Quarterly Investment Strategy

Fourth Quarter 2024

Continued but moderating growth

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Investment outlook summary

Key views for 4Q24 and 2025

Economic Outlook

- Continued expansion with inflation remaining contained
- Pace of growth likely below where it was six months ago. Improvements in manufacturing and consumer confidence have failed to materialise
- Interest rates set to be steadily cut over the coming year which should provide relief to the economy and markets

Market Outlook

- Despite slightly disappointing global macros, both stocks and bonds are ahead of our expectations
- We think market expectations for rate cuts have gotten ahead of themselves. Some short term market volatility possible if these cut expectations are not met

Conclusion

We are tactically neutralising our positioning after being bullish all year. Fundamentals are slowing slightly more than expected and markets are ahead of expectations

Asset Allocation Strategy:
Neutralising bullish views for 4Q2024

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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	○	○	●	○	○
Alternatives (Hedged Strategies)	○	○	●	○	○
Alternatives (Private Equity)	○	○	●	○	○
Cash	▶	▶	▶	●	○

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

Source: UOBAM, 11 September 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 Neutral

	--	-	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

	--	-	N	+	++
Commodities	○	○	●	○	○
Gold	○	○	○	●	○
Base Metals	○	○	●	○	○
Bulk Commodities	○	●	○	○	○
Energy	○	○	●	◄	○
Agriculture	○	○	●	○	○

++ 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

Macroeconomic update

GDP Growth – Growth estimates have been steady and pointing to continued expansion

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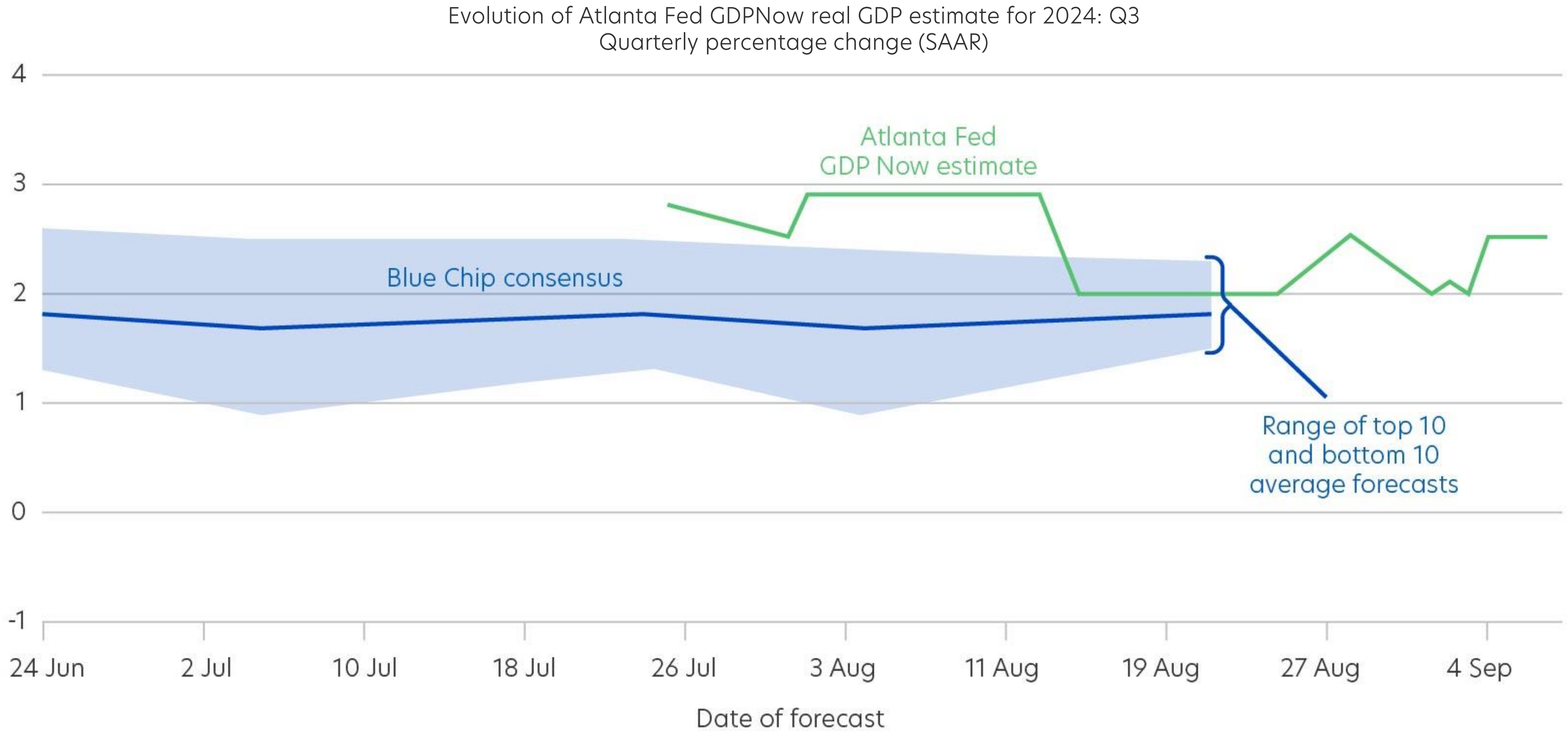
Real GDP Growth Consensus Estimates (%)

	2020	2021	2022	2023	2024F	2025F
Global	-2.8	6.3	3.5	3.3	3.1	3.1
United States	-2.2	5.8	1.9	2.5	2.3	1.7
Eurozone	-6.1	5.9	3.4	0.4	0.7	1.4
Japan	-4.2	2.7	1.2	1.8	0.1	1.2
Asia ex. Japan	1.3	5.9	4.0	4.9	4.6	4.7
China	2.2	8.4	3.0	5.2	4.9	4.5

