UOB

2024 Mid-Year Market Outlook

Choreographing Your Next Move in a Resilient Market

Right By You

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When we entered 2024, we outlined reasons for both optimism and caution. As we progress into the second half of the year, our market outlook remains balanced, even as the underlying factors for optimism and caution have evolved since.

The global economy demonstrated resilience in the first half of the year, with slower but better-than-expected growth, supported by strong labour conditions and robust consumer demand. Consumers continued to spend, while wages continued to rise. At the same time, the manufacturing outlook brightened as global trade recovered.

The economy's resilience instils confidence in its ability to withstand headwinds such as high interest rates, persistent inflation and geopolitical risks. Economic growth and strong corporate fundamentals will drive financial market performance over the next six months, even with high borrowing costs. Furthermore, increasing adoption of generative artificial intelligence (AI) is starting to transform businesses, potentially benefitting companies outside of the AI investment cycle.

However, we must also note that the resilient economy and strong labour market have contributed to inflation staying persistent.

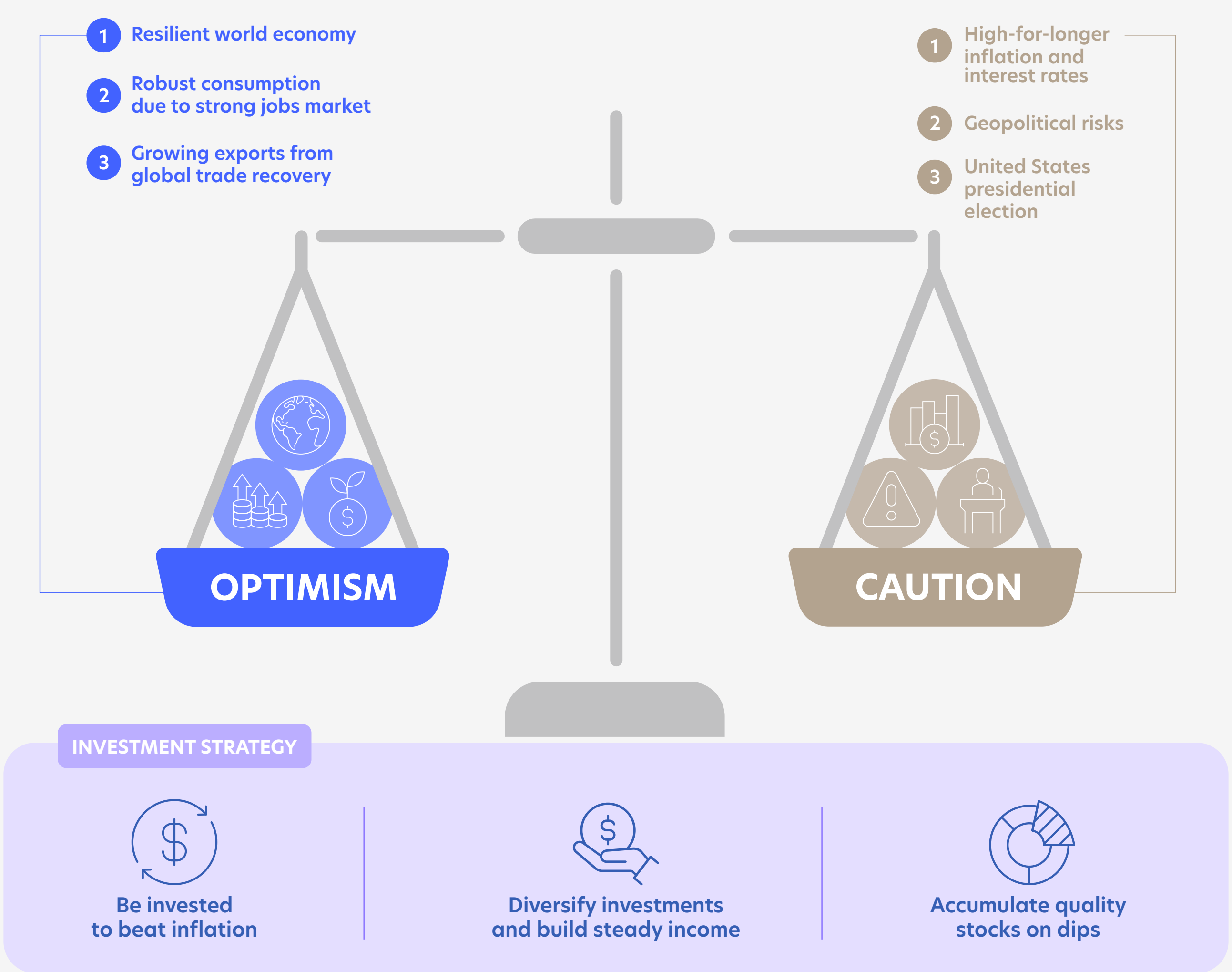
Although inflation is gradually declining, it remains above targeted levels, preventing some major central banks from easing monetary policy and cutting interest rates. Geopolitical tensions, including two ongoing wars, linger unresolved, while the upcoming United States presidential election injects additional uncertainty and warrants caution.

In the second half of 2024, it is crucial to remain invested to stay ahead of inflation. Diversifying your portfolio is key to seizing opportunities as they arise, and to withstand periods of volatility during unexpected market events. Enhance investment income by complementing bond funds and investment grade bonds that provide regular income, with quality dividend stocks that can also offer potential capital growth in the long term. As always, consider risks before potential returns.

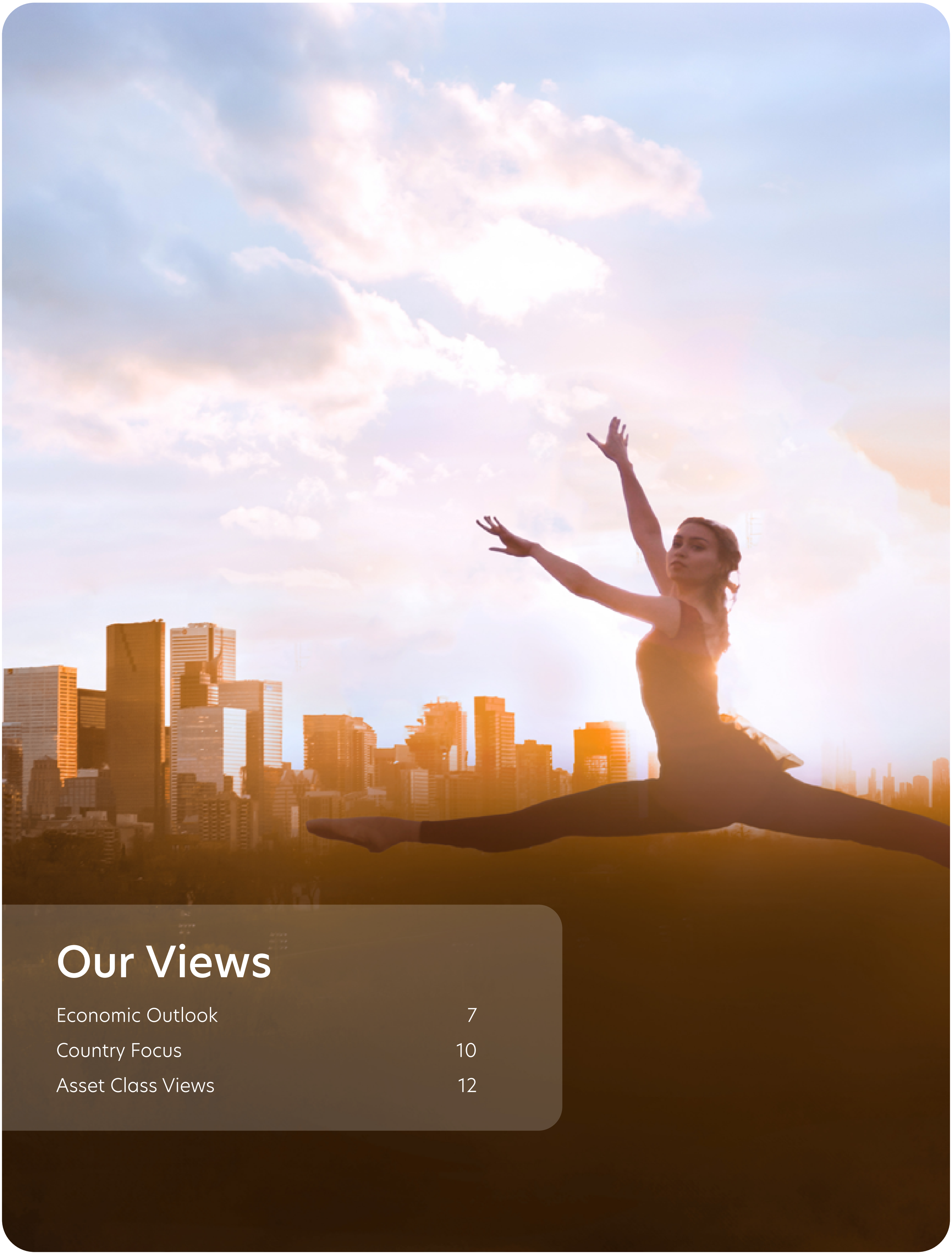
Our market insights and strategies are designed to guide you towards achieving your financial objectives in this dynamic investment landscape. By working together, you can build a resilient portfolio that not only aligns with your goals but also helps you choreograph your financial future.

Key Considerations and Strategy

Figure 1: Striking a balance between optimism and caution



Source: UOB PFS Investment Strategists



Our Views

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Economy

Confidence in the global economy has strengthened over the past six months, driven by growth in the United States (US), stabilisation in the Eurozone and United Kingdom economies, and an economic recovery in China.

