Quarterly Investment Strategy

Third Quarter 2024

# The expansion is broadening

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# Global investment strategy

# Summary of 3Q24 investment conclusions

**Macro-environment**
The global economy remains resilient even at higher rates. Despite the recent soft patch in economic data, we continue to see sustained stable growth over the remainder of the year.

**Markets**
Global growth has broadened with more regions seeing macro improvements and China presenting less of a drag.

**Interest rate outlook**
We see moderate inflation improvements that will eventually allow a couple of rate cuts.

**Investment implications**
We stay overweight equities and credits, underweight government bonds and cash. Earnings growth remains robust and will continue to be a market driver.

# UOBAM investment wave

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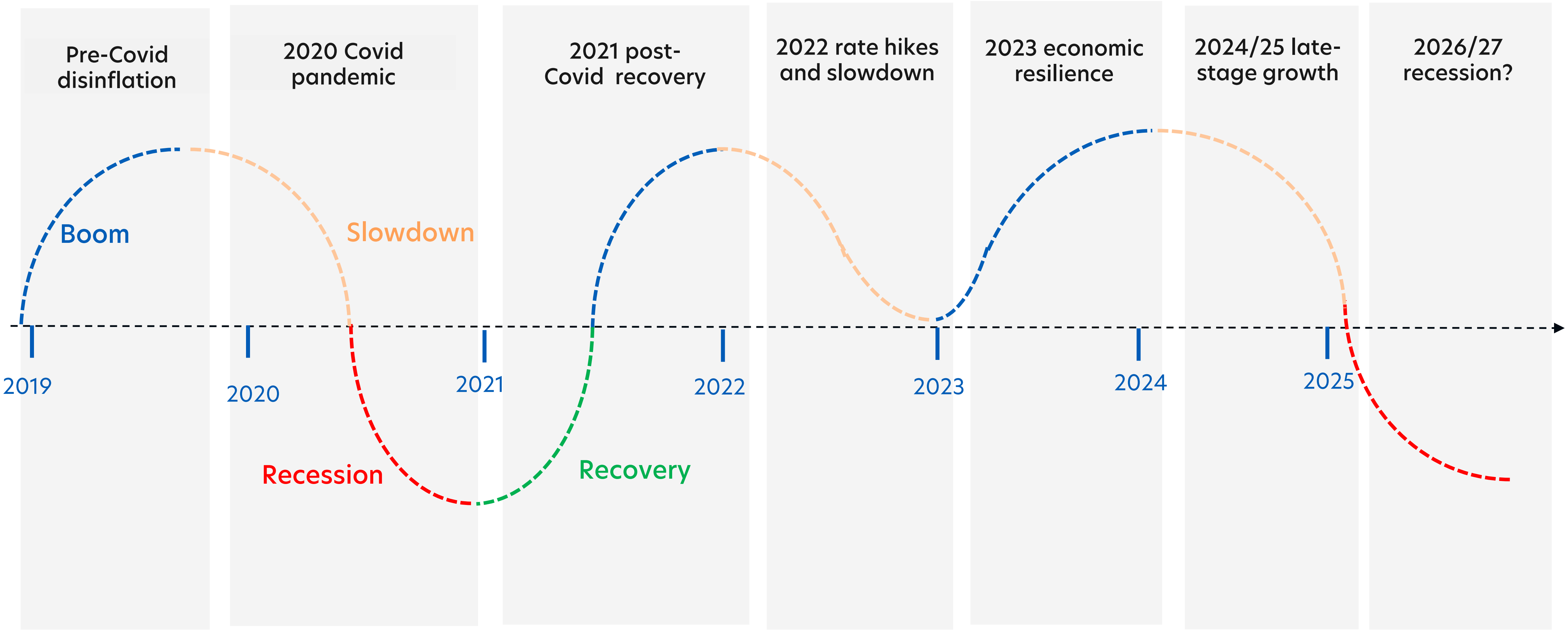
The US/global expansion looks set to continue for another 1 to 3 years.




Source: UOBAM, September 2023

# Asset Allocation Strategy: Stable views in 3Q2024

| Global asset allocation | -- | - | N | + | ++ |
|---|---|---|---|---|---|
| Equities | ○ | ○ | ○ | ● | ○ |
| US equities | ○ | ○ | ○ | ● | ○ |
| European equities | ○ | ▶ | ● | ○ | ○ |
| Japan equities | ○ | ○ | ○ | ● | ○ |
| Asia ex Japan equities | ○ | ○ | ○ | ● | ○ |
| Govt bonds | ○ | ● | ○ | ○ | ○ |
| Investment grade credits | ○ | ○ | ○ | ● | ○ |
| High yield credits | ○ | ○ | ○ | ● | ○ |
| Real estate investment trusts | ○ | ○ | ● | ○ | ○ |
| Commodities | ○ | ○ | ● | ○ | ○ |

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

Source: UOBAM, 13 June 2024
Note: *3-6 months horizon. The weights are relative to the appropriate benchmark(s), arrows show change from last quarter

# Fixed income and commodities strategy maintained

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

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

| | -- | - | N | + | ++ |
|---|---|---|---|---|---|
| Commodities | | | X | | |
| Gold | | | | X | |
| Base Metals | | | X | | |
| Bulk Commodities | | X | | | |
| Energy | | | | X | |
| Agriculture | | | X | | |

++ 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

# Global growth outlook

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

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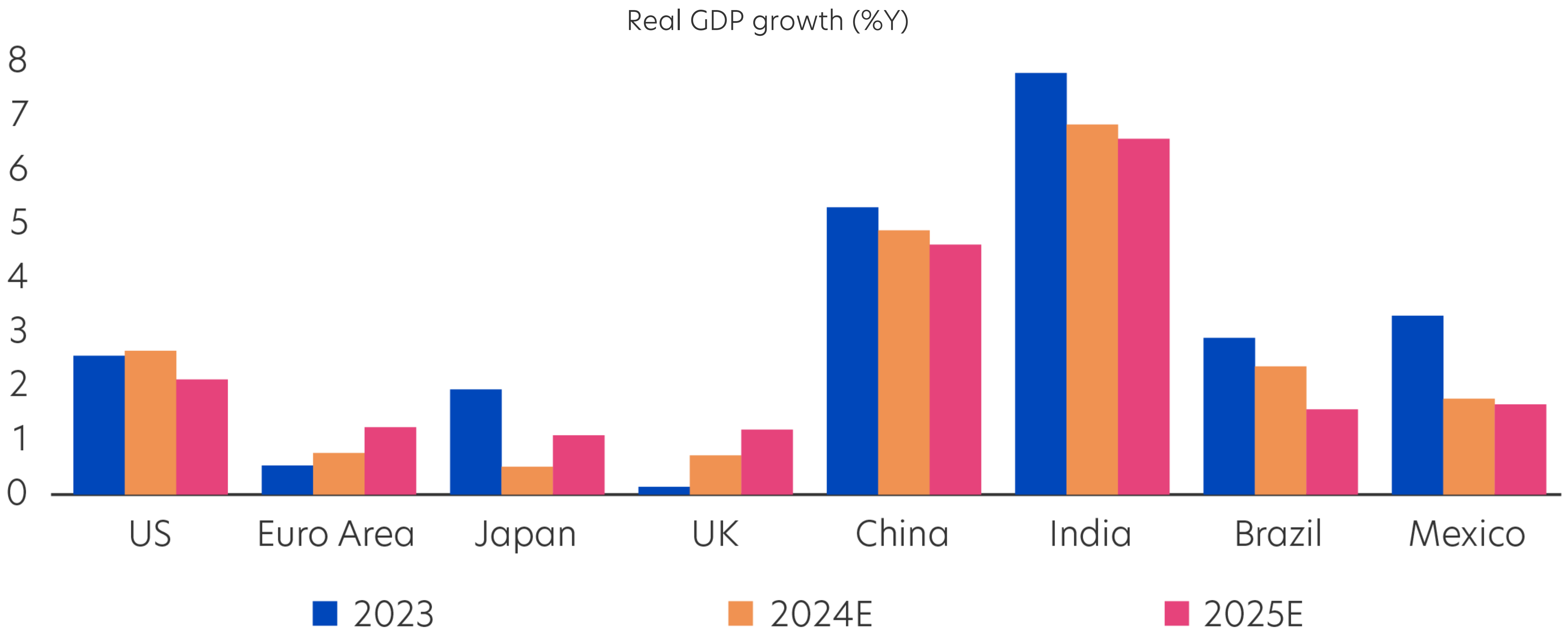
Real GDP Growth Consensus Estimates (%)

| | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F |
|---|---|---|---|---|---|---|
| Global | -2.8 | 6.3 | 3.5 | 3.1 | 2.9 | 2.9 |
| United States | -2.2 | 5.8 | 1.9 | 2.5 | 2.4 | 1.7 |
| Eurozone | -6.1 | 5.9 | 3.4 | 0.5 | 0.6 | 1.4 |
| Japan | -4.3 | 2.4 | 0.9 | 2.0 | 0.7 | 1.1 |
| Asia ex. Japan | 1.3 | 5.9 | 4.0 | 5.2 | 4.9 | 4.6 |
| China | 2.2 | 8.4 | 3.0 | 5.2 | 4.8 | 4.5 |

