凱基亞洲
KGI ASIA

2H23 Global Market Outlook

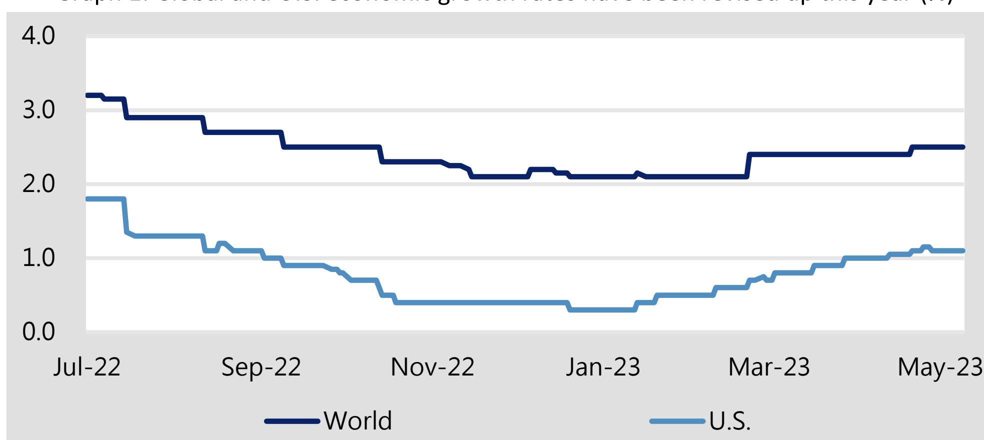
Harness the Potential of the East

Macroeconomic analysis

End of monetary policy tightening not necessarily a prelude to rate cuts

U.S. is in the late stage of economic expansion, evident in a low unemployment rate and high inflation. Despite tight monetary policy, we expect the country to avoid a recession in 2H23 due to a strong private sector balance sheet.

Graph 1: Global and U.S. economic growth rates have been revised up this year (%)



Source: Bloomberg, prepared by KGI

With minimal reliance on residential investments and debt ratios for households and enterprises at the lowest levels in decades, the U.S. economy has been resilient to a high interest rate in terms of consumption and investments, especially as 96% of nationwide mortgages are subject to fixed interest rates.

The recession may be postponed, likely to 1H24, rather than avoided entirely. U.S. economic resilience means the Fed will have no choice but to keep interest rates high, and tightening policy will eventually lead to deterioration of the labor market, which would hurt consumption and investment.

Why is soft landing difficult to achieve?

The two goals of the Fed are to maintain price stability and maximize employment, with the former targeted at 2%, and the latter at 4% to 4.5%, which is the non-accelerating inflation rate of unemployment (NAIRU).

When the economy is overheating, the Fed tightens monetary policy, and aims at adjusting monetary policy to neutral in due course when the economy returns to equilibrium for a soft landing. If "soft landing" is defined as "no recession within one year of cutting interest rates", the Fed had only a 22% success rate in the past 50 years.

There are three difficulties in achieving "soft landing":

(1) It is hard to predict the laggard effects of monetary policy.

(2) Both inflation and unemployment are lagging indicators.

(3) The behavior of economies is contagious and will produce multiplier effects.

Investment outlook

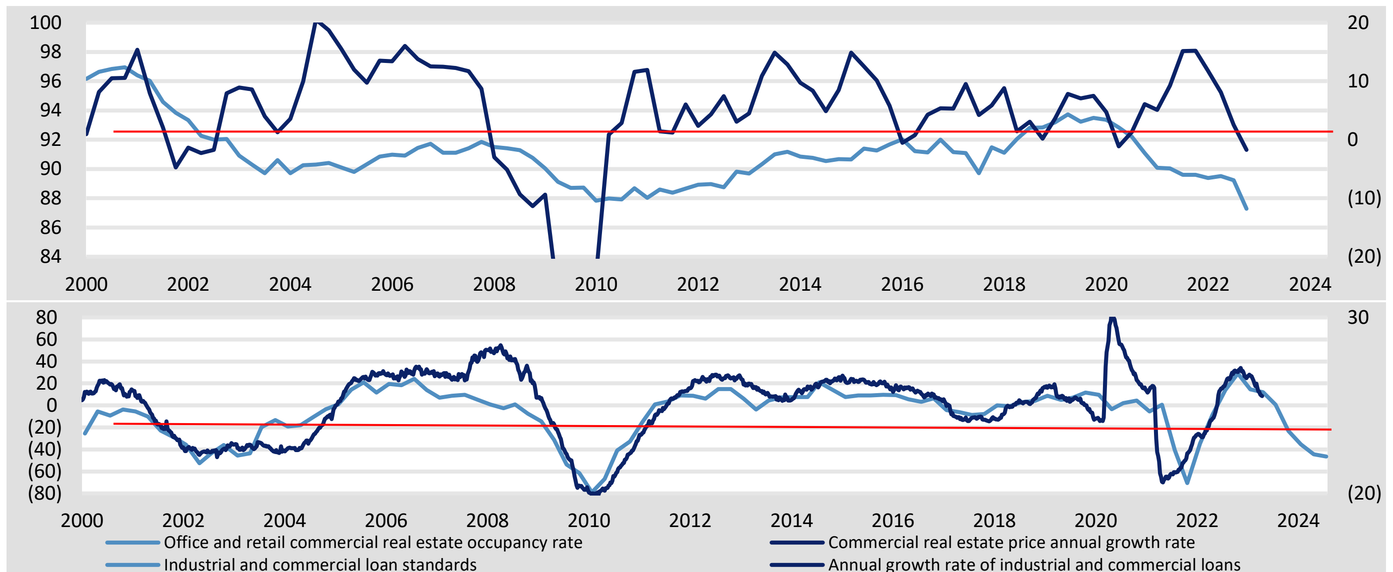
Recession might come late but would not be absent; not the right time to go long-term bullish on stocks

The market's strong 1H23 rally reflects fading recession fears, but challenges await investors in 2H23. Stocks Market historically yield moderate returns during the late stage of expansion, we expect this phenomenon will continue this year due to possible regain on earnings growth for 2H23.

