EQUITY ADVISORY ASIA

Equity Perspectives

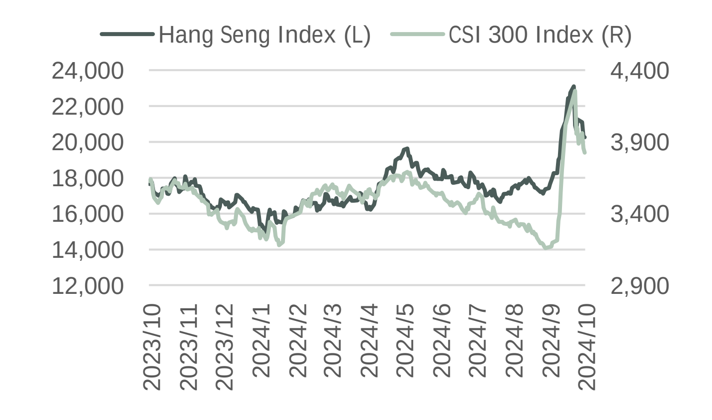
HK / China ▪ United States ▪ Europe / UK

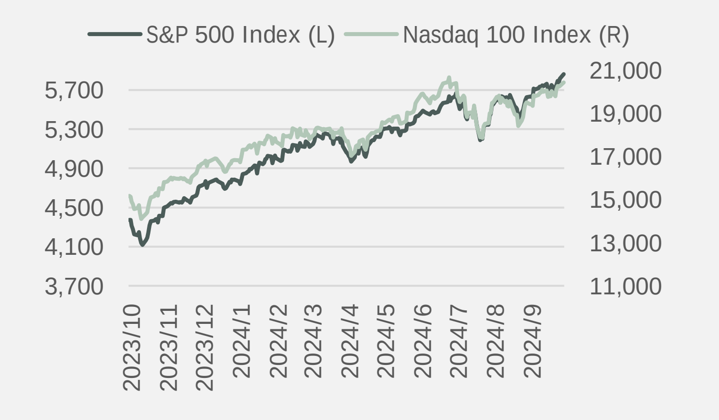
October – November 2024

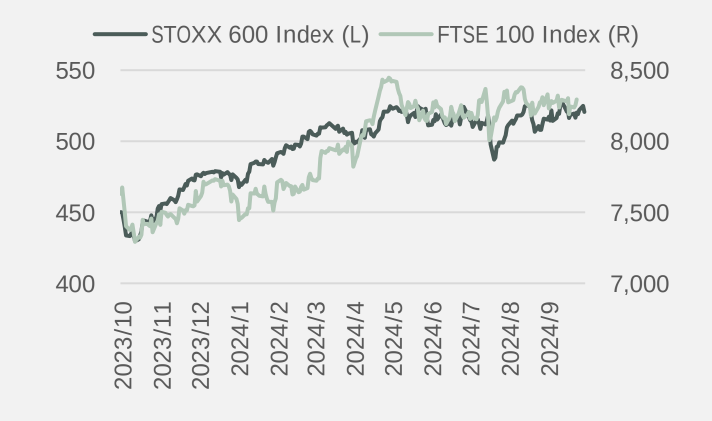
BNP PARIBAS
WEALTH MANAGEMENT

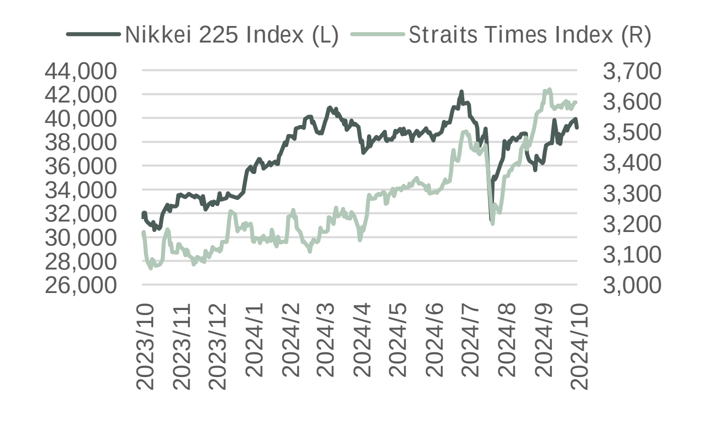
The bank
for a changing
world

Major indices performance at a glance









Source: BNP Paribas, Bloomberg, as of 15 October 2024
Past performance is not indicative of current or future performance

