UOB

2024 Market Outlook

Beyond the Surface:
Discovering Opportunities

Right By You

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Opening Note

Message from Head of Group Personal Financial Services

Jacquelyn Tan

Managing Director
Head, Group Personal Financial Services

A brand-new year grants us the opportunity to take a fresh look at our goals and aspirations to achieve the life we want for ourselves and our loved ones. This is also the time to review our investment plans as we study shifting events around us.

Entering 2024, where are central banks and the global economy heading after two years of high inflation and rate hikes? How would fresh geopolitical conflict and change in political leadership in important economies affect our investment decisions? What opportunities can you seize and what risks should you be wary of?

Last year, stock markets rode on groundbreaking developments in generative artificial intelligence and rallied strongly in the first half. At the same time, financial markets grappled with higher-for-longer interest rates, leading to market volatility in the second half.

For the first half of this year, geopolitical tensions will continue to cloud sentiment while the election cycle kicks off across Asia and in the United States. Interest rates are expected to stay high for now and the delayed impact of aggressive central bank rate hikes may start to slow the global economy. What is positive is that inflation is on its way down and should the economy slow too rapidly, central banks can support growth by cutting interest rates.

We are mindful of the ebbs and flows of market and political cycles, as well as the risks that accompany them. At the same time, we are excited to discover opportunities that can do well before these cycles turn.

With our latest market outlook and strategies on hand, our advisors and specialists are ready to help you find appropriate solutions for your investment plan. As we journey together with you towards your goals, I wish you a fruitful year ahead!

2024 Global Outlook

Figure 1: 2024 outlook and strategy

Source: UOB PFS Investment Strategists

As we enter 2024, we have reasons for both optimism and caution. This is why you should begin the year anchored in a diversified portfolio. If you are looking for consistent income, this period of high bond yields may not last very long so think about bond funds and investment grade bonds. Another way to get income is from quality stocks that pay dividends. At the same time, it is important to be nimble and prepared to seize opportunities as they arise.

We are optimistic for three main reasons. First, inflation is expected to continue declining this year. Second, with inflation coming down, central banks may lower interest rates from the middle of the year. Lastly, an orderly global economic slowdown makes it more likely a deep recession is avoided.

Reasons for caution include the possibility of the delayed impact of rapid rate increases leading to a more severe economic downturn. The worry is central banks erring by maintaining high interest rates for too long to guard against inflation while ignoring the negative effects on the economy. The second concern is prolonged geopolitical tensions causing inflation to pick up again, compelling central banks to respond by either keeping interest rates high or by raising rates.

Politics will also provide distractions, with elections due in many parts of the world. Asia's election cycle is unlikely to have a significant impact on regional financial markets. The November United States Presidential election is a different story although the full impact on markets will only become clear towards the end of the year and into 2025.

From the factors above, we think the global economy will slow further but in an orderly manner. Inflation will keep falling, while central banks will reduce interest rates from the middle of the year onwards.

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2024 Outlook

Economic Outlook

The global economy is still in the slowdown phase of the economic cycle. While economic growth will slow further in the first half of 2024, a deep recession will be avoided.

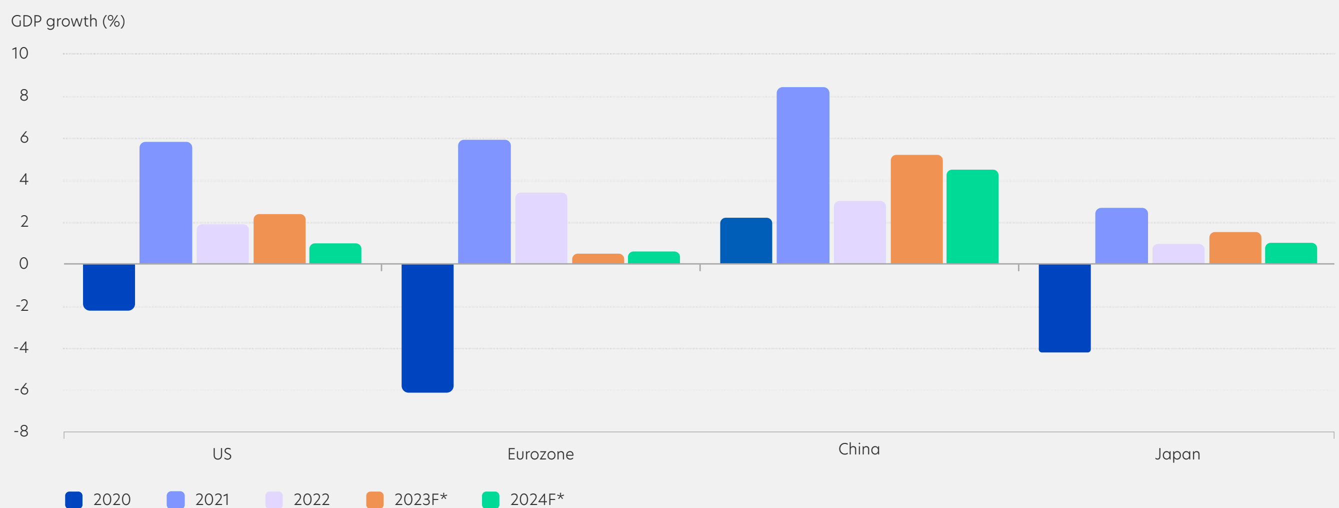
The economic slowdown has lasted longer than expected without resulting in recession because of a strong labour market. Robust jobs growth, together with wage growth, have led to resilient consumption, helping the services sector support the broader economy.

However, there are concerns that job markets in many countries may start to weaken over the coming months. Consumer spending could weaken should this happens. Particularly for countries such as the United Kingdom, Australia, New Zealand and Canada where mortgages are tied to floating rates, higher mortgage repayments would lead to lower household disposal income.

The economic outlook depends largely on central bank policy. If the US Federal Reserve (Fed) and its peers are too slow to acknowledge growth risks and maintain high interest rates for too long, the probability of a deeper economic slowdown could rise.

We expect central banks to cut interest rates from the middle of 2024 and for the economic slowdown to be gradual and orderly (Figure 2).

Figure 2: Economic activity is expected to slow further in 2024



*F represents forecast data by UOB.
Source: Bloomberg, UOB Global Economics & Market Research (15 December 2023)

2024 Outlook

Economic Outlook

Inflation

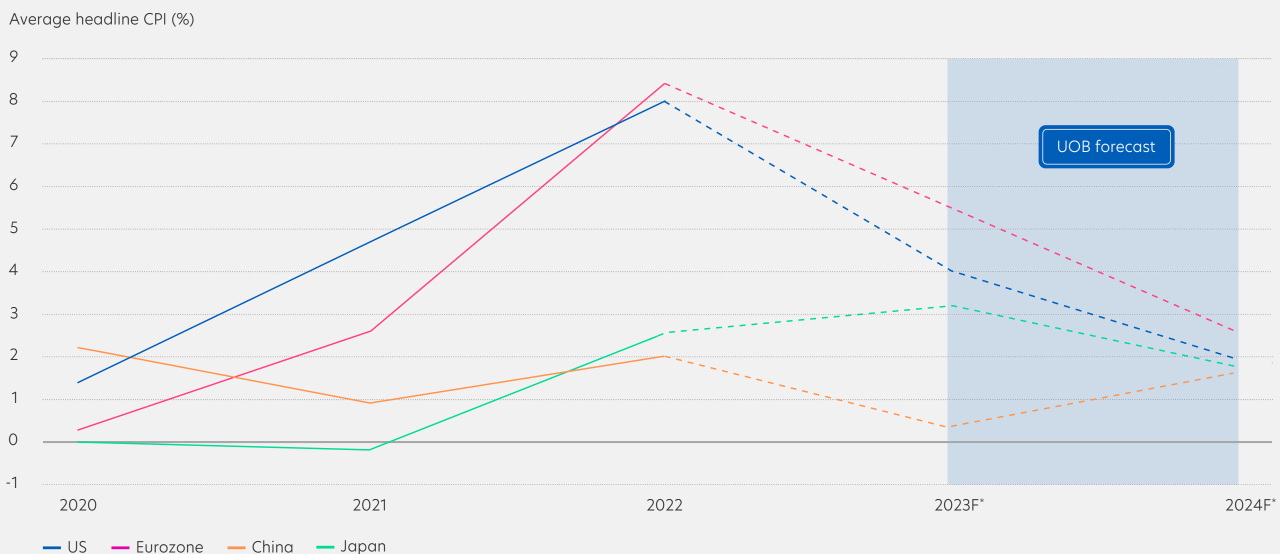
Inflation has declined steadily from the middle of 2022 onwards. We expect price pressures to ease further this year due to high base effects, weakening demand due to a slowing economy and as the re-building of supply chains continues (Figure 3). Although housing inflation has stayed high, it is expected to decrease over the coming year as housing demand weakens and rental costs come down.

