



2024 Q4 Global Market Outlook Twists and Turns



Macroeconomic Analysis

U.S. soft landing vision boots market confidence

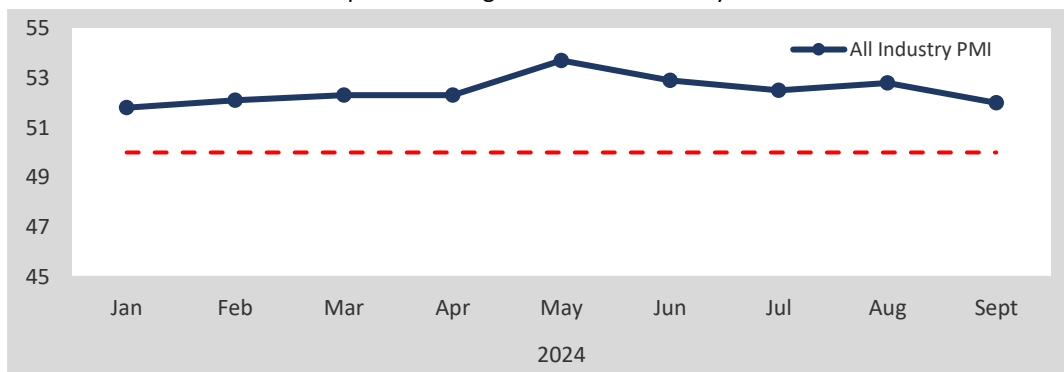
The global investment sentiment improved recently, primarily attributed to active monetary easing by central banks. For example, the Fed announced a 50-bp or 0.5% interest rate cut at its September meeting, officially restarting the interest rate reduction cycle. According to the dot plot, the Fed may further cut interest rates by 50 bps by the end of the year and 100 bps next year. The latest Fed economic forecast shows it has moderately lower economic growth by 0.1 percentage point to 2.0% and significantly lower inflation forecast for the current year, this hints at a soft landing for the U.S. economy.

The fact is, the U.S. revised up its final GDP growth for Q2 to 3% as expected, higher than the flash estimate of 2.8%; GDP growth for Q1 was also revised up from 1.4% to 1.6%. The data shows that the U.S. economy has once again demonstrated resilience, supported by consumer spending, which has alleviated recessionary concerns to a certain extent. Further, the monthly PCE Price Index rose 0.1% in August, in line with forecasts, and its annual growth rate fell from 2.5% in July to 2.2%, the lowest since February 2021, and below the expectations of 2.3%. Therefore, even though we expect the U.S. economy to decelerate in the first two quarters of next year, the macro data for the time being still signals a slowdown but not a recession. It is advised that investors keep a close eye on the changes in economic data as they will influence both monetary policy decisions and global investment sentiment.

As for the global economy, the JP Morgan Global All Industry Purchasing Managers' Index (PMI) for September came in at 52.0, down from 52.8 in the previous month, and remained above the 50 contraction-expansion line. This indicates the global economy is in an expansionary state. Regionally, The U.S. PMI decreased by 0.5 points to reach 54.0, while the Euro area and the United Kingdom reported decreases of 1.4 points and 1.3 points, respectively, in their composite PMI. For the emerging markets, such as India and Russia also saw pressures, down 1.5 points and 2.6 points, respectively. Overall, the market remains in an expansionary state, but the widespread declines are somewhat disappointing, with both developed markets (DM) and emerging markets (EM) experiencing broad-based decreases.

In addition to the economy, investors will have to pay attention to the U.S. presidential election in Q4. The first debate between Republican candidate Donald Trump and Democrat Kamala Harris was held on September 10. After the debate, Harris was generally viewed as a better performer, making American voters more aware of her and her political views. In our view, although polls and betting markets show increased odds of winning for Harris, due to the special electoral vote system, the two candidates are neck and neck after factoring in the polls of the 7 key swing states. The election outcome, hence, remains uncertain.

