凱基亞洲
KGI ASIA

2023 Global Market Outlook

Navigating through Uncertainty and Opportunity

12 December 2022

2023 Global Market Outlook

Summary

- Most of the negative factors had already priced into the asset price, investor should not be overly pessimistic, we suggest investor to have a balanced portfolio with both aggressive and defensive holdings and stay tuned to market developments, and adjust allocations when opportunity arise to make the most of 2023. We expect 2023 will be the year full of opportunities and challenges.
- As for China, economic growth of 3.1% and 5% and inflation of 2% and 3% are expected in 2022 and 2023, respectively, in which the recovery process of its property sector and how fast its pandemic measures are relaxed should have significant impact on its economic recovery through 2023.
- Investors may consider building their portfolios on the "GAIn" principle, which is expected to enable them to manage volatility and capture global opportunities hand in hand.
- For China and Hong Kong Markets, we recommend investors to target a balanced portfolio. Besides allocating to defensive stocks with high dividend payouts, investors may consider to long individual stocks with relevant investment themes or with high beta to capture the HSI's potential upside in 2023.

The 4 major investment themes in 2023

"Back to normal" anticipation stimulates domestic consumption"

"Valuation recovery on policy loosen-up"

"Energy security a top priority"

"Economy in recession, seek gains while ensuring stability"

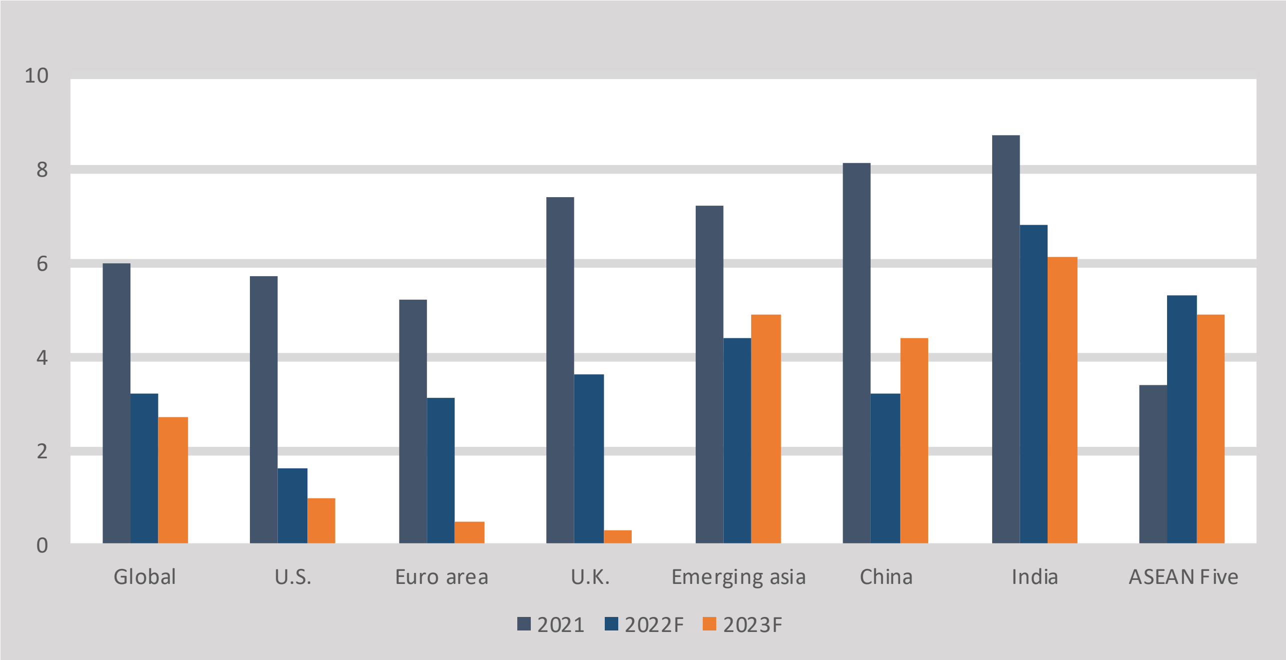
A bird's eye view of the global market: Be prepared for potential headwinds with offensive-defensive portfolio

Looking into 2023, it is projected that global asset prices will continue to be swayed by lingering issues including global economic slowdown, interest rate hikes by central banks, changes in pandemic prevention policies and geopolitical risks. With a low visibility, the market is therefore expected to remain volatile. Nevertheless, investors need not be overly pessimistic as asset prices have already priced in certain negative factors over the past year. We recommend investors to be well prepared for potential headwinds with offensive-defensive portfolio, stay tuned to market developments, and adjust allocations in a timely manner to make the most of 2023, which is expected to be a year of opportunities and challenges.

Watch out for U.S. recession

The International Monetary Fund (IMF) predicts that global economic growth will slow to 2.7% in 2023, fell from the 3.2% projected in 2022. It is generally thought that the European and U.K. economies have entered a recession whose extent will depend on the situation in the current winter. According to KGI Asia's forecast, the U.S. may experience a mild recession that will last for one to two quarters in Q3 2023, and therefore there is room for downward revision of the IMF's projection. As for China, economic growth of 3.1% and 5% and inflation of 2% and 3% are expected in 2022 and 2023, respectively, in which the recovery process of its property sector and how fast its pandemic measures are relaxed should have significant impact on its economic recovery through 2023.

Figure 1: IMF Global Economic Forecast Real GDP Growth (%)

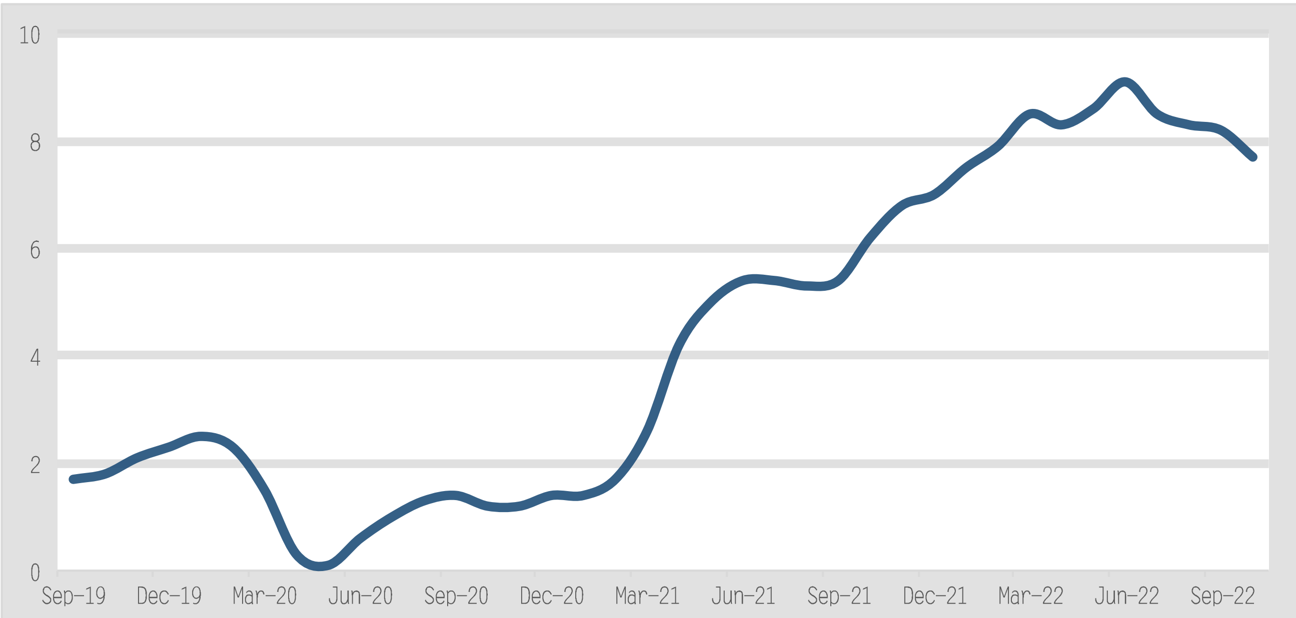


Source: IMF October Report (Prepared by KGI Asia)

Slower and longer

Another focus in 2023 will be central banks' monetary policy. For instance, while Fed pivot trade drove U.S. stocks notably higher recently, worries remain that the Fed's rate hike plan can change anytime in 2023. Although the U.S. consumer price index (CPI) is estimated to have peaked in June 2022, the stubbornly high wages and rents had delayed the deceleration in inflation. It is thus possible that the Fed will raise interest rates further by 25 basis points in both February and March in 2023; for the time being, it is hard to project the interest rate trend for periods after Q1, in particular, the second half of 2023.

