

SUMMER EDITION (JUL & AUG) 2024

Investment Navigator

Asia Edition



2024 Mid-Year Outlook: Look Out for Elections!

GDP Upgrades for Large Economies

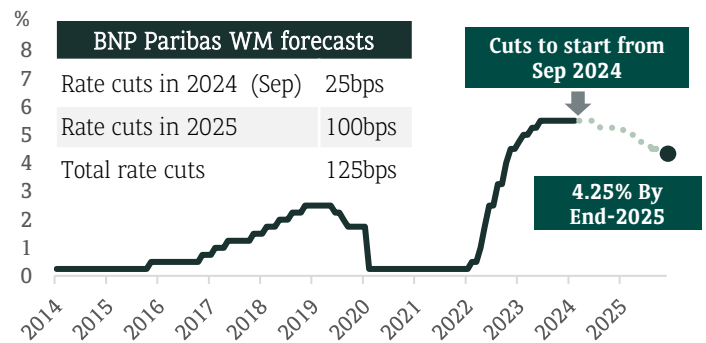
Global growth has been overall stronger year-to-date, with GDP upgrades in the 3 largest economic blocs: US from +1.6% to 2.5%, EU from +0.6% to +0.8% and China from +4.5% to +5.2%. Furthermore, in addition to stronger growth, stickier services inflation (which is now dissipating) has led to a push out in rate cuts from the Federal Reserve. The good news is the recent US inflation data has been lower than expected with the much focused on super core services inflation falling back to flat on a month-on-month basis.



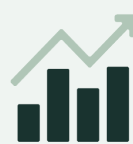
Our forecast for the Federal Reserve presently is for one rate cut in September 2024 and four additional cuts in 2025.

The key is if the US economic data continues to slow. Recently, PMIs fell below 50 for both service and manufacturing, and continuing claims, a future indication of unemployment, has increased. It is possible for some rate cuts from 2025 to shift back to 2024 if this trend continues.

OUR FED FUNDS RATE PROJECTED PATH



Source: Bloomberg, BNP Paribas (WM), as of 30 June 2024.



We expect a growing but slowing economic growth in the US in 2025, and higher year-on-year growth in 2025 for Europe, UK and Japan. Overall, we are likely to see convergence in growth trends.

Strong first half for Global equities, gold & commodities

Investors in both stocks and commodities have been rewarded for their risk-taking so far this year, as markets climb the proverbial wall of worry. Thanks to abundant global liquidity and surprisingly strong earnings trends, and the surging AI theme, global stocks have strong returns with leadership from US, Eurozone and Japanese stocks.

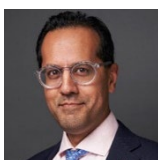
Bonds were RANGE BOUND IN 1H 2024. TREASURY YIELDS PEAKED IN OCTOBER 2023 and have made "lower highs" since then.

While returns are more muted, the coupon is being clipped. Investors should continue to **BUY QUALITY INVESTMENT GRADE AND GOVERNMENT BONDS**.



We remain **overweight global equities**. Two other over-weights in our asset allocation - **Gold** glittered by rising 14.7% and **Copper** by 15.5% YTD.

