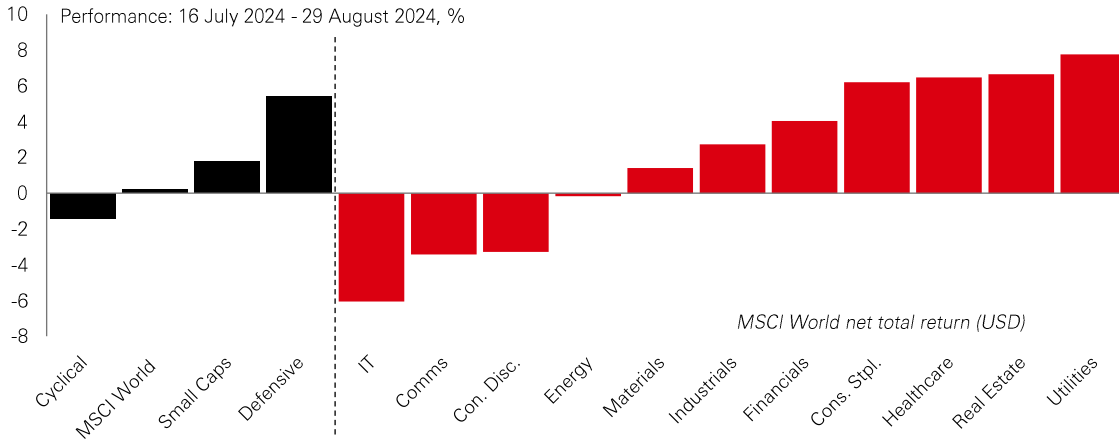


# Investment Weekly

2 September 2024

## Chart of the week – Unpacking the market rebound



As summer holidays draw to a close, it's not just suitcases we are unpacking. Last month's 'market tantrum' and rapid recovery deserve scrutiny as the rebound masks some important shifts in sectoral performance.

Through 2023 and for the most part of this year, momentum has been concentrated in stocks riding the AI/technology megatrend. But since July, we've had some mixed profits news from the mega-cap tech names, with tech beginning to look like a 'wobbly trade'. And there was more of that last week after the Q2 earnings results from US's big chip maker, which despite topping forecasts, failed to impress the market. Stretched tech sector valuations are proving to be a challenge.

Since the market peak in mid-July—amid rising recession worries that sparked August's bout of volatility—the winners have been out-of-favour defensive and rate-sensitive sectors like utilities, real estate (see Market Spotlight), consumer staples and healthcare. This broadening out of market performance echoes what happened in Q1 when value sectors, like industrials, were holding their own versus quality growth.

What comes next? Investors are getting used to dramatic narrative changes in markets. A complex economic environment and data dependent central bankers have made that par for the course. If central bankers can secure a soft-ish landing, the 'broadening out' theme can become backable again for investors in H2.

### Rates Outlook →

Exploring the future path of US interest rates policy

### Asian FX →

Why EM Asian currencies have rallied this summer

### Chinese Macro →

Factors driving China's uneven economic recovery

## Market Spotlight

### Further room to run for listed real estate

Heightened expectations of imminent US rate cuts have boosted the performance of global listed real estate over the summer. The FTSE Nareit All Equity REITs Index has made double-digit gains over the past two months. **And even after this rally, the sector still offers a valuation discount to other asset classes.** Dividend yields from global real estate equities stand at a premium to both wider equities and developed market government bonds.

With the exception of parts of the office sector, global listed real estate continues to be supported by solid tenant demand and high occupancy levels, which could feed into future dividend growth, and provide a basis for healthy total returns.

Whilst uncertainty over the timing of rate cuts has previously been a drag on sector sentiment, private real estate capital markets are showing signs of re-opening and investment volumes are expected to pick up during the second half of the year.

