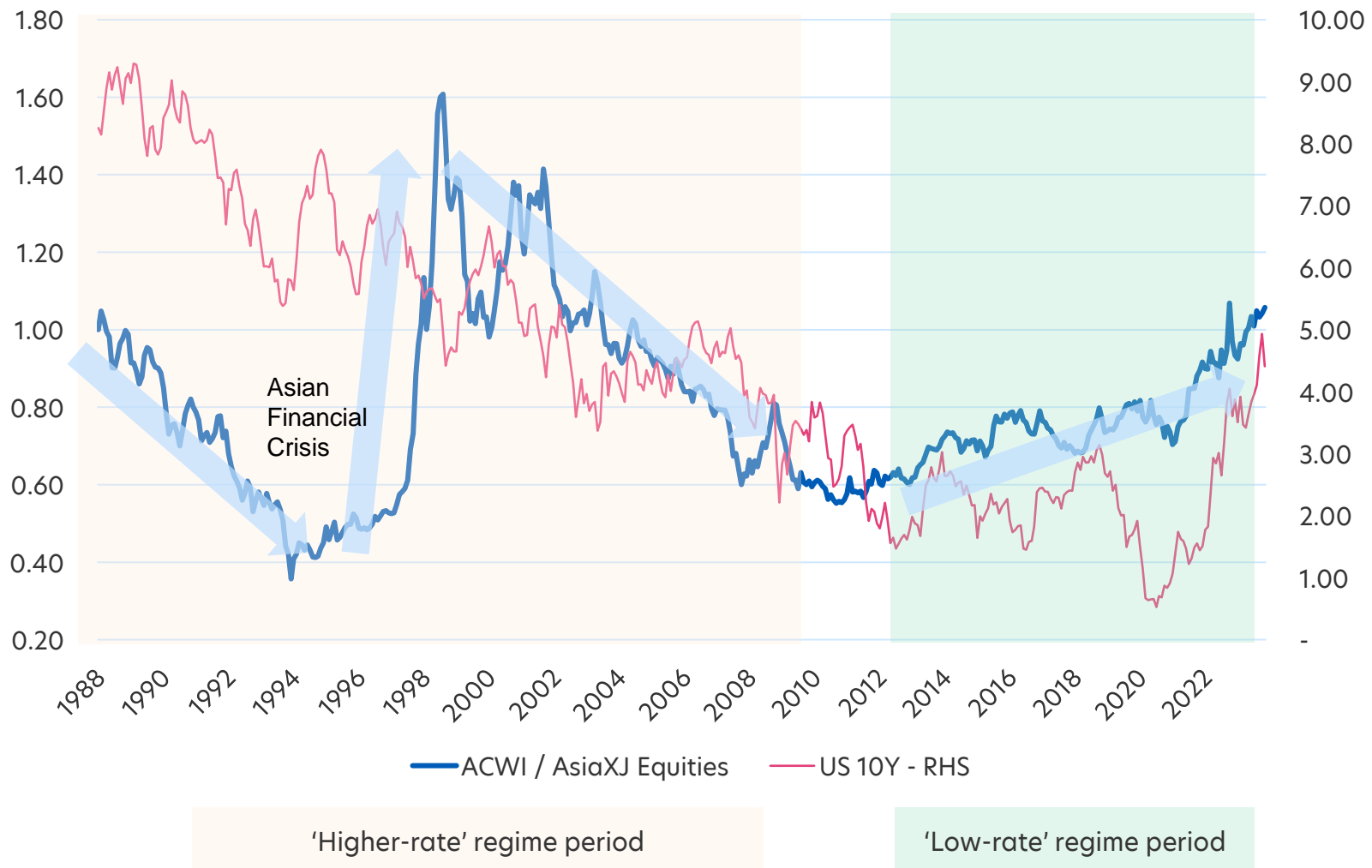Wage growth tracker: 3-month moving average of median wage growth, hourly data