Source: Bloomberg, UOBAM, 15 Aug 2024

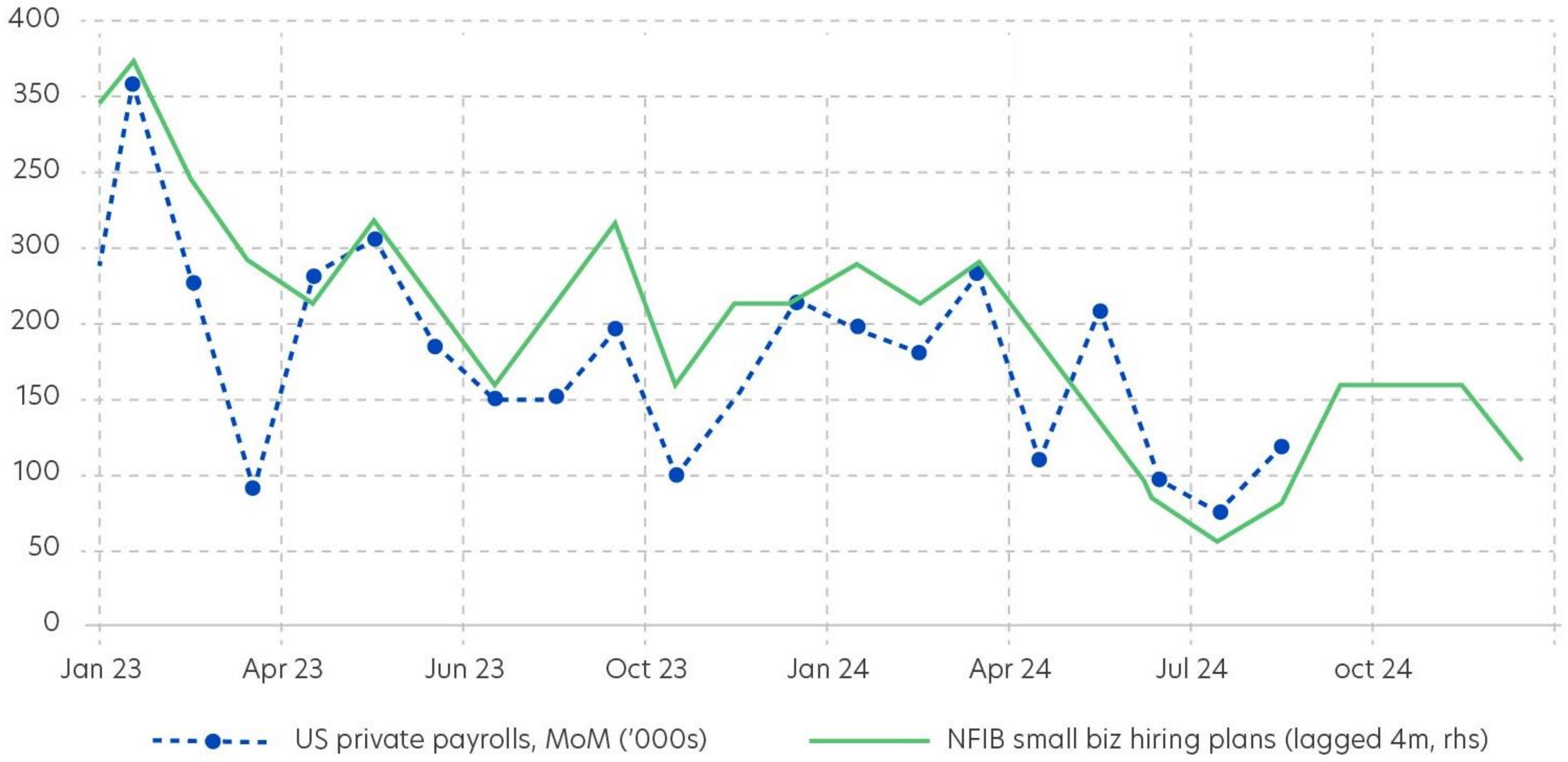
Despite some data misses, the US's GDP outlook is pointing to >2% growth



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.

But the unemployment rate has risen recently from 3.4% to 4.3%

US payroll growth has taken a step down



Source: BLS, NFIB, Vanda

Rebound in consumer confidence appears to be stalling

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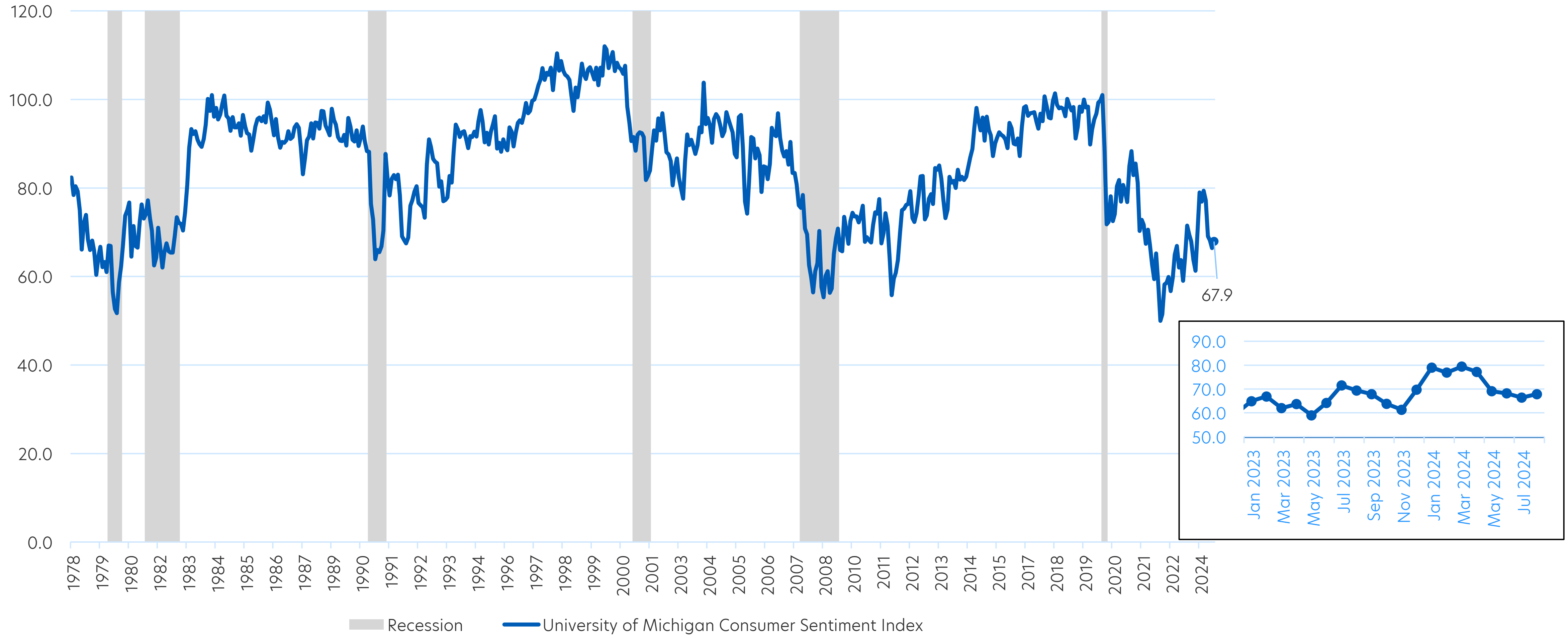

