CIO Insights 4Q24

In a Sweet Spot.

Fed's Refocus

With good progress towards price stability, the Fed has indicated it is time to shift its policy towards lowering rates. The bumper 50 bps rate cut will shore up the likelihood of a soft landing. This is constructive for risk assets.

Equity Rally to Broaden

Bull market in equities to continue, with a broadening to laggard sectors. US Big Tech and AI thematic equities are in consolidation within a long-term uptrend. Overweight Singapore REITs as an income generator in one's portfolio.

Stay Long Duration

Disinversion followed by a steepening of the yield curve, as the Fed cuts rates, will benefit long duration bonds. Shift out of cash instruments to investment grade bonds with an average portfolio duration of 5-7 years, and average credit rating of BBB.

Add Alternative Assets

Gold, hedge funds, and private assets are a source of additional non-market directional returns. The wide dispersion seen across global markets bodes well for hedge fund strategies.

Source: iStock

Content

Executive Summary

Dear valued clients,

In the two quarters leading up to now, we have expounded our case that risk assets were in play. Going into 4Q, risk assets should remain in a sweet spot as the surprise 50 bps rate cut will increase the odds of a soft landing.

Since then, bond and equity indices have trended upwards. More recently within equities, non-tech laggard sectors have started to outperform US Tech. Notwithstanding this, we stay convinced of our longer-term "barbell" strategy comprising secular growth equities on one end and income generating assets on the other.

Even with the recent moves, Big Tech continues to shine in the growth end of our portfolio. Unlike the dot-com boom during the 1990s, the AI revolution today is being funded by free cash flow rather than debt. This is clearly demonstrated in the hyperscaler companies of Alphabet, Amazon, Meta, and Microsoft, which remain flush with cash from their well-established and profitable businesses – and we maintain that the AI revolution is in its infancy and holds immense growth potential.

On the broadening theme, we like ASEAN equities as they will be a beneficiary of lower rates and a weaker US dollar. While they have been laggards for several years, it is now time for ASEAN equities to shine.

On the income end of the portfolio, longer-duration, investment-grade bonds will provide constant cash flow, with potential for capital gains as the Fed embarks on monetary easing. We also go overweight on Singapore REITs for their attractive valuation and sound financial metrics.

Last but not least, alternatives will continue to feature in our portfolio as gold, hedge funds, and private assets offer a non-correlating source of returns, or alpha.

Do enjoy the read, and I wish you a fruitful final quarter of investing.

Hou Wey Fook, CFA

Chief Investment Officer

Sweet Spot

Asset
Allocation
4Q24

The Fed easing cycle today mirrors that of 1995. The combination of economic resilience and Fed cuts, overlaid with game-changing technological advancements driving productivity gains, will be tailwinds for risk assets. Ride the wave of falling bond yields and dollar weakness through exposure to gold, ASEAN equities, and Asia REITs.

Investment Summary 4Q24

Macro Policy

The Fed's surprise 50 bps cut marks the start of easing. ECB makes second cut of the year. BOJ holds rates steady, but expect gradual hikes starting 1Q25. China policy support continues with new stimulus measures.

Economic Outlook

The bumper 50 bps rate cut will shore up the likelihood of a soft landing, as opposed to a recession scenario. Asia exports beat expectations on electronics upcycle.

Equities

Moderating growth and a weaker dollar should benefit more defensive sectors such as utilities, consumer staples, and healthcare. Falling rates to boost ASEAN equities and Asia REITs.

Credit

Sweet spot remains in A/BBB credit with duration barbell between 1-3Y credit to mitigate reinvestment risk and 7-10Y credit to capture risk premium and yield spread compression. US MBS and European credit poised to offer strong value plays.

Rates

Steeper curves for the US and EU given policy easing mode. The BOJ remains the outlier, implying that the JGB curve is biased towards flattening. Expect falling China government bond yields.

Currencies

US Dollar Index (DXY) languishing below 100 is likely in the next US presidential term, driven by Fed rate cuts in a soft landing environment. Asian currencies will gain as the region anchors global growth, supported by export recovery.

Alternatives

Gold set for further highs with impending rate cuts. In private markets, secondaries are seeing a phenomenal rise due to demand for liquidity amid a tighter IPO, M&A environment for exit.

Commodities

Soft commodity prices on slowing economic momentum. Expect a bottoming in oil price on favourable supply demand. Precious metals remain the standout performer.

Thematics

ASEAN to benefit as a strategic economic bloc from China+1. Tailwinds from lower rates and dollar weakness to sustain strong growth momentum.

Theme: The ASEAN Portfolio

Against headwinds, ASEAN continues to sustain strong growth momentum. Resilient domestic demand backed by tight labour markets and stable prices, buoyed by robust tourism and a recovery in exports have been key growth drivers. With lower rates and a weaker dollar on the horizon, we see further tailwinds for ASEAN as a strategic economic bloc.

Each ASEAN nation has its own unique identity and growth story, which span across manufacturers, commodity-rich producers, and financial service providers. These contribute to the region's collective attractiveness as a key investment destination.

Source: Unsplash

01. Asset Allocation.

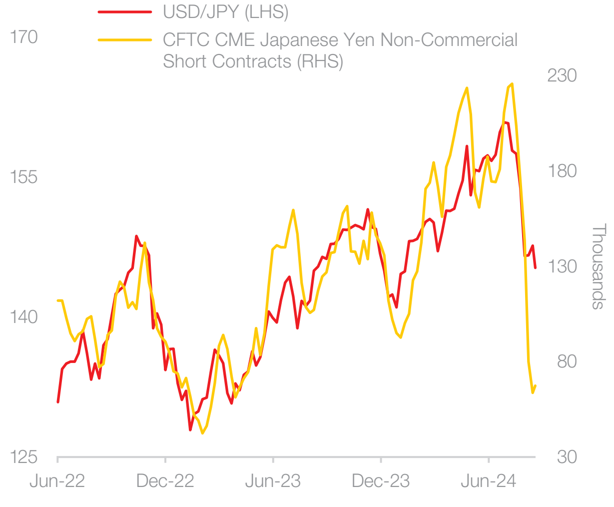
Hou Wey Fook, CFA
Chief Investment Officer

Dylan Cheang
Strategist

"All sound and fury, signifying nothing". The famous quote from Shakespeare's play – Macbeth – aptly described sharp moves in risk assets during the August sell-down as traders swung from euphoria to despair in the yen carry trade unwind. And just like that, the Fed narrative pivoted from the call for "patience" to an urgent need for rate cuts – a move which was duly delivered at the September FOMC meeting. The decision to slash rates by a bumper 50 bps marks a watershed moment for the central bank with the "dot plot" suggesting more cuts are on the table. And with this Fed volte-face, risk assets have since resumed its upward march with the yen carry sell-down in August becoming a distant memory by now.

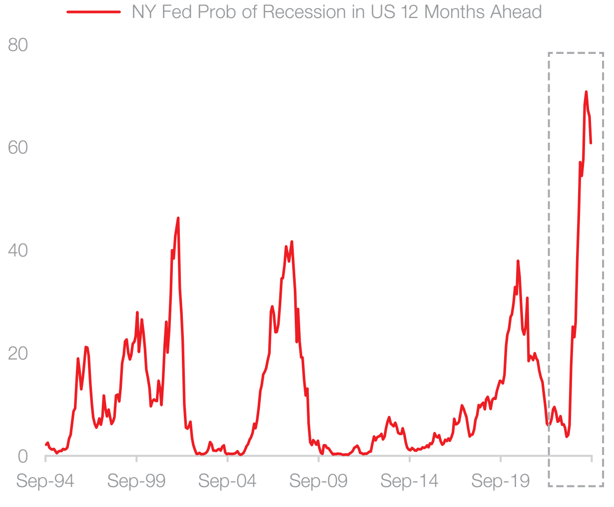
In our view, the recent bouts in violent mood swings in financial markets are classic by-products of backward-looking US monetary policies and euphoric investor sentiments, triggered by the arrival of game-changing technological innovations (in this case, Gen-AI). It is clear by now that the Fed's obsession with inflation targets is problematic in a rapidly changing world undergoing structural shifts. The "data-dependent" nature of its decision-making framework, overlaid with the absence of a policy anchor, means that the central bank will always be playing catch-up with macro datapoints and remain behind the curve. This view is reinforced by Powell's own admission that rates are not on a "preset" path

Yen carry trade unwinding appears to be over – for now



Source: Bloomberg, DBS

Treasury spread pricing in high recession risks ahead



Source: Bloomberg, DBS

and the central bank could, once again, pivot should inflation prove to be more sticky than expected.

Based on Treasury spreads, investors are now pricing in a high probability of a recession in 12 months' time. Such assumptions seem logical on the surface, given recent market volatility and the Fed's policy inertia. However, one should also draw a clear distinction between economic reality and investors' paranoia. Based on the following factors, we believe that our base case assumption of a US economic soft landing remains intact:

- US consumption remains healthy with retail sales and jobs data showing no signs of an imminent recession. Corporate earnings have been on a broad upward trajectory since mid-2023 and this augers well for consumption.

- Households and corporate balance sheets have deleveraged sharply and remained healthy since the subprime crisis.

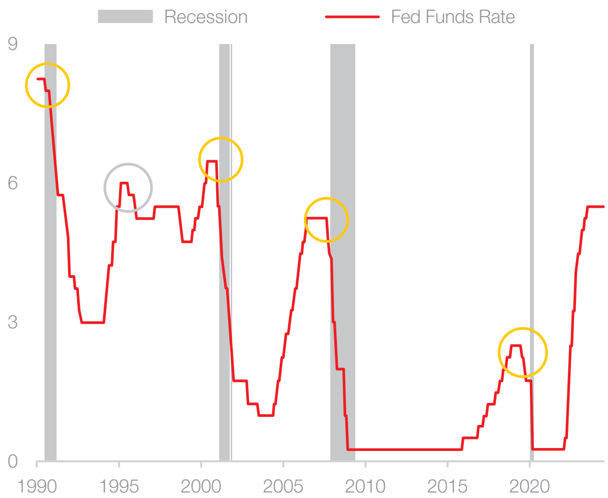
- Above all, the Fed possesses a huge buffer for monetary easing as the prevailing Fed Funds rate stands at c.243 bps away from the 30-year average.

If our assumption holds true, we have reasonable grounds to believe in the continuation of a broadening rally. Based on conventional wisdom, rate cuts (and falling bond yields) are positive for risk assets, at least from a discounted cash flow perspective. Given that the start of aggressive rate cutting cycles has traditionally preceded major recessions, the relationship between Fed monetary easing and equity market performance is not as straightforward.

Since 1986, there have been four occasions that exemplified this. The burst of the dot-com bubble, for instance, saw the Fed slashing rates by 550 bps (6.5% to 1%) over 30 months as recession took hold in Feb 2001. Next, during the subprime crisis, the central bank slashed rates in an aggressive fashion again as the economy spiralled downwards into a tailspin. On each of these four occasions, the S&P 500 registered average declines of 3% in the subsequent 12 months.

Conversely, there was one occasion where Fed easing was not followed by a recession, and that was in 1995. After the initial rate cut, the S&P 500 registered strong average gains of c.13.9% in the subsequent 12 months as the arrival of the Internet started a new industrial revolution and drove economic activities to another level.

Fed rate cuts have typically preceded recessions

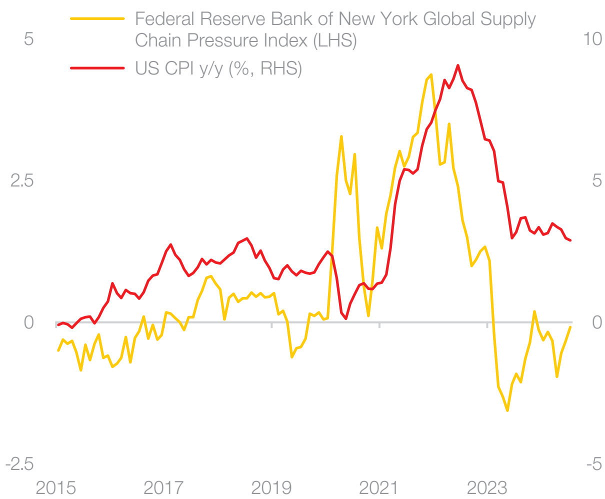


Source: Bloomberg, DBS

Why does the current market cycle feel like a repeat of 1995? We see several parallels between the Fed easing cycle today and 1995. To recap, in 1994, the Fed embarked on one of the most aggressive tightening cycles in modern history as it attempted to keep inflation in check and prevent the economy from overheating. However, by mid-1995, the central bank made a U-turn and started mid-cycle easing with three rate cuts in six months as inflationary pressure eased.

The Fed monetary tightening cycle of 2022 evokes a sense of déjà vu here. Faced with spiralling inflation amid global supply chain disruption and geopolitical tension, the Fed hiked rates aggressively to combat some of the highest inflation levels seen in decades.

Global supply chain disruption triggered acute inflation in the US during pandemic years



Source: Bloomberg, DBS

Now with the arrival of a new era of monetary easing, we believe the situation today mirrors that of 1995 – from both economic and technological standpoints:

- Economic Condition: Economic conditions in 1995 were largely similar to the situation today on several fronts. US GDP, for instance, averaged 3.0% in 1995 and this is akin to the level seen today. Back then, consumer spending also experienced steady growth as demand was underpinned by low unemployment and rising wages. Listed below are the key similarities between both years:

Comparison between 1995 and 2024

	1H95	1H24
Inflation	3.3%	3.0%
Consumer spending	2.3%	1.9%
Wage growth	5.9%	4.9%
Unemployment rate	5.6%	3.9%

Source: Bloomberg, DBS

- Technological Innovation – Internet vs AI: The 1990s saw the rapid rise of personal computers and more importantly, the Internet. The launch of Windows 95 and Netscape Navigator served as pivotal moments that made the Internet accessible to the masses.

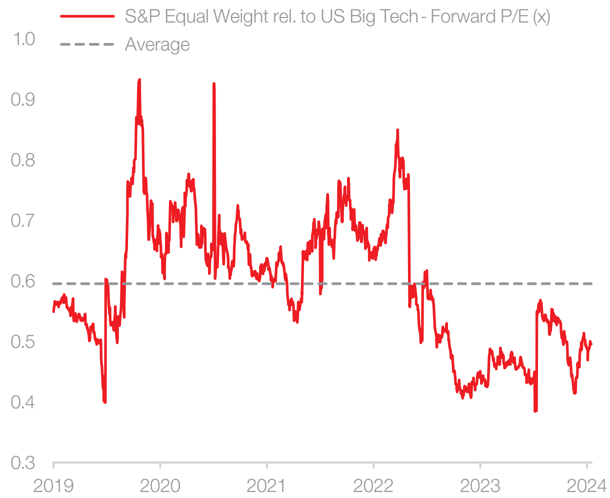
  Today's AI boom mirrors the 1990s PC/internet era with breakthroughs in machine learning and neural networks, driving widespread adoption among both businesses and consumers alike. The launch of ChatGPT in 2022 catalysed a new wave of AI-driven innovations and in many ways, its impact on technological innovation is similar to those made by Netscape Navigator and Windows 95.

The combination of economic resilience and Fed monetary easing, overlaid with game-changing technological advancements driving productivity gains, will be significant tailwinds for risk assets today – just like the way it was in the mid-1990s – an era of the "Great Moderation" where inflation finally became anchored after years of extreme volatility during the '70s and '80s.

Fed Chair Powell has often touted periods of long economic expansion as the ideal situation while Vice Chair Jefferson opined that the mid-90s share similarities to the current situation. If their assessments are correct, based on historical trends, the likelihood of risk assets doing well for the forthcoming quarters is high. Our analysis shows that gradual rate cuts outperformed eras of aggressive rate cuts by 63 %pts over a 24-month period.

On a forward P/E basis, the S&P 500 Equal Weight index currently trades at 50% discount to US Big Tech (proxied by the NYSE FANG+ Index) and this is higher than the long-term average of 40% discount. We expect the current equity rally to broaden beyond Tech and into other segments as bond yields head south.

US non-Tech segments trading huge discount to Big Tech



Source: Bloomberg, DBS

Growth Moderation, But No Recession: How to benefit from lower bond yields?

Growing signs of growth moderation and a softening jobs market have prompted the Fed to shift to a lower gear and pivot to monetary easing. While a soft landing (no recession) scenario remains our base case, we are also cognisant that growth is indeed slowing, and this is where the conundrum lies. In theory, lower bond yields are positive for high-growth industries from a valuation standpoint. However, this advantage will be offset by weaker top-line demand as economic momentum wanes.

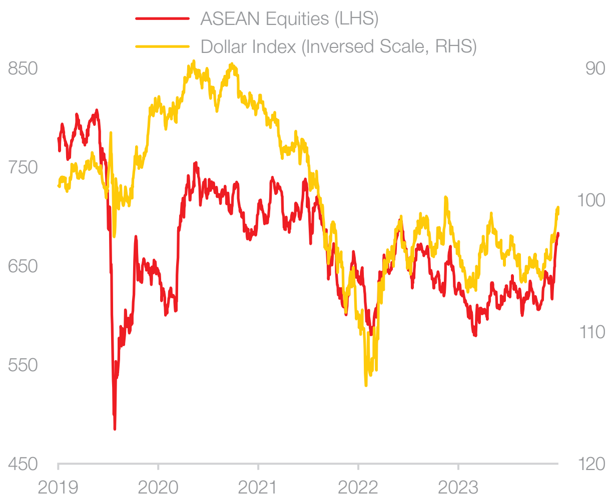
To navigate this unique situation, one should gain exposure to risk assets that encapsulate the following qualities: (1) Resilience in demand despite overall macro moderation and/or (2) Beneficiary of falling bond yields and dollar weakness. They include:

- **ASEAN Equities:** With a combined population of 672mn, ASEAN is a great domestic consumption play as its young population embraces digitalisation. The "China +1" strategy has also benefitted countries like Vietnam as the country moved up the value chain and pivoted into the manufacturing of smartphones and electric vehicles.

On the economic front, ASEAN-6's goods exports are expected to extend its robust momentum into the second half of the year. Based on our economists' forecast, ASEAN-6 is poised to register 4.7% y/y growth in 2024 (vs 4.2% last year). The resilient macroeconomic outlook, coupled with falling bond yields and dollar weakness, are expected to be tailwinds for ASEAN equities.

Since 2000, the relative performance of ASEAN against global equities has displayed close inverse correlation with the dollar.

ASEAN equities to benefit from dollar weakness



Source: Bloomberg, DBS

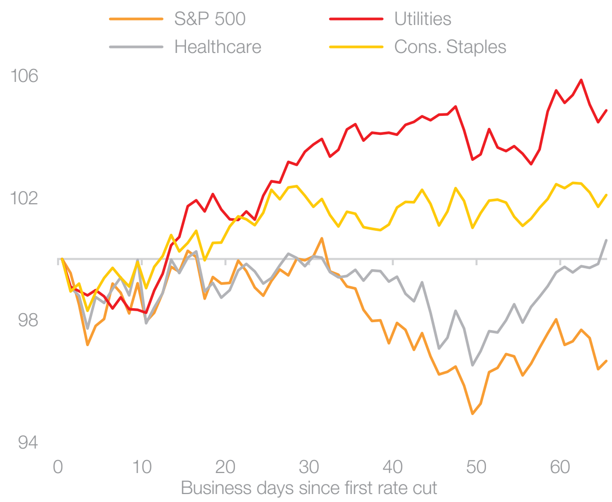
- **Defensive Sectors: Utilities, Consumer Staples, and Healthcare**. Using the S&P 500 as a proxy, we analysed how sectors performed in previous rate cutting cycles. Our analysis suggests that utilities, consumer staples, and healthcare tend to outperform on a three-month basis after the initial cut. The common factor underpinning the outperformance lies in the inelasticity of top-line demand as sectors provide basic necessities. Above all, the likes of utilities also provide above-average dividend yield of 3.0% (vs S&P 500's 1.4%), and this is attractive for income-seeking investors.

- **Asia REITs**: REITs (particularly the Asian ones) are prime beneficiaries of interest rate cuts, given their high gearing ratio and sensitivity to financing costs. As the Fed embarks on monetary easing, Asia REITs are poised to benefit:

    1. Lower Financing Cost: The core business model of REITs revolves around leveraging debt to finance their property deals. A reduction in interest rates will reduce financing costs and enhance profitability. This, in turn, leads to higher distributions to investors, making REITs more attractive as income-generating investments.

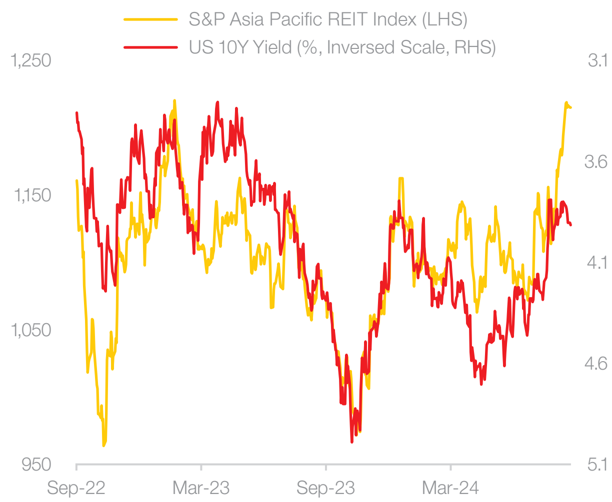
    2. Higher Dividend Yield: Asia REITs offer attractive dividend yield of 6.0%, and this enhances their attractiveness to income investors in an environment of falling bond yields. Dollar weakness will prompt global investors to seek higher returns outside of the US.

Utilities, consumer staples, and healthcare tend to outperform after initial Fed rate cut



Source: Bloomberg, DBS

Strong inverse correlation between Asia REITs and bond yields



Source: Bloomberg, DBS

- **Gold**: As a non-interest-bearing asset, gold possesses a broad inverse relationship with the dollar which is expected to weaken in the coming quarter as the Fed eases monetary policies. The escalation of geopolitical tension in the Middle East and Russia-Ukraine acts as an additional tailwind for the precious metal as investors seek safe havens in the volatile environment.

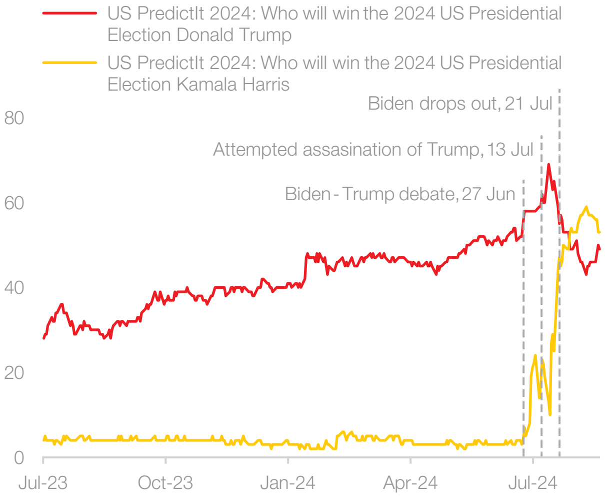
  Net gold purchase by central banks remained robust at 119.2 tonnes in Jun 2024 and surveys conducted by the World Gold Council suggest that gold will make up a larger proportion of total global reserves in the future. This underlies gold's rising position as a hedge for concerns surrounding de-dollarisation and monetary debasement.

US Presidential Election: What are the cross-assets implications?

As the 2024 US Presidential Election draws near, markets are bracing for potential volatility, driven by stark policy contrasts between the Democrat and Republican nominees. Given extreme political polarity on both sides of the aisles at Capitol Hill, the US is at a crossroads. This election is particularly critical as the outcome could profoundly reshape fiscal, trade, and monetary policies.

On the polling front, Trump has initially led the polls in the race, fuelled by strong support on a campaign centred on economic nationalism. However, the race took a significant turn when President Biden stepped down from seeking a re-election and paving the way for Vice President Harris to secure the Democratic nomination. Since then, Harris has gained momentum with polls now swinging in her favour.

Polling outcomes for the 2024 US Presidential Election



Source: Bloomberg, DBS

With the election coming up in 5 Nov, things will go down to the wire and much can still change in the blink of an eye. Listed below are our scenario analyses on the impact of a Democrat or Republican victory on cross-assets:

Equities:

- Republican Victory: A Trump presidency would create short-term opportunities for tax-sensitive sectors on expectations of corporate tax rate cuts of 15%. Industries like energy, transportation, and financial services stand to benefit from lower taxes and laxer regulations. Higher tariffs on imports (particularly from China) will boost domestic manufacturing.

- Democrats Victory: A Democrats victory will mean a continuation of Biden's agenda and policies. It is unlikely that there will be any significant deviations from current policies. Key ones like the Affordable Care Act and the CHIPS Act will continue to benefit industries like healthcare and semiconductors.

Bonds:

- Republican Victory: Contrary to popular belief, the assumption of bond yields surging higher should Trump win has proven unfounded. In fact, it is the reverse as our analysis shows that UST yields tend to flatten during Republican presidencies. The likelihood of Trump reigniting global trade tension will be a major factor, driving yields lower.

- Democrats Victory: As a Democrat victory will generally be perceived as a "Biden 2.0", the impact on bonds should be neutral. Our analysis of past Democrats presidencies suggests a gradual steepening of UST yield curves one year after election.

Cross Assets – Maintain preference for bonds over equities. The latest scoring on our CAA framework continues to suggest a preference for bonds over equities.

Fundamentals: US macro indicators, from PMIs to retail sales and manufacturing, all point to one thing: an economic soft landing for the US is in play. US economic surprises, which trended south for most of the year, has also bottomed out and is currently turning the corner. Broad-based economic strength is evident, not only in the US but also in Asia as exports are robust and manufacturers in the region report strong order books.

The resilient macro environment is translating into forecasted earnings growth of 9.0% this year and 12.2% next year for global equities (vs 0.9% growth in 2023). On a segmental basis, earnings growth for developed markets stands at 7.3% and 11.6% respectively for these periods while momentum for emerging markets is significantly stronger at +16.8% and +16.0% respectively.

Valuation: While the gap between US earnings yield and UST 10Y yield has improved slightly to +0.1% (as of 29 Aug), bonds remain more attractive as an asset class on a relative basis.

Momentum: Fund flows data from EPFR Global suggests that investors are starting to allocate more funds to equities as the asset class garnered inflows of USD142bn on a QTD basis (as of 21 Aug), while inflows to bonds trailed marginally at USD115bn. However, YTD, bond flows continue to lead at +USD404bn (vs +USD373bn for equities).

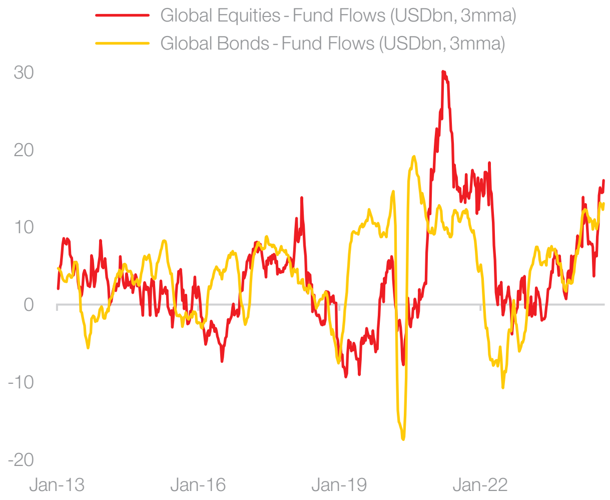
4Q24 Asset Allocation – Prefer bonds over equities

Categories	Indicators	Score Range	Equities				Bonds		
			US	Europe	Japan	AxJ	DM Govt	DM Corp	EM Bonds
Fundamentals	PMI	-1 to +1	0	0	0	0	0	0	0
	Economic surprise	-1 to +1	0	0	0	1	0	0	0
	Inflation	-1 to +1	0	0	0	0	0	0	0
	Monetary policies	-1 to +1	-1	0	0	0	0	0	0
	Forecasted EPS growth	-2 to +2	1	-1	1	1	-	0	0
	Earnings surprise	-2 to +2	1	-1	0	0	-	0	0
Valuation	Forward P/E	-2 to +2	0	0	1	1	-	-	-
	P/B vs ROE	-2 to +2	0	-1	-1	0	-	-	-
	Earnings yield - 10Y yield	-2 to +2	-1	0	0	1	1	1	0
	Free Cashflow yield	-2 to +2	-1	0	1	0	-	-	-
	Credit spread	-2 to +2	-	-	-	-	-	0	-1
Momentum	Fund flows	-2 to +2	2	0	0	0	1	1	0
	Volatility	-1 to +1	0	0	-1	0	0	-	-
	Catalysts	-2 to +2	0	0	0	0	0	0	0
Raw Score			1	-3	1	4	2	2	-1
Adjusted Score*			**0.05**	**-0.14**	**0.05**	**0.19**	**0.18**	**0.13**	**-0.06**

*Note: The "Adjusted Score" is calculated using the "Raw Score" divided by the maximum attainable score for each category.

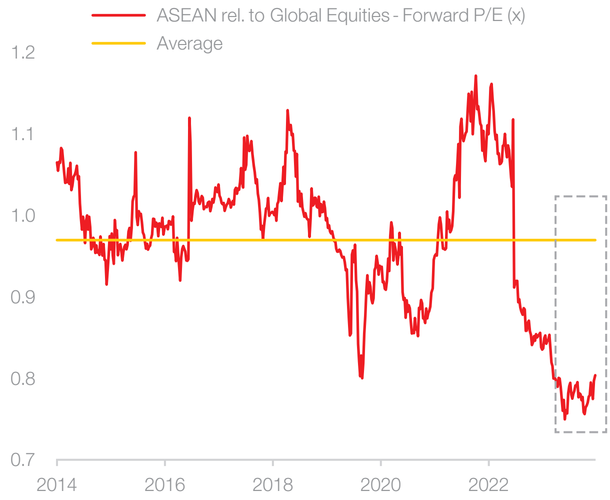
Source: DBS

Equity fund flows saw marginally stronger momentum in 3Q24



Source: Bloomberg, DBS

ASEAN trading at steep discount to global equities



Source: Bloomberg, DBS

Equities: Time for ASEAN equities to shine as Fed cuts rates and the dollar weakens. The performance of equity markets in 3Q clearly reflects major shifts in portfolio positioning as investors adjust their exposures to ride the wave of Fed monetary easing. Markets that outperformed in 2Q, such as United States (Tech-oriented play) and Asia ex-Japan (value-oriented play), became the worst performers this quarter. On a QTD basis (as of 28 Aug), the top performers (in dollar terms) were Japan (+6.1%) and Europe (+5.7%), while US (+2.6%) and Asia ex-Japan (+1.4%) underperformed.

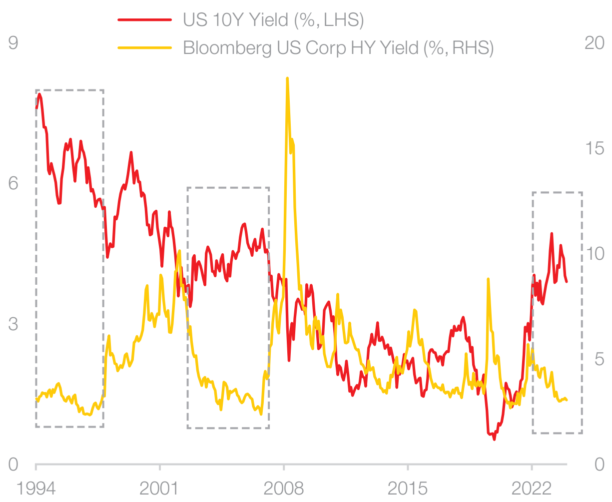
Japan's outperformance is interesting as the domestic equity market was sold down massively in the carry trade unwind. Its outperformance, instead, consists solely of currency translation gains as the yen strengthened against the greenback (on local-currency terms, the domestic equity market lost 4.6%). While the Bank of Japan has no plans to pause policy normalisation, non-commercial shorts contracts data suggests that the carry unwind may have run its course – for now.

For the upcoming quarter, amid lingering structural concerns on China, we believe ASEAN equities will outperform on the back of Fed rate cuts and dollar weakness. Since 2001, ASEAN equities exhibited the highest inverse correlation with the US Dollar Index (DXY) at -0.50 as compared to US (at -0.38), Europe (at -0.15), and Japan (at -0.12) equities. Fundamentally, lower US treasury yields and dollar weakness benefits Southeast Asian economies:

- Dollar weakness enhances Southeast Asia's balance of payment positioning and reduces its dollar-denominated debt burden
- Attractive yield differential results in international capital inflows

At 14.6x forward P/E, ASEAN trades at 24% discount to global equities. Valuation re-rating is on the cards, fuelled by the combination of corporate earnings resilience and dollar weakness.

HY spreads tend to be tighter in a high interest rate regime



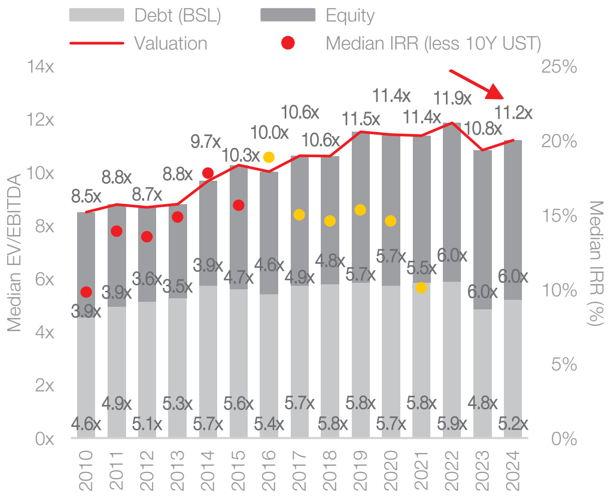
Source: Bloomberg, DBS

<u>Bonds</u>: Prevailing tight credit spreads not a concern in higher interest rate environment; maintain "barbell approach" in 1-3Y and 7-10Y segments. As the Fed embarks on monetary easing, it is inevitable for investors to question whether current spreads are sufficiently wide enough to compensate for a potential spike in credit risks as macro momentum ebbs. Such questions are valid, given that credit spreads remain tight despite early signs of weakness in the US jobs market. However, analysis from our credit strategist shows that in a higher interest rate regime, HY spread tends to be tighter as the central banks have a bigger buffer to cut rates should economic momentum deteriorate. From this perspective, spreads valuation may not be as expensive as what one would assume.

