AVIAN CAPITAL SDN BHD

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

Market Review

In 4Q 2023, US equity market rallied towards the end of the year when US Fed indicated that interest rate has likely peaked and there could three potential rate cuts in 2024. Our portfolio benefited from the rally in the US market as we have significant exposure in the region. In addition, the portfolio invested in Bond ETFs to take advantage of falling yields which led to price appreciation. However, this was more than offset by weak performance in the Hong Kong/China market. Despite continuous monetary policy support by the Chinese government, albeit on a piecemeal basis, it was not sufficient to lift economic growth and investors sentiment. Furthermore, a proposal by Chinese regulators in late December to tighten online gaming caught investors by surprise and companies with exposure to online gaming were sold down.

From the fund's inception in mid-April to December 2023, the fund recorded a net gain of 4.74%.

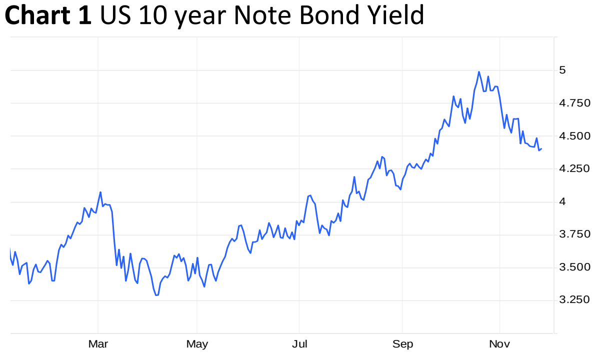
Market Outlook

Key events that have affected the markets in 3rdQ 2023 were:

1. Israel and Hamas conflict
2. Strong USD
3. Rising interest rates
4. Earnings recession fears
5. China's economic slowdown

Rising interest rates in US have strengthen the US dollar and affected global markets negatively as USD and emerging markets are generally correlated negatively. As recent indicators point to peaking inflation, the Fed will have no reason to stay hawkish. This doesn't mean that interest rates will drop dramatically but is certainly off its peak (**Chart 1**). Rates will probably stay higher for longer but some easing is expected as we move into 2024.

Chart 1 US 10 year Note Bond Yield



Macro indicators are also suggesting a slowdown but no recession for 2024. Initial US jobless claims data (**Chart 2**) and US retail sales (**Chart 3**) implies steady employment and retail spending while Asian economies are starting to show a pick up in manufacturing production (**Chart 4**).

Chart 2 U.S. Initial Jobless Claim

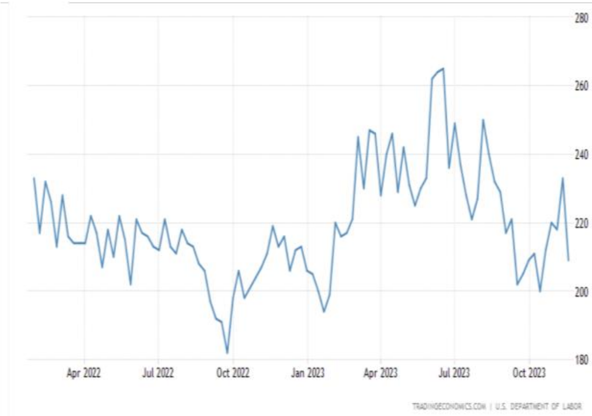


Chart 3 U.S. Retail Sales

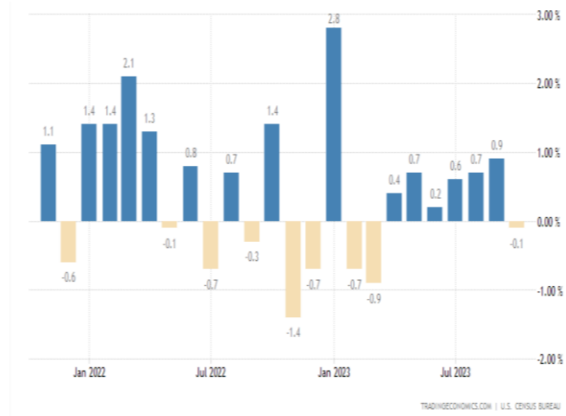


Chart 4 Taiwan Export Orders

This leads us to concur with a Bloomberg finding by UBS (**Chart 5**) that the earnings recession is likely over and growth will return in 2024. In fact, blended aggregate earnings growth for Q3 2023 ex Energy and Materials (**Chart 6**, source: Bloomberg) suggests decent recovery despite low single digit revenue growth. This implies discipline cost control measures and any growth in revenue will flow directly to the bottom line.

