Feb 2024

Global Market Watch

International Equity

Regional Equity

Fixed Income

Alternative Investment

Disclaimers :

藍石財富管理
BS Wealth Management

Internal Use Only

Market Outlook

US

At the beginning of this year, the US stock market experienced some volatility. However, encouragingly, the performance of some US companies has been strong, which continues to support market sentiment. In the first month of this year, the Dow Jones, S&P 500, and Nasdaq rose by 1.22%, 1.59%, and 1.02% respectively.

It is worth noting that the earnings of US companies have been mixed. In the banking sector, JPMorgan reported a decline in profits for the year, and the second-largest US bank also saw its profits halved. However, the performance of technology stocks has been surprising. Microsoft's net income increased significantly by 33.5%. Apple's first-quarter revenue ended a consecutive four-quarter decline, and Meta's financial report was driven by a 24% year-on-year growth in its advertising business, with fourth-quarter revenue also surpassing expectations.

In addition, the US GDP growth in the fourth quarter of last year reached 3.3%, surpassing market expectations. In the first monetary policy meeting of this year, the Federal Reserve removed the language suggesting possible rate hikes from its policy statement but also emphasized that it is not in a hurry to lower rates, which tempered expectations of an interest rate cut as early as March. Ahead of entering a period of reflation, we lean towards favoring defensive growth in the healthcare industry and also capitalize on the potential for profit growth in the technology sector.

Europe

The recent performance of European stock markets has shown a volatile trend. The STOXX 600 index experienced fluctuations, initially falling and then rising, and ended the month with an overall increase of 1.39%. However, when evaluating European stock markets, we need to consider the relatively tight monetary policy of the European Central Bank (ECB) at present. It is expected that interest rates will remain at higher levels for a considerable period of time. This high-interest-rate environment has put pressure on companies, especially those with high debt ratios.

We are particularly concerned about the fragility of the European economy. The German economy contracted by 0.3% in 2023, indicating a sustained slowdown in economic activity throughout the Eurozone in a high-interest-rate environment. The Eurozone Composite PMI remained below 50, indicating contraction, for seven consecutive months at the end of last year, further highlighting the challenges faced by the European economy.

From an investment perspective, we prefer the U.S. market over the European market. This is mainly because European companies have relatively lower profitability compared to U.S. companies. Data shows that the net profit margin of European companies has been consistently lower than that of U.S. companies in the long term. Therefore, compared to European stocks, we have a more positive outlook on the performance of the U.S. market.

China

In January, the stock markets in China and Hong Kong performed weakly, experiencing some of the largest declines among major global stock markets. The Hang Seng Index fell by 9.2%, the Hang Seng Tech Index dropped by 20.2%, and the China CSI 300 Index declined by 6.3%.

In terms of the economy, China's GDP in the fourth quarter of last year grew by 5.2% year-on-year, matching the full-year growth rate of 5.2%, while industrial added value in December increased by 6.8% year-on-year. However, China's PMI decreased slightly to 49 in December, marking the third consecutive month of contraction.

Despite the significant market decline, data indicates an increase in mainland liquidity, with new social financing and new RMB loans both showing growth in November. In addition, regulatory institutions such as the People's Bank of China have expressed their intention to implement measures such as a 0.5 percentage point reserve requirement ratio cut and targeted interest rate cuts, which temporarily boosted market sentiment. The market will also be watching the National People's Congress scheduled for March 5th to see if more news regarding economic stimulus emerges.

Japan

The Japanese stock market had a strong start this year. The Nikkei 225 index rose by 7.77% in local currency terms and 2.77% in US dollar terms. We believe that the Japanese economy is in a slow recovery phase based on data analysis. Corporate earnings and business confidence continue to improve, and capital investment is showing a slow upward trend. Data from the past eight quarters shows that the year-on-year growth rate of short-term capital expenditures in various industries in Japan has exceeded 13% in six quarters, reflecting optimistic attitudes toward future business conditions.

