

Q1 2024 Outlook

Greater Clarity and Optimism

Chief Investment Office, CIMB

January 2024

MOVING FORWARD WITH YOU



Key Messages for 2024

- More clarity in monetary policy - central banks pause with clear messaging
- Diversify into non-USD currency majors on any US dollar strength, as FX markets look ahead to rate cuts
- Pessimism over China lingers; stimulus ahead may only engineer slow recovery
- Optimism in Asian assets and equities as 2024 progresses, but not binary
- Potential negative surprises: US slowdown, elections in the largest economies

BONDS

- Less hawkish Fed, Add duration in Sovereigns & IG.
- Optimism over peak in yield has stretched reaction.

EQUITIES

- Defensive initially; add more risk closer to rate cuts
- China is on valuations and policy support

CURRENCIES

- Diversify out of USD on any strength
- Generate yields via DCI (AUD, XAU preferred)

Note: IG - Investment Grade Corporate Bonds

Note: Dual Currency Investment (DCI), Gold DCI (GDCI), Currencies (FX)

Recommended Asset Allocation

- **50% bond: 45% equity.** Fed policy rate has peaked (last July). Clarity on rate path – inflation, growth dependent; rate cut optimism has stretched markets.
- **Bonds (OW):** Attractive corporate yields, likely to fall next 12 months. Stay in quality (IG) as US data show signs of slowdown in 2024. Long duration on a 12-18 month view.
- **Equities (Neutral): OW Asia, Neutral developed markets.** Neutral equities, optimistic on Asian markets helped by weaker USD, stronger growth, lower inflation, healthy consumer spending, smaller budget deficits. ASEAN and China are inexpensive.
- **Alternatives and cash:** Gold is reacting positively to lower bond yields. Two alternatives are: (i) non-MYR deposits with 5%+ rates, or (ii) Absolute return ('hedge') funds to be tactical/nimble for the turn in the business cycle.

Asset Allocation

	UnderWt	Neutral	OverWt
BONDS (50%)	<div></div>	<div></div>	<div></div>
Corporate Inv. Grade	<div></div>	<div></div>	<div></div>
Sovereigns	<div></div>	<div></div>	<div></div>
Corporate High Yield	<div></div>	<div></div>	<div></div>
EQUITIES (45%)	<div></div>	<div></div>	<div></div>
Asean	<div></div>	<div></div>	<div></div>
Hong Kong/China	<div></div>	<div></div>	<div></div>
Rest of Emerging Mkts.	<div></div>	<div></div>	<div></div>
U.S.	<div></div>	<div></div>	<div></div>
Rest of Developed Mkts.	<div></div>	<div></div>	<div></div>
CASH (5%)			

Source: CIMB Chief Investment Office

US: Fed message a relief

THE HOPE

- Lower bond yields cuts borrowing costs, rerate valuations, create a wealth effect
- Growth deceleration is mild, GDP growth 1-2%.

THE UNKNOWNNS (RISKS)

- Higher oil prices raise inflation and bond yields, rate hikes resume
- US presidential elections – betting markets now favour a Trump win (44% vs 33%)
 - *A Trump win to change trade policy, energy policy, reversal of some Biden legislation, fiscal profligacy.*
- Elections in Japan, India, Indonesia, European parliament, UK, could bring surprises.

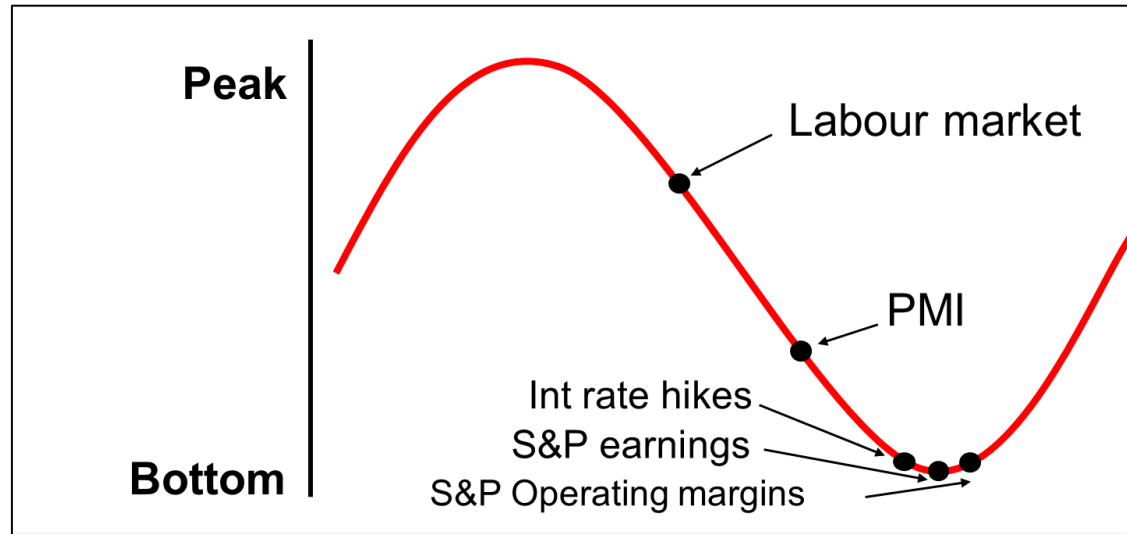
THE DANGER

US economy peaked at 5.2% growth in Q3 23. CIMB expects US GDP to slow to +1.6% (2024)

- Fed expects 1.4% GDP growth in 2024 vs 2.6% (2023). The danger is a severe slowdown should consumer spending peak.
- S&P500 earnings to grow 11% in 2024, downgrades from this optimistic level is a danger, as GDP slowing.
- Two indicators, the Index of LEI, and Chicago Fed's Natl. Activity Index, still negative, imply slowdown ahead

