AVIAN CAPITAL SDN BHD

Suite 12.06, Block E, Phileo Damansara 1,
9, Jalan 16/11, 46350 PJ, Selangor, Malaysia

GLOBAL OUTLOOK AND STRATEGIES

Jun 2024

Market Outlook

What is our market expectation as we head into the 2nd half of 2024, after a decent market uptrend in the 1st half?

We believe the markets will continue their uptrend interspersed with mild consolidation as technical indicators are beginning to look slightly stretched. Based on guidance given after the recently completed reporting season in US, the global outlook looks promising and macro numbers are expansionary.

Chart 1: Profit revision for S&P (Source: Bloomberg)

We believe the uptrend is intact as the business cycle remains positive (US Composite PMI) but highlight the possibility of greater volatility due to stretched technical indicator (RSI). Moreover, we expect the disinflationary process to be delayed but not over with rate cuts expected in the 4th Quarter in US. Hence with high geopolitical risk and commodity prices plus upside risk to longer inflationary duration, we need to be more nimble and conservative in our asset allocation (higher cash level). The mega tech would probably need to wait for Fed rate cuts before moving higher but we will buy on dips as reported numbers so far justify the higher PE valuations.

Chart 2: US Composite PMI, May 2024 (Source: Trading Economics)

Our main justification for the continued uptrend is because the odds of inflation or recession is low. Hence, with Fed easing and a low probability of an economic or financial crisis, pull-backs will present buying opportunity. As such some form of market consolidation is expected in the coming quarter. Fed cuts and an encouraging profit outlook/PMIs provide support.

Fed Chair Jerome Powell's statement in a recent press conference was that a surprise increase in unemployment could prompt the Fed to lower rates, implying a policy response in a weakening labour market. Hence the Fed policy has tilted from fighting inflation to a more balanced approach that emphasizes both price stability and employment. Indeed, the labour market indicator is pointing to softer employment growth.

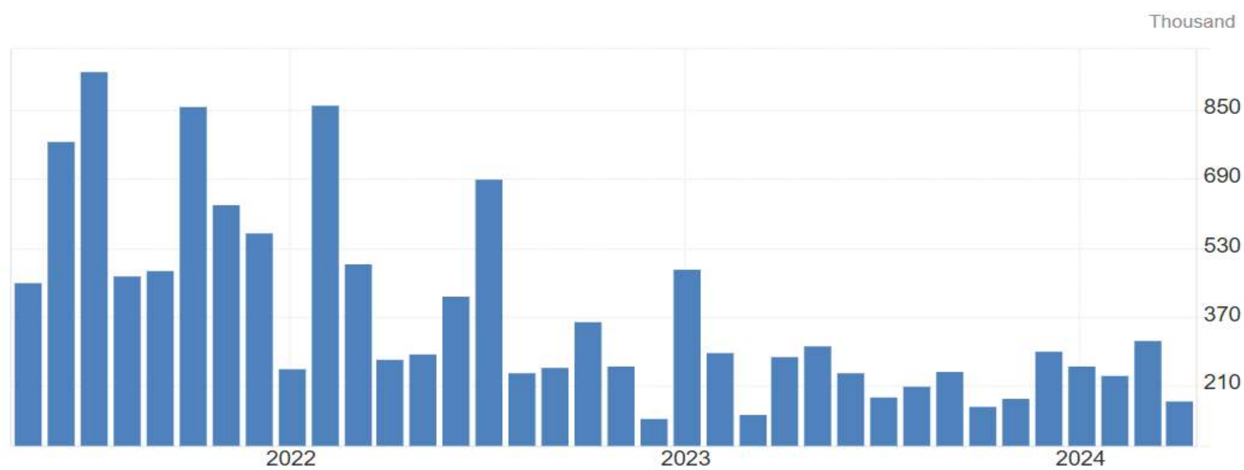

Chart 3: US Non Farm Payrolls (Source: Trading Economics)

Moderation in risk appetite does not imply an earnings recession. Just look at the latest Nvidia's results! Nvidia not only reported April results that exceeded consensus but guided to a 7.5% increase in the coming

Jul-Quarter. It emphasised that it wants to sell its technology to a wider market - beyond Amazon, Alphabet, Meta and Microsoft (the hyperscalers). Its CEO stated that AI is moving to consumer internet companies, carmakers, healthcare customers and more. These opportunities are creating multiple dollar vertical markets, beyond cloud service providers.

