凱基亞洲
KGI ASIA

2024 Global Market Outlook

Propelling Growth with Resilience

Macroeconomic analysis

The US economy is poised for a soft landing

Global economic recovery from the COVID-19 pandemic has differed among regions and industries. The notion of the US economy making a soft landing began as mere speculation in May 2023, but there is now more evidence to support the consensus view. With inflation becoming more manageable, the Fed has decelerated interest rate hikes to the extent that many believe tightening policy will soon be over, which strengthens the likelihood of a US economic soft landing. However, we believe a US economic downturn will extend beyond 1H24F given the lagged effect of high-interest rates, depletion of excess savings, limited wage growth ahead, and negative wealth effect driven by declining home prices.

The probability of a soft landing for the economy increases. And around the middle of next year will be the critical moment for the US economy. Based on readings of the Economic Surprise Index, we believe US GDP growth reached its peak in 3Q23 and that a decline ahead seems inevitable. The key factor to watch is the pace of the decline. We believe the decline will be moderate, given no sign of the balance sheet style recession. In fact, local bank lending in the US remained tight in October, with lending volumes expected to continue to decline. The survey shows the pace of tightening of commercial and industrial (C&I) lending standards for large and small businesses eased in 3Q23, mostly due to continued weak demand for loans, reflecting uncertainty in the economic outlook.

According to the latest report of the International Monetary Fund (IMF), the global economic growth rate is expected to be 2.9% in 2024, slightly lower than the 3% in 2023. The main reason for this lowered projection is that developed economies may experience a moderate growth slowdown from 1.5% estimated this year to 1.4% while emerging markets are expected to see a 4% economic growth rate in both 2023 and 2024. As for the US, also citing data from the IMF, the growth of the US in 2023 and 2024 is forecast to be 2.1% and 1.5% respectively, underlining a rather obvious trend of economic slowdown.

Interest rate cuts expected to begin in the middle of next year

As far as monetary policy is concerned, because of the differing expectations for the US economy and inflation in 2024, interest rate forecasts for 2024 are divided considerably. We expect inflation to fall below 3%, and the Fed to begin rate cuts in mid-2024F, likely by 100bps on a full-year basis, which exceeds the Fed's dot plot guidance of 50bps, as we think the Fed may have underestimated the odds of an economic slowdown worsening into a recession. As data reflect, the labour market in the service industry remains tight, which is a variable of inflation and monetary policy. If the wage growth continued to fuel the delay of the disinflation schedule, interest rates could stay higher for longer. Besides the Fed rate, changes in bond yields can sway asset prices in the near run to a similar extent.

The stock market may show tick-shape

To recap, the US stock market rallied in January-July and pulled back in August-October, primarily because the uncertainties surrounding monetary tightening and the rise of treasury yields weighed on stock valuations. Now that the market is convinced that tightening is over, US stocks are making a comeback again recently. The current consensus is that US corporate earnings will grow 12% YoY in 2024F. While this appears somewhat optimistic, we think the optimism is somewhat priced in. Valuation-wise, we expect continued pressure on stocks, especially for growth stocks, before the Fed pivots to rate cuts.

We expect the ongoing US stocks rebound to persist into 1Q24F before corrections take place in 2Q24F in the face of a more pronounced economic slowdown and uncertainties stemming from the US presidential election. US stocks should regain momentum in July next year when the economic visibility improves. Specifically, US stocks may hit short-term highs in 1Q and then correct to 3Q. They may begin to rebound in the middle of 3Q. In terms of market style, we believe defensive and large-cap names will prevail before 4Q24F. Moreover, investors could increase allocation to growth stocks in 2Q24F, following declines in the risk-free interest rate. Overweighting cyclical and small-cap stocks would be advisable when the US economy heads back into recovery again in 4Q24F. Investors may consider adding allocation on US stock during market retracement or when the valuation becomes attractive. It is better to set up long positions focused on blue chips, complemented with multi-asset, multi-region portfolio.

Positive on investment grade bonds

Regarding bond investment, the 10Y treasury yield had stabilized after the strong uptrend. We see short- and long-term Treasury notes as good investment targets before the commencement of rate cuts in mid-2024F. When rate cuts are just around the corner, investors should increase the weighting of long-term Treasury notes in their portfolios. As for corporate bonds, we prefer investment-grade corporate bonds during 1Q-3Q 2024F; and if the economy bottoms out or recovers in 4Q24F, it would be an entry point to invest in non-investment-grade bonds due to narrower credit spreads.

3 Strategies for 2024

Looking ahead to 2024, it is expected large-cap stocks and investment-grade bonds will have an advantage over others, and Asian markets remain attractive. Our investment focuses “AAA” for 2024 are as follows:

America large caps—US large caps preferred, with both growth and value stock allocation

Despite the rising chance of a US economic soft landing, US economic growth could have already peaked in 3Q23. Moreover, US economic growth may decelerate on the lagged effect of high-interest rates. Hence, the bright performance of US stocks in 2023; investors are advised not to be overly aggressive, such as concentrating on a single sector or small-cap stocks.

