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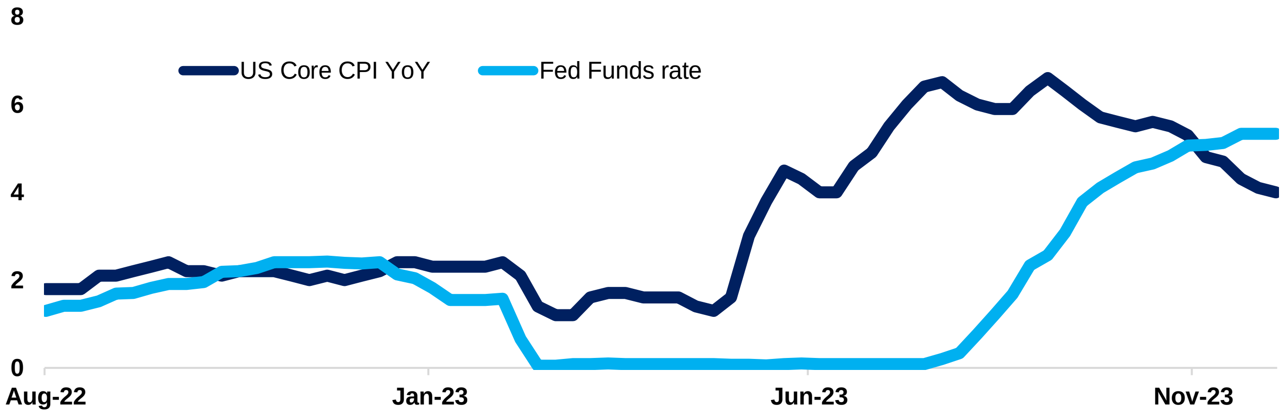
Farewell, 2023, and Greetings to 2024! (2.0)

Building upon the article released last week, we are zooming into **Five themes** that investors should closely monitor in 2024.

Theme 1: Peaking interest rates bode well with equities; Emerging markets (EM) stand to benefit the most

Following an extended period of aggressive tightening, we anticipate the Fed's interest rate policy normalizing in 2024, shifting to moderation before potential rate cuts. Faster-than-expected US inflation decline (Figure 1) empowers Fed to recalibrate, averting a hard landing and creating room for easing amid a potentially challenging global growth outlook. It appears that the Fed adopts a proactive approach to encourage growth while mitigating some of the macroeconomic and geopolitical risks. The fall of interest rates expected in 2024 bode well for growth-oriented sectors and those that rely heavily on imports for production inputs. Separately, a weaker dollar eases the burden on deficit-laden governments and could potentially attract foreign inflows returning to emerging markets (Figure 2).

Figure 1: US Inflation rate and Fed Funds Rate



Source: Bloomberg, PCM

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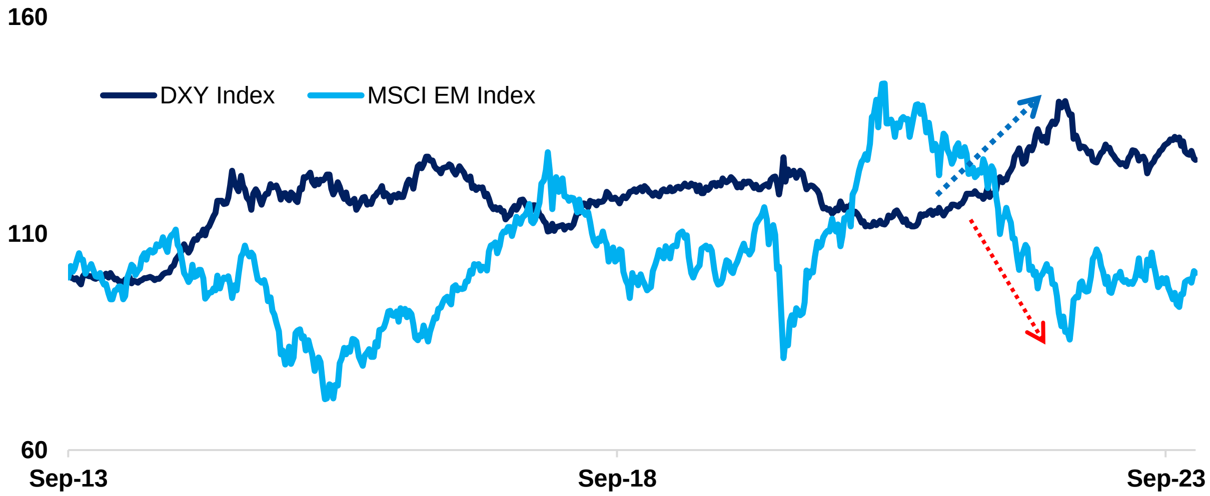
Figure 2: MSCI EM Index performance against DXY



