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GLOBAL OUTLOOK AND STRATEGIES

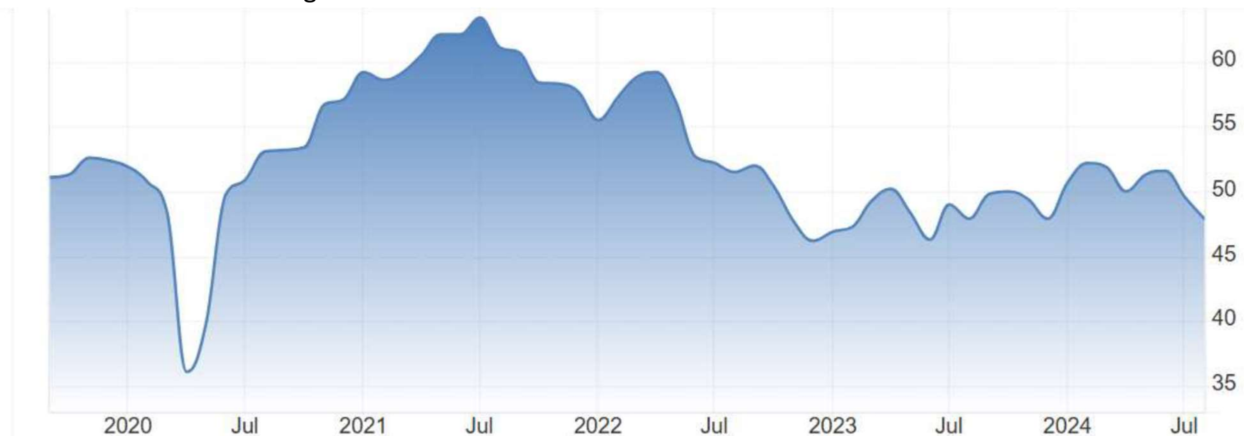
Sep 2024

Market Outlook

Correction or bear market?

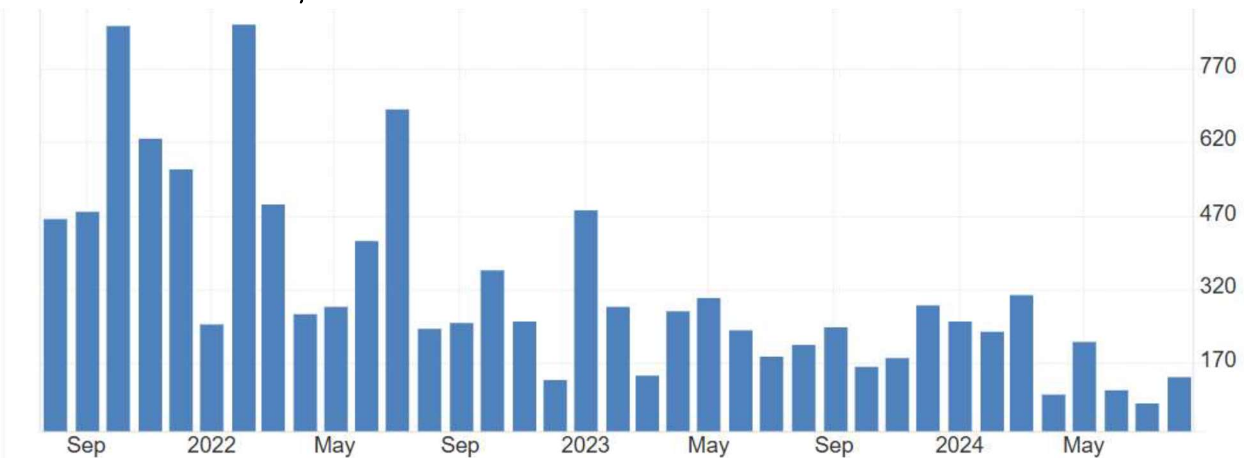
The drop in markets in August was triggered by the Yen carry trade/Yen appreciation and soft macro numbers coming out of US (sluggish manufacturing PMI and weak employment market) although somewhat soften by retail sales that have been resilient. This was exacerbated by geopolitical issues and the noises from the coming US Presidential election.

