UOB House View 4Q 2024

Wednesday, 02 October 2024

The Team
Global Economics & Markets Research
Private Bank

Global Macro

Now that the US Federal Reserve (Fed) has finally started its eagerly awaited monetary easing cycle with an outsized 50bps cut, the US Treasury yield curve can be expected to steepen anew but we remain concerned about the growing long-term risk of runaway US fiscal debt. As for Japan, BOJ remains poised for more rate hikes after volatility subsides. Despite China's barrage of stimulus announced, it remains uncertain whether it can reinvigorate China's weak economic sentiment.

Asset Allocation

We remain overweight on Equities in our asset allocation due to supportive earnings against a backdrop of falling interest rates. We maintain neutral on Fixed Income following strong Treasury returns. We stay overweight on Alternatives as less correlated alternatives offer diversification benefits. Cash remains an underweight as the benign macro backdrop remains supportive for risk assets.

Equities

We remain underweight on the US as we are tactically cautious on near-term corrective risks heading into the presidential elections. We downgrade Europe to neutral from overweight as the region is mired in weak domestic consumption and softening manufacturing activity. We maintain our overweight on Japan as its medium-term story is underpinned by corporate reforms and the end of deflation. We upgrade EM Asia to overweight and stay cautiously optimistic on China following stimulus measures as more reflationary measures are required.

Fixed Income

For Developed Markets (DM), we stay overweight on DM IG as quality premia remains a key focus. We stay underweight on DM HY as risk-reward is asymmetric but further credit spread tightening is plausible. We stay overweight Emerging Markets (EM) IG and emphasize coupon carry via credits with resilient fundamentals. We are Neutral on EM HY and selectivity is key in avoiding credit pitfalls.

Commodities

We stay positive on gold due to the start of eagerly anticipated Fed rate cutting cycle, upcoming further weakness in USD and lower rates, likely return of investor demand to gold backed investments like ETFs, jump in gold import demand from India and on-going strong central bank allocation into gold. We raise our gold forecast to USD 3,000 / oz by 3Q25. In comparison, we see crude oil and copper feel the weight of China's economic slowdown.

FX & Interest Rates

Fed's rate expectations will continue to be the predominant driver for the broad USD trend just as Fed takes leadership in this easing cycle. Even after wiping out the very substantial year-to-date gains, the path of least resistance for the DXY from here is likely still skewed to the downside. In terms of front-end rates, for end 4Q24, we forecast the 3M compounded in arrears Sofr and Sora at 4.88% and 3.06% respectively. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 100 bps rate cuts from the Fed.

Global Macro & Markets Strategy

Start of the eagerly awaited Fed rate cutting cycle

"*Beware of little expenses, a small leak can sink a great ship*" Benjamin Franklin

The US Federal Reserve (Fed) has now finally started its eagerly awaited rate cutting cycle. This new monetary easing cycle is very hard fought and comes off the back of a sustained pullback in US inflation towards the 2% long term target as well as renewed signs of modest weakness in the US job market. As we had expected, the US Dollar had weakened and rates softened over the past month heading into this rate cutting FOMC. Now that the Fed's rate cutting cycle has started, it is worth assessing the key macro and market trends into the final quarter of 2024 that investors need to be mindful of:

#1: Yield curve can be expected to steepen anew

The US yield curve started to invert from mid-2022 and has largely stayed inverted over the past 2 years. It is only over the past month that the yield curve has started to normalize with the 10s2s yield spread finally flipping back into positive territory from mid-August. This normalization of the yield curve can be simply explained by the quicker and larger drop in front end short-dated rates, which are more sensitive to market expectations of imminent Fed cutting cycle.

Going forward, as the Fed's rate cutting cycle progresses, the yield curve will start to steepen further. In fact, yield curve steepening has been the case since previous rate cutting cycles starting from 2001, 2007 and 2019. We can expect more of the same this time round too. However, the upcoming yield curve steepening may be shallower than previous rounds, unless the US job market surprises with pronounced weakness in the months ahead, forcing the Fed to intensify and accelerate its rate cuts. For a start, a return to a positive yield curve should be a welcome relief as we are back to a "normal" yield curve regime whereby longer dated rates pay more due to higher risk.

#2: Righting the runaway US fiscal debt ship

Much have been discussed and postulated by both US Presidential candidates in the intense runup to Nov 5th. What is clear is that many of former President Trump's desired policy settings carry clear inflationary risks. Various settings of more and extended tax cuts, higher tariffs and tighter immigration may drive renewed inflation, making it difficult for the Fed to cut rates meaningfully into 2025 and potentially generating USD strength instead. In other words, former President Trump's desired policy settings are at odds to his desire for a weaker USD to help boost US trade and exports further. On the other hand, Vice President Harris' policies can be said to be an extension of existing Biden administration policies. Specifically on trade measures, how she adjusts the existing "small yard high fence" regime of targeted trade tariffs remains to be seen.

What is clear is that both candidates - Harris and Trump - did not spend much time discussing the growing long term risk of runaway US fiscal debt. The non-partisan Congressional Budget Office (CBO) has warned that US outstanding public debt is projected to jump from about USD 28 tn currently to USD 50 tn in the coming decade. This is an astounding number. A ballooning US public debt over the long run will be negative for the USD should the investing public lose confidence in the credibility of the US Treasury. As Benjamin Franklin wrote many years ago, "Beware of little expenses, a small leak can sink a great ship", it is still not too late for both US Presidential candidates to have the wisdom to focus on the longer term needs to right the US fiscal debt ship and offer much needed solutions to cut back on excessive fiscal spending.

#3: BOJ poised to raise rates further as JPY carry unwind volatility subsides

Moving onto Asia, the latest comments from Bank of Japan (BOJ) Governor Kazuo Ueda and various BOJ officials reaffirmed that the central bank remains committed to raise interest rates further, as long as financial market conditions stabilize. Indeed, our view is that the BOJ is poised to hike its overnight policy rate by another 25 bps to 0.50% at the Dec meeting. By currently trading at about 43 bps, the short term 3M Tibor rate has effectively priced in to a large extent this anticipated 25 bps hike to 0.50%. Concurrently, with the on-going narrowing of yield differential against the USD, the USD/JPY spot rate is expected to ease further and trade below 141 by year end.

What is still worrying investors in the background is the potential of yet another round of disruptive volatile further unwinding of JPY carry trade. While it would be difficult to quantify the precise amount of outstanding JPY shorts, we can draw a fairly accurate inference from the net positioning of JPY futures on the CME. To that note, it is worth noting that this net positioning of JPY futures has recently flipped to a net mild positive from the extreme net short position back in mid Jul. As such, it is likely that most of the speculative JPY carry positioning would have been unwound over the past month. Furthermore, most of the major JPY crosses like EUR/JPY, GBP/JPY, AUD/JPY etc have reverted back to their price levels at the beginning of the year. Hence, with the short JPY positioning largely a thing of the past, a further rate hike by the BOJ is unlikely to result in a repeat of the disorderly financial markets of late Jul / early Aug.