The International Monetary Fund (IMF) has raised its forecast for global economic growth to 3.2% for this year, citing strength in the US and emerging market economies.

The global economy has proven to be more resilient than expected despite high interest rates, geopolitical tensions, and persistent inflation (Figure 2). A strong labour market with stable unemployment in all four major economies for the last six months is key. Wage growth continues to be elevated due to tight labour supply, supporting consumer spending which in turn helps the services sector to grow.

Recovery in global manufacturing has gathered momentum in the first half of 2024 and looks likely to continue for the rest of the year. This is due to robust global demand and an improvement in the semiconductor and electronics industries.

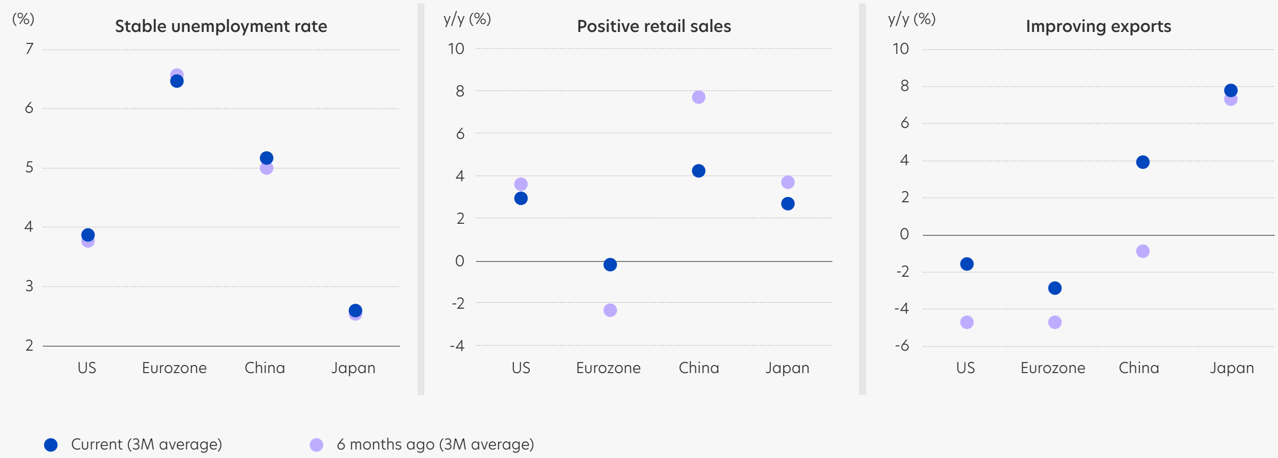
US-China rivalry has also led to shifts in supply chain benefitting other countries with established production capabilities.

A brighter export outlook is likely to continue with global trade expected to pick up in the second half of this year once central banks cut interest rates. Risk of the US imposing fresh trade tariffs and restrictions on China after the US presidential election may also cause a pre-tariff surge in global trade as companies accelerate goods shipments to avoid higher tax duties. Export-dependent economies stand to benefit in the meantime, and we have already seen signs of improvement in parts of Asia.

We should still remain cautious of risks ahead. Persistent inflation and high interest rates will impact household disposable incomes over time. Companies with more debt may also postpone investments. Moreover, geopolitical tensions continue to linger while the US presidential election at the end of the year will be a distraction.

However, the expectation of interest rate cuts later this year can mitigate some of the risks mentioned above.

Figure 2: Global economic activity remains resilient



Source: Bloomberg (31 May 2024)

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Inflation

Inflation remains the most important part of the economic puzzle, impacting monetary policy. Investors headed into 2024 expecting inflation to ease further but progress has been slow.

Inflation has proven to be more persistent than expected over the first half of this year (Figure 3). A resilient economy and strong labour market have kept prices high. In some countries, shelter costs have also stayed elevated due to low supply. Manufacturing prices may also increase in the coming months if commodity prices rise.

Geopolitical conflicts, supply constraints and increased demand have raised oil prices, while abnormal weather patterns have caused supply disruptions and higher prices for agricultural commodities.

In the second half of 2024, we expect inflation to ease slightly but remain above the 2% level that most central banks target. If the labour market remains resilient and wage growth stays high, services inflation will continue to be persistent. High commodity prices will also increase goods prices, compounding the difficulty in bringing inflation down towards 2%.

Considering these factors, while we expect inflation to gradually slow, achieving the 2% target may take longer than initially expected.

Figure 3: Global inflation has been higher than expected in the past six months

Headline CPI (% y/y)	Nov 2023	Dec 2023	Jan 2024	Feb 2024	Mar 2024	Apr 2024
US	3.1	3.4	**3.1**	**3.2**	**3.5**	3.4
Eurozone	2.4	2.9	2.8	2.6	2.4	2.4
China	-0.5	**-0.3**	-0.8	**0.7**	0.1	**0.3**
Japan	2.8	**2.6**	**2.2**	2.8	2.7	**2.5**

Numbers in bold show months when headline inflation was higher than expected.

Source: Bloomberg (31 May 2024)

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Central Bank Policies

Central banks face difficult choices over the coming months. They would like to cut interest rates to ease the burden of high borrowing costs on companies and households. However, a strong labour market, resilient economy and persistent inflation have caused some central banks to become cautious about cutting rates.

Global central banks have adopted a data-dependent approach. For countries experiencing persistent inflation, central banks will find it challenging to cut rates soon, resulting in a prolonged high interest rate environment. However, for countries where inflation has slowed more noticeably, their central banks have been able to start cutting interest rates.

As such, central bank policy decisions will not be synchronised (Figure 4), and there may be a divergence in interest rate paths across different countries.

Japan, Taiwan and Indonesia have raised interest rates recently to combat stubborn inflation and bolster their local currencies.

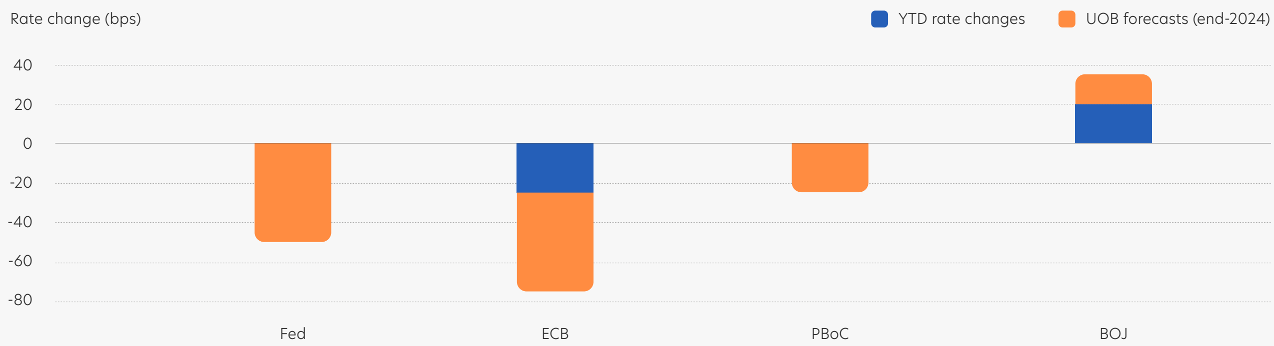
On the other hand, the European Central Bank (ECB), Bank of Canada (BOC), Swiss National Bank (SNB) and Sweden's central bank (Riksbank) have already cut interest rates. It is also expected that China's central bank (PBoC) will need to cut interest rates this year, along with lowering the reserve requirement ratio (RRR) to support China's economy.

Emerging market central banks, which were early adopters of interest rate hikes in 2021, have generally been more successful in controlling inflation, and some have begun cutting interest rates.

The US Federal Reserve (Fed) was previously anticipated to lead the rate cut cycle, but now appears likely to keep rates high for longer. Investors expect the first rate cut to only occur later this year due to persistent US inflation. We expect the Fed to cut interest rates by 50 basis points (bps) this year, through two 25 bps reductions in September and December.

Asian central banks will closely monitor the Fed's policy moves and may choose to cut interest rates only after the Fed does so. This is to prevent further currency depreciation and unruly capital outflows that could trigger financial system instability.

Figure 4: Major central banks on different policy paths



	Fed	ECB	PBoC	BOJ
Current	5.50%	4.25%	3.45%	0.10%
End-2024	5.00%	3.75%	3.20%	0.25%

Fed refers to Fed Funds Target Rate - upper bound. ECB refers to main refinancing rate. PBoC refers to 1-year loan prime rate. BOJ refers to short-term policy rate - upper bound.

Source: Bloomberg, UOB Global Economics & Market Research (14 June 2024)

Our Views
Country Focus

United States

The United States (US) economy has slowed slightly but remains resilient, with a strong labour market offsetting the impact of high interest rates. While some moderation is expected in the second half of 2024, US growth is likely to stay robust. Economic growth is projected at 1.2% in 2024 before re-accelerating to 2.5% next year.

Although the labour market has cooled slightly, it remains robust. Layoffs have been stable over the past year, and job vacancies are still above pre-pandemic levels. Balance in demand and supply in the US labour market is returning to normal after pandemic-related distortions.

The outlook for the services sector remains positive, with growth expected to pick up in the summer months until the year-end holiday season. Despite high interest rates and the depletion of excess household savings, US consumption continues to expand. Spending is supported by positive real wage growth and healthy household finances with households seeing strong gains in net wealth post-pandemic.

Household debt to income remains relatively low, and consumption is less dependent on borrowing compared to the past. While consumer credit delinquency rates have increased, they are rising from extremely low levels seen during the pandemic and do not pose an immediate concern. Considering these factors, the outlook for US consumption remains positive in the near term.