In terms of positioning, we advocate investors to stay with quality in the A/BBB space with selective exposure in the BB+ segment. Maintain a "barbell approach" in terms of duration with a preference for the 1-3Y segment (for minimisation of reinvestment risk) and the 7-10Y segment (for wider spreads and greater rate sensitivity).

<u>Alternatives:</u> Private assets enhance risk-adjusted returns and reduce volatility; gold TP revised up to USD2,835/oz. With the likelihood of rising market volatility as the US Presidential Election draws near, it makes prudent sense for investors to allocate a sizeable proportion of their portfolios to private assets. Our studies show that the inclusion of private assets help to enhance risk-adjusted returns and reduce volatility. On a segmental basis, the recent valuation adjustments in private equity offer attractive entry opportunities for investors, while private credit's ability to generate stable income through lower default rates makes it an attractive investment instrument as well.

Downward-adjusted valuations provide attractive entry points for investors



Source: Pitchbook, DBS
Note: Yellow markings denote vintages with majority unrealised returns. Multiples data was as at Jun 2024.

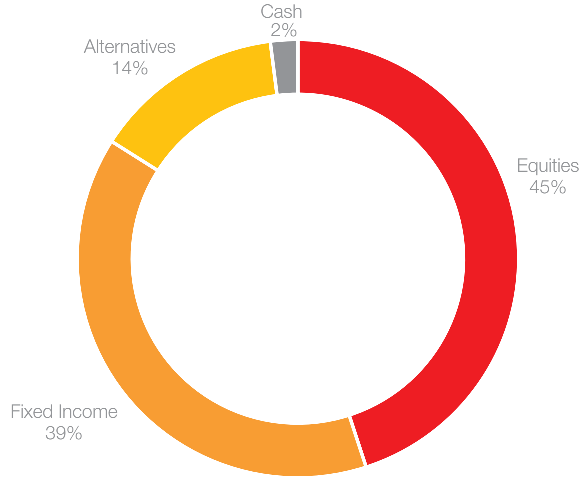
Separately on gold, the precious metal is expected to be buoyed by dollar weakness (amid Fed rate cuts) and lingering geopolitical uncertainties in the Middle East and Russia/Ukraine. Gold purchase by central banks remained strong amid concerns of de-dollarisation and monetary debasement. We maintain a bullish view on gold with a new 12-month rolling TP of USD2,835/oz. (revised up from USD2,500/oz previously).

4Q24 Global Tactical Asset Allocation

	3-Month Basis	12-Month Basis
Equities	**Underweight**	**Neutral**
US Equities	Overweight	Overweight
Europe Equities	Underweight	Underweight
Japan Equities	Neutral	Neutral
Asia ex-Japan Equities	Overweight	Overweight
Fixed Income	**Overweight**	**Underweight**
Developed Markets (DM) Government Bonds	Overweight	Underweight
Developed Markets (DM) Corporate Bonds	Overweight	Neutral
Emerging Markets (EM) Bonds	Underweight	Neutral
Alternatives	**Overweight**	**Overweight**
Gold	Overweight	Overweight
Private Assets & Hedge Funds	Overweight	Overweight
Cash	**Underweight**	**Neutral**

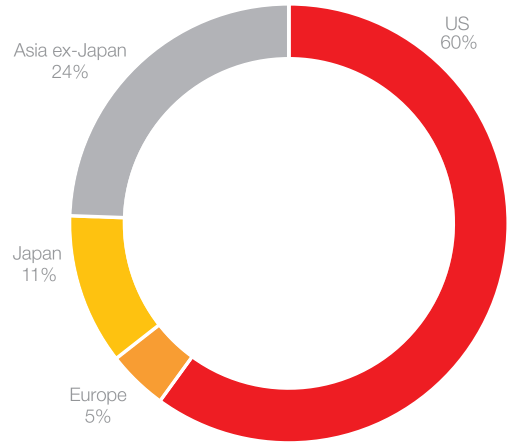
Source: DBS

TAA breakdown by asset class (Medium Risk)



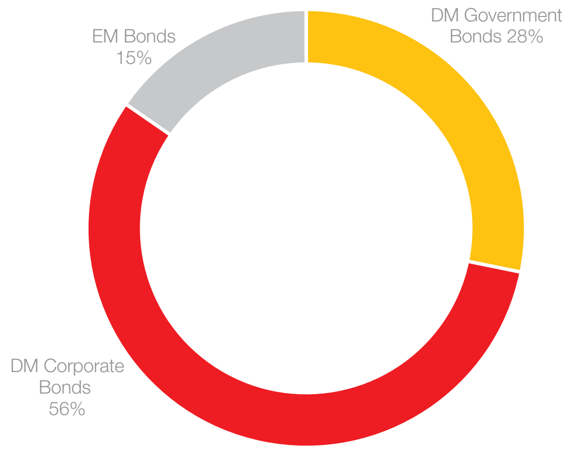
Source: DBS

TAA breakdown by geography within equities (Medium Risk)



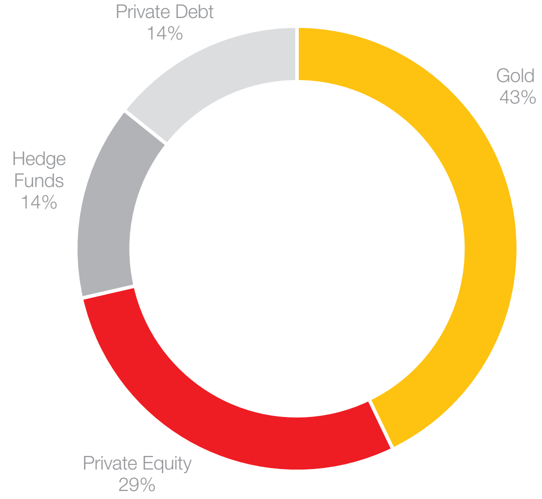
Source: DBS

TAA breakdown by bond types within fixed income (Medium Risk)

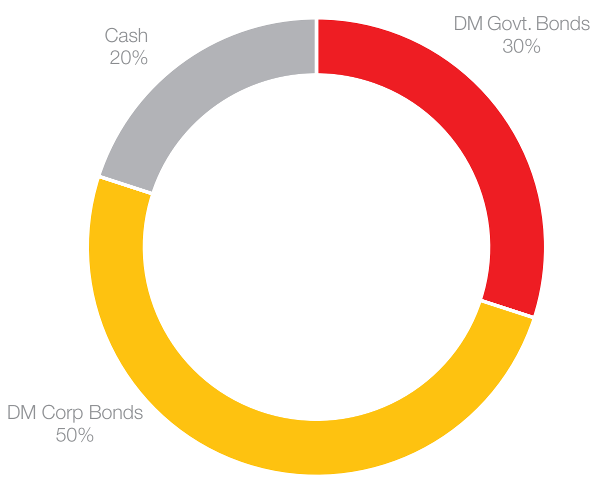


Source: DBS

TAA breakdown by segments within alternatives (Medium Risk)



Source: DBS

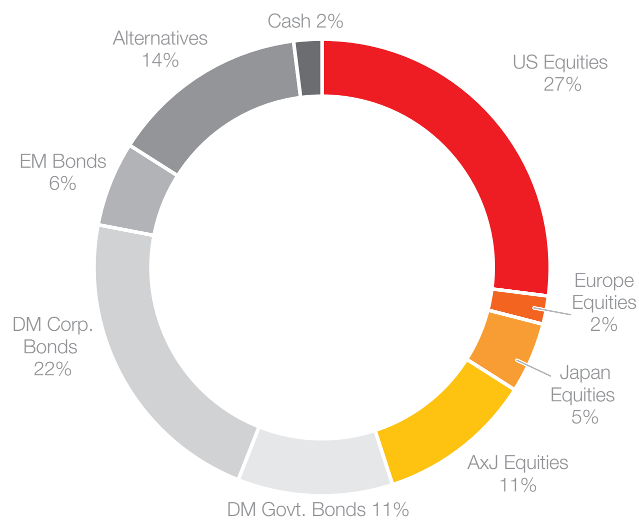


Source: DBS

Low Risk

	TAA	SAA	Active
Equities	**0.0%**	**0.0%**	
US	0.0%	0.0%	
Europe	0.0%	0.0%	
Japan	0.0%	0.0%	
Asia ex-Japan	0.0%	0.0%	
Fixed Income	**80.0%**	**80.0%**	
Developed Markets - Government	30.0%	30.0%	
Developed Markets - Corporate	50.0%	50.0%	
Emerging Markets	0.0%	0.0%	
Alternatives	**0.0%**	**0.0%**	
Gold	0.0%	0.0%	
Private Assets & Hedge Funds*	0.0%	0.0%	
Private Equity	0.0%	0.0%	
Hedge Funds	0.0%	0.0%	
Private Debt	0.0%	0.0%	
Cash	**20.0%**	**20.0%**	

*Only P4 risk rated UCITs Alternatives

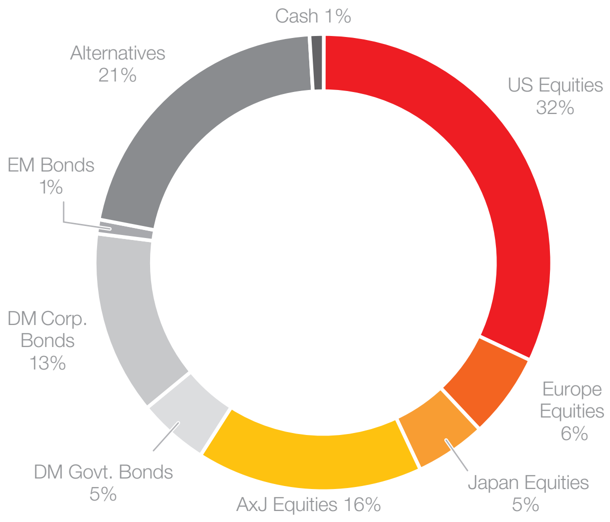


Source: DBS

Medium Risk

	TAA	SAA	Active
Equities	**45.0%**	**50.0%**	**-5.0%**
US	27.0%	25.0%	2.0%
Europe	2.0%	10.0%	-8.0%
Japan	5.0%	5.0%	
Asia ex-Japan	11.0%	10.0%	1.0%
Fixed Income	**39.0%**	**35.0%**	**4.0%**
Developed Markets - Government	11.0%	10.0%	1.0%
Developed Markets - Corporate	22.0%	15.0%	7.0%
Emerging Markets	6.0%	10.0%	-4.0%
Alternatives	**14.0%**	**10.0%**	**4.0%**
Gold	6.0%	5.0%	1.0%
Private Assets & Hedge Funds*	8.0%	5.0%	3.0%
Private Equity	4.0%	2.4%	1.6%
Hedge Funds	2.0%	2.0%	
Private Debt	2.0%	0.5%	1.5%
Cash	**2.0%**	**5.0%**	**-3.0%**

*Only P4 risk rated UCITs Alternatives



Source: DBS

High Risk

	TAA	SAA	Active
Equities	**59.0%**	**65.0%**	**-6.0%**
US	32.0%	30.0%	2.0%
Europe	6.0%	15.0%	-9.0%
Japan	5.0%	5.0%	
Asia ex-Japan	16.0%	15.0%	1.0%
Fixed Income	**19.0%**	**15.0%**	**4.0%**
Developed Markets - Government	5.0%	4.0%	1.0%
Developed Markets - Corporate	13.0%	7.0%	6.0%
Emerging Markets	1.0%	4.0%	-3.0%
Alternatives	**21.0%**	**15.0%**	**6.0%**
Gold	7.0%	5.0%	2.0%
Private Assets & Hedge Funds*	14.0%	10.0%	4.0%
Private Equity	7.0%	4.9%	2.1%
Hedge Funds	4.0%	4.0%	
Private Debt	3.0%	1.1%	1.9%
Cash	**1.0%**	**5.0%**	**-4.0%**

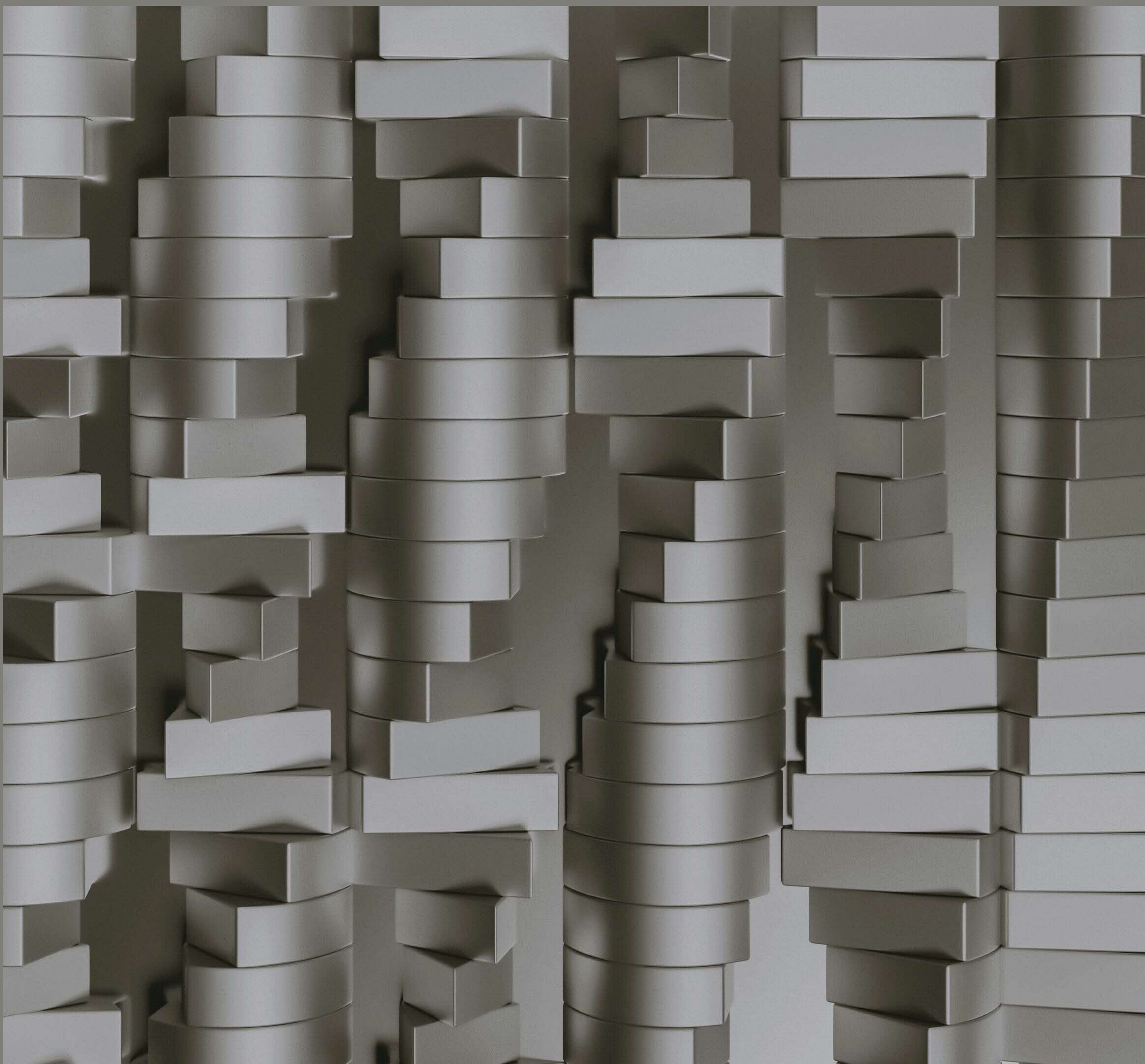
*Only P4 risk rated UCITs Alternatives

Notes:
1. The above are based on three-month views.
2. Asset allocation does not ensure a profit or protect against market loss.
3. "TAA' refers to "Tactical Asset Allocation". "SAA" refers to "Strategic Asset Allocation".
4. The investor type classification for the portfolio has no direct relationship with the Financial Needs Analysis customer risk profile types and the portfolios are not assigned any product risk rating based on the bank's proprietary risk rating methodology.

More Rate Cuts Ahead

Macroeconomics
4Q24

There are legitimate worries about prices in the coming years, but for the Fed, there are no markers left to justify withholding some monetary easing in the near term, especially with falling oil prices now likely easing the inflation print further. A series of cuts are coming.



02. Macroeconomics.

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Economist

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Analyst

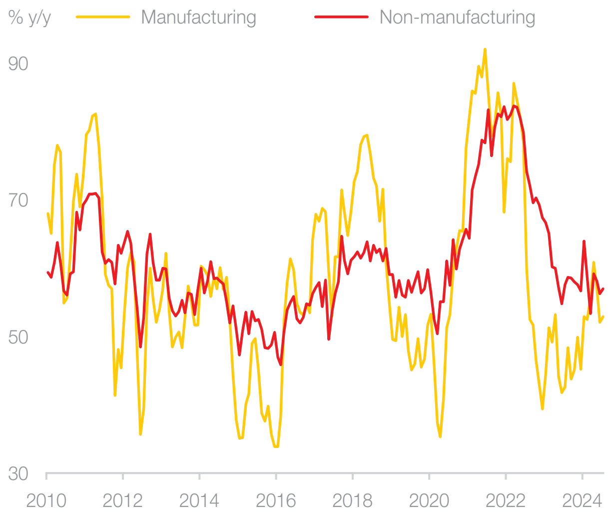
US

Arguments for US inflation to remain well above the Fed's 2% target in the medium term are many: supply chain realignment will repeatedly inject inflationary shocks; climate change will add to the cost of production; short-term oriented demand support measures will add to wages and pricing power; ageing and tight immigration policies will constrain labour supply; trade and tech wars will culminate into higher cost of doing business, as well as numerous inefficiencies and redundancies in the production process. The last argument can be extended to enhanced vulnerability to inflation shocks as protectionism, by definition, means less competition and weaker price discovery. It follows that getting the inflation genie back in the 2% bottle will be very challenging.

Many of these are valid arguments, but one should also recognise that combating inflation remains a key focus of major central banks around the world, and the Fed is not about to give up on its 2% target. It kept the policy rate at 5.5% for well over a year while carrying out substantial withdrawal of liquidity from the financial system (quantitative tightening). These policy steps, along with normalisation of the goods supply chain and benign commodity prices, have allowed inflation to ease steadily over the past year with various measures of inflation well below 3% presently. These are some of the best readings in five years.

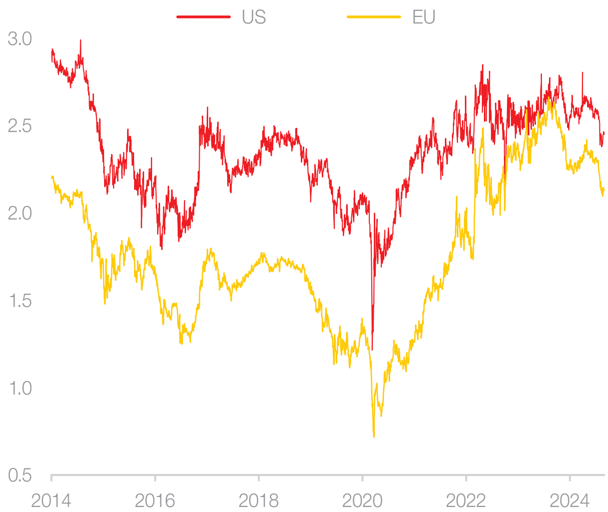
The room for cutting rates has emerged in recent months with an inflation downshift and some softness in labour markets, and these considerations are independent of the structural factors raised by those worried about the medium-term inflation outlook.

Fed survey: Prices paid and received by regional manufacturers



Source: CEIC, DBS

Inflation expectations in the US and EU



Source: CEIC, DBS

For the Fed, there are two critical issues at hand: first, if the nominal rate is too high given the cycle, and second, if there is a rise in medium-term inflation expectations, denting the Fed's credibility.

The first issue (i.e. if nominal rates are too high) is relatively straightforward to resolve. Sub-3% inflation readings do not sit comfortably with above-5% policy rates, especially if economic softness is beginning to emerge. As an institution in charge of maximising employment, the Fed will find it increasingly hard to justify keeping rates so high, in our view. Hence a rate cut in September will mark the beginning of at least 150 bps cuts by the end of 2025, in our view. This forecast is predicated on a soft landing scenario, both with respect to inflation and economic growth.

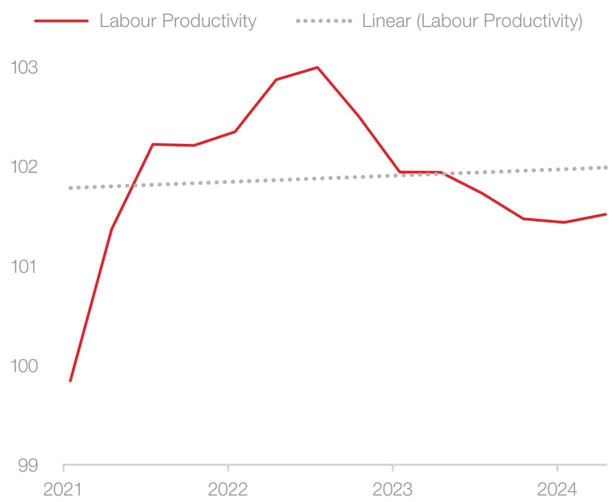
The second issue is not a conundrum either. Market-based indicators of inflation expectations, long-term bond yields, and commodity prices do not point to a rise in inflation expectations. Much is made about gold at USD2,500, but that only reflects a 3.7% increase in annualised terms since 1980 (or 2010). There are legitimate worries about prices in the coming years, but for the Fed, there are no markers out there that justify withholding some monetary easing in the near term.

Eurozone

The Eurozone economy expanded 0.3% q/q in 2Q, at the same pace as the quarter before, suggesting that the economy is recovering from last year's stagnation. The labour market is relatively resilient, marked by positive wage growth and a low unemployment rate. An ECB study (Óscar Arce and David Sondermann, 6 May 2024, "Low for long? Reasons for the recent decline in productivity", retrieved from The ECB Blog) highlighted the dichotomy of strong employment growth in an environment of weak economic activity. Surveys showed that firms preferred to hold onto workers in the initial phase of a slowdown in economic activity, even as it impacted labour productivity. This also coincided with the government's short-term schemes to support firms to retain their workforce during the pandemic as well as a strong rise in corporate profitability in 2022-23 which provided headroom for firms to retain headcount. On a cyclical basis, this has led to a decline in labour productivity in the Eurozone, in contrast to an improvement in the US. The impact of the restrictive policy stance is also likely to gradually dissipate as the ECB embarks on its gradual rate-cutting cycle.

Other incoming activity-based data have, meanwhile, been less inspiring, including subdued IFO indices for the last three months, weakening PMIs, and soft industrial production readings. In the wake of the Olympics, economic sentiment indicators

Cyclical decline in labour productivity



Source: CEIC, DBS

were boosted by French data, outside of which sentiments were soft; the same was also reflected in manufacturing order books. Much of the risk is still global with risks to demand from key markets (particularly China), trade tensions, and weakening trade competitiveness. There is still considerable heterogeneity amongst the core countries. Activity in the heavyweight German economy has been anaemic, marked by the 0.1% decline in 2Q despite inflation coming off highs. In contrast, Spain continued to lead with a 0.8% q/q increase, followed by France at +0.3%. We maintain our growth forecast at 0.8% y/y this year and at 1.2% for the next.

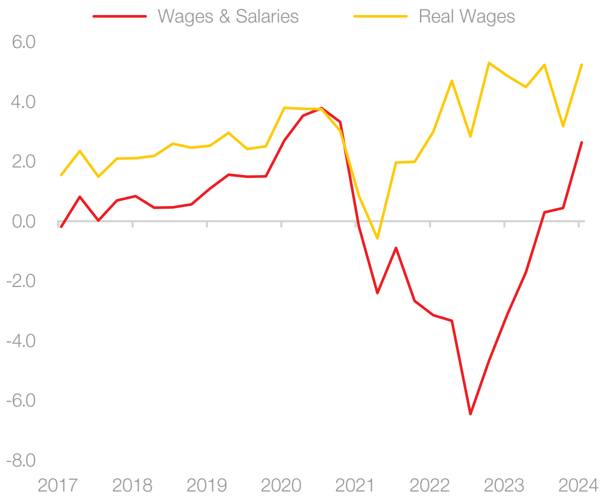
Bank lending activity is still largely muted with growth to households and non-financial corporates attracting little momentum. Despite a measured cut, domestic financial conditions are still restrictive; bank surveys also point to softer demand conditions. Cumulative policy rate cuts along with positive demand visibility are required to trigger a durable recovery in loan growth.

The inflation environment is meanwhile benign with the August reading easing to 2.2% y/y from 2.6%. Core inflation was down slightly to 2.8% from 2.9% in July. German inflation for the month was the weakest since Mar 2021 with the downside magnified by lower energy prices and favourable base effects. However, pockets of concern remain. Firstly, aggregate Eurozone data shows services inflation has been stickier and is running above the pace of headline inflation. Secondly, real wage growth continues to quicken with German real wages up for a fifth consecutive quarter. Add to this, the domestic unions are expected to push for higher increases in the post-summer bargaining rounds. These will see the ECB loosen policy rates, albeit at a cautious and guarded pace.

IFO business climate - current and expectations (Germany)

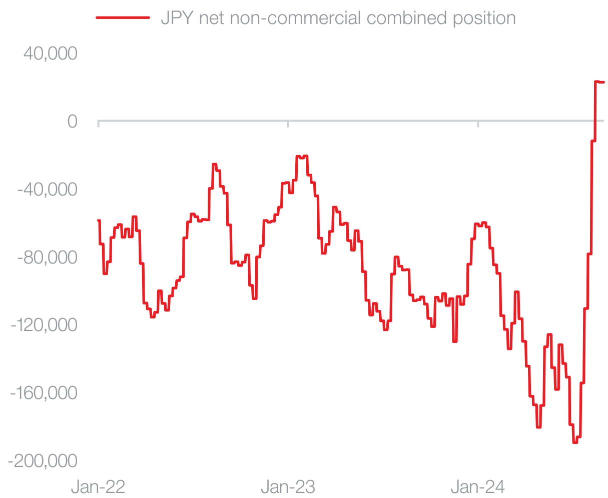
Source: IFO, CEIC, DBS

Slowing inflation perks real wage



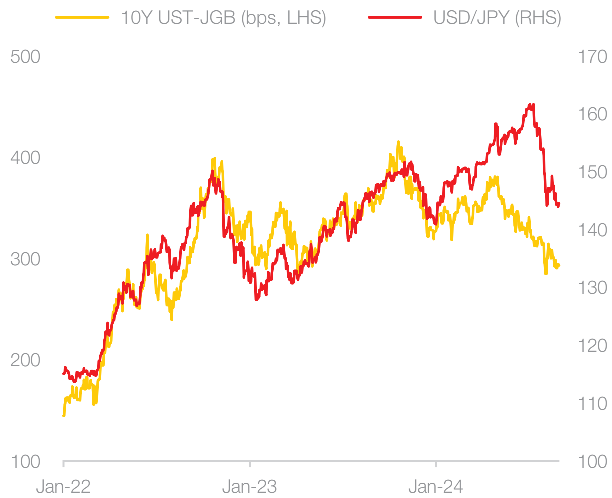
Source: CEIC, DBS

JPY short position reversed



Source: Bloomberg, DBS

USD/JPY and UST-JGB gap narrowed



Source: Bloomberg, DBS

Japan

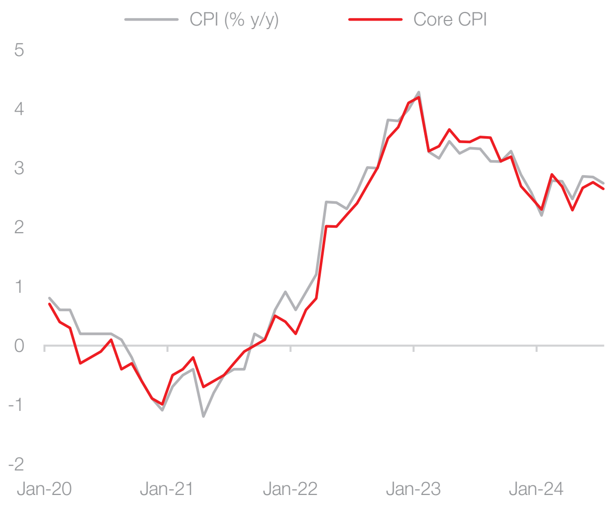
The heightened volatility in Japan's financial markets over the past quarter is expected to ease. The Bank of Japan's (BOJ) unexpected rate hike on 31 Jul led to a sharp unwinding of yen carry trades, resulting in a significant yen appreciation and a sharp drop in the stock market. High-frequency indicators, such as non-commercial net yen positions and USD/JPY and UST-JGB yield gaps, suggest that the most severe phase of the carry trade unwinding may be over, though the process is still not fully complete.

As the yen's excessive weakness is addressed, the risk of inflation overshooting 3% has diminished. Core CPI, excluding fresh food, has stabilised at 2.6% y/y as of July and is expected to ease towards 2.0% from 4Q. This forecast accounts for the recent yen rebound and the government's resumption of electricity and gas subsidies.

Real wage growth is expected to turn positive, supporting private consumption and domestic demand in the coming quarters. Excluding bonuses and other additional compensations, base wage growth increased to 2.2% y/y as of June and is likely to remain around 2.5% for the rest of the year. As a result, inflation-adjusted real wage growth is projected to turn positive from 4Q onward.

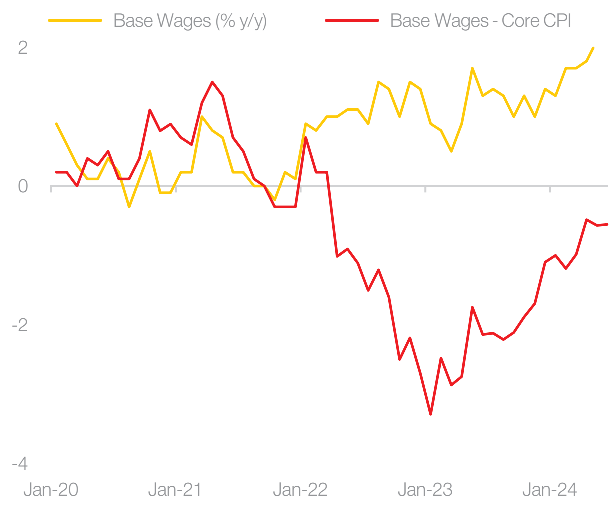
The BOJ is expected to gradually normalise its monetary policy in the coming quarters. The risk of inflation overshooting was a major driver of the July rate hike. With this risk reduced by the yen's rebound, the urgency for further rate hikes has decreased. In the medium term, the reinforcement of wage-price dynamics will likely prompt the BOJ to progressively normalise rates towards a neutral level, estimated to be around 1%. We maintain our forecast for the BOJ to keep the overnight call rate at 0.25% for the remainder of 2024 with a projected increase to 0.50% in 1Q25.

Inflation stabilises at 2%



Source: CEIC, DBS

Real wage growth expected to turn positive



Source: CEIC, DBS

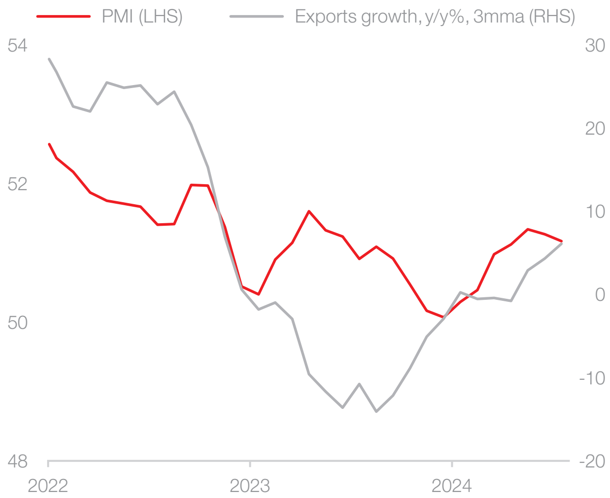
Political uncertainty is expected to subside, accompanied by additional fiscal policy support in the coming quarters. The recent resignation of Prime Minister Fumio Kishida has ended prolonged speculation about his departure, driven by his record-low approval rating amid public dissatisfaction with inflation and political scandals. The new prime minister will need to call a general election before Oct 2025. Further fiscal stimulus measures are expected before the election to encourage wage increases among companies and alleviate cost-of-living pressures on low-income households.

Asia

Trade wars could intensify next year, while tensions in the Middle East are causing freight rates to go up, but as of now, global trade is humming. Some of the weakness seen in 1Q faded in 2Q with the region's major producers seeing a welcome bump in demand and shipment, especially for the exporters of electronics products. 3Q looks to be on course for some solid outcomes with July data already proving to be encouraging.

First, the relatively weak performers. Flat commodity prices and demand have weighed in on Indonesia and Malaysia for much of the year with their exports growth in slight negative territory during 2Q. On the bright side, the worst could well be over with July exports growth moving in to positive territory. Indonesia's manufacturers are not feeling particularly optimistic, but that could be offset by the bottoming of commodity exports, in our view. Meanwhile, India, while not an electronics export powerhouse, plays a

ASEAN-6 trade and PMI



Source: CEIC, DBS

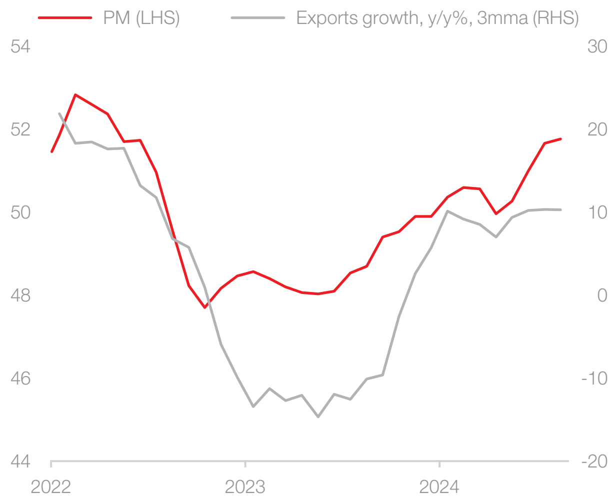
large role in the global supply of precious jewellery, chemicals, and light manufactured goods. Its 2Q exports were up 5%, the best outturn in nearly two years.