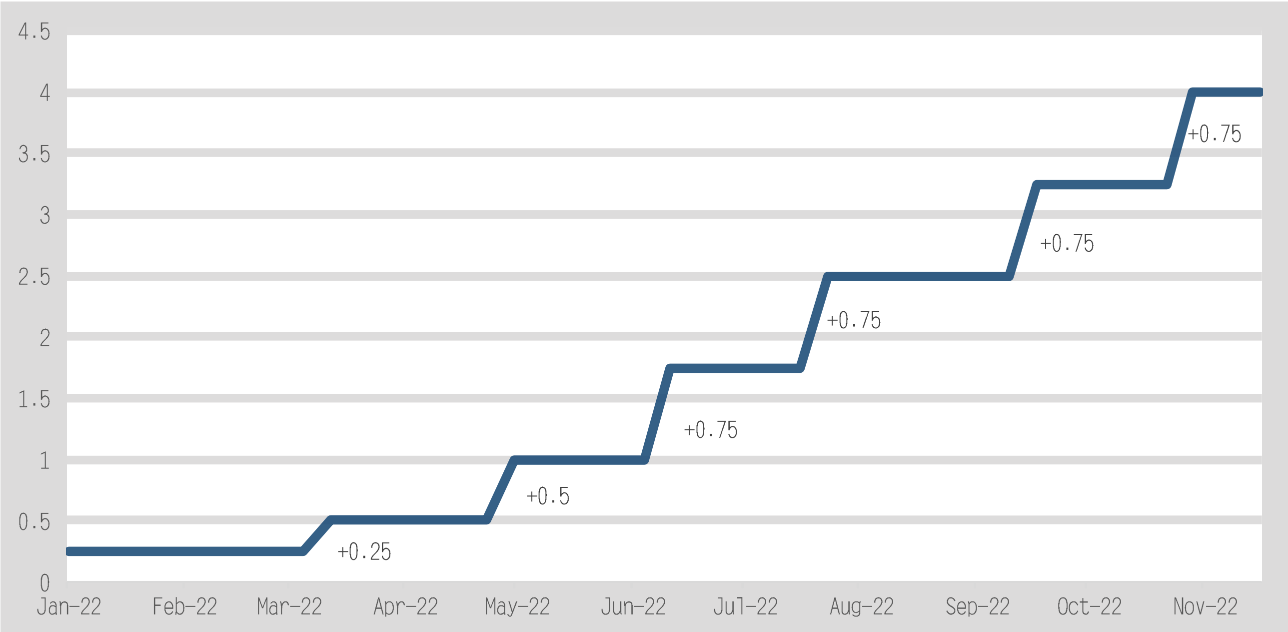
Figure 2: U.S. Headline CPI (%)



Source: Bloomberg (Prepared by KGI Asia)

According to KGI Asia's scenario analysis, the chances of the Fed continuing to raise interest rates after the first quarter of next year, keeping interest rates unchanged, and cutting interest rates are 35%, 45%, and 20%, respectively. "Slower and longer" is our forecast for Fed's rate- rising cycle. With interest rate hikes and balance sheet trimming, global liquidity should continue to tighten. The situation in China is apparently different. China announced a 25 basis point reserve requirement ratio (RRR) cut on December 5, 2022, equivalent to releasing RMB500 billion to the market.

Figure 3: U.S. Fed Funds Rate Upper Limit (%)

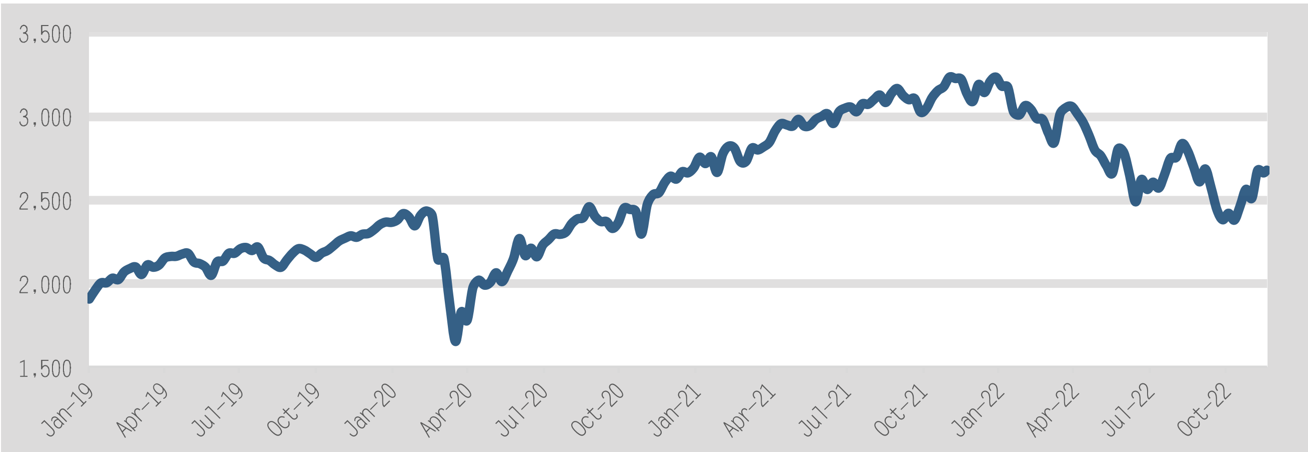


Source: Bloomberg (Prepared by KGI Asia)

Earnings declines being a downside risk for the market

Overall, the stock market may benefit from the expectation of "slower rate hikes and cooling inflation", but the aforementioned economic slowdown and reduced global liquidity will limit stocks' performance. Changes in geopolitical landscape, such as the Russia-Ukraine war and China-U.S. relations, as well as the update of the pandemic, will continue to bring volatility to the market. Kenny Wen, Head of Investment Strategy at KGI Asia, says, "As the economy slows, corporate earnings outlooks are at risk of being downgraded. If the U.S. enters an economic recession as predicted, the profits of listed U.S. companies could fall by about 8 to 10% in 2023. Looking forward, Q2 2023 may be a crucial time that the visibility of the economy and policies may improve substantially. At present, diversified and balanced allocation of stocks and bonds is relatively well suited to weathering the ongoing market fluctuations."

Figure 4: MSCI World Index



Source : Bloomberg (Prepared by KGI Asia)

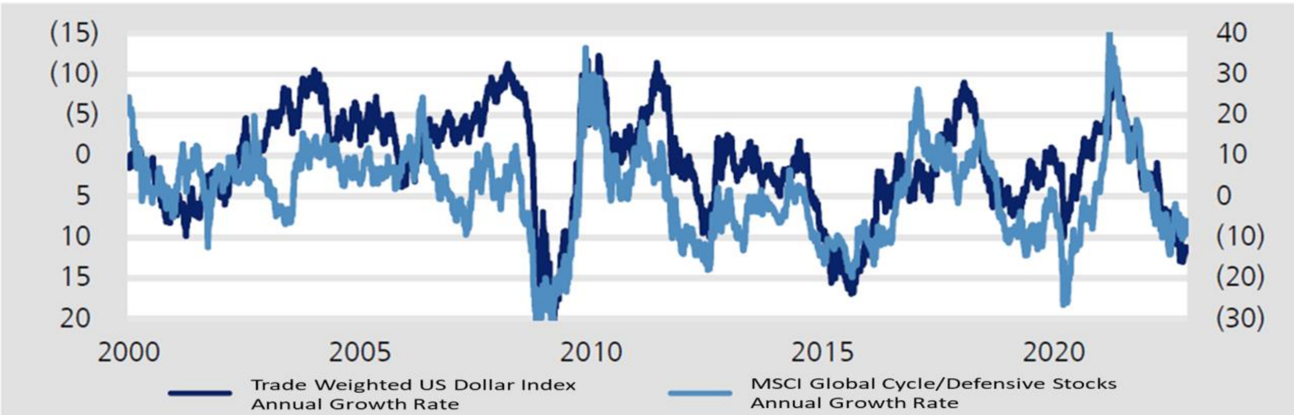
Three offensive-defensive strategies

Given the above factors, in 2023, investors may consider building their portfolios on the "GAIn" principle, which is expected to enable them to manage volatility and capture global opportunities hand in hand.

G - Amid slowing growth, **Global Defensive** stocks maintain an edge

The Fed's interest rate hike cycle has started for less than a year, whose impact may not have been full reflected in the economy and corporate results. It is our view that the current corporate earnings forecasts for 2023 tend to be optimistic, and since recession risk is still in the background, chances are rather high for downward revision of corporate earnings estimates. Even if rate hikes slow, interest rates are expected to stay elevated; investors must not ignore the pressure on growth companies. Relatively, defensive (utilities and consumer staples, etc.) and value stocks face less of such pressure. In the recent rebound, U.S. value stocks even outperformed growth stocks. Some value stocks and funds pay reasonable dividends, offering a buffer effect for stock price movements. Moreover, since interest rate differentials now exist between the USD and other major currencies, the USD is expected to hover at high levels in the near term. Historical data shows a strong USD is a positive factor for defensive stocks. For investors wanting to enter the market, they may consider phasing in purchases of defensive stocks, which should be a relatively more viable move.

