

Q2 2024 Outlook

Stay the course, Stay invested

Chief Investment Office, CIMB

April 2024

MOVING FORWARD WITH YOU



Key Messages for the Second Quarter

01

Markets comfortable with Fed message, stay invested

02

(Geo-) Political under-currents turn ominous

03

China: macro data improves, intervention offers a backstop

04

Markets not yet pricing the uncertainty of ...Trump 2.0

BONDS

- ▶ Fed maintains guidance; Other key central banks adopted a dovish tone
- ▶ Buy selected IG and HY bonds to lock in current yields

EQUITIES

- ▶ Malaysian profits recover; Singapore's yield at a high
- ▶ China and US trade at extreme valuations; investors have political uncertainty to navigate

CURRENCIES

- ▶ Capitalize on USD strength to switch into MYR, AUD, GBP
- ▶ DCI offers yield generation opportunities (AUD, XAU preferred)

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

Recommended Asset Allocation

50% Bond : 45% Equity

With a rate path dependent on inflation and strength of economy, and given relative valuations, we are slightly more positive on bonds in Q2, than equities.

Bonds ▲ *Overweight*

Consensus has moved to Fed's (and our) view of later rate cuts. Stay in Investment Grade despite strong economy. Long duration on a 12 month view.

Equities — *Neutral* Asia ▲ *Overweight* Developed Markets — *Neutral*

ASEAN and China are inexpensive, and market support is succeeding in China, but sentiment is fragile. US looks pricey but its economy appears to be still strong ('no landing').

Alternatives and Cash

5% in cash which offers over 5% yield in many major currencies, or (ii) Absolute return ('hedge') funds to be tactical/nimble for the turn in the business cycle.

Asset Allocation

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

Source: CIMB Chief Investment Office

Geo-Political Angles

Undeclared Wars

- In 4Q, US tried to avoid broadening the Israel-Gaza conflict.
- By 1Q 2024, US and allies face hostiles in Red Sea; Israelis bombing Hezbollah in Lebanon.
- US extremely reluctant to go to war in election year

Rising geo-political temperature

- Sweden becomes NATO's 32nd member, adding to Putin's paranoia
- US to strengthen alliance with Japan.

A risk that Trumps all others

Trump, the most likely to win 2024 US presidential election, remains a risk .

- Perceived as pro-business tax-cutter, but lacks fiscal discipline. Expect short-term boost to market if Trump wins.
- **Domestic policies could reverse** in energy and industrial sectors (Inflation Reduction Act) ; Healthcare (end to drug subsidies); Financials (return to lighter regulation); technology (more export restrictions to China).
- **China relations.** 60% tariff threatens RMB and Asian currency stability. Asian assets less attractive if currency upside in doubt.

Geo-Political Angles (2)



- Of NATO's 32 members, 16 joined after fall of USSR. All of these members lie east of Germany.
- Almost all of them have a border with Russia, feeding Russia's feeling of being surrounded.

★ indicates countries who joined NATO after the fall of USSR.
Source: NATO

Currencies

Outlook

- Near-term USD support if data signals fewer rate cuts.
- Limited USD upside on anticipation of rate cuts
- Underwhelming developments in China to weigh on ASEAN FX.

USD

Developed Markets


Emerging Markets

Forecasts

2Q24


Range Bound

AUD
EUR
GBP
JPY


Range bound

MYR
IDR
SGD
THB


Range bound

FX Pair	4Q24
DXY	98.1
EURUSD	1.10
USDJPY	135
GBPUSD	1.31
AUDUSD	0.69
USDCNH	7.10
USDCHF	0.89
USDSGD	1.31
USDMYR	4.54
USDIDR	15,633
USDTHB	36.00
XAUUSD	2,050

Next
6
months


- Magnitude of rate cuts to dictate FX direction.
- China recovery tailwinds (if any) supportive of ASEAN FX.
- Narrowing rate differentials supportive of higher yielding FX.


Bearish

AUD
EUR
GBP
JPY


Bullish

MYR
IDR
SGD
THB


Bullish

Note: US Dollar Index (DXY), Currencies (FX)

Source: CIMB Treasury & Markets
Research @ 5 April 2024

CIMB Treasury Forecasts

Forecasts as at 5 April 2024					
	2021	2022	2023	2024	2025
Real GDP Growth (%)					
United States	5.8	1.9	2.5	1.6	1.3
Malaysia	3.3	8.7	3.7	4.9	4.7
Indonesia	3.7	5.3	5.0	5.0	5.0
Singapore	9.7	3.6	1.1	2.1	2.6
Thailand	1.6	2.5	1.9	3.4	3.2
Inflation, average (% yoy)					
United States	4.7	8.0	4.1	2.6	2.2
Malaysia	2.5	3.4	2.5	2.7	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	1.2	1.7	1.8
	2Q24	3Q24	4Q24	1Q25	2Q25
Policy Rates, EOP (%)					
United States	5.50	5.00	4.75	4.25	4.00
Eurozone*	4.25	3.75	3.50	3.25	3.00
Malaysia	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	5.75	5.25	5.00	5.00
Thailand	2.25	2.00	2.00	2.00	2.00
*ECB's Main refinancing rate					
10Y Government Bond Yields (%)					
United States	4.20	4.15	4.10	4.10	4.05
Malaysia	3.85	3.80	3.90	3.90	3.85
Indonesia	6.65	6.75	6.85	6.90	7.00
Singapore	2.90	2.80	2.70	2.70	2.65
Thailand	2.50	2.65	2.80	2.85	2.85
Commodity Prices					
Brent (USD/bbl)	85	80	75	73	73
CPO (RM/mt)	4,033	3,800	3,800	3,900	4,000
Gold (USD/oz)	2,025	2,025	2,050	2,100	2,100

US growth slows after 2023 peak. ASEAN growth accelerates.

