In collaboration with:

J.P.Morgan ASSET MANAGEMENT

Monthly Investment Insights

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TOPIC 1:

Asset class implications post-elections

Despite policy uncertainties, United States (US) economic fundamentals remain resilient, and strong corporate earnings continue to be supportive of the stock market.

What you can do

- Strong corporate earnings will remain the key driver for US stock performance.
- Given the potential uncertainties arising from changes in US policy, maintain a diversified portfolio, including investment grade bonds as a stabilising component that also provides attractive income.

- Recent data have caused the US Federal Reserve (Fed) to lower their interest rate cut projection. Market expectations have also decreased from 4 to less than 2 rate cuts this year, reflecting the central bank's guidance and resilient economic data (Figure 1A). This is in contrast with other central banks such as the European Central Bank (ECB), which is still expected to lower rates to support economic growth.
- Financial markets may also face heightened volatility as the impact of US President Trump's policies is being assessed, particularly concerning deregulation, geopolitics, and tariffs. The proposed increase in tariffs is significantly higher than that seen in 2017-2018. US importers and retail businesses may not be willing to absorb the bulk of tariffs this time, which could lead to higher inflationary pressures.
- Investors should nonetheless understand that the economic fundamentals have not changed. The US economy continues to be cyclically strong, and structural trends related to Artificial Intelligence (AI) continue to support corporate capital investments.
- US corporate earnings will likely be the primary driver of stock performance, with earnings projected to grow by nearly 15% this year, which is higher than in 2024 (Figure 1B). Despite the relatively higher valuations of US stocks compared to the rest of the world, US stocks will continue to be supported by the strong fundamentals over the coming quarters.
- Nonetheless, investors need to be mindful that potential changes in US policies may lead to increased market volatility. Therefore, holding investment grade bonds will remain an important part of diversifying your portfolio, especially as bond yields are attractive.

Figure 1a:

Interest rate expectations for the US and Eurozone

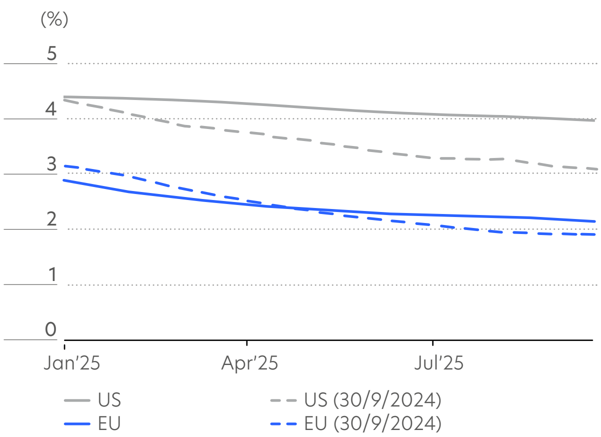
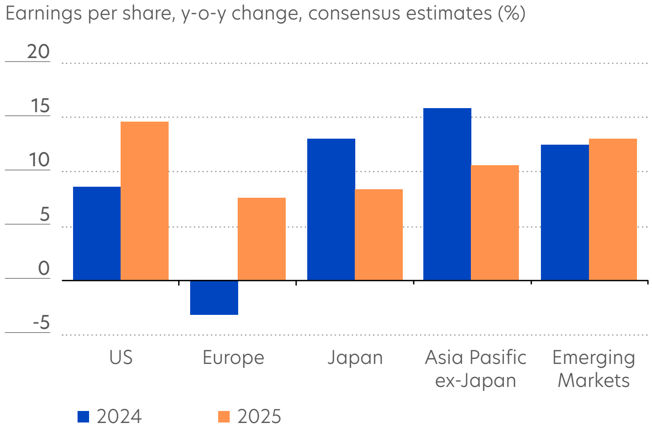


Figure 1b:

Corporate earnings growth of US relatively strong than rest of the regions



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. (RHS) Asia Pacific ex-Japan, emerging markets (EM), Japan, Europe and US equity indices used are the MSCI AC Asia Pacific ex-Japan, MSCI Emerging Markets, MSCI Japan, MSCI Europe and S&P 500, respectively. Consensus estimates used are calendar year estimates from FactSet.

