In collaboration with:
J.P.Morgan
ASSET MANAGEMENT

UOB

Monthly Investment Insights

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TOPIC 1:

Final call to rotate out of cash

As global central banks cut interest rates, investors should take the opportunity to move out of cash, fixed deposits, and short duration bonds. This is to avoid the likelihood of reinvesting at yields lower than current rates.

What you can do

→ Investors should rotate out of cash into stocks and quality bonds as interest rates fall. For those with higher risk appetite, they can consider dividend-paying stocks and global small-cap stocks, but it is prudent to maintain a diversified portfolio.

→ The interest rate cutting cycle in key developed and emerging economies is underway, headlined by the United States (US) Federal Reserve's (Fed) 50 basis points (bps) reduction in September. In anticipation of rate cuts, yields of short-term Treasury bills have fallen since the middle of this year and will likely decline further. This is because more rate cuts by global central banks are expected ahead given the slowdown in inflation, with the Fed expected to deliver another two 25bps cuts in November and December and 100bps in total for 2025.

→ Historically, looking at 12-month returns following the Fed's first rate cut, cash has consistently underperformed US stocks, only performing better during recessionary periods such as the 2001 Dot-Com Bust and the 2007 Global Financial Crisis (GFC) (Figure 1a).

→ While the US economy is gradually slowing, it remains resilient and in expansion. The stronger than expected September US jobs report has also allayed concerns of drastic labour market weakness and recession. With inflation slowing and the Fed cutting interest rates, this backdrop makes stocks and bonds more attractive than cash. Sitting on cash runs the risk of reinvesting at yields lower than the current prevailing rate.

→ As the difference in interest rates between the US and Asia narrows, Asian currencies may not face depreciation pressures, and this lowers the risk of large capital outflows and financial system instability. This has allowed a number of Asian central banks to cut their rates. Looking at ASEAN specifically, short-term rates have fallen in tandem with the US, with the trend likely to continue barring any shocks (Figure 1b).

Figure 1a:

US cash* underperforms stocks in the 12 months after first Fed rate cut

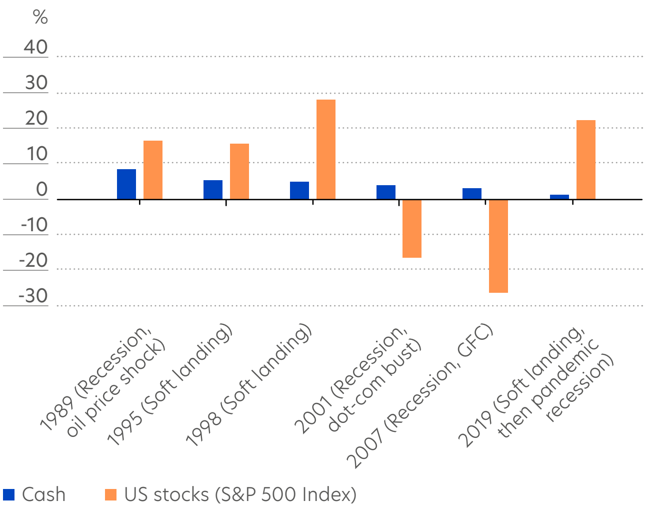
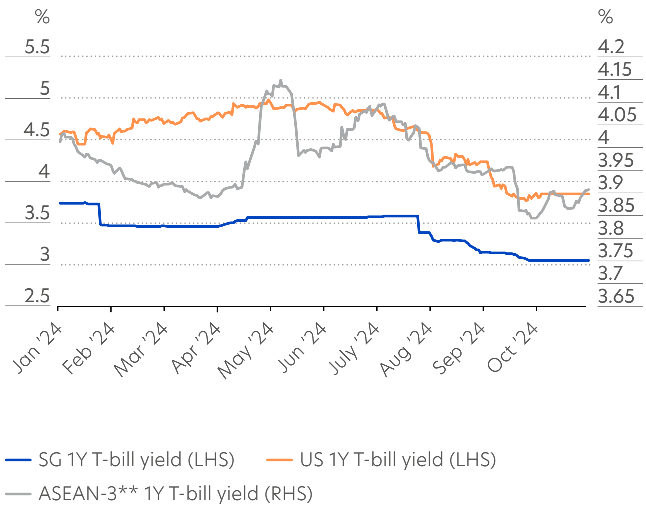


Figure 1b:

US and ASEAN 1-year Treasury bill yields have declined since mid-2024



Source: (Left) Bloomberg, J.P. Morgan Asset Management. (Right) Factset, J.P. Morgan Asset Management. *Cash refers to Bloomberg US Treasury - Bills (1-3 months). **ASEAN-3 is the average yield of Malaysia, Indonesia and Thailand.