US inflation to fall to near 'target' by 2024.

CIMB expects 75bps 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



March 2024 FOMC – No Surprises

US Federal Reserve's 5th meeting without hiking; FOMC maintains a mildly dovish tone

- Policy restraints may be eased 2H this year, if conditions are right.
- Fed has not achieved greater confidence on disinflation progress yet.
- Recent job gains aren't troubling as they could coexist with easing inflation.
- Policy may be loosened if labor market abruptly weakens, even if inflation targets not met.
- Fed plans to slow QT program soon – to prevent a recurrence of the 2019 liquidity crisis.

Note: FOMC – Federal Open Market Committee, QT – Quantitative Tightening.

Key Takeaways / Implications

- Bumpy inflation now has no impact on Fed's policy stance yet.
- Fed plans to lower real interest rates to smooth business cycle transition.
- Fed anticipates 75bps of cuts in 2024 despite stronger economy; projections for 2025 and 2026 suggest further cuts, adjusted up by 25bps.
- UST yields may trade sideways in a narrow range prior to the June FOMC meeting.

Note: UST – U.S. Treasury, bps – basis points.

Bond Market Outlook - US

- Elevated term premiums and UST yields, spurred by hawkish tail risks, present a buying opportunity.
- Overhang to end: If the US economy slows and rate cuts follow, term premiums and UST yields are likely to ease substantially.
- Healthy economic data and strong corporate earnings pressured credit spreads to a 2-year low.
- HY refinancing concerns diminish.
- Prefer medium-to-long duration IG bonds and selected short-duration HY bonds to reduce spread widening risk and to lock in current yields.

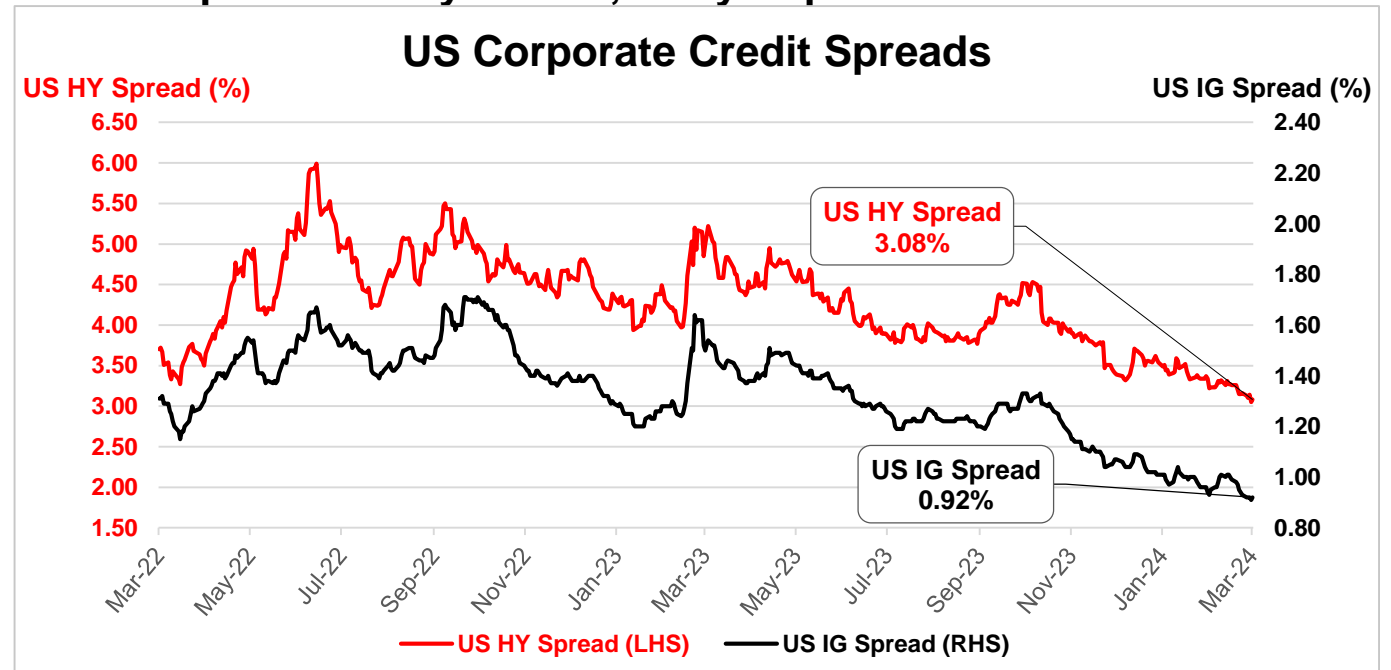
Note: US Treasury (UST)

➤ Market view now aligned with the Fed's – minus 75bps in 2024.