U.S. stock performance has been better than expected in 1H23, boosted by the country's economic resilience and stock rerating within the tech sector, driven by the launch of generative AI. We expect the U.S. stock market to be shored up by near-term positives, including the easing of the bank liquidity crisis, tech sector rerating, and improving corporate earnings.

Easing recession concerns and the AI frenzy have helped maintain stock rallies year-to-date, but that doesn't mean that macroeconomic risks have abated. The recession may have been postponed, likely to 1H24, but it can't be avoided entirely. U.S. economic resilience means the Fed will have no choice but to keep interest rates high, and tightening policy will eventually lead to deterioration of the labor market, which would hurt consumption and investment. High valuations, a tight monetary environment, and potential economic recession are detrimental to stock market over the long run. Historically, new structural trends strong enough to propel large tech firms, such as the launch of generative AI, may have led to near-term buying frenzies within stock markets, but they have rarely altered the course of economic cycles or made markets immune to economic downcycles. As such, investors should stay alert to short-term risks facing large tech firms following recent gains. We believe it would be prudent to gradually switch to defensive stocks during the market rally.

Graph 2: Tightened lending standards, market must pay attention to default risk of office and retail commercial real estate (%)



(Upper level) Office and retail commercial real estate occupancy rate(left axis); commercial real estate price annual growth rate (right axis)

(Lower level) Industrial and commercial loan standards (leading by 5 quarters)(left axis); annual growth rate of industrial and commercial loans(right axis)

Source: Bloomberg, prepared by KGI

In terms of bond investments, we expect the Fed to pause rate hikes in June or July at the latest as inflation has declined from the peak and banks are already tightening lending. That said, we expect inflation to remain far above the Fed's target at the end of this year, and therefore maintain the rate at a high rate. Against such a backdrop, we suggest that investors consider accumulating Treasury bonds in the period between the pause of rate hikes and the start of rate cuts. Additionally, investors should expand their positions in medium and long-term Treasury notes and investment-grade corporate bonds with higher ratings whenever the Fed issues tightening guidance. Finally, we advise investors to steer clear of high-yield and emerging-market bonds.

Three major Strategies in 2H23

Considering the above factors, we believe investors may consider using "LIKE" as the foundation to allocate assets.

Large-cap growth stocks offer better defensive quality

Global Large-scale Growth companies that provide necessary goods and services are more well positioned to defend against rising recession risk. These have recently delivered upbeat earnings. Stock market trends appear to be still led by large-caps at the moment. At the same time, risks in the U.S. regional bank remains as deposit outflows and possible mergers continue to loom over the market. Small and medium-sized enterprises (SMEs) are facing a relatively tight credit environment; until there is more clarity in the liquidity outlook, it will be difficult for SMEs to obtain large amounts of funds for development.

Investors should diversify their investments in companies around the world, whether to capture growth or diversify risk. Although Europe is also facing a tight credit environment, inflationary pressures are showing signs of slowing down; European large caps therefore may be viewed with extra optimism.

In general, growth stocks have longer payback period, higher valuation and higher sensitivity to interest rates. Given that interest rates are expected to peak, the pressure of growth stocks will ease. As bond yields fall further, stocks with high interest rate sensitivity are forecast to outperform stocks that are less sensitive to interest rate movements.

Investors, nevertheless, should be aware that before rate cuts actually occur, the trend of interest rates could remain rather volatile, and so could that of growth stocks. Phasing in investments over some period may be a wiser decision for investors.

Capitalize on higher yields of Investment grade bonds

It is forecast that the Fed will pause interest rate hikes and then take a wait-and-see approach, observing changes in economic data such as inflation and employment. It is expected that the odds of the Fed decreasing rates within the current year are not high; yet, as the market tends to move in advance, long-term bond yields may drop further before interest rate cuts materialize if forward-looking economic indicators are aligned with projections.

Long-term U.S. Treasury yields (such as 10-year) could have peaked in October 2022. At present, investors may consider gradually increasing allocation to long-term bonds by taking advantage of the relatively high bond yields to lengthen the duration of the portfolio. Should rate cuts happen, long-duration bonds will have a higher potential capital gain, enabling greater flexibility in future allocation.

With regard to high-yield bonds, as the risk of earning downgrades is quite high in 2H, and the credit environment is relatively tight amid the banking crisis, the borrowing capacity of enterprises has declined. Market estimates now put the default rate of high-yield bonds at over 4%, up from 2.5%; credit spreads may widen. Therefore, investment grade bonds are preferred.

Diversify across Key Eastern countries

China's services purchasing managers' index (PMI) is in expansion; it is expected the service related industry will continue to support economic growth. However, China's manufacturing activity and exports are being weakened by rising risks in external markets. Recently, economic recovery in China has slowed down. Mainland China is expected to continue to pursue a loose monetary policy, which should support its economy, and we expect a full-year growth of 5.5% to be possible.

Simultaneously, it is forecast that India and ASEAN countries will continue to benefit from the transfer of production bases in the global manufacturing chain. Growth in the region is forecast to be supported in view of improved imports from China and an expected pickup in infrastructure developments. Europe and the U.S. are the main export partners of India and ASEAN countries; hence, the most apparent restraint up to now is the relatively weak demand from Europe and the U.S.

Inflation in Japan has been hovering above 3% but has not achieved the Bank of Japan (BOJ)'s target. The BOJ therefore is expected not to change its loose monetary policy for the time being, and such a stance is favorable for businesses. A weak Yen may bode well for Japanese exports. Japanese stocks have had a stellar YTD rally; on the other hand, the valuation of the Japanese market has not surged accordingly due to upward revisions in corporate earnings estimates, showing a forward P/E similar to that at the start of the year.