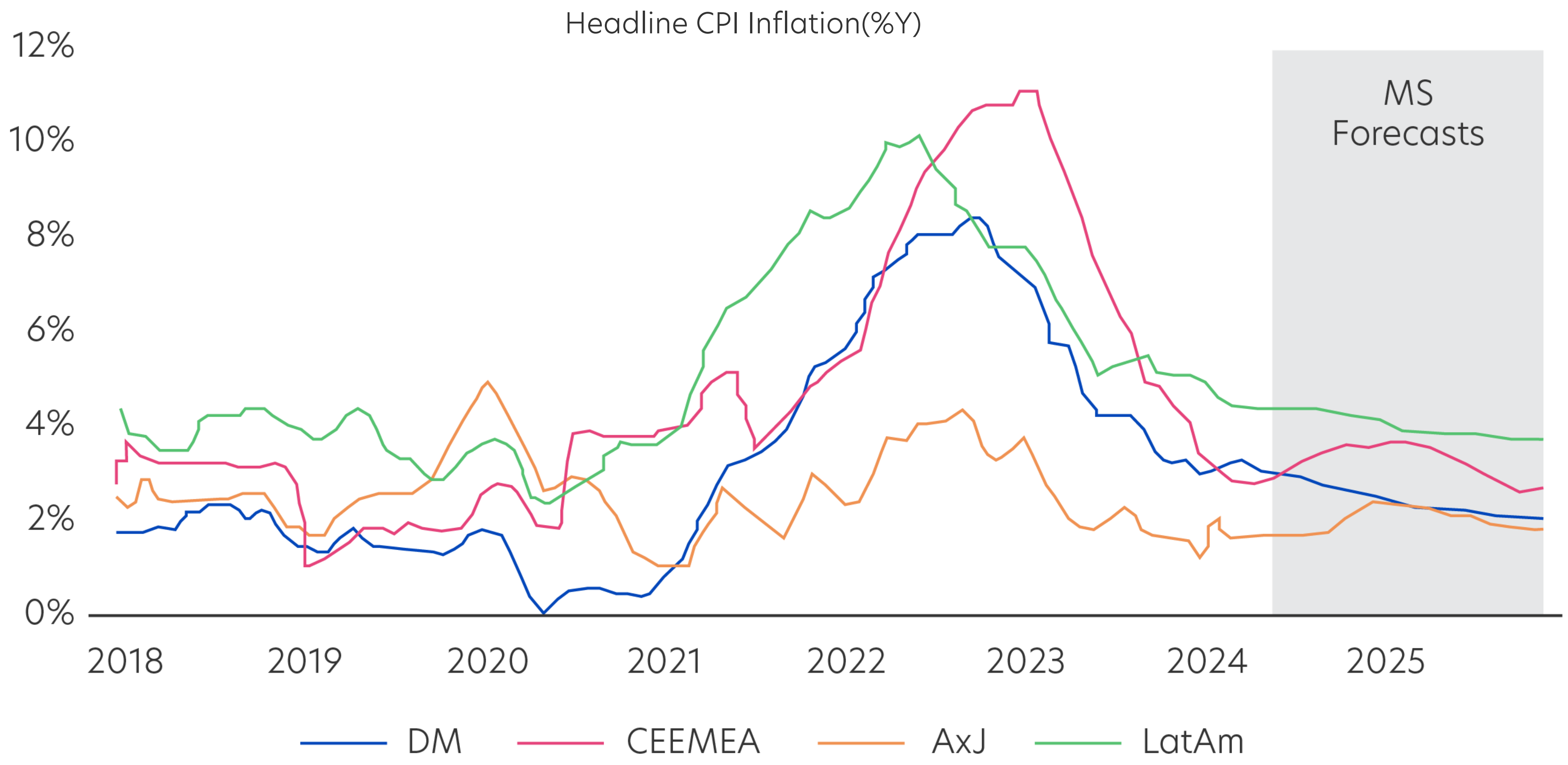
Source: Bloomberg, UOBAM, 15 May 2024

# Country growth is moderate but stable




Source: Haver Analytics, Morgan Stanley Research forecasts

# Albeit slow, we see inflation improvements regionally




Source: National statistical agencies, Morgan Stanley (MS) research forecast

# Earnings growth remains good for 2024 and 2025

| | EPS Growth (YoY%) | | PER | | DVD YLD | PBR | | ROE | |
|---|---|---|---|---|---|---|---|---|---|
| Regions | 2024E | 2025E | 2024E | 2025E | 2024E | 2024E | 2025E | 2024E | 2025E |
| US | 11.1 | 14.1 | 21.6 | 19.0 | 1.4 | 4.4 | 3.9 | 20.2 | 20.7 |
| Europe | 3.9 | 10.3 | 14.3 | 13.0 | 3.3 | 2.0 | 1.9 | 13.9 | 14.4 |
| Japan | 11.4 | 7.9 | 15.7 | 14.6 | 2.2 | 1.5 | 1.4 | 9.5 | 9.7 |
| Asia ex. Japan | 20.6 | 15.5 | 14.0 | 12.1 | 2.5 | 1.6 | 1.4 | 11.1 | 11.8 |
| China | 12.3 | 12.8 | 10.9 | 9.7 | 2.6 | 1.2 | 1.1 | 11.3 | 11.7 |

Based on calendar year

Source: Factset UOBAM, 15 May 2024

# Fixed income markets should remain attractive driven by yields

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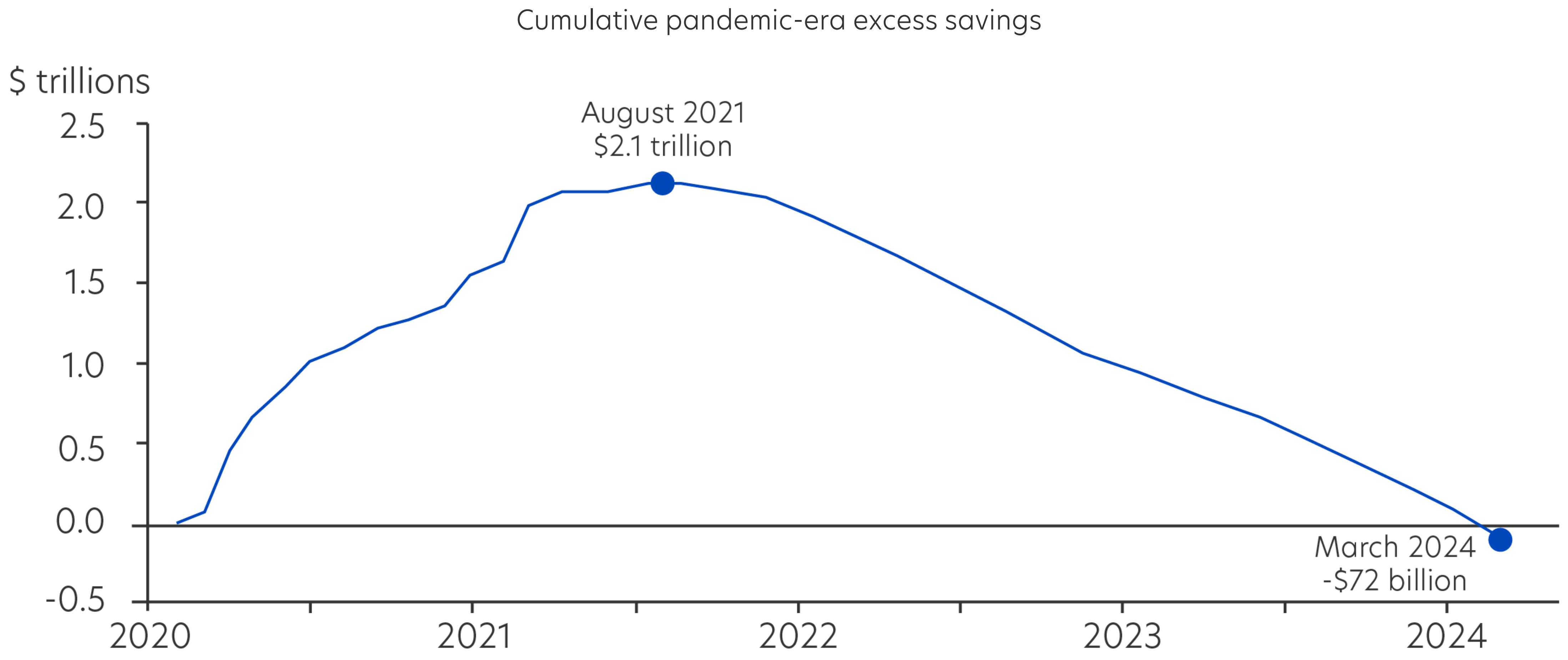
| Periods | 1992-2001 | 2002-2011 | 2012-2021 | 2022[1] |
|---|---|---|---|---|
| Starting yield % | 6.70 | 5.60 | 2.24 | 4.68 |
| Aggregate return% | 7.23 | 5.78 | 1.34 | ? |