Inflation expectations for the medium term are mostly steady. In addition, a better balance between demand and supply in the jobs market will help cool wage growth.

Food and energy prices are the most difficult parts of the inflation puzzle. Risks include the ongoing Russia-Ukraine and Israel-Hamas wars that can lead to major oil and food shortages if conflict worsens. Disruption to Red Sea shipping can also have direct impact on global supply chains. Oil prices are unlikely to rise much more if demand falls with slowing global growth, without any disruption to supply. Food prices are, however, also subject to climate change and the increasing occurrence of droughts and floods.

However, factors that could lead to sharp spikes in short-term food and energy prices are likely to be temporary. Instead, the broader trend will be a reduction of inflationary pressures even with consumer price growth remaining above pre-pandemic levels.

Figure 3: Headline inflation in major economies is expected to slow further



*F and dotted lines represent forecast by UOB.
Source: UOB PFS Investment Strategists, UOB Global Economics & Market Research (15 December 2023)

2024 Outlook

Economic Outlook

Central Bank Policies

Interest rates are currently high, but the global rate hike cycle is coming to an end because inflation is slowing and monetary policy is already tight. A change towards lowering rates from the middle of this year onwards is now more likely than before.

The Fed has indicated it is probably done with raising rates and expects to cut interest rates by 75 basis points (bps) through 2024 (Figure 4). The Fed's change in policy will enable other central banks to do the same and focus on supporting economic growth.

We expect the Fed to keep interest rates unchanged until the middle of 2024. Thereafter, we forecast the Fed to lower interest rates by 25bps each time in June 2024, 3Q 2024 and 4Q 2024.

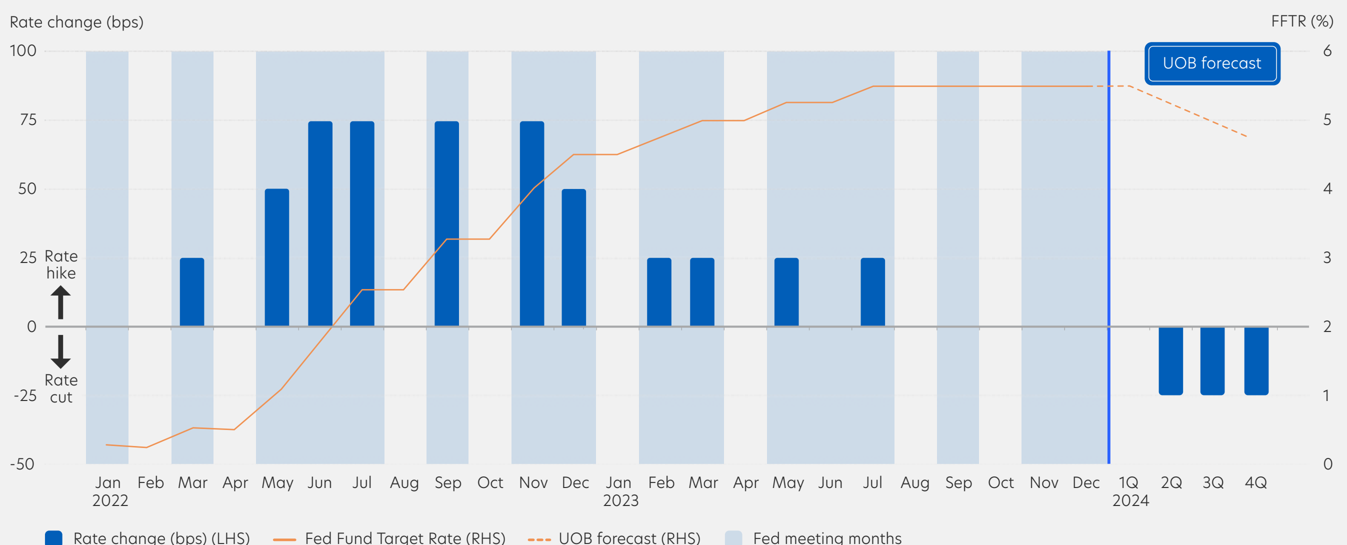
The European Central Bank (ECB) has stopped raising interest rates but insists that interest rates need to remain high for longer as core inflation is still close to twice the 2% target. We forecast the ECB to keep interest rates unchanged for 1H 2024, before lowering them from 4Q 2024. However, as Eurozone headline consumer price index (CPI)[1] has fallen rapidly, financing conditions are tight and recession risks are growing, the ECB may have to reduce interest rates sooner than expected.

However, there is a large gap between guidance given by developed market (DM) central banks and what the market expects. For example, the Fed is indicating 75bps of rate cuts and the ECB is insisting they are not thinking about policy easing right now, but the market is expecting around 150bps of rate cuts by both central banks in 2024. It is unclear how this difference will be settled. Will the market lower rate cut expectations? Or will central banks increase their rate cut outlook? Considering the orderly nature of the global growth slowdown, one could argue that the market is too hopeful with aggressive rate cut expectations.

In China, The People's Bank of China (PBoC) might need to do more monetary easing given inherent weakness in the economy and weak price pressures. Aggressive rate cuts are however not expected as the PBoC seeks to maintain stability in the local currency.

In Japan, the Bank of Japan (BOJ) has been making small changes to its yield curve control policy[2] since December 2022, gradual moves towards removing the framework completely. The BOJ indicated it will no longer cap 10-year Japanese government bond (JGB) yields at 1.00% anymore if bond yields match economic fundamentals and broader bond market movements.

Our view is for Japan to end its negative interest rate policy in April and stop yield curve control in June. However, the window of opportunity for such policy changes is narrow as the Japanese economy is fragile and global growth is slowing down. At the same time, other central banks may start to cut interest rates from the middle of 2024. Because of these reasons, the BOJ may find it increasingly difficult to raise interest rates as the year progresses.



Source: UOB PFS Investment Strategists, UOB Global Economics & Market Research (15 December 2023)

[1] Consumer price index (CPI) is a measurement of the change in consumer prices over time based on a fixed basket of goods and services. This is normally represented as a month-on-month and year-on-year comparison.

[2] Yield curve control is a strategy employed by the Bank of Japan (BOJ) to keep interest rates low to spur economic growth and increase inflation to 2%. The 1.00% level is currently the reference level for 10-year Japanese government bond (JGB) yields, although it is no longer a strict cap.

2024 Outlook

Country Focus

United States

The United States (US) economy will continue to slow in the coming months, but a recovery is likely in the latter half of the year when the US Federal Reserve (Fed) cuts interest rates to support economic activity. Overall growth for 2024 is expected to be positive.

The severity of the US economy's slowdown in 1H 2024 is linked to inflation and the Fed's policy path. If inflation falls towards the Fed's 2% target and interest rates start to come down, economic slowdown will be orderly. Higher inflation, on the other hand, would force the Fed to maintain interest rates high for longer and increase the chance of a recession. This is because companies will reduce hiring and investments when interest rates are high.

We should also watch out for the risk that smaller regional US banks may face a crisis of confidence in their finances if bond yields rise sharply again, as well as problems in the US commercial property sector.

US households are less affected by high interest rates because they took advantage of lower rates during the pandemic to refinance their fixed-rate mortgages, but there are indications that household finances are becoming tight. The US economy relied on consumption in the past year, but this consumption power may not last.