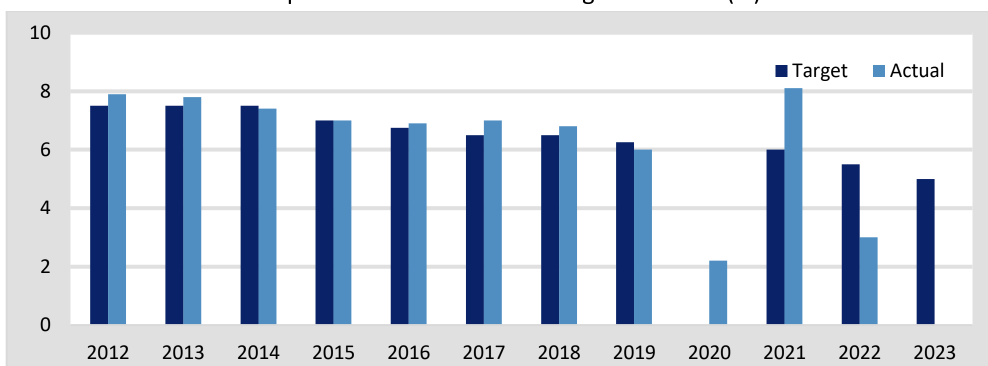
However, since Japanese stocks have accumulated notable gains in a short time, it is recommended that investor should go for buying the dip. Moreover, when allocating to Asian bonds, investors should give priority to investment grade bonds.

2023 economic outlook and policy expectations for China

We expect an economic growth of 5.5% or more in China

In March, former Chinese Premier Li Keqiang delivered the last "Government Work Report" in his term of office, which underlined that the official expectation on economic and social development for 2023 was to increase China's GDP by about 5%. It was pointed out previously that setting a growth rate target was meant to guide people's expectations and set a reasonable range for economic operation, and the lower limit was the annual GDP growth target. In other words, the said 5% growth rate is the lower limit of the target. KGI Asia is expecting economic growth in China reaching 5.5% or above for 2023, in which the most uncertain factor should be how fast consumer spending recovers.

Graph 3: Economic Growth Target vs Actual (%)



Source: National Bureau of Statistics of China, prepared by KGI Asia

Market forecast could be overly optimistic

According to Fu Linghui, spokesperson for the National Bureau of Statistics in China, due to the lower base value in 2Q last year as affected by the pandemic, China is expected to post significantly faster GDP growth for 2Q than 1Q this year, while 3Q and 4Q are forecast to show slower growth rates as a result of higher base values. Excluding such base effect, China's GDP growth should show a gradual recovery over 2023. After the GDP growth of 4.5% in 1Q, The market is indeed projecting 2Q to be at 7.8% and the subsequent two quarters at 5.1% and 5.5% respectively, amounting to an annual GDP expansion of about 5.6%.

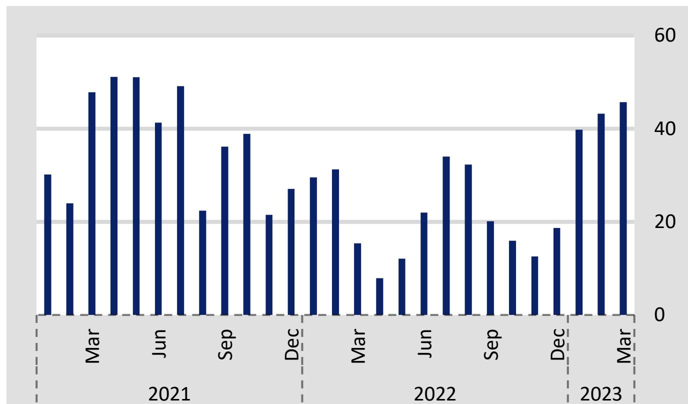
The Chinese economy has shaken off last year's growth woes, recovery is in full swing, and 1Q's GDP growth rate has set a good start for the economy to return to normal for the whole year, by which GDP growth in 2023 could exceed the 5% target established at the Two Sessions. Simultaneously, on a YoY basis, the decrease in cumulative profit growth of industrial enterprises narrowed to 21.4% in 1Q from 22.9% in January to February, while the cumulative drop in corporate operating income reduced to 0.5% from 1.3%, confirming improvement in the economy as well as the acceleration of economic activities. Nevertheless, for the time being, we are forecasting a GDP growth of 5.5% or higher for 2023, which is slightly conservative relative to the market's most optimistic projection of over 6%. This is because there is contradiction in the economic indicators released by the Mainland in recent months, reflecting uneven recovery momentum.

Uneven economic recovery

Here are the examples: For consumption recovery, the rebound in the catering, tourism and some other service-related sectors contrasts with the sluggish spending of durable goods such as automobiles and houses. Amid credit growth and economic recovery, inflation is receding. Externally, uncertainties are looming large. It is becoming more probable the U.S. is falling into recession from high inflation. This is also a destabilizing factor for the Chinese economy.

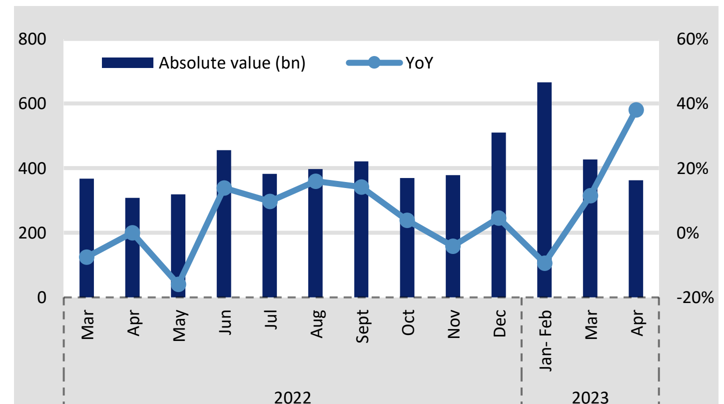
KGI Asia is of the opinion that the crux of the matter lies in how to boost private and foreign investment confidence, improve the business environment, and effectively promote consumption willingness. Citing the Politburo meeting in April, policy directions are to center around the three lines of advancing technological innovation, consolidating and expanding new energy vehicle sales, and boosting the private economy. It is expected that Premier Li Qiang will introduce follow-up policies to support the implementation of relevant arrangements. Looking at the medium-long term, the "Strategic Planning Outline for Expansion of Domestic Demand (2022-2035)" announced in December 2022 highlights a determination to implement the strategy of expanding domestic demand so that the potential of domestic demand can be released continuously, and therefore the role of domestic demand as a major economic growth driver will be given full play. This shows promoting domestic demand to be a policy priority.