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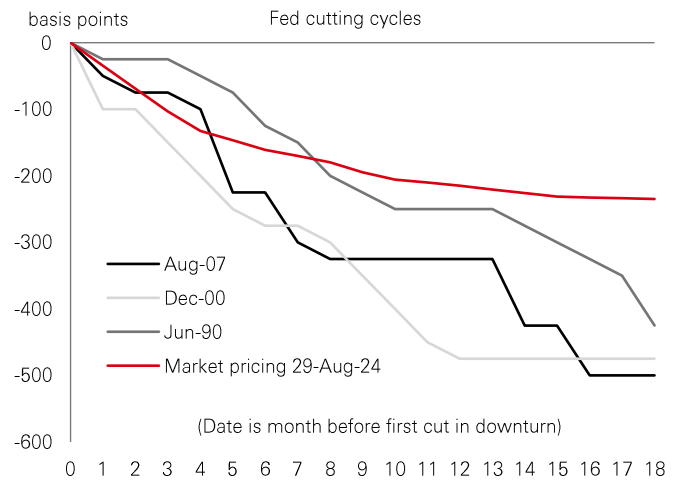
### Rate expectations

Jerome Powell's Jackson Hole speech sealed a September rate cut. The only question now seems to be whether it will be a 25bp or a 50bp move, with labour market developments likely to be the determining factor, given the line that the Fed does not "seek or welcome further cooling in labour market conditions".

The market is pricing about a one-third chance of a 50bp cut in September, 100bp of easing by year-end and around 225bp by end-2025.

Moreover, market pricing incorporates a range of possible outcomes, including some probability of a recession. The last three recessions (excluding Covid) have seen 400-500bp of cuts over an 18-month period. So, there is plenty of scope for rate expectations to shift lower if the economy slows quicker than expected.

Yields are still elevated and August's market turbulence proved that Treasuries **haven't lost their role as a hedge against equity market volatility**.

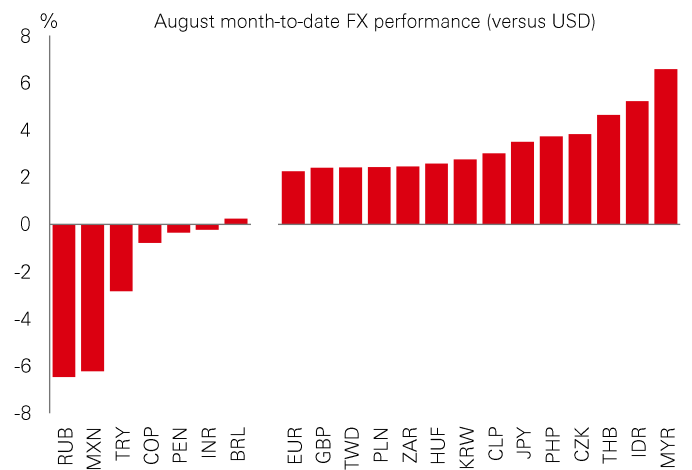


### Asian FX boost

Many global FX markets performed well in August as investors ramped up expectations of Fed policy easing, weighing on the US dollar. Within the EM FX universe, Asian currencies have done particularly well, especially in ASEAN (the Malaysian ringgit and Indonesian rupiah are up over 5% month-to-date). But this is not just a dollar story – local factors have provided a boost too.

In Malaysia, the ringgit has enjoyed a tailwind from administrative moves to boost conversion of FX proceeds into local currency, and its economy has staged a strong, broad, recovery this year. There are also signs that it's benefitting from a broadening of the global tech upcycle, as well as rising foreign direct investment.

The central scenario is for the USD to decline further as the Fed eases policy, benefitting EM FX which offers a yield advantage. EM currencies also look cheap. **EM FX appreciation would provide an important tailwind to returns for international investors in local-currency EM assets**. But varied country-level performance is a reminder that a diversified approach to EM investing is crucial.

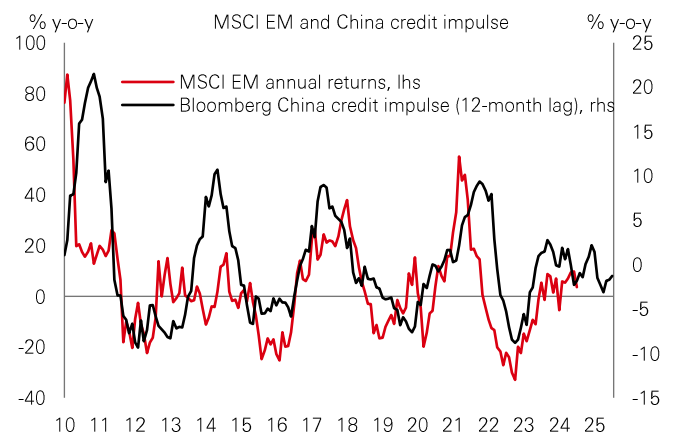


### China's uneven recovery

Recent macro data in China continues to point to an uneven recovery, potentially putting this year's ~5% real growth target at risk.