Source: Bloomberg, PCM

Theme 2: The Dual Forces (US & China) are shaping our world

Since the creation of the People's Republic of China in 1949, several efforts have been made to limit China's access to or stop its development in various critical technologies, including nuclear weapons, space, satellite communication, GPS, semiconductors, supercomputers, and artificial intelligence. The US has also tried to curb China's market dominance in 5G, commercial drones, and electric vehicles (EVs). Throughout history, unilateral or extraterritorial enforcement efforts to curtail China's technological rise have failed. For example, since the onset of US-China tensions where US limited/banned the export of advanced artificial intelligence (AI) chips to China, Nvidia which has traditionally held a dominant position as the leading provider of AI chips in China with a market share surpassing 90%, is facing challenges. In response to these limitations, Chinese companies, including Huawei, have embarked on the development of their versions of Nvidia's best-selling chips, such as the A100 and the H100 graphics processing units (GPU).

Another example is US car maker Tesla has lost its crown as the top maker of all-electric vehicles to Chinese firm BYD, according to sales figures released on 2nd Jan 2024. Notably, Tesla delivered 484,507 vehicles in Q4 2023, a 11% increase from the previous quarter. Despite the growth, Tesla lost its title as the world's leading electric vehicle producer and seller to Chinese competitor BYD, which reported 9% higher sales for the same period. These numbers highlight the challenges Tesla may encounter in 2024 from competitors aiming to leverage the rising demand for electric vehicles and suggest that BYD's strategy of price cuts is effectively capturing market share and recognition.

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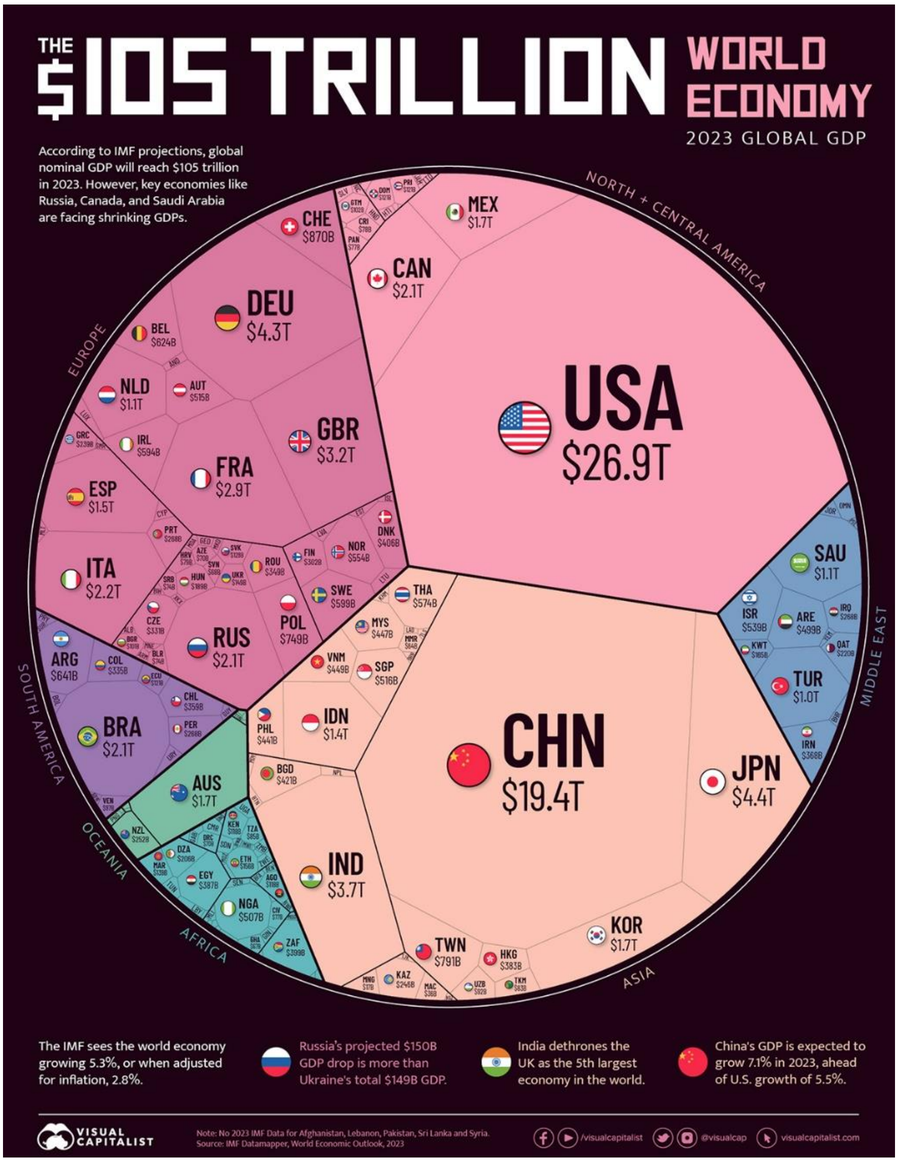
Separately, according to World Factbook, China is ahead of the US in Agriculture and Industry sector. Agriculture Output of United States is only 17.58% of China and 77.58% for the Industry sector. On the other hand, the services sector of the US is more than double of China. Finally, US is at the top in nominal GDP, whereas China is at the top in PPP GDP since 2017 after overtaking the US. As of 2021, both countries together share 41.89% and 34.75% of the entire world's GDP in nominal and PPP terms, respectively (Figure 3). Hence, we believe it is **irrational** to exclude either China or US from the investment equation.

