

**PHILLIP MUTUAL BERHAD**Company No. 200201002746 (570409-K)  
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## **Navigating Opportunities: Israel-Hamas Conflict, 2024 U.S. Recession (?), & U.S. Presidential Election**

Markets are playing catch-up to the new regime with the bond yields have surged to 16-year highs. The markets now believe central banks would not swiftly relax policies due to global supply challenges. They are expected to stay tightened to counter inflationary pressures. However, it is essential to consider that inflation is decreasing as pandemic-related imbalances are resolving. Approximately two-thirds of the shift in spending from services to goods has reversed. Normalisation of demand is pulling down goods prices, contributing to the decline in inflation. Additionally, the skills mismatch is also stabilising, which is helping to moderate wage growth.

The global economic outlook hinges on several critical factors, including the extent of China's growth slowdown, the intensity of US-China tensions, and the degree to which the US economy might weaken for the Fed to unwind the rate hike. In addition to these factors, we believe there are three more areas that investors should closely watch.

### **1. Israel-Hamas Conflict**

From a market standpoint, there has so far been remarkably little fallout from events in the Middle East. Despite talk of a potential ground invasion of Gaza, it has not occurred yet, leading to speculation that behind-the-scenes pressure from Washington, Riyadh, or elsewhere is preventing Israel from taking such action. Additionally, Saudi Arabia's ongoing silence suggests Crown Prince MBS may want to protect his economic development plans from the Gaza issue. While the conflict between Israel and Hamas has resulted in no immediate threats to oil supply yet, it has pushed oil prices up on heightened risk premium.

Nonetheless, we remain watchful if the potential escalation of the Israel-Hamas conflict would spread to broader Middle East regions and beyond, and the risk to Iran's significant oil production (3.1 million bbl/day, constituting 3% of the global supply) due to possible U.S. sanctions. There is also concern about Iran potentially blocking the vital Straits of Hormuz, which are crucial for global oil flow (accounting for 20-30% of world consumption). While Iran denies this possibility, there remains a risk of higher oil prices impacting inflation rates and subsequently influencing trends in interest rates.

### **2. 2024 U.S. Recession (?)**

A question mark still lingers but what happens right now is that the recession fears due to rising interest rates and market uncertainty have eased, with growing investor optimism about a soft landing, but caution persists. According to data compiled by [Visual Capitalist](#), the probability of a U.S. recession in 2024 remains uncertain, with varied economic forecasts from Wall Street, Main Street, and C-Suite sources.

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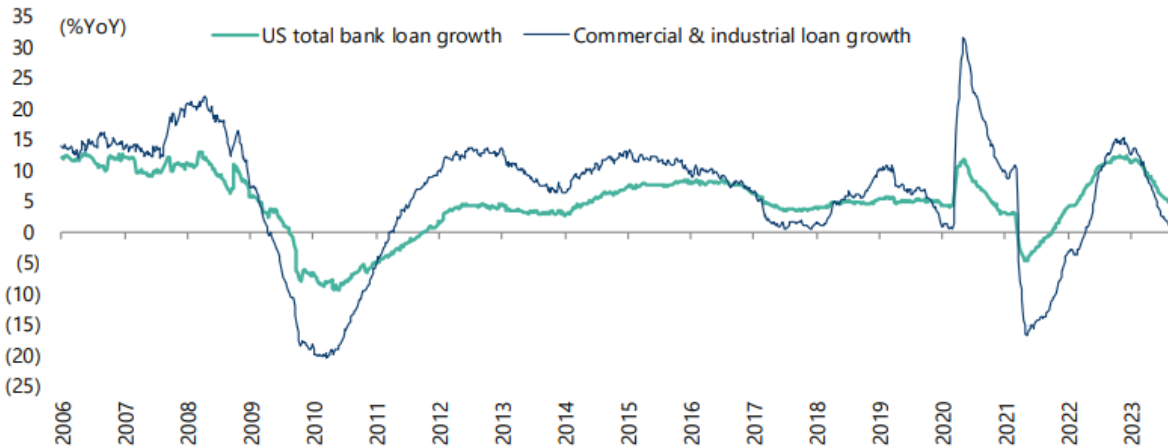
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Forecaster	Estimated U.S. Recession Probability (Next 12 Months)
Federal Reserve Staff	0%
Yield Curve	61%
Economists	48%
Consumers	69%
Goldman Sachs	15%
Bank of America	35-40%
CEOs	84%

Source: Visual Capitalist

What is missing here is that we observed the U.S commercial banks' total loan growth plummeted, dropping from 12.5% YoY in Dec'22 to 3.8% in Oct'23, while commercial and industrial loans growth collapsed from 15.3% YoY in Nov'22 to just 0.01% YoY in Oct'23. Reducing bank loan growth and stricter lending standards signal growing recession risk.



Source: Jefferies

### 3. U.S. Presidential Election 2024

The United States is slightly more than a year away from the upcoming presidential election, and numerous Republicans, including former President Donald Trump, have entered the race. As of October 18th, a popularity poll in the United States indicated that 46% of respondents support Trump, while 42% favour Biden, with the remaining portion undecided. Trump is in the lead, partly due to the scrutiny of Biden's economic plan and his stance on the Middle East. Certainly, the situation is dynamic and subject to change.

