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GLOBAL OUTLOOK AND STRATEGIES

April 2024

Market Review

Equity market rallied in 1Q 2024, driven by developed market as US, Europe and Japan return double digit growth. US equities were led by the technology sector as Artificial Intelligence (”AI”) development and application picked up momentum whereas Europe was supported by potential rate cuts due to falling inflation. In addition, from the recent quarterly earnings announcement, we saw strong earnings growth with a good number of corporate guided for strong outlook especially those related to AI. The domestic market also performed strongly as political stability and thematic plays like property, construction and oil & gas sectors led the market higher.

Our portfolio did well in the first quarter, recording a gain of 7.8% in 1Q 2024. This was mainly driven by our US exposure in AI technology related stocks. Our Malaysia which was driven by good stock selection in the properties, energy and consumer sector also contributed positively to the fund performance. Over a 12-month period, the fund recorded a respectable gain of 12.6%.

Market Outlook

For our 2nd quarter strategy, we need to address the following questions before we decide on our country/sector asset allocation:

Is US inflation finally over?

Is the US magnificent Seven’s price rally peaking based on valuation?

Buoyed by government stimulus, is the downtrend for Chinese equity finally over?

After the recent rally, are valuations excessive?

<u>Is US inflation finally over?</u>

At the time of writing, while US personal income is still strong, continuous jobless claims are rising and personal spending has eased suggesting a slowdown in consumption.

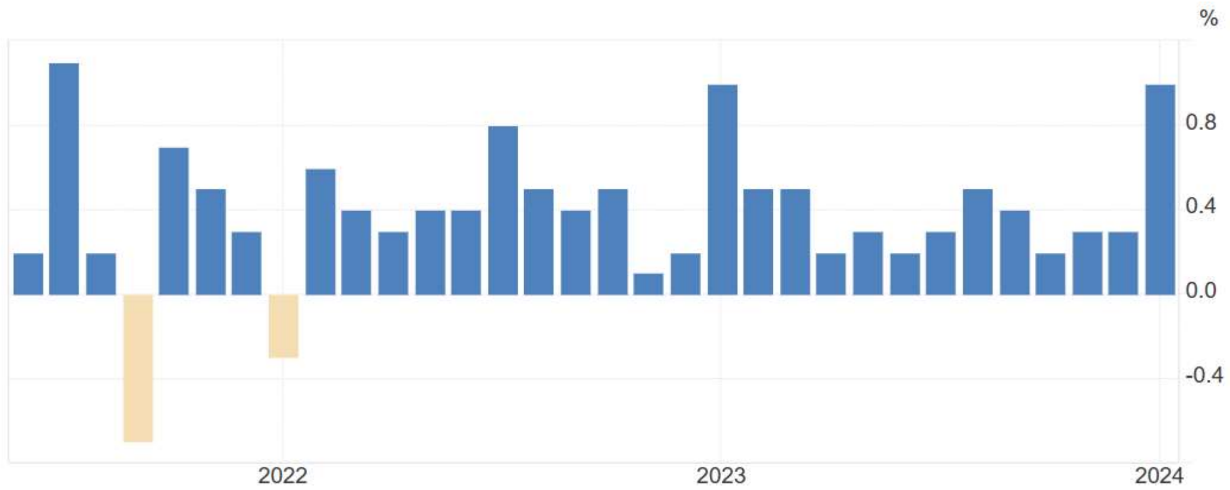


Fig 1: US personal income (MoM)