Figure 3: Visualizing the $105 Trillion World Economy in One Chart



Source: Visual Capitalist

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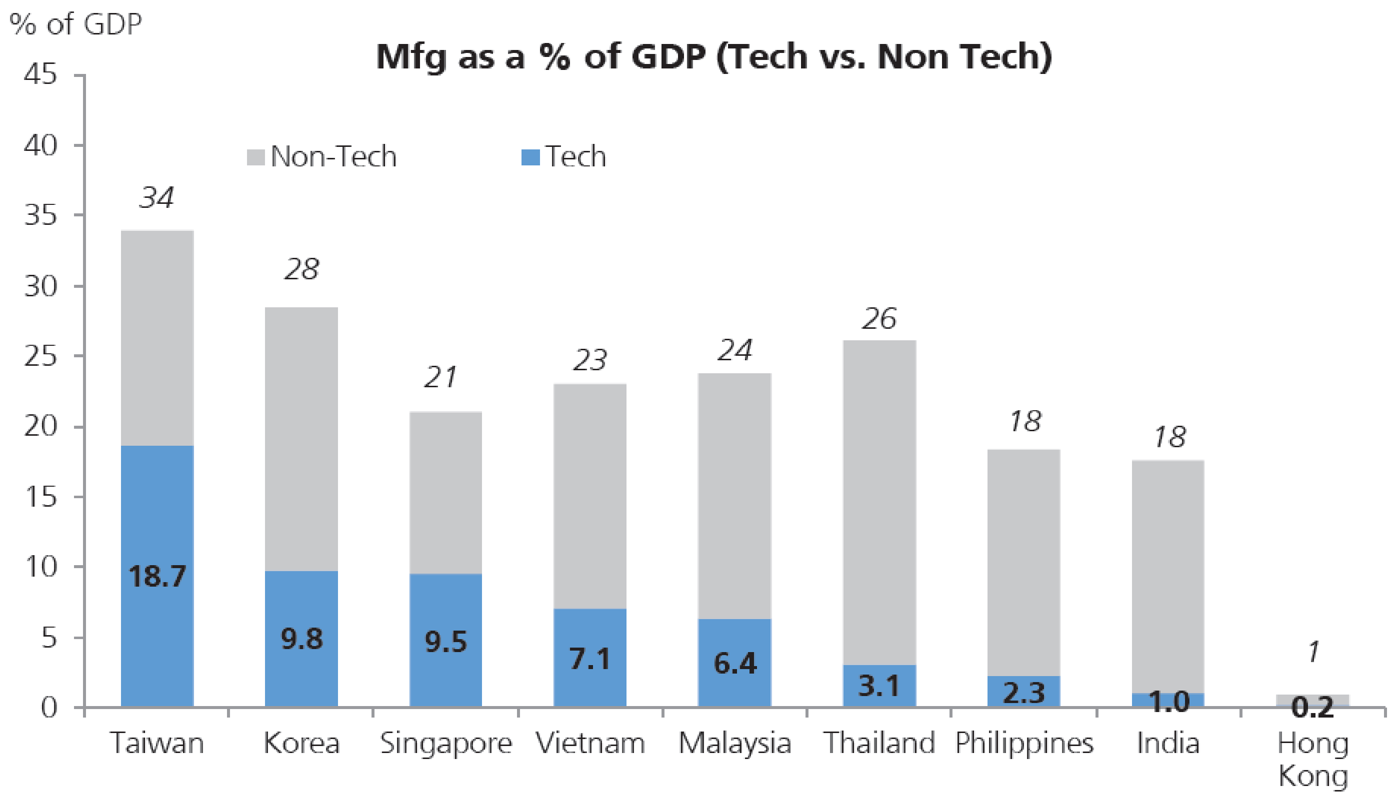
Theme 3: A resurgence in the global tech cycle is anticipated after a sluggish period in both 2022 and 2023.