Figure 5: Trade Weighted US Dollar index Annual Growth Rate (left axis, inverted, %)
MSCI Global Cyclical / Defensive Stocks Annual Rate (right axis, %)



Source: Bloomberg (Prepared by KGI)

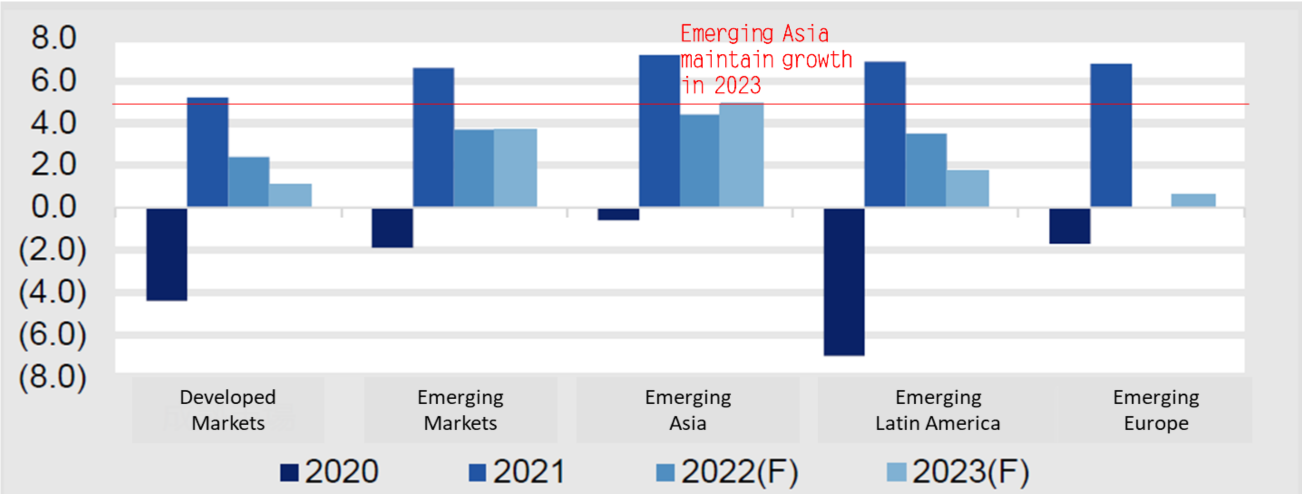
A - Diversify allocations to **Asia stocks** and bonds to seize growth opportunities

We expect Asia to deliver relatively significant economic growth in 2023. With the increasingly tension between China and the U.S., India and a number of ASEAN (Association of Southeast Asian Nations) countries are likely to gain from the diversification of supply chains, which will drive local consumption. Stock markets in these regions lean towards their respective domestic economies, giving their stocks potential upside.

China is still entwined in the ups and downs of COVID; yet, monetary policies remain supportive, coupled with the rollout of the 16-point property sector rescue plan, the Chinese stock market could usher in support after Two Sessions (meetings of the National People's Congress (NPC) and the national committee of the Chinese People's Political Consultative Conference (CPPCC)) in 2023.

South Korea's and Taiwan's stock markets have been lagging behind relatively sharply in 2022. Their valuations have fallen to attractive levels and are projected to regain upward momentum. The Japanese stock market is undervalued but its earnings growth is comparable to that of the U.S. Further, Japanese exports are expected to be boosted by the currently weaker Yen. Asian countries are flashing different advantages; investors may consider diversifying their allocations to Asia stocks and bonds.

Figure 6: IMF Global Economic Forecast Real GDP Growth (%)



Source: IMF (Prepared by KGI Asia)

In - Gradually up exposure to **Investment Grade** bonds amid slowing economy

Even if Fed rate hikes in 2023 may slow down, the general direction of balance sheet trimming and liquidity tightening are forecast to stay on course. Economic activities and sentiments of the U.S. and Europe are expected to undergo downtrends. Contracting growth accelerates the elimination of the weak; default risk therefore increases. Bonds with good credit quality are more desirable.

In the first 11 months of 2022, Fed raised rate by 3.75%, during which bond yields also rose; this makes investment grade bonds even more favorable. Since the interest rate hike cycle is yet to end, bond yields could climb further, and the yield curve is still inverted. It is recommended that investors give priority to short-term bonds, and wait until the Fed's rate hike roadmap becomes clearer, or when the risk of a U.S. recession rises significantly, before progressively upping the allocation to longer duration bonds to increase long-term potential returns.

Figure 7: Bloomberg Global Aggregate Bond Index - Yield to Worst (%)

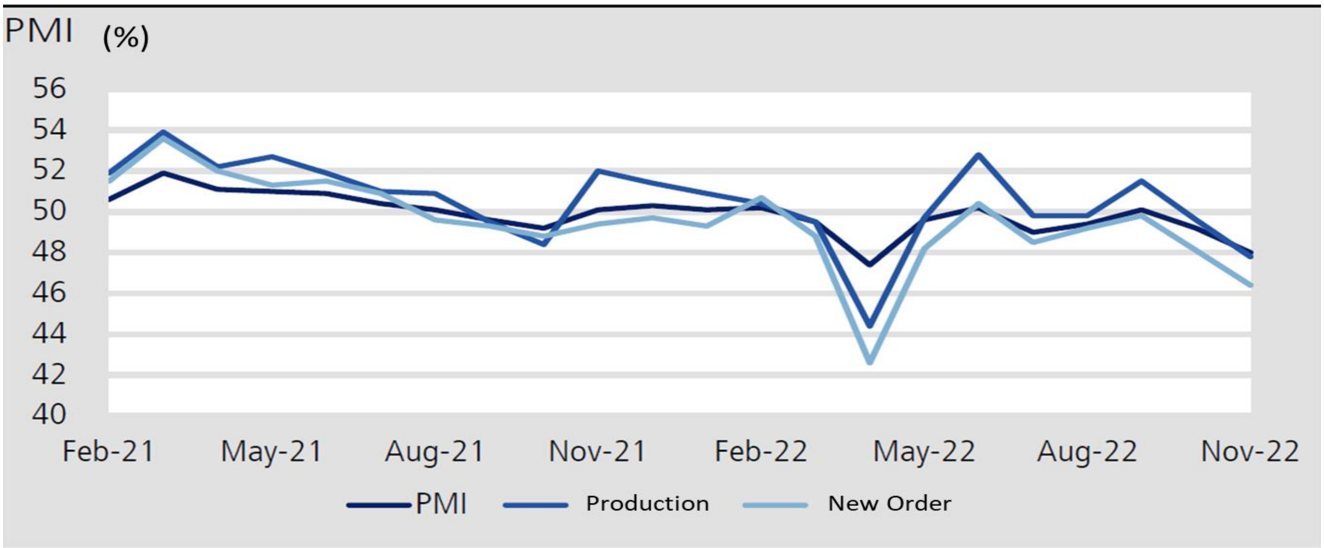
Source: Bloomberg (Prepared by KGI Asia)

Hong Kong stocks—China's return to normal and supportive policies are stock drivers

Mainland economy remains weak on multiple blows

The manufacturing PMI continued to be depressed in November, down 1.2 percentage points from October, hitting a new low since April this year. The new orders index fell by 1.7 percentage points to 46.4, a drop greater than the 0.9 percentage points drop in the new export orders index, indicating that due to the aggravated impact of the epidemic, the decline in domestic demand in November was higher than that of external demand. In November, the index of orders on hand continued to drop to 43.4. In the case of enterprises with insufficient operating capacity, orders on hand are still falling, indicating that the current shortage of demand is relatively serious.

Figure 8: Manufacturing PMI fell sharply in November



Source: Wind (Prepared by KGI)

Three expected upward catalysts for Hong Kong stocks

Our view: In 2023, the Chinese and Hong Kong stock markets may mostly trend up on three catalysts, namely, easing of COVID rules, continued introduction of stimulus policies and possible peaking of Fed rate hikes.

Firstly, on November 11, 2022, CNHC announced adjustment to COVID measures, easing the "7+3" policy (7-day centralized quarantine then 3-day home health-monitoring) to "5+3", and cancelled the circuit breaker measure for inbound flights, while there were over 10,000 COVID cases reported that day. The Chinese government relaxed its COVID measures, might be a signal of pivot to adjust risk management under the principal of "Zero Case Policy".

Secondly, after the 20th National Congress of the Chinese Communist Party (CCP), the Chinese government announced a range of economic stimulus measures, in the spotlight of which are 16 supportive financial measures that aim at credit enhancement to private property developers. We believe such policies could alleviate the huge funding gap via liquidity injection. This not only can buoy up the increasingly fragile Mainland property market but also facilitate sales recoveries in related industries. It is expected that the liquidity crunch among the property developers can be relieved slightly.

Thirdly, in the U.S., both the CPI and the core CPI came in lower than market consensus in October, and hence the market started to look forward to Fed's slower pace of rate hikes. In addition, some Fed officials gave slightly more dovish comments. They hinted at support for rate hike deceleration to keep the U.S. economy operating.

We recommend investors to target a balanced portfolio with exposure to both the Chinese and Hong Kong stock markets in 2023. Besides allocating to defensive stocks with high dividend payouts, investors may consider to long individual stocks with relevant investment themes or with high beta to capture the HSI's potential upside in 2023.