Source: PGIM Fixed Income and Bloomberg.
[1]As of December 30, 2022. Yield and returns based on the Bloomberg U.S. Aggregate Bond Index. Past performance is not a guarantee or reliable indicate of future results.

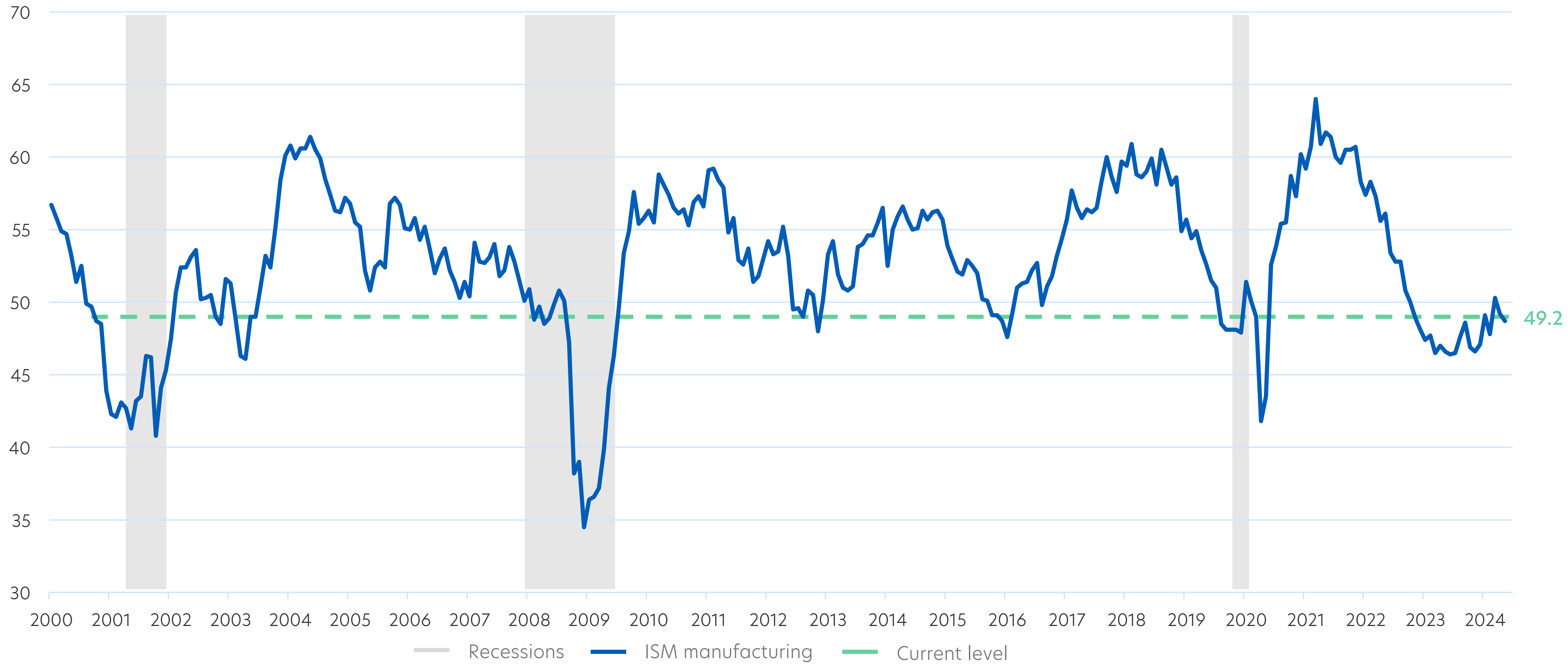
# The case for continued stable growth and the risks to monitor

# Evidence of a soft patch in economic data potentially driven by the depletion of excess savings in the US



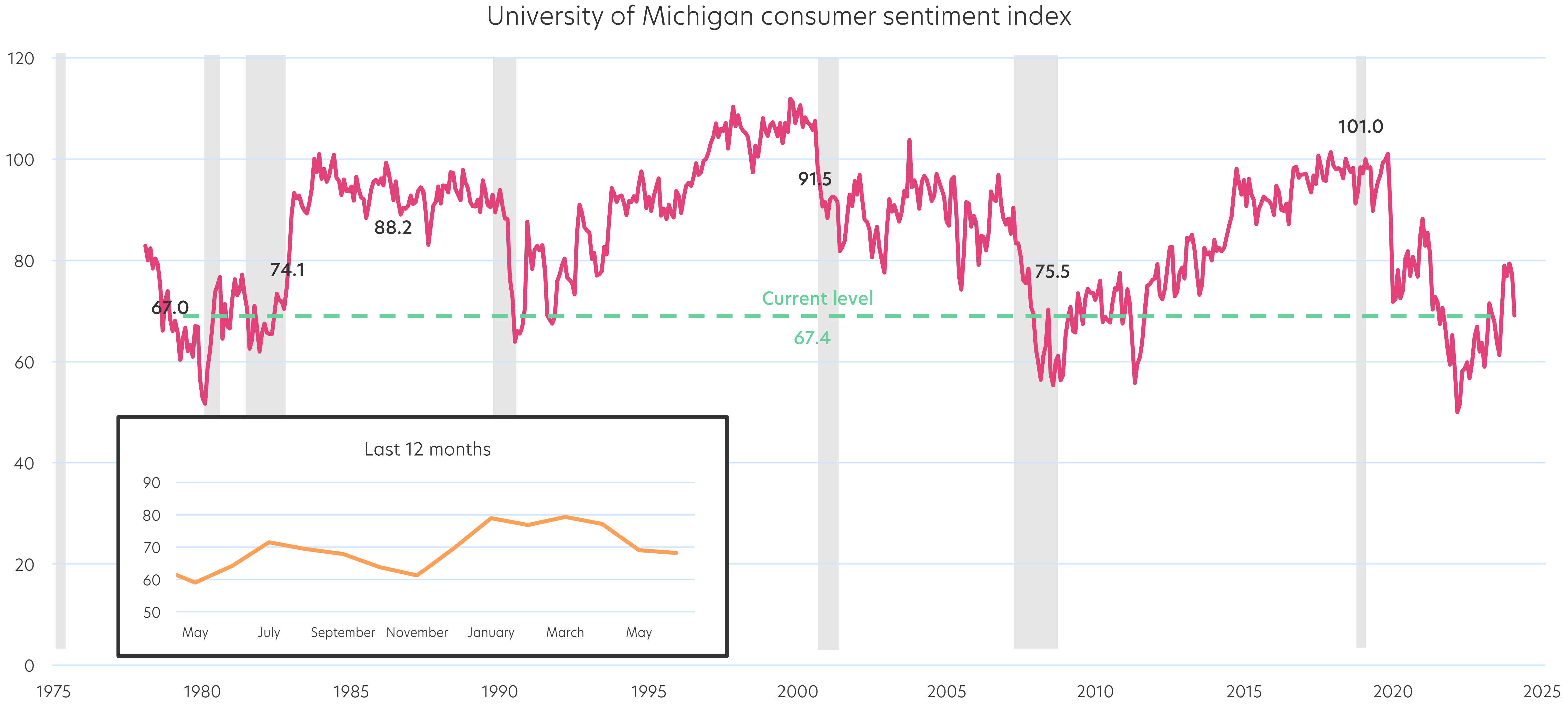
# The manufacturing rebound we were forecasting stalled in 2Q24