MARKET SNAPSHOT

Global equities exhibited a robust recovery following the temporary correction in early August 2024. Main US and Europe indices have since hit all time highs, with a momentous recovery in Hong Kong/China. Despite elevated levels and ongoing uncertainties, we remain constructive on overall equities considering the start of global easing cycles. However, we remind investors to remain selective:

- In the US, we prefer consumer staples over discretionary given a moderating growth environment, while also being positive on banks and AI as a long-term story.
- In Europe, we like UK stocks for their lower valuations and defensive merits, while European consumer discretionary and materials should also benefit from the Chinese stimulus.
- In Hong Kong/China, we believe recent stimuli is a broad-based catalyst. Leading China techs and NEV makers, which enjoy structurally market growth and solid cash flow, may outperform.

LATEST MARKET UPDATE

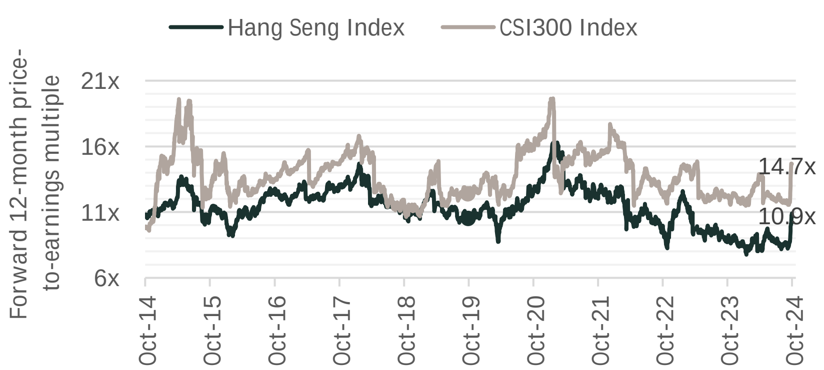
HK / China: Pending More Macro Stimulus

China's new direction for macro policies ignited an explosive surge for HK/China stock markets

What happened?

HK/China markets staged a powerful rebound soon after the People's Bank of China unveiled a package of stimulus measures on September 24, 2024, which was reinforced by new pro-growth directives from the Politburo two days later. Both Hong Kong and China market volumes broke all-time high on September 30, 2024, while reflected a dramatic upswing in risk appetites among both domestic and international investors. The state-owned China Securities Depository and Clearing Corporation and many mainland China securities brokers even shortened their National Day holidays in order to handle prodigious account opening applications. However, overall valuations of HK/China markets remains undemanding. Hang Seng Index and CSI300 Index are traded around their 10-year average forward price-to-earnings multiple, of 10.9x and 14.7x respectively.

FORWARD PRICE-TO-EARNINGS MULTIPLES OF HANG SENG INDEX AND CSI300 INDEX REMAIN UNDEMANDING COMPARED TO THEIR 10-YEAR RANGE RESPECTIVELY



Source: Bloomberg, BNP Paribas as of 6 Oct 2024

Our view

Since the beginning of this year, we have been repeating "bold stimuli are keys to restore confidence that would trigger an eventual stock market revival" like a broken record. Our wish may be finally coming true. Expectations for more stimulus is likely to build up in the coming weeks till the Central Economic Work Conference in December 2024.

How to play the game?	
Hold on to blue chips	This frenetic market rally is arguably a reversion to the long-term mean of price-to-earnings multiples. We expect leading China techs and NEV makers, which enjoy structurally market growth and solid cash flow, to outperform.
Index ETFs	A rising tide lifts all boats. One of the major advantages is that company specific risks are smoothed-out.