Source: Bloomberg, UOBAM

ISM manufacturing has not yet returned to expansion territory

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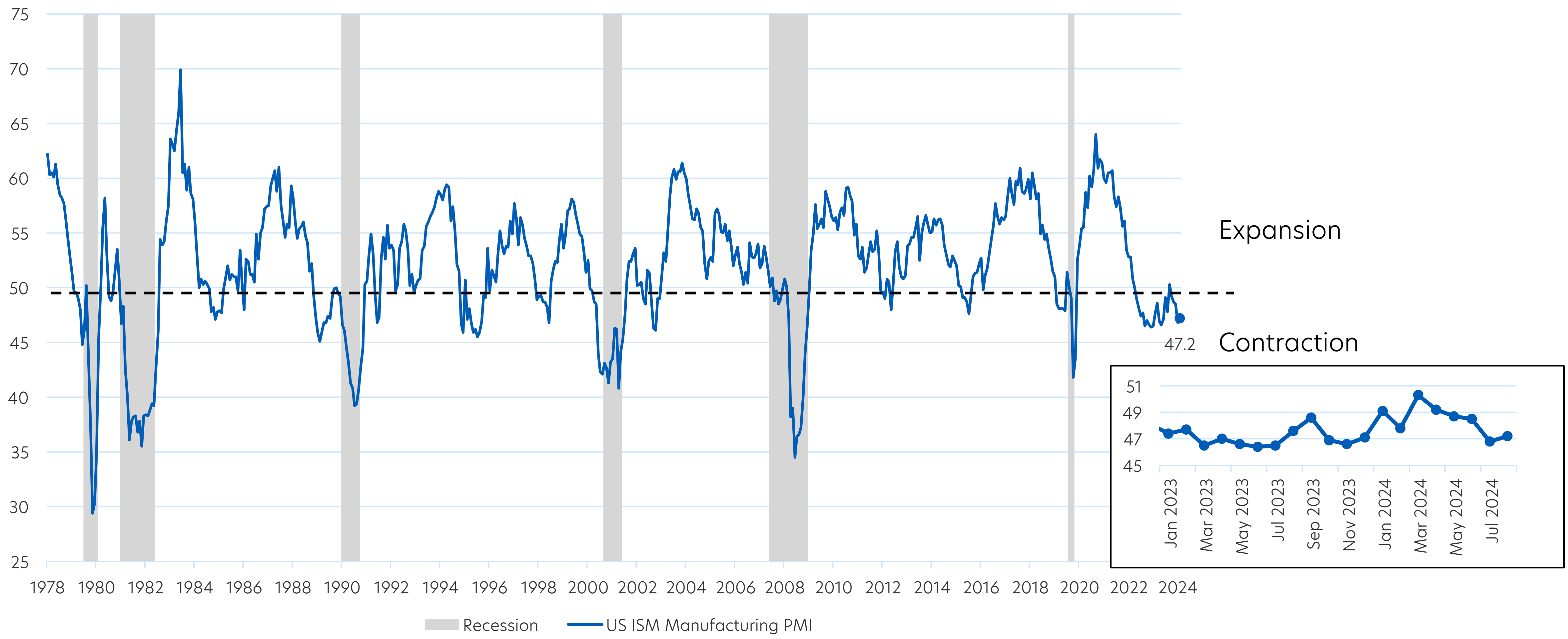
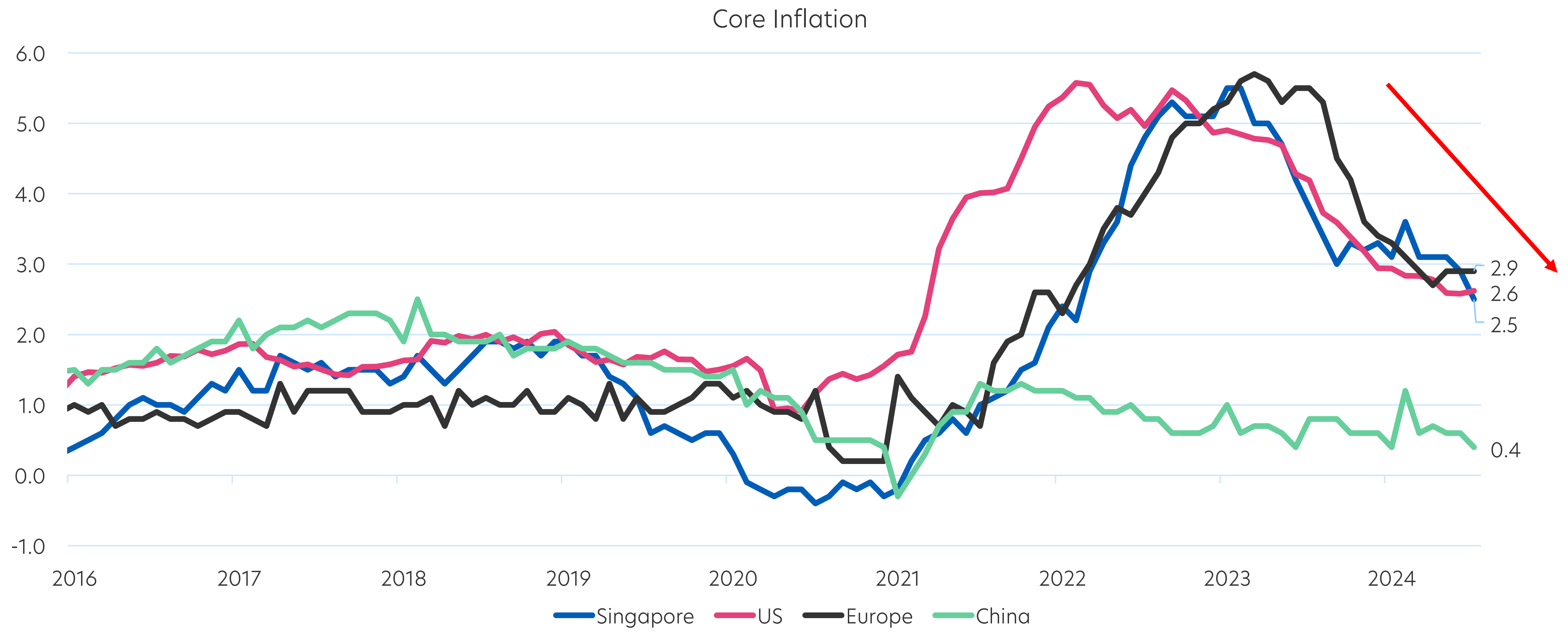


