

Strategy - Black Monday 2024 ?

Global markets experienced a severe selloff yesterday, as Japan's Topix plummeted and triggered a circuit breaker. Overnight, the S&P500 and Nasdaq declined 3.0%-3.4%, extending from the correction last Friday. The risk-off sentiment is being driven by a confluence of factors:

- **Unwinding of global carry trades:** The Bank of Japan's decision to raise interest rates has prompted an unwinding of yen-funded carry trades, an investment strategy that involves borrowing in low-interest rate currencies to invest in higher-yielding assets.

Japanese bank loans to overseas borrowers: JPY15.5tr

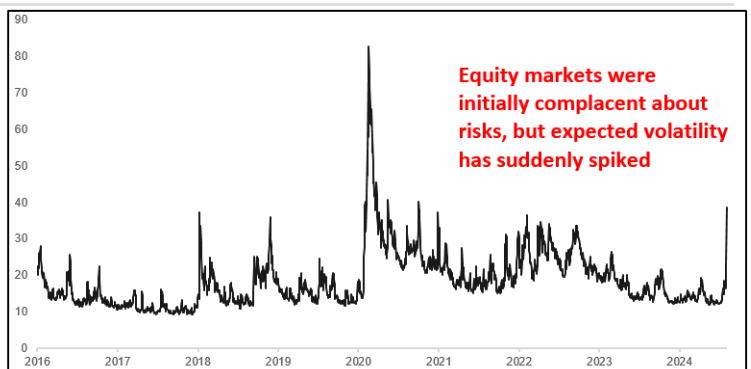


Source: Bloomberg

- **US economic concerns:** Friday's weaker-than-expected jobs data sparked concerns that the Fed is behind the curve on rate cuts, fueling fears of a potential recession.
- **Geopolitical tensions:** Threat of a wider conflict in the Middle East has added to overall market uncertainty.

This environment supports taking a more defensive stance in the near term. Reallocate some capital from Equities into Fixed Income, Gold and Cash.

US bond market volatility has started to decline while US equity market volatility has spiked



Source: Bloomberg, CIMB Chief Investment Office

Gold is a natural safe haven asset. Risk events and lower bond yields should support Gold prices. Ideal entry levels are around USD2350-USD2390.

Fixed Income is a defensive income instrument to lock-in attractive high yields and to benefit from expected rate cuts. **We prefer USD, AUD, GBP and EUR bonds to capitalise on cheap currencies.** We recommend a barbell strategy combining: i) short duration (1 to 3 years) high yield corporate bonds ii) longer duration (at least 10 years) investment grade corporate bonds iii) ultra-long (30 years) US Treasury bonds to generate attractive capital gains from expected rate cuts over the next year.

For **Equities**, we have been cautious on US tech since 17th July and had recommended to tactically lock-in outsized gains. **Despite the recent fall in the S&P500 and the Semiconductor index (SOX), valuations remain at or above historical averages - wait for the dust to settle before adding positions.** In contrast, we see opportunities in defensive markets like ASEAN. We like Malaysia's growth prospects and Singapore's compelling dividend yields.

In line with these views, our core **Fund** picks are: i) Principal Lifetime Bond ii) AHAM World Series - Global Income Fund iii) Principal Lifetime Balanced Income iv) Principal ASEAN Dynamic.

In conclusion, we would like to reiterate these messages:

1. US growth is going through a soft patch - the Fed is finally pivoting to rate cuts.
2. Equity volatility has risen; Bonds may start to outperform.
3. FX volatility has risen and the JPY carry trade unwind may not be over.
4. Geopolitics still remains fluid in the Middle East and in the US.

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