China CITIC Bank International
Economic and investment outlook 2024

Rate-cut cycle inevitable

Prudent investment strategy advisable

(Hong Kong: 11 January 2024) China CITIC Bank International Limited ("CNCBI") today released its 2024 economic and investment market outlook, suggesting that a new rate-cut cycle is inevitable and that a prudent investment approach would be advisable.

Macroeconomy: Major western central banks to reverse monetary directions in face of economic downturn pressure

Mr Tristan Zhuo, Chief Economist, China CITIC Bank International, revealed that, "The reversal of monetary policy will be the main global financial focus in 2024. As the aggressive rate-hike cycle ended after nearly two years, a new rate-cut cycle will be inevitable. The inflation dip will provide room for monetary relaxation for central banks in need for addressing weak economic growth momentum. Major central banks in the west are expected to embark on a rate-cut cycle with substantial adjustments that help buoy the asset market."

US:

- The year 2024 will mark the start of full monetary easing of The US Federal Reserve (the "Fed"), beginning likely in the first half of the year with the balance sheet reduction scale scaling down gradually.
- The extent of rate cuts will likely reach 150 basis points for the year with the upper bound of the federal funds target rate expected to fall to 4% by the end of the year.

Mainland China:

- The 10-year US treasury yield tumbled with considerable room for sliding further. The RMB-USD interest rate spread is heading towards the positive for RMB which can see its exchange rate stabilise and recover in a steady pace.
- Mainland China's economy may grow to about 5% overall, but imbalanced recovery remains to be resolved and the recovery of property market sentiment and performance of related industries will take time.
- In an environment where overall growth is stable but certain key industries remain under pressure, expectation for aggressive monetary policy easing would be unrealistic. The People's Bank of China may cut interest rates by 10 basis points and adjust the reserve requirement ratio downward by 25 basis points.

Hong Kong:

- The labour market is performing satisfactorily, with unemployment hovering near cyclical lows. Private consumption is improving steadily in support of economic growth. Performance of imports and exports will likely turn positive.
- Hong Kong's 2024 real GDP ("gross domestic product") growth will gain speed towards 3%.
- Property price adjustment is approaching an end with prices expected to stabilise and recover at the start of the Fed's rate-cut cycle.

Investment insights: Prudent investment with flexible allocation of stocks and bonds

Mr Ivan Cheung, Head of Investment Advisory, Personal & Business Banking Group, China CITIC Bank International, said, "At the moment, the global financial markets are mainly driven by the anticipation of an interest rate peak and potential rate cuts. Resilience of the US economy in general with continuous GDP growth and falling inflation are favourable to the financial markets. However, overall economic growth in the US is losing steam and recession risk cannot be overlooked. In addition to geopolitical changes, major elections in countries such as the US, Russia, India, South Korea and Indonesia will continue to bring uncertainty to the global market in 2024. It is advisable to maintain a cautious investment strategy. Flexibly participating in the stock and bond markets can help control portfolio volatility and strive for potential growth and yield enhancement."

US stocks:

- Technology-related sector stocks continue to be indispensable portfolio components in view of the rate-cut expectation and rapid development of artificial intelligence but caution should be exercised on individual firms with excessively high valuation.
- Defensive sectors such as healthcare, consumer staples and utilities underperformed in 2023 but stand a chance of catching up amid market concerns over recession risk.

Hong Kong stocks:

- Currently, the Hang Seng Index has a price-to-earnings ratio of only 8.6 which represents a significant discount compared with historical levels and valuations in other major markets, helping to attract capital inflow.
- The dividend yield of Hang Seng Index has risen to above 4%, indicating historically that the index is approaching its bottom.

Foreign exchange:

- Following the Fed's meeting in December 2023, commodity currencies such as AUD, NZD, and CAD experienced larger gains over other major currencies like EUR, GBP and JPY. This demonstrates that the increase in risk appetite is more stimulating to those commodity currencies .

- Inflation in Australia and New Zealand remains relatively higher. It is expected that monetary policy easing by the central banks of the two countries may lag behind the Fed, providing support to the AUD and NZD.

For more insights from CNCBI on the macroeconomy and investment markets, please visit https://www.cncbinternational.com/personal/investments/market-information/en/index.html.

Photo

Mr Tristan Zhuo (left), Chief Economist, and Mr Ivan Cheung (right), Head of Investment Advisory, Personal & Business Banking Group, China CITIC Bank International, provide insights into the economy and investment markets against the backdrop of the reversal of monetary policy in the 2024 global economy

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