Following a decline in 2022 & 2023, we are seeing the beginning of an upturn in the global tech cycle, which should boost global trade. Specifically, the WSTS is projecting a rebound in semiconductor sales at an annual growth of 11.8% in 2024 versus a decline of 10.3% for 2023, to be driven by a broader recovery in the mainstream applications within mobile, automotive and industrials. WSTS expects a recovery in inventory replenishment, a rebound in smartphone shipments, as well as improving consumer sentiment across the board. That could benefit selected Asia Pacific markets including Korea, Taiwan or even Malaysia given the tech sector accounts for the largest share of GDP in Taiwan (19%), followed by Korea (10%), Singapore (9%), Vietnam (7%), Malaysia (6%) and Thailand (3%). Destocking pressures that weighed on growth throughout most of 2023 are likely to ease in 2024 (Figure 4).

Figure 4: Recovery in tech cycle boosts exports along the regional supply chain



Source: UBS Global Economics & Markets Outlook 2024-2025

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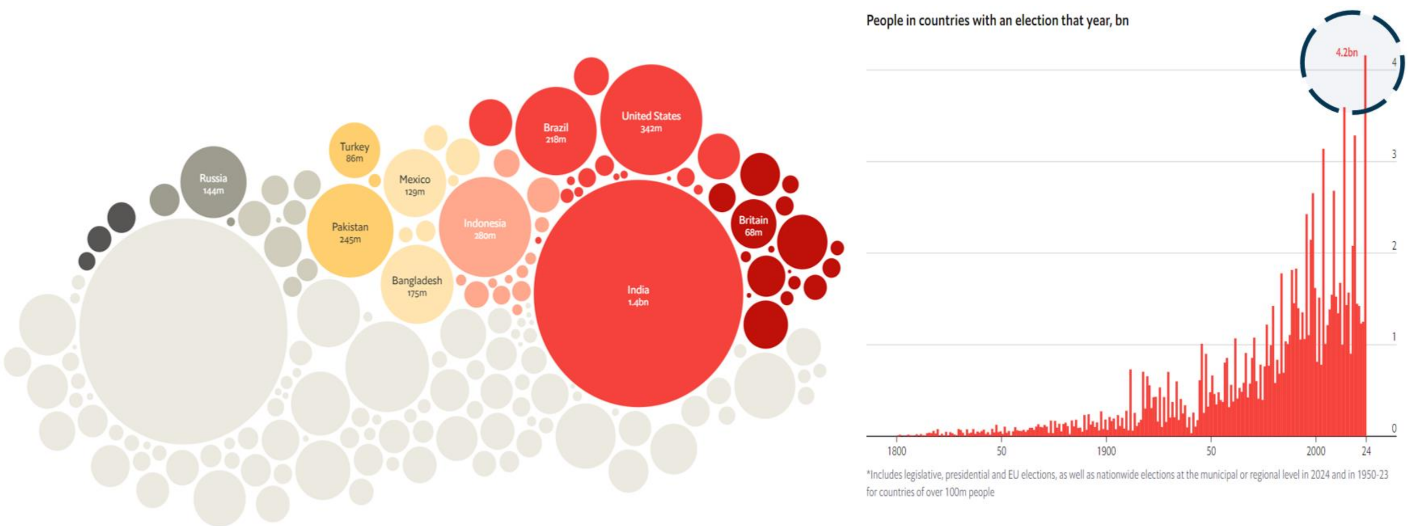
Theme 4: Pulse of Power: 40 Nations on the Edge in 2024

