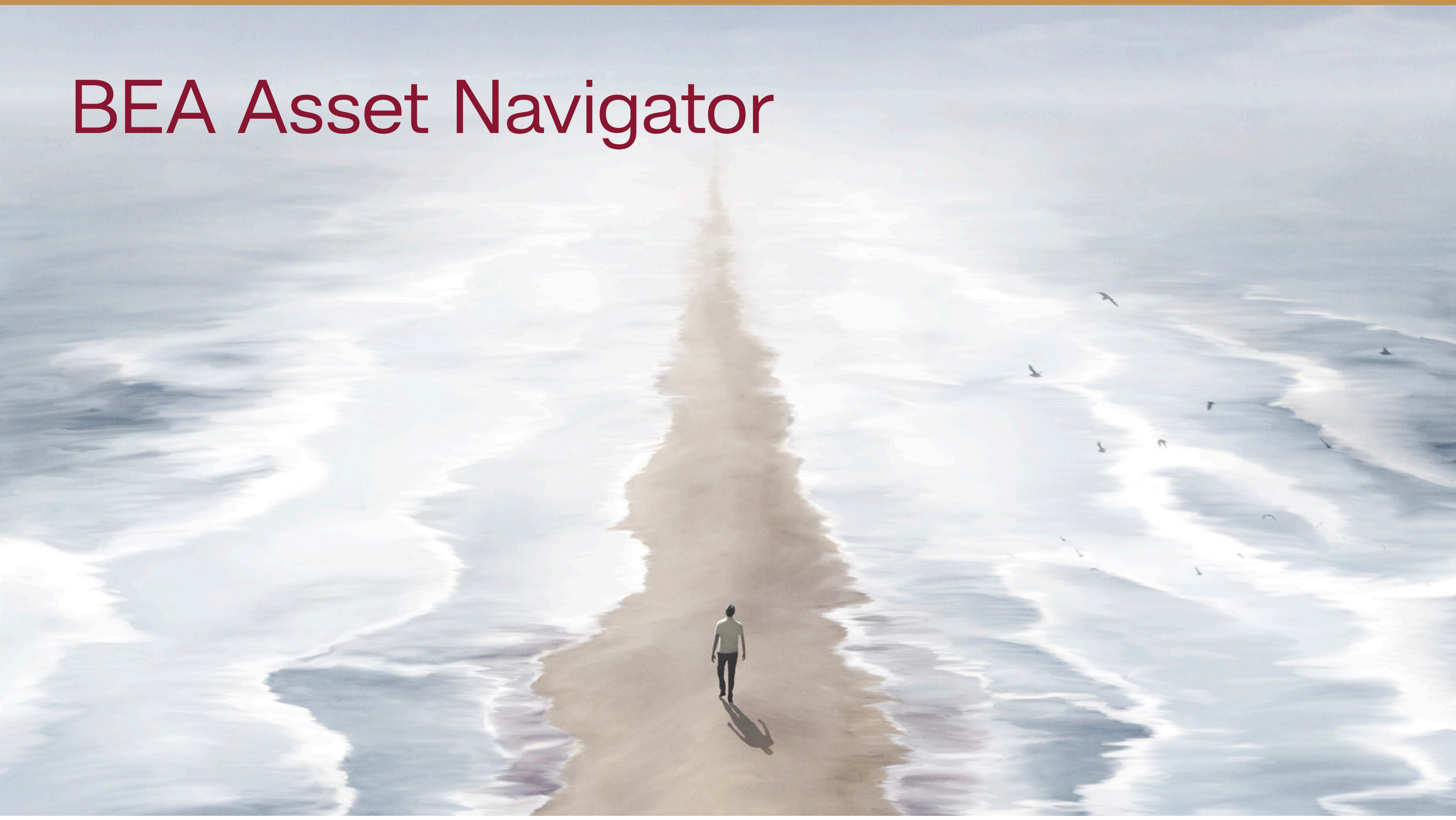
BEA 東亞銀行 | PRIVATE BANKING 私人銀行

1st Quarter 2024

BEA Asset Navigator



Investment Themes

Global economic trends, interest rate inflection points and US presidential election year: the three key risk themes for 2024

- Questionable effectiveness of regional risk diversification as high correlation persists among major global economies. A "soft landing" in the US would lead to an economic downturn among mature markets as a whole.
- US interest rate is anticipated to peak then fall after the FOMC meeting in May. Capital flows are expected to be looser than last year, which bolster global equity and bond markets.
- Historically, US presidential election years were characterised by frequent global wars and economic weakness. The China-US conflict and multipolar situation are anticipated to remain unaffected by election results.
- Historically, rules were drawn up by the hegemon. Those who follow the rules and regulations can share the wealth of the hegemon, while the opponent can only fight with the hegemon. This is the "Law of the Jungle", by which only the strongest survive.