#4: How to reinvigorate China's weak economic sentiment?
As 3Q24 progressed, it became increasingly apparent that the earlier rounds of repeated monetary policy easing coupled with various fiscal stimulus across 1H24 failed to trigger a meaningful recovery in China's ailing economy. In particular, residential property prices continue to contract as developer debt restructuring remains challenged. Various high frequency macroeconomic and manufacturing data also turned out to be weaker than expected.

At end Sep, China announced a barrage of stimulus measures to boost its economy. This was followed by news reports that the monthly Politburo meeting noted that "new situations and problems" demand a sense of "responsibility and urgency." Although sentiment may be boosted for now and asset prices are being repriced to reflect the lower financing costs, these may not be sufficient to reverse in a meaningful way China's overall growth trajectory. For that, more durable and impactful measures, including fiscal spending, are needed to replenish the lack of spending by consumers and businesses. How will the Chinese authorities be able to reinvigorate weak economic sentiment to encourage consumers and firms to spend again is another key question as we head into the remaining months of 2024. This is critical as the upcoming change in the US Presidency could usher in a new round of negative impact to the Chinese economy and businesses. For now, we still think the 5.0% growth pace of 1H24 will be sustained into 2H24, so we keep our GDP growth forecast for China at 4.9% in 2024, after accounting for a projected 4.8% for 2H24. Thereafter, we expect the expansion pace to moderate further to 4.6% in 2025.

#5: Go Gold Go!
Since trading above USD 2,000 / oz at the beginning of Jan, gold has embarked on a strong sustained rally, jumping by almost 30% to current level of just under USD 2,600 / oz. All the existing positive drivers for gold remain intact. Firstly, Emerging Market (EM) and Asian central banks continue their strong reserve allocation into gold. Secondly, amidst the rising geopolitical risk, the safe haven buying of gold stays strong as well. Thirdly, with its low volatility amidst the wild swings in global equities and debt markets during the recent round of JPY carry trade unwinding episode, gold has reinforced itself as a reliable long term portfolio diversifier of risk.

Finally, with the Fed now embarking on a new rate cutting cycle, gold now enjoys a new strong and positive tailwind. The Fed rate cuts will lower funding cost for gold and help trigger renewed investments from institutional investors. In fact, we are just witnessing a renewed climb in demand for gold backed ETFs. Overall, we reiterate our long-standing positive view for gold and highlight that the psychological headline level of USD 3,000 / oz now increasingly within reach over the medium to longer term.

FX Strategy: USD to weaken further after Fed starts rate cut cycle with a bang
Fed's rate expectations will continue to be the predominant driver for the broad USD trend just as Fed takes leadership in this easing cycle. Even after wiping out the very substantial year-to-date gains, the path of least resistance for the DXY from here is likely still skewed to the downside. We expect the DXY to dip below its key support level of 100 by end of the year. Overall, while we reiterate the view of further USD weakness from here, it may come with two-way volatility. As we approach the Nov US elections, concerns about Trump's inflationary policies may spur a recalibration of interest rate and USD expectations again. Our updated 4Q24 and 3Q25 forecasts for EUR/USD, GBP/USD and AUD/USD are 1.13, 1.17 and 1.34, 1.40 and 0.68, 0.71 respectively.

As for USD/JPY, notwithstanding the plunge from 161 to 142 in 3Q24, the pair is still biased to further downside, albeit at a more gradual pace as a large portion of the speculative JPY carry trade may have already been unwound across late Jul to early Aug. Monetary policy divergence between the Fed (easing bias) and the Bank of Japan (tightening bias) anchors our existing view of further weakness in USD/JPY in the coming quarters. Our updated USD/JPY forecasts are now at 141 in 4Q24 and 133 in 3Q25.

Most Asia FX posted strong gains against the USD in 3Q24, with the Asia Dollar Index jumping the most since 4Q23. As the USD's interest rate advantage dwindle in the face of the Fed's easing cycle, foreign investors poured into regional government bonds (such as Indonesia, Malaysia and Thailand), lifting regional currencies. In the coming quarter (4Q24), Asia FX could consolidate gains against the USD after the strong rally in 3Q24 left some currencies at the most overbought conditions in recent years. Lingering concerns about China's bumpy economic rebound may also temper with investors' enthusiasm on Asia FX. Lastly, investors may also adopt a wait-and-see attitude as the Nov US elections nears with as the tail-risks of Trump's potential tariff policies if he wins the elections cannot be ignored. Overall, we update our 4Q24 forecasts for most Asia FX to be near to current spot levels before strengthening anew in 2025. Our updated 4Q24 and 3Q25 forecasts for USD/CNY and USD/SGD are 7.08, 6.87 and 1.30, 1.27 respectively.

Rates Strategy: Adjusting our rates forecasts for a strong start to the Fed easing cycle

Our Fed view is revised to more front-loaded rate cuts where we see another 50 bps of cuts from here till end of 2024 and a shorter easing cycle with terminal rate unchanged at 3.25% at 1Q 2026 compared to 3Q 2026 previously. Now that the 2s10s UST curve has moved back into the positive territory and Fed easing is officially underway, one of the most consensus view is for the curve to steepen further. This is also our bias. As such, we do see further steepening in the 2s10s UST curve over this rate cut cycle, but the magnitude may be smaller than commonly held assumptions.

In terms of front-end rates, for end 4Q24, we forecast the 3M compounded in arrears Sofr and Sora at 4.88% and 3.06% respectively. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 100 bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr and Sora could drop to 3.76% and 2.19% respectively by 3Q25. For the longer end of the curve, we forecast the 10Y UST and SGS yields at 3.70% and 2.55% respectively by the end of 4Q24. Our 10Y UST yield projection has been reduced post Sep FOMC in view of the revisions in our Fed Funds rate baseline. 10Y SGS yield forecast has also been reduced in line with the 10Y UST update. The overall forecast curves for UST and SGS points lower across time due to our monetary policy easing cycle base case. Eventually, we see 10Y UST and SGD at 3.50% and 2.50% by 3Q25.

Our monetary policy views on major developed markets (DM) sees central bankers there positioned to cut their own policy rates. The exception being Japan where the BOJ continues to dance to a different tune and interest rate normalization remains the objective. We have penciled in another BOJ rate hike in 4Q 24 to take the policy rate up to 0.50% which will be its highest since 2008. In the Asian region, central banks' reaction functions are more variable although the path of least resistance may be building towards embarking on their own easing cycles too. Case in point, we have Bank Indonesia surprising markets with a rate cut in Sep to reverse its short lived and unexpected hike in Apr.

