DEC 2024

THINK DIFFERENTLY

TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

In November 2024, two significant events dominated investor attention: the U.S. presidential election and China's National People's Congress (NPC) meeting. The U.S. election was perceived as a key risk event, and investors expressed relief at its conclusion. The outcome was seen as pro-risk, contributing to U.S. equity markets reaching all-time highs. The anticipation surrounding the election had created volatility, but with the results in, markets began to stabilize and price in a more optimistic outlook.

Conversely, the results of China's NPC meeting did not meet investor expectations. Many offshore investors were hoping for substantial stimulus measures to enhance consumption amid rising tariff risks following Donald Trump's election. However, the announced RMB 10 trillion local debt swap program primarily aimed at addressing systemic risks associated with local government debt, failing to provide the anticipated support for consumption or property market stabilization. This disappointment halted the rally in Chinese equities, which had surged in September.

Following the U.S. election results, a "no-landing" scenario began to take shape in market expectations, characterized by resilient growth and persistent inflation with fewer anticipated rate cuts from the Federal Reserve. This environment favored U.S. equities, especially small-cap stocks and financials, while bond markets struggled due to concerns over inflation and fiscal deficits. The appointment of Scott Bessent as U.S. Treasury Secretary alleviated some fears regarding runaway inflation, leading to a decline in Treasury yields and a weakening of the U.S. dollar.

In terms of income portfolios, markets are currently positioned to meet yield expectations driven by strong economic data and favorable market conditions. Emerging market high-yield credit has emerged as a standout performer in 2024, supported by robust economic indicators and effective central bank policies. However, investors must remain vigilant about potential risks such as deteriorating corporate fundamentals and refinancing challenges amid rising interest rates. While income portfolios are well-positioned for attractive yields, careful monitoring of geopolitical landscapes and domestic economic conditions is essential for maintaining portfolio stability.

Finexis Asset Management

Market Review

Two key events were top of investors' mind in November: the US election and China's NPC meeting.

The US election was a key risk event that investors were relieved to move past, viewing it as pro-risk and contributed to US equity markets reaching all-time highs.

On the other hand, the outcome of China's NPC meeting was less favorable. The anticipated stimulus measures fell short of expectations, which halted the rally in Chinese equities.

No-landing regime a higher risk post US election

Following the red sweep and anticipated policies from Trump, the market began to decisively price in a "no-landing" scenario for the US, characterized by resilient growth, sticky inflation, and fewer expected rate cuts from the FED.

Against this backdrop, US equities, particularly small caps and financials, along with the dollar, emerged as clear winners. Meanwhile, bonds struggled due to concerns over higher inflation and fiscal deficits risk, which negatively impacted bond investor sentiment.

The subsequent appointment of Scott Bessent as U.S. Treasury Secretary eased fears of runaway inflation and fiscal deficits, given his reputation as a fiscal conservative. This led to a decline in the 10-year Treasury yield and a subsequent weakening of the U.S. dollar in the second half of the month.

China's NPC meeting disappoints.

China's NPC meeting fell short of expectations, as offshore investors were hoping for more stimulus to boost consumption and counter elevated tariff risks following Trump's election. Instead, the RMB 10 trillion local debt swap program focuses on addressing systemic risks in local government hidden debt, without providing any stimulus for consumption, property inventory reduction, or bank recapitalization.

Additionally, a strong dollar was weighing on Chinese equities and overall Emerging Market sentiment. As a result, Chinese equities have retraced half of their September spike post-NPC.

December FOMC meeting and the January Trump inauguration being the main risk events.

Barring any surprises, the path of least resistance is for risk assets to continue grinding higher towards year end. Fundamentals and sentiments are still supportive of a Christmas rally.

Looking forward, the December FOMC meeting will be crucial, as markets will watch for any signs of a more hawkish stance from the Fed. Additionally, the sequencing and size of tariffs under Trump's administration remain a wildcard that could impact market dynamics. While the current setup supports a moderately risk-on stance, it may be wise to start dialing down risk in anticipation of these events near the turn of the year.

