

Q1 2024 Mid-Quarter Update

Follow the Fed's Patience

Chief Investment Office, CIMB

February 2024

MOVING FORWARD WITH YOU



Key Messages for 2024

- Markets re-price on Fed's patience, but policy message is clear: pause now, cuts much later
- Diversify into non-USD currency majors on US dollar strength, as FX markets look ahead to rate cuts
- Chinese intervention begins, pessimism lingers, US-China relationship warms
- Optimism in Asian assets and equities to grow as 2024 progresses
- January effect* begins to wane given the Fed's patience and some exuberance

BONDS

- No rate cut in March, but other key events may give boost to bonds later in 2024.
- UST market pullback creates a buying opportunity.

EQUITIES

- US supported by rate cut prospects, elections boost
- Rising interest in Malaysia due to mega project revivals

CURRENCIES

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

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

Recommended Asset Allocation

- **50% bond: 45% equity.** With a peak in policy rate and a rate path dependent on inflation and strength of economy, we are more positive on bonds at start of 2024; but are not negative on equities.
- **Bonds (OW):** Corporate yields still attractive, but to fall next 6-12 months. Stay in Investment Grade as global growth slows in 2024. Long duration on a 12-18 month view.
- **Equities (Neutral): OW Asia, Neutral developed markets.** Optimistic in Asia helped by stronger growth, lower inflation, healthy consumer spending, smaller budget deficits and eventually, weaker USD. ASEAN and China are inexpensive.
- **Alternatives and cash:** Even though Gold seems sensible to hold, we prefer the certainty of cash, as 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 patience puts onus on data

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 signal a Trump win (44% probability)
 - *Trump is perceived as pro-business, yet could alter trade policy, energy policy, reverse some Biden legislation, reduce fiscal discipline, and China relations may worsen.*
- Elections in Japan, India, Indonesia, European parliament, UK, could bring surprises.

THE DANGER

US economy peaked at 4.9% growth in Q3 23, a slower 3.3% in 4Q remains impressive. CIMB expects US GDP to slow to +1.6% in 2024 (3.1% in 2023).

- Fed expects 1.4% GDP growth in 2024 vs 2.6% (2023). The danger is a more severe slowdown.
- 2024 S&P500 earnings growth forecasts shrinks to 8.9%, despite 75% of results beating estimates.
- IT/tech sector now around 30% of S&P500 market capitalization, similar to peak of dot-com bubble.