Chart 1: US Manufacturing PMI



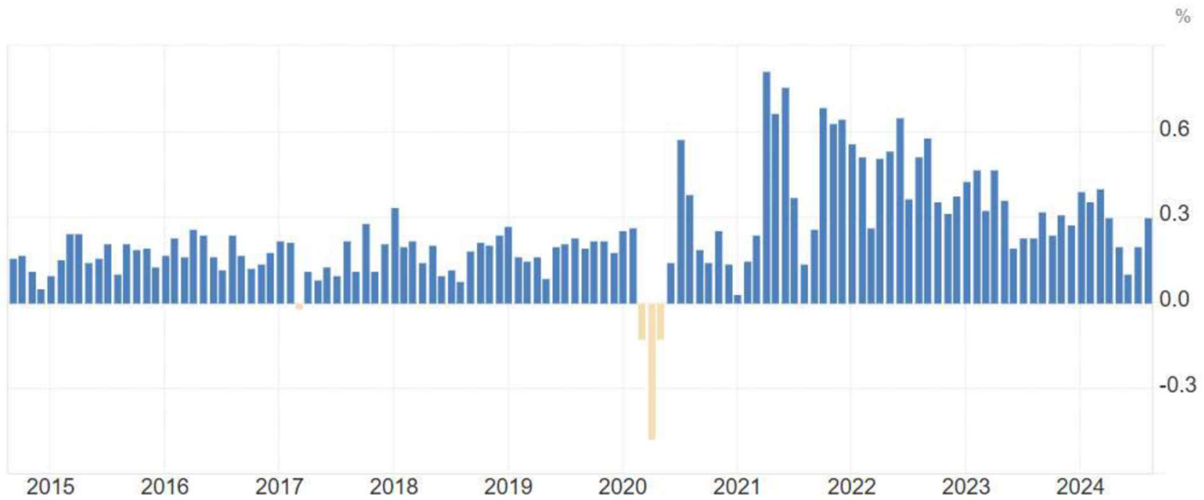
(Source: Trading Economics)

Chart 2: US Non-Farm Payroll



(Source: Trading Economics)