Inflation has not slowed smoothly due to elevated wage growth, persistent services prices and high housing costs. Nonetheless, inflation is expected to cool, with headline Consumer Price Index (CPI) likely to average 2.5% this year compared to 4.1% in 2023.

The US Federal Reserve (Fed) is looking for more evidence of slowing inflation before they gain confidence to cut interest rates. It believes that the trend of slowing inflation has been delayed but not derailed and expects to lower borrowing costs this year. We expect the Fed to cut interest rates by 50 basis points (bps) this year, with two 25 bps reductions in September and December. However, rate cuts may be delayed if inflation does not slow as expected.

Eurozone

The Eurozone economy has recovered from a shallow recession, with growth prospects improving due to a manufacturing recovery in Germany and economic expansions in France, Italy and Spain. The labour market has been resilient, with the Eurozone unemployment rate at a record low.

Economic recovery is expected to continue throughout the year as household incomes rebound and the export outlook improves. We project Eurozone economic growth will accelerate to 0.8% this year and 1.4% in 2025.

The European Central Bank (ECB) reduced interest rates by 25 bps in June but did not commit to further rate cuts. Instead, the ECB will adopt a data-dependent and meeting-by-meeting approach for future policy decisions. The main concern is a potential re-acceleration in Eurozone inflation, particularly with wage growth elevated around 5%. If this trend persists, the ECB will be more cautious about additional rate cuts.

Assuming inflation slows as expected in the coming months, we anticipate the ECB to lower rates two more times this year by 25 bps in September and December each.

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China

China's economy appears to have stabilised due to improved exports and manufacturing production. Exports are likely to remain the main growth driver this year. Companies will also look to speed up overseas shipments in the near term ahead of the threat of higher US tariffs should Donald Trump return to the White House.

To stimulate the economy, the government has announced plans to promote large-scale equipment renewals and the trade-in of consumer goods. Funding will also be provided to spur semiconductor self-reliance and technological innovation, as well as boost education, healthcare and other areas of national importance.

The property sector continues to face long-term structural issues. However, the Chinese government has introduced support measures, including providing liquidity through state banks and launching a CNY300 billion program that allows state-owned enterprises (SOEs) to purchase unsold properties to convert to social housing. Many provincial governments have also lowered the minimum downpayment requirement for property purchases and removed the mortgage rate floor. Nonetheless, a full recovery in property sector sentiment may require more policy measures by the Chinese government.

A recovery in domestic consumption is seen to be the missing piece in China's economic puzzle. The Chinese population has been avoiding big-ticket purchases and has prioritised spending on travel instead. As the Chinese have large household savings, domestic consumption should recover if the Chinese government unveils more stimulus measures, and if local stock market sentiment as well as the housing market improves.

We expect China's 2024 economic growth to be 5.1%, matching the Chinese government's growth target of "around 5%" for this year. The upcoming Third Plenary Session in July will be closely watched for potential policy announcements. China's inflationary pressures remain weak, and a revival of price pressures will require more government measures to boost domestic demand.

In addition to fiscal policy support, we anticipate that China's central bank (PBoC) will cut its 1-year loan prime rate (LPR) by 25 bps to 3.20% by year-end, along with a potential 50 bps reduction in the reserve requirement ratio (RRR) to support the economic recovery.

Japan

Japan's economy has experienced mixed fortunes so far this year. The positives come from an improvement in exports, while the services sector has been supported by an influx of foreign tourists.

However, domestic consumption has disappointed with real wage growth negative since April 2022, weighing on household disposable income. Consumer confidence has also been dented by a weak Japanese Yen (JPY) contributing to higher imported prices, while an ageing and declining population is also impeding private consumption. While semiconductor companies have accelerated capital expenditure, other businesses have become less inclined to spend on investments given weak domestic demand and higher prices.

The growth outlook will continue to be clouded by weak domestic demand and we expect Japan's 2024 GDP to be subdued at 1.0%. Japan's price pressures will largely stem from higher imported prices.

In March, the Bank of Japan (BOJ) ended negative interest rate policy (NIRP) after eight years, ended its purchase programme of exchange-traded funds (ETFs) and Japanese real estate investment trusts (J-REITs), as well as yield curve control (YCC)[1] policy. At the 31 July policy decision, we expect the BOJ to reduce Japanese government bond (JGB) purchases from JPY6 trillion per month to JPY5 trillion per month. As for interest rates, we forecast the BOJ to gradually raise the short-term policy rate from 0.1% to 0.25% in the fourth quarter of 2024.

1 Yield curve control was a strategy previously employed by the Bank of Japan (BOJ) to keep interest rates low to spur economic growth and increase inflation to 2%. This strategy was abolished in March 2024.

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Figure 5: Economic snapshots of major and selected regional countries

United States

2024

GDP Forecast **1.2%**

CPI Forecast **2.5%**

- The US economy will continue to slow but remains resilient.
- Headline and core inflation are expected to fall to an average of 2.5% and 2.8%, respectively.
- The US Federal Reserve (Fed) is expected to deliver two 25 bps rate cuts in September and December 2024.

Eurozone

2024

GDP Forecast **0.8%**

CPI Forecast **2.4%**

- Economic growth is expected to be supported by a resilient labour market, higher household incomes and improving export outlook.
- Headline inflation is expected to slow to an average of 2.4% in 2024.
- The European Central Bank (ECB) is expected to deliver another two 25 bps rate cuts in September and December 2024.

China

2024

GDP Forecast **5.1%**

CPI Forecast **0.7%**

- While China's economic recovery remains uneven, the economy will be bolstered by ongoing policy support and the recovery in foreign demand.
- Inflationary pressures remain weak and will require more policy support to boost domestic demand.
- China's central bank (PBoC) is expected to cut the 1-year loan prime rate (LPR) and reserve requirement ratio (RRR) to support the economy.

Japan

2024

GDP Forecast **1.0%**

CPI Forecast **1.9%**

- Despite improving tourism and exports, the economic outlook is weighed down by weak domestic spending and subdued business investments.
- Price pressures largely come from higher imported prices.
- The Bank of Japan (BOJ) is expected to raise interest rates to 0.25% in the fourth quarter of 2024.

Indonesia

2024

GDP Forecast **5.2%**

CPI Forecast **3.0%**

- Growth momentum to continue, aided by improving domestic consumption, an improvement in trade and higher government spending and investments.
- Inflation is likely to remain low and stable amid slower growth in energy and food prices.
- Bank Indonesia (BI) is expected to keep interest rates unchanged at 6.25% throughout 2024.

Malaysia

2024

GDP Forecast **4.6%**

CPI Forecast **2.6%**

- Robust investment activity and improving consumption trends are expected to support economic growth.
- Inflation will be impacted by domestic policy, currency movements and volatile global commodity prices.
- The Overnight Policy Rates (OPR) is expected to remain unchanged at 3.00% for the whole of 2024.

Singapore

2024

GDP Forecast **2.9%**

CPI Forecast **2.8%**

- Potential interest rate cuts in the US later this year and China's recovery are likely to have a positive impact on Singapore's economy.
- Headline and core Inflation are expected to fall to an average of 2.8% and 3.0%, respectively in 2024.
- The Monetary Authority of Singapore (MAS) is expected to reduce the slope of the Singapore Dollar Nominal Effective Exchange Rate* (S$NEER) policy band by 50 bps as early as July 2024.

Thailand

2024

GDP Forecast **2.8%**

CPI Forecast **1.3%**

- The economy will be supported by tourism and service-related sectors, improving exports and potential higher government spending.
- Headline inflation is expected to hold at an average of 1.3% mainly due to sluggish domestic demand.
- The Bank of Thailand (BOT) is expected to keep its interest rates unchanged at 2.50% for the rest of 2024.

*Singapore Dollar Norminal Effective Exchange Rate (S$NEER) is a policy tool used by the Monetary Authority of Singapore (MAS) to manage the exchange rate of the Singapore Dollar.

Source: UOB PFS Investment Strategists, UOB Global Economics & Market Research (14 June 2024)

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Stocks

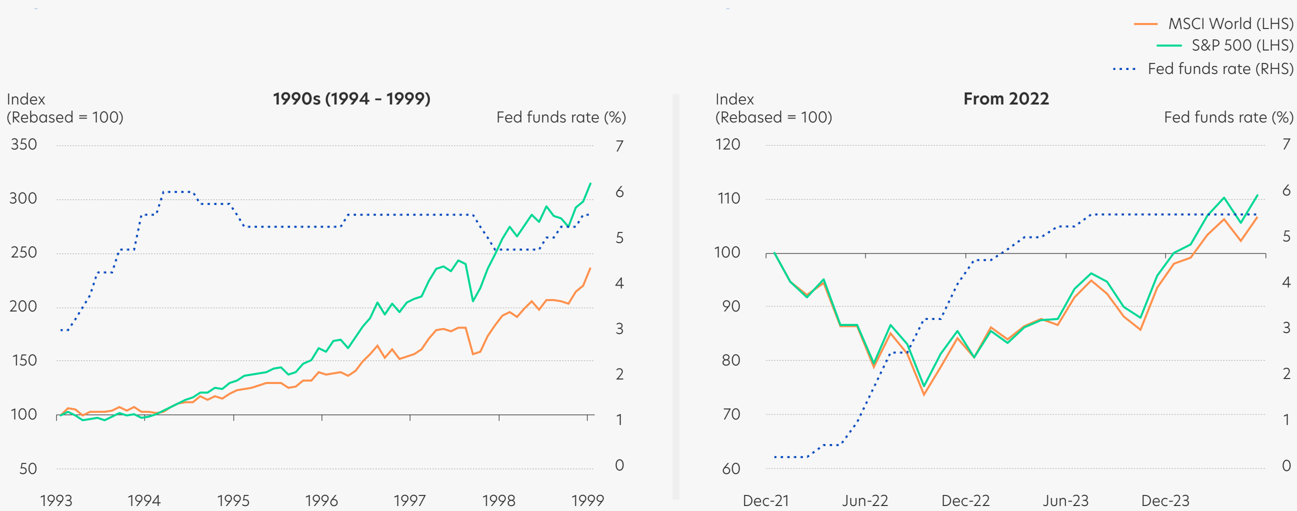
Global stock markets have performed well over the first half of 2024 and are poised to continue their gains in the second half of the year. The S&P 500 Index has rallied 14.7% year-to-date due to strong corporate earnings. The MSCI Asia ex-Japan Index has also risen 7.9% so far this year.