Commodities Strategy: Brent and Copper feel the weight of China's economic slowdown

With the Fed now starting its rate cutting cycle, we can expect further weakness in the US Dollar as well as more softness in USD rates. This retreat in both US Dollar and long-term borrowing rates now provide an important positive tailwind for gold. In line with the start of the Fed cutting cycle, funding costs against maintaining long gold positioning has dropped, as such we also see the return of institutional investors into gold products like ETFs as well. In the background, the overall demand from central bank allocation as well as diversification needs from geopolitical risks continue unabated. Therefore, in view of the lower USD and softer rates from the start of the Fed cutting cycle, we stay positive on gold and raise our fore-casts further to USD 2,700 for 4Q24, USD 2,800 / oz for 1Q25, USD 2,900 / oz for 2Q25 and USD 3,000 / oz for 3Q25.

Brent crude oil has had a disappointing quarter, falling from USD 85 / bbl in early Jul to just above USD 70 / bbl by late Sep. The main culprit for the sell-off across 3Q24 is the return of China growth slowdown concerns, raising fears of weaker energy demand. While growth slowdown risks weigh over the near term, we are weary of extrapolating downside in crude oil price below USD 70 / bbl. This is because there is still on-going geopolitical risk from the conflicts in the Middle East. The crude oil futures curve is now mostly flat with net positioning now down to post-Covid low. In other words, there is little risk premium priced into current crude oil price around USD 70 / bbl. As such, while we lower our Brent crude oil fore-cast due to global growth slowdown and oversupply concerns, we still maintain a mild upward trajectory in view of geopolitical risk. Overall, our updated Brent crude oil forecast is now USD 70 / bbl for 4Q24, USD 75 / bbl for 1Q25 and USD 80 / bbl for 2Q and 3Q25.

Similar to Brent crude oil, LME Copper had a weak outing across 3Q24, failing to trade back up above the USD 10,000 / MT level as renewed selling pressure triggered price weakness down to just above the USD 9,000 / MT level instead. Going forward, we neutralize our previously positive outlook for LME Copper, given renewed growth slowdown worries for China and that the previously anticipated activity stabilization did materialize. Despite the near-term weakness, it is worth highlighting that concerns over the longer term slowdown in copper mining supply as well as tightness in refined.

Asset Allocation

Asset Class Summary 4Q 2024

The asset class summary below is based on a "Balanced" risk profile.

Asset Classes	U/W	N	O/W	Comments
Equities			▲ ●	**Remain Overweight on supportive earnings against a backdrop of falling interest rates.**
United States	▼ ●			Remain Underweight. Tactically cautious on near-term corrective risks heading into US presidential elections.
Europe		■ ● ←	▲ ○	Downgrade to Neutral from Overweight. Region is mired in weak domestic consumption and falling manufacturing activity.
Japan			▲ ●	Remain Overweight. Medium-term story underpinned by corporate reforms remains compelling despite Yen headwinds.
EM Asia		■ ○ →	▲ ●	Upgrade to Overweight. Cautiously optimistic on China following stimulus measures albeit more reflationary efforts are required.
Fixed Income		■ ●		**Remain Neutral following strong Treasury returns; stocks can outperform bonds in a soft-landing scenario.**
DM IG			▲ ●	Remain Overweight. Quality premia remains a key focus.
DM HY	▼ ●			Remain Underweight. Risk-reward is asymmetric but further credit spread tightening is plausible.
EM IG			▲ ●	Remain Overweight. Emphasise coupon carry via credits with resilient fundamentals. Continue to advocate a buy-on-dips stance.
EM HY		■ ●		Remain Neutral. Selectivity is key in avoiding credit pitfalls.
Alternatives			▲ ●	**Remain Overweight as less correlated alternatives offer diversification benefits.**
Hedge Funds			▲ ●	Remain Overweight. Selected hedge funds can outperform the public markets.
Private Markets		■ ●		Remain Neutral. Selected private-market funds have well-established track records.
Crude Oil		■ ● ←	▲ ○	Downgrade to Neutral from Overweight. Crude oil prices could settle in a range in the near term.
Base Metals	▼ ● ←	■ ○		Downgrade to Underweight from Neutral. China's property turnaround and fiscal stimulus will be key to monitor.
Precious Metals		■ ○ →	▲ ●	Upgrade to Overweight from Neutral. Gold can be bolstered by falling real yields and retail investors' demand.
Money Market	▼ ●			**Remain Underweight as a benign macro backdrop is supportive of risk assets.**

▼ Underweight ■ Neutral ▲ Overweight ● Current quarter's position ○ Previous quarter's position

Notes:
The asset class summary above is based on a "Balanced" risk profile.
In the headers, "U/W" represents "Underweight", "N" represents "Neutral", and "O/W" represents "Overweight".
Each black dot indicates current quarter's position. If any, each empty dot indicates previous quarter's position.

Asset Classes	Very Conservative			Conservative			Balanced			Growth			Aggressive			Comments
	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	
Equities				**30.0%**			**50.0%**			**70.0%**			**80.0%**			
United States				15.0%			25.0%			35.0%			40.0%			
Europe				4.5%	-1.5%		7.5%	-2.5%		10.5%	-3.5%		12.0%	-4.0%		
Japan				3.0%	-1.5%		5.0%	-2.5%		7.0%	-3.5%		8.0%	4.0%		
EM (Asia)				7.5%	3.0%		12.5%	5.0%		17.5%	7.5%		20.0%	8.0%		
Fixed Income	**90.0%**			**60.0%**			**35.0%**			**10.0%**						
DM IG	45.0%			25.5%	-1.5%		14.9%	-0.9%		4.3%	-0.3%					**Avg. duration:** 5 to 8 years
DM HY				4.5%	1.5%		2.6%	0.9%		0.8%	0.3%					
EM IG	45.0%			24.0%			14.0%			4.0%						
EM HY				6.0%			3.5%			1.0%						
Alternatives				**10.0%**			**15.0%**			**20.0%**			**20.0%**			
Money Market	**10.0%**			**0.0%**			**0.0%**			**0.0%**			**0.0%**			

Notes:
"Chg." means changes in asset allocation relative to last quarter. If any, these changes will be reflected accordingly (plus weighting in green, minus weighting in red).
Figures might not add up due to rounding off to 1 decimal place.