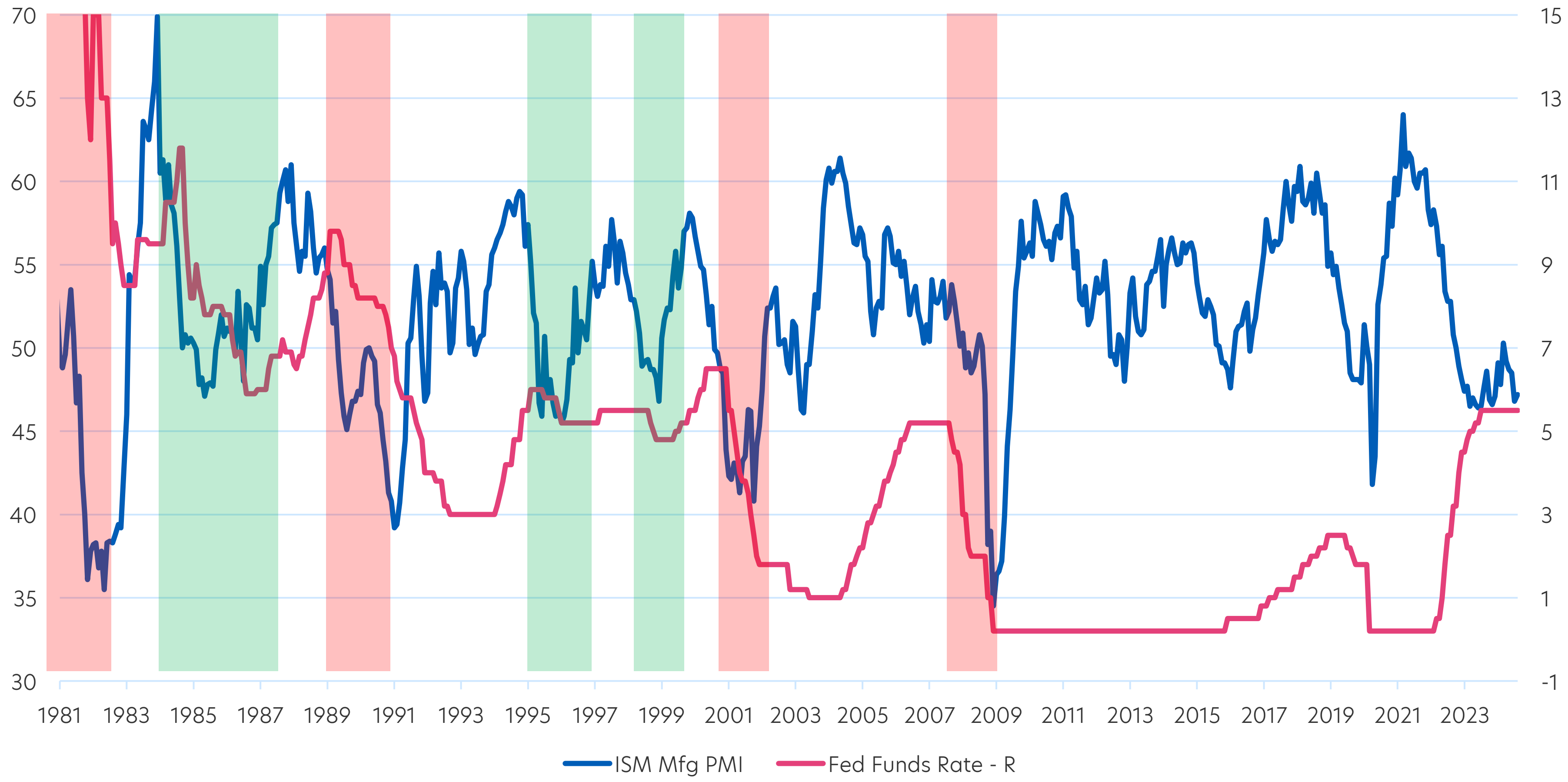
Source: Bloomberg, UOBAM

Slower growth has helped inflation to moderate to targeted levels



Source: Bloomberg, UOBAM. We use core CPI for Singapore and China, core PCE for the US and core HICP for Europe

Interest rate cuts can stimulate the manufacturing sector, but not always



Periods when interest rate cuts spurred a manufacturing rebound (PMI > 45)

Periods when interest rate cuts did not spur a manufacturing rebound (PMI <45)

Source: Bloomberg, UOBAM

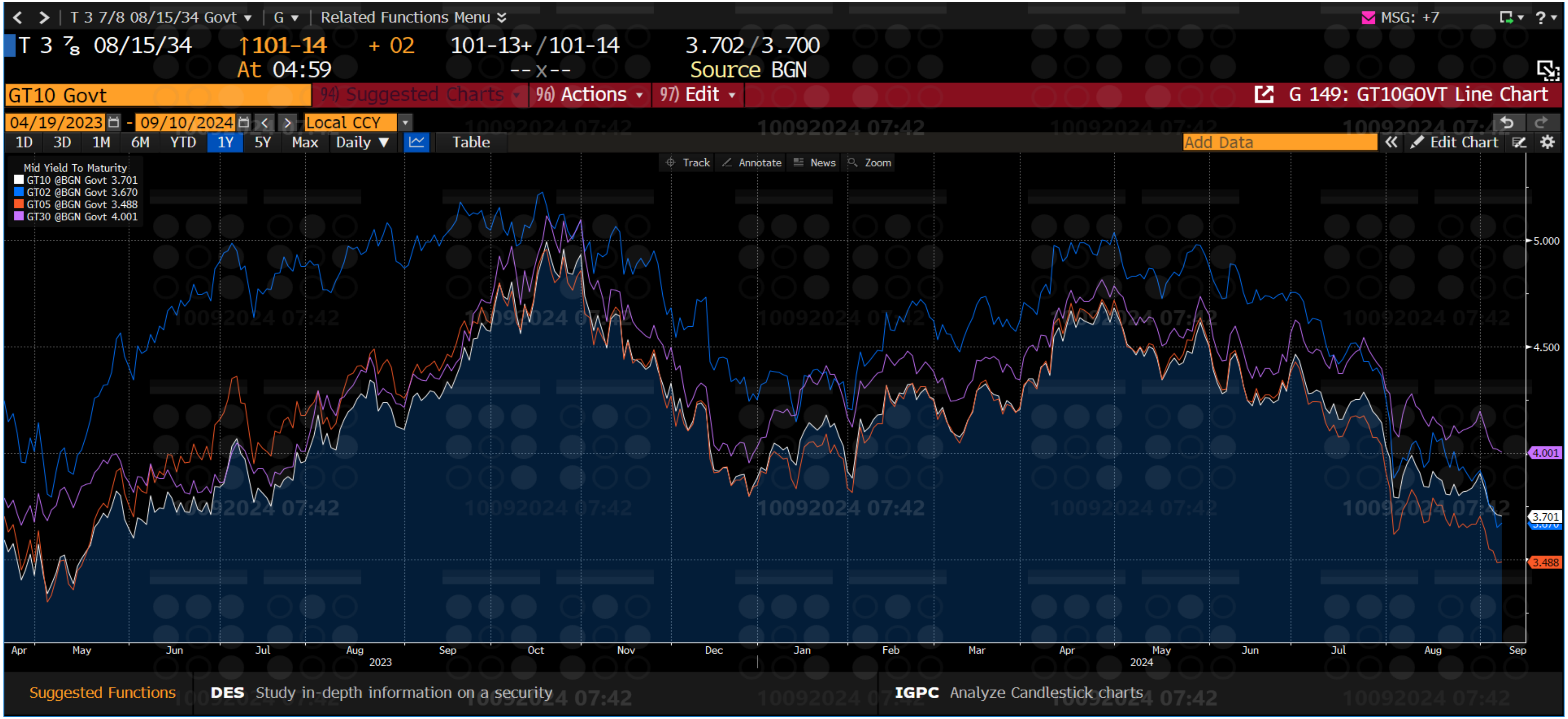
Fixed income/interest rate outlook

Fixed income markets should remain attractive, driven by yields

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	?

