

OCTOBER 2024

# Investment Navigator

## Asia Edition



# Welcome to the global synchronised monetary loosening party!

## The Fed party finally started

The US Federal Reserve kick-started the highly anticipated rate-cutting cycle with a bang. A 50bps interest rate cut brings the Fed Funds target to 4.75-5.00%. Despite the jumbo-sized cut, we believe that it is less of a potential recessionary concern, and more a recognition that the disinflation process is well underway. We continue to forecast 25bps cuts in the upcoming November and December FOMC, followed by quarterly 25bps cuts in 2025.



## Does size matter?

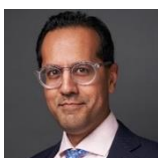
Unsurprisingly, investors demand faster and larger rate cuts. Fed Chair Powell recently mentioned that the Federal Reserve does not follow a preset path of rate cuts and will continue to make decisions based on incoming economic data. Markets were slightly disappointed by his less dovish than expected stance. Nonetheless, the “pivot” we were all eagerly awaiting has finally occurred. Hence even as market participants continue to bet on the size and timing of rate cuts, what is more crucial is that the direction of further monetary loosening is now clear.

## Who’s already at the party?

Some consider the Fed “late” to the party, and the 50bps cut is seen as making up for lost time. The Swiss National Bank (SNB) in March 2024 implemented the first rate cut among developed economies in this cycle, while Sweden (Riksbank), Canada (BoC) and Euro Area (ECB) swiftly followed. The United Kingdom (BoE) and New Zealand (RBNZ) were the last to join the club before the Fed finally commenced their rate cutting cycle in September 2024. Amongst the developed markets’ central banks, only BoJ is moving in a different trajectory. Even so, the latest tone from the BoJ is much less hawkish, with the recent Yen volatility fresh in the minds of policymakers. All in all, the developed markets have made it clear. We are at the start of a globally synchronised monetary loosening.

Change in interest rates (bps)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Switzerland (SNB)			-25			-25			-25
Sweden (Riksbank)					-25			-25	-25
Canada (BoC)						-25	-25		-25
Euro Area (ECB)						-25			-25
United Kingdom (BoE)								-25	
New Zealand (RBNZ)								-25	
United States (Fed)									-50
Australia (RBA)									
Norway (Norges Bank)									
Japan (BoJ)			+10				+15		

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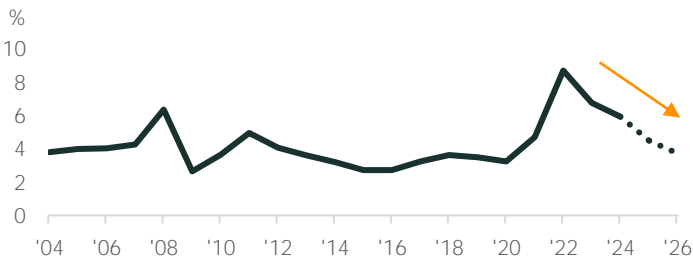
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## Party to continue on easing inflation and labour concerns

The stubbornly hot inflation globally seems to have finally quelled sustainably. The cooling consumer prices will continue to give the Fed and other major central banks license to lower rates further. In fact, the narrative recently shifted from stubborn inflation to labour slowdown, which reignited recession fears. This is supportive for interest rates to be lower going forward, although **we are less aggressive than the market in forecasting rate cuts as soft-landing in the US remains our base case.**

### GLOBAL INFLATION HAS FINALLY EASED OFF SUSTAINABLY



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

## Who are the beneficiaries of this party?

Given that major central banks have embarked on the rate cutting cycle, both short and long-term bond yields have been dragged substantially lower since April. Bank lending standards will continue to loosen, and that should improve the global liquidity and credit conditions over the coming months.

This therefore creates an environment which will theoretically support global financial markets, in particular equities, commodities and corporate bonds (prefer higher quality) as we move into the final months of 2024.



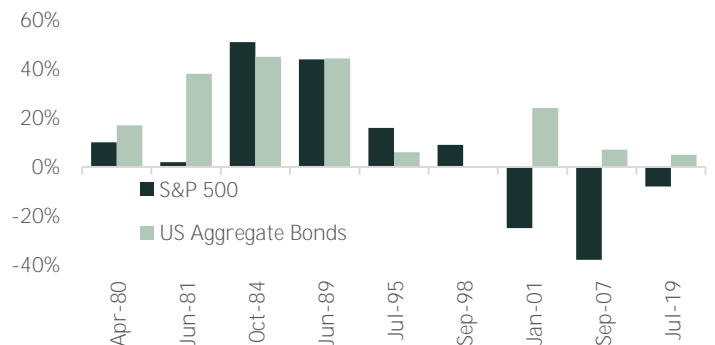
## Which asset class should outperform?