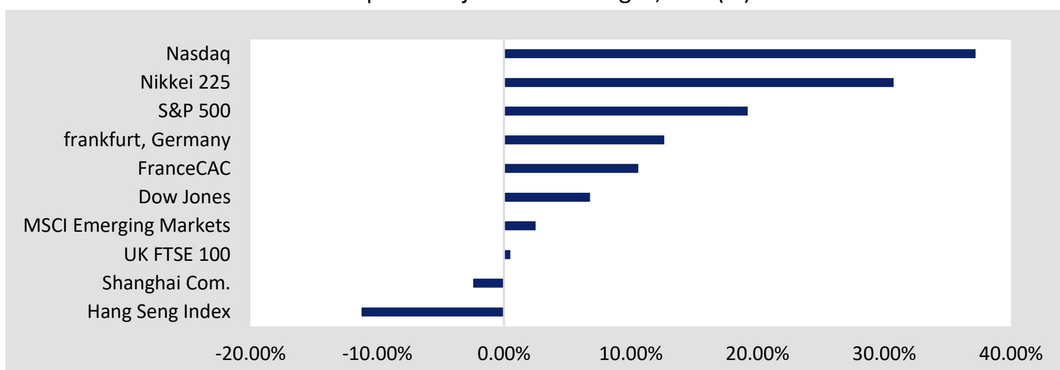
On the other hand, the slowdown in the US economy could mean an increasing likelihood of US interest rates peaking. Chances are the Fed will begin lowering rates in 2H24, and 100 basis points cut is possible for the whole year. Rate cuts will alleviate valuation pressure as well as lower the impact of the economic slowdown; this should be a supportive factor for growth stocks with higher valuations.

As of November 24, the Russell 1000 Index that mainly tracks large caps was up about 18.4% YTD; the small cap-focused Russell 2000 Index rose about 2.6% in the same period, the small caps had been dragged by high-interest rates and economic slowdown. US stocks have made notable gains YTD, and US growth expectations have been revised up repeatedly. This uptrend is mostly driven by the I.T., consumer discretionary, communication services and industrial sectors, which are relatively more sensitive to the ups and downs of economic activity. Nevertheless, with the exception of the I.T. sector, US stocks are trading at around their long-term average P/Es, and this is also applicable to the S&P 500 as a whole. The investment value of the US stock market remains, with allocation to balance growth and value stocks being our preferred strategy.

Relative to US small caps, the advantage of US large caps is expected to continue. With interest rates likely to remain high for an extended period next year, small caps are expected to be burdened with interest expenses and diminished refinancing capabilities. Among the S&P 500 constituents, less than 5% have operating cash flow below interest expense, and in the S&P 3000, which covers a large number of small caps, the phenomenon is seen in over 20% of the constituents.

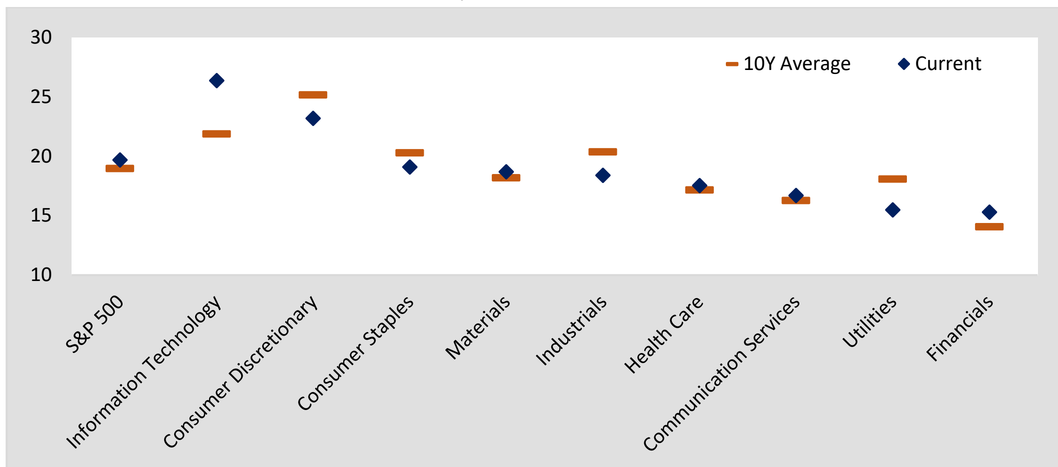
European stocks also performed well. Economic forecasts for Europe have been revised up in 2023. Yet, it is projected the European economy will enter the slowdown phase earlier than the US, and its growth rate would pale in comparison to the US’ Other than some multinational companies that can deliver satisfactory results, US stocks are more likely to outperform European stocks in 1Q24.

