凱基亞洲

KGI ASIA

2024 Mid-Year Global Market Outlook

Target in Sight

Macroeconomic Analysis

The U.S. economy is gradually slowing down, and an interest rate cut is not far off

The global economy is expected to show a downward trend in the second half of the year. The United States, which previously had the best performance, has begun to experience a significant economic downturn in the first quarter of this year, with the annualized quarterly growth rate dropping to 1.3%, below its long-term trend growth of 1.8-2%. This downward trend is expected to be more pronounced in the second half of the year. However, other regions are expected to recover from the bottom after a period of bottoming out, but it is feared that it will be difficult to offset the power of the US decline, coupled with the unimpressive performance of emerging markets, the global economy is likely to show a downward trend.

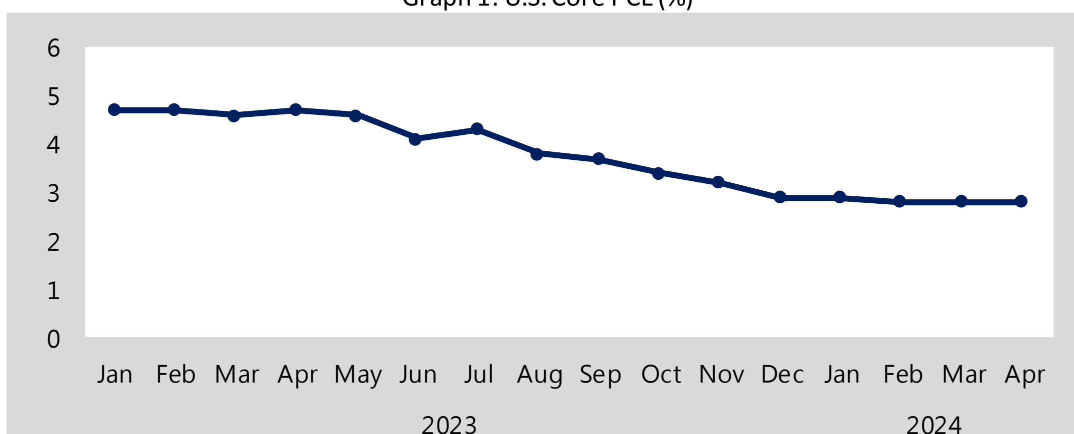
In accordance with a report issued by the International Monetary Fund in April, it is forecasted that the global economy will sustain a growth rate of 3.2% for 2024 and 2025, mirroring the growth rate observed in 2023. The growth of developed economies is poised to marginally accelerate, transitioning from 1.6% in 2023 to 1.7% in 2024 and further to 1.8% in 2025. Nevertheless, this upturn will be counterbalanced by a marginal deceleration in the growth of emerging markets. Global inflation is expected to progressively diminish from 6.8% in 2023 to 5.9% in 2024 and subsequently to 4.5% in 2025.

From an industry perspective, the US manufacturing industry may show a weak recovery, while the service industry is expected to decline slowly. From the perspective of spending, due to the rapid accumulation of wealth in the US during the epidemic due to the rise in the stock market, coupled with the expansion of fiscal expenditure, US consumption has been stronger than expected. Due to changes in consumption habits and mentality, the marginal consumption tendency of the United States has structurally increased, pushing the consumption power higher than the past perceived level; however, due to the relative lack of resources for low-income earners in the future, their consumption power may be difficult to guarantee.

Regarding inflation, due to a significant drop in commodity inflation in the latter half of 2023, the annual growth rate of core inflation (Core PCE) fell to 2.9% by the end of 2023. However, the resurgence of commodity and service inflation in the first quarter of 2024 caused core inflation to plateau. This, combined with a slow cooling of the labour market, may lead the Federal Reserve to maintain high interest rates for an extended period. It is anticipated that inflation data will start to decrease again in the second quarter of 2024, and the labour market will continue to decelerate. The market anticipates that interest rate cuts will commence in the fourth quarter of 2024, with the interest rate potentially being reduced by 25-50 basis points by the end of this year.

In addition, the focus of observation of the US economy in the second half of the year will be on the presidential election. Trump, who is currently leading in the polls, may be re-elected as president. His proposed corporate tax cuts may be beneficial to corporate profits, but based on the tax cut experience of 2017-18, the effect may not be too obvious; because the current tax rate is already low, it cannot further increase productivity. On the contrary, restrictions on immigration and increases in tariffs may have a negative impact on the economy, corporate profits, and the stock market.

Graph 1: U.S. Core PCE (%)



Source: Bloomberg, Prepared by KGI Asia

U.S. stocks remain resilient, but be cautious on risks from the U.S. election and the economy

In terms of US stock investment, the market atmosphere and economic data since May have determined that the Fed will not raise interest rates again, so the valuation concerns for US stocks have eased. Although the economy is currently slowing down, due to the limited degree of slowing down, we expect that the real interest rate will slowly decline in the future, which will be a favourable factor supporting stock market valuations. What needs to be noted is the aforementioned Trump's election or a significant deterioration of the labor market, which could increase the likelihood of the US economy falling into a recession (hard landing) by the end of the third quarter, and thereby putting downward pressure on the stock market.

Start with short-term credit bonds and then switch to long-term treasury bonds

As for bond investment, since the United States currently maintains a soft-landing route, and the first interest rate cut is expected in the fourth quarter, the credit spread in the United States will not increase significantly in the short term, government bond yield curve will remain inverted. At this stage, investors can choose investment-grade corporate bonds with shorter durations to earn higher yields; when the US and global economies continue to decline, the US labour market shows an accelerated decline or the risk of a hard landing increases, they can switch to longer-duration government bonds to obtain capital gains brought by the decline in government bond yields.

Global Strategies

Considering the current market conditions, when constructing and reviewing your portfolio for 2H24, investors can refer to the "GUIDE" strategy.

Selected Sectors

Gold: Buy Gold and Related Mining Stocks on Dips

Gold does not provide income, so the risk-free rate becomes the opportunity cost of holding gold. The price of gold is negatively correlated with real interest rates; historically, when interest rates rise, gold prices fall. The Eurozone has already started cutting rates, and we expect the US to follow suit this year. Falling Treasury yields is likely to support gold prices. Additionally, ongoing global risk events and concerns about the US fiscal situation may enhance gold's role as a safe haven. Moreover, central banks worldwide increasing their gold reserves further boosts demand.

As of 31May, the spot price of gold stood at $2,327 per ounce, slightly less than 5% below the historical high in mid-May, rising about 13% since the beginning of the year. The Gold Bugs Index (BUGS), which tracks a basket of unhedged gold mining stocks, has also risen by about 13%. Besides gold itself, gold mining stocks can also be considered for satellite allocation.

Utilities: Rate Cut Expectations and "AI" Electricity Demand favor Utility Stocks

Utility stocks generally have stable income, providing good defensive capabilities. However, the last two years of rate hike cycle have raised the risk-free rate, making utilities stock income relatively unattractive. This year, with a potential economic downturn and the possibility of US rate cuts, utilities experienced a revival, performing comparably to tech stocks.

Apart from sector rotation, the anticipated rise in AI applications and the expected substantial increase in electricity demand for processing more data are noteworthy. It is projected that global AI-related annual electricity consumption will be similar to the national electricity consumption of Sweden, about 0.5% of global total electricity usage. By 2030, AI-related electricity consumption is expected to rise to 3-4%, making the power and utilities sector a beneficiary of AI-related stocks.

New energy is also a related theme for AI electricity demand. However, the stabilization of traditional energy prices and high-interest rates have slowed energy transition plans more than expected. Furthermore, many new energy-related companies lack profit support, with only some large-cap new energy stocks potentially benefiting.

Core Allocation

Investment Grade: Seize Investment Grade Bond Yields, favor Corporate Bonds

In the past, during periods of rising bond yields, as long as the economy maintained positive growth, credit spreads for both investment-grade and high-yield bonds generally narrowed.