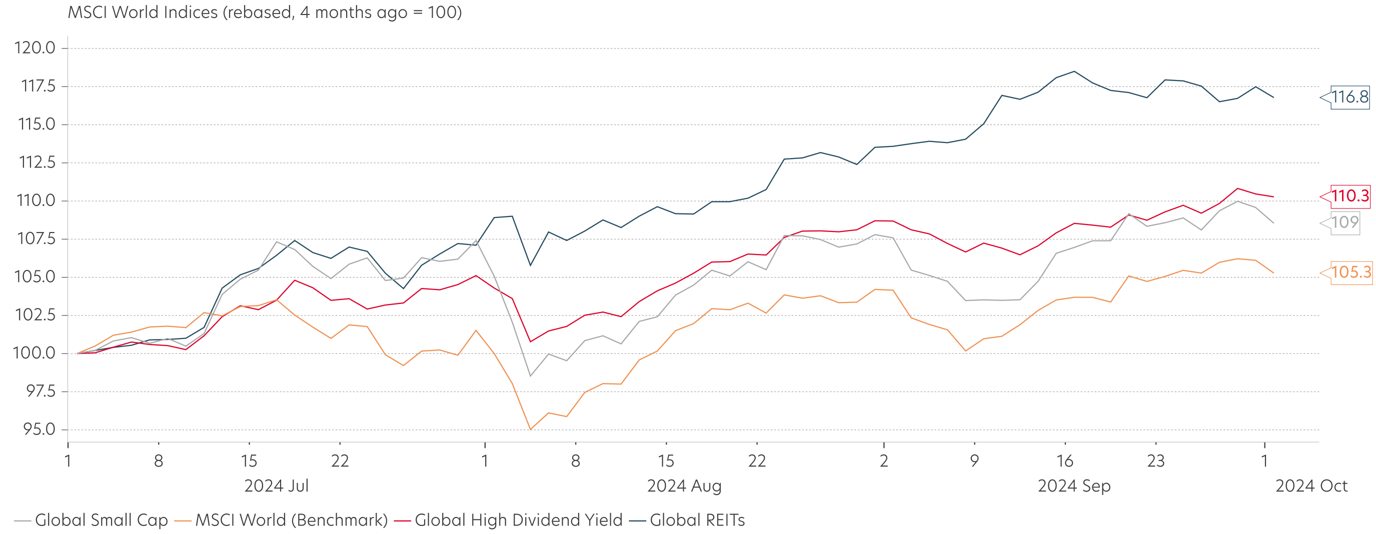
Given the declining inflation and expectation of a soft-landing scenario, equities are likely to outperform bonds. Despite weaker seasonality in October and an event risk surrounding the US presidential election on 5 Nov, the medium-term outlook for equities remains positive.

From a positioning point of view, sectors that will benefit from falling rates such as the REITs, high dividend-yielding stocks and small-mid cap US stocks will perform well. While the fundamentals of mega-cap names remain resilient, opportunities with greater upside potential may be found in less crowded sectors.

Asia and other emerging markets are also likely to perform well in a lower USD rate environment. In particular, the ASEAN region trades at reasonable valuations and benefits from the ongoing supply-chain diversification from China. Finally, we continue to advocate having an allocation to alternatives and precious metals as part of a well-diversified portfolio.

Real estate, high-dividend yield and small-cap names are rate-cut beneficiaries that can perform

Source: Bloomberg, UOB Private Bank



Equities

MSCI USA (+19.6% in USD terms) outperformed all other regional markets (as of 25 Sep 2024). The outperformance was established against a backdrop of imminent interest rate cuts, supportive corporate earnings as well as a resilient US economy.

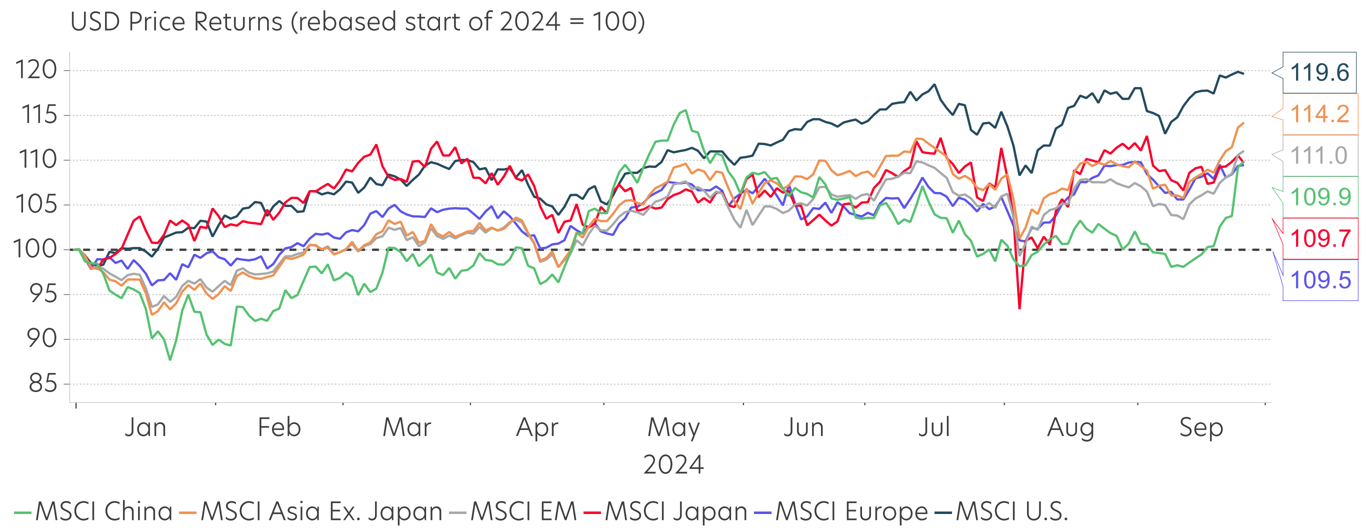
Global equities saw a near-term peak in late July and tumbled through early August. The vicious unwinding of the yen carry trades, led by hawkish Bank of Japan (BOJ) rhetoric in contrast to the Fed's dovish policy tilt, culminated in short-lived but widespread market volatility. Global equities later staged a rebound with Fed Chair Powell signaling "the time has come" for the US interest rates to be cut.

Going into September, markets were gripped by volatility as profit-taking took its course in a seasonally challenging month for the US equities. Following Fed Chair Powell's speech at the 18 Sep FOMC meeting, markets generally traded on a positive note as a 50 bps interest rate cut provided policy space for global central banks to conduct policy easing without causing panic. Powell suggested the jumbo cut was motivated by risk-management considerations and a "recalibration" of policy stance to preempt downside risks. With the US labour market cooling noticeably, the Fed's policy focus has decidedly shifted to unemployment rate away from inflation in its dual mandate. Growth risks now take precedence over inflation risks.

On the economy, there are signs that activity momentum has softened, as shown in the strong downward revisions to the latest 12-month US nonfarm payrolls. Demand for workers is waning while underlying wage pressures have abated. Having said that, the latest adjustment in unemployment rate can be mainly attributed to a return in labour supply, rather than a rapid fall in labour demand. Overall, the US labour market has cooled but is not in distress. The Fed simply cannot wait to see surging layoffs before taking actions to support the labour market.