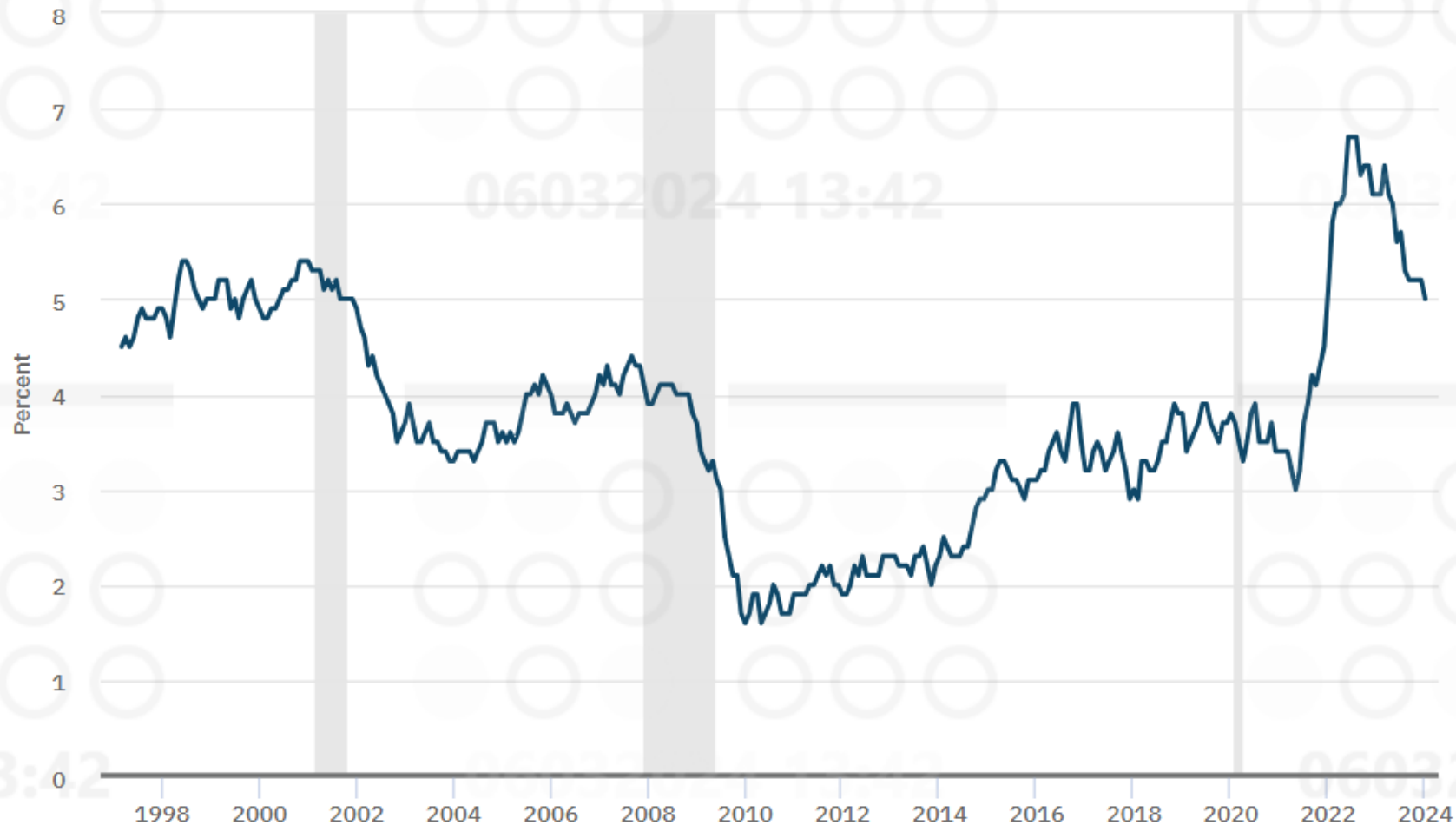
Real wages are at their highest in two decades now that inflation is back to 2 – 3%