2024 will see some highly consequential contests where countries with more than half the world's population (>4bn people) – will send their citizens to the poll. The electoral timeline begins in January with Taiwan, continues in February with Indonesia, and concludes with the U.S. presidential election in November. According to consensus, market-friendly outcomes are likely in India and Indonesia, and maybe less so in the UK. The status quo will persist in Russia and Iran as both countries continue their isolation from the West. Some elections will generate significant headline risks, like Taiwan and US (Figure 5).

Figure 5: 2024: A wave of elections



Source: The Economist

The key question is how does it affect the market. One interesting research done by Raymond James Research revealed that historical trend advises shorting in Feb, going long in April, shorting in Aug, then going long pre-election for S&P 500 gains (Figure 6). Certainly, it is important to note that past performance does not guarantee future results. We will keep a vigilant watch for any development in this space.

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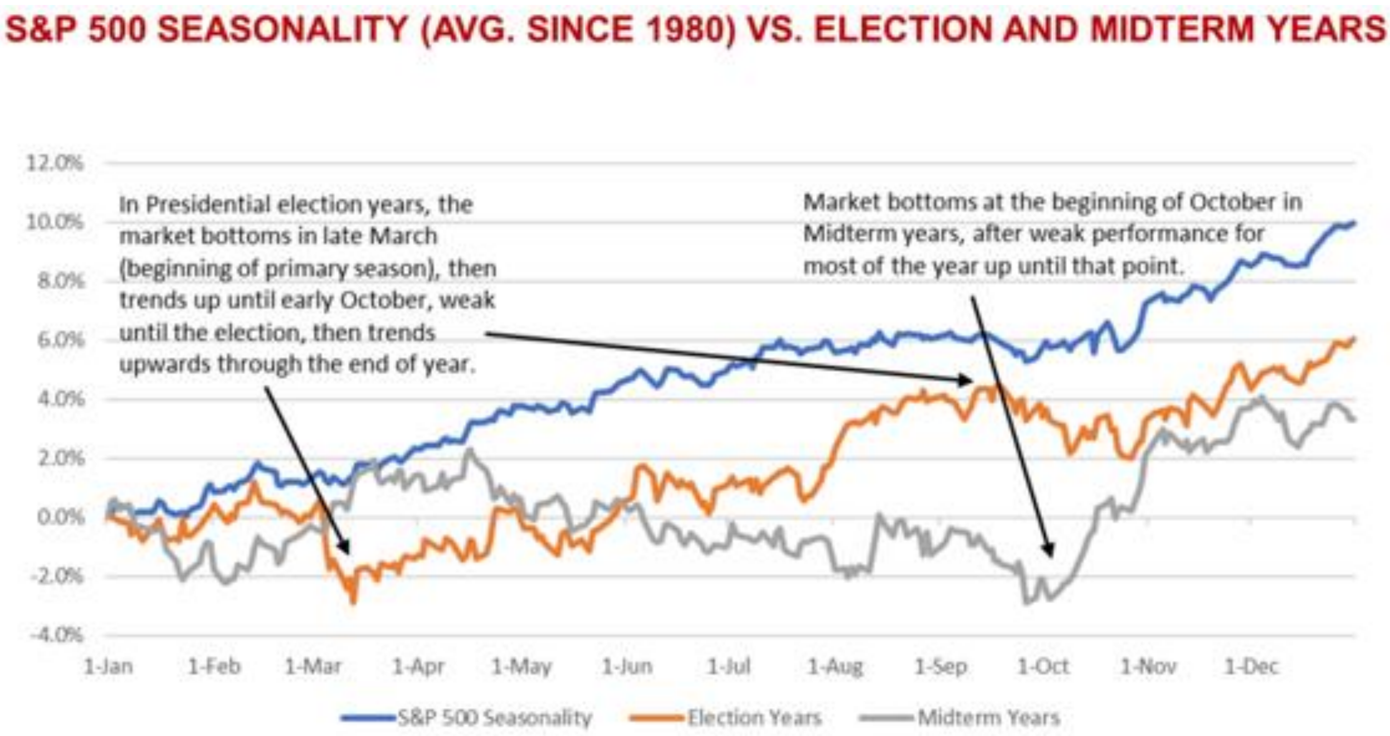
Figure 6: Assessing US Election impact