Prashant BHAYANI
Chief Investment Officer
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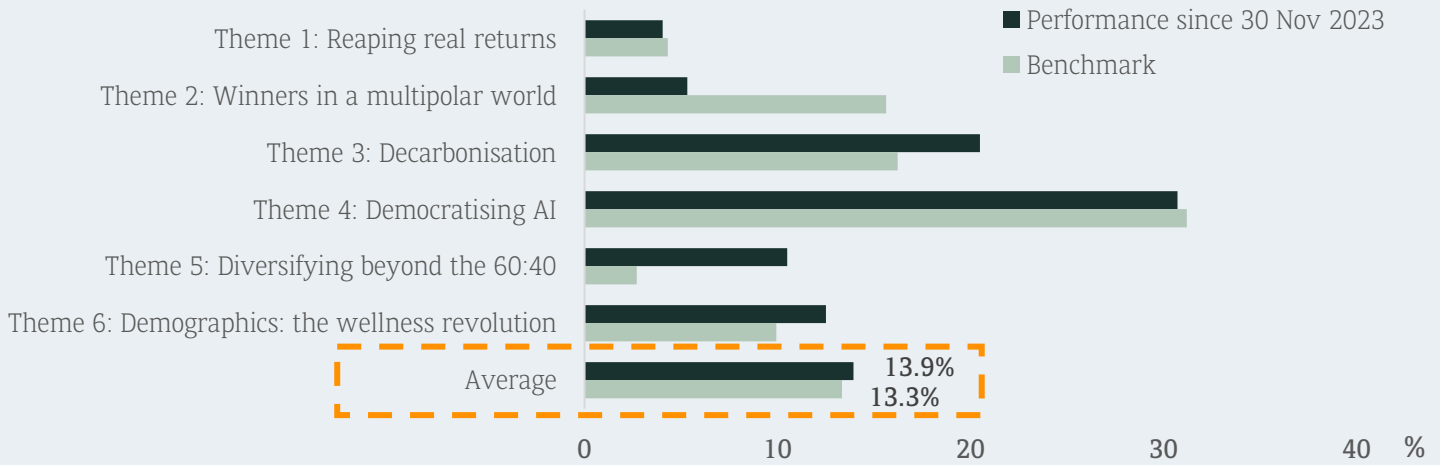
Grace TAM
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4 OUT OF 6 THEMES ARE UP DOUBLE-DIGIT RETURNS SO FAR



Source: Bloomberg, BNP Paribas, as of 4 June 2024
Past performance is not indicative of current or future performance.



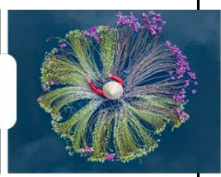
While we favour the “Democratising AI” theme, our best performing theme (+30% as of 28th May), investors should also diversify into other sectors given more attractive risk/reward. There are multiple deep value opportunities in ignored assets. Deep value offers huge potential for patient investors such as UK and Emerging Market stocks, Financial stocks and credit, value & distressed strategy hedge funds.

Our 4 Mid-Year Investment Themes for 2024



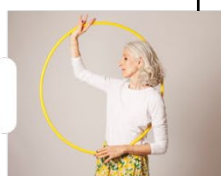
NEW THEME!
Hunting for Deep Value amid an “everything” bull market

Bonds are back (again): The last chance to lock in high rates



Winners in a multipolar world

Demographics & Healthcare: achieving more with less



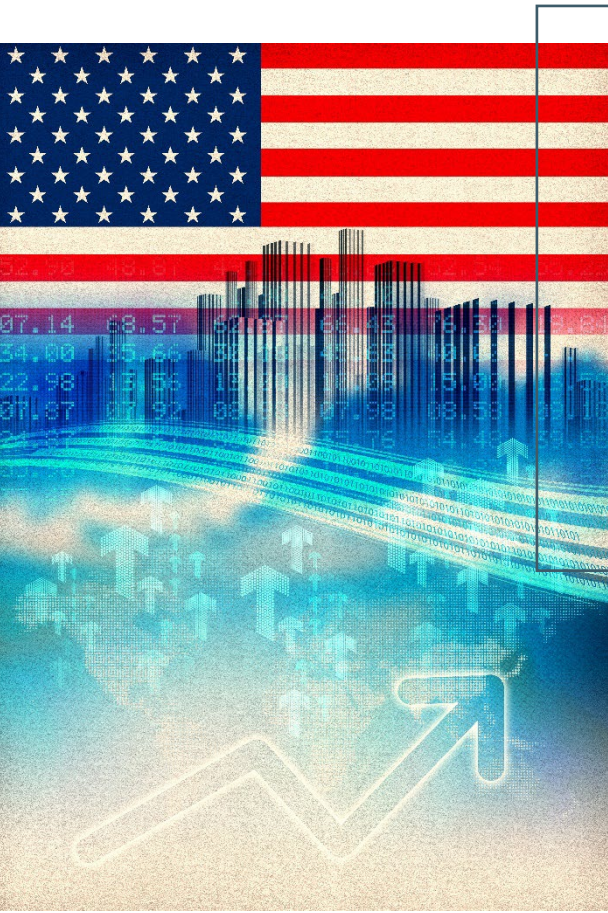
Thematic focus on 5 trends:

- Inflation homes in on the 2%-3% zone; central banks to lower rates
- Fixed income still offers yields close to 15-year highs
- Unprecedented stock market concentration in the Mag 7
- Commodities rise from the ashes
- Anti-obesity medications revolutionise longevity potential



Click [HERE](#) to read the full 2024 Mid-Year Investment Themes update.

With upcoming elections in the second half of the year, the **“Winners in a multipolar world”** theme is ever relevant. 2024 is a year of heightened geopolitical tensions and pivotal legislative elections. Tariff war risk also looms which means reshoring. **Hedging these risks in portfolios is key.**

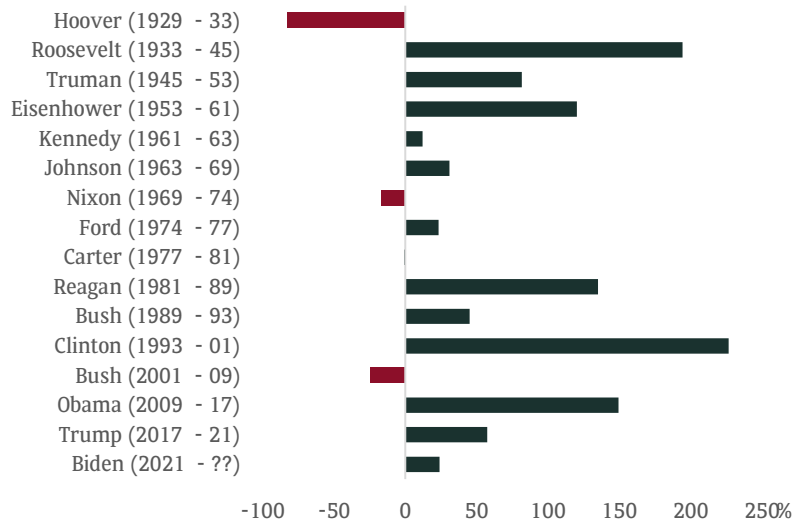
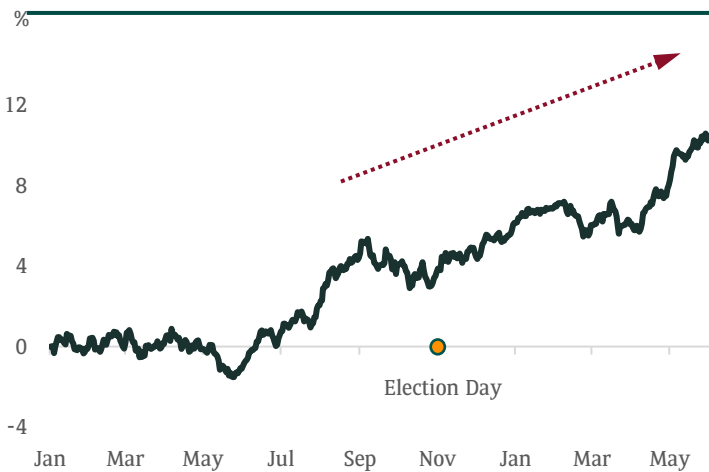


With regards to the upcoming US elections, it is important to focus on **policy not politics**. We mentioned in January 2024 that US equities are usually up in election years on average. Normally, the market pauses and can fall moderately from September, just before the election in November.