Implied Rate (% Upper bound) @ 25-Mar-2024	1Q24	2Q24	3Q24	4Q24	1Q25
Fed Funds Futures	5.50	5.25	5.00	4.75	4.50
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

➤ Credit spreads at 2-year low, likely to persist.



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

Bond Market Outlook – Rest of World

Key central banks have adopted a dovish tone.

This should sustain a downward trend in corporate bond yields over the next 12 months, as investors seek to lock in yields.

Swiss National Bank - Dovish

- Cut policy rate by 25bps to 1.5% at March meeting.
- Expects inflation to remain below 2% over the next few years.

Bank of England - Dovish

- To “consider the degree of restrictiveness of policy at each meeting”.
- Governor Bailey: Not ready to ease policy “but things are moving in the right direction”.
- Hawkish MPC members switched and voted to hold policy rate at March meeting.

European Central Bank - Dovish

- President Lagarde signaled possible rate cut in June but path beyond uncertain.
- Numerous members of the ECB’s Governing Council hinted the same recently.

Bank of Japan – End of an era, but still dovish

- Ends negative interest rate policy, ETF and REIT purchases, raises policy rate up to a range of 0%-0.1% from minus 0.1%.
- In the Long-term, stronger JPY and unwinding of JPY carry trades could add downward pressure to global bond prices over time.

Bond Positioning Strategies and Risks

WHAT TO OWN

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

INVESTMENT STRATEGIES

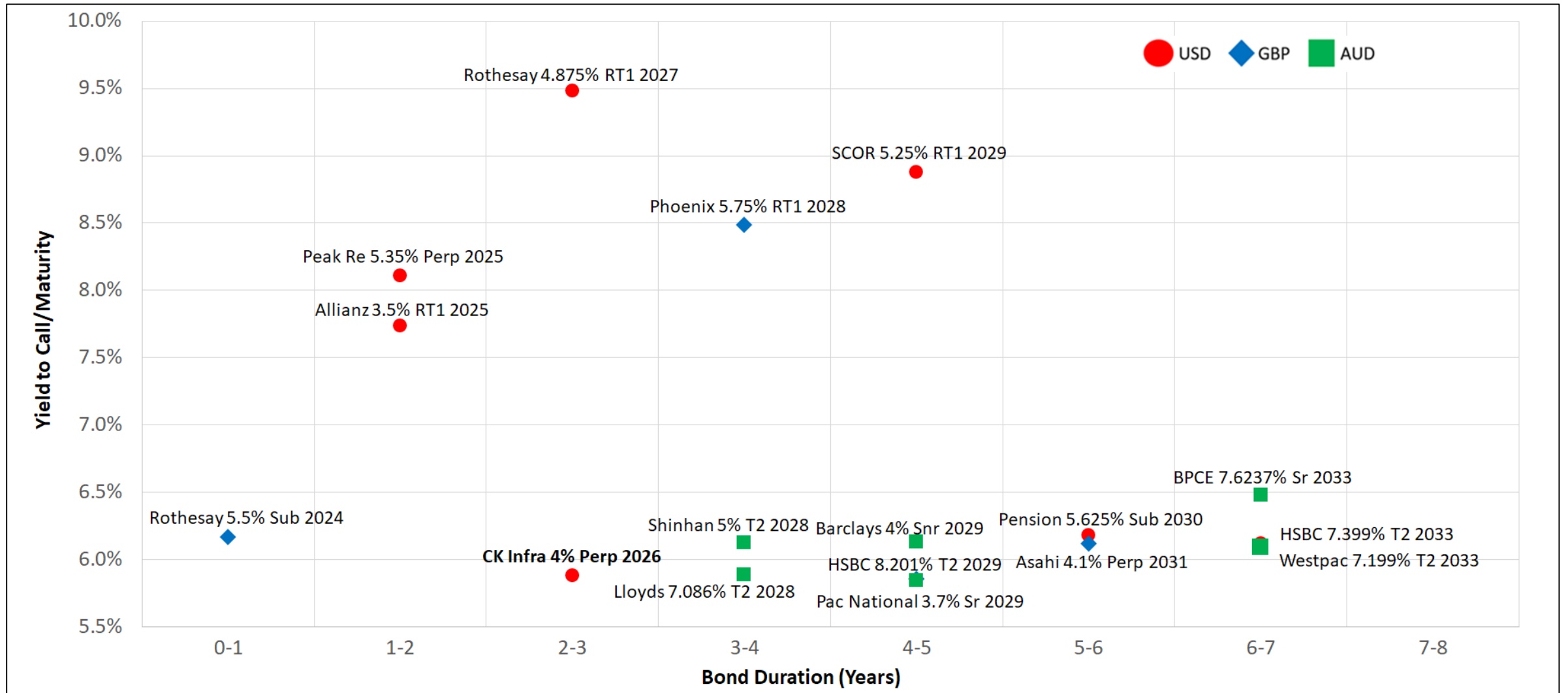
- Allocate **50%** of portfolio to bonds.
- Hold-to-maturity for regular income, ride out of market volatility.
- Utilize up to **50% leverage** to enhance return, with improving positive carry when policy rates are cut

Key risks

- **Quantitative Tightening** reduction plan delayed.
- **US fiscal deficit** balloons further with no plans for consolidation.
- 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 5.5%**.