Graph 4: Air Passenger (mn)



Source: Civil Aviation Administration, prepared by KGI Asia

Graph 5: Automobile related sales (bn)



Source: National Bureau of Statistics of China, prepared by KGI Asia

Looking forward to further favorable policies

Now look at the messages from the Politburo meeting in April with a keen eye. The meeting mentioned that while some easing in the triple pressures (shrinking demand, supply shocks and weakening expectations) was noted, the Chinese economy remained challenged by inadequate internal dynamics, in the future, proactive fiscal policy must be strengthened to improve efficiency and prudent monetary policy must be precise and powerful to form a joint force to expand demand. At the Two Sessions, the budget deficit for the current year was set at 3%, widening from last year's 2.8%. Given the substantial financial resources spent on COVID-related measures through 2022, it is hinted that more fiscal funds will be used to stimulate economic growth this year. In addition to fiscal policy, considering the possible peak in U.S. interest rates, the People's Bank of China (PBOC) may loose monetary policies in the coming three months to stimulate the economy and maintain recovery.

China-U.S. relations remain a source of volatility

We expect the tension between China and United State will continue to be the key focus of the market, as Cui Tiankai, former Chinese Ambassador to the U.S., remarked that the U.S. has come to regard China as its biggest strategic competitor, and that will definitely bring many unstable factors to China-U.S. relations. We will monitor relevant developments closely and will timely adjust the economic outlook and investment allocation.

HSI forecast for 2H23

Range-Bound Market in 1H23

In the market outlook we released at the end of 2022 we had a target of 21,100 for the HSI in 2023 under the basic scenario. The HIS hit the target at the end of January, reaching its YTD high of 22,700 on January 27. The index afterwards struggled to find directions. It has bottomed out and rebounded in mid-March, favored by the improved economic data of China by that time. However, the index softened as the market was discouraged by the economic uncertainties. As of the time of writing, the HSI has been moving up and down in the range 18,000 to 21,000.

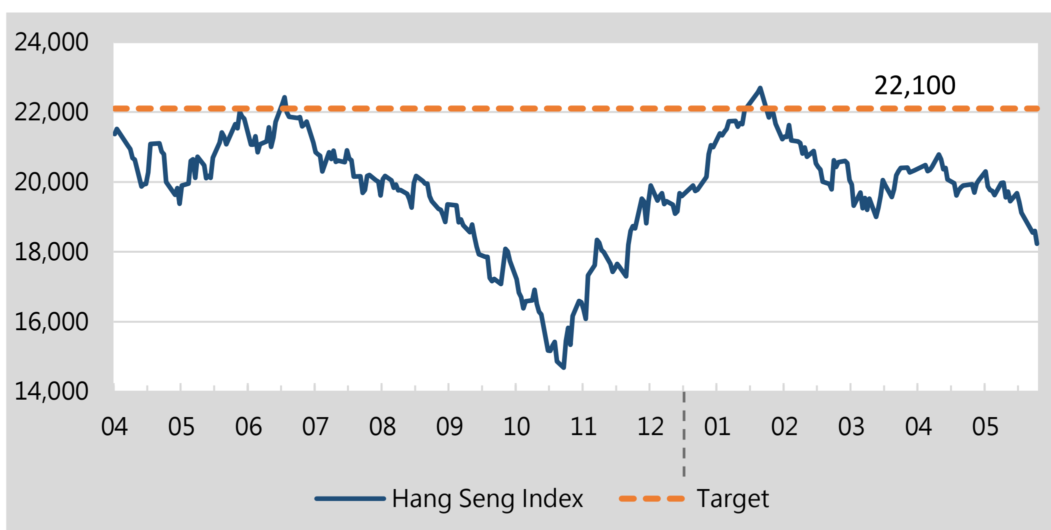
HSI constituents' 1Q earnings in line with forecast

We previously estimated the earnings per share of HSI constituents for 2023 to be approximately HK$2,050, up 10.6% YoY. Companies that had announced quarter results reported a median profit growth of about 11%, meeting our prior forecast. At that time, Mainland China had not fully cancelled the prevention and control measures, and therefore the positive impact of normalization had not been thoroughly factored into our projected data. We now revise the FY23 HSI EPS to HK$2,085 with a growth of 12.5% YoY.

2023 HSI target at 22,100

Compared to our prior forecast, we now have a higher expectation for the economic growth in the Mainland. Using a higher forward P/E at 10.6, and we raise the year-end HSI target to 22,100. Based on the closing level of 19,099 on June 6, the HSI is displaying a 15.7% upside.

Graph 6: HSI trend in the past year and our target in 2023



Source: Bloomberg, prepared by KGI Asia, as of 6 June 2023

4 major investment themes for 2H23

Strategy 1: Dividend payout by central state-owned enterprises (SOEs) on steady rise

The reform of state-owned enterprises has entered a new stage. China Central State-owned Enterprises are expected to operate on improved efficiency. The increase in return on equity (ROE) can support revaluation and a steady rise in dividend payout.

China Mobile (941.HK): China Mobile's dividends for 2022 totaled HK$4.41 per share, equivalent to an annual dividend payout ratio of 67%. The company promised the profit to be distributed in cash in 2023 will increase to 70% or above of the profit attributable to equity shareholders of the Company for that year. Backed by the rapid expansion of 5G applications, mobile cloud, digital contents, smart home and other businesses, revenue from digital transformation rose 30.3% YoY, and such growth momentum could strengthen more in a sustainable manner. Such expected EPS growth and higher payout ratio make China Mobile a buy.

Bank of China (3988.HK): The Mainland economy is bouncing back, with recovering financing demand and improved asset quality. Mainland banks are operating in a more favourable environment this year. Bank of China outperformed its peers last year as well as in the first quarter. Its pre-provision operating profit (PPOP) in the first quarter increased 9.0% YoY to RMB112.6bn, and the growth rate accelerated from the previous quarter. Its revenue rose 11.8% YoY during the same period, ahead of peers. Bank of China has a track record of stable dividend payout ratio. Supported by the improved profitability, its dividend per share is expected to increase further.

Strategy 2: The business of 'old economy' companies continue to improve

The worst of COVID is past and the global business environment has changed. Nevertheless, financially sound enterprises are well positioned to weather any storm.

AIA (1299.HK): AIA's new business value (NBV) began to regain momentum in the second half of 2022. The momentum was extended into 1Q23 that its overall NBV grew 28% YoY to US$1.046bn, beating estimates. Moreover, growth was recorded in all market segments (incl. Mainland China, Hong Kong and ASEAN markets) and distribution channels. During the reporting period, the full resumption of normal travel between Hong Kong and the Mainland contributed to the release of pent-up demand.