Graph 1: JP Morgan Global All industry PMI



Source: Bloomberg, Prepared by KGI Asia

Potential risk to watch out for

For investors, the short-term market continues to benefit from favorable news regarding interest rate cuts and a soft landing. However, several potential negative factors remain noteworthy, including the following two key points:

1. The growth rate of major economy, particularly the United States and Mainland China, can be influential factor for the market. Will the former achieve a soft landing? Can the latter stabilize or improve following the recent series of stimulus policies?
2. As far as geopolitics are concerned, will the killing of Nabil Kaouk, the deputy head of Hezbollah's Central Council, and Sayyed Hassan Nasrallah, the leader of Hezbollah, lead to a full-scale escalation of the war in the Middle East?

Global Strategies

Below we will review the global strategy "GUIDE" proposed at the end of June. Overall, we believe the strategy will still be applicable in Q4.

Selected Industries

Gold: Accumulate gold on dips in medium to long term

In Q3, the Fed signaled rate cuts, the actual 50 bps cut was slightly higher than expected. With risk-free yields falling, gold became relatively more attractive, and gold prices hit a historical high. As of September 30, the spot gold price hovered around \$2,630 per ounce, about 13% higher than at the beginning of the quarter.

U.S. fiscal conditions have raised concerns, and changes in U.S.-China relations, along with unstable situations in the Middle East and Russia-Ukraine, have led to a continued increase in market demand for gold as a safe-haven asset. Global central banks' increased gold holdings further support gold prices. According to Bloomberg data, the U.S. still has the highest gold reserves, exceeding 8,100 tons, while China's reserves have been rising in recent years, now exceeding 2,200 tons. Russia and China have seen the highest growth in reserves over the past 20 years.

Gold miners also performed well in Q3, the BUGS index had a total return of about 20%. Rate cuts are expected to reduce costs. However, gold miners can be affected by investment sentiment and generally have higher volatility than gold prices. Subsequent earnings growth should also be observed.

Utilities: Defensive with medium to long-term growth potential

With defensive capabilities and higher rate sensitivity, utilities had a total return of 19.4% in Q3, the best-performing sector among the 11 sectors of S&P 500. During the same period, S&P 500's total return was 5.9%.

Utilities remain attractive among the three defensive sectors. In addition to traditional defensive characteristics, AI-driven data centers and corresponding power demands will continue to support industry growth. Rate cuts are also expected to support a decline in cost of capital. Some companies are likely to stand out in the clean energy market, providing growth potential for the utilities sector. Considering the current outperformance vs Index, buying on dips might be a more advisable approach to enter the market.

Core Allocation

Investment Grade: Rate cut cycle favorable for IG bonds

In Q3, market expectations and actual rate cut drove Treasury yields down, supporting bond market performance. Two-year and ten-year treasury yields fell from 4.75% and 4.40% on June 28, to 3.64% and 3.78% on September 30, respectively, with total returns of roughly 1.58% and 3.52%. Short-term yields fell more than long-term yields, and the yield curve is no longer inverted by the end of September, with the 2-10 year spread at 14 basis points.

Past rate cut cycles have generally been favorable for IG bonds, especially as rate cuts are often accompanied by the possibility of economic slowdown. Relatively high-yield bond issuers may face risks of subsequent economic slowdowns, making investment-grade bonds more preferable.

Before the year-end, there are still meetings in early Nov and mid-Dec. Currently, the rate futures market has priced in about 75 bps cuts over these two meetings, with an additional 125 bps cut in 2025. Conservative investors can continue to lock in yields through medium to long-term bonds (such as 5-10 years), while those looking to further increase duration might find it more ideal to increase holdings when bond yields rebound.