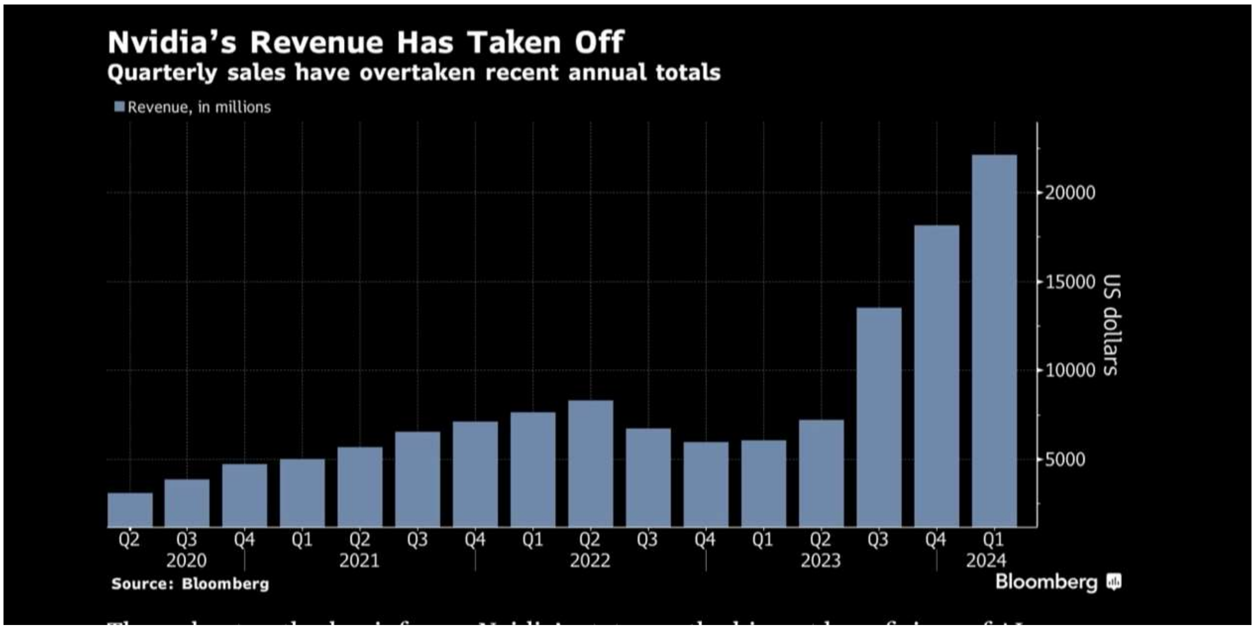

Chart 4: Nvidia's revenue (Source: Bloomberg)

In summary, we envision equity markets to resume their uptrend due to declining inflation, continued economic growth and positive earnings after some mild consolidation considering the strong run up in the 1st half of 2024. However, the recent surprises on inflationary pressure lends support to near term equity vulnerability/volatility but the uptrend should resume and broaden over the later part of 2024.

Growth

The synchronized recovery in the global purchasing manager indexes is a good indicator that a cyclical upturn in global growth is beginning to take shape. Currently we are dealing with a start of EPS recovery which should further fuel the markets after some consolidation. Big Tech might be expensive but reported results and forward guidance lends support to the tech sector especially AI related. This is turn will revolutionise the way other industries optimise their operation for enhance efficiency.