Fig 2: Continuous jobless claims

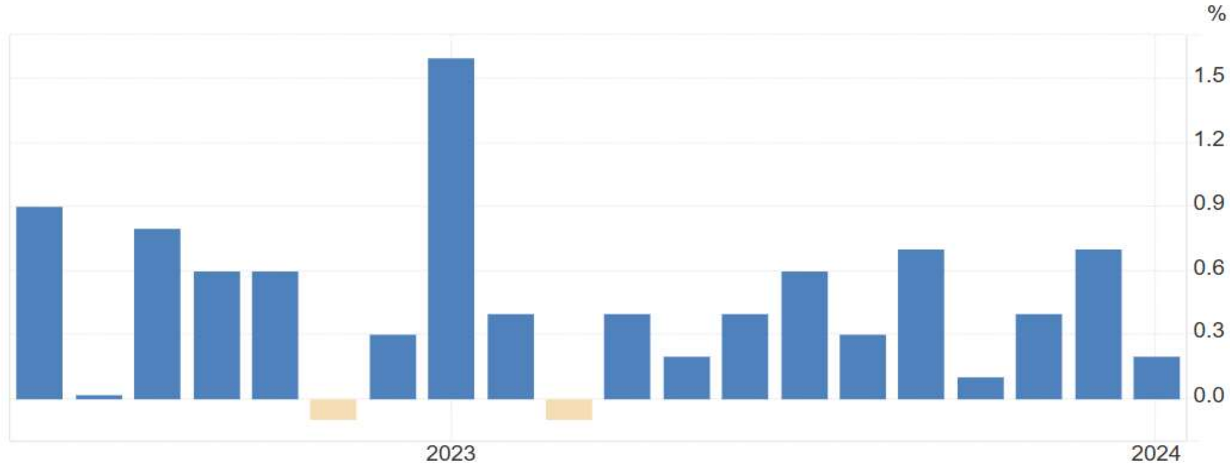
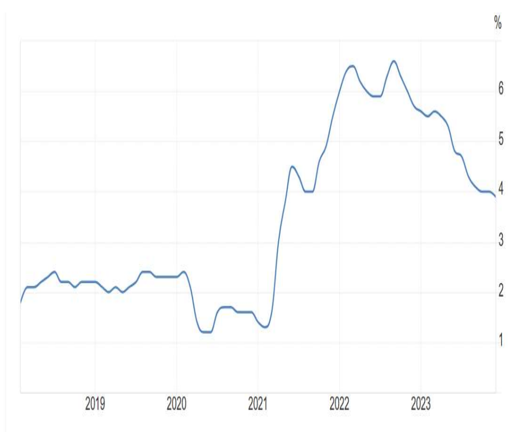


Fig 3: US personal spending (MoM)

Core CPI data (Fig 4: US core inflation rate) raises the expectation for delays in Fed easing but looking at the breakdown, shelter (rent) was the main cause for the strength of inflation and rent is falling. Excluding shelter, core CPI is running at 2.2%. New rents indicate that shelter inflation could drop close to zero by year end. Hence it is not if but when the Feds will start easing and our best guess would be 3rdQ 2024.



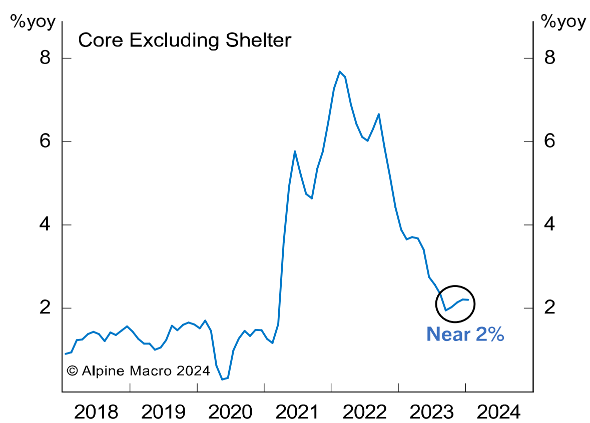
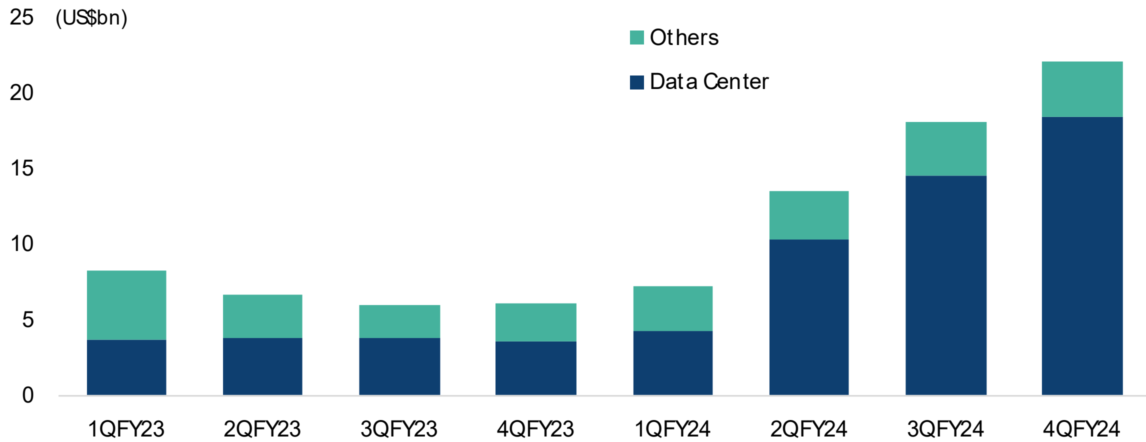