Solid exports and developments in advanced manufacturing have been cushioning the growth slowdown, but soft consumer demand sets the economy up to be more vulnerable to global demand shocks and rising protectionism. The domestic supply-demand imbalance has resulted in excess capacity and fierce competition in some sectors, weighing on corporate profits and exerting deflationary pressures in the economy.

Some analysts think the uneven recovery points to a need for more policy action and forceful implementation to restore confidence and fundamentally reflate the economy. This **policy support could be a catalyst for EM stock market outperformance**. Meanwhile, divergent sectoral growth paths reflect policy priorities for economic transformation toward quality and innovation-led growth, which creates opportunities in sectors prioritised for long-term development.



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## Key Events and Data Releases

### Last week

| Date           | Country | Indicator                                   | Data as of | Actual | Prior |
|----------------|---------|---|------------|--------|-------|
| Mon. 26 August | GE      | IFO Business Confidence Index               | Aug        | 86.6   | 87.0  |
| Tue. 27 August | US      | Consumer Confidence Index, Conference Board | Aug        | 103.3  | 101.9 |
|                | US      | S&P Case-Shiller 20 House Prices (m-o-m)    | Jun        | 0.4%   | 0.4%  |
| Thu. 29 August | US      | Pending Home Sales (mom)                    | Jul        | -5.5%  | 4.8%  |
|                | US      | GDP, 2nd Estimate (q-o-q annualised)        | Q2         | 3.0%   | 2.8%  |
| Fri. 30 August | JP      | Unemployment Rate                           | Jul        | 2.7%   | 2.5%  |
|                | JP      | Tokyo CPI excluding food and energy (y-o-y) | Aug        | 1.3%   | 1.1%  |
|                | EZ      | HICP, Flash (y-o-y)                         | Aug        | 2.20%  | 2.6%  |
|                | EZ      | Unemployment Rate                           | Jul        | 6.4%   | 6.5%  |
|                | US      | PCE Price Index (y-o-y)                     | Jul        | -      | 2.5%  |
| Sat. 31 August | CN      | Manufacturing PMI                           | Aug        | 49.5   | 49.4  |

**Q – Quarter GE – Germany, US – United States, JP – Japan, EZ – Eurozone, CN – China**

### The week ahead

| Date              | Country | Indicator                    | Data as of | Survey | Prior |
|-------------------|---------|------------------------------|------------|--------|-------|
| Mon. 02 September | BR      | S&P Global Manufacturing PMI | Aug        | -      | 54.0  |
|                   | MX      | S&P Global Manufacturing PMI | Aug        | -      | 49.6  |
|                   | KO      | CPI (y-o-y)                  | Aug        | 2.0%   | 2.6%  |
|                   | ID      | CPI (y-o-y)                  | Aug        | 2.1%   | 2.1%  |
|                   | CN      | Manufacturing PMI, Caixin    | Aug        | 50.0   | 49.8  |
| Tue. 03 September | US      | ISM Manufacturing Index      | Aug        | 47.5   | 46.8  |
|                   | BR      | GDP (q-o-q)                  | Q2         | 0.9%   | 0.8%  |
| Wed. 04 September | US      | JOLTS Job Openings           | Jul        | 8.00m  | 8.18m |
|                   | CN      | Caixin Services PMI          | Aug        | 52.1   | 52.1  |
| Thu. 05 September | US      | ISM Services Index           | Aug        | 50.9   | 51.4  |
| Fri. 06 September | US      | Change in Non-Farm Payrolls  | Aug        | 160k   | 114k  |

**BR – Brazil, MX – Mexico, KO – South Korea, ID – Indonesia, CN – China, US – United States**

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## Market review

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Risk assets were resilient as investors digested Q2 results from the US's big chip maker and a major focus in the current AI/tech megatrend. Core government bonds were range-bound ahead of key US employment data, with the DXY US dollar index pausing for breath after recent declines. Despite some volatility in tech stocks, US equity markets were on course to finish broadly flat. The Stoxx Euro 600 index reached new highs, and Japan's Nikkei 225 edged higher as the yen softened versus the US dollar. In emerging markets, Korea's KOSPI index was buffeted by US tech weakness, but Taiwan's weighted SE index was resilient. Mainland China's Shanghai composite index was little changed, while India's Sensex index rose to a new all-time high. In commodities, oil prices were supported by supply worries in Libya. Gold remains close to a record high, with copper also edging higher.

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