Graph 1: Major Index Changes, YTD (%)



Source: Bloomberg, Prepared by KGI Asia, as of 24 Nov 2023

Graph 2: Forward P/E



Source: Bloomberg, Prepared by KGI Asia, as of 24 Nov 2023

Asia including Japan—diversified allocations to different Asian regions

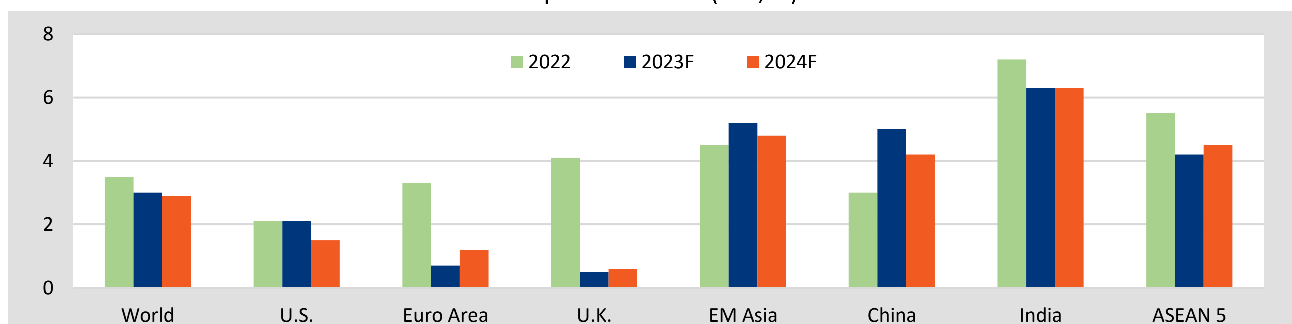
In addition to the US and Europe, emerging Asian and Japan stocks are worthy of attention. Emerging Asia countries remain some of the fastest growing economies in the world. The International Monetary Fund (IMF) expects emerging Asia to grow at 4.8% in real terms in 2024, down from 5.2% in 2023. Among them, India's growth rate is expected to stay at 6.3% in 2024, the same as in 2023. The Reserve Bank of India (RBI)'s monetary policy continues to support the economy, with interest rates unchanged from the start of 2023 and year-on-year inflation returning to 4.87% in October.

Meanwhile, the rapid development of Artificial Intelligence and the increase in applications are expected to drive the demand for hardware and further support the "replacement wave" of PCs and servers, etc. It is projected that shipments of cell phones, PCs and servers can have an uptrend in 2024, and AI servers will grow by 80%. Technological innovations and paradigm shifts brought two consecutive years of rapid growth to Taiwan stocks, and hence the upward potential of Taiwan stocks should not be missed.

Japan increased flexibility on yield curve control (YCC) again at the end of October; at the same time, it raised its consumer price index (CPI) forecast for next year. But Japan is still following a long-standing, ultra-loose monetary policy, aimed at supporting the economy and breaking away from deflation. Also, the corporate governance of Japanese companies is expected to improve. Investors may continue to watch out for Japan stocks. Yet, the JPY is likely to remain weak until the US signals interest rate cuts and the interest rate spread narrows, after which the yen may be stronger. Until then, investors may consider hedged class when investing in Japan stocks. However, investors should bear in mind that the effect of a strong JPY may bring uncertainties to the stock market.

China's growth has been slower than expected while its overall economy is staying on course of recovery. In 2023, the Chinese stock market has been lagging behind other markets; as a result, it has more attractive valuations when compared to other markets. The investment value of the China market should not be overlooked. Please refer to the section "China macroeconomic review" to find out more.

Graph 3: Real GDP (YoY, %)



India: Data and forecasts are provided on a fiscal year basis, with data from 2011 onwards in market price GDP and based on the 2011/12 fiscal year
Five ASEAN countries: Indonesia, Malaysia, Philippines, Singapore, Vietnam
Source: International Monetary Fund (IMF), Prepared by KGI Asia

A-grade bonds

Balanced allocation to long- and short-term bonds, with investment grade bonds as the core

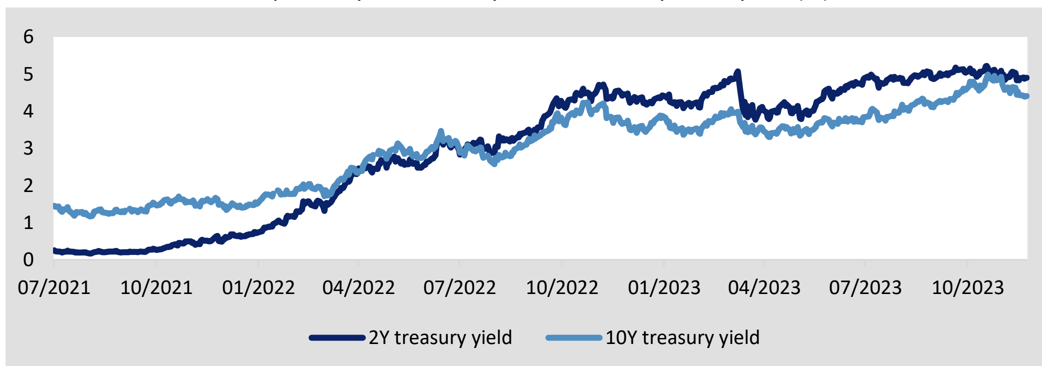
The logic of bond investing next year will be broadly similar to that of equity investing, with large caps being favoured over small caps.