Although central banks may postpone or reduce the magnitude of interest rate cuts this year, high borrowing costs and sticky inflation are expected to have a smaller impact on stock markets over the next six months. Primary drivers of stock market returns will increasingly be fundamentals such as fiscal policy, economic growth and corporate earnings, rather than interest rate expectations.

This is because a resilient economy leads to growing corporate profits, enabling stock markets to gradually rise.

Parallels can be drawn with the 1990s, when global stocks rallied despite years of high inflation and high interest rates. There are similarities in economic growth, headline inflation, labour market indicators, as well as market drivers between the 1990s and today (Figure 6). They arise from economic strength, strong labour markets and technological advancements. Global stock markets rallied for most of the 1990s despite high interest rates, and this trend is likely to be repeated now for the same reasons.

Figure 6: Stocks can rise even when interest rates are high



US GDP growth	4.0% average	Expected to grow 2.0% p.a. 2022 - 2025 ^
US headline inflation	2.4% average	Expected to fall to 1.9% by end-2025 ^
US labour market*	Wage growth ~ 4.7%; Unemployment rate 4.2% - 6.1%	Wage growth ~ 5%; Unemployment rate ~ 4.0% ^
Market driver	Tech boom	Artificial intelligence (AI) boom

* Due to data limitation, 1990s wage growth is based on Average Wage Index for 1994-1999. Wage growth from 2022 is based on average hourly earnings.
^ Based on UOB forecasts.

Source: Bloomberg, US Social Security Department, UOB Global Economics & Market Research (7 June 2024)

Our Views

Asset Class Views

In the United States (US), earnings per share (EPS) growth is expected to improve until the first quarter of 2025 (Figure 7). Financial conditions[2] have also loosened since November 2023[3]. Potential interest rate cuts, a manufacturing recovery and the artificial intelligence (AI) investment cycle can also potentially support US stocks.

High interest rates are a reflection of resilient economic growth and rising corporate earnings are expected to support global stock markets. Given this backdrop, it is important to be invested to stay ahead of inflation.

However, portfolio diversification is becoming increasingly crucial to capture shifts in market trends. While the AI theme has been a key driver of stock market gains over the past year, there are opportunities in other attractively valued stocks whose earnings growth is expected to accelerate in a resilient economy.

Diversifying across regions can also be beneficial.

European stocks have delivered solid performance in recent months, supported by attractive valuations and a higher proportion of value stocks. There may be short-term market volatility associated with the French legislative election that ends on 7 July, but we do not expect sustained impact. A recovery in the Chinese economy provides a boost, since China is a significant market for European luxury goods, automakers and miners. An improving outlook for the Eurozone economy is expected to further support European stock markets. Moreover, stock valuations are currently below their 10-year average, while earnings projections are improving.

Asian stock markets are also well positioned to benefit from attractive valuations and robust regional economic growth, as well as a brighter export outlook and higher corporate earnings potential.

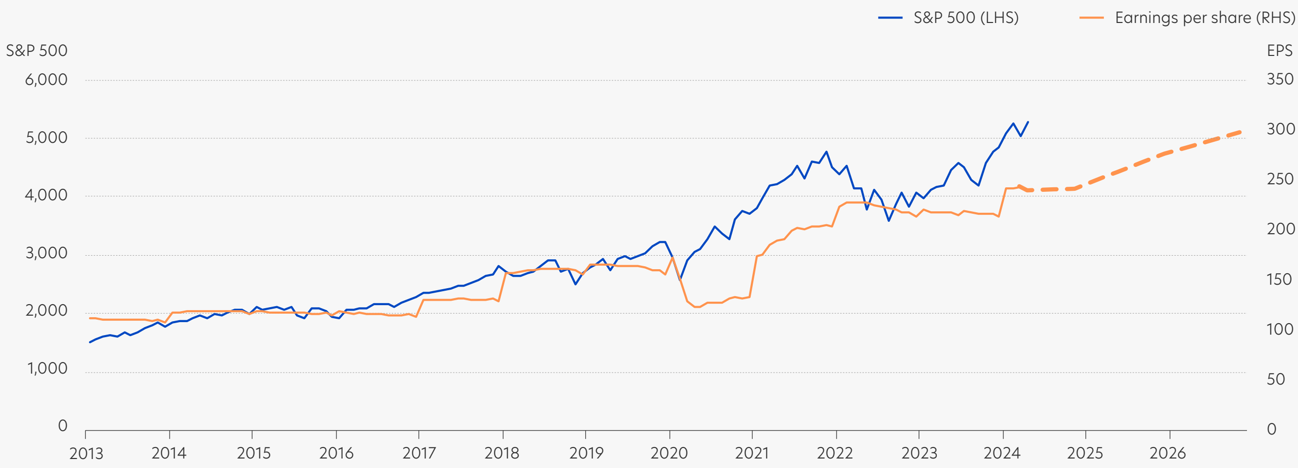
As China's outbound travel numbers are projected to rebound to 84% of pre-pandemic levels this year, tourism-related stocks across Asia stand to benefit.

Sentiment towards Chinese and Hong Kong stocks has improved since late January, underpinned by attractive valuations and dividends. Furthermore, with the US Federal Reserve (Fed) delaying rate cuts, investors may shift their focus to Chinese stocks that trade at deep discounts to their US peers, especially considering that investor allocation to Chinese stocks is relatively low. Chinese stocks are also less affected by the Fed's policy decisions since China's central bank (PBoC) is expected to ease monetary policy.

Following China's State Council guidelines in April, Chinese large-cap companies have started placing greater emphasis on increasing shareholder returns through stock buybacks and higher dividends. China has specifically been aiming to boost valuations of state-owned enterprises (SOEs), with the government's SOE value-up program being a key component of this approach. There is growing evidence that SOE managements are making efforts to comply, which has led to the outperformance of Chinese SOE stocks this year.

Enhancing investment income is one key strategy in the coming months, and you can complement investment grade bonds with quality dividend-paying stocks. Notably, Asia ex-Japan dividend-paying stocks have outperformed their global peers year-to-date while offering the highest dividend payouts. We believe this trend will continue for the remainder of the year.

Figure 7: Forward earnings growth to lead stocks higher in the US



Earnings per share (EPS) is a key indicator to measure a company's financial health and profitability for each stock. Dotted line represents forecast data by analysts.

Source: Bloomberg (31 May 2024)

2 Financial conditions refer to the ease or difficulty with which individuals, businesses and governments can access funding and credit.
3 Source: Bloomberg (31 May 2024)

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Bonds

The bond market outlook heavily depends on economic trends. If the economy remains resilient and inflation stays elevated, the Fed and other central banks will need to delay or deliver fewer interest rate cuts. In this scenario, bond yields may remain high or even increase in the short term.

Bond market volatility may also increase towards the end of this year if Donald Trump wins the US presidential election. Since Donald Trump will likely pursue expansionary fiscal policies and tax cuts, the US Treasury Department may need to issue more bonds to fund an expanding budget deficit.

Despite potential short-term volatility, bonds provide attractive total returns over a long-term investment horizon due to appealing bond yields and the possibility of capital appreciation when more central banks lower interest rates.

We continue to favour investment grade (IG) bonds in both developed markets (DM) and emerging markets (EM). They offer consistent and attractive income, and can stabilise portfolios if unexpected economic weakness occurs.

Foreign Exchange and Commodities

The US dollar (USD) may stay supported until the Fed lowers interest rates. However, we anticipate the USD to weaken by year-end as it loses its interest rate advantage once the Fed begins easing monetary policy. Moreover, rate cuts will lead to a broadening of global economic growth momentum, ultimately weakening the USD.