ISM Manufacturing: PMI Composite Index since 2000



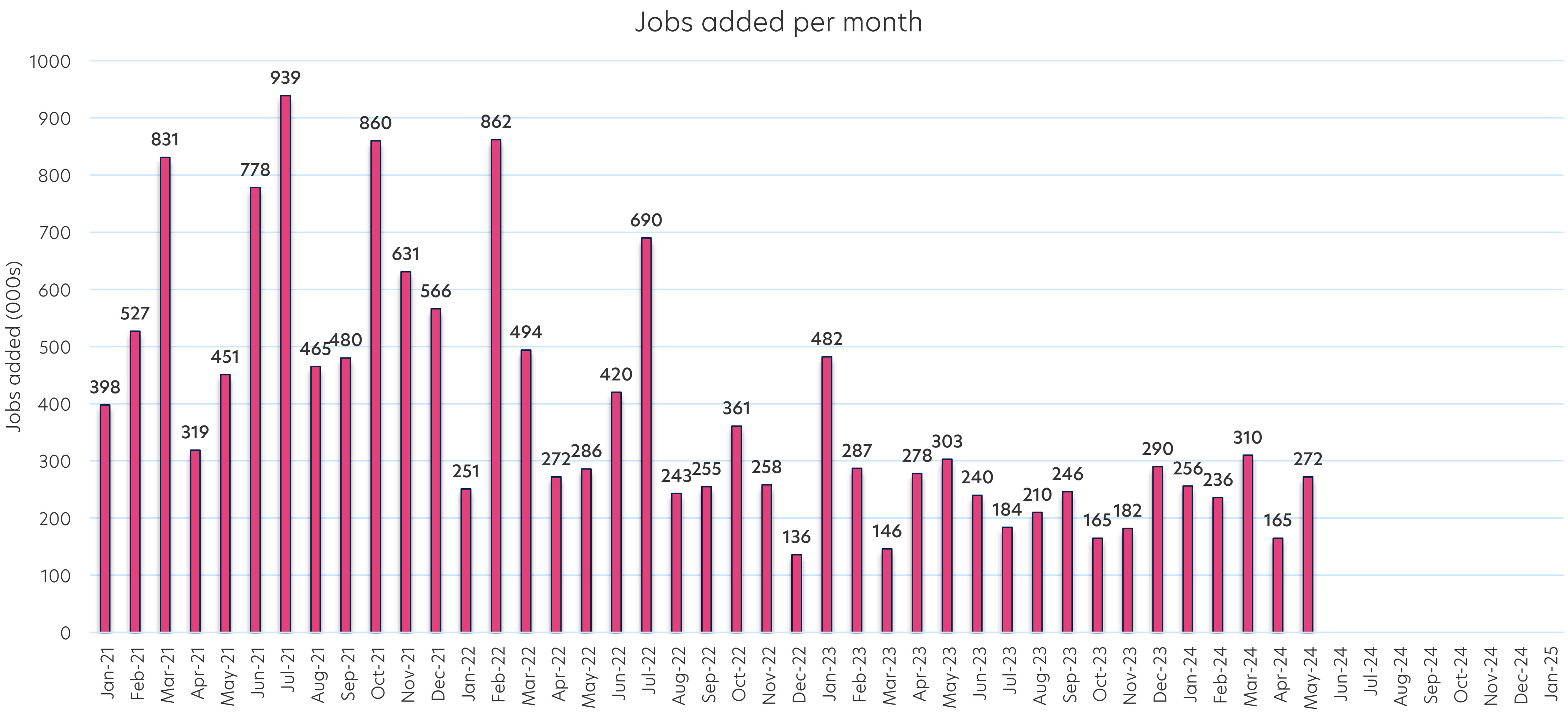

Source: advisorperspectives.com, data through April 2024

# Consumer confidence had been showing signs of a strong improvement but declined in 2Q24



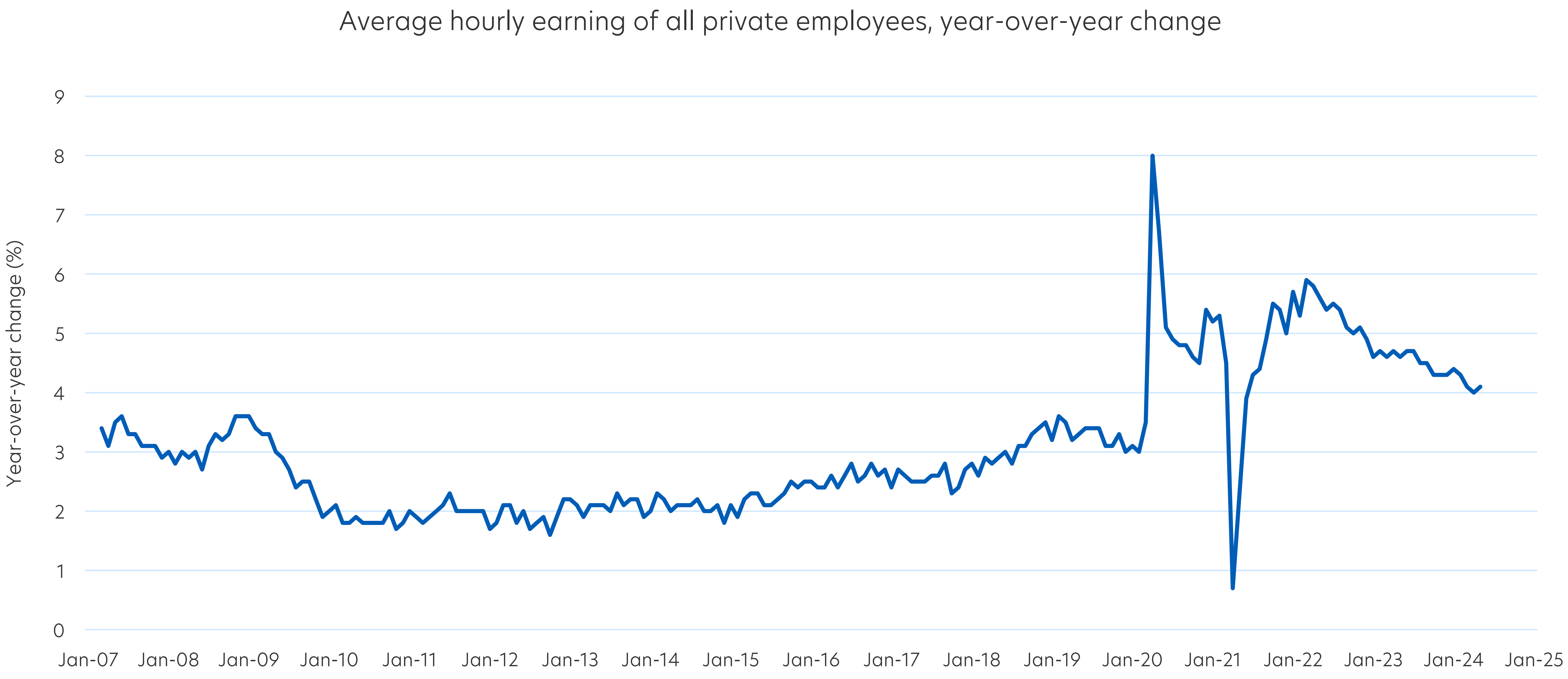

Source: advisorperspectives.com, May 2024

# US payrolls have been strong and remain the basis of our growth view



# US wages have been moderating but are still at a strong level

Data implies that US consumers have a good combination of more jobs and good wage growth