US corporate earnings in the first quarter were largely satisfactory, supporting not only stock prices but also related corporate bonds. Investment-grade corporate earnings grew by 7% year-over-year, exceeding market expectations, with media & entertainment, REITs, and the automotive sector outperforming the most. Additionally, companies with a higher proportion of overseas revenue performed better than those primarily domestic, with corporate earnings expected to maintain positive growth. Since the beginning of the year, US bond yields have risen, but credit spreads have continued to decline, with many investment-grade bonds receiving rating upgrades. In the first quarter, the ratio of upgrades to downgrades in investment-grade bonds was 4:1, while for high-yield bonds, the ratio was only 1:1.

Considering that the US economy is not in a strong growth phase and banks are continuously tightening lending, increasing corporate financing costs, and refinancing issues persist, more conservative investors may consider prioritizing investment-grade bonds issued by large, high-quality companies. The issuance volume of investment-grade bonds in the past has been higher than the amount maturing later on. The mass issuance of bonds during the pandemic has resulted in a relatively low debt burden for larger companies, reducing their refinancing risk.

Industry-wise, if the economy continues towards a soft landing, investors may prioritize the energy and raw materials sectors, which historically have shown a higher correlation with the economic environment and a lower correlation with interest rates.

Expectations of a soft landing will also support the outlook for BBB bonds. Additionally, the yield curve for US investment-grade corporate bonds is positively sloped between approximately 5 to 20 years, with longer maturities offering higher yields, but yields do not significantly increase beyond 20 years. The yield curve for US investment-grade corporate bonds diverges from that of Treasuries, with the spread widening significantly after 5 years. Therefore, in addition to considering higher-yielding short-term bonds, 5 to 10-year investment-grade bonds are also worth noting.

It is worth mentioning that Treasury yields have generally risen since the beginning of the year, leading to a decline in bond prices, but this has not slowed down inflows into investment-grade bonds. Historical data shows that small short-term fluctuations in total bond returns (such as ±2.5%) do not affect fund flows.

Defensive Stocks: Sector rotation, overweight defensive stocks

Currently, within the S&P 500 Index, approximately 40% of earnings derive from outside the United States. Consequently, even though it is an index of "large-cap US stocks," it is not exclusively tied to the US economy. The revenue sources of large US companies are relatively diversified, and sectors such as AI, semiconductors, and technology hold a unique position in the market. Therefore, it might be prudent to consider buying on dips during market corrections or to allocate funds through a regular investment plan.

As of 31 May, the S&P 500 has risen nearly 10.6% since the beginning of the year, and the earnings yield (the ratio of earnings per share to stock price) has fallen to 4.06%, close to the yield on 10-year US Treasury bonds. From this perspective, US stocks are not cheap. When injecting new funds to the portfolio, one might consider sectors with more attractive valuations and be mindful of concentration risks within the US stock market.

In the first quarter, the Eurozone's real GDP grew by 0.3%, breaking away from nearly five consecutive quarters of stagnation. This growth was largely driven by improved external demand, robust fixed capital formation, and strong household consumption, indicating a trend towards recovery.

The European Central Bank (ECB) has started lowering rates, rate cuts will benefit valuations and actual financing. Meanwhile, the Fed is also highly likely to enter a rate cut cycle for the remainder of this year. It is noteworthy that it is uncommon for the ECB to pivot before the US does. In terms of style, defensive and cyclical stocks perform differently during a rate-cut cycle. Historically, defensive stocks, which generally have more stable income, tend to outperform during rate cut periods because falling bond yields make these stable incomes relatively more attractive. However, in the fourth quarter of last year, as bond yields fell from their peaks, cyclical stocks reported stronger revenue than forecast, causing defensive stocks to lag behind relatively. Contributing factors included the economy not weakening as expected and earnings growth exceeding expectations.

Currently, there are signs of a slowdown in the US economy, with service sector growth gradually declining and the recovery in manufacturing remaining weak. Additionally, the stronger-than-expected consumption trends may be difficult to sustain. Real consumption growth began to slow in April, and one of the factors might be the deceleration in disposable income growth. Against the backdrop of slowing growth, expectations of rate cuts may support the performance of defensive sectors. In fact, defensive industries in both the US and Europe, such as utilities and healthcare, have already regained much ground. Over the past two months, utilities have outperformed most sectors, and current valuations remain attractive. Investors might consider reallocating some of their profits from technology-related stocks into defensive sectors to reduce portfolio volatility.

Regarding the "large vs. small" dynamic, historically, when central banks shift towards rate cuts, small-cap stocks tend to benefit. Reviewing past shifts, on a median basis, small-cap stocks in the Eurozone and the UK generally start outperforming large-cap stocks within three months after the rate cut shift. However, US small-cap stocks tend to lag, only narrowing the gap approximately six months later. At present, the trend of "large-cap outperforming small-cap" in the US is likely to continue throughout this year. Nonetheless, small-cap stocks in the Eurozone relative to large-caps may have more opportunities post-shift, with regional recovery trends remaining crucial.

Overall, ample cash reserves and stronger financing capabilities will continue to support large enterprises. We suggest to be prudent and consider increasing holdings in defensive industries, with developed markets outside the Eurozone (such as the US and the UK) maintaining a preference for large-cap over small-cap stocks.

Eastern regions: Capture Asian growth

Japan: Generally speaking, the movement of the Japanese yen is negatively correlated with the overall profitability of Japanese companies. A weaker yen against the US dollar is favorable for the earnings of Japanese stocks, primarily because overseas revenue becomes more attractive. However, this is less beneficial for companies reliant on domestic consumption. A weaker yen impacts imports, making it difficult for small to medium-sized enterprises (SMEs) and local consumers to benefit from the yen's depreciation. Additionally, inflation increases the pressure for wage hikes, further impacting the profitability of domestic companies. Currently, large Japanese export enterprises hold a significant advantage, and value stocks might also benefit from corporate governance reforms. Conversely, companies with predominantly local earnings may find it more favorable when the US shifts towards rate cuts or Japan further tightens its monetary policy.

China: The International Monetary Fund (IMF) has raised its economic growth forecasts for China for this year and the next. Additionally, the implementation of central policies is expected to support a recovery in market confidence. For further details, please refer to the section of <China Macroeconomic Overview and Top Five Investment Themes for the Second Half of the Year> in this report.

Taiwan: Since the end of last year, the Taiwanese stock market has benefited from the AI boom and experienced a significant uptrend. However, current valuations are above the average. For more details, please refer to the section <Taiwan Stock Market Overview> in this report.

India: Following the conclusion of the general election, Prime Minister Modi's ruling party did not secure an "overwhelming" victory as the market had anticipated. Without the support of allies, the party failed to achieve a majority, with fewer vote s than in the previous two elections (2014 and 2019). During the vote counting period, due to unmet expectations, market volatility surged in the short term. However, the election results do not seem to affect India's growth. In fact, over the past 30 years, India has experienced seven different prime ministers, and the Indian stock market has achieved an annualized growth rate of 11.5% in local currency terms. Even accounting for the depreciation of the Indian rupee, the growth rate in US dollar terms still approaches 8%.

India's economic growth remains robust, with real GDP growth for the fiscal year ending in March 2023 reaching 8.2%, exceeding expectations. This data further elevates growth forecasts for this year and the next. Additionally, the eight core industries continue to show growth. In May of this year, the Manufacturing and Services PMI stood at 58.4 and 61.4, respectively, indicating sustained business expansion. India's policy rate has remained at 6.5% since February 2023, and the Indian rupee's trend is largely under control, highlighting the substantial growth potential of the Indian economy.