Fig 4: US core inflation rate

Fig 5: Core Inflation excluding shelter (Source: Alphine)

Is the US magnificent Seven's price rally peaking based on valuation?

Consensus earnings average growth for 2024 is forecasted at 18.8% (Source: DBS) but for Nvidia, Meta, Amazon and Microsoft, the expected numbers are 88.5%, 33.8%, 42.5% and 18.8% respectively. The 4th Quarter numbers (just ended) was up double digits and with strong forecasted growth, forward valuations are not excessive at near 30X. Just looking at Nvidia's 4thQ numbers (Fig 6), forward valuation is not excessive at 29x, but this is on the premise that growth will continue. Judging from the QoQ numbers and base effect, we believe it will be so.



Note: 4QFY24 ended 28 January 2024. Source: Nvidia

Fig 6: Nvidia quarterly revenue (Source: Jefferies).

This race to invest in AI is just the beginning and quoting Nvidia's CEO Jensen Huang, they are diversifying into new industries. Auto, health, robotics, financial services and many others are beginning to embrace generative AI. While competition is coming, the pie will grow bigger. We make no pretense that we know it all but certainly, a rising tide will be the catalyst for those that are already in this sector. Hence, we will keep a significant exposure in AI-related stocks from design, equipment makers, wafers, assembling and testing, basically the whole supply chain wherever they may be.

<u>Buoyed by government stimulus, is the downtrend for Chinese equity finally over?</u>

The government has made numerous policies of late to support the capital market such as:

- Cutting the 5-year mortgage prime rate to 3.95%
- Extending funding to support key Developers.
- Sovereign wealth fund support via buying ETF funds.
- Cutting banks' reserve requirement ratio to add monetary stimulus.
- Securities lending restriction.

The pain threshold for citizens has been reached and there are news of some unrest. The market situation resembles 2015 where the government provided a combination of stimulus and reforms to drive the market's recovery. The valuation is cheap (Fig 7) but does this warrant a sustainable turnaround for the market?