Notable Developments in Selected Sectors

- **Buyer of last resort:** The People's Bank of China announced a RMB500 billion swap facility and a RMB300 billion refinancing program, both exclusively for purchasing shares. More importantly, the central bank hinted that these tools could be doubled or even tripled.
- **HK Banks:** The latest round of prime rate cut in September 2024 should have limited impact on banks' earnings in the near-term, as HIBOR rates and funding costs have already fallen since August 2024. However, credit qualities of Hong Kong commercial real estate loans are back in focus amid hefty mark-to-market losses for development & investment portfolios of property developers.
- **New Energy Vehicles (NEV):** China NEV industry delivered solid sales growth year-to-date, despite steep tariff hikes by western countries and intensified price competitions domestically. In the first nine months of 2024, wholesales volume of China NEV grew 33% year-on-year, attributable to continuous increase in NEV penetration rate. China has the world's highest NEV penetration rate of 53% as at September 2024.

LATEST MARKET UPDATE

US: Constructive Stance with More Fed Cuts Ahead

Recent US data points continue to support our no-recession scenario, while earnings growth is expected to remain solid into FY25E.

What happened?

Following the bouts of equity market volatility in July-August 2024, triggered by geopolitical concerns and JPY carry trade unwinding, September 2024 has seen US equities regain a firmer footing and delivering positive returns as recent economic data continue to underscore our no-recession base case.

For election years since 1945, positive performance in September has historically led to further gains in October ~80% of the time, versus a typical frequency of ~61%*. As we move into a seasonally strong fourth quarter, we retain a constructive stance on US equities despite potential short-term volatility related to geopolitics and election uncertainties.

Key factors that should support positive returns in the final quarter of 2024 include improved outlook for global growth after China's recent slew of stronger-than-expected stimulus, ongoing moderation in US inflation and street expectations for another 50 basis points (bps) of rate cuts from the Federal Reserve, following its surprise 50bps rate cut in September 2024's policy meeting.

Our view

For FY24E and FY25E, consensus forecasts for MSCI US index's earnings per share (EPS) growth are for 9.9% and 15.3% respectively, higher than World equities' EPS growth forecast at 7.5% and 12.9% respectively (estimates as of 30 September 2024). From a sector perspective, Information Technology, Communication Services, Healthcare and Financials are estimated to be key sectors contributing to overall earnings growth in FY25E. With MSCI US equities' outperformance over world equities this year, valuations of ~21x forward price/earnings are fairly extended at above +1 standard deviation to its 10Y historical average multiple of 17.8x. In view of the current mature bull market, we favour accumulating quality firms with strong balance sheets and relatively better earnings visibility.

Key themes that should be relevant for 2025 include rate sensitives that benefit from a weaker USD, continued evolution in the artificial intelligence growth story, beneficiaries of continued federal infrastructure stimulus and reshoring incentives, obesity and ageing population ideas. Following recent consolidation in technology stocks, the risk reward has improved for investors looking to add fresh positions in leading semiconductor, technology (cloud infrastructure, software) and communication services players, which remain favourably positioned to benefit from growing chip and AI demand tailwinds over the medium term.

How to play the game?

Areas on our radar	Healthcare policies, AI regulation, energy permits, trade and tax policies, consumer demand
Investment implications	To pay attention to core asset allocation and diversification of portfolio holdings.

Notable Developments in Selected Sectors

- **Financials:** Bank comments at a recent conference are likely to have reduced market expectations around net interest income, investment banking, trading and the consumer ahead of the results season. The headlines, though, distracted from the positive changes to Basel endgame capital requirements for the banks, slicing the 19% capital hike proposed in mid-2023 to 9%.
- **Consumer Staples:** We maintain a relative preference for consumer staples over discretionary given a moderated growth environment. The defensive nature coupled with the accelerated shift towards e-commerce and premiumisation allows the sector to achieve a bar-bell strategy. Back to school season and end of year holidays are tailwinds in the near term.
- **Information Technology:** AI continues to be a longer-term narrative for the sector. Following recent consolidation led by semiconductor stocks, we see some froth removed and believe that the technology sector's above market-average growth and lower interest rates ahead should remain supportive factors, although scrutiny on firms' increasing capex plans and AI monetisation pace should intensify.