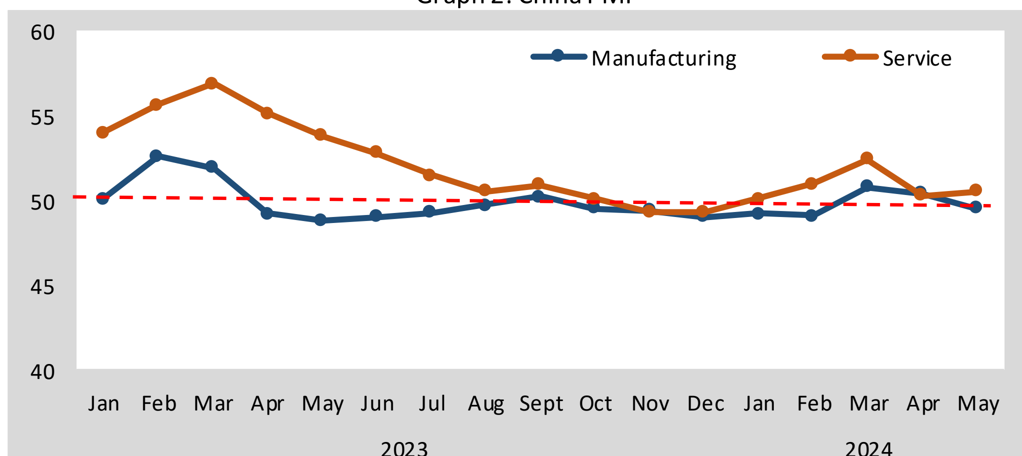
China Macroeconomic

1H24 Review: Growth exceeds expectations, but unbalanced growth remains a concern

In the first quarter, China's economy experienced a growth of 5.3%, surpassing market expectations and establishing a strong foundation for achieving the targeted economic growth of approximately 5% for 2024. However, monthly released economic data indicates that the growth is under pressure. The economic drivers are not yet synchronized to positive direction. For example, in May, while retail sales growth was satisfactory, the Industrial value-added growth was slower than expected, and there was a deceleration in infrastructure and real estate investment, which led to a drag on fixed asset investment. Furthermore, the official manufacturing purchasing managers' index fell to 49.5 in May, from 50.4 in April, which was worse than expected and within the contraction range, indicating the continued combination of fiscal, monetary, and stimulating policies remains important.

To improve the sustainability of future economic growth, the government has been actively advancing policies in response to mounting concerns in the market. During the recent Politburo meeting on April 30, it highlighted that while there have been more growth catalyst and a promising start has been made, the economy continues to grapple with challenges in its ongoing recovery. Consequently, there is a strong emphasis on the effective implementation of macroeconomic policies, along with proactive fiscal measures and prudent monetary policies. In terms of specific policy directives, the meeting underscored the importance of reducing social financing costs, in return undertaking equipment upgrades by initiating trade-in programs, and to address real estate concerns while optimizing the plan of future housing supply.

Graph 2: China PMI



Source: National Bureau of Statistics of China, Prepared by KGI Asia

2H24 Preview: Policy efforts are in sight to reach the target

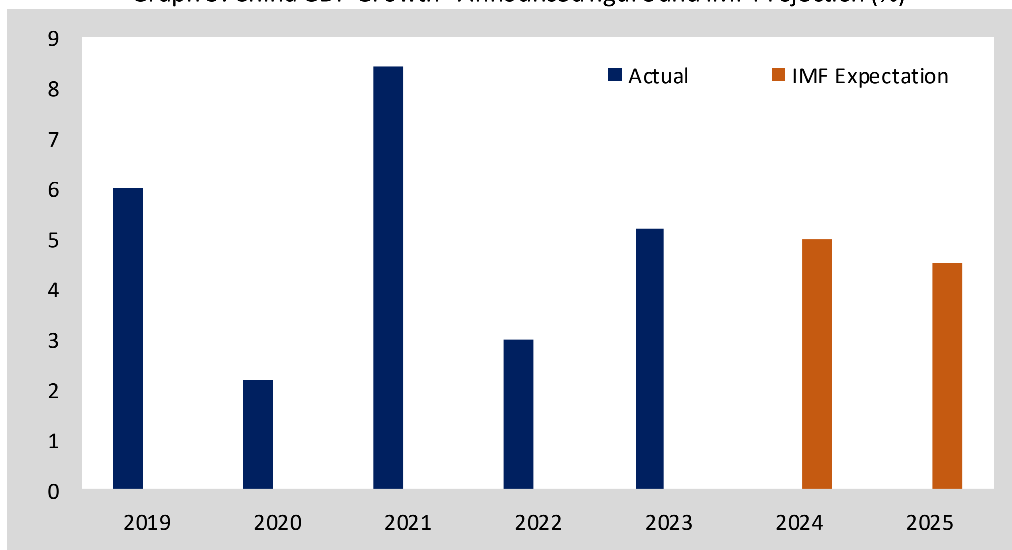
On May 28, the International Monetary Fund adjusted its economic outlook for China in 2024 and 2025, with the updated projections standing at 5.0% and 4.5% respectively. Both estimates reflect a 0.4 percentage point increase from the April forecasts. This adjustment is primarily attributed to the robustness of the first-quarter GDP growth and the recent economic policy initiatives implemented by the central government.

We maintain a positive outlook on the China economy. We anticipate that the continued implementation of policies will contribute to the restoration of confidence and sustain the momentum of the ongoing economic recovery. Notably, with regard to Fixed Asset Investment, the issuance of ultra-long-term special government bonds and the accelerated issuance of special bonds are expected to play a stabilizing role in infrastructure investment. Furthermore, the central bank's initiatives targeting the property market, including (1) the reduction of down payments requirement to a record low, (2) the elimination of the lower limit on mortgage interest rates, and (3) the establishment of a RMB 300 billion housing re-loan, are designed to stabilize property market and alleviate the liquidity challenges faced by the property developers. We expect that the impact of these policies will begin to materialize by mid-June. As the influence of the high base effect diminishes, we foresee a positive year-on-year growth in new home sales (in terms of GFA) starting in the third quarter.

With the positive momentum of capital expenditures on global manufacturing industry, further increase in exports is anticipated, but investors need to stay cautious on the update of U.S. tariff policy. Domestically, in the foreseeable future, the goods and equipment renewal policies are expected to further stimulate growth, hence domestic demand is projected to stabilize.

KGI Asia anticipates that the People's Bank of China will have one interest rate cut this year and have the deposit reserve ratio reduced by 1 - 2 times. Additionally, we have revised our full-year economic growth forecast to 5.0% (previously forecasted at 4.9%); the consumer price index is expected to rebound from 0.2% last year and is estimated to rise and hover around 1% in the second half of this year.

Graph 3: China GDP Growth - Announced figure and IMF Projection (%)



Source: National Bureau of Statistics of China, IMF, Prepared by KGI Asia

From high growth to high-quality development

Market attention will be given to the "Third Plenary Session" scheduled in July, to discuss economic development. KGI Asia believes that the coming meeting may focus on cultivating newfound industries and accelerating the development of "new productivity." It is also expected to involve collaboration with "long-term capital" to further enhance development momentum and achieve the goal of "Chinese-style modernization." Notably, in the government work report of the "Two Sessions" in March this year, "accelerating the development of new productive forces" was listed as the top priority among the top ten tasks for the year.

In recent months, there has been a shift in policy directions regarding short-term "countercyclical adjustment," particularly in the form of a "subsidy shift." This change entails a reduction in subsidies for certain public utilities spending by local governments, resulting in price increases. The adjustment is expected to moderately promote inflation and alleviate the financial burden on local governments. Furthermore, the relevant financial resources are reallocated towards boosting goods trade-in activities. Also, to promote city-specific and improved flexibility on policy implementation is seen as instrumental in facilitating the development of the economy, particularly in light of the constantly changing environment and challenges.