China, a bellwether for global demand, underwent some trade-related volatility in 2Q, but exports ended June with a 5.8% y/y rise, eking out a 2% y/y growth for the quarter. China's manufacturers are yet to feel particularly confident with their survey responses weakening lately, although exports were up 7.7% y/y through July, defying expectations. Going into the US elections, we would expect some volatility with respect to China's trade figures, as there may well be some front-loading of shipments if unfriendly trade actions appear likely. Despite years of trade war, China's exporters have managed to remain at the heart of global manufacturing for an exceptionally wide range of products — this trend is not changing anytime soon.

Singapore's exports have lagged somewhat, but we think that it will see a better 3Q. Manufacturers are increasingly turning positive. There has been surge in trade with Vietnam, a testament to the ongoing deepening of supply chains, and there is newfound momentum vis-à-vis Malaysia with the forthcoming Special Economic Zone coming into fruition. Given its role in shipment and high-end manufacturing, Singapore stands to benefit from evolving geoeconomic strategies, driving trade.

South Korea, Taiwan, and Vietnam, the region's three powerhouse electronics producers, all saw exports rise by 8-10% y/y in 2Q. From PCs to smartphones, not to mention chips related to AI, global demand is undergoing an upswing, notwithstanding the headwinds mentioned earlier. South Korea's August data show exports maintaining their momentum with a steady rise in manufacturers' sentiment this year. Asia's exporters remain as relevant and successful as ever.

South Korea trade and PMI



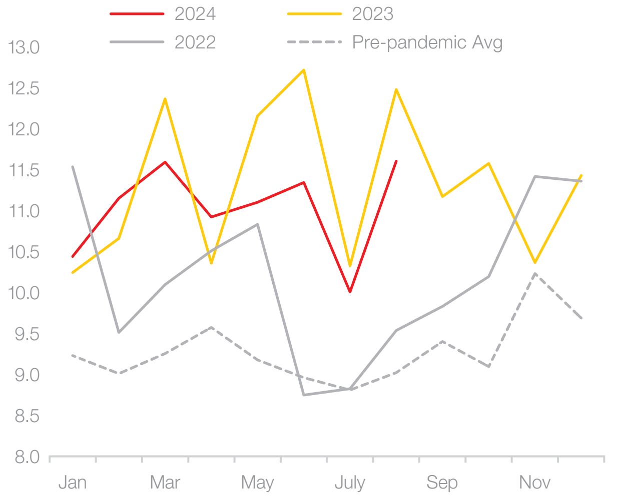
Source: CEIC, DBS

Oil prices in bearish mode as demand trends sour

Demand concerns dominate for now. Despite continued risks in the Middle East theatre, Brent crude oil prices – that had earlier been hovering around the USD80/bbl level in 3Q24 – crashed by more than 10% to around USD70/bbl in early September, as demand concerns dominate and the OPEC+ supply increase looms. While the trajectory is in line with our expectations of a weaker 2H24 for oil prices compared to recent peaks seen in 2Q24, the magnitude of the decline is higher than we estimated. Growing demand concerns, especially from China, is a key driver of recent bearish sentiment pertaining to oil. For the first seven months of the year, China refinery runs averaged 14.4 mmbpd, compared to the 2023 full-year average of 14.8 mmbpd. Similarly, Chinese oil imports have also trended down this year, with YTD average oil imports of 10.9 mmbpd, compared to 11.3 mmbpd for 2023. US oil consumption data has not looked particularly rosy this year either – they remained flattish on a y/y basis and still come in below pre-Covid levels.

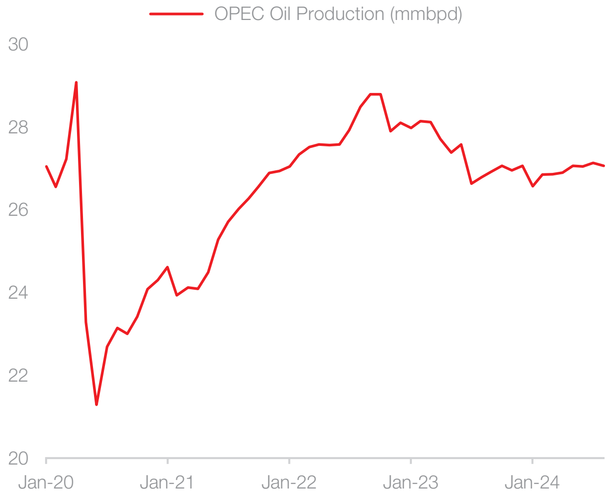
OPEC+ rushes to delay its production rollback plan. During the last OPEC and non-OPEC allies' ministerial meeting in early June, it was announced that voluntary cuts totalling 2.2 mmbpd will be gradually phased out from Oct 2024 till end Sep 2025. This led to an initial bearish response from the market, but OPEC+ leaders scrambled to emphasise that the supply response will remain flexible depending on market conditions. Given that oil prices have fallen to 70-dollar levels, OPEC+ has now delayed the production increase by two months to Dec 2024. We reckon these plans may be pushed by a few months more to ensure market stability at the continued cost of market share for OPEC+. But can it be delayed forever? Not just production, we believe Saudi and other Gulf countries have been cutting exports as well over the last few months to shore up oil prices

China oil import trends YTD in 2024 trended lower y/y



Source: Bloomberg, DBS

OPEC supplies steady so far in 2024 but cuts need to be reversed at some point



Source: Bloomberg, DBS

Quarterly average oil price forecast 2024/25 – DBS base case view

(USD per barrel)	1Q24A	2Q24A	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F
Average Brent crude oil price	82.0	83.0	78.5	75.0	71.0	72.0	76.0	75.5
Average WTI crude oil price	77.0	79.0	75.0	72.0	68.0	69.0	73.0	72.5

Source: DBS

before supplies were restored, but we reckon it will be difficult to implement these strategies for much longer, given that surplus capacity is building up. While the OPEC+ supply increase had been strategically timed to coincide with the potential of Fed rate cuts – which should typically be positive for commodity prices – we reckon demand-supply fundamentals, rather than global macro events, will play a bigger role in determining oil prices in the coming months, thereby complicating decision-making scenarios for OPEC+.

Brent crude oil prices take a dip in September

Source: Bloomberg, DBS

We lower our oil price forecasts in a base case scenario. The expectation of lower demand and higher supply going forward has meant that despite ongoing production cuts and export cuts from OPEC+, the temporary loss of oil supplies from Libya, and the emergence of heightened risks in the Middle East (arising from Israel's moves against Hezbollah in Lebanon and targeting of Hamas officials in Iran), oil prices have struggled to move beyond USD80/bbl levels. Given the prevailing demand risks, our base case oil price forecasts are lowered to USD77-82/bbl average for Brent in 2024 and USD70-75/bbl average for Brent in 2025, from USD80-85/bbl and USD72-77/bbl earlier. We expect some recovery from current lows with the deferment of OPEC+ supply easing along with potential Fed rate cuts and weaker US dollar environment, but weak demand-supply balance going into 2025 will ensure oil prices remain in moderation mode for the foreseeable future.

What scenarios do we expect for geopolitical risk flare ups? In our base case scenario, we expect the Israel-Hamas conflict to continue well into 2H24 or beyond; however, we do not expect it to escalate beyond the status quo of limited and targeted strikes. Some uncertainty will continue to prevail in oil markets, and short-lived spikes above USD80/bbl are possible for Brent, but will not be sustained in our view, given the OPEC+ production cut reversals commencing from 4Q24 amid muted demand levels.

In the event where heavier-than-expected strikes from Iran and its proxies result in retaliation from Israel — but falls short of a full-scale regional conflict — we reckon there could be tighter sanctions on Iranian oil exports, which would result in oil prices potentially breaching USD100/bbl levels.

While the chances are low in our opinion, a full-scale, prolonged conflict between Iran and Israel, encompassing other regional countries, could lead to significant oil price spikes. This scenario could result from damage to regional oil infrastructure or blockages of key chokepoints in the Gulf of Persia, potentially driving oil prices above USD150/bbl.

GDP growth and CPI inflation forecasts

	GDP growth, % y/y					CPI inflation, % y/y, ave				
	2021	2022	2023	2024F	2025F	2021	2022	2023	2024F	2025F
China	8.1	3	5.2	5	4.5	0.9	2.2	0.2	0.6	1
Hong Kong SAR	6.3	-3.5	3.2	2	2	1.6	1.9	2	1.5	1.5
India	8.9	6.7	7.8	7.1	6.5	5.1	6.7	5.7	4.4	4.2
India (FY basis)*	9.1	7.2	8.2	7	6.5	5.5	6.7	5.4	4.2	4
Indonesia	3.7	5.3	5.1	5	5.2	1.6	4.2	3.7	2.8	2.5
Malaysia	3.3	8.7	3.7	5.3	4.8	2.5	3.4	2.5	2.4	2.8
Philippines	5.7	7.6	5.6	5.6	5.4	3.9	5.8	6	3.7	3.5
Singapore	9.7	3.8	1.1	2.7	2.5	2.3	6.1	4.8	2.4	2
South Korea	4.1	2.6	1.4	2.7	2.2	2.5	5.1	3.6	2.4	2.3
Taiwan	6.6	2.6	1.3	4.2	2.6	2	2.9	2.5	2.2	1.9
Thailand	1.6	2.5	1.9	2.8	3	1.2	6.1	1.3	0.9	2
Vietnam	2.6	8	5	6.5	6.8	1.8	3.2	3.3	3.7	3.5
Eurozone	5.3	3.5	0.5	0.8	1.2	2.6	8.4	5.5	2.4	2.2
Japan	2.6	1	1.9	0	0.9	-0.2	2.5	3.3	2.2	1.6
United States	5.9	2.1	2.5	2.3	1.7	4.7	8	4.1	2.9	2.3

*2020 represents Fiscal 21; ending Mar 21
** new CPI series.
*** eop for CPI inflation.

Source: CEIC, DBS

Policy interest rates forecasts, eop

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
Mainland China*	3.45	3.45	3.35	3.25	3.15	3.05	3.05	3.05
India	6.50	6.50	6.50	6.25	6.00	5.75	5.75	5.75
Indonesia	6.00	6.25	6.00	5.75	5.50	5.00	5.00	5.00
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	6.50	6.50	6.25	6.00	5.75	5.25	5.00	5.00
Singapore**	3.62	3.70	3.25	3.08	2.78	2.48	2.28	2.28
South Korea	3.50	3.50	3.50	3.25	3.00	2.75	2.50	2.50
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Thailand	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Vietnam***	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Eurozone	4.00	3.75	3.50	3.25	3.00	3.00	3.00	3.00
Japan	0.10	0.10	0.25	0.25	0.50	0.50	0.75	0.75
United States	5.50	5.50	5.00	4.50	4.00	3.50	3.00	3.00

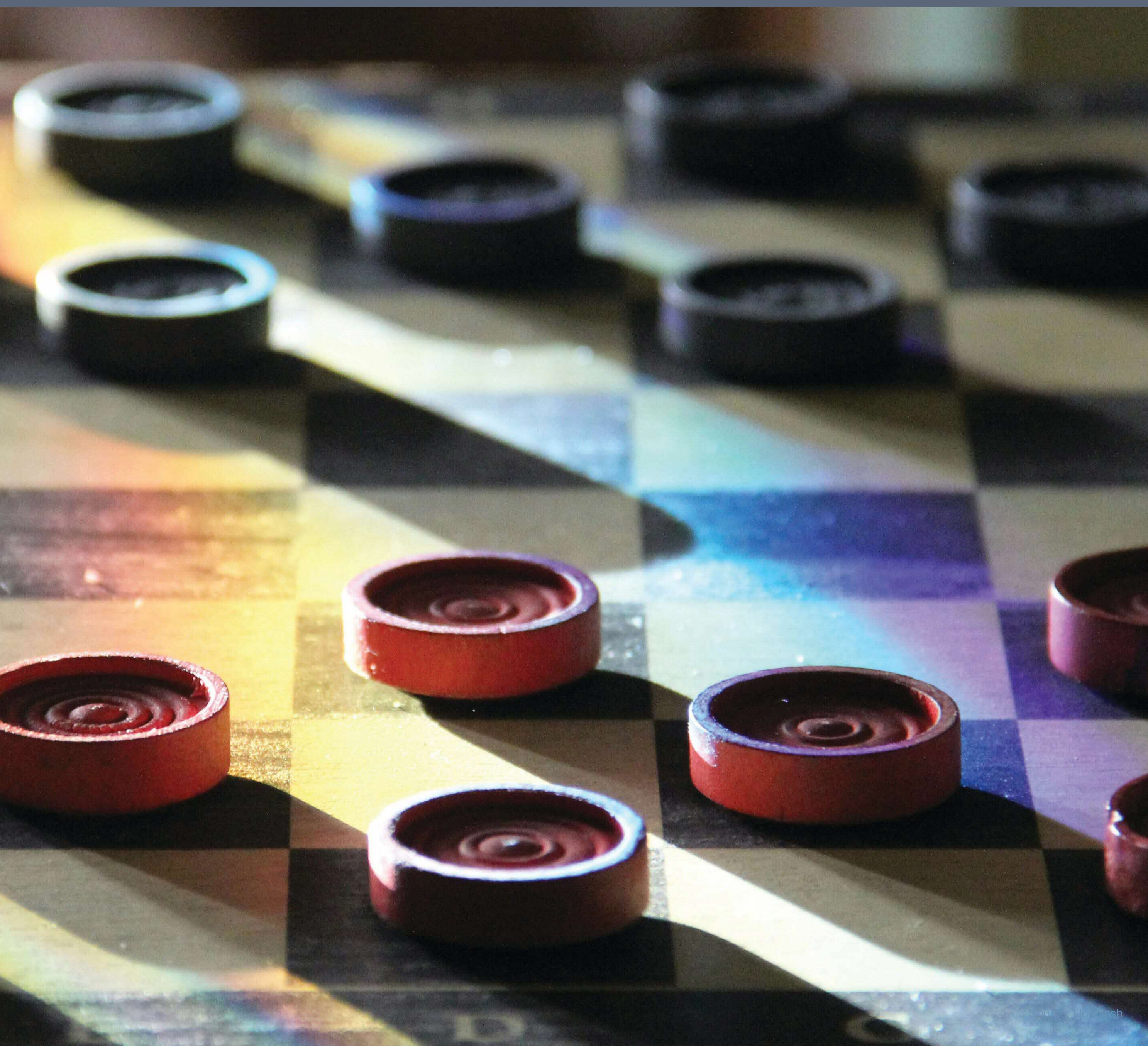
* 1-yr Loan Prime Rate; ** 3M SOR ; *** prime rate.

Source: CEIC, DBS

Positioning for Fed pivot

US Equities
4Q24

Significant sectoral rotation in play as the Fed embarks on monetary easing. Sectors that will see strong momentum in an environment of growth moderation and falling bond yields are utilities, consumer staples, and healthcare. The broadening US rally and lower yields will also underpin momentum in US small caps.



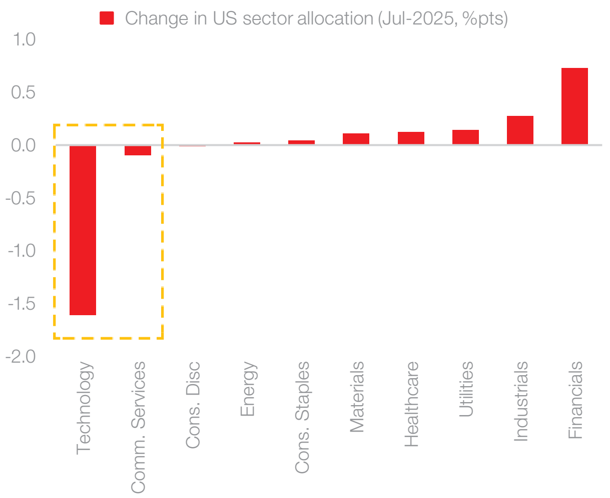
03. US Equities.

Dylan Cheang
Strategist

Significant sectoral rotation in preparation for Fed's pivot. At the Jackson Hole conference, Fed Chair Powell announced that it was time to adjust monetary policy given the sharp moderation in US headline inflation. This change in the Fed's policy stance triggered huge shifts in portfolio positioning during 3Q24 as data from EPFR Global shows investors rotating from tech-related sectors to defensive plays and domestic cyclicals.

The same tactical shifts are reflected in sectoral performance with tech-related segments (technology, communications services and consumer discretionary) registering average declines of 3.9% QTD (as of 4 Sep), compared to average gains of 9.9% for defensive plays (consumer staples, utilities and healthcare). From the latest positioning and performance data, it is evident that investors are positioning tactically for 1) economic moderation and Fed monetary easing, and 2) potential disappointment in Tech earnings and AI monetisation potential.

US sectoral rotational in play



Source: EPFR Global, DBS

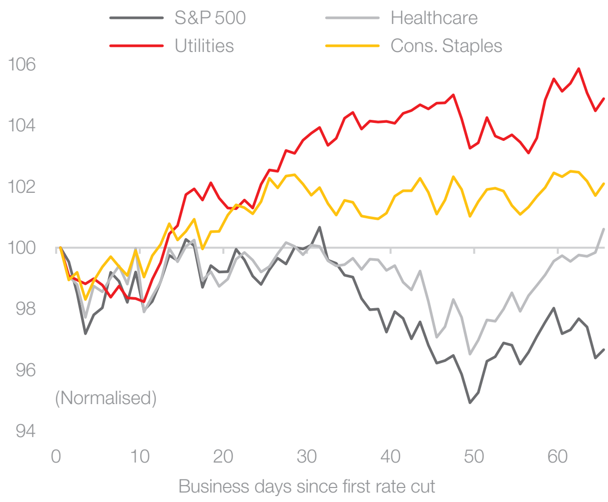
Beneficiaries of rate cuts in past economic cycles. Historically, Fed rate cuts tend to precede recessions. In the current market cycle, an economic soft landing for the US remains our base-case scenario. That said, we are also cognisant that macro momentum is showing signs of moderation. In such an environment, we seek to gain exposure to sectors that benefit from rate cuts and yet stay resilient when momentum slows. Based on our analysis of past cycles, these sectors include:

1. Utilities: The demand for utilities is inelastic given its provision of basic necessities like electricity, water, and gas. Additionally, utilities offers attractive dividend yield; as interest rates decline, yield-focused investors will progressively shift allocation from bonds to income equities and utilities stocks will be geared beneficiaries.

2. Consumer Staples: Consumer staples demand is essentially inelastic as consumers will need to purchase them regardless of the economic environment. Moreover, the lower interest rate environment also reduces the interest expense of consumers and enhances their spending power. Companies providing "value" goods selling at lower price points will be geared beneficiaries as consumers trade down.

3. Healthcare: Similar to utilities and consumer staples, the demand for healthcare is broadly inelastic regardless of macro conditions and this is particularly so in an ageing society. Furthermore, pharmaceutical and biotechnology companies require significant capital for R&D to drive innovation and new product creation. Moderating interest rates reduce the cost of borrowing for R&D expenditures.

Outperformance of Utilities, Consumer Staples and Healthcare post-Fed rate cut



Source: Bloomberg, DBS

Capex-to-EBITDA ratio for Tech "hyperscalers" suggest disciplined capital management

Source: Bloomberg, DBS

Our analysis of the recent four rate-cut cycles shows that utilities, consumer staples, and healthcare have, on average, outperformed the broader US market by 9.0 %pts, 4.3 %pts and 4.2 %pts respectively three months after the initial Fed rate cut.

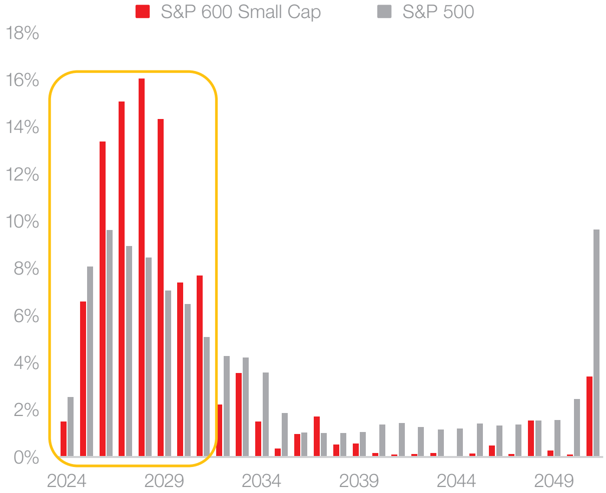
US Technology sell-down presents opportunities. Apart from valuation headwinds, the recent weakness in Technology shares stemmed from rising concerns on AI-related capex as investors question the monetisation potential of these investments. We believe that such concerns are unfounded for two reasons:

- Capex funded by free cashflow: Unlike the dot-com era, the AI revolution today is funded by free cash flow as opposed to debt. "Hyperscalers" such as Alphabet, Amazon, Meta, and Microsoft are flushed with cash from their businesses and the free cash flow of these companies is projected to grow 142% from USD142.8bn in 2020 to USD345bn by 2026.

- Disciplined capital management: Tech "hyperscalers" have maintained their capex-to-EBITDA ratio at around the 10-year average of c.43%. This suggests prudence and a disciplined approach to capital management. Such self-sustaining financial models ensure that these companies are not over-leveraged, which in turn ensures that the AI trend is more resilient to economic fluctuations.

The recent Tech sell-down on the S&P 500 presents opportunities for investors to jump onto the AI bandwagon and we maintain that the AI revolution is still in its infancy, holding immense growth potential.

High proportion of small cap debt maturing in the next five years



Source: Bloomberg, DBS

Every dog has its day – time to relook US small caps. As the US equity rally broadens, we expect small caps to benefit from a falling rates environment. Medium-term catalysts for the small-caps space include:

1. Earnings boost amid lower borrowing cost: US small caps tend to be more rates-sensitive as 67% of them have debt maturing within the next five years as compared to c.45% for larger companies. This allows more small-cap companies to refinance at lower rates and reduce their borrowing cost.

2. Steep valuation discount: At 17.7x, the S&P 600 Small Cap index's forward P/E is well below its 20-year average. Additionally, it is also trading at a 22.9% discount to the S&P 500. This represents a compelling opportunity for investors looking to participate in the broadening US equity rally.

Fund flows data from EPFR Global suggests that investor sentiments towards US small caps are on the rebound. During the first half of the year, this space registered net outflows of USD1.5bn. But on a QTD basis in 3Q, US small caps saw net inflows of USD11.4bn. We expect this momentum to persist as investors reposition their portfolios to ride on the evolving interest rate environment.

4Q24 US Sector Strategy – Rotation to defensive plays

Paring back underweight positioning on defensive sectors as macro momentum slows. The broadening US rally, coupled with sectoral shifts to position for the start of the Fed easing cycle, has seen defensives massively outperforming growth in 3Q24. Our overweight calls lost 2.2% (as of 5 Sep) as a result of weakness in technology, communications services and energy. Healthcare was the only exception as it managed to gain 6.0%. For the upcoming quarter, we are making the following switches to our US sector allocation to adjust to the new macro environment.

- Upgrading utilities, consumer staples and real estate from Underweight to Neutral: For the upcoming quarter, we are turning neutral on these sectors as lower bond yields will underpin their momentum. As growth momentum moderates, sentiments towards defensive sectors like utilities and consumer staples will improve as investors favour the stability in demand for these segments. In the case of real estate, REITs will benefit from renewed enthusiasm on income equities as bond yields fall.

- Downgrading materials and consumer discretionary from Neutral to Underweight: While a soft landing scenario for the US economy remains our base case, there are incremental signs that macro momentum is moderating. Therefore, we are reducing growth exposure in our sector allocation with downgrades for cyclical plays like materials and consumer discretionary.

US Sector Allocation – 4Q24

	Overweight	Neutral	Underweight
US Sectors	Technology	Utilities	Materials
	Comm. Services	Financials	Cons. Disc
	Healthcare	Cons. Staples	Industrials
	Energy	Real Estate	

US Sector Key Financial Ratios

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
S&P 500 Index	23.1	4.9	15.8	17.8	3.9	13.7
S&P 500 Financials	16.9	2.2	7.3	12.4	1.5	17.9
S&P 500 Energy	13.2	2.0	7.5	15.9	7.9	13.0
S&P 500 Technology	32.6	11.9	25.3	30.4	13.2	26.2
S&P 500 Materials	22.2	3.0	14.3	10.9	4.7	11.0
S&P 500 Industrials	23.3	6.3	15.8	22.8	6.0	11.8
S&P 500 Con. Staples	21.7	6.9	16.9	25.1	7.3	7.4
S&P 500 Con. Discretionary	24.9	8.9	15.6	32.7	8.0	10.8
S&P 500 Comm. Services	19.5	4.4	14.0	18.1	7.3	20.5
S&P 500 Utilities	18.9	2.3	12.3	10.4	2.6	20.3
S&P 500 Real Estate	40.5	3.3	19.8	7.6	3.1	23.0
S&P 500 Healthcare	22.2	5.4	19.8	14.7	5.0	6.6

Source: Bloomberg
* Data as at 5 September 2024

Source: Unsplash

Slowing Momentum

Europe Equities
4Q24

Momentum in Europe has faded amid a weak growth outlook and suppressed equity valuations. Opportunities remain in the IT services and healthcare sectors, as well as select luxury players. We are optimistic on the utilities sector, which will benefit from rate cuts and easing energy prices.

04. Europe Equities.

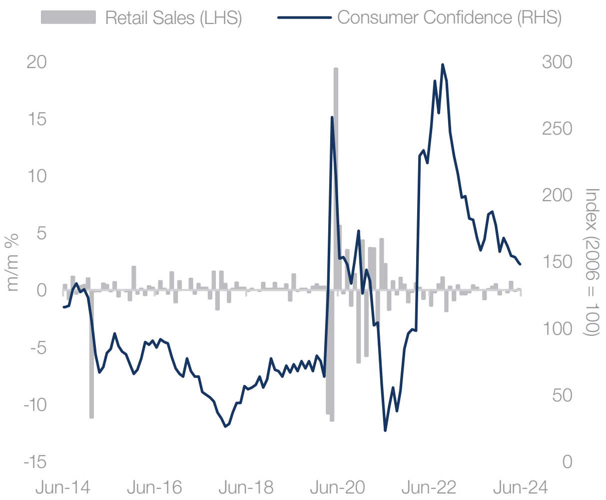
Joanne Goh
Strategist

Sharlene Goh
Analyst

Coming up short. Europe began the year on a positive note amid a pickup in growth and sentiment, sparking optimism that the region's economic difficulties might be receding. Promising signs of recovery had led to a hopeful outlook for the remainder of the year, but as the year progressed, momentum in European equities largely dissipated.

Eurozone GDP expanded 0.3% q/q in 2Q, the same pace as the quarter before, suggesting that the economy is recovering from last year's stagnation. However, soft manufacturing and industrial production numbers continue to dim the growth outlook; despite earlier signs of improvement, the German economy fell back into contraction in the second quarter after recording a 0.1% decline in GDP, disappointing expectations of an upward revision.

Tepid consumption weigh on growth outlook

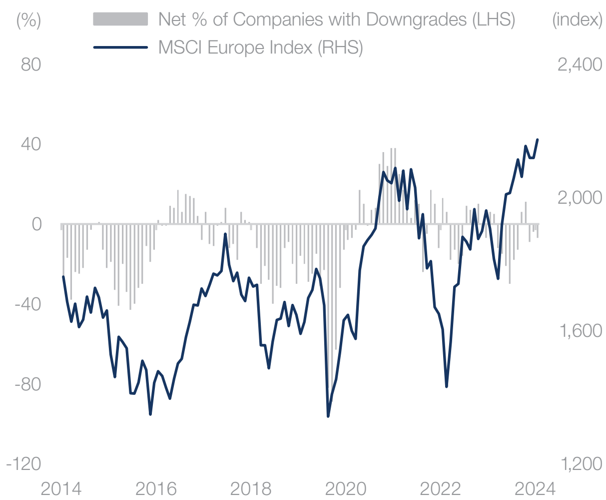


Source: LSEG Datastream, DB

Events in recent months saw heightened volatility in Europe markets. Europe stocks, though cheap, were not spared from the recent market rout triggered by weak US labour market data and a sharp unwinding of the yen carry trade; earlier on, French President Emmanual Macron's abrupt call for snap elections had sent French stocks and bonds into a sharp selloff, triggering concerns of contagion risks. These risk-off events will dent investors' appetite for European stocks in the short term.

No imminent rebound in sight. Despite already trading at steep discounts to US stocks, the unremarkable earnings season has failed to lift valuations. Of the 76% of companies which have reported their earnings (as of 26 Aug), only 54% have registered positive earnings surprises, mainly in the communications, financials, and real estate sectors. Growth in the financial sector has been subdued, with net interest margins likely to be compressed by further rate cuts. Meanwhile, the pullback in spending on autos and luxury goods continue to weigh on the consumer discretionary sector.

Back to earnings downgrades



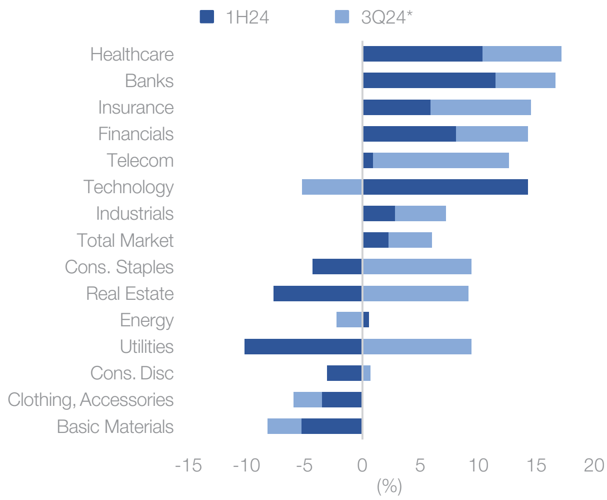
Source: LSEG Datastream, DBS

Stay with resilient sectors. In the near-term, weak sentiment will further compress equity valuations, which are already near historic lows. Until we see a significant decline in bond yields or a substantial improvement in corporate earnings, the sustainability of gains in Europe equities remains doubtful. We maintain our underweight position on Europe equities, and highlight fundamentally driven sector-specific opportunities in the IT services and healthcare sectors, as well as select luxury players. We are optimistic on the utilities sector, which is likely to benefit from lower input costs as rates and oil prices decline, as well as an uptick in demand from AI-driven energy needs.

With healthcare playing a major role in Europe's stock market, we remain cognisant of key risks facing the sector. Drugs such as Ozempic have been around for years, but have only made headlines recently due to their overnight popularity as weight loss agents. Such drugs mimic a hormone (GLP-1) in the body that helps to control insulin and blood glucose levels, making them viable for diabetes treatment. A recent study by the American Journal of Medical Care found that nearly 40% of patients with type 2 diabetes discontinued their insulin medication within 12 months of it being prescribed – researchers noted that the results were particularly pronounced with people who started taking GLP-1 drugs. Companies must constantly innovate to stay ahead of the curve, or risk becoming obsolete.

That said, the healthcare sector remains subjected to strict regulatory controls. New EU rules announced this year have threatened to cut the number of new treatments for rare diseases because of stricter curbs on medical trials, potentially reducing treatment options for rare diseases. These rules may stifle investments into medical breakthroughs, as some pharma companies may be left with no choice but to abandon their research on rarer diseases.

Europe YTD performance by sectors



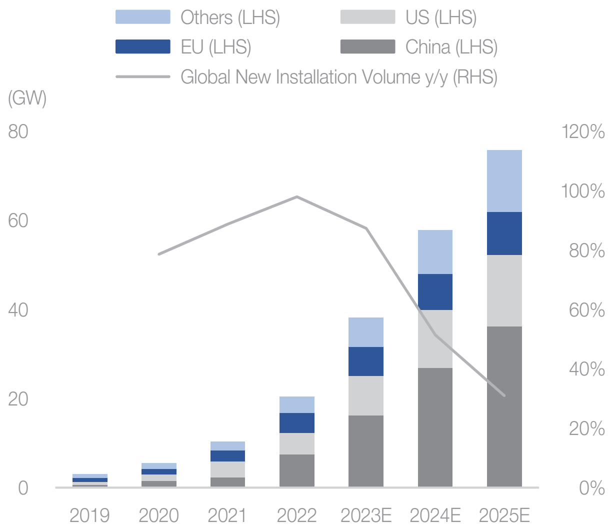
Source: LSEG Datastream, DBS.
*Data as of 3 Sep 2024

Stay with quiet luxury. The global luxury sector is facing a period of uncertainty, as consumer confidence wanes over subdued economic growth and persistent inflation. McKinsey forecasts the sector to grow by 3–5% in 2024, down from 5–7% in 2023, as luxury spending continues to be weighed down by key growth drivers such as China. A 2024 survey by PwC suggests that shoppers are shunning luxury items in favour of essentials; about 40% of respondents anticipate that they will be spending less or nothing at all on luxury goods over the next six months.

Still, we believe pockets of growth exist. Markets such as Japan are emerging as new growth areas – Savills' Global Luxury Retail 2024 Outlook shows that while new store openings fell 12% in China, the wider Asia Pacific region reported an increase in new store activity. Tokyo and Singapore were key behind this increase, helped by a pick-up in tourism and a weak yen, in the case of Japan. We maintain our view that luxury is a long-term structural growth sector; in particular, widening income gaps will highlight less price-sensitive and more exclusive, experiential-driven demand. As the industry continues to be challenged by near-term headwinds, stay with quiet luxury brands that adapt to changing preferences and offer more than just material satisfaction, making them more resilient to economic downturns.