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TOPIC 2:

China's stimulus announcements, gamechanger or false dawn?

China unveiled a series of policy stimulus measures that resulted in an end-September rally in Chinese stocks. Whether this is the start of a sustained rally, or a false dawn will depend on the scale and implementation of fiscal policies.

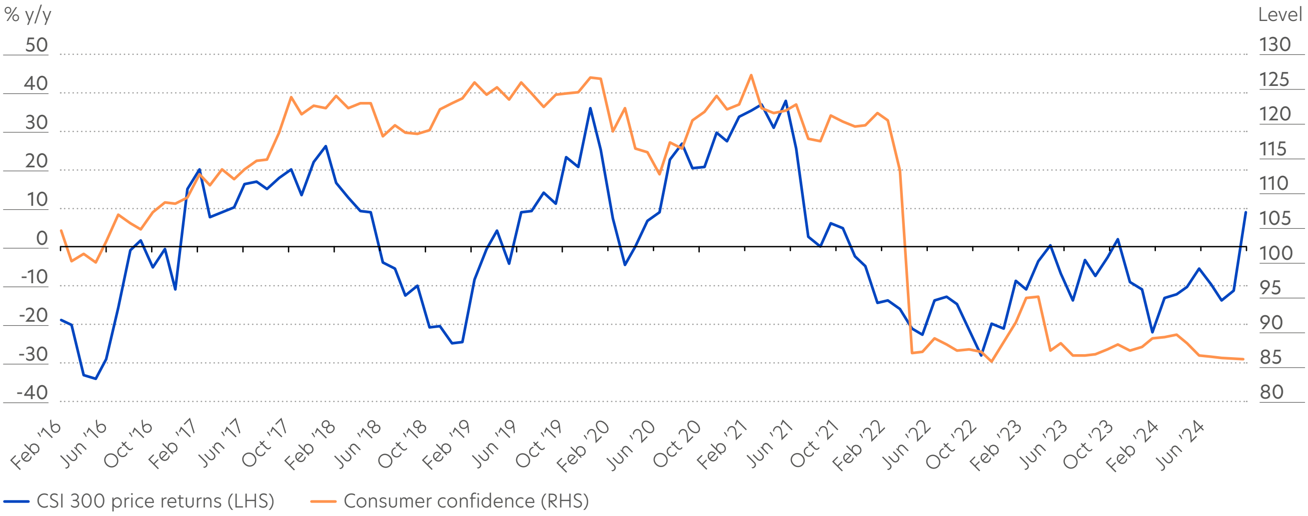
What you can do

- Chinese companies with strong cash flows and high dividend payouts will likely do well. Those looking to gain exposure to China should do so via a diversified investment portfolio across Asia.

- The latest coordinated policy measures marked China's shift towards a more aggressive stand in supporting the local economy. Exceeding market expectations, the simultaneous delivery of wide-ranging measures demonstrate policymakers' sense of urgency towards stabilising the property sector, lifting consumer and business confidence, and combating deflation. Of particular concern is weak consumer confidence, which has partly led to the poor performance of Chinese stocks over the past two years (Figure 2).
- Many have asked whether China's stimulus announcements are a gamechanger or another false dawn. Encouragingly, the coordinated measures are a departure from the previous playbook of gradual incremental support. It includes measures across both monetary & fiscal policies as well as new liquidity tools in the stock market. Nonetheless, it is important to know that while monetary policy measures such as the reduction in Reserve Requirement Ratio (RRR) and policy rate cuts could limit the downside risk to the economic outlook, the actual impact on Gross Domestic Product (GDP) growth will likely be modest.
- To successfully lift economic growth, fiscal stimulus support is crucially needed to turn business and consumer sentiment around. Details of the size and scope of fiscal support measures have been lacking so far, leading to investor disappointment. After the strongest stock market rally in the past decade at the end of September, Chinese stocks have since given back a large portion of those gains in recent weeks.
- For the stock market rally to be sustainable, decisive fiscal policy support is necessary to lift business and consumer sentiment and support the corporate earnings outlook over the next 12 to 18 months. If this is seen, an economic upturn in China will also boost demand for regional exports and tourism, providing a lift to Asian stocks.