Some factors that may lead to lower consumption are a US jobs market that is slowing down gradually as well as depleting US household excess savings. High inflation and interest rates will also pose challenges to private consumption, while the resumption of student-loan payments will also affect spending patterns. We have already seen signs that low-middle income US households have begun to purchase cheaper goods and increasingly use credit or buy-now-pay-later schemes. Moreover, US auto and credit card delinquencies have begun to rise.

These are reasons why we foresee weaker growth in the US for the upcoming months. If the Fed reacts by cutting interest rates from the middle of this year, economic slowdown will be contained.

Europe

The Eurozone economy is facing challenges as low domestic spending is hurting the services sector, while the manufacturing sector is suffering from low external demand and high borrowing costs.

We forecast the Eurozone economy will grow 0.8% this year, but there are increasing risks of a recession as most of the bloc's economies are slowing down while its largest economy Germany has stopped growing.

The recession threat is due to the European Central Bank's (ECB) 450 basis points (bps) of rate increases since July 2022. This helped control inflation, but it also caused the current economic weakness. Besides the steep rate increases, the ECB's quantitative tightening[3] also reduced the central bank's balance sheet by almost EUR7 trillion in less than a year, while the ECB stopped its supply of low interest commercial bank loans.

According to the latest purchasing managers' index (PMI)[4], both manufacturing and services sectors in the Eurozone continue to contract. Furthermore, demand for corporate loans has fallen substantially while banks have made their credit standards[5] stricter.

[3] Quantitative tightening is a monetary policy tool to decrease the amount of liquidity within the economy, by either selling government and agency bonds or letting them mature to reduce the central bank's balance sheet.

[4] Purchasing managers' index (PMI) is a monthly sentiment survey that provides timely insight into the direction of economic trends. A number above 50 indicates economic expansion, while a number below 50 denotes economic contraction.

[5] Banks' loan approval criteria.

2024 Outlook

Country Focus

China

China's economy underperformed in the past year, as consumer sentiment was affected by the loss of wealth from the housing market collapse and a weak stock market. Weak momentum in the Chinese economy is apparent from the fall in both consumer and producer prices. Business confidence was also reduced by sluggish domestic spending and low overseas demand.

In response, the Chinese government has unveiled a range of stimulus measures. Its main emphasis has been supporting the property sector, where confidence keeps falling with new-home prices dropping further while home sales shrink.

Apart from the real estate sector, there are indications that the Chinese economy may have reached its lowest point. However, a growth acceleration depends on improving consumer and business confidence and this needs more policy support from Beijing. The central government may also need to provide more support to address local government debt issues.

Japan

Japan's economy weakened sharply in 3Q 2023 and the outlook for the coming months is deteriorating.

As the global economy is likely to lose more momentum, Japan's exports will face lower demand from abroad and this may lead to businesses reducing their spending on capital investments.

Additionally, domestic consumption may decline more as households reduce spending due to persistently higher inflation. While Japan has experienced higher wage growth, wage growth is still lower than inflation such that real wage growth has been negative since April 2022. This means that household purchasing power has decreased for a long time. Along with a shrinking and ageing population, this will lead to weaker domestic demand.

The Japanese government unveiled another economic stimulus package of more than JPY17 trillion to deal with the effects of high inflation on households. The package focuses on lowering income taxes and giving cash payments to households with low income. These measures can help the economy grow but will not completely boost consumer confidence unless inflation is controlled.

Indonesia

The main drivers of growth in 2024 will be household consumption and investment. Consumption will benefit from low inflation and increased spending during the election campaign. Political stability is anticipated during the 2024 election, with all presidential candidates agreeing on existing projects and the relocation of the new capital city. This agreement is anticipated to boost foreign interest in investing in Indonesia.

Despite higher food inflation fluctuations due to high rice prices amid supply disruptions, inflation has been well-controlled in 2023 and is expected to remain so in 2024.

Nonetheless, uncertainty and volatility in the path of inflation and currency market are reasons why we expect Bank Indonesia (BI) to keep interest rates unchanged at 6.00% throughout 2024.

The US Dollar (USD) is expected to decline as expectations of Fed rate cuts increase. With Indonesia's interest rate gap relative to the Fed rate expected to widen, the yield gap is also expected to increase. This is likely to attract bond inflows into Indonesia and ultimately support Indonesian Rupiah (IDR) stability, with the IDR expected to reach 14,800 against the USD by the end of 2024.

2024 Outlook

Country Focus

Malaysia

Malaysia's economy performed well in 2023 despite the influence of various global factors. For 2024, Malaysia's growth outlook remains steady, backed by the moderate slowdown of the global economy, assurance of economic progress in a growth-oriented federal budget, supportive interest rate policy and resilient domestic spending. However, there are challenges from low external demand and increased costs.

The Overnight Policy Rate (OPR) is expected to stay the same as inflation in Malaysia is still mild compared to developed countries. However, we are mindful of geopolitical risks and unstable commodity prices. These factors along with tweaks to Malaysia's government subsidies and progressive wage policy could possibly lead to higher inflation and interest rates.

The Malaysian Ringgit (MYR) in 2023 was affected by the same set of external challenges that also hit other Asian currencies, including expectations of higher-for-longer Fed rates, demand for safe-haven USD assets and China slowdown concerns. However, a recovery in the Chinese Yuan (CNY) as well as expectations for USD to weaken in 2024 are likely to boost MYR to 4.45 against the USD by the end of 2024.

Singapore

Singapore's economy is set to improve from the middle of 2024 onwards, as a recovery in the electronics cycle and external demand will boost manufacturing and trade. Gross Domestic Product (GDP) is projected to increase to 2.9% in 2024 from 0.9% in 2023. Both headline and core inflation are likely to decline due to lower global food prices and services inflation, as well as the continued appreciation of the Singapore Dollar Nominal Effective Exchange Rate[6] (S$NEER) to control imported inflation.

However, the effect of the 1%-point increase in the Goods and Services Tax (GST), which took effect on 1 January 2024, is still uncertain and could keep core inflation above the long-term average of 1.8%. While a 50bps reduction in the slope of the S$NEER policy band is anticipated in 2Q 2024, a complete monetary policy change might be delayed to 2H 2024 due to the possible delayed impact on services inflation from wage hikes and increased business costs.

The expected weakness of the USD together with widespread recovery of Asian currencies may continue to support the Singapore Dollar (SGD), which is projected to strengthen gradually to 1.30 against the USD by the end of 2024.

[6] Singapore Dollar Nominal 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.

2024 Outlook

Country Focus

Thailand

With a new government and incoming consumption stimulus policy, Thailand's economy is projected to grow by 3.6% in 2024. Growth drivers are expected to come from strong consumer spending and tourism, despite ongoing external challenges. Foreign risks, such as geopolitical conflict, should be watched closely.

Headline inflation has stayed below the Bank of Thailand's (BOT) target band of 1.0-3.0% since March 2023, with the recent fall in prices driven by government subsidies for energy and electricity. We expect headline inflation to increase slightly to average 2.0% in 2024. The BOT is likely to keep interest rates at 2.50% for the whole year, although rate cuts are possible in 2H 2024 if the economic outlook deteriorates.

The Thai Baht (THB) may have passed its worst as it stands to gain from a recovering CNY starting from 1Q 2024. A rise in Chinese tourist arrivals following the launch of a new visa-free policy could further support the THB. The THB is expected to recover against the USD to 33.3 by the end of 2024.

Figure 5: Economic snapshots

US

2024 GDP Forecast **1.0%**

Inflation Forecast **2.0%**

- The US economy will continue to slow in an orderly manner.
- Headline and core inflation for the year are expected to fall to an average of 2.0% and 2.2%, respectively.
- The US Federal Reserve (Fed) is expected to deliver three 25bps rate cuts from mid-2024, depending on fresh data.

Eurozone

2024 GDP Forecast **0.6%**

Inflation Forecast **2.7%**

- The chances of a recession are increasing as the region faces lower foreign demand and weaker domestic spending.
- High interest rates will bring down both headline and core inflation.
- The European Central Bank (ECB) will keep interest rates unchanged for 1H 2024, then start to lower them from 4Q 2024.