Crucially, the composition of Congress will be key in terms of changes to tax and the level of fiscal stimulus. A President Trump sweep including Congress could lead to a higher stock market in the near term, stronger dollar and higher yields due to rollover of his existing tax cuts, and perhaps additional tax cuts and deregulation. President Biden, if indeed he runs, will likely face a divided Congress and that means a neutral market reaction as it is a status quo result.

Finally, stock markets go up over time whether under Republican or Democratic presidency. Only 3 times since 1932, has the stock market declined in a presidency. That was because of the economic cycle (Great Depression), oil price embargo in the 70s, and great financial crisis. Hence, the economic cycle is much more important than the political cycle.

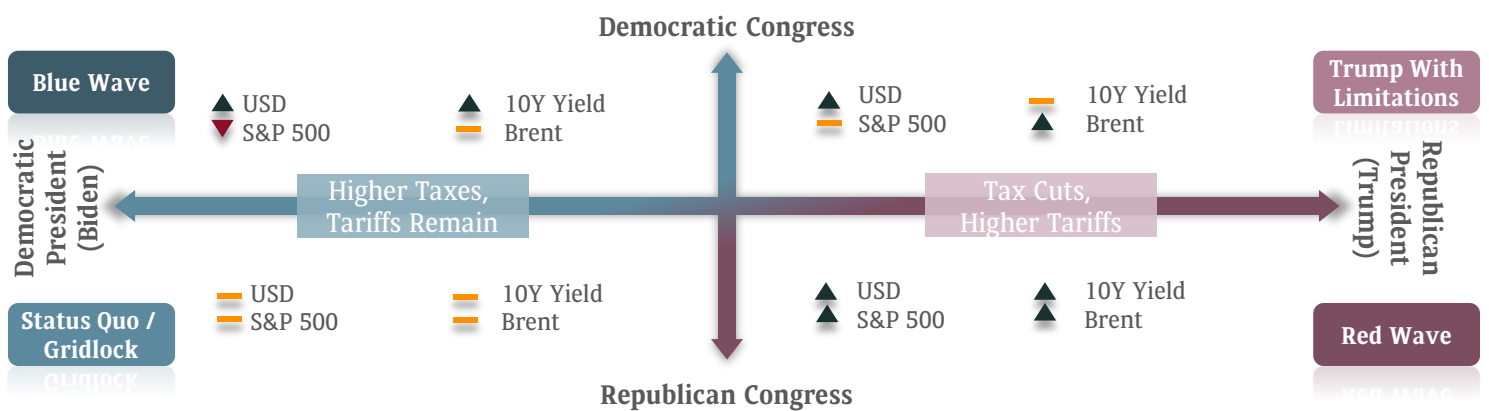
MARKETS ARE USUALLY POSITIVE POST ELECTION DAY



Source: Bloomberg, BNP Paribas (WM), as of 30 June 2024. Past performance is not indicative of current or future performance.



GREATER IMPACT ON MARKETS IF THE PRESIDENT CONTROLS CONGRESS



Source: BNP Paribas (WM), as of 30 June 2024.
Past performance is not indicative of current or future performance.

CONCLUSION

Global equities boosted by the AI theme, performed strongly in the first half of the year. Better GDP growth boosted earnings in three major economic blocs of the world. Furthermore, two other overweights - gold (on strong central bank buying and risk diversification) and commodities (we favour "green metals") - registered double-digit returns.

Bonds have been range bound with fluctuating yields but recent benign inflation data has led to lower longer-term yields. Rate cuts are delayed but not derailed. We continue to recommend accumulating quality bonds at this juncture.

KEY RISK



Volatility could pick up in the second half of the year after a strong first half for global equities amid elections, the pace of rate cuts, and possible slowing growth in the US. Be more selective and hedge with gold, defensives, deep value equities, and quality bonds.