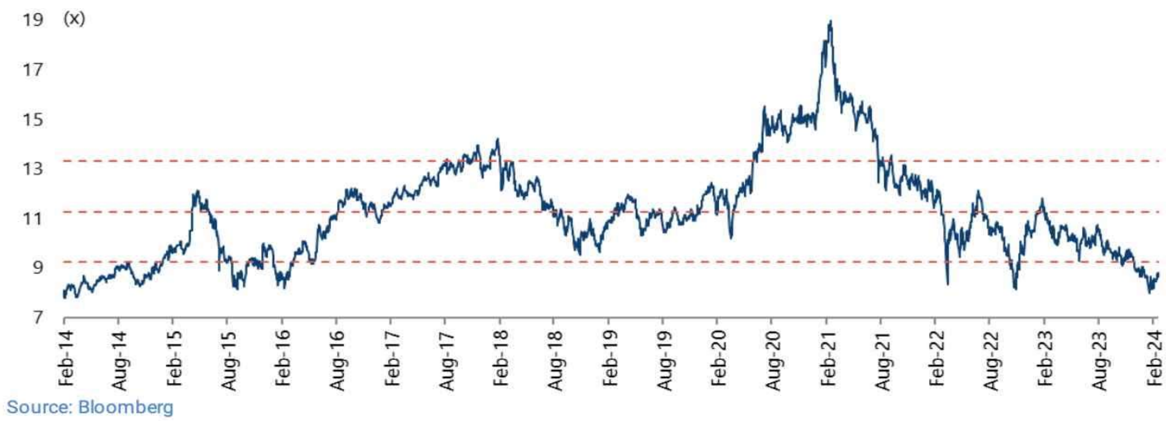


Fig 7: China's PE

For sustainable market recovery, consumer confidence must be restored to improve consumption spending and more needs to be done to clear the housing backlog. Secondary market transactions are picking up, but new launches are still disappointing for fear that the developer cannot deliver the finished product. The market has clearly reached an oversold position, but we believe that the market will be ranged bound with perhaps slightly more tactical upside from here. It is more of a trading market with depressed valuations and an underweight position by external managers. It will take time with more targeted stimulus to end the property market slump and deflationary pressures just as it took months for the market to eventually recover in 2015.

<u>After the recent rally, are valuations excessive?</u>

Looking at the table below, EU is still having some adjustments with sales and earnings in the negative territory. Japan on the other hand is having significant improvement in earnings efficiency.

4Q2023	% reported	Sales growth	Earnings growth
Euro Stoxx	45	-5.4%	-0.2%
Topix	95	3%	42.2%
S&P 500	88	3.8%	7.95%

Source: JPM

The Nikkei exceeded the previous peak, but the economy is in technical recession, which is mind-boggling. Exporters are benefiting from the weak Yen and hence the resurgence in the index but from a valuation standpoint, we suspect a range trading scenario going forward till the next reporting season where better clarity will surface.

Fig 8: Nikkei’s PE

While the US tech sector has rallied, earnings have kept pace with the rally. The valuation is only slightly above average and judging from guided numbers, technical pullbacks should be taken as buy opportunities especially in the AI space.