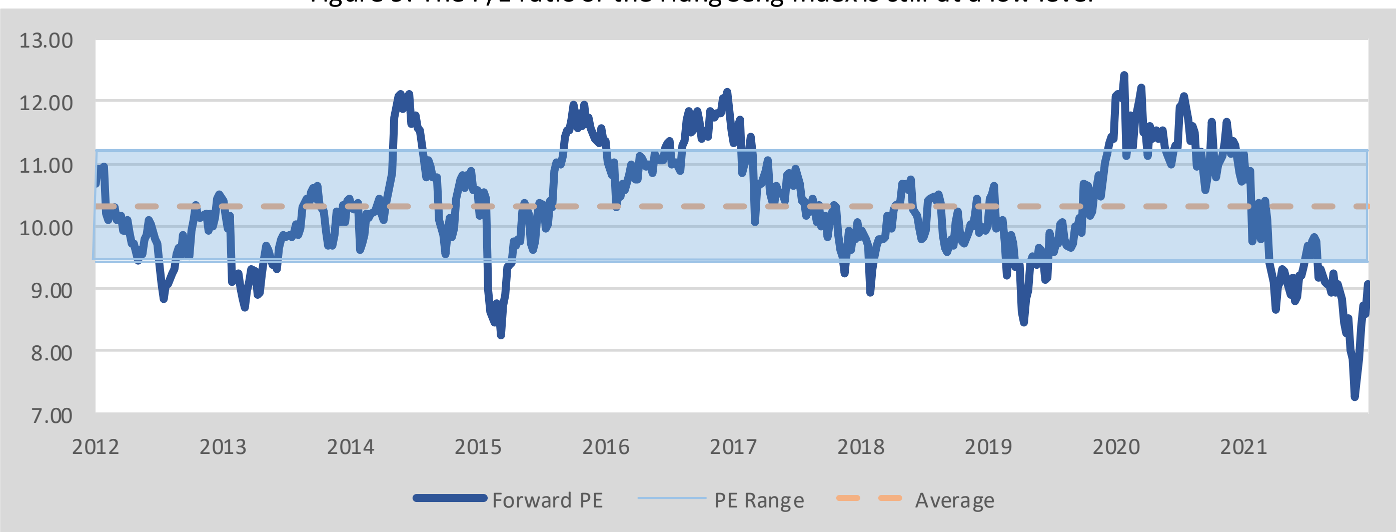
Table 1: Recent Policies Announced by the Mainland Government

Fiscal policy: Tax cuts, fee reduction and industry policy relaxation	
Cuts on taxes and administrative fees	• Extend the large-scale value-added tax refund to 7 industries including wholesale and retail, and continue to defer some taxes and fees for small, medium and micro enterprises in the manufacturing industry.
Special bonds	• The "advance approval" quota for local debts in 2023 was issued in November 2022. • Expand the scope of priority support for special bonds, and add qualified government investments in new energy and new infrastructure to the special bond project.
Policy-based and development-focused Financial Instruments	• Top up the RMB300 billion worth of policy-based and developmental financial instruments that have been implemented in various projects with over RMB300 billion.
Monetary policy: Cuts in RRR and interest rates and increased loan support	
Required reserve ratio (RRR)	• Effective from December 5, 2022, the RRR is lowered by 0.25 percentage points.
Interest rates	• In August, the open market operation interest rate dropped by 10 basis points, sending the 1-year and 5-year-plus loan prime rates (LPRs) lower by 5 and 15 basis points respectively; in September, the lower limit of the first-home loan interest rate in some cities started to be relaxed in phases, and the interest rate on provident fund loans for the first set of personal housing was lowered by 0.15 percentage points.
Medium-term lending facility (MLF)	• In the first three quarters of 2022, MLF operations worth RMB2.55 trillion in total were carried out, with a term of one year. The interest rate from January to July 2022 was 2.85%; the interest rate from August to September 2022 fell 10 basis points to 2.75%.
Financial support for property sector	• Issued the "Notice on Doing a Good Job of Financial Support for the Steady and Healthy Development of the Real Estate Market", covering 16 financial measures to support the Chinese property market, involving development and trust loans, among many others. • The China Securities Regulatory Commission announced the resumption of mergers and acquisitions (M&As) by real estate developers and refinancing by H-share listed developers, which will take effect from November 29, 2022, to support the stable development of the property market.

We expect HSI to trade in the range 21,000 to 23,300 in 2023

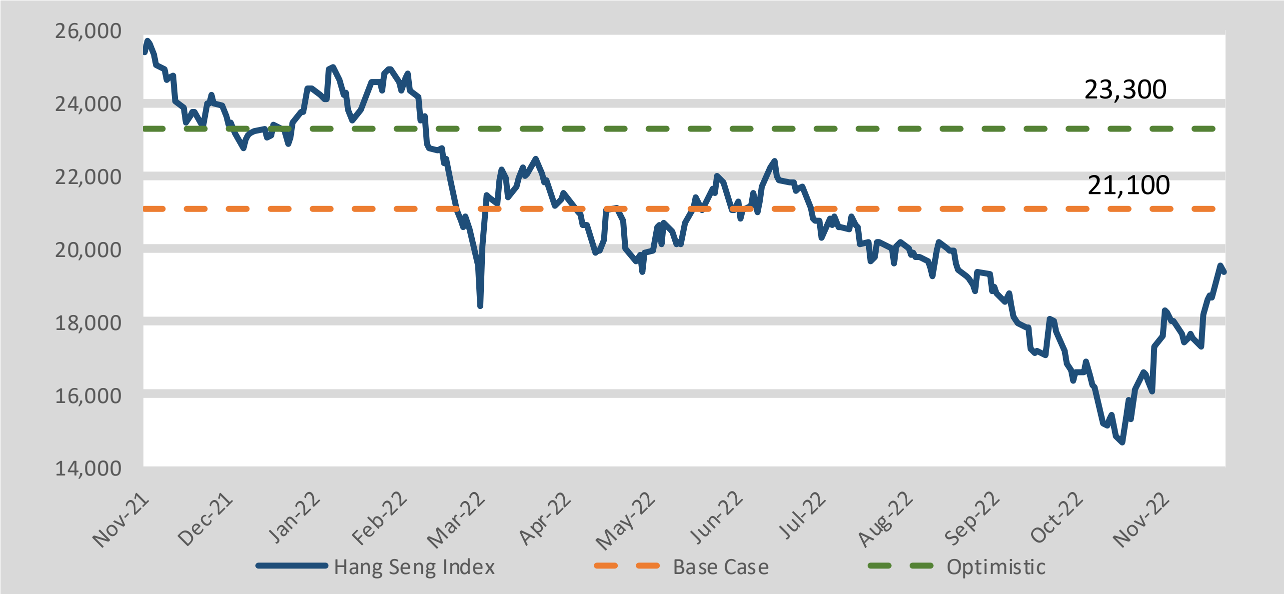
In the past year, the HSI has been hit by a number of negative factors, including aggressive Fed rate hikes, volatile Covid-19 cases in China and strict Covid-19 prevention measures. HSI down to test multi-year lows again and again. The index recorded an unprecedented volatility of over 10,000 points in the year. In view of P/E as market valuation, the current P/E ratio of the HSI rebounded from a ten-year low of 7.26x to 9.08x. In the basic scenario, our HSI's target in 2023 is 21,100 (equivalent to a P/E of 10.3x), and in the optimistic scenario, the target level is 23,300 (equivalent to a P/E of 11.2x).

Figure 9: The P/E ratio of the Hang Seng Index is still at a low level



Source: Bloomberg (compiled by KGI Asia), as of 06 December 2022

Figure 10: Scenario range for HSI in 2023



Source: Bloomberg (compiled by KGI Asia), as of 06 December 2022

The 4 major investment themes in 2023

Strategy 1: "Back to normal" anticipation stimulates domestic consumption

Mainland authorities are easing COVID prevention restrictions. The hopes are that life in the Mainland will gradually return to normality, and thereafter supporting the long-suppressed social consumption to pick up.

China Resources Beer (291.HK): The pandemic in 2022 somehow dented beer sales in China. Nevertheless, it is forecast that the premiumization will continue, which will send the product ASP higher. In 1H22, the sales volume of the sub-premium beer segment of China Resources Beer was approx.1,142,000 kiloliters, up 10% YoY. Looking ahead, the company will continue to focus on Heineken, pure draft and SuperX, while exploring further possibilities in the "baijiu" liquor segment. China Resources Beer has set a goal of 4 million kiloliters by 2025 for its high-end lines. Also, the product ASP remains at relatively low levels when compare to peers. We see the increase in both ASP and sales volume to continue in the coming future.

CTG Duty-Free (1880.HK): The profits of CDFG's duty free business offshore and at airports were severely affected during the pandemic. As the pandemic subsides, tourism is expected to recover. As the largest travel retail operator in China, CDFG is well positioned to benefit from the recovery in cross-border mobility. The company's Haikou International Duty-Free City has opened recently. Its duty free business layout in the Hainan market is forecast to be further uplifted, enabling it to better capture opportunities from the ongoing release of domestic demand.

Strategy 2: Valuation recovery on policy loosen-up

Given China's wobbly economic data, the Chinese government is loosening up policies so as to lift the Chinese economy back on the uptrend. It is relaxing pandemic rules and launching supportive measures for the property sector; concurrently, regulations and rectification actions targeting individual industries have been receded. Policy relaxation is favorable to improving the business environment. Easing of pandemic restrictions is also conducive to the normalization of business operations.

AIA (1299.HK): AIA's value of new business (VONB) was up 7% YoY on a constant exchange rate basis and 1% YoY at real exchange rates in 3Q22, with growth in all market segments (i.e. Mainland China, Hong Kong and the ASEAN market) and distribution channels. The growth momentum resumed in Q2 was extended into Q3. It is forecast that AIA will post further improvement in VONB growth on the likelihood of normalization of traveler movements between China and Hong Kong.