Overview of our CIO Asset Allocation for July 2024

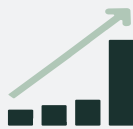
	Views		Constituents	We like	Comments
	Current	Prior			
EQUITIES	+	+	Markets	Eurozone, UK, Japan, Latin America, China, South Korea, Singapore & Indonesia	<ul style="list-style-type: none"> ■ We maintain our positive view on non-US equities. ■ We are positive on developed markets Small Caps.
			Sectors	Healthcare, Materials, Industrials	<ul style="list-style-type: none"> ■ We also like EU financials, tech and REITs.
			Styles/ Themes	Megatrend themes	<ul style="list-style-type: none"> ■ Security, AI, circular economy, electrification & income themes.
BONDS	=	=	Govies	US government bonds (prefer shorter duration) US inflation-indexed bonds	<ul style="list-style-type: none"> ■ Our 12-month target for the US 10-year Treasury yield is maintained at 4.25%.
			Segments	Investment grade, Emerging markets (EM) bonds (USD + local currency)	<ul style="list-style-type: none"> ■ We remain positive on US (up to 7-year maturity) and Euro (up to 10-year maturity) investment grade corporate bonds.
CASH	-	-			
COMMODITIES	+	+		Gold Oil Base metals	<ul style="list-style-type: none"> ■ Gold - positive: target of \$2600/oz in 2025 ■ Oil - positive: Brent's target range \$85-95. ■ Base metals - positive
FOREX				USDJPY	<ul style="list-style-type: none"> ■ USDJPY 3- and 12-month targets at 150 and 140 respectively.
ALTERNATIVE	+	+		Hedge funds (event driven, long-short equities, relative value)	<ul style="list-style-type: none"> ■ Neutral on global macro

Note: + Positive / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2023	2024f	2025f	2023	2024f	2025f
Developed	US	2.5	2.5	1.8	4.1	3.4	2.3
	Japan	1.9	0.3	1.0	3.2	2.7	2.4
	Eurozone	0.5	0.9	1.6	5.4	2.3	2.0
	UK	0.1	0.6	1.2	7.4	2.6	2.2
North Asia	China	5.2	5.2	4.3	0.2	-0.1	1.2
	Hong Kong*	3.2	2.9	2.7	2.1	2.3	2.3
	South Korea	1.4	2.5	2.0	3.6	2.5	2.1
	Taiwan*	1.4	3.1	2.7	2.5	1.9	1.6
South Asia	India	7.6	6.5	6.4	5.4	4.7	4.3
	Indonesia	5.0	4.9	5.1	3.7	3.0	2.4
	Malaysia	3.7	3.7	4.3	2.5	2.8	2.2
	Philippines*	5.6	6.2	6.2	6.0	3.6	3.0
	Singapore*	1.1	2.1	2.3	4.8	3.0	2.5
	Thailand	1.9	2.7	3.1	1.3	1.0	1.9

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 30 June 2024
* IMF data and forecasts as of 30 June 2024



GROWTH

- We expect a growing but slowing economic growth in the US in 2025, and higher year on year growth in 2025 for Europe, UK and Japan. Overall, we are likely to see convergence in growth trends.
- Caixin data showed that China's factory growth surged to over three-year highs. Nonetheless both services and composite activity slowed to a 8-month and 3-month low respectively, albeit still in the expansionary territory. The focus will now be turned towards the upcoming Third Plenum scheduled from July 15th for clues on China's long-term growth trajectory.






INFLATION

- The sticky services inflation in the US continues to dissipate. Recent US inflation data has been lower than expected with the much focused on super core services inflation falling back to flat on a MoM basis.
- As the US Presidential election draws closer, concerns over inflationary policies should Trump take the oval office emerge again.
- In Asia, Japan's annual inflation accelerated to 2.8% in May 2024. The continuing yen weakness will likely be a concern for the BoJ in further fueling of import inflation.