CK Infrastructure (1038.HK): CK Infrastructure currently has HK$18bn in cash on hand, with a net debt to total net capital ratio of 7%. The company is well positioned to acquire high-quality projects around the world. It can also leverage its synergy with other members of the CK Group.

Strategy 3: New economy stocks at near-end of rate hikes

The slowdown in Fed rate hikes can lead to improved liquidity. Coupled with the marginal relaxation of the regulatory environment, new economy stocks are expected to have increase in investment value.

Tencent (700.HK): With the economy back to normal, the operating environment for enterprises has improved. Tencent is seeing signs of advancement in the fields of games, advertising, FinTech and Business Services. Among them, the demand for advertising on video accounts is strong, and the company is ramping up its global games business, exploring opportunities to invest in or acquire high-quality games or game studios. The growth drivers of Tencent comes from the development of video account services, overseas game businesses and artificial intelligence applications.

BYD (1211.HK): Despite price war concerns, BYD's quarterly results and the market reaction at the Shanghai Auto Show indicate that BYD has what it takes to resist vicious competition. The company has set a sales target of 3mn units for this year, i.e. expecting sales to grow by more than 60% YoY. Meanwhile, its gross profit margin is benefiting from lower lithium prices.

Strategy 4: Gold ETF as recession hedge

Recession is only a matter of extent and when as signaled by a number of indicators. U.S. inflation is easing continuously, and therefore the interest rate hike cycle is expected to near an end. Meanwhile, the banking crisis has led to an increased probability of a recession. U.S. Treasury yields could have peaked. Gold's safe-haven role has become more apparent, and the demand for gold by investors and central banks are rising, giving gold prices upward momentum.

SPDR Gold Trust (2840.HK): 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 Price. 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 includes liquidity and flexibility.

Table 1：Top Picks

Stock	Target Price
State-owned enterprise reform	
China Mobile (941)	78
Bank of China (3988)	3.6
The improving business of 'old economy' companies	
AIA (1299)	94
CK Infrastructure (1038)	52
"New economy" near-end of rate hike	
Tencent (700)	400
BYD (1211)	300
Gold ETF as recession hedge	
SPDR Gold Trust (2840)	1600

Taiwan Market

The Taiex has been benefitted from the AI frenzy as Taiwan is home to several major semiconductor and server manufacturers. Other catalysts include restocking demand after inventory digestion, component pull-in demand in preparation for new product launches, and 2H23 earnings growth off a low base, which we believe will give rise to seasonality-driven rallies.

AI development went viral recently, technology giants have set foot in the research of AI. With the technology advancement, the artificial intelligence that uses existing data for analysis, prediction and decision-making and often obtains fixed answers are just the beginning of the story. The generative AI with enhanced functions is further developed, that is, using a larger database for machine training to achieve multiple AI generation, including language generation, image generation, speech synthesis and many other fields.

Computing power is one of the key to achieve or fulfil the requirement of high-intensity training process. It can be seen from the recent performance of the major chip designer that the market demand of high quality and AI capable chips has risen beyond market expectations, and the order might continue to increase in the coming quarters. The demand of AI capable chips has reduced the negative impact from the lower demand of chips using on communication device. Taiwan has world-leading chip-related technology, and with AI long-term development certainty, related companies are expected to benefit from it.

While we believe the valuations of AI plays are already stretched, we believe the favorable long-term trend is secure, so any valuation corrections will be good entry points for long-term investors. AI beneficiaries in the Taiex include the IC design, foundry, cloud/data center, ABF, and advanced OSAT sectors.

The forecast Taiex 12-month forward PE of 18x, versus a peak of 20-22x during an overly bullish market.

Singapore Market Outlook

Safe haven amidst global macro uncertainties

Summary

Singapore is one of the earliest Asian countries that reopened the border and normalised economic and business activities in 2022. The eminent recovery was in several industries, namely tourism, food and beverage, and real estate. By the end of 2022, China, Singapore's largest trading partner, relaxed the zero-COVID policy and refocused on economic growth, further benefiting Singapore's robust recovery.

In the post-COVID era, global economic development remains eventful and bumpy. The ongoing China-U.S. tension continues to reshape international relations. The failure of several U.S. banks and the buyout of Credit Suisse weakened the confidence in the banking system of the Western developed countries. Moving forward, the concerns of an inflationary recession in the U.S. and Europe and deflation in China lead to continuous fund flows towards relatively safe havens. Singapore, the most developed and stable country in Southeast Asia, will see more tailwinds in the foreseeable future.

Economy overview

- **GDP:** Singapore's economy has recovered from the COVID-19 pandemic, with a 3.6% growth in 2022. Quarterly GDP growth has remained positive since 2021, with the latest quarter seeing a 0.1% growth. GDP per capita grew by 6.5% YoY to US$82,794 in 2022. However, 2023 is expected to face challenges of high inflation and slowing trade, with projected GDP growth between 0.5% and 2.5%.

Table 2: Singapore's GDP based on YoY

	1Q22	2Q22	3Q22	4Q22	2022	1Q23
Overall GDP	4	4.5	4	2.1	3.6	0.1
Goods producing industries	5.3	5.8	1.8	-1.1	2.9	-4.1
Services producing industries	4.9	4.8	5.5	4	4.8	1.8

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

- **CPI:** Singapore's CPI slowed to 5.5% in March 2023, compared to 6.3% in February, on a YoY basis. MAS and the Ministry of Trade and Industry attributed the lower figures to the easing global supply chain frictions and the moderation in consumer goods inflation in the advanced economies.