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TOPIC 2:

Taking stock of Asia's opportunities and challenges

While Asia faces potential challenges as US policies shift, there are still potential opportunities so investors should adopt a discerning approach.

What you can do

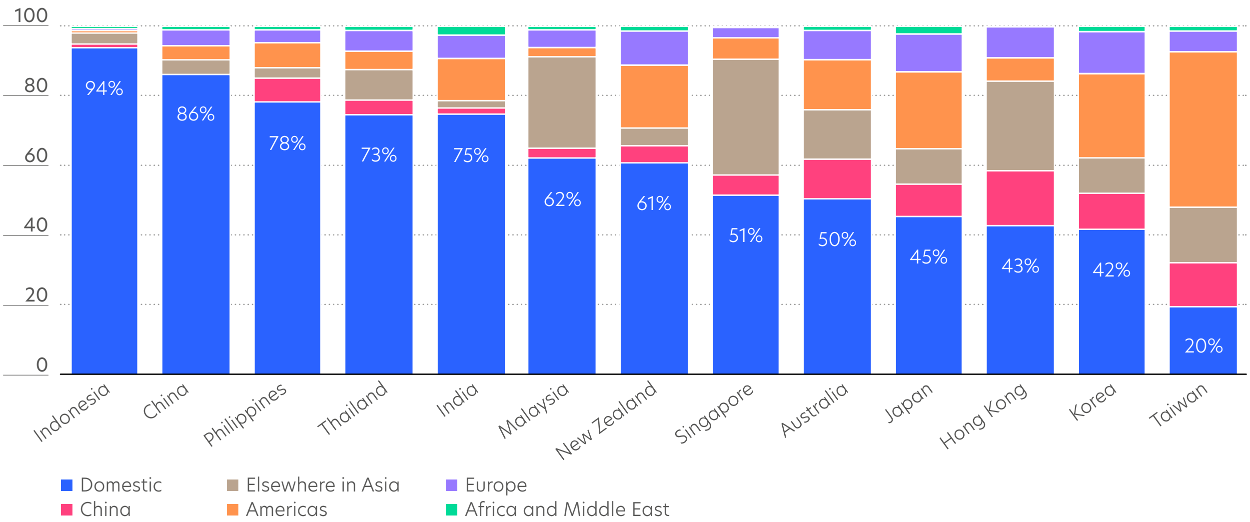
- Be agile and proactive when investing in Asia to navigate policy shifts. Quality Asian dividend stocks offer attractive income.

- Hopes for economic recovery in China have risen after a period of low growth. The recent Central Economic Work Conference (CEWC) identified weak domestic demand as the main economic challenge. In response, officials plan to support domestic consumption by enhancing fiscal and monetary policy measures in 2025, raising the fiscal deficit ceiling, and stimulating private sector investment and household consumption.
- Although these pledges to boost consumer confidence and economic growth are welcome, the lack of concrete details have disappointed investors. While we recognise the potential opportunities if the Chinese government implements substantial stimulus measures, current conditions still pose challenges to the overall outlook.
- Other areas in Asia look more appealing, particularly companies that are less reliant on external trade and more focused on the domestic market (Figure 2). Domestic demand will be crucial in driving Asian economic growth especially given the potential trade tension.
- Structural factors that will support Asian markets include corporate governance reforms in key markets, as well as the ongoing demand for artificial intelligence (AI). The strong demand for AI-related products and high-performance semiconductors could benefit Asian tech manufacturers, particularly in South Korea and Taiwan. These markets are trading at cheaper valuations compared to US mega-cap tech companies and offer relatively higher dividends.
- In 2025, the key to investing in Asian stock markets is to be agile and proactive.

Figure 2:

Revenue exposure of Asian countries by geograpy

Revenue exposure of MSCI Indices (%)



Source: FactSet, J.P. Morgan Assets Management

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TOPIC 3:

Investor optimism: a reality check

The consensus for the US economy and stock market is positive, but are investors too optimistic?