Based on indicative offer yields as at 25 March 2024.
Source: CIMB Treasury and Markets, Bloomberg

EQUITIES



Market Valuations

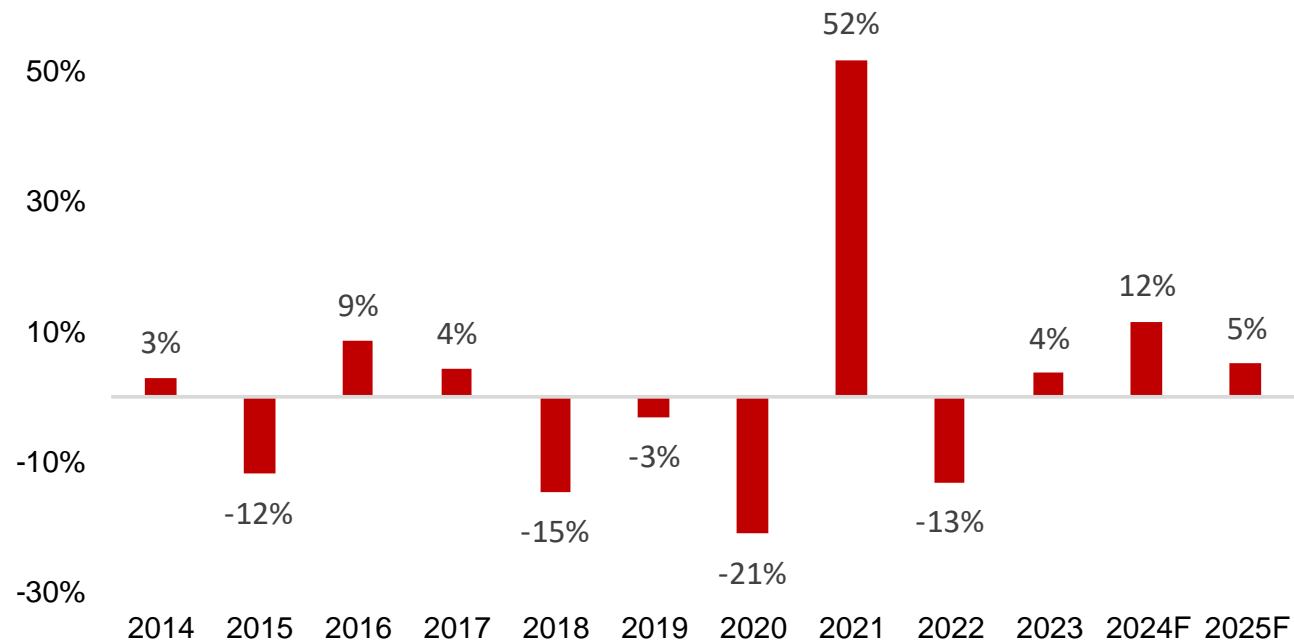
- S&P 500 sustains its premium;
- HSI trades near trough valuations;
- STI offers a compelling yield;
- FBMKLCI is reasonably priced for growth

	US	HK/China	Singapore	Malaysia
Index	S&P 500	Hang Seng	Straits Times	FBMKLCI
Index levels on 22 Mar 2024	5,242	16,499	3,218	1,542
Year to Date (YTD) performance	9.9%	-3.2%	-0.7%	6.0%
2024F Price to Earnings ratio (PER) (x)	21.5	8.0	10.5	13.5
5-year Mean PER (x)	19.2	10.3	12.5	14.6
2023F Earnings Per Share (EPS) growth	0.9%	1.3%	13.2%	3.6%
2024F EPS growth	8.5%	8.5%	4.4%	11.6%
2024F Return on Equity (ROE)	18.9%	10.6%	9.9%	9.6%
2023F Price to Book (P/B) (x)	4.31	0.95	1.04	1.30
2024F Dividend Yield	1.5%	4.6%	5.8%	4.5%