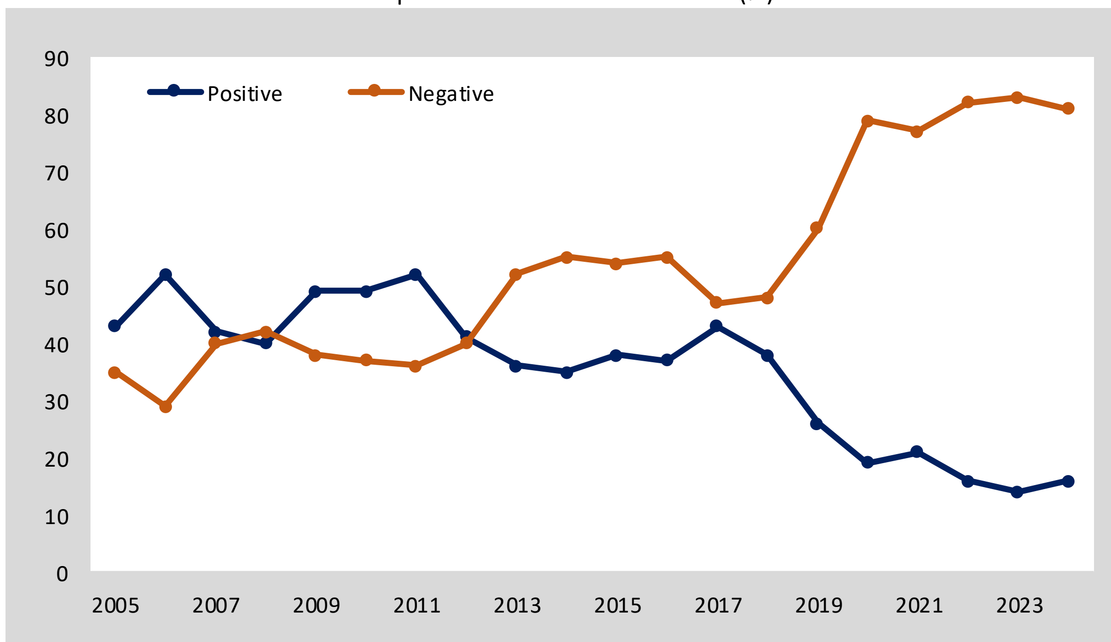
Consider multiple factors, we have revised our economic forecast upwards. However, it is important for investors to carefully monitor the impact of policies, particularly the performance of the property market in the coming two months. Furthermore, external factors such as the U.S. economic situation, the Federal Reserve's interest rate cut schedule, and the global geopolitical risk, particularly developments in the Middle East conflict, will all be shaping the China's economic performance in the latter half of the year.

Relationships between China – U.S. remain a market concern

The last thing that must be discussed is the China-U.S. relations. The U.S. presidential election will be held in November this year, and both parties (Democrats and Republicans) are expected to leverage the "anti-China concept". The reason is that according to poll results from the Pew Research Center, more than 80% of Americans surveyed hold a negative view of China, and 43% of the respondents hold a very negative view of China.

The United States has announced additional tariffs on US$18 billion worth of Chinese imported goods, which include electric vehicles, lithium batteries, semiconductors, steel, aluminum etc. There are ongoing trade tensions between the two countries, with the U.S. expanding its tariff measures into new sectors progressively. The rationale for these tariffs has evolved from addressing trade deficit and unfair competition to concerns regarding aid to Russia and overcapacity. It is imperative to closely monitor the dynamics of the U.S.-China relationship and the potential responses of other nations targeting China. Given the geopolitical uncertainties, fluctuations in the capital market are anticipated in the latter half of the year.

Graph 4: American views on China (%)



Source: Pew Research, Prepared by KGI Asia

HSI Forecast For 2024

Performance Review of 1H24

The rally of Hang Seng Index (HSI) began at 14,794 in the past six months. Following strategic actions including the purchase of A-shares ETFs by Central Huijin Investment and the introduction of State-Owned Enterprises (SOEs) market cap management, the index rebounded from its low. By mid-April, there were rumours that the Chinese government was stepping up efforts to support the property market. Concurrently, the Hong Kong Southbound Stock Connect maintained a positive inflow, driving the index up sharply from 16,044, eventually reaching a high of approximately 19,706 points.

Hong Kong market may reflect more positive factors in 2H24

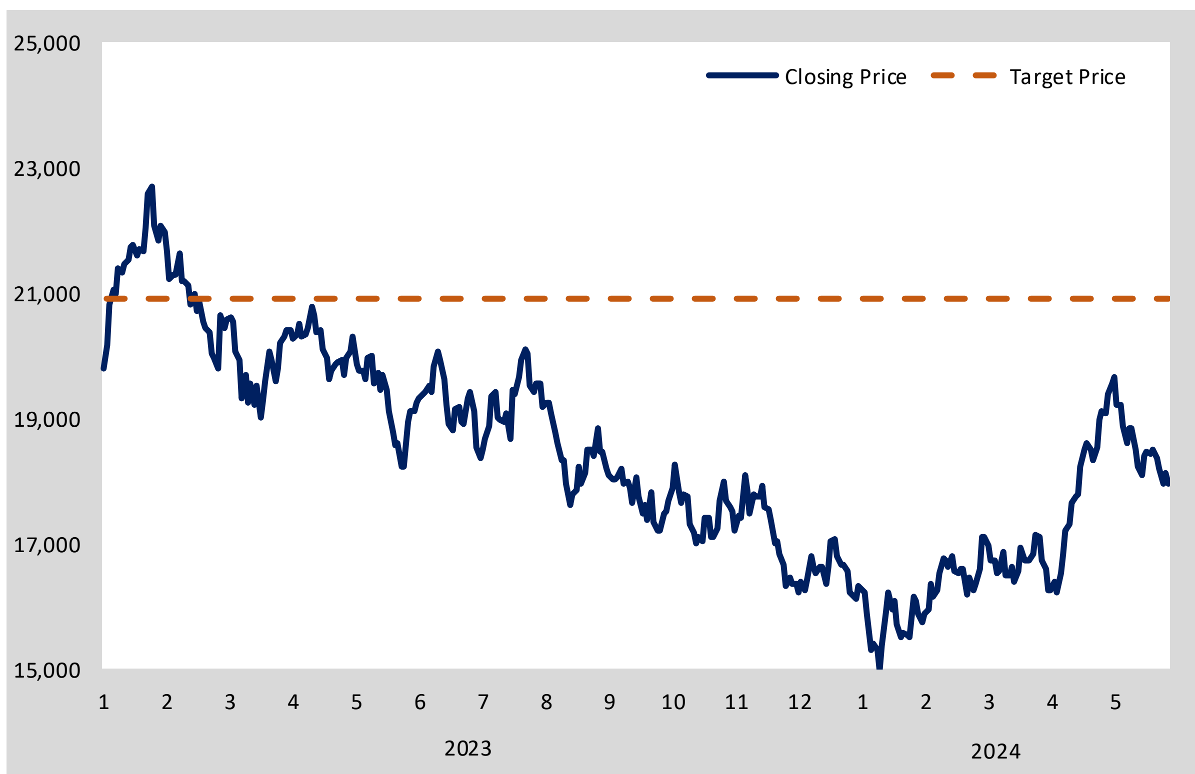
We anticipate that in the second half of 2024, the Hong Kong market may better reflect the positive factors. Key drivers include, (i) the "package of stimulus measures" to accelerate the bottoming out of the property market, (ii) the proactive dividend payouts by state-owned enterprises, and (iii) capital inflow to the market, which currently has relatively low valuation, could help to improve market condition. However, the potential deterioration of China-U.S. relations, especially considering the U.S. presidential election year as mentioned earlier, remains a significant negative factor.

The HSI can reach 20,900 at the end of FY24

Analyzing the HSI's trading range over the past decade, the median one-year volatility of the index is approximately 6,130 points. Given that the 2024 year low for the HSI was 14,794, our base case scenario projects that the HSI would reach 20,900 within the next six months. This projection suggests a potential maximum one-year return to be at approximately 22%.

In terms of valuation, the FY24E Earnings Per Share (EPS) of HSI is HK$2,045, representing a yoy increase of 7.5%, aligning with our 2Q24 market outlook. Our base case scenario of 20,900 implies a 10.22x forward Price-to-Earnings (P/E), which remains below the average level over the past ten years. We believe that the market's upward momentum can be sustained under the aforementioned conditions.

Graph 5: Hang Seng Index



Source: Bloomberg, Prepared by KGI Asia, As of 14 June 2024

5 Investment themes for 2H24

Strategy 1: Economy regains momentum

This year, the domestic policy environment has been tilted towards a more accommodative stance, reflecting the urgency to stimulate the economy and regain momentum. While support measures for the real estate sector have been introduced, the frequency of targeted regulatory and rectification actions on specific industries has also decreased. Overall, marginal easing of policies is conducive to improving the business environment and restoring sentiment in the capital markets.