Defensive Stocks: Focus on portfolio defense capability amid U.S. election and slowdown risks

The "Magnificent 7" tech stocks dominating U.S. large-cap indices largely met their Q2 earnings expectations, with decent growth, but the increase failed to amaze the market again. We expect growth to slow down and trend towards the large-cap average. Among the S&P 500, profit growth expectations for the 493 companies outside the Magnificent 7 are rising, which may support the overall U.S. stock trend.

AI, semiconductor, and tech-related industries in the U.S. hold a unique position in the market. Investors might consider increasing holdings through regular fixed investments, but should be aware of concentration risk.

The U.S. election remains the biggest uncertainty for global stock markets in Q4, and portfolio defense capability remain crucial. Traditional defensive sectors such as healthcare, utilities, and consumer staples show a negative correlation with U.S. Treasury yields. The decline in yields and economic slowdown concerns in Q3 supported the performance of defensive sectors. If the economy weakens further or bond yields continue to fall, it will support the performance of these sectors.

The Fed has initiated rate cuts before significant economic downturn, and the policy shift towards easing is expected to support the economy. We anticipate the economy will only slow down rather than head for recession, a soft landing still is the current scenario. If there's no recession, stock market performance can still be expected. Aggressive investors might consider increasing holdings in financials, industrials, materials, and other sectors more sensitive to economic cycles during low points, while closely monitoring for any economic deterioration.

Eastern Regions: Select Asian regions

Japan: The Bank of Japan (BOJ) unexpectedly raised interest rates by 10 basis points at the end of July, and coupled with the Fed's rate cut during the quarter, the narrowing interest rate differential supported the yen's rise against the dollar. As mentioned in the Q2 global strategy, the yen's trend shows a negative correlation with overall Japanese corporate earnings, especially for export-oriented companies, with a strong yen putting pressure on Japanese stock prices. Currently, the turn to positive real wages in Japan is expected to support a positive economic cycle, favoring industries focused on domestic demand. Prime Minister Shigeru Ishiba said Japan was not ready for more rate hikes. However, we expect US-Japan yield spread to narrow in mid-long term, overall yen tends to appreciate, unhedged portfolios may have an advantage.

China: The mainland government introduced multiple policies to support the economy at the end of September, stimulating a sharp rise in the stock market. For details, please refer to the "China Macroeconomic and 6 Stock Pick for 4Q24" section of this report.

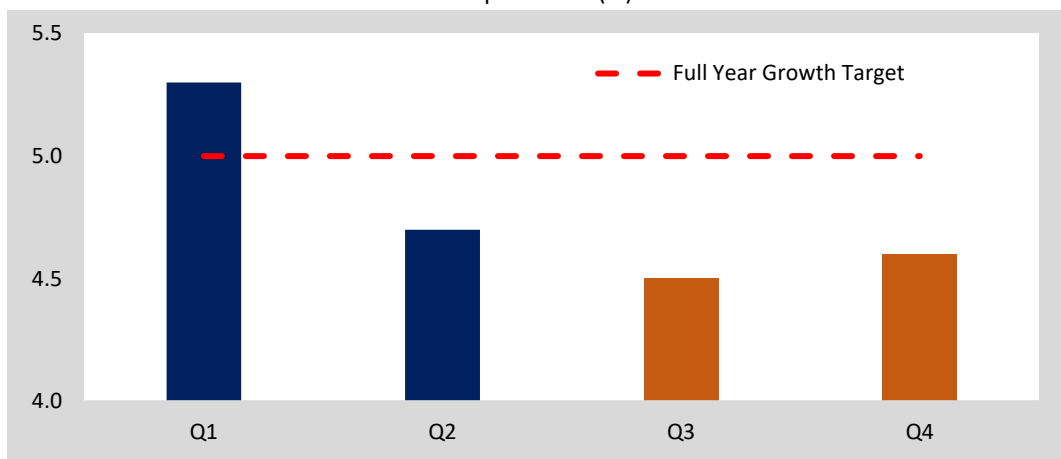
India: In Q3, the MSCI India Index (USD) rose about 7.4%, lagging behind the MSCI Asia ex-Japan Index's 10.7%, as China has a higher weighting (28%) in the Asian ex-Japan index. India's Q2 GDP grew 6.7% year-on-year, slower than expected (6.9%), partly due to reduced government spending following the end of the Indian elections. Historically, the Indian rupee has had a low correlation with the US dollar, so the weakening dollar didn't significantly support the local currency. However, the Nifty50 index hit a new all-time high of 26,216 points on September 26, before closing the third quarter at 25,811 points. While India's growth remains solid in the medium to long term, significant upward revision is unlikely in short term. In terms of the stock market, Asian funds may shift towards China, and India is likely to trend upward with fluctuations in the coming quarter.

