Global Market Watch

International Equity

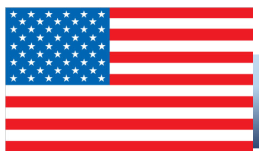
Regional Equity

Fixed Income

Alternative Investment

Disclaimers :

Market Outlook



US

The Federal Reserve's decision to pause interest rate hikes has fueled investor optimism, driving further gains in the US stock market in December. The Dow Jones, S&P 500, and Nasdaq Composite all rose significantly by 4.84%, 4.42%, and 5.52% respectively during the month.

The Federal Reserve kept interest rates unchanged for the third consecutive time and projected three rate cuts for 2024. This suggests that the market has already priced in expectations of rate reductions this year. By the end of December, the yield on 10-year US Treasury bonds fell to 3.87%, a decline of over 100 basis points from November. This decline exceeds the cumulative decline of four rate cuts, indicating a larger-than-anticipated monthly decrease.

This supports the notion that the market's early reflection of 2024's stock and bond market performance occurred in late 2023. Although high inflation in the US has eased, labor market conditions appear to be worsening, with the unemployment rate rising to 3.9% in November. Moreover, in a high-interest-rate environment, the overall US economy is weakening, and a slowdown in 2024 is highly likely.

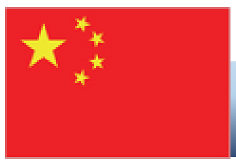
Considering the current high valuations of US stocks and the risk of valuation rebalancing amidst slowing earnings growth, it is prudent to increase bond allocation and maintain asset class diversification to balance portfolio risks as we enter 2024.

Europe

European stock markets rebounded in December alongside the US stock market, with the STOXX 600 index rising 3.77% during the month, reaching a new high for the year.

The European Central Bank (ECB) lowered its inflation forecast for 2024 to 2.7% during the interest rate meeting. However, the annual increase in the Eurozone Consumer Price Index (CPI) announced in November of last year had already slowed to 2.4%. At the same time, the annual rate of core CPI also decelerated to 3.6%, which was below the central bank's expectations for 2024.

The issue of high inflation in the Eurozone has been significantly alleviated, and with the market consensus on the US transitioning to a rate-cutting cycle in 2024, there is an expectation that the ECB's current policy rates may have peaked. As European bond yields receded, the region's exposure to a high-interest-rate environment is expected to ease, which has positively impacted the performance of European stock markets in December. Historically, the European economy has shown a greater degree of vulnerability to fluctuations in energy prices. However, currently, both crude oil and natural gas prices have declined, and the availability of lower-cost energy and materials is expected to contribute to economic activity within the Eurozone.

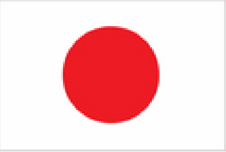


China

In December, the Hang Seng Index in the Hong Kong stock market initially declined but then stabilized, ending the month with little change. However, the Shanghai and Shenzhen 300 Index in the mainland Chinese stock market fell by 4.9%, showing an opposite trend to the European and American stock markets.

Amid concerns of entering a deflation crisis, the market anticipated unexpected economic stimulus measures from China, particularly in the form of monetary policies such as interest rate cuts and reserve requirement reductions. Both the Hong Kong and mainland Chinese stock markets experienced rebounds in the middle and at the end of the month. However, by year-end, no concrete news regarding these measures had emerged. This lack of clarity may have caused market funds to flow out, putting pressure on the stock market.

China's industrial production, announced in November, grew by 6.6% year-on-year, showing an acceleration from October's 4.6% growth. However, the repeated decline of China's inflation rate into negative territory raised concerns. The Central Economic Work Conference emphasized a policy of stable economic growth, and the market awaited opportunities for the introduction of a package of macroeconomic policies. Low valuations remained attractive in both the Hong Kong and mainland Chinese stock markets.