Renewables present fresh opportunities. Post the dual shocks of the pandemic and the Russia-Ukraine war, European governments were alarmed by the region's reliance on foreign supply of energy and fossil fuels. The ensuing energy crisis shored up the urgency in transitioning Europe to green energy – the EU has set a target to reduce net greenhouse gas emissions by at least 55% by 2030; alongside policies focused on increased deployment of renewables and energy efficiency, there is also a focus on the diversity and resilience of clean energy supply chains, both for manufacturing and for critical minerals.

Global installation of new energy storage projects by region



Source: CNESA, Wood Mackenzie, EASE, DBS

In 2023, investment in renewables generation totalled almost USD110bn, an increase of more than 6% from the previous year, according to the International Energy Agency. Denmark and Germany remain at the forefront of the wind power sector in Europe despite ongoing profitability challenges, while Spain has led the surge in solar adoption to see wholesale electricity prices fall to record lows during periods of high solar output. A shift to cleaner and more secure energy sources is set to create significant opportunities to invest in renewable energy generation, grid networks for distribution, energy storage solutions, and new mobility.

Opportunities in infrastructure development. The need for infrastructure development is intensifying worldwide, fuelled by the aging of existing assets and the rapid expansion of opportunities across traditional and emerging sectors. Roads and bridges aside, modern infrastructure includes advanced assets such as EV charging stations, data centres, smart grids, and more. To tackle the concurrent challenges of climate change and deteriorating infrastructure, global infrastructure upgrades are crucial for enabling disruptive technologies and improvements in manufacturing capacities.

As global politics become more fragmented, nations are focusing on energy security, supply chain resilience, and increasing domestic manufacturing, leading to new infrastructure projects. Developed markets, especially those in Europe, grapple with ageing infrastructure. The EU's power grid, for example, averages 40 years old. To this end, the EU is investing heavily in infrastructure, including over EUR7bn in grants for transport projects, primarily railways. Additionally, the EU is contemplating a EUR100bn fund to boost defence manufacturing.

European companies poised to benefit from this long-term trend include those that specialise in: 1) engineering and construction services, 2) production of raw materials and composites used in infrastructure development, 3) manufacturing and distribution of heavy construction equipment and products, 4) infrastructure transportation, and 5) the production or sale of smart grid components.

Source: Unsplash

Supportive Earnings

Japan Equities
4Q24

Positive earnings momentum and sustained wage growth continue to buoy Japan equities. We focus on the semiconductor and IT services sectors, as well as the financials sector as a beneficiary of BOJ normalisation. The heavy machinery sub-sector within industrials could also pick up pace from increased defence spending.

05. Japan Equities.

Joanne Goh
Strategist

Sharlene Goh
Analyst

There and back again. The BOJ's surprise rate hike, resurgent recessionary fears, and a sharp unwinding of the yen carry trade sent Japan equities on a whipsaw, returning them to historic highs after briefly wiping out their gains for the year. Global financial markets have since rebounded, and the meltdown earlier this month now looks more like a brief tremor – though the way it unfolded underscores the vulnerability of Japanese markets to currency risks and how panicked investors could exacerbate wild swings in the foreign exchange and stock markets.

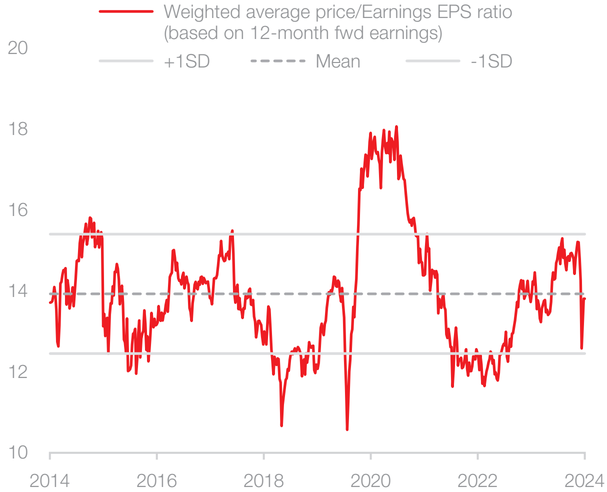
Positive earnings momentum. Japan's equity market continues to outperform, with earnings surprises bolstering valuations that currently trade below their 10Y averages. Aggregated 1QFY24 results by Bloomberg show a 6.7% y/y increase in sales and a 10.8% rise in recurring profits for companies in the TOPIX index, surpassing expectations by 3.1% and 9.5% respectively. This suggests that earnings upgrades are likely. Full-year EPS growth is projected at 13% for this year and 18% for the next, outpacing historical averages. We believe Japan's reflation is fuelling a broad-based recovery; earnings growth has been strong across most sectors with the exception of the utilities and consumer sectors, which should strengthen in the second half of the year on the back of continued wage growth.

Earnings growth has been strong across most sectors

	Sales		Earnings	
	q/q%	estimate %beat/miss	q/q%	estimate %beat/miss
TOPIX	7%	3%	11%	10%
Energy	10%	12%	51%	7%
Materials	5%	1%	15%	17%
Industrials	7%	2%	16%	6%
Cons. Disc	8%	2%	2%	10%
Cons. Staples	6%	2%	4%	-3%
Healthcare	10%	9%	-4%	26%
Financials	6%	7%	30%	23%
IT	8%	4%	23%	12%
Comms	4%	1%	21%	-32%
Utilities	-6%	2%	-40%	41%
Real Estate	12%	4%	24%	22%

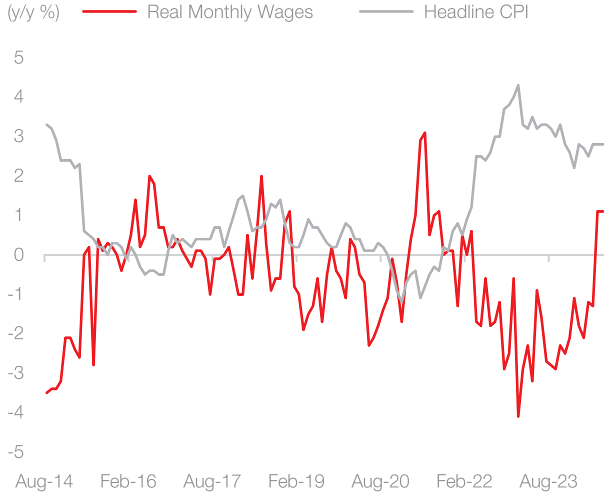
Source: Bloomberg, DBS

TOPIX valuations are below their 10Y averages



Source: LSEG Datastream, DBS

Growth in real wages drives domestic consumption



Source: Bloomberg, DBS

Near-term volatility. In the fourth quarter, Japan faces several key challenges, from BOJ policy decisions to leadership changes in both Japan and the US; and to the resurgence of yen carry trades. Once the heightened uncertainties abate and carry trades normalise, we expect Japanese markets to pick up pace, driven by underlying structural forces that continue to reshape its economy. We discuss the key issues below.

Gradual tightening on the cards. The stepping down of Prime Minister Kishida has come at a crucial turning point for Japan. Economic growth surprised on the upside in the second quarter, expanding much faster-than-expected by an annualised 3.1%. This was a remarkable rebound from the -2.3% contraction at the start of the year, thanks to a strong rise in consumption backed by real wage growth as inflation-adjusted wages in June rose for the first time in more than two years. On prices, headline inflation has stabilised at 2.8% as of June, and is expected to ease towards 2.0% in the coming months.

Aligned with Kishida, most leadership candidates have endorsed the central bank's gradual policy normalisation. BOJ Governor Ueda had reaffirmed in the parliamentary meeting on 23 Aug that the BOJ remains on track for higher interest rates, provided that inflation and economic data align with its forecasts. We do not expect significant policy differences that will derail the long-term outlook for Japan.

Leadership transition. Japan's Prime Minister Fumio Kishida will be passing the baton to the newly elected Shigeru Ishiba. Through his three-year term, Kishida had championed the concept of 'New Capitalism' which emphasised structural wage growth, the revitalisation of domestic investments, and the transition to a digital society. Under his watch, Japan saw wage increases from labour negotiations hit their highest level in 30 years; he had also pushed for corporate reform to alleviate years of capital inefficiency, improving returns for shareholders at a time where renewed investor interest saw Japan's stock market indexes surpass historic highs.

The next PM will continue to face challenges from higher costs of living amid slowing global growth and a challenging geopolitical environment. Key policy concerns surround supportive stimulus for Japan's semiconductor sector, and the normalisation of interest rates. Against this backdrop, we continue to favour Japan's bank and semiconductor sectors.

Easing yen volatility. The BOJ's unexpected rate hike in July had led to a sharp unwinding of yen carry trades, resulting in a sudden yen appreciation and steep selloff in financial markets. Though the unwinding process is not fully complete, indicators such as non-commercial net yen positions and USD/JPY and UST-JGB yield gaps suggest that the most severe phase of the carry trade unwinding should be over. With speculative short yen positions turning neutral, the risks of JPY-buying interventions by the government has lessened. We believe the yen has largely stabilised, and could gradually appreciate amid narrowing yield differentials.

US elections overhang. Leadership changes in the US may have large implications on Japan as they affect policies surrounding global trade, national security, currency stability, investor sentiment, and overall economic conditions. Four key areas to watch are:

i. *Trade policies*: Changes in US trade policies could affect Japan's exports and imports, especially if a more protectionist stance is adopted.

ii. *Security and foreign policy*: The US-Japan alliance is vital for Japan's national security. Policy pivots in US defence and international relations may in turn influence Japan's security strategy and spending.

iii. *Currency fluctuations*: US elections often create heightened market volatility, impacting the yen. A stronger yen could hurt Japan's export competitiveness.

iv. *Monetary policy*: Fed policies which may be influenced by the US elections affect global interest rates and capital flows, influencing Japan's economy and monetary policy.

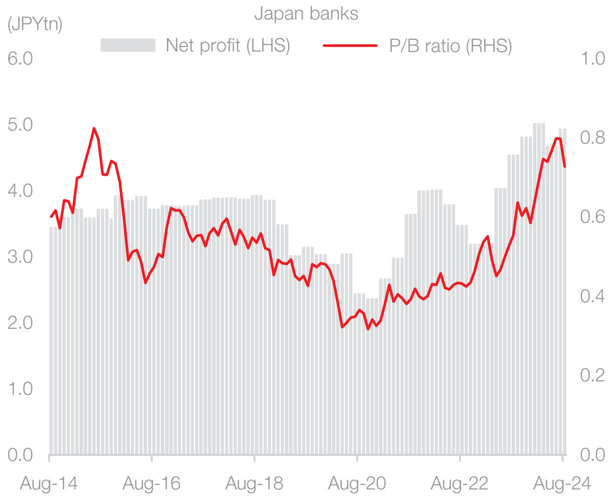
Selective themes prevail. We continue to maintain our neutral stance on Japan, recognising that current elevated uncertainties and currency volatility will weigh on risk appetites and corporate investments in the near term. We stay constructive on Japan in the long-term, with a focus on the semiconductor and IT services sector. Meanwhile, the financials sector will benefit from the BOJ's rate normalisation. In addition, we expect the heavy machinery sub-sector in the industrials space to benefit from increased defence spending. We discuss the catalysts below.

BOJ regime shift a tailwind for Japanese banks. After years of being by bound by near-zero rates, we expect healthier NIMs for Japan's banks as interest rates normalise. In particular, Japanese megabanks with broader deposit bases stand to benefit more from widening lending spreads. Net income and ROE continue to show steady expansion, and we see further upside given better returns from higher rates and more optimised balance sheet. Nudged by the government, Japanese banks have started selling off their large holdings of equity stakes in other Japanese companies. For example, MUFG and SMFG Inc have announced plans to divest JPY1.32tn (USD8.5bn) worth of strategic shareholdings in Toyota.

Rejuvenation of Japan's semiconductors. We continue to favour the semiconductor and IT services sectors as beneficiaries of rapid AI adoption across industries supported by strong government support. Japan has already earmarked some JPY2tn (USD13.7bn) to rejuvenate its semiconductor sector, a significant increase from the JPY1.3tn (c.USD8.9bn) allocated previously. For example, Rapidus is one of its most ambitious efforts yet, with plans to manufacture advanced 2-nanometer chips to compete with TSMC and Samsung Electronics.

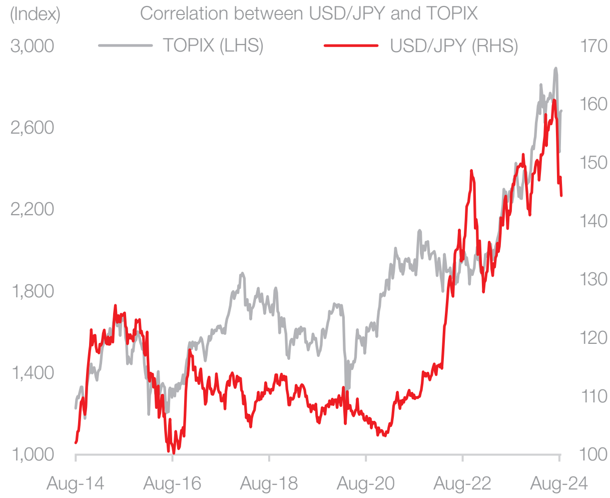
Increased defence spending. Highlights from Japan's FY24 budget show the government plans to enhance national security through the deployment of an additional JPY1.1tn to its defence capabilities. Japan's leading defence contractors have reported strong order books for military and space equipment in FY24, with expectations of rapid revenue expansion on the back of the country's growing defence budget. The government's commitment to nearly doubling its defence spending through FY27 to approximately 2% of its GDP is a marked departure from its traditional limit of defence spending at about 1% of GDP. Amid geopolitical instability, these factors could provide support for notable players in the heavy industrials and machinery sectors.

Japanese banks continue to trade at undervalued levels



Source: LSEG Datastream, DBS

The TOPIX does well in a weak yen environment



Source: LSEG Datastream, DBS

Constructive Outlook

Asia ex-Japan Equities 4Q24

A weaker dollar from Fed easing will be supportive of Asia equities, while earnings recovery should underpin further upgrades in the region. On the growth play, stay with upstream technology supply chain, platform businesses, and consumption-driven sectors. For the income play, we prefer China large cap banks and S-REITs.

Source: Unsplash

06. Asia ex-Japan Equities.

Yeang Cheng Ling
Chief Investment Officer, North Asia

Joanne Goh
Strategist

Investors have turned less cautious on Asia ex Japan equities since the start of the year, as evidenced by market returns and forecast revisions. Investors generally anticipate lower downside risk in Asian markets and expect earnings recovery to underpin further upgrades to the outlook. We remain constructive on the region based on expectations of mid-teen to 20% corporate earnings growth, reasonable valuations, and relatively light investor positioning.

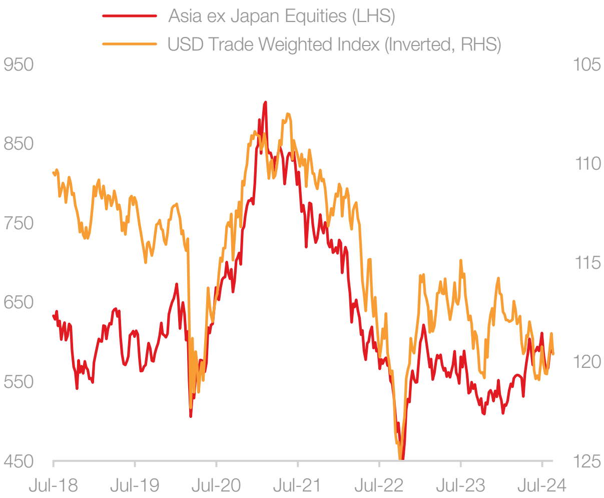
After the US presidential election, political tensions and trade protectionism impacting Asia's exporting countries and technology supply chains are likely to remain. Ongoing measures against technology transfers to China could prolong negative sentiment in the region. However, given the current measures that have been put in place, the impact of further tightening is likely to be milder than before.

The much-anticipated rate cuts in the US bode well for Asian equities. Historically, Asian equity returns have been inversely correlated with the US Fed Funds rate and US dollar. Therefore, investment funds should flow to the region in search of bargains.

While US interest rate hikes and the Dollar's strength previously acted as headwinds against the region's equity prices, the impending US rate cut should reverse this trend. Investors will refocus on the region to capture the effects of US monetary easing.

The relative underweight in Asia ex Japan equities among investment funds supports against further

Monetary easing is supportive of Asian equities



Source: Bloomberg, DBS

selling. Slowing US growth and declining global rates favour Asia's domestic oriented markets and central banks have more policy room for monetary easing. As such, it affirms our stance to stay overweight in Asia ex Japan.

Southeast Asia is benefiting from a surge in FDI inflow. The areas of focus are technology and digital infrastructure, including data centre, semiconductor backend manufacturing, and renewable energy. This FDI surge highlights Southeast Asia's dynamic growth trajectory and its role in the region's economic landscape. We also see value emerging for Singapore REITs as an important income generator with its 5-6% annual yield over cycles. They are appealing in the environment of declining rates and play a pivotal role on the income side of our Barbell Strategy.

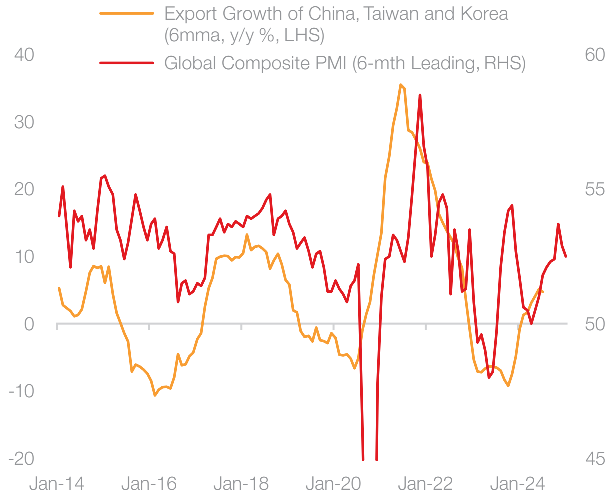
The region's earnings momentum will stay robust over the next few years, reinforced by export-oriented activities across the North Asia region, and the rise of domestic consumerism in Southeast Asia.

The correlation between the Global PMI and combined exports of China, Taiwan, and Korea suggests a promising future for export-oriented revenue, particularly as global expansion gains momentum. This is driven by advancements in technology and correspondingly, broadening demand from emerging markets. As this upcycle is a significant tailwind for earnings, the region's equity markets are poised to gain and align more closely with global peers' valuation.

Corporate earnings have demonstrated supportive trends, with 56% of companies meeting or surpassing expectations. Eight out of the 11 sectors reported more positive than negative surprises, underscoring stable profitability across key industries including energy, healthcare, industrials, real estate, technology, and utilities. Resilient earnings, combined with valuation discount, should drive a rebound in equity valuations.

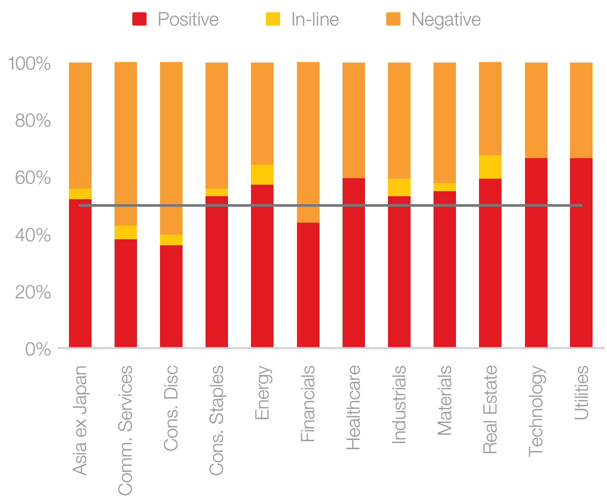
We remain constructive on key investment themes in the Barbell strategy. On the growth side, we like technology supply chain companies, platform businesses, and consumption-driven sectors – all of which are positioned to benefit from ongoing technological advancements and evolving consumer trends. On the income side, we advocate for solid dividend providers, including China large cap banks and S-REITs.

Close relationship between Asia exports and global composite PMI



Source: Wind, DBS

Better-than-expected earnings surprises



Source: Bloomberg. DBS

China

The recent unwinding of the yen carry trade has negatively impacted equity markets, with the exception of the China market owing to its valuation discount and lower incidence of foreign ownership.

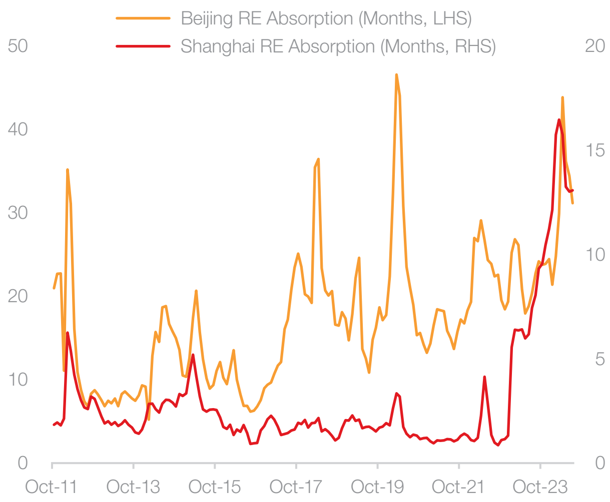
The US Fed rate cuts will positively affect China markets as they give the PBOC more room for monetary easing, stabilise the real estate market, and aid a turnaround in consumption. Lower global rates are also supportive of risk assets in emerging markets, which have underperformed since 2022.

The supportive measures put in place by the Chinese government to stabilise the waning real estate sector are by far the most aggressive we've seen in the past three years. However, the ongoing weakness in home prices and persistently high inventory levels indicate that more measures are needed to resolve the problem. As real estate accounts for a substantial proportion of household assets, any resolution will ease the public's attitude of precautionary savings and boost consumption.

On a brighter note, industrial profits have emerged as a key positive indicator. The divergence observed since late 2023 between equities and industrial profits should converge with the recovery of corporate profitability. In addition, equity market valuations are expected to realign with the rebound in corporate profits.

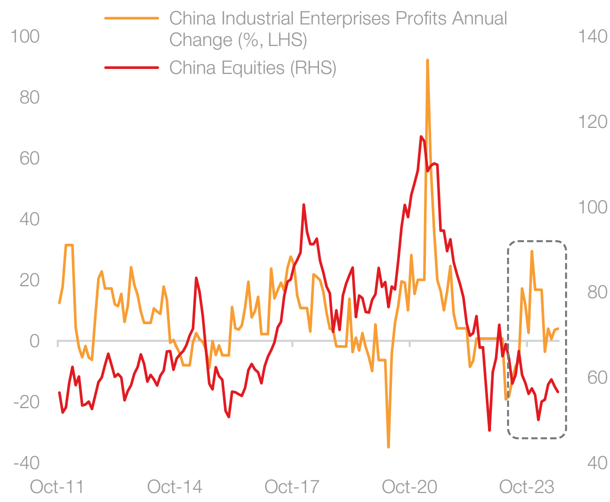
Sentiment towards China's markets is improving. The government is undertaking measures to address longstanding issues that had unsettled investors. Although these implementations are still in their early stages and their full impact will take time to materialise, the direction set by the authorities is constructive.

More support needed to resolve real estate inventory issue



Source: Bloomberg, DBS

Close correlation between industrial profits and equity prices



Source: Bloomberg, DBS

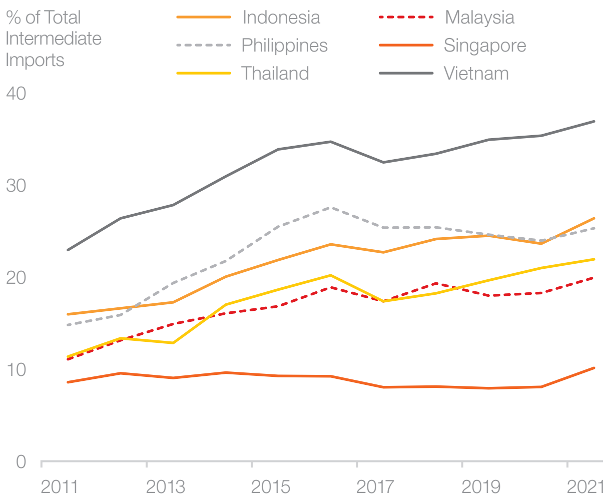
ASEAN benefiting from twin tailwinds

ASEAN's outperformance began in middle of 3Q, driven by a weaker dollar, which has increased the appeal of ASEAN assets. The region has shown remarkable resilience in the post-Covid era, with sustained growth across ASEAN economies in the first half of 2024. Countries like Indonesia, Malaysia, the Philippines, and Singapore saw accelerated GDP growth, while Thailand and Vietnam experienced slower positive growth. This momentum is attributed to strong domestic demand, stable prices, robust labour markets, and a recovery in export markets, particularly the tourism sector. The cyclical upturn in ASEAN-6's goods trade continued into mid-2024, particularly in the electronics sector, driven by the global tech upcycle.

ASEAN has been a major recipient of China's outbound flows, as businesses shift production to the region to mitigate the impact of escalating trade tensions between China and the West. The US expanded Section 301 tariffs on Chinese imports, while the EU and Canada raised tariffs on China's electric vehicles in July 2024.

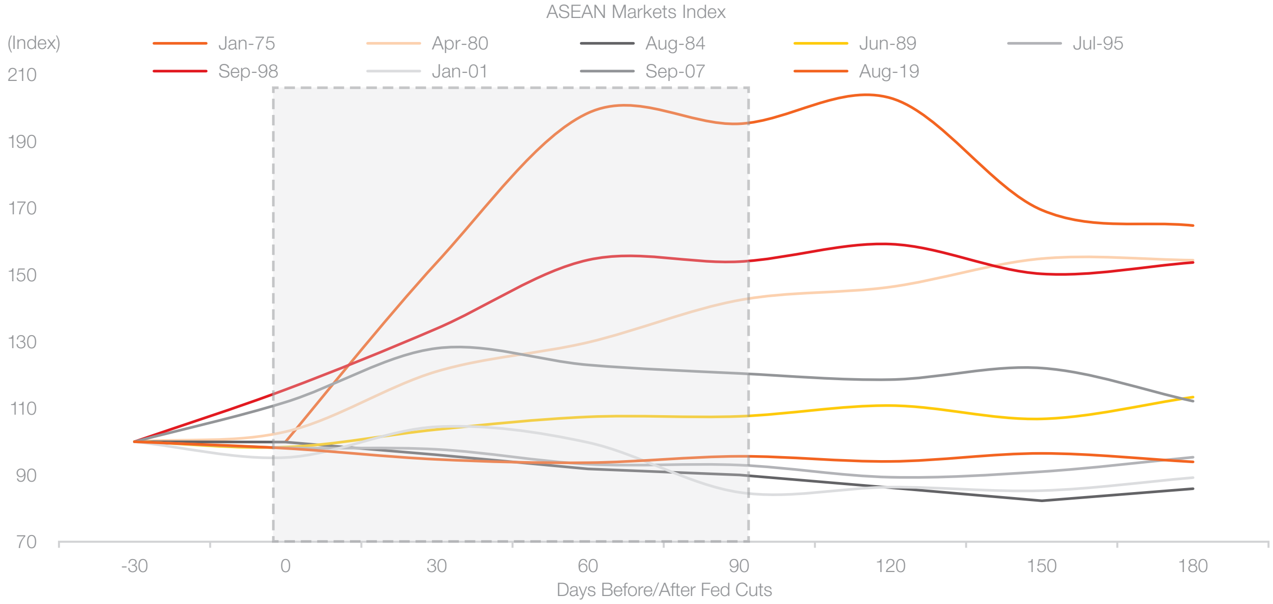
The region is a key beneficiary of the Fed's easing cycle, with interest rate-sensitive sectors rebounding after underperforming during periods of high and rising rates. High dividend-yielding stocks are expected to attract investor flows as yield differentials shift in their favour; demand for property and consumer sectors is likely to recover as the burden of higher interest rates eases. Additionally, highly leveraged sectors should feel relief. ASEAN government bonds are poised to benefit from the twin tailwinds of a weaker USD and significantly lower UST yields, creating a positive feedback loop for currencies and equity markets as investment flows increase, benefiting the broader market.

Rising role of ASEAN markets as import intermediaries



Source: World Bank, DBS

As early adaptors, ASEAN markets should perform well in the first three months of Fed rate cuts



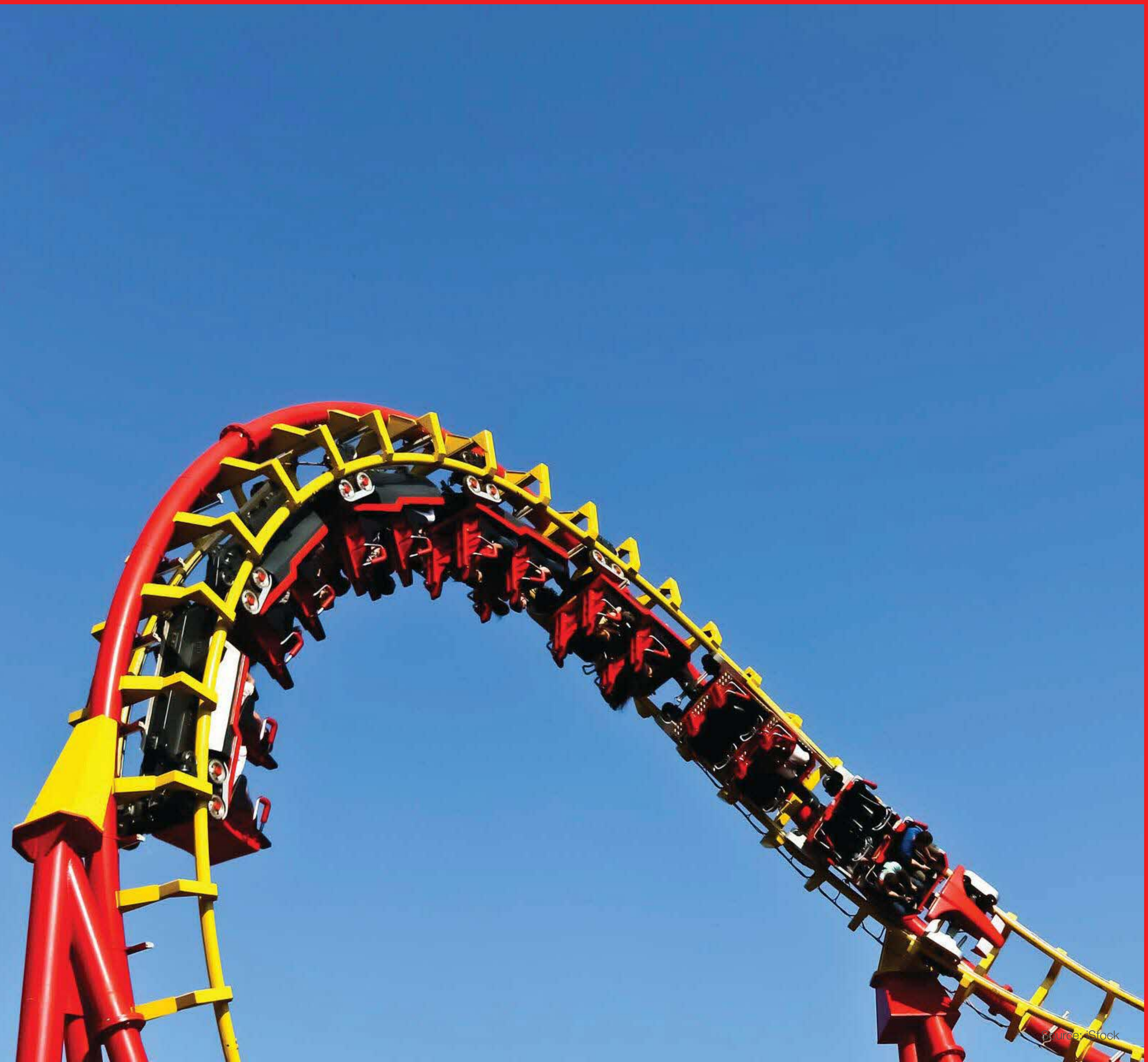
Source: World Bank, DBS

Key sector recommendations in ASEAN include: 1) S-REITs, where we prefer retail, industrial, office, and hotels given their ability to deliver earnings surprises on the back of resilient organic and inorganic income generation abilities; 2) industrials stocks in Singapore, Malaysia and Thailand in the electronics and auto sectors; 3) Indonesia and Philippines consumer sectors; and 4) Indonesia commodity sector; 5) Thailand tourism and healthcare sectors; and 6) Vietnam as a key beneficiary of the China+1 Strategy. We stay positive in banks. While lower interest rates could pressure banks' net interest margins, strong loan and fee income prospects are expected as economic activity picks up.

Monetary Easing in Full Swing

Global Rates
4Q24

Rate cuts are in full swing across developed markets as inflation concerns ebb, with steeper curves expected in the coming quarters. Japan the only outlier as the BOJ embarks on normalisation. Asia will also look to recalibrate rates lower as the Fed cuts.



Source: iStock

07. Global Rates.

Eugene Leow
Strategist

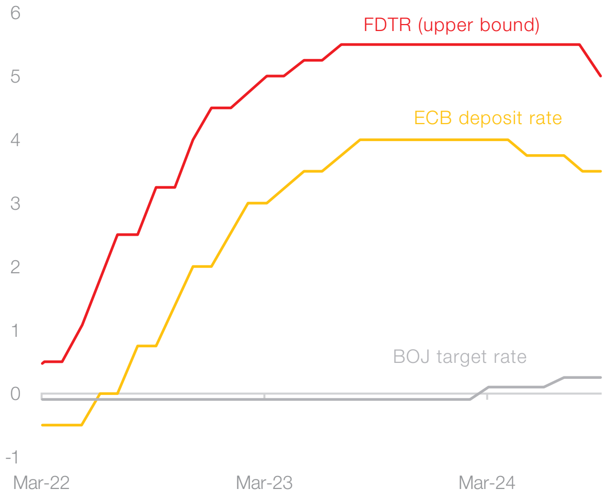
Samuel Tse
Strategist

Seven out of ten of the G10 central banks have shifted into easing mode. The tightening cycle across the DM space has led to deeply inverted curves and very high nominal rates (comparing over the past two decades) as central banks grappled with elevated inflation prints. After an extended period of keeping policy rates high and inflation cooling off across most regions, central banks are now prioritising growth. The most important point came at the Jackson Hole Symposium, when Fed Chair Powell laid out a complete policy pivot, indicating that the Fed would do everything it can to "support the strong job market". This was followed through with a 50 bps cut in September. From a rhetoric standpoint, while the Fed sounds to be the most dovish among the G10 central banks, the pace and magnitude of DM rate declines will ultimately depend on how data evolves. Much would also depend on how the global economy, especially China, and commodity prices fare.