Equity Performances

Source: Macrobond, UOB Private Bank



Meanwhile, the US households are still in good shape on the back of strong gains in household net worth over the last few decades amid a boom in the US equity markets. Delinquency rates have risen from a low base but remained manageable. Importantly, the Fed's monetary tightening thus far has not bred any financial stresses; a financial or economic stress is a necessary condition for a deep recession. Finally, the US disinflationary trends are intact, cementing the grounds for the Fed to begin its interest rate-cut cycle. To this end, an economic recession could be averted before any lagged effects of monetary tightening manifest. This is consistent with the Fed Chair Powell's confidence in the US economic growth and his view that there is no elevated risk of an economic recession.

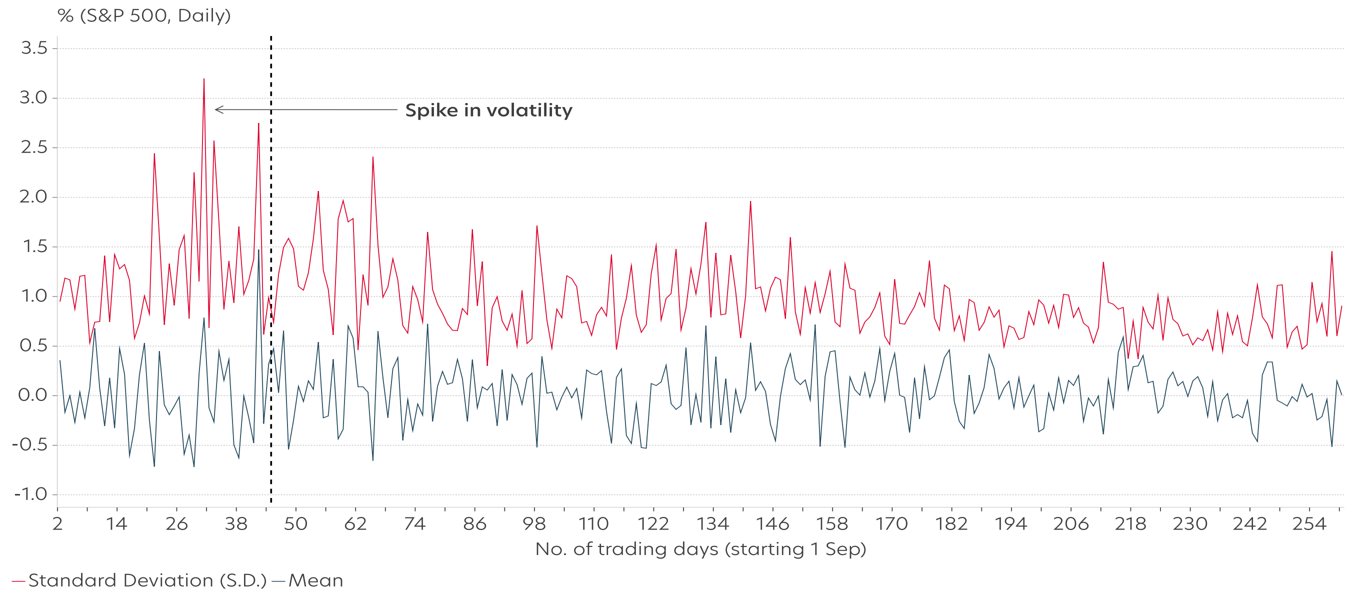
On the markets, a near-term pullback can be expected in the next 1-2 months. This is because (1) meaningful downside surprises to incoming US economic data could induce short-term market volatility on concerns of recession; (2) September and October had been seasonally weaker months for global equities and; (3) market volatility tended to rise 2-3 months into a US election but ebb thereafter. Having said that, any short-term corrective risks for US equities will likely be limited to the tune of 8-10%. With falling interest rates and supportive corporate earnings in the absence of a recession, the medium-term outlook (i.e., 6-12 months) for the US equities remains constructive.

Overall, it is noteworthy the latest FOMC meeting outcome generally bodes well for risk assets. If the Fed's forecast turns out to be right, this will be an unprecedented soft-landing scenario in view of the starting level of inflation. Having said that, some near-term volatility can be expected heading into the Nov presidential elections against a backdrop of relatively demanding valuations. To this end, investors can consider gaining defensive exposure to the US equities . Diversifying some exposure away from "Magnificent 7" into other sectors and regions may be appropriate. Sectors which benefit for falling interest rates including REITs, high-dividend yielding stocks and small-mid cap names can perform well.

Overall, we remain Underweight on US equities.

Higher volatility 2-3 months prior to US elections

Source: Macrobond, UOB Private Bank



MSCI Europe (+9.5% in USD terms) trailed behind all the regional markets (as of 25 Sep 2024). This is unsurprising against a backdrop of lackluster manufacturing PMIs in the eurozone economies. It is also noteworthy that MSCI Europe's index composition is heavier on the Financials and Industrials relative to the likes of the US. Given continued outperformance by technology and growth stocks through the first three quarters of 2024, European equities remained as cyclical laggards. Seasonal volatility going into October as well as the US presidential elections will be in the spotlight in the coming months.

On the economy, latest Euro area data suggest gradual monetary policy easing by the European Central Bank (ECB); this contrasts with the market's expectations of the US Fed funds rate trajectory. Germany remains the growth laggard of the eurozone amid pronounced weakness in the manufacturing sector. Meanwhile, headline eurozone inflation approaches the ECB's target of 2%, with forward-looking indicators of wage growth pointing to deceleration. GDP and inflation forecasts are likely to be revised downwards in the coming months.

Having said that, resilience in services has been a bright spot. The unemployment rate has fallen to an all-time low in July. Peripheral regions like Italy and Spain are holding the fort for the eurozone economies, faring better in real GDP growth. Core inflation has also remained sticky, prompting central bank caution. Taken together, the ECB is set to tread carefully in its path of quarterly interest-rate cuts.

On the markets, MSCI Europe's earnings momentum has stalled amid continued valuation rerating since late-2022. The 12-month forward P/E of 13.9x appears undemanding relative to its 5-year average. In terms of sector performance, luxury stocks remained in a slump amid China's consumption downgrades and a global growth slowdown; their strong pricing power has been normalized. Meanwhile, semiconductor names were battered, led by AI-related industry leaders' failure to meet lofty expectations. Semiconductor share prices have seemingly topped out in the near term, suggesting peak earnings growth has been priced in. Elsewhere, defensives including Utilities outperformed amid a pullback in risk sentiment.

Looking ahead, global market volatility could persist over the next one to two months. China put into place a slew of policy measures which include additional policy rate cuts, a reduction in the reserve requirement ratio (RRR) and existing mortgage loan rates, the establishment of a swap facility to give non-bank financial institutions access to RMB 500 billion in funding to purchase stocks, as well as cash handouts to people in extreme poverty. This could lead to a short-term knee-jerk reaction on the European stock prices, especially for companies of luxury goods which are leveraged to China's demand, given the positive spillovers. However, the eurozone economies have weak domestic consumption against a backdrop of declining global manufacturing activity; this could cap earnings growth and any positive revisions.