On average over the past nine cycles since 1980, US bonds (government and corporate) outperformed US equities during rate-cutting cycles. This is due to recession (6 out of 9 times), and risk-off sentiment dominated the markets.

However, in the three soft landing cases, where the Fed cut rates due to an economic slowdown with inflation under control, equities outperformed bonds. As mentioned earlier, our base case remains a soft landing scenario in the US.

Hence, we do think that equities are likely to outperform bonds for this rate cutting cycle.

### TOTAL RETURNS THROUGHOUT A RATE CUT CYCLE



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



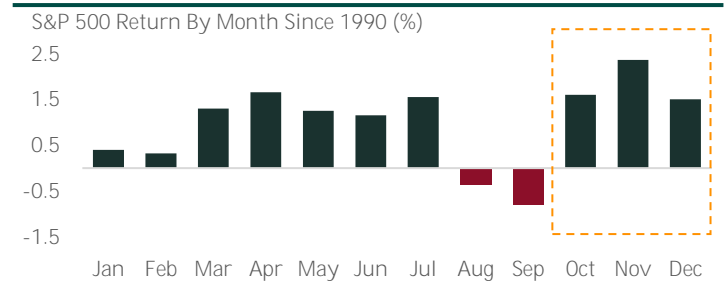
### Further catalyst for risk assets

The direction of looser monetary policy aided various markets and asset classes to register new all-time-highs this year. However, this rate-cutting cycle is unique compared to the past. The scars from the Covid-19 pandemic run deep, and many investors are still sitting on the sidelines. Over the last few years, the high interest rates gave no reason for market participants to take on more risk, albeit that is about to change (given the reduction in rates).

We expect a stronger risk-on sentiment, which is likely to translate into stronger outflows from money market funds and more inflows for equities and bond funds.

Aside from positioning, seasonality may well play a role in the last quarter of 2024. August and September are often the worst performing months for US equities since 1990, while Q4 is generally the best performing quarter for the year. We also have the upcoming US Presidential election, where the S&P 500 typically moves higher post election and into the following year.

### S&P 500 SEASONALITY EFFECT



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



## China joins the party!



The Fed's big first rate cut and recent strengthening of the RMB have given room for the PBoC to announce a bigger-than-expected monetary easing. The easing includes large magnitude rate and RRR cuts, guidance of further easing and new monetary policy tools to support stock markets. Crucially, the announcement showcased Beijing's clear intentions to achieve 5% growth target this year and put a stop to the property and consumption slump.

The move was extremely well received by the market, given the fragile sentiment and low expectations. A short squeeze engineered by hedge funds soon evolved into something more bullish, and sentiments turn positive which trigger a further buying frenzy. As of 4 October 2024, the Hang Seng Index, Hang Seng Tech Index, MSCI China are all >30% up year-to-date.

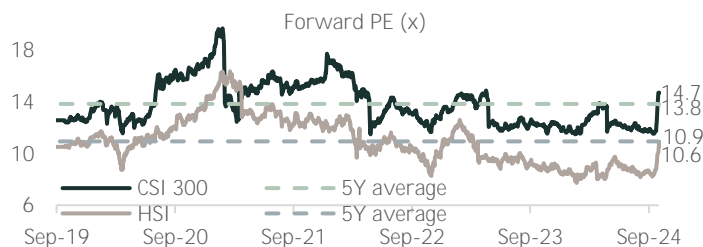
## Is the rally too fast too furious?

The Fed's rate cutting cycle will continue to improve global liquidity, and together with a weakening USD, will benefit Hong Kong and China stocks.

Also, valuations of the HSI and CSI 300 are still relatively fair despite the massive re-rating, with HSI forward PE at 10.6x (vs 5-year average 10.9x) and the CSI 300 at 14.7x (vs 5-year average 13.8x).

Additionally, global funds positioning remains extremely underweight, even after such an unprecedented move. These suggest that the recent move may be more than just another bear market rally.

### VALUATIONS ARE STILL REASONABLE



Source: Datastream, BNP Paribas (WM), as of 4 Oct 2024  
Past performance is not indicative of current or future performance.