US earnings: A mixed picture

S&P500 PER since 2000 – Peaks and Troughs

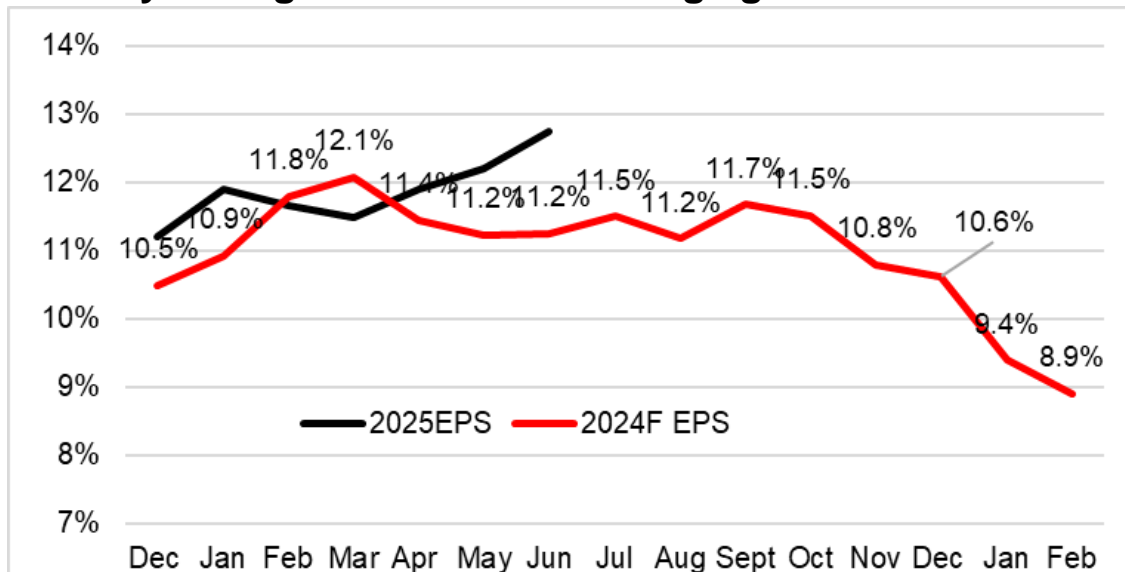


Source: Bloomberg

The S&P's PER valuation at 21x 2024 earnings is still some way from its previous peaks of over 26x PER (in 2000, 2020) but it has been cheaper 85% of the time since 2000.

Stripping out the effect of the Magnificent 7* stocks (which have a collective PER of 31x), the S&P500 PER is 19x.

Monthly Changes to S&P500 earnings growth forecasts



Source: CIMB Chief Investment Office

S&P500 earnings in 2024 projected to grow at 11.7% 4 months ago; reduced to 8.9% now. Excessive optimism tempered.

*The Magnificent 7 stocks are Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia and Tesla.

CHINA: Intervention and other tweaks

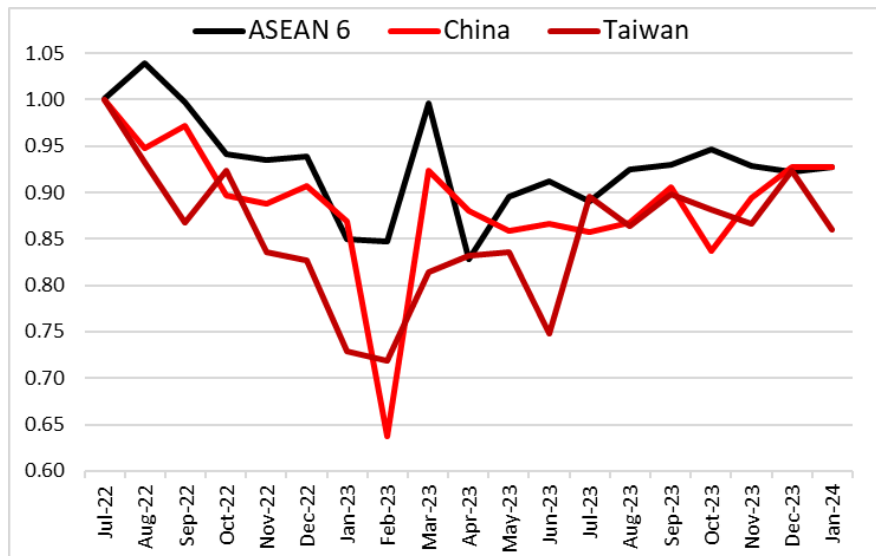
➤ 2024 growth likely c.4.5%, more stimulus likely

- Shanghai equity index dropped in January (-6.2%), and Hang Seng (-9.2%) as macro data perceived as 'half empty'
- PBOC cuts Reserve Ratio Requirement 50bps in February, cautious that rate cuts would threaten bank profitability
- Chinese leadership supports equity markets with 'national team'; this admission of defeat may worsen rout
- Consumption and investment, important pillars of economy, hampered by confidence crisis

➤ US-China strategic rivalry: Small improvements

- Technology rivalry unabated – In January US govt banned (i) use of Chinese batteries in military equipment (ii) use of US data to train Chinese AI chips
- Relationship thaws with resumption of dialogue on military affairs and narcotics enforcement
- Geo-political fracture may not heal: (Fear over) Invasion of Taiwan, Chinese support of Russian war effort