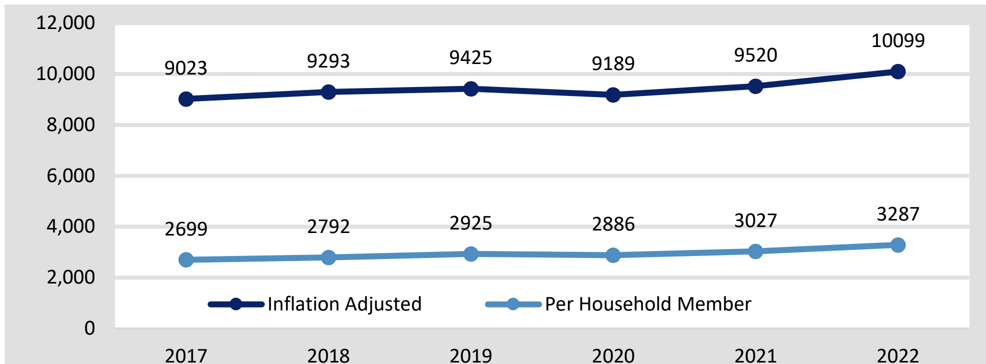
Table 3: Singapore 1Q23 CPI

	Weight	YoY	MoM	1Q
All Items	100%	5.50%	0.50%	6.10%
All items less imputed rentals	82.5%	5.60%	0.50%	6.30%
All Items less accommodation	78%	5.70%	0.50%	6.50%
MAS core inflation	65.8%	5%	0.20%	5.40%

Source: Department of Statistics Singapore, prepared by KGI Asia

- **Labour market:** The seasonally adjusted unemployment fell to 1.8% in 1Q23, driven by non-resident employment growth. In 2022, Singapore experienced a 6.1% growth in median monthly household income from work in nominal terms, reaching S$10,099. Adjusted for inflation, the real growth was 0.2%. Median monthly household income per household member also increased by 8.6% in nominal terms or 2.6% after adjusting for inflation.

Graph 7: Median household income trend (Singapore dollars)



Source: The Straits Times, prepared by KGI Asia

- **Fixed asset investment (FAI):** In 2022, the FAI reached a record of S$22.5bn, up 90.7% YoY, mainly driven by large manufacturing projects from the electronic sector which accounted for 66.7% of the overall commitment. However, the Economic Development Board believed FAI to fall due to macroeconomic uncertainties, increased competition, and the semiconductor downturn.

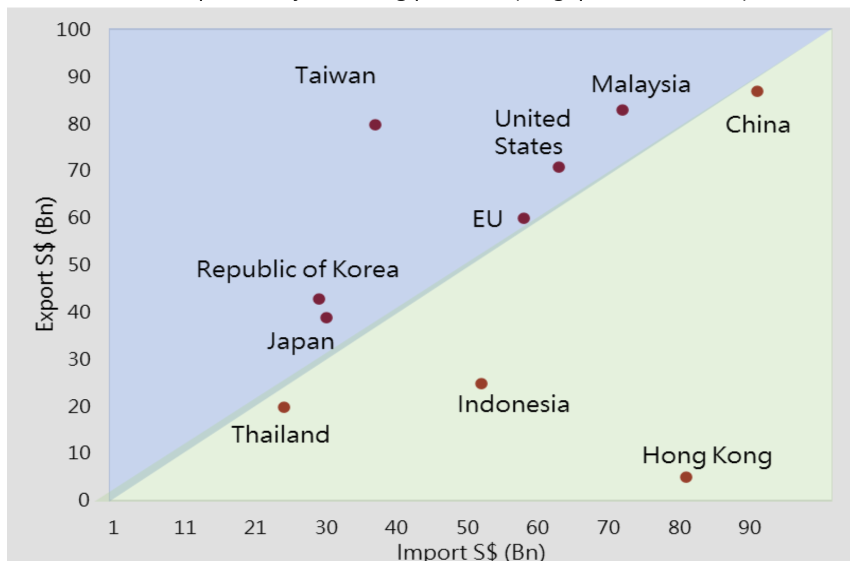
Table 4: Foreign fixed asset investment (Singapore dollars)

Fixed Investment	Expected Value Added Per Annum	Business Expenditure Per Annum	Expected Jobs Created
S$22.5b	S$20.6b	S$6.2b	17,113

Source: EDB Singapore, prepared by KGI Asia

- **International trade:** The total value of imports and exports was S$655bn and S$710bn respectively, up 20.0% and 10.7% YoY. Mainland China, Malaysia, and the U.S. were the top three trading partners with total trade values of S$175bn, S$153bn, and S$132.7bn respectively.

Graph 8: Major trading partners (Singapore dollars bn)



Source: Department of Statistics Singapore, prepared by KGI Asia

- **Personal Disposable Income and Savings:** 4Q22 personal disposable income grew by 10% YoY, driven by increased compensation and government cash payouts. Personal saving rebounded by 2.4% YoY, with the personal saving rate increasing from 32% to 36%.

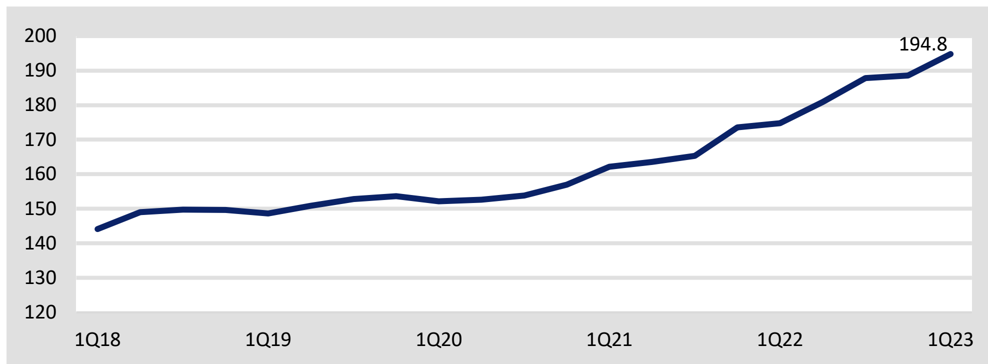
Table 5: Personal Disposable Income and Saving (%)

YoY % change	1Q22	2Q22	3Q22	4Q22	1Q23
Personal Disposable Income	8.5	6.5	9.2	10	8.0
Personal Saving	10.8	-13.9	-5.8	2.4	2.4
Private Consumption Expenditure	7.1	18.2	17.9	14.8	11.7
Compensation of Employees	9	8.4	10.6	10	8.5
Personal Saving Rate (%)	39.7	29.5	31.6	36.1	37.6