China

2024 GDP Forecast **4.5%**

Inflation Forecast **1.7%**

- The Chinese economy may have hit its lowest point but re-acceleration in growth depends on improving consumer and business confidence.
- A return to rising prices in 2024 will be gradual and bumpy.
- Fiscal and monetary policies will become more coordinated.

Japan

2024 GDP Forecast **1.0%**

Inflation Forecast **1.8%**

- Weaker external and domestic demand could hurt Japan's growth prospects.
- Inflation is expected to slow, moving closer to the Bank of Japan's (BOJ) 2% target.
- The BOJ is expected to end its negative interest rate policy in April and completely scrap its yield curve control framework in June.

Indonesia

2024 GDP Forecast **5.2%**

Inflation Forecast **3.0%**

- The two main factors that will drive growth are household consumption and investment.
- Inflation is expected to be well managed throughout 2024 due to the government's efforts.
- Bank Indonesia (BI) is expected to keep interest rate unchanged at 6.00% throughout 2024.

Malaysia

2024 GDP Forecast **4.6%**

Inflation Forecast **2.6%**

- The economy is projected to continue growing robustly and expand by 4.6% in 2024.
- Moderate inflation is still subject to the risk of volatile commodity prices and shifts in domestic policy.
- The Overnight Policy Rates (OPR) is likely to stay at 3.00% for the whole of 2024.

Singapore

2024 GDP Forecast **2.9%**

Inflation Forecast **3.5%**

- The economy may start to recover in 2H 2024.
- Core inflation continues to fall but stays above the long-term historical average of around 1.8%.
- The Monetary Authority of Singapore (MAS) is likely to lower the rate of appreciation of the Singapore Dollar (SGD) by reducing the slope of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) policy band in 2Q 2024.

Thailand

2024 GDP Forecast **3.6%**

Inflation Forecast **2.0%**

- The economy is projected to grow at a faster pace than 2023.
- Headline inflation will remain manageable in 2024.
- The Bank of Thailand (BOT) is likely to keep interest rates at 2.50% throughout 2024.

Source: UOB Global Economics & Market Research (15 December 2023)

2024 Outlook

Asset Class Views

Historical data from the past 30 years show that most asset classes perform well a year after the US Federal Reserve (Fed) ceases to hike rates (Figure 6).

Figure 6: Most asset classes show positive returns a year* after the Fed stops raising rates

Global Stocks
Developed Market
Emerging Market
Asia ex-Japan
Asia ex-Japan High Dividend
Developed Market Growth
Developed Market Value
US Large Cap
US Small Cap
Europe
Japan
Global Bonds
US 10-Year Treasury
US Investment Grade
US High Yield
Emerging Market Debt (USD)
Cash (1-3 months US Treasury bills)
US Dollar Index
Gold
Oil
Portfolio of 60% stocks and 40% bonds

-5 0 5 10 15 20 25

Total return (%)

Stocks Bonds Others

*One year average return, since 1989.
Source: JPMorgan Asset Management (30 November 2023)

2024 Outlook

Asset Class Views

Stocks

We hold a neutral view on stocks as an asset class. There are short-term risks for global stock markets in the first half of 2024, before the outlook improves in the second half when central banks cut interest rates. Figure 6 shows that stock markets historically generate positive returns in the year following the end of the Fed rate hike cycle.

Key factors that could determine stock market sentiment are inflation, economic growth, monetary policy and bond market movements.

To sum it up, global stock markets are vulnerable to selling pressure at the beginning of the year. This is because people are expecting aggressive rate cuts that central banks may not provide. Even if central banks start to cut rates, it may be due to a rapidly weakening economy which again may trouble global stock markets.

Geopolitical tensions also remain high. During this period, it is advisable to stay defensive in quality large-cap stocks as well as recession hedges such as stocks in the healthcare, utilities and consumer staples sectors. The other important strategy is to have a well-diversified portfolio.

Investing in quality dividend-paying stocks can also help. Although bonds and cash yield almost as much as stock dividends right now, bond yields and fixed deposit rates are expected to drop and income from high dividend-paying stocks will become more attractive.

When the outlook for both economic growth and central bank policy becomes clearer towards the middle of the year, stock markets are expected to stabilise.

We have a neutral outlook on US stock markets as an economic slowdown will challenge the strength of corporate earnings. Diversification and selection then become more important. During this time, defensive sectors like healthcare can help stabilise portfolios. Quality growth stocks as well as dividend stocks with steady cash flow and strong balance sheets are also expected to do better in this slowing growth environment. Semiconductor companies may benefit from a recovery in demand for tech hardware.

The increased risk of recession in many Eurozone economies is expected to hurt European stock markets. High interest rates will also reduce corporate profits, especially for small cap companies and cyclical sectors with shorter debt maturities like autos, airlines, communication services and industrials. Information technology companies with low refinancing risk and stable earnings have better chances of doing well, while diversified European banks, healthcare, utilities and consumer staples are more resilient. Quality dividend-paying stocks may also perform well.

Chinese stock markets did poorly last year and still face challenges this year. However, the Chinese economy may start to recover. Due to low valuations, there are some opportunities in Chinese tech stocks as well as stocks in the electric vehicle (EV), renewable energy and healthcare sectors. A flexible approach is recommended until business and consumer sentiment improves.

Japanese stocks rallied strongly last year but we are mindful of risks ahead. While corporate reforms are positive, stock valuations are no longer cheap. If the Bank of Japan (BOJ) ends its negative interest rate policy and yield curve control as anticipated, a surge in Japanese government bond (JGB) yields and the Japanese Yen (JPY) could hurt local stocks, particularly shares of export-reliant companies. Japanese bank shares could however benefit as a change in BOJ policy could result in higher net interest margins and therefore profits.

We are optimistic about Asia ex-Japan stocks. While China's weak economy poses challenges in the near term, stocks in Asia ex-Japan offer appealing dividends and business activity is still resilient. Trade has also recently improved and countries like South Korea and Taiwan stand to benefit from a recovery in demand for tech hardware. These factors will help drive foreign capital inflows.

We are also positive on ASEAN stocks as we expect monetary policy to be supportive and exports to recover. Stocks valuation are currently attractive.

2024 Outlook

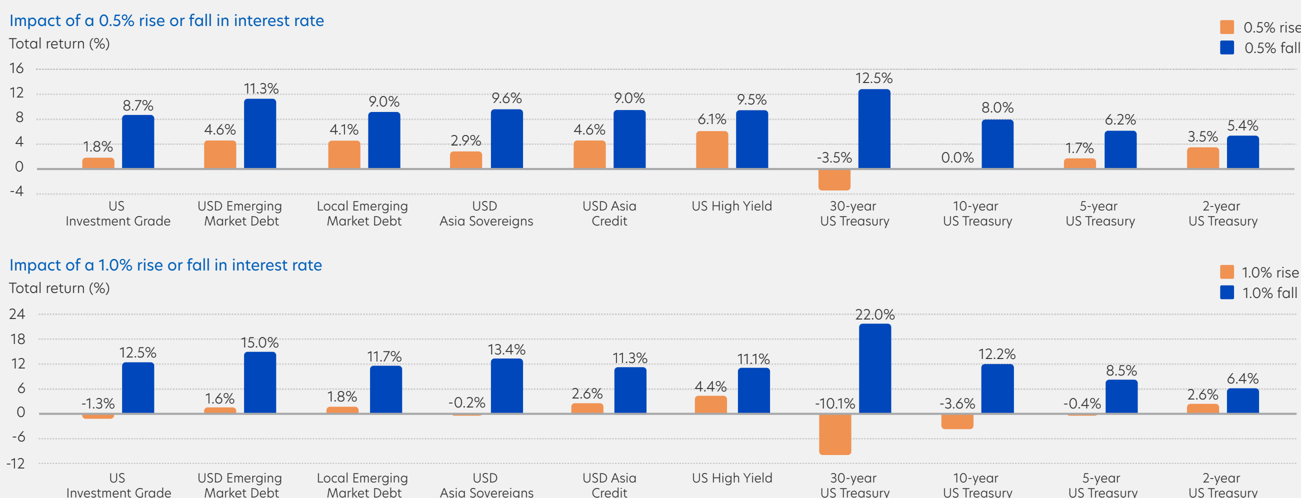
Asset Class Views

Bonds

Bonds may experience short-term fluctuations, especially when investors manage strong rate cut expectations against policy guidance from central banks. In addition, the US government may keep issuing more long-term bonds to fund the US' growing budget deficit, while paying higher rates to renew its debt.