# Consumption data in GDP accounts still looks positive

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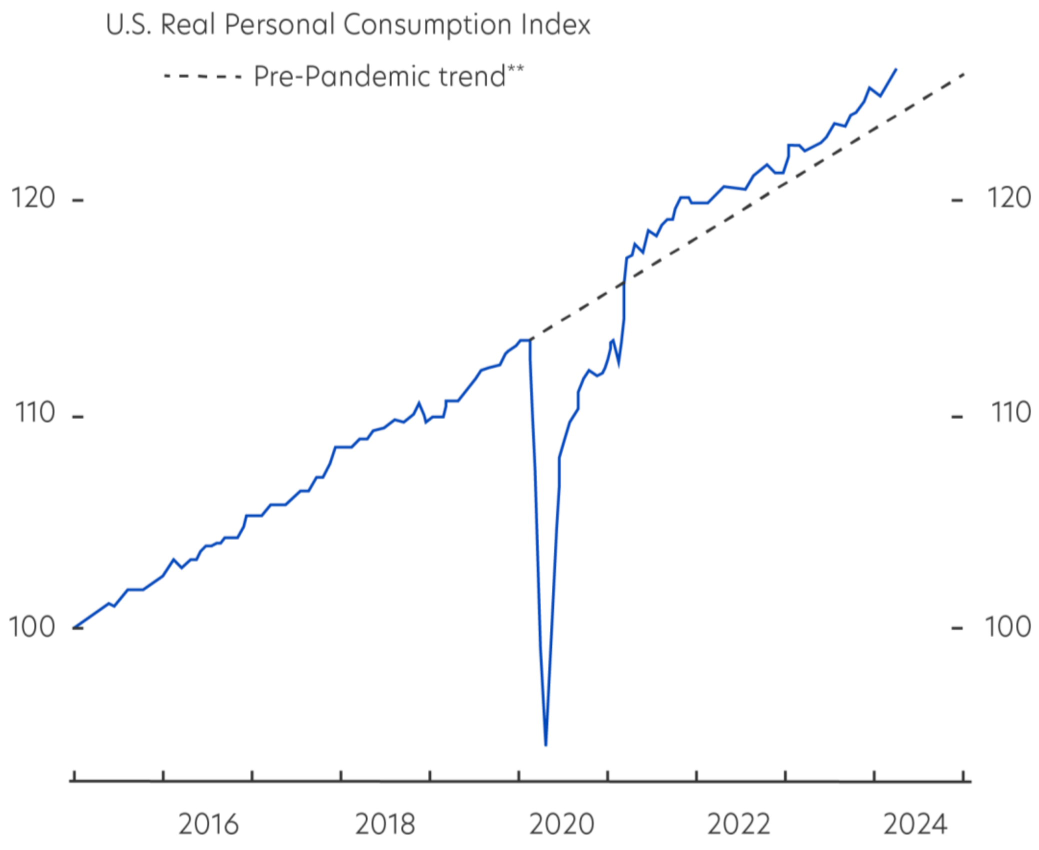
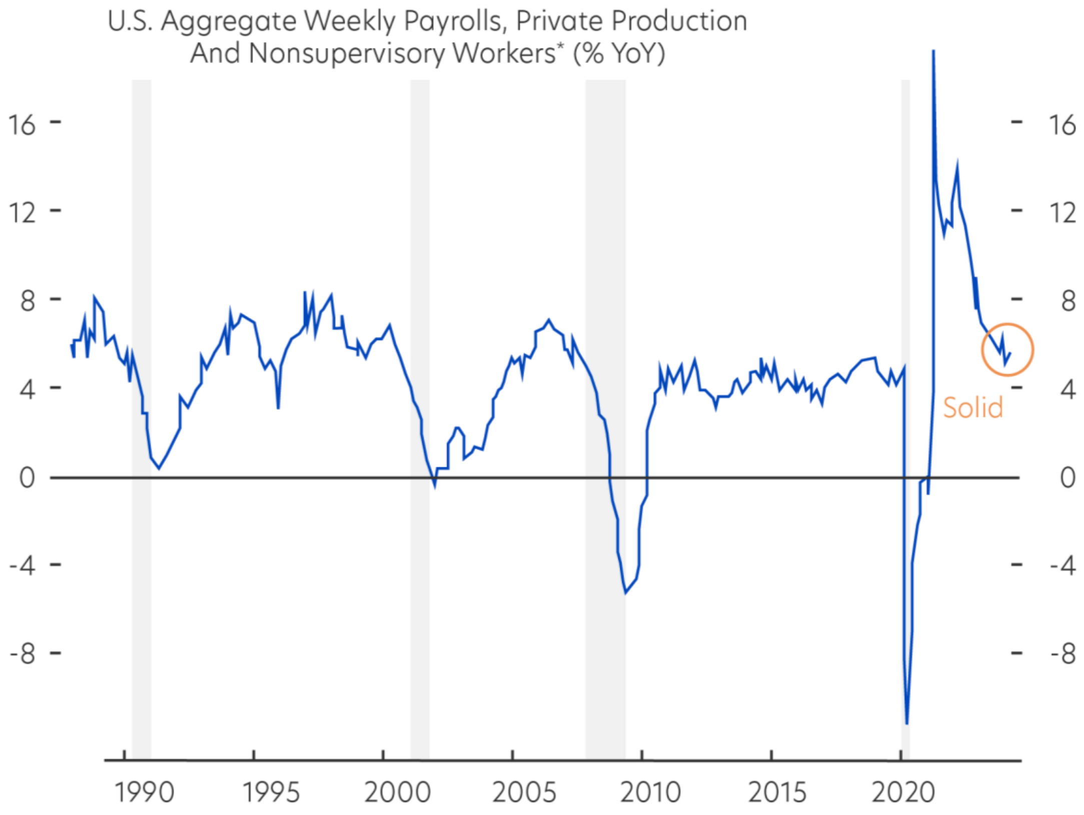
## Consumer spending has been solid