Early cyclicals like banks could hold up relatively well in the absence of systemic stress on the financial system. Meanwhile, rate-cut beneficiaries like the real estate stocks have likely bottomed out. In the medium to long term, stocks riding on secular trends like proliferation of obesity drugs, surging demand for generative AI tools and rising military spending on mounting geopolitical tensions are expected to perform.

Overall, we downgrade Europe's equities to Neutral from Overweight.

Earnings momentum has stalled amid re-rating

Source: Bloomberg, UOB Private Bank

MSCI Asia ex-Japan (+14.2% in USD terms) delivered respectable performance, trailing only behind the US year-to-date (as of 25 Sep 2024). Meanwhile, **MSCI China** (+9.9% in USD terms) saw a sharp rebound of late after the government unveiled a slew of policy measures (as of 25 Sep 2024). This is unsurprising as China's previous piecemeal measures to address the dearth of domestic demand have been hesitant and uninspiring. Given the rising risk of a sudden and rapid growth deceleration, China needs a huge stimulus boost to revitalize the economy.

China's economic recovery is decidedly losing momentum. Key indicators continued to surprise on the downside, with exports still holding the fort. Expansion in the services sector has slowed while the manufacturing sector is still in a slump. Fixed-asset investment growth saw a surprise slowdown in July, led primarily by sluggish real estate investment and a slowdown in government-led investment. Declines in new home sales accelerated in August while slow fiscal spending poses as a drag. Weak corporate sales growth points to consumer retrenchment.

It is noteworthy that the Chinese households continued to pile into savings even with domestic interest rates scraping bottom. Corporate borrowing has shifted to bill financing as its average interest rate is lower than that of a regular bank loan. Against a backdrop of simmering geopolitical tensions and moribund property market, the strong performance of China's government bonds suggests that local investors have no confidence in their country's long-term growth prospects.

The silver lining is that the Chinese government have demonstrated a greater sense of urgency amid growth concerns and rising risks of deflation. The PBoC announced on 24 Sep a slew of stimulus measures, catalyzing a sharp rebound in Chinese equities. The stimulus package includes additional policy rate cuts, a reduction in the reserve requirement ratio (RRR) and existing mortgage loan rates, the establishment of a swap facility to give non-bank financial institutions access to RMB 500 billion in funding to purchase stocks, as well as one-off cash handouts to people in extreme poverty. The aggressive reflationary efforts can be seen as a huge step in the right direction, with Chinese officials now potentially viewing rising stock prices as a key confidence indicator for the Chinese economy.

On markets, our preference for stocks in emerging Asia ex-China (e.g., India and ASEAN) has panned out well. Within ASEAN, the likes of Malaysia and Vietnam are expected to benefit from the broader supply chain reshuffling. For Chinese equities, we reiterate our emphasis on being selective, advocating a barbell strategy of having high-dividend stocks on one end, and quality beta options on the other. China's depressed equity valuations stand out relative to regional peers. Looking ahead, China's Politburo meeting and Central Economic Work Conference will be key in monitoring for any significant fiscal support in the coming weeks; this will determine if China's bull market can go into a sustained breakout.

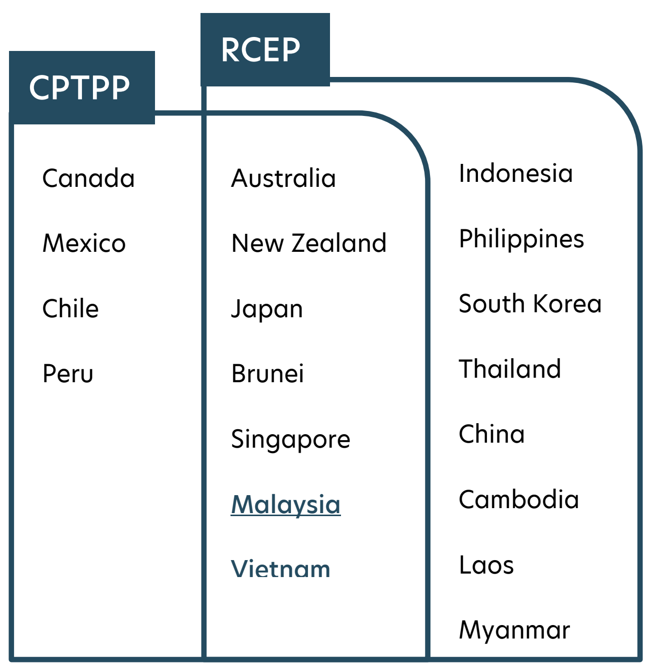
Against a backdrop of imminent Fed rate cuts, the risk-reward remains attractive for emerging Asia. We continue to favour quality high-dividend stocks which include banks, insurers and REITs. For China, we emphasize selectivity; high-quality beta options remain in play. Investors could consider engaging them defensively via structured products.

Overall, we upgrade EM Asia equities to Overweight from Neutral.

Malaysia & Vietnam in APAC Trade Groups

Source: UOB Private Bank

Malaysia & Vietnam in APAC Trade Groups



Source: UOB Private Bank

CPTPP
Comprehensive and Progressive Agreement for Trans-Pacific Partnership

RCEP
Regional Comprehensive Economic Partnership

Right By You

MSCI Japan (+9.7% in USD terms) trailed all other regional markets except Europe year-to-date (as of 25 Sep 2024). Japanese equities suffered huge declines in early Aug 2024, due in large part to the unwinding of yen carry trades on BOJ's hawkish rhetoric relative to the Fed's dovish policy tilt. Market volatility rose amid a fundamental change in monetary policy expectations and rising risk of a US economic recession, culminating in major dumping and profit-taking.

While continued yen appreciation pose as headwinds to the Japanese equities, especially the exporters, Japan's secular bull market remains intact. Importantly, corporate governance reforms as well as positive inflation dynamics spurring an investment cycle continue to underpin our constructive view on Japanese equities in the medium to long term. This is unlikely to be disrupted by recent volatility.

On the economy, Japan's manufacturing PMI has fundamentally bottomed out while the services sector remains well-supported, in part to due to strong tourist demand. Yet, annualized real GDP growth for 2Q 2024 came in at 2.9% which was slightly lower than expected. Private consumption and capital investment were both revised slightly lower. Having said that, overall results are consistent with the BOJ Governor's view that a gradual recovery will continue. Japan's average real wage growth has turned positive after more than two years, portending a pickup in consumer spending. In the absence of further yen-induced financial market volatility, a 25bp interest rate hike is still on the table by the end of this year.

On the markets, higher shareholdings have been observed among medium- to long-term investors. With the Fed's interest rate cut cycle set in motion against the backdrop of a US growth slowdown, global investors remain highly interested in Japanese companies undergoing governance reforms. Reductions of strategic shareholdings are further accelerating, in part due to a new initiative by Japan's Financial Services Agency. The proposed acquisition of a household Japanese convenience store chain by a Canadian company also acts as a litmus test to Japan's market openness.