Asian exports have turned up since mid 2023

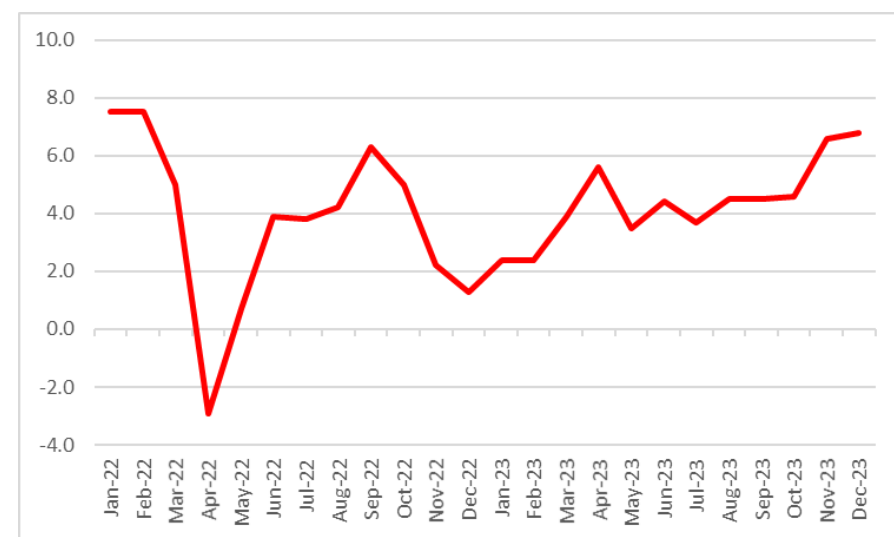


Source: Bloomberg

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.

China's Industrial Production continues uptrend



Source: Bloomberg

Currencies

Outlook

- Near-term USD support if Fed opt to keep rates “high for longer”.
- Significant USD upside limited on anticipation of rate cuts
- Uneven recovery and lingering growth concerns in China to weigh on Asean FX.
- Fed pivot expectations to exert downward pressure on USD.
- China recovery tailwinds (if any) supportive of Asean FX.
- Narrowing rate differentials supportive of Asean FX.

USD

Developed mkts Currencies

Emerging mkts Currencies

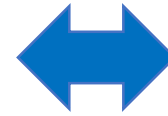
Forecasts

1Q24

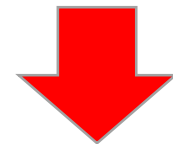
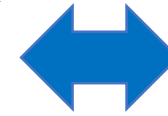
Next 9
months



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 14 February 2024					
	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	3.2	3.0
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	1.1	1.5
	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	2.25	2.00	2.00
*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	2.70	2.75	2.85	2.80	2.75
Commodity Prices					
Brent (USD/bbl)	75	72	73	76	76
CPO (RM/mt)	3,967	4,033	3,800	3,800	3,900
Gold (USD/oz)	1,900	1,925	1,925	1,950	2,000

US growth slows after 2023 peak. ASEAN growth accelerates

US inflation to fall to near 'target' by 2024

CIMB expects 100bps Fed rate cuts in 2H24

10Y MGS yield slightly higher in 2024

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

BONDS



Latest FOMC – Fed Tempers Market Exuberance

US Federal Reserve's 4th meeting without hiking; Press conference suggests mild hawkishness:

- No plans for early/March rate cut – need more evidence inflation heading to 2% target.
- Strong GDP growth is not an impediment to policy normalization – momentum expected to wane.
- US economy is broadly normalizing, monetary policy should go hand-in-hand.
- Summary of Economic Projections may be revised in March, to reflect slower inflation.
- Progress of bond holdings reduction to be discussed in March – may lead to less QT in near future.

Note: GDP – Gross Domestic Product, an economic growth measure, QT – Quantitative Tightening.

Other key events that supported demand for UST bonds:

- The US Treasury Dept. expects no further increase in auction sizes of UST bonds in coming quarters.
- Downgrade of a US regional bank (commercial real estate concerns) – sign of stress re-emerging in US regional banking sector.
- US retaliation for the US fatalities in Jordan increases the risk of widening Middle-East conflict.

