New Year Edition (Dec 2023 & Jan 2024)

Investment Navigator
Asia Edition

2024 Global Market Outlook:
Look beyond the uncertainty in the biggest election year

Summary

- Going into 2024, we remain overweight in global equities, US government bonds and corporate credit, although 2024 is the biggest election year in history.
- Economic growth and inflation often play a far more important role on the economy and markets in the medium term than elections. However, government policy changes, e.g. fiscal spending, tax cuts/rises, healthcare, energy and climate policy, can have a longer-term impact.
- We believe investors should look beyond the election uncertainty and be prepared to face volatility with a well diversified portfolio that includes alternative investments.
- A US downturn in 1H 2024 is still our base case scenario. That said, any heavy sell-off in US equities as well as bonds would be good buying opportunities as a slowing labour market and softer inflation would allow the Federal Reserve (Fed) to materialize their "pivot".
- Volatility also creates opportunity. Investors can monetise the volatility and play some of our 2024 investment themes via structured solutions which offers tailored risk/reward opportunities.

2023 Review: Non-consensus Global Equity Overweight

In terms of asset allocation, we upgraded Global Equities to Positive from Neutral since November 2022. This out-of-consensus call (most investors had cautious positioning) worked well in 2023. In particular, as of 2 January 2024, Japan equities (Nikkei 225 index +28.2%) were up more than the S&P 500's +24.23% (for full year 2023).

Another contrarian call - taking a positive stance on European equities – performed admirably for the year as well. Our overweight Gold call also shined, hitting all-time highs with double-digit returns for full year 2023. However, China and Hong Kong stock markets were disappointing despite re-opening this year.

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Furthermore, we downgraded US Treasuries to Neutral from Positive in April 2023 following the US regional banking crisis. US yields, indeed, rose from the bottom in April. We upgraded US Treasuries again in October 2023 as we believed yields were overshooting. Overall, we managed to catch the downside and upside of US government bonds in 2023. In fact, the last two months of 2023 saw the ICE BofA's global broad bond market index up roughly 7% during the period, representing the strongest eight-week period ever on record.

2024 Outlook: Expectations of a Fed "pivot" bode well for equities and bonds

Going into 2024, we remain overweight in global equities, US government bonds and corporate credit, although 2024 is the biggest election year in history with elections in countries/nations accounting for ~80% of the world's market cap, ~60% of the world's GDP and ~40% of the world's population.

GLOBAL CIO: 2024 ASSET ALLOCATION VIEWS

	Outlook Synthesis				
	Very underweight	Underweight	Neutral	Overweight	Very Overweight
Equities				+	
Govies			=	(+ US Govt)	
Corp Credit				+	
Real Estate			=		
Alternatives				+	
Cash		-			

Source: BNP Paribas (WM), as of 2 Jan 2024.
Past performance is not indicative of current or future performance.

Economic growth and inflation often play a far more important role on the economy and markets in the medium-term than elections. However, government policy changes, for example, fiscal spending, tax cuts or rises, healthcare, energy and climate policy etc can have a longer-term impact.

Furthermore, deglobalisation is underway. Any changes to the in-sourcing of critical supply will be monitored. Nevertheless, it is unlikely to change in major way as this requires bipartisan support in the US and other parts of the world.

Leaders often run on plans that "once they are elected cannot be enacted" unless they win in a landslide, as after elections, they pare back their plans and make compromises in order to pass policy. **Therefore, investors should focus on policy, not politics.**

The key is markets don't like uncertainty. Markets often have discounted the potential election outcomes ahead of elections unless there is a large surprise versus what consensus predicted. Hence, investors should stay grounded and be aware that few geopolitical events purely on their own have had long standing impact on asset allocation. Attempts to go in and out of the markets based on the election-related newsflows have seen investors miss out on longer-term investment gains.

Looking at economic fundamentals, a **US downturn in 1H 2024 is still our base case scenario**. Very crowded positioning and expensive valuations of the "Magnificent 7", soft-landing being too much a consensus view, accompanied by strong consensus estimate of a +9.6% earnings growth for 2024 are key risks for US equities, especially ahead of US election in November 2024.