*Source: Bloomberg, BNP Paribas as of 7 Oct 2024

LATEST MARKET UPDATE

Europe/UK: Stoxx 600 record high despite market noise

What happened?

New high, still headwinds. The Stoxx 600 marched to a record high in September 2024 despite regional equities facing a range of issues. Earnings downgrades, for example, have been worse than other regions, notably for the energy, materials, technology and consumer discretionary sectors. Earnings-per-share consensus for the blue-chip Euro Stoxx 50 has been cut 3.3% over the past three months (as of 4 October 2024).

However, strikingly weaker business surveys may force the European Central Bank's hand to cut interest rates further in the near term, potentially providing support for rate-sensitive sectors. Stocks most aligned to China have also benefited from the recent stimulus announcements, including luxury goods names.

Country characteristics shaping performance. The persisting headwinds facing German automakers, which prompted a series of profit warnings and target cuts, will likely negatively impact the DAX's 2025 earnings outlook. The structural challenge of the EV transition has been compounded by muted consumer spending, intensifying competition from Chinese companies, and concerns about escalating EU-China tensions surrounding tariffs.

Meanwhile, France's political picture remains unclear, limiting the progress of the CAC 40. President Macron appointed former chief Brexit negotiator Michel Barnier as Prime Minister. However, his selection faces significant opposition across the political divide, suggesting gridlock will continue. French equities are also grappling with the possibility of new corporate taxation.

Conversely, Spanish equities are outperforming all major European benchmarks this year, thanks to a combination of a robust financial sector performance and economic strength driven by record tourism and strong exports.

UK – market forecasts more aggressive rate cuts. Bank of England Governor Andrew Bailey commented on the potential for a "bit more aggressive" approach to rate cuts*. Beyond nearly fully pricing in a quarter-point reduction in November 2024, traders are also leaning into the possibility of a similar move in December 2024. Separately, investors await the new Labour government's Autumn Budget at the end of October 2024, which it warned will be "painful" at a time when consumer confidence has fallen sharply.

The UK still offers value, trading on 12.3x forward P/E, with the market's defensive merits looking particularly favourable during periods of increased market volatility.

*Source: Bloomberg as of 3 Oct 2024

Notable Developments in Selected Sectors

- **Consumer Discretionary:** Regional automakers have been in the spotlight following profit warnings that highlighted a slump in China demand, EV transition challenges, and supply chain issues. Separately, luxury goods names have also struggled on broker downgrades to earnings estimates. But both subsectors have found some support on the back of China's recent stimulus.
- **Financials:** Following the recent elections in France and the UK, investors have begun evaluating the prospect of new bank taxes in both countries. Still, broader confidence remains healthy, with the banking sector offering substantial shareholder returns on the back of strong earnings. A potential pick-up in regional sector M&A is also positive.
- **Materials:** A combination of stronger global end-demand and restricted supply has fuelled the surge in the copper price. As such, the outlook remains bright for copper producers. Iron ore has also enjoyed a stunning reversal higher on the back of China's stimulus measures. We remain selective within Chemicals, and we are favourable towards Industrial Gases within the sector.