Tencent Holdings (700): Tencent's 1Q24 revenue and profit both beat expectations. During the period, the total user time spent on Video Accounts increased by over 80% yoy. Looking ahead for the rest of the year, positive factors include accelerated growth in the gaming business starting from the second quarter, continued strong performance in the advertising business, and a shift towards high-margin revenue streams like Video Accounts. In the medium to long term, Tencent's competitive moat remains robust.

HKEX (388): Several favourable measures have been introduced recently, including expanding the scope of eligible ETFs under the Stock Connect. Although the short-term impact of these measures may not be significant, they could stimulate average daily trading volume in the Hong Kong stock market if market sentiment improves further.

Strategy 2: Easing real estate policies

Authorities have further lowered the minimum down payment ratio for first and second homes, removed the lower limit on mortgage rates, and reduced the loan rates of the individual housing provident fund. These measures will help improve housing affordability. The central bank will also establish a RMB 300 billion affordable housing refinancing facility to support state-owned enterprises in acquiring completed but unsold homes. The intensive rollout of policies targeting the domestic housing market is expected to reduce property market risks.

Ping An Insurance (2318): The Chinese government has introduced a series of real estate easing measures. Although these measures might not immediately resolve the supply-demand imbalance, they are expected to help narrow the decline in housing sales. As an insurance company, Ping An's asset quality is likely to improve. Additionally, Ping An's 1Q24 new business growth exceeded expectations, indicating a gradually improving business outlook.

Haier Smart Home (6690): Although the policies may not significantly boost housing demand in the short term, they are expected to stabilize the housing market and halt the decline, which is positive for the home appliance industry. Haier Smart Home maintains a leading position domestically and benefits from product mix upgrades and international expansion, which enhances its profit margins. Furthermore, the management aims to increase the dividend payout ratio, which is favourable for shareholder returns.

Strategy 3: State-Owned Enterprise (SOE) reform

The State Council will include market value management in the performance evaluations of SOE leaders. State-owned enterprises (SOEs) have expressed their commitment to regularly using market value management tools to maintain company value and enhance shareholder returns. SOEs generally have stable dividend policies and significant competitive advantages in their businesses, making their investment values more appealing.

China Unicom (762): China Unicom distributed a total dividend of RMB 33.66 cents per share for 2023, representing a YoY increase of 22.8%. The annual dividend payout ratio was 55%, up 5 percentage points, marking a historical high. The capital expenditure target for 2024 is RMB 65 billion, decrease 12% annually. It is anticipated that China Unicom's dividend payout ratio has room for further increase, with the market generally expecting an additional 3 percentage points increase in the next two years.

CCB (939): The removal of the lower limit on mortgage rates is unfavourable for banks' net interest margins. However, under the new policies, real estate prices and transaction volumes are expected to stabilize, which is beneficial for the asset quality of China banks. Currently, China Construction Bank's stock price is at a relatively low level compared to its peers, but its forecasted dividend yield for 2024/2025 is almost 8%, which is at a relatively high level among SOE banks. The attractive dividend yield also provides downside protection for the valuation.

Strategy 4: Increasing energy consumption

The strengthening momentum of the domestic economy is driving up electricity demand. The China Electricity Council forecasts that the total electricity consumption in 2024 will reach 9.8 trillion kWh, an increase of about 6%. Additionally, with the r ise of artificial intelligence, the adoption of generative AI is expected to further boost electricity consumption.

China Resources Power (836): With lower costs, the coal- fired power industry has recently turned profitable. Moreover, the coal power capacity tariff mechanism can help stabilize expectations of the coal power business, enhancing the utility characteristics of coal power stocks. Simultaneously, the contribution from China Resources Power's renewable energy business continues to grow, positively impacting long-term profitability and valuation.

Dongfang Electric (1072): Dongfang Electric boasts a diversified industrial layout with its " simultaneous development of six types of electricity" (wind, solar, hydro, nuclear, gas, and coal) and " six industries synergy ". Both coal and nuclear power are crucial base-load power sources in China. Additionally, the other renewable energy sources have long-term growth potential in terms of installation under the "dual carbon" goals. As a leading power generation equipment provider, Dongfang Electric stands to benefit from increased new orders.

Strategy 5: Going overseas

Despite growing at a faster pace than developed countries, China's economic growth has slowed compared to its previous rapid expansion. Many Chinese companies are actively seeking new overseas opportunities to expand their business footprint and sustain profit growth.

Anta Sports (2020): Anta Group has adhered to a strategy of "single-focus, multi-brand, globalization" in recent years, with multiple brands catering to different market segments. According to Anta Group's plan, ANTA brand targets double-digit growth, FILA brand targets to achieve RMB 40 to 50 billion retail sales in mid-to-long-term, while DESCENTE and KOLON SPORT will strive to become the Company's third RMB 10 billion brand. In terms of overseas expansion, the acquisition of Amer Sports years ago demonstrated the Group's determination to become an international brand. Among Amer's major brands, Arc'teryx, Salomon, and Wilson recorded revenue growth in FY23.

Trip.com (9961): Trip.com's 1Q24 revenue and profit both exceeded expectations. Domestic hotel and air bookings grew by over 20% yoy; outbound hotel and air bookings increased by over 100% yoy; and total revenue from the Company's global OTA platform, Trip.com, grew by approximately 80% yoy. Management remains confident in the travel demand for the summer holiday and beyond, expecting significant growth in the outbound travel segment driven by the continued recovery of flight capacity and the resolution of visa backlogs. Meanwhile, the Group is also actively capitalizing on inbound travel opportunities, with inbound tourism's contribution to Trip.com's total revenue increasing from a few percentage points to over 20%.

PopMart (9992): PopMart's performance has emerged from the trough, with revenue and profit growing 35.6% and 127.5% yoy, respectively in FY23. Management is confident about the overseas revenue outlook this year, with full-year revenue growth expected to be no less than 30% and overseas growth no less than 100%. Southeast Asia is the fastest growing overseas market for the Company, which has plans to enter Indonesia, Vietnam, and the Philippines this year. Management expects overseas market revenue to account for half of the Group's total revenue in the coming years, up from only 17% in FY23. Additionally, the Company is exploring and expanding the scope of authorized IP, launching a variety of different types of collaborative products to generate operating leverage.

Table 1 : Top Picks

Name	Target Price
Economy regains momentum	
Tencent Holdings (700)	450
HKEX(388)	303
Easing real estate policies	
Ping An Insurance (2318)	42
Haier Smart Home (6690)	32
State-Owned Enterprise (SOE) reform	
China Unicom (762)	7.3
CCB(939)	6.3
Increasing energy consumption	
China Resources Power (836)	25
Dongfang Electric (1072)	14.6
Going overseas	
Anta Sports (2020)	94
Trip.com (9961)	460
PopMart (9992)	45

Taiwan Market

As for the Taiwanese market, since the end of last year, the Taiex has seen a rise of more than 30%, ranking among the top globally. This mainly reflects the structural growth of over 20% in the profits of tech stocks in the next two years driven by the AI boom. Secondly, it reflects the market's expectation for the Fed's interest rate cut, which has led to a significant rise in the stock market and, in turn, driven the profits of financial stocks to increase more than twofold in the first quarter of this year compared to last year.

Looking ahead, although the AI boom will continue to support the Taiwan stock market to maintain its long bullish pattern, from now until the fourth quarter, the index is likely to be mainly volatile. The reasons are as follows: (1) Although the manufacturing industry is in the inventory replenishment cycle that started at the end of last year, weak end demand leads to weak inventory replenishment. (2) The market's expectations for AI stocks are too high to further push up stock prices. (3) Valuations are stretched currently and higher than the normal level by 1~2 standard deviations. The estimated PE of Taiwan's stock market is over 20 times, higher than the past 5-year average of 15 times.