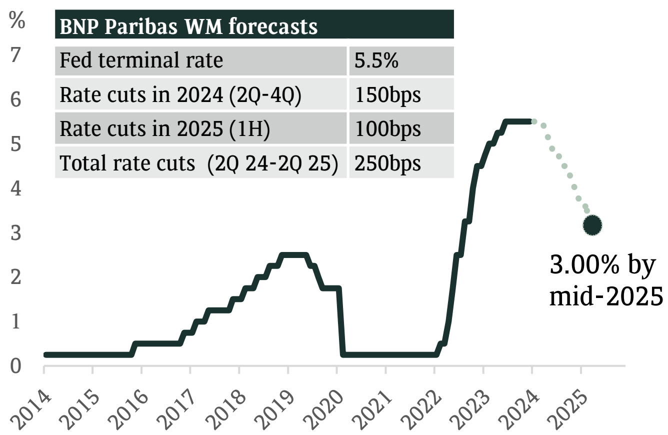
That said, **any heavy sell-off in US equities as well as bonds (risk of government shutdown arises again in January) would be good buying opportunities** as a **slowing labour market and softer inflation would allow the Fed to materialize their "pivot"** (adopt a dovish stance).

After the strong performance in both bonds and equities at the tail end of 2023, we may see a period of consolidation. Market may probably be a bit over-optimistic to price in an earlier Fed rate cut from March 2024, in our view.

Our forecast is that **the Fed Funds rate is already at its peak level and the Fed would start cutting rate from May 2024, with a total of 150bp cuts throughout the year**. We also recommend investors to **gradually increase duration in bonds** when there is more certainty on the Fed to start the rate cut cycle, as **bonds tend to deliver equity-like returns in a rate cut environment** with the longer the duration, the better the expected total returns.

Reinvestment risk on deposits and money market funds for investors remains as rate cut expectations increased. In fact, what investors basically earned in deposit for a year was made in one month in bonds and returned twice as much in a 60/40 portfolio in the last two months of 2023.

WE EXPECT THE FED TO START CUTTING RATE FROM MAY 2024



Source: Bloomberg, BNP Paribas (WM), as of 5 Jan 2024.
Past performance is not indicative of current or future performance.

INVESTORS ARE RECOMMENDED TO GRADUALLY INCREASE DURATION IN BONDS

US Treasuries		Expected total return given a change in interest rates			
	Current yield %	-50	-25	25	50
2-year	5.01	5.5%	5.2%	4.8%	4.5%
5-year	4.57	6.4%	5.5%	3.7%	2.8%
10-year	4.61	8.3%	6.5%	2.8%	1.0%
30-year	4.77	13.0%	8.8%	1.0%	-2.6%

Source: Bloomberg, BNP Paribas (WM), as of 30 Nov 2023.
Past performance is not indicative of current or future performance.

2024 Investment Themes

We believe that there are a select few trends that investors should keep front of mind when looking to the new year:

(1) The highest interest rates in 15 years continue to have huge lagged knock-on effects across the global economy – on real estate prices and on corporate investment. But there are also some beneficiaries of higher interest rates of course, notably investors who can now take advantage of attractive yields not seen since the 2008 Financial Crisis. Our **Theme 1 - Reaping real returns** underlines the income opportunities particularly in fixed income markets.

(2) The shift away from globalisation and towards national interests will continue as we predicted, potentially triggering shortages of raw materials and goods. This shift is also powering near-shoring and re-shoring of manufacturing production in order to reinforce supply chains, especially of key strategic industries, such as semiconductors. Our **Theme 2 - Winners in a multipolar world** explores the shift towards national interests, especially in this big election year.

(3) Energy transition momentum continues to accelerate, propelled by a 2023 summer that was the hottest on Earth since records began in 1880. **Theme 3 - Decarbonisation and Electrification** emphasises opportunities in electrification to achieve carbon emissions targets.

(4) **Theme 4 - Democratising AI** is our plea for investors to look beyond the Magnificent 7 tech stocks to benefit from the generative AI trend given better valuation support as the non-Magnificent 7 sub-sectors of technology have lagged representing better value after the concentrated performance in 2023.

(5) **Theme 5 - Diversifying beyond the 60:40 portfolio** highlights the need for investors to include more than just stocks and bonds for true diversification. Key is having a core-satellite asset allocation strategy and continue to diversify into alternative investments.

(6) The arrival of effective medicine to treat obesity promises potentially the biggest improvement in average longevity since global campaigns to persuade smokers to quit were promoted in the 1970s and thereafter. **Theme 6 – Demographics: the wellness revolution** focuses on opportunities resulting from new drugs and healthy living.