ASEAN: The shift towards easing policies in developed markets has supported capital inflows into non-European and American regions. ASEAN currencies have strengthened against the US dollar in Q3, supporting the ASEAN stock markets performance. Changes in U.S.-China relations have promoted closer supply chain cooperation between China and ASEAN. Exports from China and from ASEAN show positive correlation, indicating that the export relationship between the two regions is not purely competitive. During the U.S.-China rivalry, the ASEAN region may be in a relatively ideal position.

China Macroeconomic GDP

Reviewing China’s economic growth from the beginning of the year until now, China recorded a 5.3% GDP growth in the first quarter, which once boosted the desire to reinvest in the Chinese market. During the ‘Two Sessions,’ the central government set this year’s growth target at around 5%. However, subsequent economic data showed that China’s economic growth momentum began to weaken, with the second quarter’s growth rate falling to 4.7%, below market expectations and the annual growth target (although cumulative growth still met the target). The slowdown in the second quarter has indeed increased the pressure on economic growth in the second half of the year. The central government needs to introduce stronger policies to ensure the economic growth target is met.

Graph 2: GDP (%)



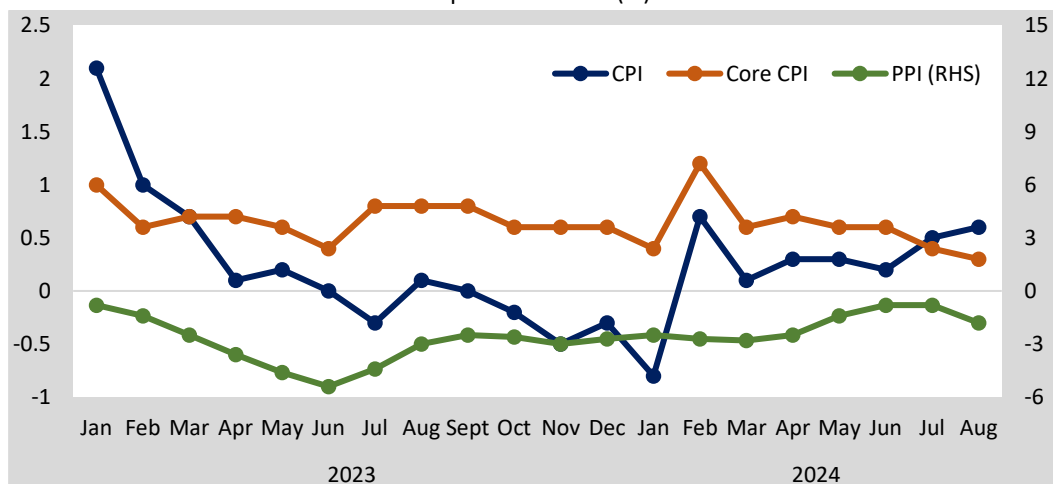
Source: National Bureau of Statistics of China, Prepared by KGI Asia

Note: Orange bar were Bloomberg estimate

Core CPI under pressure

Additionally, market concerns on China’s price level remains. In the most recent CPI for August, although the year-on-year inflation growth has rebounded compared to the previous value, the increase was mainly driven by rising prices of food and beverage. In fact, the core inflation rate has been gradually declining since March, with the latest figure at 0.3%, a three-and-a-half-year low, reflecting the issue of weakening market consumption. As for the Producer Price Index (PPI), after months of narrowing declines, the year-on-year decline in August saw a significant expansion again, dropping 1 percentage point more than the previous value to -1.8%, indicating insufficient pricing power in the industrial and commercial sectors. Overall, deflationary pressures in China remain.