However, 2024 may turn out to be a good year for bonds as risk-adjusted returns for bonds are attractive given the view that both economic growth and inflation will keep slowing down. As central banks shift their focus towards cutting interest rates, bonds will benefit. Besides high coupons, potential gains in bond prices can add to bond total returns.

Figure 7: Bonds offer attractive total returns in scenarios of increasing or decreasing interest rates



Source: JPMorgan Asset Management (30 November 2023)

At current yields, bonds historically offer asymmetric total returns[7] if interest rates rise or fall (Figure 7). If interest rates rise unexpectedly by 0.5% or 1.0%, total returns for bonds are largely positive. If interest rates are cut by 0.5% or 1.0%, bonds will do well.

We have a positive outlook on investment grade bonds in both developed markets (DM) and emerging markets (EM). Investment grade bonds, especially those in developed markets, can hedge against economic slowdown, while paying income. Current yields of 5% to 8% are attractive compared to stock returns which can come with higher volatility.

For the short-term, bonds with low duration will benefit most as central banks stop raising rates and expectations grow over rate cuts from the middle of 2024. Bonds with long duration may underperform during this period as the US government will keep running a large budget deficit this year, leading to issuance of more long-dated bonds. As the year goes on, the environment should improve for long duration bonds when debt issuance concerns ease. The strategy would be to focus on shorter duration bonds now before gradually increasing duration to lock in high yields for longer.

We stay underweight on high-yield bonds as default rates may increase in a weakening growth environment.

[7] Asymmetric total returns mean that the potential gains far outweigh the potential losses in different scenarios.

2024 Outlook

Asset Class Views

Foreign Exchange and Commodities

Our view is for the US Dollar (USD) to weaken across 2024 as the US Federal Reserve (Fed) cuts interest rates. The USD will no longer benefit from a widening yield differential[8] as US Treasury (UST) yields continue to fall. However, USD weakness will likely be gradual as the US economy is still expected to perform better than its European and Chinese peers.

We retain a positive outlook on crude oil prices, expecting Brent crude prices to recover to USD85 per barrel in 1H 2024. Geopolitical tensions remain elevated while OPEC+[9] nations may cut oil production output further.

We still see gold rising above USD2,000 and hitting USD2,100 in the second quarter. Gold is a safe haven asset when economic growth is weak and geopolitical tensions are high, both of which we are facing now. With central banks near the end of their rate hike cycle and possible rate cuts in 2024, demand for gold has risen. Investors are buying more gold as a portfolio hedge, while central banks have also been adding more gold to their reserves. With geopolitical tensions increasing and political risks emerging, the outlook for gold is positive.

8 The yield differential is the difference in yields between similar duration bonds issued by different countries.
9 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.

Trending Topics

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Trending Topics

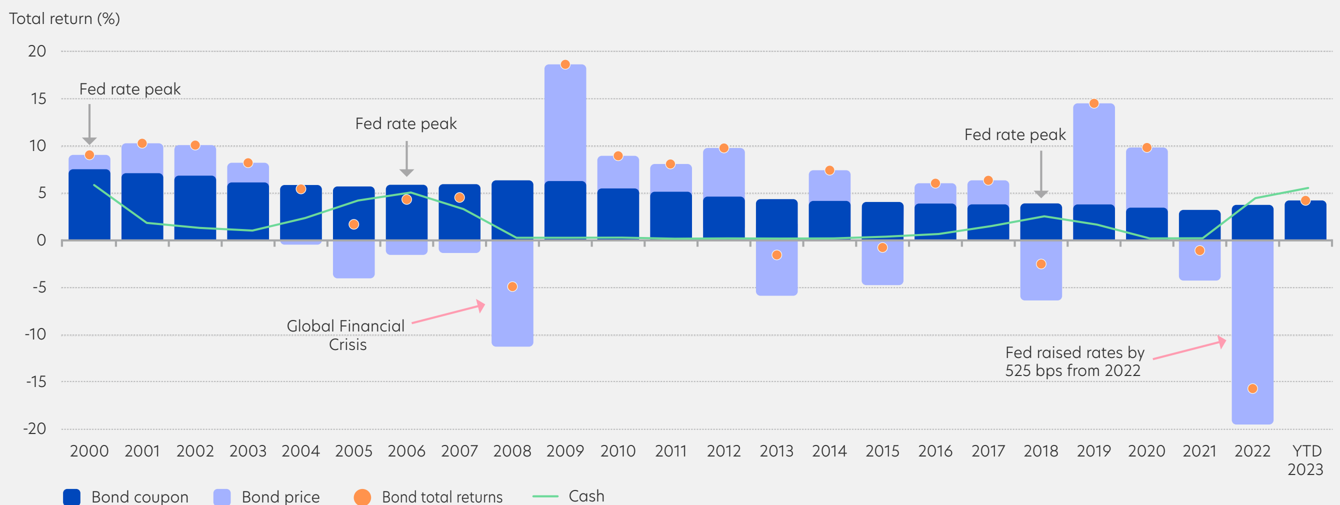
Topic 1: Interest rates are high now, but rate cuts expected

Bonds are an important asset class in the current high interest rate environment. As the economy slows, bonds have the potential for capital appreciation. Even if interest rates fall later than forecast, bonds offer regular income while you wait.

Bond yields in the US have declined from the peak in October 2023 due to lower inflation and expectations of rate cuts ahead.

The 10-year US Treasury yield reached 5% in the middle of October, the highest level since 2007. It has since declined to 3.90% (as of 22 December). Bond yields fell significantly after the last US Federal Reserve (Fed) meeting when Fed Chairman Jerome Powell struck a more balanced tone than markets had anticipated. Interest rates are likely to have peaked and the Fed may lower rates from the middle of this year.

Figure 8: Bonds can offer potential capital appreciation that cash cannot



Bond refers to Bloomberg US Corporate Investment Grade Index. Cash refers to 3-month US Treasury bill.
Bond total returns refers to bond coupon plus the change in bond price.
Source: JPMorgan Asset Management (30 November 2023)

Bonds have done well after Fed pauses

Bonds usually perform well when the rate hike cycle is over and do not need a rate cut to rally. History suggests that when the Fed gets to the peak of its rate hike cycle, bonds tend to do much better than cash in the following period (Figure 8).

Bond yields can fall further in 2024, as growth and inflation slow

Bond yields are likely to continue falling in 2024. As yields decline, bond prices rise. Weaker growth and slowing inflation contribute to lower interest rate expectations, leading to lower yields. Holding cash for yield will become less appealing when short-term interest rates come down. Owning high-quality bonds becomes even more attractive with potential price gains.

Lock in high yields before growth slows and rates fall

Bonds are also supported by uncertainty in the global landscape. Slowing growth as well as geopolitical risk can cause stocks to fluctuate at any time. High quality bonds, as safe havens, can benefit from slow growth and weak sentiment in stock markets. Lock in yields by adding high quality bonds to your portfolio before growth slows and rates fall.

Trending Topics

Topic 2: Factors that signal the end of high rates

Figure 9: Factors that signal the end of high rates

While central banks are not expected to raise rates further, the key question is how much longer before rates are cut. This depends on four factors (Figure 9).

Starting with the most important, US core inflation[10] falling towards the Fed's 2% target would precede the end of high rates. Inflation is a central bank's main priority. Once inflation is under control, central banks can consider cutting interest rates if that is needed to support economic growth.

The second signal is a weakening jobs market and this can be seen from rising unemployment. Jobseekers will lower expectations of high wages if there are fewer jobs in the market, leading to wages and therefore inflation, to come down.