US economy: A mixed picture

Where we are in Business cycle, based on indicators

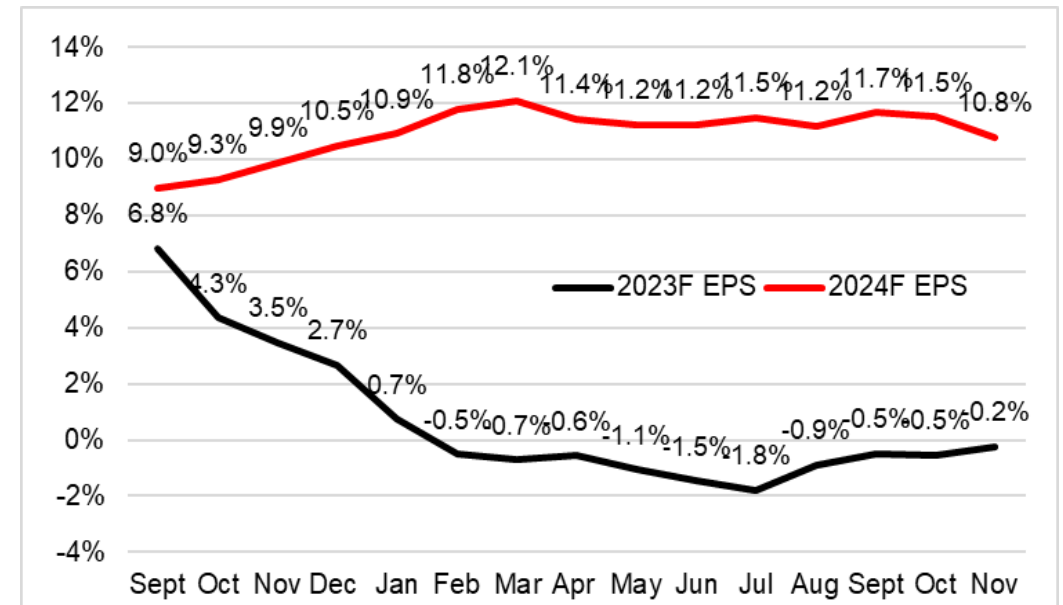


Source: CIMB Chief Investment Office

S&P500 earnings projected to grow from -0.2% in 2023 to 10.8% in 2024. A new cycle or excessive optimism?

3 indicators suggest the US economy is close to the bottom of its business cycle (i) interest rate peak, (ii) corporate earnings accelerate from zero to +10.8% in 2024 (iii) operating margins expected grow in 2024.

Monthly Changes to S&P500 earnings growth



Source: Bloomberg

CHINA: Strategic rivalry overshadows progress

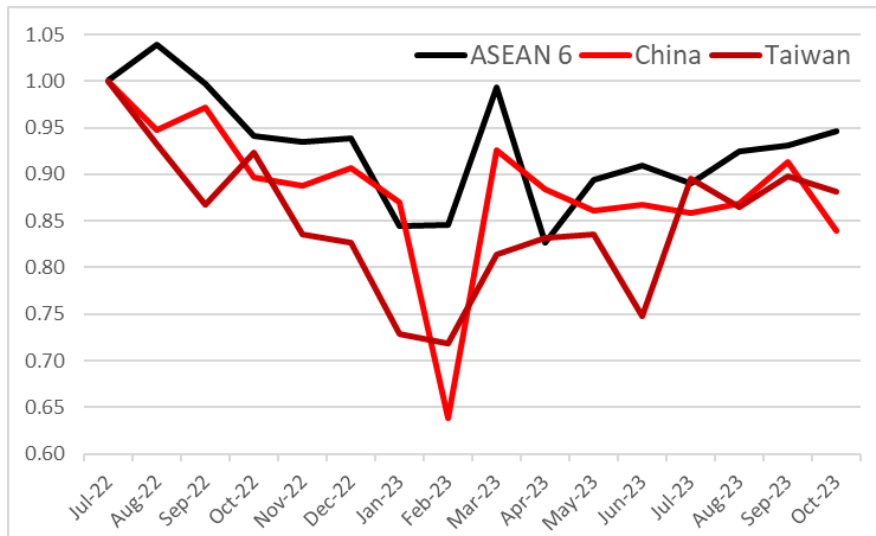
► 2024 growth likely 4.5%-5.0%, more stimulus likely

- ▢ Rebound in 4Q data ends a stretch of disappointing news, peak pessimism behind us
- ▢ Central Govt borrows for stimulus – a mindset change; Deficit expands to 3.8% of GDP in 2023, to stay expansionary in 2024, debt-to-GDP is only 21%
- ▢ Consumption, an important leg of Chinese economy, hampered by confidence crisis

► US-China strategic rivalry: No way back

- ▢ US, China reboot relationship discussing Taiwan, South China Sea, economic, financial issues, for but technology rivalry appears to be 'fair' game
- ▢ Geo-political fracture unlikely to heal: (Fear over invasion of) Taiwan, Chinese support of Russian war effort