Graph 3: CPI & PPI (%)



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

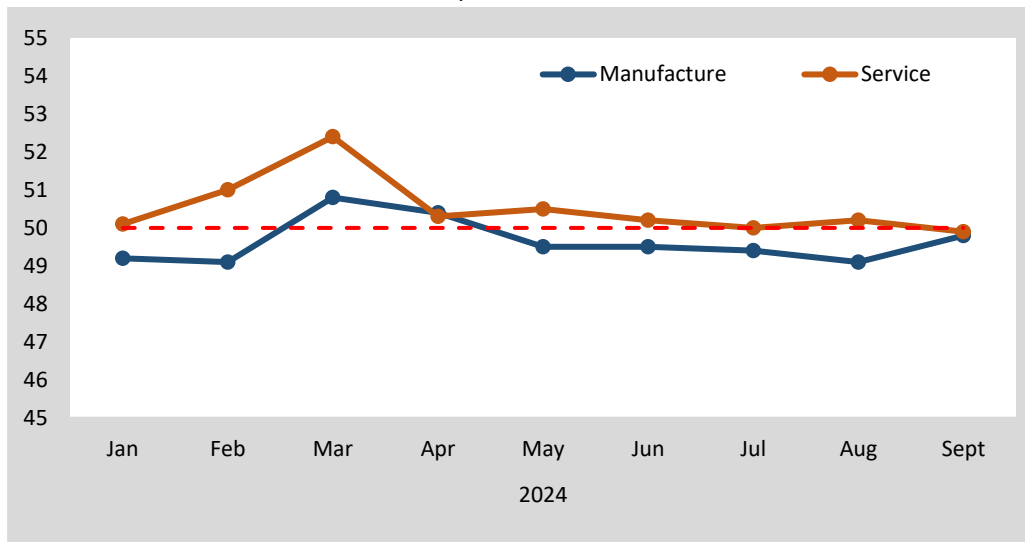
Weak PMI performance

In terms of the Purchasing Managers’ Index (PMI), the service sector has stabilized after post-pandemic expansion last year. Since April, it has been hovering around the 50, dividing line of expansion or contraction. However, the latest data for September has dropped to 49.9, indicating the end of the rapid expansion phase. Nonetheless, the need to promote growth in the service sector remains important.

On the manufacturing side, the situation is more severe. Over the past 12 months, only two months recorded expansion, with readings between 50.4 and 50.8. This indicates that even when there was expansion, it was only a slight improvement. Overall, the manufacturing sector remains very weak, mostly in contraction territory. The manufacturing PMI for September slightly increased to 49.8 from August, close to the threshold. China’s manufacturing sector is expected to continue facing numerous challenges.

At the same time, business activity expectations in the manufacturing sector have also started to show signs of fatigue, recording 52 for two consecutive months, the lowest level in the past 12 months, and forming a gradual downward trend. This also reflects issues of insufficient domestic demand and inadequate pricing power in the manufacturing sector.