Source: Current Population Survey, Bureau of Labour Statistics

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

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

Legend: ACWI / AsiaXJ Equities — US 10Y - RHS

'Higher-rate' regime period

'Low-rate' regime period

Asian Financial Crisis

	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

The case for a sustained bull market

Equities are not really a bubble (yet)

S&P500 Index

Jan 2022 Peak
SPX Level: 4797
Market EPS:$233

October 2022 Trough
SPX Level: 3577 (-25%)
Market EPS: $236 (+5.8%)

December 2023
SPX Level 4770 (+33%)
Market EPS: $245 (+3.6%)

2 Year Performance:
SPX: -1%
EPS: +9.7%

Source: Bloomberg, UOBAM, January 2024

Tech stocks are currently less expensive (in P/E terms) compared to other bullish periods

UOB Asset Management

Market relative forward P/E ratios: 1968 through late January 2024

Legend: A Year Before | Peak | January 2024

Categories: Mainframe Era Dec 1969 | PC Era June 1983 | Internet Era March 2000 | Current Tech Momentum Leadership | CHAT ETF⁴ Generative AI & Technology | Nvidia (AI Plays)

Tech stocks are currently less expensive (free cash flows) compared to other bullish periods

Free cash flow margins: 1968 through late January 2024

Legend: A Year Before | Peak | January 2024

X-axis categories: The Mainframe Era: December 1969 | The PC Era: June 1983 | The Internet Era: March 2000 | Current Tech Momentum Leadership | CHAT ETF[3] Generative AI & Technology | Nvidia

AI Plays

Market breadth is not as narrow as it seems

Equally-weighted baskets, total returns in US$
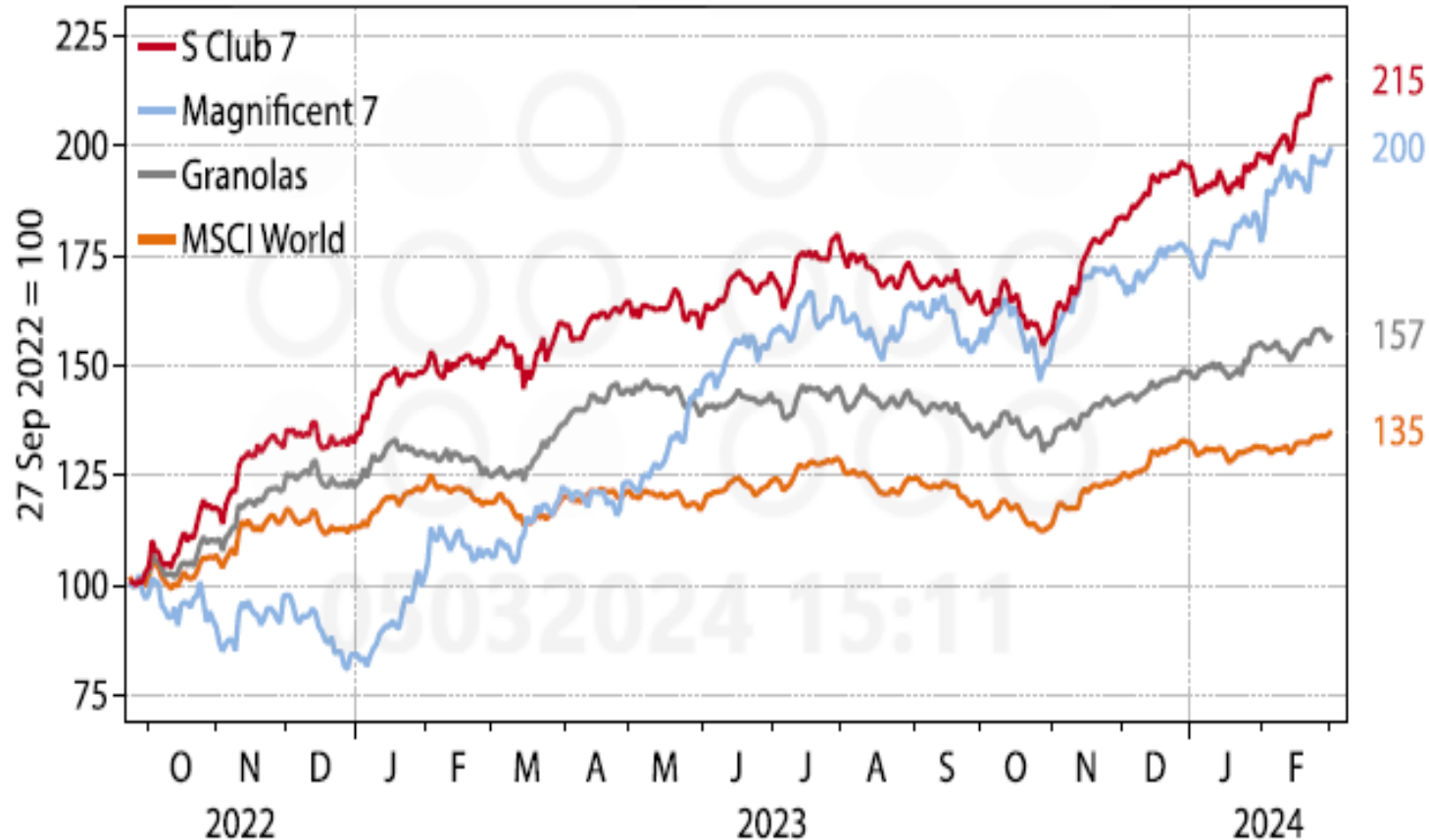
There is far more than the "Mag 7" to invest in