Nonetheless, China is a different kind of beast. The 3-year long downtrend is largely due to structural issues regarding the property sector and domestic demand. A large enough fiscal stimulus will be needed to revive domestic demand of the real economy. This is key for a more sustained equity market rally, and market expectation has been rising sharply. While we continue to stay positive on Chinese equities, we do expect an increase in volatility going forward.

## CONCLUSION

### SYNCHRONISED RATE CUTS

US Federal Reserve commenced their rate cutting cycle with a jumbo 50bps, while several developed countries' central banks have already started cutting before the Fed. **Importantly, the rate cutting cycle is now synchronised globally (except for Japan), and are likely to continue given the easing of inflation globally, while labour market woes are also in support of lower rates.**



### CATALYST FOR RISK ASSETS

Bank lending standards will continue to loosen, and that should improve the global liquidity and credit conditions. Such an environment supports global financial markets, in particular **equities, commodities and corporate bonds (prefer higher quality)** as we move into the final months of 2024. Reducing rates during a soft landing scenario typically allows equities to outperform bonds, while seasonality and the US elections are likely near term catalysts for equities.



### CHINA MARKET



China loosened its monetary policy more than expected, partly thanks to the Fed's jumbo-sized cut and weaker USD. Chinese equities surged over a period of 2 weeks and are now one of the best performing markets year-to-date. We remain **positive on Chinese equities**. Despite the re-rating, valuations are still fair and global positioning is still low. Sentiments are turning, but fiscal stimulus is required to sustain the upward momentum.

## Overview of our CIO Asset Allocation for October 2024

	Views		Constituents	We like	Comments
	Current	Prior			
EQUITIES	+	+	Markets	UK, Japan, Eurozone, Brazil, China, South Korea, Singapore & Indonesia	<ul style="list-style-type: none"> <li>■ We maintain our <b>positive view on non-US equities</b>.</li> <li>■ We are <b>positive on developed markets Small Caps</b>.</li> </ul>
			Sectors	Healthcare, Materials, Industrials	<ul style="list-style-type: none"> <li>■ We also like EU financials, REITs &amp; technology.</li> </ul>
			Styles/ Themes	Megatrend themes	<ul style="list-style-type: none"> <li>■ Circular economy, electrification, security, deep value &amp; income themes.</li> </ul>
BONDS	=	=	Govies		<ul style="list-style-type: none"> <li>■ We remain <b>tactically neutral on US Treasuries</b></li> <li>■ Our 12-month target for the US 10-year Treasury yield remains at 4.0%, but <b>revised down our 2-year yield target to 3.5%</b>.</li> </ul>
			Segments	Investment grade, Emerging markets (EM) bonds (USD + local currency)	<ul style="list-style-type: none"> <li>■ We remain <b>positive on US</b> (short maturity) <b>and Euro</b> (up to 10-year maturity) <b>investment grade corporate bonds</b>.</li> </ul>
CASH	-	-			
COMMODITIES	+	+		Gold Base metals	<ul style="list-style-type: none"> <li>■ <b>Gold - positive: revised up 12-month target of \$3000/oz</b></li> <li>■ <b>Oil - neutral: revised down Brent's target range to \$70-80.</b></li> <li>■ <b>Base metals - positive</b></li> </ul>
FOREX			USDJPY		<ul style="list-style-type: none"> <li>■ <b>USDJPY 3- and 12-month targets at 145 and 140 respectively.</b></li> </ul>
ALTERNATIVE	+	+		Hedge funds (event driven, long-short equities, relative value)	<ul style="list-style-type: none"> <li>■ <b>Neutral on global macro</b></li> </ul>

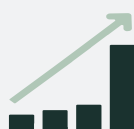
Note: + Positive / = Neutral / - Negative

## GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2023	2024f	2025f	2023	2024f	2025f
Developed	US	2.5	2.6	1.9	4.1	2.9	2.2
	Japan	1.7	-0.2	0.7	3.2	2.6	2.4
	Eurozone	0.5	0.8	1.4	5.4	2.4	2.0
	UK	0.1	1.2	1.5	7.4	2.6	2.5
North Asia	China	5.2	4.9	4.5	0.2	-0.4	1.3
	Hong Kong*	3.2	2.9	2.7	2.1	2.3	2.3
	South Korea	1.4	2.4	1.8	3.6	2.5	2.2
	Taiwan	1.3	3.9	2.1	2.4	2.2	1.8
South Asia	India	8.2	6.9	6.7	5.4	4.7	4.3
	Indonesia	5.1	5.1	5.1	3.7	2.7	2.7
	Malaysia	3.6	5.1	4.5	2.5	2.0	2.8
	Philippines*	5.6	6.2	6.2	6.0	3.6	3.0
	Singapore	1.1	2.6	2.4	4.2	2.8	1.8
	Thailand	1.9	2.8	3.0	1.3	0.7	1.7