Graph 4: China PMI



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

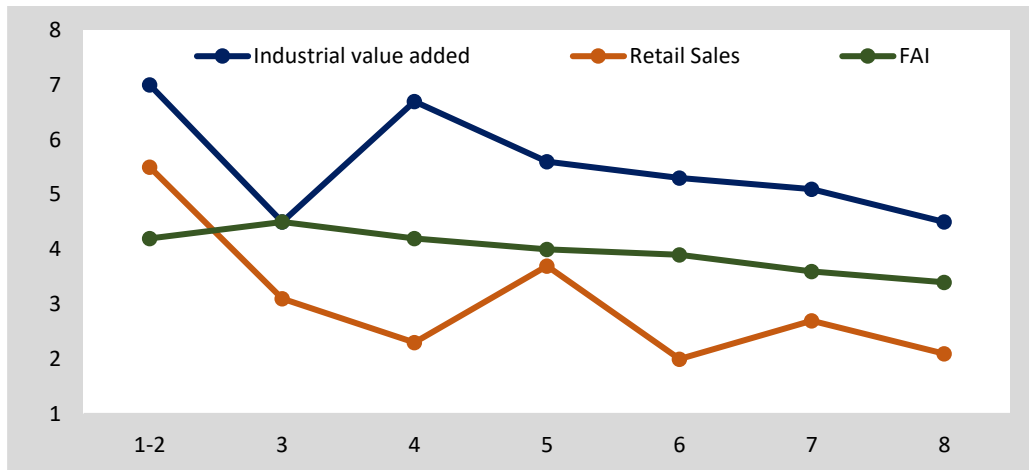
FAI, Industrial value added & Retail Sales

Additionally, the National Bureau of Statistics’ data for August showed a slowdown in the growth rates of fixed asset investment, industrial value added, and retail sales. Fixed asset investment growth for the first eight months fell to 3.4%. Although state-owned investment continued to support overall investment growth, private investment remained pessimistic, once again falling into negative growth in the latest data, reflecting weak market investment confidence. On the other hand, high-tech investment outperformed, growing by 10.2% year-on-year.

A similar trend was observed in industrial output, with high-tech manufacturing growing by 8.6% in August, 4.3 percentage points higher than the overall manufacturing growth rate, indicating that high-tech production is currently outperforming traditional production.

The most concerning data is retail sales, which continued to show weakness in August. Retail sales growth slowed to 2.1%, below the market expectation of 2.5% and the previous value of 2.7%. In detail, catering revenue increased by 3.3% year-on-year, and goods retail sales increased by 1.9% year-on-year, the second-lowest level in the past 12 months, reflecting insufficient demand.

Graph 5: FAI, Industrial value added & Retail Sales (%)



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

Government measures

In the context of the current economic challenges, the State Council Information Office recently held a press conference where the People’s Bank of China, the National Financial Regulatory Administration, and the China Securities Regulatory Commission jointly announced a series of measures to support the development of the economy and capital markets. These measures include reducing the 7-day reverse repo rate by 0.2 percentage points to 1.5%. Currently, short-term rates are dominant, and there may be opportunities to drive the Loan Prime Rate (LPR) and deposit rates lower, which will help reduce corporate financing costs and lower market deposit demand. Additionally, the People’s Bank of China announced a 0.5 percentage point reduction in the reserve requirement ratio (RRR), expected to release about RMB 1 trillion of long-term liquidity into the market. It also hinted at a further reduction in the RRR by 0.25 to 0.5 percentage points, reflecting a strengthened intention to stabilize the market.

Furthermore, a series of real estate supportive policies were introduced, including an average reduction of about 0.5 percentage points in existing mortgage rates and unifying the minimum down payment ratio for first and second homes to 15%. The policy for refinancing guaranteed housing will see the central bank’s funding support ratio increase from 60% to 100%. There are also plans to allow policy banks and commercial banks to support qualified enterprises in market-based acquisitions of land from real estate companies. Subsequently, some regions have begun to fully lift purchase restrictions.

Regarding support for the capital market, the governor of the People’s Bank of China announced that securities, fund, and insurance companies will be allowed to provide swap facilities. This measure aims to support eligible institutions in obtaining liquidity assets from the central bank through asset pledges, thereby enhancing their ability to access funds and increasing potential liquidity in the stock market. Additionally, banks will be guided to provide loans to listed companies and major shareholders to support stock buybacks or increase shareholding to resume investor confidence. The China Securities Regulatory Commission also mentioned the release of a market value management guideline for listed companies, indicating that companies with long-term price-to-book ratios below 1 should develop value enhancement plans. This is expected to improve corporate governance, investor protection, and the shareholder returns for Chinese listed companies in the long run.