Many large corporations are issuers of investment grade bonds. These large caps display more solid financial strength and they encounter fewer hurdles in financing. Compared with the 15-year average, the volume of investment grade bond issuance in the first 10 months of 2023 did not reduce significantly as a result of the further interest rate hikes; in contrast, the volume of non-investment grade bond issuance was considerably lower than the past average in the same period, indicating the narrower access to financing for non-investment grade small caps.

Three years ago, companies took advantage of the post-COVID low interest rate environment to issue bonds. Generally, non-investment-grade bonds have a maturity of only 5 to 6 years. In the next two years, therefore, the volume and proportion of maturing non-investment-grade bonds will surge. In addition, with the average interest rate approaching 10%, the risks related to interest payments and refinancing should not be overlooked. Investment-grade bonds typically have a longer maturity, so their issuers have fewer short-term capital needs and they are subject to less interest burden. These enterprises can even profit from the high short-term interest rates and earn interest income through short-term bonds when they have idle capital. It is our view that investment-grade bonds will be more desirable next year, and if the economy bottoms out in 4Q24, the value of non-investment-grade bonds may emerge gradually.

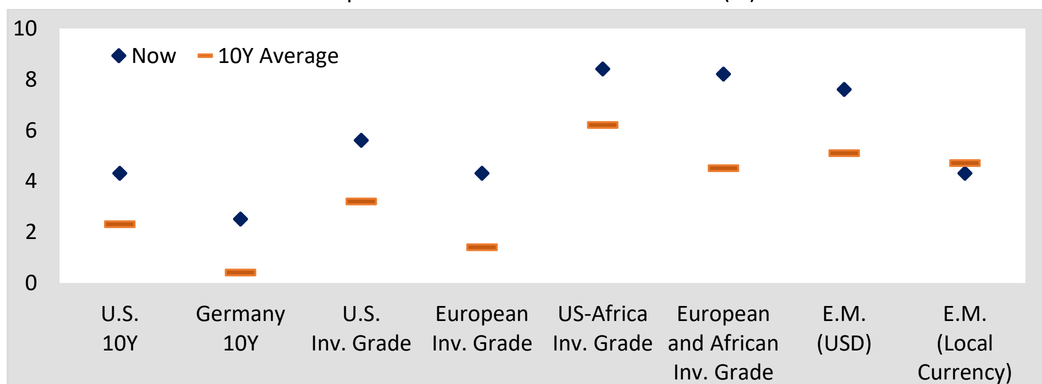
The odds are low that the Fed will raise rates again, which could remove a factor pushing up bond yields. Investors may consider a more balanced allocation between short- and long-term bonds, given the inverted yield curve, i.e. short-term bonds have higher yields than long-term bonds, and lower interest rate risk, and therefore, shorter duration bonds are more defensive in nature. Investors with a more aggressive risk appetite may consider buying long-term bonds whenever their yields rise to lock in the interest. This can also reduce the reinvestment risk. Long-term bonds are expected to provide higher returns on prices when the Fed signals interest rate cuts.

Graph 4: 2-year and 10-year US treasury bond yield (%)



Source: Bloomberg, Prepared by KGI Asia, as of 24 Nov 2023

Graph 5: Yield of various asset classes (%)



Source: Bloomberg, Prepared by KGI Asia, as of 24 Nov 2023

China macroeconomic review

2023 review: A disappointing post-COVID economy

The Mainland economy grew by 4.5% in the first quarter of this year, beating estimates, which boosted the market's confidence in the economy by that time. It was once believed that after lifting COVID measures, consumption and investment would return to normal, thus pushing the economy to a steady upturn. Unfortunately, the economy slowed down evidently afterwards and the performance of investment, consumption and exports was disappointing. The 6.3% GDP growth recorded for 2Q23 was largely owed to a low YoY base effect; the growth fell short of the projected 7.3%.

Starting from July and August, the PRC government's expanded stimulus measures gradually stabilized the economy. The Politburo meeting on July 24 mentioned that the economy was facing new difficulties and challenges and that the government would step up macroeconomic policy adjustments to increase domestic demand. With different policies in place, the economy grew at a better-than-expected 4.9% in 3Q23 and 5.2% in the first three quarters. In other words, the economy only needs to grow by about 4.4% in 4Q23 to achieve the annual growth target of about 5%.