Asian exports have turned up since mid 2023

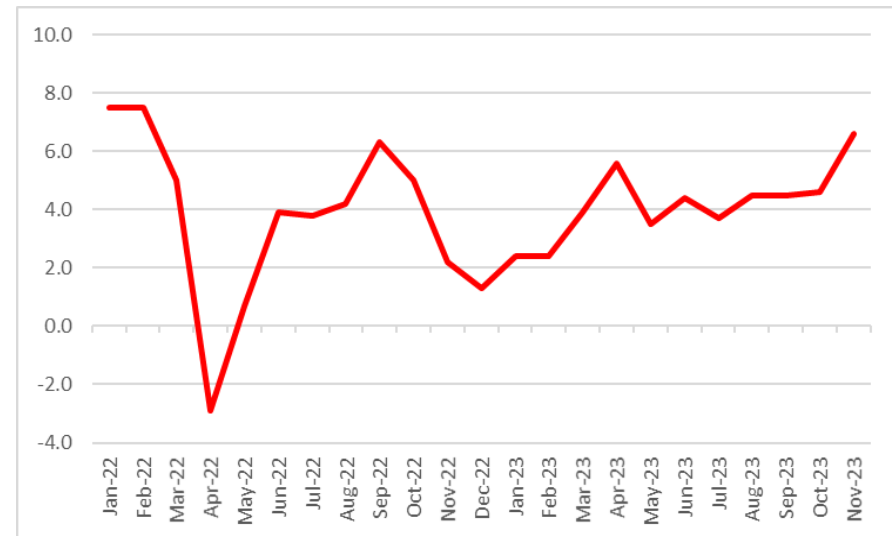


Source: Bloomberg

China and ASEAN exports have recovered somewhat from the low in early 2023.

China's Industrial production has been on uptrend for most of 2023

Industrial Production On Uptrend since mid-2023



Source: Bloomberg

Currencies

Outlook

- Lower USD bias with periods of support if Fed opt to keep rates “high for longer”.
- Uneven recovery and lingering growth concerns in China to weigh on Asean FX.
- Fed pivot expectations to exert pressure on USD.
- China recovery tailwinds (if any) supportive of Asean FX.
- Narrowing rate differentials supportive of Asean FX in 2024.

USD

Developed mkts Currencies

Emerging mkts Currencies

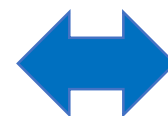
Forecasts

1Q24

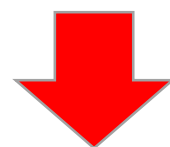
Next 9
months



AUD
GBP
EUR
JPY



MYR
SGD
IDR
THB



AUD
GBP
EUR
JPY



MYR
SGD
IDR
THB



Range -
bound



Bullish



Bearish

FX Pair

4Q24

DXY

98.9

EURUSD

1.12

USDJPY

130

GBPUSD

1.31

AUDUSD

0.69

USDCNH

7.00

USDCHF

0.89

USDSGD

1.31

USDMYR

4.38

USDIDR

15,050

USDTHB

33.70

XAUUSD

1,950

Source: CIMB Treasury & Markets
Research @ 14 December 2023

CIMB Treasury Forecasts

Forecasts as at 11 December 2023					
	2021	2022	2023	2024	2025
Real GDP Growth (%)					
United States	5.8	1.9	2.4	1.6	1.3
Malaysia	3.3	8.7	4.0	4.9	4.7
Indonesia	3.7	5.3	5.1	5.0	5.0
Singapore	8.9	3.6	1.0	2.1	2.6
Thailand	1.5	2.6	2.9	3.4	3.2
Inflation, average (% yoy)					
United States	4.7	8.0	4.0	2.6	2.2
Malaysia	2.5	3.4	2.6	3.0	2.3
Indonesia	1.6	4.2	3.7	3.0	3.0
Singapore	2.3	6.1	4.9	3.5	1.9
Thailand	1.2	6.1	1.6	1.7	1.8
	1Q24	2Q24	3Q24	4Q24	1Q25
Policy Rates, EOP (%)					
United States	5.50	5.50	5.00	4.50	4.00
Eurozone*	4.50	4.25	3.75	3.50	3.25
Malaysia	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	5.75	5.50	5.25	5.00
Thailand	2.50	2.50	2.50	2.50	1.75
*ECB's Main refinancing rate					
10Y Government Bond Yields (%)					
United States	4.15	3.95	3.75	3.60	3.45
Malaysia	3.75	3.80	3.85	3.90	3.90
Indonesia	6.85	6.85	6.80	6.80	6.80
Singapore	3.05	2.90	2.80	2.70	2.70
Thailand	2.75	2.95	3.10	3.20	3.30
Commodity Prices					
Brent (USD/bbl)	75	72	73	76	76
CPO (RM/mt)	4,133	4,067	3,900	3,900	3,900
Gold (USD/oz)	1,900	1,925	1,925	1,950	2,000

US inflation to fall to near 'target' by 2024

CIMB expects 100bps Fed rate cuts in 2H24

10Y MGS yield slightly higher in 2024

US growth slows after 2023 peak. ASEAN growth accelerates (ex-Indonesia)

*Note: GDP – Gross Domestic Product
EOP – End of Period
ECB – European Central Bank
CPO – Crude Palm Oil
Source: CIMB Investment Bank*

BONDS



Latest FOMC – Rate Cuts hinted, not committed

US Fed has paused policy rate in past 3 meetings. Message from Fed's latest Summary of Economic Projections:

- US economy will slow to 1.4% growth in 2024 (2.6% in 2023).
- Lower inflation of 2.4% in 2024 (from 2.8% and 3.2% in 2023).
- Policy rate peaks at 5.50% (vs. 5.75% projected in Sept 2023).
- To cut policy rate by 75bps in 2024 (vs. 50bps cuts in Sept 2023).
- No major changes to the longer-run forecasts.

➤ Dec 2023 Summary of Economic Projections

Variable	Median ¹ (Percent)				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8
September projection	2.1	1.5	1.8	1.8	1.8
Unemployment rate	3.8	4.1	4.1	4.1	4.1
September projection	3.8	4.1	4.1	4.0	4.0
PCE inflation	2.8	2.4	2.1	2.0	2.0
September projection	3.3	2.5	2.2	2.0	2.0
Core PCE inflation ⁴	3.2	2.4	2.2	2.0	
September projection	3.7	2.6	2.3	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	5.4	4.6	3.6	2.9	2.5
September projection	5.6	5.1	3.9	2.9	2.5

Source: Federal Open Market Committee (FOMC)

Fed post-FOMC Press Conference: Rate cut discussion preliminary.