Equities

 POSITIVE
  NEUTRAL
  NEGATIVE

OVERALL GLOBAL: POSITIVE

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

OVERALL ASIA: POSITIVE

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

- We remain positive on global equities. Key drivers are the improving global liquidity, which could be further boosted by more central banks lowering rates before year end. Share buybacks and positive earnings growth are supplementary supports.
- We take the opportunity to focus on deep value, and prefer non-US equities, regions such as UK and some parts of Europe.
- China/Hong Kong equities underperformed in June as economic data showed losing momentum and market expectations on the upcoming Third Plenum in July is low. China equities could prove attractive for investors who are able to stomach the volatility.
- Taiwan and Korea's semiconductors had another strong run in June amid the AI mania. The sector looks overbought technically in the short term and is due for corrections.

		1-month (%)	YTD (%)	2023 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2024f	EPS Growth (%) 2024f	EPS Growth (%) 2025f	ROE (%) 2024f
Developed	US	3.5	14.1	25.0	21.4	4.8	1.6	10.6	14.9	18.3
	Japan	1.5	20.1	25.9	15.4	1.5	2.2	17.3	6.3	8.8
	Eurozone	-2.6	6.2	16.0	12.9	1.8	3.1	3.6	10.6	13.0
	UK	-1.3	5.3	3.3	11.5	1.9	3.7	1.6	8.2	14.1
	Asia Ex-Japan	3.9	8.6	3.6	13.1	1.7	2.5	25.5	16.2	11.4
North Asia	China	-2.7	3.9	-12.8	9.6	1.2	3.2	14.1	12.3	11.0
	China A-shares	-3.3	0.9	-11.4	11.6	1.4	3.5	11.3	10.8	11.5
	Hong Kong	-6.9	-13.0	-17.8	11.2	0.9	4.7	13.2	11.1	6.9
	South Korea	7.9	6.3	23.9	10.0	1.1	2.0	109.4	28.8	9.9
	Taiwan	11.7	35.9	26.7	19.0	3.2	2.2	25.6	19.7	15.1
South Asia	India	6.8	16.7	20.3	23.2	4.3	1.1	10.5	16.2	15.3
	Indonesia	3.1	-7.8	2.2	11.8	2.2	5.1	0.3	8.2	16.4
	Malaysia	-0.2	8.1	-3.2	13.8	1.4	3.8	12.1	8.7	9.5
	Philippines	0.9	-1.0	1.1	11.0	1.7	2.1	12.2	10.3	13.4
	Singapore	-0.1	5.9	-3.9	12.2	1.5	5.2	8.3	4.2	10.0
	Thailand	-2.3	-7.7	-13.8	15.1	1.7	3.2	12.7	14.9	9.6

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 30 June 2024

Fixed Income

😊 POSITIVE 😐 NEUTRAL 😞 NEGATIVE

OVERALL GLOBAL: NEUTRAL

OVERALL ASIA (USD): NEUTRAL



EMD (LC)
EMD (HC)
IG
UST

High Yield

-

-

India
Philippines
Singapore
Indonesia

Hong Kong
China

	Total Return (%)			Yield-to-Worst (%)	
	1-Month	YTD	2023		
Asia	Asia USD Bond	0.8	1.5	7.3	5.6
	Asia Local Currency Bond	1.1	-4.3	7.2	4.4
	China	0.7	2.4	5.0	5.7
	Hong Kong	0.8	1.5	7.7	5.5
	India	1.1	3.7	9.5	6.5
	Indonesia	0.8	-1.2	9.9	5.6
	Singapore	0.9	0.7	6.6	5.1
	South Korea	0.8	1.5	6.6	5.3
	Philippines	1.3	-0.5	8.3	5.5
Other Regions	US 10-year Treasuries	1.5	-0.7	3.8	4.4
	US Investment Grades (IG)	0.9	-0.7	5.5	5.0
	US High Yield (HY)	0.9	2.6	13.4	7.9
	Emerging Market USD Bond	0.8	2.2	7.1	6.1