Overall, the current round of measures is comprehensive, as the RRR cuts can release liquidity, while interest rate cuts can lower corporate financing costs. The reduction in existing loan rates can alleviate the repayment pressure on citizens, thereby releasing consumer potential. The supportive measures for the equity market can have a positive stimulating effect. Under the influence of these announcements, the trading volume in the Hong Kong stock market reached a historic high of over HKD500bn on the 30th of September.

HSI Forecast For 4Q24

Hang Seng Index bottomed out and rebounded more than 4,000 points

In response to a series of market-stimulating measures implemented by the central government, the Hong Kong and China equity markets have exhibited a pronounced rebound. The Hang Seng Index, starting from 17,051 on September 11, recorded declines on only one occasion over the subsequent 12 trading days, culminating in an aggregate increase of 4,083 points, or 23.9%. During this period, the average daily trading volume of HSI constituent stocks was 4.65bn shares, notably surpassing the average volumes of 3.29bn shares and 3.24bn shares during the index's previous peaks of over 31,000 points in early 2021 and the historical high of 33,484 points in 2018, respectively. This phenomenon may indicate a prevalent "Fear of Missing Out" (FOMO) sentiment regarding Hong Kong equities.

4Q24 outlook could be supported by market sentiment

Looking ahead to the fourth quarter, whether Hong Kong stocks can maintain their high levels remains uncertain. By simply analyzing from an economic fundamentals perspective, it seems difficult to continue the uptrend, primarily because the observation period for policy effects typically requires at least six months. Additionally, the earnings of Chinese and Hong Kong equities could be adversely impacted by the economic slowdown in China during the 3Q and 4Q. However, we believe that if the aforementioned policies can be successfully implemented, the market may continue to anticipate the stock market's outperformance compared to the real economy.

As of September 30, the blended forward 12-month P/E ratio of the HSI stood at 9.6x, which has surpassed the negative one standard deviation mark observed over the past decade. The next resistance level is identified at 10.6x, corresponding to the peak levels recorded since 2023. Using the earnings forecasts of HSI, the blended forward 12-month EPS are projected to be HKD 2,200, which corresponds to an index level of 23,210. Should the overall market sentiment remain robust and the implementation of national policies exceed expectations, there is potential for the HSI's valuation to reach 11.5x P/E ratio, which represents one standard deviation above the average observed over the past five years, correspond to 25,300.

6 Stock Pick For 4Q24

HKEX (388): HKEX recorded satisfactory result in 1H24, with 2Q core business revenue rose by 8% qoq, driven by increases in trading and clearing fees from higher Headline ADT and higher LME trading volumes, and a seasonal increase in depository fees. The Chinese government announced several policies to stimulate the economy, providing support for the undervalued stock market. Improved market trading activity is also expected to help revive the IPO market, benefiting HKEX.

Ping An Insurance (2318): The interim result of PAI beat expectations, showing a recovery in the profitability of its life insurance business. In 1H24, the new business value for life and health insurance reached RMB22.3bn, a yoy increase of 11%. The NBV of the agent channel grew by 10.8%, and the per agent NBV increased by 36%, indicating improvement in productivity.

China State Construction (3311): The group has continued to promote the application of MiC technology in the mainland market in recent years. Meanwhile, it maintains a solid leading position in the construction markets of Hong Kong and Macau, with its facade business remaining technically advanced. The group has maintained a robust financial condition, with enhanced risk resilience. There is potential for DPS to increase as management has revised its dividend payout ratio guidance from "approximately 30%" to "not less than 30%."