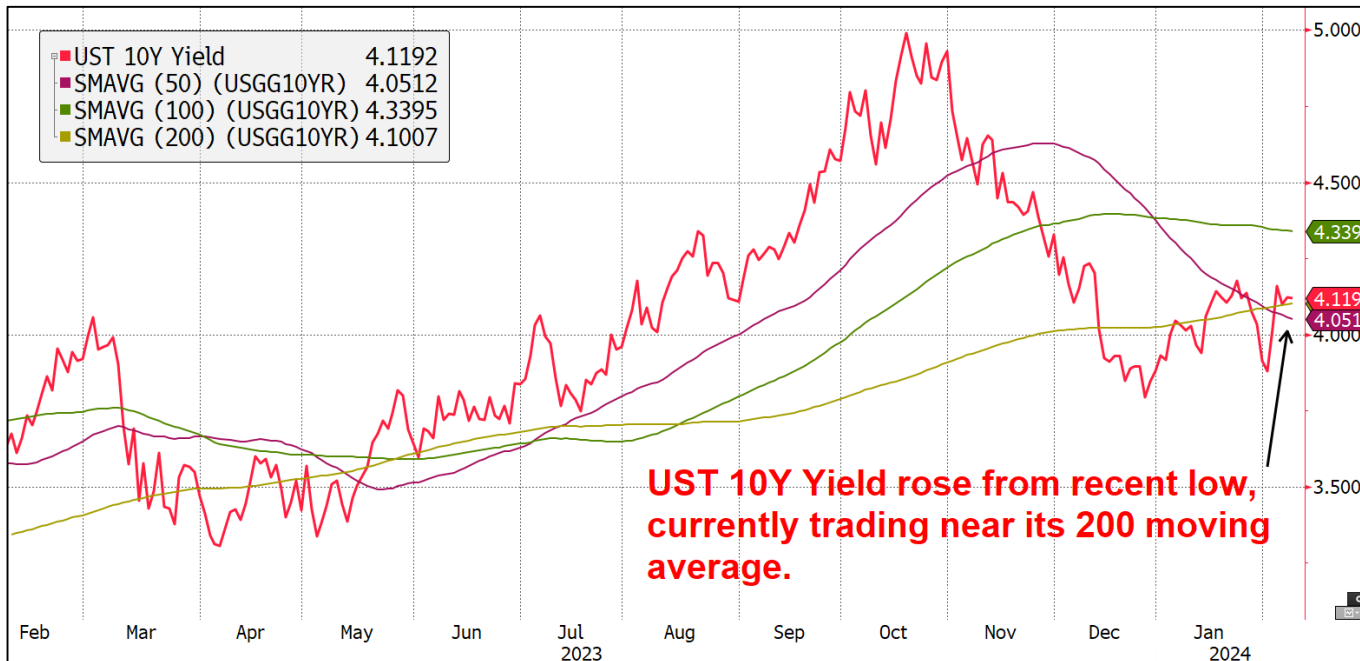
US Bond Market Outlook

► **Table 1: Bets on rate-cuts moderated, market expects -100bps in 2024.**

Implied Rate (% Upper bound) @ 08-Feb-2024	1Q24	2Q24	3Q24	4Q24	1Q25
Fed Funds Futures	5.50	5.25	4.75	4.50	4.25
Dec FOMC Projection	-	-	-	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 10Y yield rose from recent lows, creating an opportunity.**



Source: Bloomberg

- Rate-cut expectations sharply trimmed, now aligned with FOMC's projections. Higher yields now present a buying opportunity
- Latest US Treasury bond auction plan removed a major doubt that drove UST yields higher in 4Q23 – positive for UST bonds in 2024.
- Should a QT moderation plan be announced in 2024, it may boost UST bond prices.
- Current cycle's yield decline has just begun – expect more based on previous cycles; UST10Y yield fell 91bps from the peak in Oct-23 vs. an average decline of 382bps in previous cycles.