- Further hikes not likely, yet not ruled out.
- Inflation fight showing results: PCE estimated at 2.6% yoy and Core PCE at 3.1% yoy in Nov 2023.
- Rate cut discussion preliminary, no decisions made.
- Assessment of full economic situation will guide the timing, pace of rate cuts.

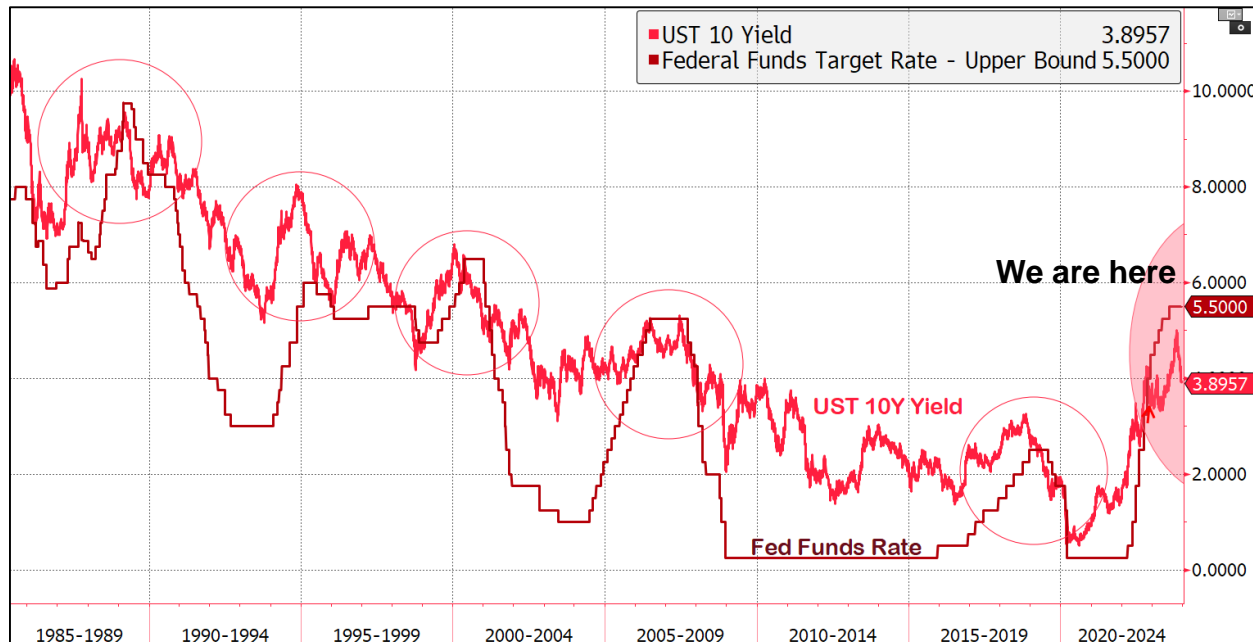
2024 Outlook – US

➤ Table 1: Rate cut bets intensify, market expects -175bps in 2024.

Implied Rate (% Upper bound) @ 20-Dec-2023	1Q24	2Q24	3Q24	4Q24	1Q25
Fed Funds Futures	5.25	4.75	4.25	3.75	3.75
Dec FOMC Dot Plot	-	-	-	4.75	-
CIMB Forecast	5.50	5.50	5.00	4.50	4.00

Source: CME FedWatch Tool, Federal Open Market Committee (FOMC), CIMB Treasury

➤ Chart 1: UST yields tend to fall sharply after the policy rate peaks.