JD (9618.HK): JD's Q3 operating profit beat estimates. The company, just like its peers, has been faced with macroeconomic pressure, and yet its cost control measures have resulted in enhanced operating efficiency and higher profit margins. Moreover, its business model of direct sales and self-operated logistics platform offer economic moat in adverse times. When the optimized pandemic controls and positive impact of supportive property policies comes into effect, JD is expected to be more able to benefit from an uplifted macroeconomic environment.

Swire Pacific A (19.HK): The relaxation of pandemic measures in China and Hong Kong will have positive effects on Swire Pacific's all three core businesses. Catalysts include: 1) increased demand for business and tourism travel, and therefore expected reduction in losses from Cathay Pacific; 2) the impact of COVID in Greater China has subsided, and the gross profit of its beverage business is projected to continue to improve; 3) the worst should be over for the leasing market, and its real estate business is showing signs of improvement.

Strategy 3: Energy security a top priority

As a major energy producer and consumer, ensuring energy security is a top priority for China. While traditional energy is a critical stabilizer for the country; national policy will continue to tilt towards new energy. Backed by national policy, energy-related industries are expected to grow steadily.

Dongfang Electric (1072.HK): Dongfang Electric is a leading power generation equipment provider. Its products and solutions are applied to all 6 types of power generation, including hydropower, wind, solar, nuclear, gas and thermal power. It draws advantages from "five industries synergy". Dongfang Electric can also provide hydrogen production and refueling, and energy storage solutions. The company is ready to benefit in multiple dimensions from the directives to accelerate the construction of a modern energy system and promote the high-quality development of energy in the 14th Five Year Plan.

CGN Power (1816.HK): In the midst of the global energy crisis, there is renewed interest in nuclear power. China takes a positive attitude towards the development of nuclear power. The blue paper "China Nuclear Energy Development Report (2022)" released earlier by the China Nuclear Energy Association predicts that during the 14th Five Year Plan period, China will maintain the pace of approval and build 6-8 nuclear reactors per year. Nuclear energy is becoming an important part of China's carbon neutral national policy. CGN Power, a leader in nuclear power plant operations in China, can directly benefit from the supportive policy environment.

Strategy 4: Economy in recession, seek gains while ensuring stability

As mentioned earlier, we expect the U.S. interest rate hike cycle to be "slower but longer", and the global high interest rate environment may linger on. It is projected the economy will slow and global liquidity will tighten, and thereafter limit the performance of the stock market. Investing in industries featuring high stability may help diversify portfolio risks and achieve returns while ensuring stability.

BOC Hong Kong (2388.HK): Under the high inflationary pressure, interest rate hikes in the U.S. and Europe may well continue until at least Q1 2023. Even interest rate hikes stop, the Fed is unlikely to lower interest rates before inflation returns to its 2% target. Therefore, interest rates are predicted to remain high for a longer time. The overall rising interest rate environment is beneficial to the net interest margins of Hong Kong banks, in particular, BOC Hong Kong, which has massive deposits, a large number of interest-earning assets and strong loan business capabilities. BOC Hong Kong is also known for its relatively stable dividend payouts and relatively sound defensive quality.

China Telecom (728.HK): The Company is moving forward with its "Cloudification and Digital Transformation" strategy, stepping up the construction of intelligent and comprehensive digital information infrastructure, and actively building the industrial ecologies of 5G, cloud computing, cybersecurity, artificial intelligence and industrial intelligent manufacturing. China Telecom has won orders for cloud business and content delivery network (CDN) projects worth more than RMB100 million in government administration, public utility, Internet and industrial manufacturing. In the first three quarters of 2022, the company recorded a YoY increase of 16.5% in industrial digitalization service revenue to RMB85.6 billion. Revenue from e-Surfing Cloud continued to double. Overall, it has stable core business, coupled with emerging businesses that are bringing in new growth potentials.

Table 2：Top Picks

Stock Name	Target Price
Back to Normal	
China Resources Beer (291)	$73
CTG Duty-Free (1880)	$243
Valuation Recovery	
AIA (1299)	$112
JD (9618)	$298
Swire Pacific A (19)	$75
Energy Related	
Dongfang Electric (1072)	$17
CGN Power (1816)	$2.3
Defensive	
BOCHK (2388)	$32
China Telecom (728)	$4

U.S. Market Outlook - Industry to Focus on

While the pace of interest rate hikes is expected to slow down, but the period of high interest rates will be prolonged, heightening fears that the U.S. will enter a recession in 2023/2024. Given the above outlook, we believe the following sectors are likely to outperform others amid the uncertainty in 2023: military & aerospace, solar, and base metals.

- **Military and Aerospace**
  The military conflict between Russia and Ukraine in 2022 will lead to an increase in European arms spending, and the member states of the Inner Atlantic Organization will substantially increase their defense budgets in the next few years. In Asia, geopolitical risks are still relatively high, and the United States will increase arms sales to East Asia. Airline companies will renew and replace their fleets.
- **Solar**
  Under the FY2022 Budget Reconciliation bill, the United States will invest approximately $300 billion in Deficit Reduction and $369 billion in Energy Security and Climate Change programs over the next ten years, to reduce carbon emissions. It is estimated that by 2030, carbon emissions will be reduced by about 40 percent. With the Inflation Reduction Act (IRA), solar deployment is expected to increase by 40%, or 62 GW DC, over baseline projections through 2027. US$1 trillion bipartisan infrastructure bill was passed to strengthen the US to combat extreme weather and climate change while reducing greenhouse gas emissions, expanding access to clean drinking water, building a clean electric grid, etc.
- **Basic Metal**
  US inflation has tapered, and market expectations of peak inflation have been reinforced. The US labour market starts cooling off, and the pace of Fed rate hikes is expected to slow. China's zero-covid policy changes. The introduction of the real estate market supporting policy and ensuing infrastructure expansion will boost the demand for related metals.

Singapore’s Market Outlook

Economic growth is expected to slow down in 2023 but is higher than the pre-COVID level. The growth is mainly driven by the recovery of tourism and related retail services. At the same time, the local financial services sector continues to grow well as international capital seeks safety due to increasing geopolitical risks. Inflationary pressures remain high, and the proportion of rent and mortgage payments in overall household spending continues to increase.

Overall Economic Development

- **GDP/GDP per capita:** The overall economy has largely recovered, with GDP growth of -4.14%/7.61% in 2020/21. Quarterly GDP growth has remained positive since 2021, with a growth of 4.1% in the latest quarter. Singapore's Ministry of Trade and Industry expects GDP growth to be 3.5% in 2022 and 0.5%-2.5% next year. In 2021, Singapore's GDP per capita reached a new high of US$72,794, a YoY increase of 19.9%, ranking fifth in the world. It is expected to be more than US$90,000 in 2022.

- **Consumption:** Retail sales have recovered. In 2021, the overall retail sales growth was 11.1%. The growth rate is expected to be above 10% in 2022. The growth in 2023 will go down to mid-to-high single digit.

- **Labor market:** The monthly unemployment rate in September 2022 was 2.0%. The overall wage growth in 2021 was 3.9%, and this year is expected to be 3.5%-3.8%. The labour market will cool off in 2023 as more foreign expatriates are coming to Singapore.

- **Inflation:** Core inflation edged down to 5.1% YoY in October from 5.3% YoY in September due to smaller price increases in electricity and natural gas, retail sales, and other goods and services. CPI-All Items inflation fell to 6.7% YoY in October from 7.5% YoY in September (inflation in private transport eased, as did core inflation, as inflation in all categories except accommodation and food was lower). The 2023 CPI is forecast at 3.5%, while the MAS core CPI is forecast at 3.1%. (These forecasts include the impact of the 1% GST hike to be implemented on 1 January 2023).

- **Foreign fixed asset investment:** The total amount in the first three-quarters of 2022 was S$7.767 billion, and it was S$11.06 billion in the whole year of 2021.

- **International trade:** Total exports in the first 10 months of 2022 were S$601.4 billion, and S$308.8 billion in 2021; total imports in the first 10 months of 2022 were S$555.1 billion, and S$300.4 billion in 2021. However, both exports and imports will fall in 2023 as the global supply chain is expected to further normalize.

- **Tax rate:** Personal income tax is currently 2%-22% (starting at S$ 20,000), rising to 2%-24% (starting at S$ 20,000) by 2024. The tax rate for non-permanent residents or citizens is fixed at 15%. The goods and services tax currently is 7%, rising to 8% in 2023, and 9% in 2024. Property tax for the self-occupied type will increase from the current range between 4%-16% to 12%-32% in 2024), and the non-self-occupied type range will increase from the current between 10%-20% to 12%-36% in 2024.

Standard of Living

Singapore residents' nominal median monthly income grew 8.3% YoY to S$5,070 in 2022, up from 3.2% YoY in 2021 with a median gross monthly income of S$4,680.