Note: US Treasury (UST)

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, and GBP.
- Take opportunistic positions in long tenor government and quasi-government bonds.

INVESTMENT STRATEGIES

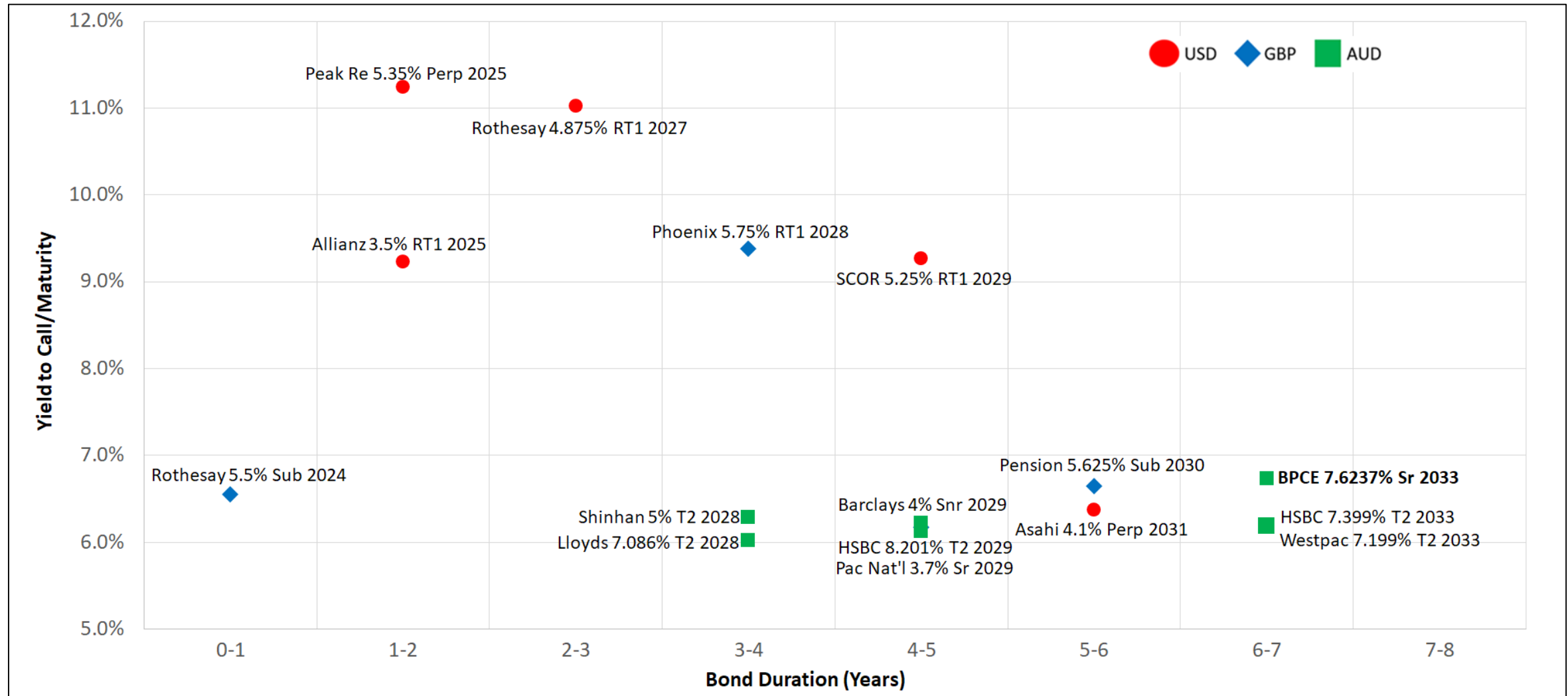
- Allocate **50%** of portfolio to bonds.
- Hold-to-maturity for regular income, ride out of market volatility.
- Utilize up to 50% **leverage** to enhance return, with improving positive carry when policy rates are cut