Chart 5 S&P 500 Actuals and Consensus EPS estimates (% YoY)

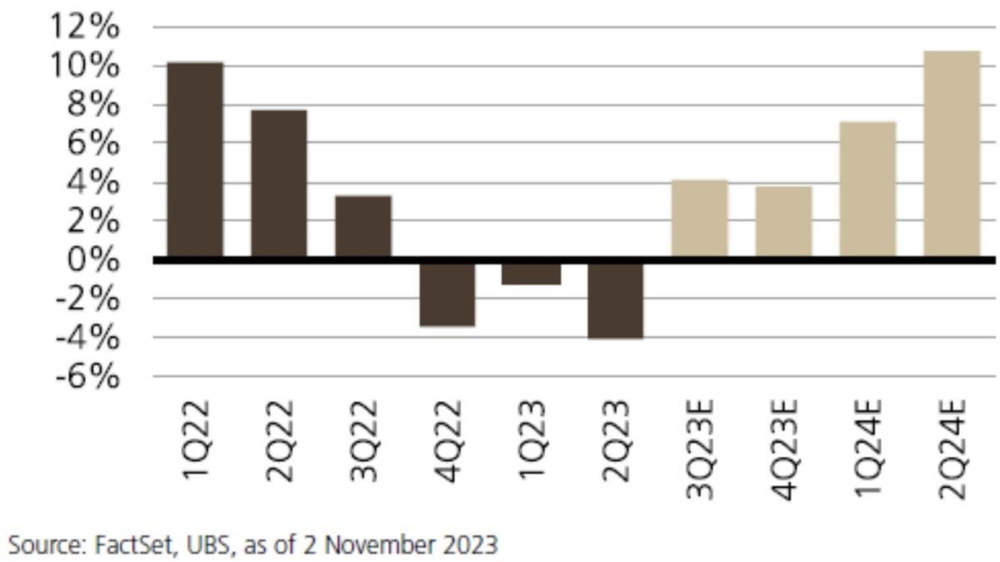
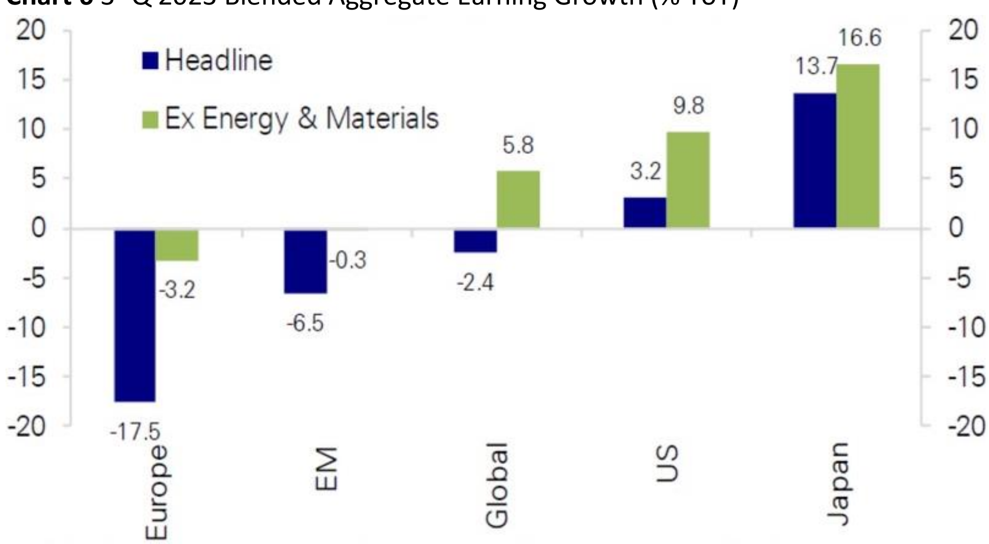
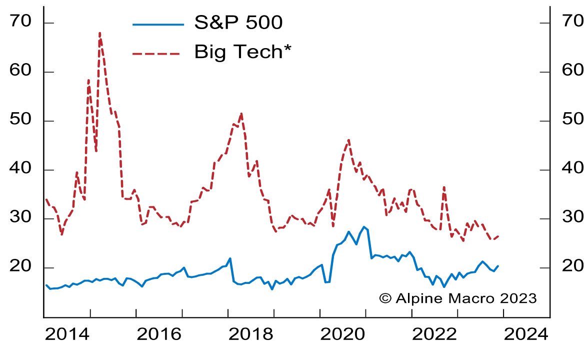


Chart 6 3rdQ 2023 Blended Aggregate Earning Growth (% YoY)



As we have address the macro, interest rate and earnings outlook for 2024, we ask ourselves whether all this has been reflected in the valuation. The obvious key concern would be the tech sector. Absolute PE valuation in itself is insufficient to form a view. After all what is cheap for a sector that is dominated by AI? Looking at **Chart 7**, it is clear that the tech sector is in no way expensive, hence our skew in asset allocation. AI and now generative AI have some way to go before we reach a saturation point.

Chart 7 12 months Forward P/E



*Includes Facebook, Apple, Amazon, Microsoft, Google and Nvidia
Source: Bloomberg Finance L.P.

In summary, bonds will lead stocks higher next year as the economy slows. A slowing economy does not imply negative earnings but as we have argued, we expect decent growth in earnings. These coupled with a stabilising China, a normalisation of sentiment/positioning, positive seasonality, continued AI growth and improving US/China relationship, we expect capital markets to do well next year, bonds and equity alike.

Portfolio Strategy

As we take the view that both bonds and equity market will do well in 1Q2024, we will keep the portfolio invested in both asset classes. For country allocation, we find value in Hong Kong/China, Malaysia and Thailand as these markets were laggards in 2023. At current valuations, we believe a lot of negative news had been priced into the Chinese market. As it is difficult to time the bottom of the market, we will gradually increase our exposure in China by investing in companies with strong fundamentals. As for sectors, we are positive on the technology sector (with bias towards US listed companies) and cyclical sectors (property, construction) as they tend to perform during a falling interest rate cycle.