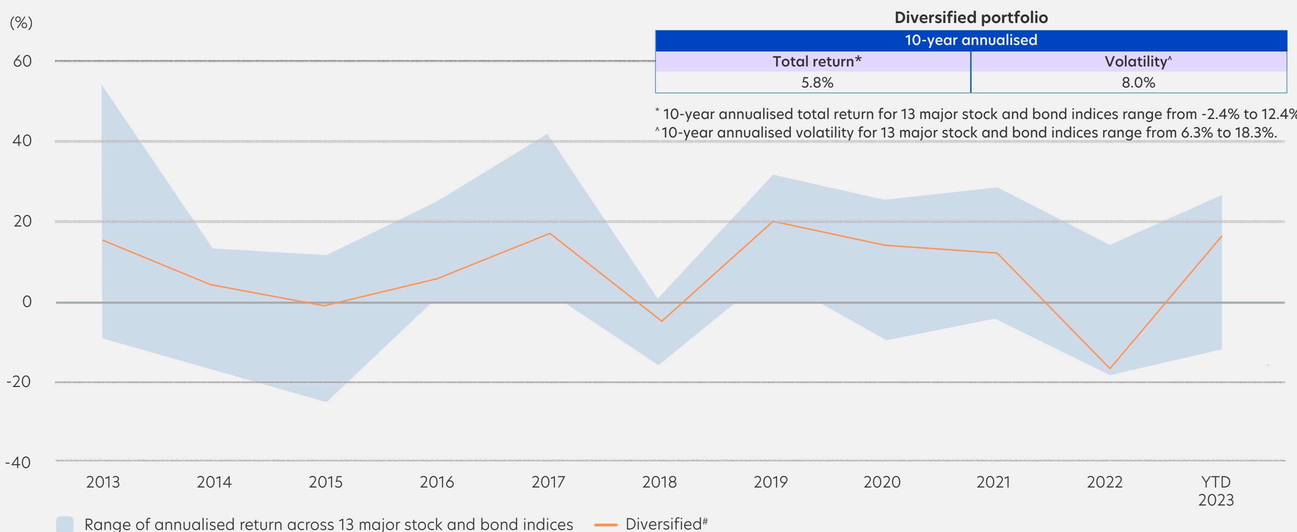
The third factor that signals impending rate cuts is significant deterioration of the economy, as fewer jobs would lead to people spending less.

The last factor, the most dire, is banks imposing stricter lending standards and, as a result, lend less in view of rising bad loans and defaults. In this scenario when the economy deteriorates, companies face pressure from both weaker economic activity as well as the inability to borrow, restricting hiring and business expansion.

When these factors occur, central banks would shift focus from controlling inflation to supporting economic growth with rate cuts. This is also when markets are expected to be more volatile.

As the first half of this year may see more volatility, spread your portfolio across different types of investments while interest rates are high. A portfolio diversified across different asset classes, regions and industries produces steady returns over time, with lower volatility than one that is made up entirely of stocks or bonds (Figure 10).

Figure 10: Diversified portfolio delivers steady returns with lower volatility over time



Diversified portfolio	
10-year annualised	
Total return*	Volatility^
5.8%	8.0%

* 10-year annualised total return for 13 major stock and bond indices range from -2.4% to 12.4%.
^ 10-year annualised volatility for 13 major stock and bond indices range from 6.3% to 18.3%.

#Diversified refers to 60% MSCI World Index and 40% Bloomberg Global Aggregate Bond Index.
Source: UOB PFS Investment Strategists, Bloomberg (15 December 2023)

10 Core inflation refers to the change in goods and services prices, excluding food and energy.

Trending Topics

Topic 3: Dividend investing as interest rates fall

With interest rates forecast to fall in 2024, stocks that pay dividends become more appealing again as cash and bond yields come down. High-quality dividend stocks also have lower volatility than the broader market and become more important in a slowing economy[11]. Dividend stocks have historically done better than other asset classes like bonds and commodities during periods when inflation declines from a peak[11]. This is because they provide income and typically have lower valuations compared to growth stocks.

Asia is an attractive region for dividend stocks

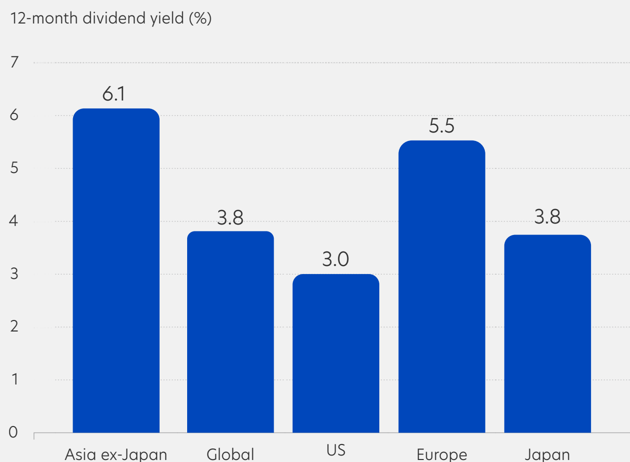
Dividends play a key role in Asian stock markets. The MSCI Asia ex-Japan High Dividend Yield Index, which tracks the performance of quality Asian stocks that pay high dividends, stands out among broader markets. It currently has a dividend yield of 6.1%, much higher than that of the MSCI World High Dividend Yield Index at 3.8% (Figure 11). This attracts income investors who want high and steady dividends from Asian stocks in anticipation of falling interest rates.

Relative to other markets, Asian dividend stocks look the cheapest (Figure 12). This gives dividend investing in Asia an overall advantage.

Focus on dividend yielding stocks in Asia ex-Japan for income

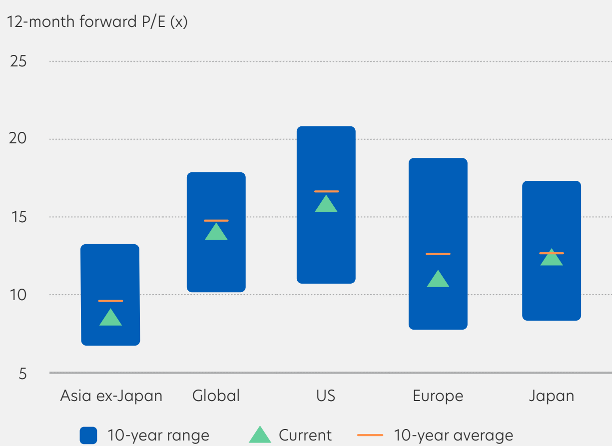
We are optimistic about Asia ex-Japan, focusing on dividend stocks. The region's resilient business activity should enable companies to maintain steady dividend distribution. Dividends become more important in supplementing income when bond yields fall.

Figure 11: Asia ex-Japan companies have the highest dividend yield among major markets



Asia ex-Japan refers to MSCI AC Asia ex-Japan High Dividend Yield Index. Global refers to MSCI World High Dividend Yield Index. US refers to MSCI USA High Dividend Yield Index. Europe refers to MSCI Europe High Dividend Yield Index. Japan refers to MSCI Japan High Dividend Yield Index.
Source: UOB PFS Investment Strategists, Bloomberg (15 December 2023)

Figure 12: Asia ex-Japan stocks are cheaper than stocks in other regions



Asia ex-Japan refers to MSCI AC Asia High Dividend Yield Index. Global refers to MSCI World High Dividend Yield Index. US refers to MSCI USA High Dividend Yield Index. Europe refers to MSCI Europe High Dividend Yield Index. Japan refers to MSCI Japan High Dividend Yield Index.
Source: UOB PFS Investment Strategists, Bloomberg (15 December 2023)

[11] Source: UOB Investment Insights Market PowerBar, September 2023

Trending Topics

Topic 4: Global healthcare combines defensive and growth characteristics

Healthcare trailed the broader market in 2023. Last year, exuberance over new uses of artificial intelligence, as well as an expected recession that did not happen, drove investors to growth sectors, particularly to mega-cap tech companies. This year, with economic growth slowing, defensive sectors like healthcare may have an advantage.