- **GRANOLAS –** GSK, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, AstraZeneca, SAP

- **S CLUB –** Safran, Saint-Gobain, Sanofi, SAP, Schneider Electric, Siemens, Stellantis

- **Mag 7 –** Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla

- **7 SAUMRI –** Screen Holdings, Advantest, Disco, Tokyo Electron, Toyota Motor, Subaru, Mitsubishi Corp
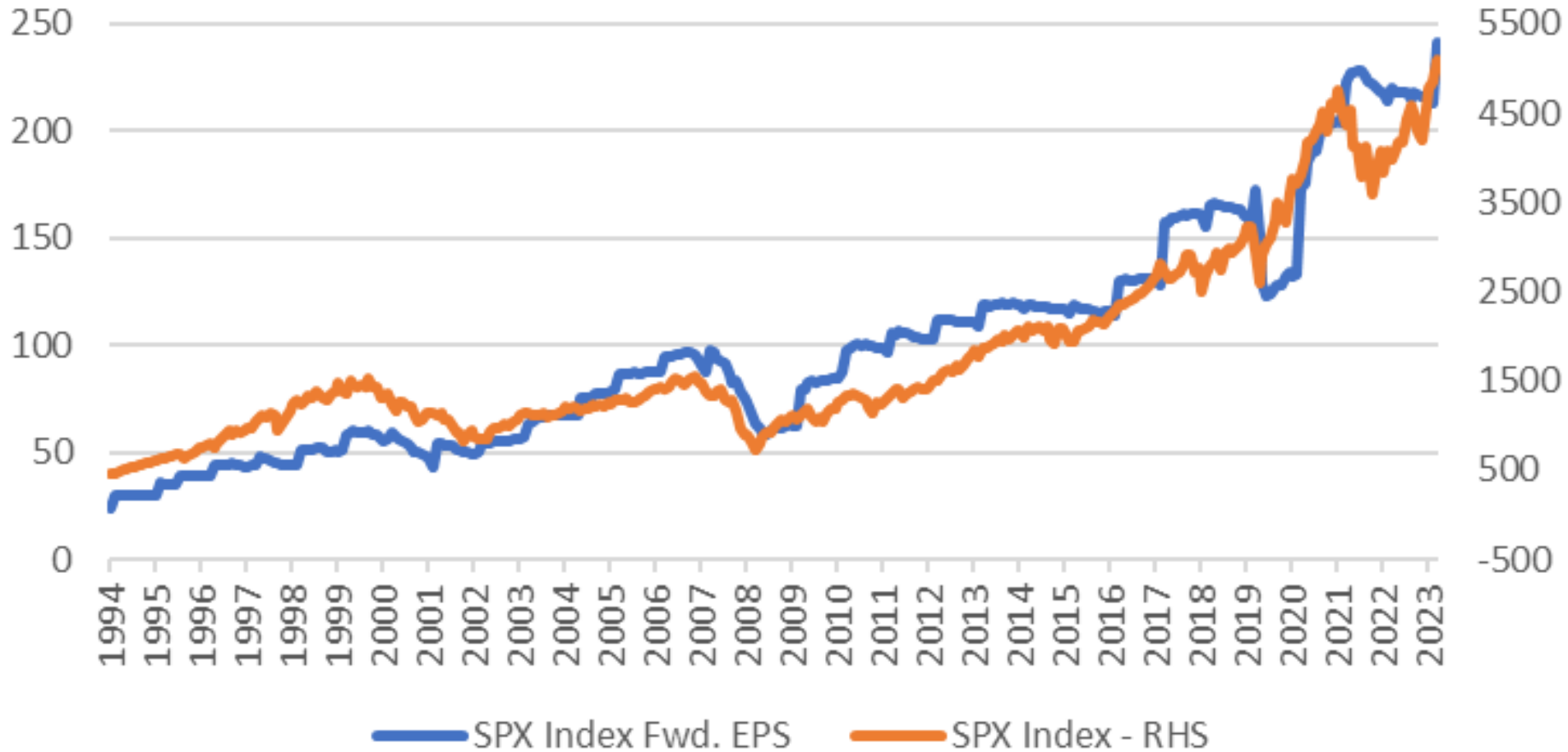
Source: Gavekal Research / Macrobond