➤ Key risks

- **Quantitative tightening** being extended.
- **US fiscal deficit** balloons further with no consolidation plans on the table.
- A resurgence of **inflation** could lead to a significant pull back in bond prices.
- **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 08 February 2024.
Source: CIMB Treasury and Markets, Bloomberg

EQUITIES

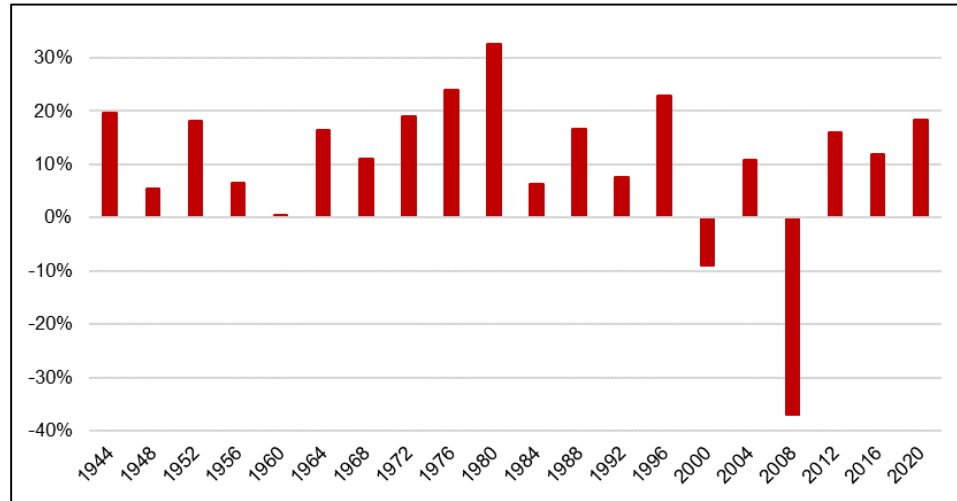


Country Snapshot

	US (Neutral)	HK/China (Neutral)	Singapore (Overweight)	Malaysia (Overweight)
Our View	Premium valuations due to high quality corporate earnings, rate cut expectations, and elections boost.	Trough valuations, stable econ data, but forceful stimulus required to restore confidence.	SGD strength and a decade-high dividend yield to compensate for slower earnings growth.	Special economic zone in Johor, and revival of mega infra projects are attracting interest in domestic beneficiaries.
Catalysts	Stronger earnings guidance	Aggressive policies	Fall in treasury yields; recovery in exports	Liquidity inflows as MYR strengthens
Risks	AI disappoints; spike in treasury yields	Property slumps further; geopolitics	Global slowdown; earnings disappoint	Policy execution risks; political risks