Defensive with positive earnings growth this year

Healthcare is seen as a defensive sector because of steady demand for health-related products and services across economic cycles. The sector's resilience should enable it to cope with the challenges of a slowing economy better than the wider market[12]. Moreover, the earnings growth outlook has turned positive for healthcare in 2024[13]. This can be the catalyst for the sector to recover after a year of weak performance.

Medical innovation is driving long-term growth

The healthcare industry has long-term growth potential not only because of an ageing world population. Other contributing factors include continuing improvements in early disease detection as well as the increasing use of technology and artificial intelligence in medical treatment, for example robot-assisted surgery in minimally invasive procedures.

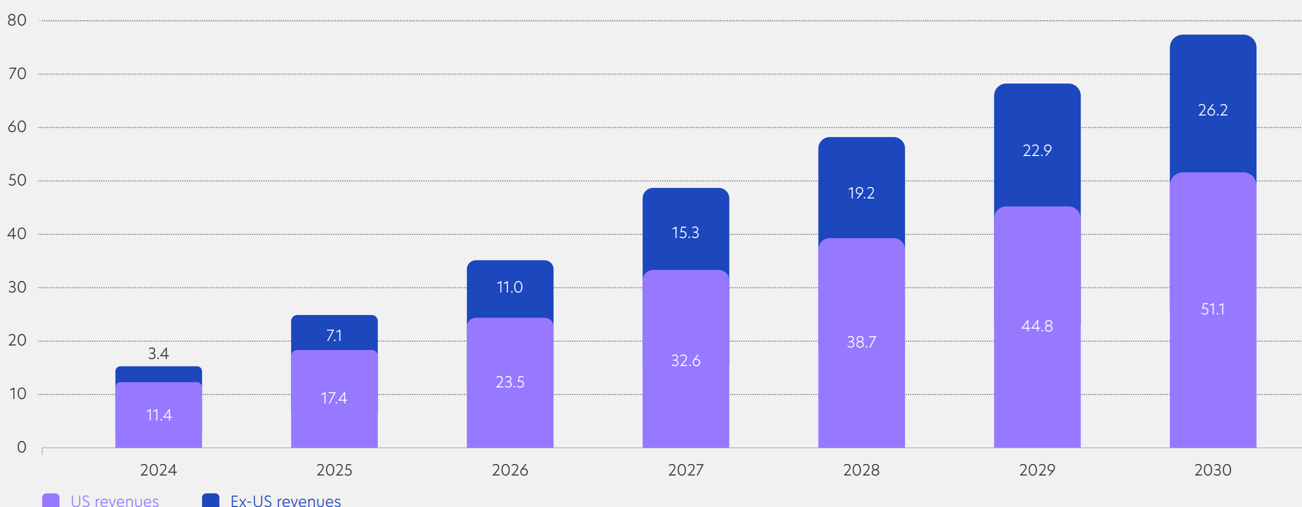
These growth trends stem from the demand for efficiency and cost savings in global healthcare systems. Therefore, they are likely to continue, regardless of macroeconomic challenges. Investors may overlook these opportunities if they only pay attention to current revenue and ignore the impact of medical innovation.

Anti-obesity drugs potentially a USD77 billion market

Obesity is a chronic health issue affecting more than 750 million people worldwide. The high obesity rate is a concern because health problems linked to obesity are among the leading causes of preventable early deaths, estimated to contribute to 5% of all deaths globally[14].

Recent studies highlight the importance of weight management not just for obesity, but also for related diseases. A recent groundbreaking study on obesity-related illnesses revealed that weight management medicine can reduce the risk of heart attacks, strokes and cardiovascular deaths by 20%[15]. Along with the availability of new drugs such as GLP-1 receptor agonists, this could be a potential game-changer in obesity treatment. Morgan Stanley Research estimates that the total global market size for anti-obesity drugs could reach USD77 billion in revenue by 2030 (Figure 13).

Figure 13: Revenue for anti-obesity drugs could reach USD77 billion by 2030



Source: Morgan Stanley Research Estimates, Obesity Drugs Boost Pharma's Growth Outlook (6 September 2023)

12 Source: UOB Investment Insights Market PowerBar, August 2023
13 Source: Earnings growth forecasts are based on consensus estimates, FactSet, MSCI and AllianceBernstein (AB), as of 31 October 2023
14 Source: World Health Organization, Obesity and overweight, 9 June 2021
15 Source: Morgan Stanley Research, Obesity Drugs Boost Pharma's Growth Outlook, 6 September 2023

Trending Topics

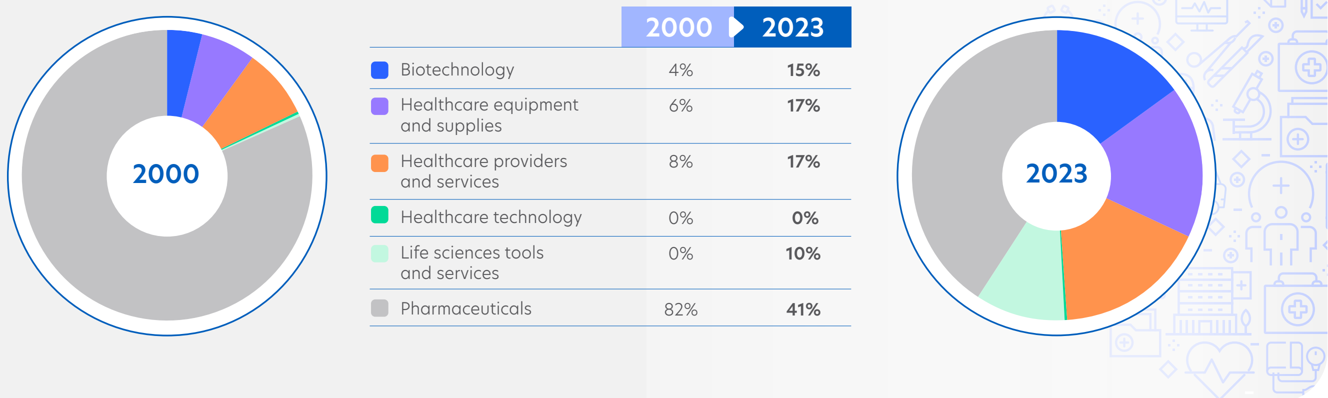
Topic 4: Global healthcare combines defensive and growth characteristics

Healthcare sector combines resilience and growth

The composition of the MSCI World Health Care Index has undergone significant changes in the past 20 years. Pharmaceutical companies make up 41% of the index, compared to 82% two decades ago. At the same time, other industries with higher growth potential such as life sciences tools and services, healthcare technology and healthcare equipment now have larger weight in the composition of the index (Figure 14).

The evolution of the healthcare sector now gives you access to defensive pharmaceutical companies as well as growth opportunities in a wider range of companies within the sector. Therefore, global healthcare remains one of our Top Ideas in 2024.

Figure 14: Healthcare industry has evolved to include sectors with high growth potential



	2000	2023
Biotechnology	4%	**15%**
Healthcare equipment and supplies	6%	**17%**
Healthcare providers and services	8%	**17%**
Healthcare technology	0%	**0%**
Life sciences tools and services	0%	**10%**
Pharmaceuticals	82%	**41%**

Numbers may not sum due to rounding.
Source: MSCI and AllianceBernstein (AB) (31 December 2000 and 30 September 2023)

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What You Can Do

Building Your Portfolio

UOB's Risk-First Approach is the foundation for your wealth planning journey. The principle is to protect your wealth with adequate cash buffers and appropriate insurance solutions. When this is done, build your wealth with a resilient portfolio of Core allocation solutions to meet long-term financial needs, before enhancing wealth with Tactical allocation solutions to capture market opportunities when they arise.

Core allocation solutions help you progress towards your long-term financial goals and can weather different market cycles. Dollar-cost averaging can be a good way to build up your Core allocation. After that, you can consider Tactical allocation solutions that are focused on capturing targeted short-term opportunities with the aim of capital growth. Importantly, diversify your investment portfolio to weather all market conditions.

Many of you have invested in a defensive portfolio with a focus on bonds over the last year. This will be rewarding as the global economy slows, as bonds will do well with central banks nearing the end of their rate hike cycle. At the same time, consider multi-asset strategies for both diversification and income.

