Dec 2024 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- November saw risk sentiment surge after the Republican "red sweep" in the US election. This was further supported by Federal Reserve's commitment to gradual rate cuts despite higher inflation risk under Trump's 2.0.
- Market is pricing in a **no-landing regime**, with stronger US growth, stickier inflation and a more gradual cutting cycle. **US exceptionalism** is here to stay.
- China's November **NPC meeting disappoints**, with higher tariff risks and a stronger dollar negatively impacting Emerging Market sentiment.
- Path of least resistance is for risk assets to continue grinding higher towards year end, with the **December FOMC meeting and the January Trump inauguration being the main risk events**.

US Exceptionalism is set to continue, but Diversification is Essential

- Recent US economic data continues to be robust, with solid growth and consumer spending. This trend of **US exceptionalism** is expected to persist under Trump's anticipated policies, making the US economy a standout among developed markets in 2025.
- However, there are medium to long-term headwinds, such as **concentration risk and high valuation**, that could limit S&P 500 upside after 2 years of more than 20% return.
- More importantly, the earnings growth gap between 493 stocks and the Magnificent 7 is expected to narrow. Therefore, for our US exposures we are positioned to benefit from diversifying in the rest of the market such as the 493 stocks.

China's A-Shares: A Promising Path forward after Policy Pivot

- Retained bullish outlook on China A-shares, driven by an EPS recovery trend, attractive valuations, and light investor positioning compared to long-term levels. The **policy maker's inflection point is clear and behind us.**
- However, **increased geopolitical tensions require a higher risk premium.** Tariff impacts on profits and valuations are expected to be only partially offset by more aggressive policy measures.
- 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.

Navigating the Highs and Lows of Income Investments

- Income portfolios are **on track to deliver the yield that investors expect** amid robust economic data. In fact, the best performing segment this year has been emerging market high yield credit, which has been relatively under investors' radar.
- A general environment of tight credit spreads is a reflection of the robust economies and investor confidence that companies can pay back their debt.
- Preference to **high yield markets but with an eye on risk**. High yield markets still cater to investors' need for high income. Yet we are mindful of risks on the horizon such as deterioration of corporate fundamentals, and potential financing wall in 2025.

Read the full commentary here

Finexis Asset Management