Source: Bloomberg, CIMB Chief Investment Office

Malaysian corporate profits recover nicely after years of mediocrity

FBMKLCI Earnings Growth



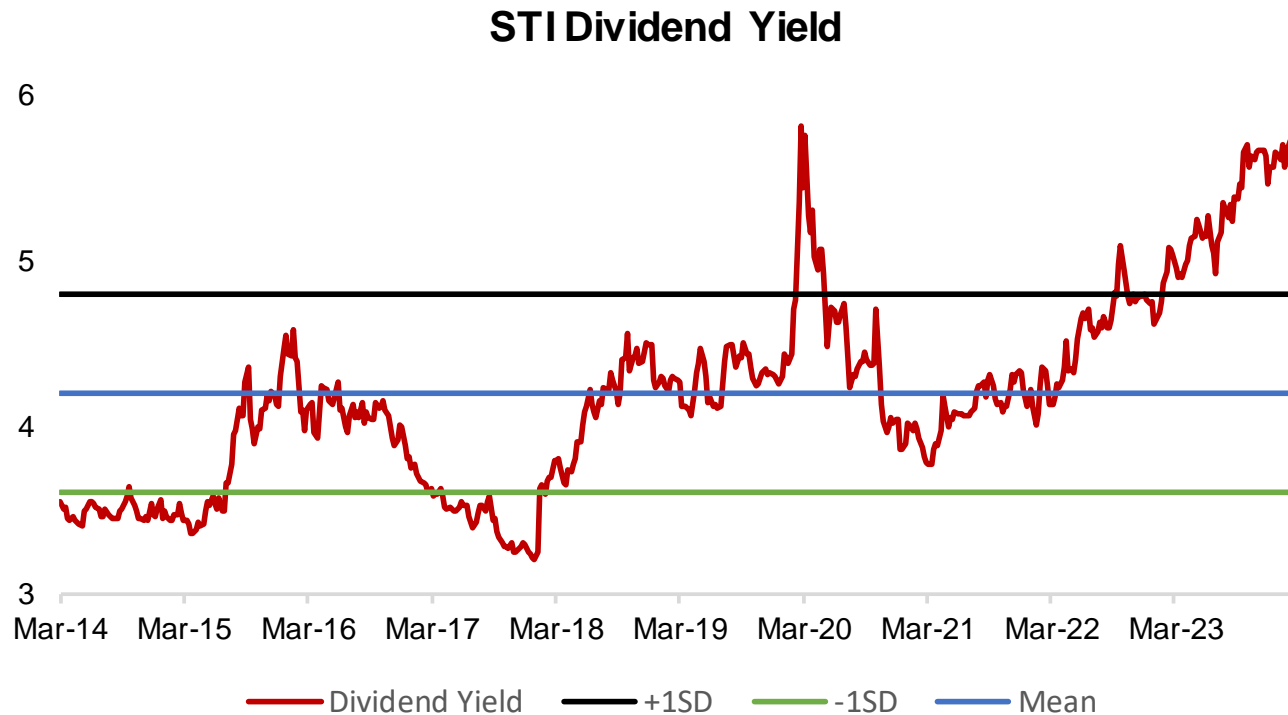
Source: Bloomberg

Malaysia ▲ *Overweight*

- Upbeat earnings growth at reasonable valuations
- Economic reforms taking off; higher development spending
- Foreign interest returning; GLICs asked to invest locally; stronger Ringgit is a catalyst

Singapore's dividend yield at 10-year high

Buy before rates fall

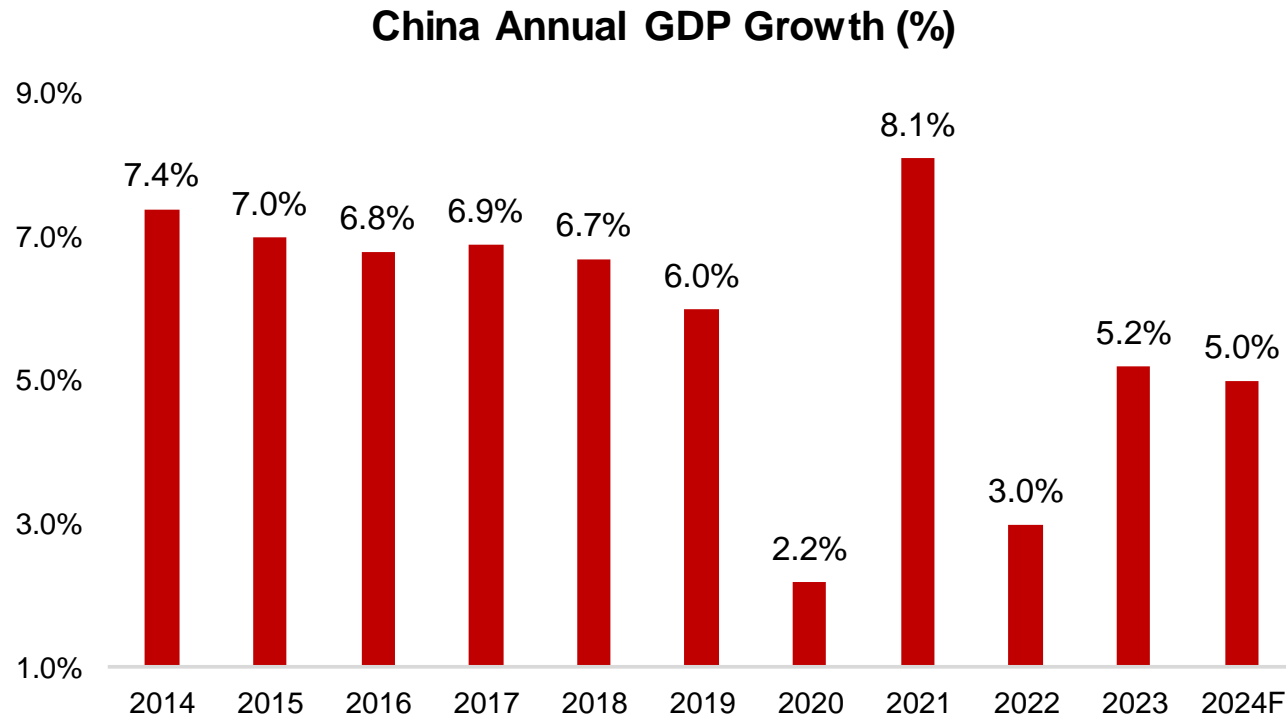


Source: Bloomberg

Singapore ▲ *Overweight*

- Safe haven; stable currency; forward-looking policies
- Unexciting growth, but global trade recovery could surprise
- Higher-for-longer has helped banks while REITs have corrected; this should reverse