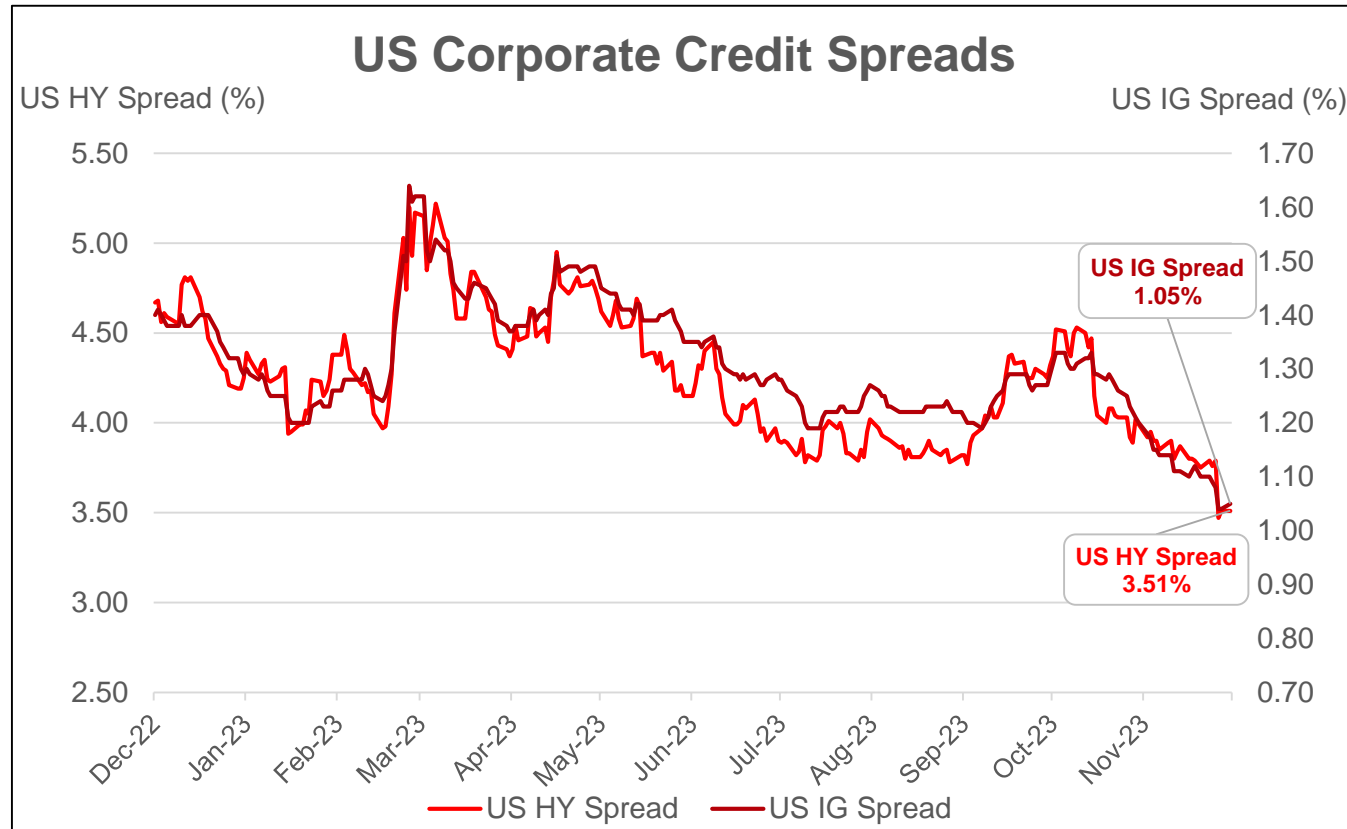
Source: Bloomberg

- Dovish narrative to dominate in 2024, higher bond yields possible in 1Q24 if expected rate cuts do not take place.
- Meaningful growth deceleration, easing UST supply imbalance, and improved fiscal discipline are key factors to move UST yields in 2024.
- Disinflation losing potency as a catalyst; expectations priced in.
- UST yields historically fell after policy rate peaks. The present cycle's decline has started; UST10Y yield fell 112bps from recent peak vs. an average of 382bps in previous cycles.
- Remain bullish on long tenor UST, good to hold till end-2025; **prefer to buy when prices dip in 1Q24.**

Note: US Treasury (UST)

2024 Outlook – Rest of World, Malaysia

- **Chart 2:** Both spread measures currently near 52-week low; US HY spread widening may exceed the potential decline in UST yields in 2024. US IG spread will be much more restrained.



Source: Ice Data Indices, LLC, FRED; Note: High Yield (HY), Investment Grade (IG)

- **Overweight:** **USD, AUD, GBP** bonds for attractive all-in yields; potential dovish shift in 2024 may result in rising prices of AUD & GBP bonds.
- **Prefer US IG over HY in 2024** – US HY issuers face refinancing risk in 2024, says Moody's, S&P, and Fitch.
- **Buy **MYR** bonds:** continued institutional support; inflation under control; limited supply pool; appealing real yield vs. developed markets.
- **CIMB Forecast:** MGS yields to trend slightly higher through 2024; market support hinges on achieving fiscal responsibility targets.

Note: Malaysian Government Securities (MGS)

Bond Positioning Strategies and Risks

WHAT TO OWN

- Own tenors up to **10 years** – for yield curve steepening, monetary easing.
- Own selected IG corporate bonds in MYR, USD, AUD, GBP
- Take opportunistic positions in long tenor government and quasi-government bonds.

INVESTMENT STRATEGIES

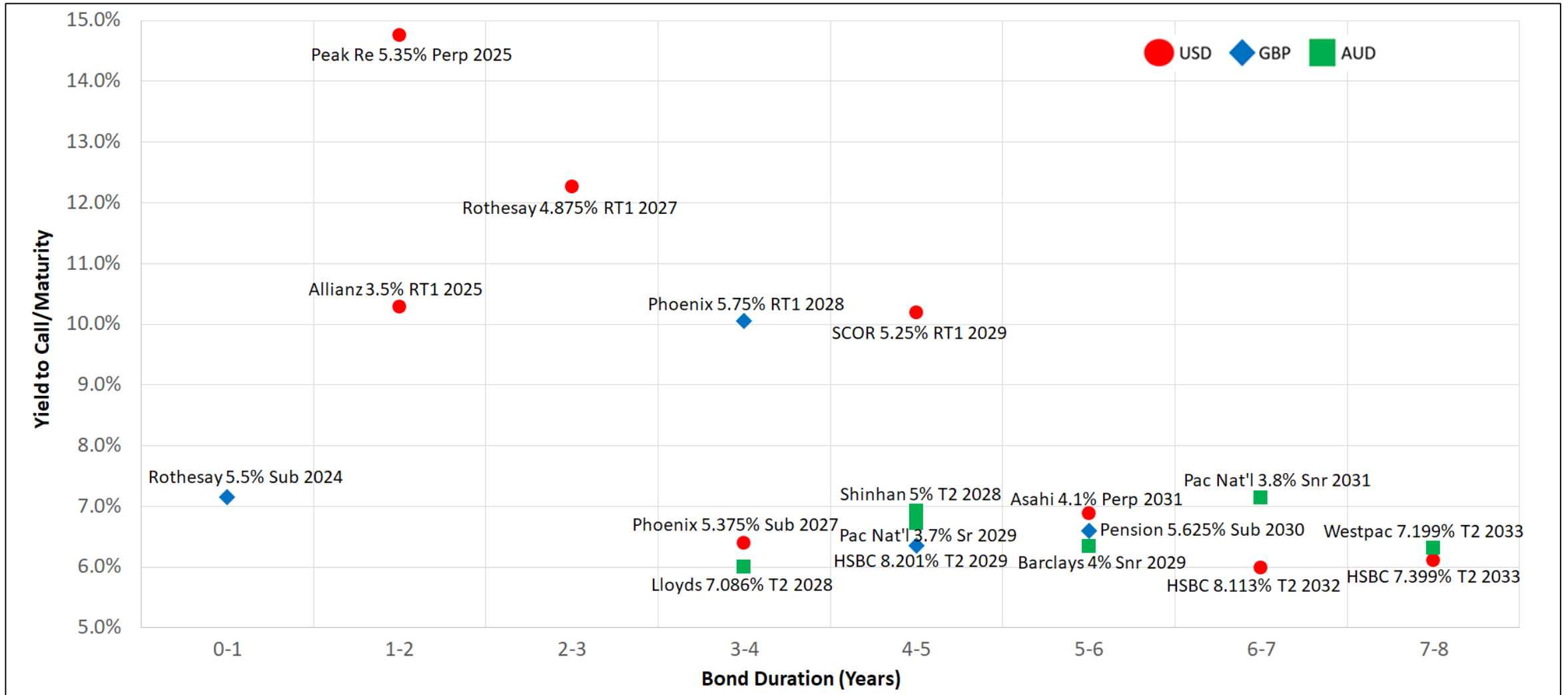
- Allocate **50%** of portfolio to bonds.
- Hold-to-maturity for regular income, ride out of market volatility.
- Utilize up to 50% **leverage** to enhance return, with improving positive carry when policy rates are cut