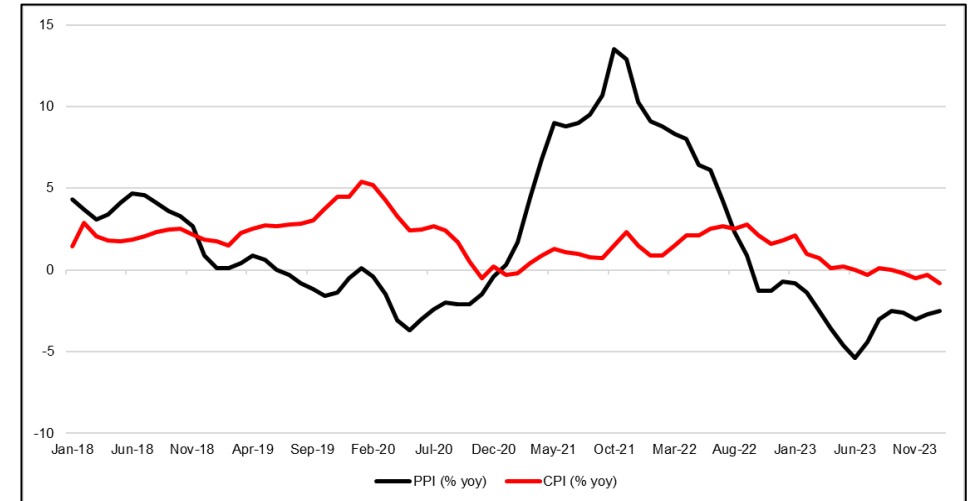
Charts with a Message

S&P 500 – usually positive returns in US election years



Source: Bloomberg, CIMB Chief Investment Office

China's January CPI declined further; PPI stabilized



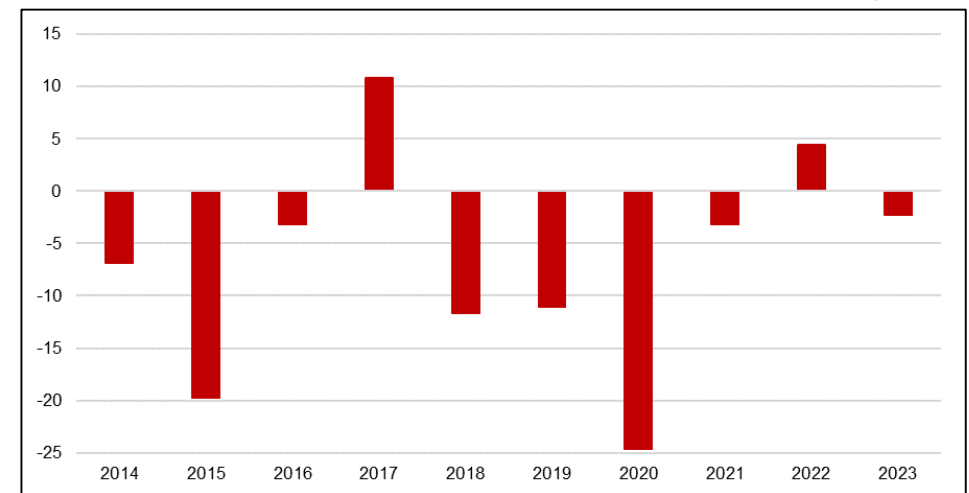
Source: Bloomberg, CIMB Chief Investment Office

STI's dividend yield is at a 10-year high



Source: Bloomberg, CIMB Chief Investment Office

Malaysia – 3 months of inflows after decade long outflows



Source: Bursa Malaysia, CIMB Chief Investment Office

Market Valuations

- Two different worlds: S&P 500 trades at a premium while HSI is at trough valuations
- STI has an attractive yield, Malaysia is reasonably priced for growth

	US	HK/China	Singapore	Malaysia
Index	S&P 500	Hang Seng	Straits Times	FBMKLCI
Index levels on 7 Feb 2024	4,954	16,082	3,156	1,513
Year to Date (YTD) performance	3.9%	-5.7%	-2.6%	4.0%
2024F Price to Earnings ratio (PER) (x)	20.4	7.6	10.2	13.5
5-year Mean PER (x)	19.1	10.3	12.5	14.6
2023F Earnings Per Share (EPS) growth	0.2%	4.6%	18.0%	5.0%
2024F EPS growth	8.9%	7.1%	3.0%	12.1%
2024F Return on Equity (ROE)	18.5%	10.8%	10.0%	9.5%
2023F Price to Book (P/B) (x)	4.56	0.91	1.06	1.34
2024F Dividend Yield	1.5%	4.7%	5.7%	4.3%

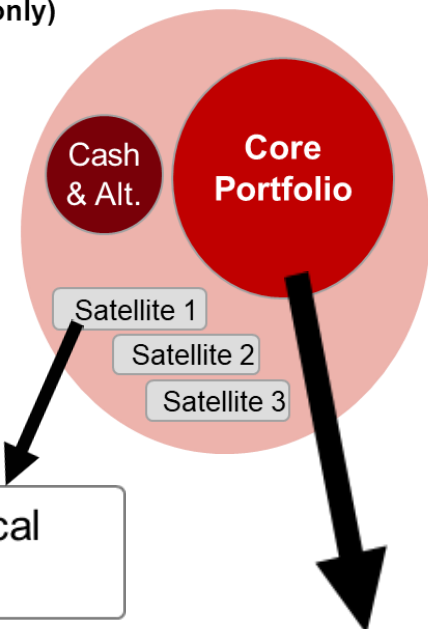
Source: Bloomberg, CIMB Chief Investment Office