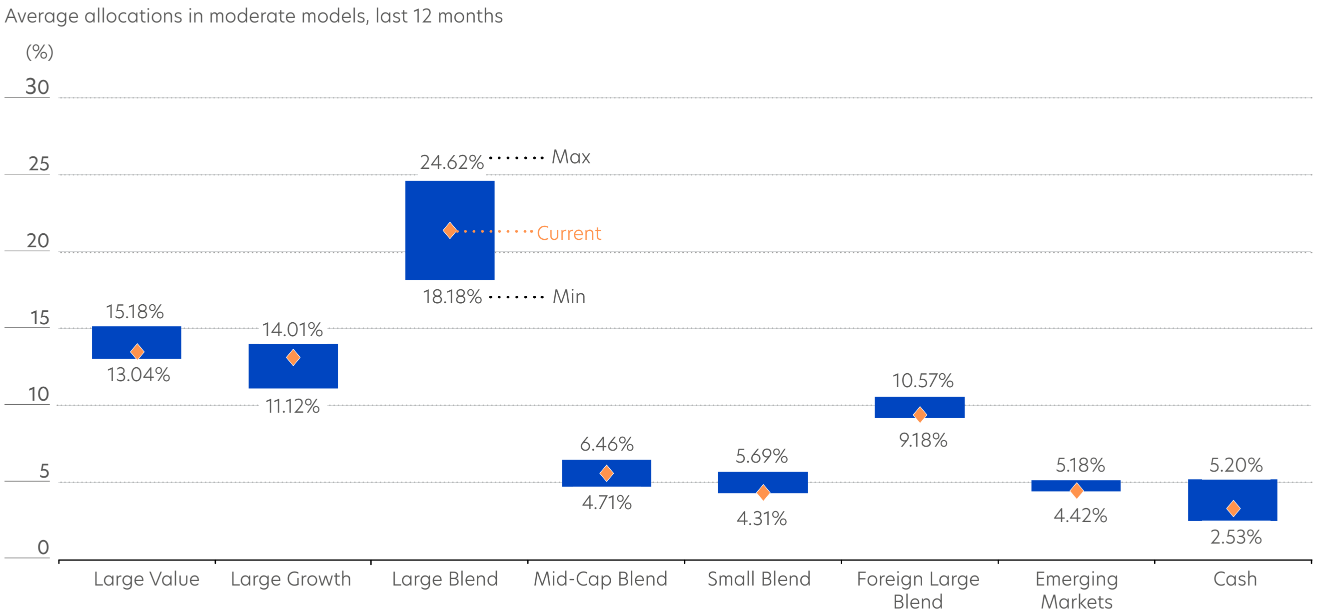
What you can do

- Concentration risk of large-caps in US stock benchmarks as their valuations are lofty and earnings growth is set to slow in 2025.
- Diversify beyond mega-cap stocks and consider gradual exposure into US small and mid-caps.

- Several factors suggest the markets may be overly positive, particularly for the US, amidst a favourable backdrop of cautious rate cuts, ample market liquidity, rising corporate profits, and expectations of pro-growth policies. Is such a view overly optimistic and are markets vulnerable to a shock?
- Most sentiment indicators suggest that financial markets are not overly complacent, despite the general positive outlook on the US. Investor positioning, as shown in Figure 3, is roughly in line with the average over the past 12 months.
- That being said, any unexpected events such as geopolitical flareups, unexpected shifts in policies, can cause the market to experience a knee jerk reaction.
- Investors should stay invested and stay diversified. Small and mid-cap stocks should not be overlooked, especially given the worries over concentration risk of large caps in US stock benchmarks.

Figure 3:

US investors positioning in assets are roughly in line with the past 12 months



Source: J.P. Morgan Asset Management. Note average allocations will not sum to 100 as not all categories are represented in each portfolio analysed. "Moderate models" refers to an investment portfolio benchmarked to the 60/40 portfolio. Data as of November 15, 2024.

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