Table 3: Median Gross Monthly Income from Work (Including CPF Contributions) of Full-Time Employed Residents

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Mid-Income	2,480	3,705	3,770	3,949	4,056	4,232	4,437	4,563	4,534	4,680	5,070

Source: Ministry of Manpower: Labour Market Statistics and Publications (Prepared by KGI)

Table 4: Annual Wage Changes (%)

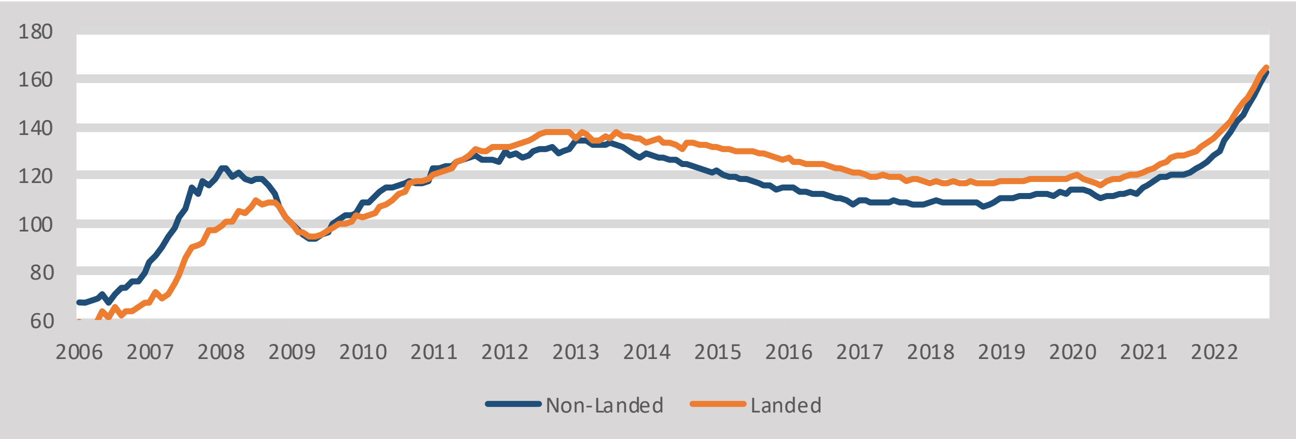
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Wage Including Employer CPF											
Nominal	6.1	4.2	5.3	4.9	4.9	3.1	3.8	4.6	3.9	1.2	3.9
Real	0.9	-0.4	2.9	3.9	5.4	3.6	3.2	4.2	3.3	1.4	1.6
Basic Wage Change											
Nominal	4.4	4.5	5.1	4.9	4.2	3.5	3.6	4.0	3.8	2.1	3.2
Real	-0.8	-0.1	2.7	3.9	4.7	4.0	3.0	3.6	3.2	2.3	0.9
Bonus (Months)	2.32	2.19	2.21	2.21	2.17	2.16	2.14	2.06	1.94	1.79	1.84

Source: Ministry of Manpower: Labour Market Statistics and Publications – Summary Table: Income (Prepared by KGI Aisa)

Even with the growth in salary, the real median wage, which takes inflation into account increased by 2.1% YoY in 2022, faster than 0.9% YoY in 2021, but it is still lower than the average growth rate of 3.8% YoY from 2014 to 2019.

Within the first nine months of this year, rental rates for HDB flats rose 20.9% YoY. As of the end of September, 56,372 HDB flats were being rented out, a slight increase of 0.6% QoQ over the 56,014 units in June. Despite the rental for private homes at its steepest pace of increase since 2007 at 8.6% YoY in the latest quarter, there was still strong demand for renting private condos with a 20.5% increase in rental transactions. The rent for landed homes rose the fastest, going up by 10.9% YoY in the July to September period, compared with the 3.2% YoY increase in the previous quarter.

Figure 11: Rental property price index

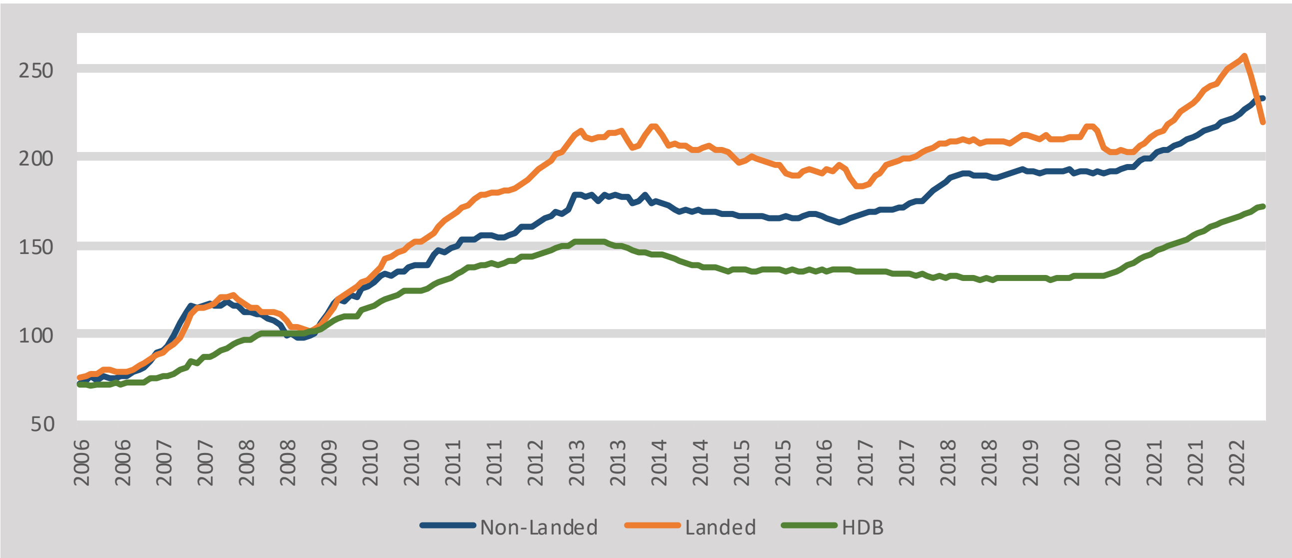


Source: Singapore Real Estate Exchange (SRX) (Prepared by KGI Asia)

In the first three-quarters of 2022, the overall housing price rose by 10.1% YoY, private house prices rose by 8.2% YoY, and HDB flat rose by 8.0% YoY. The estimated growth of the broad housing prices is a mid-single digit in 2023. The breakdown of housing prices by type is shown below:

- Average price of HDB flat: S$507 psf
- Average private house price: S$1,731 psf
- Average landed house price: S$1,462 psf

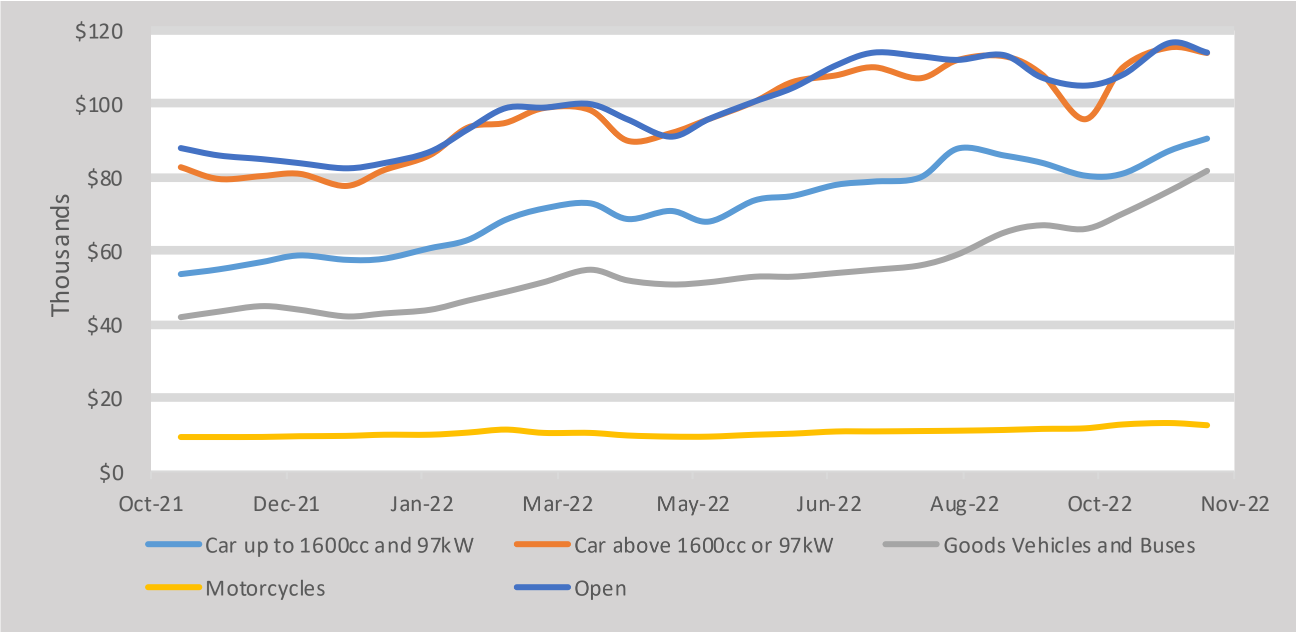
Figure 12: Resale property price index



Source: Singapore Real Estate Exchange (SRX) (Prepared by KGI Asia)

Regarding vehicle ownership costs in Singapore, all types of COEs hit 10-year or new highs, with major categories exceeding S$110,000.