Citing China's National Development and Reform Commission (NDRC), as the effectiveness of the various policies and measures continue to materialize, economic and business momentum is increasing, which is expected to drive sustained growth of the economy in 4Q23. This hints at expected target accomplishment. However, even if the full-year growth target is reached, challenges are awaiting the Mainland economy in 2024. It is critical to guard against risks and strengthen the economic momentum at the same time.

2024 Preview: Prevent risk and boost confidence with policies

With the additional RMB1trn sovereign debt plan, the deficit ratio would be increased. The Central Financial Work Conference (formerly known as the National Financial Work Conference, which used to be held every 5 years) was concluded in October. Follow-up policies to implement the directives of the conference are expected. The conference was centred on three major objectives: 1) providing high-quality services for economic and social development; 2) comprehensively strengthening financial supervision, effectively preventing and resolving financial risks; and 3) strengthening the centralized leadership of the party's Central Committee in financial work.

Regarding the first two items, the central government insists that finance should better serve the real economy, and do a good job in technology and finance, green finance, inclusive finance, pension finance, and digital finance. Concurrently, it will seek to prevent and resolve financial risks in the 4 areas of local debt, real estate, financial market and foreign exchange market through policies to minimize the disturbance to the economy, which can improve market expectations. We expect that an RRR reduction or a moderate interest rate cut would be possible in early 2024. The first half of 2024 could potentially be a concentration launch period for monetary policy. As for fiscal policy, we believe it is necessary for the central government to continue to maintain a high deficit rate as the downturn in the real estate sector is restricting local government finances and local governments need more financial support for bond issuance from the central government.

While policies to safeguard the economy are naturally conducive to economic performance, numbers of structural issues remain unsolved and therefore may hinder the recovery. Taking the real estate sector as an example, although recent data shows property sales and new construction starts occasionally have a mild pick up, a sustained recovery will require a sustained improvement in sales and housing price expectations, both of which take time. We pointed out in the past that market confidence was hit by three factors—defaults of large developers, the continued fall in property prices and the failure of some trust products to be honoured—and it will take time to recover, so we believe that recovery will continue to vary apparently across different sectors and therefore economic indicators may show diverge result.

Although consumer sentiment continues to be weak due to the scarring effect of the pandemic, KGI Asia expects that China retail sales will be in a better shape next year. Optimistically, the YoY increase for the full year could accelerate to roughly 6%. Yet, in terms of fixed asset investment, even though investment growth in the manufacturing industry and infrastructure could be positive, the real estate investment could be a drag. The YoY growth of overall fixed asset investment is forecast to rise to 4.4%. Summarizing the above analysis, we estimate that the Chinese government will set the economic growth target for 2024 at 4.5% to 5%, with the economic growth rate eventually at 4.9%.

China-US relations may cause hiccup for the capital markets again

China-US interactions have warmed up in recent months, and yet there are no fundamental changes in the US' supposed intention to contain China. The US presidential election will be held in November next year. During the US election year, it cannot be ruled out that some of the candidates may try to offence China as a source of political capital.

A Gallup poll conducted in March of this year revealed Americans' favourability toward China hit a record low of 15%, with more than 80% of US respondents having a negative view of China. In such an atmosphere, the view of China will naturally take centre stage in US Presidential race.

Simultaneously, the US has imposed sanctions on a new list of Chinese companies for supplying dual-use goods to Russia and supporting the Russian invasion of Ukraine. It is foreseeable that issues such as the Russia-Ukraine war and the Middle East conflict may become excuses for the US to introduce sanctions on Chinese companies, dampening the economic and investment climate. It is important for investors to keep an eye on China-US relations and geopolitical changes because the aforementioned factors could become grey rhino events for the Hong Kong stock market in 2024.

HSI forecast for 2024

Hong Kong Stock market FY23 review

In our review of the Hang Seng Index's (HSI) performance during 2023, the index maintained an upward trend from 14,597 in October 2022 to the first quarter of 2023, benefiting from the market optimism about China's expected economic rebound after the pandemic. However, there were a series of negative factors during the year, such as interest rate hikes by the US Federal Reserve, disappointing post-pandemic economic growth in China, defaults of several large Chinese property developers, and continued tensions between China and the US. The HSI reached its peak at 22,700 points in February, before showing a downward trend.

Mixed factors affecting FY24 market performance

Looking ahead to 2024, we expect some improvements to the abovementioned adverse factors, such as the end of interest rate hikes, and the softer dollar may encourage global inflow to the non-US equity market. On top of that, the higher flexibility of the monetary policy of China and the fiscal policies rolled out by the Chinese government may boost economic growth. However, at the same time, the weak property sales, and a potential worsening of China- US relations during the US presidential year, may potentially dampen the investment sentiment. The mixed factors will be reflected in market valuations for the HSI next year.

Target of the HSI at FY24-end is 19,260

Our 2024 Hang Seng Index base-target is 19,260, corresponding to a five-year average forward P/E ratio of 9.3x. Meanwhile, if the factors below happened, including (i) rate cut not happening in 2H24 due to the stickiness of the US service inflation, (ii) the Chinese economy not showing a sustained rebound and (iii) property crisis risks spillover to wider economy. The bear case scenario for the HSI may fall to a P/E ratio of forward 7.3x, corresponding to 14,500 at year end.