China's growth target is a stretch as reopening tailwinds fade

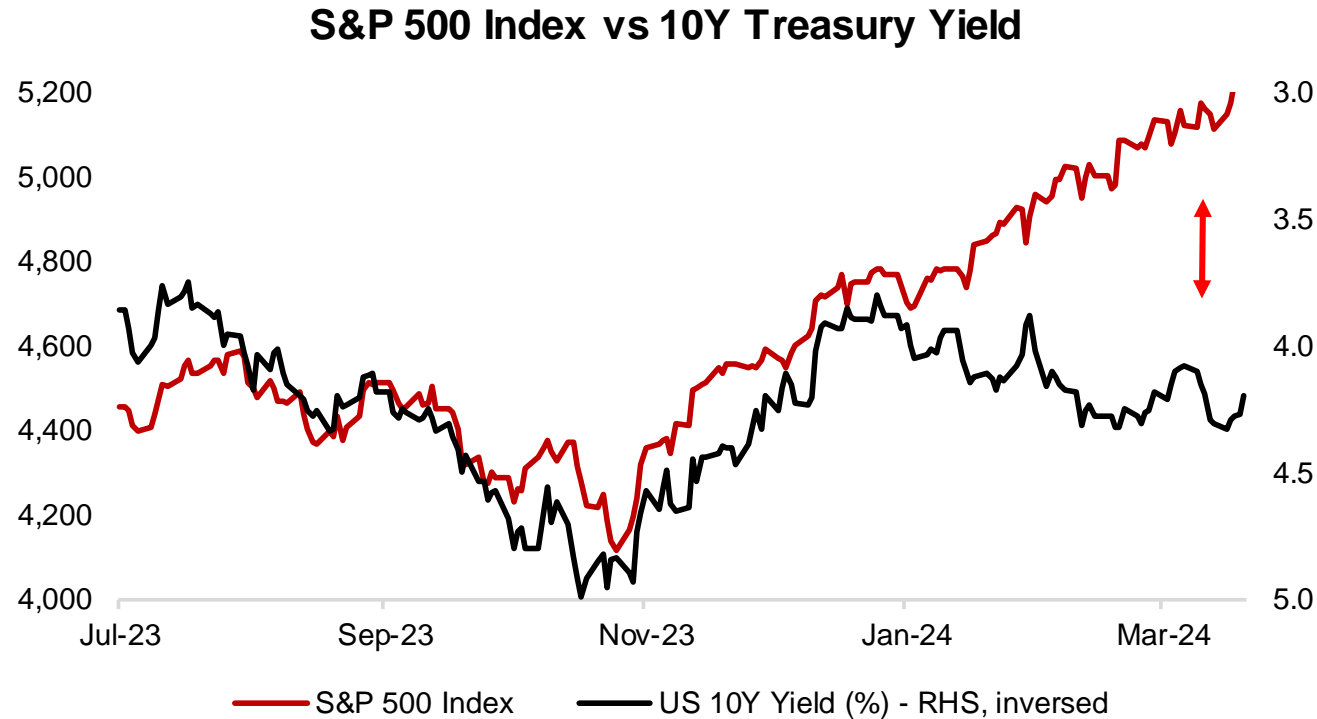


Source: Bloomberg

HK / China — Neutral

- Market bottom established thanks to national rescue fund and strengthened regulations
- Higher fiscal support, but not a large-scale stimulus
- Low valuations likely reflect geopolitical and property risks