If you have low exposure to bonds, you still have a chance to lock in high yields before they fall. Fixed deposits and money market funds provide good short-term income, while bond funds and investment grade bonds can lock in high yields for a longer period. For those concerned about a possible recession or geopolitical risk, you can consider increasing your bond allocation.

If you are willing and able to take risk, consider Tactical allocation Top Ideas such as global healthcare as well as Asia ex-Japan and ASEAN. You can find out more about these ideas below.

Another Tactical allocation strategy is to accumulate quality growth stocks, including those that pay dividends, on dips when they are cheaper. Now is the time to build an additional source of cashflow from strong companies that pay dividends so that you continue to enjoy income from your portfolio when yields from cash and bonds fall.

Figure 15: Core allocation

Multi-asset strategies

1. Diversified across different asset classes, sectors, and regions
2. Capture current market opportunities
3. Lower risk and help you progress towards long-term financial goals

Investment grade bonds

1. Provide consistent income
2. Potential capital gains when interest rates come down
3. Hedge against economic weakness

Core Allocation

Multi-asset strategies

Multi-asset strategies are an important part of the Core allocation, as they help you diversify and lower the risk of your portfolio, while potentially offering regular income in the form of monthly dividends. A diversified approach delivers consistent returns over time with lower volatility (Figure 10).

Accumulate multi-asset strategies on dips to capture opportunities across different market cycles and asset classes such as stocks, bonds and alternatives.

Investment grade bonds

Investment grade bonds are expected to perform well this year as economic growth and inflation slows and central banks eventually cut interest rates. Besides income from current high yields, potential capital appreciation can boost total returns from bonds.

Focus on short to medium-term duration bonds at the start of the year, before progressively turning to longer duration bonds as the year progresses when debt issuance concerns ease.

What You Can Do

Tactical Allocation

Figure 16: Tactical allocation

Positive Neutral Negative

Top Ideas

Global healthcare

- Defensive characteristic amid growth slowdown
- Positive earnings growth outlook
- Medical innovation driving long-term growth

Asia ex-Japan

- Resilient business activity
- Stabilising export outlook
- Attractive stock dividends

ASEAN

- Resilient household consumption
- Stabilising export outlook
- Attractive stock valuations

Other Tactical investments

Quality growth/dividend stocks with steady revenue streams and strong cash flows

For VTAR framework, refer to our VTAR Methodology.

Top Ideas

Top Ideas are investment opportunities, with a 24-month outlook, that the UOB Personal Financial Services Investment Committee identifies through a rigorous process of research and deliberation using our VTAR framework.

This framework provides a holistic view of financial markets and identifies investment opportunities across asset classes, sectors, geographical regions and time periods.

Global healthcare

Global healthcare offers both short and long-term investment opportunities.

The healthcare sector may be more resilient than the broader market in a growth slowdown, due to its defensive nature. Prospects of positive earnings growth may boost the performance of the healthcare sector in 2024.

Long-term drivers include promising developments in diagnostic and life science services, healthcare technology and equipment. Medical innovation and development in anti-obesity drugs could also see exponential growth, estimated to have a total addressable market of USD77 billion in revenue by 2024.

What You Can Do

Tactical Allocation

Asia ex-Japan/ASEAN

Asia's economic activity is likely to do better than that of the US and Europe. History shows that when Asia's economic growth beats that of its developed market peers, it also means better performance for Asian stocks[16]. Furthermore, Asia offers attractive stock dividends (Figure 11) which will help the region's stock market stand out this year.

For ASEAN, household consumption is expected to be resilient while the export outlook is stabilising. Stock valuations are also attractive.

Other Tactical allocation solutions

Accumulate quality growth stocks, including those that pay dividends, on dips when they are cheaper.

Quality growth stocks are expected to do better in a slowing growth environment given their steady cash flow and strong balance sheets.

Now is the time to build an additional source of cashflow from strong companies that pay dividends so that you continue to enjoy income from your portfolio when yields from cash and bonds fall. Quality dividend-paying stocks can help you achieve this and Asia ex-Japan offers attractive stock dividends now.

Our Strategies

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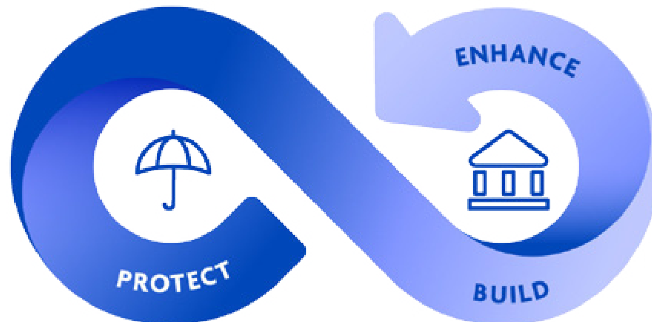
Our Strategies

Our Risk-First Approach

Investors may face uncertainties in their investment journey, as financial markets will likely stay volatile as global growth slows.

Our Risk-First Approach ensures that you understand your risk appetite as the starting point in your wealth journey, before considering the returns you would like to achieve. This way, you avoid taking excessive risks in the journey towards your financial goals.

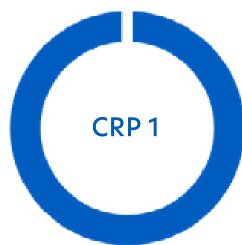
In practice, our Risk-First Approach helps you Protect the wealth you have worked hard to accumulate, then Build and Enhance your wealth with the appropriate asset allocation.



Optimal portfolios are recommended according to your Client Risk Profile (CRP). Depending on your risk profile, a maximum of 30%, 40%, or 50% is allocated to Tactical investing while the rest is anchored in Core investing.

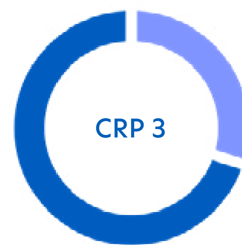
Core allocation tends to be of lower risk and are designed to help you progress towards your long-term goals. By nature, they are held through market cycles and can provide regular income. They tend to be diversified across asset classes, sectors and regions.

Tactical allocation focuses on capturing targeted short-term opportunities. These aim for capital growth but can also incorporate income strategies.

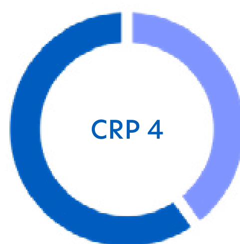


Core allocation 100%
Tactical allocation 0%

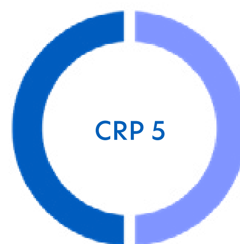
Core allocation 100%
Tactical allocation 0%



Core allocation 70%
Tactical allocation 30%



Core allocation 60%
Tactical allocation 40%



Core allocation 50%
Tactical allocation 50%

Core allocation
Tactical allocation

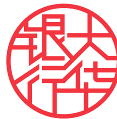
Our Strategies

Our VTAR Methodology

Our VTAR framework focuses on analysing large volumes of financial data in the four components of Value, Trend, Activity and Risk (VTAR). This framework provides a holistic view of financial markets and identifies investment opportunities across asset classes, sectors, geographical regions and time periods.

The UOB Personal Financial Services Investment Committee examines these insights based on market and asset class views from our Chief Investment Officer, in tandem with key risks and comes to a consensus to determine the attractiveness of each potential investment idea.

	Purpose	Common Indicators
Value	Identifying investments with attractive valuations and earnings potential.	• Price-to-Earnings Ratio (P/E Ratio) • Earnings Growth (EPS Growth) • Option-Adjusted Spreads (OAS)
Trend	Understanding the trend of the investment.	• Simple Moving Averages (MAs) • Relative Strength Indicator (RSI) • Fund flows
Activity	Understanding the macro environment and business activities that may affect performance.	• Central bank policies • Composite Purchasing Managers Index (PMI) • Industrial Production (IP) and Retail Sales
Risk	Identifying key market risks and potential mitigating factors.	• Geopolitical events • Industry- or region-specific events • News flows



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