Significant easing has been factored into across DM rates over the coming few years. The bulk of the easing is priced to be delivered within a year and interestingly, by the third year, rates are expected to rise. Market participants expect the Fed and the RBNZ to be the two most aggressive, with more than 200 bps of cuts set to be delivered. These values should be viewed in a wider context, considering data and financial conditions. The macroeconomic backdrop and financial markets do not appear unduly stressed, suggesting that a calibration of real rates to less restrictive level makes sense. Given that inflation worries have fallen off the radar for now, worries about the asymmetrical responses (cut bias with no risk of rate hikes) have abated, and some premium has been embedded into DM rates in general. Accordingly, this might mean that central banks, especially the Fed, may ultimately deliver less than what is priced if a soft-landing occurs. As policymakers become more cognisant on downside risks to growth, the long end of DM curves could start to reflect more optimism about the outlook. Steeper curves are still likely in the coming quarters.

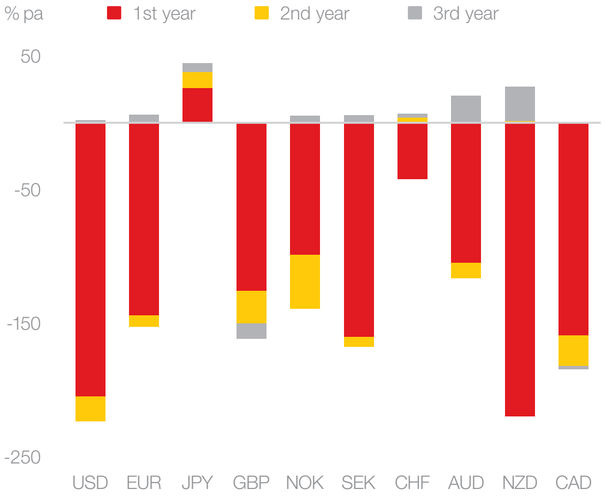
The BOJ remains the outlier. Japan's economic data has been surprising on the upside with inflation kept sticky by rising wages. Even as QT has been announced and the BOJ did hike short-term rates to 0.25%, the eventual neutral is probably closer to 1%. However, balancing between financial stability and the need for higher rates is proving tricky. Large moves in the yen and the Nikkei would probably deter the BOJ from moving aggressively. However, the divergence stance versus the rest of the world would imply that the JGB curve will be biased towards flattening.

Divergence between the US/EZ versus JP



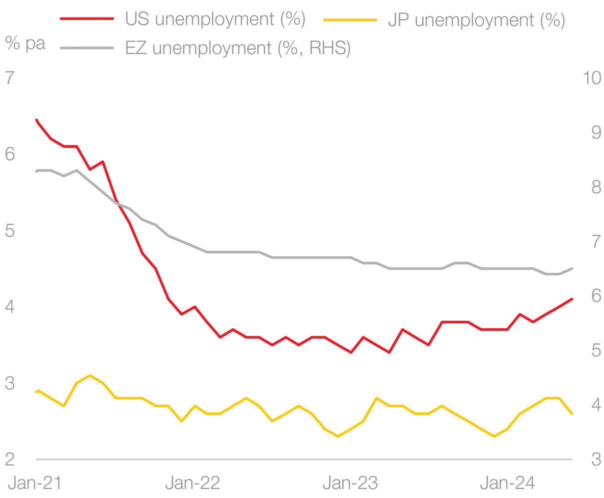
Source: Bloomberg, DBS

Significant easing factored across the G10



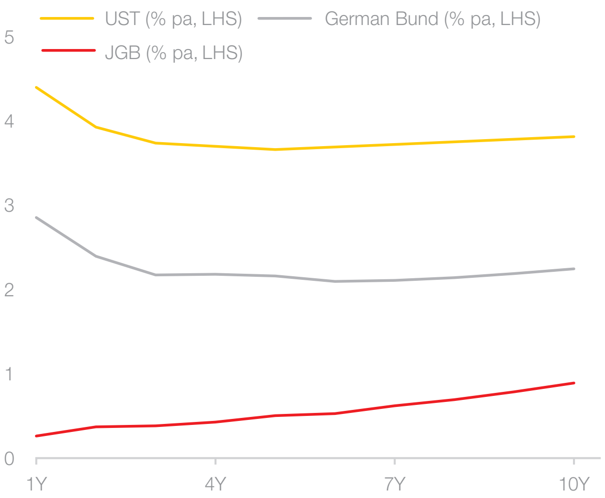
Source: Bloomberg, DBS

US showing greater labour market weakness than peers?



Source: Bloomberg, DBS

Further steepening for UST & Bund curves



Source: Bloomberg, DBS

Asia Rates

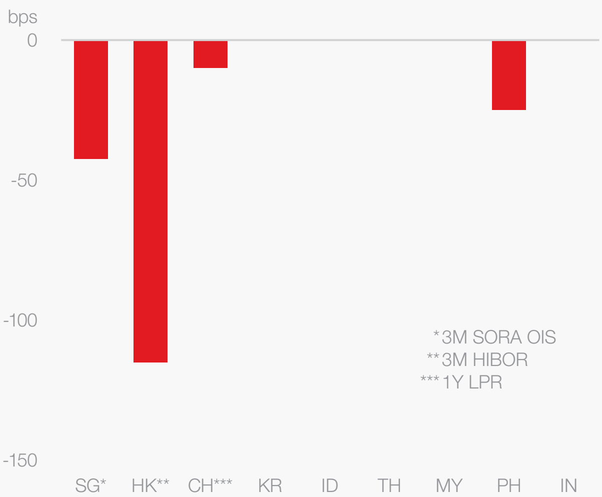
CNY rates: Falling CGB yields with steepening curve

We expect another round of rate cuts and fiscal stimulus on entering 4Q given weak data prints. Credit demand remains weak, with new yuan loans registering the first contraction on record. Real funding costs have stayed elevated amid modest consumer inflation and contracting producer inflation. On the external front, the window for a benchmark rate cut has emerged alongside rate cut cycles of other major central banks. Depreciation pressure on the CNY from further PBOC cuts would be manageable. Strategy-wise, we expect CGB yields to fall across tenors. Banks will likely reallocate excess liquidity into bonds amid weak borrowing sentiment. Curve-wise, steepening is expected to return alongside the rate cuts. Additionally, long-end CGB issuance will remain ample to support growth. The PBOC's primary market bond borrowing, and subsequent sales will also help keep yields steady and maintain an upward-sloping CGB curve.

IDR rates: Attractiveness remains

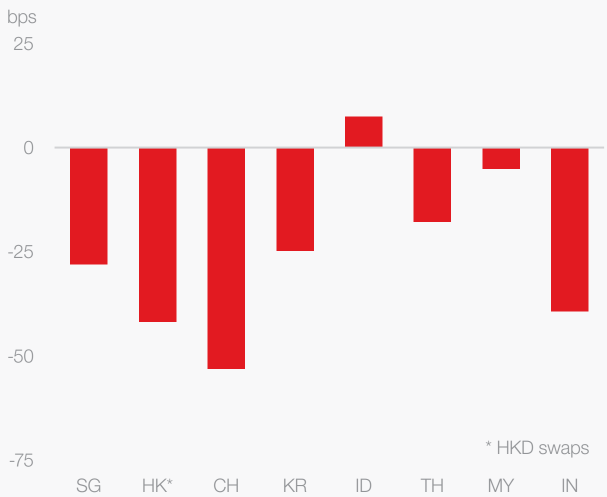
Indo GB yields will likely fall at a manageable pace in 4Q. BI has started cutting rates due to a weaker growth profile. Household consumption may slow amid weaker discretionary spending, and the contracting Manufacturing PMI reflects softening industrial activity. Corporate profits are also dampened by declining commodity prices. On the fiscal front, the narrower budget deficit in 2025 expected by lawmakers will help keep Indo GB yields in check. The supply of government bonds will also be scaled back, compared to a bigger deterioration in fiscal balances expected earlier. That said, yields remain attractive compared to their UST counterparts, especially with the much-anticipated Fed funds rate cuts. The stabilising currency also entices investors from a total returns perspective. Curve-wise, we expect steepening to return.

Change in Policy Rates YTD



Source: Bloomberg, DBS

Change in 10Y Government Bond Yields YTD



Source: Bloomberg, DBS

INR rates: Extended pause on strong growth and inflation concerns

We continue to favour IGBs due to their outperformance in terms of both stable exchange rates and falling yields. INR rates will decline further on the back of softening US data prints and anticipated Fed rate cuts. Secondly, an improvement in external balances should help keep IGB yields in check, with services and high value-added goods exports remaining firm. On the financial account side, FDI inflows from the ‘China+1’ strategy, as well as inflows from IGB inclusion in the JPM GBI-EM GD Index, should support the downward pressure on IGB yields. However, IGB yields will likely fall at a modest pace amid the extended pause by the RBI and tight liquidity conditions. Inflation remains a concern. Elevated food prices may feed through to core inflation via increased demand for higher wages. Moreover, strong growth momentum from both consumption and capital expenditure should also prompt the RBI to to embark on a modest easing cycle. On the liquidity front, T-bill issuances have been scaled back, and the central bank has initiated variable rate reverse repo operations to absorb excess liquidity. Curve-wise, steepening is likely. As newly issued 14Y and 30Y tenor papers are now excluded from foreign investor-eligible securities, foreign investors may favour 10Y IGBs and below.

KRW rates: Window for rate cut is open

We anticipate stronger downward pressure on KTB yields relative to other Asian peers. The BOK will likely cut the policy rate by 25 bps in 4Q24 due to slower growth and inflation. In its latest meeting, the BOK revised its 2024 growth and inflation forecasts to 2.4% (down from 2.5%) and 2.5% (down from 2.6%), respectively. Weak national home prices—except in Seoul—and modest credit growth are pushing the BOK towards a more dovish stance. Externally, the anticipated Fed rate cut in September will open the window for a similar move by the BOK. Expectations of Fed rate cuts have helped the USD/KRW return to the 1,300-1,350 range, easing imported inflation and reducing concerns about capital outflows. Other bullish factors include increased foreign inflows into tech stocks and the potential inclusion of KTBs in FTSE Russell’s global bond index.

MYR rates: Rangebound for now

MYR rates fell in the last quarter alongside other Asian rates. This decline was driven by monthly foreign portfolio inflows of MYR5.5bn into MYR bonds in Jul 2024, according to Bloomberg, marking the largest monthly inflow in a year. However, we do not expect MGS yields to fall substantially further. We anticipate that BNM will maintain its policy rate pause, given its vigilance towards higher inflation amid resilient economic growth momentum. BNM expects higher but manageable inflation in the second half of 2024, partly due to the rationalisation of diesel subsidies in June. It continues to forecast headline inflation averaging within its 2.0-3.5% range. We also expect Malaysia’s real GDP growth to rise to 5.3% in 2024 from 3.7% in 2023, supported by improving global demand for Malaysia’s electronics exports, continued recovery in inbound tourism, and resilient domestic spending. Should the market reverse its pricing for Fed cuts, MGS yields could stabilise in the near term.

PHP rates: Govvie yields to stay rangebound

Philippines Government Bond (RPGB) yields have dropped significantly over the past few months in line with USD rates. Moreover, the BSP is also the first in Asia (excluding the PBOC) to ease in this cycle. However, we think that a lot of the down move may already be priced and expect yields to remain rangebound. The uptick in food and utility inflation has reduced the BSP's flexibility to implement rate cuts. On the growth front, improvements in net exports have partly offset the shortfall in household consumption. As such, the central bank is unlikely to stimulate the economy through premature rate easing. Maintaining a stable peso exchange rate remains the BSP's top priority. On the fiscal front, the high government debt-to-GDP ratio and ongoing infrastructure outlays may also exert modest upward pressure on government bond yields.

SGD Rates: Looser liquidity & Fed cuts kicking in

Short-term SGD rates are starting to drift lower as Fed easing gets underway. There are two factors to consider. First, the USD has weakened considerably over the past few months, allowing investors to take a closer look at Asian assets. Moreover, the SGDNEER has been strong, suggesting that there have been inflows into Singapore. Against this backdrop, we note that SGD liquidity has become more flush, driving MAS bills, T bills, and SORA fixings lower even as the Fed kept rates unchanged through to mid-September. This represents the first leg of lower SGD rates in a benign financial market environment. Secondly, the extent of Fed cuts would ultimately determine where short-term SGD rates would settle. Assuming that the Fed cuts rates to 3% and the MAS reduces the SGDNEER slope to less than 1% by end-2025, we would reasonably expect short-term SGD rates to settle in the 2.0-2.5% range.

THB rates: Limited room for significant fall

The BOT maintained its policy rate for its eighth consecutive meeting (which was held in August) but flagged the monitoring of credit quality deterioration and somewhat tighter financial conditions. This came amid expectations of a better cyclical growth outlook. Tourist spending has picked up, particularly from China amid a decline in the CNYTHB cross. Government spending will be forthcoming, with continued support from private consumption growth. However, credit quality has worsened, and the BOT emphasised the need to closely monitor the impact on borrowing costs, which could hurt economic activities. It retained flexibility to tweak rates if the economic outlook shifts. Even if there is scope for some cuts, we should not expect THB rates to factor in as aggressive a cutting cycle as the Fed, given that absolute yields are not that high.

Rates forecasts

		2024				2025			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	5.30	5.32	4.75	4.38	3.88	3.38	2.88	2.88
	2Y	4.62	4.73	3.70	3.60	3.50	3.40	3.35	3.35
	10Y	4.20	4.39	3.80	3.85	3.85	3.90	3.95	4.00
	10Y-2Y	-42	-34	10	25	35	50	60	65
Japan	3M TIBOR	0.26	0.31	0.45	0.50	0.65	0.65	0.90	0.90
	2Y	0.19	0.36	0.50	0.55	0.70	0.80	0.90	0.95
	10Y	0.73	1.06	1.10	1.10	1.05	1.05	1.05	1.05
	10Y-2Y	54	70	60	55	35	25	15	10
Eurozone	3M EURIBOR	3.91	3.71	3.45	3.20	3.05	3.05	3.05	3.05
	2Y	2.85	2.89	2.65	2.60	2.60	2.50	2.50	2.50
	10Y	2.30	2.56	2.50	2.45	2.45	2.40	2.40	2.40
	10Y-2Y	-55	-33	-15	-15	-15	-10	-10	-10
Indonesia	3M JIBOR	6.93	7.18	7.10	6.85	6.60	6.10	6.10	6.10
	2Y	6.43	6.81	6.65	6.50	6.35	6.20	6.20	6.20
	10Y	6.69	7.08	6.85	6.75	6.65	6.55	6.55	6.55
	10Y-2Y	27	27	20	25	30	35	35	35
Malaysia	3M KLIBOR	3.59	3.59	3.50	3.50	3.50	3.50	3.50	3.50
	3Y	3.49	3.53	3.35	3.25	3.25	3.25	3.25	3.25
	10Y	3.85	3.86	3.75	3.65	3.65	3.55	3.55	3.55
	10Y-3Y	36	33	40	40	40	30	30	30
	2Y	6.04	6.21	6.00	5.85	5.65	5.30	5.30	5.30
	10Y	6.23	6.66	6.15	6.05	5.90	5.65	5.65	5.65
	10Y-2Y	19	45	15	20	25	35	35	35
Singapore	3M SORA OIS	3.62	3.58	3.25	3.08	2.78	2.48	2.28	2.28
	2Y	3.45	3.34	2.40	2.30	2.35	2.35	2.30	2.30
	10Y	3.11	3.21	2.40	2.50	2.50	2.55	2.60	2.70
	10Y-2Y	-34	-13	0	20	15	20	30	40

%, eop, govt bond yield for 2-year and 10-year, spread bps
*swap rates

Source: CEIC, Bloomberg, DBS

		2024				2025			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Thailand	3M BIBOR	2.65	2.65	2.60	2.60	2.55	2.55	2.55	2.55
	2Y	2.16	2.34	2.20	2.10	2.05	2.05	2.05	2.05
	10Y	2.50	2.67	2.60	2.50	2.50	2.50	2.50	2.50
	10Y-2Y	34	33	40	40	45	45	45	45
Mainland China	1Y LPR	3.45	3.45	3.35	3.25	3.15	3.05	3.05	3.05
	2Y	1.91	1.66	1.50	1.45	1.40	1.40	1.35	1.35
	10Y	2.30	2.21	2.20	2.10	2.05	2.05	2.00	2.00
	10Y-2Y	39	55	70	65	65	65	65	65
Hong Kong, SAR	3M HIBOR	4.72	4.75	4.05	3.78	3.38	2.88	2.38	2.38
	2Y*	4.28	4.22	3.15	3.00	2.90	2.80	2.75	2.75
	10Y*	3.84	3.77	3.15	3.20	3.25	3.30	3.35	3.40
	10Y-2Y	-44	-44	0	20	35	50	60	65
Korea	3M CD	3.63	3.60	3.60	3.35	3.10	2.85	2.60	2.60
	3Y	3.32	3.18	3.00	2.85	2.70	2.55	2.40	2.40
	10Y	3.40	3.26	3.08	2.98	2.88	2.78	2.68	2.68
	10Y-3Y	8	8	8	13	18	23	28	28
India	3M MIBOR	7.48	7.31	7.15	6.90	6.65	6.45	6.45	6.45
	2Y	7.03	6.99	6.75	6.50	6.40	6.30	6.30	6.30
	10Y	7.06	7.02	6.85	6.75	6.65	6.55	6.45	6.45
	10Y-2Y	3	3	10	25	25	25	15	15

%, eop, govt bond yield for 2Y and 10Y, spread bps
*swap rates

Source: CEIC, Bloomberg, DBS

Higher for Shorter

Global Credit
4Q24

At the dawn of the policy pivot, sweet spot remains in A/ BBB credit, with duration barbell between 1-3Y credit to mitigate reinvestment risk and 7-10Y credit to capture risk premium and yield spread compression. US MBS and European credit poised to offer strong value plays.


Source: Unsplash

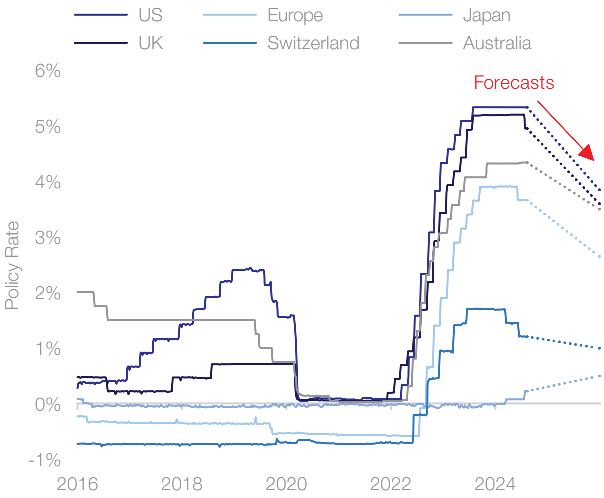
08. Global Credit.

Daryl Ho, CFA
Strategist

Coming back down to earth. Having endured close to two years of ever-ascending interest rates, bond markets must have collectively breathed a sigh of relief as the Fed delivered the first rate cut since the pandemic crisis; and a 50 bps one no less. In our 3Q24 credit outlook aptly titled "Tipping Point", we recognised that the economy was beginning to soften as we approached the second half of the year and strategised that fixed income investors should lengthen duration and more aggressively deploy cash into bonds to mitigate reinvestment risk as the rates environment was past its lofty peaks. Looking ahead, this outlook remains very much relevant today – if not even more so – given that market expectations of policy rates for central banks across the developed world continue to remain on the downtrend till the end of 2025.

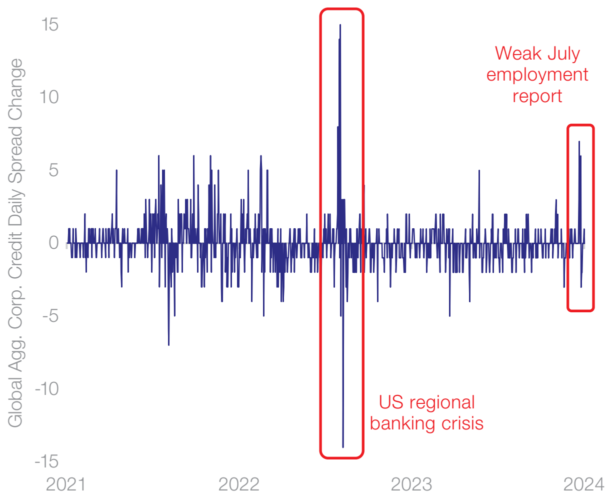
Slowing economy a boon for rates, a bane for credit. That said, central banks lowering policy rates on softening global economies does present a bit of a dilemma for credit investors; would credit stresses inevitably emerge as growth broadly slows? The bond markets had a foretaste of such an outcome at the turn of the second half of 2024 as inflationary forces began to ebb and more importantly, as US jobs data started to weaken – with the unemployment rate modestly overshooting the Fed's own estimate of the longer run rate of 4.2% in July. Daily credit spread volatility briefly surged to levels not seen since the US regional banking crisis in 2023, before the markets calmed back down on receding recessionary fears. These rapid spikes reveal one of the more prevalent concerns for bond investors – that current spreads might not sufficiently compensate for credit risks for bondholders, given that they still hover just slightly above their multi-year tights.

Lower rate forecasts across developed economies



Source: Bloomberg, DBS

Credit spread stresses not seen since the 2023 banking crisis



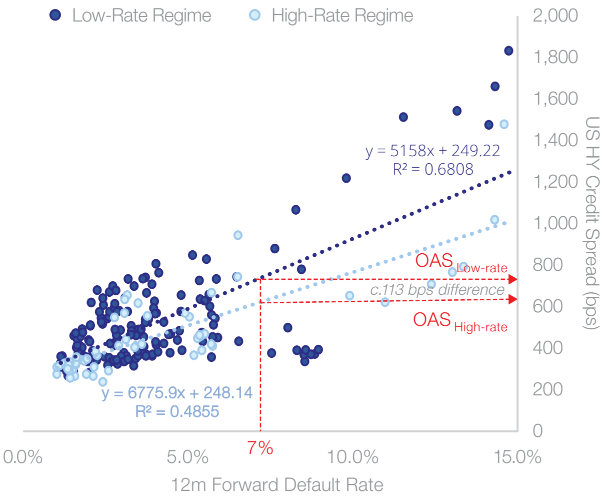
Source: Bloomberg, DBS

Legitimate reasons for tighter credit spreads. Such concerns are certainly not unexpected. However, we wish to reiterate that there are several fundamental reasons why corporate spreads are justifiably tighter under this present regime, aside from the observed divergence in creditworthiness of governments (decreasing) and corporates (increasing) following the pandemic; a public-private dichotomy we described in our 2Q24 credit outlook.

Firstly, it has been observed that HY spreads tend to trend tighter under a higher rates regime. Conceptually, higher risk-free rates provide a buffer for returns in a recession as central banks have much more room to cut should an unexpected downturn ensue, effectively reducing the risk premium of holding corporate credit. On the flipside, a low-rate regime leaves little room for rate cuts – investors would demand wider spreads to compensate for lower expected returns in a recession. A simple regression of US HY spreads against 12-month forward default rates shows that for the same expected default rate (7% for reference), fair-value spreads are tighter (by c.113 bps) under a higher-rate world. As such, HY spread valuations today may not be as rich as initially perceived, due to the potential for falling rates to mitigate the effect of widening spreads in a downturn.

Same tightness, different reason. IG spreads exhibit similar traits of tightness relative to historical averages for a separate reason. We believe that the risks of IG credit have structurally diminished following the extraordinary interventions of the Fed in credit markets during the pandemic crisis; namely, with the inception of both the Primary and Secondary Market Corporate Credit Facility (PMCCF

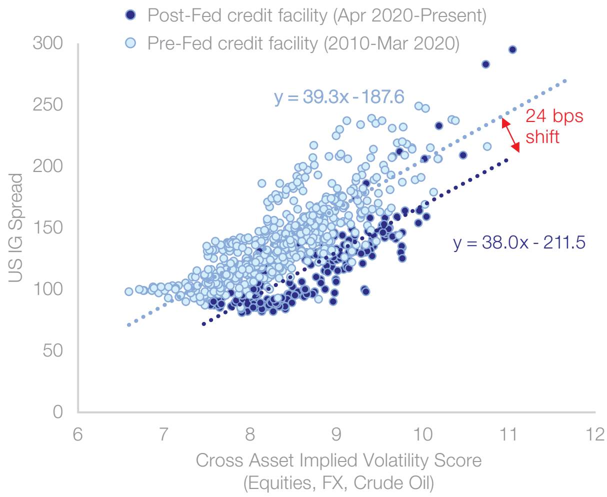
Tighter HY spreads are normal under higher-rate regimes



Source: Bloomberg, Moody's Investors Service, DBS
Note: High-rate regime defined as episodes where 10Y UST rates are > 3.5%

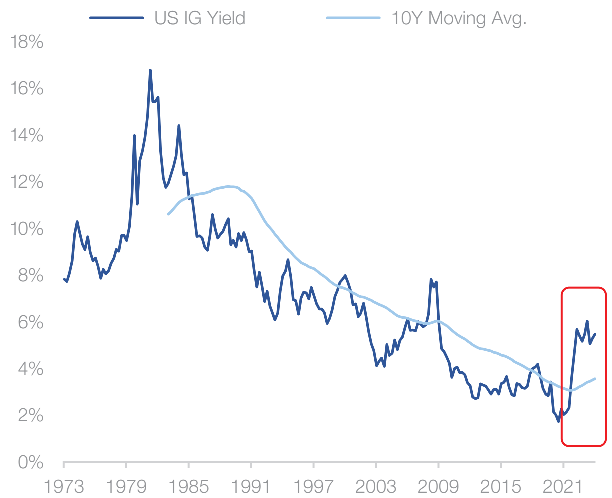
and SMCCF respectively) in response to the severe corporate bond market disruptions in 2020. While these facilities have expired, the markets are now aware that the Fed has the potential to intervene not just in Treasuries/MBS, but also in corporate bonds should the need arise again – the Fed "put" now also exists for IG credit. To quantify the value of this "put", we ran a regression of US IG spreads against a cross-asset implied volatility score (comprising equities, FX, and crude oil), and noted a parallel shift downwards in spreads relative to risk – i.e. for the same levels of broader market uncertainty, US IG spreads now trade c.24 bps tighter since the advent of the Fed's credit facilities.

Fed "put" in credit has lowered risk premiums



Source: Bloomberg, DBS
Note: Implied volatility score is an equal-weighted log function of equity, FX and crude oil volatility.

Corporates have not faced higher refinancing rates till now



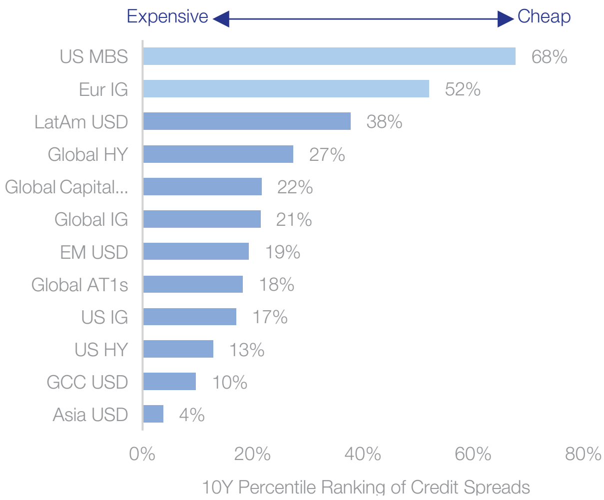
Source: Bloomberg, DBS

Low spread risk doesn't mean no spread risk. That said, lower fair-value spreads do not mean that investors should be indiscriminate in their risk-taking when it comes to credit exposure. Softening economies tend to produce different outcomes for IG and HY markets. Risks are certainly more pronounced for HY markets, where total returns can be marred by default and restructuring in a slowdown, while the immediacy of such defaults are less of a concern for IG credit because stronger balance sheets and better access to financing allow these companies to better weather a slowdown.

Speaking of financing, we are also cognisant that following the latest hiking cycle, this is the first time in c.40 years that corporates will be facing much higher refinancing costs. Since the mid-1980s, credit yields have generally trended below their 10-year moving averages, implying that most companies that operated over the last four decades generally saw their average refinancing costs decline – until today. As such, we prefer to remain up in quality with A/BBB credit – with exceptions for strong BB names – while time reveals if there are companies that would eventually face undue margin pressure from such higher interest burdens.

Distilling the alpha from the beta. As much as we believe that most fixed income markets would likely do well under an era of declining rates, the previously discussed tighter spread environment ultimately still compels us as investors to sift through the bond universe for good value. Two markets stand out in terms of undemanding spread valuations, namely (a) US MBS and (b) European IG credit.

MBS and European credit remain historically cheap



Source: Bloomberg, DBS

A different profile of fixed income returns. MBS spreads are still trading at some of their cheapest levels in history, likely due to (a) the Fed running off their MBS holdings under QT and (b) peripheral concerns on commercial MBS given the weakness in the CRE sector. This makes it one of the rare spaces in bonds where investors are still able to obtain close to 5% yields by taking government-related risk, especially with agency MBS that have a precedence as a Fed policy toolkit in times of severe distress. Granted, the convexity in such instruments imply that there is less likelihood for capital gains under a declining rate environment (borrowers tend to refinance their mortgages at lower rates), but we believe investors are adequately compensated for prepayment risk by the high absolute yields available today in agency MBS.

Venture across the Atlantic for better spreads. European IG credit also exhibits similar undemanding valuations. Index spreads have for long stretches been tighter than their US equivalents, likely due to (a) more consistently dovish policies from the ECB since the GFC and (b) earlier central bank intervention in the corporate bond markets in Europe. The reverse is true today, with European IG spreads both (i) wider than US IG on aggregate and (ii) trading in line with their 10-year averages while most other credit markets remain historically expensive on spread terms.

European credit spread valuations not demanding

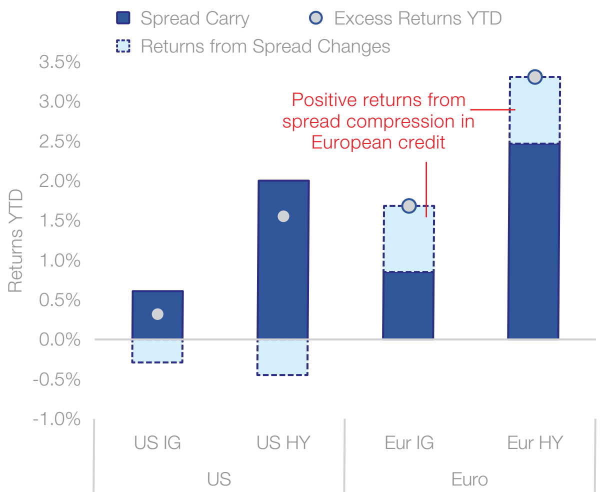
Source: Bloomberg, DBS

European spread compression has augmented credit returns. Despite the risk that such wider spreads could indicate expectations of a deeper slowdown in Europe, we note that these wide spreads have not only contributed to better carry, but the broad compression of European spreads have led to strong outperformance of both European IG and HY markets over their US counterparts YTD in 2024. We believe that such momentum can persist with the resurgence of a hunt-for-yield mentality as policy rates continue their decline.

Additional yield from hedging gains. Aside from the undemanding valuations, there is an additional source of yield for USD-based investors in European credit. Due to the policy differential between the Fed and the ECB (the Fed being broadly more hawkish) over the last two years, EUR-denominated credit can see a more than 100 bps pickup when cashflows are swapped back into USD. Noting that the policy differential is expected to narrow based on futures market pricing, this incremental hedging gain could diminish in time; investors should therefore capitalise on this opportunity while such benefits remain.

A barbell duration strategy remains suited for the cutting cycle. We had recommended a duration barbell strategy since the second half of 2024, focusing on two outsized positions in a fixed income portfolio of (a) 1-3Y credit to capitalise on the turn of the rate hiking cycle to minimise cash reinvestment risk and (b) 7-10Y credit for wider credit spread premiums and higher price sensitivity to a rate-cutting cycle. This strategy remains relevant, noting that the 1-3Y segment provides certainty of positive returns, while the risk-reward in the 7-10Y segment appears favourable regardless of the eventual directional change in interest rates.

Higher European spreads have buffered YTD returns



Source: Bloomberg, DBS

Capitalise on FX hedging gains in European credit

Source: Bloomberg, DBS

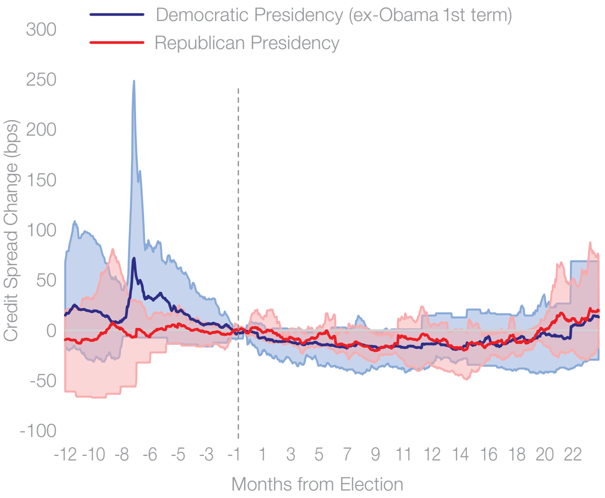
Maintain credit duration barbell of 1-3Y and 7-10Y

Source: Bloomberg, DBS

A word on the US elections. We would be remiss not to mention a prominent risk event in 4Q24 – the US presidential elections. Quantitatively, the first thing to note is that credit spreads show little variance between a Republican or Democratic presidency; an intuitive observation given that other factors (corporate balance sheet strength, profitability, monetary policy, liquidity etc.) have a larger and more direct influence on spreads. Interestingly, under both parties, spreads exhibit a tendency to decline in the 12 months after elections – likely as the markets are relieved of a key quadrennial risk event. Credit investors should therefore not ascribe any undue worry around the elections on their fixed income portfolios.