US market rises despite higher Treasury yields; an uneasy disconnect

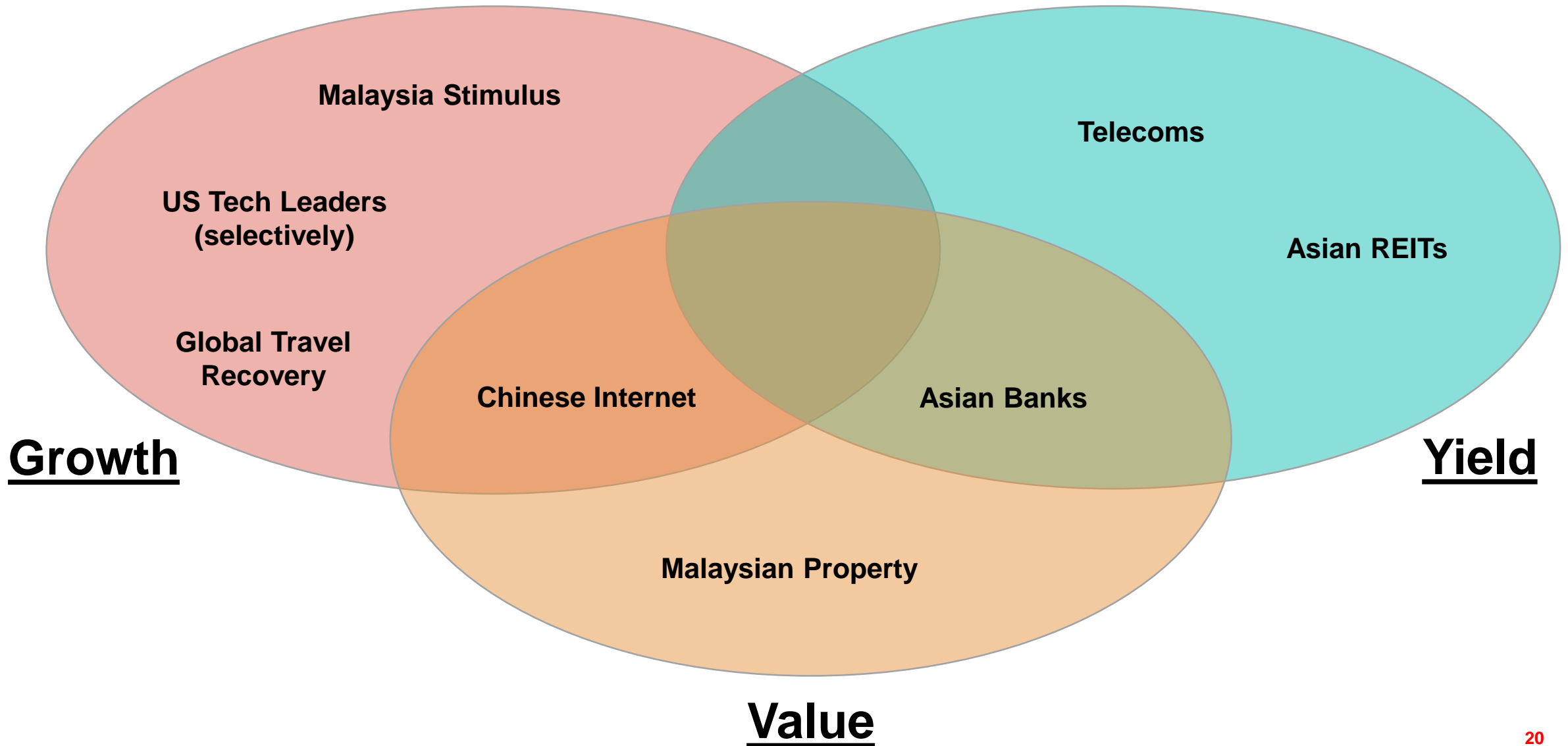


Source: Bloomberg

US — Neutral

- ▶ Investors universally positive, even with sticky inflation; rally concentrated in the Mag 7
- ▶ Vulnerable to potential shocks as expectations are high
- ▶ If Trump wins, pro-growth policies could drive stocks up in short-term

Themes – What to Buy?



FUNDS



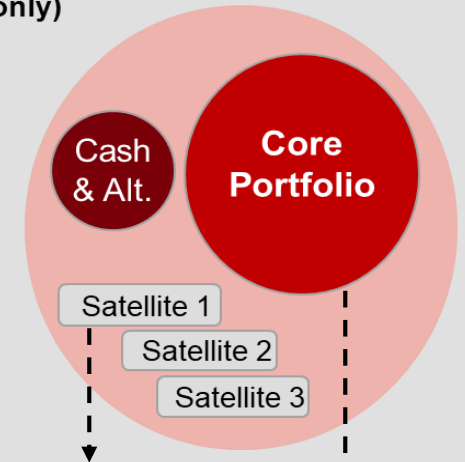
Core Portfolio Funds Model Portfolio

As at 15-Mar-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	0.4	3.4	6.3	13.9
		9	Principal Global Titans	MYR	0.6	9.6	22.7	13.0
	Regional / Asia	9	Principal Asia Pacific Dynamic Income	MYR	1.2	7.2	7.3	9.9
		4	TA Asia Absolute Alpha	MYR	-0.8	9.9	5.4	11.7
		9	Principal ASEAN Dynamic	MYR	1.5	8.3	2.8	7.4
Fixed Income, 50	Global / DM	5	AHAM Wld. Ser. US Short Duration High Income	MYR	-0.8	2.9	15.9	7.8
		10	AHAM Aiiman Global Sukuk	MYR	-0.5	4.0	7.2	6.8
	Asia	5	AHAM Select Bond	MYR	0.2	1.8	2.2	4.7
	Local	15	AHAM Aiiman ESG Income Plus	MYR	0.2	1.3	6.6	3.3
		15	Principal Lifetime Bond	MYR	0.2	1.2	6.8	2.6
Alternative 2.5	Asia	2.5	AHAM Shariah Gold Tracker	MYR	3.9	6.3	19.0	11.1
Cash 7.5	Local	7.5	Principal Islamic Deposit Fund - AR	MYR	0.2	0.7	3.7	0.2
Model Portfolio Returns, in MYR*					0.4	4.2		6.9

Source: CIMB Chief Investment Office, Bloomberg

Investment Portfolio (illustration only)