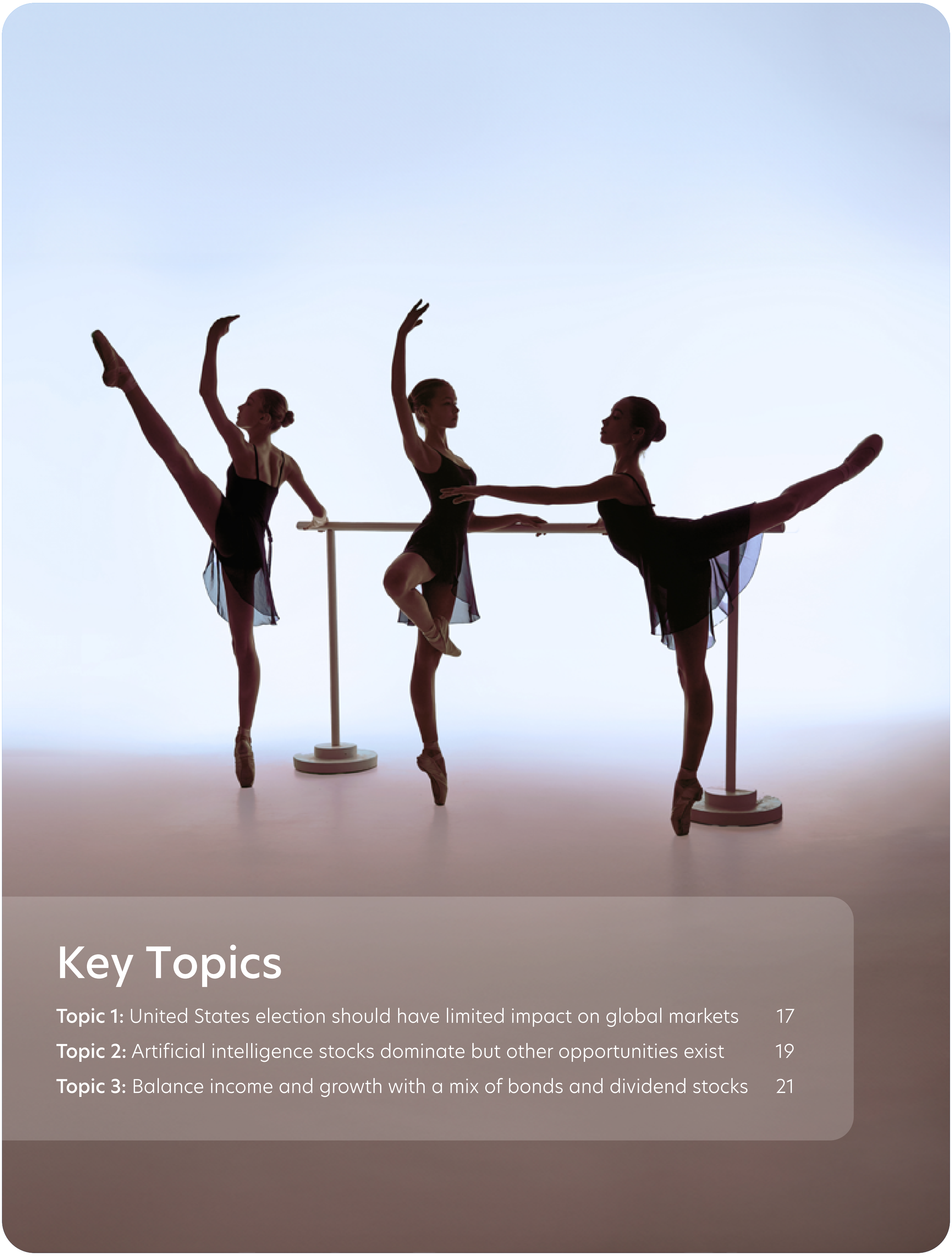
Asian governments have been worried about weaker domestic currencies due to the USD's unexpected strength. Certain Asian countries even intervened in the foreign exchange market to defend their currencies. For example, Indonesia's central bank increased interest rates to bolster the Indonesian Rupiah (IDR). We expect Asian currencies to recover moderately in the second half of 2024 as China's improving economic outlook should support the Chinese Yuan (CNY) and Asian currencies.

Gold price has climbed this year despite headwinds from a strong USD and high interest rates. Ongoing geopolitical tensions, central bank purchases and strong demand from Chinese investors have contributed to the rally of the precious metal.

We retain a positive outlook on Gold as it benefits when the Fed cuts interest rates. We expect Gold to rise to USD2,500 per ounce by the fourth quarter of 2024 and USD2,600 per ounce by the first quarter of 2025. In periods of heightened geopolitical tensions and higher volatility, Gold can serve as a portfolio stabiliser due to its safe-haven status. Gold is also often seen as a diversifier as it historically tends to move independently of stocks and bonds, and can help lower portfolio risk. Furthermore, Gold can serve as a hedge against the loss of purchasing power during currency depreciation or economic instability.

As for crude oil, we maintain a modestly positive outlook given ongoing geopolitical tensions. Brent crude oil is forecast at USD85 per barrel for the fourth quarter of 2024 and USD90 per barrel for the first quarter of 2025. OPEC+[4] reached an agreement to continue its supply cut of two million barrels per day in the third quarter of 2024, but oil production will be gradually restored over the following 12 months starting from October. Nonetheless, this supply restoration is aspirational and non-binding, and OPEC+ may retain their production cuts if oil prices fall.

[4] OPEC+ stands for the Organization of the Petroleum Exporting Countries Plus, a group consisting of 12 of the world's largest oil-producing countries and 10 other oil-exporting nations.



Key Topics

Key Topics

Topic 1: United States election should have limited impact on global markets

The upcoming 2024 United States (US) presidential election is shaping up to be a close race between incumbent Democrat president Joe Biden and former Republican president Donald Trump.

Historically, the results of US elections have had minimal impact on financial markets as market performance is more closely tied to the state of the US economy rather than election results. However, policies put forth by each candidate have the potential to affect the economy in different ways (Figure 8).

Figure 8: Possible impact of key policy proposals from Biden and Trump

Key Policies	Joe Biden (Democrat)	Donald Trump (Republican)	Potential Impact
Taxes	• Will not renew 2017 Tax Cuts and Jobs Act, will raise taxes on large companies and wealthy individuals	• Will renew 2017 Tax Cuts and Jobs Act, particularly individual tax cuts • Potentially more corporate tax cuts	• **Biden:** Higher government income • **Trump:** Benefits wealthy households, businesses and real estate companies
Tariffs	• Additional tariffs on Chinese products such as electric vehicles, solar panels and steel	• 10% universal baseline tariffs on all imports into the US • 60% or more tariffs on all imports from China	• Heightened geopolitical tensions • Rise in imported goods prices
Foreign Policy	• Continued support for Ukraine and Taiwan • Strong support for NATO* alliance	• Reduced support for NATO* alliance	• **Biden:** No change in US foreign policy • **Trump:** Potential rise in geopolitical tensions
Immigration	• Tighter immigration controls		• Slower labour force growth potentially leads to higher wages

* North Atlantic Treaty Organisation (NATO) is an alliance between 32 countries from Europe and North America. It provides a unique link between the two continents, enabling them to consult and cooperate in the area of defence and security.

Source: UOB PFS Investment Strategists (31 May 2024)

Policy choices will have different implications

Tax policies may be particularly impactful on the US economy as well as financial markets. Many of the tax benefits from Trump's 2017 Tax Cuts and Jobs Act will expire in 2025, notably the expiration of individual income tax cuts. Corporate tax cuts under the Act are, however, permanent. Trump has pledged to renew tax cuts for individuals and vowed to reduce the corporate tax rate from 21% to 20%. His proposal will disproportionately benefit wealthy households and businesses, boosting the economy and stock markets but widening the US budget deficit. In contrast, Biden's proposed tax increase on large companies and wealthy individuals would bolster government income and narrow the budget deficit, allowing the government to spend on the economy when required.

US trade policy will be important for the global economy, regardless of who wins the election. Both candidates are proposing tougher measures towards China, which could escalate US-China tensions. However, the approach and economic impact differ.

Biden's tariff proposals target strategic areas in security and technology but may not cause major economic disruptions. In contrast, Trump's proposed universal tariffs could significantly disrupt global trade, raise import prices and increase inflation. This would constrain the US Federal Reserve's (Fed) ability to ease monetary policy and strengthen the US dollar (USD).

Key Topics

Topic 1: United States elections should have limited impact on global markets

The full economic impact of escalating US-China tensions may not be felt until the second half of 2025 onwards. Consultations with trade groups and companies need to happen beforehand, and implementation of new tariffs may only occur in late 2025. In the meantime, companies in the US and China will likely front-load trade to avoid potential tariff hikes, benefitting the global trade outlook for the next six to 12 months.

Trump prioritises an "America First" foreign policy agenda[5] that involves reducing foreign spending, contrary to Biden's stance. This could accelerate global geopolitical tensions, potentially benefitting defence companies due to increased military investments.

Lastly, immigration is a pivotal issue in this election. Both candidates advocate stricter immigration controls. A slowdown in immigration flows may tighten the US labour market, a driver of current economic growth.

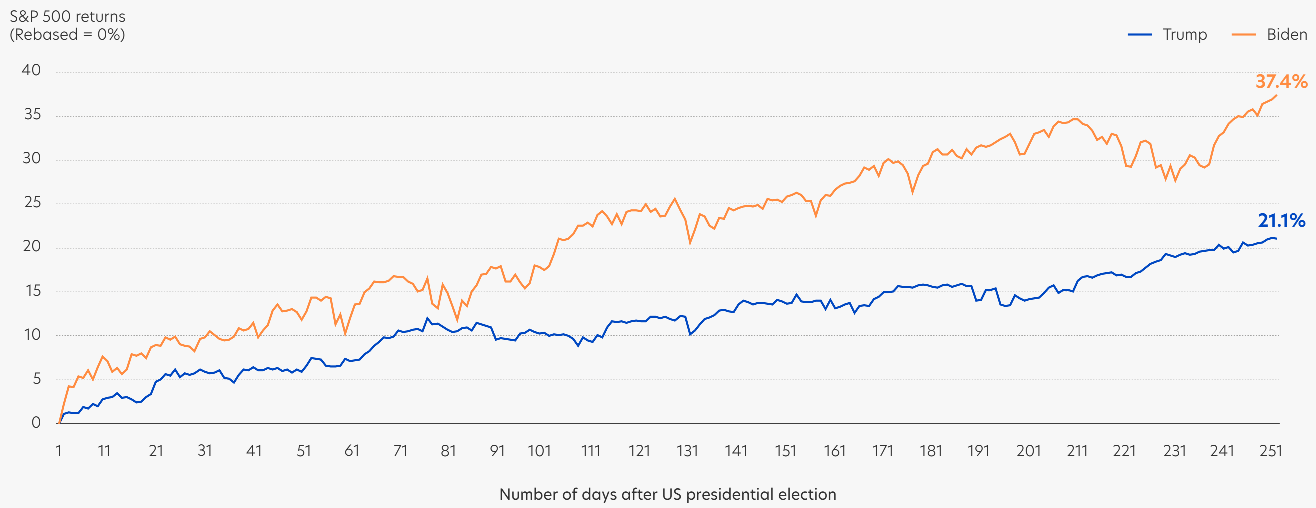
US stock markets have typically risen in the first year after US presidential elections

Historically, political uncertainties had not had a big impact on stock markets. The S&P 500 Index generally rose before elections, even during recessions[6].