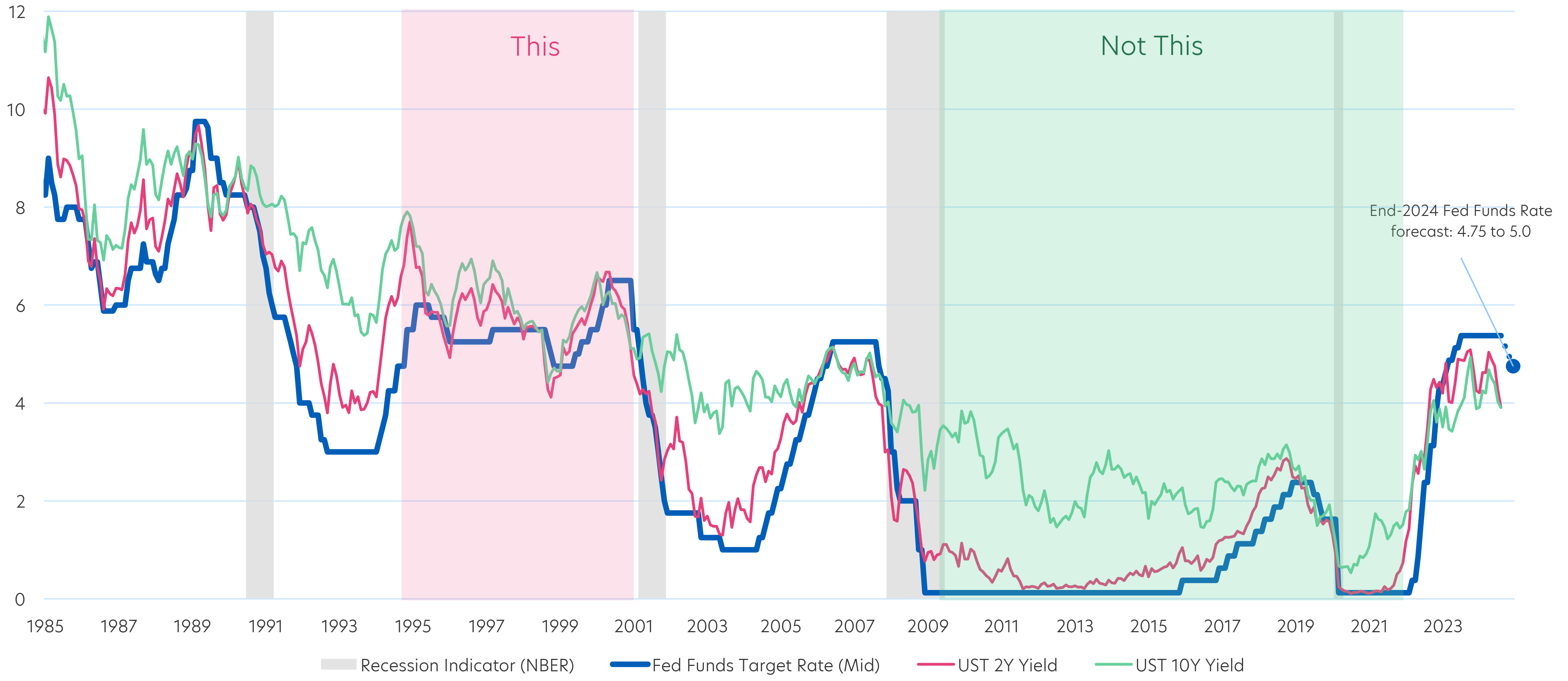
Source: PGIM Fixed Income and Bloomberg. [1]As of December 30, 2022. Yield and returns based on the Bloomberg U.S. Aggregate Bond Index.
Past performance is not a guarantee or a reliable indicator of future results.

Bond yields are falling but still adequate at about 3.5% - 3.7%



Source: Bloomberg, UOBAM

We expect a mid-cycle adjustment like late 1990s or 2019, not a disinflationary easing like 2010s



Source: Bloomberg, UOBAM

Fed fund futures imply a hard landing scenario. This is not our base case. We expect 4-6 cuts, Fed Funds rate down to 4%

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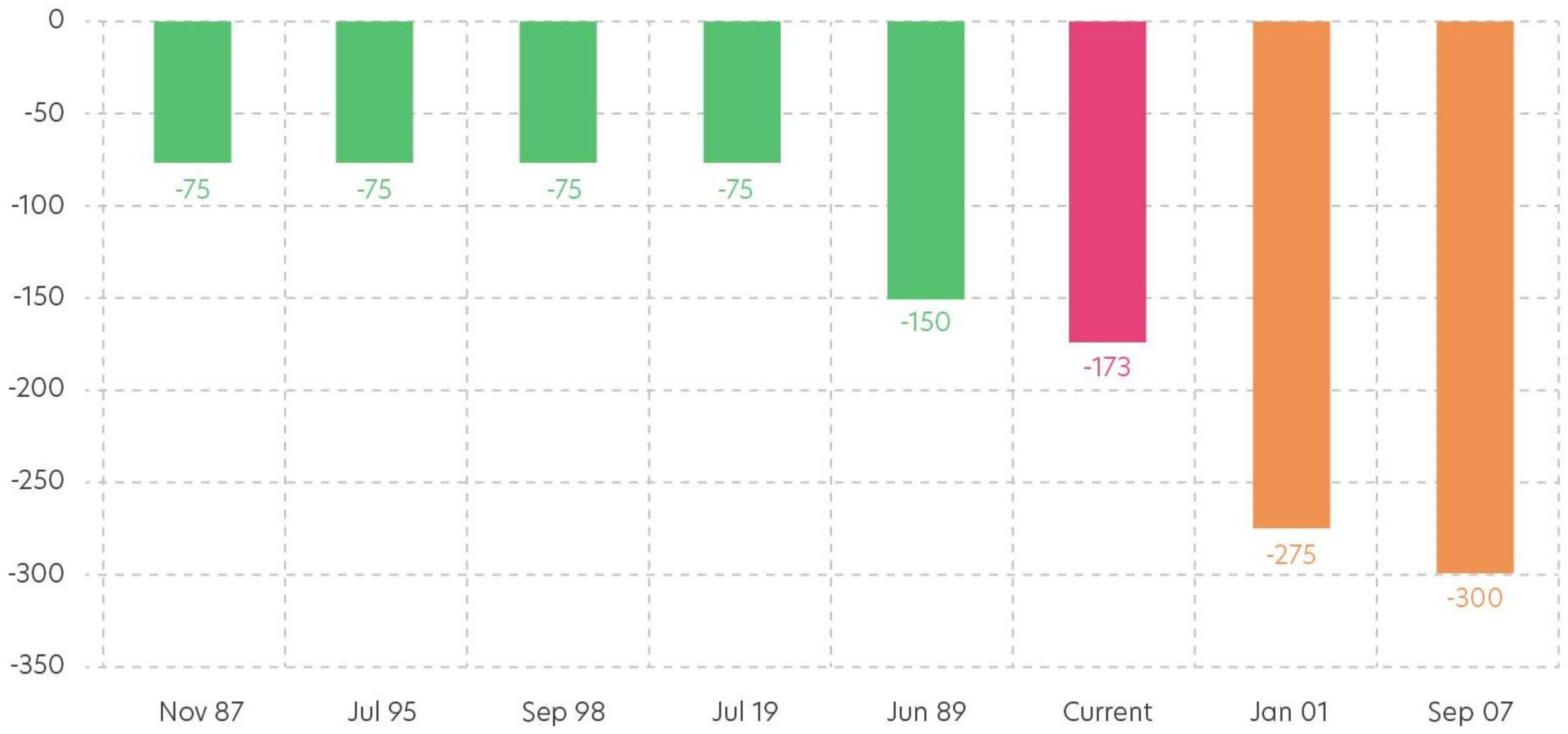

