2H 2024 Market Outlook

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The macro-outlook remains supportive of risk assets with manufacturing picking up in several developed markets and major central banks starting to ease. We are positive on Asia equities, and we see China, South Korea and Taiwan equities benefiting from the recovery in global manufacturing. We remain positive on India equities despite the election results as we do not see significant changes to their existing policies. We are also positive on Japan equities as the positive momentum towards better shareholders' return continues.

MARKET OUTLOOK AND STRATEGY

1. The global economy remains healthy with growth in other key economies compensating for slower growth in the US and China. Huge gains in manufacturing as indicated by the Purchasing Managers Indices (PMI) data in May suggests that a broader manufacturing recovery lies ahead.

2. Economic growth could continue to slow in the US with consumption and employment taking a step down. Recent survey data points toward weaker labour markets ahead. Spending could also slow down on more restrictive monetary policies weighing on demand. With real goods demand still weak and interest rates elevated, manufacturing in the US may not pick-up significantly, except for Artificial Intelligence (AI) related spending.

3. Economic data in the Eurozone is pointing towards improving economic activities. Consumption would be supported by improving real wages as inflation declines while employment remains robust. The German economy could recover sometime in the second half of this year as the normalisation of energy prices benefits the energy intensive industrial sectors.

4. Economic recovery in China is uneven with firmer manufacturing but weaker services as reflected in the May PMI numbers. Industrial production and fixed investment spending has benefited from fiscal support to emerging industries such as semiconductors, electric vehicles, and biotech. However, consumer confidence remains weak due to still poor labor market as well as negative wealth effects from falling property prices. The announcement of a comprehensive package to address property developers' funding needs as well as to help reduce housing inventories could help consumer sentiment going forward.

5. Headline inflation has moderated as commodity prices stabilised throughout the first quarter of this year. The Federal Reserve (Fed) has reaffirmed the need for more evidence that inflation is cooling, or the labour market is weakening before the next policy move to cut rates. Market expectations are now pricing in one to two rate cuts towards the end of this year.

6. The European Central Bank (ECB) cut interest rates by 25 basis points during the June meeting and pointed out that the decision for further cuts would depend on further data that inflation is on the correct path. The market now expects the ECB to further cut rates in October and December on expectations of lower inflation ahead.

7. Risk events include i) a stronger-than-expected US economy and sticky inflation pressuring the Fed to keep rates higher for longer, leading to a hard landing in the US; ii) policymakers in China failing to stabilise growth expectations; and iii) geopolitical risks leading to higher oil prices and shipping costs.

EQUITY

8. Interest rate outlook would be a key driving factor for asset markets. Risk assets should still be supported as a benign growth environment and the easing rate cycle by major central banks this year provides a positive backdrop.

9. We are positive on Asia equities. Global manufacturing-led reflation continues to be the dominant economic regime, which should benefit export-orientated Asian economies such as China, South Korea and Taiwan. Interest rate cuts by the Fed could also lead to a moderation of the US dollars, which is positive for Asia equities. Despite the surprise weak election win for Indian Prime Minister Modi, we do not see significant changes to existing policies which have been supportive for growth and businesses. The Indian growth story remains intact although we may see the emergence of more populist policies to uplift the poorer parts of the population. In China, the markets could see a bit of a pause ahead of the third plenum following the recent recovery. We believe that the economy should start to bottom out and that policy will continue to remain supportive until the economy finds its footing.

10. We are also positive on Japan equities on better shareholders' return. Japanese companies delivered record levels of dividend and share buyback announcements in the last fiscal year and are tracking to deliver another record for quarterly share buybacks in just the first two months of the new fiscal year. The momentum of corporate governance reforms and greater shareholder returns also does not seem to be waning. The coming month holds heightened interest for investors as the Bank of Japan deliberates whether to further hike interest rates in Japan and when the majority of companies hold their annual general meetings.

FIXED INCOME

11. We are positive on Investment Grade bonds which are supported by benign macro environment and strong corporate fundamentals. Spreads, though tight, are likely to remain stable with interest rates being the main driver of returns. Market has priced in almost two rates cuts for 2024. We like short-dated Investment Grade bonds as the current inverted yield curve offers investors attractive absolute yield for their investments. Investors are also protected from the volatile price movements for long dated securities arising from interest rate swings observed in the market lately.

*All data are sourced from Lion Global Investors and Bloomberg as at 24 June 2024 unless otherwise stated.

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