➤ Key risks

- A resurgence of **inflation** could lead to a significant pull back in bond prices.
- A **hard landing** in the US and Europe could lead to wider corporate bond spreads across markets.
- Financial markets could turn dysfunctional, precipitating a credit crunch.
- **Popularity of ultra-right** politics in US could weaken its sovereign creditworthiness and UST prices.

Yield vs Duration of Recommended Quality Bonds

➤ Quality Senior, Subordinated and Perpetual bonds yielding **above 6%**.



Based on indicative offer yields as at 20 December 2023.

Source: CIMB Treasury and Markets, Bloomberg

EQUITIES

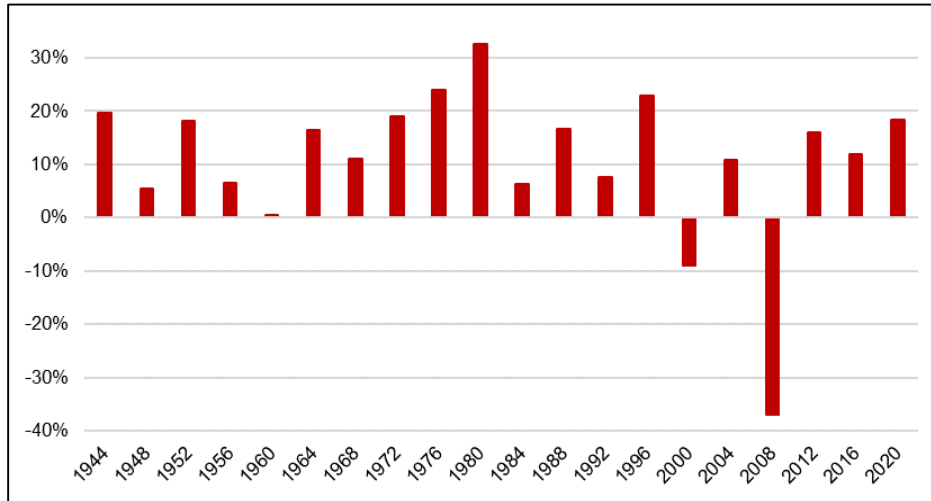


Country Snapshot

	US (Neutral)	HK/China (Neutral)	Singapore (Overweight)	Malaysia (Overweight)
Our View	Healthy earnings growth with Gen AI, elections boost, but possible fund outflows as USD weakens.	Lack of confidence and concerns about policy effectiveness, countered by trough valuations.	Green shoots in economy; position for semicon upcycle, tourism recovery, and rate pivot.	To stage a comeback on policy momentum, reversal of strong USD trend, and better earnings delivery.
Catalysts	Stronger earnings guidance	Aggressive stimulus; better econ data	Falling treasury yields; recovery in exports	Liquidity inflows as MYR strengthens
Risks	Hard landing; spike in treasury yields	Ineffective policies; geopolitics	Global slowdown; earnings disappoint	Policy execution risks; political risks

