

# 2Q 2024 Market Outlook

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Global economic growth outlook has improved with upgrades in the US and signs of recovery ahead in the Eurozone. Central banks are also relatively “dovish” relative to current economic conditions and interest in the Artificial Intelligence theme continues to drive related equities higher. We are positive on Taiwan and Korea equities as they continue to benefit from the Artificial Intelligence investment cycle. Indonesia equities would continue to benefit from the commodity value-add upcycle. We are also positive on India equities after recent corrections following regulatory moves to curb speculative excesses.

## MARKET OUTLOOK AND STRATEGY

- 1.** The US equities market has made new highs with a continued interest in the tech sector and a resilient domestic economy. The positive macro-outlook was also echoed by the Federal Reserve in their March Summary of Economic Projections, which forecasted above trend growth, low unemployment, and inflation returning to target by 2026.
- 2.** In Eurozone, both the composite Purchasing Managers Index (PMI) and the ZEW economic surveys indicate improving business sentiments and suggest that the Eurozone economy is recovering. Consumption could also improve from positive real wage growth as inflation declines in a resilient labor market.
- 3.** In China, recent economic data remains mixed with stronger services PMI but weaker manufacturing and construction PMI. The National People's Congress has set a growth target of “around 5%” for this year but a sustained recovery would likely require more consistent stimulus especially for the property sector which remains a headwind to growth.
- 4.** Monetary policies are generally supportive for equities in the developed markets. The Federal Reserve (Fed) upgraded its economic growth and inflation outlook during the March meeting but kept its projection of three rate cuts for the year. The European Central Bank is also expected to cut interest rates shortly after the Fed does. The move by the Bank of Japan to end its negative interest rates policy in March was viewed as dovish as there were no hints of further interest rate hikes.
- 5.** 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 stabilize growth expectations; and iii) geopolitical risks leading to higher oil prices and shipping costs.

## EQUITY

6. Fundamentals are supportive for US equities and there are signs that the market rally is broadening beyond the large-capitalized stocks. However, US equities may face occasional pull-back on profit-taking as positions are stretched and valuations rich. The upcoming Presidential election could also introduce greater policy uncertainties, which could have implications for sector positioning and security selection.
  
7. The macro backdrop is supportive for Asia equities with peak US interest rates, a potentially weaker US dollar and recovering Asian export volumes on the back of an inventory replacement cycle. On specific themes, we are positive on Taiwan and Korea equities as they continue to benefit from the Artificial Intelligence investment cycle. Indonesia equities would continue to benefit from the commodity value-add upcycle. We are also positive on India equities after recent corrections following regulatory moves to curb speculative excesses.

## FIXED INCOME

8. We are positive on Investment Grade Bonds which are supported by benign macro, strong corporate fundamentals, and termed-out maturities, especially in the US. Spreads, though tight, are likely to remain stable. We could see lower carry-driven excess returns due to current valuations, but higher total returns from stronger yield support in 2024.

\*All data are sourced from Lion Global Investors and Bloomberg as at 27 March 2024 unless otherwise stated.

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