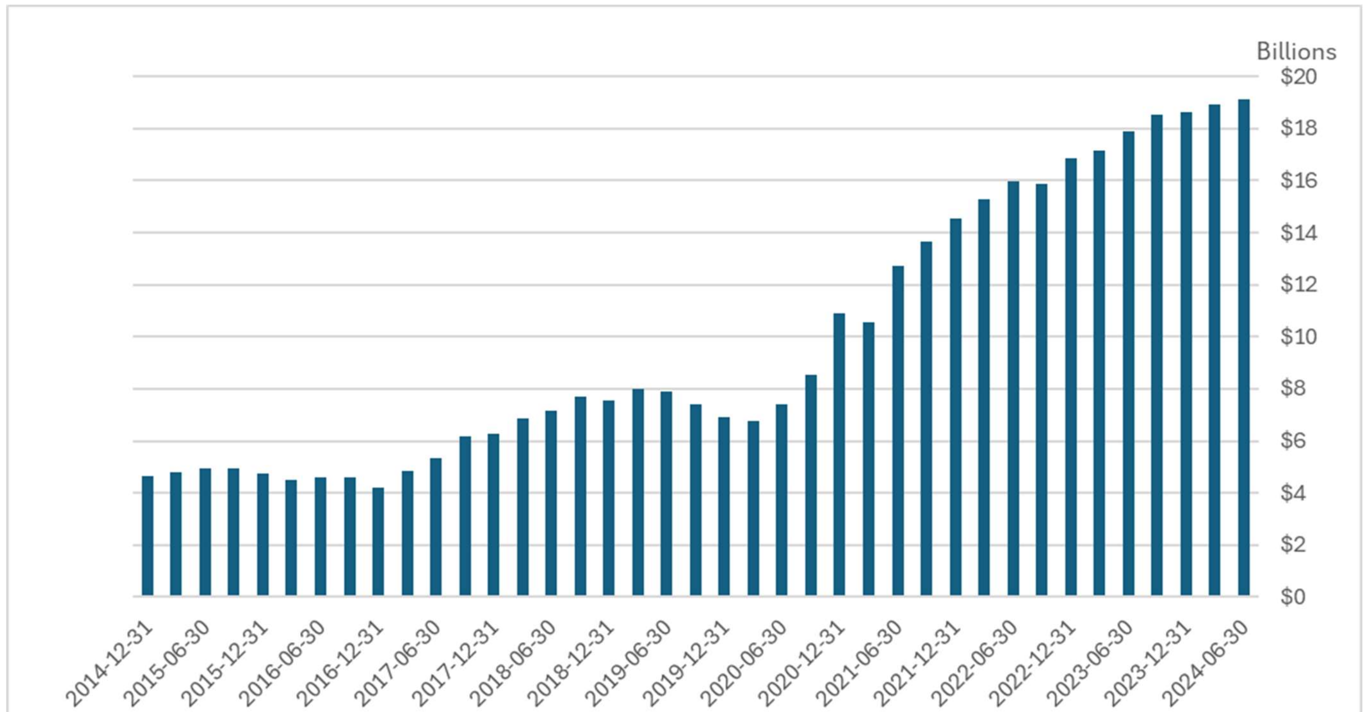
Chart 3: US Retail Sales MoM



(Source: Trading Economics)

We must decide whether the economy is weakening to the point of recession or the demand for AI and its supporting infrastructure will remain strong over the next 2 years. Regarding the fear of tech cycle peaking in 2025, the lack of inventory buildup is not apparent, hence a soft AI tech scenario is unlikely. Our base case is for continued growth over the next few years but not super normal growth post 2026.

Chart 4: Inventory level for foundries



(Source: Company data)

Portfolio Strategy

We need 2 things to happen for the macro numbers to stabilize/resume:

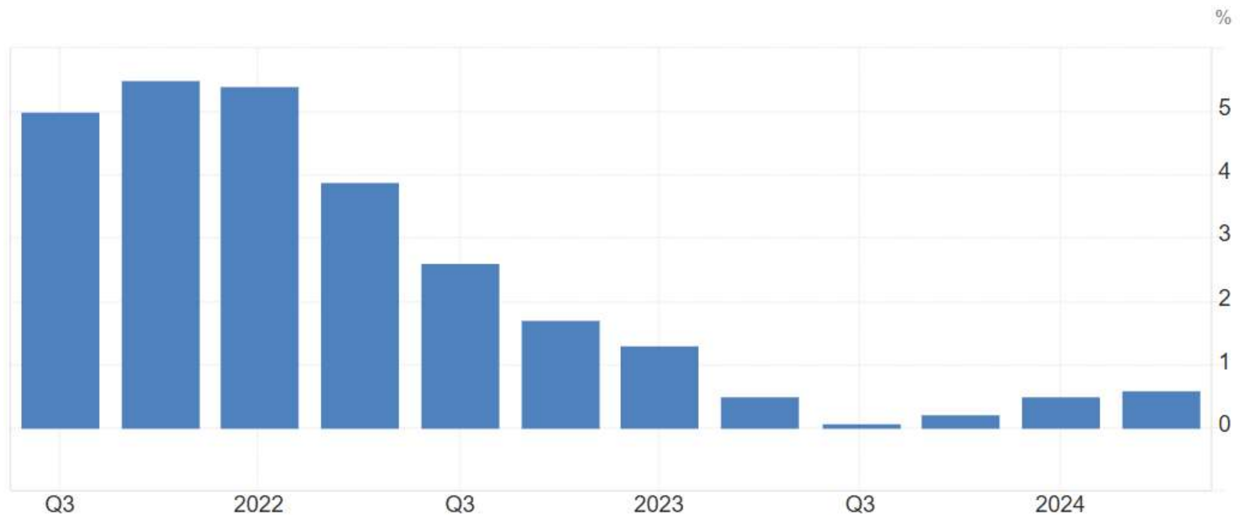
- Interest rate cuts
- The US Presidential election to be over

Hence the market volatility will continue and as such caution is warranted. We are however heartened to note the recent US (2Q2024) results showed sales and net profit growing 5.9% and 11.7% respectively. We believe lower interest rates will contribute to improving confidence amongst consumers and corporates. Our strategy is to use corrections to rebalance and deploy our cash positions to ASEAN (stronger currencies) and selective Mega Techs (market leaders). We are neutral in Japan although 2Q 2024 sales and net profit grew 6.8 and 11.1% respectively. This is because further rate hikes and subsequent Yen appreciation might cloud the market dynamics and volatility.