Equities Allocation

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL MARKETS: POSITIVE

Positive	Neutral	Negative
COUNTRY		
Eurozone UK	US	-
SECTOR		
Healthcare Materials Industrials	Energy Communication Services Real Estate Technology Financials Utilities	Consumer Staples Consumer Discretionary

OVERALL ASIAN MARKETS: POSITIVE

Positive	Neutral	Negative
COUNTRY		
China Hong Kong	-	-
SECTOR		
Communication Services Consumer Discretionary Consumer Staples Technology	Energy Materials Real Estate Financials Healthcare Utilities	Industrials

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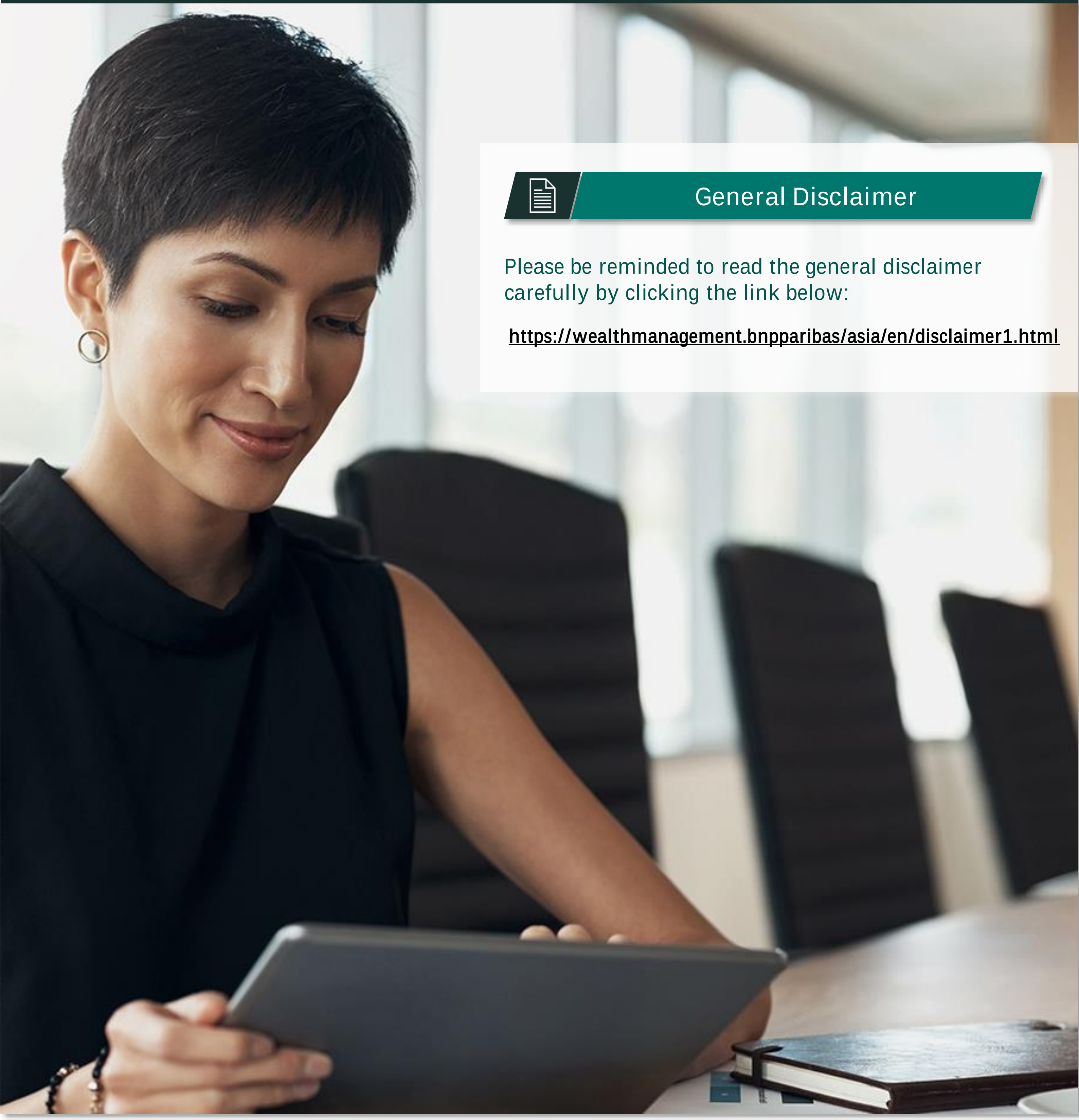

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