Markets are facing a series of critical crossroads

Trump 2.0

No-landing

Tariff risk

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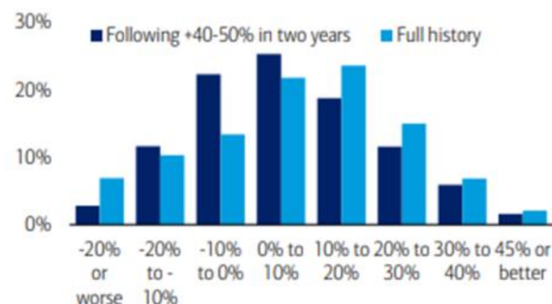
US Exceptionalism Is Set To Continue, But Diversification Is Essential

With Trump's victory and the Federal Reserve's ongoing rate cuts, the narrative of **US exceptionalism continues to prevail.** US 2025 projected GDP growth is expected to lead again among the G10 economies, driven by anticipated policies such as tax cuts, deregulation, and tariff. Naturally, US equities are expected to benefit from such favourable backdrop and continue to outperform.

That said, S&P 500 has risen by more than 20% for each of the past two years, and historical trends indicate that future index gains may be more modest. Typically, returns have fallen within the 0-10% range following periods with >40% return in two years.

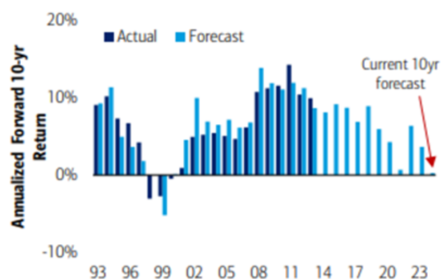
Exhibit 1: After big gains, returns tend to moderate
Distribution of fwd. 12-mo. return after 40-50% gains in two years vs. full history (1930-present)



Source: BofA US Equity & Quant Strategy, Bloomberg

Also, there are **market concentration and high valuation risks** that long term investors should be worried about. For instance, the top 10 stocks by market cap account for 36% of the S&P 500 index. Their influence on equity return is likely to be more pronounced in the long term, but still a major concern to grapple with.

Exhibit 28: Valuation currently suggests 0-1% p.a. price returns over the next decade
S&P 500 annualized forward 10-yr return: actuals vs. model forecast (1993-11/25/2024)



Source: BofA

Median company P/E multiple

Source: Compustat, Goldman Sachs GIR.

More importantly, the earnings growth gap between the 493 stocks and the Magnificent 7 is expected to narrow in 2025.

Earnings growth progression: Mag 7 vs. Rest of Index	2023	2024	2025
	CY	CYE	CYE
Mag 7	40%	31%	20%
Rest of Index	-5%	3%	12%
S&P 500	1%	8%	14%

Source: FactSet, Bloomberg

Therefore, for our US exposures we are positioned to benefit by diversifying in the rest of the market such as the 493 stocks.

This also provides US equity exposure to cyclical sectors, reducing dependence on the expensive Tech sector and increasing exposure to the industrial sector.

A key risk to monitor is the possibility that AI remains the dominant theme, delaying the broadening out theme.

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China's A-shares: A Promising Path Forward After Policy Pivot

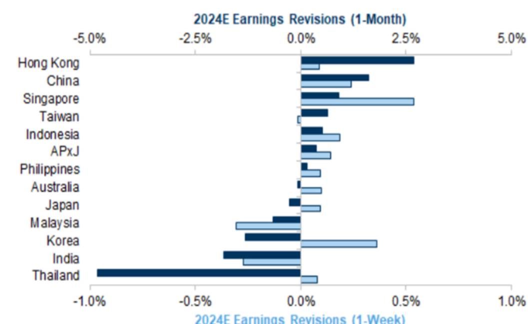
Chinese stocks have likely bottomed and are expected to trend upward in 2025, albeit with more volatility under Trump 2.0.