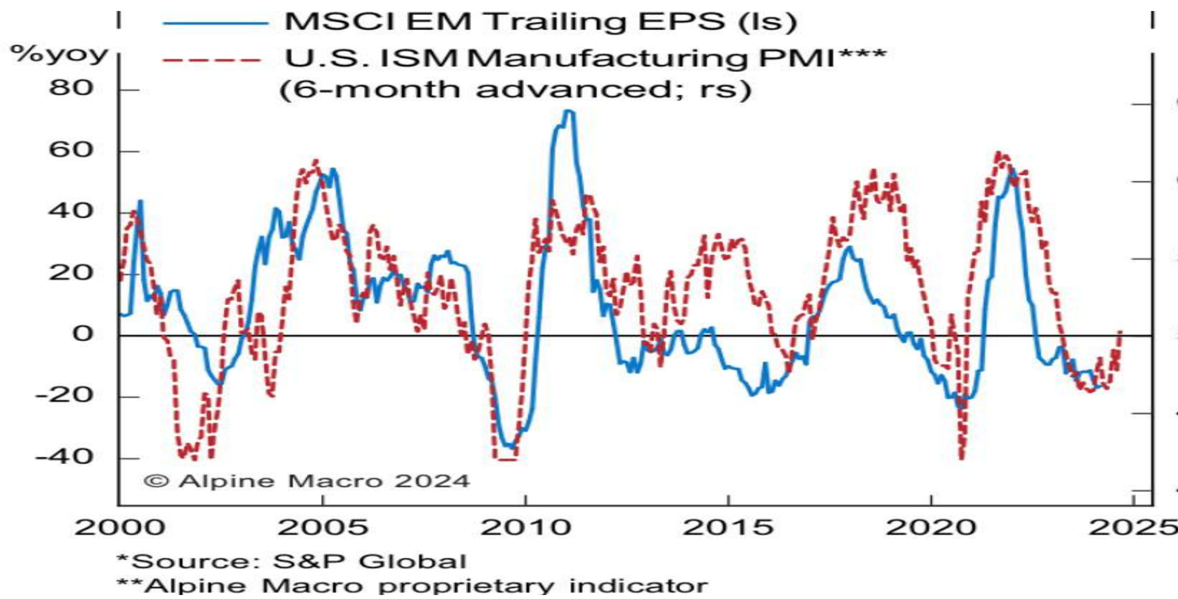

Chart 5: MSCI EM Trailing EPS (Source: UOBKH/Alphine)

China

China's retail sales grew at the slowest pace since 2022 while industrial production accelerated, highlighting the unbalanced recovery. There is still no distinct clarity on the macro front as the economy is held ransom by the property slump. The good news is recent macro data have been better than expected and this could be the needed impetus for a continued rebound.