As for investment recommendations, from the third quarter, it is recommended to focus on sectors or individual stocks with a low base and low valuations. For stocks benefiting from AI, it is recommended to await a correction in valuation before identifying more favourable entry points for medium-to-long-term investment.

Singapore Market

Enter an upswing cycle

Singapore's economy continues to maintain its health and stable growth in the post-COVID era. Global tailwinds outweigh regional headwinds, enhancing the city-state in economic strength. Owing to the persistent tensions in the Middle East region, air-born and seaborn transportation further grows in Singapore as logistic companies shift some shipping routes to this Asia logistics hub or increase air cargo load to Asia. The bottom-out of the consumer electronics industry and the upswing of the semiconductor sector help improve Singapore's manufacturing sector. The visa-free agreement between China and Singapore further boosts tourism, and the hospitality and food and beverage sectors thrive. However, China's soft economy continues to impact Singapore's trade. The service sector remains robust, and ongoing capital inflows strengthen Singapore's status as an Asia wealth hub. We expect Singapore to extend growth in the overall economy, especially from the recovery in the manufacturing sector. Meanwhile, the rate cut expectations will enhance sentiments in the real estate investment trust industry. The banking sector will remain resilient as growth in the wealth segment shall offset the projected narrow net interest margin.

Economy overview

GDP: In 1Q24, Singapore's overall GDP grew by 2.7% YoY rate compared to the same period in 2023, reflecting a rebound from the economic conditions of the previous year. On a QoQ basis, the economy grew at a faster rate growth rate in 1Q24 than compared to 4Q23, which saw a growth rate of 2.2%. The growth of Singapore's market was in line with the Ministry of Trade and Industry's (MTI) advanced estimates, primarily driven by the finance and insurance, transportation and storage, and wholesale trade sectors.

Within the goods-producing industries, Singapore's manufacturing sector reported a sluggish growth of 0.8% in 1Q24 as the sector continued to face challenges stemming from China's slower economic growth, leading to weakened regional demand in Asia. The sector saw a contraction of 2.9% in 2023, followed by a less-than-desirable growth of 0.8% in 1Q24. For the next 6 months, business sentiments in the manufacturing sector are positive despite continuing geopolitical headwinds, with the electronics cluster being the most optimistic. Firms within the semiconductor and other electronic modules & components sectors also displayed an optimistic outlook, crediting the favourable outlook to increased demand for consumer electronic devices and robust demand for artificial intelligence (AI) servers. The latter is anticipated to drive demand for memory, storage, and networking chips. On the other hand, robust housing demand propelled construction activities forward, aided by the normalization of labour imports.

In the services-producing industries, the tourism sector showed significant signs of recovery, boosting the food & beverage and hospitality industries, alongside the Information & Communications, Finance & Insurance, and Professional Services sectors which experienced substantial growth in 1Q24. This growth was driven by sustained demand for IT and digital solutions, as well as strong performance in banking and related financial services activities. The finance and insurance sector experienced a rise in transaction volumes across most asset classes. Enhanced credit intermediation activity, along with growth in the insurance and auxiliary activities segments, contributed to a 6.5% YoY increase, up from 5.4% in 4Q23. The transportation and storage sector picked up to 6.8% YoY, from 2.8% in 4Q23, attributed to robust growth in the air transport segment. The water transport segment also grew, supported by an increase in container throughput and sea cargo handled at Singapore's ports. The wholesale trade sector grew by 1.5% YoY, a higher growth rate compared to the 0.2% growth rate in 4Q23. Looking ahead, business expectations among firms in Singapore's services sector continue to be positive from April to September 2024, with the highest business outlook for the accommodation industry, followed by the wholesale trade industry. In the accommodation industry, firms expect higher occupancy rates with the increase in the meeting, incentive, conference and exhibition events as well as the Singapore Grand Prix in September, while in the wholesale trade industry, wholesales expect a pickup in demand from customers as more computers with AI capabilities reach the market.

Table 2 : Singapore GDP(%)

	1Q23	2Q23	3Q23	4Q23	2023	1Q24
Overall GDP	0.5	0.5	1	2.2	1.1	2.7
Goods Producing Industries	-3.8	-6.1	-3.5	1.9	-2.9	1.4
Services Producing Industries	2	2.9	2.3	2	2.3	3.2

Source: Ministry of Trade and Industry Singapore, Prepared by KGI Asia

CPI: In March 2024, Singapore saw a 2.7% YoY increase in the headline Consumer Price Index (CPI), compared with 6.3% in February. This was primarily driven by a notable rise in hospital and outpatient services prices, contributing to healthcare inflation. Core inflation, on the other hand, slowed to 3.1% YoY in March, compared to 5.5% YoY in February. For 1Q24, Singapore saw an increase in headline CPI by 3.0% YoY, mainly driven by the recreation & culture division, with increased holiday spending as international travel further recovered. 1Q24 core inflation increased 3.3% YoY, compared to a 4.2% YoY increase in FY2023. The Monetary Authority of Singapore (MAS) expects overall core inflation to range between 2.5% and 3.5% in 2024. Excluding the effects of the GST rate hikes, core and headline inflation are forecasted to be between 1.5% and 2.5%. The central bank also foresees core inflation hovering around 3% in the short term, before experiencing a more pronounced decline in 4Q2024 and into 2025. This decline is expected as consumer prices adjust to higher cost levels in certain goods and services, including the recent increase in water prices in April. As the year progresses, the pass-through of accumulated costs to consumer prices is anticipated to lead to a more significant easing of core inflation.

Table 3: Singapore March CPI(%)

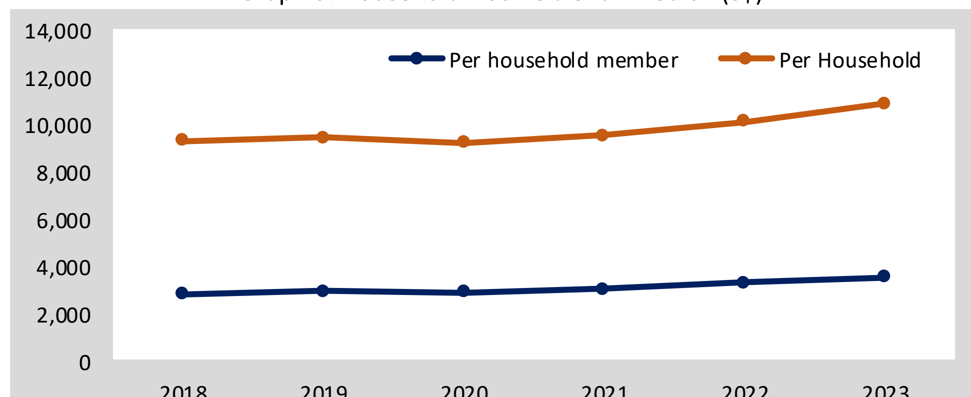
	Weight	YoY	MoM	Cumulative
All Items	100.0	2.7%	-0.1%	3.0%
All items less Imputed Rentals	82.5	2.5%	-0.2%	2.8%
All Items less Accommodation	78.0	2.5%	-0.2%	2.9%
MAS Core Inflation	65.8	3.1%	-0.2%	3.3%

Source: Department of Statistics Singapore, Prepared by KGI Asia

Labour market: In 1Q24, the seasonally adjusted unemployment rate experienced a slight increase to 2.1%, attributed to the global economic slowdown and weak business sentiments. This uptick was anticipated, given the elevated number of layoffs in the latter half of 2023. Despite this, there's a positive trajectory in employment growth, evidenced by an increase in the proportion of companies planning to hire within the next three months, rising from 47.7% in December to 50.7% presently. While the labour market expanded in 1Q24, it did so at a moderated pace compared to previous periods, reflecting cautious hiring due to lingering global economic uncertainties.