Since September 2024, the policy shift has reduced downside risks and boosted stock valuations. Moving forward, effective policy implementation will be crucial for driving earnings growth and equity return in 2025.

Fundamentals improving

Though China's long term macro growth outlook remained uncertain, EPS has already bottomed out and started to exceed bearish estimates from bottom-up analysts. The 2025 earnings consensus outlook for MSCI China is still up 9%, retracing from 12% since tariff risks increased post-Trump election. Policy easing is expected to partially offset tariff impacts, benefiting domestic companies more.

Source: Bloomberg. FTSE China A50 Index forward EPS.



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Policy PUT limits downside

September is an inflection point for China policy measures. The government introduced a series of coordinated fiscal and monetary measures to stimulate the economy. Additionally, the PBoC directly intervened in the capital market by launching a re-lending facility to support company buybacks. The Hui Jing National team also holds 5.4% of China A shares and, with government backing, could significantly increase their exposure to help stabilize market volatility. In the near term, the December Politburo and CEWC meetings could boost the market if more concrete stimulus measures were discussed.

As we move into 2025, additional policy support for the China A-shares market is anticipated, alongside a gradual recovery in investor confidence.

That said, tariff related countermeasures are expected to be reactive rather than pre-emptive, with further measures likely in Q1 next year, following clarity on Trump’s tariff plan.

Valuation undemanding with light positioning

China A-shares' valuation appears fair when considering the increased geopolitical tensions that necessitate a higher risk premium. Positioning wise, hedge fund allocation is light, at the 11th percentile of the past five years. More importantly, onshore retail investor sentiment has improved materially, with significant potential to shift excess savings into equities.

Overall, strong fiscal and monetary stimulus measures are expected to support valuations and drive a potential earnings recovery in 2025. Preference is given to **China A-shares over H-shares** due to their domestic focus, greater benefits from policy easing measures, and stronger liquidity support from domestic retail investors.

Key risks to monitor are tariffs, poor implementation of the stimulus package and large depreciation of RMB to counter tariffs. Investors would need to be mindful on the timing and sizing of the China exposure given the volatility.

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Navigating The Highs And Lows Of Income Investments

Income portfolios on target
Income portfolios are currently positioned to meet the yield expectations of investors, driven by strong economic data and favorable market conditions. Notably, the emerging market high yield credit segment has emerged as a standout performer in 2024, despite being somewhat overlooked by many investors. Indeed, emerging market debt has had its fair share of crises through the years. But as the chart below shows, emerging market debt has performed despite these negative perceptions.

Credit markets at new highs, supported by robust economies
Major credit markets have reached new highs, buoyed by strong economic indicators such as rising employment rates and US GDP growth of 2.8% in the third quarter of 2024. Emerging market high yield credit has also done well thanks to effective central bank policies that have stabilized growth and controlled inflation from Latin America to India. The current tight credit spreads reflect investor confidence in corporates' ability to repay their debt and reduced concerns about default risks.

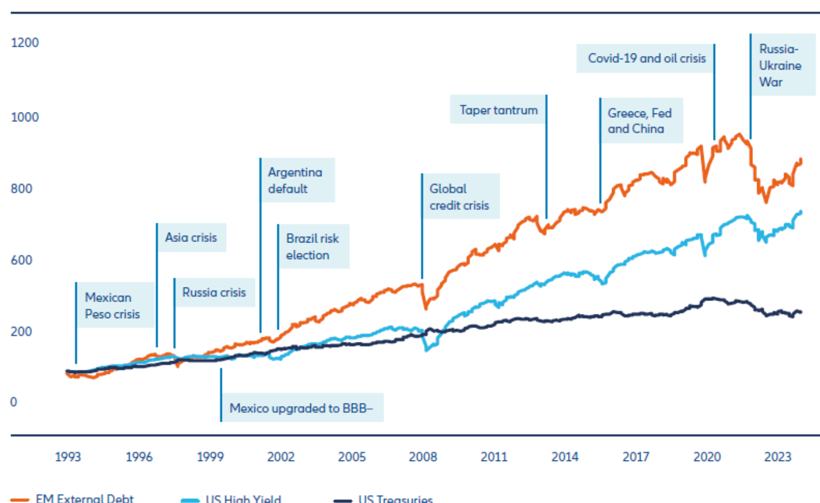
Preference for High Yield Markets with an eye on Risk
Investors continue to gravitate towards high yield markets due to their potential for higher income generation. We are doing so with an eye on the risks ahead.