Graph 6: HSI

Source, Bloomberg, Prepared by KGI Asia, as of 24 Nov 2023

3 major investment themes for 2024

Strategy 1: Potential beneficiaries during the end of interest rate hiking cycle

The slowdown in Fed rate hikes can lead to improved liquidity. Without an increasingly tightening regulatory environment in China, the investment values of new economy stocks can continue to be unleashed.

Tencent (700): Tencent achieved notable margin expansion, favoured by the relatively new services such as Video Accounts and Mini Games which contributed high margin revenue streams. Meanwhile, the AI development of the Company is creating new growth opportunities and enriching its ecosystem.
Kuaishou (1024): Average DAUs and MAUs on the Kuaishou App reached 386.6mn and 684.7mn, representing a YoY increase of 6.4% and 9.4%, respectively in 3Q23, taking the scale of the user community to a new record high. Driven by the increase in the number of users and the optimization of operational efficiency, Kuaishou reported an adjusted profit of RMB3.17bn in 3Q23, compared to the RMB672mn loss in 3Q22, indicating the strengthening of monetization capabilities.
Baidu (9888): Non-GAAP net income attributable to Baidu was RMB7.3bn, increased 23% YoY in 3Q23. Baidu harnessed the power of ERNIE and ERNIE Bot to reinvent its consumer-facing and enterprise-facing products, which can help Baidu improve user retention and benefit its advertising business in the long run. Baidu itself has a rich user base and application scenarios, and therefore can greatly benefit from the AI trend.

Strategy 2: Certain industries showing signs of rebound

The market worried that demand side may be hit in the high interest rate environment. However, generative AI has driven global giants to actively engage in server replacement. Also, with the global smartphone and PC replacement cycle slowly rebound from 2023 onwards, the demand for AI-related devices is deemed to be able to withstand potential economic slowdown. In addition, economic recovery after the pandemic is a bumpy and tortuous process for China. With the China economy slowly recovering, the prosperity of certain industries is picking up.

Shenzhou (2313): The destocking of international sports brand customers has basically been completed, and management also revealed a better-than-expected order book for next year. The increase in production utilization rate can potentially support the gross profit margin expansion of the Company.
Galaxy Ent (27): Galaxy has actively explored the potential in non-gaming fields in recent years. It continues to move forward with Phase 4, its next-generation integrated resort, which will complete its ecosystem in Cotai and inject new impetus into its future revenue growth.
Lenovo (992): The inventories of the PC industry have been cleared and thereafter the fundamentals are gradually improving. The operating profit margin of the company's IDG segment rose to 7.4% in 2Q23, close to a record high. The company has a leading position in the global PC market and can revolutionize the industry in the AI PC cycle.

Strategy 3: Better to balance growth and resilience when recession risk remains

Investors should try to minimize the potential impact of black swans in the financial market amid heightened geopolitical risks.

China Mobile (941): With a continuously rising share of revenue contribution from digital transformation, the revenue structure of China Mobile has become more balanced and robust, and the momentum of sustainable growth has been enhanced. Having a moderate growth in capital expenditure, its net profit margin is expected to rise steadily. China Mobile is a pick with high growth visibility and attractive dividends.
SPDR Gold Trust (2840): With rising geopolitical risks and expectations of US interest rate cut next year, the price of gold fluctuates around the $2,000 mark. Although the potential appreciation is little, gold can diversify risks for investors amid tense political situations. The future trend of gold will depend on the interest rate decision of central banks and the situation in the Middle East. Investors bullish on gold may consider allocating to gold ETFs such as SPDR Gold Shares. SPDR Gold Shares is an ETF that tracks LBMA Gold Prices. As a physically gold-backed ETF, the price changes in SPDR Gold Shares mirror the trend of gold prices. The advantages of the ETF also include liquidity and flexibility.

Table 1：Top Picks

Name	Target Price
Potential beneficiaries during the end of interest rate hiking cycle	
Tencent (700)	400
Kuaishou (1024)	69
Baidu (9888)	146
Industries showing signs of rebound	
Shenzhou (2313)	95
Galaxy Ent (27)	49
Lenovo (992)	10.8
Risk-Diversifying	
China Mobile (941)	72
SPDR Gold Trust (2840)	1660

Taiwan Market

Starting from the first quarter of 2023, Taiwan continued the downturn in the fourth quarter of 2022, especially in private investment and external demand. The PCs and smartphones industries have recovered in 4Q23, benefits from the end of destocking of the global manufacturing industry. A new replenishment cycle has started, under the basic scenario of a soft landing of the economy, the inventory replenishment cycle of the global manufacturing industry is expected to last until 2024 and beyond, as the restocking cycle usually lasts for 1.5-2 years.