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 30 September 2024

\* IMF data and forecasts as of 30 September 2024



### GROWTH

- **US soft-landing remains our base case scenario.** Our US GDP growth forecast is 2.6% for 2024, and 1.9% for 2025.
- China's central bank announced a new round of monetary stimulus that surprised the market to the upside. The Politburo also vowed to achieve 5% growth target by increasing fiscal support, though details on fiscal measures are yet to announce. Market expectation is around RMB 3 trillion of additional central government bond issuance.






### INFLATION

- Recent inflation numbers in the US, Eurozone and UK show that the disinflation trend continues, giving room for the major central banks to cut rates further.
- In Japan, Tokyo core inflation decelerated to 0.1% MoM and 1.2% YoY in September. The new Prime Minister Ishiba asked ministers to craft economic relief package to cushion inflation impact.
- China's inflation remained muted, more aggressive fiscal policies are needed to revive domestic demand and reverse the deflationary pressure.




## Equities

 POSITIVE
  NEUTRAL
  NEGATIVE

## OVERALL GLOBAL: POSITIVE

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

## OVERALL ASIA: POSITIVE

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

- Historically, falling interest rates have been a tailwind for stocks in a non-recessionary environment. The improving liquidity and a softer dollar area are also a positive backdrop for equities. EM/Asian equities tend to generally perform well in a non-recessionary Fed cutting cycle, as did EU equities. The latter enjoys another tailwind as the ECB is cutting rates as well which historically propelled European equities higher.
- China's new measures to support the stock market was a positive surprise. They announced RMB 500bn facility for insurance, asset management and securities firms to buy stocks, and RMB 300bn facility for share buybacks. More importantly, the quota can be increased.
- China authorities also requested constituents of key A-share indices with low PB to set up plans on market value management, similar to Japan's corporate governance reform announced in early 2023.

	1-month (%)	YTD (%)	2023 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2024f	EPS Growth (%) 2024f	EPS Growth (%) 2025f	ROE (%) 2024f	
Developed	US	2.0	20.4	25.0	21.8	5.1	1.5	9.8	15.2	18.0
	Japan	-3.1	12.0	25.9	15.2	1.6	2.1	18.5	6.7	8.9
	Eurozone	1.0	9.3	16.0	13.0	1.8	3.1	1.6	10.5	12.8
	UK	-1.9	6.1	3.3	11.9	1.9	3.7	-0.5	7.8	13.4
	Asia Ex-Japan	8.2	18.8	3.6	12.9	1.7	2.5	28.1	14.9	11.7
North Asia	China	23.0	25.3	-12.8	9.4	1.2	3.2	14.7	10.7	11.4
	China A-shares	21.0	17.1	-11.4	11.2	1.4	3.6	10.0	10.2	11.1
	Hong Kong	15.5	6.2	-17.8	12.3	1.0	4.1	10.6	8.8	7.1
	South Korea	-5.3	-4.9	23.9	8.4	1.0	2.3	114.5	27.2	10.1
	Taiwan	0.2	31.8	26.7	17.1	3.2	2.3	35.6	17.0	16.0
South Asia	India	2.0	25.5	20.3	25.0	4.8	1.1	11.6	17.8	15.3
	Indonesia	-1.0	-1.7	2.2	13.7	2.6	4.3	0.4	7.4	16.1
	Malaysia	-1.9	12.1	-3.2	14.2	1.5	3.7	14.5	6.4	9.4
	Philippines	5.3	14.6	1.1	12.7	2.1	1.8	15.1	9.4	13.6
	Singapore	6.6	15.4	-3.9	13.1	1.7	5.0	10.1	4.0	10.6
	Thailand	5.8	3.4	-13.8	16.8	1.9	2.9	12.5	14.0	9.9