In the first year of both Trump's and Biden's previous terms after the 2016 and 2020 elections, the S&P 500 also saw significant gains of 21.1% and 37.4%, respectively (Figure 9).

In summary, stocks can still perform well under either a Trump or Biden administration, as seen in their previous first years in office. Avoid focusing excessively on media speculation about the election and potential policy changes that may lead to trade tensions. Economic fundamentals matter more. With a resilient economy, invest in quality stocks and use a consistent dollar-cost averaging approach to mitigate risk.

Figure 9: Stocks rose in the year after both Trump and Biden election wins



Source: Bloomberg (31 May 2024)

5 "America First" Agenda refers to putting the domestic policies of America first and disregarding global affairs.
6 Source: State Street Global Advisors, The Performance of US Equities in Election Years Over the Last Century (6 March 2024)

Key Topics

Topic 2: Artificial intelligence stocks dominate but other opportunities exist

The Magnificent Seven, United States (US) mega-cap technology stocks, have dominated the market rally in a high interest rate environment, powered by optimism over artificial intelligence (AI). AI will continue to be a big investment theme this year as it is starting to transform businesses.

However, attractive opportunities also exist outside of these stocks. Diversify your portfolio to capture different opportunities as market trends shift.

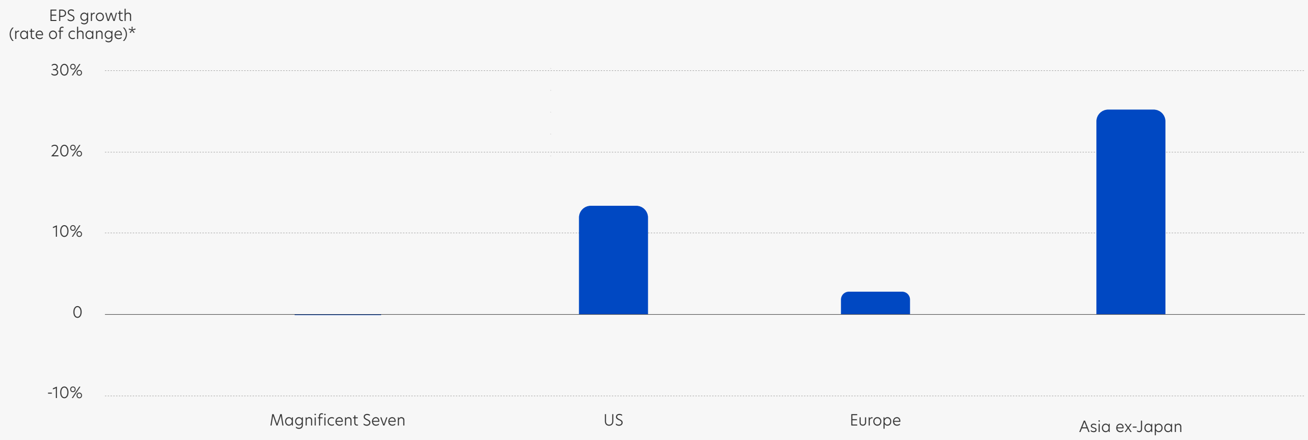
Corporate earnings set to improve across major stock markets

Corporate earnings drive stock performance, exemplified by the Magnificent Seven. In 2023, strong earnings growth fuelled their stellar performance, while a fall in earnings in other companies led to the underperformance of the broader stock market.

Investor confidence has grown as the global economy demonstrates resilience in a high interest rate environment. This confidence has been bolstered by expectations of interest rate cuts later this year and a recovery in global trade. Additionally, the earnings outlook for 2024 is set to improve across major stock markets with increasing adoption of generative AI leading to lower costs and higher productivity over time.

Magnificent Seven companies as a group are expected to report strong earnings growth once again this year although, individually, some are likely to do better than others. However, earnings growth momentum in other stock markets is likely to be even stronger (Figure 10). While AI stocks can continue to do well, we should not ignore opportunities beyond those from the Magnificent Seven.

Figure 10: Earnings growth momentum outside of Magnificent Seven forecast to be stronger



EPS growth		Magnificent Seven	US	Europe	Asia ex-Japan
	2023	36.3%	-1.0%	-0.1%	-9.4%
	2024F	36.3%	12.3%	2.7%	15.8%
	2025F	18.5%	13.7%	8.5%	15.6%

Earnings per share (EPS) is a key indicator to measure a company's financial health and profitability for each stock. F represents forecast data by analysts. Magnificent Seven refers to a group of US mega tech stocks. US refers to S&P 500 Index. Europe refers to Stoxx Europe 600 Index. Asia ex-Japan refers to MSCI Asia ex-Japan Index.
* The rate of change for EPS growth = 2024 EPS growth - 2023 EPS growth

Source: Bloomberg (31 May 2024)

Key Topics

Topic 2: Artificial intelligence stocks dominate but other opportunities exist

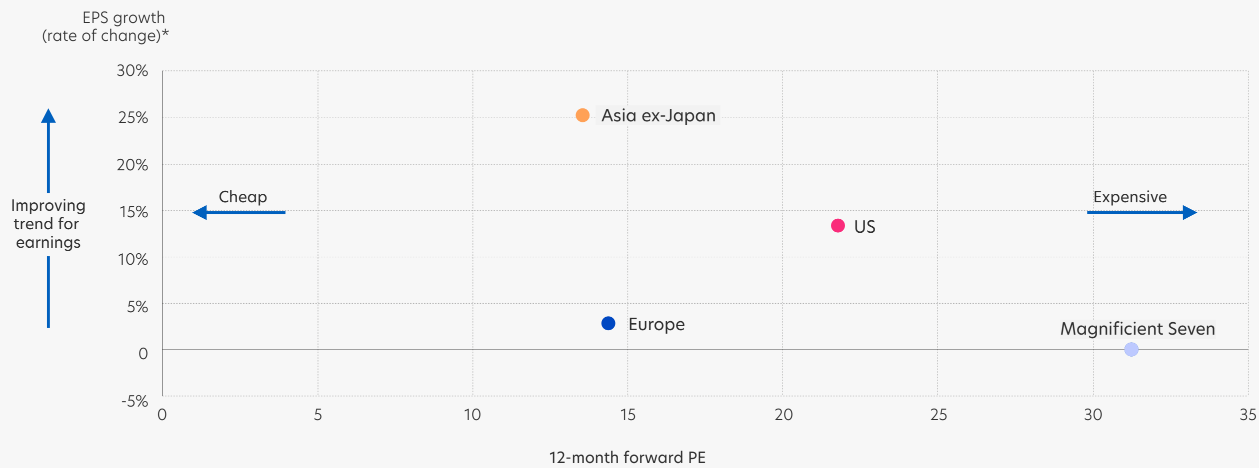
Look for investment opportunities via valuation

Valuation is another crucial factor to consider when seeking investment opportunities. While the rally in the Magnificent Seven is supported by exceptional earnings growth, these stocks are no longer cheap after delivering total returns between 45% to 650%[7] since 2023.

Valuations in the broader US, European and Asia ex-Japan stock markets are attractive when compared with the Magnificent Seven. Stocks in Europe and Asia ex-Japan in particular are also cheaper than their 10-year averages.

Taking both earnings and valuation into account, Asia ex-Japan presents attractive investment opportunities, with lower valuations and stronger earnings growth momentum (Figure 11). Although stocks in the broader US market are slightly more expensive, earnings growth momentum is also strong, thanks to the recovery in manufacturing activity as half of S&P 500 earnings come from goods and manufacturing[8]. In contrast, earnings growth momentum in Europe is weaker, but the prospect of more European Central Bank (ECB) rate cuts will benefit European stocks, particularly large-cap quality stocks and stocks that have a track record of paying dividends.

Figure 11: Stocks outside Magnificent Seven look attractive



Earnings per share (EPS) is a key indicator measuring the financial health and profitability of a company. The 12-month forward price-to-earnings (P/E) ratio is a financial metric that measures a company's current stock price relative to its projected EPS over the next 12 months. Magnificent Seven refers to a group of US mega tech stocks. US represented by S&P 500 Index. Europe represented by Stoxx Europe 600 Index. Asia ex-Japan represented by MSCI Asia ex-Japan Index.
* The rate of change for EPS growth = 2024 EPS growth - 2023 EPS growth

Source: Bloomberg (31 May 2024)

Diversify to capture different market opportunities

While Magnificent Seven companies may continue to attract attention this year from strong earnings and the AI trend, there are other attractive opportunities outside of these stocks to consider.

Diversifying your investments allows you to capture shifts in market opportunities as they arise and reduce concentration risk.