Moreover, major tech firms continue to invest in AI infrastructure and have been developing new AI applications. Smartphone and PC brands are also adding AI features into new products. As such, we expect a new replacement cycle will begin in 2H24-2025F. We expect that global trade volume will rebound next year, and Taiwan's merchandise exports should also return to mid-to-high single-digit growth.

Given cyclical (manufacturing restocking) and structural (AI applications entering a high growth period, driven by generative AI) positives, we expect the Taiwan stocks to reverse the earnings contraction seen in 2023 by pulling off robust profit growth in both 2024-25F. Benefiting from the technological innovation and the cash inflow could strengthen the Taiwan stocks performance, optimistically, a historical P/E of 17 – 19x would be possible.

Singapore Market Outlook

Embrace a new cycle

In 2023, Singapore's economy demonstrates resilience amid escalating global geopolitical tensions. Post-COVID, recovery is divergent across sectors. Service industries like tourism, food and beverage, and financial services are rebounding, while construction performs well due to housing demand. However, manufacturing contracts are due to weak external demand, particularly from China. Looking ahead to 2024, Singapore's outlook is stable. Growth in service industries is driven by wealth and capital inflows, and the recovery of global consumer electronics and semiconductor industries aids manufacturing. The anticipated end of the rate hike cycle is expected to benefit interest rate and inflation-sensitive industries, leading to an upturn in banking, real estate development, and REITs (real estate investment trust) sectors.

Economy overview

GDP: Singapore's GDP growth in 2023 is expected to be between 0.5% and 1.5%. The service sector outshines the manufacturing sector as domestic demand remains robust but external demand is soft. The Monetary Authority of Singapore (MAS) forecasts Singapore's growth to be 2.0% to 3.0% in 2024.

Table 2 : Singapore GDP(%)

	4Q22	2022	1Q23	2Q23	3Q23
Overall GDP	2.1	3.6	0.4	0.5	0.7
Goods Producing Industries	-1.1	2.9	-3.6	-5.7	-3.5
Services Producing Industries	4	4.8	1.9	2.8	1.9

Source: Ministry of Trade and Industry Singapore, Prepared by KGI Asia

CPI: MAS anticipates 2023 overall core inflation to average around 4% with headline inflation at 5%. In 2024, Singapore's core inflation (excluding accommodation and private transport costs), will decline to be between 2.5% and 3.5%, whereas headline inflation is expected to range between 3% and 4%.

Table 3: Singapore CPI(%)

	Weight	YoY	MoM	Cumulative
All Items	100.0	4.10%	0.50%	5.10%
All items less Imputed Rentals	82.5	4.10%	0.50%	5.10%
All Items less Accommodation	78.0	4.10%	0.60%	5.20%
MAS Core Inflation	65.8	3.00%	0.10%	4.40%

Source: Department of Statistics Singapore, Prepared by KGI Asia

Labour market: The pace of employment growth has slowed, driven by the global economic slowdown and worsening business expectations. Due to high inflation and soft economic conditions, the gap between nominal median income and real median income will widen in 2023. But the gap will narrow once inflation further declines.

Fixed asset investment: The amount of fixed asset investment (FAI) falls sharply in 2023 due to high bases and the downturn of the semiconductor. The Economic Development Board has its focus towards increasing finances for green investments. In 2024, FAI is expected to rebound, but the total amount is still lower than that in 2022.

Table 4: Fixed Asset Investment in 2022 (%)

Fixed Investment	Expected Value Added Per Annum	Business Expenditure Per Annum	Expected Jobs Created
S$22.5b	S$20.6b	S$6.2b	17113

Source: EDB Singapore, Prepared by KGI Asia

International trade: The soft external demand, especially from China results in a decline in total trade in 2023. In 2024, the decrease in total trade in Singapore is expected to moderate as China's contribution to the total trade might be limited.

Personal disposable income and savings: 2023 full-year personal disposable income is expected to see moderate growth of mid-to-high single digit. However, the growth shall drop to low single digits as corporates slash jobs and freeze hiring to prepare for a global economic slowdown in 2024. Accordingly, the gap between inflation and wage growth remains.

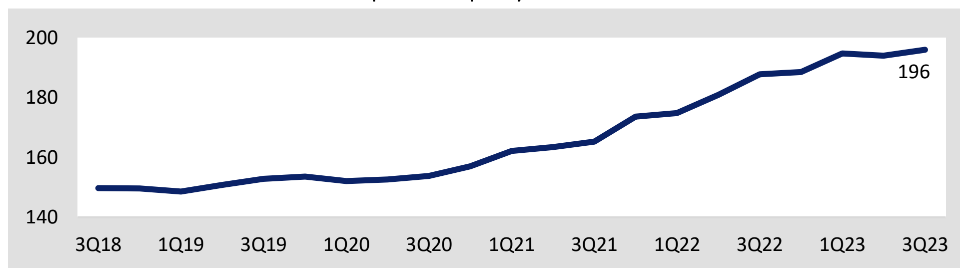
Table 5: Personal Disposable Income and Savings (%)