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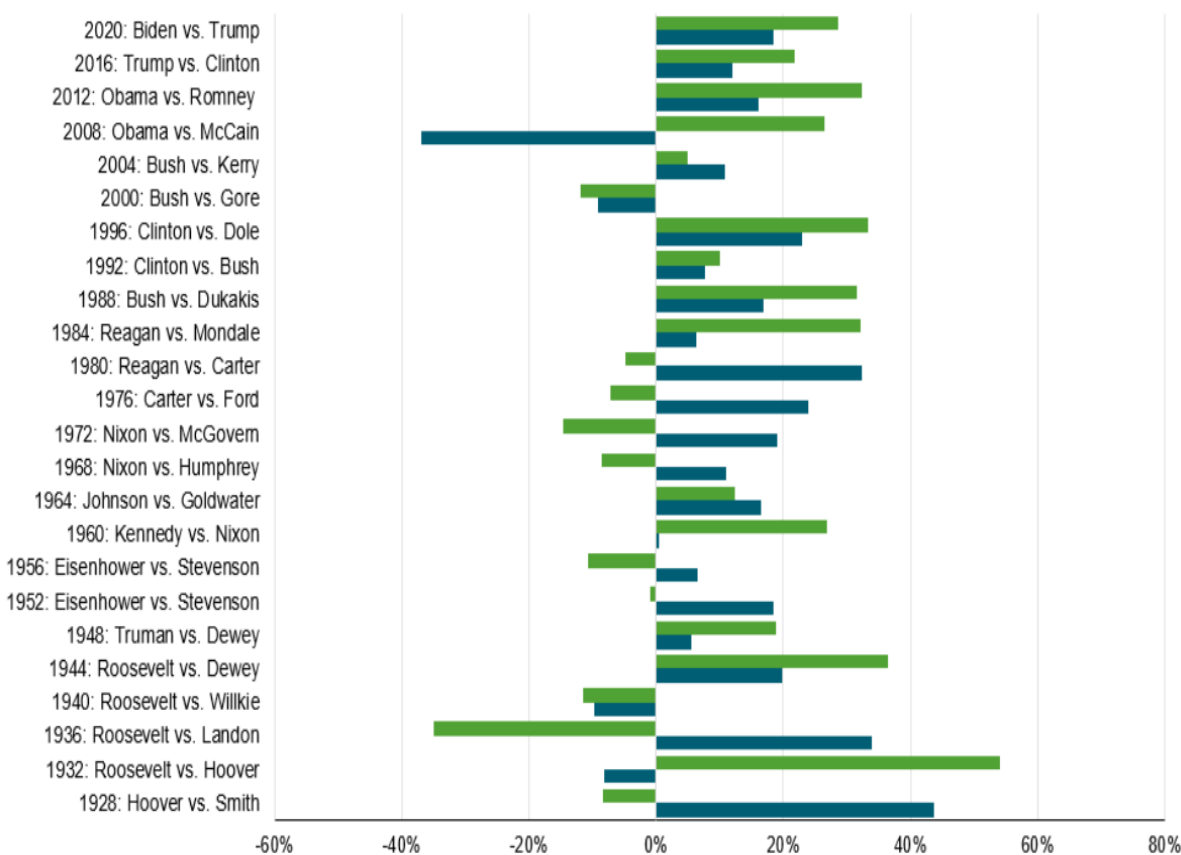
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In prior election years, the S&P 500 Index has demonstrated predominantly positive performance, with only four occurrences of negative returns within past election cycles. Election years have witnessed an average return of 11.57% since 1928, which is marginally superior to post-election returns, yet they have been characterized by significant market volatility. A disclaimer to emphasise that past performance should not be regarded as an absolute predictor of future returns.

■ Average Return Year Subsequent to Election = 10.67%  
 ■ Average Return During US Election Year = 11.57%



Source: Dimensional

We reaffirm our belief that there are still opportunities in the market, and we maintain a discerning approach in choosing high-quality stocks for our portfolio. However, it is crucial to exercise caution and carefully select investment options to ensure the best risk-adjusted returns. By taking a vigilant and discerning approach, investors can potentially reap the benefits of the current market opportunities while minimising risks.

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Phillip Capital Malaysia offers a comprehensive suite of financial services including managed accounts and unit trusts, that may suit your investment preferences and financial goals. We also offer both conventional and Shariah-compliant options to cater to the needs of all investors.

**Local**

- 01 PHILLIP DANA AMAN \*
- 02 PHILLIP DANA MURNI \*
- 03 PHILLIP DIVIDEND FUND
- 04 PHILLIP MASTER EQUITY GROWTH FUND
- 05 PHILLIP MASTER ISLAMIC CASH FUND \*
- 06 PHILLIP MASTER MONEY MARKET FUND
- 07 PHILLIP PEARL FUND
- 08 PHILLIP RECOVERY FUND
- 09 PHILLIP SELECT BALANCE FUND

**Unit Trust Funds**

**Global**

- 01 PHILLIP ASIAPAC INCOME FUND
- 02 PHILLIP FOCUS CHINA FUND
- 03 PHILLIP GLOBAL STARS FUND
- 04 PHILLIP DANA DIVIDEN \*
- 05 PHILLIP GLOBAL DISRUPTIVE INNOVATION FUND

*\*Note: Shariah options are available*

For more information, please refer to [www.phillipcapital.com.my](http://www.phillipcapital.com.my)

Our investment portfolio focuses on quality companies that possess strong fundamentals, including stable earnings and a promising future outlook, and are led by capable management teams. Please click on the [link](#) to learn more or email us at [phillipmutual@phillipcapital.com.my](mailto:phillipmutual@phillipcapital.com.my) if you require any further information.

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