Source: Department of Statistics Singapore, prepared by KGI Asia

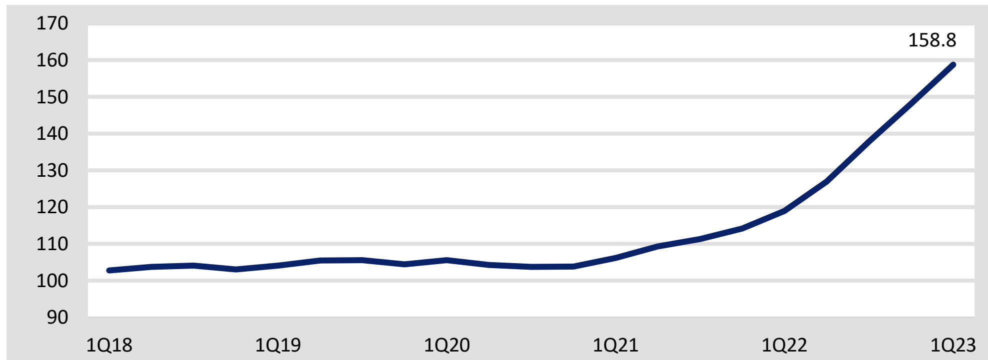
- **Housing Prices:** Landed property prices rose by 5.9% QoQ in 1Q23, while non-landed private home prices grew by 2.6% QoQ in the same period. Rental prices for both landed and non-landed properties also increased, though at a slower pace than the previous quarter. The doubling of the Additional Buyer's Stamp Duty (ABSD) rate for foreigners buying residential properties may lead to increasing demand for rental properties.

Graph 9: Property Price Index of private residential properties



Source: Urban Redevelopment Authority, prepared by KGI Asia

Graph 10: Number of private housing units launched and sold by developers (excluding ECs)



Source: Urban Redevelopment Authority, prepared by KGI Asia

Table 6: Adjustments to Additional Buyer’s Stamp Duty (ABSD) Rates (Effective from 27 Apr 2023)

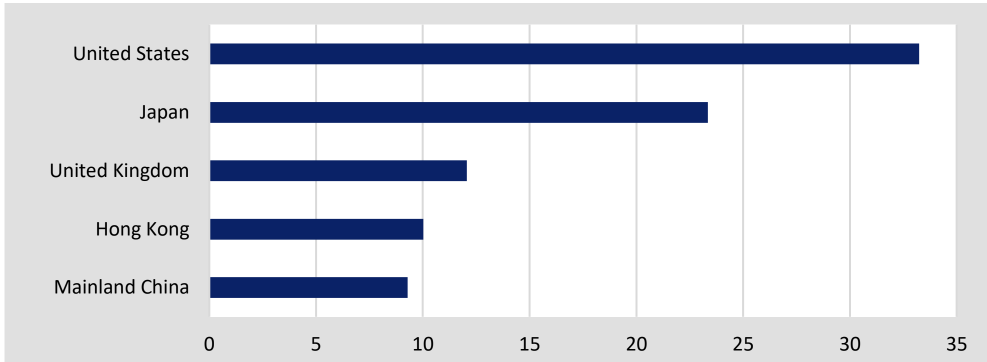
	First Residential	Second Residential	Third and Subsequent
Singapore Citizens	0%	17% -> 20%	25% -> 30%
Permanent Residents	5%	25% -> 30%	30% -> 35%
	Foreigners	Entities	ABSD (Trust)
All Residential Property	30% -> 60%	30% -> 65%	30% -> 65%

Source: Monetary Authority of Singapore, prepared by KGI Asia

Asia wealth hub status

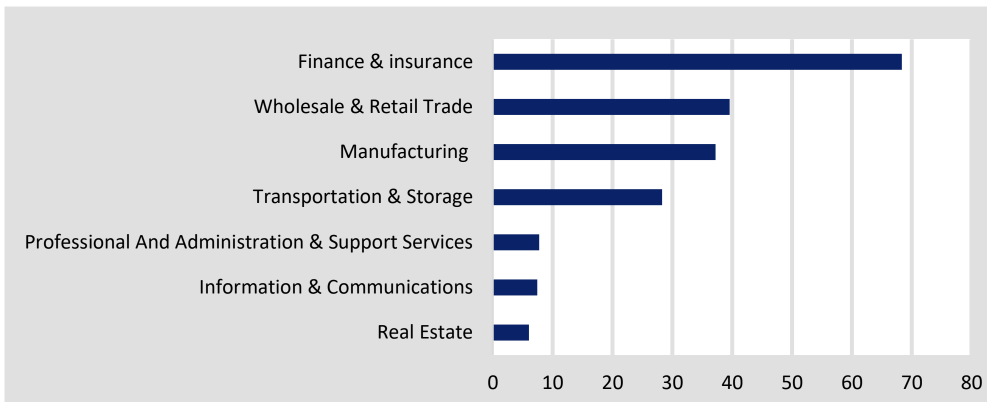
- **Increasing capital inflows:** As of 2021, there was S$5.4tn in assets managed in Singapore. In 2022, Singapore experienced a 10% YoY increase in inward direct investment flows, reaching S$195bn, primarily driven by higher equity capital and retained earnings.

Graph 11: Singapore inward direct investment by countries (Bn S$)



Source: Singapore Department of Statistics, prepared by KGI Asia

Graph 12: Singapore inward direct investment by industries (Bn S$)



Source: Singapore Department of Statistics, prepared by KGI Asia

- **High net worth population growth:** Singapore is currently home to approximately 247,300 individuals with a net worth of at least US$1mn, an 8% growth YoY in the number of high-net-worth individuals compared to 2021.

- **More Family Offices:** Singapore has seen a rise in the number of family offices, with approximately 700 single-family offices as of the end of 2021. Singapore is viewed as a safe haven for wealthy investors amidst rising geopolitical tensions and uncertainties.

- **Higher immigration barrier:** Singapore has raised the minimum investment requirement in the Global Investor Programme (GIP). Under the first option, they must invest at least S$10mn in a new or existing business, compared to the previous amount of $2.5mn. The second option mandates a higher investment of S$25mn in a GIP-selected fund, replacing the previous requirement of $2.5mn in a GIP fund. The third option necessitates the establishment of a Singapore-based single-family office with a minimum AUM of S$200mn, with S$50mn of assets allocated to specific investment categories.