YoY % change	1Q23	2Q23
Personal Disposable Income	8.6	9.7
Personal Saving	1.0	16.5
Private Consumption Expenditure	13.6	6.9
Compensation of Employees	9.0	9.0
Personal Saving Rate (%)	36.9	31.3

Source: Department of Statistics Singapore, Prepared by KGI Asia

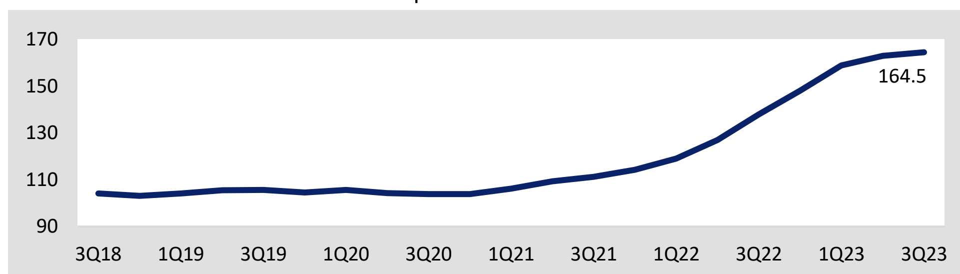
Housing and rental prices: Both prices reached a record high even though the government launched cooling measures in early 2023. The housing market in Singapore shall cool down in 2024 on the backdrop of rate cut expectations. However, the supply gap remains as newly launched property units cannot catch up with rising demand.

Graph 7: Property Price Index



Source: Urban Redevelopment Authority, Prepared by KGI Asia

Graph 8: Rental Index



Source: Urban Redevelopment Authority, Prepared by KGI Asia

Asia wealth hub

Singapore is currently home to approximately 330 centi-millionaires (individuals with a net worth of at least US$100mn), ranking 7 globally. As of mid-March 2023, there were also at least 200 single-family-office applicants waiting for approval to set up in Singapore. The number of family offices in Singapore is bound to continue to increase in 2024. However, the government has raised barriers for family office and work permit.

Favourable sectors

Banking: Robust profitability, low valuation, and attractive dividend yields.

Real estate investment trust: Rate cut is the key re-rating catalyst and high dividend yields.

Indonesia Market Outlook

Economic growth continues amidst uncertainties & volatilities

Economy to grow in 2024: We see household consumption, government spending, exports and non-building investment to sustain economic growth. The government targets 2024 year-on year economic growth at 4.7%-5.5% (BI estimate), thus we view that a figure above 5% is achievable. To maintain that growth, synergies in policies made by the central bank, government, and various other authorities need to be continuously encouraged.

Uncertainties remain: Despite the improvement of economies in China, the uncertainties of India and other Asian countries, in our view, may affect the Indonesian economy.

Volatility as an opportunity: We see volatility as a positioning opportunity to wait and ride out the storm in global equity markets in 2024.

Global and Indonesian and Economic Environment: The global inflationary trend may be on the downside, with Indonesian interest rates predicted to flatten and has a possible mild reduction ahead.

Jakarta Exchange: History, Indices and Main Sectors

JSX was established in 1912 under the Dutch East Indies government. It was called Vereniging voor de Effectenhandel, or Stock Exchange, which mainly focused on plantation bond trading until 1952. From 1952 to 1977, the exchange became inactively traded. The turning point of Indonesian equity investment is that the first company was listed on JSX in 1977.

There are 2 well-known indices (out of 45 indices) to track Indonesian stock performance. The first one is the **Jakarta Composite Index (JCI)**, which includes all listed stocks. The second one is the **LQ45 index** which only tracks the stocks already in JCI with (i) large market capitalization, (ii) high market liquidity and (iii) solid company fundamentals.

There are 4 main sectors in the Jakarta Stock Exchange (JCI) which are (1) the Automotive sector, where Indonesia is planning to join the electric vehicle bandwagon (cars and motorcycles) (2) the Banking Sector, consisting of government and privately owned big and small bank, (3) Consumer sector taking advantage of Indonesia’s large population (4) The evolving telecommunication sector providing communication services nationwide

Challenges Ahead for Indonesia

There may be many challenges ahead for the country to navigate such as: (1) Despite being an oil producer, Indonesia is still plagued by the fuel import dilemma, thus expecting that Indonesia needs to build more refineries to meet market demand. (2) Fuel subsidies are still needed and are likely to continue to burden the government budget. (3) The process of building infrastructure for the new capital in the Island of Kalimantan in 2024 may strain funds from the government budget, which could be used elsewhere. (4) Low real wage increases and a soft labour market may hold back household consumption and impact consumer spending. (5) The government needs to emphasize business competitiveness strengthening, low carbon development (emissions from fossil fuels) and economic transition, basic infrastructure, and connectivity development acceleration.

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