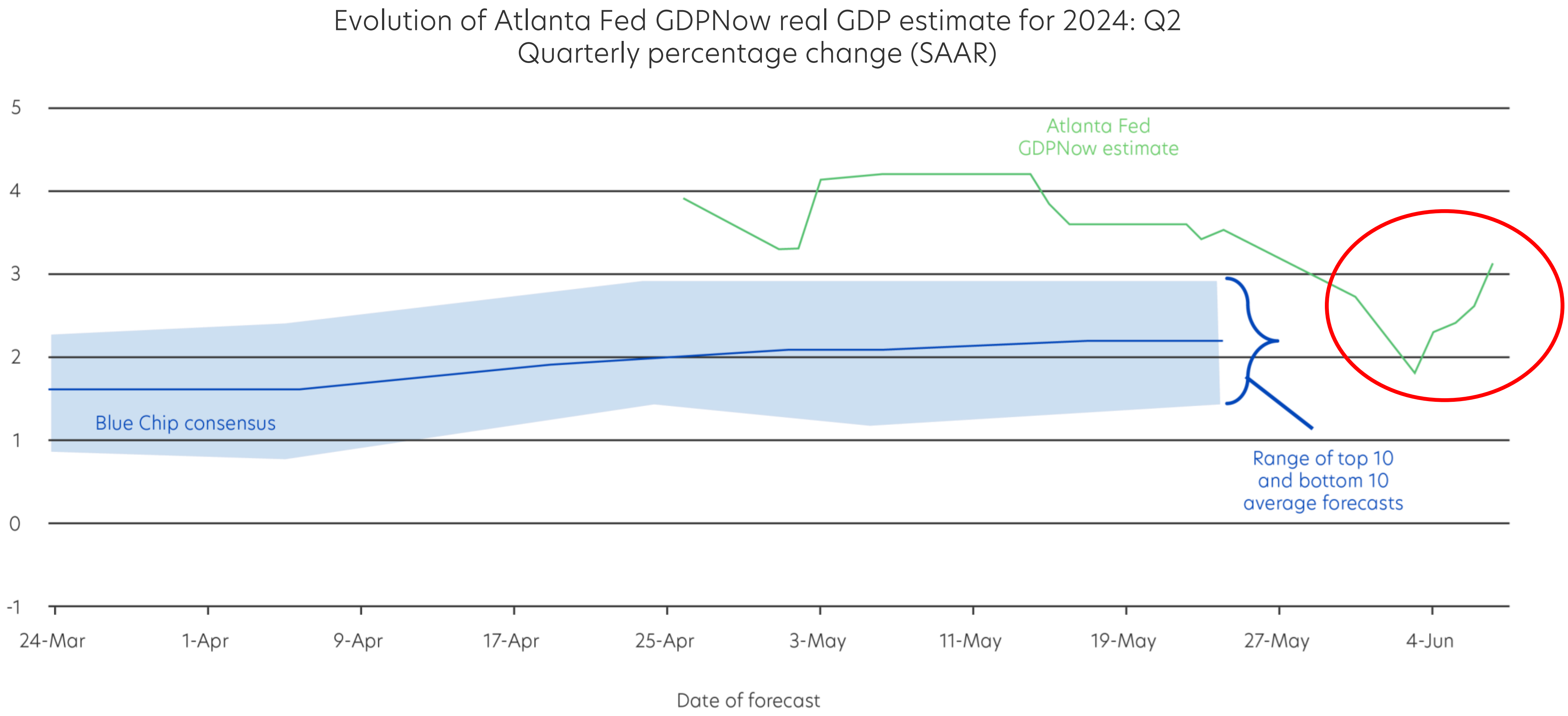

*Rebased to 2015: source: Bureau of Economic Analysis
** MRB calculation

## The total wage bill is growing solidly




*Source: U.S. Bureau of labour statistics

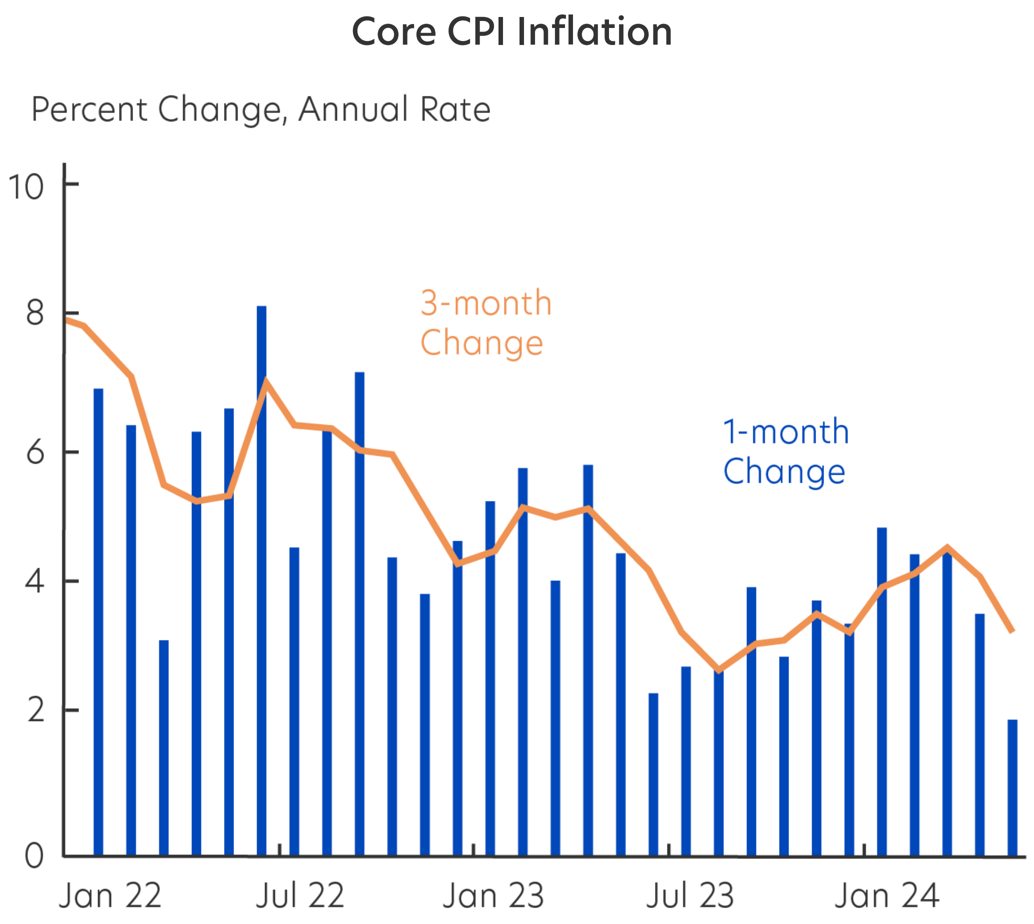
# The payroll rebound has led to a stronger economic forecast in 2Q24



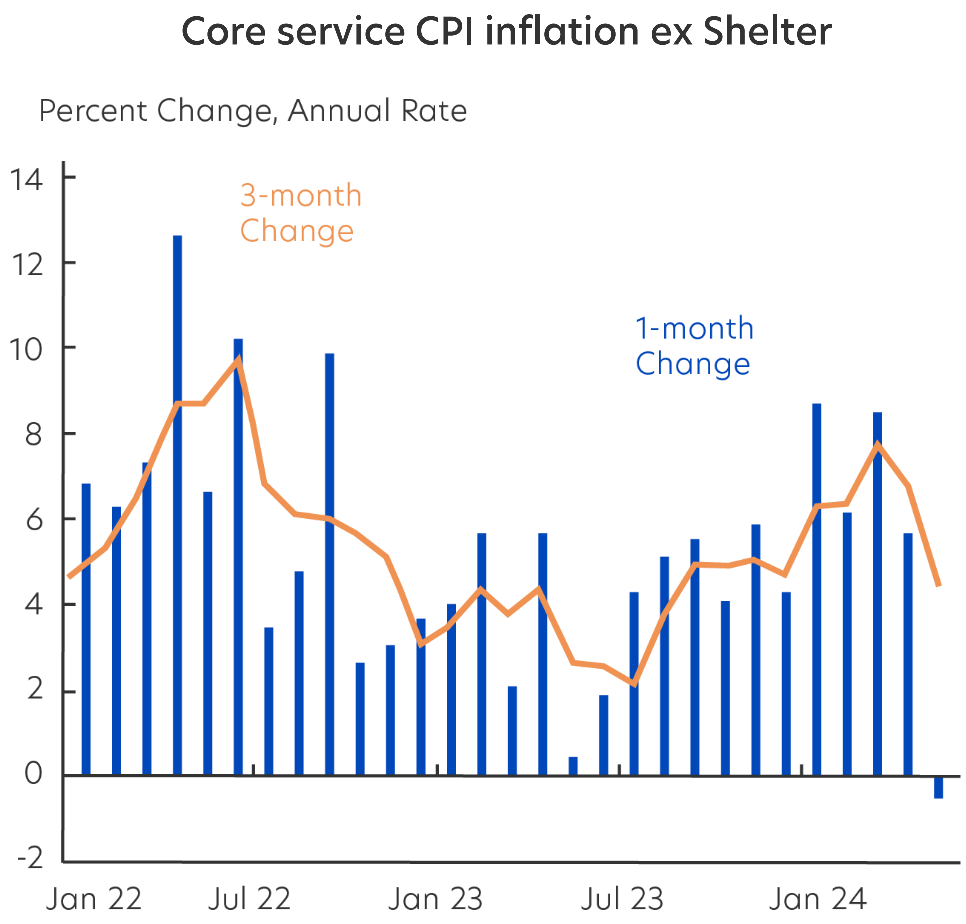

Sources: Blue Chip economic indicators and Blue Chip financial forecasts
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts on the Blue Chip survey.

# Inflation improvements do not appear to have stalled with May data being very encouraging






Source: Bureau of Labour Statistics via Macrobond; author's calculations




Source: Bureau of Labour Statistics via Macrobond; author's calculations

# We continue to expect 2 rate cuts and this is how we get our projections

- **The Fed has described their current policy as restrictive** and believes there may be scope to dial it back
- **The important inputs into the Fed's model** are core PCE inflation (currently 2.8%), the unemployment rate (currently 4.0%) and the long-term neutral rate (currently the Fed says 2.6% but is expected to raise it to 3% or even 3.5%)
- **Based on the current inputs the Fed could cut 6 times** to create neutral policy.
- **Based on a conservative neutral rate the fed could cut 1 to 3 times**

**Taylor Rule, R* = 2.6 (FOMC Median)**

| Core PCE (end-2024) | Unemployment Rate (end-2024) | | | | | |
|---|---|---|---|---|---|---|
| | 3.0% | 3.5% | 4.0% | 4.5% | 5.0% | 5.5% |
| 2.00% | 4.0 | 3.5 | 3.0 | 2.5 | 2.0 | 1.5 |
| 2.25% | 4.4 | 3.9 | 3.4 | 2.9 | 2.4 | 1.9 |
| 2.50% | 4.8 | 4.3 | 3.8 | 3.3 | 2.8 | 2.3 |
| 2.75% | 5.1 | 4.6 | 4.1 | 3.6 | 3.1 | 2.6 |
| 3.00% | 5.5 | 5.0 | 4.5 | 4.0 | 3.5 | 3.0 |
| 3.25% | 5.9 | 5.4 | 4.9 | 4.4 | 3.9 | 3.4 |
| 3.50% | 6.3 | 5.8 | 5.3 | 4.8 | 4.3 | 3.8 |