FUNDS



Core Portfolio – Funds Model Portfolio

Investment Portfolio (illustration only)



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

As at 31-Jan-24 in MYR

Asset Class & Allocation (%)	Market Allocation	Target Weight (%)	Fund Name	Currency Class	Performance (%)			3 Year Std Dev
					MTD	YTD	2023	
Equity, 40	Global / DM	9	United Global Durable Equity	MYR-H	-0.7	-0.7	6.3	14.0
		9	Principal Global Titans	MYR	4.4	4.4	22.7	12.8
	Regional / Asia	9	Principal Asia Pacific Dynamic Income	MYR	1.2	1.2	7.3	10.3
		4	TA Asia Absolute Alpha	MYR	2.8	2.8	5.4	12.6
		9	Principal ASEAN Dynamic	MYR	2.9	2.9	2.8	7.4
Fixed Income, 50	Global / DM	5	AHAM World Series US Short Duration High Income	MYR	3.1	3.1	15.9	7.7
		10	AHAM Aiiman Global Sukuk	MYR	3.8	3.8	7.2	6.5
	Asia Local	5	AHAM Select Bond	MYR	1.0	1.0	2.2	4.7
		15	AHAM Aiiman Income Plus	MYR	0.6	0.6	6.6	3.4
		15	Principal Lifetime Bond	MYR	0.5	0.5	6.8	2.7
Alternative 2.5	Asia	2.5	AHAM Shariah Gold Tracker	MYR	0.8	0.8	19.0	11.5
Cash 7.5	Local	7.5	Principal Islamic Deposit Fund - AR	MYR	0.3	0.3	3.7	0.2
Model Portfolio Returns, in MYR*					1.6	1.6		7.0

Fund Ideas

We have identified the following fund ideas to leverage on our 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 4 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
- Picks: Moderately Bullish – Link REIT, BYD Co., UOB

AUTOCALLABLE FRNID

- References a basket of stocks
- Typically 12-18mth tenor; neutral investment view
- Quarterly Observation for Call / Knock-Out "KO", coupon determination and payout
- No coupon if any stocks in basket closes < Accrual level on Observation
- Picks: Maybank / Public Bank / RHB Bank and Axiata / CelcomDigi / Dialog

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, attractive to own near current price, with long-term structural positives
- Picks: Dialog, AIA, Baidu, Capitaland Investment

Thematic Picks

Fed rates peaking	Stronger domestic and ASEAN growth	Growth stocks
<ul style="list-style-type: none">➤ 100% Principal-Guaranteed Sharkfin FRNID<ul style="list-style-type: none">➤ Link REIT	<ul style="list-style-type: none">➤ 100% Principal-Guaranteed Autocallable FRNID (Basket)<ul style="list-style-type: none">➤ Maybank / Public Bank / RHB Bank➤ Axiata / CelcomDigi / Dialog	<ul style="list-style-type: none">➤ 100% Principal-Guaranteed Sharkfin FRNID<ul style="list-style-type: none">➤ BYD Co.
<ul style="list-style-type: none">➤ Non-Principal Protected Autocallable (KIKO)<ul style="list-style-type: none">➤ Capitaland Investment	<ul style="list-style-type: none">➤ 100% Principal-Guaranteed Sharkfin FRNID<ul style="list-style-type: none">➤ UOB	<ul style="list-style-type: none">➤ Non-Principal Protected Autocallable (KIKO)<ul style="list-style-type: none">➤ Baidu➤ AIA Group➤ Dialog

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