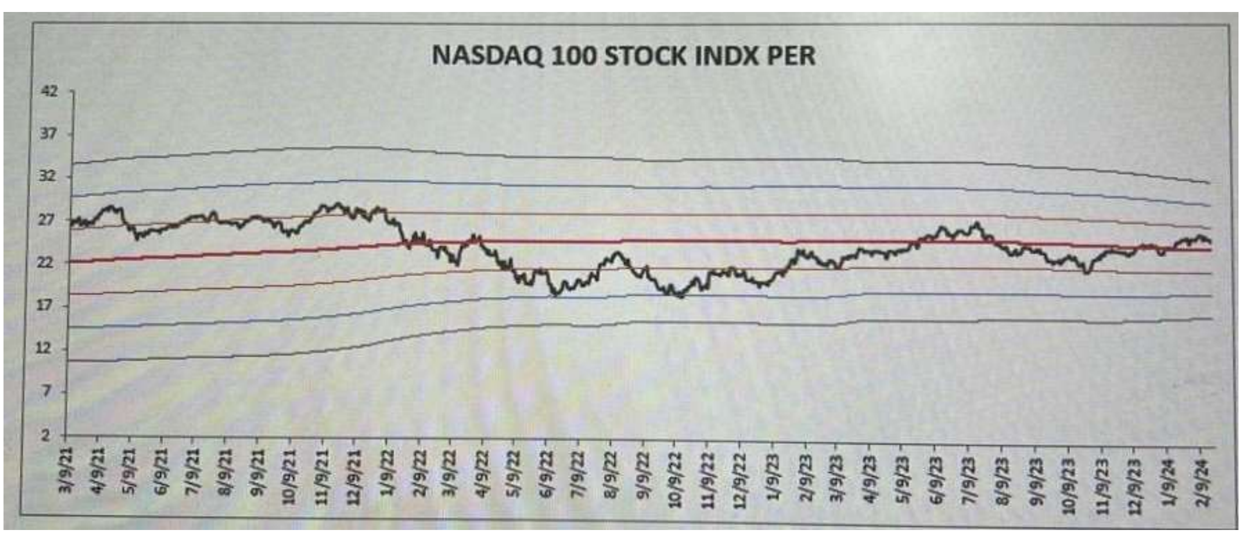


Fig 9: Nasdaq100

We are also looking into the ASEAN markets especially with foreign investors looking at diversifying their production hubs with a China plus 1 approach. Manufacturing PMIs (Spore and Indonesia) suggest favorable prospects and it would be wise to investigate supply chains especially in the AI and tech spaces. Valuations are also at/below the mean with consensus earnings for 2024 at double digit growth.

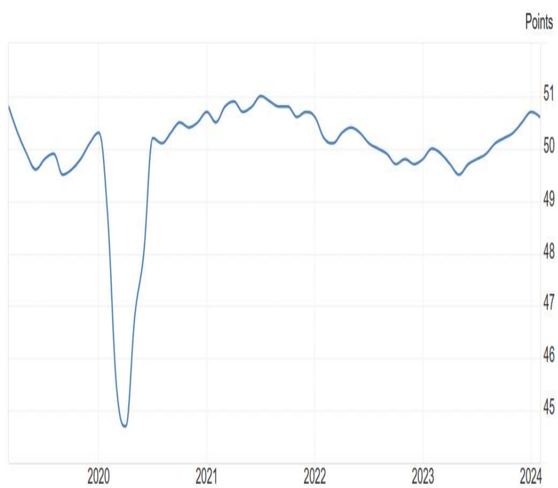


Fig 10: Spore PMI

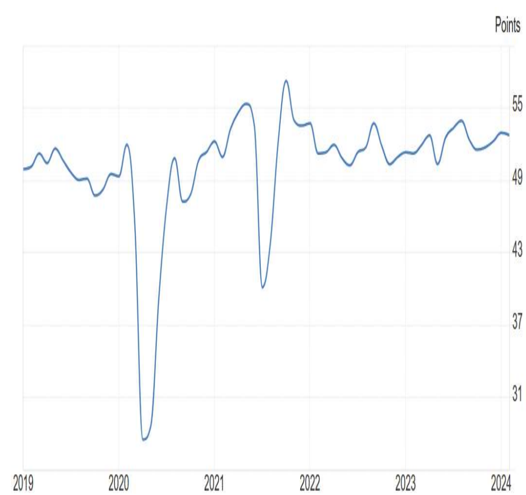


Fig 11: Indonesia PMI

We mentioned earlier that Fed easing will happen in the 2H 2024. However, with persistent budget deficits and indebtedness for the foreseeable future, we want to avoid duration risk and will focus on the sub 5 years duration. Short term rates will converge lower, but we are not too sure on the longer end which bears upside risk from funding pressure.

Portfolio Strategy

We continue to stay invested in the technology sector with bias towards US companies as we believe the demand and application of AI will continue to expand and will result in strong earnings growth. We will look for opportunities in ASEAN as the region, apart from Malaysia, has been a laggard and valuation are turning attractive.

In addition, we continue to focus on fundamental research to find undervalued stocks as we believe these stocks, if fundamentally sound, will re-rate and contribute positively to the fund's performance over the longer term.

The report examines key considerations for second-quarter strategy, focusing on US inflation trends, valuation of major tech stocks, Chinese equity prospects amid stimulus measures, and global market valuations. It suggests maintaining exposure to US tech and exploring opportunities in ASEAN while managing duration risk and emphasizing fundamental research for long-term performance.