Figure 13: COE prices in 2022



Source: Land Transport Authority, Channel News Asia (Prepared by KGI Asia)

Capital Markets

In Singapore, capital gains are not taxed. From the beginning of 2020 to the end of 2021, the number of family offices increased from 400 to 700, and the number is expected to reach 1,500 by the end of 2022. Assets under management increased by 16% YoY from S$4.6 trillion in 2021 to S$5.4 trillion in 2022, mainly due to new capital inflows (S$448 billion). The number of local and multinational companies reached a new high of 566,500 as of October 2022. Furthermore, even with the volatile conditions, the SGD/USD exchange rate remained stable in the last 5 years, between 1.34 and1.44, with an average of 1.38.

Table 5: 2022 Monthly Business Entity Count (as of Nov 1)

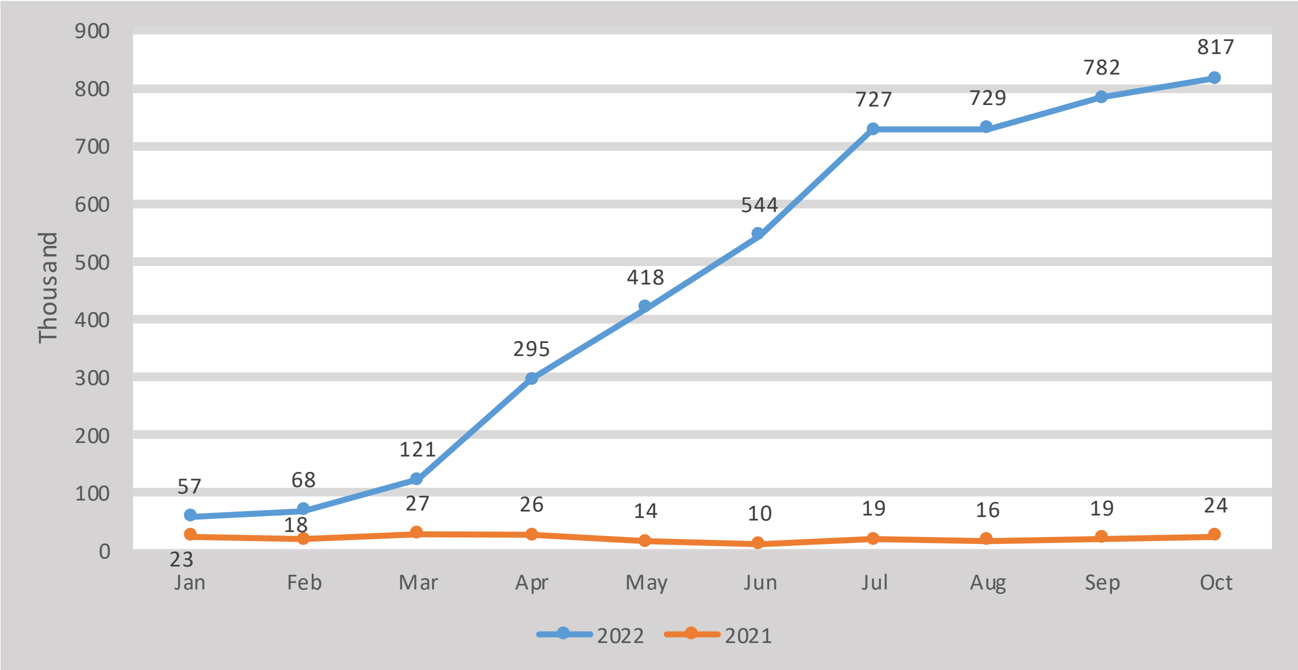
	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct
Partnership & Sole	146,627	146,615	146,446	146,073	145,658	145,303	144,997	144,764	144,500	144,138
Companies	390,715	391,557	393,302	394,876	396,206	397,952	399,304	401,135	402,518	403,572
Limited Liability Partnerships	17,436	17,469	17,479	17,223	17,200	17,154	17,116	17,094	17,109	17,081
Limited Partnerships	552	558	568	579	580	585	594	601	608	617
Public Account Firm	437	438	435	434	435	434	435	434	433	433
Variable Capital Companies	494	511	522	554	567	590	621	639	665	686
Total Live Count	556,261	557,148	558,752	559,739	560,646	562,018	563,067	564,667	565,833	566,527

Source: ACRA - Business Registry Statistics (Prepared by KGI Aisa)

Tourism

From January to October 2022, the number of tourist arrivals increased by 2,224.3% YoY to 4.56 million. The average hotel room rate of S$239.58 is up 58.2%YoY. Additionally, the average hotel occupancy rose 20.5% to 74.05% YoY, revenue per room rose 118.9% YoY to S$177.42 and available room nights rose 55.8% YoY to 14.04 million.

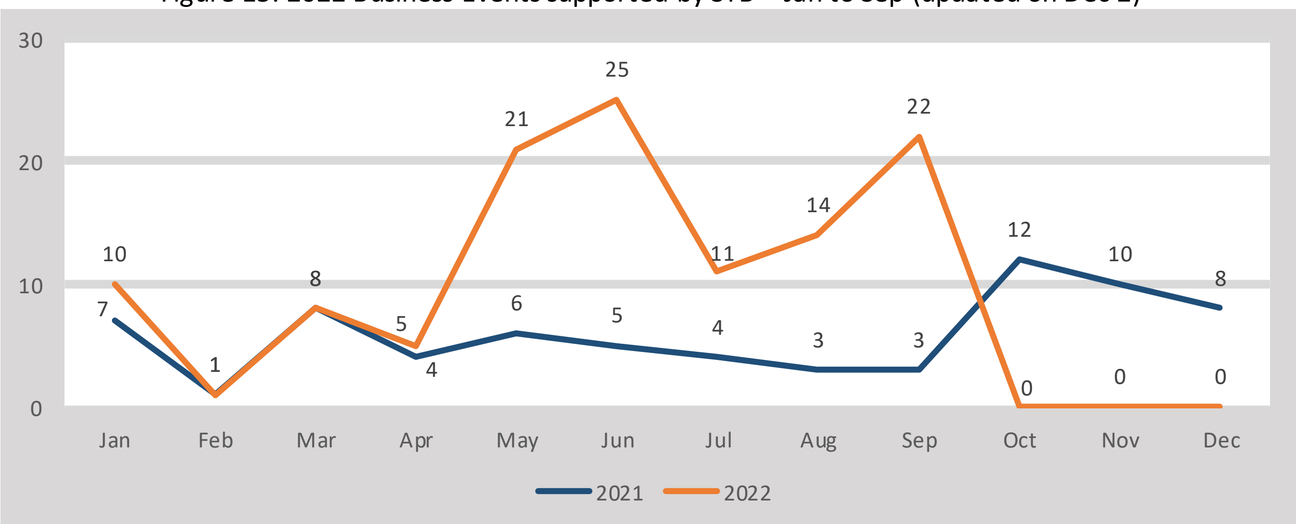
Figure 14: 2022 Monthly Tourism Arrivals – Jan to Oct (updated on Dec 2)



Source: Singapore Tourism Analytics Network (Prepared by KGI Asia)

The increase in tourism arrivals is in-line with the reopening of Singapore's borders to international travellers. Furthermore, there has been an increase in the number of local and international events held in Singapore. With notable events such as Formula One Grand Prix, high-profile business conferences, SuperReturn Asia 2022, Milken Institute Asia Summit and Forbes Global CEO Conference, and a strong entertainment line-up including performances by Westlife, Green Day and Jay Chou.

Figure 15: 2022 Business Events supported by STB – Jan to Sep (updated on Dec 2)



Source: Singapore Tourism Analytics Network (Prepared By KGI Asia)

Indonesian Market Outlook

In this section, we will discuss the economic outlook of Indonesia, including some key indicators as well as an overview of the fundamentals, and why we believe 2023 will be a challenging year for the country in light of recent economic issues. Compared with other countries, we believe that Indonesia's economy will continue to grow in 2023 despite recession fears. In fact, Indonesia still recorded net inflows while some other countries were having selling pressures, reflecting that the Indonesian economy is competitive against other emerging markets.

We expect the benchmark interest rate (BI rate) to hover between 5-6% in 2023, lower than the 16-year average (8%). Although loan growth rate may slow down, it is expected to stay in the positive territory.

The only stock exchange in Indonesia is the Indonesia Stock Exchange (IDX). Its predecessor, the Jakarta Stock Exchange (JSX), was established in 1912 by the Dutch colonial government. In 2007, Surabaya Stock Exchange (SSX) was merged into JSX. JSX then renamed as Indonesia Stock Exchange (IDX). The 2 most widely followed indices for Indonesian stock market are Jakarta Composite Index (JCI) and LQ45.