While global high yield bonds can cater to the need for high income, investors must remain vigilant about potential pitfalls such as deteriorating corporate fundamentals and macroeconomic challenges.

The looming "financing wall" in 2025 poses a significant risk for many companies that may face refinancing challenges amid rising interest rates and tighter credit conditions. As seen in previous cycles, companies with weaker balance sheets may struggle to secure financing or may face higher costs to do so, leading to increased default risks.

Moreover, while emerging market bonds have shown resilience and attractive yields, investors must consider the geopolitical landscape and domestic economic conditions that could impact these investments.

In summary, while income portfolios are well-positioned to deliver expected yields amid favorable economic conditions, investors should remain cautious about the inherent risks within high yield markets. The current tight credit spreads reflect strong corporate health and investor confidence; however, vigilance regarding potential economic downturns and refinancing challenges is essential for maintaining portfolio stability.



Source: BofA Global Research, Bloomberg, JP Morgan EMBI Global Diversified Composite Index, ICE Data indices, LLC.
EM External Debt: JP Morgan EMBI Global Diversified Composite Index, US High Yield: ICE BofA US Cash Pay High Yield Index, US Treasuries: ICE BofA US Treasury Index

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Market Index Returns

Equity Regional	MTD	YTD	10Y	20Y
Global	3.77	20.85	9.86	8.58
United States	5.87	28.06	13.33	10.66
Europe	-1.58	5.17	5.74	6.22
Japan	1.16	8.99	6.61	4.76
Asia Pacific ex Japan	-2.23	11.44	4.56	7.00
Emerging Markets	-3.58	8.10	3.55	6.63

Equity Markets	MTD	YTD	10Y	20Y
Australia	3.21	11.04	7.64	8.93
Brazil	-7.25	-24.68	-0.22	4.14
China "A"	-1.04	15.18	3.93	9.58
China "H"	-4.39	25.69	-1.09	5.09
Hong Kong	-4.29	19.46	1.41	5.21
India	0.03	10.15	8.8	11.54
Indonesia	-6.31	-1.4	3.27	10.12
Korea	-5.18	-13.51	1.91	5.69
Malaysia	-1.88	17.72	-0.46	5.83
Singapore	4.39	20.08	4.99	7.65
Taiwan	-3.89	19.55	12.74	10.82
Thailand	-3.9	3.88	1.59	8.49
Vietnam	-1.23	7.81	8.77	8.96

Equity Sectors	MTD	YTD	10Y	20Y
Gold	-7.09	21.02	8.69	2.75
Energy	6.93	16.79	5.97	7.61
Technology	5.22	32.13	19.94	13.97
Healthcare	-0.84	8.15	8.27	9.61
Financials	10.28	38.04	12.21	6.11

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	0.34	0.47	0.30	2.05
Global Aggregate (H)	1.19	4.20	2.14	3.42
High Yield	1.17	8.19	4.58	6.32
Asia	0.61	4.90	2.97	3.24
Emerging Markets	1.11	7.86	3.06	5.67

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	-1.47	-1.43	-0.27	1.01
EUR/USD	-2.82	-4.19	-1.62	-1.13
JPY/USD	1.51	-5.83	-2.30	-1.85

Commodities	MTD	YTD	10Y	20Y
Gold	-3.67	28.12	8.52	9.24
Oil	-1.82	-5.09	0.28	1.64

*As of 31 Nov 2024. Source: Bloomberg. **Total return in USD**.*
10 and 20 year returns are annualized.

"In investing, what is comfortable is rarely profitable."

Rob Arnott

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