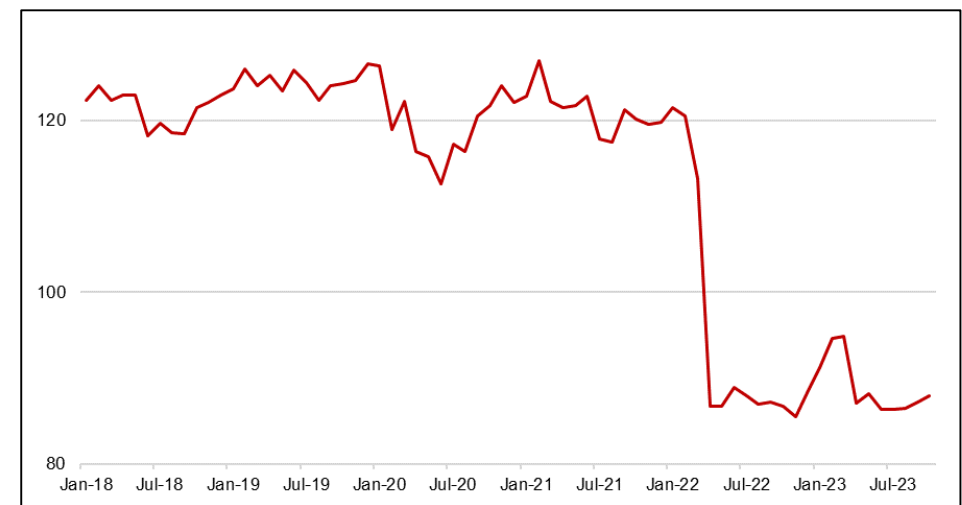
Charts with a Message

Performance of S&P500 in US presidential election years



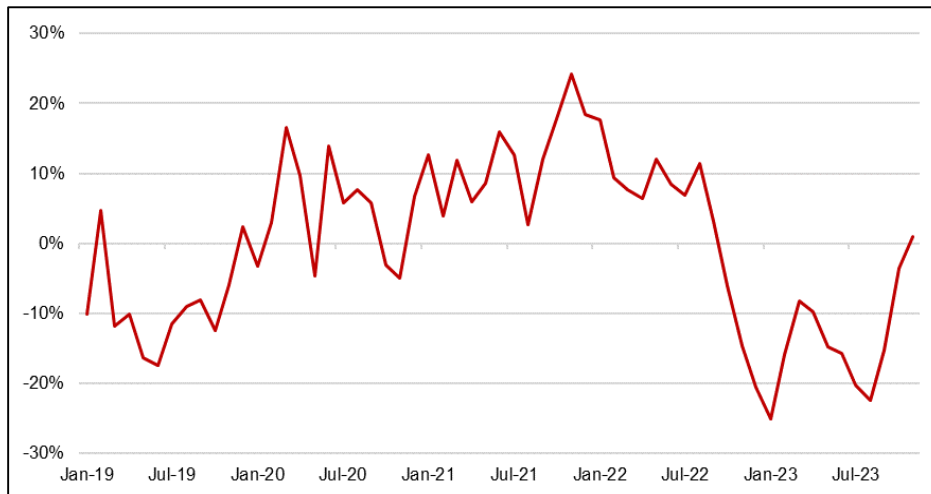
Source: Bloomberg, CIMB Chief Investment Office

China's consumer confidence has not recovered



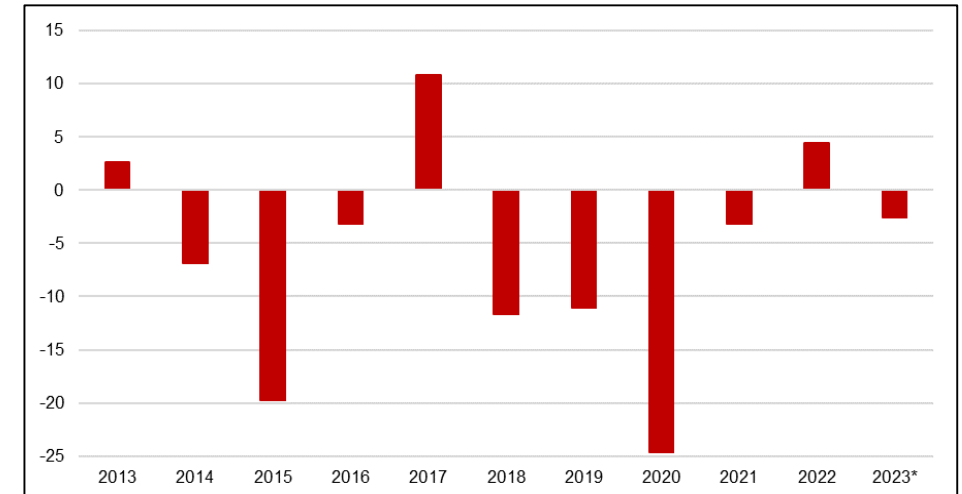
Source: Bloomberg, CIMB Chief Investment Office

Singapore's NODX suggests a turnaround in E&E



Source: Bloomberg, CIMB Chief Investment Office

Potential inflows into Malaysia after years of outflows?



Source: Bursa Malaysia, CIMB Chief Investment Office

*Note: 2023 figures YTD as of end-Nov

Market Valuations

Asian markets trade at **more attractive valuations** of 8-13x 2024F PER vs the US market's 19x

	US	HK/China	Singapore	Malaysia
Index	S&P 500	Hang Seng	Straits Times	FBMKLCI
Index levels on 22 Dec 2023	4,747	16,340	3,139	1,454
Year to Date (YTD) performance	23.6%	-17.4%	-3.4%	-2.7%
2024F Price to Earnings ratio (PER) (x)	19.3	7.6	10.1	13.1
5-year Mean PER (x)	19.0	10.4	12.6	14.7
2023F Earnings Per Share (EPS) growth	-0.6%	5.6%	18.2%	4.8%
2024F EPS growth	10.8%	8.9%	2.9%	11.7%
2023F Return on Equity (ROE)	18.2%	11.0%	10.1%	9.5%
2023F Price to Book (P/B) (x)	4.36	0.93	1.05	1.29
2024F Dividend Yield	1.6%	4.7%	5.7%	4.5%

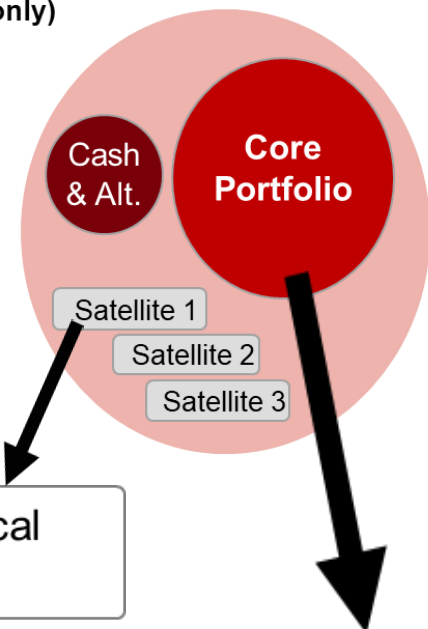
Source: Bloomberg, CIMB Chief Investment Office