Markets have not been driven by liquidity since Oct 2022

Fed balance sheet vs SPX Index since 2010

Source: Bloomberg, UOBAM, 28 Feb 2024
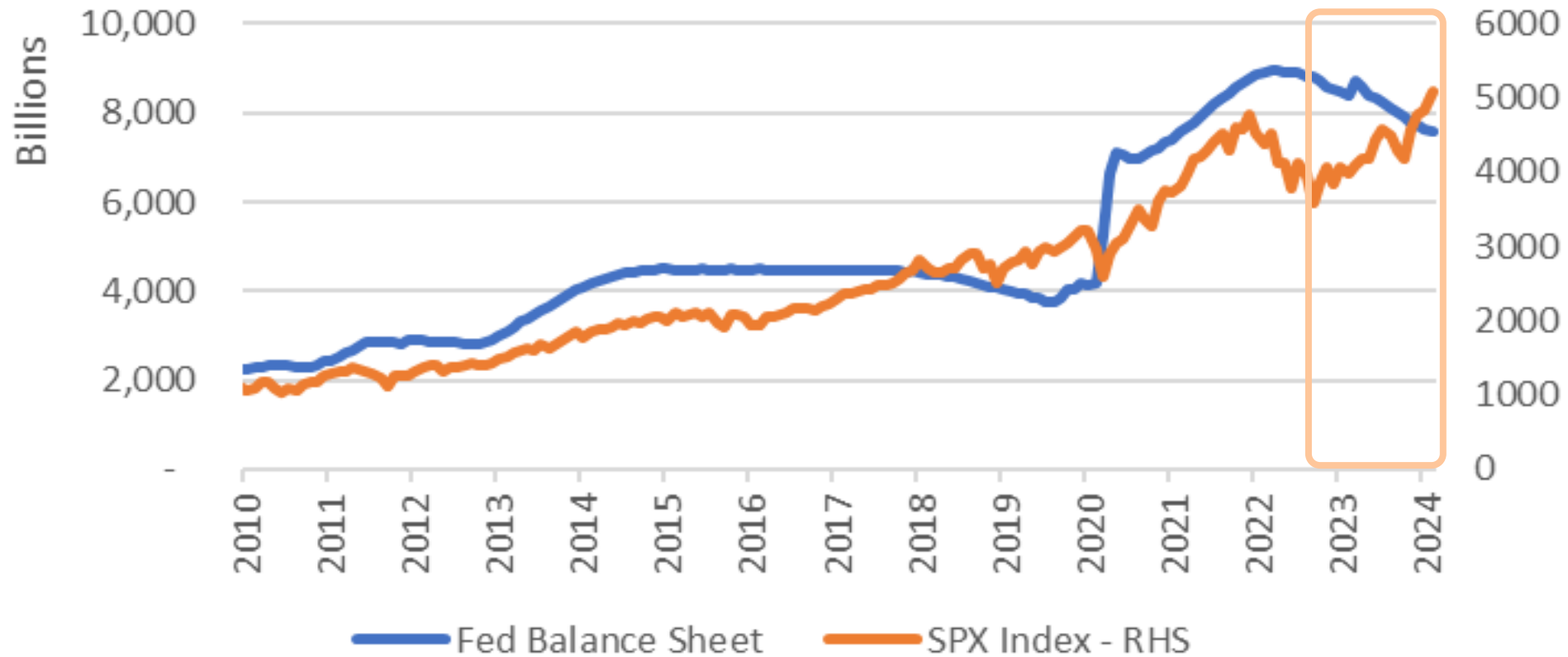
Earnings will likely be a key market driver going forward

SPX forward EPS vs SPX performance

Earnings have a stronger long-term correlation with performance

Legend: SPX Index Fwd. EPS — SPX Index - RHS

Source: Bloomberg, UOBAM, 28 Feb 2024

Post GFC, earnings have had a stronger correlation with performance than liquidity