Source: Bloomberg, Federal Reserve, Vanda | *Current market-implied policy expectations as of 4 Sep

Equity outlook

Current period appears similar to 2019. Good market gains amid lacklustre economic trends, continued growth, rate cuts.

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MXWD ↓ 787.21 -16.19 -- / --

On 02-Aug d O 802.98 H 802.98 L 782.67 Prev 803.40

MXWD Index | Settings | Comparative Returns

Range 09/28/2018 - 12/31/2019 Period Daily No. of Period 459 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	MXWD Index	USD	7.82%	11.22%	--	8.83%
2)	SPX Index	USD	10.87%	13.69%	2.47%	10.74%
3)	MXEU Index	USD	4.43%	8.82%	-2.41%	6.95%
4)	EWJ US Equity	USD	-1.64%	1.21%	-10.02%	.96%
5)	MXASJ Index	USD	5.02%	8.29%	-2.94%	6.54%
6)	MXCN Index	USD	7.95%	10.40%	-.82%	8.19%

Source: Bloomberg, UOBAM

Impact of interest rate cuts on markets depends on whether we get a soft or hard landing

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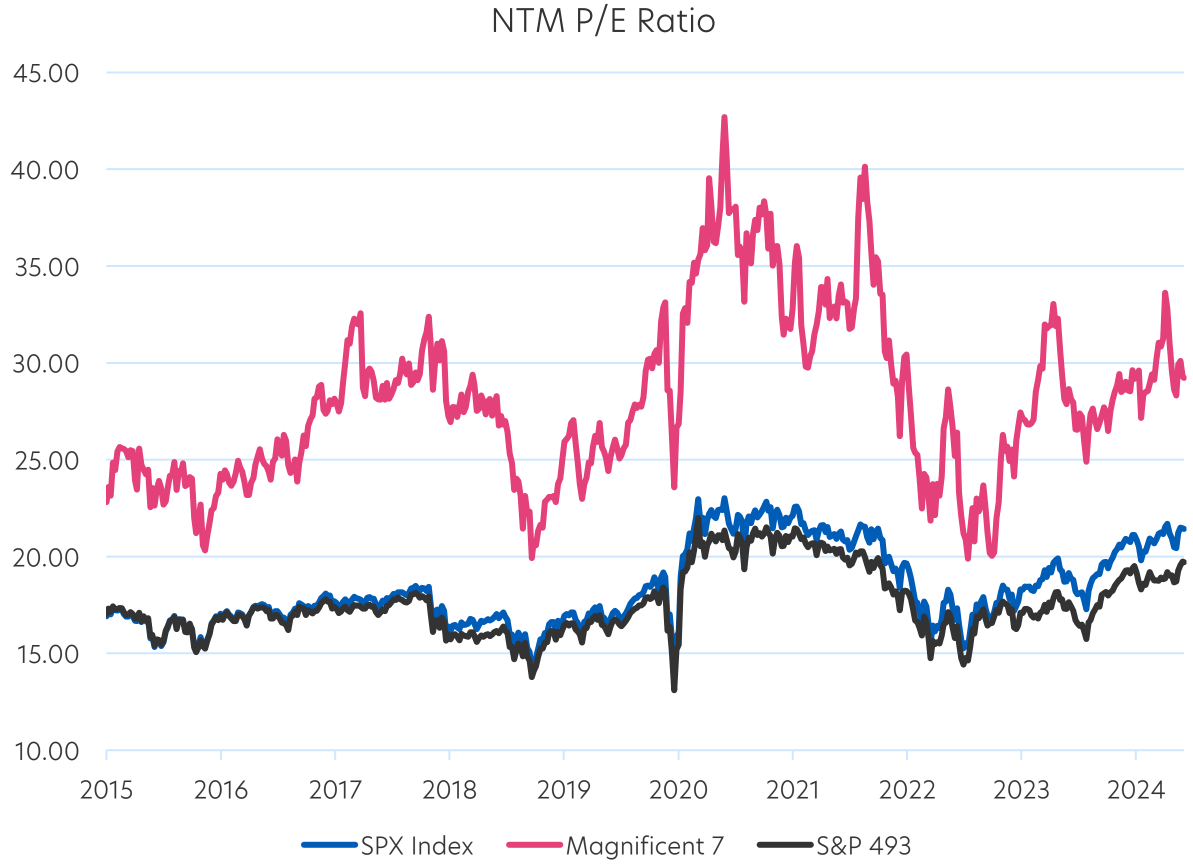
Period	Max drawdown over next 12m	3m return	6m return	12m return
1970	-2.5%	15.6%	18.4%	7.9%
1974	-26.4%	-25.6%	-17.8%	3.8%
1980	-2.2%	14.9%	30.1%	35.3%
1981	-16.0%	-6.2%	-3.4%	-12.6%
1984	-1.5%	0.2%	10.3%	17.8%
1987	-21.3%	-12.9%	-5.9%	-0.1%
1989	-1.1%	10.0%	10.7%	17.5%
1995	0.0%	7.9%	17.7%	23.9%
1998	-8.5%	17.7%	28.3%	27.5%
2001	-36.9%	-14.5%	-5.3%	-22.6%
2007	-15.8%	0.1%	-13.3%	-17.4%
2019	-5.6%	0.6%	9.8%	10.6%
2020	-27.5%	-0.4%	16.4%	27.7%
Average	-12.7%	0.6%	7.4%	9.2%
Median	-8.5%	0.2%	10.3%	10.6%
Average (soft landing)	-2.2%	8.2%	16.2%	18.9%
Average (hard landing)	-24.0%	-9.9%	-4.9%	-3.5%

