4Q 2023 Market Outlook

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Macro outlook is relatively positive on stable economic growth and slowing inflation. The recent equities market correction has been driven by an increase in longer-term bond yields and seasonal weakness. However, we are entering a seasonally stronger quarter for equities as asset managers have historically bought up equities to position for the New Year. Regionally, we are positive on US equities, neutral on Japan equities and negative on Asia Pacific and European equities. We are positive on investment grade bonds on attractive relative valuations and as a hedge to slower economic growth.

MARKET OUTLOOK AND STRATEGY

1. Global growth has remained stable but below trend and our view is that central banks can tame inflation without sending the world into recession. The macro backdrop thus looks relatively positive.

2. We are seeing better than expected economic data in the US and our base case is a soft landing. The US consumer has remained resilient with real consumer spending rising 3.2% this year through August. The labour market has also remained resilient with gains in employment and real wages which have supported consumer spending. Household consumption could remain healthy into 2024 on the "excess savings" during the Covid stimulus. The Institute for Supply Management (ISM) Manufacturing survey in September also suggests that manufacturing could have bottomed which bodes well for manufacturing activities.

3. The Purchasing Managers' Index (PMI) data in the Euro zone suggests contraction in both manufacturing and services activities with increasing risks of a recession. Private consumption has and would likely remain subdued across the region. Manufacturing in Germany, the manufacturing powerhouse of Europe, is weak from lackluster demand from China, labour shortages, higher interest costs and energy cost.

4. Economic activities are showing signs of stabilisation in China despite news of potential default of a major developer and missed payments on high-yield investment trust products. Manufacturing and non-manufacturing PMIs have improved to being expansionary in September. This is after numerous pro-growth measures to spur domestic spending and ease curbs on housing purchases. Consumption during the Golden Week holiday is also decent from pent-up demand for services.

5. Global inflation is gradually decelerating from the lagged impact of tighter central bank policies and developed market central banks are close to the end of the tightening cycle though communications will contain a hawkish bias. The Federal Reserve (Fed) has kept rates on hold in September and we expect rates to remain at such levels till further evidence of a weakening US economy. The European Central Bank has also raised rates by 25 basis points in September and markets are now expecting a pause due to significant slowing in the Eurozone economy.

6. Risks to our positive outlook would arise if inflation were to increase significantly or if there were a sudden deterioration in geopolitical events.

EQUITIES

7. Performance of global equities last quarter was weighed down by the increase in longer-term bond yields and as the third quarter is historically a seasonally weak quarter for equities. A number of technical factors which may have contributed to the recent rise in the US 10-year treasury yield may not be as significant in the following months. We are also entering a seasonally stronger quarter as asset managers have historically bought into the equities market to position for the New Year. Other positive catalysts for equities are the stabilisation of Chinese economic data and inflation decelerating further.

8. The Chinese authorities have announced a slew of measures since the end of last year and economic data is starting to stabilise. However, investor sentiments remain weak and any market rally in China has so far been short-lived. Sentiments could however turn positive going forward if economic data continues to improve from the policy support measures announced so far and especially with investors generally underweighted China equities.

9. Regionally, we are positive on US equities, neutral in Japan equities and underweight in Asia Pacific and European equities.

FIXED INCOME

10. The sell-off in the longer-dated Treasuries is unlikely to be driven by expectations of further rate hikes or expectations of higher economic growth as short-term rates and inflation expectations have held stable throughout the sell-off. The increase in long-term yields is likely due to a temporary imbalance in the supply and demand for long-term Treasury bonds. We are positive on investment grade bonds on attractive relative valuations and as a hedge to slower economic growth. There is also strong demand for investment grade credits and new issuances have so far been well subscribed and traded well in the secondary markets.

All data are sourced from Lion Global Investors and Bloomberg as of 30 September 2023 unless otherwise stated.

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