Investors are advised to increase allocation to defensive, high-dividend and value equities amidist simultaneous emergence of multiple risk factors

- Polarised global equity markets in 2023 with divergence between growth and value equities among global markets. Mean reversion is expected in extreme environments.
- Defensive, value and high-dividend equities, such as utilities, healthcare and bank equities, are poised to benefit amidst global economic weakness and interest rate inflection point.
- US equities outperformed other non-US equities in the past presidential election years. This historical pattern, coupled with the interest rate inflection point, is favourable to defensive equities.
- Taking the technology boom into account, investors are advised to gradually increase allocation to value equities as a hedge against a potential downturn in growth equities.

Interest rate inflection point benefits overall bond market performance. Data insights supports conventional and simple deployments

- Anticipated recession in 2024 amid above-target inflation. Historically, the Federal Reserve's interest rate cut resolutions prioritised GDP over inflation.
- Favorable outlook for corporate bonds at interest rate inflection point based upon risk-adjusted return, with investment-grade bonds particularly attractive.
- Normalisation of the US Treasury yield curves is expected to enter its final phase, with interest rate risk concentrated in the mid-range of the curve.
- The US 2-year and 10-year Treasury yields are forecasted to be 3.96% and 4.11%, with estimated floating ranges between 3.54% to 4.38% and 3.76% to 4.46% respectively.

Asset Class Overview

↑ Outperform → Neutral ↓ Underperform

Asset Class	Quarterly View	Commentary
Equities		
United States	↑	Data suggests favorable outlook for US equity markets amid simultaneous occurrence of US presidential election year and interest rate inflection point.
Europe	→	War and economic weakness offset the positive impact of the interest rate inflection point, the key lies in the magnitude and speed of rate cuts.
Asian ex-Japan	→	Interest rate changes and the impact of wars are relatively lower than mature markets, but the economic outlook of China and the US will shape the equity markets within the region.
China	→	Real estate debt crisis and local debt issues remain a major concern: wait for the "Two Sessions" policy agenda to potentially trigger a meaningful re-rating.
Hong Kong	→	Benefiting from lower US interest rates and HIBOR, Hong Kong's utilities and telecom sectors are poised to outperform, while the local real estate equities may take time to recover.
Bonds		
US Government	→	Normalisation of the US Treasury yield curve is expected to mitigate duration risk; interest rate cut speculation will influence the overall trend of Treasuries.
USD Investment-grade	↑	A "soft landing" in the US would help stabilise the credit spreads among investment-grade bonds; historically, interest rate inflection points were favourable to the USD investment-grade bond.
Global High-yield	→	High-yield bond prices, which are more sensitivity to interest rate cut, may benefit from speculation about lower interest rates, the downward adjustment in risk assets adds volatility to the global high-yield bond.
US High-yield	→	Weakening US economy in 1H 2024 is unfavourable to the US high yield bond with higher credit spreads than the non-US markets, which bolster the USD-denominated bond.
Asian Pacific Investment-grade	→	Historially, less favourable amid interest rate inflection point due to smaller rate changes than the US and Europe market; stable economies in the Asia-Pacific region attract capital inflow.
FX		
AUD	↑	The RBA is anticipated to delay rate cuts which cause it unlikely for any rate cuts in Q1, thereby reinforcing the spread advantage of the AUD.
NZD	↑	New Zealand's inflation remains high, with expectations of an extended period of peak interest rates, which is poised to support the NZD.
EUR	→	The economic downturn may continue, with the ECB likely to follow the rate cuts initiated by the Fed. The overall trend is anticipated to be neutral.
GBP	→	The UK economy is sluggish with zero growth. The BoE may pause rate cuts in short term on the view of stickly inflation.
JPY	↑	Japan's economic fundamentals pose limitations, the BoJ's hawkish monetary policy shift is expected to progress at a slow pace. Yet, the Japanese yen remains positive.
CNH	→	The PBoC to uphold an easing monetary policy in the short term to support the economy; RMB outlook is expected to be neutral to positive.

Important Note:

Quarterly view of each asset class is benchmarked against a corresponding proxy index

Asset Class	Benchmark	Asset Class	Proxy Index	Threshold*	Asset Class	Proxy Index	Threshold*
Equities	MSCI World	US	S&P500	1.1%	China	CSI300	4.3%
		Europe	STOXX Europe 600	1.6%	Hong Kong	Hang Seng	3.3%
		Asian ex-Japan	MSCI Asia ex Japan	2.8%			
Bonds	Bloomberg Global Aggregate Bond	US Government	US Gov't/Credit	0.8%	US High-yield	US Corporate High-yield	1.5%
		USD Investment-grade	US Corporate	0.8%	Asian-Pacific Investment-grade	Asian-Pacific Aggregate	0.9%
		Global High-yield	Global High-yield	1.8%			
FX	US Fed Trade Weighted Advanced Foreign Economies	AUD	AUD/USD	2.8%	GBP	GBP/USD	2.7%
		NZD	NZD/USD	3.2%	JPY	JPY/USD	3.1%
		EUR	EUR/USD	4.0%	CNH	CNH/USD	2.2%

* Outperform: Quarterly performance of proxy index is higher than the positive threshold percentage of corresponding benchmark; Neutral: Quarterly performance of proxy index within the positive and negative threshold percentages of corresponding benchmark; Underperform: Quarterly performance of proxy index is lower than the negative threshold percentage of corresponding benchmark.