Macro

Historically, monetary easing was prompted by financial crisis/recession. However, this time round, central bankers are cutting rates in response to easing inflationary pressure. Moreover EU, Japan emerging Asia (except China) are getting stronger which should lead to greater risk taking. In such an environment, equity corrections will be technical in nature but timing this is always difficult if not impossible.

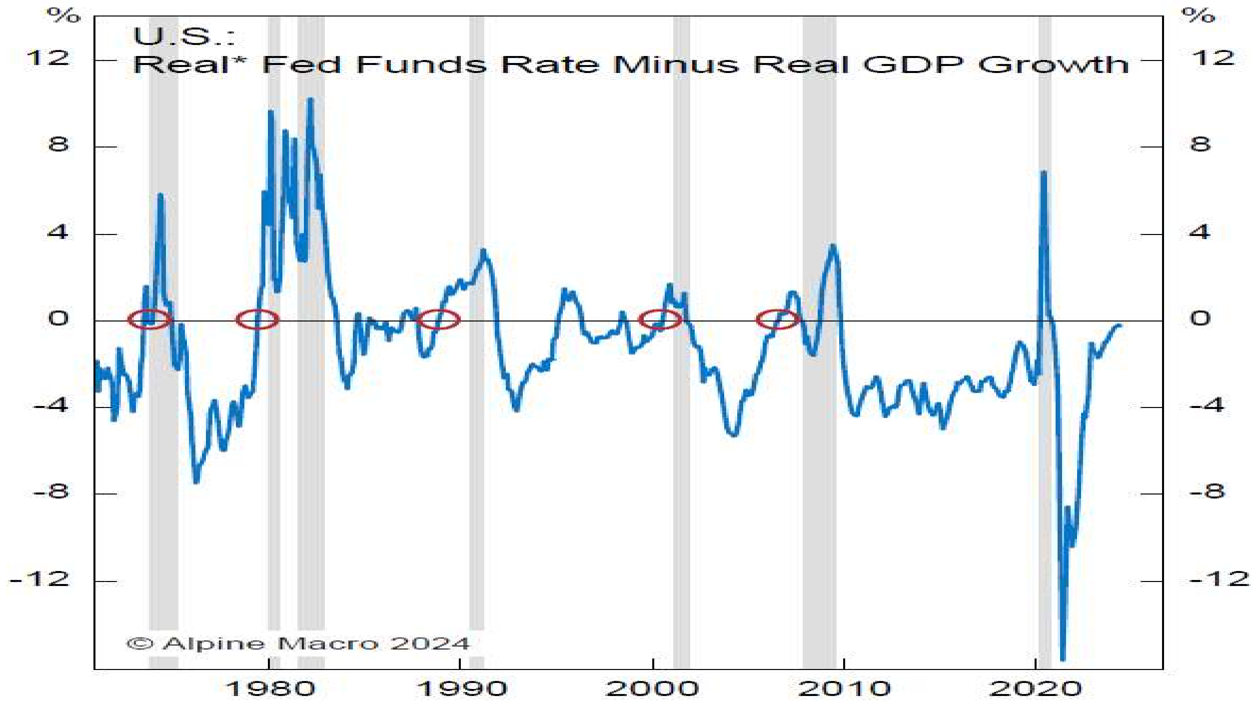
Chart 5: EU GDP annual growth rate



(Source: Trading Economics)

Credit spreads are still tight, and banks have not shown excessive increases in NPL. Furthermore, the real Fed Fund rate is on par with Real GDP growth. From the chart, recessions are always preceded by real Fed rates exceeding real GDP growth. This isn't the case going forward.

Chart 6: Real Fed rate minus Real GDP growth



(Source: Alphine/UOB KayHian)

We expect risk assets will outperform given robust margins, earnings and top line growth. While we continue to focus on selective Mega Tech, we expect a broadening of the rally to non-tech and interest sensitive sectors. The key risk is growth disappointment.

In conclusion, we remain confident about the market post Fed cuts and US presidential election as earnings growth is healthy, AI investments are strong, easing inflation and decent macro recovery.