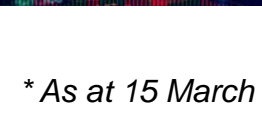


Tactical Ideas

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

Funds Ideas

The following fund ideas leverage on our CIO's house views

	Themes	Catalysts	Investment Ideas	Performance YTD *
	Peak interest rates	The market is pricing in 3 rate cuts in 2024	<ul style="list-style-type: none"> •AHAM WS US Short Duration High Income •AHAM Select Bond •Principal Lifetime Bond 	<ul style="list-style-type: none"> • +2.9% (MYRH) • +1.8% • +1.2%
	Slower US Growth in Presidential Election Year	Strong balance sheet and higher earnings growth	<ul style="list-style-type: none"> •United Global Quality Equity 	<ul style="list-style-type: none"> • +3.4%
	Rebound in Asia's export growth	Electronics export and China +1 story	<ul style="list-style-type: none"> •Principal Asia Pac Dynamic Income •Principal ASEAN Dynamic 	<ul style="list-style-type: none"> • +7.2% • +8.3%
	Stimulus momentum in Malaysia	Rising FDI in Malaysia (supply chain shift and data centre capex)	<ul style="list-style-type: none"> •Principal Islamic Small Cap Opportunity 	<ul style="list-style-type: none"> • +8.8%
	Regular income	Attractive income 4-5%	<ul style="list-style-type: none"> •Manulife Shariah Global REIT •AHAM WS Dividend Value •AHAM WS Global Infrastructure 	<ul style="list-style-type: none"> • -0.5% • +5.4% • -0.6%
	Semiconductor Upcycle	Generative AI as the next major secular trend	<ul style="list-style-type: none"> •TA Global Technology •Principal Global Technology •Principal Islamic Global Technology 	<ul style="list-style-type: none"> • +15.0% • +9.2% (MYRH) • +11.4%
	Peak pessimism over China	Most of the bad news have been priced in.	<ul style="list-style-type: none"> •Principal Greater China Equity 	<ul style="list-style-type: none"> • +2.6%

* As at 15 March 2024. Unless otherwise stated, returns are in MYR. MYRH = MYR hedged class.

Source: CIMB Chief Investment Office

ELI



Equity-linked Investments

100% Principal-Guaranteed

SHARKFIN FRNID

- References a single reference asset “RA”
- Gives a return that mirrors the performance of RA (up to an extent) on the right investment view which can be bearish, bullish or range-bound
- Typically 12-24 mth tenor
- Single observation for coupon payout
- **Picks for the Moderately Bullish Sharkfin FRNID:
China Mobile, OCBC, SP Setia and RHB Bank**

Non-Principal Protected “NPP”

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, Trip.com, Capitaland Investment, China Construction Bank**

Structured Product Thematic Picks

Dividend-yielders	Stronger domestic growth
<ul style="list-style-type: none">▶ 100% Principal-Guaranteed Sharkfin FRNID (moderately bullish)<ul style="list-style-type: none">▷ China Mobile▷ OCBC ▶ NPP Autocallable “KIKO”<ul style="list-style-type: none">▷ China Construction Bank	<ul style="list-style-type: none">▶ 100% Principal-Guaranteed Sharkfin FRNID (moderately bullish)<ul style="list-style-type: none">▷ SP Setia▷ RHB Bank
Consumer growth & lower interest rates beneficiaries	Elevated commodity prices
<ul style="list-style-type: none">▶ NPP Autocallable “KIKO” (moderately bullish)<ul style="list-style-type: none">▷ Trip.com▷ Capitaland Investment	<ul style="list-style-type: none">▶ NPP Autocallable “KIKO”<ul style="list-style-type: none">▷ Dialog

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CUSTOMER RESOLUTION UNIT (CRU)

P.O. BOX 10338,

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50710 WILAYAH PERSEKUTUAN

TEL: +603-6204 7788

EMAIL: cru@cimb.com

THE INVESTOR WHO IS NOT SATISFIED WITH OUR CRU’S DECISION MAY REFER THE CASE TO THE SECURITIES INDUSTRY DISPUTE RESOLUTION CENTRE (“SIDREC”). THE INVESTOR CAN ALSO DIRECT THE COMPLAINT TO THE SECURITIES COMMISSION’S INVESTOR AFFAIRS & COMPLAINTS DEPARTMENT EVEN IF THE INVESTOR HAS INITIATED A DISPUTE RESOLUTION PROCESS WITH SIDREC.

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WARNING

FLOATING RATE NEGOTIABLE INSTRUMENTS OF DEPOSIT (FRNID) WARNING

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NON-PRINCIPAL PROTECTED AUTOCALLABLE EQUITY LINKED STRUCTURED PRODUCT WARNING

THE RETURNS ON YOUR STRUCTURED PRODUCT INVESTMENT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSET/REFERENCE, AND THE RECOVERY OF YOUR PRINCIPAL INVESTMENT MAY BE JEOPORDISED IF YOU MAKE AN EARLY REDEMPTION. THIS STRUCTURED PRODUCT INVESTMENT IS NOT INSURED BY PERBADANAN INSURANS DEPOSIT MALAYSIA.

DUAL CURRENCY INVESTMENT (DCI) / GOLD CONVERTIBLE / REVERSE GOLD CONVERTIBLE STRUCTURED PRODUCT (GCI) WARNING

THE RETURNS ON YOUR STRUCTURED PRODUCT INVESTMENT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSET/REFERENCE, AND THE RECOVERY OF YOUR PRINCIPAL INVESTMENT MAY BE JEOPARDISED IF YOU MAKE AN EARLY REDEMPTION. THIS STRUCTURED PRODUCT INVESTMENT IS NOT INSURED BY PERBADANAN INSURANS DEPOSIT MALAYSIA.

BONDS AND SUKUK WARNING

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