7 Source: Bloomberg (31 May 2024)
8 Source: Morningstar, Why the stock-market rally can strengthen despite a slowing U.S. economy (29 May 2024)

Key Topics

Topic 3: Balance income and growth with a mix of bonds and dividend stocks

In recent years, higher yields have made bonds more appealing. However, for many investors, bonds by themselves may not provide sufficient wealth growth or protection against inflation.

Dividend stocks can complement bonds by offering potential for income growth. With stocks expected to outperform bonds and cash again this year, combining bonds with dividend stocks gives investors opportunity for both investment income and capital growth.

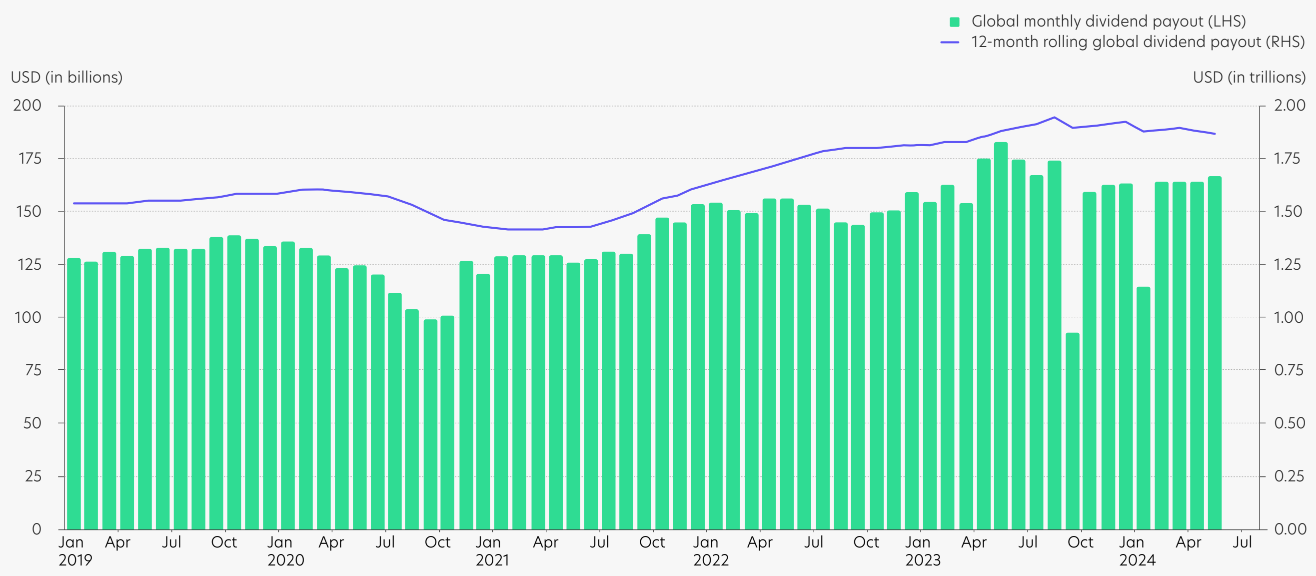
Stock dividends continue to rise

Global dividend payouts struggled to keep up with high inflation and interest rates in 2023. However, in the fourth quarter of 2023, global dividends increased 5.8% year-over-year, reversing a 1.3% decline from the previous quarter and ending the slowdown in growth observed since 2022 (Figure 12). The full-year payouts for 2023 amounted to USD1.92 trillion, a 5.7% increase from the previous year. With stronger corporate earnings, dividends are set to rise further in 2024.

Over a longer timeframe, the outlook for dividend growth appears even more favourable. Dividend payouts have been growing over the past five years on a rolling 12-month basis. On a total return basis, global dividend stocks[9] have gained 71% from 2019 to 31 May 2024, at an annualised rate of 11.3%[10], exceeding average global inflation[11] by a substantial margin.

Despite major challenges such as the COVID-19 pandemic, geopolitical tensions threatening to disrupt supply chains, and a rapid rate hike cycle, global dividend stocks have demonstrated their reliability as a source of real income[12].

Figure 12: Global stock dividends have provided reliable income over the years



Source: UOB PFS Investment Strategiests, Factset, Macrobond (31 May 2024)

Potential capital growth for dividend stocks

The MSCI World High Dividend Yield Index has price-to-earnings (P/E) of 14.2x, which is fairly priced compared to its 10-year average of 14.7x. When compared to broader markets, the MSCI World High Dividend Yield Index is trading 27% lower than the MSCI World Index, which is considerably below the 10-year average discount of 17%[10]. This disparity suggests that dividend stocks have the potential for greater gains, particularly if the market rally continues to broaden.

9 Global dividend stocks refer to MSCI World High Dividend Yield Index.
10 Source: Bloomberg (31 May 2024)
11 Source: Bloomberg, IMF World Inflation Average Consumer Prices Annual Percentage Change
12 Real income refers to income after adjusting for inflation.

Key Topics

Topic 3: Balance income and growth with a mix of bonds and dividend stocks

Dividend stocks can be volatile and dividends may be uneven

Dividend stocks can serve as strong building blocks for generating reliable income, offering the potential for capital growth and hedging against high inflation and interest rates. These are advantages a pure bond portfolio lack.

However, it is important to recognise that dividend stocks carry higher risks compared to bonds. They can exhibit higher volatility and may experience significant price fluctuations, especially when dividends fall.

In contrast, bonds may be more stable due to regular coupon payments, making them more predictable in terms of income flow.

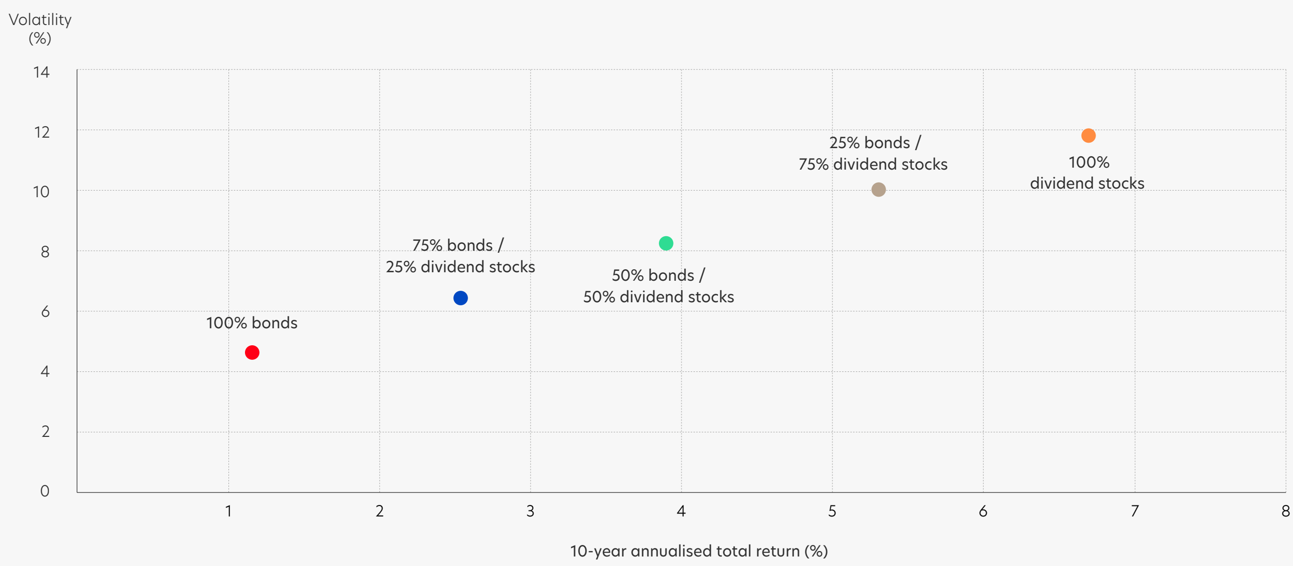
Seeking a balance between income and growth depends on your risk appetite

By combining dividend-paying stocks and investment grade bonds, you can achieve an income-generating portfolio suited to your risk appetite, something not as easily achievable with a portfolio consisting solely of bonds or dividend stocks (Figure 13).

Your risk appetite should be the primary consideration when investing. Evaluate how much risk you are comfortable taking before deciding on your allocation to dividend stocks and investment grade bonds. If you are more risk-averse, consider a higher allocation to bonds. If you are able to take on more risk, allocate a higher proportion of your portfolio to dividend stocks.

The key is to find the right mix that allows you to balance income generation and growth in a way that suits your risk tolerance and goals.

Figure 13: Different risk-return profiles for different risk appetites



Bonds refer to investment grade bonds, based on Bloomberg Aggregate Corporate Index. Dividend stocks are based on MSCI World High Dividend Yield Index.

Source: Bloomberg (31 May 2024)

What You Can Do

What You Can Do

Building Your Portfolio

When building your portfolio, start by considering your risk tolerance and investment time horizon. You should prioritise your risk tolerance over seeking potential returns. A well-rounded portfolio blends Core and Tactical investments, tailored to your investment objectives and risk appetite (Figure 14).

The core strategy is to invest for the long term to meet financial goals while staying ahead of inflation. Historical evidence shows that time in the market beats timing the market[13]. As Core investments are less reliant on market cycles, investors who buy and hold generate better long-term returns compared to those trying to time the market.

By adopting a long-term investment horizon, you can also harness the power of compounding returns and navigate market volatility. Compounded returns, achieved through reinvesting gains and income, can significantly grow your initial investment over time.

Stay proactive and diversify your portfolio to capture opportunities in changing market trends. While we expect stocks to do well in the second half of 2024, a discerning approach is necessary as stock market leadership may shift.