CONCLUSION

Despite the fact that 2024 will be a year of (many) elections, we believe investors should look beyond the uncertainty and be well prepared with a diversified portfolio that includes alternative investments, such as hedge funds, precious metals and private assets, as their lower/negative correlation with traditional bonds and equities should help lower the overall portfolio volatility.

Although risk of a recession remains, particularly market currently priced in a soft-landing scenario, we, at the same time, see increasing chance of central banks “pivot” in 2024 which should bode well for both bonds and equities. Therefore, any heavy sell-offs offer buying opportunities.

Volatility also creates opportunity. Investors can monetise the volatility and play some of our investment themes via structured solutions which offers tailored risk/reward opportunities.

What are your investment concerns / needs?

Our 6 Investment Themes for 2024

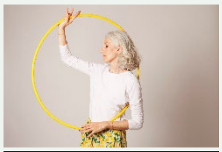

Reaping real returns


Winners in a multipolar world


Decarbonisation and Electrification


Democratising AI


Diversifying beyond the 60:40 portfolio


Demographics: the wellness revolution

Click here for more details!

Overview of our CIO Asset Allocation for January 2024

	Views Current	Views Prior	Constituents	We like	Comments
EQUITIES	+	+	Markets	Eurozone, UK, Japan, Latin America (selective), China, South Korea, Singapore & Indonesia	■ We maintain our positive view on non-US equities. Look through a temporary dip to the recovery beyond. Build stock exposure gradually on market consolidations.
			Sectors	Utilities, Healthcare, Materials	■ Stay diversified including in some cheap and solid cyclical stocks (European Financials).
			Styles/ Themes	Megatrend themes	■ Security, circular economy, electrification and income themes.
BONDS	=	=	Govies	US government bonds (prefer 3-5 year maturities) US inflation-indexed bonds	■ Bond yields have rallied tremendously in November. Our 12-month target for the US 10-year Treasury is now at 4.0%
	+	+	Segments	Investment grade, Emerging markets (EM) bonds (USD + local currency)	■ We remain positive on US (short to intermediate maturities) and Euro (short maturities) investment grade corporate bonds.
CASH	-	-			
COMMO-DITIES	+	+		Gold Oil Battery metals	■ Gold - positive: target range \$1950-2150. ■ Oil - positive: Brent's target range \$80-90. ■ Base metals – positive.
FOREX			USDJPY		■ USDJPY 3- and 12-month targets at 145 and 134 respectively.
ALTER-NATIVE	+	+		Hedge funds (macro, long-short equities, relative value);	■ We are overweight global macro, Long/Short equity, and relative value strategies. ■ Neutral on event driven

Note: + Positve / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2022	2023f	2024f	2022	2023f	2024f
Developed	US	1.9	2.4	0.9	8.0	4.1	2.6
	Japan	1.0	2.1	0.8	2.5	3.2	2.4
	Eurozone	3.4	0.5	0.6	8.4	5.5	2.0
	UK	4.1	0.5	0.0	9.1	7.4	2.5
North Asia	China	3.0	5.2	4.5	2.0	0.4	1.5
	Hong Kong*	-3.5	4.4	2.9	1.9	2.2	2.3
	South Korea	2.6	1.2	1.8	5.1	3.7	2.6
	Taiwan*	2.4	0.8	3.0	2.9	2.1	1.5
South Asia	India	7.2	7.5	7.0	6.7	5.8	5.7
	Indonesia	5.3	4.9	4.8	4.2	3.5	2.7
	Malaysia	8.7	4.4	3.9	3.4	2.5	2.8
	Philippines*	7.6	5.3	5.9	5.8	5.8	3.2
	Singapore*	3.6	1.0	2.1	6.1	5.5	3.5
	Thailand	2.6	2.3	3.7	6.1	1.4	2.4

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 2 January 2024
** IMF data and forecasts as of 2 January 2024*

GROWTH

- US GDP was revised up, registering +5.2% from +4.9% in the third quarter. This is due to aggressive fiscal stimulus and still low unemployment. Keep in mind, GDP is a lagging indicator. We are not forecasting a hard landing, but just one quarter of negative growth in 2024. Nevertheless, a slowdown is expected.
- On the other hand, Eurozone GDP was lower than expected in the third quarter of 2023 , rising just +0.1% year-on-year. Eurozone has experienced higher inflation for most of 2023 till recently, lower fiscal stimulus than the US, and more tepid consumer spending.