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

## Fixed Income

😊 POSITIVE    😐 NEUTRAL    😞 NEGATIVE

**OVERALL GLOBAL: NEUTRAL**

**OVERALL ASIA (USD): NEUTRAL**



EMD (LC)  
EMD (HC)  
IG

UST  
High Yield

-

Japan  
▲ Singapore

Korea, India  
Philippines  
Indonesia  
▲ Hong Kong  
▲ China

	Total Return (%)			Yield-to-Worst (%)	
	1-Month	YTD	2023		
Asia	Asia USD Bond	1.4	6.4	7.3	4.8
	Asia Local Currency Bond	4.1	8.3	7.2	4.0
	China	1.4	6.8	5.0	4.9
	Hong Kong	1.3	6.3	7.7	4.7
	India	1.4	8.9	9.5	5.5
	Indonesia	1.7	5.1	9.9	4.8
	Singapore	1.1	4.9	6.6	4.3
	South Korea	1.0	5.2	6.6	4.4
	Philippines	1.8	5.4	8.3	4.8
Other Regions	US 10-year Treasuries	1.1	4.1	3.8	3.8
	US Investment Grades (IG)	1.3	4.4	5.5	4.2
	US High Yield (HY)	1.6	8.0	13.4	7.0
	Emerging Market USD Bond	1.5	6.9	7.1	5.3

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

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	▼ 3.5	▼ 3.75	4.00	4.25

- We expect the ECB to cut rates by 25bp at both October and December meetings (added one more cut in October vs only December previously) as the economic momentum deteriorates.
- We continue to expect the Fed to cut rate by 25bp each in November and December, and a 25bp quarterly cut in 2025.
- We remain tactically neutral on US government bonds. We revise down our 12-month yield targets for 2-year and 5-year to 3.5% and 3.75% respectively.
- We continue to **favour investment grade corporate bonds**. Credit spreads are tight, especially in the US, but technicals are supportive for at least the next few months. We prefer short maturities in the US and up to 10 years in the Eurozone.
- The Fed rate cut triggered a rally in risk assets including EM bonds, and has given room for EM central banks to cut rates. We stay **positive on both hard and local EM bonds**.
- We **upgrade Singapore credit to positive**. Temasek linked corporates in general are good quality bonds with decent spreads over US Treasuries.
- We **upgrade HK/China credit to neutral** as the Fed rate cut cycle and China's more pro-growth stance with increasing stimulus measures would see improving liquidity and earnings prospects.



## Forex &amp; Commodities

 POSITIVE
  NEUTRAL
  NEGATIVE

## 12-MONTH FOREX VIEW



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

## COMMODITIES



Gold  
Base metal Oil -

- **JPY:** We expect the next BoJ rate hike in December, and will hike rates in every quarter until the nominal rate reaches about 1%, and then slow down the hiking pace thereafter. We keep our USDJPY 3-month target to 145 and keep our 12-month target at 140.
- **CNY:** China's policy stimulus package exceeded market expectations. We expect the PBoC to continue to cut interest rates and RRR. With increased exporter hedging and potentially new policy support, we change our 3- and 12-month target at 7.1 (value of one USD).
- **GOLD:** We keep our positive view and revise up our 12-month target to \$3000/oz. Assumed ongoing purchases by central banks. The downside risk seems limited given further rate cuts, central banks' strategic purchases, geopolitical risks and strong appetite from private investors.
- **OIL:** We remain neutral, with Brent's target range to lower to \$70-80. Downside risks persist in view of weak demand growth and the wish of OPEC+ to normalise its production cuts, while there is possible upside risk in case of further escalation of Middle East war.
- **BASE METALS:** We have strong conviction on copper due to its prospect of strong demand growth and limited supply growth.

## Forex Forecasts

	Spot	3-month		12-month		
		As of 30 Sep 2024	View	Target	View	Target
Developed	USD Index*	100.78	+	101.6	-	99.7
	Japan	143.0	-	145	+	140
	Eurozone	1.116	-	1.10	+	1.12
	UK	1.341	-	1.31	+	1.33
	Australia	0.694	=	0.68	+	0.70
	New Zealand	0.636	=	0.63	=	0.63
	Canada	1.351	=	1.32	+	1.30
Asia Ex-Japan	China	7.016	=	7.10	=	7.10
	South Korea*	1,308	=	1,320	+	1,290
	Taiwan*	31.65	=	31.7	=	31.3
	India	83.80	=	82.0	=	82.0
	Indonesia*	15,140	=	15,200	=	15,200
	Malaysia*	4.124	-	4.26	=	4.16
	Philippines*	56.04	=	56.0	=	56.1
	Singapore*	1.282	=	1.29	=	1.27
	Thailand*	32.18	-	33.5	=	32.6

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

\*BNP Paribas Global Markets forecast as of 30 September 2024

Note: + Positive / = Neutral / - Negative

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