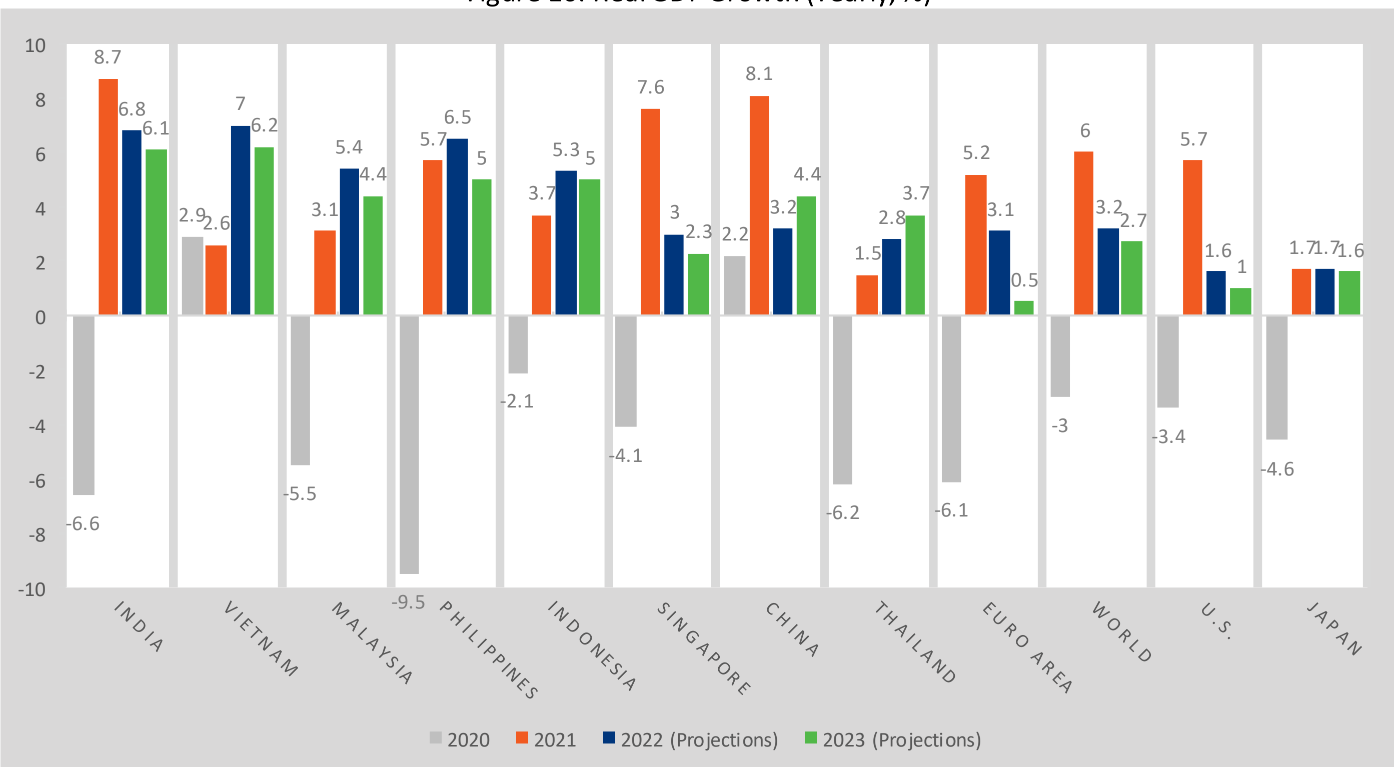
Indonesia is a massive economy with a nominal GDP of USD 1.18 trillion and a population of over 270 million. Ranked 5th in Asia and 1st among ASEAN countries by GDP, Indonesia is the largest producer of Palm Oil and Nickel, and is also rich in other natural resources, such as Natural Gas, Copper, Gold, Coal, etc. Indonesia has an impressive outlook, a conducive investment climate, and a strategic position within the ASEAN community.

Growth in Indonesia is solid. During 2020 when the pandemic was in full swing, the Indonesia GDP contracted only by 2% YoY, which was significantly lower than the U.S., Japan and many major economies around the world. The economy has rebounded since then.

2022 has been a challenging year. The conflict between Ukraine and Russia, lockdown in China, global supply chain disruption, energy shortages, global inflationary pressures, hawkish monetary policies, etc. all have weighted on the global economy.

Despite the negative revision of GDP growth in 2022, Indonesia's economy is still expected to grow by 5.3%, supported by strong domestic consumption, gradual lifting of pandemic related measures and reopening.

Figure 16: Real GDP Growth (Yearly, %)



Source：IMF, October 2022 (Prepared By KGI Asia)

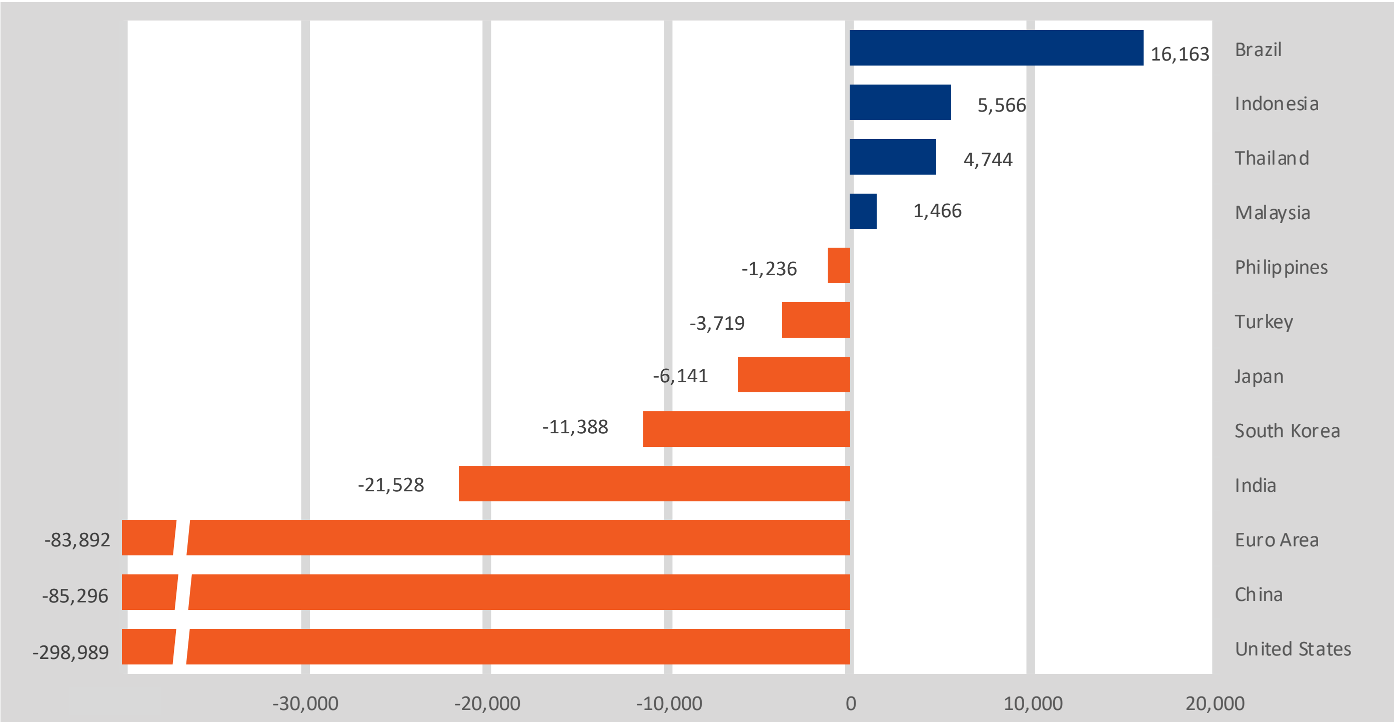
In 2023, global economy is expected to slow and recession is looming. We forecast a mild-slowdown in the economy with a GDP growth of 5.0%, 30bps slower than 2022F. The growth rate is consistent with our scenario of continued economic growth and recovery. In general, we remain optimistic that the growth rate will be above the 11-year average of 4.68%, significantly better than 2020, when the pandemic devastated the economy.

We believe the Indonesia economy will stay competitive against other emerging markets. Although depreciation of Indonesian rupiah is a concern, we are optimistic that GDP growth is likely to achieve 5.0%, inflation will be manageable at 5.7%, Current Account Deficit and Budget Deficit will stay below 1.5% and 2.5% respectively.

We expect the benchmark interest rate (BI rate) to hover between 5-6% in the coming year, still below 8%, 16-year average. Indonesia indeed has been quite familiar to a high interest environment. Although there is a possibility that the lending growth rate will decline to below 10%, it is unlikely to reach the negative-territory, like 2020 (-4.8%).

The year, the global stock and bond markets plunged amidst rising yield and deteriorating economic conditions. Despite the recent sell-off, Indonesia had a net inflow of USD 5.566 million since the beginning of this year. We expect that Indonesia markets will continue to attract capital inflow.

Figure 17: World Net Flow of Equity Market (USD Million)



Source: Indonesia Stock Exchange (YTD, October 2022) (Prepared By KGI Asia)

Indonesia Stock Exchange (IDX) was previously known as the Jakarta Stock Exchange (JSX). JSX was established in 1912 under the Dutch East Indies government and it was called Vereniging voor de Effectenhandel, or Stock Exchange. In 1992, JSX was privatized and eventually in 2007, Surabaya Stock Exchange (SSX) was merged into JSX to form the Indonesia Stock Exchange (IDX). Currently, there are 42 indices tracking the stocks listed on IDX. The 2 most widely followed indices are Jakarta Composite Index (JCI) which includes all companies listed on IDX and LQ45. 45 stocks with larger market capitalization, higher liquidity and better fundamentals in JCI were chosen to be included in LQ45. We are optimistic that the Indonesia Stock Exchange will continue to integrate into global development in the future.

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