Figure 2:

A recovery in China's consumer confidence is required for sustained stock market gains



Source: China Securities Index, NBS, J.P. Morgan Asset Management.

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TOPIC 3:

Don't look too far, ASEAN is at your doorstep

ASEAN stocks present a compelling investment opportunity given the benefits from supply chain diversification, fiscal discipline amongst the bloc's member nations and the likelihood of lower interest rates.

What you can do

→ Backed by robust fundamentals and reasonable valuations, investors should consider ASEAN stock opportunities which offer attractive income generation and potential returns.

→ In recent years, investors have not been overly enthusiastic about investing in ASEAN. This is partly due to unstable political environments in some countries and the limited weightage of ASEAN stocks in major indices. It is however time to relook stocks in this region.

→ ASEAN stocks have done relatively well this year, delivering year-to-date (YTD) returns of 13.8% in US dollar terms. While this is lower than the 16.6% returns in China's onshore stock market (A-shares), it is higher than that of Japan and Korea, 8.1% and -10.9% respectively. Within ASEAN, some have done better than others like Malaysia standing out with 19.3% YTD returns as compared to Thailand's 7.3%.

→ A common theme across ASEAN stock markets has been robust income generation via attractive dividend yields which surpasses the broader Asia ex-Japan and US markets. This is partly due to the higher payout ratio offered by ASEAN stocks, led by Singapore and Malaysia. Over the past decade, the dividend payout ratio for ASEAN stocks has averaged 53%, significantly higher than the 36% for broader Asia ex-Japan stocks and 35% for US stocks (Figure 3).

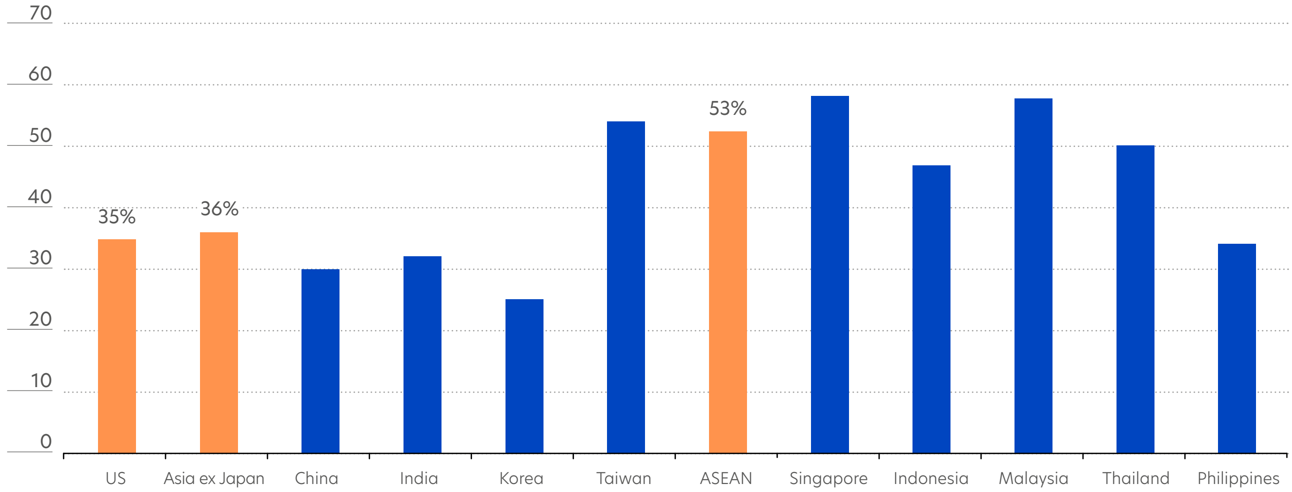
→ Looking ahead, the attractive returns and income generation from ASEAN stocks could continue. This is because ASEAN central banks will likely lower interest rates ahead. In the medium-term, earnings growth should be supported by structural factors such as a large and young demographic, ASEAN policy coordination and the benefits of shifting global supply chains.

→ Backed by robust fundamentals and reasonable valuations, investors should consider including ASEAN stocks as part of their overall portfolio allocation. With interest rates set to fall further, the high dividend payouts by ASEAN companies can provide stable income generation.

Figure 3:

ASEAN has higher dividend payout ratio than other markets

(%), 10Y historical average



Source: FactSet, MSCI, J.P. Morgan Asset Management. Data reflected most recently available as of 20/09/24.

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