INFLATION

- US inflation continues to fall with the Federal Reserve's preferred measure core PCE rising +3.2% year-on-year and headline inflation at +2.6% in November 2023, below forecasts of +2.9% and not far from the Federal Reserve's 2% target.
- In Eurozone, headline inflation rose to 2.9% YoY in November 2023, propelled by energy-related base effects, which again brings the Eurozone inflation to slightly above the US.

Equities

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: POSITIVE		
Positive	Neutral	Negative
COUNTRY		
UK Japan Emerging Mkt Eurozone	US	-
SECTOR		
▲ Utilities Healthcare Materials	▼ Energy Comms., Industrials, Real Estate Technology Consu. Discre. Financials	Consumer Staples

OVERALL ASIA: POSITIVE		
Positive	Neutral	Negative
COUNTRY		
China Singapore South Korea Indonesia	Taiwan India, Thailand Malaysia Philippines	-
SECTOR		
Comms. Consu. Discre. Consumer Staples Technology	Energy Materials Real Estate Financials Industrials Healthcare	Utilities

- Global equities had a strong month in December 2023. The rally was catalysed by lower-than-expected inflation and resilient growth, in short, Goldilocks. More importantly, Fed Chair Powell opened the doors for looser monetary policy.
- We continue to remain positive on non-US equities. They had a strong month of performance in December 2023, given the year end Christmas rally. In fact in dollar terms (local currency below) Eurozone and Japanese equities have kept pace with US equities for 2023.
- We **favour laggard sectors such as Health-care, Utilities, and Materials.**
- Country-wise, we maintain our positive stance on the Eurozone, UK, Japan and Latin America.
- Be cautious/selective with expensive market segments, such as Consumer Staples, some large-cap US tech stocks and some Consumer Cyclicals: pricing power is weakening and operating profits are under pressure from rising costs.

		1-month (%)	2023 (%)	2022 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2024f	EPS Growth (%) 2024f	EPS Growth (%) 2025f	ROE (%) 2024f
Developed	US	4.6	25.0	-20.8	20.2	4.6	1.9	10.8	13.0	18.0
	Japan	-0.6	25.9	-6.6	13.9	1.5	2.5	11.3	7.2	8.7
	Eurozone	3.2	16.0	-14.5	12.4	1.7	3.2	4.6	9.2	13.6
	UK	3.7	3.3	3.0	10.7	1.7	4.0	5.0	6.3	14.8
	Asia Ex-Japan	3.3	3.6	-21.5	12.1	1.5	2.9	20.4	16.0	9.1
North Asia	China	-2.6	-12.8	-22.4	8.7	1.2	3.6	14.9	14.6	10.5
	China A-shares	-1.9	-11.4	-21.6	11.1	1.8	3.2	13.7	12.8	11.6
	Hong Kong	5.2	-17.8	-7.8	11.6	0.9	4.3	12.6	9.5	6.3
	South Korea	6.0	23.9	-26.4	11.2	1.1	2.0	68.3	23.9	5.9
	Taiwan	3.5	26.7	-24.7	15.7	2.5	3.2	18.1	20.2	13.3
South Asia	India	7.8	20.3	1.6	21.6	4.2	1.2	13.9	13.9	14.6
	Indonesia	3.3	2.2	10.4	13.8	2.4	5.0	7.9	9.5	2.2
	Malaysia	0.0	-3.2	-4.3	13.3	1.4	4.0	8.9	6.8	8.9
	Philippines	4.1	1.1	-7.3	12.1	1.9	2.1	8.3	10.4	12.6
	Singapore	2.4	-3.9	4.4	11.5	1.3	5.2	2.2	7.4	10.0
	Thailand	2.7	-13.8	6.3	16.3	1.7	2.8	16.3	13.5	8.4

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 2 January 2024

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL		
Positive	Neutral	Negative
EMD (LC) EMD (HC) IG UST	High Yield	-

OVERALL ASIA (USD): NEUTRAL		
Positive	Neutral	Negative
	India Philippines Singapore Indonesia	Hong Kong China

		Total Return (%) 1-Month	2023	2022	Yield-to-Worst (%)
Asia	Asia USD Bond	3.1	7.3	-11.7	5.5
	Asia Local Currency Bond	3.5	7.2	-8.6	4.2
	China	2.3	5.0	-10.9	5.8
	Hong Kong	3.1	7.7	-10.5	5.3
	India	3.4	9.5	-9.7	6.7
	Indonesia	5.1	9.9	-12.9	5.1
	Singapore	3.0	6.6	-11.0	4.8
	South Korea	2.0	6.6	-8.6	5.0
	Philippines	4.4	8.3	-14.2	5.3
Other Regions	US 10-year Treasuries	3.3	3.8	-12.1	4.0
	US Investment Grades (IG)	3.8	5.5	-13.0	4.5
	US High Yield (HY)	3.7	13.4	-11.2	7.6
	Emerging Market USD Bond	3.0	7.1	-12.1	6.2