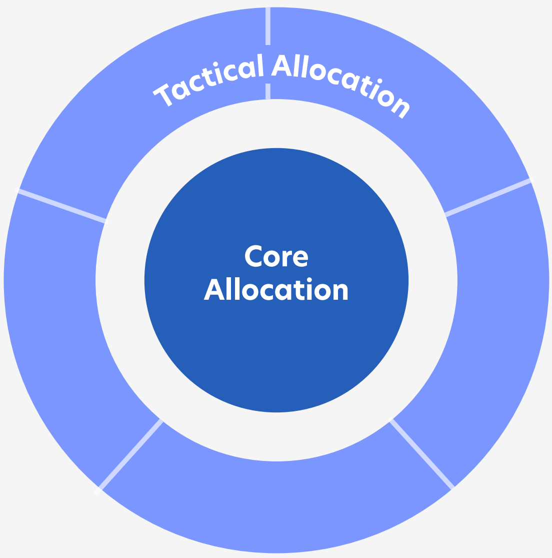
Be prepared for potential rotations into more attractively valued regions and sectors. Multi-asset strategies can help you capture such opportunities across different asset classes, regions and sectors when market trends change.

To enhance investment income, complement bond funds and investment grade bonds with quality dividend-paying stocks in your portfolio.

Tactical investments provide the opportunity for potentially higher returns, often through short-term to mid-term investments, but it can also represent greater risk. You should be aware of your current financial situation, long-term aspirations and how much risk you are willing and able to take. Tactical investments like global healthcare, Asia ex-Japan and ASEAN stocks, Additional Tier 1 (AT1), Tier 2 (T2) and senior Total Loss-Absorbing Capacity (TLAC) bonds[14] are also discussed in detail below.

Other Tactical investments include accumulating quality growth stocks on dips, particularly quality dividend-paying stocks in Asia ex-Japan. Quality stocks are favoured due to their strong revenue growth, robust earnings and lower debt levels.

Figure 14: A portfolio consisting of Core and Tactical allocations



[13] Source: J.P.Morgan Asset Management, Guide to the Markets – Asia (31 March 2024)

[14] Additional Tier 1 (AT1) bonds, Tier 2 (T2) bonds and senior Total Loss-Absorbing Capacity (TLAC) bonds are designed to strengthen a bank's ability to absorb losses. They are also part of the regulatory capital framework established under Basel III, aimed at ensuring banks have sufficient capital to withstand financial stress.

What You Can Do

Core Allocation

Figure 15: Core allocation

Multi-asset strategies

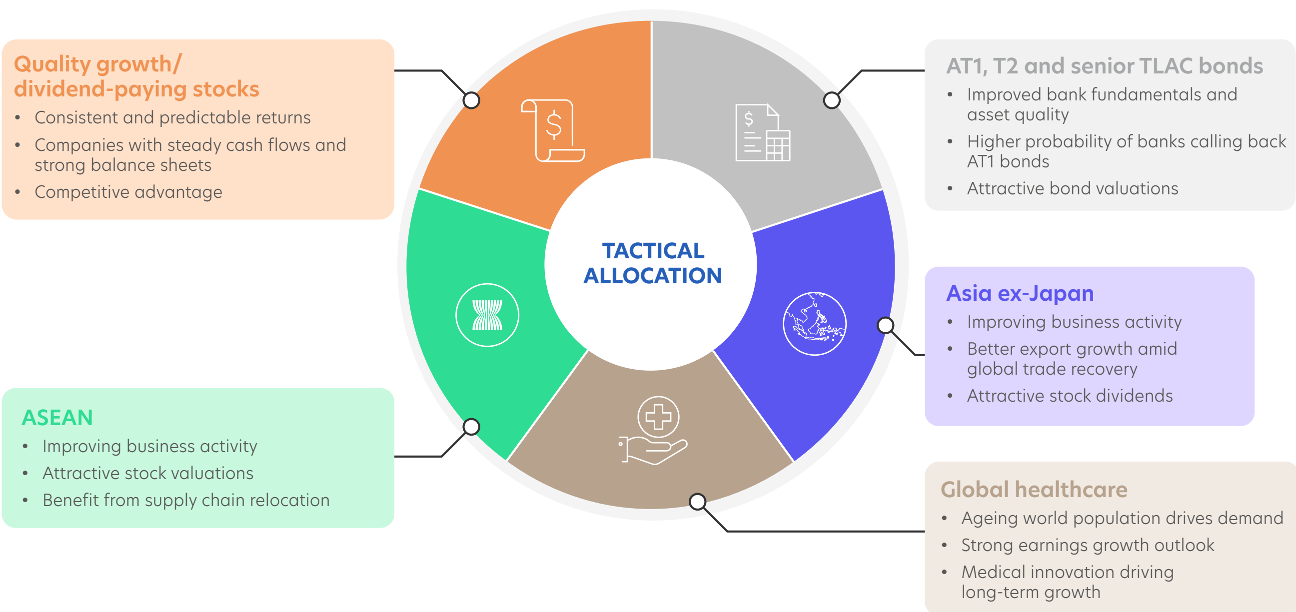
Diversification is crucial, and Core investments like multi-asset strategies provide diversification across different asset classes, regions and sectors. These strategies allow you to capture market opportunities as they arise, while simultaneously lowering portfolio volatility.

Investment grade bond funds

Investment grade bonds offer attractive total returns. This appeal stems from attractive bond yields and potential capital appreciation when central banks cut interest rates. They can also act as portfolio stabilisers if economic weakness emerges.

Tactical Allocation

Figure 16: Tactical allocation



Quality growth/dividend-paying stocks

Accumulate quality growth stocks and quality dividend-paying stocks on dips when they are cheaper.

Although the global economy remains resilient, inflation persists, geopolitical tensions remain unresolved and political concerns may arise. Against this backdrop, quality companies with resilient revenues and strong cash flows will continue to perform well.

Companies that pay consistent dividends will be even more attractive, as they offer the potential for both investment income and capital appreciation.

We favour dividend-paying stocks in Asia ex-Japan that offer consistent dividend payouts. While these stocks have outperformed their global peers year-to-date, we believe this outperformance will continue for the rest of the year.

What You Can Do

Tactical Allocation

Global healthcare

While the MSCI World Health Care Index has lagged in 2024, rising just 3.2% versus the 4.8% gain in the MSCI World Index, we remain positive on global healthcare as earnings growth is anticipated to accelerate later this year.

Long-term trends support the healthcare sector, particularly advancements in treating lifestyle diseases, like weight-loss drugs (GLP-1), as well as the rise of medical technology and equipment. These factors enhance growth prospects in the sector.

Furthermore, the healthcare sector's diversity provides access to defensive pharmaceutical companies, together with high-growth areas such as life sciences tools and services, healthcare technology and healthcare equipment.

Asia ex-Japan/ASEAN

We continue to favour Asia ex-Japan and ASEAN stocks. Resilient foreign demand has brightened the export outlook for the region. Business activity across both manufacturing and services sectors has improved, while inflation remains more muted compared to developed countries.

Tourism is poised to be a supportive factor moving forward. Chinese tourists are embracing international travel once again, with global Chinese tourist numbers projected to reach 130 million in 2024, 84% of pre-pandemic levels. Furthermore, Chinese tourists are beginning to spend more on their travels. The World Travel and Tourism Council expects Chinese holidaymakers to spend CNY1.8 trillion on international trips this year, a 10% increase from 2019. Countries like Singapore, Malaysia and Thailand are well-positioned to benefit most from China's tourism recovery as they have either waived visa requirements or are offering electronic visas upon arrival.

If Donald Trump wins the US presidential election and imposes universal tariffs on all imports and higher tariffs on Chinese goods, ASEAN may stand to benefit from shifts in the global supply chain. This is due to ASEAN countries rapidly upgrading their production infrastructure while offering lower production costs. There is also the benefit of a free trade agreement with other Asia-Pacific countries through the Regional Comprehensive Economic Partnership (RCEP). Vietnam is increasingly an electronics manufacturing hub, Malaysian factories are producing desktop computers, Thailand has become a regional automobile manufacturing base while Indonesia is aiming to be a battery production hub for electric vehicles.

Stock markets in Asia ex-Japan and ASEAN will benefit from attractive valuations and the potential for higher corporate earnings. These regional stock markets will also likely benefit from capital inflows once the US Federal Reserve (Fed) begins cutting interest rates.

AT1, T2 and senior TLAC bonds

Finally, other Tactical opportunities exist in Additional Tier 1 (AT1) bonds, also known as Contingent Convertible (CoCo) bonds, Tier 2 (T2) bonds and senior Total Loss-Absorbing Capacity (TLAC) bonds. As these bonds come with higher risk, consider how much risk you are willing and able to take before going ahead with such investments.

Bank fundamentals have improved significantly since the Global Financial Crisis because of deleveraging, de-risking and restructuring. Asset quality has also improved markedly over the past decade, supported by historically high capital buffers that can absorb unexpected losses. Many banks are expected to deliver strong earnings which will help mitigate any deterioration in asset quality in periods of unexpected financial stress.

AT1 bonds currently offer attractive valuations due to relatively wide spreads against investment grade bonds and high yield bonds. There is also a higher probability of banks redeeming their AT1 bonds at the first available call date, with European AT1 redemptions projected at USD29 billion this year.

Should central banks cut interest rates and bond yields fall, there is potential for total returns of these bonds to be positive.

In Conclusion

To achieve your long-term financial objectives, build a portfolio with Core investments before considering Tactical investments. Prioritise risk tolerance over seeking potential returns.

Stay proactive, plan your next move and review your portfolio regularly to capture opportunities in changing market conditions.

Right By You