TTI (669): Techtronic Industries reported strong performance in 1H24, with sales increased by 6.3% to USD7.3bn and net profit rose by 15.7% to USD550mn. The MILWAUKEE segment recorded double-digit sales growth, while RYOBI outperformed the market. The growing demand for data center capacity has heightened the urgency to upgrade aging U.S. electrical grid infrastructure, leading to a positive outlook on MILWAUKEE's sales growth.

China Mobile (941): With capital expenditures gradually declining, it is expected to see improvement in the free cash flow. The company places significant emphasis on shareholder returns, committing to increase its dividend payout ratio to 75% over three years starting from 2024. China Mobile's high growth visibility and attractive dividends make it a viable defensive pick.

BOC Aviation (2588): The aviation leasing sector can benefit from the rising lease rental yield due to the slower aircraft deliveries. Additionally, the company's financing costs can decrease amid a rate-cutting cycle.

Investment Strategy Team		
WEN Kit Kenny	TAM Mei Ki, Cynthia, CFA	MOK Raymond, CFA
SFC licensee (CE No. AJF244)	SFC licensee (CE No. BFI754)	SFC licensee (CE No. BHJ465)
kenny.wen@kgi.com	cynthia.tam@kgi.com	raymond.mok@kgi.com
KUNG Chun Wah, CFA	YIP Chun Yi	
SFC licensee (CE No. BRY438)	SFC licensee (CE No. BSQ196)	
tommy.kung@kgi.com	derek.yip@kgi.com	

DISCLAIMER

All the information contained in this document is not intended for use by persons or entities located in or residing in jurisdictions which restrict the distribution of this document by KGI Asia Limited (“KGI”), or any other affiliates of KGI. Such information shall not constitute investment advice, or an offer to sell, or an invitation, solicitation or recommendation to subscribe for or invest in any securities, insurance or other investment products or services nor a distribution of information for any such purpose in any jurisdiction. In particular, the information herein is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities in the United States of America, or to or for the benefit of United States persons (being residents of the United States of America or partnerships or corporations organised under the laws of the United States of America or any state, territory or possession thereof). All the information contained in this document is for general information and reference purpose only without taking into account of any particular investor’s objectives, financial situation or needs and may not be redistributed, reproduced or published (in whole or in part) by any means or for any purpose without the prior written consent of KGI. Such information is not intended to provide any legal, financial, tax or other professional advice and should not be relied upon in that regard.

All investments involve risks. The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities.

Bond investment is NOT equivalent to a time deposit. It is NOT protected under the Hong Kong Deposit Protection Scheme. Bondholders are exposed to a variety of risks, including but not limited to: (i) Credit risk - The issuer is responsible for payment of interest and repayment of principal of bonds. If the issuer defaults, the holder of bonds may not be able to receive interest and get back the principal. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer; (ii) Liquidity risk - some bonds may not have active secondary markets and it would be difficult or impossible for investors to sell the bond before its maturity; (iii) Interest rate risk – When the interest rate rises, the price of a fixed rate bond will normally drop, and vice versa. If you want to sell your bond before it matures, you may get less than your purchase price. Do not invest in bond unless you fully understand and are willing to assume the risks associated with it. Please seek independent advice if you are unsure.

You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided herein. In all cases, anyone proposing to rely on or use the information contained herein should independently verify and check the accuracy, completeness, reliability and suitability of the information. Simulations, past and projected performance may not necessarily be indicative of future results. Information including the figures stated herein may not necessarily have been independently verified, and such information should not be relied upon in making investment decisions. None of KGI, its affiliates or their respective directors, officers, employees and representatives will be liable for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind) suffered or incurred by any person or entity due to any omission, error, inaccuracy, incompleteness or otherwise, or any reliance on such information. Furthermore, none of KGI, its affiliates or their respective directors, officers, employees and representatives shall be liable for the content of information provided by or quoted from third parties.

Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers, employees and representatives may from time to time have a position in any securities mentioned herein.