Japan

The Japanese stock market initially declined but then stabilized in December, ending the month with little change. However, the overall performance for the year was excellent, with the Japanese Nikkei 225 Index rising 27.3% in 2023 when measured in local currency.

Japan's rebound at the end of the year mainly followed the performance of the European and American markets. However, the exchange rate of the Japanese yen against the US dollar bottomed out and rebounded in November. Historically, the trend of the Japanese stock market has been inversely related to the exchange rate of the yen against the US dollar. If the trend of a stronger yen continues, it may have an impact on the performance of Japanese stocks. Conversely, a stronger yen can benefit the performance of foreign exchange, offsetting the overall negative impact on the stock market.

Earlier, the speeches of the Bank of Japan's governor and deputy governor led investors to believe that the central bank may end its negative interest rate policy earlier. However, considering that the foundation of Japan's economic recovery is still not stable, the Bank of Japan may maintain its current ultra-low interest rate policy for some time. Overall, it is expected that the Bank of Japan's policies will continue to support the performance of the stock market.

Emerging Market

The US dollar weakened, and coupled with strong performances in the European and American stock markets, the MSCI Emerging Markets Index and MSCI Asia Emerging Markets Index rebounded by 2.95% and 2.48% respectively in December.

The US dollar continued its weakening trend, with the US Dollar Index falling to a low of 100.62 at the end of last year, a decline of 3.49% from its high of 104.26 at the beginning of the month. Additionally, the market currently widely expects the Federal Reserve to cut interest rates in 2024, with some estimates suggesting at least three rate cuts. With interest rates declining, the trend of a weaker US dollar may persist, which can benefit the performance of emerging market stocks and bonds.

Last month, India's stock market was mentioned as a bright spot, and in December, the Sensex 30 Index in India rose by 7.84%. Currently, India's economy is experiencing strong growth, and the country's currency and political stability have attracted multinational investment inflows.

Finally, it may be worth considering deploying higher dividend-yielding Asian stocks to balance market volatility impacts while participating in growth potential.

Bond Market

The Federal Reserve maintained its interest rates for the third time, sparking expectations in the market that interest rates may have peaked. As a result, US bond yields accelerated their decline, leading to a rebound in US bond prices. The Bank of America Merrill Lynch Global Corporate Bond Index rose by 3.30% in December.

By the end of December last year, yields on various maturity bonds continued their downward trend. The 10-year US Treasury yield fell to 3.87%, below the 4% level. The 2-year and 30-year US bond yields also declined to 4.25% and 4.02%, respectively, driving up bond prices overall.

Furthermore, against the backdrop of a weakening US dollar, funds flowed into emerging market bonds. The Bloomberg Barclays Emerging Markets Investment Grade Total Return Index rose by 4.87% in November and 1.19% in December. Some US dollar-denominated emerging market bond ETFs also recorded six consecutive weeks of fund inflows. If the US dollar continues to remain weak, it will benefit the performance of emerging market bonds.

Performance of major market indices (in USD)

Market Indices	1m (%)	3m (%)	6m (%)	1yr (%)	3yr (%)	5yr (%)
MSCI World Index	4.81	11.07	6.82	21.77	17.81	68.22
MSCI Emerging Markets Index	3.71	7.45	3.46	7.04	-20.72	6.01
US S&P 500 Index	4.42	11.24	7.18	24.23	26.99	90.27
Europe STOXX 600 Index	5.05	11	4.99	16.68	8.37	37.08
Japan NIKKEI 225 Index	4.79	11.19	3.37	19.14	-10.7	30.95
Korea KOSPI 200 Index	4.92	12.86	5.94	-12.45	-22.06	12.71
China CSI 300 Index	-5.09	-7.88	-12.03	-16.45	-41.61	6.12
Hong Kong Hang Seng Index	0.05	-3.99	-9.56	-13.86	-37.84	-33.87

Source : FE Analytics, Data as of 31-12-2023

BS Investment Management Services

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