Furthermore, consumer confidence in Japan continues to improve, driving local consumption and overall economic performance. The consumer confidence index is on a continuous upward trend, rising from around 30 at the end of 2022 to above 37 in the middle of last year. The year-on-year growth rate of retail sales in Japan has also remained positive for several consecutive months.

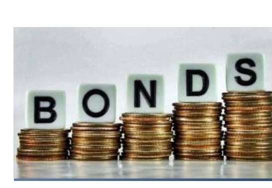
We believe that the Japanese stock market has the potential to enter a long-term upward trend, but current technical indicators indicate that the market is in overbought territory. Therefore, we recommend accumulating stocks on dips at appropriate times.

Emerging Market

We have observed that emerging markets did not perform as expected at the beginning of this year. In December, the MSCI Emerging Markets Index and the MSCI Asia ex-Japan Index declined by 3.53% and 4.11% respectively. However, we still maintain an optimistic view on Asian emerging markets.

One important reason is the expected inflow of funds into Asia. The market expects the United States to enter an interest rate reduction cycle in 2024, which will lead to declining interest rates in the U.S. and potentially prompt capital outflows from the U.S. or the U.S. dollar. In this scenario, we believe that Asia and its currencies will become relatively attractive destinations for capital.

Within Asian emerging markets, India is another focus of attention. General elections in India are expected to take place between April and May this year. According to surveys, there is a higher chance of re-election for the current Prime Minister, Modi. Modi has emphasized economic development, and it is expected that his re-election will attract more foreign investment and capital inflows, which will be positive for the local asset market. Considering that the Indian stock market experienced a rapid rally last year, we recommend deploying strategies of accumulating stocks on dips.



Bond Market

The U.S. bond rates rebounded at the beginning of this year, limiting the overall performance of the U.S. bond market. According to data from the Bank of America Merrill Lynch Global Corporate Bond Index, it experienced a slight decline of 0.25% in January. Considering the market's general expectation of entering an interest rate reduction cycle this year, we believe that the main reason for the rebound in U.S. bond yields is to digest the excessive decline in yields at the end of last year. However, in its recent meeting, the Federal Reserve removed language indicating potential rate hikes from its monetary policy statement. This move caused a sharp decline in the U.S. 10-year Treasury bond yields and pushed them below the 4 basis points level, offsetting the impact of the earlier rise in rates on bond prices.

Regarding the Asian bond market, we maintain an optimistic view. It is expected that the pace of interest rate cuts in the U.S. may be faster than in some Asian countries. When the U.S. rate decline outpaces that of Asian countries, the interest rate differential between the two will widen. This will provide greater incentives for capital flows, diverting funds from the U.S. and the U.S. dollar to the Asian bond market.

Performance of major market indices (in USD)

Market Indices	1m (%)	3m (%)	6m (%)	1yr (%)	3yr (%)	5yr (%)
MSCI World Index	1.1	15.8	4.6	15.1	20.4	58.0
MSCI Emerging Markets Index	-4.7	6.6	-6.8	-5.4	-26.6	-7.1
US S&P 500 Index	1.6	15.5	5.6	18.9	30.5	79.2
Europe STOXX 600 Index	-0.3	15.1	1.5	7.2	9.7	28.2
Japan NIKKEI 225 Index	2.8	19.7	4.5	16.1	-7.7	27.8
Korea KOSPI 200 Index	-9.3	10.9	-9.4	-5.7	-29.7	-5.6
China CSI 300 Index	-7.4	-8.3	-20.3	-27.2	-45.9	-6.2
Hong Kong Hang Seng Index	-9.3	-9.4	-23.1	-28.9	-45.7	-44.4

Source : FE Analytics, Data as of 31-1-2024

BS Investment Management Services

BS Investment Management Services

Active Portfolio

Balanced Portfolio

Strategic Partners

Our asset management services cater to both monthly contributors and lump sum investors, managing funds in the Insurance Investment Linked Scheme (ILAS) portfolio. Our goal is to achieve long-term investment returns while facilitating estate planning for our clients.

info@bs-wealth.com

www.bs-wealth.com