Source: Bloomberg, UOBAM

Valuations are high relative to expansion periods, but not at bubbly levels



	SPX Index	Mag 7	S&P 493
Current P/E	21.4x	29.2x	19.7x
Percentile vs past 10 years	88%	67%	84%
Average P/E for past 10 years	18.35	28.10	17.60
P/E comparison against other periods			
2000 prior to tech bubble	23.5x	Not available	
2021 average	21.5x	34.0x	20.5x

Source: Bloomberg, UOBAM

In a soft-landing scenario, earnings growth remains good for 2024 and 2025

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	EPS Growth (YoY%)		PER		DVD YLD	PBR		ROE	
Regions	2024E	2025E	2024E	2025E	2024E	2024E	2025E	2024E	2025E
US	10.2	15.3	22.7	19.7	1.4	4.6	4.1	20.2	21.0
Europe	5.2	10.0	13.8	12.6	3.5	1.9	1.8	14.0	14.4
Japan	12.9	9.0	14.6	13.4	2.4	1.3	1.3	9.2	9.5
Asia ex. Japan	23.9	15.7	13.7	11.8	2.5	1.6	1.5	11.6	12.4
China	14.2	11.0	9.8	8.8	2.9	1.2	1.1	11.8	12.0

Based on Calendar Year

Source: Factset, UOBAM, 15 July 2024

But bar to higher earnings growth is getting higher. Consensus expects 10 -15% yoy earnings growth in 2025

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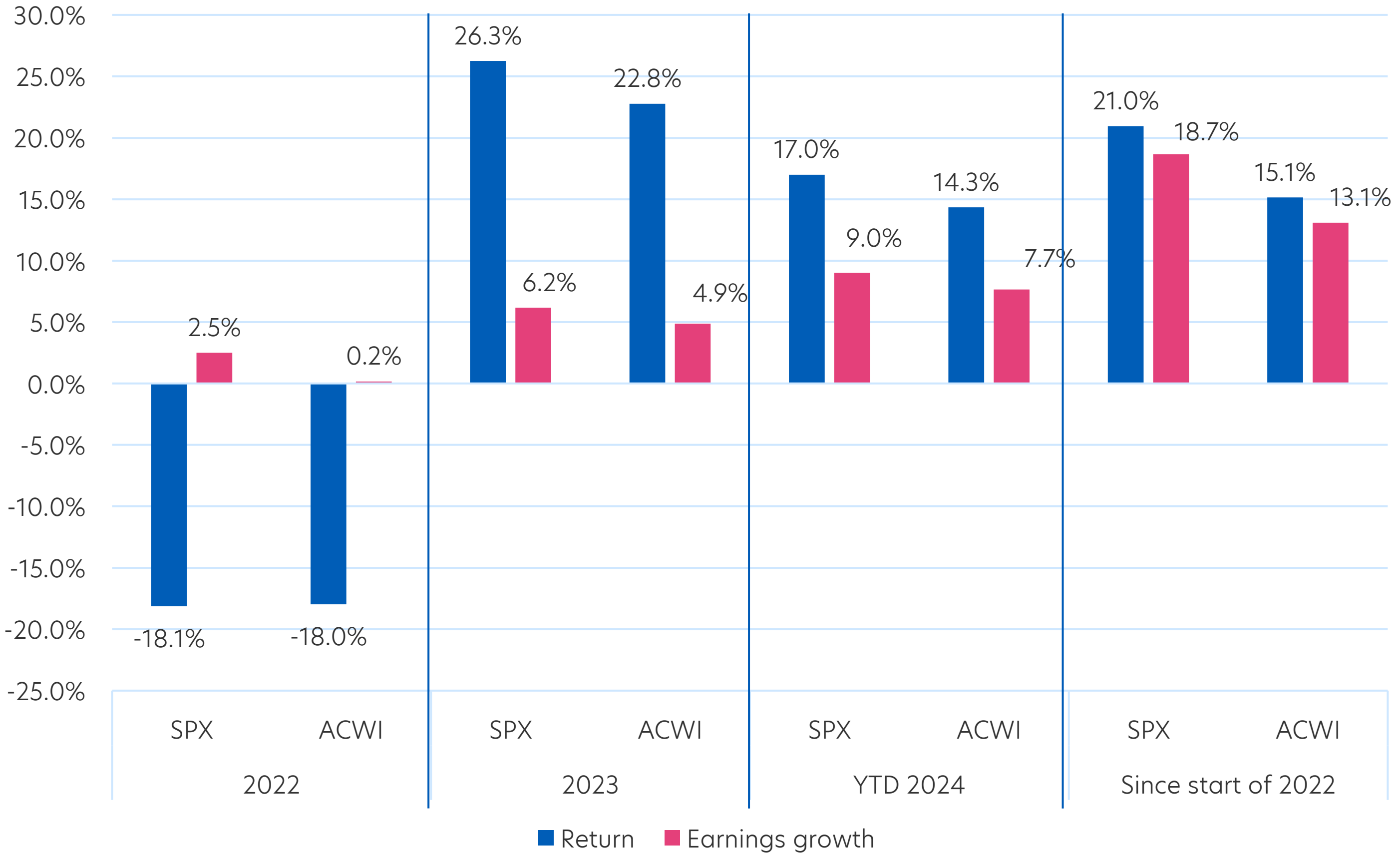
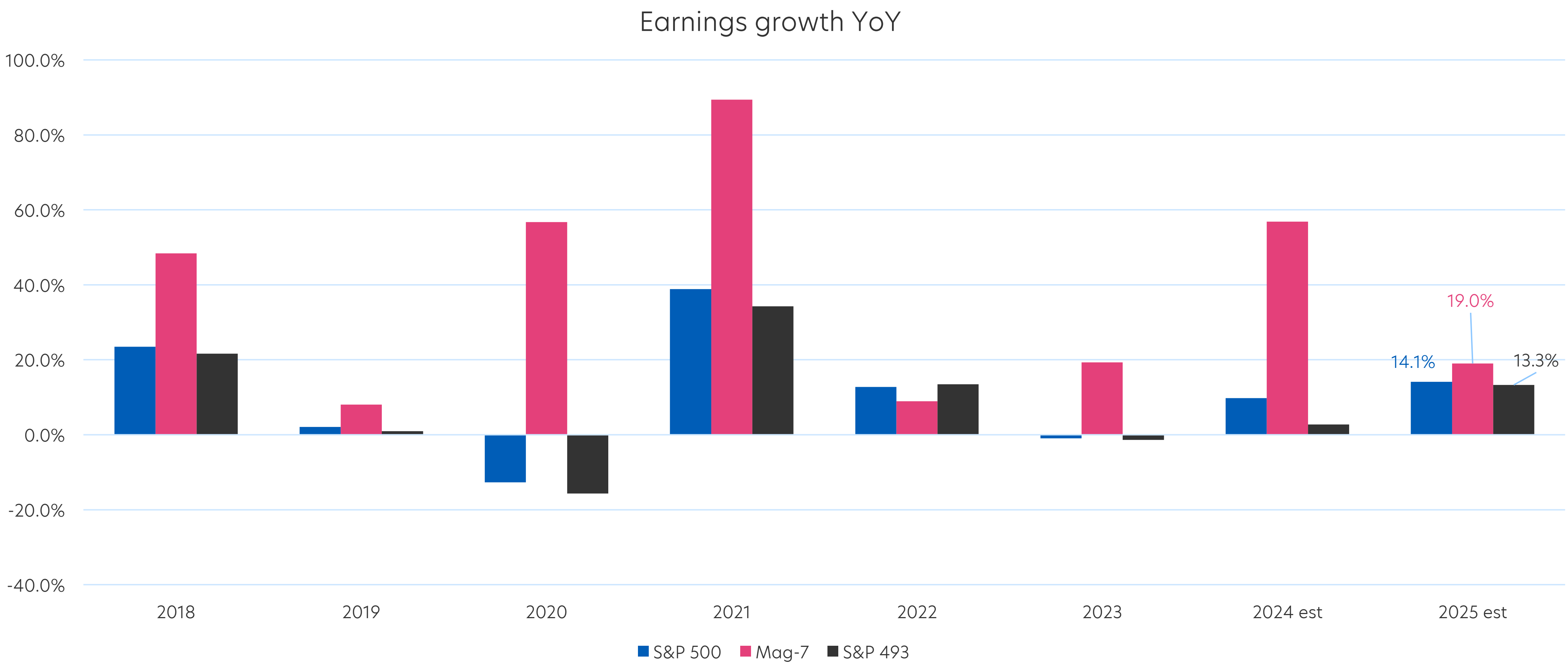