ACWI forward EPS vs ACWI performance
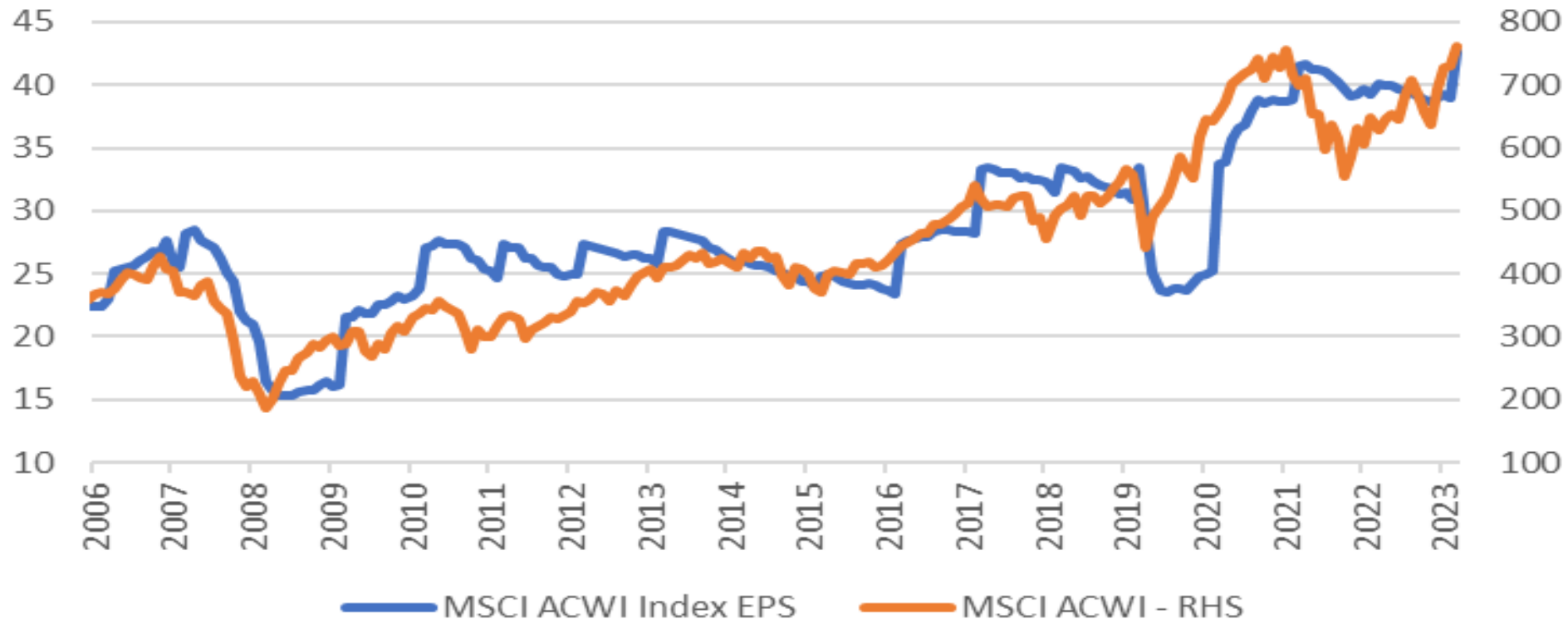
Although the Fed's quantitative tightening may reduce liquidity, it is unlikely to negatively impact markets

Legend: MSCI ACWI Index EPS — MSCI ACWI - RHS

US election risks

Key themes

➢ In a continued expansion, markets should do fine no matter who is president

➢ In an election year, there are additional incentives to "pull out all the tricks" to keep the economy running smoothly

➢ However, this election has the potential to sap consumer confidence as Biden and Trump gear up for a rematch

➢ Trump risks were overstated in 2016, but they may be perceived as high again due to tariff policies, his threats to replace government employees with party members, and his general ability to overcome the rule of law

US election probabilities: Trump's case to win

Polling lead
Trump has a 1 – 4 point lead in most polls, and is leading in probability market forecasts.

Supportive base
Trump's base is far more energised and enthusiastic than Biden's. Biden's advanced age is also a concern for many voters.

Trump's edge
Trump appears even stronger in the battleground states than he does nationally. Third-party candidates could drag voters away from Biden.

US election probabilities: Biden's case to win

Anti-Trump voters
More voters say they will never vote for Trump than for Biden. Even if they may not support Biden, some voters would still choose to vote against Trump than stay home and not vote.

Positive economic outlook
The economic outlook is quite good and inflation is improving. Consumer confidence may improve enough nearer the election to help Biden win.

Swing voters
Trump's ongoing court cases could his standing with swing voters. Biden leads in campaign fundraising and has not started to run ads yet. When he does, there is a lot of ammunition to highlight how risky it is to elect Trump.

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