**Taylor Rule, R* = 3.5 (+1% buffer)**

| Core PCE (end-2024) | Unemployment Rate (end-2024) | | | | | |
|---|---|---|---|---|---|---|
| | 3.0% | 3.5% | 4.0% | 4.5% | 5.0% | 5.5% |
| 2.00% | 4.9 | 4.4 | 3.9 | 3.4 | 2.9 | 2.4 |
| 2.25% | 5.3 | 4.8 | 4.3 | 3.8 | 3.3 | 2.8 |
| 2.50% | 5.7 | 5.2 | 4.7 | 4.2 | 3.7 | 3.2 |
| 2.75% | 6.0 | 5.5 | 5.0 | 4.5 | 4.0 | 3.5 |
| 3.00% | 6.4 | 5.9 | 5.4 | 4.9 | 4.4 | 3.9 |
| 3.25% | 6.8 | 6.3 | 5.8 | 5.3 | 4.8 | 4.3 |
| 3.50% | 7.2 | 6.7 | 6.2 | 5.7 | 5.2 | 4.7 |

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Interpretation

**Continued disinflation:**
Roughly 4-6 cuts

**Base case:**
Roughly 1-3 cuts

**Re-accelerating case:**
Roughly 1-2 hikes

**FOMC SEP:**
Roughly 4 cuts

Source: Atlanta Fed model with UOBAM inputs

# Asia is starting to outperform

# Positive Asia macro-outlook

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Asia equities outperform global equities when:

1. Growth momentum is stronger
2. USD is weaker
3. China equities do well

We see the 3 above factors as supportive for the outperformance of Asia equities over the next 6-12 months

As further confirmation of the above trends, earnings growth for Asia equities has already been better than the MSCI ACWI. This should continue for the rest of 2024

# Historical drivers of Asia equities' outperformance over ACWI


Asia outperformance

Asia underperformance

Drivers:

- DXY down by 11%

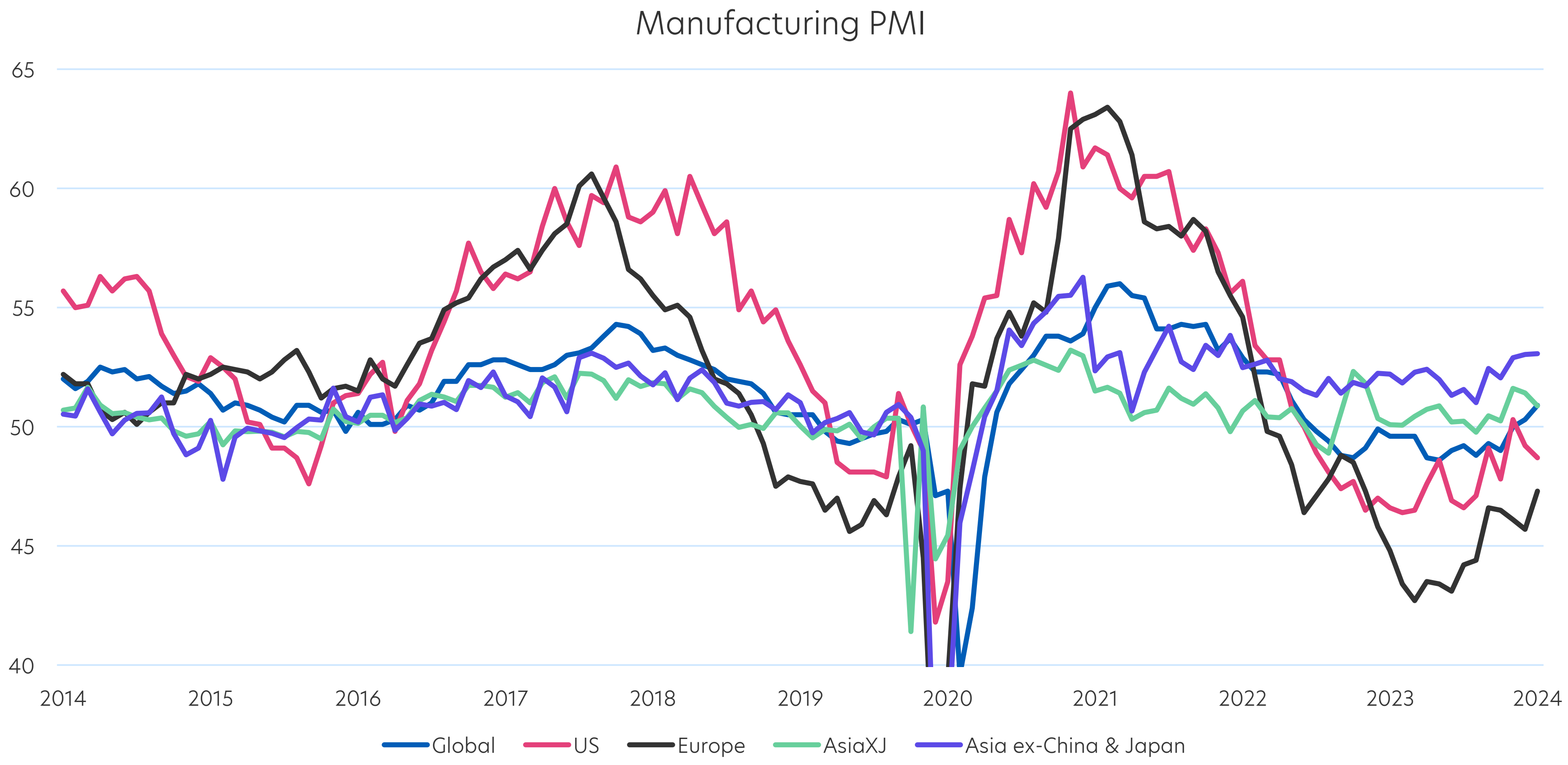
- DXY up by 36%
- Avg export growth of 1.8%

- DXY down by 39%
- Avg export growth of 13%
- Mfg PMI of China and Asian countries generally above the US

- DXY up by 45%
- Avg export growth of 3.9%
- Mfg PMI of China and Asian countries generally below the US

Source: Bloomberg, UOBAM

# Positive growth momentum as global manufacturing rebound has been led by Asia




Driven by solid growth in India, Taiwan, Korea and Philippines

Source: Bloomberg, UOBAM

# Stronger export growth & reducing interest rate differential should result in less weakness in Asian currencies (except China)


Improving export growth momentum in Asia even after accounting for recent depreciation against USD

Source: Bloomberg, UOBAM

# China Equities: Upside risks > Downside risks

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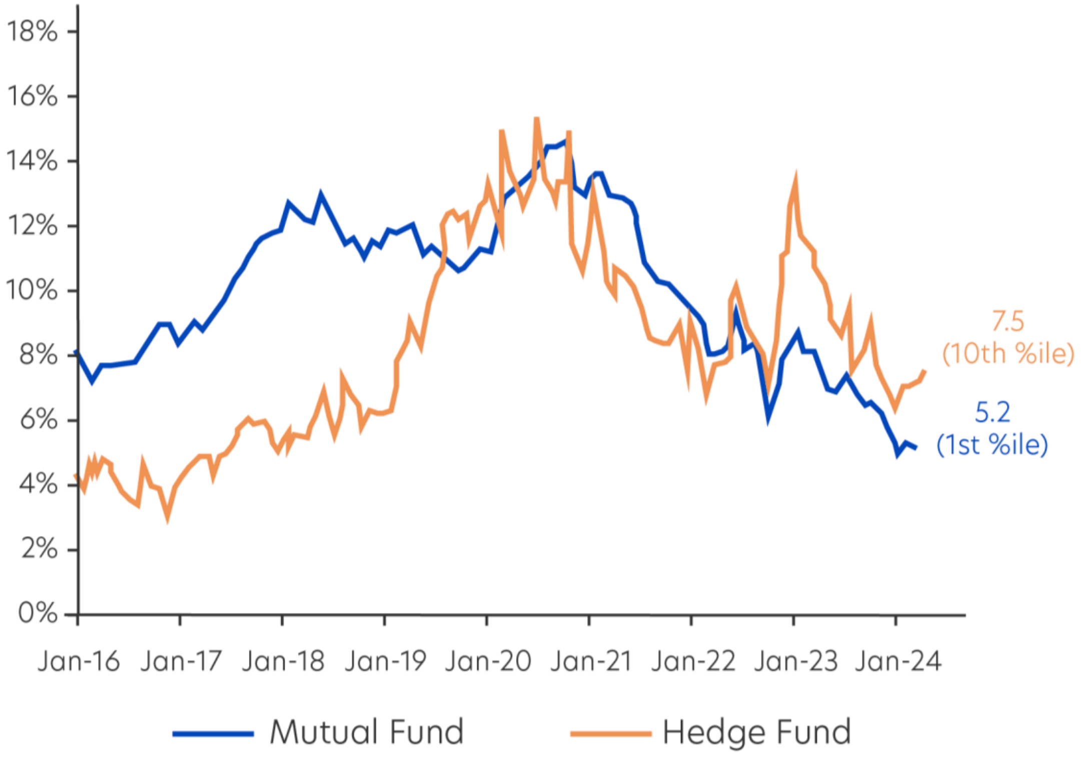
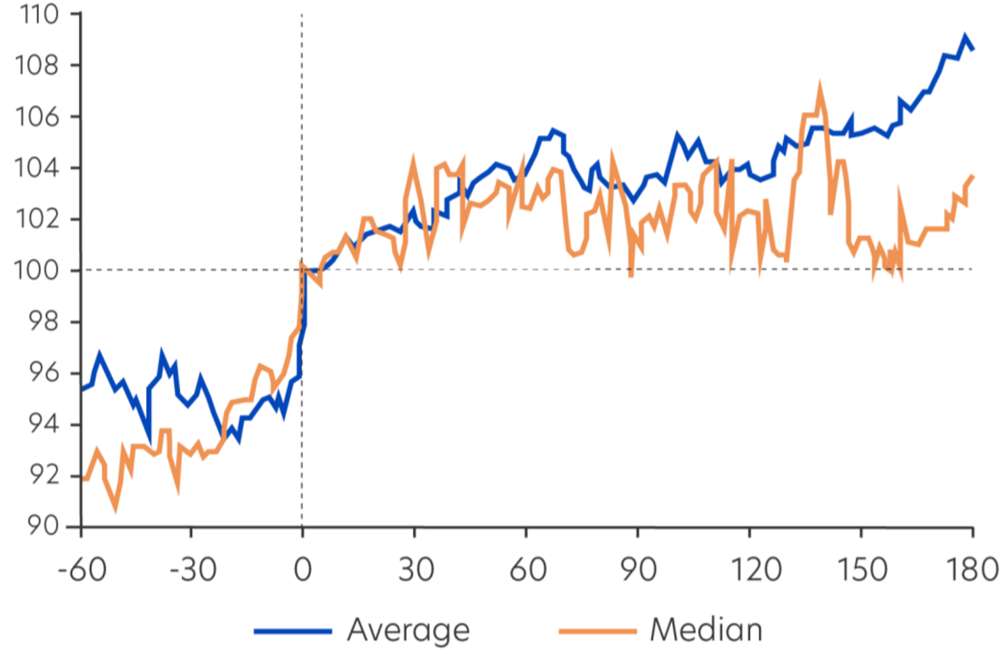
Investor allocations and valuations still low despite recent rally