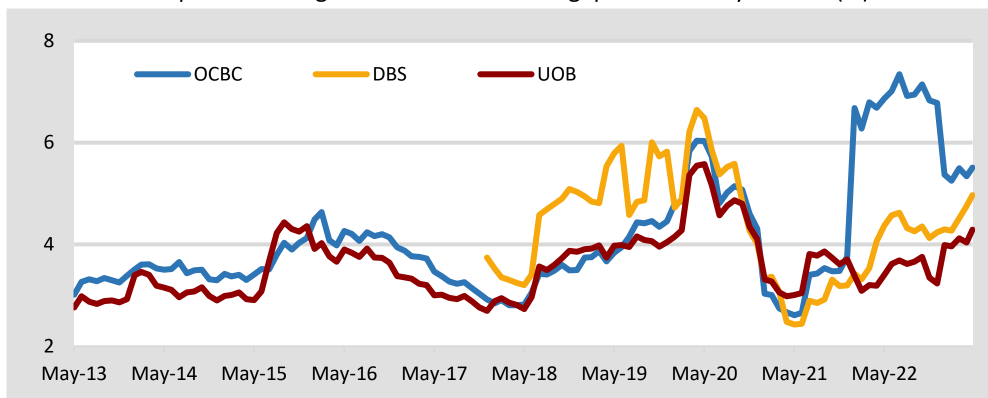
- **Real estate cooling measures:** Singapore recently revised its ABSD rates, raising the rates by between 3%-5% for Singapore Citizens and Permanent Residents buying second or more residential properties and by 30% for foreigners buying any residential properties.

Favourable sectors

Banking

- **Robust wealth management growth:** DBS/OCBC/UOB reported 9%/0.5%/11% YoY growth in assets under management to S$297bn/S$258bn/S$154bn respectively in 2022.
- **Record profit in 1Q23:** DBS/OCBC/UOB posted records of S$2.57bn/S$1.42bn/S$1.58bn respectively. The Singapore banks benefitted from an expansion of their Net interest margins between 56 bps and 75 bps. Net interest income also grew between 40% and 60% YoY.
- **Attractive dividend yield:** Average FY23F 6.0% across the three Singapore banks.
- **Valuation:** Current PE of 9.4x vs the 5-year average of 11.8x.
- **Outlook:** Average low to mid-single-digital loan growth and 20.7% earnings growth in FY23F.

Graph 13: Average Dividend Yield of Singapore Banks by Quarte (%)

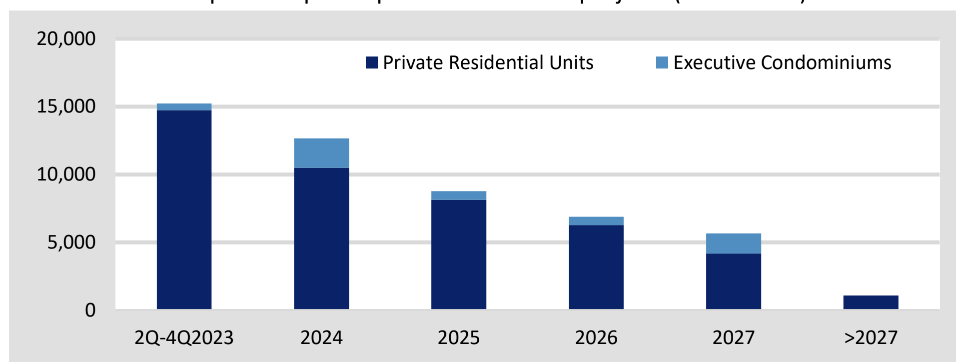


Source: Bloomberg, prepared by KGI Asia

Real estate

- **Increase in pipeline projects:** It is expected 30 to more than 40 new launches to be launched in 2023, adding 10,000 to 12,000 new homes to the market.
- **Decent dividend yield:** Average dividend yield 3.3% across the top five real estate firms in FY23F.
- **Valuation:** 10.7x current PE vs 8.7x in 2019.
- **Growth outlook:** 21.8% earnings growth in FY23F.

Graph 14: Pipeline private residential projects (No. of Unit)



Source: Urban Redevelopment Authority, prepared by KGI Asia

Indonesian Market Outlook

Catalysts for the rest of the year

We are optimistic about the Indonesian economy in 2H23 with the catalysts including loan growth to continue despite higher rates, higher commodity prices and better market sentiment awaiting the presidential election year in 2024.

The Indonesian economy is expected to grow in 2023, with the government targeting annual growth at 4.5%-5.3%, higher than the 20-year average of 3.5%, and reflects recovery from the contraction during the 2020 pandemic. We also expect loan growth to be at 9% in 2023, above the 15-year average of 8%, despite higher rates. To recap, the loan growth went negative in 2021 as businesses were adversely affected by the pandemic.

With our positive view on commodity movement for 2023, Indonesia as a commodity exporter is expected to benefit from the robust commodity prices. We believe the trend will continue until 2024.

Besides, the presidential election will hold in 2024, based on historical market movement, capital inflows and consumer spending usually increased in the year leading up to a presidential election, hence we expect the event will spur market sentiment in 2023. Overall, support our positive views on the Indonesian economy and the stock market for the rest of the time in 2023.

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 has become 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 42 indices) to track Indonesian stock performance. The first one is **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.

Automotive, Banking, Domestic consumption and Telecommunication are the four key sectors within Jakarta Composite Index. The main reasons are: Automotive sector has a positive sentiment during the exponential global Electric Vehicle market growth. The banking sector has the highest market weighting within JCI. The domestic consumption sector can enjoy the demand of the large population in Indonesia. The telecommunication sector is a steady business providing nationwide services.

Challenges Ahead for Indonesia

Over-reliance on imports, especially energy, is a major concern for the Indonesian economy. With the lack of self-sufficiency, significant fuel subsidy is a long-term issue for government budgeting. Moreover, as the main exporter of natural resources, the stability of the Indonesian economy is highly influenced by commodity price fluctuation.

Other than that, as Indonesia planning to build a new capital on the Island of Kalimantan, private funding has a crucial role in the project, the underfunded project would give pressure on the government budget. In order to stimulate the real estate market, the property rules for foreign investors should be loosened, for example, allowing the participation of real estate construction and simplifying credit financing procedures.

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