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 30 June 2024

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	4.25	4.25	4.25	4.4

- The ECB cut rates in June, while the Fed again called for patience. **We expect two additional cuts (September and December) by the ECB this year.** Meanwhile inflation continued to fall gradually in the US, reinforcing our call for a September rate cut. The terminal rates are estimated to be 2.5% in 2025 in the EU and 3.75% in 2026 in the US.
- We stay positive on US government bonds (we prefer short maturities 3-5 years) and US TIPS with maturities up to 10 years. As for corporate IG bonds, spreads have widened on French political concerns and have opened buying opportunities for non-French bonds. Yields are high. We prefer maturities up to 7 years in the US and up to 10 years in the Eurozone.
- We like Japanese insurance USD perpetual bonds. We believe the sector valuation is still cheap due to the weak currency which deters Japanese domestic investors. Credit fundamental is solid on the back of strong results, continuing capital inflow to Japan, long operating track record and excellent early call track record. We also think investors will continue to focus on geopolitical risk and Japan is one of the very few developed countries in Asia that is rather remote from geopolitical tension.

Forex & Commodities

😊 POSITIVE 🟡 NEUTRAL 😞 NEGATIVE

12-MONTH FOREX VIEW



JPY EUR CNY KRW MYR USD
 GBP AUD INR IDR THB
 NZD CAD PHP SGD

COMMODITIES



Gold
 Oil
 Base metal

- **USD:** Our long-term outlook suggests more rate cuts in the US over 2025-2026. This points to a gradual weakening of the USD against EUR and major currencies. We maintain our target for the EURUSD to be 1.06 for 3-month, and 1.12 for 12-month.
- **JPY:** The yield differential supported the USD over recent months. Support for the JPY should come later this year as the Fed is set to cut rates and the BoJ to gradually increase their policy rate (we expect next hike in September). **We maintain our USDJPY 3-month target at 150 and our 12-month target at 140 (value of one US dollar).**
- **GOLD:** We remain positive on the yellow metal. Central banks should continue their strategic purchases, geopolitical risk remain elevated and real interest rates should start to come down by the end of this year and in 2025. **A target of \$2600/oz next year seems reachable.**
- **OIL:** We keep our **\$85-95** expected price range for the Brent as the OPEC+ production cuts help balancing the market in a context of high geopolitical risks, rising demand and slower non-OPEC production growth.
- **BASE METALS:** Recent correction offers a good entry opportunity for copper and other base metals. Going forward, we expect strong green demand trends outpacing supply growth.

Forex Forecasts

		Spot	3-month		12-month	
		As of 30 Jun 2024	View	Target	View	Target
Developed	USD Index*	105.87	=	105.5	-	100.0
	Japan	160.9	+	150	+	140
	Eurozone	1.072	=	1.06	+	1.12
	UK	1.264	-	1.23	+	1.30
	Australia	0.668	+	0.68	+	0.70
	New Zealand	0.608	=	0.60	+	0.63
	Canada	1.368	+	1.32	+	1.30
Asia Ex-Japan	China	7.266	=	7.20	=	7.20
	South Korea*	1,377	=	1,400	=	1,370
	Taiwan*	32.44	=	33.0	=	32.3
	India	83.39	=	82.0	=	82.0
	Indonesia*	16,375	=	16,500	=	16,200
	Malaysia*	4.718	=	4.84	=	4.79
	Philippines*	58.61	=	57.8	=	57.3
	Singapore*	1.355	=	1.37	=	1.34
	Thailand*	36.70	=	37.5	=	36.6

Source: BNP Paribas (WM) as of 30 June 2024

*BNP Paribas Global Markets forecast as of 30 June 2024

Note: + Positive / = Neutral / - Negative

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