MSCI Japan's 12-month forward P/E has pulled back to an undemanding 14.6x relative to its latest 5-year average, while earnings momentum is still favourable. Renewed fund inflows have also come in to support the broad market following a brief but vicious selloff in Aug 2024; this suggests that global investor confidence has not been structurally dented. Coupled with improving trends in both dividend payout and share buybacks, there is still considerable upside for Japan's equities.

Overall, the strategy to keep yen exposure unhedged has helped defend against an abrupt shift in expectations for BOJ's monetary policy. Given the outlook for gradual yen appreciation, investors can consider names in domestically oriented sectors. Companies which are undergoing corporate reforms to drive business efficiency as well as shareholder returns can perform well. Finally, we reiterate our preference for Financials and secular growth areas such as IT services.

Overall, we remain Overweight on Japan's equities.

Earnings are growing alongside capital investment

Source: Bloomberg, UOB Private Bank

Fixed Income

Developed Markets Investment Grade Credits

DM Investment Grade (IG), proxied by the US Corporate IG Index (Bloomberg US Corporate Bond Index), delivered a total USD return of +5.3% year-to-date (as of 25 Sep 2024). A trifecta of factors manifested themselves: coupon carry, positive US treasury returns and credit spreads have resulted in a healthy performance for bonds thus far.

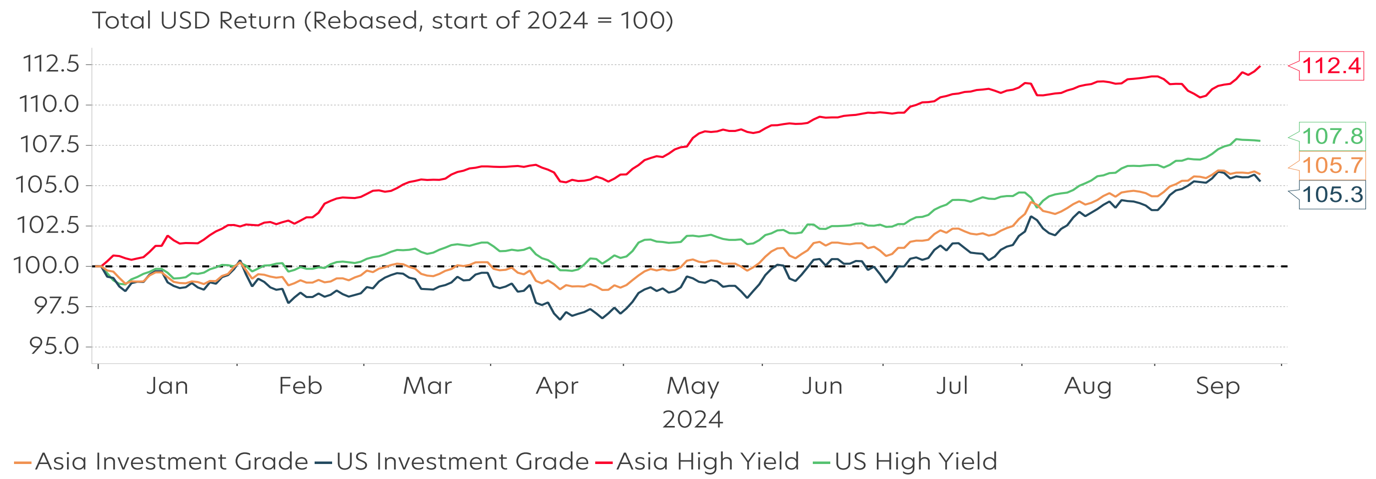
Following the Fed's 50bps cut at its September FOMC meeting, markets have re-priced to a steeper US Treasury yield curve with the 10yr-2yr differential widening to around +14 bps differential as of end Sep. This came in view of monetary policy easing and a more upbeat assessment of the economy. The Fed has gained confidence on the inflationary outlook and is addressing labor market concerns through policy easing. The UOB Global Economics & Markets Research team is projecting two 25bps rate cuts in Nov and Dec respectively this year, followed by another four rate cuts in 2025 (25bps per quarter).

Credit valuations may appear stretched, and we think this is the result of a peculiar confluence of factors as part of the bullish sentiment and technical shift to locking in yields for longer have inadvertently manifested itself through the form of spread compression. Overall, all-in yields remain attractive from a historical perspective. We continue to advocate a bottom-up approach in selecting fundamentally robust credits to secure income over a longer horizon.Avoiding adverse credit events will prove paramount in driving total returns.

Overall, **we remain Overweight on DM USD IG**.

Fixed Income Year-to-date Performances

Source: Macrobond, UOB Private Bank



Developed Markets High Yield Credits

DM High Yield (HY) maintained its outperformance over IG with the US Corporate HY index (i.e., Bloomberg US Corporate High Yield Index) posting a total USD return of +7.8% year-to-date (as of 25 Sep 2024). Notably, the outperformance gap had widened out slightly in the past couple of weeks as duration led to some drag on IG performance. Returns within the HY space remain largely idiosyncratic in nature with select distressed issuers battling restructuring matters while others have undergone successful recovery stories.

HY credit spreads have tightened by 15.8 bps year-to-date to 306 bps which remains near historical tights. Though it comes at a pick-up over IG, the yield enhancement is more limited given material credit spread compression between IG and HY. Overall, default rates are projected to edge higher as a gradual or more patient pace of rate cuts may pose challengers for weaker or distressed issuers. Rising tail risks lead us to be cautious of the asymmetric risk-reward profile. Having said that, further credit spread tightening is plausible under a soft-landing scenario.

Overall, we remain Underweight on DM USD HY.

Spreads have tightened significantly

Source: Macrobond, UOB Private Bank

Emerging Markets Investment Grade Credits

EM Asia Investment Grade (IG) as benchmarked by the Bloomberg EM Asia USD Credit High Grade Index delivered a total USD return of +5.7% year-to-date (as of 25 Sep 2024). IG credit spreads were 16.1 bps tighter for year-to-date 2024 as EM markets have been beneficiaries of the benign economic backdrop and favorable demand-supply dynamics. With Treasury performance being a key contributor to total returns year-to-date, coupon carry will be an increasing focus for income investing.

Encouraging growth prospects in certain EM markets could lead to a wider breadth of issuers tapping the markets for funding. This provides further opportunities for market development which in turn would drive more diversification potential for investors.

Within EM Asia IG, we maintain our preference for Asia financials, select Asia-focused insurers, quasi-sovereigns/strategic state-owned enterprises, as well as defensive consumer names. We emphasize the importance of adopting a diversified approach in managing duration risk, with an average modified duration target of 5-8 years.

Overall, we remain Overweight on EM Asia IG.