In summary, bond investors should continue to switch from cash into fixed income as we transition from a pause to a cutting cycle. Data remains in place for the continuation of the soft-landing narrative, and central banks around the globe have sufficient cover to begin cutting policy rates. Investors need to stay up in quality with A/BBB credit and only make selective picks in the BB+ segment that could weather a potential growth slowdown. Sophisticated investors can look to the US MBS and European credit markets for reasonably priced fixed income securities in an increasingly expensive world. Portfolio duration should carry on with a barbell approach – overweighting (a) the 1-3Y segment to minimise cash reinvestment risk and (b) the 7-10Y segment to capitalise on wider spreads and rate sensitivity. Positioned well, bond portfolios would be well-placed to navigate the turn of the policy cycle, noting that the higher yields available today may not be as easily found tomorrow.

Credit spreads perform well after elections



Source: Bloomberg, DBS

USD to Resume its Depreciation

Global Currencies
4Q24

A DXY Index below 100 is likely in the next US presidential term, driven by Fed rate cuts amid a soft economic landing. Asian currencies will gain as the region anchors global growth, supported by an export recovery.

Source: Unsplash

09.
Global Currencies.

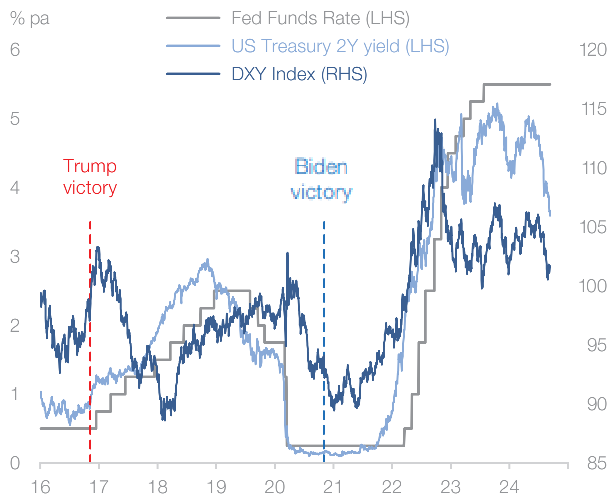
Philip Wee
Strategist

Chang Wei Liang
Strategist

It is time to consider a resumption of the US dollar's depreciation. The DXY Index surged more than 20% to 115 in Jan-Sep 2022 from the Fed's aggressive rate hikes to control decades-high inflation. Since Dec 2022, the DXY consolidated in a lower 100-107 range, underpinned by the Fed's "high for longer" rates stance and exceptional US growth. In 3Q24, the Fed became more confident about disinflation resuming and started a rate-cutting cycle in September (and trimming rates by 50 bps) to avert a further cooling in the US labour market. Barring shocks to the global economy and financial markets, we see US growth decelerating to 1.7% in 2025 from 2.3% this year, the Fed cutting rates by a further 200 bps to 3%, and the DXY Index falling below 100 over the next 12-15 months.

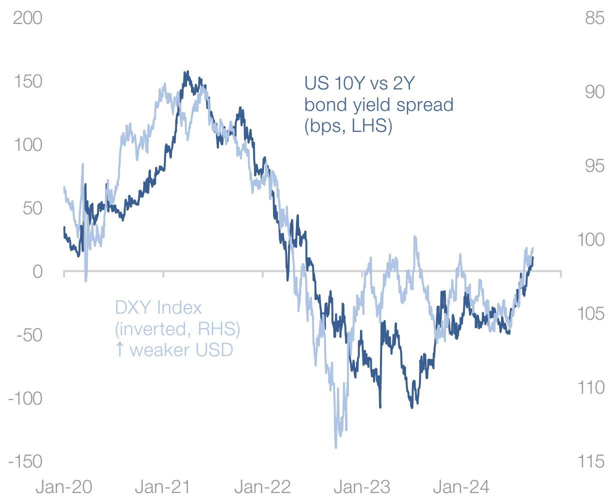
We are not generalising the outcome of the US Presidential elections on Nov 5 on the greenback, i.e., a stronger USD if Republican candidate Donald Trump wins or a weaker USD if Vice President Kamala Harris prevails. Unlike 2017 and 2021, the next presidential term will begin in 2025 amid a Fed easing cycle, not rate hikes. The ballooning of the US federal debt from USD20tn to USD33tn during the last two presidencies will constrain the economic policies of the incoming administration. However, Trump's protectionist policies pose a more significant threat to the global economy. Barring geopolitical shocks, a Harris presidency should be positive for Emerging Asia as the main growth engine for the world economy, benefitting their currencies.

The DXY Index faces a Fed rate cutting cycle after the US presidential elections



Source: Bloomberg, DBS

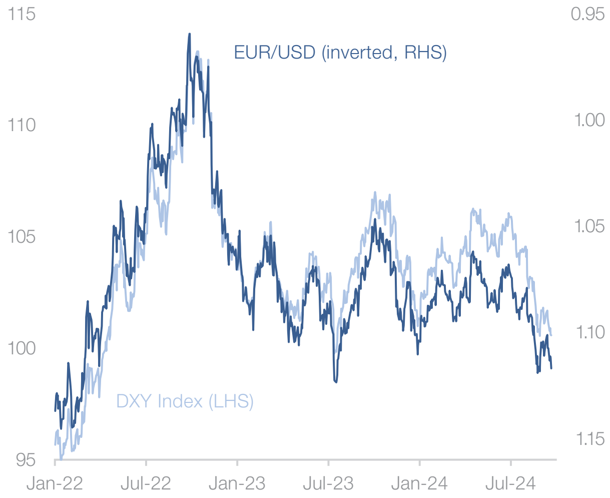
A positive and steeper US bond yield curve should weaken the greenback



Source: Bloomberg, DBS

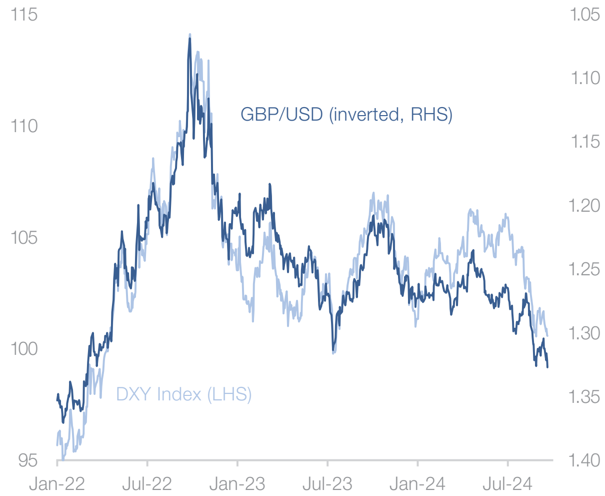
European currencies

The Euro should benefit as the anti-USD, from fewer ECB rate cuts on Eurozone's declining inflation vs. the Fed cuts to avert a further cooling in the US labour market.



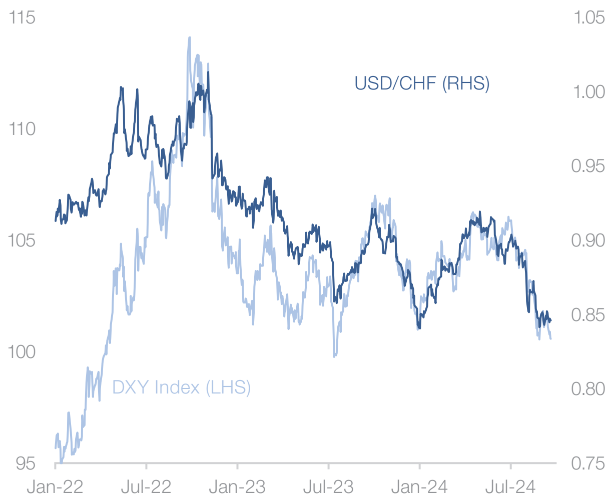
Source: Bloomberg, DBS

The British pound's outlook has improved from a more stable political landscape, a faster UK recovery, and possibly better relations with the EU.



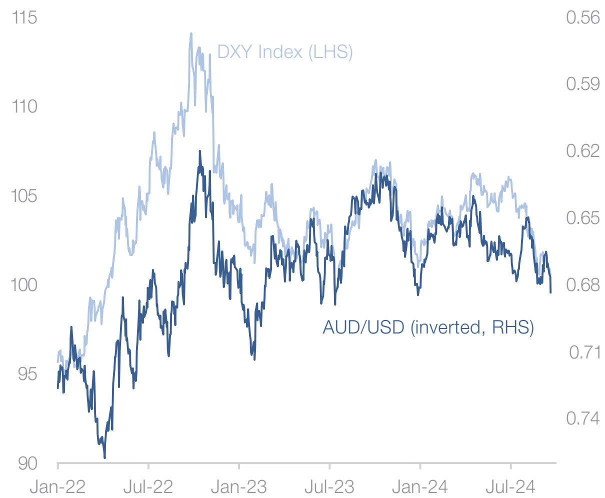
Source: Bloomberg, DBS

The Swiss National Bank will likely cushion the Swiss franc's appreciation pressures from the Fed's rate cutting cycle pressurising the USD lower.



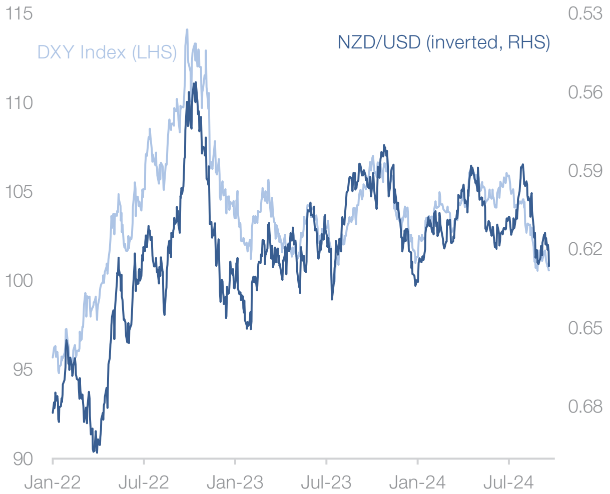
Source: Bloomberg, DBS

The Australian dollar should break above this year's 0.64-0.68 range on stronger Asian currencies, but faces volatility from the unwinding of yen carry trades, and RBA's delayed rate cuts next year.



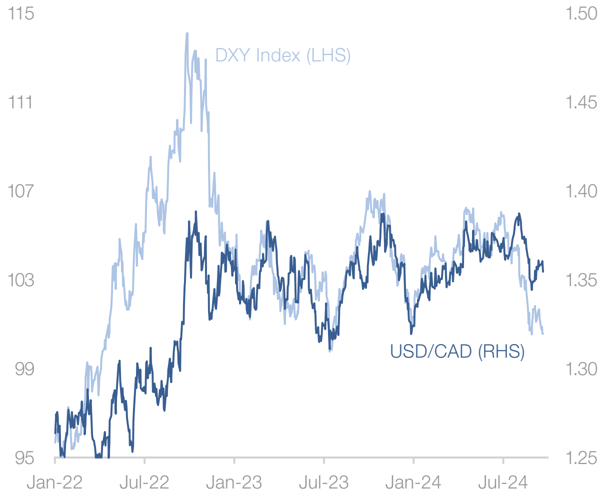
Source: Bloomberg, DBS

The New Zealand dollar should break above this year's 0.5850-0.6330 range, riding on stronger Asian currencies, and the Luxon government's economic bet on Asian markets.



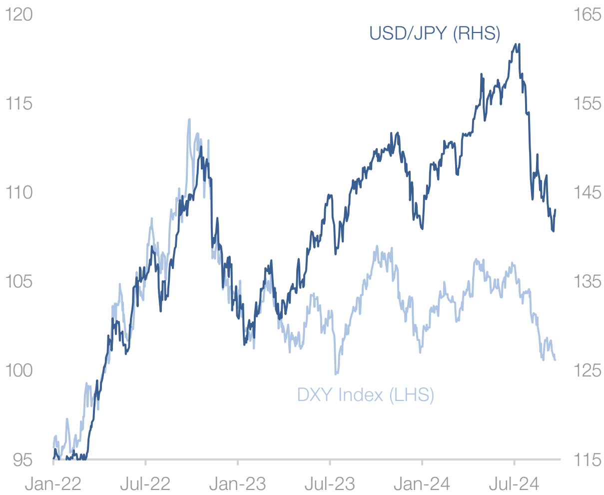
Source: Bloomberg, DBS

The Canadian dollar will lag its peers during the USD's descent from the BOC keeping pace with the Fed's cutting cycle amid a lacklustre commodity cycle.



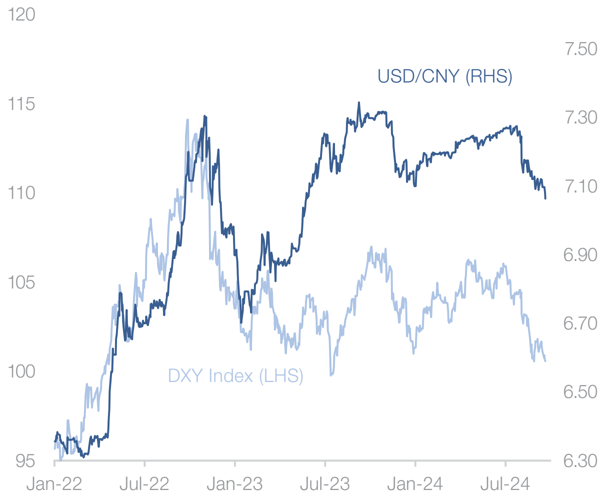
Source: Bloomberg, DBS

The Japanese yen will keep recovering from more Fed cuts and more BOJ hikes through 2025, keeping markets alert to more unwinding of yen carry trades.



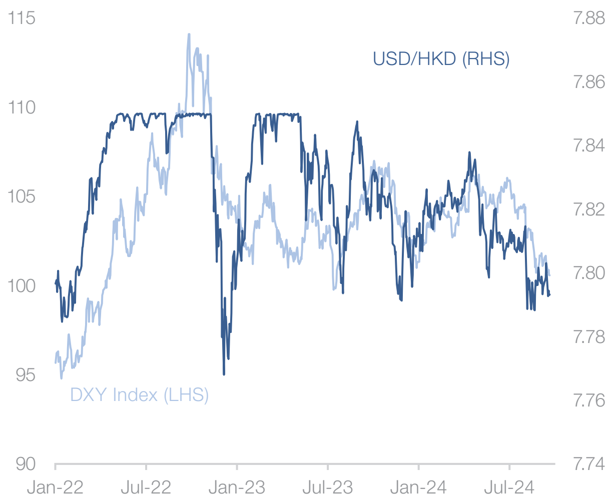
Source: Bloomberg, DBS

The Chinese yuan's recovery from a softer USD should continue to be constrained by China's weak domestic economy and persistent US-China rivalry.



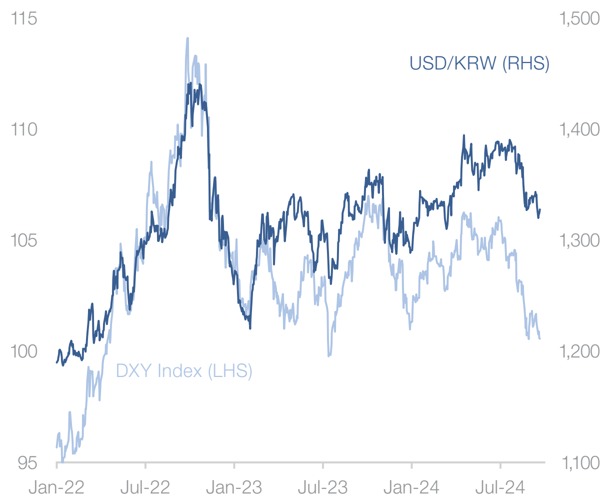
Source: Bloomberg, DBS

USD/HKD should repeat its past precedence of moving into the lower half of the 7.75-7.85 convertibility band during the Fed's rate-cutting cycle.



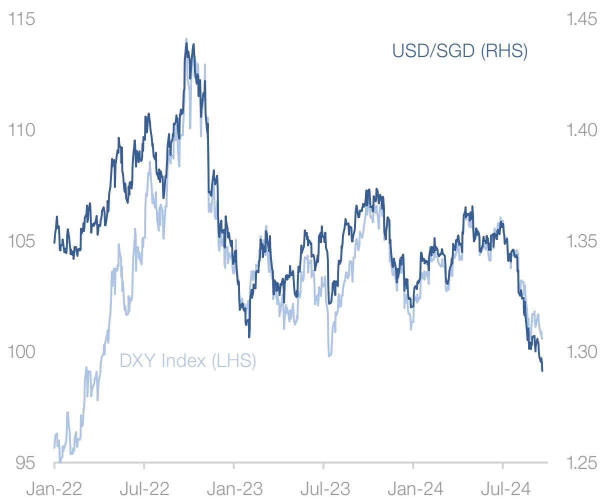
Source: Bloomberg, DBS

The South Korean Won will recover with the volatile NE Asian currencies, narrowing yield differentials vs. the US, positive demand for tech exports.



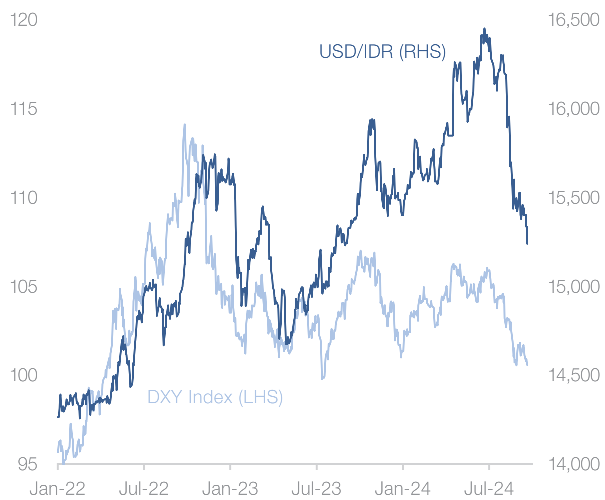
Source: Bloomberg, DBS

The price-taker USD/SGD to move into a lower 1.20-1.32 range, its post-GFC range in 2011-2014, on the DXY resuming its depreciation into 90-100.



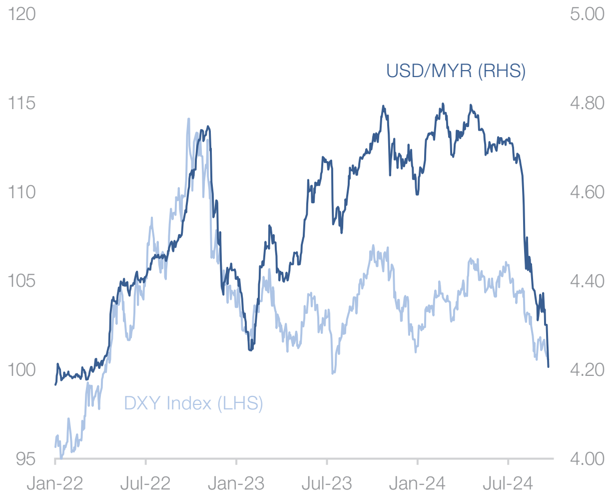
Source: Bloomberg, DBS

The Indonesian rupiah historically recovers at the start of a Fed rate-cutting cycle from global investors snapping up Indonesian equities and bonds.



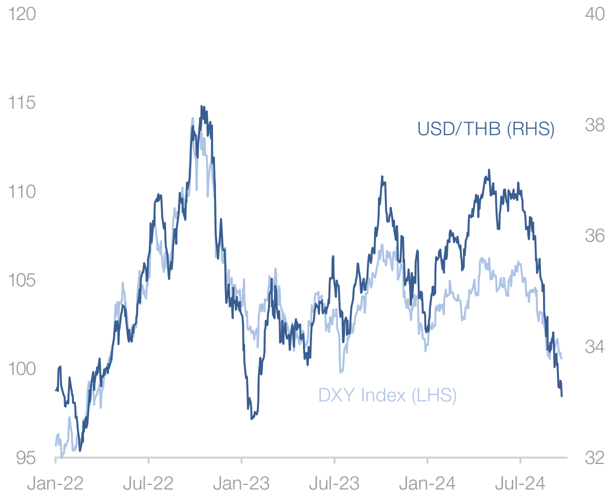
Source: Bloomberg, DBS

The Malaysian ringgit staged an impressive reversal to become Asia's best performer, underpinned by the Anwar government's diplomatic outreach to attract foreign investments.



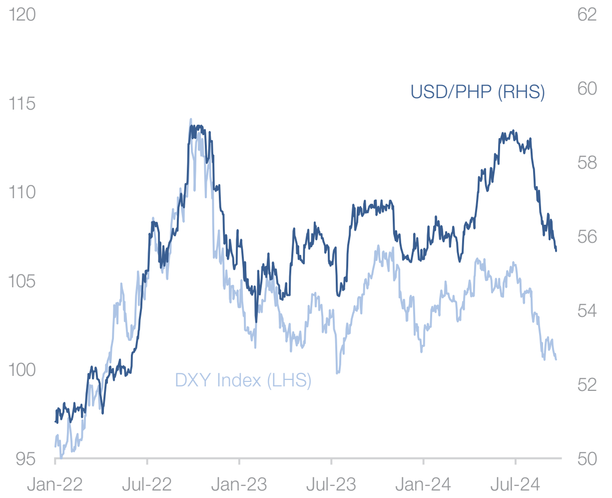
Source: Bloomberg, DBS

USD/THB is eyeing the lower half of its post-Covid 30-38 range on narrowing rate differentials vs. the US, the Thai economy hitting its potential growth on tourism and an export recovery.



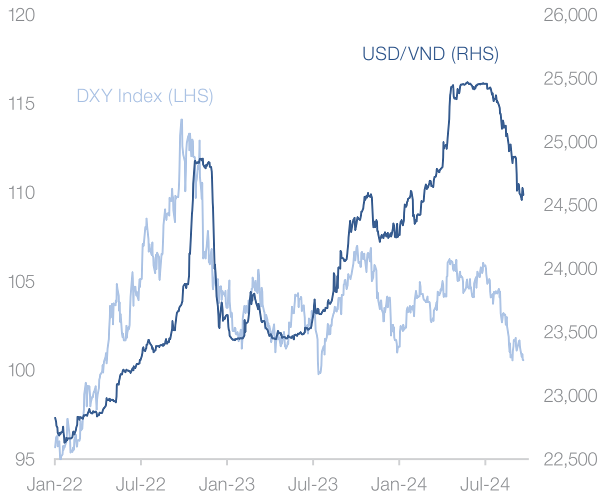
Source: Bloomberg, DBS

The Philippine peso is not focused on domestic politics or geopolitics, but the country's strong medium-term growth and sound economic policies amid a weaker USD.



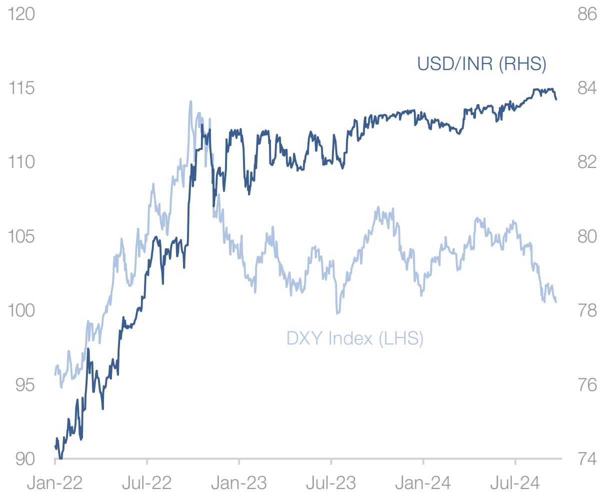
Source: Bloomberg, DBS

The Vietnamese dong will strive to strike a balance between attracting foreign investors and staying competitive amid "China Plus One" rivals.



Source: Bloomberg, DBS

The undervalued Indian rupee should reflect a weakening USD, capital inflows into India's record-high stock market, and its bonds' inclusion in some global bond indices.



Source: Bloomberg, DBS

DBS currency forecasts

Exchange rates, eop	18 Sep	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
China	7.0810	7.08	7.04	7.00	6.98	6.94	6.90
Hong Kong	7.7930	7.79	7.79	7.78	7.78	7.77	7.77
India	83.756	83.7	83.4	83.0	82.7	82.3	82.0
Indonesia	15335	15320	15190	15070	14950	14820	14700
Malaysia	4.2435	4.25	4.20	4.20	4.15	4.15	4.10
Philippines	55.732	55.7	55.2	54.7	54.2	53.7	53.2
Singapore	1.2952	1.29	1.29	1.28	1.28	1.27	1.27
South Korea	1324	1320	1310	1290	1280	1260	1250
Thailand	33.361	33.3	33.2	33.0	32.8	32.7	32.5
Vietnam	24629	24610	24490	24370	24250	24120	24000
Australia	0.6764	0.68	0.68	0.69	0.70	0.70	0.71
Canada	1.3605	1.36	1.35	1.34	1.33	1.32	1.31
Eurozone	1.1119	1.11	1.12	1.13	1.14	1.14	1.15
Japan	142.29	142	140	137	135	132	130
New Zealand	0.6209	0.62	0.63	0.63	0.64	0.64	0.65
Switzerland	0.8462	0.85	0.84	0.84	0.84	0.83	0.83
United Kingdom	1.3214	1.32	1.33	1.34	1.34	1.35	1.36
United States	100.596	100.5	99.9	99.3	98.7	98.1	97.5

Australia, Eurozone, New Zealand, and United Kingdom are direct quotes.

Stay Selective

Commodities
4Q24

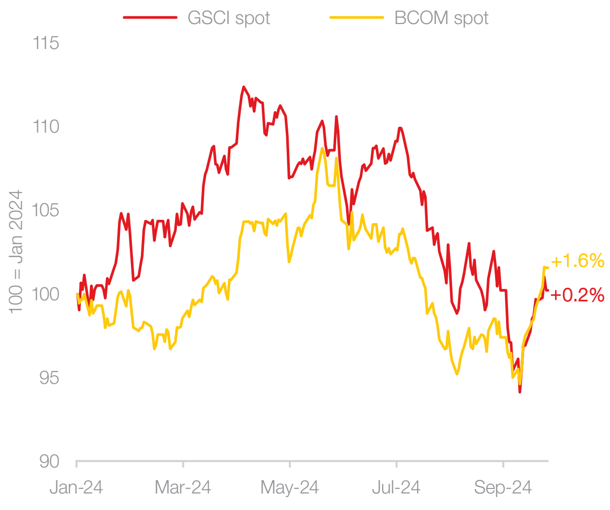
Commodities reversed much of their first half gains due to a combination of slowing global economic momentum and supply worries. Stay selective on energy, industrial metals and agricultural commodities.

10. Commodities.

Goh Jun Yong
Analyst

Three steps forward, two steps back. In our last quarterly, we detailed a resurgence in the broad commodity complex. This, however, did not last long. The third quarter saw a gradual but persistent reversal of the gains logged by commodity indices earlier this year. YTD (as of 25 Sep), the Bloomberg commodity index and GSCI are up 1.6% and 0.2% respectively. This underperformance was likely due to macro-related factors; slowing economic momentum in both the West and China, as well as a lack of additional policy stimulus announced during the latter's third plenum removed much of the exuberance that powered the commodities rally in the first half.

Commodities gave up much of their YTD gains in 3Q24

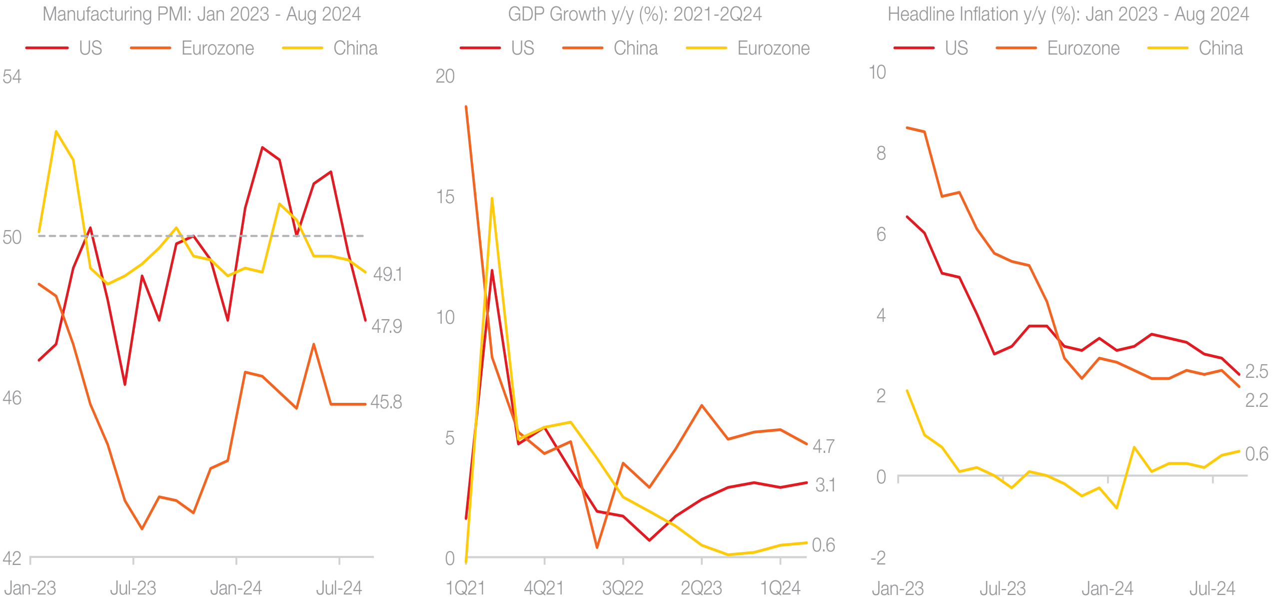


Source: Bloomberg, DBS

Macro environment remains weak. On the manufacturing front, US fell into contractionary territory for the first time in seven months in July and continued to dip further in August. Europe extended its sub-50 manufacturing PMI streak to 26 consecutive months, and China's manufacturing activity remained lukewarm as it notched its fourth contractionary month in a row in August. In terms of GDP growth, the main downside surprise was China which recorded a 2Q24 GDP growth of +4.7% y/y, missing market forecasts of +5.1% y/y. This dented the near-term outlook for commodity demand as China is the world's largest consumer for most commodities. Inflation data also indicated slowing economic momentum globally with all three major regions seeing falling or stagnant inflation figures since the beginning of the year. Additionally, the US saw substantial cooling of its labour market in July with nonfarm payrolls for that month coming in significantly below expectations (114k vs 175k).

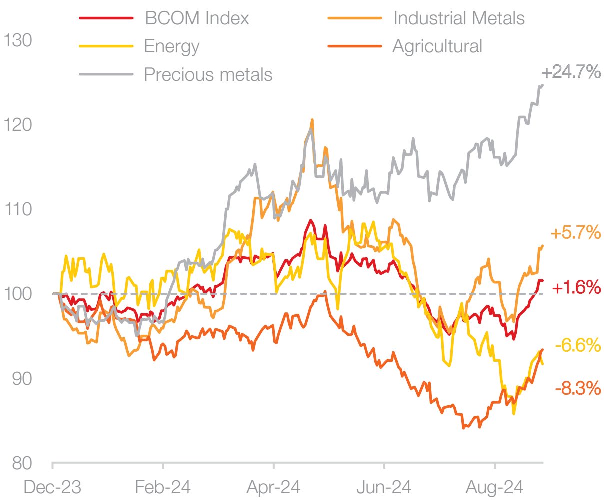
Precious metals the only outperformer. Breaking down the performance of commodities into its sub-asset classes, we can see that precious metals was a standout performer with a stellar +24.7% YTD return (as of 25 Sep), driven mainly by the strong showings of gold and silver against a backdrop of heightened geopolitical risk and impending Fed rate cuts. Industrial metals moderated its first half gains to a modest +5.7% YTD while energy and agricultural commodities declined –8.3% and –6.6% respectively on worries of ample supply.