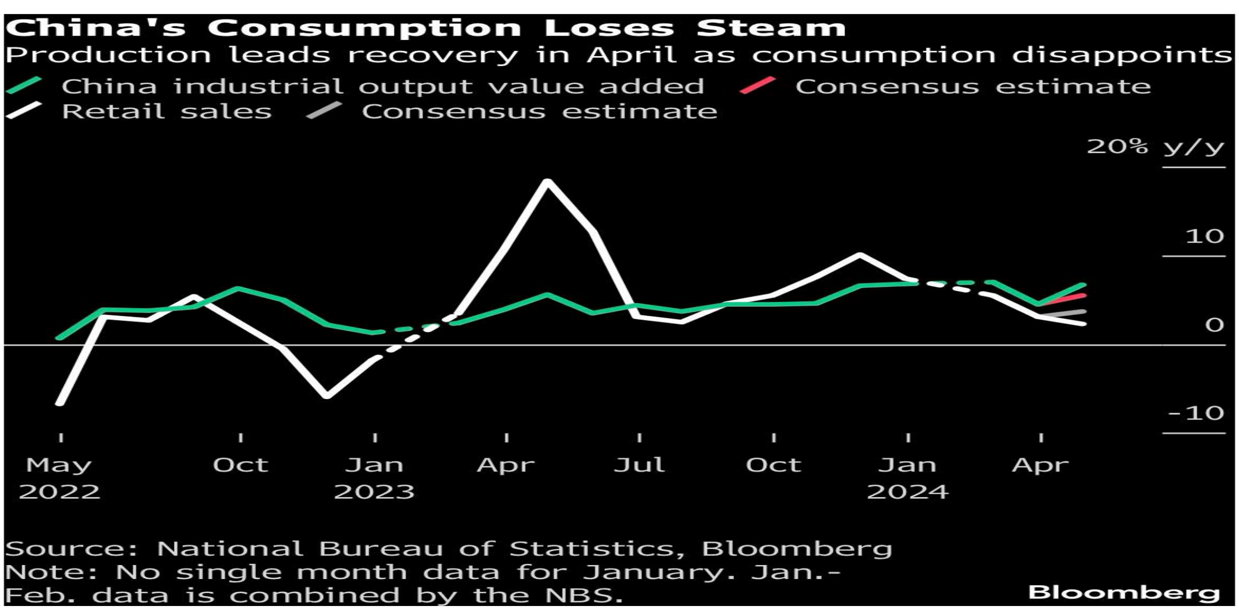

Chart 6: China's Consumption and production (Source: Bloomberg)

This together with a recovering US economy (ISM Manufacturing PMI) should continue to benefit EM equity markets. What is more interesting is the rebound in China's import growth, implying a possible recovery in domestic demand.

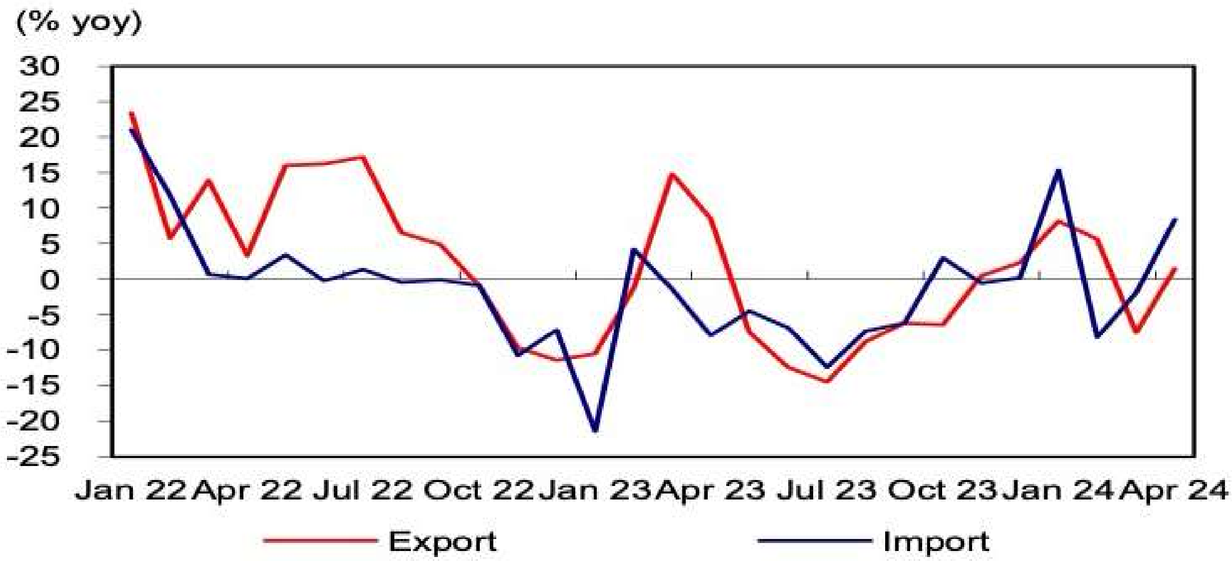

Chart 7: China's Export and Import (Source: UOB)