- Positive earnings growth momentum and valuation re-rating have driven US/global markets since 2023
- Market returns have caught up with earnings growth since 2022
- From hereon, there is likely less room for valuation re-rating, and the next leg up would require strong earnings growth

Source: Bloomberg, UOBAM

We are counting on a market broadening to deliver stronger earnings growth in 2025



Source: Bloomberg, UOBAM

US election update

Trump versus Harris presidency: Key macro and policy implications

	Trade	Fiscal policy	Immigration	Industrial policy	Macro implications on		
					Growth	Inflation	Budget Deficit
Trump	Favours more tariffs	Favours extending TCJA provisions, keeping corporate taxes unchanged	Against	Deregulation / Unwind clean energy policies	▲ Improved business & consumer sentiment	▲ Tariffs to raise US prices	▲ Reduced consumer tax receipts
Harris	Ongoing pace of tariffs	Favours raising corporate taxes after tax credits expiry	For	Retain clean energy policies	▲ Immigration aids employment growth	▼ Looser labour markets	▼ Increased consumer & business tax receipts

Managers believe US fiscal deficits and inflation will trend higher in the event of a Republican sweep

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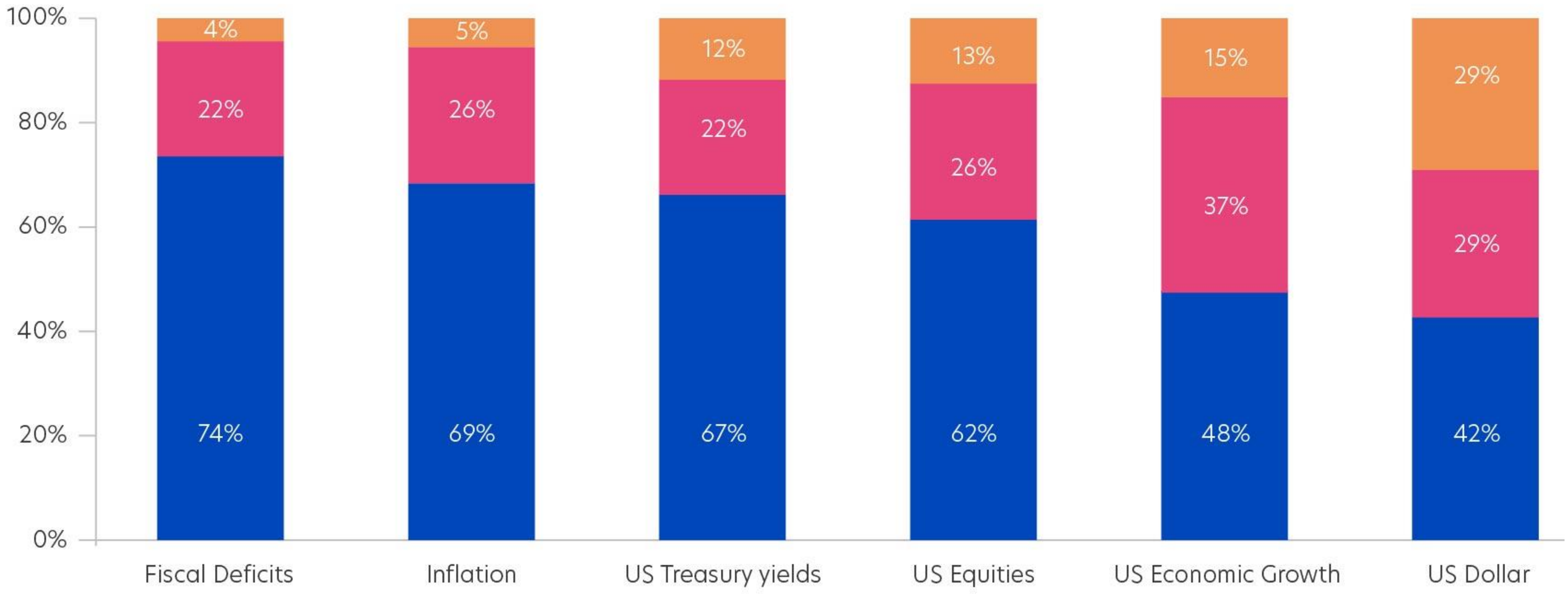
Fund manager survey: All things being equal, do you think a Trump Presidency and Republican control of both chambers in Congress would lead to the following



Source: dbDIG Survey, Deutsche Bank

Summary

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- A Trump presidency would likely mean better business and consumer sentiment, resulting in **stronger growth**
- Anti-immigration and bias towards more tariffs would mean **larger inflation**. **Bond yields should also rise** as a result
- Generally **favourable for equities**, as earnings growth outlook would remain strong. Tax cuts would be an additional boost to companies' profits
- However, an escalated trade war would be **bad for global growth** as seen in 2018-19. In 2018, equity markets were down 5-20% across various regional markets
- In addition, the **risks to Asia would be amplified** under a Trump presidency, with sub-par earnings growth and market returns likely

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