Emerging Markets High Yield Credits

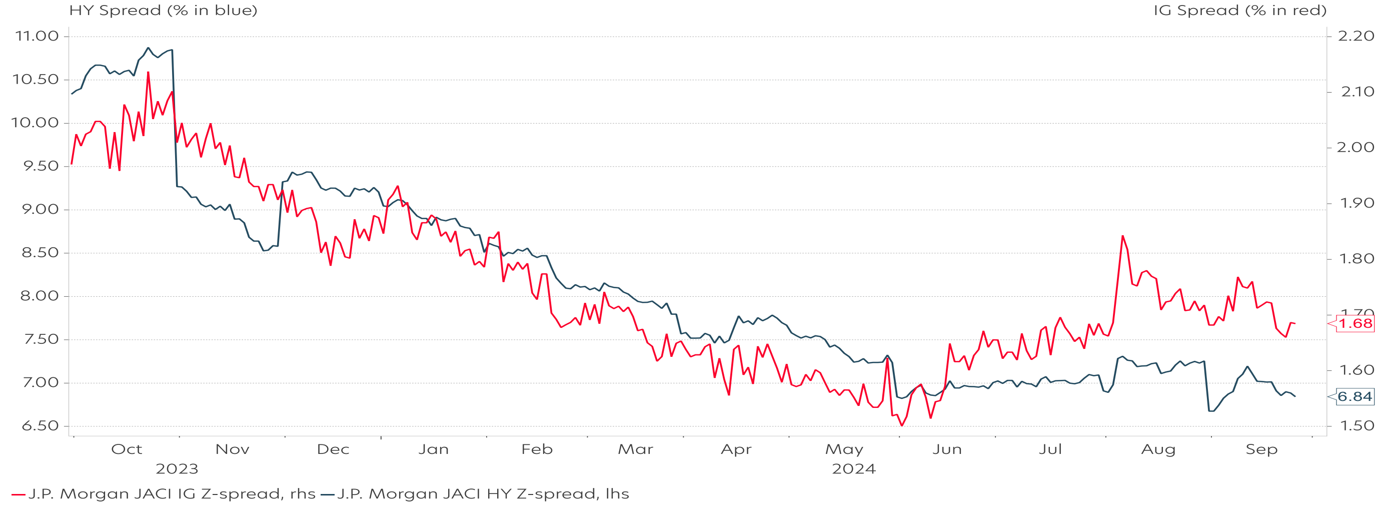
EM Asia High Yield (HY) was a standout performer with the reference index (Bloomberg Asia USD High Yield Bond Index) delivering a total USD return of +12.4% year-to-date (as of 25 Sep 2024). There was a skew towards survivorship bias as the removal of defaulted China developer bonds contributed to base effects at the index level. Overall index performance was lifted by pronounced idiosyncratic recoveries across Pakistan and select mainland China/HK SAR developers.

In terms of positioning, we maintain a cautious stance on the China property space given lack of substantially direct policy support for developers, rating downgrades within the sector and headline risks (i.e., winding up petitions). With the sector facing slow progress on reaching restructuring outcomes, liquidation possibilities continue to remain an overhang. Caution and high selectivity remain our modus operandi within the EM Asia HY sector.

Overall, we remain Neutral on EM Asia HY.

Emphasize selectivity amid spread tightening

Source: Macrobond, UOB Private Bank



FX, Interest Rate & Commodities Forecasts

FX	19 Sep	4Q24F	1Q25F	2Q25F	3Q25F
USD/JPY	142	141	138	135	133
EUR/USD	1.12	1.13	1.15	1.16	1.17
GBP/USD	1.33	1.34	1.36	1.38	1.40
AUD/USD	0.68	0.68	0.69	0.70	0.71
NZD/USD	0.62	0.62	0.63	0.64	0.65
DXY	100.59	99.8	98.2	97.2	96.2
USD/CNY	7.06	7.08	7.01	6.94	6.87
USD/HKD	7.79	7.80	7.80	7.80	7.80
USD/TWD	31.90	31.8	31.3	30.9	30.5
USD/KRW	1,331	1,320	1,300	1,280	1,260
USD/PHP	55.63	55.8	55.3	54.8	54.3
USD/MYR	4.19	4.22	4.18	4.14	4.10
USD/IDR	15,238	15,400	15,200	15,000	14,800
USD/THB	33.12	33.2	32.8	32.4	32.1
USD/VND	24,571	24,500	24,300	24,100	23,900
USD/INR	83.69	83.5	83.0	82.5	82.0
USD/SGD	1.29	1.30	1.29	1.28	1.27
EUR/SGD	1.44	1.47	1.48	1.48	1.49
GBP/SGD	1.71	1.74	1.75	1.77	1.78
AUD/SGD	0.88	0.88	0.89	0.90	0.90
SGD/MYR	3.25	3.25	3.24	3.23	3.23
SGD/CNY	5.47	5.45	5.43	5.42	5.41
JPY/SGDx100	0.91	0.92	0.93	0.95	0.95

POLICY RATES	27 Sep	4Q24F	1Q25F	2Q25F	3Q25F
US Fed Funds Rate	5.00	4.50	4.25	4.00	3.75
JPY Policy Rate	0.25	0.50	0.50	0.50	0.50
EUR Refinancing Rate	3.65	3.40	3.15	2.90	2.65
GBP Repo Rate	5.00	4.75	4.50	4.25	4.00
AUD Official Cash Rate	4.35	4.00	3.75	3.50	3.25
NZD Official Cash Rate	5.25	4.75	4.50	4.25	4.00
CNY 1Y Loan Prime Rate	3.35	3.20	3.20	3.20	3.20
HKD Base Rate	5.25	4.75	4.50	4.25	4.00
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	3.50	3.00	2.75	2.50	2.50
PHP O/N Reverse Repo	6.25	5.75	5.50	5.25	5.00
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo*	6.00	5.75	5.50	5.00	4.75
THB 1D Repo	2.50	2.50	2.50	2.50	2.50
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.50	6.25	6.00	5.75	5.75

INTEREST RATES	19 Sep	4Q24F	1Q25F	2Q25F	3Q25F
USD 3M SOFR (compounded)	5.37	4.88	4.26	4.01	3.76
SGD 3M SORA (compounded)	3.52	3.06	2.58	2.39	2.19
10Y US Treasuries Yield	3.71	3.70	3.60	3.60	3.50
SGD 10Y SGS	2.45	2.55	2.50	2.50	2.50

COMMODITIES	19 Sep	4Q24F	1Q25F	2Q25F	3Q25F
Gold (USD/oz)	2,589	2,700	2,800	2,900	3,000
Brent Crude Oil (USD/bbl)	75	70	75	80	80
Copper (USD/mt)	9,515	9,000	9,000	9,000	9,000

Updated on 30 September 2024

* Forecasts updated as compared to previous report on 20 September 2024

Source: UOB Global Economics & Markets Research

Right By You

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.