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 2 January 2024

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	3.50	▲ 3.75	▲ 4.00	▲ 4.25

- With falling inflation in the US and Eurozone, the market moved beyond our rate cut expectations for 2024. We now expect 150bp of rate cuts in 2024 from the Fed from May, and 75bp from June from the ECB.

- We remain **Positive on IG corporate bonds** given the risk/return upside and low volatility of return. While the current level of spreads reflect the current economic environment, we expect long-term average default rates to be moderate given we do not have a hard landing in our forecasts. . We prefer short maturities in the Eurozone, and short to intermediate maturities in the US.

- Asia credit had a strong month following the rally in bond globally on lower inflation in the US & Eurozone. This results in returns positive for all markets in Asia including China.

- We sell the rally in **tactically downgrade China and Hong Kong credit from neutral to negative in the short term**. We turn more cautious as China IG and SOEs are expensive while HY or high-beta companies are still facing huge headwinds. Hong Kong companies are facing different levels of challenges given the "rates stay higher for longer" scenario, further weakness in the economy and tightening of lending standards from commercial banks.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

12-MONTH FOREX VIEW

Positive		Neutral		Negative
JPY	CNY	NZD	TWD	USD
EUR	MYR	CAD	INR	PHP
GBP	SGD	KRW	IDR	
AUD	THB			

COMMODITIES

Positive	Neutral	Negative
Gold Oil Base metal		-

We believe both the Fed and the ECB have reached their terminal rate at 5.5% and 4% respectively. In 2024 we expect the Fed to cut rates by 150bp as of May and the ECB to cut rates by 75bp as of June. The interest rate differential should favor the Euro in the coming months. **We maintain our EURUSD 3-month target at 1.06 and our 12-month target at 1.15.**

Oceanic currencies have appreciated recently. In November 2023, New Zealand's central bank (RBNZ) maintained rates at 5.5% for the fourth consecutive time and the Australian central bank (RBA) increased its cash rate by another 25bp to 4.35%. We expect both central banks to maintain elevated rates throughout 2024 which will improve their yield differential versus the US.

We maintain our AUD/USD 3-month target at 0.68 and our 12-month target at 0.7 (value of one dollar). This suggests a gradual appreciation of the AUD against the US dollar. We maintain our 3-month target for the NZD/USD at 0.60 and our 12-month target at 0.63. This suggests a gradual appreciation of the NZD against the US dollar.

GOLD surged to all-time highs, helped by lower inflation, real yields, weaker dollar, and central bank buying. We maintain a $1950 to $2150 target range.

OIL looks to be heading for near term oil price weakness, but this should be temporary, and prices should creep up in the second part of the year. Supply remains the main issue, as the supply increase from non-OPEC+ countries was a big surprise in H2 2023, albeit this should not be extrapolated into 2024. We expect Brent to trade back in the range of $80-$90 per barrel over time.

Forex Forecasts

		Spot	3-month		12-month	
		As of 2 Jan 2024	View	Target	View	Target
Developed	USD Index*	101.33	+	104.88	-	97.4
	Japan	140.98	-	145	+	134
	Eurozone	1.100	-	1.06	+	1.15
	UK	1.270	-	1.23	+	1.34
	Australia	0.680	=	0.68	+	0.70
	New Zealand	0.630	-	0.60	=	0.63
	Canada	1.320	=	1.32	=	1.30
Asia Ex-Japan	China	7.090	=	7.20	+	6.80
	South Korea*	1,294	=	1,300	=	1,250
	Taiwan*	31.47	=	31.8	=	31.2
	India	83.21	=	82.0	=	82.0
	Indonesia*	15,435	=	15,400	=	15,000
	Malaysia*	4.672	=	4.63	+	4.46
	Philippines*	55.41	=	57.3	-	58.5
	Singapore*	1.332	=	1.34	+	1.28
	Thailand*	34.94	=	33.80	+	31.50

Source: BNP Paribas (WM) as of 2 January 2024
**BNP Paribas Global Markets forecast as of 2 January 2024*

Note: + Positve / = Neutral / - Negative

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