However, there may be a deceleration in wage growth, with the proportion of companies intending to raise wages declining from 32.6% to 26.1%. In 1Q24, total employment increased by 4,900, a figure lower than the previous quarter. This growth was primarily driven by an uptick in resident employment within expanding sectors like Financial Services, Health & Social Services, and Public Administration & Education. The growth in employment within these sectors offset seasonal declines seen in Retail Trade, Food & Beverage Services, and Accommodation, which typically occur after the festive period. Among resident-employed households, median monthly household income from work grew by 7.6% in nominal terms, from $10,099 in 2022 to $10,869 in 2023. After adjusting for inflation, the median monthly household income from work rose 2.8% in real terms in 2023. The gap between nominal and real income growth also narrowed in 2023, with the Gini Coefficient falling to 0.433 in 2023, compared to 0.437 in 2022, before accounting for government transfers and taxes.

Graph 6: Household income trend - Median (S$)



Source: Department of Statistics Singapore, Prepared by KGI Asia

Fixed asset investment (FAI): According to the Singapore Economic Development Board (EDB), in 2023, the FAI moderated to S$12.7bn, a 44% YoY decline from the previous record of S$22.5bn FY22, due to the slowdown in demand for semiconductors. However, this figure still exceeds EDB's medium-to-long-term FAI goal, reflecting continued business confidence in Singapore as a gateway to a growing Asian region. The top 3 industries with FAI investment commitments were Chemical, Electronics and Research and Development at 35.6%, 24.2% and 16.6% respectively. In FY23, the EDB also attracted S$8.9bn in Total business expenditure, above the S$6.2bn in FY22 and exceeding the EDB's medium-to-long-term goals. This growth is attributable to the increase in investment projects, with close to 70% being accounted for by headquarters and professional services projects, as more global businesses turn using Singapore as a base to tap into Asia's growth. These commitments, when realised, are expected to create 20,045 jobs with a projected contribution of S$26.7 billion in Value-Added per annum. To further support high-quality investments, on 16 February 2024, the Government introduced the Refundable Investment Credit (RIC) as part of its efforts to remain competitive and attract high-quality investments, amid increasing global competition for investment. The RIC, which functions as a tax credit with a refundable cash feature, aims to support high-value economic activities such as manufacturing, innovation, R&D, and green initiatives. The EDB will determine the eligibility and quantum of the credit, which can offset corporate income tax and be refunded in cash if not fully utilized. Additionally, Singapore plans to inject funds into sectors like finance and R&D to reinforce its competitive edge and sustain long-term growth. Further details on the RIC will only be released in the third quarter of this year.

Table 4: Fixed Asset Investment in 2023

	FY2022	Medium to Long term Goals	FY2023
Fixed Investment (S$ bn)	22.5	8 - 10	12.7
Business Expenditure Per Annum (S$ bn)	6.2	5 - 7	8.9
Jobs Created	17113	16000-18000	20045
Value Added Per Annum (S$ bn)	20.6	-	26.7

Source: EDB Singapore, Prepared by KGI Asia

International trade: In February 2024, total trade experienced a YoY growth of 3.5%, driven by a 1.7% increase in exports and a 5.6% increase in imports. However, on a seasonally adjusted basis, total trade decreased by 0.5% MoM in February. Non-oil domestic exports (NODX) saw a slight decline of 0.1% following a significant expansion of 16.7% in the previous month. While non-electronics exports decreased, there was growth in the electronics sector. Overall NODX saw a slight decline, particularly in most key markets except for Hong Kong, the U.S., and Indonesia. Non-oil Re-exports (NORX) experienced a 0.7% growth, driven by expansion in the electronics sector but offset by declines in non-electronics sectors. The slower growth in total trade is primarily attributed to the uncertain global economic environment. However, the recovering Hong Kong market provided support, contributing to a notable 143.6% growth in Singapore's NODX to Hong Kong. Enterprise Singapore upgraded its FY2024 forecast for NODX to 4% to 6% growth, up from an earlier estimate of 2% to 4%, backed by an expected gradual recovery in global electronics demand. World Trade Organisation also expects global merchandise trade to grow 3.3% in 2024, after a 0.8% expansion in 2023, showcasing optimism in the international trade industry.

Personal disposable income and savings: 4Q23 Personal disposable income grew by 4.9% YoY, driven by weaker growth of compensation of employees. Personal savings rose 2.5% YoY, with the personal saving rate rising from 32.8% to 35.2% this quarter. 2024 full-year personal disposable income is expected to see moderate growth of mid-to-high single digit. However, the growth shall drop to low single digits as corporates slash jobs and freeze hiring to prepare for a global economic slowdown in 2024. Accordingly, the gap between inflation and wage growth remains.

Table 5: Personal Disposable Income and Savings (%)

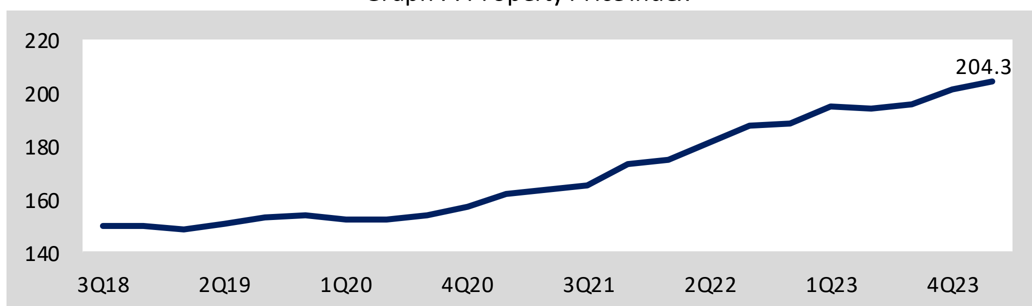
YoY change	1Q23	2Q23	3Q23	4Q23
Personal Disposable Income	8.2	10.1	7.2	4.9
Personal Saving	0.5	12.5	9.6	2.5
Private Consumption Expenditure	13.4	9.0	6.1	6.3
Compensation of Employees	8.6	9.4	7.6	4.5
Personal Saving Rate (%)	37.7	31.9	32.8	35.2

Source: Department of Statistics Singapore, Prepared by KGI Asia

Housing and rental prices: In 1Q24, there was a slight uptick of 1.4% in private housing prices, moderating from the 2.8% increase observed in the previous quarter. Private residential property rentals, on the other hand, exhibited a second consecutive decline of 1.9% in the first quarter of 2024, following a 2.1% decline in the previous quarter. However, rents for larger luxury homes in Singapore rose as demand from high-net-worth foreigners met with limited supply, with private non-landed residential four-bedroom units seeing a 36.5% jump in demand according to Huttons Asia, pushing rentals up by 6.5% QoQ. In the first half of 2024, the Government Land Sales (GLS) supply for private housing increased further with the release of 5,450 units, this marks the highest supply in a single GLS programme since 2H13. The increase in supply is to cater to purchase demand and maintain price stability of private housing in Singapore and will be ready for a sales launch in the coming year. The revision of the Additional Buyer's Stamp Duty (ABSD) also reduced the demand for Singapore properties, as buyers are now subjected to a higher amount of tax on the purchase of Singapore property.

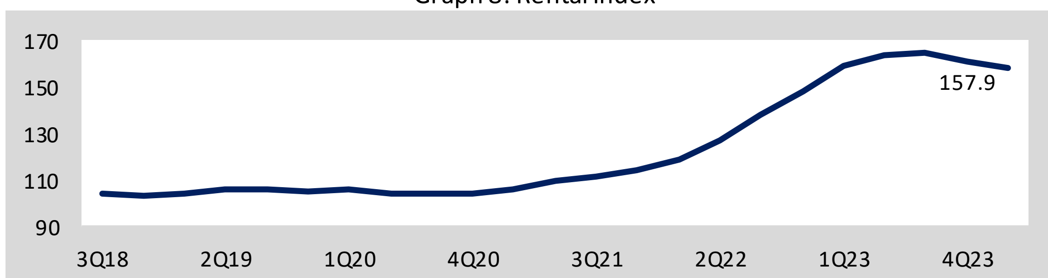
The housing market in Singapore is expected to moderate in 2024 and mortgage rates to remain high. The supply-demand imbalance is beginning to normalise as the Urban Redevelopment Authority (URA) looks to release new residential properties through proposed amendments to its master plan and about 19,600 Build-To-Order (BTO) flats to be launched this year. However, at present newly launched property units are still unable to match demand. ABSD has a greater impact on foreign buyers. Local buyers have been seen exercising more prudence and care in the current uncertain market environment. The rental market has also seen signs of easing as construction and completion of housing units have returned to post-pandemic normalcy. With the ABSD affecting foreigners' purchasing willingness and construction activities still playing catch-up, housing and rental prices are expected to remain relatively sticky in FY24.