Source: Raymond James Research

Theme 5: Net zero drives Renewables, EV opportunities

In 2022, the renewable energy sector attracted a record-high FDI of $343.6 billion across 527 projects, constituting 30% of the total. The projects cover areas in green hydrogen and wind energy, solar and biomass. In fact, according to IEA, to reach net zero emissions by 2050, annual clean energy investment worldwide will need around USD4 trillion by 2030, which translates to pockets of opportunities for investment across various sectors and industries (Figure 7 - left).

Separately, EV Sales are growing exponentially up S-curves. According to RMI, EV sales could overtake ICE sales as early as 2026. Each year forecasters revise their EV market share projections upwards, driven by declining battery costs, consumer preferences shift to EVs, and improving infrastructure. Presently, consensus centers around a 40% EV market share by 2030. And China leads a race to dominate future EV technologies (Figure 7 - right).

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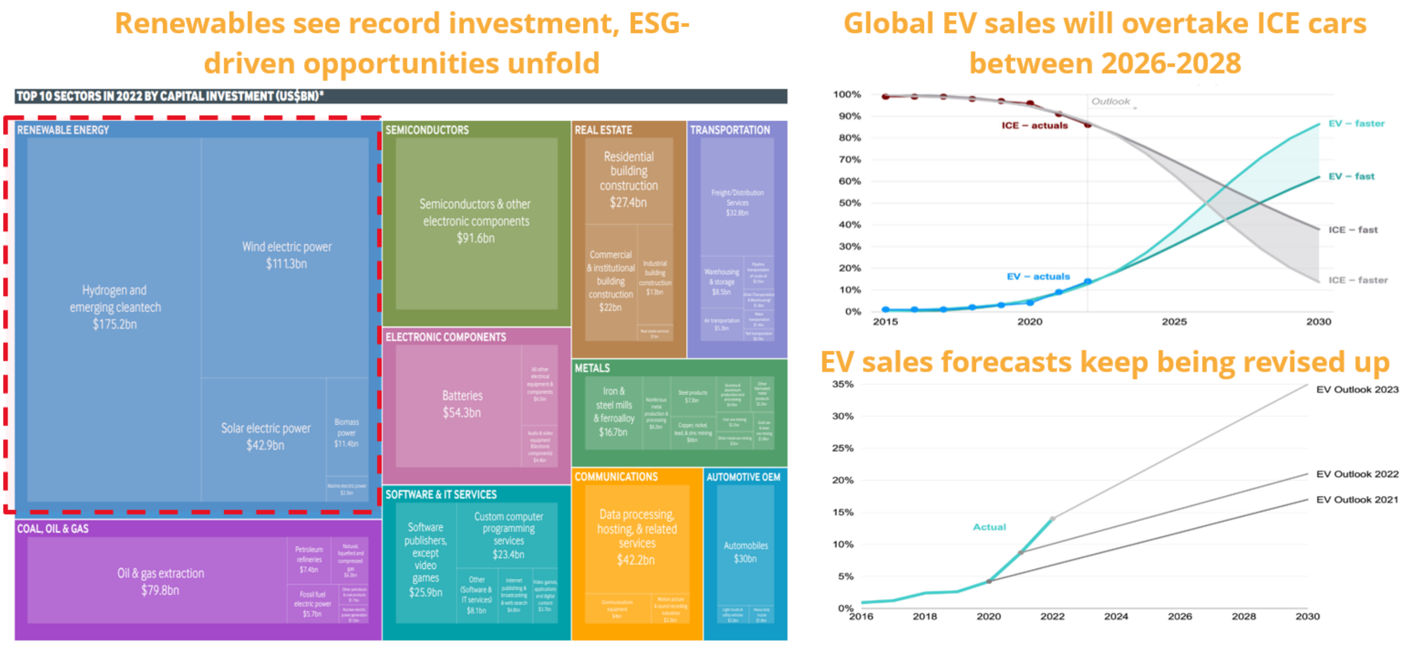
Figure 7: Look for the strongest industries



Source: The fDi Report 2023 (Left); RMI (Right), compiled by PCM

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.

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 if you require any further information.