Further cooling of macro indicators



Source: Bloomberg, DBS

YTD performance of commodity sub-asset classes

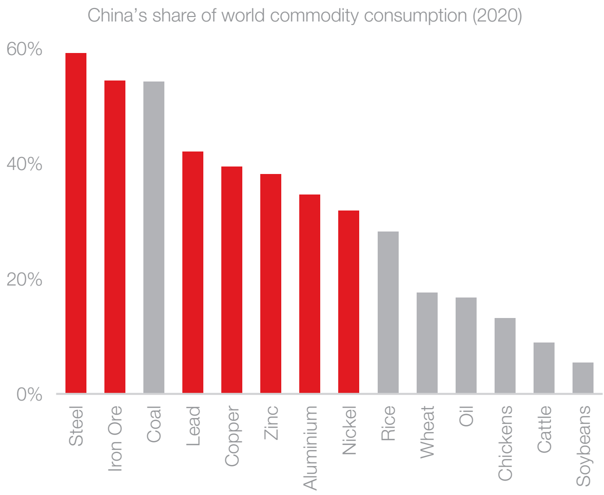


Source: Bloomberg, DBS

Industrial metals

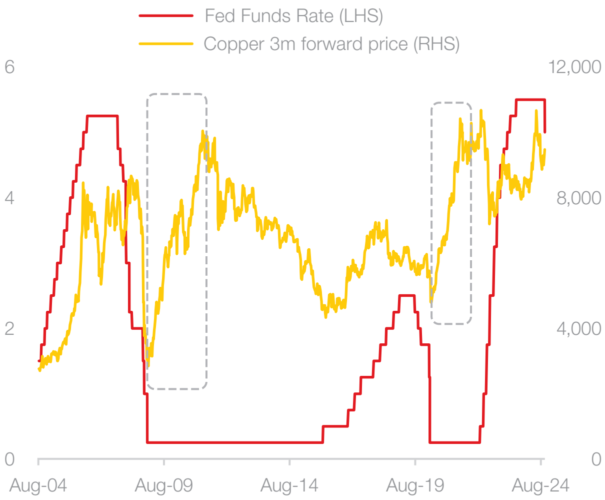
Mixed near-term picture. China is the largest consumer of commodities in the world, especially for metals. It is responsible for 59% and 54% of the world's steel and iron ore demand respectively and between c.30% and c.45% of its nickel, aluminium, zinc, copper, and lead demand. Ostensibly, the outlook for metals will be tied closely with China's growth trajectory. The country's latest GDP growth miss, coupled with the lack of new policy stimulus for its ailing property sector, is likely to weigh on metal

China consumes majority of the world's metals



Source: The Geography of Transport, DBS

Historically, copper has gotten a boost from rate cuts

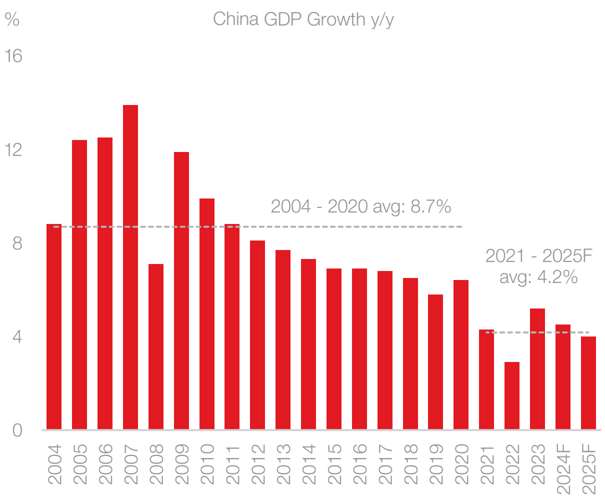


Source: Bloomberg, DBS

prices in the short-term. However, this negative impetus will likely be offset (at least partially) by the Fed's recent dovish pivot which should act as a general tailwind for metals demand, especially interest-rate sensitive ones such as copper. As can be seen in the following copper chart, copper price rallies typically follow a Fed rate cutting cycle, albeit with a lag.

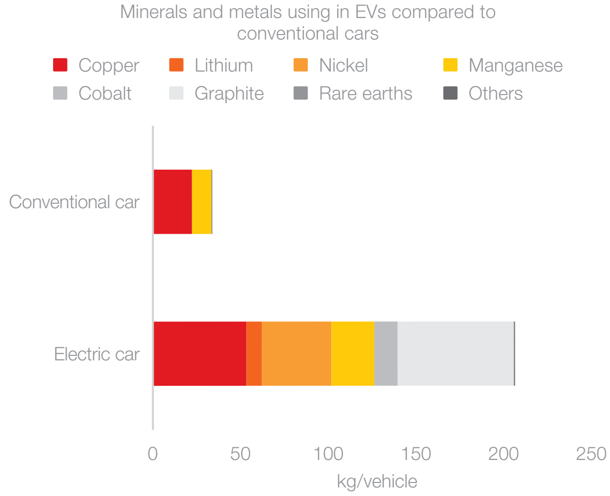
Selective rather than uniform rise in the long run. While the short-term outlook for industrial metals is ambiguous, its longer-term trajectory is certainly brighter, buoyed by decarbonisation and a revival of reshoring and friendshoring. However, it is important to note that unlike the early 2000s when growth in metal prices was more broad-based, we are likely to see more targeted and selective growth within the metals complex moving forward. This is because GDP growth in China is slowing; we will likely see growth rates moderate down to the 4% range from the 8+% seen between 2004 and 2020.

An era of lower China GDP growth



Source: Bloomberg, DBS

EVs use significantly more copper and battery metals than conventional cars



Source: IEA

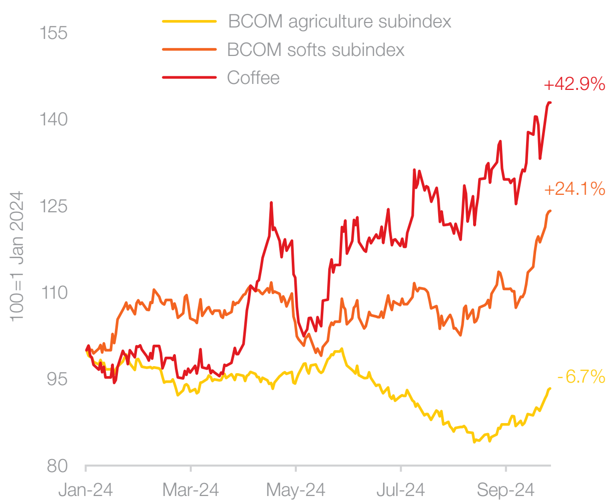
Shift away from property to hurt ferrous metals and aluminium. China's shift in focus away from its property sector should have a net negative impact on ferrous metals. This should not come as a surprise as c.60% of China crude steel demand is driven by construction. Aluminium will also be negatively impacted to some extent as c.25% of its end use is derived from construction as well. The net impact on copper and battery metals should be minimal as falling property demand should be offset by growing electric vehicle (EV) exports and renewable energy infrastructure (e.g. solar panels and wind turbines) projects.

De-carbonisation a plus for copper and battery metals. The global decarbonisation movement and Beijing's commitment to furthering its green technology development will obviously benefit green metals, specifically copper and battery metals such as lithium, nickel, cobalt, and manganese. EVs use 2.4x and 2.2x as much copper and manganese as conventional cars and utilise substantial amounts of lithium, nickel, and cobalt which conventional cars do not use. While EV production and export volumes have fallen in China in the short-term due to US and EU tariffs, the long-term EV adoption trend remains intact and should provide structural demand for copper and battery metals.

Agricultural commodities

Coffee powers softs' outperformance among agricultural commodities. While agricultural commodities have not had the best start to the year, softs (i.e. coffee, cotton and sugar) have surprisingly outperformed, logging a 24.1% increase YTD (as of 25 Sep), buoyed by the stellar performance of coffee (+42.9%). This performance is largely a result of favourable balances in global coffee demand-supply in the past half a decade.

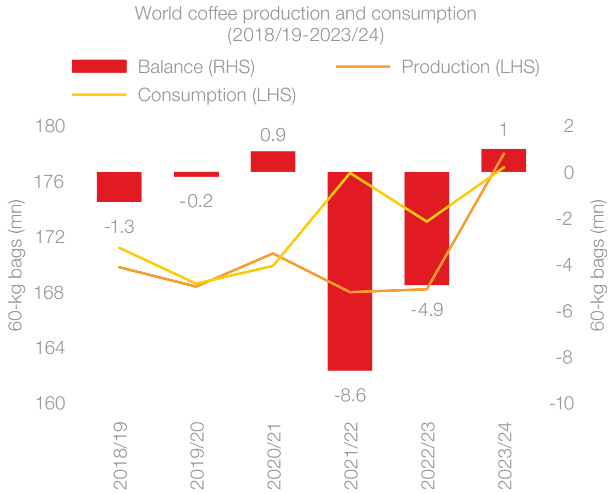
Coffee drove outperformance in softs YTD



Source: Bloomberg, DBS

Outlook for coffee structurally favourable. Moving forward, balances are expected to remain favourable as the demand for coffee is relatively price inelastic and global warming continues to reduce coffee yields and available land for coffee cultivation. Over the past five years, the prices of Arabica and Robusta coffee have increased +170% and +305% respectively, reflecting this trend. The forecasted increase in production for coffee year 2023/24 (from 1 Oct 2023 to 30 Sep 2024), is largely due to the biennial production effect where coffee plants produce higher yields in alternating years. The drop in consumption in 2022/23 is also due to a one-off factor which in this case was larger-than-average drawdown of coffee stocks which in turn reduced the need for purchases on the international market that year.

Favourable coffee balances

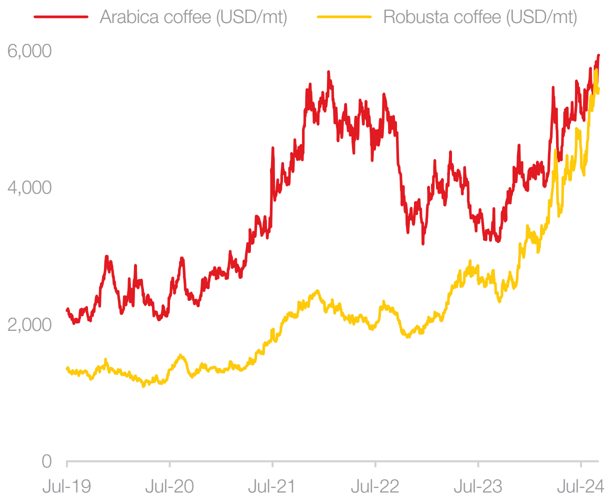


Source: International Coffee Organisation

Conclusion

Stay selective while waiting for broad-based recovery. The wait for a broader-based economic recovery continues. Notwithstanding that monetary easing has started in the US, the overall macro environment remains uncompelling for commodities; while US GDP growth remains buoyant, this is tempered by weakness in employment and manufacturing data. Additionally, China's structural growth slowdown poses a challenge for a substantial recovery in broad commodity demand. Moving forward, we are likely to see pockets of outperformance across different commodity sub-asset classes as opposed to more broad-based price gains. Against this backdrop, clients should continue to stay selective on their commodity exposure. Structured products linked to individual commodities, commodity baskets or commodity indices are a good way for clients to take a view on specific commodities and take on investments of a tactical nature while waiting for macro conditions to improve further.

Coffee prices have soared



Source: Bloomberg, DBS

Stay Overweight Alternatives

Alternatives 4Q24:
Gold &
Private Assets

Firm gold price on falling bond yields and dollar. In private markets, secondaries are seeing a renaissance, fuelled by rising demand for liquidity amid a tighter IPO, M&A environment for exit.

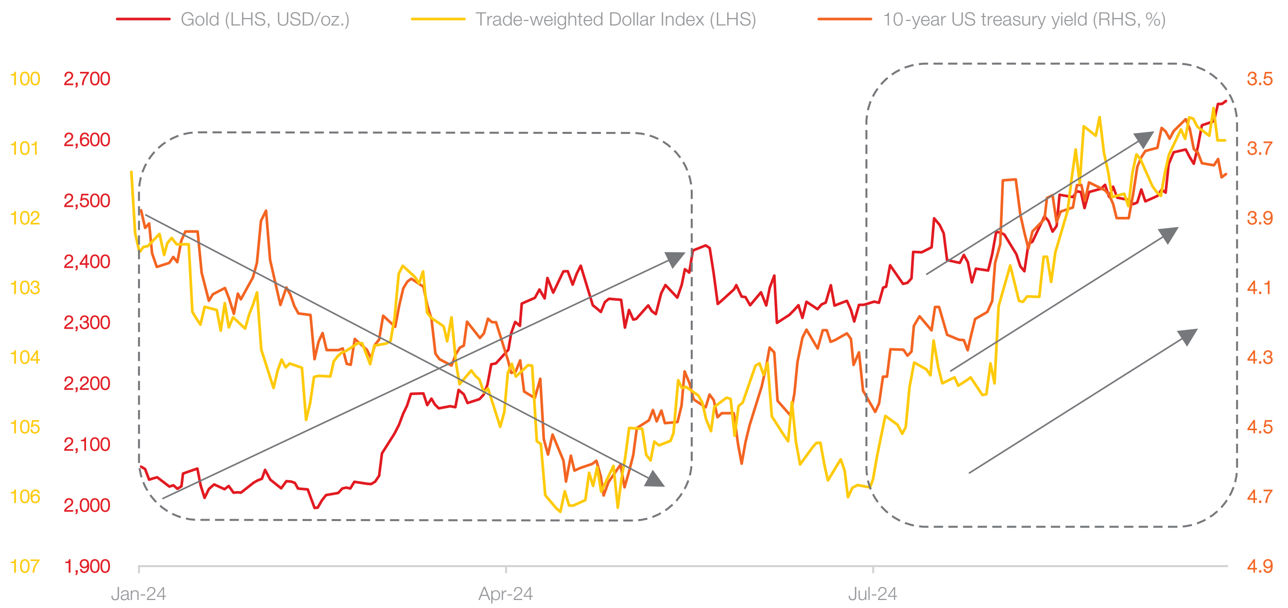
11. Alternatives: Gold.

Goh Jun Yong
Analyst

Dollar and rates back in play. We noted since Jun 2023 that gold had been developing an increasing resilience to dollar and rate strength which was unusual for the non-interest-bearing asset. However, July this year saw an abrupt return of the inverse gold-rates/dollar correlation, largely driven by signs of a softening US economy (easing inflation and employment data) and the prospects of a dovish Fed pivot.

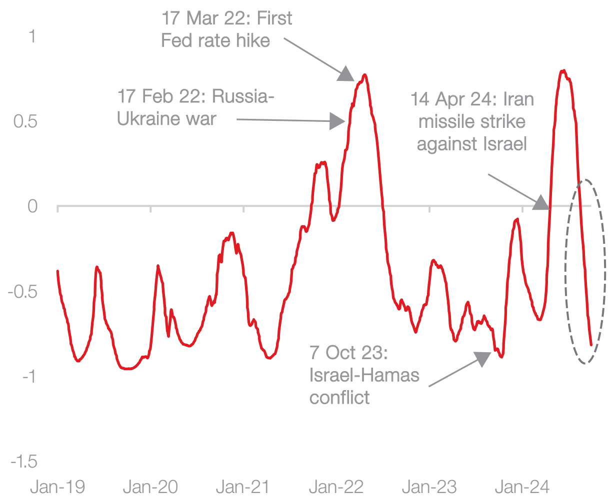
First Fed rate cut in four years. Fast forward to September, the much anticipated pivot did indeed materialise as the Fed slashed rates (by 50 bps) for the first time since Mar 2020.The return of dollar and rate tailwinds during this period saw gold climb to a new all-time high of USD2,671/oz. on 25 Sep. And while there is always an element of uncertainty in how future macroeconomic data will pan out, the base case is for a soft landing and for the Fed to cut rates further moving forward. As at 25 Sep, CME predicts that there is a c.50% chance for the target rate to be reduced by a further 75 bps before the year is over. This rate cutting cycle positions gold well for future rallies going forward.

Dollar and rates back in play amid Fed's dovish pivot



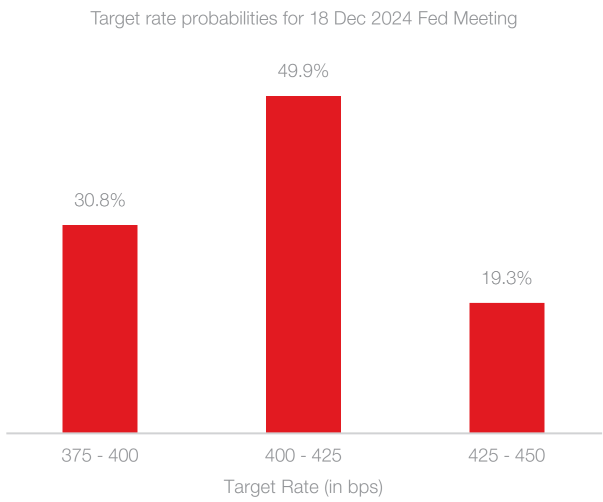
Source: Bloomberg, DBS

Gold-rates correlation* heading back into negative territory



Source: Bloomberg, DBS
* Correlation is calculated based on 6-month rolling daily prices of gold and US 10Y treasury yields

Markets are pricing in 3-4 rate cuts by end of 2024



Source: CME Group
As at 25 Sep

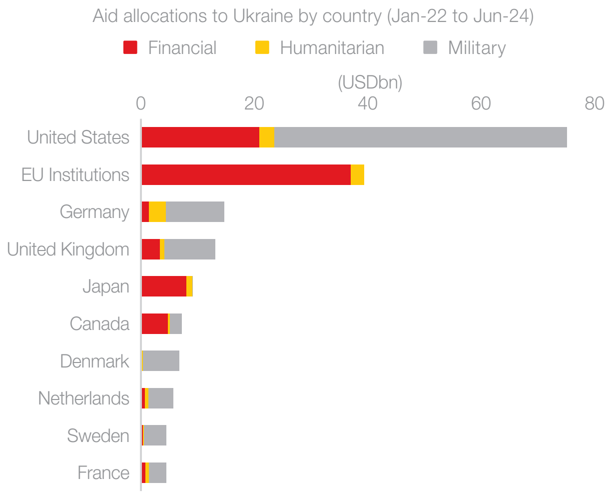
Geopolitics continues to provide upside for safe-haven gold. Geopolitics remains a key short-term driver for gold. The latest development on this front comes in the form of a potential escalation in Iran-Israel tensions. Meanwhile in Europe, the Russia-Ukraine conflict also shows no signs of abating, and one can in fact expect complications should Trump be re-elected in November. Given his vocal critique of the US aid package to Ukraine, Trump may curtail further military and financial assistance in the future. Flareups in any of the abovementioned conflicts could trigger gold rallies via safe-haven demand. Based on an analysis of past risk-off incidents, we have found these rallies to last 13 days on average and result in an average price increase of 7.1%.

Duration and magnitude of gold rallies from past risk-off episodes

	Start Date	Δ% (from trough to peak)	Duration of rally (days)
Russia-Ukraine war	24 Feb 2022	8.0%	14
SVB, Silvergate, Signature Bank, and Credit Suisse collapse	8, 10, 12, and 15 Mar 2023 respectively	12.5%	26
First Republic Bank collapse	1 May 2023	3.4%	4
Inception of Israel-Hamas conflict	7 Oct 2023	9.5%	16
Iran missile strike against Israel	14 Apr 2024	2.0%	6
	Average	**7.1%**	**13**

Source: Bloomberg, Various News Outlets, DBS

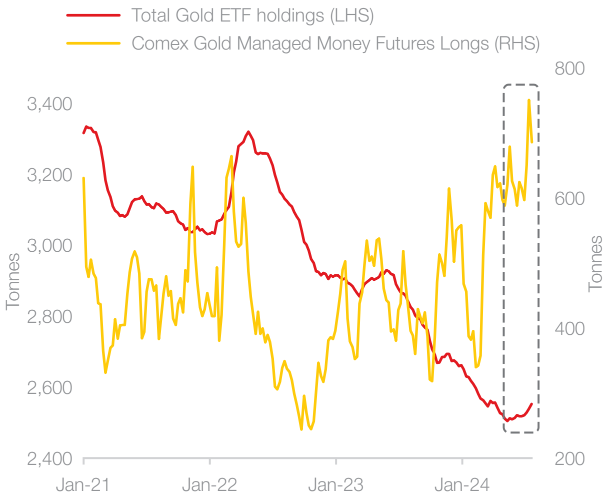
US is currently the largest provider of aid to Ukraine



Source: Statista, DBS

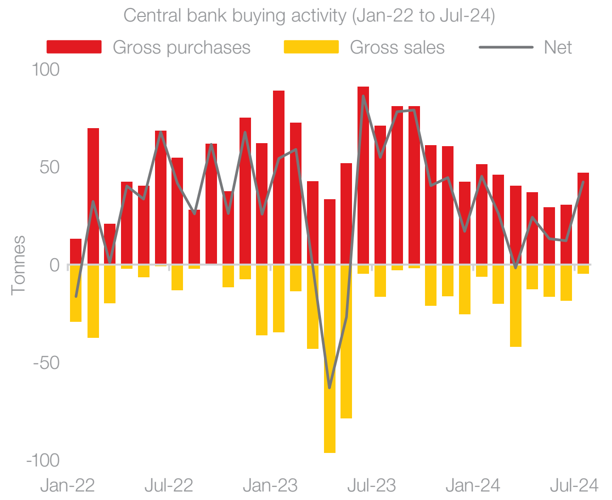
ETF flows have rebounded. With the Fed having implemented its first rate cut, investment demand for gold, in particular gold ETFs, has picked up. Total gold ETF holdings have rebounded after bottoming in May at c.2,500 tonnes and has since recorded inflows for four consecutive months as of August. The last time gold ETFs saw consecutive months of inflows was in May 2023. From a regional perspective, Asia continued its 18th consecutive month of inflows while Europe and the US logged their fourth and second in a row respectively. Provided macro data surprises on the upside, we should see the Fed continue to cut rates further. This will in turn put further tailwinds behind the recovery of gold ETF flows.

ETF holdings have bounced after bottoming in May



Source: Metals Focus, Refinitiv GFMS, World Gold Council

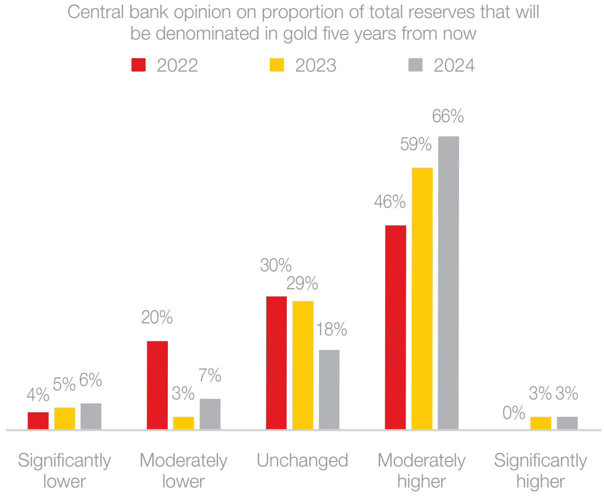
Central bank buying remains robust in 2024



Source: World Gold Council, IMF Source: World Gold Council, IMF

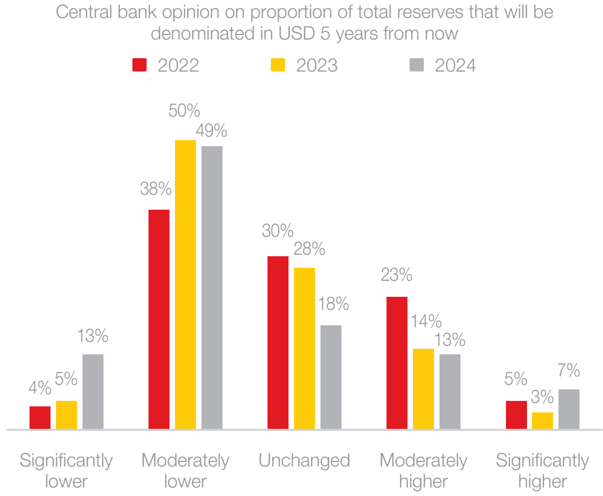
Central banks maintain conviction on gold. Despite a slight moderation in central bank gold buying activity in 1H24, overall momentum remains relatively robust. From Jan to Jul 2024, total net buying by central banks amounted to 161.5 tonnes, comparable to the net purchase amount for the same period last year at 164.2 tonnes. We continue to argue that central banks remain partial towards gold as a reserve asset amid today's increasingly complex financial and geopolitical landscape. Results from the World Gold Council's latest Central Bank Gold Reserves Survey supports this assertion; 69% of respondents believe gold will make up a higher proportion of total global reserves (foreign exchange and gold) five years from now, up from 62% in 2023 and 46% in 2022. Correspondingly, 62% of respondents thought the US dollar will make up a lower proportion of total global reserves, higher than 55% in 2023 and 42% in 2022. This suggests that central banks view gold as a hedge against issues such as monetary debasement, fiscal sustainability, and de-dollarisation and will likely increase their holdings of the precious metal going forward.

Gold gaining favour among central banks



Source: World Gold Council

De-dollarisation a concern for central banks going forward



Source: World Gold Council

More upside for gold. The main catalyst for gold in the immediate term will be the further easing of monetary policy, both by the Fed and other central banks. In addition, geopolitics and the US election cycle in November continue to be another key driver of gold prices in the short run. In the medium to long term, our views on gold remain bullish. Themes of fiscal sustainability, monetary debasement, and de-dollarisation are all supportive of structural central bank buying and general investment demand for gold. On that basis, we **upgrade our 12-month rolling TP for gold to USD2,835/oz. (vs USD2,500/oz. previously)**. We also continue to advocate for investors to allocate part of their portfolios to gold due to its uncorrelated nature with public equities and debt.

Forecasted 12-month gold price sensitivity to USD and UST 10Y yield

	DXY				
UST10Y Yield (%)	95	100	105	110	115
3.50	2,910	2,894	2,877	2,861	2,844
3.75	2,877	2,861	2,844	2,828	2,811
4.00	2,845	2,828	2,812	2,795	2,779
4.25	2,812	2,795	2,779	2,762	2,746
4.50	2,779	2,762	2,746	2,729	2,713
4.75	2,746	2,729	2,713	2,696	2,680
5.00	2,713	2,696	2,680	2,663	2,647

Source: DBS

Alternatives: Private Assets.

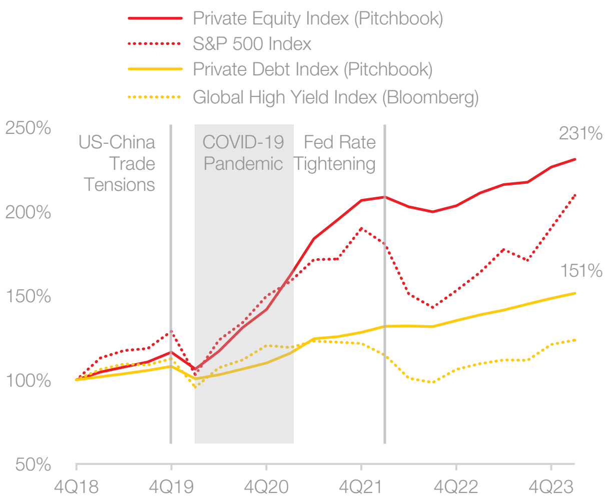
Daryl Ho, CFA
Strategist

Liquidity in focus. The private markets have been remarkably resilient over the difficult year marked by economic uncertainty and geopolitical risks. Rising liquidity squeeze from tighter monetary policy and frozen exit environment, however, threatens to derail the sustained growth. Alternatives to conventional exit strategies are necessary to ensure private assets continue to deliver value through difficult times.

Higher "ups", lower "downs". Private and traditional assets have displayed divergent performances across various macroeconomic and geopolitical backdrops. During the pandemic recovery phase, private equity and debt performances embarked on an outperformance streak which persisted hitherto. The outperformance appears to have withstood even the uncertainties at the start of the Fed rate hikes in 1Q22. While private equity did experience losses alongside public equity during this time, the magnitude of these losses was considerably smaller, and the recovery time was significantly shorter. Sampling total returns in the earlier GFC era corroborated the observations of shorter and more attenuated drawdowns in private equity relative to public counterparts.

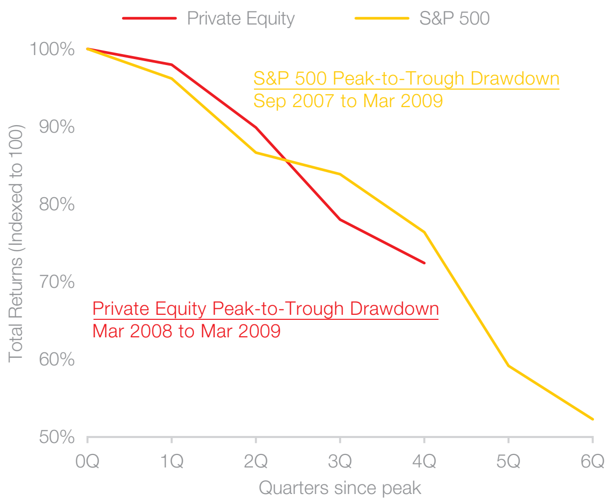
Cheaper at the horizon. Interest rate hikes in the 2022 Fed tightening and subsequent bouts of public market corrections precipitated a dip in private equity valuation multiples to 10.8x in 2023 from the post-GFC peak of 11.9x in 2022. Valuations may not significantly recover in the following years as interest rates (though expected to fall later this year) will likely remain significantly higher than pre-pandemic levels. However, lower valuations present opportunities for buyers, offering not only cheaper entry points, but

Private assets outperform traditional assets in the post-pandemic era



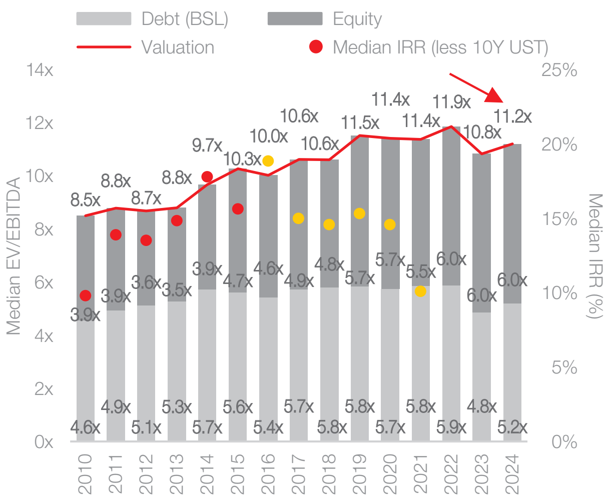
Source: Pitchbook, Preqin, Bloomberg, DBS

Private equity saw shorter and smaller drawdowns compared to traditional assets during the GFC



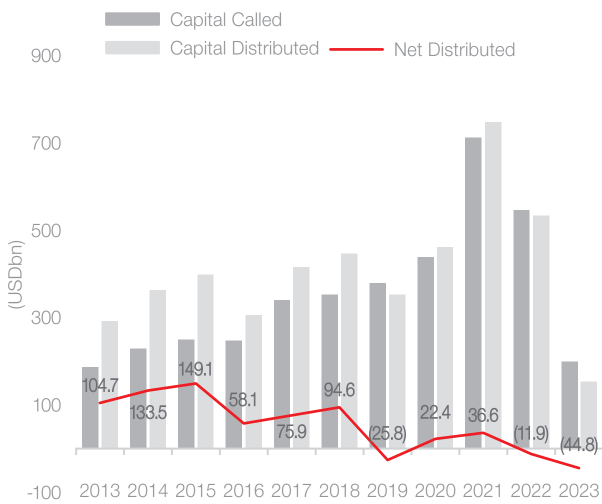
Source: Preqin, Pitchbook, Bloomberg, DBS

Downward-adjusted valuations avail lower entry points for investors



Source: Pitchbook, DBS
Note: Yellow markings denote vintages with majority unrealised returns. Multiples data was as at June 2024.

With exits few and far between, private portfolios have turned cashflow negative



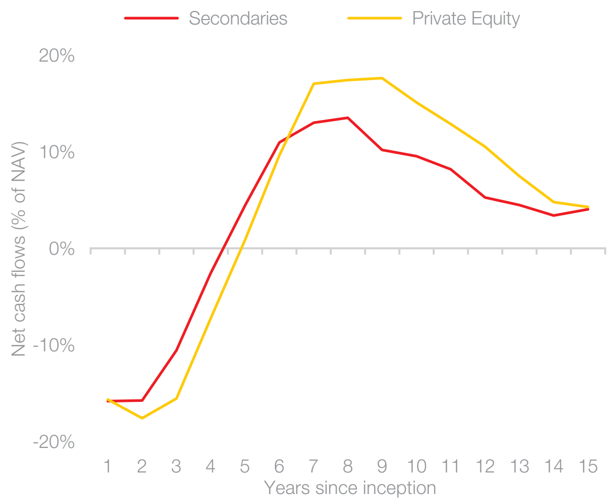
Source: Pitchbook, DBS

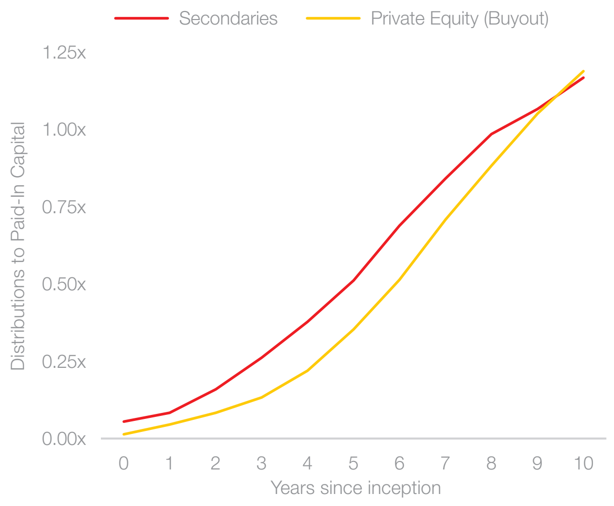
also the potential for IRR recovery should market conditions subsequently improve. Though the upcoming Fed easing may be rather muted in the near-term, it will set the stage for calibrated capital cost reduction over the long-term, providing some IRR uplift into 2025.

Much ado about liquidity. The prospect of "low valuation" sales is a bitter pill for private equity sellers to swallow. Between 2022 and 2023, bid-ask spreads in private equity deals remained wide, placing a lid on dealmaking. Stalled exit activity resulted in approximately 33% of NAV (or USD1.2tn) being trapped in private equity funds (Pitchbook). At the same time, private portfolios recorded increasingly negative cashflows. As sellers hold out for more amenable environments to transact, they inadvertently bear the brunt of illiquidity and opportunity costs.