Graph 7: Property Price Index



Source: Urban Redevelopment Authority, Prepared by KGI Asia

Graph 8: Rental Index



Source: Urban Redevelopment Authority, Prepared by KGI Asia

Asia wealth hub

Increasing capital inflows: According to the Monetary Authority of Singapore, the total assets under management fell by 10% YoY to S$4.9tn due mainly to the decline in asset values. Meanwhile, the number of licensed and registered fund management companies in Singapore grew to 1,194 in 2022 from 1,108 in 2021.

High net worth population growth: Singapore is currently home to approximately 336 centi-millionaires (individuals with a net worth of at least US$100mn) and 30 billionaires, ranking 4th globally. This marks a 64% increase in the number of millionaires in Singapore over the last decade. Around 3,400 high-net-worth individuals have migrated to Singapore in the past year, making it one of the most sought-after destinations for millionaires worldwide. Additionally, Singapore has emerged as the fastest-growing hub for family offices across the globe.

More Family Offices: As of 2023, Singapore saw approximately 1,400 single-family offices, a 27% increase from 1,100 at the end of 2022. Following the recent massive money laundering bust, the Monetary Authority of Singapore (MAS) has tightened its procedures around foreign wealth inflows, with applicants now given a maximum of one month to reply to the regulator when asked for additional information, previously there was no set timeframe for responses. By streamlining the application process, MAS will be able to attract more legitimate wealth and deter illicit activity. This will also benefit family offices in Singapore, which are increasingly showing interest in nature-friendly impact investments. In addition to traditional sources of funding for nature conservation, these private wealth management firms are responding to calls from the United Nations to redirect financial flows towards activities that protect and sustain nature, particularly ecosystems in Southeast Asia. The ongoing geopolitical tensions and economic uncertainties have led Singapore to become the fastest-growing hub for family offices globally, as it is seen as a business-friendly city and safe haven for wealthy investors. This trend is expected to continue into 2024.

Sustained cross-border volume of overseas capital received: Despite a decline in cross-border activities across the Asia-Pacific region, Singapore maintained its appeal to overseas investors in the first quarter of 2024. With the highest proportion of overseas capital at 45.6%, Singapore saw increased interest, particularly from institutional investors in the hospitality sector. This interest was driven by the resurgence of the tourism industry, with transactions amounting to US$906mn and a focus on hospitality assets, boosted by factors such as the China-Singapore mutual visa exemption arrangement. However, challenges such as discrepancies in pricing expectations and high interest rates may affect market activities in the future. Strategic partnerships and investment approaches will be crucial for capitalizing on market opportunities amidst these fluctuations.

Favourable sectors

Banking

Robust wealth management growth. DBS/OCBC/UOB reported 23%/2%/14% YoY growth in assets under management to S$365bn/S$263bn/S$176bn respectively in FY23.

Record profit in FY23. DBS/OCBC/UOB posted profits of S$10.3bn/S$7.02bn/S$6.1bn respectively. DBS benefitted from its strong loan expansion despite lower net interest margins of 57.4bps YoY. OCBC and UOB benefitted from an expansion of their net interest margins of 37 bps and 23 bps respectively. Net interest income also grew between 16% and 26% YoY.

Profitability in 1Q24. DBS/OCBC/UOB posted profits of S$2.95bn/S$1.98bn/S$1.49bn with a change of +15%/+5%/-1.6% YoY respectively. DBS benefitted from its fee income which received a boost from stronger market sentiment and higher spending on credit cards, its net interest margin remained stable at 2.14%. OCBC's net interest margin also remained stable at 2.27%, it announced a voluntary unconditional general offer for the 11.56% stake in Great Eastern that it does not currently own to delist its insurance arm. UOB's net interest margin was down 12 basis points YoY at 2.02% and its net interest income fell 2% YoY to S$2.36bn.

Attractive dividend yield. Average FY25F 6.22% across the three Singapore banks.

Valuation. Current PE of 9.9x vs the 5-year average of 9.8x.

Outlook. DBS expects net interest income to top 2023 levels and double-digit growth in non-interest income. Total income could be 1 or 2 percentage points higher than its previous guidance of mid-single digits. UOB maintained its guidance for a low single-digit loan growth and double-digit fee growth in 2024. OCBC lifted margin guidance for FY24, it expects NIM to be at the higher end of 2.20% to 2.25% if rate cuts are less than originally expected, low single-digit growth, credit costs to be between 20 to 25 bps and a 50% dividend payout target ratio.

Real estate investment trust:

Re-rating catalyst. Interest rates are anticipated to decline in 2024. Accordingly, the cap rate is expected to drop, and valuations will be revised upward. On the other hand, the interest burden will be mitigated as REITs can gradually refinance at lower rates, resulting in increased earnings.

Dividend yield. The average forward 12-month dividend yield is 8.0% across the S-REITs. The decline in key rates and inflation will make REITs more attractive next year.

Table 6: Valuation

	Forward PE	5-year Average PE
Retail	15.5x	18.5x
Office	10.4x	-7.6x
Industrial	16.4x	62.4x
Hospitality	18.4x	12.6x

Indonesia Market

Catalysts for “Let Beat Go On” for the rest of 2024

With our positive view on Indonesia, expecting a GDP growth of 5.3%, above the 10-year average of 5.1% and slightly higher than the government figure of 5.2%. This growth is expected to be driven by a surge in household consumption, which contributed to half of the GDP, and a commodity boom from fed easing.

We also expect the government to make use of the state budget to manage inflation and stabilize the currency. Also, to spend more on infrastructure and foreign direct investment after the new government settles in.

In terms of the business environment, although the private sector may experience some volatility, at the same time also creates opportunities for new investors. But overall, with the market uncertainty, we believe that the economy still has the potential to grow for the remainder of the year amid a continuation of the recovery scenario following the end of the pandemic.

Jakarta Exchange: History, Indices and Main Sectors

History (1912-2023): The exchange was originally started in 1912 by the Dutch as Vereniging voor de Effectenhandel or Exchange focusing on trading plantation bonds until it closed in 1952 after transfer of power from colonial to Indonesian government. After 1952 became inactive but reactivated in 1977 with subsequent listing of the first company on the exchange.

There are 2 main indices out of 42 on the exchange: The Jakarta Composite Index with all listed companies and the LQ45, which contains companies with relatively large market capitalization, high liquidity, and good fundamentals taken from the Jakarta Composite Index (JCI).

There are 4 main sectors in the JCI which are automotive, banking, consumer, and telecommunication. The automotive sector is driven by positive sentiment from Indonesia planning to join the electric vehicle bandwagon (cars and motorcycles). The banking sector, which has the largest market weighting consists of government and privately owned big and small banks. We note that Indonesia has a large population where the consumer sector benefits from such as a large pool of consumers. Last is the telecommunication sector providing services nationwide.

Challenges Ahead for Indonesia

As mentioned earlier, the Presidential election, the appointment of a new cabinet needs to be quickly in place to stabilize and stimulate economic growth. However, given that Indonesia is an exporting nation, it is susceptible to fluctuations in global commodity prices, which could lead to weakened export performance and have an impact on state revenue in the future.

As a result, the country must prioritize long-term growth by investing in initiatives such as enhancing human capital through education and invest more on infrastructure. To this end, the new capital project (IKN) in Kalimantan should be geared to support the latter.

To progress, the government should consider allocating the budget more prudently and increasing revenue to create fiscal space for further action, such as adapting to climate change.

Furthermore, it is essential to keep headline inflation in check as it may affect purchasing power to a certain extent.

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