FUNDS



Core Portfolio – Funds Model Portfolio

Investment Portfolio (illustration only)



As at 30-Nov-23 in MYR

Asset Class & Allocation (%)	Market Allocation	Target Weight (%)	Fund Name	Currency Class	Performance (%), in MYR	
					MTD	YTD
Equity, 40	Global / DM	9	United Global Durable Equity - MYR Hedged	MYR	7.1	2.6
		9	Principal Global Titans	MYR	5.6	19.9
	Regional / Asia	9	Principal Asia Pacific Dynamic Income	MYR	4.3	4.2
		4	TA Asia Absolute Alpha	MYR	2.8	3.3
		9	Principal ASEAN Dynamic	MYR	1.1	0.3
Fixed Income, 50	Global / DM	5	Affin Hwang World Series US Short Duration High In	MYR	0.8	14.2
		10	Affin Hwang Aiiman Global Sukuk	MYR	-1.2	7.8
	Asia	5	AHAM Select Bond	MYR	1.8	1.0
		15	AHAM Aiiman Income Plus	MYR	1.5	5.4
	Local	15	Principal Lifetime Bond	MYR	1.4	5.9
Alternative 2.5	Asia	2.5	Affin Hwang Shariah Gold Tracker	MYR	-0.6	18.9
Cash 7.5	Local	7.5	Principal Islamic Deposit Fund - AR	MYR	0.3	3.4
Model Portfolio Return (including fees)*					2.2	-

Use the **Funds Model Portfolio (FMP)** as a guide for a “Core Portfolio” of Funds

Fund Ideas

We have identified the following fund ideas to leverage on our CIO's house views

Themes	Peak interest rates	Slower US Growth in Presidential Election Year	Rebound in Asia's export growth	Stimulus momentum in Malaysia	Regular income	Semiconductor Upcycle	Peak pessimism over China
Catalysts	The market is pricing in 5 rate cuts in 2024	Strong balance sheet Higher earnings growth	Electronics export and China +1 story	Rising FDI in Malaysia (supply chain shift and data centre capex)	Attractive income 4-5%	Generative AI as the next major secular trend	Most of the bad news have been priced in.
Funds	<ul style="list-style-type: none"> Affin Hwang WS US Short Duration High Income AHAM Select Bond Principal Lifetime Bond 	<ul style="list-style-type: none"> United Global Quality Equity 	<ul style="list-style-type: none"> Principal Asia Pac Dynamic Income Principal ASEAN Dynamic 	<ul style="list-style-type: none"> Principal Islamic Small Cap Opportunity 	<ul style="list-style-type: none"> Manulife Shariah Global REIT Affin Hwang WS Dividend Value Affin Hwang WS Global Infrastructure 	<ul style="list-style-type: none"> TA Global Technology Principal Global Tech Principal Islamic Global Tech 	<ul style="list-style-type: none"> Principal Greater China Equity

Source: CIMB Chief Investment Office

ELI



Equity-Linked Investments "ELI"

100% Principal Guaranteed SHARKFIN FRNID

- References a single reference asset "RA"
- Single observation for coupon payout on Fixing Date (end of tenor)
- Typically 12-18mth tenor; investment view can be moderately bearish, moderately bullish or range-bound
- Suitable for stocks with good capital upside; with re-rating catalysts / market leadership with valuation support
- Picks: Moderately Bullish – BYD Co., Trip.com, CR Beer, AIA Group

Non-Principal Protected AUTOCALLABLE "KIKO"

- References a single stock
- Coupon and observation for Knock-In and Knock-Out "KO" are on monthly basis
- Strike Observation is on Final Valuation date, in the absence of a KO event prior to that
- Suitable for stocks that are perceived to have bottomed, are good to own at/close to current price, stocks with long-term structural positives
- Avoid stocks that are highly cyclical / stocks vulnerable to geopolitical swings
- Picks: Dialog, Capitaland Investment, Baidu

Investment View on Reference Assets

SHARKFIN FRNID

Reference Assets	Investment View
BYD Co.	The world's largest EV manufacturer and 2nd largest EV battery producer. Benefits from supportive domestic policies and growing international presence. Inexpensive at 13x FY24F P/E for expected annual EPS growth of 25-31% for FY24-25F.
Trip.com	Largest online travel agency in China by gross merchandise value, well-positioned for recovery in tourism with its FY24F growth to be driven by cross-border travel recovery.
China Resources Beer	China's largest beer company by volume with control over Heineken China's brands as well as a majority stake in a Chinese baijiu distiller. Benefits from consumption upgrade that is still intact for the sector and lower raw material prices.
AIA Group	Geographically-diversified pan-Asian insurer with recovering Value of New Business growth and margins in China, sales to mainland Chinese visitors and sustained growth in India and key ASEAN markets.

Investment View on Reference Assets

AUTOCALLABLE “KIKO”

Reference Assets	Investment View
Dialog	An integrated oil services provider. Completion of legacy EPCC projects and higher work volume should support near-term earnings recovery. Key longer-term driver is the expansion of its tank terminals capacity in Pengerang that generates recurring income.
Capitaland Investment	A leading global real estate investment management company with a well-diversified portfolio and recurring income base. Benefits from probable interest rate cuts which could help catalyse its capital recycling deal flows.
Baidu	Leading AI player in China with potential revenue contribution from faster-than-expected commercialization of AI chatbot. Company sees limited impact from US' curb on advanced AI chips to China - has a sufficient reserve of AI chips for the next 2-3 years and has been exploring alternatives.

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