China Allocations in Active Funds and Hedge Funds Globally




China equities tend to rally further after a 20% rally. We have seen positive returns in 14 out of 23 cases after a 20% rally where markets delivered positive returns, with gains outweighing losses

MSCI China (LOC) Performance after 20% rally



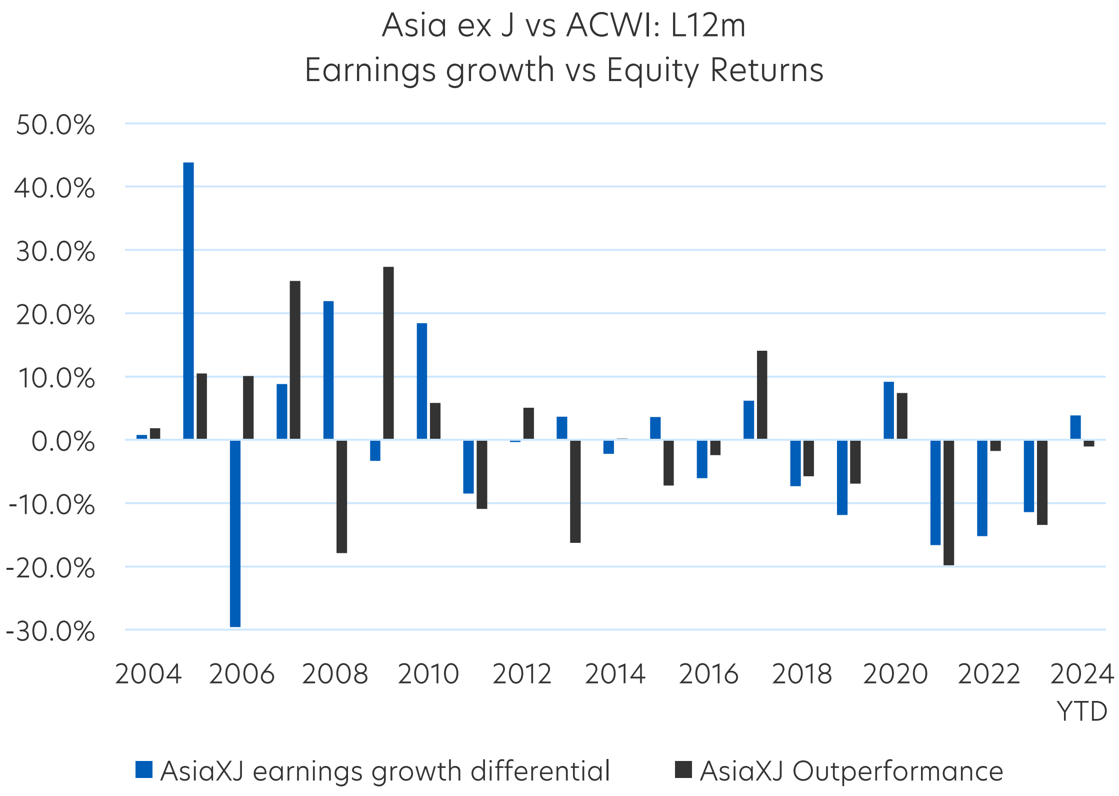

Number of Days (0=Date when MXCN Rallied 20%)

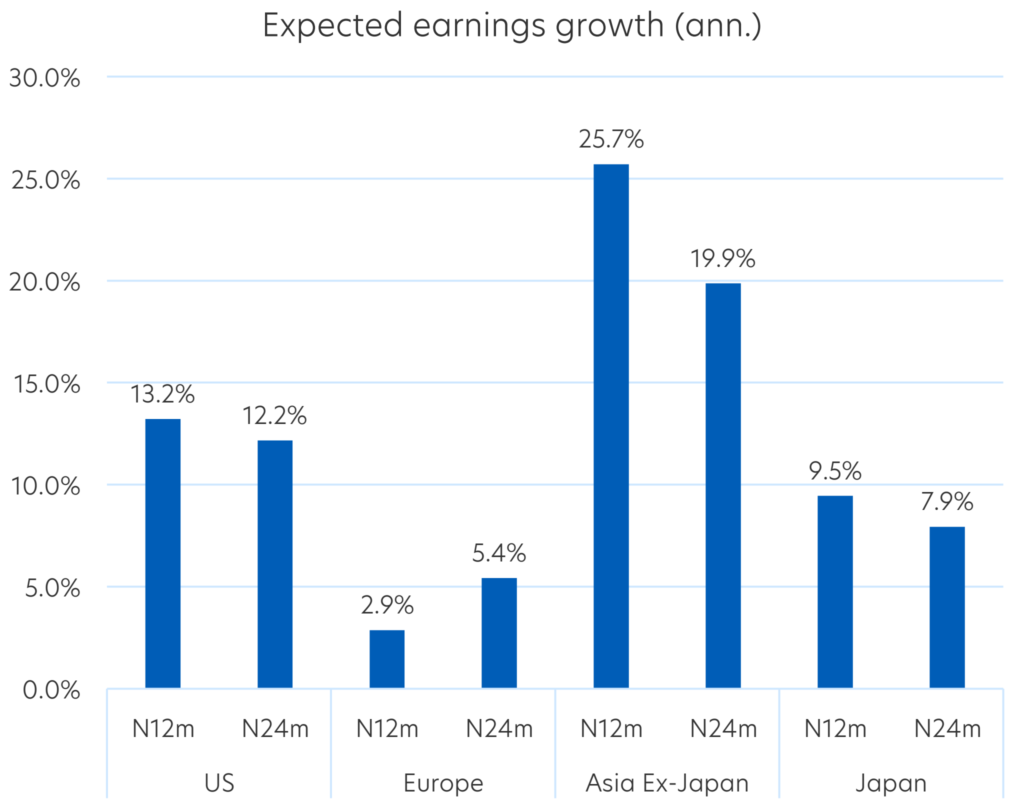
Source: EPFR, Golman Sachs Prime Services

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

# Positive outlook for Asia equity earnings in 2024, which tend to drive outperformance

Consensus expects stronger earnings growth over next 12 months for Asia ex Japan, after underperforming for the past few years




Source: Bloomberg, UOBAM

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