The promise of secondaries. However, risks also breed opportunities. These challenges in the primary market have propelled the growth of the secondary market which offers much-needed liquidity and portfolio rebalancing opportunities to private equity investors. The appeal of secondaries stems from their ability to mitigate the J-curve effects (where initial expenses outweigh early returns) and accelerate the path to positive cash flows. While primary funds often face negative cash flows initially and reach positive

Secondaries improve cash flows and generate early distributions



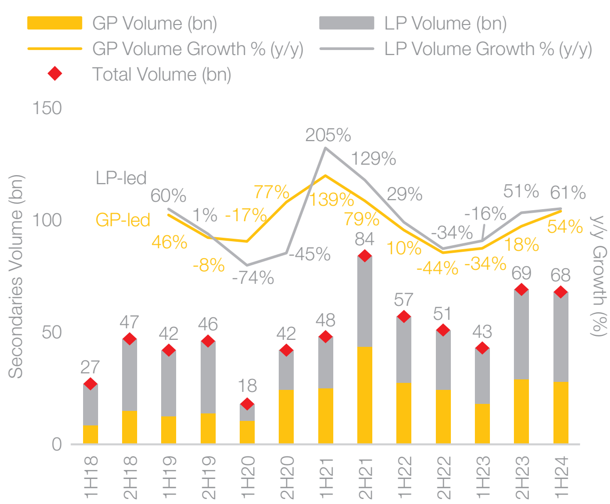


Source: Pitchbook, DBS

territory only around year five, secondaries funds achieve this by year four. The faster liquidity results from acquiring mature assets (which have already paid up initial expenses) at a discount, leading to quicker exits and earlier distributions. Distribution to Paid-In Capital (DPI) figures for secondaries showcase a 0.69x DPI by year six, significantly surpassing the 0.51x DPI of primary funds. Though primary funds eventually catch up in returns, the early liquidity and attenuated J-curve is invaluable to entrant investors or investors facing cash flow issues.

Going with the flows. The secondary market is experiencing a phenomenal rise amid the demand for liquidity. Transaction volumes in 1H24 topped historical 1H volumes and raked in a total value of USD68bn (58% y/y). The market is well-poised for a record annual transaction volume upward of USD140bn at year-end.

Record 1H volume sets the stage for all-time highs at year-end

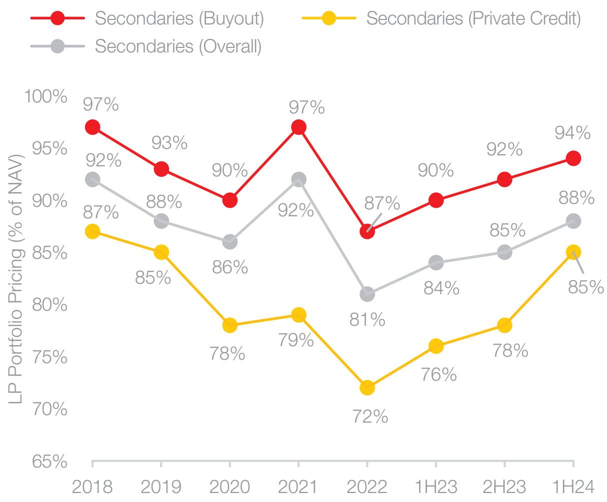


Source: Jefferies, DBS

On the pricing front. As volume grows, the secondary market is witnessing a pricing hike to a two-year high. Buyout secondaries demonstrate a strong pricing trajectory from 87% of NAV in 2022 to 94% of NAV in 1H24. The rise appears to indicate a sellers' market – where buyers' interest in discounts exceeds sellers' urgency to liquidate. The astute investor may notice that discounts taper with pricing hikes and may potentially diminish the efficacy of J-curve mitigation and distributions. The upcoming rate cuts could provide relief to the exit malaise but could also intensify discount tapering as sellers bide for exit rather than sell at discount. However, considering the annual secondaries volume of c.USD140bn significantly dwarves the c.USD759bn in locked-up value requiring exit (Pitchbook), we believe discounts may reach an equilibrium rather than taper further.

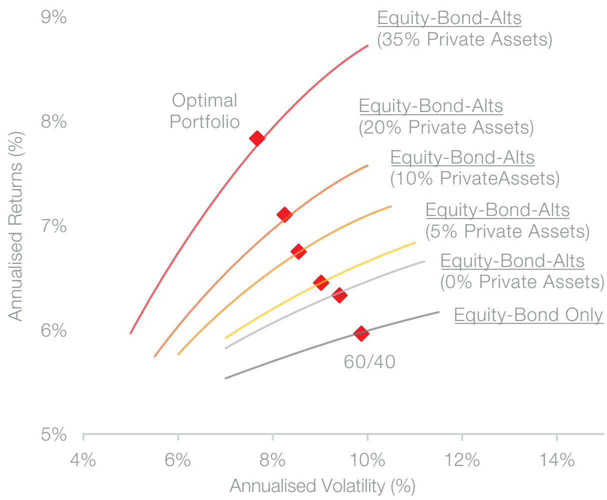
Staying the course with private assets. Volatile markets necessitate a rebalanced investment strategy. The correlation between equities and bonds rose to a height of c.0.6 as of Dec 2022 (KKR). According to our models, the increase in correlation reduced the efficiency of the traditional 60/40 portfolio which we found to yield just under 6% returns at 10% volatility. The inclusion of private assets appears to enhance risk-adjusted returns and mitigates volatility in our study. A portfolio with 35% private assets was found to yield close to 8% returns at under 8% volatility. Private assets, with their low correlation to traditional assets, provided robust portfolio diversification. Trudging into an era of uncertainty, investors may do well to consider the use of private assets to improve portfolio diversification and resilience.

Rising prices reflect growing secondaries demand



Source: Jefferies, DBS

Increasing private asset allocations increases portfolio's efficient frontier



Pitchbook, Bloomberg, DBS

Source: Unsplash

The ASEAN Portfolio

Thematic Strategy 4Q24

ASEAN continues to benefit from China+1, which presents opportunities for various sectors to move up the value chain. Long-term growth drivers include access to critical materials, proximity to low-cost manufacturing and suppliers, and concerted efforts in energy transition, amid an increasingly collaborative investment landscape.

12. The ASEAN Portfolio.

Joanne Goh
Strategist

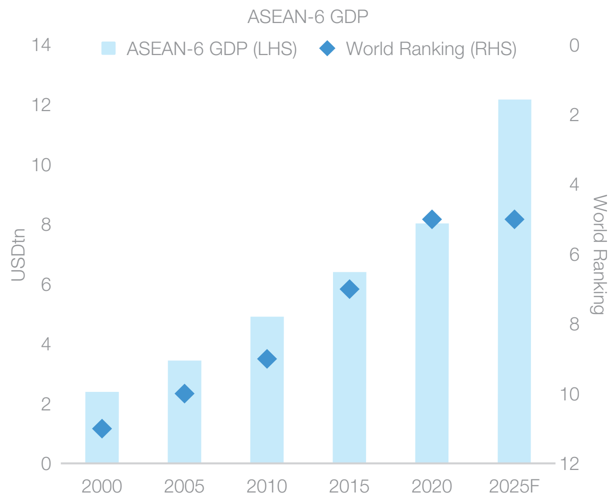
Sharlene Goh
Analyst

DBS Group Research

The post-pandemic world has brought elements investors had not previously considered. Geopolitical unrest and protectionist policies are disrupting the global economy, fragmenting trade networks, regulatory environments, and global supply chains. This undermines the stability of global trade and investment flows, creating both obstacles and isolated opportunities as the world retreats into de-globalisation.

As investors brace for global economic slowdown, ASEAN continues to demonstrate promising potential as a strategic economic bloc supported by five pillars, including favourable demographics, infrastructure development driving urbanisation and economic growth, an abundance of natural resources, a wealth of attractive tourist destinations, and an ideal destination for the China+1 diversification strategy.

ASEAN-6 economies sustain strong growth momentum



Source: IMF, DBS

Sustainable growth. Against surrounding headwinds, ASEAN economies continued to sustain their growth momentum in 1H24. GDP grew in all economies with growth in Indonesia, Malaysia, the Philippines, and Singapore picking up pace during this period, while Thailand and Vietnam recorded slower growth. Strong domestic demand backed by tight labour markets and stable prices, buoyed by robust tourism and a recovery in exports markets, have helped to drive growth.

Collective success. ASEAN already boasts strong export positions in sectors such as electronics, aerospace, semiconductors, machinery, and packaged foods. Other than the potential for expansion, China+1 offers ASEAN economies opportunities to move up the value chain in their respective domains, pursuing higher value-added segments and harnessing Industry 4.0 to boost productivity, given the region's relatively smaller role in higher-value industries such as biopharmaceuticals and chemicals.

Overarching drivers for the region include access to critical materials, proximity to suppliers, and a focused policy on energy transition, in addition to a more liberal investment policy landscape facilitated by close collaboration across the member states.

By 2050, the Southeast Asian bloc is set to become the fourth-largest economy in the world, moving up from fifth place to overtake Germany.

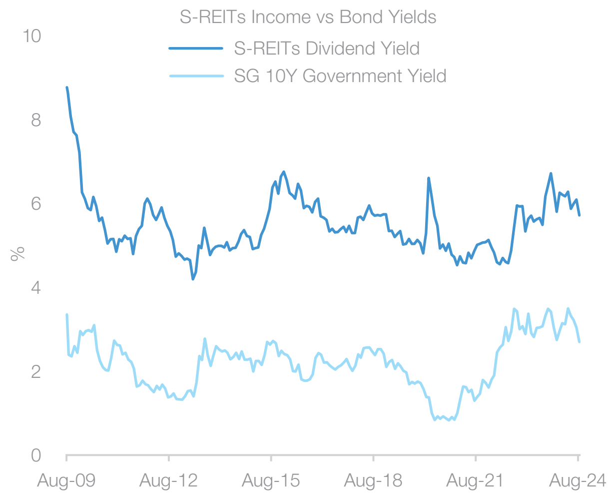
One region, nine countries

Each ASEAN nation has its own unique identity and growth story from being a manufacturing-driven economy to being commodity-rich producers or financial service providers. These factors collectively contribute to their attractiveness as investment destinations in the region.

Singapore

With its favourable taxation policies and strategic position, Singapore offers foreign investors competitive and unprecedented access to the Asian market, serving as a gateway to the region. Businesses can enjoy over 80 double taxation avoidance agreements, significant tax deductions, and numerous free trade agreements (FTA) with neighbouring Asian nations, the EU, the US, China, and India.

S-REITs to harness dividend income



Source: LSEG Datastream, DBS

Singapore's stable political environment and robust legal system provide a secure and predictable setting for businesses, aided by the country's highly educated and skilled workforce, alongside its top-notch infrastructure, including efficient transport systems, state-of-the-art telecommunications, and extensive port facilities.

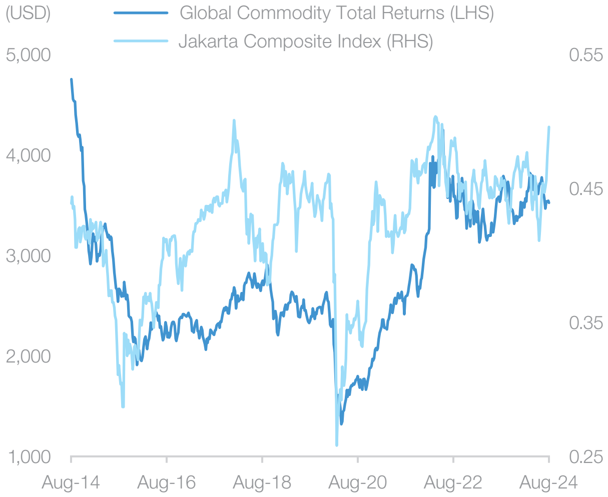
S-REITs, banks, and Singapore's home-grown global champions stand out as strong long-term investment opportunities.

Indonesia

Within decades, Indonesia has progressed into a vibrant democracy with the largest and most dynamic economy in Southeast Asia. Now a member of G-20 economies, the nation offers foreign investors significant long-term growth potential, given its status as the largest economy in ASEAN (16th largest in the world) with a young and vast workforce (nearly 137mn workers with a median age below 30) and a rapidly expanding middle-class.

Driven by growing domestic consumption, Indonesia has demonstrated a continuous track record of high growth compared to other low-cost countries. It has maintained relative political stability through the years, led by a democratic government committed to economic development; said government continues to implement prudent macroeconomic policies and structural reforms to enhance the ease of business growth.

Strong correlation between the Jakarta Composite Index and global commodity prices



Source: LSEG Datastream, DBS

As a resource-rich country, commodities account for around 60% of Indonesia's exports. Agriculture continues to play an integral role in the economy, employing one-third of the country's total workforce. To reduce its vulnerability to global commodity price shocks, Indonesia is focusing on developing downstream processing capabilities to improve its supply chain resilience.

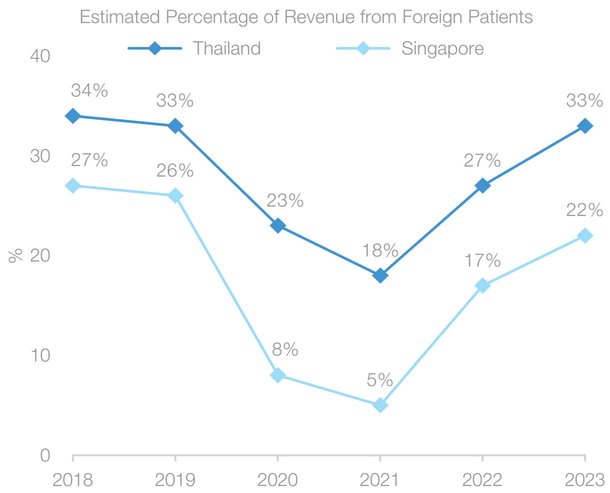
Banks, consumerism, as well as the commodity and energy sectors are active plays in Indonesia.

Thailand

Thailand, with a population of 66mn, is situated in the heart of Southeast Asia, providing excellent connectivity to key markets in the region such as China and India. As the second largest economy in ASEAN behind Indonesia, Thailand earned the status of an upper-middle income nation in 2011.

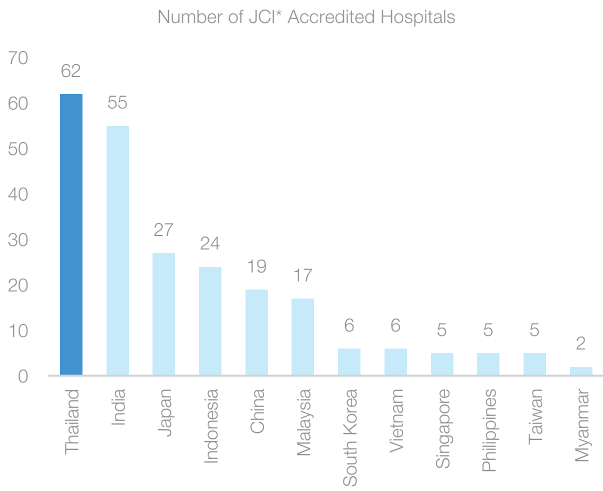
Thailand boasts a prominent position as the world's primary source of food and agricultural commodities, including rice and natural rubber. Its economy is highly diverse, comprising of mature sectors from manufacturing, agriculture, and tourism to healthcare.

Steady growth in medical tourism to ASEAN



Source: Companies, DBS

Thailand healthcare – a strong contender



Source: Joint Commission International, DBS
*JCI is the industry standard in global healthcare, benchmarked against US standards and practices

Already a key auto manufacturing hub, Thailand is gunning for a larger market share in EV manufacturing; FDI interest has been directed largely to the electronics and autos sectors. As per data from Thailand's Commerce Ministry, its top five export categories in 2023 are motor cars, parts and accessories, automatic data processing machinery, precious stones and jewellery, rubber products, and refined fuels. Known to all, Thailand's tourism sector also provides significant opportunities for investments in hospitality, retail, and related services.

We like the tourism and the medical sector as well as the autos related industries.

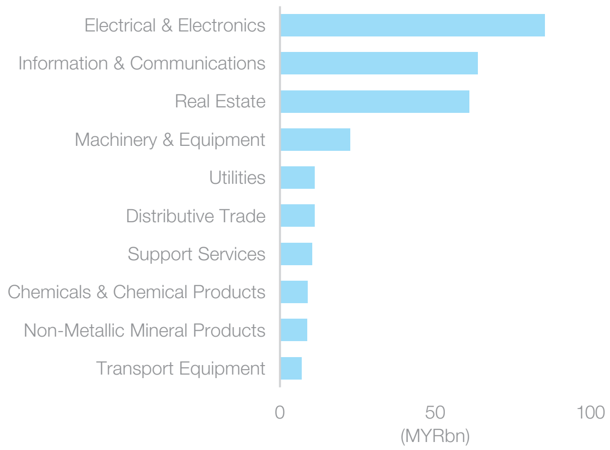
Malaysia

Strategically located between the Indian Ocean and South China Sea, Malaysia is well-serviced by all primary air and shipping lines. Malaysia's strong and sustainable economic foundation, its business-ready environment, and dynamic workforce have made it an attractive, cost-competitive investment location in the region.

Malaysia, a major exporter of agricultural and mining commodities, has seen a shift in its export dynamics with a decline in agricultural and mining exports, offset by a surge in exports of manufactured

Investors bet on infrastructure rollouts and rising demand for data centres in Malaysia

Top Sub-Sectors by Total Investments In 2023



Source: Malaysia Investment Development Authority

goods. The country is quickly gaining increasing importance in global supply chains – particularly due to trade tensions between the US and China – as an ideal location for semiconductor producers looking to diversify their business risks. Malaysia's well-established industrial sector also presents opportunities in healthcare, electronics, the digital economy, and Islamic finance among many others. This shift reflects Malaysia's progress towards higher value-added industries and highlights the broader changes in global demand and structural transformations within the economy.

Gain exposure to a broad market ETF with a portfolio comprising of banks, utilities, and basic materials stocks in KLCI.

Philippines

The Philippines was among the world's fastest-growing emerging markets in 2022, recording a GDP of 7.6%, the fastest since 1976. The Southeast Asian nation is working to reduce its reliance on overseas remittances and has gradually developed its domestic industries to move up global value chains in select industries, presenting new investment opportunities. Still, its vast population of highly educated English-speaking pool of workers are well sought after, especially in the medical and hospitality sectors across other countries.

The business process outsourcing (BPO) industry in the Philippines remains key for the country's economy, contributing c.USD32.5bn in 2022, a 10% increase from 2021. The Philippines is second only to India in BPO, and this sector will likely remain a key part of its economy going forward, outpacing remittances.

We believe property and consumer stocks are the best plays for Philippines.

CLMV – Cambodia, Laos, Myanmar, and Vietnam

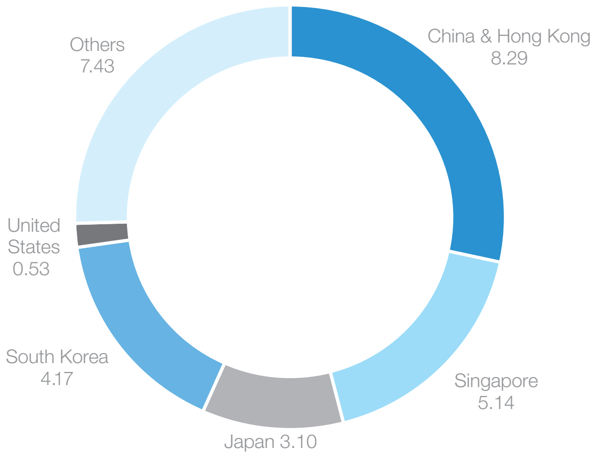
Collectively known as the CLMV countries, Cambodia, Laos, Myanmar, and Vietnam represent ASEAN's frontier markets. By 2050, the ASEAN economic bloc is slated to become the fourth largest economy in the world. The rise of the CLMV countries is a major factor in that growth by driving additional investor interest to the region.

Despite being at varied stages of development which are fragmented and nascent, CLMV demonstrates significant growth potential, offering opportunities for foreign investors looking to tap into developing economies. Vietnam's accession to the World Trade Organization (WTO) in 2007 marked its ascension as a committed and robust trade partner for the global community. Since then, the country has entered into numerous FTA and Double Tax Avoidance Agreements and is a key beneficiary of China+1 strategy.

Vietnam's consumer market and industrialisation sectors present dynamic opportunities.

Vietnam's key investors

Registered Investments by Selected Countries in Vietnam, 2023 (USDbn)



Source: Reuters, Vietnam Statistics Office
*data up to 20 Nov 2023

The ASEAN Portfolio: Thematic ideas

Country	Theme	Pull factors
ASEAN		Dynamic populations and resource-rich nations in ASEAN create a strong regional market, helping to offset the dampening effects of a global slowdown
Singapore		Political stability and good rule of law; regional business hub in finance, shipping, and aviation; highly skilled talent; very open with a high number of FTAs
	S-REITs	Diversification, tax efficiency, and attractive yields backed by a strong regulatory framework, liquidity, and growth potential in Singapore's stable economy global property markets
	Banks	Banks continue to be an attractive dividend yield play with forward dividend yields ranging 6-10%. There is potential for further dividend upside for Singapore banks that hold excess capital
	Global champions	Renowned home-grown players which have global exposure and deep expertise in their respective domains
Malaysia		Expertise in electronics assembly and backtesting; reasonably educated workforce; wealth of resources in palm oil, rubber, and oil & gas
Thailand		Regional autos production hub; strong infrastructure and logistics network
	Tourism	The Tourism Authority of Thailand targets tourism revenue at USD85bn in 2024 and is focusing on efforts to further enhance the sector
	Medical	Thailand has strategically grown its medical tourism industry in the past decade to become one of the key destinations in Southeast Asia
	China+1	MNCs are setting up or expanding their manufacturing facilities in Thailand to reduce reliance on China

Source: DBS

The ASEAN Portfolio: Thematic ideas

Country	Theme	Pull factors
Philippines		Low labour costs given young labour force; expertise in the services sector, notably business process outsourcing
	Property	Infrastructure development to benefit property companies with large landbanks
	Consumer	Driven by a growing middle class, a young and vibrant population, increasing urbanisation, and a surge in digital connectivity, the domestic consumer sector shows strong growth potential
Indonesia		Rich in natural resources, spanning agriculture, crude oil, and metals/minerals; favourable demographics with large domestic market; strong investment push
	Banks	A proxy to Indonesia's economy; loan growth is supported by GDP growth outlook and banking penetration; attractive ROE and CAR
	Commodity	Downstreaming policy is one of the drivers for the nickel sector, together with EV transition
	Consumer	Large demographic and rising income trend to support the consumer sector outlook in the longer term
	Healthcare	Indonesia still lacks healthcare infrastructure; policy reforms are underway to drive demand and spending in the industry
Vietnam		Labour cost is amongst the lowest in ASEAN; supportive foreign investment policies; proximity to China; very open with high number of FTAs

Source: DBS

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Glossary.

Acronym	Definition
AI	artificial intelligence
ASEAN	Association of Southeast Asian Nations
ASP	average selling price
AT1	additional tier 1
AUM	Assets under management
AxJ	Asia ex-Japan
bbl	barrel
BCOM	Bloomberg Commodity Index
BI	Bank Indonesia
BIBOR	Bangkok Interbank Offered Rate
BNM	Bank Negara Malaysia
BOC	Bank of Canada
BOE	Bank of England
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
bpd	barrels per day
bps	basis points
CAA	CIO Asset Allocation
CAGR	compound annual growth rate
CBO	Congressional Budget Office
CET1	Common Equity Tier 1
CGB	China Government Bonds
CIPS	Chartered Institute of Procurement & Supply
CPI	consumer price index
CRE	commercial real estate
CSIS	Centre for Strategic and International Studies
DACS	DBS Aggregate Credit Spread
DM	Developed Markets
dma	day moving average
DPU	distribution per unit
DXY	US Dollar Index
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, tax, depreciation, and amortisation
EC	European Commission
ECA	European Chips Act

Acronym	Definition
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EGB	European Government Bonds
EIA	Energy Information Administration
EM	Emerging Markets
eop	end of period
EPFR	Emerging Portfolio Fund Research
EPS	earnings per share
ESG	Environmental, Social, and Governance
ETF	exchange-traded fund
EU	European Union
EURIBOR	Euro Interbank Offered Rate
EUV	extreme ultraviolet
EV	electric vehicle
FDA	US Food and Drug Administration
FDI	foreign direct investment
FOMC	Federal Open Market Committee
FX	foreign exchange
G2	Group of Two
G3	Group of Three
G7	Group of Seven
G10	Group of Ten
GDP	gross domestic product
GFC	Global Financial Crisis
GLP-1	glucagon-like peptide 1
GNSS	Global Navigation Satellite System
GPU	graphics processing unit
GPS	Global Positioning System
GPT	Generative Pre-trained Transformer
GSCI	Goldman Sachs Commodity Index
GSFCI	Goldman Sachs US Financial Conditions Index
GST	goods & services tax
HIBOR	Hong Kong Interbank Offered Rate
HICP	Harmonised Index of Consumer Prices
HKMA	Hong Kong Monetary Authority
HY	high yield
IEA	International Energy Agency

Acronym	Definition	Acronym	Definition
IndoGB	Indonesian Government Bonds	NIRP	negative interest rate policy
IG	investment grade	NISA	Nippon Individual Savings Account
IGB	India Government Bonds	NPL	nonperforming loan
IMF	International Monetary Fund	NYSE	New York Stock Exchange
IPO	initial public offering	OBR	Office for Budget Responsibility (UK)
IRS	interest rate swap	OECD	Organisation for Economic Co-operation and Development
ISM	Institute for Supply Management	OIS	overnight indexed swap
IT	Information Technology	OMO	Open Market Operations
JGB	Japanese Government Bond	OPEC+	Organisation of the Petroleum Exporting Countries
JIBOR	Jakarta Interbank Offered Rate	OPM	operating profit margin
JPM GBI-EM GD	JP Morgan Government Bond Index-Emerging Markets	OTC	over the counter
KLIBOR	Kuala Lumpur Interbank Offered Rate	P/B	price-to-book
KTB	Korea Treasury Bonds	P/E	price-to-earnings
LBMA	London Bullion Market Association	PBOC	People's Bank of China
LEO	low Earth orbit	PC	personal computer
LERS	Linked Exchange Rate System	PCE	personal consumption expenditure
LGB	local government bonds (China)	PE	Private Equity
LGFV	local government financing vehicle	PEG	price-to-earnings-to-growth
LP	limited partner	PEPP	Pandemic Emergency Purchase Program
LPR	loan prime rate	PER	price-to-earnings ratio
LSTA	Loan Syndications and Trading Association	PMI	purchasing managers' index
LVMH	Moët Hennessy Louis Vuitton	PNT	Position Navigation and Timing
M&A	mergers and acquisitions	PPI	producer price index
MAS	Monetary Authority of Singapore	PSL	pledged supplementary lending
MBS	Mortgage-backed securities	Q-GARP	Quality Growth-at-a-Reasonable-Price
MLF	medium-term lending facility	QE	quantitative easing
MIBOR	Mumbai Interbank Offer Rate	QT	quantitative tightening
MICE	Meetings, Incentives, Conferences, and Exhibitions	R&D	research and development
mmbpd	million barrels per day	RBA	Reserve Bank of Australia
mmt	million metric tons	RBI	Reserve Bank of India
MNC	multinational corporation	RBNZ	Reserve Bank of New Zealand
MPC	Monetary Policy Committee (India, Thailand)	REER	Real Effective Exchange Rate
MSCI	Morgan Stanley Capital International	REIT	real estate investment trust
NATO	North Atlantic Treaty Organisation	RPGB	Philippine Government Bonds
NEER	nominal effective exchange rate	ROA	return on asset
NIM	net interest margin	ROE	return on equity

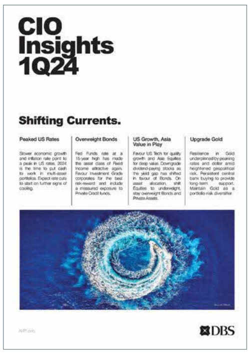
Acronym	Definition
RRP	reverse repo facility
RRR	required rate of return
SAA	Strategic Asset Allocation
SBV	State Bank of Vietnam
SD	standard deviation
SEA	Southeast Asia
SGS	Singapore Government Securities
SME	Small and medium-sized enterprises
SNB	Swiss National Bank
SOE	state owned enterprise
SOFR	Secured Overnight Financing Rate
SORA	Singapore Overnight Rate Average
SRBI	Bank Indonesia Rupiah Securities
TAA	Tactical Asset Allocation
ThaiGBs	Thailand Government Bonds

Acronym	Definition
TIBOR	Tokyo Interbank Offered Rate
TOPIX	Tokyo Stock Price Index
TP	target price
TPI	tax and price index
TSE	Tokyo Stock Exchange
TSMC	Taiwan Semiconductor Manufacturing Company
UAE	United Arab Emirates
UCITS	Undertakings for Collective Investment in Transferable Securities
UHNW	ultra high net worth
UST	US Treasury
WFH	work from home
WTI	West Texas Intermediate
YCC	Yield control curve
YTD	year-to-date
ZIRP	Zero Interest-Rate Policy

CIO Collection

3Q24 CIO INSIGHTS
Risk Assets In Play
June 2024

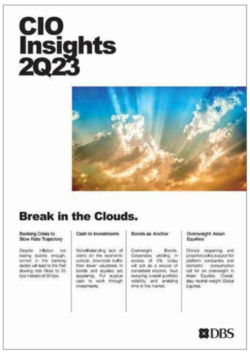
2Q24 CIO INSIGHTS
A Broadening Rally
March 2024



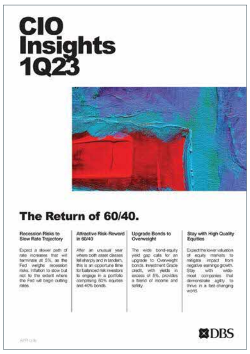
1Q24 CIO INSIGHTS
Shifting Currents
December 2023

4Q23 CIO INSIGHTS
The Next Yield Play
September 2023

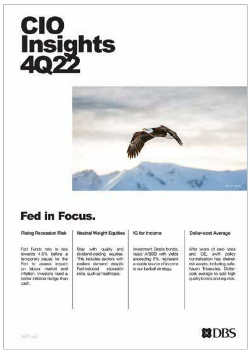
3Q23 CIO INSIGHTS
King, Queen & Castle
June 2023



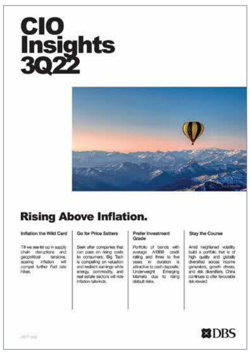
2Q23 CIO INSIGHTS
Break in the Clouds
March 2023



1Q23 CIO INSIGHTS
The Return of 60/40
December 2022

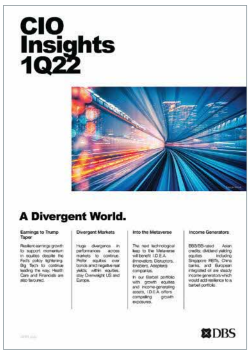


4Q22 CIO INSIGHTS
Fed in Focus
September 2022

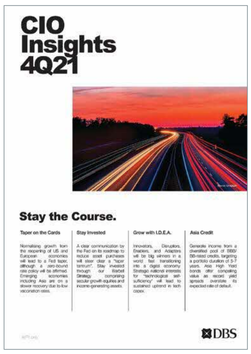


3Q22 CIO INSIGHTS
Rising Above Inflation
June 2022

2Q22 CIO INSIGHTS
Anchor in the Storm
March 2022



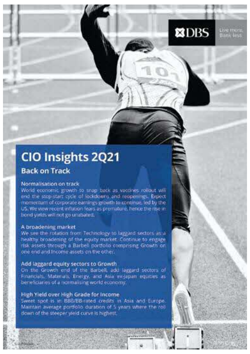
1Q22 CIO INSIGHTS
A Divergent World
December 2021



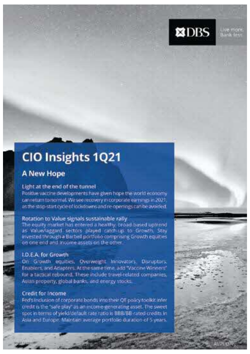
4Q21 CIO INSIGHTS
Stay the Course
September 2021

CIO Collection

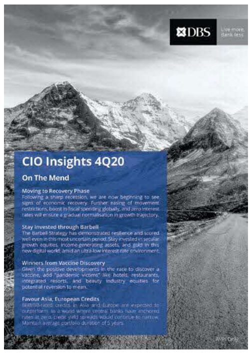
3Q21 CIO INSIGHTS
Hope Into Reality
June 2021



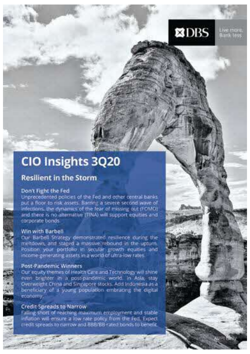
2Q21 CIO INSIGHTS
Back on Track
March 2021



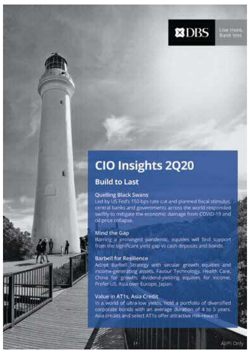
1Q21 CIO INSIGHTS
A New Hope
December 2020



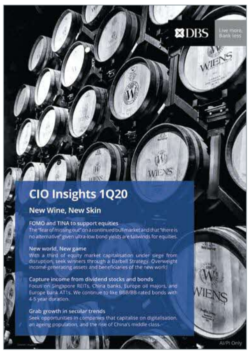
4Q20 CIO INSIGHTS
On the Mend
September 2020



3Q20 CIO INSIGHTS
Resilient in the Storm
June 2020



2Q20 CIO INSIGHTS
Build to Last
March 2020



1Q20 CIO INSIGHTS
New Wine, New Skin
December 2019

4Q19 CIO INSIGHTS
Ride the Wave
September 2019

3Q19 CIO INSIGHTS
A Changing World
June 2019

2Q19 CIO INSIGHTS
Lift to Win
March 2019

1Q19 CIO INSIGHTS
Tug of War
December 2018

4Q18 CIO INSIGHTS
Window of Opportunity
September 2018

CIO Collection

3Q18 CIO INSIGHTS
Steer Through Rough Seas
June 2018

2Q18 CIO INSIGHTS
Mind the Bends
March 2018

1Q18 CIO INSIGHTS
The Bull Ain't Done
December 2017

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